

CLERK'S OFFICE
APPROVED
Date: 2-12-02

Submitted by:

Prepared by:
For reading:

Chair of the Assembly at
the Request of the Mayor
Finance Department
January 8, 2002

ANCHORAGE, ALASKA
AO No. 2002-10

AN ORDINANCE AMENDING ANCHORAGE MUNICIPAL CODE SECTION 6.50.060 TO DEFINE THE MOA TRUST FUND (730) AS AN ENDOWMENT AND IMPLEMENT A CONTROLLED SPENDING POLICY FOR FUTURE ANNUAL DIVIDENDS.

THE ANCHORAGE ASSEMBLY ORDAINS:

Section 1. Anchorage Municipal Code subsection 6.50.060 is hereby amended by renumbering subsections 6.50.060D through 6.50.060G as subsections 6.50.060G through 6.50.060J; renumbering subsection 6.50.060B as subsection 6.50.060F; renumbering subsection 6.50.060A as subsection 6.50.060B; renumbering subsection 6.50.060C as subsection 6.50.060A; renumbering subsection 6.50.060H as subsection 6.50.060F.1.; renumbering 6.50.060I as subsection 6.50.060K and creating new subsections 6.50.060C, 6.50.060D, 6.50.060E and 6.50.060L to read as follows:

6.50.060 MOA[ATU] Trust Fund

A[C] *Definitions.* In this section, unless the context clearly indicates otherwise.

Annual Earnings mean the amount of interest, dividends, and realized [AND UNREALIZED] gains and losses from investment [OF THE ASSETS OF THE ATU TRUST FUND AS OF DECEMBER 31 OF THE CALENDAR YEAR PRECEDING THE BUDGET YEAR] activities at the end of each fiscal year.

Annual Dividend means the amount annually appropriated by the Assembly from the MOA Trust Fund and distributed to MOA to replace the ATU dividend. The annual dividend is subject to the controlled spending policy and shall be paid no later than 15 days prior to the end of the fiscal year in which the dividend is appropriated.

Average Asset Balance means the market value of the pooled trusts' assets, including accrued investment interest and dividends, averaged over the twelve (12) consecutive quarters ending March 31 of each fiscal year. During 2002 the average asset balance will be based on the eleven (11) quarters ended March 31, 2002.

Corpus of the MOA[ATU] Trust Fund (or corpus) means[THE BALANCE OF THE PROCEEDS FROM THE SALE OF ATU AFTER RETIREMENT OF ATU DEBT, AND OTHER MUNICIPAL DEBT AS MAY BE DETERMINED BY THE ASSEMBLY, DEPOSITED IN THE ATU TRUST FUND PLUS ADDITIONS THERETO AS AN ADJUSTMENT FOR AVERAGE ANNUAL INFLATION AND ANY OTHER AMOUNTS THE ASSEMBLY MAY WANT TO ADD.];

1. The aggregate of the following proceeds previously deposited by the assembly:

- a. Proceeds from the sale of ATU after retirement of ATU debt; and
- b. Proceeds allocated from the Police and Fire Retirement System settlement.

Plus:

2. Increases from:

- a. Inflation-proofing from available annual earnings in calendar years 1999 and 2000;
- b. Residual market value appreciation remaining after paying the annual dividend each fiscal year beginning 2002, in accordance with the controlled spending policy; and
- c. Any other amounts the assembly may add.

Reduced by:

3. Fund expenses.

Endowment method means a long-term investment strategy that promotes corpus growth by establishing a controlled spending policy, thereby requiring the annual dividend calculation to be tied to a rolling average asset balance of the pooled trusts and providing for reinvestment of any net annual earnings remaining after the annual dividend is determined.

[FUND MEANS THE ATU TRUST FUND AND ATU TRUST FUND RESERVE.]

Fund Expenses means incurred expenses which are reasonably prudent and necessary to manage and invest the assets of the pooled trusts, including all fees charged by external service providers such as investment managers, advisors, custodians and other professionals, and also including MOA's internal direct and indirect expenses incurred in providing administrative and oversight services for the benefit of the pooled trusts. Fund expenses are funded by annual earnings and are allocated to the pooled trusts on a pro-rata basis.

