

Department of Revenue
FY23 - Summary of Significant Budget Issues
(\$ thousands)

Item	Appropriation / Allocation	Description	Amount / Fund Source	Comment
1	Taxation and Treasury / Tax Division	Restore One-Time Fund Source Change to Utilize ARPA Revenue Replacement	Net Zero (\$10,000.0) Gen Fund (UGF) \$10,000.0 ARPA Rev R (UGF)	The Governor utilizes \$10 million of American Rescue Plan Act (ARPA) revenue replacement in this agency's budget, out of a total of \$375.4 million statewide. One of the allowable uses for the State's allocation from the Coronavirus State and Local Fiscal Recovery Fund (CSLFRF) within ARPA is replacing revenue lost due to the Covid-19 pandemic. This funding can be used for any cost of State government that is within the scope of normal government operations. To avoid distorting the budget, the funds used for revenue replacement are appropriated to the general fund, and a UGF tracking code (1271) is used for activities that fit the federal requirements, adding up to the total amount of revenue replaced. Since 1271 is just a UGF tracking code, there is no impact on the agency's operations. The fund change will be reversed in the FY24 Adjusted Base.
2	Taxation and Treasury / Treasury Division	Exempt Salary Increase	Total: \$870.4 \$174.1 Gen Fund (UGF) \$696.3 I/A Rcpts (Other)	<p>The Treasury Division manages \$50 billion on behalf of State entities. While continually exceeding benchmarks, Treasury has saved ~\$30 million per year through fee negotiation, increasing internal investment management, and portfolio restructuring. Treasury has recruitment and retention concerns, since uneven staffing could affect investment performance or force a return to external management, which is much more expensive. Investment professionals are in high demand, and employees can earn significantly higher salaries elsewhere. McLagan, a consulting firm specializing in financial services industry compensation, found Treasury's salaries to be at the 24th percentile of public pension funds. The compensation increases move staff to the 36th percentile.</p> <p>The compensation plan was implemented in the FY22 Management Plan, and the agency may take reductions elsewhere in the appropriation if the increment is denied.</p>
3	Taxation and Treasury / Treasury Division	Investment Management Resources	Total: \$250.0 \$50.0 Gen Fund (UGF) \$200.0 I/A Rcpts (Other)	<p>The Treasury Division is requesting new investment tools to improve efficiency and reduce reliance on external managers for developed markets. The additional software and tools include but are not limited to the following:</p> <ol style="list-style-type: none"> 1. Three additional Bloomberg licenses, with an approximate total cost of \$50.0-\$75.0 annually. The additional licenses would provide all Investment Officers direct access to a Bloomberg terminal. 2. Subscriptions to two additional products from Bloomberg: the Server API (~\$75.0) and the RECON function (~\$60.0). Both products would automate ad-hoc manual processes that are currently time-consuming and fallible. In addition, the RECON function would be necessary for establishing an internally managed developed markets strategy, which Treasury plans to do in order to save money on external manager fees. 3. In order to establish an internally managed developed markets strategy, Treasury also requires a

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3	Taxation and Treasury / Treasury Division	Investment Management Resources	Total: \$250.0 \$50.0 Gen Fund (UGF) \$200.0 I/A Rcpts (Other)	(continued) SEDOL license (~\$25.0). The SEDOL is an unique identification code for securities traded on the London Stock Exchange, and a license is required for data access. The license would also replace a complicated matching process Treasury currently uses to reconcile inconsistent identifiers used by various data sources for domestic markets.
4	Taxation and Treasury / Treasury Division	Payment Card Industry (PCI) Compliance	\$100.0 Gen Fund (UGF)	The Treasury Division has entered an agreement to reimburse the Office of Information Technology (OIT) to piggyback on OIT's existing contract with Structured Communication Systems, Inc. The intent is to bring Treasury into payment card processing compliance, ensuring security of public data and avoiding fines. Non-compliance can also potentially impact credit ratings.
5	Taxation and Treasury / Permanent Fund Dividend Division	Seasonal Dividend Application Scanning and Mail Sorting	\$72.0 PFD Fund (Other) 2 PPT Positions	Due to implementing new optical scanning software, the Permanent Fund Dividend Division's FY21 budget eliminated six seasonal Office Assistant positions with a \$527.6 decrement. The optical scanning software has shown higher than acceptable error rates, and Division staff have to manually review applications uploaded by the software. This unanticipated work has diverted Division resources from other tasks, leading to processing delays. This increment would add two permanent part-time Office Assistant I positions to perform the reviews.
6	Taxation and Treasury / Permanent Fund Dividend Division	Dividend Applicant Identity Verification	\$2,000.0 PFD Fund (Other)	The Permanent Fund Dividend (PFD) Division has seen an increase in suspicious activity, such as duplicate applications and payment receiving methods changing immediately before PFDs are distributed. Given recent attacks on other State systems, the Division is concerned about the possibility of large-scale fraud. The Division proposes to contract with a third party to screen identities for all PFD applicants. Appropriations from the PFD Fund, such as this increment, are deductions from the PFD distribution.
7	Alaska Housing Finance Corporation / AHFC Operations	Foster Youth to Independence and Emergency Housing Voucher Programs	\$3,200.0 Fed Rcpts (Fed)	The Alaska Housing Finance Corporation is requesting receipt authority for two Federal grant programs administered by the U.S. Department of Housing and Urban Development. The Foster Youth to Independence program provides rental assistance to young adults aging out of the foster care system. The Emergency Housing Voucher Program provides housing to families who are homeless, at risk of homelessness, or are fleeing a domestic violence situation.
8	Alaska Permanent Fund Corporation / APFC Operations	Investment Staff Incentive Compensation Program	\$710.0 PF Gross (Other)	In FY22, the legislature approved a \$890.0 increment to partially fund a performance based bonus program for investment staff. Based on FY21 year-end performance, the bonus formula would have paid out approximately \$1.6 million in FY22. Since funding was insufficient, staff bonuses were prorated.

