

ALASKA LEGISLATURE

2249

HOUSE and SENATE FINANCE COMMITTEE FILES, 2001 - 2002

HB

203

SFIN

FILE

HB 203

was referred to the
Senate Finance
Committee

Hearing(s) were held

The bill did not move
from Committee

Bill was WAIVED from Committee



OFFICIAL BUSINESS

Alaska State Legislature
Senate
Office of the Secretary

STATE CAPITOL, ROOM 213
JUNEAU, ALASKA 99801-1182
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FOR YOUR IMMEDIATE ATTENTION

DATE: May 14, 2002
TO: Finance Committee
(Mindy - Room 520)
FROM: Office of the Senate Secretary
SUBJ: Waived Bill(s)

The Chair of the Committee noted above has waived referral on the following bill(s):

RETRIEVE

CS FOR HOUSE BILL NO. 182(FIN) am

"An Act relating to certain vehicles, including motorcycles and trailers; relating to the registration, bonding, and other regulation of motor vehicle dealers; relating to the registration and other regulation of certain motor vehicle buyers' agents; relating to acts and transactions involving vehicles, including trailers, and to the acts and practices of certain persons and entities involved in vehicle transactions, including trailer transactions; relating to consumer protection for used vehicle buyers; amending Rule 3, Alaska Rules of Civil Procedure; and providing for an effective date."

CS FOR HOUSE BILL NO. 203(FIN)

"An Act making an appropriation to the Legislative Council for a study of school district cost factors; and providing for an effective date."

HOUSE BILL NO. 451 am

"An Act relating to municipal bond reimbursement for school construction; and providing for an effective date."

Please give the bill file(s) to the page for forwarding to the next Committee of referral. Thank you.



Alaska State Legislature

*Representative Peggy Wilson
Putting Alaska's Families First*

SPONSOR STATEMENT

HB 203

" An Act making an appropriation to the Legislative Budget and Audit for a study of school district cost factors; and providing for an effective date."

Alaska has a constitutional obligation to provide a full education for all students. The challenge inherent in this mission is to account for diverse geographic, cultural and economic conditions.

The formula currently employed, while well-intentioned, has unintentional consequences. A design error, which tracked expenses as opposed to the actual cost of providing an education in each school district, has resulted in flawed district cost factors. Failure to precisely measure differential costs across the state has resulted in inequitable funding.

What is the cost of providing an education in each school district as it relates to Anchorage as a base? What are the exact costs of electronic communications in Yakutat? What is the specific cost of fuel in Dillingham? What are the property insurance rates in Tok? What does it cost to get a school fire code inspector to Angoon?

HB 203 will provide factual answers to these questions. HB 203 proposes an independent study of school cost differentials to be contracted by the Legislative Budget and Audit at the cost of \$350,000.

Contact Representative Peggy Wilson

4/27/01



Public School Funding Formula *District Cost Factors*

Consideration should be given to the elements that contribute to costs in school districts. The investigation should evaluate whether the previously studied elements of travel, supplies, utilities, insurance, and communication correctly identify cost elements in districts, or whether other items should be added, or if different factors driving school district costs are applicable. Once the underlying elements are identified, a measurement tool applicable to each element should be identified.

The results obtained from recalculating cost factors using FY99 data under the 1998 cost study methodology do not provide a basis to recommend changes to existing cost factors because the formula does not adequately evaluate for cost differences in district level costs and the methodology does not adequately account for changes in the foundation formula after SB 36.

Recommendation

The department recommends that district cost factors remain at their current levels as designated in statute under AS 14.17.460 because there is not any empirical data to support changing the district cost factors at this time. The department also recommends that a new district cost model be developed to properly account for cost differences between districts on an ongoing basis.



Public School Funding Formula *District Cost Factors*

study methodology shows that those schools with correspondence students have an elevated cost factor. For example, Galena's cost factor is set in statute at 1.348 but using the cost study methodology with FY99 correspondence dollars assigns Galena a cost factor of 6.631. The increases the methodology calculates for districts with correspondence students are not warranted by increased costs. Additionally, because the formula simply divides each district's average basic need per student by the statewide average basic need per student, the impacts affecting districts with correspondence studies are also carried into the statewide average.

By using a calculation based on adjusted average daily attendance and average basic need to calculate cost factors any imperfections in the adjustment to average daily attendance or in the determination of basic need, are incorporated into district cost factors. Further, without identifying the underlying elements of true cost differences there is not a process to evaluate outcomes.

Conclusion

The 1998 Alaska School Operating Cost Study reported that compensating districts for actual district costs incurred was an unsatisfactory long-term solution. Based on our review of the methodology, and the outcome of calculations using FY99 data, we agree with the study's conclusion that the current methodology is unsatisfactory.

We recommend that a request-for-proposal be developed that requires identification of the underlying elements affecting school costs and determines a methodology for measuring those underlying elements. This will improve our cost factor methodology from that of compensating districts for current basic need to an improved method of allocating funding based on differences in applicable costs.



IV. Conclusion – Continuous Improvement

Alaska adopted the Quality Schools Initiative with the understanding that *ALL* children can reach higher standards. Furthermore, the Quality Schools Initiative promises that no child will be left behind. This indeed is an enormous undertaking and is the first time the State of Alaska has made such a promise to *all* children.

