

SENATE FINANCE COMMITTEE
March 26, 2014
10:13 a.m.

[10:13:18 AM](#)

CALL TO ORDER

Co-Chair Kelly called the Senate Finance Committee meeting to order at 10:13 a.m.

MEMBERS PRESENT

Senator Pete Kelly, Co-Chair
Senator Kevin Meyer, Co-Chair
Senator Anna Fairclough, Vice-Chair
Senator Click Bishop
Senator Mike Dunleavy
Senator Lyman Hoffman
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT

James Armstrong, Staff, Senator Pete Kelly; Kristen Pratt, Staff, Senator Anna Fairclough.

SUMMARY

SB 195 POSTSECONDARY EDUCATION LOANS/GRANTS

SB 195 was HEARD and HELD in committee for further consideration.

CSHB 266(FIN)

APPROP: OPERATING BUDGET/LOANS/FUNDS

CSHB 266(FIN) was HEARD and HELD in committee for further consideration.

CSHB 267(FIN)

APPROP: MENTAL HEALTH BUDGET

CSHB 267(FIN) was HEARD and HELD in committee for further consideration.

#hb266

#hb267

CS FOR HOUSE BILL NO. 266(FIN)

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs, capitalizing funds, and making reappropriations; and providing for an effective date."

CS FOR HOUSE BILL NO. 267(FIN)

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

[10:14:29 AM](#)

AT EASE

[10:14:43 AM](#)

RECONVENED

JAMES ARMSTRONG, STAFF, SENATOR PETE KELLY, stated that a new committee substitute (CS) was in the drafting process. He announced that there was a contract amendment from the University of Alaska (UA), so the Legislative Finance Division (LFD) was working to incorporate it with four other contracts into one amendment. The contract amendment would not be in the forthcoming CS.

Co-Chair Kelly queried the sources of the other contracts. Mr. Armstrong replied that two contracts were from UA, one was from Alaska Vocational Technical Center (AVTEC), and one was from the Public Safety Employees Association (PSEA).

Co-Chair Kelly handed the gavel to Co-Chair Meyer.

CSHB 266(FIN) was HEARD and HELD in committee for further consideration.

CSHB 267(FIN) was HEARD and HELD in committee for further consideration.

[10:16:24 AM](#)

AT EASE

[10:18:14 AM](#)

RECONVENED

#sb195

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."

[10:19:08 AM](#)

Vice-Chair Fairclough explained that the legislation would broaden the Alaska Commission membership; assessed educational outcomes; and allowed borrowers to receive loans solely from the Alaska Commission on Postsecondary Education, regardless of other options. The legislation allowed the Alaska Student Loan Corporation to offer below-market loan terms, and to consolidate loans. The legislation defined "half-time", "undergraduate", and "graduate" students, and revised the "school year" definition. The legislation increased loan limits for students who borrowed in Alaska, and changed the post-enrollment period from "six months" to "up to six months." The legislation increased the grant that were available to students, and created a revolving loan fund. The legislation increased annual and aggregate loan amounts for borrowers under the Family Education Loan, and amended the definition of "on time enrollments." The legislation modified institutional authorization exemptions of short educational training courses, and allowed the Commission to enter into multiple state reciprocity agreements. She stated that she had been working with Diane Barrans from Department of Education and Early Development (DEED) on the legislation. She stressed that student loan debt was a growing national problem, and Alaska's regulations had not

been recently amended. Specifically, the same loan amount had been available for students since the 1980s. The need for money has increased for the borrower since the 1980s. She pointed out that the borrower was now borrowing at different locations, rather than consolidating the loans in one location. She remarked that the federal government currently offered a much lower rate at 3.80 percent, and the Alaska Student Loan Corporation was offering a rate of 7.30 percent. She stressed that the high rate was a disadvantage for a student to borrow from the State of Alaska. She felt that the legislation would allow students greater flexibility in their loan options, and consolidate those loans.

Co-Chair Meyer wondered why the interest rate was higher than the national rate. Vice-Chair Fairclough replied that the borrowing was based on a revenue stream, but that issue was addressed in a different bill. She stated that when loan amounts were considered, the state rolled in all of the costs to each student. She stated that all of the operating costs from postsecondary education were included in the loans. She furthered that the rate for borrowing was higher, because the revenue stream was the backing to repay the bonds. She remarked that there were ways to reduce the current interest rate, but all of the tools were not currently available.

Senator Olson MOVED to ADOPT the proposed committee substitute for CS SB 195(FIN), Work Draft 28-LS1392\N (Mischel, 3/17/14). There being NO OBJECTION, it was so ordered.

[10:23:23 AM](#)

KRISTEN PRATT, STAFF, SENATOR ANNA FAIRCLOUGH, explained that the only change was on page 19, Section 46 of version N. She stated that Section 46 was a transitional section, and the change was requested by Diane Barrans from the Alaska Commission on Postsecondary Education. The change related to the Teacher Education Loan Program, and the bill changed the funding of that loan program from the corporation to the state. The section grandfathered in the individuals who were already participating in the program.

