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**STATE OF ALASKA
DEPARTMENT OF REVENUE
TREASURY DIVISION
ANNUAL REPORT
FY93**

Laraine L. Derr, Deputy Commissioner

FY93 ANNUAL REPORT
TREASURY DIVISION

To the Commissioner of Revenue:

This report is a summary of activities in the Treasury Division for FY93. As I enter my first full year as Deputy Commissioner, I wish to congratulate the employees of the Treasury Division for a job well done for the people of Alaska.

Over the last year, Treasury's accomplishments have contributed significantly to the growth in financial stability of the State of Alaska. We have saved money for the operating fund, reduced operating costs for other departments, and generated outstanding investment returns, while assuring citizens that all accounting procedures follow the highest standards. You can be pleased with the performance of Treasury personnel.

Alaska ranks number ONE of the fifty states in electronic revenue collections. Alaska ranks in the top 25th percentile for total returns on investments (14.25% and 14.38% respectively in PERS and TRS, the two largest funds). Fixed income returns place us in the top 13th percentile as measured by Callan Associates. Real estate mortgages in portfolios held by the retirement funds were sold for \$107 million at 97% of book value -- stellar performance in a depressed real estate market.

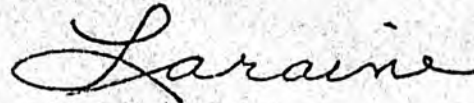
Cash Management transmitted over \$100 billion in transactions into AKSAS, the State's accounting system. Over 1.3 million checks were deposited and almost 3 million warrants were redeemed -- a record high. Revenues of over \$5.3 billion were received electronically; \$4.1 billion was paid electronically. Due to innovative approaches, new technology and new procedures, the Cash Management Section was responsible for saving over \$1 million for the State this past year.

Debt Management issued almost \$70 million in debt, both in purchasing facilities that had previously been rented and in refunding other issues because of low interest rates. This activity resulted in lower debt service requirements for the State.

The Comptroller's office is implementing new technology that will provide increased efficiency in Treasury operations. Many computer workstations were upgraded, an electronic mail system was installed and a disaster recovery plan was initiated.

The Alaska State Pension Investment Board was formed. Revenue employees are staffing that board as well as the State Bond Committee.

All in all, you can be proud that you have such a highly diversified group of employees in the Department of Revenue. It is a pleasure for me to work with this group of fine people and to serve you, in your role as Commissioner of Revenue.



Laraine L. Derr
Deputy Commissioner



STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

WALTER J. HICKEL, GOVERNOR

P.O. BOX 110400
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January 10, 1994

The Honorable Con Ralph Bunde
State Capitol, Room 112
Juneau, Alaska 99801

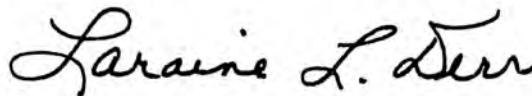
Dear Legislator:

Enclosed is a copy of the FY 93 Treasury Annual Report. It contains information on the various areas of the Treasury which include asset accounting, portfolio management, cash management, debt management and investments. This is the first year a report has been done specifically for the Treasury Division and I thought it might be useful to you.

With the FY 94 annual report, I plan to include fund balances and generally expand the report to include answers to frequently asked questions.

If you have questions regarding any section of the report, please call me.

Sincerely,



Laraine L. Derr
Deputy Commissioner

Enclosure

PORTFOLIO MANAGEMENT

OVERVIEW

FY93 began with the acceptance of an Asset Allocation Study performed by the consulting firm of Dorn, Helliesen and Cottle for the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS). The Asset Allocation Study was instituted to assist the Commissioner in developing a diversified portfolio that would achieve rates of return consistent with actuarial assumptions and minimize market risk. Concurrent with the Asset Allocation Study, Dorn, Helliesen and Cottle assisted the Commissioner and staff in developing and implementing investment policies.

On July 8, 1992, the Commissioner, Deputy Commissioner, and Chief Investment Officer signed into effect the Asset Allocation and Investment Policies. Work began immediately to implement the policies by first reviewing the Domestic Equity Portfolio. Details of the year in review will be featured in each asset class section but certain highlights should be noted.

In the Fixed Income Portfolio, managed internally by Treasury Staff, performance was outstanding with returns for the year of 15.13% in the Retirement Systems' Portfolios. The performance exceeded the benchmark *Lehman Brothers Government/Corporate Index* by 2% and ranked Alaska in the top 13th percentile in the country.

Another accomplishment in the Fixed Income Portfolio was initiation of a short-term investment pool. The investment pool allows staff to keep less cash in reserve to meet cash flow requirements. In a normal positive yield curve environment, extending maturities adds incremental return to all the funds.

The Real Estate Section can also look back on the year with satisfaction, knowing that they completed a bulk sale of the Mortgage Portfolio at very competitive market prices. The sale also enhanced the

control and maintenance of existing non-liquidated mortgages, thus allowing staff to make timely decisions with more accurate information.

For FY93, total returns for the Public Employees' Retirement System and the Teachers' Retirement System were 14.25% and 14.38%, respectively. These returns were sufficient to rank the performance of the funds in the top 25th percentile of the Public Retirement Systems in the nation. Performance was measured by the Department of Revenue's independent performance measurement consultant, Callan Associates, Inc.

Performance of the shorter maturity funds, such as the General Fund, was consistent with the excellent performance of PERS and TRS. These funds were constrained by the maturity restraints and the need to minimize risk. The approach is consistent with managing the State's cash flow needs.

A review of the year would not be complete without a discussion of the creation of the Alaska State Pension Investment Board (ASPIB). The eight member Board, four appointed by the Governor, two elected representatives of the Teachers' Retirement System, and two elected representatives from the Public Employees' Retirement System, convened in February of 1993. Board members participated in an intensive four-month educational process. The educational process culminated at the June Board meeting in Soldotna with the acceptance of fiduciary responsibility effective on July 1, 1993. The Board also accepted the Asset Allocation and Investment Policies.

EQUITIES

Implementation of the Asset Allocation began with a thorough review of the Domestic Equity Portfolio. The review consisted of an evaluation of each equity manager's style and historical performance.

The review concluded that one manager should be dismissed, and that the total equity portfolio had a style bias toward large capitalized growth stocks. This indicated the need for greater style diversification, such as acquiring a value style manager and companies with smaller capitalization.

With the assistance of the firm of Dorn, Helliesen and Cottle, staff initiated searches to find equity managers that have expertise in managing portfolios consisting of companies with smaller capitalization. The initial review process involved analyzing over 70 equity management firms. Six firms were invited to make presentations to the Commissioner, Deputy Commissioner, and Chief Investment Officer.

Of the six finalists, four managers were selected. Two of the selected firms employ a style bias toward value stocks and two specialize in growth companies. In the fall of 1992, each of the four managers was funded with seventy-five million dollars (\$75,000,000).

After completing the small capitalization manager search, staff initiated a search to add equity managers who employ a value style. This decision evolved from the analysis that the domestic equity portfolio was structured with a bias toward growth stock.

The review process was the same as the small cap equity manager search. Four value managers were invited to make a presentation to staff. From the four presentations, two managers were selected, and each was funded with one hundred twelve million five hundred thousand dollars (\$112,500,000) early in 1993.

The concluding search in the Domestic Equity Portfolio was for a manager with expertise in Tactical Asset Allocation. A Tactical Asset Allocation manager analyzes the valuations of the equity and bond markets and adjusts the market exposure toward the asset class that adds the greatest value.

Again, the process was the same as the other searches with three finalists making presentations for one position. After the selection, the funding took place on January 4, 1993, with three hundred million dollars (\$300,000,000) committed to tactical asset allocation.

With the Domestic Equity Portfolio re-balanced, attention was directed toward the International Equity Portfolio. The existing portfolio consists of two managers with a mandate to out-perform the *Morgan Stanley Capital International Europe, Australia, and Far East Index* (EAFE).

The decision was to leave one manager with an EAFE mandate, and to change the other manager's mandate to managing a portfolio of European equities. Other actions were to add two global managers, hire two managers with expertise in the Pacific Basin EX-Japan, and to seek one or two managers with expertise in the emerging markets. With the exception of hiring the emerging market managers, all the searches were completed in FY93.

The search process was identical to the domestic equity searches with the following conclusion:

1. One existing domestic equity manager's mandate was expanded to include global equity with a three hundred million dollar (\$300,000,000) portfolio.
2. A new global manager was hired and funded with one hundred twenty-five million dollars (\$125,000,000).
3. Two Pacific Basin EX-Japan managers were hired and each was funded with approximately fifty-six million dollars (\$56,000,000).

