

State of Alaska
FY2007 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, such as:

- 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
- Permanent Fund Dividend Holding Account
- Alaska Mental Health Trust Reserve
- State pension funds
- Mine reclamation funds

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 Retirement Management 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 (includes 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><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>B1: Maximize efficiency through effective use of automation.</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>
End Results	Strategies to Achieve Results
<p>C: Unclaimed property owners in Alaska will be united with their property.</p> <p><u>Target #1:</u> Pay 15% more claims each year. <u>Measure #1:</u> Number of claims paid 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>
End Results	Strategies to Achieve Results
<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>
End Results	Strategies to Achieve Results
<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 basis points 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> Formal visit, bond issue update, or updated document template sent or presented to ratings agencies at least four times per year. <u>Measure #1:</u> Number of times ratings agencies are provided with updates each year.</p>

Major Activities to Advance Strategies

- Define roles of potential new asset class managers 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.
- Educate businesses to flag inactivity early and to find owners prior to statutory report date.
- Poll banks to receive daily data.
- 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 public debt issuers in Alaska to defend state credit rating.

FY2007 Resources Allocated to Achieve Results

FY2007 Component Budget: \$5,392,800

Personnel:

Full time	39
Part time	0
Total	39

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	Actual	Target
------	--------	--------

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%
 FY2005 Actual 2.84% Target 2.42%

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%
 FY2005 Actual 7.58% Target 7.47%

Public School Trust

FY2002 Actual -3.13% Target -3.37%
 FY2003 Actual 6.87% Target 6.62%
 FY2004 Actual 9.04% Target 8.29%
 FY2005 Actual 7.59% Target 7.48%

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%
 FY2005 Actual 3.14% Target 2.60%

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%
 FY2005 Actual 3.80% Target 3.38%

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%
 FY2005 Actual 8.54% Target 8.57%

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%
 FY2005 Actual 8.64% Target 8.71%

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%
 FY2005 Actual 4.41% Target 4.16%

Power Cost Equalization Fund

FY2002 not available
 FY2003 Actual 3.88% Target 4.05%
 FY2004 Actual 12.90% Target 14.58%
 FY2005 Actual 8.78% Target 8.67%

Returns for FY2006 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 (includes 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 Total
2002	N/A
2003	N/A
2004	2.6 years
2005	2.8 years
2006	3.8 years
2007	Target: 4 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

Fiscal Year	# of Staff
FY 2002	3
FY 2003	3
FY 2004	3
FY 2005	4
FY 2006	4
FY 2007	Target: 5

Analysis of results and challenges: The CFA designation takes a minimum of three years to obtain.

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 Total
2002	100%
2003	100%
2004	100%
2005	100%
2006	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.

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 Total
2006	Target: 50%

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. Due to staff turnover, this measure was not met in FY2005 but remains a goal for FY2006.

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 Total
2006	Target: 50%

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

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

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

Property claims paid per year

Fiscal Year	# of Claims
FY 2002	2,265
FY 2003	2,706
FY 2004	1,780
FY 2005	4,061
FY 2006	Target: 4,670

Analysis of results and challenges: Claims filed can fluctuate significantly due to factors beyond our control. Claims initiated through contact with property owners will not always result in a claim being paid in the same fiscal year. Beginning in the 4th quarter of FY2006, the division anticipates providing automated means for filing claims through the division's website, and a "fast-track" method for processing claims less than \$250.00. The division's goal is to increase the number of claims paid by 15% annually as a result of these enhancements.

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

Fiscal Year	# of Searches
FY 2002	N/A
FY 2003	N/A
FY 2004	300
FY 2005	600
FY 2006	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 fourth quarter of FY2006.

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.

State Funds Available

Fiscal Year	Percent of Funds
FY 2003	N/A
FY 2004	95.0%
FY 2005	99.3%
FY 2006	Target: 95%

Analysis of results and challenges: Actual funds available for FY2005 is higher than the target rate of 95% due to rising interest rates, which makes it more worthwhile to spend the time it takes to make smaller amounts available for investment.

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.

