

**HB**

**373**

HFIN

FILE

(11)

# HOUSE COMMITTEE REPORT

Date Referred to Committee: April 3, 2000

FURTHER REFERRALS:

Date of Committee Action: 4/12/00

The FINANCE Committee considered:

HB 373

HOUSE BILL NO. 373

STUDENT LOAN CORP PAYMENTS TO STATE

"An Act relating to return of contributed capital, or payment of a dividend, to the state by the Alaska Student Loan Corporation; and providing for an effective date."

recommends it be replaced with the following committee substitute \_\_\_\_\_  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) \_\_\_\_\_

zero fiscal note(s) \_\_\_\_\_  zero fiscal note(s) Dec 2-16-00

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<u>Car Bunde</u> BUNDE			✓	
<u>Wm. Auster</u> AUSTERMAN			X	
<u>Ch. Davy</u> DAVIES			X	
<u>A. Moses</u> MOSES			X	
<u>Henry L. Davis</u> DAVIS	X			
<u>W.K. Williams</u> WILLIAMS	X			
<u>Gail Phillips</u> PHILLIPS	✓			
<u>Grussen Dorf</u> GRUSSENDORF			X	

CHAIR'S SIGNATURE Car Bunde  
DATE DATE

# FISCAL NOTE

No: 1

**STATE OF ALASKA**  
**2000 LEGISLATIVE SESSION**

Bill Version: HB 373  
 (H) Publish Date: 2/16/00

Revision Date/Time (Note if correction)	Dept. Affected <u>EED</u>
Title <u>An Act relating to return of contributed capital, or payment of dividend, to the state by the Alaska Student Loan Corpora...</u>	BRU <u>ACPE</u>
Sponsor <u>Rules Committee</u>	Component <u>Alaska Student Loan Program</u>
Requester <u>Governor</u>	Component No. <u>18010</u>

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

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

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

**FUND SOURCE** (Thousands of Dollars)

FUND SOURCE	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2000) cost: \_\_\_\_\_

**POSITIONS**

POSITIONS	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Full-time						
Part-time						
Temporary						

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

Based on current projections, the payment for FY01 could be between \$.6 million and \$2.2 million, and future years would vary in accordance with the statutory provisions and future net income amounts.

Prepared by: <u>Donna Mayfield, Exec. Secretary</u>	Phone <u>465-6740</u>
Division <u>Exec. Office</u>	Date/Time <u>2/10/00 9:30 a.m.</u>
Approved by Executive Officer <u><i>Diane Barrans</i></u> , Diane Barrans	Date <u>2/10/2000</u>
Agency <u>ACPE/ALASKA STUDENT LOAN CORPORATION</u>	

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<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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ALASKA COMMISSION ON POSTSECONDARY EDUCATION

March 6, 2000

HB 373

The Honorable Fred Dyson, Chair  
Members, Health, Education and Social Services  
Committee  
Alaska State House of Representatives  
Room 104  
State Capitol  
Juneau, Alaska 99801-1182

Re: HB 373; An act relating to return of contributed capital...

Dear Chairman Dyson and HESS Committee Members:

I am writing to provide follow-up to inquiries made during Commission staff testimony before you at your March 2 hearing regarding legislation creating a methodology for the Alaska Student Loan Corporation (ASLC) to return to the State contributed capital, under certain conditions.

The committee requested information regarding the ASLC's ability to use the funds proposed for a return of capital payment to either reduce interest currently being paid by borrowers, or to reduce the rate on loans made in future years.

Regarding a reduction of interest charges for existing loans, enclosed is a copy of the ASLC's 1999 Preliminary Official Statement (POS) for your review. Due to the fact that ASLC bonds are secured by the loans and the expected earnings on those loans, the option of retroactively lowering interest is not available to the Corporation. I would direct your attention specifically to pages 22 through 30 of the POS. You will note that as part of the bond sale process, the Corporation discloses a substantial amount of information about the loan program, including the specific financial terms and conditions of the pledged loans. In marketing and selling its bonds, the Corporation is essentially promising to bondholders that loans issued to back the bonds will contain certain characteristics, and that it will service and collect on the loans in its portfolio in accordance with the terms and conditions set out in the POS. If the Corporation were to reduce its future income stream by altering those loan characteristics without an outside income source to subsidize the change, we would be in violation of our bond covenants.

