

**Municipality of Anchorage
Assembly Budget/Finance
Committee Meeting**

Special Presentation – 12:10pm-1:10pm
June 15, 2023

**RE: MOA Trust Fund Governance
Implementation Ordinance AO 2023-68**

- I. Introductions / Background** (approx. 5-10 minutes)
 - A. Meeting Participants involved with MOA Trust Governance project**
 - 1. MOA Finance Department – Dan Moore, Municipal Treasurer; Glenn Cipriano, Deputy Municipal Treasurer, and Alden Thern, Acting CFO
 - 2. MOA Trust’s independent investment consultant, Jim Voytko, president of RVK
 - 3. Investment Advisory Commission (IAC) members – Julee Farley (current Chair) and Jeff Sinz (prior year Chair)
 - 4. MOA Law Department – Ben Bowman and Jessica Willoughby, Assistant Municipal Attorneys
 - B. MOA Treasury speaks to Background and Timeline**
- II. Overview by MOA Treasury re: AO 2023-68, Including Purpose and Guiding Principles, as well as model sources and various input received during ordinance drafting** (approx. 5-10 minutes)
- III. RVK to discuss their role and the process followed re: MOA Trust Fund Governance project and to speak to their overall view of AO 2023-68** (approx. 10-15 minutes)
- IV. Highlights of specific sections and key provisions within AO 2023-68** (approx. 15-20 minutes)
- V. Additional time for Q&A for RVK, MOA Treasury or MOA Law** (approx. 10-15 minutes)
- VI. Conclusion / Wrap-Up Comments**

BACKGROUND INFORMATION & TIMELINE

April 4, 2023 Ballot Proposition

FACT SHEET

Proposition # 11

MUNICIPAL CHARTER CHANGE TO MOA TRUST FUND GOVERNANCE

Anchorage voters will be asked at the April 4, 2023, regular election to change the management and governance structure of the \$400 million Municipality of Anchorage (MOA) Trust Fund (“Trust”) from the current sole fiduciary model to a newly established Fiduciary Board of Trustees. This proposed change was recommended by the Trust’s independent investment advisor following their detailed review of the current management and governance structure of the Trust, and has since received unanimous support from the citizen-based Investment Advisory Commission, the Municipal Administration, and the Municipal Assembly. The primary objective of the proposed change is to address potential risks associated with the current sole fiduciary structure that grants full management and governance authority with the Municipal Treasurer, by reassigning it to a Fiduciary Board of Trustees. This approach is in-line with best practices for management and governance of such funds and will serve to strengthen the management and protection of this valuable resource of the Municipality.

Please refer to Charter Change Ballot Ordinance AO 2022-116, Amended, for full details on the proposition – this is available through the Trust’s webpage at www.muni.org/moatrust.

The title of Proposition #11 which will be presented to the voters reads as follows:

AMENDING ANCHORAGE CHARTER SECTION 13.11 TO CHANGE MANAGEMENT AUTHORITY FOR THE MUNICIPALITY OF ANCHORAGE (MOA) TRUST FUND FROM THE TREASURER TO A FIDUCIARY BOARD AND ESTABLISHING PRIMARY FIDUCIARY DUTIES AND RESPONSIBILITIES ASSOCIATED WITH BOARD MANAGEMENT OF THE MOA TRUST FUND.

Specific key elements of Proposition #11 which the voters will be asked to approve include the following:

- Establishing a new Board of Trustees to manage the Trust, thereby replacing the Municipal Treasurer as the sole named fiduciary for the Trust. The new Board of Trustees would be required to report to and advise both the City Administration and the Municipal Assembly.
- Requiring that the Trust be managed consistent with the Uniform Prudent Investor Act which specifies principles and standards governing the conduct of fiduciaries serving investment funds.
- Confirming that Municipal Code Chapter 6.50 will be the vehicle by which the governing structure of the Board of Trustees and delineation of its operations are to be specified.
- Allowing for a one-year transition period in order to provide adequate time to transition from the sole fiduciary to a new Board of Trustees.