[INFLATION MEANS THE TOTAL PERCENTAGE INCREASE IN THE AVERAGE ANCHORAGE CONSUMER PRICE INDEX (CPI-U) IN ANY CALENDAR YEAR FROM THE AVERAGE OF SUCH INDEX FOR PRECEDING CALENDAR YEAR, AS PUBLISHED BY THE U.S. DEPARTMENT OF LABOR.]

MOA means Municipality of Anchorage.

Pooled trusts means the MOA Trust Fund (Fund 730) and MOA Trust Reserve (Fund 731) until such time as the balance of the MOA Trust Reserve is zero.

B[A]. MOA[ATU] Trust Fund established. Pursuant to Charter § 13.11, there is hereby established the MOA[ATU] Trust Fund as Fund 730 to be defined as an endowment fund with a controlled spending policy limiting dividend distributions and managed by the municipal treasurer [(TO BE ENTITLED "MOA TRUST FUND") TO ACCOUNT EXCLUSIVELY FOR THE PROCEEDS DERIVED FROM THE SALE OF ATU AND THE EARNINGS THEREON. ADDITIONALLY, THERE IS HEREBY ESTABLISHED AN ATU TRUST FUND RESERVE AS FUND 731 IN WHICH THE ATU REVENUE BOND

RESERVE INVESTMENT AND ANY OTHER AMOUNT THE ASSEMBLY MAY WANT TO ADD FROM TIME TO TIME TO REPLENISH THE RESERVE WILL BE DEPOSITED, THE CORPUS OR EARNINGS OF WHICH RESERVE TO BE USED IN THE EVENT THAT EARNINGS ON THE ATU TRUST FUND DO NOT EQUAL \$9.4 MILLION/YEAR, FOR ADDITIONAL REDUCTION IN PROPERTY TAXES AS MAY BE DETERMINED BY THE ASSEMBLY AND/OR TO DEFEASE BONDS UPON THE APPROVAL OF THE ASSEMBLY].

C. MOA Trust Reserve established. There is hereby established the MOA Trust Reserve as Fund 731 to hold the ATU Revenue Bond Reserve Investment and any other amounts the assembly may deposit, the corpus or earnings of which may be used upon approval of the assembly to (1) supplement the MOA Trust Fund annual dividend, (2) provide a reduction in property taxes, (3) retire municipal debt or (4) contribute additional funds into the MOA Trust Fund corpus.

D. Controlled Spending Policy. No more than 5% of the average asset balance will be available for annual dividend distribution. The 5% cap is tied to an endowment method whereby long-term capital market projections for average annual investment return are netted against projected inflation (e.g., in January 2001 capital market projections indicated an 8.25% average annual investment return less 3.25% average annual inflation, for a projected "net" average annual rate of return of 5% over the next five years).

E. Net Annual Earnings. Annual earnings are reported net of fund expenses. Net annual earnings remaining after paying the annual dividend each fiscal year are reinvested in the pooled trusts on a pro-rata basis.

F[B]. Assembly appropriation. Subject to and in accordance with the controlled spending policy, t[T]he [MUNICIPAL] assembly shall make an appropriation from the[APPROPRIATE THE EARNINGS] MOA Trust Fund 730 on an annual basis to (1) provide an annual dividend from the fund to replace the ATU dividend[TO REPLACE THE ANNUAL DIVIDENDS FROM ATU UP TO 9.4 MILLION.] and/or (2) reduce property taxes[, OR (3) REINVEST IN THE TRUST FUND].

G[D]. Management of the pooled[ATU Trust] f[F]unds. Pursuant to Anchorage Municipal Charter § 13.11(c) and section 6.70.010, the municipal treasurer, under the direction and supervision of the chief fiscal officer shall manage the pooled trusts [ATU TRUST FUND AND THE ATU TRUST FUND RESERVE] in accordance with the provisions of this section.

