

SENATE FINANCE COMMITTEE  
February 24, 2021  
9:01 a.m.

[9:01:43 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:01 a.m.

MEMBERS PRESENT

Senator Bert Stedman, Co-Chair  
Senator Lyman Hoffman  
Senator Donny Olson  
Senator Natasha von Imhof  
Senator Bill Wielechowski  
Senator David Wilson

MEMBERS ABSENT

Senator Click Bishop, Co-Chair

PRESENT VIA TELECONFERENCE

Chris Cook, Board Chair, Alaska Mental Health Trust Authority; Mike Abbott, Chief Executive Officer, Alaska Mental Health Trust Authority.

SUMMARY

^PRESENTATION: ALASKA MENTAL HEALTH TRUST AUTHORITY -  
UPDATE AND FY22 PROPOSED BUDGET

[9:02:08 AM](#)

Co-Chair Stedman relayed that the Alaska Mental Health Trust Authority (AMHTA) would be discussing the trust's FY 22 budget as well as some COVID-19 response issues and trust reserves.

[9:02:54 AM](#)

CHRIS COOK, BOARD CHAIR, ALASKA MENTAL HEALTH TRUST AUTHORITY (via teleconference), discussed a presentation

entitled "Senate Finance Committee - February 24, 2021"  
(copy on file).

Mr. Cook showed slide 2, "Trustees":

- Chris Cooke, Chair
- Anita Halterman, Vice Chair
- Rhonda Boyles, Secretary
- Verné Boerner
- John Sturgeon
- Annette Gwalthney-Jones
- Brent Fisher

Mr. Cook relayed that AMHTA's purpose was to administer the Alaska Mental Health Trust, which was a perpetual trust. The mission of the trust was to improve the lives of the trust beneficiaries and to operate in a sustained way in order to positively impact the lives of future beneficiaries.

Mr. Cook noted that the corpus of the trust consisted of both money and land, specifically the Mental Health Trust Fund, managed by the Alaska Permanent Fund Corporation (APFC), and trust land of nearly one million acres managed by the trust land office under the Department of Revenue (DOR). The trust drew annual income from the resources to provide for the needs of the beneficiaries, pursuant to Alaska's comprehensive mental health program. In the role of funder of programs for beneficiaries, the trust had granted over \$21 million the previous year to fund community-based projects. Funding also included significant trust income directed to various state agencies to accomplish statewide system change efforts. He mentioned a mini-grant program that provided funds to individual beneficiaries to improve quality of life and gain independence.

Mr. Cook explained that in addition to providing funds to a variety of entities, the trust provided leadership in the advocacy, planning, and implementing of Alaska's comprehensive mental health program for its beneficiaries. The trust had supported many systems-change efforts, including reforms to Medicaid, behavioral health and addiction services, and most currently efforts to provide services to Alaskans experiencing a psychiatric crisis.

[9:07:39 AM](#)

Mr. Cook continued his remarks. He noted that the board was comprised of long-time Alaskans. He expressed that thanks to the trust's competent staff, the financial position of the trust remained in a healthy financial position and was bolstered by strong performance of trust land and natural resources. The strong position allowed for advancement of beneficiary priorities while balancing the needs of future beneficiaries.

Mr. Cook was proud of the work of his fellow board members and trust staff, particularly in light of unexpected challenges from the COVID-19 pandemic.

[9:09:16 AM](#)

MIKE ABBOTT, CHIEF EXECUTIVE OFFICER, ALASKA MENTAL HEALTH TRUST AUTHORITY (via teleconference), discussed slide 3, "Trust Beneficiaries":

Beneficiaries include Alaskans who experience:

- Mental illnesses
- Intellectual and/or developmental disabilities
- Alzheimer's disease and related dementia
- Traumatic brain injuries
- Substance use disorders

Mr. Abbott relayed that the trust did not keep a list or index of individuals that met the criteria listed on the slide. He relayed that based on population density calculations in Alaska and elsewhere in the United States, the trust estimated that approximately 70,000 to 100,000 Alaskans would qualify as trust beneficiaries.