That promise means every child will read, write and do math at higher levels than ever before. It means schools and parents will no longer let children move through the grades without gaining essential skills along the way. It means more children will have a bright future and will become good citizens.

It means Alaska's policy makers need to follow through and provide the support and necessary resources that teachers and schools need in order for Alaska to make good on its promise to youth.

Members of the task force recognized from the outset the challenge in estimating the funds needed to educate *all* Alaska students to high standards. In structuring the assignment for the task force, members relied on the staff of the Department of Education & Early Development to provide extensive background information. Issues related to prior statutory amendments to the foundation formula, cost-of-doing-business in relationship to annual allocations of funds through the formula, analyses of district expenditures of funds, and individual and professional experiences all played a significant role in the formulation of the recommendations.

Task force members extensively examined the recent report entitled *Alaska's Public School Funding Formula: A Report to the Alaska State Legislature*. In reviewing the report, the task force

- agreed that districts had lost purchasing power;
- concluded that a new methodology needs to be determined to more precisely fund the cost-of-doing-business in each Alaska community;
and
- recognized that the foundation formula's funding floor reduction should be suspended until a new district cost factor study is conducted and fully implemented.

ALASKA SCHOOL OPERATING COST STUDY

REVIEW OF CALCULATED COST FACTORS

PREPARED FOR:

**Alaska Department of Education
and Early Development
801 WEST 10TH STREET
JUNEAU ALASKA, 99801**

PREPARED BY:



Juneau • Anchorage

January 2001

Statement of the Situation

In early 1998, the McDowell Group prepared the *Alaska School Operating Cost Study for the State of Alaska Legislative Budget and Audit Committee*. The purpose of the study was to determine adjustment factors that compensate for the impact of school size and geographical location on school operating costs. These factors were incorporated into the Public School Funding Formula.

It is important to stress that this study dealt with only one piece - operating costs - of a large and complex puzzle termed the School Foundation Formula. It was not intended to determine the cost of basic educational (Basic Need), but only how to allocate a portion of Basic Need (i.e., certain school operating costs) as defined by legislative appropriation. Also, Basic Need is only a starting point for public school funding; many adjustments are made for local contributions, federal impact aid, special needs, and other factors. Since the report was published, additional legislation has been enacted which has "adjusted" the District Cost Factors; all of these adjustments have been determined outside of the study analysis.

In our report, we cautioned the Committee that this was an important step, but only a first step in the process of transforming the funding process into one that has a scientific and empirical basis. Previous to 1998, District Cost Factors were based primarily on outdated (1985) household market basket costs unrelated to the cost of operating schools. A major advance of the Alaska School Operating Cost Study was, for the first time since statehood, to base District Cost Factors on what it cost to actually operate schools. The priority focus of the study effort was placed on the most significant part of operating costs, namely school level or instructional costs accounting for at least 70% of the total. The second major advance was to base school level (instructional) costs on standards for staffing schools of various sizes. The result was a sound defensible means of allocating instructional costs consistent from district to district that allows for updating based on changes in ADM.

However, such a standard was not possible for district level costs and the solution was an imperfect one that now prevents updating of the district level cost component of the DCF. Instead of a uniform standard like that calculated for school size, districts were simply allocated district level costs based on each district's actual expenditures per student in FY 1996, the most recent year available at the time of the study. As a result of this acknowledge shortcoming, we recommended that the Committee implement a transition period to evaluate if adjustments are needed, and put further work into understanding the non-personnel and administrative costs, research that eventually could lead to standards for district level costs.

The Alaska Department of Education and Early Development is now in the process of recalculating the cost factors using 1999 data. Several issues and concerns about the District Cost Factors have emerged in this work. The McDowell Group views this situation as an excellent opportunity to review the assumptions, strengths and limitations of our earlier study.

Recommendations for Further Work

The 1998 McDowell Study put significant analysis into school level (instructional) costs, which comprise the major percentage of school operating costs. This analysis produced a methodology that can be updated yearly with the assurance of providing meaningful allocations.

As stated in the 1998 report, the State of Alaska should continue to improve its Public School Funding Formula and engage a similar quantitative effort into district level costs. Though the magnitude of these costs is well below instructional costs, they comprise a value that is certainly significant and can impact many districts, especially those on the margin of adequate funding. Data collection and standardization has apparently improved to the point that such a study will produce meaningful results.

Updating the District Cost Factors using the current methodology with 1999 data will result in more questions than answers. We recommend that the current DCF's be maintained and the Department's efforts be placed in re-examining the methodology.

There are two primary approaches to an analysis of district level costs. The first is a study similar to the one in 1998 that seeks to understand the reasons for why these costs vary by school size and location. For these types of indirect costs, a typical study would be to determine major cost pools and identify unique drivers for the pools. A private industry approach to understanding indirect costs is to develop cost pools based on distinct activities, hence the name activity-based costing (or ABC). The ABC approach has become quite popular in the public sector as well, as it can lead to the creation of standards that can be used to monitor and control indirect costs.

The second approach is a rate-setting approach. Indirect cost would be examined to the extent that expenditure goals could be developed. A funding methodology could then be devised to provide incentives to school districts for achieving these goals. This approach requires a more clearly defined public policy component than the activity-based approach.