The municipal treasurer shall hire the services of such investment managers, advisors, custodians and other professionals as are reasonably prudent and necessary to manage and invest the assets of the pooled trusts [FUND].

2. The assets of the pooled trusts [FUND] shall be managed and invested only in accordance with the investment policy established under subsection I[H].

H[E]. Investment objectives. The investment objectives of the pooled trusts [ATU TRUST FUND IS] are to utilize a balanced investment approach, combined with a controlled

1 spending policy, to preserve the purchasing power of the corpus and to maximize rates
2 of return over time by [UTILIZING A BALANCED INVESTMENT APPROACH],
3 investing in both equity and fixed income instruments, within prudent levels of risk.
4

5 1.[H]. [INVESTMENT POLICY.] An investment policy, consistent with this section, for
6 the investment of the assets of the pooled trusts[FUND], shall be established and from
7 time to time modified, as necessary.
8

9 I[F]. *Authorized investments.* In addition to the investments authorized by section 6.50.030,
10 but subject to the investment restrictions of this section, the assets of the pooled
11 trusts[FUND] may be invested in the following types of investments:
12

- 13 1. Publicly traded equity investments, including but not limited to preferred and
14 common stock and investment company shares;
15
- 16 2. Debt instruments issued by the U.S. government, its agencies and
17 instrumentalities, and debt instruments that have been issued by domestic entities
18 rated triple B minus or above by Standard & Poor's Rating Service (investment
19 grade) or the equivalent by another nationally recognized rating agency, and
20 dollar denominated debt instruments of comparable quality issued by
21 nondomestic entities;
22
- 23 3. Cash and cash equivalents including but not limited to repurchase agreements,
24 certificates of deposit and shares in a money market or short-term investment
25 fund that consist of securities of the type and quality as those listed above;
26
- 27 4. Mutual funds or other commingled investment vehicles that consist of securities
28 predominantly of the type and quality as those listed above.
29

30 J[G] *Investment restrictions.* Notwithstanding any other provision of this title, investment
31 of the assets of the pooled trusts[FUND] shall be restricted as follows:
32

33 *Equity securities.* No more than
34

- 35 a. 65 percent of the pooled trusts'[FUND] assets may be invested in equity
36 investments;
37
- 38 b. The greater of five percent or one and one-half times the security's weight
39 in the S&P 500 stock index of the market value of the equity portfolio
40 assets, at the time of the purchase, shall be invested in the equity
41 securities of any one issuer;
42
- 43 c. Five percent of the voting stock of any corporation may be acquired by
44 the pooled trusts[FUND].
45

- 46 2. *Fixed income securities.* No more than five percent of the pooled
47 trusts'[FUND'S] fixed income portfolio assets may be invested in the fixed
48 income securities of any single issuer, with the exception of the U.S. government,
49 its agencies and instrumentalities;


- 2 a. The total fixed income portfolio shall maintain a weighted average quality
3 rating of AA- as determined by Standard & Poor's Ratings Service or the
4 equivalent by another nationally recognized rating agency.
5
6

7 K[I]. *Reporting.* An annual report on the performance of the pooled trusts'[FUND'S] ,
8 including net annual earnings and investment[S] holdings, shall be submitted to the
9 mayor and the assembly.
10


11 L. By March 15, 2007, and by the same date every fifth year thereafter, the municipal
12 treasurer shall review the controlled spending policy and recommend adjustments, as
13 necessary, to maintain the long-term purchasing power of the MOA Trust Fund.
14

15 Section 2. This ordinance shall become effective immediately following certification of April 2,
16 2002 municipal election, if and only if the proposition contained in AO 2002 - 11 is approved by a
17 majority of the voters voting on the question.
18

19 PASSED AND APPROVED by the Anchorage Assembly this 12 day of February, 2002.
20
21

22
23
24 
25 Chair

26 ATTEST:

27
28 
29
30 Municipal Clerk



MUNICIPALITY OF ANCHORAGE

ASSEMBLY MEMORANDUM

AM / ¹²²-2002

Meeting Date: January 8, 2002

FROM: Mayor

SUBJECT: Ordinance amending AMC 6.50.060 to define the MOA Trust Fund (730) as an endowment and implement a controlled spending policy for future annual dividends

1 The attached ordinance amends Anchorage Municipal Code Section 6.50.060 to convert the
2 MOA Trust Fund's method of paying out annual dividends to General Government from the
3 current "earnings" approach to an Endowment method. Simultaneous with introduction of
4 this Code change ordinance there is also a ballot ordinance (AO 2002-11) which proposes to
5 change language within Charter Section 13.11 to define the MOA Trust Fund (730) as an
6 endowment.

