PROGRAM-RELATED REAL ESTATE RESOURCE MANAGEMENT STRATEGY

PROGRAM-RELATED REAL ESTATE RESOURCE MANAGEMENT STRATEGY

Introduction

The use of Trust land for a Trust beneficiary or organization acting on behalf of Trust beneficiaries to directly benefit persons is consistent with Congress' intention to create a mental health trust for the State of Alaska. The Alaska Mental Health Enabling Act (1956) obligated the Territory of Alaska to administer the lands granted as a public trust. Congress further declared that proceeds and income from the land shall "first be applied to meet the necessary expense of the mental health program of Alaska." It is consistent with the formation of the Trust to use its lands to directly benefit beneficiaries. This potential direct use is anticipated in the TLO regulations:

11 AAC 99.110 Direct use by beneficiaries.

A Trust beneficiary, or an organization acting on behalf of a Trust beneficiary wanting to use Trust land to directly benefit persons as part of, or to fulfill, the Trust Authority's purpose to ensure a plan for an integrated, comprehensive mental health program prepared under AS 47.30.660 (a)(1), may be granted use of Trust land. Trust land use to be granted under this section must be approved by the Authority before consideration by the executive director.

The above provision is interpreted to also allow the use of properties acquired by the Trust for program and beneficiary purposes.

This plan serves to provide general guidance on the use of Trust land for beneficiary programs but is limited in scope to real estate or land use related issues. Decisions related to beneficiary programs or policies are made by trustees. In addition, the plan identifies policies, procedures and other considerations relative to Trust land use or property/land acquisition for beneficiary programs.

From time to time, Trust staff, working on behalf of or with a beneficiary group, may bring a proposal to the TLO for real estate consideration. Proposals may identify the need to acquire select properties and/or the need to identify a parcel of Trust land that would be appropriate for the development of a beneficiary program or facility. TLO staff can provide technical and professional assistance and service to Trust staff by identifying existing Trust land or other available land for potential consideration by Trust staff and/or trustees.

This scenario was employed for the development of the Fairbanks Enhanced Detox Facility (2004-2008). The TLO worked with a team of stakeholders representing nonprofits, tribal organizations, and state and federal agencies to acquire raw land, develop a subdivision with road and utilities, and contract for the design and construction of a 10,500-square-foot treatment facility. The TLO's role included land and entitlement acquisition, project management and procurement for subdivision development, oversight of the construction contract and negotiation of the facility and land lease with Fairbanks Community Behavioral Health Center (FCBHC). Although initially the facility was owned by FCBHC to support funding its construction, it is now owned by the Trust, and the TLO contracts with a property manager to manage the building and provide ongoing maintenance. This model, or a variation thereof, can be implemented when facilities need to be acquired or constructed for Trust-funded program purposes.

Program-Related Real Estate Resource Management Strategy

Upon initiation by the Trust, the TLO will research, analyze and conduct due diligence relative to proposed beneficiary uses of Trust land to make recommendations to the Trust and its board of trustees. The TLO will consider those issues related to the Trust acquiring lands or buildings for beneficiary purposes but will defer to the Trust for direction and decisions related to program needs and program development. The TLO will consider long-term and short-term risk to the Trust, financial risks and considerations, investment implications and due diligence findings and provide recommendations to Trust staff and the trustees when appropriate. Any proposed beneficiary program on Trust land will be treated by the TLO as it would any other project — all recommendations will consider the best interest of the Trust. The TLO will not consider or verify the merits or values of a beneficiary program but defer to Trust program officers and the trustees for these decisions.

The use of Trust land for beneficiary interests at times may conflict with the TLO's mission to maximize revenue from Trust land. As a result of the settlement agreement of 1994, the Trust received some lands that were encumbered by long-term leases or other management agreements established under the Department of Natural Resources' (DNR) management of the lands as "general state land." Although the TLO has an ongoing obligation to honor valid existing rights, such as public and charitable leases, the long-term management goal of these lands will be to maximize revenue generation over time. Each scenario will need to be considered and reviewed on a case-by-case basis, as lease conditions vary. In the case of nonprofit organizations that may also serve beneficiaries of the Trust, the TLO should always consider the potential revenue opportunities that a parcel of Trust land may offer and be ready to manage for other uses in the event that a beneficiary or nonprofit-oriented lease expires or the occupant abandons the property or changes its need for the land.

