

SCOMM

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**State of Alaska
Department of Revenue**

**Presentation to the
Long Range Financial Planning
Commission**

**The Fiscal Gap
and
New Revenue Sources**

Commissioner Wilson Condon

August 25, 1995

Nominal vs. Real Dollars

**We use nominal dollars
(dollars of the day) in our
analyses.**

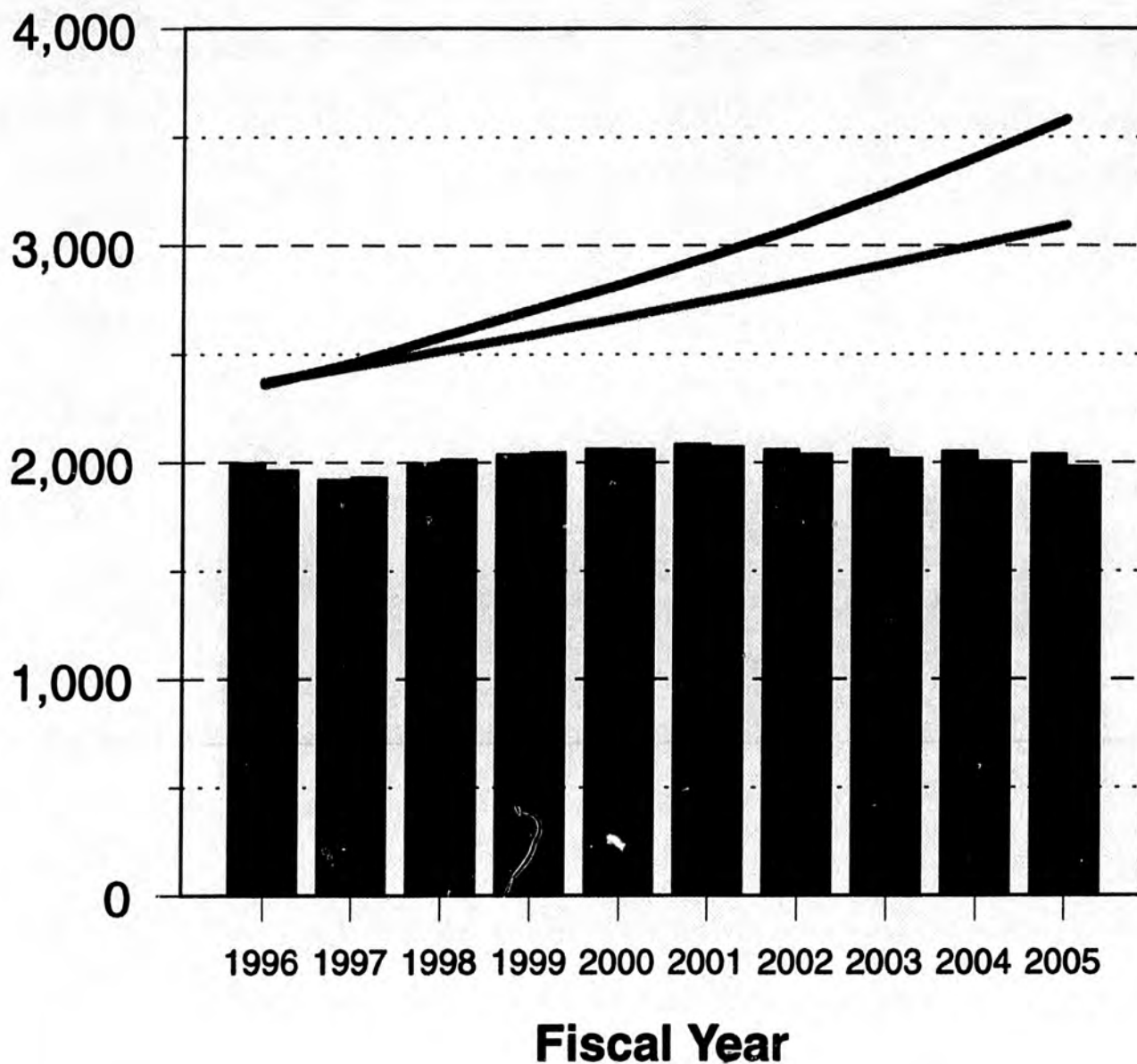
**We can provide the
Commission this set of
analyses in real 1996 dollars
if requested.**

NOTE: ISER Fiscal Policy Paper Number 9 observes that readers are often confused by "real" dollars.

The Fiscal Gap

Revenues and Expenditures

billion \$



DOR Revenues



LRFPC Revenues



FY96 Expenditures w/ 3% growth



LRFPC Expenditures



Source: Draft LRFPC Report; DOR Spring 1995 Revenue Forecast; OMB FY96 Spending Plan; DOR expenditure projection

Ten Year Budget Gap: Base Case

Annual General Fund Gap

\$715 million + Capital Budget

Assumptions for Key Variables:

- ▶ **Expenditure Growth:** 3% per year
- ▶ **ANS Oil Prices (at destination):** \$16.50/bbl in 1995 dollars (1987-1995 average [less the Gulf War price run up] \$10/bbl in nominal dollars)
- ▶ **Production Rate:** Department of Revenue Mid-Case Projection

Source: DOR Spring 1995 Revenue Forecast; OMB FY96 Spending Plan; DOR expenditure projection

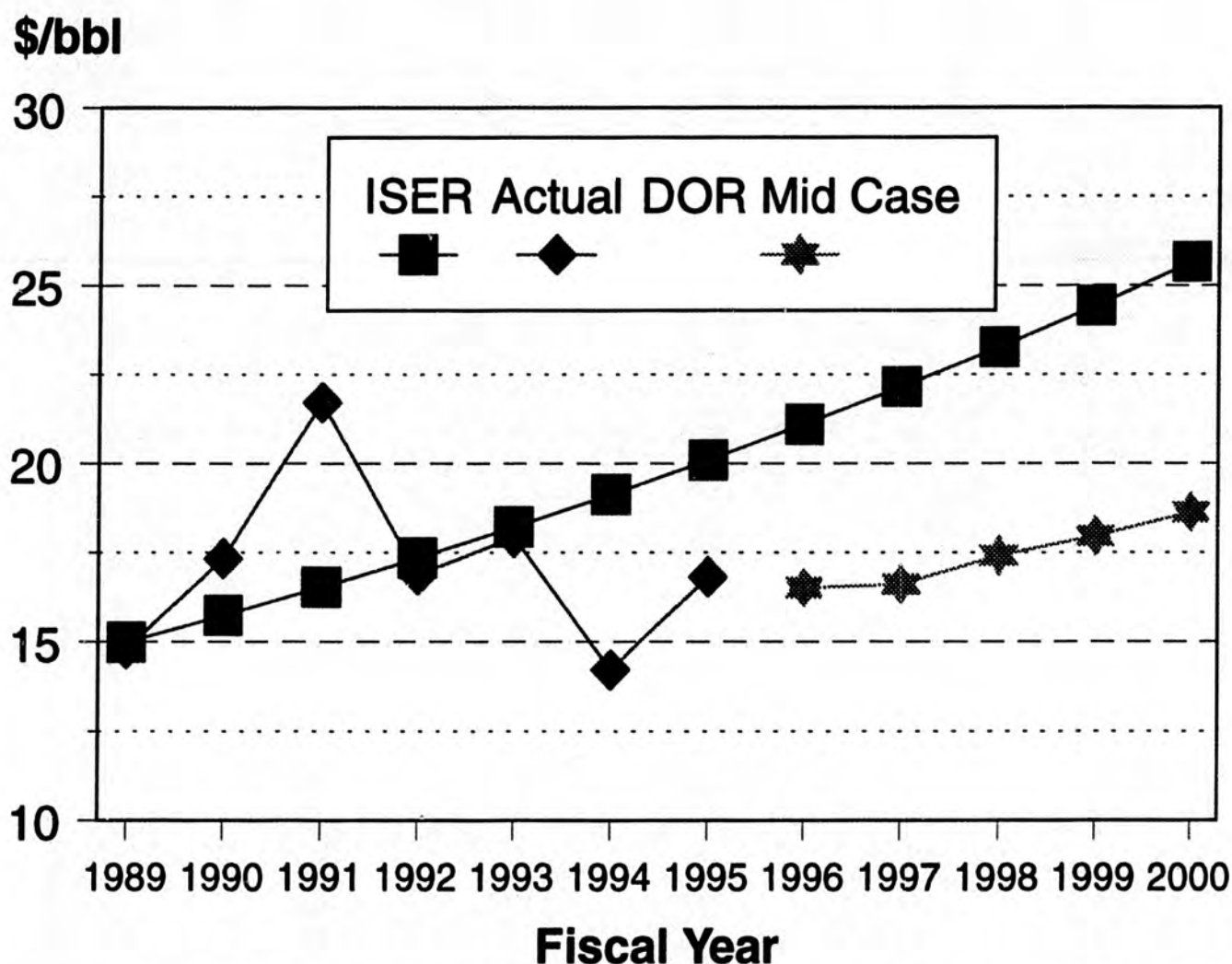
Revisiting the Fiscal Gap: Are we crying wolf?

- ▶ In 1989, ISER projected a gap starting in FY89 and growing to \$1 billion by FY94. They predicted a crash landing in FY92.

