

LEGISLATIVE FINANCE-HOUSE / SENATE. FINANCE COMM. FILES 8879

SB 135 cont. - SB 137 620 211

Personal Services. In the first year, staff for the Main Street and the Neighborhood revitalization and development Programs includes the following 3 permanent full time six month positions:

Program Coordinator-Development Specialist II (Range 20)	\$20.0
Architect (Range 21)	30.5
Accounting Clerk II (Range 09)	15.8

Note: in the second year (FY92) these position are 12 month positions and salary/benefits cost listed are doubled.

The Statewide coordinator will initiate, coordinate and supervise both programs. The architect will serve as the Alaska Main Street Program architect and will provide design and historic perservation assistance. It is important that the architect position be filled at the beginning of the program in order for the individual to participate in the design and development of the Alaska Main Street program as well as to utilize the training services of the National Trust for Historic Preservation. Under the supervision of the program coordinator, the accounting clerk will administer the grants for both programs and will assist in the administrative details of developing the program.

A second development specialist (DS I, Range 18, \$51.0) will be necessary beginning in FY 91 to fully implement the Neighborhood Revitalization and Development Program.

Travel. Costs include travel to Washington, D.C. by the program coordinator and architect to receive training by the National Trust for Historic Preservation. In addition, once the program is established, one site visit for each community is estimated, with approximately six communities participating the first year. In subsequent years out-of-state travel should diminish while in-state travel will increase, resulting in a slight reduction of expenses.

Contractual Services. Typically, states contract with the National Main Street Center, National Trust for Historic Preservation, for assistance and training in establishing and operating a Main Street Program. The average costs of programs is other states is \$100.0 per year. Technical assistance offered ranges from developing criteria for selecting communities that will participate in the state program to conducting evaluations of local programs. Complete training in revitalization techniques to local programs is provided. Training continues over a three-year period, focusing on increasingly complex issues.

An alternative approach is to contract for the various services needed on a competitive basis. A number of consulting firms in the Northwest and other parts of the country have gained expertise with the Main Street Program over the past ten years and offer Main Street program implementation and training services.

The balance of the contractual service funds (\$10.0) are needed for office related services, including advertising, phone, postage, copying, printing, etc. In subsequent years contractual expenses will decrease.

Supplies. Funds will be used to purchase office supplies and training materials. Costs will decrease in future years.

Equipment. Cost will be just for the first year and will include purchase of a computer/word processor terminal and miscellaneous equipment.

Grants. Under the Main Street Program, grants would be provided to communities to develop and operate a local Main Street Program. Grants to communities would be on a three year track with first year funding at \$50.0, second year - \$25.0, and third year - \$10.0. In the first year (FY 91) through a competitive grant process, three communities would receive grants; in the next two years, five communities would receive first year funding.

	<u>Total</u>
<u>FY 91</u>	
3 1st yr. communities @ \$50.0	\$150.0
<u>FY 92</u>	
5 1st yr. communities @ \$50.0	
3 2nd yr. communities @ \$25.0	325.0
<u>FY 93</u>	
5 1st yr. communities @ \$50.0	
5 2nd yr. communities @ 25.0	
3 3rd yr. communities @ 10.0	405.0
<u>FY 94</u>	
5 2nd yr. communities @ 25.0	
5 3rd yr. communities @ 10.0	175.0

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SENATE COMMITTEE REPORT

FURTHER

4/6/89

DATE TURNED INTO OFFICE 5/3/89

Mr. President:

Finance

Committee considered

SB 136

establishing the Alaska education trust fund and authorizing advance tuition payment contracts; efd

and recommended

replace with _____ CS SB 136 (Fix)) same title
 or adopt _____ CS _____) new title
 attached amendment(s) and technical title change (HB only)
 _____ letter of intent adopted

do pass

do not pass

no recommendation

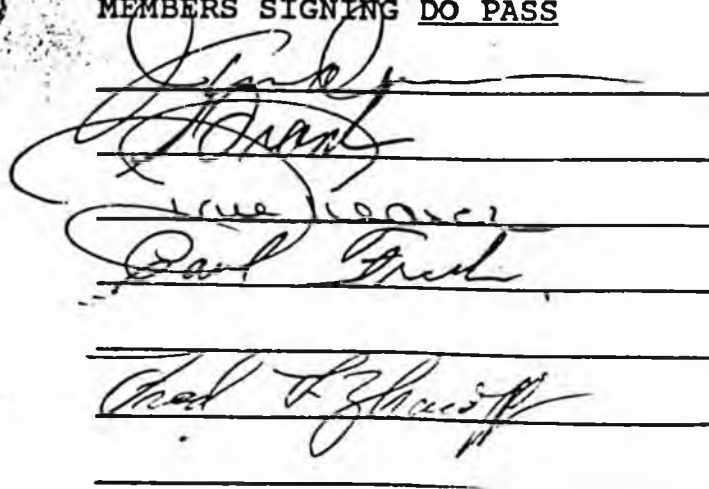
individual recommendations

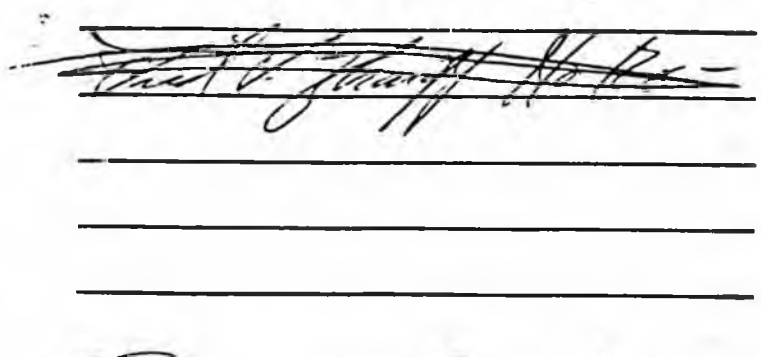
further referral to _____

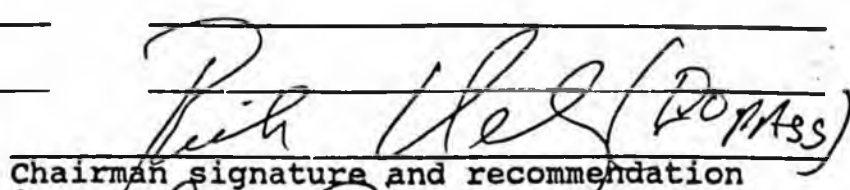
FISCAL NOTE(S) zero fiscal impact appropriation no FN
 new University 62.4 updated previous DOE 45.0
 same as previous fiscal note(s) published _____

MEMBERS SIGNING DO PASS

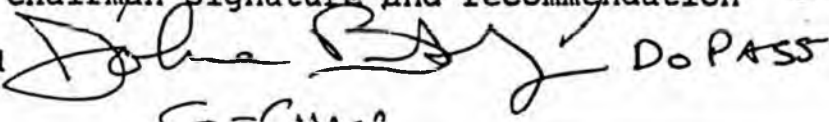
OTHER RECOMMENDATIONS






 Chairman signature and recommendation

Committee Backup attached


 Do PASS

R/O SFC 5-3-89

STATE OF ALASKA
1989 LEGISLATIVE SESSION

BILL VERSION: CSSB 136 (Finance
PUBLISH DATE: _____

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: Alaska Education Trust Fund

Agency Affected: University of Alaska
BRU: Statewide Programs & Services

Sponsor: Kertulla and Kelly
Requestor: _____

Component: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES		62.4				
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING		62.4				

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND		62.4				
FEDERAL FUNDS						
OTHER						
TOTAL		62.4				

POSITIONS:

FULL-TIME		1				
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Personal Services includes one professional position at range 79

Prepared by: Marsha Hubbard *Marsha Hubbard* Phone: 474-7593
Division: Statewide Budget Office Date: 5/3/89

Approved by Commissioner: Brian Rogers *Brian Rogers* Date: 5/3/89
Agency: University of Alaska

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

R/O. JFC 5-3-89

STATE OF ALASKA
1989 LEGISLATIVE SESSION

Bill Version: CS SB 136 (HESS)
Publish Date: _____

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: Alaska education trust fund

Agency Affected: Department of Revenue
BRU: Treasury

Sponsor: Senate HESS
Requestor: Senate HESS

Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
OPERATING						
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	45.0	84.0	127.0	174.0
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	45.0	84.0	127.0	174.0
CAPITAL	0	0	0	0	0	0
REVENUE	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	45.0	84.0	127.0	174.0
TOTAL	0	0	45.0	84.0	127.0	174.0

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 for analysis.

Prepared By: Milt Barker MB
Division: Treasury

Phone: 465-2350
Date: 4-11-89

Approved by Commissioner: [Signature]
Agency: Department of Revenue

Date: 4/12/89

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

RECEIVED

APR 13 1989

Changes in CSSB 136 (Fin) have no fiscal impact. This fiscal note is appropriate. 5/3/89 ML

page ___ of ___

LEGISLATIVE FINANCE

Alaska Education Trust Fund
Investment Management Expenses

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	(\$ Millions)						(\$000)				
Fiscal Year	Beginning Balance	Permanent Fund Dividends	Contributions	Average Balance	Earnings	Ending Balance	Securities Safekeeping Fees	Common Stock Management Fees	Performance Measurement Fees	Audit	Total Fees
FY90	0	460	23	14	1	24	1	22	12	10	45
FY91	24	477	24	39	3	51	2	60	12	10	84
FY92	51	471	24	66	5	80	3	102	12	10	127
FY93	80	466	23	95	8	111	5	147	12	10	174

Notes:

1. Column 6, prior year
2. From "Revenue Sources," Fall 1988, Department of Revenue
3. 5% of Column 2, assuming 5% participation by dividend recipients; initial participation in a similar Florida program was .37% of the population
4. Column 1 + (7.5/12)(Column 3) assuming transfer to trust fund occurs on average on November 15; also assumes no payouts during first four years of the program
5. 8% x Column 4
6. Column 1 + column 3 + Column 5
7. Column 4 x 5.25¢/\$1000 per contract
8. Column 4 x .31% per contract x 50% asset allocation to common stocks
9. Per contract
10. Treasury Division estimate
11. Columns 7 + 8 + 9.

Original sponsors: Kerttula and Kelly

1 IN THE SENATE BY THE FINANCE COMMITTEE

2 CS FOR SENATE BILL NO. 136 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act establishing the Alaska education trust fund
7 and authorizing advance tuition payment contracts;
8 and providing for an effective date."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. AS 14.40 is amended by adding new sections to read:

11 ARTICLE 5. ALASKA EDUCATION TRUST FUND.

12 Sec. 14.40.731. ALASKA EDUCATION TRUST FUND ESTABLISHED. (a)

13 The Alaska education trust fund is established as an endowment trust
14 fund separate from the general fund. The fund may be divided into
15 separate accounts for accounting purposes.

16 (b) The fund consists of

17 (1) permanent fund dividend and cash contributions made
18 under AS 14.40.735 under the terms of an advance tuition payment
19 contract;

20 (2) gifts, bequests, and contributions of cash or other
21 assets from a person; and

22 (3) income and earnings of the fund.

23 (c) Assets of the fund shall be expended in the following order
24 of priority:

25 (1) to make payments to the university on behalf of quali-
26 fied beneficiaries;

27 (2) to make refunds upon termination of an advance tuition
28 payment contract;

29 (3) to pay the costs of administration of the fund.

1 Sec. 14.40.733. POWERS AND DUTIES OF THE COMMISSIONER OF REVE-
2 NUE. The commissioner of revenue is the treasurer of the fund and has
3 the following powers and duties under this section:

4 (1) to act as official custodian of the cash and invest-
5 ments belonging to the fund by securing adequate and safe custodial
6 facilities;

7 (2) to receive all items of cash and investments belonging
8 to the fund;

9 (3) to collect the principal and income from investments
10 owned or acquired by the state treasury and deposit the amounts in
11 separate principal and income accounts for the fund;

12 (4) to invest and reinvest the assets of the fund as pro-
13 vided in this section and as provided for the investment of retirement
14 funds under AS 14.25.180;

15 (5) to exercise the powers of an owner with respect to the
16 assets of the fund;

17 (6) to do all acts, whether or not expressly authorized,
18 that the commissioner of revenue considers necessary or proper in
19 administering the assets of the fund;

20 (7) to maintain accounting records of the fund in accor-
21 dance with investment accounting principles and with distinction
22 between the principal and income accounts of the fund;

23 (8) to engage an independent firm of certified public
24 accountants to annually audit the financial condition of the fund's
25 investments and investment transactions;

26 (9) to enter into and enforce contracts or agreements
27 considered necessary for the investment purposes of the fund;

28 (10) to report to the university the condition and invest-
29 ment performance of the fund.

1 Sec. 14.40.735. CONTRIBUTION TO THE ALASKA EDUCATION TRUST FUND.

2 (a) Contributions to the fund under the terms of an advance payment
3 contract may be made by direct cash payments or by contributions from
4 the permanent fund dividend. The Department of Revenue shall prepare
5 the permanent fund dividend application to allow an applicant to
6 contribute all or part of a dividend to the fund under the terms of an
7 advance tuition payment contract.

