

**ALASKA MENTAL HEALTH TRUST AUTHORITY**

**FINANCE COMMITTEE MEETING**

**April 22, 2021**

**9:00 a.m.**

**WebEx Videoconference/Teleconference**

**Originating at:**

**3745 Community Park Loop, Suite 120**

**Anchorage, Alaska**

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**Trustees Present:**

Anita Halterman, Chair

Chris Cooke

Rhonda Boyles

John Sturgeon

Brent Fisher

Annette Gwalthney-Jones

Verne' Boerner

**Trust Staff Present:**

Mike Abbott

Steve Williams

Carol Howarth

Miri Smith-Coolidge

Luke Lind

Valette Keller

Kat Roch

**Trust Land Office:**

Sarah Morrison

Jusdi Doucet

David MacDonald

Katie Vachris

Becky Carpenter

Marisol Miller

Sean O'Guinn

**Also participating:**

Sheila Harris; Stephanie Hopkins

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## PROCEEDINGS

### CALL TO ORDER

CHAIR HALTERMAN called the meeting to order and began with the roll call. She stated that there was a quorum and asked for any announcements.

TRUSTEE GWALTNEY-JONES stated that she had a 2:30 appointment and would need to leave about 2:15 if the meeting goes beyond that point.

CHAIR HALTERMAN asked for any other announcements. There being none, she moved to approval of the agenda.

### APPROVAL OF THE AGENDA

CHAIR HALTERMAN asked for a motion.

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

CHAIR HALTERMAN asked for any ethics disclosures. There being none, she moved to approval of minutes.

### APPROVAL OF THE MINUTES

**MOTION:** A motion to approve the minutes of January 7, 2021 was made by TRUSTEE GWALTHNEY-JONES; seconded by TRUSTEE STURGEON.

*After a roll-call vote, the agenda was APPROVED. (Trustee Gwalthney-Jones, yes; Trustee Sturgeon, yes; Trustee Fisher, yes; Trustee Cooke, yes; Trustee Boyles, yes; Trustee Boerner, yes; Trustee Halterman, yes.)*

*After a roll-call vote, the minutes of January 7, 2021 were APPROVED. (Trustee Gwalthney-Jones, yes; Trustee Sturgeon, yes; Trustee Fisher, yes; Trustee Cooke, yes; Trustee Boyles, yes; Trustee Boerner, yes; Trustee Halterman, yes.)*

### STAFF REPORT

MR. ABBOTT stated that he would report only on what was related to FY21 spending. He reminded the trustees that he was particularly determined that the Trust spend all or as much as possible of its budgeted resources every year. He continued that funds not spent do lapse back to the Trust, but those funds are not out there working for the beneficiaries. He added that in previous fiscal years, a lot of progress towards reducing the historic lapse rate had been made. He did not expect that trend to continue in FY21. He reported on the primary sources of potential lapse. The first being the two different admin budgets: one for the Trust Authority team and the Department of Revenue and the other for the Trust Land Office and the Department of Natural Resources. He explained the circumstances and added that it was primarily due to COVID and contributions or programmatic requirements that did not need Trust funds in the area of Crisis Now. He asked Carol Howarth to present the rest of the dashboard.

MS. HOWARTH stated that she is the chief financial officer of the Trust. She then went through

a financial report through the third quarter, March 31, of the fiscal year. The dashboard showed expenditures and receipts for the Trust and the resources which are the Trust equivalent of a balance sheet. She continued that the format of this report provided a projection for the remainder of the year and also provided an estimate for the expected variance to plan. She added that an uptick of activity in the fourth quarter is being seen in terms of programmatic activities and the Authority Grants will pick up quite substantially. She moved to special projects, which are coming out of budget reserves and trustee-approved commitments for capital products. She stated that the sources of revenue to the Trust come from Trust Land Office activities and the cash investments. The Trust Land Office income that flows directly to the Authority as spendable income is, at the end of third quarter, nearly at the full-year plan level, \$2.9 million versus \$2.9-plus million. She added principal income, which is the Trust Land Office revenue that gets transferred to the Permanent Fund for management. She continued that some of the strong year-to-date performance was due to timing differences with regard to receipt of funds and also to the Sealaska forfeiture payment when it closed timber activities at Icy Cape earlier in the fiscal year. She moved to cash investments in other areas of revenue and looked at the earnings generated off the Trust fund and the earnings reserve balance. She talked about the strong performance, and discussed Trust resources. She moved on to the Mental Health Trust Fund and explained the balance and then the budget reserves. She stated that the combined funds managed by the Permanent Fund and the Department of Revenue ended March at \$288 million. She explained that the available reserves are calculated by subtracting the commitments and obligations. As of March 31<sup>st</sup>, there was \$12.5 million for Icy Cape and beneficiary facilities, plus up to \$120,280,300 for inflation-proofing the Trust fund corpus. There were also reserves for the FY21 payout, which stand at \$131 million. She continued to the update on the commercial real estate refinancing which the trustees authorized and with an interest-only structure and as a portfolio. The priorities on the refinancing were, first, interest-only; favorable interest rates; and the ability to sell assets, if needed. This was important for two assets which have tenant purchase options. At this point, the estimate of the total amount for the loan portfolio was at \$32 million principal. She explained that interest rates are lower than when this action was approved, which provides the opportunity to buy flexibility, if needed. She stated that the next step was to lock in the rate and the general terms. She explained the specifics of a 10-year loan and added that there will be an additional exclusion for the Promontory Point asset when the tenant has purchase options. She introduced Marisol Miller, the Trust real estate asset manager at the Trust Land Office, to discuss the Central Facility Fund.

