Trust
Alaska Mental Health
Trust Authority

3745 Community Park Loop, Suite 200
Anchorage, AK 99508
Tel 907.269.7960
www.mhtrust.org

MEETING AGENDA

Meeting: Finance Committee
Date: June 22, 2023
Time: 1:30 PM
Location: online via webinar and teleconference
Teleconference: (844) 740-1264 / Meeting Number: 2630 462 6820 # / Attendee Number: #
https://alaskamentalhealthtrust.org/

Thursday, June 22, 2023

		Page No.
1:30	**Call Meeting to Order (Brent Fisher, Chair)** Roll Call Announcements Approve Agenda Ethics Disclosure	
1:35	**FY24 Available Funding**	2
2:30	**Adjourn**	

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Special Finance Committee Meeting
June 22, 2023

Terms

Unspent Authority Grant funds

Authority Grant funds that are not awarded or fully expended by grantees during their appropriation term.

Lapse

The unspent portion of an appropriation that has reached the end of its term year.

Unobligated Trust funds

Total available funding minus the approved budget.

Trust Reserves

Trust Budget reserves, managed by APFC and DOR, are maintained with a target of 400% of the annual payout.

Annual Available Funds

We use a <u>4-year average</u> of the following sources to determine our annual available funding:

- Fund payout (4.25 percent of the total net asset value of the trust fund)
- Lapsed Appropriations
- Spendable income from land and non-cash assets
- Interest income from cash investments

- Once determined, this estimated amount is used to develop the Trust budget.

Increase Available funding for FY24 Budget

- Due to changes to revenue calculations, our approved FY 24 budget is currently underfunded by $256,000, and has no Unobligated funds available

- Staff considered several options to balance budget and recommends transferring FY21 unspent Authority Grant funds to FY24 Unobligated.
  - Fully funds FY24 approved budget and provides funds for emergent needs.

- Staff recommends trustee action before FY24 begins on July 1, 2023.

Unspent Authority Grant Funds

- Authority Grant funds, once approved, are available for 4 years.
- After 4 years unspent AG funds begin to lapse back into Trust available funding calculations. (*AMPS*)
- For FY 21, there are $2,020,851 in unspent AG.

Recommendation to Increase Available Funding in FY24

- Transfer FY21 unspent Authority Grant funds to FY24 Unobligated funds.
- This balances FY24 budget and provides additional Unobligated funds to meet emergent needs.
- This action also brings unspent FY21 funds into service, with limited impact on future budgets, and no adverse impact to existing projects or activities.

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To:	Brent Fisher, Chair, Finance Committee
Through:	Steve Williams, Chief Executive Officer
From:	Kat Roch, Acting Chief Financial Officer
Date:	June 14, 2023
Re:	Increase in Funding Available for FY24

REQUESTED MOTION:

The Finance Committee recommends that the board of trustees authorize the transfer of $2,020,851 in unspent FY21 Authority Grant funds into Unobligated funds for FY24.

STAFF ANALYSIS:

The Trust has a total of $2,020,851 in FY21 unspent Authority Grant funds that are waiting to again be included in the budget calculation. Trust staff propose transferring these unspent funds to FY24 Unobligated funds to increase the amount of available funding in the coming fiscal year.

Authority Grant funds have a four-year appropriation term. From time to time, Authority Grant funds are not awarded or fully expended by grantees during their appropriation term. Also, grant recipients may complete their projects without expending their full grant award. Together these circumstances result in an unspent Authority Grant balance for each fiscal year.

Typically, unspent Authority Grant funds would be lapsed back into the budget using a four-year averaging process following the conclusion of their four-year appropriation term. As such, these FY21 funds would not begin to be available until FY25. As part of identifying these funds for consideration, the program officers were consulted to make sure that there would be no adverse impact on existing projects if this money was released and redirected for FY24 use. Looking forward, Trust staff will be assessing and identifying recommendations for changes to how unspent and lapsed funds are managed. Proposed recommendations will be brought to trustees during the next scheduled review of the Asset Management Policy Statement (AMPS).

Because the Trust uses a two-year budgeting cycle, our FY24 budget was approved in the summer of 2022, using the best information available to project available funding, and to plan for operational and beneficiary serving partner needs. Due to recent and necessary transfers to the Central Facility Fund that impacted our revenue calculations, our approved FY 24 budget is currently underfunded by $256,000.

Further, unexpected needs unknown to us when developing the FY24 budget may arise that require a Trust response. Having Unobligated funds allows the Trust to respond to emergent needs readily and nimbly. Any use of Unobligated funds requires trustee approval.

Staff recommends transferring $2,020,851 in unspent FY21 Authority Grant funds into Unobligated funds available for FY24. This transfer will allow the Trust to fully fund its FY24 budget and to ensure ample Unobligated funds for any emergent needs without requiring a draw from Trust Reserves or reducing the budget. This proposal also makes otherwise unspent FY21 Authority Grant funds available to further the Trust's work on behalf of beneficiaries, or support activities on Trust lands.