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8	Alaska Permanent Fund Corporation / APFC Operations	Investment Staff Incentive Compensation Program	\$710.0 PF Gross (Other)	(continued) The FY23 proposed increment would expand the program to \$1,600.0, which would be distributed based on FY22 year-end performance. If the calculated distribution based on FY22 performance exceeds this amount, staff bonuses would be prorated to keep the total distribution at \$1,600.0. If the calculated distribution is less than \$1,600.0, the entire amount available would not be distributed, and the undistributed portion would remain in the Earnings Reserve Account.
9	Alaska Permanent Fund Corporation / APFC Operations	Merit and Cost of Living Adjustment	\$438.4 PF Gross (Other)	APFC is requesting this increment to increase wages for operational staff by 3% and investment staff by 4%. Unlike most State employees, APFC staff do not receive annual merit step increases. This increment is intended to acknowledge employee performance in the absence of step increases, as well as to account for inflation.
10	Alaska Permanent Fund Corporation / APFC Operations	Staffing Support for Front and Back Office	\$1,572.6 PF Gross (Other) 7 PFT Positions	This increment would fund seven positions, five investment staff and two operational, as follows: 1. Three Portfolio Managers and one Data Analyst would be added to the Alternative Investments team, which focuses on non-conventional strategies such as private equity. The additional staff will allow for greater subsector specialization, and a growing portfolio. The total value of alternative investments was \$25.6 billion at the end of FY22, and APFC hopes to grow the portfolio to \$40 billion in four years. 2. A Senior Investment Analyst would be added to the Real Estate team due to the increasing size and complexity of the portfolio. APFC anticipates the Real Estate portfolio will double in the next three to five years. 3. One IT Security Specialist and one IT Project Manager would be added. The added IT staff is to support the growing complexity of APFC's overall investment strategies.
11	Alaska Permanent Fund Corporation / APFC Investment Management Fees	Forecasted Investment Management Fees and Supporting Investment Systems	\$2,828.9 PF Gross (Other)	\$2,091.4 of the increment is intended for forecasted external manager fees. Two types of external manager fees are included in the forecast, base and incentive. Base fees are related to market performance and are paid in alignment with the fiscal year. These fee projections are developed using the management contract terms in conjunction with Callan's market assumptions. Incentive fees are contracted and paid based on managers outperforming their relative benchmark on a calendar year basis. The methodology for forecasting incentive fees has been updated and is now based on basis points paid by manager in FY21 unless the historical average was still an accurate representation.

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11	Alaska Permanent Fund Corporation / APFC Investment Management Fees	Forecasted Investment Management Fees and Supporting Investment Systems	\$2,828.9 PF Gross (Other)	<p>(continued)</p> <p>\$810.8 would be added to support investment systems. As a result of FY21 performance, more funding is required for contracts based on total assets under management. The increment would also fund systems upgrades directed at risk management and furthering analytical capabilities for private markets.</p> <p>The proposed budget reduces investment due diligence funding by \$373.3 due to lower anticipated legal fees specific to investments. It also includes an additional \$300.0 for custody fees associated with outsourcing of new collateral margining requirements, bringing the total increment to \$2,828.9.</p>
12	Agency Unallocated / Unallocated Rates Adjustment	FY2023 Office of Information Technology Mainframe Increases	Total: (\$852.5) (\$590.9) Fed Rcpts (Fed) (\$259.9) Gen Fund (UGF) (\$1.7) GF/Prgm (DGF)	<p>This transaction was made in error, as the Department already accounted for the move away from the Office of Information Technology Mainframe in the FY22 budget with a \$1,131.3 decrement. OMB has indicated this transaction will be removed in the Governor's amended budget release.</p>