



FAIRBANKS CITY COUNCIL
AGENDA NO. 2011-21
REGULAR MEETING November 14, 2011
FAIRBANKS CITY COUNCIL CHAMBERS
800 CUSHMAN STREET, FAIRBANKS, ALASKA

PRELIMINARY MEETING

- I 5:30 PM Fairbanks Convention & Visitors Bureau Annual Presentation
 6:10 PM Fairbanks Economic Development Corp Annual Presentation
-

REGULAR MEETING

- II 7:00 P.M.
1. ROLL CALL
 2. INVOCATION
 3. FLAG SALUTATION
 4. CITIZENS COMMENTS, oral communications to Council on any item not up for Public Hearing. Testimony is limited to five (5) minutes. Any person wishing to speak needs to complete the register located in the hallway. Normal standards of decorum and courtesy should be observed by all speakers. Remarks should be directed to the City Council as a body rather than to any particular Council Member or member of the staff. In consideration of others, kindly silence all cell phone, electronic and messaging devices.
 5. APPROVAL OF AGENDA AND CONSENT AGENDA

(Approval of Consent Agenda passes all routine items indicated by an asterisk (*). Consent Agenda items are not considered separately unless a Council Member so requests. In the event of such a request, the item is returned to the General Agenda).
 6. APPROVAL OF PREVIOUS MINUTES
 - *a) Regular Meeting Minutes of July 18, 2011
 - *b) Regular Meeting Minutes of July 25, 2011
 - *c) Regular Meeting Minutes of August 8, 2011

7. SPECIAL ORDERS

8. MAYOR'S COMMENTS AND REPORT

9. UNFINISHED BUSINESS

- a) Ordinance No. 5863 – An Ordinance Amending the 2011 Budget Estimate for the Third Time. Introduced by Mayor Cleworth. SECOND READING AND PUBLIC HEARING.
- b) Ordinance No. 5864 – An Ordinance to Amend Fairbanks General Code Chapter 14, Article XIII Business Licensing Regarding Application Information and Fees. Introduced by Mayor Cleworth. SECOND READING AND PUBLIC HEARING.

10. NEW BUSINESS

- *a) Resolution No. 4493 – A Resolution Authorizing the City of Fairbanks to Participate in the FFY2011 Community Development Block Grant (CDBG) Program. Introduced by Mayor Cleworth.
- *b) Resolution No. 4494 – A Resolution Amending the City Schedule of Fees and Charges for Service. Introduced by Mayor Cleworth.
- *c) Resolution No. 4495 – A Resolution Adopting Governmental Accounting Standards Board (GASB) Statement 54 & Fund Balance Policy. Introduced by Mayor Cleworth.
- *d) Resolution No. 4496 – A Resolution Authorizing the City of Fairbanks to Accept Funds from the Alaska Division of Homeland Security and Emergency Management Under the FFY2011 Homeland Security Grant Program. Introduced by Mayor Cleworth.
- *e) Resolution No. 4497 – A Resolution Urging the Alaska State Legislative and Executive Branches to Make Expressly Legal the Cultivation of Industrial Hemp in the State of Alaska. Introduced by Council Member Hilling.

11. DISCUSSION ITEMS (INFORMATION AND REPORT)

Committee Reports

12. COMMUNICATIONS TO COUNCIL
 - a) Approval of the 2012 City Council Meeting Schedule
 - *b) Permanent Fund Review Board July 20, 2011 Meeting Minutes.
 - *c) Reappointment to the Bed Tax Discretionary Committee.
13. COUNCIL MEMBERS' COMMENTS
14. CITY ATTORNEY'S REPORT
15. CITY CLERK'S REPORT
16. EXECUTIVE SESSION – AFL-CIO Labor Negotiations
17. ADJOURNMENT



FAIRBANKS CITY COUNCIL
REGULAR MEETING MINUTES, JULY 18, 2011
FAIRBANKS CITY COUNCIL CHAMBERS
800 CUSHMAN STREET, FAIRBANKS, ALASKA

The City Council convened at 7:00 p.m. on the above date, to conduct a Regular Meeting of the Fairbanks City Council at the City Council Chambers, 800 Cushman Street, Fairbanks, Alaska, with Mayor Jerry Cleworth presiding and with the following Council Members in attendance:

Council Members Present: Vivian Stiver, Seat A
Chad Roberts, Seat B
Bernard Gatewood, Seat C
Jim Matherly, Seat D
Emily Bratcher, Seat E (telephonic)
John Eberhart, Seat F

Absent: None

Also Present: Jerry Cleworth, City Mayor
Patrick B. Cole, Chief of Staff
Warren Cummings, Fire Chief
Dave Burglin, Deputy City Attorney
Janey Hovenden, City Clerk
Stephanie Johnson, Dispatch Center Manager
Carmen Randle, Controller
Ryan Rickels, IT Director
Tony C. Shumate, Director Personnel/Purchasing/RM
Pat Smith, Development Manager
Jim N. Soileau, Chief Financial Officer
Laren Zager, Police Chief

INVOCATION

The Invocation was given by City Clerk Janey Hovenden.

FLAG SALUTATION

Mayor Cleworth led the Flag Salutation.

CITIZEN'S COMMENTS

Oran Paul, 2711 Monteverde Road, Fairbanks – Mr. Paul stated that he was the Vice President and Chief Operating Officer for Fairbanks Water and Sewer. He spoke against Resolution No. 4481 and the explained the differences between Fairbanks and Anchorage utility systems. He gave further details about the breakdown in cost and maintenance between the two utilities and why Fairbanks' costs are much higher.

Frank Turney, 201 Seventh Avenue, Fairbanks – Mr. Turney stated that the City needs good, responsible police officers, but a few bad ones make the rest look bad. He spoke about how law enforcement has changed over the years. He suggested a change in the City Charter to make the Chief of Police position an elected officer so that he or she would be more accountable to the community. Mr. Turney spoke about the hit-and-run accident that killed Ms. Rockar; he stated that she deserves to have justice served.

Victor Buberger, PO Box 58192, Fairbanks – Mr. Buberger mentioned that the potholes had gotten worse with all the recent rain and that South Cushman was in need of some work. He spoke against Ordinance No. 5851, as Amended, stating that public service jobs were not created to burden the taxpayer. He spoke of his personal job history and his satisfaction for the wage he was paid. He suggested opening executive sessions to the public.

APPROVAL OF AGENDA AND CONSENT AGENDA

Ms. Stiver, seconded by **Mr. Roberts**, moved to APPROVE the Agenda and Consent Agenda.

Mayor Cleworth, pulled Resolution No. 4481 from the Consent Agenda.

Mayor Cleworth called for objection and, hearing none, so ORDERED.

City Clerk Hovenden read the Consent Agenda into the record.

MAYOR'S COMMENTS AND REPORT

Mayor Cleworth asked the Council to review and give input on Ordinance No. 5853, addressing Vehicles for Hire. He stated that any suggestions would be helpful. He informed Council Members that the regularly scheduled Finance Committee Meeting may be cancelled, but it would be dependent on how the present meeting went. **Mayor Cleworth** announced that the City's new webpage is up and running. He referenced the memo on the Complete Streets Project. He stated that the City is looking for a consultant to give their proposal for work to be done, but he disliked the idea of hiding behind a consultant's recommendation. He stated that there would possibly be a committee formed to help guide the project.

UNFINISHED BUSINESS

- a) ORDINANCE NO. 5851, as Amended – An Ordinance to Partially Fund the Monetary Terms of the Arbitrator's Opinion and Award in the Matter of the City of Fairbanks and Public Safety Employees Association Local 803 and to Ratify the Tentatively Agreed-upon Terms Reached through Negotiation. Introduced by Council Members Eberhart and Matherly. Substituted version by Mayor Cleworth and Council Members Bratcher, Roberts and Stiver. SECOND READING AND PUBLIC HEARING on the Amended Version.

Ms. Stiver, seconded by **Mr. Roberts**, moved to ADOPT Ordinance No. 5851, as Amended.

Mayor Cleworth called for Public Testimony.

Eric Jewkes, 911 Cushman Street, Fairbanks – Mr. Jewkes stated that the negotiations and arbitration had been a long process and he expressed his hope that relations between the City and the Union would remain stable and move forward. He spoke of the stresses the contract negotiations have caused on both sides.

Tonya Brown, PO Box 84872, Fairbanks – Ms. Brown expressed her concerns for both the present and future state of the Fairbanks Police Department in regards to funding. She stated her belief that the City should do whatever it takes to fund FPD at the level the community needs it to operate. She acknowledged citizens' dependence on local law enforcement as well as our visitors' reliance upon them. She spoke to the degradation in society that has led to more violence in youth. She spoke of morale issues with officers and how that has a direct effect on services.

Victor Burberge, PO Box 58192, Fairbanks – Mr. Buberger spoke to the high-stress jobs of police officers and recommended cutting overtime as a remedy. He stated that of the top ten dangerous jobs in the U.S., police aren't even on the list. He spoke of what he considered unnecessarily high wages of some senior officers at FPD. Mr. Buberger concluded by stating that he respected the officers in the community, but didn't see the need to raise wages.

Amy Bollaert, 1244 Kuykendall Street, Fairbanks – Ms. Bollaert stated that she is employed in the field of law and works very closely with Fairbanks Police officers on a daily basis. She commended the Fairbanks officers for their commitment and dedication to their duties, especially in comparison to other local agencies she works with. She stated her concern that FPD is not being sufficiently supported by the City and asked the Council to grant them a year of the full arbitrator's award.

Mr. Roberts asked Ms. Bollaert who is her employer.

Ms. Bollaert stated that she works for the State District Attorney's Office in Fairbanks.

Michael Walleri, 2518 Riverview Drive, Fairbanks – Mr. Walleri spoke to his concerns for the process, with a particular concern to the amendment to Ordinance No. 5851. He stated that this wasn't just about more wages, but was about the fact that this contract has gone through the full legal process of arbitration and should be funded. He expressed his confusion surrounding the continued debate due to the proposed amended version of Ordinance No. 5851 only funding one year of the contract and the understanding that the City can afford to fund that much. He commented that there may be something else going on and that it appears to be personality conflicts.

Mr. Eberhart asked if Mr. Walleri knew whether or not public safety employees in Wisconsin were exempt from the new laws stripping bargaining rights of union members.

Mr. Walleri stated that he is more familiar with what is going on in Michigan and Ohio, but that he doesn't believe Wisconsin laws allow a government agency to choose non-funding. He further stated that the decision to strip bargaining rights is for the state to decide, not the municipality. Mr. Walleri stated that Wisconsin is different because there are real funding issues

at play. His concern is that the City of Fairbanks will ignore the feasible option to fund that is before them.

Hearing no more requests for public comment, **Mayor Cleworth** declared Public Testimony closed.

Mayor Cleworth stated that there had been a lot of communication throughout the day regarding the contract and that the Council may wish to consider moving into an Executive Session before making a decision on Ordinance No. 5851, as Amended.

Mr. Eberhart expressed his concern of postponing the meeting because of the significant public turnout and the union's offer. He asked Mr. Metcalfe to come forward and explain the PSEA offer that would expire at midnight that evening.

Mayor Cleworth informed **Mr. Eberhart** that a Council Member may not call a member of the audience to speak at this time, but he or she may do so in Executive Session.

Mr. Eberhart recommended that the Council address the rapidly-expiring offer as part of the discussion with Ordinance No. 5851, as Amended.

Mayor Cleworth stated that he had no formal offer from the PSEA before him.

Mr. Eberhart stated his intent to amend Ordinance No. 5851, as Amended, to comport with the PSEA offer after debate and discussion.

Ms. Stiver referenced an emailed letter from Mr. Metcalfe recommending that the City fund the first year of the full arbitrator's award, then hold wage reopeners each year for the remaining two years of the contract. She asked Deputy City Attorney, Dave Burglin, if an email could be considered a binding offer.

Mr. Burglin redirected the question to Mr. Cole.

Mr. Cole stated that he had spoken with Mr. Metcalf throughout the day and had elaborated on points since then. He suggested either taking a brief recess, or entering into Executive Session to confirm his understanding of Mr. Metcalfe's offer before proceeding.

Mayor Cleworth recommended postponing any recess or Executive Session until after Ordinance No. 5852 was addressed.

Ms. Stiver, seconded by **Mr. Matherly**, moved to POSTPONE Ordinance No. 5851, As Amended, until after Ordinance No. 5852 was heard.

Mayor Cleworth called for objection and, hearing none, so ORDERED.

- b) Ordinance No. 5852 – An Ordinance Authorizing Restructure of the Fairview Manor Land Sale Loan Due to the City, to Assist Construction of the Raven Landing

Community Center. Introduced by Mayor Cleworth. SECOND READING AND PUBLIC HEARING.

Karen Parr, 949 McGown Street, Apt 3, Raven Landing – Ms. Parr thanked the Council because the project is going very well. She gave a brief summary of the progress so far and a report of what is yet to come. She shared with the Council their hope to begin construction on the community center by next summer. She stated that \$800,000 has been raised so far, which will cover Phase I of the project and will include the kitchen and dining area. She asked the Council to agree to split the loan to the developers so that the project could move forward.

Charles Bettisworth, 204 Front Street, Fairbanks – Mr. Bettisworth stated that he is a member of the Weeks Field Development Group. He recapped the project's activity from 2006 to present. He stated that work has been done according to the original agreement with the City. Mr. Bettisworth pointed out that the project has not been without struggle, like the great decline in the economy in 2008. He mentioned that there was also concern as to how the project took place. He stated that local contractor, G2 Construction, has been the general contractor on the project since its beginning and will continue through the next phase should the City adopt Ordinance No. 5852. He explained that Weeks Field Development Group would be willing to co-sign on the note with the City.

Mr. Gatewood asked Mr. Bettisworth how the senior housing and affordable housing projects interface.

Mr. Bettisworth stated that they are two distinct and separate projects with different owners.

Mr. Roberts stated that he has been a big fan of the project in its entirety and greatly appreciated Weeks Field having stepped up to the plate by offering to co-sign. He clarified that nowhere in Ordinance No. 5852 does it reference this, and asked if he needed to make a motion to amend.

Mayor Cleworth stated that Pat Smith would be coming forward to present an amended version of Ordinance No. 5852 for the Council to consider.

Susan Motter, 1087 Coppet Street, Fairbanks – Ms. Motter stated that she is the director of Raven Landing Senior Community. She spoke of the dream early on for Raven Landing and how that dream is becoming a reality. She stated that the program means business: business by feeding and housing senior residents, by providing a comfortable facility for seniors to come together, and by moving forward. She continued by stating that this is not just a present goal, but a timeless mission to serve many more seniors in the future.

Gladys Terry, 949 McGown Street, Apt 1-C, Fairbanks – Ms. Terry stated that she has lived in Fairbanks since 1951 and remarked on its great growth. She gave a brief history about her move to the states in 2010 because she was unhappy living at the Pioneer Home and would have rather lived with family. She stated that she knew leaving wasn't the right choice, so she chose to move back to Fairbanks five months later. It was at that time that she moved into Raven Landing. She spoke to the need for senior housing in Fairbanks and the comfort it provides for the elderly who don't wish to leave the state in their later years.

Victor Buberge, PO Box 58192, Fairbanks – Mr. Buberge thanked Karen Parr and others for their efforts in the Raven Landing Project. He expressed his satisfaction that the old Fairview Manor had been torn down.

Mayor Cleworth called for any additional Public Testimony and, hearing none, declared Public Testimony closed.

Mayor Cleworth asked Pat Smith to come forward.

Mr. Smith distributed to the Council an Amended version of Ordinance No. 5852 addressing the concern of Weeks Field Development co-signing the agreement and the financial statements for The Fairbanks Retirement Community. He commented that although the amended version may appear to be a bit confusing, it was written to provide the history of prior ordinances pertaining to the project and the loan by the City.

Mr. Matherly clarified a typo.

Mr. Roberts, seconded by **Ms. Stiver**, moved to SUBSTITUE Ordinance No. 5852, as Amended, for Ordinance No. 5852.

Mr. Roberts thanked Weeks Field Development Group and Raven Landing for their work on the project thus far. He spoke in support of Ordinance No. 5852, As Amended.

Mr. Matherly thanked Ms. Parr for his recent tour of the facility. He spoke in support of Ordinance No. 5852, As Amended.

A ROLL CALL VOTE WAS TAKEN, ON THE MOTION TO SUBSTITUTE ORDINANCE NO. 5852, AS AMENDED, AS FOLLOWS:

YEAS: Bratcher, Eberhart, Roberts, Stiver, Matherly, Gatewood

NAYS: None

Mayor Cleworth declared the MOTION CARRIED and ORDINANCE NO. 5852, As Amended, SUBSTITUTED.

A ROLL CALL VOTE WAS TAKEN, ON THE MOTION TO ADOPT ORDINANCE NO. 5852, AS AMENDED, AS FOLLOWS:

YEAS: Stiver, Matherly, Gatewood, Bratcher, Eberhart, Roberts

NAYS: None

Mayor Cleworth declared the MOTION CARRIED and ORDINANCE NO. 5852, As Amended, ADOPTED.

Ms. Stiver, seconded by **Mr. Matherly** moved to go into a ten-minute Executive Session for the purpose of discussing the PSEA Contract.

A ROLL CALL VOTE WAS TAKEN, ON THE MOTION TO ENTER INTO A TEN-MINUTE EXECUTIVE SESSION TO DISCUSS THE PSEA LABOR CONTRACT AS FOLLOWS:

YEAS: Eberhart, Gatewood, Stiver, Bratcher, Matherly, Roberts
NAYS: None
Mayor Cleworth declared the MOTION CARRIED.

Mayor Cleworth called for a five minute recess.

EXECUTIVE SESSION

PSEA Labor Negotiations

The City Council met in Executive Session to discuss the PSEA Labor Contract and no action was taken.

(Return to motion to adopt Ordinance No. 5851, As Amended)

Ms. Stiver, seconded by **Ms. Matherly**, made a motion to SUBSTITUTE the original Ordinance No. 5851 for Ordinance No. 5851, As Amended.

A ROLL CALL VOTE WAS TAKEN, ON THE MOTION TO SUBSTITUTE THE ORIGINAL ORDINANCE NO. 5851 FOR ORDINANCE NO. 5851, AS AMENDED, AS FOLLOWS:

YEAS: Gatewood, Eberhart, Matherly, Stiver
NAYS: Roberts
ABSENT Bratcher (signed off before regular meeting reconvened)
Mayor Cleworth declared the MOTION CARRIED.

Mr. Matherly, seconded by **Ms. Stiver**, made a motion to AMEND the original Ordinance No. 5851 by adding the memorandum by Mr. Cole and Mr. Metcalfe.

A ROLL CALL VOTE WAS TAKEN, ON THE MOTION TO AMEND THE ORIGINAL ORDINANCE NO. 5851, AS FOLLOWS:

YEAS: Matherly, Roberts, Stiver, Gatewood, Eberhart
NAYS: None
ABSENT Bratcher
Mayor Cleworth declared the MOTION CARRIED.

Mr. Roberts spoke in support of the memorandum added to original Ordinance No. 5851. He reiterated the importance of the Council to be conservative in granting additional funding to all union contracts in the future due to the City's limited budget.

Mr. Eberhart stated his belief that original Ordinance No. 5851, as Amended is a good compromise. He stated that the City is in a healthy financial state, and that adopting this

ordinance would be the fair thing to do. He thanked both the City and PSEA for compromising and coming to an agreement.

Mr. Gatewood agreed with Mr. Eberhart. He cautioned that although the City is in a healthy state, Council should still be careful; however, he expressed his support for original Ordinance No. 5851, as Amended.

Mr. Cole asked for clarification of the motion on the floor and whether or not it included the Tentative Agreements (TA's). He suggested if the TA's had not been included in the amendment, that they be added.

Mr. Gatewood, seconded by **Mr. Matherly**, moved to AMEND Ordinance No. 5851, as Amended, to include the TA's.

Mr. Eberhart suggested adding the language "including all TA's" to the opening statement of the memorandum.

A ROLL CALL VOTE WAS TAKEN, ON THE MOTION TO AMEND ORDINANCE NO. 5851, AS AMENDED, AS FOLLOWS:

YEAS: Roberts, Matherly, Gatewood, Eberhart, Stiver
NAYS: None
ABSENT Bratcher
Mayor Cleworth declared the MOTION CARRIED.

Mayor Cleworth mentioned the proposition going before voters in October that would make the City debt-free. He expressed his concern that should the proposition pass, the City's General Fund would have only a \$1.6 million cushion. He asked that this clarification be made in the media.

A ROLL CALL VOTE WAS TAKEN, ON THE MOTION TO ADOPT ORDINANCE NO. 5851, AS AMENDED, AS FOLLOWS:

YEAS: Matherly, Stiver, Gatewood, Eberhart
NAYS: Roberts
ABSENT Bratcher
Mayor Cleworth declared the MOTION CARRIED and ORDINANCE NO. 5851, As Amended, ADOPTED.

NEW BUSINESS

- a) Resolution No. 4477 – A Resolution to Apply for and Accept Funding from the Bureau of Justice for the Edward Byrne Memorial Justice Assistance Grant (JAG) Program for Fiscal Year 2012. Introduced by Mayor Cleworth.

PASSED and APPROVED on the CONSENT AGENDA.

- b) Resolution No. 4478 – A Resolution to Apply for and Accept Funding from the Alaska Department of Public Safety for the Edward Byrne Memorial Justice Assistance Grant (JAG) Program for Fiscal Year 2012. Introduced by Mayor Cleworth.

PASSED and APPROVED on the CONSENT AGENDA.

- c) Resolution No. 4479 – A Resolution to Accept Funding from the Alaska Division of Homeland Security and Emergency Management for Fiscal year 2012 Local Emergency Planning Committee (LEPC). Introduced by Mayor Cleworth.

PASSED and APPROVED on the CONSENT AGENDA.

- d) Resolution No. 4480 – A Resolution Amending the City Schedule of Fees and Charges for Service. Introduced by Mayor Cleworth.

PASSED and APPROVED on the CONSENT AGENDA.

- e) Resolution No. 4481 – A Resolution Regarding CUC/GHU Tariff Filings for Sewer and Water Rate Increases. Introduced by Mayor Cleworth.

Mr. Gatewood, seconded by **Mr. Matherly**, moved to APPROVE Resolution No. 4481.

Mayor Cleworth recommended that the fourth paragraph in Resolution No. 4481 be eliminated.

Mr. Roberts, seconded by **Mr. Gatewood**, moved to AMEND Resolution No. 4481 by striking the fourth paragraph.

A ROLL CALL VOTE WAS TAKEN, ON THE MOTION TO AMEND RESOLUTION NO. 4481, AS FOLLOWS:

YEAS: Eberhart, Roberts, Stiver, Matherly, Gatewood
NAYS: None
ABSENT Bratcher

Mayor Cleworth declared the MOTION CARRIED.

Mr. Roberts spoke against Resolution No. 4481, stating that it was because of issues like this that the City divested the utility. He stated his belief that it is inappropriate for the City to tell the utility companies that their rate increases are unreasonable.

Mr. Matherly asked for the reasoning of why Resolution No. 4481 was brought forth.

Mayor Cleworth provided a brief history on the utility. He stated that his concern is with the adverse affect the rate hikes will have on the City budget in the future.

Ms. Stiver stated that rates are increasing across the board for all business, not only with utilities and energy. She added that these increases are not sustainable.

Mr. Matherly asked if the City's position on the increases would carry weight in the utility companies' decision to raise rates.

Ms. Stiver replied that they take the City's and the Borough's position into consideration. She stated that the companies are aware that they must abide by the Regulatory Commission of Alaska (RCA) guidelines.

Mr. Roberts stated that he doesn't like rate increases, but he wants to have a dependable utility. He restated his belief that the City should not take a position on rate increases for any utility company that it doesn't own.

Mayor Cleworth stated that his intent was to represent the City with Resolution No. 4481.

A ROLL CALL VOTE WAS TAKEN, ON THE MOTION TO APPROVE RESOLUTION NO. 4481, AS AMENDED, AS FOLLOWS:

YEAS: Stiver, Matherly, Gatewood, Cleworth

NAYS: Eberhart, Roberts

ABSENT Bratcher

Mayor Cleworth declared the MOTION CARRIED and RESOLUTION NO. 4481, as Amended, APPROVED.

- f) Ordinance No. 5853 – An Ordinance Amending Chapter 86 Vehicles for Hire. Introduced by Mayor Cleworth and Council Member Stiver.

ADVANCED on the CONSENT AGENDA.

- g) Ordinance No. 5854 – An Ordinance Authorizing Public Sale of Surplus Property Known as the “Chena Building”. Introduced by Mayor Cleworth.

ADVANCED on the CONSENT AGENDA.

DISCUSSION ITEMS

Committee Reports

Public Safety Commission. **Mr. Eberhart** provided a brief report on the recent meeting.

Fairbanks Parking Authority. **Mr. Matherly** provided a brief report on the recent meeting.

FMATS. **Mr. Roberts** announced the upcoming FMATS Policy Committee meeting to be held in DOT Conference Chambers.

COUNCIL MEMBERS' COMMENTS

Mr. Matherly commented on the great tourist population in the Fairbanks community this year. He expressed his appreciation to other Council Members for their knowledge and guidance. He

spoke to the sadness and relief of the body found at Harding Lake and gave his condolences to the family. He mentioned his excitement for the upcoming Golden Days events downtown.

Mr. Eberhart expressed his satisfaction that the PSEA contract had been agreed upon. He mentioned the upcoming City Election and encouraged the public to get involved either by voting or by filing for candidacy. He spoke of the kick-off of the World Eskimo Indian Olympics and Golden Days Events and expressed hope for good weather.

Mr. Gatewood mentioned the upcoming Permanent Fund Meeting. He expressed his appreciation to the Council for adopting Ordinance No. 5851, as Amended. **Mr. Gatewood** asked to be excused for the Regular Meeting of August 22, 2011.

Mayor Cleworth called for objection regarding **Mr. Gatewood's** request to be excused on August 22, 2011 and, hearing none, so ORDERED.

Mr. Roberts expressed his happiness that the PSEA contract had been resolved. He thanked the Chief of Police and the FPD staff for their hard work.

Ms. Stiver mentioned that she had attended the retirement party/Change of Command Ceremony for Colonel Jones and it was an enjoyable evening. She complimented the Downtown Marketplace for having a pleasant atmosphere and encouraged the public to stop by. **Ms. Stiver** stated that Ms. Reneva Moss had offered to do a tutorial work session for Council Members, staff, and the public on how to use the State of Alaska Legislative website to track bills and navigate the site.

Mayor Cleworth informed the Council that the Finance Committee meeting would be canceled this week. He mentioned that the section of code pertaining to Labor Relations needs to be revised and updated. He stated that he would be bringing the issue to the Council to consider. He also mentioned the ordinance in the works for the revision of the Code section pertaining to towing and briefly explained the changes involved.

ADJOURNMENT

Ms. Stiver, seconded by **Mr. Matherly** moved to ADJOURN the meeting.

Mayor Cleworth called for objection and, hearing none, so ORDERED.

Mayor Cleworth declared the Meeting adjourned at 10:15 p.m.

JERRY CLEWORTH, MAYOR

ATTEST:

JANEY HOVENDEN, CMC, CITY CLERK

Transcribed by: DS



FAIRBANKS CITY COUNCIL
REGULAR MEETING MINUTES, JULY 25, 2011
FAIRBANKS CITY COUNCIL CHAMBERS
800 CUSHMAN STREET, FAIRBANKS, ALASKA

The City Council convened at 7:00 p.m. on the above date, to conduct a Regular Meeting of the Fairbanks City Council at the City Council Chambers, 800 Cushman Street, Fairbanks, Alaska, with Mayor Jerry Cleworth presiding and with the following Council Members in attendance:

Council Members Present: Vivian Stiver, Seat A
Chad Roberts, Seat B
Bernard Gatewood, Seat C
Jim Matherly, Seat D
John Eberhart, Seat F

Absent: Emily Bratcher, Seat E - Excused

Also Present: Patrick B. Cole, Chief of Staff
Warren Cummings, Fire Chief
Paul Ewers, City Attorney
Janey Hovenden, City Clerk
Tony C. Shumate, Director Personnel/Purchasing/RM
Jim N. Soileau, Chief Financial Officer
Laren Zager, Police Chief
Ernie Misewicz, Fire Marshal

INVOCATION

The Invocation was given by City Clerk Janey Hovenden.

FLAG SALUTATION

Mayor Cleworth led the Flag Salutation.

CITIZEN'S COMMENTS

Frank Turney, 201 Seventh Ave, Fairbanks – Mr. Turney mentioned the overwhelming number of signs in the flower gardens of the Golden Heart Park that disrupt tourists' attempts at taking good photographs and expressed thanks for their removal. He spoke of his testimony to the Public Safety Commission regarding disposal of marijuana and other illegal substances after an arrest. He stated that he has asked the question about the disposal of such material numerous times under several different administrations and has never received a clear answer. Mr. Turney stated that he had spoken with the DA's office in regard to the hit-and-run accident that killed Ms. Rockar; and related that an autopsy report was being done and there were no results yet. He spoke strongly in favor of prosecuting the driver involved in the accident. He thanked Mayor Cleworth and Council Member Stiver for their kind words about Ms. Rockar.

Tiffany Van Horn, Golden Heart Utilities, 2725 Garnet, North Pole – Ms. Van Horn spoke in support of Hand-carried Resolution No. 4482. She stated that the City is eligible to apply for the grant because it still owns the Wastewater Treatment Plant. She stated that, instead of the City borrowing the whole dollar amount, the grant would pay for 40% of the total cost to rehabilitate the Sludge Dewatering Facility. She encouraged the Council to approve the Resolution.

Mayor Cleworth asked when the deadline would be for the grant application period.

Ms. Van Horn stated that the deadline would be Monday, August 1, 2011.

Victor Buberger, PO Box 58192, Fairbanks – Mr. Buberger spoke to Frank Turney's issue with the disposal of illegal substances by the Fairbanks Police Department. He informed the Council of some potholes on South Cushman Street. He again suggested that Executive Sessions be open to the public. Mr. Buberger thanked Chief Zager and officers involved in successfully capturing a suspected murderer downtown.

APPROVAL OF AGENDA AND CONSENT AGENDA

Mr. Roberts, seconded by **Mr. Matherly**, moved to APPROVE the Agenda and Consent Agenda.

Mr. Roberts, seconded by **Mr. Matherly**, moved to AMEND the Agenda by adding Resolution No. 4482 under New Business.

Mayor Cleworth called for objection and, hearing none, so ORDERED.

City Clerk Hovenden read the Consent Agenda into the record.

MAYOR'S COMMENTS AND REPORT

Mayor Cleworth asked the City auditor to come forward to make their presentation.

The auditor gave a "clean opinion" for the City's financial statements and state and federal single audit. He stated that the City was in good financial status at the end of 2010. He stated that, in looking at the City as both a business and a budgeted governmental agency, the audit revealed the City of Fairbanks to be in the black, a strong and stable financial condition.

Mayor Cleworth thanked the auditors and City Finance Staff for their hard work in the auditing process.

Mayor Cleworth asked the Chief of Police and Detective Chris Nolan to come forward to brief the public and Council about the investigation of the hit-and-run accident that killed Ms. Rockar. Mr. Nolan stated that, due to the ongoing investigation, he could only disclose a limited amount of information. He explained that indictment of the driver is pending results of the autopsy on Ms. Rocker to determine the cause of death. He also explained that once someone is charged with a crime, the clock starts ticking for a speedy trial; so the DA's Office wants to ensure they have all their "ducks in a row" before proceeding with the indictment.

Ms. Stiver asked about the timeline for the autopsy results.

Mr. Nolan stated that it typically takes 4-6 weeks, but that it is ultimately up to the medical examiner. He stated that he would expect the results within 1-2 more weeks.

Chief Zager asked Mr. Nolan if FPD was ready to move forward with prosecution upon receiving the autopsy results.

Mr. Nolan confirmed that everything was in order.

Mayor Cleworth asked Chief Zager if there had been any problems in recent years with missing evidence.

Chief Zager stated that he has worked closely with the Property and Evidence Technicians and has not seen or heard of any missing evidence. He informed Mayor and Council that the technicians received training and certification last year and that the security, procedures and materials used for tracking, storage, and destruction of FPD evidence is state of the art. He stated that FPD uses a local burn facility, shared by all local law enforcement agencies, to destroy illegal substances

Mr. Matherly asked how often auditing of the evidence room occurs.

Chief Zager replied that it was not as often as he would like, only because of the low staff turnover in that department does not demand it.

Mr. Eberhart asked about the auditing procedure and who performs the audit.

Chief Zager stated that the last audit was done by Dan Welborn and involved a comparison of an inventory list to all physical evidence, with special attention to cash, firearms and drugs. Mr. Nolan explained the standard procedure from the time evidence is seized until it's filed in storage. Chief Zager briefly explained the step-by-step procedure for evidence disposal. He concluded that the entire process is monitored as closely as possible with the resources at hand, but that accountability ultimately depends upon the integrity of the officers and staff involved.

Mayor Cleworth mentioned the recent passing of long-time Fairbanks resident, Patricia Rogge. He expressed his sentiments and stated that she will be missed in our community. He spoke of the morning's meeting where he and Council Members Roberts and Stiver attended with Tom Barrett from Alyeska Pipeline. **Mayor Cleworth** indicated that he was discouraged in the presentation, stating that it summed up the projected economic difficulties facing Alaska in the coming years. He informed the Council that there would be an upcoming work session regarding the plight of the Polaris Building when the current owner, Mr. Marlow, could be scheduled to attend. **Mayor Cleworth** thanked Ms. Hovenden and other City employees for their hard work in helping the Clerk's Office during a time of short-staffing.

