

ALASKA STATE LEGISLATURE
SENATE EDUCATION STANDING COMMITTEE

March 17, 2014
8:00 a.m.

MEMBERS PRESENT

Senator Gary Stevens, Chair
Senator Mike Dunleavy, Vice Chair
Senator Bert Stedman
Senator Charlie Huggins
Senator Berta Gardner

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

SENATE JOINT RESOLUTION NO. 23

Proposing an amendment to the Constitution of the State of Alaska relating to contracting state debt for postsecondary student loans.

- MOVED SJR 23 OUT OF COMMITTEE

SENATE BILL NO. 195

"An Act relating to the membership and authority of the Alaska Commission on Postsecondary Education; relating to the Alaska Student Loan Corporation; relating to teacher education loans; relating to interest on and consolidation of postsecondary education loans; relating to Alaska supplemental education loans; relating to AlaskAdvantage grants; relating to the Alaska family education loan program; relating to postsecondary educational institutions; and providing for an effective date."

- MOVED SB 195 OUT OF COMMITTEE

SPONSOR SUBSTITUTE FOR SENATE BILL NO. 100

"An Act establishing a grant program to be administered by the Association of Alaska School Boards for the purchase of student equipment and technology services; establishing a grant program for innovative approaches to learning; relating to correspondence study programs and student allotments; and providing for an effective date."

- MOVED CSSSSB 100(EDC) OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: SB 195

SHORT TITLE: POSTSECONDARY EDUCATION LOANS/GRANTS

SPONSOR(s): SENATOR(s) FAIRCLOUGH

02/24/14 (S) READ THE FIRST TIME - REFERRALS
02/24/14 (S) EDC, FIN
03/10/14 (S) EDC AT 8:00 AM BELTZ 105 (TSBldg)
03/10/14 (S) Heard & Held
03/10/14 (S) MINUTE(EDC)
03/17/14 (S) EDC AT 8:00 AM BELTZ 105 (TSBldg)

BILL: SJR 23

SHORT TITLE: CONST. AM: STUDENT LOAN DEBT

SPONSOR(s): SENATOR(s) FAIRCLOUGH

02/14/14 (S) READ THE FIRST TIME - REFERRALS
02/14/14 (S) STA, EDC
03/06/14 (S) STA AT 9:00 AM BUTROVICH 205
03/06/14 (S) Moved SJR 23 Out of Committee
03/06/14 (S) MINUTE(STA)
03/07/14 (S) STA RPT 2DP 2NR
03/07/14 (S) DP: COGHILL, GIESSEL
03/07/14 (S) NR: DYSON, WIELECHOWSKI
03/07/14 (S) FIN REFERRAL ADDED AFTER EDC
03/10/14 (S) EDC AT 8:00 AM BELTZ 105 (TSBldg)
03/10/14 (S) Heard & Held
03/10/14 (S) MINUTE(EDC)
03/17/14 (S) EDC AT 8:00 AM BELTZ 105 (TSBldg)

BILL: SB 100

SHORT TITLE: EDUCATION GRANTS; CORRS STUDY; ALLOTMENTS

SPONSOR(s): SENATOR(s) DUNLEAVY

04/06/13 (S) READ THE FIRST TIME - REFERRALS
04/06/13 (S) EDC
04/10/13 (S) EDC AT 8:00 AM BELTZ 105 (TSBldg)
04/10/13 (S) Heard & Held
04/10/13 (S) MINUTE(EDC)
02/07/14 (S) SPONSOR SUBSTITUTE INTRODUCED-REFERRALS
02/07/14 (S) EDC, FIN
03/03/14 (S) EDC AT 8:00 AM BELTZ 105 (TSBldg)
03/03/14 (S) Heard & Held
03/03/14 (S) MINUTE(EDC)
03/14/14 (S) EDC AT 8:00 AM BELTZ 105 (TSBldg)

03/14/14 (S) <Bill Hearing Postponed to 3:00 pm>
03/14/14 (S) EDC AT 3:00 PM BELTZ 105 (TSBldg)
03/14/14 (S) Heard & Held
03/14/14 (S) MINUTE(EDC)
03/17/14 (S) EDC AT 8:00 AM BELTZ 105 (TSBldg)

WITNESS REGISTER

SENATOR ANNA FAIRCLOUGH
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Sponsor of SJR 23 and SB 195.

