

House Finance Subcommittee FY20/21 Key Issues Department of Revenue (w/ Responses)

1. Production Tax Audit Catch-Up

- a. Is the Tax Division's plan to catch up on audits still on pace?

DOR Response:

Yes, the plan to catch up to three-year review cycle is still on pace for Oil and Gas Production Tax Audits.

We plan to meet or beat the following timeline:

- 2014 audits complete by 3rd quarter 2020
- 2015-2017 audits complete by 3rd quarter 2021
- 2018-2019 audits complete by end of 2022
- Maintain three-year audit cycle on a going forward basis

There are things we doing to accomplish this include:

- Implement formal audit plans that are shared with the taxpayer prior to the audit commencing. This includes scope, timeline, information requests, and agreed upon communication protocols and pre-established meeting frequency.
- Continue to leverage TRMS in the audit process. 2014 workpapers have been generated based on the filed return, instead of having to create manually as we had in the past.

2. Tax Revenue Management System

- a. FY21 increment to pay ongoing cost

DOR Response:

- Needed for annual maintenance support and on-site support which has been funded over the past years from the initial capital appropriation.
- Risks if not funded are significant as it's propriety software and we could not maintain it without contracted support. Over time, the system will become unusable for both the Division and our taxpayers using the customer interface.

- b. What savings and efficiencies have been created by the (TRMS) system?

DOR Response:

- With TRMS we now can automatically assess penalty and interest when applicable. This requires no manual involvement. Since FY 2017, TRMS has auto assessed \$31,584,486 in penalties and interest.
- With TRMS we now have automatic collection and levy functions. Since FY 2017, TRMS has auto collected \$6,848,144, which require no staff time.
- Electronic payments have increased from 14% to 65% of total payments received
- The percentage of electronic returns has increased from ~40% to over 90%
- Postage costs have decreased by 24%
- IT support costs have decreased by 61%
- Tax Division personal costs (i.e. employees) decreased by 15%
- Processing of payments and refunds quicker
- Generates automated reports

- Automated interface functions with IRIS
- Public portal for filing returns walks a taxpayer through the return and flags errors. Saves significant time for processing a return—many returns are posted automatically with no need for a manual review.
- Ability to provide services and data to other agencies as some of them use TRMS (Dept of Law, Dept of Fish & Game)

3. Treasury Division and Alaska Permanent Fund Corporation

- a. Status of efforts to increase in-house asset management to reduce management costs

DOR Response:

Both the Alaska Retirement Management Board (ARMB) and the Alaska Permanent Fund Corporation (APFC) are projecting appropriated management fee savings for FY2021 by moving the management of assets internally. The Alaska Retirement Management Board Custody and Management Fees' proposed budget is decreased by \$5 million and the Alaska Permanent Fund Corporation Investment Management Fees' proposed budget is decreased by \$21.1 million.

ARMB management costs were reduced as a result of streamlining the portfolio. Approximately 40 external investment mandates were terminated and assets were consolidated into remaining external and internal mandates. The percent of internally managed assets at the Treasury increased from 48% at 12/31/18 to 56% at 12/31/19. The change is both a result of the percentage of the ARMB portfolio invested in fixed income, which is primarily internally managed, as well as increases to internally managed equity mandates.

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Additional Questions Posed by Subcommittee Members

Rep. Sponholz's question re: presentation slide 4 (Feb. 3 hearing): Fund type DGF / Fund source 1080: Alcohol and Other Drug Abuse Treatment and Prevention Fund – all other figures in the chart are exact numbers. What is the rationale behind this even number?

DOR Response:

The Alaska Mental Health Trust Authority (Trust) began receiving a \$500.0 general fund appropriation in FY2015 to address Fetal Alcohol Spectrum Disorder (FASD) prevention. The funding source was changed to the Alcohol fund in FY2017.

The goal of the funding is to develop and implement an FASD media campaign and to identify key FASD prevention policy and intervention related issues. The Trust works with contractors to develop and implement a statewide media campaign with print, radio, television, and social media materials.

The media campaign materials for the public and healthcare providers can be found at:

<https://letstalkfasdak.org/>

Efforts also focus on data analysis and education efforts supporting prevention and programming. Additionally, the funds are used to support the FASD prevention policy work of a Health Policy Fellow at the University of Alaska Anchorage, College of Health.

Rep. Hannan's question re: presentation slide 11 (Feb. 3 hearing): PFD garnishment: From how many people annually does the Dept. collect child support via PFD garnishment?

DOR Response:

CSSD receives monthly batch payments from PFD; the 2019 cycle will end in August of this year. Attached are the 2018 numbers for context. The bulk of all the garnishments flow to the agency in October.

CSSD PFD Garnishments 2018		
Date	PFD Year	Control Count
Oct-18	2018	8187
Nov-18	2018	104
Dec-18	2018	180
Jan-19	2018	47
Feb-19	2018	39
Mar-19	2018	18
Apr-19	2018	6
May-19	2018	18
Jun-19	2018	9
Jul-19	2018	6
Aug-19	2018	1
2018 Total PFD's attached		8615
CSSD PFD Garnishments 2019		
Sep-19	2019	3691
Oct-19	2019	4383
Nov-19	2019	259
Dec-19	2019	259
2019 Total PFD's attached Year to date		8592