

**ALASKA MENTAL HEALTH TRUST AUTHORITY**

**FINANCE COMMITTEE MEETING**

**January 6, 2023**

**10:25 a.m.**

**WebEx Videoconference/Teleconference**

**Originating at:**

**Alaska Mental Health Trust Authority  
3745 Community Park Loop, Suite 200  
Anchorage, Alaska 99508**

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**Trustees Present:**

Anita Halterman, Chair  
Kevin Fimon  
Agnes Moran  
John Sturgeon  
Verne' Boerner

**Trust Staff Present:**

Steve Williams  
Katie Baldwin-Johnson  
Carol Howarth  
Miri Smith-Coolidge  
Michael Baldwin  
Eric Boyer  
Allison Biastock  
Kat Roch  
Kelda Barstad  
Carrie Predeger

**Trust Land Office staff present:**

Jusdi Warner  
Jeff Green  
Sarah Morrison

**Also participating:**

Diane Fielden; Erin O'Boyle; Genia Demetriades; Bev Schoonover; Maranda Hamme; Mary David; Patrick Reinhardt; Charlene Tautfest; Lee Breinig.

## PROCEEDINGS

### CALL TO ORDER

CHAIR HALTERMAN called the meeting to order and began with a roll call. She asked for any announcements. There being none, she moved to the agenda and asked for a motion.

### APPROVAL OF AGENDA

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

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

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

### APPROVAL OF MINUTES

**MOTION:** A motion to approve the minutes from October 19, 2022, was made by TRUSTEE BOERNER; seconded by TRUSTEE MORAN.

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

CHAIR HALTERMAN stated that Brent Fisher had an excused absence today, and continued with the CEO report from Steve Williams.

### CEO REPORT

CEO WILLIAMS provided the trustees with a high-level, general finance update, and then led into an explanation of where the commercial real estate work group stood. He continued on the work of developing a process and guidelines for the commercial real estate assets as they relate to the hold/sell analysis and action. He highlighted that the principal deposits that had been made over to APFC added \$1.6 million of principal income at the end of December. The current balance of the corpus is \$543,600,000. The expectation is to increase that by another \$4 million by the close of FY23. He highlighted two related topics: to make sure that the purchasing power of the Trust corpus is maintained with inflation-proofing; and assessing the settlement income account fund's ability to sufficiently and comprehensively meet the needs of present and future beneficiaries and the methods of doing that analysis.

### COMMERCIAL REAL ESTATE POLICY DISCUSSION

CEO WILLIAMS reminded all that the commercial real estate work group is made up of the chair of the Finance Committee, Brent Fisher, himself, Carol Howarth, Jusdi Warner and the contractors at Harvest Capital, Erin O'Boyle and Genia. They had been looking at a process for developing a policy document intended to frame and guide investment decision-making for the commercial real estate asset class. They developed a draft document that outlines the guideline or framework. The content areas looked at the investment characteristics of the asset classes

developed and drafted hold/sell analysis metrics to use looking at this asset class. He stated that a lot of work was done, and he appreciated everyone who helped on it. He added that it was not ready to share because it was still a draft with a need to go back to cross-reference against the other governance and policy documents of the Trust. He continued that they want to insure that it is a document that would allow trustee flexibility to the extent possible.

A brief question-and-answer session ensued.

CHAIR HALTERMAN moved to the Finance Update and recognized Carol Howarth.

### **FINANCIAL UPDATE**

CFO HOWARTH stated that the financial update would cover a look at the dashboard; a look at inflation-proofing; and a look at the issue of having surplus funds. She turned the dashboard over to Kat Roch.

MS. ROCH started at the top of the dashboard with the Trust expenditures which were the day-to-day administrative operations for the Trust Authority and the Trust Land Office. The numbers were currently through November, were on plan, with the projection expending both full budgets. The trend for the program activities, the MHTAAR funds, are also on plan. She moved to Trust receipts and the money coming in. The Trust Land Office has the conservative forecast of meeting or exceeding plan. There is uncertainty for timber, but other resources are expected to meet or exceed plan. She continued that, in November, the Permanent Fund had positive earnings, and they also appeared positive in December; a good move from the September period where there was a significant loss. Moving to commercial real estate, there were some upcoming improvements planned which will have an effect of money coming in. She added that occupancy remained at 91.4 percent; the same as the first quarter. GeFONSI interests were on plan, and then she explained Trust resources.

TRUSTEE BOYLES asked about the 400 percent payout.

CFO HOWARTH explained that there was a 400 percent target reserve, which is to protect the Trust's ability to maintain a payout if the markets decline. She stated that this had gone up and down above and below 400 percent. The year started below the 400 percent targets, which is a nice spot to be in. From a cash management perspective, the timing of the payout is to manage the case that is really needed. There is still cash on hand. With regard to inflation-proofing, one of the core responsibilities of the Board is to insure that the future beneficiaries have support that is equitable. Traditionally, the January Finance Committee meeting is when the purchasing power is reviewed, and that is talking about the corpus. In reviewing the current position, staff is not recommending that the Finance Committee recommend to the Full Board the transfer of earnings to principal for true-up recommendations. She continued that there were three reasons why: first, under standard endowment practices, the Trust is protected; second is the impact of the inflation rate on the corpus which, at the end of the fiscal year, was just over \$531 million. A fully inflation-proofed Trust corpus would be just under \$601.8 million. In terms of priorities, there are not sufficient unrestricted earnings for the staff to make a recommendation that the trustees transfer earnings on a discretionary basis to principal. This brings forth the important point that the Trust spendable, unrestricted earnings are sufficient to cover the commitments and reserve requirements. The restricted earnings can provide inflation-proofing, and she explained

