

HB 115 Fiscal Notes

Department of Revenue

1. Taxation and Treasury 03-28-17
Tax Division
OMB Component Number 2476

2. Alaska Permanent Fund Corporation
APFC Investment Management Fees 02-10-17
OMB Component Number 2310

PF Dividends

3. PF Dividends
To Permanent Fund Dividend Fund 3-28-17
OMB Component Number 2616

Permanent Fund ERA Appropriations

4. PF ERA Appropriations To General Fund (Revenue) 03-28-17
OMB Component Number 3121

Various (for Fiscal Notes only)

5. Various 03-28-17
All Branches
OMB Component Number: 0

Department of Administration

6. Centralized Administrative Services 03-24-17
Office of Administrative Hearings
OMB Component Number 2771

7. Violent Crimes Compensation Board 02-10-17
Violent Crimes Compensation Board
OMB Component Number 2694

Department of Corrections

8. Health and Rehabilitation Services 03-29-17
Physical Health Care
OMB Component Number 2952

Fiscal Note

State of Alaska
2017 Legislative Session

Bill Version: HB 115
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB115CS(FIN)-DOR-TAX-03-28-17
Title: INCOME TAX; PFD CREDIT; PERM FUND
INCOME
Sponsor: FINANCE
Requester: House Finance Committee

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Tax Division
OMB Component Number: 2476

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2018 Appropriation Requested	Included in Governor's FY2018 Request	Out-Year Cost Estimates					
			FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
OPERATING EXPENDITURES								
Personal Services	525.0		3,900.0	6,400.0	6,400.0	6,400.0	6,400.0	6,400.0
Travel	10.0		25.0	50.0	50.0	50.0	50.0	50.0
Services	350.0		800.0	1,200.0	1,200.0	1,200.0	1,200.0	1,200.0
Commodities	50.0		100.0	100.0	100.0	100.0	100.0	100.0
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	935.0	0.0	4,825.0	7,750.0	7,750.0	7,750.0	7,750.0	7,750.0

Fund Source (Operating Only)

1004 Gen Fund (UGF)	935.0		4,825.0	7,750.0	7,750.0	7,750.0	7,750.0
Total	935.0	0.0	4,825.0	7,750.0	7,750.0	7,750.0	7,750.0

Positions

Full-time	4.0		27.0	45.0	45.0	45.0	45.0
Part-time			10.0	15.0	15.0	15.0	15.0
Temporary							

Change in Revenues

1250 UGF Rev (UGF)	0.0		341,000.0	687,000.0	692,000.0	697,000.0	702,000.0
Total	0.0	0.0	341,000.0	687,000.0	692,000.0	697,000.0	702,000.0

Estimated SUPPLEMENTAL (FY2017) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2018) cost: 14,000.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? **yes**
If yes, by what date are the regulations to be adopted, amended or repealed? **01/01/19**

Why this fiscal note differs from previous version:

Revised for House Finance committee substitute. This Fiscal Note shows income tax revenues only.

Prepared By:	Ken Alper, Director	Phone:	(907)465-8221
Division:	Tax Division	Date:	03/25/2017 08:00 PM
Approved By:	Jerry Burnett, Deputy Commissioner	Date:	03/28/17
Agency:	Department of Revenue		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2017 LEGISLATIVE SESSION

BILL NO. CSHB115(FIN)

Analysis

Bill Analysis

The bill changes the annual formula upon which allowable draws are made from the Alaska Permanent Fund's Earnings Reserve Account. It establishes an annual draw of 5.25% of the average market value for the first five of the six preceding fiscal years. Of this allowable draw, 33% is appropriated directly to the dividend fund from which Alaskans receive their annual Permanent Fund Dividend, and 67% is appropriated to the general fund. Beginning in FY2020, the annual draw is reduced to 5.00%

The bill also establishes a personal income tax based on the taxpayer's adjusted gross income (AGI). The initial tax rate for individual filers is 2.5% of income above \$10,300; for joint filers it is 2.5% of the amount over \$20,600. The top marginal rate is 7% of individual income above \$250,000 and joint income above \$500,000. Each person in the household receives a \$4,000 personal exemption; permanent fund dividends are also excluded from taxable AGI.

The tax is payable by both Alaska residents and non-residents on the portion of their income derived from income earned within the State. Like the federal income tax, it would be payable based on calendar year earnings.

To qualify as "from a source in the state," income is broadly defined to include regular compensation, as well as income and rents from property, business, and other assets within Alaska. Business income, including partnership income and earnings from subchapter-S corporations transacting business in Alaska will also be subject to this tax. Taxes paid to other states, based on income derived in those states, can be credited from this tax.

