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R/O SFC 5-3-89

STATE OF ALASKA  
1989 LEGISLATIVE SESSION

BILL VERSION: CSSB 136 (Finance)  
PUBLISH DATE: \_\_\_\_\_

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_  
Title: Alaska Education Trust Fund

Agency Affected: University of Alaska  
BRU: Statewide Programs & Services

Sponsor: Kertulla and Kelly  
Requestor: \_\_\_\_\_

Component: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES		62.4				
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING		62.4				

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

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

FUNDING: (Thousands of Dollars)

GENERAL FUND		62.4				
FEDERAL FUNDS						
OTHER						
TOTAL		62.4				

POSITIONS:

FULL-TIME		1				
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Personal Services includes one professional position at range 79

Prepared by: Marsha Hubbard *Marsha Hubbard* Phone: 474-7593  
Division: Statewide Budget Office Date: 5/3/89

Approved by Commissioner: Brian Rogers *Brian Rogers* Date: 5/3/89  
Agency: University of Alaska

Distribution (by preparer):

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

R/O. JFC 5-3-89

STATE OF ALASKA  
1989 LEGISLATIVE SESSION

Bill Version: CS SB 136 (HESS)  
Publish Date: \_\_\_\_\_

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_  
Title: Alaska education trust fund

Agency Affected: Department of Revenue  
BRU: Treasury

Sponsor: Senate HESS  
Requestor: Senate HESS

Components: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
<b>OPERATING</b>						
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	45.0	84.0	127.0	174.0
SUPPLIES	0	0	0	0	0	0
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
<b>TOTAL OPERATING</b>	<b>0</b>	<b>0</b>	<b>45.0</b>	<b>84.0</b>	<b>127.0</b>	<b>174.0</b>
<b>CAPITAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>REVENUE</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	45.0	84.0	127.0	174.0
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>45.0</b>	<b>84.0</b>	<b>127.0</b>	<b>174.0</b>

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 for analysis.

Prepared By: Milt Barker MB  
Division: Treasury

Phone: 465-2350  
Date: 4-11-89

Approved by Commissioner: [Signature]  
Agency: Department of Revenue

Date: 4/12/89

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

RECEIVED

APR 13 1989

Changes in CSSB 136 (Fin) have no fiscal impact. This fiscal note is appropriate. 5/3/89 ML

page \_\_\_ of \_\_\_

LEGISLATIVE FINANCE

Alaska Education Trust Fund  
Investment Management Expenses

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	(\$ Millions)						(\$000)				
Fiscal Year	Beginning Balance	Permanent Fund Dividends	Contributions	Average Balance	Earnings	Ending Balance	Securities Safekeeping Fees	Common Stock Management Fees	Performance Measurement Fees	Audit	Total Fees
FY90	0	460	23	14	1	24	1	22	12	10	45
FY91	24	477	24	39	3	51	2	60	12	10	84
FY92	51	471	24	66	5	80	3	102	12	10	127
FY93	80	466	23	95	8	111	5	147	12	10	174

Notes:

1. Column 6, prior year
2. From "Revenue Sources," Fall 1988, Department of Revenue
3. 5% of Column 2, assuming 5% participation by dividend recipients; initial participation in a similar Florida program was .37% of the population
4. Column 1 + (7.5/12)(Column 3) assuming transfer to trust fund occurs on average on November 15; also assumes no payouts during first four years of the program
5. 8% x Column 4
6. Column 1 + column 3 + Column 5
7. Column 4 x 5.25¢/\$1000 per contract
8. Column 4 x .31% per contract x 50% asset allocation to common stocks
9. Per contract
10. Treasury Division estimate
11. Columns 7 + 8 + 9.

Original sponsors: Kerttula and Kelly

1 IN THE SENATE BY THE FINANCE COMMITTEE

2 CS FOR SENATE BILL NO. 136 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act establishing the Alaska education trust fund  
7 and authorizing advance tuition payment contracts;  
8 and providing for an effective date."

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

10 \* Section 1. AS 14.40 is amended by adding new sections to read:

11 ARTICLE 5. ALASKA EDUCATION TRUST FUND.

12 Sec. 14.40.731. ALASKA EDUCATION TRUST FUND ESTABLISHED. (a)

13 The Alaska education trust fund is established as an endowment trust  
14 fund separate from the general fund. The fund may be divided into  
15 separate accounts for accounting purposes.

