

ALASKA STATE LEGISLATURE
SENATE STATE AFFAIRS STANDING COMMITTEE

February 16, 2006

3:36 p.m.

MEMBERS PRESENT

Senator Gene Therriault, Chair
Senator Thomas Wagoner, Vice Chair
Senator Charlie Huggins
Senator Kim Elton

MEMBERS ABSENT

Senator Bettye Davis

COMMITTEE CALENDAR

SENATE BILL NO. 297

"An Act relating to contributions from permanent fund dividends to certain educational organizations and to certain charitable organizations that provide a positive youth development program, workforce development, aid to the arts, or aid and services to the elderly, low-income individuals, individuals in emergency situations, disabled individuals, or individuals with mental illness; and providing for an effective date."

HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 297

SHORT TITLE: CONTRIBUTIONS FROM PERM. FUND DIVIDENDS

SPONSOR(S): STATE AFFAIRS

02/14/06	(S)	READ THE FIRST TIME - REFERRALS
02/14/06	(S)	STA, FIN
02/16/06	(S)	STA AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

Heather Brakes, Staff to Senator Therriault
Alaska State Capitol
Juneau, AK 99801-1182

POSITION STATEMENT: Introduced SB 297

Sharon Barton, Director
Permanent Fund Dividend Division

Department of Revenue
PO Box 110400
Juneau, AK 99811-0400

POSITION STATEMENT: Answered questions related to SB 297

Jeff Clarke, Chief Administrative Officer
Rasmuson Foundation
301 West Northern Lights Blvd.
Suite 400
Anchorage, AK 99503

POSITION STATEMENT: Answered questions related to SB 297

ACTION NARRATIVE

CHAIR GENE THERRIAULT called the Senate State Affairs Standing Committee meeting to order at [3:36:33 PM](#). Present were Senators Kim Elton, Thomas Wagoner, Charlie Huggins, and Chair Gene Therriault.

SB 297-CONTRIBUTIONS FROM PERM. FUND DIVIDENDS

CHAIR GENE THERRIAULT announced SB 297 to be up for consideration. He asked Ms. Brakes to introduce the bill.

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HEATHER BRAKES, Staff to Senator Therriault, explained that the bill establishes a streamlined mechanism for Alaskans to donate money to charitable organizations. The Permanent Fund Division of the Department of Revenue would contract with an agent to implement and administer the program. She described the design as similar to what is currently done for the University of Alaska college savings account through the Permanent Fund Dividend (PFD) application.

The bill only allows applicants who file electronically the option of making contribution(s) and the amount can either be a varying dollar amount or a percentage of the dividend.

The department would contract with an agent that would pay the implementation and administrative costs for the first three years. The reason for that is so that the qualifying organizations would receive 100 percent of the donations. After that time administrative costs would be deducted from the donations and applied equitably to all recipients. The agent would also be responsible for the due diligence on applications including verifying financial audits, sending out tax

information to donors, and paying for the initial system upgrades to design the application and load the system. The agent would also be responsible for confirming that groups that applied and had been accepted to the program were able to receive and administer funds to the recipients.

Each of the estimated 500 organizations that might qualify for inclusion must file an application. Qualifying criteria includes having 501(c)(3) status for two calendar years prior to application. The organization must have an IRS 990 form on file and have a local advisory board. As currently drafted, the organizations would receive \$100,000 or 5 percent of their annual receipts from contributions. If the annual budget is higher than \$50,000 in the preceding fiscal year the organization must provide the program agent with an independent financial audit that is conducted by a certified accountant. Grant organizations and contributors to 501(c)(4) or (6) non-profits would not be eligible.

As currently drafted, the program sunsets in three years unless reauthorized by the Legislature. The Rasmuson Foundation has offered to underwrite the estimated \$300,000 in administrative and startup costs in the initial years.

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CHAIR THERRIAULT added that eligibility is structured so that contributions are restricted to established non-controversial entities that already have community support. You cannot have a 501(c)(3) that grants money to (c)(4)s and (c)(6)s that can engage in lobbying activities or political expenditures. The idea is that the money would flow to programs that provide a direct benefit in the public.

He noted that the title indicates the wide variety of organizations that would be eligible. He asked Ms. Brakes to explain how they determined that there might be 500 eligible entities.

MS. BRAKES explained that: 3,000 non-profits are currently registered in Alaska; 2,000 have current 990 tax returns on file; 1,000 have audits; and 500 receive at least 5 percent of their annual receipts from charitable giving.

