

# State of Alaska Department of Revenue

## Department of Revenue

Presentation to House Finance Revenue Subcommittee

March 8, 2021

Brian Fechter, Administrative Services Director

Lucinda Mahoney, Commissioner Designee



Governor  
**MIKE DUNLEAVY**

# Agenda

---

- 1. Gaming Update**
- 2. Tax Division Update**
  - **Oil and Gas Production Tax Audits and Settlements**
  - **Corporate Income Tax Audits and Auditors**
  - **TRMS Status**
- 3. TRMS Expansion**
  - **Project Overview**
  - **Tax Division Upgrade Details**
  - **Child Support Division Project Details**
- 4. Permanent Fund Corporation**
- 5. Department Update**

## **Tax Division Overview: Gaming Study**

---

- Intent – Increased tourism, jobs, and state revenue
- Competitively Bid – Expect to award Mid-March
- Robust Stakeholder Engagement – Include tribal, local community, nonprofit, and current charitable gaming operators, and hospitality and cruise industries.
- A comprehensive study that will bring a uniquely Alaskan implementation of gaming
  - We are not wed to any single result
- Results will be shared with stakeholders after report completed (~August 31<sup>st</sup>)
- Many policy considerations –
  - Types of games / scope/ iGaming / physical gaming / etc.
  - Social/public safety mitigation
  - Tax regimes

# **Tax Division: Oil & Gas Production Tax Audits Progress Report**

- **Audit Completion – Significant progress has been made**
  - **January 2019 – Completed Through 2012**
  - **In January 2020 DOR Stated: 2013-2014 audits would be completed by 3<sup>rd</sup> quarter 2020**
    - This goal was achieved
  - **January 2022 – Goal to complete 2015-2017**
    - Still on track to complete these by 3<sup>rd</sup> quarter 2021
- **Long Term Goal – Three-year audit cycle – Accomplished through:**
  - 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. Workpapers are now generated based on the filed return, instead of having to create manually as we had in the past. Workpapers can be uploaded into TRMS to calculate audit assessment.

## Tax Division: Oil & Gas Production Tax Audit – Audit History

- Oil price, production, and fiscal regime drive the amount of tax collections.
- Audits vary over time based on each taxpayer and complexities.
- The average audit assessment percentage has been stable in the 2-6% range.
- Expectations of lower audit assessment in the near future as we audit lower oil price years:

- **2014 - \$107.57/bbl**
- **2015 - \$ 72.58/bbl**
- **2016 - \$ 43.18/bbl**
- **2017 - \$ 49.42/bbl**
- **2018 - \$ 63.61/bbl**
- **2019 - \$ 69.46/bbl**

Tax Return Revenues and Audit Assessments for Tax Years 2007 through 2013						
Tax Year	ANS Price	ANS Average Daily Prod	Fiscal Regime	Tax Revenue Filed by All Taxpayers	Tax Revenue Audited	Average % Assessed on Audits
2007	\$ 61.60	750.4	PPT	\$ 3,476,535,942	\$ 3,476,535,942	6%
2008	\$ 96.51	729.4	PPT	7,132,582,848	7,132,582,848	2%
2009	\$ 68.34	702.9	ACES	2,034,600,383	2,020,134,580	4%
2010	\$ 74.90	651.5	ACES	3,106,786,385	3,106,786,385	4%
2011	\$ 94.49	610.3	ACES	6,109,993,110	6,109,973,878	3%
2012	\$112.66	590.1	ACES	5,281,334,943	5,281,324,261	3%
2013	\$107.60	543.8	SB21	3,468,299,438	3,468,293,043	3%

# Tax Division: Oil & Gas Production Tax Audit – Settlement History

Tax Return Revenues and Audit Assessments for Tax Years 2007 through 2019										
	Amount of Taxes Assessed by Account							Amount of Taxes Assessed by Payment Status		
Tax Year	Tax Revenue Filed by All Taxpayers	Tax Revenue Audited	Additional Tax Assessed	Installment Interest Increase	Tax Due	Interest	Totals	Paid Final	Not Paid	Totals
2007-2010	\$ 15,750,505,558	\$ 15,736,039,755	\$ 549,189,331	\$ 9,654,715	\$ 558,844,046	\$ 391,651,753	\$ 950,495,799	\$ 516,722,173	\$ -	\$ 516,722,173
2011-2013	14,859,627,490	14,859,591,182	468,905,820	14,586,638	483,492,458	106,949,169	590,441,627	197,222,827	-	197,222,827
2014-2019	3,355,750,186	2,391,816,624	*	*	*	*	61,518,379	43,999,722	*	*

\* There are too few companies to report data for the sections indicated (per AS 43.55.890).

