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HOUSE STATE AFFAIRS COMMITTEE

NEXT COMMITTEE: FINANCE

BILL: HB 447

CURRENT VERSION:

SCHEDULED: MARCH 4, 1988

SPONSOR: HOFFMAN

PHONE NO: 4453

CONTACT FILE: _____

BILL SUBJECT: RELATING TO APPLICATIONS FOR PERMANENT FUND DIVIDENDS

SPONSOR BACKUP: Hold over to 3/7/88

AFFECTED AGENCIES:

<u>DEPARTMENT</u>	<u>CONTACT/PHONE</u>	<u>COMMENT</u>
REVENUE	ROYCE WELLER/2300	-

FISCAL NOTES

<u>AGENCY</u>	<u>REQUESTED</u>	<u>DATED</u>	<u>FY 88 AMT</u>	<u>FY 89 AMT</u>
REVENUE	2/25/88	3/3/88	Ø	Ø

ACTION

<u>DATE</u>	<u>COMMENT</u>

FISCAL NOTE

REQUEST

Revision Date: _____
Title: An act relating to applications
for Permanent Fund Dividends
Sponsor: Hoffman
Requestor: House State Affairs

Agency Affected: Revenue
BRU: Permanent Fund Dividend Operations
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	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	*	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	*	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	*	-	-	-	-	-

POSITIONS:

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

ANALYSIS: * (Please see attached.)

Prepared By: Ervin Jones
Division: Permanent Fund Dividend Division

Phone: 465-2323
Date: March 3, 1988

Approved by Commissioner: Hugh Malone
Agency: Revenue

Date: March 3, 1988

Distribution (by preparer):

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

Department of Revenue
Permanent Fund Dividend Division
Fiscal Note Analysis

HB 447

March 3, 1988

Recognizing the desire of the sponsor that qualified dividend applicants be paid earlier than under the current process, and recognizing the sponsor's interest and intent that the Department explore the use of Automated Clearing House techniques to accomplish the objective, we have discussed the concept with various Alaska banks, with the Treasury Division of the Department of Revenue and with the Department of Health and Social Services. We also reviewed the related study proposed by the Department in 1986 relative to a request by then Governor Sheffield to pay all applicants on October 1 (copy attached).

The status of Automated Clearing House (ACH) in Alaska is that it is brand new. The banking industry developed the capability for such processing in January, 1988. To date, no one in Alaska is using ACH for direct deposit. The Treasury has been promoting the concept for several years and is very supportive of the idea in general. Treasury has requested that the Department of Administration design the new state payroll system to take advantage of ACH, but at this point, all state agencies (e.g. payroll and retirement) that provide direct deposit do so by mailing warrants to the individual banks. There is no particular advantage to either the applicant or the department in attempting to follow that procedure.

The department is very supportive of any procedure which will allow us to speed up the payment of permanent fund dividends. As you can see from the attached report however, the cost of paying everyone on October 1 is several millions of dollars to both the dividend fund and to the general fund.

The Commissioner of Revenue has directed the Permanent Fund Dividend Division to pursue alternatives which would speed up the payments (including ACH) and reduce the impact of the Hold Harmless program on the value of dividends. I would respectfully suggest that in lieu of HB 447, the House adopt intent language in the Department of Revenue's operating budget that the Department study the alternatives discussed and report back to the next legislature in January 1989 on both of the above two issues.

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MEMORANDUM

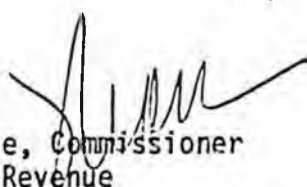
State of Alaska

TO: The Honorable Bill Sheffield
Governor

DATE: March 20, 1986

FILE NO:

TELEPHONE NO:

FROM: Mary A. Nordale,  Commissioner
Department of Revenue

SUBJECT: One-day distribution of
Permanent Fund Dividends

Attached are copies of the study of the feasibility of same-day distribution of permanent fund dividends and the cover memorandum to me summarizing the conclusions.

In view of the extraordinary administrative costs which would be incurred by the Department of Health and Social Services, the potentially grave harm caused clients of DHSS, and the increased expense caused the Department of Revenue, we recommend that this idea be discarded.

I was not involved with the Department of Revenue during the distribution of the 1982 dividend, the first such distribution. The stories I have heard from people familiar with the pressures brought to bear on the Governor's office, legislators and this department suggest that we ought not to subject these offices to similar pressures.

People have accepted the present system and we have remarkably few problems considering the number of eligible applicants.

Attachments

MEMORANDUM

State of Alaska

TO: Mary A. Nordale
Commissioner of Revenue

DATE: March 19, 1986

FILE NO:

TELEPHONE NO:

FROM:  Ervin Jones, Director
Administrative Services Division

SUBJECT: Impact of Mass
Distribution of PFD Checks

Attached is the report you requested analyzing the impact of issuing the bulk of the PFD checks in one mass mailing. I have reviewed the report and agree with its conclusions that a mass distribution would be "prohibitively costly, both in terms of actual dollars spent or lost, and in harm done to existing State operations."

