

HB

193

HFIN

FILE

HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: May 1, 1997

FURTHER REFERRALS:

Date of Committee Action: 2/5/98

The FINANCE Committee considered:

HB 193

HOUSE BILL NO. 193

REPAY GRADUATE EDUCATION AID

"An Act relating to financial assistance for students attending certain graduate education programs; and providing for an effective date."

recommends it be replaced with the following committee substitute CS HB 193 (Fin) the same title a new title

additional referral to _____ Committee
 attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) _____ APPROVES PREVIOUS: (Dept/Dma) _____
 fiscal note(s) DOE fiscal note(s) _____

 zero fiscal note(s) _____ zero fiscal note(s) _____

SIGNING WITH RECOMMENDATIONS		DP	DNP	NR	AM
<i>Care Therriault</i>	Therriault	X			
<i>Mark J. Hanley</i>	Hanley	X			
<i>Eden Mulder</i>	Mulder	X			
<i>John A. Davis</i>	J. Davis			X	
<i>Barbara Gross</i>	Gross	X			
<i>Paul E. Moses</i>	Moses	X			
<i>Fred G. Davis</i>	Davis	X			
<i>Steve Kelly</i>	Kelly	X			
<i>Walter Kohring</i>	Kohring	X			
<i>John Foster</i>	Foster	X			

CHAIR'S SIGNATURE

Care Therriault *Mark Hanley*

FISCAL NOTE

STATE OF ALASKA
1998 LEGISLATIVE SESSION

BILL NO. CSHB 193

Revision Date (Note if correction) _____ Dept. Affected Education
 Title "An Act relating to financial assistance for students attending certain graduate education programs, and providing for an effective date." BRU Alaska Commission on Postsecondary Education
 Component Student Loan Operations
 Sponsor HHESS
 Requester (H) Finance Component Serial No. 213

Expenditures/Revenues

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
Personal Services	10.0	5.0	5.0	5.0	5.0	5.0
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	10.0	5.0	5.0	5.0	5.0	5.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	0.0	0.0	0.0	*0.0	*0.0	*0.0
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FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	10.0	5.0	5.0	5.0	5.0	5.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	10.0	5.0	5.0	5.0	5.0	5.0

Estimate of any current year (FY98) cost:

POSITIONS

Full-time						
Part-time						
Temporary						

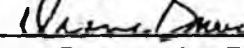
ANALYSIS: (Attach a separate page if necessary)

This legislation will convert the WWAMI Medical Education Program to a loan program. The proposed loan program will have forgiveness benefits based on the number of years the borrower is employed within the state, in the field for which the financial aid was received. The benefit proposed is 20% per year up to full forgiveness (5 years).

Continued

Prepared by Mike Maher, Director of Student Loan Operations
 Division Student Loan Operations

Phone 465-6743
 Date February 2, 1998

Approved by Executive Director:  Diane Barrans
 Agency: Alaska Commission on Postsecondary Education

Date: Feb. 2, 1998

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FISCAL NOTE

STATE OF ALASKA
1998 LEGISLATIVE SESSION

BILL NO. CSHB 193

ANALYSIS: *(Attach a separate page if necessary)*

The interest rate is based upon the 12th Federal Reserve District discount rate (currently 5%) plus 2%. A six-month grace period follows termination of studies, and payment does not begin as long as the borrower remains qualified for forgiveness.

Given the pass-through nature of the present WWAMI Medical Education Program, the cost and time necessary to administer the present program has been minimal. However, ACPE will incur costs for programming, establishing control records, and testing. It is estimated that testing will require two staff between 2-3 weeks of work, prior to a new loan program being added to the recently implemented loan management system, HELMS.

It would be inappropriate to continue to utilize ACPE's primary operating funding source, corporate receipts, to administer a general fund loan program.

It should be noted that a general fund appropriation of approximately the same level as requested here, will still be required for this program in future years. Because this is essentially being treated as a grant that becomes a loan if certain conditions are not satisfied, the revenue stream from loan repayment would not even begin for 4-5 years, and would be insufficient to support the program.

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Amended
pg 3

CS FOR HOUSE BILL NO. 193(HES)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTIETH LEGISLATURE - FIRST SESSION

BY THE HOUSE HEALTH, EDUCATION AND SOCIAL SERVICES COMMITTEE

Offered: 5/1/97
Referred: Finance

Sponsor(s): HOUSE HEALTH, EDUCATION AND SOCIAL SERVICES COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to financial assistance for students attending certain graduate
2 education programs; and providing for an effective date."

