

**ALASKA STATE LEGISLATURE**  
**SENATE EDUCATION STANDING COMMITTEE**

February 24, 2015

3:30 p.m.

**MEMBERS PRESENT**

Senator Mike Dunleavy, Chair  
Senator Charlie Huggins, Vice Chair  
Senator Cathy Giessel  
Senator Gary Stevens  
Senator Berta Gardner

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

**SENATE JOINT RESOLUTION NO. 2**

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

- HEARD AND HELD

PRESENTATION: ALASKA PERFORMANCE SCHOLARSHIP PROGRAM AND ALASKA EDUCATION GRANT PROGRAM

- HEARD

**PREVIOUS COMMITTEE ACTION**

BILL: SJR 2

SHORT TITLE: CONST. AM: G.O. BONDS FOR STUDENT LOANS

SPONSOR(s): SENATOR(s) MACKINNON

01/21/15	(S)	PREFILE RELEASED 1/9/15
01/21/15	(S)	READ THE FIRST TIME - REFERRALS
01/21/15	(S)	STA, EDC, FIN
02/10/15	(S)	STA AT 9:00 AM BUTROVICH 205
02/10/15	(S)	Moved SJR 2 Out of Committee
02/10/15	(S)	MINUTE(STA)
02/11/15	(S)	STA RPT 3DP 2NR
02/11/15	(S)	DP: COGHILL, MCGUIRE, WIELECHOWSKI
02/11/15	(S)	NR: STOLTZE, HUGGINS
02/24/15	(S)	EDC AT 3:30 PM BUTROVICH 205

## WITNESS REGISTER

SENATOR ANNA MACKINNON  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Sponsor of SJR 2.

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

**POSITION STATEMENT:** Presented information on SJR 2, the Alaska Performance Scholarship Program and the Alaska Education Grant Program.

## ACTION NARRATIVE

[3:30:12 PM](#)

**CHAIR MIKE DUNLEAVY** called the Senate Education Standing Committee meeting to order at 3:30 p.m. Present at the call to order were Senators Huggins, Giessel, Gardner, and Chair Dunleavy. Senator Stevens arrived shortly thereafter.

### SJR 2-CONST. AM: G.O. BONDS FOR STUDENT LOANS

[3:30:40 PM](#)

**CHAIR DUNLEAVY** announced the consideration of SJR 2.

[3:31:12 PM](#)

**SENATOR ANNA MACKINNON**, Alaska State Legislature, sponsor of SJR 2, said the constitutional amendment proposes to try to reduce student loan debt, or at least the interest rate a student would pay. She stated that, "Our forefathers could not have anticipated the debt required to get an education in today's world, let alone, America." Alaskan disproportionately carries a much higher interest rate than the federal rate. Currently, the state's interest rate is 6.7 percent and the federal rate is 4.66 percent.

She understood that should SJR 2 go forward, the state would ask voters in the 2016 general election to approve a change in the state constitution that would allow debts and the full faith and credit of the state of Alaska to be used to back that debt for student loans. Currently, under Article IX, Section 8, of the Alaska Constitution the only allowable use of the full faith and credit of the state for is capital improvements and housing

loans for veterans. She concluded that SJR 2 would be a third amendment to that section and would allow student loan debt backed by revenue that students pay.

SENATOR GARDNER requested to know how the state sets interest rates and how much flexibility it has in doing so.

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DIANE BARRANS, Executive Director, Post-Secondary Education Commission, Department of Education and Early Development (DEED), answered Senator Gardner's question about interest rate. She explained that the Alaska Student Loan Corporation (ASLC) Board sets the interest rates annually. The essential components are factored in; the cost of funds, the cost of providing and serving the program, as well as the cost of losses.

SENATOR GARDNER asked if the state or agency makes money based on the current loan rate and what the current net balance is.

MS. BARRANS explained that it is not the goal of the corporation to make money, but to have a sustainable structure. A look back over 20 years would show a great variation of net income from less than \$1 million in a given year to as high as \$12 million. The way net income is distributed has also varied over the years. In 2001 the state statute was amended to permit the corporation to pay a dividend or return of contributed capital to the state. Since then, the corporation has returned over \$31 million to the state. Since the downturn in the market, the board has not elected to return a dividend to the state.

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SENATOR GIESSEL recalled during the time of her own student loan and the tendency of students to not repay their loans. She asked what the default rate of Alaska students is.

