MEMORANDUM OF UNDERSTANDING
between the
DEPARTMENT OF ADMINISTRATION,
the
DEPARTMENT OF REVENUE,
the
OFFICE OF MANAGEMENT AND BUDGET,
and the
ATTORNEY GENERAL

WHEREAS the Department of Administration, the Department of Revenue, the Office of Management and Budget, and the Attorney General agree that the State needs a Cash Deficiency Operating Plan and agree that:

1. the State of Alaska's Cash Deficiency Operating Plan is the plan dated July 2014;

2. each party will assist the others in providing information necessary to carry out the plan;

3. the Department of Administration, the Department of Revenue, the Office of Management and Budget, and the Alaska Attorney General endorse the plan and agree to operate by the plan.

This agreement takes effect July 1, 2014.

Curtis Thayer, Commissioner
Department of Administration — Date: 6/11/14

Angela Rodell, Commissioner
Department of Revenue — Date: 6/10/2014

Karen Rehfeld, Director
Office of Management and Budget — Date: 6/10/2014

Michael C. Geraghty, Attorney General
Department of Law — Date: 6.24.14

STATE OF ALASKA
CASH DEFICIENCY OPERATING PLAN
April 2014

Executive Summary[1]

The State recognizes that cash deficiencies occur and a plan is necessary to ensure State government continues to operate in these situations. Cash in the State's General Fund is essential to ongoing day-to-day operations. Without cash in the fund, the State cannot pay its bills and the daily operations of the State come to a halt. The State's daily cash need can be as much as $200 million in a single day. For purposes of this operating plan, a cash deficiency situation exists any time the General Fund cash balance is projected to, or actually does, drop below $400 million and is expected to stay below $400 million for five days. Past experience demonstrates that cash deficiencies occur, and therefore funding for cash flow purposes is necessary, even in years with a balanced budget.

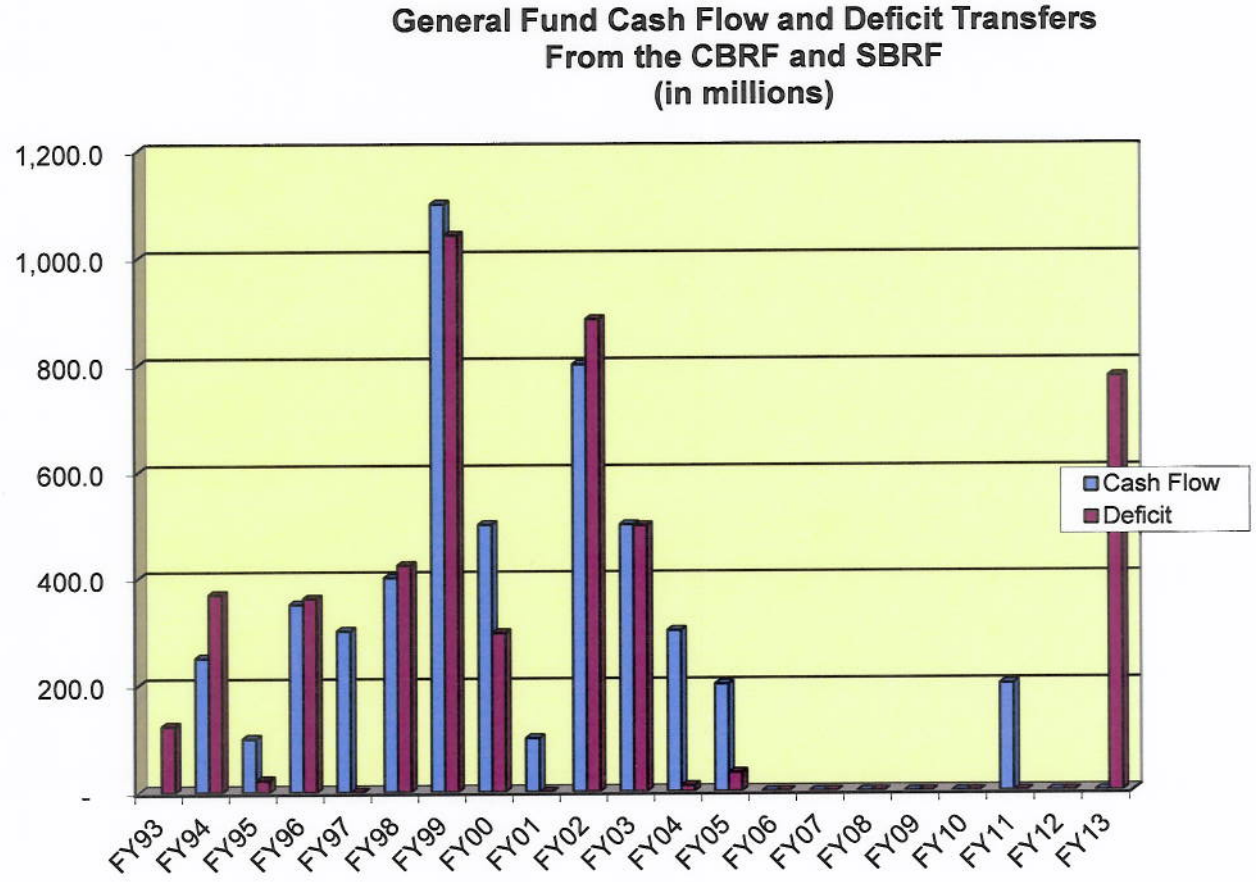
For 13 of the past 21 years, the General Fund has needed to fund from the Constitutional Budget Reserve Fund (CBRF) or the Statutory Budget Reserve Fund (SBRF) to meet its daily obligations for disbursements. Even in years of balanced budgets, the difference between receipts flowing in and disbursements flowing out of the State causes periodic cash deficiencies and annual budget gaps. The General Fund's cash requirements routinely exceed its balance at points during the fiscal year. The reasons for this include a mismatch in timing between revenues received and funds disbursed, fluctuating oil prices, falling oil production, and an increase in designated subfunds within the General Fund. The State has developed methods of identifying potential deficiencies and drawing upon financial reserves to compensate for them. The State created this plan to document the methods used when cash deficiencies first began to occur between FY92 and FY94. The agencies involved decided to revise the plan in FY00, and again in FY04, FY07,, FY11 and FY14 to recognize that the State's fiscal situation and methods of identifying potential deficiencies have evolved over time, and to accommodate changes in administration.