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

4 * Section 1. AS 14.42.030(d) is amended to read:

5 (d) The commission may enter into agreements with government or
6 postsecondary education officials of this state or other states to provide postsecondary
7 educational services and programs to Alaska residents pursuing a medical education.
8 An agreement with another state must be limited to services and programs that are
9 unavailable in Alaska. The commission shall require a person participating in a
10 medical education program offered under this subsection to agree to the
11 repayment condition imposed under AS 14.44.040.

12 * Sec. 2. AS 14.44 is amended by adding a new section to article 1 to read:

13 Sec. 14.44.040. Repayment condition for medical education program
14 participants. (a) Except as provided under (b) and (c) of this section, as a condition

1 of eligibility for receiving financial aid under AS 14.44.010 - 14.44.040, a program
2 participant shall agree to receive a portion of the financial aid as a loan, to be repaid
3 to the state. The portion of the financial aid received as a loan to be repaid to the
4 state is equal to the difference between resident and nonresident tuition at the
5 contracting postsecondary institution plus interest. The rate of interest is equal to the
6 12th Federal Reserve District discount rate in effect on March 1 of the year in which
7 the financial aid is received plus two percentage points. Interest imposed under this
8 subsection begins to accrue when the person terminates studies under the graduate
9 education program. Accrued interest shall be added to the principal balance of the
10 loan at the time the borrower is obligated to commence repayment and at the end of
11 a deferment period.

12 (b) If a person required to repay a loan under (a) of this section has graduated
13 from the graduate education program for which the loan was received and is employed
14 within the state in the field for which the person received the loan, including
15 employment within the state in a medical residency program, the loan shall be forgiven
16 and considered a grant in an amount equal to the following percentages plus accrued
17 interest:

- 18 (1) one year employment, 20 percent;
- 19 (2) two years employment, an additional 20 percent;
- 20 (3) three years employment, an additional 20 percent;
- 21 (4) four years employment, an additional 20 percent;
- 22 (5) five years employment, an additional 20 percent.

23 (c) Repayment under (a) of this section is required to begin not later than six
24 months after the person terminates studies under the graduate education program,
25 except that a person who qualifies for forgiveness under (b) of this section is not
26 required to begin repayment to the state as long as the person remains qualified for
27 forgiveness under (b) of this section. A person employed in a medical residency
28 program is not required to begin repayment to the state as long as the person remains
29 in the medical residency program. Forgiveness under (b) of this section only applies
30 to that portion of the loan that has not been repaid to the state.

31 (d) If a person meets the qualifying conditions under this section for

1 forgiveness after beginning repayment, the repayment requirement is deferred in the
2 month following qualification for forgiveness. Repayment shall be deferred as long
3 as the person remains qualified or until the balance of the loan has been fully forgiven.
4 If the person is delinquent or in default on the person's regular repayment schedule,
5 repayment shall continue until the person is current in payments. A period of time
6 during which the person is making past due payments may not be considered as a
7 qualifying period for the purpose of calculating forgiveness benefits.

8 (e) For purposes of qualifying for forgiveness under this section, a person must
9 be a full-time employee for a period of at least six months in order to qualify for a
10 prorated forgiveness benefit. In this subsection, "full-time employee" does not include
11 seasonal or temporary employment.

12 (f) A person's obligation to repay the loan under this section ends if the person
13 dies and is deferred during any period in which a physician certifies that the person
14 is totally disabled.

15 (g) This section does not apply to loans received by a person under AS 14.43.

16 (h) The commission may adopt regulations to implement this section. Except
17 as provided in this section, regulations adopted under this subsection may not exempt
18 or defer a repayment required under this section.

19 * Sec. 3. APPLICABILITY. This Act applies to a person who begins a graduate education
20 program and who receives financial aid from the state under AS 14.44.010 - 14.44.040, or for
21 a medical education program under AS 14.42.030(d), on or after July 1, 1997. 8

22 * Sec. 4. This Act takes effect July 1, 1997. 8

AMENDMENT

#2 adopt
no
amended

OFFERED IN THE HOUSE

BY REP. DAVIES

TO: CSHB 193 (HES)

Page 2, line 5, following "interest"

Insert ^{and} "but does ~~not~~ include costs for the first year of the program delivered at the University of Alaska, Anchorage"

#2

A M E N D M E N T

OFFERED IN THE HOUSE

BY REPRESENTATIVE BUNDE

TO: CSHB 193(HES)

1 Page 1, following line 3:

2 Insert a new bill section to read:

3 **"* Section 1. INTENT.** It is the intent of the legislature that a person participating in a
4 medical education program shall repay a portion of the financial aid received unless the
5 person returns to the state and is employed in the state in the field for which the person
6 received the loan. It is also the intent of the legislature that the repayment provisions apply
7 to each year that the person participates in the medical education program."

