

HB

54

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: CSHB 54(EDU)
 (H) Publish Date: 2/16/01

Revision Date/Time (Note if correction): 2/14/01/4:00PM Education
 Title: An Act relating to the rate of interest applicable to student loans; and providing for an effective date. BRU: ACPE
 Component: Student Loan Operation
 Sponsor: Rep. Davies
 Requester: (H) HESS Component Number: 213

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous	0.0	177.6	360.8	549.5	743.5	942.3
TOTAL OPERATING	0.0	177.6	360.8	549.5	743.5	942.3

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	0.0	177.6	360.8	549.5	743.5	942.3
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	0.0	177.6	360.8	549.5	743.5	942.3

Estimate of any current year (FY2001) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation prospectively changes the terms and conditions of loans issued under the Alaska Student Program to allow for an interest rate reduction for any borrower who has completed a career education program or received an undergraduate degree and is employed within the state.

HB54 recognizes that Alaska Student Loans are made available through the sale of bonds issued and subject to the terms of a Trust Indenture. Bond covenants would prevent use of corporation cash to fund the reimbursement proposed.

Operationally, a data management process would need to be developed and staff designated to track the employment status of borrowers remaining in or returning to Alaska.

To estimate the cost of this legislation, loan originations are assumed to be \$50,000,000 each year beginning with the 2001-2002 academic year. Based on 35% eligibility, two scenarios are provided to show funding requirements for a 50 basis point and 100 basis point reduction as provided in this legislation. Costs shown above are the more conservative estimates of 100 basis points.

Prepared by: Sheila King, Finance Officer Phone 465-6757
 Division: Finance Date/Time 2/14/01 4:00 PM
 Approved by: Diane Barrans, Executive Director Date 2/14/2001
 Agency: Alaska Commission on Postsecondary Education

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ANALYSIS: (continued)

*Estimate of funds required to fund the interest rate reduction on loans originated on or after July 1, 2001, assuming \$50 million in new loans issued each year :

Assumes 35% eligibility:

	2002	2003	2004	2005	2006	2007
50 basis point reduction	0.0	89.0	181.3	276.9	375.6	477.5
100 basis point reduction	0.0	177.6	360.8	549.5	743.5	942.3

Based on these assumptions, the costs would peak at year 15 (2017) at \$1.6 million (50 basis points)/ \$2.9 million (100 basis points).

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Davies offers student loan forgiveness bill

By SEAN COCKERHAM
News-Miner Juneau Bureau

JUNEAU--Fairbanks Rep. John Davies sees Alaska's talented young adults lured south by the abundance of job opportunities in the Lower 48.

"We have a problem in the state of Alaska," said Davies, a Democrat who represents West Fairbanks. "We have a pretty huge brain drain."

In an attempt to change that, Davies has introduced legislation that would forgive up to half an Alaska state student loan if the borrower is employed in Alaska after graduation.

Davies' bill--and a similar proposal by a Kodiak Republican that would only apply to those borrowers who work in Alaska as teachers--were heard Wednesday by the House Special Committee on Education.

It was the session's first committee hearing of a bill introduced by a Fairbanks lawmaker.

Alaska's student loans are awarded both to residents who go to school in Alaska and those who pursue education out of state. Davies says youngsters who leave the state often do not come back.

Davies' bill, House Bill 54, proposes that a state student loan borrower be reimbursed 10 percent of the cost of the loan for each year they work in Alaska after graduation--up to a maximum reimbursement of 50 percent.

Davies conceded his proposal would be spendy. Preliminary estimates are that it would cost the state \$10 million to \$20 million a year, he said.

"I think it's certainly true that the fiscal note is going to be tough for the Legislature to swallow," Davies said.

But the problem is real, he said. "The question we're going to have to struggle with is whether that investment is worth it."

Davies added that there could be ways to lower the cost of his proposal, such as only applying it to the portion of a student loan that covers tuition.



Rep. Con Bunde, an Anchorage Republican who is chairman of the House Special Committee on Education, said Davies' idea is valid but expensive.

The state used to have a student loan forgiveness program, Bunde said, but discontinued it because of the cost. Bunde said Davies' idea deserves a fair and thorough hearing, but the cost issue is still there.

"I have to be convinced that is the best use of (the state's) scarce resources at this time," Bunde said. "I'm going to have to see some pretty good evidence."

Bunde said that the other student loan proposal, by Kodiak Republican Rep. Gary Stevens, would only cost the state about \$1 million a year. But Stevens' proposal, House Bill 37, also needs to be scrutinized, Bunde said.

The vast majority of the testimony at Wednesday's hearing came via teleconference from Kodiak and focused on Stevens' bill.

Stevens wants to forgive up to half the student loans of borrowers who work as teachers in Alaska after graduation.

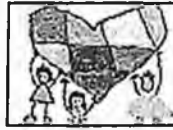
"(School) districts in other states are more and more competitive," said Jeff Stephen, president of the Kodiak Island Borough board of education. "Alaska is less and less able to compete for quality teachers."

Davies agreed that Alaska needs teachers but said that is just one of the state's needs.

"There are other professions besides teachers where we have shortages, nurses for example," Davies said.

The Special Committee on Education is expected to take up the student loan bills again in two weeks.

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Anchorage Daily News

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Legislators may forgive loans

STUDENTS: Two bills try to keep college graduates in the state.

By Cathy Brown
The Associated Press

(Published January 18, 2001)

Juneau -- Legislators are looking at two bills that would forgive at least part of Alaskans' student loans.

