

**ALASKA STATE LEGISLATURE
HOUSE EDUCATION STANDING COMMITTEE**

March 19, 2012

8:05 a.m.

MEMBERS PRESENT

Representative Alan Dick, Chair
Representative Lance Pruitt, Vice Chair
Representative Eric Feige
Representative Paul Seaton
Representative Peggy Wilson
Representative Sharon Cissna
Representative Scott Kawasaki

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

DISCUSSION: PROPOSED STATE EDUCATION STANDARDS WITH EED

- HEARD

PRESENTATION: NORTHWEST ARCTIC BOROUGH SCHOOL DISTRICT STAR OF
THE NORTHWEST MAGNET SCHOOL

- HEARD

HOUSE BILL NO. 272

"An Act providing for a reduction in interest on postsecondary
education loans for residents."

- HEARD & HELD

SENATE BILL NO. 137

"An Act requiring suicide awareness and prevention training for
certain school personnel."

- BILL HEARING CANCELED

PREVIOUS COMMITTEE ACTION

BILL: HB 272

SHORT TITLE: STUDENT LOAN INTEREST REDUCTIONS

SPONSOR(S): REPRESENTATIVE(S) GARA, GUTTENBERG, GARDNER,
KERTTULA, HOLMES, TUCK, KAWASAKI, PETERSEN, GRUENBERG, CISSNA

01/17/12 (H) PREFILE RELEASED 1/13/12
01/17/12 (H) READ THE FIRST TIME - REFERRALS
01/17/12 (H) EDC, FIN
01/25/12 (H) SPONSOR SUBSTITUTE INTRODUCED
01/25/12 (H) READ THE FIRST TIME - REFERRALS
01/25/12 (H) EDC, FIN
02/22/12 (H) 2D SPONSOR SUBSTITUTE INTRODUCED
02/22/12 (H) READ THE FIRST TIME - REFERRALS
02/22/12 (H) EDC, FIN
02/27/12 (H) EDC AT 8:00 AM CAPITOL 106
02/27/12 (H) <Bill Hearing Rescheduled to 02/29/12>
02/29/12 (H) EDC AT 8:00 AM CAPITOL 106
02/29/12 (H) Scheduled But Not Heard
03/05/12 (H) EDC AT 8:00 AM CAPITOL 106
03/05/12 (H) Heard & Held
03/05/12 (H) MINUTE(EDC)
03/19/12 (H) EDC AT 8:00 AM CAPITOL 106

WITNESS REGISTER

COMMISSIONER MIKE HANLEY, Commissioner
Department of Education and Early Development (EED)
Juneau, Alaska

POSITION STATEMENT: Provided comments on the proposed state
education standards.

DR. NORMAN ECK, Ph.D., Superintendent
Northwest Arctic Borough School District
Kotzebue, Alaska

POSITION STATEMENT: Provided a presentation from the Northwest
Arctic Borough School District on the Star of the Northwest
Magnet School.

REPRESENTATIVE LES GARA
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Spoke as one of the joint prime sponsors of
SSHB 272.

DIANE BARRANS, Executive Director
Alaska Commission on Postsecondary Education (ACPE)
Department of Education and Early Development (EED)
Juneau, Alaska

POSITION STATEMENT: During hearing of SSHB 272, answered questions.

ACTION NARRATIVE

[8:05:14 AM](#)

CHAIR ALAN DICK called the House Education Standing Committee meeting to order at 8:05 a.m. Representatives Pruitt, Feige, Seaton, P. Wilson, and Dick were present at the call to order. Representatives Cissna and Kawasaki arrived as the meeting was in progress.

Discussion: Proposed State Education Standards with EED

[8:05:39 AM](#)

CHAIR DICK announced that the first order of business would be a continuation of the committee's discussion of the proposed state education standards.

[8:06:54 AM](#)

COMMISSIONER MIKE HANLEY, Commissioner, Department of Education and Early Development (EED), began by clarifying his thoughts in regard to the letter [Chair Dick] sent regarding reasons not to adopt the proposed Alaska state education standards. The letter mentions multiple times that a full third of the state's 9th graders will leave the system prior to graduating. However, the annual dropout rate for 2011 was 4.7. In terms of a cohort of 9th grade to 12th grade, the dropout rate is closer to 18-19 percent, which isn't a third. However, that rate is still too high.

