

**ALEUTIANS EAST BOROUGH
ORDINANCE SERIAL NO. 18-11**

**AN ORDINANCE AMENDING TITLE 6, CHAPTER 6.04, SECTION 6.04.041
OF THE ALEUTIANS EAST BOROUGH
CODE OF ORDINANCES**

- WHEREAS**, the legislative power of the Aleutians East Borough ("Borough") is vested in the Borough Assembly under Alaska Statute Sec. 29.20.050; and
- WHEREAS**, the Aleutians East Borough Permanent Fund was created by the unanimous Borough Assembly in April 17, 1992; and
- WHEREAS**, the Aleutians East Borough Municipal Code provides for limited use of the Fund each year after inflation proofing for any municipal purpose including operations and capital needs. The Fund has grown from the initial deposits to a current value of over \$20 million dollars; and
- WHEREAS**, after considerable study, the unanimous Borough Assembly believes that limiting annual withdrawals to 4% of the Fund's five year average market value will protect the Fund, provide for long term growth and avoid the effects of short term fluctuations in value; and
- WHEREAS**, the proposed change adopts a method used across the world by endowments and is endorsed by investment managers.

NOW, THEREFORE, BE IT ENACTED AS FOLLOWS:

Section 1. That Section 6.04.041 of the Aleutians East Borough Municipal Code is hereby amended to read as follows:

6.04.041 Permanent Fund Account.

- A. Assembly Authority.** Unless the Assembly provides otherwise in its approved budget or an appropriation ordinance, the provisions of this

section shall govern the deposit and crediting of funds to the Permanent Fund Account established under section 6.04.040 1(B).

- B. Purpose. It is the goal of the Assembly that the Permanent Fund Account grow in perpetuity and provide a permanent, potential source of fiscal support to further the Aleutians East Borough's goals and needs. It also seeks to preserve the purchasing power over time. At any time, the mayor may propose and the Assembly may, on its own initiative or upon the recommendation of the mayor, deposit in the Permanent Fund Account amounts from any lawfully available source.

C. **Bond Covenant Considerations**

Upon approval of the Assembly by resolution or ordinance, and subject to prior covenants made pursuant to authority granted under this section, the Borough may enter into a bond covenant requiring that prior to any deposit or transfer to the Permanent Fund Account, the current fiscal year debt service on the bonds shall be paid, or that one or more deposits shall be made to the debt service fund of the bonds until the balance of the debt service fund equals an amount not exceeding debt service payments on the bonds remaining due during the current fiscal year. Funds of appropriations subject to a pledge under this subsection shall be deposited in accordance with such pledge. When the pledge has been fulfilled, funds that subsequently become available that are appropriated for the debt service on the bonds shall be deposited to the Permanent Fund Account to the extent the appropriation to the Permanent Fund Account is unfunded. Debt service payments include payments of principal and interest on bonds for which a pledge pursuant to this section 6.04.041 has been made.

- D. Spending Policy. The Borough Assembly may only appropriate from the Permanent Fund Account to the General Fund as follows: In its discretion and consistent with this Chapter, the Borough Assembly may, in any fiscal year, appropriate an amount not to exceed four percent (4%) of the five-year average fund market value, to be computed using the five (5) prior calendar years market value. This spending policy attempts to smooth the effects of market volatility and preserve the purchasing power of the fund.

If funds are appropriated from the Permanent Fund Account to the General Fund, the funds must be allocated to specific municipal functions.