In closing, the McDowell Group offers a two-step recommendation. The first is to assemble a preliminary study team comprised of Alaska education experts with a mix of rural and urban school district operations experience. This study team would determine and examine critical issues and develop project objectives. The second step is to design an on-going cost research program that specifies data that will properly account for regional and school size differences in district level and administrative costs.

SENATE COMMITTEE REPORT

DATE: 4/17/01

FURTHER: Finance

DATE TURNED
IN TO OFFICE: 04/28/01

Health, Education and Social Services Committee considered CS FOR HOUSE BILL NO. 203(FIN)

APPROPRIATION: STUDY OF SCHOOL COST FACTORS

"An Act making an appropriation to the Legislative Council for a study of school district cost factors; and providing for an effective date."

and recommends:

- be replaced with SCS CS HB 203 (HES)
- adopt previous _____ CS _____ (_____)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to _____ Committee

Senate Bill:

- same title
- new title

House Bill:

- same title
- technical title
- new: SCR # 13

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>Orin A. ...</i>			<input checked="" type="checkbox"/>	
<i>Gary ...</i>	<input checked="" type="checkbox"/>			
<i>George ...</i>	<input checked="" type="checkbox"/>			
CHAIR: <i>Lyle ...</i>			<input checked="" type="checkbox"/>	

SENATE FINANCE COMMITTEE

SIGN-IN

HB 203-APPROP: STUDY OF SCHOOL COST FACTORS

NAME: Eddy Jeans Subject/Bill No: HB 203
Co./Dept./Title: Education, School Finance Manager Phone: 8679
Address: 801 West 10th St. Suite 200 Juneau Zip: 99801
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

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

HB

204

HFIN

FILE

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number: 2
Bill Version: HB204
(H) Publish Date: 4/4/01

Revision Date/Time (Note if correction): 4/3/2001 10:00 Dept. Affected: Education
Title: An Act relating to the ACPE and the ASLC relating BRU: ACPE
to the student financial aid programs and the financing of those... Component: Student Loan Operations
Sponsor: Rules Committee
Requester: (H)EDU 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	135.6	250.6	256.9	263.3	269.9	276.6
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	135.6	250.6	256.9	263.3	269.9	276.6
CAPITAL EXPENDITURES	135.6	250.6	256.9	263.3	269.9	276.6
CHANGE IN REVENUES ()		4,502.0	8,440.5	12,160.0	15,957.7	22,948.8

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)	135.6	250.6	256.9	263.3	269.9	276.6
TOTAL	135.6	250.6	256.9	263.3	269.9	276.6

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	2	2				
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)
ACPE's becoming a federal lender will bring additional revenue through loan guarantees, interest subsidies and special allowance payments. Additional revenues will be used to continue to reduce educational financing costs to our borrowers.

Costs are identified for a total of four Federal Family Education Loan Program (FFELP)-related staff; two in FY2002 and two in FY2003. These positions are critical to ensure success as a federal lender. Compliance with federal requirements is required to retain the guarantee on the FFELP portfolio and to receive reimbursements for loan losses due to death, disability, bankruptcy and default. To assure compliance, a full-time compliance specialist is needed. Entry level for this job class is a Range 18, starting in FY2002. To address AKFFELP-related programming and reporting requirements, an additional programmer/analyst will be needed. Entry level is Range 22, starting in FY2002. Starting in FY2003, an accountant will be needed to facilitate required federal and guarantor reporting. Entry level for this position is Range 16. Also in FY2003, a customer relations specialist is needed to meet

Prepared by: Sheila King, Finance Officer Phone 465-6757
Division: Finance Date/Time 4/3/01 10:00 AM
Approved by: Diane Barrans, Executive Director Date 4/3/2001
Agency: Alaska Commission on Postsecondary Education

For distribution information, call the Governor's Legislative Office

Analysis (continued)

growing demand for on-site financial aid and training and information dissemination at high schools and postsecondary schools around Alaska. Entry level for this position is Range 14. Salary projections include anticipated annual merit increases.

The income figures shown in the Change in Revenues line is a result of four components: 1) the Special Allowance payment provided by the U.S Department of Education (ED) to compensate the lender (ASLC) for fluctuations in interest rates during the year. This special allowance is determined by a formula, but is currently 50 basis points and is calculated based on the lenders volume of federal student loans; 2) The interest subsidy paid by ED on those federal loans whose borrowers qualify for subsidy based on their family income; 3) A 98% loan guarantee on all defaulted federal student loans serviced within the requirements established by ED; and 4) Accrual of interest during the in-school period on non-subsidized and supplemental loans.

It is important to note that these income figures are based on current FFELP rates. Because this bill provides for the ASLC to make below market rates available to its Alaska customers, the end result will be to utilize this positive financial shift as a means to reduce lending rates and allow our borrowers to benefit in the form of reduced borrowing costs.

