

**HB**

**186**



**Representative Jay Ramras**  
**Co-Chair, House Resources**  
**V-Chair, Economic Develop.**  
**Tourism & Trade**

**House State Affairs**  
119 N. Cushman St. Suite 207  
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## Alaska State Legislature



While in Session  
**State Capitol, Room 104**  
**Juneau, Alaska 99801-1182**  
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**House District 10**

### House of Representatives

## MEMO

To: Representative Peggy Wilson, Chair Health, Education and Social Services

Fm: Jane Pierson *JWP*

Date: March 21, 2005

Re: House Bill 186 – Quarterly PFD Payments

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Please accept this Memo as a request for the House Health, Education and Social Services Committee to hear HB 186. "An Act relating to quarterly payments of permanent fund dividend, and to a permanent fund dividend and eligibility for public assistance; and providing for an effective date."

Thank you in advance for scheduling HB 186 before the House Health, Education and Social and Services Committee.

Attachments:

- Sponsor Statement
- HB 186
- Zero Fiscal Note - Health & Social Services
- Fiscal Note – Department of Revenue
- Sectional for HB 186/24-LS0629\A
- Memo addressing the possible effects of quarterly PFD payments on an individual's or family's public assistance.
- Applicable statutes - AS 43.23.055, AS 43.23.075, AS 47.25.120 - 47.25.300
- February 3, 2005 letter to Sharon Barton, Director Permanent Fund Division
- February 9, 2005 letter to Representative Jay Ramras

Thank you.

**Representative Jay Ramras**  
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### House of Representatives

### Sponsor Statement

### House Bill 186

The Permanent Fund Dividend has been and continues to be a boon to the Alaskan economy for 22 years. The program allows our citizens to enjoy part of the state's oil revenue. Since the time of the permanent fund dividend's inception, many Alaskan businesses have profited from running sales near the time the dividend is distributed. Often, citizens will use their dividends to make down payments on high-end consumer products. Effectively ending up with more debt than they would have incurred had they not received a permanent fund dividend in the first place.

HB 186 allows those residents that are eligible to electronically receive a permanent fund dividend the ability to elect to receive their payments in either in one lump sum, as the current system allows, or to divide their permanent fund dividend income into four equal, quarterly payments, throughout the year. Under HB 186's language, this program would take effect the year beginning January 2006.

HB 186 will provide citizens with an opportunity to financially help themselves and their families throughout the year. However, this quarterly payment plan is not recommended for those receiving public assistance, due to the fact that payouts, especially for multiple family members, may interfere with the availability of federal public assistance.

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### House of Representatives

#### Sectional Summary House Bill 186, PFD Quarterly Payments Work Order 24-LS0629

**Section 1.** Removes the word annually to account for the new quarterly payment program.

**Section 2.** Explains the Permanent Fund Dividend optional quarterly payment program.

**Section 3.** Warns a Federal Public Assistance recipient of the possible effects of receiving the Permanent Fund Dividend in quarterly payments.

# FISCAL NOTE

**STATE OF ALASKA**  
**2005 LEGISLATIVE SESSION**

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: HB186-DHSS-DPA-03-08-05

Revision Date/Time (Note if correction): \_\_\_\_\_

( ) Publish Date: \_\_\_\_\_

Title QUARTERLY PFD PAYMENTS AND PUBLIC ASSISTANCE ELIGIBILITY

Dept. Affected: Health & Social Services

Sponsor RAMRAS

RDU Public Assistance

Requester HOUSE (STA)

Component PFD Hold Harmless

Component No. 225

**Expenditures/Revenues (Thousands of Dollars)**

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
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>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES (0)</b>						
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**FUND SOURCE (Thousands of Dollars)**

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1037 GF/Mental Health						
1050 PFD Fund						
Other(Specify Type-do not abbreviate)						
<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 any current year (FY2005) cost: \_\_\_\_\_

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

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

The PFD Hold Harmless program (PFD-HH) replaces public assistance benefits for individuals who would otherwise be denied because federal rules require that their PFD be counted as income or resources. Currently, the PFD is disbursed once per year. Public assistance recipients are held harmless in the month it is received and up to three additional months, for a total of four months per distribution year.

