

Submitted by: Chair of the Assembly at the
Request of the Mayor
Prepared by: Finance
For reading: December 16, 2003

CLERK'S OFFICE

APPROVED

Date: 1-6-04 ANCHORAGE, ALASKA
AO 2003- 167

AN ORDINANCE AMENDING ANCHORAGE MUNICIPAL CODE SECTION 6.50.060 TO EXTEND THE PERIOD FOR DETERMINING AVERAGE MARKET VALUE WHEN CALCULATING THE ANNUAL ENDOWMENT FORMULA PAYOUT AND CLARIFYING PROCEDURES AND AUTHORITY USED IN THE SELECTION PROCESS ASSOCIATED WITH SELECTING MONEY MANAGERS SERVICING THE MOA TRUST FUND.

THE ANCHORAGE ASSEMBLY ORDAINS:

Section 1. Anchorage Municipal Code subsection 6.50.060 is hereby amended to read as follows (*the remainder of this section is not affected by this ordinance and is therefore not set out*):

6.50.060 MOA Trust Fund

A. *Definitions.* In this section, unless the context clearly indicates otherwise:

Average asset balance means the market value of the pooled trusts' assets, including accrued investment interest and dividends, averaged over the 20 [12] consecutive quarters ending March 31 of each fiscal year. During 2004[2] the average asset balance will be based on the 19 [11] quarters ended March 31, 2004[2].

G. *Management of the pooled funds.* Pursuant to Anchorage Municipal Charter §13.11(c) and Section 6.70.010, the municipal treasurer, under the direction of the chief fiscal officer shall manage the pooled trusts in accordance with the provisions of this section.

1. 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.

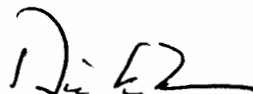
a. The municipal treasurer may procure services from money manager firms, including transition manager firms, through an investment consultant as provided in subsection 7.20.080A.4. The investment consultant shall be selected through a competitive process. The municipal treasurer shall coordinate with the investment consultant and shall solicit input from investment advisory commission members and the chief fiscal officer prior to the final selection of a money manager. For a money manager firm

1 contracted under the provisions of this section, assembly approval shall not
2 be required provided, however, the municipal treasurer shall report to the
3 assembly on a quarterly basis, through an assembly memorandum, on money
4 manager contracts entered into pursuant to the provisions of this section
5 including, but not limited to, the duties to be performed by the contractor and
6 the compensation paid. All money manager contracts adopted in accordance
7 with this section shall be approved by the chief fiscal officer prior to
8 execution by the Municipality.


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12 **Section 2.** This ordinance shall be effective immediately upon its passage and approval by the Assembly.
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15 PASSED AND APPROVED by the Anchorage Assembly this 6th day of January, 2004.
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21 _____
Chair of the Assembly

22 ATTEST:

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25 _____
26 Municipal Clerk
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MUNICIPALITY OF ANCHORAGE
Summary of Economic Effects - General Government

AO Number: 2003- 167 Title: An Ordinance amending AMC 6.50.060 to extend the average market value used in calculating the annual endowment formula payout and clarifying procurement rules to follow in selecting money managers

Preparing Agency: Finance

Others Impacted:

CHANGES IN EXPENDITURES AND REVENUES: (Thousands of Dollars)

	FY04	FY05	FY06	FY07	FY08
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:	400	500	0	-200	-200
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CAPITAL:

POSITIONS: FT/PT and Temp.

PUBLIC SECTOR ECONOMIC EFFECTS:

In the short term the drop in the annual payouts from the MOA Trust Fund will be less severe if the payout formula is based on 20-quarters of data rather than 12-quarters of data. This is particularly true since the Fund is now beginning to recover from 3 consecutive years of the worst bear market since the 1930's. A less drastic reduction in payout amounts further helps to avoid additional cuts to operating budgets over the next 1-2 years.

Over the long term, the change to a 20-quarter average will better preserve and grow the purchasing power of the MOA Trust Fund by slowing the growth of the annual payout. Within 10 years the Fund's payout under the 20-quarter approach is expected to exceed the payout associated with the current 12-quarter approach.

The use of an investment consultant to guide the selection process associated with hiring new money managers does not have a definable effect on revenues or costs. Overall this change is positive in that it streamlines the selection process and will allow manager changes to occur in half the time they would under a normal purchasing process (e.g., 6 weeks instead of 12). Selecting money managers according to a more efficient time frame will better position the MOA Trust Fund to be ready to act sooner in reallocating investment funds at opportune times in the market.

