

**ALASKA MENTAL HEALTH TRUST AUTHORITY**

**FINANCE COMMITTEE MEETING**

**July 29, 2021**

**9:00 a.m.**

**Teleconference**

**Originating at:**

**3745 Community Park Loop, Suite 120**

**Anchorage, Alaska**

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**Trustees Present:**

Anita Halterman, Chair

Chris Cooke

John Sturgeon

Brent Fisher

Verne' Boerner

**Trust Staff Present:**

Mike Abbott

Steve Williams

Carol Howarth

Miri Smith-Coolidge

Kelda Barstad

Luke Lind

Michael Baldwin

Katie Baldwin-Johnson

Jimael Johnson

Valette Keller

Allison Biastock

Kat Roch

**Trust Land Office:**

Wyn Morrison

Sarah Morrison

Jusdi Doucet

David MacDonald

Katie Vachris

**Also participating:**

Erin O'Boyle; Gail McDonough.

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## PROCEEDINGS

### CALL TO ORDER

CHAIR HALTERMAN called the meeting to order and began with a roll call. She stated that Rhonda Boyles was excused and that there was a quorum. She asked for any announcements. There being none, she moved to the 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 BOERNER.

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

CHAIR HALTERMAN asked for any ethics disclosures. There being none, she moved to approval of the minutes of March 5, 2021.

### APPROVAL OF THE MINUTES

**MOTION:** A motion to approve the minutes of March 5, 2021, was made by TRUSTEE COOKE; seconded by TRUSTEE BOERNER.

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

**MOTION:** A motion to approve the minutes of April 21, 2021, was made by TRUSTEE COOKE; seconded by TRUSTEE BOERNER.

*There being no objection, the MOTION was APPROVED*

### STAFF REPORT

MR. ABBOTT began with the legislative audit update, which was still in the confidential stage. He believed it was appropriate to recognize that through the interaction with the auditor, the research that had followed, and the consultation with the Department of Law, that there should be a description of a certain category of the assets differently than what was done in the past. He added that Ms. Howarth would go through this when looking at the dashboard. He continued that this means that if the assets in the portfolio gains' value is not yet realized, the earnings need to be treated differently than the realized earnings. He noted that this distinction had not been made previously, and it is critical to ensure the right process in determining what is spendable income versus what is principal or the permanently invested assets. This will flavor the status of the reserves and will affect the inflation-proofing. He asked Ms. Howarth to go through the dashboard.

MS. HOWARTH went through the dashboard, which was a summary of what, in the private sector, would be an income statement and then the balance sheet. She continued with the expenditures, and then looked at Trust receipts or revenues. The bottom section was the assets. She emphasized that the numbers were preliminary. The final numbers will come from different State agencies and will have solid financials. She continued explaining and answering questions

as she went through the sections and the numbers. She also discussed the Trust Resources, the total reserves and reserve targets.

MR. ABBOTT moved to inflation-proofing and noted the prompt action related to it because of what was learned about the unrealized gains and losses. He brought this back to considering a motion that would direct the Trust to transfer only the amount of reserves that are available to inflation-proof and still maintain a reserves target of 400 percent.

**MOTION: A motion that the Finance Committee recommends that the Board of Trustees approve the designation of \$61,231,300 of Mental Health Trust earnings as principal for the purpose of inflation-proofing was made by TRUSTEE COOKE; seconded by TRUSTEE STURGEON.**

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

MR. ABBOTT moved to the revenue forecast and the FY22 revenue estimate, and asked Ms. Howarth to continue.

MS. HOWARTH stated that the FY22 revenue estimate based the budget on revenue projections. Coming into FY22, there are the preliminary FY21 numbers to roll into the four-year averages of funding. The first category was the primary source and is the four-year average of managed funds at the Department of Revenue and at the Permanent Fund Corporation. The next three categories are the appropriations that have lapsed; the spendable income from the Trust Land Office; and last is interest earned from the TADA, the Central Facility Fund and the checking account. She added that the budget was based on the estimated payout from a year ago and did not anticipate the high runup of the market, which provided more than anticipated.

MR. ABBOTT moved to amending the FY22 budget, as recommended by staff.

MS. HOWARTH looked at the FY23 revenue estimates and stated that the planned figures for the Trust Land Office income, case management interest and lost appropriations were incorporated into FY23. She then did a quick update regarding the commercial real estate refinancing.

MR. ABBOTT clarified that this was an update on the real-estate refinancing. The trustees authorized the CFO to execute on this, and it will not come back for further approvals. He added that it is expected that the terms will be agreed to and negotiated in the next week or two, and the closing would take place shortly thereafter.

