

HB

337

HFIN

FILE

(11)

HOUSE COMMITTEE REPORT

Date Referred to Committee: March 8, 2000

FURTHER REFERRALS:

Date of Committee Action: 3/16/00

The FINANCE Committee considered:

HB 337

HOUSE BILL NO. 337

CLAIMS AGAINST PERM FUND DIVIDENDS

"An Act relating to claims against permanent fund dividends to pay certain amounts owed to state agencies and to fees for processing claims against and assignments of permanent fund dividends; and providing for an effective date."

recommends it be replaced with the following committee substitute CS HB 337 (JUD) the same title a new title

additional referral to _____ Committee
 attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept)

APPROVES PREVIOUS: (Dept/Date)

fiscal note(s) _____

fiscal note(s) labor 2/4/00

zero fiscal note(s) _____

zero fiscal note(s) Revenue 2/23/00

SIGNING WITH RECOMMENDATIONS		DP	DNP	NR	AM
	Therrault	X			
	Bunde	—			
	Ausherman			X	
	J. DAVIS			X	
	Moses			X	
	G. DAVIS			X	
	Williams	X			
	Phillips	✓			
	Foster	X			

CO CHAIR'S SIGNATURE

FISCAL NOTE Bill Version: HB 337

No: 1

**STATE OF ALASKA
2000 LEGISLATIVE SESSION**

(H) Publish Date: 2/4/00

Revision Date/Time (Note if correction): _____
 Title: An Act relating to . . . Admin collection
 of Perm. Fund Div. . . . for amounts owed to State
 Sponsor: Rules Committee
 Requestor: Governor

Department Affected: Labor
 BRU: Employment Security
 Component: Unemployment Insurance
 COMPONENT SERIAL NO. 2276

EXPENDITURES/REVENUES: (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS & CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL						
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CHANGE IN REVENUE	377.1	569.8	385.4	385.4	385.4	385.4
FUND SOURCE #	1004	1004	1004	1004	1004	1004

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipt						
1006 GF/MHTIA						
Other (Specify Type)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY00) impact: \$ 0.0

ANALYSIS: (Attach a separate page if necessary)

(See Attached)

Prepared by: Rebecca Gamez, Director Phone: 465-2711
 Division: Employment Security Division Date/Time: 1/12/00 11:36 AM

Approved by Commissioner: Ed Flanagan, Commissioner
 Agency: Department of Labor and Workforce Development Date: 1/12/2000

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ATTACHMENT

HB 337

Fiscal Note for Governor's Bill... "Administrative Collection of Permanent Fund Dividends... for amounts owed to state."

The Alaska Department of Labor and Workforce Development, Employment Security Division, Benefit Payment Control Unit, is responsible for recovery of overpaid unemployment insurance (UI) benefits and fraud penalties. The current outstanding debt owed to the state for overpayments is a little over 9 million dollars; comprised of \$4,900,000 paid erroneously due to a fraudulent act committed by the claimant; \$1,500,000 paid due to error, most often the claimant's; and \$3,000,000 in statutory penalty applied for receipt of benefits through fraudulent acts.

In order to obtain federal administrative funding from the U.S. Department of Labor, our division must continue to improve the percentage of overpayments we recover. Currently, the only way to attach a Permanent Fund Dividend is by voluntary assignment, a judgment through small claims action, or through a criminal prosecution judgment. The latter two actions are lengthy and time consuming and are used in less than 5% of the cases. Authority to attach Permanent Fund Dividends through administrative action would simplify the process and increase the Department's recovery of improperly received payments and penalties.

Attachment of Permanent Fund Dividends would only be used after proper notice of liability has been given and appeal rights have expired or been exhausted. It would only be used on past due accounts.

No fiscal impact to the operational costs of the Unemployment Insurance program is anticipated. The costs related to the legislation will be replaced by efficiencies and related savings realized by a reduction in the number of judgments required through small claims action, or through a criminal prosecution.

Alaska statute 23.20.390 (a) requires that the over paid UI payment when recovered is to be returned to the UI trust fund. Since unemployment insurance benefits are primarily paid through taxes from Alaska's employers, the recovery of these overpaid benefits has a positive impact on employer tax rates. Alaska statute 23.20.390 (f) requires that any penalty recovered will be deposited into the state general fund.

After all other administrative remedies are exercised, the department anticipates levies on permanent fund dividend funds will result in recovery of overpaid UI payments and penalties as follows:

<u>First Calendar Year of Implementation effective January 1, 2001</u>	
Fraud overpays	\$1,148,200
Non-fraud overpays	\$362,600
Total Returned to UI Trust Fund	\$1,510,800
Penalties Recovered for GF deposit	\$754,200 (a)
 <u>Second & Subsequents Calendar Years</u>	
Fraud overpays	\$638,300
Non-fraud overpays	\$128,900
Total Returned to UI Trust Fund	\$767,200
Penalties Recovered for GF deposit	\$385,400 (a)

In the first calendar year of implementation of the permanent fund levy, the UI overpay and penalty calculations represent the backlog which is greater than what would typically be expected on an ongoing annual basis. The second and subsequent year calculations is what we expect annually after the backlog is recovered.