The bill allows Alaskans to direct the Department of Revenue to pay all or a portion of their permanent fund dividends towards their tax liability. It additionally provides for withholding of income by employers, with regular remittance to the state. Employers must also provide annual income statements analogous to the federal W-2. The annual tax return would be due at the same time as the federal return, currently April 15 with any extensions tied to the federal filing. Both payments and refund requests would be received with the annual filing.

In its first year of full implementation, the cost to the average Alaskan would be about \$900 per capita. As the impact would be proportionate to each household's income, it would vary widely. Any impact would be partially mitigated because state individual income taxes are deductible from federal taxes, meaning Alaskans who itemize would reduce their federal tax liability by the amount of their state tax multiplied by their marginal federal tax rate.

Revenue Impact

The permanent fund sections of the bill are effective June 30, 2017. This means that the portion of the 5.25% POMV draw in excess of the amount previously appropriated for the 2016 Permanent Fund Dividend would be available in Fiscal Year 2017. The 33% split would be the mechanism by which the October 2017 and 2018 PFDs were paid, with a minimum dividend set at \$1,250 for those two years. The income tax sections are effective January 1, 2019, meaning that FY2019 revenue would be for only the second half of the fiscal year, entirely in the form of withholding taxes. The Tax Division's income tax revenue model is based on aggregated federal income data for Alaska residents. We then account for incremental revenue based on the estimated income of out of state residents, partially offset by the out-of-state income of Alaskans.

	Revenue Source (\$millions)				
	Income Tax	Permanent Fund Earnings			Total
		Percentage	POMV	Permanent Fund Earnings	
FY2017	\$0	diff	5.25%	\$1,690	\$1,690
FY2018	\$0	67%	5.25%	\$1,692	\$1,692
FY2019	\$341	67%	5.25%	\$1,788	\$2,129
FY2020	\$687	67%	5.00%	\$1,776	\$2,463
FY2021	\$692	67%	5.00%	\$1,816	\$2,508
FY2022	\$697	67%	5.00%	\$1,853	\$2,550
FY2023	\$702	67%	5.00%	\$1,896	\$2,598

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2017 LEGISLATIVE SESSION

BILL NO. CSHB115(FIN)

Analysis

Implementation Cost

Changes to permanent fund management, and any possible associated costs, are outside the scope of this analysis.

Adding an individual income tax, especially on a tight timeline, would be a significant challenge to the Tax Division. We have recently completed implementation of the Tax Revenue Management System (TRMS), which created an integrated online tax application used by both taxpayers and administrators for the 25 tax types currently administered by the Division. We expect to engage FAST Enterprises, the TRMS contractor, to build an income tax module into TRMS. This will require the re-mobilization of staff to Alaska who were involved in the original project; FAST has staff who are well informed about Alaska's processes and have excellent working relations with our staff. FAST has built and currently maintains individual income tax systems for 17 other states, and is currently developing them in at least four others.

The initial need will be to engage a contractor to work with Department leadership to create an implementation plan with more refined estimates of staffing, space, supply, and equipment needs. The cost estimates in this fiscal note are a first attempt to anticipate the results of this analysis. Within the FY2018 Services request, \$250.0 is for the purpose of this implementation plan contract.

The \$14,000.0 capital request reflects an estimate for our contract with FAST to add the income tax module as well as the Department's other short term implementation costs. This is a multi-year process and much of the actual spending will not occur until after we begin collecting revenues. The initial need will be to build and implement a tax withholding system, which will need to be in operation by January 1, 2019. In addition to the software development, this will require a rapid and robust outreach to the business community throughout Alaska, as well as integration with national accounting and tax software vendors in order to update programs such as TurboTax and QuickBooks to incorporate Alaska.

Once the withholding system is in place, the contractor and staff will begin building the tax return filing and examination modules, with their associated databases, communications, and integration with our existing imaging, accounting, and collections systems. We will also need to build linkages with the Permanent Fund Dividend Division. The legislation creates an annual tax, meaning that the first tax returns will be filed in January of 2020, with a filing due date of April 15. Taxpayers who request and receive extensions would have filing deadlines in October of 2020.

The department envisions a gradual ramping up of the staff needed to collect and administer the tax, with only a core management team hired in FY2018 to lead the regulation drafting and programming contract effort. As part of our research into the potential costs, we spoke to tax administrators at the State of Montana, which has a population about 1/3 higher than Alaska's and uses FAST for its income tax. Montana's Revenue Department has 155 employees dedicated to their income tax, which scales back to about 120 for Alaska using a simple per-capital adjustment. We intend to implement an income tax with half this number, 60 employees including a substantial group of seasonal part-time imaging and data entry technicians. We expect the new staff to be roughly split between our Juneau and Anchorage offices.

