

**ALASKA STATE LEGISLATURE
HOUSE EDUCATION STANDING COMMITTEE**

February 9, 2009

8:03 a.m.

MEMBERS PRESENT

Representative Cathy Engstrom Munoz, Vice Chair
Representative Wes Keller
Representative Peggy Wilson
Representative Robert L. "Bob" Buch
Representative Berta Gardner

MEMBERS ABSENT

Representative Paul Seaton, Chair
Representative Bryce Edgmon

COMMITTEE CALENDAR

CONFIRMATION HEARINGS(S):

University Of Alaska Board of Regents

Kenneth J. Fisher, Juneau
Mary K. Hughes, Anchorage

- CONFIRMATION(S) ADVANCED

HOUSE BILL NO. 109

"An Act relating to eligibility for the Alaska supplemental education loan program and to the interest rate for a loan made under the Alaska family education loan program; and providing for an effective date."

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 109

SHORT TITLE: EDUC. LOANS: SUPPLEMENTAL & FAMILY

SPONSOR(S): EDUCATION

02/02/09	(H)	READ THE FIRST TIME - REFERRALS
02/02/09	(H)	EDC, FIN
02/09/09	(H)	EDC AT 8:00 AM CAPITOL 106

WITNESS REGISTER

KENNETH J. FISHER, Professional Engineer (P.E.)

Appointee

to the University of Alaska Board of Regents

Juneau, Alaska

POSITION STATEMENT: Testified as appointee to the University Of Alaska Board Of Regents.

MARY K. HUGHES, Appointee

to the University of Alaska Board of Regents

Anchorage, Alaska

POSITION STATEMENT: Testified as appointee to the University Of Alaska Board Of Regents.

KATIE KOESTER, Staff

to Representative Paul Seaton

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Presented HB 109 on behalf of the House Special Committee on Education, sponsor by request, chaired by Representative Seaton.

DIANE BARRANS, Executive Director

Alaska Commission on Postsecondary Education

Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 109.

ACTION NARRATIVE

VICE CHAIR CATHY ENGSTROM MUNOZ called the House Education Standing Committee meeting to order at 8:03 a.m. Representatives Munoz, Keller, Gardner, and Buch were present at the call to order. Representative Wilson arrived as the meeting was in progress. Representatives Seaton and Edgmon were excused.

CONFIRMATIONS HEARINGS(S):

UNIVERSITY OF ALASKA

[8:03:49 AM](#)

VICE CHAIR MUNOZ announced that the first order of business would be confirmation hearings for two seats on the University Of Alaska Board Of Regents.

[8:04:27 AM](#)

KENNETH J. FISHER, Professional Engineer (P.E.), Appointee to the University Of Alaska Board Of Regents, noted the strengths of the University of Alaska system, and pledged to continue the efforts of maintaining the standards for higher education in the state.

8:05:44 AM

REPRESENTATIVE KELLER stated that he has a personal history with the candidate, by which he is able to recommend him for appointment. He said he anticipates that the candidate will fulfill the position with integrity, thoroughness, and commitment to the job, and thanked Mr. Fisher for his interest in becoming a regent.

8:06:09 AM

REPRESENTATIVE GARDNER cited the candidate's lengthy resume and asked what areas he expects to advocate for, as a regent.

MR. FISHER pointed out that the board of regents responsibility rests in the constitution with guidance from the legislature. With a background in government performance, he said he looks forward to expanding his understanding of the higher educational needs throughout the state and then work with the board to achieve its academic goals. He reported that he has worked in many Bush areas, and said considers finding teachers for rural positions a priority, as well as providing for rural health care needs.

8:07:55 AM

REPRESENTATIVE BUCH noted that Mr. Fisher is trained as a civil engineer with a work history spanning state and federal government agencies.

MR. FISHER clarified that the majority of his work has been with the federal government, including tribal governments.

REPRESENTATIVE BUCH asked what his views are on the distance learning programs, and what he anticipates creating in this area.

MR. FISHER likened the learning districts in Alaska to islands. Without the benefit of roads, it is important to deliver the

programs as close to the user as possible, he said, an area the university is prioritizing.