In summary, the report finds the following:

1. "Hold harmless" costs, which are paid for out of the dividend fund, would increase by an additional \$3.5 - \$4.0 million.
2. The incentive to file early would be destroyed, resulting in an increase in the number of applications filed close to the deadline. This would affect the department's ability to process them in time for an October 1 declaration of the dividend amount.
3. The Enforcement Division would lose potential review cases and be faced with the costlier problem of collecting erroneous payments.
4. The three Revenue Public Service Centers have neither the phone lines nor the staff to handle the inquiries from the thousands of applicants who would not receive a check in the mass distribution.
5. By reducing the amount of time available to invest the dividend fund, a mass distribution could result in a direct loss to the general fund of \$1,135,890.51 in interest earnings.
6. In supplies and labor, a mass distribution using Moore's Compurite Service would cost the State nearly \$22,000.00 more than the current distribution system.

Because of its fiscal impact of well over five million dollars, a mass mailing of dividend checks is not in the best interests of the State.

Attachment

EJ:CB:ms

IMPACT OF MASS DISTRIBUTION
OF PERMANENT FUND DIVIDEND CHECKS

by Colleen C. Brown
Management Analyst III
March 18, 1986

Under the current Permanent Fund Dividend distribution program, the State of Alaska issues dividend checks to its half million residents on a weekly basis beginning the first week of October and continuing until all checks are issued. Beginning with the 1983 program, the department issued approximately 34,000 checks a week. After four weeks, this number was increased to an average of 48,000 to 50,000. Consequently, the majority of dividend checks for the 1983, 1984, and 1985 programs was distributed during the three month period October through December. Checks issued after that period included payments that had been held up for review or garnishment, reissues after cancellation primarily due to address changes, and payments on reversals of appeals of a denial notice.

Department managers have intermittently discussed, but never thoroughly analyzed, the possibility of issuing the bulk of the checks in one mass mailing to take place in early October. On April 29, 1985, Moore Business Forms proposed that the State do just that through Moore's Compurite Service. Combining the two processes of forms manufacturing and computer printing of variable data, Moore is capable of producing a complete dividend check and pamphlet inserted in an envelope, ready for mailing, in one process. Because of the lead time needed to order check stock and envelopes for the 1985 check distribution, there was not enough time to consider Moore's proposal for the 1985 program.

MASS MAILING NOT ECONOMICALLY JUSTIFIED

Information gathered while researching this proposal for the 1986 dividend check distribution makes it abundantly clear that a mass mailing is not an economically sound proposal. Such a move would, in fact, cost the State millions of dollars. A mass mailing would have a negative impact on a number of programs and adversely affect both the public and private sectors. This report examines those areas that would be affected if the State distributed the majority of the dividend checks in one mass mailing.

I. Department of Health and Social Services - "Hold Harmless" Program

In Alaska as many as 50,000 people receive or are the beneficiaries of federal and/or state assistance payments based on financial need. In many cases the individual would lose that assistance for the month in which the dividend was received except for specific provisions in the law. Under AS 43.23.075 and AS 43.23.085, the Department of Health and Social Services is instructed to not consider the dividend as either income or as a resource for all state programs, and where it must be considered for federal programs, the affected individual becomes eligible for State assistance in the same amount as that which was lost. The administration of these provisions is generally known as the "hold harmless" program. For the 1985 dividend program, the "hold harmless" costs were calculated at \$3,644,300.00, including payments and administrative costs.

In the arena of public assistance, eligibility is most often determined by looking at prospective income. When a State or federal agency can reasonably anticipate that a payment will be received during a specific month, the agency must consider that amount in determining the individual's eligibility. It is a fundamental matter of accountability; if the Social Security Administration knows in advance that someone is ineligible for assistance, that agency can't simply go ahead and issue a check just because it's inconvenient to do otherwise. However, under the current dividend distribution system, it is impossible to reasonably predict the month of receipt of the dividends for individual households.

"Any change to the distribution system that results in a predictable date of receipt of the benefit will result in significant negative effects on 25,000 Alaskan households and will cost the State a minimum of an additional \$3.5 - 4.0 million in hold harmless costs plus an as yet undefinable but staggering administrative burden. Additional prospective fiscal sanctions would be in the multi-million dollar category."

John Taber, Director, Division of Public Assistance, Department of Health and Social Services, February 24, 1986

A. Federal Food Stamp Program

Food Stamp Program rules require that both income and resource eligibility be determined prospectively each month. The Food Stamp Program's resource limit, as of May 1, is \$2,000. Permanent Fund Dividend checks are considered resources in the Food Stamp Program; therefore, if receipt of these checks can be reasonably anticipated, this money must be considered as a resource when determining eligibility.

Under the current system, food stamp households receiving dividend checks

rarely lose eligibility for the Food Stamp Program. This is because the Division of Public Assistance does not know ahead of time, so cannot anticipate, when a particular household will receive the checks. By the time the household must report receipt, the money is already spent; therefore, no action needs to be taken by the State. During the 1985 dividend program, only 17 households were impacted by the Food Stamp Program "hold harmless" provision. Consequently, the "hold harmless" costs for this particular program were very low.