CHAIR HALTERMAN called a break.

(Break.)

CHAIR HALTERMAN stated that there is a planning item for commercial real estate and asked Ms. Howarth to introduce the panelists.

MS. HOWARTH happily introduced Erin O'Boyle and Gail McDonough with Harvest Capital.

She stated that Ms. O'Boyle is a principal of Harvest Capital, which was founded in 2004. They were engaged by the Trust in October of 2019 as an independent financial real estate adviser. She continued that their goal was to advise the Trust and the Trust Land Office on best practices, as well as to do an annual evaluation for the Board of Trustees in terms of performance of the assets. She added that Ms. O'Boyle has an engineering degree from MIT, and Ms. McDonough spent a year as an operating officer with a Boston equivalent with some of the beneficiary organizations. Both have added a lot of value to the Trust.

MS. O'BOYLE thanked the Trust for having them here to present their annual report, and continued that they enjoy the opportunity to serve the Alaska Mental Health Trust Authority. She stated that it was a standard approach to retain an independent real estate adviser which assists institutions in getting a fiduciary review of the assets and some insight. She continued that some of the services include strategic services, valuations, wholesale analysis, and some asset management consulting. They are also a resource to the Trust and the TLO on anything regarding the real estate holdings. She moved to a snapshot of the commercial real estate performance and indicated that, overall, it was a very good performance with a strong, durable income. That is a great hallmark of a real estate portfolio. There are high-quality suburban office and industrial assets that are performing well overall.

MS. McDONOUGH stated that it was important to provide confidence that the tenants will meet the obligations and pay their rent. In lease rollover, the goal is to also have balanced, standard lease expirations across the assets, minimizing the impact on cash flow. She talked about debt expiration and looked at performance on a valuation basis, which is very important.

MS. O'BOYLE continued that one of the important things to do in commercial real estate is to benchmark performance against a standard. The recognized industry standard in commercial real estate is the NCREIF NPI index, which she explained. She added that it was reliable, well done, tried and true, and gives a comparison against peers; the underlying assets are a bit different, but the best available. She highlighted the different opportunities and challenges of the different sectors of real estate. She summarized the sectors and stated that industrial is leading at 7 percent availability nationally, with one of the driving forces being e-commerce. She moved to the major portion of the report, which was the wholesale analysis, and stated that every year a formal wholesale analysis is performed based on doing independent valuations, assessing the asset conditions, the market conditions, and alternatives.

MS. McDONOUGH went through the significant accomplishments and challenges in the portfolio.

MS. O'BOYLE gave a brief update on the best practices. Harvest is an adviser as a resource, and a best practices analysis was completed, including renegotiating the management and recent agreements with VCR, which manages the Texas assets. We also have monthly calls with the TLO. She continued that things in-process include renegotiating the leasing and management agreement at Colliers. She stated that there are always opportunities for every manager to continue to improve, and she suggested one of the opportunities is to create metrics as a tool for management. She discussed the tools that could be developed for the portfolio and monthly reporting.

MS. McDONOUGH highlighted the assets, quickly going through them. Then both responded

to trustee questions.

MS. O'BOYLE stated that a lot of the support material was put in the appendix and added that Harvest Capital is available for any further follow-up. She appreciated the confidence, and thanked all for the opportunity to be there.

CHAIR HALTERMAN thanked both for the work which gives confidence for the decisions the board makes, and added that it was greatly appreciated. She called a break.

(Lunch break.)

CHAIR HALTERMAN called the meeting back to order.

MR. ABBOTT stated that according to the committee charters, the annual agency budgets of both the Trust Land Office and the Trust Authority are to be reviewed by the Finance Committee before they are incorporated into the budget by the Full Board, along with the rest of the budget.

**MOTION:** A motion that the Finance Committee recommends that the Alaska Mental Health Trust Authority Board of Trustees approve the Trust Land Office agency budget for FY23 in the amount of \$4,930,550 was made by TRUSTEE COOKE, seconded by TRUSTEE BOERNER.

MR. MENEFEE gave a high-level overview of the Trust Land Office budget and gave the reasons for some of the changes. He stated that there is an increase which is necessary in bringing in the same levels of revenue or a slight increase in revenues.

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

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

CHAIR HALTERMAN asked for the next motion.

**MOTION:** A motion that the Finance Committee recommends that the Full Board of Trustees approve the FY23 Trust Authority Agency budget of \$4,430,325 was made by Trustee Cooke; seconded by TRUSTEE BOERNER.

