

Treasury Division/ARMB/AMMBA
Department of Revenue
Presentation to House Finance Subcommittee
February 5, 2013

Mission & Background

The mission of the Treasury Division is to prudently manage and account for the State's funds.

Treasury Division has 47 full time positions organized into six sections – Accounting and Support, Alaska Retirement Management Board, Portfolio Management, Debt Management, Cash Management and Unclaimed Property. Accounting and support is responsible for the safe custody, recording and reconciling of financial information held with our custodial bank – State Street Bank and our state accounting system. Cash management manages the State's day-to-day cash flows and insures there are adequate funds available to honor all warrants drawn by the Department of Administration. Debt management is responsible all the state's general obligation and state-supported debt. Portfolio management develops and implements the State's investment strategies. Unclaimed property is responsible for the collection and return of abandoned property such as bank accounts, uncashed checks, utility deposits and safe deposit box contents. Finally, Treasury Division carries out the instructions of and implements the policies adopted by the Alaska Retirement Management Board. This means that we have investment management and accounting responsibility for the Public Employees' Retirement Trust Fund, Teachers' Retirement Trust Fund, Judicial Retirement Trust Fund, National Guard and Naval Militia Retirement Trust Fund, State Deferred Compensation Plan, State Supplemental Benefits System, Defined Contribution Retirement Fund, Health Reimbursement Arrangement Plan Fund, DCR Retiree Health Fund, Occupational Death & Disability Fund and SBS Cash Transition Fund.

Performance Measures

Performance measures vary based on the particular unit within Treasury Division. We have selected those performance measures for each unit that we believe best demonstrates the responsibilities and performance of that unit.

Accounting & Support

Accounting & Support recorded, reviewed and accounted for 52,000 valid trades in FY2012 made by internal staff and 90 external managers for over 65 separately managed funds and hundreds of non-segregated funds. Staff have automated systems and tightened controls around accounting and compliance such that final fund reporting time has decreased.

Goals: Continued automation of accounting and compliance functions in key investment areas; integration of reporting into new Treasury website design.

Challenges: Increased number and types of funds will continue, leading to more complex accounting and compliance requirements. Incorporation of new industry regulations will potentially require new accounting processes. Integration of current accounting systems to the new state accounting system will pose new challenges and opportunities for improvements.

Cash Management

Goal: Ensure that staff receives sufficient training so that all of the section's services essential to the operation of State government are performed timely and accurately every day. These services are broken out into 12 functional areas, each of these areas are to have 4 individuals cross train in them every six months. In FY12, the Cash Management section met 92% of this goal.

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.

Essential Cash Management Services

Fiscal Year	Service	Timely	Accurate
FY 2012	Determine cash requirements	96%	99%
FY 2012	Cash flow forecasting	99%	97%
FY 2012	Electronic payment initiation	100%	100%
FY 2012	Cash reconciliation	100%	98%
FY 2012	Recording bank activity	99%	98%
FY 2012	Drawdown fed funds	100%	97%
FY 2012	Interfund transfers	99%	100%
FY 2012	Record GF balance	96%	100%
FY 2012	Bank deposits	100%	100%
FY 2012	International payments	100%	100%

Challenges: Staffing turnover and the decreasing attractiveness of State pay and benefits to potential recruits increases the need for cross training and strains existing resources.

Debt Management

Goal: The goal of Debt Management is to provide a low cost of financing for State capital needs while maintaining the State's credit ratings.

In FY 2012 we had the following transactions:

- \$42,625,000 of cash defeasance which included the following
 - Anchorage Jail \$20.615 million
 - Alaska Psychiatric Institute \$5.905 million
 - Seafood and Food Safety Laboratory \$6.5 million
 - Virology Laboratory \$9.605 million

- \$175,560,000 2012 A General Obligation Refunding Bonds
 - Refinanced 2003 A general obligation bonds
 - All in TIC 1.214%
 - Present value savings of \$27,088,933.77 or 14.15% of refunded bonds
 - Debt sold within 15 basis points of the AAA Municipal Market Data index
- Renewed Letter of Credit on \$50 million Variable Rate Demand Obligations of the Alaska International Airport System
- Bond Anticipation Note Issuance of \$3,493,354.76 for Clean Water and Drinking Water Funds.
- Met telephonically or in person with rating agencies four times during fiscal year.
 - S&P upgrade to AAA

