



**ALEUTIANS EAST BOROUGH
ORDINANCE SERIAL NO. 25-03**

AN ORDINANCE AMENDING TITLE 6, CHAPTER 6.04, SECTION 6.04.041
OF THE ALEUTIANS EAST BOROUGH
CODE OF ORDINANCES

WHEREAS, the legislative power of the Aleutians East Borough is vested in the Borough Assembly under Alaska State Statute Sec. 29.20.050; and

WHEREAS, Chapter 6.04 of the Code of the Aleutians East Borough of Alaska outlines Finances; and

WHEREAS, Section 6.04.041 of the Code of the Aleutians East Borough of Alaska outlines the Permanent Fund; and

WHEREAS, Section 6.04.041 currently says:

6.04.041. Permanent Fund Account.

- A. **Assembly Authority.** Unless the Assembly provides otherwise in its approved budget or an appropriation ordinance, the provisions of this section shall govern the deposit and crediting of funds to the Permanent Fund Account established under section 6.04.040 1(B).
- B. **Purpose.** It is the goal of the Assembly that the Permanent Fund Account grow in perpetuity and provide a permanent, potential source of fiscal support to further the Aleutian East Borough's goals and needs. It also seeks to preserve purchasing power over time. At any time, the mayor may propose and the Assembly may, on its own initiative or upon the recommendation of the mayor, deposit in the Permanent Fund Account amounts from any lawfully available source.
- C. **Bond Covenant Considerations.** Upon approval of the Assembly by resolution or ordinance, and subject to prior covenants made pursuant to authority granted under this section, the Borough may enter into a bond covenant requiring that prior to any deposit or transfer to the Permanent Fund Account, the current fiscal year debt service on the bonds shall be paid or that one or more deposits shall be made to the debt service fund of the bonds until the balance of the debt service fund equals an amount not exceeding

debt service payments on the bonds remaining due during the current fiscal year. Funds of appropriations subject to a pledge under this subsection shall be deposited in accordance with such pledge. When the pledge has been fulfilled, funds that subsequently become available that are appropriated for the debt service on the bonds shall be deposited to the Permanent Fund Account to the extent the appropriation to the Permanent Fund Account is unfunded. Debt service payments include payments of principal and interest on bonds for which a pledge pursuant to this section 6.04.041 has been made.

- D. **Spending Policy.** The Borough Assembly may only appropriate from the Permanent Fund Account to the General Fund as follows: In its discretion and consistent with this Chapter, the Borough Assembly may, in any fiscal year, appropriate an amount not to exceed four percent (4%) of the five-year average fund market value, to be computed using the five (5) prior calendar years market value. This spending policy attempts to smooth the effects of market volatility and preserve the purchasing power of the fund.

If funds are appropriated from the Permanent Fund to the General Fund the funds must be allocated to specific municipal functions.

(Ord. 18-11 (Amended 12-01) Sec. 6.04.041(D))

- E. **Investments – Purpose and Limitations.** A purpose of the permanent fund is growth through prudent investment of fund assets. Notwithstanding the objectives of the Borough policy for the investment of its operating and other funds set out in Code Section 6.08.010(C), the investment of permanent fund assets shall be made to maintain safety of principal while maximizing total return. Investments shall be diversified to minimize the risk of loss resulting from a concentration of investments in a specific maturity, issuer, class of security, financial institution or, with respect to equity investments, in a specific company, industry or investment sector. The Permanent Fund will take a conservative posture on derivative securities in order to maintain a risk averse nature. Since it is anticipated that new derivative products will be created each year, it is not the intention of this document to list specific derivatives that are prohibited from investment, rather it will form a general policy on derivatives. The Council recognizes that derivatives may be utilized within investment vehicles as a portfolio management tool. Derivatives use within a product is permissible when utilized for the purpose of creating or enhancing exposure to an asset class or implementation strategy. Due to the inherent characteristics of derivatives, embedded leverage is permissible when fully collateralized. Net exposure exceeding the asset value of the investment vehicle is prohibited. Exposure must be net long at all times. Fund assets may be invested in the instruments and securities set

out in Code Section 6.08.030 and in the following securities: (Ord. 22-06 Sec. 6.04.041 (E))

1. (a) Domestic Equities, which taken as a whole, attempt to replicate the Standard & Poor's 500 Index, including both mutual funds and exchange traded funds (ETF's).

