

S B

203

SENATE STATE AFFAIRS COMMITTEE

BILL NUMBER SB 203

SPONSOR Pearce - 4943-JO

BILL TITLE PFD's in installments

DATE REFERRED 3-3-89

HEARING SCHEDULED 1-19-90

FISCAL NOTE PREPARED - Requested cliff Grah.

SPONSOR CONTACTED JO

INTERESTED PARTIES CONTACTED

Auch. Coalition of Small Businesses - Joe Hayes

Susie
George Kallas
Jim Henderer
Buzzy Hoffman
Bill Dudley
203

Jo said she went past the
dishwasher & got to the head
man!

J.

Re SB 203

George Kallas
Fri 1/19/90 @ 1:30
Call him at
274-1252

He is to call in
to:

~~274~~
463-5163

Dividend options

REPUBLICAN Reps. Fritz Pettyjohn and Jim Zawacki of Anchorage have introduced a bill in the House to allow those eligible for the Permanent Fund dividend to select the number of dividend payments to be received.

HB 84 would allow the following payment options:

- A lump-sum payment of the entire amount;
- Four approximately equal quarterly payments;
- Or 12 approximately equal monthly payments.

A similar bill, SB 203, has been introduced in the Senate by Drue Pearce. Sen. Pearce's bill allows eligible recipients to select either the annual payment plan or the quarterly installment version.

Sounds great doesn't it? Just choose a method of payment to fit your lifestyle. Two simple bills representing a motherhood-and-apple pie issue. Ah, but things are not as simple as they seem.

THE DEPARTMENT of Revenue, in a fiscal note analysis of SB 203, estimates that 25 percent of eligible individuals would select the installment payment option.

That equates to 390,000 additional checks and envelopes plus postage — which means an additional handling cost of \$118,800.

But that's only the tip of the iceberg.

You'd have to add to that the costs for additional personnel to rewrite the computer program, to screen the applications and to handle the expected 50,000 more people contacts per year. And that adds up to a pretty piece of change.

The real costs, however, come into play with the administration of the so-called "hold harmless" agreements the state has with the federal government regarding the entitlement programs. These include such things as Aid For Dependent Children, Adult Public Assistance, Food Stamp Program and Supplemental Security Income.

The hold harmless agreements protect individuals from losing eligibility for these programs or having the benefit levels reduced as a result of the payment of the Permanent Fund dividend.

IN OTHER words, the state pays the tab when the dividend dollars put an individual's or a family's income over the maximum income level allowed for participation in the respective program.

The Department of Revenue estimates the cost resulting from the hold harmless agreements would be \$3.8 million — if the assumption is that 25 percent of dividend recipients opted for the quarterly installment payment.

The Department of Health and Social Services cited similar costs in its position paper and recommended against passage of SB 203.

Too bad, too. The idea sounds terrific. But when you consider the prospect of three or four million dollars a year in added expenses and potential liabilities, our ardor cools.

In view of the costs, we find ourselves forced to agree with the adverse recommendation from Health and Social Services.

Alaska State Legislature

3111 C Street, Suite 150
Anchorage, Alaska 99503
(907) 561-2038



NO

During Session:
P.O. Box V
Juneau, Alaska 99811
(907) 465-4993

Senator Drue Pearce
District G

MEMORANDUM

TO: All Senators

FROM: Senator Drue Pearce *Drue Pearce*

RE: Request for Co-Sponsors
Senate Bill 203

DATE: March 2, 1989

Periodic payments of Permanent Fund dividends have been proposed by the Anchorage Coalition of Small Business as an effective way of providing more consistent stimulation to the Alaskan economy. The theory is that if people received smaller distributions more frequently they would buy more goods and services in Alaska rather than using the money spending the money Outside. More frequent distribution might also help alleviate the need of some to sell their dividend checks.

Attached is a draft of Senate Bill 203 that would allow an applicant for a Permanent Fund Dividend to elect annually to receive a lump-sum payment or to receive four installment payments over a 12-month period.

While I acknowledge that there may be some higher costs associated with the more frequent distribution of PFD's, I believe the economic and social benefits might well outweigh the monetary costs. It certainly bears discussion.

If you would like to be a co-sponsor on this bill, please call Jo Fenety of my office by Thursday at 5:00 PM.

Attachment

DP:jf

Alaska State Legislature

Sen. Pat Pourchot, Chairman

Sen. Jan Faiks, Vice Chairman

Sen. Al Adams

Sen. Tim Kelly

Sen. Rick Uehling



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

907-465-3712

Senate State Affairs Committee

HEARING SCHEDULE

January 18, 1990

Div. of Policy
Friday, January 19 1:30-3:30 pm Room 211 Capitol
SB 203, An Act relating to an option for receiving permanent fund dividends in installment payments; and providing for an effective date.

SB 341, An Act making an appropriation to the disaster relief fund; making appropriations from the disaster relief fund for relief of flooding and replacement of a high school; and providing for an effective date.

Monday, January 22 1:30-3:30 pm Room 211 Capitol
TELECONFERENCE
SB 5, An Act amending and making effective an annuity program and amendments to the longevity bonus program and the permanent fund dividend program.

SSSB 150, An Act establishing a senior housing office and loan program in the Department of Community And Regional Affairs; and authorizing the issuance of bonds for senior housing.

Wednesday, January 24 1:30-3:30 pm Room 211 Capitol
TELECONFERENCE; Testimony by Invitation
Ballot Initiatives on intrastate long distance telephone competition.
SB 206, An Act relating to intrastate competition in telecommunications.

Friday, January 26 1:30-3:30 pm Room 211 Capitol
Possible continuation of bills heard on January 22 and January 24.

Monday, January 29 1:30-3:30 pm Room 211 Capitol
HB 45, An Act relating to eligibility for retirement benefits under the Public Employees' Retirement System for delegates to the Alaska Constitutional Convention; and providing for an effective date.
HB 311, An Act approving the issuance of revenue bonds for construction of a road from Portage to Whittier and of the Bradfield River resource road; and providing for an effective date.

Alaska State Legislature

3111 C Street, Suite 150
Anchorage, Alaska 99503
(907) 561-2038

During Session:
P.O. Box V
Juneau, Alaska 99811
(907) 465-4993

RECEIVED MAR 9 1989

Senator Drue Pearce
District G

MEMORANDUM

TO: Senator Pat Pourchot, Chair
Senate State Affairs Committee

FROM: Senator Drue Pearce *Drue Pearce*

RE: SB 203, An Act relating to an option for receiving permanent fund dividends in installment payments.

DATE: March 8, 1989

Please schedule a hearing for SB 203 during one of your Committee's "Permanent Fund days". I think this dividend option should have a hearing.

A fiscal note has been requested from the Department of Revenue. By the time a hearing is scheduled we will have a fiscal note.

DP:jf

1-4-90 - Jo came in to request SB 203 be heard. She reiterated that they will request fiscal note.

