Trust
Alaska Mental Health
Trust Authority

3745 Community Park Loop, Suite 200
Anchorage, AK 99508
Tel 907.269.7960
www.mhtrust.org

# MEETING AGENDA

**Meeting:** Finance Committee
**Date:** July 25, 2023
**Time:** 3:00 PM
**Location:** Trust Authority Building, 3745 Community Park Loop, Anchorage
**Teleconference:** (844) 740-1264 / Meeting Number: 2634 176 1944 # / Attendee Number: #
https://alaskamentalhealthtrust.org/
**Trustees:** Brent Fisher (Chair), Rhonda Boyles, Kevin Fimon, Anita Halterman, Agnes Moran, John Morris, John Sturgeon

## Tuesday, July 25, 2023

| | | Page No. |
|---|---|---|
| **3:00** | **Call Meeting to Order (Brent Fisher, Chair)**<br>Roll Call / Announcements Approve Agenda / Ethics Disclosure<br>Approve Minutes<br>• April 19, 2023 | 4 |
| **3:05** | **Staff Report Items**<br>Financial Dashboard<br>• Kat Roch, Acting CFO | hand-out |
| | Forecasts – FY24 Revenue and FY25 Projection<br>• Kat Roch, Acting CFO | hand-out |
| **3:30** | **Asset Management Policy Statement (AMPS)**<br>• Kat Roch, Acting CFO | 12 |
| **4:10** | **Approvals**<br>FY24 Budget Ratification<br>• Kat Roch, Acting CFO | 37 |
| | Trust Authority Office Agency Budget FY25<br>• Steve Williams, CEO<br>• Kat Roch, Acting CFO | 38 |
| | Trust Land Office Agency Budget FY25<br>• Jusdi Warner, Executive Director<br>• Blain Alfonso, Administrative Manager | 44 |
| **4:50** | **Adjourn** | |

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# Future Meeting Dates

## Full Board of Trustees / Program & Planning / Resource Management / Audit & Risk / Finance

(Updated – June 2023)

| | | |
|---|---|---|
| • Audit & Risk Committee | July 25, 2023 | (Tue) |
| • Finance Committee | July 25, 2023 | (Tue) |
| • Resource Mgt Committee | July 25, 2023 | (Tue) |
| • Program & Planning Committee | July 26-27, 2023 | (Wed, Thu) |
| • Full Board of Trustees | August 29-30, 2023 | (Tue, Wed) – Anchorage |

| | | |
|---|---|---|
| • Audit & Risk Committee | October 19, 2023 | (Thu) |
| • Finance Committee | October 19, 2023 | (Thu) |
| • Resource Mgt Committee | October 19, 2023 | (Thu) |
| • Program & Planning Committee | October 20, 2023 | (Fri) |
| • Full Board of Trustees | November 15-16, 2023 | (Wed, Thu) – Anchorage |

| | | |
|---|---|---|
| • Audit & Risk Committee | January 4, **2024** | (Thu) |
| • Finance Committee | January 4, **2024** | (Thu) |
| • Resource Mgt Committee | January 4, **2024** | (Thu) |
| • Program & Planning Committee | January 5, **2024** | (Fri) |
| • Full Board of Trustees | Jan 31 – Feb 1, **2024** | (Wed, Thu) – Juneau |
| • Audit & Risk Committee | April 24, **2024** | (Wed) |
| • Finance Committee | April 24, **2024** | (Wed) |
| • Resource Mgt Committee | April 24, **2024** | (Wed) |
| • Program & Planning Committee | April 25, **2024** | (Thu) |
| • Full Board of Trustees | May 22-23, **2024** | (Wed, Thu) – TBD |

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# Future Meeting Dates

## Statutory Advisory Boards

(Updated – June 2023)

**Alaska Commission on Aging**

ACOA: http://dhss.alaska.gov/acoa/Pages/default.aspx
Executive Director: Jon Haghayeghi, (907) 465-4879, jon.haghayeghi@alaska.gov

- Quarterly Meeting: September 18-19, 2023 / TBD

**Alaska Mental Health Board / Advisory Board on Alcoholism and Drug Abuse**

AMHB: http://dhss.alaska.gov/amhb/Pages/default.aspx
ABADA: http://dhss.alaska.gov/abada/Pages/default.aspx
Acting Executive Director: Stephanie Hopkins, 907) 465-4667, stephanie.hopkins@alaska.gov

- Executive Committee – monthly via teleconference (Wednesday / TBD)
- Quarterly Meeting: July 2023 / TBD

**Governor's Council on Disabilities and Special Education**

GCDSE: http://dhss.alaska.gov/gcdse/Pages/default.aspx
Executive Director: Patrick Reinhart, (907)269-8990, patrick.reinhart@alaska.gov

- Quarterly Meeting: October 9-10, 2023 / Anchorage
- Disability and Aging Summit: October 11-12, 2023 / Anchorage

**ALASKA MENTAL HEALTH TRUST AUTHORITY**

**FINANCE COMMITTEE MEETING**
**April 19, 2023**
**12:45 p.m.**
**Hybrid Meeting**

**Originating at:**
**Alaska Mental Health Trust Authority**
**3745 Community Park Loop, Suite 200**
**Anchorage, Alaska 99508**

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**Trustees Present**:
Brent Fisher, Chair
Anita Halterman
Kevin Fimon
Agnes Moran
John Sturgeon
Verne' Boerner
Rhonda Boyles

**Trust Staff Present:**
Steve Williams
Katie Baldwin-Johnson
Carol Howarth
Miri Smith-Coolidge
Michael Baldwin
Eric Boyer
Allison Biastock
Kat Roch
Kelda Barstad
Carrie Predeger
Autumn Vea
Debbie DeLong
Valette Keller
Travis Welch

**Trust Land Office staff present:**
Marisol Miller
Sarah Morrison
Blain Alfonso
Katie Vachris

**Also participating:**
Steve Sikes; Gene Hickey; Erin O'Boyle; Kathy Craft; Patrick Reinhardt.

## PROCEEDINGS

### CALL TO ORDER

CHAIR FISHER called the meeting to order and began with a roll call. All board members were present. He asked for any announcements. There being none, he moved to the approval of the agenda.

### APPROVAL OF AGENDA

**MOTION:** A motion to approve the agenda was made by TRUSTEE HALTERMAN; seconded by TRUSTEE FIMON.

*After the roll-vote, the MOTION was APPROVED. (Trustee Boerner, yes; Trustee Boyles, yes; Trustee Fimon, yes; Trustee Halterman, yes; Trustee Moran, yes; Trustee Sturgeon, yes.)*

CHAIR FISHER asked for any ethics disclosures. There being none, he moved to the approval of the January 6, 2023, minutes. He asked for any amendments or changes.

### APPROVAL OF MINUTES

**MOTION:** A motion to approve the minutes from January 6, 2023, was made by TRUSTEE HALTERMAN; seconded by TRUSTEE STURGEON.

*After the roll-call vote, the MOTION was APPROVED. (Trustee Boerner, yes; Trustee Boyles, yes; Trustee Fimon, yes; Trustee Halterman, yes; Trustee Moran, yes; Trustee Sturgeon, yes; Chair Fisher, yes.)*

### CEO FINANCE REPORT

CEO WILLIAMS stated that this is all about looking at the financial outlook of the Trust, in the best interest of the Trust beneficiaries. He continued that the work of the TLO, the approvals that were made, will generate and strengthen the position in the future so that the Trust can continue to do that work and build upon the improvements of the system that were needed. Last year there was some high volatility in the financial markets, and high rates of inflation. The pandemic produced stress when organizations had to adapt to a different model of service delivery that, at times, involved unexpected costs. He added that, from a Trust perspective, we were flexible and adaptable and were able to use Trust resources to help organizations try and weather that storm. He stated that being in a strong financial position allowed the Trust to be able to do that to help the organization-serving beneficiaries. It also reminded all of the need to be focused on the strength of the financial assets, the work of the TLO to maximize revenue of the lands, and to adhere to a strong spending policy that is in place so that in times of uncertainty that we stay the course to the fullest extent, because there was strength in where we went in terms of the financial position and the strategies to maintain that. He moved to the topic of inflation which has been part of the conversation over the last year. He stated that, fortunately, those rates were coming down, but, still, the high inflation rates have had impacts on the beneficiaries. He added that the financial interests, the assets were strong and the overall financial position, in terms of assets, was over $840 million. This corpus is due to the previous and current trustees being really diligent in making sure the financial, prudent decisions had allowed the growth over time. It was also due to the Trust Land Office generating revenue that got deposited into the principal that allowed that growth. It was also attributable to trustees making decisions to deposit additional income into the corpus for inflation-proofing. That financial strategy allowed the strength for not only today, but for future beneficiaries. It is anticipated that would grow over the next year with additional principal coming from the TLO and their work being deposited into the corpus of the Trust. He gave a brief outline for the rest of the meeting and moved to his final comment, which was a recognition and appreciation from the Governor, as well as staff, for ten years of service with the State of Alaska to Kat Roch. He stated that Ms. Roch came to the Trust in 2015 and had been at the Trust eight of her ten years of service for the State of Alaska. He continued that Ms. Roch is an example of a very seasoned, tenured, professional staff. He added that she is a marathoner and an extreme mountain biker, and has engaged in other extreme sort of athletic activities, which all have benefited from. He presented her with a certificate and pin and thanked her for the work and contribution she makes to the Trust.

(Applause.)

MS. ROCH stated that she enjoys working for the Trust for a number of reasons, one of which was the ability to ride her bike there, and it has been the longest she had ever worked in any one office. She added that there must be something right going on.

CHAIR FISHER thanked Kat, and stated appreciation for her contributions. He moved to the financial update which was next on the agenda, and recognized Carol Howarth.

**FINANCIAL UPDATE**

MS. HOWARTH stated that she was happy to be joined by Kat Roch to present the financial dashboard. She continued that this dashboard is a February dashboard and has all the financial information from the sources except for the Permanent Fund, which should be coming tomorrow or the day after. They were able to do a February dashboard with an outlook that was comprehensive from the perspective through March. She added that they would go through the Trust expenditures, the revenues, and the equivalent of the balance sheet, the resources. She asked Ms. Roch to continue.