[8:08:20 AM](#)

CHAIR DICK surmised then that if 18 percent of all the 9th graders four years ago were considered dropouts, the other 82 percent must have received a high school diploma.

COMMISSIONER HANLEY explained that those receiving diplomas could've been fifth- or sixth-year graduates. There are a small percent, about 2-3 percent, of students who don't graduate but aren't considered dropouts because they have severe cognitive disabilities.

8:09:15 AM

REPRESENTATIVE CISSNA indicated that the dropout explanation should also reference those students affected by fetal alcohol syndrome, although she reported that such students may no longer be identified.

COMMISSIONER HANLEY clarified that the 2 percent of students who have severe cognitive disabilities are students who are learning to communicate with devices, feed themselves, and clothe themselves. The students with fetal alcohol syndrome, which is an entire spectrum, were not included in the 2 percent.

8:10:43 AM

COMMISSIONER HANLEY, referring to the letter, addressed the concern regarding the language used in the standards. He reminded the committee that the audience is educators and implementers of the standards, which requires specificity in the standards to ensure they are all teaching toward the same criteria. Generalities don't work in standards because it could result in trying to measure one thing while teaching in several different directions. The letter also mentions the "Elite 7" that is the 7 percent of students who graduate college in six years. He acknowledged that 7 percent is a dismal percentage, although he stated that the K-12 education system isn't totally to blame. The standards, he said, aren't necessarily aimed at the 7 percent because if they were the [education system] would be considered to be failing. He highlighted a chart that illustrates that a much higher percentage of [high school graduates] move on to careers and into jobs. Therefore, he opined that Alaska's education system has college- and career-ready standards. However, from the university system he understands that the chance of graduation from college declines [in relation to] every remediation course a student needs. Therefore, the college-readiness portion of the education standards needs to be strengthened such that remediation isn't necessary. When students arrive at college, they should not require remediation.

8:13:03 AM

CHAIR DICK pointed out that anyone can attend the University of Alaska system and be accepted, unlike many Ivy League or private schools that have entrance requirements.

REPRESENTATIVE SEATON agreed that one must be cautious with the comparison, however, of the top 10 percent of Alaska's high school graduating classes, 35-50 percent require remediation courses at college. Therefore, the [K-12 education system] needs to do a better job preparing students for college.

COMMISSIONER HANLEY agreed that students need to be prepared for whatever postsecondary education they choose.

[8:14:53 AM](#)

COMMISSIONER HANLEY, recalling the testimony from superintendents to this committee, related that he has been encouraged by programs such as the Nenana School District's vocational education program, the dual credits with Western Oregon, and student leadership teams. He also highlighted the Aleutians East Borough School District that uses laptops and Alaska's Learning Network (AKLN) distance delivery education to achieve its 100 percent graduation rate. The Valdez City School District has a graduation rate in the 90th percentile. In the Klawock City School District work ethic is taught and the district's mission focuses on exemplary, well-rounded education for the whole child. The Klawock City School District has a 91 percent graduation rate, low teacher turnover, and a focus on youth employability skills. The Delta/Greely School District offers welding, construction, trades, forensics, and robotics. Most students in the Delta/Greely School District participate in some extracurricular activity and the graduation rate is about 79 percent. Although he acknowledged that there's need to improve, he said it's difficult to say education/school districts across the board are a broken paradigm. There are some shining lights, including three districts that have raised their standards beyond the state standards. For instance, the Alaska Gateway School District focuses on the common core, which is a set of standards that 49 states have adopted. Those standards, he mentioned, were developed by the National Governor's Association. He noted that the Juneau School District also teaches to the common core. The new proposed standards heavily reference the common core. He emphasized that although the standards can be different, Alaska needs to match the level of rigor of the majority of the nation because Alaska's students will compete with those in the rest of the nation.

[8:18:27 AM](#)

REPRESENTATIVE P. WILSON asked for a list of the schools that are considered outstanding. Further, she expressed interest in knowing what it is that these schools are doing right, which might be utilized by other schools.

COMMISSIONER HANLEY remarked that success is a subjective measurement. Although he said he could provide a list of schools with high performance and many programs in place, he related his belief that a program doesn't necessarily make the difference. The success, he indicated, is a result of the attitude, the vision, and focus of the faculty with a tool. He told the committee that the Yukon-Koyukuk School District just came out of intervention during which the teachers said that the kids are worth whatever it takes. That attitude has resulted in the Yukon-Koyukuk School District doing great things that it wants to spread to other districts.

