

ALASKA MENTAL HEALTH TRUST AUTHORITY

FINANCE COMMITTEE MEETING

July 30, 2020

11:30 a.m.

WebEx Videoconference/Teleconference

Originating at:

3745 Community Park Loop, Suite 120

Anchorage, Alaska

Trustees Present:

Laraine Derr, Chair

Verne' Boerner

Rhonda Boyles

Ken McCarty

Chris Cooke

John Sturgeon

Anita Halterman

Trust Staff Present:

Mike Abbott

Steve Williams

Carol Howarth

Miri Smith-Coolidge

Kelda Barstad

Luke Lind

Michael Baldwin

Carrie Predeger

Katie Baldwin-Johnson

Jimael Johnson

Valette Keller

Eric Boyer

Autumn Vea

Allison Biastock

Kelda Barstad

Kat Roch

Trust Land Office:

Wyn Menefee

Sarah Morrison

Marisol Miller

Tracy Andris

David MacDonald

Also participating: Beverly Schoonover; Kristin Vandagriff; Roger Branson; Sheila Harris; Ed Boyer; Lesley Thompson.

PROCEEDINGS

CALL TO ORDER

CHAIR DERR called the meeting to order and began with a roll call. She stated that all trustees were present and asked for any announcements. There being none, she moved to the approval of the agenda, after suggesting a few timing changes.

MOTION: A motion to approve the agenda, as changed, was made by TRUSTEE STURGEON; seconded by TRUSTEE HALTERMAN.

After a roll-call vote, the MOTION was approved.

CHAIR DERR asked for any ethics disclosures. There being none, she moved to the approval of the minutes of April 22, 2020.

MOTION: A motion to approve the minutes was made by TRUSTEE HALTERMAN; seconded by TRUSTEE BOYLES.

TRUSTEE BOERNER stated that her name was spelled incorrectly.

CHAIR DERR asked that the corrections be made and took a roll-call vote

After a roll-call vote, the MOTION was approved.

CHAIR DERR asked for a motion to approve the minutes of May 20, 2020.

MOTION: A motion to approve the minutes of May 20, 2020, was made by TRUSTEE BOYLES; seconded by TRUSTEE HALTERMAN.

TRUSTEE BOERNER asked that the spelling of her name be corrected.

CHAIR DERR asked that the corrections be made and took a roll-call vote.

After a roll-call vote, the MOTION was approved.

STAFF REPORTS

FINANCIAL DASHBOARD

CHAIR DERR moved to the financial dashboard, recognizing Carol Howarth.

MS. HOWARTH began with the top section of the dashboard and stated that the administrative activities, program activities, and then the special projects will be discussed. She noted that the numbers were not final until the end of the appropriation period in August. She explained that the administrative activities as well as the administrative changes from State for Shared Services were under plan due to COVID and vacancies for both the Trust Land Office and the Trust Authority. She moved to the second section, Trust Receipts, and explained that there are two sources of receipts. First, is the income coming from the Trust Land Office, which was above

plan, and then talked about the investment activities and expectations for the \$35 million of funds managed from the Permanent Fund. She continued on to Trust resources and talked about the assets which gave the total financial resources of \$625 million plus the commercial real estate portfolio which brings it up to \$695 million. She added that these are the preliminary numbers; there will be audits on the Permanent Fund and the DOR, with an expectation that the numbers will remain the same.

MR. ABBOTT brought the conversation to inflation-proofing as described in the Asset Management Policy Statement and anticipated bringing to the next meeting of the Finance Committee proposals on how to process the \$22 million obligation to consider inflation-proofing. He stated that the Asset Management Policy essentially requires considering options or material for consideration at a fall Finance Committee meeting.

CHAIR DERR moved to fund balances.