The emerging market manager search was not instituted in FY93. However, the Alaska State Pension Investment Board (ASPIB) has

authorized a search and the selection and funding should be concluded by January, 1994.

The aggregate performance of both the domestic and international equity managers exceeded the median performance of the managers of the Callan Associates' database. For FY93, the Domestic Equity Portfolio had returns of 15.67%, which exceeded the benchmark S&P 500 Index (13.58%) by over of 2%. While out-performing most active managers, the International Portfolio under-performed the EAFE Index (8.44% versus 20.28%), because one manager limited their exposure to the Japanese stock market. The Japanese stock market had returns in excess of 40%.

The restructuring of the Domestic and International Equity Portfolios should enhance future performances. Risk will also be reduced due to improved style diversification.

FIXED INCOME

The Treasury Division manages thirteen state, retirement, and endowment trust funds. The entire \$6.1 billion fixed income investments are managed internally by a professional staff of three. During FY93 fixed income investments produced \$520 million investment income and capital gains. Each fund is managed to meet its specific requirements and objectives.

SHORT-TERM FUNDS

The short-term funds are managed with a maximum two-year maturity constraint. Preservation of the principal and liquidity are the main objectives of these funds. Primary investments include U.S. Treasuries and Agencies, high grade corporate securities, money market instruments, and repurchase agreements (collateralized by U.S. Treasuries only).

During the fiscal year, Portfolio staff, with the cooperation of other Treasury staff, consolidated the investments of several short term funds into an investment pool. This added several benefits to the management of these monies. The pooling of securities enables funds to enjoy lower transaction costs. This includes commission costs and operation costs. The investment pool also allows various funds to minimize overnight cash investments. Under a positive yield curve environment, these funds are able to capture incremental yield. Most critical, this is accomplished without compromising liquidity and principal concerns.

LONG-TERM FUNDS

During FY93 the retirement trust funds provided a generous return of 15.13%. These investments have consistently produced superior returns within a structured conservative investment strategy developed to produce superior returns with limited risk. The 15.13% return compares favorably to the returns of all fixed income portfolios in the Callan Associates universe of almost 400 institutional fixed income portfolios. Alaska's 1993 returns were in the top 13 percent among these portfolios. Measured against this universe over a period of five years, Alaska's returns have consistently been in the top 25 percent.

INVESTMENT STRATEGY

These returns have been produced by a strategy designed for consistent long-term returns with limited risk. The strategy is based upon three key foundations. First, investing is a long-term undertaking. Therefore long-term trends, objectives, and risk/return analysis should guide the process. Short-term opportunities or trends may present themselves but focus on the long term can never be lost.

Second, investment effort should be focused where the long-term risk/return relationship is most advantageous. Ibbotson Associates in Chicago has compiled historical return data covering the period from 1926 through 1992, which covers the great depression in the 30's through the recent "up" markets in the 80's. A review of this data reveals two key points central to Alaska's investment approach.

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Intermediate government bonds (5 to 10 year maturity) have a higher return (5.2% vs. 4.8%) than long-term government bonds (10+ year maturities) with lower risk. Risk is defined as the variability of returns. Next, long-term corporate bonds have a higher return, 5.5% vs. 4.8%, than long-term government bonds with less risk. Therefore Alaska's investments are focused on intermediate corporate and government bonds.

Diversification and risk control are the final keys to Alaska's investment portfolios. The corporate bond portfolio is restricted to investment grade bonds. There are no "junk bonds" in the portfolio. Alaska will not purchase more than 10% of any individual issue and no individual issuer's debt will comprise more than 5% of the total portfolio. There are further restrictions on the lowest levels of investment grade debt. All these restrictions serve to improve the liquidity of the portfolio and reduce the risk that one company's trouble will significantly affect the entire portfolio.

ENDOWMENT FUNDS

Portfolio staff also manages the fixed income assets of various endowment funds. Under the similar long-term investment approach, these funds have also enjoyed excellent results. The FY93 results of the endowment funds ranked in the top 21 percent of the Callan Endowment Universe. On a five-year basis, the results also ranked favorably in the top 30 percent of the universe.

LOOKING FORWARD

Portfolio staff intends to form two investment pools during FY94. One pool will be for fixed income assets of Retirement Funds and the other will be for Endowment Funds. The funds will realize lower transaction costs and ultimately, higher returns.

In conjunction with establishment of investment pools, Portfolio staff will continue to review current investment guidelines of various funds with all interested parties.

REAL ESTATE INVESTMENT

Mortgage Portfolio

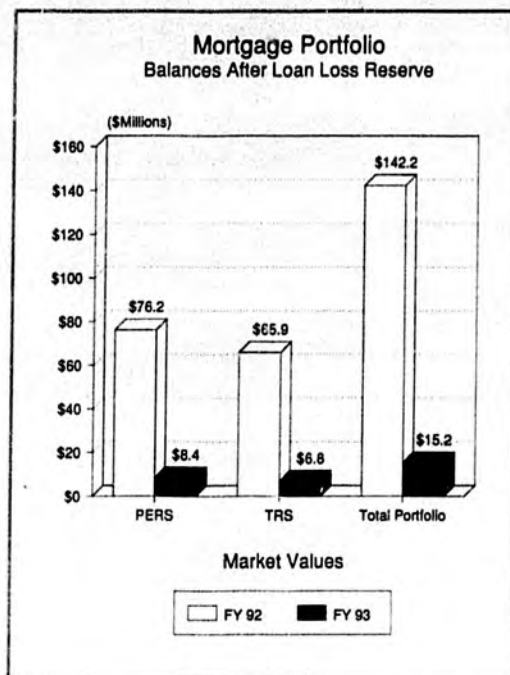
FY93 Goals and Objectives

To develop and implement a plan to liquidate the Mortgage Portfolio in an organized and prudent manner.

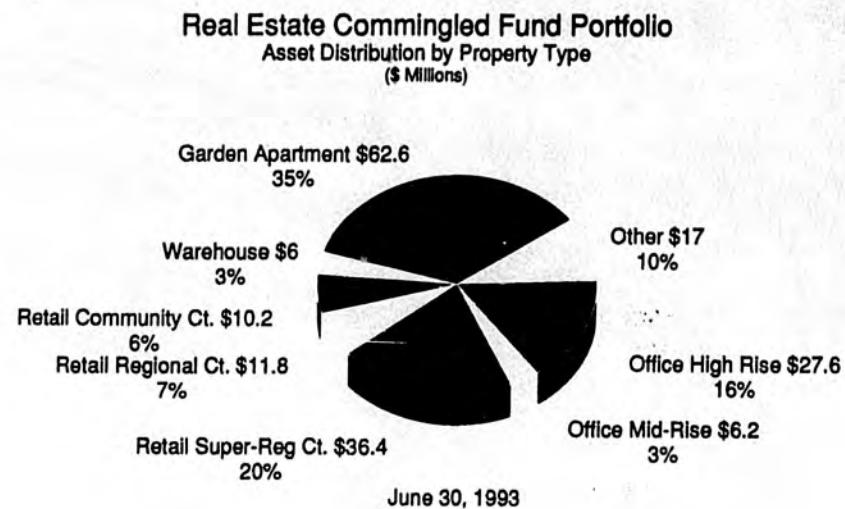
The following is a recap of FY93 activities that resulted in the implementation of a plan that reduced the Portfolio from \$142,200,000 to \$15,200,000 through loan sales, paydowns, sales of Real Estate Owned, and re-valuation of the remaining portfolio assets. (Graph A)

Mortgage Portfolio Public Offering:

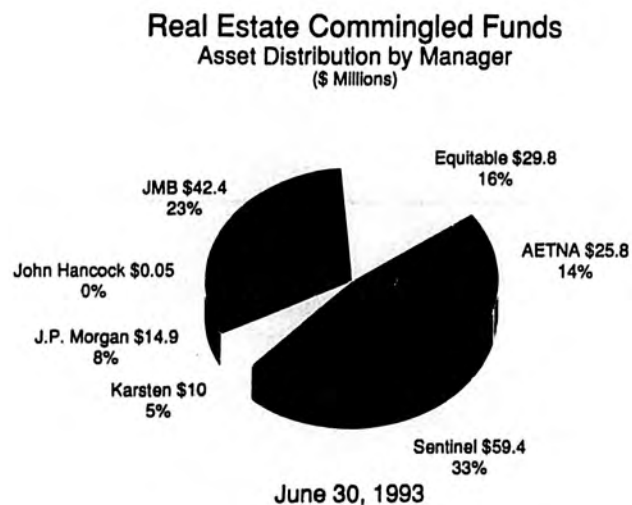
A public offering of all mortgage assets, including performing loans, non-performing loans, Real Estate Owned (REO), contaminated properties, and judgments, was held during the months of November, 1992, through May, 1993 (including the time to prepare and close). National Bank of Alaska's bids on the performing loans, in the 0 to 59 day and 60 to 89 day delinquent categories, were considered by staff to be more than satisfactory. Approximately \$107,000,000 in loans were sold at an average of 97% of par. The residential loans were sold at 103% of par. The commercial loans were sold at 91% of par.



