

**SB**

**270**

**SFIN**

**FILE**

# SENATE FINANCE COMMITTEE REPORT

DATE: 4/14/00

FURTHER:

REPORTED OUT OF  
SFC 4/21/00

DATE TURNED  
IN TO OFFICE: 4/21/00

Finance Committee considered

SENATE BILL NO. 270

"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."

and recommends:

- be replaced with \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- adopt previous \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- attached amendment(s)
- adopt Letter of Intent by \_\_\_\_\_ Committee
- further referral to the \_\_\_\_\_ Committee

- Senate Bill:**
- same title
  - new title
- House Bill:**
- same title
  - technical title
  - new: SCR# \_\_\_\_\_

<u>SIGNING DO PASS</u>	<u>DP</u>	<u>OTHER RECOMMENDATIONS</u>	<u>NR</u>	<u>DNP</u>	<u>AM</u>
<i>Bill E. ...</i>	✓				
<i>[Signature]</i>	✓				
<i>Loren J. ...</i>	✓				
<i>Al ...</i>	X				
Co-Chair: <i>[Signature]</i>	✓	Co-Chair:			
Co-Chair: <i>Karl ...</i>	X	Co-Chair:			

**NEW FISCAL NOTE(S):**

Department	Date	Zero	Fiscal

**PREVIOUS FISCAL NOTE(S):\***

Department	Date	Zero	Fiscal
<i>EED</i>	<i>2/19/00</i>	✓	

APPROPRIATION -- no fiscal note

\*include fiscal notes accompanying Governor's bill

# FISCAL NOTE

STATE OF ALASKA  
2000 LEGISLATIVE SESSION

No. 1  
Bill Version: SB 270  
(S) Publish Date: 2-11-00

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

## 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						
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CHANGE IN REVENUES ( )						
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## FUND SOURCE (Thousands of Dollars)

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

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

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# STATE OF ALASKA

TONY KNOWLES, GOVERNOR

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

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March 6, 2000

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 inquires 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

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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	-	634,866	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.

TONY KNOWLES  
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4-270

February 10, 2000

The Honorable Drue Pearce  
President of the Senate  
Alaska State Legislature  
State Capitol  
Juneau, AK 99801-1182

Dear President Pearce:

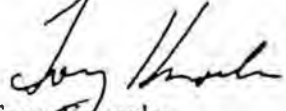
Since 1995, the Alaska Student Loan Corporation has transformed the loan program from an operation posting a \$7 million annual loss to one with a \$6.3 million net income. The exceptional success of the corporation means it is now able to pay dividends back to the state as a return of the capital contributed in 1987 when the corporation was created.

This bill I transmit today provides for the corporation to issue annual payments to the state in years when the corporate net income is at least \$2 million. The payment would be between 10 and 35 percent of the net income, subject to provisions of applicable bond indentures of the corporation.

A fitting use for the dividend income would be to fund the Alaska Scholars Program. This scholarship program at the University of Alaska rewards the top high school students in our state and offers them an opportunity to continue their higher education. The program is estimated to reach a cost of about \$3.6 million and will need general fund support by fiscal year 2002.

Alaska students have reaped great benefits from the state's student loan program. Now that the program can repay some of that investment to the state, we should continue to invest it right back into the education of our young adults. I urge your prompt and favorable action on this measure to receive payments from the Alaska Student Loan Corporation and the intent to use these receipts to fund the Alaska Scholars Program.

Sincerely,

  
Tony Knowles  
Governor

SENATE FINANCE COMMITTEE

SIGN-IN

SB 270-STUDENT LOAN CORP PAYMENTS TO STATE

NAME: James Dierker Subject/Bill No: SB270  
Co./Dept./Title: Exec Dir Actg/Alc Stud Loan Corp Phone: 465-6740  
Address: 3030 Vintage Blvd Zip: \_\_\_\_\_  
Do you wish to testify?  Yes  No  Respond To Questions

NAME: Sheila King Subject/Bill No: SB270  
Co./Dept./Title: Finance Officer ACP/ASLC Phone: 465-6757  
Address: 3030 Vintage Blvd Zip: \_\_\_\_\_  
Do you wish to testify?  Yes  No  Respond To Questions

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_  
Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_  
Address: \_\_\_\_\_ Zip: \_\_\_\_\_  
Do you wish to testify?  Yes  No  Respond To Questions

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_  
Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_  
Address: \_\_\_\_\_ Zip: \_\_\_\_\_  
Do you wish to testify?  Yes  No  Respond To Questions