The Departments of Law, Revenue, Administration, and the Office of Management and Budget have jointly developed and updated this Cash Deficiency Operating Plan to accomplish this goal. This plan outlines how the State identifies when a cash deficiency is likely to occur and the steps taken to resolve that deficiency. Treasury makes projections of cash flow patterns for each fiscal year that will identify potential deficiencies. Steps to resolve deficiencies are detailed in a hierarchical list, including accessing funds from legislatively authorized sources, such as the CBRF and SBRF, subfunds of the General Fund, and other temporary funding sources. The plan also sets out a procedure for seeking legislative relief if all borrowing sources are exhausted, and discusses the differences between funding for cash flow and funding for budgetary needs.

[1] A Glossary of Terms is available at the end of this document.

Background and History

Before oil began flowing through the Trans-Alaska Pipeline in the late 1970's, approximately 30% of the State's receipts came from oil revenues. When North Slope oil production began, sizeable sums of cash began flowing into the State Treasury. A steadily growing State operating budget, annual capital budgets, and the State's Permanent Fund were funded by this increase in oil revenues. The State dependency on oil revenues increased to over 85%. In the late 90's to early turn of the century, North Slope oil production dropped more than 40% and record low oil prices occurred requiring cash flow and deficit funding to occur. In FY06 through FY12, oil prices moved to record highs, and the General Fund experienced budget surpluses. Despite these surpluses, however, cash flow borrowing was still necessary to meet spending needs in FY11 (see graph for Cash Flow Borrowing and Deficit Borrowing).



One of the main factors causing cash deficiencies every year, even when the budget for that year is balanced, is that the inflow of unrestricted receipts does not mirror the outflow of cash disbursements. While receipts tend to flow in at a generally consistent rate throughout the year, with peak periods at the end of each month, quarter, and fiscal year, disbursements are cyclical with high and low periods throughout the year. The first quarter disbursements and appropriated

fund transfers of each fiscal year are generally much higher than receipts for the same period, often creating cash deficiency situations before the end of the first quarter. Redirection of revenues from the General Fund to other funds has occurred gradually since the 1990s. Prior to 1990, most unrestricted revenues flowed directly into the General Fund where they were available to pay for the day-to-day costs of operating State government. Over time, the legislature has established many subfunds of the General Fund, listed in Appendix B, which are designated for specific purposes (though most are still subject to annual appropriation). In 1990, the legislature appropriated the entire General Fund balance available for appropriation at the end of FY91 to a statutory budget reserve fund (SBRF). That same year, a popular vote amended the Alaska Constitution to establish a separate CBRF for the deposit of oil tax settlements. These actions diverted cash, historically destined for the General Fund.
The Legislature had historically addressed both the cash deficiencies and the budget shortfalls by including in the language section of the appropriation act(s) authority for the executive branch to either borrow cash from the CBRF or take cash from the SBRF.. This appropriation language is necessary to avoid some of the extreme consequences of implementing procedures 5, 6, 7, or 8 listed in Appendix A.