[8:10:42 AM](#)

REPRESENTATIVE GARDNER made a motion to advance from committee the nomination of Kenneth J. Fisher, as appointee to the University Board of Regents, to the joint session for consideration. There being no objection, the confirmation was advanced from the House Special Committee on Education.

[8:11:57 AM](#)

MARY K. HUGHES, Appointee to the University Of Alaska Board Of Regents, indicated her previous six and one half years of service on the Board of Regents, to fill a partial term. She said she is humbled by the governor's appointment to a full term. A University of Alaska graduate herself, along with other family members, she underscored the importance of educating Alaskan's, in Alaska, as a key to retaining a strong work force. Additionally, she opined that the opportunities for the university are great, given the support from the legislature.

[8:13:37 AM](#)

REPRESENTATIVE KELLER stated his support for the appointee.

[8:14:01 AM](#)

REPRESENTATIVE GARDNER asked how telecommunications might be improved in the educational field.

MS. HUGHES said her background is in telecommunications and stated that the technology has become better over the decades. This is the direction where she sees the educational system in Alaska can grow; an important avenue for the educational field to be cultivating. Additionally, she stressed the importance of, and lauded the university regents for, the support and prioritization of programs directed to the K-12 schools, through the leadership of Commissioner Larry LeDoux.

[8:18:09 AM](#)

REPRESENTATIVE BUCH asked for her comments on the recently announced Alaska Supreme Court decision regarding Moore v. State.

MS. HUGHES apologized for not having an opinion, and said she would formulate one in the coming week.

REPRESENTATIVE BUCH cited the dilemma of preparing students for postsecondary education, and asked what her role would be in remedying the situation.

MS. HUGHES opined that it is an immense opportunity and responsibility for the university. Outreach, partnerships, and collaboration with the school districts are efforts that will prove beneficial in this regard. She stated her observation that Alaska tends to have regional challenges. An example is the loss of students in Southeast, where high school graduates prefer to attend outside colleges. Additionally, she described the university's partnership with the Kotzebue school district, local Native corporations, and tribal entities, to enhance educational opportunities in that region. The regional focus on education is imperative, she stressed.

[8:22:49 AM](#)

REPRESENTATIVE GARDNER commented that the Moore v. Alaska decision has not been published, having been handed down in the last few days. She asked whether Alaska is on the right path with what is being done in the telecommunication/education field.

MS. HUGHES pointed out that many satellites are positioned over the equator and do not serve Alaska directly. Despite the constraints, the use of cellular technology has been a boon to rural areas. The expensive aspect for this technology is the bandwidth being used, which comes into play with various programs such as the on-line medical program. As educational providers, she stipulated, every tool needs to be utilized but not necessarily the most expensive when alternatives exist. She offered an example of a science class being served efficiently over the internet, in Bethel. Additionally, assistance can be cultivated through civic partnership donations in the telecommunications field.

[8:28:05 AM](#)

REPRESENTATIVE GARDNER indicated the university's funding request last year to increase bandwidth, which, without the bandwidth availability, precluded the administration from opportunities to bid on grants. Although the state funding was

denied, she asked if bandwidth donations from a civic partner would allow these grants to be considered.

MS. HUGHES replied that the bandwidth requests were for a variety of uses. The \$30 million request that was not approved last year included the improvement of the research potential of the university. She described how bandwidth use is maximized, and explained that, the 2008 partnership donation from GCI, has eliminated the need to include the request in the current year budget proposal.

[8:30:21 AM](#)

REPRESENTATIVE BUCH pointed out that post graduates are often encumbered with financial burdens. At one time the university offered a 50 percent forgiveness incentive, and he asked for her comments.

MS. HUGHES admitted to being a beneficiary of the 50 percent forgiveness opportunity. Although she found the loan helpful, she stipulated that she would have returned to the state regardless of the incentives offered. Ms. Hughes praised the efforts of the Post Secondary Education Commission for making funds available to students. The university yearly tuition averages \$8,000, which she opined is very competitive. The state loan programs, and other funding sources, are very helpful, and, in addition, the lower schools need to encourage students to continue on to post secondary education. It is her belief that grade school students do not have a realistic understanding of what is required for a career early enough in school to prepare themselves for college.

