

HOUSE FINANCE COMMITTEE  
January 30, 2026  
1:51 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:51 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair  
Representative Andy Josephson, Co-Chair  
Representative Calvin Schrage, Co-Chair  
Representative Jamie Allard  
Representative Jeremy Bynum  
Representative Alyse Galvin  
Representative Sara Hannan  
Representative Elexie Moore  
Representative Frank Tomaszewski

MEMBERS ABSENT

Representative Nellie Unangiq Jimmie  
Representative Will Stapp

ALSO PRESENT

Janelle Earls, Acting Commissioner and Administrative Services Director, Department of Revenue; Pam Leary, Director, Treasury Division, Department of Revenue; Zach Hanna, Chief Investment Officer, Treasury Division, Department of Revenue.

SUMMARY

PRESENTATION: SAVINGS, RESERVES, AND INVESTMENTS BY THE DEPARTMENT OF REVENUE

Co-Chair Foster reviewed the meeting agenda.

PRESENTATION: SAVINGS, RESERVES, AND INVESTMENTS BY THE DEPARTMENT OF REVENUE

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JANELLE EARLS, ACTING COMMISSIONER AND ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF REVENUE, introduced herself and her colleagues.

PAM LEARY, DIRECTOR, TREASURY DIVISION, DEPARTMENT OF REVENUE, provided a PowerPoint presentation titled "Treasury Cash Flow and Investment Fund Update," dated January 30, 2026 (copy on file). She addressed the slides with prepared remarks:

Slide 2 is our agenda. First, we're going to introduce you to the functions in Treasury and then we will take a deeper dive into cash management, followed by an update of the Treasury's investment funds.

On slide 4 we have a chart that shows the four sections of the Treasury Division that touch investments and cash flows. We have 40 professionals that work in these sections with strong longevity. In fact, Treasury leadership has an average of 17 years at the Treasury. Many of our staff have professional designations such as CFA (Chartered Financial Analyst), like CIO Hanna, and CPAs (Certified Public Accountant) like me. The box in red shows the Portfolio Management Team, also called the front office, where 16 investment staff invest the assets for state fiduciaries. The team performs or oversees 120,000 trades annually, develops asset allocations and investment policies on behalf of hundreds of state accounts that roll into 45 investment funds, utilizing 30 investment pools, supported by about 150 investment managers and over 700 private equity funds. That is a lot, more than last year in fact and about half of the assets are managed internally and you'll hear more about that from CIO Hanna a bit later.

The green box is the Accounting and Operations side of the house also referred to as the back office, which ensures that those 120,000 trades and costs are all directed and accounted for in the correct amounts and in the right funds. The purple box in the lower left is the middle office where compliance and performance reporting is housed. The Compliance Group helps protect invested assets by monitoring adherence to laws, rules, regulations, contracts, policies, and

guidelines. They perform more than 75 compliance tests on trades daily. The Performance Group calculates the performance for 45 funds every day. This group also supports the other sections as the data management center bringing technology into our daily practice to make us more efficient and knowledgeable.

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Ms. Leary continued to review slide 4 with prepared remarks:

Cash Management in the teal colored box on the lower right is arguably one of the most important central functions provided to the state, processing thousands of transactions daily that support the revenue and expenditure in the accounting systems. They oversee all of the cashflows into and out of the state to ensure that the General Fund has sufficient balances to pay our bills. They also coordinate with our investment team daily to maximize our invested cash amounts. I will talk a little more about Cash Management in the next slides but will say that managing cashflows and investing \$58 billion in numerous investment funds is as complex as it sounds and I would take this opportunity to acknowledge our very skilled team for the work they do and the strong track record that they have.

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Ms. Leary turned to slide 6 titled "Managing Alaska's Cash Flows" and provided prepared remarks:

Cash Management provides many core services to the state from maintaining bank contracts for depository services and credit card acceptance programs to working with departments on federal programs. Arguably the most important daily task is managing state cashflows. As the graphic on the right shows, cash inflows come from various sources: tax revenue, federal programs, agency receipts, and reserves. While, cash outflows are made to pay for payroll, pensions, Medicaid, and Permanent Fund Dividends to name a few. As I will discuss later, the Cash Management team is experienced in working with the state's reserves to ensure we have sufficient cash

balances to pay our bills. According to Pew Trust research, Alaska's primary rainy day fund, the Constitutional Budget Reserve (CBR) is the second highest of all states in terms of being able to cover our operating budget. With the passage of SB 26 starting in 2019, revenue began coming into the Treasury from the Earnings Reserve Account (ERA) managed at the Alaska Permanent Fund. This has allowed for fewer draws from the rainy day fund and has been a welcome tool to manage cashflows, especially with uncertainty surrounding the amount of timing of cashflows.