- (b) International Equities, which taken as a whole, attempt to replicate the Morgan Stanley Capital International Europe Australasia and Far East (MSCI EAFE) or a substantial similar Index, including both mutual fund and exchange traded funds (ETF's).

- (c) Equities, which taken as a whole, attempt to replicate the universe of domestic real estate investment trusts as represented by the S&P REIT Index or the Cohen & Steers Realty Majors Portfolio Index, including both mutual funds and exchange traded funds (ETF's).

- (d) Domestic Equities, which taken as a whole, attempt to replicate the Standard & Poor's 400 Mid Cap Index, including both mutual funds and exchange traded funds (ETF's).

- (e) Emerging markets equity index funds, which taken as a whole, attempt to replicate the Morgan Stanley Capital International Emerging Markets or a substantially similar Index, including both mutual funds and exchange traded funds (ETF's).

- (f) Global infrastructure equities, which taken as a whole, attempt to replicate the STOXX Global Broad Infrastructure Index, or a substantially similar index, including both mutual funds and exchange traded funds (ETFs).

- (g) U.S. Treasury Inflation Protected Securities (TIPS), and/or mutual funds or ETFs which attempt to replicate the Bloomberg Barclays Capital U.S. Treasury Inflation Protected Securities Index, or a substantially similar index.

- (h) Domestic equities, which taken as a whole, attempt to replicate the Standard & Poor's SmallCap 600 Index, or a substantially similar index, including both mutual funds and exchange traded funds (ETFs).

- (i) Commodities, which taken as a whole, attempt to replicate a broad based commodity index, such as the Bloomberg Commodity Index or a

substantially similar index, including mutual funds, exchange traded funds (ETFs) and exchange traded notes (ETNs);

(j) Bond funds, which taken as a whole, attempt to replicate the Bloomberg Barclays U.S. High Yield Very Liquid Index or a substantially similar index, including mutual funds an exchange traded funds (ETFs). (Ord. 22-06 Sec. 6.04.041 (E))

(k) Alternative beta funds, which taken as a whole, attempt to provide systematic exposure to trading strategies including in the Wilshire Liquid Alternatives Index or substantially similar index, including mutual funds and exchange traded funds (ETFs). (Ord. 22-06 Sec. 6.04.041 (E)) (

2) Permanent Fund asset allocation plan and performance measurement targets. The asset allocation targets and ranges are as follows:

Asset Class	Target	Minimum	Maximum
EQUITY	47%		
U.S. Large-Cap Equity	22%	12%	32%
U.S. Mid-Cap Equity	10%	5%	15%
U.S. Small-Cap Equity	5%	0%	10%
International Developed Equity	6%	0%	12%
Emerging Markets Equity	4%	0%	8%
ALTERNATIVES	21%		
Real Estate	3%	0%	6%
Infrastructure	5%	0%	10%
Commodities	3%	0%	6%
Alternative Beta	10%	0%	15%
FIXED INCOME	32%		
U.S. Fixed Income	18%	8%	28%
U.S. High Yield Credit	5%	0%	10%
TIPS	2%	0%	10%
International Fixed Income	5%	0%	10%
Cash	2%	0%	10%

(3) The Performance of the investments advisors will be measured as follows:

(a) Performance measurement for the Domestic Equity Allocation will be measured against the Target Weighting, using the Standard & Poor's 500 as the Benchmark.

(b) Performance measurement for the Mid/Small Cap Equity Allocation will be measured against the Target Weighting, using the Standard & Poor's 400 Mid Cap Index as the Benchmark.