FISCAL NOTE ANALYSIS

**STATE OF ALASKA
2017 LEGISLATIVE SESSION**

BILL NO. CSHB115(FIN)

Analysis

We expect to replicate the online filing percentages of the Permanent Fund Dividend Division, currently at 83%. However, the 17% of paper filers will entail manual handling and data entry for approximately 75,000 out of 400,000 tax returns. In contrast, the Tax Division's largest current taxpayer base is the State Corporate Income Tax, with approximately 22,000 total filers half of whom file perfunctory reports indicating no tax liability due to their S-corporation status.

We do not expect to need full staffing until FY2020. The eventual addition of 53 FTE's to the Tax division (45 full time plus 15 part time imaging and data entry technicians) would increase the staff of the Tax Division by approximately 50%. However, throughout the six-year period covered by this fiscal note, we anticipate total implementation costs, operating plus capital, to equal approximately 1.5% of additional state revenue from just the income tax components.

An initial analysis of the staff needs within the Tax Division to implement a personal income tax is as follows:

Title	FY18	FY19	FY20+
Audit Supervisor	1	1	1
Tax Auditor	0	10	18
Tax Technician	1	6	10
Income Tax Specialist	1	2	3
Appeals Officer	0	3	5
Accounting Technician	0	2	4
Analyst Programmer	1	2	2
Admin Assistant	0	1	2
Total FT	4	27	45
Imaging Operators & Office Assistants	0	10	15
Total PT	0	10	15

In addition to the staff cost, most of the other budget impact will be for internal state costs such as additional work space, postage, phones and servers, and the use of hearing examiners on tax appeal issues. We anticipate additional travel for taxpayer outreach and education, plus audit travel.

Fiscal Note

State of Alaska
2017 Legislative Session

Bill Version: HB 115
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB115-DOR-APFC-02-10-17
Title: INCOME TAX; PFD CREDIT; PERM FUND
INCOME
Sponsor: FINANCE
Requester: (H) FIN

Department: Department of Revenue
Appropriation: Alaska Permanent Fund Corporation
Allocation: APFC Investment Management Fees
OMB Component Number: 2310

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2018	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2018 Request	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
OPERATING EXPENDITURES	FY 2018	FY 2018					
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimated SUPPLEMENTAL (FY2017) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2018) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Not applicable; initial version.

Prepared By:	Paulyn Swanson	Phone:	(907)796-1520
Division:	Alaska Permanent Fund Corporation	Date:	02/10/2017 03:00 PM
Approved By:	Angela Rodell	Date:	02/10/17
Agency:	Alaska Permanent Fund Corporation		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2017 LEGISLATIVE SESSION

BILL NO. HB 115

Analysis

The bill allows for an annual draw from the Permanent Fund "Fund" earnings reserve of up to 4.75 percent of the average market value of the Fund to be appropriated to the dividend fund and to the general fund.

At this time it is difficult to forecast if it would impact the asset allocation for the earnings reserve to a degree that would affect investment manager fees.

Fiscal Note

State of Alaska
2017 Legislative Session

Bill Version: HB 115
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB115CS(FIN)-DOR-PFD-03-28-17
Title: INCOME TAX; PFD CREDIT; PERM FUND
INCOME
Sponsor: FINANCE
Requester: HOUSE FINANCE

Department: PF Dividends
Appropriation: PF Dividends
Allocation: To Permanent Fund Dividend Fund
OMB Component Number: 2616

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2018 Appropriation Requested	Included in Governor's FY2018 Request	Out-Year Cost Estimates				
			FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
OPERATING EXPENDITURES							
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous	181,000.0	652,000.0	881,000.0	874,000.0	894,000.0	913,000.0	934,000.0
Total Operating	181,000.0	652,000.0	881,000.0	874,000.0	894,000.0	913,000.0	934,000.0

Fund Source (Operating Only)

1004 Gen Fund (UGF)	181,000.0	652,000.0	881,000.0	874,000.0	894,000.0	913,000.0	934,000.0
Total	181,000.0	652,000.0	881,000.0	874,000.0	894,000.0	913,000.0	934,000.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimated SUPPLEMENTAL (FY2017) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2018) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Initial version - This fiscal note reflects 33% of the payout from the Earning Reserve Account for dividends. The \$652 million included in the Governor's budget (shown in the second column) covers a dividend of \$1000. The \$181 million in the "FY18 Appropriation Requested" column is the additional amount needed to cover a dividend of \$1,250 as proposed by this legislation, bringing the total amount needed for FY18 to \$833 million. Numbers are based on the 2016 DOR Fall Forecast.

Prepared By: <u>Sara Race, Director</u>	Phone: <u>(907)465-4785</u>
Division: <u>Permanent Fund Dividend</u>	Date: <u>03/28/2017 01:00 PM</u>
Approved By: <u>Jerry Burnett, Deputy Commissioner</u>	Date: <u>03/28/17</u>
Agency: <u>Department of Revenue</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2017 LEGISLATIVE SESSION

BILL NO. CSHB 115

Analysis

This legislation makes several changes that directly effect the Permanent Fund Dividend program, however the operational impacts are minimal. Changes include several aspects of the dividend calculation, how funds are allocated from the earnings reserve account, and the implementation of a income tax payment option that would be accessible through the dividend application.

