

COMMITTEE REPORT

HOUSE

FURTHER:

3/9/81

(11)

Date: Mar. 12, 81

Mr. Speaker:

The Committee on FINANCE has had SB 88am

"An Act making a special appropriation to the scholarship revolving loan fund; and providing for an effective date."

under consideration and reports it back as follows:

do pass do not pass

do pass with attached amendments(s)

replace with CS for _____ same title
 new title
and recommends _____

AND attaches a "Letter of Intent" New Fiscal Note

reports it back without recommendation

referred to the _____ Committee

MEMBERS SIGNING
DO PASS

MEMBERS HAVING
OTHER RECOMMENDATIONS:

Freeman
San Galt
Wickham
Buchheit
Wynn
Quinn Adams
John G. Loney
Haugen
Montgomery
H. W. Jones

San Galt

CHAIRMAN

Don Rogers Do Pass with honors

A M E N D M E N T

OFFERED IN THE HOUSE:

By: Finance Committee

To: _____ HOUSE BILL No. _____

SENATE BILL No. SB 88 am

PAGE: 1

LINE: 6 & 7

~~DELETE:~~ "An Act making a special appropriation to the
scholarship revolving loan fund;"

INSERT "An Act making special appropriations for the
scholarship loan program;"

Funding Information
General Fund \$13,570,127
Other Funds 0-
\$13,570,127

Introduced: 1/15/81
Referred: Health, Education &
Social Services and Finance

1 IN THE SENATE

BY STIMSON, FISCHER, PARR,
KELLY AND STURGULEWSKI

2 SENATE BILL NO. 88 am

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TWELFTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act making a special appropriation to the scholar-
7 ship revolving loan fund; and providing for an effec-
8 tive date."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 *Section 1. The sum of \$10,000,000 is appropriated from the general
11 fund to the scholarship revolving loan fund (AS 14.40.751(a)) to establish a
12 revolving base for the student loan program.

13 * Sec. 2. The sum of \$3,570,127 is appropriated from the general fund to
14 the Alaska Postsecondary Education Commission, scholarship loan program for
15 repayment of principal and interest to the Student Loan Marketing Association.

16 * Sec. 3. This Act takes effect immediately in accordance with AS 01.10.-
17 070(c).

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STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

MEMORANDUM

March 10, 1981

SUBJECT: Scholarship loan program appropriation
(SB 88 am)

TO: Representative Samuel R. Cotten
Chairman, House Finance Committee

FROM: Donna Spragg Pegues *D. Spragg Pegues*
Co-Revisor of Statutes

SB 88 am is pending in the House Finance Committee. In reviewing the bill today I noted that the Senate amendment is not reflected in the title. The added appropriation is not to "the scholarship revolving loan fund". A better title would be

"An Act making special appropriations for the scholarship loan program; and providing for an effective date."

Please let me know if you want amendments or a committee substitute prepared.

DSP:ljb

771

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Social Services and Finance.

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STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

POUCH F - STATE OFFICE BUILDING
JUNEAU, ALASKA 99811
(907) 465-2854

RECEIVED
DEC 24 1980
BUDGET AND MANAGEMENT

MEMORANDUM

TO: Dr. Ron Lehr
Director of Budget and Management

FROM: Kerry D. Romesburg, Executive Director
Alaska Commission on Postsecondary Education

DATE: December 22, 1980

As you will recall, the Alaska Commission on Postsecondary Education ran short of student loan funds this past fall. In order to provide full funding for this program, we borrowed over \$3 million from the Student Loan Marketing Association. We have funded all eligible loan applicants now and have funds sufficient to carry us through the fiscal year.

We must now seek a supplemental budget appropriation to repay these borrowed funds. The total amount of our needed supplemental is \$3,570,127 consisting of:

\$3,327,127	Principal borrowed
108,000	Oct. - Dec. 31 interest
<u>135,000</u>	Jan. 1 - Mar. 31 interest
\$3,570,127	

If the loan is repaid prior to March 31, there will be savings (of approximately \$9,000 per week). Similarly, if the loan is extended beyond March 31, the cost will escalate proportionately.