REPRESENTATIVE P. WILSON asked then whether teacher development is being done in ways that excite teachers. She opined that there are a lot of schools not on the list that need intervention.

COMMISSIONER HANLEY informed the committee that currently the department is reviewing the state system of support, which includes the coaches in the intervention districts. The intent is to maximize the use of the coaches that have one area of expertise such that each coach is trained [over a broader spectrum] so that they can be versed in more areas and used throughout more districts in the state.

[8:22:11 AM](#)

CHAIR DICK returned the committee's attention to the standards, which refer to what is taught not how it's taught.

[8:22:37 AM](#)

REPRESENTATIVE CISSNA highlighted the shrinking populations in rural Alaska, which results in a negative effect. She opined that educators need to be taught such that they operate with the inner core belief that the kids are worth whatever it takes. She further opined that should be the overarching standard. She expressed hope that there could be more conversations about standards.

CHAIR DICK agreed and said that anyone interested could meet with him and the commissioner regarding standards.

8:25:17 AM

REPRESENTATIVE SEATON surmised that the basic premise is the state standards for language and math. He then requested that the commissioner present the structure of the existing standards versus the structure of the new standards and how that will impact the school districts. He recalled the deputy commissioner discussing the mathematical practice standards. However, he didn't see a parallel in the English language arts standards.

8:27:15 AM

COMMISSIONER HANLEY clarified that there isn't a huge paradigm shift in the standards and further there aren't many new standards rather there are adjustments and specificity of the standards. The proposed standards, he stated, are specific enough that a separate level of grade level expectations (GLE) aren't necessary. Teachers should be able to review the standards and understand what his/her students need to learn by the time they graduate from a specific grade level.

COMMISSIONER HANLEY, in further response to Representative Seaton, explained that initially the standards were content based and were measured by performance standards that ultimately became the GLEs to quantify the progress. The proposed standards are performance based. He acknowledged that some teachers complain that the proposed standards are too specific, but he believes they are specific enough that they allow the teacher to see and measure the standard. The biggest change is that requirements have been shifted between grade levels such that the knowledge that was expected in one grade level is now expected at an earlier grade level. This shift and clarification of standards allows the state to extend what it expects students to know through high school.

REPRESENTATIVE SEATON inquired as to where the new mathematical practice standard and content standards appear in the list. He related his understanding that there are content standards and standards of mathematical practice as well as individual classroom grades.

COMMISSIONER HANLEY said that he wasn't prepared to speak to the math as he only brought along the language arts standards. He acknowledged that the standards for math and language arts seem to be organized in totally different systems. Math is very

concrete learning, whereas there are several components to reading. Therefore, the two look very different in terms of the content area. He offered to bring the math standards to the next meeting for review and discussion.

8:32:55 AM

CHAIR DICK, drawing from a discussion with a local math teacher, related his belief that as good as the proposed math standards are he didn't believe every teacher in Alaska is able to incorporate the standards. Furthermore, there's no way to measure that a student has been taught in the fashion envisioned by the standards beyond classroom evaluation. He maintained that not all teachers would be able/prepared to teach what is being required nor was he sure that there are enough resources to ensure the professional development necessary.

8:35:37 AM

REPRESENTATIVE CISSNA observed that the goal is to cultivate college-ready students. She defined college as anything beyond high school; that is skill sets that are beyond high school. These skill sets, she opined, would be those that work in urban settings, which don't take into consideration culturally sensitive aspects. Therefore, students would be tested in terms of being college ready not in terms of being able to work with each other. Furthermore, testing that focuses on areas that students who are affected by fetal alcohol syndrome and other issues could do isn't being done. There is something missing and large groups of people are being left behind [in terms of education], she emphasized. Therefore, the state and those thinking about education need to address those groups that are left out. She inquired as to how the aforementioned can be incorporated into the conversation.

