

State of Alaska FY2006 Governor's Operating Budget

Department of Revenue Treasury Division Component Budget Summary

Component: Treasury Division

Contribution to Department's Mission

The mission of the Treasury Division is to manage the state's funds consistent with prudent investment guidelines and Governmental Accounting Standards Board (GASB) rules.

Core Services

Manage the investments of state funds under the fiduciary responsibility of the Commissioner of Revenue, or as requested by other fiduciaries:

- General Fund
- International Airports Revenue Fund
- International Airports Construction Funds
- Constitutional Budget Reserve Fund
- Student Loan Bond Funds
- Alaska Children's Trust
- Exxon Valdez Oil Spill Trust Fund
- Power Cost Equalization Endowment Fund
- Public School Trust Fund
- Retiree Health Insurance Fund
- University of Alaska Trust Fund

Provide cash management and investment advice and services to all state agencies.

Provide capital financing advice and services to state agencies upon request.

Provide staff to the Alaska State Pension Investment Board, the State Bond Committee and the Alaska Municipal Bond Bank Authority.

Collect unclaimed property held by financial institutions and others, and reunite that property with its rightful owner.

End Results	Strategies to Achieve Results
<p>A: Improve the risk adjusted return of funds under the stewardship of the Treasury Division by continually improving investment returns.</p> <p><u>Target #1:</u> For the funds under the fiduciary responsibility of the Commissioner of Revenue, exceed the applicable 1-year target returns.</p> <p><u>Measure #1:</u> Actual returns compared with target returns reported by consultant or the custodian bank.</p>	<p>A1: Portfolio Investment Officer staff is continually upgraded in experience and education.</p> <p><u>Target #1:</u> Increase average longevity of the investment officers to 5 years.</p> <p><u>Measure #1:</u> The average longevity of investment officers. (Include the Chief Investment Officer and the 5 public market and 3 private market staff reporting to the Chief Investment Officer.)</p> <p><u>Target #2:</u> At least 4 investment staff will have their Chartered Financial Analyst (CFA) designation.</p> <p><u>Measure #2:</u> Number of investment staff with Chartered Financial Analyst designation.</p>
End Results	Strategies to Achieve Results
<p>B: Users receive accurate financial information on a timely basis.</p>	<p>B1: Maximize efficiency through effective use of automation.</p>

<p><u>Target #1:</u> Unaudited financial data will be available by the 4th business day of the month 100% of the time. <u>Measure #1:</u> Percent of the time in a year that unaudited financial data is available by the 4th business day (out of 12 months).</p> <p><u>Target #2:</u> Ad hoc queries (from outside the section) for historical or other accounting data are responded to within 24 hours 95% of the time. <u>Measure #2:</u> Number of times queries are responded to within 24 hours divided by the number of queries.</p>	<p><u>Target #1:</u> Increase the number of fund financial statements that are produced via fully automated downloads from the custodian to 50%. <u>Measure #1:</u> Number of fund financials that are prepared via fully automated download versus total funds reported on.</p> <p><u>Target #2:</u> Increase the number of pools that are reconciled via automated processes to 50%. <u>Measure #2:</u> Number of pools reconciled automatically divided by number of pools in total.</p>
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End Results	Strategies to Achieve Results
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<p>C: Unclaimed property owners in Alaska will be united with their property.</p> <p><u>Target #1:</u> Process 15% more claims each year. <u>Measure #1:</u> Number of claims processed each year as compared to prior year.</p>	<p>C1: Place primary focus on location of most recently reported properties.</p> <p><u>Target #1:</u> Treasury will initiate search of at least 50 owners per month. <u>Measure #1:</u> Number of owner searches performed per year (600).</p> <p><u>Target #2:</u> Use Permanent Fund Dividend database match against Unclaimed Property database match to find social security numbers of 200 additional owners. <u>Measure #2:</u> Number of owners in Unclaimed Property database that the division is able to obtain social security numbers for.</p>
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End Results	Strategies to Achieve Results
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<p>D: Optimize use of cash resources</p> <p><u>Target #1:</u> On a daily basis, 95% of state funds will be available for investment or for state expenditures or to earn banking credits. <u>Measure #1:</u> State funds available each day for investment or for state expenditures or to earn banking credits.</p>	<p>D1: Maximize use of General Funds.</p> <p><u>Target #1:</u> Average balance of funds held in suspense (unallocated) is \$54 million or less. <u>Measure #1:</u> Average suspense for the year.</p>
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End Results	Strategies to Achieve Results
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<p>E: Credit markets continually increase what they will pay for state debt.</p> <p><u>Target #1:</u> Yields at which the State issues debt will not exceed 30 bp of the applicable benchmark. <u>Measure #1:</u> Percent of times bonds are issued at no more than 30 basis points over benchmark. The benchmark shall be the Municipal Market Date rate for comparable debt as reported by the Bond Buyer.</p>	<p>E1: Documents updating statewide fiscal and economic events sent to Moody's, other credit rating agencies, overall market for public finance.</p> <p><u>Target #1:</u> Document template prepared which can be easily updated and sent or presented to ratings agencies at least four times per year. <u>Measure #1:</u> Number of times document is updated and mailed each year.</p>
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Major Activities to Advance Strategies	
<ul style="list-style-type: none"> • Hold quarterly meetings with Commissioner and the investment staff. • Define roles of potential new asset class managers 	<ul style="list-style-type: none"> • Educate businesses to flag inactivity early and to find owners prior to statutory report date. • Poll banks to receive daily data.