Representative Galvin asked for context around the term "significant reserves." She referenced the statement that Alaska was the second highest of 50 states. She asked if there was a best practice for the amount a state like Alaska should have in reserves. She wondered if Alaska was exceeding that amount.

Ms. Leary answered that Alaska's \$2.9 billion to \$3 billion in reserves was a higher absolute number. When the Pew Trust looked at rankings it looked at the number of days a state could cover its operating expenses with reserves. She detailed that Wyoming was the highest with a year or more in reserves. Alaska had sufficient reserves to cover about 191 days of operating expenses. There were many answers that could be given to the best practices question. She believed every state was individual. She relayed that some states and municipalities used formulas. She remarked that coverage of days was an important data point. She detailed that from an absolute standpoint and Pew Trust standpoint, the state's reserves were currently adequate. There were always questions about what constituted enough and she believed that was a budgetary and administrative question. She noted that a lot of numbers had been heard over the years and what the correct number was was still in question.

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Representative Galvin imagined the ratings agencies evaluated Alaska based on cash flow and other factors. She guessed there were some standards the agencies looked for such as the ability to cover at least 150 days or whatever the number was. She remarked that Alaska was in a difficult fiscal time and it would be nice to know that the state was

not putting itself at any risk of downgrading its ratings. She would be grateful to have more certainty around what rating agencies were looking at when they looked at the component.

Ms. Leary answered that the department's debt manager would come speak to the committee about the rating agencies. She believed the state had four [rating] upgrades in the past couple of years, which was based on fiscal restraint, knowing reserve balances, the stability of the revenue stream (much of which was currently coming from the ERA). She did not know exactly what the rating agencies had and she did not know whether the debt manager would be able to provide an explicit answer. She noted that the fact that the state's ratings had continued to be stable had seen upgrade indicated that rating agencies thought Alaska was doing ok.

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Co-Chair Schrage remarked that while the state had large cash reserves, it had more volatile revenues than any other state, which warranted a large reserve because there may be dips in oil revenue for a prolonged period. He recognized there were best practices and metrics the rating agencies used to evaluate states, but he thought it was difficult to create a standard based on the rest of the country given Alaska's unique budgetary volatility. He asked if Ms. Leary agreed with the sentiment.

Ms. Leary agreed. She pointed out that the state's revenue stream was a bit more certain because the ERA represented a larger portion of that stream.

Representative Tomaszewski looked at slide 4 and referenced the bullet point reflecting that the division made trades on behalf of hundreds of state accounts that rolled into 45+ investment funds. He asked if the division was investing the unemployment insurance (UI) fund.

Ms. Leary responded affirmatively. She elaborated that the UI fund was one of the funds in the General Fund. More detail would be provided in the presentation.

Representative Tomaszewski asked if the hundreds of accounts were pooled together for investing. He asked if

there was information on how the funds were doing, what the investments looked like, and where the interest was going.

Ms. Leary replied that the presentation would address the General Fund and Other Non-Segregated Investments (GeFONSI), which the fund rolled up into. She explained that that GeFONSI I and II were investment funds invested in management funds. The funds' overall returns on any given day were the same, but cash flows in and out of the funds meant that there would be slight differences in the returns between the funds in a fiscal year. The division calculated the interest on a daily basis and assigned it to each of the funds managed in the GeFONSI accounts.

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Representative Hannan looked at slide 4 and understood there were 40 people in the Treasury Division with 16 in portfolio management. She asked about the number of staff in the other three sections.

Ms. Leary replied that Cash Management had 5 filled positions and 12 in the back office operations in administration.

Representative Hannan asked if the back office was accounting and operations.

Ms. Leary responded affirmatively.