8:38:17 AM

COMMISSIONER HANLEY agreed that the skills mentioned by Representative Cissna are critical but difficult to assess. He said he wasn't sure they wanted to assess those skills on a statewide level, although he believed it's key for school districts to focus on characteristics it wants to cultivate such as employability and citizenship skills. Although these characteristics would look different from community to community, he acknowledged that every student needs to be able to work well with others, problem solve, be good citizens, etcetera. Commissioner Hanley turned to Representative Cissna's

point regarding shrinking communities, especially in rural Alaska. He opined that there couldn't be standards that focus on rural Alaska because those areas are shrinking and students need to be provided the opportunity to be successful anywhere they choose to go, including rural Alaska. The aforementioned is a difference between setting a standard that provides opportunities for the student in rural Alaska and standards to provide students opportunities in and out of rural Alaska. He informed the committee that an average adult changes careers five times, and thus students need to be educated with a basic set of skills that allow options.

REPRESENTATIVE CISSNA interjected that what's missing is that a study of what is occurring in rural Alaska is not being undertaken and thus, she said, "We're batting in the dark." Therefore, she stressed that the state needs to change its priorities and what is being done.

COMMISSIONER HANLEY said he wasn't sure what organization would determine that dynamic.

[8:41:06 AM](#)

CHAIR DICK paraphrased a comment from Diane Barrans, as follows: "Data published for all of 2010 reflects that 7 out of 100 Alaska ninth graders will complete a college credential." He then questioned whether the standards will be directed to the 7 percent of students who will complete a four-year college degree, or will the standards be directed to all students with a fast track for those [going on to college]. He acknowledged that there's the need for specific language in describing the standards in order for there to be accuracy. However, if the public finds it difficult to read the standards and can't understand them, then he questioned whether the public comment is really meaningful. Chair Dick noted agreement that the 7 percent should be increased, but asked how [the education system] would speak to the needs of the remaining percent of students. He further asked whether the remaining percentage of students may be marginalized due to the way in which these standards are written. He read one of the mathematical standards and said even as a math teacher he would need help understanding the standard. However, he maintained that even if he understood the standard, he struggled to understand how it could help someone be successful with a career path of a fisherman, miner, or truck driver. Therefore, he emphasized that the fundamental question is whether a set of standards is going to be created that is totally focused on students going to

college or standards that are focused on rigor for all students and include the career path portion. With regard to the concern about the student who proceeds on a career path but then changes his/her mind and seeks a college path, he informed the committee that in Northern Ireland two tracks were utilized. The two tracks resulted in more college graduates because the students on the career track were so engaged and saw the meaning of what they were doing such that they decided to cross over to the college track. Those students who crossed over were better prepared, he opined, because with only a college track the career track students would've become disengaged and perhaps wouldn't have even qualified [for college].

[8:45:25 AM](#)

COMMISSIONER HANLEY remarked that the converse of the 7 percent is that 93 percent of the students are sent to the career track. The 93 percent aren't marginalized but rather are in careers, he opined, unless they are unemployed, which isn't borne out with Alaska's unemployment rate. Therefore, he further opined that the state has done a better job with its standards and focus on education to prepare students for a career than for completion of a college degree. The 7 percent isn't enough to fill the vacant [college degree] positions.

[8:46:37 AM](#)

CHAIR DICK questioned whether it would be better to teach to a real life application, if the purpose of education is to provide meaningful understanding of the world. He recalled his experience writing curriculum and producing videos to motivate Alaska Native students in Anchorage to become involved in the Alaska Native Science & Engineering Program (ANSEP) for engineering. He read a mathematical standard and maintained that it would be a struggle to teach the concept in terms of applying it to real life.

[8:48:36 AM](#)

COMMISSIONER HANLEY acknowledged that as a commercial fisherman he didn't require much of what he learned in high school, which could also be said for a good portion of mining employment. However, when fishing he decided to add value to his product, which required a college education or at least a high school education. Commissioner Hanley pointed out that although simpler aspects of math, such as the circumference of a circle may not be used every day or used by a miner or a fisherman, he

didn't believe geometry shouldn't be taught. He opined that people are more than a set of skills rather they are the sum of all that they know. Understanding what is beyond skills that are used on an everyday basis cultivates a sense of wonder and is important even if it doesn't fit into a career. Therefore, the rigor is necessary to allow Alaskan students to compete no matter what they choose to do. When comparing urban and rural students, the ANSEP commercial comes to mind and he stressed the need to allow them [to take college track classes] more than placing a ceiling on the standards that challenge them [in terms of career ready classes].

