Trust Land Office

2600 Cordova Street
Anchorage, Alaska 99503
Phone: 907-269-8658
Fax: 907-269-8605

To:	John Morris, Chair Finance Committee
Thru:	Mary Wilson, Chief Executive Officer
From:	Jusdi Warner, Executive Director
Date:	7/30/2026
Re:	TAB Renovation Budget Amendment
Fiscal Year:	2027
Amount:	-$3,254,788

Approval

Proposed Finance Committee Motion:

"I move that the Finance Committee recommend the full board of trustees rescind its motion from August 27, 2025 concerning the funding needed and approved for the TAB mechanical equipment in the amount of $3,254,788 and the Board's motion made at its May, 2026 meeting which amended the August 27, 2025 motion by permitting expenditures to occur in FY 26-28."

Background:

Summary

Trustees approved funding for the Trust Authority Building (TAB) renovation project in August 2025. Since then, there have been changes related to the Trust Authority's ability to provide funding that has not been approved by the Legislature which led to an alteration in the funding mechanism for the project. The original motion also stipulated that the funds be transferred to the property manager, but this was not ultimately possible due to state procurement requirements. Additionally, there was a reduction in the funding required for the construction contracts. At the direction of the Trust Authority, the TLO requests that the motion be rescinded. The details of these changes are described in the following paragraphs.

In order to utilize legislatively-approved funding and stay on schedule, the TLO, with Trust Authority approval, used FY26 lapsed funds for the mechanical contracts. The remaining needs will be requested as separate TLO budget items, starting with the FY27 supplemental. The TLO worked with, provided updates to, and got direction from the Trust Authority at various points throughout the process. The original motion approved by trustees is included at the end of this memo.

The following items will be requested in separation motions included in the FY27 supplemental and FY28 budget requests:

- FY27 Supplemental: $90,500 for contract contingencies (10 percent of the total contract amount of $904,851)
- FY27 Supplemental (Capital) $439,740 tenant improvements related to leasing the vacant first floor area
- FY28 Maintenance and Operations: $83,500 (one year of the reserve funding for maintenance and repairs.

Reduction in Cost

The initial estimate included in the TAB renovation included $1,980,048 in funding for the cost of the boiler room upgrade, air handler unit, and controller installation. In construction, the best practice is budgeting for a worst-case scenario. Budgeting lower risks not being able to complete the project as planned if the budget is exceeded. There were multiple assumptions made in developing the estimate. First, it assumed that the work would be done under one contract. This would likely include a contract with a general contractor that would then subcontract for each of the three parts of the contract. An estimate of 12.5 percent was included to account for overhead associated with a general contractor – although the general contractor could add more than this. It included a 12.5 percent estimate for risk associated with inflation and potential tariff increases. Lastly, when a project reaches a certain percentage of the value of the building, the Municipality of Anchorage (Muni) requires Title 21 upgrades in addition to the project itself. A 10% estimate was included for Title 21 upgrades. Not all of these assumptions came to fruition.

The project was ultimately segregated into three separate requests for bids. This negated the need for a general contractor and associated overhead. Additionally, the segregation resulted in three contracts that fell under the threshold for Title 21. Ultimately, the three contracts came in at a total of $904,851 – significantly under the initial contract budget of $1,980,048. The TLO is requesting a 10% contingency in the FY27 supplemental (separate memo) to ensure funds are available for potential change orders. This contingency request would not be required there wasn't the requirement of using legislatively-approved funding since the TLO would have access to the full project amount without additional approvals.

Funding Authority

The Trust Land Office (TLO) has historically requested funding for projects outside of the operating budget (project funding). Following trustee approval, the Trust Authority was able to establish a project appropriation which the TLO could access through multiple means. Approval by the Legislature was not required. The TLO operating budget, however, following approval by trustees, ultimately must be approved by the Legislature. This is required because it is part of the administration of the Trust.

During the funding setup process for the TAB renovation project, the attorney for the Office of Management and Budget (OMB), determined that program-related real estate (PRRE) expenditures meet the definition of administration of the Trust. As a result, the TAB renovation project can only be funded with funds approved by the Legislature. This necessitated a significant change in approach. The only legislatively approved funding available for funding the mechanical contracts was the FY26 TLO operating funds that would otherwise have lapsed. Remaining costs would have to be requested as part of the TLO budget.

Procurement Requirements

The original motion stipulated that the project funding be transferred to the property manager. It was assumed the property manager would manage the procurements and pay related expenses. The Procurement Officer for the Department of Natural Resources (DNR) determined that since the work was at the direction of the Trust for the PRRE property and on their behalf, that the procurements must flow through the TLO. This required that the project funding instead go through the TLO.

Reserve Funds

The original request included $835,000 in reserve funds to accommodate the potential for additional repairs that could be necessary over a 10-year period. The estimate considered that two leaks, two radiant panels and two VAV boxes could need to be replaced each year. Additionally, the estimate included funding for a fire alarm system upgrade. This estimate can be broken down into an annual available budget of $83,500 for these items, but there is the potential that these repairs would not be required every year or would only occur once in a year. The TLO will include $83,500 in the maintenance and operations budget for this purpose starting in FY28 and will continue in future years as needed to meet the needs of the building.

Motion Approved August 27, 2025

A motion, in conjunction with the TLO real estate cost-effectiveness analysis presented by Agnew::Beck dated August 27, 2025, the Alaska Mental Health Trust Authority Board of Trustees approves the selection of Scenario 2, TAB mechanical equipment replacement. And with the selection of this scenario, the Alaska Mental Health Trust Authority Board of Trustees approves expenditures totaling $3,254,788, including a reserve fund, towards an ultimate fulfillment of the selection which shall not lapse, specifically including expenditures totaling $3,254,788 within FY2026. The Board of Trustees directs the CFO to transfer the funds from the source determined most appropriate by the CFO and approved by the CEO for this purpose, and to distribute these funds to a third-party property manager at the request of the Trust Land Office with information attached explaining the need for the funds. The transfer shall occur as soon as reasonably practicable.