

SB

189

HFIN

FILE

HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: May 7, 1997

FURTHER REFERRALS:

Date of Committee Action: 5/8/97

The FINANCE Committee considered:

CSSB 189(FIN)

CS FOR SENATE BILL NO. 189(FIN)

EDUC.LOAN REPAYMNT/ELIG.; OCC. LIC.

"An Act relating to eligibility for and default, collection, and repayment of student loans; relating to nonrenewal of certain occupational licenses for default on a student loan; and providing for an effective date."

recommends it be replaced with the following committee substitute CS SB 189 (FIN) the same title
 a new title

additional referral to _____ Committee
 attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): _____ (Dept)

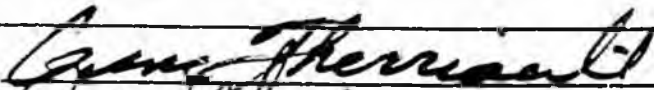
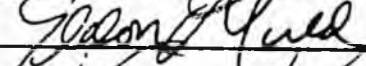

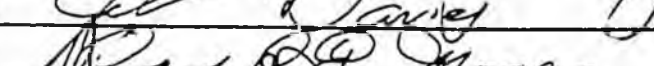


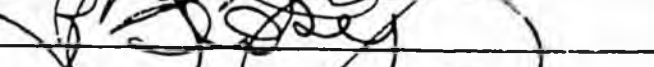

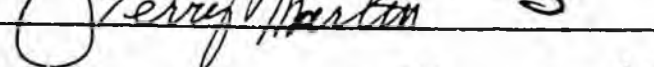
APPROVES PREVIOUS: _____ (Dept/Date)

fiscal note(s) _____

fiscal note(s) EDUCATION 4/30/97
LABOR 4/30/97

zero fiscal note(s) _____

zero fiscal note(s) AK Post Secondary 4/30/97
LABOR 4/30/97
DDA 4/30/97
DCED 4/30/97

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
 Therriault			X	
 GULL	✓			
 Kohring				X
 J. Davies			X	
 MOSES	✓			
 G. DAVIS			✓	
 KELLY			✓	
 FOSTER			X	
 MARTIN			X	

(C) CHAIR'S SIGNATURE


Therriault

FISCAL NOTE

No. 1
 Bill Version: SB 189
 (S) Publish Date: 4/30/97

STATE OF ALASKA
 1997 LEGISLATIVE SESSION

Revision Date: _____ Dept. Affected: EDUCATION
 Title: Education Loan Repayment/Eligibility: BRU: Teaching and Learning Support
Occupational Licensing Component: Teacher Certification
 Sponsor: Senate Health, Education & Social Services
 Requester: Senate Health, Education & Social Services COMPONENT SERIAL NO. _____ 1240

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY98	FY99	FY00	FY01	FY02	FY03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	6.5	5.0	5.0	5.0	5.0	5.0
SUPPLIES	3.0	2.0	2.0	2.0	2.0	2.0
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	9.5	7.0	7.0	7.0	7.0	7.0

CAPITAL EXPENDITURES	0	0	0	0	0	0
-----------------------------	----------	----------	----------	----------	----------	----------

CHANGES IN REVENUES						
----------------------------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF Program Receipts						
1007 Interagency Receipts	9.5	7.0	7.0	7.0	7.0	7.0
TOTAL	9.5	7.0	7.0	7.0	7.0	7.0

Estimate of current year (FY97) cost: \$

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)
 The legislation would require that teacher certification be withheld if a licensee is in default on a loan issued by the Alaska Commission on Postsecondary Education. The Teacher Certification Unit would be required to match up borrowers in default on a student loan with teaching certificates issued to determine if a license should be withheld. It also requires written notification of denial of renewal and issuance of a 150 day temporary license if the denial is appealed. The requested funding would come through the ACPE to DOE for costs associated with comparing borrower default information with licensees, issuing the written notice and temporary license. Contractual costs include revisions to regulations and procedures, computer programming time, additional phone and copy charges. Supplies costs include purchase of certification forms and office materials

Prepared by: Nancy Buehl Phone: 465-8689
 Division: Teaching and Learning Support Date: 4/29/97
 Approved by Commissioner: Shirley J. Holloway, Ph.D. Date: 4/29/97
 Agency: Department of Education

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE
 For further distribution information call the Governor's Legislative Office

FISCAL NOTE

No. 2
 Bill Version: SB189
 (S) Publish Date: 4/30/97

STATE OF ALASKA
 1997 LEGISLATIVE SESSION

Revision Date: _____ Department: Commerce and Economic Development
 Title: An Act relating to eligibility for and default, collection,
and repayment of student loans;.... BRU: Occupational Licensing
 Sponsor: Senate HESS Component: Operations
 Requestor: Senate HESS COMPONENT SERIAL NO. 1844

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES	0.0	0.0	0.0	0.0	0.0	0.0
--------------------	-----	-----	-----	-----	-----	-----

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 General Fund						
1005 GF/Program Receipts						
1008 GF/MHTIA						
Other 1091 Designated PR						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY 97) cost: \$ 0.0

POSITIONS

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

SB 189 repeals AS 08.02.025 and reenacts new requirements under AS 14.43.148 concerning nonrenewal of a license for an individual in default with the student loan program. The renewal requirements are similar to those currently in place under AS 08.02.025 with the exception of adding a new provision for a 150 day temporary license. New funds are not required to implement the license renewal requirements in this bill.