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

POSITION STATEMENT: Answered questions regarding SB 195.

SHEILA PETERSON, Staff
Senator Mike Dunleavy
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Reviewed the changes in version G of SB 100 on behalf of the sponsor.

SUSAN MCCAULEY, Ph.D., Director
Teaching and Learning Support
Department of Education and Early Development (DEED)
Juneau, Alaska

POSITION STATEMENT: Answered questions related to SB 195.

PETE LEWIS, Superintendent
Fairbanks North Star Borough School District
Fairbanks, Alaska

POSITION STATEMENT: Testified in support of SB 100.

ACTION NARRATIVE

[8:00:47 AM](#)

CHAIR GARY STEVENS called the Senate Education Standing Committee meeting to order at 8:00 a.m. Present at the call to order were Senators Stedman, Dunleavy, and Chair Stevens. He noted three bills on the docket: SB 195, SJR 23, and SB 100.

SJR 23-CONST. AM: STUDENT LOAN DEBT

[8:01:33 AM](#)

CHAIR STEVENS announced the consideration of SJR 23, version U.

SENATOR ANNA FAIRCLOUGH, Alaska State Legislature, Juneau, Alaska, sponsor of SJR 23, explained that the bill proposes to ask voters if the state can refinance post-secondary student loans. It would allow the state to use its good credit to provide students in the past and future with a lower interest rate.

CHAIR STEVENS opened and closed public testimony.

[8:03:02 AM](#)

SENATOR STEDMAN asked why a constitutional amendment is needed instead of going through an appropriations process.

CHAIR STEVENS announced the arrival of Senator Huggins.

SENATOR FAIRCLOUGH explained that Alaska's constitution only allows bonding, with the full faith and credit of the state, for housing loans for veterans and for capital improvement projects.

SENATOR STEDMAN restated the question and asked why the treasury's ability to restructure notes is not used, or other loan programs, instead of changing the constitution.

SENATOR FAIRCLOUGH said it certainly is up to the will of the body if they want to use general fund dollars, but that is something that has not been done in the past. She explained that, currently, the loans are issued against the revenues that the students will pay, a higher percentage than the bond market.

SENATOR STEDMAN asked if there is no other mechanism to achieve the goal, short of changing the constitution.

SENATOR FAIRCLOUGH said the legislature could fully fund the program if they opted to. There would be an issue of fairness due to the number of loans still due.

She related that before this could happen, it would go to a vote of the people in the 2014 election. Next, the commission would have to seek approval by the legislature. In 2016, at the earliest, voters would have to approve the constitutional amendment. The earliest a student could receive the benefits would be in 2017.

[8:06:25 AM](#)

CHAIR STEVENS said the actual vote would take place in the general election of 2014.

SENATOR FAIRCLOUGH said yes.

SENATOR DUNLEAVY moved to report SJR 23 from committee with individual recommendations and attached fiscal notes. There being no objection, SJR 23 was reported from the Senate Education Standing Committee.

[8:07:05 AM](#)

At ease

SB 195-POSTSECONDARY EDUCATION LOANS/GRANTS

[8:08:23 AM](#)

CHAIR STEVENS announced the consideration of SB 195.

SENATOR ANNA FAIRCLOUGH, Alaska State Legislature, Juneau, Alaska, reviewed SB 195. She said bill makes substantive and housekeeping changes to the Alaska State Statutes regarding the Alaska Commission on Post-secondary Education and the Alaska Student Loan Corporation. These changes include allowing the commission to set favorable terms for borrowers and increase the total loan limit a student may borrow. Currently, loan limits have not been changed in almost 20 years. The cost of post-secondary education has almost doubled since 1995. Alaska students and their financial aid officers report that borrowers with a high unmet cost of attendance are increasingly choosing loans with higher loan limits, even those that have higher interest rates.