FISCAL NOTE

**STATE OF ALASKA
2001 LEGISLATIVE SESSION**

Fiscal Note Number: 1
 Bill Version: HB 204
 (H) Publish Date: 3/22/01

Revision Date/Time (Note if correction): _____ Dept. Affected: Education
 Title: An Act relating to the ACPE and ASLC; establishing BRU: ACPE
the Alaska Advantage Loan Program and the Alaska Supplemental Component: Student Loan Operations
 Sponsor: Rules Committee
 Requester: Governor 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	135.6	250.6	256.9	263.3	269.9	276.6
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	135.6	250.6	256.9	263.3	269.9	276.6
CAPITAL EXPENDITURES	135.6	250.6	256.9	263.3	269.9	276.6
CHANGE IN REVENUES ()		4,752.6	8,697.3	12,423.2	16,227.4	24,416.2

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)	135.6	250.6	256.9	263.3	269.9	276.6
TOTAL	135.6	250.6	256.9	263.3	269.9	276.6

Estimate of any current year (FY2001) cost: 0.0

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

POSITIONS

Full-time	2	2				
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

ACPE's becoming a federal lender will bring additional revenue through loan guarantees, interest subsidies and special allowance payments. Additional revenues will be used to continue to reduce educational financing costs to our borrowers.

Costs are identified for a total of four Alaska Federal Family Education Loan Program (AKFFELP)-related staff; two in FY2002 and two in FY2003. These positions are critical to ensure success as a federal lender. Compliance with federal requirements is required to retain the guarantee on the AKFFELP portfolio and to receive reimbursements for loan losses due to death, disability, bankruptcy and default. To assure compliance, a full-time compliance specialist is needed. Entry level for this job class is a Range 18, starting in FY2002. To address AKFFELP-related programming and reporting requirements, an additional programmer/analyst will be needed. Entry level is Range 22, starting in FY2002. Starting in FY2003, an accountant will be needed to facilitate required federal and guarantor reporting. Entry level for this position is Range 16. Also in FY2003, a

Prepared by: Sheila King, Finance Officer Phone 465-6757
 Division: Finance Date/Time 3/12/01 10:00 a.m.
 Approved by: Diane Barrans, Executive Director Date 3/12/2001
 Agency: Alaska Commission on Postsecondary Education

For distribution information, call the Governor's Legislative Office

Analysis (continued)

HB 204#1

customer relations specialist is needed to meet growing demand for on-site financial aid training and information dissemination at high schools and postsecondary schools around Alaska. Entry level for this position is Range 14. Salary projections include anticipated annual merit increases.

TONY KNOWLES
GOVERNOR

HB 204
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STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

HB 204

March 20, 2001

The Honorable Brian Porter
Speaker of the House
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182

Dear Speaker Porter:

Alaska's student loan program has achieved great success in the past few years. The Commission on Postsecondary Education and the Alaska Student Loan Corporation have turned the program around -- running it in the black for the first time in history and paying a dividend back to the state. This year the dividend payment is \$2.2 million with another \$4 million expected for fiscal year 2002. All of this while serving over 90,000 Alaska student loan customers with \$615 million in loans.

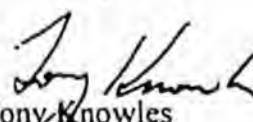
This bill I transmit today establishes the AlaskAdvantage Loan Program, the next step in continuing the growth and financial integrity of the state student loan program. Under this legislation, Alaska would participate in the federal guaranteed student loan program which brings benefits including low interest rates for borrowers and reduced risk to the state through federal loan guarantees.

This bill also creates a supplemental loan program to provide financial assistance in the event the AlaskAdvantage Loan is insufficient to cover education costs or the student does not qualify for assistance under the federal guaranteed student loan program.

This bill will create a one-stop financial aid information center and financial opportunity. guaranty the lowest possible borrowing rates, streamline aid delivery and reduce financial risk to the State through the federal guarantee. This program will also offer expanded options for borrowers with special needs in loan repayment.

At a time when access to quality education is at the forefront of our legislative agenda, I urge your prompt and favorable action on this measure.

Sincerely,


Tony Knowles
Governor

ALASKA COMMISSION ON POSTSECONDARY EDUCATION
SECTIONAL ANALYSIS
SB155/HB204

BILL SECTION	AK STATUTE SECTION TITLE	PAGE	LINE	PURPOSE OF SECTION	TYPE OF CHANGE	EFFECTIVE DATE
1	Findings and purpose.	1 2	12 1-25	Emphasize ACPE/ASLC joint missions to expand economic benefit of education and training as broadly in the state as possible; providing benefits to individuals, institutions, and industries.	New Language	Immediately
2	ACPE advisory functions.	2 3	26-31 1-14	Remove archaic and/or unfunded functions.	Amended Language	Immediately
3	ACPE mandated functions.	3	15-23	Emphasize financial aid administration, regulation of in-state postsecondary institutions; and administration of federal student financial aid.	Repeal and Reenacting Language	Immediately
4	ACPE authorized (permissive) functions.	3 4	24-31 1-25	Clarify: (1) regulation adoption authority to administer state and federal financial aid programs and postsecondary institutional authorization; (2) authority to delegate operational administration to ACPE executive director or subcommittees; (3) establish and collect fees for review of non-Alaska institutions; and, (4) collect financial aid debts from individuals, including collection fees.	Moves Existing Language and Adds New Language	Immediately
5	ACPE authorized role re: postsecondary consortia in Alaska	4 5	26-31 1-7	Authorization to negotiate agreements between the University of Alaska and other consortia institutions.	Amended Language	Immediately
6	ASLC purpose	5	8-18	To include creating financial aid administration efficiencies. Provide operating principles to guide corporation action.	Amending and Clarifying Language	Immediately
7	ASLC general powers	5 6 7 8	19-31 1-31 1-31 1-16	Revise and clarify collection authority and to insure ASLC activities are financially self-sustaining.	Amending and Clarifying Language	Immediately

