

Session 13-03 a Regular Meeting of the Permanent Fund Committee was called to order on May 9, 2013 at 5:17 p.m. by Chair Barbara Howard at the City Hall Cowles Council Chambers located at 491 E. Pioneer Avenue, Homer, Alaska.

**PRESENT: COMMITTEE MEMBERS:** BARBARA HOWARD, JO JOHNSON, MATT NORTH, FRANCIE ROBERTS

### **APPROVAL OF AGENDA**

JOHNSON/ROBERTS - MOVED TO APPROVE THE AGENDA.

There was no discussion.

VOTE: YES. NON OBJECTION. UNANIMOUS CONSENT.

Motion carried.

Chair Howard asked that U.S. Bank be allowed more time if needed.

### **PUBLIC COMMENTS REGARDING ITEMS ON THE AGENDA**

There were no public comments.

### **APPROVAL OF MINUTES**

A. Synopsis of Special Meeting of April 11, 2013

ROBERTS/NORTH - MOVED TO APPROVE THE MINUTES OF APRIL 11<sup>TH</sup>.

There was no discussion.

VOTE: YES. NON OBJECTION. UNANIMOUS CONSENT.

Motion carried.

### **VISITORS**

A. Clarence Hughes & Rod Castelda, U.S. Bank

Matt North asked for an update on the fund and how they interpret the portfolio to be allocated.

U.S. Bank is governed by the City's ordinance and the investment policy statements. There are two portfolios, divided between a growth and fixed income portfolio. The allocation is 60% to growth and 40% to income, again governed by the investment policy statements.

Distributions are contained in the ordinance. Funds can be used for various expenditures by the City Council, primarily from the income fund. The growth fund should be reinvested and not used for outside allocations.

Earnings available for annual appropriation and distribution shall be confined to the interest, dividends, or coupon discounts derived from the investments of the income fund. The growth fund shall not be expended, but shall be added to the principle of the growth sub fund and be reinvested.

Matt North recalled the discussion (years ago) in setting up the funds was that the earnings off the growth fund should be taken and added to the income fund with the principle of the growth fund left in tact.

U.S. Bank, as the manager and custodian, follows the investment policy statements. Until there is an amendment from the committee and City Council, they will follow them.

The portfolio has been rebalanced, but no distribution has been made to the income side. The fixed income has been a buy and hold strategy. It is fully invested with \$.5M in bonds and \$30,000 in cash, all in investment grade, high quality names, yielding about 2.25%. The ten-year treasury is yielding less than 2%. The equity side started out with \$850,000. As of March 28, 2013 the account is \$1.1M. The stock market had appreciated by January and there was the concern about the debt ceiling and issues coming out of Europe. The equity portion of the portfolio was rebalanced to reduce the amount of risk. Funds were put in larger capitalization stocks and mutual funds that paid a hefty dividend. We are up \$225,000 in the equity portfolio. At the City's direction the equity fund could be rebalanced and sent to the fixed income fund.

U.S. Bank investments are reversed in the order the ordinance outlines. When the accounts were set up they were opposite of the ordinance; U.S. Bank took direction from the City when the deposits were originally made. The funds could be reversed. The objective of the money for perpetual growth is to grow the corpus within reason without too much risk. The capital gains were to be passed to the fixed income side. The fixed income fund could handle withdrawals as the City saw fit.

Matt North remembers the discussions from years ago well. He doesn't know how the investment policies were written the other way.

**B. Paul Jarvis, Managing Director with Time Value Investments (TVI)**

Paul Jarvis has 25 years experience investing, with 20 years experience in public funds investments. He has a long history with the City of Homer and has never lost any money. U.S. Bank has gigantic fees for the \$1.6M portfolio with \$18,000 in fees. The fees total 1.2% of the fund and there is a 30 page statement. Mr. Jarvis can reduce and simplify the portfolio.

The income side should be risk free and the growth side is where the risks are taken. The \$106,000 in fixed income mutual funds is nothing but risk. There is no maturity and they are fully exposed to a change in interest rates. Corporate and foreign issues are the bulk of the fixed income. There is credit risk with the low rated securities.

Mr. Jarvis recommends going to risk free funds. On the income side two federally insured CDs could be purchased with no management fee. They are backed by the FDIC. Five year CDs yield 1% and ten year CDs yield 2.1%. A \$.5M CD would yield \$7,500 a year. It would simplify the fund.

The manager of U.S. Bank and managers of all the mutual funds are all paid fees. Actively managed funds consistently yield less than indexed funds. An indexed fund is an investment with no management fees and follows the S & P 500. If the stock market appreciates by 10% so will your investment.

Mr. Jarvis' fees are \$4,000 for a \$1,000,000 CD. It is a one-time payment. The City's return will match the S & P 500. Once the City has the asset there is no connection to a broker.

Matt North commented the actively managed funds would reduce the opportunity for default. The City initially planned for a \$13M settlement.

## **STAFF & COUNCIL REPORT/COMMITTEE REPORTS/BOROUGH REPORTS**

### **PUBLIC HEARING**

### **PENDING BUSINESS**

- A. Review of Homer City Code 3.12 and Ordinance 13-06, Investment Policies of the Permanent Fund

Memorandum PFC 13-01 from Chair Howard as backup.

The investment policy statements will need to be reviewed.

The ordinance says 95% will be distributed 60% income/40% growth. One hundred percent was invested in the reverse with 60% growth/40% income. There is a question if the 5% was to go to The Homer Foundation or a non-profit in a lump sum. Since the 5% was not allocated, Council will need to approve the allocation. Earnings from both funds were taken, spending more than we should.

Ordinance 05-14(S) states income can be distributed. The City Attorney will craft an ordinance to change the 60/40 allotments. The 60 needs to feed the 40 to make the 40 feed the general fund. 2012 was the first year an allocation could be made. We want to keep the allocation as it is currently set up.

The Permanent Fund was designed to create income and we would never access the growth. Funds from growth are then sent to the income fund.

It is unclear if transferring 5% out of the fund will not pose a problem.

The City Attorney can review the ordinance and make the language clear.

## **NEW BUSINESS**

### **A. Election of Chair and Vice Chair**

Memorandum PFC 13-02 from City Clerk as backup.

Jo Johnson nominated Barbara Howard to continue serving as Chair. Barbara accepted the nomination.

Francie Roberts nominated Matt North as Vice Chair. Matt accepted the nomination pending he runs it by his attorneys.

## **INFORMATIONAL MATERIALS**

### **COMMENTS OF THE AUDIENCE (3 MINUTE TIME LIMIT)**

There was no audience.

### **COMMENTS OF THE CITY STAFF**

There were no comments from the staff.

### **COMMENTS OF THE COUNCILMEMBER**

There were no comments from Councilmember Roberts.

### **COMMENTS OF THE CHAIR**

There were no comments from Chair Howard.

### **COMMENTS OF THE COMMISSION**

Jo Johnson commented it is good the Committee is sorting it out.

Matt North seconded that.

Francie Roberts really likes working with this group. We have been productive as a group. She asked that a special meeting be scheduled in 4-5 weeks.

## **ADJOURNMENT**

There being no further business to come before the Committee, the meeting was adjourned at 6:49 p.m. A Special Meeting is scheduled for June 20, 2013 at 5:15 p.m. and the next Regular Meeting is scheduled for Thursday, August 8, 2013 at 5:15 p.m. in the Homer City Hall Cowles Council Chambers, 491 E. Pioneer Avenue, Homer, Alaska.

Submitted by Jo Johnson