

MEMO

Date: November 28, 2022
To: Kris Curtis, Legislative Auditor, Alaska Division of Legislative Audit
From: Anita Halterman, Chair, Board of Trustees *Anita M. Halterman*
Re: 2021 Legislative Audit Status Request

Thank you for your November 3, 2022 letter requesting an update to recommendations outlined in the 2021 legislative audit of the Alaska Mental Health Trust Authority.

On behalf of the board of trustees and staff I am pleased to share the attached responses that describe actions taken by the Trust since the 2021 audit was finalized. These responses should be considered in concert with our comments in the Trust's [full response](#) to the 2021 audit submitted to your agency in August of 2021.

Over the last year the Trust has continued to engage in financial practices that are prudent, aligned with the board's fiduciary responsibilities, and in the best interest of Trust beneficiaries. We carefully and seriously considered the recommendations in the 2021 audit and have responded to all of them.

I am proud of the work undertaken by the Trust's board and staff, with the support of consultants Callan and Harvest Capital Partners, to continue to improve our management of Trust assets and income for current and future Trust beneficiaries.

Trust

Alaska Mental Health
Trust Authority

STATUS OF CORRECTIVE ACTION

Recommendation No. 1

The Alaska Mental Health Trust Authority's (Authority) board of trustees should consider liquidating the Trust Land Office managed commercial real estate investments or transferring the investments to the Alaska Permanent Fund Corporation as inflation-proofing.

What corrective actions have been taken or are planned to be taken to resolve the finding, including the date(s) completed or expected to be completed?

The Trust agreed with the recommendation to consider liquidation. Since the fall of 2019, the Trust has engaged Harvest Capital Partners, an SEC-registered investment advisor that provides trustees with a hold-sell recommendation for each asset.

- December 2021, the Trust engaged Callan, an independent investment advisor, to review asset allocation.
- April 2022, Callan presented its report to Trustees. It did not recommend liquidation of the commercial real estate assets, rather a methodical disposal. It recommended continuing to work with Harvest Capital, “and in accordance with the Asset Management Policy Statement, to review the opportunities to sell the commercial real estate properties as they arise over time with the proceeds transferred to the Alaska Permanent Fund [Corporation (APFC) for management].”
- July 2022, Harvest Capital recommended to Trustees that two assets be prepared for sale once the assets are stabilized.
- August 2022, a work group was established with senior managers and Harvest Capital to review and update, if needed, the commercial real estate investment discipline for trustee decision-making.

Regarding use of sales proceeds for inflation proofing, please see response to recommendation 4.

Recommendation No. 2

The board of trustees should develop written procedures to ensure annual withdrawals are correctly calculated.

What corrective actions have been taken or are planned to be taken to resolve the finding, including the date(s) completed or expected to be completed?

The board has an established policy through the Trust's Asset Management Policy Statement (AMPS) that articulates the procedure for calculating the annual withdrawal.

- June 2021, the Trust Authority staff updated the Trust's *AMHTA Admin Policy & Procedures* with step-by-step instructions for calculating the annual withdrawal.
- April 2022, Callan reported to Trustees on its review and evaluation of the Trust's Spending Policy. It reaffirmed the Spending Policy in the Trust's AMPS.

Recommendation No. 3

The board of trustees should develop written policies to ensure Trust income reserves are correctly determined.

What corrective actions have been taken or are planned to be taken to resolve the finding, including the date(s) completed or expected to be completed?

In consultation with APFC and Callan, the Trust has confirmed its policy for income determination, and has documented procedures to ensure Trust Statutory Net Income (SNI) and budget reserves are correctly determined.

- Policy: the calculation of income is stated in Alaska Statute (AS 37.14.031 (c)).
- Effective June 30, 2021 the Finance Committee reviews Statutory Net Income (SNI) and APFC-managed non-spendable reserves on a quarterly basis.
- August 2021, Trust Authority staff updated the Trust's *AMHTA Admin Policy & Procedures* with step-by-step instructions for calculating SNI and Statutory Budget Reserves. This process was confirmed by APFC.
- October 2022, the Trust's financial auditor updated its methodology for auditing SNI to ensure consistency with the 2009 AG opinion on APFC SNI calculation.

The Trust's Asset Management Policy Statement did not include the commercial real estate (CRE) in the annual calculation of POMV. The Trust requested Callan to address whether or not it should be included.

- April 2022, Callan presented its report to trustees. It advised trustees against including the CRE portfolio in the asset allocation and spending framework.

Recommendation No. 4

The board of trustees should consider developing written policies that require inflation-proofing occur annually if Trust income reserves are sufficient.

What corrective actions have been taken or are planned to be taken to resolve the finding, including the date(s) completed or expected to be completed?

The Trust agreed written policies for protecting purchasing power are important. As allowed by statute, trustees have exercised discretion regarding transferring income into the Trust's principal account as a form of inflation proofing. Callan was requested to review the Trust's inflation proofing practices.

- April 2022, Callan presented its report to Trustees on its review of the Trust's inflation proofing policy. No changes in policy were recommended. It did not recommend annual inflation proofing.
- Callan recommended moving from formal budget reserve transfers to the corpus, to managing investments that—while varying year by year above or below target—will over the long run cover spending, inflation, and expenses. Implementing this recommendation requires additional analysis and would require amendment to the AMPS. It would not conflict with statute. The Trust plans to further explore this recommendation.

Recommendation No. 5

The board of trustees should develop written policies to annually evaluate whether Trust income must be transferred to the general fund.

What corrective actions have been taken or are planned to be taken to resolve the finding, including the date(s) completed or expected to be completed?

The Trust agreed the board should annually evaluate the Trust's income to determine if there was a surplus of funds that should be transferred to the general fund. It was expected this could be completed prior to the statutory budget transmittal deadline each year.

- January 2022, Trust Authority staff presented to the Finance Committee recommended methodologies that could be standardized for No Surplus Determination.
- March 2022, staff evaluated procedural methods for the No Surplus Determination. Timing for the applying methodology was more appropriate for after the financial audit.
- At an upcoming Finance Committee meeting staff will present to trustees a) the recommended policy based on statutorily required, intergenerational equity of beneficiary support, and b) the supporting No Surplus Determination.