

SENATE FINANCE COMMITTEE
March 31, 2014
9:07 a.m.

[9:07:13 AM](#)

CALL TO ORDER

Co-Chair Meyer called the Senate Finance Committee meeting to order at 9:07 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

None

ALSO PRESENT

Heather Shadduck, Staff, Senator Pete Kelly; Nancy Meade, General Counsel, Alaska Court System; Diane Barrans, Executive Director, Alaska Commission on Postsecondary Education, Department of Education and Early Development, Executive Officer, Alaska Student Loan Corporation; Christine Marasigan, Staff Senator Kevin Meyer; Senator Fred Dyson; Joshua Banks, Staff, Senator Fred Dyson; Jesse Logan, Staff, Senator Lesil McGuire; Representative Bryce Edgmon; Captain Steven Arlow, Department of Public Safety, Anchorage;

PRESENT VIA TELECONFERENCE

Robert Dotson, Self, Cordova;

SUMMARY

SJR 21 CONST. AM: MEMBERSHIP OF JUDICIAL COUNCIL

CSSJR 21(2d FIN) was REPORTED out of committee with a "do pass" recommendation and with a previously published fiscal impact note: FN1(GOV) and a previously published fiscal impact note: FN2(CRT).

SJR 23 CONST. AM: STUDENT LOAN DEBT

SJR 23 was REPORTED out of committee with a "do pass" recommendation and with a new fiscal impact note from the Office of the Governor and a new fiscal impact note from the Legislature.

SB 104 APPROPRIATIONS FROM THE DIVIDEND FUND

CSSB 104(FIN) was REPORTED out of committee with a "do pass" recommendation and with a new fiscal impact note from Senate Finance Committee for the Department of Corrections and with a previously published zero fiscal note: FN2(ADM), a previously published zero fiscal note: FN3(LAW), and a previously published zero fiscal note: FN6(AMD).

SB 140 AIDEA: ARCTIC DEVELOPMENT PROGRAM/FUND

CSSB 140(FIN) was REPORTED out of committee with a "do pass" recommendation and with one previously published fiscal impact note: FN1(CED).

HB 199 VPSO FIREARMS

HB 199 was HEARD and HELD in committee for further consideration.

#sjr21

SENATE JOINT RESOLUTION NO. 21

Proposing amendments to the Constitution of the State of Alaska to increase the number of members on the judicial council and relating to the initial terms of new members appointed to the judicial council.

[9:09:18 AM](#)

Co-Chair Kelly MOVED to ask unanimous consent to RESCIND the committee's previous action on SJR 21. There being NO OBJECTION, it was so ordered.

9:09:35 AM

Co-Chair Kelly MOVED to ADOPT the proposed committee substitute for SJR 21, Work Draft 28-LS1364\P (Wallace, 3\28\14) as a working document. There being NO OBJECTION, it was so ordered.

9:10:00 AM

Co-Chair Kelly commented that what the committee had previously voted on was to increase the number of public members on the judicial council in order to allow the practical establishment of more regional diversity on the council. Secondly, because there were 3 public members and 3 attorney members, there were times when those two groups had an even split on a nominee; the split put the Supreme Court Justice in the position of having a conflict of interest as they voted with one side or the other. He explained that there were concerns that justices could have an influence on choosing colleagues that would agree with their views. He had discovered that the biggest concern that people had with the state's constitution regarding the judicial council was that the attorney members were not required to be confirmed by the legislature; however, the public members had to go through the confirmation process just like the other state boards. He thought that there was support to pass the resolution on the floor with the previous CS, but that it made sense to address the glaring concerns regarding the attorney members of the board being beyond the scrutiny of elected officials; he offered that having the attorney members be beyond the scrutiny of the legislature did not sit well "our" way of life and how almost every other part of our government and constitution worked. He observed that in the new CS, the Alaska Bar Association would still appoint the 3 attorney members, but that the appointees would come before the legislature to be confirmed. He added there was also language in the CS that addressed a quorum, but that his staff would speak to those changes.