Representative Hannan about the number of positions in the Compliance Section.

Ms. Leary clarified that compliance was included in group she had just mentioned.

Representative Hannan stated her understanding there were 40 total division employees.

Ms. Leary responded there were currently 40 filled positions, which included debt management and unclaimed property - unclaimed property day was February 1 and she encouraged people to look for their missing money. Additionally, there was an Alaska Retirement Management Board (ARMB) liaison, generally considered as part of the portfolio group because the position dealt with most of the retirement management investments.

Representative Hannan asked if all of the cannabis tax revenue ended up with the Cash Management section because it was physically cash.

Ms. Leary answered that all cash inflows and outflows came through Cash Management. She described the section as the gatekeeper of the state's bank.

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Ms. Leary moved to slide 7 related to revenue and expenditure uncertainty and read from prepared remarks:

On slide 7 we have detailed why we have revenue and expenditure uncertainty. Unrestricted general fund revenue came from two main sources: oil revenue and investment earnings. Oil is as commodity was quite volatile both in terms of price and quantity. The revenue from Permanent Fund investments was much less volatile. Due to the percent of market value formula that provides certainty in the current year and in the next year. Further, because investments are providing a greater share of unrestricted general revenue, projected to be more than 60 percent this year and next, we have a bit more certainty with revenues at least in the short term.

On the expenditure side, while those are generally planned, there can be uncertainty in terms of amounts and timing and those fall into a couple of categories. For example, federal programs require that departments spend the money before we call for reimbursement. There was always money going out the door before coming in. Also, there tend to be larger appropriations at the start of a fiscal year largely because the appropriations settled for the next year start going out and funds need to be available for those.

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Ms. Leary addressed slide 8 with prepared remarks:

Slide 8 defines cash flow deficiencies and revenue shortfalls and how we deal with them. Over time as more subfunds were created, the General Fund proper

had less money in it to pay our bills and that resulted in our need to monitor our cash balances more closely. Cash flow deficiencies are common and they can be addressed by managing the timing of receipts and payments. An example of this is when we spread out an appropriation payment across the year rather than just transferring the funds at the beginning of the year and we often will work with departments and divisions to make sure that that can happen. There is a memorandum of understanding between the Departments of Revenue, Administration, OMB, and Law that outline steps that we follow and those are shown on the righthand side of the slide. This is what we do if we have a cash deficiency, which is currently defined as forecast cash dipping below \$400 million for five days. If we see cash flow starting to get lower and lower, in our forecasting tools, which we update daily, it's remedied by taking our borrowing from the earnings reserve or the budget reserves.

A revenue shortfall occurs when revenue is insufficient to cover General Fund appropriations in any given fiscal years when you have a deficit. The legislature generally includes language annually in the operating budget, which appropriates budget reserve funds for revenue shortfalls. Treasury was reliant on this appropriation to authorize use of budget reserve funds to address both revenue shortfalls and the cash flow time mismatches. The Constitutional Budget Reserve Fund (CBRF) has been used to cover revenue shortfalls historically although the Statutory Budget Reserve has also been used in the past.

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Ms. Leary moved to slide 9 titled "Cash Management in Action" and provided prepared remarks:

The graph shows forecasted and actual cash for the first half of this fiscal year 26. This is updated daily after the Cash Management team works with the departments and analyzes all of the anticipated payments and incoming revenue for any changes they expect to the forecast. For example, if the tax department knows its oil revenue forecast or cannabis cash is going to be different than anticipated, the

tax department will let us know so we can update our cash forecast and that gets built into this diagram. Another example, which actually happened a few years back when there was a decision to pay Permanent Fund Dividends a little bit earlier than had planned, we hadn't made a cash call, and so we had to change our cash call plans. Sometimes we're anticipating funds that just don't come in, such as when the federal government announced it was going to shut down certain payments or if federal dollars are taking longer to show up as reimbursements. The Cash Management team has to be responsive and readily react to these scenarios and they do so on a daily basis.

Now that the Earnings Reserve Account is our primary tool in addressing cash deficits, at the start of each year we create an expected ERA draw and we work with the Permanent Fund Corporation to come up with a plan that works for them as well as our cash means and it seeks to maximize investments of the earnings reserve and not go below our \$400 million threshold. We've increased the number of draws in the past couple of years to provide greater flexibility and known liquidity needs. We will have made 61 draws at the end of this fiscal year from the earnings reserve totaling \$26 billion over the last eight years. We've had to revise our schedules from time to time but maybe only a couple of times per year due to unknown circumstances.