16 (b) The fund consists of

17 (1) permanent fund dividend and cash contributions made  
18 under AS 14.40.735 under the terms of an advance tuition payment  
19 contract;

20 (2) gifts, bequests, and contributions of cash or other  
21 assets from a person; and

22 (3) income and earnings of the fund.

23 (c) Assets of the fund shall be expended in the following order  
24 of priority:

25 (1) to make payments to the university on behalf of quali-  
26 fied beneficiaries;

27 (2) to make refunds upon termination of an advance tuition  
28 payment contract;

29 (3) to pay the costs of administration of the fund.

1           Sec. 14.40.733. POWERS AND DUTIES OF THE COMMISSIONER OF REVE-  
2 NUE. The commissioner of revenue is the treasurer of the fund and has  
3 the following powers and duties under this section:

4           (1) to act as official custodian of the cash and invest-  
5 ments belonging to the fund by securing adequate and safe custodial  
6 facilities;

7           (2) to receive all items of cash and investments belonging  
8 to the fund;

9           (3) to collect the principal and income from investments  
10 owned or acquired by the state treasury and deposit the amounts in  
11 separate principal and income accounts for the fund;

12           (4) to invest and reinvest the assets of the fund as pro-  
13 vided in this section and as provided for the investment of retirement  
14 funds under AS 14.25.180;

15           (5) to exercise the powers of an owner with respect to the  
16 assets of the fund;

17           (6) to do all acts, whether or not expressly authorized,  
18 that the commissioner of revenue considers necessary or proper in  
19 administering the assets of the fund;

20           (7) to maintain accounting records of the fund in accor-  
21 dance with investment accounting principles and with distinction  
22 between the principal and income accounts of the fund;

23           (8) to engage an independent firm of certified public  
24 accountants to annually audit the financial condition of the fund's  
25 investments and investment transactions;

26           (9) to enter into and enforce contracts or agreements  
27 considered necessary for the investment purposes of the fund;

28           (10) to report to the university the condition and invest-  
29 ment performance of the fund.

1           Sec. 14.40.735. CONTRIBUTION TO THE ALASKA EDUCATION TRUST FUND.

2       (a) Contributions to the fund under the terms of an advance payment  
3 contract may be made by direct cash payments or by contributions from  
4 the permanent fund dividend. The Department of Revenue shall prepare  
5 the permanent fund dividend application to allow an applicant to  
6 contribute all or part of a dividend to the fund under the terms of an  
7 advance tuition payment contract.

8           (b) The Department of Revenue shall pay contributions directly  
9 to the fund.

10           Sec. 14.40.737. POWERS AND DUTIES OF THE UNIVERSITY OF ALASKA.

11       (a) The Board of Regents of the University of Alaska may contract  
12 with a purchaser for the advance payment of tuition by the purchaser  
13 for a qualified beneficiary to attend a branch of the university to  
14 which the qualified beneficiary is admitted, without further tuition  
15 cost to the qualified beneficiary.

16           (b) The board shall

17               (1) make appropriate arrangements as necessary to fulfill  
18 the board's obligations under an advance tuition payment contract;

19               (2) establish standard payment plans to be used under  
20 advance tuition payment contracts;

21               (3) establish the circumstances under which an advance  
22 tuition payment contract may be terminated and the amount of the  
23 refund the person entitled to terminate the contract may receive.

24           Sec. 14.40.739. ADVANCE TUITION PAYMENT CONTRACTS. (a) An  
25 advance tuition payment contract must include

26               (1) the amount of payments required from the purchaser on  
27 behalf of the qualified beneficiary;

28               (2) the terms and conditions for making the payments;

29               (3) provisions for late payment charges and for default;

1 (4) the name and age of the qualified beneficiary under the  
2 contract and a statement that the purchaser, with the approval of the  
3 board, may substitute another person for the qualified beneficiary  
4 originally named in the contract;

5 (5) the number of credit hours to be provided to the quali-  
6 fied beneficiary under the contract;

7 (6) the name of the persons entitled to terminate the  
8 contract, the terms and conditions under which the contract may be  
9 terminated, and the amount of the refund to which the person terminat-  
10 ing the contract is entitled;

11 (7) the assumption of a contractual obligation by the board  
12 to provide for credit hours of higher education at the university;

13 (8) the number of credit hours the qualified beneficiary  
14 may receive if the qualified beneficiary is not entitled to in-state  
15 tuition at the time of enrollment at the university;

16 (9) the period of time during which the qualified benefi-  
17 ciary may receive the benefits of the contract; and

18 (10) other terms and conditions the board determines to be  
19 appropriate.

