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Introduced: 1/13/86
Referred: Community & Regional
Affairs and Finance

1 IN THE HOUSE

BY MARTIN

2

HOUSE BILL NO. 459

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FOURTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6 For an Act entitled: "An Act relating to interest earned on grant money;
7 and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 37.05 is amended by adding a new section to read;

10 Sec. 37.05.323. INTEREST EARNED ON GRANT MONEY. Interest earned
11 on money appropriated or allocated as a grant to an agency, municipal-
12 ity, or other recipient shall be, at the option of the recipient,

13 (1) retained by the recipient and used for purposes for
14 which the grant money may be used; or

15 (2) delivered by the recipient to the state for deposit in
16 the general fund.

17 * Sec. 2. AS 37.05.325 is amended to read:

18 Sec. 37.05.325. DEFINITIONS FOR AS 37.05.315 - 37.05.323
19 [AS 37.05.315 - 37.05.317]. In AS 37.05.315 - 37.05.323 [AS 37.05.-
20 315 - 37.05.317], "allocation" and "appropriation" have the meanings
21 given in AS 37.07.120(2) and (3).

22 * Sec. 3. This Act takes effect July 1, 1986.

REP. TERRY MARTIN

ELECTIVE DISTRICT 13
MOUNTAIN VIEW
RUSSIAN JACK SPRINGS
KUNAKA VALLEY
WENDORF AFB
CREEKSIDE
EAST ANCHORAGE



HOME
3960 REKA DRIVE B6
ANCHORAGE, AK 99508
PHONE 333 6990

DURING SESSION
POUCH V
STATE CAPITOL BUILDING
JUNEAU, AK 99811
PHONE 465 3783

Alaska House of Representatives

MEMORANDUM

To: Representative Peter Coll, Chairman
House Community and Regional Affairs Committee

From: Representative Terry Martin *TMM*

Date: April 10, 1986

Re: HB 459

An Act relating to interest earned on grant money"

For years, our legislative auditors have been urging the legislature to clarify whether a grantee is entitled to interest income resulting from investment of state grants. (I have attached the relevant portions of four different audits as examples.) There is no question that grantees can gain significant amounts of unrestricted revenue through investment of grants. In a Legislative Audit review of the 1981 Municipal Aid appropriations, it was pointed out that "...as of December 31, 1984, Anchorage had accrued interest earnings on Municipal Aid funds totally approximately \$15,650,000..."

Municipalities and other grantees insist that they have a right to do whatever they like with interest income, since there is no law restricting its use. The state attorney general, however, found, in a Memorandum of Advice dated March 18, 1985 (copy attached), that "...Use of public grant money for investment capital constitutes a diversion from the purpose assigned by the legislature..." and that "...Use of the money to generate further revenue for the grant recipient, absent specific statutory authority, would be an unauthorized use of public money."

In the same vein, it is also pointed out in the Memorandum that "...the federal comptroller general has consistently held that interest earned by a grantee on money advanced by the United States under a grant agreement belongs to the United States rather than to the grantee."

It is incumbent upon the Legislature to make clear how we intend interest income to be used. HB 459 specifies that such income be used toward the



project for which the grant was made, or returned to the state general fund. The bill makes clear our intent that grant funds are not provided so that the grantee can fund activities which have not been specifically approved and funded by the legislature; nor can funds, including interest income, be comingled without prior legislative approval.

The bill does encourage wise investment practices as a means of inflation-proofing a grant or as a means of alleviating cost overruns. It promotes fiscal responsibility and retains legislative oversight.

This bill will help protect the integrity of the legislative appropriation process. Your strong support and swift passage of HB 459 will clarify and strengthen our state grant programs.

jfh
attachments

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST
Bill/Resolution No.: H.B. 459
Title: An Act Relating to Interest
Earned On Grant Money

FISCAL DETAIL
Agency Affected: Department of Administration
BRU: Administrative Services

Sponsor: Martin
Requestor: House; C&RA; Finance
Date of Request: _____

Components: Municipal Grants

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
OPERATING						
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: Attach a separate page if necessary

It is anticipated that most grantees would apply interest earnings to the grant. Therefore, no fiscal impact is anticipated to result from the return of the funds to the State. There would be a reduction in the number of audits conducted since audits would have to be expanded to track the application of interest earnings.

