

DEPARTMENT OF REVENUE
FY2018 HOUSE FINANCE BUDGET SUBCOMMITTEE NARRATIVE REPORT
February 20, 2017

SUBCOMMITTEE MEMBERS: (in alpha order)

Rep. Seaton, Chair	Rep. Birch	Rep. Josephson
Rep. Kito	Rep. Knopp	Rep. Stutes
Rep. Sullivan-Leonard	Rep. Thompson	Rep. Wool

SUBCOMMITTEE MEETINGS:

The House Finance Budget Subcommittee for the Department of Revenue held 6 meetings with the department during the review of the FY18 budget request.

RECOMMENDATIONS:

The Chair of the House Finance Budget Subcommittee for the Department of Revenue recommends that the House Finance Committee accept the Governor's FY18 budget with two amendments.

The budget **without** amendment totals:

Fund Source: (dollars are in thousands)

Unrestricted General Funds (UGF)	\$25,400.4
Designated General Funds (DGF)	\$2,437.5
Other Funds	\$269,013.3
Federal Funds	\$78,665.5
Total	\$375,562.7

Positions:

Permanent Full-time	810
Permanent Part-time	33
Temporary	16
Total	859

The Unrestricted General Fund difference from FY15 Management Plan to the FY18 Governor's budget is a reduction of \$8.43 million, a decrease of 24.9 percent.

The Unrestricted General Fund difference from FY17 Management Plan to FY18 Governor's budget is a reduction of \$701.2 thousand, a decrease of 2.7%.

The following budget amendments are submitted by the subcommittee chair to the House Finance Committee for consideration:

1. Add Corporate Income Tax Auditors - \$246.0 UGF (2 PFTs)
2. Restore Funding Level to Trust Requested Amount for FASD Campaign – \$150.0 Alcohol/ Drug Treatment and Prevention Funds (DGF)

The budget **if these amendments are adopted** totals:

Fund Source: (dollars are in thousands)

Unrestricted General Funds (UGF)	\$25,646.4
Designated General Funds (DGF)	\$2,587.5
Other Funds	\$269,013.3
Federal Funds	\$78,665.5
Total	\$375,958.7

Positions:

Permanent Full-time	812
Permanent Part-time	33
Temporary	16
Total	861

If these amendments are adopted, the Unrestricted General Fund difference from FY15 Management Plan to the FY18 House Subcommittee Recommended Budget is a reduction of \$8.185 million, a decrease of 24.2 percent.

The Unrestricted General Fund difference from FY17 management plan to FY18 House Subcommittee Recommended Budget is a reduction of \$455.2 thousand, a decrease of 1.7%.

The following statutory recommendations are also submitted to the House Finance Committee

1. A recommendation to the House State Affairs Committee: Amend AS 43.23.008 to consider repealing allowable absences for the Permanent Fund Dividend. In 2016, 26,524 dividends were paid to people with an allowable absence from the state. According to a study, many of those who claim allowable absences do not return to the state. 64% of students did not return, and 81% of those accompanying someone else with an allowable absence did not return to the state. 17% of all appeals through the Permanent Fund Division relate directly to allowable absence claims. Repealing

allowable absences would increase the value of the Permanent Fund Dividend for those residents that remain in the state.

2. A recommendation for the House State Affairs Committee: Consider amending AS 43.23 to include directives or incentives to transition to a completely paperless environment for Permanent Fund Dividend Applications. Incentivizing paperless applications would reduce the current printing and postage costs of \$120,705.57. It would also reduce the number of seasonal employees necessary to process paper applications, with a corresponding decrease in \$239,000 in seasonal personal costs.
3. A recommendation for the House Fisheries Committee: Amend AS 43.75 to change the amount of fisheries taxes distributed to local communities and direct that revenue to fund direct management of fisheries. Currently 50% of fisheries taxes collected by the state are distributed to municipalities.
4. A recommendation for the House Fisheries Committee: Reconsider AS 43.75.015(b)-(d) and AS 43.77.010(1) to determine if the reduced tax rate for small fish processors and the reduced tax rate for developing fisheries are effective or if the reduced rates should be repealed or more narrowly defined. These three indirect expenditures currently cost the state an estimated \$525,852 in foregone revenue.
5. A recommendation for the House Education Committee: Amend AS 43.20.014, AS 43.55.019, AS 43.56.018, and AS 43.77.045 to remove the 100% level of the education tax credit. Currently the first \$100,000 of an eligible contribution receives a credit of 50%, the next \$200,000 is credited at 100%, and contributions above \$300,000 is credited at 50%. This credit can be taken across multiple tax types. Reducing the 100% level of the credit would reduce the more than \$7.4 million in foregone revenue.
6. A recommendation for the House State Affairs Committee: Amend AS 43.52.255 to remove the deduction of local levies against the Commercial Passenger Vessel Tax. This deduction results in an estimated \$13,559,5558 (\$13.56 million) in forgone state revenue.
7. A recommendation for the House Transportation Committee: Amend AS 43.40.010(c) and AS 43.98.025(d) to repeal or amend the motor fuel tax timely filing discount and the tire fee timely filing credit, which result in forgone revenue of approximately \$66 thousand each. Further, reconsider the commercial passenger vessel tax 72 hour voyage exemption under AS 43.52.295(4), which has likely modified cruise ship voyage plans in order to avoid the tax.
8. A recommendation for the House Labor and Commerce Committee: Amend or repeal AS 43.60.010(c), which reduces the beer and malt beverages tax from \$1.07 a gallon to 35¢ a gallon for the first 60,000 barrels of beer sold in the state from a brewery who meets the U.S. definition of a small brewery. 35% of this reduced rate is claimed by out of state breweries. The estimated forgone revenue is \$2.6 million.
9. A recommendation for the House Resources Committee: As 27.30.030, AS 43.20.044, and AS 43.62.010, relating to mining license tax exemptions, credits, and deductions, should be re-examined by an interim taskforce. Some of these deductions and credits

