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STATE OF ALASKA
THE LEGISLATURE

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May, 1988

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Mary Van Nimwegen

House State Affairs:

March 16, 1988

March 25, 1988



Official Business

Alaska State Legislature

House

P.O. BOX V
State Capitol
Juneau, Alaska 99811

HOUSE BILL 128

FILE CONTENTS

1. AN ACT RELATING TO AN ALASKA EDUCATIONAL TRUST FUND AND PROVIDING FOR VOLUNTARY CONTRIBUTIONS TO THE FUND FROM PERMANENT FUND DIVIDENDS AND PAYMENTS FROM THE FUND FOR EDUCATION AND FOR RANDOMLY SELECTED BENEFICIARIES; AND PROVIDING FOR AN EFFECTIVE DATE.
2. ALASKA EDUCATIONAL TRUST FUND PREPARED BY REPRESENTATIVE SHULTZ

FISCAL NOTES

- A. DEPARTMENT OF REVENUE, ENFORCEMENT: -0-
- B. DEPARTMENT OF REVENUE, ADMINISTRATIVE SERVICES: \$37,000
- C. DEPARTMENT OF REVENUE, PUBLIC SERVICES: \$150,000

THE EDUCATIONAL TRUST FUND BILL

A CONCEPT RIGHT FOR ALASKA

The Educational Trust Fund is one that is patterned after our own permanent fund. In fact, the permanent fund board would manage the principle of the trust fund. Unlike taxes, the Trust Fund is a form of collecting revenues based on two important premises.

The first and foremost aspect of the fund is the importance of education in Alaska. Surveys will show that Alaskans consistently support education of our young people.

Secondly, Alaskans are more willing to shell out their dollars if there is some opportunity for a return on their investment.

In both instances the Trust Fund concept scores 100%. Not only will Alaskans be able to support education, in so doing they become eligible for various cash benefits as a result of their generosity. The incentive is not unlike the tax break given to charitable organizations.

In addition to the above mentioned advantages, here are a few more to think about. Alaskans donating to the Educational Trust Fund will not be using dollars from their pockets. Instead, adults applicants will merely check off a box on their permanent fund application if they wish to donate one half of their dividend to the Trust. A one time yearly donation, makes them eligible for any cash benefits paid out under the plan.

Unlike expensive lotteries that use fancy systems with tickets and gimmicks to encourage gambling, the Educational Trust Fund is a one time, limited donation which rewards, (not pays off) those who are willing to support education. Positive promotion of the Trust Fund will be a key ingredient to its' ultimate long term success.

In closing, this program is not unlike Governor Cowper's Educational Endowment Concept. His idea is a good one, but it lacks one critical element - incentive. In short, there are many Alaskans who would not support the Governor's plan, but would be more than willing to invest part of their dividend check if, and I repeat if, there was a possibility of a healthy return for their investment dollars.

I encourage the members of the Legislature along with the Administration to work together in determining specifically what the Trust Fund will be used for. It could go to special education for instance and play a vital role in keeping up with the advances being made in that field. Other ideas of course should be explored.

By demonstrating our willingness to try what has been proven in state after state, Alaskans will realize that combining positive incentives, with faith in the publics attitude toward education, makes everyone a winner.

HOUSE STATE AFFAIRS COMMITTEE

NEXT COMMITTEE: HESS

BILL: HB 128

CURRENT VERSION:

SCHEDULED: MARCH ²⁵ 1988

SPONSOR: SHULTZ

PHONE NO: 4940

CONTACT FILE: _____

BILL SUBJECT: ALASKA EDUCATIONAL TRUST FUND AND PROVIDING FOR VOLUNTARY CONTRIBUTIONS TO THE FUND

SPONSOR BACKUP: IN FOLDERS

AFFECTED AGENCIES:

<u>DEPARTMENT</u>	<u>CONTACT/PHONE</u>	<u>COMMENT</u>
REVENUE	ROYCE WELLER/2300	Notified 3/13/88

FISCAL NOTES

<u>AGENCY</u>	<u>REQUESTED</u>	<u>DATED</u>	<u>FY 88 AMT</u>	<u>FY 89 AMT</u>
REVENUE	3/11/88	3/16	Ø	28,600

ACTION

<u>DATE</u>	<u>COMMENT</u>
3/16/88	Hearing held
3/25/88	Shultz out of town

HB 127

2

***** ALASKA EDUCATIONAL TRUST FUND *****

THE BASICS

EACH YEAR SOME 525,000 ALASKANS WILL RECEIVE DIVIDEND CHECKS. THOSE CHECKS WILL AVERAGE AROUND \$600.00 WHICH MEANS THAT ALASKANS WILL HAVE AT THEIR DISPOSAL SOME 315 MILLION DOLLARS.

