



State of Alaska

Update on Investment Funds and Cash Flows

January 31, 2022 House Finance presentation

Pam Leary
Director, Treasury Division

Brian Fechter
Deputy Commissioner
Alaska Department of Revenue



Agenda

1. Update on State Investment Funds

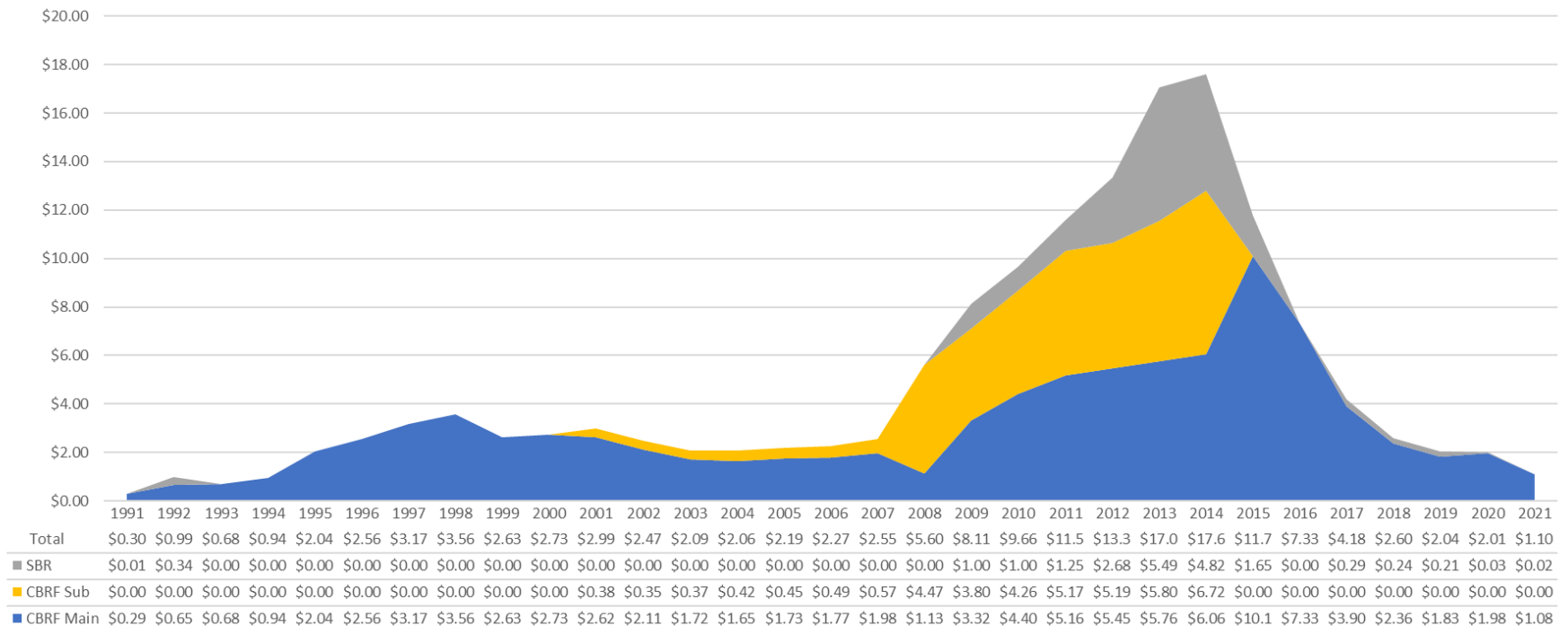
2. State Cash Flows

3. Revenue Volatility Management

Update on State Investment Funds

Constitutional Budget Reserve Fund (CBRF) Historical Invested Assets (in billions)


- In 1990, voters of Alaska adopted an amendment to the constitution creating the CBRF.
- CBRF is used to fund temporary cash flow expense/revenue mismatches.
- CBRF is used to appropriate/cover budget revenue shortfalls.
- Appropriations from the CBRF must be repaid.



**The Statutory Budget Reserve Fund (AS 37.05.540) was part of the GeFONSI before and after being managed as a separate fund from July 2013-October 2015.*