CHAIR HALTERMAN recognized Mr. Abbott.

MR. ABBOTT stated that the primary driver of the proposed increase in the agency budget is the additional PERS contribution. He continued that there are no recommendations for any additional personnel, no appreciable changes in the budget lines other than the personal line necessary to meet the new and greater obligations that every state agency will be paying in terms of making their PERS contributions. He added that, other than that, it is a flat budget.

CHAIR HALTERMAN called the vote.

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

CHAIR HALTERMAN stated that the next item on the agenda is the Planning Items. She recognized Ms. Howarth.

### **PLANNING ITEMS**

MS. HOWARTH stated that the purpose of this is to set the target allocations among different asset classes. The Permanent Fund and the Department of Revenue are actively involved in the process for management of their funds. She continued that in trying to maintain a sustainable payout they are looking at the mix of assets that will generate a return that is sustainable, that grows faster than inflation, and gives the ability to continue to provide a stable payout for equitable treatment of current and future beneficiaries on a dollar-per-dollar purchasing-power basis. She added that it is an iterative, ongoing process with the constant reallocation and shifting of funds by the asset managers on a monthly basis and, more frequently, quarterly. According to statute, the Trust Land Office manages its asset allocation and development and consults the Trust, but they have full authority and control over that asset base. The Permanent Fund Corporation does their asset allocation overall, and the Trust comes in as a partner and follows that asset allocation. That applies to Trust principal managed there, as well as the reserves, which are managed as a pool. She continued that there is full control with regard to the Department of Revenue managed reserves and the cash assets we have. The Department of Revenue reserves have an allocation that is currently stated in our Asset Management Policy Statement, and we have the authority to shift that, if desired.

MR. ABBOTT stated that as soon as there is clarity of the results of the Legislative Audit, a scope of services will be built, and then we will procure a consultant resource. The hope is that this will be fully complete and in place by the end of the fiscal year.

### **TRUSTEE COMMENTS**

CHAIR HALTERMAN recognized Trustee Fisher.

TRUSTEE FISHER stated appreciation for all the detail that went into the preparation of the last three days; particularly, this financial portion today. He continued that it was great to get an understanding of the definition of terms and all that went into the unique nature of the Trust and its relationship with the State. He thanked the staff for doing a great job.

TRUSTEE STURGEON thanked staff for the great job and for making some complicated things simple to understand.

TRUSTEE BOERNER agreed and stated much appreciation to the staff for all the work in preparing and going through the meetings. She thanked Miri for taking good care of all the trustees, and shared a little mental-health happiness in the beauty of a spider web created in the mist.

TRUSTEE COOKE talked about the last three days and why service on the Trust Authority Board is so interesting and rewarding to trustees. He asked Steve Williams to talk about the tour of various communities on the Yukon River and share his observations from that experience.

MR. WILLIAMS stated that the Tanana Chiefs Conference sponsored a boat trip and invited about 20 folks. We met in Fairbanks, and we were bussed down to Nenana. They were invited to four communities and met with the Chief from each, as well as the Village Council and many community members. Each community pulled together 15-plus members of the community, not including the Tribal Council and the Chief. He continued that it was an opportunity to listen and hear what the concerns and priorities were for each of the communities. The common theme throughout was the impact of the closure of the King fishery and, potentially, the chum fishery, especially on the Yukon, that translated into Nenana because Nenana fishery is impacted by what happens on the Yukon, as well. All four communities were struggling with the fact that there were no fish. The concerns were heard, and all were translated into the work of the Trust. All of those impacts and challenges that can be overcome are not insurmountable, but they are having impacts on the mental health and well-being of the individuals in each of those communities. He talked about the trip being a powerful opportunity.

CHAIR HALTERMAN stated that she continues to hear through social media outlets that care coordinators are still abandoning rural clients because they were unable to get the broadband in order to do the work that they needed to do. Therefore, patients are shifting to caregivers that are more adequately equipped with broadband to service those beneficiaries. She continued, that was troubling because then the cultural needs of communities that are rural are not being addressed. She continued that she was grateful for the amount of work that staff put into the dialogue and discussion. She appreciated having the hired consultants and their advisements. She thanked the trustees for their questions, and Miri for keeping them on task.

**MOTION: A motion to adjourn was made by TRUSTEE COOKE; seconded by TRUSTEE STURGEON.**

*There being no objections, the MOTION was APPROVED.*

(Finance Committee meeting adjourned at 1:36 p.m.)