Fund Source Report

1257 PFD Raffle Dividend Raffle Fund

Year Authorized	Year Repealed	Active?	Mental Health?	Duplicated?	Fund Group
2020		Yes	No	Yes	Other Designated

No Appropriations during last 10 years

Legal Authority
AS 43.23.230

Source of Revenue
25% of the money donated under the PFD raffle program plus earnings appropriated to the fund.

Restrictions on Use
The fund may be used to pay prizes (without further appropriation) and to pay administration and promotional costs up to two percent of the fund balance (not to exceed $500,000) annually. Year-end balances in excess of $300,000 are to be appropriated to the Education E0ndowment fund (1256). Total annual payout from the fund is limited to 15% of the balance.

Description and History
June 2018

Chapter 15, SLA 17 (HB 78)--incorporated into Chapter, 80, SLA 18 (HB 213)--allows PFD recipients to participate in a raffle/donation program by designating $100 portions of their PFDs.

The effective date of the bill is January 1, 2019 (mid-FY19), but the bill will first affect PFD applications from January 2019 through March 2019 for PFDs paid in October 2019 (FY20). Neither the amount of individual PFDs nor the amount designated for lottery/donation is likely to be known before the FY20 budget is completed.

Procceds from lottery entries is state revenue that cannot be spent without appropriation.

Proceeds should be classified as Statutory Designated Program Receipts (SDPR)--the bill clearly refers to raffle ticket purchases as donations to be used for specific purposes.
The donations go to three places:
1. The prize fund, AKA the Dividend Raffle Fund (25%)--Fund Code 1257;
2. The Education Endowment fund (25%)--Fund Code 1256; and
3. School districts (via supplemental grants issued by the Department of Education and Early Development (50%)--uses SDPR Fund Code 1108.

The FY20 budget should contain language to accomplish the following:

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1. Appropriate 25% of total FY20 donations to the Dividend Raffle Fund. This will be an open-ended fund capitalization using SDPR (1108). The fund will be a new allocation under fund capitalization. Although payment of prizes to individuals requires no further appropriation, administrative and promotional costs should be appropriated using code 1257, and are duplicated expenditures.
2. Appropriate interest and other income received during FY20 on money in the Dividend Raffle Fund to the raffle fund. This will be an open-ended fund capitalization using non-GF misc earnings (1217).
3. Appropriate not more than two percent of the fund balance (not to exceed $500,000) from the fund to cover the costs of administration and promotion (including $10,000 to the general fund to repay administrative costs incurred in FY19). The fund code should be the Dividend Raffle Fund (1257), which is a duplicated fund source.

No appropriation is necessary to pay prizes, the amounts of which cannot be determined until the amount of individual PFDs is determined in order to avoid a situation in which people choose to donate an amount larger than the PFD. Per AS 43.23.064(d), a prize drawing should occur in January of 2020 and each January thereafter. Prizes are based on the retained balance plus donations plus earnings through December 31 of each year.

While FY20 appropriations to the endowment fund and to K-12 are possible, it is preferable to lag appropriations for those purposes by one year. In the case of the endowment fund, no appropriations from the fund are anticipated for many years. In the case of supplemental appropriations for K-12, a lag in appropriations removes uncertainty from school district budgets.

Assuming these two appropriations begin in FY21, they will involve the following actions:
1. For the 50% that supplements the foundation formula: an appropriation (equal to 50% of prior year donations) to a new allocation in the K-12 Aid to School Districts appropriation. A new allocation will enable the budget system to track supplemental funding from the lottery. This will be a direct appropriation of SDPR to the new allocation.
2. For the 25% that goes to the endowment fund: 1) an appropriation (equal to 25% of prior year donations) to a new endowment fund (code 1256) and 2) an appropriation equal to the amount of interest earned on 75% of donations during the prior year (the other 25% of earnings goes to the prize fund).

Although no appropriations from the endowment fund are expected for many years, the endowment fund (code 1256) should be created before FY20 in order to begin tracking donations and earnings appropriated to the fund. Because no money leaves the treasury via these appropriations, deposits to the endowment should be classified as fund transfers. When the endowment exceeds $1 billion, a negative transaction in the fund should be used to indicate money leaving the endowment. Simultaneously, an appropriation from the endowment (code 1256) to a newly created allocation in the K-12 Aid to School Districts appropriation will indicate when money leaves the treasury and becomes a second source of supplemental funding for K-12 education. Code 1256 will show as new, unduplicated expenditures of non-general funds.