

# **State of Alaska FY2005 Governor's Operating Budget**

## **Department of Revenue Commissioner's Office Component Budget Summary**

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**Component: Commissioner's Office**

**Contribution to Department's Mission**

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

**Core Services**

- Management oversight of division programs
- Coordination, development and promotion of programs for collection and investment of public funds
- Formulation of specific recurring revenue sources
- Provide controls and enforcement for the collection, investment and payment of funds (Permanent Fund Dividend, Child Support Enforcement, Tax and Treasury Divisions)

| End Results  | Strategies to Achieve Results  |
|--|--|
| <p><b>(1) Optimize tax collections.</b></p> <p><u>Target:</u> Percentage of taxes collected compared to taxes due between 92% and 98%.</p> <p><u>Measure:</u> Percentage of taxes collected compared to the taxes due.</p> <p><b>(2) Improve the collection and disbursement of child support due to the children served by Child Support Enforcement Division (CSED).</b></p> <p><u>Target:</u> Increase collections by 3%.</p> <p><u>Measure:</u> Percent change in total collections for a fiscal year.</p> <p><b>(3) Improve the risk adjusted return of funds under the stewardship of the Treasury Division by continually improving investment returns.</b></p> <p><u>Target:</u> For the funds under the fiduciary responsibility of the Commissioner of Revenue, exceed the applicable one-year target returns.</p> <p><u>Measure:</u> Actual returns compared with target returns reported by consultant or the custodian bank.</p> <p><b>(4) All eligible Alaskans, whose applications are not on appeal, receive their Permanent Fund Dividend (PFD) in October.</b></p> <p><u>Target:</u> 100% of eligible applicants not in appeal are paid in October</p> <p><u>Measure:</u> Percentage of eligible applicants not in appeal who are paid in October.</p> | <p><b>(1) Increase audit coverage (audit activities improve compliance and revenue).</b></p> <p><u>Target:</u> Open 20 new audit cases (taxpayers that have not been audited by the Tax Division in the prior five years).</p> <p><u>Measure:</u> Number of new audits opened.</p> <p><b>(2) Increase voluntary compliance from identifying non-filers.</b></p> <p><u>Target:</u> Find 30 non-filers through compliance work.</p> <p><u>Measure:</u> Number of non-filers brought into compliance.</p> <p><b>(3) Improve the environment necessary for increased collections.</b></p> <p><u>Target:</u> Increase paternity establishments established to 90%.</p> <p><u>Measure:</u> Percentage of paternity establishments established.</p> <p><u>Target:</u> Increase cases with orders to 84%.</p> <p><u>Measure:</u> Percentage of cases with orders.</p> <p><b>(4) Improve the efficiency of distributing child support.</b></p> <p><u>Target:</u> Increase recipients on automated distribution to 60%.</p> <p><u>Measure:</u> Percentage of recipients receiving automated distribution.</p> <p><u>Target:</u> Decrease money on hold to less than 1%.</p> <p><u>Measure:</u> Percentage of money on hold.</p> <p><b>(5) Portfolio Investment Officer staff is continually upgraded in experience and education.</b></p> <p><u>Target:</u> Increase average longevity of the investment</p> |

| End Results | Strategies to Achieve Results   |
|-------------|---|
|             | <p>officers to 5 years.<br/> <u>Measure:</u> The average longevity of investment officers. (Include the Chief Investment Officer and the 4 public market and 2 private market staff reporting to the Chief Investment Officer.)</p> <p><u>Target:</u> At least 4 investment staff will have their Certified Financial Analyst designation.<br/> <u>Measure:</u> Number of investment staff with Certified Financial Analyst designation.</p> <p><b>(6) Provide PFD Division staff with needed training to perform effectively.</b></p> <p><u>Target:</u> 100% of new staff receive standardized training within first six months.<br/> <u>Measure:</u> Percentage of new staff that receive standardized training within first six months.</p> <p><b>(7) Maximize use of PFD Division staff across unit lines throughout the cycle.</b></p> <p><u>Target:</u> 100% of staff are cross-trained to work in at least one other unit.<br/> <u>Measure:</u> Percentage of staff trained to work in at least one other unit.</p> <p><b>(8) Increase use by the public of online filing and applicant support services.</b></p> <p><u>Target:</u> 95% of PFD applicants use on-line filing.<br/> <u>Measure:</u> Number of PFD applicants that use on-line filing.</p> |