1-10-90 - Notified of 1-19-90 Hearing Scheduled - Asked for fiscal

1.19.90

SB 203

requested info from Arch Coalition

- Pearce:
- Rec's ISER research on positive economic impact
 - Hold Harmless Cases — No OPTION offered to identified cases

+ Loretta Rutherford, UAA — Bob Underwood

Jim Henderson:

Buzz Hoffman: Positive impact for family of 4 to keep their home — additional \$300 per family

Ryce Wilco: Further

Tabor: Impact — working each case for resources and eligibility AFDC, Medicaid,

Pat < Food Coupons — restraints
Hold Harmless situation — Bad situation
Problem superimposing \$ on top of welfare system

sb203.txt

SB 203: Pearce PFD Installment Payments

NOTIFIED; * indicates will testify

*Senator Pearce

*George Kallas; via teleconference from Anchorage, representing the Anchorage Coalition of Small Businesses. With George will be: Jim Henderer, Buzz Hoffman, Bill Dudley

Cliff Groh: Revenue

Ervin Jones: Div. of PFD

Joe Hayes: Anch. Coalition of Small Businesses

F.Y.I.

Reminder: you may wish to announce you do not intend to move this bill today.

House Research and Revenue have strongly concluded that periodic payments would have a significant cost impact. . PFD Division estimates a 40% spending increase. Additional hold harmless costs are estimated by HESS to be \$6 to \$10 million dollars.

Packets include:

SB 203

Report by House Research on PFD Installment Plan, based on Hanley bill.

Letter from Revenue: Cliff Groh reviewing plan.

*Fiscal Note: ...
Friday morning*

SB 203



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

P.O. Box Y, State Capitol
Juneau, Alaska 99811-3100
Mail Stop 3100
(907) 465-3991

October 31, 1988

MEMORANDUM

TO: Representative Alyce Hanley
FROM: Ginny Fay *gfay*
Legislative Analyst
RE: Payment of Permanent Fund Dividends in Installments
Research Request 89.087

You requested information regarding the frequency of distribution of Alaska Permanent Fund Dividends (PFDs). You specifically asked 1) how many additional employees would be required to process checks monthly or quarterly, 2) what Department of Revenue (DOR) employees currently do when they are not processing PFDs, and 3) what effects paying PFDs in installments would have on welfare hold harmless costs of the program. In addition, you asked this agency to analyze the economic effects of payment of PFDs in biannual, quarterly, and monthly installments. The DOR provided the attached memorandum on the costs and effects of more frequent distribution of PFDs. I concur with the points in the DOR memorandum and am providing you with additional information.

In summary based on DOR's and this agency's analysis, it is likely that more frequent distribution of PFDs would have significant costs that would reduce per capita dividends. In turn, the economic benefits of more frequent distribution might not be substantial. There may be some social benefits, however, of more frequent PFD distribution. In particular, for individuals who sell their future PFDs at significantly discounted rates to PFD brokers, two or more installments may reduce their need to sell their PFDs and thus reduce their brokerage losses. The DOR estimates that as many as 7,000 persons sold their PFDs last year for about 50 percent of face value. For people or families with severe cash shortages, more frequent distributions of PFDs would undoubtedly provide individual benefits.

Representative Hanley
October 31, 1988
Page 2

Regarding the costs of more frequent PFD distribution, you did not specify the method of transition from one PFD payment to two or more payments. Permanent Fund Dividends are currently mailed in October and are based on residency during the preceding winter. A new distribution system is unlikely to gain public support if it means recipients must wait beyond October to receive a portion of their dividends. Alaska residents have come to expect dividends in October for amounts known months in advance--PFDs have essentially become part of what economists refer to as "permanent income." In addition, the fact that people prefer money now rather than later is a well established economic concept. Also, according to the DOR, given additional administrative and hold harmless costs of a multiple check system, the sum of the two or more PFD installments is likely to be less than the single check now offered. Despite these factors, the DOR has assumed that a multiple payment system would involve delayed payments rather than prepayment of PFDs.

Prepayment of PFDs could be more complex and costly than retaining a portion of dividends; different application and/or residency periods would be required because prepayment would occur before the close of the current application period. In addition, early payment would mean that funds would be withdrawn from the Permanent Fund earlier. Loss of interest earnings would further reduce per capita dividends.

Administrative Costs

Erwin Jones, Director, Division of Permanent Fund Dividends (DPFD), provided information regarding the division's operations and number of employees. The DPFD has 17 seasonal employees that work approximately nine months per year and 40 employees that work 12 months per year. The DPFD has three primary functions--processing of applications, providing information to the public, and investigating claims. Processing applications is the most time consuming and labor intensive of the three functions. The Division generally hires 40 to 50 temporary employees from April through June to process applications. Processing includes opening mail, returning incomplete applications for more information, microfilming applications, and key punching information. By July 15, all but about six employees in the processing section are laid off.

The DPFD has information offices located in Juneau, Anchorage, and Fairbanks. These offices have permanent full-time staff to answer questions from applicants and the public. During the past year, the information offices have received and responded to more contacts than the number of citizens in the state. Despite a slight lull in January and February, the offices handle questions year-round.

The investigative process involves the review of about 60,000 applicants annually. Approximately 5,000 reviews are the result of duplicate applications. Another 4,000 to 5,000 applicants are determined to be ineligible to receive PFDs. The investigations staff work full-time, year-round in order to comply with state statutes which require all applicants to be paid or denied within one year of receipt of their applications.

Erwin Jones believes that more frequent payment of PFDs would increase the work load of the division. Mr. Jones provided information for an application system in which applicants could indicate on their application whether they preferred to receive their check in one payment or more frequent distributions. More frequent payments would have a relatively minor effect on the processing of applications. Information offices would be affected because any new program option generates questions from the public. The accounting process would become significantly more complicated, especially if applicants could choose different distribution options. The check-writing process is relatively simple and would not be affected significantly.

The selection of a payment sequence would have to be an irrevocable decision or processing costs would be extraordinary. It is likely that a significant number of applicants would want to change their decision during the year, would have incorrectly indicated their choice, and/or would not have fully understood the change to the program and its implications. If requested, the DPFDC will develop a fiscal note to estimate the costs of implementing a multiple payment system.

Hold Harmless Costs

Randy Moore, Division of Public Assistance, Department of Health and Social Services (DHSS), provided conceptual information regarding how more frequent PFD payment would affect Aid to Families with Dependent Children (AFDC) and Social Supplemental Income (SSI) recipients. These two programs account for the majority of hold harmless costs.

The receipt of any income--including a PFD--by AFDC or SSI recipients affects their program eligibility in two ways:

- The PFD constitutes an overpayment during the month it is received. Any income in excess of \$10 is considered an overpayment and is subtracted from the transfer payment for that month.
- There is a resource issue because households receiving AFDC and SSI cannot retain more than \$1,000 in cash or they will be considered ineligible for payments in the month(s) following receipt of PFDs--or any other income.

