Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: HB 306
Fiscal Note Number:
() Publish Date:

Identifier: HB306-DOLWD-AVTEC-02-24-14
Title: EVAL. INDIRECT EXPENDITURES; TAX CREDITS
Sponsor: THOMPSON
Requester: House Finance

Department: Department of Labor and Workforce Development
Appropriation: Alaska Vocational Technical Center
Allocation: Alaska Vocational Technical Center
OMB Component Number: 2686

Expenditures/Revenues

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

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2015**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**
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	***	***	***	***	***	***	***

Estimated SUPPLEMENTAL (FY2014) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) 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If yes, by what date are the regulations to be adopted, amended or repealed?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:	Michelle Zenger, Special Assistant	Phone:	(907)224-6150
Division:	Alaska Vocational Technical Center	Date:	02/25/2014 05:05 PM
Approved By:	Dianne Blumer, Commissioner	Date:	02/25/14
Agency:	Commissioner's Office		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. HB 306

Analysis

AVTEC has generated between $50,000 to $150,000 annually the past four years from Education Tax Credit donations that would be repealed as a part of this legislation.

The changes in revenue are uncertain as a result of repealing the tax credits.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: HB 306
Fiscal Note Number:
() Publish Date:

Identifier: HB306-DNR-MLW-2-24-14
Title: EVAL. INDIRECT EXPENDITURES; TAX CREDITS
Sponsor: THOMPSON
Requester: House Finance

Department: Department of Natural Resources
Appropriation: Land & Water Resources
Allocation: Mining, Land & Water
OMB Component Number: 3002

Expenditures/Revenues

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

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2015**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**
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	***	***	***	***	***	***	***

Estimated SUPPLEMENTAL (FY2014) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) 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? N/A

Why this fiscal note differs from previous version:

Initial Version

Prepared By: Wyn Menefee, Chief of Operations
Phone: (907)269-8501
Division: Mining, Land and Water
Date: 02/24/2014 12:00 PM
Approved By: Joe Balash, Commissioner
Date: 02/24/14
Agency: Department of Natural Resources

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. HB306

Analysis

HB 306 directs the Department of Revenue (DOR) to provide reports to the Legislature on the effect of indirect expenditures of several Departments that results in foregone revenue to the state. The bill would require the Department of Natural Resources (DNR) to provide DOR upon request, data necessary to complete this report for DNR indirect expenditures. The Legislative Finance Division would be required to review DNR's indirect expenditures beginning in 2017 with subsequent review every six years.

The bill also clarifies that unexpended balances of capital projects are valid for the life of the project if substantial, ongoing work has begun within five years after the effective date of the appropriation.

DNR does not anticipate needing additional resources to meet the provisions of the bill.

The bill repeals statutes related to the mining exploration incentive credit (AS 27.30.010-AS 27.30.099). The potential revenue impact is indeterminate as the State would not have to pay out the tax credit but there may be lost revenue from mining activity that would otherwise occur as a result of loss of this tax credit.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: HB 306
Fiscal Note Number:
() Publish Date:

Identifier: HB306-DEC-FC-02-24-14
Title: EVAL. INDIRECT EXPENDITURES; TAX CREDITS
Sponsor: THOMPSON
Requester: House Finance Committee

Department: Department of Environmental Conservation
Appropriation: Water
Allocation: Facility Construction
OMB Component Number: 637

Expenditures/Revenues

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

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2015**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**
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							

Estimated SUPPLEMENTAL (FY2014) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) 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? N/A

Why this fiscal note differs from previous version:

Not applicable, initial version

Prepared By: Tom Cherian, Director Phone: (907)465-5256
Division: Administrative Services Division Date: 02/24/2014 01:00 PM
Approved By: Lynn Kent, Deputy Commissioner Date: 02/24/14
Agency: Department of Environmental Conservation

FISCAL NOTE ANALYSIS

STATE OF ALASKA **BILL NO.** HB 306
2014 LEGISLATIVE SESSION

Analysis

Analysis/Assumptions:

Among other provisions, this legislation would lapse appropriations and allocations to named recipients and unincorporated communities after five years if substantial ongoing work has not begun. Appropriations to the Village Safe Water (VSW) program may be affected by this provision.

Currently, the Legislature makes appropriations to the VSW program without project-based allocations. This structure meets federal requirements and it allows the Department to most effectively manage all VSW funding via a "Multi-Year Priority List." Projects on that list are evaluated and funded on the basis of relative need and ability to complete the project. This use of the priority list allows the Department sufficient flexibility to keep as many projects moving forward as possible at all times, without allowing any federal or state match funds to sit idle.

In some previous fiscal years, the Legislature made project-based allocations to both incorporated and unincorporated communities. Project-based allocations in the VSW program created significant fiscal challenges for the Department, as rural infrastructure projects are often stalled or cancelled for localized reasons outside the Department's control. Today, through an established reallocation process, the Department redeploys funding associated with stalled or cancelled projects to other projects on the Multi-Year Priority List that are ready to begin planning, design, or construction.