So far in FY 2013 we have had the following accomplishments

- Bond Anticipation Note Issuance of \$3,493,926.83 for Clean Water and Drinking Water Funds.
- \$162,480,000 2013 A & B General Obligation Bonds
 - Generated \$196,089,473.10 in proceeds for projects
 - Funds educational projects authorized in 2010 election
 - All in TIC 1.436%
 - Series A sold as a Qualified School Construction Bond – a direct issue federal tax credit structure that results in a TIC of .015% for a 2038 maturity
- Met telephonically or in person with rating agencies four times during fiscal year
 - Moody's participated in tour of Prudhoe Bay, Kuparuk, & Alpine oil fields
 - Ratings upgrade from Fitch Ratings to AAA. Following upgrade the State's credit ratings are AAA, AAA, Aaa.

Challenge: Staff currently divides time between state debt and Bond Bank Authority and it will continue to be a challenge to provide resources to manage a larger debt program

Portfolio Management

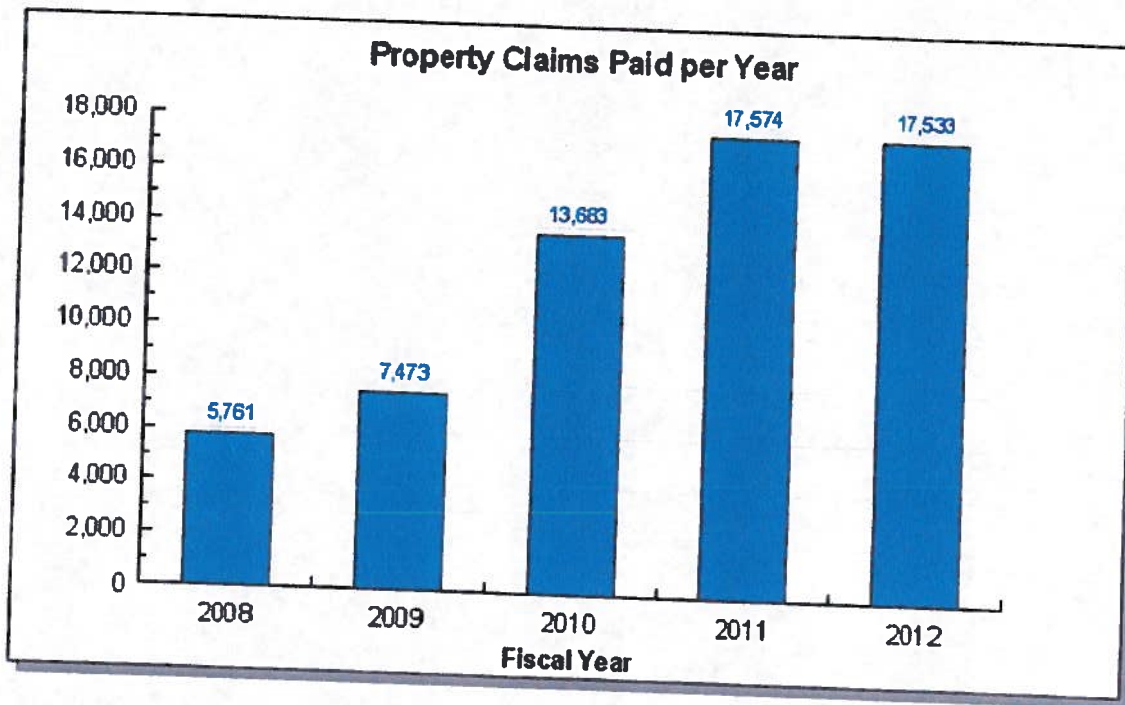
Goal: The goal of the Portfolio Management Unit is to achieve a satisfactory rate of return on investments commensurate with a target rate of return set by either the Commissioner of Revenue or by the governing board of trustees of a trust fund i.e. Alaska Retirement Management Board, Exxon Valdez Oil Spill Council, etc.

Success is measured by a comparison of whether or not the investment fund met or exceeded the returns of the benchmark for the fund. We have included the returns for the General Fund & Other Non-segregated Investments as well as the returns for the Constitutional Budget Reserve Fund.

Challenge: The portfolio unit's greatest challenge is to achieve a satisfactory rate of return in today's low interest rate investment environment.