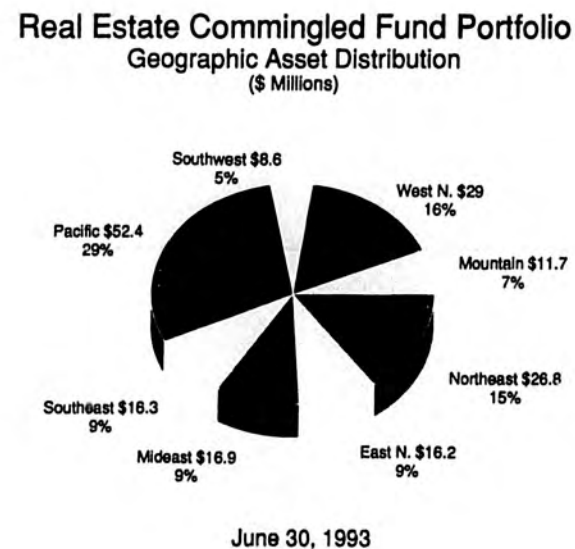
Graph A



Graph C



Graph B



Graph D

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It should be noted that National Bank of Alaska successfully bid against two national firms. Since the sale was 95% Alaskan loans, the Treasury staff was pleased because the successful NBA bids would allow the loan servicing to remain in Alaska.

As opposed to hiring a specialized firm to organize and effect a mortgage portfolio sale, the entire project was handled by staff personnel with a minimal cost for contract labor. This was accomplished by the Real Estate and Accounting staffs' performing "above and beyond the call of duty".

As an additional note, certain commercial loans which were anticipated to be prepaid were removed from the sale (within the offering guidelines), resulting in full payment at par rather than our receiving 91% of par. As a result, the State "saved" about \$180,000.

Accounting Changes:

With the help of the Accounting and Portfolio Management staffs, we are currently upgrading our internal reporting to provide more up-to-date information on capital expenditures and income on each asset we control. Additionally, internal control procedures are being modified.

Changes in REO Sales Policies:

In November of 1992, seller financing, previously offered on REO, was discontinued. The terms typically were 10% down, 20 year amortization, 10% interest. It was concluded that the future effects of such financing would cause more problems than the immediate ones it solved. More conservative seller financing on specific properties will be recommended to the Chief Investment Officer on a case by case basis.

Other changes in the Real Estate Section's policies include:

- a) pricing REO to the current market;
- b) increased efforts to avoid foreclosures;
- c) continuous prudent aversion to lengthy litigation, resulting in reduced legal costs and quicker processing of loan

- modifications and foreclosures; and
- d) close scrutiny of any proposed capital improvements.

REO Sales:

In FY93, approximately 50 REO assets were sold for \$10,000,000, resulting in a loss of \$2,200,000. As of August 1, 1993, there were 70 REO properties with listed prices, including pending sales, totaling \$9,000,000, 28 REO sales totaling \$2,300,000 are pending. A few REO assets are not currently for sale due to contamination or legal problems. Because we still have a source of potential foreclosures, the REO asset category will continue to incur additions.

Quality of The Remaining Mortgage Portfolio:

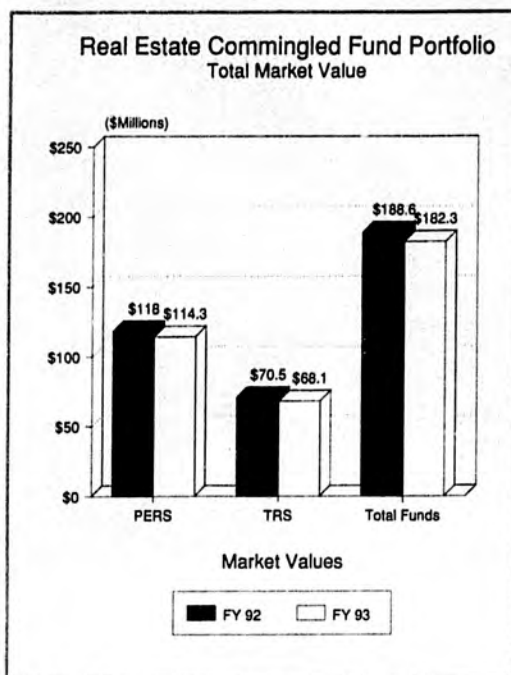
The remaining portfolio is of poor quality because:

- a) the overall quality of the REO, contaminated properties, and the non-amortizing/non-interest-accruing loans, has deteriorated as the percentage of assets on the books for extended periods has increased; and
- b) the sale to NBA involved only performing loans, leaving the troubled loans, REO, contaminated properties, and judgments in the portfolio.

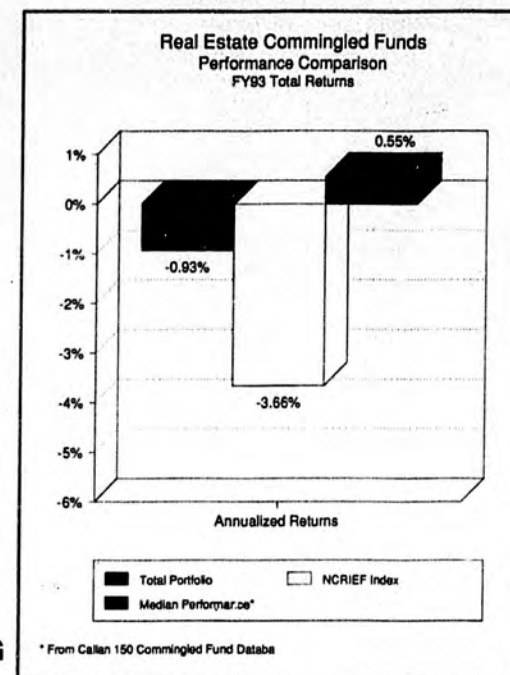
Mortgage Portfolio Asset Write-Down:

As of June 30, 1993, the remaining Mortgage Portfolio assets were valued by staff on an asset by asset basis resulting in the following:

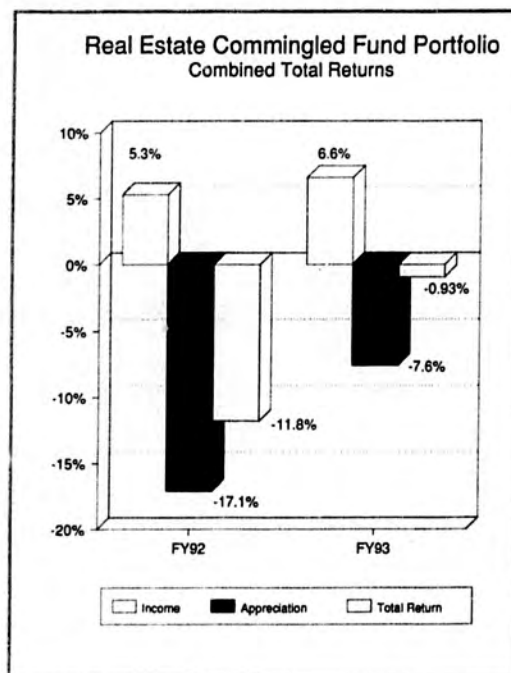
- a) REO, contaminated properties, and judgments were written down from \$15,800,000 to \$7,300,000 (\$8,500,000 write-down = 54%); and
- b) loans with a principal balance totaling \$14,300,000 were considered to have a potential loss factor of \$6,400,000 (45%).



