

Memo

Thru: Mark Gorman, Municipal Administrator

To: City and Borough of Sitka Assembly

From: Jay Sweeney, Chief Finance and Administrative Officer *J 7/5/16*

Date: July 1, 2016

Re: Changes to Sitka General Code Regarding Annual Transfer to the Permanent Fund

Mayor McConnell and Assembly Members,

During its past several meetings, the Investment Committee has also engaged in lengthy discussion regarding the requirement embedded in the Home Rule Charter ("the Charter, or SHC") to transfer 6% of the average market value to the Fund annually to the General Fund, and, its effect on limiting the growth of the corpus of the Permanent Fund.

Per the Charter, the stated purposes of the Permanent Fund are to provide an ever-increasing income stream to the Sitka General Fund in perpetuity, and, to reduce the tax burdens on the citizens of Sitka (Section 11.16 SHC). The Charter also, however, mandates that 6% of the average market value of the Permanent Fund be annually appropriated for transfer to the General Fund. The combined effect of these provisions however, especially in periods of sustained low investment returns, can lead to the achievement of the purpose of reducing tax burdens, but at the expense of reducing the income stream (by transferring too much out of the Permanent Fund.)

Analysis by the Investment Committee noted that, while increasing, the market value of the Permanent Fund had not maintained its purchasing power when adjusted for inflation. This was as a result of the mandated annual 6% transfer being too high. Members of the Investment Committee noted that, had the transfer of the Permanent Fund been reduced in prior years, the resulting larger corpus of the Fund would have provided a larger transfer at 4% in FY17 than will actually take place at 6%.

The Investment Committee deliberated for over 6 months on the best way to address the problem of unsustainably high transfers out of the Permanent Fund. Significant consideration was given to recommending a Charter amendment. Ultimately, however, the Investment Committee opted to recommend an annual transfer back to the Permanent Fund to reduce the effective percentage of the transfer and grow the value of the Permanent Fund to maintain its inflation-adjusted purchasing power.

The advice of the Municipality's Permanent Fund Manager, Alaska Permanent Capital Management (APCM) was that a transfer rate between 4% to 4.5% was optimal and could be sustained over the long run, given the current investment climate. As a result, the Investment Committee chose an effective transfer rate of 4% as a target withdrawal rate.

To reduce to budgetary shock of any transfer back to the Permanent Fund, the Investment Committee voted to recommend that the movement towards an effective transfer rate of 4% be gradual, progressing in annual increments of 0.5%. This would result, for example, in 1/12th of the annual transfer mandated by the Permanent Fund being transferred back in FY2017, 1/6th in FY2018, 1/4th in FY2019 and 1/3rd in FY2020.

Given its deliberations, the Investment Committee voted to request that the Administrator prepare an ordinance which would enact its recommendations.

CITY AND BOROUGH OF SITKA

ORDINANCE NO. 2016-23

AN ORDINANCE OF THE CITY AND BOROUGH OF SITKA AMENDING CHAPTER 4.19 "SITKA PERMANENT FUND" BY ADDING A NEW SECTION 4.19.020 "ANNUAL TRANSFER TO PERMANENT FUND"

1. **CLASSIFICATION.** This ordinance is of a permanent nature and is intended to become a part of the Sitka General Code.

2. **SEVERABILITY.** If any provision of this ordinance or any application to any person or circumstance is held invalid, the remainder of this ordinance and application to any person or circumstances shall not be affected.

3. **PURPOSE.** The purpose of this ordinance is to establish procedures within the Sitka General Code which provide for an annual transfer of funds from the Sitka General Fund to the Permanent Fund in order to offset the effects of inflation and to help sustain the purchasing power of the Permanent Fund.

4. **ENACTMENT.** NOW, THEREFORE, BE IT ENACTED by the Assembly of the City and Borough of Sitka that a new Section 4.19.020 is added to the Sitka General Code as follows (old or repealed language stricken, new language underlined):

Chapter 4.19
SITKA PERMANENT FUND

Sections:

4.19.010 Fund established

4.19.020 Annual transfer to permanent fund

4.19.020 Annual Transfer To Permanent Fund.

As part of the annual budget submission to the Assembly, the Administrator will include an amount of funds to be transferred from the General Fund to the Permanent Fund during the subsequent fiscal year. The purpose for the transfer will be to reduce the effective take out from the Permanent Fund so that the purchasing power of the Permanent Fund is maintained as much as possible. The initial transfer will take place in FY2018 and will be 0.25% of the average market value of the Sitka Permanent Fund for the past three years, as measured on December 31st of each year. The amount of the annual transfer will increase by 0.25% per subsequent fiscal year, to a maximum of 2.0%.

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49 5. **EFFECTIVE DATE.** This ordinance shall become effective on the day after the
50 date of its passage.

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52 **PASSED, APPROVED, AND ADOPTED** by the Assembly of the City and Borough
53 of Sitka, Alaska this 26th day of July, 2016.

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Mim McConnell, Mayor

57 **ATTEST:**
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Sara Peterson, CMC
60 Municipal Clerk
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