Major Activities to Advance Strategies

- and perform adequate due diligence.
- Financially support meeting CFA designation targets and ongoing education requirements of the investment officers.
- Have programmer work with external custodian to automate download of accounting data.
- Have accounting staff develop macro-driven spreadsheets that can take auto-downloaded data and compile the financial reports with no intervention.
- Work with Bloomberg and custodian to automate reconciliation process.
- Educate public on avoiding having property become unclaimed.
- Use ResourceIQ to process all bank data; develop complex Excel macros to facilitate data transfer.
- Inform state agencies of cash control needs and techniques.
- Define state fund intercept authority and moral obligation for credit markets and credit rating agencies.
- Staff State Bond Committee.
- Work with all Alaska public debt issuers to defend state credit rating.

FY2006 Resources Allocated to Achieve Results

FY2006 Component Budget: \$4,581,800

Personnel:

Full time	36
Part time	0
Total	36

Performance Measure Detail

A: Result - Improve the risk adjusted return of funds under the stewardship of the Treasury Division by continually improving investment returns.

Target #1: For the funds under the fiduciary responsibility of the Commissioner of Revenue, exceed the applicable 1-year target returns.

Measure #1: Actual returns compared with target returns reported by consultant or the custodian bank.

See table in Analysis section.

Year	Quarter 1	Quarter 2	Quarter 3	Quarter 4	YTD
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Analysis of results and challenges: 1 YEAR RETURN DATA FOR FUNDS MANAGED BY THE TREASURY DIVISION:

General Fund and Other Non-segregated Investment Funds

FY2002 Actual 4.63% Target 5.75%

FY2003 Actual 4.82% Target 4.96%

FY2004 Actual 0.92% Target 0.55%

Alaska Children's Trust

FY2002 Actual -3.64% Target -3.37%

FY2003 Actual 8.10% Target 6.62%

FY2004 Actual 8.65% Target 8.29%

Public School Trust

FY2002 Actual -3.13% Target -3.37%

FY2003 Actual 6.87% Target 6.62%

FY2004 Actual 9.04% Target 8.29%

International Airports Revenue Fund
 FY2002 Actual 5.55% Target 6.92%
 FY2003 Actual 6.03% Target 5.60%
 FY2004 Actual 0.65% Target 0.23%

Constitutional Budget Reserve Fund - Main Account
 FY2002 Actual 6.11% Target 7.02%
 FY2003 Actual 7.29% Target 6.85%
 FY2004 Actual 0.82% Target 0.33%

Constitutional Budget Reserve Fund - Sub Account
 FY2002 Actual -5.61% Target -5.31%
 FY2003 Actual 5.02% Target 4.05%
 FY2004 Actual 12.13% Target 13.13%

Retirement Health Insurance Fund - Longterm Care Account
 FY2002 Actual -6.30% Target -6.69%
 FY2003 Actual 4.22% Target 3.29%
 FY2004 Actual 13.43% Target 15.33%

Retirement Health Insurance Fund - Major Medical
 FY2002 Actual 6.14% Target 6.54%
 FY2003 Actual 6.92% Target 6.47%
 FY2004 Actual 0.95% Target 0.48%

Power Cost Equalization Fund
 FY2002 not available
 FY2003 Actual 3.88% Target 4.05%
 FY2004 Actual 12.90% Target 14.58%

Returns for FY2005 will depend on market conditions and cannot be estimated.