Representative Hanley
October 31, 1988
Page 4

For example, a family of two receives \$692 per month in AFDC support (see attached table). During the month they receive their \$800 PFDs, they would be ineligible for the \$692 payment. Under the hold harmless provision, the PFD account would reimburse the family for the lost payment of \$692. Loss of transfer payments as a result of PFD payments is paid dollar-for-dollar under the hold harmless provision. As long as the family spends their PFD income so that they hold \$1,000 or less in cash during subsequent months, there would be no resource issue, and there would be no further hold harmless costs for the year. The DOR did not include resource costs in their computation of potential hold harmless costs. Recipient loss of eligibility as a result of excess resources occurs infrequently--of the \$9 to \$10 million budgeted for hold harmless in FY 90, less than \$225,000 is expected to be caused by excess resources. As PFDs continue to grow, however, resource issues could cause hold harmless costs to increase.

If PFDs were paid more frequently--either quarterly or monthly--the potential problem of excess resources would be decreased. Hold harmless costs as a result of overpayment, however, would be significantly increased because of the current size of PFDs. As mentioned above, two simultaneous PFD payments of \$800 results in a \$692 overpayment (overpayments cannot be negative) which is reimbursed under hold harmless. If the PFD's had been paid in quarterly installments, hold harmless payments could total \$1,600; because of four \$400 overpayments. In general, larger family size and more frequent payments would further increase hold harmless costs. If PFDs were paid in two installments, hold harmless costs would almost double; quarterly payments would result in an approximate tripling of costs. With monthly payments, the cost of hold harmless payments would be even greater--and would effectively displace federal AFDC payments.

The DOR's memorandum considered only the hold harmless costs of paying PFDs in two payments. These costs are much easier to discern than more frequent distributions. In general, the size of the PFD is sufficient to require hold harmless costs to be paid even if PFDs were paid in two or more installments. The complexities of the transfer payment system, plus uncertainties such as family size and other financial resources, makes the determination of hold harmless costs under more frequent installment scenarios more difficult to determine. However, it is clear that more frequent distribution of PFDs will increase hold harmless costs. Because these costs are deducted from the PFD account, multiple payments will reduce the size of PFDs. As the size of PFDs grow which they are expected to continue to do so, resource ineligibility may become more of a problem. Under those conditions, more frequent payments might reduce hold harmless costs.

Representative Hanley
October 31, 1988
Page 5

Effects on the Alaska Economy

As mentioned in DOR's memorandum, payment of PFDs in two installments during the winter months would have the benefit of smoothing out the seasonal fluctuations of personal income in Alaska. We considered the effects of more frequent payments of smaller amounts on the overall leakage of dividends out of the state economy.¹ It is likely that more frequent payments would have only a small beneficial effect on leakage. This would be true to the extent that recipients used PFDs more frequently for day-to-day living expenses that entailed purchases of Alaska services or manufactured goods.

For the purpose of this analysis, use of PFDs falls into four general categories--savings, day-to-day expenses, capital purchases, and luxury items. Because PFDs are a relatively small component of permanent income for the majority of Alaskans, shifts in the use of PFDs are probably influenced more by changes in the rest of an individual's permanent income than by the frequency of PFD distribution. Therefore, payment of PFDs in installments is not likely to have a significant effect on how people currently use their PFDs. For example, people who save PFDs would probably continue to do so.

There could, however, be some shift from the purchases of cars and furniture (examples of capital goods) and airline tickets (an example of a luxury good) to day-to-day expenses such as groceries or clothing because the smaller size of the payments would require a recipient to save installments in order to have the amount of cash-in-pocket that occurs in the existing system. The leakage from items such as groceries and clothing is probably no less than from capital and luxury goods because the majority of all these items have little value added in Alaska. Instead, the profit margin--which is retained in Alaska--on the capital and luxury good may be greater than on the day-to-day expenses. Therefore, larger purchases may result in a smaller leakage. As mentioned above, only to the extent that smaller dividend payments would result in the increased use of PFDs to purchase Alaska services or manufactured items would there be any economic benefit of reduced PFD leakage from the state.

I hope this information is useful and answers your questions. If you would like the Department of Health and Social Services to do a more in-depth analysis or the Division of Permanent Fund Dividends to complete a fiscal note, please let me know. Also, if you have additional questions, please do not hesitate to call.

Attachments

¹Economists generally measure the effects of expenditures on a state or local economy in terms of the multiplier effect which measures the additional rounds of expenditures an initial expenditure creates. The magnitude of this "ripple" effect in the economy is influenced by the amount of leakage of the expenditure out of the state or local economy.

STANDARDS AND MAXIMUM PAYMENTS

<u>AFDC</u>	11.2%	7.4%	STDS.	3.5%	3.5%	3.1%	<u>7/1/86</u>	1.3%
	<u>7/1/81</u>	<u>7/1/82</u>	CHG. <u>1/1/83</u>	<u>1/1/84</u>	<u>1/1/85</u>	<u>1/1/86</u>		<u>1/1/87</u>
A1 2	508	546	597	617	638	657	657	665
3	571	614	674	696	719	740	740	749
4	634	682	751	775	800	823	823	833
5	697	750	828	854	881	906	906	917
6	760	818	905	933	962	989	989	1001
7	823	886	986	1012	1043	1072	1072	1085
EA ADD	63	68	77	79	81	83	83	84
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ANI 1	222	238	238	246	254	261	261	264
2	445	476	476	492	508	522	522	528
3	508	544	553	571	589	605	605	612
4	571	612	630	650	670	688	688	696
5	634	680	707	729	751	771	771	780
6	697	748	784	808	832	854	854	864
7	760	816	861	887	910	937	937	948
EA ADD	63	68	77	79	81	83	83	84
<hr/>								
<u>SINGLE ADULT/PREGNANT WOMAN*</u> (11/1/83)	286	308	*359 *382	*391	404	416	416	421
<u>**ADDITIONAL INCREMENT FOR INCAP. SPOUSE</u> (4/1/84)				**145	**150	**154	**154	**156
<hr/>								
<u>APA</u>							<u>WASKY SUIT</u>	
INDIV. -35	426	426	546	566	586	605	624	632
+35	526	526						
COUPLE -35	638	638	802	830	859	887	925	937
+35	773	773						
N.H.P. NEEDS:	35	70	70	70	70	70	70	70
- INDIV. B			451	466	482	497	516	523
- B ELIG. COUPLE			660	683	707	730	768	778
- A COUPLE, 1 INELIGIBLE			660	683	707	730	749	759
- B COUPLE, 1 INELIGIBLE			518	536	555	573	592	600
- Nursing Home 300% Cases				942	975	1008	1020	1020
<hr/>								
<u>SSI STANDARDS:</u>								
- INDIV. "A" L'VG. ARR.				314	325	336	336	340
- INDIV. "B" L'VG. ARR.				209.34	216.67	224	224	226.67
- COUPLE "A"				472	488	504	504	510
- COUPLE "B"				314.67	325.34	336	336	340
<hr/>								
<u>APA-SSI RESOURCE LIMITS</u>								
- Individual				1500	1600	1700	1700	1800
- Couple				2250	2400	2550	2550	2700

MEMORANDUM

State of Alaska

TO: Ginny Fay
House Research Agency


DATE: October 10, 1988

FILE NO: 5892G

TELEPHONE NO: 465-2300

THRU:

SUBJECT: Spreading Out Permanent Fund Dividends in Two Annual Installments

FROM: 
Cliff Groh, Special Assistant
to the Commissioner
Department of Revenue

You asked the Department of Revenue to lay out the economic benefits and the administrative costs of paying Permanent Fund Dividends in two installments.

