

MEETING AGENDA

Meeting: Special Full Board of Trustees Meeting
Date: February 16, 2024
Time: 9:00 AM
Location: online via webinar & teleconference
Teleconference: (844) 740-1264 / Meeting No: 2631 028 5925 # / Attendee No: #
<https://alaskamentalhealthtrust.org/>
Trustees: Anita Halterman (Chair), Rhonda Boyles, Kevin Fimon, Brent Fisher,
Agnes Moran, John Morris, John Sturgeon

Friday, February 16, 2024

Page No.

9:00	Call to Order – Anita Halterman, Chair Roll Call Announcements Approval of Agenda Ethics Disclosure	
9:05	Commercial Real Estate Items <ul style="list-style-type: none">• CRE Performance Update• Commercial Real Estate Asset Disposition Executive session – (if necessary) <i>In accordance with the Open Meetings Act, AS 44.62.310(c).</i>• Central Facility Fund Request	4 9 11
10:30	Adjourn	

Future Meeting Dates

Full Board of Trustees / Program & Planning / Resource Management / Audit & Risk / Finance

(Updated – February 2024)

- | | | |
|--------------------------------|---------------------------|------------------------|
| • Audit & Risk Committee | April 24, 2024 | (Wed) |
| • Finance Committee | April 24, 2024 | (Wed) |
| • Resource Mgt Committee | April 24, 2024 | (Wed) |
| • Program & Planning Committee | April 25, 2024 | (Thu) |
| • Full Board of Trustees | May 22-23, 2024 | (Wed, Thu) – Ketchikan |
| | | |
| • Audit & Risk Committee | July 30, 2024 | (Tue) |
| • Finance Committee | July 30, 2024 | (Tue) |
| • Resource Mgt Committee | July 30, 2024 | (Tue) |
| • Program & Planning Committee | Jul 31 – Aug 1, 2024 | (Wed, Thu) |
| • Full Board of Trustees | August 28-29, 2024 | (Wed, Thu) – Anchorage |
| | | |
| • Audit & Risk Committee | October 16, 2024 | (Wed) |
| • Finance Committee | October 16, 2024 | (Wed) |
| • Resource Mgt Committee | October 16, 2024 | (Wed) |
| • Program & Planning Committee | October 17, 2024 | (Thu) |
| • Full Board of Trustees | November 13-14, 2024 | (Wed, Thu) – Anchorage |
| | | |
| • Audit & Risk Committee | January 8, 2025 | (Wed) |
| • Finance Committee | January 8, 2025 | (Wed) |
| • Resource Mgt Committee | January 8, 2025 | (Wed) |
| • Program & Planning Committee | January 9, 2025 | (Thu) |
| • Full Board of Trustees | February 5-6, 2025 | (Wed, Thu) – Juneau |
| | | |
| • Audit & Risk Committee | April 23, 2025 | (Wed) |
| • Finance Committee | April 23, 2025 | (Wed) |
| • Resource Mgt Committee | April 23, 2025 | (Wed) |
| • Program & Planning Committee | April 24, 2025 | (Thu) |
| • Full Board of Trustees | May 21-22, 2025 | (Wed, Thu) – TBD |

Future Meeting Dates Statutory Advisory Boards (Updated – February 2024)

Alaska Commission on Aging

ACOA: <http://dhss.alaska.gov/acoa/Pages/default.aspx>

Executive Director: Jon Haghayeghi, (907) 465-4879, jon.haghayeghi@alaska.gov

- Quarterly Meeting: February 21, 2024 / TBD

Alaska Mental Health Board / Advisory Board on Alcoholism and Drug Abuse

AMHB: <http://dhss.alaska.gov/amhb/Pages/default.aspx>

ABADA: <http://dhss.alaska.gov/abada/Pages/default.aspx>

Acting Executive Director: Stephanie Hopkins, (907) 465-4667, stephanie.hopkins@alaska.gov