8 Page 1, line 4:

9 Delete "Section 1"

10 Insert "Sec. 2"

11 Renumber the following bill sections accordingly.

12 Page 2, line 5, following "contracting":

13 Insert "or participating"

HEALTH, EDUCATION AND SOCIAL SERVICES COMMITTEE

ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES



P.O. BOX V, JUNEAU 99811
(907) 465-3759

SPONSOR STATEMENT

CS HB 193 (HES)

"An Act relating to financial assistance for students attending certain graduate education programs; and providing for an effective date."

CS HB 193 (HES) would convert the WAMI Medical Education Program into a loan program. The state of Montana has already made this conversion.

WAMI has been a program of financial assistance named for the participating states of Washington, Alaska, Montana and Idaho. In FY 97, \$1,309,000 was authorized for this program.

Presently the WAMI program has no real incentive for students to return to the state upon completion of their education.

If graduate medical professionals who have benefited by this program choose to return to Alaska to work within six months, CS HB 193 (HES) has a forgiveness provision of 20% per year for up to five years of work in their field of study. Conversely, if the recipients decide not to return to the state after terminating studies under the graduate education program, repayment will be required to begin not later than six months after the students complete their studies and are no longer in a medical residency program.

If participants choose to return to the state later than six months, forgiveness would only apply to the financial aid that has not yet been repaid to the state.

Converting this program to a loan program and including a provision for loan forgiveness may be the incentive needed for Alaskans to bring their new skills back home.

Fact Sheet
Alaska WWAMI Program

Over 100 physicians currently practicing in Alaska are WWAMI (Washington, Wyoming, Alaska, Montana, Idaho) program graduates. They provide approximately 345,000 patient visits a year.

48% of the graduates of the program return to the state. That is higher than the national average of 41%.

Over 30% of students entering the program come from families where no other person has finished college.

Alaska's only residency program is affiliated with the University of Washington School of Medicine due to the WWAMI connection, and the residency also relies heavily on the WWAMI program for recruitment, academic support, and faculty development. The residency program contributes over \$5million of non-state dollars to the economy annually.

The University of Washington School of Medicine sends approximately 75 students to Alaska each year to receive experiences practicing medicine in Alaska. This contributes approximately \$100,000 to the economy.

The University of Washington School of Medicine has consulted numerous communities on types of health care and facilities are appropriate for their community.

Specialty Clinics are provided routinely by faculty and/or physicians from University affiliated hospitals (at least 3 were offered in January 1998).

The University of Washington School of Medicine is currently consulting on the telemedicine development for Alaska.

Alaska's physicians routinely take advantage of the continuing education opportunities provided for them by the University of Washington School of Medicine.

The University of Alaska Anchorage and the University of Washington are currently entering into an agreement to develop a physicians assistant program to continue to increase the health care services to Alaskans.

Numerous research projects are currently being done in the state by University of Washington School of Medicine faculty (approximately 17).

RE: CSHB193(H)/CSSB170(H)

The following information is provided to indicate what the impact of a WAMI loan would be from the borrower's perspective. Program fund source would continue to be General Fund due to covenants on use of Alaska Student Loan Corporation funds. Any repayment income would be deposited into State General Fund.

Two WAMI calculations are provided. Calculation #1 reflects the participants' borrowing the non-resident tuition differential loan for all four years of the program. Calculation #2 assumes that the borrower would be borrowing the tuition differential loan for 2nd-- 4th years of the program which take place in Seattle at the University of Washington School of Medicine. Also assumed is an average tuition increase of 4% a year and an interest rate of 7% (current 12th Federal Reserve District discount rate plus two percentage points).

