

Alaska Department of Revenue

Budget Overview
House Finance Committee

Commissioner Bryan Butcher

Monday, January 21, 2013



January 21, 2013



Alaska Department of Revenue

The mission of the Department of Revenue is to collect, distribute and invest funds for public purposes

Major Programs

Tax Division

*Enforces the tax laws of the state;
collects and accounts for tax revenues*

Treasury Division

Manages and invests state funds

Permanent Fund Dividend Division

*Administers the PFD program and
distributes the annual dividend payment to eligible Alaskans*

Child Support Services Division

Collects and distributes child support to custodial parents

Results in FY 2012

- Permanent Fund Dividend Division: Of the 144,056 eligibility cases opened in 2011, 88% were reviewed by September 15 and either closed, resolved, or awaiting information from the applicant.
- Child Support: Child Support Services collected \$118.6 million, a 4% increase over last year. Of this, \$105.8 million was disbursed to custodial parents and children.
- The federally required self assessment review showed that CSSD exceeded all federal requirements for the child support program.
- CSSD increased its teenage outreach program by visiting 44 schools throughout the state.
- Tax Division: 96% of known taxpayers filed tax returns and made their payments timely.

Results

- On January 15th, the State sold \$162 million of General Obligation bonds.
- The State received more than \$600 million in orders and achieved a true interest cost of 1.42%
- The bonds were the first to be issued by the State under its new AAA/Aaa/AAA rating
 - **Fitch –**
The state has used recent windfalls from high oil prices to repay past CBR draws and remains committed to maintaining sizable reserves, a key rating factor given forecasted declines in oil production over time.
 - **Moody's –**
A conservative approach to forecasting oil revenues with respect to assumptions for both price and production has long been a key element of Alaska's credit profile.

Expectations that the state will continue to provide conservative forecasts support the Aaa rating.

The outlook for Alaska is stable, based on expectations the state will continue to make conservative oil revenue forecasts and plan for the eventual depletion of its oil resources, and that its large budgetary reserves will allow it to withstand short-term production disruptions.
 - **S&P –**
Considering the importance of oil-related revenues to the state's budget, its forecasts of both oil prices and production are crucial to its fiscal condition.

The state's Department of Revenue (DOR) has a good track record forecasting year-ahead prices and production levels.

A bigger issue for the state is measuring the long term rate of oil production decline.

The state has built up substantial reserves to provide essential services in the event of a future revenue downturn, while hedging against declines in North Slope oil production and fluctuations in oil prices.

Tax Revenue Management System (TRMS)

- \$34.7 million was appropriated in 2011
- A 3rd party project manager was brought on board in the summer of 2011 to assist with the RFP and contractor selection.
- An RFP was issued in the fall of 2012.
- Fast Enterprises' GenTax product was selected in December of 2012.
- DOR will be implementing a Commercial Off-the-Shelf (COTS) system.
- The phased implementation of the DOR Tax Division's 22 tax systems will begin in March of 2013.
- There is a 3 year timeline for full implementation.

Authorities and Corporations

- Alaska Housing Finance Corporation
To provide Alaskans access to safe, quality and affordable housing.
- Alaska Permanent Fund Corporation
To maximize the value of the Permanent Fund within return objectives.
- Alaska Mental Health Trust Authority
To administer the Alaska Mental Health Trust as a perpetual trust and to ensure a comprehensive and integrated mental health program to improve the lives of beneficiaries.
- Alaska Municipal Bond Bank Authority
To provide municipalities with financing options for capital projects.

7-Year Look Back at Department Activities

Revenues collected by the Tax Division increased 268%:

- FY05 \$1,951,247,500
- FY12 \$7,173,800,000

Funds under management by the Treasury Division increased 128%:

- 12/31/2004 \$20,448,418,000
- 12/31/2012 \$46,598,422,000

Number of Permanent Fund Dividends paid to Alaskans increased 7%:

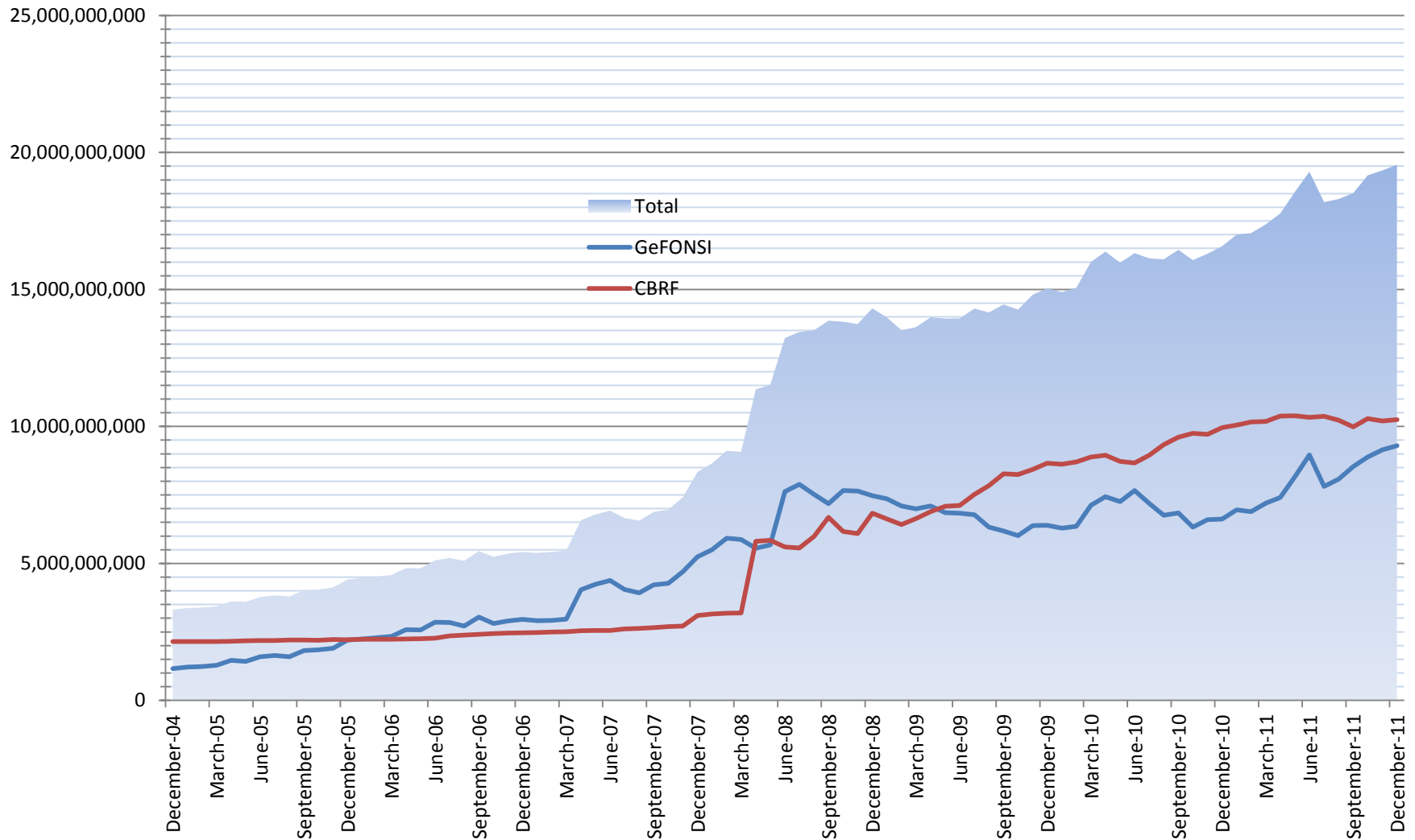
- FY05 599,243
- FY13 641,697 (total estimated for 2012 dividend)

Number of child support cases increased 4% while the amount of child support distributed to custodial parents increased 21%:

- FFY05 45,259 cases \$98.6 million disbursed
- FFY12 47,044 cases \$118.6 million disbursed

