

Taneeka Hansen

From: DeBartolo, Daniel T (DOR) <daniel.debartolo@alaska.gov>
Sent: Thursday, February 02, 2017 10:06 AM
To: Taneeka Hansen
Cc: Burnett, Jerry D (DOR); Arnold Liebelt; Rob Carpenter
Subject: RE: Points from Friday's subcommittee meeting
Attachments: 2012 transportation bond act authorized projects.pdf; GeFONSI Details for Representative Seaton.pdf

Follow Up Flag: Follow up
Flag Status: Flagged

Taneeka,

I asked the Directors to formulate answers to the questions below, and have them for you now under each heading you provided.

Criminal Investigations:

-There seems to be some interest in better understanding the transfer of investigators to DPS. I think you pretty well explained it but if you could put it into a 1 paragraph written response that would be great. How many positions being transferred, that they will be trained by DPS (including continuing education), what level of commission is expected, and that the details are still being analyzed as to how many will need to be commissioned.

- The Department of Revenue is transferring 9 Investigator PCN's from the Criminal Investigations Unit to the Department of Public Safety. These Investigators routinely conduct felony investigations and prosecutions of various PFD, CSSD, and TAX crimes.
- The majority of these Investigator's already have current Alaska Police Standards Council (APSC) certifications and would only be required to attend a 3 week refresher training at the Alaska State Trooper (AST) Academy. There are 3 Investigators that have not been to a previous Police Academy and would be required to attend a full academy at the AST Academy in Sitka prior to APSC Certification. These Police Certifications would be identical to certifications already obtained by the Alaska Marijuana Control (AMCO) Investigators.

Treasury:

-A short explanation on GeFONSI- what funds are included, the total value, the average return of the funds. I believe Rep Seaton would like to see the average return of all funds listed out.

- The GeFONSI is an acronym which stands for the "General Fund and Other Non-segregated Funds" which are funds that have been pooled together for investment purposes (Attachment provided). The Treasury Division is responsible for investing the GeFONSI as well as calculating and allocating investment earnings to the GeFONSI fund participants. The DOR has an MOU with DOA that documents the process and identifies which funds DOR should calculate interest for. GeFONSI funds accounted for at the Treasury are cash based. They reflect actual cash balances which may or may not reflect anticipated revenues and expenses. The DOA Finance Division and agencies that utilize the funds are the best source of knowing true balances, incorporating anticipated revenues or expenses the fund will use in the coming year. These funds are classified into one of three categories as follows:
 - Type 1: GeFONSI funds that are legally entitled to automatically receive earnings attributable to the investment of those assets.

Type 2: GeFONSI funds that are entitled to receive the earnings attributable to the investment of their assets if the Legislature chooses to appropriate the earnings to those funds. If the Legislature does not so appropriate, then the State's General Fund receives the earnings from those assets.

Type 3: Treasury computes and separately accounts for investment earnings on these GeFONSI funds but credits those earnings to the State's General Fund.

-A list of the projects being capitalized by GO bonds under the Transportation Bond Act.

- Attachment provided in this email

-Representative Thompson would like to know if there is room for even more savings by bringing investment auditors in-house.

- Treasury believes there is room for greater savings by hiring additional investment officers in-house. There are many factors that have been considered as we move toward greater in-house investment which will continue to be weighed as we add staff:
 1. Capacity and capabilities of current staff
 2. Development and retention of staff through training and compensation
 3. Ability to attract new staff at the right levels, considering geographic and salary constraints
 4. Identification of investment mandates that will provide the greatest cost savings through in-house investing.

Tax:

-Review the value of adding auditors- what would be the revenue increase? On what timeline can we expect that increase? Note how many of the 32 positions cut from Tax were auditors.

- The Tax Division will answer these questions tomorrow (2/3/17) during the presentation.

PFD:

-Will the voter initiative that links the PFD to voter registration increase the Division's workload?

