

ALASKA MENTAL HEALTH TRUST AUTHORITY

FINANCE COMMITTEE MEETING

July 26, 2022

9:30 a.m.

WebEx Videoconference/Teleconference

Originating at:

**3745 Community Park Loop, Suite 120
Anchorage, Alaska 99508**

Trustees Present:

Brent Fisher, Chair
John Sturgeon
Anita Halterman
Agnes Moran
Rhonda Boyles
Kevin Fimon

Trust Staff Present:

Steve Williams
Katie Baldwin-Johnson
Carol Howarth
Miri Smith-Coolidge
Kelda Barstad
Luke Lind
Michael Baldwin
Jimael Johnson
Valette Keller
Autumn Vea
Allison Biastock
Kat Roch
Eric Boyer
Debbie DeLong
Travis Welch
Jimael Johnson
Carrie Predeger

Trust Land Office staff present:

Jusdi Warner
Karsten Eden
David MacDonald
Hollie Chalup

Also participating: Blain Alfonso; Erin O'Boyle; Genia Demetriades; Pam Cawley; Patrick Reinhardt; Lesley Thompson; John Walker; Kathy Craft; Beverly Schoonover; Lisa Cauble; Josephine Stern; Adam Rutherford.

PROCEEDINGS

CALL TO ORDER

CHAIR FISHER called the meeting to order and began with a roll call. He stated that Trustee Boerner was excused, and asked for any announcements. There being none, he moved to the agenda.

APPROVAL OF AGENDA

MOTION: A motion to approve the agenda was made by TRUSTEE FIMON; seconded by TRUSTEE HALTERMAN.

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

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

APPROVAL OF MINUTES

MOTION: A motion to approve the minutes from April 20, 2022, was made by TRUSTEE HALTERMAN; seconded by TRUSTEE FIMON.

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

CHAIR FISHER stated that the first item on the agenda was the financial dashboard and staff reports. He recognized Carol Howarth.

STAFF REPORTS

MS. HOWARTH stated that she was joined by Kat Roch, the budget controller for the Trust. She explained that the financial dashboard was a summary of the expenditures, the revenue and the assets; an equivalent of an income statement and a balance sheet. She continued that the financials will be formally closed at the end of August. Reflected here are the expenditures, the money going out the door relative to the budget established for the fiscal year. The numbers will be finalized at the end of September when the audit is completed. She added that an important part of financial health was related to the assets, and the Permanent Fund Corporation is currently closing their books. The hope is that the preliminary numbers will be sent by day-end. She asked Ms. Roch to present and review the expenditures of the Trust.

MS. ROCH began with the agency budgets which were expected to close by the end of August. She continued that there had been vacancies, and a lot of travel was postponed or done virtually because of COVID, which is a big reason for the lapses in the agency budgets. She went through the expenditures and then moved to capital projects which were related to large projects with the allocation that trustees approved for program-related investment. She continued to the Trust Land Office Development Account, TLODA, which were capital projects from the Trust Land Office. She explained that the current project is Icy Cape Mineral Development project which a

number of trustees visited recently. She moved to Trust receipts and stated that the Trust Land Office had a stellar year, with the largest planned contributors being the land category followed by forest management, oil and gas, and then minerals. She explained the revenue losses which reflected the volatility.

A brief discussion ensued.

MS. HOWARTH noted that she would provide at the next Finance Committee meeting a performance review of the long-term investment strategy which will provide an historical perspective.

CHAIR FISHER asked for any questions.

TRUSTEE MORAN stated that the Permanent Fund had quite a bit of high-level employee turnover and asked if that would have any impact on the Trust. She asked if that was monitored.

MS. HOWARTH replied that there was the ability to have an open dialogue with the Permanent Fund. Her relationships at her level had been with the chief financial officer, who is currently the acting CEO. There could also be a dialogue with the chief investment officer. She stated that there had been no reason to contact them at this point.

TRUSTEE MORAN stated that she did not have any concerns at this stage, but if that level of instability continued, it may become concerning.

TRUSTEE HALTERMAN noted that point should be noted for Audit & Risk policies, and the impact of inflation on the budget.

