



State of Alaska Department of Revenue Treasury Budget Overview

A Presentation to the Revenue Finance Subcommittee
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Pamela Leary
Director, Treasury Division
Alaska Department of Revenue



Treasury Division

The Treasury provides cash management, investment and portfolio management, debt management, unclaimed property management and accounting services for the state's general fund, constitutional budget reserve fund, retirement funds, and numerous other funds and trusts. The Division provides staff to the Alaska Retirement Management Board and Alaska Municipal Bond Bank Authority.

Treasury Facts & Figures

- 42 current Treasury Division staff. 1 staff to start next month.
- At 12/31/17, managed \$42.2B in assets in 45 separate accounts in a pooled environment:
 - 14 defined benefit funds under the direction of ARMB (\$26.4B).
 - 4 participant directed funds under the direction of ARMB (\$6.2B).
 - 25 funds under the direction of the Commissioner of Revenue (\$9.4B).
 - 2 funds under the direction of other state fiduciaries (\$255M).
- FY07-FY17 assets under management grew 50% from \$27.9B to \$42.0B (peaked July 2014 at \$52.4B).
- Total General Obligation Bonds (GOBs) outstanding at 6/30/17 was \$776.8 M.

Accomplishments in FY2017

- 24 of the 28 non-retirement funds managed by Treasury met or exceeded benchmark returns, including the GeFONSI, and Constitutional Budget Reserve Fund.
- The Public Employee Retirement System (PERS) and Teachers Retirement System (TRS) defined benefit plans' annual, 3-year and 5-year returns exceeded benchmark returns.
- Strong investment capabilities:
 - Longevity of investment staff averages over 8 years, senior staff average 14 years.
 - 8 investment staff held the CFA designation at FYE17.
- At 12/31/17, managed \$16.6B in assets internally (46%) and oversaw more than 100 external investment managers.
- Increased the amount of private equity and absolute return managed in house by 50% since last year.
- Funded 3 new internally invested mandates in FY17.

Accomplishments in FY2017 (cont.)

- Engaged in refinancing approximately \$58.0 million of general fund paid debt related to Goose Creek Correctional Center. Gross savings of \$6.7 million realized upon bonds being issued.
- Managed credit ratings from each of the 3 nationally recognized rating agencies through 7 updates:
 - Rating actions during FY 2017:
 - Moody's Investor's Service downgrade Aa1 to Aa2 July 25, 2016.
 - Rating actions during FY 2018:
 - Moody's Investor's Service downgrade Aa2 to Aa3 July 13, 2017.
 - Standard & Poor's downgrade AA+ to AA July 18, 2017.
 - Fitch Ratings downgrade AA+ to AA November 2, 2017.
 - Fitch Outlook Change upgrade Negative to Stable November 2, 2017.
 - Moody's Investor's Service Outlook change upgrade Negative to Stable December 1, 2017.
- Issued \$3,263,800 of Revenue Bond Anticipation Notes in October 2016 for the Alaska Clean Water and Alaska Drinking Water Fund's annual match requirement.

Accomplishments in FY2017 (cont.)

- The Alaska Municipal Bond Bank saved approximately \$41.2 million for authorized borrowers in FY2017.
 - Issued \$255 million in bonds resulting in \$280.7 million in loans to communities, and a regional health organization
 - \$162.6 million of projects funded (8 new construction projects in 7 communities)
 - \$118.1 million to refinance 19 existing loans
- \$20 million was transferred into the general fund from unclaimed property. Since inception in 1986, a total of \$136 million has been transferred to the State general fund from the Unclaimed Property trust account.
- Implemented the Alaska ABLE Plan in December 2016:
 - Allows people with disabilities to save money for future expenses in a tax deferred 529A account without having to give up benefits.
 - 5,000 potential Alaskans to be served.
 - 94 funded accounts with total assets of \$395,771 at 12/31/17.

