

**1/23/12**  
**BUDGET**  
**OVERVIEW:**  
**DEPARTMENT**  
**OF REVENUE**

<TARGET><BILL></BILL><SUBJECT>1-23-12 BUDGET OVERVIEW  
DEPARTMENT OF  
REVENUE</SUBJECT><COMM>HFIN27</COMM></TARGET>

# Alaska Department of Revenue

Budget Overview  
House Finance Committee

Commissioner Bryan Butcher

Monday, January 23, 2012



# Alaska Department of Revenue

*The mission of the Department of Revenue is to collect, distribute and invest funds for public purposes*

## Major Programs

### Tax Division

*Enforces the tax laws of the state;  
collects and accounts for tax revenues*

### Treasury Division

*Manages and invests state funds*

### Permanent Fund Dividend Division

*Administers the PFD program and  
distributes the annual dividend payment to eligible Alaskans*

### Child Support Services Division

*Collects and distributes child support to custodial parents*

# Results in FY2011

- Tax Division: 98.5% of known taxpayers filed tax returns and made their payments timely.
- Treasury: Returns for 9 of the 10 funds under the fiduciary responsibility of the Commissioner of Revenue exceeded the applicable 1-year target returns.
- Permanent Fund Dividend Division: Of the 144,056 eligibility cases opened in 2011, 88% were reviewed by September 15 and either closed, resolved, or awaiting information from the applicant.
- Child Support: Collections of child support increased 3.53%, resulting in \$3.3 million more in disbursements

# Authorities and Corporations

- Alaska Housing Finance Corporation  
*To provide Alaskans access to safe, quality and affordable housing.*
- Alaska Permanent Fund Corporation  
*To maximize the value of the Permanent Fund within return objectives.*
- Alaska Mental Health Trust Authority  
*To administer the Alaska Mental Health Trust as a perpetual trust and to ensure a comprehensive and integrated mental health program to improve the lives of beneficiaries.*
- Alaska Municipal Bond Bank Authority  
*To provide municipalities with financing options for capital projects.*
- Alaska Natural Gas Development Authority  
*Finance, design construct, maintain and/or own all or part of a pipeline system to bring natural gas to market and maximize the benefits to Alaska and Alaskans.*

