



Alaska Department of Revenue Tax Division and AKLNG Project

**FY17 Governor's Proposed Budget
Presentation to House Finance Revenue Subcommittee
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Alaska LNG

TAX DIVISION

Tax Division

What we do:

The official mission of the Tax Division is to collect taxes, inform stakeholders, and regulate charitable gaming.

In practical terms, this also means we regulate, administer and audit Alaska's various taxes, and we forecast and report revenues.

The Tax Division also provides substantial analytical services in response to questions from Legislators and other agencies and supports the commissioner and administration in development of fiscal policy.

Tax Division Highlights

One major highlight of the last year is the near-complete implementation of the Tax Revenue Management System

- TRMS project was funded by a FY12 capital appropriation of \$34.7 million. TRMS is replacing over 15 individual proprietary software systems that we have developed and maintained over many years
- Final Phase of the TRMS rollout on February 22, with support services through FY17 included in the current contract

Tax Division Highlights

Other Highlights

- Tax division staff also closely involved in the development of the Governor's fiscal plan
- Preparation for Marijuana taxation this summer, including potential need for cash payments
- Absorbing substantial staff reduction and combination of functions

Tax Division Staff

- Two offices in Juneau (SOB 11th Floor) and Anchorage (Atwood Building 5th Floor)
 - **118 Full Time Permanent Employees in FY16 Budget**
 - 72 in Anchorage, including most of the management and audit staff for the oil and gas, corporate, property, and excise groups
 - 46 in Juneau, providing much of the support staff to the direct tax groups as well as the bulk of the fish and gaming tax groups
 - 42 Tax Auditors
 - 38 Other Professional staff (economists, programmers, managers, investigators, and appeals officers)
 - 38 Paraprofessional and Technical staff (tax technicians, administrative, and other)
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Tax Division Staff

➤ Cuts from FY15 to FY16

- FY15 Budget, 130 Full Time Perm PCNs
- FY16 Budget, 118 Full Time Perm PCNs
 - 12 eliminated (4 auditors including 2 in Film group)

➤ Cuts Proposed in Gov's FY17 Budget

- FY17 Gov's Budget, 110 PCNs
 - 8 eliminated; 6 specified in budget plus 2 more via our share of DOR unallocated reduction (1 auditor)
- Today- 15 Fewer Actual Employees than we had on 12/1/14

Tax Division Working Sections

Division is organized by tax type and by function

➤ **Tax Types.** Each group is a mix of auditors and technicians, plus a supervisor

- Oil and Gas Production Tax- 22 staff
- Corporate Income- 16 staff
- Excise (10 different taxes)- 14 staff
- Fish Tax- 6 staff
- Charitable Gaming- 5 staff
- Petroleum Property Tax- 4 staff

67 total (51 Anchorage, 16 Juneau)

Tax Division Working Sections (contd.)

Division is organized by tax type and by function

➤ **Support Functions**

- Management and Administration- 8 staff
- Economic Research & Commercial Analysis- 10 staff
- Appeals- 6 staff
- Regulations and Special Projects- 3 staff
- Information Technology- 6 staff
- Accounting & Collections- 7 staff
- Imaging & Data Management- 6 staff
- Criminal Investigations- 5 staff

51 total (22 Anchorage, 29 Juneau)

Tax Division Budget

Approved FY16 Mgt Plan Budget \$15,900.7

- Total FY15 Mgt Plan was \$18,023.1
- Reduction of \$2,122.4 (12%) although about \$750.0 was one-time items from 2014 fiscal notes (so 8% if you adjust for that)

88% of budget is funded by the General Fund

Tax Division Budget

Tax Division's Primary Asset is our People

- 86% is Personnel Costs
- 10% is Interagency (duplicated) services
- 3.5% is Commodities and Services (stuff we buy)
- <1% is Travel

Tax Division Budget

FY17 Governor's Budget \$15,142.8

(including \$190.9 from tax's share of unallocated reduction)

- 5% Decrease from FY16 Mgt Plan

**88% of budget remains funded
by the General Fund**

Major Challenges for FY17

- Adapt and build mature systems to use new tax software system
- Audit and administer more tax types than ever before, with fewer resources
 - Absorb additional cuts; we have already eliminated nonessential travel, training, purchases
 - More emphasis on non-oil taxes
 - Assist and possibly implement multiple tax changes
 - Protect core audit resources
- Anticipated layoffs, morale issues

