

PERMANENT FUND COMMITTEE

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Special Meeting
March 1, 2011
Noon



City Hall
Cowles Council Chambers
491 E. Pioneer Avenue
Homer, Alaska

PERMANENT FUND COMMITTEE
491 E. PIONEER AVENUE
HOMER, ALASKA

MARCH 1, 2011
TUESDAY, NOON
CITY HALL COWLES COUNCIL CHAMBERS

**NOTICE OF MEETING
SPECIAL MEETING AGENDA**

1. **CALL TO ORDER**
2. **APPROVAL OF AGENDA**
3. **PUBLIC COMMENTS REGARDING ITEMS ON THE AGENDA**
4. **APPROVAL OF MINUTES**
5. **VISITORS**
6. **STAFF & COUNCIL REPORT/COMMITTEE REPORTS/BOROUGH REPORTS**
7. **PUBLIC HEARING**
8. **PENDING BUSINESS**
9. **NEW BUSINESS**
 - A. Review and Recommendations of the Investment Policies of the Permanent Fund Pursuant to HCC 3.10.130(b)(2).
10. **INFORMATIONAL MATERIALS**
11. **COMMENTS OF THE AUDIENCE (3 MINUTE TIME LIMIT)**
12. **COMMENTS OF THE CITY STAFF**
13. **COMMENTS OF THE COUNCILMEMBER**
14. **COMMENTS OF THE CHAIR**
15. **COMMENTS OF THE COMMISSION**
16. **ADJOURNMENT/NEXT REGULAR MEETING** is scheduled for Thursday, April 14, 2011 at 5:15 p.m. in the Homer City Hall Cowles Council Chambers, 491 E. Pioneer Avenue, Homer, Alaska.

7. "Pledged" means specific securities set aside as collateral which are identified to a specific account.
8. "Bankers' acceptances" means an order to pay a certain amount of money on a certain date and bearing an unconditional promise of a bank to pay the draft at maturity. Bankers acceptances are secured by the credit worthiness of the bank and a U.S. Corporation as well as goods underlying the transaction.
9. "Commercial paper" means an unsecured promissory note of a corporation backed by a line of credit with a bank, issued for a specific amount and maturing on a specific day.
10. "Repurchase agreements" means short term transactions consisting of the purchase of a security with the promise to return it at a later date.
11. "U.S. Government agency or instrumentality securities" means obligations of the U.S. Government issued on behalf of U.S. Government departments through the Federal Financing Bank and securities issued by U.S. Government-sponsored enterprises or quasi-public corporations.
12. "U.S. Treasury Securities" means a security that is backed by the full faith and credit of the U.S. Government.
13. "Net Asset Value" means the invested fund's value remains the same. Any value above that is treated as income, i.e. invest \$1.00 today and withdraw \$1.00 tomorrow plus interest earned. (Ord. 93-14 § 3, 1993)

3.10.130 Governance of Homer Permanent Fund Assets. a. In investing and managing the monies of the Permanent Fund established pursuant to HCC Chapter 3.12, the persons having responsibility for making decisions shall exercise the judgment and care under the circumstances then prevailing which an institutional 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, in accordance with the stated objectives of the Permanent Fund.

b. In order to ensure sound investment strategy, the city council will take action in the following manner:

1. The city council shall establish written investment policies by formal resolution which shall be adhered to without exception;

2. The city council shall review the investment policies of the permanent fund at least once each year during the first quarter and shall, by formal resolution, re-adopt or modify said policies;

3. The city council shall establish, by formal resolution, a plan for the allocation of investment assets each year that provides for the following:

(a) That earnings available for annual appropriation and distribution shall be confined to the interest, dividends or coupon discounts derived from the investments of the fund. Realized or unrealized gains to the portfolio value are not considered earnings,

(b) The portfolio of growth sub-fund will be invested primarily in equities, and is exempt from HCC 3.10.040.

(c) The portfolio of the income sub-fund will be invested primarily in bonds and the other fixed rate securities authorized by HCC 3.10.040.

(d) The income sub-fund may be used as a revolving loan for various city capital projects as provided in HCC Chapter 3.12.

(e) Sets forth portfolio duration, and which establishes performance benchmarks, and which estimates the percentage or amount of that year's annual earnings that would be necessary to retain to inflation-proof the fund principal;

4. The city council shall establish a permanent fund investment committee consisting of the finance director, the city clerk, two members of the city council, and two members of the community at-large. The term of each appointment shall be two years, with initial terms of the city council members and members at-large staggered so that half of the terms will expire each year. The committee shall be appointed by the mayor and confirmed by the city council. The appointment of any city official will automatically terminate on the date when the person no longer holds such city office. Any city council member or member at-large may be removed from the committee at any time by the City Council.

5. The committee shall meet at least quarterly to provide direction as required for maintenance of the fund. The committee shall provide regular reports of its activity to the city council.

