

**SJR**

**2**

<TARGET><BILL>SJR 2</BILL><SUBJECT>SJR  
2</SUBJECT><COMM>SSTA29</COMM></TARGET>

## SENATE COMMITTEE REPORT First Committee of Referral

DATE: 1/21/15

FURTHER: Education  
Finance

Date of 5-Day Notice: 2/5/2015  
(in accordance with Uniform Rule 23)

DATE TURNED  
IN TO OFFICE: \_\_\_\_\_

State Affairs Committee considered SENATE JOINT RESOLUTION NO. 2

SJR 2 CONST. AM: G.O. BONDS FOR STUDENT LOANS

Proposing an amendment to the Constitution of the State of Alaska relating to contracting state debt for postsecondary student loans.

and recommends:

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

Dept Abbr.	
ADM	LWF
CED	LAW
COR	LEG
CRT	MVA
EED	DNR
DEC	DPS
DFG	REV
GOV	DOT
DHS	UA

NEW FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #
GOV			✓	

PREVIOUS FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	Coghill	-			
	Huggins			✓	
	McGuire	✓			
	Wielechowski	✓			
CHAIR:	Stoltze			✓	

# ALASKA STATE LEGISLATURE

## SENATE STATE AFFAIRS COMMITTEE

Senator Bill Stoltze, Chair  
State Capitol, Room 125  
Juneau, AK 99801-1182  
Phone (907) 465-4958  
Fax (907) 465-4928



Official Business

Members:  
Sen. John Coghill, Vice Chair  
Sen. Charlie Huggins  
Sen. Lesil McGuire  
Sen. Bill Wielechowski

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February 10, 2014  
Bill Packet Information

### **SB 6 ELIMINATE DAYLIGHT SAVING TIME**

- SB6 ver H
- Sponsor Statement
- Fiscal Note - DOA-FAC-02-06-2015
- Supporting Documents
  - Letters and Email of Support 2-9-2015
  - Journal Articles
  - Daylight Gains by City
  - Alaska Time Zones History

### **SJR 2 CONST. AM: G.O. BONDS FOR STUDENT LOANS**

- SJR 2 ver W
- Sponsor Statement
- Sectional Analysis
- Fiscal Note - [FORTHCOMING]
- Letter of Support
  - University of Alaska



# Alaska State Legislature

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**Senator Anna MacKinnon** — Senate District G

## Senate Joint Resolution 2- Senate State Affairs Witness List

Diane Barrans, Executive Director, Alaska Commission on Postsecondary Education- In Person



# Alaska State Legislature

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**Senator Anna MacKinnon** — Senate District G

## **Sponsor Statement Senate Joint Resolution 2**

“Proposing an amendment to the Constitution of the State of Alaska relating to contracting state debt for postsecondary student loans.”

Senate Joint Resolution 2 proposes to place a constitutional amendment before the voters during the fall 2016 general election. This bill amends Article IX, sec. 8, of the Alaska Constitution and would authorize state General Obligation (GO) debt for the purpose of funding state education loans for Alaska students.

Currently, state General Obligation debt may only be authorized for capital improvements or housing loans for veterans.

Financial market conditions once allowed the Alaska Student Loan Corporation (ASLC) to offer competitive, low-cost education loans to a significant percentage of Alaska students without State support. However, those conditions no longer exist and appear unlikely to occur again in the foreseeable future. As a result of these changed conditions, Alaska students and families are receiving decreasing levels of state support, at a higher cost, in meeting postsecondary education expenses.

Senate Joint Resolution 2 will establish a cost-effective way to finance state education loans by leveraging the State’s outstanding general obligation credit ratings. Doing so will not only achieve lower costs of funds than what is otherwise available through current alternative financing structures, but will also permit some flexibility of the loan underwriting criteria which currently results in a 43% denial rate on loan applications.

These loan programs represent a critical component of the State’s student financial aid system and its efforts to enhance the workforce development pipeline in order to build and maintain a healthy state economy.

I appreciate your consideration and seek your support of SJR 2.



# Alaska State Legislature

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**Senator Anna MacKinnon** — Senate District G

## Senate Joint Resolution 2 Sectional Analysis

- \*Section 1:** Amends Article IX, sec. 8, Constitution of the State of Alaska  
Subject to approval by a vote of the general electorate, permits the issuance of General Obligations of the State of Alaska for the purpose of funding postsecondary student loans.
  
