Department of Revenue

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY16 Conference Committee (GF Only)	**$39,884.6**			
FY16 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	-			
Multi-Years/Specials	-			
Unallocated	(532.2)			1
FY16 Management Plan (GF only)	**$39,352.4**	($532.2)	-1.3%	
One-time Items Removed	(578.2)			
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	46.0			
FY17 Contractual Salary Increases	-			
FY17 Adjusted Base Budget (GF only)	**$38,820.2**	($532.2)	-1.4%	
Unallocated	(532.2)			2
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	6.7			
FY17 Governor's UGF Increments/Decrements/Fund Changes	1,785.4			
FY17 Governor's Agency Request (GF only)	**$40,080.1**	$1,259.9	3.2%	

FY17 Governor's Increments, Decrements, Fund Changes and Language	FY17 Adjusted Base Budget (GF Only)	FY17 Governor's Request (GF only)	Change from FY17 Adj Base to FY17 Governor's Request	See Note:
Allocation			**$1,259.9**	
Tax Division	13,653.3	13,390.5	(262.8)	10
Treasury Division	4,504.2	4,502.4	(1.8)	10
Unclaimed Property	577.2	581.7	4.5	
ARM Board	(2.2)	-	2.2	
Permanent Fund Dividend Division	8,501.4	8,734.2	232.8	5
Child Support Services	8,750.9	8,663.0	(87.9)	
Commissioner's Office	230.8	233.7	2.9	
Administrative Services	505.7	515.7	10.0	
Natural Gas Commercialization	-	1,876.7	1,876.7	6, 7
Long Term Care Ombudsman	445.4	454.2	8.8	
Agency Unallocated Appropriation	-	(525.5)	(525.5)	

Non-General Fund Agency Summary	FY17 Adjusted Base Budget	FY17 Governor's Request	Change from FY17 Adj Base to FY17 Governor's Request	See Note:
Other State Funds (all allocations)	281,435.1	282,785.5	1,350.4	3,4,8,9,11
Federal Funds (all allocations)	78,130.6	79,698.3	1,567.7	
Total Non-General Funds (all allocations)	**$78,130.6**	**$79,698.3**	**$1,567.7**	
Position Changes (From FY16 Authorized to Gov)	**922**	**915**	**(7)**	
PFT	873	865	(8)	
PPT	32	32	-	
Temp	17	18	1	

Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	1,000.0	-	1,000.0	
Maintenance and Repairs	-	5,000.0	5,000.0	
Remodel, Reconstruction and Upgrades	-	4,000.0	4,000.0	
New Construction and Land Acquisition	5,550.0	-	5,550.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	1,700.0	3,300.0	5,000.0	
Other	14,800.0	7,500.0	22,300.0	
TOTAL CAPITAL	**$23,050.0**	**$19,800.0**	**$42,850.0**	

Department of Revenue

The Department of Revenue's responsibilities include:

- administration and enforcement of Alaska's tax laws;
- management of the treasury;
- administration of the Permanent Fund Dividend Program;
- collection and distribution of child support; and
- administrative support to the following independent boards and corporations:
  - Alaska Permanent Fund Corporation;
  - Alaska Housing Finance Corporation;
  - Alaska Municipal Bond Bank Authority;
  - Alaska Retirement Management Board; and
  - the Alaska Mental Health Trust Authority.

BUDGET SUMMARY

The FY17 Department of Revenue (DOR) general fund operating budget submitted by the Governor is $1,259.9 (3.2%) *above* the FY17 Adjusted Base [$1,009.4 Unrestricted General Funds (UGF)/ $250.5 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

FY16 & FY17 AGENCY UNALLOCATED REDUCTIONS

1. **FY16 Branch-Wide Unallocated Reduction: ($532.2) UGF.** HB 2001 (Chapter 1, SSSLA 2015) included a $29.8 million UGF unallocated reduction to be spread among Executive Branch agencies. The Governor allocated $532.2 of the reduction to the Department of Revenue. The agency spread its reduction entirely to the Treasury Division.

2. **FY17 Treatment of FY16 One-Time Salary Increases: ($525.2) UGF.** FY16 operating budgets for all agencies contained COLA increases totaling approximately $57 million ($30.3 million UGF). For FY17, legislative intent stated that individual employees would continue to be paid at FY16 levels while agencies would absorb the UGF portion of the COLA.

   The Governor's FY17 request removes the UGF portion of the FY16 COLA in every allocation that received the COLA.