Prepared by: Jennifer Strickler, Administrative Manager Phone: 465-2144
 Division: Occupational Licensing Date: 4/28/97
 Approved by Commissioner: William L. Hensley Date: 4-27-97
 Agency: Commerce and Economic Development

FISCAL NOTE

STATE OF ALASKA
1997 LEGISLATIVE SESSION

No. 3
Bill Version: SB189
(S) Publish Date: 4/30/97

Revision Date: _____
Title: An Act relating to eligibility for and default, collection, and repayment of student loans; relating to nonrenewal of certain occupational licenses for default on a student loan; and providing for an effective date.

Sponsor: Senate HESS
Requester: Senate HESS

Department Affected: Education
BRU: Alaska Commission on Postsecondary Education

Component: Student Loan Operations

COMPONENT SERIAL NO. 213

EXPENDITURES/REVENUES:

OPERATING EXPENDITURES	FY98	FY99	FY00	FY01	FY02	FY03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	15.1	32.8	15.0	15.0	15.0	15.0
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	15.1	32.8	15.0	15.0	15.0	15.0

CAPITAL EXPENDITURES

CHANGE IN REVENUE ()

(Thousands of Dollars)

FUND SOURCE:

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
OTHER Corp. Receipts 1022	15.1	32.8	15.0	15.0	15.0	15.0
TOTAL	15.1	32.8	15.0	15.0	15.0	15.0

Estimate of any current year (FY 97) cost: \$

POSITION:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.)

The student loan fund continues to experience an erosion of fund equity each year, primarily due to the drain of uncollectable debt and losses due to interest-free periods on loans. This legislation will establish a front-end credit assessment of loan applicants as another step towards preservation of the fund for future generations. The only assessment of an applicant's credit-worthiness currently available is a check to ensure that the applicant is not delinquent on a previously awarded State of Alaska student loan.

Please see attached page.

Prepared by: Mike Maher, Director Phone: 465-6743
Division: Student Loan Operations Date: April 26, 1997

Approved by Executive Director: Diane Barrans
Agency: Alaska Commission on Postsecondary Education Date: April 26, 1997

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE
For further distribution information, call the Governor's Legislative Office

FISCAL NOTE

STATE OF ALASKA
1997 LEGISLATIVE SESSION

BILL NO. SB 189

ANALYSIS (continued)

The Commission proposes that credit assessments only be done on applicants 21 years of age and older. In the event that an applicant is denied due to "chronic" bad debt, the option of obtaining a co-signer who has good credit may be available. Credit reporting agencies generally have a model which analyzes credit histories based on a number of variables. Through the use of such models, the level of credit-worthiness can be assessed on a point basis, and a tolerance level for "chronic" debt can be established.

In addition, this legislation provides for administrative wage garnishment authority of wages of defaulted Alaska Student Loan borrowers who work in Alaska, either in the private sector or for state or local government employers. It also expands the licensing intervention process, which assures that defaulted borrowers seeking to renew specific licenses would be unable to do so until they have negotiated a payment arrangement with ACPE.

Section 4 amends the rate of interest charged for administrative costs of the student loan program from two and one-half percent to three percent. This change will provide for an increased rate of return on funds loaned, to offset current interest losses to the fund. This change will also have a positive impact to the loan fund of approximately \$350,000 per year, beginning at repayment (3 to 5 years out), for each loan year.

Credit assessments. The following analysis represents the loss-avoidance to the loan fund as well as the cost to ACPE of doing credit assessments.

Award year	Applications (11/1/97-7/31/98)			Sub-total	Cost	Total Cost
1997-98 (FY98)	6,000	A	63%	B	3,780	\$4 C \$15,120 (per assessment)
Estimated Award (11/1/97-7/31/98)	Chronic Debtors	Loss Avoidance				
\$24,000,000	D	13%	E	\$3,120,000	F	

Award year	Applications			Sub-total	Cost	Total Cost
1998-99 (FY99)	13,010	A.1	63%	B	8,196	\$4 C \$32,785 (per assessment)
Estimated Annual Award	Chronic Debtors	Loss Avoidance				
\$70,000,000	D.1	13%	E	\$9,100,000	F	