- Quarterly Meeting: April 16-18, 2024 / Wasilla

Governor’s Council on Disabilities and Special Education

GCDSE: <http://dhss.alaska.gov/gcdse/Pages/default.aspx>

Executive Director: Patrick Reinhart, (907)269-8990, patrick.reinhart@alaska.gov

- Triannual Meeting: February 13-15, 2024 / Juneau



Trust
Land Office

Commercial Real Estate Performance Update

Resource Management Committee

February 16, 2024

Portfolio Cash Flow Summary – FY24 H1 (July-Dec 2023)

	Cordova	Commercial	WA Parks	Rulon White	Prom. Point	Amber Oaks	North Park	Total
Income	\$279,778	\$125,496	\$808,426	\$1,070,334	\$1,075,529	\$1,817,253	\$732,028	\$5,908,843
Operating Expenses	\$121,555	<i>Paid Directly</i>	\$206,717	\$373,749	\$242,410	\$574,538	\$297,115	\$1,816,083
Net Operating Income	\$158,223	\$125,496	\$601,709	\$696,585	\$833,119	\$1,242,715	\$434,913	\$4,092,760
Owner Expenses	\$59	\$3,900	\$5,067	\$82	\$10,070	\$1,199	\$0	\$20,378
Lease-Up Costs	\$1,478	\$0	\$8,500	\$0	\$0	\$55,421	\$96,248	\$161,648
Capital Expenditures	\$50,915	\$0	\$0	\$112,525	\$0	\$0	\$22,646	\$186,086
Debt Service	\$0	\$31,953	\$454,410	\$223,787	\$317,971	\$470,585	\$202,267	\$1,700,972
Net Cash Flow	\$105,770	\$89,643	\$133,733	\$360,191	\$505,078	\$715,510	\$113,752	\$2,023,677
Variance to Budget	\$18,976	\$5,495	\$73,857	\$79,495	\$284,139	\$344,872	\$14,625	\$821,458
CFF Draws (Equity Contribution)	\$0	\$0	\$0	\$0	\$0	\$0	\$273,371	\$273,371

- *Equity buildup through the half totaled \$980,854.*
- *Distributions through January totaled \$1,200,972.*

Peer Group Comparison/Benchmarking (FY24 Q2)

	Cordova	Commercial	WA Parks	Rulon White	Prom. Point	Amber Oaks	North Park	Total
NCREIF Return On Income*	1.32%	0.92%	1.32%	1.32%	1.32%	1.32%	1.32%	1.26%
Trust Return on Income*	1.58%	2.16%	4.29%	2.06%	3.38%	2.26%	1.64%	2.43%
Performance vs. Benchmark	0.26%	1.24%	2.97%	0.74%	2.06%	0.94%	0.32%	1.17%