[8:36:36 AM](#)

REPRESENTATIVE GARDNER made a motion to advance from committee the nomination of Mary K. Hughes as appointee to the University Of Alaska Board Of Regents, to the joint session for consideration. There being no objection, the confirmation was advanced from the House Special Committee on Education.

HB 109-EDUC. LOANS: SUPPLEMENTAL & FAMILY

[8:37:27 AM](#)

REPRESENTATIVE MUNOZ announced that the final order of business would be HOUSE BILL NO. 109, "An Act relating to eligibility for the Alaska supplemental education loan program and to the

interest rate for a loan made under the Alaska family education loan program; and providing for an effective date."

[8:37:41 AM](#)

KATIE KOESTER, Staff to Representative Paul Seaton, Alaska State Legislature, presented HB 109, a bill being introduced by the House Special Committee on Education, on behalf of the Postsecondary Education Commission, paraphrased from the sponsor statement, which read as follows [original punctuation provided]:

HB 109 requires that, as a condition of eligibility for an Alaska Supplemental Education Loan (ASEL), a borrower must have good credit or, if unable to document a history of good credit, must apply with a credit-worthy co-signer. Administered by the Alaska Commission on Postsecondary Education (ACPE), these loans are funded by the Alaska Student Loan Corporation (ASLC). ASLC issues bonds in the capital markets using its various AlaskAdvantage education loans as collateral pledged to support the bonds. The loans are in two categories: those with a federal guaranty (Stafford, Federal PLUS and Grad PLUS) and non-guaranteed State loans. With bonds collateralized by guaranteed loans, investors know they can rely on the backing by the federal government. ASELS have no guarantee and therefore the underlying quality is a primary concern. ASLC has determined that unless the credit quality of ASELS is improved, they will not be usable as collateral.

Compared to credit standards imposed by lenders in other states, ASEL credit requirements are among the least restrictive for alternative education loans. ACPE currently only reviews histories for bad credit. If an applicant has no credit history they may borrow without a co-signer. In today's national economic climate, bond investors are extremely averse to bonds backed by certain asset types. Unfortunately, in this new environment ASELS are viewed as subprime loans. ASLC financial advisors indicate there is little likelihood this conservative investor perspective will change in the future. Passage of HB 109 is intended to permit ACPE to improve ASEL quality so they will be more positively received in the bond market. If ASLC is unable to finance the ASEL program through the

capital markets, in the future the State would have to directly fund this program or ASELS would be unavailable. ACPE estimates that its annual loan demand through the ASEL program will continue to be \$40 to \$50 million.

HB 109 also allows ASLC to set the interest rate for Family Education Loans (FEL) in accordance with the rate set for the ASEL (not to exceed 8.25%). The FEL program allows a family member to take out a loan on behalf of another family member. This program accounts for less than 2% of ASLC loans. Currently ASLC must charge the 5% interest rate set in statute for the FEL. HB 109 gives ASLC the flexibility to set the interest rate according to the current fiscal environment.

The Legislature should carefully examine changes that put limitations on borrowers. However, HB 109 is necessary for ACPE and ASLC to continue to meet their shared mission to promote, support, and provide access to postsecondary education for Alaskans and in Alaska, without relying on the State General Fund to finance its operation.

MS KOESTER directed attention to the committee packet and identified the supporting documents.

[8:39:57 AM](#)

DIANE BARRANS, Executive Director, Alaska Commission on Postsecondary Education, stated her appreciation for the committee's effort to bring this bill forward.

[8:40:37 AM](#)

REPRESENTATIVE GARDNER stated support for HB 109, citing it as necessary in order to continue the existing loan program. Her understanding is that the loan default record does not present a problem, and asked whether that has changed. Additionally, she pondered how other states are addressing similar issues for providing loans given the current economic upheaval.

MS BARRANS said that collection on alternative loans have had a positive repayment history, since they began 30 years ago. The web site has an annually published cohort rate, which for the past several years has been at, or below, the target rate of 5

percent. She explained how the loan defaults are being tracked and how extrapolation methods indicate that the rate will rise to 11 percent; a rate not palatable to investors.