Mr. Abbott reviewed slide 4, "Financial Position," which showed a bar graph entitled 'Trust Invested Assets.' The bar graph was a high-level overview of the trust's financial position. He pointed out that the trust's assets had grown relatively steadily over the years. The dips were primarily associated with investment returns. He pointed out a substantial decline in asset value over the time period of 2008 to 2010. He explained that assets grew primarily through two mechanisms: investment earnings on assets, and revenues from land management activity. Both of the revenue streams contributed to spending capability and the growth of invested assets.

Mr. Abbott referenced slide 5, "FY22 Available Funding":

Trust's Estimated Available Funding FY22

Investment Portfolio Payout (4.25%)	\$25,200,000
Prior Year Funds Carried Forward	\$3,500,000
Land Office Spendable Income	\$4,600,000
Interest Earnings	\$700,000
Total	\$34,000,000

Prior Years' Available Funding

FY21	\$33,243,200
FY20	\$31,875,600
FY19	\$29,437,000
FY18	\$28,908,000
FY17	\$28,234,000

Mr. Abbott shared that for FY 22, the trust expected an estimated an approximately 3 percent increase in available revenue over FY 21. The primary source of the revenue in FY 22 would be investment earnings. The trust used a percent of market value (POMV) process and paid out 4.25 percent of the previous four years of asset value. He emphasized the steadily increasing annual spendable revenue, which he expected would continue at approximately the same pace. He thought the amount could change based on factors such as market returns. He explained that even a period of significant market decline should not affect the trust's ability to spend funds in the annual budget for the beneficiaries because of access to trust reserves.

[9:13:46 AM](#)

Senator von Imhof asked if an upcoming slide would show the percentage of returns for the trust's investments for the previous four or five years. She noted that the committee looked at many funds to consider returns.

Mr. Abbott did not have the information at hand but agreed to send the information to the committee.

Co-Chair Stedman asked for the information to include details regarding the trust's consultants' expectations regarding future returns. He had seen expectations lowered in other areas.

Mr. Abbott agreed to provide the additional information.

Mr. Abbott advanced to slide 6, "FY 22 Spending":

Authority Grants

\$16,084.9

Designated grants to community providers, nonprofits, local governments and Tribal organizations

•Includes \$1.7 M in mini grants

Administrative Budgets

Trust Authority: \$4,179.9

Trust Land Office (TLO) \$4,393.8

Administrative budget is lower than FY21 levels

MHTAA

\$8,110.0

Designated grants to state agencies, requires receipt authority

Mr. Abbott explained that the slide showed expenditures as approved by the board for FY 22. He explained that Mental Health Trust Authority Authorized Receipts (MHTAAR) funds were funds the trust provided to fund a variety of state government programs. The funds had been part of the budget for a number of years, and he expected it to continue. Roughly half the spending in FY 22 were grants made to funding partners such as local governments, non-profits, or tribes that provided or facilitated services to beneficiaries. He quantified that roughly three quarters of the funds were going out the door to agencies and partners to direct services to trust beneficiaries.

[9:17:36 AM](#)

Mr. Abbott spoke to slide 7, "FY 22 GF/MH Recommendations," which showed a data table. He reminded that one of the trust's statutory obligations was to make recommendations as to how general funds could be allocated for the benefit of trust beneficiaries. He thought the AMHTA was the only state entities with the explicit statutory obligation to make the recommendations. He pointed out that the blue column showed trust recommendations, and the yellow column signified what ended up in the governor's budget. The significant and obvious difference was that all of the general fund recommendations that the trustee's provided (with the exception of one for coordinated transportation)

were zeroed out in the administration's budget and replaced with direct appropriation with trust reserves. He highlighted that the situation was a significant departure, although there was no obligation for the administration to accept the trusts recommendations. He thought the committee was aware that most recommendations were adjusted or not funded at all. The current proposal was the first time there was a proposal to substitute trust reserves for general funds without authorization from the trust.

Co-Chair Stedman looked at the operating budget item "Support Client Services at API (DHSS)" which was listed on the table in red. He asked Mr. Abbott to speak to the item.

Mr. Abbott stated that in addition to a fund swap, the administration had proposed to replace \$6 million of funding for the Alaska Psychiatric Institute (API) with trust reserves in both the FY 21 supplemental budget and the FY 22 operating budget. He explained that API was expecting a shortfall in recovered revenue in of \$6 million. The administration had proposed to use trust reserves. He thought the proposed use of reserves was problematic for the trust for two reasons. He noted that the administration had not engaged with the trust about the need during its budget process the previous summer. He explained that the item was something not historically funded by the trust. Typically trust funds were deployed by the trust to enhance the efficiency of programs that served the beneficiaries, rather than to supplant state funds. He thought the item would be a clear deviation of the approach.