Co-Chair Meyer asked if the change grandfathered in the current participants. Ms. Pratt stated that the current participants would be grandfathered into the program, with

their interest rates set by the corporation rather than the commission.

Senator Olson wondered how much the change would save the student. Vice-Chair Fairclough replied that the change neither adds nor removes funds.

Senator Hoffman asked if the eligibility of the program pertained only to those individuals that attend an Alaskan university. Ms. Pratt replied that the loan was offered to state residents and nonresidents who were enrolled in the program at an Alaskan university.

Co-Chair Meyer remarked that he had taken issue with the university attracting out of state students, and felt that the bill would encourage out of state students to attend UA.

[10:27:22 AM](#)

Ms. Pratt explained the Sectional Analysis (copy on file):

Section 1: Amends AS 14.42.015(a)
Broadens commission membership to clarify representation by an Alaska private, nonprofit higher education institutions' representative.

Section 2: Amends AS 14.42.015(d)
Broadens commission membership by expanding eligibility for the student commissioner position to include an Alaska private, nonprofit higher education institution's student representative.

Section 3: Amends AS 14.42.030(e)
Clarifies authority for the commission and Department of Education and Early Development to work together to assess education outcomes of public school students.

Section 4: Amends AS 14.42.035
Clarifies authority for the Commission and Department of Education and Early Development to work together to assess education outcomes of public school students.

Section 5: Amends AS 14.42.200

Corrects misplacement of language by removing from paragraph (5) and inserting in paragraph (6) and clarifies specific corporation powers in paragraphs (12), (13), and (15).

Section 6: Amends AS 14.42.205(a)

Provides that a borrower may apply for a state supplemental education loan without first having to exhaust all other federal or private education loan options.

Section 7:

Conforming change to Section 6 regarding the financing program for education loans.

Section 8: Amends AS 14.42.205(c)

Clarifies that corporation education loans are not offered as lines of credit.

Section 9: Amends AS 14.42.210(a)

Clarifies that state education grants are not funded by the corporation's education loan fund.

Section 10: Amends AS 14.43.210(b)

Conforming change with Section 9.

Section 11: Amended by adding a new section (d) to AS 14.42.210

Moves corporation power to offer below-market loan terms. Provision currently limited to the supplemental education loan (see AS 14.43.205(c)(2)).

Section 12: Amended by adding a new section to AS 14.42.215

Clarifies that corporation sets the interest rates on loans it finances.

Section 13: Amends AS 14.42.240(c)

Permits corporation's trust indenture to govern the size of its capital reserve.

Section 14: Amends AS 14.42.240(g)

Conforming change with Section 13.

Section 15: Amends AS 14.42.250

Incorporates the term "perfected", a term of art for uniform commercial code purposes as recommended by the corporation's bond counsel.

Section 16: Amends AS 14.43.120(b)

Updates the name of an institutional accreditation organization.

Section 17: Repeals and reenacts AS 14.43.122

Clarifies corporation authority to offer consolidation loans to state residents. Removes option for joint consolidation of married borrowers.

Section 18: Amends AS 14.43.160(4)

Clarifies definition of "half-time student" for undergraduates and adds a definition for graduate students.

Section 19: Amends AS 14.43.160(5)

Revises school year definition to align with state fiscal year and to conform to standard education lending year.

Section 20: Amends AS 14.43.170

Clarifies that, subject to the annual loan limits, a borrower may receive loans up to the amount of their unmet cost of education without regard to other loans that may be available, leaving the choice up to the consumer.

Section 21:

Provides for applicability of institutional standards for participation in state education loan programs.

Section 22: Amends AS 14.43.172(a)

Updates reference to federal education loans.

Section 23: Amends AS 14.43.172(g)

Updates reference to federal education loans.

Section 24: Amends AS 14.43.173(a)

Clarifies corporation funds the loan and revises upwards the annual maximum loan amount a person may borrow.

Section 25: Amends AS 14.43.173(b)

Revises upwards the aggregate maximum borrowing limit to conform to Section 24.

Section 26: Amends by adding a new section (d) to AS 14.43.173

Clarifies that the commission determines the amount a loan applicant may borrow based upon their enrollment status and not to exceed costs of attendance.

Section 27: Amends AS 14.43.175

Amends maximum length of a post-enrollment deferment period.

[10:31:35 AM](#)

Co-Chair Kelly remarked that the previous language said that the borrower must begin to repay six months following the completion of the loan. He wondered if the new language changed anything. Vice-Chair Fairclough replied that the commission recommended that the outside number be six months, rather than that the start date at six months.

Co-Chair Kelly wondered if the commission was going to examine the student's job situation, and require the student to immediately repay the loan. He felt that a recent college graduate may not have the immediate resources to pay the loan in that timeframe. Ms. Pratt replied that the language was "up to six months", and would not require the student to enter into full repayment, as they would have in the current language. She stated that the change allowed for more opportunity to pay solely the interest rate, until the six months was met. She remarked that the issue would probably need to be outlined in regulation, and deferred to Ms. Barrans for more information.

