

**ALASKA MENTAL HEALTH TRUST AUTHORITY**

**FINANCE COMMITTEE MEETING**

**September 16, 2020**

**9:30 a.m.**

**WebEx Videoconference/Teleconference**

**Originating at:**

**3745 Community Park Loop, Suite 120**

**Anchorage, Alaska**

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**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  
Valette Keller  
Allison Biastock  
Kat Roch

**Trust Land Office:**

Wyn Menefee  
Jusdi Doucet  
Sarah Morrison  
Marisol Miller  
David MacDonald

**Also participating:**

Beverly Schoonover; Kristin Vandagriff; Sheila Harris; C.A. Vachris; Stephanie Hopkins; Becky Carpenter.

## PROCEEDINGS

### CALL TO ORDER

CHAIR DERR called the meeting to order and began with a roll call. She stated that Trustees Boerner and Halterman have not yet arrived, and she would note when they join the meeting. She asked for any announcements. There being none, she moved to the approval of the agenda.

### APPROVAL OF AGENDA

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

*There being no objection, the MOTION was approved.*

### ETHICS DISCLOSURES

CHAIR DERR asked for any ethics disclosures. There being none, she stated that this meeting was a follow-up on the commercial real estate. She noted that Trustees Boerner and Halterman joined the meeting. She asked Mr. Abbott for an introduction to the topic after the motion.

### PLANNING ITEM: COMMERCIAL REAL ESTATE PORTFOLIO

**MOTION:** A motion that the Finance Committee recommends the board of directors authorize the CFO to refinance as much of the current CRE debt as is prudent in order to reduce debt service requirements and maintain flexibility to allow for future property sales. The CFO may use interest-only debt that allows the Trust to pay down the loan was made by TRUSTEE COOKE; seconded by TRUSTEE BOYLES.

MR. ABBOTT explained that the motion represents staff's recommendation for the Trust management of the seven commercial real estate properties in the near future. He continued that it did not foreclose different choices made any time after this, but gives near-term direction in order to address some pressing needs related to this investment portfolio. He stated that the primary issue is finding the best way to maximize the generation of revenues that can be used for long-term benefits of the beneficiaries. With seven investment assets owned, that question narrows down and becomes: How can these assets be used to establish benefits for the beneficiaries? The recommendation is to prudently refinance as much of the real estate debt as possible to reduce the debt service requirements and to maintain flexibility to allow for future property sales. He continued that there are financing options available that will allow meeting those objectives, and, pending support from the trustees, we believe that direction would be executed beginning immediately and concluding in early to mid-2021. He moved to the four basic options developed. The first was to continue to hold the properties and use Trust cash to pay off the pending balloon payments on two of the properties, and then continue using them to generate revenue to be used for Trust beneficiaries. The second option was to continue holding the properties and refinance the six existing individual loans into a single loan to take advantage of better terms. The next option evaluated was potentially liquidating and investing the proceeds from those transactions with the current investment managers at the Permanent Fund Corporation and the Department of Revenue. This would be the simplest option. The fourth option encouraged for consideration would be to sell a few of the properties and to hold the remaining properties for the time being. The notion being that, depending on the objectives, identifying properties from the seven that may help improve earnings' ratios or advance a long-term liquidation strategy. He stated that those were the four options and explained the two primary

metrics used to complete the evaluation. This was important because the only real reason for the Trust to have investments is for those investments to generate resources to be used for the beneficiaries. He moved to the comparison of the present values with the four different options laid out and explained in greater detail. He added that the same methodology was used on all of the options; the same present value calculation using different inputs based on different management decisions. The only difference is that for the two different ways to look at Option 4, there was not enough known to give an expected case, and we could only build those ranges.

TRUSTEE COOKE asked about prepayment penalties.

MR. ABBOTT replied that they would try to negotiate no prepayment penalties. He explained that the existing prepayment penalties are actually incorporated in the cash flows. In terms of the benefit of these options is that it is still better even paying the prepayments. Replying to the question about specific amounts, he stated that those costs were incorporated in the refinancing option and we still see the strong benefit of refinancing.

TRUSTEE BOYLES stated that she was nervous about liquidating properties in today's market. The availability of money, the entire system is upended because of COVID. She believed that refinancing was a more fiduciarily responsible way to go with limited risk, giving us time to go back in the next five to six years and evaluating if something else changes. She continued that with the assets and the amount of equity, the trustees have a bigger and different responsibility which is to extract the cash flow until there is some stabilization seen in today's economy.