MS. ROCH stated that they were not overspent and had pretty small projected lapses in the budgets. They were getting back to normal business operations post COVID; spending levels were starting to go up. She attributed that to the budgets being managed more carefully and being able to absorb some increased costs from the State due to inflation and everything costing more. She talked about the program activities and projected that it would be expended, but it was a bit early to know. She moved to the Authority Grants with another relatively small lapse compared to last year’s $400,000. This lapse took into account grant proposals that would be presented to trustees tomorrow, and the number could change based on the grant activity in the final months of the fiscal year. The capital projects had only the current Icy Cape project, which was presented earlier. The only change with the numbers was the recently encumbered additional $3.3 million for the project. She continued to Trust Receipts where the Land Office had a really strong performance from the projected to be above goal in of all the asset classes. Materials and coal had been significantly higher than planned, which was a bright spot in the overall being above plan for the money coming in.

MS. HOWARTH moved into the investment activity earnings. She continued that since February the Permanent Fund generated a 2.33 percent return year to date, and she explained that more fully. She added that there were four months of reporting that would need to be seen. There was also the recognition of the principal earnings and then the earnings that were spendable. Through February, there was $13 million of spendable income coming to the Trust. She forecasted out March through June, basically, $11 million, which was keeping on a low plan where they were. She had a good feeling with regard to the revenue generated by the Department of Revenue on the budget reserves, and anticipated that they cleared and would make their target despite market volatility. She moved to the commercial real estate which had a strong performance, and she had a good feeling for the contributions. She continued to GeFONSI and stated that they had worked to decrease the balance in the three operating accounts. Those are the TADA, the Trust Authority Development Account, which is a transit account for TLO principal income; the Central Facility Fund, which is a set-aside fund for reinvestments into the commercial real estate and the program-related real estate when there was a cash shortfall at those assets; then there is the operating amount, which she explained. The first draw from the Permanent Fund was authorized by the trustees for $28 million in a payout, which she also described.

TRUSTEE STURGEON asked if the Central Facility Fund is supposed to be $2 million, per the motion passed by the Board.

MS. HOWARTH replied that it was an authorization of up to $2 million. She continued with the Trust Resources. She started at the bottom of the Trust Resources and highlighted the question asked by Trustee Sturgeon. She continued with the $5 million operating income that supports grants and agency budgets. She moved to the Central Facility Fund where the trustees authorized the establishment of this fund-to-fund requests when a program-related asset or a commercial real estate asset is short of funds. The $2 million is a target, and required both the allocation of earnings from gross income to net income, and also looked at a replenishment rate or funding rate, that was to be agreed upon by the executive director and the CFO. She explained how it had been working.

TRUSTEE STURGEON stated that the way it read was that it was maintained at a total balance of $2 million, and was not a target.

MS. HOWARTH replied that they could maintain it at $2 million and explained that this was the accounting, and if it was maintained at the $2 million the TLO spendable income would be reduced by the amount of funds going into the Central Facility Fund. It was a tradeoff, and she explained about it in more detail. There is discretion allowed between the executive director and the CFO, and she looked forward to having the discussion on a proposed new structure. She continued that Ms. Roch had put some thought into it and was pleased with the recommendation that will be coming out in May.

TRUSTEE STURGEON stated that the motion passed by the Board in 2018 needed to be changed.

CEO WILLIAMS looked forward to doing that and having a recommendation at the May Board meeting.

MS. HOWARTH continued her presentation highlighting inflation and dove a bit deeper on what was being done with the dashboard. She then moved to the PowerPoint on Asset Allocation. She pointed out that the trustees had two points of responsibility: one was at the Finance Committee where the asset allocation was reviewed annually and adjusted; the other was an annual review of performance risk liquidity. She stated that the trustees were a committee of the whole and had traditionally done this in the Finance Committee after the financials were reported and audited by BDO. She continued through her presentation. She introduced Steve Sikes, an investment manager with the Department of Revenue Investment Division, to present the recommendations from the Department of Revenue on the asset allocation and give some background on what was behind that recommendation.

CHAIR FISHER recognized Trustee Boyles to read the motion.

> **MOTION:** The Finance Committee recommends the Full Board of Trustees make the following asset allocation for budget reserves managed by the State of Alaska Department of Revenue, effective July 1, 2023: Asset allocation, broad U.S. equity, target holding 39 percent, target range, plus or minus 5; international equity, target holding 28 percent, plus or minus 5; core U.S. fixed income, 32 percent, plus or minus 5; and cash equivalents, 1 percent, minus 1, plus 2 percent was made by TRUSTEE BOYLES; seconded by TRUSTEE HALTERMAN.

CHAIR FISHER recognized Steve Sikes.

MR. SIKES stated that he is part of the team in Revenue that manages about $50 billion in investments, mainly for the retirement system, but for other State funds like the Mental Health Trust. He continued that the purpose of his presentation was to provide background for the FY24 asset allocation for the budget reserve funds that are managed for the Trust. He added that they manage approximately $60 million for the Trust. The majority of that was rounding up about $54 million in the budget reserve, and the remainder in the GeFONSI. He stated that the Board sets the asset allocation, and they recommend that the Board visit this annually, which is the cycle used for other State funds. For GeFONSI, because those assets are commingled with other State funds, the Commissioner of Revenue approves that asset allocation. The Board's AMPS document establishes the investment objectives for the account. He then provided some historical market context. He noted that setting asset allocation is one of the more important actions in managing a portfolio. It recognized the objectives and constraints of the funds to solve for an optimal risk/return profile. Their asset allocation process uses 10-year forward-looking capital market assumptions developed by Callan to generate efficient portfolio mixes. The inputs were expected returns; expected standard deviation, which is the risk; and the correlation between the assets. In developing this year's recommendation, the primary guiding factor was Callan's Asset Allocation and Spending Study last year, which recommended the asset allocation move to a 60 to 70 percent equity exposure from the 56 percent level it was before last year. This was done to achieve a real spending objective over the long term. He continued through his explanation and mentioned that the investments that the Trust has through Treasury are very liquid, which is one of the objectives of the budget reserve funds. He added that the investments provided are very cost effective. He concluded his prepared remarks and asked for any questions.

CHAIR FISHER asked for any questions, and then moved to the roll-call vote.

*After the roll-call vote, the MOTION was APPROVED. (Trustee Boerner, yes; Trustee Boyles, yes; Trustee Fimon, yes; Trustee Halterman, yes; Trustee Moran, yes; Trustee Sturgeon, yes; Chair Fisher, yes.)*

**COMMERCIAL REAL ESTATE NET PROCEEDS**
CHAIR FISHER thanked Mr. Sikes for a great presentation, and recognized CEO Williams.

CEO WILLIAMS began with an introduction and stated that Gene Hickey is with the Department of Law and is the attorney for the Trust Authority. He was online to go over a draft opinion which was a lead-in into the commercial real estate guidelines. He stated that they would need to go into Executive Session for discussion.

**MOTION:** The motion is per AS 44.62.310(c) 1, 2, and 3. A motion that the Finance Committee move into Executive Session to receive legal counsel regarding the commercial real estate net proceeds and conflict of interest. No decisions will be made in the Executive Session. The motion was made by TRUSTEE HALTERMAN; seconded by TRUSTEE BOERNER.

*After the roll-call vote, the MOTION was APPROVED. (Trustee Boerner, yes; Trustee Boyles, yes; Trustee Fimon, yes; Trustee Halterman, yes; Trustee Moran, yes; Trustee Sturgeon, yes; Chair Fisher, yes.)*

CHAIR FISHER moved into Executive Session.

(Executive Session from 1:52 p.m. until 2:25 p.m.)

CHAIR FISHER stated they were back from Executive Session.

TRUSTEE HALTERMAN stated, for the record, that herself, her fellow trustees and the CEO of the Trust Authority returned to the Finance Committee from Executive Session. No decisions were made during the Executive Session.

*After the roll-call vote, the MOTION was APPROVED. (Trustee Boerner, yes; Trustee Boyles, yes; Trustee Fimon, yes; Trustee Halterman, yes; Trustee Moran, yes; Trustee Sturgeon, yes; Chair Fisher, yes.)*

CHAIR FISHER called a break.

(Break.)

CHAIR FISHER called the meeting back to order and recognized CEO Williams.

CEO WILLIAMS stated that the working draft of a set of guidelines that had been in process for development since the August 24-25 Board meeting when Trustee Boyles put a motion on the table asking for the CEO, the Finance Chair, the TLO Executive Director, the CFO and Harvest to put together a process for how recommendations would be coming forward to trustees in regard to the potential sale of one of the commercial real estate assets. The guidelines are the product of that group that met several times to pull together information from the TLO staff, TAO staff, and then the resource at Harvest. This document and process is to try and be clear as to what the process is, and to have a process that was flexible, not rigid. He asked CFO Howarth to begin.

CFO HOWARTH highlighted the elements and the process that she would take. She commented that the foundational document was drafted last fall by Harvest, and then an internal team began working on it to bring it to some of the characteristics that were deemed critical and clearly understandable. She went through the purpose, the governance documents, fiduciary standards, background, compliance, planning, reporting investment evaluations, process for sale and recommendation, and potential appendices. She gave a quick statement of the purpose and continued through answering questions and comments as she explained in detail.

A discussion ensued.

CHAIR FISHER commented that the documents were evaluated, and the intent was for a document that allowed staff to come to the trustees as rapidly as a public meeting could allow and take appropriate action within a time frame that would allow a good sale to happen. A long bureaucratic process was not wanted. This would come up again when a third-party adviser is talked about; the one that was selected was a portfolio manager.

TRUSTEE BOYLES stated that she understood portfolio investments and also understood selling them, all in Los Angeles. That would not be done with a realtor in Alaska. She continued that the TLO office was fabulously talented and suggested a position that would fly to the Lower 48 periodically, and to maintain their education with and their exposure to the commercial real estate in the Lower 48. She added that she would not want to make her decision based on the commercial real estate in the Lower 48 simply with the Alaskan objectives or advisories in mind.

TRUSTEE MORAN agreed with Trustee Boyles 100 percent. She stated that there were enough evaluation points so there should not be any surprises unless there was a major movement in the market, like COVID.

CFO HOWARTH highlighted two other elements that were part of that process. One was an investment benchmark establishing the investment benchmark against which looked at the financial return against the financial benchmark. The other was where those proceeds would initially be invested.

The discussion continued.

CFO HOWARTH concluded the document.

