

State of Alaska FY2002 Governor's Operating Budget

Department of Revenue
Treasury Management
Component

Component: Treasury Management

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Component Mission

The mission of the Treasury Division is to manage the state's funds.

Component Services Provided

1. 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 Bond Funds
 - Constitutional Budget Reserve Fund
 - Student Loan Bond Funds
 - Children's Trust
 - Advanced College Education Tuition Fund
 - Public School Trust Fund
 - Retiree Health Insurance Fund
 - University of Alaska Trust Fund
2. Provide cash management and investment advice and services to all State agencies.
3. Provided capital financing advice and services to State agencies.
4. Provide staff to the Alaska State Pension Investment Board, the State Bond Committee and the Alaska Municipal Bond Bank Authority.

Component Goals and Strategies

1. Maximize the rate of return on investment portfolios consistent with statutes and fiduciary standards without incurring undue risks.
 - Manage the funds in accordance with the stated asset allocation objectives and constraints.
 - Meet or exceed established investment benchmarks over the appropriate time horizon.
 - Minimize uninvested cash through the automation of the collection and deposit of State receipts.
 - Increase use of technology to make processes more efficient.
2. Accurately and efficiently monitor, collect, and disburse cash receipts.
 - Implement new technology for tracking receipts and disbursements.
 - Assist State agencies with their conversion to electronic remittances of revenues and related information.
 - Automate collection of retirement contributions, unemployment insurance, workers compensation payments, oil and gas, and court systems payments via Automated Clearing House (ACH).
 - Work with agencies to clear treasury receipts within 15 days to reduce CBRF borrowing for cash flow.
3. Issue and manage State debt at minimum costs to the State.
 - Issue debt for capital financing and pursue refinancing opportunities to reduce interest costs when feasible.
 - Keep rating agencies informed about Alaska in order to maintain the State's bond rating.
 - Implement master lease program to allow tax-exempt financing of smaller purchases that are currently financed at taxable rates or purchased.
4. Safeguard and monitor the invested assets of the State.

- Issue accurate and timely financial reports.
- Monitor compliance with established internal controls and policies.

Key Component Issues for FY2001 – 2002

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. A key issue for portfolio management includes implementation of a securities lending program. In addition, the increasing volatility of the financial markets will be a big concern in the coming year. A key issue for the State comptroller will be implementation of a holder compliance program for unclaimed property.

Major Component Accomplishments for FY2000

- All funds met or exceeded their one-year benchmark rates of return except for the two endowment funds (Children's Trust and Public School Trust) and the Retiree Health Insurance Fund Long-term Care Fund (RHIF/LTC). The endowment funds' under performance was specifically related to the performance of the broad market fixed income portfolio. This portfolio was focused on producing high current income for the benefit of the Trusts' beneficiaries. While producing high current income, the portfolio had a lower total return than its benchmark.

The under performance of the RHIF/LTC fund was due to the way Treasury structured the implementation of a new asset allocation that included international equities. Treasury changed the benchmark to include full allocation to international equities at the beginning of the year. But the investment of the fund into this market was actually staggered over several quarters to dollar cost average. Not being fully invested for the same period as the benchmark has resulted in a lower overall performance relative to the benchmark. The fund is now fully invested according to its long-term asset allocation.

- Issued \$25 million in additional Airport construction bonds and a \$60 million Certificate of Participation with the Municipality of Anchorage for the Anchorage Jail.

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

Key Performance Measures for FY2002

Measure: Investment returns against performance benchmarks.
(Developed jointly with Legislature in FY2000.)

Current Status:

Annual returns for the most recent fiscal year are provided below. Five-year benchmark returns are being compiled and will be available for FY2001 comparisons.

Fund // FY 2000 Actual Return // FY2000 Benchmark Return

General Fund and Other Non-segregated Investments // 5.29% // 4.82%
 CBRF // 5.02% // 4.43%
 Alaska Children's Trust // 6.41% // 6.93%
 Public School Trust Fund // 6.43% // 6.93%
 International Airports Revenue Fund // 5.17% // 4.75%
 International Airports 1999A/B Construction Funds // 5.02-5.3% // 4.81%
 RHIF/Major Medical Fund // 4.42% // 4.81%
 RHIF/Long-term Care Fund // 5.79% // 9.22%

Benchmark:

The benchmark return for each fund depends upon its asset allocation, that is, the mix of different asset classes that Treasury has invested it in. Each fund's individual benchmark return (as reported above) is calculated by weighting the percent of any asset class they hold by the appropriate asset class benchmark below.

For the Short-term Fixed Income Investment Pool - 3 month US Treasury Bill
 For the Intermediate-term Fixed Income Investment Pool - Merrill Lynch 1-5 year Government Index
 For the Long-term Fixed Income Pool - Lehman Brothers Aggregate Index
 For the Domestic Equity Common Trust - Russell 3000 Stock Index
 For the International Equity Common Trust - Morgan Stanley Capital International Europe, Australia and Far East Stock Index (EAFE)

Measure: Administrative costs per dollar of investment.
(Developed jointly with Legislature in FY2000.)

Benchmark:

The Division is in the process of determining if comparable statistics are available from similar entities. We are compiling the data for FY2000 to begin year-to-year trend analysis as well.

Measure: Moody's rating will continue to be AA2.
(Not yet addressed by Legislature.)