It is important to understand that the amount required each year to balance the budget will be different than the amount required to maintain an adequate cash balance in the General Fund. Funding for cash flow is necessary each time the General Fund balance falls below $400 million to ensure that the State has adequate working capital. And funding for budgetary purposes is the amount of borrowing necessary to balance annual differences between revenues and expenditures, on an accrual basis. Cash deficiency can occur anytime throughout the year, however, the amount of a budgetary shortfall is not known until after the end of the fiscal year.

Legislative Benchmarks

In FY99 the legislature set a cap on the total funds that could be borrowed from the CBRF for either cash deficiencies or budget shortfalls. The legislature subsequently increased the cap for FY99, and placed an additional cap on FY00. Up until FY04, appropriations were made from the CBRF without a cap.

In FY04 the legislature appropriated from the CBRF under Article IX, section 17(b). This section says:

> If the amount available for appropriation for a fiscal year is less than the amount appropriated for the previous fiscal year, an appropriation may be made from the budget reserve fund. However, the amount appropriated from the fund under this subsection may not exceed the amount necessary, when added to other funds available for appropriation, to provide for total appropriations equal to the amount of appropriations made in the previous calendar year for the previous fiscal year.

This section limits the amount that can be drawn to balance the budget to the excess of the amount appropriated for the previous year (excluding supplementals) over the amount available to appropriate in the current year. The conundrum to this calculation was that, because of

fluctuations in earnings and oil prices, the amount available to appropriate in the current year cannot be known until the year is over. This means that borrowing must occur in advance of knowing the limit and ratification by the legislature is the only remedy available if the total amount drawn to balance the budget exceeds the limit at the end of the year. The amount available for appropriation is calculated by the Office of Management and Budget and the Department of Revenue, and the amount drawn to balance the budget is determined by the Department of Administration.

New appropriation language in FY04 appropriated General Fund interest to the CBRF in order to compensate for any lost earnings of the CBRF due to borrowing necessary for cash flow purposes only. This requires determining the difference between the amounts borrowed and repaid for the current year, and calculating the interest related to this amount for transfer from the General Fund to the CBRF. Department of Revenue makes this calculation and Department of Administration transfers the interest from the General Fund to the funds borrowed against.

The proceeds of the general obligation bond sale were also considered when reviewing other possible funding sources for borrowing in FY04. Advice on interfund borrowing from the Alaska Attorney General in the form of an opinion dated June 26, 2003 specifies that any amounts borrowed from the general obligation bond construction funds, plus interest, must be repaid by the end of the fiscal year. Signatories to this memorandum agree that repayment by the end of the fiscal year extends to any interfund borrowing that is not appropriated. For that reason, borrowing general obligation bond proceeds was considered to be a less viable option than borrowing from the CBRF above the section 17(b) appropriation limit.

Additionally, in FY04, General Fund subfund borrowing was a very limited option since the funds, once swept to the CBRF, were not immediately reappropriated to the subfunds by the legislature.

In FY06 the legislature, for the first time in many years, did not include any authority to borrow for balancing the budget. Only the language requiring interest on cash flow borrowing was included. Fortunately FY06 through FY10 were balanced budget years, so the State did not have to resort to one of the following four options outlined in this document:

In FY09 the state had accumulated surplus funds and made payments to the CBRF and SBRF. In FY10 the state repaid in full the CBRF in the amount of $401,617,000, Chapter 13, SLA 2010, and continued to make payments to the SBRF for FY11-13.

Change in Administration

In November 2010, Governor Parnell was elected, and over time the parties that executed this agreement changed. Also legislative authority and economic conditions change every year. For this reason, it was determined that an updated agreement should be signed with the change in administration.

In FY14, there was again a change in some of the parties that executed the updated agreement in 2011, so an updated document was created which also include other minor changes, including an

increase of the minimum required balance of the General Fund from $200 million to $400 million.

Plan Overview and Initiation Criteria

In order to continue operating on a daily basis, the State must be able to reliably predict when a cash flow deficiency will occur and must have a planned response to manage the deficiency. This plan includes both the procedures used to project future cash balances and a response plan for resolving cash flow deficiencies.