MS. WARNER stated that she had some comments just for context. The TLO's statutory mandate is to maximize revenue, and that is done for every asset class on a regular basis. This is reported monthly to the CEO and DNR. Commercial real estate is seen as no different. The concern is about the expertise that might not exist outside of Alaska. She added that they were happy to provide that information and the qualifications of the team at the TLO. She added that brokers and property managers in the Lower 48 are employees, and we go to the Lower 48 and tour other buildings that are present in these submarkets. She added a bit of context to think about in moving forward on the document.

CHAIR FISHER thanked Ms. Warner for the valuable input and stated that concluded the Finance Committee meeting. He asked for a motion to adjourn the meeting.

> **MOTION:** A motion to adjourn the meeting was made by TRUSTEE HALTERMAN; seconded by TRUSTEE MORAN.
>
> *After the roll-call vote, the MOTION was APPROVED. (Trustee Boerner, yes; Trustee Boyles, yes; Trustee Fimon, yes; Trustee Halterman, yes; Trustee Moran, yes; Trustee Sturgeon, yes; Chair Fisher, yes.)*

(Finance Committee meeting adjourned at 3:29 p.m.)

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# MEMO

**To:** Brent Fisher, Chair, Finance Committee
**Thru:** Steve Williams, Chief Executive Officer
**From:** Kat Roch, Acting Chief Finance Officer
**Date:** July 25, 2023
**Re:** Proposed Revisions to AMPS

# REQUESTED MOTION:

*The Finance Committee recommends that the Board of Trustees adopt the Asset Management Policy Statement (AMPS) changes as indicated in the attached redline version.*

A red-lined updated version of the AMPS is being presented to trustees for review and approval. Proposed changes reflect the removal of the narrative related to the third-party real estate advisor, which follows action taken during the May 24/25, 2023 board meeting, technical updates to statutory references, and a title change of *Program Related Investment* (PRI) to *Program Related Real Estate (PRRE)*.

*Background*

The Asset Management Policy Statement (AMPS) specifically delineates the asset management philosophy and practices of the Trust's board of trustees. It has been developed to serve as the management plan for those assets entrusted to the board. The AMPS helps the board effectively supervise, monitor, and evaluate the investment and management of the Trust's liquid and non-liquid assets. The AMPS, as adopted and approved by the board, provides a long-term plan by which these assets will be maintained and enhanced through prudent management. The AMPS may be revised and updated by action of the board when changes in practice have been authorized by the board, and should be reviewed annually. Trustees adopted the current AMPS on August 29, 2019.

The proposed revisions are summarized as follows:

1. <u>Removing references to an independent real estate advisor (AMPS pages 5, 14, 15, 16, 21, and 22)</u>:

During the May 2023 board of trustee meeting, trustees declined a motion to fund a contract with the third-party real estate advisor beyond June 30, 2023. Following the board's direction, the contract ended June 30, 2023, which now necessitates an amendment to the AMPS, removing reference to a third-party advisor with an advisory responsibility.

All references to an independent real estate advisor have been removed and, where applicable, re-written to reference the Trust Land Office.

2. Revision to statutory references (AMPS pages 3, 4, 21 and 23):

Statutory references have been updated to reflect the bifurcation of the Department of Health and Social Services into two departments: the Department of Health and the Department of Family and Community Services.

3. Revision of title: Program Related Investments (PRI) to Program Related Real Estate (PRRE), (AMPS page 18):

The former Program Related Investments (PRI) title has been changed to Program Related Real Estate (PRRE).

4. Revision to referenced performance target index benchmark: NPI Property index to NCREIF Property Sector Return, (AMPS page 14 and 15):

This is a technical change to reference the NCREIF Property Sector Return historically used by the TLO, and is a more focused and relevant benchmarking tool than the NPI property index.

**Alaska Mental Health Trust Authority**

**Asset Management Policy Statement**
**~~Adopted: August 29, 2019~~Proposed: July 25, 2023**

# Asset Management Policy Statement

### Purpose

The Asset Management Policy Statement (AMPS) specifically delineates the asset management philosophy and practices of the board of trustees (the board) of the Alaska Mental Health Trust Authority (the Trust). It has been developed to serve as the management plan for those assets entrusted to the board. The board believes it is essential to adopt a long-term plan by which these assets will be maintained and enhanced through prudent management. The AMPS may be revised by action of the board, and should be reviewed annually. The board has adopted the AMPS to serve as that long-term plan, in order that:

- there be a clear understanding on the part of the trustees, staff, beneficiaries, and the public as to the objectives, goals, and restrictions with regard to the management of Trust assets;
- assets be structured and managed in a prudent manner; and
- there be a meaningful basis for performance evaluations of asset classes, managers, and strategies used to achieve the management objectives.

# Background

*Creation of the Trust*

The Alaska Mental Health Trust (the Trust) was established by Congress under the Mental Health Enabling Act of 1956. The 1956 law included a grant to the State of Alaska of one million acres of land to be used to generate revenues to ensure the development of a Comprehensive Integrated Mental Health Program for the State of Alaska. In the mid 1980s, a class-action citizen lawsuit, Weiss v. State, was filed, alleging the mismanagement of these lands. In 1994, the Alaska Legislature passed legislation that was subsequently approved by the Alaska Superior Court as a settlement of the litigation (the settlement).

*Settlement Framework*

The settlement reconstituted the Trust with an initial $200 million in cash and nearly one million acres of land. A seven-member board of trustees was created and charged with the responsibility of administering the Trust. The settlement included statutory language (AS 37.14.009(a)) that assigned the Alaska Permanent Fund Corporation (APFC) management of the Mental Health Trust Fund and assigned the Department of Natural Resources (DNR)) management of Trust land, natural resource assets, and associated improvements. The 1994 legislation required DNR to establish a separate unit, the Trust Land Office (TLO), for this purpose. Other Trust funds, such as Trust income allocated for annual mental health program spending, a portion of budget reserves, and, on a short-term basis, cash receipts generated by the TLO are managed by the Department of Revenue (DOR).

The board directs the financial management of the earnings from the assets of the Trust into programs and projects that are designed to improve the lives of Trust beneficiaries: Alaskans who experience mental illness, developmental disabilities, chronic alcoholism, Alzheimer's disease and related dementia, traumatic brain injury and substance abuse disorders (see AS ~~47.30~~ 44.25).

*Mission Statement*

The board has adopted the following mission statement for the Trust:

*The Alaska Mental Health Trust Authority (the Trust) administers the Mental Health Trust to improve the lives of beneficiaries. Trustees have a fiduciary responsibility to protect and enhance trust assets in perpetuity for the beneficiaries. The Trust provides leadership in advocacy for and planning, implementing and funding of the Comprehensive Integrated Mental Health Program; and acts as a catalyst for change.*

# Roles and Responsibilities

## Board of Trustees

Established by AS ~~47.30.016~~ 44.25.200, the board of trustees is the governing body for the Alaska Mental Health Trust Authority. The board has the responsibility of establishing and maintaining broad policies and objectives for the prudent management of Trust assets. The Board establishes broad policies and sets the direction for asset management in this AMPS. The board delegates the implementation of these policies to the board's finance committee, resource management committee, executive committee and to staff. In doing so, the board maintains a "top-down" perspective, focusing on important policy-level issues, and maintaining the proper fiduciary perspective and time horizon for analysis of the performance of Trust assets.

## Finance Committee

The board of trustees has established a finance committee to assist the board in the financial oversight and strategic financial planning for the Trust. This committee consists of current members of the board of trustees. The Finance Committee considers the overall financial performance of Trust assets, including the real estate and natural resources managed by the Trust Land Office and makes recommendations to the board when necessary. The committee will consult with the Chief Financial Officer and Chief Executive Officer to oversee the implementation of this AMPS. Additional responsibilities may be found in the committee charter.

## Resource Management Committee

The board of trustees has established a resource management committee to assist the board in the oversight and strategic planning for the land, natural resource assets, and associated improvements held by the Trust. This committee consists of current members of the board of trustees. The committee will consult with the Chief Executive Officer and the Trust Land Office to oversee the implementation of this AMPS regarding the Trust's land, natural resource assets, and associated improvements by the Department of Natural Resources. Additional responsibilities may be found in the committee charter.

## Chief Executive Officer

As defined by AS ~~47.30.026~~ 44.25.230, the staff position that serves the board as the Chief Executive Officer of the AMHTA. The Chief Executive Officer implements the policies established by the board of trustees according to the authorities and guidelines provided in the Chief Executive Officer charter.

## Chief Financial Officer

The Chief Financial Officer provides reports on investment activity and results, as well as provides general oversight of the Trust investments. As part of the annual budgeting process, the Chief Financial Officer will make a calculation and a recommendation to the Finance Committee as to the amount of money that should be withdrawn for the investment accounts to fund Trust activity. Where investment managers require administrative direction from the Trust to implement the investment policies and strategies (such as rebalancing activities) the Chief Financial Officer provides that direction in accordance with established policies.

**Trust Land Office (TLO)**

The office has responsibility for management of the Trust's property and natural resource assets. The TLO was established within the Department of Natural Resources under AS 44.37.050.

**Trust Land Office (TLO) Executive Director**

In fulfilling the contract with the board described in AS 37.14.009, this staff position serves the commissioner of the Department of Natural Resources as the Executive Director of the Trust Land Office. Per the Memorandum of Understanding with the Department of Natural Resources, the Commissioner has delegated the authority to select/replace the Executive Director to the Trust with concurrence of the DNR Commissioner.

**Alaska Permanent Fund Corporation (APFC)**

The Alaska Permanent Fund Corporation manages the Mental Health Trust Fund and other Trust assets as agreed by the trustees and APFC.

**Department of Revenue (DOR)**

The Department of Revenue manages funds for the State of Alaska, including Trust budget reserves and other short-term investments.