### **CENTRAL FACILITY FUND UPDATE**

MS. MILLER stated that she was the real estate asset manager and works directly with David MacDonald. She continued that the purpose of the presentation was to give a refresher on the Central Facility Fund. She explained that in the past the Trust Land Office would come to the board on a case-by-case basis asking for funding for buildings that needed assistance dealing with needs that exceeded either cash flows or that had extraordinary or unique circumstances, whether it was a program-related investment or a rent-funded building. The board approved the reactivation of the Central Facility Fund for centralizing funds from both commercial real estate assets and program-related, rent-funded buildings in one location for any building with anticipated or unanticipated needs or costs that exceeded property cash flows. She added that the Harvest contract is billed directly to the Central Facility Fund on a monthly basis. The original motion set a target balance of \$2 million for the Central Facility Fund, based on the May 2018 board approval. She went through some of the historical board approvals, the first two for the

rooftop unit replacements at the Trust Authority building and the Cordova building. Due to the pandemic, that work was postponed. The funds were not released, and the repairs have not been made at this time. She added that the board approvals do not allow for funds to lapse, and this funding is still approved for use for both of the buildings. She continued with the board approvals, and then went through fiscal year '21, and what was done at the Central Facility Fund.

CHAIR HALTERMAN asked for any questions. There being none, she moved to the commercial real estate update.

### **COMMERCIAL REAL ESTATE UPDATE**

MS. HOWARTH introduced David MacDonald, the senior real estate manager, who will do the commercial real estate market update.

MR. MACDONALD stated that the presentation provided a quick look at current market conditions in commercial real estate. He explained how COVID made the last year pretty tough and very unique. It started with making sure everyone stayed safe, with an emphasis on protecting others. He continued, that translated to commercial real estate evolving to work-from-home policies which tended to negatively impact office buildings. He explained how this all played out with net occupancy plummeting and companies going into survival mode to stay in business. He stated that anything to give back space and reduce costs was done. A lot of businesses had long-term lease commitments, shut their offices, and waited for their lease to expire. The exception to this was declaring bankruptcy to get out sooner. He added that the supply increased and demand plummeted, translating into lower occupancy rates or higher vacancy rates which, in turn, translate to lower lease rates. He continued that the bottom line was the assets were good and held up pretty well; the majority have long-term leases, and the tenants were doing well. There are seven assets, and five of them have 100 percent occupancy with no changes expected. There were two that had turnover: The Amberglenn project or Amber Oaks and, at this time, the portfolio occupancy is at 83 percent. North Park had a Marriott call center; that lease expired; and they decided to vacate. That dropped the occupancy in North Park to 52 percent. The Amber Oaks project had a 29,000-square-foot tenant; the lease expired; and they vacated, causing a drop to 61 percent. He continued that activity is starting to pick back up. He added that the vaccines are changing the market sentiment from one of survival mode to one of optimism that things will return to normal. He continued his presentation going through the other five assets.

MS. HOWARTH asked Ms. Miller to give a quick update on the exact timing for the internal appraisals for accounting purposes.

MS. MILLER stated that the Broker's Opinion of value on the alternating years are completed annually between May and June for fiscal year-end with new values the beginning of every year. On the alternating years, appraisals are done based on the out-of-pocket cost. She explained that values are redone, and all of the books are updated at that time.

MR. ABBOTT stated that the results of those appraisals and opinion letters will most likely be available at the July Finance Committee meeting.

CHAIR HALTERMAN thanked the presenters for the updates and called a break.

(Break.)

CHAIR HALTERMAN called the meeting back to order. With all the trustees present, she stated that there were a number of commercial real estate motions and moved to the approvals. She asked for a trustee to read Motion 1.

**MOTION:** The Finance Committee recommends that the Alaska Mental Health Trust Authority Board of Trustees improve the incremental building expenditures, totaling \$12,256,035, budgeted for the fiscal year 2022 to be paid by the property manager from rents and other income collected from the properties was made by TRUSTEE COOKE; seconded by TRUSTEE FISHER.