Constitutional Budget Reserve Fund

Fiduciary oversight: Commissioner of Revenue

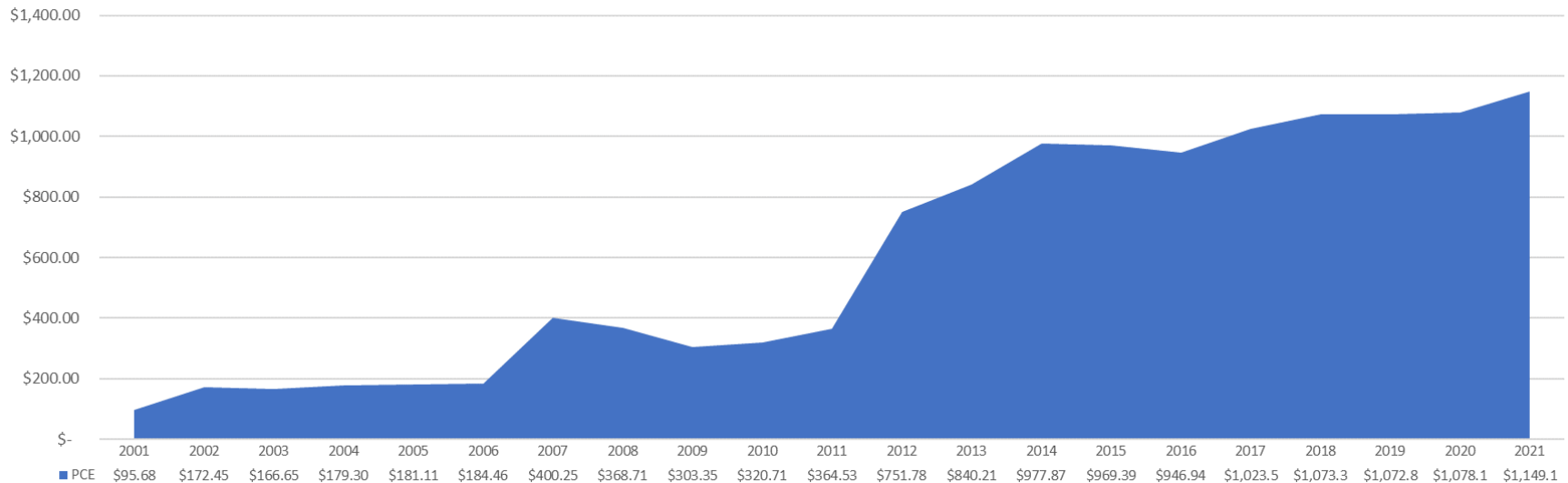
		Constitutional Budget Reserve	
Investment Objective		Low Risk Short Investment Horizon	
Target Asset Allocation		 <p>Cash Equivalents, 100%</p>	
Market Value (\$thousands)	12/31/2017	Actuals	
	12/31/2018	\$3,087,000	
	12/31/2019	\$1,710,500	
	12/31/2020	\$2,162,400	
	12/31/2021	\$1,070,900	
		\$1,089,000	
Returns 12/31/2021 (Rolling)	3 Month	Actuals	Benchmark ¹
	6 Month	0.00%	0.01%
	1 Year	0.02%	0.02%
	3 Year	0.09%	0.05%
	3 Year	2.33%	2.19%
	5 Year	2.14%	2.00%
Projected Return: 0.05%			

¹ Cash Equivalents: 3-month U.S. Treasury Bill

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

Power Cost Equalization (PCE) Historical Invested Assets (in millions)

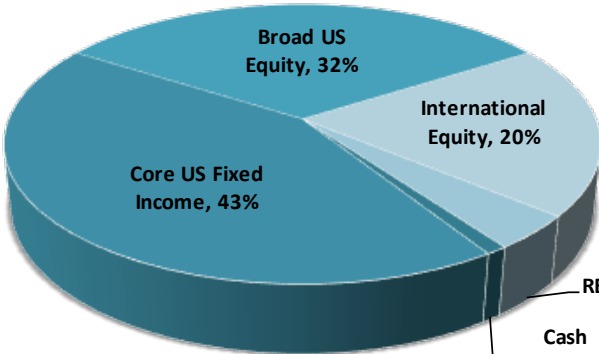
- The purpose of the PCE Endowment fund is to provide for a long-term stable financing source that provides affordable levels of electric utility costs in otherwise high-cost service areas of the state.
- 5% of the monthly average market value of the fund for the previous 3 fiscal years may be appropriated. If prior years earnings exceed this amount, 70% (not to exceed \$55M) of the difference can be spent on related identified programs.



Data is at fiscal year end of June 30.