- \*Section 2:** Clarifies that the proposed constitutional amendment must be put before the voters at the next general election.

# Fiscal Note

State of Alaska  
2015 Legislative Session

Bill Version:	SJR 2
Fiscal Note Number:	1
(S) Publish Date:	2/11/15

Identifier: SJR002--OOG-2-9-15  
 Title: CONST. AM: G.O. BONDS FOR STUDENT  
 LOANS  
 Sponsor: MACKINNON  
 Requester: Senate State Affairs

Department: Office of the Governor  
 Appropriation: Elections  
 Allocation: Elections  
 OMB Component Number: 21

**Expenditures/Revenues**

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2016 Appropriation Requested	Included in Governor's FY2016 Request	Out-Year Cost Estimates					
			FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	
<b>OPERATING EXPENDITURES</b>								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
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>	<b>0.0</b>	<b>0.0</b>

**Fund Source (Operating Only)**

None								
<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>	<b>0.0</b>	<b>0.0</b>

**Positions**

Full-time								
Part-time								
Temporary								

**Change in Revenues**

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**Estimated SUPPLEMENTAL (FY2015) cost:** 0.0 *(separate supplemental appropriation required)*  
*(discuss reasons and fund source(s) in analysis section)*

**Estimated CAPITAL (FY2016) cost:** 0.0 *(separate capital appropriation required)*  
*(discuss reasons and fund source(s) in analysis section)*

**ASSOCIATED REGULATIONS**

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No  
 If yes, by what date are the regulations to be adopted, amended or repealed?

**Why this fiscal note differs from previous version:**

Prepared By:	Gail Fenumiai, Director	Phone:	(907)465-3876
Division:	Division of Elections	Date:	02/09/2015 08:30 AM
Approved By:	Guy Bell, Administrative Director	Date:	02/09/15
Agency:	Division of Administrative Services, Office of the Governor		

FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2015 LEGISLATIVE SESSION

**Analysis**

Passage of this resolution would require the constitutional amendment to appear on the 2016 general election ballot. The cost of providing information about the constitutional amendment in the Official Election Pamphlet, as required by AS 15.58, would be absorbed into the operating budget for the Division of Elections.

Patrick Gamble, President  
Phone: (907) 450-8000  
Fax: (907) 450-8012  
Email: ua.president@alaska.edu



UNIVERSITY  
*of* ALASKA  
*Many Traditions One Alaska*

202 Butrovich Building  
910 Yukon Drive  
P.O. Box 755000  
Fairbanks, AK 99775-5000

February 2, 2015

The Honorable Anna MacKinnon  
Alaska State Senate  
State Capitol, Room 516  
Juneau, Alaska 99811

Dear Senator MacKinnon,

The University of Alaska strongly supports SJR 2, proposing an amendment to the Constitution of the State of Alaska relating to contracting state debt for postsecondary student loans.

SJR 2, if passed by the legislature and approved by the voters, will allow the Alaska Student Loan Corporation to issue general obligation bonds, which will result in lower interest rates for student loans. UA supports this resolution because it will reduce student debt, make it easier for students to successfully pay off their loans, and lower default rates. We believe that it will significantly improve access to postsecondary education in Alaska.

Thank you for your support of higher education.

Sincerely,

A handwritten signature in black ink that reads "PK Gamble".

Patrick K. Gamble  
President, University of Alaska

Cc: Tom Case, Chancellor, UAA  
John Pugh, Chancellor, UAS  
Brian Rogers, Chancellor, UAF

# Juneau

## Chamber of Commerce

9301 Glacier Hwy, Suite 110 • Juneau AK 99801 • (907) 463-3488 • Fax (907) 463-3489  
E-mail: [juneauchamber@gci.net](mailto:juneauchamber@gci.net) • [jcc@alaska.com](mailto:jcc@alaska.com) • Web site: <http://www.juneauchamber.com>

### Board Members

Lance Stevens, Pres.  
Alaska USA FCU  
Max Mertz, Pres.  
Elgee Rehfeld Mertz  
Travis McCain, Secretary  
Alaska Litho  
Larry Gaffaney, Treasurer  
Huna Totem Corp.  
Bill Peters  
True North FCU  
Dan Fabrello  
Jensen Yorba Lott  
Bruce Abel  
Don Abel Building Supply  
Hayden Garrison  
Creative Source  
Charlie Williams  
Valley Paint Center  
Linda Thomas  
Alaskan Brewing Co  
Rustan Burton  
Juneau Empire  
Eric Eriksen  
AEL&P  
Erica Simpson  
Alaska Excursions  
Richard Burns  
ABC Stations  
Dan Bruce  
Baxter, Bruce & Sullivan