Growth in State Funds 2005-2012

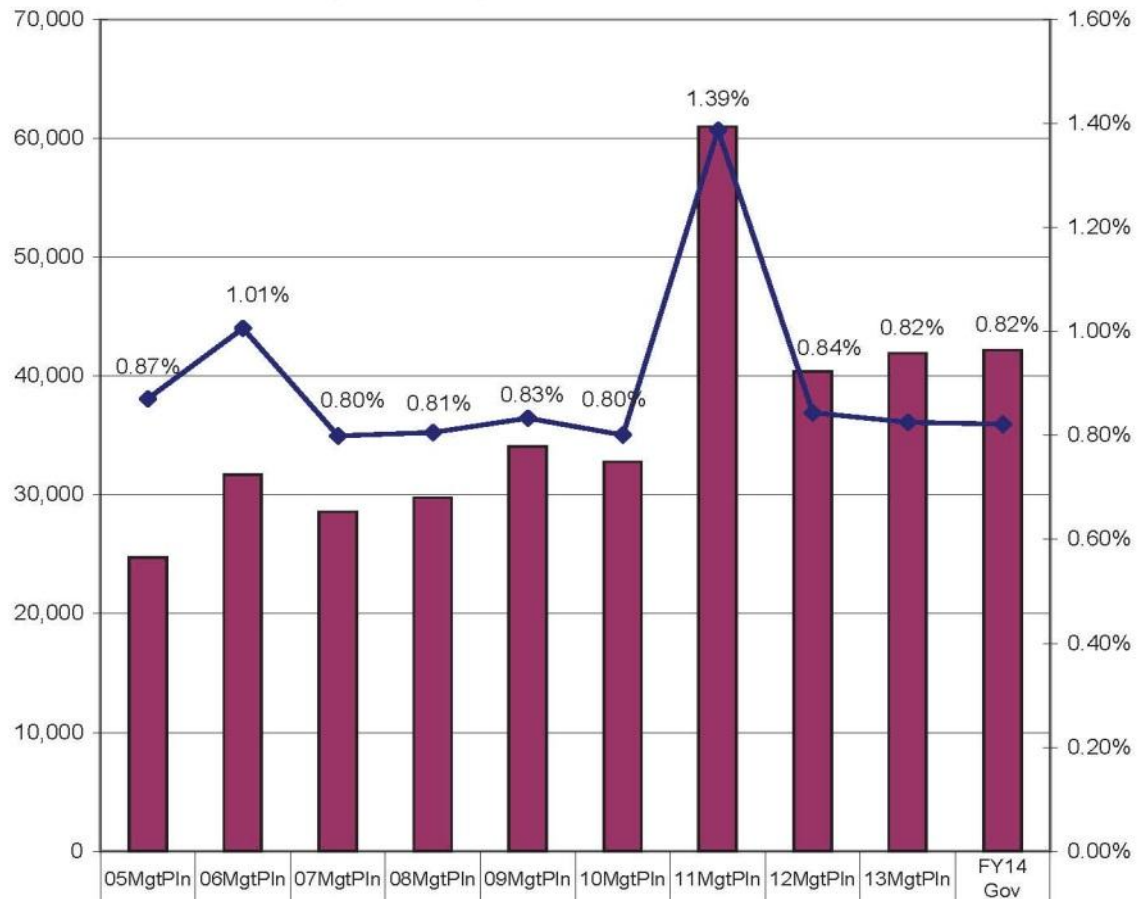
CBRF and GeFonsi



Department of Revenue Share of Total Agency Operations
(GF Only)
(\$ Thousands)

The Department's GF budget grew by \$17.4 million between FY05 and FY14 Governor's Request -- an average annual growth rate of 6.1%.

The Department's total FY14 Governor's Requested GF budget equals \$128 per resident worker.*