9:13:09 AM

Co-Chair Meyer wanted the public to be aware that public testimony would not be taken on the CS because the committee had already taken public testimony on the previous version.

[9:13:49 AM](#)

HEATHER SHADDUCK, STAFF, SENATOR PETE KELLY, spoke to the changes reflected in Version P. The first change could be found on Page 1, lines 10 and 11:

The three attorney members and six non-attorney members shall be subject to confirmation by a majority of the members of the legislature in joint session.

Ms. Shadduck noted that the next change could be found on Page 2, lines 2 and 3:

The judicial council shall act by **a majority vote** of **a quorum of at least seven** members and according to rules which it adopts.

Ms. Shadduck explained that the language had been change in order for a quorum to be more easily attainable.

[9:15:02 AM](#)

Co-Chair Kelly noted that the 7 members still kept the committee's desire to not have the Supreme Court Justice in the position of having a possible conflict of interest. He further explained that having 7 members on the judicial council, instead of 6, removed the need for the Supreme Court Justice to break a possible tie.

[9:15:32 AM](#)

Ms. Shadduck stated that there had been concern that without a quorum threshold, the judicial council might conduct business with only 2 members; however, it was not the sponsors' intent. She pointed out that putting in a quorum at a higher threshold ensured that all voices would be heard.

[9:16:12 AM](#)

NANCY MEADE, GENERAL COUNSEL, ALASKA COURT SYSTEM, stated that the Supreme Court had not given her direction on the

confirmation of attorney members by the legislature. She pointed out that the issue had not been an oversight in the constitutional convention; there had been extensive discussion regarding the decision to not have attorney members approved by the legislature. She stated that the reasoning of the constitutional framers was that the attorney members should be free from any thinking of whether a nominee would be acceptable to the legislature, whether republican or democrat. She opined that the constitutional founders had wanted the attorney members to be clear of political hurdles so that the bar membership could put the best people on the Judicial Council without having the concern of whether that person would pass muster in the legislative confirmation process. She concluded that not requiring attorney members to be confirmed by the legislature was not an oversight, but was a purposeful decision by the constitutional founders.

Ms. Meade furthered that the court opposed the resolution because of the imbalance in the number of public members versus attorney members. The concern was that with the imbalance, there was substantial potential for public members to choose applicants to submit to the governor based on considerations other than the applicant's qualifications to be a quality judge. She responded to a previous question from Vice-Chair Fairclough and noted that the Judicial Council did play a large role in the retention of judges and not just in the selection and screening process. She explained that the Judicial Council came up with recommendations on whether a judge should or should not be retained and that the information was published in the voter information pamphlet. She explained that the council ascertained its opinion of a judge by surveying law enforcement, court staff, jurors, social workers, volunteer Court Appointed and Special Advocates (CASA) workers; it also conducted public hearings and looked at a judge's case files, performance, and records of reversal on appeal. The court's concern was the threat of retaliation for any judge that made a decision that was contrary to the governor's position. She did not believe that the resolution did service to the Alaska Court System or Alaskans.

[9:21:41 AM](#)

Co-Chair Kelly asserted that the bill dealt with regional diversification on the Judicial Council. He pointed out that the only 2 rural members that had been on the council

were both public members; the last rural member was in 1987, from Barrow; and the one before that was 1961, from Kotzebue. He believed that by adding the extra public members, the governor would have the opportunity to expand rural representation. He suggested that the framers of Alaska's constitution had made an oversight in assuring adequate representation, for all groups, stretching across a great expanse. He asserted that even judges should be held accountable by the public. He warned that the judicial system should not become arrogant in believing it could escape the scrutiny of the people of Alaska. He likened the council to the board of barbers and hairdressers and believed that its members should be equally scrutinized.

[9:27:02 AM](#)

Senator Olson thought that having more members on the council would increase the chances of having rural members on the board. He commented there had been two judicial council members from his district, but none from Senator Hoffman's district.