Power Cost Equalization Fund

Fiduciary oversight: Commissioner of Revenue

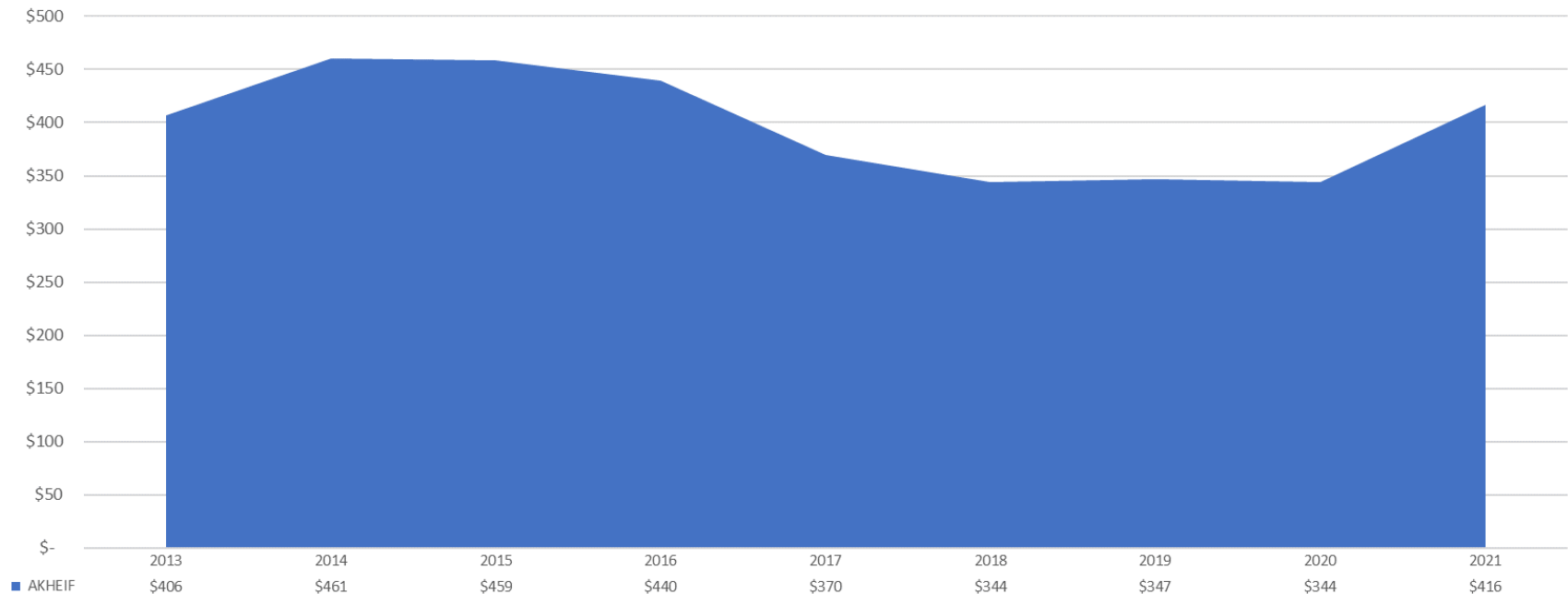
		Power Cost Equalization Fund	
Investment Objective		High Risk Intermediate Investment Horizon	
Target Asset Allocation			
Market Value (\$thousands)	12/31/2017	Actuals	
	12/31/2018	\$1,088,800	
	12/31/2019	\$959,800	
	12/31/2020	\$1,132,800	
	12/31/2021	\$1,142,300	
	12/31/2021	\$1,163,900	
Returns 12/31/2021 (Rolling)	3 Month	Actuals	Benchmark ¹
	6 Month	3.91%	3.98%
	1 Year	3.20%	3.36%
	3 Year	7.12%	7.35%
	3 Year	11.99%	12.09%
	5 Year	8.99%	9.09%
Projected 10-Year Return: 5.00%			

¹ Broad US Equity: Russell 3000 Index; Cash Equivalents: 3-month U.S. Treasury Bill; Core US Fixed Income: BB U.S. Aggregate Index; International Equity: MSCI ACWI ex-US Index; REITS: REIT Index

Current Fiscal Year market values and stated returns are unaudited, preliminary, and include some estimates. Asset Allocation does not include private investments.

Alaska Higher Education Investment Fund (AHEIF) Historical Invested Assets (in millions)

- On September 1, 2012, the AHEIF was capitalized with a \$400 million deposit from receipts of the Alaska Housing Capital Corporation for use in paying Alaska Performance Scholarship Awards and AlaskAdvantage Education Grants.
- The fund is to be swept to the CBRF effective 6/30/2021.



Data is at fiscal year end of June 30.

