

ALASKA MENTAL HEALTH TRUST AUTHORITY

FINANCE COMMITTEE MEETING

January 5, 2022

9:30 a.m.

WebEx Videoconference/Teleconference

Originating at:

3745 Community Park Loop, Suite 120

Anchorage, Alaska

Trustees Present:

Anita Halterman, Chair

Chris Cooke

Brent Fisher

Verne' Boerner

Kevin Fimon

Rhonda Boyles

John Sturgeon

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

Allison Biastock

Eric Boyer

Carrie Predeger

Trust Land Office staff present:

Jusdi Warner

Sarah Morrison

David MacDonald

Marisol Miller

Hollie Chalup

Jeff Green

Chandler Long

Also participating:

Beverly Schoonover; Stephanie Hopkins; Brenda Moore; Josephine Stern.

PROCEEDINGS

CALL TO ORDER

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

APPROVAL OF AGENDA

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

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

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

APPROVAL OF MINUTES

CHAIR HALTERMAN moved to the minutes from October, 2021.

MOTION: A motion to approve the minutes from October, 2021, was made by TRUSTEE COOKE; seconded by TRUSTEE STURGEON.

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

CEO FINANCE REPORT

MR. ABBOTT stated that this Finance Committee meeting is the beginning of the focus on the projects that flowed from the second Legislative Audit that was finalized over the summer. He continued that the auditor identified several concerns, and commitments were made to address some of those issues. He added that the five recommendations from the audit were: to consider liquidating the commercial real estate and transferring those funds to the Permanent Fund for management; to develop written procedures to insure that the annual withdrawals were correctly calculated; to develop written policies to insure that the income reserves were correctly determined; to develop written policies to address the inflation-proofing opportunities; and to have a written process in place to determine if and when there was excess Trust income to be transferred to the General Fund.

CHAIR HALTERMAN recognized Ms. Howarth.

MS. HOWARTH stated that the financial dashboard is through November because of the timing of when the financial reports from the asset managers arrive. She asked Kat Roch to cover the operations.

MS. ROCH began with a brief overview of the dashboard, starting with the agency budgets for

both the Trust Authority and the Trust Land Office. She stated that it was expected that the budget would stay on plan. She talked about the capital projects and noted that the beneficiary facilities have no current project for the allocation of \$3.6 million.

MS. HOWARTH stated that there are two sources of income that will fund in the future: the Trust Land Office; and then the investment activities. She continued that the Trust Land Office expectations would be to meet plan, and because of the U.S. Forest Service Land Exchange delay, they will probably be under plan in timber. She added that forecasting going forward would be difficult because of the economic uncertainty. The largest share of revenue through the year was from the Permanent Fund managed assets. The other sources of revenue include the commercial real estate and the Department of Revenue's investments in the budget reserves. She continued her presentation, explaining and answering questions as she went along.

TRUSTEE FIMON asked if the refinancing savings were incorporated in the annual budget.

MR. MacDONALD responded that the financing was anticipated coming through, and we initially looked at the portfolio-wide interest-only scenario. The types of loan terms that would be had were still very fluid and were very conservative on the projections in light of the uncertainty. He added that it had minimal impact because it was just kicking in. He continued that there are two assets with leasing to be done, and we anticipate some very significant tenant improvement expenses and leasing commissions coming up while those go back to full occupancy. The overall outlook is very positive.

MS. HOWARTH moved to the reserves and payout in detail. She stated that they were on track and are strong in terms of the financial position.

TRUSTEE COOKE asked about the total reserve category and how the need to take from the reserves is determined.

MS. HOWARTH replied that the reserves are added to through earnings. She explained that the reserves category was solely the earnings from the balances at the Permanent Fund Corporation and the State of Alaska Treasury Division. She then moved to the upcoming asset allocation study. She explained that past asset allocation studies looked at the mix of the investments. The simple way to think of it is the stocks, bonds and international versus domestic equity. That mix is evaluated and then stress-tested what altering some of the mixes would do to the expected returns in the future. She continued that by stress-testing, we can figure out the optimal mix of the different investment classes to generate the return needed. She added that Callan was contracted to do this study, and will be providing a summary in March. They will also layer in a couple of other elements. She talked about the need to improve lands to be able to generate additional income, like the decision at Icy Cape. She also talked about inflation-proofing and then moved to the timeline for the review process.