One would forgive half the Alaska Student Loan bill for people who teach in the state for five years. The other would forgive half of the loan for anyone who simply works in the state five years after graduating.

House Bill 37 by Rep. Gary Stevens, R-Kodiak, is aimed strictly at teachers. They'd get 10 percent of their loan forgiven for every year they each in Alaska, up to five years.

Stevens told the House Special Committee on Education that his bill could help schools recruit and keep teachers.

"We have a major shortage statewide in teachers," Stevens said Wednesday. "This is just a piece of the puzzle. This doesn't solve all our problems."

The Alaska Student Loan Program estimates HB 37 would cost about \$170,000 in the 2003 fiscal year and about \$850,000 by the 2007 fiscal year, said finance officer Sheila King.

An existing Alaska program forgives up to 100 percent of loans for students teaching in rural Alaska, King said. However, students must be nominated for the program in high school by their school districts, must major in education and must return to teach in rural Alaska.

That doesn't help students who decide later in their college career or even after college to become teachers, Stevens said.

A separate bill would forgive part of an Alaska loan for anyone returning to or staying in Alaska to work. It too would forgive 10 percent a year for up to five years.

Rep. John Davies' bill has a higher price tag. Depending on how many people participate, cost estimates range from \$8.5 million by the 2007 fiscal year to \$21.3 million.

Davies, D-Fairbanks, said he wanted to offer the incentive to people in all professions, particularly areas where Alaska suffers from a shortage, such as nursing.

"We have a pretty huge brain drain," Davies said.

Education administrators and parents greeted the bills enthusiastically at a hearing Wednesday.

Districts around the country are short of teachers and are offering such breaks as signing bonuses and low-interest housing loans, said Jack Walsh, an administrator with the Kodiak Island Borough School District.

"There are a lot of things we have to compete with," Walsh said.

He suggested forgiving a greater percentage of a loan for those teaching in such hard-to-fill specialties as math and special education.

Arnold Shryock of Kodiak said he'd like to see the plan apply to people like his daughter who've already taken out loans. Both bills would apply only to loans taken after June 30, 2001.

Rep. Con Bunde, R-Anchorage, who chairs the Special Committee on Education, said both bills offer potential solutions to valid concerns. He's not sure, though, whether the state can afford them or whether they're the most cost-effective ways to keep good workers.

"As always, the devil's in the details and the dollars," Bunde said.

The committee took no action on either bill Wednesday. Bunde said they will be considered again in two weeks.

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Davies scales back student loan measure

By SEAN COCKERHAM
News-Miner Juneau Bureau



JUNEAU--A blend of public support and legislative sticker shock greeted Rep. John Davies' proposal to forgive Alaska student loans owed by graduates who choose to work in-state.



So Davies, a Fairbanks Democrat, reworked the bill. He said Wednesday he wants to slash the price tag while maintaining the original spirit of the legislation.

"Which was to provide an incentive for educated people to remain in-state," Davies said.



Davies' original proposal had sought to forgive up to half a state student loan if the borrower was working in Alaska after graduation.

The bill drew interest from legislators and especially the public, Davies said. But its Achilles' heel was an annual cost to the state now estimated at as much as \$30 million a year.

"I don't think (the Legislature) would be able to swallow that," Davies said.

The new version--Davies introduced it at a Wednesday meeting of the House Special Committee on Education--would instead reduce student loan interest rates by up to 1 percent for graduates employed in Alaska while they are paying off the loan.

Davies said he expects the program would inspire college graduates to take a closer look at the opportunities that exist at home in Alaska. "Not as strong an effect as I originally intended, but nevertheless a significant effect," he said.

The state student loan program currently has the unintended effect of encouraging a brain-drain from the state by financing Alaska students who attend school in the Lower 48, Davies said.

"Since students are likely to gain employment near the school from which they graduate, by helping them study Outside, we help them stay Outside," Davies said. "After investing in 12 or more years of education for our children, we should encourage them to utilize their skills and talent close to home."

Davies told the committee that his new proposal may not require any direct drain on the state's general

fund.

He believes the Alaska Student Loan Corp. might be able to handle the cost through its own net income, gained through investments and its loan portfolio.

The student loan corporation is slated to contribute \$4 million of such money to the state's general fund this year, Davies said.

But Davies said his cost estimate is preliminary. He intends to bring a better figure to the committee when it discusses his bill again next week.

Anchorage Republican Con Bunde, chairman of the special committee, said he is waiting to hear that figure before drawing conclusions about Davies' new proposal.

"I'll take a look at the fiscal note," said Bunde, noting that there are two other similar bills before his committee. "We have to really decide what is the most appropriate investment of our limited educational funds."

Those other bills both seek to offer student loan forgiveness just for graduates who work as teachers.

One, by Kodiak Republican Gary Stevens, aims to forgive up to half the Alaska student loans of borrowers who work as teachers in Alaska after graduation. Bunde has estimated that bill would cost the state around \$1 million a year.

Stevens' bill has drawn a great deal of public testimony regarding the state's teacher recruitment problems. Davies, and some members of the public who have testified in committee, say the shortage is not just in teachers but in other skilled positions as well.

Diane Barrans, executive director of the Alaska Commission on Postsecondary Education, raised the question of whether the loan breaks would be primarily used by people who would stay in Alaska anyway. "It may not have the intended effect," she said.

The other House bill, which also asks for up to half the student loan forgiveness for teachers, was introduced by Anchorage Republican Joe Green. It has not yet been heard in committee.

Bunde said his committee will look at all three bills together at a hearing next week.

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