8 (b) The Department of Revenue shall pay contributions directly
9 to the fund.

10 Sec. 14.40.737. POWERS AND DUTIES OF THE UNIVERSITY OF ALASKA.

11 (a) The Board of Regents of the University of Alaska may contract
12 with a purchaser for the advance payment of tuition by the purchaser
13 for a qualified beneficiary to attend a branch of the university to
14 which the qualified beneficiary is admitted, without further tuition
15 cost to the qualified beneficiary.

16 (b) The board shall

17 (1) make appropriate arrangements as necessary to fulfill
18 the board's obligations under an advance tuition payment contract;

19 (2) establish standard payment plans to be used under
20 advance tuition payment contracts;

21 (3) establish the circumstances under which an advance
22 tuition payment contract may be terminated and the amount of the
23 refund the person entitled to terminate the contract may receive.

24 Sec. 14.40.739. ADVANCE TUITION PAYMENT CONTRACTS. (a) An
25 advance tuition payment contract must include

26 (1) the amount of payments required from the purchaser on
27 behalf of the qualified beneficiary;

28 (2) the terms and conditions for making the payments;

29 (3) provisions for late payment charges and for default;

1 (4) the name and age of the qualified beneficiary under the
2 contract and a statement that the purchaser, with the approval of the
3 board, may substitute another person for the qualified beneficiary
4 originally named in the contract;

5 (5) the number of credit hours to be provided to the quali-
6 fied beneficiary under the contract;

7 (6) the name of the persons entitled to terminate the
8 contract, the terms and conditions under which the contract may be
9 terminated, and the amount of the refund to which the person terminat-
10 ing the contract is entitled;

11 (7) the assumption of a contractual obligation by the board
12 to provide for credit hours of higher education at the university;

13 (8) the number of credit hours the qualified beneficiary
14 may receive if the qualified beneficiary is not entitled to in-state
15 tuition at the time of enrollment at the university;

16 (9) the period of time during which the qualified benefi-
17 ciary may receive the benefits of the contract; and

18 (10) other terms and conditions the board determines to be
19 appropriate.

20 (b) An advance tuition payment contract may be terminated

21 (1) if the qualified beneficiary dies;

22 (2) if the qualified beneficiary is not admitted to a
23 branch of the university after making a proper application;

24 (3) if the qualified beneficiary certifies to the board
25 that the qualified beneficiary has been accepted by a degree granting
26 institution of postsecondary education other than the university;

27 (4) if the qualified beneficiary certifies to the board,
28 after the qualified beneficiary has received a high school diploma or
29 reached the age of majority, that the qualified beneficiary has

1 decided not to attend the university;

2 (5) if the board determines that the number of purchasers
3 is insufficient to maintain the fund on an actuarially sound basis; or

4 (6) under other circumstances determined by the board and
5 set out in the advance tuition payment contract.

6 Sec. 14.40.741. DEFINITIONS. In AS 14.40.731 - 14.40.741

7 (1) "advance tuition payment contract" means a contract
8 entered into by the board and a purchaser to provide for the higher
9 education of a qualified beneficiary;

10 (2) "board" means the Board of Regents of the university;

11 (3) "fund" means the Alaska education trust fund estab-
12 lished under AS 14.40.731;

13 (4) "purchaser" means a person who makes or is obligated to
14 make advance tuition payments under an advance tuition payment con-
15 tract;

16 (5) "qualified beneficiary" means a resident who has rights
17 under an advance tuition payment contract;

18 (6) "university" means the University of Alaska, including
19 a community college affiliated with the university.

20 * Sec. 2. TAX DETERMINATION. The Department of Revenue shall request
21 that the Internal Revenue Service determine if the income earned by the
22 Alaska education trust fund established in sec. 1 of this Act is taxable
23 income under federal law. The Board of Regents of the University of Alaska
24 may not contract with a purchaser for the advanced payment of tuition under
25 AS 14.40.737, added by sec. 1 of this Act, until the Department of Revenue
26 has received a determination from the Internal Revenue Service regarding
27 the applicability of federal income taxes to the Alaska education trust
28 fund.

29 * Sec. 3. This Act takes effect July 1, 1989.



Alaska State Legislature

SENATE

Official Business

P.O. Box V
State Capitol
Juneau, Alaska 99811

SECTIONAL ANALYSIS

CS SENATE BILL 136 (HESS)

Section 1

Sec.14.42.400 Establishes the Alaska Education Trust fund. Contributions consist of an individual's permanent fund dividends, cash contributions, gifts, bequests, contributions of individual assets and earnings from the fund.

Establishes that the assets of the fund may be used to make payments to the University of Alaska for qualified beneficiaries (students)

Assets may be used to make refunds and to pay the administrative costs of the fund

Sec.14.42.410 Establishes the Commissioner of Revenue as the treasurer of the fund and sets out the duties of the Commissioner.

The Department of Revenue will administer and invest the assets of the fund and will report to the Postsecondary Education Commission

Sec.14.42.420 Sets out the provisions for contributions to the Alaska Education Fund which are either cash or permanent fund dividends.

Sec.14.42.430 The Commission on Postsecondary Education is the agency which will contract with a purchaser for an advance tuition payment for the University of Alaska.

Establishes the guidelines for payment plans and refunds

Sec.14.42.440 Establishes the provisions which are to be included in the advance tuition contracts and includes but is not limited to provisions for termination of a contract, provisions for dealing with a qualified beneficiary who is no longer a state resident.

Includes language to provide for the termination of a contract if the program does not have enough participants to make it cost

effective.

Sec.14.42.490 Definitions

Section 2 Provides that the Commission will not enter any contracts until an IRS ruling is received.

Section 3 Effective date of July 1, 1989.



NEA-ALASKA

AFFILIATED WITH THE NATIONAL EDUCATION ASSOCIATION

ANCHORAGE REGIONAL OFFICE

1411 W. 33RD AVENUE
ANCHORAGE, ALASKA 99503
(907) 274-0536

JUNEAU OFFICE

105 MUNICIPAL WAY, SUITE 302
JUNEAU, ALASKA 99801
(907) 586-3090

FAIRBANKS REGIONAL OFFICE

2118 CUSHMAN STREET
FAIRBANKS, ALASKA 99701
(907) 456-4435

March 13, 1989

To: Senator Paul Fisher, Chair
Members, Senate HESS Committee

Re: Senate Bill No. 136; "An Act establishing the
Alaska education trust fund and authorizing
advance tuition payment contracts; and providing
for an effective date."

NEA-Alaska supports and encourages your favorable
consideration of SB 136.

SB 136 effectively serves the public interest in Alaska in
at least three ways in addition to the creation of the
Alaska Education Trust Fund itself.

It provides an incentive for an individual to save money
toward the cost of attending the University of Alaska, it
focuses on the importance of planning for the financial
needs attendant to higher education, and it elevates the
significance of the University of Alaska as a legitimate
option as they and their parents and friends make plans for
post secondary education.

Additionally, it will bring greater emphasis to the
importance of the role of the University in meeting the
future needs of the State through meaningful programs and
services for its students.

Planning for higher education is essential, financial
planning even more so. SB 136 provides an incentive for
students to aspire and to attend the University of Alaska.

Thank you for your consideration of our position.

Respectfully submitted,

Bob Manners
Executive Secretary

cc: Senator Jay Kerttula

State legislatures April 1987

ON FIRST READING ISSUES AND POLICY IN BRIEF

States Look at Pre-Payment Plan to Ease College Costs

Escalating education costs and runaway student debts have caused several states to consider plans in which parents can pay their children's college tuition years ahead of time.

In Pennsylvania, for instance, Senate President Pro Tem Robert Jubelirer has introduced legislation that will allow parents to pre-purchase college tuition by investing in an account managed by the state. In return, parents would be guaranteed that the future fees would be completely covered, regardless of how much costs rise.

Jubelirer says the plan insures that the emerging generation will have a chance to pursue the advanced education they will need in our "increasingly technological and competitive economic environment."

The proposal has bipartisan support and may be part of the solution to Pennsylvania's underfunding of higher education and resulting tuition hikes. *Education Daily* reports that Pennsylvania ranks 50th among all states in per-capita spending on higher education. Tuition at the 14

state-owned universities has increased 87 percent in the last decade.

Pennsylvania is not the only state considering such legislation. Maine House Majority Leader John Diamond has introduced the Student Educational Enhancement Deposit Plan, or SEED Plan, which would work much like the Pennsylvania plan. Diamond says there is a "sense of frustration" among families because the cost of a college education continues to rise.

In California, Assemblyman Tom Hayden introduced the Educational Security Account Act in January. "Parents need to know that a college education is still attainable, that they will be able to afford to send their kids to college in the year 2020," says Hayden, chair of the Assembly's Subcommittee on Higher Education. "My proposal is that California adopt an 'education security account,' just like we have with the 'individual retirement accounts.'"

Both Diamond and Hayden's proposals are patterned after Michigan's program, which hinges on a review by the Internal Revenue Ser-

vice. Experts believe, however, that interest earnings and the subsequent value of the tuition will be made exempt from federal taxation.

Part layaway plan, part mutual fund, Michigan's program offers parents steep tuition discounts if they pay ahead. The younger the child, the cheaper the price. The plan guarantees four years tuition at any public college or university in the state if parents deposit as little as \$3,000, either paid in a lump sum or installments or through payroll deductions. Parents can deduct their contribution from their income subject to Michigan income tax.

Parents who move out of the state, or whose children decide to go to college somewhere else or nowhere, or do not meet admission requirements, can get their money back. A student who decides to attend an independent college in Michigan may have payments up to the average tuition cost at a public four-year college transferred to and applied against the tuition charges of the independent college.

College-Tuition Plan in Michigan Seen as Model

YOUR MONEY MATTERS

By JHE DAVIDSON

Staff Reporter of THE WALL STREET JOURNAL

The save-now, pay-later tuition plans offered by some private colleges are spreading to public universities—with legislators aiming to overcome parents' and educators' objections to the current programs.

The tuition plans, designed to help parents prepare for future college costs, are "hot items on many 1957 state legislative agendas," says Aims McGuinness, assistant executive director for higher education at the Education Commission of the States, a research group with 48 states as members. According to the commission, 42 states, including California, Massachusetts and New Jersey, are considering tuition-financing plans. Most are patterned after a program set to begin in Michigan.

Under the Michigan Education Trust, parents deposit with the state \$3,000 to \$4,500, depending on the age of the child and the plan chosen, either in a lump sum or through a payment plan. The state invests the money, expecting that it will grow enough to cover undergraduate tuition at any of Michigan's 13 universities and 29 community colleges.

Freedom From Worry

For Anne Burke, a Lansing mother of girls ages two and five, the trust represents a way "to assure our children of a college education and not have to worry about how much we'd have to save." Four-year tuition at state schools in Michigan now averages \$8,000 for residents. In 18 years, the state calculates that would jump to \$22,835 if tuition increases average 6%, and to \$37,737 if increases average 9%.

The Michigan program can't start until the Internal Revenue Service grants it tax-exempt status. But officials expect the first trust contract to be signed by early summer. So far the state has received more than 24,000 inquiries about the plan.

Michigan officials say a major advantage of the trust over many private plans is that the state tuition payment is guaranteed, even if the investments don't keep up with increased costs. Moreover, the program provides a moderate-cost alternative for families who can't afford similar programs at private colleges.

The Michigan program also lets students choose from a wider variety of admissions standards and academic programs than the private plans. And the trust is more flexible than private programs about students entering a college outside the plan. In such a case, the Michigan program will pay up to the average of state-school tuitions; the student must fund any difference. Many private plans allow a student to take their money elsewhere only if he transfers from the college in question and meets certain grade requirements.

But the Michigan trust has some drawbacks similar to those in the private-college plans. Under one Michigan plan, if the student dies or doesn't attend college, only the principal—minus administrative costs—would be refunded, regardless of the amount of interest earned over many years. With an alternative Michigan plan, the initial investment is higher, but some interest earnings are included in the refund if the contract is terminated.

Not for Everyone

Even the wider choice of schools under programs like Michigan's may not be enough for everyone, says Sharon Hart, a research assistant at the Education Commission. "People who move often will have problems with it," she says, because someone who moves out of state would face higher tuition at the schools in the plan.

Under the Michigan program, as in most private plans, students will still have to pay for room and board and other fees not covered by tuition. But programs in some other states are being set up to include such costs. A new Wyoming plan covers room and board as well as tuition. And if a child in the Wyoming plan chooses not to use the fund, the principal and 4% interest, compounded annually, is refunded.

Richard Anderson, a financing specialist at Columbia University's Teachers College, says the tuition plans are so popular that politicians are "stumbling over themselves" to get them passed, he says. But he worries that it is "much too easy for legislators to overpromise what can be delivered" by underestimating the amount that should be invested today for tuition nearly two decades away.

These concerns aren't primary to parents such as Mrs. Burke in Michigan. "We don't think there are too many ways you could necessarily lose," she says. "It would be easier to take the chance than to project how much you'd have to save for 13 to 15 years down the road."