Risk Management

The primary consideration of risk to the Trust for beneficiary-related uses of Trust land includes, but may not be limited to, the following:

- Loss of potential revenue from alternative/competing development projects;
- Holding costs associated with program development when the Trust advances a program-related investment (PRI) acquisition;
- Instability in operating budgets or loss of beneficiary program funding for an existing program;
- Management or administrative issues that could negatively impact beneficiary program operations; and
- Loss of TLO staff time focusing on revenue-producing opportunities.

These potential risks vary depending on the scenario at hand. Some beneficiary-related uses of Trust land were granted prior to the reconstitution of the Trust (for example: ARC located in the Community Park Alaska Subdivision, Anchorage). Generally, these land use rights were granted by DNR under a limited rights conveyance document (such as a management agreement) or other long-term lease document that granted exclusive use rights, at times without an expiration date. In some instances, these land use rights were assignable to other non-profits or beneficiary groups. As in the case of Catholic Social Services (CSS), also located on Trust land in the Community Park Alaska Subdivision, the land lease originally had been granted by the Municipality of Anchorage to the Sisters of Providence for a 40-year term. In 1991, the lease was assigned to CSS. The CSS programs at this location serve some of the Trust's beneficiaries, but are not considered solely "mental health programs." The complexity of existing land use rights coupled with the need for program services makes the identification of risk and consequent management of these existing rights and assets more difficult. As such, the TLO will work with Trust program officers to advance the mission of the TLO and the Trust subsequently, when possible.

Policies

In order to balance beneficiary needs with the TLO's mission to maximize revenue for the Trust, proposed beneficiary-related uses of Trust land should be initiated by Trust staff. Requests from beneficiary-related groups or mental health providers operating or proposing to operate on Trust land should be considered on a case-by-case basis.

Decisions to use Trust land to directly benefit beneficiaries or to fulfill the Trust Authority's plan for an integrated comprehensive mental health program must be approved by the trustees, and then forwarded to the TLO for consideration by the executive director.

When appropriate and approved by the board of trustees, TLO staff may seek reimbursement from the Trust for time and funding spent for projects initiated by Trust staff.

TLO and Trust staff will work together to set priorities for specific beneficiary-related projects with the direction of the board of trustees.

The Trust may also request instruction and approval of the board of trustees to incorporate program-related investment (PRI) or the use of Trust resources to loan or otherwise financially support designated projects utilizing principal resources. (See Appendix A.)

Goals and Objectives

Goal 1: Assure the real estate needs of mental health programs sponsored by the Alaska Mental Health Trust Authority are met as appropriate.

Objective 1: TLO will provide expertise to Trust staff relative to program-related real estate projects or land use authorizations on Trust land.

Objective 2: TLO will provide expertise and services to the Trust to acquire land or property for beneficiary programs.

Goal 2: Manage Trust land for the long-term preservation of the Trust's land base while supporting and enhancing the Trust's mission to promote a comprehensive integrated mental health program.

Objective 1: TLO will manage land and facilities owned by the Trust to serve the best interest of the Trust.

Objective 2: TLO will provide professional property management and other real estate and stewardship services to protect the value of program-related Trust investments.

Goal 3: Develop Trust land inventory and long-term management plans related to beneficiary programs.

Objective 1: TLO will maintain an inventory all of existing beneficiary related uses of Trust land.

Objective 2: As a function of maintaining the land base, the TLO will develop individual long term management plans for existing mental health programs located on Trust land. The plans will identify opportunities and potential scenarios for future revenue generation.

Objective 3: TLO will create an inventory identifying all Trust land that is currently zoned consistent with potential Trust beneficiary needs.

