

February 12, 2002

Dick Traini, Chair
Anchorage Assembly
632 W. 6th Ave.
Anchorage, AK 99501

Dear Chairman Traini and Assembly Members,

Several people have asked my opinion about the legislation you are considering tonight to adopt an endowment approach for the trust funds containing the proceeds from the sale of the Anchorage Telephone Utility. I am writing to provide my thoughts as the Assembly ATU Committee Chair who initiated and oversaw the successful ATU sale, and as the writer of the original ordinances setting up the trust.

The original structure of the trust was chosen based on political and practical considerations, not based on well informed, long-term investment advice. In 1998, our primary concern was to obtain 60% voter approval for the sale. That was the right priority at the time; otherwise, you would be in much worse shape than you are in now. However, having presented the formula to voters in terms of replacing a dividend and inflation proofing, we didn't even consider the endowment approach when the funds actually became available.

At this remove, three years after the trust was created, it is evident we chose the wrong model. The reserve fund will not provide the long-term stability you need and that we intended to provide when the community decided to sell ATU. The reserve fund is almost exhausted; we expected the fund to last much longer, and to be replenished. The money you have spent from the trust represents value of the ATU sale that will never be recovered. Now, without changing the pay-out structure of the trust, you will face budgeting without that cushion, meaning the ATU investment will whip-saw city services up and down every year. That's a future I don't envy you--we never went through anything as bad when we actually owned ATU.

On the other hand, the endowment concept will allow you to take a reasonable and responsible dividend from the fund each year, without drastic up and down swings. The ATU trust will finally fulfill its purpose of being a financial resource of long term stability rather than a risky, unpredictable investment.

I know much more about endowment funds now than I did three years ago, since the Alaska Permanent Fund has studied and hopes to adopt the same concept. It has been used successfully by universities and other trusts all over the U.S. It

protects the principal of the fund, it automatically inflation-proofs the fund, it takes the guess-work out of payouts, and it provides long-term security.

You may be asked, why now? Wouldn't it be better to hope for a few up years in the stock market and then move to the new formula? I suggest that's a gambler's approach. The one rule of investing I have learned best is to choose a strategy that makes sense for your particular circumstances over the long term, adopt that strategy, and then hold course. Neither the Anchorage Assembly, nor any other investor, can predict if the market is going to rise or fall. The political reality says, however, that you probably won't get another opportunity to vote on this concept, at least for years to come. If you vote no, you will be passing up a prudent, long term strategy on a hope of something better coming along--a fool's bet.

Please adopt the endowment concept for the city's trust fund.

Sincerely,

A handwritten signature in cursive script, appearing to read "C. P. Wohlforth".

Charles P. Wohlforth