With reference to the potential use of the funds to further reduce future interest rates, due to the way in which interest rates are calculated, recycling the small amount of capital proposed for payment to the State would not measurably affect that rate. Alaska Student Loan interest rates are determined based on the components articulated in AS 14.43.120(f) and (v) and further defined in 20 AAC 15.945. Because the rates are tied to the weighted average of the stated interest rate on all outstanding bonds and the average program costs for the preceding five fiscal years, reducing the rate on loans is best achieved by continuing to improve the Corporation's credit standing and to reduce program costs (most significantly reducing losses due to uncollected loan principal and interest).

In light of the strength of its current financial turnaround, last November the Corporation Board met and identified four key priorities relating to the ASLC's mission in the 21<sup>st</sup> century:

- Ensure the fiscal stability and credit standing of the Corporation;
- Continue reducing interest rates to insure affordable education to residents;
- Continue reducing current fund equity deficit of \$43 million; and
- Propose a structure for an annual dividend payment to the State as a return on its capital contribution of \$306 million.

In placing the priorities in this order, the Board is expressly committing this agency to maintaining the long-term availability of the student loan programs and to insuring that educational loans in Alaska remain affordable. Subordinate to those objectives, however, they seek continued improvement in the Corporation's financial position so that the programs we fund will continue to enjoy broadbased public and legislative support, and that we will continue to improve our underlying bond rating to further reduce program costs. At the same time, as an enterprise agency of the State, the Corporation is able to begin sharing the benefits of improved operation by contributing to support general government services.


The committee also expressed an interest in both the model for determining the return of capital payments, as well as the forecasted level of payments for the next few years. Enclosed for your information is the Corporation's Statement of Projected Revenues and Expenses spreadsheet and associated notes prepared by Ms. King, Finance Officer. This provides the forecasted range of payments and illustrates the impact of the payments relative to the investment interest income stream to the ASLC.

House HESS Committee  
March 6, 2000  
Page - 3 -

Your inquiry regarding the scope of the Commission's administrative garnishment authority respective of regional corporation dividends has been forwarded to our Assistant Attorney General Mary Ellen Beardsley and I will advise you of her response as soon as it is received.

I hope this information is responsive and helpful in providing a context for the proposed legislation. Thank you again for the opportunity to be heard in support of this bill and for your ongoing support of our programs. Further questions can be addressed to either Ms. King or myself at 465-6757 or 465-6740, respectively.

Sincerely,

  
Diane Barrans  
Executive Director

DB/dm

Enclosures

cc: Mary Ellen Beardsley, AAG

Alaska Student Loan Corporation  
Statement of Projected Revenues and Expenses  
by Fiscal Year

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Interest income on student loans	30,371,736	29,892,946	30,287,823	30,583,561	31,314,503
Provision for loan loss and forgiveness	(6,500,000)	(6,500,000)	(6,500,000)	(6,500,000)	(6,500,000)
Operating expenses and collection fees	(7,900,000)	(7,900,000)	(7,900,000)	(7,900,000)	(7,900,000)
Operating income	<u>15,971,736</u>	<u>15,492,946</u>	<u>15,887,823</u>	<u>16,183,561</u>	<u>16,914,503</u>
Investment interest income	11,480,287	11,190,752	11,280,404	10,777,420	10,507,200
Bond interest expense	(21,601,665)	(22,156,441)	(22,380,074)	(21,983,863)	(21,727,682)
Amort. of bond discounts	(308,000)	(275,000)	(205,000)	(137,000)	(71,000)
Amort. of bond issue costs	(870,000)	(890,000)	(910,000)	(930,000)	(950,000)
Net income	<u>4,672,358</u>	<u>3,362,257</u>	<u>3,673,153</u>	<u>3,910,118</u>	<u>4,673,021</u>
Net income before return of capital (ROC)	<u>4,672,358</u>	<u>3,417,808</u>	<u>3,827,915</u>	<u>4,142,921</u>	<u>4,979,025</u>
Base year net income	-	6,348,663	4,672,358	3,362,257	3,673,153
10% ROC	-	634,860	467,236	336,226	367,315
35% ROC	-	2,222,032	1,635,325	1,176,790	1,285,603
Net equity increase/(decrease) (35% return)	<u>-</u>	<u>4,126,631</u>	<u>3,037,033</u>	<u>2,185,467</u>	<u>2,387,549</u>

