

ALASKA MENTAL HEALTH TRUST AUTHORITY

FINANCE COMMITTEE MEETING

June 22, 2023

1:30 p.m.

Hybrid Meeting

Originating at:

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

Trustees Present:

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

Trust Staff Present:

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

Trust Land Office staff present:

Jusdi Warner
Blain Alfonso

Also participating:

Rep. Julie Coulombe; Steph Hopkins; John Springsteen; Barbara Haney; Diane Fielden; Justin Ruffridge.

PROCEEDINGS

CALL TO ORDER

CHAIR FISHER called the Finance Committee meeting to order. He began with a roll call, and asked for any announcements. There being none, he moved to the approval the agenda.

APPROVAL OF AGENDA

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

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

ETHICS DISCLOSURES

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

FY24 AVAILABLE FUNDING

CEO WILLIAMS thanked the trustees for making time to have this Finance Committee Meeting to talk about the FY24 budget which will begin July 1. He stated that they wanted to insure that the FY24 budget met the approved plan for beneficiary programmatic funded activities, as well as activities for the Trust Land Office. He continued they also wanted to insure that funding was available to make any necessary transfers into the Central Facilities Fund, as well as having a pot of unobligated funds in the budget that were not approved or allocated to anything specifically, but were there to access, with trustee approval, unmet needs that get identified either by the TAO staff or the TLO staff. He stated that the driver behind the recommendation being considered goes back to looking at transfers of Trust Land Office spendable income that was generated from the commercial real estate assets. There were transfers in 2019 and 2021 that were made to the Central Facilities Fund, and an adjustment was not made to the gross income for those years generated by the spendable income generated by the Land Office. This caused the spending of the gross amount of the spendable income and not the net amount. The adjustment made was about \$1.1 million to the revenue projection, which caused a ripple effect on the FY24 and the FY25 budgets. He added that the positive is that the gross revenue was invested in programmatic services for beneficiaries. The downside is the potential negative impact. The Trust does have the means to make an adjustment and absorb the change or the unforeseen need based on trustee approval to be able to move forward. He stated that the funding to make this adjustment was available without any implications or negative impacts, which is a positive in terms of the Trust and where it stands from a financial perspective. One of the causes was staff looking at how the estimated revenue projections would work for future fiscal years. This is done every July. Then those budget recommendations are forwarded to the Full Board in August for final approval.

CHAIR FISHER entertained a motion.

MOTION: The Finance Committee recommends the Board of Trustees authorize the transfer of \$2,020,852 in unspent Fiscal Year '21 Authority Grant Funds into unobligated funds for Fiscal Year '24. The motion was made by TRUSTEE HALTERMAN; seconded by TRUSTEE STURGEON.

CHAIR FISHER moved to the presentation.

CEO WILLIAMS went through some of the terms being used within the TLO and the TAO so that all would have the same basic understanding of what is meant by unspent Authority Grant funds, which is the focus of the motion. He also talked about lapsed funds, unobligated Trust Funds, and Trust Budget Reserves as an available option for the trustees' consideration.

MS. WARNER reiterated that the transfer to the CFF in 2019 was for \$1.039 million; the transfer in 2021 was \$1.05 million. It was counted twice in two different buckets, and that money had been allocated.

CEO WILLIAMS turned the meeting over Acting CFO Kat Roch.

MS. ROCH gave an overview of how the available funds were calculated and then moved into the actual revenue calculations with the actual numbers. She continued that the reason for the meeting was that the oversight was brought to staff attention; and since the '24 budget had been approved, they had the need to figure out how to correct the oversight, and also fund the '24 budget. After the corrections were made, it was found that '24 was underfunded by about \$256,000. Staff considered different options of where to get the money and decided that using the unspent funds from the FY21 Authority Grants was the best way to make up the shortfall, and also provided an amount of unobligated for any projects that may come up during the year. She explained that the \$2 million unspent Authority Grants was the result of a change to the policy of how those were spent. Anything not spent in the current fiscal year sits and waits to go through the next three years and then lapses. The plan was to take this money and deploy it faster to make better use of it now rather than waiting.

TRUSTEE HALTERMAN asked if there was, financially, a greater amount of unspent Authority Grants in Fiscal Year '21 than historically.

MS. ROCH replied that it fluctuated, but it was not generally that high.

TRUSTEE HALTERMAN asked what prompted such a large amount of unspent Authority Grants.

MS. ROCH replied that, for '21, there were a few factors, and that COVID did play a role. FY21 began July 1, 2020, and some projects did not launch. There were a lot of factors, and money could not get out as fast as had been initially planned.

CHAIR FISHER asked why the money waited for an additional three years to go through the cycle.

MS. ROCH replied that the Authority Grants were set up to have four years, due to projects that

take longer than a year. She believed that, as a State, they operate on a different fiscal year than a lot of nonprofits that were granted the money. That policy was to give more time for the project to take place, for the money to get deployed. She stated that it sits there for the three years because of the policy change of only spending from the current fiscal year. She added that unless the policy of Authority Grants being valid for four years was to be changed, the money would have to sit there for three additional years.

CHAIR FISHER summarized that the grant was given not based upon being spent in a single fiscal year; it was based on the project length of time, which could potentially go on for four years. Then, at the end of that time, if it still was not spent, it would return.

TRUSTEE BOYLES asked if the policy was dictated by the State or by the Board. When the word “policy” is used, is the Board legally obligated to hold those funds for four years.