The proposed Charter Amendment was based on recommendation of the Trust’s independent investment advisor, RVK, Inc, following their formal review of the Trust’s current management and governance structure. RVK’s report was initially presented in the Fall of 2022 to the MOA Finance Department and Investment Advisory Commission. Their report and recommendations were then presented to Municipal Administration and the Assembly. The proposed Charter Amendment changing the Trust’s management and governance structure was subject to an extensive public process before receiving unanimous approval by the Municipal Assembly at their January 23, 2023 Special Meeting for inclusion on the April 4, 2023 municipal ballot.

Ballot Proposition #11 Fact Sheet (cont'd)

Further Background and Information

Since its inception in May 1999 with receipt of \$118.6 million from the net sale proceeds of the Anchorage Telephone Utility (ATU), the Trust has grown significantly to \$400 million as of late January 2023, due in large part to additional receipt of net sale proceeds from the Municipal Light & Power (ML&P) sale in October 2020. Over the past 24 years since inception, the Trust has paid out \$188.8 million to the General Government Operating Budget which has resulted in a one-for-one reduction in property taxes needed to fund the annual budget.

In conjunction with seeking voter approval of this proposition at the April 4, 2023 municipal election, the MOA Finance Department plans to subsequently work with the Trust's independent investment consultant and Investment Advisory Commission to put forth to the City Administration and Municipal Assembly further delineated fiduciary duties, responsibilities, and practices as part of a revision to all affected Municipal Code with the goal of ensuring that the Trust continues to be managed in a prudent manner in perpetuity for the benefit of future generations.

For further information: Glenn Cipriano, MOA Finance Department, (907) 343-6758

Trust website at www.muni.org/moatrust

MOA Trust Fund Governance Structure

Summary Timeline of Key Milestones (as of June 8, 2023)

- July 2022 – Independent Investment Consultant (i.e., RVK, Inc. based in Portland, OR) initiates special project to study MOA Trust Fund’s Governance Structure and to interview various parties, research and evaluate alternative Governance models, and make specific recommendations to MOA Finance Department and Investment Advisory Commission
- Sept/Oct 2022 – Investment Advisory Commission holds 2 special meetings to discuss RVK’s draft Analysis and Recommendations report
- October 18, 2022 – RVK issues final version of their Analysis and Recommendations report
- November 2022 – Jim Voytko of RVK and MOA Treasury brief CFO and Administration re: RVK’s Analysis and Recommendations report, and receives approval to submit ballot ordinance
- Dec 2022 / Jan 2023 – Ballot Ordinance Introduced and Approved by the Assembly (i.e., AO 2022-116, As Amended), changing MOA Trust Governance structure from a sole named fiduciary model (i.e., Municipal Treasurer) to a newly formed fiduciary Board of Trustees
- January 5, 2023 – Jim Voytko of RVK joins MOA Treasury and MOA Law to present ballot ordinance at Assembly Worksession
- Feb / Mar 2023 – MOA Treasury researches and collaborates with RVK and Investment Commission re: elements to be considered for inclusion in detailed implementation ordinance
- Mar / Apr April 4, 2023 – MOA voters approve Ballot Proposition #11 by nearly 60%, authorizing the formation of a Board of Trustees to manage the MOA Trust Fund in accordance with the Uniform Prudent Investor Act and setting a 1-year deadline for the new Board to be fully in place and operational
- May 2023 – MOA Treasury works with MOA Law to finalize implementation ordinance and briefs CFO and Administration and receives approval to submit implementation ordinance
- June 6, 2023 – MOA Trust Fund Governance Implementation Ordinance (i.e., AO 2023-68) introduced at Assembly meeting

<ul style="list-style-type: none">• June 15, 2023 – Assembly Budget/Finance Committee allocates a majority of meeting time to presentation from RVK and MOA Treasury / Law re: AO 2023-68

- June 20, 2023 – Public Hearing set for AO 2023-68, with discussion and approval same night or at subsequent Assembly meeting
- July – Sept 2023 – Projected time period for Recruitment / Confirmation re: prospective candidates to serve on the newly formed Board of Trustees
- Oct / Nov 2023 – Projected time period for Oversight and Management of MOA Trust to transfer from the Municipal Treasurer and Investment Advisory Commission to the new Board of Trustees
- April 2024 – Voter-mandated final deadline for the Board of Trustees to be seated and operational