**Why are we still flying?
Is a crash inevitable?**

Revisiting the Fiscal Gap: Oil Prices

- ▶ ANS prices from FY89-95 averaged \$17.11/bbl. ISER projected \$17.44/bbl.
- ▶ DOR estimates ANS to average \$17.40/bbl in the next 5 years.

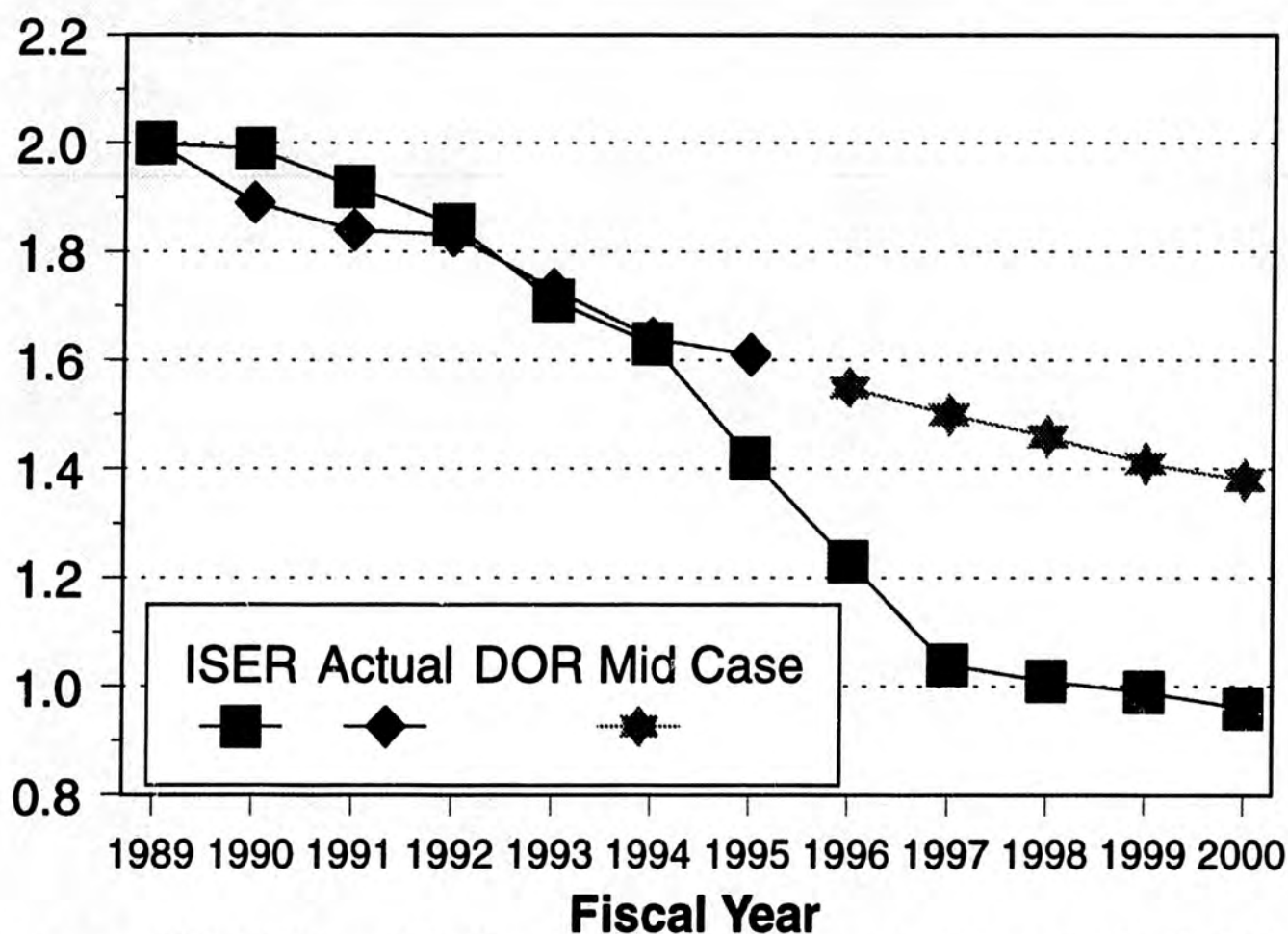


Source: ISER Fiscal Policy Paper Number 1, August 1989; DOR Spring 1995 Revenue Forecast

Revisiting the Fiscal Gap: Production Volumes

- ▶ ISER accurately projected average oil production from FY89-95 at 1.79 mbpd.
- ▶ ISER projected a more rapid decline than DOR currently projects for FY96-00.

million bpd

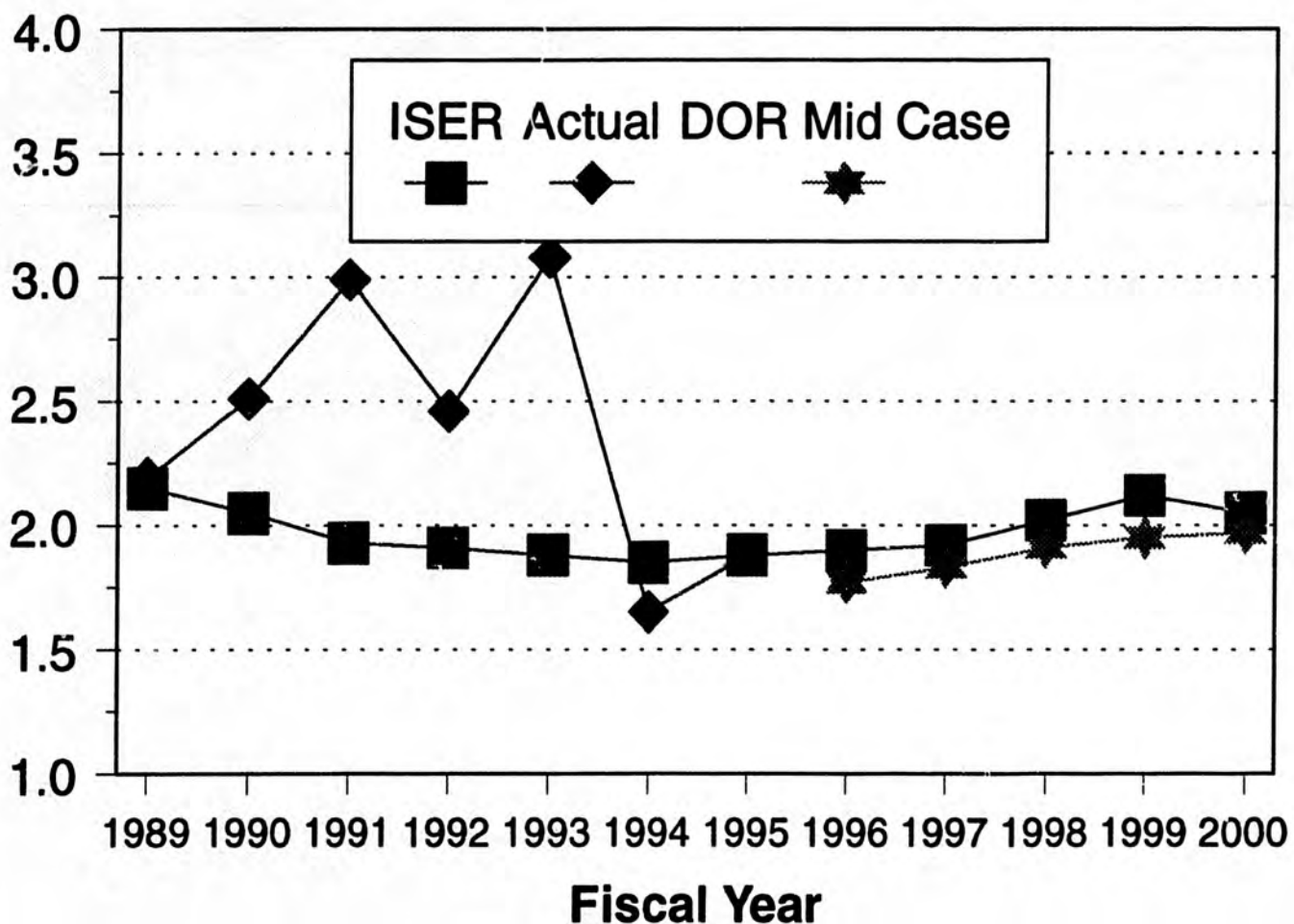


Source: ISER Fiscal Policy Paper Number 1, August 1989; DOR Spring 1995 Revenue Forecast

Revisiting the Fiscal Gap: Revenues

- ▶ ISER underpredicted revenues for FY90-93.
- ▶ ISER's prediction for FY96-00 is slightly above DOR's prediction.