were established pre-statehood and may no longer meet intent. Estimated known foregone revenue exceeds \$6 million, with more foregone revenue that is not tracked.

10. A recommendation for the House Resources Committee: Sunset AS 43.20.053, the in-state refinery tax credit, on December 31, 2017. The current sunset date is December 31, 2019. If all three in-state refineries were to claim this credit each year it is available, changing the sunset by two years could result in savings of \$60 million. However, because of the number of tax payers involved it is impossible for Revenue to report how much has been claimed under this credit.
11. A recommendation for the House Finance Committee: Amend or repeal various corporate income tax exemptions found under AS 43.19 and AS 43.20, several of which were adopted to conform with federal tax code but are no longer necessary or no longer meet intent. The fiscal impact of these exemptions are unknown at this time because the potential tax revenue is not reported.

OTHER INFORMATION:

The Subcommittee discussed a variety of issues during the meetings.

Several members expressed interest in increasing state investment officers or improving investment officer recruitment and retention tools. More in-house investment officers could result in a **decrease** in external investment management tools. Ultimately no amendment was put forward during subcommittee; however, this remains a point of interest if the Department can demonstrate a plan to recruit and maintain these positions.

The subcommittee also discussed a requested remodel of the Alaska Permanent Fund Corporation office building, which is also related to investment officer retention. This request was not offered as an amendment, as it was more properly viewed as a capital request.

GOVERNOR'S AMENDMENTS

The Governor did not submit any amendments for this agency.

Respectfully submitted,

A handwritten signature in black ink, reading "Paul Seaton". The signature is fluid and cursive, with a long horizontal line extending from the end of the name.

Representative Paul Seaton, Chair
House Finance Budget Subcommittee for the Department of Revenue

2017 Legislature - Operating Budget
Transaction Detail - House Structure
HSub Amends Column

Numbers and Language

Agency: Department of Revenue

	Trans Type	Total Expenditure	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants	Misc	PFT	PPT	TMP
Taxation and Treasury												
Tax Division												
H DOR 1 - Add Corporate Income Tax	Inc	246.0	246.0	0.0	0.0	0.0	0.0	0.0	0.0	2	0	0
Auditors												
Offered by Representative Seaton												
Increase the corporate income tax auditing staff to capture additional revenue												
that is currently foregone due to lack of staff resources. Currently the tax												
system is identifying audit leads that the division lacks the staff time to												
investigate. Estimated additional revenue of \$500,000 per auditor												
1004 Gen Fund (UGF)		246.0										
* Allocation Total *		246.0	246.0	0.0	0.0	0.0	0.0	0.0	0.0	2	0	0
** Appropriation Total **		246.0	246.0	0.0	0.0	0.0	0.0	0.0	0.0	2	0	0
Child Support Services												
Child Support Services Division												
H DOR 2 - Move Cost Recovery for	Inc	50.0	0.0	0.0	50.0	0.0	0.0	0.0	0.0	0	0	0
Paternity Testing from Language to Section 1												
(Numbers)												
Offered by Representative Seaton												
This amendment adds the funding from the language section (formerly sec. 15												
in HB 57, version J) to the numbers section and increases the amount of												
program receipt authority from an estimated \$46.0 to \$50.0. The language												
section is deleted in another amendment.												
1005 GF/Prgm (DGF)		50.0										
L H DOR 3 - Move Cost Recovery for	Dec	-46.0	0.0	0.0	-46.0	0.0	0.0	0.0	0.0	0	0	0
Paternity Testing from Language to Section 1												
(Numbers)												
Offered by Representative Seaton												
See 30-GH1855J.7, Wallace, 1/31/17												
This amendment deletes section 15 in HB 57, version J. The funding is added												
to the numbers section and increased to \$50.0 in another amendment.												
1005 GF/Prgm (DGF)		-46.0										
* Allocation Total *		4.0	0.0	0.0	4.0	0.0	0.0	0.0	0.0	0	0	0
** Appropriation Total **		4.0	0.0	0.0	4.0	0.0	0.0	0.0	0.0	0	0	0