Please consider this memorandum our formal request for this supplemental appropriation. If specific forms or more detail is required, please let me know.

58 88

Supporting Rationale for Senate Bill 88

Problems with the Existing System:

Timing: This factor has undoubtedly been the most frustrating for loan recipients and their families. Under current state law the Postsecondary Commission must request yearly appropriations from the state legislature from which they award scholarship loans. The Commission must then wait to finalize the awards until the Governor has signed off on all appropriations. With the recent history of marathon legislative sessions, coupled with the time involved for the Governor to act, and with the time it takes for the final contract to be let and returned by the recipient, it means that students who apply for loans may be attending school by the time their award reaches them. The student and their families truly become trapped by, and victims of, the system.

Projections: For the last three academic school years the Commission, in its annual request for loan funds, has underestimated the demand on the fund and has had consequently needed to seek supplementary appropriations from the state and federal governments. In analyzing the past three years of the loan problems, it must be kept in mind that it is the philosophy of the State of Alaska that all loans are fully funded. With that understanding let's peruse the recent history of the loan program:

1978-1979: Prior to this specific academic year the Commission had always used a linear regression projection model for predicting student loan demands, and previous to this year the model proved adequate. In 1978-79, however, there was experienced a 23% increase in student loan requests. Previously that increase was roughly 15% annually. The Commission was forced to appeal to the Legislature for a \$650,000 supplement to fund all loans. Luckily the Legislature was in session and the special appropriation was granted.

1978-1979: During this academic year the Commission predicated their annual appropriation request based on a historical rate of persons withdrawing from school, those becoming academically ineligible, etc. This year the withdrawal and loan turn-back rate was only 5.1% and the Commission was found to have over-awarded the program. They sought and received from the legislature a \$1.37 million supplemental appropriation which carried them through the summer.

1980-1981: This year the Commission once again related their projections to high school graduation statistics and to the total adult population base. They also estimated a low loan turn-back rate. This year, however, they underestimated the amounts that would be requested by the recipients. The Commission requested and received \$3 million from the federal Student Loan Marketing Association, which must be paid by still yet another special appropriation.

Legislative Sessions: In addition to the timing factor created for the Commission due to the length of the recent legislative sessions, a further problem is caused when the session is not meeting and the Commission must

scramble to find interim funds to float the program until the legislature is in session and a request for a special appropriation is in order.

Note: In defense of the Commission I must personally forward that the problem of inadequate projections lies more with unmeasurable/unpredictable variables than with administrative inadequacy.

Why a Revolving Fund?

Adequate funding of the scholarship revolving loan fund would directly ameliorate the above mentioned problems.

First, if the State of Alaska continues to embrace the philosophy of fully funded scholarship loans, the immediate availability of a source of revenue allows the Commission the flexibility to receive, process and award funds to Alaskan students in a timely fashion. It would also afford the Commission the availability to fund second semester requests of new recipients without worrying about the amount of the special appropriation from the legislature that will be needed to cover the additional loans. In essence this bill would re-instill respectability to the Commission, which is certainly desirable in a lending institution, and increase the state's credibility with its citizens involved with the program.

Secondly, this bill would allow the Commission to fully fund all loan requests without appearing in the financial marketplace for continual special appropriations. The Commission will still need to request annual legislative appropriations for the ensuing fiscal year, yet they will not be held victim by unforeseen projection variables. The money will be available, gathering interest and protecting our interests.

Why not Forward Funding?

Forward funding would solve the question of timely processing of loans in that an assured source of revenue would be available, but as the Commission would not be able to "dip into" future appropriations; it would not solve the problem of inadequate projections necessitating annual special/emergency appropriation requests.

Further Considerations:

If we were really going to prepare the financial security of the scholarship loan program we could introduce an endowment concept that might far exceed the benefits derived from this effort, but with all things considered, this is a good, solid piece of legislation.

