

Municipality of Anchorage

Anchorage Regional Landfill Closure and Post-Closure Care Investment Fund

Presentation to Assembly Enterprise and Utility Oversight Committee

Thursday, June 15, 2023, 11 am



Presentation Participants

- **Angela Astle, Board Chair**

- EVP & Chief Financial Officer, Chugach Alaska Corporation
- President, Chugach Investment Holdings, LLC

- **Jeffrey Sinz, Board Vice Chair**

- Retired CFO/CIO - Bristol Bay Native Corporation
- Former CFO - Municipality of Anchorage
- Former Finance Director – MOA Solid Waste Services

- **Ross Risvold, Board Secretary**

- Manager – MOA Public Finance and Investments (PF&I)

Agenda

ARL Closure and Post-Closure Care Investment Fund

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AIM 101-2023, Annual Report to the Assembly

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ARL Closure and Post-Closure Care Investment Fund

Jeffrey Sinz, Board Vice Chair

ARL Closure and Post-Closure Care Investment Fund - Overview

Section 1

- The Solid Waste Disposal Utility (SWD) operates the Anchorage Regional Landfill (ARL)
- The full cost of operating the ARL, including closure and post-closure care costs, is funded through user fees charged to customers during its useful life.
- Under accounting (GAAP) and regulatory (FCR's) rules, landfill operators are required to accrue liabilities and fund the present value of future closure and post-closure care costs during the useful life of the facility based on the percentage of total capacity as consumed.
- In December, 2016, the Assembly amended AMC 26.80.060 and enacted a new AMC 26.80.065 to create and fund the ARL Closure and Post-Closure Care Restricted Cash and Investment Fund, and establish an Investment Board with responsibility and authority to manage the Fund.
- The purpose of the Fund is to accumulate sufficient assets during the useful life of the ARL to pay the future cost of landfill closure and the cost of post-closure care for a 30-year period following the ARL's final close.
- The Board's first meeting was conducted on August 25, 2017. Since that time the Board has grown from three MOA employee-members, to five following the addition of two public members in February, 2019.
- Fund assets were fully invested following Board adoption of the Fund's initial Investment Policy in September, 2018.
- Approximately two thirds of Fund assets are expected to be needed by 2064 to pay ARL closure cost, the remainder will be needed to pay the cost of post-closure care through 2094.
- The value of Fund Assets is projected to peak at \$218.5 million in 2064.

- Title 40. CFR, Parts 257 and 258 EPA Rules require that Landfill Operators accumulate sufficient funds to pay the liability associated with future final closure of the landfill, and monitoring and maintenance costs for 30 years thereafter.
- SWD shall include in its annual budget the liability associated with future ARL closing and post-closing care costs based on utilization of expected landfill capacity.
- Each user of the ARL shall pay a proportionate share of the closure and post closure care costs through tipping fees charged during the useful life of the ARL.
- SWD shall set aside annual deposit amounts specified in AMC 26.80.065.E.2.
- Deposits into the closing and post closing care restricted cash and investments account can only be used for the specified purpose.
- Withdrawals from the Fund for purposes other than to pay ARL closure and post-closure care costs shall require Assembly approval.

- Establishes “ARL Closure and Post-Closure Care Investment Fund”
- Purpose of Fund is to accumulate, manage and safeguard Fund assets.
- Establishes Board to manage all investment activities of the Fund
 - Five Members (1+ SWS, 1+ PF&I, 2+ public)
 - Appointed by Mayor confirmed by Assembly
 - Staggered three-year terms
- Board shall manage all investment activities of the Fund.
- Board shall develop and adopt written investment policies.
- Investment objective of Fund is to achieve a long-term return on investment of Fund assets which in conjunction with annual deposits from SWD will be sufficient to satisfy the ARL closure and post-closure care liability.
- Board may engage services of financial/investment advisors, trustees, custodians, money managers, and others services deemed necessary to perform its duties.
- Administrative support will initially be provided by PF&I.