Issuing all checks at one particular time would affect all households that would have resources, including their anticipated dividend checks, totaling over \$2,000 in the expected month of receipt. For example, a household with four people each receiving a dividend check of over \$500, with no other resource in their possession, would become ineligible for the Food Stamp Program for at least the anticipated month of receipt. All the households that fall into this category of "resources over \$2,000 in conjunction with the dividend program" would have to be covered by the State's "hold harmless" program. It is projected that although less than half of the caseload would be impacted, more than half of the monthly benefit amount of \$2 million would be affected.

Additionally, a mass distribution would be an administrative catastrophe for the Department of Health and Social Services. The State would have to put all the cases of those affected households in a pending status for one month, open a State Food Stamp Supplemental Program case for them, issue a State warrant for the amount of food stamps they would have received, request information on

how and when these households spent their dividend checks to determine when they dropped under the resources limit, close the supplemental program when this occurred, and then reactivate the Federal Food Stamp Program case.

B. Federal SSI - Old Age Assistance, Aid to the Blind, Aid to the Disabled

Under the federal SSI programs, the dividend check is counted as income during the month it is received. The SSI check also received that month is later declared to be an overpayment. Since the inception of dividend payments in 1982, the State has had an agreement with the federal government whereby the State pays a portion of the administrative costs for the federal government to do a case-by-case review at their leisure. In cases where an overpayment is determined to have occurred as a result of the dividend check distribution, the State then pays to SSI the amount of money that was overpaid. This agreement is informally referred to as a "buy-out" agreement. The "buy-out" does not save the State "hold harmless" benefit payment costs, but it does save enormous administrative costs that would be incurred if the agreement did not exist.

The main argument that convinced the federal government to accept this agreement is the impossibility of predicting the month of receipt of the dividend checks for individual households. The issue, once again, is accountability. If the dividend checks were all to be issued at a predictable time, the Social Security Administration would have to suspend virtually its entire caseload (3200 cases) within 30 days, and then reopen them the following month. Under the "hold harmless" program, the State's Division of Public Assistance would have to open case files and issue the actual checks to these 3200 clients to make up for the amount lost to SSI. Currently the State

sends just one check to SSI. Any dividend of more than about \$340 makes the recipient ineligible for SSI in the month of receipt.

C. Medicaid Program - 50/50 State and Federally Funded

Eligibility for medicaid is always prospective, so because the month of receipt of a dividend check cannot be anticipated, an individual does not lose benefits under the current system. A planned mass mailing would throw nearly all medicaid benefits for that month into the "hold harmless" program which would cost the State roughly \$2-1/2 million. Additionally, if the State failed to close a medicaid case timely, and that case was drawn in a quality control sample, the error factor would be applied to the whole medicaid program. This system of projecting sample errors over the entire medicaid caseload creates the risk that sanctions of over \$1 million could be applied due to a single high medical cost case.

D. AFDC - Aid to Families with Dependent Children - 50/50 State and Federally Funded

For the AFDC program, an unanticipated payment one month counts as income two months later which then generally results in case closure or sometimes a reduced benefit. Recently the State was able to establish a "buy-out" agreement for AFDC that took two years to develop. Through a formula, the State is able to calculate to the federal government's satisfaction the number of households that would be ineligible for benefits for the income month. On a quarterly basis, the State decreases its claim of federal AFDC funds by a portion of the projected "hold harmless" amount, thereby paying for those

benefits under the "hold harmless" program. A significant advantage to the State is that because of the agreement, the State faces no dividend-related income quality control jeopardy on this program. An even bigger advantage is that the AFDC clients remain eligible for medicaid.

All that would change if the State issued dividend checks in one predictable mailing. Knowing that the prospective dividend payment would make the AFDC client ineligible for that month, the State would have to process all 6800 cases for closure or suspension in the receipt month. The State would also have to issue a check to each client to make up for the lost or reduced benefit. The cases would then have to be monitored to determine when and how the dividend checks were spent. Once that resource was gone, the State would have to reopen the case for AFDC payments. Because 90% of the AFDC clients spend the dividend check as soon as it is received, 90% of the cases would have to be reopened the following month. Furthermore, the dividend-related income would be subject once again to quality control sanctions, and clients' medical costs would have to be covered under the "hold harmless" program during the period of AFDC case closure, at a cost of more than \$700,000.00.

II. Department of Revenue - Administrative Services Division

A. Processing Dividend Applications - Incentive to File Early

Under the current dividend distribution program, applicants are paid in the order in which the applications are approved for payment. The Alaskan public is made aware of this as an incentive to file early during the three month filing period. It is generally known by the public that a person who files

early in April will receive his or her check in October whereas the person who files on the deadline of June 30 will have to wait until the end of December or even later for the dividend check. A mass mailing of dividends to the majority of the applicants would destroy this incentive to file early.

Early filing is of enormous benefit to the department because of the limited time it has in which to process all the applications. The department is required to declare the dividend amount on October 1 which is based on the number of eligible applicants. The large number of applications that would be filed in June that are now being filed in April would jeopardize the department's ability to meet this mandate. Furthermore, under the current system, the department can plan to fill its seasonal positions in early April knowing that the applications will be filed in large numbers that first month. Without the early payment incentive to file early, those plans would be disrupted. The department's ability to efficiently utilize its seasonal personnel through planning would be weakened.