Representative Hannan looked at the diagram on slide 9 and observed there was a dramatic dip on August 11 and 12. She could not tell what caused the dip. She asked if it required the draw of a cash reserve or if the rebound was fast enough that the problem was resolved the following day. She thought the date at the time of the federal shut down and transfer.

Ms. Leary answered that it was a planned dip and recovery. She explained that it was generally shown separately on different days and she thought it was in the opposite direction the previous year. She believed it reflected the preparation of making the transfer of dividend fund balances from the General Fund into the Permanent Fund Dividend fund. The money had been called on the next day and on an accounting basis it all happened at once. The cash never actually physically dipped below the threshold.

She elaborated that there was background data that allowed the division to aggregate and show how the money was moving. She shared that it was helpful for her and the investment team to have a visual on where cash would be.

Representative Hannan asked for verification that even though it looked dramatic in the slide, it was something that occurred annually when moving money in preparation for distributing PFD checks. She stated her understanding that the transfer was scheduled and did not reflect a surprise to the division.

Ms. Leary replied affirmatively. She explained that sometimes there was a direct payment into the Permanent Fund Dividend fund and it did not go through the General Fund, but that was unusual. She confirmed that the transfer was normal and part of the process.

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Ms. Leary continued reviewing slide 9 with prepared remarks:

The last item on this slide highlights the integration of our cash investment teams. Every day based on forecasts and planned cash flows, Cash Management projects cash expected to be available for investment and works with our Portfolio team to ensure that all expected funds are fully invested. Cash Management is a small but mighty team with a big impact throughout the state and they do a great job.

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ZACH HANNA, CHIEF INVESTMENT OFFICER, TREASURY DIVISION, DEPARTMENT OF REVENUE, turned to slide 11 and reviewed the Treasury investment process with prepared remarks:

Page 11 is a summary of the process that Treasury uses to set over 25 investment policies for four fiduciaries of the state. The commissioner of Revenue is the sole fiduciary for many of the state funds that we'll be covering today. For the past six years Treasury has used a formal state investment review to develop and recommend investment policy. This involves the commissioner, investment staff, and an independent investment advisory committee. We use a similar

process to what we use for the retirement board investments. We review financial markets and performance for each fund quarterly and at least annually we review capital market assumptions and recommend asset classes and underlying investments. We go through each fund to recommend an appropriate investment policy and asset allocation that considers fund investment objectives and attributes like time horizon and liquidity needs. All Treasury investment recommendations to state fiduciaries are thoroughly vetted, they adhere to state law, and are consistent with best investment practice. The full quarterly investment review packets are available online on our website (linked in the back of the presentation in the appendix).

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Mr. Hanna moved to general capital market performance information on slide 12 titled "Recent Capital Market Performance." He provided prepared remarks:

Over the past few years we've experienced really an extraordinary economic cycle. We went through a global pandemic with high stimulus and near zero interest rates, then markets faced a surge of inflation, followed by one of the fastest interest rate hiking cycles in history. Today inflation has moderated to more reasonable levels and over the last three years capital markets have staged a strong rebound.

As you can see in the far right chart, which rank orders asset class returns each year, performance was all positive last year for 2025. It was led by a 32 percent return for international equities and on down the list including 7 percent returns for fixed income and 4 percent for cash equivalents. This is the backdrop for the returns that we'll go through by asset class and fund.

Mr. Hanna turned to slide 13 titled "Treasury Asset Class Performance" and provided prepared remarks:

Page 13 has the performance for the asset classes that Treasury manages for state portfolios. These are commingled investments that we use in different proportions to construct portfolios that are

diversified, low cost, and have high liquidity. We manage over 80 percent of these funds internally and focus on delivering market returns with consistent upside. The top section of the table on the right has the total performance for each asset class followed by a section with benchmark performance and then finally a spotlight section with performance relative to that benchmark. As you can see, returns were strong in the top section with cash and bond returns ranging from 5 to 8 percent and equities from 2 to 33 percent. In the bottom benchmark relative section the returns were also strong overall. For state portfolios, most of the assets are in the first three categories from cash through core fixed income. These are all internally managed and Treasury has produced consistent excess returns over time and 2025 was no exception, with excess returns from 24 to 42 basis points or .24 to .42 percent (a basis point is one one hundredth of a percent). Overall, strong positive returns across the state investment pools, which we'll go through by fund shortly.