\*\* Assumes 8% rate on all new loan fundings.

## NOTES TO STATEMENT OF PROJECTED REVENUES AND EXPENSES

**Interest income on student loans** is projected using the cashflow information prepared by Salomon Smith Barney (SSB) for the Series 1999A bond transaction and an assumed new loan funding level of \$65 million per year bearing an 8% interest rate. The SSB cashflows include the effect of a 17% default rate with all defaults occurring in the first three years of those cashflows. A default rate of 14% has been used for the new loan fundings as the SSB approach is very conservative and all new loans include certain credit enhancement provisions (i.e. borrower credit checking, etc.). Permanent fund dividend receipts (PFD) are assumed to be \$13 million for each year. PFD's are allocated between principal and interest using a 60/40 split.

**Provision for loan loss** is estimated using the 14% default rate less the loan origination fee. A **forgiveness** component of \$650,000 is also included.

**Operating expenses and collection costs** remain flat. Collection costs are expected to decline in future years. It's assumed that the collection cost decrease offsets the cost of living increase in operating expenses.

**Interest income on investments** is calculated on the using an average rate of 5%.

**Interest expense on bonds** includes the following new issues:

- \$40 million estimated to close 6/2000
- \$30 million estimated to close 6/2001
- \$23 million estimated to close 6/2002
- \$40 million estimated to close 6/2003

**Amortization of bond discounts/premiums** assumes that all future bonds are issued at par, therefore, no additional discount or premium to be amortized is included.

**Amortization of bond issue costs** is assumed to increase by \$20,000 each year.

HB 331

**SAD DUTY PAY AND ALLOWANCE COMPARISON WORKSHEET**

<u>RANK AND YEARS OF SERVICE</u>	<u>DAILY PAY AMOUNT CURRENT METHOD*</u>	<u>DAILY PAY AMOUNT PROPOSED FORMULA</u>	<u>DIFFERENCE</u>
<b><u>Officers</u></b>			
Colonel - 20	\$277.45	\$270.74	-\$6.71
Lt Colonel - 18	\$251.52	\$216.56	-\$34.96
Major - 14	\$216.64	\$182.52	-\$34.96
Captain - 8	\$182.95	\$169.60	-\$34.12
1st Lt - 4	\$152.93	\$147.92	-\$13.35
2nd Lt - 2	\$114.44	\$128.42	-\$5.01
Warrant Officer 5 - 20	\$214.10	\$294.92	\$80.82
Warrant Officer 4 - 18	\$192.04	\$172.80	-\$19.24
Warrant Officer 3 - 12	\$162.93	\$157.06	-\$5.87
Warrant Officer 2 - 8	\$141.31	\$137.56	-\$3.75
Warrant Officer 1 - 4	\$122.55	\$114.60	-\$7.95
<b><u>Air Force/Army Enlisted</u></b>			
CMSgt/Sgt Maj - 20	\$178.05	\$201.02	\$22.97
SMSgt/1st Sgt - 18	\$157.73	\$168.56	\$10.83
MSgt/Sgt First Class - 14	\$139.05	\$117.72	-\$21.33
TSgt/SSgt - 10	\$121.36	\$105.30 (State Minmum)	-\$16.06
SSgt/Sgt - 0 thru 20	\$105.30 (State Minimum)	\$105.30 (State Minmum)	\$0.00
SRA/Spec - 0 thru 20	\$105.30 (State Minimum)	\$105.30 (State Minmum)	\$0.00
A1C/Pvt 1st Class - 0 thru 20	\$105.30 (State Minimum)	\$105.30 (State Minmum)	\$0.00
Amn/Pvt 2nd Class - 0-20	\$105.30 (State Minimum)	\$105.30 (State Minmum)	\$0.00
AB/Pvt - 0 thru 20	\$105.30 (State Minimum)	\$105.30 (State Minmum)	\$0.00