B. Processing Dividend Checks

The department's Administrative Services Division, which is responsible for the work activity that results in the printing of the dividend checks, would realize no benefit if Moore Business Forms or any other firm made a mass distribution for the State. Because not all applicants would receive their dividend checks from that mass mailing, the department would still have to have all its systems in place to make weekly warrant runs. These weekly runs are necessary for payments released after review, checks reissued after cancellation (primarily due to name or address changes), and payments made on

reversal of appeal of a denial notice. The division's total workload would not change under a mass distribution plan.

Under the current system, the department creates a paper listing of every check to be issued in that week's warrant run containing a predetermined number of batches. For the average run of nearly 48,000 acceptable records in the 500 batches scheduled for check distribution, that list is about 1,000 pages long. In balancing this warrant run, the department checks it against the log of batch listings to make sure that the number of warrants to be issued matches the number of acceptable records on the batch listings. After the warrant run is balanced, a tape is created which is given to the Division of Data Processing in the Department of Administration. Under Moore's proposal, the only thing that would change for the Department of Revenue is that the tape would be sent to Moore Business Forms.

Preparing for a mass distribution would of course require balancing a warrant run of huge magnitude. Under the system in use for 1985, the balancing of each warrant run was usually done in one day but occasionally took longer. Marilyn Williams, the department's Document Processing Manager, estimates that balancing a warrant run with 500,000 records could have been done last year in 7-10 working days. Assuming the best case, following is a comparison of the 1985 warrant printing schedule with what would have happened under Moore's proposal.

1985 - ACTUAL

1985 - MOORE'S PROPOSAL

Sept. 27	Dividend amount declared	Sept. 27	Dividend amount declared
Sept. 30	Listing of warrants received	Sept. 30	Listing of warrants received
Oct. 1	Warrant run balanced	Oct. 8	Warrant run balanced
Oct. 2	Tape created/checks printed	Oct. 9	Tape created & sent to Moore
Oct. 3-7	49,973 warrants mailed from Juneau, Alaska	Oct. 10	Tape received by Moore
		Oct. 15	500,000 warrants mailed from Thurmont, Maryland

By October 15, 1985, the department had completed the printing of the second batch of 48,993 checks, and was ready to mail them. Mailing all of last year's checks in a mass distribution would have had the following results: roughly 49,000 Alaskans would have received their dividend checks one week later, another 49,000 residents would have received their checks at the same time, and 402,000 residents would have received their checks from one to eight weeks sooner.

The warrant run balancing will change with the 1986 program because of complications created by the need to account for those applicants who have chosen to contribute \$5.00 of their dividend check to the Alaska Winter Olympics Account. It is estimated that balancing the warrant runs will take twice as long. Under this scenario, a mass distribution could not take place until October 22, a delay of at least a week, whereas a smaller run of 50,000 warrants would be delayed by only a day.

C. Garnishment Program

An individual's permanent fund dividend may be garnished or attached because of a civil judgment entered in court, or because of amounts owed to state or federal government agencies. The Internal Revenue Service, any Alaska State

agency, including the Child Support Enforcement Division of the Alaska Department of Revenue, or the Court under orders of restitution may garnish or attach 100% of the dividend. All other types of attachments are limited to 50% of the dividend amount.

The Garnishment program is administered by the department's Administrative Services Division as a sub-system of the dividend warrant run procedures. A mass distribution would not reduce the workload of this program because garnishment checks would still have to be issued separately.

The majority of all garnishments are received prior to the first run of dividend checks. State agencies as well as private process servers realize that the individuals to be garnished may well be among the first 50,000 records. However, a garnishment can be served on the department at any time and the department continues to receive them well into the check distribution schedule. According to Document Processing Manager Marilyn Williams, approximately 5% of the 10,200 garnishments matched against the 1985 dividend file were received after the first batch of checks were distributed. That represents claims against 510 dividend checks that would not have been honored under a mass distribution of checks in early October.

III. Enforcement Division - Reviewing Cases for Eligibility

The Enforcement Division's responsibilities include selecting cases for review, denying ineligible applicants, hearing appeals, and collecting erroneous payments. It is obviously in the State's interest for an applicant to be denied a dividend payment before it is issued, not after.

Under existing law, the department must pay or deny all dividends by April 30 of each year. As a practical matter, however, the department tries to pay the majority of applicants before the end of the year with only cases still under review held longer.

If an application has been selected for review, the Enforcement Division tries to have that review done before the document comes up for payment. In those cases that are released timely for payment, an applicant never knows that his or her application was examined. If the review cannot be done timely, the applicant does not receive a check when his or her record comes up for payment. Instead, a notice is sent explaining that the application is being reviewed and that eventually the applicant will receive either a check or a denial letter.

Enforcement's Permanent Fund Dividend Manager Sharon Lowe pointed out that during the 1985 program, the Enforcement Division placed more than 10,000 applications in review status. Of that number, only 2,989 received non-payment notices. The remainder were all timely reviewed, or reviewed after payment.

