

State of Alaska FY2002 Governor's Operating Budget

Department of Revenue

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Department Mission

The mission of the Department of Revenue is to collect and invest funds for public purposes.

The department provides administrative support for the following independent boards and corporations:

- Alaska Permanent Fund Corporation
- Alaska Housing Finance Corporation
- Alaska Mental Health Trust Authority
- Alaska Municipal Bond Bank Authority
- Alaska State Pension Investment Board
- Alcoholic Beverage Control Board

Department Goals and Strategies

COMMISSIONER'S OFFICE

- To help lead the state's efforts toward commercialization of North Slope natural gas.

Lower 48 market forces of growing demand for natural gas and subsequent higher prices have increased the possibility that construction could begin in a couple of years on a gasline to bring Alaska's enormous North Slope reserves to mid-America. The state needs to respond quickly and with complete information as North Slope oil and gas producers, pipeline operators, potential investors and others review different options for commercializing Alaska's natural gas reserves. The Department of Revenue will provide the lead in the state's review of those options, with the goal of protecting Alaska's interests and ensuring a fair return to the state treasury from the public resource.

CHILD SUPPORT DIVISION

- To further reduce case backlogs at the Child Support Enforcement Division and to improve communications with parents.

The Child Support Enforcement Division has devoted much of its effort in the past three years toward improving its operations, making great strides in providing better service as evidenced by faster turnaround times for disbursing child support payments and shorter wait times for phone calls. The Division is committed to providing timely service, and its major goal for FY 2002 is to further reduce case backlogs in all of its sections and to improve telephone, mail and email communications for the almost 100,000 parents who deserve good service from the division.

PERMANENT FUND DIVIDEND DIVISION

- To increase the efficiency of the dividend review process.

The Permanent Fund Dividend Division is always looking for ways to increase its efficiency in accepting and reviewing more than 610,000 applications a year. The Division in FY 2001-2002 will concentrate on reorganizing its review and appeals sections to streamline the process.

- To encourage use of the on-line application system.

The Division took a major step when it opened its on-line application system at the end of the filing period for the 2000 dividend and expects strong growth in 2001 and subsequent years as public acceptance of the new system grows.

Increased use of the on-line application process will reduce the division's operating costs by replacing paperwork with paperless electronic data.

TREASURY DIVISION

- To meet or exceed investment benchmarks.

The Treasury Division will continue to work toward meeting or exceeding the investment benchmarks for public employee retirement funds, the Constitutional Budget Reserve Fund, state general fund and other funds and trust accounts managed by the Department of Revenue. Strategies for FY2002 include adding a securities lending program and increasing in-house monitoring.

- To improve operations of the Unclaimed Property Section.

The Department of Revenue will transfer its Unclaimed Property Section from the Tax Division to the Treasury Division on Jan. 1, 2001. The Unclaimed Property Section will mesh well with the Treasury Division, where the accountants, cash managers and investment staff can assist unclaimed property staff in tracking and managing the several million dollars a year of cash, stocks, bonds and other assets turned over to the state by financial institutions. With an additional employee proposed for FY 2002, the Treasury Division will locate more rightful owners of the property and increase revenue to the state by working with financial institutions nationwide to ensure that Alaska receives its fair share of unclaimed property.

ALASKA MUNICIPAL BOND BANK AUTHORITY

- To help communities reduce the cost of borrowing.

Fiscal 2001 will be one of the Alaska Municipal Bond Bank Authority's busiest years, as measured by its lending activity. The Bond Bank will continue to inform communities of opportunities to reduce their cost of borrowing for local projects. The Bond Bank also will review its debt portfolio to determine if any outstanding municipal bond issues can be refinanced at a savings under current market conditions.

ALCOHOLIC BEVERAGE CONTROL BOARD

- To make it easier for licensees to apply and pay their fees.

A major goal of the Alcoholic Beverage Control Board for FY 2001-2002 is to utilize the Internet for accepting liquor license renewals, catering permits and license transfers, and to accept payments by credit card.