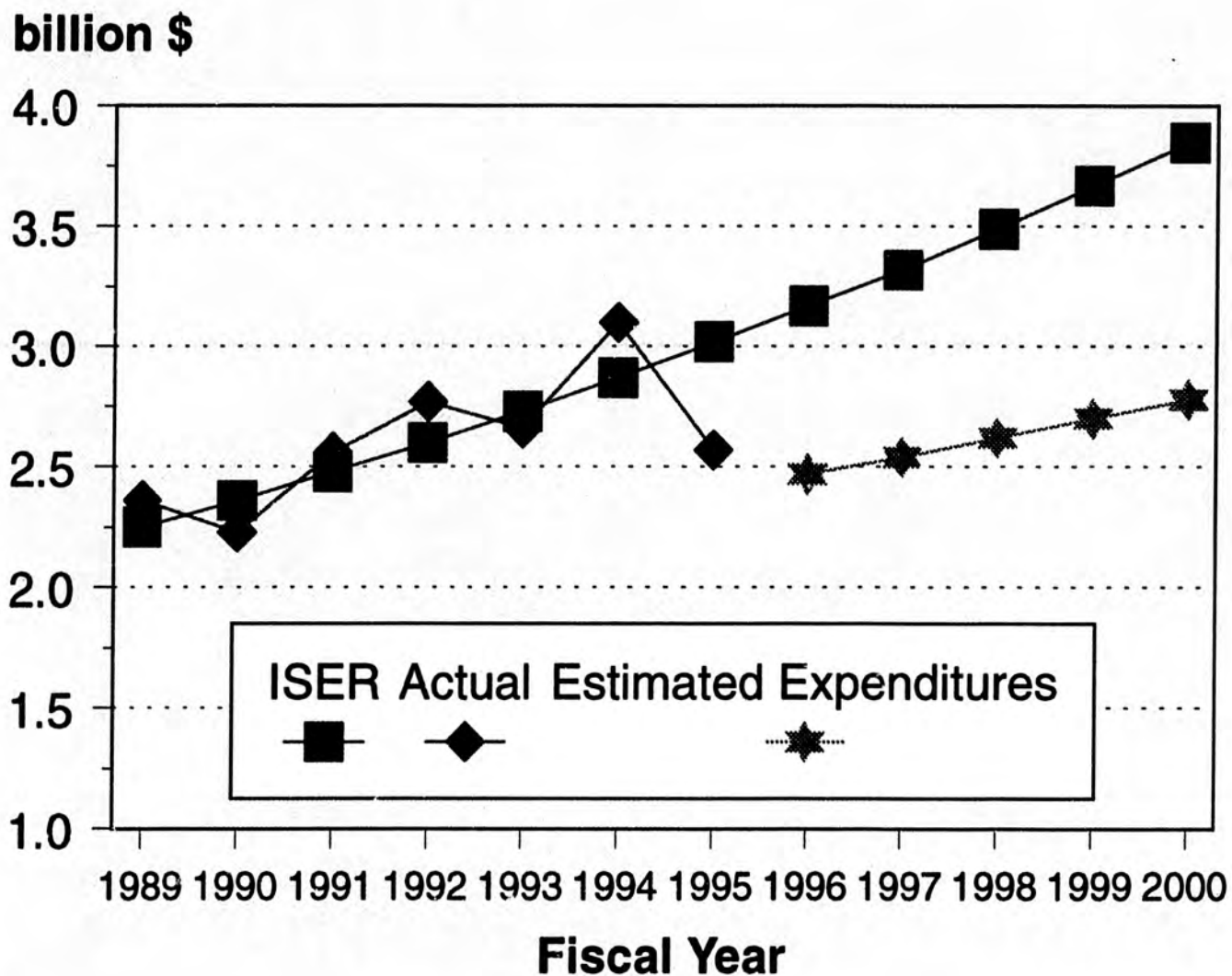
billion \$



Source: ISER Fiscal Policy Paper Number 1, August 1989; DOR Spring 1995 Revenue Forecast

Revisiting the Fiscal Gap: Expenditures

- ISER accurately predicted expenditure growth from FY89-92. Beginning in FY94, state general fund expenditures declined.



Source: ISER Fiscal Policy Papers Number 1 and 9, August 1989 and May 1994; OMB FY96 Spending Plan; DOR expenditure projection

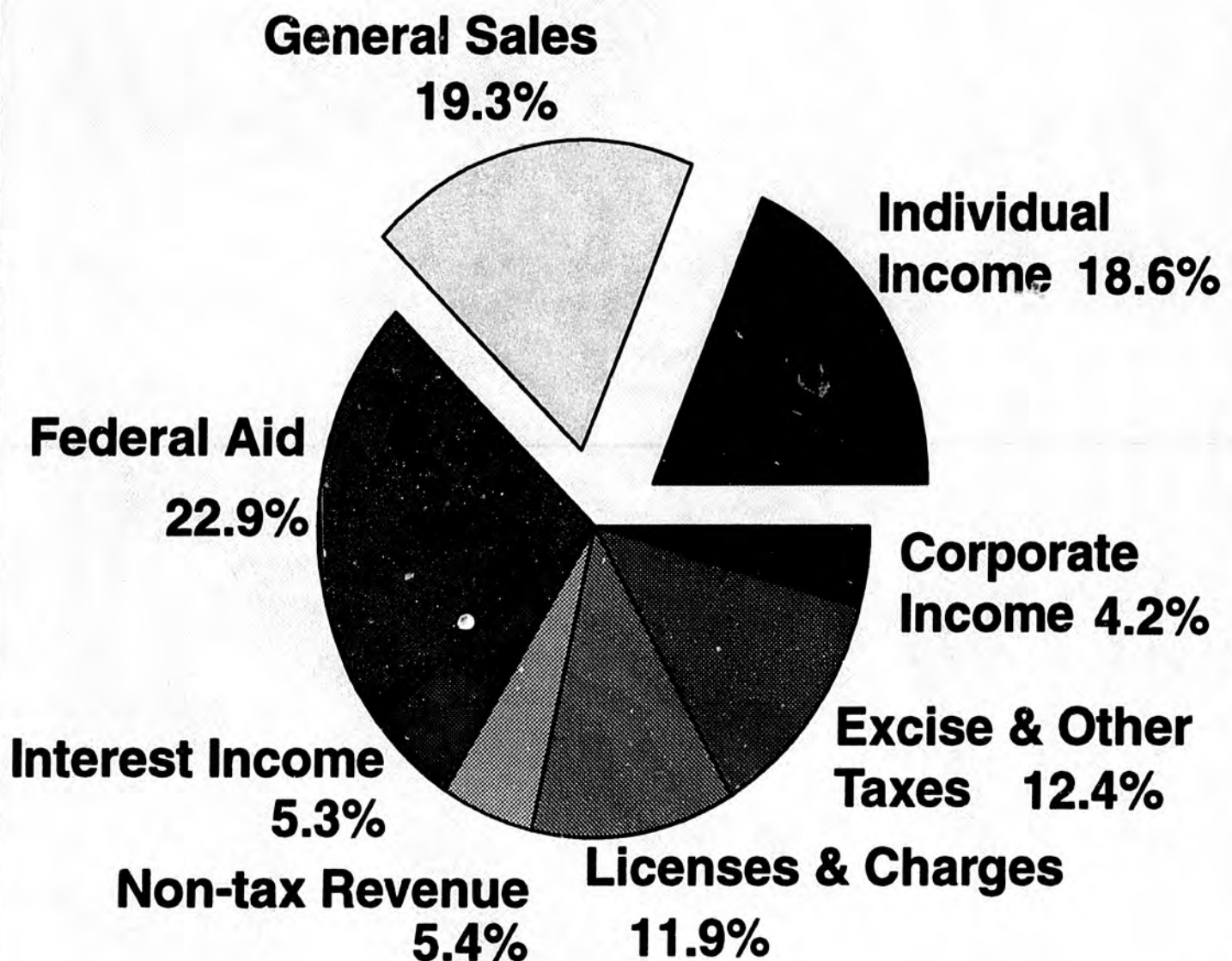
**New Revenue Sources:
Tax and Fee Options
for Closing the Fiscal Gap**

Finances for a "Typical" State are Often Said to Rest on a Three Legged Stool*

- ▶ **Personal Income Tax**
 - mostly used to finance the State government
- ▶ **Sales Tax**
 - mostly used to finance the State government
- ▶ **Property Tax**
 - mostly used to finance Local government and Local schools