A1: Strategy - Portfolio Investment Officer staff is continually upgraded in experience and education.

Target #1: Increase average longevity of the investment officers to 5 years.

Measure #1: The average longevity of investment officers. (Include the Chief Investment Officer and the 5 public market and 3 private market staff reporting to the Chief Investment Officer.)

Average Longevity of Investment Staff

Year	YTD
2002	N/A
2003	N/A
2004	2.6 years
2005	Target: 3.1 years

Target #2: At least 4 investment staff will have their Chartered Financial Analyst (CFA) designation.

Measure #2: Number of investment staff with Chartered Financial Analyst designation.

Number of Staff Holding CFA Designation

Year	YTD
2002	3
2003	3
2004	3
2005	Target: 3
2006	Target: 3
2007	Target: 5

Analysis of results and challenges: The CFA designation takes a minimum of three years to obtain. Currently, two staff have passed Level I. Assuming no staff turnover, these two could complete Level II in early FY2006 and Level III in early FY2007.

B: Result - Users receive accurate financial information on a timely basis.

Target #1: Unaudited financial data will be available by the 4th business day of the month 100% of the time.

Measure #1: Percent of the time in a year that unaudited financial data is available by the 4th business day (out of 12 months).

Percent of months in the fiscal year that financial data is available by 4th business day

Year	YTD
2002	100%
2003	100%
2004	100%
2005	Target: 100%

Analysis of results and challenges: The Division has worked diligently to shorten the time that month-end financial data is available for management and other users.

Target #2: Ad hoc queries (from outside the section) for historical or other accounting data are responded to within 24 hours 95% of the time.

Measure #2: Number of times queries are responded to within 24 hours divided by the number of queries.

Analysis of results and challenges: The division has not tracked this statistic in the past. We began a logging process July 1, 2004, and will be able to begin reporting statistics the first quarter of FY2005.

B1: Strategy - Maximize efficiency through effective use of automation.

Target #1: Increase the number of fund financial statements that are produced via fully automated downloads from the custodian to 50%.

Measure #1: Number of fund financials that are prepared via fully automated download versus total funds reported on.

Percent of funds with fully automated download and creation of monthly financial reports

Year	YTD
2002	0
2003	0
2004	0
2005	Target: 75%

Analysis of results and challenges: The Division currently downloads all financial data from the custodian monthly and then manually creates the financial reports. We are working with the custodian to fully automate the entire process. The first set is in beta testing. Once this testing is complete we expect a rapid roll out of the rest of the funds.

Target #2: Increase the number of pools that are reconciled via automated processes to 50%.

Measure #2: Number of pools reconciled automatically divided by number of pools in total.

Percent of Pools Reconciled Electronically

Year	YTD
2002	0
2003	0
2004	0
2005	Target: 50%

C: Result - Unclaimed property owners in Alaska will be united with their property.

Target #1: Process 15% more claims each year.

Measure #1: Number of claims processed each year as compared to prior year.

Property claims processed per year

Year	YTD
2002	2,265
2003	2,706
2004	1,780
2005	Target: 3,100

Analysis of results and challenges: Claims filed can fluctuate significantly due to factors beyond our control. A primary example would be if a national television show broadcast a special on unclaimed property and the viewers' awareness increases. The Oprah Winfrey show, in fact, did such a broadcast last year which led to a sharp increase in hits on our web site. The division's goal is to increase claims by 15% due to our efforts to search out more owners.

C1: Strategy - Place primary focus on location of most recently reported properties.

Target #1: Treasury will initiate search of at least 50 owners per month.

Measure #1: Number of owner searches performed per year (600).

Number of owner searches initiated by staff

Year	YTD
2002	N/A
2003	N/A
2004	300
2005	Target: 600

Analysis of results and challenges: The division currently responds to claims requests from owners. The division will initiate a program where each month staff will select 50 properties from the division's database of over 80,000 and use on-line tools to search for the location of the owners. Initially, the selection will give preference to higher dollar value properties where currently there is a name and social security number on file. This endeavor will be attempted without additional staff, therefore the division will need to carefully watch that existing claims processing does not deteriorate.

Target #2: Use Permanent Fund Dividend database match against Unclaimed Property database match to find social security numbers of 200 additional owners.

Measure #2: Number of owners in Unclaimed Property database that the division is able to obtain social security numbers for.

