

SENATE FINANCE COMMITTEE
April 1, 2009
9:04 a.m.

9:04:50 AM

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:04 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Charlie Huggins, Vice-Chair
Senator Johnny Ellis
Senator Donny Olson
Senator Joe Thomas

MEMBERS ABSENT

None

ALSO PRESENT

Jody Simpson, Staff, Senator Charlie Huggins; Eddy Jeans, Director, School Finance and Facilities, Department of Education and Early Development; Brenda Taylor, President, Academic Policy Committee, Juneau Community Charter School; Katie Koester, Staff, Representative Paul Seaton; Diane Barrans, Executive Director, Alaska Commission on Postsecondary Education, Department of Education and Early Development and Executive Officer, Alaska Student Loan Corporation; Charlene Morrison, Chief Financial Officer, Alaska Commission on Postsecondary Education, Department of Education and Early Development.

PRESENT VIA TELECONFERENCE

Kiki Abrahamson, Teacher, Fireweed Academy and Alaska Charter School Association, Homer; Lee Donner, Managing Director, First Southwest Company.

SUMMARY

SB 57 "An Act relating to charter school funding."

CS SB 57(FIN) was REPORTED out of Committee with a "do pass" recommendation and with attached fiscal note by the Department of Education and Early Development.

HB 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."

HB 109 was HEARD and HELD in Committee for further consideration.

#hb172

CS HB 172(FIN)

"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."

CS HB 172(FIN) was SCHEDULED and not HEARD.

#sb57

SENATE BILL NO. 57

"An Act relating to charter school funding."

[9:05:36 AM](#)

Senator Joe Thomas, Sponsor, explained that the legislation corrects a flaw in school funding law as it applies to charter schools with fewer than 150 students, which he called the "charter school penalty." He read parts of the Sponsor Statement (Copy on File):

Current law results in these charter schools receiving 30 to 45 percent less state funding than neighborhood schools of their same size. SB 57 funds these charter schools at a per-child rate closer to that of average, urban elementary schools.

Charter schools are public schools that provide valuable education options to Alaska families. They increase learning opportunities and encourage parent and community involvement in our schools. Charter schools are designed and managed by parent-elected boards, under contracts with local school districts. They create school choice within the public school system. The process of choosing engages parents and gives them a feeling of ownership, which encourages student achievement.

In 1995, the legislature passed Alaska's initial charter school law. SB 57 solves the funding problem in

an equitable, fiscally responsible manner. It will support our schools and districts as they carry out the legislature's intent in creating the charter school law.

The root of the problem is the way the foundation formula calculates the "adjusted student count" for charter schools versus neighborhood schools.

Charter schools with an enrollment of less than 150 students are not treated as separate schools for the purpose of the adjusted student count calculations. The impact of this system on charter schools is shown in the attached graph. The consequences are that the law provides an inadequate amount of money for charter schools with fewer than 150 students to survive, and there is dramatic decrease in funding when a charter school's enrollment drops from 150 to 149 students. School districts can be penalized for allowing school choice.

SB 57 states that charter schools with fewer than 150 students will have their student count adjusted by the same per-student rate as neighborhood schools with 400 students. It also contains a one-year, hold-harmless provision for charter schools that are either in their first year of operation or who had more than 150 students the previous year. These schools will receive 95 percent of the per-student rate of neighborhood schools with 150 students.

[9:09:04 AM](#)

Senator Huggins MOVED to ADOPT Amendment 1, 26-LS0238\E.2, Mischel, 4/1/09:

Page 1, line 1, following "**charter**":
Insert "**and alternative**"

Page 2, following line 6:
Insert a new subsection to read:
"(e) If an alternative school has a student count of more than 120 but less than 175 for the current year and is in the first year of operation, or had a student count of 175 or more in the previous year of operation, the adjusted student count for the school shall be calculated by multiplying the student count by 95 percent of the student rate for a school that has a student count of 175."

Reletter the following subsection accordingly.

