

SB

225

STEVE COWPER
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

SB225

March 30, 1987

The Honorable Jan Faiks
President of the Senate
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Senator Faiks:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to the scholarship loan program, more commonly referred to as the "student" loan program. The two main objectives of the bill are to ensure that students with demonstrated financial need will continue to receive financial aid for pursuing their education, and to reduce the cost of the loan program.

The bill would accomplish the first objective by converting the current loan program to a two-tier program, the second tier of which is based on financial need. Under the two-tier program, Alaska students could apply for a loan of up to \$4,000 per year, regardless of financial need. This maximum loan amount compares to the current average loan award of about \$4,470. A supplemental loan of up to \$2,000 would be available to students, based on financial need criteria.

The bill would reduce the long-run cost of the loan program by eliminating "forgiveness" of loans and state payment of certain interest on loans. Surveys of loan recipients have shown that the forgiveness provision has not been a primary factor in most students' decisions on whether to live in Alaska after completing their education.

Legislation has been introduced in both houses of the legislature which would finance the student loan program primarily through the sale of revenue bonds. Although the bond financing proposal offers the attraction of lower general fund requirements for the next several fiscal years, I believe that the partially needs-based approach proposed in this bill would better serve both Alaska students needing financial aid and the long-term fiscal interests of the state.

The fundamental issue is whether Alaska can continue to afford to provide student loans for all applicants without regard to financial need for state aid. The cost of the

loan program has increased more than four-fold since FY 81. Although most other states have student loan programs, Alaska's is the only sizeable program that does not consider financial need in awarding loans. While many Alaska students might be unable to attend college or a vocational institution without state assistance, a significant proportion of loan recipients applies for loans simply because the loan terms are more attractive than using personal or family resources to finance their education.

In addition, under the current Alaska loan program, more than 2,000 applicants are turned away simply because they apply later in the fiscal year. Many of these denied applicants may have a greater need for state assistance than earlier applicants who receive loans. Basing loan awards at least partially on financial need, rather than solely on a first-come-first-serve system, is a more equitable method.

This bill ensures that students with the greatest need for state financial aid would receive loans, and allows general fund appropriations to the loan program to be reduced while continuing the vital role that this program has played in educating Alaskans. Although the number of loans awarded would decrease under my proposed FY 88 budget for the loan program, the persons denied loans would be those who can most afford to pay for their own education through personal or family resources. I believe that this bill offers a fairer and more fiscally sound approach to the student loan program than bond financing.

A section-by section analysis of the bill follows:

Section 1 of the bill makes amendments needed to conform AS 14.43.100(a) to other changes made to the loan program in the bill. It also amends that subsection to require that a loan applicant submit income and other financial information. This information will be used by the commission in adjusting the criteria to be used for determining financial need under proposed AS 14.43.116 (sec.4 of the bill).

Sections 2 and 3 of the bill amend the student loan program by changing it from a non-need-based program to a two-tier loan program, the second tier of which is based on financial need. Section 2 of the bill amends AS 14.43.110 to authorize the Alaska Commission on Postsecondary Education (PSEC), which serves as the "student financial aid committee," to make scholarship loans to both undergraduate and graduate students not to exceed \$4,000, and not based on financial need. This is the first tier of the two-tier loan program.

Section 3 of the bill amends AS 14.43.115 to authorize the committee (again, PSEC) to make supplemental scholarship loans to undergraduate and graduate students, not to exceed \$2,000, based on financial need. This is the second tier of the two-tier loan program.

Section 4 of the bill adds two new sections to AS 14.43. Proposed AS 14.43.116 describes the requirements for eligibility for the need-based supplemental scholarship loan. The PSEC will establish, by regulation, the criteria and procedures. In general, the regulations must use criteria and procedures for determining financial need which meet the requirements of the U.S. Department of Education for the evaluation of financial need in its federal financial aid programs, with an adjustment for Alaska conditions and the amount of money available for need-based loans. In addition, under proposed AS 14.43.117, one-third of the money estimated to be available for student loans is to be allocated for loans to students who apply for, and qualify for, both a scholarship loan and a supplemental scholarship loan. The intent of this provision is to ensure that money will be available for students who have the greatest financial need.