Alaska Higher Education Investment Fund

Fiduciary oversight: Commissioner of Revenue

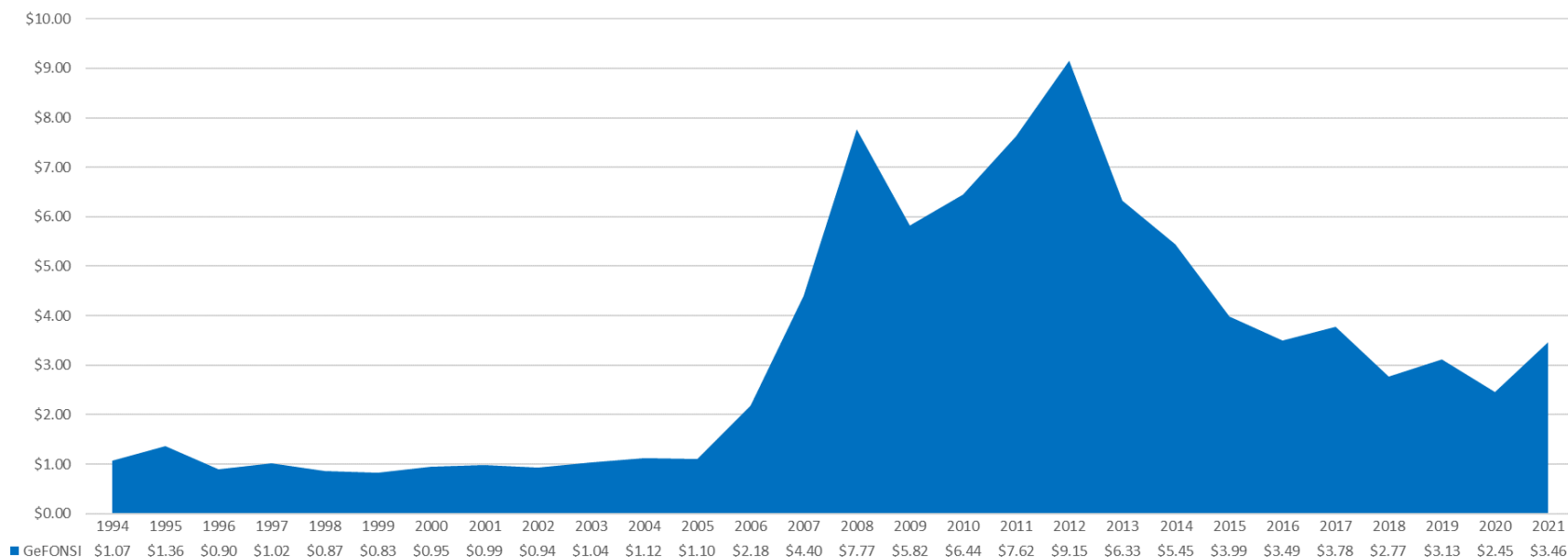
Investment Objective		AK Higher Education Investment Fund	
Target Asset Allocation		High Risk Long Investment Horizon	
Market Value (\$thousands)	12/31/2017	Actuals	
	12/31/2018	\$353,400	
	12/31/2019	\$313,400	
	12/31/2020	\$359,000	
	12/31/2021	\$391,000	
	12/31/2021	\$422,800	
Returns 12/31/2021 (Rolling)	3 Month	Actuals	Benchmark ¹
	6 Month	4.84%	4.88%
	1 Year	3.99%	4.09%
	3 Year	12.55%	12.72%
	5 Year	16.35%	16.41%
	5 Year	11.54%	11.59%
Projected 10-Year Return: 5.62%			

¹ Broad US Equity: Russell 3000 Index; Cash Equivalents: 3-month U.S. Treasury Bill; Core US Fixed Income: BB U.S. Aggregate Index; International Equity: MSCI ACWI ex-US Index; REITs: REIT Index

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General Fund and Other Non-Segregated Investments (GeFONSI) Historical Invested Assets (in billions)*

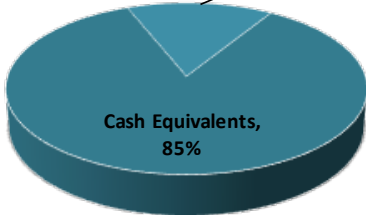
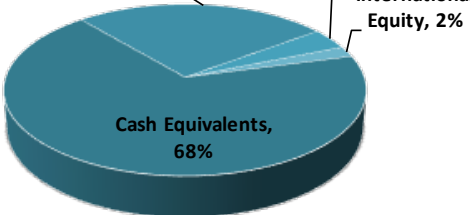
- GeFONSI includes the General Fund and Other Non segregated funds invested in a pooled environment (GF proper= \$400 million).
- GeFONSI II was created in 2018 to target a higher risk return profile for a subset of funds.



* This graph does not include the SBR balance.

General Fund and other non-segregated investments (GeFONSI I & II)

Fiduciary oversight: Commissioner of Revenue

		GeFONSI I		GeFONSI II	
Investment Objective		Moderate Risk Short - Interm. Investment Horizon		Moderate - High Risk Intermediate Investment Horizon	
Target Asset Allocation					
Market Value (\$thousands)	12/31/2017	Actuals ¹		Actuals*	
	12/31/2018	\$3,340,000		N/A	
	12/31/2019	\$1,822,900		\$1,429,900	
	12/31/2020	\$1,389,000		\$1,223,600	
	12/31/2021	\$1,373,900		\$1,176,300	
		\$1,605,600		\$1,225,600	
	Combined @ 12/31/2021	\$2,831,200			
Returns 12/31/2021 (Rolling)		Actuals	Benchmark ²	Actuals	Benchmark ³
	3 Month	-0.03%	0.01%	0.34%	0.42%
	6 Month	-0.02%	0.03%	0.30%	0.38%
	1 Year	-0.35%	-0.32%	0.85%	0.95%
	3 Year	1.34%	1.23%	3.56%	3.51%
	5 Year	1.36%	1.23%	N/A	N/A
		Projected Return: 0.27%		Projected Return: 0.91%	