**2017 Legislature - Operating Budget
Transaction Detail - House Structure
HSub Amends Column**

Numbers and Language

Agency: Department of Revenue

	<u>Trans Type</u>	<u>Total Expenditure</u>	<u>Personal Services</u>	<u>Travel</u>	<u>Services</u>	<u>Commodities</u>	<u>Capital Outlay</u>	<u>Grants</u>	<u>Misc</u>	<u>PFT</u>	<u>PPT</u>	<u>TMP</u>
Alaska Mental Health Trust Authority												
Mental Health Trust Operations												
H DOR 4 - Restore Funding Level to Trust	Inc	150.0	0.0	0.0	150.0	0.0	0.0	0.0	0.0	0	0	0
Requested Amount for FASD Campaign												
Offered by Representative Seaton												
This amendment in the amount of \$150,000 is to fully fund and maintain the capacity of the Institute for Circumpolar Health Studies to continue to develop, implement and evaluate Fetal Alcohol Spectrum Disorder (FASD) prevention strategies and to continue the FASD media campaign, which has been instrumental in the dissemination of FASD prevention messaging. Each child diagnosed with FASD will cost the State of Alaska \$850,000 to \$4.2 million from age 0-18.												
1180 A/D T&P Fd (DGF)		150.0										
* Allocation Total *		150.0	0.0	0.0	150.0	0.0	0.0	0.0	0.0	0	0	0
* * Appropriation Total * *		150.0	0.0	0.0	150.0	0.0	0.0	0.0	0.0	0	0	0
* * * Agency Total * * *		400.0	246.0	0.0	154.0	0.0	0.0	0.0	0.0	2	0	0
* * * * All Agencies Total * * * *		400.0	246.0	0.0	154.0	0.0	0.0	0.0	0.0	2	0	0

Column Definitions

HSub Amends (House Subcom Amendments) - House Finance Subcommittee Amendment Proposals submitted to the House Finance Committee.

Supporting Documents H DOR 3 Page 1 of 2

30-GH1855\J.7
Wallace
1/31/17

AMENDMENT

OFFERED IN THE HOUSE

BY REPRESENTATIVE SEATON

TO: CSHB 57(FIN), Draft Version "J"

1 Page 57, line 27:

2 Delete "sec. 21(q)"

3 Insert "sec. 20(q)"

4

5 Page 59, lines 22 - 26:

6 Delete all material.

7

8 Renumber the following bill sections accordingly.

9

10 Page 75, line 6:

11 Delete "21 - 23"

12 Insert "20 - 22"

13

14 Page 75, line 12:

15 Delete "19(i), and 28"

16 Insert "18(i), and 27"

17

18 Page 75, line 13:

19 Delete "Section 30"

20 Insert "Section 29"

21

22 Page 75, line 14:

23 Delete "secs. 31 and 32"

Supporting Documents H DOR 3 Page 2 of 2

30-GH1855\J.7

1 Insert "secs. 30 and 31"



UAA Institute for Circumpolar Health Studies

FAS/D Prevention Pregnancy Test Dispenser Messaging Study

Background

Alaska has the **highest incidence rate** of Fetal Alcohol Spectrum Disorders in the United States with **over 120** diagnosed every year.¹ According to the Alaska Department of Health and Social Services, each child diagnosed with FAS/D will cost the State of Alaska **\$850,000 to \$4.2 million** from age 0-18. Alcohol use during pregnancy is **the leading preventable cause** of birth defects and developmental disabilities in the United States. Unfortunately, many women do not know they are pregnant when consuming alcohol. **Over half** of all pregnancies in Alaska are **unintended**.²

Study Hypothesis and Design

The study hypothesized that linking FAS/D education messages with pregnancy test dispensers in bars/restaurants serving alcohol would promote awareness of FAS/D risks associated with consuming alcohol while pregnant. The study was designed to conduct a rigorous evaluation of the feasibility and utility of this strategy.

- Matched Pairs design [Dispenser + Poster sites were compared to Poster only sites] in seven communities across Alaska (Anchorage/Fairbanks + Juneau; Homer/Dillingham; and Kodiak/Nome).
- Baseline and six-month follow-up survey data documenting FAS/D knowledge, attitudes, and behaviors was collected.