BILL SECTION	AK STATUTE SECTION TITLE	PAGE	LINE	PURPOSE OF SECTION	TYPE OF CHANGE	EFFECTIVE DATE
8	ASLC to finance education loan programs.	8 9	17-31 1-11	Provide direction for establishment of state supplemental education loan programs. Provide operating principles to insure flexibility for developing various state loan products and that such products be designed to attract and retain students in Alaska, including offering terms and conditions that are more attractive than prevailing market terms.	New Language	Immediately implement, but loans disbursed on or after July 1, 2002
9	Clarifies the purpose of the education loan fund and describes appropriate uses of the fund.	9 10	12-31 1-8	By reference, specifically authorize financing for integrated state and federal financial aid programs.	Amended Language	Immediately
10	Education loan fund.	10	9-16	Conforming change.	Amended Language	Immediately implement, but loans disbursed on or after July 1, 2002
11	Education loan fund.	10	17-26	Conforming change.	Amending Language.	Immediately implement, but loans disbursed on or after July 1, 2002
12	Bonds of the corporation.	10 11	27-31 1-2	Extend maximum time period for ASLC bond maturities when longer terms are financially beneficial.	Amended Language.	Immediately
13	Bonds of the corporation.	11	3-6	Increase two-year aggregate ASLC bonding capacity to insure adequate cash flow to meet integrated programs loan demand.	Amended Language.	Immediately
14	Trust indentures and trust agreements.	11 12	7-31 1-8	Conforming change clarifying broad collection authority on all assets and obligations to the corporation.	Amended Language	Immediately
15	Pledge and agreement of state.	12	9-18	Conforming change.	Amended Language	Immediately

BILL SECTION	AK STATUTE SECTION TITLE	PAGE	LINE	PURPOSE OF SECTION	TYPE OF CHANGE	EFFECTIVE DATE
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16	General provisions.	12 13	19-31 1-7	Provide definitions of terms used throughout this chapter.	Moves Existing Language and Adds New Language	Immediately
17	Education loan program.	13	8-20	Secs. 17 through 28 retain existing Alaska Student Loan Program until AKAdvantage is operating in 2002-2003.	New Language to Replace AS 14.43.090	Immediately
18	Conditions of loans.	13	21-26	Conforming change.	Amended Language	Immediately
19	Conditions of loans.	13 14	27-31 1-2	Conforming change.	Amended Language	Immediately
20	Conditions of Loans.	14	3-11	Conforming change.	Amended Language	Immediately
21	Consolidation of loans.	14	12-20	Conforming change.	Amended Language	Immediately
22	Eligibility of Students.	14	21-25	Conforming change.	Amended Language	Immediately
23	Discrimination prohibited.	14	26-30	Conforming change.	Amended Language	Immediately
24	Default.	14 15	31 1-24	Provide administrative collection power through authority to issue liens against real property as a means of recovering on defaulted loans.	New Language	Immediately
25	Default.	15	12-24	Extend uniform collection methods for all loans serviced by the Commission. Recognize that default threshold under AKAdvantage will be set according to federal standards (currently at 280 days delinquency).	Amended Language	Immediately implement, but loans disbursed on or after July 1, 2002.
26	Default.	15 16	25-31 1-6	Provide default appeal process to borrowers regardless of the specific loan type. Establish a timely response standard for the ACPE executive director to act upon a default appeal.	Amended Language	Immediately implement, but loans disbursed on or after July 1, 2002.

BILL SECTION	AK STATUTE SECTION TITLE	PAGE	LINE	PURPOSE OF SECTION	TYPE OF CHANGE	EFFECTIVE DATE
27	Lien.	16	7-18	Describe the lien authority of the ACPE regarding defaulted student loans.	New Language.	Immediately
28	Definitions.	16 17	19-31 1-14	Conforming changes.	Amended Language.	Immediately
29	Establish the federal guaranteed AK Advantage and the Alaska Supplemental Education Loan Programs.	17-22			New Language.	Immediately implement, but loans disbursed on or after July 1, 2002.
29	Sec. 14.43.161 Purpose; creation.	17	16-20	Sec. 29 as a whole, describes the new, integrated loans program. AK Advantage to be first loan offered to borrowers.		
29	Sec. 14.43.162 Eligibility.	17 18	21-31 1-11	Recognize that the eligibility criteria is established by federal student loan rules. Additional AK Advantage criteria are that a borrower be an Alaska resident or attending in Alaska. Defines residency criteria.		
29	Sec. 14.43.163 Restrictions on award.	18	12-22	Recognize that annual lending limits under this program are set by federal student loan rules.		
29	Sec. 14.43.164 Use of loan.	18	23-25	Recognize that permitted use of funds determined by federal student loan rules.		
29	Sec. 14.43.165 Interest.	18 19	26-31 1-7	Recognize: (1) that the formula for setting the interest rate on the loan is determined by federal rules (variable with current cap of 8.25%); (2) the rate may be no more than the federal student loan rate; (3) interest accrues from the time the loan is disbursed to the borrower; (4) during periods of enrollment or deferment the borrower may elect to pay the interest or to have it capped; and (5) for those borrowers who qualify, the federal government may pay interest on their behalf during qualifying periods.		
29	Sec. 14.43.166 Repayment.	19	10-17	Clarify that loan terms include a six-month grace period during which payments are deferred. Clarify that loans obtained in error or by falsification by borrower may be subject to accelerated repayment requirement permitted by federal student loan rules.		
29	Sec. 14.43.167 Consolidation of loans.	19	18-25	Clarify ACPE authority to offer consolidation of loans.		