PURPOSE / PRINCIPLES / GUIDEPOSTS – AO 2023-68

Excerpts from AM 435-2023

The purpose and intent of this original implementation ordinance is to provide rules and direction for the newly formed Board of Trustees to follow during its early years of operation. Once the Board is formed and operational for an estimated two or more years they may at that time have some additional changes to propose to further clarify their role, duties and authority granted to them. For the early years of the new Board's operation, the proposed ordinance focuses on formally cited well established fiduciary board standards associated with governance and defers to the Board for any other future potential changes to Municipal Code.

The proposed implementation ordinance was developed after much review and consultation with the following primary contributors:

- Finance Department (i.e., CFO, Treasury and Public Finance & Investment)
 - RVK, investment consultant to Trust
 - Investment Advisory Commission
 - MOA Law Department
 - Other top-level Administration

Most of the content used in the implementation ordinance was sourced from several key areas that have long been established practices and serve as on-point models for the new Board of Trustees, namely:

- Prudent Investor Act of 1994
- Alaska Permanent Fund Corporation
- Anchorage Police/Fire Retirement System (AMC 3.85)
- Other municipal code chapters providing baseline practices associated with municipal board governance
- Additional online research associated with fiduciary investment boards

Jim Voytko of RVK, Inc. (based in Portland, OR) Independent Investment Consultant for MOA Trust Fund



Jim Voytko – President, Director of Research, Senior Consultant, Principal
Located in our Portland office, Jim serves as President, Director of Research, and as a Senior Consultant with RVK. He joined the firm in 2004 and has over 40 years of industry experience. As a Senior Consultant, Jim has worked with both public and corporate pension plans, foundations and endowments, and insurance funds.

A sought-after public speaker, Jim has delivered original presentations on various topics at numerous institutional investment conferences. He is involved in multiple aspects of RVK's specialty consulting practices, most notably Asset/Liability studies and Board governance/investment program structural reviews. Jim's research responsibilities are focused primarily on capital markets issues and investment decision-making. He has also provided testimony on pension, investment, and financial issues to multiple state legislatures and the US Senate as well as participated in drafting legislation at both the state and federal level.

Prior to joining RVK, Jim served as the CEO/Executive Director of Oregon's statewide pension system for all employees of state and local governments, police and fire, teachers and higher education, statewide retiree health care insurance program, and statewide 457 deferred compensation program. He also served on the five-member Oregon Investment Committee, which directed the investment of all statewide funds totaling approximately \$45 billion.

Jim's experience also includes serving as Director of Research for PaineWebber, CIO and Managing Director of PNC Asset Management Group/PNC Advisors, and the Deputy Director and Chief Operating Officer of PaineWebber's Investment Banking Division. Jim earned his BA degree from Carnegie Mellon University, a Master of Public Administration degree from the University of Washington, and Master of Public Policy degree from Harvard University. Jim is a shareholder of the firm and serves on the firm's Board of Directors.]

MOA TRUST FUND GOVERNANCE PROJECT

AO 2023-68

Key Objectives & Observations from Jim Voytko of RVK

1. As the Governance Advisor to the MOA, the RVK Team focused on several critical objectives -- all of which have been adopted by voters and included in this draft implementing ordinance
2. The governance structure should protect the Trust and reflect its nature and purpose – a perpetual asset of Anchorage citizens for years to come
3. As a public investment fund the governance structure should strike a careful **balance** between independence and accountability
 - A seven-member Board of trustees with fiduciary responsibility
 - Board members selected by the Mayor and approved the Assembly
 - The MOA CFO holding an ex officio seat
 - A majority of members being independent of the MOA
 - Staggered terms to ensure continuity in the investment strategy and a measure of independence
 - Empowering the Board to retain advisors and asset managers they deem necessary to execute their fiduciary duty to the Trust.
 - Empowering the Board to make the investment decisions they feel best serve the interests of the Trust.
 - Obligations for reporting that ensure that the Board's actions are transparent to the Executive Branch, the Assembly and the public.
4. As a public asset, the endowment should be managed under the highest standard for institutional investing – the Uniform Prudent Investor Act
5. As a special and irreplaceable financial asset intended for the perpetual benefit of Anchorage citizens, it should be managed to achieve intergenerational equity