[8:51:22 AM](#)

CHAIR DICK clarified that the suggestion is to provide a fast track for the ANSEP students, not a ceiling. He said that upon reviewing those on the standards review list only three people are not educators. Therefore, he expressed the need for there to be an equal voice from career path representatives because that's where the students are heading. Furthermore, the career destinations are relating that the students aren't reaching them prepared. Chair Dick posed a scenario in which an employer finds that a student can't do a math problem. He suggested that the student could solve the problem in the textbook, but the real life application isn't being presented to students. That is where the system is failing, he stressed. Moreover, if there's no real life application perhaps it shouldn't be taught because there's no shortage of information available.

[8:53:35 AM](#)

REPRESENTATIVE CISSNA recalled the engineering that is displayed in the museums of the nation in the artifacts from indigenous people. For them the test was survival, and the science and technology was very advanced. She stressed the need to promote and build on their success.

CHAIR DICK promised that he would fiercely defend any standard that teaches applied math that's necessary to be successful.

[8:56:14 AM](#)

The committee took an at-ease at 8:56 a.m.

CHAIR DICK passed the gavel to Representative Seaton.

[8:56:48 AM](#)

REPRESENTATIVE SEATON requested the department provide a comparison of the current standards and the proposed standards in reading and math, specifically a comparison of the anchor standards, the grade level standards for each of the anchor standards, and how they correspond with the math standards and the math performance standards.

[8:57:47 AM](#)

REPRESENTATIVE P. WILSON opined that a comparison of the proposed Alaska standards with the common core standards reveal the two are almost identical. She inquired as to the reasoning behind [and expected outcome] in adopting these standards. Would adoption of these proposed standards allow the state to get out from under No Child Left Behind (NCLB), she asked.

COMMISSIONER HANLEY stated that there is no direct connection with NCLB. Basically, the National Governors Association through the Chief Council of State School Officers developed the common core standards. Forty-five states bought into those standards, which couldn't be changed. Since Alaska chose to make some adjustments, it couldn't be considered a common core standard state. He informed the committee that one of the criteria of NCLB is to have college- and career-ready standards. The common core standards are recognized as such. The proposed Alaska standards have been reviewed by those who have implemented the common core standards and they are considered college- and career-ready standards. Therefore, the state could request a waiver for NCLB.

[9:00:32 AM](#)

REPRESENTATIVE P. WILSON surmised then that the current standards aren't acceptable for NCLB, and thus would allow Alaska to opt out of the federal requirement.

COMMISSIONER HANLEY replied yes, adding that he spoke with the U.S. Assistant Secretary of Education who said that the current standards aren't enough to allow a waiver to be requested.

REPRESENTATIVE P. WILSON related her understanding that if the proposed standards are rejected, NCLB couldn't be opted out of, only frozen while the state works on new standards.

COMMISSIONER HANLEY replied yes, adding that the freezing would occur with the understanding that the state would apply for the

waiver in September. Therefore, if HB 330 is adopted, it would preclude the state from opting out. In further response to Representative P. Wilson, Commissioner Hanley confirmed that the state would continue [under the existing standards] and there will be higher levels of schools deemed as failing by NCLB.

REPRESENTATIVE P. WILSON inquired as to what would happen if the state adopted the proposed standards and opted-out of the NCLB.

COMMISSIONER HANLEY answered the only thing that would change is that it would allow the state to put in place its own standards, change its growth model, and determine the accountability.

[9:04:10 AM](#)

REPRESENTATIVE SEATON requested that the commissioner provide that in a written statement.

[9:05:14 AM](#)

REPRESENTATIVE P. WILSON inquired as to whether September is the only NCLB deadline to opt-out.

COMMISSIONER HANLEY indicated that there are rolling deadlines and he didn't know when the next one would be.

[9:05:26 AM](#)

REPRESENTATIVE CISSNA requested information regarding the effectiveness or lack thereof of NCLB. She related her belief that using failures with school isn't appropriate.

**PRESENTATION: Northwest Arctic Borough School District/
University of Alaska-Chukchi College/ Star of the Northwest
Magnet School Alaska Technical Center**

[9:06:42 AM](#)

REPRESENTATIVE SEATON announced that the next order of business would be a presentation from the superintendent of the Northwest Arctic Borough School District.