[9:27:32 AM](#)

Co-Chair Kelly MOVED to REPORT CSSJR 21(2d FIN) out of committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CSSJR 21(2d FIN) was REPORTED out of committee with a "do pass" recommendation and with a previously published fiscal impact note: FN1(GOV) and a previously published fiscal impact note: FN2(CRT).

[9:27:51 AM](#)

AT EASE

[9:32:10 AM](#)

RECONVENED

#sjr23

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.

[9:32:44 AM](#)

Vice-Chair Fairclough related that SJR 23 would add to the constitution the authorization to issue the full faith and credit for student postsecondary loans. She related that Alaska's forefathers could not have contemplated the debt load or the cost of postsecondary education that currently existed in the United States. She reported that currently, the Alaska State Constitution only allowed for the full faith and credit of the state for capital improvements or housing loans for veterans. She stated that if the resolution was passed by a two-thirds majority by both the House and the Senate, the Alaska Student Loan Corporation would be able to utilize the best possible financing to benefit students who accessed loan services from the State of Alaska. She pointed out that regarding process, if the resolution passed in the current session and was put on the 2014 ballot, a loan could not be issued until the student loan corporation made that recommendation and brought it back to the legislature; if the legislature approved the resolution at this time, it would be advanced to the people of Alaska again on. She believed that the issue needed to be put before voters during the general election of 2014 because waiting until the next legislative session would disadvantage students even further. She stated that the current student loan rate for students who accessed loans in Alaska was 7.3 percent and noted that the federal rate on loans was 3.86 percent. She thought that if the full faith and credit of the State of Alaska could be used and the loans were still repaid, students who took loans through the state could save 1 percent or greater in the bond market.

[9:35:29 AM](#)

Co-Chair Meyer OPENED public testimony.

[9:36:15 AM](#)

ROBERT DOTSON, SELF, CORDOVA (via teleconference), spoke in support of the resolution. He wondered why the State of Alaska found it necessary to have a 7.3 percent interest rate on student loans when a less than .5 percent interest passbook saving could be issued at a bank. He thought that the high interest rate made it difficult to pay off student loans. He stressed that Alaska's young people were unable

to buy a home, rent an apartment, or buy a vehicle while also paying student loans.

Co-Chair Meyer CLOSED public testimony.

[9:38:38 AM](#)

Co-Chair Meyer noted that a letter of support from the Alaska Student Loan Corporation was located in member files.

DIANE BARRANS, EXECUTIVE DIRECTOR, ALASKA COMMISSION ON POSTSECONDARY EDUCATION, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, EXECUTIVE OFFICER, ALASKA STUDENT LOAN CORPORATION, replied in the affirmative. She said that the corporation had been working with its financial advisor over the last year in order to identify way in which the rates that Alaska residents paid on the loans could be reduced, as well as possible ways to make the loan more accessible to Alaska students.

[9:39:51 AM](#)

Co-Chair Meyer requested an explanation of why the state's interest on student loans was 7.3 percent.

Ms. Barrans replied that since the establishment of the Alaska Student Corporation in 1987, the way the loans had been financed was that debt was issued in the financial markets that was backed by the assets of the loans. She reported that the markets had taken a substantial turn for the worse regarding the pricing of the state's loans as well as the underwriting criteria that was expected to be applied to the loans. She related in the current bond market, the cost of the funds alone for the state using bonds was around the high 4 percent low 5 percent, without consideration of the cost of servicing the loans. She stated that the underwriting criteria had been changed in 2009 because the rating agencies and bond buyers were exhibiting increased scrutiny of the underlying assets. She said that borrowers currently had to establish good credit or have a co-signer with established good credit.

[9:41:45 AM](#)

Co-Chair Meyer inquired whether the default rate among students had contributed to the high interest rate.

Ms. Barrans replied that the default rate was not a factor in the cost of funds. She explained that the bond was asset backed and that the rates had risen in recent years. She furthered that the default rate came into consideration when the state was structuring the bond deals themselves. She said that when examining the amount of assets to the bonds that were issued, the higher the fault rate in a portfolio would require an increase in the amount of collateral necessary.