¹ Includes SBR balances

² Cash Equivalents: 3-month U.S. Treasury Bill; Core US Fixed Income: BB U.S. Aggregate Index

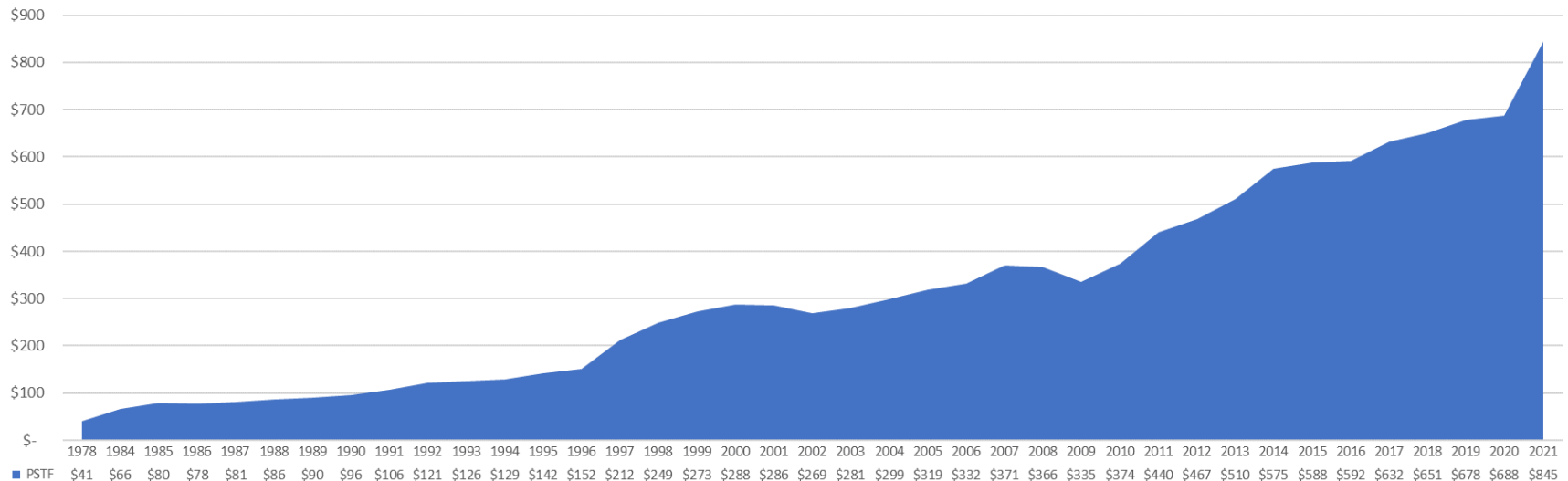
³ Broad US Equity: Russell 3000 Index; Cash Equivalents: 3-month U.S. Treasury Bill; Core US Fixed Income: BB U.S. Aggregate Index; International Equity: MSCI ACWI ex-US Index

*A portion of the GeFONSI was transferred to the GeFONSI II during Fiscal Year 2018 (January 2018)

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

Public School Trust Fund (PSTF) Historical Invested Assets (in millions)

- The PSTF was established in 1978, replacing the territorial era public school land grant originally created by congress in 1915, by a transfer of the balance from the permanent school trust.
- Following passage of HB 213 in 2018, the fund is now managed as one fund, under a percentage of market value method (5% of the average market value for the 5 years preceding the last previous fiscal year).



Data is at fiscal year end of June 30.

Public School Trust Fund

Fiduciary oversight: Commissioner of Revenue

Public School Trust Fund			
Investment Objective		High Risk Long Investment Horizon	
Target Asset Allocation		<p>A 3D pie chart illustrating the target asset allocation for the Public School Trust Fund. The chart is divided into five segments: Broad US Equity (39%, dark blue), Core US Fixed Income (30%, medium blue), International Equity (25%, light blue), REITS (5%, very light blue), and Cash Equivalents (1%, white). The segments are labeled with their respective asset class and percentage.</p>	
Market Value (\$thousands)	12/31/2017	Actuals	
	12/31/2018	\$671,900	
	12/31/2019	\$619,600	
	12/31/2020	\$727,100	
	12/31/2021	\$777,900	
Returns 12/31/2021 (Rolling)	3 Month	Actuals	Benchmark ²
	6 Month	4.84%	4.88%
	1 Year	4.01%	4.09%
	3 Year	12.56%	12.72%
	5 Year	16.34%	16.36%
Projected 10-Year Return: 5.62%		11.07%	11.14%