## Tax Division: Corporate Income Tax Audit – Audit History

- Audit volume driven by available resources.
- Audit value for Oil and Gas Corporate taxpayers is similar factors as the production tax – oil price and production as well as profit levels.
- Audit value for Non-Oil and Gas Corporate taxpayers is variable driven on which taxpayers selected for audit, sector economies – local and worldwide.

Corporate Income Tax Audits	2015	2016	2017	2018	2019	2020
	# Audits					
Oil & Gas Corporations	12	*	3	8	9	6
Non Oil & Gas Corporations	5	*	44	26	19	23
Totals	17	11	47	34	28	29
	Audit Assessments (\$ millions)					
Oil & Gas Corporation	\$ 66.5	*	\$ 67.5	\$ 4.2	\$ 117.4	\$ 107.7
Non Oil & Gas Corporations	\$ 1.8	*	\$ 13.5	\$ 11.0	\$ 3.7	\$ 14.6
Totals	\$ 105.2	\$ 34.2	\$ 81.0	\$ 15.2	\$ 121.1	\$ 122.3

\* There are too few companies to report data for the sections indicated (per AS 43.55.890).

## Tax Division: Corporate Income Tax Auditor Update

- FY2018 – Two Corporate Income Tax Auditors
  - The Legislature added \$184.5 UGF and 2 positions in the FY2018 budget for Corporate Income Tax Auditors. The House made the initial proposal citing an expectation that each position would generate \$500,000 per year of audit assessments.
  - That has been achieved and exceeded each year since. For the three fiscal years completed, there has been ~\$10 million more in audit assessments than planned.

Fiscal Year	Audit Assessments
FY 2018	\$2,847,473
FY 2019	\$1,805,401
FY 2020	\$8,131,294
<b>Total</b>	<b>\$12,784,168</b>



# TRMS: Tax Revenue Management System (Fully Implemented FY2017)

Tax Division Budget History									
	2015		2020		2021		2022		
UGF	\$	16,371.9	\$	13,658.5	\$	15,938.3	\$	15,744.5	\$ (627.4) -4%
DGF	\$	754.5	\$	805.8	\$	809.3	\$	862.0	\$ 107.5 14%
Other	\$	896.7	\$	766.5	\$	197.8	\$	199.6	\$ (697.1) -78%
Federal	\$	-	\$	-	\$	-	\$	-	\$ -
<b>Total</b>	\$	18,023.1	\$	15,230.8	\$	16,945.4	\$	16,806.1	\$ (1,217.0) -7%
Positions		128		104		97		95	(33) -26%

- With TRMS we now have automatic collection and levy functions which require minimal staff time.
- Electronic payments have increased from 14% to 74% of total payments received
- The percentage of electronic returns has increased from 40% to 93%
- Postage costs have decreased by 24%
- IT support costs have decreased by 61%
- Tax Division personnel decreased by 15% since implementation. 26% total since 2015.
- Processing of payments and refunds is quicker
- Generates automated reports
- Automated interface functions with IRIS (state accounting system)
- Public portal for filing returns walks a taxpayer through the return and flags errors. (time savings)
- Many returns are posted automatically with no need for a manual review.
- Ability to provide services and data to other agencies (Dept of Law, Dept of Fish & Game)

# **TRMS: Tax Revenue Management System (Fully Implemented FY2017)**

- Initial Capital cost
  - FY2010 - \$300.0 for initial planning and design
  - FY2012 capital funding of \$34,700.0 for the full project.
  - There has also been two reprogramming capital projects due to changes in oil and gas taxes and credits; \$1,200.0 in FY2017 (HB 247) and \$1,350.0 in FY2018 (HB 111).
- The Tax Division fully-spent the TRMS capital appropriation at the end of FY2020. In FY2021, the Division's budget was increased by \$2,221.6 for base TRMS operating support. This is comprised of \$1,650.0 for TRMS licensing and contractor support, and \$571.6 for Staff Analyst/Programming support.
- While it is challenging to tie specific budget reductions to system implementation, the Tax Division is down 14 positions since full implementation. Reductions since 2015 total \$1.2 million (7%).