MS. DOUCET stated that the numbers in the property budget summary flow projections are related to occupancy and the related capital and operating expenses in FY22. She continued that the cash flows and expenses are necessary to ensure appropriate revenue production, and to keep the buildings up to par increases. She added that these projections do not include the potential refinance figures that were discussed earlier, which can have an impact on these numbers.

MS. MILLER directed the trustees to the header of the page where it says, “Real Estate Management Plan-Rent Funded,” the commercial real estate rent-funded buildings section. Provided here is more data both in prior-year approved and total expenditures. The total of operating and debt service for the seven commercial real estate rent-funded properties is \$11.1 million, and the anticipated net revenues for the commercial real estate rent-funded is \$1.4 million. She continued that for the program-related non-investment rent-funded buildings, the anticipated gross receipts are \$740,000, and total expenses of \$413,000, with a net revenue at the end of FY22 of \$347,000. She talked about the operating expenses, the capital improvements and the debt service, as well as the figures that would change significantly for the five properties that would be refinanced. She explained that Caption 1 was capital improvements; No. 2 was debt services; and No. 3 is the operating. The TLO is asking for \$22,500 in operating expenses for the Trust Authority Building.

MR. ABBOTT highlighted that there were two properties, North Park in San Antonio and Amber Oaks in Austin, that because of their current vacancy rate and the significant one-time expenses expected in order to get them leased neither will show a positive net position in FY22. He talked about the need to pull funds from the Central Facility Fund and the building reserves to make sure there are enough funds in those budgets to pay for the expenses expected that will be necessary in order to lease the properties. He strongly encouraged trustees to support the budget as presented.

CHAIR HALTERMAN called the question.

*After the roll-call vote, the MOTION was APPROVED. (Trustee Boerner, yes; Trustee Boyles, yes; Trustee Cooke, yes; Trustee Fisher, yes; Trustee Gwalthney-Jones, yes; Trustee Sturgeon, yes; Trustee Halterman, yes.)*

CHAIR HALTERMAN asked for Motion 2 to be read into the record.

**MOTION:** The Finance Committee recommends that the Trust Authority Board of Trustees approve funding and instruct the CFO to transfer up to \$269,442 to the third-party property manager, as requested by the TLO, for operating expenses and capital expenses to the Non-Investment/Program Related Real Estate, and REMP Real Estate properties from the Central Facility Fund for the fiscal year 2022, which appropriations shall not lapse, was made by TRUSTEE BOYLE; seconded by TRUSTEE STURGEON.

MR. ABBOTT stated that this was a complementary motion to the one just adopted. The first motion authorized the expenditure of money from the individual buildings. This next one will authorize funding from the Central Facility Fund for the two allocations previously described.

CHAIR HALTERMAN called the vote.

*After the roll-call vote, the MOTION was APPROVED. (Trustee Boerner, yes; Trustee Boyles, yes; Trustee Cooke, yes; Trustee Fisher, yes; Trustee Gwalthney-Jones, yes; Trustee Sturgeon, yes; Trustee Halterman, yes.)*

CHAIR HALTERMAN moved to Motion 3 for the record.

**MOTION:** A motion that the Finance Committee recommends that the Full Board of Trustees authorize spending \$173,083.33 from the Central Facility Fund for the November 2021 through June 2022 portion of Real Estate Advisor's contract was made by TRUSTEE COOKE; seconded by TRUSTEE GWALTHNEY-JONES.

MS. HOWARTH stated that the purpose of this motion is to align the Harvest contract with the fiscal year. The current Harvest contract crosses fiscal years. She continued that the trustees approved the last contract, which takes the funding of the Harvest contract through the second term, ending October 2021, and this would extend it to June 30<sup>th</sup>, 2022.

CHAIR HALTERMAN asked for any questions. There being none, she called the vote.

*After a roll-call vote, the MOTION was APPROVED. (Trustee Boerner, yes; Trustee Boyles, yes; Trustee Cooke, yes; Trustee Fisher, yes; Trustee Gwalthney-Jones, yes; Trustee Sturgeon, yes; Trustee Halterman, yes.)*

MR. ABBOTT stated that that concluded the business that staff had recommended. He thanked the chair for running an efficient meeting.

CHAIR HALTERMAN thanked the staff for being prepared, which is very much appreciated. She asked for a motion to adjourn.

**MOTION:** A motion to adjourn the meeting was made by TRUSTEE GWALTHNEY-JONES; seconded by TRUSTEE BOERNER.

*After the roll-call vote, the MOTION was APPROVED. (Trustee Boerner, yes; Trustee Boyles, yes; Trustee Cooke, yes; Trustee Fisher, yes; Trustee Gwalthney-Jones, yes; Trustee Sturgeon, yes; Trustee Halterman, yes.)*

(Finance Committee meeting adjourned at 10:48 a.m.)