Examples: Value of Auditors

1. Our one Fish Tax auditor brings in \$2-3 million per year
 - Adding a second by reclassifying another position
 2. Corporate Income Tax estimates up to \$4 million / year per auditor with similar numbers possible with added staff
 - Wisconsin added 102 last year (including two of ours)
 3. Oil and Gas Production is finalizing 2009
 - 2008 assessments last year totaled \$265 million (tax audit staff of 22 people including the tax credit group)
 - Auditing 2010-2011 together; challenge due to sunset of 2007-2009 “Standard Deduction”
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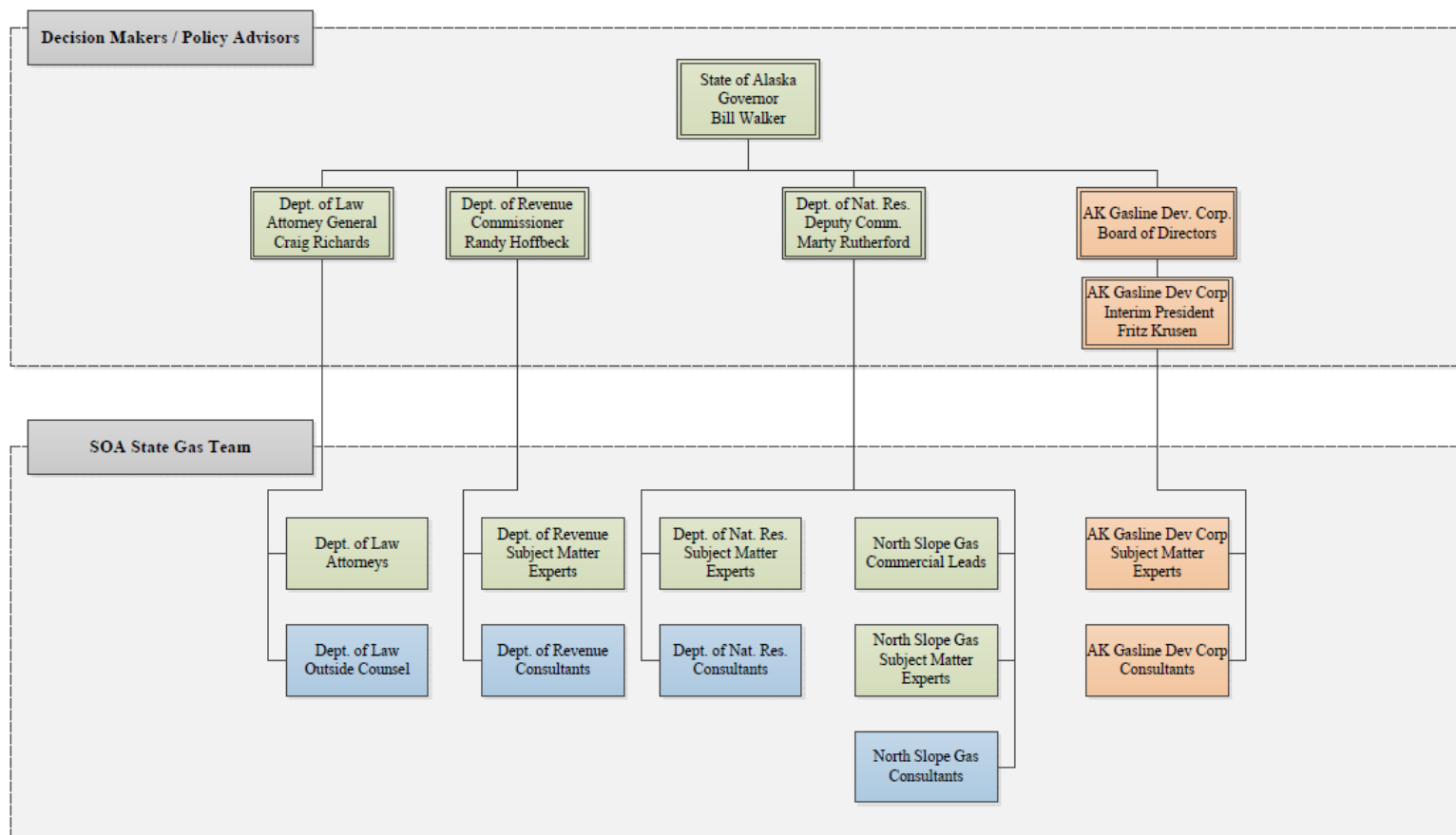
AKLNG PROJECT

AKLNG – Legislative Authority

Senate Bill 138

- Provided authority for the AKLNG Project
 - DNR and DOR: Gas supply and commercial agreements
 - DOR: Finance report and alternatives
 - DOR: Recommend property tax revisions
- Provided new provisions for Tax as Gas (TAG)
- Amended oil and gas production tax statutes
- Created Municipal Advisory Gas Project Review Board
- Required AKLNG Project-related reports to Legislature