UNIFORM PRUDENT INVESTOR ACT (UPIA) SUMMARY HIGHLIGHTS

The Uniform Prudent Investor Act (UPIA) of 1994

The Uniform Prudent Investor Act (UPIA) is a statute that sets out guidelines for trustees to follow when making investments on behalf of others.

The UPIA requires trustees to take into account a diversified portfolio approach that follows modern portfolio theory and a total return approach.

Various sections of the Act refer to specific duties of the Trustees. For example:

- Section 1 invokes the Prudent Investor Rule while Section 2 speaks to Standard of Care, Portfolio Strategy, and Risk and Return Objectives.
- Section 3 talks about Diversification and Section 5&6 discuss the duty of Loyalty and Impartiality.
- Section 7 requires Trustee's to consider costs and Section 9 allows Trustees to delegate investment management functions to qualified 3rd parties.

The UPIA is not a federal law; rather, it is a legal doctrine that was developed in 1994 by the National Conference of Commissioners on Uniform State Laws. Forty-one states and the District of Columbia have officially adopted the UPIA.

KEY ROLE CHANGES RESULTING FROM AO 2023-68

- **Investment Advisory Commission (IAC)**
 - Oversight of MOA Trust + Municipal Cash Pool investments no longer applicable once Board of Trustees is seated and in operation

- **Board of Trustees**
 - Focused on oversight and management of MOA Trust Fund (note: Municipal Cash Pool oversight and management will be the responsibility of CFO, independent investment consultant, and Public Finance Division)
 - Replaces current 9-member IAC with a mix of external and internal trustees comprising a 7-member fiduciary Board, with the majority of the Board representing external members and the remainder comprised of currently employee MOA personnel
 - Fully replaces role of Municipal Treasurer with respect to MOA Trust Fund

- **Chief Fiscal Officer (CFO)**
 - Holds permanent, full voting ex officio seat on new Board

- **Municipal Treasurer**
 - Default backup to vacant CFO seat, if not otherwise designated
 - Municipal Treasurer would be expected to attend all Board meetings and would be a secondary authorized signer for Trust matters approved by the Board

- **Deputy Municipal Treasurer**
 - High-level, non-rep position hired based on institutional investment knowledge and experience
 - Assigned formal, permanent role as Trust Manager with specific duties and responsibilities cited in revised AMC 6.50.060

SUMMARY OF INDIVIDUAL SECTIONS WITHIN AO 2023-68

Excerpts from AM 435-2023

Section 1.

Repeals AMC 4.50.090, Investment Advisory Commission. See Exhibit A attached to ordinance for existing Code language to be repealed. The Commission's mission to provide oversight of the Trust and Municipal Cash Pool will no longer exist as a result of the passage of the ordinance.

Section 2.

Establishes a new Board of Trustees under AMC 4.40.170 to manage and oversee the Trust in a fiduciary capacity. This section of the ordinance represents the most substantive new Code language setting the standards and practices for the new Board to adhere to. The specific subject areas contained in Section 2 are summarized as follows:

- Establishment and purpose
- Board profile and formation (i.e., qualification, composition, selection, terms, removal)
- Powers and duties (predominantly modeled after Alaska Permanent Fund and Anchorage Police/Fire Retirement System)
- Board operation and communication
- Monitoring, reporting and annual expense appropriation
- Board member liability
- Sunset provision cited as not applicable

Section 3.

Adds new Board of Trustees to list of boards and commissions required to take Oaths of Office (AMC 1.35)

Section 4.

Amends a portion of CFO chapter (AMC 6.50.010-.030) primarily to modify the oversight role of the Municipal Cash Pool in response to the repeal of the Investment Advisory Commission's role going forward. In addition, various updates to technical investment definitions, cross references and format were incorporated.

