

State of Alaska FY2005 Governor's Operating Budget

Department of Revenue Treasury Management Component Budget Summary

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Component: Treasury Management

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>(1) Improve the risk adjusted return of funds under the stewardship of the Treasury Division by continually improving investment returns.</p> <p><u>Target:</u> For the funds under the fiduciary responsibility of the Commissioner of Revenue, exceed the applicable 1-year target returns.</p> <p><u>Measure:</u> Actual returns compared with target returns reported by consultant or the custodian bank.</p> <p>(2) Users receive accurate financial information on timely basis.</p> <p><u>Target:</u> Financial statements will be available by the 4th business day of the month 100% of the time.</p> <p><u>Measure:</u> Percent of the time in a year that financial data is available by the 4th business day (out of 12 months).</p> <p><u>Target:</u> Ad hoc queries (from outside the section) for historical or other accounting data are responded to within</p>	<p>(1) Portfolio Investment Officer staff is continually upgraded in experience and education.</p> <p><u>Target:</u> Increase average longevity of the investment officers to 5 years.</p> <p><u>Measure:</u> The average longevity of investment officers. (Include the Chief Investment Officer and the 4 public market and 2 private market staff reporting to the Chief Investment Officer.)</p> <p><u>Target:</u> At least 4 investment staff will have their Certified Financial Analyst (CFA) designation.</p> <p><u>Measure:</u> Number of investment staff with Certified Financial Analyst designation.</p> <p>(2) Maximize efficiency through effective use of automation.</p> <p><u>Target:</u> Increase the number of fund financial statements that are produced via fully automated downloads from the</p>

End Results	Strategies to Achieve Results
<p>24 hours 95% of the time. <u>Measure:</u> Number of times queries are responded to within 24 hours divided by the number of queries.</p> <p>(3) Unclaimed property owners in Alaska will be united with their property.</p> <p><u>Target:</u> Process 15% more claims each year. <u>Measure:</u> Number of claims processed each year as compared to prior year.</p> <p>(4) Optimize use of cash resources</p> <p><u>Target:</u> Minimize cash balances held. <u>Measure:</u> Earnings credit in excess of banking fees are less than three percent of fees (as measured on an annual basis).</p> <p>(5) Credit markets continually increase what they will pay for state debt.</p> <p><u>Target:</u> Rates at which the State issues debt will not exceed 30 bp of the applicable benchmark. <u>Measure:</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>custodian to 50%. <u>Measure:</u> Number of fund financials that are prepared via fully automated download versus total funds reported on.</p> <p><u>Target:</u> Increase the number of pools that are reconciled via automated processes to 50%. <u>Measure:</u> Number of pools reconciled automatically divided by number of pools in total.</p> <p>(3) Place primary focus on location of most recently reported properties.</p> <p><u>Target:</u> Treasury will initiate search of at least 50 owners per month. <u>Measure:</u> Number of owner searches performed per year (600).</p> <p><u>Target:</u> Use Permanent Fund database match against Unclaimed Property database match to find social security numbers of 200 additional owners. <u>Measure:</u> Number of owners in Unclaimed Property database that the division is able to obtain social security numbers for.</p> <p>(4) Ensure banks are accurately billing expenses.</p> <p><u>Target:</u> Review billings by the banks on the analysis report and resolve all issues within 90 days of statement date. <u>Measure:</u> Percent of months in a year that statements are reviewed in 90 days or less.</p> <p>(5) Monitor daily bank balances.</p> <p><u>Target:</u> Perform review and transfer of bank balances daily 99% of the time. <u>Measure:</u> Number of business days in a year that the review is performed daily divided by the number of business days in the year.</p> <p>(6) Documents updating statewide fiscal and economic events sent to Moody's, other credit rating agencies, overall market for public finance.</p> <p><u>Target:</u> Document template prepared which can be easily updated and sent or presented to ratings agencies at least four times per year. <u>Measure:</u> Number of times document is updated and mailed each year.</p>

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"> • Poll banks to receive daily data. • Use ResourceIQ to process all bank data; develop complex Excel macros to facilitate data transfer.

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.
- Educate businesses to flag inactivity early and to find owners prior to statutory report date.
- Centralize draws for federal programs.
- 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.

FY2005 Resources Allocated to Achieve Results

FY2005 Component Budget: \$3,956,200	Personnel:	
	Full time	35
	Part time	0
	Total	35

Performance Measure Detail

(1) Result: Improve the risk adjusted return of funds under the stewardship of the Treasury Division by continually improving investment returns.

