

State of Alaska FY2007 Governor's Operating Budget

**Dept of Commerce, Community, & Economic Development
Banking and Securities
RDU/Component Budget Summary**

RDU/Component: Banking and Securities

(There is only one component in this RDU. To reduce duplicate information, we did not print a separate RDU section.)

Contribution to Department's Mission

Protect consumers of financial services, maintain a safe and sound state financial system, and promote fisheries-related economic development in Western Alaska.

Core Services

1. Register securities and license and examine those who sell securities.
2. Charter and examine state financial institutions.
3. Allocate Bering Sea and Aleutian Island fish quotas.
4. Require accurate disclosure of election materials from Alaska Native Claims Settlement Act corporations (ANCSA).

End Results	Strategies to Achieve Results
<p>A: Protect Alaska investors.</p> <p><u>Target #1:</u> All regulated broker-dealers and investment advisors are in substantial compliance with the Alaska Securities Act.</p> <p><u>Measure #1:</u> Number of enforcement actions and administrative orders taken against regulated firms.</p>	<p>A1: Examine broker-dealers and investment advisors.</p> <p><u>Target #1:</u> 100 percent of broker-dealers and investment advisors are examined within a two-year period.</p> <p><u>Measure #1:</u> Percentage examined within two-year period.</p> <p>A2: Educate broker-dealers and investment advisors.</p> <p><u>Target #1:</u> All examinations will include education on regulatory issues and compliance with the Alaska Securities Act.</p> <p><u>Measure #1:</u> Percentage of examinations that include an educational component.</p> <p>A3: Take enforcement action against unregistered persons and unregistered securities.</p> <p><u>Target #1:</u> Identify unregistered broker-dealers and investment advisors, unregistered securities, and fraudulent offerings</p> <p><u>Measure #1:</u> Number of enforcement actions against unregistered entities.</p> <p>A4: Register securities and those who sell securities.</p> <p><u>Target #1:</u> Ensure all registered securities offerings are in compliance.</p> <p><u>Measure #1:</u> Number of comment letters issued.</p> <p><u>Target #2:</u> Ensure all applications to register sellers of</p>

	<p>securities are in compliance. <u>Measure #2:</u> Number of proceedings taken on applications. <u>Target #3:</u> Process all mutual fund notice filings. <u>Measure #3:</u> Number of filings.</p>
End Results	Strategies to Achieve Results
<p>B: Protect Alaska borrowers.</p> <p><u>Target #1:</u> Ensure all violations cited during examinations of financial institutions are resolved. <u>Measure #1:</u> Number of enforcement actions issued due to unresolved violations.</p>	<p>B1: Take enforcement action against unlicensed financial institutions.</p> <p><u>Target #1:</u> Identify unlicensed financial institutions. <u>Measure #1:</u> Number of enforcement actions taken against unlicensed financial institutions.</p>
End Results	Strategies to Achieve Results
<p>C: Safe and sound state financial institutions.</p> <p><u>Target #1:</u> No state banks in receivership. <u>Measure #1:</u> Number of state banks in receivership.</p>	<p>C1: Examine state financial institutions.</p> <p><u>Target #1:</u> Examine 100 percent of examinations on or before statutory deadlines. <u>Measure #1:</u> Percent of exams completed on time.</p>
End Results	Strategies to Achieve Results
<p>D: Determine harvest amounts of fish (pollock, halibut, cod, crab) to allocate to community development groups in the Bering Sea and Aleutian Islands.</p> <p><u>Target #1:</u> All groups are in compliance with program requirements. <u>Measure #1:</u> Percentage of groups in compliance.</p>	<p>D1: Verify compliance with program requirements.</p> <p><u>Target #1:</u> Review all investments greater than \$100,000. <u>Measure #1:</u> Percentage of investments reviewed.</p>

Major Activities to Advance Strategies
<ul style="list-style-type: none"> • Conduct examinations of licensed financial institutions and financial service businesses and take enforcement action against unlicensed entities. • Investigate complaints against financial institutions and financial services businesses. • Investigate complaints of misleading ANCSA election materials. • Determine harvest amounts of fish to allocate to community development groups in the Bering Sea and the Aleutian Islands.