20 (b) An advance tuition payment contract may be terminated

21 (1) if the qualified beneficiary dies;

22 (2) if the qualified beneficiary is not admitted to a  
23 branch of the university after making a proper application;

24 (3) if the qualified beneficiary certifies to the board  
25 that the qualified beneficiary has been accepted by a degree granting  
26 institution of postsecondary education other than the university;

27 (4) if the qualified beneficiary certifies to the board,  
28 after the qualified beneficiary has received a high school diploma or  
29 reached the age of majority, that the qualified beneficiary has

1 decided not to attend the university;

2 (5) if the board determines that the number of purchasers  
3 is insufficient to maintain the fund on an actuarially sound basis; or

4 (6) under other circumstances determined by the board and  
5 set out in the advance tuition payment contract.

6 Sec. 14.40.741. DEFINITIONS. In AS 14.40.731 - 14.40.741

7 (1) "advance tuition payment contract" means a contract  
8 entered into by the board and a purchaser to provide for the higher  
9 education of a qualified beneficiary;

10 (2) "board" means the Board of Regents of the university;

11 (3) "fund" means the Alaska education trust fund estab-  
12 lished under AS 14.40.731;

13 (4) "purchaser" means a person who makes or is obligated to  
14 make advance tuition payments under an advance tuition payment con-  
15 tract;

16 (5) "qualified beneficiary" means a resident who has rights  
17 under an advance tuition payment contract;

18 (6) "university" means the University of Alaska, including  
19 a community college affiliated with the university.

20 \* Sec. 2. TAX DETERMINATION. The Department of Revenue shall request  
21 that the Internal Revenue Service determine if the income earned by the  
22 Alaska education trust fund established in sec. 1 of this Act is taxable  
23 income under federal law. The Board of Regents of the University of Alaska  
24 may not contract with a purchaser for the advanced payment of tuition under  
25 AS 14.40.737, added by sec. 1 of this Act, until the Department of Revenue  
26 has received a determination from the Internal Revenue Service regarding  
27 the applicability of federal income taxes to the Alaska education trust  
28 fund.

29 \* Sec. 3. This Act takes effect July 1, 1989.



# Alaska State Legislature

## SENATE

Official Business

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

### SECTIONAL ANALYSIS

CS SENATE BILL 136 (HESS)

Section 1

Sec.14.42.400 Establishes the Alaska Education Trust fund. Contributions consist of an individual's permanent fund dividends, cash contributions, gifts, bequests, contributions of individual assets and earnings from the fund.

Establishes that the assets of the fund may be used to make payments to the University of Alaska for qualified beneficiaries (students)

Assets may be used to make refunds and to pay the administrative costs of the fund

Sec.14.42.410 Establishes the Commissioner of Revenue as the treasurer of the fund and sets out the duties of the Commissioner.

The Department of Revenue will administer and invest the assets of the fund and will report to the Postsecondary Education Commission

Sec.14.42.420 Sets out the provisions for contributions to the Alaska Education Fund which are either cash or permanent fund dividends.

Sec.14.42.430 The Commission on Postsecondary Education is the agency which will contract with a purchaser for an advance tuition payment for the University of Alaska.

Establishes the guidelines for payment plans and refunds

Sec.14.42.440 Establishes the provisions which are to be included in the advance tuition contracts and includes but is not limited to provisions for termination of a contract, provisions for dealing with a qualified beneficiary who is no longer a state resident.

Includes language to provide for the termination of a contract if the program does not have enough participants to make it cost

effective.

Sec.14.42.490 Definitions

Section 2 Provides that the Commission will not enter any contracts until an IRS ruling is received.

Section 3 Effective date of July 1, 1989.