## TRMS: Tax Revenue Management System & CSSD Module

- **Child Support Module Cost: \$25,529,400**
- **Tax Division Version Update: \$ 5,000,000**
- **Discount for Pursuing Both: (\$ 5,000,000)**
- **Total Cost: \$25,529,400**
  - **\$10,000,000 General Fund Program Receipts (DGF)**
  - **\$15,529,400 Federal**

# **TRMS: Tax Revenue Management System (Version Upgrade)**

- **Upgrades will move the Division to an enhanced version (V12 – See Capital Budget)**
- **Enhanced Security:**
  - New features include ability to have role-based security for each employee which will help with compliance with IRS Publication 1075's strict data security requirements for confidential information.
- **Enhanced Analytics and Fraud Prevention:**
  - Key Performance Indicators (KPIs) function that will enable Management to timely identify and monitor taxpayer trends, audit trends, and collection trends.
  - Data Analytics includes new modules to help identify potentially inaccurate and incomplete tax returns and payments.
- **Operational Efficiencies:**
  - Mobile Tax filing (Smartphone apps) - This is likely to reduce the number of paper returns the Tax Division receives, all of which require manual scanning and data entry.
  - E-Services enhancements to include chatbot assistant, dashboard, and redesign to make it easier for customers to navigate the system.
  - State programmers will have access to the system's core code, which could reduce the need for specialized programming services that often require significant financial investment when major tax code changes are made by the legislature.

# **TRMS: Tax Revenue Management System (Child Support Module)**

- Eliminate 28 Office Assistants and 2 Accounting Techs (high-turnover – through attrition)
  - \$1.9 million saved – Current duties:
    - Manual Data Entry (Returned mail, applications for service, case initiations, new hires reported from Department of Labor)
    - Call Center – answer incoming calls to our customer service line and address issue or
    - Locates non-custodial parents
- 30 Anchorage based private sector programmers during implementation
- New system will streamline processes and reduce operating costs
- Manual entry is automated; more staff time can be devoted to collection activities (payment plans, working with noncustodial parents, outreach, etc.)
- Increasing collections benefits the state in multiple ways.
  - More money is diverted to the families that need it.
  - May lift custodial families off of public programs resulting in general fund savings to the state.
  - The state may receive additional flexible federal incentive payments for improving collections.
- Peer states such as Wyoming and North Dakota have approximately the same amount of cases and collections as Alaska does, but they are able to do so with half the staff and receive larger federal incentive payments, largely due to more modern or flexible systems which eliminate the need for numerous time-consuming manual processes.

# TRMS: New CSSD System (Capital Budget)

CSDM01P1 CSDM01M1 State of Alaska CSSD/winSTAR - PROD RDACALS 03/05/21  
RCSLIBP DMO1 Morning Mail//Morning Mail Review by Worker Id 10:22:20

For Worker: 200 Rachel Rodriguez  
Mail Date: Thru: 03/05/21 Oldest First: Team: 05 Filters:

Sel	S	Mail	P	Case Id	Actv	Member	External	Comp Dte	Case	N
	t	Date			Code	Id	Case Id	Due Date	Seq	
-	-	03/05/21	1	001118553	1544R	04320424				
				INT	Postal Rcvd			03/05/21	GOOD ADDRESS	Y
-	-	03/05/21	1	001145862	1544R	04097761				
				INT	Postal Rcvd			03/05/21	GOOD ADDRESS	Y
-	-	03/05/21	2	001118553	NOTAK	04320424				
				INT	OUT OF STATE			03/05/21	NEW ADDRESS	
-	-	03/05/21	2	001118553	NOTAK	04320424				
				INT	OUT OF STATE			03/05/21	NEW ADDRESS	
-	-	03/05/21	2	001145862	NOTAK	04097761				
				INT	OUT OF STATE			03/05/21	NEW ADDRESS	
-	-	03/05/21	2	001145862	NOTAK	04097761				
				INT	OUT OF STATE			03/05/21	NEW ADDRESS	
-	-	03/04/21	1	001126926	FDHLD					
				INT	RCT ON HRCT			03/04/21	FUT ARREARS	
-	-	03/04/21	1	001126926	LOOK					
				INT	IMPORTANT			03/04/21	ACCTG NOTES	Y
-	-	03/04/21	1	001126926	OBLCL					
				INT	ARREARS ZERO			03/04/21	ZERO NO ACCR	
-	-	03/04/21	1	001137746	FDHLD					
				INT	RCT ON HRCT			03/04/21	FUT ARREARS	
-	-	03/04/21	1	001139400	PHMRC	04326174				
				INT	PHONE MISC			03/04/21		Y
-	-	03/04/21	1	001155592	FDHLD					
				INT	RCT ON HRCT			03/04/21	FUT ARREARS	
-	-	03/04/21	1	001164603	NEWIN					
				INT	NEW INCOME RCPT			03/04/21	Held\$-NoWage	Y
-	-	03/04/21	1	001174815	FDHLD					
				INT	RCT ON HRCT			03/04/21	FUT ARREARS	
-	-	03/04/21	1	001185840	NEWIN					
				INT	NEW INCOME RCPT			03/04/21	Held\$-NoWage	Y

CSHS01P2 CSHS01M2

RCSLIBP HSIIM

State of Alaska CSED/NSTAR

Estab/Support/Order Maintenance

RDACSPP

12/02/19

13:17:26

Action: I

Worker ID: 7174

Amber Barney

Team: 05

Interstate

Case ID: 001

Case Type: N

Case Status: 0

Action Type:

Estab Type: 0

CMEM Payor: 04

Custodian: 04

M

Type: A

Type: C

Support Order ID: 001

St/Ctry: AK

005

Order ID:

Ord Type: A

Court ID:

Control:

Imaged

Mod/Error:

Comment: ADMIN C/S ORDER;

Date Entered: 06/05/14

Order Iss Date: 04/15/14

Effective Date: 06/05/14

Payable Date: 11/01/12

Mail Date: 04/16/14

End Date: 01/31/30

Guidelines Followed: Y

Calculation Date:

Guideline Amt: 0.00

Deviation Reason:

Deviation Amt: 0.00

Deviation Author:

IV-D Established: Y

Estab Inds: S A

Medical Ordered: F

Exclude Med Enf: N

Native/PFD Order:

Court/Adm Order: A

Wage Assignment: N

Custody Factor: P

Visitation Credit: N

Cost of Living: N

Custody Percent:

Post Majority: Y

SORD N/C Parent: 04

SORD Custodial: 04

M

CP NRRR Date: 04/01/17

No Change Notice Date:

NCP NRRR Date: 04/01/17

No Change Mail Date:

Review Date: 04/01/20

Reason: INSUFFICIENT FINANCIAL DATA\_

ELMO St: NR

04/01/19

No Review

Enter-PF1---PF2---PF3---PF4---PF5---PF6---PF7---PF8---PF9---PF10---PF11---PF12---

Help SADT Back ORDX Flip Bkwd Frwd Reset Nav

# Alaska Permanent Fund Corporation: Snapshot of Fund Management

## Public Equities

- A majority of the portfolio is managed by external managers with roughly 15% internally managed through ETFs and single stock investment programs.

## Fixed Income

- Investment grade bond portfolio is managed entirely in house.
- Non-investment grade bonds are mostly managed externally.

## Real Estate

- Vast majority of properties are held directly in APFC's name; a variety of external advisors are used on the different properties.

## Private Markets (includes Private Equity and Private Income)

- Roughly  $\frac{3}{4}$  of the portfolio is managed through external funds; roughly  $\frac{1}{4}$  is managed internally through direct investments and co-investments.