~~**Independent Real Estate Advisor**~~

~~An independent advisor will be retained to assist in the oversight and management of real estate investment assets acquired by the Trust for income generating purposes. The advisor is managed by the CFO and also provides an annual report to the trustees on the status of these real estate assets.~~

## Statement of Asset Management Philosophy

The AMPS helps the board effectively supervise, monitor, and evaluate the investment and management of the Trust's liquid and non-liquid assets. The cash investment program and Trust land and resource management program are defined in the various sections of the AMPS by:

- stating in a written document the board's expectations, objectives, and guidelines for management of the liquid and non-liquid assets;

- complying, or ensuring compliance, with all applicable fiduciary, prudence, and due diligence requirements that experienced investment professionals and land managers would reasonably utilize, and with all applicable laws, rules, and regulations that may impact Trust assets;

- setting forth an investment structure for the liquid assets of the Trust; this structure includes various accounts, asset classes, investment management styles, risk tolerance, asset allocation and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the long-term;

- establishing guidelines for management of the Trust's non-liquid assets consistent with the TLO's long-term asset management strategy as defined in 11AAC 99.090(c);

- monitoring, evaluating, and comparing the investment performance results achieved by APFC, DOR, and TLO on a regular basis;

- encouraging effective communications between the trustees, staff, APFC, DOR, and TLO;

- establishing a framework to aid trustees in determining the annual available funding amount for protection and enhancement of Trust assets and spending on behalf of the beneficiaries in mental health programs and projects; and

- aligning asset management strategies with the time horizons identified in the comprehensive mental health plan.

This AMPS is formulated upon the board's consideration of the financial implications of a wide range of policies and describes the prudent liquid, and non-liquid investment processes that the trustees deem appropriate.

The board recognizes that even though its investments are subject to short-term volatility, it is critical that a long-term investment focus be maintained. This prevents ad-hoc revisions to the board's philosophy and policies in reaction to either speculation or short-term market fluctuations.

The board recognizes that the Trust has many stakeholders with differing levels of expertise and will make reasonable efforts to develop policies that are easily communicated to partner boards and other stakeholders, so that the framework for decision making is clear and transparent.

# Asset Management Objectives

The asset management objectives of the Trust have been established by the board in conjunction with a comprehensive review of the Trust's current and projected financial requirements. The investment earnings from liquid assets and income produced from Trust non-liquid assets will be used to protect and enhance the value of Trust assets and implement annual mental health program funding strategies. Accordingly, investment results and Trust land resource management decisions are critical elements in achieving the outcome objectives of the Trust. The overarching asset management objective is to maintain appropriate cash asset allocation and trust land management policies that are compatible with the spending policy while still having the potential to produce positive real returns.

### Liquid Asset Management Objectives

Specific liquid asset management objectives are to:

- preserve and enhance the purchasing power of the Trust's cash principal and the income generating capacity of the Trust's non-liquid asset portfolio;
- achieve a real rate of return (above inflation) of five percent (5%) over a full market cycle with reasonable and prudent levels of risk; and
- provide a steady, reliable payout stream to ensure funding of program spending goals while maintaining sufficient liquidity in all market environments.

### Non-Liquid Asset Management Objectives

Specific non-liquid land and natural resource management objectives are to:

- protect and enhance the non-cash asset value and productivity of Trust property;
- maximize revenues from Trust non-liquid assets over time;

- encourage a diversity of revenue-producing uses of Trust non-liquid assets;
- manage Trust land prudently, efficiently, and with accountability to the Trust and its beneficiaries; and
- use Trust non-liquid assets for beneficiary purposes, when such use is found to be in the best interest of the Trust and its beneficiaries.

# Guidelines and Investment Policy

### Time Horizon

The investment time horizon, also referred to as duration, is one of the major factors in achieving positive investment results. In order to appropriately balance investment decisions and spending decisions, the Trust considers several time horizons:

Short-Term: The Trust invests funds that are held temporarily, pending use by Trust programs or other investment decisions. These investments have an approximate time horizon of two years with an emphasis on preservation of capital rather than growth. Investments in this area include the funds held in the General Fund and Other Non-Segregated Investment (GeFONSI) pool managed by the Department of Revenue. The GeFONSI pool is intended to produce moderate returns with low levels of risk; accordingly it holds a mix of high quality, short term securities and holds the regular operating funds used by the Trust. The Trust's GeFONSI accounts include the following

- Trust Settlement Income Account (Fund 1092)
- Trust Authority Development Account (Fund 3320)
- Central Facilities Fund (Fund 3322)

From time to time, as part of the operations of the commercial real estate portfolio, the Trust may also hold cash, certificates of deposit, or money market accounts in federally insured banks. These funds are generally invested in low-risk, highly liquid accounts and include:

- Operating Accounts for Building management
- Property Reserves for Capital Improvements

Medium-Term: The Trust invests funds that may be needed in the future for use by Trust programs. These investments have an approximate time horizon of five to seven years with an emphasis on balancing preservation of capital while still achieving growth. Investments in this area include:

- Budget Reserves

Long-Term: The Trust also invests funds for the benefit of future beneficiaries. These investments are managed for long term growth, with a time horizon of seven to twenty years. Investments in this area include:

- Mental Health Trust Fund
- Commercial Real Estate

**Risk Tolerance**

Investment risk is generally correlated with investment returns. The potential for investments to perform differently than anticipated (producing either significantly better or worse returns) is referred to as volatility. Deciding how much volatility within the portfolio is acceptable is a critical decision in determining potential investment results and achieving positive investment results, net of inflation. The Trust considers both the risk associated with specific investment strategies as well as the aggregate risk to total Trust assets.

The board recognizes the difficulty faced by APFC, DOR and DNR in meeting investment and Trust land resource management objectives because of the uncertainties and complexities of contemporary investment markets and the non-liquid asset management operating arena. The board also recognizes that some risk must be assumed to achieve the APFC's long-term investment objectives, the DOR's Budget Reserve investment objectives, and the TLO's land management objectives. Further, in co-mingling Trust liquid assets with the Alaska Permanent Fund managed by the APFC, the ability to withstand short and intermediate term market volatility has been considered. The board will review the realized five-year and ten-year risk (standard deviation) of the Trust on a periodic basis (not less than once every three years) to ensure the Trust's overall portfolio has not exhibited an undue level of risk.

**Asset Allocation**

Careful allocation of Trust capital is an essential component of managing the overall portfolio risk profile and the potential return. Investing decisions strive for a balance between overweighting capital in a narrow section (*concentration risk)* and distributing capital so broadly that investments are not focused and generate mediocre results. Asset allocation is the framework for managing investment decisions to achieve the desired result within an acceptable range of risk.

The Trust has unique features when considering asset allocation:

- Through the Settlement the Trust holds approximately one million acres of land throughout Alaska. This is a substantial asset for the Trust, but it has limited liquidity and is concentrated in Alaska.

- Associated with the land holdings, the Trust participates in natural resource development (harvesting timber, mining, oil & gas production, etc.). This creates some sensitivity to commodity prices, foreign exchange rates, and overall economic environment.

- The Trust maintains a commitment to serving beneficiary needs through the provision of facilities at lease rates that may differ from market rates. These assets generate limited financial return to the Trust and may need to be considered as a separate asset class than other real estate investments.

- By investing as a commingled account at the Alaska Permanent Fund, the Trust enjoys economies of scale and reduced costs. However, the Trust cannot adjust the asset allocation or the investment strategies of the Alaska Permanent Fund, and is subject to periodic changes to the return and risk targets adopted by APFC.

- The Trust holds direct real estate investments in several commercial properties. The funds invested in these assets represent less than 10% of total Trust assets and have limited liquidity.

Considering these factors, the Finance Committee shall review the asset allocation annually following completion of the annual financial statement audit and adjust the asset allocation as necessary to achieve Trust objectives. The Chief Financial Officer will provide the Committee with an aggregate report of current asset valuations and make recommendations for reallocations for trustee consideration.

Asset allocation amounts are based on a range of invested funds rather than a dollar threshold. The Trust assets are distributed as follows:

| **Investment Manager** | **Risk Profile** | **Asset Allocation** |
|---|---|---|
| Department of Revenue (Cash or GeFONSI ) | Low | Established by the Manager.[1] |
| Department of Revenue (Budget Reserves) | Moderate | Established by the Manager with Trust direction[2]. |

[1] Department of Revenue investment policies and allocations are published on line at: http://treasury.dor.alaska.gov/Portals/0/docs/blue_book/investment_policies_and_procedures.pdf

[2] The Trust gives broad guidance around which Department of Revenue investment funds the Trust should participate in. Descriptions of the allocations and investment pools are published on line at:

| | | |
|---|---|---|
| Alaska Permanent Fund (Trust Fund and Reserves) | Moderate | Established by the Manager[3]. |
| Trust Land Office Commercial Real Estate | Moderate | Established by the Trust[4] |
| Trust Land Office TLODA Projects (including PRI activity) | Moderate | Established by the Trust[5] |

### Performance Expectations

A substantial factor in achieving positive long term investment results is the costs and fees associated with investment services. The Trust has two managers that handle financial investments: the Alaska Permanent Fund Corporation and the Department of Revenue. Because of the amount of assets managed by the Permanent Fund Corporation[6] and the State of Alaska GeFONSI investment pool[7] the Trust receives the benefit of their purchasing power and economies of scale. This relationship allows for investments to be made at a lower cost than what would otherwise be available to the Trust and contributes to the long term growth of Trust investments. Accordingly, the Trust seeks to work with these agencies as our investment managers whenever possible.

#### ***Liquid Asset Managers***

#### Alaska Permanent Fund Corporation

APFC management responsibilities for the Trust's principal are provided for in APFC statute and a memorandum of agreement between the Trust and the APFC (APFC MOA).

The board reviews the long-term performance, risk, and liquidity characteristics of the APFC on a periodic basis (but not less than annually) and evaluates whether the APFC's asset allocation strategy meets the long-term investment return objective of the Trust with an acceptable level of risk. The finance committee will meet with the APFC investment staff on a periodic basis (but not less than annually) to review the APFC's investment strategy.

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http://treasury.dor.alaska.gov/Portals/0/docs/blue_book/investment_policies_and_procedures.pdf under the section Z-1.

[3] The Permanent Fund Asset Allocation framework and targets are published at: https://apfc.org/diversification-framework-asset-allocation/

[4] Current allocation is seven properties, with approximately $40 million in invested funds.

[5] The Trust has made an allocation of up to $8 million in development projects, but has not yet approved projects from this account.

[6] $65 Billion as of May 2019

[7] $3 Billion as of May 2019

The performance target for the APFC investment will be APFC's current Blended Performance Benchmark, as outlined by the APFC, along with APFC's long-term Total Fund Return Objective of CPI+5%.

**Department of Revenue**

The asset allocation for Budget Reserves under management of the Treasury Division is directed by the trustees.