Page 2, line 7:

Delete "(c) and (d)"
Insert "(c) - (e)"

Page 2, line 10:
Delete "AS 14.17.905(b)"
Insert "AS 14.17.905"

Page 2, following line 10:
Insert new material to read:

"Sec. 14.17.905. Facilities constituting a school.

(a) For purposes of this chapter, the determination of the number of schools in a district is subject to the following:

(1) a community with an ADM of at least 10, but not more than 100, shall be counted as one school;

(2) a community with an ADM of at least 101, but not more than 425, shall be counted as

(A) one elementary school, which includes those students in grades kindergarten through six; and

(B) one secondary school, which includes students in grades seven through 12;

(3) in a community with an ADM of greater than 425, each facility that is administered as a separate school shall be counted as one school, except that each alternative school with an ADM of less than 175 [200] shall be counted as a part of the school in the district with the highest ADM."

Co-Chair Stedman OBJECTED for discussion.

Senator Huggins described past experience with charter schools in the Matanuska-Susitna (Mat-Su) Valley. He commented that the original charter school law was put in place in a different era and the provisions can cause schools to lose significant funding when the loss of one student changes the count from 150 to 149. He has been supportive in the past of financial correction to the situation and he wanted the change to be put into statute.

Senator Huggins described similar issues for alternative schools and noted a resolution from the Mat-Su Borough School District ("Resolution No. 09-002," Copy on File). In the same way charter schools must have a minimum of 150 students, alternative schools must have a minimum of 200. Alternative schools suffer from the same funding problems if they lose a single student below the minimum. The amendment would address the issue for alternative schools.

[9:11:24 AM](#)

JODY SIMPSON, STAFF, SENATOR CHARLIE HUGGINS, SPONSOR, addressed the mechanics of Amendment 1. She explained that

the threshold for alternative schools would be lowered from 200 to 175 students. Alternative schools that consistently have fewer than 175 students will continue to be funded as if their students attended the largest in the district, and will not get the 1.18 rate that SB 57 gives to charter schools. The amendment also puts in place the one-year hold-harmless provision for alternative schools with more than 175 students the previous year or schools in the first year of operation. Alternative schools will receive 95 percent of the per-student rate for the 175 count. Alternative schools will have to submit a plan for the hold-harmless year and work with their school board to determine a course of action if enrollment projections are not met and the school no longer qualifies for the hold-harmless provision. She stressed that the measure is a legislative priority for the Mat-Su School Board.

EDDY JEANS, DIRECTOR, SCHOOL FINANCE AND FACILITIES, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, expressed support for the amendment. He pointed out that the amendment addresses the problem that occurs when an alternative school falls below the 200 student mark.

[9:14:16 AM](#)

Co-Chair Hoffman asked how many schools would be covered by the bill before the amendment and how many schools had between 175 and 200 students. Mr. Jeans answered that the original bill addressed four charter schools with student counts below 150. The amendment would address one alternative school. A total of five schools would be affected.

Senator Olson requested the Sponsor's opinion of the amendment. Senator Thomas replied that he was supportive of the amendment.

Co-Chair Stedman WITHDREW his OBJECTION to Amendment 1. There being NO further OBJECTION, Amendment 1 was adopted.

[9:15:43 AM](#)

Mr. Jeans referred to the fiscal note and emphasized that page 2 lists the four charter schools that would qualify for the additional funding for small schools. The schools with enrollment under 150 would be funded at the 1.18 rate. Page 3 of the note shows the fiscal impact of the amendment. One school would generate an additional \$600,000. The total fiscal note is \$1,314,300.

Co-Chair Stedman asked if the fiscal note would change from the draft version. Mr. Jeans did not expect a change.

Co-Chair Stedman opened public testimony.

KIKI ABRAHAMSON, TEACHER, FIREWEED ACADEMY and ALASKA CHARTER SCHOOL ASSOCIATION, HOMER (testified via teleconference), testified in support of the legislation. She emphasized the importance of providing equitable funding for educational alternatives.

