

ALASKA MENTAL HEALTH TRUST AUTHORITY
RESOURCE MANAGEMENT COMMITTEE

April 16, 2015

1:30 p.m.

Taken at:

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

OFFICIAL MINUTES

Trustees present:

Larry Norene, Chair
Mary Jane Michael
Paula Easley
John McClellan
Russ Webb

Trust staff present:

Jeff Jessee
Steve Williams
Miri Smith-Coolidge
Kevin Buckland
Marilyn McMillan
Valette Keller
Carrie Predeger
Carley Lawrence
Amanda Lofgren
Natasha Pineda
Mike Baldwin
Luke Lind
Katie Baldwin-Johnson
Kat Roch

TLO staff present:

Marcie Menefee
John Morrison
Leann McGinnis
Craig Driver

Sarah Morrison
Cindi Bettin
Paul Slenkamp
Mike Franger
Karsten Eden

Also participating:

Carlton Smith; Christopher Cook.

PROCEEDINGS

CHAIR NORENE calls the Resource Management Committee meeting to order. He asks for any announcements or changes in the agenda. There being none, he moves on to the minutes of January 27, 2015.

TRUSTEE McCLELLAN makes a motion to approve the minutes of January 27, 2015.

TRUSTEE WEBB seconds.

There being no objection, the motion is approved.

MS. MENEFEЕ introduces a new TLO employee, Minerals and Energy Chief Karsten Eden. She states that he has over 18 years of exploration in mining development experience in Alaska, as well as a number of other countries, and has a Ph.D. and a lot of good insight and energy. She welcomes him.

CHAIR NORENE welcomes Mr. Eden, adding that the Trust is glad to have him.

MS. MENEFEЕ states that Mike Franger will present.

MR. FRANGER states that this is the proposal to lease approximately 28 acres of Trust land along Flume Creek in the placer mining district for placer mining purposes. He continues that the prospective applicant is an experienced placer miner and has received more than one reclamation award. He states that it is a placer lease, three-year term, extended by production, has a 10 percent net smelter royalty on any production, and the end of the rental is \$5,000, which can be credited against production for that year.

TRUSTEE McCLELLAN makes a motion that the Resource Management Committee recommends that the Trust Authority Board of Trustees concur with the negotiated lease of Trust mineral estate on Flume Creek for mining of placer gold, as proposed.

TRUSTEE WEBB seconds.

There being no objection, the motion is approved.

MS. MENELEE states that Craig Driver will present the next consultation.

MR. DRIVER states that he is asset manager for the TLO. He continues that the FY16 property budgets for the buildings are listed in the packet and include the building management property in Washington; Ogden, Utah; Austin, Texas; and Anchorage, Alaska; as well as other Trust properties in Fairbanks and Anchorage, Alaska. He states that also included is a review of previous years' budgets and forecasting of and anticipating operating expenses and capital budgets. He explains the established system in the Real Estate Management Plan. He states the expenditure budget is included as an exhibit and totals \$4,774,400. He adds that TLO's recommendation is to adopt the recommendation before the committee.

A question-and-answer session ensues.

CHAIR NORENE asks Mr. Buckland to explain the need for this consultation in regard to just this aspect of the real estate plan.

MR. BUCKLAND replies that in prior years a comprehensive budget was set out that included a lot of detail and the revenue and the expenditures for the Trustees to approve. He states that all the Trustees were sent a budget that included the revenue and expenditure side. He continues that the TLO felt that it should be treated confidentially and is not in the public packet. He states that this is the presentation of the budget for the revenues and expenditures, and currently there is no process for the whole board or for the RMC to review the actual operating results on an investment-by-investment basis. He adds that there has not been any detailed presentation to the whole committee as to how the actual operating results line up with what was approved at this time a year ago.

MR. MORRISON draws the Trust's attention to the plan and the stated reporting mechanism in the plan, which is to include the results of these properties in the TLO yearly report. They are included on a property-by-property basis for an asset performance and return as a whole. He continues that they would be happy to show the level of detail the Trustees would like to see. He adds that, to date, the plan is being followed.