This is an effort to outline the kinds of costs and benefits which might be produced by this change. It is not a full-dress fiscal note, bill analysis, or position paper.

We assume that the residency period and filing period would not change. The only change would be that while the first installment would come during the October-December period (when most dividends are paid out), the second payment would occur sometime between January and June. We assume that the two payments would be equal, and that this payment plan would be required for all recipients.

The costs of this change would be substantial, both in direct administrative costs to the Department of Revenue and the "hold harmless" costs in public assistance payments borne by the Department of Health and Social Services.

The most obvious costs are the costs in paper and postage from printing and mailing two warrants instead of one. The doubling of the checks would also require a substantial increase in computer programming. A number of people would move during the period between the issuance of the two warrants; keeping track of these movements would necessitate a significant increase in staff to handle the changes of address. R. Michael McGee, Acting Division Director, thinks that monitoring all these movements might require the creation of a new accounting system for the program.

Public inquiries about dividend receipts and timing of payments would probably more than double. The Department would expect increases in telephone and office contacts as well as correspondence. These public contacts would come from people who wanted to attach dividends as well as from people who originally applied.

Mr. McGee thought that the change to a two-installment plan might require a total spending increase by the Department of 40 percent of the Permanent Fund Dividend Division's budget, which would represent more than \$1 million.

Ginny Fay
October 10, 1988
Page 2

The additional "hold harmless" costs would be much higher. Randy Moore of the Department of Health and Social Services estimated August 5 that this change would increase "hold harmless" costs by \$6 million to \$10 million annually. The biggest impact would be on Aid for Families with Dependent Children, which produces most of the costs in "hold harmless" already.

The costs of administering the dividend distribution and the "hold harmless" program are of course taken out of dividends themselves. The estimated total costs of the change to installments in the two departments would probably be in the \$6 million to \$11 million range. Assuming 500,000 - 550,000 eligible recipients, this reduces each dividend by between \$11 and \$22.

The economic benefits of the change are more difficult to estimate. Gregg Erickson, senior economist at the Governor's Office's Division of Policy, did not believe that the benefits would be great. He did say that the economic effects would depend somewhat on when the second installment was paid. He thinks that one big stimulating factor for dividends is that they are "countercyclical": they come out in the fall and winter when Alaskan's incomes are lower than they are in the summer. Erickson predicts that paying the second installment of dividends in February, for example, would have a modest positive impact by smoothing out spending. He thinks this smoothing out would make the economy marginally more efficient.

CG:bro

cc: Ervin Jones, Director
Permanent Fund Dividend Division

R. Michael McGee, Chief-Operations
Permanent Fund Dividend Division

Royce Weller, Assistant Commissioner
Alaska Department of Revenue

5892G

LEGISLATIVE TELECONFERENCE NETWORK



SIGN-IN SHEET

SPONSOR: Senate State Affairs

SUBJECT: SB 203: Payment of perm. fund dividends

START/END TIME: ^{SSB} 1:30-3:30 DATE: 1/19/90

PLEASE PRINT

	NAME/REPRESENTING	ADDRESS	PHONE #	TESTIFY	OBSERVE	BILL #
1	Royce Weller	Box 5 JUNEAU	465-7300	X		SB 203
2	Ervin Tom	Box 0462 JUNEAU	2323		Will Observe F.A.	SB 203
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Alaska State Legislature

Sen. Pat Pourchot, Chairman

Sen. Jan Faiks, Vice Chairman
Sen. Al Adams
Sen. Tim Kelly
Sen. Rick Uehling



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

907-485-3712

Senate State Affairs Committee

MEMORANDUM

TO: Senate State Affairs Committee Members
FROM: Senator Pat Pourchot
RE: Friday, January 19 Committee Hearing
DATE: January 18, 1990

On Friday, January 19 at 1:30 p.m. in the Beltz Room the Senate State Affairs Committee will hear the following bills:

SB 203. An Act relating to an option for receiving permanent fund dividends in installment payments; and providing for an effective date.

SB 203 would allow for periodic or installment payments of Permanent Fund dividends. This concept was proposed by the Anchorage Coalition of Small Businesses to provide more consistent economic stimulation. SB 203 would allow applicants to elect annually to receive a lump-sum payment or to receive four installment payments over a 12-month period. Section 1 deals amending the \$10 contribution to the Alaska Winter Olympics account to avoid the possibility of four contributions if an applicant chose the installment plan. SB 203 has a significant cost impact, both in direct administrative costs and the hold harmless costs in public assistance payments borne by the Department of Health and Social Services.

SSSB 341. An Act making an appropriation to the disaster relief fund; making appropriations from the disaster relief fund for relief of flooding and replacement of a high school; and providing for an effective date.

SSSB 341, appropriates \$7,411,452 from the general fund to the disaster relief fund. \$5,411,452 is appropriated from the disaster relief fund for the purpose of meeting past disaster needs for flood damage in the Kenai area in 1986 and for flood damage in the Anchorage area; along the Yukon-Kuskokwim Rivers and in the Kenai Peninsula Borough in 1989. It would also allow for a \$1,224,354 grant to the Bering Straits School District towards the replacement of Stebbins High School, which was destroyed by fire in 1989.

\$2,000,000 would be held in the disaster relief fund to meet projected needs through the end of FY 90. The fund currently sits at approximately \$500,000 with close-outs and disasters pending.

Draft Kallas.1tr

SB
203

OK Pat

January 22, 1990

George Kallas
Beef N Sea Restaurant
3230 Seward Highway
Anchorage, AK 99503

Dear Mr. Kallas;

Thank you for participating in the hearing on Senator Pearce's Senate Bill 203, an Act relating to receiving permanent fund dividends in installment payments. I appreciate the input you and the other members of the Anchorage Coalition of Small Businesses gave to the Senate State Affairs Committee.

Please find enclosed a copy of the fiscal note for FY91 through FY96 and the position paper prepared by the Department of Health and Social Services. Both reflect the significant cost impact that SB 203 would have in both direct administrative costs and the hold harmless costs in public assistance payments borne by the Department of Health and Social Services. Please share the information with the Coalition and encourage them to contact Senator Pearce and /or my office with comments.

Thank you. I look forward to hearing from you.

Sincerely,

Senator Pat Pourchot

Alaska State Legislature

3111 C Street, Suite 150
Anchorage, Alaska 99503
(907) 561-2038

During Session:
P.O. Box V
Juneau, Alaska 99811
(907) 465-4993

Senator Drue Pearce
District G

MEMORANDUM

TC: Senator Pat Pourchot, Chair
Senate State Affairs

FROM: Senator Drue Pearce *Drue Pearce/jf*

RE: Senate Bill 203

DATE: March 26, 1990

On January 19, 1990, you heard Senate Bill 203 in Senate State Affairs Committee. At the conclusion of that meeting, you said that your committee staff would research several issues associated with this bill.

I request your assistance beginning that research. I am eager to know the results so that we may continue working on SB 203 in your committee with the goal of moving it.