Unclaimed Property

The Unclaimed Property Program (UCP) staff promotes, educates, and encourages owners to file claims online. When owners complete the demographic portion of claims online, UCP staff has more time to review, approve, and pay claims. The program also encourages voluntary compliance as the most effective tool for reporting unclaimed property. An important aspect of voluntary compliance is educating companies about the requirements of Alaska's Uniform Unclaimed Property Act.



Property Claims Paid per Year

Fiscal Year	# of Properties Paid	Increase over Prior Year
FY 2012	17,533	<41>
FY 2011	17,574	3,891
FY 2010	13,683	6,210
FY 2009	7,473	1,712
FY 2008	5,761	453

Companies Reporting for First Time

Fiscal Year	# of 1st Time Reporting
FY 2012	43
FY 2011	30

FY 2010	15
FY 2009	9

During FY2012, UCP conducted outreach to seven new companies, and 43 companies reported unclaimed property for the first time.

Challenge: One of the biggest challenges includes identifying owners relocated outside of Alaska.

ARM Board

The purpose of the Alaska Retirement Management Board is to serve as the trustee of the assets of the state's retirement systems, the Supplemental Annuity Plan, the deferred compensation program and the retiree health care trusts. The board has the fiduciary obligation to manage and invest these assets in a manner that is sufficient to meet the liabilities and obligations of the systems, plan, program and trusts.

Goals: The goal of the ARMB is to establish a target rate of return along with an asset allocation which will meet the needs of the trusts. A copy of the FY12 returns for PERS and TRS have been included.

Challenges: The trusts currently have an unfunded liability in excess of \$7 billion for PERS and TRS benefits and \$6 billion for PERS and TRS health care trusts. The challenge will be to find ways to decrease that liability.

Alaska Municipal Bond Bank Authority

The purpose of the Bond Bank is to lend money to Alaska's governmental units for their capital projects.

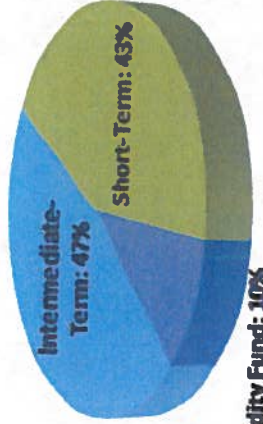
Goal: To increase the number of communities served by the Bond Bank and diversify the portfolio. Towards that goal, the Bond Bank has the following fiscal year 2012 activity:

- Issued three series of bonds totaling \$149.4 million of bonds (82.4 million refinancing and \$67 million new money)
- Entered into 32 municipal loan agreements
- Estimated savings to municipalities of \$17.2 million
- Actual operating costs based on activity of \$531,544

Challenge: Staff currently divides time between state debt and Bond Bank and it will continue to be a challenge to provide resources to manage a more active program

General Fund and other non segregated investments

Fiduciary oversight: Commissioner of Revenue

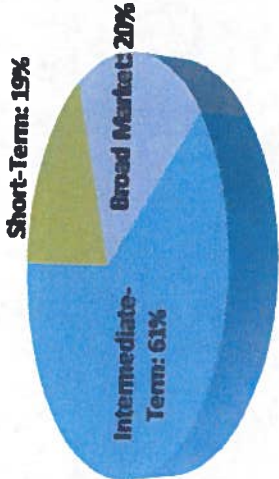
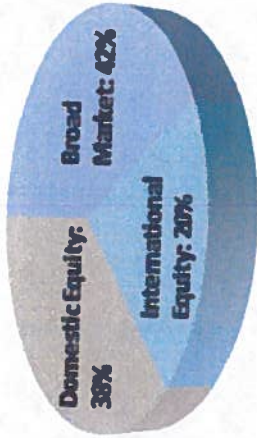
Investment Objective		General Fund (and other nonsegregated investments)	
		Moderate Risk, Short to Intermediate investment horizon	
Target Asset Allocation		 <p>Intermediate-Term: 47% Short-Term: 43% Liquidity Fund: 10%</p>	
		Actuals	Benchmark*
Market Value (in 000s)	12/31/2010	\$6,589,600	-
	12/31/2011	\$9,207,700	-
	12/31/2012	\$11,670,000	-
Returns (6/30/12)	FY12	1.52%	1.04%
Returns (12/31/12)	YTD	1.00%	0.49%
	FYTD	0.37%	0.26%
	3 Year Actuals	1.79%	1.39%
Projected 10 Year Return	5 Year Actuals	2.60%	2.14%
		2.87%	