Key Department Issues for FY2001 – 2002

CHILD SUPPORT DIVISION

- The Child Support Division must achieve federal certification of modifications to its case accounting and payment distribution system to meet the latest round of federal welfare reform requirements. The Division expects to obtain federal certification in calendar 2001. Federal funding will cover about 90% of the cost of necessary improvements.

PERMANENT FUND DIVIDEND DIVISION

- The public experienced long delays and problems contacting the Division's information offices during the fall 2000 dividend distribution period. The division will look for solutions to its outdated telephone system, and will adjust staffing schedules to improve its response time in 2001. Promoting increased use by dividend applicants of the new on-line application system will help reduce calls to the Division.
- The Division in the fall of 2000 conducted its first-ever random audit of dividend applications to verify the information supplied by applicants and to ensure that adequate controls are in place to protect the integrity of the

program. The Division has decided to include an audit program as part of its ongoing operations by committing staff time to reviewing randomly selected applications. By combining its existing review and appeals staff for greater efficiency, the Division will be able to operate the audit program without any additional staff.

TAX DIVISION

- Having almost completed its implementation of paperless filing for oil and gas production taxes, the Tax Division is moving ahead with its pilot project to accept excise tax returns via electronic filing. The Alaska Salmon Price Report and motor fuel taxes have been selected as the first two programs for the FY 2001 pilot project. This is the start of the Division's switch to paperless filing for the largest taxpayers, while also offering electronic filing as an option for even the smallest taxpayer.
- The Tax Division faces a major challenge in FY 2001-2002 as Prudhoe Bay producers have contested the state's property tax assessment of oil and gas production facilities at North America's largest oil field. The Tax Division's primary goal in FY 2001-2002 is to effectively represent the state's interests in the property tax valuation.
- The Division continues to resolve old cases of disputed taxes, closing out several cases in FY 2000-2001. The Division will continue with this effort in FY 2002.
- The Division has been studying the problem of Alaskans evading the state tobacco tax by importing untaxed cigarettes into the state through mail-order and Internet sales. The division is investigating a legislative solution to the problem by requiring tax stamps on all packages of cigarettes sold in Alaska. At a small cost to the state - perhaps \$100,000 a year - the division believes Alaska could prevent the loss of more than \$1 million a year in cigarette taxes.

TREASURY DIVISION

- The Alaska State Pension Investment Board is well aware of public employee and retiree expectations created by the above-average returns on retirement funds from the unprecedented five-year bull market. The board and staff will have to closely monitor the performance of the state's money managers during a time of increasing volatility of financial markets and consolidations in the asset-management industry, while explaining market conditions to constituents.

ALASKA HOUSING FINANCE CORPORATION

- The Alaska Housing Finance Corporation is committed to offering consumers timely service and will continue working with financial institutions toward that goal. One way to do that is to further reduce the amount of documentation and streamline procedures for loan commitments, while working toward accepting loan files electronically.
- The promotion of energy-efficient housing is a key component of Alaska Housing's responsibilities, and a quality energy-rating program is essential to its success. To protect the program's integrity, the corporation will ensure that builders and energy raters receive adequate training.
- The shortage of safe and affordable housing for Alaska's growing senior citizen population is a major concern for the Alaska Housing Finance Corporation, which continues to work with developers, contractors and nonprofit agencies statewide to address the problem.

Major Department Accomplishments in 2000

CHILD SUPPORT DIVISION

- The Child Support Division in FY 2000 achieved full federal certification of its computerized case management system for meeting all of the requirements of the federal Family Support Act.
- The Division collected more than \$85 million in child support payments in FY 2000, another record year for the agency. That was a 5% increase over the \$81 million in collections in FY 1999.
- The Division set a goal for FY 2000-2001 of eliminating its longstanding backlog of cases waiting for adjustments in the accounting section. The Division started the project in October 1999 with 6,500 cases in its backlog, and had reduced that number to 2,800 as of October 2000.
- In a new cooperative program with law enforcement agencies, the Division in FY 2000 collected more than \$100,000 from property seized during the arrest of criminal suspects.