PRIVATE SECTOR ECONOMIC EFFECTS:

As a result of the payout formula change from averaging 20-quarters of data rather than 12-quarters of data, revenues from the MOA Trust Fund will not fall as dramatically as they would have otherwise (coming off 3 consecutive years of a bear market) and additional local government services will not need to be cut.

The change in the selection process for money managers will continue to support a full and fair selection process. The investment consultant will search the universe of money managers to select the best group of candidates in any particular investment discipline (note: the investment consultant's database contains thousands of potential money manager candidates to choose from). All candidates will be evaluated against a common set of criteria and a committee involving the Treasurer, CFO, Investment Advisory Commission members and the investment consultant will work together in the selection process.

Prepared by: Daniel Moore, Treasurer

Telephone: 343-4092



MUNICIPALITY OF ANCHORAGE

ASSEMBLY MEMORANDUM

AM 1007 -2003

Meeting Date: December 16, 2003

FROM: Mayor

SUBJECT: Ordinance amending AMC 6.50.060, MOA Trust Fund, to extend the average market value used in calculating the annual endowment formula payout and to clarify procurement procedures used in selecting money managers

1 The attached ordinance amends AMC 6.50.060, MOA Trust Fund, to further protect the value of
2 the MOA Trust Fund over time. There are two primary changes proposed, namely:
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- 4 • The proposed ordinance modifies the average market value used in calculating the annual
5 dividend from the MOA Trust Fund by extending the period from a trailing 12-quarter
6 average to a trailing 20-quarter average.
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8 **Background/Purpose:** In the short-term, over the next two years, the proposed Code change
9 will allow for a less dramatic decline in the annual payout (i.e., \$6.6M payout in 2004, rather
10 than \$6.2M payout. Note: The 2004 budget assumes a \$6.6M payout in 2004). Over the long
11 term the proposed Code change will further protect the long term purchasing power of the Trust
12 by slowing the growth of the annual payout. Slower growth in the payout will allow the corpus
13 of the MOA Trust Fund to grow more than it would have otherwise under the current payout
14 formula. The long term benefit to the Trust derived from this Code change is particularly
15 important as the markets recover from the worst 3-year bear market since the 1930's.
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- 18 • The proposed ordinance also clarifies how money managers are to be selected in the future
19 using the services of an independent investment consultant to guide the selection process.
20 AMC 7.20.080A.4 (Title 7 purchasing rules) authorizes the use of an expert to guide a
21 specialized industry search/selection process, as long as the expert is selected through a
22 competitive process. The proposed ordinance cross-references this purchasing rule and it
23 further defines the role of the Treasurer in coordinating with the CFO and Investment
24 Advisory Commission to perform future money manager selections.
25

26 **Background/Purpose:** Relying on an industry expert to guide the search/selection process for
27 money managers will shorten the time requirement to complete a full and fair selection process.
28 When changing a poor performing manager or when on the cusp of a potential major shift in the
29 markets, replacing or adding a new money manager in half the time (or more) that it would take
30 to select through normal purchasing processes better positions the MOA Trust Fund to reduce its
31 losses and/or benefit from an potential rise in the market. No manager changes are currently
32 being contemplated, as of the date of this memorandum.
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34 The Investment Advisory Commission unanimously recommended approval of this ordinance at
35 their November 5, 2003 meeting. The MOA Trust Fund's investment consultant, Michael
36 O'Leary of Callan Associates, also expressed full support for passage of this ordinance (see

1 attached letter from investment consultant). In addition, data from Commonfund Institute which
2 has tracked endowment industry trends and practices for the past three decades, supports the
3 conclusion that use of a 20-quarter average market value (rather than a 12-quarter average
4 market value) is a more conservative payout policy when compared to the overall industry
5 average for endowment payout policies. Note: the Alaska Permanent Fund dividend payout is
6 based also uses a 5-year average; except that their current formula is earnings based rather than
7 market value-based of annual earnings; they are attempting to convert the Permanent Fund to an
8 endowment model.

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10 THE ADMINISTRATION RECOMMENDS APPROVAL OF AO 2003- 167 AMENDING
11 AMC 6.50.060, MOA TRUST FUND, TO EXTEND THE AVERAGE MARKET VALUE
12 USED IN CALCULATING THE ANNUAL ENDOWMENT FORMULA PAYOUT AND TO
13 CLARIFY PROCUREMENT PROCEDURES USED IN SELECTING MONEY MANAGERS.

