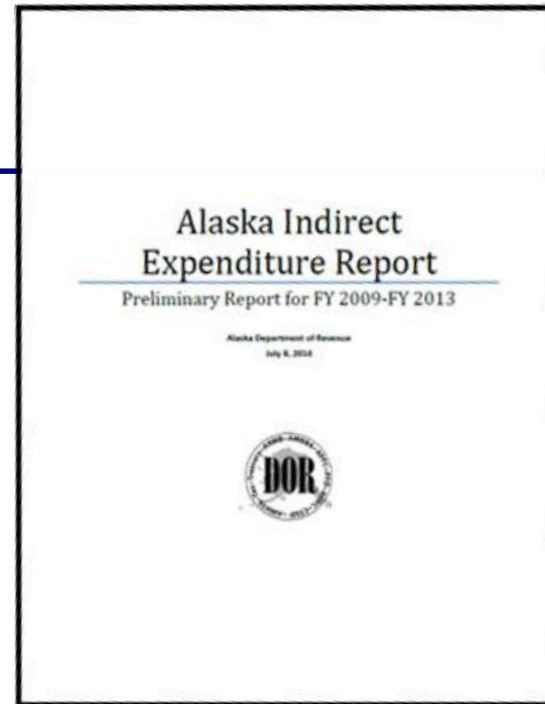




Alaska Department of Revenue



Overview of DOR's *Indirect Expenditure Report*,
Preliminary Report for FY 2009-FY 2013
Presentation to House Finance Committee

February 10, 2015

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- This presentation focuses on report methodology and substance, not policy issues regarding specific indirect expenditures.

- Indirect Expenditure Report Legislation Overview
 - Bill provisions, DOR requirements, Legislative Finance Division requirements
- Process and methodology for producing the DOR *Indirect Expenditure Report*
- Overview of the DOR *Indirect Expenditure Report*
- Future Plans

Indirect Expenditure Report Legislation Overview



Indirect Expenditure Report Legislation Overview

- Passed in 2014 and signed on July 7, 2014
- The first DOR *Indirect Expenditure Report* was released the day after the bill was signed, July 8, 2014
- **Requires DOR to submit a report to the Legislature biennially on July 1 detailing indirect expenditures of all agencies in the State (AS 43.05.095)**
- Requires the Legislative Finance Division to provide a report to the Legislature on the indirect expenditures of certain agencies before the start of Legislative Session following the release of DOR's biennial report
- Modifies or implements sunset dates on certain non-oil and gas tax credits

Indirect Expenditures Defined

Indirect expenditure: Any foregone revenue by the state designed to encourage an activity to benefit the public in the form of a credit, exemption, deduction, deferral, discount, exclusion, or other differential allowance.

As defined by AS 43.05.095(d):

- A tax credit or other credit
- An exemption, but does not include federal tax exemptions adopted by reference in AS 43.20.021
- A discount
- A deduction, but does not include costs incurred in the ordinary course of business that are deducted in the calculation of a tax under this title or in the calculation of a royalty or net profit share payment for a lease issued under AS 38
- A differential allowance

DOR Indirect Expenditure Report

- Released July 8, 2014 by DOR
- Based in part on the 2013 Legislative Research report, *Indirect Expenditures, Provisions in Alaska Law*
- Provides details on 251 indirect expenditures across 11 departments and agencies, including 78 provisions administered by DOR
- A cooperative effort between the 10 other participating agencies, coordinated by DOR

- The Indirect Expenditure Report legislation modified sunset dates on certain credits:
 - December 31, 2016 for the Winn Brindle Scholarship tax credit and the salmon utilization tax credit
 - December 31, 2018 for the film production credit and the education credit
 - December 31, 2020 for the salmon product development credit and the Community Development Quote (CDQ) credit

Process and Methodology for DOR's *Indirect Expenditure Report*



Internally:

- Work began in April 2014 with a dedicated economist and dedicated time from others, including:
 - Audit supervisors and staff
 - Accounting supervisors and staff
 - DOR IT
 - Other Economic Research Group Staff
 - Department of Law

Externally:

- DOR met with other departments and agencies and sent out a survey for the report
- Each agency examined their operations to identify indirect expenditures and report the required information
- Many departments identified additional indirect expenditures that needed to be added
 - Submissions from other departments and agencies are not independently verified

Reported Information

Each department was required to report the following information:

- The name of the indirect expenditure
- A brief description
- The statutory authority
- The repeal date, if applicable
- The intent of the legislature in enacting the statute authorizing the indirect expenditure
- The public purpose served by the indirect expenditure
- The estimated revenue impact of the indirect expenditure for the previous five fiscal years (excluding the fiscal year immediately preceding the date the report is due)
- The estimated cost to administer the indirect expenditure, if applicable
- The number of beneficiaries of the indirect expenditure

- Before release, DOR methodology and report drafts were reviewed by:
 - Contributing agencies and departments
 - Legislative Finance Division
 - The Office of Management and Budget
 - The Bill Sponsor's staff
- Feedback was incorporated into the report to the extent possible given the compressed time frame

Overview of DOR's *Indirect Expenditure Report*



Overview of DOR's *Indirect Expenditure Report*

- Introduction, discussing the purpose of the report, what is included in the report, and an explanation of the limitations of the report

- The indirect expenditures are organized by:
 - Departments, alphabetically
 - Divisions, alphabetically
 - Grouped by Program Name (if applicable)

Due to the short time constraints:

- There is some missing or unverified information
 - “Cost to Administer” is limited
 - The “Legislative Intent” section of many indirect expenditures was incomplete
 - In some cases “Number of Beneficiaries” required additional work to ascertain the impact of the indirect expenditure
- More time was needed to carry out in-depth analysis

Future Plans



Future Plans

- Reaching out to the University of Alaska and the Alaska Railroad for inclusion in future reports
- Reaching out to the Office of Management and Budget, the Legislative Finance Division, and the Bill Sponsor concerning the next *Indirect Expenditure Report* in 2016
- Refining definitions of “Cost of Administration” and “Legislative Intent” by working with stakeholders
- Integrating DOR *Indirect Expenditure Report* reporting with the new Tax Revenue Management System
- Compiling feedback and suggestions which may be incorporated into the next report in Summer 2016