The Cash Deficiency Operating Plan begins with a series of daily operations in both the Departments of Revenue and Administration. Depending on daily conditions, the plan evolves into a series of strategic steps designed to ensure the availability of adequate cash balances to meet day-to-day expenses. Conditions at the time will trigger the course of action to meet the identified cash problem.

Both the Departments of Revenue and Administration have improved their procedures for monitoring daily General Fund cash balances and developed reliable cash flow projections. Using an internally developed model, the Department of Revenue produces revised cash balance projections monthly, and compares them to actual balances on a daily basis. The model can be used to quickly develop new cash projections if major changes occur in any of the key components of the projection model including oil prices and production receipts.

Execution of the plan is dependent on the availability of a broad range of information relating directly to the flow of cash in and out of the State's General Fund. Critical elements include:

- oil prices – current and projected
- production levels – current and projected
- oil receipts – taxes and royalties
- other receipts
- historical spending patterns
- projected cash balances
- legislative limits on borrowing from CBRF and other funds

Several procedures make up this plan, some of which are executed on a regular basis while others may, or may not, ever be executed. Appendix A provides a list of each of these procedures and the action that triggers their execution.

APPENDIX A
CASH DEFICIENCY
PROCEDURES

PROCEDURE 1: Develop monthly cash projections

PROCEDURE 2: Monitor daily General Fund cash balances

PROCEDURE 3: Determine specific course of action to address deficiency

PROCEDURE 4: Execute appropriated transfers from the SBRF, CBRF or other funds to the General Fund

PROCEDURE 5: Execute other transfers from within the General Fund group (subfunds) to the General Fund

PROCEDURE 6: Seek legislative action

PROCEDURE 7: Execute procedure to borrow from the CBRF in excess of appropriated borrowing

PROCEDURE 8: Prioritize disbursements and restrict expenditures of the State because borrowing is unavailable

PROCEDURE 9: Reevaluate Cash Deficiency Operating Plan when cash needs for the next two years exceed the CBRF balances

PROCEDURE 10: Execute repayment of borrowed cash

CASH DEFICIENCY
PROCEDURES DETAIL

PROCEDURE 1: Develop monthly cash projections

The Department of Revenue executes the cash projection model, which calculates revised General Fund cash projections for the next 12 months based on the current set of variables. The Department of Revenue reviews the new projections and predicts if and when the cash balance will drop below the $400 million threshold level for cash deficiencies. The updated projections are posted to the Internet.

PROCEDURE 2: Monitor daily General Fund cash balances

Both the Departments of Revenue and Administration retrieve daily cash balances from AKSAS to evaluate for adequate available cash. Cash Management posts daily balances to projection model and posts to the Internet.

PROCEDURE 3: Determine specific course of action to address deficiency

If the General Fund cash balance is projected to be less than $400 million, and revenues are not projected to bring the balance above this mark within five business days, or disbursements are anticipated to deplete the cash balance, a cash deficiency situation has been identified. At this point, a decision will be made by the Cash Manager and the Accounting Services Supervisor will execute an appropriate funding procedure. Treasury will update the cash flow projection model to reflect that action.

PROCEDURE 4: Execute appropriated transfers from the CBRF, SBRF or other funds to the General Fund

The Cash Manager and Accounting Service Supervisor will determine a funding amount necessary to avoid a deficiency. They will review appropriated transfers that have been made to date from authorized sources and identify amounts that may still be transferred. They will also work with the Portfolio section of Treasury Division to determine the best day to perform a cash transfer to minimize investment losses. Department of Administration will perform the transfers.

PROCEDURE 5: Execute other transfers from within the General Fund group (subfunds) to the General Fund

If this procedure will be implemented, Department of Administration will analyze the balances in all subfunds of the General Fund as identified in Appendix B and determine possible sources for transfer. This list will be reviewed and approved by the Director of Finance and the Director of OMB. Department of Administration will perform the necessary transfers.

PROCEDURE 6: Seek legislative action

If a cash deficiency is projected and the State has already executed all appropriated and internal borrowing procedures, it will be necessary to seek legislative relief to correct the cash deficiency problem. All signatories of the plan will present current cash position, forecasted cash position, cash deficiency plan, and recommendation for proceeding to the Governor for approval. The Governor may act on the recommendation of all signatories of the plan by submitting a proposal for correcting the problem to the legislature and request action in either the current legislative session, the upcoming session or in special session.