State AKLNG Organization Structure

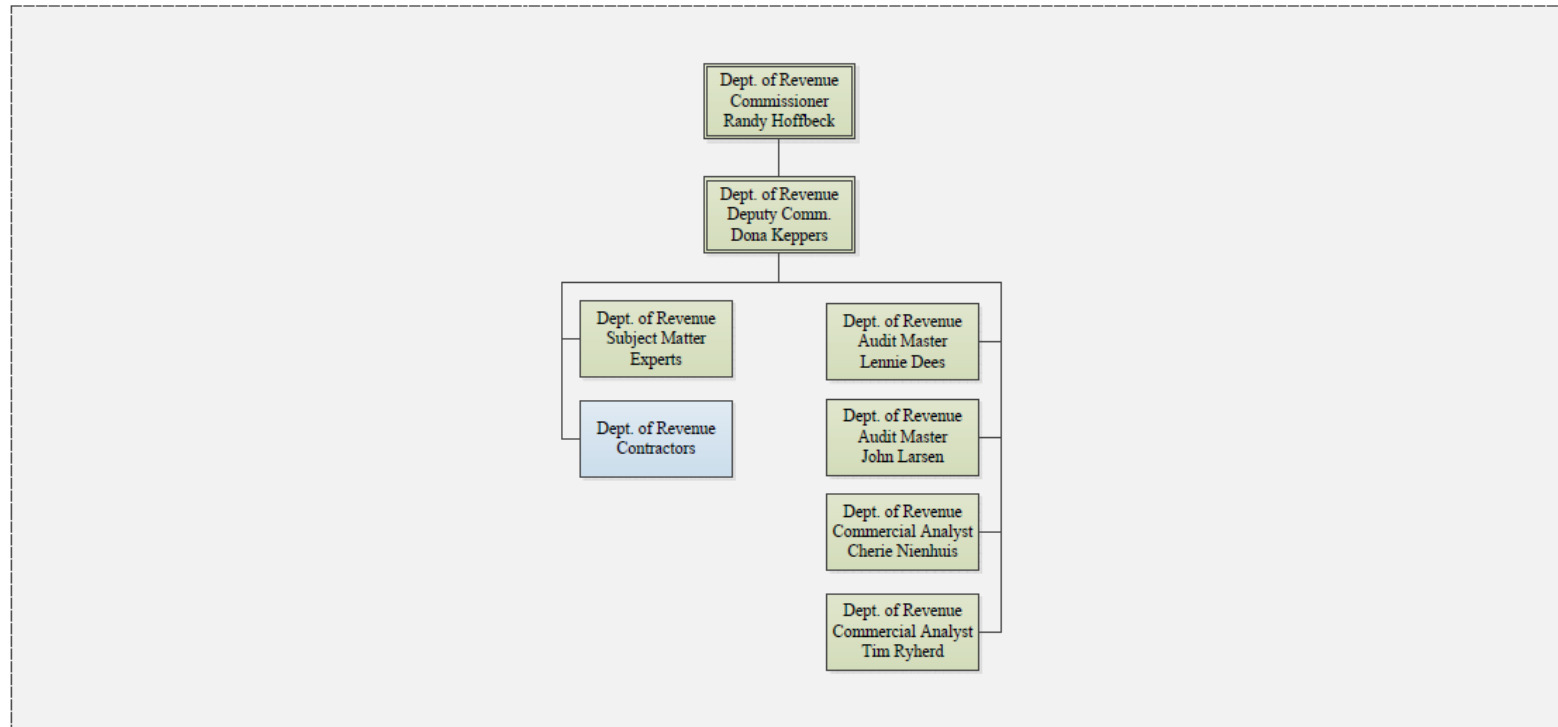


Color Key:
 Green = State Employees
 Blue = Consultants
 Orange = AGDC

Department of Law provides legal services to AGDC, DNR, and DOR
 Refer to each agency's organization chart for further information

Department of Revenue (DOR)

Functional Organization for AKLNG Project



Color Key:
Green = State Employees
Blue = Consultants

Fiscals Team

- **Lead: DNR and DOR**
- **Duties:** Responsible for issues relating to fiscal stability, negotiating fiscal agreement, statutory and contractual stability mechanisms, and gas production taxes. Examine all tax issues that could affect the AKLNG project, including federal income tax, property taxes, and any others. Subset of team may also be involved with Municipal Advisory Gas Project Review Board.
- **Team Members:** Governor, DNR, DOR, and AGDC Subject Matter Experts; DOL attorneys and outside counsel; and commercial, financial, tax and technical consultants

Property Tax Team

- **Lead: DOR**
- **Duties:** Negotiate with producers on property tax mechanisms. Consult with the Municipal Advisory Gas Project Review Board comprised of representatives from municipalities and boroughs on the project route to develop framework to assess, collect and distribute AK LNG impact payments and property taxes to direct and indirect stakeholders at the State and local level. Make recommendations for legislation.
- **Team Members:** Audit Master; Commercial Analysts; DOL attorneys and outside counsel; and commercial and financial consultants

Finance Team

- **Lead: DOR**
- **Duties:** Responsible for identifying, assessing and providing recommendations to legislature for State project financing options and risks associated with each option, including impact on State's bond capacity and rating. Also responsible for developing a plan for co-ownership opportunities for regional corporations, municipalities and residents, including the income tax consequences for co-owners and how cash calls would be handled with multiple owners. Responsible for coordinating work products with project integrated finance, commercial and fiscal teams.
- **Team Members:** DOR and AGDC Subject Matter Experts; and technical, legal, and financial consultants

FY 17 Budget Increment Request

Natural Gas Commercialization Request

FY17 Governor:		\$1,876.7 +1 NP (GF LNG 1,876.7)
FY16 Management Plan:		\$150.0
Change from FY16 to FY17:		
Reverse Gas Pipeline (SB138)		<150.0>
Support Costs & Staff		176.7 (Range 20 – Project Mgr)
Legal and Consulting Services		1,700
Total change FY17 GOV	+1 NP	\$1,726.7

THANK YOU

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