MS. HOWARTH moved to Trust resources and did a cursory review of the numbers. The most significant part of this was the Permanent Fund investments, and those numbers have not been updated. She concluded the dashboard review. She continued to the revenue forecast and focused on the FY23 revenue estimate, and then the FY24 revenue estimate. She stated that the revenue forecast is driven by three primary components: The amount of money that is invested in the Trust fund; the budget reserves managed by the Permanent Fund; and the budget reserves managed by the Department of Revenue. She explained that a four-year average was used, and the estimate was that there would be about \$28.5 million available to draw using the 4.25 percent draw rate. That is expected to go up to about \$30 million for FY24. She continued to the next three components incorporated that also have a four-year average: The lapsed appropriations, funds not used; Trust Land Office spendable income; and cash management interest.

CHAIR FISHER called a break.

(Break.)

CHAIR FISHER welcomed all back to the Finance Committee meeting and asked Ms. Howarth to introduce Harvest Capital, the next presentation.

MS. HOWARTH stated that Harvest Capital was engaged in October 2019 as the Trust's

independent commercial real estate adviser. She continued that the trustees chose to have an advisor since 2019. The Trust is heavily involved in large-scale real estate. She explained that Harvest is an SEC-registered financial advisor, based in Boston. She asked Mr. Williams to continue.

MR. WILLIAMS stated that he looked forward to having Erin and her team present on the portfolio as a whole. He explained that this portfolio is part of the overall financial picture and provides some durable income to help mitigate some of the peaks and valleys in what was going on in the fiscal environments which allows the maintaining of some steady, reliable income for the beneficiaries and the programs served.

MS. HOWARTH introduced Erin O'Boyle, the managing partner for Harvest, and Genia Demetriades. She stated that Ms. O'Boyle has a career-long experience in operations and investments of commercial real estate, and her clients range from pension funds to trusts. She continued that there were two additional team members, Joshua Kahr, who is involved in the forecasting, and Ms. Demetriades, who brings perspective in office and industrial asset management and in investment advisory.

MS. O'BOYLE stated that she was the founder and managing partner of Harvest Capital Partners, SEC-registered investment advisors. She stated appreciation for the opportunity to present the annual report on the commercial real estate holdings. She began her presentation with good news: good performance and good income. The assets are well-located and predominantly office. The tenancy went from a 14 percent vacancy to a 10 percent this year. She emphasized the importance of a significant tenant credit in the portfolio at 54 percent. The investment characteristics were strong for current income, future appreciation. She moved to risk management and stated that the benchmark performance continued improving. She asked Ms. Demetriades to continue.

MS. DEMETRIADES discussed some of the important elements in creating a strong and well-balanced real estate portfolio. She highlighted the importance of strong credit tenants which result in fewer delinquencies and more favorable debt terms. She moved to the advantages of staggered lease expirations which minimizes vacancy risk and capital outlays. Another important element of a well-balanced portfolio is staggered debt, and the TLO did an excellent job of managing the portfolio's loan expirations. She detailed Harvest's change in property valuations and talked about the increases in interest rates impacting cap rates that are beginning to rise. She discussed the change in net market value as well as durable income available for distribution year over year.

MS. O'BOYLE moved to the benchmark. The NCREIF index was selected, which was an unlevered property index, diversified by product type and by geography. She explained the detail where industrial outperformed at almost a 52 percent return, which had never been at this level. She explained the index thoroughly. She also looked at net returns to compare on a net return basis. She stated that a significant accomplishment was the significant refinancing. In April of 2020, Harvest recommended refinancing the real estate portfolio to market-rate debt. The trustees had the wisdom and vision to approve a motion to refinance. The TLO did a great job of refinancing three assets at a very favorable rate, which provided \$5 million more of cash flow. She added that was a significant accomplishment, and that there was the opportunity,

depending on the longer-term strategy on holding and selling, to refinance Washington Parks. That is a very good asset with a very unfavorable loan with a high interest rate, and a significantly high amortization. She stated that it was important to highlight the accomplishments as well as the challenges.

MS. DEMETRIADES focused on sector performance which was ranked from best to worse, and then talked about multifamily, which is the second-best sector. She moved to the office sector and stated that office occupancy is slowly recovering, with still a lot of uncertainty. She added that the retail outlook was still out of favor.

MS. O'BOYLE stated that Harvest prepared its recommendations based upon the information received from the TLO and worked closely with the team over the last three years and visiting the assets. She jumped into the hold/sell and explained what it was exactly. She highly recommended having the team review constantly and try to take advantage of shifts in capital markets or shifts in the asset fundamentals. She moved to the summary recommendation which she explained and suggested strategies. She continued that all the assets are valued above what they were acquired for, with the exception of North Park and Cordova. She added that Rulon was a strong asset with a long-term IRS Class A tenancy, and explained the recommendation.

