

Legislative Fiscal Analyst's Overview of the Governor's FY2018 Request

Department of Revenue				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY17 Conference Committee (GF Only)	\$29,752.1			
FY17 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	-			
Multi-Years/Specials	-			
Vetoed	(1,028.3)			
FY17 Management Plan (GF only)	\$28,723.8	(\$1,028.3)	-3.5%	
One-time Items Removed	(95.7)			
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	-			
FY18 Contractual Salary Increases	167.5			
FY18 Adjusted Base Budget (GF only)	\$28,795.6	\$71.8	0.2%	
Lang/Lang OTIs/MiscAdj/Carryforward/Multi Years/Contingent	(46.0)			
FY18 Governor's GF Increments/Decrements/Fund Changes	(865.7)			
FY18 Governor's Agency Request (GF only)	\$27,883.9	(\$911.7)	-3.2%	
FY18 Governor's Increments, Decrements, Fund Changes and Language	FY18 Adjusted Base Budget (GF Only)	FY18 Governor's Request (GF only)	Change from FY18 Adj Base to FY18 Governor's Request	See Note:
Allocation			(\$911.7)	
Tax Division	13,261.4	13,091.9	(169.5)	4
Treasury Division	3,754.5	3,380.3	(374.2)	8
Child Support Services	8,029.8	7,811.8	(218.0)	7
Mental Health Trust Operations	500.0	350.0	(150.0)	
Non-General Fund Agency Summary	FY18 Adjusted Base Budget	FY18 Governor's Request	Change from FY18 Adj Base to FY18 Governor's Request	See Note:
Other State Funds (all allocations)	285,839.2	269,013.3	(16,825.9)	1, 5, 6, 8
Federal Funds (all allocations)	78,894.5	78,665.5	(229.0)	
Total Non-General Funds (all allocations)	\$78,894.5	\$78,665.5	(\$229.0)	
Position Changes (From FY17 Authorized to Gov)	891	859	(32)	
PFT	842	810	(32)	
PPT	32	33	1	
Temp	17	16	(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	-	-	-	
Remodel, Reconstruction and Upgrades	-	4,000.0	4,000.0	
New Construction and Land Acquisition	4,450.0	-	4,450.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	14,900.0	18,200.0	33,100.0	
TOTAL CAPITAL	\$20,350.0	\$22,200.0	\$42,550.0	

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 FY18 Department of Revenue (DOR) general fund operating budget submitted by the Governor is \$911.7 (3.2%) *below* the FY18 Adjusted Base [*decreases* of \$761.7 Unrestricted General Funds (UGF) and \$150.0 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.

PROGRAM EXPANSION

1. **Alaska Housing Finance Corporation - Discharge Incentive Grants: \$100.0 Mental Health Trust Authority Authorized Receipts (MHTAAR) (Other).** The Alaska Housing Finance Corporation (AHFC) budget includes a temporary increment (IncT) of Mental Health Trust funding to provide transition housing grants for mental health beneficiaries exiting incarceration into community care. The grants will be administered by the Department of Health and Social Services' Division of Behavioral Health, but distributed through the AHFC housing voucher program.

FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

2. **Shared Service of Alaska Implementation – Transfers to Shared Services of Alaska (SSoA) and Office of Information Technology (OIT).** In order to provide internal services at a reduced cost, the Executive Branch will implement phased consolidation of (1) cross-department services such as travel, accounts payable, P-Cards, procurement, facilities management, collection of delinquent accounts and centralized mail and print services and of (2) information technology services. Departments transferred a total of 77 positions to SSoA (1 PFT from DOR) and another 68 positions to OIT (10 from DOR).

Departments have decremented a total of \$763.8 (\$332.8 UGF) in the FY18 budget. This represents a 10% cut related to transferred positions with the remaining 90% of funding transferred to the contractual line to fund Reimbursable Services Agreements with the SSoA. The FY18 share of

savings attributable to DOR is \$191.8 (\$82.2 UGF). For more information, see the Operating Budget Overview in the *FY18 Legislative Fiscal Analyst's Overview of the Governor's Request*.