Challenges

- Maintenance of State credit ratings. Further downgrades will impact all state and affiliated state debt borrowing costs.
- Lower trending returns.
- Staff retention and hiring.
- Identifying appropriate new asset mandates.
- Unclaimed Property System is aging and no longer efficient.

Overcoming Challenges

- Enhanced recruitment efforts for investment staff
 - Filled Chief Investment Officer position - May 2017.
 - Instituted summer internships program resulting in 1 full time hire.
 - Currently 2 investment positions vacant.
 - National reach has resulted in 3 out-of-state experienced hires.
- Increased internal management of assets:
 - Benefits of adding in house management capacity include:
 - Offsets external management fees, resulting in better returns on assets.
 - Increased staff experience and knowledge.
 - Keeps value in Alaska.
 - Additional capacity for internal management exists.
- Reorganizing investment staff roles to align with vision:
 - Existing staff receive more challenging roles and responsibilities as internal mandates grow.
 - Operations streamlined to achieve efficiencies to manage increase in internal investment management.
 - Cross functional investment teams created to improve net-of-fee risk adjusted performance through the analysis of risk, asset allocation, manager selection, and information flows.
- Assets continued to be diversified to reduce risk:
 - Identify investments that can add value with reduced costs and risks.

Facts & Figures

- FY2017 fees saved by managing assets internally was \$33.7 million.

Internally Managed Assets	Annual Fee Savings
Fixed Income	\$ 20.0 million
Absolute Return	\$ 9.2 million
Public Equity	\$ 2.7 million
Private Equity	\$ 1.2 million
Real Assets	\$ 0.6 million