TAX DIVISION

- The Department of Revenue successfully merged its Oil and Gas Division and Income and Excise Tax Division into a combined Tax Division effective April 1, 2000. The merger resulted in small cost savings but greatly improved workflow, and allowed better allocation of professional staff as needed during the tax year.
- The Tax Division in FY 2000 started a major revision to its twice-yearly state revenue forecasts, designed to provide expanded information on the state's investment earnings and sources of income other than oil and gas revenues. The revised forecast books also provide a more detailed explanation of the state's fiscal situation, including the Constitutional Budget Reserve and investment strategies and risks.

PERMANENT FUND CORPORATION

- The Permanent Fund Corporation was successful in managing the fund's investments in FY 2000, producing more than \$2.2 billion in net income for the fund - which totaled \$28.1 billion as of June 30, 2000.
- The Permanent Fund achieved a real total rate of return (after inflation) of 6.99% in FY 2000, substantially above the corporation's 4% long-term target.

ALCOHOLIC BEVERAGE CONTROL BOARD

- The Alcoholic Beverage Control Board opened a Southeast field office in Juneau, establishing a presence in Southeast for the first time since the 1980s.

ALASKA MENTAL HEALTH TRUST AUTHORITY

- The Alaska Mental Health Trust Authority supported the creation of only the nation's third mental health court to divert mental health service beneficiaries from the criminal justice system to a more supportive and useful program.

ALASKA HOUSING FINANCE CORPORATION

- The Alaska Housing Finance Corporation received a 100% score on the U.S. Department of Housing and Urban Development's Public Housing Management Assessment Program in 2000. It was the fourth year in a row that Alaska Housing had achieved a 100% score. The program measures performance in several management areas, including vacancy rates and turnaround times to fill vacant units, rent collections, financial management and resident programs.

- Alaska Housing purchased 2,205 new tax-exempt, first-time homebuyer loans totaling \$229 million in FY 2000, a 21% increase over the previous year.
- Alaska Housing purchased 76 multifamily housing loans totaling \$54.5 million in FY 2000, a 57% increase over the previous year.

Key Performance Measures for FY2002

Measure: The Child Support Division will track the percentage of cases with support orders.
(Added by Legislature in FY2000 version.)

Current Status:

As of Oct. 31, 2000, there were support orders for almost 80% of the Division's cases, an increase from 75% of cases with orders as of Oct. 31, 1999.

Benchmark:

Per the FFY 99 (period ending 9/30/99) Federal Office of Child Support Enforcement Preliminary Data Report, the national rate for the measure was 60.35%.

Background and Strategies:

Continue to streamline and automate the establishment process.

Measure: The Permanent Fund Dividend Division will increase to 70% the number of Alaskans who select direct deposit for their check.
(Not yet addressed by Legislature.)

Current Status:

The public's use of direct deposit for their Permanent Fund Dividends has increased steadily over the years. In 2000, 67% of recipients used direct deposit.

Benchmark:

In 1998 59% of Permanent Fund Dividend recipients used direct deposit and in 1999 63% used direct deposit.

Background and Strategies:

The use of direct deposit helps reduce the division's operating costs, while at the same time getting the money to Alaskans faster.

Measure: The Tax Division will receive 100% of oil and gas production taxpayers' monthly reports on CD disks by Feb. 28, 2001.
(Not yet addressed by Legislature.)

Current Status:

The Tax Division expects all oil and gas production taxpayers to begin filing electronically by the Feb. 28, 2001 due date for the companies' January 2001 reports.

Benchmark:

At this time, the January 2001 reports haven't been received, so it is too soon to measure.

Background and Strategies:

To continue to improve services and efficiencies through the use of technology.

Measure: At least 10% of calendar 2001 taxpayers for one type of excise tax will participate in an electronic filing project.

(Not yet addressed by Legislature.)

Current Status:

The Tax Division has selected the Alaska Salmon Price Report and the Motor Fuel taxes as the first two programs to move onto the Internet.

Benchmark:

At this time, the 2001 taxpayer reports haven't been received, so it is too soon to measure.

Background and Strategies:

To continue to improve services and efficiencies through the use of technology.