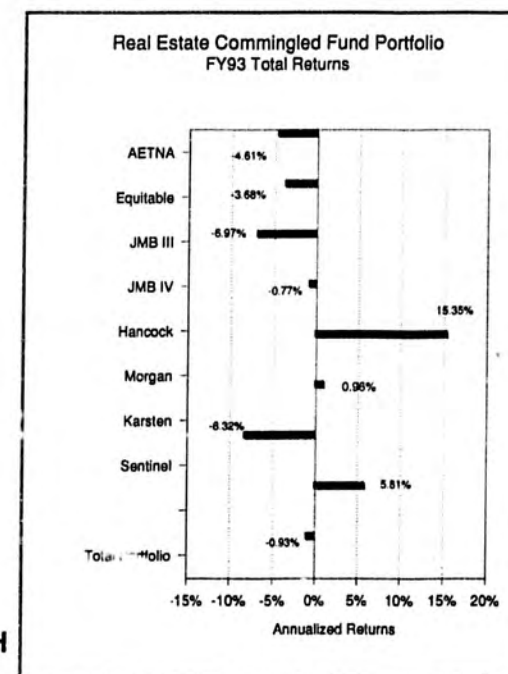
Graph E



Graph G



Graph F



Graph H

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It is anticipated that the above write-downs and the revised reserve against future loan losses are sufficient to prevent additional near-term adjustments to the Loan Loss Reserve.

Mortgage Portfolio Value as of June 30, 1993:

90 accounts, including REO, contaminated properties, and judgments, with a written-down book value	\$7,300,000
80 loans (40 of which are 90 or more days delinquent with a principal balance before Loan Loss Reserve	<u>14,300,000</u>
*SUBTOTAL	<u>\$21,600,000</u>
Less Loan Loss Reserve	<u>6,400,000</u>
Mortgage Portfolio Book Value 6/30/93	\$15,200,000

COMMINGLED FUNDS

Performance:

The real estate equities are made up of holdings in seven commingled funds managed by nationally recognized real estate investment advisors (Graphs B, C and D). The market value of these holdings declined from \$118.0 million in FY92 to \$114.3 million in FY93. (Graph E)

Total returns of commingled funds improved substantially from -11.8% in FY92 to -0.9% in FY93. While the income component increased from 5.3% to 6.6%, the greater change was in the appreciation component that improved from -17.1% to -7.6%. (Graph F)

The -0.9% return compares favorably with the NCREIF Index of -3.66%. Callan's 150 fund performance database median reflected a total return of 0.55%. (Graphs G & H)

While improvement in total returns have been achieved, our commingled funds have yet to produce positive returns. What should be noted, however, is that the income component of the total return is positive and improving. Secondly, the appreciation component improvement is signaling a declining rate of overall value loss.

PORTFOLIO MANAGEMENT PERSONNEL- Investment Section

Bob Storer - Chief Investment Officer. Primary responsibility is to oversee Portfolio Management and insure that asset allocation is fully implemented.



Michael Cheung - CFA. Investment Officer. Primary responsibility is to manage retirement and endowment portfolios.

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Portfolio Management (con't)

John Jenks - CCM. Investment Officer. Primary responsibility is to manage general investment fund and other fixed income funds with maturity constraints.



Phyllis Lewis - Clerk Typist. Provides clerical support for Chief Investment Officer and portfolio managers.



Steve Verschoor. Investment Officer. Primary responsibility is to support portfolio personnel with graphics, research, etc.



Jeff Hassler - Investment Officer. Primary responsibility is to manage the real estate section. Jeff joined the Division in 1992.

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Karen Carlson - Loan Manager.
Oversees all mortgage portfolio
activities of real estate section.



Mary Ann Isturis - Supports loan
personnel, internal reporting and
expense reconciliation.



Pona Samuel - Loan Officer. Assists
in all activities of real estate. Direct
responsibility for judgement collection.



Darren Spence - Clerk Typist.
supports the entire staff with
skills in word processing and
organization.

CASH MANAGEMENT

As this is our first annual report, Cash Management elected to provide background information and data from prior years, which delineates past performance and helps clarify current year information.

Cash Management is Alaska's bank and cash control center of the state's financial system. This section of Treasury has the duties and responsibilities of managing Alaska's largest bank. Total cash and investments are equivalent to an amount almost five times greater than the largest bank located within Alaska. As the bank of the state, Cash Management collects all revenues, pays all expenditures, manages and determines the amount of cash available for investment each day for the general and custodial funds.

Cash Management consists of seven employees that work as a team. Employees are cross trained to perform duties of others in their absence. Complete interaction however, is limited due to separation of duties, which is required to provide maximum security of funds with a limited staff. No other area of the department requires 100% completion of its duties on a daily basis. Over the last ten years, Cash Management has successfully managed the significant increase in volume and number of funds, while incurring a reduction in staff.

Duties of the Cash Management staff include: collection and recording of state taxes, royalties, federal government payments, fees and investment income; monitoring of cash flows; establishing, managing and maintaining banking contracts; compensating balances; investments with financial institutions; bank service fees; collateralization agreements; redemption of all state warrants; implementation and oversight of the Cash Management Improvement Act (CMIA); Cash Management consulting; electronic payments; system supports and insuring the safety of funds as they flow from receipt to lawful disbursement. Cash Management establishes policies and procedures to ensure safe and efficient cash controls.

We are proud of our accomplishments, especially the cost effective changes made in conjunction with the more efficient processing, during a period of increasing costs and volume of activity. We operate in a disciplined professional manner, as we communicate daily with taxpayers, banking personnel, and state agency personnel at various levels within the respective organizations.

HIGHLIGHTS OF FY93 REPORT

1. Transmitted over 50,000 accounting transactions totaling more than \$100 billion (\$100,000,000,000) to the Alaska State Accounting System, (AKSAS).
2. Collected 90% of total receipts (\$5.3 billion) electronically making Alaska number one in percentage of electronic collection of revenues.
3. Projected 95% of electronic remittances more than a day in advance for investment on day of receipt.
4. Processed more than \$837 million, received on June 30, 1993, from over 40 electronic payments.
5. Deposited over 1.3 million checks, totaling more than \$450 million to state banks concentration system.
6. Due to a new innovative approach, collected 74% (\$337,000) of non sufficient fund (NSF) items returned to the state.
7. Collected over \$300 million through lock boxes and reduced bank fees for lock box processing, by over \$60,000.
8. Reduced Department of Labor bank service costs by more than \$75,000 annually.
9. Saved state more than \$100,000 per year, by establishing a new

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warrant redemption contract to include the microfilming process.

10. Redeemed 2,951,872 warrants -- a record high.
11. Installation of a new wire transfer system, including a dedicated line for communication to State Street Bank (SSB), the State's custodian and safekeeping bank.
12. Generated an additional \$500,000 in interest income, in conjunction with the issuance of the state's first electronic ACH payments.
13. Transmitted 517 electronic payments totaling \$4.1 billion.
14. Recommended and implemented a foreign currency payment program. The new payment program reduced ASMI's costs by approximately \$450,000.
15. Negotiated and signed CMIA Agreement with U.S. Treasury -- results include conversion of \$50 million in federal warrants received annually to electronic payments from the federal government.
16. Initiated direct deposit of Permanent Fund Dividend checks and direct deposit of payroll.

OPERATIONAL ACHIEVEMENT

It is not possible to communicate all of the tasks nor the magnitude of activities performed, but the following provides an overview of the responsibilities, accomplishments and the amount of activity in the area of Cash Management.

During FY 93, over 50,000 accounting transactions totaling in excess of \$100 billion, processed through Cash Management into AKSAS. Included were all the cash transactions for agency deposits, investment transactions, etc. Cash Management processed approximately 10,000 treasury receipts. With the advent of AKSAS, Cash Management assumed the responsibility of assisting and monitoring the liquidation of

treasury receipts to the appropriate agencies and to insure that the agencies cleared treasury receipts timely. Out of the \$5.3 billion deposited, less than \$10,000 was cleared to miscellaneous income, therefore assisting the state agencies in achieving accurate accountability of state revenues.

STATE BANK OPERATION

The banking process involves the management of 34 bank accounts with 314 individual agency subaccounts located in seven banks. The cash investment process involves managing the cash of 19 funds located at SSB. The state's cash depository and investment process is segregate into two distinct processes. All large remittances, consisting of ACH and wire transfers from the federal government and individual remitters, are processed and managed through SSB. The state agency banking and warrant redemption operations are located in state, with the exception of the depository sites located at Bank of Montreal and Key Bank Washington. All warrants are issued with the state's unique transit routing number. Warrants are presented for payment to Key Bank of Alaska, the state's warrant redemption bank, through the Anchorage Clearing House and the Seattle branch of the San Francisco Federal Reserve.

The following figures show the general investment fund's depository summary identifying the different methods of collecting state revenues. Retirement funds are not included. As one can see, 82% of the general investment deposits were collected by 1,058 wire transfers. With the inclusion of the 1,272 federal receipts collected by ACH, the state collects 90% of its general investment deposits electronically which eliminates delays in the states use of the revenues. The percentage of total revenues collected electronically ranks Alaska as number one.