MY IDEA WITH THIS LEGISLATION IS TO ALLOW ALASKANS OVER THE AGE OF 18 WHO RECEIVE DIVIDENDS TO DONATE ONE HALF THE AMOUNT OF THEIR CHECK TO A STATE MANAGED EDUCATIONAL TRUST FUND. THEY WOULD DO THIS BY CHECKING A BOX AND SIGNING AND DATING A SPECIAL AGREEMENT PRINTED ON THE DIVIDEND APPLICATION FORM THEY NOW RECEIVE.

THE OBVIOUS QUESTION IS WHY WOULD ANYONE WANT TO DO THAT ??

THE ANSWER IS THEY WOULDN'T WITHOUT SOME FORM OF INCENTIVE AND THEREIN LIES THE CRUX OF MY PROPOSAL.

I PROPOSE THAT BY CONTRIBUTING ONE HALF OF THEIR PERMANENT FUND CHECK INTO THE EDUCATIONAL TRUST A PERSON WOULD BE ELIGIBLE TO RECEIVE SUBSTANTIAL BENEFITS FROM THE FUND.

HERE IS HOW IT WOULD WORK. AS AN EXAMPLE ASSUME THAT 20 MILLION DOLLARS IS DONATED TO THE TRUST FUND IN 1988. AFTER A YEAR OF BEING MANAGED AS THE PERMANENT FUND, ASSUME A TEN PERCENT GROWTH. THE FUND WOULD CONTAIN 22 MILLION DOLLARS. THE NUMBER OF BENEFICIARIES WOULD BE .2% OF THE TOTAL NUMBER OF PERSONS DONATING AND WOULD BE RANDOMLY SELECTED TO RECEIVE BENEFITS TOTTALLING 1.8 MILLION DOLLARS THE FIRST YEAR. AFTER DEDUCTING THE AMOUNT AWARDED TO THE SELECTED BENEFICIARIES, 20.2 MILLION DOLLARS REMAIN IN THE FUND. FROM THE AMOUNT DONATED EACH YEAR THE STATE MAY USE AS NEEDED UP TO 5% FOR ADMINISTRATION COSTS AND 5% FOR PROMOTION. THAT LEAVES AS PRINCIPLE APPROX. 18.18 MILLION TO CONTINUE TO EARN INTEREST.

WHY THIS SYSTEM IS NOT COMPARABLE TO A LOTTERY

LOTTERIES DO NOT LIMIT THE AMOUNT A PERSON CAN SPEND.

LOTTERIES TAKE IN MONEY THAT PERSONS ALREADY HAVE IN THEIR POCKETS.

LOTTERIES ARE EXPENSIVE TO OPERATE AND EXPENSIVE TO SET UP.

LOTTERIES DEAL WITH TICKETS AND RETAIL OUTLETS.

THE ALASKA EDUCATIONAL TRUST FUND WILL USE AN EXISTING MECHANISM UNLIKE ANY OTHER TO COLLECT DONATIONS AND DISPERSE BENEFITS. WITH A MINIMUM AMOUNT OF EXPENSE A SYSTEM OF CASH BASED FORWARD FUNDING CAN BE PROVIDED FOR PRIMARY AND SECONDARY EDUCATION WHILE MAKING POSSIBLE ECONOMIC OPPORTUNITIES FOR ALASKANS WHO ARE SELECTED AS BENEFICIARIES OF THIS TRUST.

HOW MANY PERSONS WOULD BE WILLING TO DONATE ??

AS WITH ANY NEW IDEA IT WILL DEPEND ON HOW IT IS PROMOTED AND THE POTENTIAL BENEFITS THAT DONARS MIGHT RECIEVE UNDER THE PROGRAM.

BASED ON THE BENEFICIARY SCHEDULE IN THE PRESENT BILL THERE WOULD BE A LARGE NUMBER OF BENFICIARIES WHO RECIEVE A MODEST RETURN ON THEIR INVESTMENT AND A SMALL NUMBER OF PERSONS WHO RECEIVE A SUBSTANTIAL RETURN. THE BALANCE OF BENEFICIARIES WOULD RECIEVE AMOUNTS SCALED IN BETWEEN ON A FAIRLY BALANCED AWARD SCHEDULE.