This bill provides for an optional quarterly PFD payment. We assume that recipients of public assistance benefits will not choose the quarterly payment option. All public assistance recipients are low-income and historically use the PFD to cover emergent needs, to satisfy debts, or to purchase clothing or other items needed to support self-sufficiency. Moreover, DPA will offer recipients information and education advising against election of the quarterly PFD option as the bill limits access to benefit replacement with hold harmless funding to only one four-month period per fiscal year.

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

Phone 465-1630  
 Date/Time 03/08/2005  
 Date 03/08/2005

# FISCAL NOTE

**STATE OF ALASKA**  
**2005 LEGISLATIVE SESSION**

Fiscal Note Number: \_\_\_\_\_  
Bill Version: HB 186  
( ) Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
Title Permanent Fund: Quarterly Payments RDU Revenue Programs & Support  
Component Permanent Fund Dividend  
Sponsor Ramras  
Requester \_\_\_\_\_ Component No. 981

**Expenditures/Revenues** (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services	25.0	25.0	25.0	25.0	25.0	25.0
Travel						
Contractual	335.3	35.3	35.3	35.3	35.3	35.3
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>360.3</b>	<b>60.3</b>	<b>60.3</b>	<b>60.3</b>	<b>60.3</b>	<b>60.3</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>	<b>0.0</b>	<b>67.5</b>	<b>86.2</b>	<b>105.0</b>	<b>112.5</b>	<b>111.2</b>
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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						
1950 Permanent Fund Dividend Fund	360.3	60.3	60.3	60.3	60.3	60.3
<b>TOTAL</b>	<b>360.3</b>	<b>60.3</b>	<b>60.3</b>	<b>60.3</b>	<b>60.3</b>	<b>60.3</b>

Estimate of any current year (FY2005) cost: 0.0  
Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

**POSITIONS**

Full-time						
Part-time	1	1	1	1	1	1
Temporary						

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

This bill authorizes optional quarterly payments beginning with the 2006 dividend for Permanent Fund Dividend recipients who also select direct deposit.

This fiscal note assumes that the department will have the authority to deny participation to any applicant whose dividend has been garnished before the first payment in October. Garnishors will file against each quarterly payment and anyone garnished subsequent to the October payment would be paid the total remainder of their dividend less the amount of the garnishment at the time of the next quarterly payment. Costs are summarized on page 2.

The major cost of quarterly payments is a one-time cost to design and write a new payment system that accommodates quarterly payments and synchronizes transactions with our mainframe database. This work will need to be done by contract. (Continued on page 2)

Prepared by: Sharon Barton Phone 907-465-4785  
Division Permanent Fund Dividend Date/Time 3/16/05 11:10 AM  
Approved by: \_\_\_\_\_ Date 3/16/2005  
Agency \_\_\_\_\_

FISCAL NOTE

STATE OF ALASKA  
2005 LEGISLATIVE SESSION

BILL NO. HB 186

ANALYSIS CONTINUATION

The department estimates that it will take 17 person months to design and write a payment system for quarterly payments. An estimate of months and costs is difficult to calculate because PFD IT staff has no previous experience with the design and development of a somewhat complex payment system.

Ongoing operations costs assume approximately 5,000 participants and include direct deposit transaction costs, print and mail costs, and computer processing costs for three additional direct deposit payments; new forms development and printing; and staff months to handle the quarterly garnishments that will be filed, and increased public contacts for information and direct deposit changes. Additional participants would result in higher costs.

Costs include:

Expand and re-write PFD computer system to handle quarterly payments (by contract)	\$300.0
Print and mail costs for three additional payments	15.5
Computer processing costs for three additional payments	18.0
Direct Deposit transaction fees	1.8
6 month PPT position or six additional months for existing staff	25.0
Total	<u>\$360.3</u>

Revenue is based on a 2% rate of return of funds held until distribution for 5,000 applicants. Dividend amounts for each year are based estimates from the Alaska Permanent Fund Corporation.