MS. HOWARTH explained that there are two finance-related risks. One is interest-rate risk, and the other is the risk of the underlying assets' credit changing. She continued that in all the cases the State of Alaska Department of Revenue's Treasury Division can advise on ways to mitigate those risks, and we are comfortable with that.

MR. ABBOTT clarified that the recommendation is the interest-financing tool to increase the Trust's flexibility regarding the management of the assets and maintain the current position. These actions recommended are consistent with the commitments that were made following the Legislative Audit in 2018, which were primarily that no further principal-funded real estate investments and the trustees' decisions would be guided by the external expertise required by the Asset Management Policy Statement. He believes that those concerns can be satisfactorily addressed with the decision contemplated today.

CHAIR DERR gave each trustee an opportunity to ask any further questions or comments.

TRUSTEE BOERNER stated that the presentation was very well done, and she appreciated the questions brought forward. She agreed with the statements Trustee Boyles made, which stated her position, as well.

TRUSTEE BOYLES commented on the presentation and believed that all the trustees were evaluating everything with a very serious approach to the fiduciary responsibilities.

TRUSTEE COOKE stated appreciation for the discussion and all the work put into this issue. He continued that this is a prudent approach rather than just selling the assets or passing all the

management off to someone else. This is focusing on the properties, and we are making very responsible decisions. He did question the inclusion of the Cordova Street building because it has no debt. It is owned outright and occupied by the TLO. He added that was his only reservation, but he supported what was proposed.

CHAIR DERR stated that was a good point. She had not thought about that and thought that the refinancing was the debt. She asked Mr. Abbott for a response.

MR. ABBOTT stated that we are working with potential lenders who understand the relative benefits of different approaches, and we will make sure that the Cordova building will be evaluated and will only be included if it makes a demonstrable, positive impact on the overall portfolio. He added that the TLO does not pay rent.

TRUSTEE HALTERMAN thanked staff for the great presentation and just had a reservation on the interest-only financing. She stated that interest rates are so low, and she appreciated that there were options. She appreciated the discussion, questions and the comments.

TRUSTEE McCARTY noted that when Harvest presented, a strong takeaway was something about being at a 97<sup>th</sup> percentile. He stated appreciation for the presentation that explained the different components. He added concern of changing things too drastically and the aspect of the results down the years. He talked about a sub motion to have other refinance options outside of interest-only be presented to trustees later.

CHAIR DERR stated that, if the motion passed, trustees could ask staff to give additional information in regard to possibilities on paying principal with the interest-only.

MR. ABBOTT replied that he would be happy to generate additional information regarding the anticipated differences in an interest-only versus a standard mortgage with a 15- or 30-year payback.

CHAIR DERR stated that it would be a trustee request rather than making it part of the motion.

MS. HOWARTH stated that the information was collected and can be shared. If it affects today's discussion, the results of that information were worse than selling the properties and investing them in the Permanent Fund.

TRUSTEE STURGEON thanked staff for the great job of helping the trustees understand this very complex issue. He talked about the grasp he got of what is going on and what his recommendation would be. He looked forward to seeing what the final negotiated interest rate would be and the refinancing, which he supported.

CHAIR DERR thanked the trustees for their comments and asked for anything further from staff.

MR. ABBOTT replied that he had no further comments.

CHAIR DERR asked if the trustees were ready to vote, and called for a roll-call vote.

*After the roll-call vote, the MOTION was approved. (Trustee Boerner, yes; Trustee Boyles, yes; Trustee Cooke, yes; Trustee Halterman, yes; Trustee McCarty, no; Trustee Sturgeon, yes; Trustee Derr, yes).*

CHAIR DERR stated that Mr. Menefee was online and stated appreciation for the work he did on this. She asked him for any comments.

MR. MENEFEE stated that the trustees thoroughly discussed this, and he was glad to see where it went.

CHAIR DERR asked for any other comments before moving to adjournment.

TRUSTEE COOKE stated that it occurred to him that an intangible benefit is that the TLO would have to deal with one loan instead of six.

CHAIR DERR stated that, in regard to Trustee McCarty's comment about a sub motion, that staff prepare information for when this comes before the board in November so that the trustees can see the differences.

MR. ABBOTT replied that the motion, at this point, is only a recommendation to the board, and changes can be considered at the trustee meeting in November.

CHAIR DERR made sure that everyone's concerns are addressed, and she asked for a motion to adjourn.

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

*There being no objection, the MOTION was approved.*

(Finance Committee adjourned at 10:50 a.m.)