IF FOR INSTANCE 50,000 DONARS CONTRIBUTE \$ 250 THERE WOULD BE AVAILABLE TO 100 RANDOMLY SELECTED BENEFICIARIES APPROX. 1.25 MILLION DOLLARS THE FIRST YEAR TO BE PAID OUT AS FOLLOWS.

5 BENEFICIARIES RECIEVE \$ 62,500.00 (EACH YEAR FOR
TEN YEARS.)

10 BENEFICIARIES RECIEVE \$ 62,500.00 (ONE LUMP SUM)

15 BENEFICIARIES RECIEVE \$ 12,500.00 (ONE LUMP SUM)

20 BENEFICIARIES RECIEVE \$ 3,125.00 (ONE LUMP SUM)

50 BENEFICIARIES RECIEVE \$ 1,250.00 (ONE LUMP SUM)

IF WE ASSUME NO SIGNIFICANT CHANGES (POSITIVE OR NEGATIVE) OVER THE NEXT TEN YEARS, THE MINIMUM AMOUNT OF INTEREST REVENUE AVAILABLE TO THE STATE EACH YEAR ON THE PRINCIPLE IS AS FOLLOWS;

(IN MILLIONS)

1990 - 2.12
1991 - 3.19
1992 - 4.36
1993 - 5.43
1994 - 6.80
1995 - 8.37
1996 - 10.04
1997 - 11.81
1998 - 13.68
1999 - 15.65
2000 - 18.72

* INTEREST CALCULATIONS BASED ON NO TRUST FUND GROWTH. IF ON THE OTHER HAND THE POPULARITY OF THE FUND AND THE POPULATION INCREASES THESE NUMBERS MAY PROVE TO BE VERY CONSERVATIVE.

*** BENEFIT SCHEDULE

CATEGORY ONE ** 5% of the beneficiaries shall receive 25% of the amount available in the fund in ten even payments over ten years.

CATEGORY TWO ** 10% of the beneficiaries shall receive 50% of the fund in one payment

CATEGORY THREE **15% of the beneficiaries shall receive 15% of the fund in one payment

CATEGORY FOUR ** 20% of the beneficiaries shall receive 5% of the fund in one payment

CATEGORY FIVE ** 50% of the beneficiaries shall receive 5% of the fund in one payment

HOW ARE THE BENEFICIARIES SELECTED ??

THE ANSWER IS QUITE SIMPLE. EACH DIVIDEND CHECK PRESENTLY GETS A DIFFERENT NUMBER AS A MATTER OF ACCOUNTING AND RECORD. THERE ARE MANY TYPES OF EQUIPMENT AVAILABLE TO SELECT RANDOM NUMBERS AND BY PROGRAMMING SUCH EQUIPMENT TO DEAL WITH THE FULL RANGE OF DIVIDEND CHECK NUMBERS FOR A GIVEN YEAR, BENEFICIARIES WILL BE GUARANTEED A RANDOM PROCESS.

THERE WILL OF COURSE HAVE TO BE A CUTOFF DATE FOR DONATING INTO THE TRUST AND IF PEOPLE MISS THE DEADLINE THEIR MONEY WOULD NOT GO INTO THE TRUST AND THEY WOULD RECEIVE A FULL DIVIDEND CHECK.

I MENTIONED THE WORD DONATING, BECAUSE AS A FURTHER INCENTIVE TO POTENTIAL DONORS THEIR CONTRIBUTION TO THIS FUND SHOULD BE DEDUCTIBLE FROM ANY FUTURE STATE INCOME TAX.

WHAT ARE THE ODDS ???

WELL, IF THERE ARE 100 BENEFICIARIES SELECTED AND THERE ARE 50,000 DONORS THE ODDS ARE 1 IN 500, THAT A BENEFICIARY WILL PLACE IN ONE OF THE FIVE CATEGORIES. THESE ODDS COMPARED TO OTHER STATES INCENTIVE SYSTEMS TO RAISE REVENUES ARE EXTREAMLY ATTRACTIVE.

THE FACT THAT ONLY ADULTS CAN DONATE, AND ONLY ONE HALF OF ONE'S CHECK CAN BE EAR MARKED, ALONG WITH MAJOR BENEFITS THAT ARE SPREAD OVER TEN YEARS, MAKES THIS SYSTEM UNIQUE AND MUCH MORE RESPONSIBLE THAN OTHER FUND RAISING TECHNIQUES BEING USED OUTSIDE ALASKA.

