

ALASKA STATE LEGISLATURE
SENATE EDUCATION STANDING COMMITTEE

March 18, 2009

8:03 a.m.

MEMBERS PRESENT

Senator Bettye Davis, Vice Chair
Senator Charlie Huggins
Senator Donald Olson

MEMBERS ABSENT

Senator Gary Stevens

COMMITTEE CALENDAR

SENATE BILL NO. 101

"An Act relating to questionnaires and surveys administered in the public schools."

MOVED SB 101 OUT OF COMMITTEE

SENATE BILL NO. 140

"An Act relating to an investment in the education loan fund; relating to authority for the commissioner of revenue to enter into a bond purchase agreement and letter of credit with the Alaska Student Loan Corporation; and providing for an effective date."

MOVED SB 140 OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: SB 140

SHORT TITLE: STATE INVESTMENT IN EDUCATION FUND

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

03/09/09 (S) READ THE FIRST TIME - REFERRALS

03/09/09 (S) EDC, FIN

03/16/09 (S) EDC WAIVED PUBLIC HEARING NOTICE, RULE 23

03/18/09 (S) EDC AT 8:00 AM BELTZ 211

BILL: SB 101

SHORT TITLE: STUDENT QUESTIONNAIRES AND SURVEYS

SPONSOR(s): SENATOR(s) DAVIS

02/06/09 (S) READ THE FIRST TIME - REFERRALS

02/06/09 (S) EDC, HSS

03/11/09 (S) EDC AT 8:00 AM BELTZ 211
03/11/09 (S) Heard & Held
03/11/09 (S) MINUTE(EDC)
03/18/09 (S) EDC AT 8:00 AM BELTZ 211

WITNESS REGISTER

DIANE BARRANS, Executive Director
Postsecondary Education Commission
Department of Education and Early Development (DEED)
Executive Officer, Alaska Student Loan Corporation.
POSITION STATEMENT: Supported SB 140.

JERRY BURNETT, Deputy Commissioner
Department of Revenue (DOR)
Juneau, AK
POSITION STATEMENT: Answered questions on SB 140.

TOM OBERMEYER, staff to Senator Davis
State Capital Bldg.
Juneau, AK
POSITION STATEMENT: Commented on SB 101 for the sponsor.

ACTION NARRATIVE

[8:03:13 AM](#)

VICE CHAIR BETTYE DAVIS called the Senate Education Standing Committee meeting to order at 8:03 a.m. Present at the call to order were Senators Olson and Davis.

SB 140-STATE INVESTMENT IN EDUCATION FUND

[8:03:42 AM](#)

VICE CHAIR DAVIS announced the consideration of SB 140.

[8:03:57 AM](#)

DIANE BARRANS, Executive Director, Postsecondary Education Commission, Department of Education and Early Development (DEED), said she is also the executive officer of the Alaska Student Loan Corporation. She said that SB 140 is necessary because the Alaska Student Loan Corporation has not been able to issue bonds due to the disruption in the capital markets since 2007. In 2008/9, they had sufficient cash on hand to fund the loans for the current loan year. Loan volume for this year is projected at around \$95 million. However, they will have

substantially exhausted their ability to issue new loans with cash on hand.

MS. BARRANS explained that SB 140 does two things; it allows the commissioner of the Department of Revenue (DOR) to directly invest in student loans. The objective of this piece is to allow the corporation to have cash quickly to provide loans for 2009/10. The bill caps that amount at \$100 million, and it limits the duration of the agreement between the corporation and the commissioner to no more than five years. So those funds will have to be returned to the general fund within that period. Second, SB 140 authorizes the DOR commissioner to provide credit enhancement, a liquidity facility, for the corporation to proceed to structure a deal to issue bonds sometime between 6-18 months.

Their financial advisor indicates it is prudent to provide for two years of funding capacity by which time they hope the markets will have righted themselves to the point where they would no longer need support from the state. Specific to the liquidity facility, this would allow the corporation to issue variable rate bonds which allows investors to know at any point that if they want to sell those bonds, the facility will hold them until another buyer appears in the marketplace.

[8:07:22 AM](#)

SENATOR OLSON asked what the loan volume trend has been for the last several years.

MS. BARRANS replied the volume has been growing 8-15 percent annually. They expect that to level shortly as they won't be making as many alternative loans as compared to federally guaranteed loans - another increasing trend.

SENATOR OLSON asked what the delinquency rate is.

MS. BARRANS answered that the initial default rate is calculated once a loan has been in repayment for 12 months, and less than 5 percent were in default at that time. However, that number rises on the alternative side to just over 11 percent after about 5 years in repayment.

SENATOR OLSON asked how she gets the money back on the alternative loans, if there is no federal guarantee.

MS. BARRANS replied that they continue to collect on those loans for decades, but some of them are losses that have to be written off.

VICE CHAIR DAVIS announced an at-ease at 8:09 and called the meeting back to order at 8:10.

[8:10:01 AM](#)

MS. BARRANS said HB 109 that has just passed the other body allows them to raise the credit criteria on alternative loans. Because of the kind of delinquency rates they have experienced, investors, and the rating agencies, are increasingly requiring a higher quality asset to back bonds in the market. They are doing a combination of things this year to try to insure that the program is viable going forward.

VICE CHAIR DAVIS closed public testimony and announced an at-ease from 8:11 a.m. to 8:20 a.m.