# 7-Year Look Back at Department Activities

## **Revenues collected by the Tax Division increased 190%:**

- FY05                \$1,951,247,500
- FY11                \$5,660,500,000

## **Funds under management by the Treasury Division increased 101%:**

- 12/31/2004    \$20,448,418,000
- 12/31/2011    \$41,062,345,000

## **Number of Permanent Fund Dividends paid to Alaskans increased 8%:**

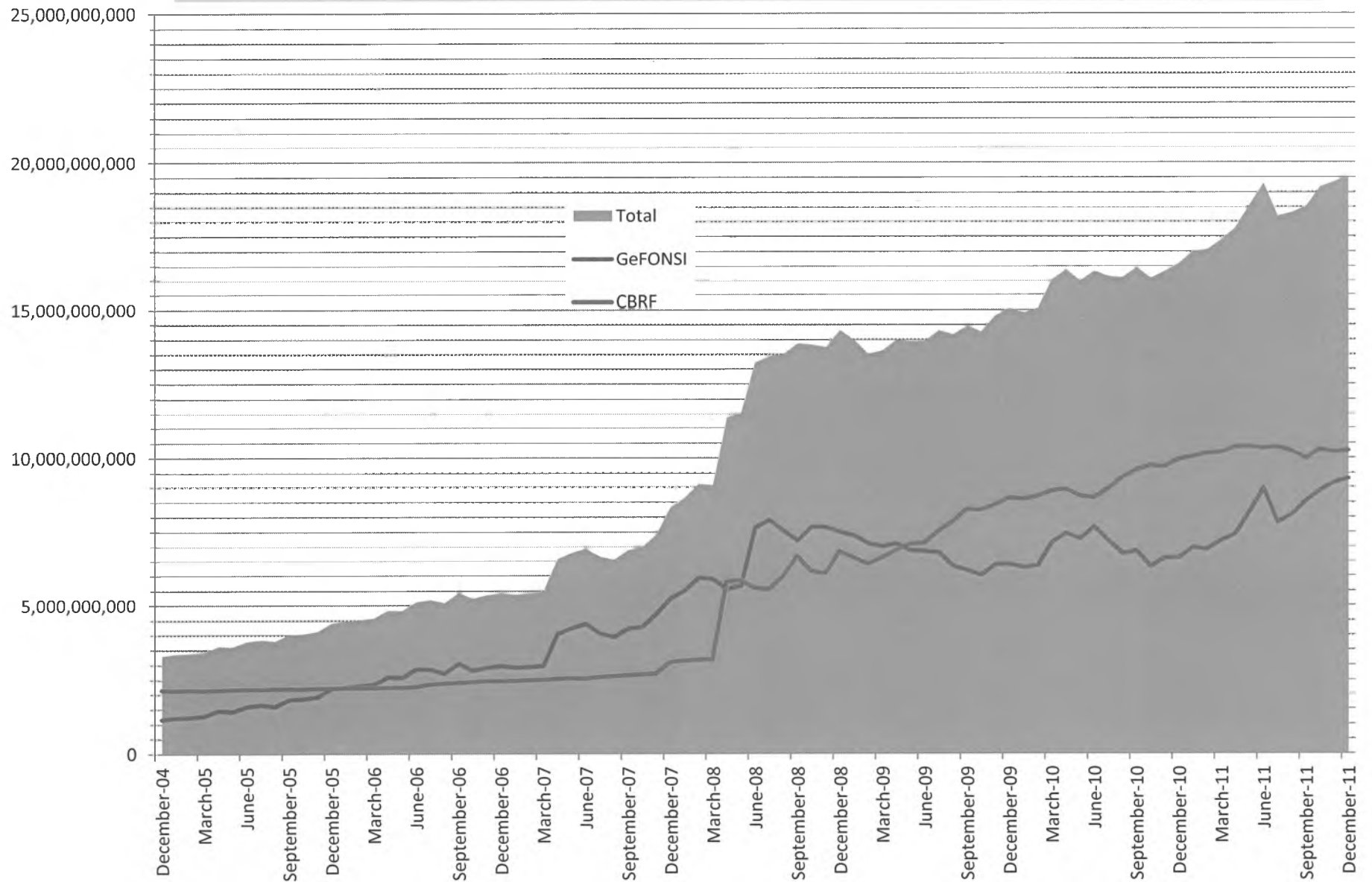
- FY05                599,243
- FY12                647,549 (total estimated for 2011 dividend)

## **Number of child support cases increased 4% while the amount of child support distributed to custodial parents increased 15%:**

- FFY05            45,259 cases        \$98,644,813 disbursed
- FYF11            47,044 cases        \$113,330,053 disbursed

# Growth in State Funds 2005- 2012

## CBRF and GEFONSI



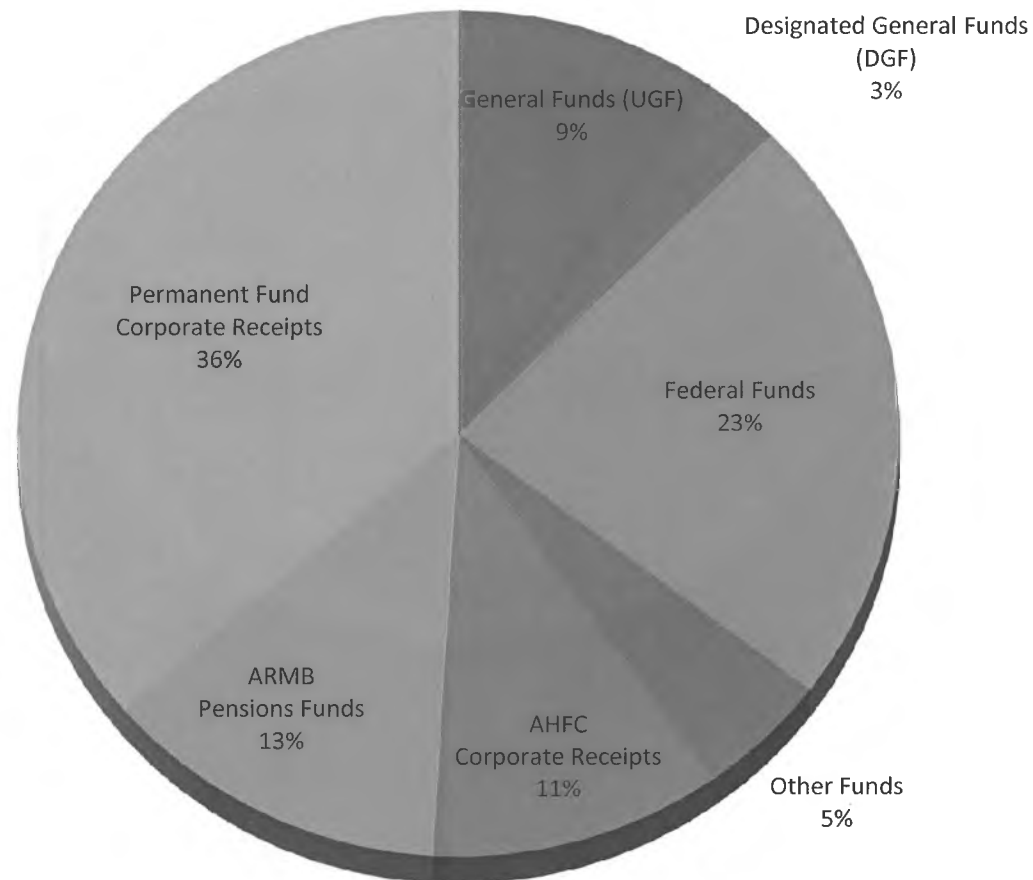
# Comparison of Department's Growth to Statewide Growth

