

ALASKA STATE LEGISLATURE  
**SENATE STATE AFFAIRS COMMITTEE**

March 14, 2002  
3:40 p.m.

**MEMBERS PRESENT**

Senator Gene Therriault, Chair  
Senator Randy Phillips, Vice Chair  
Senator Ben Stevens  
Senator Bettye Davis

**MEMBERS ABSENT**

Senator Rick Halford

**COMMITTEE CALENDAR**

SENATE BILL NO. 318

"An Act relating to assignments of permanent fund dividends; and providing for an effective date."

HEARD AND HELD

**PREVIOUS COMMITTEE ACTION**

SB 318 - No previous action to record.

**WITNESS REGISTER**

Russ Kelly  
Intern to Senator Leman  
Alaska State Capitol, Room 516  
Juneau, AK 99801-1182  
**POSITION STATEMENT:** Introduced SB 318

Nancy Jones  
Permanent Fund Dividend Division  
11<sup>th</sup> Floor  
State Office Building  
Juneau, AK 99811  
**POSITION STATEMENT:** Answered questions on SB 318

Ted Gianoutsos  
No address provided  
**POSITION STATEMENT:** Testified in support of SB 318

**ACTION NARRATIVE**

**TAPE 02-14, SIDE A**

**CHAIRMAN GENE THERRIAULT** called the Senate State Affairs Committee meeting to order at 3:40 p.m. Present were Senators Davis, Stevens, Phillips and Chairman Therriault.

There was just one item on the agenda.

#SB 318

**SB 318-O.K. TO ASSIGN PFD TO NONPROFIT CORP**

RUSS KELLY, Intern to Senator Leman, said SB 318 allows Alaskans to assign the right to receive their Alaska Permanent Fund Dividend (PFD) to a non-profit organization that falls under 501(c)(3) of the Internal Revenue code. Currently PFDs can only be assigned to a federal, state or municipal government or to a court.

The intent of the bill is to provide more options for those Alaskans who wish to have their PFD donated directly. They also hope it will promote the spirit of giving.

They have been working with the permanent fund division to work out a system whereby the responsibility will be spread among the non-profits and those making the donations.

CHAIRMAN THERRIAULT noted Ted and Françoise Gianoutsos had testimony to give and their written testimony would be included in the record. He asked for an explanation of how this would spur any additional charitable giving. He didn't think the mechanism actually provided an incentive to give because there was no additional federal tax benefit. He asked why you couldn't simply write a check to the charity of your choice once you've received your dividend.

MR. KELLY replied that some individuals want to have their dividend transferred directly to the charity of their choice.

CHAIRMAN THERRIAULT noted the Department of Revenue analysis said that, passage of the bill would not require the dividend division to publish a list in the annual application booklet. Since the non-profits would have to be 501(C)(3)s and a list would not be provided, the dividend division would have to find out whether particular organizations were actually qualified to receive the

money. He asked whether that explained the fiscal note.

MR. KELLY said they were hoping that the onus would be on the non-profit to make sure that the permanent fund division had their current information. Also, there could be an automated system where the non-profits are listed and the individual who wanted to make the donation would assume the responsibility to check that list to ensure that the recipient was qualified.

CHAIRMAN THERRIAULT asked whether Senator Leman had thought about the groups that would qualify under the 501(c)(3) designation because he believes that Congress should address this type of non-profit. He is personally concerned because they generate money through the tax benefit that they are able to give to individuals and although they aren't supposed to be involved in politics, they have found loopholes to get around that. He asked Mr. Kelly whether he had discussed this with Senator Leman.

MR. KELLY said that has been one of Senator Leman's concerns from the beginning. Mr. Kelly discussed that subject with the IRS and confirmed that there are many opportunities for this type of non-profit to skirt the rules. Although they are aware of the problem, they have no solution at this time.

SENATOR PHILLIPS asked whether this has to be so broad based to make it constitutional.

CHAIRMAN THERRIAULT said the Legislature certainly has the ability to put together a list but he isn't sure what criteria upon which the list would be based. If an organization were not on the list, the individual would still have the option of writing a personal check to that organization.

SENATOR PHILLIPS asked what generated the interest that resulted in this bill.

MR. KELLY replied it was a constituent concern.

NANCY JONES, Director of the Permanent Fund Dividend Division, explained the fiscal note they submitted is a low end or beginning number of the impact that it would have on their program. Presently, they have an assignment system whereby all or part of a dividend can be assigned to government agencies. Including charitable organizations would require the development of a new category. The assignment is up to the applicant so they would do no advertising and take no responsibility, they would simply be a medium. If this bill is worded so that the onus is on the applicant to ensure the recipient is in fact a 501(c)(3) and

they fill out a form with the correct federally designated number and dollar amount, then the division is just the medium to get the funds to a designation. If 20 percent of the adult population participated, the division would need an additional full time person to handle the data entry, but if the idea didn't generate much interest then the cost would be correspondingly less. The other alternative is for the division to maintain a list, which would bring a variety of costs. They would incur publishing costs and would have to work with the IRS to maintain the list. The tracking and maintenance would cause a steep increase in cost because it would become part of the PFD program.