Prepared By: Gary Bader *Gary M. Bader* Phone: 465-2277
Division: Administrative Services Date: January 24, 1986

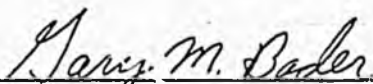
Approved by Commissioner: Eleanor Andrews Date: _____
Agency: Department of Administration

Distribution (by Agency preparing fiscal note):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

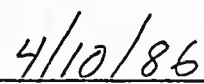
POSITION PAPER
HB 459

This bill would establish the requirement for municipal grant recipients to use interest money earned on investments of municipal grants for the purposes for which the grants were appropriated or return the earnings to the state for deposit in the general fund. This requirement would remove the incentive municipalities currently have to delay using grant funds in order to earn interest for purposes other than those associated with the grant and would provide an incentive to proceed with grant projects in a timely fashion.

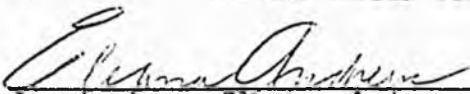
The Department of Administration supports passage of the bill.



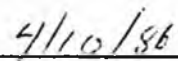
Gary M. Bader
Director
Division of Administrative Services
Department of Administration



Date



Commissioner Eleanor Andrews
Department of Administration



Date

MEMORANDUM

State of Alaska

TO: Hon. John Pugh, Commissioner
Department of Health &
Social Services

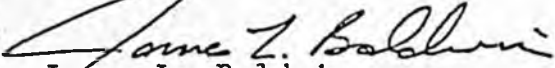
DATE: March 18, 1985

FILE NO: 366-341-85

TELEPHONE NO: 465-3600

FROM: Norman C. Gorsuch
Attorney General

SUBJECT: Payment of lump sum
appropriations for
hospital construc-
tion


By: James L. Baldwin
Assistant Attorney General
Governmental Affairs-Juneau

You have asked if it is permissible for the Department of Health and Social Services (DHSS) to pay money granted to the City of Cordova for hospital construction in a lump sum. [The city admits that it is not prepared to begin work on the hospital project. The city is requesting this advance in the form of an endowment so that it can invest the money and obtain interest income.] The city believes it can, through investment of the endowment, increase the amount ultimately available for hospital construction.

[We believe that the investment of public grant money during a delay pending implementation of the purpose of the grant is an unauthorized use.] The appropriation was made to DHSS to finance renovation and repair of various public health facilities. Sec. 4, Ch. 24, SLA 1984, p. 55, l. 15. The department finances grants for the construction of health care facilities under AS 18.25 from accounts credited with amounts from the appropriation. [We believe the legislature did not intend to appropriate money to capitalize an investment program for the grant recipient. Use of public grant money for investment capital constitutes a diversion from the purpose assigned by the legislature for the appropriation made to finance the grant.] A state certifying officer who authorizes a payment voucher for the disbursement of money to a grantee with knowledge that the grantee intends a diversion is subject to the duties imposed by AS 37.10.030(3), 37.10.040 and the criminal penalties imposed by AS 44.21.050.

We recognize that it is reasonable for a grantee to temporarily secure grant money in some way pending disbursement for the purpose of the grant. [It would be wasteful to penalize grantees for productive use of the money pending disbursement. However, it is not proper for a grantee to unduly delay the disbursement of grant money in its possession.] Traditionally, interest earned on advances of public grant money during a period of "undue" delay is considered property of the grantor. 1 R. Cappalli, Federal Grants and Cooperative Agreements § 5.11

Hon. John Pugh, Commissioner
Department of Health &
Social Services

March 18, 1985

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366-341-85

(1982). In his treatise, Cappalli observes: "Nothing preordains this result except its historical respectability." *Id.*, ch. 5, p. 23. This view is probably one that will be adopted by the Alaska courts. Some indication of the Alaska Supreme Court's philosophy may be found in Ellis v. City of Valdez, 686 P.2d 700 (Alaska 1974). In Ellis, the court declared "discretion to spend or not to spend within the parameters set by the legislature, rests with the agency for whose use the funds have been appropriated." 686 P.2d at 705 (citation omitted). By this the court meant that the power to choose the means to accomplish the purpose assigned by the legislature is up to the administering state agency. This places squarely upon the administering agency the responsibility to prevent the diversion of an appropriation for unauthorized purposes.