A short discussion ensues.

TRUSTEE WEBB asks for an explanation of the linkage between the review and approval of the budgets and the audit issue.

MR. BUCKLAND explains that in the Finance Committee packet, on the agenda is a memo recommending that Trustees begin to audit this portfolio, which is over \$50 million in asset value. The equity is less because of the leverage. He continues that traditionally institutional investors audit their real estate holdings. There has been some discussion with the TLO, and they are of a different opinion on whether this should be audited or the level of audits or the number of audits. He states that if the Trustees would like to begin to have an audit of this very material real estate investment balance, then it would seem appropriate that there be some provision going forward for there to be a budget to pay for those audits, or an estimated cost of those audits. He continues that, he believes, it is appropriate to include some provision in FY16

in going forward to finance the cost of those audits. If it is the Trustees' desire to not audit those, then it would make sense not to budget any funds for them.

TRUSTEE WEBB asks if the real estate budgets were part of the budget approved back in September.

MR. BUCKLAND replies no.

MR. MORRISON states that part of the plan, in terms of these properties operating on a different cycle than the State budget process, it was agreed that this RMC meeting and the subsequent board meeting are the time frames that these budgets are handled coming into a fiscal year.

CHAIR NORENE asks for Mr. Morrison's opinion on the need for auditing.

MR. MORRISON states that he is not sure the level or type of audit that is being proposed. He explains that the TLO's statutory obligation as asset management is to oversee all the operations of the property and the property managers on a monthly basis.

The discussion continues.

TRUSTEE McCLELLAN comments that there has been a lot of talk about the number of audits and the costs involved. He suggests, as an alternative, to set a budget for audit that is comfortable to the Trustees, the TLO and the Trust, and allow the CFO to determine how that budget is spent on the overall audits of the Real Estate Management Program.

CHAIR NORENE states that calling for audits on individual properties does not warrant the expense, at this point.

MR. MORRISON states that overlooked in this discussion is that these properties are wholly owned by the Trust and are under the umbrella of the current audit. He explains in greater detail and states that there is a good implementation of oversight authority and reporting to all interested parties.

MR. BUCKLAND corrects a misstatement on the overall audit. The \$600 million portfolio, all the Trust assets as a whole are audited, but these LLCs or the real estate portfolio are not included. He recommends to essentially do the same level of work that the Alaska Permanent Fund Corporation sees fit to do for their real estate portfolio, to have each separate LLC financials audited on an annual basis. They are audited where there is a manager that manages multiple properties that are wholly owned. He continues, to package those and doing one audit, and then have individual statements in the back of the audit that has the balance sheet and income statement for each property. He explains in more detail.

The discussion continues.

TRUSTEE WEBB states that he understands Mr. Buckland's concerns and it is that the Trust is employing best practices to assure transparency and reducing "system risk"; risk that there may

be some sort of failure in one of the properties that will be a huge black eye to both the real estate program and the Trust. He states that the goal is to assure with absolute certainty that the Trustees are doing what needs to be done to assure that the assets are protected, the Beneficiaries are protected, and the responsibilities are met. He looks at where there may be potential risk and how to mitigate it. He asks how property managers are solicited.

MR. MORRISON replies that they are selected competitively.

TRUSTEE WEBB asks if they are bonded and insured.

MR. MORRISON nods.

TRUSTEE WEBB states that he is sympathetic to the issue about assuring Trust protection, but would rather take the income and plow it into the programs for the Beneficiaries. He continues that it is a balancing act, but resources that can be used for the programs will not be expended.

MR. MORRISON states that the TLO wants to provide whatever assurance the Trustees deem necessary along the lines of what is being described.

MR. SMITH asks about the budget summary and for definitions of some of the terms.

An explanation and discussion ensues.

MR. BUCKLAND circles back to whether the manager was bonded and believes it not to be true. There are two managers managing the real estate portfolio for the Trust; Coldwell Banker and then the Land Office has, under Trustee approval, acquired subsequent assets for investment purposes. He states and clarifies, for the record, that he does not believe that they are required to be bonded. He continues that Craig just found it, and he stands corrected on the bonding. They do require a \$500,000 bond for the employees.

