

**SB**

**161**

# FISCAL NOTE

**STATE OF ALASKA**  
**1994 LEGISLATIVE SESSION**

**BILL NO. SB 161**

Revision Date: January 3, 1994  
 Title: Rates of Interest on Judgements and Tax Overpayments

Dept. Affected: Revenue  
 BRU: Revenue Operations  
 Component: Oil & Gas & Income & Excise Audit

Sponsor: Governor  
 Requestor: Senate Judiciary

COMPONENT SERIAL NO. 115 & 113

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

CAPITAL						
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REVENUE FUND SOURCE:						
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FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY94) impact: \$ 0.0

ANALYSIS: (Attach a separate page if necessary.)

SEE ATTACHED

Prepared by: Larry E. Meyers  
 Division: Income and Excise Audit Division  
 Approved by Commissioner: Darrel J. Rexwinkel  
 Agency: Department of Revenue

Phone: 465-2320  
 Date: January 3, 1994  
 Date: January 3, 1994

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ANALYSIS OF REDUCED INTEREST FOR OVERPAYMENT OF TAXES, ROYALTIES AND NET PROFIT SHARE

This legislation would reduce the interest rate paid by the State for overpayment of taxes, royalty or net profit shares. The interest rate currently paid is 5 percentage points above the federal reserve discount rate to member banks or 11%, whichever is greater. This legislation would reduce that to 2 percentage points above the federal reserve rate. This bill also repeals a minimum rate of 11 percent paid on overpayment.

The revenue impact of this legislation would be determined by the savings that will result from the difference which would be paid under the lower market interest rates rather than the previously prescribed minimum interest rate. The current minimum interest paid could be considered an attractive investment in today's economy. The savings in interest payments on a \$1 million overpayment for a single fiscal year could range from \$32.2 to \$129.3 depending upon the interest rates at the time.

FISCAL NOTE

STATE OF ALASKA  
1994 LEGISLATIVE SESSION

BILL NO. CSSB 161 (STA)

Revision Date: \_\_\_\_\_  
Title: An Act relating to interest rates and calculation of interest under certain judgements  
Sponsor: Rules Committee  
Requestor: (S) JUD

Department Affected: Administration  
BRU: Risk Management  
Component: Risk Management

COMPONENT SERIAL NO. 71

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL EXPENDITURES	0	0	0	0	0	0
CHANGE IN REVENUES ( )	0	0	0	0	0	0

FUNDING SOURCE: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
OTHER						
TOTAL	0	0	0	0	0	0

Estimate of any current year (FY 94) cost: \$ 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: (Attach a separate page if necessary.)

See attached.

Prepared by: J. Brad Thompson, Director  
Division: Risk Management

Phone: 465-5723  
Date: \_\_\_\_\_

Approved by Commissioner: Nancy Bar Usera  
Agency: Department of Administration

Date: 3/14/94

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FISCAL NOTE

STATE OF ALASKA  
1994 LEGISLATIVE SESSION

BILL NO. CSSB 161 (STA)

ANALYSIS: (continued)

Amending the rate of prejudgment interest from the present 10.5 percent rate to the market rate for fifty-two week United State Treasury bills will reduce future settlements and judgments paid by Risk Management on tort claims filed against state agencies.

The extent of future interest savings on tort claims not yet filed is not possible to predict. Setting the interest rate to prevailing market conditions will also remove any economic incentives to either party to delay the ultimate resolution of the claim or civil action.

Risk Management loss funding is collected through interagency receipts of premiums assessed each agency. In future years, Risk Management liability premium assessments will reflect the savings realized as our premiums are based on actual claims expenses incurred.

