

# FISCAL NOTE

**STATE OF ALASKA**  
**2009 LEGISLATIVE SESSION**

Fiscal Note Number: 3  
 Bill Version: SB 140  
 (S) Publish Date: 3/18/09

Identifier (file name): SB140-EED-ACPE-03-16-09 Dept. Affected: Education  
 Title An Act relating to an investment in the education loan fund, RDU ACPE  
relating to authority for the commissioner of revenue to... Component Program Administration and  
 Sponsor (S)Rules Committee Operations  
 Requester Governor Palin Component Number 2738

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

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

	Appropriation Required	Information						
		FY 2010	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
<b>OPERATING EXPENDITURES</b>								
Personal Services								
Travel								
Contractual		20.0	20.0	20.0	20.0	20.0	20.0	0.0
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
<b>TOTAL OPERATING</b>		<b>0.0</b>	<b>20.0</b>	<b>20.0</b>	<b>20.0</b>	<b>20.0</b>	<b>20.0</b>	<b>0.0</b>
<b>CAPITAL EXPENDITURES</b>								
<b>CHANGE IN REVENUES ( )</b>								

**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	20.0	0.0
Other Interagency Receipts								
<b>TOTAL</b>		<b>0.0</b>	<b>20.0</b>	<b>20.0</b>	<b>20.0</b>	<b>20.0</b>	<b>20.0</b>	<b>0.0</b>

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 for the Alaska Student Loan Corporation (ASLC), is designed to be cost-neutral to the state. The appropriation above is 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. Authorization for this support through the Department of Revenue will result in a cost avoidance to the state General Fund because if 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 substantially been exhausted with Spring 2009 disburse-

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 Division Alaska Commission on Postsecondary Education Date/Time 3/16/09 4:00 PM  
 Approved by: Diane Barrans, Executive Director Date 3/16/2009  
Alaska Commission on Postsecondary Education

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**ANALYSIS CONTINUATION**

ments. 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 structure a deal 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.