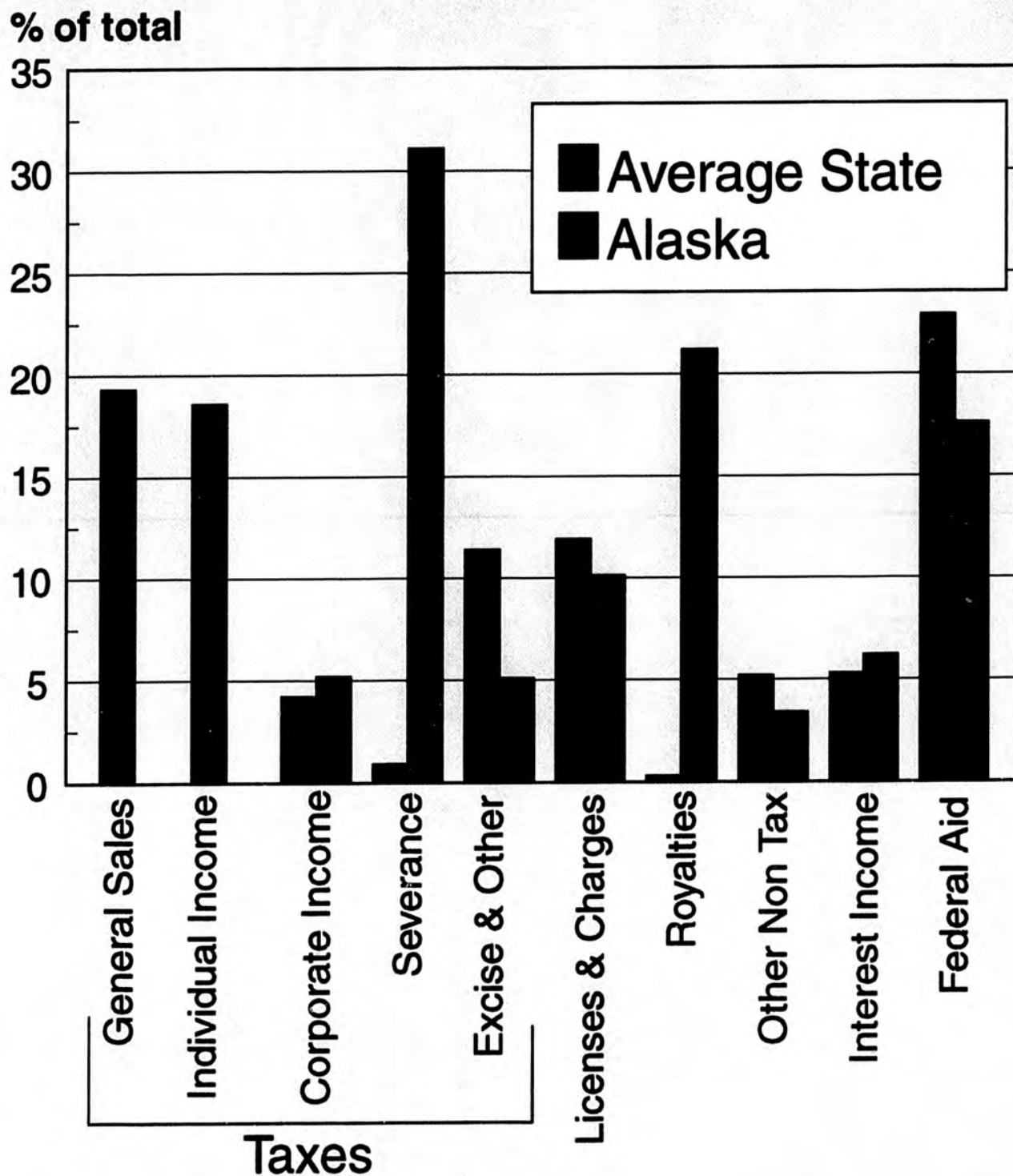
* These three legs, though the highest single sources of State and Local revenue, still only make up about 50% of State and Local revenue.

State Revenue National Average - 1990



Source: Financing State Government in the 1990s, National Conference of State Legislatures, National Governors' Association, December 1993

Alaska's Revenue Sources Contrasted with Those of a Typical State



Source: 1990 Census Data

Sales & Personal Income Taxes

► States with no State Sales Tax:

- **Alaska**
- **Delaware**
- **Montana**
- **New Hampshire**
- **Oregon**

► States with no Individual Income Tax:

- **Alaska**
- **Florida**
- **Nevada**
- **South Dakota**
- **Texas**
- **Washington**
- **Wyoming**

► Alaska is the only state with neither tax.

Source: Federation of Tax Administrators

Individual Income Tax Basics

- ▶ **How much earned income is in the Alaska economy?**

\$11 billion

- ▶ **What portion of this is earned by non-residents?**

\$1 billion

- ▶ **When devising an income tax, the important variables to consider are**

- ▶ **Equity - Rate structure and ability to pay**
- ▶ **Efficiency - Costs to comply and administer**

Individual Income Tax Economics

- ▶ **In raising \$300 million in tax:**
 - \$30 million comes from non-residents
 - \$57 million comes from reduction in Federal Income Tax
 - \$213 million in direct spending is removed from the Alaska economy
- ▶ **\$75 million in secondary spending is removed from the Alaska economy**
- ▶ **Total spending reductions of \$288 million results in the loss of 3,700 jobs**
- ▶ **Who pays?**

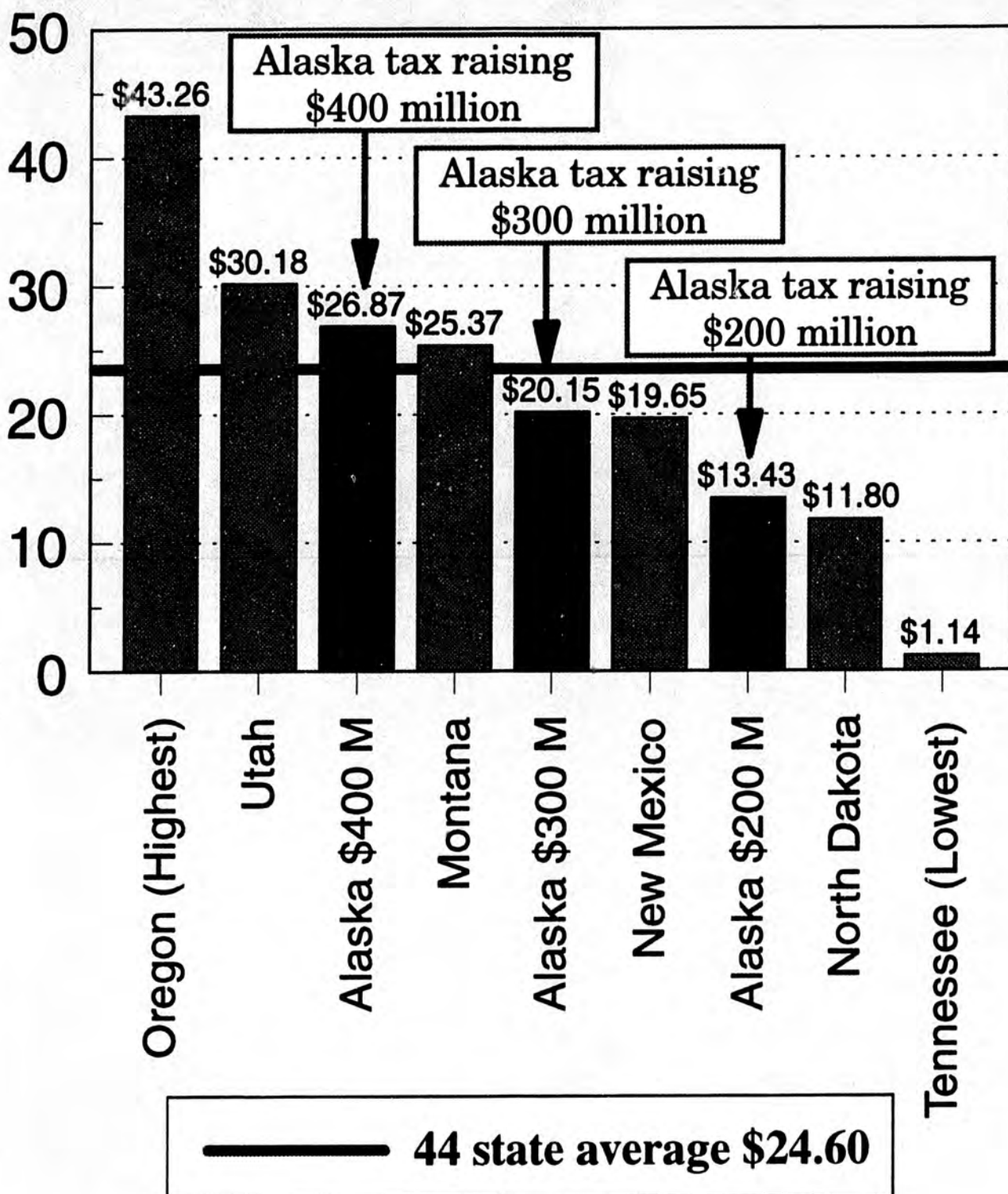
% of Household Income



Source: ISER Fiscal Policy Paper Number 8, December 1993;
Department of Labor

Personal Income Tax: How Would Alaska Compare?

Tax per \$1,000 Personal Income



Source: US Department of Commerce; DOR estimates

Income Tax in Other States

- ▶ **7 states have flat rate taxes**
- ▶ **2 states tax only dividends and interest income**
- ▶ **2 states tax a flat percent of Federal tax liability**
- ▶ **Other states use between 2 and 10 tax brackets with marginal rates from 1.0% to 12.0%**

Individual Income Tax -

What are the Pertinent Income Facts?

Income Class	# of Returns	Adjusted Gross Income (Federal)	Exemptions & Deductions (Including PFD)	Alaska Taxable Income
		(thousand \$)	(thousand \$)	(thousand \$)
\$0 - \$29,999	233,370	\$1,805,391	\$1,133,050	\$672,341
\$30,000 - \$49,999	52,100	2,051,278	675,210	1,376,068
\$50,000 - \$74,999	37,460	2,288,194	615,690	1,672,504
over \$75,000	29,809	3,602,086	650,515	2,951,571
Total	352,739	\$9,746,949	\$3,074,465	\$6,672,484

Source: IRS

Sales Tax Basics

- ▶ **What is the volume of Alaska sales of goods and services?**

\$9 billion

- ▶ **Typical sales taxes exempt retail food sales and health and social services**
- ▶ **Sales tax is more regressive (i.e. higher percentage impact on lower incomes) than personal income tax**

Statewide Sales Tax - What are the Pertinent Sales Facts?