UNFINISHED BUSINESS

- a) Ordinance No. 5853 – An Ordinance Amending Chapter 86 Vehicles for Hire. Introduced by Mayor Cleworth and Council Member Stiver. SECOND READING AND PUBLIC HEARING.

Mr. Matherly, seconded by **Ms. Stiver**, moved to ADOPT Ordinance No. 5853.

Victor Buberger – Mr. Buberger spoke to the changes Ordinance No. 5853 would bring, stating that most of the changes were favorable. He did, however, disagree with the eight-year criminal history check, stating that it should be lowered. He added that most applicants who appeal to the City Council have committed minor drug or domestic violence offenses and should be considered more leniently. He spoke to the local justice system and its inconsistencies. Mr. Buberger suggested that the City implement a program to help these individuals with rehabilitation.

Bill Northrup, 555 Front Street, Fairbanks – Mr. Northrup stated that he is the Operations Manager for Eagle and Yellow Cab. He stated that the primary cause for denial of a chauffeur license is a misdemeanor assault conviction. He agreed with the code's five-year restriction on DUI offenses, but suggested reducing the look back for felonies to five years instead of eight. He echoed Mr. Buberger's opinion that misdemeanors involving minor drug or domestic violence offenses should be treated more leniently. He was happy to see that the section of code pertaining to solicitation had been stricken. He quoted section 86.85 of the code, expressing his frustration that the Chief of Police has never given specific instruction on how to display a chauffeur license in a taxi cab.

Ms. Stiver asked Mr. Northrup where he thought the chauffeur license should be displayed.

Mr. Northrup stated that he believes it should appear on the dash of the vehicle or on a lanyard around the driver's neck.

Frank Turney – Mr. Turney stated that he agreed with Mr. Northrup on most points and that it seems more reasonable to reduce felony offenses to a five-year look back, especially those involving non-violent crimes. He added that he would like to see the misdemeanor offense look back cut down to three years. Mr. Turney suggested that Mayor Cleworth or Ms. Stiver simplify Ordinance No. 5853 so that it would be easier to understand. He stated that, overall, he appreciated the changes.

Gerald Carney, 2112 Lakeview Terrace, PO Box 70471, Fairbanks – Mr. Carney stated that he has been a cab driver in Fairbanks for 29 years, he is a registered voter and homeowner and has been a member of the Laborer's Hall since August of 1975. He stated that he retired early in 2000, supplementing his pension income with cab driving. Mr. Carney stated that because of an incident in June, 2004, he was denied renewal of his chauffeur license and would not be eligible for ten years from that date. He estimated \$150,000 as his lost income over that ten-year period, referring to the loss as a "fine." He asked the Council to reduce the felony conviction period to seven years or less, stating that he has had to come out of retirement and even use government assistance to make ends meet.

Mr. Gatewood asked Mr. Carney why he would like the felony period reduced to seven years instead of eight.

Mr. Carney replied that it was because he would be eligible for a chauffeur license if it were lowered to seven.

Mayor Cleworth called for Public Testimony and, hearing none, declared Public Testimony closed.

Ms. Stiver distributed new proposed amendments to Ordinance No. 5853. She quoted sections of the amendments regarding appeal options for denied applicants. She asked the City Attorney for clarification on the provision barring an applicant the right to appeal if they have been convicted of any drug offense within the look back period. She expressed her opinion that convictions of drug use be treated more leniently than convictions of drug sales, if the applicant completes a rehabilitation program. She added that applicants with multiple convictions should not be considered for appeal, only those with a single offense.

Mr. Ewers stated that the current version of Ordinance No. 5853 would not allow an applicant convicted of any drug offense, as defined by AS 11.71.140 through 11.71.190, to appeal to the City Council upon denial.

Ms. Stiver expressed her intent to amend the section of Ordinance No. 5853 pertaining to appeals.

Mayor Cleworth recommended that amendments be made one sentence at a time, or that the Council postpone Ordinance No. 5853 so corrections could be made.

Ms. Stiver, seconded by **Mr. Gatewood**, moved to AMEND Ordinance No. 5853 to strike Section 86-95 (a), "The city council may consider appeals of an applicant whose application for a chauffeur's license has been denied by the city clerk" and replace with "The city council will not consider an appeal if the applicant has more than one conviction for any of the offenses listed in section 86-77, regardless of when the convictions occurred."

Mr. Matherly asked for clarification on the terms "chauffeur license" vs. "chauffeur permit".

Mr. Ewers clarified that the term "license" should be used for chauffeurs and the term "permit" for vehicles.

Mr. Eberhart pointed out that the amendment as written would include driving offenses, and he didn't believe that was **Ms. Stiver's** intent.

Mr. Ewers suggested changing the amendment to read "86-77 (6)" instead of "86-77."

Ms. Stiver, with concurrence by the second, changed the amendment to read "86-77 (6)" instead of "86-77."

Ms. Hovenden asked for clarification on the intent of the wording, "...when the convictions occurred."

Ms. Stiver stated that the intent was for the look back period of eight years.

Mr. Ewers suggested that the language be changed to, "...if the convictions occurred within the eight-year period" to reflect the intent.

Ms. Stiver, with concurrence by the second, changed the amendment to read "...if the convictions occurred within the eight-year period" instead of "...when the convictions occurred."

Mr. Roberts asked for clarification on subsections "h" and "i" of 86-77 (6)

Mr. Ewers provided clarification.

Ms. Stiver moved to WITHDRAW the amendment to Ordinance No. 5853 with approval of the second.

Ms. Stiver, seconded by **Mr. Roberts**, moved to POSTPONE Ordinance No. 5853 to the Regular Meeting of August 8, 2011.

Mayor Cleworth asked for Council input on changes to the vehicle for hire code before the revision of Ordinance No. 5853.

Mr. Eberhart suggested adding specification for displaying a chauffeur license in a taxi cab. He asked the Council for their collective opinion on shortening the look back period for misdemeanor convictions.

Mr. Gatewood gave his support for such a distinction between felonies and misdemeanors.

A ROLL CALL VOTE WAS TAKEN ON THE MOTION TO POSTPONE ORDINANCE NO. 5853 TO THE REGULAR MEETING OF AUGUST 8, 2011, AS FOLLOWS:

YEAS: Roberts, Matherly, Gatewood, Eberhart, Stiver

NAYS: None

Mayor Cleworth declared the MOTION CARRIED.

b) Ordinance No. 5854 – An Ordinance Authorizing Public Sale of Surplus Property Known as the "Chena Building". Introduced by Mayor Cleworth. SECOND READING AND PUBLIC HEARING.

Mr. Gatewood, seconded by **Mr. Eberhart**, moved to ADOPT Ordinance No. 5854.

Frank Turney – Mr. Turney asked what the estimated value of the building was.

Mayor Cleworth called for additional Public Testimony and, hearing none, declared Public Testimony closed.

Mr. Eberhart stated his opinion that the City is not a good landlord. He quoted Ordinance No. 5854, giving the estimated value of \$450,000 for the Chena Building. He asked Mr. Ewers for some information on how the value was appraised. He spoke in support of Ordinance No. 5854, referencing a letter of like support from the Downtown Association.

Mr. Roberts spoke in favor of Ordinance No. 5854 as well.

Ms. Stiver asked if the recent occupants of the building would have the opportunity to retrieve their computer equipment before it was sold.

Mayor Cleworth stated that they would, according to the lease's performance requirements. **Mayor Cleworth**, in response to Mr. Turney's question, provided a brief history of the Chena Building, beginning with the City's acquisition of the property from the Fairbanks Development Authority. He summarized the FGC governing the sale of all City property. He referenced the Lathrop Building as a ballpark comparison for the value of the Chena Building and asked **Mr. Roberts** if that was an accurate assessment.

Mr. Roberts replied that, according to his recollection, the Lathrop Building was sold for a lesser dollar amount.

A ROLL CALL VOTE WAS TAKEN, ON THE MOTION TO ADOPT ORDINANCE NO. 5854, AS FOLLOWS:

YEAS: Stiver, Matherly, Gatewood, Eberhart, Roberts

NAYS: None

Mayor Cleworth declared the MOTION CARRIED and ORDINANCE NO. 5854 ADOPTED.

NEW BUSINESS

RESOLUTION NO. 4482 – A Resolution Authorizing the City of Fairbanks to Apply for a Grant from the State of Alaska Department of Environmental Conservation Municipal Matching Grant Program in the Amount of \$2,775, 360 for Rehabilitation of the City-owned Peger Road Wastewater Treatment Plant Sludge Dewatering Facility. Introduced by Mayor Cleworth.

Ms. Stiver, seconded by **Mr. Eberhart**, moved to APPROVE Resolution No. 4482.

Mr. Roberts asked why Resolution No. 4482 was hand-carried and why the Council had no previous knowledge of it if it goes hand-in-hand with the loan.

Mayor Cleworth explained that the original resolution was for the loan only; then the grant suddenly became available. He stated that this would be a “win-win” situation for the City, because of the savings to the utility can be passed on to the City and the public.

Tiffany Van Horn – Ms. Van Horn explained that the loan application was done in February and grant funding must be applied for on or before August 1, 2011. She stated that an ADEC

representative had just recently informed Golden Heart Utilities that there was grant funding available for the project.

Mr. Roberts referenced Resolution No. 4481, as Amended, that was approved at the July 18, 2011 Council Meeting. He stated that he “went to bat” for GHU against the resolution and wondered if the grant dollars referenced in Resolution No. 4482 would keep utility rates from increasing.

Ms. Van Horn stated that the utility rate increases are based on the test year 2010 for already-incurred expenses. She added that the grant dollars would, however, offset future rate increases.

A ROLL CALL VOTE WAS TAKEN, ON THE MOTION TO APPROVE RESOLUTION NO. 4482, AS FOLLOWS:

YEAS: Eberhart, Roberts, Stiver, Matherly, Gatewood

NAYS: None

Mayor Cleworth declared the MOTION CARRIED and RESOLUTION NO. 4482, APPROVED.

DISCUSSION ITEMS

Committee Reports

Permanent Fund Review Board. **Mr. Gatewood** provided a brief report.

FMATS Policy Committee. **Mr. Roberts** provided a brief report.

Mayor Cleworth spoke to the future of the Permanent Fund.

COUNCIL MEMBERS' COMMENTS

Ms. Stiver stated that, with the help of Mr. Ewers, she will revise Ordinance No. 5853 and present it at the next regular meeting. She spoke of the morning’s meeting with Tom Barrett from Alyeska Pipeline and gave a brief history of the pipeline’s beginning. She stated that the federal government is too involved in the development of such projects.

Mr. Roberts stated that the meeting with Tom Barrett was eye-opening and thought-provoking. He mentioned the success of the Golden Days Festivities in Fairbanks. **Mr. Roberts** commended the organizers of the Red Green Regatta, which benefits the Presbyterian Hospitality House. He also applauded those who were responsible for traffic control.

Mr. Gatewood mentioned the many activities in the Fairbanks area including Golden Days Events, the Governor’s Picnic, the Fairbanks Summer Arts Festival, the recent WEIO Games, and the upcoming Tanana Valley State Fair.

Mr. Eberhart also spoke of the success of local events in Fairbanks. He reminded the public that candidate filing for the 2011 Municipal Election will open on August 1, 2011.

Mr. Matherly spoke of his children's participation in the Golden Days Parade.

Mayor Cleworth spoke about modern government, the national economy and how it negatively effects large-scale development in the U.S. He expressed his appreciation for a speaker named Michael Baldwin who spoke about the Tenth Amendment of the U.S. Constitution at the Governor's Picnic over the weekend.

Mr. Matherly, seconded by **Ms. Stiver**, moved to go into Executive Session for the purpose of discussing the Fairbanks Firefighters contract.

Mayor Cleworth called for objection and, hearing none, so ORDERED.

Mayor Cleworth called for a five-minute recess.

EXECUTIVE SESSION

Labor Contract Negotiations – Fairbanks Firefighters Association

The City Council met in Executive Session to discuss labor negotiations for the Fairbanks Firefighters Association and no action was taken.

Mayor Cleworth quoted section 42-1 of the FGC and stated his intent to amend by adding language that would allow the Council to hire an outside negotiator for labor contracts, if necessary. He mentioned another possible change to the labor relations code regarding communication between the City and the unions.

ADJOURNMENT

Ms. Stiver, seconded by **Mr. Matherly**, moved to ADJOURN the meeting.

Mayor Cleworth called for objection and, hearing none, so ORDERED.

Mayor Cleworth declared the Meeting adjourned at 10:05 p.m.

JERRY CLEWORTH, MAYOR

ATTEST:

JANEY HOVENDEN, CMC, CITY CLERK

Transcribed by: DS



FAIRBANKS CITY COUNCIL
REGULAR MEETING MINUTES, AUGUST 8, 2011
FAIRBANKS CITY COUNCIL CHAMBERS
800 CUSHMAN STREET, FAIRBANKS, ALASKA

The City Council convened at 7:00 p.m. on the above date, to conduct a Regular Meeting of the Fairbanks City Council at the City Council Chambers, 800 Cushman Street, Fairbanks, Alaska, with Mayor Jerry Cleworth presiding and with the following Council Members in attendance:

Council Members Present: Vivian Stiver, Seat A
Chad Roberts, Seat B
Bernard Gatewood, Seat C
Jim Matherly, Seat D
Emily Bratcher, Seat E
John Eberhart, Seat F

Absent: None

Also Present: Patrick B. Cole, Chief of Staff
Ernie Misewicz, City Fire Marshal
Paul Ewers, City Attorney
Janey Hovenden, City Clerk
Ryan Rickels, IT Director
Michael J. Schmetzer, City Engineer
Laren Zager, Police Chief

INVOCATION

The Invocation was given by City Clerk Janey Hovenden.

FLAG SALUTATION

Mayor Cleworth led the Flag Salutation.

CITIZEN'S COMMENTS

David Pruhs, 520 Eleventh Ave, Fairbanks and Joan Skilbred, 213 Rasmussen Road, Fairbanks – Mr. Pruhs and Ms. Skilbred gave a brief report on the Clay Street Cemetery. They informed Council that there are at least ten markers that are damaged and need repair, with a few needing complete replacement. They mentioned the need for removal of a birch tree that is a safety hazard in the cemetery. Mr. Pruhs and Ms. Skilbred stated that the information board is in fairly good shape, but needs new Plexiglas and hinges which would cost about \$400.00; they requested that the City fund the repair. They also mentioned the need for new benches in the cemetery. Mr. Pruhs and Ms. Skilbred thanked the City for providing weed and feed and praised Frank Turney for his outstanding job taking care of the cemetery. They continued to list numerous small repair projects that need attention and expressed their interest in making Clay Street

Cemetery open for cremation-type burials. They recommended to the Council that Dave Erickson be reinstated on the Clay Street Cemetery Committee.

Mr. Matherly commented that the cemetery is looking great and asked how many grave sites the cemetery held.

Ms. Skilbred replied that the cemetery was about four and a half acres in size and housed more than 1,500 burial sites. She stated that the Clay Street Cemetery Commission is a good team.

Mayor Cleworth asked that Ms. Skilbred contact him the following day in reference to the requests for funding and tree removal.

Frank Turney, 201 Seventh Avenue, Fairbanks – Mr. Turney expressed that it has been his pleasure to work on the Clay Street Cemetery Commission. He stated that the birch tree at the cemetery is an eyesore and a danger and needs to come down. He spoke to the death of Ms. Rockar and the upcoming hearing for the defendant in the case. He thanked Mayor Cleworth for bringing the Chief of Police to the last Council meeting to discuss evidence handling and destruction. Mr. Turney agreed with Chief Zager that there needs to be more audits in the evidence department. He spoke to the 3,000 registered voters in the City of Fairbanks and cautioned the public on electing another attorney to the City Council. He stated that he'd rather have Ms. Bratcher stay in office.

Victor Buberger, PO Box 58192, Fairbanks – Mr. Buberger congratulated Mike Schmetzer for the completion of the Wendell Street project. He asked why the Wendell Street Bridge wasn't included in the project. He spoke to the numerous potholes in the city that need attention. Mr. Buberger expressed his frustration with intersections that have limited visibility around corners due to trees and shrubs. He stated that the Clay Street Cemetery looks the best he's ever seen it. He suggested that the City purchase a new Kabota machine and weed-eater for Mr. Turney to use in taking care of the cemetery. He asked the Council if any project funding has been set aside for the south side of town.

APPROVAL OF AGENDA AND CONSENT AGENDA

Ms. Bratcher, seconded by **Mr. Roberts**, moved to APPROVE the Agenda and Consent Agenda.

Mayor Cleworth called for objection and, hearing none, so ORDERED.

City Clerk Hovenden read the Consent Agenda into the record.

SPECIAL ORDERS

The Fairbanks City Council, Sitting as a Committee of the Whole, heard interested citizens concerned with the below-referenced Appeal of Denied Application for new Chauffeur License.

Applicant: Mark Jay Sibley, Sr.

Mr. Eberhart, seconded by **Mr. Roberts**, moved to GRANT Appeal of Denied Application.

Mayor Cleworth called for Public Testimony.

Mark J. Sibley, Sr., 1116 Charlotte, North Pole – Mr. Sibley stated that he was denied a chauffeur license because of an incident eight years ago involving his ex-wife. He reflected upon his time spent in incarceration and how that motivated him to participate in an anger management class. He expressed his hope that the Council would grant his appeal because, due to his disability, he is unable to do the same work he had done in the past.

Mr. Eberhart thanked Mr. Sibley for coming. He asked Mr. Sibley if he had gotten a divorce since the incident and how long he has been divorced. He also asked if he had completed the anger management course as part of a court requirement.

Mr. Sibley stated that he and his ex-wife have been divorced for about ten years. He added that, since the incident, he has managed his anger well and has completed the court-ordered anger management course. He stated that he is currently unemployed due to his failing kidneys, but has a job prospect with Eagle Cab.

Ms. Stiver referenced the numerous driving offenses listed on Mr. Sibley's driving record. She asked Mr. Sibley why he had continued to drive so often with a revoked license. She expressed concern for the number of offenses.

Mr. Sibley answered that his license has not been revoked for the past ten years, but briefly explained the reasons for revocation prior to that.

Mayor Cleworth asked Mr. Sibley if he could provide a certificate for the completion of the anger management course.

Mr. Sibley replied that he has misplaced the certificate.

Ms. Bratcher asked Mr. Sibley if he had ever taken a defensive driving course.

Mr. Sibley answered in the negative, but stated that he would be willing to complete a course if it meant he could get his chauffeur's license.

Mr. Eberhart stated that he is not condoning the past actions of Mr. Sibley, but that the driving violations are not necessarily offenses that the Council should take into consideration for the appeal. He also expressed concern that the evening's vote on Ordinance No. 5853 could change the outcome for Mr. Sibley's appeal due to the change in the look-back period for criminal history reports.

Mr. Eberhart, seconded by **Mr. Gatewood**, moved to POSTPONE the Chauffeur License Appeal to be heard under item "b)" of UNFINISHED BUSINESS.

Mr. Roberts asked for clarification on the conviction barring Mr. Sibley from obtaining a chauffeur license.

Mr. Ewers stated that the assault conviction was a misdemeanor crime.

Mayor Cleworth called for objection and, hearing none, so ORDERED.

Mayor Cleworth called for other Public Testimony on the appeal.

Victor Buberger – Mr. Buberger began speaking to Ordinance No. 5853.

Ms. Stiver called for Point of Order.

Mayor Cleworth explained to Mr. Buberger that Public Testimony on Ordinance No. 5853 would take place later in the meeting and clarified that he could only testify on the appeal at this time.

Mr. Buberger spoke in favor of granting the appeal. He stated that chauffeur licensing should be left up to the state.

Frank Turney – Mr. Turney stated that he agreed with **Mr. Eberhart's** motion to postpone.

Mayor Cleworth called for Public Testimony and, hearing none, declared Public Testimony closed.

MAYOR'S COMMENTS AND REPORT

Mayor Cleworth, in response to Mr. Buberger's questions during Public Testimony, explained that the Wendell Street project was a State of Alaska DOT project, not the City of Fairbanks. He added that the bridge construction, to his knowledge, is a DOT project in the works. He stated that the far south end of Cushman Street, from Mitchell to Sanduri, is part of a DOT project to be started this year. He stated that Cushman Street, from Airport to the overpass, is a City project that is in line to be slated for construction. **Mayor Cleworth** mentioned a recent meeting with the Governor and stated that the City will attempt to get state funding this year. **Mayor Cleworth** invited the Council to attend the upcoming "State of the City Address" luncheon. He also invited the public and the Council to take a tour of the City Hall gymnasium directly after the evening's meeting to see the renovated bleachers.

UNFINISHED BUSINESS

- a) Ordinance No. 5853 – An Ordinance Amending Chapter 86 Vehicles for Hire. Introduced by Mayor Cleworth and Council Member Stiver. Public Hearing was Held July 25, 2011. POSTPONED from the Regular Meeting of July 25, 2011.

Mayor Cleworth stated that there would be an amended version of Ordinance No. 5853 presented and that the differences between the two ordinances would be brought to light.

Mr. Gatewood, seconded by **Ms. Stiver**, moved to ADOPT Ordinance No. 5853.

Mr. Roberts, seconded by **Mr. Matherly**, moved to SUBSTITUTE Ordinance No. 5853, as Amended for Ordinance No. 5853.

Mayor Cleworth called for objection and, hearing none, so ORDERED.

Bill Northrup, 555 Front Street, Fairbanks – Mr. Northrup spoke in support of Ordinance No. 5853, as Amended, but stated that he would like to see felony and misdemeanor crimes treated separately. He spoke strongly against approval of applicants convicted of felony offenses. He stated that most misdemeanor convictions for chauffeur applicants are assault-related crimes of passion and should be treated more leniently. He spoke to the importance of allowing applicants to earn an honest living.

Ms. Bratcher asked how important defensive driving is for cab drivers.

Mr. Northrup highly recommended that defensive driving courses be taken by chauffeurs every couple years.

Tim Sovde, 402 Bonnifield, Fairbanks – Mr. Sovde agreed with Mr. Northrup's recommendations on Ordinance No. 5853, as Amended. He went on to state that City Code can always be changed based on what the public and council members see fit. He stated his belief that an applicant should be granted a chauffeur license if he/she has never committed an act of violence upon another person or person's property.

Victor Buberger – Mr. Buberger spoke to the inconsistencies of felony sentencing, using as an example a comparison between prostitution and murder convictions. He suggested lowering the misdemeanor look-back to two years and not taking minor traffic violations into account at all. He concluded by stating his belief that chauffeur licensing should be handled by the state court and the DMV.

Frank Turney – Mr. Turney read aloud portions of Section 86-77 of Ordinance No. 5853, as Amended. He expressed his satisfaction that the look-back terms had been shortened, but stated that he would like to see them shortened even more. He asked the Council to continue to consider the degree of the offense when looking at appeals.

Mayor Cleworth called for additional Public Testimony and, hearing none, declared Public Testimony closed.

Ms. Stiver summarized the changes to Ordinance No. 5853, as Amended, from the original ordinance.

Mr. Ewers clarified the referenced Alaska Statute in FGC Section 86-77(6)(b).

Ms. Stiver explained Section 86-95(a), stating that clerical errors or typos on a criminal history report that would cause the applicant to be denied would not have to be appealed if the applicant

could provide documentation to the City Clerk proving it to be an error. She quoted Section 86-95(b) outlining eligibility for an appeal to the City Council.

Ms. Bratcher asked why the sections outlining licensing fees and driver training were removed.

Ms. Hovenden, in response to **Ms. Bratcher's** question regarding driver training, stated that the section has not been enforced for a few years due to the financial burden it places on applicants.

Mr. Ewers confirmed that the fees were removed from Ordinance No. 5853 because they are outlined in the City's Schedule of Fees.

Mr. Eberhart commended **Ms. Stiver** and Mr. Ewers for all their work on the amended ordinance. He asked Mr. Ewers for clarification on Section 86-54(a). **Mr. Eberhart** stated that he thought Section 86-77 was fairly straightforward.

Mr. Matherly thanked those responsible for drafting the ordinance and Mr. Northrup for his input. He stated that he doesn't feel that the Council, by denying an appeal, is preventing an individual from earning a living. He acknowledged the significance of the opinions of cab company managers and owners. **Mr. Matherly** asked Chief Zager to come forward.

Chief Zager referenced a study done by the National Institute of Justice on prior convictions of police officers. He stated that the study determined that agencies would prefer not to hire individuals for 8.6 years following conviction of a violent crime and 5.8 years following a conviction of a non-violent crime.

Mr. Roberts spoke in support of Ordinance No. 5853, as Amended.

Mr. Eberhart raised the issue of defensive driving and suggested that some requirement of the course be kept in the code.

Ms. Bratcher agreed with **Mr. Eberhart's** proposal for a defensive driving requirement. She offered a solution by suggesting that a course certificate be required upon application or renewal of a chauffeur license.

Ms. Hovenden explained that the prior requirement for defensive driving was presentation of a certificate only upon the first renewal. She indicated that this places more of a financial burden on applicants, in addition to the licensing fee and criminal history/driving record costs.

Mr. Eberhart asked for clarification on the difference in requirements for a renewal vs. a new license.

Ms. Hovenden replied that defensive driving had been a one-time requirement upon renewal of a chauffeur license. She stated that updated criminal history and driving record documents are currently required with every renewal.

Ms. Bratcher suggested a change to Section 86-88, addressing the length of time a driver must wait to operate a Commercial Transport Vehicle after consuming or being under the influence of alcohol or prescription drugs. She stated that twelve hours would be adequate.

Ms. Stiver offered changing the time restriction from five hours to eight hours.

Mr. Gatewood agreed with **Ms. Bratcher's** idea, but wanted to ensure that cab drivers were not restricted more than commercial drivers in other industries.

Mr. Eberhart, seconded by **Ms. Bratcher** moved to AMEND Ordinance No. 5853, as Amended, to reinsert Section 86-81, Chauffeur's Training Required, and replace "12 months" with "24 months" in both the heading and in subsection (2).

Mr. Roberts asked for clarification on the motion on the floor.

Mayor Cleworth replied that the motion would reinsert the one-time requirement for a defensive driving certificate upon renewal.

Mr. Eberhart, with the concurrence by the second, changed the language in the first sentence of Section 86-81, Chauffeur's Training Required, to read, "Within 24 months of issuance or renewal of a city chauffeur's license, each driver shall..."

Mr. Roberts stated that the 24-month recurring requirement in the amendment seemed punitive. He spoke in favor of the original amendment without the recurring requirement.

Mr. Gatewood and **Mr. Matherly** agreed with **Mr. Roberts**.

A ROLL CALL VOTE WAS TAKEN, ON THE MOTION TO AMEND ORDINANCE NO. 5853, AS AMENDED, AS FOLLOWS:

YEAS: Bratcher, Eberhart
NAYS: Matherly, Roberts, Stiver, Gatewood
Mayor Cleworth declared the MOTION FAILED.

Mr. Roberts, seconded by **Ms. Bratcher**, moved to AMEND Ordinance No. 5853, as Amended, to reinsert Section 86-81, Chauffeur's Training Required, and change "12 months" to "24 months" in both the heading and in subsection (2).

A ROLL CALL VOTE WAS TAKEN ON THE MOTION TO AMEND ORDINANCE NO. 5853, AS AMENDED, AS FOLLOWS:

YEAS: Roberts, Matherly, Gatewood, Bratcher, Eberhart, Stiver
NAYS: None
Mayor Cleworth declared the MOTION CARRIED.

Ms. Bratcher, seconded by **Mr. Eberhart**, moved to AMEND Ordinance No. 5853, as Amended, to replace “5 hours” with “8 hours” in Section 86-88, Alcoholic Beverages and Controlled Substances.

Mr. Roberts stated his confusion as to why Section 86-88 existed, given that it could not be monitored or enforced.

Mr. Matherly concurred with **Mr. Roberts**.

Mr. Gatewood expressed his opinion that, although it may not be enforceable by the City of Fairbanks, there is no harm in having it be a part of the code. He added that some people follow the law just because it’s the law and spoke in support of the amendment.

Ms. Bratcher asked Mr. Ewers if there was any point in including Section 86-88, from a legal perspective.

Mr. Ewers stated that this would be a more stringent standard than the Alaska state law for DUI legal limits, thus serving its purpose.

Mr. Eberhart spoke in support of the amendment.

A ROLL CALL VOTE WAS TAKEN ON THE MOTION TO AMEND ORDINANCE NO. 5853, AS AMENDED, AS FOLLOWS:

YEAS: Stiver, Matherly, Gatewood, Bratcher, Eberhart, Roberts

NAYS: None

Mayor Cleworth declared the MOTION CARRIED.

Mr. Ewers suggested that if the intent of Section 86-77(6), (h) and (i) was to specify eight years for felony DUI or refusal convictions, that it should be stated in those subsections.

Ms. Stiver, seconded by **Mr. Roberts**, moved to AMEND Section 86-77(6) (h) and (i) by changing “(five years)” to “(five years or eight years for a felony offense).”

Ms. Stiver, upon reflection of the proposed amendment, stated that she was unsure if it was necessary because of the state laws governing the length of driver’s license suspensions for felony DUI’s.

Mr. Ewers stated that sentencing varies for felony DUI’s.

Mr. Matherly asked what the difference is between a DUI and a felony DUI.

Mr. Roberts and **Ms. Stiver** replied that it takes multiple DUI’s to be convicted of a felony DUI.

Ms. Stiver requested to WITHDRAW her motion to AMEND, if her second would concur.

Mr. Roberts declined to second the WITHDRAWAL, stating that it is practical to keep this section of the code.

A ROLL CALL VOTE WAS TAKEN ON THE MOTION TO AMEND ORDINANCE NO. 5853, AS AMENDED, AS FOLLOWS:

YEAS: Bratcher, Eberhart, Roberts, Stiver, Matherly, Gatewood

NAYS: None

Mayor Cleworth declared the MOTION CARRIED.

Ms. Bratcher recommended that Council consider changing the period for all misdemeanors to five years to mirror the misdemeanor DUI look-back.

Ms. Stiver, in response, stated that the DUI look-back was driven by insurance and should not be related to other misdemeanors.

A ROLL CALL VOTE WAS TAKEN ON THE MOTION TO ADOPT ORDINANCE NO. 5853, AS AMENDED, AS FOLLOWS:

YEAS: Eberhart, Gatewood, Stiver, Bratcher, Matherly, Roberts

NAYS: None

Mayor Cleworth declared the MOTION CARRIED and ORDINANCE NO. 5853, As Amended, ADOPTED.

- b) Return to motion to GRANT Appeal of Denied Chauffeur Application of Mark Jay Sibley, Sr.

A ROLL CALL VOTE WAS TAKEN ON THE MOTION TO GRANT APPEAL, AS FOLLOWS:

YEAS: Stiver, Matherly, Gatewood, Bratcher, Eberhart, Roberts

NAYS: None

Mayor Cleworth declared the MOTION CARRIED.

NEW BUSINESS

- a) Ordinance No. 5855 – An Ordinance Amending the 2011 Budget Estimate for the Second Time. Introduced by Mayor Cleworth.

ADVANCED on the CONSENT AGENDA.

- b) Ordinance No. 5856 – An Ordinance Authorizing Prepayment of all Outstanding Revenue Bonds for the Fairbanks Transportation Center. Introduced by Mayor Cleworth.

ADVANCED on the CONSENT AGENDA.

COMMUNICATIONS TO COUNCIL

- a) Request for a Complete/Signature Street Steering Committee.

ACCEPTED on the CONSENT AGENDA.

- b) Reappointment to the Clay Street Cemetery Commission.

APPROVED on the CONSENT AGENDA.

COUNCIL MEMBERS' COMMENTS

Mr. Matherly welcomed **Ms. Bratcher** back. He mentioned the cooler weather. He expressed his appreciation for the process of municipal government and for the input of his fellow Council Members. He expressed his excitement at attending the Tanana Valley State Fair.

Ms. Bratcher apologized for being out of order throughout the evening's meeting. She stated that it was good to be back, although her two weeks out of town was enjoyable. She spoke to the work done at the evening's meeting. **Ms. Bratcher** stated that she will not be running for Seat E and that it is "open for business."

Mr. Eberhart reminded the public that the filing period for candidacy is now open and encouraged those interested to file. He announced the Public Safety Commission meeting coming up and briefly summarized agenda items to be discussed at that meeting. He commended **Mayor Cleworth** for his great ideas. He spoke in support of the upcoming ordinance to pay off City bonds on the Transportation Center and for the proposition that will go before voters in October that, if passed, would pay off the Police Department bonds. **Mr. Eberhart** stated that it is very prudent of the administration to strive to be debt-free. He added that he has filed his declaration for Seat F of the City Council.

Mr. Gatewood reminded the Council that he would not be in attendance for the next regular meeting. He spoke in support of Ordinance No. 5856 that would be presented at that meeting. He stated that he had attended every day of the fair so far and has had a good time. He mentioned that the AML Conference will be held at the Fairbanks Westmark Hotel November 7-11 this year.

Mr. Roberts commented on the nice weather. He remarked that he had not yet attended the fair, but that he had attended a girl's softball tournament over the weekend and had a lot of fun. He commended the Clay Street Cemetery Commission and Frank Turney, stating that the cemetery looks great. He expressed his appreciation for the Council's work on Ordinance No. 5853.

Ms. Stiver informed everyone that "Council Meeting Agendas" on the City website was not current. She asked if the Council had addressed the letter written from a citizen regarding speeding in the Aurora Subdivision. She mentioned also the anonymous letter sent to Mayor and Council Members concerning a property on Dunbar. **Ms. Stiver** recognized the Downtown Market festivities and expressed her hope for its success. She stated that she is looking forward to attending the fair and announced that the City will participate in a 4-H auction in an attempt to

purchase a pig for a City Hall pig roast. She stated that the auction will be held on August 12 at 6 PM at the fairgrounds and proceeds will benefit the future education of 4-H youth. She added that City employees and staff are encouraged to contribute to the fund raiser.