The Department of Revenue Treasury Division holds and manages one half of the Budget Reserve, cash balances of the Central Facilities Fund and on a short-term basis the revenue generated by the TLO and Trust income allocated by the trustees for spending on the Comprehensive Integrated Mental Health Program.

Investments of the Budget Reserves are made pursuant to guidance provided by staff under the fiduciary direction of the board. In executing their duties, the finance committee shall periodically (not less than every three years) review asset allocation independently or request consultation from outside entities and, if appropriate, recommend the board adopt changes.

The Central Facilities Fund is currently invested alongside the General Fund and other Non-Segregated Investments (GeFONSI). The finance committee shall periodically (not less than every three years) review the cash balances of the Trust in conjunction with projected expected expenditure or reinvestment demand and recommend an asset allocation to the board.

The performance target for the liquid assets managed by the Department of Revenue are benchmarked to the Bloomberg Barclays 1-3 Year Government/Credit index.

***Non-Liquid Asset Managers***

**Trust Land Office**

The TLO manages the Trust's non-liquid assets on behalf of the trustees, in accordance with applicable statutes, regulations, and a memorandum of understanding between the Trust and DNR (DNR MOU).
The land resource component of the Trust is made up of Alaskan land parcels, natural resource assets, and associated improvements. TLO management responsibilities are provided for in AS 38.05.801, 11 AAC 99, and the DNR MOU.

TLO outcomes are projected each budget cycle with annual outcomes addressed in annual TLO budgets approved by the board. While the TLO consults primarily with the resource management committee of the board on specific transactions, consultation can also occur between the TLO and the Trust Administration Office (TAO) and between the TLO and the board, in accordance with specific board policies or transaction circumstances.

The performance of direct private equity real estate will be annually evaluated using an index or indices determined by the finance committee.

General operating expectations are as follows:

- TLO will focus first on land or resources at the high end of their market values ("Best Markets") and then on land or resources with Best Market potential within the next two to ten years;
- land or resources not included above will be considered "Long Term Market" lands, with TLO management emphasis placed on reasonable value preservation and enhancement actions in the interim;
- generally, the TLO will focus on transactions that:
    1. maximize return at prudent levels of risk;
    2. contribute to a diverse assortment of resource activity;
    3. provide ancillary values to the Trust; and
    4. remove or prevent liability risks;
- leases are preferred over sales and, when reasonable to do so, land values should be enhanced before disposal through lease or sale;
- transactions should not harm values of or future opportunities associated with other Trust lands;
- investments in Trust land should be consistent with the guidelines in the Resource Management Strategy and, when expected to generate increased value for the Trust, the proposed results should compete favorably with the projected long-term total rate of return of the Alaska Permanent Fund Corporation;
- land exchanges may be considered, when associated costs and outcomes can be reasonably established;
- if beneficiary program uses of Trust lands are proposed at rents below fair market value, the increment between proposed rents and fair market value rents will be considered an allocation of Trust revenue and must be approved by the board; and
- lands, structures, and resources may be acquired when the acquisition will add value to the Trust's non-liquid asset portfolio or will contribute to the mission of the Trust in another way. All acquisitions will be analyzed on a 'Life Cycle Basis'; defined as the present value of the acquisition cost, the operating income/benefits during the holding periods and the value of the asset at disposition.

In accordance with AS 13.38, 20 AAC 40.610, and this AMPS, TLO revenue will be allocated as follows:

- To Principal: Land sale revenues; royalties from coal, gas, materials, minerals, and oil; perpetual easements; and 85% of revenues from timber sales.
- To Income: Interest from land sale contracts; bonus bids; rents; distributions from the commercial real estate portfolio and 15% of revenues from timber sales.

### Real Estate Investments

~~The third party real estate advisor monitors the real estate investment assets managed by the TLO. This advisor provides independent advice and recommendations regarding Trust's non-liquid direct real estate investments and provides trustees with additional expertise when considering investment decisions. The TLO provides the staff to manage the investments.~~

The TLO monitors and manages the real estate investment assets of the Trust. The TLO provides advice and recommendations regarding Trust's non-liquid direct real estate investments to trustees when considering investment decisions.

The board reviews the long-term performance, risk, and liquidity characteristics of the real estate investments on a periodic basis (but not less than annually). ~~The third-party real estate advisor may make recommendations to the board regarding transactions related to the assets.~~

The performance target for the assets ~~overseen by the third-party real estate advisor~~ is the NCREIF Property ~~index ("NPI")~~ Sector Return.

## Control Procedures

### AMPS Revisions

It is not expected that the AMPS will change frequently. In particular, short-term changes in the financial, real estate and natural resource markets and associated operating arenas should not require adjustments to the AMPS. However, the board will review the AMPS at least annually to confirm it remains relevant. Additionally, the AMPS shall be reviewed if there is a substantial sale of Trust non-liquid property or natural resource assets[8], a fundamental change to how APFC manages its portion of the liquid assets, alterations to the Trust's spending policy, or if the Trust is impacted by statutory revisions.

**Liquid Assets**

APFC & DOR performance will be reviewed quarterly by the finance committee who will report all performance to the board to determine the continued feasibility of achieving the investment and Trust land management objectives and the appropriateness of the AMPS for achieving those objectives.

**Land, Natural Resources, and associated improvements (Non-Liquid Assets)**

The TLO will maintain a level of management capacity necessary to prudently manage and develop Trust non-liquid assets over time. It is understood that this component of Trust non-liquid asset management represents a significant expense to the Trust.

The duties and responsibilities of the TLO are generally provided for in AS 38.05.801 and more specifically provided for in 11 AAC 99 and the DNR MOU. The specific management principles are provided for in 11 AAC 99.

TLO financial performance will be reviewed at least annually by the finance committee which will report all performance to the board.

~~Performance of the third-party real estate advisor will be reviewed annually by the finance committee which will report all performance to the board.~~

**Total Trust Performance**

On at least an annual basis, the total financial performance of the Trust assets will be presented to the board. Performance will be compared to a blended benchmark consisting of the following indices (weighted based upon the Trust's allocation to each category as of the beginning of each fiscal year):

- APFC Allocation: APFC's Blended Performance Benchmark
- DOR Allocation: Bloomberg Barclays 1-3 Year Gov't/Credit Index
- TLO Allocation: TLO's actual performance
- ~~Third-Party Real Estate Advisor~~TLO: NCREIF Property ~~Index~~ Sector Return

## Spending Policies

[8] A substantial sale is considered a transaction one that generates cash proceeds large enough to materially change the Trust's financial performance. Using the 4.25% distribution rate, a sale of $23 million in property would increase the annual portfolio distribution by $1 million over the 4 year averaging cycle.

The board has the authority to authorize the expenditure of Trust funds to protect and enhance the value and productivity of Trust assets, for the award of grants and contracts in fulfillment of the Trust's purpose to ensure a Comprehensive Integrated Mental Health Program, and, with legislative approval, the operating expenses of the TAO. This Spending Policy outlines five board objectives:

1. protect and enhance the corpus of the Trust by allocating sufficient resources to ensure that Trust assets are properly managed, including the use of funds allocated to the Trust Land Office Development Account, where appropriate, to maximize the value and productivity of Trust non-liquid assets;

2. apply smoothing mechanisms to mitigate the effects of short-term market volatility on spending and maintain a reliable funding stream to ensure the support of a Comprehensive Integrated Mental Health Program for the beneficiaries;

3. establish a Budget Reserve account to ensure funding support for the Comprehensive Integrated Mental Health Program is maintained in a difficult market environment;

4. maintain the purchasing power of the Trust principal, including addressing the effects of inflation, by using the reserve model consisting of the Budget Reserve account originally recommended by Callan Associates in 1996; and

5. follow a spending policy based upon a sustainable percentage of investment net asset values and expendable income from Trust land management.

The board recognizes achieving Trust asset management objectives requires adequate resources be allocated for that purpose by reimbursing APFC and DOR, DNR ~~and the third-party real estate advisor~~ for the reasonable costs of managing Trust assets.

### *Annual Available Funding Framework*

Having a relatively consistent and predictable funding stream is paramount to ensuring an effective Comprehensive Integrated Mental Health Program. To mitigate the effects of periodic market volatility on funding, the board utilizes smoothing mechanisms to maximize funding consistency.

The following components have been established as a framework to aid trustees in determining the annual available funding amount:

- An annual withdrawal calculation consisting of 4.25 percent of the rolling four year-end[9] average aggregate net asset value (NAV) of the following:
  - Principal Invested at APFC[10]
  - Budget Reserve invested at APFC
  - Budget Reserve invested at DOR

- The rolling four year-end average of lapsed appropriations funded from the Settlement Income Account[11], or other process approved by the board to capture the value of prior year unused funds;

- The rolling four year-end average of expendable income generated by Trust Land Office operations;

- The rolling four year-end average of interest earned on cash held with the General Fund and Other Non-Segregated Investments (GeFONSI) managed by DOR;

- The unobligated/unallocated funds that could have been authorized in previous fiscal years under this framework calculation; and

- Other miscellaneous unrestricted revenues properly deposited into the Trust Settlement Income Account such as contributions from partner agencies and the recovery of prior year expenditures received after the funding appropriation lapsed.

Trustees reserve the right to expend additional funds when circumstances warrant. Concurrently, trustees acknowledge that principal assets are not available for expenditure.

The annual withdrawal calculation amount will be transferred to the Settlement Income Account and invested with the GeFONSI with minimal risk on a lump sum or periodic basis by the CFO in consultation with the CEO based on market conditions and cash flow needs.

### *Budget Reserve Guidelines*

[9] To ensure clarity and consistency in calculations, the year-end amounts referred to in the Annual Available Funding Framework are defined as the amounts/values as of the end of the fiscal year (June 30th) rather than the end of the calendar year (December 31).
[10] Funds in the Trust operating accounts Account are not included in the payout calculation unless Trustees approve otherwise.
[11] Settlement Income Account fund 1092 only. Lapsed appropriations funded from other sources are not included in the calculation.

In order to fulfill funding requirements during market downturns, a Budget Reserve account will be maintained to help ensure funding availability. Based on a Callan Associates study of the Alaska Permanent Fund and the Alaska Mental Health Trust Fund, the Budget Reserve is set at 400% of the targeted annual withdrawal calculation amount. This reserve amount should be adequate to provide maximum assurance that the Trust will be able to meet annual funding goals.