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

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

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%

Alaska Children's Trust

FY2002 Actual -3.64% Target -3.37%

FY2003 Actual 8.10% Target 6.62%

Public School Trust

FY2002 Actual -3.13% Target -3.37%

FY2003 Actual 6.87% Target 6.62%

International Airports Revenue Fund

FY2002 Actual 5.55% Target 6.92%

FY2003 Actual 6.03% Target 5.60%

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

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

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

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

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

Returns for FY2004 and FY2005 will depend on market conditions and cannot be estimated.

(2) Result: Users receive accurate financial information on timely basis.

Target: Financial statements will be available by the 4th business day of the month 100% of the time.
Measure: Percent of the time in a year that 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	% of Months				YTD Total
2002	100%				100%
2003	100%				100%
2004	100%				100%
2005	Target: 100%				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: Ad hoc queries (from outside the section) for historical or other accounting data are responded to within 24 hours 95% of the time.

Measure: 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 have begun a process so that we will be able to measure our success for FY2004 and FY2005.

(3) Result: Unclaimed property owners in Alaska will be united with their property.

Target: Process 15% more claims each year.
Measure: Number of claims processed each year as compared to prior year.

Claims processed per year

Year	# of Claims				YTD Total
2002	2,265				2,265
2003	2,706				2,706
2004	2,700				2,700
2005	Target: 3,100				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.

(4) Result: Optimize use of cash resources

Target: Minimize cash balances held.

Measure: Earnings credit in excess of banking fees are less than three percent of fees (as measured on an annual basis).

Percent bank earnings credit excess is of total fees.

Year					YTD Total
2002	0	0	0	0	N/A
2003	0	0	0	0	N/A
2004	0	0	0	0	< 3%
2005	0	0	0	0	< 3%

(5) Result: Credit markets continually increase what they will pay for state debt.

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

Measure: 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 Total
2002	0	0	0	0	100%
2003	0	0	0	0	100%
2004	0	0	0	0	100%
2005	0	0	0	0	100%

(1) Strategy: Portfolio Investment Officer staff is continually upgraded in experience and education.

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

Measure: The average longevity of investment officers. (Include the Chief Investment Officer and the 4 public market and 2 private market staff reporting to the Chief Investment Officer.)

Average longevity of investment staff.

Year					YTD Total
2002	0	0	0	0	N/A
2003	0	0	0	0	30 months
2004	0	0	0	0	37 months
2005	0	0	0	0	49 months

Analysis of results and challenges: As of November 2003 the average longevity is 30 months. If none of the existing staff leave, this average will increase 12 months per year.

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

Measure: Number of investment staff with Certified Financial Analyst designation.

Number of staff holding CFA designation.

Year					YTD Total
2002	0	0	0	0	3
2003	0	0	0	0	3
2004	0	0	0	0	4
2005	0	0	0	0	4

(2) Strategy: Maximize efficiency through effective use of automation.

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

Measure: 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
2002	0	0	0	0	0
2003	0	0	0	0	0
2004	0	0	0	0	25%
2005	0	0	0	0	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.

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

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

Percent of Pools Reconciled Electronically

Year					YTD Total
2002	0	0	0	0	0
2003	0	0	0	0	0
2004	0	0	0	0	25%
2005	0	0	0	0	50%

(3) Strategy: Place primary focus on location of most recently reported properties.

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

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

Number of owner searches initiated by staff.

Year					YTD Total
2002	0	0	0	0	N/A
2003	0	0	0	0	N/A
2004	0	0	0	0	300
2005	0	0	0	0	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: Use Permanent Fund database match against Unclaimed Property database match to find social security

numbers of 200 additional owners.

Measure: 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.

(4) Strategy: Ensure banks are accurately billing expenses.

Target: Review billings by the banks on the analysis report and resolve all issues within 90 days of statement date.

Measure: Percent of months in a year that statements are reviewed in 90 days or less.

Percent of months statements reviewed timely.

Year					YTD Total
2002	0	0	0	0	0%
2003	0	0	0	0	0%
2004	0	0	0	0	50%
2005	0	0	0	0	100%

Analysis of results and challenges: The Division is currently developing an automated process to facilitate the review and reconciliation of the bank analysis statements to contract terms.

(5) Strategy: Monitor daily bank balances.

Target: Perform review and transfer of bank balances daily 99% of the time.

Measure: Number of business days in a year that the review is performed daily divided by the number of business days in the year.

Percent of days that cash balances are reviewed daily.

Year					YTD Total
2002	0	0	0	0	N/A
2003	0	0	0	0	N/A
2004	0	0	0	0	98%
2005	0	0	0	0	99%

Analysis of results and challenges: Our ability to review balances daily is dependent on receipt of data from banks early in the morning each day before transfer cutoffs.

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

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

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

Number of times ratings agency receive information from state.

