

# **State of Alaska FY2002 Governor's Operating Budget**

Department of Revenue  
Revenue Operations  
Budget Request Unit

## Revenue Operations Budget Request Unit

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### BRU Mission

To administer the state's tax and charitable gaming laws to collect revenue efficiently and treat taxpayers, permittees, and licensees equitably; to equitably, efficiently, and expeditiously administer and collect production and property taxes and royalties and to assist policy makers with oil and gas issues; to prudently manage the state's financial assets; and to prudently manage and invest state pension funds.

### BRU Services Provided

#### TAX DIVISION

- Administer taxes imposed by the State of Alaska including development and processing of tax forms, collection of revenue, taxpayer service and presentation of information to the public and policy makers.
- Administer the charitable gaming and unclaimed property programs.

#### TREASURY

- Manage the investments of State funds under the fiduciary responsibility of the Commissioner of Revenue, or as requested by other fiduciaries: General Fund, International Airports Bond Funds, Constitutional Budget Reserve Fund, Student Loan Bond Funds, Children's Trust, Advanced College Education Tuition Fund, Public School Trust Fund, Retiree Health Insurance Fund, and University of Alaska Trust Fund.
- Provide consultative cash management services to all State agencies.
- Provide consultative capital financing services to State agencies.
- Provide staff to the Alaska State Pension Investment Board, the State Bond Committee and the Alaska Municipal Bond Bank Authority.

#### ALASKA STATE PENSION INVESTMENT BOARD

- Invest the funds of the State defined benefit pension plans: Public Employees Retirement System Trust, Teachers' Retirement System Trust, Judicial Retirement System Trust, Naval Militia Retirement System Trust.
- Recommend appropriate investment options for the Supplemental Benefits Annuity Plan and the Deferred Compensation Plan to the plan fiduciary, the Commissioner of Administration.

### BRU Goals and Strategies

#### TAX DIVISION

1. Complete conversion to electronic filing for oil and gas severance taxpayers.
2. Pilot electronic filing of excise tax returns.
  - Select an excise tax program to designate as a pilot.
  - Work with taxpayers to develop a reasonable, cost-effective system for filing tax returns electronically.

#### TREASURY

1. Maximize the investment rate of return on investment portfolios consistent with statutes and fiduciary standards without incurring undue risks.
  - Manage the funds in accordance with the stated asset allocation objectives and constraints.
  - Meet or exceed established investment benchmarks/targets over the appropriate time horizon.
  - Minimize uninvested cash through the automation of the collection and deposit of State receipts.
2. Assist State agencies with their conversion to electronic remittances of revenues and related information.
  - Automate collection of retirement contributions, unemployment insurance and workers compensation payments, oil and gas and court systems payments via Automated Clearing House (ACH).

- Work with agencies to clear Treasury Receipts within 15 days to reduce CBRF borrowing for cashflow.
- 3. Issue and manage State debt at minimum costs to the State.
- Issue debt for capital financing and pursue refinancing opportunities to reduce interest costs when feasible.
- Maintain the State's bond rating.

#### ALASKA STATE PENSION INVESTMENT BOARD

1. Maximize the investment rate of return on funds managed consistent with fiduciary standards.
- Manage the Trusts in accordance with the stated asset allocation objectives and constraints.
  - Meet or exceed established investment benchmarks/targets over the appropriate time horizons.

### **Key BRU Issues for FY2001 – 2002**

#### TAX DIVISION

The department is working to implement the legislature's direction in the 1999 session to merge the Income and Excise Audit Division and the Oil and Gas Audit Division effective April 1, 2000. We will spend a significant amount of time completing different aspects of the merger, with a goal of operational efficiencies. In addition, we will pilot electronic filing of an excise tax program.

#### TREASURY

Treasury's investment manager expenses are market driven and are difficult to predict. If returns exceed expectations, then fees also increase. The increase in fees could exceed the amount authorized in Treasury's budget. Also, the new issuance of debt or the refinancing of debt when feasible may add additional costs to the Division that are not authorized. Treasury must be able to react quickly to market opportunities and changes. Waiting for the necessary revised authorizations (RPL's or supplementals) could lead to lost revenue to the State and the funds managed by Treasury. The Division makes every effort to budget for the likely range of fees and expenses and monitors actuals on a close basis so that additional funds may be requested in a timely manner if needed.

#### ALASKA STATE PENSION INVESTMENT BOARD

The ASPIB is responsible for the performance and safety of the retirement funds' investments. Their goals and objectives are accomplished, in part, through the prudent use of a statutorily required Investment Advisory Council, qualified external investment professionals, and the staff of the DOR Treasury Division. The costs of providing the investment management services for the retirement systems are directly related to the size of the assets managed and volume of cash and investment transactions. The investment staff must be able to react quickly to market opportunities and changes. Waiting for the necessary revised authorizations (RPL's or supplementals) could lead to lost revenue to the pension trusts and possibly result in increased employer contributions in the future. The Division makes every effort to budget for the likely range of fees and expenses and monitors actuals on a close basis so that additional funds may be requested in a timely manner if needed.

### **Major BRU Accomplishments for FY2000**

#### INCOME AND EXCISE AUDIT

- Developed and implemented electronic filing for revenue tax collection through Automated Clearing House.
- Increased compliance and audit coverage in the areas of motor fuel and tobacco tax.
- Continued to expand the quality and quantity of tax forms and revenue projections on our Internet website.
- Emphasized compliance in charitable gaming, specifically in the multiple beneficiary area.

#### OIL AND GAS AUDIT

- Completed auditing all production tax returns for years through 1995.
- Continued electronic filings project to speed information collection and reduce taxpayer and division workload.
- Worked with Department of Law on extensive analysis of many aspects of proposed acquisition of Arco by BP.