[9:18:22 AM](#)

Senator Ellis thought the legislation addressed unfinished business and stated support for the improvements to the bill.

Senator Huggins informed the committee that his wife was employed by the Mat-Su school district.

Senator Olson spoke for constituents in his district who support the bill, particularly the Nome Charter School.

Senator Ellis noted the presence of Juneau charter school students in the audience.

[9:19:52 AM](#)

AT EASE

[9:20:31 AM](#)

RECONVENED

BRENDA TAYLOR, PRESIDENT, ACADEMIC POLICY COMMITTEE, JUNEAU COMMUNITY CHARTER SCHOOL, introduced four students who were present in the room. The group supported the legislation.

Co-Chair Stedman commended the students for taking part in the legislative process. Ms. Taylor told the committee that the students were representing other students who wanted to be there but were unable to attend.

Co-Chair Stedman closed public testimony.

Senator Thomas MOVED to report SB 57 out of Committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CS SB 57(FIN) was REPORTED out of Committee with a "do pass" recommendation and with attached fiscal note by the Department of Education and Early Development.

#hb109

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."

[9:22:36 AM](#)

KATIE KOESTER, STAFF, REPRESENTATIVE PAUL SEATON, SPONSOR, explained that the legislation would allow the Alaska Commission on Postsecondary Education (ACPE) to sell bonds to generate money for student loans in the current fiscal climate. House Bill 109 was brought to Representative Seaton and the House Education Committee by Diane Barrans, the director of ACPE. The legislation requires a borrower to have either good credit or a co-signer with good credit in order to get a student loan from the state of Alaska.

Ms. Koester noted that the requirement only applies to state loans called alternative education loans. The restrictions would not apply to federally guaranteed loans such as Stafford loans. Currently, a borrower can get an Alaska student loan as long as they do not have bad credit, which means they can get a loan with no credit. In the current fiscal climate, investors are not willing to back the loans. The commission cannot use loans as currently structured for collateral. Without the change, ACPE will either be forced to stop lending to Alaska borrowers or the state will have to directly fund the program with \$40 to \$50 million in general funds.

Ms. Koester added that HB 109 makes a change to the Family Education Loan (FEL). Through the FEL program a family member can borrow on behalf of other members. The current interest rate for the loan is set in statute at 5 percent; HB 109 would allow the student loan corporation to set the rate to not exceed 8.25 percent. She explained that the FEL rate would be set in the same manner as the Alaska student loan is currently set.

Senator Ellis queried the feedback the legislation was receiving from students and student organizations across Alaska. Ms. Koester reported that there have been some phone calls from the student community. She explained that in the current fiscal climate, the loans are viewed as sub-prime. The state will have to address the issue if it wants to continue borrowing.

Senator Ellis asked if the legislation would self-correct when the economy got better. Ms. Koester replied the change would be permanent until the legislature addressed the issue again.

[9:27:24 AM](#)

Senator Olson asked how many students would not be able to go to college if the bill did not go through. Ms. Koester replied that there has never been an assessment of the credit standard of loan applicants. She believed hypothetical scenarios had been run.

Senator Olson asked when the funds would be available for eligible students if the legislation were to pass. Ms. Koester replied that it would take a fiscal year for the changes to take effect. She referred to HB 172, which would provide for a bridge loan from the state to the Alaska Student Loan Corporation and enable the commission to offer loans during the upcoming academic year.

Co-Chair Stedman asked if young citizens from families without good credit would be excluded from the program. Ms. Koester acknowledged the possibility of exclusion of some people. She stated that statistical analysis of the 2008-2009 academic year reveals that the only 24 percent of Alaska student loan applicants are under 21 years of age. Older applicants usually have had other ways to establish credit. An applicant would be limited if they were too young to establish credit, did not have a family with good credit, and were unable to find someone else to sign. However, the federal loan would still be available to those individuals and had been increased.