Year					YTD Total
2002	0	0	0	0	N/A
2003	0	0	0	02	2
2004	0	0	0	0	4
2005	0	0	0	0	4

Analysis of results and challenges: The State prepares information for the ratings agencies whenever a new bond issuance is being planned. We will develop an easily updated template for these presentations. If there are not at least two such presentations required during a year, we will still distribute updated information to the ratings agencies at least twice per 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 the "negative outlook" status given the State by Moody's Investors Service. This status change highlights the importance of regular communication of state current events to the Moody's analysts as well as ensuring Moody's analysts' concerns are relayed to the state's leadership.

Significant Changes in Results to be Delivered in FY2005

No significant changes in results delivered expected in FY2005.

Major Component Accomplishments in 2003

- All funds managed by the Treasury Division exceeded their benchmarks for the year ended June 30, 2003
- Developed and expanded web page to provide additional cash assistance and guidance to State agencies.
- Began first phase of project to implement statewide ACH origination system.
- Issued Request for Proposal(RFP) for warrant clearing contract.
- Increased direct posting of general fund receipts, significantly increasing the general fund balance available for spending.

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

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**Treasury Management
Component Financial Summary**

All dollars shown in thousands

	FY2003 Actuals	FY2004 Authorized	FY2005 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	2,615.4	2,723.5	2,989.5
72000 Travel	25.4	33.6	23.6
73000 Contractual	850.6	914.4	910.5
74000 Supplies	16.5	17.5	17.5
75000 Equipment	127.5	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	3,635.4	3,704.1	3,956.2
Funding Sources:			
1001 Constitutional Budget Reserve Fund	121.4	0.0	125.0
1004 General Fund Receipts	1,136.3	1,095.8	1,131.8
1005 General Fund/Program Receipts	101.4	101.4	101.4
1007 Inter-Agency Receipts	1,928.8	1,843.5	1,992.2
1027 International Airport Revenue Fund	38.6	38.9	67.7
1046 Student Revolving Loan Fund	27.2	27.5	16.5
1053 Investment Loss Trust Fund	22.4	22.7	0.0
1066 Public School Fund	66.2	164.5	187.6
1098 Children's Trust Fund Earnings	37.2	53.0	34.6
1142 Retiree Health Ins Fund/Major Medical	23.4	23.7	63.9
1143 Retiree Health Ins Fund/Long-Term Care Fund	36.8	37.1	70.5
1163 Certificates of Participation	0.0	200.0	0.0
1169 PCE Endowment Fund	95.7	96.0	165.0
Funding Totals	3,635.4	3,704.1	3,956.2

Estimated Revenue Collections

Description	Master Revenue Account	FY2003 Actuals	FY2004 Authorized	FY2005 Governor
Unrestricted Revenues				
None.		0.0	0.0	0.0
Unrestricted Total		0.0	0.0	0.0
Restricted Revenues				
Interagency Receipts	51015	1,928.8	1,843.5	1,992.2
General Fund Program Receipts	51060	101.4	101.4	101.4
Restricted Total		2,030.2	1,944.9	2,093.6
Total Estimated Revenues		2,030.2	1,944.9	2,093.6

**Summary of Component Budget Changes
From FY2004 Authorized to FY2005 Governor**

All dollars shown in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2004 Authorized	1,197.2	0.0	2,506.9	3,704.1
Adjustments which will continue current level of service:				
-Changes to Retirement and Other Personal Services Rates	0.0	0.0	94.8	94.8
-Delete fiscal note funding for preparing and selling lease finance debt (SB 215)	0.0	0.0	-200.0	-200.0
Proposed budget increases:				
-To reflect increased external custody and manager fees and adjusted costs	0.0	0.0	61.1	61.1
-To bring investment officer salaries closer to market	0.0	0.0	40.0	40.0
-Add equity analyst position and maintain cash management workload	36.0	0.0	95.2	131.2
-CBR Investment Management Fee	125.0	0.0	0.0	125.0
FY2005 Governor	1,358.2	0.0	2,598.0	3,956.2

**Treasury Management
Personal Services Information**

Authorized Positions		Personal Services Costs		
	FY2004 Authorized	FY2005 Governor		
Full-time	33	35	Annual Salaries	2,236,545
Part-time	1	0	Premium Pay	0
Nonpermanent	0	0	Annual Benefits	834,067
			<i>Less 4.60% Vacancy Factor</i>	(141,112)
			Lump Sum Premium Pay	0
Totals	34	35	Total Personal Services	2,929,500

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	2	0	2
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
State Investment Officer II	0	0	5	0	5
State Investment Officer III	0	0	4	0	4
State Investment Officer IV	0	0	1	0	1
Totals	0	0	35	0	35