(thousand \$)

Retail Trade Sales	\$5,100,903
Less Food Store Sales	<u>(\$1,125,171)</u>
Net Retail Trade Except Food Stores	\$3,975,732

Retail Services Sales	\$2,526,885
Less Health & Social Services	<u>(\$ 612,490)</u>
Net All Other Services	\$1,914,395

Net Retail Trade & Services	<u>\$5,891,127</u>
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**A 1% Tax on Retail Trade &
Services Would Raise \$58.9 million.**

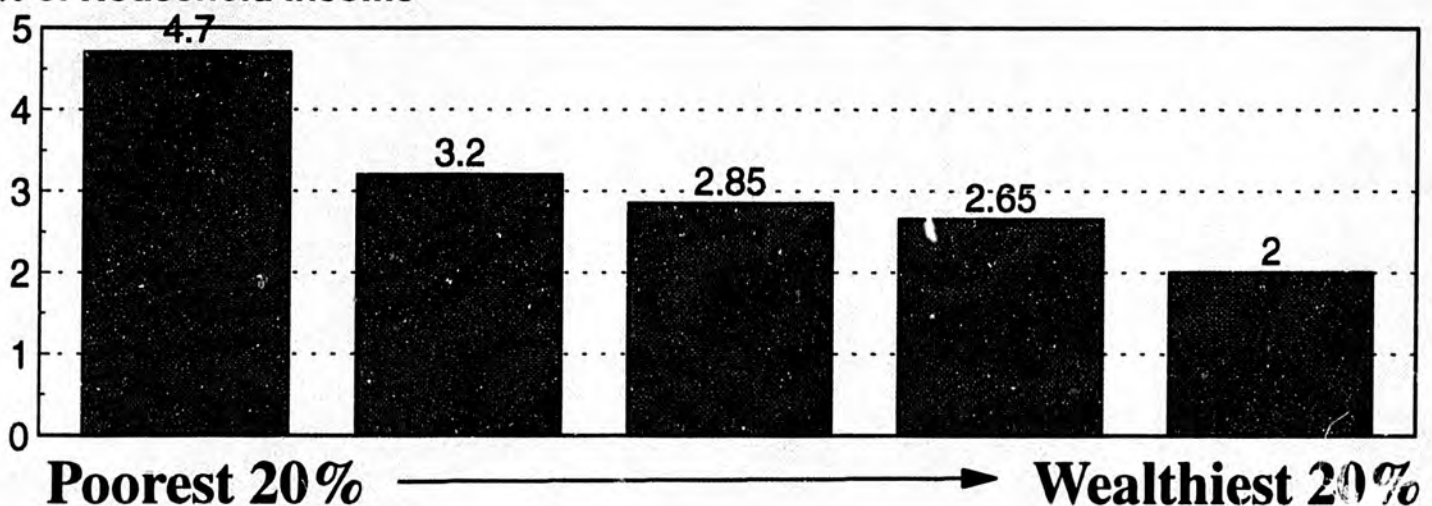
Not included in this analysis: Agriculture, Mining,
Construction, Manufacturing, Transportation, Utilities,
Wholesale Trade.

Source: US Department of Commerce; DOR estimates

Sales Tax Economics

- ▶ **For a 4% sales tax raising \$235 million:**
 - \$20 million comes from non-residents
 - \$215 million in direct spending is removed from the Alaska economy
- ▶ **\$75 million in secondary spending is removed from the Alaska economy**
- ▶ **Total spending reductions of \$290 million results in the loss of 3,500 jobs**
- ▶ **Who pays?**

% of Household Income



Source: ISER Fiscal Policy Paper Number 8, December 1993;
Department of Labor

Sales Tax in Other States

- ▶ **Of the 45 states with statewide sales tax,**
 - ✓ **26 exempt food**
 - ✓ **44 exempt prescription drugs**
- ▶ **Tax rates range from 3.0% to 7.0%**
- ▶ **DOR revenue estimate includes taxation of services. This action has received considerable opposition in other states.**

Source: Federation of Tax Administrators

Excise Taxes

► Highway Motor Fuel

Each \$0.01/gallon increase results in \$2.9 million in additional revenue

► Tobacco

Each \$0.01/pack increase results in \$0.5 million in additional revenue

► Liquor

Each \$0.50/gallon increase results in \$550,000 in additional revenue

► Wine

Each \$0.05/gallon increase results in \$62,500 in additional revenue

► Beer

Each \$0.01/gallon increase results in \$136,000 in additional revenue

Source: DOR estimates

FY95 Income and Excise Tax Revenues

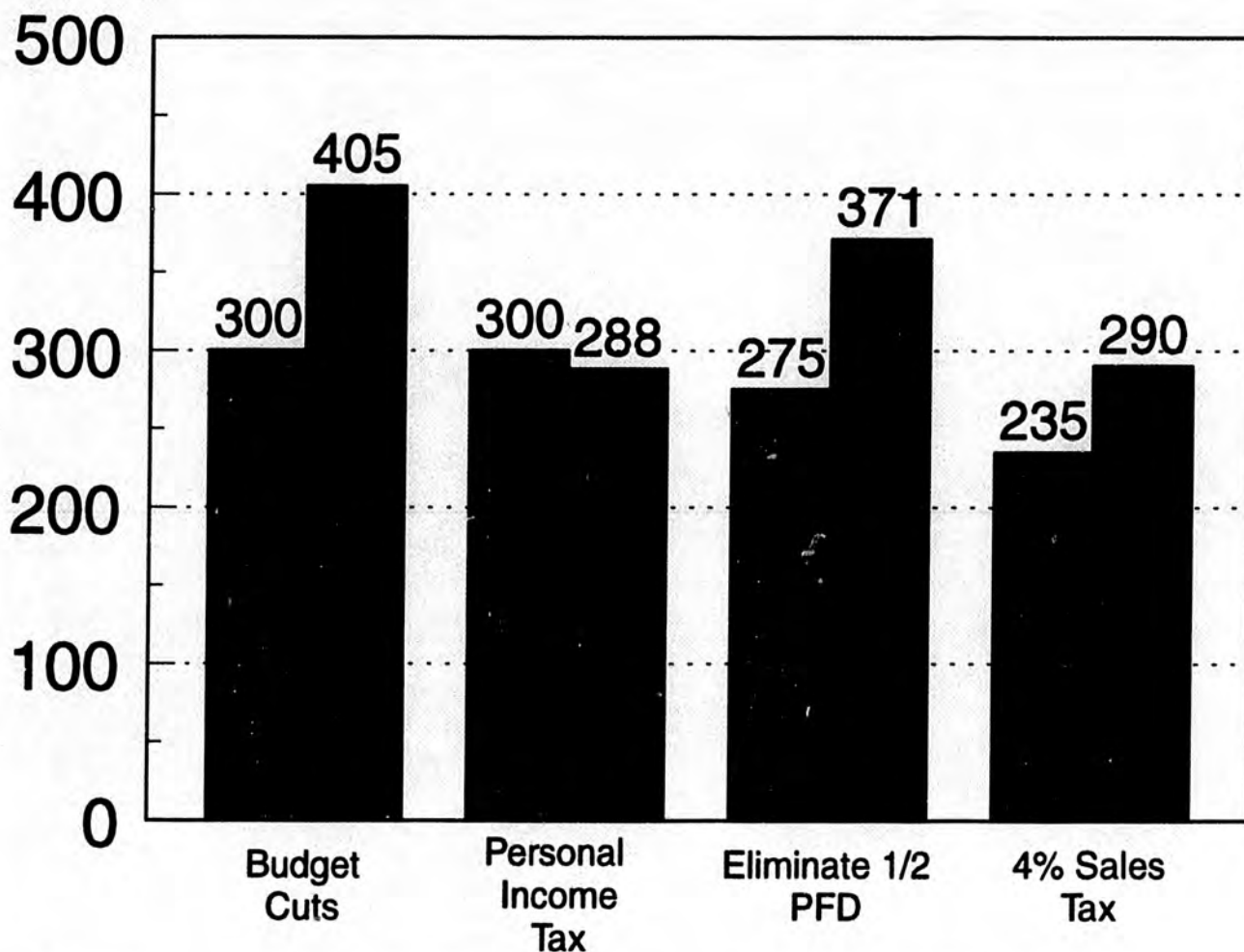
Corporation Net Income	\$195,616,000
Motor Fuel	\$ 40,507,000
Tobacco	\$ 17,087,000
Alcoholic Beverages	\$ 11,969,000
Fisheries Taxes	\$ 46,330,000
(50% shared to local gov't)	
Fisheries Program Receipts	\$ 13,600,000
Mining License	\$ 343,000
TOTAL	\$325,452,000