Funds Held in Suspense

Fiscal Year	Average Amount
FY 2005	\$60.6 million

Analysis of results and challenges: Funds held in suspense were higher than the target amount during FY2005 because the need to quickly clear funds from suspense was less critical than in previous years. Increasing oil prices during FY2005 provided a higher average general fund balance which was sufficient to cover the state's daily cash needs.

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 basis points 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

Fiscal Year	Percent of Bonds
FY 2002	100%
FY 2003	100%
FY 2004	100%
FY 2005	100%
FY 2006	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: Formal visit, bond issue update, or updated document template sent or presented to ratings agencies at least four times per year.

Measure #1: Number of times ratings agencies are provided with updates each year.

Updates Provided to Ratings Agencies

Fiscal Year	# of Updates
FY 2005	4
FY 2006	Target: 4

Key Component Challenges

- Primary key issues for portfolio management continue to be managing investments risk in the current low interest rate environment.
- In FY2006, Cash Management will issue request for proposals (RFPs) and replacement contracts for collections, depository services and Automated Clearing House (ACH) origination.
- 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 FY2007

- Asset Accounting will automate the financial statement preparation process.
- Cash Management will continue to work with state agencies to automate disbursement and receipt transactions.
- Increase number of Alaskan holders of property reporting to the Unclaimed Property section.

Major Component Accomplishments in 2005

- Five of the six funds managed by the Treasury Division exceeded their benchmarks for the year ended June 30, 2005; 29 of the 33 sub-funds exceeded their benchmarks for this time period.
- Cash Management automated processing for outgoing disbursement transactions and incoming credit card transactions for seven state agencies.
- Used Internet debt auctions to sell state debt. Attracted a number of new investors to bid on state debt. Lower issuance costs and lower true interest costs.

Statutory and Regulatory Authority

AS 14.40.400	University of Alaska, Community Colleges, and Alaska Aerospace Development Corporation - Fund For Money From Sale or Lease of Land Granted By Act of Congress
AS 18.26	Alaska Medical Facility Authority
AS 18.56.110	Alaska Housing Finance Corporation - Bonds and Notes
AS 34.45	Unclaimed Property
AS 37.05.200	Fiscal Procedures Act - Pre-Audit of Receipts
AS 37.10	Public Finance – Public Funds
AS 37.15	Public Finance – Bonding

AS 37.10.220 Duties of the Alaska Retirement Management Board
AS 43.05.150 Administration of Revenue Laws - Collection of Money
AS 43.05.170 Payment of Warrants
AS 43.05.180 Accounting for State Funds
AS 44.25.020 Department of Revenue – Duties of Department

Contact Information

Contact: Jerry Burnett, Director, Administrative Services

Phone: (907) 465-2312

Fax: (907) 465-1685

E-mail: jerry_burnett@revenue.state.ak.us

**Treasury Division
Component Financial Summary**

All dollars shown in thousands

	FY2005 Actuals	FY2006 Management Plan	FY2007 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	3,098.4	3,781.0	4,189.5
72000 Travel	29.4	58.6	23.6
73000 Services	1,094.5	2,558.7	1,147.1
74000 Commodities	62.4	17.5	17.5
75000 Capital Outlay	8.9	15.1	15.1
77000 Grants, Benefits	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	4,293.6	6,430.9	5,392.8
Funding Sources:			
1001 Constitutional Budget Reserve Fund	150.0	167.0	185.4
1004 General Fund Receipts	1,152.6	1,271.2	1,365.0
1005 General Fund/Program Receipts	131.7	186.2	147.2
1007 Inter-Agency Receipts	2,222.3	2,577.8	2,839.9
1009 Revenue Bonds for AHFC	0.0	1,398.6	0.0
1027 International Airport Revenue Fund	68.0	76.7	80.9
1046 Student Revolving Loan Fund	49.0	92.0	95.2
1066 Public School Fund	185.0	219.0	230.2
1094 Mental Health Trust Administration	0.0	15.0	0.0
1098 Children's Trust Earnings	34.7	38.0	40.1
1142 Retiree Health Ins Fund/Major Medical	64.2	81.3	85.5
1143 Retiree Health Ins Fund/Long-Term Care Fund	70.7	95.6	98.2
1169 PCE Endowment Fund	165.4	200.5	207.2
1192 Mine Reclamation Trust Fund	0.0	12.0	18.0
Funding Totals	4,293.6	6,430.9	5,392.8

