

**State of Alaska**  
**FY2008 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 Results	Strategies to Achieve Results
<p><b>A: Improve the risk adjusted return of funds under the stewardship of the Treasury Division by continually improving investment returns.</b></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><b>A1: Portfolio Investment Officer staff is continually upgraded in experience and education.</b></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>B: Users receive accurate financial information on a timely basis.</b></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><b>B1: Maximize efficiency through effective use of automation.</b></p> <p><u>Target #1:</u> Increase to 50% 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 50% 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><b>End Results</b></p>	<p><b>Strategies to Achieve Results</b></p>
<p><b>C: Credit markets continually increase what they will pay for state debt.</b></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><b>C1: Documents updating statewide fiscal and economic events sent to Moody's, other credit rating agencies, overall market for public finance.</b></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><b>End Results</b></p>	<p><b>Strategies to Achieve Results</b></p>
<p><b>D: Cash management services essential to the operation of state government are timely and accurate.</b></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><b>D1: Provide sufficient training and cross training of staff in the cash management services essential to the operation of state government.</b></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><b>Major Activities to Advance Strategies</b></p>	
<ul style="list-style-type: none"> <li>• Define roles of potential new asset class managers and perform adequate due diligence.</li> <li>• Financially support meeting CFA designation targets and ongoing education requirements of the investment officers.</li> <li>• Have programmer work with external custodian to automate download of accounting data.</li> <li>• Have accounting staff develop macro-driven spreadsheets that can take auto-downloaded data and compile the financial reports with no intervention.</li> <li>• Work with Bloomberg and custodian to automate reconciliation process.</li> </ul>	<ul style="list-style-type: none"> <li>• Poll banks to receive daily data.</li> <li>• Inform state agencies of cash control needs and techniques.</li> <li>• Define state fund intercept authority and moral obligation for credit markets and credit rating agencies.</li> <li>• Staff State Bond Committee.</li> <li>• Work with all public debt issuers in Alaska to defend state credit rating.</li> </ul>

### FY2008 Resources Allocated to Achieve Results

<b>FY2008 Component Budget: \$6,165,100</b>	<b>Personnel:</b>	
	Full time	35
	Part time	0
	<b>Total</b>	<b>35</b>

### 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

Fiscal Year	Fund	Actual Return	Target Return
FY 2006	Gen Fund/Other Non-segregated F	2.92%	2.38%
FY 2006	AK Children's Trust Fund	3.73%	3.51%
FY 2006	Public School Trust Fund	4.11%	3.62%
FY 2006	Int'l Airports Revenue Fund	2.19%	1.50%
FY 2006	Const Budg Resv Fund-Main Acc	1.98%	1.25%
FY 2006	Const Budg Resv Fund-Sub Acc	8.57%	7.80%
FY 2006	Retirement Hlth Ins Fund-Longter	8.60%	8.91%
FY 2006	Retirement Hlth Ins Fund-Maj Med	1.68%	1.01%
FY 2006	Power Cost Equalization Fund	8.43%	8.38%

*FY2006 one-year return data is for the period 7/1/2005 through 6/30/2006.*

**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 rate of 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 at that point on the efficient frontier and the investment managers earned more than the index. Returns will be less if the manager underperformed 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

Fiscal Year	# of Years
FY 2003	N/A
FY 2004	2.6 years
FY 2005	2.8 years
FY 2006	3.8 years
FY 2007	Forecast: 4 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. During the fiscal year ended June 2006 the PERS/TRS retirement funds ranked in the top 25% of public pension funds.

**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	Forecast: 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. For the period ended September 2006, twenty-nine out of thirty-six (80%) of the internally managed Department of Revenue funds exceeded their target returns.

**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 in the fiscal year that financial data is available by 10th business day**

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

**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 FY2006 due to high turnover of accounting staff. The loss of experienced staff and the natural training period led to a delay in preparing and posting the financial statements to the web.

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

**Target #1:** Increase to 50% 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**

Fiscal Year	% of Funds
FY 2006	0%
FY 2007	Forecast: 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 FY2006 but remains a goal for FY2007.

**Target #2:** Increase to 50% 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**

Fiscal Year	% of Pools
FY 2006	0%
FY 2007	Forecast: 50%

**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 all 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. Due to staff turnover, the measure wasn't met in FY2006 but remains a goal for FY2007.

**C: 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	100%
FY 2007	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**

Fiscal Year	# of Updates
FY 2006	5
FY 2007	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

Fiscal Year	Service	Timely	Accurate
FY 2006	Determine cash requirements	88%	99%
FY 2006	Cash flow forecasting	98%	98%
FY 2006	Electronic payment initiation	100%	99%
FY 2006	Cash reconciliation	99%	99%
FY 2006	Recording bank activity	100%	100%
FY 2006	Drawdown fed funds	98%	100%
FY 2006	Interfund transfers	100%	100%
FY 2006	Record GF balance	100%	100%
FY 2006	Bank deposits	99%	100%
FY 2006	International payments	86%	99%

**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

Fiscal Year	Percentage
FY 2006	76%
FY 2007	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 FY2007.

## Key Component Challenges

- Primary key issues for portfolio management continue to be managing investments risk in the current low interest rate environment.
- In FY2007, 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 FY2008

- 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 10 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.