DP:jf

FISCAL NOTE

REQUEST

Revision Date: _____
Title: An Act relating to an option
for receiving PFDs in installments
Sponsor: Pearce
Requestor: _____

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

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
OPERATING						
PERSONAL SERVICES	240.7	259.9	259.9	259.9	259.9	259.9
TRAVEL	-0-	-0-	-0-	-0-	-0-	-0-
CONTRACTUAL	59.6	155.8	155.8	155.8	155.8	155.8
SUPPLIES	5.5	6.0	6.0	6.0	6.0	6.0
EQUIPMENT	73.1	-0-	-0-	-0-	-0-	-0-
LANDS & STRUCTURES	-0-	-0-	-0-	-0-	-0-	-0-
GRANTS, CLAIMS	-0-	-0-	-0-	-0-	-0-	-0-
MISCELLANEOUS	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL OPERATING	378.9	421.7	421.7	421.7	421.7	421.7
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-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 (PFD)	378.9	421.7	421.7	421.7	421.7	421.7
TOTAL	378.9	421.7	421.7	421.7	421.7	421.7

POSITIONS:

FULL-TIME	5	6	6	6	6	6
PART-TIME	6	6	6	6	6	6
TEMPORARY	-0-	-0-	-0-	-0-	-0-	-0-

ANALYSIS: See Attached.

Prepared By: Ervin Jones
Division: Permanent Fund Dividend Division

Phone: 465-2323
Date: January 18, 1990

Approved by Commissioner: [Signature]
Agency: Revenue

Date: Jan 19, 1990

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
SB 203
January 18, 1990

Assumptions

1. With an immediate effective date, this bill will go into effect for the 1991 permanent fund dividend; therefore, there will be no impact in FY 90.
2. SB 5 (Longevity Bonus Annuity) will not become law.
3. Approximately 25% of all individuals who apply to receive a dividend or who claim a dividend on behalf of another will opt for the installment payment option. This will generate an additional 390,000 warrants each year $[(.75W + (.25 \times 4)]520,000 - 520,000 = 390,000$
4. Dividends will continue to be processed and paid in the order received, and continue to be paid during the period of October 1 - December 15 at the rate of 50,000 per week (see recommended amendment #1).
5. The distribution of garnishments is even throughout the population; i.e. 25% of all applicants garnished will be those who elect quarterly payments, thereby increasing the number of garnishments by 75% $[(.75 + (.25 \times 4)] = 1.75$. Based on the approximately 30,000 garnishments received in 1989, this will generate an additional 22,500 writs of execution to be processed.
6. The payment of eligible applicants who elect deferred quarterly payments will be accomplished by transferring their accounts to a new separate accounting system which will interface with the Permanent Fund Dividend master system, the Permanent Fund Dividend garnishment sub-system, and the Alaska State Accounting System (AKSAS).
7. All dividend payments to be made on a deferred quarterly basis will be paid at the same time, regardless of when an applicant is approved for payment (12/20, 3/20, 6/20, 9/20). A person who is approved for payment after the first quarterly payments are made for a year, will be issued their first payment at the next payment date, receiving the cumulative amount that would have been received had they been approved for payment on or before the first quarterly payment was done. Thereafter, they would receive normal quarterly payments (e.g. an applicant approved for payment on February 10 would receive 50% on 3/20; 25% on 6/20, and 25% on 9/20).
8. No interest will be paid on deferred quarterly payments.
9. The Department of Revenue would be required to report to the IRS only those installment payments actually paid during the calendar tax year. It should be noted that under the tax

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principle of constructive receipt, if a person has control over the timing of receipt of income, they may have to pay tax on the full amount of income as if they received it. In other words, a person electing quarterly installments may be paid only 1/4 of the total dividend in the dividend year, but would probably have to pay tax on the full amount as if it were received. The Department of Revenue would then have to modify the Permanent Fund Dividend tax reporting sub-system to account for not only actual dividend payments, but also deferred payments, and to subtract out the deferred payments the next year. The permanent fund dividend warrant print programs would be modified to notify installment payees of their tax liability (1099 check stub).

10. Applicants who choose to assign their dividend, in whole or part, or who are garnished by a government agency will not be allowed to elect quarterly payments.
11. Returned quarterly installment payments will be cancelled and placed back in the dividend fund, to be reissued upon contact from the applicant. Subsequent installment payments will be automatically held until such contact is made. Again, this would require complex logic in the new Permanent Fund Dividend installment accounting sub-system.

Program Summary

The Department of Revenue would modify the 1991 permanent fund dividend forms and instructions to provide for the installment election. The entire Permanent Fund Dividend automated system would be re-written to accommodate the changes, including approximately 450 COBOL and CICS programs that comprise the master system, archive system, garnishment sub-system, tax reporting and withholding sub-systems and the data entry programs. A separate accounting system would be created to account for the deferred installment payments. See above assumptions.

All applications would be screened for the election as they are data captured. All 390,000 incremental installment warrants, plus the cancelled and reissued warrants will have to be processed by the banking system and microfilmed by the Permanent Fund Dividend Division at an additional cost. Based on assumption #13, approximately 4,335 of these will be returned and cancelled, 3,400 to be reissued.

As with any change to the Permanent Fund Dividend program, the public will respond with tens of thousands of additional contacts. In FY 89, the division received over 246,000 individual public contacts. Most of the contacts received from October through March are "where's my check?" With multiple payments, this type of contact will obviously increase proportionate to the increase in frequency of payment. Additional help will be needed at the Dividend Information Offices statewide and additional phone lines will be needed to accommodate an expected 50,000 additional contacts per year.

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The estimated cost of implementation of this bill is as follows:

	<u>FY 91</u>	<u>FY 92</u>	<u>FY 93</u>
1. <u>Positions</u>			
<u>Data Processing</u>			
2 Analyst/Programmers IV, R19 @ \$4,524.38/mo. including salary and benefits, for 12 months to assist in rewriting programs and creating new installment accounting sub-system to be ready by March 1, 1991 for testing. (FY 91 only)	\$108.6		
1 Analyst/Programmer IV, R19 @ 4,524.38/mo. including salary and benefits, for 12 months to maintain new systems and assist in writing modified or more complex system programs. (beginning FY 92)		\$54.8	\$54.8
<u>Data Entry</u>			
2 Data Processing Clerk I's, R8, @ 2425.52/mo. including salary and benefits for 3 months.	\$14.6	\$14.6	\$14.6
<u>Dividend Information Centers</u>			
<u>Anchorage</u>			
2 Document Processor II's, R8, @ 2425.52/mo. including salary and benefits for 12 months.	\$58.2	\$58.2	\$58.2
2 Document Processor II's, R8, @ 2425.52/mo. including salary and benefits for 3 months.	\$14.6	\$14.6	\$14.6
<u>Juneau</u>			
2 Document Processor II's, R8, @ 2425.52/mo. including salary and benefits for 3 months.	\$14.6	\$14.6	\$14.6