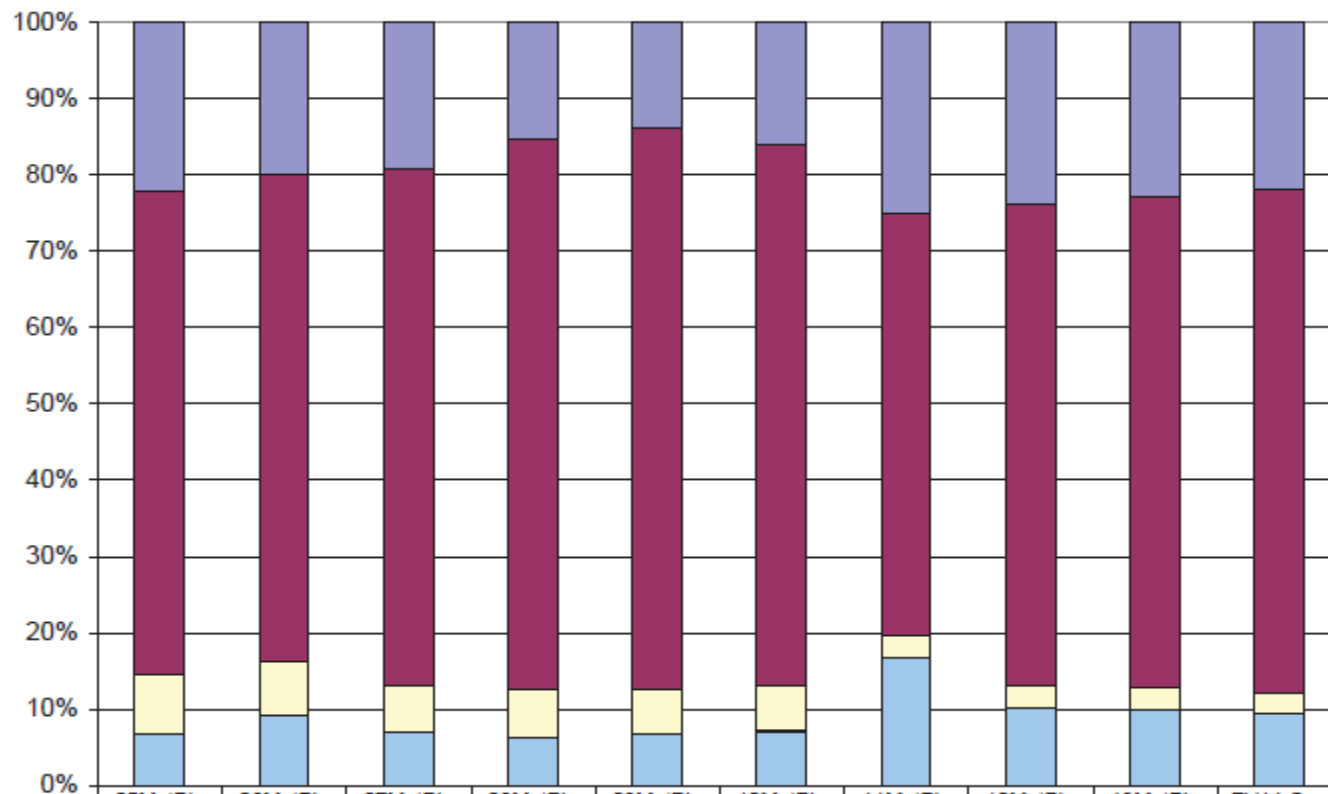


Total Agency Budget (GF Only)	24,749.3	31,698.0	28,582.8	29,771.5	34,052.6	32,776.4	60,987.5	40,398.8	41,924.3	42,178.7
% of Agency Budget to Total Agencies' budgets	0.87%	1.01%	0.80%	0.81%	0.83%	0.80%	1.39%	0.84%	0.82%	0.82%

* According to the Department of Labor, there were 328,611 resident workers in Alaska in 2010.

Department of Revenue
Percent of the Total Department's Budget by Fund Group
 (All Funds)
 (\$ Thousands)

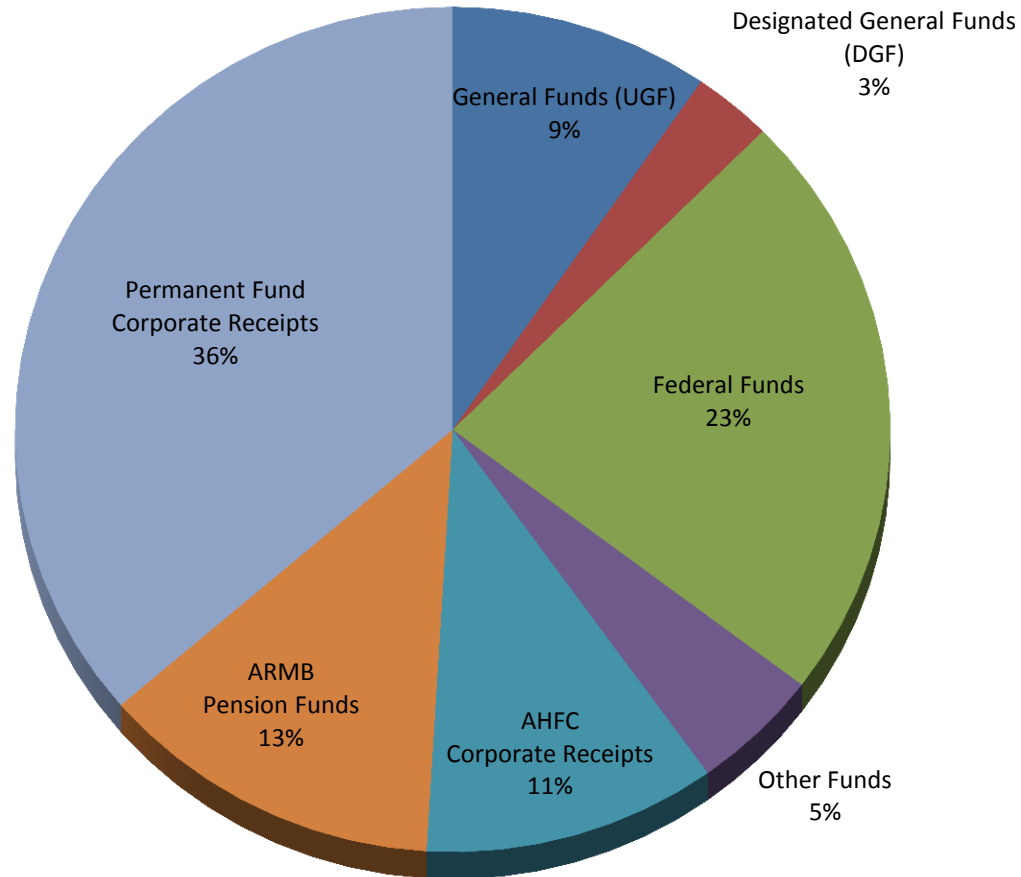
The percentage of general funds (UGF & DGF) in the Department's budget was 15% in FY05 and is 12% in the FY14 Governor's Request.