She explained that this bill defines what an on-time student is so that they can reach and accomplish their goals. It enables a student to enter the workforce earlier and enter repayments sooner so that they have less debt to carry. There is strong evidence that shows the correlation between the intensity of the enrollment of a student and their completion rates.

CHAIR STEVENS asked who the bill would affect and how many years the loan can be used.

SENATOR FAIRCLOUGH deferred to Diane Barrans to answer. She said on page 13, lines 12-14, it takes the loan limit from \$42,500 to \$56,000 and from \$60,000 to \$87,000 for undergraduates and graduate students respectively. The bill also allows consolidation of loans.

CHAIR STEVENS asked how many years the loan is available to a student.

DIANE BARRANS, Executive Director, Postsecondary Education Commission, Department of Education and Early Development (DEED), Juneau, Alaska, answered questions regarding SB 195. She explained that there is not a limit on the number of years a student can access the loan; there is a total dollar amount.

CHAIR STEVENS inquired if part-time students can receive a loan.

MS. BARRANS said they can be part-time students and they have to be matriculated into a degree or certificated program.

CHAIR STEVENS noted the presence of Senator Gardner.

SENATOR GARDNER understood that currently a student with multiple loans is required to pay the oldest one first, not the one with the highest interest rate. She asked about the interest rate and impact of consolidated loans, as provided for in the bill.

[8:12:53 AM](#)

MS. BARRANS clarified that Senator Gardner's understanding is not correct. As long as the student's other loans are paid to a current status, they can prepay any loan they select. Paying the highest rate loan first would be to their benefit. She stated that consolidation is done at the prevailing rate, which is 7.3 percent now. Currently, the only education loans eligible for consolidation are Alaska state loans; SB 195 would allow for other loans.

CHAIR STEVENS asked if the provisions in the bill would apply to parent loans.

MS. BARRANS said they would.

SENATOR STEDMAN asked for additional information regarding the 7.3 percent interest rate and why there is no forgiveness program.

[8:14:31 AM](#)

MS. BARRANS replied, with respect to the interest rate, the market environment post-2008 has substantially changed. The rates have risen substantially. Currently, the loan volume has dropped to the extent that the corporation can use available

cash to fund loans. The previous legislation, SJR 23, would allow the corporation to leverage the AAA rating of the state, even though the bonds would be paid down with revenue from the loans.

She addressed the forgiveness program question. She related that the loan forgiveness program was a very generous program funded through 1987. As a result of the fluctuation of oil revenues, that program was eliminated. The corporation was established in 1987 for the purpose of allowing student loans to become an enterprise operation of the state. She added that the only thing keeping the corporation from instituting a forgiveness program would be making funding available to pay the costs.

SENATOR STEDMAN asked if the borrower would be better off with a forgiveness program or with a 7.3 percent interest rate.

MS. BARRANS replied that very few students enjoyed any benefit from the forgiveness program. When looking at the almost \$500 million of loans that the state funded, fewer than 30 percent of the students enjoyed any benefit. Only 21 percent of those received the full 50 percent forgiveness and the cost to the loan program was larger in loan write-offs from individuals who failed to repay the debt than the cost of loan forgiveness itself. About \$74 million in loans were forgiven. She noted she was one of those who benefitted from loan forgiveness. She said it would depend on which of those students you were, as to whether or not it would be more beneficial to have loan forgiveness. The mind set of borrowers during that time was that it wasn't really a loan.

CHAIR STEVENS said he also received loan forgiveness. He remarked that if people spend five years working in Alaska they will probably stay. Legislators have always liked the idea of loan forgiveness.

[8:19:05 AM](#)

SENATOR STEDMAN said he also had a forgiveness loan. He opined that a person who signed a note in the 80's was under the same payback obligation as someone today. He said he has a hard time drawing a conclusion that there was a different attitude in the past. He suggested that underwriting requirements could be rectified. He said the state has some tools available that should be considered for the future. He noted that a 7 percent interest rate is a whole lot different than 50/50 forgiveness. As far as a policy call, the state has tools available to use. The resources in the treasury are owned by everyone, and he said

he is more inclined to come up with a mechanism to encourage students to return to the state.