FY2007 Resources Allocated to Achieve Results							
<p>FY2007 Component Budget: \$2,578,200</p>	<p>Personnel:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Full time</td> <td style="text-align: right;">23</td> </tr> <tr> <td>Part time</td> <td style="text-align: right;">0</td> </tr> <tr> <td>Total</td> <td style="text-align: right; border-top: 1px solid black;">23</td> </tr> </table>	Full time	23	Part time	0	Total	23
Full time	23						
Part time	0						
Total	23						

Performance Measure Detail

A: Result - Protect Alaska investors.

Target #1: All regulated broker-dealers and investment advisors are in substantial compliance with the Alaska Securities Act.

Measure #1: Number of enforcement actions and administrative orders taken against regulated firms.

Number of enforcement actions/administrative orders against regulated firms

Fiscal Year	YTD Total
FY 2005	1

Analysis of results and challenges: Of the 1,293 registered broker dealers, and the 24 registered state investment advisors, only one enforcement action was taken, demonstrating substantial compliance with the Alaska Securities Act.

A1: Strategy - Examine broker-dealers and investment advisors.

Target #1: 100 percent of broker-dealers and investment advisors are examined within a two-year period.

Measure #1: Percentage examined within two-year period.

Percent of examinations conducted over a two-year period.

Fiscal Year	YTD Total
FY 2004	38%
FY 2005	32%

Analysis of results and challenges: For the two-year period FY04-FY05, a total of 70 percent of all broker-dealers and investment advisors domiciled in the state of Alaska were examined. The division did not meet its goal of 100% due to a shortage in staffing.

A2: Strategy - Educate broker-dealers and investment advisors.

Target #1: All examinations will include education on regulatory issues and compliance with the Alaska Securities Act.

Measure #1: Percentage of examinations that include an educational component.

Percent of examinations that include an educational component.

Fiscal Year	YTD Total
FY 2005	100%

Analysis of results and challenges: All examinations conducted included an educational component.

A3: Strategy - Take enforcement action against unregistered persons and unregistered securities.

Target #1: Identify unregistered broker-dealers and investment advisors, unregistered securities, and fraudulent offerings

Measure #1: Number of enforcement actions against unregistered entities.

Number of enforcement actions taken.

Fiscal Year	YTD Total
FY 2005	5

Analysis of results and challenges: 5 unregistered entities were identified and enforcement action was taken in each instance.

A4: Strategy - Register securities and those who sell securities.

Target #1: Ensure all registered securities offerings are in compliance.

Measure #1: Number of comment letters issued.

Comment letters issued.

Fiscal Year	YTD Total
FY 2005	14

Analysis of results and challenges: Of the 59 securities offerings reviewed, 14 comment letters were issued by the division of which 5 securities offerings were not allowed to register, 5 were registered upon modification, and 4 are pending.

Target #2: Ensure all applications to register sellers of securities are in compliance.

Measure #2: Number of proceedings taken on applications.

Proceedings taken.

Fiscal Year	YTD Total
FY 2005	37

Analysis of results and challenges: Of the 1,645 applications reviewed, proceedings were taken against 37 applicants that resulted in 35 not being allowed to register.

Target #3: Process all mutual fund notice filings.

Measure #3: Number of filings.

Mutual fund filings.

Fiscal Year	YTD Total
FY 2005	4,870

Analysis of results and challenges: The division registered 4,870 filings for mutual funds.

B: Result - Protect Alaska borrowers.

Target #1: Ensure all violations cited during examinations of financial institutions are resolved.

Measure #1: Number of enforcement actions issued due to unresolved violations.

Enforcement actions.

