

HB

494

SENATE COMMITTEE REPORT

DATE: 3/26/04

FURTHER: Finance

DATE TURNED IN TO OFFICE: 4/17/04

State Affairs Committee considered CS FOR HOUSE BILL NO. 494(FIN) am

HB 494 ELECTRONIC PAYMENT FOR STATE BUSINESS

"An Act relating to the methods of disbursement of money by the state, including employment compensation, unemployment payments, and permanent fund dividends, and to bank investments and deposits by the state; and providing for an effective date."

and recommends:

- be replaced with _____ CS _____ (_____)
- adopt previous _____ CS _____ (_____)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to _____ Committee

Senate Bill:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	New Title
House Bill:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	Technical Title Change
<input type="checkbox"/>	New Title w/ SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#
H+SS	3/19/04			✓	1
H+SS	3/19/04			✓	2
H+SS	3/19/04			✓	3
L+WD	3/16/04			✓	4
L+WD	3/16/04			✓	5
DOR	3/19/04			✓	6
ALL	3/16/04	✓			7

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>John J. Caudrey</i>			←	
<i>Bert R. Hartman</i>			✓	
CHAIR: <i>[Signature]</i>	✓			

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: CSHB 494(FIN)
 (H) Publish Date: 3/24/04
 Dept. Affected: Health & Social Services
 RDU Public Assistance
 Component Public Assistance Field Svcs

Revision Date/Time (Note if correction):
 Title RELATING TO DISBURSEMENTS OF MONEY
BY THE STATE

Sponsor KOTT
 Requester HOUSE (FIN)

Component No. 236

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
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 (0)						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1037 GF/Mental Health						
Other(Specify Type-do not abbreviate)						
Other(Specify Type-do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost: _____
 Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)
 This bill suggests that all disbursements of state money to be carried out electronically. This may include benefits disbursed by DPA for the Adult Public Assistance Program, Heating Assistance and General Relief. Food Stamp and Alaska Temporary Assistance Program benefits are currently disbursed electronically.

 Because this bill does not require all disbursements to be made electronically, we assume few if any recipients will elect to switch to electronic disbursement.

Prepared by: Angela Salerno
 Division Public Assistance
 Approved by: Joel S. Gilbertson, Commissioner
 Agency Department of Health and Social Services

Phone 465-3200
 Date/Time 03/18/2004
 Date 03/19/2004

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 2
 Bill Version: CSHB 494(FIN)
 (H) Publish Date: 3/24/04
 Dept. Affected: Health & Social Services
 RDU Departmental Support Services
 Component Information Technology Services

Revision Date/Time (Note if correction):

Title RELATING TO DISBURSEMENTS OF MONEY
BY THE STATE

Sponsor KOTT

Requester HOUSE (FIN)

Component No. 2754

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
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 (0)						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1037 GF/Mental Health						
Other(Specify Type-do not abbreviate)						
Other(Specify Type-do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost:

Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This CS for HB 494 eliminates the requirement for warrants to be used for issuance of state payments.

Currently the department's public assistance payments, e.g. portion of Adult Public Assistance caseload, all Food Stamp and Alaska Temporary Assistance benefits, are distributed via an Electronic Benefits Transfer (EBT) process. The department does not anticipate any change in the current process and will continue to process payments with state warrants for individuals who can not receive EBT payments.

There is no impact anticipated as a result of this legislative proposal.

Prepared by: Janet Clarke, Assistant Commissioner

Division Administrative Services

Phone 465-1630

Date/Time 03/18/2004

Approved by: Joel S. Gilbertson, Commissioner

Agency Department of Health and Social Services

Date 03/19/2004

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 3
 Bill Version: CSHB 494(FIN)
 (H) Publish Date: 3/24/04
 Dept. Affected: Health & Social Services

Revision Date/Time (Note if correction):
 Title RELATING TO DISBURSEMENTS OF MONEY
BY THE STATE

RDU Departmental Support Services
 Component Administrative Support Svcs

Sponsor KOTT
 Requester HOUSE (FIN)

Component No. 320

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
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 (0)						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1037 GF/Mental Health						
Other(Specify Type-do not abbreviate)						
Other(Specify Type-do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost: _____

Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

CSHB 494 provides options to the vendors or clients to receive payments via electronic deposit or by receiving a state warrant for payment. No savings or additional costs will be incurred by DHSS.