3. **Various – Intra-department Shared Services: (\$25.7) UGF.** In an effort to expand the Shared Services concept within the department and prepare the agency for the continued implementation of shared services statewide, four positions are being transferred to Administrative Services from Tax, Child Support Services, and Permanent Fund Dividend Divisions to perform the administrative functions across all divisions within DOR. Expected efficiency gains and cross division administrative knowledge will allow for two positions to be deleted. A total of \$445.7 of funding is being moved from the Personal Services line to the Services line within the divisions to pay the Administrative Services Division (ASD) for the transferred positions. In addition, ASD has an increment for \$445.7 of Interagency (I/A) Receipts. The Treasury Division will also incur a decrement of \$25.7 UGF for efficiencies gained as a result of the reorganization.
4. **Tax Division – Delete Revenue Appeals Officer: (\$169.5) UGF and (1) PFT Position.** The Tax Division's budget deletes a Revenue Appeals Officer and \$169.5 of associated funding. Although previous budget reductions had not impacted the appeals group, given recent turnover, a decision was made to delete a position and spread associated duties within the group.
5. **Alaska Permanent Fund Corporation (APFC) Investment Management Fee Reduction: (\$9.4) million PF Gross Receipts (Other).** APFC is requesting a reduction to reflect lower external management fees because (1) more assets are being managed in-house and (2) market performance has been less than the projected mid-case return scenario. This adjustment is intended to bring the budgeted amount more in line with anticipated costs.
6. **Alaska Retirement Management Board (ARMB) Investment Management Fee Reduction: (\$12.1) million of Various Retirement Funds (Other).** Similar to APFC, the ARMB external management fees are expected to decline as a result of a further shift to in-house asset management. In addition, a change in the method of paying external managers contributes to declining fees.

External management fees are currently paid either directly to an external manager, which requires an appropriation from retirement funds, or indirectly via a charge to the externally managed funds themselves (in a manner similar to management charges by mutual funds). DOR is shifting more and more assets to the latter form of payment as it is more efficient and the costs are applied more accurately across assets and to holders of the assets.
7. **Child Support Services Division – Federally Mandated Fee: (\$100.0) UGF.** After the collection of the first \$500 by the Child Support Services Division (CSSD) for a custodial parent, a federally mandated \$25 fee is imposed on that parent. This fee had historically been paid to the federal government by CSSD. Beginning with partial implementation in the FY17 budget, the fee was passed along to the custodial parent for payment and \$100.0 UGF was reduced from the CSSD budget. Now at full implementation, another \$100.0 UGF is being reduced from the budget and shifted to custodial parents.

OTHER BUDGET ACTIONS

8. **Treasury Division/ ARMB Cost Reallocation: (\$348.5) UGF/ \$875.3 I/A Receipts (Other):** The continuing reduction in the amount of general fund assets under management by the Treasury Division (e.g. – General Fund, CBR) and the increase in retirement fund balances is causing continuing reallocation of fund management costs from the general fund to

retirement funds. The Treasury Division's budget includes a fund source change of \$348.5 UGF to \$348.5 I/A Receipts (paid from an increment of \$348.5 of various retirement funds in the ARMB budget). The Treasury Division's request also includes an increment of \$526.8 I/A Receipts (from the ARMB) that has no corresponding increase in the ARMB budget because the ARMB has sufficient expenditure authority to absorb the increase.

9. **Various – Transfer Nine Investigator Positions to the Department of Public Safety for Officer Commissioning.** Nine Criminal Investigations Unit Investigators are transferred to the Department of Public Safety (DPS) to be commissioned as full Peace Officers as a result of the legalization of marijuana. The officers will reside in the DPS budget, but will work on DOR issues and be paid via RSA from DOR. Investigators from the Tax, Child Support Services, Permanent Fund Dividend, and Criminal Investigations Unit divisions will be transferred. The Criminal Investigations Unit allocation is eliminated and \$406.9 I/A Receipts decremented from the budget.
10. **Budget Placeholder for Corporations Consolidation/ Co-location: (\$1.0) AIDEA Receipts (Other).** In March of 2016, the Governor issued Administrative Order 281, which required a review of the processes, activities, and budgets of AHFC, Alaska Energy Authority, and Alaska Industrial Development and Export Authority (AIDEA). Included in the budget request was a **placeholder for future reductions projected to be at least \$1 million**. Changes are still in discussion and budget reductions can be expected from the Governor as the session progresses.

ORGANIZATIONAL CHANGES

There are no significant organizational changes.

CAPITAL REQUEST

The Governor's FY18 Department of Revenue capital budget totals \$42.55 million (\$19.2 million General Funds, \$1.15 million Other State Funds and \$22.2 million Federal Receipts). The budget contains projects entirely for the AHFC. The requested \$19.2 million of general funds includes \$13.5 million AHFC Dividend (UGF) and \$1.5 million of Alcohol and Other Drug Treatment and Prevention Funds (DGF). Notable projects include:

- Supplemental Housing Development - \$3 million UGF
- Cold Climate Housing Research Center - \$1 million UGF
- Rental Assistance for Victims - Empowering Choice Housing Program - \$1.5 million DGF
- Teacher, Health, and Public Safety Professionals Housing - \$1.75 million UGF
- Homeless Assistance Program (Mental Health) - \$6.85 million UGF; \$950.0 MHTAAR (Other)

Details of each project can be seen on the Legislative Finance Division website.