Amends primary chapter governing the operation of the Trust (AMC 6.50.060). Definitions, modernized references, clarifying language, and cross references to the new Board are amongst the technical changes proposed. The most substantive change to this Code chapter involves removing references to the Municipal Treasurer as the primary position overseeing and managing the day-to-day affairs of the Trust. Instead, a newly designated Trust manager position is cited within the definitions section and a new section has been created listing all the duties of the Trust manager.

Section 5.

This final section of the ordinance specifies the timeline and conditions for the ordinance to become effective. The Investment Advisory Commission will cease to exist once the new Board of Trustees is functional and has held its first public meeting. The governance rules for the new Board will take effect at their first meeting.

KEY HIGHLIGHTS OF SECTIONS 2 & 4 OF AO 2023-68

Section 2, Subsection B, pages 2-4: Board Profile and Formation

- 7-member board, majority of members are external to MOA (B.2.)*
- Standard and financial-based background checks for all appointed trustees (B.1.)
- CFO has permanent, ex officio seat on the board (B.2.a.)
- Initial stubbed terms for designated board seats (B.4. – see also RVK chart on subsequent page)
- Full term spans 4 years (B.4.a.)
- Required 4-year break in serve as trustee after serving 2 full terms plus stubbed term, if applicable (B.4.d.)
- Based on a three-fourths vote the Board may recommend removal of a trustee for cause (examples cited in ordinance), however such recommendation is subject to further review and removal procedure cited in AMC 4.05.065, and final decision regarding removal of a trustee is made outside of the Board (B.5.)

*Per RVK's Analysis and Recommendation report dated October 18, 2022, this provision in AMC responds directly to RVK's Recommendation #3 which states:

A majority of the Board should consist of appointees that are not currently elected officials, appointed professionals, or employees of the Municipality. Adoption of the recommendation introduces independence and broader insights directly into the decision-making process and likely increases the probability of obtaining the strongest and most experienced Board candidates available to the Municipality."

Section 2, Subsection C, pages 4-7: Powers and Duties

- Board is granted broad powers in order to fulfill its fiduciary duty (C.1.)
- \$300 per meeting stipend based on precedence with Alaska Permanent Fund and Anchorage Police & Fire Retirement System (C.2.)
- Municipal Attorney's office required to be consulted on legal and contractual matters (C.3. and C.10.)
- Board and its trustees are deemed fiduciaries and the Uniform Prudent Investor Act of 1994 is cited as standard of care (C.4.)
- The Board to establish internal Policies & Procedures (C.7.)
- Specific responsibilities of CFO as an ex officio board member are cited (C.12.)

Section 2: Subsection D, pages 7-8: Board Operation and Communication

- Regular Board meetings to be announced at least 7 days in advance (D.1.)
- CFO is ineligible to serve as Board Chair (D.2.)
- Board Chair duties and requirements to coordinate with Trust Manager are delineated (D.3.)

Section 2: Subsection E, page 8: Monitoring, Reporting and Annual Expense Appropriation

- Transparency objective served by requiring regular posted updates to Trust's dedicated public webpage – see example on subsequent pages (E.3.)
- Board to produce an annual report addressed to both Mayor and Assembly (E.4.)
- Board required to submit a not-to-exceed annual appropriation resolution document to the Assembly, consistent with historical practice (C.5.)

KEY HIGHLIGHTS OF SECTIONS 2 & 4 OF AO 2023-68 (cont'd)

Section 2: Subsection F, pages 8-9: Board Member Liability

- Standard Liability protection consistent with AMC 1.50 (F.1.-F.3.)

Section 4: Subsection B, page 15: Management of Municipal Funds

- Reference to Investment Advisory Commission is deleted and CFO is required to at all times employ services of an independent investment advisor for advice and guidance pertaining to the Municipal Cash Pool. (B.4.)

Section 4: Subsection A, page 19: MOA Trust Fund Definitions Section

- Definition of *annual dividend* states that annual amount proposed to be paid by the Trust requires concurrence from the Board.