   For all agencies except the legislature, the judicial branch and the University of Alaska, the Governor requests:

   1. that the UGF portion of the COLA be restored to each affected allocation in FY17. These actions are shown with *IncM* transaction types.
   2. an agency-wide unallocated reduction equal to the sum of the amounts restored within each agency. These actions are shown with *Unalloc* transaction types.

   Legislative Fiscal Analyst Comment: Legal Services has consistently opposed unallocated appropriations at any stage of the budget process on constitutional grounds. Legislative Finance views unallocated reductions as a tool to be used sparingly in the final stages of budget negotiations, but opposes their use in early stages of the budget process.

PROGRAM EXPANSION

3. **Treasury Division – New Investment Officers and Support Position: $711.5 Total [$710.2 I/A Receipts/ Retirement Funds (Other)/ $1.3 PCE Endowment (DGF) and 3 PFT Positions].** This increment provides funding primarily via inter-agency receipts paid from the pension funds managed by the Alaska Retirement Management Board (ARMB) and invested by the Treasury Division. There is a commensurate increment in the ARM Board for the funding. The additional staff would include two new State Investment Officers (with base salaries of $218.5 each) and one new Accountant (with a base salary of $82.0).

> **Legislative Fiscal Analyst Comment:** Funding was also provided in FY16 for two new State Investment Officers also funded via the ARM Board. When at full implementation, projected savings to the State from in-house investment management is expected at approximately $1.2 million (the difference between the salaries and the external management fees). As recently as December, those two positions and three others investment officer positions were vacant. However, three successful hires have been made in January 2016, leaving Treasury with only two currently vacant.

4. **Treasury Division - Market Based Salary Adjustment: $857.8 Total [$832.7 I/A Receipts/ Retirement Funds (Other)/ $11.9 PCE Endowment (DGF)].** According to the Department, this increment would increase investment officer salaries to a level more "competitive" with similar positions at the Alaska and national level. A similar increment (albeit smaller at $327.0) was requested and denied in the FY16 budget. An increment is also included in the ARM Board for the funding to be RSA'd to Treasury.

   Historically, there hasn't been a retention problem with Treasury Division Investment Officers, however, three positions became vacant within the last twelve months (see item #3).

> **Legislative Fiscal Analyst Comment:** The Alaska Permanent Fund Corporation (APFC) and the Treasury Division are unusual in that they compete for investment staff that can earn significantly more money in the private sector. This causes pressure within the organizations to increase salaries in order to attract and retain employees. While significant investment occurs in the training of investment officers, attempting to keep up with national salary levels may not be totally justifiable. Other considerations—including retirement and benefit packages, cost of living, and quality of life—affect the ability to recruit and retain employees.
>
> The legislature should consider all aspects of increasing any salaries in the current fiscal environment. Most agencies, including the other divisions within DOR, are reducing personnel, taking furloughs, and absorbing previously negotiated union raises.

5. **Permanent Fund Dividend Division 7% Coordination Fees Under Pick Click Give: $232.8 GF/Program Receipts (DGF).** Chapter 106, SLA 2014 (HB 75), added a provision to the Pick, Click, Give Program allowing 7% of each donation to be withheld for administrative costs of the program. Previously all marketing and outreach costs of the program were paid by the Rasmussen Foundation. However, this statutory change was intended to enable the program to be self-supporting and this increment would be utilized to pay for the costs previously paid by Rasmussen.

6. **Natural Gas Commercialization Bond Issuance Contract Services: $1,700.0 GF/LNG (UGF).** In preparation for the Front End Engineering and Design (FEED) phase of AKLNG, DOR is requesting $1.7 million UGF for the costs associated with issuing bonds. Bond proceeds are anticipated as necessary to fund the Alaska Gasline Development Corporation's (AGDC) participating interest share of the AKLNG Project FEED costs. Bond

counsel, financial advisor services, trustee fees, underwriting fees, etc. would be covered by this increment.

> **Legislative Fiscal Analyst Comment:** These are not atypical costs in any bond offering by the state. Recent General Obligation Bond offerings have cost roughly 0.25% (or $250,000 per $100 million issued). The costs for other types of issues can be significantly higher and, given the recent Standard and Poor's rating downgrade, debt for the project will likely cost more.
>
> Testimony on SB 3001, during the recent special session, had the state's share of FEED costs at $875 million. Assuming bonding of the full amount and the 0.25% cost, a budget of $2.2 million is not an unreasonable starting point. The $1.7 million figure built into the DOR budget implies issuance of less than the full $875 million amount.