[9:07:15 AM](#)

DR. NORMAN ECK, Ph.D., Superintendent, Northwest Arctic Borough School District, introduced a video that explains the cooperative arrangement the Northwest Arctic Borough School District has with the University of Alaska Fairbanks-Chukchi

College and the Alaska Technical Center. From that partnership the Star of the Northwest Magnet School has begun to be developed. Star of the Northwest is designed for grades 11-14 to take students from the high school experience into postsecondary education in terms of process technology, health care, and public school teaching. The committee then viewed the video.

9:17:50 AM

DR. ECK pointed out that the committee packet should include a cover letter from him as well as a booklet on the Star of the Northwest Magnet School. He informed the committee that construction is beginning on the Alaska Technical Center to completely remodel and expand it so that it can become the Star of the Northwest and allow high school students to mix with the postsecondary students. The hope is to obtain funds through the capital budget to construct a 100-bed dormitory for the high school students.

9:19:17 AM

REPRESENTATIVE P. WILSON asked if the program is being set up to accommodate students in the immediate area or is it available to students outside the immediate area.

DR. ECK responded that the dormitory is important because the program is for students in Kotzebue as well as the "high-fliers" [from outside of Kotzebue] who require a challenge. He opined that many dropouts are bored with school, and thus the Star of the Northwest would provide them an option. Dr. Eck further opined that it's time for regional boarding schools in the state. The state needs several regional boarding schools to meet the needs of rural high school students who don't receive an adequate education. In further response to Representative P. Wilson, Dr. Eck expected no more than a few students from the 10 high schools outside of Kotzebue. Therefore, there would likely be 40-50 slots available for those outside the region.

9:21:46 AM

REPRESENTATIVE SEATON inquired as to the impact on the small schools from which the boarding school would draw.

DR. ECK answered that the small schools in the region are K-12 schools, and thus he didn't anticipate the boarding school having an effect on them. However, he expressed the small

schools need to be maintained as an option for students and families. The boarding school allows a student to develop a career in a high paying field while also living in a village.

[9:23:42 AM](#)

REPRESENTATIVE CISSNA asked if any thought has been given to having short-term camps or [intense] classes [for a shorter period] in order to involve more students from the area.

DR. ECK replied yes, intensive courses/camps will be offered. He then highlighted that in rural Alaska there is a real need for young people to obtain a driver's license, which led to the purchase of a driver's education automobile to offer a driver's education course.

[9:26:25 AM](#)

REPRESENTATIVE CISSNA characterized the Star of the Northwest Magnet School as a good model and asked whether there will be a website to obtain further information.

DR. ECK informed the committee that the district website is under reconstruction, but will contain information about the Star of the Northwest Magnet School once it's available.

HB 272-STUDENT LOAN INTEREST REDUCTIONS

[9:28:19 AM](#)

REPRESENTATIVE SEATON announced that the final order of business would be SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 272, "An Act providing for a reduction in interest on postsecondary education loans for residents." [Before the committee was CS 2d SSHB 272, Version 27-LS1162\R, Luckhaupt/Mischel, 3/2/12, adopted 3/5/12.]

[9:29:13 AM](#)

REPRESENTATIVE LES GARA, Alaska State Legislature, reminded the committee that SSHB 272 provides a principal reduction for students who stay in state or return to Alaska after completing their degree.

[9:29:49 AM](#)

The committee took a brief at-ease.

[9:30:01 AM](#)

REPRESENTATIVE SEATON reviewed the materials that should be included in the committee packet.

[9:32:37 AM](#)

REPRESENTATIVE GARA, referring to a question from Representative Cissna, explained that the statutes referenced in SSHB 272 are regarding the rules for default, consolidating loans, and eligibility. Those statutes weren't changed but had to be referenced in the legislation.

[9:33:11 AM](#)

REPRESENTATIVE GARA reminded the committee that the original intention of the legislation was to reduce the interest rates for those students who, upon completion of a degree, stayed in Alaska or returned to Alaska. To reduce the cost, the discount isn't given until the student completes his/her degree. The commission has the authority to determine what a timely completion of a degree/certificate is. It is much easier to administer the program by reducing the principal versus the interest rate as it would save on staffing. Therefore, the legislation currently specifies that for those students who, after completing their degree, remain in or return to the state would receive a 3 percent reduction in the principal annually. The program has residency requirements that reflect those that are in the permanent fund dividend qualification. He reported that currently roughly 40 percent of the students who leave the state [for education] do not return. The existing student loan rates are between 6.2 percent and 7 percent for new loans and higher for older loans. He compared student loan rates to car loan rates, which can sometimes be as low as 3 percent.