A breakdown of those notices shows that for the four warrant runs mailed in October, only 86 notices were sent. That number increased to 790 for the four November warrant runs, and the three December warrant runs generated 2,113 notices. This shows that the division was able to keep up with the caseload those first two months because of the time available to review applications before the department began issuing checks.

The point to be made here is that during that whole first month only 86 Alaskans may have been concerned because their applications were being reviewed. Only 86 Alaskans may have placed phone calls wanting more information about that review notice. And if at the end of the month those cases hadn't been resolved, there were potentially only 86 Alaskans angry that the department hadn't worked their cases yet.

On October 2, 1985, the date of the first warrant run, the Enforcement Division had a total of 5,579 cases in review. In a mass distribution, all of those cases would have received non-payment notices. That is a dramatic 87% increase in the number of people actively waiting for their cases to be resolved. Some people, of course, would have had their cases cleared right away, but the majority of people would have had to wait well over a month before hearing from the department again. These applicants would have placed enormous pressure on the department to speed that review process. Through repeated calls to Revenue offices, offices of the ombudsman, and legislators, Alaskans who thought their cases should have been handled faster, or not reviewed at all, would have disrupted the program.

This is exactly what happened with the 1982 dividend program when applications from thousands of people who expected to be paid without question were placed in review status. The department is certain that the higher number of erroneous payments made during the 1982 program was a direct result of the pressure brought to bear to issue those checks as quickly as possible. The department is currently trying to collect over 800 of those 1982 dividend payments, representing more than \$800,000 in accounts receivable.

A mass distribution would impact the Enforcement Division in still another way. Through various edit criteria, the Enforcement Division originally selected about 8,000 of the 1985 cases for review. According to Ms. Lowe, another 2,000 were added later as a result of fraud tips and general research undertaken while reviewing cases. Under a mass distribution those 2,000 would have been paid prior to their review. Since historically about 40% of the cases that are reviewed are actually denied payment of a dividend, that scenario represents 800 payments that would have been made erroneously.

IV. Revenue Public Services Division - Handling Public Inquiries

Glenis Dove, Field Services Manager of the Public Services Division, said "A mass distribution of PFD warrants would severely impact the Public Service Centers." As their name implies, the department's three Centers serve the public directly by answering inquiries from individuals who either have a problem with the department or who need to do business with the department. For the dividend program, the Center personnel primarily hear from applicants who have not received a check that was expected.

During the first two or three weeks of October in past years when checks were being issued, people called to ask, "When am I going to get my check?" This is a question that cannot be answered and the public soon learned that. Through news stories and conversations with friends, the public became aware of the time frame for check issuance and stopped calling with that question. They did, however, call with real problems.

When checks for all the members of a household do not arrive at the same time, the worried applicant contacts the department. When two friends file at approximately the same time, both checks had better arrive at the same time or the department will get a call. Checks get lost, stolen, or hung up in the postal system. Families break up and want checks issued with a different name or address. People who forget to file, or who do not hear of the program until checks start going out, call to ask about applying late. People whose applications were never received try to prove that they actually filed. There are dozens of reasons why the public contacts the department in connection with the dividend program.

From October through December of 1985, the Public Service Centers received a total of 89,384 inquiries regarding 1985 dividends. With a mass distribution, the majority of these applicants would be attempting to contact the Centers all at one time. Ms. Dove predicts that within two or three days after a mass mailing, the telephone lines and offices would be jammed with applicants who had not received their checks. The office space and number of phone lines are not anywhere near adequate to cope with such a crush. In fact, during the current three month check distribution period, the phone lines are generally busy all day every day and the Centers receive a steady stream of visitors.

Without the resources to add extra phone lines and staff, the crush caused by a mass distribution would not be over in a couple of weeks. It could be many weeks before a person was successful in contacting the department about their missing check or other problem. By that time they would be thoroughly disgusted and the personnel at the Centers would have to deal with that anger as well as the actual problem. Individuals whose applications were in review

status, as noted in the section on the impact to the Enforcement Division, would contact the Centers by the thousands. With each passing day after the date of the mass mailing, the situation would grow worse for the people who remained unpaid.

The department experienced these same type of problems with the 1982 dividend distribution program. While the impact of a mass distribution would not be as severe as the events were of 1982, there is no doubt by Public Services personnel that the impact would be disastrous.

It should be noted that the Public Service Centers deal with the public on all Revenue matters, particularly its many licensing and permit programs. With a mass distribution of dividend checks, individuals wishing to conduct business other than that related to dividends would be unable to get through on the telephone lines or would be forced to stand in line at the Centers. This would result in hundreds of complaints to the ombudsman, Governor's Office, Legislative Information Offices, and to individual legislators. Once again, the department is basing its expectations on what actually happened in 1982.

Even without the unpleasantness of complaints, the anticipated drop in the level of service to the public is not acceptable to the department. Delays in obtaining business licenses and permits, or in acquiring needed tax forms, would have a ripple effect throughout the department as well as impact other state agencies and the private sector.