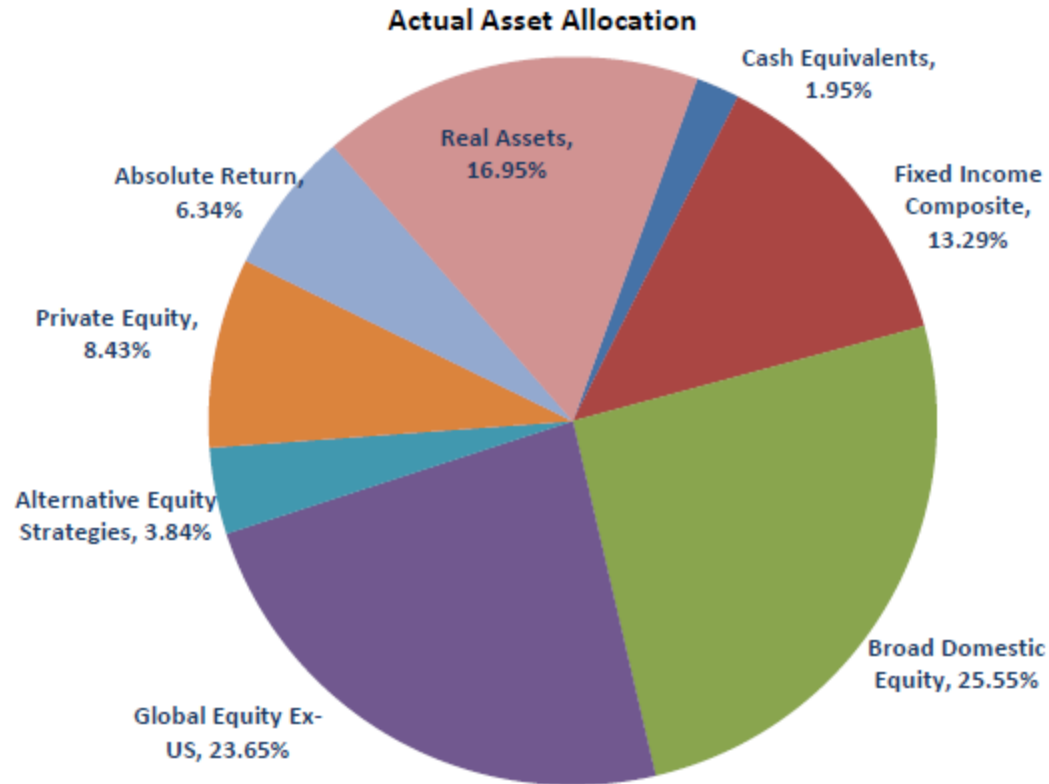
Facts & Figures

➤ Historic ARMB Fees Paid to External Managers

	FY11	FY12	FY13	FY14	FY15	FY16	FY 17
Broad Domestic Equity	\$7,548,569	\$10,043,289	\$11,559,501	\$13,243,266	\$12,654,891	\$11,730,056	\$8,360,480
Global Equity Ex-US	\$11,359,373	\$11,277,262	\$9,808,926	\$12,116,770	\$15,530,547	\$15,872,804	\$22,460,312
Alternative Equity	\$4,002,936	\$3,796,483	\$3,454,480	\$1,512,333	\$3,012,605	\$2,055,605	\$2,162,504
Private Equity	\$5,864,047	\$7,666,847	\$6,653,443	\$7,453,571	\$7,793,757	\$9,328,973	\$11,765,183
Real Assets	\$19,493,765	\$19,100,864	\$23,608,330	\$24,670,853	\$25,175,085	\$27,820,023	\$28,648,117
Absolute Return	\$5,896,206	\$6,056,485	\$5,176,521	\$5,985,676	\$11,487,059	\$23,558,243	\$21,731,258
Fixed Income	\$2,493,906	\$3,335,470	\$3,685,272	\$4,143,522	\$5,010,475	\$5,928,825	\$7,390,994
Total Fees	\$56,658,800	\$61,276,700	\$63,946,474	\$69,125,992	\$80,664,417	\$96,294,529	\$102,518,848
Total Assets at June 30	\$16,394,848,163	\$16,242,119,033	\$18,075,627,714	\$21,171,071,086	\$23,989,926,928	\$23,068,284,972	\$25,122,989,358
Total Fees as a % of Assets	0.35%	0.38%	0.35%	0.33%	0.34%	0.42%	0.41%

