

Kenai Peninsula Borough  
Planning Department – Land Management Division

---

**MEMORANDUM**

**TO:** Wayne Ogle, President  
Members of the Kenai Peninsula Borough

**THRU:** Charlie Pierce, Mayor *CP*  
Max Best, Planning Director *MKB for AB*

**FROM:** Marcus A. Mueller, Land Management Officer *MAM*  
Brandi Harbaugh, Finance Director *BH*  
Larry Semmens, Land Trust Project Lead *LS*

**DATE:** July 26, 2018

**RE:** Ordinance 2018-29, Establishing the Land Trust Investment Fund, and Setting Parameters for Funding, Uses, and Investments of the Fund (Mayor)

---

This ordinance establishes the Land Trust Investment Fund ("LTIF") and sets parameters for funding, uses, and investments of the fund. The purpose of this new fund is to preserve land asset values, generate earnings to provide long-term funding to the Land Trust Fund for operations, and eventually to provide funding to the General Fund for any purpose determined by the assembly.

Currently, approximately 75 percent of the personnel services budget for the land management fund constitutes general government services. This and all other costs of land management operations have been shouldered by land sale revenues and the operational revenues generated from land uses and resource management. The new investment fund structure will provide interest earnings that will allow the Land Trust Fund to continue to support General Fund services while preserving the value of lands that are sold.

The majority of the land in the borough's land inventory came from the State of Alaska at the time of formation of the Borough. It has significant value for all current and future generations of Borough residents and therefore should be managed for the long term benefit of Borough residents.

One component of the strategy for managing these assets for the long term is to segregate a portion of the monies accumulated from the sale and use of lands

to this point in time, along with the net proceeds of future land sales, in an endowment type fund. Endowments have restrictions on use of the corpus or principal balance of the fund. Although this ordinance does not 'lock up' these assets forever it does provide guidelines and restrictions for use of the fund and the earnings. Due to their long term time horizon, endowments are typically invested in asset classes which carry more risk and which historically have provided greater earnings over the long term.

Initial funding for the LTIF will come from the fund balance of the Land Trust Fund. The LTIF will generate interest revenue at the estimated average rate of 6 percent per year and will receive all of the net proceeds of land sales. Transfers to the Land Trust Fund in an amount of up to 5 percent of the market value ("5% POMV") of the LTIF shall begin in the first full budget year after enactment of the ordinance. When the LTIF grows enough that the 5% POMV is not entirely needed to maintain the operations and fund balance of the Land Trust Fund the assembly may direct that a portion of the 5% POMV be transferred to the General Fund. Further, if the fund balance of the Land Trust Fund is more than 125 percent of the maximum established in the fund balance policy the amount greater than 125 percent may be transferred to the General Fund for any purpose determined by the assembly.

In the LTIF, two classes of investments are allowed: financial and non-financial. Allowable financial investments include government and corporate investment grade domestic bonds, domestic and foreign equity assets that are part of mutual funds, and exchange traded funds that attempt to replicate common equity indexes, as well as all of the short term investments that are currently allowable for borough investments. This class also includes interfund loans for financing the purchase of land or for capital projects. A current example is the land purchase for the new Central Emergency Services Station 1 site.

A very high percentage of the return generated by any investment portfolio is determined by the asset allocation of the portfolio. Generally speaking, the higher the allocation to riskier asset classes, such as equities, the greater the return over time. These greater returns are not typically represented by an uninterrupted upward sloping line. There will be greater volatility in this portfolio than in the short term portfolio that is appropriate for most of the other borough monies. Portfolio managers can run simulations on various asset allocations to estimate the annual return as well as the risk that is being assumed in any given portfolio based on historical data. The financial asset investments of the LTIF shall be approved by

resolution annually, usually during the budget process, in the form of an asset allocation plan.

Another component of the strategy for managing borough lands for the long term is to invest in non-financial asset classes including land and land developments of various sorts such as leasable sites and land improvements. Unlike the typical endowment fund, this ordinance allows the assets of the LTIF to be used to supplement money available in the Land Trust Fund for investment in non-financial assets to provide beneficial uses of land as well as to diversify the income stream of the Land Trust Fund. The borough will probably need to purchase lands from time to time for various reasons. Obviously any significant withdrawal of assets from the LTIF will impact future investment earnings; therefore, transfers to finance non-financial assets shall be limited to 10 percent of the market value of the fund in any year and 25 percent in any five-year period.

The City of Kenai enacted a similar ordinance in 2008. Although one of the most severe crashes of the stock market in recent memory occurred shortly after the creation of their fund, investment performance over this time has been spectacular at 8.78 percent per year average as of December 31, 2017.

Over the long term the LTIF is expected to produce investment returns which will typically far exceed the return on short term investments. This ordinance will also encourage management of borough lands to produce income because the net proceeds of land sales will be preserved and invested rather than consuming the proceeds to finance Land Trust Fund operations.

We encourage the assembly to enact this ordinance.