Dispenser + Poster Display and Associated Condom Dispenser

Results

- A significant sample size of **2,147 women** participated in the study with a follow-up response rate of 61%.
- A total of **10,825** pregnancy tests were distributed throughout the study.
- **576 women** reported they *may have been pregnant* in the last 6 months, **70%** reported consuming alcohol.
- **95 women** respondents reported they *were currently pregnant*. **18%** reported they *still* consume alcohol. The national average is 7%.³
- **42 women** reported **learning they were pregnant** as the *result* of taking a pregnancy test from a dispenser.
- The **pregnancy test dispenser group scored significantly higher** than the poster group, indicating *a better understanding* of the FAS/D risks and harms.

Conclusions

★ *Data suggests combining FAS/D education messaging with a pregnancy test dispenser is an **effective** FAS/D prevention messaging strategy.*

Recommendations

- 1) Expand the use of pregnancy test dispensers as an FAS/D prevention messaging strategy.
- 2) Promote efforts addressing social norms related to alcohol use and FAS/D prevention.
- 3) Clarify server's right to refuse service related to providing alcohol to pregnant women.
- 4) Utilize the newly developed Windsor-Van Wyck FAS/D Risk Assessment Tool in other targeted venues.
- 5) Support follow-up longitudinal studies with the cohort of women participants (2,147).

¹ Alaska Department of Health & Social Services (2010) FASD Fact Sheet.

² Kost, K. Unintended Pregnancy Rates at the State Level.

³ Center for Disease Control BRFSS Data

2017 Legislature - Operating Budget Allocation Summary - House Structure

Numbers and Language

Agency: Department of Revenue

Allocation	[1] 18Gov	[2] HSub Rec	[2] - [1] 18Gov to HSub Rec	
Taxation and Treasury				
Tax Division	14,909.0	15,155.0	246.0	1.7 %
Treasury Division	10,079.8	10,079.8	0.0	
Unclaimed Property	584.5	584.5	0.0	
AK Retirement Management Board	9,594.0	9,594.0	0.0	
ARM Custody and Mgt Fees	50,000.0	50,000.0	0.0	
Perm Fund Dividend Division	8,611.8	8,611.8	0.0	
Appropriation Total	93,779.1	94,025.1	246.0	0.3 %
Child Support Services				
Child Support Services	25,769.6	25,773.6	4.0	
Appropriation Total	25,769.6	25,773.6	4.0	
Administration and Support				
Commissioner's Office	917.2	917.2	0.0	
Administrative Services	2,750.5	2,750.5	0.0	
State Facilities Rent	0.0	0.0	0.0	
Criminal Investigations Unit	0.0	0.0	0.0	
Appropriation Total	3,667.7	3,667.7	0.0	
Mental Health Trust Authority				
Mental Health Trust Operations	4,204.1	4,354.1	150.0	3.6 %
Long Term Care Ombudsman	873.4	873.4	0.0	
Appropriation Total	5,077.5	5,227.5	150.0	3.0 %
Municipal Bond Bank Authority				
AMBBA Operations	1,006.3	1,006.3	0.0	
Appropriation Total	1,006.3	1,006.3	0.0	

**2017 Legislature - Operating Budget
Allocation Summary - House Structure**

Numbers and Language

Agency: Department of Revenue

Allocation	[1] 18Gov	[2] HSub Rec	[2] - [1] 18Gov to HSub Rec	
AK Housing Finance Corporation				
AHFC Operations	94,759.5	94,759.5	0.0	
Anc. State Office Building	0.0	0.0	0.0	
AK Corp for Affordable Housing	479.4	479.4	0.0	
Appropriation Total	95,238.9	95,238.9	0.0	
AK Permanent Fund Corporation				
APFC Operations	12,254.4	12,254.4	0.0	
APFC Investment Mgmt Fees	138,769.2	138,769.2	0.0	
Appropriation Total	151,023.6	151,023.6	0.0	
Agency Total	375,562.7	375,962.7	400.0	0.1 %
Funding Summary				
Unrestricted General (UGF)	25,400.4	25,646.4	246.0	1.0 %
Designated General (DGF)	2,483.5	2,637.5	154.0	6.2 %
Other State Funds (Other)	269,013.3	269,013.3	0.0	
Federal Receipts (Fed)	78,665.5	78,665.5	0.0	

Column Definitions

18Gov (FY18 Governor Request) - Includes FY18 Adjusted Base plus the Governor's operating budget bill requests for increases (increments), decreases (decrements), fund source changes, and language transactions submitted by the Governor on December 15, 2016.

HSub Rec (Subcommittee Recommendations) - House Finance Subcommittee Recommendations to the House Finance Committee.