Section 4: Subsection A, page 21: MOA Trust Fund Definitions Section

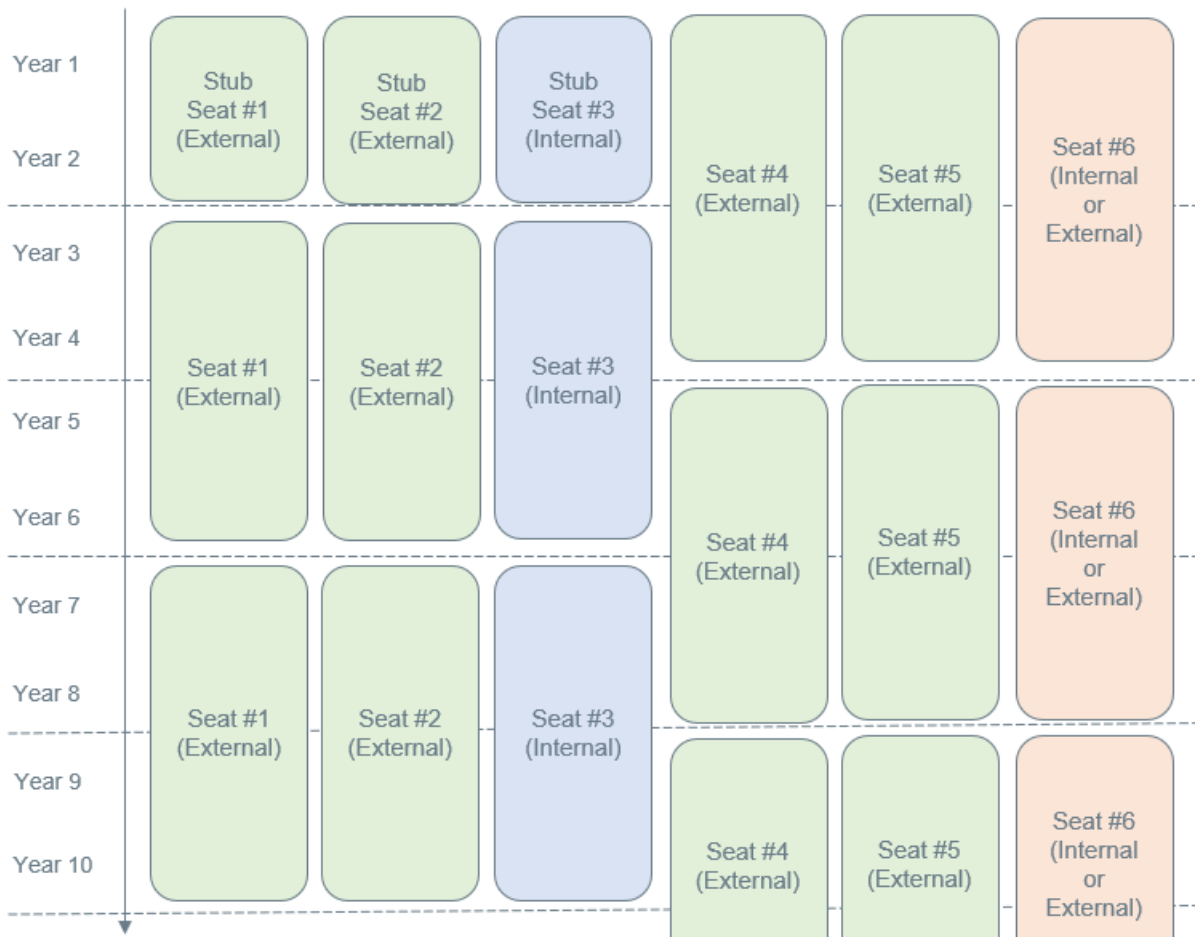
- Definition of *trust manager* states that this role will be filled by the deputy municipal treasurer who will report directly to CFO for all matters related to the Trust.

Section 4: Subsection F, pages 22-24: Management of the Trust / Trust Manager

- Cites the various authorities under which the Trust will be managed and delineates specific duties and responsibilities of the trust manager who fills the role previously tied to the municipal treasurer. Note: delineation of duties for the municipal treasurer were not previously detailed in AMC.