- A** The estimated number of initial loan applications ACPE expects to receive between November 1, 1997 and July 31, 1998. These dates are being used as ACPE does not expect regulations to be in effect prior to November 1, 1997. Without regulatory/statutory authority, ACPE cannot deny applications based on the credit worthiness of potential borrowers
- A.1** About 66.5% of the total number of applications received will be from borrowers with a prior loan. The estimated number of 1998-99 loan applications (17,000) less 66.5% of the number received between November 1, 1997 and July 31, 1998 (6,000) equals 13,010.
- B** Borrowers under the age of 21 do not generally have an established credit history. This population represents 37% of ASL borrowers. ACPE does not propose to assess the credit worthiness of applicants under 21 years of age.
- C** Credit report and risk score (credit worthiness): $\$3.30 + \$0.55 = \$3.85$ / assessment
- D** The estimated net amount of dollars ACPE expects to award to borrowers between November 1, 1997 and July 31, 1998. These dates are being used as ACPE does not expect regulations to be in effect prior to November 1, 1997. Without regulatory/statutory authority, ACPE cannot deny applications based on the credit worthiness of potential borrowers
- D.1** The estimated net amount of dollars ACPE expects to award to borrowers during the 1997-98 award year
- E** Approximately 25% of applications received will be from borrowers ACPE could classify as having questionable credit worthiness. About half of this population, or 13% could be classified as having a history of "chronic" bad credit
- F** The estimated principal amount of dollars ACPE would not award to borrowers demonstrating a high risk of default to the ASL fund

ANALYSIS. (continued)

Administrative wage garnishment authority allows for garnishment of wages of defaulted Alaska Student Loan borrowers who work in Alaska, either in the private sector or for state or local government employers. Historical information is the basis for the following:

ASSUMPTIONS

- A. Approximately 18% (17,000-) of borrowers default on the student loans.
- B. Approximately 9% (1,500-1,600) of defaulters are employed in the public sector in Alaska.
- C. Approximately 16% (2,700-2,800) of defaulters are employed in the private sector (non-federal and non-self-employed).
- D. Based upon current loan balances in default, these 4,200-4,400 defaulters owe between \$27.6 and \$28.9 million dollars to the Loan Fund.

Administrative wage garnishment will provide for efficient collection of defaulted loans to borrowers employed in the public and private sectors in Alaska.

License Renewal Intervention authority in this bill will expand the Commission's existing ability to use the State's licensing activity as an incentive for improved repayment behavior on the part of licensees who have defaulted on their Alaska Student Loans and who continue to ignore this financial obligation to the State. While administrative wage garnishment can be used to improve collection of defaulted loans for borrowers who are employed by public and private sector employers, license renewal intervention provides a tool to compel repayment from those borrowers more likely to be self-employed as a licensee in one of the identified fields or professions.

ASSUMPTIONS

- A. Approximately 61% of borrowers live in Alaska while in repayment. Approximately 10,000 defaulters reside in Alaska.
- B. Given the numbers of defaulters known to be employed by state/local government or by private sector employers, as many as 5,600 defaulters may be self-employed and holding employment related licenses. This sector currently represents approximately \$36 million in defaulted loans.

FISCAL NOTE

STATE OF ALASKA
1997 LEGISLATIVE SESSION

No. 4
Bill Version: SB 189
(S) Publish Date: 4/30/97

Revision Date: _____
Title: An Act relating to eligibility for and default, collection, and repayment of student loans.
Sponsor: (S) HES
Requestor: (S) HES

Department Affected: Administration
BRU: Centralized Administrative Services
Component: Finance
COMPONENT SERIAL NO. 59

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES	0.0	0.0	0.0	0.0	0.0	0.0
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CI AIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
------------------------	--	--	--	--	--	--

FUND SOURCE: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
OTHER						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY 97) cost: \$ 0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.) This bill would require the Department of Administration, upon notification by the Alaska Commission on Post-secondary Education, to withhold money from a person to whom the State legally owes money. We understand similar legislation has been passed in other states and at the federal level to address the issue of collecting defaulted student loans. This document is intended to respond only to those provisions of the bill relating to the Department of Administration.

From a Division of Finance perspective, this means withholding of employee pay or vendor payments to satisfy the requirements of a withholding order, and turning the withholdings over to the Commission.

Prepared by Don Wanie Phone 465-3435
Division Finance Date: _____

Approved by Commissioner: Mark Bover Date: 4/28/97
Agent: Department of Administration

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE
For further distribution information, call the Governor's Legislative Office

FISCAL NOTE

No. 5
 Bill Version: SB189
 (S) Publish Date: 4/30/97

STATE OF ALASKA
 1997 LEGISLATIVE SESSION

BILL NO.