### Benefactor Members

Alaska Airlines  
Alaska Communications  
Alaska Marine Lines  
Exxon Mobil  
Fred Meyer  
Juneau Empire  
Huna Totem Corp  
Juneau Radio Center  
Northrim Bank  
Sealaska

### Platinum Members

AEL&P  
Alaska USA FCU  
Alaskan Brewing Company  
Allen Marine  
Bartlett Regional Hospital  
BP Alaska  
CBJ (Manager's Office)  
Capital Office Systems  
Chatham Electric  
Coeur Alaska, Inc.  
ConocoPhillips  
Coogan Construction  
Elgee Rehfeld & Mertz  
First Bank  
First National Bank of Alaska  
Goldbelt, Inc.  
Hecla Greens Creek Mining  
Key Bank  
SEARHC  
Shattuck & Grummett  
Samson Tug & Barge  
Taku Oil  
True North FCU  
UAS  
Wal-Mart  
Wells Fargo Bank of Alaska  
Westmann and Associates

February 10, 2015

The Honorable Anna MacKinnon  
Alaska State Senate  
State Capitol, Room 516  
Juneau, AK 99801

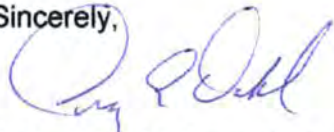
Dear Senator MacKinnon,

The Juneau Chamber of Commerce strongly supports the passage of SJR2, which if approved by the voters, will allow the Alaska Student Loan Corporation to issue general obligation bonds to fund the student loan program.

We believe that any action that encourages and improves access to post-secondary education is not only good for students but for the future of our communities. Funding the student loans through general obligation bonds should result in lower interest rates thereby making it easier to repay their obligation, and in turn lower default rates.

Thank you for your support and commitment to this important piece of legislation.

Sincerely,



Craig E. Dahl, Executive Director  
Juneau Chamber of Commerce



Lance Stevens, President  
Juneau Chamber of Commerce



THE STATE  
of **ALASKA**  
GOVERNOR BILL WALKER

## Alaska Commission on Postsecondary Education

EXECUTIVE OFFICE

P.O. Box 110505  
Juneau, Alaska 99811-0505  
Phone: 907.465.6740  
Fax: 907.465.3293  
acpe.alaska.gov

February 13, 2015

The Honorable Bill Stoltze, Chair  
State Affairs Committee  
Alaska State Senate  
State Capitol Room 125  
Juneau, Alaska 99801

Dear Senator Stoltze,

I am writing in follow up to the February 10, 2015 State Affairs Committee hearing regarding Senate Joint Resolution 2, relating to authorizing state debt for postsecondary student loans. Thank you again for taking up this legislation so promptly. Two information requests were made of me during that hearing.

One was for additional information about how the Alaska Student Loan Corporation (ASLC) annually sets the interest rates on state education loans. The ASLC board annually approves education loan interest rates, which are in effect from July 1 through June 30 of the following year. Statutes and regulations set out formulas whereby interest rates are calculated and, specific to certain rate modes, also stipulate a floor and ceiling rate. The rate setting methodology has varied over time as the debt financing options have differed, but generally has associated the rate with that needed to cover the inclusive costs ASLC incurs in financing the loan plus a percentage to cover operations and loan servicing costs (which includes the costs of loan losses due to the death, disability and default of borrowers). ASLC's interest rate setting authority and methodologies are found at: AS 14.42.200. General Powers; and, 20 AAC 15.855. Loan interest rates, loan credits, and loan fees. Attached are three memos to the ASLC board relative to the setting of the 2014-15 interest rates.

The second information request was regarding loan write off rates. The bases upon which a loan may be written off are:

- Death of the borrower, if there is no cosigner on the loan.
- Default—defaulted loans considered eligible for discharge or write off are those which have been in repayment status for at least seven years with no payment, voluntary or involuntary, received for at least one year, if there are no cosigners.
- 100% Permanent Disability, if there is no cosigner on the loan and, through a review of the borrower's financial position, it can be determined that repayment of the debt would cause an undue financial hardship for them.