Prepared by: Janet Clarke, Assistant Commissioner
 Division Administrative Services
 Approved by: Joel S. Gilbertson, Commissioner
 Agency Department of Health and Social Services

Phone 465-1630
 Date/Time 03/18/2004
 Date 03/19/2004

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 4
 Bill Version: CSHB 494(FIN)
 (H) Publish Date: 3/24/04

Revision Date/Time (Note if correction): _____ Department: Labor and Workforce Development
 Title: Electronic Payment for State Business RDU: Employment Security
 Component: Unemployment Insurance
 Sponsor: Representative Kott
 Requester: Governor Component Number: 2276

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
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)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost: None
 Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

See Attached Analysis.

Prepared by: Thomas W. Nelson, Director Phone 465-5933
 Division: Employment Security Division Date/Time 3/16/04 3:29 PM
 Approved by: Greg O'Claray, Commissioner Date 3/16/2004
 Agency: Department of Labor and Workforce Development

FISCAL NOTE #4

STATE OF ALASKA
2004 LEGISLATIVE SESSION

BILL VERSION: CSHB 494(FIN)

ANALYSIS: (continued)

This legislation would make disbursements issued under AS 23.20 subject to a new section of statute, AS 37.25.050. AS 37.25.050 provides that disbursements can only be made through an electronic funds transfer (EFT) or through an electronic payment card unless doing so would cause substantial hardship to the recipient.

Section 3304 of the Federal Unemployment Tax Act (FUTA) prohibits the use of Unemployment Insurance Trust Fund monies for any purpose other than the actual benefit payment.

The use of electronic fund transfers (EFT):

The Unemployment Insurance Program already provides an EFT option. Estimated annual increase in cost to have all claimants move to this option would be \$30,000. This is based on set-up and monthly maintenance fees in the current direct deposit contract. The cost increase would be offset by savings from not having to produce printed benefit checks.

The use of a debit card:

Estimated initial implementation costs could be as high as \$269,500. Annual costs thereafter are estimated at \$63,000.

Other methods:

Amendments to AS 37.25.050 authorizes the Commissioner of Revenue to adopt regulations that would clarify when a state agency could use alternative disbursement methods. This provides an avenue for disbursing a paper check to a claimant if electronic disbursement would cause the claimant substantial hardship. Although it is not clear what constitutes "substantial hardship", this would not raise an issue with section 301(a)(1), of the Social Security Act.

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 5
 Bill Version: CSHB 494(FIN)
 (H) Publish Date: 3/24/04

Revision Date/Time (Note if correction): _____ Department: Labor and Workforce Development
 Title: Electronic Payment for State Business RDU: Employment Security
 Component: Employment Services
 Sponsor: Representative Kott
 Requester: Governor Component Number: 2275

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
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)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost: None
 Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

See Attached Analysis.

Prepared by: Thor as W. Nelson, Director Phone 465-5933
 Division: Employment Security Date/Time 3/16/04 3:27 PM
 Approved by: Greg O'Claray, Commissioner Date 3/16/2004
 Agency: Department of Labor and Workforce Development

FISCAL NOTE #5

STATE OF ALASKA
2004 LEGISLATIVE SESSION

BILL VERSION: CSHB 494(FIN)

ANALYSIS: (continued)

This legislation would make disbursements issued under AS 23.20 subject to a new section of statute, AS 37.25.050. AS 37.25.050 provides that disbursements can only be made through an electronic funds-transfer (EFT) or through an electronic payment card unless doing so would cause substantial hardship to the recipient.

The use of electronic fund transfers (EFT):

Employment Services prepares Trade Readjustment Allowance (TRA) and Needs Related Payment (NRP) requests. Currently warrants are processed through the Alaska State Accounting System (AKSAS). Two warrants are issued if a claimant has a Child Support Enforcement Division (CSED) garnishment, one to the claimant and the other to CSED. AKSAS does not currently have the ability to directly deposit the payments into the workers bank account, nor withhold a portion of the payment for IRS tax reporting purposes.