6. The city administration shall maintain on file within the offices of the Finance Department monthly reports which indicate transactions affecting the investment account, to include, at a minimum, transfers of cash into and out of the account, and interest or dividends received by the account;

7. The city administration shall order an objective performance evaluation of the investment program every year;

8. The city administration shall retain one or more bank custodians to hold all investment cash and fixed income securities of the permanent fund and require that the custodians shall render monthly reports to the administration regarding assets held at both book and market values, and individual transactions which have taken place; that the banks shall have adequate fidelity insurance, and that written contracts be entered into between the city and the custodian banks.

c. The city, with the approval of the city council, shall retain one or more professional investment managers to design portfolios and invest funds in accordance with the written investment policies adopted by the city council. The investment managers shall be registered financial advisers with both the United States Securities and Exchange Commission and the state of Alaska, unless otherwise exempt from registration, and the investment managers shall agree to serve as a fiduciary to the city. Each investment manager shall carry professional liability insurance in an amount satisfactory to the city, and the terms of the investment relationship shall be memorialized in a written contract entered into between the city and the respective investment advisers. (Ord. 05-14(S) §2), 2006)

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Chapter 3.12PERMANENT FUNDSections:

- 3.12.010 Homer Permanent Fund Established.
- 3.12.020 Contributions.
- 3.12.030 Allocation to sub-funds.
- 3.12.040 Additions to fund.
- 3.12.050 Investment of fund.
- 3.12.060 Expenditures of income.
- 3.12.070 Loans from income sub-fund.
- 3.12.080 Expenditure of principal.

3.12.010 Homer Permanent Fund Established. There is hereby established the Homer Permanent Fund. The Permanent Fund shall be governed by this chapter. (Ord. 05-14(S) §1, 2006)

3.12.020 Contributions. a. If monies from the distribution of the Exxon Valdez settlement or other forms of "wind-fall monies" become available to the City, 95% of such funds shall be placed in the Homer Permanent Fund.

b. "Wind-fall monies" shall be defined as any new monies received by the City from any source other than standard budgeted operating revenues and not allocated to any specific purpose. "Wind-fall monies" do not include bond proceeds, grant funds allocated to a specified purpose, or the proceeds of non-Exxon Valdez litigation when such proceeds are recovered as damages to compensate or reimburse the city for expenditures previously made by the city. In all cases, the City Council's determination of whether monies are "wind-fall" is final and conclusive.

c. The remaining five percent of Exxon Valdez settlement funds and other wind-fall monies are available to be appropriated by the City Council for grants to the Homer Foundation or other local non-profit organizations for the benefit of the community. (Ord. 05-14(S))

3.12.030 Allocation to sub-funds. When a contribution is made to the Permanent Fund pursuant to HCC 3.12.020, the money received shall be allocated to two sub-funds as follows:

a. Sixty percent of each contribution shall be allocated to an income sub-fund.

b. Forty percent of each contribution shall be allocated to a growth sub-fund. (Ord. 05-14(S) §1, 2006)

3.12.040 Additions to fund. The City Council may elect to contribute
a
monies to the Permanent Fund. Unless otherwise allocated by the council, such contributions shall be allocated to sub-funds pursuant to HCC 3.12.030. (Ord. 05-14(S) §1, 2006)

3.12.050 Investment of fund. The sub-funds of Permanent Fund shall be invested and managed in accordance with HCC 3.10.130. (Ord. 05-14(S) §1), 2006)

3.12.060 Expenditures of income. a. Expenditures of Permanent Fund income may be made only as authorized in this chapter.

b. The income from the income sub-fund may be appropriated by the City Council and be expended for general governmental purposes, including but not limited to ordinary operating expenses.

c. The income from the growth sub-fund shall not be expended. It shall be added to the principal of the growth sub-fund and reinvested. (Ord. 05-14(S) §1), 2006)

3.12.070 Loans from income sub-fund. The principal of the income sub-fund may be used as a source of loan funds for city capital projects, and not as a grant. To be eligible for such a loan the project must receive a majority of its funding from other sources. Such loans shall be on terms approved by resolution of the City Council, which must provide for the repayment of the loan over a reasonable period of time. (Ord. 05-14(S) §1), 2006)

3.12.080 Expenditure of principal. a. Expenditures of Permanent Fund principal may be made only as authorized in this section.

b. Except as a source of loan funds as provided in subsection 3.12.070, the principal of both the income sub-fund and the growth sub-fund shall neither be distributed nor spent without the authorization of sixty percent of city voters at a regular or special election.

c. Prior to submitting to the voters the question of whether to distribute or spend funds from the principal of the Permanent Fund, the City Council shall find that all reasonable options for borrowing have been exhausted, including the option of borrowing from the Homer Permanent Fund pursuant to section 3.12.070. (Ord. 05-14(S) §1), 2006)

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