Fiscal Year	YTD Total
FY 2005	0

Analysis of results and challenges: No enforcement actions were issued, demonstrating regulated financial institutions are generally willing to resolve any identified violations.

B1: Strategy - Take enforcement action against unlicensed financial institutions.

Target #1: Identify unlicensed financial institutions.

Measure #1: Number of enforcement actions taken against unlicensed financial institutions.

Number of unlicensed financial institutions

Fiscal Year	YTD Total
FY 2005	2

Analysis of results and challenges: Two unlicensed financial institutions were identified and enforcement action was taken in each instance.

C: Result - Safe and sound state financial institutions.

Target #1: No state banks in receivership.

Measure #1: Number of state banks in receivership.

State banks in receivership.

Fiscal Year	YTD Total
FY 2005	0

Analysis of results and challenges: No state banks are in receivership, an indicator of safe and sound state financial institutions.

C1: Strategy - Examine state financial institutions.

Target #1: Examine 100 percent of examinations on or before statutory deadlines.

Measure #1: Percent of exams completed on time.

Exams completed on time.

Fiscal Year	YTD Total
FY 2005	60%

Analysis of results and challenges: On 1/1/2005, the division took on the added responsibility of regulating payday lenders, however the staff to oversee this function was not added until 6/2005.

The division has not met its 100% goal due to the lag in staffing a new position and due to examination scheduling conflicts with our counterpart federal agency.

D: Result - Determine harvest amounts of fish (pollock, halibut, cod, crab) to allocate to community development groups in the Bering Sea and Aleutian Islands.

Target #1: All groups are in compliance with program requirements.

Measure #1: Percentage of groups in compliance.

Percent in compliance.

Year	YTD Total
2005	100%

Analysis of results and challenges: All groups are in compliance with program requirements.

D1: Strategy - Verify compliance with program requirements.

Target #1: Review all investments greater than \$100,000.

Measure #1: Percentage of investments reviewed.

Percentage of investments reviewed.

Fiscal Year	YTD Total
FY 2005	100%

Analysis of results and challenges: All investments over \$100,000 were reviewed.

Key Component Challenges

1. The Federal Deposit Insurance Corporation (FDIC), with whom the division conducts joint bank examinations, is in the process of changing its examination process from an annual visitation to an ongoing, onsite-monitoring program for some banks. We are unsure how this will affect the workload for bank examinations.
2. Effective 7/1/2004, the division assumed responsibility of the Community Development Quota program for Western Alaska. A Blue Ribbon Committee, appointed by Governor Murkowski in May 2005, evaluated all aspects of the program and submitted recommendations in its report dated August 2005. Recommendations may result in significant changes in the division's oversight of this program.

Significant Changes in Results to be Delivered in FY2007

1. Effective 1/1/2005, the division began regulating payday lenders who were previously unregulated. To date we have issued 20 licenses and are in the process of conducting an on-site visitation to each licensee. All payday lenders will be examined at least once every 18 months.
2. The division is working in conjunction with the mortgage lending industry to introduce legislation in FY 2006 to regulate mortgage lenders and brokers who are currently unregulated. If the bill is successful, we anticipate a dramatic increase in workload.
3. The division is in the process of implementing a predatory hotline for Alaskan consumers. The hotline is a 1-800 phone number and will be manned by division staff that will provide referrals services to consumers with questions or complaints about predatory lending practices.

Major Component Accomplishments in 2005

The division reviewed 1,542 agent and investment adviser representative applications and 103 broker-dealer applications. Proceedings were taken against 37 applicants, of which 35 withdrew their application. The division conducted 48 on-site examinations of broker-dealers and investment advisors and 18 on-site examinations of financial institutions.

The division took action that resulted in \$185,900 being returned to investors.

The division collected \$10,000 in fines.

The division identified 7 financial services businesses operating without proper licensing or registration, and took enforcement action in each case.

The division registered 4,870 mutual fund filings.