The provisions that will alter the existing dividend calculation include, how the annual draw from the Permanent Fund earnings reserve is calculated and a reduction in the percentage of income available for distribution. Although the division will not be using the formula that has been used in prior years to calculate the dividend, there are several factors that still must be considered including the amount required to fund prior year liabilities, reserves, and appropriations (hold-harmless provision for Public Assistance, Physical Health Care, and the Violent Crimes Compensation Board, and the Division's Administrative costs).

For the first two years the annual draw will change from the current 21% of the net income for the last five years to five and quarter Percent of Average Market Value (POMV) of the fund for the first five of the preceding six fiscal years. On the third year, the 2020 dividend, the draw will be reduced to a POMV of five percent of the fund for the first five of the preceding six years. Additionally, the total available for distribution will be divided by one third, rather than cut in half, for all years. Calculating prior year liabilities, reserves and appropriations will remain consistent.

The bill also creates a dividend tax payment option. Similar to the UA College Savings plan or charitable contributions, a voluntary option would be made available on the electronic dividend application, so an individual may apply all or a portion of their dividend to their individual income tax due. Although this option will be made available on electronic applications, it would only apply to those that are determined eligible and paid. At which point, all other involuntary and voluntary deductions would pay first. After the total income tax is paid any amount in excess will be returned to the individual.

FY	Market value (first 5 of previous 6 years average)	Percentage used	Total POMV payout	Dividend funds	Dividend calculation	Royalties beyond 25% dedication*	Income Tax
2017	\$45,444	5.25%	\$1,690	\$696	Already Paid	51.9	0
2018	\$48,109	5.25%	\$2,526	\$833	33% of POMV or \$1250 * number of recipients	54.9	0
2019	\$50,844	5.25%	\$2,669	\$881	33% of POMV or \$1250 * number of recipients	62.2	0
2020	\$52,992	5.00%	\$2,650	\$874	33% of POMV or \$1250 * number of recipients	70.3	734.6
2021	\$54,198	5.00%	\$2,710	\$894	33% of POMV	77.0	756.5
2022	\$55,306	5.00%	\$2,765	\$913	33% of POMV	75.9	779.1
2023	\$56,590	5.00%	\$2,830	\$934	33% of POMV	75.3	802.3

For dividends, FY 2019 number reflects dividends paid in CY 2018, and so on.

FY 2018 dividend funds are assumed to be the same as FY 2019.

*Source: 2016 Fall RSB table 1-1

These numbers represent DOR's projection of royalties (petroleum and non-petroleum) that would be deposited into the Permanent Fund above the 33% constitutional requirement under the status quo. HB 115 reduces the royalty deposits to the constitutional requirement.

Fiscal Note

State of Alaska
2017 Legislative Session

Bill Version: HB 115
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB115CS(FIN)-PF-ERA-03-28-17
Title: INCOME TAX; PFD CREDIT; PERM FUND
INCOME
Sponsor: FINANCE
Requester: House Finance

Department: Permanent Fund ERA Appropriations
Appropriation: PF ERA Appropriations
Allocation: To General Fund (Revenue)
OMB Component Number: 3121

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2018	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2018 Request	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
OPERATING EXPENDITURES	FY 2018	FY 2018					
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous		2,526,000.0	2,669,000.0	2,650,000.0	2,710,000.0	2,765,000.0	2,830,000.0
Total Operating	0.0	2,526,000.0	2,669,000.0	2,650,000.0	2,710,000.0	2,765,000.0	2,830,000.0

Fund Source (Operating Only)

1041 PF ERA (UGF)		2,526,000.0	2,669,000.0	2,650,000.0	2,710,000.0	2,765,000.0	2,830,000.0
Total	0.0	2,526,000.0	2,669,000.0	2,650,000.0	2,710,000.0	2,765,000.0	2,830,000.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

1250 UGF Rev (UGF)		2,526,000.0	2,669,000.0	2,650,000.0	2,710,000.0	2,765,000.0	2,830,000.0
Total	0.0	2,526,000.0	2,669,000.0	2,650,000.0	2,710,000.0	2,765,000.0	2,830,000.0

Estimated SUPPLEMENTAL (FY2017) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2018) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

This revised fiscal note reflects the gross payout of \$2,526,000.0 to the general fund. Of this amount, \$652,000.0 would be paid for dividends (included in a separate fiscal note for the Permanent Fund Dividend agency/appropriation). Therefore, the net revenue to the general fund is \$1,874,000.0.