CHAIR THERRIAULT noted that Alaska and Hawaii have been identified as the most generous region according to a recent Time Magazine article. However, local charities have indicated

that they tend to feel the brunt when Alaskans respond to disasters outside the state.

SB 297 is a streamlined effort to take advantage of the offer from the Rasmuson Foundation to underwrite the start-up costs for a number of years.

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SENATOR WAGONER asked whether this would require a rewrite of the Permanent Fund computer program.

CHAIR THERRIAULT asked Ms. Barton to respond.

SHARON BARTON, Director, Permanent Fund Dividend Division, advised that it would take substantial changes to the computer system to recognize a request to deduct a certain amount from an individual check. The number of potential amounts under the proposal adds further complication. The initial estimate, including the changes to the web site, is \$200,000 if paper applications aren't included. Including paper applications will increase the cost.

SENATOR WAGONER asked about the timing.

MS. BARTON responded optimistically and said she believes that the division could get a contractor to complete the project by October 2007 as the bill envisions.

SENATOR ELTON asked for an interpretation of line 25 on page 3 to clarify whether it means the payment made in 2007 or the PFD for 2007.

CHAIR THERRIAULT stated that the dividend payment for 2007 is determined by residency in 2006 so the division would have a year to prepare for the electronic application that would be available to fill out on January 1, 2007.

SENATOR ELTON noted that the bill speaks to the PFD for 2007 and he didn't know if that is for residency in 2007 or the check that is issued in 2007.

CHAIR THERRIAULT answered it's the check that is issued in 2007.

MS. BARTON advised that the division interprets the bill the same way. It refers to the dividend that will be paid in October as the 2006 dividend. She said she interprets the bill to mean the dividend paid in 2007.

CHAIR THERRIAULT said he would ask the drafter if adding the word "issued" would clarify the point.

SENATOR ELTON asked if a parent could make a contribution from a minor child's check.

CHAIR THERRIAULT replied he envisions that they could. He asked Ms. Barton if he could have his son's check deposited into his checking account.

MS. BARTON said yes and nothing in statute prohibits the division from honoring a parent's request to make a donation from a child's PFD.

SENATOR ELTON asked whether the state could make a contribution from a minor's dividend if that minor is in state custody

CHAIR THERRIAULT replied that isn't his intent.

MS. BARTON added there is nothing in statute that would allow a state agency to do that.

SENATOR ELTON asked for elaboration on the administrative cost and how those would be switched in several years.

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MS. BRAKES explained that the intent is that the agent would pay the administrative costs for the first three years. If the program is reauthorized, the costs thereafter would be equally distributed to the recipient organizations.

CHAIR THERRIAULT clarified there would be a formula to spread the costs among the entities that received the money.

SENATOR HUGGINS suggested that a \$10 contribution floor might not be practical. He then referenced a proposal to hold certain PFD checks and asked whether those would be available for donations.

MS. BARTON responded if that bill were to pass, the designated donation would be held until the PFD was paid to the individual. Designated donations would be handled the same way that garnishments are currently handled.

CHAIR THERRIAULT suggested it might be advisable to make the policy call to disallow such deductions. With regard to a floor, he said he was open to suggestion from the committee.

JEFF CLARK, Chief Operating Officer for the Rasmuson Foundation, asserted that it's individuals who power the nation's philanthropy. To demonstrate that point he reported that in 2003 non-profits received \$241 billion, and 83 percent of the donations came from individuals. On the other hand, Alaskans typically give 30 percent less of their annual income to non-profits than the nationwide average. The benefit of this legislation to Alaskans, he said, is that the selection process would be easier because the various entities would be listed in one place.

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CHAIR THERRIAULT asked Ms. Barton to talk about the additional expense associated with including the paper application in the proposal and about the success the division has had in its effort to encourage applicants to file electronically.

MS. BARTON explained that including paper applications would add about \$40,000 in programming costs. Information about the new program would already be in the application booklet so the incremental cost would be to include the check-off space on the application and in the booklets that are distributed around the state. The real cost comes from the fact that there is no unused area on the application form, which means an additional page on the application would be necessary. Last year the cost for the extra page and additional forms was between \$4,000 and \$5,000. Ms. Barton advised that the extra page would also place the booklet into the next price range for postage so she would estimate the overall additional costs associated with adding the option to paper applications would be about \$50,000.

She reported that the effort to encourage electronic application was overwhelmingly successful. 282,000 people applied in January, which is an encouraging increase from the 211,000 electronic applications filed last year. February has been typically slow, but 350,000 on-line applications are anticipated before the end of the application period. That would amount to a little over half and more are anticipated next year.