[9:37:08 AM](#)

DIANE BARRANS, Executive Director, Alaska Commission on Postsecondary Education (ACPE), Department of Education and Early Development (EED), directed attention to the memorandum dated March 14, 2012, that she provided to the committee. The memorandum addresses information requested by the committee in regard to default rates, expectation of the effect of a principal reduction program on the default rate, and timely completion of the degree in Alaska.

[9:37:53 AM](#)

REPRESENTATIVE P. WILSON noted that the out-of-state default rates are much lower than the in-state default rates.

MS. BARRANS said that has historically been the case. Although ACPE hasn't performed a study regarding the reasons for the higher default rate for in-state students, she pointed out that the types of schools students attend out-of-state tend to be more highly selective. Therefore, one can assume that the students [attending out-of-state schools] are more prepared and are succeeding at a higher rate, and thus have the wherewithal to earn wages that allow them to repay the loans.

[9:38:59 AM](#)

REPRESENTATIVE SEATON, upon reviewing the first page of the memorandum, surmised that in-state default rates in Alaska have been consistently 2 percent higher than the default rate for out-of-state schools. He asked if [Alaska's] out-of-state default rate is comparable to other states and other loan programs.

MS. BARRANS answered that hasn't been reviewed. Comparing state alternative loan programs is difficult because often the terms and conditions vary from state to state. For instance, the alternative program in New Jersey has a very high underwriting standard for students to qualify, including having a credit worthy co-signer. Therefore, the default rate is substantially lower than those in Alaska. The practice, at least until the last two to three years, in Alaska basically has been to offer a loan that's available to anyone, regardless of their credit history or lack thereof. Only in recent years would Alaska expect to have rates that are comparable to other state programs.

[9:40:21 AM](#)

REPRESENTATIVE SEATON pointed out that Alaska required a credit worthy co-signer in 2009, but the 2010 default rate increased significantly. He asked if there is any correlation between those two.

MS. BARRANS clarified that the [2010 default rate is the rate] for loans that went into repayment and were in repayment for at least a year in 2010. She told the committee that as the students who took loans in 2009 and 2010 complete their education and begin repayment, ACPE expects there to be substantial improvements in those rates.

REPRESENTATIVE SEATON surmised then that [the 2010 default rate] includes all of the previous loans that were being paid back, and thus would likely not include credit worthy co-signer loans.

MS. BARRANS agreed, and also noted that the default rate has been affected by the state of the economy. For example, the default rates for the federal loan program have increased substantially.

REPRESENTATIVE SEATON noted that student loan debt now exceeds credit card debt, nationwide.

[9:42:29 AM](#)

REPRESENTATIVE SEATON directed attention to page 2 of the memorandum, and asked why there was such an increase in the Alaska Student Loan default rate for 2010.

MS. BARRANS informed the committee that the Alaska Student Loan program is the predecessor to the Alaska Advantage loan, which was initiated in 2002. In 2008 and 2009, ACPE instituted some alternative repayment options that provided borrowers with relief. However, it was determined that the relief merely postponed the delinquency, and thus some of the options were eliminated. She explained that the interest costs for the borrowers was increasing when the costs were added back to their debt after the periods of relief and the borrowers still weren't able to address their delinquency.

REPRESENTATIVE SEATON pointed out that the default rate for Alternative Loan Consolidation is extremely low, nearly non-existent for 2007-2010. Therefore, he inquired as to why.

MS. BARRANS explained that in 2004 an Alternative Consolidation Loan was instituted such that a discounted loan rate was offered. Because borrowers had loans over a period of years and the terms of those loans were all different, there was an advantage to offering a lower rate to consolidate all the loans under a single note. In the new promissory note, many of the forbearances and deferments that existed in the underlying original notes were eliminated. The goal was to incent borrowers to consolidate. Therefore, a lower rate was offered in exchange for borrowers to meet a minimum FICO score or have made full and timely payments for two years on the underlying loans. Ms. Barrans said the quality of those loans were some of

the best of the old Alaska Student Loan program, which resulted in a very low default rate.

REPRESENTATIVE SEATON inquired as to how much of the Alternative Loan Consolidation is taking place.