(c) Performance measurement for the International Equity Allocation will be measured against the Target weighting using the Morgan Stanley Capital International Europe Australasia and Far East (MSCI EAFE) or a substantially similar Index for the Benchmark.

(d) Performance measurement for the Real Estate Allocation will be measured against the Target weighting using the Standard & Poor's REIT Index for the Benchmark.

(e) Performance measurement for the Fixed Income Allocation will be measured against the Target weighting using the Bloomberg Barclays Intermediate Gov/Credit Index for the Benchmark. The duration of the Fixed Income Allocation should be maintained 80% and 120% of the duration of the Benchmark.

(f) Performance measurement for the Emerging Market Allocation will be measured against the Target weighting using the Morgan Stanley Capital International Emerging Market (MSCI Emerging) or a substantially similar Index for the Benchmark.

(g) Performance measurement for the infrastructure allocation will be measured against the target weighting, using the STOXX Global Broad Infrastructure Index or a substantially similar index as the benchmark.

(h) Performance measurement for the U.S. Treasury Inflation Protected Securities (TIPS) allocation will be measured against the target weighting using the Bloomberg Barclays Capital U.S. Treasury Inflation Protected Securities 0-5 Index or a substantially similar index.

(i) Performance measurement for the small cap equity allocation will be measured against the target weighting, using the Standard & Poor's SmallCap 600 Index or a substantially similar index as the benchmark.

(j) Performance measurement for the cash/1—3 month treasuries will be measured against the target weighting, using the Citigroup 3-Month Treasury Bill Index or a substantially similar index as the benchmark.

(k) Performance measurement of the commodity allocation will be measured against the target weighting, using a broad based index such as the Bloomberg Commodity Index or a substantially similar index.

(l) Performance measurement for the U.S. Corporate High Yield Allocation will be measured against the target weighting, using the Bloomberg Barclays U.S. High Yield Very Liquid Index or a substantially similar index as the benchmark.

(m) Performance measurement for the Alternative Beta allocation will be measured against the target weighting, using the Wilshire Liquid Alternatives Index or a substantially similar index as the benchmark.

(Ord.22-06 (Amended 19-06), Sec. 6.04.041(E))

(Ord. 18-11 (Amended 17-03) Sec. 6.04.041)

WHEREAS, Per the Aleutians East Borough Code of Ordinances, the Borough is required to have a Permanent Fund; and

WHEREAS, Section 6.06.041 of the Code outlines the Borough's Permanent Fund requirements; and

WHEREAS, Governmental Accounting Standards Board (GASB) Statement No. 54 defines fund balance classifications; and

WHEREAS, since the issuance of GASB 54 the permanent fund classification has changed; and

WHEREAS, to comply with governmental accounting standards, the Borough is required to amend Section 6.04.041.

NOW, THEREFORE, BE IT ENACTED BY THE ASSEMBLY OF THE ALEUTIANS EAST BOROUGH:

Section 1. That Section 6.04.041 of the Borough Municipal Code is hereby amended to read as follows:

- A. **Assembly Authority.** Unless the Assembly provides otherwise in its approved budget or an appropriation ordinance, the provisions of this section shall govern the deposit and crediting of funds to the Permanent Fund Account established under section 6.04.040 1(B).
- B. **Purpose.** The purpose of the Permanent Fund Account is to grow the corpus, which is the principal amount invested, in perpetuity and provide a permanent, potential source of fiscal support to further the Aleutian East Borough's goals and needs. It also seeks to preserve purchasing power over time. At any time, the mayor may propose and the Assembly may, on its own initiative or upon the recommendation of the mayor, deposit in the Permanent Fund Account amounts from any lawfully available source.
- C. **Bond Covenant Considerations.** Upon approval of the Assembly by resolution or ordinance, and subject to prior covenants made pursuant to authority granted under this section, the Borough may enter into a bond covenant requiring that prior to any deposit or transfer to the Permanent Fund