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**General Investment Depository Summary FY93
(IN MILLIONS)**

Taxes & Other Receipts	\$2,846.6	53.60%
Oil & Gas Settlements	762.7	14.36%
A.P.F.C. Dividend Transfer	463.7	8.73%
<u>Federal Program Funds</u>	<u>279.0</u>	<u>5.25%</u>
FEDERAL WIRE TRANSFERS	\$4,352.0	81.95%
<u>Federal Program Funds</u>	<u>418.0</u>	<u>7.87%</u>
ELECTRONIC FUNDS TRANSFERS	\$4,770.0	89.82%
Insurance Tax Payments	24.3	0.46%
Commerce Loan Programs	20.7	0.39%
<u>Student Loan Payments</u>	<u>39.8</u>	<u>0.75%</u>
BANK LOCK BOX COLLECTIONS	\$84.8	1.60%
Canadian Receipts	0.5	0.01%
Washington State Receipts	2.7	0.05%
First National Receipts	405.0	7.63%
Key Bank Receipts	13.8	0.26%
<u>NBA Receipts</u>	<u>33.9</u>	<u>0.64%</u>
DEPOSIT CONCENTRATION SYSTEMS	\$455.9	8.58%
RECEIPTS PAID BY CHECK	\$540.7	10.18%
TOTAL TAXES AND OTHER RECEIPTS	\$5,310.7	100.0%

Cash Management projects, more than a day in advance, over 95% of the state's cash available for investment by communicating with the remitter and through the use of electronic remittances. Due to the excellent past experience and the state's good credit rating, SSB allows investment of the projected amounts prior to receipt of payment. For example, on June 30, it was projected that cash totaling \$837 million was to be received, which consisted of over 40 wire transfers. Portfolio Management had outstanding trades to be settled for a like amount. Therefore, SSB had the potential of incurring a daylight overdraft and making a loan of \$1.6 billion. SSB was made aware of this on June 29, as they are provided a daily list of next day expected electronic remittances. Accuracy is of utmost importance on projected receipts. However, it is often difficult to obtain advance payment information from taxpayers.

IN-STATE BANKING

A few years ago, Cash Management developed an efficient depository concentration system. All state agencies utilize this system to deposit cash and checks received, at respective locations. All preprinted deposit slips contain a Magnetic Ink Character Recognition (MICR) line, encoded with machine readable characters. With the development of unique subaccount numbers used to identify agencies depositing locations, the subaccount number was then incorporated into the MICR line of the deposit slip. The banks' sorting equipment electronically reads and captures the MICR information, which includes the subaccount number and amount of deposit, for transmission to us on a daily basis. The same subaccount number is also incorporated into the endorsement stamp for identification of all returned items.

Cash Management maintains control in ordering all deposit slips and endorsement stamps on behalf of the state agencies.

By using the banks' branch banking network, daily depositing and consolidation of in-state deposits into a single account is accomplished overnight. Electronic retrieval of all banking transactions is processed

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into AKSAS through Treasury's system, Resource. During FY93, over 1.3 million checks totaling more than \$450 million were deposited by state agencies.

First National Bank of Anchorage has since converted the University of Alaska, U.S. Postal Service and other major customers to the subaccount system concept. We consider this a testimony of success and a strong indication of its effectiveness. We can proudly say we enhanced and improved the depository banking process within the State of Alaska.

Returned Item Program

Another success story for FY93! Previous to FY93, non sufficient funds, stale dated or account closed, etc. items were returned by Cash Management to the depositing agency after an AKSAS journal entry was keyed into the system. In the spring of 1992, Cash Management initiated an improved collection process. A pilot study was conducted, with NSF items returned by four banks. It verified that improvements could be made to a fragmented, inefficient approach in collection of returned items. In FY93, of the 1.3 million checks deposited, 2,860 checks totaling \$1,068,900 were returned for various reasons. The table reflects a summary of the various items:

**SUMMARY OF ALL RETURNED ITEMS PROCESSED
BY CASH MANAGEMENT**

For the period of July 1, 1992 through June 30, 1993

Number of items returned	2,860
Amount of all returned items	1,068,900

<u>Return Totals by Description</u>	<u>Amount</u>	<u>Count</u>
Non sufficient funds	\$201,462	686
Non sufficient funds presented twice	\$424,976	1,500
Account closed	\$65,066	313
Stale dated	\$18,307	81

Signature missing	\$68,800	32
Refer to maker	\$9,349	51
Stop payment	\$222,881	118
Other	\$58,058	79

TOTALS	\$1,068,909	2,860
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Return Totals by Action Taken:

Redeposit	\$60,086	645
Cashier's checks obtained from bank	\$193,108	410
Charged back to agency	\$715,706	1,805

TOTALS	\$1,068,900	2,860
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With the implementation of the new cash management program, NSF checks drawn against FNBA, KEYB, NBAA and First Bank are now held for up to five business days. Each day the four banks are contacted to verify if funds are available to cover the NSF items. If funds are available, a copy of the NSF item is faxed to the bank. At the time of the daily bank deposit, the returned item is exchanged for a cashier's check, which is then deposited. This eliminates preparing an accounting entry to AKSAS and returning the item to the state depositing agency. During FY93, 74% of the items or 1,032 items out of 1,395 were collected. That was 73% of the dollar amount or \$337,164; \$190,014 of that total had been destined to be placed in a status as uncollectible. The table shows the number and amount collected and the amount charged back to the agencies.

**SUMMARY OF NSF RETURNED ITEMS PROCESSED BY CASH
MANAGEMENT ON**

FNBA, NBAA, KEYB AND FIRST BANK

For the period of July 1, 1992 through June 30, 1993

Number of NSF returned items received	1,395
Number of collected items	1,032

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Number of uncollected items	363	
Percent of NSF returned items collected		74%
Amount of NSF returned items	\$460,984	
Amount collected	\$337,164	
Percent collected by dollar amount		73%

Return Totals by Action Taken:	Amount	Count
Redeposit	\$144,057	622
Cashier's checks obtained from bank	\$193,108	410
Charged back to agency	\$123,819	363
TOTALS	\$460,984	1,395

A need still exists for a centralized collection program for the state and the use of a collection agency. The new Cash Management program was only a partial solution. During FY93, returned items totaling \$715,706 were returned to state agencies for follow-up. The Department of Revenue is permitted to charge 1% of the amount or \$10 for each returned item. This has not been done and could partially support the cost of a centralized collection and returned item program.

LOCK BOXES

Cash Management has established five different lock boxes for accelerating the collection of funds and data capture for state agencies. They are as follows:

Department of Administration, Division of Retirement & Benefits.

A lock box used to collect the monthly remittances from the school districts, political subdivisions and municipalities was established at First National Bank of Anchorage for PERS and TRS. During FY93, \$215 million was received and processed through the lock box. The lock box process provided for investment of the funds approximately three to five days sooner, than in the past. Future objectives include continued

enhancement of the collection process. Based on a recent inquiry, limited surveillance appears to be in place to assure timely receipt of payments. The conversion to an ACH debit process would be a significant enhancement, in which funds are extracted electronically from the remitter's bank account, on a specific due date each month.

Department of Education, Alaska Commission on Postsecondary Education.

Postsecondary Education Commission has had a lock box for collecting student loan payments for a number of years with Key Bank of Alaska. In 1991, as a result of Cash Management's recommendation and assistance, Postsecondary Education converted from using a MICR coupon to using an OCR coupon, which significantly reduced the number of coupons processed and the number of errors incurred. The bank was able to convert to a machine capture of coupon data from the previous manual data entry process, thus reducing the costs by 10 cents per coupon. Presently there are 132,000 loans in the repayment status. The reduction in cost is partially being offset by the increased number of coupons, which has recently grown to over 25,000 a month. Each year, another group of loans enters into the repayment status. The table illustrates the last four years of coupon numbers and bank costs for processing student loan remittances.

<u>Year</u>	<u>MICR</u>	<u>OCR</u>	<u>Total Bank Fees Paid</u>
1990	367,809	0	\$80,148
1991	383,590	0	105,205
1992	183,969	148,280	73,832
1993	27,861	235,809	52,157

Because of Cash Management's diligence, Postsecondary's performance improved. Bank costs to process student loan repayments were reduced by \$50,000 annually.

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Department of Commerce and Economic Development, Division of Investments.