Note 1: Includes base pay, housing , COLA, Separate rations

Note 2: Calculated at with dependents housing rate and one dependent COLA rate

Note 3: Does not include other additional special pay for pilots and aircrew members

Note 4: If total pay and allowance is less than the State Daily Minimum (\$105.30) the member receives the State Daily Minimum amount.

Li Colonel - Lieutenant Colonel	1st Lt - First Lieutenant	2nd Lt - Second Lieutenant	CMSgt - Chief Master Sergeant
Sgt Maj - Sergeant Major	SMSgt - Senior Master Sergeant	1st Sgt - First Sergeant	MSgt - Master Sergeant
Sgt First Class - Sergeant First Class	TSgt - Technical Sergeant	SSgt - Staff Sergeant	Sgt - Sergeant
SRA - Senior Airman	Spec - Specialist	A1C - Airman First Class	Pvt 1st Class - Private 1st Class
Amn - Airman	Pvt 2nd Class - Private 2nd Class	AB - Airman Basic	Pvt - Private

**Daily Rate with SBS**

Sal. Sched. AA  
8 Hour Shift

	RANGE 8			RANGE 10			RANGE 12		
	Base Rate	Swing	Grave	Base Rate	Swing	Grave	Base Rate	Swing	Grave
Hourly Rate	\$ 11.33	\$ 11.66	\$ 12.02	\$ 12.74	\$ 13.15	\$ 13.58	\$ 14.39	\$ 14.82	\$ 15.33
Daily Rate	\$ 96.20	\$ 99.00	\$ 102.05	\$ 108.17	\$ 111.65	\$ 115.30	\$ 122.18	\$ 125.83	\$ 130.16

**Daily Rate without SBS**

Sal. Sched. AA  
8 Hour Shift

	RANGE 8			RANGE 10			RANGE 12		
	Base Rate	Swing	Grave	Base Rate	Swing	Grave	Base Rate	Swing	Grave
Hourly Rate	\$ 11.33	\$ 11.66	\$ 12.02	\$ 12.74	\$ 13.15	\$ 13.58	\$ 14.39	\$ 14.82	\$ 15.33
Daily Rate	\$ 90.64	\$ 93.28	\$ 96.16	\$ 101.92	\$ 105.20	\$ 108.64	\$ 115.12	\$ 118.56	\$ 122.64
Daily Savings	\$ 5.56	\$ 5.72	\$ 5.89	\$ 6.25	\$ 6.45	\$ 6.66	\$ 7.06	\$ 7.27	\$ 7.52