BACKGROUND:

Annually, the trustees approve a budget that includes Mental Health Trust Authority Authorized Receipt (MHTAAR) and Authority Grant funds. The Authority Grant funds are generally granted to non-state government entities to either forward Trust focus area efforts or enhance the community-based system of care supporting Trust beneficiaries (non-focus area allocations).

At the end of each fiscal year any unspent Authority Grant funds that have reached the end of their four-year appropriation term start to become part of the Trust's total available funding calculation for future budget years. This four-year averaging allows the funds to be brought back into service with a "smoothing" effect on the overall budget, effectively mitigating a "balloon effect" resulting from one year's lapsed amount.

However, before unspent Trust funds formally lapse at the end of their 4-year appropriation term, they sit unused, earning minimal interest, instead of being deployed to support its mission, and/or activities on Trust lands.

OPTIONS CONSIDERED TO INCREASE AVAILABLE FUNDS IN FY24:

Staff examined three options as possible proactive solutions to increase available funding in FY24.

In doing so Trust staff considered that, due to the use of four-year averages to determine our annual available funding, transferring $2,020,851 into FY24 Unobligated Funds will reduce the money available for use in future budgets by approximately $500,000 ($2 million that would have been lapsed, averaged over four years). This decline in one component of the Trust revenue calculation is forecast to be offset by increased funding available from the growth in Trust assets and TLO spendable income. Therefore, the impact of the proposed transfer on future budget availability should be minimal.

Options considered:

(1) Use FY21 unspent Authority Grant funding.
(2) A draw from Trust budget reserve accounts.
(3) Take no action.

There are advantages and disadvantages to each approach. These are summarized below:

Approach	**Advantage**	**Disadvantage**
Transfer unspent FY21 Authority Grant funds to FY24 Unobligated	Brings currently available resources into service faster than using the regular lapsing cycle. Fully funds FY24 approved budget before the start of the fiscal year and provides unobligated funds for potential emergent needs.	This may reduce future revenue calculations by removing resources from the 4-year averaging process.
A draw from Trust budget reserve accounts	Does not reduce future revenue calculations.	Reserves would be reduced without an immediate plan to replenish them.
Take no action	Unspent FY21 Authority Grant funds remain in place, increasing future payout.	Would require that the approved FY24 budget be reduced by $256,000, and there would be no FY24 Unobligated funds to meet emergent needs.

RECOMMENDATION:

Staff recommends adopting the motion to ensure the Trust has requisite funding to support the FY24 approved budget and has available Unobligated funds to meet any emergent programmatic or operational needs. Taking this action allows the Trust to bring unspent FY21 Authority Grant funds into service faster for the benefit of the Trust and protect Trust reserves. This action will have limited impact on resources available for future budgets, and no adverse impact on existing Trust projects or ongoing grant activities.

Background Information

Trust Land Office

2600 Cordova Street
Anchorage, Alaska 99503
Phone: 907-269-8658
Fax: 907-269-8605

To:	Mary Jane Michaels, Chair
Through:	Mike Abbott
From:	Wyn Menefee and Andy Stemp
Date:	5/24/2018
Re:	FY19 Real Estate Management Plan and Non-Investment/Program-Related Real Estate Facility Budgets
Fiscal Year:	2019
Amount:	$11,603,832

Approval

Requested Motions:

Proposed Motion One: *"The Trust Authority board of trustees authorize the use of Fund 3322 to create a central facility fund, beginning immediately in FY2018, to meet property expenses that exceed the amount of funds held at the property level. The CFO is directed to consult with the Executive Director of the Trust Land Office each quarter and transfer money from real estate rental income into the central facility fund, in an amount mutually agreed upon, until the fund reaches and is maintained at a total balance of $2.0 million. Expenditures from this fund require approval of the CEO, RMC, or board of trustees within limitation expressed in the governance charters."*

Proposed Motion Two: *"The Trust Authority board of trustees approve the incremental building expenditures, totaling $11,603,832 for the fiscal year 2019, to be paid by the property manager in the case of expenditures, primarily from rents and other income collected from the properties or from the central facility fund for capital expenditures that cannot be covered by rents and other income from the properties. The cash flow for REMP and Non-Investment/Program Related Real Estate portfolios are to be managed respectively on a portfolio basis while maintaining appropriate building specific accounting."*

Background:

Creation of Central Facility Fund (Proposed Motion 1)

General Background: The Trust has two distinct property portfolios: the program related real estate and the commercial real estate. Both portfolios generate income and have corresponding expenses, including the need for periodic upgrades and major maintenance. The Trust has been able to address these needs on an ad hoc basis using a combination of income from the properties, some savings/reserves that are held for certain properties, and by accessing other Trust funds. This approach has worked for small to moderate sized needs, but paying for large needs (i.e. tenant improvements) has the potential to create an uncomfortable level of cash flow compression.

To help mitigate the risk of cash flow compression, a central facility fund can be used to accumulate cash over time and stabilize any need for resources. The Trust historically used fund 3322 (Deferred Maintenance) as a tool to address these types of needs. The account could be reactivated and a schedule of regular deposits into the account could be established to build up the fund.