- Yes, on the front end the initiative there will be an increased workload for programming and form changes. We do not expect the initiative to impact our eligibility determination workload. The Revenue Permanent Fund Information (RPFI) system is designed for other state agencies to electronically obtain PFD information based on a business need. The only specific data element needed for the initiative, but not currently on the PFD application, is an "Alaska Residence Address." Therefore, adjustments will be made to the 2018 dividend application to include the additional element, which will then become available through the RPFI system. The long term effect of this initiative will be seen on the 2020 dividend, with implementation on the 2018 dividend application. The two year delay exists because an individual automatic voter registration will serve as proof of establishing residency for PFD eligibility. This is true even if the individual was denied and/or did not apply in the preceding year. Whereas now, an individual must actively take at least one action in addition to physical presence.

APFC:

Please explain why most models use a 7.2 rate of return when the 10 year average is 5.2? [This was partially addressed, explaining that 2008 was a particularly bad year, 3 in 200, but should be reviewed again.]

- The Fund's total rate of return for the past 10 years was 5.4%. This is the actual rate of return, including inflation. The rate of return includes 2008 and 2009 returns which had resulted in extraordinary losses to the Fund. Each year Callan prepares a forecast of capital market returns for its clients to use in projecting potential returns. Given the Fund's current asset allocation and Callan's 2016 capital market projections, we are forecasting a 10 year return of 6.95%.

FY Annual Market Values and Performance Results

Fiscal Year	Market Value	Return
2016	3,539,490,646	0.82%
2015	4,047,216,994	0.45%
2014	5,505,603,690	0.57%
2013	11,988,133,076	0.31%
2012	12,039,480,276	4.82%
2011	9,061,621,609	0.92%
2010	7,789,040,740	2.84%
2009	6,917,946,845	2.92%
2008	7,779,665,949	5.60%
2007	4,610,940,165	5.85%

Key Statistics of GeFONSI 12/31/2016

		General Fund (and other non-segregated investments)	
Investment Objective		Moderate Risk, Short to Intermediate investment horizon	
Target Asset Allocation		<p>Intermediate-Term: 32% Short-Term / Liquidity: 68%</p>	
Market Value (\$thousands)	12/31/2014 12/31/2015 12/31/2016	Actuals	
		\$4,834,500	
		\$3,670,500	
		\$3,375,800	
Returns @ 6/30/16	FY16	Actuals	Benchmark ¹
		0.82%	0.50%
Returns 12/31/16 (Rolling)	FYTD	0.05%	-0.05%
	1 Year Actuals	0.82%	0.45%
	3 Year Actuals	0.54%	0.31%
	5 Year Actuals	0.57%	0.32%
Callan Projected 10 Year Return: 2.36%			

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

GeFONSI Funds > \$50million at 12/31/16

General Fund	1,118,136,500.34
AHFC Investment Fund	328,266,933.07
School Construction Grant	121,622,352.20
AMHS Vessel Replacement	120,706,560.16
Regional Educational Attendance Area School	110,834,779.49
Alaska Clean Water Fund	105,291,235.35
Community Revenue Sharing	91,346,026.00
Highways Equipment Working Capital Fund	83,601,685.65
AGDC - Liquefied Natural Gas	83,142,194.25
Alaska Comprehensive Health Insurance Fund	82,846,806.56
Public Education Fund	71,258,173.43
Alaska Capital Income Fund	69,228,474.11
Major Maintenance Grant	56,716,140.43
Alaska Drinking Water Fund	52,603,194.88
OHSR Response Account	50,411,251.47

being considered. See “Government Budgets and Appropriations” and “Fiscal Year 2017 10-Year Plan.” Certain information regarding the economy of the State is included in this Official Statement as Appendix A.