# STATE OF ALASKA

## DEPARTMENT OF REVENUE PERMANENT FUND DIVIDEND DIVISION

FRANK MURKOWSKI, GOVERNOR

State Office Building  
PO Box 110460  
Juneau, AK 99811-0460  
Telephone : 907-465-2323  
Fax : 907-465-2096

FEB 11 2005

February 9, 2005

The Honorable Jay Ramras  
Alaska State Legislature  
State Capitol, Room 104  
Juneau, AK 99801-1182

Dear Representative Ramros:

Regarding your follow-up questions about PFD quarterly payments:

- On-going operational costs (and I think this is conservative) based on current costs and rates would be approximately \$55.0 (based on 1% participation or about 5000):
  - Print and mail \$15.0
  - Administrative costs 22.0
  - Computer processing 18.0
- The second through fourth payments would remain in the Permanent Fund Dividend Fund and would earn interest. Interest earned is deposited in the General Fund not the Dividend Fund.
- As you know interest rates are very difficult to project. The Treasury Division cautiously advises that we might expect about 2.5% interest on short term investments this year. Your analysis of days of accrued interest for the four payments is generally correct. The exact number of days may vary but the concept is correct.
- At 2.5% interest, 5,000 participants who remain in the program all year, and a dividend of \$850, interest (approximately \$66.4) would cover the annual operating costs as projected above. Whether this would be true each year with its actual criteria is not knowable. As projected, interest for FY 2006 would not cover both operating costs and the re-write of the payment system.
- No, costs would not go down with additional participation. The cost would rise approximately \$15.6 for every 5,000 additional participants because print, mail and direct deposit costs are based on a per unit charge regardless of volume. The impact on our public information offices is difficult to project and no additional

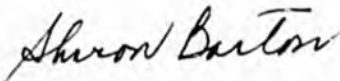
Representative Jay Ramras  
February 9, 2005  
Page 2

cost is included in the \$15.6. Other costs remain about the same regardless of volume.

- The re-write of the payment system is actually not "in process". In our long range plans, we have tentatively planned to re-write the system in FY 07 or 08. This plan assumed re-writing the current system with a single payment, a relatively simple project. Quarterly payments would add considerable complexity to the project and would require additional resources to accomplish, including expert advice on design. So, in answer to your question, the incremental cost of adding quarterly payments at that time would be still be high...perhaps as much as \$150.0.

I regret that this idea is not cheaper or easier to implement...the devil is always in the details. I realize that some of this information begs further explanation, and I am happy to provide all the details you may want.

Sincerely,



Sharon Barton  
Director

cc: Jerry Burnett  
DOR Legislative Liaison

**Representative Jay Ramras**  
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**House District 10**

## House of Representatives

February 3, 2005

Sharon Barton, Director  
Permanent Fund Division  
P.O. Box 110460  
Juneau, AK 99811-0460

Dear Ms. Barton:

Thank you for the information you provided concerning the Permanent Fund Dividend, proposed Quarterly Payment Program, it was extremely informative. However, I do have a few questions concerning the proposal, which follow:

- After the initial set-up costs, what would be the annual cost of administering this program?
- Would monies that remain in the system through the Quarterly Payment Program earn interest until they are paid to the applicant?
- What rate of interest should be applied, to the monies left in the program, due to the Quarterly Payment Program?
  - October payment                      0 days accrued interest
  - January payment                      90 days accrued interest
  - April payment                      180 days accrued interest
  - July payment                      270 days accrued interest
- Would the monies that remain in the system produce a negative fiscal note, or pay for the program?
- If participation in the Quarterly Payment Program were to rise 2-3%, would the fiscal note go down substantially?
- Since the PFD payment system is in the process of being re-written, could we by statute incorporate the Quarterly Payment Program into the scheduled re-write, to save money?

Sharon Barton letter  
February 3, 2005

I look forward to hearing your responses to these questions. Should you have any questions concerning this matter, please do not hesitate to contact me.

Sincerely,



Representative Jay Ramras

JR:jwp

Sharon,

Great to have met you.  
Thanks for your constructive  
approach. We're excited  
about working with you. JR

## House Bill 186

What is the possible effect of quarterly Permanent Fund Dividend payments on an individual's or family's public assistance?

Due to the fact that receiving a Permanent Fund Dividend may put an individual's or family's income over the quarterly amount allowable by federal public assistance, Alaska has established a state general relief assistance program, under AS 47.25.120 – 47.25.300, to cover its citizens' public assistance benefits when they are ineligible for federal assistance. Benefits under this program may be received for only one four-month period during a fiscal year. Therefore, an individual or family receiving public assistance should not apply for the quarterly payment program since the quarterly payments may make them ineligible for any public assistance for three quarters of the year.