MS. BARRANS agreed that the default rates used to be high. Back in the 80's and early 90's, the default rate was in excess of 27 percent. The current default rate is less than 6.5 percent.

CHAIR DUNLEAVY asked why that is.

SENATOR MACKINNON added that the Student Loan Corporation is third in line to garnish a student's PFD, which increases the corporation's ability to recoup payments.

MS. BARRANS replied that there are a number of factors that enable collection of payments and one of the most effective is

the ability to garnish the PFD. Over the years more than \$12 million has been collected on defaulted loans.

She said in late 80's and early 90's there were over 140 for-profit institutions that delivered training programs, many of which were not valuable investments. There was also a mindset where students expected to only have to repay 50 percent of the loan. The loan was not treated like a legitimate debt. In the mid-90's, the corporation adopted levels of underwriting standards. It began with a credit-ready standard and then, after the market collapse in 2007-8, the credit criteria was increased to having positive credit or a cosigner with positive credit.

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CHAIR DUNLEAVY asked what the current interest rate is.

MS. BARRANS reiterated that it is 6.7 percent.

CHAIR DUNLEAVY asked what interest rate the bill targets.

SENATOR MACKINNON explained that the delta is between 1 percent and 1.3 percent gain, but is variable depending on the bond market. It provides a better rating so the corporation can borrow at a lower interest rate.

CHAIR DUNLEAVY asked how the rate would be set.

MS. BARRANS said the process would not be different, but the cost factors to the board would be lower. The cost of funds would be between 1 percent and 1.3 percent lower, resulting in directly benefitting borrowers.

CHAIR DUNLEAVY recalled the history of the loan fund.

MS. BARRANS corrected that in 1987 about \$260 million in loan assets was turned over to the corporation for capitalization. In 1994 small infusions of cash brought the total contribution from the state to \$306 million.

CHAIR DUNLEAVY asked how much is in the account now.

MS. BARRANS replied that about \$460 million is currently in the portfolio.

She observed, in addition to the annual dividend payments the corporation made between 2001 and 2008, in 2004 and 2005 loan assets were used to issue approximately \$150 million in capital

project bonds which were used to finance various projects. The total return on the "state's investment" is over \$192 million from ASLC.

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SENATOR HUGGINS asked what Trendsetters is.

MS. BARRANS said they train in haircutting.

SENATOR HUGGINS asked what AEG means.

MS. BARRANS explained that the Alaska Education Grant is a needs-based grant program.

SENATOR HUGGINS said he was glad to see a long list of institutions for whom loans are available. He concluded that students have choices when it comes to scholarships.

MS. BARRANS agreed. The loan is portable for out-of-state education; the scholarship and grant are not.

SENATOR HUGGINS said UAA has the largest number of recipients. He asked if a student could use the scholarship during a semester abroad.

MS. BARRANS explained if the semester is a formal exchange program, it qualifies.

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SENATOR GARDNER asked if loans and grants go to individual students, not the institution.

MS. BARRANS clarified that the funds are dispersed through the institution to the student.

SENATOR GARDNER said the student pays back the funds, not the institution.

MS. BARRANS said correct.

SENATOR GARDNER concluded that programs abroad not affiliated with a college do not qualify for the funds.

CHAIR DUNLEAVY noted Western Interstate Commission for Higher Education (WICHE) and Western Undergraduate Exchange (WUE) programs are available to Alaskans.

MS. BARRANS agreed. She said also under WICHE are the Professional Student Exchange Program and the Graduate Regional Exchange Program. A student could not use the scholarship or grant funds for these programs.

CHAIR DUNLEAVY noted a zero fiscal note on the resolution this year, whereas there was one last year for \$1,500 for publishing ballots and publications. He asked if those expenses would be absorbed by the Division of Elections.

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SENATOR MACKINNON understood they would. All costs are rolled into a bond proposition which the students will pay for at a later date.

SENATOR HUGGINS requested examples of scenarios whereby the state would lose money with this initiative.

MS. BARRANS explained if it is structured correctly there should be no cost to the general fund. The bonds would be structured similar to those from 1988 through 2008 and would adequately cover debt service. She noted ASLC carries a moral obligation if it cannot pay its own bond to request the legislature for funding to cover the debt service. She concluded that the legislation does not present a material risk.

SENATOR HUGGINS pointed out that the Scholars Program is missing from the chart.

MS. BARRANS said the UAS Scholars Program is funded and administered by the university.