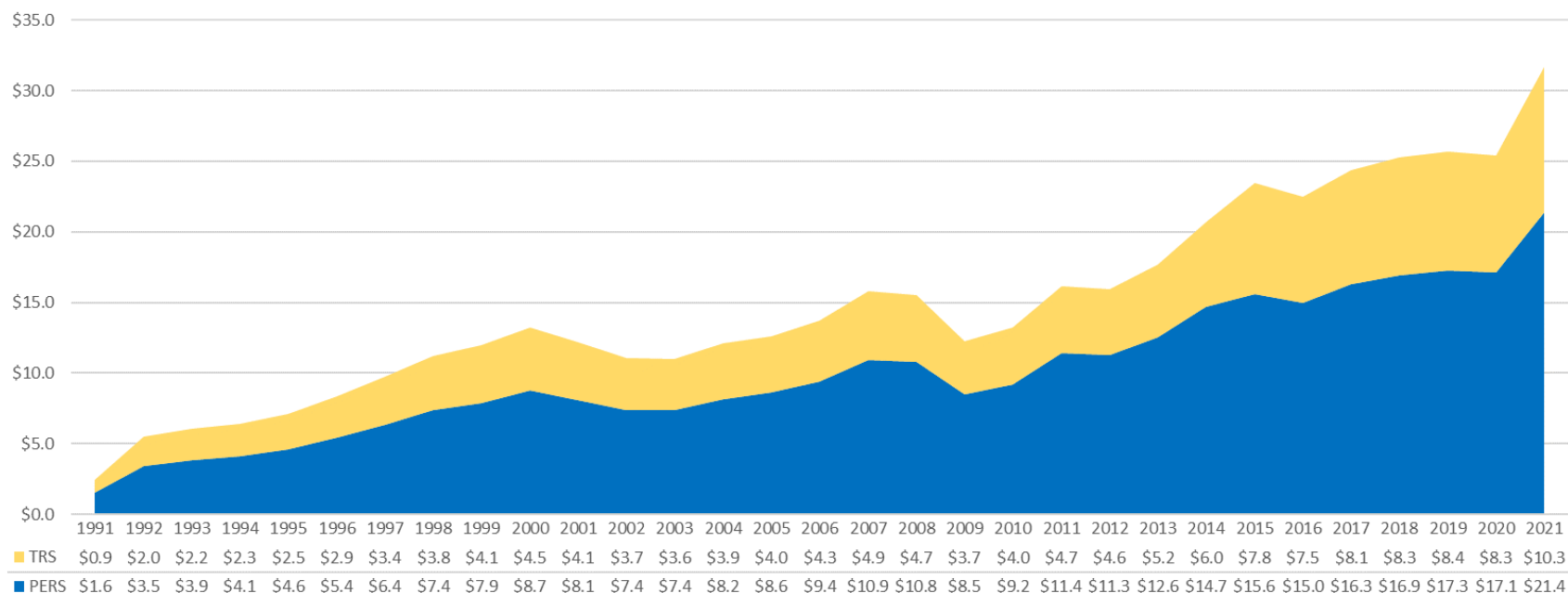
¹ HB213, effective November 2018, revised the calculation for determining the amount appropriatable for future fiscal years' support of the state public school system.

² Broad US Equity: Russell 3000 Index; Cash Equivalents: 3-month U.S. Treasury Bill; Core US Fixed Income: BB U.S. Aggregate Index; International Equity: MSCI ACWI ex-US Index; REITs: REIT Index

Public Employees Retirement System & Teachers Retirement System (PERS and TRS) – Pension and Health Defined Benefit Plans

Historical Invested Assets (in billions)

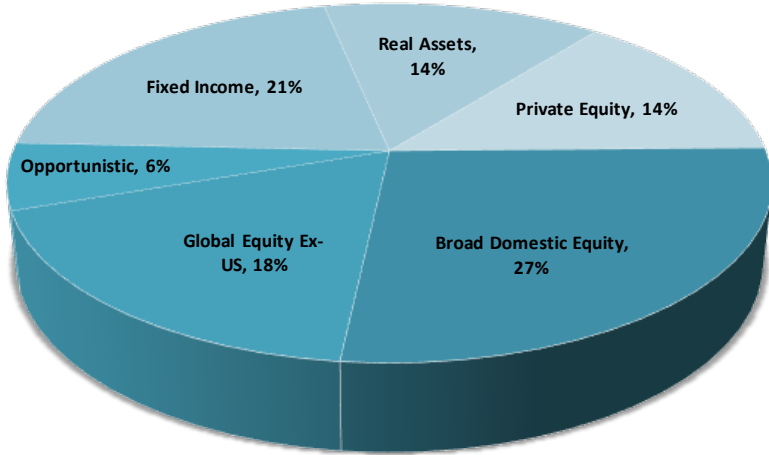
- The Alaska Retirement Management Board (ARMB) is a 9-person board that is the fiduciary of the state's pension and health systems.
- The defined benefit plans currently experiences net outflows from the funds.
- The 37-year return Average for PRS/TRS was 9.22%.



