

DEPARTMENT OF REVENUE
FY19 - Summary of Significant Budget Issues

Governor's Budget Items Approved as Requested

Item #	Approp/Allocation	Description	Amount/Fund Source	Comment
1	Taxation and Treasury/ Treasury Division	Reduce Authority Due to In-House Resources Allocated to Alaska Retirement Management Board	(\$525.9) UGF	Included in the Treasury Division allocation is a decrement of \$525.9 UGF due to the continued reallocation of resources toward managing retirement assets. The division allocates resources based on their federally approved cost allocation plan. With more assets under the management of the Alaska Retirement Management Board (ARMB) (due to growing retirement funds and declining other fund balances managed by Treasury), the ARMB will incur a higher percentage of the costs and the Treasury budget will be further funded by a Reimbursable Services Agreement (RSA).
2	Child Support Services/ Child Support Services Division	Child Support Services Division Reductions	Total: (\$425.7) (\$144.7) G/F Match (UGF) (\$281.0) Federal Receipts	Three decrements totaling \$425.7 are included in Child Support Services Division Reductions. A total of \$144.7 G/F Match was removed, resulting in a loss of \$281.0 of federal receipts (34% state match to 66% federal receipts). Proposed reductions are for physical archival scanning and storage (\$95.0), postage costs related to quarterly statements now sent out once per year (\$330.0), and courier costs as a result of satellite office closures (\$0.7).
3	Administration and Support/ Criminal Investigations Unit	Re-establish the Criminal Investigations Unit (CIU)	\$406.9 I/A Receipts (Other)	The FY18 Governor's budget included a proposal to move nine criminal investigators to the Department of Public Safety for them to be commissioned as full peace officers. The positions were moved and \$406.9 of I/A Receipts were deleted from the budget. Subsequently, it was determined that moving the positions wasn't the best solution and, in the FY18 Management Plan, the positions were returned to the department. This increment (more technical than anything) re-establishes the CIU allocation and adds back I/A Receipt authority.

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Governor’s Budget Items Approved with Modifications

Item #	Approp/Allocation	Description	Amount/Fund Source	Comment
4	Permanent Fund Corporation	Permanent Fund Corporation Funding Level and Budget Structure	\$168,573.3 APFC Receipts (Other) 10 PFT Positions	<p>The Governor proposed a FY19 total budget for the Alaska Permanent Fund Corporation (APFC) of \$168.6 million – a \$17.5 million (12%) increase over FY18. The Governor proposed moving the APFC budget from section 1 of the bill (the numbers section) to the language portion of the bill. In addition, the APFC allocations were to be consolidated from their two current allocations—APFC Operations and APFC Investment Management Fees—into a single allocation.</p> <p>The legislature appropriated the full funding request by the Governor, however, the budget structure was maintained as two allocations in the numbers section of the bill (identical to the FY18 budget).</p> <p>The increased funding will provide for ten new Permanent Full-time (PFT) positions comprising \$1.9 million of the \$2.3 million change in Personal Services (the remaining \$362.8 is for merit increases and reducing the vacancy factor). The positions include four Investment Officer/Associates, two Accountants, and four IT/Administrative Support staff. The additional staff will further the effort of bringing more assets in-house for investment management. This policy of internally managing more assets is intended to save the State a considerable amount over the cost of external investment management.</p> <p>External management fees still account for the majority (90%) of the APFC budget – totaling \$150.5 million of the \$168.6 million total. Of the requested \$14 million increase to the Services line, \$11.7 million is for additional external management fees as a result of the growing value of the assets under management (management fees are typically charged as a percentage of asset value).</p>