- Fund shall pay an investment management fee to PF&I as long as Fund exist.
- Board shall monitor and ensure timely deposit of monies from SWD.
- SWD deposits determined prospectively for five-year periods based on projections derived from the SWS long-term financial forecasting model (Raftelis Model).
- SWD customer deposits occur annually no later than June 30.
- Board shall engage an independent analyst or company to perform an estimate of the closure and post-closure care liability at least every ten years starting in 2020.
- The Board shall submit an annual report to the Assembly by June 30 each year.

AIM 101-2023, Annual Report to the Assembly Consent Agenda May 9, 2023

Angela Astle, Board Chair



Investment Strategy/Policy

- Developed with assistance of Fund's Investment Consultant (Callan)
 - First approved by Board in September, 2018
 - Reviewed at least annually and updated as appropriate
- Investment Objectives
 - Earn competitive rate of return on investments
 - Manage investment risk to minimize need for future contributions
 - Maintain adequate liquidity for projected needs
 - Manage assets in cost effective manner
- Asset Allocation (rebalanced quarterly)
 - 30% US Equity
 - 20% Non-US Equity
 - 50% Fixed Income
- Capital Markets Forecast (10 year)
 - As of 2018 @ adoption
 - Median Return Expectation = 5.50%
 - Standard Deviation = 9.31%
 - Current - 2023
 - Median Return Expectation = 6.2%
 - Standard Deviation = 9.0%

Investment Strategy/Policy

Asset Allocation - Execution Strategy

- Passively Managed Index Funds – Equity Allocations
 - US Equity: Fidelity 500 Index Fund
 - Non-US Equity: Vanguard Total International Stock Index Fund
 - Fixed Income: iShares US Aggregate Bond Index Fund

Board Approved Change in Execution Strategy for Fixed Income Allocation (comprises 50% of portfolio)

- **from** Passively Managed Core Index Fund
- **to** Actively Managed Core-Plus Fund
 - Increase in expected long-term Return of 50-100 bps per year
 - Up to 20% High Yield and Non-US
 - Improved risk-return characteristics
- Board Approved November, 2022
- Implemented 1st Quarter of 2023

Market value of Fund - 2022

December 31, 2021	\$ 19,351,367
Contribution	500,898
Return	<u>(2,958,973)</u>
December 31, 2022	\$ 16,893,292

- Total Portfolio down 15% (benchmark down 14.9%)
- Difference from benchmark due primarily to temporary asset allocation differences between portfolio and benchmark

Prior Calendar Years

2022 Returns	(15.0%)
2021 Returns	9.4%
2020 Returns	12.5%
2019 Returns	17.3%



- Broad Market decline in calendar 2022
- Global Stock and Bond Markets posted double digit losses
 - US Bonds posted record breaking losses
 - US Stocks Indices down most since 2008
- Market declines attributable to
 - Federal Reserve aggressive rate hikes to combat inflation
 - Market uncertainty associated with War in Ukraine
 - Market concern about possible recession
 - Covid-19 related government restrictions in China continue to constrain economy
- 2023 Outlook Improving
 - Stock and Bond markets improved performance first quarter
 - Inflation appears to be moderating
 - Federal Reserve may be nearing the end of tightening cycle
 - Labor markets remain resilient
 - China reopening, albeit somewhat rocky

ARL Closure and Post-Closure Care Liability

Section 8

- Accrued Liability of \$39.8 million as of December, 2022
 - Present Value of Future Costs
 - Factored by Percent of Landfill Capacity Utilized
 - Assumed Inflation Rate of 3.5%
- Assets on Hand of \$16.9 million as of December, 2022
 - Assumed Growth Rate of 5.5%
- The expected rate of return on fund investments and the annual deposits from SWD are modeled to result in the value of the fund assets equal to fund liabilities when become payable.
- The funding status is revisited every five years (2026)
- Closing Costs Occur 2048-2064
- Post-Closing Care Costs Occur 2064-2094

- 2023 Contribution = \$535,408
- Proportionate Customer Contributions based on projected ARL Utilization
- Source of Projections - Raftelis Model
- Model Assumptions and Resulting Projections Updated Every Five Years

QUESTIONS