SENATOR HUGGINS asked if a student could get a supplemental student loan if the Scholars Program money is not adequate.

MS. BARRANS said yes. She explained that the supplemental loan is available to cover a student's unmet costs.

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SENATOR GARDNER said the state has contributed \$306 million over time.

MS. BARRANS explained that a small portion was cash and the rest was outstanding loans made when the state funded the program from the general fund. The portfolio was turned over to the corporation and it used the income to pledge against the bonds it began to issue in 1988.

SENATOR GARDNER summarized that the state invested about \$306 million and now the value of the portfolio is about \$460 million.

MS. BARRANS said you can't equate the original portfolio and the current one. The state has funded, overall, about \$1.6 billion in student loans since the program was established in 1968. The outstanding portfolio is just the outstanding portfolio of loans. In order to look at the full value of the corporation, you would have to look at the corporation's investments, as well. The corporation has several million dollars of investments.

SENATOR GARDNER she said, "If we considered loans to students - Alaskans - to be an investments, what other kinds of investments does the trust make?" She stressed that the effort is to fund student education.

MS. BARRANS offered to provide information about ASLC's investment portfolio. She said they are typically conservative, low-return investments.

SENATOR GARDNER said she is trying to understand whether the state is profiting by charging high interest rates and if it should lower rates and profit less.

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MS. BARRANS explained that the corporation has created a set of borrow benefits that are annually reviewed. These are an opportunity to lower the cost to students by creating credits. For example, in the current 6.7 percent interest rate there is an "Alaska presence" discount credit of .5 percent. The corporation has also approved a .25 discount for on-line automatic payment which drops the interest rate below 6 percent.

She said the corporation's goal is to ensure that it remains in the black, covers operational costs, and is a sustainable enterprise, not do more. When the legislation was enacted in 2001 to create the capacity to do a return to the state, it was clear that payments could be made to the state only when they would not put the corporation's core mission at risk. Low borrower rates were driven by market circumstances. She concluded that in terms of the interest rate environment, timing is everything.

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SENATOR MACKINNON pointed out that the resolution requires voter approval and then it would return to policy makers to scrutinize any kind of investment in an additional bond before it was put out to voters a second time in the 2018 election. The first time a loan would be available would be in 2019. She said it is a forward thinking tool that is not available now for refinancing high interest rate loans. She disclosed she is a cosigner on one of her son's student loans, but would not benefit by this legislation.

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CHAIR DUNLEAVY announced the arrival of Senator Stevens.

SENATOR MACKINNON requested a public testimony notice.

CHAIR DUNLEAVY opened public testimony. Seeing none, he closed public testimony.

CHAIR DUNLEAVY held SJR 2 in committee.

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At ease

**PRESENTATION: Alaska Performance Scholarship Program and Alaska Education Grant Program**

[4:03:34 PM](#)

CHAIR DUNLEAVY announced the presentation of the Alaska Performance Scholarship (APS) Program and the Alaska Education Grant (AEG) Program.

DIANE BARRANS, Executive Director, Post-Secondary Education Commission, Department of Education and Early Development, shared APS highlights from the 2015 Outcomes Report. She noted APS was considered an invitation to excellence to Alaska students and schools. The merit-based scholarship provides an opportunity for eligible students to annually receive up to \$4,755 based on the level of award for which they qualify.

She pointed out that the APS program is increasing statewide. The program was designed out of concern that the best and brightest in Alaska were going to the Lower 48 for their post-secondary education and remaining there. The number of students using the award has been fairly stable, but there has been a large increase in use by Level 1 students. The effects of the

rigor of the program have resulted in much less need for remediation the first year in college. Of those that do participate in the program, 17 percent require a remedial course, whereas, of those not in the program, 50 percent require remediation.

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She related that students in APS are taking more credits, a requirement of the program. The rate of those remaining in the program is 75 percent; of non-eligible students only about 40 percent have remained in college. She concluded that the data indicates that APS is having a positive effect.

CHAIR DUNLEAVY asked at what amount the fund is capitalized.

MS. BARRANS said she receives that information from the Department of Revenue and it was in excess of \$444 million, up from \$400 million in 2011.

CHAIR DUNLEAVY asked if a Level 1 recipient would have to have a GPA of 3.5 and an SAT score of 1680, and if they did not have a score of 1680 if they would fall into Level 2.