	05MgtPln	06MgtPln	07MgtPln	08MgtPln	09MgtPln	10MgtPln	11MgtPln	12MgtPln	13MgtPln	FY14 Gov
Federal Receipts (Fed)	37,504.9	38,887.5	41,912.8	36,479.4	37,214.4	40,349.1	77,748.5	73,935.2	74,884.2	76,950.6
Other State Funds (Other)	107,218.4	124,953.5	147,661.2	170,700.1	198,386.2	178,017.5	171,708.7	194,871.8	211,213.6	230,531.5
Designated General (DGF)	13,293.7	13,910.3	13,460.5	14,923.1	15,721.6	14,957.6	9,074.7	9,356.5	9,615.1	9,696.0
Unrestricted General (UGF)	11,455.6	17,787.7	15,122.3	14,848.4	18,331.0	17,818.8	51,912.8	31,042.3	32,309.2	32,482.7

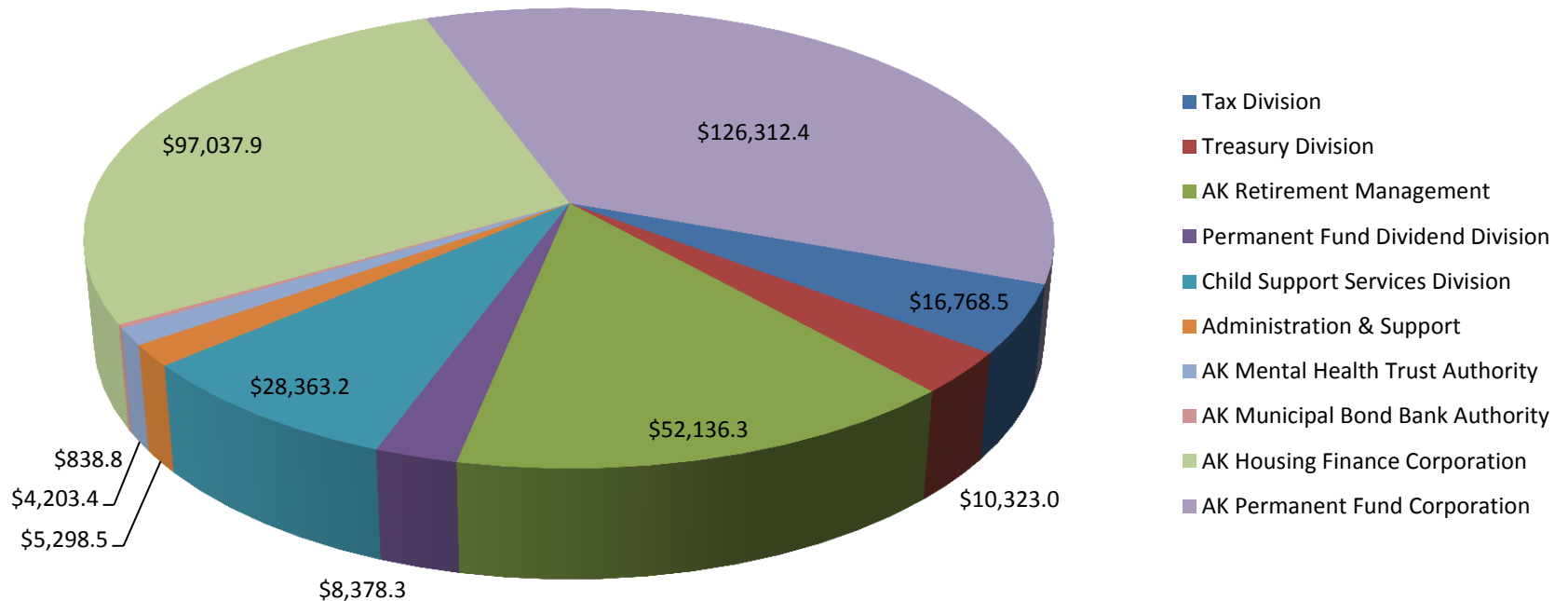
Department of Revenue

FY 2014 Governor's Budget by Fund Source



Department of Revenue

FY 2014 Governor's Budget by Program



Key FY 14 Budget Changes

- Film Office Executive Director 148.0 GF
 - New responsibility in Department of Revenue
- Oil and Gas Audit 372.0 GF
 - Two new positions
- Long Term Care Ombudsman 107.4 GF/MH
 - New assistant ombudsman for increasing case load
- AHFC New Mortgage Marketing Plan 680.0 AHFC Receipts
 - New Marketing effort to increase AHFC market share

FY 14 Capital

- PFD Division System Software Conversion 1,500.0 PFD Fund
- PFD Division Computer Replacement 130.0 PFD Fund
- Child Support Computer Replacement 143.9 Fed/74.1GF
- Permanent Fund Corp NetApp Filer 55.0 PF earnings
- Alaska Housing Finance Corp Multiple Projects
88,200.0 GF/850.0 Other/13,800.0 Fed
 - \$31.5 million Weatherization
 - \$20 million Home Energy Rebate
 - \$8 million Homeless Assistance Program
 - \$7 million Supplemental Housing Development Program
 - \$6 million Teacher, Health, Public Safety and VPSO Housing Loans
 - \$4.5 million Senior Citizen Housing Development

Department of Revenue Ten Year Expenditure Projection

- The mission of the Department of Revenue is to collect, distribute and invest funds for public purposes. The department achieves its mission through the efforts of four core agencies, two corporate agencies, and four boards and authorities.
- The following document provides an estimate of the department's budget changes over the next ten years. Projecting budgets ten years into the future for the various programs and funding sources of the Department of Revenue is a challenge. Changes to the department's programs are not anticipated but are sometimes affected by legislative action. As a result, the assumptions and numbers that make up the plan will continue to change as new information becomes available.