[9:43:00 AM](#)

Co-Chair Meyer inquired what type of collateral was needed and whether the parents were required to co-sign.

Ms. Barrans replied that if the applicant did not meet the credit test, a co-signer would be necessary.

[9:43:21 AM](#)

Co-Chair Meyer queried what the default rate was for student loans.

Ms. Barrans replied that the last published annual rate was 6.4 percent; the rate had been lower in the past but had risen due to the economic climate on a national level.

[9:43:52 AM](#)

Co-Chair Meyer asked how Alaska's rate compared on the national level.

Ms. Barrans responded that the rate was average. She said that rates varied as to whether or not a co-signer was required; many alternative education loan providers required a co-signer.

[9:44:32 AM](#)

Co-Chair Meyer understood that the corporation was required to make money off the loan program and then give a dividend back to the state. He thought that instead of giving a dividend to the state the rates for students could be reduced.

Ms. Barrans replied that in 2001-2002 there had been an expectation that corporations return funds to the state for

other uses. She said that the corporation's statutes were amended to indicate that any year that there was net income a dividend would be provided back to the state.

[9:47:02 AM](#)

Co-Chair Meyer inquired whether the program would be available for out-of-state students.

Ms. Barrans replied in the affirmative.

Co-Chair Meyer surmised that the loans could be used a recruiting tool for the university.

Ms. Barrans agreed.

[9:48:05 AM](#)

Co-Chair Meyer wondered if the program could result in additional risk to the state.

Ms. Barrans responded that the objective would be to structure the loans and bond issues in a way that would mitigate the risk to the state. Ultimately, the bonds were general obligation bonds, but the Texas model, used in the development of the proposal, was based on general obligation debt and had never resulted in the State of Texas making repayments.

[9:49:37 AM](#)

Co-Chair Meyer inquired //. Ms. Barrans replied that the commission promoted the federal loans if the rate was better///.

Co-Chair Meyer realled that some were income based and inquired//. Ms. Barrans responded that//.

[9:50:39 AM](#)

Co-Chair Meyer inquired if Department of Education and Early Development required//. Ms. Barrans responded that that it was not a requirement, but that///.///.

[9:50:58 AM](#)

Co-Chair Meyer queried the amount that the student could receive from the state versus the amount they could receive from the federal government.

Ms. Barrans said that the commission promoted use of the federal loans, provided it was a better deal for the student. She furthered that the commission urged students to view the loans from the state as supplemental loan used to fill any gap in tuition payment. She explained that the annual maximum for an undergraduate student was \$8500 per year.

Co-Chair Meyer understood that the loans on the federal level were based on income but that the state's loans were not.

Ms. Barrans responded that the state loans were not income based. She said that the federal subsidy available to borrowers was income based. She stated that the federal loan was an entitlement, anyone could borrow it and certain benefits were available based on family income.

Co-Chair Meyer asked if the Free Application for Federal Student Aid (FAFSA) was required for the state loan.

Ms. Barrans relayed that if the FAFSA was required by the school the student would need to complete it; however, it was not a requirement of the student loan program.

Co-Chair Meyer asked the University of Alaska required the FAFSA.

Ms. Barrans said that they either required or strongly encouraged the FAFSA. She suggested that the online form had become easier to fill out and that completing the application would help students access all the aid available to them.

[9:51:49 AM](#)

Senator Olson wonders why a student would take out a loan at 7.3 percent interest when they could receive a loan from another institution at a lesser rate.

Ms. Barrans thought that if a student could pay for their education using only the lower rate federal loans then they should do so.

[9:52:41 AM](#)

Senator Olson highlighted the default rate of 6.4 percent. He wondered how the state would continue to manage the default rate during unstable economic climates.

Ms. Barrans replied that the bond deals were structured with overcollateralization; one of the factors the state considered was what was expected not to be collected on the loans, either from default or permanent disability. She asserted that it would not be expected that the state would, in any way, subsidize the program.