## Absolute Return

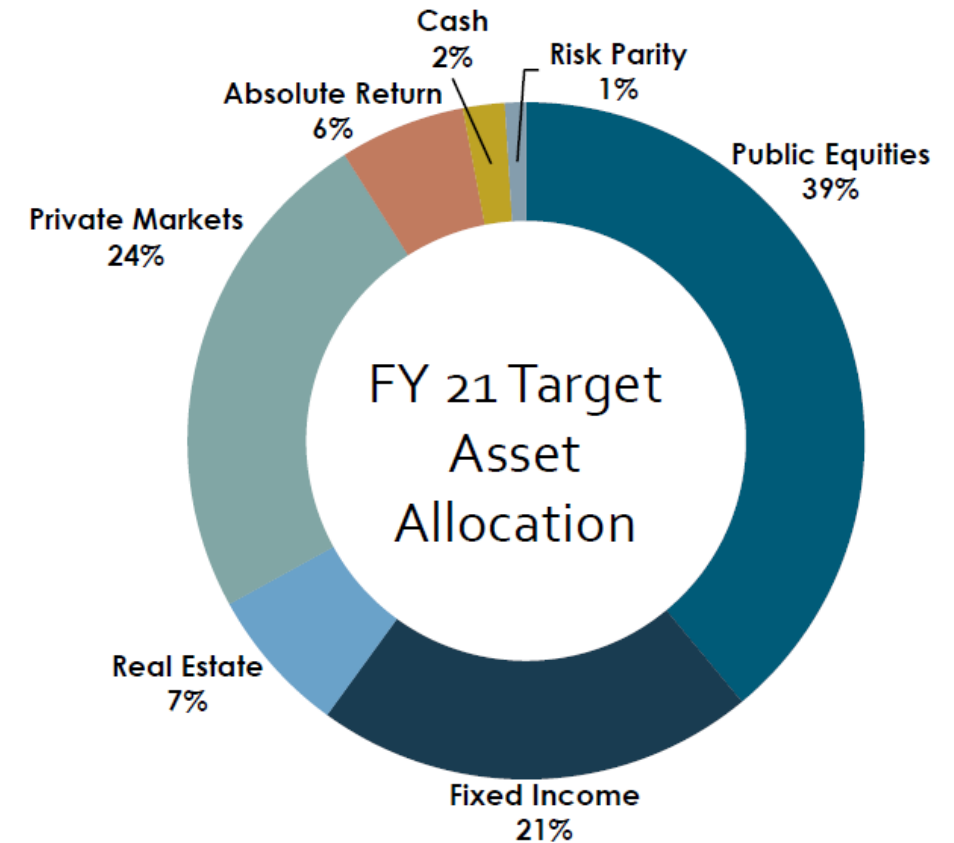
- ~5 years ago the external fund-of-funds program was brought in-house.

## Cash

- Internally managed

## Risk Parity

- Externally managed





# Alaska Permanent Fund Corporation: Internal Vs External

- Public Markets - APFC investment staff directly buys and sells the publicly traded securities.
- Private Markets - APFC investment staff directly conduct the investment and legal due diligence for the fund or investment and make the decision to invest.