Revision Date: _____ Department Affected: Labor
 Title: Education Loan Repayment
Eligibility; Occ Licensing BRU: Workers' Compensation
 Sponsor: Senate HES Component: Workers' Compensation
 Requestor: Senate HES COMPONENT SERIAL NO. 344

EXPENDITURES/REVENUES:

(Thousands of Dollars)

OPERATING	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES	18.0	9.0	9.0	9.0	9.0	9.0
TRAVEL						
CONTRACTUAL	10.5	0.9	0.9	0.9	0.9	0.9
SUPPLIES	0.4	0.2	0.2	0.2	0.2	0.2
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	28.9	10.1	10.1	10.1	10.1	10.1

CAPITAL						
---------	--	--	--	--	--	--

CHANGE IN REVENUE						
FUND SOURCE #						

FUNDING:

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipt						
1006 GF/MHTIA						
1007 Interagency Receipt	28.9	10.1	10.1	10.1	10.1	10.1
TOTAL	28.9	10.1	10.1	10.1	10.1	10.1

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY97) impact: \$ None

ANALYSIS: (Attach a separate page if necessary)
 This legislation gives the Commission on Postsecondary Education (Commission) authority to collect certain workers' compensation benefits due an injured worker who has defaulted on an education loan. Section AS 14.43.147 appears to apply to workers' compensation payments and grant authority to the commission to obtain those payments. This legislation will require additional clerical time for the Workers' Compensation Division as attached:

Prepared by: Paul Grossi, Director *Paul Grossi* Phone: 465-2790
 Division: Workers' Compensation Date: 4/30/97
 Approved by Commissioner: Tom Cashen, Commissioner *Tom Cashen*
 Agency: Department of Labor Date: 4/30/97

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE
 For further distribution information call the Governor's Legislative Office

Analysis:

The Post Secondary Education Commission estimates approximately 17,000 student loans are currently in default. This legislation will require additional clerical time and costs for the Workers' Compensation Division as follows:

Each request for workers' compensation benefits payable would need to be researched and verified. It is anticipated based on the number of existing student loans currently in default the first year would require 6 months of an Administrative Clerk III time. Response letters to requests to claimant will need to be prepared advising insurers and employees of the potential impact to compensation benefits. Programming and procedures would need to be developed to respond to match up request with workers' compensation claim files. Additional mailings and reports may be required.

One month programming time will be required to meet bill requirements.

Line 100 Personal Services

50% of 1 Administrative Clerk III

(1st year, 25% subsequent years)

Salary	12.2
Benefits	<u>5.8</u>
	18.0

Line 300 Contractual Services

DP Programming (FY98 one time)	5.0
Postage	3.2
DP Operations one time overhead	0.4
Printing form letters	0.5
Indirect @ 8% salary	<u>1.4</u>
	10.5

Line 400 Commodities

Office Supplies	0.4
Total	<u>28.9</u>

FISCAL NOTE

STATE OF ALASKA
1997 LEGISLATIVE SESSION

No. 6
BILL NO. Bill Version: 9B189
(S) Publish Date: 4/30/97

Revision Date: _____	Department Affected: <u>Labor</u>
Title: <u>Education Loan Repayment</u>	BRU: <u>Employment Security</u>
<u>Eligibility; Occ Licensing</u>	Component: _____
Sponsor: <u>Senate HES</u>	<u>Employment/Unemployment Services</u>
Requestor: <u>Senate HES</u>	COMPONENT SERIAL NO. <u>1807</u>

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL						
----------------	--	--	--	--	--	--

CHANGE IN REVENUE FUND SOURCE #						
--	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipt						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY97) impact: \$ None

ANALYSIS: (Attach a separate page if necessary)

(SEE ATTACHED)

Prepared by: <u>Rebecca Nance, Director</u>	Phone: <u>465-2711</u>
Division: <u>Employment Security Division</u>	Date: <u>4/30/97</u>
Approved by Commissioner: <u>Tom Cashen, Commissioner</u>	
Agency: <u>Department of Labor</u>	Date: <u>4/30/97</u>

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE
For further distribution information call the Governor's Legislative Office

**ATTACHMENT
FISCAL NOTE**

Page 2 of 2

This bill would give the Alaska Commission on Postsecondary Education additional tools to collect delinquent student loans. It has three main components: a grant of authority to attach wages and benefits by notice served on employers, political subdivisions, and state departments; a provision for denying state licenses to defaulting debtors; and a set of special provisions for permanent fund dividend attachment.

Attachment of wages and benefits. This provision will not significantly impact the Employment Security Division, because unemployment insurance benefits are exempt from attachment under AS 23.20.405 and AS 09.38.015. The bill would exempt any income which is exempted under AS 09.38.

Denial of State licenses. This provision will not directly affect ESD programs.

Permanent fund dividend attachment. No ESD impact.

Fiscal impact. No ESD fiscal impact.