- Department average annual growth rate from FY05 to FY13 – 6.6%
- Statewide average annual growth rate from FY05 to FY13 – 7.8%
- Department of Revenue GF budget 0.83% of total state GF budget

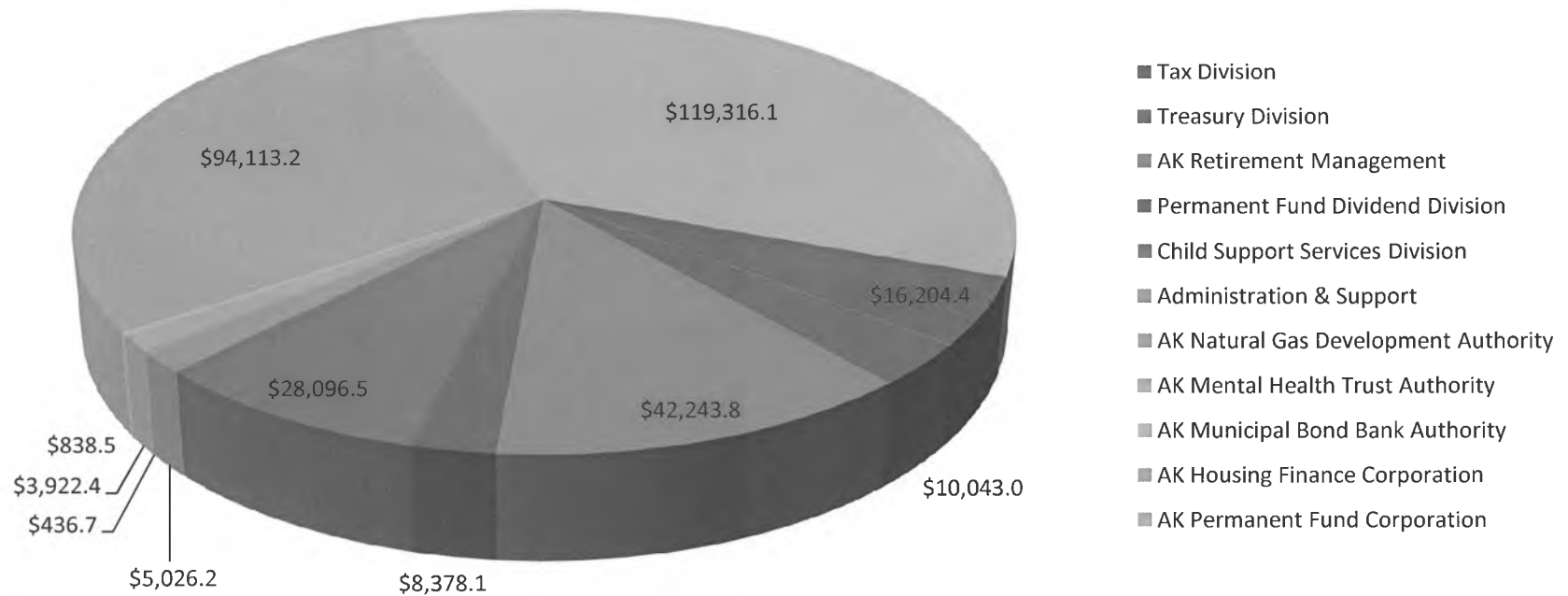
Revenue GF - State GF



# Department of Revenue FY2013 Governor's Budget by Fund Source



# Department of Revenue FY2013 Governor's Budget by Program



## FY 12 Review

Two major initiatives were funded in FY 12

- Establish Criminal Investigations Unit  
1,600.0 I/A
- Tax Revenue Management System Capital Funding  
34,700.0 GF