ADJOURNMENT

Mr. Roberts, seconded by **Ms. Stiver**, moved to ADJOURN the meeting.

Mayor Cleworth called for objection and, hearing none, so ORDERED.

Mayor Cleworth declared the Meeting adjourned at 9:05 p.m.

JERRY CLEWORTH, MAYOR

ATTEST:

JANEY HOVENDEN, CMC, CITY CLERK

Transcribed by: DS

ORDINANCE NO. 5863

**AN ORDINANCE AMENDING THE 2011 BUDGET ESTIMATE
 FOR THE THIRD TIME**

WHEREAS, this ordinance incorporates the changes outlined on the attached summary to amend the 2011 operating budget.

NOW, THEREFORE, BE IT ENACTED BY THE CITY COUNCIL OF THE CITY OF FAIRBANKS, ALASKA, as follows:

SECTION 1. There is hereby appropriated to the 2011 budget from the following sources of revenue for the City of Fairbanks in the amount indicated to the departments named for the purpose of conducting the business of said departments of the City of Fairbanks, Alaska, for the fiscal year commencing January 1, 2011 and ending December 31, 2011

	Approved Budget	As Amended
Taxes, (all sources)	\$ 19,372,237	\$ 19,479,237
Charges for Services	3,960,860	4,238,185
Intergovernmental Revenues	3,761,208	3,780,471
Licenses & Permits	1,454,570	1,658,379
Fines, Forfeitures & Penalties	906,587	984,544
Interest & Penalties	135,000	136,597
Rental & Lease Income	224,663	213,831
Other Revenues	216,500	216,500
Other Financing Sources	2,688,794	766,963
	<hr/>	<hr/>
Total Appropriation	\$ 32,720,419	\$ 31,474,707

SECTION 2. There is hereby appropriated to the 2011 budget expenditures for the City of Fairbanks in the amount indicated:

10	Mayor and Council	\$ 472,130	\$ 472,130
11	Office of the City Attorney	163,423	163,423
12	Office of the City Clerk	288,335	288,335
13	Finance Department	877,069	877,069
14	Information Technology	1,292,445	1,292,445
15	General Account	5,517,868	7,739,868
16	Risk Management	1,681,606	1,659,032
17	Property Management	58,959	58,959
20	Police Department	6,533,396	6,533,396
21	Dispatch	1,840,347	1,840,347
30	Fire Department	5,883,931	5,883,931
50	Department of Public Works	6,765,761	6,765,761
51	Engineering Division	519,816	519,816
60	Building Department	652,624	652,624
	Total General Fund Appropriation	\$ 32,547,710	\$ 34,747,136
	12/31/10 General Fund Balance	\$ 12,763,194	\$ 12,785,163
	Increase/(Decrease) to Fund Balance	172,709	(3,272,429)
	Reserve for 2011 Encumbrances	(174,436)	(174,436)
	Designated for 21st Street Project		
	Designated for Snow Removal	(250,000)	(250,000)
	Designated for Abatements	(5,940)	(5,940)
	Estimate Self Insurance Reserve	(577,896)	(577,896)
	12/31/11 Projected Unreserved Balance	\$ 11,927,631	\$ 8,504,462
	12/31/10 Unreserved Fund Balance	\$ 11,754,922	\$ 11,776,891
	Designations from 2010 Revenue and OFS	-	-
	Increase to Unreserved Fund Balance	172,709	(3,272,429)
	2011 Projected Undesignated Fund Balance	\$ 11,927,631	\$ 8,504,462

SECTION 3. All appropriations made by this ordinance lapse at the end of the fiscal year to the extent they have not been expended or contractually committed to the departments named for the purpose of conducting the business of said departments of the City of Fairbanks, Alaska, for the fiscal year commencing January 1, 2011 and ending December 31, 2011.

SECTION 4. The effective date of this ordinance shall be the _____ day of _____ 2011.

Jerry Cleworth, MAYOR

AYES:
NAYS:
ABSTAIN:
ABSENT:
ADOPTED:

ATTEST:

APPROVED AS TO FORM

Janey Hovenden, CMC, City Clerk

Paul J. Ewers, City Attorney

**SUMMARY OF ORDINANCE 5863
AS SUBSTITUTED
AMENDING 2011 GENERAL FUND BUDGET THIRD TIME**

ESTIMATED REVENUES \$676,119 INCREASE AND OTHER FINANCING SOURCES
\$1,921,831 DECREASE FOR A NET DECREASE OF \$1,245,712

1. Taxes – \$107,000 net increase
2. Charges for Services - \$277,325 net increase
3. Intergovernmental Revenues – \$19,263 net increase
4. Licenses & Permits – \$203,809 net increase
5. Fines, Forfeitures, & Penalties – \$77,957 net increase
6. Interest and Penalties - \$1,597 net increase
7. Rental & Lease Income – (\$10,832) decrease
8. Other Revenues – No Change
9. Other Financing Sources & Uses – (\$1,921,831) decrease due to transferring \$1,918,431 to the Fairbanks Transportation Center to pay off the capital lease and \$3,400 to the Permanent Fund for sale of real property.

ESTIMATED EXPENDITURES

\$2,199,426 INCREASE

1. Mayor & Council – No Change
2. City Attorney's Office – No Change
3. City Clerk's Office – No Change
4. Finance Department – No Change
5. General Account – \$2,222,000 Increase
 - a. \$1,890,000 increase for Bond Principal (Police Station Defeasance)
 - b. \$ 192,000 increase for Bond Interest (Police Station Defeasance)
 - c. \$ 20,000 increase for Street Lights
 - d. \$20,000 increase for telephone
 - e. \$20,000 increase for electric
 - f. \$80,000 increase for heating fuel
6. Risk Management – \$22,574 Decrease
 - a. (\$ 22,574) decrease to 2010 actual expenditure
7. Police Department – No Change
8. Dispatch – No Change
9. Fire Department – No Change
10. Public Works – No Change
11. Engineering – No Change
12. Building Department – No Change

**CITY OF FAIRBANKS
ORDINANCE 5863
AMENDING THE 2011 GENERAL FUND BUDGET FOR THE THIRD TIME**

ACCT	DESCRIPTION	2011 BUDGET	ACTUAL AS OF 10/17/11	VARIANCE	%	ADJUST BUDGET	2011 AMENDED BUDGET
60 TAXES							
3001	REAL PROPERTY TAXES	14,097,237	14,098,431	1,194	100.0%	-	14,097,237
3002	HOTEL MOTEL TAXES	2,525,000	1,974,049	(550,951)	78.2%	(63,000)	2,462,000
3003	ALCOHOL BEVERAGES TAXES	1,900,000	1,411,533	(488,467)	74.3%	100,000	2,000,000
3004	TOBACCO DISTRIBUTION TAXES	850,000	613,843	(236,157)	72.2%	70,000	920,000
		<u>19,372,237</u>	<u>18,097,856</u>	<u>(1,274,382)</u>	<u>93.4%</u>	<u>107,000</u>	<u>19,479,237</u>
61 CHARGES FOR SERVICES							
3101	RESERVE FOR LOSSES	(50,000)	-	(50,000)	0.0%	-	(50,000)
3125	ATTORNEY FEES/COURT COSTS	14,000	5,040	(8,960)	36.0%	(7,000)	7,000
3126	ELECTION FILING SERVICES	200	125	(75)	62.5%	(75)	125
3140	COPY CHARGES	10,500	18,835	8,335	179.4%	9,000	19,500
3180	ADMIN REC GRANTS	10,000	13,779	3,779	137.8%	4,000	14,000
3102	AMBULANCE	1,250,000	750,999	(499,001)	60.1%	-	1,250,000
3103	FIRE PROTECTION SERVICES	5,401	6,398	997	118.5%	-	5,401
3104	MOTOR VEH ACCIDENT	16,500	12,035	(4,465)	72.9%	-	16,500
3106	POLICE OVERTIME REIM	4,000	-	(4,000)	0.0%	(4,000)	-
3108	ALARM SYSTEM BILLINGS	90,000	146,550	56,550	162.8%	56,900	146,900
3109	TRAFFIC TICKET COLLECTION FEE	11,000	37,380	26,380	339.8%	26,380	37,380
3110	DISPATCH SERVICES	516,885	311,281	(205,604)	60.2%	-	516,885
3112	GARBAGE COLLECTION	1,342,032	1,422,795	80,763	106.0%	80,763	1,422,795
3113	GARBAGE EQUIPMENT RESERVE	186,492	195,499	9,007	104.8%	9,007	195,499
3115	PW WARRANTY REIMB	-	(41,411)	(41,411)	-	-	-
3124	ENG/MISC CHARGES & FEES	1,500	2,150	650	143.3%	650	2,150
3183	ENG RECOVERY GRANTS	550,000	531,887	(18,113)	96.7%	100,000	650,000
3460	STRMWATER PPP PLAN REVIEW	600	1,410	810	235.0%	810	1,410
3461	STRMWTR SITE REVIEW 1-5 ACRE	250	240	(10)	96.0%	(10)	240
3130	BUILDING MISC SERVICES	1,500	2,475	975	165.0%	900	2,400
		<u>3,960,860</u>	<u>3,417,467</u>	<u>(643,393)</u>	<u>86.3%</u>	<u>277,325</u>	<u>4,238,185</u>
63 INTERGOVERNMENTAL							
3305	SOA BOND REIMBURSEMENT	866,815	866,815	-	100.0%	-	866,815
3314	SART EXAM REIMBURSEMENT	-	15,350	15,350	-	15,350	15,350
3301	SOA MUNICIPAL ASSISTANCE	2,208,228	1,656,171	(552,057)	75.0%	-	2,208,228
3302	SOA ELECTRIC/PHONE	124,215	122,192	(2,023)	98.4%	(2,023)	122,192
3303	SOA LIQUOR LICENSE	81,950	84,100	2,150	102.6%	2,150	84,100
3304	FNSB PILT	5,000	8,786	3,786	175.7%	3,786	8,786
3315	FT WW NORTH HAVEN PILT	475,000	475,000	-	100.0%	-	475,000
		<u>3,761,208</u>	<u>3,228,415</u>	<u>(532,794)</u>	<u>85.8%</u>	<u>19,263</u>	<u>3,780,471</u>
64 LICENSES & PERMITS							
3401	BUSINESS LICENSE	730,200	747,069	16,869	102.3%	15,963	746,163
3402	SECURITY GUARD LICENSE	-	400	400	-	-	-
3403	TRANSIET VENDOR LICENSE	2,800	2,800	-	100.0%	-	2,800
3404	SPECIAL EVENT PERMIT	11,950	8,416	(3,534)	70.4%	(3,534)	8,416

ACCT	DESCRIPTION	2011 BUDGET	ACTUAL AS			%	ADJUST BUDGET	2011
			OF 10/17/11	VARIANCE				AMENDED BUDGET
3405	PRIVATE DETECTIVE LICENSE	2,000	4,000	2,000	200.0%	2,000	4,000	
3407	MASSAGE PRACTITIONER	3,000	4,300	1,300	143.3%	1,300	4,300	
3411	CHAUFFEUR LICENSE	18,000	17,425	(575)	96.8%	-	18,000	
3413	COMM VEHICLE FOR HIRE	15,000	17,500	2,500	116.7%	3,000	18,000	
3414	BICYCLE LICENSE	20	12	(8)	60.0%	-	20	
3432	TEMPORARY CATERER'S APPL	2,000	1,775	(225)	88.8%	-	2,000	
3440	MISC PERMITS AND LICENSES	400	600	200	150.0%	200	600	
3105	FIRE CODE INSPECTIONS	80,000	80,815	815	101.0%	2,000	82,000	
3423	ALARM PERMITS	3,000	900	(2,100)	30.0%	(2,000)	1,000	
3117	ENG/PLAT SERVICES 4 OR LESS	-	200	200	0.0%	200	200	
3118	ENG/PLAT SERVICES 5 OR MORE	-	250	250	0.0%	250	250	
3119	ENG/ QUICK PLATS	-	600	600	0.0%	600	600	
3425	ENG/DRIVEWAY CONST PERMIT ENG/SDWLK/ST OBSTRUCT	1,500	1,750	250	116.7%	250	1,750	
3426	PERMIT	1,200	1,350	150	112.5%	-	1,200	
3428	RIGHT OF WAY PERMIT ENG/STREET EXCAVATION	18,000	20,365	2,365	113.1%	2,365	20,365	
3431	PERMIT MASTER PLUMBER	500	4,900	4,400	980.0%	4,400	4,900	
3408	LICENSE/EXAMS	3,000	2,200	(800)	73.3%	-	3,000	
3415	COMMERCIAL BLDG PERMIT	380,700	460,116	79,416	120.9%	79,416	460,116	
3418	RESIDENTIAL BUILDING PERMIT	42,300	71,781	29,481	169.7%	29,481	71,781	
3420	MECHANICAL PERMIT	45,000	63,085	18,085	140.2%	18,085	63,085	
3421	PLUMBING PERMIT	35,000	46,068	11,068	131.6%	11,068	46,068	
3422	SIGN PERMIT	4,000	5,841	1,841	146.0%	1,841	5,841	
3424	ELECTRICAL PERMIT	55,000	91,924	36,924	167.1%	36,924	91,924	
		<u>1,454,570</u>	<u>1,656,442</u>	<u>201,872</u>	<u>113.9%</u>	<u>203,809</u>	<u>1,658,379</u>	
65 FINES & FORFIETURES								
3602	PARKING VIOLATIONS	3,000	2,140	(860)	71.3%	-	3,000	
3603	MOVING TRAFFIC VIOLATIONS	463,277	400,190	(63,087)	86.4%	-	463,277	
3604	MISC VIOLATIONS	250	38	(213)	15.0%	(150)	100	
3605	VEHICLE FORFEITURES	400,000	473,345	73,345	118.3%	75,000	475,000	
3608	CITY FORFEITURES	15,000	16,592	1,592	110.6%	1,592	16,592	
3609	EMS SEATBELT OPTION	60	75	15	125.0%	15	75	
3606	VEH FORF/TOW/STG/ACCESS	25,000	25,105	105	100.4%	1,500	26,500	
		<u>906,587</u>	<u>917,485</u>	<u>10,898</u>	<u>101.2%</u>	<u>77,957</u>	<u>984,544</u>	
67 INTEREST & PENALTIES								
4001	INTEREST - DEMAND DEPOSITS	10,000	3,029	(6,971)	30.3%	(6,500)	3,500	
4002	HOTEL MOTEL-INT/PENALTY	17,500	37,713	20,213	215.5%	-	17,500	
4003	ALCOHOL-INT/PENALTY	20,000	13,863	(6,137)	69.3%	(4,000)	16,000	
4005	PROP TAX-INT/PENALTY	70,000	47,865	(22,135)	68.4%	-	70,000	
4007	GARBAGE-INT/PENALTY	16,000	30,230	14,230	188.9%	12,097	28,097	
4008	SPEC ASSESSMENTS-INT/PENALTY	1,500	1,500	0	100.0%	-	1,500	
		<u>135,000</u>	<u>134,200</u>	<u>(800)</u>	<u>99.4%</u>	<u>1,597</u>	<u>136,597</u>	

ACCT	DESCRIPTION	2011 BUDGET	ACTUAL AS OF 10/17/11	VARIANCE	%	ADJUST BUDGET	2011 AMENDED BUDGET
68 RENTAL & LEASES							
4201	UTILIDOR LEASES	80,000	80,000	-	100.0%	-	80,000
4203	RENT-OLD CITY HALL	-	1	1		-	-
4204	RENT-CHENA BLDG- UAF	64,991	54,159	(10,832)	83.3%	(10,832)	54,159
4207	RENT-YOUTH COURT	3,108	2,590	(518)	83.3%	-	3,108
4208	RENT-BOYS/GIRLS CLUB	18,024	13,550	(4,474)	75.2%	-	18,024
4209	RENT-BOXING CLUB	840	700	(140)	83.3%	-	840
4212	RENT-GOLD HEART PLAZA	-	21	21		-	-
4216	LEASE - CELL TOWER	19,200	16,000	(3,200)	83.3%	-	19,200
4202	RENT-FIRE TRAINING CENTER	38,500	31,189	(7,311)	81.0%	-	38,500
		<u>224,663</u>	<u>198,210</u>	<u>(26,453)</u>	<u>88.2%</u>	<u>(10,832)</u>	<u>213,831</u>
78 OTHER REVENUES							
3801	SPECIAL ASSES/PRINCIPAL	6,500	4,405	(2,095)	67.8%	-	6,500
4703	CASH OVER AND SHORT	-	(36)	(36)	0.0%	-	-
4704	MISCELLANEOUS REVENUES	10,000	5,732	(4,268)	57.3%	-	10,000
4701	TECHITE SETTLEMENT	200,000	200,000	-	100.0%	-	200,000
4702	DONATION/CONTR	-	15	15	0.0%	-	-
		<u>216,500</u>	<u>210,116</u>	<u>(6,384)</u>	<u>97.1%</u>	<u>-</u>	<u>216,500</u>
SUBTOTAL REVENUES						676,119	
79 OFS/OFU							
4900	SALE OF ASSETS-DUE PF	-	3,400	3,400	0.0%	-	-
4901	SALE OF ASSETS	25,000	20,939	(4,061)	83.8%	-	25,000
4928	XFER FROM PF/OPERATIONS	3,982,286	2,502,214	(1,480,072)	62.8%	-	3,982,286
7602	XFER TO PF	(100,000)	(100,000)	-	100.0%	-	(100,000)
7604	XFER TO CAP FUND	(782,000)	(782,000)	-	100.0%	-	(782,000)
7608	XFER TO TRANS CENTER	(200,000)	(200,000)	-	100.0%	(1,918,431)	(2,118,431)
7609	XFER TO PF SSALE PROCEEDS	-	(3,400)	(3,400)	0.0%	(3,400)	(3,400)
7610	XFER TO CAP FUND/EQ RESERVE	(186,492)	(146,421)	40,071	78.5%	-	(186,492)
7614	XFER TO CAP FUND/AMB MILAGE	(50,000)	-	50,000	0.0%	-	(50,000)
SUBTOTAL OFS/OFU						(1,921,831)	766,963
		<u>32,720,419</u>	<u>29,154,921</u>	<u>(3,665,498)</u>	<u>89.1%</u>	<u>(1,245,712)</u>	<u>31,474,707</u>

ORDINANCE NO. 5864

**AN ORDINANCE TO AMEND FAIRBANKS GENERAL CODE
CHAPTER 14, ARTICLE XIII BUSINESS LICENSING REGARDING
APPLICATION INFORMATION AND FEES**

WHEREAS, the requirement of a state business license number on the application forms for city business license is unnecessary; and

WHEREAS, there is a typo in the current fee chart that requires corrections; two new fee levels to be added,

NOW, THEREFORE, BE IT ENACTED BY THE CITY COUNCIL OF THE CITY OF FAIRBANKS, ALASKA, as follows:

Section 1. That Fairbanks General Code Section 14-601(c) is amended by deleting subpart (5) requiring a state business license number.

Section 2. That Fairbanks General Code Section 14-602(a) is amended as follows:

Sec. 14.602. License fee registration.

(a) The annual license registration shall be based on gross receipts from the prior year as set forth below regardless of the number of physical locations in the city where the business is conducted. For 2011, the license fee schedule is shown below. For calendar years 2012 and beyond, the fee schedule shall be adjusted as part of the annual budget estimate by the estimated annual year adjustment to reflect the actual change. Starting in 2012, the fee schedule shall be removed from the City Code and instead published in the *City Schedule of Fees and Charges for Service* with fees rounded to the nearest dollar. The minimum license fee shall remain at \$25.00 until further amendment by ordinance.

Gross Receipts	Annual License
\$0—\$49,999	\$25
\$50,000—\$249,999	\$108
\$250,000—\$999,999	\$324
\$1,000,000—\$2,999,999	\$540
\$3,000,000—\$9,999,999	\$1,080
\$10,000,000—\$19,999,999	\$2,160
\$20,000,000—\$39,999,999	\$3,240
\$40,000,000—\$59,999,999	\$4,320
\$80,000,000 <u>\$60,000,000</u> —\$79,999,999*	\$5,400
<u>\$80,000,000 -- \$99,999,999</u>	<u>\$10,800</u>
<u>\$100,000,000 -- \$119,999,999</u>	<u>\$15,000</u>
<u>\$120,000,000 and above</u>	<u>\$20,000</u>

*correcting typo.

Section 4. That the effective date of this ordinance shall be the ____ day of _____, 2011.

Jerry Cleworth, Mayor

AYES:
NAYS:
ABSENT:
ADOPTED:

ATTEST:

APPROVED AS TO FORM:

Janey Hovenden, CMC, City Clerk

Paul Ewers, City Attorney

RESOLUTION 4493

A RESOLUTION AUTHORIZING THE CITY OF FAIRBANKS TO PARTICIPATE IN THE FFY2011 COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) PROGRAM

WHEREAS, a required public hearing was held by the City of Fairbanks on October 25, 2011 for the proposed use of CDBG funds, attached is a record of that meeting; and

WHEREAS, community members identified an emergency homeless shelter for youth as a priority; and

WHEREAS, the City of Fairbanks is eligible to apply for a grant in the amount of \$750,000 from the Alaska Department of Commerce, Community, and Economic Development, under the CDBG program on behalf of Clearwater Ministries, a non-profit organization, for the renovation of their facility to provide emergency shelter for homeless youth; and

WHEREAS, the City of Fairbanks and Clearwater Ministries agrees to cooperate in the submission of an application for CDBG funds and agree to cooperate in the implementation of the submitted CDBG project as approved by the Alaska Department of Commerce, Community, and Economic Development; and

WHEREAS, the City of Fairbanks and Clearwater Ministries will enter into a written agreement to participate in the CDBG program; and

WHEREAS, Clearwater Ministries understands that the City of Fairbanks will act as the applicant and will have the ultimate responsibility to assume all obligations under the terms of the grant including assuring compliance with all applicable laws and program regulations and performance of all work in accordance with the contract; and

WHEREAS, Clearwater Ministries understands that the City of Fairbanks and Alaska Department of Commerce, Community, and Economic Development will have access to all grant records and authority to monitor all activities; and

WHEREAS, that the building must serve as a homeless youth shelter for at least five years or all CDBG funds must be returned; in the event Clearwater Ministries was unable to make the payment(s), the City would face potential liability; and

WHEREAS, Clearwater Ministries understands that the grant requires a match of \$250,000 and is responsible for providing the match.

NOW, THEREFORE, BE IT RESOLVED THAT the Mayor is hereby authorized to execute any and all documents required for granting and managing funds on behalf of this organization.

The Mayor is also authorized to execute subsequent amendments to said grant agreement to provide for adjustments to the project within the scope of services or tasks, based upon the needs of the project.

PASSED and APPROVED this ____ Day of November 2011.

Jerry Cleworth, City Mayor

AYES:
NAYS:
ABSENT:
APPROVED:

ATTEST:

APPROVED AS TO FORM:

Janey Hovenden, CMC, City Clerk

Paul Ewers, City Attorney

CITY OF FAIRBANKS
CDBG PUBLIC HEARING
OCTOBER 25, 2011
CITY COUNCIL CHAMBERS
NOON

Margarita Bell, Grants Administrator for the City of Fairbanks, opened the meeting to seek recommendations for projects to apply for funding under the Community Development Block Grant (CDBG) Program.

Margarita Bell informed attendees that the CDBG is a federal program funded by HUD and that the State of Alaska was awarded \$2.4 million in CDBG funds for FFY11. She explained that the State of Alaska is accepting applications from municipal government and second class cities for a single project with a maximum request of \$850,000 and a 25% match. She also explained that the grants are awarded on a competitive basis and must benefit low and moderate income persons. A list of eligible activities was presented from the CDBG Grant Application Handbook and it was explained that the City of Fairbanks would not seek projects involving special economic development due to the length of time it would take to accomplish the project.

Margarita Bell informed the attendees that several projects were suggested from previous meetings as follows: purchase fire engine, blight project on 20th and develop a safe haven for chronic inebriates. She stated that the purchase of a fire engine is still a priority and that the blight project on 20th was completed and the safe haven for chronic inebriates was in progress through Tanana Chiefs Conference.

Margarita Bell presented the following recommendations from emails: Donna Gardino recommended sidewalks on South Cushman from 15th to Mitchell Expressway (project scheduled for FFY15). Linda Setterberg recommended an Emergency Youth Shelter. Ann Lefavor concurred with Linda Setterberg and recommended a community needs assessment for homeless youth. Tara Tippet recommended a damp shelter for consideration pending the results of the housing first project (safe haven for chronic inebriates).

Margarita Bell requested additional recommendations. David van den Berg recommended refurbishing the Masonic Temple. It was determined that the building was not a public facility and would not be eligible for FFY11 but would be considered for future projects if the status of the facility changes. There were no other recommendations.

The attendees considered the following projects: purchase fire rescue engine, emergency youth shelter, homeless community needs assessment, refurbish Masonic Temple, South Cushman sidewalk, and damp shelter.

Linda Setterberg discussed the importance and the need for the emergency youth shelter. Warren Cummings discussed the importance of the fire rescue engine. Robyne expressed support for the emergency youth shelter and the fire rescue engine. Tara Tippet expressed concerns regarding the delay in the emergency youth shelter while the application was pending. Marylee Bates supported the emergency youth shelter but was not sure if the agency had the necessary information to apply for the funds.

It was unanimously decided that the priority for FFY11 would be the emergency youth shelter and that if the project could not meet the grant requirements the second priority would be the fire rescue engine. The attendees decided that the homeless community needs assessment could be completed using other funds and that the other projects were not ready for consideration.

Margarita Bell informed attendees that a resolution supporting the decision would have to be presented to council for approval to apply for CDBG funds.

The hearing was adjourned at 12:35 p.m.



The “Door”: Sustainable Temporary Emergency Shelter for At-Risk Youth in Fairbanks

A Concept Business Plan for Sustainability



Fairbanks Youth Advocates
PO Box 10337
Fairbanks, AK 99710

www.fairbanksyouthadvocates.org

I. Executive Summary

In Fairbanks, we see them on street corners, hanging out in the lobby of the library, and in the aisles at Walmart— at-risk, abused and homeless teens have plenty of places to go, but few are dependably safe, warm, and with hot meals, comfortable bed and caring adults. The gap in services for these teens is widely documented and inadequately addressed. For Fairbanks's most vulnerable population, Fairbanks Youth Advocates (FYA) - at The Door – will provide temporary home for today, and hope for tomorrow.

FYA is a 501c3 nonprofit organization whose mission is facilitating life's transitions for at-risk youth in the Fairbanks and greater Interior community. Its roots are deep, and lie in both the recognition of critical needs, and a strong desire to bring life-changing assistance to at-risk youth in the community. The statistics for homeless and runaway youth in the Interior are staggering. The FNSBSD expects that between 400-475 students will be homeless throughout the year; law enforcement reported 150 runaway incidences in 2010; and Anchorage's Covenant House reported that 130 youth from Fairbanks accessed their services in 2010. Few options exist for homeless young people found in dangerous and compromising situations.

Unaccompanied homeless youth are at higher risk for physical and sexual assault, abuse, and illness, including HIV/AIDS. In addition they are at a higher risk for anxiety disorders, depression, post-traumatic stress disorder and suicide. They are especially susceptible and vulnerable to exploitation – sex trafficking and the drug trade. And yet, most homeless youth remain in school.

The needs of homeless and runaway youth are complex, but safe, warm, caring shelter is a start for providing a broader continuum of support. The FYA board believes that a temporary Emergency Shelter, at a minimum, is the lynchpin in helping build more resilient youth, stronger families and safer communities. This is why FYA has purchased a building strategically located on 10th Avenue, and accessible to run-away and homeless youth. After renovation, homeless and run-away teens 12-17 years old will be able to receive food, clothing, individual or group and family counseling, family mediation and family reunification services provided by caring adults, as a start on the road to recovery.

Within the pages of this document, the FYA Board presents a sustainable Business Concept Plan for an essential new program that provides temporary emergency shelter – The Door Project – which would effectively leverage a solid city investment in the future, with strong community support, based on a sustainable, self-supporting business model.

II. The Fairbanks Youth Advocates Organization

Fairbanks Youth Advocates (FYA) is a federally recognized 501c3 tax-exempt nonprofit organization whose simple mission is facilitating life's transitions for at-risk youth in Fairbanks and the greater Interior community. While the tax-exempt status was recently granted, FYA's board and dedicated volunteers have been developing the organization since 2008. The genesis of FYA has roots in a town-hall type meeting held five years ago by then City Mayor, Terry Strle, following the tragic death of a 13 year old. Marylee Bates, a founding board member and current Program Director of FYA attended the meeting and asked: "Mayor Strle, if you could wave a magic wand and do something for homeless and at-risk youth, what would you do?" Thinking about it for just a few seconds, Mayor Strle said, "Can we provide them a bed and a blanket?" She continued, lamenting that we tend to make things complicated, and then we do nothing.

Taking those words to heart, Dave and Marylee Bates, in establishing a counseling agency, also formed a board and proposed to take the profits of the agency to help at-risk youth – that was the genesis of Fairbanks Youth Advocates. Operating under the parent name of Clearwater Ministries Inc. since its inception in 2008, the board has worked to establish a strong forward direction and a vision for the future with the goal of improving the lives of young people by facilitating life transitions for at-risk youth.

FYA's Long-Term Vision and Strategic Plan

FYA is guided by a five-year Strategic Plan, developed with the assistance of The Foraker Group. The plan provides solid focus and sets out a realistic and achievable vision for the future. At its core is a Temporary Emergency Shelter – that translates to a safe, warm place that offers stability as a building block to offering a continuum of care. "The "Door" is therefore a critical first step, and a tangible reflection of FYA's long-term vision. There is much to be done after emergency needs are met, but a temporary emergency shelter is the starting point – and currently non-existent in our community.

The Community Need Supporting Temporary Emergency Shelter

FYA proposes the following two primary reasons that clarify the need for a temporary emergency shelter in Fairbanks, for youths 12-17 years of age:

Community Need One: Fairbanks has a significant population of homeless youth age 17 and under. Homeless refers to young people who lack a fixed, regular and adequate night time residence. [From the federal McKinney-Vento Act] .

- The Fairbanks North Star Borough School District reported ~450 K-12 students as homeless in 2010-11 school year.

- Fairbanks Counseling and Adoption estimates approximately 800 homeless youth in Fairbanks.
- The percentage of unaccompanied minors is not known.
- More than 100 teens were identified as homeless who were not in school.
- 150 youth were reported as runaway in the borough.
- 130 Fairbanks youth received services in Anchorage at Covenant House, an emergency temporary shelter.
- Office of Children Services substantiated 197 reports of harm to children in the borough.

Statistically, Alaska has been ranked as one of the most dangerous places for teens to live. Homeless young people are especially susceptible and vulnerable to exploitation – sex trafficking and the drug trade.

Community Need Two: Currently, there are no temporary emergency shelter facilities for kids aged 12-17 years old – this age group falls through the cracks. Families with children and individuals 18 and older can access the Rescue Mission. Women with children escaping abuse can find shelter at the Interior Center for Nonviolent Living. Kids under 10-12 years old are generally not on the streets, primarily because of heightened interest and efforts by the state’s Office of Children’s Services.

Nearly a decade ago the only existing facility providing temporary emergency shelter for 12-17 year olds – Family Focus – closed down. The model being pursued by FYA is completely different than that model, and much better positioned for long-term sustainability.

Services for 12-17 year olds who need safe shelter are not available in Fairbanks. According to Covenant House, the national nonprofit providing services in Anchorage and the MatSu Valley, 10% of the homeless kids they work with are from Fairbanks. By its nature, to be effective temporary emergency shelter must be highly accessible.

III. Programs and Services – The “Door” – Temporary Emergency Shelter

FYA will provide temporary emergency shelter for youth 17 and under (depending on state regulations) for up to 21 days of care. The goal is meeting immediate physical needs including food and shelter, and facilitating access to health care. FYA will also provide individual, family, and group counseling, including family mediation, as appropriate. These services will be offered to all runaway, homeless, and street youth with the goal of increasing their safety, well-being, resilience and self-sufficiency, and helping them build permanent connections with caring adults. Youth will also be connected to our wide-range of

partner agencies that will help with the continuum of care. The program model is dynamic, and able to meet the changing needs of the community.

Benefit to the Community – Social Return on Investment in FYA

“The Door,” by providing temporary emergency shelter and associated services, is a catalyst for positive change in the lives of at-risk young people, their families, the community generally, and the City of Fairbanks specifically:

- **For At-Risk Youth**
 - As a gateway to safety, decreasing sickness, injury or death.
 - A safe shelter with basic core needs offers youth the time and space to think and plan for subsequent decisions.
 - They can re-connect with families if appropriate, or transition to the next step with the help of caring adults who can assist.
 - Through counseling, they will learn how to communicate effectively, identify their own issues, and learn to set appropriate boundaries that will help prevent them from short term and long term consequences that will negatively impact their lives.

- **For Families *with an emphasis on reunification if possible***
 - Families will have a reprieve from ongoing conflict that may prevent further damage in their relationship with their child.
 - Families will feel relief knowing their child is safe and not on the street.
 - Through counseling or mediation, families can learn communication skills and in a non-judgmental environment, begin to pick up the pieces and learn how to strengthen ties and bonds.
 - Families can get help finding and accessing resources for further help – a first step.

- **For the Community**
 - If kids are helped now, they are much less likely to become offenders who require police action and incarceration.
 - If at-risk youth don't get timely help, their circumstances can result in the need for additional and often expensive services – police, correctional institutions, and pressure on the existing social services infrastructure.
 - Homeless young people are off the street, with a decreased likelihood of engaging in criminal behavior requiring public safety and legal response.
 - They are less likely to be part of the homeless adult population in the future.
 - Supporting the “Door” provides an opportunity for the

- community to show its socially responsible and caring side.
- A safer community means a decreased tax burden for residents.