FISCAL NOTE

No. 7

STATE OF ALASKA
1997 LEGISLATIVE SESSION

BILL NO. _____
(S) Publish Date: SB189
4/30/97

Revision Date: _____
Title: Education Loan Repayment
Eligibility; Occ Licensing
Sponsor: Senate HES
Requestor: Senate HES

Department Affected: Labor
BRU: Labor Standards & Safety
Component: Mechanical Inspection

COMPONENT SERIAL NO. 346

EXPENDITURES/REVENUES:

(Thousands of Dollars)

OPERATING	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES	9.0	9.0	9.0	9.0	9.0	9.0
TRAVEL						
CONTRACTUAL	5.8	2.5	2.5	2.5	2.5	2.5
SUPPLIES	0.4	0.4	0.4	0.4	0.4	0.4
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	15.2	11.9	11.9	11.9	11.9	11.9

CAPITAL						
----------------	--	--	--	--	--	--

CHANGE IN REVENUE FUND SOURCE #						
--	--	--	--	--	--	--

FUNDING:

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipt						
1006 GF/MHTIA						
1007 Inter-Agency Receipt	15.2	11.9	11.9	11.9	11.9	11.9
TOTAL	15.2	11.9	11.9	11.9	11.9	11.9

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY97) impact: \$ None

ANALYSIS: (Attach a separate page if necessary)

(SEE ATTACHED)

Interagency Receipts: RSA with Department of Education, Postsecondary Education Commission

Prepared by: Alan W. Dwyer, Director *Al Dwyer* Phone: 465-4855

Division: Labor Standards & Safety Date: 4/30/97

Approved by Commissioner: Tom Cashen, Commissioner *Tom Cashen*

Agency: Department of Labor Date: 4/30/97

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE
For further distribution information call the Governor's Legislative Office

ANALYSIS:

This legislation will require additional administrative and clerical time and costs for the Mechanical Inspection component as follows:

- 1) When individuals apply in person for new or renewal certificates of fitness at any of five offices (Anchorage, Juneau, Fairbanks, Sitka, and Kenai), the estimated increase in processing time will be 30 minutes per individual who is in non-compliance with an Alaska student loan. This does not include testing, proctoring, scoring or discussion of tests.
- 2) Renewal letters are mailed out monthly. New programming, different procedures, forms, and additional mailing and reporting costs will be incurred to provide the "temporary" renewal letters and to answer phone calls regarding the change.
- 3) Additional time will be required to process the releases and the permanent certificates, as individuals submit those to our office.
- 4) Two weeks programming time will be needed to respond to the bill's requirements.

Line 100 - Personal Services

25% of 1 PFT Admin Clerk II (PCN 07-4543)

Salary	6.1
Benefits	2.9
Subtotal	<u>9.0</u>

Line 300 - Contractual Services

Professional Services - DP Programming (FY98 one-time)	3.1
Postage @ \$2.52 x 2 x 5,650 x 5%	1.4
Printing - forms, notices, letterhead	0.1
DP Operations Overhead (FY98 one-time)	0.2
Phone Base & Long Distance	0.3
Indirect @ 8% of salaries	0.7
Subtotal	<u>5.8</u>

Line 400 - Commodities

Office Supplies	0.4
-----------------	-----

TOTAL 15.2

Alaska State Legislature

Senator Gary Wilken, Chairman
Senator Loren Leman, Vice Chairman
Senator Lyda Green
Senator Jerry Ward
Senator Johnny Ellis



State Capitol
Room 510
Juneau, Alaska 99801
(907) 465-3762

Senate Committee on Health, Education and Social Services

SPONSOR STATEMENT

SB 189 – Repayment of Student Loans

Currently the default rate of the student loans issued by the Alaska Commission of Postsecondary Education is unacceptable. Senate Bill 189 provides the Commission with the necessary financial tools to effectively and efficiently reduce the number of loans which are in default.

The ultimate goal of this legislation is to create a financially solvent Alaska student loan program that will be available to the next generation of Alaskan postsecondary students. SB 189 will (1) improve the credit rating of the Alaska Student Loan Program, (2) lower the loan program default rate, (3) improve the return rate on funds loaned to borrowers, and (4) increase the recovery rate on defaulted loans.

With the huge jump in loan demand that this program is now experiencing (20% – 25%), it is vital that the Commission be given the tools and authority to operate on a business-basis. Passage of Senate Bill 189 will be a step in the right direction.

CSSB189(FIN)
Sectional Analysis

An act relating to eligibility for and default, collection, and repayment of student loans.

Sections 1- 3: Technical conforming amendments to reflect the appropriate citation referencing the Family Education Loan Program (FELP).

Section 4: Provides for deferment of Half-Time Alaska Student Loans for borrowers who are in full-time student status at postsecondary institutions outside of Alaska.

Section 5: Increases by one-half of one percent the interest rate allowance to be used to offset costs of administering corporation and commission.

Section 6: Borrower eligibility section is amended to clarify that borrower must be eligible not only at the time of application but also at the time the funds are received (may be several intervening months). Places the residency criteria in the appropriate section of statute (currently set out in AS 14.43.120(p)) and clarifies language relating to residency eligibility.