The legislative purpose assigned by law for the Cordova Hospital is "DHSS renovation and repair." Sec. 4, ch. 24, SLA 1984, p. 55, line 15. [Use of the money to generate further revenue for the grant recipient, absent specific statutory authority, would be an unauthorized use of public money.] If the money in the state treasury exceeds the amount necessary to finance obligations, the commissioner of revenue invests it in accordance with AS 37.10.070. The interest income earned is credited to the treasury and is considered an unrestricted receipt available for appropriation for any purpose.

State court decisions precisely on this issue were not located. It is probable that fiscal procedures and interpretations applied by the federal government constitute persuasive authority because nearly all of the statutes applicable to government fund accounting are derived from the days when Alaska was a federal territory. [The federal comptroller general has consistently held that interest earned by a grantee on money advanced by the United States under a grant agreement belongs to the United States rather than to the grantee. All interest is required to be accounted for as money of the United States, and must be deposited in the treasury as miscellaneous receipts] under 31 U.S.C. 484. 42 Comp. Gen. 289 (1962); 40 Comp. Gen. 81 (1960).

[This general rule applies whether the grantee is a public or private agency.] Exceptions to this rule may only be authorized by law. For example, states are specifically permitted by 42 U.S.C. 4213 to retain interest earned on grant money held awaiting disbursement. [The rationale for the prohibition is that statutes authorizing grant programs contemplate that recipients may not profit other than in the manner and to the extent provided by law. Money paid to a grantee is not to be held, but is to be applied promptly to the grant purposes.] 1 Comp. Gen. 652

Hon. John Pugh, Commissioner
Department of Health &
Social Services

March 18, 1985
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366-341-85

(1922). [In other words, money is paid out to a grantee to accomplish the grant purposes, not for the grantee to invest the money and earn interest at the expense of the treasury.]

Care should be taken when applying the advice given in this opinion to other grant programs established under authority other than AS 18.25. It appears that AS 37.05.315(d) authorizes advance payment of a municipal grant. The department is required to disburse 20 percent of the grant upon execution of the grant agreement. Further disbursements are payable based upon the previous month's expenditures. Another provision allows the department to make lump sum payment of a grant. However, [our conclusion regarding the ownership of interest earned on advances of municipal grant money remains the same.] The intent of the lump sum payment authorization is to accommodate municipalities making bulk purchases of materials and equipment to meet transportation and delivery schedules dictated by weather conditions. For each request for lump sum payment of municipal grant money, the commissioner of administration must determine that the money will be disbursed by the grantee without undue delay. A state agency may disburse grant money only if it determines that the grantee has an intent to proceed with execution of the purpose of the grant.

The Department of Health and Social Services has adopted 7 AAC 78.210 which appears to apply to the grant now under review. This regulation confers broad powers on a grantee to retain grant income if it is spent for the purposes of the grant. However, the term "grant income" is defined to mean "income earned by a grant project during the grant period." 7 AAC 78.320(10)(emphasis added). The regulations apparently do not authorize investment activity separate from that earned by the project financed by the grant. Rather, 7 AAC 78.190 requires monthly or quarterly disbursements of grant money to a grantee and makes no provision for advance payment of grant money. From this we conclude that existing regulations would not permit the disbursement requested by Cordova. We recommend that your department carry out its responsibility required by AS 18.25.100(2) and amend 7 AAC 78 to specifically establish fiscal and accounting procedures and controls necessary to prevent the investment activity proposed by the city and other similarly situated grantees.

We hope this memo has answered your question. Please call if you need further assistance.

JLB/pjg

Hon. John Pugh, Commissioner
Department of Health &
Social Services

March 18, 1985
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cc: Hon. Lisa Rudd, Commissioner
Department of Administration

Hon. Loren H. Lounsbury, Commissioner
Department of Commerce &
Economic Development

Hon. Emil Notti, Commissioner
Department of Community &
Regional Affairs

Hon. Harold Reynolds, Sr., Commissioner
Department of Education

Hon. William A. Ross, Commissioner
Department of Environmental Conservation

Hon. Don W. Collinsworth, Commissioner
Department of Fish & Game

Hon. Esther Wunnicke, Commissioner
Department of Natural Resources

Hon. Robert Sundberg, Commissioner
Department of Public Safety

AUDITOR'S NOTE

AS 37.05.315 requires DOA to advance twenty percent of a municipal grant to a municipality within ten days after execution of a grant agreement. Interest earned on those monies not needed for cash flow purposes are often expended for purposes other than as specified in the grants. The law is silent on whether interest earned on grant monies should be spent only for projects specified by grant agreements.