PROCEDURE 7: Execute procedure to authorize temporary interfund borrowing from the SBRF or CBRF

After exhausting all appropriated and internal sources of cash available for borrowing, the State may need to borrow additional funds from the CBRF or SBRF. Such borrowing can only occur if the signatories of the plan certify that anticipated receipts are sufficient to pay the debt, with interest, before the end of the current fiscal year. If anticipated receipts are certified sufficient, the borrowing may occur. If the Commissioners of Revenue and Administration, the Attorney General, and the Director of the Office of Management and Budget have certified that there will be sufficient money in the General Fund to repay the amount borrowed, including interest, by the end of the fiscal year, Department of Administration will execute the interfund borrowing as directed.

PROCEDURE 8: Prioritize disbursements and restrict expenditures of the State because borrowing is unavailable

When all sources of appropriated and temporary borrowing are exhausted, the signatories of this plan need to prioritize disbursements and restrict expenditures of the State subject to available cash by prioritizing payments to vendors, grantees, municipalities, and employees. The Director of Finance will lead this effort, but all plan signatories will evaluate disbursement activity and identify expenditures to restrict until cash sufficiency is restored. The Director of Finance is responsible for working with affected agencies and ensuring the accounting system has controls in place to implement the prioritization plan.

PROCEDURE 9: Reevaluate Cash Deficiency Operating Plan when cash flow needs for the next two years exceed the CBRF and SBRF balances

The signatories to this agreement will consider additional steps when the SBRF and CBRF balances fall below estimated borrowing and cash flow needs for two fiscal years. At that time, the Office of Management and Budget will coordinate a meeting of the plan signatories to reevaluate the Cash Deficiency Operating Plan. The plan signatories will make recommendations to the Governor to address this cash flow problem.

PROCEDURE 10: Execute early repayment of CBRF appropriations

Under art IX, sec 17(d) of the Alaska Constitution if an appropriation is made from the CBRF, until the amount appropriated is repaid, amounts available for appropriation that remain in the general fund at the end of each fiscal year shall be transferred from the general fund to the

CBRF. So, rather than waiting until the end of each succeeding fiscal year following an appropriation from the CBRF to commence repayment, if the General Fund cash balance is more than $800 million and the Cash Manager and Accounting Services Supervisor both project it to remain greater than $800 million for more than a 30 day period, then repayment of the amount appropriated from the CBRF may be executed. The Accounting Services Supervisor will work with Cash Management and the Portfolio section of Treasury Division to determine the best day to perform a cash transfer to minimize investment losses. They will also notify the Director of the Office of Management and Budget of amount and when transfer will occur.

Additionally, if, at the end of the fiscal year, the General Fund cash balance is projected to exceed $400 million, the amount to be repaid to the CBRF will be the amount of General Fund cash in excess of $400 million that does not reduce General Fund cash below $400 million on the preceding day.