## Pros

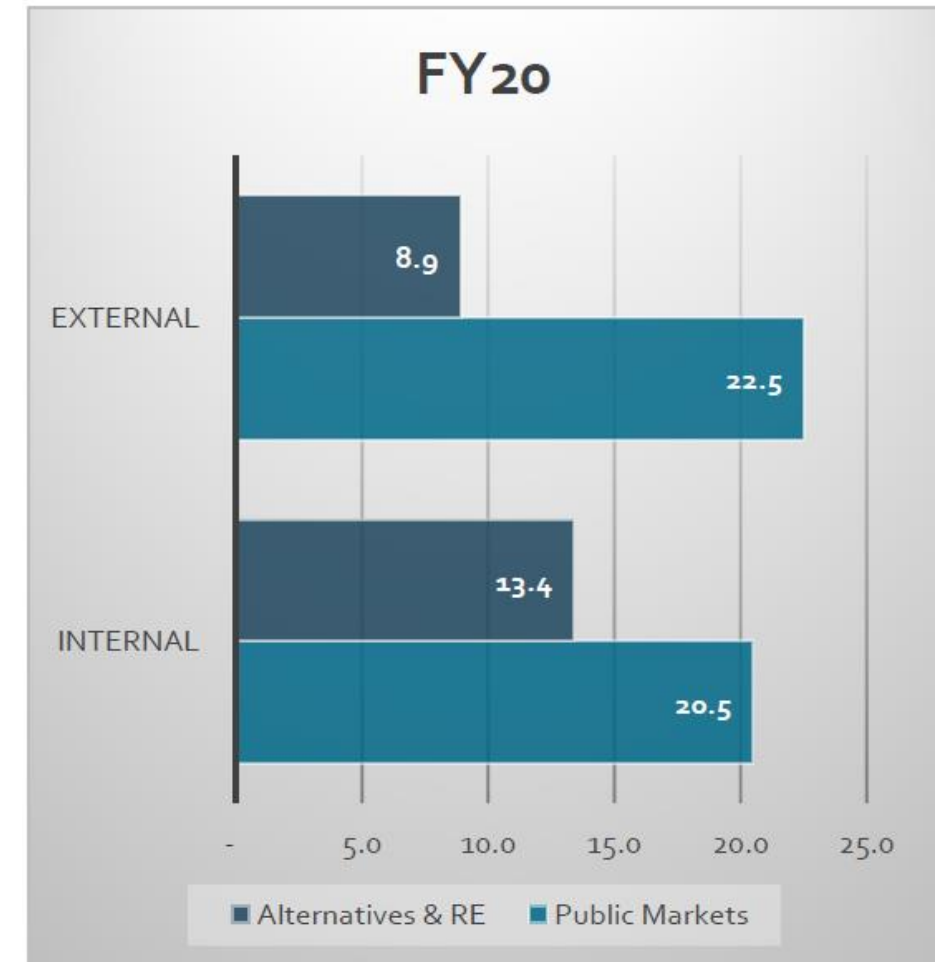
- Internal management provides for better alignment for enacting the board's asset allocation which is designed to achieve a long term return of 5% plus CPI while taking the minimum amount of risk.
- Lower cost - any of the activities that are currently outsourced have the potential to come in-house, thereby reducing the layer of fees paid to outside parties.

## Cons

- Ability to attract talent is difficult given our budget constraints.



Total FY20  
52% Internal 48% External





# Alaska Permanent Fund Corporation: Fees

- FY2021 As of December 31, 2020

## *Investment Management Fees*

	Paid From Investments	Paid from Investment Management Allocation	Paid from Operations Allocation	Total
Public Equity	922,000	27,287,000	676,000	28,885,000
Fixed Income	142,000	5,117,000	1,819,000	7,078,000
Absolute Return	27,120,000	65,000	153,000	27,338,000
Risk Parity	1,202,000	256,000	38,000	1,496,000
Total Fund Cash	0	48,000	115,000	163,000
Private Equity & Special Opps	64,325,000	10,903,000	1,236,000	76,464,000
Infrastructure & Private Income	31,816,000	1,324,000	792,000	33,932,000
Real Estate	17,289,000	1,925,000	1,305,000	20,519,000
<b>Total Mgmt Fees by Source</b>	<b>142,816,000</b>	<b>46,925,000</b>	<b>6,134,000</b>	<b>195,875,000</b>
<b>Basis Points</b>	<b>20</b>	<b>6</b>	<b>1</b>	<b>27</b>