Approximately one half of the Budget Reserve shall be invested by the DOR. The remainder of the Budget Reserve shall be invested by the APFC in the same manner as the Principal.

When APFC experiences gains for a given year, the Budget Reserve at DOR will first be adjusted up to 200% of the current year's targeted annual withdrawal calculation. If additional gains remain, adjustments will be made to the Budget Reserve invested by APFC. When the Budget Reserve is fully funded at both DOR and APFC, funds may be used to help offset the effects of inflation ("inflation proofing"). The effect of inflation will be estimated by using US Department of Labor Bureau of Labor Statistics CPI-U index[12].

When the APFC or DOR experiences losses for a given year, the Budget Reserve at DOR will be maintained or adjusted to 200% of the annual withdraw calculation from the Budget Reserve at APFC.

In the event of severe and/or sustained losses whereby the Budget Reserve is insufficient to meet the annual payout while maintaining at least 200% of the current year's annual withdrawal calculation then the withdrawal rate or amount may be reviewed by the trustees.

Full or partial inflation proofing may be facilitated by the following method:

- Inflation proofing permanent transfer (official non-spendable transfer)
    - Upon notification by the CFO that trustees have performed an official and permanent inflation proofing, APFC will initiate an accounting entry to irretrievably transfer funds from Budget Reserves to the Mental Health Trust Fund.

### *Trust Land Office Development Account Guidelines*

The value and productivity of Trust liquid and non-liquid assets must be maximized through the reinvestment of Trust income where appropriate. This includes investments made through ~~Program Related Investments (PRI)~~ Program Related Real Estate (PRRE), the Resource Management Strategy (RMS) or other programs approved by trustees. To achieve this objective, the Board will maintain a Trust Land Office Development Account (TLODA) to use Trust income to exchange one asset for another, to maintain or enhance the value of the Trust's

[12] Consumer Price Index All Urban Consumers; U.S.; All Items; 1967=100

existing non-liquid asset portfolio, either through prudent investments in non-liquid assets already owned by the Trust or through the acquisition of additional assets. Assets in the TLODA may also be used to acquire assets that enhance the capacity of the state's mental health program, such as facilities for delivering services to beneficiaries. This may be accomplished through the financing of projects, purchase/lease of assets, exchange or resale.

Recommendations for expenditure from the TLODA will be noticed in the same manner as other Trust expenditures, including presentation to appropriate Trust committees and final approval by a committee or the board of trustees, as provided for in the Trust bylaws. Recommendations will be based upon a specific work plan with identified priorities.

Where TLODA funds are used to enhance the value of the Trust's existing non-liquid assets, each project will be accounted for individually and the proceeds from the project will be used to calculate an internal rate of return (IRR). The trustees may adjust the TLODA IRR target on a case by case basis, reflecting the unique circumstances of each project. Classifying these cash flows between principal and income shall be done at the direction of the trustees, in accordance with 20 AAC 40.610.

The TLODA projects may involve real estate investment and natural resource development, asset classes that are potentially illiquid or exposed to fluctuating commodity prices. Accordingly, the trustees have established $8 million as the allocation to this account, representing approximately 1.5% of Trust liquid assets. Additional allocations may be made in the future, depending upon the needs of the Trust

### *Trust Land Office Commercial Real Estate Guidelines*

The commercial real estate assets held by the Trust generate income through lease payments. These assets also have the potential to create value through appreciation, through a combination of property improvements, lease renewals, and overall economic growth. Management of these assets is outlined in the Resource Management Strategy and handled by the Trust Land Office.

The Trust Land Office has been selected as the manager for these assets because of their unique and comprehensive knowledge of the Trust settlement lands and resources, which will minimize the potential for inadvertent concentration risk, their understanding of the Trust mission and objectives, which will assist with the alignment of investment decisions along with the Comprehensive Integrated Mental Health Plan, and their ability to perform these duties within their current responsibilities thereby creating a low incremental cost for their services.

There are three key features associated with the commercial real estate assets that should be considered as part of the AMPS:

- Each property has an annual budget for operations, debt service, and maintenance/capital improvements. Because these costs must be paid to preserve the value of the assets, income generated by the properties will be used to fund these costs first, prior to making distributions to fund beneficiary programs.
- The properties participate in the Central Facilities Fund, with contributions from the properties accumulating over time. These funds provide a cash flow cushion in the event that major improvements are needed to maintain the properties or to secure leases. The fund has a target of $2 million and contributions to the fund should be made prior to making distributions to fund beneficiary programs.
- Certain properties have outstanding mortgages. These mortgages are structured as non-recourse debt, which limits the overall liability of the Trust. The terms of each mortgage, especially the timing of any balloon payment requirements, should be carefully considered as part of the overall investment strategy.

These assets are managed by the Trust Land Office and compose less than 10% of the Trust's overall investments. Each property has a commercial property manager that prepares an annual budget, collects the rents, and handles day to day operations. Expenditures must be part of the trustee approved annual budget and TLO staff monitor the monthly results of each property.

These assets serve two purposes: they provide a hedge against volatility in the stock market and they generate income that supplements the annual distribution from the Trust portfolio. The Trust may elect to sell these assets and replace them with different assets at any time.

## Definitions

For purposes of ease of administration and understanding of this Asset Management Policy Statement, the following terms are defined or clarified:

APFC: The Alaska Permanent Fund Corporation manages the liquid assets of the Alaska Mental Health Trust Authority under the APFC board's asset allocation policy and its investment policies and guidelines for major asset classes.

ASSETS: Consists of the liquid and non-liquid assets of the Alaska Mental Health Trust Authority, including property and resource assets acquired by the TLO on behalf of the Trust.

BOARD: The governing body of the Alaska Mental Health Trust Authority established by AS ~~47.30.016~~ 44.25.210.

BUDGET RESERVE: Budget Reserve is set at 400% of the targeted annual withdrawal amount. This reserve amount should be adequate to ensure the Trust's ability to meet its spending goals in a difficult market environment and to ensure liquidity in future years. The budget reserve is maintained both within the state treasury as well as the Alaska Permanent Fund Corporation.

CHIEF EXECUTIVE OFFICER (CEO): The staff position as defined by AS ~~47.30.026~~ 44.25.230 serving the board as the chief executive officer of the Alaska Mental Health Trust Authority.

CHIEF FINANCIAL OFFICER (CFO): The staff position serving as the chief financial officer of the Alaska Mental Health Trust Authority.

GENERAL FUND AND OTHER NON-SEGREGATED INVESTMENT (GEFONSI): An investment pool managed by the Alaska Department of Revenue Treasury Division. The pool buys fixed income securities on behalf of the Trust and tracks the earnings and value of the Trust's share of the pool.

LIQUID ASSETS: Assets of the Alaska Mental Health Trust Authority that are invested through the Department of Revenue (DOR), under management of the Treasury Division, and also through the Alaska Permanent Fund Corporation (APFC).

NON-LIQUID ASSETS: Assets of the Alaska Mental Health Trust Authority that consist of property and natural resource assets. Such assets are overseen by the Trust Land Office (TLO) ~~and the Third-Party Real Estate Adviser~~.

~~THIRD-PARTY REAL ESTATE ADVISOR: This is an independent third party advisor that assists with the oversight and monitoring of real estate investment assets acquired by the Trust for income generating purposes. The advisor is managed by the CFO and provides an annual report to the trustees on the status of these real estate assets.~~

TRUST SETTLEMENT INCOME ACCOUNT: The GeFONSI account in which income available for appropriation and expenditure is deposited (and from which agencies receiving MHTAAR funded appropriations expend). The account is maintained on the state accounting system as GASB fund 1092.

TRUST AUTHORITY DEVELOPMENT ACCOUNT: The holding place for cash principal until it is transferred to the APFC for investment alongside the Alaska Permanent Fund. The account also holds some funding for previously authorized development projects that are being completed. The account is maintained on the state accounting system as GASB fund 3320. Prior to September 2014, this account was referred to as the Trust Land Development Account.

TRUST FACILITY MAINTENANCE ACCOUNT/CENTRAL FACILITY FUND: A component of the Settlement Income Account where a portion of facility rents are deposited to finance operations and maintenance on buildings owned by the Trust, including capital improvements and leasing commissions for the commercial real estate portfolio. The account is maintained on the state accounting system as GASB fund 3322. The account was originally authorized by Resolution 05-04.

TRUST LAND OFFICE DEVELOPMENT ACCOUNT: A component of the Budget Reserves, where a portion of spendable income has been assigned for future use on natural resource development projects or other activities authorized by the trustees.

TRUST LAND PORTFOLIO: The non-liquid assets of the Alaska Mental Health Trust Authority that are managed by the Trust Land Office, including improved properties and facilities. The land portfolio includes properties acquired through the Settlement as well as other properties acquired for program related investment and commercial investment properties.

SETTLEMENT: The statutes, settlement agreement, letters clarifying the settlement agreement, and the final Superior Court order creating and approving the settlement of Weiss v. State of Alaska.

SETTLEMENT LAND: The properties and associated improvements transferred to the Trust as part of the original Mental Health Enabling Act

(PL 94-830) as well as the properties subsequently transferred to the Trust as replacement lands (June 10, 1994 settlement).

STAFF: The CEO, Trust Land Office Executive Director, all employees of the Trust and the Trust Land Office.

TRUST: The Alaska Mental Health Trust established by Congress under the Mental Health Enabling Act of 1956.

TRUST AUTHORITY: The Alaska Mental Health Trust Authority established by AS ~~47.30.011~~ 44.25.200.

TRUSTEE(S): The board of trustees of the Trust Authority, either collectively or individually.

TRUST AUTHORITY OFFICE (TAO): The office with responsibility for providing support to the chief executive officer and board of trustees in management of Trust financial assets and in assuring development of the Comprehensive Integrated Mental Health Program.

TRUST LAND OFFICE (TLO): The office with responsibility for management of the Trust non-liquid assets and natural resource assets and associated improvements established within the Department of Natural Resources under AS 44.37.050.

TRUST LAND OFFICE (TLO) EXECUTIVE DIRECTOR:

In fulfilling the contract with the board described in AS 37.14.009, this staff position serves the commissioner of the Department of Natural Resources as the Executive Director of the Trust Land Office. Per the Memorandum of Understanding with the Department of Natural Resources, the Commissioner has delegated the authority to select/replace the Executive Director to the Trust with concurrence of the Commissioner.