Department of Revenue
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	<u>FY 91</u>	<u>FY 92</u>	<u>FY 93</u>
<u>Fairbanks</u>			
1 Document Processor II, R8, @ 2505.54/mo. including salary and benefits for 12 months.	\$30.1	\$30.1	\$30.1
<u>Accounting</u>			
1 Accounting Clerk III, R10 @ \$2697.21/mo. including salary and benefits for 12 months, to maintain new installment accounting system, IRS reporting system and assist with garnishment sub-system which will increase by approximately 23,000 garnishments.		\$32.4	\$32.4
1 Accounting Supervisor I, R14 @ \$3386.20/mo. including salary and benefits for 12 months to supervise accounting controls and garnishments.		\$40.6	\$40.6
Total Personal Services	<u>\$240.7</u>	<u>\$259.9</u>	<u>\$259.9</u>
2. <u>Travel</u> : None.			
3. <u>Contractual</u> :			
a) <u>Printing costs</u> : 390,000 extra PFD warrants and envelopes, plus 3,400 reissued warrants.		\$10.4	\$10.4
b) <u>Postage</u> : for 390,000 warrants and 3,400 reissued warrants, and postage for returning and respond- ing to extra garnishments.		\$108.4	\$105.4
c) <u>Telephone Lines</u> : 3 additional lines.	\$2.4	\$2.4	\$2.4
a) <u>Department of Administration Chargeback</u> (estimated); additional disc space and computer time. New system will require new disk drive.	\$45.2	\$22.6	\$22.6
c) <u>Maintenance</u> : for 11 Wang 4250 terminals with emulator boards for new positions, Wang mainte- nance @ \$90.00/mo.)	\$12.0	\$12.0	\$12.0
Total Contractual	<u>\$59.6</u>	<u>\$155.8</u>	<u>\$155.8</u>

Department of Revenue
 Permanent Fund Dividend Division
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SB 203
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	<u>FY 91</u>	<u>FY 92</u>	<u>FY 93</u>
4. <u>Supplies:</u>			
Microfilming supplies to microfilm additional warrants	\$0.5	\$0.5	\$0.5
Misc. office supplies for additional personnel.	\$5.0	\$5.5	\$5.5
Total Supplies	<u>\$5.5</u>	<u>\$6.0</u>	<u>\$6.0</u>
 5. <u>Equipment</u>			
Purchase 11 Wang PC240 terminals with emulator boards for additional personnel @ \$2840/each.	\$31.2		
1 IFM Control Unit	\$8.5		
Systems furniture for additional personnel	\$33.0		
2 Calculators for Accounting unit	\$0.4		
Total Equipment	<u>\$73.1</u>	<u>-0-</u>	<u>-0-</u>
 Total Operating Cost:	 <u>\$345.0</u>	 <u>\$369.5</u>	 <u>\$369.5</u>

Suggested Amendments:

Sec. 1 refers to the Winter Olympics account/check-off. Given the current situation, this should be removed and SB 102 should be passed by the House to clean up the statutes.

Sec. 2 amends AS 43.23.005 (ELIGIBILITY) by adding a new subsection allowing an individual to select a lump-sum payment or quarterly installment payments of the dividend. This subsection does not deal with eligibility and should instead be a new subsection (c) to AS 43.23.025 (AMOUNT OF DIVIDEND).

Sec. 3 amends AS 43.23.025(a) by adding a sentence stating that the first installment payment of a dividend shall be paid by December 1. Since the Department of Revenue is still making payments through the middle of December, this date should be changed to December 31.

FISCAL NOTE

REQUEST:

Revision Date: 3/3/89
Title: Option for receiving PFD in installment payments
Sponsor: _____
Requestor: _____

Agency Affected: Health and Social Services
BRU: PFD Hold Harmless
Components: PFD Hold Harmless

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	-0-	722.2	722.2	722.2	722.2	722.2
TRAVEL	-0-	-0-	-0-	-0-	-0-	-0-
CONTRACTUAL	-0-	47.5	47.5	47.5	47.5	47.5
SUPPLIES	-0-	3.8	3.8	3.8	3.8	3.8
EQUIPMENT	-0-	57.0	-0-	-0-	-0-	-0-
LAND & STRUCTURES	-0-	-0-	-0-	-0-	-0-	-0-
GRANTS, CLAIMS	-0-	3853.5	4046.1	4248.5	4460.8	4683.8
MISCELLANEOUS	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL OPERATING	-0-	4684.0	4819.6	5022.0	5234.3	5457.3
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-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 PERM FUND	-0-	4684.0	4819.6	5022.0	5234.3	5457.3
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME	-0-	19.0	19.0	19.0	19.0	19.0
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

See Attached

No fiscal impact in FY90.

Prepared by: John R. Taber, Director
Division: Public Assistance

Phone: 465-3347
Date: 1/19/90

Approved by Commissioner: [Signature]
Agency: Health and Social Services

Date: 1/19/90

Distribution (by preparer):

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

Department of Health & Social Services
 Division of Public Assistance

OVERVIEW

The PFD Hold Harmless provisions protect individuals from losing eligibility for AFDC, Food Stamp, Medicaid, or SSI Program benefits, or from having benefit levels reduced, when federal law requires that dividend payments be treated as income or resources; benefits which would otherwise be denied because of federal requirements are paid with state "hold harmless" funds. The funding source for these hold harmless benefits is the Permanent Fund. Under the current PFD program recipients may receive hold harmless benefits for up to four months each year, but in most cases no more than one month of coverage is needed, because most recipients quickly spend their annual dividends. Few assistance households retain enough of their PFD payments to cause ineligibility beyond the initial month of hold harmless coverage.

The introduction of a quarterly PFD payment option, as proposed in SB 203, alters substantially the effect of the dividend payments on the four assistance programs under discussion here. If a public assistance recipient chose to receive quarterly payments, there would be an impact on eligibility for assistance for at least four months during the period over which payments were distributed, and in most cases, hold harmless benefits would have to be paid for each of those months.

The following compares the PFD Hold Harmless coverage for an AFDC family of three receiving the dividend on a annual basis vs. quarterly.

Current Annual Dividend Distribution

	<u>Total Dividend Amount</u>	<u>AF Cash Assistance Max Pymt</u>	<u>AF-PFDHH Amount</u>	<u>Hold Harmless Months</u>
Total Annual	\$2772 (3x\$924 PFD)	\$846 (Family of 3)	\$846	One

Proposed Quarterly Dividend Distribution

First Quarter	\$693 (3x\$231 PFD)	\$846	\$693	One
Second Quarter	\$693	\$846	\$693	One
Third Quarter	\$693	\$846	\$693	One
Fourth Quarter	\$693	\$846	\$693	One
Total Annually	\$2772		\$2772	Four

The Dividend must be treated as income in the month of receipt. Under the quarterly distribution there are four months of hold harmless providing coverage for the total amount of the dividends and tripling the hold harmless cost compared to the annual distribution (\$2772 vs. \$846).

PFD Hold Harmless Program Coverage

The PFD Hold Harmless is dependent on entitlement program caseload, the dividend amount, the way each program regards the dividend, and how the PFD affects eligibility.

In estimating the PFD Hold Harmless cost under a quarterly dividend distribution plan we have assumed 25% of the projected welfare caseload would choose quarterly payments. As the rate of participation in a quarterly plan increases, then the hold harmless obligation increases. We assume a PFD amount of \$924 with the quarterly option available for the 1991 permanent fund dividend (FY92). The following identifies PFD Hold Harmless for recipients participating in a quarterly dividend plan.