[9:21:53 AM](#)

Co-Chair Stedman asked if the trust was too heavily invested in reserves. He asked Mr. Abbott to comment on reserve balance status, and on any potential commitments that were not reflected.

Mr. Abbott offered to jump ahead to slides that addressed the reserves.

Co-Chair Stedman asked Mr. Abbott to address the subject when the appropriate slide was reached.

[9:22:54 AM](#)

Senator Hoffman asked about the Capital Budget Item "Special Needs Housing Grant" (SNHG) listed on the table. He thought there was a large difference between what the board had proposed and what the governor was presenting. He asked what potential hole was left if the governor's budget was implemented without following the recommendations of the board.

Mr. Abbott stated that there would be a substantial gap. The SNHG program supported housing work around the state and was managed by the Alaska Housing Finance Corporation (AHFC). The grant funded a number of programs, and in combination with the Housing Assistance Program, improved housing and addressed homelessness around the state. He was happy to provide the committee with specific examples of programmatic impacts of the reduction.

Senator Hoffman wanted to see information about the impacts in order to make a decision on how the mental health budget was brought together by the committee.

Co-Chair Stedman thought Mr. Abbott would be providing detailed information.

Senator Wilson asked if AHFC was able to supplement any of the funds with the generous amount of COVID-19 funding it had received in the previous two years.

Mr. Abbott did not know.

Senator Wielechowski asked if Mr. Abbott could comment on how the trust was set up and the court cases that were involved.

Mr. Abbott relayed that the trust was formed as a result of a combination of statute change and settlement of litigation between the state and beneficiaries in 1994. The litigation arose from a concern from beneficiaries that the state had been mismanaging its federal trust responsibilities. The settlement of the litigation caused the creation of the trust authority. The authority was established with a substantial amount of independence from typical state financial decision making. The authority for the expenditure of trust funds was explicitly provided solely to the trustees. The trust had operated in the same manner for almost 27 years.

Co-Chair Stedman was curious about the legality of switching from general funds to trust reserves. He asked if Mr. Abbott believed the proposed use of funds met the trust settlement requirements.

Mr. Abbott thought it was doubtful that the use of funds met the trust settlement requirements. He referenced a letter to the committee from January 2021 in response to the governor's proposed budget that had expressed concerns that the approach as described in the administration's budget was compliant with the terms of the original settlement. He added that the letter was based on guidance that the trust had received from its counsel in the department of law.

[9:27:36 AM](#)

Senator von Imhof considered slides 5, 6, and 7 and how the information went together. She considered available funding as shown on slide 5 as well as the breakdown on slide 6, and estimated that there was \$24 million left for grants and programming.

Mr. Abbott stated that Senator von Imhof's calculation was "pretty close."

Senator von Imhof looked at trustee-approved budget in light blue on slide 7, which totaled about \$24 million. She asked if she was reading the slides correctly.

Mr. Abbott stated that the only piece of slide 7 that was included in the previous slide was the \$3.8 million of MHTAAR. He clarified that the general funds and AHFC funds would not be included because they were not trust funds. The \$3.8 million of MHTAAR funds was a subset of the total and was highlighted as matching or co-funding the programs recommend by the trust for general fund contributions.

Senator von Imhof assumed that the \$16 million in authority grants were found on another page.

Mr. Abbot affirmed that the authority grants were typically made directly by the trust and did not require legislative authorization. The only trust funds that came through the legislative process were the MHTAAR and administrative budgets, which showed up as receipt authority for specific mutually agreed purposes. The bulk of the trust's funds

went directly from the trust to grantees and did not go through the legislative appropriations process.

9:31:00 AM

Senator von Imhof mentioned Co-Chair Stedman's reference to API. She thought the use of trust reserves was a separate issue. She thought that after looking at the trust's charter documents, there was an appropriateness to funding some of API. She did not think it was wholly inappropriate for the governor to suggest AMHTA use funds towards API. She noticed that the administrative budgets for the trust authority and land office were almost 25 percent, which she thought were high compared to other trusts. She suggested Mr. Abbott could provide a written response to the committee with information about why the administrative budget the size it was.