Trust
Alaska Mental Health
Trust Authority

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# MEMO

**To:** Brent Fisher, Finance Committee Chair
**Thru:** Steve Williams, Chief Executive Officer
**From:** Kat Roch, Acting Chief Financial Officer
**Date:** July 25, 2023
**Re:** FY 24 MH Budget Bill Increases

# REQUESTED MOTION:

*The Finance Committee recommends that the full Board of Trustees ratifies the Legislature's FY24 MHTAAR and MHT Admin budget amounts as appropriated and therefore increases previous FY24 Trustee authorization by $99,200.*

**BACKGROUND**

Trustees approved $19,446,600 in MHTAAR and MHT Admin funds for the FY2024 Mental Health Budget Bill. The legislature appropriated $99,200 in additional MHTAAR and MHT Admin funds. Of these additional funds $85,700 were appropriated to account for salary, health insurance and PERS adjustments, $13,500 was appropriated for the Department of Revenue Administrative Services Division. The Trust staff request that the Finance Committee recommend that the full board of trustees approve the additional MHTAAR and MHT Admin funds as detailed in the below table.

| Agency | Trustee Approved FY24 Budget | Amount Over / (Under) Trustee Approved FY24 Budget | Legislature Approved FY24 Budget |
|---|---|---|---|
| (DOA) Holistic Defense | $126,400 | $5,500 | $131,900 |
| (DOH) Zero Suicide | $62,500 | $1,300 | $63,800 |
| (DOH) ABADA/AMHB joint staffing | $491,500 | $8,500 | $500,000 |
| (DOH)Comprehensive Program Planning Coordinator | $75,000 | $1,400 | $76,400 |
| (DOH) Adult Protective Services III | $75,000 | $2,000 | $77,000 |
| (DOH) ACoA Staffing | $200,000 | $3,300 | $203,300 |
| (DOH) GCDSE Joint Staffing | $184,500 | $5,000 | $5,000 |
| (DFCS) Complex Care Program Coordinators & Statewide Designation, Evaluation and Treatment Coordinator | $237,000 | $900 | $237,900 |
| (DNR) Trust Land Office | $5,019,100 | $30,700 | $5,049,800 |
| (DOR) Trust Authority Office (MHT Admin) | $4,624,400 | $27,800 | $4,652,200 |
| (DOR) Admin Services Division | $0 | $13,500 | $13,500 |

Trust
Alaska Mental Health
Trust Authority

3745 Community Park Loop, Suite 200
Anchorage, AK 99508
Tel 907.269.7960
www.mhtrust.org

# MEMO

| | |
|---|---|
| **To:** | Brent Fisher, Finance Committee Chair |
| **Thru:** | Steve Williams, Chief Executive Officer |
| **From:** | Kat Roch, Acting Chief Financial Officer |
| **Date:** | July 25, 2023 |
| **Re:** | FY25 Trust Authority Office MHT Agency Budget Request |

# REQUESTED MOTION:

*The Finance Committee recommends that the full Board of Trustees approve the FY25 Trust Authority Office MHT Agency budget of $4,819,908.*

**BACKGROUND**

Staff presents the proposed FY25 Trust Authority Office Agency budget based on anticipated activity levels of the Trust. Trust staff requests that the Finance Committee recommend that the full board of trustees approve the MHT Agency funds as detailed in the attached document.

The FY25 proposed budget reflects a net increase of $167,708, or 4%, over the FY24 Trust Authority Office MHT Agency budget.

The table below outlines the primary drivers of the year-over-year budget changes:

| Budget Line | FY2025 Proposed Budget Above / (Under) FY2024 Mgmt Plan | Primary Year-Over-Year Component Changes |
|---|---|---|
| Personal Services (line 1000) | $103,750<br>3% | FY2025 merit increases. Not reflected are PERS and Health Insurance increases. |
| Travel (line 2000) | $0<br>0% | Anticipated travel costs will remain flat |
| Services (line 3000) | $40,303<br>4% | Anticipated increases in Interagency charges, which remain uncertain, are offset by other line item decreases, particularly IT and telecommunication. |
| Supplies (line 4000) | $8,215<br>12% | FY2025 reflects increased costs relative to FY2024 Management Plan with scheduled computer replacements and increased costs. |
| Equipment (line 5000) | $15,000 | Replacement of a copier is anticipated in FY2025. This one-time purchase is not reflected in the % increase over FY2024. |

The proposed FY25 MHT Agency budget is affected by unanticipated changes made to the Trust's FY24 budget; specifically, an increase in Health Insurance costs and PERS rates has a significant effect on the FY24 budget, which in turn was accounted for and impacts the FY25 budget. The FY 25 MHT Agency budget does not include any provision for potential adjustments to PERS or health insurance costs. If the Legislature approves FY25 budgets with increases in state employee benefit costs, then Trustees will be requested to ratify the increases.

The Travel line, which includes travel for staff and trustees, was increased in FY24 due to incremental increases in trustee travel during FY23. Before this, travel had been flat for several years. This FY25 MHT Agency budget maintains travel at FY24 levels for anticipated trustee meetings and site visits; necessary staff travel and professional development.

Within Services, thoughtful budget choices have been made to control costs, resulting in reductions in several service categories. Strong management of the Trust's information technology and telecom contracts drives the budget reduction, more than offsetting anticipated Interagency Services increases, which comprise 1/3 of the category's budget. It is important to note that Interagency Services, which are not controllable, will be reevaluated by the Office of Management and Budget (OMB) later this fiscal year and are uncertain. Some costs within the category may decline, and others may increase.

Supplies, as with Services, were carefully reviewed to control costs. The FY25 plan reflects spending returning to pre-COVID levels.

# MENTAL HEALTH TRUST AUTHORITY OFFICE
## FY2025 Agency Budget

| EXPENDITURES | FY23 Estimated Actual | FY24 Trustee Approved | FY24 Management Plan | Proposed FY25 | FY24-FY25 % Change |
|---|---|---|---|---|---|
| 1000 Personal Services | 3,310,723 | $ 3,538,700 | $ 3,526,798 | $ 3,630,548 | 3% |
| Personal Services | 3,250,723 | 3,470,244 | 3,458,342 | 3,562,092 | 3% |
| cell phones | | 3,456 | 3,456 | 3,456 | 0% |
| Honorarium | 60,000 | 65,000 | 65,000 | 65,000 | 0% |
| 2000 Travel | 70,448 | 107,060 | 107,060 | 107,500 | 0% |
| 3000 Services | 764,497 | 922,464 | 947,357 | 987,660 | 4% |
| 4000 Supplies | 52,321 | 56,140 | 70,985 | 79,200 | 12% |
| 5000 Equipment | | - | - | 15,000 | |
| **Total** | **4,197,989** | **$ 4,624,364** | **$ 4,652,200** | **$ 4,819,908** | 4% |
| | | | | | |
| **Full Time Employees** | **17** | **17** | **17** | **17** | |

FY2025 Proposed:

<u>$4,819,908</u>

| | A | B | C | D | E | F | G | H | I | J | K |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | **TRAVEL (excl. Program-related)** | | | | | **FY23 Estimated Actual** | **FY24 Approved** | **FY24 Management Plan** | **Comments** | **Proposed FY25 Budget** | **24-25 %Change** |
| 2 | 2000 TRAVEL | | | | | | | | | | |
| 3 | | Trust Authority Staff Travel | | | | 54,830 | 58,550 | 58,550 | Juneau travel, Trustee meetings, rural outreach, professional development | 64,000 | 9.3% |
| 12 | | Trustee Travel | | | | 15,618 | 48,510 | 48,510 | Site visits in- & out-of-state, rural outreach, Trustee meetings | 43,500 | -10.3% |
| 22 | | *TOTALS* | | | | *70,448* | *107,060* | *107,060* | | **$ 107,500** | **0%** |

| | SERVICES | FY23 Estimated Actual | FY24 Approved | FY24 Management Plan | Comments | Proposed FY25 Budget | 24-25 chg% |
|---|---|---|---|---|---|---|---|
| 2 | 3000 SERVICES | | | | | | |
| 3 | NON-INTERAGENCY SVCS | 719,225.00 | 925,800.00 | 895,460.00 | | 883,000.00 | -1.4% |
| 4 | EDUCATION SERVICES | 15,813 | 22,660 | 22,660 | Professional development | 25,000 | 10.3% |
| 5 | FINANCIAL SERVICES | 86,400 | 118,000 | 123,000 | New external financial audit contract; financial consulting | 118,000 | -4.1% |
| 9 | LEGAL & JUDICIAL SVC | 57,000 | 101,500 | 109,000 | Outside legal services; Board transcription services | 110,000 | 0.9% |
| 13 | INFORMATION TECHNOLOGY | 59,199 | 52,500 | 62,000 | Software licensing and maintenance | 60,000 | -3.2% |
| 20 | TELECOMMUNICATIONS | 32,832 | 28,530 | 37,500 | Long distance, local, and equipment charges | 35,000 | -6.7% |
| 25 | DELIVERY SERVICES | 1,310 | 750 | 1,800 | Mail & delivery services | 1,500 | -16.7% |
| 26 | ADVERTISING/PROMOTIONS | 1,946 | 5,500 | 5,500 | Staff and Trustee recruitment | 3,000 | -45.5% |
| 27 | STRUCTURE/INFRA/LAND | 11,085 | 6,630 | 12,000 | Offsite Trustee meeting space rentals | 15,000 | 25.0% |
| 28 | EQUIPMENT/MACHINERY | 2,858 | 10,000 | 10,000 | Copy costs & offsite AV/IT Trustee meeting tech support | 4,000 | -60.0% |
| 31 | OTHER SERVICES | 274,550 | 273,400 | 280,000 | Communications contract, operational & strategic consulting, and legislative bill tracking | 280,000 | 0.0% |
| 37 | INTERAGENCY SERVICES | 221,504 | 302,994 | 283,897 | State shared services: including IT, HR, Legal, Risk Management, Finance, Training, Support Services | 336,160 | 18.4% |
| 54 | *TOTALS* | *764,497* | *922,464* | *947,357* | | *987,660* | **4%** |
| 55 | | | | | | | |
| 56 | | | | | | | |