CHAIR HALTERMAN called for a break.

(Break.)

CHAIR HALTERMAN called the meeting back to order and asked Ms. Howarth to continue.

MS. HOWARTH stated that recommendations from Callan will be looked for before taking any additional action. She explained that the reasoning for that is being below the 400 percent target; and it would not be prudent to do such a transfer. She continued to the history and the review of how trustees had looked at inflation-proofing actions in the past, as well as the mechanics.

MS. ROCH shared a chart that showed that even though the Trust ended FY21 with a nearly \$70 million gap between the principal amount and the inflation-adjusted balance, the Trust remained financially strong through this. She explained the Permanent Fund's statutory requirement of maintaining the unrealized gains and losses within the principal account. She added that this new method of accounting for the total principal embeds a layer of inflation protection without doing the inflation-adjustment transfer.

TRUSTEE BOYLES joined the meeting.

MS. HOWARTH continued the presentation and explained that Callan advises a wide array of funds.

A discussion ensued.

MS. HOWARTH continued that one of the outcomes of the Legislative Audit was the recommendation to formalize policy and procedures for declaring whether there are excess funds that could be transferred to the State of Alaska's General Fund. She explained that there is an Alaska statute that guides the transfer of any funds in excess of what is necessary to implement the comp plan to the unrestricted General Fund. There is also a statute that articulates the use of Trust income. Anyone reviewing that statute sees the enormity of the need when looking at the list of objectives outlined to support the beneficiaries. She stated that there are also nine goals of the comp plan that lists the needs of the beneficiaries, which is revised every five years. There is potential for misunderstanding what is related to the financial capacity to support it. Folks may see nearly \$900 million in resources which is there to spend, but the Trust is budget-limited. There is a budget set based on a 4.25 percent payout that is considered something that will support beneficiaries equitably over the long term. She added that it was important to make sure that the stakeholders, the Executive and Legislative branches, and the general public had the ability to understand how the funds are used, and that a surplus of funds is not available for General Fund use.

CHAIR HALTERMAN commented that, unfortunately, this was an area for continual education, because of the turnover in the Legislature. She stated that it was imperative that the policies and procedures clearly address these issues, and she appreciated the work that goes into these discussions and thanked Ms. Howarth. She recognized Steve Williams.

MR. WILLIAMS talked about how they will proceed with trying to assess a formulaic approach to determining no surplus and stated that the comp plan is a key piece. This had not been done previously by the Trust, and it is aspirational. He, Ms. Howarth and others will work on assessing the best approach to a very high-level plan that then goes into strategies, goals and objectives. We will look at the plan holistically, and that information will translate into services connected to numbers of beneficiaries that then has a cost determination. He continued that they will try to come up with the best way to approach it, with the information that can be gathered.

CHAIR HALTERMAN thanked Mr. Williams for the clarity which helped solidify an understanding of what is trying to be accomplished. She recognized Ms. Howarth.

MS. HOWARTH closed with a timeline. The hope is to annually, in October, after financials had been completed and audited, to make the comparison of the resource relative to the needs and give the information to make the no-surplus declaration. The thought was to have the first round done for this October, and we will be thinking further about how to get this structured and then get to work.

CHAIR HALTERMAN thanked Ms. Howarth.

TRUSTEE COOKE thanked Ms. Howarth for the presentation and organizing it all. He asked if additional information on the financial dashboard, including the year-end numbers, will be available for the board meeting at the end of the month.

MS. HOWARTH replied that her objective was to get an update that will be done the first half of the year.

CHAIR HALTERMAN asked for any other questions. There being none, she asked for a motion.

MOTION: A motion to adjourn the meeting of the Finance Committee was made by TRUSTEE COOKE; seconded by TRUSTEE STURGEON.

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

(Finance Committee adjourned at 11:35 a.m.)