- **For the City of Fairbanks**
 - Increases opportunity for city to receive CDBG funding:
 - “Supports activities which provide a substantial or direct benefit to low and moderate income residents.”
 - “Supports activities that eliminate clear and imminent threats to public health and safety.”
 - “Supports activities which demonstrate the potential for long term positive impact.”
 - “Supports activities which encourage local community efforts and combines and coordinates CDBG funds with other available private and public sources.”
 - Improves community resources to the homeless population at large, which has increased during current economic stresses.
 - When police spend less time on crimes and reports involving 12-17 year old homeless kids and runaways, they can spend more time dealing with higher priority criminal activities.
 - Decreased number and severity of property crimes.
 - Health services keep kids from going to ER for minor illnesses.
 - Safer streets encourage a better business environment.
 - City government is better able to leverage valuable tax dollars, which in turn could help keep the mil rate low.

There are many other positive benefits that will accrue from the programs and services provided by “The Door.” These and other positive outcomes have already led to a solid outpouring of community and stakeholder support for a temporary emergency shelter.

Community and Stakeholder Support

The list below reflects the broad support enjoyed by the FYA in general and in particular the need for a temporary emergency shelter for at-risk youth:

- Fairbanks Native Association
- Fairbanks North Star Borough School District
- Joel’s Place & Safe Place (and Wellsprings Ministries)
- Fairbanks Counseling and Adoption’s & S.O.A.P.
- Presbyterian Hospitality House
- Access Alaska
- Landmark Inc., Construction
- The Fairbanks Housing and Homeless Coalition
- Fairbanks Rescue Mission
- Interior Center for Nonviolent Living

IV. “The Door” Project Description and Facility Operations Plan

Fairbanks Youth Advocates owns a three-story house on 10th Avenue in

Fairbanks, across from the Regency Hotel. The facility was chosen for its accessibility to the target population and for proper zoning. Unlike Family Focus’ shelter, it is not in the heart of a residential area. In addition, the building is centrally located near major transportation arteries and is on a bus line. Prior to purchase, several partner agencies were consulted regarding location. There is complete agreement that downtown is the right place, for reasons expressed but also accessibility to health care, and other social services.

The project identified in this Business Plan will involve renovation of the 10th Avenue house, turning it into a Residential Youth Facility with a specialization in Emergency Shelter, meeting all state and local licensing requirements. While there is still work to be done in finalizing plans for renovation, it is expected to cost roughly \$650,000 – that includes design, building, equipment acquisition, and specifically administration and project management activities pursuant to the grant. The estimated Capital Construction Budget is presented below:

Table A: Capital Construction Budget for the “Door”

Design / Permitting	Budget	Actual	Difference (\$)	Difference (%)
Design Fees	\$40,000		(\$40,000)	0.0%
City Building Permit	5,000		(5,000)	0.0%
Energy Rating	1,500		(1,500)	0.0%
Leeds Rating	20,000		(20,000)	0.0%
Construction	Budget	Actual	Difference (\$)	Difference (%)
Contract Administration	\$80,000		(\$80,000)	0.0%
Utilities	12,000		(12,000)	0.0%
Dumpster/Tipping Fees	9,000		(9,000)	0.0%
Demoliton Labor	24,000		(24,000)	0.0%
Windows/Exterior Doors	32,000		(32,000)	0.0%
Heating System	46,000		(46,000)	0.0%
Electrical System	46,000		(46,000)	0.0%

Fairbanks Youth Advocates: A Concept Business Plan
November 7, 2011

Ventilation System	20,000		(20,000)	0.0%
Sprinkler System	20,000		(20,000)	0.0%
Interior Framing	18,000		(18,000)	0.0%
Interior Doors / Trim	26,000		(26,000)	0.0%
Cabinets / Countertops	38,000		(38,000)	0.0%
Plumbing Fixtures	10,000		(10,000)	0.0%
Lighting Fixtures	15,000		(15,000)	0.0%
Flooring	38,000		(38,000)	0.0%
Insulation	33,000		(33,000)	0.0%
Drywall / Painting	39,000		(39,000)	0.0%
Appliances	22,000		(22,000)	0.0%
Hardware / Bath Acc.	9,000		(9,000)	0.0%
Exterior Siding / Paint	68,000		(68,000)	0.0%
Other				0.0%
Total Expenses	Budget	Actual	Difference (\$)	Difference (%)
	\$671,500		(\$671,500)	0.0%

As part of sustainability through minimized operation costs, the shelter capital project will be LEED certified, and highly energy efficient. Dave Miller, Landmark Inc., also on the board for the Cold Climate Housing Research Center, estimates that renovations and upgrades will result in as much as an 80% reduction in energy usage, with significant potential savings in fuel costs.

Project Management

The FYA board is solidly committed to having a fully qualified, professional Project Construction Manager to lead all aspects of the renovation. There has been significant local interest by professional builders/contractors to take on this essential role. This step is part of a larger effort to ensure the development and maintenance of a sustainable human resource infrastructure for FYA and the

shelter.

Limiting City Exposure

Building a sustainable revenue stream that does not rely on City funds for operations is one of the most important tools for limiting the City's exposure. Recognizing the documented community need, staying focused on mission, and keeping operating costs low translates to a solid, sustainable and creative way to run a nonprofit business, which means a much increased likelihood of success. Project success is what will most effectively limit the city's exposure, and best leverage its important investment.

The FYA board understands that the City of Fairbanks is concerned about potential liability related to funding the shelter project. To mitigate these concerns, FYA offers these thoughts and ideas:

- FYA board members are people of integrity.
- FYA board members are long term Fairbanksans, desiring to make a long term positive impact in the community.
- Our children's children are here and we want to be successful for them.
- Other well established community agencies are not just in support of a shelter, but they are in support of us running it. They believe in us.
- We have a Vista AmeriCorps volunteer arriving 11/17/11, provided by the borough, to help develop capacity building.
- We have already received extensive community donations for house contents, new bunk beds, kitchen supplies, towels, blankets, 3 sets of living room furniture, computers, and all we did was ask.
- Since FYA is taking on the construction management responsibilities, this will be covered by the CDBG funds, minimizing cities costs.

V. Sustainable Human Resources, Leadership and Management Plan

The Door project, under the auspices of Fairbanks Youth Advocates, is directed by a Governance Board, with the following members:

- Patrick Endres, Business Owner, Alaska Photographics
- Barry Berner, Business Owner, Felix's Golden Touch
- Barb Tyndall, Alaska Juvenile Justice Advisory Commission, high school teacher
- Marylee Bates, FYA Program Director, former AmeriCorps Program Director at Joel's Place, Elementary School teacher for 14 years
- Rhema Demoski, Safe Place Coordinator, AmeriCorps/VISTA at Joel's Place

Sustainable Staffing Plan

Developing a sustainable human resources infrastructure is essential to the ability of FYA to meet the needs of at-risk homeless youth in Fairbanks. The staffing plan is based initially on a combination of in-kind support from the FYA board, as well as AmeriCorps and VISTA positions. All positions are full-time equivalents, with each position described briefly below:

- **Program Director** (1FTE) – during the initial three years of shelter operations, the Program Director will be a volunteer position – the plan is to gradually begin compensating the position in year three as funds allow.
- **VISTA Volunteer** (1 FTE) – Arriving 11/17/2011 and primarily focused on developing funding streams, including broad based community support. Because Vistas are compensated by another organization, there is virtually no fiscal impact on FYA operating funds.
- **AmeriCorps Youth Advocates** (4 FTEs) – these positions will live at the shelter and work directly with the youth. AmeriCorps volunteers are part of a federal grant program, overseen by Joel's Place, but working at the shelter. Joel's Place charges an annual administrative fee to place AmeriCorps Volunteers of \$6,000/position, but covers everything else connected with their employment. There will a savings of over \$125,000 each year by using sustainable AmeriCorps volunteers, rather than staff who are fully compensated by FYA.

Consulting and Support Services

In order to most effectively leverage its operating resources, FYA will rely on other organizations and individuals:

- Covenant House has been providing valuable program expertise, as well as policies and procedures for the operation of temporary emergency shelter.
- The Foraker Group is providing low-cost Business Planning services to FYA as well as other support services.
- Lyndsay McClintock, Essential Accounting, for accounting and financial management services.
- Landmark Inc. has been providing critical and directive advice on renovation estimates and developing an energy efficient building with appropriate energy ratings.
- AlaskaPhotoGraphics has offered graphic design, website and public information assistance.
- Drenda Tigner, Presbyterian Hospitality House, has provided technical assistance regarding providing housing for youth and navigating state regulations.
- Access Alaska is providing mentoring oversight directly to Marylee as

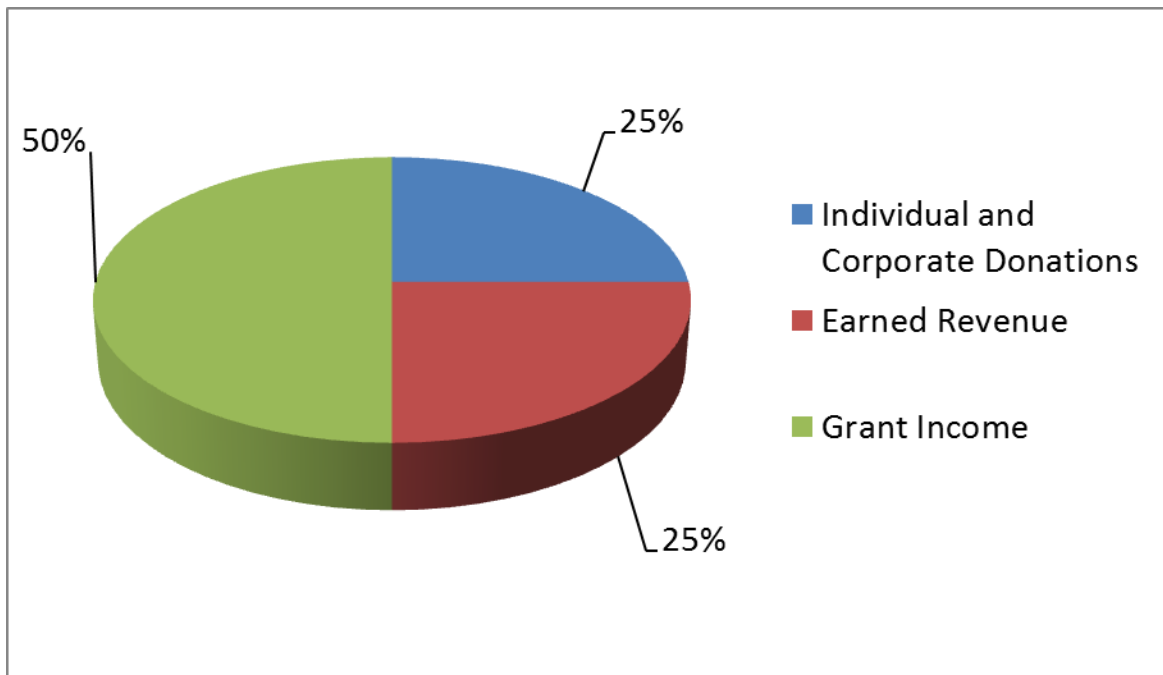
well as housing donated items and sharing staff time to help aspects of the project.

VI. Sustainable Income Plan

At the heart of any sustainable nonprofit organization is a sustainable revenue stream. In addition to most effectively leveraging resources on the expense side, the FYA board is actively pursuing development of a sustainable revenue stream that relies on a variety of sources, and specifically **does not rely on any city dollars to cover operating expenses.**

A sustainable revenue stream will consist of several sources which constitute both restricted and unrestricted revenue, coming from grant sources, earned revenue, individual charitable and corporate donations. The percentage of each as a proportion of the total is presented in the chart below:

Figure A: Projected Revenue Source by Type and Proportion of the Total



Each of the revenue sources is described in more detail below:

- Individual and Corporate Donations
 - Board Giving
 - 100% of the FYA Board has made a financial gift to the project
 - Donations from Individuals
 - Corporate Sponsorship
- Earned Revenue
 - AmeriCorps Utility Fee assessed against each AmeriCorps member, who will be housed at the shelter - \$200/month x 5 AmeriCorps = \$1,000/month.
 - State of AK Food Reimbursement – 35 youth at \$12/night = \$420 estimated minimum, per month.
 - Counseling revenue from Clearwater Counseling, at roughly \$30k annually. (This can be expanded with additional counselors)
 - Sliding Fee Scale – for families that are making arrangements for short term ‘time-out’ placements.
 - State’s Office of Children’s Services Bed Nights (~ \$30/night).
- Government Grants
 - State’s Mental Health Trust Authority
 - State Division of Juvenile Justice
 - Federal Administration for Children and Families, Basic Center Program
 - Federal Housing and Urban Development
Basic Homeless Assistance Program
Emergency Shelter Grant

VII. Concluding Thoughts

As a Concept Business Plan, this document lays out the basic foundation for providing an essential service to one of the Interior’s most vulnerable populations. There is still work to be done, and the nonprofit Fairbanks Youth Advocates organization continues to develop a full Business Plan for Sustainable Temporary Emergency Shelter. With a solid business plan in place, the FYA will build upon the city’s investment, based on a robust business model leading to a 100% self-supporting program.

The FYA appreciates the opportunity to present this Concept Business Plan to the members of the Fairbanks City Council and Mayor Jerry Cleworth...

Introduced by: Mayor Cleworth
Introduced: November 14, 2011

RESOLUTION NO. 4494

**A RESOLUTION AMENDING THE CITY SCHEDULE
OF FEES AND CHARGES FOR SERVICE**

WHEREAS, the City *Schedule of Fees and Charges for Services* was enacted in 2008 by Ordinance No. 5744 and has been amended by resolution on several occasions since that time; and

WHEREAS, the Council passed Ordinance No. 5861, as amended, which established a Master Operator's License and provided, in Section 14-431(b), for a nonrefundable biennial fee for the license, to be established by the council and set forth in the City's Schedule of Fees and Charges for Services,

NOW, THEREFORE, BE IT RESOLVED by the City Council to approve the attached amended version of the *Schedule of Fees and Charges for Services* to add the fee for a Mater Operator's License.

PASSED and APPROVED this 14th day of November 2011.

JERRY CLEWORTH, MAYOR

AYES:
NAYS:
ABSENT:
APPROVED:

ATTEST:

APPROVED AS TO FORM:

JANEY HOVENDEN, CMC, City Clerk

PAUL J. EWERS, City Attorney

City of Fairbanks Fee Schedule
Resolution 4494, Effective Novemer 14, 2011

Category	Code Sec.	Topic	Current Fee	2011 Rev. Res. 4494	Unit
Occupational	14-35	Security Guard Company license	\$ 100.00		One time Application; non-refundable
			\$ 400.00		Two Year License - entity
	14-37	Security Guard Bond			Proof of adequate insurance to City Attorney
	14-123	Private Detective	\$ 100.00		One time Application; non-refundable—each applicant
	14-129		\$ 400.00		Two Year License
	14-131		\$ 10,000.00		Bond
			\$ 20,000.00		Out of state not registered in at least two other states
	14-256		Massage Practitioner	\$ 100.00	
			\$ 200.00		2 year license - each person
	14-294	Plumber/mechanical Contractor			
		Master Plumber	\$ 200.00		Non refundable application & Exam Fee
		Master Plumber	\$ 200.00		3 year license - each applicant
		Journeyman	\$ 100.00		Non refundable application & Exam Fee
		Journeyman	\$ 200.00		3 year license - each applicant
	14-433	Towing Vehicles Master Operator's License	\$ 100.00	Delete	One time Application; non refundable, entity
			\$ 400.00	\$ 250.00	2 Year license - entity
			\$ 200.00	Delete	Each Towing vehicle, 2-year license
	14-502	Gaming Establishment	\$ 100.00		One time Application; non refundable, entity & each employee or agent
			\$ 2,000.00		Two year license
	86-51	Commercial Transport Vehicle Company	\$ 100.00		One time Application; non refundable
	\$ 400.00			Two year license fee - entity	
	\$ 200.00			Per Car lic; 2 years (\$100 vehicle transfer fee)	
86-55		\$ 100.00		Transfer fee - car or entity	
86-80	Chauffeurs License.	\$ 25.00		One time App Fee; non refundable; each driver	
		\$ 100.00		2 year license - each driver	

RESOLUTION NO. 4495

**A RESOLUTION ADOPTING GOVERNMENTAL ACCOUNTING
STANDARDS BOARD (GASB) STATEMENT 54 AND FUND
BALANCE POLICY**

WHEREAS, the Governmental Accounting Standards Board (GASB) is the independent organization that establishes and improves standards of accounting and financial reporting for the U.S., state, and local governments and is recognized by governments, the accounting industry, and the capital markets as the official source of generally accepted accounting principles (GAAP); and

WHEREAS, the financial statements of the City of Fairbanks are required to comply with GASB 54 regarding fund balance classifications beginning with fiscal year 2011; and

WHEREAS, GASB 54 encourages a policy be adopted to provide guidelines relative to classifying fund balance and setting spending prioritizations with GASB 54;

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Fairbanks, Alaska, hereby adopts the Governmental Accounting Standards Board Statement 54 with the attached policy.

PASSED and APPROVED this 14th day of November, 2011.

JERRY CLEWORTH, MAYOR

AYES:
NAYS:
ABSENT:
APPROVED:

ATTEST:

APPROVED AS TO FORM

Janey Hovenden, CMC, City Clerk

Paul J. Ewers, City Attorney

City of Fairbanks
Policy and Procedures
Fund Balance Classification and Spending Prioritization Policy

Purpose: Provide guidelines relative to classifying fund balance and setting spending prioritization in accordance with GASB 54.

Policy:

- The City will utilize the following table to classify fund balance components based on what constraints are placed on how resources can be used and the identification of the source of those constraints.

Fund Balance Classification:

Fund Balance Classification	Policy Interpretation
Nonspendable	<ul style="list-style-type: none"> • Consumable Inventories • Prepays • Property held for resale • Noncurrent loans and contracts receivable must be examined. These may be classified as nonspendable, restricted, committed or assigned based on the restrictions placed on the usage of the loan repayments.
Restricted	<ul style="list-style-type: none"> • Resources are restricted for use by the: <ul style="list-style-type: none"> ○ Alaska Constitution ○ Federal government ○ Debt covenants ○ External parties ○ Grantors • Contract commitments • A restricted fund balance can never be negative.
Committed	<ul style="list-style-type: none"> • Resources are restrained for use by: <ul style="list-style-type: none"> ○ City Council action • Commitments may <u>only</u> be changed or lifted by the council taking the same formal action that imposed the constraint originally. • Commitments are considered spent when the expenditure occurs. • Commitments of fund balance <u>must</u> be in place before the end of the fiscal year. A committed fund balance can never be negative.
Assigned	<ul style="list-style-type: none"> • Resources are restrained for use by: <ul style="list-style-type: none"> ○ Assignment ability is delegated by Council. • Amounts that are not restricted or committed and intended to be used for the purpose of the fund. • Assignments are considered spent when the expenditure occurs. • Assignments can occur anytime before issuance of financial statements. • An assigned fund balance can never be negative. Assignments can never cause the overall fund balance to be negative.
Unassigned	<ul style="list-style-type: none"> • A positive balance is only reportable in general fund. • May be negative (deficit) fund balance for other fund types.

- Unassigned general fund balance shall not be less than 20% of budgeted operational expenditures with a \$4,000,000 minimum level.
- Spending Prioritization: The City's policy is to spend restricted fund balance as external party restrictions have been satisfied. Commitments will be spent as soon as the conditions for the commitment are present and require satisfaction; assignments are spent when the circumstance creating the assignment are ready to be fulfilled. Unassigned fund balance may only be spent after the resources for the other fund balance classifications are not available.

Approved by City Council Adoption of Resolution _____ on _____, 2011;
certified copy attached.

ATTEST

Janey Hovenden, CMC
City Clerk

Date

Introduced by: Mayor Jerry B. Cleworth
Finance Committee Review: November 4, 2011
Date: November 14, 2011

RESOLUTION NO. 4496

A RESOLUTION AUTHORIZING THE CITY OF FAIRBANKS TO ACCEPT FUNDS FROM THE ALASKA DIVISION OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT UNDER THE FFY2011 HOMELAND SECURITY GRANT PROGRAM

WHEREAS, the Fairbanks City Council wishes to upgrade and modernize its response capabilities for Homeland Security as well as natural disaster preparedness needs; and

WHEREAS, the City of Fairbanks wishes to accept a grant in the amount of **\$781,485** under the State Homeland Security Program for City Hall backup power (\$275,000), IT back up and safe storage (\$185,500), tactical vests (\$15,000), Borough wide radio reprogramming (\$109,560), Alaska Shield Exercise (\$64,425), Public Safety Refueling System (\$70,000), tactical mini surveillance robot (\$12,000), and City-Wide building seismic assessment (\$50,000); and

WHEREAS, this program does not require a match;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF FAIRBANKS, that Mayor Jerry Cleworth is hereby authorized to accept and execute any and all documents required for requesting funding on behalf of this organization.

BE IT FURTHER RESOLVED that Mayor Jerry Cleworth is also authorized to execute subsequent amendments to said grant request to provide for adjustments to the project within the scope of services or tasks, based upon the needs of the project.

PASSED and APPROVED this ____ Day of November, 2011.

Jerry Cleworth, City Mayor

AYES:
NAYS:
ABSENT:
APPROVED:

ATTEST:

APPROVED AS TO FORM:

Janey Hovenden, CMC, City Clerk

Paul Ewers, City Attorney

RESOLUTION NO. 4497

**A RESOLUTION URGING THE ALASKA STATE LEGISLATIVE
AND EXECUTIVE BRANCHES TO MAKE EXPRESSLY LEGAL THE
CULTIVATION OF INDUSTRIAL HEMP IN THE STATE OF ALASKA**

WHEREAS, industrial hemp is defined as that variety of cannabis containing not more than three tenths of one percent tetrahydrocannabinol (.3% THC) and is therefore legally and in fact nonpsychoactive; and

WHEREAS, industrial hemp (hereinafter "hemp") is produced legally in more than 30 nations, including Canada, Great Britain, France, Germany, Australia and China, and is imported into the U.S. for use in the production of over \$300 million worth of products such as textiles, automotive panels, insulation, mulch, animal bedding, rope, canvass, biomass fuel, energy bars, meatless burgers, lotions, lip balms, shampoos, soaps, massage oils, etc.;

WHEREAS, hemp would be a viable crop in Alaska, responding to a variety of demands locally, including energy production, as demonstrated by small-scale ("illegal") producers in the Delta region and large scale competitive (legal) agricultural production in comparable latitudes and soils in Canada; and

WHEREAS, Alaskan hemp production could help alleviate the unemployment problem and economic troubles in Alaska, especially considering our cheap agricultural land which could be even cheaper with lease or outright grants of State land; and

WHEREAS, the federal Controlled Substances Act of 1970 prohibits nationally the production of hemp yet permits virtually its unlimited importation, explicitly acknowledging hemp as being distinct from marijuana and having no psychoactive properties; and

WHEREAS, the United States Constitution assures the State of Alaska and its people of (a) unequivocal autonomy except where it delegates power to the federal government

(ninth and tenth amendments), and (b) sovereignty over their property (fourth and fifth amendments); and

WHEREAS, in that document, no delegation or interpretation of power is apparent, that would permit a proscription in Alaska of agricultural production of such a product as hemp; and

WHEREAS, North Dakota, Hawaii, Kentucky, Maine, Maryland, Oregon, California, Montana, West Virginia and Vermont have legitimized hemp by expressly making legal its cultivation, awaiting federal acknowledgement of its nonjurisdiction, or court decisions mandating such;

NOW THEREFORE, BE IT RESOLVED, that the City Council of the City of Fairbanks, Alaska, hereby emphatically urges the legislature and the governor of the State of Alaska (a) to enact statutes expressly empowering the people of this state to engage in the agricultural pursuit of the cultivation of hemp, as herein defined; and (b) to petition the president of the United States and his Drug Enforcement Administration either to justify constitutionally its ban on hemp or to nullify its current restrictions on its cultivation and distribution in the United States.

PASSED and APPROVED this 14th day of November, 2011.

JERRY CLEWORTH, MAYOR

AYES:
NAYS:
ABSENT:
APPROVED:

ATTEST:

APPROVED AS TO FORM

Janey Hovenden, CMC, City Clerk

Paul J. Ewers, City Attorney

CALENDAR 2012

2012 CITY COUNCIL MEETINGS and HOLIDAY LIST

JANUARY	09 23	JULY	09 23
FEBRUARY	06 13	AUGUST	06 20
MARCH	05 19	SEPTEMBER	10 24
APRIL	09 23	OCTOBER	08 22
MAY	07 21	NOVEMBER	05 19
JUNE	11 25	DECEMBER	03 10

NOTE: Any changes from FGC are a result of City Holidays, budget deadlines or AAMC/AML Conference conflicts.

2012 CITY HOLIDAYS

New Year's Day	Monday	January 2, 2012
President's Day	Monday	February 20, 2012
Memorial Day	Monday	May 28, 2012
Independence Day	Wednesday	July 4, 2012
Labor Day	Monday	September 3, 2012
Veteran's Day	Monday	November 12, 2012
Thanksgiving Day	Thursday	November 22, 2012
Christmas Day	Tuesday	December 25, 2012

Golden Heart City

Visit us on the Web at www.ci.fairbanks.ak.us

11/10/2011

City of Fairbanks
Permanent Fund Review Board
(Quarterly Meeting Minutes)
July 20, 2011

The Permanent Fund Review Board (PFRB) convened at 1:30 p.m. on the above date, to conduct a quarterly meeting with the following review board members in attendance.

Board Members Present: Jeff Johnson
Tom Freeman
Council Member Bernard Gatewood
Patty Mongold
Darren Franz

Board Members Absent: None

Also Present: Mayor Jerry Cleworth
Pat Cole, Chief of Staff
Jim Soileau, Chief Financial Officer
Carmen Randle, Controller
Bert Wagon, Senior Vice President, Investments - APCM
Brandy Niclai, Senior Investment Analyst - APCM

The Board approved the minutes from the April 27, 2011 meeting.

Jim Soileau reviewed the account's performance through June 30, 2011. The balance of the Permanent Fund portfolio at June 30, 2011 was \$101,355,591. During 2011, the City deposited \$396,900 in lease payments and \$14,937 in payments on notes receivable. As allowed by City Charter, the City withdrew \$3,000,000 for operations and capital on June 24, 2011. The dividend and interest earnings through June 2011 were \$1,475,424. Permanent Fund expenses through June 2011 were \$84,820. The account's earnings from January 1 through June 30, 2011 were \$3,930,310 net of expenses.

Jim Soileau reviewed the proposed 2011 drawdown schedule. Jim advised the board and managers that he plans to draw the remaining balance of \$1,480,072 on November 30, 2011. (See attachment – Permanent Fund draw down schedule)

Bert Wagon reviewed asset allocations as of June 30, 2011 including the current percentage, current targets and ranges. For the second quarter, the account returned 1.05% versus a blended benchmark return of 1.89%. For the past twelve months, the account returned 16.67% versus a blended benchmark return of 15.63%. The 50 bps hurdle on an annual basis was 16.13%. (See attached – APCM Investment Review for the period ending June 30, 2011)

Brandy Niclai presented the allocation and selection effects on the portfolio and Bert Wagnon followed up with a review of the compliance reports. (See attached – APCM Investment Review for the period ending June 30, 2011)

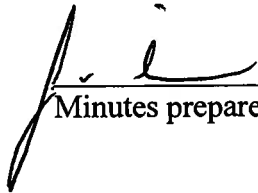
Bert addressed the impact on the portfolio should the US government fail to raise the debt ceiling and the possible impact of a ratings down grade to US government debt. (See attachment). APCM recommended no change to the City's existing investment policy.

The board requested APCM present recommended changes, if any, to the board at the November 2, 2011 quarterly meeting. The board also requested APCM present a formal report to the City Council in November or December. The meeting date is to be determined.

The Board set the next quarterly meeting for Wednesday November 2, 2011 at 1:30 P.M.

The meeting adjourned at approximately 2:30 P.M.

Minutes approved November 2, 2011.


Minutes prepared by Jim Soileau

	A	B	C	D	E	F	G
1	City of Fairbanks - Permanent Fund History						
2	2011 Permanent Fund Appropriation Calculation						
3							
4	January 19, 2011						
5							
6							
7							
8		Audited	Audited	Audited	Audited	Audited	
9		2006	2007	2008	2009	2010	Average
10	Marketable securities						
11	Cash and investments	\$ 678,213	\$ 1,890,926	\$ 774,607	\$ 559,720	\$ 1,225,492	\$ 1,025,792
12	Fixed income securities	44,589,188	47,311,194	41,247,119	59,807,621	50,535,399	48,698,104
13	Equity securities	60,898,389	59,906,336	43,181,888	31,107,843	47,837,719	48,586,435
14	Due from general fund	-	383,892	-	-	-	76,778
15	Due from enterprise fund	-	-	-	-	-	-
16	Interest receivable	339,981	388,359	364,888	463,600	425,369	396,439
17	Other receivables	-	-	-	-	-	-
18							
19	Total marketable securities	\$ 106,505,771	\$ 109,880,707	\$ 85,568,502	\$ 91,938,784	\$ 100,023,979	\$ 98,783,548
20							
21	Nonmarketable securities						
22	Tract G-3, Replat of Tract G, ASLS 80-64	\$ 168,315	\$ 163,998	\$ 158,793	\$ 153,319	\$ 147,353	\$ 158,356
23	Tract G-2A South Davis Park Subdivision	149,079	144,964	140,334	135,464	130,157	140,000
24	Weeks Field - Note Receivable	-	-	-	781,500	781,500	312,600
25	Weeks Field - Interest Receivable	-	-	-	19,734	69,152	17,777
26	ACS - Note Receivable	429,930	220,380	-	-	-	130,062
27	Gavora - Note Receivable	163,789	-	-	-	-	32,758
28							
29		\$ 911,113	\$ 529,342	\$ 299,127	\$ 1,090,017	\$ 1,128,162	\$ 791,553
30							
31	Liabilities	21,532	19,002	15,486	16,265	17,472	\$ 17,951
32							
33	Total Permanent Fund Value	\$ 107,395,352	\$ 110,391,047	\$ 85,852,143	\$ 93,012,536	\$ 101,134,669	\$ 99,557,150
34							
35							
36	2011 PILOT Replacement to General Fund (four percent of five-year average)						\$ 3,982,286
37							
38	2011 Transfer from Permanent Fund for Capital (one half of one percent of five-year average)						\$ 497,786
39							
40						2011 Total	4,480,072
41	2011 Drawdown Schedule						
42	Date	Operating Draw	Capital Draw	Total			
43	30-Jun	2,502,214	497,786	3,000,000			
44	30-Nov	1,480,072	-	1,480,072			
45							
46							
47	Total	3,982,286	497,786	4,480,072			
48							
49							
50							
51							
52							
53							
54							
55				2011 BUDGET	GF		3,924,985
56					Capital		490,623
57							4,415,608
58							
59				Budget Amendment	GF		57,301
60					Capital		7,163
61							64,464
62							
63							
64	U:\Permanent Fund\Appropriation Calculations\2011 Permfund Actual Appropriation.xlsx\2011 Actual						

INVESTMENT REVIEW

FAIRBANKS PERMANENT FUND

for period ending June 30, 2011



Agenda

- Portfolio Review & Performance

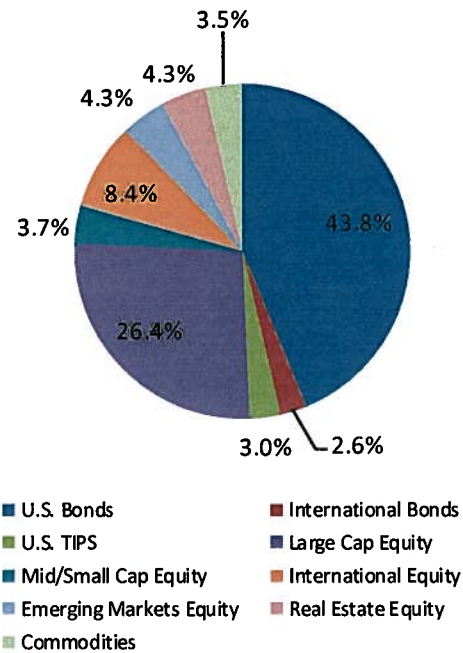
- Compliance Report

- Appendix
 - Portfolio Appraisal

 - Economy & Financial Markets

Portfolio Review

Asset Allocation for Fairbanks Permanent Fund as of June 30, 2011

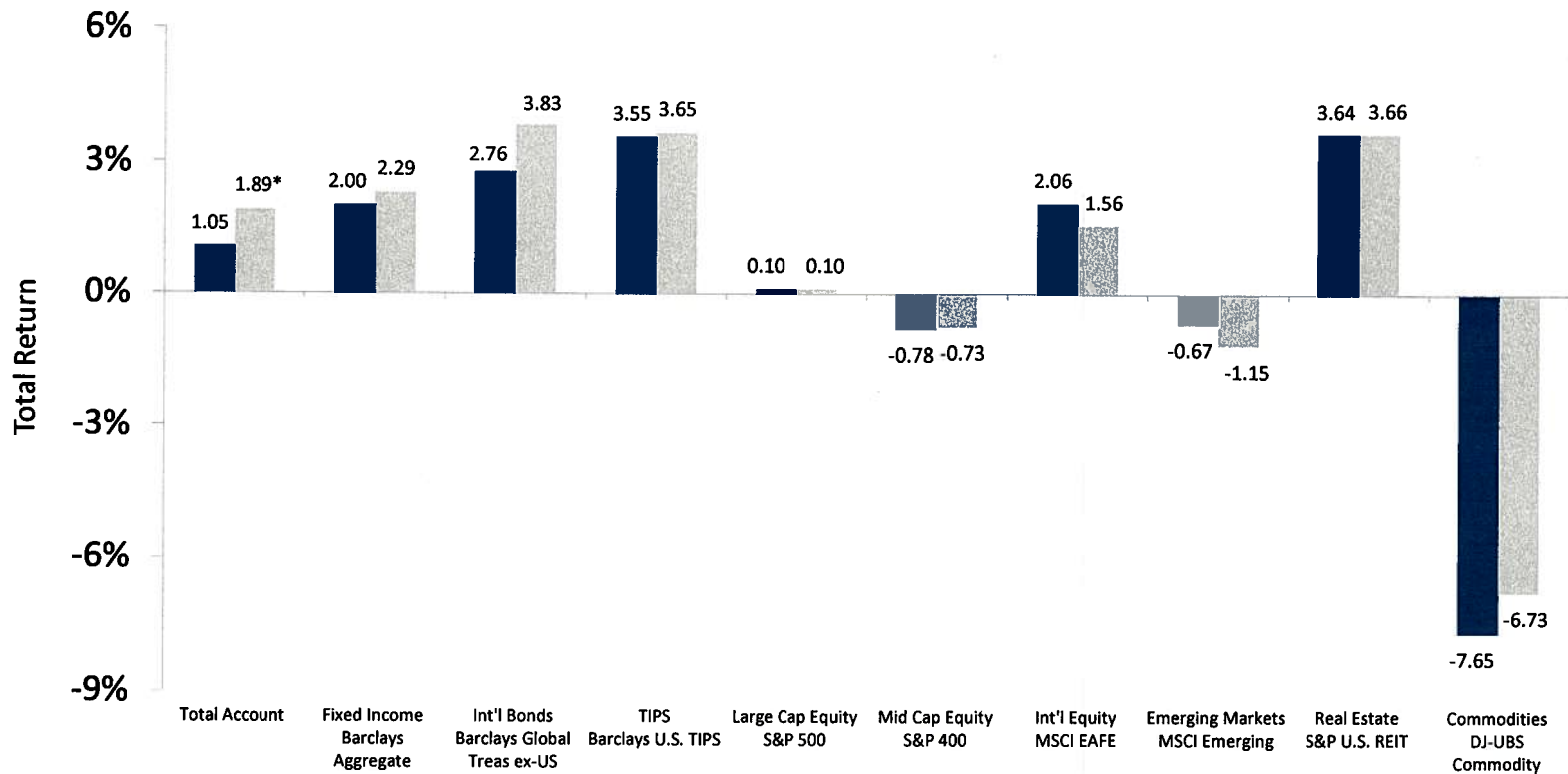


Investment Category	Percentage	Target	Range	Assets
Fixed Income	49.4%	60%	50-70%	\$50,029,607
U.S. Bonds	43.8%	45	40-70	\$44,404,521
International Bonds	2.6%	5	0-10	\$2,624,298
U.S. TIPS	3.0%	10	0-15	\$3,000,787
Equities	47.1%	40	30-50	\$47,731,829
Large Cap Equity	26.4%	22	20-50	\$26,762,299
Mid/Small Cap Equity	3.7%	3	0-10	\$3,700,681
International Equity	8.4%	8	0-15	\$8,497,666
Emerging Markets Equity	4.3%	2	0-5	\$4,400,110
Real Estate Equity	4.3%	5	0-10	\$4,371,073
Commodities	3.5%	0	0-10	\$3,593,069
Total				\$101,354,505



Portfolio Review

Account Performance Second Quarter 2011



* 50 bps Hurdle 2.02%



Portfolio Review

- Q2 portfolio return of **+1.05%** vs. blended benchmark return of **+1.89%**. Underperformance due to a 3.5% position in commodities against a zero target. Also contributing to the shortfall was an underweight allocation to TIPS and International Bonds.
- Actively managed fixed income Q2 return of **+2.00%** vs. Barclays Aggregate return of **+2.29%**. An underweight in U.S. Treasury positions and an overweight in credit exposure detracted from relative performance.