# FISCAL NOTE

STATE OF ALASKA  
1994 LEGISLATIVE SESSION

BILL NO. CSSB 161 (STA)

Revision Date: \_\_\_\_\_ Dept. Affected: Administration  
 Title: "An Act relating to interest rates and calculation  
of interest under certain judgments ...." BRJ: Finance  
 Component: Finance  
 Sponsor: Rules Committee  
 Requestor: (S) Jud COMPONENT SERIAL NO. 59

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES	0.0	0.0	0.0	0.0	0.0	0.0
TRAVEL	0.0	0.0	0.0	0.0	0.0	0.0
CONTRACTUAL	0.0	0.0	0.0	0.0	0.0	0.0
SUPPLIES	0.0	0.0	0.0	0.0	0.0	0.0
EQUIPMENT	0.0	0.0	0.0	0.0	0.0	0.0
LAND & STRUCTURES	0.0	0.0	0.0	0.0	0.0	0.0
GRANTS, CLAIMS	0.0	0.0	0.0	0.0	0.0	0.0
MISCELLANEOUS	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES ( )	0.0	0.0	0.0	0.0	0.0	0.0
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	0.0	0.0	0.0	0.0	0.0
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1006 GF/MHTIA	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of current year (FY94) cost: none

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)

Prepared by: Don Wanie, Director Phone: 465-2240  
 Division: Finance Date: \_\_\_\_\_  
 Approved by Commissioner: Nancy Bear Usura Date: 3/14/94  
 Agency: Administration

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WALTER J. HICKEL  
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STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

March 12, 1993

161

*The Honorable Rick Halford  
President of the Senate  
Alaska State Legislature  
State Capitol  
Juneau, AK 99801-1182*

*Dear Mr. President:*

*Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to statutory interest rates. This bill would change the rate of prejudgment interest and interest paid on judgments and decrees, issued by Alaska courts, from 10.5 percent to the market rate for certain investments. The bill would also lower the rate of interest payable by the state on overpayments of taxes under AS 43 and royalty and net profit shares under AS 38. Both changes should have substantial cost savings for the state.*

*As to interest on court judgments and decrees, AS 09.30.070 presently requires that the rate of interest is 10.5 percent a year, unless a different lawful rate was established by written contract between the parties. Additionally, prejudgment interest is also paid at the 10.5 percent rate. Currently, these statutory rates substantially exceed the present market rate for investments. The result is a bonanza for individuals who receive a favorable judgment. Also, with the statutory interest rate being fixed, the rate does not automatically respond to market rate increases during periods of high inflation, exceeding the 10.5 percentage rate. The result is that the individual who prevails suffers an additional loss when a judgment or decree is not timely paid or is paid in installments.*

*Section 1 of the bill remedies these problems by requiring that interest rates on judgments and prejudgment interest be set at the market rate for the sale of federal*

*The Honorable Rick Halford  
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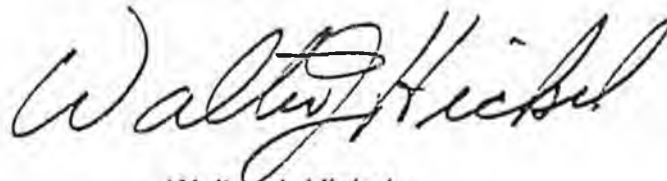
*treasury bills. The bill would continue to allow individuals to establish a different interest rate on judgment by agreement, so long as the rate is not usurious, under state law. Section 1 of the bill also makes changes relating to the calculation of interest.*

*Section 2 of the bill changes the interest rate payable by the state on refunds of overpaid taxes under AS 43 and natural resources royalties and net profit shares under AS 38. The bill amends AS 38.05.135(e) and AS 43.05.280(a) by reducing the interest rate payable by the state on refunds of these overpaid taxes, royalties, and net profit shares from five points to two points over the quarterly Federal Reserve discount rate. The present five percentage points over the Federal Reserve discount rate for both underpayment and overpayment was designed as an across-the-board interest rate increase to discourage underpayment of these sums by those obligated to make those payments. While having that intended effect, it is also establishing the state as a favorable depository of investment funds yielding a much higher rate of interest than any other savings in banking institutions. The payment of those high yields is coming directly out of the state treasury and is not a prudent use of state resources in these years of declining available state revenue.*

*This bill would leave in place the provisions that discourage underpayment to the state, while removing the incentive to achieve high yields by overpaying. Also, the bill protects taxpayers in that if the overpayment was made in response to a correction made by the applicable department, the state would pay a higher interest rate, as already provided in statute.*

*I urge your prompt consideration and passage of this bill.*

*Sincerely,*

A handwritten signature in cursive script, reading "Walter J. Hickel". The signature is written in dark ink and is positioned above the printed name and title.

*Walter J. Hickel  
Governor*