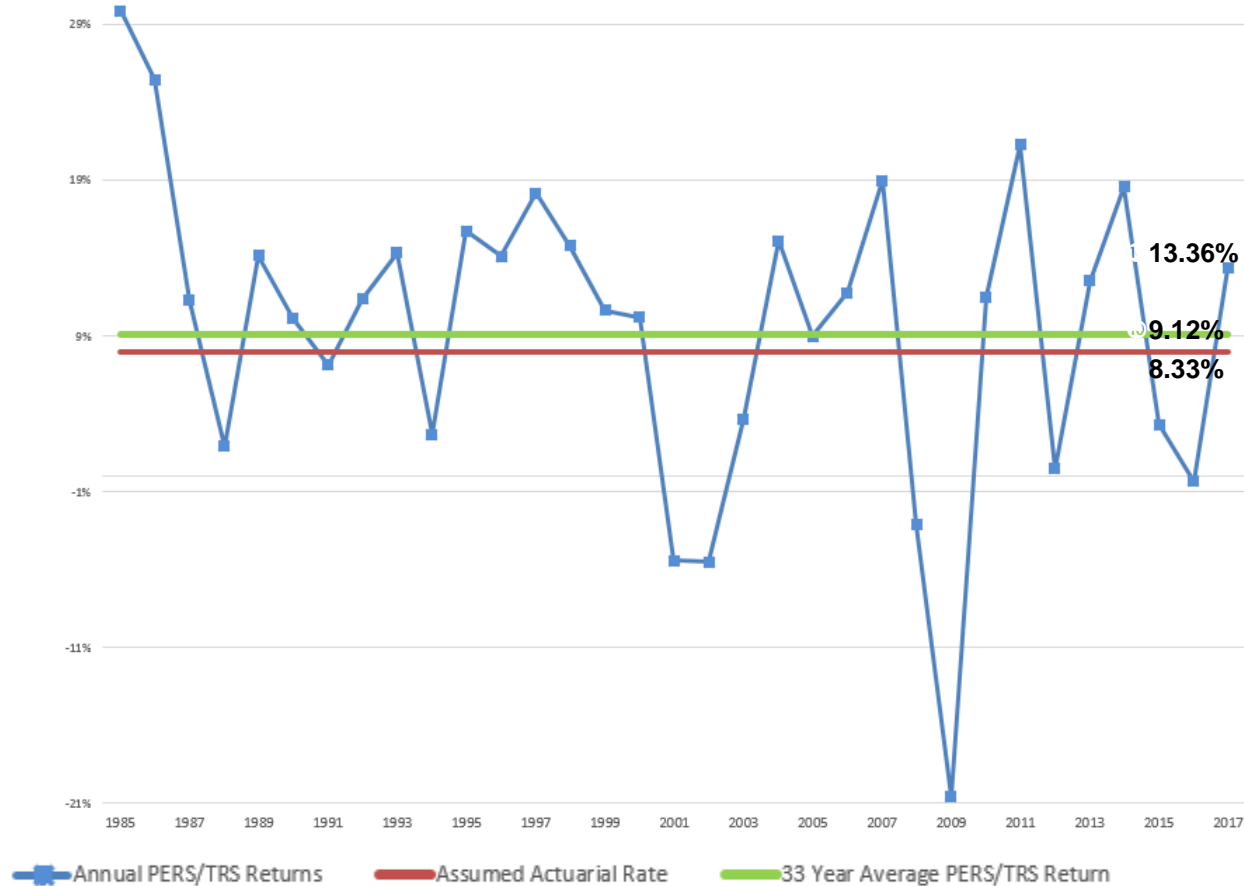
Facts & Figures

➤ June 30, 2017 Defined Benefit Asset Allocation




Facts & Figures

- Although returns have been volatile, the 33 year average PRS/TRS return of 9.12% surpassed the assumed 33 year average actuarial rate of return of 8.33%.



FY19 Budget components

- Treasury component : \$9,957
 - 66% funded from the ARMB component (59% in FY18 and 54% in FY17 due to shift in assets under management between state and retirement funds).
 - FY19 Budget vs. FY18 Management Plan:
 - (\$526.8) reduction in services cost.
 - \$5.1 Increases related to health benefits.
- ARMB component : stable at \$10,032.9
- ARMB Custody and Management component : stable at \$50,000
- AMBBA component : stable at \$1,006.
 - .3 increases related to health benefits.
- Unclaimed Property component : \$ 515.
 - (\$69.5) reduction in one full time staff.



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- Permanent Fund Dividend Division
- Tax Division
- Child Support Services Division
- Criminal Investigations Unit
- Alaska Housing Finance Corporation
- Alaska Mental Health Trust Authority

Welcome to the Treasury Division

The Treasury Division is the bank and trust center for the State of Alaska. Under the direction of Pamela Leary, the Treasury Division provides cash management, investment and portfolio management, debt management and accounting services for the State's General Fund, the Constitutional Budget Reserve Fund, various retirement funds and numerous other funds and trusts.

Our Sections

Unclaimed Property
Provides a search for owners of unclaimed property and holders of abandoned property.

Investments
Provides oversight for all state and retirement investments, establishes and implements policies, and provides administrative and information technology support.

Cash Management
Functions as the cash control center for the State. Collects all revenues, pays all expenditures, and determines the amount of cash available for investment each day for the general and custodial funds.

Debt Management
Together with the State Bond Committee, is responsible for issuing State debt and lease/purchase financing for the State of Alaska.

Announcements

ARMB Nomination Process:
Two Member Seats Up for Appointment on March 1, 2018

The Treasury Division is seeking a Non-Permanent State Investment Officer for the summer of 2018 to join their team:

Non-Permanent State Investment Officer - Summer 2018

**For more information,
please visit our website:
treasury.dor.alaska.gov**

THANK YOU

Please find our contact information below:

Pamela Leary
Director, Treasury Division
Department of Revenue
pam.leary@alaska.gov
(907) 465-3751



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