CHAIR THERRIAULT said he envisions a sorting mechanism that would make it easier for applicants to find local entities without having to sort through the statewide list.

SENATOR ELTON announced that he would have his staff look into the potential consequences this might have in terms of local contributions to schools. A second question he had related to how the distribution of donations would be impacted since rural areas of the state tend to use paper applications more frequently.

CHAIR THERRIAULT responded he didn't think the option would impact local support in any way and it wouldn't factor into a community's responsibility to support education.

He asked if members had comments on the specific amount of the donation.

SENATOR ELTON acknowledged that it would be more difficult for the division to administer, but he thought it would be best to leave the amount open and without a floor.

SENATOR WAGONER observed that with electronic applications the computer wouldn't allow over contributions.

SENATOR HUGGINS recalled that no one took advantage of a similar bill that Senator Green sponsored. He argued that donations should be higher than \$10 and not exceed the total value of the dividend.

MS. BARTON said simplicity is better.

MS. BRAKES drew attention to page 2, line 2, which says: "If the total amount of contributions elected by an applicant exceeds the amount of the permanent fund dividend that the applicant is entitled to receive, contributions shall be deducted from the dividend in the order the organizations elected by the applicant appear on the contribution list..." The recipient list is reordered annually so that, for example, the ice skating club of North Pole isn't always the last on the list and therefore likely to receive the least money.

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MS. BARTON said another option would be to deduct contributions in the order that the person lists them on the application.

CHAIR THERRIAULT reviewed paragraph (8) on page 3 and said the language wouldn't preclude a smaller entity from participating; it's just that a charity that has an annual budget larger than \$250,000 would have to fulfill the financial audit requirement.

MS. BRAKES agreed.

SENATOR WAGONER mentioned Senator Green's bill and questioned spending the money to establish this option without knowing the level of interest at the community level.

CHAIR THERRIAULT related that the other option set up an account by which people could make donations whereas this option would be part of the electronic application. He suggested that the various charitable organizations would probably encourage people to make donations and furthermore this is a pilot program. If, at the end of three year trial, there has been little response the program would sunset.

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SENATOR WAGONER remarked this could be an expensive effort that might not increase the level of giving.

CHAIR THERRIAULT surmised that the more sophisticated charities would say that the easier it is to give, the more givers there will be. The hope is that making it easier to give will grow the pool of givers.

SENATOR ELTON asked if the audit requirement for entities that have an annual budget in excess of \$250,000 was arbitrary because he believes that any entity participating in the program ought to be subject to an audit regardless of the size of its budget.

He suggested it'd be worthwhile for members to check with local United Way campaigns because a lot of fundraising is targeted on that October date and he suspects that this new option will be competition for the same funds.

CHAIR THERRIAULT asked Ms. Brakes the genesis of the \$250,000 threshold.

MS BRAKES responded she wasn't sure where the dollar amount came from, but Mr. Clark might have an answer.

CHAIR THERRIAULT asked Mr. Clark if the \$250,000 audit threshold was a federal requirement.

MR. CLARK replied his understanding is that it is not a federal requirement and he would agree that the number is probably arbitrary. Referencing previous comments he told the committee that if five percent of the people who are eligible for the PFD

were to make an average donation of \$100, that would amount to an incremental \$3 million per year for Alaska non-profits. This is one avenue to help non-profits be more sustainable, he said, and if this bill passes, the Rasmuson Foundation would be happy to undertake a public awareness campaign.

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CHAIR THERRIAULT asked Ms. Barton if she had demographic information on the more than 300,000 electronic applications that have been filed.

MS. BARTON replied 2004 applications were received from every zip code in the state, but she hadn't broken down whether or not there was a higher percentage of electronic filers coming from Anchorage - for example - than rural Alaska. That's the next step, she said.

SENATOR HUGGINS asked if Friends of the National Rifle Association (NRA) would fit the parameters.

CHAIR THERRIAULT said he didn't believe so because of lobbying activities, but the process begins with inquiring about the entity's specific status. The next hurdle is that if the entity is a 501(c)(3) non-profit, it cannot grant any of its money to a 501(c)(4) or a 501(c)(6).

CHAIR THERRIAULT encouraged members to contact their local United Way campaigns and announced he would hold SB 297 in committee.

There being no further business to come before the committee, Chair Therriault adjourned the meeting at [4:31:20 PM](#)