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## MEMORANDUM TO COUNCIL

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To: Mayor and City Council Members  
From: William Homka, City Manager  
Date: August 27, 2024  
Re: Permanent Fund Work

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**SUMMARY:** City Council began work to establish a 'permanent fund' under the prior administration. The 2022 change in city manager interrupted the project and it was started again in the fall of 2023. In the spring of 2024 William Lierman of Alaska Permanent Capital Management and Charles Cacciola, City attorney of Munson Cacciola and Severin collaborated to prepare documents that draft a path for the Council to create a permanent fund and establish investment allocations and performance benchmarks for the fund. The draft documents are in the form of an ordinance and resolution and are attached to this memo. Mr. Cacciola and Mr. Lierman will be present at the meeting to discuss the project.

**PREVIOUS COUNCIL ACTION:** None

**DISCUSSION:** The draft ordinance is an amendment to Unalaska's Code of Ordinances that adds Chapter 6.06, Permanent Fund. It would meet the Council's intention to set aside funds to generate a sustainable pool of annual interest that could be used to fund community nonprofits or other community organizations such as the school district, or whatever the Council decides to authorize. The Ordinance proposes seven sections that range from the fund's purpose, fund administration, allowable investments and performance measurement. The second document is a resolution that establishes the authorized investments, allocations and 15 performance benchmarks.

**STAFF RECOMMENDATION:** None

**CITY MANAGER COMMENTS:** I support the staff recommendation.

**ATTACHMENTS:**

Draft Permanent Fund Ordinance  
Draft Permanent Fund Resolution

CITY OF UNALASKA  
UNALASKA, ALASKA

ORDINANCE 2024-\_\_\_\_\_

AN ORDINANCE OF THE UNALASKA CITY COUNCIL AMENDING UNALASKA CODE OF ORDINANCES, TITLE 6 WITH THE ADDITION OF A NEW CHAPTER 6.06, PERMANENT FUND

WHEREAS, the Council seeks long-term fiscal sustainability and to mitigate effects of the business cycle on the City's finances; and

WHEREAS, creating a Permanent Fund is a component of long-term fiscal sustainability; and

WHEREAS, it is the Council's intention to persevere and grow City assets for present and future generations through returns on prudent investment of City funds; and

WHEREAS, so that future generations of Unalaska residents may benefit from the present use of resources, it is the Council's intention for City funds to be contributed to the Permanent Fund on an ongoing basis when the City's finances are able to sustain such contributions; and

WHEREAS, responsible and prudent use of Permanent Fund distributions to meet the needs and priorities of future generations should be determined by those persons without undue restriction from this Council;

NOW THEREFORE, IT IS ENACTED BY THE CITY COUNCIL OF THE CITY OF UNALASKA, as follows:

**Section 1: Classification.** This Ordinance is a Code Ordinance.

**Section 2:** Unalaska Code of Ordinances Title 6 REVENUE AND FINANCE is hereby amended with the adoption of a new Chapter 6.06 PERMANENT FUND to read as follows:

CHAPTER 6.06

PERMANENT FUND

Sections:

6.06.010	Permanent Fund Established and Purpose
6.06.020	Contributions
6.06.030	Distributions
6.06.040	Fund Administration
6.06.050	Strategic Asset Allocation
6.06.060	Allowable Investments
6.06.070	Performance Measurement

§ 6.06.010 PERMANENT FUND ESTABLISHED AND PURPOSE.

(A) There shall be a Permanent Fund of the City of Unalaska.

(B) The purpose of the Permanent Fund is to set aside and invest funds as the City's budget allows to maximize income for future capital and operating expenses of the

City and to preserve assets of the City for present and future generations while protecting the principal from being diminished by inflation and distributions.

§ 6.06.020 CONTRIBUTIONS.

Contributions to the Permanent Fund shall be made by non-code ordinance at the discretion of the Council.

§ 6.06.030 DISTRIBUTIONS.

- (A) In any fiscal year, the Council may appropriate from the Permanent Fund not more than the maximum sustainable distribution rate of the five-year average market value of the Permanent Fund, to be computed using the five prior fiscal year-end market values. The sustainable distribution rate shall be defined as the long-term expected return of the Permanent Fund less inflation. The maximum sustainable distribution rate shall be determined by resolution.
- (B) Any distribution from the Permanent Fund shall be paid into the City's general fund.
- (C) Notwithstanding subsection (A), there shall be no distribution from the Permanent Fund prior to July 1, 2029.

§ 6.06.040 FUND ADMINISTRATION.

- (A) The Council shall administer the Permanent Fund in accordance with this chapter.
- (B) The Council shall retain a bank custodian to hold all investment cash and securities in the name of the City's Permanent Fund. The custodian shall render monthly reports regarding assets held at both book and market values, and individual transactions which have taken place. There shall be a written contract between the City and custodian.
- (C) The Council shall retain one or more professional investment managers to design portfolios and invest funds in accordance with the investment policies adopted in accordance with this chapter. The investment managers must be registered financial advisers with both the United States Securities and Exchange Commission and the state and may not serve in any multiple roles as investment manager or securities broker custodian. An investment manager shall serve as a fiduciary to the Permanent Fund and carry professional liability insurance in the minimum amount of \$5,000,000. There shall be a written contract between the City and investment managers.
- (D) The Council, investment managers, and custodians shall exercise the judgment and care under the circumstances then prevailing which an investor of ordinary prudence, discretion and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation, but in regard to the long-term investment of funds considering the probable safety of capital as well as probable income.