Analysis of results and challenges: This project will have a one time benefit. It will be completed by the end of FY2005.

D: Result - Optimize use of cash resources

Target #1: On a daily basis, 95% of state funds will be available for investment or for state expenditures or to earn banking credits.

Measure #1: State funds available each day for investment or for state expenditures or to earn banking credits.

Percent of state funds utilized

Year	YTD
2002	N/A
2003	N/A
2004	95%
2005	Target: 95%

D1: Strategy - Maximize use of General Funds.

Target #1: Average balance of funds held in suspense (unallocated) is \$54 million or less.

Measure #1: Average suspense for the year.

E: Result - Credit markets continually increase what they will pay for state debt.

Target #1: Yields at which the State issues debt will not exceed 30 bp of the applicable benchmark.

Measure #1: Percent of times bonds are issued at no more than 30 basis points over benchmark. The benchmark shall be the Municipal Market Date rate for comparable debt as reported by the Bond Buyer.

Percent of bonds issued at less than 30 bp over benchmark

Year	YTD
2002	100%
2003	100%
2004	100%
2005	Target: 100%

E1: Strategy - Documents updating statewide fiscal and economic events sent to Moody's, other credit rating agencies, overall market for public finance.

Target #1: Document template prepared which can be easily updated and sent or presented to ratings agencies at least four times per year.

Measure #1: Number of times document is updated and mailed each year.

Key Component Challenges

- Key issues for cash management relate to Alaska's geographical dispersion of population and the difficulty of access to communities, which, because it makes traditional paper-based transactions problematic, puts a premium on technologies that do not rely on traditional forms of transportation. Accordingly, Treasury is involved in the development of cutting-edge technology for cash management, which requires effort and time to reach the desired goal.
- Primary key issues for portfolio management include managing investments risk in the current low interest rate environment.
- Key debt issues include maintenance of the State's credit ratings with Standard and Poor's, Fitch Ratings, and Moody's Investors Service. Regular communication of state current events to the rating analysts as well as ensuring analysts' concerns are relayed to the state's leadership are key to meeting this challenge.

Significant Changes in Results to be Delivered in FY2006

- The Treasury Division will expand its compliance function to include more in-depth review of external investment managers.
- The Unclaimed Property section expects to implement an on-line claims reporting system and subsequently increase the number of claims processed annually.
- Increase number of Alaskan holder's of property reporting to the Unclaimed Property section.

Major Component Accomplishments in 2004

- All fixed income funds internally managed by the Treasury Division exceeded their benchmarks for the year ended June 30, 2004.
- Implemented statewide ACH origination system.
- Negotiated new warrant clearing contract.
- Streamlined internal processes to allow for the elimination of an entire position in Cash Management.

Statutory and Regulatory Authority

AS 14.25.180
 AS 14.40.400
 AS 14.40.803-805
 AS 18.26
 AS 18.56.110
 AS 37.05.200
 AS 37.10
 AS 37.10.050
 AS 37.10.060
 AS 37.10.070-.075
 AS 37.12
 AS 37.15
 AS 39.30.155
 AS 39.35.080
 AS 43.05.150
 AS 43.05.170
 AS 43.05.180
 AS 44.25.020

Contact Information

Contact: Susan Taylor, Director, Administrative Services
Phone: (907) 465-2312
Fax: (907) 465-1685
E-mail: susan_taylor@revenue.state.ak.us

**Treasury Division
Component Financial Summary**

All dollars shown in thousands

	FY2004 Actuals	FY2005 Management Plan	FY2006 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	2,670.2	3,083.8	3,299.6
72000 Travel	14.9	23.6	23.6
73000 Services	934.2	925.5	1,226.0
74000 Commodities	20.6	17.5	17.5
75000 Capital Outlay	4.8	15.1	15.1
77000 Grants, Benefits	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	3,644.7	4,065.5	4,581.8
Funding Sources:			
1001 Constitutional Budget Reserve Fund	109.1	125.0	222.9
1004 General Fund Receipts	1,095.3	1,133.9	1,205.5
1005 General Fund/Program Receipts	101.4	131.4	178.3
1007 Inter-Agency Receipts	1,978.9	2,015.5	2,185.4
1027 International Airport Revenue Fund	38.9	67.8	71.4
1046 Student Revolving Loan Fund	27.5	48.8	88.2
1053 Investment Loss Trust Fund	22.7	0.0	0.0
1066 Public School Fund	72.1	187.7	206.0
1094 Mental Health Trust Administration	0.0	0.0	15.0
1098 Children's Trust Earnings	42.3	34.7	35.4
1142 Retiree Health Ins Fund/Major Medical	23.6	64.0	76.4
1143 Retiree Health Ins Fund/Long-Term Care Fund	36.9	70.6	92.6
1169 PCE Endowment Fund	96.0	165.1	192.7
1192 Mine Reclamation Trust Fund	0.0	21.0	12.0
Funding Totals	3,644.7	4,065.5	4,581.8