V. Theft of Dividend Checks

Each year a number of dividend checks are stolen outright or taken through deceit or familiar abuse. Managers from the Division of Public Assistance in the Department of Health and Social Services and Revenue's Public Services Division believe that the incidence of theft would rise dramatically in a mass mailing of dividend checks. Even the federal government urges the states to do a random mailout of food stamps because of problems encountered nationwide with theft. An increase in theft would of course have a negative impact on the public, but it would also impact the department's Public Service Centers and local law enforcement agencies.

A. Outright Theft or Theft Through Deceit

Should a larcenous person currently consider the risks of rifling mailboxes or purse snatching, he or she would realize that the odds of finding a permanent fund dividend check are not particularly good on any one day. Those odds would improve at least tenfold if the department undertook a mass distribution. If it is known that nearly everyone in Alaska would have extra money during the same short time period, there would be unscrupulous persons thinking up ways to steal it. It has been noted by the Division of Public Assistance that there are now landlords who make a point of raising their rents when it is known that their tenants have extra money. They and others like them would certainly take advantage of a mass check distribution.

B. Familial Theft

Sophisticated familial theft, which largely goes unreported, is known to be a problem now. There is a lot of coercion used against the elderly, the mentally disabled, and the mentally ill. If an uncaring family knew for certain that their confused Aunt Ida would be getting her check at a particular time, it is not at all unlikely to assume that they may pay her a visit expressly to get that check from her. Gordon Landes of the Division of Public Assistance was blunt in his assessment. "A mass check distribution will set up all of Alaska's 'have-nots'," he said, "as pigeons ripe for plucking."

VI. Earned Interest on the Dividend Fund

Under AS 43.23.045, the dividend fund is established as a separate fund to be administered and invested by the Commissioner of Revenue. Each year the Permanent Fund Corporation transfers to the dividend fund 50% of the interest earnings of the Alaska Permanent Fund based on a five year rolling average. Until the funds are distributed to residents as permanent fund dividends, the money is invested and the interest earned accrues to the general fund. If the dividend checks were all issued at the same time in early October, there would be a substantial revenue loss as the funds would no longer be available for investment.

During the 1984 dividend distribution program, an average of 47,857 applicants were paid weekly for nine weeks. During the 1985 program, the average increased to 47,938 applicants paid weekly for ten weeks with a final run in the 11th week of 21,575 checks. This took care of the majority of all applicants. Under the current system, it is logical to assume that during the 1986 program, the department would continue to pay an average of 48,000 applicants each week.

At the present time, the department's Research Section estimates that \$268 million will be available for distribution to an expected 536,000 applicants. Based on prior year experience, the department anticipates that 510,000 of those applications would be acceptable for payment without further review. Under the current distribution plan those 510,000 checks would be issued over an eleven week period with the first group in the mail by October 7, 1986. Under a mass distribution plan, 510,000 checks would all be issued two weeks after that date, on October 22. (See section II.B for an explanation of this two week difference.)

The estimated dividend amount for 1986 is \$500 (\$268 million divided by 536,000 applicants). Assuming that each week during the distribution period the checks are redeemed at a steady rate, the department would be distributing \$24 million each week. According to the Treasury Division, by using present yields on short-term investment of 7.5%, the amount of interest income generated each week is readily calculable. (After the first week's distribution of \$24 million, \$244 million would be left to earn interest. Multiply that amount by .075 and divide by 365 to figure the interest earned each day. Multiply by 7 to figure the interest earned during a one week period.)

1986 Dividend Distribution Over Eleven Weeks

<u>WEEK</u>	<u>AMOUNT INVESTED</u> <u>(In million \$)</u>	<u>INTEREST EARNED</u>
1	\$ 244	\$ 350,958.93
2	220	316,438.36
3	196	281,917.79
4	172	247,397.29
5	148	212,876.72
6	124	178,356.15
7	100	143,835.65
8	76	109,315.08
9	52	74,794.51
10	28	40,273.94
11	4	5,753.44
		<u>\$1,961,917.86</u> TOTAL INTEREST EARNED

Under a mass distribution plan, most of that earned interest would be lost to the State. For a 15 day period, however, the entire \$268 million would be available for investment. Using the same calculations detailed above, the interest earned would be \$826,027.35. By subtracting that amount from the interest earned during the eleven week distribution period, it is clear that a mass distribution could result in a direct loss to the general fund of \$1,135,890.51. Only by delaying the mass distribution until November 12 could the potential loss be eliminated. Of course, it can also be determined that each day's delay past November 12 could increase interest earnings by \$55,068.49. The department does not believe the public would be agreeable to such a delay.

VII. Economic Impact

It is questionable whether or not there would be any real difference in distributing \$268 million across the state in one week or eleven. Either way, a large amount of money is being dropped into the economy in a very short time

period. However, there is basis for believing that the one week distribution would result in more of that money being spent rather than saved.

Should the State plan to distribute the checks all at one time, merchants would have good reason to advertise heavily during that period whereas now they either spread their advertisements over a three month period or not advertise at all. It is a fact that advertising, for a variety of reasons, is effective. The enticement or pressure of massive advertising, coupled with peer pressure, would undoubtedly lead more people to immediately spend their dividend checks.