(Ord. 12-01 (amended 01-08) Sec. 6.04.041(D))

E. Investments – Purpose and Limitations. A purpose of the permanent fund is growth through prudent investment of fund assets. Notwithstanding the objectives of the Borough policy for the investment of its operating and other funds set out in Code Section 6.08.010(C), the investment of permanent fund assets shall be made to maintain safety of principal while maximizing total return. Investments shall be diversified to minimize the risk of loss resulting from a concentration of investments in a specific maturity, issuer, class of security, financial institution or, with respect to equity investments, in a specific company, industry or investment sector. Fund assets may be invested in the instruments and securities set out in Code Section 6.08.030 and in the following securities:

- (1)
 - (a) Domestic Equities, which taken as a whole, attempt to replicate the Standard & Poor's 500 Index, including both mutual funds and exchange traded funds (ETF's).
 - (b) International Equities, which taken as a whole, attempt to replicate the Morgan Stanley Capital International Europe Australasia and Far East (MSCI EAFE) or a substantial similar Index, including both mutual fund and exchange traded funds (ETF's).
 - (c) Equities, which taken as a whole, attempt to replicate the universe of domestic real estate investment trusts as represented by the S&P REIT Index or the Cohen & Steers Realty Majors Portfolio Index, including both mutual funds and exchange traded funds (ETF's).
 - (d) Domestic Equities, which taken as a whole, attempt to replicate the Standard & Poor's 400 Mid Cap Index, including both mutual funds and exchange traded funds (ETF's).
 - (e) Emerging markets equity index funds, which taken as a whole, attempt to replicate the Morgan Stanley Capital International Emerging Markets or a substantially similar Index, including both mutual funds and exchange traded funds (ETF's).
- (2) Permanent Fund asset allocation plan and performance measurement targets.

The asset allocation targets and ranges are as follows:

Asset Class	Target % Weighting	Range %
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Domestic Equity	36	30-50
Mid / Cap. Equity	5	0-10
International Equity	10	5-15
Real Estate Equity	10	5-15
Fixed Income	34	25-60
Emerging Markets	5	0-10

(3) The Performance of the investment advisors will be measured as follows:

(a) Performance measurement for the Domestic Equity Allocation will be measured against the Target Weighting, using the Standard & Poor's 500 as the Benchmark.

(b) Performance measurement for the Mid/Small Cap Equity Allocation will be measured against the Target Weighting, using the Standard & Poor's 400 Mid Cap Index as the Benchmark.

(c) Performance measurement for the International Equity Allocation will be measured against the Target weighting using the Morgan Stanley Capital International Europe Australasia and Far East (MSCI EAFE) or a substantially similar Index for the Benchmark.

(d) Performance measurement for the Real Estate Allocation will be measured against the Target weighting using the Standard & Poor's REIT Index for the Benchmark.

(e) Performance measurement for the Fixed Income Allocation will be measured against the Target weighting using the Lehman Intermediate Gov/Credit Index for the Benchmark. The duration of the Fixed Income Allocation should be maintained between 80% and 120% of the duration of the Benchmark.

(f) Performance measurement for the Emerging Market Allocation will be measured against the Target weighting using the Morgan Stanley Capital International Emerging Market (MSCI Emerging) or a substantially similar Index for the Benchmark.

(Ord. 17-03 (amended 13-04) Sec. 6.04.041(F))

Section 2. Classification. This Ordinance shall be of a permanent nature and shall become part of the Aleutians East Borough Municipal Code.

Section 3: Severability. If any provision of this ordinance or any application thereof to any person or circumstance is held invalid, the remainder of this Ordinance and the application to other persons or circumstances shall not be affected thereby.

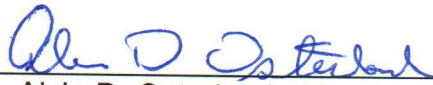
Section 4: Effectiveness. This ordinance shall become effective upon adoption, and shall be included in the Aleutians East Borough Municipal Code at the time of its next regular supplementation and printing or ratification by the qualified voters of the Aleutians East Borough.

Section 5: Adoption of Sections. Code Section 6.04.041 is hereby repealed and Code Section 6.04.041 as annexed hereto as Exhibit A as part of this Ordinance is hereby adopted as Code Section 6.04.041 of the Code of Ordinances of the Aleutians East Borough.

Passed and adopted by the Aleutians East Borough Assembly this 1st day of June, 2018.

Date Introduced: 5/10/18

Date Adopted: 6/1/18



Alvin D. Osterback, Mayor

Date 6/1/18

ATTEST:



Clerk

Date: 6/1/18