Status of FY2001 Performance Measures

	<i>Achieved</i>	<i>On track</i>	<i>Too soon to tell</i>	<i>Not likely to achieve</i>	<i>Needs modification</i>
<ul style="list-style-type: none"> The Child Support Division will track the percentage of its cases with support orders. The Permanent Fund Dividend Division will increase to 70% the number of Alaskans who select direct deposit for their check. The Tax Division will receive 100% of oil and gas production taxpayers' monthly reports on CD disks by Feb. 28, 2001. At least 10% of calendar 2001 taxpayers for one type of excise tax will participate in an electronic filing project. 		X			
		X			
			X		
		X			

Department Budget Summary by BRU

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
Formula Expenditures												
None.												
Non-Formula Expenditures												
Child Support Enforcement	2,956.1	13,678.1	36.8	16,671.0	3,193.3	15,204.7	0.0	18,398.0	3,047.6	15,027.6	0.0	18,075.2
Alcohol Beverage Control Board	630.4	0.0	84.0	714.4	698.5	0.0	0.0	698.5	696.0	0.0	0.0	696.0
Municipal Bond Bank Authority	0.0	0.0	461.1	461.1	0.0	0.0	463.7	463.7	0.0	0.0	521.2	521.2
Permanent Fund Corporation	0.0	0.0	6,359.9	6,359.9	0.0	0.0	8,148.6	8,148.6	0.0	0.0	7,703.0	7,703.0
PFC Custody and Management Fees	0.0	0.0	37,094.9	37,094.9	0.0	0.0	47,585.8	47,585.8	0.0	0.0	47,585.8	47,585.8
Alaska Housing Finance Corp	0.0	17,657.6	18,321.6	35,979.2	0.0	18,866.1	18,130.8	36,996.9	0.0	20,218.6	19,296.3	39,514.9
Mental Health Trust Authority	0.0	0.0	787.8	787.8	0.0	0.0	940.2	940.2	0.0	0.0	961.3	961.3
Revenue Operations Administration and Support	7,456.8	0.0	32,127.7	39,584.5	7,750.7	0.0	34,777.5	42,528.2	7,691.6	0.0	39,277.5	46,969.1
Permanent Fund Dividend	557.6	716.3	607.1	1,881.0	727.6	743.7	1,219.8	2,691.1	724.7	780.5	1,177.2	2,682.4
	0.0	0.0	4,773.3	4,773.3	0.0	0.0	5,031.7	5,031.7	0.0	0.0	5,021.2	5,021.2
Totals	11,600.9	32,052.0	100,654.2	144,307.1	12,370.1	34,814.5	116,298.1	163,482.7	12,159.9	36,026.7	121,543.5	169,730.1

Funding Source Summary

All dollars in thousands

Funding Sources	FY2000 Actuals	FY2001 Authorized	FY2002 Governor
1001 Constitutional Budget Reserve Fund		125.0	125.0
1002 Federal Receipts	28,506.8	31,216.1	32,407.2
1004 General Fund Receipts	7,379.3	7,646.8	7,561.4
1005 General Fund/Program Receipts	4,204.3	4,466.6	4,455.9
1007 Inter-Agency Receipts	3,859.1	3,033.9	3,013.8
1011 Alaska Advance College Tuition Payment Fund	19.2	28.5	28.5
1016 Federal Incentive Payments	2,500.0	2,553.0	2,537.9
1017 Benefits Systems Receipts	91.5	99.0	99.0
1027 International Airport Revenue Fund	31.1	31.3	31.6
1029 Public Employees Retirement Fund	19,692.3	21,096.7	23,936.7
1034 Teachers Retirement System Fund	10,180.3	10,955.6	12,505.6
1042 Judicial Retirement System	140.9	193.4	268.4
1045 National Guard Retirement System	24.1	64.4	99.4
1046 Student Revolving Loan Fund	22.2	22.2	22.5
1050 Permanent Fund Dividend Fund	4,733.1	4,979.7	4,989.2
1053 Investment Loss Trust Fund	17.3	131.7	17.6
1061 Capital Improvement Project Receipts	1,217.5	1,470.0	1,513.8
1066 Public School Fund	67.7	154.0	154.6
1089 Power Cost Equalization Fund		23.0	86.1
1094 Mental Health Trust Administration	787.8	940.2	961.3
1098 Children's Trust Fund Earnings	34.0	42.5	43.2
1103 Alaska Housing Finance Corporation Receipts	15,604.1	16,180.5	17,195.2
1104 Alaska Municipal Bond Bank Receipts	461.1	463.7	521.2
1105 Alaska Permanent Fund Corporation Receipts	43,688.2	55,972.2	55,525.9
1108 Statutory Designated Program Receipts		494.5	494.3
1133 Indirect Cost Reimbursement	1,045.2	1,045.4	1,081.6
1142 Retiree Health Ins Fund/Major Medical		19.7	19.9
1143 Retiree Health Ins Fund/Long-Term Care Fund		33.1	33.3
Totals	144,307.1	163,482.7	169,730.1