Wall Street Journal

4/13/87



Official Business

Alaska State Legislature

Senate

P.O. BOX V
State Capitol
Juneau, Alaska 99811

SPONSOR STATEMENT

Senate Bill 136, Alaska Education Trust Fund

As the cost of a college education steadily increases, parents have become increasingly concerned about their ability to provide a college education for their children. As a result, many states have been looking at innovative ways to provide parents and students with alternatives for financing college tuition.

Senate Bill 136 offers one such option. The legislation establishes a "guaranteed tuition plan" which assures future tuition payment to a University of Alaska campus upon an initial investment in a newly created Alaska Education Trust Fund. The amount of the initial investment is determined by the age of the child at the time of the investment; the younger the child, the cheaper the price. If the parent of an older child joined the program, the contribution would be higher because there would be less time for the money to earn interest.

The State would then invest the money, intending that, at a minimum, the tuition fund investments would have a rate of return that would equal the expected tuition cost for a child by the time he/she enrolls in college.

A contract would be made between the state and the purchaser that would guarantee four years undergraduate tuition at the University of Alaska, no matter how much the costs rise.

Senate Bill 136 has been modeled on a similar program which was adopted and implemented by the State of Michigan. When Michigan adopted its plan in 1986, 44,000 persons applied during a two month period. In Florida, approximately 40,000 persons applied for a similar program.

While the option always exists for parents to place their money in other types of savings and investments, the guaranteed tuition plan offers low cost tuition and assurances for the future; in other words, there is a high degree of peace of mind.

5/3/89 Talked w/ Sponsor's Wife, Paula Terrel.
 She will contact PFC and attach
 this note in Rules, if necessary. *KL*

STATE OF ALASKA
 1989 LEGISLATIVE SESSION

BILL VERSION: CS SB 136 (HESS)
 PUBLISH DATE: _____

FISCAL NOTE

REQUEST

Revision Date: _____
 Title: An Act establishing the Alaska
 education trust fund
 Sponsor: Kerttula and Kelly
 Requestor: _____

Agency Affected: Revenue
 BRU: Permanent Fund Dividend Division
 Components: Permanent Fund Dividend
 Division

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
OPERATING						
PERSONAL SERVICES	-0-	26.5	14.3	14.3	14.3	14.3
TRAVEL	-0-	-0-	-0-	-0-	-0-	-0-
CONTRACTUAL	-0-	11.0	11.0	11.0	11.0	11.0
SUPPLIES	-0-	0.2	0.2	0.2	0.2	0.2
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-	37.7	25.5	25.5	25.5	25.5
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-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-	37.7	25.5	25.5	25.5	25.5
TOTAL	-0-	37.7	25.5	25.5	25.5	25.5

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME	-0-	2	2	2	2	2
TEMPORARY	-0-	-0-	-0-	-0-	-0-	-0-

ANALYSIS: See Attached.

Prepared By: Ervin Jones
 Division: Permanent Fund Dividend Division

Phone: 465-2323
 Date: April 21, 1989

Approved by Commissioner: [Signature]
 Agency: Revenue

Date: 4/25/89

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

RECEIVED
 APR 26 1989

Department of Revenue
Permanent Fund Dividend Division
Fiscal Note Analysis
CS SB 136 (HESS)
April 21, 1989

Assumptions:

1. The bill will take effect for the 1990 permanent fund dividend year and application. The 1989 dividend application has already been printed.
2. Currently, the only "check-off" on the Permanent Fund Dividend application is the Winter Olympic check-off. During the last legislature, a total of 18 bills were introduced calling for specific check-offs, plus an omnibus check-off bill (SB 406) which would have required 3,600 organizations to be listed on the form as possible check-offs. If the checkoff option on this bill receives favorable attention by the Legislature, I think the floodgate will open and we will once again be faced with dozens of check-off requests. This fiscal note is prepared on the assumption that the subject bill is the only bill of this nature which will become law. The passage of multiple bills with varying formulas (\$5, half of dividend, all or part of dividend, etc.) will inevitably have a compounding effect. Whereas there may be savings in some areas, there will be increased costs in others.
- 3) Funding for the administrative costs of the Permanent Fund Dividend program in providing the mechanism for contributions from the permanent fund dividend in FY90 and thereafter will be paid from the Permanent Fund Dividend fund as appropriated by the legislature.
- 4) The incremental cost of computer resources will result in a chargeback by the Department of Administration.
- 5) Whereas the cost of programming changes will be a one-time cost, the cost of document review, data capture, data processing chargeback, and the extra page in the dividend booklet will be continuing.
- 6) Contributions will only be honored to the extent of available funds. Garnishments and assignments will take precedence in the order established by statute. Contributions and elections will then be honored in the order listed on the form schedule, which will be in the order they become law.
- 7) Management of the AKSAS account, including accounting for transfers to the Alaska education trust Fund account and reversing entries as a result of returned and cancelled warrants will be by the Administrative Services Division, Department of Revenue.

1

Department of Revenue
 Permanent Fund Dividend Division
 Fiscal Note Analysis
 CS SB 136 (HESS)
 April 21, 1989

Program Summary:

The provision of a new contribution decision on the dividend application will cause additional administrative cost in several areas:

- a) An additional page added to each application, a schedule of contribution decisions with explanatory information on each check-off.
- b) The computer system will need to be changed to account for the change in the program, to establish new accounting controls and to provide for the transfer of funds to the trust account, and notification of AKSAS upon cancellation and reissue of warrants.
- c) Each of approximately 540,000 PFD applications will need to be visually reviewed and coded as to decision on the contribution decision. Each application will be data captured with additional attention and keystrokes expended on each positive decision. The provision allowing for flexible contributions of any amount up to the total amount of the dividend will cause additional data entry and accounting costs. Each application will be keyed yes/no to the question on contribution. For those who answer yes, a dollar amount will be keyed.

1. Positions

	<u>FY 90</u>	<u>FY 91</u>
1 PPT Analyst/Programmer V, R21 @ \$6,110.86/Mo including salary and benefits for 2 months	=	\$12.2

PCN 04-1125 would be funded for an additional two months, in accordance with Attachment A. Ongoing maintenance of new programs would be accomplished by existing staff.

1 PPT Document Processor I, R7 @ \$2,340.37/Mo, including salary and benefits for 3 months	=	\$7.0	\$7.0
--	---	-------	-------

This position would assist in the manual review and coding of 540,000 applications for the new contribution decision. This position represents the equivalent of the additional time and effort.

Department of Revenue
 Permanent Fund Dividend Division
 Fiscal Note Analysis
 CS SB 136 (HESS)
 April 21, 1989

	<u>FY 90</u>	<u>FY 91</u>
1 PPT Data Processing Clerk I, R8, @ \$2,446.08/Mo, including salary and benefits for 3 months =	\$7.3	\$7.3
<p>This position would assist in the data capture of the additional contribution decision. The position represents the equivalent value of the additional time and effort.</p>		
TOTAL Personal Services	\$26.5	\$14.3
2. <u>Other Expenditures:</u>		
a) <u>Travel:</u>	\$0.0	\$0.0
b) <u>Contractual:</u>		
Data Processing Chargeback	\$5.0	\$5.0
Add a page to the PFD Booklet	\$6.0	\$6.0
c) <u>Supplies:</u>	\$0.2	\$0.2
d) <u>Equipment:</u> Use existing equipment	<u>\$0.0</u>	<u>\$0.0</u>
TOTAL COST	<u>\$37.7</u>	<u>\$25.5</u>

Suggested Amendments:

Since the success of such a program will hinge largely on whether or not the IRS agrees to the tax deferral of contributions, it would seem wise to obtain that ruling before setting the bureaucracy in motion. I would recommend a delayed effective date for all except Section 2.

I would also suggest that the determination of the IRS be sought for the tax-deferred status of the initial contributions, not just the income of the fund. Since there are many investments which provide tax deferred earnings, the attractiveness of this approach lies in the potential tax deferral of contributions.

Attachments: Attachment A: "Summary of DP Needs"

Department of Revenue
Permanent Fund Dividend Division
Fiscal Note Analysis
CS SB 136 (HESS)
Summary of Data Processing Requirements
April 21, 1989

<u>Wang data entry processing</u>	75.0 hours
Includes:	Data entry Batch lists Corrections Wang to IBM transfer
<u>IBM Update jobs</u>	30.0 hours
Includes:	Edits Batch listings Log sheets
<u>DMS Online programs for lookup and changes</u>	37.5 hours
<u>Nightly Update of Changes</u>	22.5 hours
<u>Warrant Jobs</u>	90.0 hours
Includes:	Printing warrants with different amounts. Include check stub messages. Modify warrant registers as needed for balancing. Create new program(s) for transferring accumulated decisions to trust account and to account for the reserve necessary due to returned and cancelled PFD warrants.
<u>Miscellaneous</u>	45.0 hours
Includes:	Setting up test files on IBM Systems testing Administrative functions, i.e. paper work required by Admin. DP to add files and programs to tables.
TOTAL HOURS	300.0 hours

3/16/89 S(HESS); SFC

STATE OF ALASKA
1989 LEGISLATIVE SESSION

Bill Version: SB 136
Publish Date: 4/6/89

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: Alaska education trust fund
Sponsor: Kerttula
Requestor: Senate HESS

Agency Affected: Department of Revenue
BRU: Treasury
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
OPERATING						
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	45.0	84.0	127.0	174.0
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	45.0	84.0	127.0	174.0
CAPITAL	0	0	0	0	0	0
REVENUE	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	45.0	84.0	127.0	174.0
TOTAL	0	0	45.0	84.0	127.0	174.0

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 for analysis.

Prepared By: Milt Barker MB
Division: Treasury

Phone: 465-2350
Date: _____

Approved by Commissioner: Walter B. Barker for
Agency: Department of Revenue

Date: _____

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

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page __ of __

Alaska Education Trust Fund
Investment Management Expenses

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	(\$ Millions)						(\$000)				
Fiscal Year	Beginning Balance	Permanent Fund Dividends	Contributions	Average Balance	Earnings	Ending Balance	Securities Safekeeping Fees	Common Stock Management Fees	Performance Measurement Fees	Audit	Total Fees
FY90	0	460	23	14	1	24	1	22	12	10	45
FY91	24	477	24	39	3	51	2	60	12	10	84
FY92	51	471	24	66	5	80	3	102	12	10	127
FY93	80	466	23	95	8	111	5	147	12	10	174

Notes:

1. Column 6, prior year
2. From "Revenue Sources," Fall 1988, Department of Revenue
3. 5% of Column 2, assuming 5% participation by dividend recipients; initial participation in a similar Florida program was .37% of the population
4. Column 1 + (7.5/12)(Column 3) assuming transfer to trust fund occurs on average on November 15; also assumes no payouts during first four years of the program
5. 8% x Column 4
6. Column 1 + column 3 + Column 5
7. Column 4 x 5.25¢/\$1000 per contract
8. Column 4 x .31% per contract x 50% asset allocation to common stocks
9. Per contract
10. Treasury Division estimate
11. Columns 7 + 8 + 9.

STATE OF ALASKA
1989 LEGISLATIVE SESSION

BILL VERSION CS SB 136 (Fin)
PUBLISH DATE: 4/6/89

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: Alaska Education Trust Fund
Sponsor: Kerttula
Requestor: Senate HESS

Agency Affected: Education
BRU: Postsecondary Education
Components: General Administration

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES	-0-	62.3	64.1	66.1	68.1	70.1
TRAVEL						
CONTRACTUAL		10.0	10.0	10.0	10.0	10.0
SUPPLIES		1.5	1.5	1.5	1.5	1.5
EQUIPMENT		7.4	-0-	-0-	-0-	
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING		81.2	75.6	77.6	79.6	81.6

CAPITAL						
---------	--	--	--	--	--	--

REVENUE	*					
---------	---	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER		81.2	75.6	71.6	79.6	81.6
TOTAL						

POSITIONS:

FULL-TIME		1.5	1.5	1.5	1.5	1.5
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Personal services include one professional at Range 16 and one half-time support personnel at Range 9.

*Provided by the Department of Revenue.

Prepared by: Ronald A. Phipps, Executive Director Phone: 465-2854
Division: Alaska Commission on Postsecondary Education Date: February 14, 1989

Approved by Commissioner: _____ Date: _____
Agency: _____

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

FISCAL NOTE

REQUEST:

Revision Date: 4/11/89
Title: "An Act Establishing the Alaska Education Trust-Prepaid Tuition Fund and Authorizing Advance Tuition Payment Contracts; and Providing for an Effective Date."

Agency Affected: University of Alaska
BRU: SPS, UAA, UAF, UAS
Components: _____
Sponsor: Kerttula, Kelly
Requestor: Fischer

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES	-0-	-0-	-0-	-0-	-0-	-0-
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL OPERATING						

CAPITAL						
---------	--	--	--	--	--	--

REVENUE	-0-	-0-	-0-	-0-	-0-	-0-
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FUNDING: (Thousands of Dollars)

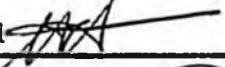
GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

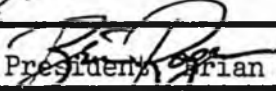
POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

The fund is self-supporting and should cost the University of Alaska nothing. Some administrative time will be required in setting up the fund, this should be accommodated through current staffing levels.