Audit Control Number 02-4154-83-5

*"A Special Report on the Department of Administration
City of Valdez Municipal Grant"*

For the period 8/4/80 to 12/16/82

AUDITOR'S CONCLUSIONS

As stated in the Purpose of the Report, we reviewed the Municipality of Anchorage's compliance with the provisions of the Municipal Aid Program legislation, Chapter 60, SLA 1981, and the terms and conditions contained in the Entitlement Agreements.

In our opinion, the Municipality has not been in total compliance with the requirements of the Municipal Aid Program. As discussed in more detail in the Findings and Recommendations section of this report, our review showed that the Municipality expended \$1 million of Municipal Aid funds on the Sullivan Sports Arena project without obtaining voter approval.

Additionally, we have questioned certain expenditures charged to various projects and have recommended that the Department of Administration make a determination as to the allowability of the charge.

We also reviewed the Municipality's policies relating to interest earnings and identified the interest earned on funds advanced to the Municipality.

The Municipality's policy on interest earnings on capital projects states, in part, that interest earnings shall accrue throughout the design and construction phase of a project. Interest earnings may be used for unanticipated project overruns. When determined that the project is within its programmed budget and additional funds are not needed for completion of the project or other contingencies, the interest earnings may then be used as an alternate contract unit and/or for facility furnishings and equipment.

The expenditure of accrued interest earnings requires the Mayor's prior approval and is subject to normal appropriation procedures. All unexpended interest earnings, upon the final completion of a project, will revert to the Capital Projects Fund balance for use on other projects.

As of December 31, 1984, Anchorage had accrued interest earnings on Municipal Aid funds totalling approximately \$15,650,000, as shown in Appendix C of this report.

Audit Control Number 02-4011-85-S April 15, 1985

*"A Special Report on the Department of Administration
Municipal Aid Program, Municipality of Anchorage"*

Recommendation No. 2

CDVSA should fill staff positions at the salary levels intended by the Legislature.

CDVSA has increased the salary ranges of three administrative staff members from those indicated on the fiscal note that was attached to the establishing legislation (HB 91; Chapter 101, SLA 1981).

The fiscal note indicated that CDVSA would have three full-time staff members. The estimated personal services costs for the staff was \$106,400 based on salary ranges of 18, 16, and 7 for the positions of project coordinator, research analyst, and clerk-typist, respectively.

The positions were filled by an executive director (range 24), a program coordinator (range 20), and a secretary (range 10). This unilateral increase in salary ranges represents an increase in salary and benefit costs in excess of \$30,000 annually.

CDVSA and the Department of Public Safety compound this circumvention of legislative intent when they represent on their FY 1983 budget documents that the higher ranges are the current authorized levels.

Position levels, and appropriations to fund those positions, represent legislative intent. The Legislature considers the merits and appropriates funds accordingly, based on the budgetary information presented. By presenting the new salary ranges as established current year levels, the legislative review process is hampered.

Recommendation No. 3

CDVSA should develop a policy to advise grantees on the appropriate disposition of income generated by the investment of State grant funds.

Three of the grantees visited in the course of the audit were able to generate adequate cash flow to allow investment of CDVSA grant proceeds prior to their expenditure. In each case, the grantee retained whatever income was generated by these investments for use on non-grant activities.

It is a prudent act on the part of the grantee to invest excess cash until it is needed. However, CDVSA should adopt a policy which specifies that grantees use investment proceeds only for activities that are within the purview of the original grant conditions.

Audit Control Number 11-092 - 0066-5 3/31/82
*"A Special Review of the Department of Public Safety
Council on Domestic Violence and Sexual Assault"*

Recommendation No. 3 - (To ADFG)

ADFG should make the verification of water use permits an integral part of the hatchery permit review process.

The operator of a proposed hatchery must obtain a water use permit from the Department of Natural Resources (DNR). Currently, it is the position of ADFG that it is the responsibility of the applicant to obtain the appropriate water use permits, a process separate and distinct from obtaining a hatchery permit. However, based on our review of all the aspects of the State's regulation and funding of private non-profit hatcheries, we believe that ADFG should take on the responsibility of verifying that the necessary final water use permits are in place and properly approved.

