

DEPARTMENT OF REVENUE
FY2018 HOUSE FINANCE BUDGET SUBCOMMITTEE NARRATIVE REPORT
February 20, 2017

SUBCOMMITTEE MEMBERS: (in alpha order)

Rep. Seaton, Chair	Rep. Birch	Rep. Josephson
Rep. Kito	Rep. Knopp	Rep. Stutes
Rep. Sullivan-Leonard	Rep. Thompson	Rep. Wool

SUBCOMMITTEE MEETINGS:

The House Finance Budget Subcommittee for the Department of Revenue held 6 meetings with the department during the review of the FY18 budget request.

RECOMMENDATIONS:

The Chair of the House Finance Budget Subcommittee for the Department of Revenue recommends that the House Finance Committee accept the Governor's FY18 budget with two amendments.

The budget **without** amendment totals:

Fund Source: (dollars are in thousands)

Unrestricted General Funds (UGF)	\$25,400.4
Designated General Funds (DGF)	\$2,437.5
Other Funds	\$269,013.3
Federal Funds	\$78,665.5
Total	\$375,562.7

Positions:

Permanent Full-time	810
Permanent Part-time	33
Temporary	16
Total	859

The Unrestricted General Fund difference from FY15 Management Plan to the FY18 Governor's budget is a reduction of \$8.43 million, a decrease of 24.9 percent.

The Unrestricted General Fund difference from FY17 Management Plan to FY18 Governor's budget is a reduction of \$701.2 thousand, a decrease of 2.7%.

The following budget amendments are submitted by the subcommittee chair to the House Finance Committee for consideration:

1. Add Corporate Income Tax Auditors - \$246.0 UGF (2 PFTs)
2. Restore Funding Level to Trust Requested Amount for FASD Campaign – \$150.0 Alcohol/ Drug Treatment and Prevention Funds (DGF)

The budget **if these amendments are adopted** totals:

Fund Source: (dollars are in thousands)

Unrestricted General Funds (UGF)	\$25,646.4
Designated General Funds (DGF)	\$2,587.5
Other Funds	\$269,013.3
Federal Funds	\$78,665.5
Total	\$375,958.7

Positions:

Permanent Full-time	812
Permanent Part-time	33
Temporary	16
Total	861

If these amendments are adopted, the Unrestricted General Fund difference from FY15 Management Plan to the FY18 House Subcommittee Recommended Budget is a reduction of \$8.185 million, a decrease of 24.2 percent.

The Unrestricted General Fund difference from FY17 management plan to FY18 House Subcommittee Recommended Budget is a reduction of \$455.2 thousand, a decrease of 1.7%.

The following statutory recommendations are also submitted to the House Finance Committee

1. A recommendation to the House State Affairs Committee: Amend AS 43.23.008 to consider repealing allowable absences for the Permanent Fund Dividend. In 2016, 26,524 dividends were paid to people with an allowable absence from the state. According to a study, many of those who claim allowable absences do not return to the state. 64% of students did not return, and 81% of those accompanying someone else with an allowable absence did not return to the state. 17% of all appeals through the Permanent Fund Division relate directly to allowable absence claims. Repealing

allowable absences would increase the value of the Permanent Fund Dividend for those residents that remain in the state.

2. A recommendation for the House State Affairs Committee: Consider amending AS 43.23 to include directives or incentives to transition to a completely paperless environment for Permanent Fund Dividend Applications. Incentivizing paperless applications would reduce the current printing and postage costs of \$120,705.57. It would also reduce the number of seasonal employees necessary to process paper applications, with a corresponding decrease in \$239,000 in seasonal personal costs.
3. A recommendation for the House Fisheries Committee: Amend AS 43.75 to change the amount of fisheries taxes distributed to local communities and direct that revenue to fund direct management of fisheries. Currently 50% of fisheries taxes collected by the state are distributed to municipalities.
4. A recommendation for the House Fisheries Committee: Reconsider AS 43.75.015(b)-(d) and AS 43.77.010(1) to determine if the reduced tax rate for small fish processors and the reduced tax rate for developing fisheries are effective or if the reduced rates should be repealed or more narrowly defined. These three indirect expenditures currently cost the state an estimated \$525,852 in foregone revenue.
5. A recommendation for the House Education Committee: Amend AS 43.20.014, AS 43.55.019, AS 43.56.018, and AS 43.77.045 to remove the 100% level of the education tax credit. Currently the first \$100,000 of an eligible contribution receives a credit of 50%, the next \$200,000 is credited at 100%, and contributions above \$300,000 is credited at 50%. This credit can be taken across multiple tax types. Reducing the 100% level of the credit would reduce the more than \$7.4 million in foregone revenue.
6. A recommendation for the House State Affairs Committee: Amend AS 43.52.255 to remove the deduction of local levies against the Commercial Passenger Vessel Tax. This deduction results in an estimated \$13,559,5558 (\$13.56 million) in forgone state revenue.
7. A recommendation for the House Transportation Committee: Amend AS 43.40.010(c) and AS 43.98.025(d) to repeal or amend the motor fuel tax timely filing discount and the tire fee timely filing credit, which result in forgone revenue of approximately \$66 thousand each. Further, reconsider the commercial passenger vessel tax 72 hour voyage exemption under AS 43.52.295(4), which has likely modified cruise ship voyage plans in order to avoid the tax.
8. A recommendation for the House Labor and Commerce Committee: Amend or repeal AS 43.60.010(c), which reduces the beer and malt beverages tax from \$1.07 a gallon to 35¢ a gallon for the first 60,000 barrels of beer sold in the state from a brewery who meets the U.S. definition of a small brewery. 35% of this reduced rate is claimed by out of state breweries. The estimated forgone revenue is \$2.6 million.
9. A recommendation for the House Resources Committee: As 27.30.030, AS 43.20.044, and AS 43.62.010, relating to mining license tax exemptions, credits, and deductions, should be re-examined by an interim taskforce. Some of these deductions and credits

were established pre-statehood and may no longer meet intent. Estimated known foregone revenue exceeds \$6 million, with more foregone revenue that is not tracked.

10. A recommendation for the House Resources Committee: Sunset AS 43.20.053, the in-state refinery tax credit, on December 31, 2017. The current sunset date is December 31, 2019. If all three in-state refineries were to claim this credit each year it is available, changing the sunset by two years could result in savings of \$60 million. However, because of the number of tax payers involved it is impossible for Revenue to report how much has been claimed under this credit.
11. A recommendation for the House Finance Committee: Amend or repeal various corporate income tax exemptions found under AS 43.19 and AS 43.20, several of which were adopted to conform with federal tax code but are no longer necessary or no longer meet intent. The fiscal impact of these exemptions are unknown at this time because the potential tax revenue is not reported.

OTHER INFORMATION:

The Subcommittee discussed a variety of issues during the meetings.

Several members expressed interest in increasing state investment officers or improving investment officer recruitment and retention tools. More in-house investment officers could result in a **decrease** in external investment management tools. Ultimately no amendment was put forward during subcommittee; however, this remains a point of interest if the Department can demonstrate a plan to recruit and maintain these positions.

The subcommittee also discussed a requested remodel of the Alaska Permanent Fund Corporation office building, which is also related to investment officer retention. This request was not offered as an amendment, as it was more properly viewed as a capital request.

GOVERNOR'S AMENDMENTS

The Governor did not submit any amendments for this agency.

Respectfully submitted,

A handwritten signature in black ink that reads "Paul Seaton". The signature is written in a cursive style with a long horizontal line extending to the right.

Representative Paul Seaton, Chair
House Finance Budget Subcommittee for the Department of Revenue