Prepared by: Marsha Hubbard  Phone: 474-6490
Division: Statewide Budget Date: 4/11/89

Approved by Commissioner: Vice President, Brian Rogers  Date: 4/11/89
Agency: University of Alaska

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

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: "An Act Establishing the Alaska Education Trust-Prepaid Tuition Fund and Authorizing Advance Tuition Payment Contracts and Providing for an Effective Date ."

Agency Affected: University of Alaska
BRU: SPS, UAA, UAF, UAS

Components: _____

Sponsor: Kerttula

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES	-0-	-0-	-0-	-0-	-0-	-0-
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

The fund is self-supporting and should cost the University of Alaska nothing. Some administrative time will be required in setting up the fund, this should be accommodated through current staffing levels.

Prepared by: Jim Lynch
Division: Statewide Finance

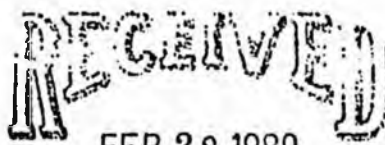
Phone: 474-6556
Date: 2/21/89

Approved by Commissioner: Vice President, Brian Rogers
Agency: University of Alaska

Date: 2/2/89

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)



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HOUSE COMMITTEE REPORT

CORRECTED

11)
Date Referred: April 24, 1990

FURTHER REFERRALS:

Date of Committee Action: 5/3/90

The FINANCE Committee considered:

CSSB 136(2d rls)

CS SB NO. 136 (2d Rules)

EDUCATION TRUST FUND

"An Act establishing the Alaska education trust fund and authorizing advance tuition payment contracts; and providing for an effective date."

RECOMMENDATIONS:

- be replaced with HCS CSSB 136 (FIN) the same title
- a new title
- have attached amendment(s)
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(S):
(Dept)

APPROVES PREVIOUS:

(Date/Dept)

- 3 fiscal impact 2 Rev, HFC
- zero fiscal note _____
- zero with analysis _____

- fiscal note(s) _____
- zero fiscal note(s) _____
- zero fn/analysis _____

SIGNING DO PASS:

SIGNING:
(Check approp. column)

Do Not Pass No Rec Amend

Ronald J. Larson Larson

Clay Swackhammer Swackhammer

Fay Brown Brown

Thompson KOPONEN

Signature	Do Not Pass	No Rec	Amend
<u>Phillips</u> Phillips		<input checked="" type="checkbox"/>	
<u>Barnes</u> BARNES		<input checked="" type="checkbox"/>	

Chairman's Signature
Ronald J. Larson LARSON

FISCAL NOTE **R/O HFC 5-3-90**

REQUEST

Revision Date: May 3, 1990
Title: An Act establishing the Alaska education trust fund
Sponsor: KERTTULA, Kelly, et al
Requestor: House Finance

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
OPERATING						
PERSONAL SERVICES	24.1	11.9	11.9	11.9	11.9	11.9
TRAVEL	-0-	-0-	-0-	-0-	-0-	-0-
CONTRACTUAL	5.0	5.0	5.0	5.0	5.0	5.0
SUPPLIES	0.2	0.2	0.2	0.2	0.2	0.2
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	29.3	17.1	17.1	17.1	17.1	17.1
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

GENERAL FUND	29.3	17.1	17.1	17.1	17.1	17.1
FEDERAL FUNDS	-0-	-0-	-0-	-0-	-0-	-0-
OTHER	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL	29.3	17.1	17.1	17.1	17.1	17.1

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME	3	2	2	2	2	2
TEMPORARY	-0-	-0-	-0-	-0-	-0-	-0-

ANALYSIS: See Attached.

Prepared By: Ervin Jones
Division: Permanent Fund Dividend Division

Phone: 465-2323
Date: May 3, 1990

Approved by Commissioner: [Signature]
Agency: Revenue

Date: 5/4/90

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

Department of Revenue
Permanent Fund Dividend Division
Fiscal Note Analysis
HCS CS SB 136 (FIN)
May 3, 1990

Assumptions:

1. The bill will take effect for the 1991 permanent fund dividend year and application or later. The 1990 dividend application has already been printed and distributed.
2. There are other bills which if signed into law, would result in some form of "check-off" on the 1991 dividend application. The Department of Revenue has no insight as to which, and how many, of these bills will become law. This fiscal note is prepared on the assumption that the subject bill is the only bill of this nature which will become law. The passage of multiple bills with varying formulas will inevitably have a compounding effect. Whereas there may be savings in some areas, there will be increased costs in others.
- 3) Funding for the administrative costs of the Permanent Fund Dividend program in providing the mechanism for contributions from the General Fund as appropriated by the legislature.
- 4) The incremental cost of computer resources will result in a chargeback by the Department of Administration.
- 5) Whereas the cost of programming changes will be a one-time cost, the cost of document review, data capture and the data processing chargeback will be continuing.
- 6) Contributions will only be honored to the extent of available funds. Garnishments and assignments will take precedence in the order established by statute.
- 7) The Permanent Fund Dividend will electronically transfer contributions to the trust fund account, but will have no involvement in the management or accounting duties associated with the trust account. Such duties, including liaison with the Board of Regents, will be by the Treasury Division, Department of Revenue.

Department of Revenue
Permanent Fund Dividend Division
Fiscal Note Analysis
HCS CS SB 136 (FIN)
May 3, 1990

Program Summary:

The provision of a new contribution decision on the dividend application will cause additional administrative cost in several areas:

- a) The computer system will need to be changed to account for the change in the program, to establish new accounting controls and to provide for the transfer of funds to the trust account.
- b) Each of approximately 525,000 PFD applications will need to be visually reviewed and coded as to decision on the contribution decision. Each application will be data captured with additional attention and keystrokes expended on each positive decision.

1. Positions

	<u>FY 91</u>	<u>FY 92</u>
1 PPT Analyst/Programmer V, R21 @ \$6,110.86/Mo including salary and benefits for 2 months	= \$12.2	

PCN 04-1125 would be funded for an additional two months, in accordance with Attachment A. Ongoing maintenance of new programs would be accomplished by existing staff.

1 PPT Document Processor I, R7 @ \$2,340.37/Mo, including salary and benefits for 3 months	=	\$7.0	\$7.0
--	---	-------	-------

This position would assist in the manual review and coding of 525,000 applications for the new contribution decision. This position represents the equivalent of the additional time and effort.

Department of Revenue
 Permanent Fund Dividend Division
 Fiscal Note Analysis
 HCS CS SB 136 (FIN)
 May 3, 1990

	FY 91	FY 92
1 PPT Data Processing Clerk I, R8, @ \$2,446.08/Mo, including salary and benefits for 2 months =	\$4.9	\$4.9

This position would assist in the data capture of the additional contribution decision. The position represents the equivalent value of the additional time and effort.

TOTAL Personal Services	\$24.1	\$11.9
-------------------------	--------	--------

2. Other Expenditures:

a) Travel:	\$0.0	\$0.0
b) Contractual:		
Data Processing Chargeback	\$5.0	\$5.0
c) Supplies:	\$0.2	\$0.2
d) Equipment: Use existing equipment	\$0.0	\$0.0
TOTAL COST	\$29.3	\$17.1

Suggested Amendments:

1. Consider removing the check-off provision.

Attachments: Attachment A: "Summary of DP Needs"

Department of Revenue
Permanent Fund Dividend Division
Fiscal Note Analysis
HCS CS SB 136 (FIN)
Summary of Data Processing Requirements
May 3, 1990

<u>Wang data entry processing</u>	75.0 hours
Includes: Data entry	
Batch lists	
Corrections	
Wang to IBM transfer	
<u>IBM Update jobs</u>	30.0 hours
Includes: Edits	
Batch listings	
Log sheets	
<u>DMS Online programs for lookup and changes</u>	37.5 hours
<u>Nightly Update of Changes</u>	22.5 hours
<u>Warrant Jobs</u>	90.0 hours
Includes: Printing warrants with different amounts. Include check stub messages. Modify warrant registers as needed for balancing. Create new program(s) for transferring accumulated decisions to trust account and to account for the reserve necessary due to returned and cancelled PFD warrants.	
<u>Miscellaneous</u>	45.0 hours
Includes: Setting up test files on IBM Systems testing Administrative functions, i.e. paper work required by Admin. DP to add files and programs to tables.	
TOTAL HOURS	300.0 hours

2/0 HFC 5-3-90

STATE OF ALASKA
1990 LEGISLATIVE SESSION

Bill Version: HCS SB 136 (FIN)
Publish Date: _____

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: Alaska education trust fund
Sponsor: House HESS
Requestor: House Finance

Agency Affected: Department of Revenue
BRU: Treasury
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
OPERATING						
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	46.0	87.0	131.0	179.0	235.0
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	46.0	87.0	131.0	179.0	235.0
CAPITAL	0	0	0	0	0	0
REVENUE	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	46.0	87.0	131.0	179.0	235.0
TOTAL	0	46.0	87.0	131.0	179.0	235.0

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 for analysis. FY 90 fiscal effect is zero.

Prepared By: Milt Barker MB
Division: Treasury

Phone: 465-2350
Date: May 3, 1990

Approved by Commissioner: Wilton B. Barker for
Agency: Department of Revenue

Date: 5-3-90

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

Alaska Education Trust Fund
Investment Management Expenses

	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	(\$000)						
Age	<u>Earnings</u>	<u>Ending Balance</u>	<u>Securities Safekeeping Fees</u>	<u>Common Stock Management Fees</u>	<u>Performance Measurement Fees</u>	<u>Audit</u>	<u>Total Fees</u>
0	0	0	0	0	0	0	0
5	1	26	1	23	12	10	46
1	3	53	2	63	12	10	87
3	5	82	4	105	12	10	131
3	8	116	5	152	12	10	179
3	11	155	7	206	12	10	235

anent Fund, December 1989

dividend receipts; initial participation in a similar Florida program was

fer to trust fund occurs on average on November 15; also assumes no payouts

location to common stocks

R/O HFC 5-3-90

STATE OF ALASKA
1990 LEGISLATIVE SESSION

BILL VERSION: HCS GSSB 136 (FIN)
PUBLISH DATE: _____

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: Alaska Education Trust Fund

Agency Affected: University of Alaska
BRU: Statewide Programs & Services

Sponsor: Senator Kerttula
Requestor: _____

Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES		62.4	62.4	62.4	62.4	62.4
TRAVEL						
CONTRACTUAL	5.0					
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	5.0	62.4	62.4	62.4	62.4	62.4

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND	5.0	62.4	62.4	62.4	62.4	62.4
FEDERAL FUNDS						
OTHER						
TOTAL	5.0	62.4	62.4	62.4	62.4	62.4

POSITIONS:

FULL-TIME	0	1	1	1	1	1
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: House Finance Committee Phone: 465-3727
Division: Co-Chairman Ron Larson *Ronald Larson* Date: _____

Approved by Commissioner: Co-Chairman Lyman Hoffman *Lyman Hoffman* Date: _____
Agency: _____

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

12 G-11  E GENT 5/5 6-0557R Pulce

Original sponsor(s): SEN. KERTTULA, Kelly, Sturgulewski, Eliason, Faiks, Rodey, Binkley, Duncan, Frank, Fischer, Jones, Pearce, Coghill, Zharoff, Szymanski

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 HOUSE CS FOR CS FOR SENATE BILL NO. 136 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act establishing the Alaska education trust fund
7 and authorizing advance tuition payment contracts."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 14.40 is amended by adding new sections to read:

10 ARTICLE 6. ALASKA EDUCATION TRUST FUND.

11 Sec. 14.40.803. ALASKA EDUCATION TRUST FUND ESTABLISHED. (a)

12 The Alaska education trust fund is established as an endowment trust
13 fund separate from the general fund. The fund may be divided into
14 separate accounts for accounting purposes.

15 (b) The fund consists of

16 (1) permanent fund dividend and cash contributions made
17 under AS 14.40.807 under the terms of an advance tuition payment
18 contract;

19 (2) gifts, bequests, and contributions of cash or other
20 assets from a person; and

21 (3) income and earnings of the fund.

22 (c) Assets of the fund shall be expended in the following order
23 of priority:

24 (1) to make payments to the university on behalf of quali-
25 fied beneficiaries;

26 (2) to make refunds upon termination of an advance tuition
27 payment contract;

28 (3) to pay the costs of administration of the fund.

29 Sec. 14.40.805. POWERS AND DUTIES OF THE COMMISSIONER OF

1 REVENUE. The commissioner of revenue is the trustee of the fund and
2 has the powers and duties under this section to

3 (1) act as official trustee of the cash and investments
4 belonging to the fund and to secure adequate and safe custodial facil-
5 ities;

6 (2) receive all items of cash and investments belonging to
7 the fund;

8 (3) collect the principal and income from investments
9 acquired by the trustee and deposit the amounts in separate principal
10 and income accounts for the fund;

11 (4) invest and reinvest the assets of the fund as provided
12 in this section and as provided for the investment of retirement funds
13 under AS 14.25.180;

14 (5) exercise the powers of a trustee with respect to the
15 assets of the fund;

16 (6) do all acts, whether or not expressly authorized, that
17 the commissioner of revenue considers necessary or proper in adminis-
18 tering, as a trustee, the assets of the fund;

19 (7) maintain accounting records of the fund in accordance
20 with investment accounting principles and with distinction between the
21 principal and income accounts of the fund;

22 (8) engage an independent firm of certified public accoun-
23 tants to annually audit the financial condition of the fund's invest-
24 ments and investment transactions;

25 (9) enter into and enforce contracts or agreements con-
26 sidered necessary for the investment purposes of the fund;

27 (10) report to the university the condition and investment
28 performance of the fund;

29 (11) make payments to the university on behalf of qualified

1 beneficiaries;

2 (12) make refunds upon termination of an advance tuition
3 payment contract; and

4 (13) pay the costs of administration of the fund.