Source: DOR estimates

Economic Effects of Various Gap Closing Measures

Dollars Removed from the Economy

million \$

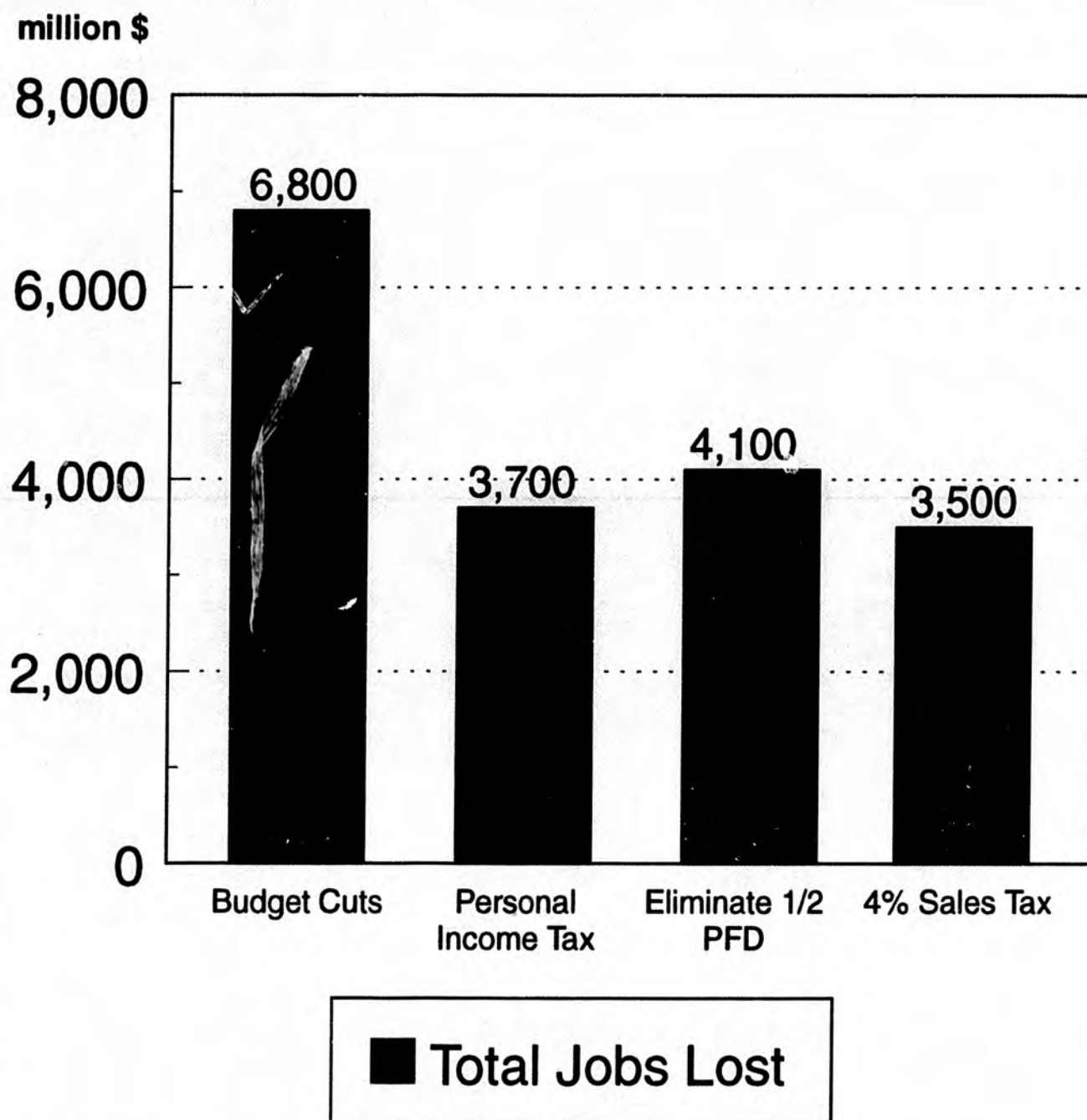


- Revenue Raised or Expenditure Reduction
- Total Economic Loss Including the Multiplier Effect

Source: ISER Fiscal Policy Paper Number 8, December 1993;
Department of Labor

Economic Effects of Various Gap Closing Measures

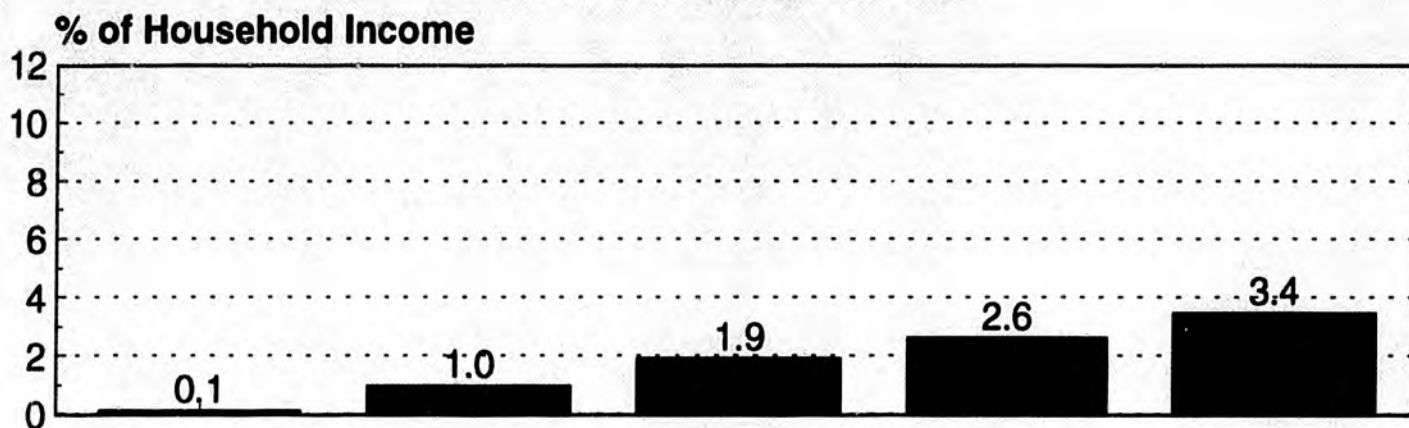
Jobs Lost in the Economy



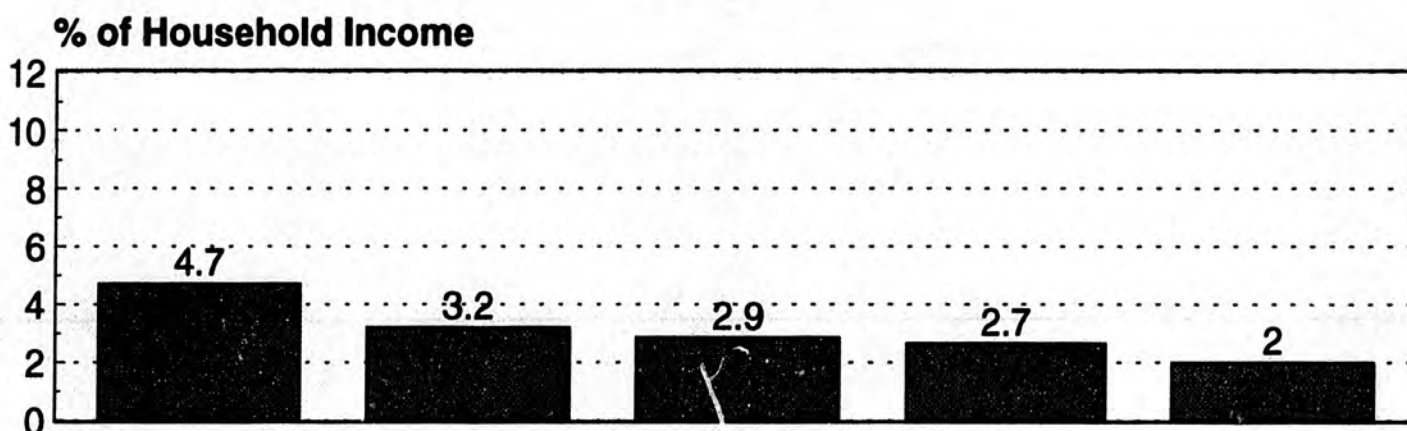
Source: ISER Fiscal Policy Paper Number 8, December 1993;
Department of Labor

Economic Effects: Who Pays?