MS. BARRANS recalled that in the first two to three years of operation there was \$40 million worth of loan volume in the Alternative Loan Consolidation program. At this point, she estimated that there are close to \$100 million in consolidated loans at a 7.5 interest rate. She explained that many students who borrowed in the early 2000s have an interest rate that's lower than 7.5 percent, and therefore they're not motivated to consolidate.

[9:47:07 AM](#)

REPRESENTATIVE SEATON, referring to the chart entitled "Institutional Cohort Default Rates" on page 2 of the memorandum, related his understanding that the top line is the Alaska Institution rate. He also related his understanding that ACPE doesn't believe the program proposed in SSHB 272 wouldn't materially change the default rate on the loans.

MS. BARRANS replied yes to both. The majority of students who default do so because they fail to complete a degree program and are unable to be gainfully employed. A smaller proportion of the default rate is those students who over borrowed and have very high levels of debt. Therefore, a 3 percent principal reduction wouldn't really impact that.

REPRESENTATIVE SEATON remarked that if the lower principal rate motivates students to complete their degree, the default rate of those students would be a lesser rate than other students. Therefore, the additional earning capacity may have some impact.

MS. BARRANS agreed.

[9:48:54 AM](#)

REPRESENTATIVE FEIGE directed attention to the language on page 3 of the memorandum that read as follows:

Generally, regardless of the underlying reasons for the lack of capacity to pay as agreed, borrowers fail to be influenced or motivated by the consequences of delinquency or default, so it seems reasonable to

conclude that the default rate would not be materially impacted by this new potential benefit.

REPRESENTATIVE FEIGE then inquired as to the consequences of delinquency.

MS. BARRANS answered that the consequences of delinquency include ACPE's ability to garnish permanent fund dividends (PFDs), wages, and suspend professional licenses. The ACPE also reports a student's delinquent loans such that they are reflected on their credit reports.

REPRESENTATIVE FEIGE surmised then that the consequences of default are severe, and therefore he pondered what other measures could be taken.

[9:50:45 AM](#)

MS. BARRANS, in response to Representative Seaton, explained that the loans in question are assets of the Alaska Student Loan Corporation. In financing the loans in the bond market and through other types of debt for which the corporation is liable, the corporation commits to certain income streams from those loans. Therefore, any time the legislature creates a program to relieve debt, such as SSHB 272, there needs to be an associated compensation to ensure the corporation is held harmless and can continue to make its debt payments. The fiscal note that will be prepared for the new CS will reflect both the cost of the interest reduction as well as a component for the interest lost to the corporation. A principal reduction, she further explained, will accelerate the rate at which the loans are paid down.

[9:52:35 AM](#)

REPRESENTATIVE SEATON asked whether the Alaska Student Loan Corporation has been constrained by the amount of principal available to offer as loans or has that been relatively unlimited.

MS. BARRANS told the committee that since 2008 the corporation has been funding new loans with the assistance of the state. The corporation entered into a relatively short-term loan from the state in order to continue to finance. Therefore, the corporation uses both recycled payments and the state loan to finance new loans. The aforementioned has been the case through the current year, but in 2013 the corporation intends to reenter

the bond market in order to issue new debt for new alternative loans. She noted, however, that the loan volume has substantially decreased over the last two years. Currently, the corporation makes less than \$15 million in alternative loans annually, which she mainly attributed to changes in the federal rules that prohibit institutions in Alaska from packaging loans for students.

REPRESENTATIVE SEATON returned the gavel to Chair Dick.

[9:53:58 AM](#)

REPRESENTATIVE SEATON inquired as to why the state providing principal for loan purposes is viewed as a detriment of early payment of debt when it's being paid to the corporation and can be used to re-loan.

MS. BARRANS announced that Version R addresses the concerns expressed relative to the initial versions of SSHB 272, and thus she didn't believe the negative perceptions carry through. Version R ensures the Alaska Student Loan Corporation is held harmless. In further response to Representative Seaton, Ms. Barrans confirmed that under Version R the prepayment of the principal through an appropriation by the state isn't viewed as a significant negative so long as the corporation is held harmless. She noted that the fiscal note will reflect the aforementioned.

[9:56:46 AM](#)

CHAIR DICK announced that SSHB 272 would be held over.

ADJOURNMENT

There being no further business before the committee, the House Education Standing Committee meeting was adjourned at 9:58 a.m.