# Tax Revenue Management System (TRMS)

- \$34.7mm appropriated last session
- 3<sup>rd</sup> party project manager brought on board summer 2011 to assist with RFP to select contractor
- Planning to release RFP in late Feb/early March 2012
- Implementation Contractor on board August 2012
- We will be implementing a Commercial Off-the-Shelf (COTS) system
- Phased implementation of DOR Tax Division's 22 tax systems
- 2 to 5 year timeline for full implementation

# Key FY 13 Budget changes not in base

Eliminated 8 permanent positions/added 5 project positions

- Long Term Care Ombudsman 25.9 GF/MH  
reduce vacancy, develop online Learning Management System
- Alaska Perm Fund Corp (APFC) 340.0 PF earnings  
provide performance based salary increases, increased due diligence
- Treasury Division 399.4 GF  
increased Constitutional Budget Reserve Management costs
- Treasury Division 80.4 DGF  
increased Power Cost Equalization Endowment Management costs
- APFC 12,900.0 PF earnings  
APFC Custody, Investment Management and Third Party Fiduciary Fees

# FY 13 Capital

- Child Support Case Management Modernization 1080.0 Fed/557.0 GF
- Child Support Computer Replacement 134.6 Fed/69.4 GF
- Child Support Interactive Voice Response System 151.8 Fed/78.2 GF
- Permanent Fund Corp Office Wiring 50.0 PF earnings
- Alaska Housing Finance Corp Multiple Projects  
109,000.0 GF/850.0 Other/11,800 Fed
  - \$31.5 million Weatherization
  - \$21 million Alaska Gasline Development Corp
  - \$20 million Home Energy Rebate
  - \$8 million Homeless Assistance Program
  - \$7 million Supplemental Housing Development Program
  - \$6 million Teacher, Health, Public Safety and VPSO Housing Loans
  - \$4.5 million Senior Citizen Housing Development

# Department of Revenue Ten Year Expenditure Projection

- The mission of the Department of Revenue is to collect, distribute and invest funds for public purposes. The department achieves its mission through the efforts of four core agencies, two corporate agencies, and four boards and authorities.
- The following document provides an estimate of the department's budget changes over the next ten years. Projecting budgets ten years into the future for the various programs and funding sources of the Department of Revenue is a challenge. Changes to the department's programs are not anticipated but are sometimes affected by legislative action. As a result, the assumptions and numbers that make up the plan will continue to change as new information becomes available.

## Baseline Scenario Assumptions for DOR

- The department's operations costs were increased by using a 2.75% annual inflation factor. The inflation calculation does not include personal services or investment management fees.
- External custody and investment management fees were calculated using anticipated rates applied to estimated future market values.

## Baseline Scenario Assumptions for AHFC

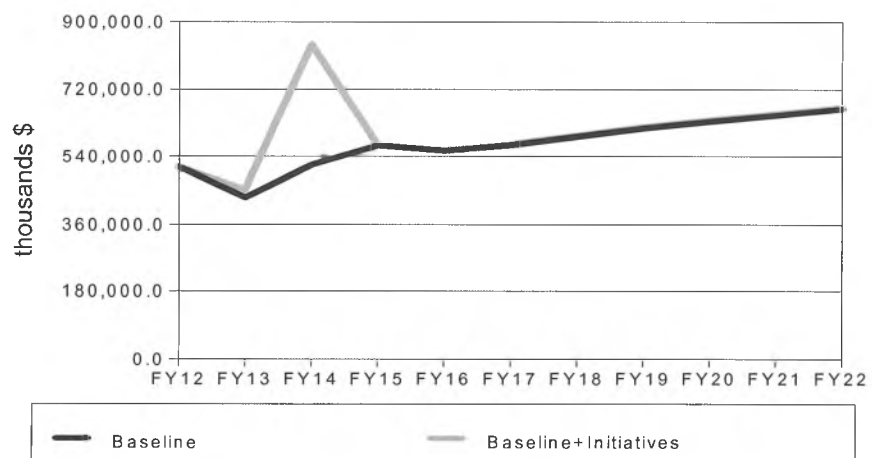
- Alaska Housing Finance Corporation's (AHFC) operations costs were increased by using a 2.75% annual inflation factor. The inflation calculation does not include personal services or investment management fees.
- The Capital budget assumes that the Corporation's earnings will resume to pre-recession levels.
- The Weatherization program assumes the State will contribute \$100 million annually to maintain the current program.