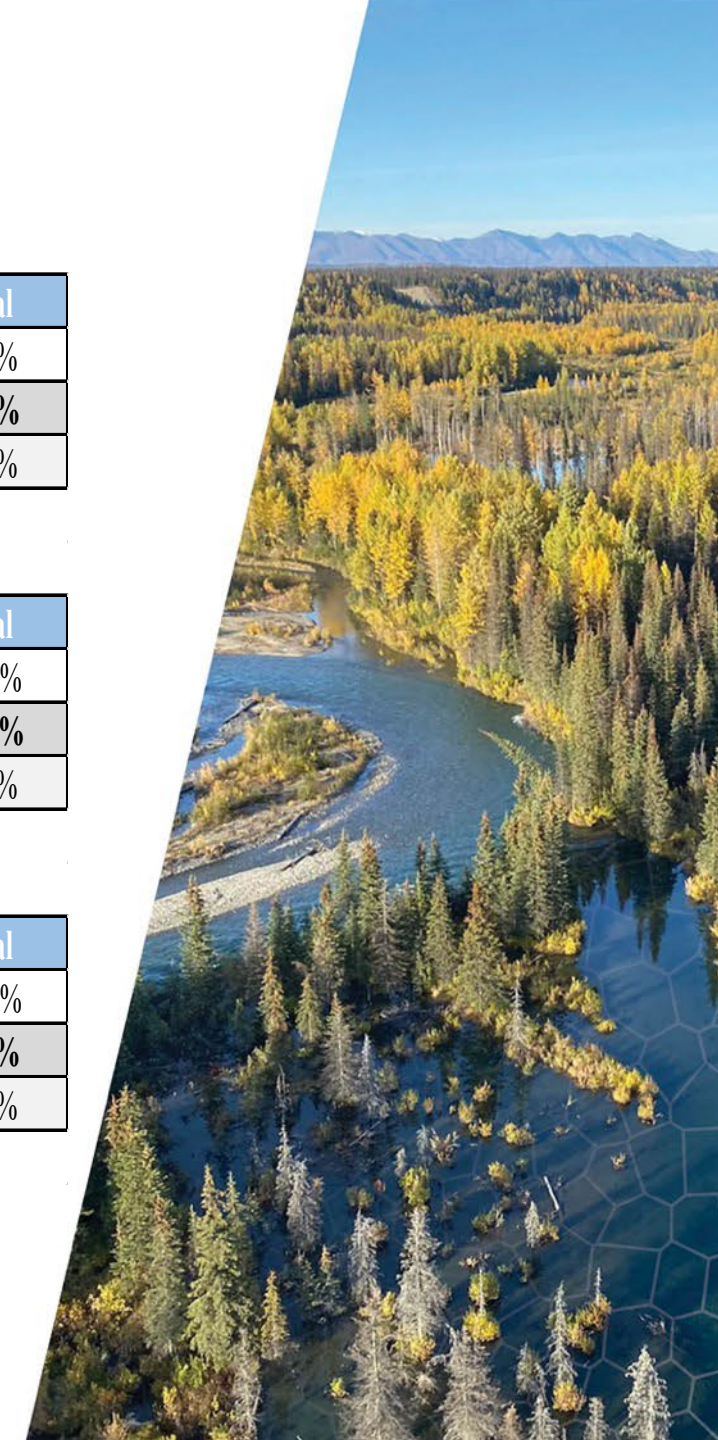
* Rates reflect returns over the quarter solely; they are not equivalent to annual returns.

	Cordova	Commercial	WA Parks	Rulon White	Prom. Point	Amber Oaks	North Park	Total
NCREIF Appreciation*	-6.72%	-3.20%	-6.72%	-6.72%	-6.72%	-6.72%	-6.72%	-6.22%
Trust Appreciation*	0.65%	-0.14%	-13.71%	-0.77%	0.90%	0.77%	0.44%	-0.86%
Performance vs. Benchmark	7.37%	3.06%	-6.99%	5.95%	7.62%	7.49%	7.16%	5.36%

* Rates reflect returns over the quarter solely; they are not equivalent to annual returns.

	Cordova	Commercial	WA Parks	Rulon White	Prom. Point	Amber Oaks	North Park	Total
NCREIF Total Return*	-5.40%	-2.29%	-5.40%	-5.40%	-5.40%	-5.40%	-5.40%	-4.96%
Trust Total Return*	2.23%	2.02%	-9.42%	1.28%	4.28%	3.03%	2.08%	1.57%
Performance vs. Benchmark	7.63%	4.31%	-4.02%	6.68%	9.68%	8.43%	7.48%	6.53%

* Rates reflect returns over the quarter solely; they are not equivalent to annual returns.





Board Approved Motion

- “The Alaska Mental Health Trust Board of Trustees directs the TLO to continue to prudently manage the 7 Commercial Real Estate properties and to return to the Board and recommend disposal of any of those properties when the TLO determines pursuant to its statutory and regulatory directives that those disposals will be in the best interests of the trust and its beneficiaries.”

