

ALASKA MENTAL HEALTH TRUST AUTHORITY
SPECIAL FULL BOARD OF TRUSTEES MEETING

May 2, 2016
11:27 a.m.

Taken at:

3745 Community Park Loop, Suite 120
Anchorage, Alaska

OFFICIAL MINUTES

Trustees present:

Russ Webb, Chair
Laraine Derr (via telephone)
Paula Easley (via telephone)
Mary Jane Michael
Jerome Selby
Larry Norene

Trust staff present:

Jeff Jessee
Steve Williams
Miri Smith-Coolidge
Kevin Buckland

TLO staff present:

John Morrison
Craig Driver
Michelle Steelman

PROCEEDINGS

CHAIR WEBB calls the Mental Health Trust Board of Trustees to order and does a roll call. He asks for a motion to approve the agenda.

TRUSTEE SELBY makes a motion to approve the agenda.

TRUSTEE NORENE seconds.

There being no objection, the motion is approved.

CHAIR WEBB asks for any ethics disclosures. Hearing none, he moves to the first item on the agenda, the Texas building acquisition. He asks Mr. Morrison for a brief, nonconfidential overview.

MR. MORRISON states that this first opportunity is to acquire a building in North Austin totaling a little over 100,000 square feet of building space and a little shy of nine acres of total space. He continues that it is leased to a diverse blend of tenants and has a good history of being tenanted and is a good product to add to the Trust portfolio of buildings.

CHAIR WEBB asks about the expected return from this investment.

MR. MORRISON states the expected returns, conservatively speaking, would be an IRR on a 20-year hold north of 10 percent. They are expecting an average cash-on-cash return over that same 20-year hold period of a little over 14 percent. He continues that it would be reasonable to estimate that the distributable income revenue from the property might average around \$600,000 per year.

CHAIR WEBB states that it is a significant contribution to the Trust's spendable income. He asks if there are motions to carry forward with this transaction.

TRUSTEE MICHAEL makes a motion that the Alaska Mental Health Trust Board of Trustees approve the action as described herein wherein the Trust Land Office forms and manages a single-purpose entity limited liability corporation owned in full by the Trust for the purpose of acquiring, owning, and operating the proposed property, that being the Texas building acquisition.

TRUSTEE NORENE seconds.

There being no objection, the motion is approved.

TRUSTEE MICHAEL makes a motion that the Alaska Mental Health Trust Board of Trustees approve the proposed action to fund the newly formed LLC with principal from the Trust Authority Development Account, fund code 3320, to acquire the property, up to \$9,500,000. This funding will include purchase price net of loan acquired, entity formation expenses, legal review, closing, and due diligence costs as necessary to complete the transaction, as presented.

TRUSTEE SELBY seconds.

There being no objection, the motion is approved.

TRUSTEE MICHAEL makes a motion that the Alaska Mental Health Trust Board of Trustees concur with the proposed action to complete the financing of the proposed property.

There being no objection, the motion is approved.

TRUSTEE MICHAEL makes a motion that the Alaska Mental Health Trust Board of Trustees approve an increase to the property budget appropriation in the amount of \$2,128,725.

There being no objection, the motion is approved.

TRUSTEE MICHAEL makes a motion that the Alaska Mental Health Trust Board of Trustees delegate to the Executive Director of the TLO the authority to determine if it is necessary to modify or cancel this transaction.

There being no objection, the motion is approved.

CHAIR WEBB states that the next item is the Washington joint venture building development proposal.

MR. MORRISON states that this is an opportunity to joint venture with Panattoni Development to build a roughly 200,000-square-foot cross-dock warehouse facility in Everett, Washington. He continues that this opportunity has several benefits, one of which is that it gives the Trust the ability to potentially acquire another asset in one of our geographical markets at a rate that both compensates the Trust for the risks that it will take in participating in the development process, and that allows having a property in the area that fits within the program for return on expectations. This property, based on an eventual acquisition on stabilization and 20-year potential hold, would have a net present value of roughly \$4-and-a-half million, a 20-year IRR approaching 11 percent, and an average cash-on-cash return of over 15 percent. He adds that, based on conservative estimates, over a 20-year hold, would provide approximately \$725,000 a year of income revenue distribution.