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Representative Hannan asked if the 1-year, 3-year, 5-year, 7-year, and 10-year columns on slide 13 were predictive or historic.

Mr. Hanna replied that the numbers were historical investment returns through 12/31/25. He turned to the Treasury investment result summary on slide 14. The slide summarized the overall investment results for the year across Treasury portfolios and quantified the financial impact. He shared that he and Director Leary had the honor of working with a great team of professionals who took a lot of pride in working to generate strong results for the state. Overall, returns in 2025 were 12.9 percent across all of the funds (all \$58 billion) including retirement and state accounts managed by Treasury. The returns resulted in \$6.7 billion in gains for the calendar year.

Representative Galvin turned to slide 11. She shared that the Higher Education Investment Fund (HEIF) had been used to help balance the budget the prior year. She remarked that the legislature could have opted to use CBR funds, but only if the will had been there. She asked if HEIF was doing better than the CBR in terms of growth. She asked if

any money had been left on the table by choosing the HEIF over another fund source.

Mr. Hanna replied that the presentation would cover the fund in detail. He detailed that HEIF had a high risk profile and was heavily invested in equity markets. He relayed that equity markets did well in 2025. He reported that HEIF had much higher returns than the CBR [in 2025].

Representative Galvin asked if the decision may have resulted in the loss of some funds that could have been gained because it was a high earning year.

Mr. Hanna agreed.

Mr. Hanna continued with slide 14 and provided prepared remarks:

The state funds that we're going to go through today added \$658 million in gains to the state balance sheet in 2025. That's strong performance for a set of lower risk portfolios. The retirement systems that we'll touch on last rank in the top third of peer public pension plans generating excess returns over the past 10 years of \$2 billion over benchmark performance, which directly reduces state and employer contributions. As we mentioned, managing significant assets internally allows for tighter control results and material cost savings.

Mr. Hanna turned the presentation over to Ms. Leary. He noted that Ms. Leary would cover the background and history of each fund and he would cover asset allocation and performance.

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Ms. Leary addressed the Constitutional Budget Reserve Fund (CBRF) on slide 16. She discussed the savings reserve funds reflected by a chart showing invested asset history. The blue portion of the chart showed the fiscal year end balances of the main CBRF fund. She detailed that the fund was used for liquidity and revenue volatility management and was created in the Alaska Constitution in 1990 when voters approved adding Section 17 to Article 9 of the state constitution. She detailed that deposits to the fund included all money received by the state after July 1, 1990

through resolution of disputes about the amount of certain mineral related income. The gold section of the chart reflected the CBRF subaccount, created by the legislature in 2000. In accordance with statute, money in the subaccount was invested to yield higher returns than in the primary fund and was used for funds that would not be needed for at least five years. In 2008, \$4.1 billion was deposited into the subaccount and was managed to achieve a higher return than the main fund. In April 2015, the balance was returned to the main fund when it was determined that the funds would be needed within that five-year period.

Ms. Leary detailed that the gray area in the graph on slide 16 represented the Statutory Budget Reserve (SBR) created in 1986. The SBR was part of the GeFONSI before and after being managed as a separate fund from July 2013 to October 2015. The SBR was included in the graph to reflect all of the reserve accounts. On June 30, 2025, the invested balance of the CBRF was \$2.9 billion and the SBR had \$149 million.