- Completed substantial work on new regulations package concerning tax on gas and gas liquids (adopted in FY 2000).
- Successfully negotiated a two year agreement on value for the Trans Alaska Pipeline system (TAPS) with the pipeline owners, and the municipalities and boroughs along TAPS.
- Awarded a new consultant contract under a three year arrangement to assist in valuation and engineering services for AS 43.55, at significantly lower cost than prior contract.
- Worked with the Office of Management and Budget and the Legislative Finance Division to rework the presentation of the total state revenue picture in the presentation of the Revenue Sources forecast.
- Continued to expand the quantity and quality of timely information about state revenues on our Internet website.
- Successfully resolved a number of small, older appeals cases; several newly issued audits were resolved shortly after the assessments were issued.
- Successfully closed the final separate income tax case (AS 43.21; repealed 1981).

#### TREASURY

- All funds met their target rates of return.
- Financed \$25 million revenue bond for the terminal redevelopment project at the Anchorage International Airport.
- Continued progress on automation of collection of State receipts via Automated Clearing House.

#### ALASKA STATE PENSION INVESTMENT BOARD

- All funds met their target returns.
- The Board added an externally managed portfolio of domestic fixed income securities to the asset class mix.
- As the result of a prior year Supplemental Benefits System participant survey, the Board selected Tactical Asset Allocation and Global Balanced Fund managers this year to add to the current selections available to participants.

**Revenue Operations**  
**BRU Financial Summary by Component**

All dollars in thousands

|                                      | FY2000 Actuals |               |                 |                 | FY2001 Authorized |               |                 |                 | FY2002 Governor |               |                 |                 |
|--------------------------------------|----------------|---------------|-----------------|-----------------|-------------------|---------------|-----------------|-----------------|-----------------|---------------|-----------------|-----------------|
|                                      | General Funds  | Federal Funds | Other Funds     | Total Funds     | General Funds     | Federal Funds | Other Funds     | Total Funds     | General Funds   | Federal Funds | Other Funds     | Total Funds     |
| <b>Formula Expenditures</b><br>None. |                |               |                 |                 |                   |               |                 |                 |                 |               |                 |                 |
| <b>Non-Formula Expenditures</b>      |                |               |                 |                 |                   |               |                 |                 |                 |               |                 |                 |
| Income and Excise Audit              | 3,985.3        | 0.0           | 76.9            | 4,062.2         | 0.0               | 0.0           | 0.0             | 0.0             | 0.0             | 0.0           | 0.0             | 0.0             |
| Treasury Management                  | 1,087.8        | 0.0           | 1,688.3         | 2,776.1         | 1,261.4           | 0.0           | 1,895.9         | 3,157.3         | 1,455.3         | 0.0           | 2,003.3         | 3,458.6         |
| AK State Pension                     | 0.0            | 0.0           | 2,710.3         | 2,710.3         | 0.0               | 0.0           | 3,195.5         | 3,195.5         | 0.0             | 0.0           | 3,195.5         | 3,195.5         |
| Investment Bd                        |                |               |                 |                 |                   |               |                 |                 |                 |               |                 |                 |
| Oil and Gas Audit                    | 2,383.7        | 0.0           | 233.4           | 2,617.1         | 0.0               | 0.0           | 0.0             | 0.0             | 0.0             | 0.0           | 0.0             | 0.0             |
| ASPIB Custody and Mgt Fee            | 0.0            | 0.0           | 27,418.8        | 27,418.8        | 0.0               | 0.0           | 29,213.6        | 29,213.6        | 0.0             | 0.0           | 33,713.6        | 33,713.6        |
| Tax Division                         | 0.0            | 0.0           | 0.0             | 0.0             | 6,489.3           | 0.0           | 472.5           | 6,961.8         | 6,236.3         | 0.0           | 365.1           | 6,601.4         |
| <b>Totals</b>                        | <b>7,456.8</b> | <b>0.0</b>    | <b>32,127.7</b> | <b>39,584.5</b> | <b>7,750.7</b>    | <b>0.0</b>    | <b>34,777.5</b> | <b>42,528.2</b> | <b>7,691.6</b>  | <b>0.0</b>    | <b>39,277.5</b> | <b>46,969.1</b> |

## Revenue Operations

## Proposed Changes in Levels of Service for FY2002

No anticipated changes

## Revenue Operations

## Summary of BRU Budget Changes by Component

## From FY2001 Authorized to FY2002 Governor

*All dollars in thousands*

|  | <u>General Funds</u> | <u>Federal Funds</u> | <u>Other Funds</u> | <u>Total Funds</u> |
|--|----------------------|----------------------|--------------------|--------------------|
| <b>FY2001 Authorized</b>   | <b>7,750.7</b>       | <b>0.0</b>           | <b>34,777.5</b>    | <b>42,528.2</b>    |
| <b>Adjustments which will continue current level of service:</b> |                      |                      |                    |                    |
| -Treasury Management   | 112.2                | 0.0                  | -2.1               | 110.1              |
| -Tax Division  | -253.0               | 0.0                  | -107.4             | -360.4             |
| <b>Proposed budget increases:</b>                                |                      |                      |                    |                    |
| -Treasury Management   | 81.7                 | 0.0                  | 109.5              | 191.2              |
| -ASPIB Custody and Mgt Fee                                       | 0.0                  | 0.0                  | 4,500.0            | 4,500.0            |
| <b>FY2002 Governor</b>   | <b>7,691.6</b>       | <b>0.0</b>           | <b>39,277.5</b>    | <b>46,969.1</b>    |