

State of Alaska FY2009 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.

End Result	Strategies to Achieve End Result
<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 Result	Strategies to Achieve End Result

<p>B: Users receive accurate financial information on a timely basis.</p> <p><u>Target #1:</u> Unaudited financial data will be available online by the 10th 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 online by the 10th business day (out of 12 months).</p>	<p>B1: Maximize efficiency through effective use of automation.</p> <p><u>Target #1:</u> Increase to 75% the number of fund financial statements that are produced using fully automated downloads from the custodian. <u>Measure #1:</u> Percent of fund financial statements that are prepared using fully automated downloads compared to number of funds for which financial statements are prepared.</p> <p><u>Target #2:</u> Increase to 75% the number of pools that are reconciled using automated processes. <u>Measure #2:</u> Percent of pools that are reconciled using automated processes.</p>
<p>End Result</p>	<p>Strategies to Achieve End Result</p>
<p>C: A low cost of State indebtedness.</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>C1: 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>
<p>End Result</p>	<p>Strategies to Achieve End Result</p>
<p>D: Cash management services essential to the operation of state government are timely and accurate.</p> <p><u>Target #1:</u> 100% of all daily cash management services essential to the operation of state government are processed on time with no avoidable errors caused by internal staff or systems. <u>Measure #1:</u> Percentage of all daily cash management services essential to the operation of state government that are processed on time with no avoidable errors caused by internal staff or systems.</p>	<p>D1: Provide sufficient training and cross training of staff in the cash management services essential to the operation of state government.</p> <p><u>Target #1:</u> 100% of staff receive sufficient training so that all cash management services essential to the operation of state government are performed timely and accurately. <u>Measure #1:</u> Percentage of annual cross training plan performed.</p>

<p>Major Activities to Advance Strategies</p>	
<ul style="list-style-type: none"> • Define roles of potential new asset class managers and perform adequate due diligence. • Financially support meeting professional designation targets and ongoing education requirements of the division's professional staff. • 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. 	<ul style="list-style-type: none"> • Poll banks to receive daily data. • 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.

FY2009 Resources Allocated to Achieve Results

FY2009 Component Budget: \$6,164,500	Personnel:	
	Full time	37
	Part time	0
	Total	37

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.

One-year Return Data for Funds Managed by the Treasury Division

Year	Fund	Actual Return	Target Return
FY 2007	Gen Fund/Other Non-segregated F	5.60%	5.28%
FY 2007	AK Children's Trust Fund	17.87%	18.68%
FY 2007	Public School Trust Fund	12.51%	12.06%
FY 2007	Int'l Airports Revenue Fund	5.49%	5.32%
FY 2007	Const Budg Resv Fund-Main Acc	5.74%	5.48%
FY 2007	Const Budg Resv Fund-Sub Acc	15.26%	15.62%
FY 2007	Retirement Hlth Ins Fund-Longter	15.69%	16.74%
FY 2007	Retirement Hlth Ins Fund-Maj Med	8.84%	8.75%
FY 2007	Power Cost Equalization Fund	15.91%	16.26%

FY2007 one-year return data is for the period 7/1/2006 through 6/30/2007.

Analysis of results and challenges: A combination of investments that is expected to produce the highest investment return for a given amount of risk is known as "point on the efficient frontier." Each fiduciary for a fund reviews points on the efficient frontier and selects the combination of investments consistent with their appetite for risk and returns of the fund. This selection is known as the target return.

Target returns assume the earnings of passively managed indexes invested in the same proportions as the assets at the corresponding point on the efficient frontier. A fund will exceed the target rate of return if the amount of money invested matches the asset allocation or are overweighted to higher earning assets at that point on the efficient frontier and the investment managers earn more than their benchmark index. Conversely, returns will be less if the manager underperforms their benchmark or if assets were not allocated to overweight higher performing asset classes.

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	# of Years
FY 2003	N/A
FY 2004	2.6 years
FY 2005	2.8 years
FY 2006	3.8 years
FY 2007	4.6 years

Analysis of results and challenges: A seasoned investment staff contributes to improved investment performance. Over the past four years, investment performance relative to other public pension funds has markedly improved.

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	# of Staff
FY 2002	3
FY 2003	3
FY 2004	3
FY 2005	4
FY 2006	4
FY 2007	5

Analysis of results and challenges: The Chartered Financial Analyst (CFA) designation takes a minimum of three years to obtain. Investment returns have steadily improved, as has the average longevity of the investment staff and their individual progress towards obtaining CFA designations.

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

Target #1: Unaudited financial data will be available online by the 10th business day of the month 100% of the time.

Measure #1: Percent of the time in a year that unaudited financial data is available online by the 10th business day (out of 12 months).