Baseline Scenario Assumptions for DOR

- The department's operations costs were increased by using a 2.5% annual inflation factor. The inflation calculation does not include personal services or investment management fees.
- External custody and investment management fees were calculated using anticipated rates applied to estimated future market values.

Baseline Scenario Assumptions for AHFC

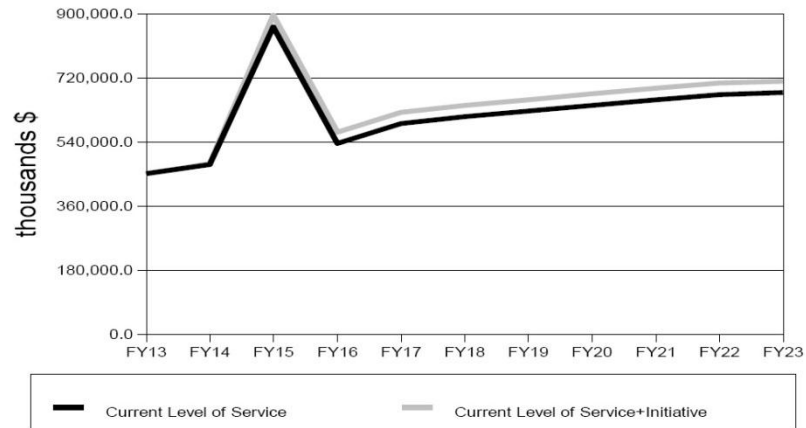
- Alaska Housing Finance Corporation's (AHFC) operations costs were increased by using a 2.5% annual inflation factor. The inflation calculation does not include personal services or investment management fees.
- The Capital budget assumes that the Corporation's earnings will resume to pre-recession levels.
- The Weatherization program assumes the State will contribute \$100 million annually to maintain the current program.

Baseline Scenario Assumptions for APFC

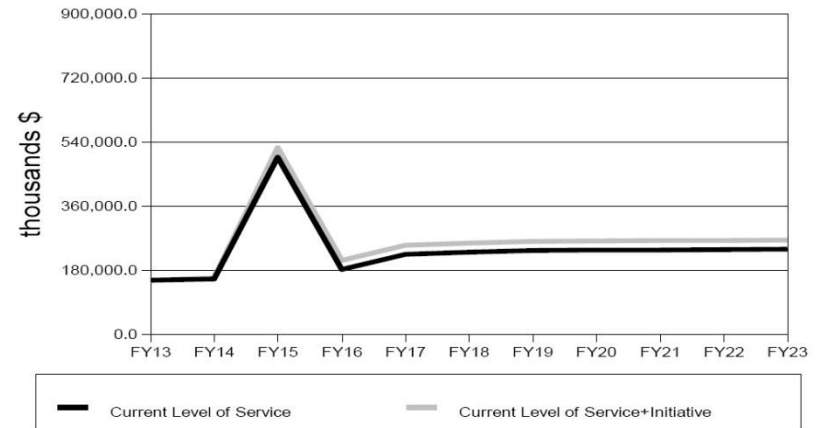
- The Alaska Permanent Fund (APF) value was grown using median capital market expectations.
- External investment manager fees were calculated using the projected value of the assets under management multiplied by the projected cost of 24 bps.
- Alaska Permanent Fund Corporation's (APFC) operations costs were grown by 2.5% (inflation). APFC operations costs (personal services, travel, contractual services, commodities, and equipment) are correlated to the growth of the Fund's investment holdings.