The problems surrounding NSRAA's Medvejie Creek facility (see discussion in NSRAA Hatcheries section of this report) were to a large extent attributable to ADFG's reliance on a preliminary water use permit; rather than verifying and requiring that a final water use permit be obtained prior to the granting of a hatchery permit. Additionally, ADFG's Habitat Protection Division should be included in the overall hatchery permit review process. Since the Division's decision can influence DNR's water use permit allocations, their concerns over a site's water use should be included in ADFG's review.

By not assuring themselves that water use permits are finalized and performed, ADFG is creating the possibility of issuing a permit for a technically and economical infeasible project. A permit holder, financed with State loans, could find their final water use permit will not allow a production capacity large enough to provide for adequate cost recovery. If ADFG would integrate a review of the water use permits into the hatchery permit granting process, it would better assure the permits are in order, and the commitment of the State's financial resources are not unduly jeopardized.

Recommendation No. 4 - (To DCED)

DCED should further define the appropriate use of income generated by the interest on aquaculture association reserve accounts.

In FY'83 NSRAA paid Dawson & Associates \$13,749 for services that, in part, included lobbying the Alaska State Legislature. NSRAA's executive director said the payments were made out of the association's unrestricted income from reserve account interest.

According to 3 AAC 89.040 aquaculture associations may budget a reserve account in which they can deposit any

Audit Control Number 08-11-4176-83-S 9/30/83
*"A Special Report on the Dept. of Commerce and Economic Development,
Dept. of Fish & Game, and Northern Southeast Regional Aquaculture Association"*
STATE OF ALASKA -13- DIVISION OF LEGISLATIVE AUDIT

Fisheries Enhancement Tax appropriations they receive in excess of what they need to operate. Essentially, this provision allows them to save these funds in an interest bearing account jointly controlled by DCED and the association.

Currently, 3 AAC 89.040(c) allows interest earned by money held in the reserve account to be treated as "unrestricted income". NSRAA has interpreted this regulation to mean that interest proceeds are not subject to the standard restrictions attached to State contracts. Major standard restrictions include prohibitions against using State funds to lobby or contribute to political campaigns.

Better definition of the "unrestricted income" or more specific policy directives by DCED would help associations avoid using State funds for prohibited expenditures.

Recommendation No. 5 - (To DCED)

The Division of Investments (DOI) should document compliance with administrative regulations governing the disbursement of Fisheries Enhancement Tax appropriations.

NSRAA is one of three associations that received legislative appropriations of Fisheries Enhancement Taxes the past three fiscal years (FY'81 - FY'83). Disbursement of these appropriations are governed by Chapter 89 of the Alaska Administrative Code and specific contractor performance provisions.

NSRAA and other associations are required to submit various financial reports to DOI. The following is a list of some of the required reports:

1. An annual budget [per 3 AAC 89.020(2)]
2. Quarterly cash flow projections [3 AAC 89.020(1)]
3. Quarterly expenditure statements [3 AAC 89.080]
4. A final report of all expenditures [3 AAC 89.090]
5. An independent audit report [3 AAC 89.110]
6. An annual financial report [3 AAC 89.120]

The above regulations were adopted in June of 1982, however, they essentially reflect contractor performance provisions that had been written into the prior years' contracts.

During our review we attempted to satisfy ourselves that NSRAA had met these requirements. Of the 18 documents or sets of records that were required over the last 3 years and could reasonably be expected to be found on file at the time of field work, only 7 documents or sets could be located. Most notably missing were quarterly expenditure reports that were required by each year's contract. We could not find a complete set of quarterly reports for any of the three years reviewed.

Column 1 shows how much money was appropriated for education; Column 2 shows how much interest was accrued on that money ~~and~~ spent for education. CITIES/COMMUNITIES SHOWING A ZERO AMOUNT IN COLUMN 2 KEPT THE EARNINGS FOR PURPOSES OTHER THAN EDUCATION (See asterisks below)