Loan discharge or write offs have varied over the years based upon a number of factors which include: the applicable credit criteria applicants were subject to, the loan program in which the borrower participated, and the availability of origination fees to offset write off expenses. Because of this, to both respond to the question and illustrate the variability, attached are three graphs of mature cohorts of loans issued from 1998 through 2000. These graphs and related notes reflect the net write off rates and amounts. Education loans, because of the extended in school period during which no payments are due from the borrower are particularly long lived. The degree to which the rates on these cohorts have varied (from 7% to .03%) is primarily attributed to an increase in the loan origination fee (from 1% to 5%) in 1996. Between 1996 and 2013 the origination fee varied between 3% and 5%. That change substantially increased the reserve available to the corporation to offset loan losses.

I hope this information is response to the committee's requests. Please don't hesitate to contact me if additional materials are needed.

Very respectfully yours,



Diane Barrans  
Executive Director

ATTACHMENTS



## Memorandum

To: Alaska Student Loan Corporation Members  
Thru: Diane Barrans, Executive Officer  
From: Charlene Morrison, Chief Finance Officer *CM*  
Date: May 1, 2014  
Re: Recommended Interest Rate for Fixed Rate Alaska Supplemental Education Loans (ASEL) awarded for the period beginning July 1, 2014 and ending June 30, 2015.

Pursuant to AS 14.43.174 and 20 AAC 15.855, the Corporation sets the annual interest rate for fixed rate ASELS on or after May 1 of each year. The Corporation resumed originating fixed rate ASELS on July 1, 2006. The rate set for a fixed rate loan remains in effect for the life of the loan.

Corporation regulations specify that the ASEL fixed interest rate be set based on the "current Municipal Market Data Scale that most closely reflects rates the Corporation would obtain on a new bond issue plus thirty basis points," plus the most recent five-year average cost of administering the loan program. That calculation for the period beginning July 1, 2014 results in a rate of 6.2% (3.4% + 0.3% + 2.5%).

The regulation further establishes a rate floor of not less than the weighted average true interest cost of the corporation's outstanding fixed-rate debt obligations plus the commission's and corporation's most recent five-year average cost of administering the state education loan program. The calculation for the rate floor results in a rate of 6.7% (4.2% + 2.5%).

Statute establishes a maximum rate of 8.25%.

Staff recommends that the ASEL fixed interest rate for the 2014-15 academic year be set at 6.7%, the minimum rate allowed by regulation.

Note: 20 AAC 15.860 states that the interest rate on Alaska Supplemental Consolidation Loans is equal to the rate set under 20 AAC 15.855 (interest rate on ASELS). Therefore, the board is setting rates on both loan types when setting the ASEL rate.

### **Requested Motion:**

Move approval of 6.7% for fixed rate ASELS originated for the 2014-15 academic year.




THE STATE  
of **ALASKA**  
GOVERNOR SEAN PARNELL

## Alaska Student Loan Corporation

FINANCE OFFICE

P.O. Box 110505  
Juneau, Alaska 99811-0505  
Phone: (907) 465-6740  
Fax: (907) 465-3293  
acpe.alaska.gov

# Memorandum

To: Alaska Student Loan Corporation Members  
Thru: Diane Barrans, Executive Officer  
From: Charlene Morrison, Chief Finance Officer   
Date: May 1, 2014  
Re: Recommended 2014-15 Interest Rate for Variable Rate Alaska Supplemental Education Loans

Pursuant to AS 14.43.174 and 20 AAC 15.855, the Corporation sets the annual interest rate for variable rate Alaska Supplemental Education Loans (ASEL) on or after May 1 of each year. This rate will be in effect for the 12-month period beginning July 1, 2014 and ending June 30, 2015. The Corporation issued variable rate ASELS from July 1, 2002, through June 30, 2006.

Corporation regulations specify the ASEL variable interest rate is based on "the bond equivalent rate of the 91-day U.S. Treasury bills auctioned at the final auction held before May 1 of the loan year plus up to 2.8 percent." The final auction held before May 1<sup>st</sup> occurred on April 28, 2014.