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Mr. Hanna addressed slide 17 titled "Constitutional Budget Reserve Fund Combined Main and Sub Accounts." He reported that balances had been stable at close to \$3 billion for the past three years, but were drawn down to \$1 billion the prior two years through the pandemic. The CBRF was the state's primary reserve fund with a potentially short time horizon. Treasury staff had consistently recommended an investment approach that provided high liquidity and principal protection. The slide showed that at year end the combined CBRF accounts were 100 percent invested in cash equivalents. Historically, the asset allocation often included longer term bonds and a modest equity exposure at times to enhance earnings while still protecting principal. He stated that since yields had remained elevated for cash investments and published fiscal information did not support a longer time horizon, Treasury staff recommended leaving the fund invested in cash. From a performance perspective, 2025 was a good year for cash investments and the CBRF overall. The one-year performance was 4.48 percent in excess of the benchmark by 20 basis points. In total, there were \$127 million in net gains for the combined CBRF accounts in 2025.

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Ms. Leary addressed the balances of the two GeFONSI funds on slide 18. She explained that the General Fund was the checking account of the state where all of the cash flows went in and out. The fund had a \$400 million minimum. There were about 185 other accounts in the GeFONSI funds that were managed together but accounted for separately. The first GeFONSI was created in 1992 as a way to pool accounts for investment and the GeFONSI II was created in 2018 to target a slightly higher risk return for a subset of the funds. As of June 30, 2025, there was \$3.4 billion in the GeFONSI funds combined. She noted the presentation appendix included a list of the top 30 funds that rolled into each of the GeFONSI funds as of the end of December 2025. Currently, the General Fund was the largest of the funds at close to \$1.5 billion.

Mr. Hanna reviewed the investment information for the GeFONSI funds on slide 19. Both GeFONSI I and II had a short investment horizon with a relatively high need for principal and income protection. He detailed that GeFONSI I was 85 percent cash equivalents and 15 percent short term bonds and GeFONSI II had a modestly higher risk with 61 percent cash equivalents, 33 percent short term bonds, and 6 percent equities. Similar to the CBRF, the funds had fewer long term bonds than they have had historically, but as rates normalized - which may happen in the current or following year - there may be some additional risk added to the funds to increase earnings while continuing to protect principal. Performance for the year was positive for both funds with a 4.71 percent return for GeFONSI I and a 5.93 percent return for GeFONSI II (both 30 basis points in excess of their benchmarks). Overall, the total performance resulted in \$172 million in gains in 2025.

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Ms. Leary reviewed the historical asset values of the Public School Trust Fund (PSTF) on slide 20. The PSTF had a 2025 year-end balance of \$911 million. The fund was created in 1978 and was funded with one half of one percent of state receipts from the management of state lands. The fund was used to provide an offset to the education formula funding. In FY 25, the fund contributed \$35 million to the

Public Education Fund and was expected to contribute \$35 in FY 26 and \$37.5 million in FY 27.

Mr. Hanna turned to funds with a long time horizon and a high ability to bear risk, beginning with PSTF on slide 21. Treasury used a high risk profile for the fund to inflation proof it and achieve the long-term statutory spending objective of up to 5 percent of the last five years' average balance. The risk profile for PSTF and other similar funds was set at the risk equivalent of 70 percent equities and 30 percent bonds. He detailed that Treasury sought to preserve the purchasing power of the fund over time through a combination of the investment policy and spending recommendations that Treasury made to the Department of Education and Early Development and Office of Management and Budget. Performance over the past year was a high 17.07 percent, modestly over the benchmark. The fund had \$141 million in gains for the year, which brought it back to peak assets. The 10-year compound performance was a high 8.6 percent.

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Ms. Leary reviewed the HEIF on slide 22 with prepared remarks:

The fund was capitalized with \$400 million deposited from the Alaska Housing Capital Corporation and its used to support the Alaska Performance Scholarship (APS) awards, Alaska Advantage Education Grants (AEG, and other education uses. Up to 7 percent can be appropriated for scholarships and of that amount, two-thirds goes towards the APS awards and one-third towards the AEG grants. HB 322 established the Higher Education Fund as a separate fund as of June 30, 2022 and HB 148 passed recently, increasing the amounts of the scholarship and grants. The balance as of June 2025 as shown on this slide was \$435 million, which was reduced by a \$130 million transfer to the General Fund at the beginning of FY 2026.

Representative Tomaszewski considered the scenario that occurred the previous session where the legislature decided to withdraw \$130 million from the HEIF account. He remarked that Treasury had the money invested in a long term investment that was generally generating a high return. He asked if the division had discretion to take funding from

another location such as cash equivalents to avoid spending from an account that could have made substantially more if the funds had not been used.