# NEA-ALASKA

AFFILIATED WITH THE NATIONAL EDUCATION ASSOCIATION

## ANCHORAGE REGIONAL OFFICE

1411 W. 33RD AVENUE  
ANCHORAGE, ALASKA 99503  
(907) 274-0536

## JUNEAU OFFICE

105 MUNICIPAL WAY, SUITE 302  
JUNEAU, ALASKA 99801  
(907) 586-3090

## FAIRBANKS REGIONAL OFFICE

2118 CUSHMAN STREET  
FAIRBANKS, ALASKA 99701  
(907) 456-4435

March 13, 1989

To: Senator Paul Fisher, Chair  
Members, Senate HESS Committee

Re: Senate Bill No. 136; "An Act establishing the  
Alaska education trust fund and authorizing  
advance tuition payment contracts; and providing  
for an effective date."

NEA-Alaska supports and encourages your favorable  
consideration of SB 136.

SB 136 effectively serves the public interest in Alaska in  
at least three ways in addition to the creation of the  
Alaska Education Trust Fund itself.

It provides an incentive for an individual to save money  
toward the cost of attending the University of Alaska, it  
focuses on the importance of planning for the financial  
needs attendant to higher education, and it elevates the  
significance of the University of Alaska as a legitimate  
option as they and their parents and friends make plans for  
post secondary education.

Additionally, it will bring greater emphasis to the  
importance of the role of the University in meeting the  
future needs of the State through meaningful programs and  
services for its students.

Planning for higher education is essential, financial  
planning even more so. SB 136 provides an incentive for  
students to aspire and to attend the University of Alaska.

Thank you for your consideration of our position.

Respectfully submitted,

Bob Manners  
Executive Secretary

cc: Senator Jay Kerttula

State legislatures April 1987

## ON FIRST READING ISSUES AND POLICY IN BRIEF

### States Look at Pre-Payment Plan to Ease College Costs

Escalating education costs and runaway student debts have caused several states to consider plans in which parents can pay their children's college tuition years ahead of time.

In Pennsylvania, for instance, Senate President Pro Tem Robert Jubelirer has introduced legislation that will allow parents to pre-purchase college tuition by investing in an account managed by the state. In return, parents would be guaranteed that the future fees would be completely covered, regardless of how much costs rise.

Jubelirer says the plan insures that the emerging generation will have a chance to pursue the advanced education they will need in our "increasingly technological and competitive economic environment."

The proposal has bipartisan support and may be part of the solution to Pennsylvania's underfunding of higher education and resulting tuition hikes. *Education Daily* reports that Pennsylvania ranks 50th among all states in per-capita spending on higher education. Tuition at the 14

state-owned universities has increased 87 percent in the last decade.

Pennsylvania is not the only state considering such legislation. Maine House Majority Leader John Diamond has introduced the Student Educational Enhancement Deposit Plan, or SEED Plan, which would work much like the Pennsylvania plan. Diamond says there is a "sense of frustration" among families because the cost of a college education continues to rise.

In California, Assemblyman Tom Hayden introduced the Educational Security Account Act in January. "Parents need to know that a college education is still attainable, that they will be able to afford to send their kids to college in the year 2020," says Hayden, chair of the Assembly's Subcommittee on Higher Education. "My proposal is that California adopt an 'education security account,' just like we have with the 'individual retirement accounts.'"

Both Diamond and Hayden's proposals are patterned after Michigan's program, which hinges on a review by the Internal Revenue Ser-

vice. Experts believe, however, that interest earnings and the subsequent value of the tuition will be made exempt from federal taxation.

Part layaway plan, part mutual fund, Michigan's program offers parents steep tuition discounts if they pay ahead. The younger the child, the cheaper the price. The plan guarantees four years tuition at any public college or university in the state if parents deposit as little as \$3,000, either paid in a lump sum or installments or through payroll deductions. Parents can deduct their contribution from their income subject to Michigan income tax.

Parents who move out of the state, or whose children decide to go to college somewhere else or nowhere, or do not meet admission requirements, can get their money back. A student who decides to attend an independent college in Michigan may have payments up to the average tuition cost at a public four-year college transferred to and applied against the tuition charges of the independent college.

# College-Tuition Plan in Michigan Seen as Model

## YOUR MONEY MATTERS

By JHE DAVIDSON

Staff Reporter of THE WALL STREET JOURNAL

The save-now, pay-later tuition plans offered by some private colleges are spreading to public universities—with legislators aiming to overcome parents' and educators' objections to the current programs.