TRA falls under the Federal Unemployment Benefit Act (FUBA). If the claimant did not have a bank account in which the payment could be deposited or if a cost to the claimant were involved, such payment procedure may create an administrative barrier to the receipt of full benefits when due and therefore raise an issue with Section 301(a)(1), of the Social Security Act (SSA).

In addition, Employment Services provide Individual Training Accounts (ITAs) for training and supportive services that clients need in order to complete training and secure suitable jobs. Currently, ITAs are generated, and warrants are issued directly to the vendor or client through the State of Alaska Accounting System.

The total financial impact if electronic fund transfers are used would be minimal to the division as long as the program criteria in the above paragraphs are met.

The use of a debit card:

The total financial impact if a debit card system is used is estimated to be five new Community Development Specialist II staff positions totaling \$325,000 per fiscal year. In addition, treasury systems and processes would have to be setup prior to implementation. The direct financial impacts of these systems are unknown at this time.

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 6
 Bill Version: CSHB 494(FIN)
 (H) Publish Date: 3/24/04

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Electronic Payments for State RDU Revenue Programs & Services
Business Component Treasury Division
 Sponsor Representative Kott
 Requester House Finance Component No. 121

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
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)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Actual costs to the Treasury Division could vary significantly. If the division continues its current efforts to maximize payments made electronically, few or no additional costs may be incurred. If, however, we ensure that all payments are made electronically by 2006, an additional staff member, acting as project manager and ACH payments coordinator will be required by the division. This position would require a full time, temporary addition to the Cash Management staff, costing the division approximately \$45.0 in FY05, \$50.0 in FY06, FY07, and FY08, and \$30.0 in FY09 in additional personal services costs. Further, contractual costs for additional programming enhancements of the state's electronic fund origination system, BEACHES, would likely also be incurred. These costs are estimated to be \$25.0 in FY05, \$60.0 in FY06, and \$15.0 in each FY07, FY08, and FY09. We are assuming Treasury will cover the costs of making BEACHES ready to accept agency interfaces. The cost estimates above reflect those start-up costs. Each agency will have costs associated with modifications to their specific applications so that those applications will interface with BEACHES. We assume that the cost savings from not issuing warrants will exceed the cost of implementation of this legislation.

Prepared by: Tom Boutin, Deputy Commissioner
 Division: Treasury Division
 Approved by: Steve Porter, Deputy Commissioner
 Agency: Department of Revenue

Phone 465-3669
 Date/Time 3/19/04 5:16 PM
 Date 3/19/2004

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 7
 Bill Version: CSHB 494(FIN)
 (H) Publish Date: 3/24/04

Revision Date/Time (Note if correction): _____ Dept. Affected: All
 Title A bill relating to disbursement of RDU All
money by the state Component All
 Sponsor Rep. Kott and Hawker
 Requester _____ Component No. _____

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual		(46.0)	(92.0)	(92.0)	(92.0)	(92.0)
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	(46.0)	(92.0)	(92.0)	(92.0)	(92.0)

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

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Various in all state agencies		(46.0)	(92.0)	(92.0)	(92.0)	(92.0)
TOTAL	0.0	(46.0)	(92.0)	(92.0)	(92.0)	(92.0)

Estimate of any current year (FY2004) cost: 0.0
 Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This analysis assumes all state payroll would be made with electronic funds transfer, except for the first and last paycheck for each employee and a limited number of hardship exceptions for payroll. All savings from payroll direct deposit is predicated on replacing printed, mailed paper advices with online presentment information.

The cost of making vendor payments using EDI is calculated for all general warrants at effectively a wash because the cost of bank services is estimated at 32.5 cents each, which is essentially the cost of printing and mailing warrants. The set up effort for state agencies and vendors can be absorbed as long as the process is not mandatory for reluctant vendors or other situations not suited for electronic payments. Quickly increasing the number of EDI-capable vendors from the current 500 to over 50,000 would require substantial staff resources in each agency, as well as the central Finance and Treasury divisions.

Prepared by: Kim J. Garnero, Director Phone 465-3435/465-5615
 Division Finance Date/Time 3/16/04 7:08 AM
 Approved by: Mike Miller, Commissioner Date 3/16/2004
 Agency Department of Administration

Analysis for general warrants under CSHB 494(FIN)

FY 2003 general warrants statistics

Warrants	414,496
EDI	10,793
Total	<u>425,289</u>

Analysis excludes all program specific warrant types such as PFDs, retirement, welfare payments, court warrants. Also excludes handwrite and field warrants.