Loan payments for fishing vessels, fishing permits and other loan programs controlled by the Division of Investments are processed by Key Bank of Alaska. As with Postsecondary Education, a similar recommendation was made to the Department of Commerce to convert their coupons from MICR to OCR. Similar results were obtained, only on a much smaller scale, due to the lower volume of activity. Their activity reflects a \$7,700 annual savings in bank fees paid as shown by the table:

<u>Year</u>	<u>MICR</u>	<u>OCR</u>	<u>Total Bank Fees Paid</u>
1991	26,533	0	\$11,566
1992	602	25,031	7,257
1993	264	19,242	3,830

Department of Commerce and Economic Development, Division of Insurance.

A lock box was established two years ago at First Union Bank of Charlotte N.C. to speed up the collection of approximately \$25 million in annual insurance company premium tax payments. Deposit data is electronically captured daily, and funds moved each day to SSB for investment. Payments have been moved from March-April to payment on March 1, which coincides with the filing of tax returns. An ongoing recommendation to the Division of Insurance is to convert payments by the insurance companies to monthly or quarterly. It will remain on our objective list until the change is accomplished.

Department of Revenue, Mortgage Management.

The lock box is for the collection of monthly mortgage loan payments. During FY93, \$13 million was received. The lock box will probably be closed in FY 94 due to the sale of the mortgages.

Department of Labor - Department of Revenue, Cash Management.

In 1991, Cash Management assumed the responsibility for managing the Department of Labor's (DOL) three bank accounts. This consists of determining funds available to be wire transferred to the Unemployment Trust Fund and requesting funds on a daily basis from the federal government to pay for warrants being presented. Prior to Cash Management's involvement, DOL's costs were more than \$100,000 annually for banking services. In FY93, total banking service costs for DOL activity totaled \$26,663, a savings of \$75,000. The U.S. Department of Labor monitors account balances each year. Since assuming the responsibility in FY93, Cash Management again exceeded the U.S. Department of Labor's level of Achievement, a rating not achieved by DOL. DOL is not charged for Cash Management's service.

Warrant Redemption Service

Effective January 1, 1993 a new three year, plus two year renewal warrant redemption contract was entered into with Key Bank for redemption of all state warrants. The new revised warrant agreement was a major accomplishment during FY93. It provides services at a lower cost over what was previously considered a very attractive rate, 2.7 cents per warrant.

The Department of Education (DOE) had been filming the state warrants in Juneau. Warrants were shipped to Juneau at a cost of \$50 per day. DOE charged Treasury \$14,000 annually, plus film and cartridge costs. It was determined that truncating warrants in Anchorage would generate a significant savings. The installation of new equipment by Key Bank improved their filming capabilities and eliminated a major problem at a substantial savings to the state. Under the warrant redemption contract, we were able to obtain the redemption and filming process for 1.7 cents a warrant. With the elimination of the filming, shipping, etc., the one cent reduction (\$24,000) will save the state more than \$100,000 a year. In addition, and at no cost, Key Bank agreed to store the warrants for 90 days. After the 90 day period, the warrants are

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destroyed by Key Bank. With this change, we thus eliminated storage and disposal costs. The state warrants were previously stored in Archives for one year and then destroyed.

Each item processed by Key Bank is assigned a specific identification number, known as a trace number. The trace number, along with the warrant number and dollar amount, is data captured and transmitted to Juneau, on a daily basis, by Key Bank. The transmission is then interfaced into AKSAS for reconciliation against outstanding warrants. State agencies can now look up warrants on AKSAS and immediately communicate the information to Cash Management for retrieval of the warrant(s) or copies from Key Bank. Previously, agencies waited up to three weeks for DOE to film the warrants before they could obtain a copy. During FY93, the state redeemed 2,951,872 warrants, a record high, with an increase of 70,000 warrants over FY 92. In addition to the cost savings, the improved process is much more efficient for the agencies, the bank, Cash Management and DOE.

Undoubtedly, the new revised warrant agreement and process was a major accomplishment during FY93.

OUT OF STATE BANKING

During the past year, the conversion to a windows product and use of MicroSoft Excel became part of the new State Street/Cash Management system. In addition to the installation of a dedicated line to the custodial bank, SSB, a new wire transfer system was completed. Daily cash flows for the 19 funds and two investment pools are incorporated into a Cash Management Excel worksheet. Money movements centralized at SSB include the large tax and royalty payments, federal payments, investment maturities and purchases, and movement of cash amongst funds. Cash data for all funds, including non equity cash investment transactions, is keyed daily into a worksheet to determine cash available for movement. Included were daily repos and 1,425 portfolio management investment transactions.

NON-WARRANT DISBURSEMENT

Cash Management is responsible for non-warrant disbursements, which consists of wire transfers, ACH payments (wholesale) and international drafts. Due to finality of the transmission, accuracy and controls are of utmost importance. During FY93, 372 wire transfers totaling \$3.6 billion, 135 foreign wires and drafts totaling \$6.2 million and 10 ACH transmissions totaling \$460 million were transmitted for a combined total amount of \$4.1 billion.

INTERNATIONAL PAYMENTS

Need a payment made to a country in French francs? What is the U.S. equivalent? Past agency procedures included checking the newspaper or calling a local bank for an exchange rate and then converting the amount into U.S. dollars. In many cases, an increased amount was sent, just to make sure that enough money was transferred. In February, a program to provide payment in foreign currencies to international recipients was implemented with SSB. In 5 months, 25 foreign currency payments totaling \$1,041,323 were transmitted for receipt the next day. Previously, payments were always sent in U.S. dollars. Due to exchange rate calculations, bank conversion fees and delays in crediting accounts, numerous problems were incurred. Agencies have since saved money and improved client relations, due to the ability of transferring foreign currency through SSB. ASMI for example, has eliminated the Public Relations Agency 15% fee from contracts for handling foreign payments. ASMI has reduced costs by approximately \$450,000 and expects additional savings as more of the contracts are changed.

QUALIFIED AND NON-QUALIFIED POOLS

In an effort to reduce the excess volume of daily repo transactions for each individual fund, Cash Management recommended and initiated, with the assistance of other treasury personnel, the use of short term pools offered by SSB. It eliminated the transaction volume problem,

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reduced the daily amount of repo's and offered the opportunity to generate a higher yield.

STATE'S FIRST ACH PAYMENTS - EDUCATION FOUNDATION PAYMENTS

In a continuing effort to see objectives accomplished, Cash Management recommended to the Department of Education, the use of ACH as a cost effective and more efficient method of payment. A review of the cash flow forecast showed that sizeable monthly payments were not being sent out at the same time each month. After further evaluation, it was discovered that checks were being mailed 10 to 12 days prior to the required due date. An analysis revealed, that by initiating ACH payments for settlement on a specific date, it would generate more than \$500,000 (\$460.1 million/10 months x 3.25% x 12/360) of additional interest income plus provide for a higher level of cash outflow predictability. The additional work by Cash Management and DOE in establishing the foundation payments as ACH payments proved to be worthwhile. It also gave notice that Cash Management had the capability to transmit ACH payments and was the first to do so for the state. DOE has been contacted to convert other similar type payments to ACH.

RECONCILIATION

A daily reconciliation of cash is performed in which bank balances are reconciled against Treasury's system, Resource, and AKSAS. Cash transactions are accounted for on a daily basis. It is an excellent control and provides immediate notification of differences and potential problems. Reconciliation is an overlooked function, but worthy of mention, as it only gets recognized when there is a problem.

BANK SERVICE FEES

Shown is a summary of the state's banking costs incurred from FY 89 through FY93. Presently, the Cash Management activity fees are not

being charged by SSB. The state has been assured that Cash Management fees would not be charged until the systems promised, at the time of the contract negotiations, are provided. It is estimated that fees will be at least \$100,000 annually when charges are implemented. Previous charges for Cash Management services provided by CoresStates was approximately \$100,000 annually.

All banking costs are paid by compensating balances and are thus, a non budgetary item. Cash Management manages the account balance levels so that the earnings generated from the balances are used as compensation for services provided. Zero interest certificates of deposits are established with Key Bank and First National Bank of Anchorage. This eliminates the reserve requirement and increases the earnings generated by the balances. Banking costs have been reduced by approximately \$100,000 during a period of increased fees charged by banks and during a period of increased volume of transactions. In FY93 Cash Management reduced the cost of Treasury managed programs by more than \$50,000 while the non Treasury programs grew by \$12,000 as shown by the following table:

BANK SERVICE CHARGES BY PROGRAM

NON-TREASURY PROGRAM COSTS:	FY89	FY90	FY91	FY92	FY93
--	-------------	-------------	-------------	-------------	-------------

Labor - Check Redemption & Depository	\$101,937	\$21,002	\$0	\$0	\$0
Revenue - Child Support Enforcement	28,799	35,453	41,784	44,784	56,903

TREASURY PROGRAM COSTS:

Depository Concentration	120,201	110,039	103,309	107,594	109,904
Warrant Redemption	75,094	74,972	78,836	82,106	47,394

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Postsecondary -					
Lock box	65,848	80,148	105,205	73,832	52,157
Commerce - Lock box	5,001	14,456	11,566	7,257	3,830
Insurance - Lock box	0	0	0	3,944	3,362
Labor -					
Warrant Redemption	0	9,675	12,730	16,461	21,857
Labor - Depository	0	2,851	5,843	4,899	4,806
Risk Management	0	0	0	2,321	2,429

Total Bank Charges \$396,880 \$348,596 \$359,273 \$343,198 \$302,642

On the following page is a listing by bank of the total activity and costs incurred by the state for FY93.