Co-Chair Stedman asked Mr. Abbott to get back to the committee with the information.

Mr. Abbott discussed slide 8, "Work of the Trust":

Established Focus Areas

- Disability Justice
- Mental Health and Addiction Intervention
- Beneficiary Employment & Engagement
- Housing and Home & Community Based Services

Additional Priorities

- Workforce Development
- Early Childhood Intervention and Prevention

Mr. Abbott relayed that the slide described the priority areas that had been the focus of the trust's work in recent years and would continue in FY 22.

Mr. Abbott addressed slide 9, "Trust Grant Impacts":

- Supported project increasing substance use disorder treatment capacity
  - \$300,000 to Akeela, Inc. to increase residential treatment capacity
  - \$125,000 to SeaView Community Services Recovery Housing Program in Seward
  - \$300,000 to Set Free Alaska's residential treatment facility in Homer

- Expanded services to prevent and end homelessness
  - \$150,000 to the Bethel Winter House
  - \$250,000 to Covenant House Alaska
  - \$200,000 for the new Glory Hall facility in Juneau
  - \$500,000 to United Way of Anchorage
- Supported ongoing implementation of the Medicaid Behavioral Health Waiver

Mr. Abbott mentioned some high-impact program work shown on the slide, including recent significant investments in substance abuse treatment capacity increase. He expected the level of investment in the identified areas to continue. He commented on the success of the enhancement of Medicaid services, that would significantly increase behavioral healthcare in the state without increasing state contribution.

Mr. Abbott reviewed slide 10, "COVID-19 Response Grants":

- Trustees approved \$1.5M in spring of 2020
- Supported 70+ beneficiary serving organizations across the state
- Program in addition to regular Trust granting activity

Mr. Abbott shared that in response to the pandemic the previous spring, the trust had reallocated funds within its FY 20 budget as shown on the slide. He was happy to say that the trust had been able to typically turn around an application from a grantee within two weeks. Funds typically went towards enhancing technology so that providers could provide services to trust beneficiaries. He mentioned purchase of protective equipment and coverage of temporary or long-term revenue losses as examples use of the funds.

[9:36:36 AM](#)

Senator Wilson asked if there had been any double-funding of items that occurred with grantees due to application for federal funds.

Mr. Abbott thought it was highly likely that the grantees were seeking other funds, either through state or federally administered programs. He added that the trust had worked to steer applicants to the other programs when possible.

Senator Wilson asked if any of the grantees had been seeking double reimbursement for the same services. He asked about audits of grantees.

Mr. Abbott relayed that AMHTA had not done any auditing beyond simple grant reporting that was required. He shared that the vast majority of trust grants had gone out in increments of less than \$25,000 per grantee. The goal of the trust had been to get the funds to grantees as quickly as possible in order to assist providers in staying open and continuing to provide services.

Mr. Abbott considered slide 11, "Improving Alaska's Psychiatric Crisis Care":

- Our behavioral health crisis system of care should provide people experiencing a behavioral health crisis the right care, in the right setting, when they need it --just like what we expect for a physical health crisis
- Currently law enforcement, EMS, and hospital emergency rooms serve people having a mental health crisis.

Mr. Abbott noted that when Alaskans had a medical emergency such as a heart attack or broken leg, a patient could be generally confident in being served by emergency responders that were trained. He described a lack of training and resources as a reason for the need for improvement. Current primary psychiatric crisis care resources in the state were paramedics, police officers, and hospital emergency rooms, and correctional facilities, which did not serve patients very well. There were better services available, and the trust was committed to bringing the services to Alaska. The trust had been working with other states and communities that had developed better systems and were in the process of bringing Alaska-adapted versions of the systems to the state.

Mr. Abbot continued to address slide 11. He expected to deploy more than \$10 million in trust funds toward the effort in FY 21, FY 22, and FY 23. He expected that Medicaid would be a significant funder of the services in the 1115 waiver. The trust expected to supplement the funds as the services came up to speed. He thought the enhanced

services were good for trust beneficiaries, communities, and other service providers.