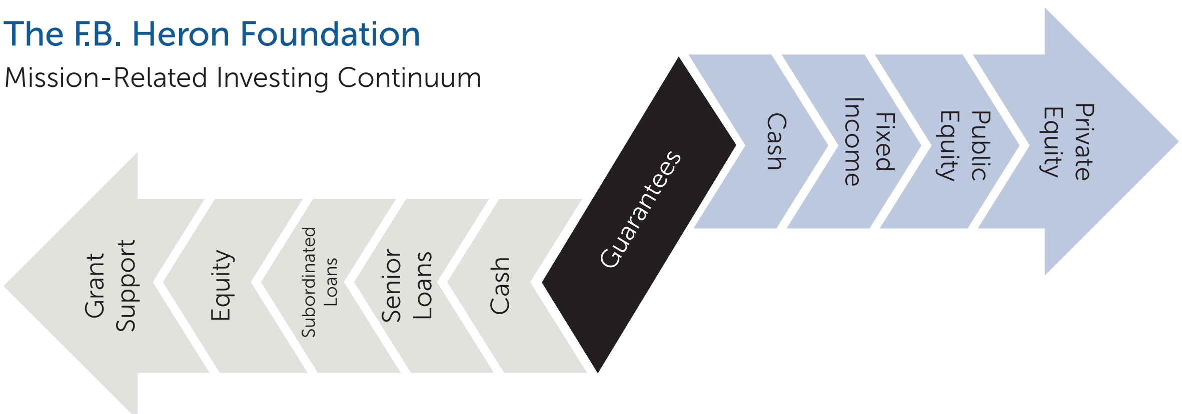
Appendix A: Program-Related Investments

(This appendix has been provided for Trust Authority staff and trustees for potential policy and decision making limited to program-related investments.)

A program-related investment (PRI) is a financing tool used by many foundations and funders to increase the impact of their limited resources on achieving priority activities. These investments have been in development by such foundations as the Ford Foundation and the F. B. Heron Foundation since the late 1960s. Assistance may be structured in several forms as demonstrated by the diagram below.

The F.B. Heron Foundation

Mission-Related Investing Continuum



The Trust has been examining PRIs as a way to achieve greater impact in the area of housing for beneficiaries. The following outlines some of the parameters that may be used to examine and develop a potential program in order to facilitate the discussion by trustees.

1. Definition and strategy goals

Housing has been discussed as one potential area for using PRI. This is likely a good place to begin with a program for the Trust: specifically, assisting nonprofit organizations in acquiring property and holding this property until they are able to apply for grant funding has been the focus of our work. Other targets may be identified to benefit the overall nonprofit sector. Examples:

a. Social programs: Trust resources may be used for other programs than housing. One use may be to incentivize areas of interest, such as programs demonstrating fuel efficiency or pairing PRI resources with projects moving forward in the legislative process as an incentive for general fund/mental health investment.

b. Potential markets: Trust investment needs to be in areas where traditional financing will not operate — i.e. guarantee of loans to nonprofits that are unable to secure traditional financing due to the increased risk caused by target populations (such as housing loans to augment capital funding for project targeting individuals below the market income thresholds).

2. Potential programmatic uses to benefit beneficiaries

There are a number of factors trustees should consider prior to approving individual PRIs or a PRI program. Subsequent potential projects may contain a larger amount of risk once a base program is in place. Any program should be developed to maximize Trust resources with regard to the following factors:

a. Highest and best use opportunities

b. Size and duration of investment

c. Expected return

3. Risk tolerance and mitigation

a. Corporate veil: additional corporate entity(ies)

b. Define sound investment matrix

c. Solicitation for acquisition process

d. Holding cost and impact

4. Financial Strategy

a. Principal versus income

b. Distribution mechanism

i. Grants

ii. Debt instruments

iii. Leverage of external funding through other philanthropic organizations and private, revenue-generating companies

iv. Legislative and advocacy assistance

c. Accounting treatment to the Trust

5. Structuring and monitoring of programs

a. Management of funds

b. Legal counsel review of agreements, contracts and banking accounts

c. Staff time

d. Organizational responsibilities of the process

6. Time horizon

a. Timeline and terms for repayment

b. Timeline for review and financing decisions