Position Summary

Funding Sources	FY2001 Authorized	FY2002 Governor
Permanent Full Time	800	810
Permanent Part Time	26	25
Non Permanent	55	57
Totals	881	892

FY2002 Capital Budget Request

Project Title	General Funds	Federal Funds	Other Funds	Total Funds
Child Support Enforcement Caseload Management System Modification Project	1,020,000	1,980,000	0	3,000,000
Permanent Fund Dividend Appeals Process Streamlining	0	0	125,000	125,000
AHFC Supplemental Housing Development Program	0	0	6,000,000	6,000,000
AHFC Low Income Weatherization	0	1,400,000	4,000,000	5,400,000
AHFC Paxton Manor Replacement (Sitka)	0	0	2,401,000	2,401,000
AHFC Chugach View Renovation - Phase 2 (Anchorage Senior Units)	0	2,000,000	2,697,000	4,697,000
AHFC Senior Citizens Housing Development Program	0	0	1,472,200	1,472,200
AHFC Senior and Statewide Deferred Maintenance and Renovation	0	500,000	2,000,000	2,500,000
AHFC Housing and Urban Development Capital Fund Program	0	3,500,000	0	3,500,000
AHFC Housing and Urban Development Federal HOME Grant	0	3,050,000	750,000	3,800,000
AHFC Federal and Other Competitive Grants	0	3,000,000	1,250,000	4,250,000
AHFC Competitive Grants for Public Housing	0	750,000	250,000	1,000,000
AHFC Energy Efficiency Monitoring Research	0	0	300,000	300,000
AHFC State Energy Program Special Projects	0	150,000	30,000	180,000
AHFC Homeless Assistance Program	0	0	450,000	450,000
AHFC Beneficiary and Special Needs Housing	0	0	1,500,000	1,500,000
Department Total	1,020,000	16,330,000	23,225,200	40,575,200

This is an appropriation level summary only. For allocations and the full project details see the capital budget.

Overview of Departmental Budget Changes

Child Support Enforcement:

- Federal funding increment of \$277.8, of which \$188.1 is a pass-through to the Alaska State Court System for reimbursement of System Costs Title IV-D expenditures, to assist litigants involved in family proceedings. The remaining \$89.7 will be used to improve the automated child support phone system (KIDS System) used by clients to obtain case payment history and leave caseworker messages.
- Federal funding pass-through increment of \$59.3 to the Alaska State Court System for the Access and Visitation grant increase. (facilitate non-custodial parent access to their children).
- One-time-item decrease of FY 2000/2001 supplemental funding that had been provided to reduce case backlogs, GFPR (\$138.7) Fed. (\$446.1). Funding lapses 6/30/01.

Alaska Mental Health Trust Authority:

- Increment to fund two part-time temporary intern positions and increase in rural travel \$23.8, Mental Health Trust funding.