[9:41:43 AM](#)

Senator Wilson assumed that Mr. Abbott was referring to the "Crisis Now" model. He mentioned the Biden Administration putting a hold on Medicaid waivers. He asked if Mr. Abbott felt that additional Medicaid waivers for reimbursable services would slow down the implementation of the model.

Mr. Abbott stated that the trust was currently trying to build out the system using the current 1115 waiver. He thought future waivers maybe warranted and applied for, the trust had started the process with the assumption that the status quo would be in place for the next several years.

Senator Wilson asked if the trust was providing authority grants to provide additional services for individuals in API.

Mr. Abbott relayed that the trust was providing funding for a number of things that supported API. There were a number of grants for a variety of equipment and improvements to the facility. The trust was also funding some of the services that the state agreed to through a settlement executed the previous year. There was no current or anticipated funding in the trust-approved budget for the base-level services at API. He added that the trust had been active in a variety of issues related to API, and the trust had contributed the land on which the current API campus sat.

Senator Wielechowski asked if the trust was consulted or did the trust support the governor's decision to give Wellpath the sole-source \$1 million per month contract.

Mr. Abbott answered "no." Since that time, API had rebuilt a governance board that advised on significant decisions relating to the operation of the hospital. He added that the trust served as an ex officio member of the board. The board was not formed when the contract was issued, and the trust had not had other involvement in the decision.

[9:45:52 AM](#)

Mr. Abbott showed slide 12, "Trust Land Office":

- USFS Land Exchange
- Icy Cape Development
- Fort Knox 2021 Expansion
- Subport Sale Finalized

FY21 Anticipated Trust Land Office Revenues

Coal \$171,000  
 Oil and Gas \$1,257,000  
 Minerals \$1,078,000  
 Materials \$280,000  
 Timber \$2,581,000  
 Land \$22,865,000  
 Real Estate \$1,668,000  
 Total \$29,900,000

Mr. Abbott explained that the slide highlighted the success of the land office, and described the revenue anticipated in the current fiscal year. He was relatively confident that the trust land office was going to have an exceptional year in generating revenue. He shared that in FY 21, the trust would receive payment for the Juneau Subport parcel that had been purchased by Norwegian Cruise Lines. He detailed that the sale took place a little more than a year previously, but the transaction did not take place until 2021. Of the \$29.9 million shown on the slide, \$20 million was from the single transaction, while the remainder was from other asset types managed by the trust land office.

Mr. Abbott discussed slide 13, "Trust Reserves":

- Create buffer for years with low earnings, ensuring Trust programming is not impacted
- Described in the Trust Asset Management Policy Statement
- Some Reserves are managed by APFC, some by Dept. of Revenue
- If the Trust only relied on prior year earnings for spending, there would have been spending reductions in 9 of the past 24 years
  - In 5 years since 1994, the Trust's investments had negative earnings

Mr. Abbott explained that trust asset management policy statement was reviewed every few years and was recently updated in the summer of 2019. As a result of recommendations provided by Callan and Associates, reserves

were managed in two different portfolios by the two entities listed on the slide. He discussed the value of the trust's reserves. He thought that the trust had managed its reserves responsibly in order to allow for a consistent presence in programming for support of trust beneficiaries.

9:50:09 AM

Senator Wielechowski asked if the entire amount of the trust reserves and trust corpus were available for appropriation by the legislature.

Mr. Abbott informed that the corpus, or Mental Health Trust Fund, was not available for the trust or any other entity to use for any purpose. The fund was to be managed for perpetual functionality based on statutory requirements and as determined in the settlement in the early 1990s. He continued that trust reserves were available for trust-authorized uses.

Co-Chair Stedman asked Mr. Abbott to compare and contrast the funds as compared to the Alaska Permanent Fund (APF). He mentioned the Earnings Reserve Account (ERA), which was subject to appropriation. He thought the trust was structured differently.

Mr. Abbott relayed that the trust and the APF were relatively similar, and more similar than most other state-invested assets. Like the APF, the trust corpus was segregated and was off limits. He realized that the APF could be accessed by a vote of the people, which was an option not available for accessing the trust. The trust reserves functioned much like the ERA, and all the earnings from the assets invested by the trust went into reserves, similar to the ERA. The corpus of the trust did not fluctuate based on investment earnings. The trust was set up as an endowment, as in many other states.