Section 5 of HB 306 may inadvertently lapse project-based allocations to the VSW program for projects that became stalled or cancelled. Even though those individual projects may have been stalled or cancelled, the Department is in the process of using those funds for other projects on the Multi-Year Priority List.

Lapsing any prior appropriations to the VSW program could cause the Department to lose access to previously appropriated federal funding for VSW projects, effectively reducing the funds available for use on rural sanitation projects.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: HB 306
Fiscal Note Number:
() Publish Date:

Identifier: HB 306 - Leg.Finance
Title: EVAL. INDIRECT EXPENDITURES; TAX CREDITS
Sponsor: THOMPSON
Requester: House Finance

Department: Alaska Legislature
Appropriation: Budget and Audit Committee
Allocation: Legislative Finance
OMB Component Number: 774

Expenditures/Revenues

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

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2015**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**
Personal Services							
Travel							
Services	25.0			25.0		25.0	
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	**25.0**	**0.0**	**0.0**	**25.0**	**0.0**	**25.0**	**0.0**

Fund Source (Operating Only)

1004 Gen Fund	25.0			25.0		25.0	
Total	**25.0**	**0.0**	**0.0**	**25.0**	**0.0**	**25.0**	**0.0**

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues							

Estimated SUPPLEMENTAL (FY2014) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) 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

Prepared By: David Teal
Division: Legislative Finance Division
Approved By: David Teal
Agency: Legislative Finance Division

Phone: (907)465-3002
Date: 02/22/2014 12:00 PM
Date: 02/22/14

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. HB 306

Analysis

This bill :

1) requires the Department of Revenue to report indirect expenditures as they relate to the duties of state agencies ;
2) requires the Legislative Finance Division to analyze certain indirect expenditures ;
3) relates to lapse dates for appropriations for capital projects;
4) repeals certain statutes authorizing indirect expenditures; and
5) provides for an effective date.

Every year, the Legislative Finance Division shall analyze the indirect expenditure report provided by the Department of Revenue and deliver a report to the co- chairs of the finance committees in each house of the legislature. The report will be due no later than the first legislative day of each first regular session beginning with 2015.

The first review shall occur in the calendar year set out after each agency's name as follows, and subsequent reviews of each agency shall occur every six years:

(1) Department of Commerce, Community, and Economic Development, 2015;
(2) Department of Fish and Game, 2015;
(3) Department of Health and Social Services, 2015;
(4) Department of Labor and Workforce Development, 2015;
(5) Department of Revenue, 2015;
(6) Alaska Court System, 2017;
(7) Department of Administration, 2017;
(8) Department of Education and Early Development, 2017;
(9) Department of Environmental Conservation, 2017;
(10) Department of Natural Resources, 2017;
(11) Department of Transportation and Public Facilities, 2017;
(12) all remaining agencies, 2019.

The bill limits the period of analysis to approximately two weeks. Because the period of analysis coincides with the period for reviewing the Governor's budget, this fiscal note assumes that analysis will be limited to a brief assessment of the cost of each indirect expenditure versus economic impacts, and that the analyses will will require contractual services.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: HB 306
Fiscal Note Number:
() Publish Date:

Identifier: HB306-DOR-TAX-02-26-14
Title: EVAL. INDIRECT EXPENDITURES; TAX CREDITS
Sponsor: THOMPSON
Requester: (H) Finance

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)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2015**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**
Personal Services	918.8		261.4	261.4	261.4	261.4	261.4
Travel	40.0		5.0	5.0	5.0	5.0	5.0
Services	42.5		12.3	12.3	12.3	12.3	12.3
Commodities	5.0		1.5	1.5	1.5	1.5	1.5
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	**1,006.3**	**0.0**	**280.2**	**280.2**	**280.2**	**280.2**	**280.2**

Fund Source (Operating Only)

1004 Gen Fund	1,006.3		280.2	280.2	280.2	280.2	280.2
Total	**1,006.3**	**0.0**	**280.2**	**280.2**	**280.2**	**280.2**	**280.2**

Positions

Full-time	2.0		2.0	2.0	2.0	2.0	2.0
Part-time							
Temporary	8.0		1.0	1.0	1.0	1.0	1.0

Change in Revenues	***		***	***	***	***	***

Estimated SUPPLEMENTAL (FY2014) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) 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? YES
If yes, by what date are the regulations to be adopted, amended or repealed? various

Why this fiscal note differs from previous version:

Fiscal analysis revised, and comeserate outyear expenditures reduced.

Prepared By: Johanna Bales, Deputy Director; Dan Stickel, Assistant Chief Economist
Phone: (907)269-6620
Division: Tax
Date: 02/26/2014 04:00 PM
Approved By: Angela M. Rodell, Commissioner
Date: 02/26/14
Agency: Department of Revenue

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. HB 306

Analysis

Bill Language:
This bill would impact the Department of Revenue in two ways: First, it would repeal several existing tax credit programs; and second, it would institute a requirement for a new bi-annual report on indirect expenditures.