Staff recommends the interest rate for variable rate ASELS be set as follows for the 12-month period beginning July 1, 2014:

1. During the in-school period and applicable grace and deferment periods, 2.7%<sup>1</sup> (91-day U.S. Treasury Bill rate set April 28<sup>th</sup> of 0.02% plus 2.70%.)
2. During the repayment period and applicable forbearance periods, 2.8%<sup>1</sup>, (91-day U.S. Treasury Bill rate set April 28<sup>th</sup> of 0.02% plus 2.80%.)

### **Requested Motion:**

Move approval of 2.7% for variable rate ASELS during the in-school and applicable grace and deferment periods for the year beginning July 1, 2014.

Move approval of 2.8% for variable rate ASELS during the repayment and applicable forbearance periods for the year beginning July 1, 2014.

<sup>1</sup> The base rate has been rounded to the nearest full tenth of a percent, consistent with past practice.




THE STATE  
of **ALASKA**  
GOVERNOR SEAN PARNELL

## Alaska Student Loan Corporation

FINANCE OFFICE

P.O. Box 110505  
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Phone: (907) 465-6740  
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acpe.alaska.gov

# Memorandum

To: Alaska Student Loan Corporation Members  
Thru: Diane Barrans, Executive Officer  
From: Charlene Morrison, Chief Finance Officer   
Date: May 1, 2014  
Re: Recommended 2014-15 Fixed Interest Rate for Family Education Loans

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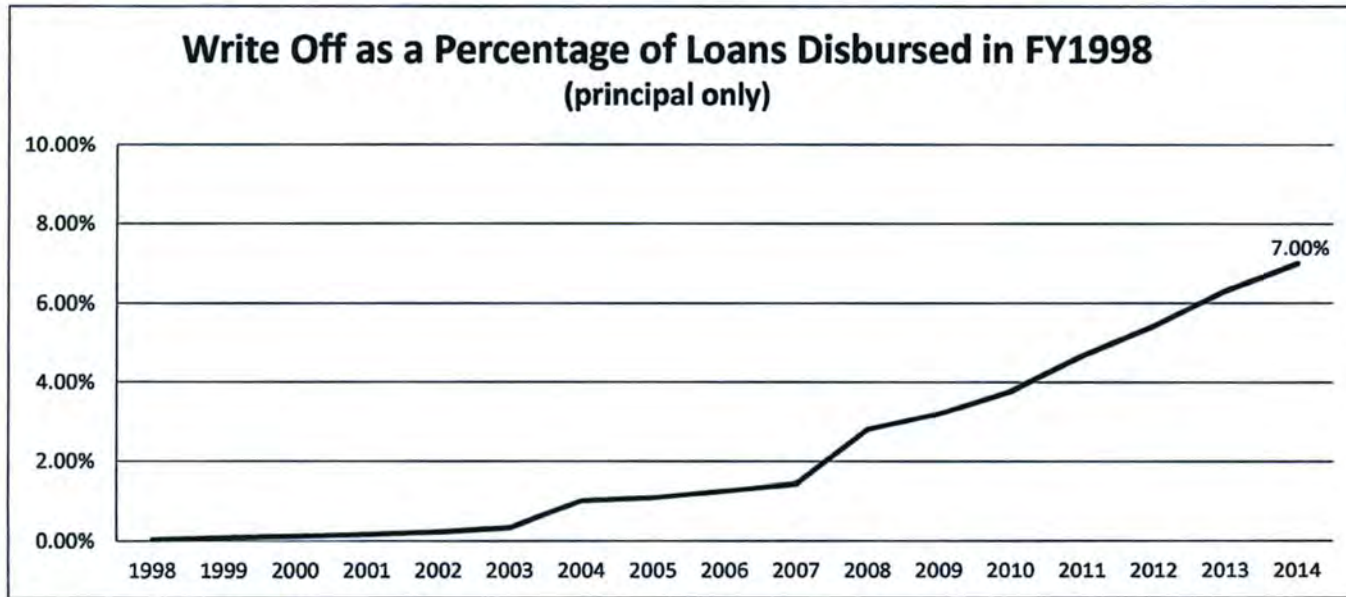
Alaska Statute (AS) 14.43.740 states, "The Corporation shall set the interest rate on a loan made under AS 14.43.710-14.43.750, but the annual rate may not exceed 8.25%". This section relates to the Alaska Family Education Loan Program (FEL). The rate set by the Corporation applies to FELs originated on or after July 1, 2014, and remains in effect for the life of the loan.

Staff recommends that the FEL interest rate for the 2014-15 school year be set at 6.7%, the same rate recommended for 2014-15 ASELS.