7
8 **Highlights of the attached ordinance, amending AMC 6.50.060, include:**

- 9
- 10 • Effective date immediate upon certification of April 2, 2002 municipal election.
 - 11 • 2002 Dividend to be paid based on Endowment method.
 - 12 • All references to a \$9.4 million dividend amount are deleted.
 - 13 • All references to ATU Trust Fund changed to MOA Trust Fund.
 - 14 • All references to ATU Trust Fund Reserve changed to MOA Trust Reserve.
 - 15 • Existing definitions *modified* regarding Corpus and Earnings.
 - 16 • Existing definition *deleted* regarding Average Annual Inflation, since the endowment
17 model factors in the effects of inflation.
 - 18 • New definitions and sections *added* regarding Annual Dividend, Average Asset Balance,
19 Controlled Spending Policy, Endowment Method, Fund Expenses, MOA, Net Annual
20 Earnings, and Pooled trusts.
 - 21 • Annual dividend is limited to no more than 5% of the multi-year average market value of
22 the pooled trusts (i.e., Fund 730 and Fund 731, combined).
 - 23 • Explicitly stated that the 5% cap on the annual dividend combines projected long-term
24 market value appreciation and permanent inflation-proofing into a single payout
25 percentage applied annually to the pooled trusts.
 - 26 • Requires municipal treasurer to review on a five-year cycle beginning 2007 the controlled
27 spending policy and recommend adjustments, as necessary, to maintain the long-term
28 purchasing power of the MOA Trust Fund.
- 29

30 **Background**

31
32 The MOA Trust Fund (Fund 730) and the MOA Trust Reserve (Fund 731) were established
33 May 1999 with \$101.7 million deposited in the MOA Trust Fund and \$16.9 million deposited

1 in the MOA Trust Reserve. Per the current Municipal Code (AMC 6.50.060) "up to \$9.4
2 million" shall be paid from the MOA Trust Fund (Fund 730). Since inception the MOA Trust
3 Fund, with supplemental funding from the MOA Trust Reserve, has been able to provide a
4 \$9.4 million annual dividend to the General Government Operating Budget.

5
6 As a result of the negative market conditions experienced starting in the second half of year
7 2000 and carrying into 2001, the Investment Advisory Commission began to seriously
8 question the long-term sustainability of paying an annual dividend of \$9.4 million, given the
9 size and investment risks inherent with the MOA Trust Fund and MOA Trust Reserve.

10
11 The Investment Advisory Commission began work with the municipal treasurer and the
12 investment consultant (Michael O'Leary of Callan Associates) to consider alternate ways of
13 limiting the dividend payment to a level which would allow the MOA Trust Fund to prosper
14 and grow over the long-term. The concept of an Endowment model was researched with the
15 investment consultant providing examples from across the United States of typical
16 Endowment policies used by major non-profit entities (e.g., Universities, Hospitals,
17 Foundations). These model institutions have employed Endowment spending policies over
18 the past several decades to successfully grow their funds, protect them from inflation, and
19 provide a predictable, level-to-moderate growth in the dividends paid to their beneficiary
20 organizations.

21
22 In September of 2000, the Investment Advisory Commission invited Mayor Wuerch to a
23 Commission meeting to specifically discuss defining the MOA Trust Fund (730) as an
24 endowment. Mayor Wuerch encouraged the Investment Advisory Commission and municipal
25 staff to present the concepts of an endowment method to the Assembly and to prepare
26 appropriate ordinances necessary to enact this new approach to paying out the annual
27 dividend.

