May 9, 2023

Mayor Dave Bronson
Members of the Anchorage Municipal Assembly

Regarding: ARL Closure and Post-Closure Investment Fund Board Annual Report to the Municipal Assembly for fiscal year 2022

Dear Mayor Dave Bronson and Assembly Members;

**Background**

In December 2016, the Municipal Assembly established the Anchorage Regional Landfill ("ARL") Closure and Post-Closure Investment Fund (the “Fund”), and the ARL Investment Fund Board (the “Board”). As of September 30, 2018 (Inception), the Board had completed a strategic asset allocation and investment guidelines for the Fund and began investing the monies in the Fund according to these guidelines. The purpose of the Fund is to accumulate assets sufficient to cover the cost of closing the Anchorage Regional Landfill as well as post-closure maintenance and monitoring. At present time, approximately two-thirds of the assets in the Fund are expected to be utilized around the year 2064, with the remainder of the Fund utilized over the subsequent 30 years. This is the Board’s annual report to the Municipal Assembly for fiscal year 2022.

**Investment Guidelines**

The Investment Policy Statement ("IPS") for the Fund is the formal document governing investment of Fund assets. It was developed with assistance of the Fund’s independent Investment Consultant (Callan LLC) and was most recently updated and approved by the Board in August 2021. The investment policies as defined in the IPS reflect a long-term investment horizon, since significant payment of ARL Closure and Post-Closure Care Costs are not expected to begin until 2064. The Fund’s independent investment advisor confirms that the Fund is being managed under Best Practices and by the Prudent Investor Rule.

**Revised Fixed Income Investment Strategy**

Following a series of educational presentations and discussions with the Board by the Fund’s Investment Consultant regarding alternative strategies for investing the Fund’s 50% allocation to fixed income assets, the Board approved changing from a passive core investment strategy to an active core-plus investment strategy. Over the long-term, the active core-plus strategy is expected to increase fixed income investment returns by 50-100 basis points per year compared to a passive core strategy. At the same time, the risk return characteristics of the fixed income investments are expected to improve. In addition to approving the change, the Board authorized the Consultant to conduct a search for a new investment vehicle managed by a firm with a successful track record as an active core-plus fixed income manager. Based on the results of the search, the Board selected the Fidelity...
ARL Investment Fund

Total Bond Fund, and actively managed core-plus mutual fund, to replace the previous investment in the iShares U.S. Aggregate Bond Index Fund, a passive core index mutual fund. The transition to the new strategy was completed during the first calendar quarter of 2023.

2022 Performance
For the year, the value of the Fund declined by 15.00%, while its performance benchmark declined 14.87%. The relative underperformance was primarily due to periodic small differences between the Fund’s actual asset allocation and the benchmark’s target allocation during periods of high market volatility. The Fund is rebalanced to target quarterly.

Macroeconomic Environment
Markets sank in 2022 as the Fed embarked on an aggressive path of rate hikes to combat unexpectedly high and persistent inflation. Global stock and bond markets posted double-digit losses for the year, with U.S. bonds posting record-breaking calendar year losses and several U.S. stock indices falling the most since 2008. As we enter 2023, valuations in both stock and bond markets have improved. Inflation, while still high, has shown signs of moderating. The labor market remains resilient despite aggressive rate hikes. And China’s reopening, albeit rocky, may lead to an economic rebound and contribute to global growth in 2023.

Market Value of the Fund
The Fund’s market value was $16,893,292 as of December 31, 2022 and $19,351,367 as of December 31, 2021. During the period, Fund investments declined $2,958,973 while the Fund received new contributions from Anchorage Regional Landfill customers of $500,898, resulting in a net reduction in Fund value for fiscal year 2022 of $2,458,075.

ARL Closure and Post-Closure Care Liability (ARL Liability)
The ARL Liability, factored by the percentage of the landfill actually utilized, was $39.8 million as of December 31, 2022. The amount of the ARL Liability is adjusted annually for inflation as well as the expected remaining useful life of the landfill. In addition, it is periodically adjusted based on updates to the estimated ARL closure and post-closure costs. Although the liability amount exceeds the value of Fund assets as of December 31, 2022, the rate of return on Fund investments is expected to exceed the inflationary growth of the closure and post-closure liability. This means that the value of Fund assets is expected to equal the amount of the ARL closure and post-closure liability when these costs become payable. Per AMC 26.80.065 the funding status is revisited every five years and contribution rates are adjusted as necessary.

Future Deposits to the Fund
As provided by AMC 26.80.065, all customers of the ARL are expected to pay their proportionate share of the ARL’s future closure and post-closure costs. Based on projections derived from the SWS financial planning model, customer contributions in 2023 will be $535,408.

Respectfully Submitted,

Angela Astle
Chair, ARL Investment Fund Board