Mr. Abbott continued to address Co-Chair Stedman's questions. He explained that the only way the corpus of the trust would grow was through deposits made by trustees through a particular type of land revenue or inflation proofing. He acknowledged that he was not an expert on the APF, but he thought that the way the corpus of the trust operated was roughly analogous. For inflation proofing to take place, an appropriation by the legislature was required. Conversely in an endowment, inflation proofing

took place naturally as the earnings and corpus were melded.

Senator Wielechowski commented that if the governor was starting to use the trust reserves when there had not been inflation-proofed in 15 years, the trust might want to consider putting some of the funds into the corpus.

Senator von Imhof looked back to slide 5. She assumed the \$34 million reflected 4.25 percent of the total trust amount comprised of the trust reserves plus the corpus.

Mr. Abbott stated that Senator von Imhof was correct.

Senator von Imhof asked if the legislature began taking more reserves or more than 4.25 percent, than the potential was that the annual draw began to decrease as the overall portfolio decreased.

Mr. Abbott answered in the affirmative.

Senator von Imhof thought the situation was similar to the APF. She knew it was possible for the legislature to take from the trust reserves, but thought it was important to consider the consequences, which could require General Fund matching or program elimination.

[9:56:39 AM](#)

Senator Wilson asked if the governor's proposed budget could work if there was only a one or two year draw rather than an annual draw.

Mr. Abbott thought that Senator Wilson's question pondered whether the amount of reserves exceeded the proposed FY 21 and FY 22 draws, and answered affirmatively. He asserted that there would be long term impacts from the proposed budget. He thought in the near term, trustees would consider reducing other areas of spending to avoid overdrawing from reserves.

Mr. Abbott continued to address Senator Wilson's question. Based on his guidance from the trustees, the proposed draw from invested assets was closer to 7 percent or 8 percent rather than 4.25 percent. If the trust was faced with the larger draw, it would have to make some hard choices.

Senator Wilson was looking for a more simplistic answer. he asked if it would be catastrophic if the proposed draw was taken for only one year.

Mr. Abbott was not sure he was comfortable giving an answer. He thought the draw would be a radical deviation from the manner in which the trust had operated, both in process and in substance. He did not want to challenge the legal authority of the legislature and encouraged members to seek advice from the Department of Law or other counsel on the legal impact of what was proposed, beyond the fiscal impact.

Co-Chair Stedman mentioned the existing 4.25 draw on the trust and asked what the draw rate would be if the legislature executed the governor's proposed budget.

Mr. Abbott stated that the appropriation would signify pulling an additional \$16 million beyond the anticipated \$25 million from the trust assets. The amount would signify an approximately 7 percent draw rather than the traditional 4.25 percent POMV draw.

[10:00:52 AM](#)

Senator Wilson asked if Mr. Abbott had stated there would be a \$16 million additional draw.

Mr. Abbott affirmed that the proposed budget would signify a \$16 million additional draw, as a result of the combination of the FY 21 supplemental budget and FY 22 operating budget proposals from the governor.

Mr. Abbott reviewed slide 14, "Trust Reserves":

Reserves target set after consulting with Callan at 400% of the current year's payout

- Allows Trust to sustain program work during prolonged market downturns
- Trust Reserves are volatile

Trust Reserves

FY20 Year End Balance:

\$160,555,000

FY21 Year End Balance:

(estimated) \$175,000,000 to \$225,000,000

Mr. Abbot addressed the graph on slide, entitled 'Available Budget Reserves Compared to annual Payout.' He pointed out that the graph showed the last 18 months of reserve levels, which had fluctuated between a starting point of 500 percent of reserves, with a dip seven months later to below 400 percent, and growth within the last year to approximately 800 percent of the annual payout in reserves. He thought the graph was a good description of the volatility that the trust faced. He added that because the trust was not run like an endowment, all of the volatility that the APF experienced as it managed the trusts corpus showed up in the trust's reserves, which was another reason to keep a conservative amount of reserves available.

Mr. Abbott described that if the APF and DOR (the trust's two managers) had annual projections for FY 21 that came true before the end of the fiscal year, trust reserve levels would drop by \$30 million to \$40 million. He reminded that the APFC and DOR were both significantly exceeding initial annual projections.

Co-Chair Stedman asked Mr. Abbott to restate the information about timing. He asked when the last time the trust inflation proofed.