[8:21:54 AM](#)

MS. BARRANS said it is up to the will of the legislature. She encouraged loan repayment programs, which are programs that are not entitlements but would pre-fund an account and could be used to pay down loans for individuals who complete credentials in areas that have economic interest to the state. The legislature created such a program two years ago that focused on health care professions; however, the budget for that program has been cut in half. Individuals were recruited into health care jobs and are now at risk for not receiving that benefit. She concluded that SB 195 is more sustainable without relying on year-to-year funding.

[8:23:35 AM](#)

CHAIR STEVENS said more work is needed on this issue.

SENATOR FAIRCLOUGH hoped the committee would move the bill out of committee. She said she and Ms. Barrans have been working on SB 195 for over a year in order to provide a tool the legislature can use at its discretion to help assist students.

CHAIR STEVENS asked Ms. Barrans if she had any further comments.

MS. BARRANS requested support of the bill and thanked the sponsor. She summarized that the key provisions in the bill are the ones that incent on-time enrollment and expedite the time it takes to get a degree. A large portion of students attend part time and complete their credentials in very low numbers.

SENATOR STEDMAN if there was an increase in the number of staff needed to manage today's student loan programs.

MS. BARRANS explained that the current loan portfolio is about \$500 million and the staffing has not substantially changed in numbers. The last significant increase in staff was in the early 90's. Some staff have been reallocated through creating more efficient loan serving systems. Staff now provide outreach and early awareness out of the Anchorage office, and the number of staff on loan servicing has been reduced.

CHAIR STEVENS asked how much the loan portfolio was in the past.

MS. BARRANS explained that when the corporation was making both federally guaranteed and state loans, it was issuing in excess

of \$80 million a year in loans. The program was ended by the current administration in Washington, D.C. in 2008. Since then, there has been a rapid decline in the loan volume due to Congress's seeking to protect consumers against lenders who are not federal education loan lenders. That created barriers because they failed to make a distinction between state-based programs and other lenders. The state can no longer partner with schools to recommend a state loan. The other factor is that the state previously promoted the federally guaranteed loan. At the same time, in order to issue bonds the state had to change the underwriting criteria so that students now have to be credit worthy or have a credit-worthy cosigner. She concluded that this has resulted in a decline rate for about 40 percent of applicants.

[8:29:37 AM](#)

SENATOR HUGGINS asked if any schools are precluded, such as religious schools.

MS. BARRANS said the requirement is that the school be accredited or approved by the commission to participate in the loan program.

SENATOR GARDNER asked if the average 18-year-old requires a cosigner.

MS. BARRANS said yes.

CHAIR STEVENS opened and closed public testimony.

SENATOR DUNLEAVY moved to report SB 195 from committee with individual recommendations and attached fiscal note. There being no objection, the motion carried.

[8:31:39 AM](#)

At ease

SB 100-EDUCATION GRANTS; CORRS STUDY; ALLOTMENTS

[8:33:22 AM](#)

CHAIR STEVENS announced the consideration of SB 100, version G.

SHEILA PETERSON, Staff, Senator Mike Dunleavy, Alaska State Legislature, Juneau, Alaska, reviewed the changes in version G of SB 100 on behalf of the sponsor. She related that version G ensures that the individual learning plan (ILP) would be created with the assistance and approval of a certified teacher, parent,

and child. Added in version G are the following provisions: that the progress of the student would be monitored by the teacher and the vendors would be non-sectarian - public, private, or religious organizations; textbook selection would have to follow the same criteria that public schools use; once a student left the correspondence program, any unexpended allotment monies would return to the district; and a family member who is helping with instruction could not be reimbursed by the allotment fund.

[8:35:45 AM](#)

CHAIR STEVENS asked for the definition of "family members."

MS. PETERSON said family members are "the student's spouse, guardian, parent, step-parent, sibling, step-sibling, grandparent, step-grandparent, child, uncle, or aunt."

CHAIR STEVENS asked if there are any constitutional issues regarding SB 100. He asked about allowing vendors to be religious institutions.