Section 5 of the bill amends AS 14.43.120(b)(1) to clarify that students who wish to use a student loan to attend a career education institution, which, by definition, would include one that offers a course or program in vocational-technical training, may do so only if the institution is one that has been approved by the PSEC before July 1, 1986 or has been operating in this state for at least two years before the student attends that particular institution.

Section 6 of the bill amends AS 14.43.120(i) to ensure that students are aware that defaulting on a scholarship loan could result in the taking of a student's permanent fund dividend, by the PSEC, in order to satisfy the balance due on the loan.

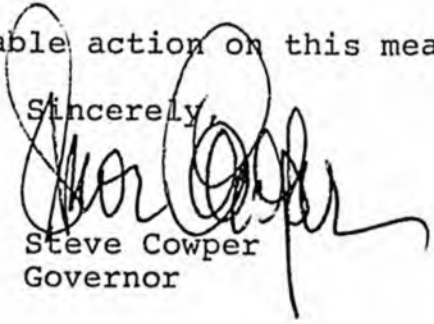
Sections 7 and 8 of the bill decrease the long-run cost of the loan program by providing for increased revenue to the scholarship revolving loan fund (AS 14.43.090). Section 7 amends AS 14.43.120(1)(1) to eliminate the state payment of interest during the period after a student ends full-time enrollment and before the student begins repayment of the loan. As is the case under existing AS 14.43.120(1), the state will pay interest as long as a student is enrolled full-time. Section 8 repeals AS 14.43.120(j), which provides for "forgiveness" of up to 50 percent of a loan.

Hon. Jan Faiks

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I urge your prompt and favorable action on this measure.

Sincerely,



Steve Cowper
Governor

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

REQUEST: SB 225

Bill Version: Draft
Publish Date: March 17, 1987 2-3,

Revision Date: March 20, 1987

Title: Student Loan Bill

Agency Affected: Education

BRU: Commission on Postsecondary

Education

Sponsor: _____

Requestor: _____

Components: Student Loan Admin.

Student Loan Program

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES		57.6	69.6	71.7	73.9	76.1
TRAVEL		--	--	--	--	--
CONTRACTUAL		70.2	2.0	2.1	2.1	2.2
SUPPLIES		12.0	3.0	3.2	3.3	3.4
EQUIPMENT		10.2	--	--	--	--
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	N.A.	160.0	74.6	77.0	79.3	81.7

CAPITAL	N.A.	-0-	-0-	[44.2]	[153.3]	[366.1]
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REVENUE						
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FUNDING: (Thousands of Dollars)

GENERAL FUND		160.0	74.6	77.0	79.3	81.7
FEDERAL FUNDS						
OTHER				[44.2]	[153.3]	[366.1]
TOTAL		160.0	74.6	32.8	[74.0]	[284.4]

POSITIONS:

FULL-TIME		1.0	1.0	1.0	1.0	1.0
PART-TIME						
TEMPORARY		2.0	2.0	2.0	2.0	2.0

ANALYSIS : (Attach a separate page if necessary)

See Attached

Prepared by: Kerry D. Romesburg Executive Director

Phone: 465-2854

Division: Commission on Postsecondary Education

Date: March 20, 1987

Approved by Commissioner: _____

Date: _____

Agency: _____

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)
- Senate Secretary

Fiscal Note Detail

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1. **Personal Services:** Needs analysis of two-tier program. Will require 1.0 additional full-time awards clerk, Range 10-A. Multiple applications will require 2.0 seasonal data entry clerks, Range 9-A.

Cost: 1.0 Awards clerk with benefits	\$29,825
2.0 Data entry clerks	<u>37,752</u>
Total	\$67,577

2. **Contractual:** One-time expense of modifying data processing system.

- a. Calculate and accumulate interest during the grace year including programming, design, testing, and implementation (765 hours).

Cost:	\$39,780
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- b. Calculate "need," process supplemental loans in awards and repayment systems including programming, design, testing, and implementation (584 hours).