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16 Prepared By: Daniel Moore, Municipal Treasurer
17 Concur: Jeffrey E. Sinz, Chief Fiscal Officer
18 Concur: Denis C. LeBlanc, Municipal Manager
19 Respectfully submitted: Mark Begich, Mayor
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CALLAN ASSOCIATES^{INC}



December 3, 2003

SAN FRANCISCO

NEW YORK

CHICAGO

ATLANTA

DENVER

Mr. Daniel Moore
Treasurer
Municipality of Anchorage
632 West 6th Avenue
Anchorage, Alaska 99501

Dear Dan;

Re: Comments on Proposal to Shift To 5-Year Averaging for Distributions

You asked that I comment in writing regarding the proposal that has been discussed several times at meetings with the Investment Advisory Commission. Specifically, the proposal would shift the methodology of for determining the average market value for the fund assets.

The average market value is then multiplied by the distribution percentage to determine the annual distribution. First, I should note that Callan Associates believes that a percent of market value distribution approach is a very sound method for determining periodic distributions from similar funds. We have previously documented that the approach, when combined with a reasonable maximum distribution percentage, ensures that the purchasing power of fund assets is preserved. It also results in a reasonably stable and consistent distribution pattern. It is much more stable than utilizing a distribution approach tied to annual earnings.

We acknowledge that determining the optimum implementation approach involves tradeoffs. As the averaging period is extended (from one year to three or from three to five), the annual distribution pattern, over the long term, tends to be less volatile. We believe that most organizations understandably value this greater predictability in revenue. In our judgment, this is one of the key reasons that the majority of endowments utilize a percent of market value spending approach. They also incorporate some form of averaging to implement the policy.

Over time, the financial markets tend to trend up. Thus, the longer the period utilized to determine the average value the lower the effective distribution rate. For example, 5% of average 5-year market value will tend to be a lower percent of the most recent market value than 5% of average 3-year market value. Thus, one can correctly argue that lengthening the averaging period should tend to improve the probability that purchasing power of the corpus will be maintained.

In sum, we endorse the proposal to shift to a 5-year averaging period. We believe that it should improve the probability of preserving the fund's corpus while simultaneously improving the predictability of annual distributions.

I would be happy to discuss this with the Assembly as appropriate.

Sincerely

Michael J. O'Leary CFA
Executive Vice President

Content Information

Content ID : 001350

Title: Ordinance amending AMC 6.50.060, MOA Trust Fund, to extend the average market value used in calculating the annual endowment formula payout and to clarify procurement procedures used in selecting money managers, Finance

Author: pruittns

Initiating Dept: Finance

Date Prepared: 12/4/03 3:20 PM

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Assembly

Meeting Date 12/16/03

MM/DD/YY:

Public Hearing Date MM/DD/YY: 01/06/04

2003 DEC 15 11:10:36
KIP A
2003 DEC 15 11:10:36

Workflow History

<u>Workflow Name</u>	<u>Action Date</u>	<u>Action</u>	<u>User</u>	<u>Security Group</u>	<u>Content ID</u>
AllOrdinanceWorkflow	12/4/03 3:37 PM	Checkin	pruittns	Public	001350
Finance_SubWorkflow	12/4/03 5:43 PM	Approve	sinzje	Public	001350
AllOrdinanceWorkflow	12/8/03 5:02 PM	Reject	wiltsep	Public	001350
AllOrdinanceWorkflow	12/9/03 9:48 AM	Checkin	pruittns	Public	001350
OMB_SubWorkflow	12/11/03 8:12 AM	Approve	wiltsep	Public	001350
AllOrdinanceWorkflow	12/11/03 2:41 PM	Reject	fehlenrl	Public	001350
AllOrdinanceWorkflow	12/12/03 9:53 AM	Checkin	pruittns	Public	001350
Finance_SubWorkflow	12/12/03 10:22 AM	Approve	sinzje	Public	001350
OMB_SubWorkflow	12/12/03 10:26 AM	Approve	wiltsep	Public	001350
Legal_SubWorkflow	12/12/03 10:34 AM	Approve	fehlenrl	Public	001350
MuniManager_SubWorkflow	12/12/03 11:53 AM	Approve	leblancdc	Public	001350
MuniMgrCoord_SubWorkflow	12/12/03 3:38 PM	Approve	katkusja	Public	001350

ADDENDUM – CONSENT AGENDA - INTRODUCTION