SENATOR DUNLEAVY said many home schools employ vendors approved by the school district for the purpose of supporting a public ILP. Vendors can be private individuals, such as those that have business licenses or are tutors. The important point is that the coursework is being purchased for the support of a public ILP.

He maintained that constitutionality is difficult to define because one must almost have a court action to determine that. He provided an example in the bill previously passed by the committee. He understood that if the purchasing of a course or a service supports a public IEP, it should not be a problem. He opined that people can sue for any reason at any time to test a law.

[8:38:55 AM](#)

SENATOR GARDNER agreed that one never knows until someone takes it to court. She stated, however, that her office has a constitutional opinion that SB 100 does not violate the constitution.

SENATOR STEDMAN asked who has that opinion.

SENATOR GARDNER said her office.

CHAIR STEVENS asked the Department of Education and Early Development (DEED) to respond.

8:40:06 AM

SUSAN MCCAULEY, Ph.D., Director, Teaching and Learning Support, Department of Education and Early Development (DEED), Juneau, Alaska, answered questions related to SB 195. She said that quite a few of the provisions in SB 100 mirror elements that are currently in regulation regarding correspondence study school programs. The additions in version G track closely with regulations, particularly on page 4, line 24, with regard to textbooks, services, and other curriculum materials. She said the changes reflect on-going conversations between the department and the sponsor.

SENATOR GARDNER read on page 4, line 10, section (b), "Notwithstanding another provision of law, the department may not impose additional requirements, other than the requirements specified under (a) of this section and under AS 14.03.320, on a student who is proficient or advanced on statewide assessments required under AS 14.03.123(f)." She asked whether there are additional requirements that might be imposed.

DR. MCCAULEY explained that currently in regulation there are some restrictions regarding the use of allotment funds, such as for gym membership and family travel. In previous conversations there were questions whether or not the language just referenced would restrict the department from monitoring whether a student used an allotment to pay for services provided by a family member. That language has now been added to the bill. Those are two examples that would fall under "imposing additional requirements" and would be at odds when a student is proficient.

SENATOR GARDNER understood that a student enrolled in a program under this bill might be able to use allotment funds for travel and for a gym membership.

DR. MCCAULEY said yes. She understood that those would be permitted and are not restricted and would fall under a broad category of "imposing additional requirements" when a student is proficient.

8:44:00 AM

SENATOR GARDNER said yet services and materials would have to be a part of the ILP and from an approved vendor.

DR. MCCAULEY said correct. There is language that says services must be for an instructional purpose and connected to an ILP. There are still safeguards that ensure allotment funds are to support instruction and have an approval process.

CHAIR STEVENS asked where that language is found in the bill.

DR. MCCAULEY said it is on page 4, line 15, of the original bill.

SENATOR DUNLEAVY opined that the bill has more safeguards than current K - 12 schools have. It focuses on the ILP and outcomes.

[8:46:24 AM](#)

CHAIR STEVENS asked where it says, "must be used for instructional purposes."

SENATOR DUNLEAVY replied that it is on page 4, lines 17 and 30.

SENATOR GARDNER said on page 4, lines 14 and on.

CHAIR STEVENS maintained that he sees the wording "instructional expenses", not "instructional purposes."

MS. PETERSON pointed to page 4, line 16, and page 4, line 30; it must support a public purpose - the education of the child.

CHAIR STEVENS opened public testimony.

[8:49:30 AM](#)

PETE LEWIS, Superintendent, Fairbanks North Star Borough School District, Fairbanks, Alaska, testified in support of SB 100. He said the 80/20 match, innovative learning grants, and one-to-one funding will be beneficial to school districts. He mentioned support for correspondence study program funding. He requested a phase-in approach to the 1 percent funding ratio.

CHAIR STEVENS closed public testimony.

SENATOR DUNLEAVY moved to report CSSSSB 100 from committee with individual recommendations and attached fiscal note. There being no objection, CSSSSB 100 (EDC) was reported from the Senate Education Standing Committee.

[8:52:11 AM](#)

At ease

[8:53:32 AM](#)

There being nothing further to come before the committee, Chair Stevens adjourned the Senate Education Standing Committee at 8:53 p.m.

