Trust
Alaska Mental Health Trust Authority

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MEMO

To: John Morris, Finance Committee Chair
Thru: Allison Biastock, Acting Chief Executive Officer
From: Julee Farley, Chief Financial Officer
Date: July 30, 2024
Re: Promontory Point Loan Payoff Request

Proposed Motion
"The Finance Committee recommends to the Alaska Mental Health Trust Authority Board of Trustees that the Board direct the Trust Land Office to distribute all cash/income currently held by the TLO for all Commercial real estate except three months of reserves, rent escrows and tax escrows and that the Board approves payment of 1.2MM for the Promontory Point Property Escrow Reserve to satisfy the loan conditions per the Promontory Point Loan Agreement."

In response to a request from the chair, a review of sources of funds for the proposed options is being provided for the Promontory Point loan payoff request of $8.7MM. This review is based exclusively on the information presented in the Promontory Point Loan Payoff Request memo, dated July 30, 2024, prepared by David MacDonald, Chief Real Estate Officer, TLO, for the Resource Management Committee (RMC).

The RMC memo presented the below options and recommended a full loan payoff of $8.7MM at this time.

<u>Option 1:</u> payoff the full loan amount of up to $8.7MM.
Comments: Per the TLO memo, this option would save approximately $335,000 in interest on the loan interest rate of 4.69%. Since funding for this option would likely come from the DOR Reserve account, this option would result in less funds invested in the account. The DOR Reserve account has earned 13.3% in FY24, and the long term expected return of the account is 7%. There is no guarantee that the fund will earn either of these returns in the next year, but at a minimum $8.7M could earn a return of 4.8% on a 1-year US Treasury Bill. So, the financial argument to save $335,000 is countered by the lost income to the Trust by earning more than that through prudent investment of the $8.7MM.

Selling a property without a loan may be more straightforward, but it is not clear that having a loan on a property would prevent or delay the sale of a property. Counsel would be requested to advise on the mechanics of such a transaction.

<u>Option 2:</u> Deposit $1.2MM into a non-interest bearing account held by the lender
Comments: This option is attractive because it results in the use of significantly less Trust funds and allows more funds to remain invested. Additionally, there may be sufficient funds held at the individual property accounts that could be distributed to the Trust to fund this $1.2MM reserve. As of May 31, 2024 there was $4.4MM in cash at the various property bank accounts, including $550k held as security deposits (legally required to hold separately) and $696k in escrow taxes (may be contractually required by lender). This results in a net available cash of $3.14MM. Assuming the need to maintain operating cash of 3 months expenses, there is just shy

of $1.2MM in funds available to distribute to the Trust that could be used to fund the $1.2MM reserves as required by the lender, and possibly more than that as of today. The cash in the property bank accounts is not earning interest so this option does not result in any lost earnings to the Trust. *This option seems most financially advantageous to the Trust.*

Option 3: obtain letter of credit
Comments: The Trust has sufficient resources and this option is not worth pursuing.

Option 4: The Trust could fund ˜$95k of owner contributions per month toward expenses
Comments: This would involve additional logistics, but this could also be funded in full or part by ongoing distributions to the Trust so that a withdrawal from DOR Reserves is not necessary.

Should Trustees decline to pay off the loan at this time, there should still be a consideration of how to fund the $8.5MM balloon payment due on July 1, 2025 (additional fees might be due for a prepayment). Since all properties have been approved for sale and a few have already received offers, it is possible that proceeds from the sale of Promontory Point or other properties could be distributed to the Trust and made available to pay off the debt that is due for Promontory Point on July 1, 2025. However, if the pace of sales occurs slower than expected the Trust could be asked to fund the $8.5MM balloon payment for Promontory Point on July 1, 2025 from other assets. To ensure that the Trust is not in a position to potentially liquidate funds from the DOR Reserve account in a possible down-market, Trustees could consider matching the $8.5MM liability due date with a corresponding asset that matures at the same time. This will prevent the Trust from being a forced seller of public equities should markets experience a decline in value over the next year.

Additionally, should the sale of Promontory Point be separated into two separate transactions for each of the two buildings, legal and contract experts may work with lenders to obtain their cooperation to ensure the loan is paid off with the first dollars received on a sale of either building to satisfy lender concerns. In this market, it is unlikely a lender would hold up the sale of the properties as their primary interest is in getting paid.