MS. DEMETRIADES discussed the challenges facing the portfolio in the next year and stated that Harvest would continue making best practice and strategic recommendations, and would continue providing support to the TLO. She then summarized the value creation opportunities that Harvest helped identify and that the TLO successfully completed over the past couple of years. Also identified were some value creation opportunities that are believed to still exist, and they recommended implementing an occupancy agreement at Cordova. Also recommended were creating standardized requirements for appraisal and broker opinions of value for consistency and easier reviews. She pointed out the great leasing accomplishment at Amber Oaks and turned it back to Ms. O'Boyle for final comments.

MS. O'BOYLE concluded the presentation and added that there were a lot of supporting documents. She stated appreciation for the time and opportunity to serve the Trust.

CHAIR FISHER asked for any questions. There being none, he stated appreciation for the presentation and the detail that it went into. He stated that David MacDonald was next on the agenda. He asked Ms. Warner to do the introduction.

MS. WARNER stated that there was an update following up on Harvest's discussion, specifically to the building located in Ogden, Utah, which houses the IRS. She introduced David MacDonald, the lead real estate asset manager.

MR. MacDONALD stated that there were some particular matters to discuss regarding the Rulon White property, which is 100,000 square feet of rentable industrial space located in Ogden, Utah. He continued that it was 100 percent occupied by the IRS who had been a tenant since 2002. The asset had been owned since 2013, and the TLO would like to have further conversations about it.

MS. WARNER explained that there is additional information on financial matters that may

impact the Trust if discussed publicly.

MR. WILLIAMS stated that, in order for the conversation to continue, it should be considered in Executive Session because it could have a negative impact on the future assets of the building and the sale of it. He recommended the motion in the packet.

CHAIR FISHER asked for a motion to go into Executive Session.

MOTION: A motion that the Alaska Mental Health Trust Authority Finance Committee move into Executive Session to discuss confidential matters pertaining to finances and potential negotiations for the commercial real estate improvements located at 1973 North Rulon White Boulevard, Ogden, Utah, 84404, regarding potential disposal of the asset. This motion is made pursuant to Alaska Statute 44.62.310B, and Alaska Statute 44.62.310C1, as the matters to be discussed in Executive Session would have an adverse effect on the finances of the Alaska Mental Health Trust Authority. Motion was made by TRUSTEE BOYLES; seconded by TRUSTEE STURGEON.

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

CHAIR FISHER stated that the trustees and preselected members of the Trust staff would move into Executive Session.

(Executive Session from 11:36 a.m. until 12:31 p.m.)

TRUSTEE BOYLES stated that she and her fellow trustees and members of the Trust Land Office and Trust Authority Office returned to the Finance Committee from the Executive Session. During the Executive Session, the Finance Committee only discussed the items identified in the motion and did not take any action.

CHAIR FISHER thanked Trustee Boyles and moved to the lunch break.

(Lunch break.)

CHAIR FISHER called the meeting back to order and moved to the Trust Authority Office Agency Budget for FY24. He recognized Mr. Williams.

MR. WILLIAMS stated there was a motion related to the FY2024 Trust Authority Agency Budget.

MOTION: A motion that the Finance Committee recommended that the Full Board of Trustees approve the FY2024 Trust Authority Office Mental Health Trust Agency Budget of \$4,624,370 was made by TRUSTEE HALTERMAN; seconded by TRUSTEE MORAN.

MR. WILLIAMS stated that the narrative around the 2024 Trust Authority Agency was in the memo. He continued that it was outlined in the charters that both the Trust Authority and the Trust Land Office agency budgets for the upcoming fiscal year get brought before the Finance Committee which then takes action to recommend the budget to the Full Board meeting in August. He explained as he went through a high-level overview.

CHAIR FISHER called the vote.

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

CHAIR FISHER moved to the next motion.

MOTION: A motion that the Finance Committee recommended that the Alaska Mental Health Trust Authority Board of Trustees approve the Trust Land Office Agency Budget for FY2024 in the amount of \$5,019,100 was made by TRUSTEE HALTERMAN; seconded by TRUSTEE MORAN.

MS. WARNER gave a high-level overview of the TLO budget.

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

CHAIR FISHER stated that the agenda was concluded.

MOTION: A motion to adjourn was made by TRUSTEE HALTERMAN; seconded by TRUSTEE BOYLES.

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

(Finance Committee meeting adjourned at 1:27 p.m.)