Potential savings to mailroom chargeback for reduced costs of:

Paper used in paying warrants:

Warrants	415,000	0.01825	\$ 7,574	
Envelopes	415,000	0.02063	\$ 8,561	
			<u>\$ 16,135</u>	annual usage ==> <u>\$ 16,135</u>

Postage: (first class pre-sort with bar code 2: .8 cents per item) (1.5% @ 35.2 for non bar code)

Bar coded	408,775	0.278	\$ 113,639	
Not bar coded	6,225	0.352	2,191	
			<u>\$ 115,831</u>	annual usage ==> <u>\$ 115,831</u>

Total projected mailroom chargeback savings \$ 131,966

Potential increased cost for ACH origination:

425,000 transactions at \$.325 each (estimated 2 addenda totaling 500 chars) \$ 138,125

Net potential cost on statewide basis: \$ 6,159

Analysis for payroll warrants under CSHB 494(FIN)

Average payroll statistics (based on average of August and December payrolls)

	Mailed	Delivered	Total Annualized			Mailed	Delivered	Total
Warrants	1,439	390	1,829	44,000	Warrants	9%	2%	11%
Advices	12,279	1,809	14,088	340,000	Advices	77%	11%	89%
Total	13,718	2,199	15,917	384,000	Total	86%	14%	100%

Assumptions:

All new employees (about 5,000 per year) get their first payroll via warrant when the prenote test is done.

500 employees continue to receive warrants under the hardship exemption.

Total warrants still needed = $(500 * 24) + 5,000 = \underline{\underline{17,000}}$

Potential savings to mailroom chargeback for reduced costs of:

Paper used in paying payroll:

Warrants	27,000	0.01825	\$ 493	(40,000 for \$730)
Advices	340,000	0.01683	5,722	(300,000 for \$5,049)
Envelopes	367,000	0.02063	7,571	(500,000 for \$10,315)
			<u>\$ 13,786</u>	annual usage ==> <u>\$ 13,786</u>

Postage: (first class pre-sort with bar code 27.8 cents per item) (200 @ 35.2 for non bar code)

Bar coded	13,500	0.278	\$ 3,753
Not bar coded	200	0.352	70
			<u>\$ 3,823</u> for 24 pay periods = \$ 91,762

Less postage on 17,000 warrants annually = (4,760)
\$ 87,002

Total projected mailroom chargeback savings \$100,788

Potential increased cost to Division of Finance:

Direct deposit costs: (November invoice was \$2,570 for 31,705 ACH txns)

New direct deposit costs:

1,329 @ 8.1 cents each = \$ 108 for 24 pay periods = \$ 2,584

Net potential savings on statewide basis: \$ 98,204

Alaska State Legislature

Session: (Jan-May)
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Juneau, AK 99801-1182
(907) 465-3777
Fax (907) 465-2819

Interim: (June-Dec)
716 West 4th Avenue, Suite 600
Anchorage, AK 99501-2133
(907) 269-0155
(907) 269-0154 Fax

Pete Kott
Speaker of the House

SPONSOR STATEMENT

CSHB 494

"An Act relating to the methods of disbursement of money by the state, including employment compensation, unemployment payments, and permanent fund dividends, and to bank investments and deposits by the state; and providing for an effective date."

CSHB 494 makes necessary changes to the methods of how the State of Alaska disburses funds. This change will save the state costs of issuing checks and warrants and resolve issues pertaining to time of disbursement and undistributed collections.

Currently, the state issues approximately 96,500 checks and warrants per month:

Unemployment Insurance Benefits:	28,000
Division of Finance to vendors & non-vendors:	50,000
Child Support recipients:	13,000
PERS & TERS Retirees:	2,500
Payroll-Active employees	3,000

This legislation has the potential of saving the State of Alaska considerable funds when factoring in the reduction of check fraud, reissuing of lost or stolen checks, postage, check printing cost, reduced bank service fees, and reduced labor cost.

In addition, this would benefits businesses and citizens who receive funds direct deposit vs. mail delivery, no check cashing fees, reduces liability of check fraud, and customers may use Electronic Payment Cards like debit/credit card at businesses.