BILL SECTION	AK STATUTE SECTION TITLE	PAGE	LINE	PURPOSE OF SECTION	TYPE OF CHANGE	EFFECTIVE DATE
29	Sec. 14.43.168 Default.	19	26-31	Authorize ACPE to establish default requirements that are compliant with federal student loan rules.		
29	Sec. 14.43.170 Creation; purpose.	20	1-10	Alaska non-federal loan to be provided to supplement AKAdvantage loan to address remaining financial need.		
29	Sec. 14.43.171 Applicability of other laws.	20	11-14	Incorporate, by reference, certain specific existing Alaska Student Loan requirements. This section creates alignment of terms and conditions of the Supplemental loans with AKAdvantage loans to reduce consumer confusion and administrative complexity where possible. Applicable laws are regarding: minimum standards for institutional default rates; prohibited discrimination; contracting with minors; default and collection tools (PFD garnishment, leveraging licenses, administrative wage garnishment, creating liens); definitions; use of loans; loan consolidation, and, default.		
29	Sec. 14.43.172 Eligibility.	20 21	15-31 1-27	Provide for Supplemental loans to continue to be available to Alaska institutions that may not participate or qualify for participation in the federal student loan program and allow ACPE to establish certain standards with which the institutions may be required to comply. Provide the authority to perform credit review of applicants for Supplemental loans. Establish minimum credit standards. Specify conditions under which an applicant who fails to meet the standards may become qualified for a loan, including obtaining a credit-worthy co-signer.		
29	Sec. 14.43.173 Loan award maximums.	21 22	28-31 1-12	Establish annual and aggregate loan award maximum for the Supplemental loan. Provide that borrowers must be considered in good standing by their institution to continue to receive loan disbursements.		
29	Sec. 14.43.174 Interest.	22	13-21	Provide authority for the ASLC to set the interest rates and provides that the rate not exceed 8.25%. Clarify that interest accrues from the time a loan is disbursed and that interest may be paid or deferred and capped, as elected by the borrower.		
29	Sec. 14.43.175 Repayment of loans.	22	22-27	Provide for a six-month grace period following the in-school period when payments are deferred.		
30	Memorial Scholarship Loan Fund	22 23	28-31 1-5	Conforming change. Throughout this chapter references to "scholarship loans" are being amended to read "education loans" to eliminate any confusion about whether the aid is a scholarship or a loan.	Amending Language.	Immediate
31	Memorial loan payment.	23	6-12	Conforming changes.	Amended Language.	Immediate

BILL SECTION	AK STATUTE SECTION TITLE	PAGE	LINE	PURPOSE OF SECTION	TYPE OF CHANGE	EFFECTIVE DATE
32	Memorial loan administering authority.	23	13-17	Conforming changes.	Amended Language.	Immediate
33	Education Incentive Grant Administration.	23	18-22	Conforming changes.	Amended Language.	Immediate
34	Teacher Education Loan selection criteria.	23	23-27	Conforming changes.	Amended Language.	Immediate
35	Teacher Education Loan selection criteria.	23 24	28-31 1	Conforming changes.	Amended Language.	Immediate
36	Family Education Loan account.	24	2-14	Conforming changes.	Amended Language.	Immediate
37	Definitions.	24	15-17	Adding a chapter definition for corporation to mean ASLC.	New Language.	Immediate
38	Definitions.	24	18-24	Adding chapter definitions for "federal guaranteed student loan program" and approved FFEL institution."	New Language	Immediate implement, but loans disbursed on or after July 1, 2002.
39	Repayment condition for (WICHE) program participants.	24	25-27	Conforming changes.	Amended Language.	Immediate
40	Repayment.	24	28-31	Provide for collection authority in the event of default of a WICHE Professional Student Exchange Program loan.	New Language	Immediate
41	Duties of recorder.	25	1-3	Conforming change related to ACPE authority to place a lien as a means of collection on a defaulted loan.	New Language	Immediate
42	Repealer section.	25	4-5	Repeal 14.42.010(a), ACPE purpose and intent, and 14.42.030(c) ACPE functions. Replaced in Secs. 1-4 of this bill. Repeal 14.42.390, ASLC definitions, replaced in Sec. 16 of this bill.	Amending Language.	Immediate