*Short-term: 3-month U.S. Treasury Bill; Intermediate-term: Barclays 1-3 Year Gov't Bond Index

Current Fiscal Year market values and stated returns are unaudited, preliminary, and include some estimates

Constitutional Budget Reserve Fund (main & sub)

Fiduciary oversight: Commissioner of Revenue

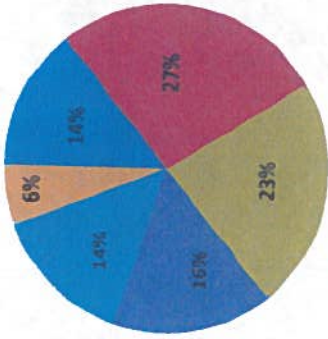
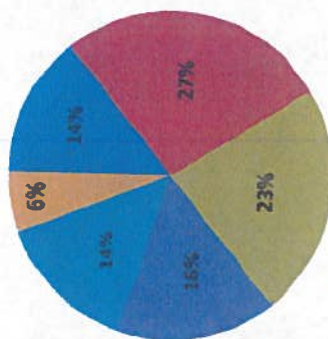
Investment Objective		Constitutional Budget Reserve (main fund)		Constitutional Budget Reserve (sub fund)	
		Moderate Risk, Intermediate investment horizon		High Risk, Moderately Long investment horizon	
Target Asset Allocation					
Market Value (in 000s)	12/31/2010 12/31/2011 12/31/2012	Actuals	Benchmark*	Actuals	Benchmark*
Market Value		\$5,029,000 \$5,290,600 \$5,770,800	- - -	\$4,928,400 \$4,955,400 \$5,511,200	- - -
Returns (6/30/12)	FY12	3.22%	2.80%	0.48%	-0.12%
YTD		1.91%	1.42%	11.22%	11.05%
FYTD		0.78%	0.66%	6.18%	6.09%
3 Year Actuals		3.29%	2.94%	7.57%	7.29%
5 Year Actuals		3.95%	3.60%	2.64%	2.58%
Projected 10 Year Return		3.01%		6.31%	

* Short-term: 3-month U.S. Treasury Bill; Intermediate-term: Barclays 1-3 Year Govt. Bond Index; Broad Market: Barclays U.S. Aggregate; Domestic Equity: Russell 3000 Stock Index; International Equity: MSCI EAFE

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PERS & TRS

Fiduciary oversight: Alaska Retirement Management Board

Investment Objective		PERS Retirement Defined Benefit Pension / Health		TRS Retirement Defined Benefit Pension / Health	
		Moderate Risk, Long Term investment horizon		Moderate Risk, Long Term investment horizon	
Target Asset Allocation					
Market Value (in '000s)	12/31/2010 12/31/2011 12/31/2012	Actuals \$10,901,800 \$10,873,100 \$12,016,500	Benchmark*	Actuals \$4,603,700 \$4,545,200 \$5,018,600	Benchmark*
Returns (6/30/12)	FY12	0.52%	1.02%	0.59%	1.02%
YTD		11.87%	10.03%	11.92%	10.03%
FYTD		5.63%	4.55%	5.68%	4.55%
3 Year Actuals		8.06%	8.62%	8.17%	8.62%
5 Year Actuals		1.53%	2.01%	1.54%	2.01%
Long-Term Actuarial Assumed ROR		8.00%		8.00%	

*The ARMB Benchmark is a diversified weighted composite comprised of the following indexes by weight: 27.0% Russell 3000; 23.0% MSCI ACWI ex-US; 14.4% Barclays Intermediate Treasury; 9.6% NCREIF Total; 6.0% 3-Month U.S. Treasury Bill; 5.0%; 3.2% Barclays U.S. TIPS; 2.7% MSCI EAFE; 2.7% S&P 500; 2.7% Russell 2000; 1.8% Citicorp WCB Non-U.S.; 1.8% HYD II; 1.6% NCREIF Farmland; 1.6% NCREIF Timberland; 2.0% 3-month U.S. Treasury Bill

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