10 Year Projection Graphs

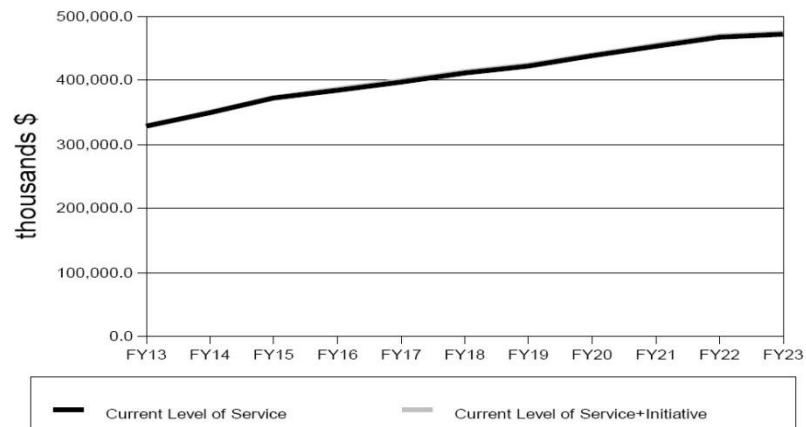
All Funds



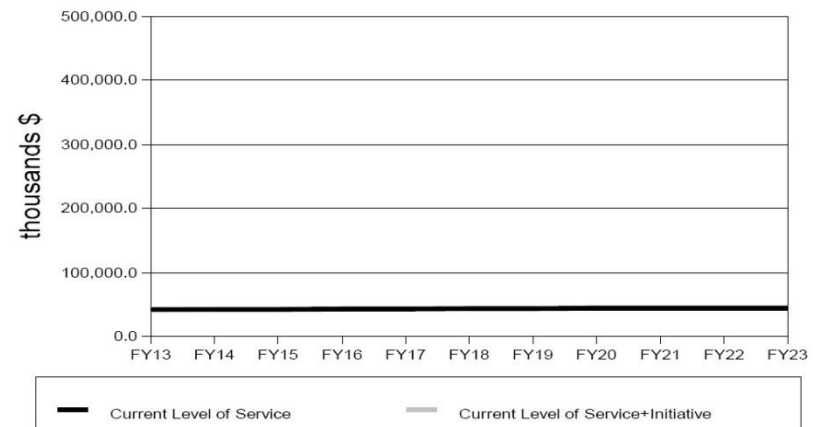
General Funds



Operating All Funds

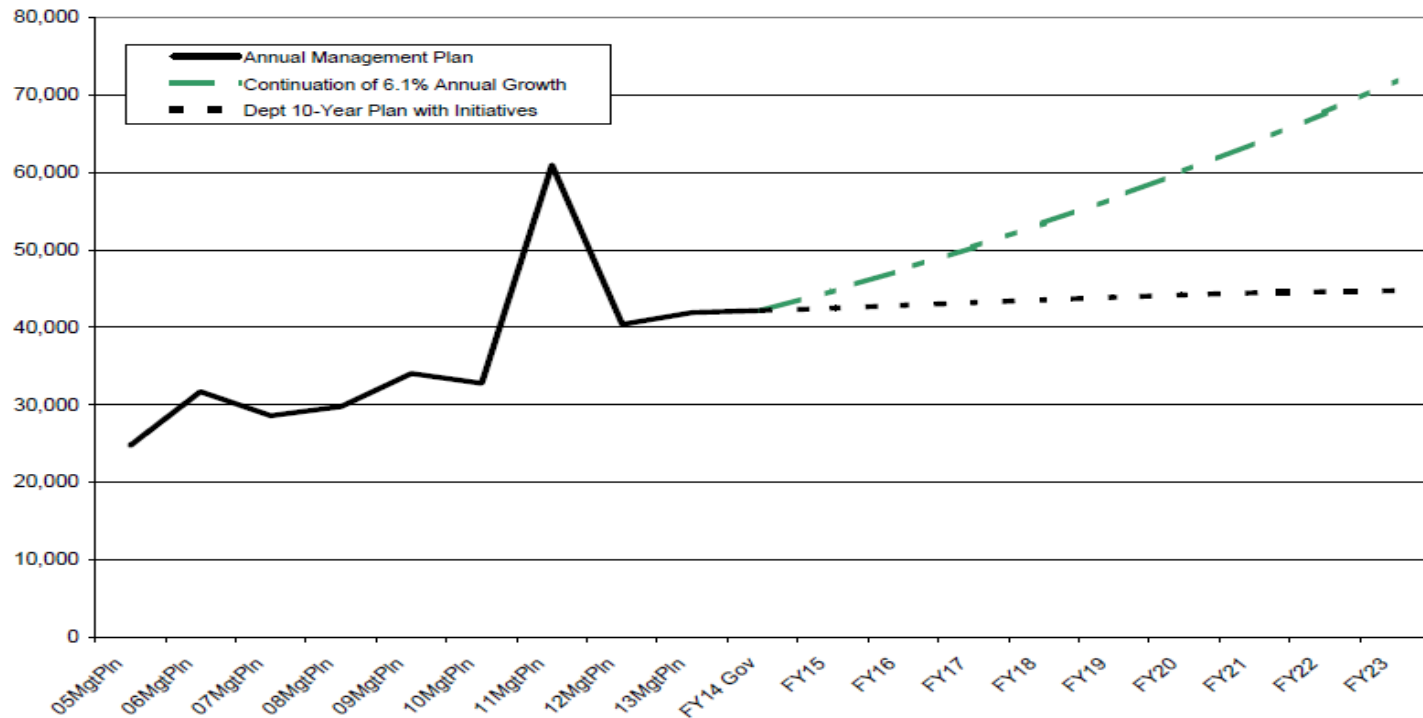


Operating General Funds



10 Year Projection Graphs

Department of Revenue
Continued Budget Growth Compared to 10-Year Plan
(GF Only)
(\$ Thousands)



