

## Fund Source Report

### 1268 MHTReserve Mental Health Trust Reserve

Year Authorized FY21	Year Repealed	Active? No	Mental Health? Yes	Duplicated? No	Fund Group Designated General
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No Appropriations during last 10 years

#### Legal Authority

AS 37.14.041

#### Source of Revenue

Investment earnings and land revenue generated by Mental Health Trust assets.

#### Restrictions on Use

AS 37.14.041(a) restricts money in the Mental Health Trust settlement income account to purposes related to the Trust's mission.

#### Description and History

Fund Code 1268 was established in the Governor's December 2020 budget submission in both the supplemental budget for FY21 and the FY22 budget. It consists of funds in the Mental Health Trust settlement income account that are in excess of the amount needed for the Trust's reserve requirements.

AS 37.14.041(a) restricts money in the Mental Health Trust settlement income account to purposes related to the Trust's mission. Section (b) of that statute further states that "If money in the mental health trust settlement income account is not needed to meet the necessary expenses of the state's integrated comprehensive mental health program, the authority shall transfer the money to the unrestricted general fund for expenditure through legislative appropriation for other public purposes."

The language plainly states that the money should go to the unrestricted general fund. So, it seems logical that funds used under (b), should be designated as general funds. The statute also states that the transfer to the general fund should only occur if the money is "not needed to meet the necessary expenses of the state's integrated comprehensive mental health program," which implies that these funds were designated to mental health purposes first. Therefore, DGF is an appropriate classification.

In the FY22 budget, the Governor proposed using \$16.3 million (\$7.2 million operating, \$6 million operating supplemental, and \$3.1 million capital) of this fund source to offset unrestricted general funds. \$4.3 million of the request would directly replace Trust GF/MH recommendations, while the remaining \$12 million was allocated for API (\$6 million in FY21 and \$6 million in FY22. The Trust opposed this on the grounds that it would violate the Trust statutes and settlement.

The Trust's general policy is to maintain at least 400% of the previous year's spending as reserves. Under this methodology and using figures from the Trust's audited FY20 financials, OMB identified a minimum \$57 million in "excess" reserves. OMB's transaction notes stated, "To ensure these

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monies are expended to the benefit of the state's mental health program and not swept to the general fund, a portion of the reserves are being utilized to fund various mental health programs and Trust recommendations with the intent of drawing reserves down over a period of five years."

The issue drew attention to the fact that substantial inflation-proofing to the corpus had not occurred since 2005. After much discussion, the Trust notified the legislature on April 1st, 2021, that "up to" \$120,280,300 from Trust reserves would be permanently designated to the Alaska Mental Health Trust Fund (corpus) managed by the Alaska Permanent Fund Corporation. Inflation-proofing eliminated the possibility to appropriate any excess reserves and resulted with the legislature replacing all \$16.3 million of proposed MHT Reserve expenditures with unrestricted general funds (GF/MH fund code 1037).

UPDATE 8/10/21: On 3/30/21, the Alaska Mental Health Trust's Board authorized the Chief Financial Officer to designate \$50,000,000 "as soon as practicable" and designate before the close of FY21 the amount necessary to achieve the total designation that will maintain a year-end FY21 budget reserve balance of at least 400 percent of the FY21 payout, or \$96,628,400.