## Baseline Scenario Assumptions for APFC

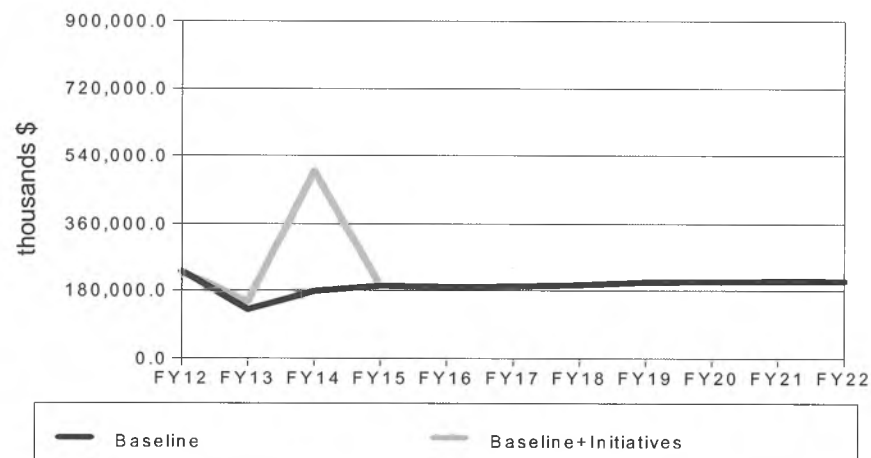
- The Alaska Permanent Fund (APF) value was grown using median capital market expectations.
- External investment manager fees were calculated using the projected value of the assets under management multiplied by the projected cost of 26 bps.
- Alaska Permanent Fund Corporation's (APFC) operations costs were grown by 2.75% (inflation). APFC operations costs (personal services, travel, contractual services, commodities, and equipment) are correlated to the growth of the Fund's investment holdings.