Data is at fiscal year end of June 30.

Public Employees Retirement System & Teachers Retirement System

Fiduciary oversight: Alaska Retirement Management Board

		PERS Retirement Defined Benefit Pension & Health	TRS Retirement Defined Benefit Pension & Health
Investment Objective		High Risk Long Investment Horizon	High Risk Long Investment Horizon
Target Asset Allocation		 <p>A 3D pie chart illustrating the target asset allocation for the retirement systems. The chart is divided into six segments: Broad Domestic Equity (27%), Global Equity Ex-US (18%), Fixed Income (21%), Private Equity (14%), Real Assets (14%), and Opportunistic (6%). The segments are colored in various shades of blue and teal.</p>	
Market Value (\$thousands)	12/31/2017	Actuals \$17,097,800	Actuals \$8,477,000
	12/31/2018	\$16,076,200	\$7,917,500
	12/31/2019	\$17,974,600	\$8,786,500
	12/31/2020	\$19,573,300	\$9,478,500
	12/31/2021	\$22,480,300	\$10,836,300
Returns as of 09/30/2021	3 Month	Actuals 1.62%	Benchmark ¹ 0.92%
	1 Year	24.64%	20.96%
	3 Year	11.59%	10.69%
	5 Year	11.40%	10.48%
Actuarially Assumed Rate of Investment Return: 7.38% (ARMB voted to approve a revision from 8% to 7.38% at the 1/11/2019 board meeting)			

¹ 27.0% Russell 3000, 21.6% MSCI ACWI ex-US IMI Net, 22.4% BB US Aggregate, 1.1% 3-month T-bill, 4.9% NCREIF NFI-ODCE, 3.5% NCREIF Farmland, 1.4% NCREIF Timber, 2.1% CPI = 4%, 2.1% FTSE NAREIT All Equity, 4.7% S&P 500, 4.7% Russell 2000, and 4.7% MSCI EAFE Net

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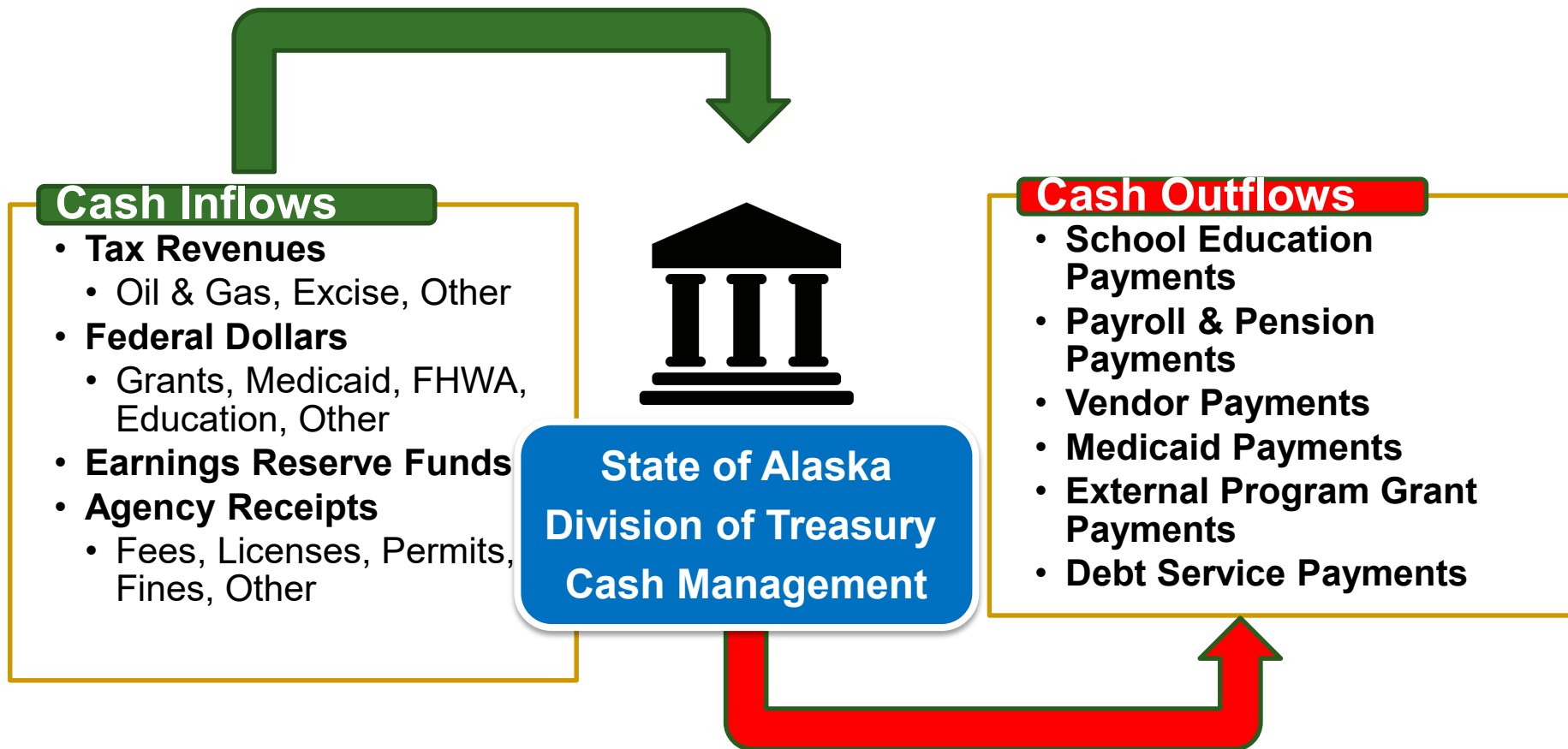
State Cash Flows