### Major Component Accomplishments in 2006

- Five of the six funds managed by the Treasury Division exceeded their benchmarks for the year ended June 30, 2006; 29 of the 33 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.
- Sold four series of Alaska International Airport System Revenue Bonds, cumulatively the largest sale in the history of the enterprise.
- Created new revenue bond structure to fund construction of State fish hatcheries. This transaction has been nominated for the Bond Buyer's deal of the year.

### 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

### Contact Information

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**Treasury Division  
Component Financial Summary**

*All dollars shown in thousands*

	FY2006 Actuals	FY2007 Management Plan	FY2008 Governor
<b>Non-Formula Program:</b>			
<b>Component Expenditures:</b>			
71000 Personal Services	3,509.1	4,018.7	4,966.5
72000 Travel	33.6	22.1	22.1
73000 Services	1,290.1	1,142.7	1,143.9
74000 Commodities	42.1	17.5	17.5
75000 Capital Outlay	0.0	15.1	15.1
77000 Grants, Benefits	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
<b>Expenditure Totals</b>	<b>4,874.9</b>	<b>5,216.1</b>	<b>6,165.1</b>
<b>Funding Sources:</b>			
1001 Constitutional Budget Reserve Fund	167.0	185.4	185.4
1004 General Fund Receipts	1,270.1	1,335.5	1,639.4
1005 General Fund/Program Receipts	186.2	0.0	0.0
1007 Inter-Agency Receipts	2,550.0	2,839.9	3,387.7
1027 International Airport Revenue Fund	76.7	80.9	92.7
1046 Student Revolving Loan Fund	91.9	95.2	104.5
1066 Public School Fund	160.6	230.2	256.2
1094 Mental Health Trust Administration	15.0	0.0	0.0
1098 Children's Trust Earnings	36.7	40.1	45.6
1142 Retiree Health Ins Fund/Major Medical	81.3	85.5	97.7
1143 Retiree Health Ins Fund/Long-Term Care Fund	63.5	98.2	105.7
1169 PCE Endowment Fund	175.9	207.2	226.2
1192 Mine Reclamation Trust Fund	0.0	18.0	24.0
<b>Funding Totals</b>	<b>4,874.9</b>	<b>5,216.1</b>	<b>6,165.1</b>

**Estimated Revenue Collections**

Description	Master Revenue Account	FY2006 Actuals	FY2007 Management Plan	FY2008 Governor
<b>Unrestricted Revenues</b>				
None.		0.0	0.0	0.0
<b>Unrestricted Total</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Restricted Revenues</b>				
Interagency Receipts	51015	2,550.0	2,839.9	3,387.7
General Fund Program Receipts	51060	186.2	0.0	0.0
Mine Reclamation Trust Fund	51211	0.0	18.0	24.0
<b>Restricted Total</b>		<b>2,736.2</b>	<b>2,857.9</b>	<b>3,411.7</b>
<b>Total Estimated Revenues</b>		<b>2,736.2</b>	<b>2,857.9</b>	<b>3,411.7</b>



**Summary of Component Budget Changes  
From FY2007 Management Plan to FY2008 Governor**

*All dollars shown in thousands*

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
<b>FY2007 Management Plan</b>	<b>1,335.5</b>	<b>0.0</b>	<b>3,880.6</b>	<b>5,216.1</b>
<b>Adjustments which will continue current level of service:</b>				
-FY 08 Health Insurance Increases for Exempt Employees	1.1	0.0	2.6	3.7
<b>Proposed budget increases:</b>				
-Move State Investment Officer Salaries to Market	124.5	0.0	231.2	355.7
-4th Year Fiscal Note Mine Reclamation Trust Ch137 SLA2004 (HB486) (Ch158 SLA2004 Sec2 P39 L21)	0.0	0.0	6.0	6.0
-Retirement and Non-covered Employee Health Insurance Increases for Division of Personnel	1.2	0.0	0.0	1.2
-FY 08 Retirement Systems Rate Increases	177.1	0.0	405.3	582.4
<b>FY2008 Governor</b>	<b>1,639.4</b>	<b>0.0</b>	<b>4,525.7</b>	<b>6,165.1</b>

**Treasury Division  
Personal Services Information**

Authorized Positions		Personal Services Costs			
<u>FY2007</u>					
<u>Management</u>	<u>Plan</u>	<u>FY2008</u>	<u>Governor</u>		
				Annual Salaries	3,001,260
Full-time	35	35		Premium Pay	8,577
Part-time	0	0		Annual Benefits	2,010,297
Nonpermanent	0	0		<i>Less 1.07% Vacancy Factor</i>	(53,634)
				Lump Sum Premium Pay	0
<b>Totals</b>	<b>35</b>	<b>35</b>		<b>Total Personal Services</b>	<b>4,966,500</b>

**Position Classification Summary**

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Accountant III	0	0	3	0	3
Accountant IV	0	0	2	0	2
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 IV	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	7	0	7
State Investment Officer III	0	0	4	0	4
State Investment Officer IV	0	0	1	0	1
<b>Totals</b>	<b>0</b>	<b>0</b>	<b>35</b>	<b>0</b>	<b>35</b>