VIII. Other Areas of Impact

A. Banks

According to the warrant redemption bank, the physical impact on banks of a mass distribution could be significant. That number of warrants would impact the banks' operations all the way from the bank tellers to the processing center for the warrant redemption bank. The comment made by the present warrant redemption bank is that they could handle it if advised in advance.

B. Child Support Enforcement Garnishments

During the three month check distribution period in 1985, the Child Support Enforcement Division received about 1500 checks as a result of the garnishment program. Sandy Beebe of that division said that receiving all those checks at one time would create an emergency work situation resulting in overtime and

temporary reassignment of personnel in order to process the checks through the system. This must be done the day of receipt so that the money can be deposited into the bank, both for investment and security purposes.

C. Cancelling Returned Warrants

During the first three months of the 1985 check distribution period, more than 6,000 checks were returned and subsequently cancelled. Most of these checks were returned by the post office as undeliverable. In a mass check distribution, the majority of the returned warrants would arrive within a six week period. That would place a heavy burden on the department's Document Processing Section to cancel those warrants. Cancellation involves three separate data entry operations for each returned warrant. The information must be entered into the PFD master file, keyed into AKSAS, and then certified through AKSAS.

Warrant cancellations must be kept up to date because the Public Service Centers need that information on the PFD master file to be able to respond to inquiries about missing checks, and because checks cannot be reissued until the original warrant has been cancelled.

IV. Cost Analysis - Supplies and Labor to Issue Checks

A. Material Costs - Existing System vs. Compurite Service

Under the check distribution system used for the 1984 and 1985 dividend programs, three items were purchased: a warrant printed on continuous 100 lb. tag stock, a multi-colored pamphlet, and a window envelope.

1985 Dividend Program Materials - Actual Cost

<u>ITEM</u>	<u>QUANTITY</u>	<u>COST</u>	
Warrants	624,000	\$ 8,230.00	
Pamphlets	525,000	26,365.50	
Envelopes	600,000	<u>7,920.00</u>	
		\$42,515.50	TOTAL COSTS

Under a mass distribution system such as the Compurite Service proposed by Moore Business Forms, all three items would be produced by Moore for one price. However, additional warrants, brochures, and envelopes would be needed for the reissued checks, garnishment checks, and other warrants that would be issued after that mass distribution.

1985 Dividend Program Materials - Estimated Cost of Mass Distribution

<u>ITEM</u>	<u>QUANTITY</u>	<u>1985 BID PRICE</u>	<u>TOTAL COST</u>	
Compurite Service	500,000	\$150.00/M	\$75,000.00	
Additional Warrants	124,000	\$13.19/M	1,635.56	
Additional Pamphlets	25,000	\$50.22/M	1,255.50	
Additional Envelopes	100,000	\$13.20/M	<u>1,320.00</u>	
			\$79,211.06	TOTAL COST

The difference between the two systems is \$36,695.56. From purely a supplies and labor standpoint, the Compurite Service is only cost-justified if the data processing and distribution costs of the existing system exceed that amount.

B. Labor Costs - Data Processing and Distribution

Three divisions in the Department of Administration were involved in the actual printing and distribution of the 1985 dividend checks. The check stock was stored in the 5th floor vault in the State Office Building. The pamphlets and envelopes were stored in the warehouse used for storage of paper stock by the State's Central Duplication Services. In both cases this storage space was available at no additional cost to the State.

Each Friday two people from the Division of Finance would remove from the vault the exact number of warrants to be printed in accordance with the warrant release provided by the Department of Revenue, and deliver them to the Division of Data Processing. This procedure took thirty minutes, and involved employees working at range 20 and range 16 positions.

Data Processing personnel would print the checks over the weekend on an impact printer from a tape supplied by the Department of Revenue. This took from ten to twelve hours each week. The warrants would then be signed and burst which took an additional four to five hours. This work was performed by a permanent full-time employee working at a range 9 position.

Each Monday morning the printed warrants would be picked up by the State's Central Mailroom in the Division of General Services and Supply. Once every two weeks the Central Mailroom would pick up a supply of pamphlets and envelopes from the warehouse. During the week Central Mailroom employees inserted the warrants and pamphlets in the envelopes using high-speed postal equipment, pre-sorted the envelopes for the 4¢ per piece postage savings, and delivered them to the post office. In every week but one, the Central Mailroom was able to mail all the checks in three days. (At the end of each day, the warrants not yet mailed were put back into the vault for safe-keeping.)

In the divisions of Finance and Data Processing, the labor involved was simply absorbed by existing personnel. The Permanent Fund Dividend program does not pick up those costs. It is different for the Central Mailroom personnel. In that case the extra work involved was more than could be handled by the regular employees. In order to put two of their people on the sophisticated inserting/postal equipment, they needed help in doing their other routine operations. The cost of hiring this extra help for that three month period was picked up by the Permanent Fund Corporation. (The 1982 and 1983 dividend checks were designed as a heat-sealed mailer that did not require insertion into an envelope. When the Permanent Fund Corporation was authorized to include a pamphlet with each check beginning with the 1984 program, they agreed to pay all associated costs. These costs include the price of the envelopes as well as the seasonal help in the Central Mailroom.)