Portfolio Review

	April 11	May 11	June 11	Q2 2011
Allocation Effect				
Aggregate Bonds	0.006	-0.018	-0.002	-0.014
Domestic Large Cap	0.013	-0.047	-0.036	-0.070
Domestic Mid Cap	0.001	-0.009	-0.008	-0.016
Domestic Small Cap	0.000	0.000	0.000	0.000
International Equity	0.002	-0.010	-0.001	-0.009
Emerging Market Equity	0.011	-0.062	-0.017	-0.069
Real Estate	-0.028	-0.010	0.016	-0.021
TIPS	0.008	-0.018	-0.112	-0.122
International Bonds	-0.032	0.019	-0.024	-0.038
Commodities	0.027	-0.195	-0.156	-0.324
Total	0.008	-0.351	-0.339	-0.682
Selection Effect				
Aggregate Bonds	-0.053	-0.078	0.000	-0.132
Domestic Large Cap	0.000	0.000	0.000	0.000
Domestic Mid Cap	0.000	0.002	-0.003	-0.001
Domestic Small Cap	0.000	0.000	0.000	0.000
International Equity	0.017	0.021	0.002	0.040
Emerging Market Equity	0.012	-0.014	0.023	0.021
Real Estate	0.000	0.001	-0.002	0.000
TIPS	-0.004	0.004	-0.003	-0.003
International Bonds	0.005	-0.032	-0.005	-0.032
Commodities	0.012	-0.006	-0.041	-0.035
Total	-0.011	-0.103	-0.029	-0.144
Total Attribution	0.00	-0.45	-0.37	
Bench Return	2.62	0.06	-0.76	
Account Return	2.62	-0.40	-1.13	
Difference	0.00	-0.45	-0.37	

Portfolio Return = Allocation Effect + Selection Effect

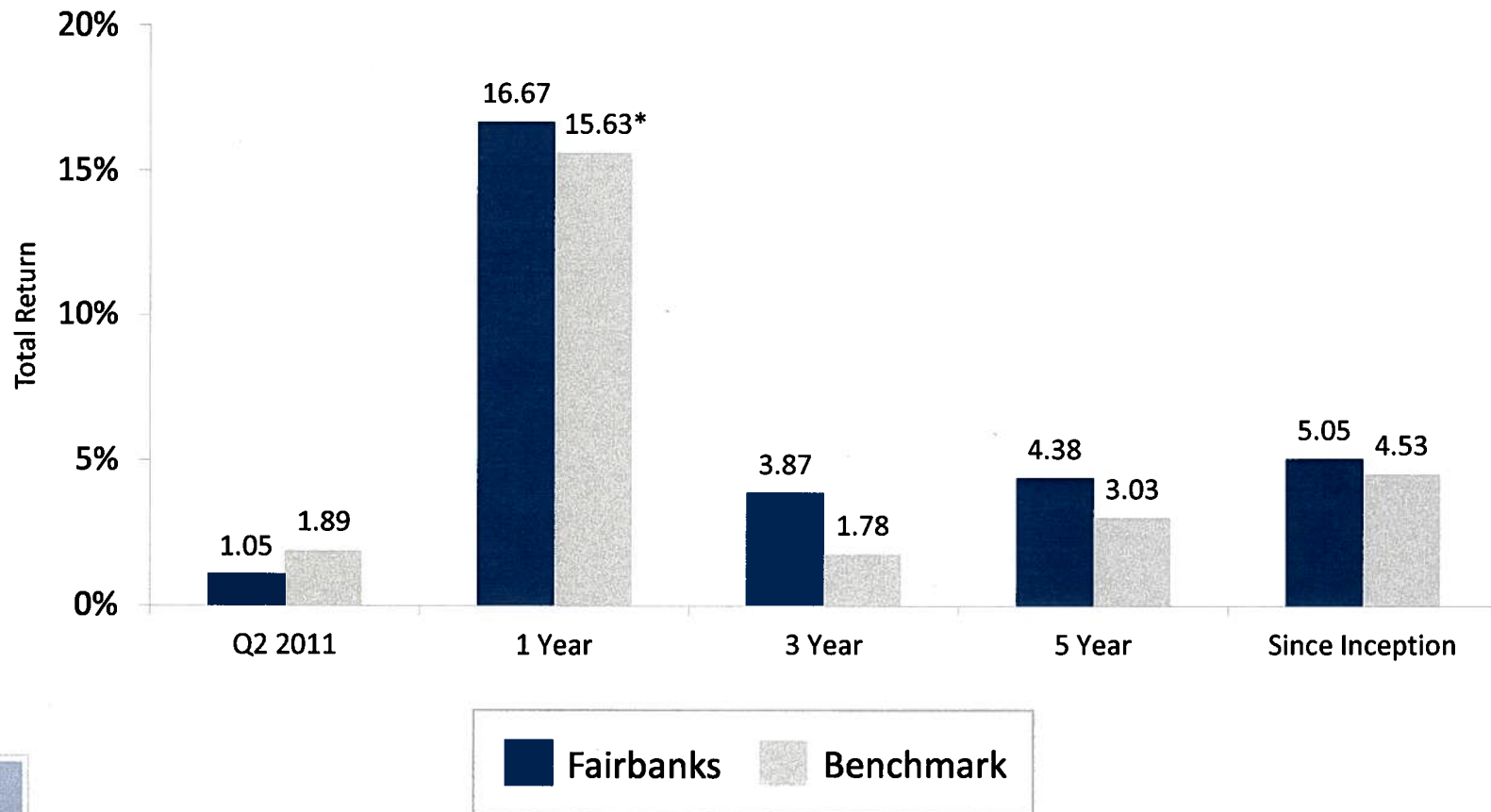
$(\text{Weight}_{\text{Port Sector}} - \text{Weight}_{\text{Bench}}) (\text{Return}_{\text{Sector Bench}} - \text{Return}_{\text{Port Bench}}) + (\text{Weight}_{\text{Port Sector}}) (\text{Return}_{\text{Port Sector}} - \text{Return}_{\text{Sector Bench}})$

5



Portfolio Review

Account Performance as of June 30, 2011



*50 bps Hurdle 16.13 %

Performance is annualized for periods greater than one year. Inception Performance begins January 31, 1998.

Compliance Report



April 21, 2010

To: Permanent Fund Review Board

From: City of Fairbanks, Finance Department and APCM

Subject: Compliance

During this year's audit of the Permanent Fund the question was raised as to exactly how does the Finance Department know the Fund was in compliance with the various restrictions contained in the authorizing ordinances and resolutions. While the auditor's questions were answered it became apparent that a more formalized compliance system would make this question mute.

Nine specific compliance questions have been identified and it is recommended that a compliance appendix be included at each quarterly meeting illustrating that the Fund meets all of the respective criteria. The identified nine items are as follows:

1. Equity and Fixed-income limitations as well as range limitations within the two categories.
2. Corporate debt limitation of 30% of total portfolio market value.
3. Limitation on the purchase of any bond in excess of 600 basis points above a comparable duration US treasury.
4. Limitation on the purchase of any CMBS after January 1, 2009.
5. Ratings and downgrade limitations on corporate securities.
6. Five percent limitation on any one security (total portfolio).
7. Ten percent limitation on Baa rated securities (fixed income portfolio).
8. Duration constraint of between 80-120 percent of the Barclays Aggregate.
9. Twenty-Five percent industry limitation (total portfolio).

In the attached packet each of the nine limitations are addressed by either a specific report or calculation based upon an enclosed report to illustrate compliance. Should the Board approve of the format; the Compliance Report will become a regular appendix presented at each quarterly meeting.

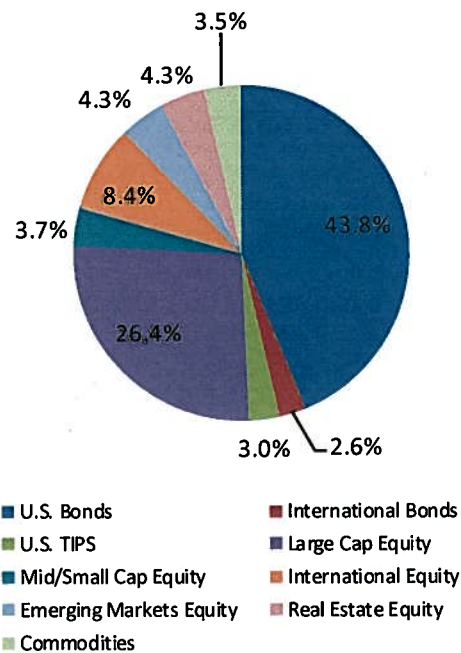


Compliance Report

- Equity and fixed-income limitations as well as range limitations within the two categories
 - Copy of quarterly chart illustrating targets and ranges versus actual
 - Portfolio Appraisal report (Appendix)

Portfolio Review

Asset Allocation for Fairbanks Permanent Fund as of June 30, 2011



Investment Category	Percentage	Target	Range	Assets
Fixed Income	49.4%	60%	50-70%	\$50,029,607
U.S. Bonds	43.8%	45	40-70	\$44,404,521
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Real Estate Equity	4.3%	5	0-10	\$4,371,073
Commodities	3.5%	0	0-10	\$3,593,069
Total				\$101,354,505



Compliance Report

- Corporate debt limitations of 30% of the total portfolio market value
 - See attached Portfolio Appraisal report

Portfolio Appraisal – as of June 30, 2011

Quantity	Security	Average Cost	Total Average Cost	Price	Market Value	Pct. Assets	Annual Income	Accrued Interest	Yield to Maturity
CORPORATE BONDS									
500,000	BERKSHIRE HATHAWAY FIN. 4.750% Due 05-15-12	107.40	537,025	103.74	518,685	0.51	23,750	3,035	0.46
500,000	JOHNSON & JOHNSON 5.150% Due 08-15-12	109.41	547,045	104.91	524,560	0.52	25,750	9,728	0.76
725,000	ASTRAZENECA PLC 5.400% Due 09-15-12	99.81	723,615	105.81	767,108	0.76	39,150	11,527	0.57
500,000	JOHN DEERE CAPITAL CORP 5.250% Due 10-01-12	99.75	498,750	105.70	528,490	0.52	26,250	6,562	0.67
500,000	UNITED PARCEL SVC INC 4.500% Due 01-15-13	100.22	501,110	105.66	528,320	0.52	22,500	10,375	0.80
500,000	BARCLAYS BANK PLC 2.500% Due 01-23-13	99.87	499,335	101.84	509,200	0.50	12,500	5,486	1.31
500,000	AMERICAN INTL GROUP INC SENIOR NT 4.250% Due 05-15-13	95.12	475,580	102.80	513,985	0.51	21,250	2,715	2.71
500,000	ONTARIO PROV CDA 3.500% Due 07-15-13	99.68	498,425	105.53	527,635	0.52	17,500	8,069	0.77
500,000	BARRICK GOLD FINANCE CO. 6.125% Due 09-15-13	99.98	499,890	110.58	552,925	0.55	30,625	9,017	1.25
250,000	BP CAPITAL MARKETS PLC 5.250% Due 11-07-13	108.02	270,039	108.35	270,865	0.27	13,125	1,969	1.62
500,000	CREDIT SUISSE NEW YORK 5.500% Due 05-01-14	99.90	499,485	109.83	549,175	0.54	27,500	4,583	1.92
500,000	BANK OF NY MELLON 4.300% Due 05-15-14	100.91	504,550	108.10	540,480	0.53	21,500	2,747	1.42
450,000	US BANCORP 4.200% Due 05-15-14	104.98	472,396	107.70	484,663	0.48	18,900	2,415	1.45
500,000	CITIGROUP INC 5.500% Due 10-15-14	100.17	500,870	108.75	543,740	0.54	27,500	5,806	2.70
500,000	DOMINION RESOURCES INC. 5.000% Due 12-01-14	106.38	531,910	110.27	551,355	0.54	25,000	2,083	1.88
500,000	JP MORGAN CHASE & CO 4.750% Due 03-01-15	98.36	491,795	106.91	534,565	0.53	23,750	7,917	2.76
500,000	MORGAN STANLEY 6.000% Due 04-28-15	99.88	499,380	108.41	542,035	0.53	30,000	5,250	3.63
500,000	BANK OF MONTREAL 2.850% Due 06-09-15	100.59	502,930	103.61	518,040	0.51	14,250	871	1.90



Portfolio Appraisal – as of June 30, 2011

Quantity	Security	Average Cost	Total Average Cost	Price	Market Value	Pct Assets	Annual Income	Accrued Interest	Yield to Maturity
500,000	BANK AMER CORP 5.625% Due 10-14-16	99.93	499,670	107.03	535,130	0.53	28,125	6,016	4.13
500,000	CONOCOPHILLIPS CDA FDG FDG CO 5.625% Due 10-15-16	100.09	500,475	115.83	579,130	0.57	28,125	5,937	2.42
500,000	INTERNATIONAL BUSINESS MACHS 5.700% Due 09-14-17	106.27	531,328	116.26	581,320	0.57	28,500	8,471	2.82
500,000	EXELON GENERATION CO LLC 6.200% Due 10-01-17	100.83	504,145	112.81	564,055	0.56	31,000	7,750	3.87
500,000	WELLS FARGO & CO 5.625% Due 12-11-17	99.58	497,920	110.46	552,300	0.54	28,125	1,562	3.78
500,000	WACHOVIA CORP GLOBAL MEDIUM 5.750% Due 02-01-18	99.57	497,860	110.58	552,895	0.55	28,750	11,979	3.91
500,000	MCDONALDS CORP M/T/N 5.350% Due 03-01-18	105.75	528,740	113.38	566,885	0.56	26,750	8,917	3.11
500,000	GENERAL ELECTRIC CAP CORP. 5.625% Due 05-01-18	89.86	449,305	109.37	546,860	0.54	28,125	4,687	4.04
500,000	GLAXOSMITHKLINE CAP INC 5.650% Due 05-15-18	104.59	522,950	114.06	570,315	0.56	28,250	3,610	3.34
500,000	CATERPILLAR FINANCIAL 7.150% Due 02-15-19	99.16	495,805	123.38	616,890	0.61	35,750	13,506	3.61
500,000	GOLDMAN SACHS GROUP INC. 7.500% Due 02-15-19	99.78	498,905	116.35	581,770	0.57	37,500	14,167	4.90
500,000	PROCTER & GAMBLE CO. 4.700% Due 02-15-19	99.82	499,120	110.35	551,770	0.54	23,500	8,878	3.16
500,000	MICROSOFT CORP 4.200% Due 06-01-19	99.73	498,650	105.16	525,805	0.52	21,000	1,750	3.45
536,000	CARGILL INC. (144a) 4.307% Due 05-14-21	93.12	499,101	100.78	540,175	0.53	23,086	2,886	4.21
500,000	BELLSOUTH CORP 6.000% Due 11-15-34	97.52	487,595	101.01	505,050	0.50	30,000	3,833	5.92
500,000	SOUTHERN CAL EDISON CORP BOND 5.950% Due 02-01-38 Accrued Interest	99.54	497,700	110.44	552,195	0.54	29,750	12,396	5.22
					216,501	0.21			
			17,063,400		18,644,873	18.40		216,501	



Compliance Report

- Limitation on the purchase of any bond in excess of 600 basis points above a comparable duration U.S. Treasury
- Limitation on the purchase of any CMBS after January 1, 2009
 - See attached Purchase and Sale report

Purchase and Sale – from 03/31/2011 to 06/30/2011

Portfolio Name	Trade Date	Settle Date	Quantity	Security	Unit Price	Amount	Yield On Cost	Spread Over TSY	Sector	Sec Type Code
PURCHASES										
FAIRBANKS PERMANENT	03-31-11	03-31-11	968.3040	VANGUARD INSTL S&P500 IN	121.50	117,648.88	?		Domestic Large Cap E	mfus
FAIRBANKS PERMANENT	04-19-11	04-25-11	19,350.0000	IPATH DOW JONES-AIG COMMO	51.69	1,000,201.50	?		Commodities	ceus
FAIRBANKS PERMANENT	05-16-11	05-17-11	1,500,000	US Treasury Note	87.20	1,308,046.88	4.29		US Treasury Notes	tnus
				3.500% Due 02-15-39						
FAIRBANKS PERMANENT	05-17-11	06-13-11	900,000.00	FNCL 4.5% TBA	103.59	932,308.59	?	180	FNMA & FHMLC Mortgagfms	
				4.500% Due 06-01-39						
FAIRBANKS PERMANENT	06-08-11	06-13-11	900,000.00	FGLMC 5.00% TBA	107.02	963,210.94	?	178	FNMA & FHMLC Mortgagfms	
				5.000% Due 06-01-36						
FAIRBANKS PERMANENT	06-30-11	06-30-11	1,024.7210	VANGUARD INSTL S&P500 IN	119.62	122,577.14	?		Domestic Large Cap E	mfus
						4,443,993.93	2.17			
							2.17			
SALES										
FAIRBANKS PERMANENT	04-30-11	05-02-11	750,000	US TREASURY NOTES	100.00	750,000.00	?		US Treasury Notes	tnus
				0.875% Due 04-30-11						
FAIRBANKS PERMANENT	05-05-11	05-10-11	500,000	NEWS AMER INC	104.18	520,895.00	5.87	164	Corporate Bonds	cbus
				6.200% Due 12-15-34						
FAIRBANKS PERMANENT	05-10-11	05-13-11	500,000	METROPOLITAN LIFE GLOBAL	102.27	511,345.00	0.47	40	Corporate Bonds	cbus
				5.125% Due 11-09-11						
FAIRBANKS PERMANENT	05-16-11	05-19-11	532,033.20	FRN - FNMA POOL 835240	105.44	560,962.51	?		FNMA & FHMLC Mortgagfms	
				4.986% Due 09-01-35						
FAIRBANKS PERMANENT	05-25-11	05-25-11	520	CARGILL INC. (144a)	100.00	520.00	4.31		Corporate Bonds	cbus
				4.307% Due 05-14-21						
FAIRBANKS PERMANENT	05-25-11	05-31-11	17,281.0000	SPDR BARCLAYS CAPITAL INT	60.74	1,049,636.42	?		International Fixed	gfus
FAIRBANKS PERMANENT	06-16-11	06-17-11	575,000	US TREASURY NOTES	102.73	590,700.20	2.36		US Treasury Notes	tnus
				2.750% Due 02-15-19						
FAIRBANKS PERMANENT	06-16-11	06-17-11	375,000	U S TREASURY NOTES	119.19	446,967.77	3.75		US Treasury Notes	tnus
				5.250% Due 02-15-29						
FAIRBANKS PERMANENT	06-16-11	06-17-11	900,000	US Treasury Note	89.32	803,847.66	4.15		US Treasury Notes	tnus
				3.500% Due 02-15-39						
						5,234,874.56	1.81			
							1.81			



Compliance Report

- Ratings and downgrade limitations on corporate securities
 - See attached Portfolio Holdings (Expanded) report

Portfolio Holdings (Expanded)

Portfolio: Fairbanks Combined

Currency: USD

Pricing Date: 06/30/2011

Representative:

Table 1: Excl. Table 2 Hdgs

Par (000)	Identifier	Ticker (Home)	Issuer Name	Sect	Industry	Mdys	S&P	Coupon	Maturity	Curr	Price	Mkt Val (000)	% Held (MV)	YTW	Mod Dur	Eff Dur	Conv
202	000000CM	CASH	CASH & EQUIVALENTS	CASH		Aaa	AAA	0.070	07/31/2011	USD	100.000	202	0.43	0.070	0.083	0.085	0.000
500	084670AS	BRKA	BERKSHIRE HATHAWAY INC FIN		Insr-P&C	Aa2	AA+	4.750	05/15/2012	USD	103.737	522	1.10	0.465	0.862	0.863	0.006
500	478160AP	JNJ	JOHNSON & JOHNSON NT 0.7	IND	Pharmctls	Aaa	AAA	5.150	08/15/2012	USD	104.912	534	1.13	0.756	1.085	1.088	0.009
725	046353AC	AZN	ASTRAZENECA PLC NT 5.4%	IND	Pharmctls	A1	AA-	5.400	09/15/2012	USD	105.808	779	1.64	0.569	1.167	1.172	0.010
500	24422EQW	DE	DEERE JOHN CAP CORP MTN	IND	ConstMach	A2	A	5.250	10/01/2012	USD	105.698	535	1.13	0.674	1.212	1.216	0.011
1,000	31364FGL	FNM	FEDERAL NATL MTG ASSN M	AGY	AGY	AGY	AGY	6.410	11/13/2012	USD	108.035	1,089	2.30	0.514	1.322	1.327	0.012
500	911312AG	UPS	UNITED PARCEL SERVICE INC	IND	Tran Srvc	Aa3	AA-	4.500	01/15/2013	USD	105.664	539	1.14	0.796	1.473	1.478	0.015
500	06739FGP	BARC	BARCLAYS BK PLC SR NT 6.	FIN	Bank	Aa3	AA-	2.500	01/23/2013	USD	101.840	515	1.09	1.307	1.518	1.523	0.016
500	026874AT	AIG	AMERICAN INTL GROUP INC	FIN	Insr-Life	Baa1	A-	4.250	05/15/2013	USD	102.797	517	1.09	2.709	1.790	1.791	0.021
500	683234ZR	ONTPV	ONTARIO PROV CDA SVG BI	OGVTD	LocalAuth	Aa1	AA-	3.500	07/15/2013	USD	105.527	536	1.13	0.766	1.953	1.954	0.024
500	06849TAA	ABX	BARRICK GOLD FINANCECO	IND	Metl/Mine	Baa1	A-	6.125	09/15/2013	USD	110.585	562	1.18	1.249	2.060	2.066	0.027
500	3133XSAE	FHLB	FEDERAL HOME LOAN BANK	AGY	AGY	AGY	AGY	3.625	10/18/2013	USD	106.731	537	1.13	0.671	2.209	2.214	0.030
250	05565QBF	BP	BP CAP MKTS PL C GTD SR	IND	Enrg-Intg	A2	A	5.250	11/07/2013	USD	108.346	273	0.58	1.619	2.216	2.224	0.030
1,004	912828BW	TSY	UNITED STATES TREAS NTS	TSY	Infi Indx	TSY	TSY	2.000	01/15/2014	USD	107.734	1,091	2.30	2.111	2.446	1.297	0.010
500	31398AVZ	FNM	FEDERAL NATL MTG ASSN C	AGY	AGY	AGY	AGY	2.750	03/13/2014	USD	105.194	530	1.12	0.803	2.596	2.604	0.039
500	22546QAA	CSGN	CREDIT SUISSE NEW YORK	B FIN	Bank	Aa1	A+	5.500	05/01/2014	USD	109.835	554	1.17	1.919	2.628	2.638	0.040
500	06406HBL	BK	BANK NEW YORK MTN BK	B FIN	Bank	Aa2	AA-	4.300	05/15/2014	USD	108.096	543	1.15	1.416	2.710	2.720	0.042
450	91159HGR	USB	U S BANCORP MTNS BK	ENT FIN	Bank	Aa3	A+	4.200	05/15/2014	USD	107.703	487	1.03	1.454	2.712	2.723	0.042
500	3133XLJP	FHLB	FEDERAL HOME LN BKS	CON AGY	AGY	AGY	AGY	5.500	08/13/2014	USD	113.979	580	1.22	0.942	2.859	2.876	0.048
500	172967EZ	C	CITIGROUP INC	FIN	Bank	A3	A	5.500	10/15/2014	USD	108.748	549	1.16	2.703	2.996	3.016	0.053
1,250	31398AZV	FNM	FEDERAL NATL MTG ASSN C	AGY	AGY	AGY	AGY	2.625	11/20/2014	USD	104.871	1,315	2.77	1.155	3.241	3.267	0.060
500	209615CA	D	CONSOLIDATED NAT GAS	CI UTIL	Electric	Baa2	A-	5.000	12/01/2014	USD	110.271	553	1.17	1.884	3.158	3.182	0.058
500	46625HCE	JPM	JPMORGAN CHASE & CO	GLI FIN	Bank	Aa3	A+	4.750	03/01/2015	USD	106.913	542	1.14	2.755	3.327	3.354	0.065
500	61747YCE	MS	MORGAN STANLEY	FIN	Bank	A2	A	6.000	04/28/2015	USD	108.407	547	1.15	3.626	3.400	3.430	0.069
500	063679BV	BMO	BANK OF MONTREAL 144A	FIN	Bank	Aaa	AAA	2.850	06/09/2015	USD	103.608	519	1.09	1.896	3.719	3.759	0.080
1,000	36159JBM		GE_CAP_CC_TALF_2009-2-	ABS	CARD	Aaa	NA	3.690	07/15/2015	USD	102.845	1,030	2.17	0.946	1.017	1.017	0.008
500	060505CS	BAC	BANK OF AMERICA CORPOR	FIN	Bank	A2	A	5.625	10/14/2016	USD	107.026	541	1.14	4.131	4.530	4.609	0.126
500	20825TAA	COP	CONOCOPHILLIPS CDA	FDG (IND	Enrg-Intg	A1	A	5.625	10/15/2016	USD	115.826	585	1.23	2.420	4.603	4.683	0.130
126	31371KKG		FNMA POOL - 254195	PASS	AGY	AGY	AGY	5.500	02/01/2017	USD	108.915	137	0.29	1.206	2.100	1.776	-0.109
115	31294KHM		FHLMC GOLD POOL - E01136	PASS	AGY	AGY	AGY	5.500	03/01/2017	USD	108.554	126	0.27	1.431	2.092	1.770	-0.112



Portfolio Holdings (Expanded)

Portfolio: Fairbanks Combined

Currency: USD

Pricing Date: 06/30/2011

Representative:

Table 1: Excl. Table 2 Hldgs

Par (000)	Identifier	Ticker (Home)	Issuer Name	Sect	Industry	Mdys	S&P	Coupon	Maturity	Curr	Price	Mkt Val (000)	% Held (MV)	YTW	Mod Dur	Eff Dur	Conv
500	459200GJ	IBM	INTERNATIONAL BUSINESS M	IND	Electrncls	Aa3	A+	5.700	09/14/2017	USD	116.264	590	1.24	2.824	5.241	5.362	0.171
500	30161MAE	EXC	EXELON GENERATION CO LL	UTIL	Electric	A3	BBB	6.200	10/01/2017	USD	112.811	572	1.21	3.872	5.175	5.293	0.168
500	3137EABA	FRE	FEDERAL HOME LN MTG COF	AGY	AGY	AGY	AGY	5.125	11/17/2017	USD	114.817	577	1.22	2.590	5.491	5.628	0.185
500	949746NX	WFC	WELLS FARGO & CO NEW E	FIN	Bank	A1	AA-	5.625	12/11/2017	USD	110.460	554	1.17	3.781	5.434	5.567	0.183
805	912828HN	TSY	UNITED STATES TREAS NTS	TSY	Infllndx	TSY	TSY	1.625	01/15/2018	USD	109.969	891	1.88	3.221	6.110	3.322	0.062
500	92976WBH	WFC	WACHOVIA CORP GLOBAL M	FIN	Bank	A1	AA-	5.750	02/01/2018	USD	110.579	565	1.19	3.912	5.410	5.549	0.185
500	58013MEE	MCD	MCDONALDS CORP MED TER	IND	Restrntrts	A2	A	5.350	03/01/2018	USD	113.377	576	1.21	3.113	5.593	5.736	0.195
500	36962G3U	GE	GENERAL ELEC CAP CORP M	FIN	Fin-Divrd	Aa2	AA+	5.625	05/01/2018	USD	109.372	551	1.16	4.041	5.663	5.811	0.200
500	377372AD	GSK	GLAXOSMITHKLINE CAP INC	IND	Pharmcrls	A1	A+	5.650	05/15/2018	USD	114.063	574	1.21	3.343	5.742	5.894	0.205
500	38141EA2	GS	GOLDMAN SACHS GRP INC M	FIN	Bank	A1	A	7.500	02/15/2019	USD	116.354	596	1.26	4.902	5.800	5.966	0.221
500	912828KD	TSY	UNITED STATES TREAS NTS	TSY	TSY	TSY	TSY	2.750	02/15/2019	USD	100.961	510	1.08	2.610	6.779	7.025	0.279
500	742718DN	PG	PROCTER & GAMBLE CO DEE	IND	Consumer	Aa3	AA-	4.700	02/15/2019	USD	110.354	561	1.18	3.161	6.358	6.568	0.254
500	14912L4E	CAT	CATERPILLAR FINL SVCS MT	IND	ConstMach	A2	A	7.150	02/15/2019	USD	123.378	630	1.33	3.614	5.956	6.132	0.231
500	949718AC	MSFT	MICROSOFT CORP NT 2.5%	IND	Info Tech	Aaa	AAA	4.200	06/01/2019	USD	105.161	527	1.11	3.449	6.715	6.950	0.279
369	312970E4		FHLMC GOLD POOL - B1735	PASS	AGY	AGY	AGY	5.000	12/01/2019	USD	107.909	399	0.84	1.791	2.464	1.643	-0.445
287	31406MWJ		FNMA POOL - 814349	PASS	AGY	AGY	AGY	4.500	03/01/2020	USD	106.964	308	0.65	1.712	2.548	1.859	-0.444
521	3129702P		FHLMC GOLD POOL - B1798	PASS	AGY	AGY	AGY	4.000	03/01/2020	USD	106.419	556	1.17	1.599	2.679	2.065	-0.495
261	31406T4F		FNMA POOL - 819922	PASS	AGY	AGY	AGY	5.500	04/01/2020	USD	108.635	285	0.60	1.911	2.448	1.531	-0.435
361	31406T4H		FNMA POOL - 819924	PASS	AGY	AGY	AGY	4.500	04/01/2020	USD	107.070	388	0.82	1.712	2.586	1.827	-0.500
536	141781AY	CARGIL	CARGILL INC 144A	IND	Food Proc	A2	A	4.307	05/14/2021	USD	100.779	543	1.15	4.209	7.928	8.285	0.404
408	31410F5H		FNMA POOL - 888348	PASS	AGY	AGY	AGY	5.000	05/01/2022	USD	107.994	442	0.93	1.576	2.391	1.186	-0.639
713	31418PSV		FNMA POOL - AD2331	PASS	AGY	AGY	AGY	4.000	03/01/2025	USD	104.743	749	1.58	2.572	3.411	3.018	-0.838
471	31418U2F		FNMA POOL - AD7073	PASS	AGY	AGY	AGY	4.000	06/01/2025	USD	104.321	493	1.04	2.732	3.507	3.292	-0.772
966	912810PV	TSY	UNITED STATES TREAS BDS	TSY	Infllndx	TSY	TSY	1.750	01/15/2028	USD	104.641	1,019	2.15	4.579	14.060	8.357	0.395
51	36202CZ4		GNMA2 POOL - 002563	PASS	AGY	AGY	AGY	6.500	03/20/2028	USD	113.756	58	0.12	2.735	3.630	2.664	-0.500
1,000	912810FG	TSY	UNITED STATES TREAS BDS	TSY	TSY	TSY	TSY	5.250	02/15/2029	USD	115.391	1,173	2.47	4.022	11.721	12.460	1.000
72	36201MFQ		GNMA POOL - 587075	PASS	AGY	AGY	AGY	6.500	05/15/2032	USD	119.146	86	0.18	2.336	4.511	2.958	-0.756
500	3134A4KX	FRE	FEDERAL HOME LN MTG COF	AGY	AGY	AGY	AGY	6.250	07/15/2032	USD	123.320	631	1.33	4.521	12.341	13.030	1.174
63	31292HRY		FHLMC GOLD POOL - C0140	PASS	AGY	AGY	AGY	6.000	09/01/2032	USD	111.645	71	0.15	3.594	4.743	3.953	-0.754
145	31296RKB		FHLMC GOLD POOL - A1659	PASS	AGY	AGY	AGY	6.000	12/01/2033	USD	111.522	162	0.34	3.687	4.879	4.319	-0.636