Alaska Student Loan Program

Fact Sheet

1. Total Loans 1971-72 through 1979-80:

Undergraduate	16,359	\$ 30.4 million
Graduate	<u>2,210</u>	<u>7.4 million</u>
Total	18,569	\$ 37.8 million

2. Current Year

(1980-81, as of 1/14/81): 5,880 loans \$ 16.0 million

3. Percent Loans In-State/Out-of-State (1979-80):

	<u>In-State</u>	<u>Out-of-State</u>
Undergraduate	36.1 (43.5)	63.9 (56.5)
Graduate	12.3 (19.0)	87.7 (81.0)

4. Loan Collections (per month average):

1974-75	\$ 19,623
1975-76	38,794
1976-77	95,122
1977-78	99,321
1978-79	115,970
1979-80	133,620
1980-81 (est.)	170,000

5. Loan Cancellations (per month average):

1974-75	\$ 59
1975-76	3,686
1976-77	5,396
1977-78	26,192
1978-79	37,165
1979-80	34,125
1980-81 (est.)	45,000

6. Past Due and Default Loans

Past Due	October		November		December		January	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
31-60 days	484	1,171,102	478	1,032,186	547	1,174,413	508	1,053,685
61-90	204	451,853	268	649,596	288	585,991	295	585,775
91-120	180	505,039	178	389,083	188	463,252	193	385,664
120+	878	1,981,084	909	2,038,126	954	2,096,983	927	2,154,220
TOTAL	1,746	4,109,078	1,833	4,108,991	1,977	4,320,639	1,923	4,179,344
Default Rate	11.2%		11.2%		11.3%		11.3%	

7. Current Year (as of 1/14/81)

	<u>In-State</u>	<u>Out-of-State</u>	<u>Total</u>
Freshman	864 (46.0)	1,014 (54.0)	1,878
Sophomore	512 (41.1)	734 (58.9)	1,246
Junior	399 (41.0)	575 (59.0)	974
Senior	327 (46.0)	384 (54.0)	711
Vocational	173 (40.9)	250 (59.1)	423
Sub-Total	2,275 (43.5)	2,957 (56.5)	5,232
Graduate	123 (19.0)	525 (81.0)	648
TOTAL	2,398 (40.8)	3,482 (58.2)	5,880

8. Raising Loan Limits

Undergraduate	\$2,500	\$4,500	\$5,000
Graduate	\$6,000	\$7,500	\$7,000
1981-82 Cost	\$1,575,700	\$3,619,600	\$4,041,704

9. Other Issues

- a. Adding a section which states that if a person allows the loan to become default (120+ days past due), all cancellation benefits are forfeited.
- b. Providing additional cancellation for in-state attendance, for example, an additional 5% per year of attendance, for up to a maximum of 20%.
- c. Providing additional cancellation for maintaining a "B" grade average for undergraduates, for example, an additional 5% upon graduation.
- d. Providing grant provisions for Alaskan borrowers age 60 and over.

10. Sample Costs:

a. Single Student College-Approved Budgets (1980-81)

	<u>Undergraduate</u>	<u>Graduate</u>
University of Alaska, Anchorage	\$5,922	\$8,500
University of Alaska, Fairbanks	3,814	5,684
University of Washington	5,654	7,120
Gonzaga University	7,010	7,940
Western Washington University	6,280	7,890
University of Oregon	6,940	8,120
University of Colorado	8,150	9,540
Stanford University	9,800	11,250

b. Tuition and/or Required Fees (1980-81)

	<u>Undergraduate</u>	<u>Graduate</u>
University of Alaska, Fairbanks	\$ 562	\$ 792
University of Arizona*	2,500	2,500
University of Colorado*	3,584	3,752
University of Hawaii	480	582
University of Idaho*	1,990	2,000
University of Oregon*	3,431	2,433
University of Washington*	2,394	2,736

*Non-resident