

FISCAL NOTE

STATE OF ALASKA
2009 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB172
() Publish Date: _____

Identifier (file name): HB172-EED-ACPE-03-13-09
Title An Act relating to an investment in the education loan fund,
relating to authority for the commissioner of revenue to...
Sponsor (H)Rules
Requester Governor Palin
Dept. Affected: Education
RDU ACPE
Component Program Administration and
Operations
Component Number 2738

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	Appropriation Required	Information					
	FY 2010	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Personal Services							
Travel							
Contractual		20.0	20.0	20.0	20.0	20.0	0.0
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING	0.0	20.0	20.0	20.0	20.0	20.0	0.0

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

1002 Federal Receipts							
1003 GF Match							
1004 GF							
1005 GF/Program Receipts							
1037 GF/Mental Health							
1106 P-Sec Receipts		20.0	20.0	20.0	20.0	20.0	0.0
Other Interagency Receipts							
TOTAL	0.0	20.0	20.0	20.0	20.0	20.0	0.0

Estimate of any current year (FY2009) cost: 130.0

POSITIONS

Full-time							
Part-time							
Temporary							

ANALYSIS: (Attach a separate page if necessary)

This legislative proposal, which authorizes the Commissioner of Revenue to: 1) invest in Alaska education loans; and, 2) provide credit enhancement service to the Alaska Student Loan Corporation (ASLC), is designed to be cost-neutral to the state. The appropriation request above represents the ASLC receipts needed to cover costs incurred by the Department of Revenue for legal, rating agency, and consulting services necessary to implement the provisions of the bill.

There is potentially a cost avoidance to the state General Fund. In the event ASLC, without the state assistance provided in the bill, is unable to issue bonds, state appropriations to fund the education loan programs could be required. Current year (2008-2009) loans were funded through internal liquidity. However, those funds will have

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Alaska Commission on Postsecondary Education

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BILL NO. HB172

ANALYSIS CONTINUATION

substantially been exhausted with Spring 2009 disbursements. At this time, there is a need to postpone processing 2009-2010 loan applications until such time as funding has been secured. Currently, market-based issuance costs have reached prohibitive levels relative to the economics of ASLC programs. ASLC has been attempting to issue Variable Rate Demand Bonds (VRDB), for which a market still exists. Structurally, VRDBs are attractive to investors because they are credit enhanced through some form of external liquidity provider, thereby eliminating investor liquidity risk. VRDBs can be held in money market accounts due to the liquidity facility expanding the investor base for ASLC bonds. However, over the course of 2008 the cost of liquidity/credit enhancement increased dramatically as demand grew exponentially and supply declined at an alarming rate due to financial institution consolidations, ratings downgrades, and a general reluctance of the usual players to put further strain on their balance sheets. Liquidity costs have more than quadrupled and there is nothing currently occurring in the financial services arena to indicate this problem will improve any time soon to once again enable ASLC to finance its programs as it has successfully done over the preceding twenty years of operation.

The FY09 cost will require a supplemental amendment of \$60,000 to ACPE's Program Administration and Operations component (2738) using postsecondary receipts as the funding source (1106). The remaining FY09 cost of \$70,000 will be absorbed by the Department of Revenue's current appropriation of Alaska Postsecondary Education Commission Receipts (1106) which are projected to be available for that purpose.