Prepared By: Jerry Burnett, Deputy Commissioner
Division: Commissioner's Office
Approved By: Randall Hoffbeck, Commissioner
Agency: Department of Revenue

Phone: (907)465-3669
Date: 03/28/2017 12:00 PM
Date: 03/28/17

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2017 LEGISLATIVE SESSION

BILL NO. HB 115

Analysis

This legislation makes several changes to various aspects of the Permanent Fund program, including changes to the dividend calculation, changes to how Fund earnings are used, and changes to how royalty revenue is shared among various governmental funds. All amounts shown are based on a combination of the Department of Revenue's Fall 2016 revenue forecast and assumptions used by the Office of Management and Budget for development of the FY 2018 budget proposal. For purposes of this fiscal note the impacts are shown beginning with FY 2018.

One provision of this legislation is to reduce the share of minerals bonuses, rents, and royalties that are deposited to the Permanent Fund from 50% to 25% for certain leases. The Alaska Constitution mandates that 25% of all minerals bonuses, rents, and royalties be deposited into the Permanent Fund. However, for leases issued after February 15, 1980, a higher 50% of bonuses, rents, and royalties are deposited into the Permanent Fund. This legislation would reduce the contribution rate to the Permanent Fund for those leases to the constitutionally mandated 25%. Based on the Department of Revenue's Fall 2016 production and price assumptions, this provision of the bill would increase deposits to the General Fund by approximately \$52 million to \$77 million annually, while reducing royalty deposits to the Permanent Fund principal by the same amount.

From July 1, 2017 to July 1, 2019 the bill would allow for an annual draw from the Permanent Fund earnings reserve of up to 5.25 percent of the average market value of the fund, including the earnings reserve, for the first five of the preceding six fiscal years. This POMV amount changes to 5 percent on July 1, 2019. This draw would be allocated between the Dividend Fund and the General Fund. Based on the Fall 2016 revenue forecast for royalty deposits (only the constitutionally mandated 25%), this provision of the bill would increase deposits to the General Fund by approximately \$1,690 million to \$2,830 million annually. This legislation would reduce the balance of the Permanent Fund Earnings Reserve Account by the same amount each year. But is expected to preserve the overall inflation adjusted value of the Permanent Fund.

This legislation would also modify how dividends are calculated and funded. The annual Permanent Fund Dividend to eligible Alaskans would be funded by appropriation from the General Fund, instead of by appropriation from the Earnings Reserve. Therefore, a portion of the additional General Fund revenue described above would be used to pay annual dividends. The appropriation for dividends would be based on a 33% of the calculated maximum transfer from the Permanent Fund to the General Fund.

CS HB 115 Fiscal Note (\$ millions): Median output from probabilistic model run at 11:15AM, 3/24/17

FY	Market value (first 5 of previous 6 years average)	Percentage used	Total POMV payout	Dividend funds	Dividend calculation	Royalties beyond 25% dedication*	Income Tax
2017	\$45,444	5.25%	\$1,690	\$696	Already Paid	51.9	0
2018	\$48,109	5.25%	\$2,526	\$833	33% of POMV or \$1250 * number of recipients	54.9	0
2019	\$50,844	5.25%	\$2,669	\$881	33% of POMV or \$1250 * number of recipients	62.2	0
2020	\$52,992	5.00%	\$2,650	\$874	33% of POMV or \$1250 * number of recipients	70.3	734.6
2021	\$54,198	5.00%	\$2,710	\$894	33% of POMV	77.0	756.5
2022	\$55,306	5.00%	\$2,765	\$913	33% of POMV	75.9	779.1
2023	\$56,590	5.00%	\$2,830	\$934	33% of POMV	75.3	802.3

For dividends, FY 2019 number reflects dividends paid in CY 2018, and so on.

FY 2018 dividend funds are assumed to be the same as FY 2019.

* Source: 2016 Fall RSB table 1-1

These numbers represent DOR's projection of royalties (petroleum and non-petroleum) that would be deposited into the Permanent Fund above the 33% constitutional requirement under the status quo. HB 115 reduces the royalty deposits to the constitutional requirement.

Fiscal Note

State of Alaska
2017 Legislative Session

Bill Version: HB 115
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB115CS(FIN)-VARIOUS-03-28-17
Title: INCOME TAX; PFD CREDIT; PERM FUND
INCOME
Sponsor: FINANCE
Requester: House Finance

Department: Various (for Fiscal Notes only)
Appropriation: Various
Allocation: All Branches
OMB Component Number: 0

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2018 Appropriation Requested	Included in Governor's FY2018 Request	Out-Year Cost Estimates					
			FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
OPERATING EXPENDITURES								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

1250 UGF Rev (UGF)		54,900.0	62,200.0	70,300.0	77,000.0	75,900.0	75,300.0
1251 Non-UGF (Other)		(54,900.0)	(62,200.0)	(70,300.0)	(77,000.0)	(75,900.0)	(75,300.0)
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimated SUPPLEMENTAL (FY2017) cost: 0.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2018) cost: 0.0 (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Initial version - This fiscal note reflects the reduction of royalty deposits to the permanent fund to the constitutionally mandated 25%. The non-mandated portion now goes to the general fund.