CHAIRMAN THERRIAULT commented that anytime something is added to the application to request information, there is increased opportunity for errors which results in increased workload and cost for the division. He wasn't sure the fiscal note fully captured the upside cost potential.

SENATOR PHILLIPS asked whether the division had taken a position on the bill.

MS. JONES replied they would accommodate the Legislature's decision.

SENATOR STEVENS asked Ms. Jones to speak to Mr. Gianoutsos' written testimony charging that the four pages in the PFD application for the college savings plan amounts to free advertisement for T. Rowe Price Brokerage.

MS. JONES replied that is incorrect. The university pays the division \$32,000 per year to buy the space in the booklet and this is the first year that T. Rowe Price is involved under contract.

CHAIRMAN THERRIAULT noted T. Rowe Price is under a ten year contract.

SENATOR STEVENS reconfirmed that T. Rowe Price is managing the money but it's the university that is encouraging participation in the program.

MS. JONES replied that was correct.

SENATOR STEVENS expressed concern that if there is the ability to designate to non-profits then those non-profits might very well become competitive for the PFD and spend dedicated money to get additional money. He asked Ms. Jones to comment.

MS. JONES thought it would be no different than the March of Dimes sending address labels; they would just mention they would like to get a portion of the dividend. Whoever advertises to solicit funds will incur the cost.

SENATOR STEVENS responded it is such a massive amount of money that the non-profits would enter the advertising field to get the designation of the fund and he isn't sure that is what non-profits should be doing.

There were no further questions.

CHAIRMAN THERRIAULT told Mr. and Mrs. Gianoutsos that their written testimony would be entered into the record. He asked whether they had any comments or response to the previous testimony.

TED GIANOUTSOS said they were there "in the capacity of permanent fund dividend assignment of rights philanthropists for the Alaska common good" and were happy to answer any questions because this legislation was their idea.

CHAIRMAN THERRIAULT asked whether they had an answer to the question of how the mechanism would spur philanthropic giving.

MR. GIANOUTSOS used the college savings account as an example saying that program encourages savings for college and this would work in the same way. He thought non-profits would have to advertise less if direct assignments could be made.

CHAIRMAN THERRIAULT pointed out there was a benefit to the individual who participated in the college savings program. Not only was there the benefit of buying a future college course at today's price but also there was a federal tax benefit for participating in the 529 Plans. There is a compelling reason to participate because they can stretch their dollar or grow their savings tax-deferred. He did not see that type of motivation built into this proposed bill.

MR. GIANOUTSOS agreed their plan did not offer that kind of motivation to participate. Their point is that, "This would be a way to facilitate and encourage giving to non-profits of probably substantially more than people would otherwise give if they were to cut the check."

CHAIRMAN THERRIAULT asked him to comment on the 501(C)(3) non-profits that generate money then launder it into politics. He

noted an article about the PETA organization (People for the Ethical Treatment of Animals) describing their troubles caused by collecting 501(C)(3) receipts and then making contributions to ELF (Earth Liberation Front), which is a terrorist organization that is listed with the FBI. This is an extreme, but there are plenty of examples of 501(C)(3) money being generated then laundered into politics. He asked Mr. Gianoutsos if he had thought about that and whether he had an answer to how that could be prevented.

MR. GIANOUTSOS admitted he had no answer but his understanding is that the federal government designated what organization qualifies as a 501(C)(3). He thought there were several thousand of these non-profits in Alaska and they all have identifying federal tax-exempt identification numbers and have certain guidelines they must follow. The guidelines place a strict limitation on the amount of money that can be used for political purposes. He used Audubon as an example of a national environmental organization with an Alaska division that has its own rules as well as federal rules. Of course those rules could be abused and he had no idea how that could be prevented, but was sure there were more beneficial organizations for the Alaska common good than the few that might be bad.

Following is the written testimony from Ted and Françoise Gianoutsos:

**BENEFITS OF THE GOOD NEIGHBOR ACT**

Thank you so much, Mr. Chairman, for inviting us to testify today, by teleconference from Anchorage, on SB318, "The Good Neighbor Act," introduced by Senate Majority Leader Loren Leman.

The benefits of the "Good Neighbor Act" are many, but the principal benefit is that it will facilitate and encourage PFD gift assignment philanthropy for the Alaska common good. It will motivate average Alaskans to become PFD gift assignment philanthropists directly to the 501(c)(3) Alaskan non-profit of their choice.