Disposal Recommendation: 1973 N. Rulon White Blvd., Ogden, UT



Attributes:

- 103,000 sf industrial building on 13.14 acres
- 100% occupied
- Single-tenant facility
- Exceptional credit strength tenant (IRS)
- Tenant since 2002
- Acquired in 2013





To: Anita Halterman, Board Chair
From: David MacDonald
Through: Jusdi Warner
Date: February 16, 2024
Re: Investment Portfolio Asset Disposition
1973 Rulon White Blvd., Ogden, UT
Fiscal Year: 2024

Approval

Proposed Motion:

Proposed Motion: “The Alaska Mental Health Trust Board of Trustees concurs with the Trust Land Office (TLO) recommendation to proceed with disposal of 1973 Rulon White Blvd., Ogden, Utah at terms acceptable to the Executive Director with a minimum price at or above fair market value as determined via appraisal.”

Background:

Introduction: In 2013, the TLO expanded the Trust’s investment portfolio with the acquisition of 1973 Rulon White Boulevard, Ogden, Utah. Leased in its entirety to the Internal Revenue Service, the asset comprises a 103,419-square foot facility on a 12.598-acre site. Having now held the asset for ten years, the TLO has determined that the rationale originally justifying the acquisition has been accomplished. It is therefore an appropriate time to exit the investment and sell the asset.

Property Description/Acreage/MH Parcel(s): Commercial Real Estate

Commercial Real Estate Property
1973 Rulon White Blvd, Ogden, UT

Trust Land Office Recommendation: The TLO recommends disposal of the asset through a negotiated sale at terms acceptable to the Executive Director.

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

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

General Background: Assets within the portfolio were acquired for investment purposes with holding periods expected to fall within a range of seven to 20 years. The Rulon White property has now been ten years and has provided solid returns and appreciation. The lease with the IRS has five years of remaining term plus two renewal options of five years each; this is sufficient term to remain attractive within the investment community as a safe-haven asset with a creditworthy (GSA) tenant. While this remains the case, the TLO views the present moment as an opportune time to dispose of the asset and lock in the gains achieved to date.

Consistency with the Resource Management Strategy: The proposal is consistent with the “Resource Management Strategy for Trust Land” (RMS), which was adopted March 2021 in consultation with the Trust and provides for assuring that the real estate needs of mental health programs sponsored by the Alaska Mental Health Trust Authority are met as appropriate. In addition, 11 AAC 99.020(c)(3) cites protection and enhancement of the long-term productivity of Trust land.



To: Anita Halterman, Board Chair
From: Marisol Miller, TLO Asset Manager
Thru: Jusdi Warner, TLO Executive Director
Date: 2/16/2024
Re: Central Facility Fund Request
Fiscal Year: 2024
Amount: \$544,166

Approval

Proposed Motion:

Proposed Motion: “The Alaska Mental Health Trust Board of Trustees approves increasing the FY24 incremental building expenditure budget of the CRE properties by \$544,166 to facilitate capital improvements necessary to secure a long-term lease at North Park Corporate Center. This will be paid from the Central Facilities Fund 3322. The Board of Trustees directs the CFO to transfer \$544,166 to the Central Facilities Fund for this purpose and to distribute these funds to the third-party property manager at the request of the Trust Land Office. These funds do not lapse.”

Background:

Introduction: North Park Corporate Center is a building in the Hollywood Park suburb of San Antonio Texas. This asset has experienced a significant number of vacancies since the onset of the pandemic in 2020. New Leases covering 39% of the vacancies within the project have been completed in the last twelve to fifteen months. Deal trajectory had steadily increased between 2022 and 2023 equating to 33,700 square feet of the total 86,402 square feet on site. This is a significant amount of leasing in a short period of time in a slow, highly competitive, and oversaturated market such as San Antonio where no leases were signed at North Park from 2019 to 2022.

This building, as with most office buildings, was detrimentally affected by the coronavirus pandemic. The asset managers build reserves to manage the associated costs including tenant improvements, and leasing commissions. Each deal negotiated has been at or above fair market value. To date all leasing commissions and tenant improvements have been paid. This request will cover the cost of failing HVAC units on two of three buildings, Tenant Improvement allowance on a five-year early lease renewal, and leasing commissions to secure a leasing deal. Due to the slower market and HVAC unit failures, it is prudent to complete an early lease renewal to keep this tenant and maintain asset occupancy. This early lease renewal is anticipated to bring an additional approximately \$2.7 million in gross revenue to the Trust over the next five years, while simultaneously stabilizing building.