<u>Program</u>	<u>Cases Participating in Qtr Plan</u>	<u>PFD Hold Harmless at Annual</u>	<u>PFD Hold Harmless at Quarterly</u>	<u>Difference (Increment Increase)</u>
AFDC	2225	1600.0	4420.5	2820.5
SSI/APA	1580	652.0	782.0	130.0
Food Stamps	2130	475.0	1378.0	<u>903.0</u>

Increment Increase in
 PFD Hold Harmless client
 benefits if 25% of the caseload
 opts for the installment option
 3853.5

1. Under the AFDC program, federal law requires that the dividend payment be treated as income in the month of receipt and as a resource thereafter. A dividend payment of as little as \$350 per person would still place all AFDC families over the federal qualifying limits. The quarterly dividend nearly triples the cost of PFD hold harmless for AFDC recipients opting for the installment option and results in four months of hold harmless.
2. The federally-administered Supplemental Security Income (SSI) program treats PFD payment as countable income. A dividend of \$717 places all Adult Public Assistance (APA) clients over the State qualifying limits. The quarterly dividend payments increase PFD hold harmless for APA recipients by roughly 20 percent and result in four months of hold harmless.
3. Food Stamp Program policy now treats the PFD as income in the month of receipt and as a resource thereafter. The quarterly dividend triples the cost of PFD hold harmless for Food Stamp recipients and results in four months of hold harmless.

4. Medicaid Hold Harmless is generally expended in behalf of APA and AFDC recipients who suffer resource ineligibility when their retained Dividend (in the month(s) following receipt) places them over the SSI/APA or AFDC resource limits. This analysis assumes no change in Medicaid eligibility rules if the quarterly distribution were implemented and no new Medicaid hold harmless cost.

PFD Hold Harmless Administration

An optional quarterly distribution of PFD payments would confront public assistance staff with a vast amount of additional work, tracking its caseloads for the more frequent dividend payments and taking action to authorize hold harmless benefits.

In a single assistance household, some members could choose an annual PFD payment, while others elected the quarterly option. The complexities of case processing under such a system would be overwhelming. We would be forced to impose additional reporting responsibilities on our clients to ensure accurate eligibility determinations. When client reporting responsibilities are increased, some eligible people lose benefits because, for one reason or another, they fail to comply with the requirement and their benefits are terminated. A most serious deterioration of service quality would derive from the diversion of eligibility staff time away from normal service delivery activity, toward tracking dividend payments and processing related case changes. The only way to prevent such deterioration would be to provide additional staff to handle the increased workload.

Each month the Division authorizes and issues benefits on roughly 27,700 program cases that require on-going review for possible case action. The proposed quarterly PFD option would significantly increase field staff case maintenance activity. We estimate 5 minutes per program case monthly for the increased workload.

Allowing an average increase of five minutes per program case monthly results in the following new staff need.

Fiscal Note
 Senate Bill No. 203
 Page 5

<u>Position Title</u>	<u>Location</u>	<u>SR</u>	<u>S+B</u>	<u>FTE</u>	<u>Total Per Serv</u>
Eligibility Tech I/II	Statewide	12B	39,023	14.0	546,322
Clerk III	Statewide	8B	30,204	3.0	90,612
Eligibility Tech IV	Statewide	15A	42,633	<u>2.0</u>	<u>85,266</u>
	Personal Services			19.0	722,200
	Contractual for communication and office space at \$2500 per position				47,500
	Commodities at \$200 per position				3,800
	Equipment for one-time purchase of workstation at: \$3,000 per position				<u>57,000</u>
	TOTAL				830,500

The focus of this analysis is the fiscal impact of the optional quarterly dividend. Hold harmless cost increases will be influenced by future caseload growth, the amount of the dividend, and public assistance qualifying standards. All these factors combined influence hold harmless cost, however, the potential for significant increment increases relies more on the actual number of clients participating in a quarterly dividend program. The more that opt for the quarterly option the greater the financial impact on PFD Hold Harmless.

In FY93-96 we assume caseload and payment standards increase will impact PFD hold harmless coverage at a 5 percent annual rate and the quarterly option client participation rate remains at 25% of the total caseload.

POSITION PAPER

Senate Bill 203

"An Act relating to an option for receiving Permanent Fund Dividends in installment payments, and providing for an effective date."

Introduction

The changes in the Permanent Fund Dividend (PFD) program which are proposed in SB 203 would have a severe impact on Alaska's federally-funded public assistance programs, and on the cost of the benefits paid under the PFD "hold-harmless" provisions of current law.

Although there is substantial variation in the way each program currently regards Permanent Fund Dividends, the PFD payments affect eligibility and payment amounts in three state-administered, federally-funded programs: Aid to Families with Dependent Children (AFDC), Food Stamps, and Medicaid. The federally-administered Supplemental Security Income (SSI) program also treats PFD payments as countable income. The hold-harmless provisions at AS 43.23.075 protect individuals from losing eligibility for AFDC, Food Stamp, Medicaid, or SSI program benefits, or from having benefit levels reduced, when federal law requires that dividend payments be treated as income or resources; benefits which would otherwise be denied because of federal requirements are paid with state funds.

The costs of these hold-harmless benefits are borne by the Permanent Fund Dividend program. Under the current PFD program, recipients may receive hold-harmless benefits for up to four months each year, but in most cases no more than one month of coverage is needed, because most recipients quickly spend their annual dividends. Few assistance households retain enough of their PFD payments to cause ineligibility beyond the initial month of hold-harmless coverage.

The introduction of a quarterly PFD payment option, as proposed in SB 203, alters dramatically the effect of the dividend payments on the four assistance programs under discussion here. If a public assistance recipient chose to receive quarterly payments, there would be an impact on eligibility for assistance for at least four months during the period over which payments were distributed, and in most cases hold-harmless benefits would have to be paid for each of those months. Instead of a short dividend issuance season toward the end of each calendar year, a substantial number of recipients would be receiving dividend payments during every month of the year.

Both the amount of hold-harmless benefits paid and the administrative burden of providing hold-harmless benefits would be driven upward by a quarterly distribution scheme. No empirical data exists which would allow us to project the number of public assistance recipients who would participate in an optional quarterly PFD issuance program, but PFD program administrators believe that as many as 25% of our clients would elect the quarterly payment option. For purposes of this discussion and our fiscal note, we assume that 25% would choose quarterly payments.

Discussion

Until 1989, the PFD distribution affected the AFDC and SSI programs to a much greater extent than the Food Stamp and Medicaid programs, and most hold-harmless payments were made to AFDC and SSI recipients. In 1989, the Food Stamp program changed the way it regards PFD payments in income determinations, resulting in a substantial increase in Food Stamp hold-harmless payments; this increase would be magnified by adoption of a quarterly payment option. The Medicaid program would likely be the least affected by a PFD installment payment scheme, principally because the PFD payments influence eligibility for Medicaid benefits, but not the amount of benefits provided to an eligible recipient. We would, however, anticipate an increase in Medicaid hold-harmless costs under an optional quarterly payment system.