FUND BALANCES

MR. ABBOTT explained that the Trust fund is the corpus and cannot be spent by the trustees for any purpose. The reserves are considered settlement income, and are available for virtually any Trust purpose. The distinction between the two is important. He stated that Ms. Howarth went back through internal records at the Trust and the Permanent Fund and determined that there were three different methodologies used at different points in time by different agencies to determine how much was Trust fund and how much was reserve. He detailed the three methodologies, and some variances in the numbers did not match. After a conversation with the Finance Committee Chair, the following is the most defensible calculation of the makeup of the Mental Health Trust fund. He stated that there is no missing money; all the money is what the Trust is supposed to have. The only distinction is how much of it is reserves versus how much of it is Trust fund. He continued that Ms. Howarth agreed that the appropriate calculation of the Mental Health Trust fund is the number that is on the page. He added that she created a thorough record which will be archived appropriately so that the next couple of CEOs and CFOs will not have to go through it again. There is not a long-term consequence of this, and the near-term consequence is that the Trust fund is about 5 percent lower than three months ago, and the resources are that much greater by the same amount of money. The approach that is being used right now is the one that best serves the Trust going forward. Depending on the outcome of the inflation-proofing discussion, it may turn out that some or all of the funds that were thought to be in the Trust fund up until a few months ago may end up getting transferred to the Trust fund by a subsequent Board action going forward.

CHAIR DERR called a lunch break.

(Lunch break.)

CHAIR DERR called the meeting back to order and called the roll.

REVENUE FORECAST

MS. HOWARTH stated that there are four components from which the revenue is received: the net asset values from the Permanent Fund budget; the Trust and the budget reserve; and the Department of Revenue budget reserves. She continued that that is averaged and then 4.25 percent of the rolling average is taken to calculate the payout coming from the funds. The FY2020 numbers are fresh off the press and are unaudited. Based on these numbers, it looks like \$24 million can be anticipated. The next components are the lapsed appropriations, the TLO spendable income received, and the interest from the cash accounts. She went through the numbers and estimated that there will be roughly \$400,000 unobligated from fiscal year '20 funds of about \$33.4 million. Authorized spending for FY21 was \$31.4, with a \$2 million buffer. She stated that the challenge is that spending is authorized in advance and the available funding is unknown. She shifted to the forecast for fiscal year '22 and '23. She pointed out that there is the 400 percent buffer of the reserves so even if there was a huge decline, there will still be a buffer to cover four years of expenditures. She went through the assumptions presented and concluded her presentation.

MR. ABBOTT stated that the big takeaway is that the revenues are growing as a result of decisions made by this and previous trustee boards to save money. The investment earnings are continuing to grow, and the Trust is very healthy related to revenues.

CHAIR DERR moved to the Trust Land Office budget.

TRUST LAND OFFICE BUDGET

CHAIR DERR asked for a motion in regard to the recommendation on the Land Office budget.

MOTION: A motion that the Finance Committee recommended that the Alaska Mental Health Trust Authority Board of Trustees approve the Trust Land Office operating budget for FY22 in the amount of \$4,393,800 was made by TRUSTEE BOERNER; seconded by TRUSTEE STURGEON.

MR. MENEFEE stated that a zero-based budget has been presented, and it asked what is needed to make the revenues that are being expected to provide for the Trust. He continued that the budget request has been reduced by \$31,800 and walked through the personal services, travel services, supplies, and capital. He also explained what looked like a large reduction which was due to the Subport. He added that revenues will be provided, and they will try to exceed those revenues, and the budget is pretty close to what was had before.

MR. ABBOTT strongly recommended trustee support for the TLO budget and stated that Mr. Menefee and his team deserve a lot of credit for planning to do as much work that is being done currently with less money in the following year.

CHAIR DERR asked for approval of the motion and called the roll.

After the roll-call vote, the MOTION was approved. (Trustee Boyles, yes; Trustee Boerner, yes; Trustee Cooke, yes; Trustee Derr, yes; Trustee Halterman, yes; Trustee McCarty, yes; Trustee Sturgeon, yes.)

TRUST AUTHORITY OFFICE BUDGET

CHAIR DERR moved to the Trust Authority Office budget and asked for a motion.