[9:30:59 AM](#)

Senator Ellis commented that students he had spoken to thought the loan would make life more difficult, especially for students with low-income families. He asked that the sponsor be informed of the Alaska Achievers Incentive Program [SB 33], legislation designed to make college more affordable for Alaskan students. He acknowledged that loans outlined by HB 109 may be necessary, but noted that Alaska ranks poorly regarding college affordability. Graduation rates are not great and the state lacks a strong needs-based financial aid system. Ms. Koester replied that she would give the information to the sponsor and added that Senator Seaton was looking at legislation to help students.

Senator Thomas stated concerns about credit for older students, since people tended to go back to school when the economy is struggling.

[9:33:38 AM](#)

DIANE BARRANS, EXECUTIVE DIRECTOR, ALASKA COMMISSION ON POSTSECONDARY EDUCATION COMMISSION, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, and EXECUTIVE OFFICER, ALASKA STUDENT LOAN CORPORATION, echoed the urgency of the situation.

Co-Chair Stedman queried other possible solutions that would not exclude low-income families. Ms. Barrans replied that the federal guaranteed education loan is available for low-income families without credit. Parents can borrow on behalf of students through the Stafford and Federal PLUS loan programs, which have a very modest adverse credit review. Federally guaranteed loan limits have been increased. An

independent student can borrow \$9,500 in their freshman year. The amount increases up to graduate level, when over \$20,000 per year can be borrowed.

Ms. Barrans added that another way to serve low-income families would be for Alaska to create a state guaranteed loan program. Following the federal model, Alaska would guarantee repayment of any loan the borrower did not repay. She stated a proposal could be made to the legislature if there was interest.

[9:36:38 AM](#)

Senator Ellis asked how interest rates were determined. He reported that students he had spoken to had many questions about interest rates compared to other financing mechanisms. He also wondered if there should be a self-correcting mechanism imbedded in the [FEL] program.

Ms. Barrans explained that historically the rate was set by statute at 5 percent. The current rate is tied to the state alternative loan rate, which is capped at 8.25 percent. The rate is set by factoring in the cost of funds and of administering the program. The base rate is the federal rate plus 50 basis points or 0.5 percent. Currently the interest rate is 7.3 percent, the lowest rate in the country for an alternative loan. The only loan rate lower would be an equity loan.

Senator Ellis asked if the Alaska Student Loan Corporation could be available on various campuses to discuss financial issues affecting students. Ms. Barrans replied that the commission had met with students regarding the legislation. She agreed that a forum would be helpful. She expressed dissatisfaction with the change that was needed.

[9:40:26 AM](#)

Co-Chair Stedman asked what other states were facing regarding student loans and how other states had responded. Ms. Barrans replied that every state is facing the situation. In some states the non-profit entity stopped making education loans. In other states, the state has stepped in and purchased the bonds sold by the issuer at a negotiated rate that was beneficial to the issuer. Some states, such as New York, are creating a new alternative loan program, a pre-funded guaranteed loan. She added that in each case, good credit criteria are in place. States are intervening to assist with the current lack of liquidity and with the ability to finance things in the market, not to put a program in place that is widely available. Alaska's program, even with the modest credit criteria in place since 1998, is an anomaly in terms of how widely available the

loan is. She estimated that 13 to 15 other states have taken some sort of action.

[9:42:37 AM](#)

Senator Thomas requested the default rate on the student loans in Alaska. Ms. Barrans responded that the seasoned rate after aging the loans into repayment for several years is over of 11 percent.

Co-Chair Stedman asked if the default rate was changing. Ms. Barrans answered that the default rate has vastly improved since the first decade of lending; one of the things that prompted the 1998 credit review was default rates approaching 30 percent. The commission hoped that adding credit criteria would be sufficient. She opined that the program would have gone forward if it had not been for the meltdown in the credit markets and the change in posture by rating agencies and investors with respect to the underlying loans. However, the effect of the economy in the past year and a half has permanently changed the ways rating agencies, banks, and investors view underlying assets for loans.