The tuition plans, designed to help parents prepare for future college costs, are "hot items on many 1957 state legislative agendas," says Aims McGuinness, assistant executive director for higher education at the Education Commission of the States, a research group with 48 states as members. According to the commission, 42 states, including California, Massachusetts and New Jersey, are considering tuition-financing plans. Most are patterned after a program set to begin in Michigan.

Under the Michigan Education Trust, parents deposit with the state \$3,000 to \$4,500, depending on the age of the child and the plan chosen, either in a lump sum or through a payment plan. The state invests the money, expecting that it will grow enough to cover undergraduate tuition at any of Michigan's 13 universities and 29 community colleges.

### Freedom From Worry

For Anne Burke, a Lansing mother of girls ages two and five, the trust represents a way "to assure our children of a college education and not have to worry about how much we'd have to save." Four-year tuition at state schools in Michigan now averages \$8,000 for residents. In 18 years, the state calculates that would jump to \$22,835 if tuition increases average 6%, and to \$37,737 if increases average 9%.

The Michigan program can't start until the Internal Revenue Service grants it tax-exempt status. But officials expect the first trust contract to be signed by early summer. So far the state has received more than 24,000 inquiries about the plan.

Michigan officials say a major advantage of the trust over many private plans is that the state tuition payment is guaranteed, even if the investments don't keep up with increased costs. Moreover, the program provides a moderate-cost alternative for families who can't afford similar programs at private colleges.

The Michigan program also lets students choose from a wider variety of admissions standards and academic programs than the private plans. And the trust is more flexible than private programs about students entering a college outside the plan. In such a case, the Michigan program will pay up to the average of state-school tuitions; the student must fund any difference. Many private plans allow a student to take their money elsewhere only if he transfers from the college in question and meets certain grade requirements.

But the Michigan trust has some drawbacks similar to those in the private-college plans. Under one Michigan plan, if the student dies or doesn't attend college, only the principal—minus administrative costs—would be refunded, regardless of the amount of interest earned over many years. With an alternative Michigan plan, the initial investment is higher, but some interest earnings are included in the refund if the contract is terminated.

### Not for Everyone

Even the wider choice of schools under programs like Michigan's may not be enough for everyone, says Sharon Hart, a research assistant at the Education Commission. "People who move often will have problems with it," she says, because someone who moves out of state would face higher tuition at the schools in the plan.

Under the Michigan program, as in most private plans, students will still have to pay for room and board and other fees not covered by tuition. But programs in some other states are being set up to include such costs. A new Wyoming plan covers room and board as well as tuition. And if a child in the Wyoming plan chooses not to use the fund, the principal and 4% interest, compounded annually, is refunded.

Richard Anderson, a financing specialist at Columbia University's Teachers College, says the tuition plans are so popular that politicians are "stumbling over themselves" to get them passed, he says. But he worries that it is "much too easy for legislators to overpromise what can be delivered" by underestimating the amount that should be invested today for tuition nearly two decades away.

These concerns aren't primary to parents such as Mrs. Burke in Michigan. "We don't think there are too many ways you could necessarily lose," she says. "It would be easier to take the chance than to project how much you'd have to save for 13 to 15 years down the road."

Wall Street Journal

4/13/87



Official Business

# Alaska State Legislature

## Senate

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

### SPONSOR STATEMENT

#### Senate Bill 136, Alaska Education Trust Fund

As the cost of a college education steadily increases, parents have become increasingly concerned about their ability to provide a college education for their children. As a result, many states have been looking at innovative ways to provide parents and students with alternatives for financing college tuition.

Senate Bill 136 offers one such option. The legislation establishes a "guaranteed tuition plan" which assures future tuition payment to a University of Alaska campus upon an initial investment in a newly created Alaska Education Trust Fund. The amount of the initial investment is determined by the age of the child at the time of the investment; the younger the child, the cheaper the price. If the parent of an older child joined the program, the contribution would be higher because there would be less time for the money to earn interest.

The State would then invest the money, intending that, at a minimum, the tuition fund investments would have a rate of return that would equal the expected tuition cost for a child by the time he/she enrolls in college.