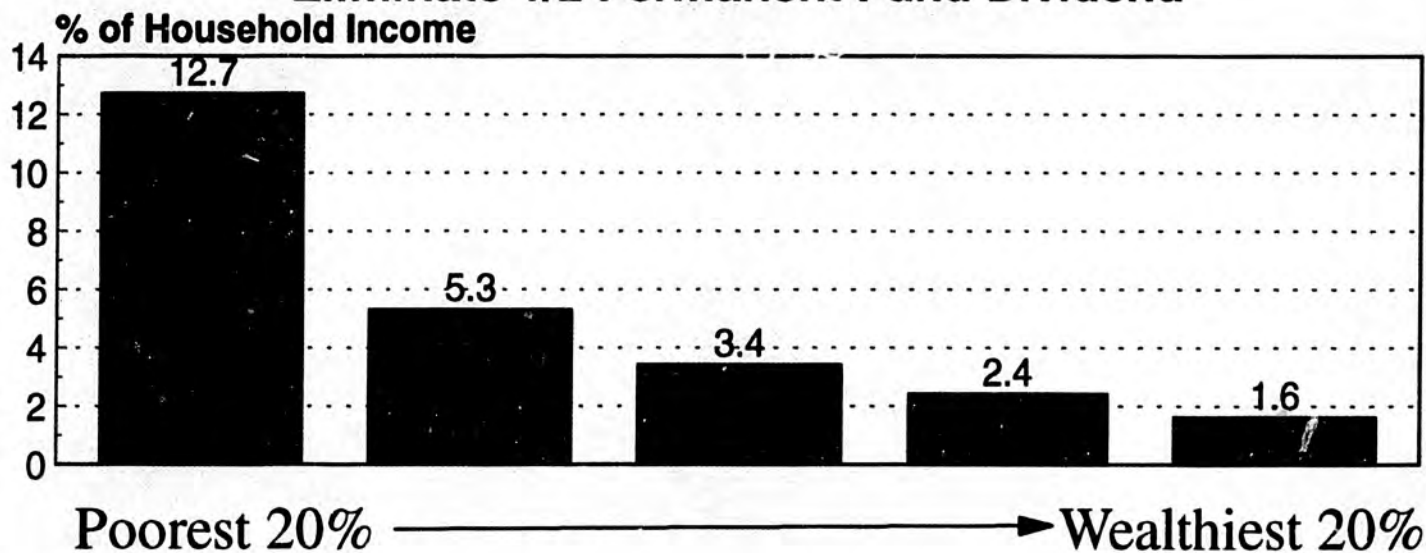
Personal Income Tax



Sales Tax



Eliminate 1/2 Permanent Fund Dividend



Source: ISER Fiscal Policy Paper Number 8, December 1993;
Department of Labor

**Constitutional Budget Reserve
Fund --
Principle and Interest Earnings**

Constitutional Budget Reserve Fund Options

► Save and Use Earnings

- Provides \$140 million/year to make ends meet for the long term
- Provides a reserve

► Spend it to maintain flexibility or cover gap until exhausted

- Defers need to deal with problem
- May make the problem "bigger" when fund exhausted

Spending the Constitutional Budget Reserve Fund

**State warrants will bounce on
October 31, 2000**

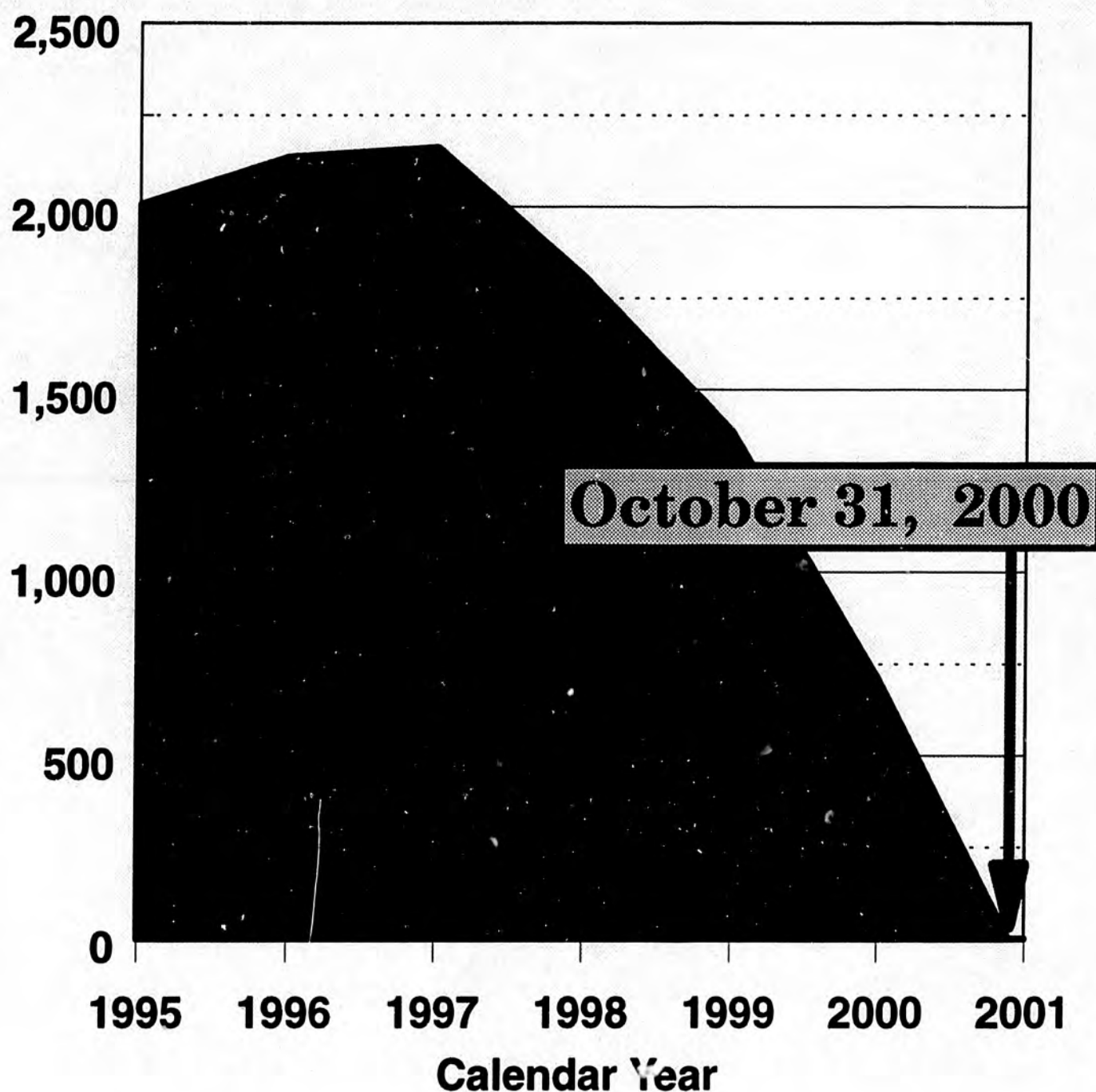
Assume:

- ▶ **Annual Budget Growth of 3%**
- ▶ **Capital Budget Constant at FY96 Level**
- ▶ **\$16.50/bbl (real) oil prices, plus \$50M/yr from AHFC and \$40M/yr from other sources**
- ▶ **FY96 & FY97 settlements of \$500M into CBRF**
- ▶ **FY98 & FY99 settlements of \$150M into CBRF**

Source: DOR estimates

Projected Constitutional Budget Reserve Fund Balance

million \$

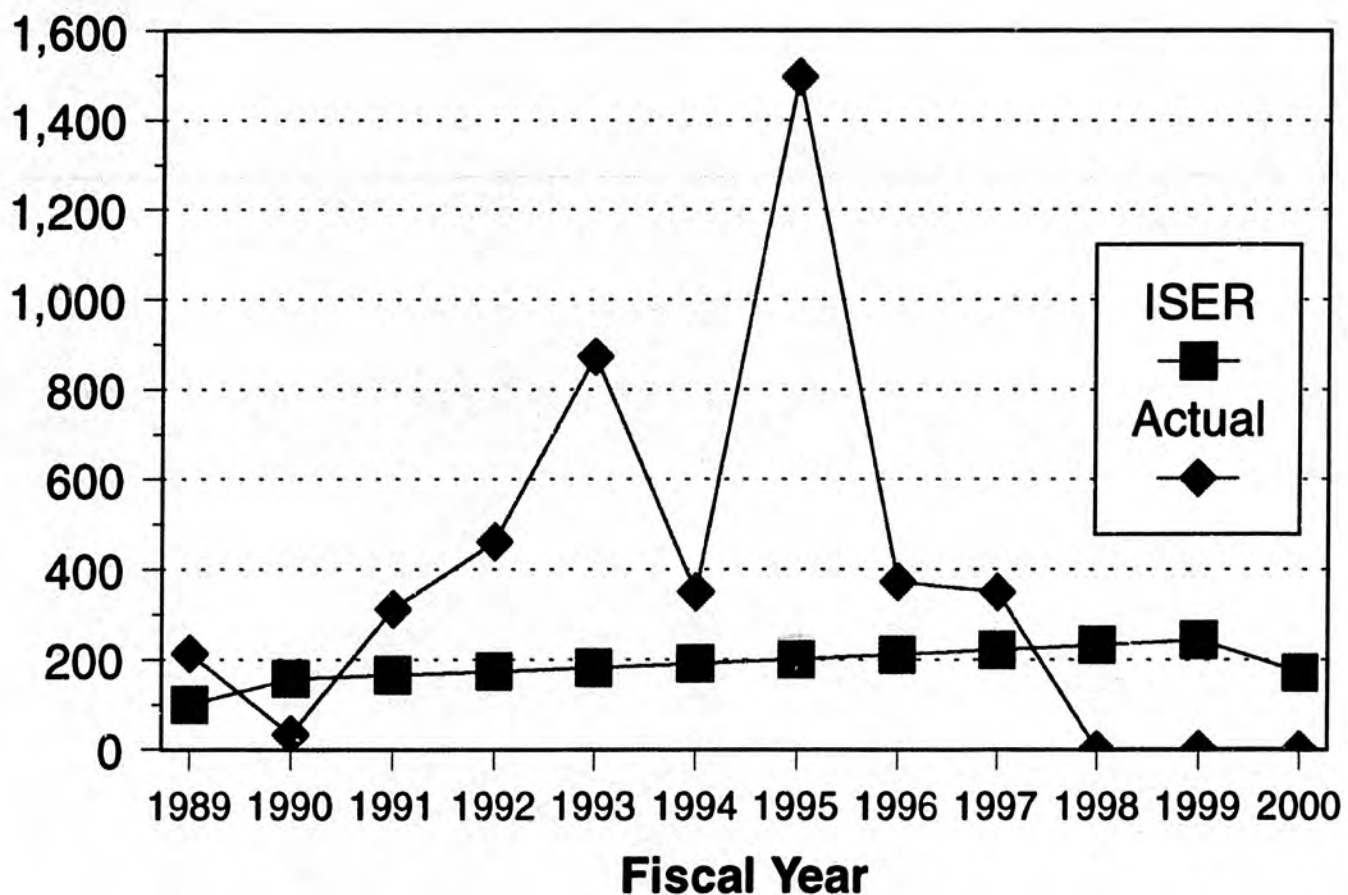


Source: DOR estimates

Revisiting the Fiscal Gap: Oil & Gas Settlements

- ▶ ISER projected \$2.25 billion in total settlements. From FY89-present, the State has received \$3.76 billion; in addition, BP will make two \$350 million payments in December 1995 and December 1996.
- ▶ The State has one large remaining oil tax dispute.