ALASKA DEPARTMENT OF EDUCATION
SCHOOL OPERATING FUND REVENUES
FISCAL YEAR 1986 BUDGETED
CITY & BOROUGH SCHOOL DISTRICTS

SCHOOL DISTRICT	CITY/BOROUGH TAX APPROP.	EARNINGS ON INVESTMENTS	OTHER LOCAL REVENUE	IN KIND SERVICES	FOUNDATION SUPPORT	STATE PUPIL TRANSPORTATION	STATE TUITION
ANCHORAGE	\$60,745,588	\$1,950,000	\$480,000	\$0	\$141,965,000	\$7,415,000	\$4,815,000
BRISTOL BAY	\$40,000	\$90,000	\$2,500	\$0	\$2,277,225	\$125,843	\$3,000
CORIOVA	\$501,195	\$30,000	\$21,410	\$4,500	\$1,987,400	\$43,997	\$100,000
CRAIG	\$0	\$20,000	\$5,767	\$36,997	\$1,106,171	\$0	\$0
DILLINGHAM	\$30,000	\$100,000	\$10,000	\$0	\$3,851,540	\$115,500	\$0
*FAIRBANKS	\$21,000,000	\$0	\$150,000	\$0	\$54,135,335	\$3,408,000	\$4,362,400
FAIRBANKS ON-BASE	\$0	\$0	\$0	\$0	\$0	\$0	\$0
GALENA	\$2,700	\$25,033	\$53,518	\$0	\$1,517,670	\$28,942	\$6,000
*HAINES	\$297,532	\$0	\$500,000	\$0	\$2,454,828	\$186,924	\$9,000
HOONAH	\$0	\$25,000	\$10,000	\$10,000	\$1,369,830	\$8,190	\$9,000
HYDABURG	\$0	\$1,100	\$1,000	\$4,100	\$933,940	\$0	\$0
*JUNEAU	\$7,350,000	\$0	\$20,000	\$0	\$17,970,000	\$890,000	\$42,000
KAKE	\$30,000	\$10,000	\$0	\$0	\$1,528,779	\$27,590	\$41,745
*KENAI	\$13,177,251	\$0	\$1,000	\$4,136,885	\$33,964,944	\$2,886,319	\$23,614
*KETCHIKAN	\$4,247,783	\$0	\$30,000	\$0	\$8,892,244	\$405,000	\$50,000
KING COVE	\$10,000	\$37,500	\$5,600	\$0	\$1,054,276	\$29,443	\$4,748
KLAWOCK	\$0	\$30,000	\$20,000	\$0	\$1,182,171	\$0	\$0
*KODIAK	\$2,110,749	\$0	\$10,700	\$0	\$12,817,884	\$396,667	\$400,000
*KAT-SU	\$14,081,726	\$0	\$18,000	\$0	\$33,912,608	\$4,025,202	\$65,000
NENANA	\$30,000	\$40,000	\$881,600	\$0	\$1,157,280	\$102,771	\$300
NOME	\$228,555	\$94,000	\$211,500	\$0	\$5,954,739	\$159,931	\$10,000
*NORTH SLOPE	\$13,650,000	\$0	\$0	\$0	\$10,300,000	\$100,000	\$0
PELICAN	\$14,000	\$5,000	\$0	\$0	\$614,460	\$0	\$0
PETERSBURG	\$626,837	\$20,000	\$0	\$0	\$2,530,811	\$88,533	\$10,000
*SAND POINT	\$20,000	\$0	\$0	\$8,000	\$951,847	\$19,188	\$0
SITKA	\$2,978,379	\$80,000	\$0	\$0	\$6,124,233	\$307,820	\$0
SKAGWAY	\$27,800	\$8,000	\$0	\$0	\$752,255	\$4,654	\$0
ST. MARY'S	\$0	\$30,000	\$0	\$0	\$1,709,840	\$0	\$0
TANANA	\$0	\$36,000	\$500	\$2,000	\$1,028,230	\$0	\$1,500
UNALASKA	\$0	\$12,000	\$16,000	\$0	\$1,261,168	\$110,000	\$0
VALDEZ	\$3,188,390	\$70,000	\$7,580	\$0	\$3,981,600	\$328,310	\$250,000
WRANGELL	\$390,000	\$11,256	\$0	\$0	\$2,211,750	\$57,790	\$0
YAKUTAT	\$30,000	\$11,000	\$3,000	\$0	\$1,281,381	\$47,322	\$24,500
TOTALS	\$144,808,485	\$2,737,889	\$2,459,675	\$4,202,482	\$362,781,439	\$21,318,936	\$10,227,807
GRAND TOTALS	\$144,808,485	\$6,376,052	\$3,684,462	\$4,202,482	\$502,806,145	\$23,396,487	\$10,227,807