Portfolio Holdings (Expanded)

Portfolio: Fairbanks Combined

Currency: USD

Pricing Date: 06/30/2011

Representative:

Table 1: Excl. Table 2 Hldgs

Par (000)	Identifier	Ticker (Home)	Issuer Name	Sect	Industry	Mdys	S&P	Coupon	Maturity	Curr	Price	Mkt Val (000)	% Held (MV)	YTW	Mod Dur	Eff Dur	Conv
500	079860AK	T	BELLSOUTH CORP NT 6%34	IND	Wireline	A2	A-	6.000	11/15/2034	USD	101.010	509	1.07	5.919	12.448	13.007	1.226
114	31406UJ8		FNMA POOL - 820607	PASS	ARM	AGY	AGY	2.044	03/01/2035	USD	104.267	119	0.25	0.255	2.594	0.096	-0.021
534	31407BXT		FNMA POOL - 826090	PASS	ARM	AGY	AGY	4.631	07/01/2035	USD	105.212	564	1.19	0.741	2.385	-3.090	-1.724
311	31407RKE		FNMA POOL - 838293	PASS	ARM	AGY	AGY	2.775	08/01/2035	USD	105.278	328	0.69	0.179	2.569	0.008	-0.044
418	31297SNU		FHLMC GOLD POOL - A3670	PASS	AGY	AGY	AGY	4.500	08/01/2035	USD	104.084	437	0.92	3.642	4.713	4.456	-1.286
85	31403DH5		FNMA POOL - 745552	PASS	ARM	AGY	AGY	2.741	02/01/2036	USD	103.745	88	0.19	0.407	2.074	-0.493	-0.701
579	36290TSC		GNMA POOL - 617115	PASS	AGY	AGY	AGY	5.500	06/15/2036	USD	109.465	636	1.34	2.975	3.740	2.983	-1.052
131	3128JRS5		FHLMC POOL - 847740	PASS	ARM	AGY	AGY	5.492	04/01/2037	USD	106.293	140	0.30	1.396	1.877	-0.130	0.173
470	225458RR		CSFB_2005-C2- A3	CMBS	CMBS	Aaa	AAA	4.691	04/15/2037	USD	101.742	480	1.01	2.456	0.843	0.843	0.013
459	3128QSLD		Federal Home Loan Mortgage	PASS	ARM	AGY	AGY	6.050	08/01/2037	USD	110.933	510	1.08	2.135	3.087	1.817	-0.167
217	31413EE3		FNMA POOL - 943054	PASS	ARM	AGY	AGY	3.417	08/01/2037	USD	105.100	229	0.48	-0.407	1.872	-0.051	-0.097
500	842400FH	EX	SOUTHERN CALIF EDISON CC UTIL		Electric	A1	A	5.950	02/01/2038	USD	110.439	565	1.19	5.219	13.614	14.246	1.503
586	3128MJJ		FHLMC GOLD POOL - G0826	PASS	AGY	AGY	AGY	6.000	04/01/2038	USD	111.899	659	1.39	3.453	4.614	3.906	-0.805
555	36295KJQ		GNMA POOL - 672671	PASS	AGY	AGY	AGY	4.500	04/15/2038	USD	106.332	592	1.25	3.096	4.490	4.475	-1.054
700	50180CAB		LB_UBS_CMBS_2006-C7- A2	CMBS	CMBS	NA	AAA	5.300	11/15/2038	USD	100.797	708	1.49	3.073	0.375	0.375	0.000
900	3128M7E2		FHLMC GOLD POOL - G0525	PASS	AGY	AGY	AGY	5.000	02/01/2039	USD	106.312	960	2.03	3.564	4.365	3.437	-1.511
2,000	912810QA	TSY	UNITED STATES TREAS BDS TSY		TSY	TSY	TSY	3.500	02/15/2039	USD	85.875	1,744	3.68	4.387	16.462	17.579	2.108
900	31416PVF		FNMA POOL - AA6013	PASS	AGY	AGY	AGY	4.500	05/01/2039	USD	103.640	936	1.97	3.800	5.299	5.469	-0.806
500	07383F7W		BEAR_STEARNS_05-PWR8-	CMBS	CMBS	Aaa	NA	4.674	06/11/2041	USD	106.874	536	1.13	2.722	3.404	3.404	0.070
500	07388LAC		BEAR_STEARNS_06-PWR13-	CMBS	CMBS	NA	AAA	5.518	09/11/2041	USD	104.231	523	1.10	3.109	1.746	1.746	0.023
1,000	12513EAG		CD_MTG_2005-CD1 A4	CMBS	CMBS	Aaa	AAA	5.394	07/15/2044	USD	108.737	1,092	2.30	2.869	3.572	3.588	0.078
479	20047EBG		COMM_CMBS_2006-C08- A21	CMBS	CMBS	Aaa	NA	5.248	12/10/2046	USD	101.078	486	1.03	3.729	0.769	0.769	0.009
500	46630VAD		JP_MORGN_2007-CIBC19- A-	CMBS	CMBS	Aa2	A+	5.932	02/12/2049	USD	108.532	545	1.15	4.058	4.839	4.863	0.142
465	05952CAB		BA_MTG_CMBS_2007-05- A;	CMBS	CMBS	NA	AAA	5.434	02/10/2051	USD	102.292	478	1.01	3.191	1.045	1.045	0.009
500	46632HAD		JP_MORGN_CMBS_2007-LDP12	CMBS	CMBS	Aaa	A-	5.882	02/15/2051	USD	108.730	546	1.15	4.218	4.975	4.975	0.151
44,054						Aa1	AA+	4.649	6.092	106.734	47,414	100.00	2.630	4.667	4.364	0.043	



Compliance Report

- Five percent limitations on any one security within the entire portfolio
 - See Portfolio Appraisal report (Appendix)

Compliance Report

- Ten percent limitation on Baa rated securities within the fixed income portfolio
- Duration constraint between 80-120 percent of the Barclays Aggregate Index
 - See attached Duration-Weighted Distribution by Quality report

Duration-Weighted Distribution by Quality

Portfolio: Fairbanks Combined
 Pricing Date: 06/30/2011
 Benchmark: BC AGGREGATE INDEX (SLAG)
 Benchmark Pricing Date: 06/30/2011

Quality	Port					Bnchmk				
	Mkt Val (000)	% Held (MV)	Eff Dur	Contrib Eff Dur	% Total Eff Dur	Mkt Val (000)	% Held (MV)	Eff Dur	Contrib Eff Dur	% Total Eff Dur
Total:	47,414	100.00	4.364	4.364	100.000		100.00	5.137	5.137	100.000
CASH	202	0.43	0.085	0.000	0.008					
TSY	6,428	13.56	9.606	1.302	29.840		33.50	5.420	1.810	35.214
AGY	15,718	33.15	3.044	1.009	23.123		38.50	4.130	1.590	30.934
Aaa	7,459	15.73	2.435	0.383	8.777		4.20	3.930	0.170	3.307
Aa	7,246	15.28	3.198	0.489	11.201		4.90	5.990	0.290	5.642
A	8,157	17.20	6.019	1.036	23.730		10.20	6.520	0.670	13.035
Baa	2,204	4.65	3.119	0.145	3.322		8.70	6.960	0.610	11.868

Portfolio Duration as a % of Benchmark 85%



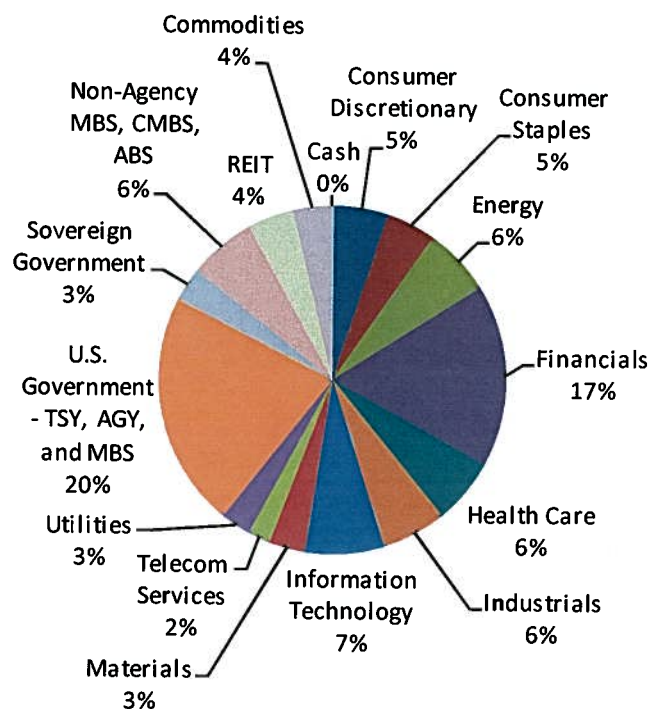
Duration gauges price sensitivity of fixed income securities and represents the expected percentage change in market value when interest rates change by 1%.

Compliance Report

- Twenty-five percent industry limitation within the entire portfolio
 - See attached GICS Sector Concentration report

GICS Sector Concentration

GICS* Sector Concentration for Fairbanks Permanent Fund as of June 30, 2011



Sector	Market Value	% of Portfolio
Consumer Discretionary	5,107,171	5%
Consumer Staples	4,673,563	5%
Energy	6,463,571	6%
Financials	17,148,682	17%
Health Care	6,158,376	6%
Industrials	6,115,000	6%
Information Technology	7,406,807	7%
Materials	3,427,351	3%
Telecommunication Services	2,150,814	2%
Utilities	2,818,589	3%
U.S. Government - Treasury/Agency/Agency MBS	22,116,743	22%
Sovereign Government	3,160,003	3%
Non-Agency MBS, CMBS, ABS	6,424,308	6%
REIT	4,371,073	4%
Commodities	3,593,069	4%
Cash	219,384	0%
Total Portfolio	\$ 101,354,505	100%



Includes Individual Bond and ETF Holdings

* As defined by the Global Industry Classification Standard (GICS) provided by Standard & Poor's/MSCI Barra

ALASKA PERMANENT CAPITAL MANAGEMENT COMPANY

IS RELATIONSHIP DRIVEN AND VIEWS ITSELF AS
A LONG-TERM PARTNER WITH ITS CLIENTS

YOUR BUSINESS IS IMPORTANT TO US!

VISIT US AT OUR WEBSITE: APCM.NET



Appendix



Portfolio Appraisal – as of June 30, 2011

Quantity	Security	Average Cost	Total Average Cost	Price	Market Value	Pct. Assets	Annual Income	Accrued Interest	Yield to Maturity
U.S. TREASURY									
500,000	US TREASURY NOTES 2.750% Due 02-15-19	97.19	485,957	100.96	504,805	0.50	13,750	5,166	2.61
1,000,000	U S TREASURY NOTES 5.250% Due 02-15-29	110.42	1,104,150	115.39	1,153,910	1.14	52,500	19,724	4.02
2,000,000	US Treasury Note 3.500% Due 02-15-39 Accrued Interest	85.93	1,718,589	85.87	1,717,500	1.69	70,000	26,298	4.39
					51,188	0.05			
			3,308,696		3,427,403	3.38		51,188	
U.S. TREASURY INFLATION									
1,003,967	US TREASURY INFLATION PROTECTED SECURITIES 2.000% Due 01-15-14	106.71	1,071,379	107.73	1,081,614	1.07	20,079	9,263	NA
804,997	US TREASURY INFLATION PROTECTED SECURITIES 1.625% Due 01-15-18	102.18	822,572	109.97	885,248	0.87	13,081	6,035	NA
965,997	US TREASURY INFLATION PROTECTED SECURITIES 1.750% Due 01-15-28 Accrued Interest	99.67	962,785	104.64	1,010,829	1.00	16,905	7,799	NA
					23,097	0.02			
			2,856,736		3,000,787	2.96		23,097	
AGENCIES									
1,000,000	FANNIE MAE MED TERM NT 6.410% Due 11-13-12	104.98	1,049,760	108.03	1,080,350	1.07	64,100	8,547	0.51
500,000	FHLB 3.625% Due 10-18-13	104.20	520,981	106.73	533,655	0.53	18,125	3,675	0.67
500,000	FNMA 2.750% Due 03-13-14	101.05	505,261	105.19	525,970	0.52	13,750	4,125	0.80
500,000	FHLB 5.500% Due 08-13-14	113.46	567,284	113.98	569,895	0.56	27,500	10,542	0.94
1,250,000	FNMA 2.625% Due 11-20-14	100.66	1,258,272	104.87	1,310,887	1.29	32,812	3,737	1.15
500,000	FHLMC 5.125% Due 11-17-17	111.91	559,567	114.82	574,085	0.57	25,625	3,132	2.59
500,000	FEDERAL HOME LOAN MORTGAGE CORP 6.250% Due 07-15-32 Accrued Interest	120.42	602,104	123.32	616,600	0.61	31,250	14,410	4.52
					48,167	0.05			
			5,063,229		5,259,610	5.19		48,167	
FNMA & FHLMC									
125,438	FNMA POOL # 254195 5.500% Due 02-01-17	99.33	124,595	108.54	136,151	0.13	6,899	575	0.66



Portfolio Appraisal – as of June 30, 2011

Quantity	Security	Average Cost	Total Average Cost	Price	Market Value	Pct. Assets	Annual Income	Accrued Interest	Yield to Maturity
115,214	FGLMC POOL E01136 5.500% Due 03-01-17	99.55	114,692	107.91	124,327	0.12	6,337	528	1.22
368,566	FGLMC POOL B17355 5.000% Due 12-01-19	101.34	373,505	108.11	398,442	0.39	18,428	1,536	1.52
521,181	FGLMC POOL B17982 4.000% Due 03-01-20	97.59	508,640	105.55	550,122	0.54	20,847	1,737	1.80
286,642	FNMA POOL 814349 4.500% Due 03-01-20	98.62	282,689	106.94	306,543	0.30	12,899	1,075	1.64
261,155	FNMA POOL 819922 5.500% Due 04-01-20	102.41	267,460	108.73	283,949	0.28	14,364	1,197	1.92
360,623	FNMA POOL 819924 4.500% Due 04-01-20	99.55	359,017	106.94	385,661	0.38	16,228	1,352	1.64
408,059	FNCI 5.00% POOL 888348 5.000% Due 05-01-22	103.55	422,532	107.56	438,920	0.43	20,403	1,700	2.18
712,806	FNMA 4.00% POOL AD2331 4.000% Due 03-01-25	103.33	73,664	104.38	744,034	0.73	28,512	2,376	2.51
471,114	FNCI 4% POOL AD7073 4.000% Due 06-01-25	103.15	485,947	104.38	491,753	0.49	18,845	1,570	2.51
51,418	GNMA POOL 2563 6.500% Due 03-20-28	100.44	51,643	113.30	58,258	0.06	3,342	279	1.84
63,676	FGLMC POOL C01403 6.000% Due 09-01-32	101.81	64,831	110.97	70,665	0.07	3,821	318	2.31
144,444	FGLMC POOL A16590 6.000% Due 12-01-33	103.27	149,161	110.97	160,297	0.16	8,667	722	2.33
113,770	FRN - FNMA POOL 820607 2.044% Due 03-01-35	100.53	114,379	104.96	119,411	0.12	2,325	194	0.81
534,289	FNMA POOL 826090 4.737% Due 07-01-35	99.47	531,451	105.24	562,313	0.55	25,309	2,109	1.42
418,267	FHLMC # A36703 4.500% Due 08-01-35	95.69	400,230	104.13	435,550	0.43	18,822	1,569	3.45
311,036	FRN - FNMA POOL # 838293 2.775% Due 08-01-35	99.67	310,004	104.36	324,594	0.32	8,631	719	1.28
84,860	FNMA ARM POOL 745552 2.741% Due 02-01-36	99.27	84,237	103.90	88,167	0.09	2,326	194	1.33
131,474	FRN - FHLMC # 847740 5.492% Due 04-01-37	98.88	130,005	107.82	141,755	0.14	7,221	602	2.09
458,801	FRN - FHLMC # 1G2124 5.952% Due 08-01-37	99.81	457,941	108.72	498,822	0.49	27,308	2,276	2.78
217,195	FRN - FNMA POOL 943054 3.417% Due 08-01-37	100.94	219,231	104.90	227,829	0.22	7,422	618	1.31
585,980	FHLMC # G08264 6.000% Due 04-01-38	100.76	590,421	109.96	644,344	0.64	35,159	2,930	2.73



Portfolio Appraisal – as of June 30, 2011

Quantity	Security	Average Cost	Total Average Cost	Price	Market Value	Pct. Assets	Annual Income	Accrued Interest	Yield to Maturity
900,000	FHLMC 5% POOL G05253 5.000% Due 02-01-39	107.02	963,211	106.31	956,808	0.94	45,000	3,750	2.97
900,000	FNCL 4.5 POOL AA6013 4.500% Due 05-01-39	103.59	932,309	103.64	932,760	0.92	40,500	3,375	3.57
	Accrued Interest				33,301	0.03			
			8,011,792		9,114,776	8.99		33,301	
GNMA									
72,006	GOV'T NAT'L MTG ASSN POOL# 587075 6.500% Due 05-15-32	101.25	72,906	114.09	82,155	0.08	4,680	390	1.93
578,509	GOV'T NAT'L MTGE ASSN POOL # 617115 5.500% Due 06-15-36	97.77	565,583	110.28	637,985	0.63	31,818	2,651	0.96
555,297	GOV'T NAT'L MTGE ASSN POOL # 672671 4.500% Due 04-15-38	97.12	539,332	106.05	588,903	0.58	24,988	2,082	2.96
	Accrued Interest				5,124	0.01			
			1,177,821		1,314,167	1.30		5,124	
ASSET-BACKED SECURITIES									
1,000,000	GE CAPITAL CREDIT CARD MASTER NOTE TRUST 3.690% Due 07-15-15	103.37	1,033,750	102.84	1,028,446	1.01	36,900	1,640	0.95
	Accrued Interest				1,640	0.00			
			1,033,750		1,030,086	1.02		1,640	
COMMERCIAL MORTGAGE-BACKED SECURITIES									
470,079	CREDIT SUISSE FIRST BOSTON MTG 4.691% Due 04-01-37	100.48	472,337	101.74	478,269	0.47	22,051	1,838	4.09
700,000	LB-UBS COML MTG TR 2006-C7 5.300% Due 11-11-38	100.35	702,460	100.80	705,576	0.70	37,100	2,061	2.64
500,000	BEAR STEARNS COML MTG SECS INC 4.674% Due 06-11-41	100.54	502,723	106.87	534,370	0.53	23,370	1,947	2.72
500,000	FRN - BEAR STEARNS COML MTG SECS TR 5.518% Due 09-11-41	100.55	502,726	104.23	521,156	0.51	27,590	2,299	2.98
1,000,000	FRN - CD 2005-C1 COMMERCIAL MTG TR 5.394% Due 07-15-44	100.09	1,000,856	108.74	1,087,372	1.07	53,937	4,495	2.98
478,925	COMM 2006-C8 MTG TR 5.248% Due 12-10-46	100.50	481,314	101.08	484,086	0.48	25,134	2,094	3.74
500,000	FRN - J P MORGAN CHASE COML MTG SECS 5.932% Due 02-12-49	100.21	501,049	108.53	542,660	0.54	29,659	2,472	4.14
464,672	FRN - BANC AMER COML MTG TR 2007-5 5.434% Due 02-10-51	100.55	467,211	102.29	475,321	0.47	25,250	2,104	3.20



Portfolio Appraisal – as of June 30, 2011

Quantity	Security	Average Cost	Total Average Cost	Price	Market Value	Pct. Assets	Annual Income	Accrued Interest	Yield to Maturity
500,000	J P MORGAN CHASE COML MTG SECS 5.882% Due 02-15-51 Accrued Interest	100.50	502,481	108.73	543,649	0.54	29,410	2,451	4.22
					21,761	0.02			
			5,133,158		5,394,222	5.32		21,761	
CORPORATE BONDS									
500,000	BERKSHIRE HATHAWAY FIN. 4.750% Due 05-15-12	107.40	537,025	103.74	518,685	0.51	23,750	3,035	0.46
500,000	JOHNSON & JOHNSON 5.150% Due 08-15-12	109.41	547,045	104.91	524,560	0.52	25,750	9,728	0.76
725,000	ASTRAZENECA PLC 5.400% Due 09-15-12	99.81	723,615	105.81	767,108	0.76	39,150	11,527	0.57
500,000	JOHN DEERE CAPITAL CORP 5.250% Due 10-01-12	99.75	498,750	105.70	528,490	0.52	26,250	6,562	0.67
500,000	UNITED PARCEL SVC INC 4.500% Due 01-15-13	100.22	501,110	105.66	528,320	0.52	22,500	10,375	0.80
500,000	BARCLAYS BANK PLC 2.500% Due 01-23-13	99.87	499,335	101.84	509,200	0.50	12,500	5,486	1.31
500,000	AMERICAN INTL GROUP INC SENIOR NT 4.250% Due 05-15-13	95.12	475,580	102.80	513,985	0.51	21,250	2,715	2.71
500,000	ONTARIO PROV CDA 3.500% Due 07-15-13	99.68	498,425	105.53	527,635	0.52	17,500	8,069	0.77
500,000	BARRICK GOLD FINANCE CO. 6.125% Due 09-15-13	99.98	499,890	110.58	552,925	0.55	30,625	9,017	1.25
250,000	BP CAPITAL MARKETS PLC 5.250% Due 11-07-13	108.02	270,039	108.35	270,865	0.27	13,125	1,969	1.62
500,000	CREDIT SUISSE NEW YORK 5.500% Due 05-01-14	99.90	499,485	109.83	549,175	0.54	27,500	4,583	1.92
500,000	BANK OF NY MELLON 4.300% Due 05-15-14	100.91	504,550	108.10	540,480	0.53	21,500	2,747	1.42
450,000	US BANCORP 4.200% Due 05-15-14	104.98	472,396	107.70	484,663	0.48	18,900	2,415	1.45
500,000	CITIGROUP INC 5.500% Due 10-15-14	100.17	500,870	108.75	543,740	0.54	27,500	5,806	2.70
500,000	DOMINION RESOURCES INC. 5.000% Due 12-01-14	106.38	531,910	110.27	551,355	0.54	25,000	2,083	1.88
500,000	JP MORGAN CHASE & CO 4.750% Due 03-01-15	98.36	491,795	106.91	534,565	0.53	23,750	7,917	2.76
500,000	MORGAN STANLEY 6.000% Due 04-28-15	99.88	499,380	108.41	542,035	0.53	30,000	5,250	3.63
500,000	BANK OF MONTREAL 2.850% Due 06-09-15	100.59	502,930	103.61	518,040	0.51	14,250	871	1.90



Portfolio Appraisal – as of June 30, 2011

Quantity	Security	Average Cost	Total Average Cost	Price	Market Value	Pct. Assets	Annual Income	Accrued Interest	Yield to Maturity
500,000	BANK AMER CORP 5.625% Due 10-14-16	99.93	499,670	107.03	535,130	0.53	28,125	6,016	4.13
500,000	CONOCOPHILLIPS CDA FDG FDG CO 5.625% Due 10-15-16	100.09	500,475	115.83	579,130	0.57	28,125	5,937	2.42
500,000	INTERNATIONAL BUSINESS MACHS 5.700% Due 09-14-17	106.27	531,328	116.26	581,320	0.57	28,500	8,471	2.82
500,000	EXELON GENERATION CO LLC 6.200% Due 10-01-17	100.83	504,145	112.81	564,055	0.56	31,000	7,750	3.87
500,000	WELLS FARGO & CO 5.625% Due 12-11-17	99.58	497,920	110.46	552,300	0.54	28,125	1,562	3.78
500,000	WACHOVIA CORP GLOBAL MEDIUM 5.750% Due 02-01-18	99.57	497,860	110.58	552,895	0.55	28,750	11,979	3.91
500,000	MCDONALDS CORP M/T/N 5.350% Due 03-01-18	105.75	528,740	113.38	566,885	0.56	26,750	8,917	3.11
500,000	GENERAL ELECTRIC CAP CORP. 5.625% Due 05-01-18	89.86	449,305	109.37	546,860	0.54	28,125	4,687	4.04
500,000	GLAXOSMITHKLINE CAP INC 5.650% Due 05-15-18	104.59	522,950	114.06	570,315	0.56	28,250	3,610	3.34
500,000	CATERPILLAR FINANCIAL 7.150% Due 02-15-19	99.16	495,805	123.38	616,890	0.61	35,750	13,506	3.61
500,000	GOLDMAN SACHS GROUP INC. 7.500% Due 02-15-19	99.78	498,905	116.35	581,770	0.57	37,500	14,167	4.90
500,000	PROCTER & GAMBLE CO. 4.700% Due 02-15-19	99.82	499,120	110.35	551,770	0.54	23,500	8,878	3.16
500,000	MICROSOFT CORP 4.200% Due 06-01-19	99.73	498,650	105.16	525,805	0.52	21,000	1,750	3.45
536,000	CARGILL INC. (144a) 4.307% Due 05-14-21	93.12	499,101	100.78	540,175	0.53	23,086	2,886	4.21
500,000	BELLSOUTH CORP 6.000% Due 11-15-34	97.52	487,595	101.01	505,050	0.50	30,000	3,833	5.92
500,000	SOUTHERN CAL EDISON CORP BOND 5.950% Due 02-01-38	99.54	497,700	110.44	552,195	0.54	29,750	12,396	5.22
	Accrued Interest				216,501	0.21			
			17,063,400		18,644,873	18.40		216,501	
INTERNATIONAL FIXED INCOME FUNDS/ETF									
42,485	SPDR BARCLAYS CAPITAL INTL D	56.06	2,381,843	61.77	2,624,298	2.59	NA		
DOMESTIC LARGE CAP EQUITY FUNDS/ETF									
221,487	VANGUARD INST'L S&P500 INDEX FUND	92.73	20,538,199	120.83	26,762,299	26.40	NA		



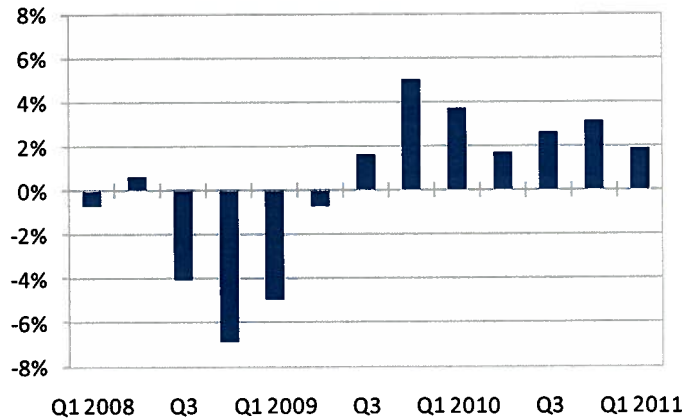
Portfolio Appraisal – as of June 30, 2011

Quantity	Security	Average Cost	Total Average Cost	Price	Market Value	Pct. Assets	Annual Income	Accrued Interest	Yield to Maturity
DOMESTIC MID CAP EQUITY FUNDS/ETF									
37,878	ISHARES S&P MIDCAP 400	63.58	2,408,435	97.70	3,700,681	3.65	NA		
INTERNATIONAL FUNDS/ETF									
223,153	VANGUARD MSCI EAFE ETF	33.97	7,580,251	38.08	8,497,666	8.38	NA		
EMERGING MARKET FUNDS/ETF									
90,500	VANGUARD EMERGING MARKET ETF	43.27	3,915,893	48.62	4,400,110	4.34	NA		
REAL ESTATE									
72,730	VANGUARD REIT ETF	48.08	3,496,952	60.10	4,371,073	4.31	NA		
COMMODITIES									
76,076	IPATH DOW JONES-AIG COMMODITY INDEX	49.96	3,800,764	47.23	3,593,069	3.55	NA		
CASH AND EQUIVALENTS									
	ALASKA MUNICIPAL LEAGUE INVESTMENT POOL		202,970		202,970	0.20			
	CASH RECEIVABLE		16,414		16,414	0.02	NA		
			219,384		219,384	0.22			
TOTAL PORTFOLIO			87,990,303		101,354,505	100	2,048,116	400,779	



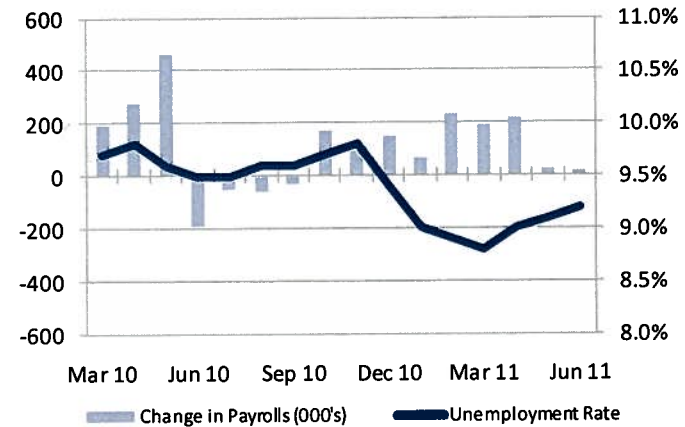
Economy & Financial Markets

Gross Domestic Product



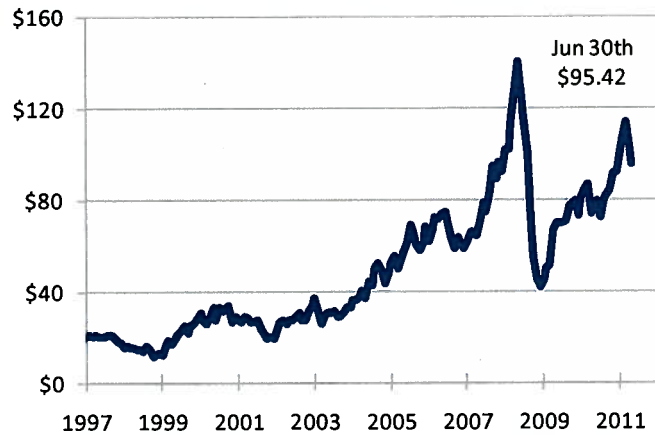
Bureau of Economic Analysis

Job Growth and Unemployment Rate



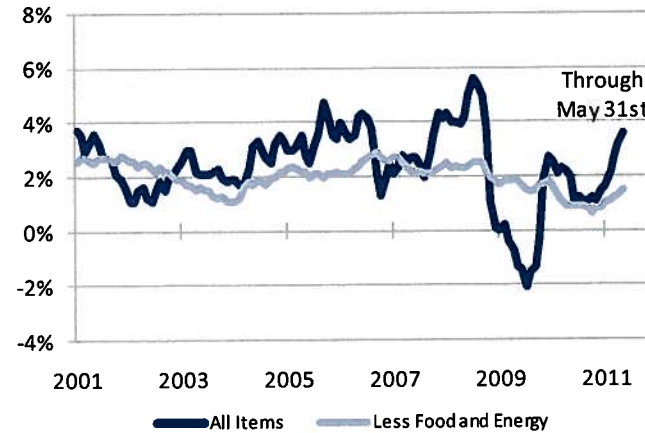
Bureau of Labor Statistics

Oil Price - West Texas Intermediate



Bloomberg

Consumer Price Index (YoY)



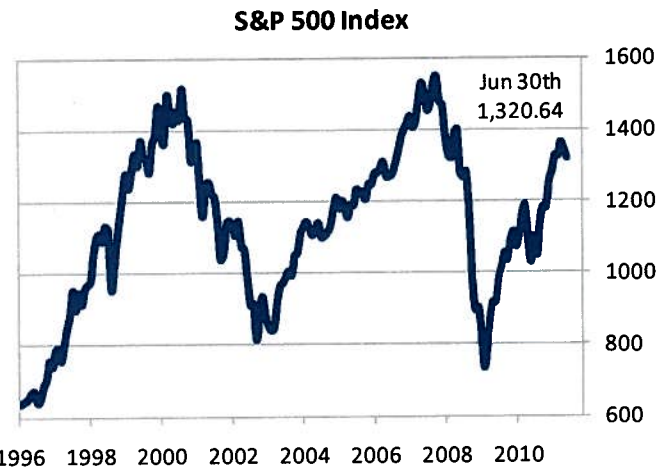
Bureau of Labor Statistics



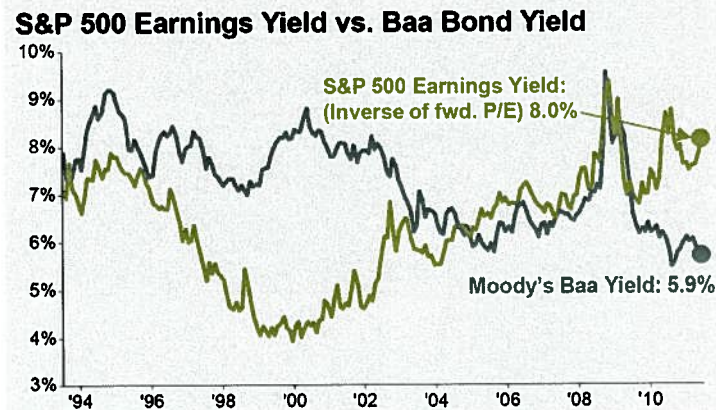
Economy & Financial Markets

Total Return (%) as of June 30, 2011				
	Q2 2011	1 Year	3 Years	5 Years
Domestic Equities				
Large Cap S&P 500	0.1	30.7	3.3	2.9
Mid Cap S&P 400	-0.7	39.4	7.8	6.6
Small Cap S&P 600	-0.2	37.0	8.2	4.6
International Equities				
Developed MSCI EAFE	1.6	30.4	-1.8	1.5
Emerging MSCI Emerging Markets	-1.2	27.8	4.2	11.4
Other				
Commercial Property S&P U.S. REIT	3.7	34.0	5.3	2.3
Commodities DJ-UBS Commodity	-6.7	25.9	-11.9	-0.1
Fixed Income				
Total Bond Market Barclays Aggregate	2.3	3.9	6.5	6.5
1-3 Yr U.S. Treasury/Agency Barclays 1-3 Gov	0.8	1.4	3.1	4.3
Int'l Treasury Barclays Global Tsy ex-US	3.8	16.5	5.9	7.8

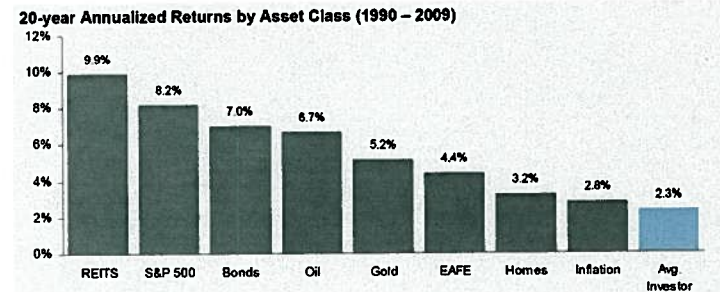
Returns are annualized for periods greater than one year



Bloomberg



Sources: Standard & Poor's, Moody's, J.P. Morgan Asset Management
Data as of 06/30/2011.