Cash vs. Accrual balances

- Cash balance is what you have in the bank at a given point in time.
- Accrual balance is what you have earned and what liabilities have been incurred at a particular point in time. It is what you should have at a particular point in time after all expected receipts and expenditures come in and out.

Treasury fund balances are cash balances, not what is available to spend.

SOA Treasury Cash Flow



Cash Flow Deficiencies

- Prior to 1985, most unrestricted revenues flowed into and stayed in the General Fund for expenditure.
- Over time, the legislature established many subfunds to segregate cash for budgeting purposes, resulting in less cash available to pay day-to-day operating costs.
- Expenditures can occur prior to receipt of revenue, resulting in cash flow timing mismatches:
 - Federal programs require expenditures before reimbursement.
 - i.e. Medicaid, Transportation, etc.
 - Beginning of year appropriation transfers do not match incoming revenue.
 - i.e. State pension payments, transfers to subfunds.
 - Seasonal Cash Flow needs.
 - i.e. Summer is the peak season for construction projects and seasonal workers.

Cash Deficiency Memorandum of Understanding

- Developed in 1994 between DOR, DOA, OMB & LAW.
- Updated as needed.
- Targets \$400m minimum cash threshold in the General Fund proper.
- Outlines procedures for addressing cash flow timing mismatches:
 - Develop monthly cash projections.
 - Monitor daily general fund cash balances.
 - Perform temporary interfund borrowing.
 - Transfer from SBR, CBR & ERA or sub funds.
 - In the event of revenue shortfall:
 - Seek legislative action through the Governor to access additional funds through appropriation from other Cash Reserve Funds discussed above.
 - Prioritize disbursements, restrict expenditures.

Cash Flow Deficiencies

- Use of budget reserve funds has been the solution of cash flow timing mismatches and revenue shortfalls.
- Appropriations From Reserve funds
 - The Legislature includes language annually in the operating budget appropriating budget reserve funds for revenue shortfalls.
 - Treasury has relied on this appropriation to authorize use of budget reserve funds to address timing cashflow mismatches as well.
- The CBRF was fully repaid by FY10.
- Borrowing from the CBRF recommenced in FY14.
- Per FY20 ACFR \$12.8B is owed to CBRF.

Revenue Volatility Management

Revenue Volatility

- Commodity Volatility
 - Petroleum revenues are 25% of FY22 projected unrestricted general fund revenues.
 - Uncertainty exists "in-year" for FY22 and beyond.
 - Will always have in-year uncertainty because we base budget on in-year oil collections.

- Investment Return Volatility
 - Investment earnings are 65% of FY22 projected unrestricted general fund revenues.
 - Certainty exists today for FY23 (due to a lagging POMV formula).
 - Uncertainty exists today for FY24 and beyond.

Volatility Management Techniques

- Access Cash Reserve and Other Funds (CBR and other fund balances).
- Modernize fiscal tools to include lines of credit in addition to revenue anticipation notes. (HB92/SB73)
- Manage timing of Earnings Reserve Account transfers to the General Fund.
- Manage timing of expenditures.

Take Aways

- Even with balanced budgets and if all revenue is received, cash flow timing mismatches will occur.
- Cash flow forecasting is always wrong.
- Revenue shortfalls may occur if forecasted assumptions are wrong.
- Higher revenue volatility requires greater cash reserves until volatility decreases.
- Volatility management techniques are available.

THANK YOU

Please find our contact information below:

Pam Leary
Director, Treasury Division
Alaska Department of Revenue
pam.leary@alaska.gov

Brian Fechter
Deputy Commissioner
Alaska Department of Revenue
brian.fechter@alaska.gov

treasury.dor.alaska.gov