FOOTNOTE:

(a) the state fiscal year distribution (see fiscal note form) of penalties recovered for deposit to the state general fund due to the 1/1/2001 effective date is as follows:

*FY2001 = \$377,100 (50% of 1st calendar year penalties)

*FY2002 = \$377,100 (50% of 1st calendar year penalties)

*FY2002 = \$192,700 (50% of 2nd calendar year penalties)

*FY2003 & subsequent fiscal years = \$385,400

mac 2 of 2

FISCAL NOTE

Bill Version: CSHB 337 (STA)

(H) Publish Date: 2/23/00

**STATE OF ALASKA
2000 LEGISLATIVE SESSION**

Revision: Date/Time (Note if correction)	Dept. Affected	Revenue
Title: <u>Claims Against Permanent Fund Dividends</u>	BRU	Revenue Operations
	Component	Permanent Fund Dividend
Sponsor: <u>Rules</u>		
Requester: <u>House State Affairs</u>	Component Serial No.	<u>981</u>

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

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

FUND SOURCE	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of current year (FY2000) cost: 0.0

POSITIONS

POSITIONS	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Full-time						
Part-time						
Temporary						

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

This bill allows state agencies to file claims against Permanent Fund Dividends of individuals with unpaid debts owed to state agencies. Section 2 of this bill allows the Permanent Fund Dividend Division to collect an administrative fee to cover costs associated with processing these claims. This existing fee of \$2 per claim (as set out in regulation) is based on state agencies using electronic media to transmit any and all claims to the dividend division. The division may have to increase the fee to a particular agency if that agency is unable to transmit its claims electronically and instead creates additional paperwork and manual processing for the dividend division.

Prepared by Nanci A. Jones, Director
 Division Permanent Fund Dividend
 Approved by Wilson L. Condon
 Commissioner Department of Revenue
 Agency Department of Revenue

Phone 465-2323
 Date/Time February 8, 2000
 Date February 8, 2000

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Good afternoon Mr. Chairman, Representatives

Thank you for the opportunity to appear today to discuss this bill.

For the record, I am Ron Hull, Deputy Director of the Employment Security Division of the Department of Labor and Workforce Development.

I know you are pressed for time and will keep my statements as short as possible:

I would like to explain what this bill accomplishes. One of ESD's responsibilities is the unemployment insurance program. ESD's mandate is to protect the UI trust fund. This bill would provide an additional tool for improving the collection rate of overpaid benefits.

The PFD statute prioritizes the state entities that can attach an individual's PFD. It would place ESD at number 6 along with other state agencies not already named in the existing statute.

The total debt balance we are speaking to, as of 12/31/99 was \$9, 574,892

Fraud	\$4, 912, 834
Non-fraud	\$1, 516, 888
Penalty	\$3, 145, 620

The two categories of Fraud and Non-fraud are actual overpaid UI benefits and when collected would be returned to the trust fund.

The penalty amount is deposited directly into the general fund.

We strongly believe maintaining a healthy UI trust fund precludes us from having to raise the employer tax rate.

We have conservatively estimated a yearly deposit to the general fund of \$385 - 400 thousand in penalty collections to the general fund.

That concludes my prepared statements, I would be happy to entertain any questions.

Original bill included all depts
STA amended to delete all but DOL
Jed amended to this version

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EQUIPMENT						
LAND & STRUCTURES						
GRANTS & CLAIMS						
MISCELLANEOUS						
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CAPITAL						
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PART-TIME						
TEMPORARY						

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(See Attached)

Prepared by: Rebecca Gamez, Director
 Division: Employment Security Division

Phone: 465-2711
 Date/Time: 1/12/00 11:36 AM

Approved by Commissioner: Ed Flanagan, Commissioner
 Agency: Department of Labor and Workforce Development

Date: 1/12/2000

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CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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Prepared by Nanci A. Jones, Director
 Division Permanent Fund Dividend
 Approved by Wilson L. Condon
 Commissioner Department of Revenue
 Agency

Phone 465-2323
 Date/Time February 8, 2000
 Date February 8, 2000

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TONY KNOWLES
GOVERNOR
2000-2008

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

February 2, 2000

The Honorable Brian Porter
Speaker of the House
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182

Dear Speaker Porter:

Some state agencies are currently allowed to seek from individuals overdue payments of money due the state through a simple administrative collection of permanent fund dividends. But most state agencies still need to use a time consuming and costly court action to attach an individual's permanent fund dividend. It makes sense for all our state agencies to have access to this "fast track" method of collecting from a person who receives a permanent fund dividend while in arrears with payments lawfully due to the state. This bill I transmit today accomplishes this change in law.

Examples of agencies now able to attach permanent fund dividends with a simple administrative action include the Department of Health and Social Services, for reimbursement of certain court-ordered treatment, and the Alaska Commission on Postsecondary Education for student loans in default.

But the Department of Labor and Workforce Development, for example, must file a small claims court action or seek criminal prosecution to recover overpaid unemployment insurance benefits and fraud penalties. Partly as a result of this cumbersome method, the department estimates the state is owed \$4.5 million in outstanding benefits received by fraudulent means, \$3.6 million in statutory penalties, and \$1.6 million for overpaid benefits. Not only will this bill increase recovery rates, but because these owed benefits are paid by employer taxes, it will reduce employer tax rates within the state.

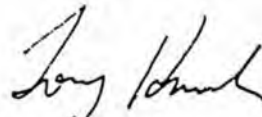
A state agency would not be required to use these new procedures for collection. Any agency that elects to use the new procedures would be required to notify the individual of the claim with a fair opportunity for a hearing at which the individual could contest the

The Honorable Brian Porter
February 2, 2000
Page 2

agency's claim to the permanent fund dividend. If a hearing is not requested or the claim is resolved in favor of the state agency, the agency may collect the money from the individual's permanent fund dividend without filing a court action.

Passage of this measure gives state agencies an additional tool to recover money that is lawfully owed to the state under existing state laws.

Sincerely,

A handwritten signature in black ink, appearing to read "Tony Knowles". The signature is written in a cursive style with a large initial "T".

Tony Knowles
Governor