The cost of hold-harmless benefits is only one aspect of the potential consequences of adopting the changes proposed in SB 203. The administration of public assistance caseloads would become much more complex in the presence of a quarterly PFD payment option. This increased complexity would substantially increase the amount of time needed to process cases, producing a need to increase eligibility determination staff in order to maintain current levels of service.

Under the proposed PFD distribution scheme, it is likely that the Department's existing special agreements with the federal AFDC and SSI agencies, which greatly simplify administration of the current hold-harmless program and protect the State from federal fiscal sanctions related to case processing errors, would no longer be acceptable to the administering agencies. The primary justification for the existence of the agreements with the AFDC and SSI agencies is the short-term, pervasive nature of the current PFD distribution program; indications from our federal contacts are that the existence of an optional installment dividend payment system would cloud this picture, and probably result in termination of such arrangements.

These special agreements allow continuation of normal program benefits to individuals who receive PFD payments. The AFDC agreement operates by applying a formula to the State's claim for federal matching funds, decreasing that claim by the amount that benefits would have been reduced because of PFD receipt. In the case of the SSI program, hold-harmless funds are used to restore overpayments made to SSI recipients who lose eligibility because of PFD receipt.

Although even the current annual PFD distributions create a substantial extra case processing workload during the PFD season, the existence of the special agreements and the presence of efficient operating systems enable the Department to operate a hold-harmless program which is essentially transparent to most AFDC and SSI recipients, and to avoid exposure to potential federal fiscal sanctions for payments to ineligible households. The loss of these agreements would seriously

erode the ability of the Division of Public Assistance to deliver benefits to its clients in a timely, accurate manner, and would expose the State to an increased liability for Quality Control payment errors related to the more frequent distribution of dividend payments.

No such special agreement exists for the Food Stamp program because when, in 1989, the federal Department of Agriculture required Alaska to begin to treat PFD payments as income, it refused to consider such an arrangement. The impact of the change in Food Stamp policy on the Division of Public Assistance has been dramatic. In the absence of the agreement, Food Stamp caseworkers must now convert nearly every one of their cases from Food Stamps to a cash, PFD hold-harmless case during the dividend distribution season. Eligibility workers must then convert each case back to Food Stamps in a subsequent month, after the household again becomes eligible for federal benefits. This change produced a need for modifications to the Public Assistance data system which have still not been completed, and a need for seven additional eligibility determination positions in FY91 for management of the additional workload. This workload would be further increased under a quarterly dividend distribution scheme.

Even if the Department were able to negotiate special agreements with all the related federal agencies to cover an optional quarterly distribution of PFD payments, public assistance staff would be faced with a vast amount of additional work, tracking its caseloads for the more frequent dividend payments and taking action to authorize hold-harmless benefits in place of federally matched benefits. In a single assistance household, some members could choose an annual PFD payment, while others elected the quarterly option. The complexities of case processing under such a system would be overwhelming. We would be forced to impose additional reporting responsibilities on our clients to ensure accurate eligibility determinations. When client reporting responsibilities are increased, some eligible people lose benefits because, for one reason or another, they fail to comply with the requirement and their benefits are terminated.

A most serious deterioration of service quality would derive from the diversion of eligibility staff time away from normal service delivery activity, toward tracking dividend payments and processing related case changes. The only way to prevent such deterioration would be to provide additional staff to handle the increased workload.

The Department's information processing requirements, along with the demand for information from the Department of Revenue, would also increase dramatically if SB 203 became law. Currently in place is an interdepartmental data interface which provides adequate information to allow for accurate public assistance eligibility determinations during the annual PFD distribution season. We also produce an annual data match for the Social Security Administration to facilitate hold-harmless benefit processing under the special agreement for the SSI program.

Under the quarterly distribution option, monthly data exchanges would be necessary to maintain payment accuracy in the state-administered programs and to satisfy the information needs of the SSI program. In addition, massive changes to the public assistance Eligibility Information System (EIS) would be needed to implement a revised hold-harmless benefit authorization system. These changes would need to go into place during the same period of time that a major restructuring of the system is taking place in order to implement program revisions and system expansion necessitated by the Family Support Act of 1988. In fact, it would probably be impossible to begin to implement the needed changes in EIS until after completion of the Welfare Reform system changes. Those changes will not be in place until September, 1990.

EIS is already a huge, complicated data system, and it will become larger still when Welfare Reform changes are in place. System performance could be seriously compromised by the introduction of the additional complexity which would come with system changes to process hold-harmless benefits under a quarterly PFD distribution option.

Although SB 203 does not propose any change to the existing provision for hold-harmless benefits, we see a need to include here a discussion of how a quarterly PFD distribution option would affect public assistance programs if it were ever decided to discontinue hold-harmless benefits. Under the current annual payment system, most families lose one month of eligibility for federally-funded benefits. In a typical AFDC case situation, a family which includes one adult and two children currently receives \$846 per month; the hold-harmless program replaces their \$846 cash benefit once per year, and Medicaid eligibility continues without interruption. Without a hold-harmless program, this family would lose AFDC eligibility for the month of dividend receipt, but would not lose Medicaid eligibility because of the unpredictable nature of the annual payments. The family would in this case, still benefit from the dividend payment, since they would be receiving about \$2772 (assuming the PFD is \$904) in PFD benefits, while losing only \$846 in AFDC payments.

If the family in our example received four quarterly PFD payments of \$693, hold-harmless benefits would replace \$693 in AFDC payments four times over the course of a year. Without hold-harmless, the AFDC benefit would be reduced by \$693 during each of the four months of PFD receipt, thus depriving the family of any net benefit from its PFD payments. This same scenario could hold true for many families, regardless of size, at an annual PFD amount of \$924.

Medicaid eligibility would not be lost in this example, but would be threatened in many situations, because PFD payments would become predictable (and therefore countable) in Medicaid eligibility determinations. In situations of unusual medical need, the loss of Medicaid coverage would far exceed the amount of the benefit.

The ability of the Division of Public Assistance to maintain the current low rates of Quality Control error in AFDC, Food Stamps, and Medicaid would be threatened by a move to discontinue hold-harmless coverage. This impact would be amplified if PFD payments were made quarterly, because of the increased number of benefit months and the increased amount of benefit payments which would be affected by PFD payments. Yet another administrative impact would be development of a pattern of caseload churning, with cases closing once per quarter, then requiring submission and processing of a new application to reinstate benefits.

Recommendation

We believe that a quarterly Permanent Fund Dividend payment option, as proposed in SB 203, would increase hold-harmless benefit costs to a substantially higher level, causing a significant decrease in the amount of every Alaskan's dividend payment. The proposed change in the PFD program would bring a concomitant increase in complexity in public assistance program administration, an associated increase in public assistance administrative costs, and a probable decrease in the quality of service to public assistance clients. We recommend against passage of SB 203.

Recommended by: John R. Taber
John R. Taber, Director
Division of Public Assistance

Date: 1/19/90

Approved by: Myra W. Munson
Myra W. Munson, Commissioner
Department of Health &
Social Services

Date: 1/19/90