- **Substantive change is addition of (a)(6-8), page 5, beginning on line 26. Allows for assessment of applicants' credit history to identify chronic bad debt. Will allow program administrators to determine inability to repay.**

Section 7: Provides for loan eligibility if applicant obtains a credit-worthy cosigner.

Section 8: Expands tools for collecting on defaulted loans (Six months or more in arrears).

- **Page 6, line 12 – Page 7, line 2, (AS 14.43.145) describes the sanctions that will be imposed when a borrower defaults.**
- **Page 7, line 3 – Page 9, line 1, (AS 14.43.147) authorizes administrative wage garnishment and describe the legal process. (Modeled after Child Support Enforcement's garnishment in AS 25.27.070.)**
- **Page 9, line 2 – Page 12, line 9, (AS 14.43.148) expands existing authority to intervene in the renewal of professional or occupational licenses and provides for issuance of a temporary license during a period when the licensee may dispute that agency's action. Excludes those licenses which may be jointly owned or which are not centrally controlled. Exclusion will eliminate potential damage to non-borrowers and avoids targeting licenses that would require intensive manual intervention to administer.**

CSSB189(FIN)

Sections 9-15: Technical changes amending citation of FELP and making eligibility criteria consistent among Alaska Student Loans, Teacher Scholarship Loans and Family Education Loans.

Section 16: Clarifies that certain temporary licenses issued during a loan default appeal process are not eligible for transfer to a spouse of a deceased licensee.

Section 17: Re-states an existing Revenue statute to conform to this legislation (re: PFD garnishment).

Section 18: Technical conforming repealers. Specifically, AS 08.02.025 is replaced by new AS 14.43.148; AS 14.43.120(i) and (q) are replaced by new AS 14.43.145; 14.43.740(b) is replaced by amended AS 14.43.720(a); and, AS 14.43.790 is replaced by amended AS 14.43.740(a).

Section 19: Authority to promulgate regulations prior to effective date of this act, but which may not be in effect prior to the effective date of the act.

Section 20: Providing for an immediate effective date for Section 19.

Section 21: Providing for an effective date of July 1, 1997 for the act.

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

SB 189-- "An act relating to eligibility for and default, collection and repayment of student loans; relating to nonrenewal of certain occupational licenses for default on a student loan; and providing for an effective date."

- Allows the Alaska Student Loan Programs (ASLP) administrators to assess applicants' credit history to identify chronic bad debt. This provides an indicator of a borrower's potential ability to repay their debts;
- Provides applicants, found to have chronic bad debt, with an opportunity to obtain a credit worthy co-signer,
- Provides cost-effective, relevant sanctions that will be imposed when borrowers default and which will motivate borrowers to repay to avoid sanctions;
- Provides an increased rate of return on funds loaned to offset current interest losses to the fund;
- Provides for issuance of a temporary occupational/professional license during a borrower appeal of the nonrenewal of a license.

The ultimate goal of this legislation is to create a financially solvent Alaska student financial aid resource that will, without further assistance from the State coffers, still be available to the next generation of Alaskan postsecondary students. This bill contains a number of tools which are necessary to achieve specific objectives: improving the credit rating of the Alaska Student Loan Program; lowering the loan program default rate; improving the return rate on funds loaned to borrowers; and, increasing the recovery rate on defaulted loans.

These objectives are measurable and should be measured. If this bill is enacted, it would be with the intent that the Commission, in its annual report to the Governor and the Legislature, include these statistics as a report card on the effectiveness of these tools and to insure accountability on the part of program administrators. This bill supports this legislature's and the administration's goals for self-sustaining government operations.

Are These Legislative Changes Really Necessary?

The Alaska Student Loan Corporation is in critical need of assistance through legislative changes to the programs it funds. These are changes that would have been prudent to make at the point in time when the General Fund subsidy was eliminated, thereby funding the programs solely with private capital. The following are fund loss statistics.

- The total amount of forgiveness granted from 1972 to June 30, 1996 was approximately \$70 million. Of that amount, over \$57.3 million has been granted since the Corporation was created in 1987. Staff estimate that the Corporation will have to pay another \$8.7 million as these older loans are retired. Had the Corporation

continued to receive General Funds to offset these losses, it would have had a retained earnings balance of \$19.1 million at the end of the FY96 instead of the current deficit balance of \$47.3.

- Losses due to loans written-off (death, disability, bankruptcy and lack of payment activity) since the Corporation's creation total approximately \$47.8 million at 6/30/96. Staff estimate that another \$97.1 million, of the current loan portfolio, will be written-off in the future.
- Another 'public policy' loan issue is interest accrual. The September 30, 1996, unaudited financial statements indicated that loans totaling \$122,662,495, or 23% of the portfolio at September 30, 1996, were not accruing interest because they were in an interest-free period. Of these loans, approximately 60% were financed with bond proceeds. From a purely business perspective, any interest-free period on these student loans results in a loss to the Corporation as it pays interest on outstanding bonds from issuance until retirement of the bond debt and forgoes interest income on funds used to originate the loans.