MOTION: A motion that the Finance Committee recommends that the Full Board of Trustees approve the fiscal year '22 Mental Health Trust Authority Admin Budget of \$4,179,897 was made by TRUSTEE HALTERMAN; seconded by TRUSTEE STURGEON.

MR. ABBOTT stated that the Trust Authority budget is similar to the Trust Land Office budget in that the recommendation is a very small but clear reduction in authorized spending for the admin program between FY21 and FY22. He explained in more detail.

CHAIR DERR asked for approval of the motion and called the roll.

After the roll-call vote, the MOTION was approved. (Trustee Boyles, yes; Trustee Boerner, yes; Trustee Cooke, yes; Trustee Derr, yes; Trustee Halterman, yes; Trustee McCarty, yes; Trustee Sturgeon, yes.)

CHAIR DERR called a break.

(Break.)

CHAIR DERR called the meeting back to order and moved to the commercial real estate portfolio discussion.

COMMERCIAL REAL ESTATE PORTFOLIO DISCUSSION

CHAIR DERR stated that this had been worked on for the last few meetings, and we had asked staff for more information. She recognized Jusdi Doucet.

MS. DOUCET began with the Commercial Real Estate Lease Space Reduction Trend which pointed out to what is happening with office space leasing resulting from the pandemic that has swept the country. She explained the effect this has had on the office market and the successful implementation of work-from-home policies that questioned the necessity of traditional office space. She stated that the economy is slipping, and experts agree that the economy will not recover until the coronavirus pandemic is contained without triggering another wave of infections. She continued that in the recovery of the economy there will be a resurgence of jobs,

employment, and the benefits of traditional office space will be realized. She added that overall, the short and long term, the cost savings associated with virtual work will most likely be offset by diminished productivity gains. It may take a few years for occupancy and rents to fully recover to prior peak levels.

CHAIR DERR recognized Carol Howarth.

MS. HOWARTH acknowledged and thanked the Trust Land Office contributions, particularly from Marisol Miller and David MacDonald. She stated that at the May Finance Committee meeting the trustees raised a number of questions, and she focused on them. She continued that her objective is to provide all with sufficient information to become comfortable to make a recommendation to the Full Board on whether or not to keep the commercial real estate, CRE, as is, or take a different strategy on its financing, or to sell the assets and reinvest. She moved to CRE performance and then talked about the realized and unrealized returns and then looked forward at projections. The next question was about if the current financing is optimal or are there alternatives that can improve the cashflow to the Trust. The analysis was simplified and provided a good indication of cash generation. The four scenarios were: Status quo; interest-only portfolio; partial interest-only; and the sale of the CRE assets. She stated that the rule of thumb for refinancing is the benefit of any change should exceed the status quo by a minimum of 3 percent stated in today's dollars. She highlighted forecasting, which is really tough and went through three scenarios that created the forecast and explained in detail. She stated that the other assumptions were to draw some lines in terms of making the scenarios equal, and she talked about how that came about. She added that the portfolio as a whole is a healthy portfolio. She continued going through the scenarios, explaining the options as she went along.

CHAIR DERR asked Mr. Abbott for his opinion.

MR. ABBOTT stated that there were some elements of these choices that are time sensitive, although they are not emergencies. He continued that it is important to give Ms. Howarth and the Trust Land Office some orders related to any refinancing or any changes in property status within the next 90 days. A motion was intentionally not provided because there is not enough information about how the trustees feel about this to be able to anticipate the trustees' preferences. He added that, if a consensus emerged today, then an action item could be brought to the August board meeting.

TRUSTEE McCARTY stated that he was in favor of the status quo in the sense that there are more opportunities and many different options here. He encouraged the status quo thought.

TRUSTEE STURGEON stated that there was a lot to absorb and a lot of work went into this. He thanked staff and liked the status quo option, but would like more time to go over the presentation to let it sink in.

TRUSTEE BOYLES stated that she was leaning toward the partial interest-only refinance, but wanted more time because this was a lot of information.