5 Sec. 14.40.807. CONTRIBUTION TO THE ALASKA EDUCATION TRUST FUND.

6 (a) Contributions to the fund under the terms of an advance payment
7 contract may be made by direct cash payments or by contributions from
8 the permanent fund dividend. The Department of Revenue shall

9 (1) prepare the permanent fund dividend application to
10 allow an applicant, or a parent, legal guardian, or other authorized
11 representative of an applicant who is an unemancipated minor to con-
12 tribute 50 percent of a dividend to the fund under the terms of an
13 advance tuition payment contract; and

14 (2) include with each application for a permanent fund
15 dividend an explanation of the trust fund, including the right of a
16 purchaser to receive a refund upon termination of an advance tuition
17 payment contract, and a statement that the tax liability of the fund
18 has not yet been determined; after the Internal Revenue Service deter-
19 mines the tax liability of the fund, a statement summarizing the tax
20 determination shall be included with each application for a permanent
21 fund dividend.

22 (b) The Department of Revenue shall pay contributions directly
23 to the fund.

24 Sec. 14.40.809. POWERS AND DUTIES OF THE UNIVERSITY OF ALASKA.

25 (a) The Board of Regents of the University of Alaska may contract
26 with a purchaser for the advance payment of tuition by the purchaser
27 for a qualified beneficiary of any age to attend a branch of the
28 university to which the qualified beneficiary is admitted, without
29 further tuition cost to the qualified beneficiary. A purchaser and a

1 qualified beneficiary may be the same person.

2 (b) The board shall

3 (1) make appropriate arrangements as necessary to fulfill
4 the board's obligations under an advance tuition payment contract;

5 (2) establish standard payment plans to be used under
6 advance tuition payment contracts;

7 (3) establish the circumstances under which an advance
8 tuition payment contract may be terminated and the amount of the
9 refund the person entitled to terminate the contract may receive.

10 Sec. 14.40.811. ADVANCE TUITION PAYMENT CONTRACTS. (a) An
11 advance tuition payment contract must include

12 (1) the amount of payments required from the purchaser on
13 behalf of the qualified beneficiary;

14 (2) the terms and conditions for making the payments;

15 (3) provisions for late payment charges and for default;

16 (4) the name and age of the qualified beneficiary under the
17 contract and a statement that the purchaser, with the approval of the
18 board, may substitute another person for the qualified beneficiary
19 originally named in the contract;

20 (5) the number of credit hours to be provided to the quali-
21 fied beneficiary under the contract;

22 (6) the name of the persons entitled to terminate the
23 contract, the terms and conditions under which the contract may be
24 terminated, and the amount of the refund to which the person terminat-
25 ing the contract is entitled;

26 (7) the assumption of a contractual obligation by the board
27 to provide for credit hours of higher education at the university;

28 (8) the number of credit hours the qualified beneficiary
29 may receive if the qualified beneficiary is not entitled to in-state

1 tuition at the time of enrollment at the university;

2 (9) the period of time during which the qualified benefi-
3 ciary may receive the benefits of the contract; and

4 (10) other terms and conditions the board determines to be
5 appropriate.

6 (b) An advance tuition payment contract may be terminated

7 (1) if the qualified beneficiary dies or becomes so dis-
8 abled that the beneficiary cannot complete an education;

9 (2) if the qualified beneficiary is not admitted to a
10 branch of the university after making a proper application;

11 (3) if the qualified beneficiary certifies to the board,
12 after the contracted date of entrance to the university or after the
13 qualified beneficiary has received a high school diploma or reached
14 the age of majority, that the qualified beneficiary has decided not to
15 attend the university;

16 (4) if the board determines that the number of purchasers
17 is insufficient to maintain the fund on an actuarially sound basis; or

18 (5) under other circumstances determined by the board and
19 set out in the advance tuition payment contract.

20 Sec. 14.40.817. DEFINITIONS. In AS 14.40.803 - 14.40.817,

21 (1) "advance tuition payment contract" means a contract
22 entered into by the board and a purchaser to provide for the higher
23 education of a qualified beneficiary;

24 (2) "board" means the Board of Regents of the university;

25 (3) "fund" means the Alaska education trust fund estab-
26 lished under AS 14.40.803;

27 (4) "purchaser" means a person who makes or is obligated to
28 make advance tuition payments under an advance tuition payment con-
29 tract;

1 (5) "qualified beneficiary" means a resident who has rights
2 under an advance tuition payment contract;

3 (6) "university" means the University of Alaska, including
4 a community college affiliated with the university.
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Attachment 2

5/2/90 am

<SB 136>

Amendment II

By Rieger

Page 4, Line 9:

DISCUSS

IN

SUBCOMMITTEE

Delete "An"

Insert "Subject to AS 14.40.012, an"

Page 5, Line 19, insert a new section to read:

"Sec. 14.40.012. ~~AMENDMENT~~ CHANGES TO ACHIEVE

TAX PREFERRED STATUS. ~~AMENDMENT~~

A term of an advance tuition payment contract

may ~~not~~ differ from the requirements of 14.40.011(a)(4),

14.40.011(a)(6), 14.40.011(b)(1), 14.40.011(b)(2), and

14.40.011(b)(3) if the variation is necessary in order

to achieve tax deferred or tax exempt status for

the Alaska education trust fund."

HEALTH, EDUCATION AND SOCIAL SERVICES COMMITTEE

ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES .

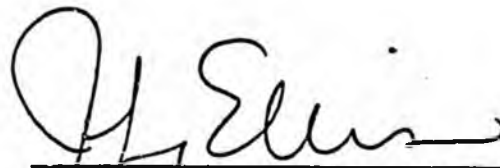


P.O. BOX V, JUNEAU 99811
(907) 465-3759

April 23, 1990

Letter of Intent to
HCSCSSB 136 (HESS)

It is the intent of the Legislature that the Department of Revenue request that the Internal Revenue Service determine if the income earned by the Alaska education trust fund established in section 1 of this Act is taxable income and to whom that income would be taxable under federal law.


Rep. Johnny Ellis, Chair
House HESS Committee



Official Business

Alaska State Legislature

SENATE

P.O. Box V
State Capitol
Juneau, Alaska 99811

MEMORANDUM

TO: Representative Ron Larson, Co-Chairman
House Finance Committee
Representative Lyman Hoffman, Co-Chairman
House Finance Committee

FROM: Senator Kerttula

SUBJ: Senate Bill 136 -- Educational Trust Fund

DATE: April 23, 1990

thanks - very much!

Day

I would appreciate your scheduling Senate Bill 136, relating to the Educational Trust Fund, at your earliest convenience.

As the cost of a college education steadily rises, parents have become increasingly concerned about their ability to provide a college education for their children. Because of this concern, many states have been looking at ways to provide parents and students with alternatives for financing college tuition.

Senate Bill 136 offers one such option. The legislation establishes a "guaranteed tuition plan" which assures future tuition payments to a University of Alaska campus upon an investment in a newly created Alaska Education Trust Fund. The bill provides for either a cash contribution or a set contribution of 50 percent of a permanent fund dividend, and allows an authorized representative of a minor to contribute 50 percent of his or her dividend.

The state would then invest the money, intending that, at a minimum, the tuition fund investments would have a rate of return that would equal the expected tuition cost for a child

Representative Larson
Representative Hoffman
April 23, 1990

by the time he/she enrolls in college. A contract would be made between the state and the purchaser that would guarantee tuition for a given number of credit hours at the University of Alaska, no matter how much the costs rise.

Senate Bill 136 has been modeled after a similar program which was adopted and implemented by the State of Michigan. When Michigan adopted its plan in 1986, 44,000 people applied during a two-month period. In Florida, approximately 40,000 people applied for a similar program.

While the option always exists for parents to place their money in other types of savings and investments, the guaranteed tuition plan offers low-cost tuition and assurances for the future.

Internal Revenue Service
Index Nos.: 0061-0000
0115-0000
2503-0000

Department of the Treasury

MAR 29 1968

Washington, DC 20224

Robert A. Bowman, Treasurer
State of Michigan,
Department of Treasury
Treasury Building
P.O. Box 15128
Lansing, MI 48901

MAR 29 1968

- A = the purchaser of a tuition contract
- B = the individual designated to receive the educational benefits described in a tuition contract
- C = the individual designated to received the refund benefits described in a tuition contract
- State X = Michigan
- Trust = the Michigan Education Trust

Dear Mr. Bowman:

This is in reply to a ruling request, submitted on behalf of State X, on the federal tax consequences of a college tuition prepayment program.

FACTS

State X has enacted legislation providing for a state-created corporation (Trust) to implement and administer a college tuition prepayment program. The program provides a choice of two plans for the payment of tuition. The substance of these two plans is described below.

Plan 1

Under the plan, A, an individual, makes a current payment to Trust, and in return, Trust contracts to arrange for four years of educational services at a State X public educational institution, or at a private educational institution within State X, for an irrevocably designated beneficiary, B, when B matriculates. The contract provides, however, that upon the occurrence of certain specified events a cash refund of the up-front payment, less an administrative fee, will be made to C, a person irrevocably designated by A at the time the contract is executed. B and C are related to A and the natural objects of A's affection. It is

Robert A. Bowman

(3) Has A made a completed gift of the up-front payment for federal gift tax purposes at the time the tuition contract is purchased? If the purchase of the contract results in a completed gift, is the transfer excluded from the application of the gift tax under section 2503(e)(2)(A) of the Code as an amount paid as tuition to a qualifying educational organization? If the purchase results in a completed gift and is not excluded from gift tax liability under section 2503(e)(2)(A), does the transfer nevertheless qualify as a gift of a present interest in property eligible for the \$10,000 annual exclusion provided in section 2503(b)?

LAW. RATIONALE AND CONCLUSIONS (Plan 1 and Plan 2)

ISSUE 1

Section 61 of the Code provides that gross income means all income from whatever source derived. Section 1.61-1 of the Income Tax Regulations, in part, provides that gross income includes income realized in any form, whether in money, property, or services. Gross income can be realized in the form of the receipt of educational services. See Fulton v. Commissioner, T.C.M. 1983-17.

Gross income is defined to encompass all "accessions to wealth, clearly realized, and over which the taxpayers have complete dominion." Commissioner v. Glenshaw Glass Co., 348 U.S. 426, 431 (1955), 1955-1 C.B. 207, 209. Property rights will not become gross income subject to taxation until a gain is clearly realized. Eisner v. Macomber, 252 U.S. 189 (1920), 3 C.B. 25.

Section 102 of the Code provides that gross income does not include the value of property acquired by gift. A transfer of property is excludable from income by the recipient as a gift if the property is transferred out of a detached and disinterested generosity. Commissioner v. Duberstein, 363 U.S. 278 (1960), 1960-2 C.B. 428.

When A executes the contract with Trust and designates B and C, both B and C realize an accession to wealth. Because the contract rights (property) are transferred out of a detached and disinterested generosity, however, the transfer constitutes a gift for income tax purposes and is thus excludable from B's and C's gross income. See section 102 and Duberstein. Neither A nor B nor C will be considered actually or constructively to be in receipt of income at the time the contract is entered into between A and the Trust.

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

Internal Revenue Service
Index Nos.: 0061-0000
0115-0000
2503-0000

Department of the Treasury

MAR 29 1988

Washington, DC 20224

Robert A. Bowman, Treasurer
State of Michigan,
Department of Treasury
Treasury Building
P.O. Box 15128
Lansing, MI 48901

MAR 29 1988

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Robert A. Bowman

represented that under the law of State X a parent is not under a legal obligation to provide a college education.

A cash refund only will be made if (1) B dies, (2) B is denied admission to a State X public educational institution, (3) B certifies that he or she has reached the age of 18 and will not attend a college or university, or (4) the tuition prepayment program administered by Trust is determined to be actuarially unsound. Refunds generally will be paid in four equal, annual installments. No refund will be provided if a beneficiary has completed more than one half the credit hours required by a State X educational institution for a bachelor's degree.

Trust is operated autonomously by a board of directors, and the board's decisions, including those involving investment discretion, may not be overridden by any state agency. The board consists of the Treasurer of State X and eight other persons appointed by the Governor of State X and approved by its legislature. The State X enabling legislation provides that funds collected by Trust are not subject to the claims of the creditors of State X and are not considered the money or common cash of State X. State X may not loan, transfer, or use Trust's funds for any purpose. Trust's funds may only be used for the tuition payment or refund purposes expressly provided in the enabling legislation. Income earned and property held by Trust are exempt from taxation under the laws of State X.