APPENDIX B
GENERAL FUND SUBFUND BORROWING

Fund	Authority	AKSAS
*Abandoned Motor Vehicle Fund	AS 28.11.110	11211
Adak Airport Operations	PL 101-510	11181
*Alaska Capital Income	AS 37.05.565(a)	11185
Alaska Children's Trust	AS 37.14.200	34050
*Alaska Debt Retirement	AS 37.15.011	11138
Alaska Gasline Inducement Act Reimbursement Fund	AS 43.90.400	11188
*Alaska Historical Commission Receipts Account	AS 41.35.380	11111
*Alaska Marine Highway System	AS 19.65.060	12149
*Alaska Marine Highway System Vessel Replacement	AS 37.05.550	11137
*Alaska Senior Care	AS 47.450.360	11182
Alaska Surplus Property	AS 37.05.500(a)(2), AS 44.68.130	11112
*Alaska Technical and Vocational Education Program Account	AS 23.15.830	11166
Alaska Transportation Infrastructure Bank	US Title 23	21653
Alaska Veteran's Memorial Endowment	AS 37.14.700(a)	36010
*Alcohol and Other Drug Abuse Treatment and Prevention Fund	AS 43.60.050	11178
Anatomical Gift Awareness	AS 13.50.160(a)	11183
Art in Public Places	AS 44.27.060	11124
Assistive Technology Loan Guarantee	AS 23.15.125	11154
*Building Safety Account	AS 44.31.025	11177
*Civil Legal Services Fund	AS 37.05.590	12154
*Commercial Passenger Vessel Environmental Compliance	AS 46.03.482	11174
Commercial Vessel Passenger Tax Account	AS 43.52.230(a)	11203
Community Revenue Sharing Fund	AS 29.60.850	11200
*Crime Victims Compensation Fund	AS 18.67.162	11207
Disaster Relief	AS 26.23.300	12120
Donated Commodity Fees	USC 7 CFR, PART 250	11120
*Educational Facilities Maintenance and Construction	AS 37.05.560	11142
Election Fund	Federal HR 3295	11179
*Employment Assistance and Training Program	AS 23.15.625	11134
Exxon Valdez Oil Spill Unincorp Rural Community Grant	AS 44.33.115	11161
FHWA - Airspace Leases	USSTURAA 1987, Section 156	11126
FICA Administration	AS 39.30.050	11110
Fisheries Disasters Fund	P.L. 108-7 Section 2	11180
Fuel Emergency	AS 26.23.400	11125
Fund for the Improvement of School Performance	AS 14.03.125	11145
*Large Passenger Gambling Tax Fund	AS 43.35.210-220	11206
Major Maintenance Grant	AS 14.11.007	11144
Memorial Education Revolving Loan	AS 14.43.255	21611
*Mental Health Trust Income Account	AS 34.14.011	34042
*Municipal Capital Project Matching Grant	AS 37.06.010	11146
NTSC Bonds Funding		11176
Oil and Gas Tax Credit Fund	AS 43.55.028	11189
*Oil and Hazardous Substance Release Prevention	AS 46.08.010(a)	11122
*Oil and Hazardous Substance Release Prevention Mitigation	AS 46.08.020(b)	11139
Oil and Hazardous Substance Release Response	AS 46.08.010(a)	11129
*Oil and Hazardous Substance Release Response Mitigation	AS 46.08.025(b)	11153
*Originator Surety Fund	AS 06.60.500	11202
Permanent Fund Dividend	AS 43.23.045	33020
Public Education	AS 14.17.300	11184
*Railbelt Energy	AS 37.05.520	11123

Randolph-Sheppard Small Business	AS 23.15.130, 20 USC 107-107(f)	11118
Real Estate Surety	AS 08.88.450	11121
Regional Cruise Ship Impact Fund	AS 43.52.230(c)	11209
School Construction Grant	AS 14.11.005	11143
School Trust Land Sales	Attorney General Opinion	11162
State Insurance Catastrophe Reserve Account	AS 37.05.289	11133
*State Land Disposal Income	AS 38.04.022	11164
*State Land Reforestation	AS 41.17.300	12130
*Statutory Budget Reserve	AS 37.05.540	11115
TAPS Rebate	Federal Public Law 101-380	11163
*Tobacco Use Education and Cessation Account	AS 37.05.580	11175
Training and Building	AS 23.20.130(d)	12121
*Trauma Care Fund	AS 18.08.085	11208
*Unincorporated Community Capital Project Matching Grant	AS 37.06.020	11147
*Vocational Rehabilitation Small Business Enterprise	AS 23.15.130	11116
* Worker's Compensation Benefits Guaranty	AS 23.30.082	11186
*Workers' Safety and Compensation Administration Account	AS 23.05.067	11173

* Asubfund which has been identified as General Fund available for appropriation and will be the first subfunds from which borrowing would occur. Within this category, the amount available to borrow will be determined based on several factors, including fund sufficiency balance, existing appropriations, federal statutes, other restrictions that may have been placed on the funds, and anticipated expenditure and revenue flows. All other funds would be considered the second priority to draw from and would fall under the same evaluation described above.

GLOSSARY OF TERMS

AKSAS	Alaska Statewide Accounting System
AS	Alaska Statute
Cash Deficiency	The General Fund sufficiency balance has dropped below $400 million
Disbursements	A decrease in the State's current financial resources due to warrant or nonwarrant disbursal
Expenditures	Disbursements reported on a modified accrual basis
Fund	A fiscal and accounting entity with a self-balancing set of accounts used to manage the income and outflow of the State's financial resources
Fund Sufficiency Balance	A measure of a fund's ability to pay for disbursements, calculated as cash held by the fund less any warrants outstanding
General Fund	The State's primary operating fund that is used to account for all of the State's financial resources except for those accounted for in a special purpose fund
Receipts	An increase in the State's current financial resources due to receipt of cash
Revenues	Receipts reported on a modified accrual basis
USC	United States Code
USSTURAA	United States Surface Transportation and Uniform Relocation Assistance Act
Warrants Outstanding	Warrants that have been issued, but not yet presented to the State for purchase