FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version: **2D SSHB272**
Fiscal Note Number:
() Publish Date:

Identifier (file name)	HB2722DSS-EED-ACPE-02-28-12	Dept. Affected	Education
Title	Student Loan Interest Reductions	Appropriation	ACPE
		Allocation	Program Administration & Operations
Sponsor	Rep. Gara		
Requester	(H)EDC	OMB Component Number	2738

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY13**	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**
Personal Services	541.5		399.8	412.3	424.7	437.4	450.5
Travel							
Services	790.0		793.0	807.3	823.0	840.3	857.6
Commodities							
Capital Outlay							
Grants, Benefits	8,366.9		8,102.5	7,802.8	7,461.7	7,086.8	6,599.4
Miscellaneous							
TOTAL OPERATING	**9,698.4**	**0.0**	**9,295.3**	**9,022.4**	**8,709.4**	**8,364.5**	**7,907.5**

FUND SOURCE		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF	9,698.4		9,295.3	9,022.4	8,709.4	8,364.5	7,907.5
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1178	temp code (UGF)							
	TOTAL	**9,698.4**	**0.0**	**9,295.3**	**9,022.4**	**8,709.4**	**8,364.5**	**7,907.5**

POSITIONS							
Full-time	**3**		3	3	3	3	3
Part-time							
Temporary	**2**						

CHANGE IN REVENUES	**(8,366.9)**		**(8,102.5)**	**(7,802.8)**	**(7,461.7)**	**(7,085.8)**	**(6,599.4)**

Estimated SUPPLEMENTAL (FY12) operating costs ______ *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs 1,300.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

Revised FN dated 2/27/12 to include Change in Revenues

Prepared by	Diane Barrans, Executive Director	Phone	465-6740
Division	Alaska Commission on Postsecondar Education	Date/Time	2/28/12 1:00 PM
Approved by	Diane Barrans, Executive Director	Date	2/28/2012
	Alaska Commission on Postsecondary Education		

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Analysis

This bill proposes to provide, under certain conditions, up to a 3% reduction in interest on Alaska Student Loan Corporation (ASLC) loans under the following programs: Alaska Student Loan (no longer being issued); Federal Family Education Loan (no longer being issued); and Alaska Supplemental Education Loans on existing and new loans, subject to a minimum rate floor of 3%.

Capital Costs
Implementation and Hardware/Software
ACPE will require $1.3 million in the FY13 capital budget to cover costs for design and implementation of a loan management system to support this interest reduction program as proposed in the current version of HB272:

Implementation Operating Costs
Other implementation costs include a consultant to identify IRS reporting requirements - $10,000; and, program staffing for two new long-term non-perm positions (business analyst and programmer)to integrate the new system with other systems used by the agency (accounting system, credit reporting, etc.) - $139,000

Ongoing Operating Costs
Staff
Three new full-time permanent positions (program manager, business analyst, accountant) will be needed to maintain, monitor and manage the system as well as the program.

Contractual
Rating confirmations are required by existing financing documents when characteristics of pledged loans are changed. Cash flows must be prepared for the rating agencies when requesting rating confirmations . Ongoing mainframe costs of the new servicing system will also be incurred.

Loss in Revenue/GF payment to provide rate reduction without impairing ASLC debt holders
The following method and assumptions were used to estimate the revenue losses shown herein:

*Benefit applies to the following education loan portfolios: FFELP - $175.2 million; Alternative Consolidation - $64.1 million; Alaska Student Loan - $63.1 million; and, Alaska Supplemental Education Loan - $325.3 million.

*Borrower location was assumed to be as follows: FFELP loans – 78% in state and 21% out-of-state; Alternative loans – 54% in state and 46% out-of-state.

*Eligible loan balances at 12/31/2011 were estimated to be: FFELP - $140.4 million; Alternative - $262.2 million.

*The weighted average rate for the portfolio was used as the original rate.

*Declining balance worksheet for the FFELP estimated eligible portfolio assuming an interest rate of 5.91% and a repayment period of 17 years was compared to a declining balance worksheet for the same portfolio assuming an interest rate of 2.91% and a repayment period of 17 years. Seventeen years is the weighted average years to maturity on the portfolio.

*The same comparison was done for the Alternative loan portfolio, assuming an interest rate of 5.55% and 2.55% with a repayment period of 9 years. Nine years is the weighted average years to maturity on the Alternative loan portfolio.

* The difference between the declining balance worksheets represent the cost/forgone revenue associated with the 3% rate reduction.

*The Corporation continues to issue new alternative loans; $13 million in new loans was added to the analysis for each year going forward.