# 10 Year Projection Graphs

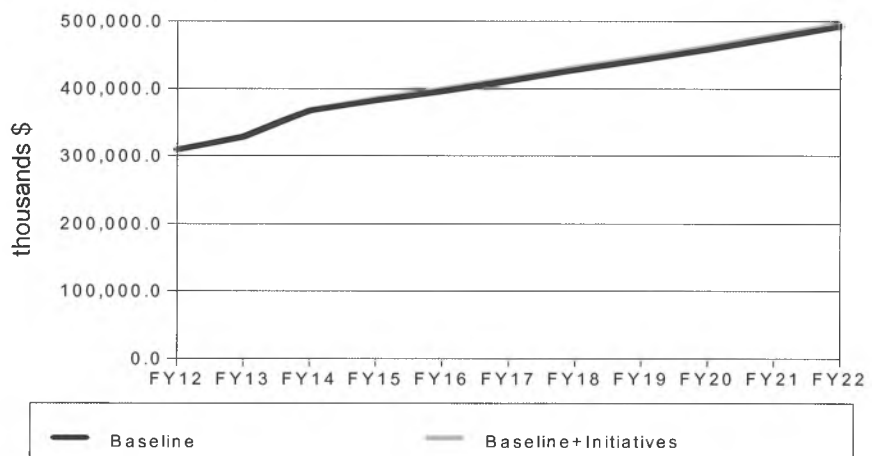
### All Funds



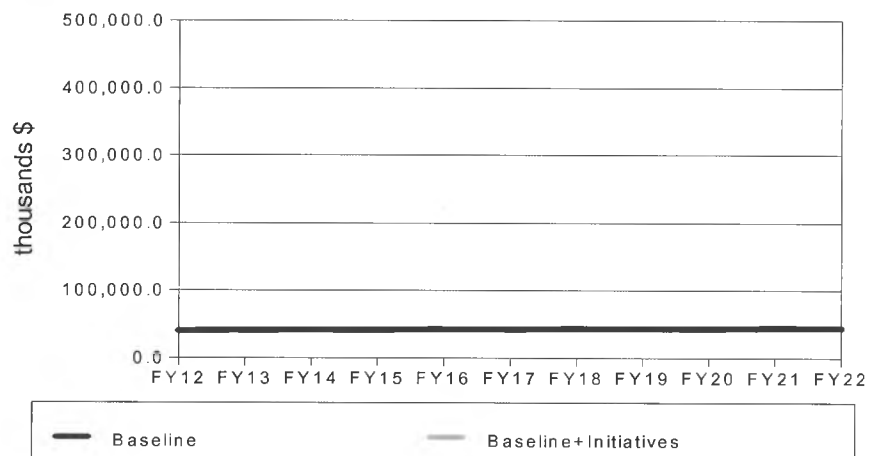
### General Funds



### Operating All Funds



### Operating General Funds



## Wrap-up

- The Tax Division is actively engaged in improving its information system to insure efficient tax administration and timely access to information necessary for assisting with tax policy decisions contemplated by the legislature.
- The Department of Revenue is the state's largest investment manager. We pride ourselves in prudent investment practices for a variety of programs and needs and achieving and maintaining the highest credit rating and thus the lowest cost of borrowing.
- Our customer service divisions of PFDD and CSSD have continuously improved their business practices in order to provide increased service levels without increasing staff.
- Our corporations receive national recognition for their exemplary program management and fiscal solvency.



**Alaska Permanent Fund Corporation**

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**MEMORANDUM**

**TO:** Representative Bill Thomas

**FROM:** Mike Burns

**DATE:** January 25, 2012

**SUBJECT:** Review of HB 194

In the House Finance Committee meeting on Monday, January 23, Representative Doogan asked the Alaska Permanent Fund Corporation to prepare an analysis of HB 194, which would place \$10 billion in the principal of the Alaska Permanent Fund. Specifically he asked the APFC to outline any potential problems that would result from this deposit and to propose accompanying solutions.

In our review, we did not see any problems that would result specifically from depositing \$10 billion directly into the principal of the Fund at one time. What we do see are two issues that will eventually come before the Legislature, and may be hastened by this deposit.

**1. Inflation proofing**

The value of the Fund's principal has been determined to be the sum of all deposits to date: mineral royalty deposits, inflation proofing and special appropriations. While the total value of the Fund moves with the markets, the principal can only grow in value. And as the principal grows in value, the statutorily required inflation proofing transfer for the most part also grows in value. Inflation varies from year to year, but with the underlying multiplier for principal growing each year, inflation proofing is projected to show a general growth trend as well.

What this means is that in certain years, a perfect storm of circumstances could create an earnings reserve that is small enough to be cleaned out by even a partial payment of the inflation proofing transfer. This would impact the ability to pay the full calculated amount of the following year's dividend, and perhaps impact dividends for several years to come. In recent years, the Permanent Fund has come close to this situation, but market upswings have saved the day. This may not always be the case.

The solution? Although both the dividend and the inflation proofing transfer are mandated in state law, they also require Legislative appropriation through the operating budget bill. The Legislature would have to make decisions regarding which appropriations to make if this situation were to arise. As mentioned above, this is a problem that the Legislature may have to face even without the \$10 billion deposit, but it could happen sooner as a result.

## **2. Staffing**

There is not a direct correlation between Fund size and the number of staff needed to prudently manage and account for its investments, but it is anticipated that some growth in staff will be necessary as the Fund increases in value. To some degree, growth in the size of the Fund will require more staff as the underlying number of investments within certain asset classes becomes greater and requires more oversight. And as the Fund grows, the Trustees will need to assess the overall diversification of the portfolio, potentially adding new asset classes that will require additional investment and accounting staff. And while a steady growth of \$10 billion over a number of years might be absorbed, a single deposit could create unforeseen opportunities and challenges that would require additional internal support.

This growth in staff is not easy to quantify and will depend on a number of factors in addition to the simple total value of the Fund. But as with the inflation proofing issue, immediately growing the Fund by \$10 billion may bring some of these staffing requests sooner rather than later.

This is not a problem, simply an item that should be in the back of the Legislature's mind: over time the APFC will need more staff to invest a growing Fund.