[8:20:04 AM](#)

SENATOR HUGGINS asked Ms. Barrans if she had any information regarding the risk factor the state would be assuming in going to variable rate securities.

MS. BARRANS replied that they have been issuing variable auction rate securities (ARS) for about four years, but the problem is that the mechanism by which those securities function in the market relied on having enough buyers and sellers. With the fallout from the mortgage back bonds, investors lost all confidence in that market place. As of February 2008, that market failed and is not expected to recover. They are paying interest and principal on existing ARSs as they come due, but investors are not happy, because they used to view them as fairly liquid investments and now they are illiquid investments.

MS. BARRANS explained that the corporation is proposing to issue a different form of variable rate debt for which there is still a market. The reason for that is with the variable rate demand bonds, the issuer has some form of credit enhancement that insures the bond holders that if they want to sell at any time, they will be able to do so making it a highly liquid investment.

[8:22:31 AM](#)

SENATOR OLSON asked how many people who take advantage of the loan program are living out of state.

MS. BARRANS replied that historically about 60 percent of borrowers stay in the state, and she expects that number to increase because of recent attendance here.

SENATOR OLSON asked how many of those who are finished with their education who are planning on staying outside of the state go into delinquency.

MS. BARRANS replied they repay at higher rates.

[8:23:31 AM](#)

JERRY BURNETT, Deputy Commissioner, Department of Revenue (DOR), said he was available to answer questions.

SENATOR HUGGINS asked if there is a cap on rate adjustment for student loans.

MR. BURNETT replied yes, and explained that since the DOR would be investing money in the bonds, they would expect to get repaid because there is a long history of repayment. The only risk to the state is the \$206 million that will be illiquid. The state's largest fixed income pool now has a balance in the \$7 billion range. Even with \$50-oil over the next five years, because they are forward-funding education and have tax credit funds, the trailing spending in the general fund is such, as the bank, he can say that the balance will be large enough to support holding these as investments.

[8:26:04 AM](#)

SENATOR HUGGINS assumed that the variable rate piece passes through to the borrower.

MR. BURNETT replied that he doesn't deal with the loans themselves.

SENATOR HUGGINS asked if they should consider other factors that for one reason or another they have not already blended into this bill that would be smart from a money management approach.

MR. BURNETT replied no, this issue has been well considered by all concerned. The issue is clearly the disruption of the market at this time and the current bond market not having confidence. Also the current administration in Washington DC is looking at the private loan market for this kind of debt, because this is a concern nationwide. A number of other states have done similar things to preserve their student loan program.

[8:27:44 AM](#)

SENATOR HUGGINS asked if AIG is involved in these kinds of activities in the U.S.

MR. BURNETT replied that they have probably historically been a major buyer of variable rate debt for some of their programs, but not other than that.

[8:28:28 AM](#)

SENATOR OLSON moved to report SB 140 from committee with individual recommendations and accompanying fiscal notes. There being no objection, the motion carried.

SB 101-STUDENT QUESTIONNAIRES AND SURVEYS

[8:30:29 AM](#)

VICE CHAIR DAVIS announced the consideration of SB 101.

[8:31:14 AM](#)

TOM OBERMEYER, staff to Senator Davis, sponsor of SB 101, said this bill will permit students and their parents to opt out from participating in surveys and questionnaires by writing a letter. It also says that they can still participate in the anonymous youth risk behavior survey without parental consent. The reason this issue has come forward is because the youth risk assessment didn't have the required 60 percent participation for validation. It is considered very important in measuring the issues that come before youth, and it is administered every couple of years.

[8:35:01 AM](#)

SENATOR HUGGINS commented that students have two avenues to opt out of the survey or to not answer a question even if the parents say yes.

[8:35:29 AM](#)

SENATOR OLSON asked what kind of questions this survey asks.

MR. OBERMEYER answered that they are very personal and specific questions regarding sexual activity and drug use that some students or parents may take issue with.

[8:36:57 AM](#)

SENATOR OLSON asked at what age students are taking this survey.

MR. OBERMEYER replied high school age.

[8:37:14 AM](#)

SENATOR OLSON asked if this survey had been given in rural Alaska.

VICE CHAIR DAVIS replied yes.

[8:37:30 AM](#)

SENATOR OLSON asked how many other states are not participating because they don't meet the 60 percent level.

VICE CHAIR DAVIS answered that Alaska participates, but it didn't reach 60 percent mark.

MR. OBERMEYER clarified that he said Alaska didn't reach a 60 percent participation level for validation by the CDC. All states participate, and he said federal funding is involved.

SENATOR OLSON asked if there is a question of parental rights.

MR. OBERMEYER answered yes; that is one of the main issues in this bill. It provides due process rights by giving adequate written notification two weeks in advance to parents that the survey will be given. If they don't consent, the survey may go forward. The students are told the survey is coming, but they don't have to answer specific questions or participate.

SENATOR OLSON asked if there are repercussions if a student doesn't answer the questions.

MR. OBERMEYER answered, "None at all."

[8:39:02 AM](#)

SENATOR OLSON asked who is opposing the bill.

VICE CHAIR DAVIS replied that she hasn't heard of any opposition.

[8:39:43 AM](#)

SENATOR HUGGINS moved to report SB 101 from committee with individual recommendations and accompanying fiscal notes. There being no objection, the motion carried.

[8:40:04 AM](#)

There being no further business to come before the committee, Vice Chair Davis adjourned the meeting at 8:40.