ECONOMIC EFFECTS

THE BENEFITS TO LOCAL ECONOMIES FROM INDIVIDUALS WHO HAVE CAPITAL ENOUGH TO CREATE BUSINESSES, BUILD HOMES OR FUEL OTHER ENTREPRENEURIAL IDEAS, WILL FILL A VOID EXISTING UNDER OUR CURRENT DIVIDEND PROGRAM.

THE IDEA, OF COURSE, IS NOT TO DISRUPT THE ROLE THAT THE DIVIDEND CHECKS CURRENTLY PLAY IN PERSONAL AND LOCAL ECONOMIES. RATHER IT IS TO CREATE NEW POSSIBILITIES AND A LARGER DIMENSIONED ECONOMY, WHILE PRODUCING A SUBSTANTIAL SOURCE OF REVENUE FOR EDUCATION.

IN MY MIND, ALASKANS WOULD MUCH RATHER VOLUNTARILY GIVE UP HALF THEIR DIVIDEND UNDER THIS INCENTIVE PROGRAM THAN TO HAVE THEM REMOVED OR CAPPED BY THE LEGISLATURE. IN THE LONG TERM ALL INTERESTS ARE BETTER SERVED AND IN RURAL ALASKA WHERE DIVIDEND CHECKS ARE MORE THAN A LUXURY IT SEEMS TO BE AN ESPECIALLY GOOD COMPROMISE.

FISCAL NOTE

REQUEST

Revision Date: 3-16-88
Title: An act relating to an Alaska educational trust fund.
Sponsor: Schultz
Requestor: House State Affairs

Agency Affected: Revenue
BRU: Permanent Fund Dividend Division
Components: Permanent Fund Dividend Division

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
OPERATING						
PERSONAL SERVICES	-0-	17.4	8.8	8.8	8.8	8.8
TRAVEL	-0-	-0-	-0-	-0-	-0-	-0-
CONTRACTUAL	-0-	11.0	11.0	11.0	11.0	11.0
SUPPLIES	-0-	0.2	0.2	0.2	0.2	0.2
EQUIPMENT	-0-	-0-	-0-	-0-	-0-	-0-
LANDS & 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-	28.6	20.0	20.0	20.0	20.0
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	28.6	-0-	-0-	-0-	-0-
FEDERAL FUNDS	-0-	-0-	-0-	-0-	-0-	-0-
OTHER	-0-	-0-	20.0	20.0	20.0	20.0
TOTAL	-0-	28.6	20.0	20.0	20.0	20.0

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME	-0-	3	2	2	2	2
TEMPORARY	-0-	-0-	-0-	-0-	-0-	-0-

ANALYSIS: See attached.

Prepared By: Ervin Jones Phone: 465-2323
Division: Permanent Fund Dividend Division Date: 3-16-88

Approved by Commissioner: Hugh Malone Date: 3/16/88
Agency: Revenue

Distribution (by preparer):

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Department of Revenue
Permanent Fund Dividend Division
Fiscal Note Analysis
HB 128
3/16/88

Assumptions:

1. The bill will take effect for the 1989 permanent fund dividend year and application. The 1988 dividend application has already been printed.
2. There are 18 other bills which if signed into law, would result in some form of "check-off" on the 1989 dividend application, in addition to the existing Olympic Fund checkoff. The Department of Revenue has no insight as to which, and how many, of these bills will become law. This fiscal note, and all related fiscal notes, is prepared on the assumption that the subject bill is the only bill of this nature which will become law. The passage of multiple bills with varying formulas (\$5, half of dividend, all or part of dividend, etc.) will inevitably have a compounding effect. Whereas there may be savings in some areas, there will be increased costs in others.
- 3) Income from the account will not be available until FY90, and a general fund appropriation will be required in FY89. The costs of administering this law will be borne by the Education Trust Fund in FY90 and subsequent years.
- 4) The incremental cost of computer resources will result in a chargeback by the Department of Administration.
- 5) Whereas the cost of programming changes will be a one-time cost, the cost of document review, data capture, data processing chargeback, and the extra page in the dividend booklet will be continuing.
- 6) Elections will only be honored to the extent of available funds. Garnishments and assignments will take precedence in the order established by statute. Contributions and elections will then be honored in the order listed on the form schedule, which will be in the order they become law.
- 7) The election will only be available on the adult application.
- 8) An election decision can only be made at the time of initial filing of the application.
- 9) An election decision, once the application is filed, is irrevocable for that dividend year.
- 10) Absent direction to do so, the Department of Revenue will not promote this check-off more than any other. It would appear to be bad public policy for the Department to do so.
- 11) The Administrative Services Division will be responsible for the determination and payment of beneficiaries and will:
 - a) draft necessary regulations
 - b) hold public hearings
 - c) provide a random selection each year, starting in 1989.
 - d) maintain accounts for each of the beneficiaries under the proposed AS 43.23.230(a)(1).