WAMI LOAN SCENARIOS

- Assumptions:
- 1) Individual begins program in 1997/98
 - 2) Interest rate is 7%, accrues following in-school period
 - 3) In-school period followed by 6-month grace period and 3-year deferment during residency. Interest accrues during deferment but no payments are due.
 - 4) 15-year repayment schedule (To be set by regulation—Possible that 20-year schedule would be allowed.)
- These calculations are only estimates based on currently available tuition information.**

	Calculation #1	Calculation #2
1 st year loan	\$13,000	---
2 nd year loan	\$13,520	\$13,520
3 rd year loan	\$16,200	\$16,200
4 th year loan	<u>\$16,898</u>	<u>\$16,898</u>
Original Principal Balance	\$59,618	\$46,618
Deferment Interest	<u>\$14,606</u>	<u>\$11,421</u>
Capitalized Principal Bal.	\$74,254	\$58,039
Monthly payment:	\$643.93	\$503.32
Total to be repaid:	#1 \$123,638 (\$74,254, principal; \$49,384, interest); #2 \$ 96,638 (\$58,039, principal; \$38,599, interest)	

Unknown Factors Average starting annual net income for Family Practitioners
Additional college/medical education debt (without WAMI Loan) averaging
\$45,000-\$80,000.

ALASKA

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

TONY WILKEN, GOVERNOR

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MEMORANDUM

TO: Senator Gary Wilken, Chair
 Senate HESS Committee

FROM: Diane Barrans, Executive Director
 Alaska Commission on Postsecondary Education

DATE: April 29, 1997

SUBJECT: CSSB 170 (11)

RECEIVED
 APR 29 1997

At last Friday's committee hearing, Senator Leman posed a question regarding the potential tax implication, to a participant in the proposed WAMI loan program, of receiving forgiveness benefits.

I have received information from a peer organization in Wyoming that currently administers student aid programs with work-related loan forgiveness provisions. While this memorandum should not be construed as a legal opinion, my colleagues in Wyoming cited Internal Revenue Code Sec. 108. Income from discharge of indebtedness:

f) Student loans

(1) In general

In the case of an individual, gross income does not include any amount which (but for this subsection) would be includible in gross income by reason of the discharge (in whole or in part) of any student loan if such discharge was pursuant to a provision of such loan under which all or part of the indebtedness of the individual would be discharged if the individual worked for a certain period of time in certain professions for any of a broad class of employers.

I was also informed that the Wyoming administrators do not report the annual forgiveness benefits to the Internal Revenue Service and have no record of ever being asked to do so. It appears that so long as this provision remains in federal tax code, program participants may expect to receive forgiveness benefits under a WAMI loan program without negative tax implications.

I hope this is helpful to the committee in your deliberations. Please don't hesitate to contact me if I can be of further assistance.

Cc: Senator Robin Taylor

CODE	CONTRACTUAL SERVICES CLASSIFICATION	FY 96 ACTUAL	FY 97 AUTHORIZED	FY 98 ADJ BASE	FY 98 GOVERNOR
73000	Total Contractual Services	1,267.0	1,309.0	1,309.0	1,350.4
	Interagency Transfers (non-add)				

FUNDING SOURCES

1002	Federal Receipts				
1003	General Fund Match				
1004	General Fund	1,267.0	1,309.0	1,309.0	1,350.4
1005	General Fund Program Receipts				
1037	General Fund Mental Health				
1007	Interagency Receipts				

CODE	DESCRIPTION	FY 97 AUTHORIZED	FY 98 ADJ BASE	FY 98 GOVERNOR												
73100	<p>The WAMI agreement governing the administration of this program states, "It is the intent of the Agreement that the State of Alaska pay the full operating costs of this program for those students who are residents of the State of Alaska . . .". Accordingly the anticipated program costs for FY98 are broken out as:</p> <p>Cost breakdown (estimated):</p> <table style="margin-left: 40px;"> <tr> <td>10 - 2nd year students</td> <td style="text-align: right;">417,872</td> </tr> <tr> <td>10 - 3rd year students</td> <td style="text-align: right;">413,371</td> </tr> <tr> <td>10 - 4th year students</td> <td style="text-align: right;">268,719</td> </tr> <tr> <td>WAMI Program Admin.</td> <td style="text-align: right;">163,026</td> </tr> <tr> <td>Community Clinical Units</td> <td style="text-align: right;">87,412</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">1,350,400</td> </tr> </table>	10 - 2nd year students	417,872	10 - 3rd year students	413,371	10 - 4th year students	268,719	WAMI Program Admin.	163,026	Community Clinical Units	87,412		1,350,400	1,309.0	1,309.0	1,350.4
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Community Clinical Units	87,412															
	1,350,400															

**CONTRACTUAL
SERVICES
Form C300**

AGENCY Department of Education

BRU Alaska Postsecondary Education Commission

COMPONENT WAMI Medical Education #953

Page 1 of 1
Revised Date:

FY 98