Cost:	\$30,368
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3. **Supplies:** New application forms and new promissory note forms.

Cost:	\$12,000
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4. **Equipment:** One-time expense for on-line terminal and work station for awards clerk.

Cost:	\$10,200
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5. **Capital:** Loan fund. The impacts on the revolving loan fund and repayment cash flows are shown on the enclosed table. Please note that eliminating forgiveness benefits would have an accounting impact as early as 1989-90, since the outstanding receivables would not be decreased by this forgiveness amount (\$259,759). However, the cash flow impact of increased revenues would not be realized until 1994-95.

Sample Impacts (Increased Revenue)

<u>Year</u>	<u>w/o Forgiveness</u>	<u>w/Grace Interest</u>	<u>w/Grace Interest and w/o Forgiveness</u>
1987-88	None	None	None
1990-91	None	\$ 44,200	\$ 44,200
1993-94	None	\$ 933,707	\$ 933,707
1996-97	\$ 2,152,297	\$1,857,324	\$ 4,087,269
1999-00	\$ 7,905,694	\$2,777,633	\$10,968,539
2010-2011	\$19,013,130	\$3,467,698	\$23,166,761

ADDITIONAL FISCAL ANALYSIS
PROGRAM RECEIPTS FY88-11

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Year	Loan Volume	Current Principal	Program Interest	w/o Forgiveness Principal	w/o Forgiveness Interest	w/Grace Interest	w/Grace and w/o Forgiveness Interest
1987-88	80,000,000	--	--	--	--	--	--
88-89	80,345,504	--	--	--	--	--	--
89-90	80,676,052	821,700	402,875	821,700	402,875	447,054	447,054
90-91	81,024,565	2,852,109	1,398,374	2,852,109	1,398,374	1,551,718	1,551,718
91-92	82,865,042	6,808,418	3,338,132	6,808,418	3,338,132	3,704,187	3,704,187
92-93	85,341,434	11,931,947	5,850,171	11,931,947	5,850,171	6,491,693	6,491,693
93-94	87,298,990	17,366,420	8,514,665	17,366,420	8,514,665	9,448,372	9,448,372
94-95	88,375,670	22,977,903	11,265,946	23,152,203	11,351,404	12,501,355	12,596,185
95-96	88,261,738	28,697,525	14,070,246	29,302,518	14,366,871	15,613,171	15,942,324
96-97	87,007,173	34,545,156	16,937,309	35,989,365	17,645,397	18,794,633	19,580,369
97-98	84,895,801	40,497,140	19,855,536	44,180,924	21,661,675	22,032,869	24,037,067
98-99	88,748,536	46,499,475	22,798,449	50,357,559	24,690,047	25,298,498	27,397,526
99-00	91,166,845	51,662,369	25,329,789	56,967,155	27,930,697	28,107,422	30,993,542
2000-01	92,991,621	55,598,981	27,259,889	62,525,548	30,655,948	30,249,174	34,017,641
01-02	94,155,886	57,625,014	28,253,243	67,197,346	32,946,506	31,351,458	36,559,378
02-03	95,130,963	58,596,524	28,729,569	67,186,823	32,941,347	31,880,017	36,553,654
03-04	96,214,236	59,400,950	29,123,975	69,264,476	33,960,009	32,317,673	37,684,021
04-05	97,349,392	60,144,727	29,488,644	71,103,406	34,861,627	32,722,332	38,684,509
05-06	98,462,230	60,873,880	29,846,145	72,667,598	35,628,542	33,119,037	39,535,523
06-07	99,498,206	61,552,678	30,178,956	73,776,160	36,172,064	33,488,342	40,138,647
07-08	100,489,383	62,202,124	30,497,376	74,425,606	36,490,484	33,841,680	40,491,985
08-09	101,518,364	62,876,347	30,827,943	75,305,907	36,922,091	34,208,496	40,970,921
09-10	102,687,093	63,642,129	31,203,402	76,242,324	37,381,211	34,625,128	41,480,388
10-11	103,992,073	64,497,180	31,622,629	77,255,146	37,877,793	35,090,327	42,031,424