Account, the current fiscal year debt service on the bonds shall be paid or that one or more deposits shall be made to the debt service fund of the bonds until the balance of the debt service fund equals an amount not exceeding debt service payments on the bonds remaining due during the current fiscal year. Funds of appropriations subject to a pledge under this subsection shall be deposited in accordance with such pledge. When the pledge has been fulfilled, funds that subsequently become available that are appropriated for the debt service on the bonds shall be deposited to the Permanent Fund Account to the extent the appropriation to the Permanent Fund Account is unfunded. Debt service payments include payments of principal and interest on bonds for which a pledge pursuant to this section 6.04.041 has been made.

- D. **Spending Policy.** The Borough Assembly may only appropriate the accumulated earning from the Permanent Fund Account to the General Fund as follows: In its discretion and consistent with this Chapter, the Borough Assembly may, in any fiscal year, appropriate an amount not to exceed four percent (4%) of the five-year average fund market value, to be computed using the five (5) prior calendar years market value. This spending policy attempts to smooth the effects of market volatility and preserve the purchasing power of the fund.

If funds are appropriated from the Permanent Fund to the General Fund the funds must be allocated to specific municipal functions.

(Ord. 18-11 (Amended 12-01) Sec. 6.04.041(D))

- E. **Withdrawal of Corpus.** No corpus of the Permanent Fund shall be withdrawn except upon the vote of a majority of the borough voters voting in a general election or special election called for that purpose.
- F. **Investments – Purpose and Limitations.** A purpose of the permanent fund is growth through prudent investment of fund assets. Notwithstanding the objectives of the Borough policy for the investment of its operating and other funds set out in Code Section 6.08.010(C), the investment of permanent fund assets shall be made to maintain safety of principal while maximizing total return. Investments shall be diversified to minimize the risk of loss resulting from a concentration of investments in a specific maturity, issuer, class of security, financial institution or, with respect to equity investments, in a specific company, industry or investment sector. The Permanent Fund will take a conservative posture on derivative securities in order to maintain a risk averse nature. Since it is anticipated that new derivative products will be created each year, it is not the intention of this document to list specific derivatives that are prohibited from investment, rather it will form a general policy on derivatives. The Council recognizes that derivatives may be

utilized within investment vehicles as a portfolio management tool. Derivatives use within a product is permissible when utilized for the purpose of creating or enhancing exposure to an asset class or implementation strategy. Due to the inherent characteristics of derivatives, embedded leverage is permissible when fully collateralized. Net exposure exceeding the asset value of the investment vehicle is prohibited. Exposure must be net long at all times. Fund assets may be invested in the instruments and securities set out in Code Section 6.08.030 and in the following securities: (Ord. 22-06 Sec. 6.04.041 (E))

2. (a) Domestic Equities, which taken as a whole, attempt to replicate the Standard & Poor's 500 Index, including both mutual funds and exchange traded funds (ETF's).

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(Ord.22-06 (Amended 19-06), Sec. 6.04.041(E))

(Ord. 18-11 (Amended 17-03) Sec. 6.04.041)

Section 2. Classification. This ordinance is of a general and permanent nature and shall become part of the Borough Code.

Section 3. Severability. If any provision of this ordinance or any application thereof to any person or circumstance is held invalid, the remainder of this ordinance and the application to other persons or circumstances shall not be affected thereby.

Section 4: Effectiveness. This ordinance shall become effective upon adoption.

Section 5: Adoption of Section. Code Section 6.04.041 is hereby repealed and Code Section 6.04.041 as annexed hereto as Exhibit A as part of this ordinance is hereby adopted as Code Section 6.04.041 of the Code of Ordinances of the Aleutians East Borough.

Passed and adopted by the Aleutians East Borough Assembly this ___th day of February 2025.

INTRODUCED: January 9, 2024

ADOPTED: February 13, 2025



Alvin D. Osterback, Mayor

Date: 2/14/2025

ATTEST:



Beverly Rosete, Borough Clerk

Date: 7/14/2025