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**395**

SENATE STATE AFFAIRS COMMITTEE

BILL NUMBER *SB 395*

SPONSOR *Coghill*

BILL TITLE *Hold harmless provisions of PFD*

DATE REFERRED *1-19-90*

HEARING SCHEDULED

FISCAL NOTE PREPARED

SPONSOR CONTACTED

INTERESTED PARTIES CONTACTED

OTHER

# Senator John B. (Jack) Coghill

Alaska State Legislature

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Juneau, Alaska 99811  
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## MEMORANDUM

DATE: February 28, 1990

TO: Senator Pat Pourchot, Chair  
Senate State Affairs Committee

FROM: Senator Jack Coghill

SUBJECT: Senate Bill 395 Sponsor Statement

BILL SUMMARY: Senate Bill 395, "An Act relating to the hold harmless provisions of the permanent fund dividend program; and providing for an effective date" is a piece of legislation which addresses the deductions that were taken from the permanent fund dividend last year.

FISCAL IMPACT: We have not yet received a fiscal note from the Department of Revenue as of today, February 28, 1990. However, we don't anticipate a fiscal impact.

ABOUT THE BILL: Senate Bill 395 would prohibit the Department of Revenue from applying deductions against each check on the hold harmless provisions. It establishes very clearly that the only deduction will be the cost of administering the permanent fund dividend program.

The legislature intends to fund the costs of the hold harmless provisions through sources other than the dividend fund. A possible source could be provided by setting up a separate account within the earnings reserve portion of the permanent fund. This would eliminate the need to legislatively fund the program each year, and it would not reduce the dividend check. Another alternative would be through the general fund.

" DIVIDEND INCREASE BILL "

SECTION ANALYSIS

SECTION 1;

States that the legislature intends to fund hold harmless, but rather than have it come from dividend checks it will be funded from some other source.

SECTION 2;

Eliminates statutory references to hold harmless from the (disclosure) requirements placed on Dept. of Revenue, since this bill would eliminate the dividend check deduction.

Also eliminates the need for the Dept. to show admin. costs since they no longer will be incurring these costs.

SECTIONS 3 & 4 ;

Makes it clear that future hold harmless benefits are contingent on the funding provided by the legislature.

Note: In conferring with Legal Services it was brought out that on-going funding could be provided by setting up a separate account within the earnings reserve portion of the permanent fund. This would eliminate the need to legislatively fund the program each year, and it would not reduce the dividend check. The other alternative of course would be the general fund.

## POSITION PAPER

Senate Bill No. 395

"An act relating to the hold harmless provision of the permanent fund dividend program; and providing for an effective date."

Background

This legislation would change the current statutes for the Permanent Fund dividend (PFD) program to discontinue the practice of making appropriations from the permanent fund to pay for the hold harmless provisions of the dividend program. The hold harmless provisions protect the federally-funded cash and medical assistance benefits of public assistance recipients who would otherwise be denied benefits as a result of receiving Permanent Fund dividends. The bill would require that appropriations for the costs of administration and of benefit payments for the PFD hold harmless program be made from a source other than the dividend account, and that recipients' entitlements to benefits be subject to the amount appropriated. Not addressed in the legislation is the issue of what the new funding source for the hold harmless program might be - the general fund, or some other source.

Discussion

This proposed change in the law provides for continuation of the existing hold harmless program, simply requiring that the program be paid for by a source other than the dividend fund. We wish to point out that any move to appropriate less than the full amount needed to continue operation of the hold harmless program would have serious consequences for public assistance recipients and for the Department's ability to effectively administer public assistance programs. There is no provision in law or regulation that establishes a means or an amount by which hold harmless entitlement payments would be reduced or ended if the available funding were depleted.

The PFD hold harmless program was put into place at the same time as the provisions which enabled the initial, FY 82 dividend distribution. The Legislature saw fit to create the program because it recognized that, without the protection afforded by the hold harmless program, Alaskans at the lowest economic stratum stood to benefit least from the dividend program, a program intended to benefit all Alaskans, not merely those who are fortunate enough to not require the help of needs-based assistance programs.

Without hold harmless coverage, many public assistance recipients would suffer temporary ineligibility, or a dollar-for-dollar reduction in their assistance benefits, as a result of their receipt of their dividend checks. Some clients with substantial medical needs would lose eligibility for Medicaid and would actually be disadvantaged by receiving dividend payments. Individuals rendered ineligible for Medicaid as a result of receiving a dividend could suffer financial and personal costs far out of proportion to the amount of the dividend payment--might, in fact, lose

access to needed medical services for which they do not have the resources to pay. We believe that the original reasons for the hold harmless program are as valid today as they were when the program was enacted.

Elimination of PFD hold harmless payments would not only disadvantage our public assistance clients, as we have discussed above; an end to hold harmless coverage would also have serious negative impacts on the Department's administration of its federally-funded public assistance programs. These impacts would tend to drive up administrative costs, increase the state's potential liability for federally-funded programs, and disrupt the delivery of benefits to our eligible clients.

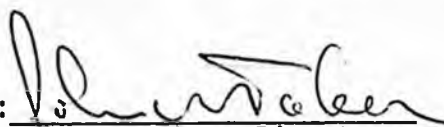
The existence of the PFD hold harmless program serves to mitigate the potential negative impact of the dividend distribution on the workload of public assistance caseworkers because, through two highly innovative special agreements with the federal Aid to Families with Dependent Children and Supplemental Security Income agencies, a system of program administration has been developed which has little adverse effect on the accuracy or the timeliness of benefit delivery during the annual dividend distribution period. Such agreements would be invalidated in the event of either a repeal of hold harmless coverage or its underfunding.