Percent of Months with Financial Data Available by 10th Business Day

Year	% of Months
FY 2002	100%
FY 2003	100%
FY 2004	100%
FY 2005	100%
FY 2006	90%
FY 2007	92%
FY 2008	Forecast: 92%

Analysis of results and challenges: Treasury Asset Accounting works diligently to shorten the time that month-end financial statements are available for management and other users. In order to make it easier for client agencies, board members and the public to access financial information, unaudited financial statements are prepared and posted to the Treasury Division web site. The target completion date for preparing the monthly

information is the tenth business day of the month. This target was not met in FY2007 due to high turnover of accounting staff and delays in the monthly closing processes caused by external third parties. The loss of experienced staff and the natural training period led to delays in preparing and posting the financial statements to the web.

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

Target #1: Increase to 75% the number of fund financial statements that are produced using fully automated downloads from the custodian.

Measure #1: Percent of fund financial statements that are prepared using fully automated downloads compared to number of funds for which financial statements are prepared.

Percent of Funds with Electronically Prepared Financial Statements

Year	% of Funds
FY 2006	0%
FY 2007	50%
FY 2008	Forecast: 75%

Analysis of results and challenges: The Division currently downloads 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.

Target #2: Increase to 75% the number of pools that are reconciled using automated processes.

Measure #2: Percent of pools that are reconciled using automated processes.

Percent of Pools Reconciled Electronically

Year	% of Pools
FY 2006	0%
FY 2007	50%
FY 2008	Forecast: 75%

Analysis of results and challenges: The Treasury Division works much like a mutual fund by pooling assets to achieve lower fees and more access to investment options. The division invests over \$9 billion of domestic fixed income investments internally and has over 20 external investment managers working to maximize investment returns for the given risk profiles for each fund fiduciary (board, commissioner or client agency). The division currently downloads financial data from the custodian each month and then manually creates the financial reports. We are working with the custodian to fully automate the entire process.

C: Result - A low cost of State indebtedness.

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

Year	Percent of Bonds
FY 2003	100%
FY 2004	100%
FY 2005	100%
FY 2006	100%
FY 2007	100%
FY 2008	Forecast: 100%

C1: 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

Year	# of Updates
FY 2006	5
FY 2007	4
FY 2008	Forecast: 4

D: Result - Cash management services essential to the operation of state government are timely and accurate.

Target #1: 100% of all daily cash management services essential to the operation of state government are processed on time with no avoidable errors caused by internal staff or systems.

Measure #1: Percentage of all daily cash management services essential to the operation of state government that are processed on time with no avoidable errors caused by internal staff or systems.

Essential Cash Management Services

Year	Service	Timely	Accurate
FY 2007	Determine cash requirements	97%	100%
FY 2007	Cash flow forecasting	98%	100%
FY 2007	Electronic payment initiation	100%	100%
FY 2007	Cash reconciliation	100%	100%
FY 2007	Recording bank activity	100%	100%
FY 2007	Drawdown fed funds	100%	100%
FY 2006	Interfund transfers	98%	100%
FY 2007	Record GF balance	93%	100%
FY 2007	Bank deposits	100%	100%
FY 2007	International payments	93%	100%

Analysis of results and challenges: Over the past few years, Cash Management has experienced an increase in workload volume and complexity due to implementing new systems and processes, increases in fraud attempts, and increased demands from state agencies. As a result, there is less time to work on the most essential tasks, which in turn has a detrimental effect on Cash Management's ability to perform work accurately. In addition, Cash Management has not been able to complete cross-training of all section staff to the degree necessary to ensure all mission-critical duties that must be performed each business day are executed without fail.

D1: Strategy - Provide sufficient training and cross training of staff in the cash management services essential to the operation of state government.

Target #1: 100% of staff receive sufficient training so that all cash management services essential to the operation of state government are performed timely and accurately.

Measure #1: Percentage of annual cross training plan performed.

Cross Training Completed

Year	Percentage
FY 2006	76%
FY 2007	77%
FY 2008	Forecast: 100%

This is a new measure for FY2006

Analysis of results and challenges: Over the past few years, Cash Management has experienced an increase in workload volume and complexity due to implementing new systems and processes, increases in fraud attempts, and increased demands from state agencies. As a result, Cash Management has not been able to complete cross-training of all section staff. This remains a goal for FY2008.