Co-Chair Kelly felt that perhaps that issue did not need to be a part of the legislation.

Vice-Chair Fairclough remarked that the issue was a policy decision.

Ms. Pratt continued to discuss the Sectional Analysis:

Section 28: Amends AS 14.43.400

Simplifies name for ease of use and identification as a state funded grant.

Section 29: Amends AS 14.43.405(a)
Conforming to Section 28—program name change.

Section 30: Amends AS 14.43.410(a)
Conforming to Section 28—program name change; incorporates by reference commission's existing authority to promulgate program regulations.

Section 31: Amends AS 14.43.415(c)
Permits the commission to set grant terms and conditions. Directs the commission to establish annual grant maximums relative to a student's enrollment status.

Section 32: Amends AS 14.43.420(a)
Revises upwards the annual grant maximum.

Section 33: Amends AS 14.43.420(c)
Revises upwards the aggregate grant amount a person may receive to conform to Section 35.

Section 34: Amends by adding a new section (d) to AS 14.43.420
Enables the commission to designate grant awards as state match in the event federal funds for education grants are available and require such match.

Section 35: Amends by repealing and reenacting AS 14.43.620(a)
Clarifies that the revolving loan fund for Teacher Education Loans is administered by the commission.

Section 36: Amends by adding a new section to AS 14.43.620
Conforms to Section 35—loans to new borrowers may only be made if sufficient funds are available.

Section 37: Amends AS 14.43.640
Clarifies that the commission sets the Teacher Education Loan interest rate on loans financed from the fund established in Section 35.

Section 38: Amends AS 14.43.740(a)

Increases upwards the annual and aggregate loan amounts available to a borrower under the Family Education Loan.

Section 39: Amends AS 14.43.750(a)

Clarifies that to be eligible for the Family Education Loan, both the borrower and student must be Alaska residents.

Section 40: Amends AS 14.43.915(a)

Conforms to Section 30-program name change; permits the administrative costs of the state grant program to be paid from the education grant account.

Section 41: Amends AS 14.43.990

Amends general definitions to incorporate "on-time" enrollment status.

Section 42: Amends AS 14.48.030(b)

Modifies the institutional authorization exemption of short education or training courses by increasing the maximum number of days or total hours of a course.

Section 43: Amends AS 14.48.050

Clarifies that the commission may enter into multi-state reciprocity agreements for the purposes of regulating the delivery of education and training programs in Alaska.

Section 44: Amends AS 14.48.165(b)

Limits the mandatory meningococcal immunization notice requirement to students who are physically present on an institution's campus.

Section 45: Repeals AS 14.43.120(f), 14.43.120(v), 14.43.174, 14.43.410, 14.43.415(b), 14.43.620(b), and 14.43.740(g)

Repeals AS 14.43.120(f) and (v) and 14.43.174 relating to setting of loan interest rates which are governed by AS 14.42.200(9);

repeals AS 14.43.410 to remove reference to defunded federal grant program; repeals AS 14.43.415(b), grant prioritization for certain programs of study; repeals

AS 14.43.620(b), eliminating the use of corporation funds for Teacher Education Loans; and, repeals AS 14.43.740(g), by which the commission was authorized to set Family Education Loan limits in regulation—those limits will now be aligned with the general state education loan limits (as per Section 41, AS 14.43.740(a)).

Section 46: Transition Section

Commission to set Teacher Education Loan interest rate upon enactment. Corporation to set interest rates before enactment of this bill.

Section 47: Revisor's Instructions

Grant administrators retain existing regulations until new act is implemented.

Section 48: Effective Date

The provisions in this bill are effective immediately.

[10:36:56 AM](#)

Co-Chair Meyer wondered if Ms. Barrans was en route to Juneau. Ms. Pratt replied that she was currently on an airplane headed to Juneau.

Co-Chair Meyer asked if Ms. Barrans would be available to address the committee the following day. Ms. Pratt replied in the affirmative.

Co-Chair Meyer noticed that the definition of a full-time student had changed. Vice-Chair Fairclough responded that the commission recommended that those definitions be included in the bill.

Ms. Pratt explained that "on time" was 15 credits, and "full time" was 12 credits.

Co-Chair Meyer queried the default rate of the student loans. Ms. Pratt deferred to Ms. Barrans, but stated that a previous meeting had outlined the default as between 5 and 8 percent. She stated that the rate had recently decreased, after an increase in 2008.

Co-Chair Meyer wondered if the procedure for determining the grant and loan amounts was made through working with Ms. Barrans. Ms. Pratt indicated in the affirmative.

Co-Chair Meyer CLOSED public testimony.

Vice-Chair Fairclough explained that she felt that the current fiscal note was higher than necessary. She remarked that she was hoping that DEED would release a smaller fiscal note, and hoped to have that by the following day.

SB 195 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

10:41:26 AM

The meeting was adjourned at 10:41 a.m.