| Major Activities to Advance Strategies   |  |
|--|--|
| <ul style="list-style-type: none"> <li>• TAX DIVISION:</li> <li>• Enforce tax compliance through audit</li> <li>• Focus activity examination on high risk returns and errors</li> <li>• Streamline examination process</li> <li>• Employ IRS data and examination resources to identify non-filers</li> <li>• CHILD SUPPORT ENFORCEMENT DIVISION:</li> <li>• Improve communications, processes and interface with other states</li> <li>• Establish and train a special collections unit</li> <li>• Review and adjust cases</li> <li>• Establish paternity</li> <li>• Inform obligees of accurate amounts due</li> </ul> | <ul style="list-style-type: none"> <li>• Locate employers and assets of non-custodial parents</li> <li>• TREASURY MANAGEMENT:</li> <li>• Hold quarterly meetings with Commissioner and the investment staff</li> <li>• Define roles of potential new asset class managers and perform adequate due diligence</li> <li>• Financially support meeting CFA designation targets and ongoing education requirements of the investment officers</li> <li>• Have programmer work with external custodian to automate download of accounting data</li> <li>• PERMANENT FUND DIVISION</li> <li>• -cross train staff to work in more than one functional area</li> <li>• -allocate staff across unit lines to address peak work load</li> <li>• -market on-line and myAlaska filing through media</li> </ul> |

**FY2005 Resources Allocated to Achieve Results**

|   |                   |           |
|---|-------------------|-----------|
| <b>FY2005 Component Budget: \$1,856,300</b> | <b>Personnel:</b> |           |
|   | Full time         | 10        |
|   | Part time         | 0         |
|   | <b>Total</b>      | <b>10</b> |

**Performance Measure Detail**

**(1) Result: Optimize tax collections.**

**Target:** Percentage of taxes collected compared to taxes due between 92% and 98%.  
**Measure:** Percentage of taxes collected compared to the taxes due.

**Analysis of results and challenges:** At the margin this percentage is driven primarily by the resolution of large and complex oil and gas income and production tax cases. Too high a percentage indicates that the Tax Division is not assessing difficult taxpayers or addressing issues where the State is likely to collect less than 100%. Too low a figure indicates that the State is being overly aggressive with taxpayers and then settling too easily. A balanced result indicates a balanced approach. In 2003, the Tax Division collected \$1,017.6 million out of \$1,033.3 million voluntarily reported or assessed by the department.

**(2) Result: Improve the collection and disbursement of child support due to the children served by Child Support Enforcement Division (CSED).**

**Target:** Increase collections by 3%.  
**Measure:** Percent change in total collections for a fiscal year.

**Analysis of results and challenges:** Increasing total collections allows the division to increase distributions to custodial parents. This improves the financial support that benefits children's lives. The Child Support Enforcement Division expects a steady increase in non-PFD collections.

**(3) Result: Improve the risk adjusted return of funds under the stewardship of the Treasury Division by continually improving investment returns.**

**Target:** For the funds under the fiduciary responsibility of the Commissioner of Revenue, exceed the applicable one-year target returns.  
**Measure:** Actual returns compared with target returns reported by consultant or the custodian bank.

**Analysis of results and challenges:** 1 YEAR RETURN DATA FOR FUNDS MANAGED BY THE TREASURY DIVISION:

General Fund and Other Non-segregated Investment Funds  
 FY2002 Actual 4.63% Target 5.75%  
 FY2003 Actual 4.82% Target 4.96%

Alaska Children's Trust  
 FY2002 Actual -3.64% Target -3.37%  
 FY2003 Actual 8.10% Target 6.62%

Public School Trust  
 FY2002 Actual -3.13% Target -3.37%  
 FY2003 Actual 6.87% Target 6.62%

International Airports Revenue Fund  
 FY2002 Actual 5.55% Target 6.92%  
 FY 2003 Actual 6.03% Target 5.60%

Constitutional Budget Reserve Fund - Main Account  
 FY2002 Actual 6.11% Target 7.02%  
 FY2003 Actual 7.29% Target 6.85%