Statutory and Regulatory Authority

AS 06

Financial Institutions

AS 10.13	Business and Industrial Development Corporation Act
AS 34.55	Land Sales Act
AS 44.33	Community Development Quota
AS 45.55 and AS 45.57	Securities
3 AAC 01, 02, 03, 06, 07&12	Financial Institutions
3 AAC 08	Securities
6 AAC 93	Community Development Quota

Contact Information

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**Banking and Securities
Component Financial Summary**

All dollars shown in thousands

	FY2005 Actuals	FY2006 Management Plan	FY2007 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	0.0	1,652.7	1,933.0
72000 Travel	0.0	89.1	106.8
73000 Services	0.0	235.7	469.0
74000 Commodities	0.0	9.4	9.4
75000 Capital Outlay	0.0	60.0	60.0
77000 Grants, Benefits	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	0.0	2,046.9	2,578.2
Funding Sources:			
1156 Receipt Supported Services	0.0	2,046.9	2,578.2
Funding Totals	0.0	2,046.9	2,578.2

Estimated Revenue Collections

Description	Master Revenue Account	FY2005 Actuals	FY2006 Managemen t Plan	FY2007 Governor
Unrestricted Revenues				
Receipt Supported Services	51073	0.0	6,800.0	6,800.0
Unrestricted Fund	68515	0.0	0.0	0.0
Unrestricted Total		0.0	6,800.0	6,800.0
Restricted Revenues				
Receipt Supported Services	51073	0.0	2,046.9	2,578.2
Restricted Total		0.0	2,046.9	2,578.2
Total Estimated Revenues		0.0	8,846.9	9,378.2

**Summary of Component Budget Changes
From FY2006 Management Plan to FY2007 Governor**

All dollars shown in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2006 Management Plan	0.0	0.0	2,046.9	2,046.9
Adjustments which will continue current level of service:				
-Transfer Community Development Quota (CDQ) Program to Banking and Securities	0.0	0.0	436.1	436.1
-FY 07 Wage Increases for Bargaining Units and Non-Covered Employees	0.0	0.0	30.5	30.5
-FY 07 Health Insurance Cost Increases for Bargaining Units and Non-Covered Employees	0.0	0.0	3.5	3.5
-FY 07 Retirement Systems Cost Increase	0.0	0.0	58.0	58.0
Proposed budget increases:				
-Risk Management Self-Insurance Funding Increase	0.0	0.0	3.2	3.2
FY2007 Governor	0.0	0.0	2,578.2	2,578.2

**Banking and Securities
Personal Services Information**

Authorized Positions		Personal Services Costs		
	<u>FY2006</u> <u>Management</u> <u>Plan</u>	<u>FY2007</u> <u>Governor</u>		
Full-time	21	23	Annual Salaries	1,310,164
Part-time	0	0	COLA	35,146
Nonpermanent	0	0	Premium Pay	0
			Annual Benefits	687,958
			<i>Less 4.93% Vacancy Factor</i>	(100,268)
			Lump Sum Premium Pay	0
Totals	21	23	Total Personal Services	1,933,000

Position Classification Summary

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Administrative Assistant	0	0	1	0	1
Administrative Clerk III	2	0	2	0	4
Business Reg Examiner	0	0	1	0	1
CDQ Manager	0	0	1	0	1
Dev Spec I, Option A	0	0	1	0	1
Dev Spec II, Option A	0	0	1	0	1
Division Director	1	0	0	0	1
Financial Instit Exam I	1	0	0	0	1
Financial Instit Exam II	1	0	1	0	2
Financial Instit Exam III	1	0	0	0	1
Financial Instit Exam IV	0	0	1	0	1
Internal Auditor II	0	0	1	0	1
Investigator III	2	0	0	0	2
Secretary	0	0	1	0	1
Securities Examiner I	1	0	1	0	2
Securities Examiner II	0	0	2	0	2
Totals	9	0	14	0	23