million \$



Source: ISER Fiscal Policy Paper Number 1, August 1989 ; DOR records

Table 4 - Revenue Collections Detail

	FY 94	FY 93	FY 92
CORPORATION NET INCOME			
General Fund			
Current Year Tax Before Credits			
Regular Corporations	\$ 44,438,292	\$ 25,549,028	\$ 36,519,357
Oil and Gas Corporations	50,455,794	117,618,112	118,037,309
Less Alaska Education Credit	(793,783)	(469,178)	(95,250)
Total Current Year	94,100,303	142,697,962	154,461,416
Payments (Refunds) from Amended Returns	(32,343,616)	84,462,020	1,947,249
Total Receipts - General Fund	61,756,687	227,159,982	156,408,665
Constitutional Budget Reserve (CBRF)			
Chapter 20 - Worldwide Apportionment	32,048,325	555,371,360	1,836,347
Chapter 21 - Separate Accounting	81,690,758	89,723,154	41,778,133
Total Receipts - CBRF	113,739,083	645,094,514	43,614,480
Total Receipts - All Funds	\$175,495,770	\$872,254,496	\$200,023,145
MOTOR FUEL			
Highway	36,274,833	38,703,424	40,127,477
Aviation	9,088,513	9,566,039	10,718,058
Marine	8,369,921	9,011,190	9,369,890
Penalties and Interest	59,111	55,397	72,567
Less Timely Filing Deductions ¹	(64,824)	(65,037)	(61,643)
Gross Receipts	53,727,554	57,271,013	60,226,349
Less Claims for Refund	(13,220,781)	(16,528,105)	(16,979,666)
Total Receipts	40,506,773	40,742,908	43,246,683
Less Aviation Fuel Tax Shared	(109,852)	(116,796)	(110,166)
Amount Retained by State	\$40,396,921	\$40,626,112	\$43,136,517
¹ Taxpayers may deduct lesser of 1% of tax due or \$100 if return is timely filed (AS 43.40.010)			
FISHERIES BUSINESS			
Established			
Shore-based	16,395,401	22,549,210	13,583,954
Floating	12,637,377	13,100,428	11,189,986
Cannery	4,109,362	5,138,902	3,990,951
Developing			
Shore-based	26,598	200,628	1,137,683
Floating	905	31,052	221,111
1994 Prepayments	1,048,143	1,175,517	1,833,028
Penalties and Interest	93,399	341,128	280,179
Fisheries Business License Fees	15,275	14,425	13,100
Total Tax Before Credits	34,326,460	42,551,290	32,249,992
Less Credits			
Winn Brindle	(398,876)	(367,458)	(311,745)
Fisheries Business	0	(17,423)	(1,769,550)
Alaska Education	(500)	(575)	0
Total Receipts	33,928,444	42,165,834	30,168,697
Less Fisheries Tax Shared			
Department of Revenue	(16,344,252)	(20,895,923)	(14,617,512)
Department of Community and Regional Affairs	(837,572)	(675,507)	N/A
Amount Retained by State	\$16,746,620	\$20,594,404	\$15,551,185

Table 4 - Revenue Collections Detail

	FY 94	FY 93	FY 92
TOBACCO			
Cigarette	15,548,201	15,843,756	15,946,650
Tobacco Products	1,403,775	1,223,616	1,184,040
Penalties and Interest	2,937	8,707	13,070
Less 1% Deductions ¹	(166,910)	(165,271)	(171,297)
Total Receipts	16,788,003	16,710,808	16,972,464
Less Amount Transferred to School Fund	(2,654,890)	(2,668,122)	(2,721,688)
Amount Retained in General Fund	\$14,133,113	\$14,042,686	\$14,250,776
¹ Taxpayers may deduct 1% of tax due (AS 43.50.090)			
ALCOHOLIC BEVERAGES			
Liquor	6,129,284	6,159,754	6,332,885
Beer	4,769,868	4,643,698	4,695,065
Wine	1,056,462	1,095,353	1,006,228
Total Receipts	\$11,955,614	\$11,898,804	\$12,034,178
SALMON ENHANCEMENT			
Aquacultural Region			
Southern Southeast	1,813,247	1,805,983	1,310,027
Northern Southeast	1,088,658	1,133,843	891,518
Kodiak	796,821	852,676	751,946
Cook Inlet	610,053	1,957,437	339,692
Prince William Sound	434,271	656,014	571,389
Chignik	196,101	304,370	227,264
Total Aquacultural Regions	4,939,151	6,710,323	4,091,836
Penalties and Interest	15,064	35,512	62,304
Total Receipts	\$4,954,215	\$6,745,835	\$4,154,140
APUC REGULATORY COST CHARGES			
(Program Effective 11/1/92)			
Electric Utilities	1,815,175	1,084,080	N/A
Telephone Utilities	1,028,825	503,888	
Other Utilities	968,426	550,337	
Pipeline Carriers	444,702	241,077	
Penalties and Interest	13,595	959	
Total Receipts	\$4,270,723	\$2,380,341	
SALMON MARKETING			
(Tax Effective July 1, 1993)			
Tax Receipts	3,011,895	N/A	N/A
Penalties and Interest	7,048		
Total Receipts	\$3,018,943		
SEAFOOD MARKETING ASSESSMENT			
Seafood Marketing Assessments	2,718,316	3,535,259	2,725,796
Penalties and Interest	6,909	27,988	17,434
Total Receipts	\$2,725,225	\$3,563,247	\$2,743,230

Table 4 - Revenue Collections Detail

	FY 94	FY 93	FY 92
ESTATE			
Total Receipts	<u>\$1,616,313</u>	<u>\$918,402</u>	<u>\$1,029,064</u>
ELECTRIC COOPERATIVE			
Total Receipts	1,355,282	1,275,532	1,291,865
Less Cooperative Taxes Shared	<u>(1,286,917)</u>	<u>(1,206,324)</u>	<u>(1,224,686)</u>
Amount Retained by State	<u>\$68,365</u>	<u>\$69,208</u>	<u>\$67,179</u>
TELEPHONE COOPERATIVE			
Total Receipts	1,253,906	903,378	808,807
Less Cooperative Taxes Shared	<u>(1,213,665)</u>	<u>(861,372)</u>	<u>(770,933)</u>
Amount Retained by State	<u>\$40,241</u>	<u>\$42,006</u>	<u>\$37,874</u>
ALASKA BUSINESS LICENSE			
Total Receipts	<u>\$573,629</u>	<u>\$0</u>	<u>\$0</u>
MINING LICENSE			
General Fund			
Current Year Tax Before Credits	311,894	564,140	464,857
Less Alaska Education Credit	<u>(150,000)</u>	<u>(150,000)</u>	<u>(3,100)</u>
Total Receipts - General Fund	<u>161,894</u>	<u>414,140</u>	<u>461,757</u>
Total Receipts - CBRF	<u>7,491</u>	<u>11,467</u>	<u>3,396</u>
Total Receipts - All Funds	<u>\$169,385</u>	<u>\$425,607</u>	<u>\$465,153</u>
FISHERY RESOURCE LANDING (Tax Effective January 1, 1994)			
Total Receipts (Estimated Payments)	<u>\$102,424</u>	<u>N/A</u>	<u>N/A</u>
COIN-OPERATED DEVICES			
Tax Receipts	94,891	106,361	107,352
Penalties and Interest	<u>614</u>	<u>1,833</u>	<u>498</u>
Total Receipts	<u>95,505</u>	<u>108,194</u>	<u>107,850</u>
Less Device Tax Shared	<u>(47,161)</u>	<u>(48,289)</u>	<u>(51,881)</u>
Amount Retained by State	<u>\$143,849</u>	<u>\$168,099</u>	<u>\$163,818</u>
INDIVIDUAL INCOME			
Total Receipts	<u>\$16,000</u>	<u>\$16,460</u>	<u>\$237,716</u>
CIGARETTE LICENSE FEES (Deposited Directly to School Fund)			
Total Receipts	<u>\$3,435</u>	<u>\$3,760</u>	<u>\$3,545</u>

**THE FOLLOWING DOCUMENT HAS NOT
BEEN FILMED BUT IS AVAILABLE IN THE
ORIGINAL FILE.**

State of Alaska

DEPARTMENT OF REVENUE



**INCOME AND EXCISE AUDIT DIVISION
ANNUAL REPORT**

For the Fiscal Year Ended June 30, 1994

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