SPECIAL PROJECTS

For years, Cash Management has been encouraging electronic payments and the beneficial results that could be obtained. Direct deposit of payroll and direct deposit of Permanent fund dividends are a significant accomplishment during FY93. Cash Management is an ongoing participant in making both of these programs a success.

CASH DEFICIENCY

The first Department of Revenue cash deficiency plan was developed during FY93. Although not officially approved, the basic framework has been established. Cash Management feels more comfortable knowing that a detailed plan is in existence.

BUDGET RESERVE RECONCILIATION AND INTEREST CALCULATION.

The request to calculate interest for the Constitutional Budget Reserve, General Fund etc. for settlement payments turned into a major project. Due to the complexity and involvement by the various participants and individuals in the movement among the various funds, a significant

amount of time was spent reconciling and calculating interest. Cash Management's normal responsibilities are to record revenue receipts and not specific accounting placement. The interest calculation is not a normal Cash Management function. However, due to its complexity, it was delegated to the Cash Management staff.

CASH MANAGEMENT IMPROVEMENT ACT OF 1990 (CMIA).

After a number of attempts, a federal law which governs the transfer of money between the federal government and the state was passed. The law required each state to enter into an agreement with the U.S. Treasury. The process of trying to conform to federal requirements while bringing state agencies into compliance developed into a difficult project. Compliance and prompt reimbursement will only be accomplished with close surveillance, a process Cash Management is not staffed to perform.

A task force of agency personnel was assembled to assist Cash Management with the project. The Department of Administration determined that they could generate the warrant clearance patterns. The Office of Management and Budget assisted in performing the agency reviews and drafting the operational procedures. The agreement was completed and signed by the U.S. Treasury and the Commissioner on June 30, 1993. Although changes will be required, an excellent agreement is in place. Certain requirements are yet to be developed -- an interest tracking and calculation program and establishment of a follow up program. The opportunity to present CMIA to the Governor and his cabinet, by the Commissioner, Deputy Commissioner and the Cash Manager & Investment Officer was an appropriate step in communication of the project.

SUMMARY

Cash Management provides services to numerous agencies, funds and the State in general. As the bank for the state, accuracy and timeliness are of utmost consideration. We manage large numbers of transactions and move large amounts of money daily. The processing of over

BANK SERVICE CHARGES AND VOLUME ACTIVITY

	FIRST NATIONAL OF ANCHORAGE		NATIONAL BANK OF ALASKA		KEY BANK ALASKA		OTHER BANKS		ALL BANK SUMMARY	
	VOLUME	COST	VOLUME	COST	VOLUME	COST	VOLUME	COST	VOLUME	COST
ACCOUNT ANALYSIS					143	1,430			143	1,430
ACCOUNT MAINTENANCE		3,623	144	1,152	143	754	11	141	298	5,670
ACCOUNT RECONCILIATION					10	3,000			10	3,000
ACTIVITY / BALANCE REPORTING			13	480	17	1,115	275	609	305	2,204
BUNDLED CURRENCY-ANCH			133	171					133	171
CASH DEPOSITED (PER 100)	133,064	9,980			5,624	366			138,688	10,346
CHECK RECONCILIATION		295							0	295
CHECKS PAID			1,237	247	144,010	21,597			145,247	21,844
COIN SOLD (ROLLS)	1,750	175							1,750	175
COLLECTIONS					37	417			37	417
CREDITS					10,109	1,355			10,109	1,355
DEBITS	2,450	394			18,640	2,540			21,090	2,934
DELIVERY CHARGES					629	18,558			629	18,558
DEPOSITS POSTED	36,624	7,460	4,677	1,403	12,132	799	108	56	53,541	9,718
DUPLICATE MICROFILM					117	936			117	936
FDIC INSURANCE			57,675	1,106	556	648		326	58,231	2,080
ITEMS DEP - FOREIGN			30,647	2,605	175,986	13,339			206,633	15,944
ITEMS DEP - LOCAL			20,035	1,102	216,080	10,804			236,115	11,906
ITEMS DEPOSITED	868,143	56,429						2,115	868,143	58,544
LOCK BOX FEES		1,230			294,749	33,723	2,393	2,182	297,142	37,135
MISC CHARGES		537	1	27	12	2,034	16	3	29	2,601
NSF CHARGES	12	180		17					12	197
RESEARCH			2	8	378	2,835			380	2,843
RETURN ITEMS	5,921	8,882	93	140	308	601			6,322	9,622
ROLL OF COINS-ANCH			4,682	510					4,682	510
SORT CHECKS					6,226	405			6,226	405
STATEMENTS	251	502	2	72	382	1,146			635	1,720
STOP PAYS	4	60	1	45	257	3,545			262	3,650
SUPPLIES		3,566	18	414	6	18,564			24	22,544
WARRANTS PROCESSED					2,951,872	50,182			2,951,872	50,182
WIRES IN					516	2,580			516	2,580
WIRES OUT	15	300			78	780	5	45	98	1,125
		\$93,612		\$9,499		\$194,053		\$5,477		\$302,641

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50,000 accounting entries totaling more than \$100 billion into AKSAS is a statement in itself. During FY93, we collected \$4.8 billion electronically, reduced banking fees \$55,000, increased General Fund interest income over \$500,000, collected \$337,000 NSF checks, saved in excess of \$100,000 with a new warrant and microfilming contract, reduced agency international payment costs by \$450,000, transmitted the first state ACH payments, and negotiated the CMIA Agreement.

CASH MANAGEMENT PERSONNEL

Vernon Voss - CCM,
Investment Officer.

Responsible for overall cash management and policy. Monitor funds' balances, money movements, cash flows, transmitter of ACH and wire transfers, collateral agreements, bank contracts and compensation, CMIA, and cash management consultant.



Bruce Smith -CCM,
Investment Officer.
Management of cash balances for trust funds, warrant redemption bank, daily banking and agency banking needs, initiate wire transfers and ACH payments, opening, closing and bank account maintenance-authorized signers, and daily fund cash projection.



Joe Meek - CCM, Accountant.
Accounting and cash management system's specialist, financial electronic transmission and communications, reconciliation and controls supervision, cash management consultant, special projects.

Nick Saceda - Accounting Technician, bank-treasury system - AKSAS account reconciliation, bank service and account analysis, data capture and special cash management reporting.



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Debbie Idone - Accounting Technician, bank processing and agency accounting process, electronic remittance projection, Federal funds and CMIA funds requests, NSF program, ACH initiation, generate and process journal entries, depository concentration banks funds management, cash management consultant to agencies and banks.



Patti Rodts - Accounting Clerk, return item and NSF collection program, agency Federal funds requests, assist agency with Treasury Receipts, generate journal entries, subaccount banking supplies management, bank depository process, counter and telephone attendant.



Cheryl Shakespeare - Accounting Technician, daily retrieval and processing of banking transactions, process journal entries, monitors and assists state agencies with liquidation of all treasury receipts, retrieval of microfilmed warrants requested by agencies, DTC processing, bank depository process, data capture and report generation.

DEBT MANAGEMENT

Responsibilities and Objectives

The Debt Management section within the Treasury Division, together with State Bond Committee, is responsible for managing the issuance of State debt, providing information and policy analysis on bonded indebtedness.

This section manages the issuance of State general obligation debt, lease-financing debt and international airports' revenue debt and does certain tasks related to the issuance by Alaska Housing Finance Corporation of State guaranteed bonds for veterans home mortgages. Information and analysis are provided on State, state agency, and municipal debt. The section serves as staff to the State Bond Committee.