[10:05:05 AM](#)

Mr. Abbott thought Co-Chair Stedman's question introduced the topic of slide 15. He relayed that the trust's asset management policy statement and state statutes obliged the trust to evaluate inflation proofing when trust reserves exceeded the target rate. He cited that the last time the trust made a significant inflation-proofing transfer between the reserves and the corpus was 2005, and that for a variety of reasons, the trust had not done substantial inflation-proofing since. He mentioned the legislative audit in 2018. He thought earlier graphs depicting reserve levels showed that investment performance in 2008 through 2010 had been part of the reason. The trust had contemplated inflation-proofing a year previously, and at the time the trust assets were below target and inflation proofing had not been recommended at the time. He added that because of investment performance over the previous 12 months there would be trustee consideration of inflation proofing.

Mr. Abbot referenced slide 15, "Trust Reserves":

When Reserves exceed the target:

- Asset Management Policy Statement says the Trust will consider inflation-proofing the corpus
- There has been no substantial inflation proofing since 2005
- Our FY21 inflation-proofing liability is \$120 million

Mr. Abbott cited that the trust's finance committee would be meeting the following week to consider the topic and he expected the committee would evaluate the staff recommendation that upwards of \$100 million would be transferred from trust reserves to the corpus to begin to address the roughly \$120 million outstanding inflation proofing liability.

Senator von Imhof thought it was good news that the trust was contemplating inflation-proofing the fund. She thought inflation-proofing should be done on an annual basis in a disciplined manner. She thought the 400 percent target recommended by Callan was generous. She thought it made sense to inflation proof, and she thought entities such as the governor would look to the fund when there were high corpus balances. She thought the long-term health of the fund would be best served by disciplined inflation proofing on a regular basis, and it would be good for beneficiaries who would benefit from programs being in perpetuity.

Co-Chair Stedman also supported a disciplined approach as suggested by Senator von Imhof. He agreed that it would be nice for the trust board to consider the topic of annual inflation proofing.

Mr. Abbott believed the board would be addressing inflation proofing in the October/November time frame on an annual basis using audit financials from the previous year. He agreed with the recommendation.

Senator Wilson asked if it was the board's intention to try to make up for the entire \$120 million in inflation proofing deficit, or rather to set a new policy going forward for an annual appropriation.

Mr. Abbott stated the board had not decided on the matter. The following week the board's finance committee would

consider the condition of the reserves and the outstanding inflation proofing obligation. He was confident the trustees would make an excellent decision as to how much and when to affect any inflation proofing transfers.

10:10:24 AM

Senator Hoffman asked what discretion the legislature had in inflation-proofing the trust if the board did not.

Mr. Abbott referenced guidance from the Department of Law. He understood that the deployment of funds into the trust fund (from reserves or any other source) was the exclusive responsibility of trustees.

Senator Hoffman requested clarification as to the exact responsibility of the legislature, and as to whether the legislature had the authority to inflation proof since it was the appropriating body.

Co-Chair Stedman thought the members were interested in inflation proofing the trust to protect the funds for future generations.

Mr. Abbott would work with the Department of Law to provide information on Senator Hoffman's question. He stated he and the board chair understood Co-Chair Stedman's message clearly.

Senator Olson asked about the "shuffling" of funds as proposed by the administration. He asked how the proposed splitting of the Department of Health and Social Services (DHSS) would affect the budget of the trust.

Mr. Abbott did not see any direct impact on the trust or its programming from the implementation of the governor's executive order regarding DHSS.

Senator Olson asked if the trust supported the split of the department as proposed by the governor's executive order.

Mr. Abbott relayed that the trust had not taken a formal position on the reorganization. The trust had been assured by the department that the reorganization would improve service delivery to trust beneficiaries among others. The trust was confident that the executive order as proposed would not impact the trust directly. The statutory re-write

involved in the executive order was neutral with regard to the trust.

Mr. Abbott thanked the committee on behalf of the trust.

Co-Chair Stedman looked forward to the response to the member's question. He asked Mr. Abbott to inform the committee when the board took action or gave a direction regarding the inflation proofing issue.

Mr. Abbot agreed to provide the information.

Co-Chair Stedman discussed the agenda for the following day.

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ADJOURNMENT

[10:15:22 AM](#)

The meeting was adjourned at 10:15 a.m.