Trust Land Office and CFO Recommendation: Based on research into industry practices, the staff have started developing a schedule of large projects that will need funding over the next three years. These projects range from major tenant improvements such as with the IRS facility (~$2 million) to potentially replacing some HVAC systems (~$100,00). Using this schedule as a roadmap, the Trust would set aside a portion of rental income to build up the central facility fund. When needed the Trust Land office would request authorization to use the fund to complete projects following approval guidelines listed in the governance charters.

Staff recommend starting the fund with an initial contribution of $105,000 (the current balance of the old account) and then contributing a portion of the FY18 rents that might have otherwise still have been available for distributions, and continuing in FY 19 between $50,000 and $150,000 per quarter into the account. Contributions would continue until the account reaches a $2.0 million balance. At that point, the contributions would be suspended until money is drawn down from the account; at that point contributions would resume until the account is replenished.

A key consideration of this approach is that the contribution to the central facility fund would take place prior to distributing income for use by Trust programs, so there is a short-term reduction in available net distributions. This is mitigated by the benefit of having a stable and predictable source of funding for facility needs and avoids any out of budget cycle surprises that might negatively impact programs.

A central facility fund would be used to fund property expenses such as:

- Property costs that exceed PPRE and REMP portfolio cash flows
- Repair
- Replacement of larger building components based upon a replacement schedule when these replacement needs arise sooner than expected
- Leasing obligations
- Expansion or retrofit

<u>FY19 Rent Funded Real Estate Facility Budget (Proposed Motion Two)</u>

Transaction/Resource: Facility budgets are presented to seek approval from the board of trustees for the expenditures necessary to service the properties. The proposed property expenditures including contingency reserves are funded by tenant rents and other income collected from the properties or by using the central facility fund when cash flow management cannot cover the capital expense.

Property Description/Acreage/MH Parcel(s): Real Estate Management Plan and other AMHT Properties are as follows:

Real Estate Management Plan Properties	**Other AMHT Properties**
1111 Israel Road; Tumwater, WA	3745 Community Park Loop Road; Anchorage, AK
1973 North Rulon; Ogden, UT	650 Yonker Court; Fairbanks, AK
2600 Cordova Street; Anchorage, AK	2330 Nichols Street; Anchorage, AK
2618 Commercial Drive; Anchorage AK	1300 Moore Street, Fairbanks, AK
2420 & 2500 Ridgepoint Drive; Austin, TX	1423 Peger Road, Fairbanks, AK
17319 San Pedro Avenue; San Antonio, TX	
9601 Amberglen Blvd; Austin, TX	

General Background:
There is an obligation to maintain all facilities, whether REMP properties or the Non-Investment/Program Related Real Estate properties. Failing to maintain the facilities would diminish the value of the Trust corpus, would make the facilities less attractive to new tenants, and would impair the Trust's ability to sell the facilities in the future. Well-maintained and fully-rented properties provides the best income, preserves the value of the corpus, and fulfills the obligation of managing the properties with accountability to the Trust.

The TLO has established a system to adequately plan, manage, audit and report activity in the real estate portfolio. Using professional management services, the property information is accounted for by:

1) matching income to expenses;
2) comprehensive reporting and budgeting for each property; and
3) capital expense forecasting.

Even with appropriate planning, occasional building management costs occur that cannot be covered by the normal cash flow in the property specific building accounts. These property expenses can often be covered by managing cash flows at the property manager level on a portfolio basis.

Management of the cash flows for REMP properties and the Non-Investment/Program Related Real Estate properties should be managed separately as two distinct portfolios. The portfolio management structure allows the TLO managers to manage the property management accounts with some amount of contingency reserve for each property. This is prudent property management and in line with industry standards, such as what banks and other lending institutions require. Comparable industry standards show reserves equating to approximately $.15/sq.ft. added each year, but with flexibility to retain more or less, as reserves, as conditions dictate. Similarly, for this budget, a contingency reserve of 1% of expenditures will be maintained. The combined building accounts provide an appropriate cushioning that one building income can cover the extraordinary expense of another temporarily, to be rebalanced throughout the following year from rental income. This preferred methodology for most building maintenance expenditures and would limit the need to ask for approvals from the board to only what could not be covered by appropriate property level portfolio cash management.

If some expense, such as with a major tenant improvement at the IRS building, cannot be fully covered by property level portfolio cash management, the central facility fund would be used. The subsequent use of the central facility fund in FY19 within the limitations of facility expenditures shown in this approval will not require additional approval from the board.

Consistency with the Resource Management Strategy: The proposal is consistent with the "Resource Management Strategy for Trust Land" (RMS), which was adopted March 2016 in consultation with the Trust and provides for maximization of return on investment and provides for long term income generation at prudent levels of risk.

Trust Land Office Recommendation: The TLO recommends that it is in the Trust's best interest to approve the incremental building expenditures for FY19 to be funded by tenant rents and other income collected from the properties or the central facility fund.

Applicable Authority: AS 37.14.009(a), AS 38.05.801, 20 AAC 40.710-720 and 11 AAC 99.

Trust Authority Approval: The motions presented in this briefing document fulfill the approval requirements that are applicable to the transaction.

Exhibit:
Exhibit 1 - Property Budget Summary