A contract would be made between the state and the purchaser that would guarantee four years undergraduate tuition at the University of Alaska, no matter how much the costs rise.

Senate Bill 136 has been modeled on a similar program which was adopted and implemented by the State of Michigan. When Michigan adopted its plan in 1986, 44,000 persons applied during a two month period. In Florida, approximately 40,000 persons applied for a similar program.

While the option always exists for parents to place their money in other types of savings and investments, the guaranteed tuition plan offers low cost tuition and assurances for the future; in other words, there is a high degree of peace of mind.

5/3/89 Talked w/ Sponsor's Wife, Paula Terrel.  
 She will contact PFC and attach  
 this note in Rules, if necessary. *KL*

STATE OF ALASKA  
 1989 LEGISLATIVE SESSION

BILL VERSION: CS SB 136 (HESS)  
 PUBLISH DATE: \_\_\_\_\_

FISCAL NOTE

REQUEST

Revision Date: \_\_\_\_\_  
 Title: An Act establishing the Alaska  
 education trust fund  
 Sponsor: Kerttula and Kelly  
 Requestor: \_\_\_\_\_

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

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
<b>OPERATING</b>						
PERSONAL SERVICES	-0-	26.5	14.3	14.3	14.3	14.3
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-
<b>TOTAL OPERATING</b>	-0-	37.7	25.5	25.5	25.5	25.5
<b>CAPITAL</b>	-0-	-0-	-0-	-0-	-0-	-0-
<b>REVENUE</b>	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS	-0-	-0-	-0-	-0-	-0-	-0-
OTHER	-0-	37.7	25.5	25.5	25.5	25.5
<b>TOTAL</b>	-0-	37.7	25.5	25.5	25.5	25.5

POSITIONS:

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

ANALYSIS: See Attached.

Prepared By: Ervin Jones  
 Division: Permanent Fund Dividend Division

Phone: 465-2323  
 Date: April 21, 1989

Approved by Commissioner: [Signature]  
 Agency: Revenue

Date: 4/25/89

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

**RECEIVED**  
 APR 26 1989

LEGISLATIVE FINANCE

Department of Revenue  
Permanent Fund Dividend Division  
Fiscal Note Analysis  
CS SB 136 (HESS)  
April 21, 1989

Assumptions:

1. The bill will take effect for the 1990 permanent fund dividend year and application. The 1989 dividend application has already been printed.
2. Currently, the only "check-off" on the Permanent Fund Dividend application is the Winter Olympic check-off. During the last legislature, a total of 18 bills were introduced calling for specific check-offs, plus an omnibus check-off bill (SB 406) which would have required 3,600 organizations to be listed on the form as possible check-offs. If the checkoff option on this bill receives favorable attention by the Legislature, I think the floodgate will open and we will once again be faced with dozens of check-off requests. This fiscal note 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) Funding for the administrative costs of the Permanent Fund Dividend program in providing the mechanism for contributions from the permanent fund dividend in FY90 and thereafter will be paid from the Permanent Fund Dividend fund as appropriated by the legislature.
- 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) Contributions 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) Management of the AKSAS account, including accounting for transfers to the Alaska education trust Fund account and reversing entries as a result of returned and cancelled warrants will be by the Administrative Services Division, Department of Revenue.

1

Department of Revenue  
 Permanent Fund Dividend Division  
 Fiscal Note Analysis  
 CS SB 136 (HESS)  
 April 21, 1989

Program Summary:

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 application, a schedule of contribution decisions with explanatory information on each check-off.
- 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 trust account, and notification of AKSAS upon cancellation and reissue of warrants.
- c) Each of approximately 540,000 PFD applications will need to be visually reviewed and coded as to decision on the contribution decision. Each application will be data captured with additional attention and keystrokes expended on each positive decision. The provision allowing for flexible contributions of any amount up to the total amount of the dividend will cause additional data entry and accounting costs. Each application will be keyed yes/no to the question on contribution. For those who answer yes, a dollar amount will be keyed.

1. Positions

	<u>FY 90</u>	<u>FY 91</u>
1 PPT Analyst/Programmer V, R21 @ \$6,110.86/Mo including salary and benefits for 2 months	=	\$12.2

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 @ \$2,340.37/Mo, including salary and benefits for 3 months	=	\$7.0	\$7.0
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This position would assist in the manual review and coding of 540,000 applications for the new contribution decision. This position represents the equivalent of the additional time and effort.