We cannot overemphasize the importance of timely, accurate benefit delivery to our public assistance caseload. This is a group which depends on these programs for its most basic needs: food, shelter, clothing, and medical benefits. In addition to the humane reasons for a prompt response to requests for assistance, the state is required to adhere to strict federal requirements for benefit processing timeframes. Division of Public Assistance staff are already hard-pressed to meet these timeframes, due to permanently high levels of application volume and still escalating overall caseloads.

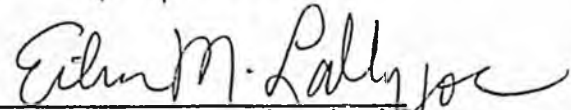
If the hold harmless provision were not available, every public assistance program case some 30,000 in all, affecting more than 40,000 Alaskans, would be potentially susceptible to being closed for at least one month, all during the three-month PFD distribution cycle. Thousands of families would be forced back through the arduous, federally-mandated application process. All would require a blizzard of formal, written notices of the actions being taken on their cases and their related appeal rights. Hundreds would demand hearings to express their frustration and disagreement with the termination or suspension of their benefits. Tight, federally-mandated processing requirements apply to these hearings, as well. The already overloaded eligibility determination process would collapse under the weight of these tens of thousands of additional, time-limited transactions, leaving a large percentage of the 40,000 eligible recipients without benefits for months after the distribution cycle. The only alternatives would be to restore the hold-harmless or to add scores of new eligibility workers to handle the crush of activity.

In the face of a termination of the federal agreements, the accuracy of eligibility decisions could be maintained only if additional staff were available to absorb the increased workload while continuing to issue benefits to eligible recipients in a timely manner. Any deterioration in the accuracy of case processing has a high potential cost to the state: federal fiscal sanctions are imposed whenever AFDC, Food Stamps, or Medicaid Quality Control error rates exceed congressionally mandated limits. The hold harmless program is among the key ingredients in Alaska's successful formula to bring down Quality Control error rates and maintain them within limits.

Recommendation: The Department of Health and Social Services neither supports nor opposes this legislation, except to the degree that it permits any reduction in the current entitlement to full replacement of benefits lost due to receipt of the Permanent Fund Dividend, whether explicitly or by underfunding. The Department does support the continued full funding of the Permanent Fund dividend hold harmless program, whatever the source of the funding. Thus, we recommend deletion of the new language at page 2, lines 24 and 25 and page 3, lines 6 and 7.

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

Date: 2/28/90

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

Date: 2-28-90

# FISCAL NOTE

**REQUEST:**

Revision Date: \_\_\_\_\_  
Title: An act relating to the hold  
harmless program  
Sponsor: Coghill  
Requestor: \_\_\_\_\_

Agency Affected: Health & Social Services  
BRU: Perm. Fund Dividend 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	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
<b>TOTAL OPERATING</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

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

GENERAL FUND	12336.5	12336.5	12336.5	12336.5	12336.5	12336.5
FEDERAL FUNDS	0	0	0	0	0	0
OTHER PFD Fund	12336.5)	(12336.5)	(12336.5)	12336.5)	(12336.5)	(12336.5)
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>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 if necessary)

No FY 90 impact. SB No. 395 changes the current funding source of the PFD Hold Harmless program from PFD fund to other sources. All Hold Harmless program provisions remain without change.

Prepared by: John R. Taber  
Division: Public Assistance  
Approved by Commissioner: [Signature]  
Agency: Health & Social Services

Phone: 465-3347  
Date: 2/23/90  
Date: 2-28-90

**Distribution (by preparer):**

- Legislative Finance
- Legislative Sponsor
- Requestor
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Department of Health and Social Services  
Division of Public Assistance

The PFD hold harmless program budget is impacted by caseload changes, the dividend amount, federal rules and PA benefit levels under the AFDC, Food Stamps, Adult Public Assistance, Social Security Income, and Medicaid programs. This fiscal note does not include possible changes in future funding need above the FY 91 budgeted level. Whatever impact these factors will have across the various public assistance programs, we expect that the fiscal year cost of the hold harmless program will remain below 3% of the total cost of the PFD program.

FISCAL NOTE

REQUEST

Revision Date: \_\_\_\_\_  
Title: An Act relating to the Hold Harmless provisions of the PFD program  
Sponsor: COGHILL  
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
<b>OPERATING</b>						
PERSONAL SERVICES	-0-	-0-	-0-	-0-	-0-	-0-
TRAVEL	-0-	-0-	-0-	-0-	-0-	-0-
CONTRACTUAL	-0-	-0-	-0-	-0-	-0-	-0-
SUPPLIES	-0-	-0-	-0-	-0-	-0-	-0-
EQUIPMENT	-0-	-0-	-0-	-0-	-0-	-0-
LANDS & STRUCTURES	-0-	-0-	-0-	-0-	-0-	-0-
GRANTS, CLAIMS	-0-	-0-	-0-	-0-	-0-	-0-
MISCELLANEOUS	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
<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-	-0-	-0-	-0-	-0-	-0-
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

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

ANALYSIS: The Department of Revenue takes no position as to how the Hold Harmless provisions of AS 43.23.075 should be funded. From 1982 until 1985, these costs were funded by the General Fund. From 1985 through 1989, they were funded by the dividend fund. If the funding were changed, it would, of course, result in a larger per capita dividend, approximately \$22. There would be no administrative effect on the permanent fund dividend program.

Prepared By: Ervin Jones Phone: 465-2323  
Division: Permanent Fund Dividend Division Date: February 28, 1990  
Approved by Commissioner: Hugh Malone for Date: 2/28/90  
Agency: Revenue

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