Senator Olson commended the commission for bringing the default rate down and asked what kind of losses the state has had to cover.

[9:45:02 AM](#)

Ms. Barrans responded that the commission continues to aggressively collect on default loans. She noted that students at smaller debt levels usually default, especially students who did not complete school. The average default debt is less than \$20,000.

CHARLENE MORRISON, CHIEF FINANCIAL OFFICER, ALASKA COMMISSION ON POSTSECONDARY EDUCATION, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, reported that the dollar value of the commission's loans in default is \$46 million in principal.

Co-Chair Stedman asked for the definition of default status. Ms. Morrison replied that a loan is in default when a borrower is over 270 days past due on their current repayment plan.

Co-Chair Stedman wondered if the statistics included anyone who was outside their original repayment schedule, which would include restructuring.

[9:48:28 AM](#)

Senator Olson asked how much borrowers were in default. Ms. Morrison answered approximately \$40 million as of 12/31/2008

[Note: Ms. Morrison changed the default number to \$82 million at the end of the meeting].

Senator Olson asked how many borrowers in default have been written off completely. Ms. Morrison replied that the commission writes off loans after a student has been delinquent for seven years. Prior to that time the collection process can be used. The total principal plus interest to be written off is approximately \$5 million.

Senator Olson queried the forecasted default rate for students who will be impacted because of the proposed credit rating. Ms. Morrison replied that they expect the rate to be less because of more co-signers. She could not give a dollar amount.

Senator Thomas wondered how many individuals are represented in the \$40 million default total and asked the process of collections. Ms. Morrison answered that she did not know how many individual borrowers were in default, but said she would get the information.

[9:51:29 AM](#)

Ms. Barrans explained the collection process, which begins at 15 days past due and includes reminder notices on monthly statements, phone calls, and counseling borrowers on ways to avoid being delinquent or in default. Once a borrower is 180 or more days past due, there are collection levers that can be used, including garnishment of wages or the permanent fund dividend and liens on Alaskan property. After a year, the commission will transfer the borrower to a collection agency.

Co-Chair Stedman opened public testimony.

LEE DONNER, MANAGING DIRECTOR, FIRST SOUTHWEST COMPANY and ADVISOR, ALASKA STUDENT LOAN CORPORATION (testified via teleconference), explained that the market for securities, the proceeds of which are used for alternative student loans, has changed dramatically in the last year and a half. A recent review of current market conditions and the status of alternative loan programs around the country revealed that there have only been three tax-exempt fixed-rate alternative loan financings executed by state agencies, or tax exempt issuers in the category of the student loan corporation. Most of the programs require a FICO (or credit quality) score for the borrower or co-signer of 670 to 720. The current standard for up-front fees to offset losses ranges from 4 to 7 percent of the face amount of the loan, depending on whether there is a co-signer. For alternative loan programs with very good default history and a significant duration of good history, the rate ranges from 7.5 to 8 percent. For programs with bad default history or

new start-up programs, the rate ranges from 8 to over 9 percent.

Mr. Donner referred to a recent comparable example in the market place: Sallie Mae, or the Student Loan Corporation, did a \$1.5 billion financing. To obtain an investment-grade rating, Sallie Mae had to over-collateralize the transaction by almost 50 percent. The average FICO score for the loans involved was 726 and the interest rate on the debt they sold ranged over three months from 425 to 750 basis points because it was for alternative loans.

Mr. Donner stated that the provisions in HB 109 were prudent and necessary, and as restrained as realistically possible for refinancing in current market conditions.

[9:56:58 AM](#)

Mr. Donner strongly recommended passage of the bill as advisor to the state and to a number of other student loan entities struggling with the same market conditions.

Ms. Morrison corrected her earlier total of loans in default from \$40 million to \$82 million.

[9:58:15 AM](#)

RECESSED

[3:09:28 PM](#)

RECONVENED

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ADJOURNMENT

The meeting was adjourned at 3:09 PM.