Department of Revenue
Permanent Fund Dividend Division
Fiscal Note Analysis
HB 128
3/16/88

- e) make all payments under AS 43.20.230.
- f) provide for the general accounting required by the fund, including posting earnings determined by the Permanent Fund Corporation, and making payments to the public school foundation account as required by AS 43.23.240, and such payments as might be required under AS 43.23.220.

12) Revenue Assumptions:

- Dividend value constant at \$700
- Adult applicant pool is 370,000
- 2/3 adults favor some form of lottery
- Because of high price of entry, 10% of those interested will participate

Revenue \$8,633,450

a) Program Summary:

The fiscal impact of this bill on the Administrative Services Division will be felt in two ways and in two BRU's.

- 1) Permanent Fund Dividend BRU - modification of PFD processing program; and
- 2) Administrative Services administering the determination of beneficiaries and accounting for payments from the fund.

A more detailed summary of costs follows:

- 1) The provision of a new contribution decision on the dividend application will cause additional administrative cost in several areas:
 - a) An additional page added to each booklet and a schedule of contribution election decisions on each application.
 - b) The computer system will need to be changed to account for the change in the program, to establish new accounting controls and to provide for the transfer of funds to the Alaska Educational Trust Fund (see Attachment A).
 - c) Each of approximately 370,000 PFD applications will need to be visually reviewed and coded as to decision on the election decision. Each application will be data captured with additional attention and keystrokes expended on each positive decision.

Department of Revenue
Permanent Fund Dividend Division
Fiscal Note Analysis
HB 128
3/16/88

1. Positions

1 PPT Analyst/Programmer IV, R19
@ \$4,302.28/Mo including salary
and benefits for 2 months = \$8.6

PCN 04-1125 would be funded for an additional two months, in accordance with Attachment A. Ongoing maintenance of new programs would be accomplished by existing staff.

1 PPT Document Processor I, R7
@ \$2,212.37/Mo, including salary and
benefits for 2 months = \$4.2

This position would assist in the manual review and coding of 370,000 applications for the new contribution decision. This position represents the equivalent of the additional time and effort.

1 PPT Data Processing Clerk I, R8,
@ \$2,317.72/Mo, including salary and
benefits for 1-1/2 months = \$4.6

This position would assist in the data capture of the additional contribution decision. The position represents the equivalent value of the additional time and effort.

TOTAL Personal Services \$17.4

2. Other Expenditures:

a) Travel: \$0.0

b) Contractual:
Data Processing Chargeback \$5.0
Add a page to the PFD Booklet \$6.0

c) Supplies: \$0.2

d) Equipment: Use existing equipment 0.0

TOTAL COST \$28.6

Department of Revenue
Permanent Fund Dividend Division
Fiscal Note Analysis
HB 128
3/16/88

3. Funding: General Fund in FY90, thereafter from the Alaska Educational Trust Fund.

4. Section Cost Analysis: N/A.

Computations: N/A.

Economic Impact: N/A.

Impact on Local Government: N/A.

Suggested Amendments: None.

Attachments: Attachment A: "Summary of DP Needs"

Department of Revenue
Permanent Fund Dividend Division
Fiscal Note Analysis
HB 128
Summary of Data Processing Requirements
3/16/88

Wang data entry processing	75.0 hours
Includes: Data entry	
Batch lists	
Corrections	
Wang to IBM transfer	
IBM Update jobs	30.0 hours
Includes: Edits	
Batch listings	
Log sheets	
DMS Online programs for lookup and changes	37.5 hours
Nightly Update of Changes	22.5 hours
Warrant Jobs	90.0 hours
Includes: Printing warrants with different amounts. Include check stub messages. Modify warrant registers as needed for balancing. Create new program(s) for transferring accumulated decisions to the Alaska Education Trust Fund, and to account for the reserve necessary due to returned and cancelled PFD warrants.	
Miscellaneous	45.0 hours
Includes: Setting up test files on IBM Systems testing Administrative functions, i.e. paper work required by Admin. DP to add files and programs to tables.	
TOTAL HOURS	300.0 hours