Status of FY2001 Performance Measures

	<i>Achieved</i>	<i>On track</i>	<i>Too soon to tell</i>	<i>Not likely to achieve</i>	<i>Needs modification</i>
• Investment returns against performance benchmarks.			X		
• Administrative costs per dollar of investment.			X		
• Moody's rating will continue to be AA2.		X			

Treasury Management
Component Financial Summary

All dollars in thousands

	FY2000 Actuals	FY2001 Authorized	FY2002 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	1,982.9	2,194.9	2,517.6
72000 Travel	45.4	23.6	23.6
73000 Contractual	569.4	906.2	884.8
74000 Supplies	31.6	17.5	17.5
75000 Equipment	146.8	15.1	15.1
76000 Land/Buildings	0.0	0.0	0.0
77000 Grants, Claims	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	2,776.1	3,157.3	3,458.6
Funding Sources:			
1001 Constitutional Budget Reserve Fund	0.0	125.0	125.0
1004 General Fund Receipts	1,070.5	1,104.6	1,086.3
1005 General Fund/Program Receipts	0.0	0.0	226.4
1007 Inter-Agency Receipts	1,514.1	1,541.6	1,583.6
1011 Alaska Advance College Tuition Payment Fund	19.2	28.5	28.5
1027 International Airport Revenue Fund	31.1	31.3	31.6
1046 Student Revolving Loan Fund	22.2	22.2	22.5
1053 Investment Loss Trust Fund	17.3	31.8	17.6
1066 Public School Fund	67.7	154.0	154.6
1089 Power Cost Equalization Fund	0.0	23.0	86.1
1098 Children's Trust Fund Earnings	34.0	42.5	43.2
1142 Retiree Health Ins Fund/Major Medical	0.0	19.7	19.9
1143 Retiree Health Ins Fund/Long-Term Care Fund	0.0	33.1	33.3
Funding Totals	2,776.1	3,157.3	3,458.6

Estimated Revenue Collections

Description	Master Revenue Account	FY2000 Actuals	FY2001 Authorized	FY2001 Cash Estimate	FY2002 Governor	FY2003 Forecast
Unrestricted Revenues						
Unrestricted Fund	68515	0.0	0.0	0.0	1,500.0	1,500.0
Unrestricted Total		0.0	0.0	0.0	1,500.0	1,500.0
Restricted Revenues						
Interagency Receipts	51015	1,514.1	1,541.6	1,541.6	1,583.6	1,583.6
Constitutional Budget Reserve Fund	51020	0.0	125.0	125.0	125.0	125.0
International Airport Revolving Fund	51055	31.1	31.3	31.3	31.6	31.6

Description	Master Revenue Account	FY2000 Actuals	FY2001 Authorized	FY2001 Cash Estimate	FY2002 Governor	FY2003 Forecast
General Fund Program Receipts	51060	0.0	0.0	0.0	226.4	226.4
Student Revolving Loan Fund	51140	22.2	22.2	22.2	22.5	22.5
Public School Fund	51225	67.7	154.0	154.0	154.6	154.6
UA Advance Tuition Fund	51376	19.2	28.5	28.5	28.5	28.5
Investment Loss Trust Fund	51393	17.3	31.8	31.8	17.6	17.6
Power Cost Equalization	51404	0.0	23.0	23.0	86.1	86.1
Children's Trust Fund Earnings	51414	34.0	42.5	42.5	43.2	43.2
Retiree Health Ins Fund/Major Medical	51428	0.0	19.7	19.7	19.9	19.9
Retiree Health Ins Fund/Long-Term Care	51429	0.0	33.1	33.1	33.3	33.3
Restricted Total		1,705.6	2,052.7	2,052.7	2,372.3	2,372.3
Total Estimated Revenues		1,705.6	2,052.7	2,052.7	3,872.3	3,872.3

Treasury Management

Proposed Changes in Levels of Service for FY2002

No anticipated service changes

Summary of Component Budget Changes
From FY2001 Authorized to FY2002 Governor

All dollars in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2001 Authorized	1,261.4	0.0	1,895.9	3,157.3
Adjustments which will continue current level of service:				
-Transfer Unclaimed Property from Tax Division	161.4	0.0	0.0	161.4
-Reverse 1-time funding for Revenue Bond fiscal note HB 281	-50.0	0.0	0.0	-50.0
-Year 2 Labor Costs - Net Change from FY2001	0.8	0.0	-2.1	-1.3
Proposed budget increases:				
-Add new position to audit Unclaimed Property Holders Compliance Program	65.0	0.0	0.0	65.0
-Add new position to Accounting staff for compliance monitoring	16.7	0.0	47.0	63.7
-Fund year 2 of the Power Cost Equalization Fund - HB 446	0.0	0.0	62.5	62.5
FY2002 Governor	1,455.3	0.0	2,003.3	3,458.6

Treasury Management
Personal Services Information

Authorized Positions			Personal Services Costs	
	FY2001 Authorized	FY2002 Governor		
Full-time	29	34	Annual Salaries	1,979,914
Part-time	0	1	COLA	34,890
Nonpermanent	0	0	Premium Pay	0
			Annual Benefits	593,181
			<i>Less 3.62% Vacancy Factor</i>	(94,285)
			Lump Sum Premium Pay	0
Totals	29	35	Total Personal Services	2,513,700

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
Accountant or Auditor	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 II	0	0	1	0	1
Administrative Clerk III	0	0	1	0	1
Analyst/Programmer V	0	0	1	0	1
Aspib Liaison Officer	0	0	1	0	1
Assistant Investment Officer	0	0	1	0	1
Asst State Comptroller	0	0	1	0	1
Dep Commissioner	0	0	1	0	1
Loan/Collection Manager	0	0	1	0	1
Loan/Collection Off II	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	3	0	3
State Investment Officer III	0	0	3	0	3
State Investment Officer IV	0	0	1	0	1
UP Auditor	0	0	1	0	1
Totals	0	0	35	0	35