Prepared By: Jerry Burnett, Deputy Commissioner
Division: Commissioner's Office
Approved By: Randall Hoffbeck, Commissioner
Agency: Department of Revenue

Phone: (907)465-3669
Date: 03/28/2017 12:00 PM
Date: 03/28/17

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2017 LEGISLATIVE SESSION

BILL NO. HB 115

Analysis

This legislation makes several changes to various aspects of the Permanent Fund program, including changes to the dividend calculation, changes to how Fund earnings are used, and changes to how royalty revenue is shared among various governmental funds. All amounts shown are based on a combination of the Department of Revenue's Fall 2016 revenue forecast and assumptions used by the Office of Management and Budget for development of the FY 2018 budget proposal. For purposes of this fiscal note the impacts are shown beginning with FY 2018.

One provision of this legislation is to reduce the share of minerals bonuses, rents, and royalties that are deposited to the Permanent Fund from 50% to 25% for certain leases. The Alaska Constitution mandates that 25% of all minerals bonuses, rents, and royalties be deposited into the Permanent Fund. However, for leases issued after February 15, 1980, a higher 50% of bonuses, rents, and royalties are deposited into the Permanent Fund. This legislation would reduce the contribution rate to the Permanent Fund for those leases to the constitutionally mandated 25%. Based on the Department of Revenue's Fall 2016 production and price assumptions, this provision of the bill would increase deposits to the General Fund by approximately \$52 million to \$77.0 million annually, while reducing royalty deposits to the Permanent Fund principal by the same amount.

From July 1, 2017 to July 1, 2019 the bill would allow for an annual draw from the Permanent Fund earnings reserve of up to 5.25 percent of the average market value of the fund, including the earnings reserve, for the first five of the preceding six fiscal years. This POMV amount changes to 5 percent on July 1, 2019. This draw would be allocated between the Dividend Fund and the General Fund. This legislation would also modify how dividends are calculated and funded. The annual Permanent Fund Dividend to eligible Alaskans would be funded by appropriation from the General Fund, instead of by appropriation from the Earnings Reserve. Therefore, a portion of the additional General Fund revenue described above would be used to pay annual dividends. The appropriation for dividends would be based on 33% of the calculated maximum transfer from the Permanent Fund to the General Fund.

FY	Market value (first 5 of previous 6 years average)	Percentage used	Total POMV payout	Dividend funds	Dividend calculation	Royalties beyond 25% dedication*	Income Tax
2017	\$45,444	5.25%	\$1,690	\$696	Already Paid	51.9	0
2018	\$48,109	5.25%	\$2,526	\$833	33% of POMV or \$1250 * number of recipients	54.9	0
2019	\$50,844	5.25%	\$2,669	\$881	33% of POMV or \$1250 * number of recipients	62.2	0
2020	\$52,992	5.00%	\$2,650	\$874	33% of POMV or \$1250 * number of recipients	70.3	734.6
2021	\$54,198	5.00%	\$2,710	\$894	33% of POMV	77.0	756.5
2022	\$55,306	5.00%	\$2,765	\$913	33% of POMV	75.9	779.1
2023	\$56,590	5.00%	\$2,830	\$934	33% of POMV	75.3	802.3

For dividends, FY 2019 number reflects dividends paid in CY 2018, and so on.

FY 2018 dividend funds are assumed to be the same as FY 2019.

*Source: 2016 Fall RSB table 1-1

These numbers represent DOR's projection of royalties (petroleum and non-petroleum) that would be deposited into the Permanent Fund above the 33% constitutional requirement under the status quo. HB 115 reduces the royalty deposits to the constitutional requirement.

Fiscal Note

State of Alaska
2017 Legislative Session

Bill Version: HB 115
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB115CS(FIN)-DOA-OAH-03-24-17
Title: INCOME TAX; PFD CREDIT; PERM FUND
INCOME
Sponsor: FINANCE
Requester: House Finance Committee

Department: Department of Administration
Appropriation: Centralized Administrative Services
Allocation: Office of Administrative Hearings
OMB Component Number: 2771

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2018 Appropriation Requested	Included in Governor's FY2018 Request	Out-Year Cost Estimates					
			FY 2018	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
OPERATING EXPENDITURES								
Personal Services				34.9	139.8	272.5	272.5	
Travel				0.5	1.8	3.6	3.6	
Services				2.1	8.5	16.5	16.5	
Commodities				0.9	3.5	6.9	6.9	
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	0.0	0.0	0.0	38.4	153.6	299.5	299.5	

Fund Source (Operating Only)

1007 I/A Rcpts (Other)				38.4	153.6	299.5	299.5
Total	0.0	0.0	0.0	38.4	153.6	299.5	299.5

Positions

Full-time					1.0	1.0	1.0
Part-time							
Temporary							

Change in Revenues

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimated SUPPLEMENTAL (FY2017) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2018) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

This fiscal note changes the funding source from general funds to interagency receipts. It addresses the change in the effective date, which impacted the years and amount of funding required.