**Requested Motion:**

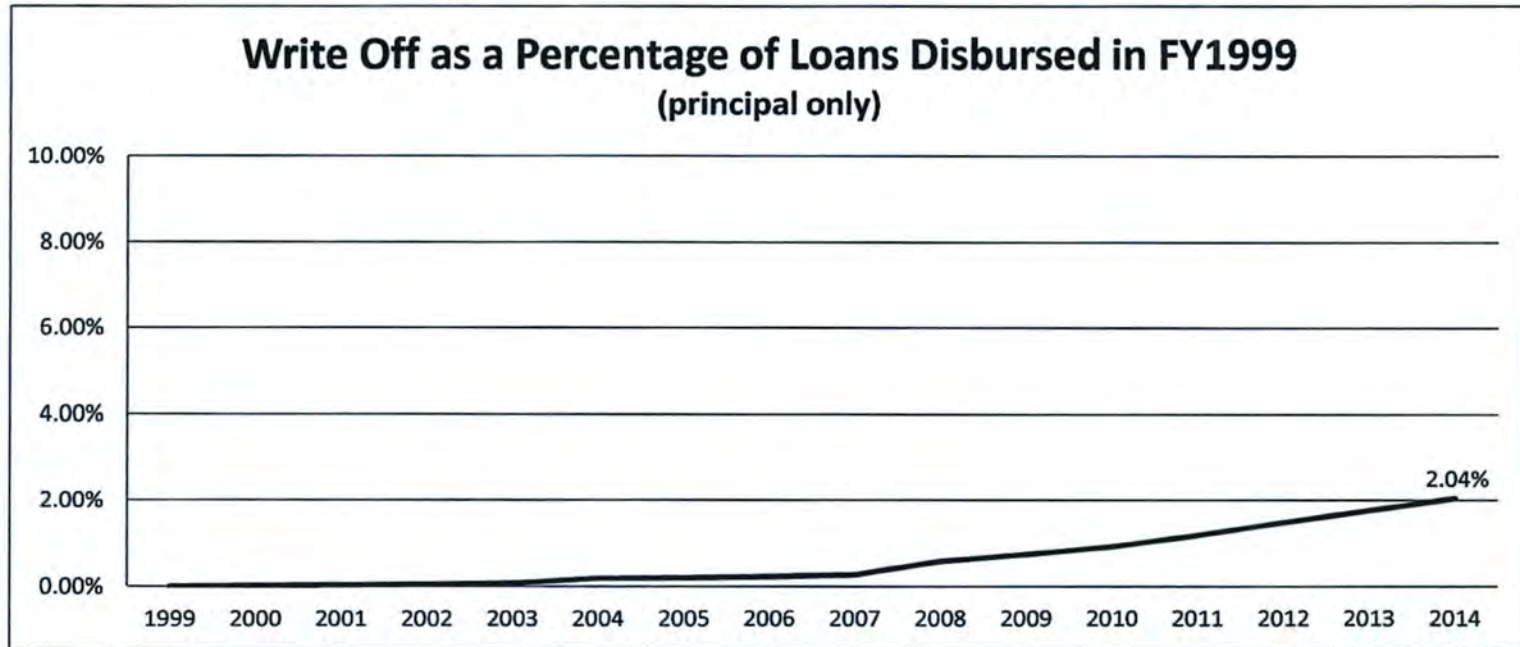
Move approval of 6.7% for fixed rate FELs originated for the 2014-15 academic year.