- (E) An accounting of all Permanent Fund contributions, distributions, earnings, and expenses shall be maintained and available for public inspection.

§ 6.06.050 STRATEGIC ASSET ALLOCATION.

- (A) The Permanent Fund's strategic asset allocation shall be determined based upon the desired return, risk tolerance, and other investment parameters (liquidity needs, time horizon, etc.). The appropriateness and characteristics of the asset allocation strategy shall be reviewed by the Council and confirmed by resolution on an annual basis.
- (B) The strategic asset allocation guides the investment manager in creating a portfolio that best reflects the risk posture, expected return, and other investment parameters. In addition, the allocation constraints allow the investment manager to rebalance the portfolio at strategically advantageous times without undue administrative burdens. The allocation ranges also allow the investment manager to obtain higher investment returns and/or lower investment risks (within the constraints) in response to market conditions.

§ 6.06.060 ALLOWABLE INVESTMENTS.

- (A) *GENERAL*. Assets of the Permanent Fund shall be invested in investment vehicles that provide exposure to asset classes or implementation strategies which have been approved as part of the strategic asset allocation. All investments must comply with the fund-level investment guidelines and product-level investment guidelines established by this section.
- (B) *FUND LEVEL INVESTMENT GUIDELINES*. The Permanent Fund shall use low cost, efficient investment vehicles (index mutual funds and/or ETPs - Exchange Traded Products) for all equity exposure. For the fixed-income portion of the portfolio, the investment manager may use both mutual funds/ETPs or individual fixed income securities. The Permanent Fund shall achieve its objective via long-only, unlevered investments. The Permanent Fund shall be prohibited from engaging in direct short sales or margin transactions.
- (C) *PRODUCT LEVEL INVESTMENT GUIDELINES*. The Permanent Fund shall have a conservative posture on derivative securities to maintain a risk-averse nature. Since new derivative products may be created each year, the intention of this code is not to specifically list prohibited derivatives, but rather to establish a general policy on derivatives. Derivatives may be utilized within investment vehicles as a portfolio management tool. Derivative use within a product shall be permitted for the purpose of creating, enhancing, or mitigating exposure to an asset class or implementation strategy. Due to the inherent characteristics of derivatives, embedded leverage shall be permitted when fully collateralized. Net exposure exceeding the asset value of the investment vehicle shall be prohibited. Exposure shall be net long at all times.

§ 6.06.070 PERFORMANCE MEASUREMENT.

- (A) The Council shall monitor performance of the investment program and review an objective performance evaluation of the investment program not less than once annually. The Council may, by resolution, adopt additional requirements and standards for performance monitoring and measurement.
- (B) The investment manager shall provide objective measurement of the performance of the investment program against appropriate indices.
- (C) The Council may retain an independent performance measurement consultant whose contractual purpose shall be to provide objective measurement of the performance of investment managers and the portfolio against appropriate indices, as recommended by the consultant and adopted by the Council. Such consultant may not manage in any capacity any portion of the portfolio.

**Section 3: Effective Date.** This ordinance is effective upon the later of passage and July 1, 2024.

PASSED AND ADOPTED by a duly constituted quorum of the Unalaska City Council on \_\_\_\_\_, 2024.

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Vincent M. Tutiakoff, Sr.  
Mayor

ATTEST:

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Estkarlen P. Magdaong, CMC  
City Clerk

CITY OF UNALASKA  
UNALASKA, ALASKA

RESOLUTION 2024-\_\_\_\_\_

A RESOLUTION OF THE UNALASKA CITY COUNCIL ESTABLISHING AUTHORIZED INVESTMENTS, INVESTMENT ALLOCATIONS, AND PERFORMANCE BENCHMARKS FOR THE CITY'S PERMANENT FUND FOR FISCAL YEAR 2025

WHEREAS, pursuant to UCO § 6.06.050(A), the Council shall, by resolution, annually establish an Asset Allocation Plan for investment of the City's Permanent Fund; and,

WHEREAS, UCO § 6.06.060 authorizes Permanent Fund investment in various asset classes and establishing asset allocation criteria for these various asset classes is in the best interest of the City; and,

WHEREAS, UCO § 6.06.070 requires the Council to monitor investment performance and authorizes Council to adopt, by resolution, performance benchmarks and criteria; and,

WHEREAS, UCO § 6.06.03(A) provides that the maximum sustainable distribution rate shall be determined by resolution;

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL FOR THE CITY OF UNALASKA, ALASKA:

**Section 1: Asset Allocation.** The Asset Allocation Plan for Fiscal Year 2025 shall be as follows:

The Asset Allocation Plan and Target Weightings with range restrictions are:

<b>Asset Class</b>	<b>Target</b>	<b>Min</b>	<b>Max</b>
<b>EQUITY</b>	<b>47%</b>		
U.S. Large-Cap Equity	22%	12%	32%
U.S. Mid-Cap Equity	10%	5%	15%
U.S. Small-Cap Equity	5%	0%	10%
International Developed Equity	6%	0%	12%
Emerging Markets Equity	4%	0%	8%
<b>ALTERNATIVES</b>	<b>21%</b>		
Real Estate	3%	0%	6%

<b>Infrastructure</b>	<b>5%</b>	<b>0%</b>	<b>10%</b>
<b>Commodities</b>	<b>3%</b>	<b>0%</b>	<b>6%</b>
<b>Alternative Beta</b>	<b>10%</b>	<b>0%</b>	<b>15%</b>
<b>FIXED INCOME</b>	<b>32%</b>		
<b>U.S. Fixed Income</b>	<b>18%</b>	<b>8%</b>	<b>28%</b>
<b>U.S. High Yield Credit</b>	<b>5%</b>	<b>0%</b>	<b>10%</b>
<b>TIPS</b>	<b>2%</b>	<b>0%</b>	<b>10%</b>
<b>International Fixed Income</b>	<b>5%</b>	<b>0%</b>	<b>10%</b>
<b>Cash</b>	<b>2%</b>	<b>0%</b>	<b>10%</b>

**Section 2: Performance Benchmarks.** Performance of the Permanent Fund shall be measured as follows:

- A. Performance measurement of the U.S. Large-Cap Equity allocation will be measured against the Target weighting, using the Standard & Poor's 500 Index or a substantially similar index for the benchmark.
- B. Performance measurement of the U.S. Mid-Cap Equity allocation will be measured against the Target weighting, using the Standard & Poor's 400 Mid-Cap Index or a substantially similar index as the benchmark.
- C. Performance measurement of the U.S. Small-Cap Equity allocation will be measured against the Target weighting, using the Standard & Poor's 600 Small-Cap Index or a substantially similar index as the benchmark.
- D. Performance measurement of the International Developed Equity allocation will be measured against the Target weighting, using the MSCI EAFE Index or a substantially similar index for the benchmark.
- E. Performance measurement of the Emerging Markets Equity allocation will be measured against the Target weighting, using the MSCI Emerging Markets Index or a substantially similar index as the benchmark.
- F. Performance measurement of the Real Estate allocation will be measured against the Target weighting, using the Standard & Poor's US REIT Index or a substantially similar index as the benchmark.

- G. Performance measurement of the Infrastructure allocation will be measured against the Target weighting, using STOXX Global Broad Infrastructure Index or a substantially similar index as the benchmark.
- H. Performance measurement of the Commodity allocation will be measured against the Target weighting, using the Bloomberg Commodity Index or a substantially similar index as the benchmark.
- I. Performance measurement of the Alternative Beta allocation will be measured against the Target weighting, using the Wilshire Liquid Alternative Index or a substantially similar index as the benchmark.
- J. Performance measurement of the U.S. Fixed Income allocation will be measured against the Target weighting, using the Bloomberg Barclays US Aggregate Bond Index or a substantially similar index for the benchmark.
- K. Performance measurement of the U.S. High Yield Credit allocation will be measured against the Target weighting, using the Bloomberg Barclays U.S. High Yield Very Liquid Index or a substantially similar index as the benchmark.
- L. Performance measurement of the US Treasury Inflation Protected Securities (TIPS) allocation will be measured against the Target weighting, using the Bloomberg Barclays 0-5 Tear Treasury Inflation Protected Securities Index or a substantially similar index as the benchmark.
- M. Performance measurement of the International Bonds allocation will be measured against the Target weighting, using the Bloomberg Barclays Global Aggregate ex-USD Float Adjusted RIC Capped Index or a substantially similar index as the benchmark.
- N. Performance measurement of the Cash allocation will be measured against the Target weighting, using the Citi Group 90 Day T-Bill Index or a substantially similar index as the benchmark.
- O. Should the investment manager be required to select a strategic benchmark when implementing a discretionary strategic asset allocation adjustment, the performance will be measured against a commonly accepted performance benchmark that adequately measures the strategy and is unambiguous, measurable, and specified in advance.

**Section 3. Maximum Distribution Rate.** The maximum sustainable distribution rate based upon this strategic asset allocation is 4.0% over the long-term. The maximum annual distribution shall be determined by applying this rate to the five-year average market value of the Permanent Fund, computed using the five prior fiscal year-end market values of the Permanent Fund.

**Section 4. Effective Date.** This resolution takes effect upon the later of passage and July 1, 2024.

PASSED AND ADOPTED by a duly constituted quorum of the Unalaska City Council on \_\_\_\_\_, 2024.



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Vincent M. Tutiakoff, Sr.  
Mayor

ATTEST:

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Estkarlen P. Magdaong, CMC  
City Clerk