RVK ILLUSTRATION OF STUBBED / STAGGERED TERMS TO PROMOTE BOARD CONTINUITY OF OPERATION

Appointed Board Member Terms



MOA Trust Fund Web Page

www.muni.org/trust

(or Google "MOA Trust")



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MOA Trust Fund

Long Term Objective of the MOA Trust Fund

The investment objective of the Trust is to maintain the purchasing power of the Corpus and to maximize rates of return over time by utilizing a balanced investment approach, investing in both equity and fixed income instruments, within prudent levels of risk.

The MOA Trust Fund was created in May 1999 after Anchorage voters approved the sale of Anchorage Telephone Utility. In October 2020 the Trust's market value increased by nearly 2.5x as a result of receiving net proceeds of \$229.6M from the sale of Municipal Light & Power (ML&P). This site provides residents with background information as well as current information relating to the Trust.

What's New - MOA Trust Governance Change

- [Charter Change Ballot Ordinance - April 4, 2023 Municipal Election \(AO 2022-116, As Amended, Approved by Assembly January 23, 2023\)](#)
- [Voter Fact Sheet - Charter Change Ballot Ordinance](#)
- [Agenda from January 5, 2023 Assembly Worksession](#)
- [Citizen-based Investment Advisory Commission Resolution supporting Charter Change Ballot Ordinance](#)
- [Independent Investment Consultant \(i.e. RVK\) recommending change in Governance Model from Treasurer as sole fiduciary to Board of Trustees](#)
- [Uniform Prudent Investor Act of 1994](#)
- [MOA Trust Governance Timeline - as of June 8, 2023](#)
- [Proposed Implementation Ordinance \(AO 2023-68, Introduced at June 6, 2023 Assembly Meeting\)](#)

Assembly Worksession Presentations

- [Assembly MOA Trust Fund Update/Overview \(Sept 25 2020\)](#)
- [Assembly MOA Trust Fund Update/Overview \(Jan 15 2010\)](#)
- [Assembly Briefing re: Endowment Model \(Aug 14 2001\)](#)

Dividend Calculation

- [Actual and Projected Dividend Calcs](#)
- [MOA Trust Fund Divided Payout Rate Reduction to 4.00% \(AIM 35-2022, accepted by Assembly March 1, 2022\)](#)
- [Revised Not-to-Exceed Dividend Payout Formula \(AO 2020-98, approved by Assembly Oct 1 2020\)](#)
- [Revised Not-to-Exceed Dividend Payout Formula \(AO 2016-127, approved by Assembly Nov 01 2016\)](#)
- [Revised Not-to-Exceed Dividend Payout Formula \(AO 2009-3, approved by Assembly Jan 20 2009\)](#)

Additional Charter, Code & Investment Policy Changes

- [Municipal Code Change \(AO 2020-98, approved by Assembly Oct 1 2020\)](#)
- [Municipal Charter Change to Endowment Model \(AO 2002-11, approved by Assembly Feb 12 2002\)](#)
- [Investment Policy Statement \(Revised Sept 1 2020\)](#)

MOA Trust Fund Web Page (cont'd)

Performance

- [1-page Market Summary as of May 2, 2023](#)
- [Q1 2023 Executive Summary Chart and Graphs](#)
- [2022 Annual Report from Treasurer](#)
- [2021 Annual Report from Treasurer](#)

Investment Advisory Commission (IAC)

- [2022 Annual Report from IAC](#)
- [2021 Annual Report from IAC](#)

Investment Consultant RVK

- [Q1 2023 Report](#)
- [Q4 2022 Report](#)
- [Q3 2022 Report](#)
- [Q2 2022 Report](#)
- [Q1 2022 Report](#)
- [Q4 2021 Report](#)
- [Q3 2021 Report](#)
- [Q2 2021 Report](#)

Agenda for Q1 2023 Quarterly Meeting

- Q2 2023 IAC Regular Meeting Agenda - Will be provided once complete

Next Regular Quarterly Meeting

- August 21, 2023

ADDITIONAL Q&A

NEXT STEPS