Constitutional Budget Reserve Fund - Sub Account  
 FY2002 Actual -5.61% Target -5.31%  
 FY2003 Actual 5.02% Target 4.05%

Retirement Health Insurance Fund - Longterm Care Account  
 FY2002 Actual -6.30% Target -6.69%  
 FY2003 Actual 4.22% Target 3.29%

Retirement Health Insurance Fund - Major Medical  
 FY2002 Actual 6.14% Target 6.54%  
 FY2003 Actual 6.92% Target 6.47%

Power Cost Equalization Fund  
 FY2002 not available  
 FY2003 Actual 3.88% Target 4.05%

Returns for FY2004 and FY2005 will depend on market conditions and cannot be estimated.

#### **(4) Result: All eligible Alaskans, whose applications are not on appeal, receive their Permanent Fund Dividend (PFD) in October.**

**Target:** 100% of eligible applicants not in appeal are paid in October

**Measure:** Percentage of eligible applicants not in appeal who are paid in October.

#### **(1) Strategy: Increase audit coverage (audit activities improve compliance and revenue).**

**Target:** Open 20 new audit cases (taxpayers that have not been audited by the Tax Division in the prior five years).

**Measure:** Number of new audits opened.

#### **(2) Strategy: Increase voluntary compliance from identifying non-filers.**

**Target:** Find 30 non-filers through compliance work.

**Measure:** Number of non-filers brought into compliance.

#### **(3) Strategy: Improve the environment necessary for increased collections.**

**Target:** Increase paternity establishments established to 90%.

**Measure:** Percentage of paternity establishments established.

**Analysis of results and challenges:** Improving the number of paternities that the Child Support Enforcement Division established allows cases to be available for establishing an order and, in turn, allows money to start flowing to the family. Better coordination with the Department of Health and Social Services, Bureau of Vital Statistics to correct recording deficiencies will also vastly improve the division's results.

**Target:** Increase cases with orders to 84%.

**Measure:** Percentage of cases with orders.

**Analysis of results and challenges:** Collections cannot be made without a proper order in place. Establishing this quickly and effectively is one of the keys to a successful child support program. Reviewing and streamlining the division's process in establishing cases will aid in the timeliness of collecting and distributing child support.

#### **(4) Strategy: Improve the efficiency of distributing child support.**

**Target:** Increase recipients on automated distribution to 60%.

**Measure:** Percentage of recipients receiving automated distribution.

**Analysis of results and challenges:** In addition to improving the timeliness of distribution of the funds to recipients and the ease with which they can access their money, automated distribution greatly reduces the costs associated with disbursing money. Implementation of an electronic payment card pilot project will be a major step in achieving this target.

**Target:** Decrease money on hold to less than 1%.

**Measure:** Percentage of money on hold.

**Analysis of results and challenges:** The decrease of undistributed collections is quickly becoming a national priority for the federal Office of Child Support. Greater attention to the causes and categories of these funds will be expected.

#### **(5) Strategy: Portfolio Investment Officer staff is continually upgraded in experience and education.**

**Target:** Increase average longevity of the investment officers to 5 years.

**Measure:** The average longevity of investment officers. (Include the Chief Investment Officer and the 4 public market and 2 private market staff reporting to the Chief Investment Officer.)

**Target:** At least 4 investment staff will have their Certified Financial Analyst designation.

**Measure:** Number of investment staff with Certified Financial Analyst designation.

#### **(6) Strategy: Provide PFD Division staff with needed training to perform effectively.**

**Target:** 100% of new staff receive standardized training within first six months.

**Measure:** Percentage of new staff that receive standardized training within first six months.

#### **(7) Strategy: Maximize use of PFD Division staff across unit lines throughout the cycle.**

**Target:** 100% of staff are cross-trained to work in at least one other unit.

**Measure:** Percentage of staff trained to work in at least one other unit.

#### **(8) Strategy: Increase use by the public of online filing and applicant support services.**

**Target:** 95% of PFD applicants use on-line filing.

**Measure:** Number of PFD applicants that use on-line filing.

## Key Component Challenges

- The role of the Commissioner of Revenue and the department has been and continues to be important in providing revenue information to Executive and Legislative policy makers.
- The Department will continue to work with the Departments of Law and Natural Resources on Stranded Gas Act Implementation.
- Key debt issues include the "negative outlook" given the State by Moody's Investor's Services.