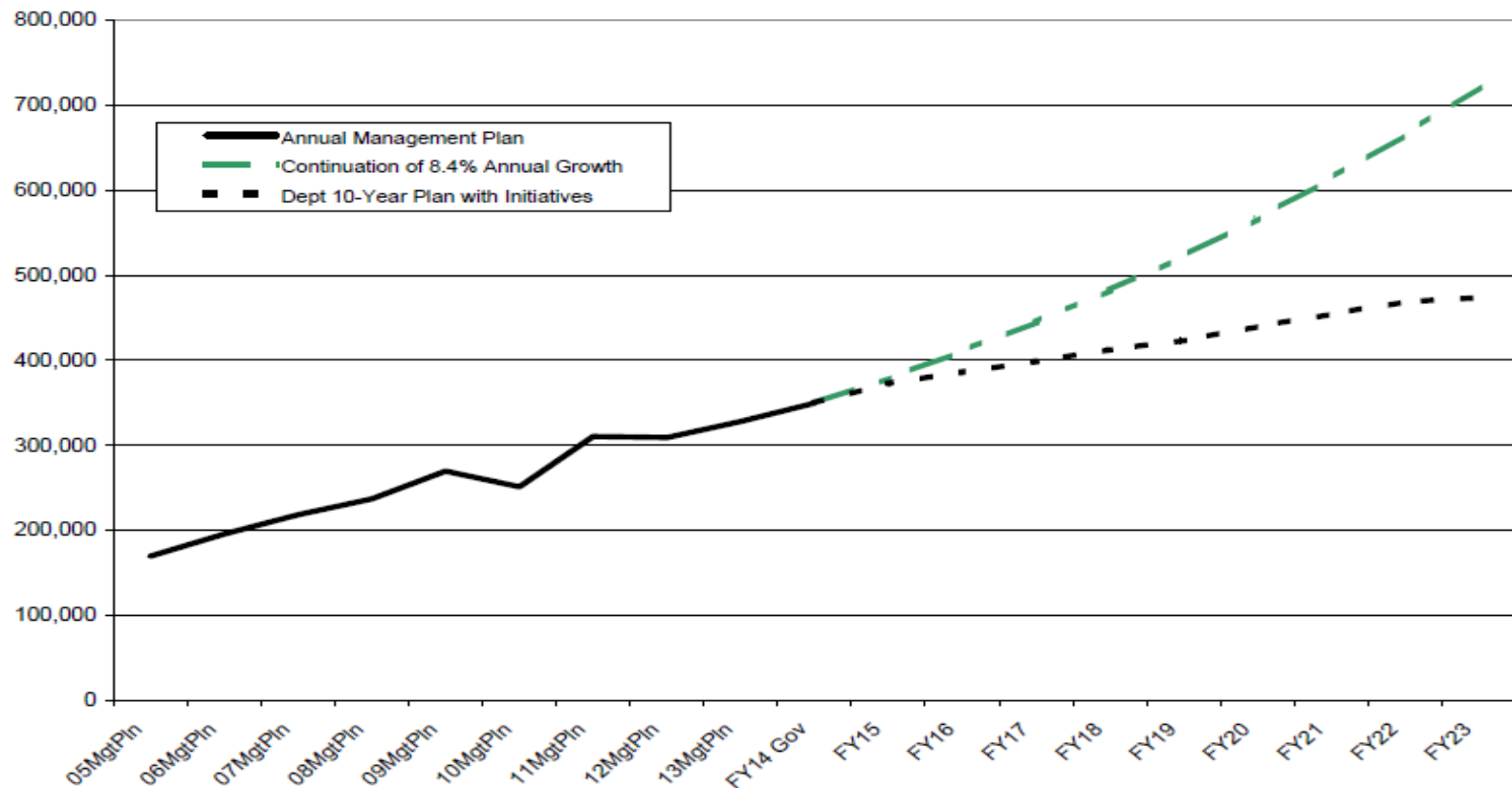
1/19/2013

Legislative Finance Division

1 of 2

10 Year Projection Graphs

Department of Revenue
Continued Budget Growth Compared to 10-Year Plan
(All Funds)
(\$ Thousands)



Wrap-Up

- The Tax Division is actively engaged in improving its information system to insure efficient tax administration and timely access to information necessary for assisting with tax policy decisions contemplated by the legislature.
- The Department of Revenue is the state's largest investment manager. We pride ourselves in prudent investment practices for a variety of programs and needs while achieving and maintaining the highest credit rating and thus the lowest cost of borrowing.
- Customer service sections in the PFD and Child Support Services Divisions have continuously improved their business practices in order to provide increased service levels without increasing staff.
- Our corporations receive national recognition for their exemplary program management and fiscal solvency.