Prepared By:	<u>Christopher Kennedy</u>	Phone:	<u>(907)269-6741</u>
Division:	<u>Office of Administrative Hearings</u>	Date:	<u>03/23/2017 05:30 PM</u>
Approved By:	<u>Sheldon Fisher, Commissioner</u>	Date:	<u>03/24/17</u>
Agency:	<u>Department of Administration</u>		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2017 LEGISLATIVE SESSION

BILL NO. CSHB 115

Analysis

HB115 establishes a personal income tax on resident and non-resident individuals, trusts, and estates, with certain exemptions including an exemption for effectively nonresident trust organized in Alaska. In general, the tax is based on a graduated percentage of "income," defined as federal adjusted gross income with certain excluded items added back and certain additional exclusions. The tax is payable by non-residents on the portion of their income "derived from, or connected with" Alaska sources. Like the federal income tax, it would be payable by most taxpayers based on calendar year earnings.

Partnership income and earnings from subchapter-S corporations are encompassed by the tax. There are provisions for rules for determining whether income is Alaska-sourced and therefore taxable for nonresident individuals, estates, trusts, or shareholders of S corporations, and for capturing income routed through entities created for tax-avoidance.

The bill provides that the tax will be due at the same time and in the same manner as federal income tax. There are provisions for withholding.

The tax takes effect beginning in calendar year 2019.

Implementation Cost

The Office of Administrative Hearings (OAH) functions as the state equivalent of the United States Tax Court, presently handling appeals relating to corporate income tax, oil and gas production tax, fish tax, and a variety of other taxes. OAH will have jurisdiction over appeals from final Department of Revenue informal conference decisions (ICDs) on audit findings and other disputes relating to the new tax.

The income tax established in this bill is similar to the income tax in individuals and fiduciaries that existed in the 1970s. The experience in Alaska and other states is that such taxes generate a significant volume of appeals. Appeals can relate to domicile issues, penalties for failure to file and failure to pay, withholding issues, and substantive tax questions. When Alaska had a personal income tax in the 1970s, it accounted for about twenty percent of the workload of three Revenue Appeals Officers (who were then the equivalent in this context of present-day administrative law judges at OAH). The state's population has increased 84% since that time. Moreover, it is anticipated that the complexity of interstate business models today means that the proposed tax would generate interstate taxation disputes at a higher rate than would have been encountered forty years ago.

Experience in Alaska and other states is that such taxes generate a significant volume of appeals. It is anticipated that the appeals will peak soon after the inception of the tax, tapering to a lower level as the public, and the businesses required to withhold, become more accustomed to the personal income tax. However, there would be a preliminary period when relatively few appeals would reach OAH until a large volume of returns had been filed and disputes were generated. The projected annual costs above reflect this and reach a peak of approximately 1.3 times the full-time work of one tax-qualified administrative law judge. OAH believes the work would taper slightly beginning in FY2024, just beyond the horizon of this note.

In order for OAH to complete this work, a full-time, range 24 Administrative Law Judge is being requested. Interagency receipt authority in the amount of \$174.2 will be necessary to bill the Department of Revenue for this service. In addition, it is anticipated that funding may be used for non-permanent hires or professional services contracts to help when appeals are at their peak times.

Fiscal Note

State of Alaska
2017 Legislative Session

Bill Version: HB 115
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB115-DOA-VCCB-02-10-17
Title: INCOME TAX; PFD CREDIT; PERM FUND
INCOME
Sponsor: FINANCE
Requester: (H) FIN

Department: Department of Administration
Appropriation: Violent Crimes Compensation Board
Allocation: Violent Crimes Compensation Board
OMB Component Number: 2694

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2018 Appropriation Requested	Included in Governor's FY2018 Request	Out-Year Cost Estimates					
			FY 2018	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
OPERATING EXPENDITURES								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None								
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time								
Part-time								
Temporary								

Change in Revenues

None								
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimated SUPPLEMENTAL (FY2017) cost: 0.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2018) cost: 0.0 (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Not applicable; initial version.