## Significant Changes in Results to be Delivered in FY2005

In FY2005, the Office of the Commissioner will continue to operate and manage much as it has done in the current fiscal year. There may be a slight diminishment in its ability to contract for specialists to deal with emerging issues or to address formal hearing backlog with the reduction in its contractual line.

## Major Component Accomplishments in 2003

- Governor's oil and gas exploration and development legislation during the First Session of the Twenty Third Legislature included: Stranded Gas Development Act (HB16), Royalty Reduction/Production Tax Credit (SB185), and Cook Inlet Oil and Gas Incentives (HB 61).
- Alaska Permanent Fund Corporation Board of Trustee's approved Percent of Market Value (POMV) relating to fund distribution. POMV legislation was introduced and moved through committee in both the House and Senate.
- Sale of \$463 million General Obligation (GO) Bonds while maintaining AA rating.
- Legislation was introduced and approved (HB 146) to maintain eligibility for federal funds in the child support enforcement program.
- Revenue legislation passed by legislature included tobacco tax stamp (SB 168) and studded tire fees (SB 106).
- The Commissioner's Office recruited and hired the following key staff: Deputy Commissioners and Child Support Enforcement, Permanent Fund Dividend and Administrative Services Division Directors.
- The hearing section had no 2003 appeal decisions appealed to court. This indicates that the hearing section is gaining success in their efforts to write orders based on applicable statutes, regulations, and Supreme Court Decisions, and that explain their decisions well enough to the parties to avoid litigation and legal fees that could be costly to the department.

## Statutory and Regulatory Authority

AS 04  
 AS 09.25.100  
 AS 09.50  
 AS 10.25.570  
 AS 14.25.180  
 AS 16.10.265  
 AS 16.10.290  
 AS.18.26  
 AS 18.56  
 AS 25.25  
 AS 25.27  
 AS 34.45  
 AS 37.05.200  
 AS 37.10  
 AS 37.10.050-.087  
 AS 37.13



AS 37.14.011  
AS 37.14.110  
AS 37.14.120  
AS 37.14.200  
AS 37.15  
AS 37.17  
AS 38.05.036  
AS 39.35.110  
AS 43  
AS 44.25  
AS 44.82  
AS 44.83.386  
AS 44.85  
AS 45.98.050

| Contact Information  |
|--|
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**Commissioner's Office  
Component Financial Summary**

*All dollars shown in thousands*

|  | FY2003 Actuals | FY2004 Authorized | FY2005 Governor |
|--|----------------|-------------------|-----------------|
| <b>Non-Formula Program:</b>                |                |                   |                 |
| <b>Component Expenditures:</b>             |                |                   |                 |
| 71000 Personal Services                    | 811.0          | 880.2             | 848.5           |
| 72000 Travel                               | 45.0           | 39.8              | 39.8            |
| 73000 Contractual                          | 93.2           | 920.6             | 947.6           |
| 74000 Supplies                             | 9.6            | 19.4              | 19.4            |
| 75000 Equipment                            | 8.2            | 5.0               | 1.0             |
| 76000 Land/Buildings                       | 0.0            | 0.0               | 0.0             |
| 77000 Grants, Claims                       | 0.0            | 0.0               | 0.0             |
| 78000 Miscellaneous                        | 0.0            | 0.0               | 0.0             |
| <b>Expenditure Totals</b>                  | <b>967.0</b>   | <b>1,865.0</b>    | <b>1,856.3</b>  |
| <b>Funding Sources:</b>                    |                |                   |                 |
| 1004 General Fund Receipts                 | 146.6          | 271.9             | 230.4           |
| 1007 Inter-Agency Receipts                 | 312.5          | 326.3             | 340.7           |
| 1108 Statutory Designated Program Receipts | 0.0            | 750.0             | 750.0           |
| 1133 Indirect Cost Reimbursement           | 507.9          | 516.8             | 535.2           |
| <b>Funding Totals</b>                      | <b>967.0</b>   | <b>1,865.0</b>    | <b>1,856.3</b>  |