[9:53:31 AM](#)

Senator Olson assumed that there would be no dividend paid to the state as a result of the program.

Ms. Barrans responded that it had never been the corporation's objective to be able to pay a dividend to the state.

[9:54:22 AM](#)

Senator Hoffman wondered if there would be opposition to changing the constitution to include the loans.

Ms. Barrans replied that one of the benefits was that there did not seem to be any opposition other than people not wanting to alter the state constitution.

[9:55:27 AM](#)

Co-Chair Meyer inquired if the loans could be limited only to students enrolled in schools within the state.

Ms. Barrans replied that it would be a policy call. She thought a reduction in loan volume could be an unexpected consequence. She said that the number of students already receiving loans was small. She added that when trying to scale a program to achieve efficiencies in terms of cost of servicing, the smaller the program is the more expensive is for those participating. If the size of the borrowing population can be expanded then the cost is spread over a greater number of individuals thereby reducing the cost for all.

[9:56:52 AM](#)

Co-Chair Meyer asked the denial rate percentage

Ms. Barrans responded that it was approximately 40 percent.

[9:57:14 AM](#)

Vice-Chair Fairclough noted that allowing the percentage rates to drop would allow for the possibility for the commission to reduce the required credit score.

Ms. Barrans replied that the credit criteria could probably be moderated. She stated that one of the advantages to having a general obligation back bond was that rating agencies looked to the credit of the state that was backing the bond. She did not think that the credit criteria could be eliminated, but it could be moderated to be more readily available to students.

[9:58:43 AM](#)

Vice-Chair Fairclough believed that the resolution would benefit the people of Alaska and the state's student loan program.

[9:59:42 AM](#)

Co-Chair Kelly MOVED to REPORT SJR 23 out of committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

SJR 23 was REPORTED out of committee with a "do pass" recommendation and with a new fiscal impact note from the Office of the Governor and a new fiscal impact note from the Legislature.

[10:00:05 AM](#)

AT EASE

[10:03:08 AM](#)

RECONVENED

#sb104

SENATE BILL NO. 104

"An Act relating to appropriations from the dividend fund; creating the criminal fund; and providing for an effective date."

[10:03:21 AM](#)

Co-Chair Kelly MOVED to ADOPT the proposed committee substitute for SB 104, WORK DRAFT 28-LS0847\E (Martin, 3/28/14) as a working document. There being NO OBJECTION, it was so ordered.

[10:03:42 AM](#)

CHRISTINE MARASIGAN, STAFF SENATOR KEVIN MEYER, spoke to the changes in the new bill version. She said that the changes dealt with paying for arrearages and how the fund would be divided between the priorities that were originally laid out in the legislation. She explained that the substantive changes to the legislation could be found on Page 4, lines 2 through 12. She relayed that the sponsor's original prioritization that a portion of the fund went to the Violent Crimes Compensation Board had been maintained, a percentage had been added as a guideline. The second priority in the current bill went directly towards sexual assault response teams and domestic violence intervention projects that input data into the Alaska Public Safety Information Network. She added that the remaining amount would be available to the Department of Corrections for costs related to incarceration and probation; monies from the permanent fund's criminal fund went to pay for healthcare for incarcerated inmates. The new section offered general guidelines on how the funds would be distributed.

[10:06:05 AM](#)

SENATOR FRED DYSON appreciated the work of the committee on the legislation.

[10:06:29 AM](#)

Co-Chair Kelly expressed discomfort that child support had been removed from the bill.

[10:06:40 AM](#)

Senator Dyson interjected that removing child support had been a difficult decision. He said that there were tens of millions of dollars worth of arrearages that had not been paid. He believed that the intent of the bill had remained intact.

[10:07:43 AM](#)

Ms. Marasigan spoke to the funds that would go towards arrearages. She said that legislative legal had asserted that how the money would be dispersed could constitute a violation to the constitution because it would be relieving a personal debt. She said that it was difficult to find a mechanism in which to make it work within the confines of the legislation. She offered that there were still arrearages that would need to be taken care at some point in the future.