Plan 2

The facts are the same as in Plan 1, except that the plan provides for a cash refund that may be substantially in excess of A's up-front payment. The amount of the excess will be determined by an index tied to the increase in tuition costs of various State X institutions of higher education. The beneficiary may also attend an out-of-state educational institution for which State X will make a payment based on the same index as the refund computation.

ISSUES

(1) Is the excess of the fair market value of the educational services (or the cash refund) when received under the contract over the payment for the contract includible in the gross income of the beneficiary, B (or the refund designee, C), under section 61 of the Internal Revenue Code?

(2) Is the income of Trust, earned during the administration of the program, excludable from gross income as income earned by an integral part of State X or as income derived from the exercise of an essential governmental function that accrues to a state under section 115 of the Code?

Robert A. Bowman

(3) Has A made a completed gift of the up-front payment for federal gift tax purposes at the time the tuition contract is purchased? If the purchase of the contract results in a completed gift, is the transfer excluded from the application of the gift tax under section 2503(e)(2)(A) of the Code as an amount paid as tuition to a qualifying educational organization? If the purchase results in a completed gift and is not excluded from gift tax liability under section 2503(e)(2)(A), does the transfer nevertheless qualify as a gift of a present interest in property eligible for the \$10,000 annual exclusion provided in section 2503(b)?

LAW, RATIONALE AND CONCLUSIONS (Plan 1 and Plan 2)

ISSUE 1

Section 61 of the Code provides that gross income means all income from whatever source derived. Section 1.61-1 of the Income Tax Regulations, in part, provides that gross income includes income realized in any form, whether in money, property, or services. Gross income can be realized in the form of the receipt of educational services. See Fulton v. Commissioner, T.C.M. 1983-17.

Gross income is defined to encompass all "accessions to wealth, clearly realized, and over which the taxpayers have complete dominion." Commissioner v. Glenshaw Glass Co., 348 U.S. 426, 431 (1955), 1955-1 C.B. 207, 209. Property rights will not become gross income subject to taxation until a gain is clearly realized. Eisner v. Macomber, 252 U.S. 189 (1920), 3 C.B. 25.

Section 102 of the Code provides that gross income does not include the value of property acquired by gift. A transfer of property is excludable from income by the recipient as a gift if the property is transferred out of a detached and disinterested generosity. Commissioner v. Duberstein, 363 U.S. 278 (1960), 1960-2 C.B. 428.

When A executes the contract with Trust and designates B and C, both B and C realize an accession to wealth. Because the contract rights (property) are transferred out of a detached and disinterested generosity, however, the transfer constitutes a gift for income tax purposes and is thus excludable from B's and C's gross income. See section 102 and Duberstein. Neither A nor B nor C will be considered actually or constructively to be in receipt of income at the time the contract is entered into between A and the Trust.

Robert A. Bowman

Although the receipt of property by B and C is excludable from their gross income under section 102, that section has no application to income (including gain) realized from such property subsequent to its receipt. See section 1.102-1(a) of the regulations. Thus, to the extent that the fair market value of the educational services received by B, or any cash refund received by C, under the contract exceeds B's or C's basis in the property received by gift from A, either B or C will realize a further accession to wealth and thus gross income. Neither A nor B nor C, however, will be considered actually or constructively to be in receipt of income at any time between the date on which the contract is purchased by A and the date on which either B receives educational services or C receives a cash refund. A will not be considered actually or constructively to be in receipt of income when either B receives educational services or C receives a cash refund. Accordingly, A will not realize income as a result of his or her involvement in the program as the purchaser of a contract. (If A designates himself or herself as the beneficiary of the educational services or the cash refund, then the income tax consequences to A will be the same as the consequences to B or C).

To determine the amount of gross income realized by either B or C, the basis in the property must be determined.

Section 1012 of the Code provides that generally the basis of property shall be the cost of such property.

Section 1015(a) of the Code provides that generally the basis of property acquired by gift is the same as it would be in the hands of the donor (a substituted basis).

B's basis in the property is the substituted basis of A, which is A's cost of (payment for) that contract. Because the State X tuition prepayment program is generally designed to provide for educational services over a four-year period, B's basis must be recovered annually over the four-year period during which B receives educational services. See section 1.61-6 of the regulations. Thus, when Trust provides educational services for B at the beginning of a school year, B must recognize income to the extent that the fair market value of the educational services to be received for that school year exceeds one quarter of B's basis.

If a refund is received by C, C will realize gross income to the extent that the amount refunded exceeds the allocable portion of C's basis. C's basis in the property is the substituted basis of A. Thus, assuming a one-year tuition installment is refunded to C, then one quarter of C's substituted basis is subtracted from such refund to determine the amount of the refund includible in C's gross income.

Robert A. Bowman

ISSUE 2

Income earned by an integral part of a state or a political subdivision of a state is generally not taxable in the absence of specific statutory authority for taxing such income. See Rev. Rul. 87-2, 1987-2 I.R.B. 4, holding that a trust account fund created, supervised, and controlled by a state Supreme Court is an integral part of a state and is therefore not subject to federal income tax.

Trust was created as a corporation to operate independently from State X under an appointed board of directors. Decisions by Trust's board of directors, including those involving investment discretion, may not be overridden by any state agency. Trust's funds are not derived from State X or one of its political subdivisions, and by statute are not subject to the claims of State X creditors and are not considered state money or common cash of the state. State X may not loan, transfer, or use Trust's funds for any purpose. Trust's funds may only be used by Trust for the tuition payment or refund purposes expressly provided in the enabling legislation. These factors indicate that Trust is not an integral part of State X or one of its political subdivisions. Therefore, Trust's income, unless otherwise excluded by statute, is subject to federal income tax.

Section 115(1) of the Code provides, in part, that gross income does not include income derived from the exercise of any essential governmental function that accrues to a state or any political subdivision of a state.

To qualify under section 115, it must be established that the income does not serve private interests such as designated individuals, shareholders of organizations, or persons controlled, directly or indirectly by such private interests. Thus, even if the income serves a public interest, the requirements of section 115 are not satisfied if the income also serves a private interest that is not incidental to the public interest. The basic principle underlying section 115 is that property (including any income thereon) must be devoted to purposes which are considered beneficial to the community in general, rather than particular individuals.

Trust provides B with a direct economic benefit in the form of education the value of which is expected to be substantially in excess of the up-front payment. Moreover, this benefit is available only to those persons such as B who are beneficiaries of a contract. Thus, the requirements of section 115 are not satisfied and the income of Trust, earned during administration of

Robert A. Bowman

the program, is not excludable from its gross income. However, payments made under the contract entered into between A and Trust, and any contributions that State X might make to Trust, are excludable from the gross income of Trust.

ISSUE 3

Section 2501(a)(1) of the Code imposes a tax on the transfer of property by gift.

Section 2511(a) of the Code provides that the federal gift tax shall apply whether a transfer is in trust or otherwise, whether the gift is direct or indirect, and whether the property is real or personal, tangible or intangible.

Section 25.2511-1(h)(3) of the Gift Tax Regulations provides the following example regarding the indirect transfer of property.

The payment of money or the transfer of property to [X] in consideration of [X's] promise to render a service to [Y] is a gift to [Y], or to both [X] and [Y], depending on whether the service to be rendered to [Y] is or is not an adequate and full consideration in money or money's worth for that which is received by [X].

Section 25.2511-2(b) of the regulations provides that a gift becomes complete, and thus subject to the gift tax, at such time as the donor has so parted with dominion and control as to leave the donor no power to change the disposition of the transfer.

A transfers money to Trust in consideration for Trust's promise to provide, at some future time, educational services on behalf of B or a cash refund to C. Because the designations of B and C are irrevocable, A parts with dominion and control over the money transferred to Trust. Thus, there is a completed gift for federal gift tax purposes at the time the contract is purchased. See section 25.2511-2(b) of the regulations.

Section 2503(e)(2)(A) of the Code excludes from the application of the gift tax any amounts paid on behalf of an individual as tuition to an educational organization described in section 170(b)(1)(A)(ii) for the education or training of such individual. An educational organization described in section 170(b)(1)(A)(ii) is an organization which normally maintains a regular faculty and curriculum and normally has a regular enrolled body of pupils or students in attendance at the place where its educational activities are regularly carried on. Section 25.2503-6(b)(2) of the regulations.

Robert A. Bowman -

Section 25.2503-6(b)(2) of the regulations further provides that to qualify for the gift tax exclusion under section 2503(e)(2)(A), the payment must be made directly to an educational organization. The determination of whether a transfer constitutes a payment of tuition made directly to an educational organization is made when the gift becomes complete for gift tax purposes.

Section 25.2503-6(c), Example 2, of the regulations considers a situation where a donor makes a completed gift of property to a trust, the terms of which require the funds to be used for tuition expenses incurred by the donor's grandchildren. The example concludes that the completed gift is not a direct transfer to an educational organization and therefore does not qualify for the section 2503(e)(2)(A) exclusion.

Although the payment made by A to Trust is a completed gift, Trust is not an educational organization within the meaning of section 2503(e)(2)(A) of the Code. Thus, the payment by A to Trust is not excluded from the application of the gift tax under section 2503(e)(2)(A).

Section 2503(b) of the Code excludes from the application of the gift tax the first \$10,000 of gifts of present interests in property made to any person during the calendar year. An interest constitutes a present interest in the transferred property only if the beneficiary is entitled to an unrestricted right to the immediate use, possession, or enjoyment of the property under the terms of the transfer. See section 25.2503-3(b) of the regulations.

B's or C's use or enjoyment of the payment made to Trust by A will be delayed until such time as Trust provides educational services for B, or until such time as a refund is made to C. Therefore, A's payment does not constitute a gift of a present interest in property, and is not eligible for the \$10,000 annual exclusion under section 2503(b) of the Code.

The above conclusions are based solely on the facts and the representation set forth above. Also, except as specifically ruled upon above, no opinion is expressed regarding the federal tax consequences of the transaction described above under any other provisions of the Code.

Robert A. Bowman

In accordance with the power of attorney on file in this office, we are sending a copy of this ruling to your authorized representative.

Sincerely,

Mario E. Lombardo

Mario E. Lombardo
Director, Individual Tax Division

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: Alaska Education Trust Fund
Sponsor: Kerttula and Kelly
Requestor: Senate Rules

Agency Affected: University of Alaska
BRU: Statewide Programs and Services
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	62.4	62.4	62.4	62.4	62.4	62.4
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	62.4	62.4	62.4	62.4	62.4	62.4

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND	62.4	62.4	62.4	62.4	62.4	62.4
FEDERAL FUNDS						
OTHER						
TOTAL	62.4	62.4	62.4	62.4	62.4	62.4

POSITIONS:

FULL-TIME	1	1	1	1	1	1
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Personal services include one professional position at range 79.

Prepared by: *Arliiss Sturgulewski* Phone: 465-3818
Division: Senator Arliiss Sturgulewski Date: Feb. 1, 1990
Chair, Senate Rules Committee

Approved by Commissioner: _____ Date: _____
Agency: _____

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

) Changes in CSSB 136 (2nd Rules)
have no fiscal impact.
This fiscal note is
appropriate. *MEL*

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: Alaska education trust fund

Agency Affected: Dept. of Revenue
BRU: Treasury

Sponsor: Sen. Kerttula
Requestor: Senate Rules

Components: _____

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	45.0	84.0	127.0	174.0	235.0	299.0
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
TOTAL OPERATING	45.0	84.0	127.0	174.0	235.0	299.0

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	45.0	84.0	127.0	174.0	235.0	299.0
TOTAL	45.0	84.0	127.0	174.0	235.0	299.0

POSITIONS:

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

ANALYSIS : (Attach a separate page if necessary)

) Changes in CSSB 136 (2d Rules)
have no fiscal impact.
This fiscal note is
appropriate. *MSK*

Prepared by: *Arless Sturgulewski*
Division: Senator Arless Sturgulewski
Chair, Senate Rules Committee

Phone: 465-3818
Date: Feb. 1, 1990

Approved by Commissioner: _____ Date: _____
Agency: _____

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

**Alaska Education Trust Fund
Investment Management Expenses**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	(\$ Millions)						(\$000)				
Fiscal Year	Beginning Balance	Permanent Fund Dividends	Contributions	Average Balance	Earnings	Ending Balance	Securities Safekeeping Fees	Common Stock Management Fees	Performance Measurement Fees	Audit	Total Fees
FY90	0	460	23	14	1	24	1	22	12	10	45
FY91	24	477	24	39	3	51	2	60	12	10	84
FY92	51	471	24	66	5	80	3	102	12	10	127
FY93	80	466	23	95	8	111	5	147	12	10	174

Notes:

1. Column 6, prior year
2. From "Revenue Sources," Fall 1988, Department of Revenue
3. 5% of Column 2, assuming 5% participation by dividend recipients; initial participation in a similar Florida program was .37% of the population
4. Column 1 + (7.5/12)(Column 3) assuming transfer to trust fund occurs on average on November 15; also assumes no payouts during first four years of the program
5. 8% x Column 4
6. Column 1 + column 3 + Column 5
7. Column 4 x 5.25%/1000 per contract
8. Column 4 x .31% per contract x 50% asset allocation to common stocks
9. Per contract
10. Treasury Division estimate
11. Columns 7 + 8 + 9.