STATE OF ALASKA

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

POUCH B
JUNEAU, ALASKA 99811
PHONE: (907) 465-4700

949 E. 36TH AVENUE, SUITE 400
ANCHORAGE, ALASKA 99508
PHONE: (907) 563-1073

April 10, 1986

POSITION PAPER

RE: HB 459

SPONSOR: Representative Martin

Program Effects of Bill

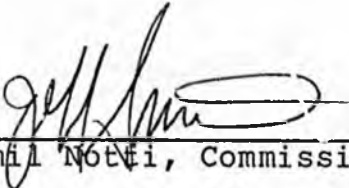
This measure requires that interest earned on State grants to municipalities and other recipients be retained by the recipient for purposes of the grant or be returned to the State general fund.

Comments

This bill would have little, if any, effect on grants administered by this Department under AS 37.05.315-37.05.317. The Department has established a policy to base the release of funds on the demonstrable intent for the expenditure of funds within 120 days. There is no automatic release of 20% of grant funds or any other arbitrary level.

Grants administered by this Department primarily go to unincorporated communities. The relatively small size of our grants compared to multi-million dollar awards to large municipalities do not lend themselves to vast interest earnings, thus our experience with the problem this bill is designed to address is quite limited.

The Department does not object to the passage of this bill given the existing policy in place for the release of grant funds.


Emil Notvi, Commissioner

STATE OF ALASKA 1986 LEGISLATIVE SESSION FISCAL NOTE

Revision Date : _____

REQUEST

Bill/Resolution No. : HB 459
 Title : An Act relating to interest earned on grant money; and providing for an effective date.
 Sponsor : Representative Martin
 Requestor : _____
 Date of Request : _____

FISCAL DETAIL

Agency Affected : Community & Regional Affairs
 BRU : Local Government Assistance

 Components : Grants Administration

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING : (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

Prepared by : Doug Griffin, Deputy Director *Griffin* Phone : 465-4750
 Division : Municipal & Regional Assistance Date : 04/08/86

Approved by Commissioner : Emil Nott *Nott* Date : 4/9/86
 Agency : Community & Regional Affairs

Distribution (by Agency preparing fiscal note) :

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

REP. TERRY MARTIN

ELECTIVE DISTRICT 13
MOUNTAIN VIEW
RUSSIAN JACK SPRINGS
NUNAKA VALLEY
ELMENDORF AFB
CREEKSIDE
EAST ANCHORAGE



HOME
3960 REKA DRIVE B6
ANCHORAGE, AK 99508
PHONE 333-6990

DURING SESSION
POUCH V
STATE CAPITOL BUILDING
JUNEAU, AK 99811
PHONE 465-3783

Alaska House of Representatives

MEMORANDUM

To: Representative Peter Goll, Chairman
House Community and Regional Affairs Committee

From: Representative Terry Martin *TMM*

Date: April 10, 1986

Re: HB 459

An Act relating to interest earned on grant money"

For years, our legislative auditors have been urging the legislature to clarify whether a grantee is entitled to interest income resulting from investment of state grants. (I have attached the relevant portions of four different audits as examples.) There is no question that grantees can gain significant amounts of unrestricted revenue through investment of grants. In a Legislative Audit review of the 1981 Municipal Aide appropriations, it was pointed out that "...as of December 31, 1984, Anchorage had accrued interest earnings on Municipal Aid funds totally approximately \$15,650,000..."

Municipalities and other grantees insist that they have a right to do whatever they like with interest income, since there is no law restricting its use. The state attorney general, however, found, in a Memorandum of Advice dated March 18, 1985 (copy attached), that "...Use of public grant money for investment capital constitutes a diversion from the purpose assigned by the legislature..." and that "...Use of the money to generate further revenue for the grant recipient, absent specific statutory authority, would be an unauthorized use of public money."

In the same vein, it is also pointed out in the Memorandum that "...the federal controller general has consistently held that interest earned by a grantee on money advanced by the United States under a grant agreement belongs to the United States rather than to the grantee."

It is incumbent upon the Legislature to make clear how we intend interest income to be used. HB 459 specifies that such income be used toward the



project for which the grant was made, or returned to the state general fund. The bill makes clear our intent that grant funds are not provided so that the grantee can fund activities which have not been specifically approved and funded by the legislature; nor can funds, including interest income, be comingled without prior legislative approval.