Debt Management can be divided into four areas of activities. Presented below is a brief description and specific results of each area of activity for FY93 and FY 94 to date:

1. Debt Issuance includes the determination of amount and timing of bond sales, coordinating the preparation of legal documents by bond counsel and the preparation of the bond prospectus, advertising the sale, rating agency presentation with the financial advisor, negotiating the sale to underwriters, obtaining approval from the State Bond Committee for authorizing resolutions and bid award, closing sales and performing arbitrage and rebate calculations to meet IRS requirements.

Specific debt issuance activity for FY93 and 94 included the following:

- a. Wildwood Acquisition, Certificate of Participation, 1992 Series for \$5,655,000,
- b. Wildwood Improvements - Certificate of Participation, 1992

series for \$4,990,000,

c. Palmer Court House, Certificate of Participation, 1993 Series A for \$3,300,000,

d. Court Plaza Building, Certificate of Participation, 1993 Series B for \$5,500,000, and

e. State of Alaska International Airports Refunding Revenue Bonds Series H and I for \$50,445,000.

All the above indebtedness will result in substantial direct and indirect cost benefits to the State.

The issuance of Alaska Housing Finance Corporation, Veterans mortgage program, collateralized bonds, 1993 first series for \$65,000,000 were reviewed and approved by the State Bond Committee.

2. Debt Management includes the selection, contracting and coordination of bond counsel, financial advisor, and bond trustee.

Bond counsel and financial advisor contracts will terminate at the end of December 1993. New requests for proposals will be initiated this fall.

3. Debt Report Preparation includes the development of a debt calendar and an annual report on bonded indebtedness of the State, The Alaska Public Debt publication was issued during February of 1993. This publication was sent to administrative officials, legislative representatives and interested parties.

4. Policy Development includes developing guidelines and performing policy analysis on debt management by the State, State agencies, and municipalities.

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Legislative testimony was presented on various pieces of legislation dealing principally with lease purchase financing of real property and school indebtedness.

A "Bidders List" was developed through a competitive proposal process for the Bond Committee. This "Bidders List" is used by the Bond Committee for the selection of senior and co-manager underwriters for negotiated issuance.

The Debt Management section participated as the Commissioner's representative on the Alaska Municipal Bond Bank Board as well as assisted the executive director and board with development of revised regulations, procurement of underwriters, and issuance of debt.

Brian Andrews - Debt Manager,
responsible for all debt issuances for
State, staff to State Bond Committee,
prepares debt report, responsible for
securing financial advisors,
underwriters for debt issuance.



Accounting Section Overview

The Accounting Section is responsible for four main areas:

- Investment accounting and safekeeping
- Information/accounting systems
- Maintaining a Division wide computer system
- Administrative services

Over the past year, a great deal of effort has been made to upgrade the existing data processing systems and review the needs for a future system while maintaining a high level of quality for financial information.

As of June 30, 1993 the accounting personnel consists of the Comptroller, two Accountant IIIs, and two Accounting Technicians IIIs. These people are responsible for the accounting for 14 separately invested funds as well as the administrative functions such as the budget accounting for the Treasury Division.

Prior division management made the decision to maintain the official "books of record" for the investments managed by Treasury. Over the past two years, the policy has been re-examined to determine possible alternatives. One choice would be to rely on the accounting services of the custodian bank. Another course of action would be to hire the services of an outside investment accounting firm. From this review, the conclusion is that the prudent policy for Treasury is to maintain a separate accounting system to track and monitor the investments of the Funds.

The decision to maintain distinct "books of record" has lead to a search for a new investment accounting and information system to replace the older system currently in place. The current system does not have the capability to perform the accounting and reporting functions which are now required. It is anticipated that the need for timely and accurate information will increase in the future, particularly in light of the formation of the new Alaska State Pension Investment Board. It is the

desire of those involved to provide a system which will allow for the automation of much of the data entry requirements, allowing the accounting staff to concentrate on more analysis and review of the information. One example of this would be providing budgetary information for the Alaska Pension Investment Board which more clearly identifies the costs of managing the pension funds.

The establishment of a new investment accounting system will be the primary focus of the Accounting Section for the next two years. During this period, the help of external parties such as the custodian bank will be maximized to the extent it does not impact our ability to provide accurate and timely information or compromise critical internal controls. Part of this process must include a review of the accounting staffing levels to ensure adequate staff to meet the ever increasing information requirements while maintaining proper internal controls.

Data Processing

Many changes have been made to the data processing system of the Treasury Division during fiscal year 1993. As a result of adding a full-time computer specialist, Treasury's computer network is more reliable, secure and easier to use. Treasury now has a stable system which will allow efforts to be concentrated on enhancements to the investment, cash management, accounting and reporting systems.

The goals for this area for FY93 were to:

- 1) Hire data processing Analyst/Programmer;
- 2) Update computer hardware and software to increase system reliability, security and capability to use more advanced software programs;

3) Provide computer training resources for all Treasury staff in an effort to increase abilities and comfort in using computer in daily work.

The goals were accomplished as follows:

- 1) Doug Grimm was hired in November, 1992. Doug is an Analyst/Programmer IV and has extensive experience in network systems and data communications.
- 2) During FY93, approximately half of the computer workstations were upgraded to newer systems. The older network file server was also replaced. These changes allowed Treasury to begin using programs based on the easier to use Microsoft Windows environment.
- 3) An electronic mail system was installed on the network. Along with increasing communication opportunities within Treasury, the system has been connected to other networks within the Department of Revenue.
- 4) All Software licenses were reviewed and additional copies were purchased in order to assure compliance with license agreements. Additionally, a license metering system was installed on the network.
- 5) A new communications system was installed between Treasury and the Division's custodian bank, State Street Bank & Trust in Boston. This system enables Treasury to have instant access to State Street's computers and reporting systems through our existing network.
- 6) A plan was initiated for using the Alaska Permanent Fund Corporation as a disaster recovery site. Special communications equipment was purchased which will allow Treasury or the Permanent Fund to continue critical operations should either organization be unable to use their offices.
- 7) After the installation of the new software programs on the network, in-house training resources such as weekly training sessions and video training courses were made available to all Treasury employees.

Investment Accounting

The goals in investment accounting were to:

- 1) Provide information reporting for investment activities which enhanced decision making capabilities; and**
- 2) Provide professional training for accounting staff to stay current on new security types and accounting standards.**

The goals were accomplished as follows:

- 1) Established new reports for trading activity as requested by the Chief Investment Officer
- 2) Completed an in-house training session prepared and presented by State Street Bank personnel
- 3) Worked closely with the Portfolio Management and Cash Management Section personnel to establish two investment pools for short-term fixed income securities
- 4) Devised additional reporting techniques to assist in the sale of the majority of the mortgage portfolios

Information/Accounting Systems

The goal for this area was to:

Review data processing / information systems to determine future system functional requirements.

It was accomplished thus:

Completed a review of future system requirements and prepared a Request for Proposal to procure a new "Treasury Management System".

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It was concluded from this process that no single system would meet our needs. A new procurement process will continue into FY94.

ACCOUNTING PERSONNEL

Mark Prussing, CPA -Comptroller, manager of accounting section, establishes and implements policies, procedures and systems for reporting financial activity and providing security for non-cash assets.



Sue Scott - Accountant, supervises all mortgage accounting transactions, supports production and maintenance of Treasury's operating budget, oversees all Division expenditures.



Sharon Pusich Gill - Accountant, creates monthly and annual financial statements for ten investment funds and four commingled investment pools, provides a key link for financial information to other state agencies.

Valerie Watson - Accounting Technician, accounts for all fixed income investments made by portfolio section, reports investment activity and positions, reconciles various accounting systems.





Mark Erickson, Accounting Technician, works closely with real estate to account for mortgage activity, provide reports used for management of mortgage portfolios.



Debbie McBride - Secretary, supports accounting section, assists other Treasury personnel with scheduling, spreadsheets.



Doug Grimm - Analyst/Programmer, develops, evaluates, maintains data processing, including communications systems, software and hardware applications maintenance.

DEPUTY COMMISSIONER'S OFFICE

The Alaska State Pension Investment Board was formed during this past year. As of July 1, 1993, the Board assumed the responsibility of investment policies, asset allocation and contract compliance of the retirement funds. Staff from the Deputy Commissioner's office perform the administration functions for the Board.

Cash forecasts are completed through the year to project the cash available to meet the State's obligations. Other projects that need research have been completed in this area.

Marty Lentz - Liaison to the Alaska State Pension Investment Board, communications, packet preparation.



Carolyn Hartsog - Research Analyst responsible for monthly cash forecast, special projects for Deputy Commissioner.



Sandy Parr - Secretary, support for Deputy Commissioner, Debt Manager, Board Liaison, recorder for State Bond Committee.

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