Department of Revenue  
 Permanent Fund Dividend Division  
 Fiscal Note Analysis  
 CS SB 136 (HESS)  
 April 21, 1989

	<u>FY 90</u>	<u>FY 91</u>
1 PPT Data Processing Clerk I, R8, @ \$2,446.08/Mo, including salary and benefits for 3 months =	\$7.3	\$7.3
<p>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.</p>		
TOTAL Personal Services	\$26.5	\$14.3
2. <u>Other Expenditures:</u>		
a) <u>Travel:</u>	\$0.0	\$0.0
b) <u>Contractual:</u>		
Data Processing Chargeback	\$5.0	\$5.0
Add a page to the PFD Booklet	\$6.0	\$6.0
c) <u>Supplies:</u>	\$0.2	\$0.2
d) <u>Equipment:</u> Use existing equipment	<u>\$0.0</u>	<u>\$0.0</u>
TOTAL COST	<u>\$37.7</u>	<u>\$25.5</u>

Suggested Amendments:

Since the success of such a program will hinge largely on whether or not the IRS agrees to the tax deferral of contributions, it would seem wise to obtain that ruling before setting the bureaucracy in motion. I would recommend a delayed effective date for all except Section 2.

I would also suggest that the determination of the IRS be sought for the tax-deferred status of the initial contributions, not just the income of the fund. Since there are many investments which provide tax deferred earnings, the attractiveness of this approach lies in the potential tax deferral of contributions.

Attachments: Attachment A: "Summary of DP Needs"

Department of Revenue  
Permanent Fund Dividend Division  
Fiscal Note Analysis  
CS SB 136 (HESS)  
Summary of Data Processing Requirements  
April 21, 1989

<u>Wang data entry processing</u>	75.0 hours
Includes: Data entry	
Batch lists	
Corrections	
Wang to IBM transfer	
<u>IBM Update jobs</u>	30.0 hours
Includes: Edits	
Batch listings	
Log sheets	
<u>DMS Online programs for lookup and changes</u>	37.5 hours
<u>Nightly Update of Changes</u>	22.5 hours
<u>Warrant Jobs</u>	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 trust account and to account for the reserve necessary due to returned and cancelled PFD warrants.	
<u>Miscellaneous</u>	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

3/16/89 S(HESS); SFC

STATE OF ALASKA  
1989 LEGISLATIVE SESSION

Bill Version: SB 136  
Publish Date: 4/6/89

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_  
Title: Alaska education trust fund  
Sponsor: Kerttula  
Requestor: Senate HESS

Agency Affected: Department of Revenue  
BRU: Treasury  
Components: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
<b>OPERATING</b>						
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	45.0	84.0	127.0	174.0
SUPPLIES	0	0	0	0	0	0
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
<b>TOTAL OPERATING</b>	<b>0</b>	<b>0</b>	<b>45.0</b>	<b>84.0</b>	<b>127.0</b>	<b>174.0</b>
<b>CAPITAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>REVENUE</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	45.0	84.0	127.0	174.0
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>45.0</b>	<b>84.0</b>	<b>127.0</b>	<b>174.0</b>

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 for analysis.

Prepared By: Milt Barker MB  
Division: Treasury

Phone: 465-2350  
Date: \_\_\_\_\_

Approved by Commissioner: Walter B. Barker for  
Agency: Department of Revenue

Date: \_\_\_\_\_

- Distribution (by preparer):
- Legislative Finance
  - Legislative Sponsor
  - Requestor
  - Office of Management and Budget
  - Impacted Agency(ies)

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Alaska Education Trust Fund  
Investment Management Expenses

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	(\$ Millions)						(\$000)				
Fiscal Year	Beginning Balance	Permanent Fund Dividends	Contributions	Average Balance	Earnings	Ending Balance	Securities Safekeeping Fees	Common Stock Management Fees	Performance Measurement Fees	Audit	Total Fees
FY90	0	460	23	14	1	24	1	22	12	10	45
FY91	24	477	24	39	3	51	2	60	12	10	84
FY92	51	471	24	66	5	80	3	102	12	10	127
FY93	80	466	23	95	8	111	5	147	12	10	174