Key Component Challenges

- Primary key issues for portfolio management continue to be managing investment risk in the current low interest rate environment.
- In FY2008, Cash Management will issue request for proposals (RFPs) and replacement contracts for collections and Automated Clearing House (ACH) origination.
- Key debt issues include maintenance of the State of Alaska'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 FY2009

- Asset Accounting's efforts to further automate the financial statement preparation process will result in financial statements for all funds and trusts published on-line within ten business days after the end of each month.
- Cash Management will continue to work with state agencies to automate disbursement and receipt transactions. Two state agencies, Division of Motor Vehicles in the Department of Administration, and the e-Leasing enterprise in DOT/PF are scheduled to have receipt transactions automated by the end of FY2008. Additional state agencies are scheduled to automate transactions in FY2009.

Major Component Accomplishments in 2007

- All of the six funds managed by the Treasury Division exceeded their benchmarks for the year ended June 30, 2007; 28 of the 36 sub-funds exceeded their benchmarks for this time period.
- Cash Management implemented positive pay, the nation's leading internal control process for eliminating check fraud.
- Cash Management awarded a replacement contract for statewide depository services.

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 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

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**Treasury Division
Component Financial Summary**

All dollars shown in thousands

	FY2007 Actuals	FY2008 Management Plan	FY2009 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	3,929.2	4,208.3	4,601.0
72000 Travel	41.1	22.1	34.2
73000 Services	1,113.6	1,203.0	1,484.2
74000 Commodities	70.6	17.5	30.0
75000 Capital Outlay	2.3	15.1	15.1
77000 Grants, Benefits	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	5,156.8	5,466.0	6,164.5
Funding Sources:			
1001 Constitutional Budget Reserve Fund	117.8	245.7	245.7
1004 General Fund Receipts	1,292.8	1,395.8	1,541.2
1007 Inter-Agency Receipts	3,137.4	2,962.6	3,230.9
1027 International Airport Revenue Fund	80.9	81.0	82.3
1046 Student Revolving Loan Fund	66.0	95.3	96.3
1066 Public School Fund	140.5	230.4	233.2
1098 Children's Trust Earnings	33.4	40.1	40.7
1108 Statutory Designated Program Receipts	0.0	0.0	250.0
1142 Retiree Health Ins Fund/Major Medical	85.5	85.6	111.9
1143 Retiree Health Ins Fund/Long-Term Care Fund	59.7	98.2	99.0
1169 PCE Endowment Fund	142.8	207.3	209.3
1192 Mine Reclamation Trust Fund	0.0	24.0	24.0
Funding Totals	5,156.8	5,466.0	6,164.5

Estimated Revenue Collections

Description	Master Revenue Account	FY2007 Actuals	FY2008 Management Plan	FY2009 Governor
Unrestricted Revenues				
None.		0.0	0.0	0.0
Unrestricted Total		0.0	0.0	0.0
Restricted Revenues				
Interagency Receipts	51015	3,137.4	2,962.6	3,230.9
Mine Reclamation Trust Fund	51211	0.0	24.0	24.0
Restricted Total		3,137.4	2,986.6	3,254.9
Total Estimated Revenues		3,137.4	2,986.6	3,254.9

**Summary of Component Budget Changes
From FY2008 Management Plan to FY2009 Governor**

All dollars shown in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2008 Management Plan	1,395.8	0.0	4,070.2	5,466.0
Adjustments which will continue current level of service:				
-FY 09 Health Insurance Increases for Exempt Employees	1.2	0.0	2.7	3.9
-FY 09 Bargaining Unit Contract Terms: General Government Unit	18.2	0.0	41.4	59.6
Proposed budget increases:				
-Increase In-house Investment Management	126.0	0.0	234.0	360.0
-Increased Investment Management Cost for Retiree Health Insurance Major Medical Fund	0.0	0.0	25.0	25.0
-Bring Retained Fees for State Bond Committee Financial Advisor Services On-Budget	0.0	0.0	250.0	250.0
FY2009 Governor	1,541.2	0.0	4,623.3	6,164.5

**Treasury Division
Personal Services Information**

Authorized Positions		Personal Services Costs		
<u>FY2008</u>				
<u>Management</u>	<u>Plan</u>	<u>FY2009</u>	<u>Governor</u>	
Full-time	35	37	Annual Salaries	3,239,194
Part-time	0	0	COLA	56,597
Nonpermanent	0	0	Premium Pay	8,232
			Annual Benefits	1,426,470
			<i>Less 2.74% Vacancy Factor</i>	(129,493)
			Lump Sum Premium Pay	0
Totals	35	37	Total Personal Services	4,601,000

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 Tech II	0	0	1	0	1
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 III	0	0	1	0	1
Assistant Investment Officer	0	0	4	0	4
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
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	9	0	9
State Investment Officer III	0	0	4	0	4
State Investment Officer IV	0	0	1	0	1
Totals	0	0	37	0	37