BILL SECTION	AK STATUTE SECTION TITLE	PAGE	LINE	PURPOSE OF SECTION	TYPE OF CHANGE	EFFECTIVE DATE
				<p>Repeal 14.43.090, creation of the scholarship loan fund, which is replaced in Sec. 17 of this bill.</p> <p>Repeal 14.43.255(c), memorial loan fund, authority to sell assigned loans to the corporation.</p> <p>Repeal 14.43.315, memorial discrimination prohibited section. Protection provided through incorporation by reference in Sec. 32 of this bill.</p> <p>Repeal 14.43.730; family education loan administration section. Authority provided through incorporation by reference in Sec. 3 of this bill.</p> <p>Repeal 14.48.050(10), ACPE power to establish fees for review of institution. Replaced in Sec. 4 of this bill.</p>		
43	Transition language.	25	6-13	Provide ACPE with ability to immediately begin AKAdvantage implementation processes that are necessary in order to offer student loans under the new program for the 2002-2003 academic period.	Transition language.	Immediate
44	Transition language.	25	14-20	Provide ACPE with ability to immediately begin AKAdvantage regulation promulgation necessary to offer student loans under the new program for the 2002-2003 academic period.	Amended Language.	Immediate
45	Instruction to Revisor	25 26 27	21-31 1-31 1-9	Conforming changes to provide consistent use of terminology relating to loan programs administered by ACPE.		Immediate
46	Effective Date Section.	27	10-11			
47	Effective date section.	27	12			

HB

204

SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

DATE: 4/30/01

FURTHER:

REPORTED OUT
MAY 04 2001
SENATE FINANCE
COMMITTEE
5 May 2001

DATE TURNED
IN TO OFFICE:

Finance Committee considered

HOUSE BILL NO. 204

STUDENT LOANS/COMMISSION ON POSTSECONDARY EDUCATION

and recommends:

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

Senate Bill:

same title

new title

House Bill:

same title

technical title

new: SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#

F/n
forth coming \$

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>[Signature]</i>	—			
<i>[Signature]</i>	✓			
<i>[Signature]</i>	✓			
<i>[Signature]</i>	✓			
<i>[Signature]</i>	✓			
<i>[Signature]</i>	✓			
<i>[Signature]</i>	⊗			
COCHAIR: <i>[Signature]</i>	✓			
COCHAIR: <i>[Signature]</i>	✓			

STATE OF ALASKA

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

TONY KNOWLES, GOVERNOR

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

April 30, 2001

The Honorable Pete Kelly, Co-Chair
Finance Committee
Alaska State Senate
State Capitol Building, Room 518
Juneau, Alaska 99801

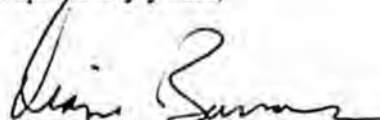
Dear Senator Kelly:

As the Executive Director/Officer of the partner agencies, the Alaska Commission on Postsecondary Education (ACPE) and Alaska Student Loan Corporation, I am writing to request your support for HB204, a bill creating the AlaskAdvantage Loan Program... Specifically, I am requesting that the bill be heard by the Finance Committee as soon as possible. In addition to public hearings on HB204 in both the House Special Committee on Education and the House Finance Committee, it's companion legislation in the Senate, SB155, was also the subject of two hearings in the Senate Health, Education and Social Services Committee. In each event the bills were positively received, without objection from members of either body or from a member of the public.

As I indicated during my briefing with you earlier this session, the bill is the result of months of planning on the part of senior ACPE management working in consultation with University of Alaska administrators. As you know, in recent years the ACPE and ASLC have been successful in turning the financial status of the Alaska Student Loan Programs around to its current healthy condition. This transformation has only been possible through the consistently strong bipartisan support of our initiatives to improve services and eliminate financial risks for the programs. The AlaskAdvantage Program is designed to insure we are able to continue on this positive trend through the years to come. Enclosed is ACPE's sectional analysis that describes changes to Alaska Statute contained in the bill.

I am confident that if HB204 is passed this legislative session, ACPE will be prepared to offer the expanded benefits to our customers in 2002-2003. I hope that you will support our efforts to implement this program as soon as possible. Thank you for your consideration of my request, as well as for your long-time support of our programs.

Respectfully yours,


Diane Barrans
Executive Director

DB/dm

Enclosure

March 20, 2001

Re: HB 204 – An Act relating to the Alaska Commission on Postsecondary Education and the Alaska Student Loan Corporation...

Dear Speaker Porter:

Alaska's student loan program has achieved great success in the past few years. The Commission on Postsecondary Education and the Alaska Student Loan Corporation have turned the program around -- running it in the black for the first time in history and paying a dividend back to the state. This year the dividend payment is \$2.2 million with another \$4 million expected for fiscal year 2002. All of this while serving over 90,000 Alaska student loan customers with \$615 million in loans.

This bill I transmit today establishes the AlaskAdvantage Loan Program, the next step in continuing the growth and financial integrity of the state student loan program. Under this legislation, Alaska would participate in the federal guaranteed student loan program which brings benefits including low interest rates for borrowers and reduced risk to the state through federal loan guarantees.

This bill also creates a supplemental loan program to provide financial assistance in the event the AlaskAdvantage Loan is insufficient to cover education costs or the student does not qualify for assistance under the federal guaranteed student loan program.

This bill will create a one-stop financial aid information center and financial opportunity, guaranty the lowest possible borrowing rates, streamline aid delivery and reduce financial risk to the State through the federal guarantee. This program will also offer expanded options for borrowers with special needs in loan repayment.

At a time when access to quality education is at the forefront of our legislative agenda, I urge your prompt and favorable action on this measure.