Estimated Revenue Collections

Description	Master Revenue Account	FY2005 Actuals	FY2006 Management Plan	FY2007 Governor
Unrestricted Revenues				
None.		0.0	0.0	0.0
Unrestricted Total		0.0	0.0	0.0
Restricted Revenues				
Interagency Receipts	51015	2,222.3	2,577.8	2,839.9
General Fund Program Receipts	51060	131.7	186.2	147.2
Restricted Total		2,354.0	2,764.0	2,987.1
Total Estimated Revenues		2,354.0	2,764.0	2,987.1

**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	1,457.4	0.0	4,973.5	6,430.9
Adjustments which will continue current level of service:				
-Eliminate one-time funding for Unclaimed Property WAGERS system Internet module	-45.0	0.0	0.0	-45.0
-Reverse CBRF Investment Management Sec61(c) Ch3 FSSLA2005 P143 L7 (SB46)	0.0	0.0	-167.0	-167.0
-Transfer DOA chargeback funding to components affected by rate increases	7.7	0.0	0.0	7.7
-FY 07 Wage Increases for Bargaining Units and Non-Covered Employees	16.1	0.0	52.5	68.6
-FY 07 Health Insurance Cost Increases for Bargaining Units and Non-Covered Employees	1.8	0.0	4.9	6.7
-FY 07 Retirement Systems Cost Increase	31.5	0.0	104.0	135.5
-FY2007 Wage, Health Insurance, Retirement, and Risk Management Increases for Division of Personnel	0.9	0.0	0.0	0.9
Proposed budget decreases:				
-2nd Year Fiscal Note State Virology Lab Sec 2 CH 4 SLA 2005 P43 L7 (SB73)	-10.0	0.0	0.0	-10.0
-2nd Year Fiscal Note Sport Fish Bonds Sec 2 CH 4 SLA 2005 P43 L32 (SB147)	0.0	0.0	-1,398.6	-1,398.6
-2nd Year Fiscal Note Airport Bonds Sec 2 CH 4 SLA 2005 P44 L3 (SB153)	-5.0	0.0	0.0	-5.0
-Eliminate funding for management of Mental Health Trust funds	0.0	0.0	-15.0	-15.0
Proposed budget increases:				
-3rd Year Fiscal Note Mine Reclamation Trust Ch137 SLA2004 (HB486) (Ch158 SLA2004 Sec2 P39 L21)	0.0	0.0	6.0	6.0
-Investment officer's salaries closer to market - Phase II	54.8	0.0	128.0	182.8
-CBRF Investment Management Fees	0.0	0.0	185.4	185.4
-Risk Management Self-Insurance Funding Increase	2.0	0.0	6.9	8.9

**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>
FY2007 Governor	1,512.2	0.0	3,880.6	5,392.8

**Treasury Division
Personal Services Information**

Authorized Positions		Personal Services Costs		
<u>FY2006</u>				
<u>Management</u>		<u>FY2007</u>		
<u>Plan</u>		<u>Governor</u>		
Full-time	39	39	Annual Salaries	2,968,245
Part-time	0	0	COLA	76,597
Nonpermanent	0	0	Premium Pay	0
			Annual Benefits	1,409,273
			<i>Less 5.94% Vacancy Factor</i>	(264,615)
			Lump Sum Premium Pay	0
Totals	39	39	Total Personal Services	4,189,500

Position Classification Summary

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Accountant III	0	0	4	0	4
Accountant IV	0	0	1	0	1
Accounting Clerk II	0	0	2	0	2
Accounting Tech II	0	0	2	0	2
Accounting Tech III	0	0	3	0	3
Administrative Assistant	0	0	1	0	1
Administrative Clerk III	0	0	1	0	1
Administrative Manager II	0	0	1	0	1
Assistant Investment Officer	0	0	3	0	3
Data Processing Mgr I	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
State Comptroller	0	0	1	0	1
State Investment Officer I	0	0	1	0	1
State Investment Officer II	0	0	8	0	8
State Investment Officer III	0	0	4	0	4
State Investment Officer IV	0	0	1	0	1
Totals	0	0	39	0	39