Alaska Student Loan Corporation  
Statement of Projected Revenues and Expenses  
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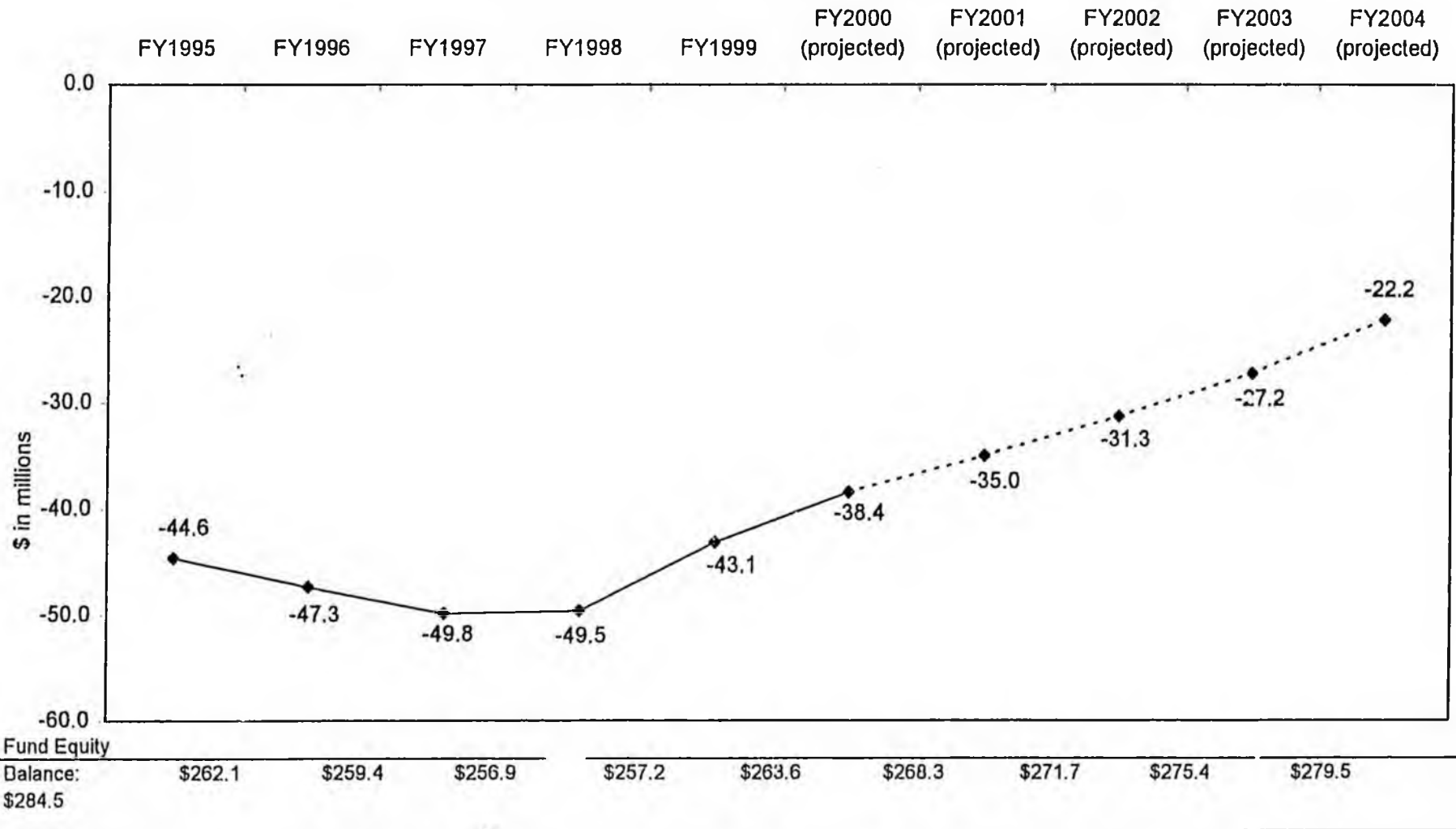
**Interest expense on bonds** includes the following new issues:

- \$40 million estimated to close 6/2000
- \$30 million estimated to close 6/2001
- \$23 million estimated to close 6/2002
- \$40 million estimated to close 6/2003

**Amortization of bond discounts/premiums** assumes that all future bonds are issued at par, therefore, no additional discount or premium to be amortized is included.

**Amortization of bond issue costs** is assumed to increase by \$20,000 each year.

## Alaska Student Loan Corporation Accumulated Deficit of Fund Equity\*



\*In 1987, the Legislature transferred assets valued at \$360 million in the form of student loans to the Corporation in order to establish the student loan fund.

### Alaska Student Loan Corporation 10-Year Income/Loss Trend