28 29 Milestones & Schedule

30
31 Sept. 11, 2000 Investment Advisory Commission (IAC) discusses concept of
32 Endowment method with Mayor Wuerch.

33
34 May 8, 2001 Municipal Treasurer and investment consultant present MOA Trust
35 Fund performance to the Assembly in a worksession. Endowment
36 method discussed with the Assembly.

37
38 August 9, 2001 Municipal Treasurer presents concepts underlying Endowment method
39 to Budget Advisory Commission (BAC).

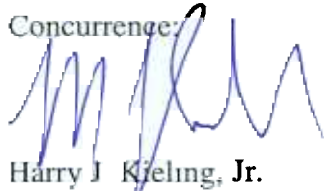
40
41 August 14, 2001 Municipal Treasurer discusses preliminary details of an Endowment
42 method with IAC.

43
44 August 14, 2001 Assembly worksession to present the concepts underlying an
45 Endowment method.
46


1 October 11, 2001 Municipal Treasurer presents initial drafts of a Charter Change
2 Ordinance and a Code Change Ordinance to BAC. Motion passes to
3 support proposed use of an Endowment method.
4
5 October 12, 2001 Municipal Treasurer presents initial drafts of a Charter Change
6 Ordinance and a Code Change Ordinance to IAC. Motion passes to
7 support proposed use of an Endowment method.
8
9 December 18, 2001 Assembly Worksession to present the Administration's proposed
10 Charter Change Ordinance and Code Change Ordinance.
11
12 January 29, 2002 Public Hearing and earliest Approval Date for Charter Change
13 Ordinance and Code Change Ordinance.
14
15

16 THE ADMINISTRATION RECOMMENDS APPROVAL OF THE ATTACHED
17 ORDINANCE AMENDING AMC 6.50.060 TO DEFINE THE MOA TRUST FUND (730)
18 AS AN ENDOWMENT AND IMPLEMENT A CONTROLLED SPENDING POLICY FOR
19 FUTURE ANNUAL DIVIDENDS.
20
21
22

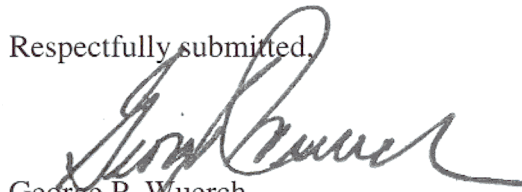
23 Concurrence:

24 
25
26
27 Harry J. Kieling, Jr.
28 Municipal Manager
29

Prepared by:


Daniel Moore
Municipal Treasurer

30
31 Respectfully submitted,
32
33
34

35 
George P. Wuerch
36 Mayor

Concurrence:


Kate Giard
Chief Fiscal Officer

MUNICIPALITY OF ANCHORAGE
Summary of Economic Effects - General Government

2002-10

AO Number: ~~2001-~~ Title: An Ordinance amending AMC 6.50.060 to define the MOA Trust Fund (730) as an endowment and implement a controlled spending policy for future annual dividends

Preparing Agency: Finance Department

Others Impacted:

CHANGES IN EXPENDITURES AND REVENUES: (Millions of Dollars)

	FY02	FY03	FY04	FY05	FY06
Operating Expenditures					
1000 Personal Services					
2000 Supplies					
3000 Other Services					
4000 Debt Service					
5000 Capital Outlay					

TOTAL DIRECT COSTS:

Add: 6000 Charges from Others
Less: 7000 Charges to Others

FUNCTION COST:

REVENUES:	0	(1.2)	(1.2)	0	0
-----------	---	-------	-------	---	---

CAPITAL:

POSITIONS: FT/PT and Temp.