The bill does encourage wise investment practices as a means of inflation-proofing a grant or as a means of alleviating cost overruns. It promotes fiscal responsibility and retains legislative oversight.

This bill will help protect the integrity of the legislative appropriation process. Your strong support and swift passage of HB 459 will clarify and strengthen our state grant programs.

jfh
attachments

**HOUSE
COMMITTEE REPORT**

Date referred: 1/13/86

FURTHER REFERRALS: FINANCE

DATE: 4-29-86

The COMMUNITY AND REGIONAL AFFAIRS Committee has considered HB 459

"An Act relating to interest earned on grant money; and providing for an effective date."

and recommends:

- do pass
- do not pass
- do pass with attached amendment(s)
- no recommendation
- replace with CS HB 459 (CRA) same title
- new title

and recommends _____

further referral to the _____ Committee

- and attaches:
- letter of intent
 - first fiscal note
 - new fiscal note
 - zero fiscal note

SIGNING DO PASS:

SIGNING OTHER RECOMMENDATIONS:

AGM MARROU

Mark Gurenberg No rec
Mike ... No rec
Mike ... no rec

[Signature]
Chairman

Introduced: 1/13/86
Referred: Community & Regional
Affairs and Finance

1 IN THE HOUSE

BY MARTIN

2

HOUSE BILL NO. 459

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FOURTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6 For an Act entitled: "An Act relating to interest earned on grant money;

7

and providing for an effective date."

8

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9

* Section 1. AS 37.05 is amended by adding a new section to read;

10

Sec. 37.05.323. INTEREST EARNED ON GRANT MONEY. Interest earned

11

on money appropriated or allocated as a grant to ^{a delete} ~~an agency~~, municipal-

12

ity, or other recipient shall be, at the option of the recipient,

13

(1) retained by the recipient and used for purposes for

14

which the grant money may be used; or

15

(2) delivered by the recipient to the state for deposit in

16

the general fund.

17

* Sec. 2. AS 37.05.325 is amended to read:

18

Sec. 37.05.325. DEFINITIONS FOR AS 37.05.315 - 37.05.323

19

[AS 37.05.315 - 37.05.317]. In AS 37.05.315 - 37.05.323 [AS 37.05.-

20

315 - 37.05.317], "allocation" and "appropriation" have the meanings

21

given in AS 37.07.120(2) and (3).

22

* Sec. 3. This Act takes effect July 1, 1986.

Cook
4/22/86

Original sponsor: Martin

1 IN THE HOUSE

BY THE COMMUNITY AND
REGIONAL AFFAIRS COMMITTEE

2 CS FOR HOUSE BILL NO. 459 (C&RA)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to interest earned on grant money by
7 municipalities; and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 37.05.315 is amended by adding a new subsection to
10 read:

11 (e) Interest earned on money appropriated or allocated as a
12 grant to a municipality, ^{or other recipient} that has been disbursed to the municipality
13 ^{or other recipient} shall be, at the option of the ^{recipient} municipality,

14 (1) retained by the ^{recipient} municipality and used for purposes for
15 which the grant money may be used; or

16 (2) delivered by the ^{recipient} municipality to the state for deposit
17 in the general fund.

18 * Sec. 2. This Act takes effect July 1, 1986.

Cook
4/22/86

Original sponsor: Martin

1 IN THE HOUSE

BY THE COMMUNITY AND
REGIONAL AFFAIRS COMMITTEE

2 CS FOR HOUSE BILL NO. 459 (C&RA)
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 FOURTEENTH LEGISLATURE - SECOND SESSION
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18 * Sec. 2. This Act takes effect July 1, 1986.

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Cook
4/21/86 ✓

Original sponsor: Martin

1 IN THE HOUSE

BY THE COMMUNITY AND
REGIONAL AFFAIRS COMMITTEE

2 CS FOR HOUSE BILL NO. 459 (C&RA)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

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18 * Sec. 2. AS 37.05.325 is amended to read:

19 Sec. 37.05.325. DEFINITIONS FOR AS 37.05.315 - 37.05.323
20 [AS 37.05.315 - 37.05.317]. In AS 37.05.315 - 37.05.323 [AS 37.05.-
21 315 - 37.05.317], "allocation" and "appropriation" have the meanings
22 given in AS 37.07.120(2) and (3).

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RECORDS CERTIFICATION

I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.

James O. Smith
Signature of Camera Operator

7/25/89
Date