MR. MORRISON states that a belief was just stated and went back and forth, and here is some proof on what the TLO has in place.

CHAIR NORENE asks if any of the grantees are audited.

MR. BUCKLAND replies that the requirement for audits for grantees is that if they receive more than \$500,000 in state assistance, a single audit is required. So, yes, they are audited. He continues that for those less than \$500,000, there is no requirement for an audit.

MR. COOK asks about the audits for Fort Knox.

MR. MORRISON replies that the nature of the lease with Fort Knox is a net profits lease, which means it is kind of a full-service lease. They get the gold and sell it, deduct all of the necessary expenses, and then the Trust gets a percentage of what is left.

A short discussion ensues.

CHAIR NORENE states that what is before the committee is the approval of the expenses of the properties within the real estate plan.

TRUSTEE McCLELLAN makes a motion that the Resource Management Committee recommends that the Board of Trustees concur with the recommendation to approve the incremental building expenditures totaling \$4,774,400 budgeted for FY16 to be paid by the property manager from rents and other income collected from the properties.

TRUSTEE MICHAEL seconds.

There being no objection, the motion is approved.

CHAIR NORENE, on recommending an audit or not, states that properly should go to the Finance Committee for the decision. He continues that the discussion was worthwhile at this time, but the vote will be deferred to the Finance Committee. He moves on to any updates.

UPDATE

MS. MENELEE states that Paul Slenkamp will give an update on the land exchange.

MR. SLENKAMP states that he is senior resource manager for the Trust Land Office. He continues that last week there was an opportunity to get the feasibility analysis for the U.S. Forest Service/Alaska Mental Health Trust Land Exchange signed, which has been a long time in the making. He states that there are still considerable challenges ahead, but we have come quite a ways in the last six years. He adds that he will be happy to update some of the newer members and provide whatever detail level of information wanted. He states that the agreement to initiate is still being worked toward. He explains that a federal land exchange takes about 62 long steps; the National Environmental Policy Act being just one of those steps. He states that there is excellent support throughout the Congressional delegations. He continues that the challenge has been getting through some of the Forest Service retirements, and bringing new people up to speed.

CHAIR NORENE asks for any questions.

MR. SMITH asks about the PR profile in Southeast with regard to the proposed exchange.

MR. SLENKAMP replies that he continues to update communities and is very involved in Southeast Conference. He states that he is very active with the Forest Service and several different committees, panels, and has been pretty successful. He continues that there is very good community support. He states that the next challenge is putting together title commitments and addressing encumbrances, which are fairly extensive on this many parcels.

TRUSTEE EASLEY asks how many title issues there are.

MS. MENELEE replies that there have been over 100 title exceptions identified by the title company.

CHAIR NORENE thanks Mr. Slenkamp. He asks for any other updates. There being none, he asks for any questions on the TLO monthly report.

TRUSTEE McCLELLAN states that several months ago he was asked by the Finance Committee to look into the reason why, on the monthly report from the TLO, the Real Estate Management Plan numbers do not jibe with the general performance measurements as put forth under the real estate category. He states that there is a simple explanation that alleviated his concern. The Real Estate Management Plan numbers, which are prepared by TLO, are actually prepared on a true accrual basis. A contract for monthly rent is put down in each month according to what it should be. That revenue is recognized every month. He continues that their adjustments are minimal, where the State makes a large adjustment at the end of the year. Even then, the numbers do not exactly match because they are two different offices making those adjustments and are using different assumptions when they do that. He adds that over the long term, it all comes out even, but the numbers never exactly match.

CHAIR NORENE asks for any other comments. There being none, he entertains a motion to adjourn.

TRUSTEE WEBB makes a motion to adjourn.

TRUSTEE McCLELLAN seconds.

There being no objection, the motion is approved.

(Resource Management Committee adjourned at 2:34 p.m.)