THE BONDS

Authority for Issuance and Purpose of the Bonds

The Bonds are being issued pursuant to the Alaska Constitution, AS 37.15.010 through 37.15.380 (the “Bond Act”), Sections 1, 3, 4 and 5 of Chapter 18, SLA 2012 (HB 286) (the “State Transportation Bond Act”) and the Resolution to pay or to make grants for payment of costs of transportation project authorized pursuant to the State Transportation Bond Act. The State Transportation Bond Act provides for the issuance of up to \$453,499,200 of general obligation bonds, and on November 6, 2012, the general obligation bond authorization was ratified by a majority of the qualified voters in the State who voted in the election. The proceeds deposited in the 2012 State Transportation Project Fund, are expected to be applied to pay or to make grants to pay costs of transportation projects. Transportation projects authorized by the State Transportation Bond Act approved by the voters include the following projects:

Department of Commerce

Port of Anchorage Expansion	\$50,000,000
Bethel Harbor Dredging	4,000,000
Port of Bristol Bay Expansion and Pile Dock Replacement	7,000,000
Emmonak Port Improvements	3,000,000
Haines Borough Boat Harbor Upgrades	15,000,000
Hooper Bay Small Boat Harbor	1,000,000
Kodiak Pier III Replacement	15,000,000
Kotzebue Cape Blossom Road and Deep Water Port	10,000,000
Matanuska-Susitna Borough Bogard Road Extension East	13,500,000
Matanuska-Susitna Borough Port MacKenzie Rail Extension	30,000,000
Nenana Totchaket Resource Development Corridor Access	6,500,000
Newtok Traditional Council Mertarvik Evacuation	4,100,000
Nome Port Design and Construction	10,000,000
Sand Point Road Rehabilitation	2,500,000
Seward Marine Industrial Center Expansion	10,000,000
Sitka Sawmill Cove Industrial Park Dock	7,500,000
St. George Harbor Reconstruction	3,000,000
Togiak Waterfront Transit Facility	3,300,000

Department of Transportation

Glenn Highway, Hiland Road to Artillery Road Reconstruction	\$35,000,000
Glenn Highway/Muldoon Road Interchange Reconstruction	15,000,000
New Seward Highway MP 75-90 Bridge Repairs	26,000,000
New Seward Highway/36th Avenue Reconstruction	10,000,000
O'Malley Road Reconstruction	15,000,000
Elliott Highway MP 108-120 Reconstruction	6,500,000
Old Steese Highway to McGrath Road Reconstruction and Extension	24,000,000
Wendell Street Bridge Replacement	14,400,000
Glacier Highway MP 4-6 Road Improvements	5,500,000
Mendenhall Loop Road Improvements	6,000,000
Kenai Spur Road Rehabilitation	20,000,000
Ketchikan - Shelter Cover Road Construction and Improvements	19,000,000

Matanuska-Susitna - Fairview Loop Road Reconstruction	\$10,000,000
Matanuska-Susitna - Knik Goosebay Road Reconstruction	15,000,000
North Pole - Plack Road Improvement	5,000,000
Platinum Airport Runway Extension	3,100,000
Richardson Highway - Ruby Creek Bridge Replacement	11,000,000
Sitka - Katlian Bay Road Construction	14,000,000

Security for the Bonds

When issued, the Bonds will be general obligations of the State, and the full faith, credit and resources of the State will be pledged to the payment of the principal of and interest on the Bonds. Pursuant to the Bond Act, the amounts required annually to pay the principal of and interest and redemption premium on all issued and outstanding general obligations bonds of the State are appropriated to the Committee to make all required payments of principal, interest and redemption premium. AS 37.15.012 provides that, if such appropriation is insufficient to fully pay these amounts, the necessary additional amounts are appropriated from the General Fund to the Committee to make all required payments of principal, interest and redemption premium.

For the payment of principal of and interest on general obligation indebtedness, including the Bonds, the State has the power to levy taxes, including taxes on all taxable property and income in the State, without limitation as to rate or amount. For a description of the State's current taxes and other sources of revenues, see "INFORMATION CONCERNING THE STATE OF ALASKA – State Revenues" and "INFORMATION CONCERNING THE STATE OF ALASKA – Public Debt and Other Obligations of the State" herein.