PUBLIC SECTOR ECONOMIC EFFECTS:

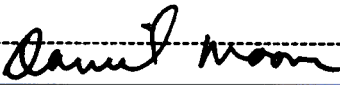
It is expected that the MOA Trust Fund (730) will generate approximately a \$7.0 million annual dividend over the next five years, as a result of following the endowment model cited in the proposed ordinance. In January 2002 the MOA Trust Reserve has a market value of \$9.5 million. The current budgeted dividend level to General Government for 2002 is \$9.4 million. Assuming no additional withdrawals or market depreciation in the MOA Trust Reserve, it is expected that the MOA Trust Reserve can provide a \$2.4 million annual supplement to the \$7.0 million endowment payout from the MOA Trust Fund (730) in 2002, subject to Assembly approval. The Administration will likely propose an adjustment to revenues of \$1.2 million per year during budget years 2003-2004, for a \$2.4 million total revenue reduction, in order to bring the revenues in-line with the \$7.0 million annual dividend expected from the MOA Trust endowment fund.

Over the long-term, it is expected that after applying the proposed endowment method the MOA Trust Fund will provide more predictable, sustainable dividend payments which grow over time, as compared to the current "earnings" approach which subjects the General Government budget to extreme market volatility year to year.

Refer to companion ordinance amending AMC 6.50.060 for further details regarding definitions and effective dates.

PRIVATE SECTOR ECONOMIC EFFECTS:

Currently the \$9.4 million dividend from the MOA Trust Fund (and MOA Trust Reserve, as necessary) is used to offset property taxes required to fund the General Government Operating Budget. The Administration will likely propose an adjustment to revenues of \$1.2 million per year during budget years 2003-2004, for a \$2.4 million total revenue reduction, in order to bring the revenues in-line with the \$7.0 million annual dividend expected from the MOA Trust endowment fund. It is unclear at the current time how property tax payers would be affected if alternative revenue sources and/or expenditure reductions were necessitated by a reduction in the future contributions coming from the MOA Trust endowment fund.

Prepared by: Daniel Moore, Treasurer

Telephone: 343-4092

Validated by OMB: Cheryl FraserDate: 1/24/02

Approved by: _____

(Director, Preparing Agency,

Date: 1/24/02

Concurred by: _____

(Director, Impacted Agency)

Date: _____

Approved by: M

(Municipal Manager)

Date: 1/25/2

Municipality of Anchorage
MUNICIPAL CLERK'S OFFICE
Agenda Document Control Sheet

As 2002-10

(SEE REVERSE SIDE FOR FURTHER INFORMATION)

1	SUBJECT OF AGENDA DOCUMENT MOA Trust Fund - Endowment Approach - Code Change	DATE PREPARED December 21, 2001	
		Indicate Documents Attached <input checked="" type="checkbox"/> AO <input type="checkbox"/> AR <input checked="" type="checkbox"/> AM <input type="checkbox"/> AIM	
2	DEPARTMENT NAME Finance Department	DIRECTOR'S NAME Kate Giard	
3	THE PERSON THE DOCUMENT WAS ACTUALLY PREPARED BY Daniel Moore	HIS/HER PHONE NUMBER 343-4092	
4	COORDINATED WITH AND REVIEWED BY	INITIALS	DATE
X	Mayor		
	Heritage Land Bank		
	Merrill Field Airport		
	Municipal Light & Power		
	Port of Anchorage		
	Solid Waste Services		
	Water & Wastewater Utility		
X	Municipal Manager	<i>MG</i>	<i>(25) 12/24/01</i>
	Cultural & Recreational Services		
	Employee Relations		
X	Finance, Chief Fiscal Officer	<i>CF</i>	<i>1/24/02</i>
	Fire		
	Health & Human Services		
X	Office of Management and Budget		
	Management Information Services		
	Police		
	Planning, Development & Public Works		
	Development Services		
	Facility Management		
	Planning		
	Project Management & Engineering		
	Street Maintenance		
	Traffic		
	Public Transportation Department		
	Purchasing		
X	Municipal Attorney	<i>[Signature]</i>	<i>01/22/02</i>
	Municipal Clerk		
	Other		
5	Special Instructions/Comments		
6	ASSEMBLY HEARING DATE REQUESTED January 8, 2002	7	PUBLIC HEARING DATE REQUESTED January 29, 2002

2002 JAN 25 PM 1:49
 MOA
 CLERK'S OFFICE