**Estimated Revenue Collections**

| Description                              | Master<br>Revenue<br>Account | FY2003<br>Actuals | FY2004<br>Authorized | FY2005<br>Governor |
|--|------------------------------|-------------------|----------------------|--------------------|
| <b>Unrestricted Revenues</b>             |                              |                   |                      |                    |
| None.                                    |                              | 0.0               | 0.0                  | 0.0                |
| <b>Unrestricted Total</b>                |                              | <b>0.0</b>        | <b>0.0</b>           | <b>0.0</b>         |
| <b>Restricted Revenues</b>               |                              |                   |                      |                    |
| Interagency Receipts                     | 51015                        | 312.5             | 326.3                | 340.7              |
| Statutory Designated<br>Program Receipts | 51063                        | 0.0               | 750.0                | 750.0              |
| UA Indirect Cost Recovery                | 51115                        | 507.9             | 516.8                | 535.2              |
| <b>Restricted Total</b>                  |                              | <b>820.4</b>      | <b>1,593.1</b>       | <b>1,625.9</b>     |
| <b>Total Estimated<br/>Revenues</b>      |                              | <b>820.4</b>      | <b>1,593.1</b>       | <b>1,625.9</b>     |

**Summary of Component Budget Changes  
From FY2004 Authorized to FY2005 Governor**

*All dollars shown in thousands*

|  | <u>General Funds</u> | <u>Federal Funds</u> | <u>Other Funds</u> | <u>Total Funds</u> |
|--|----------------------|----------------------|--------------------|--------------------|
| <b>FY2004 Authorized</b>   | <b>271.9</b>         | <b>516.8</b>         | <b>1,076.3</b>     | <b>1,865.0</b>     |
| <b>Adjustments which will continue<br/>current level of service:</b> |                      |                      |                    |                    |
| -Fiscal Note Reduction for Stranded<br>Gas Development Act (HB 16)   | -4.0                 | 0.0                  | 0.0                | -4.0               |
| -Changes to Retirement and Other<br>Personal Services Rates          | 0.0                  | 18.4                 | 14.4               | 32.8               |
| <b>Proposed budget decreases:</b>                                    |                      |                      |                    |                    |
| -Reduction in Contractual<br>Agreements                              | -37.5                | 0.0                  | 0.0                | -37.5              |
| <b>FY2005 Governor</b>   | <b>230.4</b>         | <b>535.2</b>         | <b>1,090.7</b>     | <b>1,856.3</b>     |

**Commissioner's Office  
Personal Services Information**

| Authorized Positions |                                    | Personal Services Costs          |                                  |                |
|----------------------|------------------------------------|----------------------------------|----------------------------------|----------------|
|                      | <u>FY2004</u><br><u>Authorized</u> | <u>FY2005</u><br><u>Governor</u> |                                  |                |
| Full-time            | 11                                 | 10                               | Annual Salaries                  | 634,341        |
| Part-time            | 0                                  | 0                                | Premium Pay                      | 0              |
| Nonpermanent         | 0                                  | 0                                | Annual Benefits                  | 237,843        |
|                      |                                    |                                  | <i>Less 2.72% Vacancy Factor</i> | (23,684)       |
|                      |                                    |                                  | Lump Sum Premium Pay             | 0              |
| <b>Totals</b>        | <b>11</b>                          | <b>10</b>                        | <b>Total Personal Services</b>   | <b>848,500</b> |

**Position Classification Summary**

| Job Class Title             | Anchorage | Fairbanks | Juneau   | Others   | Total     |
|-----------------------------|-----------|-----------|----------|----------|-----------|
| Commissioner                | 0         | 0         | 1        | 0        | 1         |
| Dep Commissioner            | 0         | 0         | 1        | 0        | 1         |
| Exec Secretary II           | 0         | 0         | 1        | 0        | 1         |
| Law Office Assistant I      | 1         | 0         | 0        | 0        | 1         |
| Paralegal I                 | 0         | 0         | 1        | 0        | 1         |
| Project Coord               | 1         | 0         | 0        | 0        | 1         |
| Revenue Hearing Examiner I  | 1         | 0         | 1        | 0        | 2         |
| Revenue Hearing Examiner II | 0         | 0         | 1        | 0        | 1         |
| Spec Asst To The Comm II    | 0         | 0         | 1        | 0        | 1         |
| <b>Totals</b>               | <b>3</b>  | <b>0</b>  | <b>7</b> | <b>0</b> | <b>10</b> |