At the time the Corporation was created, the ASLP was overcapitalized to a significant extent. Additionally, the Corporation adopted, and the legislature initially funded, the "Millennium Plan", a capitalization plan that assumed yearly influxes of General Funds leaving little concern that the Corporation would not be able to easily meet the debt service coverage ratio of 150% stipulated in its master bond indenture. The unanticipated elimination of General Fund support caused the abrupt curtailment of that plan in 1991, leading to several years of large bond issues to keep up with student borrowing needs. As a result, the Corporation is now very close to the minimal level of debt service coverage required by the master bond indenture.

With the huge jump in loan demand that the program is now experiencing (20% - 25%), it is vital that the Commission be given the tools and authority to operate on a business-basis. Alaska can no longer afford to characterize and consider this student aid source as simply a social service.

What Methods Will be Used to Measure the Success of these Changes, if Enacted?

The Commission/Corporation provides a variety of indicators that will reflect the effectiveness of program changes. They include: program default rate, annual audited financial statements, default recovery statistics, etc.

STATE OF ALASKA

TONY KNOWLES, GOVERNOR

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

3030 VINTAGE BLVD.
JUNEAU, ALASKA 99801-7109
VOICE (800) 441-2962
In Juneau 465-6740
TDD (907) 465-3143
FAX (907) 465-3293

EXCERPTS OF APPROVED MINUTES OF THE COMMISSION MEETING OF THE ALASKA COMMISSION ON POSTSECONDARY EDUCATION DECEMBER 13, 1996 RE: PROPOSED LEGISLATION

Commission members present for all or portions of the meeting were: Mark Begich, Chairman; Bobette Bush, Vice Chair; Dr. Milton Byrd; Senator Johnny Ellis; Rosa Foster; Dr. Roger Jarvis; Charles H. Parr; Scott Sterling; Dr. Alice Galvin and Dr. Lydia Hays.

At page 13:

LEGISLATIVE/REGULATION UPDATE

Endorsement of Legislative Amendment Proposal - Diane Barrans

Ms. Barrans provided a summary of comments received from various identified constituency groups concerning the proposed legislation. Our primary focus group was student representatives, and every effort was made to get a good sense of attitudes towards the different discussion items. Overall responses were positive, with some cautionary words regarding the Commission taking a deliberative approach to making positive reasoning changes. The most common comment was to use these instruments as a leverage and not a hammer...

Dr. Lydia Hays moved to approve the legislative package as identified by Ms. Barrans. The motion was seconded by Ms. Bush.

Mr. Parr asked what the procedures for administrative wage garnishment would entail. Ms. Williams stated that if the Governor's office asks her to draft something to implement this procedure, she would follow the child support enforcement division's administrative wage garnishment process.

Mr. Sterling stated that this type legislation continues to demonstrate to the underwriters of our bonds that we are fiscally serious people and that, within reason, we are going to reform a number of approaches we have taken to be on a business-like basis as possible, while at the same time keeping access to ASL far more open than [private] programs would ever allow. We need as many tools as the law allows. He stated that collections through the courts are difficult because an attorney will not consider a case unless it involves a large sum of money. Ms. Barrans stated that whatever enhancements we make to the program translates into more marketable bonds, at lower rates, which lowers the rate borrowers will pay.

Ms. Bush stated that she is familiar with the child support wage garnishment system from an employer's standpoint and feels it involves little paperwork and provides an efficient program in dealing with the state. It is very effective and if what we do is tailored along those lines, she is highly supportive of the proposal...

Mr. Begich asked for any objections to moving forward with the proposed legislation to be presented to the Governor, excluding the setting of institutional authorization fees. There being no objections, the motion carried.

TO: Diane Barrans
C: Pat Born
Charlene Morrison

FROM: Smith Barney Inc.

RE: Revenue/Expense Enhancements

DATE: April 1, 1997

Alaska Student Loan Corporation ("ALSC") seeks ways to achieve positive future operating results with a goal of not attempting to fully recover prior losses from the pockets of current borrowers. Thus a long term strategy is essential to achieve an equitable turnaround of ASLC's finances. The purpose of this memorandum is to set forth our estimates for the effect several initiatives may have on ASLC earnings and net worth. These initiatives are set forth below:

- A) Pre-screening applicants for credit history/co-signers (we estimate that approximately 13% of applicants would be required to acquire a credit-worthy cosigner or be denied a loan)
- B) Increase array of sanctions/collection tools on defaulted loans to include:
 - i) Administrative wage garnishment (we estimate that 25% of ASL defaulters could be subject to this collection tool)
 - ii) Expanded occupational/professional license renewal intervention
- C) Increase of administrative cost cap in interest rate formula from 2.5% to 3%; ~~or~~
- D) Charge interest during **all** borrowing periods

Current Financial Situation

Over the last 5 years, ASLC has experienced an average *annual* loss, and thus decrease of Net Worth, of approximately \$3.5 million. This annual loss is the result of several major factors: (1) losses due to defaulting borrowers, (2) losses due to policies where borrowers are not charged interest during certain periods, and (3) expenses of servicing and administering the portfolio. Significant improvement in lowering defaults and charging interest during all periods would reverse the annual loss, and provide ASLC with annual surplus. This is particularly important now that annual origination is higher, and the ability to meet additional bonds test less certain.