Prepared By: <u>Kate Hudson</u>	Phone: <u>(907)465-5525</u>
Division: <u>Violent Crimes Compensation Board</u>	Date: <u>02/10/2017 03:00 PM</u>
Approved By: <u>Sheldon Fisher, Commissioner</u>	Date: <u>02/10/17</u>
Agency: <u>Administration</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2017 LEGISLATIVE SESSION

BILL NO. HB 115

Analysis

The Violent Crimes Compensation Board currently receives an annual appropriation from the dividend fund. This appropriation is calculated by the Office of Management and Budget and is based on (a) the amount of the permanent fund dividend, calculated by the Commissioner of Revenue on an annual basis and (b) the number of individuals who are ineligible to receive a permanent fund dividend because they are incarcerated felons. This annual appropriation is used by the Board for operating costs, as well as paying compensation to victims of violent crime.

This appropriation is not the only source of funding for the Violent Crimes Compensation Board. The Board also receives an annual federal grant. However, this is a formula grant, predicated on the prior year's certified state expenditures. Thus, if less state money is available to spend on grants to victims of crime, federal funding would decrease the following year and forward. Should state spending be reduced to zero, then federal funding would also reduce to zero.

The Violent Crimes Compensation Board has historically received the full amount requested to this allocation (with the remainder going to the Department of Corrections). Therefore, VCCB submits a zero fiscal note.

Fiscal Note

State of Alaska
2017 Legislative Session

Bill Version: HB 115
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB115CS(FIN)-DOC-PHC-03-29-17
Title: INCOME TAX; PFD CREDIT; PERM FUND
INCOME
Sponsor: FINANCE
Requester: (H)FINANCE

Department: Department of Corrections
Appropriation: Health and Rehabilitation Services
Allocation: Physical Health Care
OMB Component Number: 2952

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2018	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2018 Request	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
OPERATING EXPENDITURES	FY 2018	FY 2018					
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

1171 PFD Crim (Other)		(9,103.6)	(6,289.6)	(6,289.6)	(4,953.7)	(4,557.5)	(4,147.4)
1197 AK Cap Fnd (Other)		9,103.6	6,289.6	6,289.6	4,953.7	4,557.5	4,147.4
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimated SUPPLEMENTAL (FY2017) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2018) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Revised fiscal note based on version L of the bill.

Prepared By: <u>April Wilkerson</u>	Phone: <u>(907)465-3460</u>
Division: <u>Administrative Services - Department of Corrections</u>	Date: <u>03/29/2017 10:00 AM</u>
Approved By: <u>Dean Williams, Commissioner</u>	Date: <u>03/29/17</u>
Agency: <u>Department of Corrections</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2017 LEGISLATIVE SESSION

BILL NO. HB 115

Analysis

Passage of this legislation will change the way permanent fund dividends are calculated.

The reduction in the CY2016 dividend amount from an estimated \$2,072.00 to \$1,022.00 significantly reduced the amount available to the Department of Corrections Physical Health Care component for FY2018.

As a result, a fund source change of \$9,103,600.00 from the PFD Criminal Fund to the Alaska Capital Income Fund is requested in the FY2018 Governor's budget in order to maintain the necessary level of funding for inmate health care.

The Department of Corrections Physical Health Care component receives a portion of the \$12,613,524.00 PFD Criminal Funds available which is based on a fluctuating annual PFD amount and the number of persons deemed ineligible during the appropriate year. For FY2018 the \$12,613,524.00 available is based on the CY2016 annual PFD amount of \$1,022.00 and an estimated 12,342 individuals deemed ineligible under AS 43.23.005(d). The portion of PFD Criminal Funds available to Corrections for FY2018 is \$11,191,000.00 after the \$1,422,500.00 proposed deposit into the Crime Victim Compensation Fund.

Using the Office of Management and Budget projection model with the same number of individuals identified as ineligible and the base PFD Criminal Fund appropriated, this legislation would adjust the amount of future PFD Criminal Funds to the Department of Corrections for inmate health care requiring fund source changes as follows:

In FY2019 and FY2020, it is projected the dividend would be \$1,250.00 for CY2017 and CY2018, would increase the amount of PFD Criminal Funds available by an additional \$2,814,000.00 requiring the continuation of \$6,289,600.00 from another fund source, proposed from the Alaska Capital Income Fund.

In FY2021, it is projected the dividend would be \$1,358.24 for CY2019 and would decrease the amount of PFD Criminal Funds available by \$1,335,900.00 requiring the continuation of \$4,953,700.00 from another fund source, proposed from the Alaska Capital Income Fund.

In FY2022, it is projected the dividend would be \$1,390.34 for CY2020 and would increase the amount of PFD Criminal Funds available by an additional \$396,200.00 requiring the continuation of \$4,557,500.00 from another fund source, proposed from the Alaska Capital Income Fund.

In FY2023, it is projected the dividend would be \$1,423.57 for CY2021 and would increase the amount of PFD Criminal Funds available by an additional \$410,100.00 requiring the continuation of \$4,147,400.00 from another fund source, proposed from the Alaska Capital Income Fund.