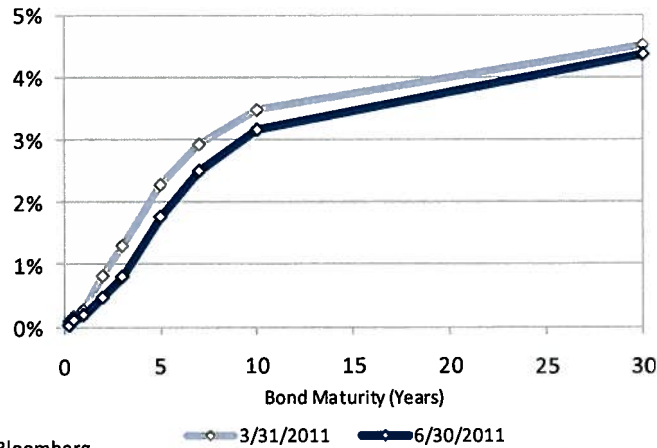


Source: J.P. Morgan Asset Management
Average asset allocation investor return is based on an analysis by Dalbar Inc. All returns are annualized (and total return where applicable) and represent the 20-year period ending 12/31/09 to match Dalbar's most recent analysis.

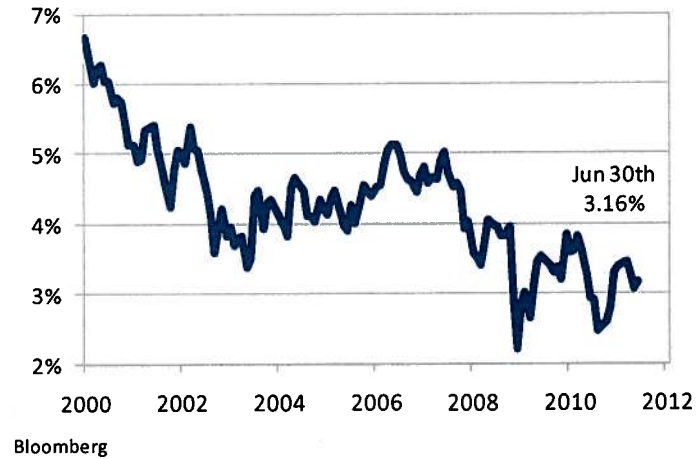


Economy & Financial Markets

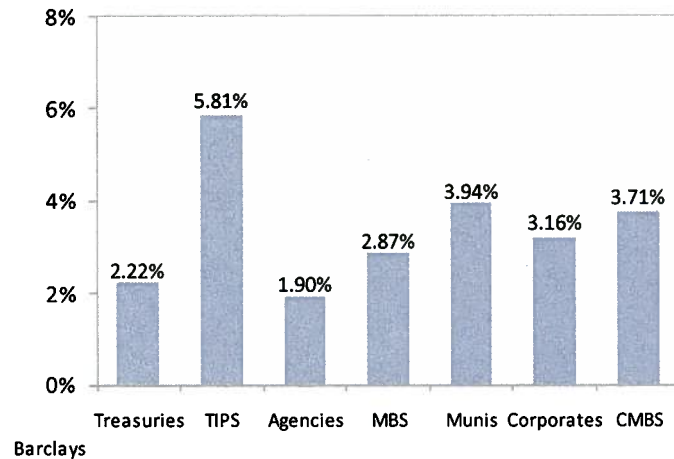
Yield Curve Comparison



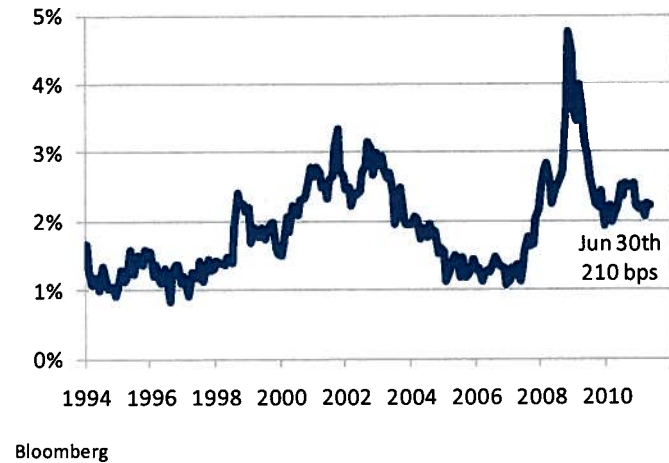
10 Year Treasury Note Yield



2011 YTD Bond Total Return



Corporate A Spread/10 Year Treasury



Current Outlook

Economic Outlook

The **U.S. economy is expanding modestly**, but still faces major headwinds from the ongoing deleveraging of consumer and financial balance sheets. The unemployment rate rose to 9.2% last month, as **job gains have been modest**. Manufacturing activity is picking up; however both the residential and commercial property markets remain sluggish. GDP growth in the fourth quarter of 2010 was +3.1% and Q1 2011 came in at +1.9%. Most economists have downgraded their growth forecasts to the +2-3% range for 2011 and some fear a double dip.

Worldwide GDP declined -0.5% in 2009 and was +5.1% in 2010. **The IMF forecasts (June 2011) world growth of +4.3% this year.** This growth will likely be led by the emerging markets – many of which have had economies that continued to grow throughout the financial crisis.

The OECD released its latest World Economic Outlook in May noting “this is a delicate moment for the global economy, and the crisis is not over until economies are creating enough jobs again.” They see a risk of “stagflation.” Still, they expect +2.6% growth this year in the US and +3.1% in 2012.

Inflation Outlook

Inflation is up +3.6% year-over-year and the “core” rate is +1.5%. **Inflationary pressures are likely to remain muted given substantial unused capacity in the labor and product markets.** However, volatile oil and commodity prices are a threat to the inflation outlook. And Wal-Mart’s CEO is warning of “significant” inflationary pressures. WTI crude fell -11% in June and finished the month at \$95 per barrel.

Policy Actions

The Federal Reserve is maintaining a ZIRP (zero interest rate policy) with the federal funds rate pinned close to zero for a “considerable period.” **The Fed ended its \$600 billion QE2 bond buying program in June.** Some worry about the inflationary implications of those purchases. **A QE3 program is unlikely.**

Republican gains in the US midterm elections suggested gridlock and an end to stimulus spending. **Wrangling over the deficit and debt ceiling will continue,** although Treasury Secretary Geithner has targeted August 2nd as a “drop dead” date after which default is possible. We can’t continue to kick the can down the road.

Overseas, Europe continues to grapple with a financial system that was more levered than the U.S. The ECB and IMF have taken significant steps to shore up confidence and provide liquidity to EU governments struggling with deficit/debt problems. Greece, Ireland and now Portugal have accepted bailouts. **Many countries have undertaken “austerity” measures to close their budget gaps, but the market remains skeptical.**

Bond Outlook

QE2 was designed to keep interest rates low for a considerable period. **Interest rates have declined over the last few months on signs of a weaker economy.** Corporate spread product and CMBS securities faltered in Q2 after strong gains in previous months.

Equity Outlook

The domestic equity markets lost ground in June. **The equity market needs solid Q2 corporate earnings and revenues to rally further.** We generally like domestic large company stocks over smaller names. Globally we favor emerging markets over developed international (EAFE). REITs have performed well, but they are overvalued in our judgment. **Very low interest rates and reasonable valuations offset uncertainties in the Middle East, Europe, and budget pressures in the US.** The recent soft patch in economic growth is troubling and will remain a headwind near term.



July 2011

July 20, 2011

City of Fairbanks
Permanent Fund Review Board

Bert Wagon
Senior Vice President
Alaska Permanent Capital Management Co.

The Chair has asked that I address the impacts on the portfolio should the US Government fail to raise the debt ceiling. Additionally, he has asked what impact a down-grade to the US Government will have on the portfolio and what should we do about it.

Taking the rating down-grade issue first; the current investment policy provides the Fund my hold "Obligations of or obligations insured or guaranteed by the United States or agencies or instrumentalities of the United States". As written the policy would allow the Fund to continue to hold US Treasury securities without regard to the rating. If or when the US is downgraded, the result should manifest itself in modestly higher yields on US Government securities. Please be advised as the attached literature sets forth, different opinions exist on this subject. Should the down-grade occur, a whole subset of down-grades should shortly follow; certain states would be marked down, most likely most banks would be down-graded as well as a host of government agency/instrumentality organizations.

Should congress fail to raise the debt ceiling the US Government will be unable to pay all of its bills as they come due. As the attached "white paper" points out we believe congress will increase the debt ceiling by August 2nd and that government bonds will get paid. The problem is not economic it is political. Should the worst case scenario occur and the US Government has to reduce/close operations and outstanding bonds are not treated as a priority payment, holders of those US Government securities will eventually be paid interest.

US default unlikely: strategy changes not recommended

We are two weeks away from the August 2 deadline to raise the \$14.3 trillion U.S. debt ceiling. The Treasury maintains that any slippage in that date may result in default. The press has been all over this with scary headlines causing some investors to question their investment strategy.

While the stock market has lost ground, partly due to this issue, the bond market has not. US treasury rates remain at historic lows. Bonds have not sold off as result of the debt ceiling histrionics playing out in Washington. Apparently bond investors still view the US as one of the safest investments on the planet.

We have been here before. In 1995-96 a debt ceiling drama amidst budget negotiations (Clinton and Gingrich) led to worries over default and our AAA debt rating to be placed on negative watch by the credit rating agencies. The government shut down temporarily. Eventually the debt ceiling was raised and negative watches removed. Stocks were largely unaffected by the episode and marched irregularly higher over this period.

This time around, the White House and congressional leaders met for several weeks but have not agreed on a long term fiscal plan as part of a deal to raise the debt ceiling. Now leaders in the House and Senate are putting forward last minute alternative legislative measures.

We believe Congress will increase the debt ceiling by August 2 and that government bonds will get paid. The U.S. has the ability and strength to pay its debt.

If legislation is not passed in time, the government can prioritize and make payments on the debt to avoid default. Social security, defense, etc payments can be delayed. The resulting screaming and shouting would no doubt force Congress to act to increase the debt ceiling within a short period of time.

A downgrade of our debt is also unlikely; although S&P is making noise that unless policymakers address the long term fiscal issues they may lower the U.S. to AA from AAA within the next three months. The U.S. has been at AAA since 1917.

There are strongly held views on both sides of the political aisle about how to reduce the burgeoning budget deficit and put the nation on solid financial footing. While there is agreement on the extent of the problem, the heated discussion is likely to continue through the 2012 election.

The immediate debt ceiling debate is a temporary event and should not drive investors to alter their long term portfolio asset allocation between stocks and bonds. Timing the exit and re-entry into the market based on short term events is always difficult. We know from history that changing investment strategy due to the latest headlines seldom works.

Accordingly, we do not believe that investors should “go to cash”. The best strategy, as difficult as it sounds given all the noise out of Washington and downbeat newspaper headlines, is to sit tight. If you’re long term goals haven’t changed, don’t change your portfolio.

Please let us know if you have further questions or concerns.

Schwab Market Perspective: Earnings Heat Up

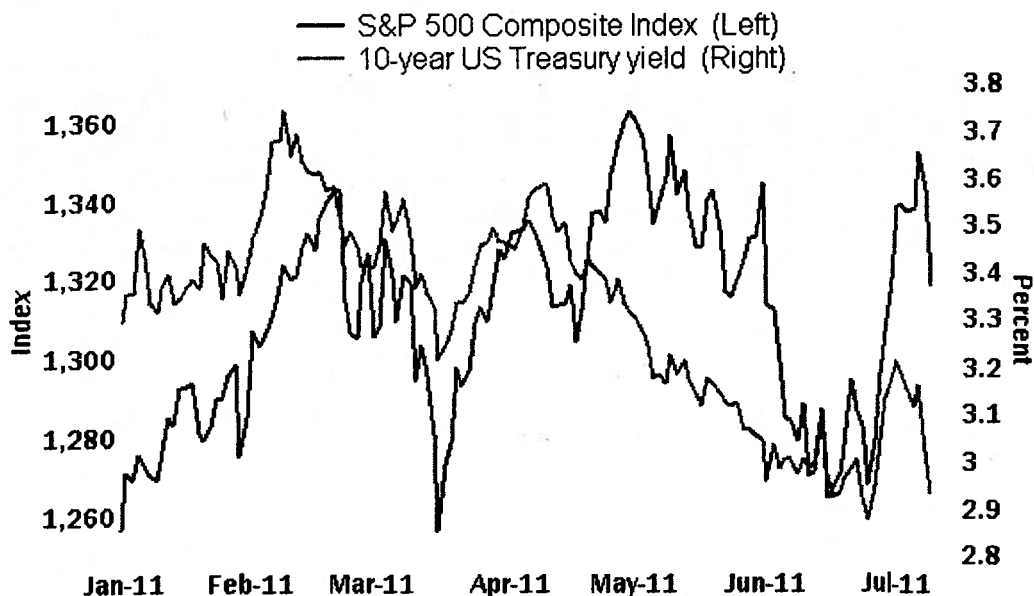
by Liz Ann Sonders, Chief Investment Strategist, Charles Schwab & Co, Inc. and Brad Sorensen, CFA, Director of Market and Sector Analysis; Michelle Gibley, CFA, Senior Market Analyst, Schwab Center for Financial Research
July 15, 2011

Earnings season may garner extra attention as investors try to gauge the strength of the recovery. Meanwhile, the US debt deadline is ticking closer.

- Earnings season is heating up and will provide a status update on the "soft patch" and where companies' confidence level lies. Stocks have been more volatile but are they telling us something about potential future direction?
- Debt ceiling talks continue in Washington, with a deal still likely to come in the final days before the supposed August 2 deadline. The make-up of spending cuts, tax changes, and any entitlement reform may be key to longer-term market reaction.
- Contagion fears are growing in Europe and solutions are difficult to come by. International exposure, however, remains important and we suggest investors look toward markets such as China, Japan, Canada, and Germany.

Stocks have been more volatile, rallying strongly, while bonds fell, before moving lower again as uncertainty grew over the job market and debt problems in the United States and abroad.

What is the market telling us?



Source: FactSet, Standard & Poor's, Federal Reserve. As of July 11, 2011.

The market has returned to "risk on, risk off" trading, with the focus on the debt crisis in Europe and the US debt ceiling deadline. From the chart above, stocks and yields headed lower as risks of a Greek default grew, but reversed course once an agreement was reached and the austerity package was passed, and again switched direction on renewed Italian debt fears. But is that all there is to it? We don't believe so. Remember that the stock market is a forward-looking mechanism and we believe the action in stocks and bonds is also at least partially indicative of the US economic outlook for the second half of the year. We continue to believe the softness we've seen over the past couple of months is largely attributable to temporary factors, and that a recovery is likely in the second half.

In choppy markets we suggest investors who need to add to their equity exposure use any weakness to add to positions as we continue to believe the trend through at least year end will be higher.

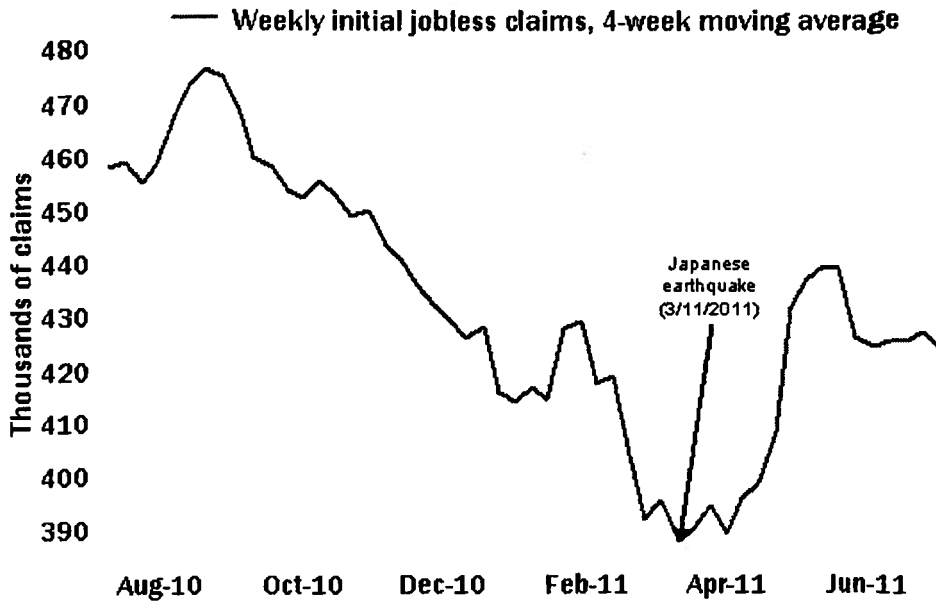
There could be continued near-term volatility, however, with second quarter earnings season heating up. With new disclosure rules and crackdowns on perceived inside information being given to analysts, visibility is perhaps more opaque than it has been in years, leading to the possibility of more surprises. Expectations have been ratcheted down a bit over the past month as analysts attempt to factor in the impact of the soft economic data, but Bloomberg reports analysts are forecasting a still-robust 13.3% year-over-year gain for S&P 500 earnings. As usual the focus will be on the commentary accompanying the profit announcements. We are watching to see if companies indicate they have plans to put some of their massive cash balances to work through hiring more workers, and/or investing in capital projects to take advantage of the accelerated depreciation incentive in the tax code for 2011. Corporate confidence remains key to accelerating the economic recovery and we'll be watching for signals that businesses are becoming more comfortable with the outlook going forward.

Soft-patch ending?

Economic data remains relatively soft but there are glimmers of hope. The ISM Manufacturing Index rose from 53.5 to 55.3, with both the new orders and employment components posting modest gains. However, the gain in the headline number is tempered slightly as it was influenced by a jump in inventories. Meanwhile, the ISM Non-Manufacturing Index remains solidly in expansion territory, and even though new orders fell modestly, employment moved slightly higher.

Focus remains on the jobs picture, which has taken a hit over the past couple of months. It continues to appear that the labor market's weakness has been largely influenced by temporary factors. You can see from the chart below that jobless claims, the most leading of the various labor statistics, moved above the important 400,000 level soon after the disaster in Japan.

Claims moved up following earthquake



Source: FactSet, U.S. Dept. of Labor. As of July 11, 2011.

As production and supply chains are coming back on line in Japan, we believe claims will move back below 400,000, indicating an improving labor market. We've seen a bit of positive news as Automatic Data Processing (ADP) reported that private payrolls jumped from a gain of 36,000 in May to 157,000 in June. Unfortunately, the Department of Labor payroll report showed that only 18,000 jobs were added and the previous two months' gains were revised lower by 44,000, while the unemployment rate moved from 9.1% to 9.2%. Also, average hourly earnings were flat. The latter report was undoubtedly disappointing, but it is important to remember that it's a lagging indicator and we would expect claims to improve before the payroll report.

US debt ceiling remains in focus

The elephant in the room continues to be the ongoing debate in Washington with regard to the debt ceiling. The ceiling was actually hit back in the middle of May, but accounting maneuvers allowed the supposed "drop dead" date to be extended to August 2. Even that is a bit of a misnomer as the United States; would continue to have various options to shift money around in order to continue to pay its dept obligations on time and in full but there is little doubt that going past that date would cause significant problems in the marketplace.

We continue to strongly believe that an agreement will be reached in the days before August 2 and that the United States will avoid the more nasty scenarios being suggested. However, the details of that deal may be important to market performance going forward. If the bond market judges the deal too weak in addressing the longer-term deficit and debt, we could see yields rise and ratings agencies make more noise about downgrading US debt. Conversely, if the agreement takes too much money out of the economy in the very near term through spending cuts and tax hikes, stocks may have a more difficult time as growth could be dented.

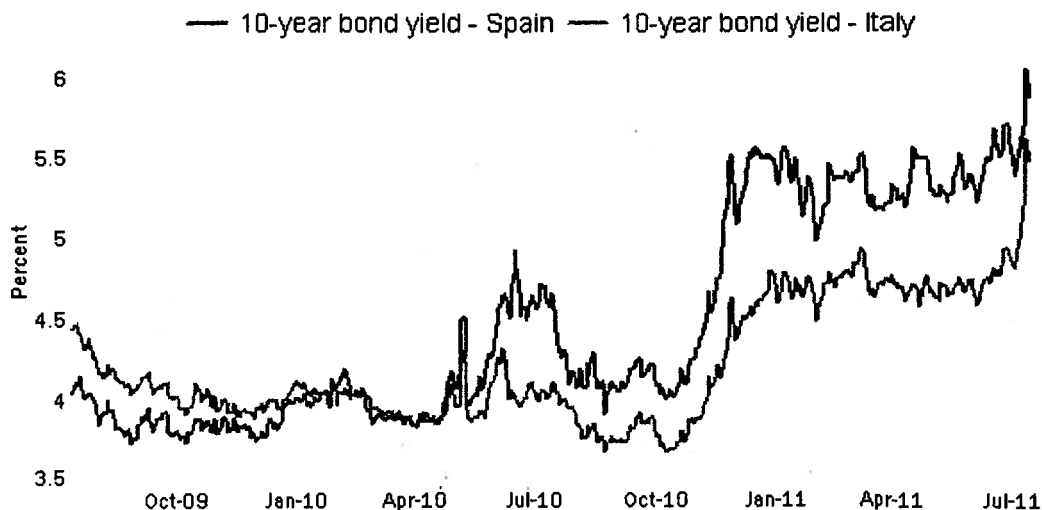
We continue to advocate solutions with an eye toward promoting economic growth. To us, that means spending cuts, regulatory reform, passing trade deals that have languished for far too

long, structural changes to entitlement programs, and a revamp of the tax code on both the corporate and personal fronts. How far down the road we get on these issues during this debate will likely frame the direction we head in through at least the November 2012 elections.

Similar issues overseas: reduce debt

The Greek vote didn't end the eurozone debt crisis, which is at risk of morphing into a new, concerning phase that could ensnare Spain and Italy.

Contagion still a risk



Source: FactSet, iBoxx. As of July 12, 2011.

At this point, continued lack of decisive steps by policymakers has let confidence slip so far that it may be difficult to rein it back in; and Greece, Portugal and Ireland are becoming increasingly tethered, despite different problems and levels of severity. Greece has had the most severe problems and has missed fiscal targets, but Greece alone is small and is mainly a concern due to its interconnectedness and threat to the union that uses the euro. Inability to stabilize Greece does not give markets confidence policymakers can address other crises that may crop up in the future.

Investors have been further spooked by plans to involve private sector participation in a second Greek bailout, making a return to capital markets more difficult for both Portugal and Ireland as well, which may end up needing second bailouts of their own.

We are concerned about potential for contagion to Spain and Italy, due to their large debt burdens. Why is Italy being drawn in to the fray? Despite keeping fiscal spending generally in check, Italy has the world's third largest public debt load, at over \$2 trillion, and a fragile sentiment environment has pushed rates higher. At high debt levels, continuing to refinance debt at rates in excess of potential economic growth is unsustainable.

However, Italy has some things going for it other peripheral countries don't:

- the banking system is in better shape because unlike Spain and Ireland, Italy did not have a housing bubble,
- unemployment is falling,

- debt is primarily held domestically due to high levels of private savings, and
- Italy has a fiscal surplus before factoring in debt service.

A new austerity budget is underway, but there may be ongoing lapses in confidence if political pressure ahead of 2013 elections results in modifications. Additionally, Italian banks are thinly capitalized and own a high percentage of capital in government debt, compromising their stability, and are rumored to be less enamored with holding Italian debt.

Ultimately, we view the differences as significant enough that we don't believe Italy (or Spain) need bailouts, but further lack of market confidence could put contagion at risk.

There is no magic bullet for stabilizing the eurozone debt crisis, only choosing between two unappealing choices – take losses now, or take them later. The threat of contagion and insistence of private sector participation has increased the possibility of recognizing losses now. Meanwhile, peripheral nations also need to address growth by making moves to improve labor market productivity and flexibility, and encourage development of new businesses and industries.

The bottom line? Economic growth in the eurozone may be hindered as we believe eurozone banks need more capital and may raise lending rates and/or scale back credit extension.

Should we reduce international allocations as a result of European headwinds? In a word, no. We view an allocation to international stocks as an important diversification tool for investors, as there is the potential to gain access to differentiated growth and currency diversification. We are positive on the developed markets of Canada and Japan, and believe a renewal of growth in China and Japan could be positive not only for the Asian region, but also export-oriented countries such as Germany.

Will debt in China create a bank crisis?

Part of the bull case for China is that growth has not been fueled with debt, with lower levels of debt at both the government and household level than many developed markets. At the central government level, debt-to-GDP in 2010 was reported at 18%, low relative to the 92% level in the United States, 77% in the United Kingdom and 84% in Canada.

Meanwhile, local government debt in China is subject to much debate, even among government sources. The most recent estimate came from the National Audit Office, of 10.7 trillion RMB (\$1.65 trillion), or 27% of GDP, which differs from a previous estimate by the central bank of approximately 14 trillion RMB (\$2.15 trillion), and the banking regulator earlier said the amount was 9.09 trillion RMB. A Moody's study using the three government estimates and making delinquency assumptions estimated future potential non-performing loans (NPLs) at 8-12% of loans. Meanwhile, BCA Research in July indicated NPLs would increase to 4% for two years if the bad loans hit across 2012 and 2013.

Why the scrutiny on debt? Infrastructure and property construction contribute over 50% of China's growth, and if growth has been fueled by reckless lending, this would raise questions about the sustainability and quality of growth.

While we acknowledge some of the debt likely financed questionable infrastructure projects and may have been involved the property boom, we view sentiment toward China as overly pessimistic. In our Bears versus Bulls China article in May, we used a 10% NPL rate and put

potential losses at 5.2 trillion RMB, or \$800 billion. This is large but manageable, as the government has over \$3 trillion in foreign exchange reserves at their disposal.

Meanwhile, a tightening cycle to rein in property speculation and lending may be in late innings. Home sales have stabilized after plunging, and construction has restarted, particularly for the government's affordable housing program. Liquidity in the banking system is tight and credit access is restrictive.

While inflation may still rise and additional tightening measures could still be implemented, we view a hard landing, or severe slowdown in growth, as unlikely. The Chinese government can quickly introduce policy to reaccelerate growth, and has already begun new stimulus and the injection of money into the banking system.

Local Chinese investor sentiment improving



Source: FactSet, Shanghai Stock Exchange. As of July 12, 2011.

Local investors in China have prompted a rise in the Shanghai Composite. The Chinese stock market has been a forward looking indicator for both global growth and emerging markets, and while an upward move may indicate global growth may be on the mend, we remain neutral on emerging markets at this point.

Visit www.schwab.com/oninternational more international perspective.

Important Disclosures

The MSCI EAFE® Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States and Canada. As of May 27, 2010, the MSCI EAFE Index consisted of the following 22 developed market country indexes: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands,

New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

The MSCI Emerging Markets IndexSM is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of May 27, 2010, the MSCI Emerging Markets Index consisted of the following 21 emerging-market country indexes: Brazil, Chile, China, Colombia, the Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand and Turkey.

The S&P 500® index is an index of widely traded stocks.

Indexes are unmanaged, do not incur fees or expenses and cannot be invested in directly.

Past performance is no guarantee of future results.

Investing in sectors may involve a greater degree of risk than investments with broader diversification.

International investments are subject to additional risks such as currency fluctuations, political instability and the potential for illiquid markets. Investing in emerging markets can accentuate these risks.

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Wheeling and dealing with the ceiling

07 JULY 2011

We see three possible outcomes of the debt ceiling/deficit reduction debates, assign probabilities to each, and highlight their likely implications.

- While we see a risk of Congress only striking a deal to temporarily raise the debt limit, a longer-term deal seems more likely.
- Unless the 14th amendment argument is found to be legitimate, Treasury will be forced to prioritize payments in the unlikely event that the "drop dead" date is reached without a debt limit increase.
- Bond market participants have been pretty sanguine over the debt ceiling. Rates have not been erratic but rather driven by flows and fundamentals.
- As the debt ceiling deadline approaches, if members of Congress seem unable to agree, increased focus on the issue by the press and market participants could unsettle markets.
- Trade idea: we are confident that the US credit rating will be unaffected by the debt limit debate and we believe that once resolved this view can be expressed through either a 30yr spread widener or to a lesser degree 10s30s UST flattener, which would react if the US long-term rating were affirmed.

Key dates: The Treasury Department affirmed last week that **2 August** is the date when it will be unable to pay all obligations. Although we suspect the real "drop dead" date may be as long as a full week later (**9 August**), The Obama administration believes a deal must be struck by **22 July** to allow sufficient time to draft and enact the necessary legislation before the 2 August deadline or, failing that, **5 August** when Congress is set to begin its summer recess.

Three scenarios: The coming weeks will test the resolve of the brinksmen on both sides of the debate. Congressional Republicans remain steadfast in their opposition to any tax increase. In budget talks led by Vice President Joe Biden, an agreement to cut spending by approximately \$1 trillion broke down when Democrats also insisted on tax increases. President Obama has started to take a more public stance on the debt limit debate and has spoken publicly on the matter at least twice in the past week. When the president invited the top two Republicans and Democrats from each chamber to a White House meeting to try to iron out differences, he said, "I don't want to fool anybody: We still have to work through some real differences." He also emphasized that he is opposed to those in Congress, "who want to do just enough to make sure that America avoids defaulting on our debt in the short term, but then wants to kick the can down the road when it comes to solving the larger problem of our deficit." Emerging from the summit talks today, President Obama in a brief press conference said that the two sides are "far apart" on many important issues. He also informed reporters that they would be reconvening for a Sunday meeting, but "A lot of work will be done between now and then."

Clearly, Republicans and Democrats still have a lot to resolve. At the end of it all, however, the discussions are likely to end in one of three ways: **(1) a sought-after long-term budget deal** that sets US fiscal policy on a more disciplined long-run course; **(2) a short-term agreement** that buys just enough time to complete drafting the details of a commitment in principle on a long-term fiscal strategy; or **(3) the cliffhanger scenario**, in which no agreement is reached before the

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This report can be accessed electronically via: www.nomura.com/research or on Bloomberg (NSI)

Treasury runs out of cash forcing Secretary Geithner to choose which (if any) obligations should be paid. We find this scenario to be highly improbable.