Completing this renewal, as well as the necessary HVAC work, will poise this asset for a near term sale while occupancy is stabilized. This asset features building occupancy of 91%, a beautifully landscaped outdoor amenity area, exterior wi-fi, and over twenty nearby corridor amenities such as food and shopping.

Property Description/Acreage/MH Parcel(s): Commercial Real Estate

Commercial Real Estate Properties

17319 San Pedro Ave. Hollywood Park, TX

Trust Land Office Recommendation: The TLO recommends that it is in the Trust’s best interest to approve the proposed expenditure to be funded through 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 motion presented in this briefing document fulfills the approval requirements that are applicable to the transaction.

General Background: There are times that the Central Facility Fund will be used so as not to create an uncomfortable level of cash flow compression or that there are insufficient rents to pay for facility obligations. The Trust Land Office (TLO) uses comprehensive reporting and budgeting for each property with industry-recognized capital expense forecasting. Please see exhibit 1 for 2018 Central Facility Fund creation.

Consistency with the Resource Management Strategy: The proposal is consistent with the “Resource Management Strategy for Trust Land” (RMS), which was adopted March 2021 in consultation with the Trust and provides for assuring that the real estate needs of mental health programs sponsored by the Alaska Mental Health Trust Authority are met as appropriate. In addition, 11 AAC 99.020(c)(3) cites protection and enhancement of the long-term productivity of Trust land.



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
May 2018

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

FY19 Rent Funded Real Estate Facility Budget (Proposed Motion Two)

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

1111 Israel Road; Tumwater, WA
1973 North Rulon; Ogden, UT
2600 Cordova Street; Anchorage, AK
2618 Commercial Drive; Anchorage AK
2420 & 2500 Ridgepoint Drive; Austin, TX
17319 San Pedro Avenue; San Antonio, TX
9601 Amberglen Blvd; Austin, TX

Other AMHT Properties

3745 Community Park Loop Road; Anchorage, AK
650 Yonker Court; Fairbanks, AK
2330 Nichols Street; Anchorage, AK
1300 Moore Street, Fairbanks, AK
1423 Peger Road, Fairbanks, AK

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

FY19 Real Estate Facility Budget Summary (Exhibit 1)

Real Estate Management Plan - Funded by Rent and Income or Central Facility Fund

Name	City, State	Operating	Capital Improvements	Debt Service	Total
Parks	Tumwater, WA	541,000	26,000	909,000	1,476,000
IRS	Ogden, UT	843,000	2,000,000	620,000	3,463,000
Commercial	Anchorage, AK	14,000	-	100,000	114,000
Cordova	Anchorage, AK	259,000	250,000	-	509,000
Promontory Point	Austin, TX	592,000	80,000	645,000	1,317,000
North Park	San Antonio, TX	640,000	112,000	602,000	1,354,000
Amber Oaks	Austin, TX	1,438,000	550,000	942,000	2,930,000
Totals		4,327,000	3,018,000	3,818,000	11,163,000

Non-Investment/Program Related Real Estate - Funded by Rent and Income or Central Facility Fund

Name	City, State	Operating	Capital Improvements	Debt Service	Total
TAB	Anchorage, AK	284,308	-	-	284,308
Detox	Fairbanks, AK	13,412	-	-	13,412
Assets	Anchorage, AK	9,000	-	-	9,000
Fahrenkamp Center	Fairbanks, AK	7,000	-	-	7,000
Denardo	Fairbanks, AK	12,223	-	-	12,223
Totals		325,943	-	-	325,943

Motion 2 Expense Subtotal	11,488,943
1% Contingency Reserve	114,889
Motion 1 Subtotal	11,603,832