| | A | B | C | D | E | F | G | H | I | J | K |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | **COMMODITIES** | | | | | FY23 Estimated Actual | FY24 Approved | FY24 Management Plan | Comments | Proposed FY25 Budget | 24-25 chg% |
| 2 | 4000 COMMODITIES | | | | | | | | | | |
| 3 | | | BUSINESS | | | 7,261 | 9,000 | 9,000 | Books, education, office equipment/furnishing, business supplies | 8,200 | -9% |
| 7 | | | 4003 INFO TECH EQUIPMENT | | | 3,271 | 18,000 | 18,000 | Planned computer replacement | 25,000 | 39% |
| 9 | | | 4005 SUBSCRIPTIONS | | | 16,914 | 15,750 | 17,500 | Programmatic and office subscriptions, including scorecard, Meltwater news clipping | 18,000 | 3% |
| 17 | | | HOUSEHOLD/INSTITUTNAL | | | 24,875 | 13,390 | 26,485 | Trustee meeting catering & supplies | 28,000 | 6% |
| 20 | | | *TOTALS* | | | *52,321* | *56,140* | *70,985* | | **$ 79,200** | **12%** |
| 21 | | | | | | | | | | | |
| 22 | | | | | | | | | | | |
| 23 | **CAPITAL OUTLAY** | | | | | FY23 Estimated Actual | FY24 Approved | FY24 Management Plan | Comments | Proposed FY25 Budget | 24-25 chg% |
| 24 | 5000 CAPITAL OUTLAY | | | | | | | | | | |
| 26 | | | OTHER EQUIPMENT | | | 0 | 0 | 0 | Copier Replacement | 15,000 | |
| 28 | | | *TOTALS* | | | | *0* | *0* | | **$ 15,000** | |

Trust Land Office

2600 Cordova Street
Anchorage, Alaska 99503
Phone: 907-269-8658
Fax: 907-269-8605

Approval

| | |
|---|---|
| **To:** | Brent Fisher, Chair<br>Finance Committee |
| **Thru:** | Steve Williams, Chief Executive Officer |
| **From:** | Jusdi Warner, Executive Director |
| **Date:** | 7/25/2023 |
| **Re:** | FY2025 Agency Budget – Item 1 |
| **Fiscal Year:** | 2025 |
| **Amount:** | $5,155,000 |

## Proposed Finance Committee Motion:

*"The Finance Committee recommends that the Alaska Mental Health Trust Authority board of trustees approve the Trust Land Office agency budget for FY2025 in the amount of $5,155,000."*

## Background:

The Trust Land Office (TLO) seeks the recommendation of the Finance Committee for the FY2025 operating budget. The TLO develops an annual operating budget request based on anticipated activities and staffing requirements. Please see Exhibit 1 for a breakout of the proposed line items.

The proposed FY2025 budget reflects a net increase of $135,961 or 2% over the FY2024 budget.

The table below outlines the primary drivers of the year-over-year budget changes:

| Budget Line | FY2025 Proposed Budget - Over/(Under) FY2024 Mgmt. Plan | Year-Over-Year Component Changes |
|---|---|---|
| Personal Services (Line 1000) | $117,723<br>3% | Merit increases/general staffing estimates. Not reflected are PERS and Health Insurance increases. |
| Travel (Line 2000) | - | No Change |
| Services (Line 3000) | ($16,509)<br>(1%) | Slight reduction in development expenses |
| Supplies (Line 4000) | $4,015<br>7% | Increase for field supplies |

The proposed FY2025 TLO budget does not include any estimates for changes in benefits such as PERS or health insurance. There is no estimate for a Cost-of-Living Allowance (COLA) increase. If any such changes are approved and funded by the Legislature, then the Trustees will be requested to ratify those increases. This budget request includes estimates for the costs related to merit increases and general staffing needs.

There is no anticipated increase in travel expenditures. Expenditures in this area support the TLO's active management of Trust land that includes stewardship and revenue generation.

Services expenditures include costs for private-sector consultants such as appraisals, surveys, and development. These types of costs encompass over half of the request in this line item. It also includes costs paid by the TLO to other State of Alaska offices for areas such as IT support, legal services, and financial services. The FY2025 request includes a slight decrease from FY2024 for a slight reduction development-related expenses.

Supplies includes typical office supplies such as computers, but for the TLO this includes supplies related to field work such as signage and safety equipment.

**Exhibit(s):**
Exhibit 1 – FY2025 Trust Land Office Budget Proposal

| Expenditures | FY23 Actual (as of 6/30/2023) [2] | FY23 Mgmt Plan | FY24 Trustee Approved Budget | FY24 Mgmt Plan | FY25 Proposal | FY24-25 % |
|---|---|---|---|---|---|---|
| 1000 Personal Services[1] | 2,813,205 | 3,298,759 | 3,385,672 | 3,399,940 | 3,517,663 | 3% |
| 2000 Travel | 129,834 | 140,545 | 140,545 | 140,500 | 140,500 | 0% |
| 3000 Services | 1,386,245 | 1,436,746 | 1,436,151 | 1,452,660 | 1,436,151 | -1% |
| 4000 Supplies | 188,727 | 54,500 | 56,700 | 56,700 | 60,715 | 7% |
| **Total** | **4,518,011** | **4,930,550** | **5,019,068** | **5,049,800** | **5,155,029** | **2%** |
| | | | | **Total FY25 Increase** | 105,229 | |

| | | | | | |
|---|---|---|---|---|---|
| **Full Time Employees** | **19** | **19** | **19** | **19** | **19** |

| Revenue | FY23 Actual (as of 6/30/2023) [2] | FY24 Trustee Approved Budget | FY24 Mgmt Plan | FY25 Proposal | FY24-25 % |
|---|---|---|---|---|---|
| Principal | 10,319,950 | 6,447,750 | 6,636,416 | 7,086,416 | 7% |
| Income | 6,680,572 | 6,152,360 | 6,048,692 | 7,372,120 | 22% |
| **Total** | **17,000,522** | **12,600,110** | **12,685,108** | **14,458,536** | **14%** |

(1) FY24 and FY25 account for Governor's Budget adjustments

(2) FY23 Numbers are not final until the reappropriation period ends August 31. Revenue deferrals not yet completed.

***FY25 TRUSTEE REQUEST:***
***$5,155,000***

| | A | B | C | D | E | F | H | I | J | K | L |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | TRAVEL | | | | | FY23 Actual (as of 6/30/2023) | FY24 Approved | FY24 Mgmt Plan | Comments | FY25 Proposed Budget | 24-25 %Change |
| 2 | 2000 TRAVEL | | | | | | | | | | |
| 3 | | INSTATE TRAVEL | | | | 87,698 | 77,074 | 77,074 | Site inspection, revenue generation, resource development, compliance, risk mitigation; professional development | 77,074 | 0.00% |
| 6 | | OUT OF STATE TRAVEL | | | | 34,156 | 63,426 | 63,426 | Site inspection, revenue generation, resource development, compliance, risk mitigation; professional development | 63,426 | 0.00% |
| 9 | | | | | ***TOTALS*** | ***121,854*** | 140,500 | 140,500 | | 140,500 | 0.00% |
| 10 | | | | | | | | | | | |

| SERVICES | FY23 Actual (as of 6/30/2023) | FY24 Approved | FY24 Mgmt Plan | Comments | FY25 Proposed Budget | 24-25 %Change |
|---|---|---|---|---|---|---|
| 3000 SERVICES | | | | | | |
| NON-INTERAGENCY SERVICES | | | | | | |
| EDUCATION SERVICES | 21,682 | 38,000 | 54,700 | Professional development; certifications | 54,700 | 0% |
| FINANCIAL SERVICES | 15,368 | 100,000 | 119,999 | Financial consulting; real estate consulting | 49,999 | -58% |
| LEGAL & JUDICIAL SERVICES | - | 25,000 | 27,000 | Real estate, outside counsel, increase re: minerals outside counsel | 97,000 | 259% |
| INFORMATION TECHNOLOGY | 86,140 | 101,300 | 115,775 | Software licensing and maintenance | 115,775 | 0% |
| TELECOMMUNICATIONS | 20,179 | 16,600 | 18,990 | Long distance, local, equipment charges | 16,730 | -12% |
| DELIVERY SERVICES | 5,900 | 9,500 | 10,900 | Mail and delivery services | 10,900 | 0% |
| ADVERTISING/PROMOTIONS | 63,366 | 49,500 | 21,000 | Sales, marketing and advertisements | 21,000 | 0% |
| STRUCTURE/INFRA/LAND | 735,592 | 482,000 | 647,445 | Land surveys, appraisals, and environmental testing; misc development due-diligence | 598,196 | -8% |
| REPAIRS/MTCE-STRUCTURE | 1,250 | 20,000 | 20,000 | Repairs/maintenance | 20,000 | 0% |
| RENTALS/LEASES | 6,208 | 6,100 | 6,900 | Equipment storage | 6,900 | 0% |
| EQUIPMENT/MACHINERY | 12,065 | 4,200 | 2,000 | Equipment maintenance | 2,000 | 0% |
| OTHER SERVICES | 52,727 | 166,500 | 102,500 | Economic development, outside print/copy, environmental/trespass remediation | 137,500 | 34% |
| INTERAGENCY SERVICES | 339,774 | 338,451 | 305,451 | Shared services; IT, telephone, ADA, HR, IRIS, finance, training | 305,451 | 0% |
| **TOTALS** | 1,360,250 | 1,436,151 | 1,452,660 | | 1,436,151 | -1% |

| COMMODITIES | FY23 Actual (as of 6/30/2023) | FY24 Approved | FY24 Mgmt Plan | Comments | FY25 Proposed Budget | 24-25 %Change |
|---|---|---|---|---|---|---|
| 4000 COMMODITIES | | | | | | |
| BUSINESS | 84,098 | 43,700 | 45,315 | Books, education, office/field equipment, subscriptions | 47,315 | 4% |
| HOUSEHOLD/INSTITUTNL | 12,868 | 3,000 | 5,685 | Field clothing | 5,700 | 0% |
| SAFETY | 2,948 | 6,500 | 1,500 | Safety training and ammo | 2,500 | 67% |
| REPAIR/MAINTENANCE (Maintain)/EQUIPMENT | 97,357 | 3,500 | 4,200 | Marketing signs, land markers, tools | 5,200 | 24% |
| **TOTALS** | 197,271 | 56,700 | 56,700 | | 60,715 | 7% |