[8:42:41 AM](#)

MS BARRANS addressed Representative Gardner's second question, stating that the state loan program was launched at a time when the Federal Education Loan Program (FELP) was popular. Because FELP was a bank based program with few participating banks in Alaska, in order to have an educational loan program the state created its own. The federally guaranteed loan program was used as a model, which is an entitlement program without applicable credit criteria attached. The credit criteria that HB 109 proposes will bring the program closer to what other states require. She acknowledged that high school graduates will likely not have a credit score, and a co-signer will need to meet the stipulated credit score; in New Jersey it is a minimum of 760.

[8:45:01 AM](#)

REPRESENTATIVE WILSON asked whether the [University of Alaska System] had been approached to provide lower tuition and costs for these students.

MS BARRANS responded that price control at the university level has not been suggested as an alternative to the bill. She opined that students tend to borrow substantially, as indicated by the loan amounts prior to the tuition freeze.

REPRESENTATIVE WILSON propositioned that every direction needs to be explored for making education available.

[8:47:46 AM](#)

REPRESENTATIVE KELLER directed attention to Page 2, lines 23-24 and read: "The legislature finds the changes made by this Act constitute an emergency under AS 44.62.250 ...". He asked for a description of the emergency.

MS BARRANS explained that the regulatory promulgation process can be lengthy, and in order to have HB 109 in place for the 2009-2010 school year, the language was included at her behest.

[8:48:48 AM](#)

REPRESENTATIVE KELLER referred to the cap of 8.25 percent, and asked whether adding prime plus one or two was considered. Taking action on point now could prevent the legislature from having to take further measures, should the cap prove to be too low.

MS BARRANS explained that it was specifically not tied to indices in order to provide a definite rate limit. She stressed the importance of having an understood limit, when working with public policy.

REPRESENTATIVE KELLER cautioned that the current volatile, economic situation, and projected a scenario of spiraling interest rates. He acknowledged that these issues would be taken up in-depth by the next committee of referral.

[8:50:15 AM](#)

REPRESENTATIVE BUCH read from the fourth paragraph of the sponsor statement, "The FEL [Family Education Loan] program allows a family member to take out a loan on behalf of another family member," and asked about the mechanics of that clause.

MS BARRANS explained that the FEL program preceded the creation of the Student Loan Corporation. Family members are allowed to directly incur a student's debt. The language allows an Alaskan resident family member, to borrow on behalf of a child who is not a resident.

[8:52:18 AM](#)

REPRESENTATIVE WILSON observed that statute is not being changed by this bill, but the parameters for making adjustments are being expanded.

MS BARRANS corrected that statute is being changed by removing the fixed 5 percent interest rate and indicating that the student loan corporation can set the rate in accordance with the rate set on the primary supplemental education loan. The same rate will be used whether the borrower is a family member or the student.

[8:53:24 AM](#)

REPRESENTATIVE MUNOZ noted how the credit worthiness of the borrower is also being strengthened by the bill, allowing the generated revenue to be used as collateral for bonding purposes.

MS BARRANS agreed. Further she stipulated that statute indicates that an applicant may not have a credit history at the time of application for a loan that demonstrates chronic inability or unwillingness [to pay]. Hence, if they have no credit or good credit, they can qualify. Responding to a question from Representative Wilson, she directed attention to page 2, lines 13-15, and paraphrased that the corporation shall set the rate on a loan made under family education loan statutes, not to exceed 8.25 percent; providing a fixed cap. The rate has remained at 7.3 for the last two lending years, and the expectation is for it to remain at that rate for the 2009-2010 lending year.

[8:55:24 AM](#)

REPRESENTATIVE MUNOZ asked what amount of potential revenue is expected to be generated through the bonds.

MS BARRANS said the level of bonding to perpetuate the program is between \$40-50 million.

[8:55:56 AM](#)

REPRESENTATIVE MUNOZ announced that HB 109 would be held over.

ADJOURNMENT

There being no further business before the committee, the House Education Standing Committee meeting was adjourned at 8:56 a.m.