2 of 2

2 of 2

FISCAL NOTE

REQUEST

Revision Date: April 25, 1990
Title: An Act establishing the Alaska
education trust fund
Sponsor: KERTTULA, Kelly, et al
Requestor: House Finance

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
OPERATING						
PERSONAL SERVICES	24.1	11.9	11.9	11.9	11.9	11.9
TRAVEL	-0-	-0-	-0-	-0-	-0-	-0-
CONTRACTUAL	15.9	15.9	15.9	15.9	15.9	15.9
SUPPLIES	0.2	0.2	0.2	0.2	0.2	0.2
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	40.2	28.0	28.0	28.0	28.0	28.0
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-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 (PFD)	40.2	28.0	28.0	28.0	28.0	28.0
TOTAL	40.2	28.0	28.0	28.0	28.0	28.0

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME	3	2	2	2	2	2
TEMPORARY	-0-	-0-	-0-	-0-	-0-	-0-

ANALYSIS: See Attached.

Prepared By: Ervin Jones
Division: Permanent Fund Dividend Division

Phone: 465-2323
Date: April 25, 1990

Approved by Commissioner: _____
Agency: Revenue

Date: April 25, 1990

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

FISCAL NOTE

REQUEST

Revision Date: February 5, 1990
Title: An Act establishing the Alaska education trust fund
Sponsor: Kerttula and Kelly, Sturgulewski
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
OPERATING						
PERSONAL SERVICES	24.1	11.9	11.9	11.9	11.9	11.9
TRAVEL	-0-	-0-	-0-	-0-	-0-	-0-
CONTRACTUAL	5.0	5.0	5.0	5.0	5.0	5.0
SUPPLIES	0.2	0.2	0.2	0.2	0.2	0.2
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	29.3	17.1	17.1	17.1	17.1	17.1
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-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	29.3	17.1	17.1	17.1	17.1	17.1
TOTAL	29.3	17.1	17.1	17.1	17.1	17.1

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME	3	2	2	2	2	2
TEMPORARY	-0-	-0-	-0-	-0-	-0-	-0-

ANALYSIS: See Attached.

Prepared By: Ervin Jones
Division: Permanent Fund Dividend Division

Phone: 465-2323
Date: February 5, 1990

Approved by Commissioner: [Signature]
Agency: Revenue

Date: Feb. 5, 1990

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

S B

L B Y

DATE: 3/22/90

Senate Committee Report

FURTHER:

DATE TURNED INTO OFFICE: 4/6/90

The Finance Committee considered

SB 137

Commercial vehicle driver licensing.

and recommended:

- replace with _____ CS SB 137 (Finance)
- or adopt _____ CS _____
- attached amendment(s)
- _____ letter of intent adopted

- same title
- new title
- technical title change (HB only)

do pass

do not pass

no recommendation

individual recommendations

further referral to _____

ATTACHES NEW FISCAL NOTE(S):

Dept/Date:

fiscal note(s) DPS 3/28/90
60.0 FF / 553.3 PR = 613.3
695.0 REVENUE

zero fiscal note(s) DDT/PF 3/6/89

APPROVES PREVIOUS:

Dept/Date:

fiscal note(s) _____

zero fiscal note(s) _____

appropriation-no fiscal note

SIGNING DO PASS:

John Uley (Do Pass)

OTHER RECOMMENDATIONS:

NO REC
FREE LICENSE - NO REC
Dot Link (No Rec)

1. John Bide Do NOT PASS 2. _____

NEW CoChairs: Signatures and Recommendations

ANOTHER 7 STATE EMPLOYEES - REMEMBER

THAT WHEN YOU GO BACK HOME & TALK TO THE CHAMBER OF COMMERCE!

STATE OF ALASKA
1989 LEGISLATIVE SESSION

R/O SFC 4-6-90
BILL VERSION: CS SB 137 (SA) (a)
PUBLISH DATE: 3/22/90

REQUEST: FISCAL NOTE

Revision Date:
Title: An Act relating to commercial vehicle
driver licensing

Agency Affected: DOT&PF
BRU:

Sponsor:
Requestor:

Components:

EXPENDITURES/REVENUES: (THOUSANDS OF DOLLARS)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTURAL	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
TOTAL OPERATING	0	0	0	0	0	0

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	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: This bill establishes a requirement for a holders of commercial drivers licenses to include their social security number in order that these persons may be cross referenced by other states. The Federal Highway Administration has mandated that the states failing to comply with the Commercial Driver License Program by October 1993 be subject to a 5% forfeiture of federal-aid, increasing to 10% the following and subsequent years.

Prepared by: Jeffery C. Olesen
Division: Engineering and Operations Standards

Phone: 465-2951
Date: February 22, 1989

Approved by Commissioner: *[Signature]*
Agency: Department of Transportation and Public Facilities

Date: 3/6/89

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

Changes in CS SB 137 (Fin)
have no fiscal impact. This
fiscal note is appropriate.
Projections of no fiscal impact
would continue through 1996.

4/6/90 *[Signature]* page 1 of 1

R/O SFC 4-6-90

STATE OF ALASKA
1990 LEGISLATIVE SESSION

BILL VERSION CS SB 137 (SA)(b)
PUBLISH DATE: 3/22/90

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: Public Safety
Title: Commercial vehicle driver BRU: Motor Vehicles
licensing
Sponsor: Governor/Senate Rules Component: Driver Services, Field
Requestor: Senate State Affairs Services

EXPENDITURES/REVENUES: (Thousands of Dollars) (Inflation not included)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	153.1	239.7	239.7	239.7	239.7	239.7
TRAVEL	16.8	16.8	14.3	14.3	14.3	14.3
CONTRACTUAL	66.4	44.5	16.3	16.3	16.3	16.3
SUPPLIES	2.0	.5	.5	.5	.5	.5
EQUIPMENT	180.0	1.0	1.0	1.0	1.0	1.0
LAND & STRUCTURES	195.0	195.0	97.5	97.5	97.5	97.5
GRANTS, CLAIMS	-0-	-0-	-0-	-0-	-0-	-0-
MISCELLANEOUS	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL OPERATING	613.3	497.5	369.3	369.3	369.3	369.3

CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
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REVENUE	695.0	695.0	287.5	287.5	287.5	687.5
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FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	-0-	81.8	81.8	81.8	-0-
FEDERAL FUNDS	60.0	71.0	-0-	-0-	-0-	-0-
OTHER/PROG RCPT	553.3	426.5	287.5	287.5	287.5	-0-
TOTAL	613.3	497.5	369.3	369.3	369.3	369.3

POSITIONS:

FULL-TIME	7	7	7	7	7	7
PART-TIME	-0-	-0-	-0-	-0-	-0-	-0-
TEMPORARY	-0-	-0-	-0-	-0-	-0-	-0-

ANALYSIS: (Attach a separate page if necessary)

(See attached)

Changes in CSSB 137 (Fin) have no fiscal impact. This fiscal note is appropriate. 4/6/90 maw

Prepared by: Jay Dulany
Division: Motor Vehicles

Phone: 265 551
Date: 02/28/90

Approved by Commissioner: Arthur English
Agency: Department of Public Safety

Date: 2-28-90
page 1 of 15

Handwritten initials and date:
2/28/90

Current Alaska law [AS 28.15.041 (c)] requires issuance of a driver's license for operation of commercial motor vehicles. This section has never been implemented due to lack of funding. However, the federal Commercial Motor Vehicle Safety Act (CMVSA) of 1986 now requires all states to have uniform commercial driver licensing systems which include knowledge and road tests for the size and configuration of commercial vehicle to be operated. The main purpose of SB 137 is to reword current Alaska law to bring the State into compliance with the Federal CMVSA of 1986.

The development of a Commercial Driver License (CDL) Program in Alaska is now in the planning process. This fiscal note is based on the best possible estimate of numbers of persons who will need to be examined prior to issuance of a license to operate a commercial motor vehicle. Start-up year (FY91) figures for this fiscal note reflect full costs for equipment, which will not carry forward to the following years. Staff will be hired several months into FY91.

—Staff—

Six Motor Vehicle Representative IIIs (MVR IIIs) are necessary to carry out the CDL testing and licensing activities. Plans are to begin hiring the MVR IIIs in November 1990 to allow two months' training and orientation time prior to the planned testing and licensing start-up date of January 1, 1991. These MVR IIIs need to be experienced in licensing procedures and law as well as trained in the highly specialized area of testing in a variety of commercial vehicles.

In order to maintain uniformity in testing procedures, examiner training is being provided at the national level, with two representatives from each state attending the two-week sessions. These representatives, in turn, will return to their home states to conduct training workshops with the MVR IIIs who will be doing the hands-on skills tests. These representatives and their in-state trainers will need adequate travel funds to conduct the necessary training.

The increased volume of licenses that will be issued will greatly affect the records management workload. An additional staff member, a Documents Processing Clerk II, will need to be hired at the start-up of the testing and licensing program to perform this function and additional requirements in regard to the exchange of records among states.

—Testing—

Three separate classes of commercial licenses and six different endorsements will be issued. The CDL basic knowledge test is estimated to require up to an hour to complete. Additionally, specialized tests of lesser duration are required for the six endorsements: double/triple trailer, tank vehicle, hazardous material, passenger vehicle, school bus, and hazardous materials in a tank vehicle. To expedite administration of the knowledge tests, many states are using Automated Testing Devices, in which traffic situations are simulated on a video screen and multiple choice answers are selected on a keyboard. Alaska now has these test machines, but CDL testing requirements have created a need for more

sophisticated machines, plus monitors for scoring purposes. These test machines will save valuable examiner time which will be already over-taxed by the lengthy and complex skills test.

The road test requires about 1 and 1/2 hours to administer, provided that highway conditions to perform the requisite maneuvers can be found within a reasonable proximity. Additional land areas will be needed to conduct off-road maneuvers, and in some areas structures, such as loading docks, will need to be constructed, rented, or simulated. The minimal number of land areas needed to provide any reasonable convenience to driver applicants is ten sites of approximately 1/2 football field in size.

—Costs—

The Division of Motor Vehicles (DMV) estimates approximately 10,000 drivers statewide will need to be licensed by the federally-mandated deadline of April 1992. This requires placing DMV staff in key geographic areas (Anchorage, Fairbanks, Soldotna, Juneau, and Mat-Su) and periodic testing/monitoring trips to outlying areas in these regions. The CDL tests are demanding, and it is anticipated that many drivers will need retesting before they pass. California began its testing program January 1, 1989; the initial failure rate on both the skills and knowledge test was 57 percent.

To help cover costs of planning and implementing the CDL Program, the federal government has provided some grant monies to each state. Some of these monies have been reflected in the operating budget, and the remainder is reflected in this fiscal note.

Although implementing the CDL Program will require approximately \$600,000 to start up, and over half that much to maintain, the penalty for noncompliance is the forfeiture of five percent (for Alaska about \$6.1 million) of a state's federal highway funds the first year and ten percent for every year of noncompliance thereafter. Implementation will also make our highways safer for the general motoring public.

—Revenues—

Using the current license fee structure, unrestricted revenues for the first two years of issuing commercial licenses are expected to average \$30,000 annually (5,000 licenses/year x \$10.00/license). Unrestricted revenues for ensuing years are expected to bring in \$10,000 annually (1,000 new licenses/year x \$10.00/license).

The DMV believes that commercial driver license fees should be raised to a level that would fund this program. If commercial driver license fees were increased to \$100.00/license, the revenues for the first two years of issuing commercial licenses would average \$500,000 annually (5,000 licenses/year x \$100.00/license). Revenues for ensuing years would then bring in \$100,000 annually (1,000 new licenses/year x \$100.00/license). Renewals of CDLs five years after the initial licensing (FY96) will bring in additional revenues. The higher license fees would be consistent with what other states are charging, and is still for less than the State currently charges for licenses in other professions.

In addition to the \$100.00 fee for the CDL, a \$25.00 fee for the skills test will need to be assessed because the test is so time-consuming and in many cases will need to be attempted more than once. The DMV intends to "grandfather" all qualified drivers through the skills test, but estimates approximately 1,500 drivers per year will remain to be tested in each of the first two years of issuing commercial licenses. This would amount to an additional \$37,500 annually in revenues for each of those first two years (1,500 skills tests/year x \$25.00/test). Revenues for ensuing years would then bring in \$22,500 (900 skills tests/year x \$25.00/test).

Since driver license activity is increasing at all of the licensing offices, the DMV believes there is a need to assess skills test fees for all driver applicants. Those seeking a license to drive a private automobile, light truck or motorcycle would be assessed \$15.00/test for the 30-45 minute test. An estimated 10,500 regular skills tests would be administered during each of those first two start-up years. This would bring in an additional \$157,500 in revenues for each of those two years (10,500 regular skills tests/year x \$15.00/skills test). Revenues for ensuing years would then bring in \$165,000 (11,000 regular skills tests/year x \$15.00/test), since it is anticipated the number of new drivers seeking licenses will increase.

Part of the increase in revenue indicated above will be used as program receipts to fund the program.