**Alaska Student Loan Corporation  
Education Loan Portfolio**



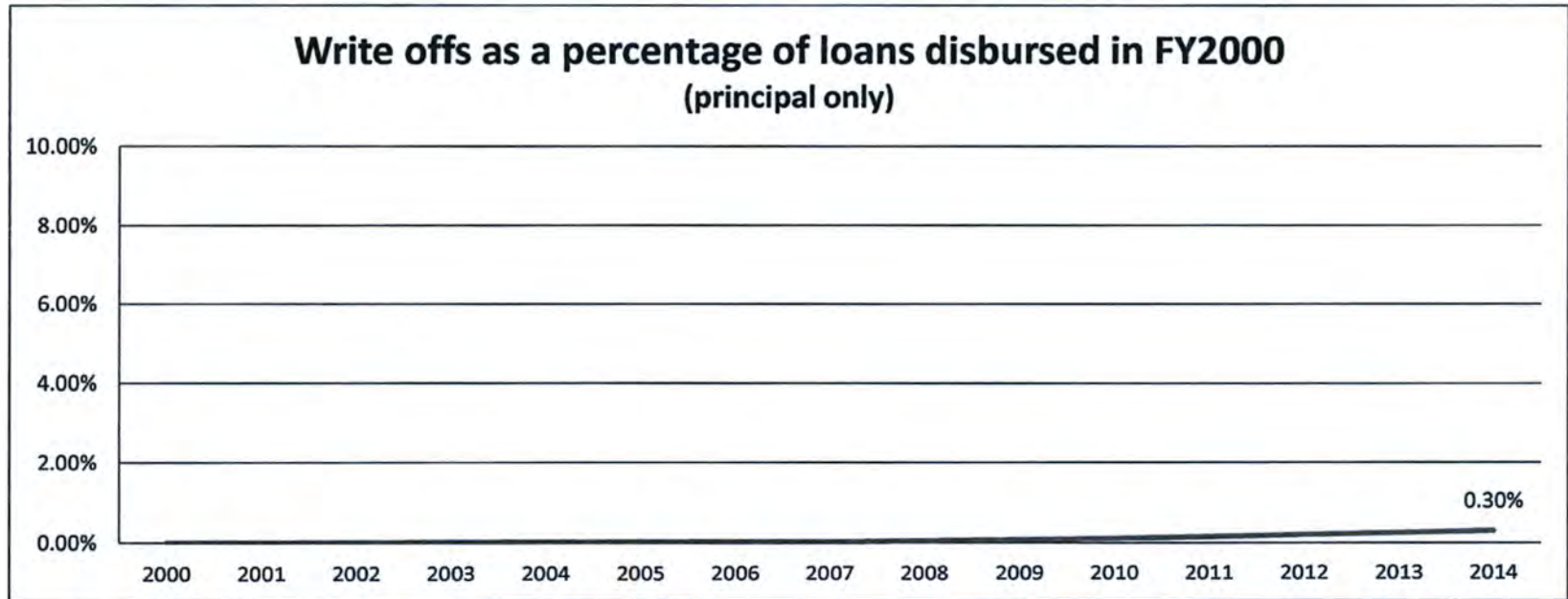
- a. The principal balance of loans disbursed in FY1998 was \$80.7 million and interest capitalized on that balance through 12/31/14 was \$14.7 million.
- b. Principal (including capitalized interest) written off on loans disbursed in FY1998 through 12/31/14 was \$10.7 million, \$4.0 million of that loss is offset by the origination fee collected on the loans.
- c. Loans are written off due to death or total disability of the borrower/cosigner. Loans are also written off when a loan becomes more than 7 years past due and has had no payment activity in the last 12 months.
- d. Current principal balance (including capitalized interest) remaining on loans disbursed in FY1998 at 12/31/14 was \$14.5 million.

**Alaska Student Loan Corporation  
Education Loan Portfolio**



- a. The principal balance of loans disbursed in FY1999 was \$65.6 million and interest capitalized on that balance through 12/31/14 was \$11.1 million.
- b. Principal (including capitalized interest) written off on loans disbursed in FY1999 through 12/31/14 was \$4.8 million, \$3.3 million of that loss is offset by the origination fee collected on the loans.
- c. Loans are written off due to death or total disability of the borrower/cosigner. Loans are also written off when a loan becomes more than 7 years past due and has had no payment activity in the last 12 months.
- d. Current principal balance (including capitalized interest) remaining on loans disbursed in FY1999 at 12/31/14 was \$11.6 million.

**Alaska Student Loan Corporation  
Education Loan Portfolio**



- a. The principal balance of loans disbursed in FY2000 was \$57.5 million and interest capitalized on that balance through 12/31/14 was \$9.3 million.
- b. Principal (including capitalized interest) written off on loans disbursed in FY2000 through 12/31/14 was \$3.1 million, \$2.9 million of that loss is offset by the origination fee collected on the loans.
- c. Loans are written off due to death or total disability of the borrower/cosigner. Loans are also written off when a loan becomes more than 7 years past due and has had no payment activity in the last 12 months.
- d. Current principal balance (including capitalized interest) remaining on loans disbursed in FY2000 at 12/31/14 was \$12.2 million.