- 1) **The longer-term deal (probability: 55%):** While “real differences” remain to be hashed out, both sides seem increasingly anxious to reach an accord. Thus, we judge the most likely outcome to be that budget negotiators will agree to a deal that builds on the Biden committee’s \$1 trillion of deficit reduction and could cut spending by as much as **\$2 trillion over the next 10 years**. Figures upward of \$4 trillion in cuts have been mentioned, but we consider cuts of this scale to be unattainable. More than one hundred House Republicans have signed a letter indicating that they will not “vote to raise the ceiling unless three conditions are met: halving of the deficit via spending cuts next year; implementation of a statutory spending cap of 18% of GDP; and a balanced-budget amendment to the constitution.” Republicans seem adamant in their resistance to tax increases, so the deal is likely to feature spending cuts. However, we suspect that Republicans may accept some “revenue enhancements” that result from tax reforms rather than tax increases. A dollar-for-dollar exchange—a dollar of cuts for a dollar of debt limit increase— that some support would lead to budget savings totalling \$2-\$2.5 trillion dollar over the next decade. This more substantial increase of the debt limit to the neighborhood of \$16 trillion will give the Treasury breathing room and the ability to pay the already incurred debts for 16-20 months, meaning another the debt limit debate could resume in the run-up to the November 2012 national elections.
- 2) **Kicking the can (probability: 40%):** The logic behind a temporary debt ceiling increase is clear: Republicans and Democrats continue to disagree on a long-term deficit reduction planning but agree to a minor debt deficit reduction for FY2011 in exchange for a modest increase in the debt limit. If Congressional leaders cannot strike a deal in time to draw up legislation, they could find it necessary to rush through a debt ceiling increase to avert a cash crisis that would force and the Treasury to prioritize payments. Under this continuing stalemate scenario, we would expect an increase in the debt ceiling on the order of **\$200-\$300 billion**, matched by a commitment to trim the long-term deficit by a like amount. Assuming the outstanding debt subject to limit increases at a rate of roughly \$125 billion per month, the debt ceiling debate would resume when Congress returns on 5 September from its summer recess. In one variant of this scenario, Congressional Republicans, skeptical of any administration commitment to long-term spending cuts, might choose to make any debt ceiling increase “temporary.” Thus, on a predetermined terminal date, the debt ceiling would revert to its current setting so that the Treasury would not be able to roll-over maturing securities until the debt outstanding reverts back to its current size.
- 3) **Cliffhanger scenario (probability: <5%):** While we doubt that the members of Congress will fail to raise the debt limit by the “drop dead” date, it remains a risk. Moody’s highlighted the issues when it published a report warning of a potential downgrade to the US credit rating: “...the degree of entrenchment into conflicting positions has exceeded expectations....The heightened polarization over the debt limit has increased the odds of a short-lived default.” While the odds of default may have increased slightly, they remain vanishingly small in our view. The possibility of default emerges if, as David Brooks notes, a stronghold of Republicans upon hearing, “A thousand impartial experts...tell[ing] them that a default on the debt would have calamitous effects, far worse than raising tax revenues a bit...[they] refuse to believe it,” and seek to push Treasury over the brink. History offers Secretary Geithner no guidance about his options when payment obligations exceed incoming revenues.

- a. **No way around prioritization:** There is no precedent on the prioritization of payments during a debt ceiling breach. Although Secretary Geithner has stressed that the Treasury will not prioritize, a 1985 GAO advisory to Senator Bob Packwood (then Chair of the Senate Finance Committee) concluded that "Treasury is free to liquidate obligations in any order it finds [that] will best serve the interests of the United States." Treasury will be forced to "prioritize" in some way, whether it be making payments to the first-received, paying-out funds to entitlement programs, supporting big programs, making pro-rata payments daily to all claimants, or any other configuration. Not making any payments would be a form of prioritization. Not fulfilling obligations would clearly be a disservice to the US, but the most disruptive would likely be withholding coupon payments on Treasury securities
- b. **14th amendment.** Some have reportedly advised the president that Section 4 of the 14th Amendment to the US Constitution asserting that "the validity of the public debt ... authorized by law," implicitly authorized debt issuance to fund any legally enacted spending. However, Section 5 of the same Amendment states that "The Congress shall have the power to enforce, by appropriate legislation, the provisions of this article." No other president has ever invoked this amendment and doing so now would surely trigger an immediate challenge that might take the form of impeachment proceedings against either the President or Treasury Secretary or both. For these reason, we believe Article 14 does not represent a meaningful escape strategy that any president would ever attempt to use.
- c. **Economic implications:** While we judge it to be highly unlikely that the Treasury will face a cash crunch before the debt ceiling debate is resolved, doing so would likely negatively impact economic activity. Although there's limited ability to quantify the potential impact, we identify a few channels through which the impact would be transmitted. One would be the direct effect stemming from a government shutdown. Last week, the Bloomberg cited views of a coalition of former budget officials that stated if the Congress fails to approve an increase in debt ceiling the government would be forced to furlough "about 800,000" federal workers. We estimate that one week of furlough would reduce quarterly GDP by 0.1pp (quarter-over-quarter, annualized rate). Another impact would come from withholding payments. There is a range, as reflected in differing multipliers, for how cutting transfer payments or delaying payments to vendors would reduce spending. The impact on economic activity would only be significant in a prolonged period without a debt limit resolution, but we find the odds of this happening to be nearly zero. In such a case, the economic impact would come from shaken financial markets, too.

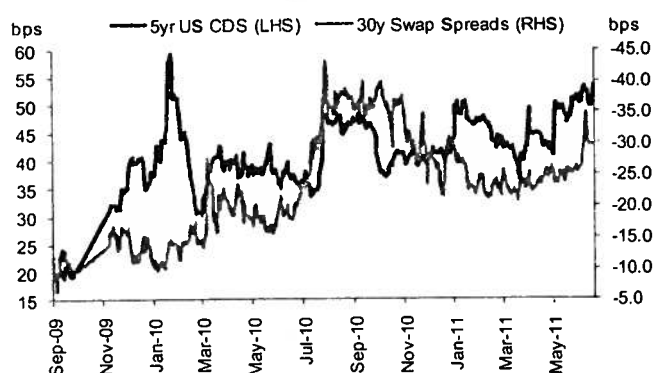
Rates Market Implications

Aside from the 2nd quarter re-balancing effect, rates have not been acting erratic but instead driven by flows and the fundamentals. It also seems that bond market participants have been pretty sanguine over the debt ceiling, although there are those out there that have expressed concern. Looking across investor classes it seems Non-Japan Asia looks to be worried the most as this "debt ceiling" issue as this concept is a relatively new one for them. From Europe the voice of concern emanates loudly as well, probably because they are faced with huge sovereign uncertainty themselves. Meanwhile Japanese and US investors, who have seen this movie before, are on balance, less worried as they feel this will pass as it always has done before.

But as we approach the deadline for the US debt ceiling, the increased focus on it by the press and market participants could unsettle markets depending on how events unfold. We addressed some of these outcomes in our third-quarter outlook (see [link](#)). However, given the three scenarios outlined by our economists, we take a look at implications for rates and ratings agencies actions in each scenario.

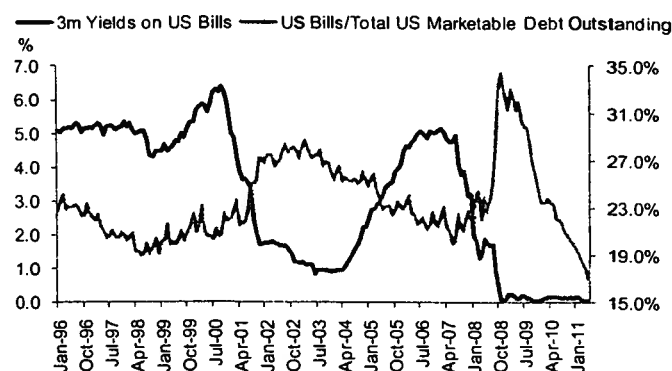
The longer-term deal: Although such a scenario may initially appear to signal the “all clear” for Treasuries, we see two potential modalities to this outcome revolving around rating agency views of any resolution. That view might be of greater importance for rates markets than the simple lifting of the ceiling. The ratings agencies have spent the first half of the year sending a clear message about the (see [USTs You Got S&P Served](#)) untenable long-term US fiscal situation, and Moody’s has stated that it may change the outlook for US ratings to negative with an eye towards a downgrade in the future if there are no significant cuts in US spending along with the debt ceiling hike. The other agencies have voiced similar concerns over longer-term profligacy in the US, and the risk remains that even if a ceiling increase is agreed upon, the cuts required to enact such a measure politically are insufficient to ward off a negative credit rating event.

Figure 1. 30-year swap spread could widen if a plan for fiscal sustainability is passed rather than a solution that “kicks the can” down the road



Source: Nomura, Bloomberg

Figure 2. Front-end yields follow the shrinking size of bills supply (partly debt ceiling and QE2 related)



Source: Nomura, Bloomberg

- a. **Ratings agencies action:** We believe the more likely rating agency reaction, under the “longer-term deal” scenario (where significant spending and tax concessions are implemented) is for no ratings actions at this point. *Again we believe that the US will avoid a negative action on its debt.* Two ways of expressing such a view would be through a 30yr spread widener (and to a lesser degree 10s30s UST flattener), which would react if the US long-term rating were affirmed because the US is fixing its fiscal house. As Figure 1 shows, the relationship between the 5yr US CDS and 30yr swap spreads indicates that at least some potential credit risk is being built into that part of the Treasury curve. As that risk ameliorates, bonds should rally relative to the rest of the curve and the CDS should tighten as the risk of default recedes from already low levels. An expression for the front-end of the curve would be to position for a flattening in bills as SFP bills are re-issued and the very low front-end rates resolve higher (see [link](#) page 6 for money market views for 3Q). As seen in Figure 2, the historical size of the bill universe as a percent of total debt highlights the recent diminished size of securities at the front -end of the curve. A resumption of SFP bills should push this to 19% vs the recent level of 17%, as collateral re-enters the system (and with the Fed taking out less paper via QE-lite MBS reinvestments) this increase in issuance should alleviate some of the specialness and recent negative yields in T-bills, though they would still be on the low side by historical standards.

b. **Negative CreditWatch?** Turning back to rating agency views, the worst outcome from a rating actions perspective would be for the US to be put on CreditWatch negative. Given that this would be the first time for the US, it could lead to a sharp but short-lived sell-off in USTs as investors have sold Treasuries in the past when ratings announcements or rating agency warnings made headlines. On June 2, 10yr yields sold off 5bp on Moody's announcement, which was then almost entirely recovered within a few days as European concerns took center stage. To be clear, we do not think the rating agencies would downgrade the US at this juncture if they were to judge that not enough progress (by their standards) had been made in fixing the US fiscal situation. However, according to a recent article, S&P estimated a downgrade of US debt to AA would hit the 10yr and 30yr points by about 23.2bp, depending on market conditions. We believe this size of move may be in the right "ballpark" but that it may not persist, especially if such a change results in a "level" shock to borrowing rates around the world. Furthermore, as witnessed with the Japanese experience, in the long run, rates actually transitioning back to being driven by economic fundamentals. Rating agency downgrades of Japanese government bonds have not resulted in higher rates. Actually, the opposite has happened over the past 12+ years of downgrades. Thus we cannot assume that any rating agency action against US credit would result in higher rates.

Kicking the can: As with the "longer-term deal" scenario, this simply means that a larger increase may be enacted soon and that the eventual increase will include a more sustainable path for US debt. Ratings agencies are likely to withhold judgment till the more "final" resolution of the event in a few months. If the final agreement is not considered sustainable, we think rating agencies are likely to take negative action against the US more quickly which could imply a short-term sell-off in rates. Given this scenario is a stop-gap measure (so that a "longer-term solution" is enacted) depending on how it is relayed, we assume the bond market would also wait to pass judgment until a complete plan is put in place. However, if the temporary extension is pursued because there is no sign that the two sides are close to a comprehensive plan, the bond market might send a "shot across the bows" of markets with higher rates and risk markets potentially repeating their performance of October 2008 when the first TARP was not passed.

Cliffhanger scenario: In this scenario, rating agencies have made clear that a default may place the US straight into a "selective default" category with Treasury bills potentially being downgraded to "D" and other Treasury securities being downgraded less severely. We consider this to be a very unlikely scenario, partly because of the severe consequences of such an inability to agree. Further, after the initial shock of the downgrade, if there is a prolonged period of government shutdown, the large resulting impact on the US economy may even encourage a rally in USTs. Our recent research on US CDS (see [US CDS – Reflecting on the Debt Limit](#)) delves further into this scenario, focusing on exactly what it would take to trigger a CDS credit event and the potential responses in the markets. We also look at possible ways to trade such a default, including moving to slightly longer-dated bills which would be unaffected by the delay but likely boosted in the short run as the Treasury would choose to cut bill issuance first. We believe that the Treasury's cash would run out slightly later than its August 2 deadline, but that its ability to prioritize payments and the uncertainty of intervening revenues to Treasury could make the date of any eventual default nearly impossible to predict.

Positive for Treasuries: Overall, we continue to believe that our base case of a sizable increase along with significant spending cuts is the most likely outcome and that such a scenario would be positive for Treasuries as a sign the US is fixing its fiscal house. Bonds could also rally in the short-run from the likely short-term drag of shrinking Federal spending, but the longer-term improvement in debt issuance and greater fiscal responsibility should alleviate some of the fundamental concerns voiced by Treasury bears.

Disclosure Appendix A1

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8 July 2011 | 11 pages

US Rates Special Topic

Debt Ceiling Outcomes and Market Impact

- We see a \$1trn debt-ceiling increase with equal deficit cuts as the most likely outcome with negligible market impact. A \$2trn deal could see a modest 10-20bp rally in 10y rates.
- In our opinion, the probability of not reaching a deal is not negligible. If the Treasury responds by prioritizing spending, this could lead to a growth shock, and a 40-50bp rally in 10y rates over a 2-3 month period.
- We expect a missed coupon would attract ratings down-grades, and a 40-50bp selloff led by the front-end. Depending on the size and duration of the ratings cut, money market funds could see the most impact, followed by issues for bank Basel II & III capital levels. Funding markets would also come under stress with increased haircuts.
- A \$4trn deal is the last likely outcome, in our opinion, but we could see a 45bp rally in the 10y sector if it happens.

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*With thanks to*Eric Cho

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Debt Ceiling Outcomes and Market Impact

As we move into the dog days of summer, the debt-ceiling is upper most in the market's mind, if the market has a mind. We thought it is useful to layout what the possibilities are and what the potential market impact is for each of them.

The four players in the process are the Democrats led by the President, the Republicans led by Boehner, the rating agencies, and the market. The Fed plays a peripheral role, except that its own behavior may be affected by the outcome of the negotiations. In the ensuing discussion, we will not offer numerical probabilities of particular outcomes, but discuss how the different players will likely react to various outcomes.

The budget deficit and the debt ceiling are not automatically related – the relationship is relevant only because the house Republicans have made it so.

Likely Outcomes

The following outcomes are possible:

- a) The debt ceiling is raised¹ by \$1-\$2trn, and deficits are cut by an equal amount by August 2nd

Obama has spoken against a small \$1-\$2trn deal this week. His incentives are to achieve as large a deficit cutting deal as he can without compromising his core principles, and not having to negotiate again in front of the elections next year. On the other hand, Republicans do not have an incentive to cede any ground.

A \$1trn deal appears to be the most likely option. Even if small compromises are made on either side, they will be made with the expectation that the next larger portion of the deal will be made on better terms. Unfortunately, at a monthly run rate of \$107bn, a \$1trn deal would last less than a year, and new negotiations will happen with an unchanged composition in congress. A \$2trn deal would get past the election, but is harder to do as the ideological differences are likely no less constraining than for a \$4trn deal.

- b) The politicians will not reach an agreement by August 2nd. This outcome has a small but non-negligible likelihood in our expectation, given how far apart the parties are. In this case, one of the following outcomes is possible:
 - i) Expenditure is prioritized and the Treasury reneges on some govt. obligations while still negotiating

The Democrats will appear weak in this case, but this is still a plausible outcome given the weak hand the Democrats hold.

¹ Some political commentators claim that the real deadline is an earlier date such as July 22nd, so as to give time for Congress to pass the deficit cutting bill following all appropriate self-imposed rules. If one took the process surrounding the fiscal 2011 budget deal as guidance, it is likely not critical to pass the bill by July 22nd, and the compromises likely cannot not be made before the last second.

- ii) Both parties will pass a small debt ceiling bill and continue negotiating

The only reason for this possibility to be in the mix is if both parties felt that they were close to a deal, and if only they had a few more days. The Republicans will appear weak in this case, and therefore we believe this is a low probability event. Additionally, based on press accounts, it does not appear that current negotiations are focused on small cuts, but on larger pieces. There will not be sufficient time in the last minute to change gears and find a number of small deficit cuts to make.

- iii) resort to 14th amendment type remedies

The administration invoking the 14th amendment is likely dangerous as it is very provocative, and has the potential to shutoff all negotiation until after the 2012 elections. This option could come only as a last resort after an attempt at prioritizing obligations.

- iv) miss a coupon

Missing coupon payments is a very low likelihood outcome given the unprecedented nature of such an event with political and economic consequences that are hard to foresee. The administration may fear taking a disproportionate amount of the blame, as they face a national election, as opposed to house Republicans that are in more ideologically polarized districts.

- c) The deficit is cut by \$4-\$6trn, but the debt-ceiling is raised by \$2-\$3trn by August 2nd

As both the political parties seek a mandate for their vision of the role of government from the 2012 election, and since agreeing to a \$4trn cut in the deficit reduces the importance of the 2012 election, it has a very low likelihood of coming to pass. A \$2trn deficit cut also faces qualitatively similar difficulties.

The cuts in deficits will come from a mix of discretionary and structural elements. The choices a, b, and c are arranged in decreasing degree of likelihood. Also, within choice b, we see the numbered choices as having progressively lower likelihood.

Possible Market Impact

\$1-\$2trn of debt-ceiling hike / similar sized deficit cuts

Based on conversations with market participants, it appears that the market may be pricing in a small deal in the area of \$1trn of deficit cuts. We agree with this view. Therefore a deal of this size will likely have little market impact, if any, save a reduction in implied volatility. This assumes that there is language and rhetoric of continued efforts to talk about larger cuts.

A \$2trn deal could see a 10-20bp lowering in 10y yields, as we start seeing some meat on the bones. The quality of the deal matters as much as the size of the deal, in terms of how firmly the cuts are locked in. This is less than proportional vs. a \$4trn deal that we discuss in detail below.

No deal is reached by August 2nd

Expenditure is prioritized and negotiations continue

It is unclear if any of the ratings Agencies will jump the gun at this point, or whether they will just place the US debt on negative watch. We will assume that for this discussion, they will cut ratings only on an actual missed coupon. In that case, we believe this will not be a ratings event, but will be massively disruptive for the economy.

The event will likely cause a large negative growth shock. If the Treasury cuts spending and transfer payments to the tune of the monthly budget deficit, we would see a GDP shock of about $107\text{bn}/14\text{trn} = 0.75\%$ every month. If the situation ran for a couple of months, some portion of the lost output will be permanent. If the output loss were 1%, say, we would see a 0.05 shock in our Citigroup growth index (scale of 0 to 1), worth between 15 and 20bp. Second order effects from a drop in equities could easily be another 20bp or more.

Pass a very small debt ceiling increase and continue negotiating

Taken by itself, this should have no market impact. The rhetoric surrounding this outcome, and how expectations are managed will also be important in determining how the market will react to this outcome.

14th amendment type remedies

This outcome refers to the President the 14th amendment to continue spending money and making coupon payments without having reached a deal. Ostensibly, the justification for this approach is that we are in a financial emergency. The market is likely to view the political system as more broken than it had thought heretofore. There would be gridlock in Washington until after the election, with no deal.

The market reaction to this is hard to assess, but we wouldn't be too surprised if the market shrugs off the gridlock, and takes out any modest deficit cuts it currently priced in by moving rates 10-20bp higher in a bear-steepening fashion.

Miss a coupon

This is a biggie. First there would be ratings actions. The three largest credit rating agencies (NRSROs) have opined that they would cut the sovereign rating of the US to between Aa and D if there is a missed coupon. Two of the three agencies have also opined that if there is a down-grade, there may not be an automatic upgrade to the rating soon after – say after the US pays the coupon.

Ratings changes impact rates in four ways – through their impact on a) portfolios with ratings mandates, b) funding markets, c) collateral posted as derivatives margin, and d) if the market accepts the new ratings as legitimate, then rates should be higher appropriately.

Figure 1. Treasury Holdings at end of Q1 2011 in \$bn

Tsy Holdings	Q1 2011
Domestic	
Commercial Banking	302
Money market funds	338
Mutual Funds	300
Pension Funds	505
Foreign	
Foreign Official	3175
Foreign Private	1270

Source: CIRA, Flow of Funds

Portfolios with ratings mandates are affected

There are likely portfolios that hold only AAA assets. In such cases, the investor would mandate the money manager on the kind of assets that the money manager can hold on his behalf. These mandates are not directly visible, but are possible part of the mutual fund and money market fund categories in Figure 1.

Of the holdings in Figure 1, commercial bank, money market, and foreign private holdings should see some stress.

Commercial bank holdings will likely be affected by risk-weight based capital requirements in Basel II and III. Sovereigns rated below AA-, which at least one NRSRO said it will rate the US at on a default, attract a 20% risk weighting on bank balance sheets. Banks that are subject to internal risk models also must recognize the actual default that would have happened at that point to adjust risk weightings. Even if US regulators do not fully enforce compliance on this account, Treasuries held in foreign bank portfolios (captured by the "Foreign Private Holdings" category) will receive stricter treatment from a risk-weighting perspective. Just looking at domestic banks, a 20% risk weight on \$300bn of Treasuries would translate to extra capital of roughly \$5bn. Is this small?

Ratings action could be worth 25bp for Treasuries in bank balance sheets

An alternative way to think of this is to ask what the extra capital is worth in economic cost. On a 100 par bond, a 20% risk weight would need a $20 * 8\% = 1.6$ points of capital. Assuming a desired return on equity of 15%, this translates to roughly 25bp of running cost per year. Therefore banks would need relative yields between Treasuries and other product to move by 25bp before they became indifferent to Treasuries again, other things equal, after a change in risk weighting.

While GSE debt would also get downgraded, the risk-weighting on bank balance sheets for GSE paper is already at 20%, and may not be affected much initially. All these are issues only if the lower ratings persist for several months or several quarters, which two of the ratings agencies have threatened might be the case.

Problem for money market funds

Money market funds are affected through their liquidity requirements. The fact that they hold 338bn at the end of Q1 2011 suggests that this is likely a binding constraint for them. SEC Rule 2a-7(c)(3) requires money market funds to invest most of their portfolio in securities that are rated in the top two categories by an NRSRO. Also, the fund may invest only a limited portion of its portfolio in the second highest rating category. This is a problem with a downgrade. Moreover, if the Treasury is missing coupons, it is not clear if it can redeem Treasury bills either, and this could cause some of the money funds to "break the buck", even if temporarily.

Foreign banks and money market funds could see greater impact from Treasury ratings downgrade than domestic ones

Just as in the case of banks, even if domestic money market funds have some leeway in adhering to the letter of the regulation, the same cannot be said of foreign banks and money market funds that are likely to have similar regulations and some Treasury holdings. Foreign private entities might be forced to sell due to regulatory concerns.

Impact from ratings change is likely to be in the front-end

We suspect that money market funds, and bank holdings of Treasuries are likely to be in the front-end of the curve. The case of money market funds is obvious. Bank portfolios have effective durations inside 3 years. Any selling on this count will therefore be in the front-end of the curve.

Funding markets are affected

Trading accrued interest and funding defaulted securities are problems if Treasury defaults

Many market participants are currently seeking legal guidance on a variety of questions surrounding a potential technical default in the Treasury market. Among the issues of interest are how to deal with accrued interest in trading a security with a missed coupon, and how to fund defaulted securities. We address the second issue below.

Even if funding defaulted securities is encouraged by regulators, haircuts might increase

A 1% increase in haircut could cost about 15bp running

Only some of the costs may be binding for banks

We are cautiously optimistic that Current clearing mechanisms at CCPs may be unaffected by a Treasury default

A persistently lower rating could be worth 25-75bp higher 10y rates in the long term

On the issue of funding, there is some expectation that dealers may get guidance to continue to fund client Treasury portfolios, albeit with an increase in hair cuts. Current repo hair cuts are in the region of 2% for 10y debt. If they increase haircuts to 3 or 4%, this would reduce leverage in the system.

A recent analysis we performed suggested that in 11 of the 18 cases from 2007 to 2011, where the CME changed margins on Treasury futures, open interest subsequently went the opposite way. This suggests that the degree of leverage offered to levered investors is somewhat of a binding constraint on their capital.

The large lenders of funds in the repo markets are money market funds and mutual funds. The large borrowers of funds are commercial banks and broker dealers. If banks need to post an extra 1% in hair cut (or 1 point for a 100 par), in comparison to the 1.60 in capital we discussed above due to risk weighting, this would translate into roughly 15bp of running costs.

Are these separate costs for banks? In other words, if a bank raises extra capital to meet Basel requirements, would they also need extra capital separately to post extra collateral into a repo transaction? We think not. Also, it is unclear if either of these factors is binding for most banks – the likely reason why banks don't load up on zero-risk weight assets to the exclusion of other credit assets is that a total-leverage constraint may be more binding.

Derivative clearing is likely not affected

Currently only a small portion of dealer-to-client derivative transactions are cleared. On the other hand, more than 80% of inter-dealer trades are cleared. To the extent that these trades are mostly offsetting, the likely initial margin that is posted to the clearing houses is small. The CME does take in collateral against futures trades, but still the magnitude of the problem is an order of magnitude smaller than the issues in the repo market. Therefore the effect of a Treasury default on collateral being posted into clearing houses is likely small, and may be confined to margin increases.

What does a ratings downgrade mean longer term?

What is a Sovereign Downgrade Worth? If the market bought into a ratings downgrade as a more permanent situation, and reassessed the credit of the US as a true AA, it is likely worth 25 to 75bp. We offer some evidence in support. We first look at current yields of AAA and AA Sovereigns.

Figure 2. US 10Y yields close to AAA median outright, but not after adjusting for policy rate

AAA Countries	10y Rate	10s vs Policy Rate	AA+ Countries	10y Rate	10s vs Policy Rate
Austria	3.50	2.25	Australia	5.16	0.41
Canada	3.11	2.11	Belgium	4.10	1.35
Denmark	2.98	1.98	Hong Kong	2.27	1.77
Finland	3.34	2.09	New Zealand	5.04	2.54
France	3.41	2.16	Spain	5.45	4.20
Germany	3.03	1.78	AA Countries		
Luxembourg	3.29	2.04	Japan	1.14	0.84
Netherlands	3.23	1.98	Slovenia	4.43	3.18
Norway	3.41	1.16	AA- Countries		
Singapore	2.31	2.13	Italy	4.88	3.63
Sweden	2.90	1.40			
Switzerland	1.73	0.98			
United Kingdom	3.38	2.88			
United States	3.16	3.04			
Average	3.06	2.00	Average	4.06	2.24
Median	3.19	2.07	Median	4.66	2.15
AAA Median vs AA Median	1.46	0.09			
US vs AA Median	1.50	-0.88			

Source: CIRA, CEIC, Fitch; Yields are monthly averages as of June 2011

US 10y yields are roughly around the AAA median, but are about 150bp below a AA² median. The median yield curve for AAA Sovereigns is as steep as it is for AA Sovereigns. Let us provisionally assume 150bp is the outer bound of a yield increase if there is a permanent one-notch downgrade of US debt, and the market accepted that as the correct rating. The US yield curve is about 100bp steeper than a median AAA yield curve. It is possible that some of the extra steepness is the business cycle, but some of it is also likely to be risk premium.

At 207bp, the median slope of the AAA universe is roughly the average of the French and German slopes. The 5y5y³ average breakeven in the US is about 75bp wider than the 5y5y average breakeven in Europe for June. This suggests that structural inflation expectations are about 75bp higher in the US vs. Europe which has a single mandate Central bank that is considered more remote from politics. If that were the case, of the extra 97bp in the "10s vs. policy rate" slope, three-quarters may simply be risk premium. In other words, the US is already trading half-way to a AA rating. Therefore there is probably only another 75bp⁴ to go if the market re-prices fully to a AA rating.

Assuming at least a modest 50bp reserve currency premium would give us the lower bound of 25bp in the 25-75bp range we suggested at the start of this section.

Case Study: What Happened When Japan Was First Downgraded?

Japan was first downgraded from AAA to AA+ in September 1998. Japanese 10y yields rose a 170bp starting a week after the downgrade and ending five months after. Over the same period, US 10y Treasury yields increased by 125bp, but from a much higher rate level, while Bund yields increased by 40bp. This is was the aftermath of LTCM and the Russian crisis. Taking annual averages, one can see that German, Japanese, and US yields declined by roughly similar amounts from 1998 to 1999.

One may be tempted to argue that the market has already priced in a downgrade in Japan. That wouldn't be true either, given that Japanese yields have declined more steadily than US yields have since at least 1990. All that means is that the market has its own views on what a particular security is worth, and ratings do not matter in the abstract.

There is a \$4trn deficit cut and a \$2trn debt-ceiling increase

First, we expect the cuts to be back loaded starting 2014 or beyond, there should be no near-term negative Keynesian effects on growth. We will not wade into the politics of whether this is a longer term negative or positive for growth. If one had an answer to this question, one would have a corresponding view on risk assets, and therefore Treasury yields, from a growth / business cycle perspective.

Second, let us consider what will happen to term premium. The Japanese example is a good starting point again. Why have yields in Japan stayed low despite a very large debt overhang? Popular explanations center around the fact that most Japanese debt is domestically held. The implication drawn is that investors have a domestic bias, and therefore accept lower yields than what international investors would. This is not a satisfactory explanation as Japanese real yields are meaningfully higher than US real yields at least over the past year.

² We will use AA to mean AA+/AA/AA-.

³ We use Inflation swaps for both the 5y5y forward numbers to keep them consistent. In the US, cash breakevens are roughly 10bp tighter than the same breakevens estimated from inflation swaps, for reference.

⁴ The difference between US and European 5y5y breakevens for the 3.5year pre-crisis period for which we have data are about 60bp.

Ratings do not matter in the abstract

Figure 3. Post downgrade, Japanese yields have moved no differently than other high-grade sovereign yields

	Change from 1998 to 1999
Germany	-7
Japan	26
US	39

Source: Citi Investment Research and Analysis

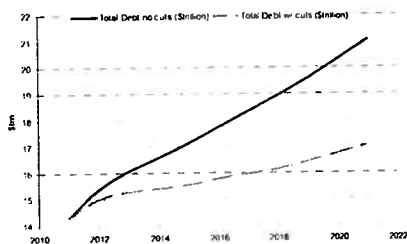
Likely no near-term growth effects

A better explanation is that given the large domestic investor base in Japanese debt the political power of the investor base incents the Sovereign not to inflate the debt away. There is an excellent study by Reinhart and Rogoff⁵ that documents this phenomenon across multiple countries. They show that Sovereign defaults on domestic debt – either *de jure* or *de facto* (inflation) are less frequent than defaults on external debt as domestic debt holders are also important political stakeholders. The demographics are also important – an aging population wants smaller inflation, and often has the political power to make it happen, even if they are not debt-holders.

The current political process in Washington is a manifestation of this dynamic. Also, the pressure to inflate will subside if the political process reduces nominal obligations such as public pensions, social security benefits and other entitlements. That being given, the rational response of external (and internal) debt-holders is to free-ride the benefits from the domestic kerfuffle. One needs to ask the question “in what sense does long-maturity US debt become riskier in the event of a technical default that will soon be rectified”? The answer is hard to come by. We see no cause to sell long-dated Treasury paper on account of a technical default.

How much is a \$1trn reduction in deficit for term premium? Not much really, as we discussed above. If we got all the \$4trn reduction, it would suggest a roughly 20% reduction in debt to GDP at the end of a 10 year period.

Figure 4. A \$4trn deficit cut is a commitment to reduce debt to GDP by 20% in 10 years



Source: CIRA, CBO; Assumes 400bn cut each year vs CBO baseline

This is a commitment to take a 20% cumulative inflation off the table over a 30y period⁶ – or a compound 60bp a year. To the extent that there are credibility issues, and that a \$1trn is likely already priced in, the impact on 10-year yields should be lower than the full 60bp. Our zero-bound model for 10-year rates has a coefficient of 0.76 on current inflation. We wouldn't be surprised to see a 10y rates lower by $60 \times 0.75 = 45\text{bp}$ on a \$4trn deal. A \$2trn should see a less than proportionate effect as we probably have \$1trn already priced in.

Conclusion

There is a large likelihood of a small \$1trn deal and a very small likelihood of a large \$4trn deal. A \$4trn deal is likely worth about 45bp lower in rates in 10y Treasuries. A \$1trn deal is probably worth nothing for Treasury yields in either direction.

A two month cut in government spending on no deal by early August is worth at least 30-40bp lower in 10-year rates.

A coupon cut and a ratings downgrade is worth potentially 40-50bp higher front-end rates, and only a modest impact on longer rates, as the market will likely not buy into the story that US credit is impaired over the long term.

⁵ “The Forgotten History of Domestic Debt”, Reinhart & Rogoff, Revised September 21, 2010.

⁶ We are using the 1950s through 70s example as a template as to what is acceptable for a timeframe to inflate away a large amount of debt.

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ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

City Of Fairbanks



MEMORANDUM

To: City Council Members
From: Jerry Cleworth, City Mayor *JC*
Subj: Bed Tax Discretionary Committee
Date: November 14, 2011

Ms. Carol Newcomer's appointment to the Bed Tax Committee has expired on July 31 of 2011. Ms. Newcomer wishes to continue on this commission, and I hereby request your concurrence:

I request your concurrence to the re-appointment of Ms. Carol Newcomer for a three-year term:

Ms. Newcomer – re-appointment only. Term to expire: July 31, 2014.

Thank you.

ABC/