7. **Natural Gas Commercialization – Non-Perm Program Manager: $176.7 GF/LNG (UGF) and 1 Temp Position.** This increment would provide funding to hire a new long-term non-permanent Program Manager position to act as the administrative and project coordinator for the Department of Revenue in development of the AKLNG project. The position will be responsible for planning, coordinating, and overseeing activities, as well as budgetary and administrative responsibilities within DOR. Bonding efforts are expected to ramp up significantly prior to FY17 as the project moves toward a Front End Engineering and Design (FEED) decision.

> **Legislative Fiscal Analyst Comment:** This position uses a new fund code, GF/LNG, which was established for SB 3001. It is a UGF code, but allows expenditures on the AKLNG project to be tracked across agencies.
>
> Questions should continue to be asked as to the overall coordination, project management and funding requirements of the AKLNG project. Why this position would reside within DOR versus the Alaska Gasline Development Corporation is unclear.

8. **Permanent Fund Corporation (APFC) – Staff Retention Funding: $216.0 Permanent Fund Corporation Receipts (Other).** Included in the FY17 APFC budget is an increment for $216.0 which, according to the agency, is intended to provide the corporation with the additional resources necessary to retain their professional staff. APFC is exempt from the State Personnel Act and the board is responsible for implementing a salary management program that meets the needs of the corporation. A similar increment of $290.0 was requested, but denied in the FY16 budget.

> **Legislative Fiscal Analyst Comment:** The Alaska Permanent Fund Corporation (APFC) and the Treasury Division are unusual in that they compete for investment staff that can earn significantly more money in the private sector. This causes pressure within the organizations to increase salaries in order to attract and retain employees. While significant investment occurs in the training of investment officers, attempting to keep up with national salary levels may not be totally justifiable. Other considerations—including retirement and benefit packages, cost of living, and quality of life—affect the ability to recruit and retain employees.
>
> The legislature should consider all aspects of increasing any salaries in the current fiscal environment. Most agencies, including the other divisions within DOR, are reducing personnel, taking furloughs, and absorbing previously negotiated union raises.

9. **New Permanent Fund Corporation Positions: $1,030.0 Permanent Fund Corporation Receipts (Other) and 6 PFT Positions.** APFC has two increments totaling just over $1 million for six new positions – two Senior Investment Officers, three Investment Analysts and one IT Specialist. One of the analyst positions, for $145.0, would expand the Special Opportunities and Alternative Investments Program. A similar senior level position for this program was requested and approved in the FY16 budget. An increment for $885.0 would fund the other five positions to (like the Treasury Division) bring management of additional assets

"in-house." The potential savings of this Quantitative Equities Program is projected at $3.2 million and a decrement of that amount is included in the budget for APFC Investment Management Fees. (See item #11.)

FUNDING REDUCTIONS

10. Personnel Services Reductions: ($807.3) UGF and (13) PFT Positions. Included in the Tax, Treasury and Child Support Services (CSSD) allocations are decrements reducing personal services and eliminating positions. A total of thirteen positions are deleted – six in the Tax Division, two in the Treasury Division, and five in CSSD. The UGF reduction in CSSD is also a match for federal receipts. A commensurate reduction of $429.8 in federal receipts is included in the decrement for CSSD positions. Details of position titles and locations can be found in the notes for each decrement transaction.

11. APFC Investment Management Fees Reduction: ($3.2) million Permanent Fund Corporation Receipts (Other). As mentioned in Item #9, additional assets will be brought in-house for management, thereby reducing external management fees and potentially realizing savings of approximately $3.2 million. This request reflects anticipated savings if the positions requested for in-house management of the assets are approved.

ORGANIZATIONAL CHANGES

For the most part, the agency is unchanged organizationally. However, one change in the bill structure is the combination of the two FY16 APFC appropriations into one with two allocations. APFC Investment Management Fees are combined with APFC Operations.

Legislative Fiscal Analyst Comment: One reason for establishing two appropriations was that doing so prevents the Corporation from using money appropriated for management fees to increase salaries within the Corporation.

CAPITAL REQUEST

The Governor's FY17 Department of Revenue capital budget totals $42.85 million ($19.15 million general funds, $3.9 million Other State Funds and $19.8 million Federal Receipts). The budget contains projects primarily for the Alaska Housing Finance Corporation (AHFC) with the exception of one project for the Child Support Services Division. Also included are two reappropriations (totaling $8.3 million of ~$20 million unexpended and unobligated) of prior AHFC Home Energy Rebate Program projects to AHFC Senior Citizens Housing Development and AHFC Weatherization programs. Details of each project can be seen on the Legislative Finance website.

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