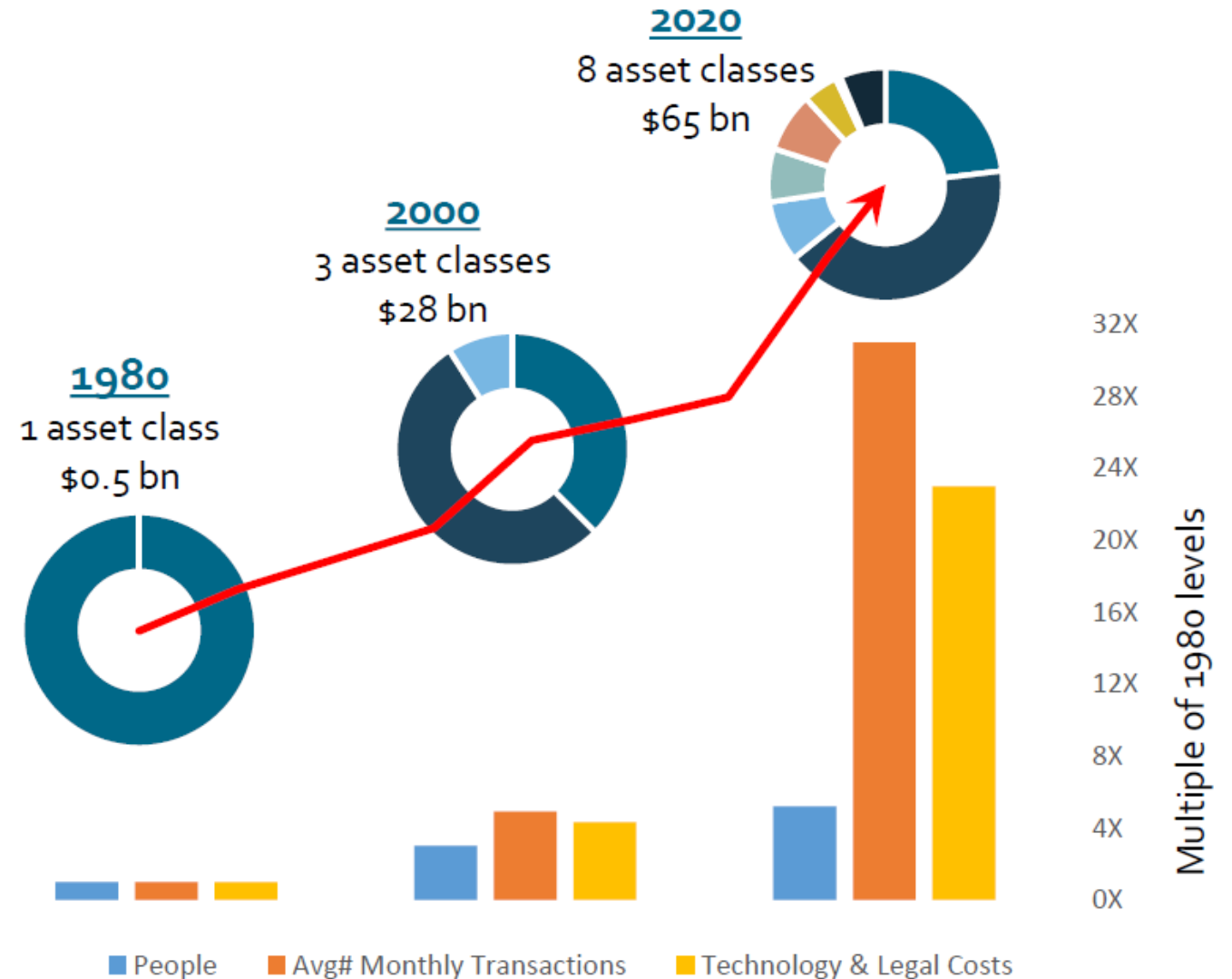
## *Profit Sharing/Performance*

	Paid From Investments	Paid from Investment Management Allocation	Paid from Operations Allocation	Total
Absolute Return	46,798,000	0	0	46,798,000
Private Equity & Special Opps	69,232,000	0	0	69,232,000
Infrastructure & Private Income	4,913,000	106,000	0	5,019,000
Real Estate	865,000	0	0	865,000
	<b>121,808,000</b>	<b>106,000</b>	<b>0</b>	<b>121,914,000</b>



# Alaska Permanent Fund Corporation: Alignment

- It is vital to recognize the transformation of the portfolio and align APFC to the future
- Types, complexity and velocity of risks have significantly increased, due to both internal transformation and external factors. The trend is likely to continue, if not accelerate.
- We should expect the Fund to reach the \$90 - \$100 billion mark in ~ 10 years
- Mid-FY2021 = \$71.8 billion
- The need to expand resources, mature and strengthen control frameworks, in line with growth, is real.