This bill repeals several tax credit programs, including the education tax credit, the exploration incentive credit, the veterans employment tax credit, the Winn Brindle scholarship credit, the salmon product development and utilization tax credits, the Community Development Quota tax credit, and the film production tax credit. The effective date for these changes is the day after the last day of the second regular session of the twenty-ninth legislature, meaning the repeals would take effect April 18, 2016. This bill provides transition language whereby any tax credits accrued before April 18, 2016 may be claimed in the year they are accrued or carried forward if allowed under existing provisions in each credit program.

This bill would require the Department to publish, by November 1 of every other year, a new "Indirect expenditure report" providing detailed analysis of every "indirect expenditure" in the state. Indirect expenditures are broadly defined as any "credit, exemption, deduction, deferral, discount, exclusion, or other differential allowance designed to encourage an activity or benefit the public or a taxpayer and that results in foregone revenue for the state." Among other things, the Department would be required to identify the statutory authority for the expenditure, determine the intent of the legislature in authorizing the expenditure, estimate the annual revenue impact of the expenditure for the past five years, estimate the cost to administer the expenditure, and report the number of beneficiaries of the expenditure. The Indirect expenditure report would require a significant amount of data gathering and reporting for the first report . After the first report, the bi-annual reporting would require less effort as analysis done for the first report could be carried forward; for example identifying the statutory authority and legislative intent in a subsequent year could be obtained from the first report.

There is no specific effective date for the expenditure reporting provisions within this bill. Therefore, the reporting provisions will take effect within 90 days after the Governor signs the bill into law. As such, the first report would more than likely be due on November 1, 2014. The department recently began implementation of a new revenue management system. The system will not be fully implemented until the summer of 2016. Although some of the data needed to fulfill the reporting requirements of this legislation will reside in an automated system, the majority of the data would be extracted through manual processes. Additionally, the November 1 due date would make it difficult to include all final data from the previous fiscal year, as many reconciliations would not be completed in time to include in the report. A more complete evaluation of the prior fiscal year could be achieved with a later due date for the report; DOR proposes a date of no earlier than December 31.

Revenues:
The revenue impact of this bill is indeterminate. This bill would repeal several tax credit programs effective April 18, 2016, including the education tax credit ($7.2 million in FY 2013), the exploration incentive credit, ($6.0 million in FY 2013; no new activity anticipated), the veterans employment tax credit (new program in 2013 for which we currently have no data), the Winn Brindle scholarship credit ($0.2 million in FY 2013), the salmon product development tax credit ($1.8 million in FY 2013), the salmon utilization tax credit (not currently in effect but still in statute), the Community Development Quota tax credit ($0.5 million in FY 2013), and the film production tax credit ($32.5 million issued and outstanding and an additional $60 million expected to be awarded within the next two fiscal years).

For FY 2015, revenue may be reduced if companies claim more credits due to the impending repeal. For FY 2016, companies claiming more credits through April 17, 2016 may somewhat be offset by the credit expirations on April 18, 2016. For FY 2017 and beyond, there would likely be indeterminate increases in revenue due to the elimination of the credits; however some of the credits can be carried forward into those years.

STATE OF ALASKA **BILL NO.** HB 306
2014 LEGISLATIVE SESSION

Analysis Continued

Revenues (cont.):
For the film production tax credit, a total of $300 million was authorized for the program. For any credits pre-approved before the repeal date, those credits could be awarded for up to three years after repeal, and carried forward for an additional six years. Therefore, we do not see any significant revenue increase by repealing this program as outlined in the bill.

Expenditures:
This bill would require the Department of Revenue to analyze each and every indirect expenditure in the state. The Department currently administers 22 tax programs, and would also be required to analyze numerous programs in other state agencies. The initial compilation of this report would be a major undertaking and would require significant staff resources.

We anticipate needing at least 10 new positions in FY 2015 to undertake the initial analysis required of all indirect expenditures incurred by DOR and all other state agencies; four Economist III positions, four Tax Technician III positions, and two College Intern IV positions. The new positions would be hired in FY 2015, to perform the significant research and work that would be needed in advance of the first required report. We then anticipate that we will need to retain three positions to implement the ongoing bi-annual reporting requirement: One Economist III, one Tax Technician III, and a College Intern IV. The costs shown include the payroll and benefits for the new positions, the interagency costs associated with these positions, the travel costs for these positions, and the computer and office supply costs. It is assumed that two of these long-term positions would be in Juneau and one in Anchorage.

Although this legislation would repeal the film production tax credit program, the effective date of the repeal is outside the scope of this fiscal note. For any credits pre-approved before the repeal date, those credits may be awarded for up to three years after repeal, and carried forward for an additional six years. Therefore, the film program and staffing would need to be maintained throughout the time horizon of this fiscal note. When originally established, the department requested and received three additional positions to administer the film program . Although the positions were approved, the department did not receive funding for two of the positions. Therefore, the repeal of the film production tax credit would result in personal service savings of $147.5 thousand to the department and the three positions requested would be eliminated from the department's budget, beyond the time horizon of this fiscal note.

The repeal of the other tax credit programs would not result in a decrease in program costs to the department.

Regulations:
Regulations adopted by the department for the repealed tax credit programs would be repealed at various times following the expiration of time limits for claiming or carrying forward the relevant credits (i.e. in 2016 and beyond).