Treasury:

- Increment of \$63.7 for additional Accountant IV to keep pace with increasing fiduciary demands of handling more money, more funds, and more investment account options, \$16.4 GF and \$47.3 other funds.
- Increment for additional Accountant/Auditor in the Unclaimed Property Unit, \$65.0 GFPR. This position will help locate more rightful owners of unclaimed property and increase revenue to the State by working with financial institutions nationwide. In addition, it will be responsible for developing and administering the Unclaimed Property holder's compliance program.
- The Unclaimed Property Section will be transferred from the Tax Division to the Treasury Division on January 1, 2001. The composition of the Treasury Division, with its accountants, cash managers and investment staff, is more conducive to the function of the Unclaimed Property Section. Transfer in from Tax Division \$161.4, GF/PR.
- Increase to cover the investment management costs Treasury will incur in managing the Power Cost Equalization Endowment Fund (HB 446). The fiscal note that passed during the 2000 legislative session assumed a smaller endowment than what eventually passed in the final bill. PCE fund, \$62.5.
- HB 281, decrease of (\$50.0) in GF for a one-time-item related to Bonds: Public Schools, University, Harbors, & Buildings.

Alaska State Pension Investment Board (ASPID):

- Increment of \$4,500.0 in Retirement Funding to pay for increased custody and management fees. The request is market driven.

Permanent Fund Dividend Division:

- Funding source switch, IA receipts to PFD funding to replace loss of funding from the Division of Elections (HB 163) for printing the voter registration forms in the annual permanent fund dividend booklet, IA (\$20.0) PFD \$20.0.

Tax Division:

- HB 363, decrease of (\$23.5) GF for one-time-items related to the Alaska Salmon Reports. Contracting out for database development and initial equipment costs are being deleted.
- The Unclaimed Property Section will be transferred to the Treasury Division on January 1, 2001. This transfer is being reflected in the FY 2002 budget. GFPR (\$161.4).

- Reduction for one-time-item Property Tax Valuation supplemental. GF (\$150.0).

Alaska Housing Finance Corporation:

- Salary schedule restructuring to attract and retain quality employees, \$357.2. AHFC receipts \$192.5, Fed. \$135.5, CIP 29.2.
- Increase in Conventional Low Rent Program (maintenance/utilities AHFC properties). Fed. \$724.4.
- Increase to administer 370 new Section 8 vouchers, 3 PFT positions. Fed. \$300.0.
- Increase for compliance monitoring mandated by the IRS, 2 PFT positions in Internal Audit department for tax credit program audit. AHFC rec. \$129.0.
- Increase for fixed costs, building insurance, office rental costs and computer/software maintenance, \$370.1. AHFC receipts \$251.4, Fed. \$118.7.
- Increase of \$462.0 in AHFC receipts due to transferring the following three programs from AHFC's capital budget: Builder and Rater Education Program \$200.0, Rural Alaska Sanitation Task Force support \$87.0, and Association of Alaska Housing Authority support grant, \$175.0.

Permanent Fund Corporation:

- Decrement due to information technology consulting services being reduced, reduced cost of investment analytical services and software as well as ceasing use of Reuters for news and market data, PFD receipts (\$447.9).

Summary of Department Budget Changes by BRU

From FY2001 Authorized to FY2002 Governor

All dollars shown in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2001 Authorized	12,370.1	34,814.5	116,298.1	163,482.7
Adjustments which will continue current level of service:				
-Child Support Enforcement	-145.7	-514.2	0.0	-659.9
-Alcohol Beverage Control Board	-2.5	0.0	0.0	-2.5
-Municipal Bond Bank Authority	0.0	0.0	-0.5	-0.5
-Permanent Fund Corporation	0.0	0.0	2.3	2.3
-Alaska Housing Finance Corp	0.0	73.9	101.4	175.3
-Mental Health Trust Authority	0.0	0.0	-2.7	-2.7
-Revenue Operations	-140.8	0.0	-109.5	-250.3
-Administration and Support	-2.9	36.8	-42.6	-8.7
-Permanent Fund Dividend	0.0	0.0	-10.5	-10.5
Proposed budget decreases:				
-Permanent Fund Corporation	0.0	0.0	-447.9	-447.9
Proposed budget increases:				
-Child Support Enforcement	0.0	337.1	0.0	337.1
-Municipal Bond Bank Authority	0.0	0.0	58.0	58.0
-Alaska Housing Finance Corp	0.0	1,278.6	1,064.1	2,342.7
-Mental Health Trust Authority	0.0	0.0	23.8	23.8
-Revenue Operations	81.7	0.0	4,609.5	4,691.2
FY2002 Governor	12,159.9	36,026.7	121,543.5	169,730.1