Ms. Leary replied that the division worked with OMB in terms of how to move the money, but because it was part of the budget and how the legislature decided to move the money, that was what was moved. She stated it was an interesting situation because it was essentially filling the deficit. The amount of the deficit had not been known right away, and it took a bit of time to determine what amount should be transferred. In the end, it was roughly \$130 million that would fill the gap. Treasury staff, as the investors, were not the ones pulling the triggers for the incoming and outgoing money. Generally, that responsibility went to agencies that had been given appropriation authority, OMB, and the Division of Finance. She concluded that Treasury did not have a choice.

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Representative Tomaszewski imagined Treasury looked at the "these moves" and wondered why the legislature had chosen a particular option. He asked what was lost by making that one move [using funds from HEIF].

Mr. Hanna replied that they would have to go back to look at the date of the transfer and follow up. He noted that a rough estimate was the six-month return of 8.29 percent on slide 23 minus the CBRF return of around 2.25 percent. A very rough approximation was about 6 percent on the \$130 million.

Representative Hannan asked how much of the withdrawn funds had grown back in the last six months since the withdraw had been made. She noted that the balances provided were annualized instead of fiscal year making it harder to determine the number.

Mr. Hanna replied that the fund increased in value by \$61 million in the calendar year. He detailed that for the year the returns were ironically half and half. He did not recall exactly how they were apportioned throughout the year. He estimated that about half of the gain occurred in the second half of the year. He noted that it was probably slightly less than that because the value went down. He could follow up with the precise information.

Representative Hannan noted there was discussion of restoring the money in the supplemental. She asked about a hypothetical scenario where Mr. Hanna was a personal advisor and she had drawn the money out of a high risk savings account. She asked whether he would recommend increasing the restoration to the amount of lost earnings. For example, if she took \$100 million, but it could have been \$110 million, she asked if she should restore \$110 million. Alternatively, she asked if the restoration of the original \$100 million was acceptable from a management perspective.

Mr. Hanna replied that it was a policy call. He stated that when similar things had occurred in the past, both paths were taken at different times. At times the principal reduction was restored and at times the principal reduction and foregone earnings were restored. He stated that it was effectively a budgetary choice. He remarked that markets went up and down and the recent market performance happened to be a very strong period that no one predicted. He noted that if the legislature went down the path of restoring funds, additional market activity would take place between the current day and when the funds were restored. He highlighted that markets could continue to go up during the time period, but they also could go down.

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Representative Allard requested to receive information showing the percentages lost and gained back [in the HEIF] in an email for the committee.

Mr. Hanna agreed.

Representative Galvin was interested in the information for the CBR as well in order to compare it to the HEIF. She wanted to get a sense if it was the best choice to balance the budget.

Mr. Hanna was happy to provide the information in an email. He reviewed HEIF investment performance details for the year on slide 23. The fund had the same high risk profile as the PSTF to support the annual spending on scholarships and other programs. Unlike the PSTF, the HEIF did not have a smoothing mechanism or inflation proofing. He detailed that scholarship spending was up to 7 percent of the prior

year's ending value in statute. The fund had not historically been inflation proofed. Spending prior to the \$130 million reduction was roughly equal to the overall cumulative earnings of the fund over time. The fund was \$400 million at inception and was roughly the same size at the start of FY 26. Performance over the past year was strong at 17.08 percent, in excess of its benchmark, and resulted in \$61 million in total gains. The 10-year performance was 8.86 percent, which was well over expectations; it had been a very strong period of capital market performance over the past 10 years. The challenge for the fund was that current spending of over \$30 million per year was already at the fund's earning capacity prior to the \$130 million reduction used to balance the budget [in FY 26] and in the longer term spending and the fund's capitalization level may need to be reconciled. He understood the legislature would be talking with Alaska Commission on Postsecondary Education (ACPE) about expected spending for the various programs the fund supported over time and it likely could be factored in as well when considering recapitalizing the fund or what the fund may look like over the long term depending on how the program spent the principal of the fund.

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Co-Chair Josephson recalled that about five years back the fund was entirely swept into the CBR and not reverse swept. He stated that the governor wanted to replenish the fund with the CBR (there was no other source to do so). He noted that although it had taken years, in a limited respect, it would be a return of the capital back to HEIF.