CEO WILLIAMS replied that it was an internal Trust policy, and not an overarching State of Alaska policy. He described it more of a practice than a policy. He stated that it gives the flexibility for insuring that the grant, as approved, would get carried out.

TRUSTEE HALTERMAN stated that if there was a policy being followed and it was not documented, she encouraged that it be put in writing. This may be a good opportunity for the trustees to weigh in and set a different path because it was unfortunate to be sitting on this kind of money for that long of a period before being able to deploy it, especially after an emergency. She continued that it ought to be documented, or to document a process for the future.

CEO WILLIAMS replied that this was one of those areas to look at to either affirm that it was a good recommendation from the staff perspective, or if there is any identified way to change and improve and bring that forward.

TRUSTEE MORRIS asked for clarification on the possibility of a liability if the grant had not been executed; would they need that money.

MS. ROCH explained that when the funds were granted out, the money was set aside and no longer showed as an available balance. She stated that those funds had not been set aside or designated for any grant. So, if anything is still out there, that money was already set aside.

TRUSTEE MORRIS asked about the difference in numbers in the lapsed appropriations and the PowerPoint.

MS. ROCH walked through how those amounts were calculated.

TRUSTEE FIMON stated that part of the reason in looking at making these adjustments was because of the way the budget was proposed out.

A discussion and explanation of the funds continued.

MS. ROCH stated that the recommendation was to transfer the FY21 unspent Authority Grant

funds into the FY24 unobligated funds. This would balance the FY24 budget and have an unobligated pot of money so that if anything were to come up, there would be money to respond to the need. She added that it would also bring those funds into service sooner and have a limited impact on future budgets by removing those funds from the future four-year average.

TRUSTEE MORAN stated concern on making decisions that could potentially have a long-term consequence because it was being done on such short notice.

CEO WILLIAMS explained that this was not about a policy change, and there would be no policy change today. He stated that this was a request to use funds sooner rather than later. He continued that it was a one-time change that would affect the way the funds would be deployed, whether waiting for them at the end of FY24 or putting them into action now. He added that there was no adverse impact by taking this action, not only on projects or activities, but no projected impact on the future needs of beneficiaries, as well.

TRUSTEE HALTERMAN wanted to make sure that the process was documented so that it is historically preserved. It needs to be memorialized into the written policy.

TRUSTEE BOYLES stated that she heard Ms. Warner talk about a double entry and asked if this originally was an accounting error that caused the problem. She continued that if this was an accounting error, then we are moving the money that cannot be found right now without having negative impacts, and we are correcting a double entry of a million dollars.

MS. WARNER replied that was correct.

TRUSTEE STURGEON stated that there was an audit done every year by BDO and asked if they should have caught the error.

MS. ROCH stated that the annual audit was just a financial audit, and they look at the financial statements. She explained that the way the Central Facilities Fund was set up was that money was transferred into it, and when that transfer was made, the income was reduced. During the financial audit, the auditors would only find what was actually expended and would agree with the income numbers because the money that transferred had not yet been expended. She continued that the type of audit that would have found this would be more along the lines of a Legislative Audit of digging into policies and more of the meat of how the Trust operated, as opposed to the annual audit.

TRUSTEE STURGEON asked if the Legislative Audit would have picked this up.

MS. ROCH replied that she did not believe they would have. They were looking at other specific issues, but that was the type of audit that would have picked this up.

The discussion continued.

TRUSTEE FIMON stated that, as the current Chair of the Audit & Risk Committee, he would look into that.

MS. ROCH moved to the spreadsheet that showed the revenue calculations and walked through those numbers.

CEO WILLIAMS clarified that they were looking at the calculations under the assumption titled: “Calculation with Authority Grant Adjustment.” This is what the trustees would act on and approve, the recommendation that was before them.

MS. ROCH moved to the middle section, the FY24 revenue estimate. At the top was the four-year averaging and how they got the estimated total available funding. She stated that the methodology was the same as it was in '23.

MS. WARNER explained that this fund supported the program-related investments and the seven properties for the commercial real estate portfolio, and was revolving. She stated that there were new leases, new tenant improvements, leasing commissions, new roofs that come out of that fund. Capital expenditure projects could also come out of that fund.

TRUSTEE MORRIS asked for a copy of the internal rate of return on all the commercial properties. There seemed to be quite a bit of ongoing expense that was in excess of what was being paid for by the rents. He added that he would like to know that these properties were profitable, in excess of what the return would be if the assets were being managed by the Permanent Fund.

TRUSTEE STURGEON assumed that the calculation also included the increased value of the properties which were also a part of the profit, including the equity of those buildings.

MS. WARNER stated that they have all of the information. We do monthly and quarterly reports, and we will send them out.

MS. ROCH moved to the final year of the three-year spreadsheet, the FY24 with the same four-year averaging. She went through the estimates and the numbers.

CHAIR FISHER asked for any questions or comments before moving to the question. He stated that the motion had been read, and took the roll-call vote.

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

CEO WILLIAMS thanked the committee and the trustees for the questions and the dialogue. He stated appreciation for the support with the approval for recommendation to the Full Board. He explained that the reason this was done was that it was a committee action that was a recommendation to the Full Board.

CHAIR FISHER asked for a motion to adjourn.

MOTION: A motion to adjourn the Finance Committee meeting 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 Morris, yes; Trustee Sturgeon, yes, Chair Fisher, yes.)

CHAIR FISHER adjourned the meeting.

(Finance Committee meeting adjourned at 2:32 p.m.)