CHAIR WEBB asks about this being a joint venture and the process of selecting Panattoni as a potential partner.

MR. MORRISON replies that the TLO analyzed several different opportunities to participate in joint ventures with various partners. He states that Panattoni is a world-class merchant developer who builds millions of square feet of space exactly like the space anticipated in this joint venture. He continues that it also gives a variety of different ways to successfully and amicably dissolve the partnership, either through a buyout of them on stabilization or we can together, as partners, take the product to a third party in the open market for divestiture.

CHAIR WEBB states that there are other mitigators previously discussed that protect the Trust in entering into this joint venture. He asks Mr. Morrison to tell a little about those.

MR. MORRISON explains that one of the mitigators is the access and employment of an exceptionally well-qualified legal team at Davis Wright Tremaine who are well-versed and commonly guide clients through these types of transactions. He continues, due to the nature of the agreement, the mechanics and economics of the transaction are such that it aligns the Trust interest so that the greatest financial reward is perfectly in line with the Trust, which is to deliver a marketable, stabilized project that is the most valuable project possible at the lowest cost. He adds that, even though the project is still greenfield, four letters of intent have been received ranging from a little less than half of the building to the entire building, and some of the letters of intent have come from Fortune 500 companies.

TRUSTEE SELBY makes a motion, based on the recommendation of the Resource Management Committee, that the Alaska Mental Health Trust Board of Trustees approve the action as described herein wherein the Trust Land Office forms a single-purpose entity joint venture limited liability company with Panattoni Development Company for the purpose of acquiring, owning, developing, and operating the proposed property.

There being no objection, the motion is approved.

TRUSTEE SELBY makes a motion, based on the Resource Management Committee recommendation, that the Alaska Mental Health Trust Board of Trustees authorize the Executive Director of the TLO to represent the Trust's interests in the transaction by working with the development partner to ensure a successful project, including, but not limited to, decisions about modifications to the project plan, leasing, tenant improvements, financing, and buying out Panattoni at project stabilization.

There being no objection, the motion is approved.

TRUSTEE SELBY makes a motion, based on the Resource Management Committee recommendation, that the Alaska Mental Health Trust Board of Trustees approve the proposed action to fund the newly formed LLC with principal from the Trust Development Account, fund code 3320, to complete the proposed action, up to \$11 million. This funding will include payments to be made as part of the development process, the eventual purchase price net of loan acquired, entity formation expenses, legal review, closing, and due diligence costs as necessary to complete the transaction, as presented.

There being no objection, the motion is approved.

TRUSTEE SELBY makes a motion, based on the Resource Management Committee's recommendation, that the Alaska Mental Health Trust Board of Trustees concur with the proposed action to complete the financing and subsequent purchase of the sale of the proposed property.

There being no objection, the motion is approved.

MR. MORRISON clarifies that it is a "purchase or sale."

CHAIR WEBB states that it should state "purchase or sale of the proposed property." He asks for any objections to the motion as clarified.

There being no objection, the motion is approved.

TRUSTEE SELBY makes a motion, based on the Resource Management Committee's recommendation, that the Alaska Mental Health Trust Board of Trustees delegate to the

Executive Director of the TLO the authority to determine if it is necessary to modify or cancel this transaction.

There being no objection, the motion is approved.

CHAIR WEBB asks for any other items to be discussed. There being none, he asks for a motion to adjourn.

TRUSTEE NORENE makes a motion to adjourn the meeting.

TRUSTEE MICHAEL seconds.

CHAIR WEBB adjourns the meeting.

(Full Board of Trustees Special Meeting adjourned at 11:46 a.m.)