Notes:

1. Column 6, prior year
2. From "Revenue Sources," Fall 1988, Department of Revenue
3. 5% of Column 2, assuming 5% participation by dividend recipients; initial participation in a similar Florida program was .37% of the population
4. Column 1 + (7.5/12)(Column 3) assuming transfer to trust fund occurs on average on November 15; also assumes no payouts during first four years of the program
5. 8% x Column 4
6. Column 1 + column 3 + Column 5
7. Column 4 x 5.25¢/\$1000 per contract
8. Column 4 x .31% per contract x 50% asset allocation to common stocks
9. Per contract
10. Treasury Division estimate
11. Columns 7 + 8 + 9.

STATE OF ALASKA  
1989 LEGISLATIVE SESSION

BILL VERSION CS SB 136 (Fin)  
PUBLISH DATE: 4/6/89

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_  
Title: Alaska Education Trust Fund  
Sponsor: Kerttula  
Requestor: Senate HESS

Agency Affected: Education  
BRU: Postsecondary Education  
Components: General Administration

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES	-0-	62.3	64.1	66.1	68.1	70.1
TRAVEL						
CONTRACTUAL		10.0	10.0	10.0	10.0	10.0
SUPPLIES		1.5	1.5	1.5	1.5	1.5
EQUIPMENT		7.4	-0-	-0-	-0-	
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING		81.2	75.6	77.6	79.6	81.6

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

REVENUE	*					
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FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER		81.2	75.6	71.6	79.6	81.6
TOTAL						

POSITIONS:

FULL-TIME		1.5	1.5	1.5	1.5	1.5
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Personal services include one professional at Range 16 and one half-time support personnel at Range 9.

\*Provided by the Department of Revenue.

Prepared by: Ronald A. Phipps, Executive Director Phone: 465-2854  
Division: Alaska Commission on Postsecondary Education Date: February 14, 1989

Approved by Commissioner: \_\_\_\_\_ Date: \_\_\_\_\_  
Agency: \_\_\_\_\_

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

## FISCAL NOTE

**REQUEST:**

Revision Date: 4/11/89  
Title: "An Act Establishing the Alaska Education Trust-Prepaid Tuition Fund and Authorizing Advance Tuition Payment Contracts; and Providing for an Effective Date."

Agency Affected: University of Alaska  
BRU: SPS, UAA, UAF, UAS  
Components: \_\_\_\_\_  
Sponsor: Kerttula, Kelly  
Requestor: Fischer

**EXPENDITURES/REVENUES: (Thousands of Dollars)**

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES	-0-	-0-	-0-	-0-	-0-	-0-
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL OPERATING						

CAPITAL						
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REVENUE	-0-	-0-	-0-	-0-	-0-	-0-
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**FUNDING: (Thousands of Dollars)**

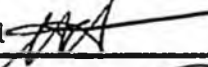
GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

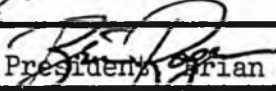
**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

**ANALYSIS :** (Attach a separate page if necessary)

The fund is self-supporting and should cost the University of Alaska nothing. Some administrative time will be required in setting up the fund, this should be accommodated through current staffing levels.

Prepared by: Marsha Hubbard  Phone: 474-6490  
Division: Statewide Budget Date: 4/11/89

Approved by Commissioner: Vice President, Brian Rogers  Date: 4/11/89  
Agency: University of Alaska

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

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_  
Title: "An Act Establishing the Alaska Education Trust-Prepaid Tuition Fund and Authorizing Advance Tuition Payment Contracts and Providing for an Effective Date ."

Agency Affected: University of Alaska  
BRU: SPS, UAA, UAF, UAS  
Components: \_\_\_\_\_  
Sponsor: Kerttula

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES	-0-	-0-	-0-	-0-	-0-	-0-
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

The fund is self-supporting and should cost the University of Alaska nothing. Some administrative time will be required in setting up the fund, this should be accommodated through current staffing levels.

Prepared by: Jim Lynch  
Division: Statewide Finance

Phone: 474-6556  
Date: 2/21/89

Approved by Commissioner: Vice President, Brian Rogers  
Agency: University of Alaska

Date: 2/2/89

Distribution (by preparer):

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