REVENUE SUMMARY, Fiscal note
SB 137 (Draft CS)
Page 5 of 15

—Revenues—

FY91/92

5,000 CDL's @ \$100/ea	\$500,000
1,500 CDL skills testes @ \$25/ea	37,500
10,500 regular skills tests @ \$15/ea	<u>157,500</u>
Total	\$695,000

FY93/94/95

1,000 CDL's @ \$100/ea	\$100,000
300 CDL skills tests @ \$25/ea	22,500
11,000 regular skills tests @ \$15/ea	<u>165,000</u>
Total	\$287,500

FY96

5,000 CDL's @ \$100/ea	\$500,000
900 CDL skills tests @ \$25/ea	22,500
11,000 regular skills tests @ \$15/ea	<u>165,000</u>
Total	\$687,500

FY91 (July 1990-June 1991)

PERSONAL SERVICES \$153,105

1 Documents Processing Clerk II (6 months) \$15,117
Step A)

6 Motor Vehicle Representative IIIs \$137,988
(Average of Steps A & B) (8 mos., 11/1/90-7/1/91)
1 Southeast (Juneau)
2 Anchorage
1 Fairbanks
1 Soldotna
1 Mat-Su

TRAVEL \$16,840

Examiner Training (3 staff to national training program;
local training in-State) \$13,640

Testing/Monitoring \$ 3,200
(3 trips/region/6 mos. to other DMV offices.)

CONTRACTUAL SERVICES \$66,400

Telephone/postage \$ 3,200

Liaison & Support Services \$10,000

Fall Marketing Campaign (1990) \$ 5,000

Printing (Tests, Manuals, license aps.) \$15,000

CDLIS user fees (5,000 records @\$4.00/record)
(1/1/91-6/30/91) \$20,000

Polaroid \$ 4,200
(5,000 licenses @\$0.83/license photo)

Truck rental for examiner training \$ 9,000

SUPPLIES \$2,000

EQUIPMENT \$180,000

Automated testing devices:
14 automated testing devices @ \$10,000 ea. \$140,000
5 master controls @ \$7,500 ea. \$ 37,500

(Automated testing devices are necessary for administration of the knowledge test in major offices.)

Office equipment (furnishings for 5 positions; desk, chair, file cabinet)	\$1,000
Miscellaneous	\$1,500
Eg., 32 parking cones (2-4 per each test site) @ approx. 16.00/ea	\$500
Other	\$1,000

LAND AND STRUCTURES \$195,000

Lease space for off-road testing; approx. 1/2 football
field in size at 10 sites statewide for 2 days/week. \$195,000

TOTAL \$613,345

FY92 (July 1991-June 1992)

<u>PERSONAL SERVICES</u>		<u>\$239,666</u>
1 Documents Processing Clerk II (Average of Steps A & B)	\$30,593	
6 Motor Vehicle Representative III's (Average of Steps A & B)	\$209,073	
1 Southeast (Juneau)		
2 Anchorage		
1 Fairbanks		
1 Soldotna		
1 Mat-Su		
<u>TRAVEL</u>		<u>\$16,800</u>
In-service training	\$10,000	
Testing/Monitoring (6 trips/region/year to other DMV offices)	\$6,400	
Mileage	400	
<u>CONTRACTUAL SERVICES</u>		<u>\$44,500</u>
Liaison & Support Services	\$10,000	
Public Information	\$5,000	
Printing (Tests & Manuals)	\$5,000	
Commercial Driver License Information System (CDLIS) user fees, 5,000 records @\$4.00/record	\$20,000	
Polaroid, 5,000 licenses @ \$.90/document	\$4,500	
<u>SUPPLIES</u>		<u>\$ 500</u>
<u>EQUIPMENT</u>		<u>\$1,000</u>
<u>LAND AND STRUC. INTRES</u>		<u>\$195,000</u>
<u>TOTAL</u>		<u>\$497,466</u>

FY93 and future fiscal years

<u>PERSONAL SERVICES</u>		<u>\$239,666</u>
1 Documents Processing Clerk II (Average of Steps A & B)	\$30,593	
6 Motor Vehicle Representative IIIs (Average of Steps A & B)	\$209,073	
2 Southeast (Juneau, Ketchikan)		
4 Anchorage		
2 Fairbanks		
1 Kenai		
1 Mat-Su		
<u>TRAVEL</u>		<u>\$14,300</u>
In-service training	\$7,500	
Testing/Monitoring (6 trips/region/year to other DMV offices)	\$6,400	
Mileage	400	
<u>CONTRACTUAL SERVICES</u>		<u>\$16,280</u>
Liaison & Support Services	\$5,000	
Public Information	\$2,000	
Printing (Tests & Manuals)	\$5,000	
CDLIS user fees, 200 records @\$4.00/record	\$800	
Polaroid, 200 licenses @ \$.90/ license document	\$180	
Training—1 week, trainer and truck time	\$3,300	
<u>SUPPLIES</u>		<u>\$500</u>
"		
<u>EQUIPMENT</u>		<u>\$1,000</u>
<u>LAND AND STRUCTURES</u>		<u>\$97,500</u>
<hr/>		
<u>TOTAL</u>		<u>\$369,246</u>

Position Title Motor Vehicle Representative III		No. of Positions 1	Range/Step 10A	Barg. Unit GGU
Time Status Perm. FT	Staff Months 8	Location Jureau		Election District 4
Type of Expenditure		Justification		
		This position will administer road tests and knowledge examinations to drivers of highly specialized classes of commercial vehicles. The MVR III will conduct the road tests in the type of commercial vehicle which the driver will be operating under the license for which he is applying. Three classes of commercial licenses will be issued with six additional endorsements. The MVR III will be thoroughly familiar with the operation of the vehicles for which these licenses and endorsements will be issued.		
Amount		Pertinent facts related to the testing and licensing procedure include:		
1	2	3		
Salary*	22,020	////////////////////	The basic road test and pre-trip inspection require 1.5 hours to administer.	
Benefits*	11,324	////////////////////	10,000 drivers will need to be licensed by April 1992.	
Premium Pay (Included in Above)	////////////////////	////////////////////	The first state to conduct commercial driver tests had a failure rate of 57%, necessitating extensive retesting.	
Other	////////////////////	////////////////////	The MVR III will also conduct vehicle safety inspections prior to administering the road test. After the test has been completed, the MVR III will determine whether applicants should receive operator's licenses and any endorsements for which they are applying.	
Total Personal Services	////////////////////	22,007	In addition to testing and licensing duties, the MVR III also monitors quality control and error correction in the administration of these duties. Inquiries from citizens and public agencies regarding commercial driver's licenses and safety will be responded to by the MVR III where appropriate.	
Travel		2,473		
Contractual		1,200		
Commodities		182		
Equipment		1,000		
Other		-0-		
Total Cost		26,862		
Funding Source for Total Cost				
Federal Receipts	1002	-0-		
G.F. Match	1003	-0-		
General Fund	1004	26,862		
Program Receipts/GF	1005	-0-		
I-A Receipts	1007	-0-		
CIP Receipts	1061	-0-		
Other		-0-		
* Personal Services Salary and Benefits Costs are from PACS.				

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Position Title Motor Vehicle Representative III		No. of Positions 2	Range/Step 10B	Barg. Unit GGU
Time Status Perm. FT	Staff Months 2 positions @ 8 months each = 16	Location Anchorage		Election District 7-15
Type of Expenditure		Justification		
Amount		This position will administer road tests and knowledge examinations to drivers of highly specialized classes of commercial vehicles. The MVR III will conduct the road tests in the type of commercial vehicle which the driver will be operating under the license for which he is applying. Three classes of commercial licenses will be issued with six additional endorsements. The MVR III will be thoroughly familiar with the operation of the vehicles for which these licenses and endorsements will be issued.		
1	2	3		
Salary*	45,532	////////////////////		
Benefits*	23,025	////////////////////		
Premium Pay (Included in Above)	////////////////////	////////////////////		
Other	////////////////////	////////////////////		
Total Personal Services	////////////////////	45,181		
Travel		4,946		
Contractual		2,400		
Commodities		364		
Equipment		2,000		
Other		-0-		
Total Cost		54,891		
Funding Source for Total Cost				
Federal Receipts	1002	-0-		
G.F. Match	1003	-0-		
General Fund	1004	54,891		
Program Receipts/GF	1005	-0-		
I-A Receipts	1007	-0-		
CIP Receipts	1061	-0-		
Other		-0-		
* Personal Services Salary and Benefits Costs are from PACS.		<p>Pertinent facts related to the testing and licensing procedure include:</p> <p>The basic road test and pre-trip inspection require 1.5 hours to administer. 10,000 drivers will need to be licensed by April 1992. The first state to conduct commercial driver tests had a failure rate of 57%, necessitating extensive retesting.</p> <p>The MVR III will also conduct vehicle safety inspections prior to administering the road test. After the test has been completed, the MVR III will determine whether applicants should receive operator's licenses and any endorsements for which they are applying.</p> <p>In addition to testing and licensing duties, the MVR III also monitors quality control and error correction in the administration of these duties. Inquiries from citizens and public agencies regarding commercial driver's licenses and safety will be responded to by the MVR III where appropriate.</p>		

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Position Title Motor Vehicle Representative III			No. of Positions 1	Range/Step 10B	Barg. Unit GGU
Time Status Perm. FT	Staff Months 8		Location Fairbanks		Election District 18-21
Type of Expenditure			Amount		
1	2	3			
Salary*	25,620	////////////////////			
Benefits* 12,297	12,297	////////////////////			
Premium Pay (Included in Above)	////////////////////	////////////////////			
Other -0-	////////////////////	////////////////////			
Total Personal Services	////////////////////	25,025			
Travel		2,473			
Contractual		1,200			
Commodities		182			
Equipment		1,000			
Other		-0-			
Total Cost		29,880			
Funding Source for Total Cost					
Federal Receipts	1002	-0-			
G.F. Match	1003	-0-			
General Fund	1004	29,880			
Program Receipts/GF	1005	-0-			
I-A Receipts	1007	-0-			
CIP Receipts	1061	-0-			
Other		-0-			
* Personal Services Salary and Benefits Costs are from PACS.					

Justification
This position will administer road tests and knowledge examinations to drivers of highly specialized classes of commercial vehicles. The MVR III will conduct the road tests in the type of commercial vehicle which the driver will be operating under the license for which he is applying. Three classes of commercial licenses will be issued with six additional endorsements. The MVR III will be thoroughly familiar with the operation of the vehicles for which these licenses and endorsements will be issued.

Pertinent facts related to the testing and licensing procedure include:
The basic road test and pre-trip inspection require 1.5 hours to administer.
10,000 drivers will need to be licensed by April 1992.
The first state to conduct commercial driver tests had a failure rate of 57%, necessitating extensive retesting.

The MVR III will also conduct vehicle safety inspections prior to administering the road test. After the test has been completed, the MVR III will determine whether applicants should receive operator's licenses and any endorsements for which they are applying.

In addition to testing and licensing duties, the MVR III also monitors quality control and error correction in the administration of these duties. Inquiries from citizens and public agencies regarding commercial driver's licenses and safety will be responded to by the MVR III where appropriate.

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Position Title Motor Vehicle Representative III			No. of Positions 1	Range/Step 10B	Barg. Unit GGU
Time Status Perm FT	Staff Months 8		Location Kenai/Soldotna		Election District 5
Type of Expenditure			Justification		
		Amount	<p>This position will administer road tests and knowledge examinations to drivers of highly specialized classes of commercial vehicles. The MVR III will conduct the road tests in the type of commercial vehicle which the driver will be operating under the license for which he is applying. Three classes of commercial licenses will be issued with six additional endorsements. The MVR III will be thoroughly familiar with the operation of the vehicles for which these licenses and endorsements will be issued.</p> <p>Pertinent facts related to the testing and licensing procedure include:</p> <p>The basic road test and pre-trip inspection require 1.5 hours to administer.</p> <p>10,000 drivers will need to be licensed by April 1992.</p> <p>The first state to conduct commercial driver tests had a failure rate of 57%, necessitating extensive retesting.</p> <p>The MVR III will also conduct vehicle safety inspections prior to administering the road test. After the test has been completed, the MVR III will determine whether applicants should receive operator's licenses and any endorsements for which they are applying.</p> <p>In addition to testing and licensing duties, the MVR III also monitors quality control and error correction in the administration of these duties. Inquiries from citizens and public agencies regarding commercial driver's licenses and safety will be responded to by the MVR III where appropriate.</p>		
1	2	3			
Salary*	24,120	////////////////////			
Benefits*	11,892	////////////////////			
Premium Pay (Included in Above)	////////////////////	////////////////////			
Other -0-	////////////////////	////////////////////			
Total Personal Services	////////////////////	23,767			
Travel		2,473			
Contractual		1,200			
Commodities		182			
Equipment		1,000			
Other		-0-			
Total Cost		28,622			
Funding Source for Total Cost					
Federal Receipts	1002	-0-			
G.F. Match	1003	-0-			
General Fund	1004	28,622			
Program Receipts/GF	1005	-0-			
I-A Receipts	1007	-0-			
CIP Receipts	1061	-0-			
Other		-0-			
* Personal Services Salary and Benefits Costs are from PACS.					

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