- A. Pre Screen Applicants: Clearly, implementing credit underwriting standards would have a positive effect on reducing future default costs. Statistics nationally show that credit underwriting standards slightly less rigorous than home mortgage requirements will produce 2 to 4% default rates, whereas credit blind underwriting standards will produce default rates of 10% to 20% depending on the demographics of the target population. Alaska's experience recently is at the high end of this range with loan loss rates of 11% to 12%. Assuming \$70,000,000 of annual originations and an initiative that reduced that loss rate by 3% (from

SMITH BARNEY

say 12% to 9%) ASLC would save \$2.1 million for each annual cohort of loans. Thus, a reduction of 3% would slowly help stem the annual corporate loss, a great result from a financial perspective, but instituting credit standards on 13% of applicants carries significant public policy concerns. The benefits of reduced future defaults will occur in the first three years of repayment, or three to five years after implementation. This lag time makes this alternative the slowest acting change element when compared to either enhanced collection or restructured interest rates.

- B. Enhanced Collection Tools: From a financial standpoint, ASLC should utilize all of the collection tools available, including Permanent Fund Dividend garnishment, wage garnishment, license renewal intervention, commercially diligent loan collection, etc. National rules of thumb for recovery rates approach 50% of defaults and anything less than 30% recovery would be sub-standard. ASLC should target obtaining at least 50% recovery due to the availability of the Permanent Fund Dividend.

A program which allow rescheduling the debt or an amnesty with respect to late fees and overdue interest could enhance collections. Given the amount of defaulted loans, any collection improvement will yield large results compared to the size of the recent annual losses.

Any increase in collection of prior default has the additional benefit of results within twelve months. On the negative side, the enhancement to earnings comes from those least able to pay.

- C. Increase Interest Rates: Increasing interest rates by 1/2 of 1% will have an obvious positive impact of \$350,000 per year in repayment for each annual cohort of loans. This increase of revenue will begin at repayment (i.e., 3 to 5 years hence).
- D. Charge interest during in-school period: This alternative is very attractive as it will produce significant and immediate results. Currently, students do not pay interest during the in-school period. The proposal is to charge interest during this period. Below is a table which outlines the annual added revenue ASLC will receive, and the added cost to a student, under various scenarios. It is assumed that annual originations are \$70 million, and borrowers are in school an average of two years.

Assumed Interest Rate	First Year Enhanced Revenue to ASLC ¹	Second Year and Succeeding Years Annual Enhanced Revenue to ASLC ¹	Added Cost to Borrower with \$15,000 of Loans ²	Added Cost to Borrower with \$30,000 of Loans ²
3%	\$2.1 million	\$4.2 million	\$1,600	\$3,200
4%	\$2.8 million	\$5.6 million	\$2,140	\$4,280

1 Assumes \$70 million annual originations

2 Assumes 2 year in school period, borrower does not pay interest but it is added to principal of loan at repayment, interest rate on loan is 8.6%.

If ASLC starts to charge interest during the in-school period, ASLC can give the borrowers the option to pay the interest currently, or have accrued interest added to the balance of the loan. In either scenario, ASLC will record enhanced revenue, which will help produce a small annual surplus, with immediate results beginning in the first year.

- E. Title IV Loans: We continue to urge a careful review of using Title IV Loans to supplement the Alaska Loan. As discussed above, the two major reasons for losses at ASLC are default costs and in-school interest rate subsidies; the federal government covers these two costs in the Title IV program. To the extent a borrower takes out a Title IV Loan instead of an Alaska Loan, there is a significant saving which can be (i) taken by ASLC, (ii) given to the borrower in a significantly lower interest rate, or (iii) a combination of the two.

Borrower Benefit Programs

ASLC should consider incenting borrowers to pay on time. The most significant cost to ASLC of servicing a loan is corresponding with borrowers who are late. Thus, an incentive to cause borrowers to be on time with payments is of interest. The most prevalent borrower benefit program nationally is a program whereby if a borrower is on time (within 10 days of due date) for 43 consecutive payments, then for the balance of the loan term, the interest rate is reduced by 2% per year (i.e., from say 8% to 6% per year). Since most borrowers will not qualify (only 20% of borrowers are expected to pay on time) and since a good portion of the loans will be paid off after 48 months, the annual cost to ASLC is modest. Such a program is likely to reduce the overall yield on the borrower benefit portfolio by approximately 10 basis points per year, or \$70,000 per year for a \$70 million portfolio.