General Description of the Bonds

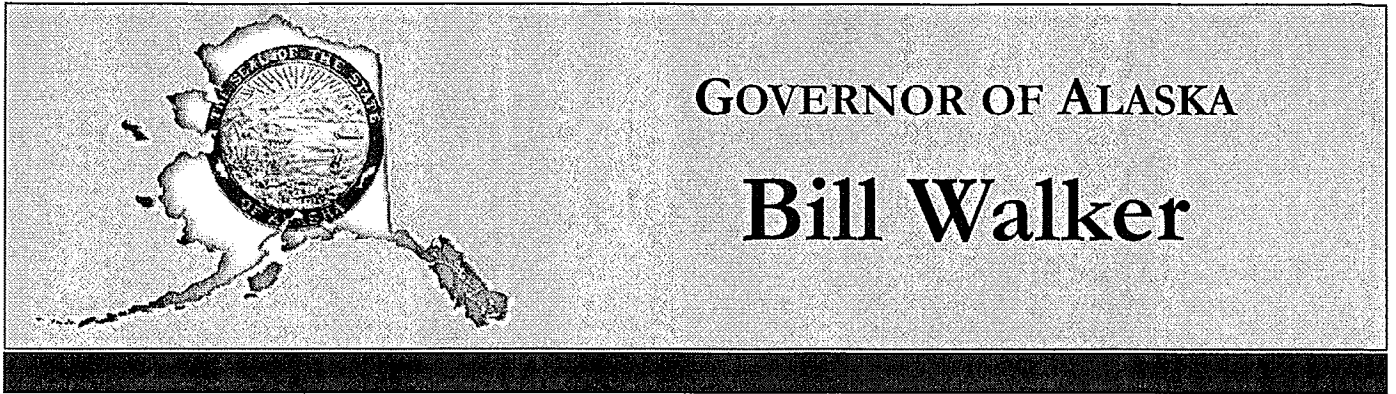
The Bonds are issuable solely as fully registered Bonds without coupons (initially in the book-entry only system) in denominations of \$5,000 or any integral multiple thereof. The Bonds will be dated as of their date of original issuance and delivery and will bear interest at the rates and subject to prior redemption, will mature on the dates set forth on the inside cover page of this Official Statement. Interest on the Bonds will be payable semiannually on February 1 and August 1 of each year, commencing on February 1, 2017, computed on the basis of a 360-day year (consisting of 12 months of 30 days each).

When issued, the Bonds will be registered in the name of Cede & Co. as the partnership nominee of the Depository Trust Company, New York, New York ("DTC"). So long as Cede & Co. (or such other name as may be requested by an authorized representative of DTC), is the registered owner of the Bonds, principal of and interest on the Bonds are payable by wire transfer by the Bond Registrar to DTC, which, in turn, is obligated to remit such principal and interest to the Direct Participants for subsequent disbursement to the Beneficial Owners (as defined in Appendix E) of the Bonds. See "Book-Entry-System" below and "INFORMATION REGARDING THE DEPOSITORY TRUST COMPANY" in Appendix E.

In the event that DTC or its successor (or substitute securities depository or its successor) resigns and no substitute securities depository can be obtained, or in the event the State determines that it is in the best interests of the Beneficial Owners that they be able to obtain Bonds in the form of bond certificates, new Bonds are required to be issued and registered.

Application of Bond Proceeds

Proceeds of the Bonds are to be used to pay or to make grants to pay costs of one or more of the projects described above and to pay underwriter's discount.



ACTIONS TO PRESERVE REMAINING SAVINGS

Government Reductions to Date \$1.2B

\$1.2 billion in unrestricted general fund cuts since FY2015

Vetoed and Other Savings \$1.5B

Oil and gas tax credits (\$430 million)

Government, K-12, and UA vetoes (\$190 million)

Permanent Fund Dividend Reduction (\$665 million)

Pause Projects (\$250 million)

Anchorage: Glenn Highway, Hiland Road to Artillery Road Reconstruction

Fairbanks: Old Steese Highway to McGrath Road Reconstruction and Extension

Fairbanks: Wendell Street Bridge Replacement

Mat-Su: Knik-Goose Bay Road Reconstruction

Anchorage: U-Med District Northern Access

Mat-Su: Fairview Loop Road Reconstruction

Fairbanks: University Avenue Widening

Southeast: Kake-Petersburg Road

Closing Down Mega Projects

Knik Arm Bridge

Susitna-Watana Dam

For more information, go to: omb.alaska.gov