MS. BARRANS said it depends on the score. It is possible that a student had a 3.5 GPA, but not a high enough SAT to qualify for APS at all.

CHAIR DUNLEAVY asked if a student has poor grades, but a high SAT score could they receive the APS.

MS. BARRANS said they would not. They must have taken the core curriculum, have a GPA of 3.5, and a high test score.

CHAIR DUNLEAVY asked if private school students are eligible.

MS. BARRANS said they may be if they can document and satisfy the three criteria using a process developed by DEED. There is not a large population of private school students qualifying for the APS.

CHAIR DUNLEAVY asked if a home school student could qualify.

MS. BARRANS said yes, through the same process.

CHAIR DUNLEAVY asked if a student who completed school three years ago and did not apply for the APS would be eligible to apply.

MS. BARRANS said no. There is a six-year window during which a student who qualified for an APS would have had to use it.

CHAIR DUNLEAVY asked if military service is an exception.

MS. BARRANS said the State School Board can create an exception. She gave an example of a nursing program where a student could not get the courses needed within the time period.

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CHAIR DUNLEAVY asked if \$10,247,314 was awarded last year for the APS.

MS. BARRANS said yes. It is a moving target and assumes fall and spring enrollment.

CHAIR DUNLEAVY asked if an individual could get three scholarships - UAS Scholars, APS, and AEG.

MS. BARRANS said yes. A high performing, low income student could qualify. She said there is some overlap between the UA Scholars group and APS, but fairly minimal overlap between the grant recipient pool and the APS.

CHAIR DUNLEAVY asked if UA Scholars consist of the top 10 percent of their class.

MS. BARRANS could not say.

CHAIR DUNLEAVY suggested that a student could be in the top 10 percent of their graduating class but not be eligible for the APS if their SAT or ACT did not meet the qualification.

MS. BARRANS said yes.

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MS. BARRANS turned to the Alaska Education Grant, a needs-based program. It differs from the APS in that it is available to all students that are enrolled in a qualifying program in Alaska and is not limited to students who graduated after a certain point in time.

MS. BARRANS related that the pool of eligible students is based on student enrolled in Alaska institutions and who completes the Free Application for Federal Student Aid (FAFSA) and has a high need. Last year just under 6,000 students applied for the grant;

less than 2,900 were funded. That is a function of availability of funds. Grant numbers are a moving target through the academic year.

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CHAIR DUNLEAVY listed the sources of funding for APS, UAS Scholars, and AEG.

MS. BARRANS said AEG is funded through the same fund source as APS - the Higher Education Investment Fund.

CHAIR DUNLEAVY asked if the capitalization of the \$440 million was for both AEG and APS.

MS. BARRANS said the original capital investment was \$400 million and the balance in June of 2014 was about \$440 million.

CHAIR DUNLEAVY asked if that included both programs.

MS. BARRANS said yes.

She said the percentage of applicants AEG is able to fund is just under 50 percent. Recipients in the current year come from 45 of the 54 districts.

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SENATOR GARDNER asked how many AEG recipients complete their course of study.

MS. BARRANS said the corporation does not have that data at this time, but it could be made available by the proposed statewide longitudinal data system.

SENATOR GARDNER noted the data system is called ANSWERS. She asked if 50 percent of eligible students are funded.

MS. BARRANS said yes.

SENATOR GARDNER asked if some students qualify, but do not receive funds.

MS. BARRANS said yes. She spoke of when the legislature created the Higher Education Investment Fund to support both programs, it used a formula that suggested how the total would be expended in one year: 2/3 would go to PSA, 1/3 to AEG.

SENATOR GARDNER asked if it is a first come/first served process where some students get the full amount, or if everyone's award is reduced according to what's available.

MS. BARRANS explained that it is not a pro-rata award. It is awarded by greatest-to-least needs. Based on legislation passed in 2014, the corporation is changing the sorting process to look at continuing student having a higher priority for a grant in order to incent persistence. It will still be needs based.

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CHAIR DUNLEAVY asked what would happen if there was a default of the student loan program. He wondered if the corporation would draw on general funds without the legislature having to appropriate them.

MS. BARRANS she asked if the scenario assumes there is a general obligation bond.

CHAIR DUNLEAVY said yes.

MS. BARRANS offered to find out from the Department of Revenue. She believed that any debt service to the state is paid through a form of an appropriation.

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There being nothing further to come before the committee, Chair Dunleavy adjourned the Senate Education Standing Committee at 4:24 p.m.