Of course Alaskans can already cash their PFD check and give all, or a portion of it, to anyone or anything they wish - and many Alaskans do. They can also use a portion or all of their PFD checks to save for college expenses. Yet, the PFD "College Savings Plan" check-off facilitates and encourages saving for college to benefit Alaskans through higher education and thus ultimately benefit the Alaska common good. Even if some Alaskans choose to use the college savings plan to attend college Outside

and even if some graduates of our University of Alaska choose to live and work Outside, the PFD "College Savings Plan" is nonetheless a worthwhile program for the Alaska common good - so too is the "Good Neighbor Act".

The "Good Neighbor Act" can lead to the creation of the "Alaska Common Good Fund" at the Permanent Fund division. The name "Alaska Common Good Fund" would identify the program just as the "College Savings Plan" identifies that worthy effort. And just as the administration of the "College Savings Plan" is contracted-out by competitive bid - currently to T. Rowe Price, a for-profit corporation in Baltimore, Maryland - so too could the administration of the "Alaska Common Good Fund" be contracted-out, by competitive bid, to hopefully Foraker, that was established last year by the United way to help all Alaskan non-profits, or to another Alaskan non-profit corporation such as the Community Foundation, Catholic Foundation, Homer Foundation or any other successful bidder.

The Permanent Fund division would then deduct a nominal \$2.00 administration fee from the PFD assignment donor's gift - as it already does for other assignments - and make only one bulk electronic transfer to the "Alaska Common Good Fund" administrator. The program administrator could then in turn deduct a small administration fee from the donor's gift or receive an administration reimbursement fee from the recipient non-profit. Thus the program costs would be born by the donor, or non-profits, and not by the taxpayer.

Of course PFD gift assignment philanthropists would choose the Alaskan non-profits that would be the recipients of their gifts. The philanthropists could also ask the recipient non-profits to establish a U.S. Treasury Direct family endowment account with their gift assignment as we ourselves did at the Alaskan SeaLife Center last year with our first PFD gift assignments.

This would further enhance the beneficial effect of the program as it gives the donor an "ownership" interest in the donor's chosen non-profit. Obviously, such a family endowment account has many advantages and benefits such as encouraging further giving with leveraged gifts, security of investment, no-cost investment of gifts up to \$100,000 per account, encouragement of a family tradition of philanthropy for the Alaska common good, etc.

The federal income tax considerations of the "Good Neighbor Act"

can easily be worked out with cooperation from our Alaska congressional delegation. Already for those who itemize their deductions there is no problem as the increase in the taxpayers' income is offset by the deduction of the charitable gift contribution.

Also a list of eligible Alaskan non-profits can be posted on the Permanent Fund division's web site with their name and federal non-profit identification number. Alaskans can also be made aware of the "Alaska Common Good Fund" on the PFD web site as well as with a page in the PFD application booklet. Indeed the "College Savings Plan" has 4 pages in the booklet, which also amounts to free advertisement for T. Rowe Price's brokerage business. Surely, if the PFD application booklet provides 4 pages of advertisement for an Outside brokerage house's business, it can provide one page of publicity for an Alaska non-profit administrator, whose sole function is to enhance our Alaska common good.

Most importantly, the "Good Neighbor Act" will result in a very significant increase in Alaskan philanthropy for the common good. We firmly believe that with the enthusiastic promotion of the "Alaska Common Good Fund" thousands of our fellow Alaskans will choose to follow our PFD gift assignment example. These gift assignments can be matched in several ways and the resulting increased capital can be securely invested in U.S. Treasury Direct family endowment accounts which will provide a solid long-term source of funding for Alaskan non-profits to benefit our Alaska common good - and that certainly can only be a good thing!

We hope that all five of you members of the Senate State Affairs Committee will sign on as co-sponsors of SB318 at the conclusion of today's hearings. As all of you know, we have personally contacted every number of the Senate and House by letter and also by telephone asking for their co-sponsorship of SB318 - HB493. We believe that the "Good Neighbor Act" is quite simply good legislation that obviously benefits the Alaska common good and thus merits the co-sponsorship of all 60 members of our Alaska legislature. Please add you names to the 10 who have already co-sponsored both bills. Please encourage your colleagues to add their names as well.

The best philanthropists have always been those average Americans who have little, but give much. They are the backbone of American philanthropy, giving far more than the rich. We are doubly blessed as Americans and Alaskans, receiving a yearly Permanent Fund Dividend from the "Great Land" of Alaska, which enables each of us to become continuing PFD gift assignment

philanthropists for our Alaska common good. Let us do all we can to facilitate and encourage this philanthropy to our Alaskan non-profits of our choice to make Alaska an even better place to live!

CHAIRMAN THERRIAULT announced it was his intention to discuss this with Senator Leman.

SB 318 was held in committee.

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There being no further business before the committee, Chairman Therriault adjourned the meeting at 4:20 p.m.