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Legislative Additions

Item #	Approp/Allocation	Description	Amount/Fund Source	Comment
5	Alaska Mental Health Trust Authority/ MH Trust Operations	Add Program Manager	\$140.0 MHT Admin (Other) 1 PFT Position	Excluded from the Governor's requested budget--but part of the Mental Health Trustee Request--was \$140.0 for a Program Manager position to allow the Trust to expand their capacity to address the growing mental health illness across the State. The position will work with providers to administer and target grants to reduce the need for institutionalization of individuals suffering mental health illness.
6	Alaska Mental Health Trust Authority/ MH Trust Operations	Additional Increase to Fund MH Trust Budget at Trustee Approved Level	\$127.9 MHT Admin (Other)	Also excluded from the Governor's budget, but part of the Mental Health Trustee Request, was \$127.9 for merit and other cost increases of the agency. This increment was added by the legislature.
7	Alaska Housing Finance Corporation/ AHFC Operations	Facilities Maintenance Program funding to address ongoing emergent needs, health/ life safety issues & facilities repair	Total: \$4,000.0 \$1,000.0 Federal Receipts \$3,000.0 AHFC Receipts (Other)	Discussions on the FY19 capital budget revealed little funding in AHFC for ongoing facilities maintenance. Three million dollars of AHFC Receipts and \$1 million Federal Receipts were added to address ongoing emergent health/ life safety issues and facilities repair for AHFC's 1,628 housing units. In addition, \$6 million was added to the FY19 AHFC capital budget to address the \$32 million backlog of deferred maintenance.

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Fiscal Notes

Statewide Budget Items - excluded from the agency's operating budget, but under the purview of the agency.

Item #	Bill #	Title	Amount/Fund Source	Comment
8	HB 331 (Chapter 33, SLA 2018)	Tax Credit Cert. Bond Corp; Royalties (Bond proceeds for purchase of transferable Oil and Gas Tax Credits)	\$737,900.0 Subject to Appropriation Bonds (Other)	<p><u>Special Appropriations / Bonds for Tax Credit Purchases</u> HB 331 authorized the creation of the Alaska Tax Credit Certificate Bond Corporation for the purpose of issuing up to \$1 billion in bonds to purchase existing transferable Oil and Gas Tax Credits. The corporation will issue bonds secured solely by appropriations to cover debt service. The bond proceeds are appropriated to DOR, and the Commissioner will use the proceeds to purchase tax credit certificates.</p> <p>As of 12/31/17, the balance of outstanding credit certificates amounted to \$807 million with an additional \$130-180 million expected to be issued before all the tax credit programs sunset. This initial appropriation of bond proceeds is the estimated maximum amount of FY19 eligible credits (\$807 million) discounted at a rate of 5.12% annually.</p> <p>Note: the 5.12% discount rate assumes all credit holders will comply with the additional requirements to receive the lower discounting. A 10% discount rate would be applied otherwise and the amount of bond proceeds required would be less. In reality, some blend of rates will be likely which is why the appropriation is made as the "amount necessary" but estimated to be \$737.9 million.</p>
9	HB 331 (Chapter 33, SLA 2018)	Tax Credit Cert. Bond Corp; Royalties (FY19 estimated debt service appropriation for Oil and Gas Tax Credit Financing)	\$27,000.0 UGF	<p><u>Debt Service/ Oil and Gas Tax Credits Financing</u> Issuing bonds under HB 331 (see item 8) requires an appropriation for the estimated (interest only) debt service payment to the bond corporation. The estimated payment of \$27 million is based on a 10-year bond issue of \$745.3 million (\$737.9 million plus \$7.4 million financing cost) at 3.62 % interest. The bond issue is proposed to be structured with interest only payments for the first two years with growing principal payments on the back end of the 10-year note.</p>

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Fiscal Notes (continued)

Statewide Budget Items - excluded from the agency's operating budget, but under the purview of the agency.

Item #	Bill #	Title	Amount/Fund Source	Comment
10	HB 331 (Chapter 33, SLA 2018)	Tax Credit Cert. Bond Corp; Royalties (Maximum amount for Oil and Gas Tax Credit purchases for entities not participating in bond financing purchase program)	\$100,000.0 UGF	<p><u>Fund Capitalization/ Oil and Gas Tax Credit Fund</u></p> <p>An appropriation not to exceed \$100 million was included in the language section of the operating bill to cover two contingencies:</p> <ol style="list-style-type: none"> 1) Some entities may decline to participate in the bond financing program mentioned in the previous two items. The appropriation offers those entities a means to sell some of their certificates to the State. 2) A legal challenge may preclude issuing bonds. The appropriation offers a means for the State to purchase certificates through the tax credit fund if bond proceeds are unavailable. <p>A law suit was filed with the intent to prevent bonds from being issued. Assuming the State prevails in that legal challenge, the department believes that most (if not all) tax credit certificate holders will participate in the bond financing program.</p>