Following are the State's costs in providing this labor for the 500,000 checks mailed during the first eleven weeks of the 1985 check distribution period:

STATE'S LABOR COSTS

Pick-up and delivery of warrant stock to Data Processing:	\$ 255.97
Computer printing/signing/bursting:	2,589.93
Seasonal help in Central Mailroom:	10,910.00
Miscellaneous - loss of presort postage savings that would be gained in one large mailing:	<u>1,000.00</u>
	\$14,755.90

As can be seen by the summary below, the State's costs under the present system are considerably less than they would be with the Compurite Service.

1985 Dividend Program -	Actual Materials Cost	\$42,515.50
	Actual Labor Cost	<u>14,755.90</u>
	TOTAL	\$57,271.40
Estimated Cost of Mass Distribution:		<u>79,211.06</u>
Additional cost to State of Mass Distribution:		\$21,939.66

Moore Business Forms would not have proposed a system unless they believed it to be cost-justified. Given that, why does their proposal show an estimated minimum savings to the State of \$11,000.00? An examination of Moore's cost analysis reveals the following flaws:

- a. Moore's estimated costs of the existing warrant, pamphlet and envelope exceeded the actual costs by \$10,984.60.

- b. Moore assumed incorrectly that the Compurite System would save the State hours of computer time they valued at \$200/hr. However, the mainframe computer is involved only minimally in the check printing processes provided by Data Processing. Consequently, Moore overestimated the Data Processing costs by \$10,410.07.
- c. Moore failed to consider that with the Compurite System the State would still have to buy additional warrants, pamphlets and envelopes. The cost of these materials is estimated at \$4,211.06.

In spite of the relatively low costs of processing the dividend checks in-house, the Department of Administration has expressed an interest in giving up that responsibility. The aggravation factor is primarily at work here. The Data Processing Division must devote as much as 45% of one employee's time for an eleven week period, and even with the seasonal help it receives, the Central Mailroom is heavily impacted. However, unless the work situation in these two divisions changes dramatically, the State cannot justify using the Compurite Service or any similar system to distribute dividend checks.

C. Cost of Using Compurite Service on a Weekly Basis

When Moore Business Forms made its proposal last spring, the Department of Revenue requested a price to print 50,000 checks a week for a ten week period. The department wanted to be able to consider the Compurite Service in the event that a mass distribution proved to be unfeasible. The quote received reflected a price of \$223.17 per thousand. Using that price, following is a comparison of the costs under the various distribution options.

Comparison of Compurite Service Plans

Ten weekly distributions - 500,000 X \$223.17/M	\$111,585.00
Mass distribution - 500,000 X \$150.00/M	<u>75,000.00</u>
Increased cost of weekly distribution	\$ 36,585.00

Ten weekly distributions	\$111,585.00
1985 Dividend Program - Materials & Labor Cost	<u>57,271.40</u>
Increased cost of weekly distribution	\$ 54,313.60

As can be seen above, a weekly distribution using the Compurite Service would almost double the State's current costs.

With the additional costs of the Compurite Service ranging from almost \$22,000 to more than \$54,000, it is clear that regardless of the distribution plan, eliminating the aggravation and inconvenience of having to do the project in-house has a very high price tag.

X. Conclusions

At the beginning of this report it was noted that department managers had, over the past three years, entertained the idea of a mass check distribution. The appeal was in "just getting it over with" instead of spreading the program out over a three month period. An analogy can be drawn to the practice of removing a band-aid - all at once is the relatively painless choice in that case.

When seriously considered, however, it can be seen that the band-aid analogy does not fit the dividend program. This is because there can truly be no "all at once" distribution. There are thousands of applicants that would not be paid in a mass distribution, but the workload caused by these "problem" cases would come "all at once." Could the department handle it? "Basically," commented Public Services Division Director Sally Smith, "we don't have the staff."

The Enforcement Division would lose potential review cases in a mass distribution and be faced with the costlier problem of collecting erroneous payments. The mounting pressure to review applications and hear appeals at a faster rate than scheduled could become intolerable. Sharon Lowe, Permanent Fund Dividend Specialist, spoke for the entire division when she stated, "We think it's a terrible idea!"

The Administrative Services Division, which at first glance would appear to be the least impacted by a mass distribution, could actually be devastated by such a plan. Quite simply, the division could not physically process all the applications in time for an October payment if the majority of them were filed at the last minute. "The incentive to file early is a key element in our ability to get our job done," said the division's director, Ervin Jones.

Of all the people interviewed in connection with this study, only Alison Farnan of the Permanent Fund Corporation found any merit in the idea of using the Compurite System. Such a plan would eliminate the administrative chore of

purchasing the pamphlets separately as they now must do. Other than that, they saw no advantage to changing the current system.

Prior to this analysis, department managers had no idea of the staggering costs involved in a mass distribution of checks or they would never have even briefly considered the alternative. "Hold harmless" costs would more than double, lost interest earnings would deprive the general fund of over a million dollars, and the cost of the Compurite Service itself is much more expensive than the cost of the current system.

In conclusion, a mass distribution of dividend checks would be prohibitively costly, both in terms of actual dollars spent or lost, and in harm done to existing State operations.