[10:08:42 AM](#)

Senator Dyson offered that the bill was an attempt to restore victims to a pre-offense condition. He felt that the children of criminals were victims. He said that a perpetrators debt, either to his victim or to his children, did not disappear with the passage of the bill. He believed that the issue would be revisited in the future.

[10:10:45 AM](#)

JOSHUA BANKS, STAFF, SENATOR FRED DYSON, stated that the sponsor had tried to work out the child support issue. He expressed satisfaction with the changes in the legislation made by the committee.

[10:12:09 AM](#)

Co-Chair Kelly MOVED to REPORT CSSB 104(FIN) out of committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CSSB 104(FIN) was REPORTED out of committee with a "do pass" recommendation and with a new fiscal impact note from Senate Finance Committee for the Department of Corrections and with a previously published zero fiscal note: FN2(ADM), a previously published zero fiscal note:FN3(LAW), and a previously published zero fiscal note FN6(AMD).

[10:12:29 AM](#)

AT EASE

[10:16:08 AM](#)

RECONVENED

#sb140

SENATE BILL NO. 140

"An Act creating the Arctic infrastructure development program and fund in the Alaska Industrial Development and Export Authority."

[10:16:30 AM](#)

Co-Chair Kelly MOVED to ADOPT the proposed committee substitute for SB 140, WORK DRAFT 28-LS1246\T (Martin, 3/29/14) as a working document. There being NO OBJECTION, it was so ordered.

[10:17:01 AM](#)

Ms. Marasigan explained the changes in the new CS.

[10:18:12 AM](#)

Senator Bishop noted "shorebased" on page 8 and inquired///. Ms. Marasigan//.

[10:18:42 AM](#)

JESSE LOGAN, STAFF, SENATOR LESIL MCGUIRE, addressed the changes in the new CS.

[10:19:47 AM](#)

Co-Chair Kelly MOVED to ADOPT Amendment 1(copy on file):

Page 7, line 11
After "fishery"
Delete "or"
Insert "and"

There being NO OBJECTION, Amendment 1 was ADOPTED.

[10:20:56 AM](#)

Co-Chair Kelly MOVED to REPORT CSSB 140(FIN) out of committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CSSB 140(FIN) was REPORTED out of committee with a "do pass" recommendation and with one previously published fiscal impact note: FN1(CED).

[10:21:32 AM](#)

AT EASE

[10:23:18 AM](#)

RECONVENED

#hb199

HOUSE BILL NO. 199

"An Act relating to Department of Public Safety regulations allowing village public safety officers to carry firearms."

[10:23:50 AM](#)

REPRESENTATIVE BRYCE EDGMON, introduced HB 199.///.///.

[10:26:06 AM](#)

Co-Chair Meyer required an explanation of the fiscal note that was attached to the bill. Representative Edgmon//.

[10:27:02 AM](#)

Co-Chair Meyer noted that the backup did show some expense//.

[10:27:28 AM](#)

Senator Olson though that the bill was a good one and that all it did was remove the prohibition for VPSOs//.

[10:27:49 AM](#)

Senator Bishop supported the bill and noted that///.

10:28:32 AM

Senator Dunleavy inquired where the troopers were in the bill.

10:28:56 AM

CAPTAIN STEVEN ARLOW, DEPARTMENT OF PUBLIC SAFETY, ANCHORAGE, spoke in support of the bill.

10:29:46 AM

Co-Chair Meyer CLOSED public testimony.

10:30:03 AM

Co-Chair Meyer liked the bill but indicated that he would hold the// he inquired if Senator Olson was carrying the companion bill. Senator Olson//.

10:30:25 AM

AT EASE

10:30:52 AM

RECONVENED

10:31:35 AM

Co-Chair Meyer discussed the following meeting's agenda.

10:32:02 AM

#

ADJOURNMENT

The meeting was adjourned at 10:32 a.m.