Estimated Revenue Collections

Description	Master Revenue Account	FY2004 Actuals	FY2005 Management Plan	FY2006 Governor
Unrestricted Revenues				
None.		0.0	0.0	0.0
Unrestricted Total		0.0	0.0	0.0
Restricted Revenues				
Interagency Receipts	51015	1,978.9	2,015.5	2,185.4
General Fund Program Receipts	51060	101.4	131.4	178.3
Restricted Total		2,080.3	2,146.9	2,363.7
Total Estimated Revenues		2,080.3	2,146.9	2,363.7

**Summary of Component Budget Changes
From FY2005 Management Plan to FY2006 Governor**

All dollars shown in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2005 Management Plan	1,265.3	0.0	2,800.2	4,065.5
Adjustments which will continue current level of service:				
-FY 05 Bargaining Unit Contract Terms: GGU	1.8	0.0	8.2	10.0
-Reverse CBRF Investment Management Sec61(f) Ch159 SLA2004 P116 L29 (SB283)	0.0	0.0	-125.0	-125.0
-FY06 Cost Increases for Bargaining Units and Non-Covered Employees	8.7	0.0	41.9	50.6
-Adjustments for Personal Services Working Reserve Rates and SBS	0.0	0.0	1.6	1.6
Proposed budget decreases:				
-2nd Year Fiscal Note Mine Reclamation Trust Ch137 SLA2004 (HB486) (Ch158 SLA2004 Sec2 P39 L21)	0.0	0.0	-9.0	-9.0
-2nd Year Fiscal Note Unclaimed Property Reporting Time Ch90 SLA2004 (SB231) (Ch158 SLA2004 Sec2 P41 L5)	-30.0	0.0	0.0	-30.0
Proposed budget increases:				
-Monitor investment compliance	43.0	0.0	69.6	112.6
-Development and maintenance costs for Unclaimed Property system	75.0	0.0	0.0	75.0
-Increased investment management costs due to increased market values	0.0	0.0	127.6	127.6
-Move investment officers' salaries closer to market	20.0	0.0	60.0	80.0
-CBRF Investment Management Fee	0.0	0.0	222.9	222.9
FY2006 Governor	1,383.8	0.0	3,198.0	4,581.8

**Treasury Division
Personal Services Information**

Authorized Positions		Personal Services Costs		
<u>FY2005</u>				
<u>Management</u>	<u>Plan</u>	<u>FY2006</u>	<u>Governor</u>	
Full-time	35	36	Annual Salaries	2,411,744
Part-time	0	0	COLA	13,642
Nonpermanent	1	0	Premium Pay	0
			Annual Benefits	1,065,951
			<i>Less 2.04% Vacancy Factor</i>	(71,237)
			Lump Sum Premium Pay	0
Totals	36	36	Total Personal Services	3,420,100

Position Classification Summary

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Accountant III	0	0	3	0	3
Accountant IV	0	0	1	0	1
Accounting Clerk II	0	0	2	0	2
Accounting Tech I	0	0	1	0	1
Accounting Tech II	0	0	1	0	1
Accounting Tech III	0	0	2	0	2
Administrative Assistant	0	0	1	0	1
Administrative Clerk III	0	0	1	0	1
Administrative Manager III	0	0	1	0	1
Analyst/Programmer V	0	0	1	0	1
Assistant Investment Officer	0	0	4	0	4
Asst State Comptroller	0	0	1	0	1
Dep Commissioner	0	0	1	0	1
Micro/Network Spec I	0	0	1	0	1
Operations Res Anl I	0	0	1	0	1
Project Coord	0	0	1	0	1
Secretary	0	0	1	0	1
SIO Compliance Officer	0	0	1	0	1
State Investment Officer II	0	0	6	0	6
State Investment Officer III	0	0	4	0	4
State Investment Officer IV	0	0	1	0	1
Totals	0	0	36	0	36