# **Alaska Permanent Fund Corporation: Incentive Compensation Plan**

- Based on APFC's adopted Incentive Compensation Plan, the only personnel eligible for incentive compensation are the Chief Investment Officer, Investment Officers, Analysts, and Associates. This group comprises 27 of our total APFC employee count of 58 full-time positions.
- Contingent upon funding and the Fund achieving its short-term and long-term policy benchmarks, the award of incentive compensation to individual Plan Participants equals 50% of senior professionals' salary, with lower maximum awards for junior staff from 15%-35%. The maximum incentive award to an individual employee shall not exceed 1.50 times an individual's previous year's total compensation. Investment staff salaries range from \$75,000 - \$375,000.
- At the maximum, the distribution for FY22 based on FY21 performance is estimated to be \$2,530,400. The Board is requesting a portion of that, \$890,00, based on what the actual distribution would have been for FY21 based on FY20 performance. If appropriated, the available funds may need to be pro-rated given current FY21 performance levels.
- The Board adopted a blended peer group comprised of 75% public fund and 25% private fund. APFC is inherently public in nature. However, much of the investment goal is driven by "endowment-like" mandates.
- McLagan, a leading compensation consultant, reviewed the competitiveness of APFC's compensation program in 2017 and work is currently underway for an updated review. Based on the 2017 study, APFC's salaries are mainstream while total cash compensation is positioned well below peers.

# Alaska Permanent Fund Corporation: Return on Investment

	Request	FY20 Statutory Net Income	FY21 To Date Statutory Net Income
	FY2022	\$3,105,953,000 avg. \$12.3 million per day *	\$3,675,800,000 avg. \$14.5 million per day *
Operating	\$18,801,700	1.5 days	1.3 days
Investment Management	\$133,039,100	10.8 days	9.2 days
<b>Total Appropriation</b>	<b>\$151,840,800</b>	<b>12.4 days</b>	<b>10.5 days</b>

\*Based on 253 active trading days.

# Department Wide: Staffing Update

					2017	2018	2019	2020					
Department Total					15%	23%	18%	22%					
Turned Over					78	123	95	111					
No Turnover					444	410	430	405					
					2017	2018	2019	2020					
					16%	23%	10%	18%					
Tax Division					17	25	10	17	Administrative Services				
Turned Over					91	83	95	80	Turned Over				
No Turnover					7%	11%	7%	22%	No Turnover				
Treasury Division					3	5	3	9	Commissioner's Office				
Turned Over					41	39	41	32	Turned Over				
No Turnover					25%	0%	0%	0%	No Turnover				
Unclaimed Property					1	0	0	0	Criminal Investigations Unit				
Turned Over					3	3	3	4	Turned Over				
No Turnover					22%	29%	25%	11%	No Turnover				
Permanent Fund Dividend Division					17	22	18	7	AMBBA Operations				
Turned Over					60	55	55	58	Turned Over				
No Turnover					18%	22%	0%	0%	No Turnover				
Mental Health Trust Operations					3	4	0	0	APFC Operations				
Turned Over					14	14	18	18	Turned Over				
No Turnover					0%	0%	0%	33%	No Turnover				
Long Term Care Ombudsman Office					0	0	0	2	Child Support Services Division				
Turned Over					6	6	6	4	Turned Over				
No Turnover									No Turnover				

# Department Wide: Staffing Update – Most Commonly Vacated PCNs

Job Class	Jobs Vacated - 4 Years	Office			
		Outcome	Assistant II	CSS1	CSS2 PFD Tech II
Office Assistant II	66	Promoted to CSS I	5	0	0
Child Support Specialist I	59	Promoted to CSS II	0	7	0
Child Support Specialist II	21	Promoted to CSS III	0	0	3
PFD Technician II	19	No Longer in State Service	6	8	4
Accounting Technician I	16	Lateral Transfer to another CSSD Section	3	8	3
Accounting Technician II	14	Promotional Opportunity in DOR	1	0	2
Accounting Technician III	11	Promotional Opportunity in Another Department	3	11	1
Accountant	10	<b>Total</b>	<b>18</b>	<b>34</b>	<b>13</b>
Office Assistant I	8				<b>5</b>
PFD Technician I	8				
Accountant III	6				
Accountant IV	6				
Administrative Assistant II	6				
Administrative Specialist	6				

## Promotional to Other Departments:

- **DPS – 1**
- **DOT – 1**
- **DFG – 1**
- **DEC – 2**
- **DOA – 2**
- **DEC – 1**
- **DCCED – 3**
- **DHSS – 4**
- **DOR – 6**

# **Department Wide: Telework Long Term View**

---

- **Monitoring Vaccination rates**
- **Draft Rotational Schedules**
- **Broader Discussions Happening at Statewide Level**
  - **Lease Space**
  - **Future of telework (permanent)**
  - **Out of State Policy**