Mr. Hanna replied affirmatively. He stated it would be a return of the principal reduction that took place in FY 26.

Co-Chair Josephson asked for verification that when the fund had been restored to just under what it had been prior to the sweep the funds were new and not merely a return from the CBR. He asked if it was true that - over his objection - the CBR had been enriched by the sweeping of HEIF.

Mr. Hanna replied that he may have answered incorrectly. He stated that HEIF was swept around 2020. He believed that when the fund was replenished it included some

approximation of the foregone earnings. He would follow up with precise detail about what transpired.

Co-Chair Josephson opined that in almost an elementary way there was a righteousness in using swept dollars to replenish HEIF because at least \$130 million of the funds had originally come from HEIF.

Mr. Hanna answered that the HEIF funds had been swept into the CBR and it was replenished from the CBR. He would follow up on the details.

Ms. Leary added that the \$130 million went from the HEIF to the General Fund. The request in the FY 26 supplemental was to replenish the funds from the CBR.

[2:47:08 PM](#)

Co-Chair Josephson clarified that he was saying there was some logic in replenishing the HEIF from the source it was swept to. He stated that there was a fairness in that action.

Ms. Leary addressed the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) pension and health defined benefit (DB) plans on slide 24. She noted that PERS was shown in blue in the graph and TRS was shown in yellow. The four funds totaled \$32.3 billion at the end of June 30 and as closed funds, the defined benefit (DB) plans currently experience net withdrawals annually. The ARMB was the fund fiduciary and was comprised of nine trustees (two from PERS, two from TRS, two commissioners, two public representatives, and one finance officer). For 2025 investment returns for the funds were just over 10.11 percent and the 40-year average return for PERS/TRS was 8.51 percent, which compared favorably to the overall actuarial assumed rate during that period of 8.17 percent.

Mr. Hanna reviewed the DB retirement assets on slide 25. The ARMB was Treasury's largest client and represented 83 percent of Treasury assets under management. The systems had a more complex asset allocation because they were long term funds with a long term fiduciary board. The systems had meaningful allocations to less liquid alternative investments like private equity, private debt, and real assets. The current asset allocation was 42 percent public equities, 24 percent fixed income, and 34 percent

alternative investments. He relayed that returns had been strong. Treasury focused on longer term returns in the portfolio because having material allocations to alternatives could make shorter term comparisons difficult or misleading. The 10-year return through September 30, 2025 was 9.1 percent, which was 27 basis points over the benchmark and well in excess of the current assumed actuarial return of 7.25 percent. Part of the excess return could be attributed to ARMB's intentional lower cost approach that emphasized internal management. He shared it led to costs that were roughly 30 percent lower than the median peer, saving over \$30 million per year consistently, which went directly to the bottom line. He highlighted that performance was in the top third of returns when compared to peers, better than over 65 percent of other public pension systems. Overall, strong returns for ARMB made a meaningful contribution to retirement assets and reduced the need for higher state contributions. He concluded the presentation and was happy to answer any questions.

[2:50:41 PM](#)

Co-Chair Josephson remarked that ARMB was seeking something like \$34 million more than the governor proposed in his budget. He asked for any guidance on what the legislature should do or what model to use. He understood they were using different models. He remarked that there was criticism historically that the legislature did not do enough to pay down the fund liability.

Mr. Hanna responded that the question would be best addressed by the actuaries and the Division of Retirement and Benefits (DRB) when they came to present to the committee. He explained that Treasury's focus was on the investment of the assets for the pension system. The division staff worked with ARMB and were staff to the board; therefore, they were aware of the liability payment stream on the actuarial side. He stated that the difference between what ARMB recommended and what was built into the budget was a difference in how the debt was being amortized. He detailed that ARMB had taken recent action to reduce the amortization period from 25 years to 15 years, which increased cost in the short term over what would have been paid had the amortization period been longer. He stated that a portion of the budget was built on the 25-year period. He encouraged the committee to delve into the subject when it talked with actuaries or DRB.

Co-Chair Foster thanked the presenters and reviewed the schedule for the following meeting.

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ADJOURNMENT

2:53:38 PM

The meeting was adjourned at 2:53 p.m.