how in detail. She continued to the no-surplus discussion. She reviewed with the trustees the fund status and the determination of whether or not the Trust had surplus funds. She talked about a windfall where the Asset Management Policy Statement says that the Trust is required to do a new asset allocation and spending review. If the capacity of the Trust was altered significantly in some way, that would change the amount of funding expected to be available over the long run. She added, that is a really important policy that was established for the Trust and should give the trustees all the confidence that there is a policy in place for dealing with significant changes. She stated that Gene Hickey reviewed the Trust Settlement Income Account and the six elements for using settlement income account money. The sixth purpose states that if the money in the Trust settlement account is in excess of what is needed, that money would transfer to the State's unrestricted General Fund for State expenditures, and it was reasonable to be put in statute. In 2021, the legislative auditor made the recommendation to the Board to develop written policies to evaluate whether or not there was more than enough Trust income than what was needed to be transferred to the General Fund. That recommendation was appreciated because it recognized that with changes in the executive and legislative branches, there was potential for a repeat of what happened in December of 2020. At that time, the Governor's Office submitted a budget that tapped the Trust funds under the erroneous assumption that the Trust had excess funds. She continued her presentation, explaining the goals with the first question being if the Trust had sufficient funds to meet the current commitments. The second question deals with if the Trust had sufficient funds to equitably support future needs in the same manner it is doing now and in the past. Those two questions frame how measurements could be made and establish procedures. She continued that the commitments were the FY23 operating budget and prior-year obligations; multi-year grants; capital projects; maintenance reserves; and the 400-reserve target.

TRUSTEE BOYLES stated that there are fiduciary responsibilities, and we need to make decisions based on that in the best way possible. There is a need to be diligent and realistic.

CHAIR HALTERMAN stated, for the record, that Trustee Moran left the meeting about 11:00 and was excused for the remainder of this meeting. She continued with the \$70 million as a holding spot, and explained that it was an obligation that could not be met because the 400 percent reserve is an unmet obligation. That \$70 million could not be transferred because the money was needed in the endowment; that 400 percent reserve target was needed.

TRUSTEE BOYLES asked if there had ever been a time of not inflation-proofing on an annual basis.

CFO HOWARTH replied that they had not inflation-proofed annually, and they had actually inflation-proofed about ten times in the history of the Trust. The Trust policy had changed over time. She added that the purpose of the real estate assets is to protect the Trust during periods of high inflation. She continued that, regarding the statute, excess funds were not needed to be able to provide that equitable intergenerational support. She moved to the two math calculations that align with State statute requirements and provide support for determining that there were no surplus of funds, both immediate and long-term. It is important to understand that the Trust's available funding is driven by asset allocations, and trustees traditionally review every three years. With regard to the legislative audit recommendation, the two straightforward calculations can be incorporated into the procedural manual. With regard to the recommendation on strategy,

the statute can more clearly articulate that the statute guides the policy in the Asset Management Policy Statement, if that is needed. It could be done in the next review of the Asset Management Policy Statement when some revisions are being made.

CHAIR HALTERMAN asked Trustee Boerner for any questions.

TRUSTEE BOERNER replied that it was a great presentation, and she appreciated the discussion and questions. She added that the information was really good.

TRUSTEE BOYLES asked when the next AMPS review is scheduled.

CFO HOWARTH replied that, at this point, if a major revision is required, it would be put in. She stated that, in the review of the commercial real estate, there may be something that needs revision. The last update to the AMPS was in 2019.

TRUSTEE BOYLES stated that they had a fiduciary responsibility to make decisions with as much data and advice as possible, and there is a need to do that sooner than later.

TRUSTEE FIMON stated the need to be more blunt going forward. If decisions are based off one choice versus spending versus asset allocation, then it may need to be more clearly stated in policy so that it is not a question every time it is done.

CHAIR HALTERMAN stated that it was her understanding that Trustee Fisher is working with the CEO and the CFO through the commercial real estate review, and they are looking at the AMPS. They will be making some recommendations for revisions, if necessary.

CEO WILLIAMS stated that was a correct assumption.

TRUSTEE BOYLES responded, as a matter of record, that legislative audits were just that. The term “audit” intimidates because of being through some professional issues in our lives. Legislative audit is what has to be done consistently for following policies, and being diligent about updating them, if needed. She encouraged CEO Williams to look at the AMPS revision ASAP, if possible. The trustees just need to have a better understanding of AMPS.

CHAIR HALTERMAN stated that Laraine Derr had begged for inflation-proofing for many, many years. She continued that the trustees may not have been quite ready to have a complete discussion in the years that she served on the Board, but she definitely made an impact. We have some clear guidance now that we did not have before. CEO Williams has responded to legislators with regard to how inflation-proofing should be done, and there is some documentation. Whatever needed to be incorporated into the AMPS policies she would leave up to the CEO, the CFO and Trustee Fisher, since they are undertaking some work right now. She added that she had been learning a lot about inflation-proofing since being with the Trust, and it has been an evolving process which is getting more refined in the development of the policy and articulating how it will be done. She thanked all and asked for anymore questions. There being none, she asked for a motion to adjourn the meeting.

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

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

(Finance Committee Meeting adjourned at 11:52 a.m.)