TRUSTEE HALTERMAN appreciated the amount of work done to outline all the options. She asked why a principal-plus-interest refinance option was not considered. She stated that she would mull over the options and get some input and advice from friends in real estate. She added that paying down principal along with interest is potentially a better position in the long run.

TRUSTEE McCARTY stated that Ms. Howarth did a great job and restated his favor toward the status quo option.

TRUSTEE COOKE echoed everyone's sentiments regarding the hard work and the great job into pulling a lot of information into this presentation. He stated that there are some things missing and there are a wider range of options other than what were talked about here. He also favored the status quo, but also thought that steps should be taken with efforts to pay off the debt when things come due. He also suggested looking at properties individually.

TRUSTEE BOERNER talked about her preconceived notions on an interest-only portfolio and was building her level of understanding in that regard. She stated appreciation for the options that were presented and was leaning away from the status quo because she was still educating herself with that.

CHAIR DERR stated that the trustees are all over the place and Mr. Abbott and Ms. Howarth needed to figure out where something in the middle could lie. She stated that she would be willing to work with them to figure something out. She moved to the final item on the agenda.

MS. HOWARTH stated that normally when money is received the staff brings forth a motion to transfer the money. Given the amount of this money, the thought was to get a motion in advance so it can be immediately transferred to the Permanent Fund for its management and to receive higher returns.

TRUSTEE COOKE suggested a motion.

MOTION: A motion was made that the Finance Committee recommended the Alaska Mental Health Trust Authority Board of Trustees authorize the chief financial officer to transfer, upon receipt, the proceeds from the Juneau Subport sale transaction from the TADA account to the Permanent Fund for investment was made by TRUSTEE COOKE; seconded by TRUSTEE STURGEON.

TRUSTEE McCARTY asked if this money can be used to pay off other expenses. For example, the balloon payment.

CHAIR DERR replied that this money is principal and has to go into the Permanent Fund. She asked for further discussion. There being none, she called a roll call vote.

After the roll-call vote, the MOTION was approved. (Trustee Boyles, yes; Trustee Boerner, yes; Trustee Cooke, yes; Trustee Derr, yes; Trustee Halterman, yes; Trustee McCarty, yes; Trustee Sturgeon, yes.)

CHAIR DERR moved to trustee comments.

TRUSTEE BOERNER thanked the Trust Land Office, Ms. Howarth and Trust staff for all the hard work. The last few days have run smoothly, and she attributed that to staff and her fellow trustees. She thanked all for allowing her to learn and stated her appreciation for the conversation.

TRUSTEE COOKE also thanked staff for the hard work and also the committee chairs for the excellent work done throughout the three-day session.

TRUSTEE McCARTY shared his appreciation for staff and all that they are doing to get information to help the beneficiaries. He thanked Ms. Howarth and the whole TLO for the presentation.

TRUSTEE HALTERMAN echoed a lot of the comments made by the trustees and thanked all for all the work. It was a great meeting with some intense conversation and some serious progress in understanding the issues was made.

TRUSTEE BOYLES stated that she was grateful to serve and even more grateful and appreciative of everyone's patience in her learning about many diversified subjects of the Trust.

TRUSTEE STURGEON also echoed what everyone said about staff and the great work they did. He continued that everything was done very professionally and added that it was greatly appreciated. He stated enjoyment with the trustees and the very diverse board which makes it more interesting and more educational. It was a good meeting.

CHAIR DERR thanked everyone and stated appreciation of the broad range of trustees and the excellent staff. She echoed the comments and thanked staff and the trustees. She asked Mr. Abbott for any closing words.

MR. ABBOT stated that he was grateful to work with a great staff team and such a willing group of trustees and recognized all the progress.

CHAIR DERR asked for a motion to adjourn.

MOTION: A motion to adjourn the meeting was made by TRUSTEE HALTERMAN; seconded by TRUSTEE McCARTY.

After a roll call vote, the MOTION was approved.

(Finance Committee meeting adjourned at 3:47 p.m.)