



28th Alaska State Legislature
 House Finance Subcommittee
 Department of Revenue

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 Capitol Room 511
 465-4941

Members:

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 Capitol Room 502
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 Capitol Room 216
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 Capital Room 112
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Committee Aide:

Brodie Anderson
 465-4941

Department of Revenue
FY2017 House Finance Budget Subcommittee Narrative Report
February 26, 2016

Recommendations:

The House Finance Budget Subcommittee for the Department of Revenue submits a recommended operating budget for FY 2017 to the House Finance Committee as follows:

	(In thousands of dollars)
Unrestricted General Funds (UGF)	\$28,413.8
Designated General Funds (DGF)	\$11,062.0
Other Funds	\$281,040.9
<u>Federal Funds</u>	<u>\$79,630.8</u>
Total	\$400,147.5

Budgeted Positions	FY 16 Mgt Plan	FY17 Sub-Com	Difference	Difference
Total Positions	919	913	-6	-.7%

Historic Budget Action:

Fund Type	FY 15Mgt Plan	FY16 Enacted	Difference	Difference
Unrestricted General Fund	\$33,831.4	\$28,983.0	-\$4,848.4	-14.3%
Designated General Fund	\$9,807.2	\$10,369.4	\$562.2	5.7%
Other	\$254,827.9	\$281,810.1	\$26,982.2	10.6%
<u>Federal</u>	<u>\$77,584.4</u>	<u>\$78,130.6</u>	<u>\$546.2</u>	<u>0.7%</u>
Total	\$376,050.9	\$399,293.1	\$23,242.2	6.2%

Budget Action:

The Subcommittee recommends accepting all of the Governor's FY 2017 amended budget with the following exceptions:

- Deny the increase to salaries in the Treasury Division and the Alaska Permanent Fund Corporation - <1,906.5> in Other Funds

- Reduce Legal and Consulting Services for the Alaska Liquefied Natural Gas Project - <\$700.0> in Unrestricted General Funds

The following are highlights in the Subcommittee budget:

- Overall reduces \$700,000 (2.4%) in Unrestricted General Funds from the FY2017 Governor's Amended Request
- Increases the Alaska Permanent Fund Corporation's and the Treasury Division's investment positions to capitalize on investment opportunities and save the State of Alaska an estimated \$23 million in management fees, 9 positions - \$1,741.5 thousand in Other Funds

Attached Reports:

The House Finance Budget Subcommittee for the Department of Revenue adopts the attached reports:

Subcommittee generated reports

- 1) Budget Action Worksheet

Legislative Finance Division Reports – House Structure

- 1) Agency Totals
- 2) Appropriation/Allocation Summary (All Funds)
- 3) Appropriation/Allocation Summary (GF)
- 4) Transaction Comparison between 17ADJ Base and House Sub
- 5) Transaction Comparison between GOV AMD and House Sub
- 6) Wordage Report



Representative Steve Thompson, Chair
House Finance Budget Subcommittee for the Department of Revenue
February 26, 2016

Department of Revenue
FY2015 to FY2016 Comparison

<u>Fund Type</u>	<u>FY2015</u> <u>Mgt Plan</u>	<u>FY2016</u> <u>Enacted</u>	<u>Difference</u>	<u>Percent</u> <u>Difference</u>
Unrestricted General Fund	\$33,831.4	\$28,983.0	-\$4,848.4	-14.3%
Designated General Fund	\$9,807.2	\$10,369.4	\$562.2	5.7%
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Total	\$376,050.9	\$399,293.1	\$23,242.2	6.2%

<u>Budgeted Positions</u>	<u>FY2015</u> <u>Mgt Plan</u>	<u>FY2016</u> <u>Enacted</u>	<u>Difference</u>	<u>Percent</u> <u>Difference</u>
Permanent Full-Time	883	873	-10	-1.1%

<u>Filled Positions</u>	<u>Dec 2014</u> <u>Employees</u>	<u>July 2015</u> <u>Employees</u>	<u>Difference</u>	<u>Percent</u> <u>Difference</u>
Permanent Full-Time	513	494	-19	-3.7%
Permanent Part-Time	0	0	0	0.0%
Non-Permanent	<u>24</u>	<u>31</u>	<u>7</u>	<u>29.2%</u>
Total	537	525	-12	-2.2%

Notable Changes

Tax Division \$2,414.4 UGF

The Tax Division is responsible for the collection of revenue statewide. Fourteen Tax-related positions have been eliminated (Including 3 Film Office, 2 Technical & IT staff, 7 General Office, 2 Petroleum & Natural Gas Specialists). Fewer Auditors and Tax Technicians equate to fewer hours reviewing tax returns and can cost the State money due to missed errors on taxpayer returns.

Treasury Division \$1,488.3 UGF

The Treasury Division is responsible for investing state funds. Since investment fees are charged as a percentage of market value of investments, the Treasury Division can absorb some reductions as the state draws down its savings accounts (Constitutional Budget Reserve Fund). Cuts to personal services; however, can increase costs since internal investment staff is much less expensive than external investment managers. Additionally, there is little control over costs in this division. If the market rallies, the division will owe more fees to investment managers regardless of their current reductions.

Child Support Services \$476.0 UGF

Child Support Services Division (CSSD) is responsible for the federally mandated collection and distribution of child support payments. CSSD will close their Juneau & Wasilla field offices and discontinue their free legal assistance program. CSSD personnel are funded 66% by federal funds and various administrative divisions (Commissioners Office & Administrative Services Division) receive federal funding through indirect cost allocation plans that are based upon CSSD personal services costs. As a result, UGF reductions to the component have a ripple effect that reduces federal funding significantly. As a result of the reductions, CSSD has been forced to focus on efficiencies rather than their core mission:

- Staff will spend significant time imaging records to reduce physical storage contracts
- Staff will apply to the federal government to reduce the frequency of mailing notices
- Staff will work on implementing a change to the default payment method (Check versus Prepaid debit card)

Alaska Housing Finance Corporation (AHFC)

Although AHFC is not funded with UGF, they distribute a dividend to the state of calculated as the lesser of \$103 million or 75% of the adjusted change in net assets of the corporation minus debt service and any appropriation of unrestricted unencumbered money for the current fiscal year. AHFC received a \$1,028.6 unallocated reduction for FY2016. Reductions are correlated to dividend amounts but are not a direct relationship. A reduction to AHFC operations will not equate to an equal increase to the dividend amount. Additionally, poorly planned cuts may hinder AHFC's ability to attract new loans and actually decrease the dividend back to the state.