Sincerely,
/s/
Tony Knowles
Governor

ALASKA COMMISSION ON POSTSECONDARY EDUCATION
SECTIONAL ANALYSIS
HB204

BILL SECTION	AK STATUTE SECTION TITLE	PAGE	LINE	PURPOSE OF SECTION	TYPE OF CHANGE	EFFECTIVE DATE
1	Findings and purpose.	1 2	12 1-25	Emphasize ACPE/ASLC joint missions to expand economic benefit of education and training as broadly in the state as possible; providing benefits to individuals, institutions, and industries.	New Language	Immediately
2	ACPE advisory functions.	2 3	26-31 1-14	Remove archaic and/or unfunded functions.	Amended Language	Immediately
3	ACPE mandated functions.	3	15-23	Emphasize financial aid administration, regulation of in-state postsecondary institutions; and administration of federal student financial aid.	Repeal and Reenacting Language	Immediately
4	ACPE authorized (permissive) functions.	3 4	24-31 1-25	Clarify: (1) regulation adoption authority to administer state and federal financial aid programs and postsecondary institutional authorization; (2) authority to delegate operational administration to ACPE executive director or subcommittees; (3) establish and collect fees for review of non-Alaska institutions; and, (4) collect financial aid debts from individuals, including collection fees.	Moves Existing Language and Adds New Language	Immediately
5	ACPE authorized role re: postsecondary consortia in Alaska	4 5	26-31 1-7	Authorization to negotiate agreements between the University of Alaska and other consortia institutions.	Amended Language	Immediately
6	ASLC purpose	5	8-18	To include creating financial aid administration efficiencies. Provide operating principles to guide corporation action.	Amending and Clarifying Language	Immediately
7	ASLC general powers	5 6 7 8	19-31 1-31 1-31 1-16	Revise and clarify collection authority and to insure ASLC activities are financially self-sustaining.	Amending and Clarifying Language	Immediately

BILL SECTION	AK STATUTE SECTION TITLE	PAGE	LINE	PURPOSE OF SECTION	TYPE OF CHANGE	EFFECTIVE DATE
8	ASLC to finance education loan programs.	8 9	17-31 1-11	Provide direction for establishment of state supplemental education loan programs. Provide operating principles to insure flexibility for developing various state loan products and that such products be designed to attract and retain students in Alaska, including offering terms and conditions that are more attractive than prevailing market terms.	New Language	Immediately implement, but loans disbursed on or after July 1, 2002
9	Clarifies the purpose of the education loan fund and describes appropriate uses of the fund.	9 10	12-31 1-8	By reference, specifically authorize financing for integrated state and federal financial aid programs.	Amended Language	Immediately
10	Education loan fund.	10	9-16	Conforming change to incorporate the new programs that have an effective date of 7/01/02.	Amended Language	Immediately implement, but loans disbursed on or after July 1, 2002
11	Education loan fund.	10	17-26	Conforming change to incorporated the new programs that have an effective date of 7/01/02.	Amending Language.	Immediately implement, but loans disbursed on or after July 1, 2002
12	Bonds of the corporation.	10 11	27-31 1-2	Extend maximum time period for ASLC bond maturities when longer terms are financially beneficial.	Amended Language.	Immediately
13	Bonds of the corporation.	11	3-6	Increase two-year aggregate ASLC bonding capacity to insure adequate cash flow to meet integrated programs loan demand.	Amended Language.	Immediately
14	Trust indentures and trust agreements.	11 12	7-31 1-8	Conforming change clarifying broad collection authority on all assets and obligations to the corporation.	Amended Language	Immediately
15	Pledge and agreement of state.	12	9-18	Conforming change.	Amended Language	Immediately

BILL SECTION	AK STATUTE SECTION TITLE	PAGE	LINE	PURPOSE OF SECTION	TYPE OF CHANGE	EFFECTIVE DATE
16	General provisions.	12 13	19-31 1-7	Provide definitions of terms used throughout this chapter.	Moves Existing Language and Adds New Language	Immediately
17	Education loan program.	13	8-20	Secs. 17 through 28 retain existing Alaska Student Loan Program until AKAdvantage is operating in 2002-2003.	New Language to Replace AS 14.43.090	Immediately
18	Conditions of loans.	13	21-26	Conforming change.	Amended Language	Immediately
19	Conditions of loans.	13 14	27-31 1-2	Conforming change.	Amended Language	Immediately
20	Conditions of Loans.	14	3-11	Conforming change.	Amended Language	Immediately
21	Consolidation of loans.	14	12-20	Conforming change.	Amended Language	Immediately
22	Eligibility of Students.	14	21-25	Conforming change.	Amended Language	Immediately
23	Discrimination prohibited.	14	26-30	Conforming change.	Amended Language	Immediately
24	Default.	14 15	31 1-24	Provide administrative collection power through authority to issue liens against real property as a means of recovering on defaulted loans.	New Language	Immediately
25	Default.	15	12-24	Extend uniform collection methods for all loans serviced by the Commission. Recognize that default threshold under AKAdvantage will be set according to federal standards (currently at 280 days delinquency).	Amended Language	Immediately implement, but loans disbursed on or after July 1, 2002.
26	Default.	15 16	25-31 1-6	Provide default appeal process to borrowers regardless of the specific loan type. Establish a timely response standard for the ACPE executive director to act upon a default appeal.	Amended Language	Immediately implement, but loans disbursed on or after July 1, 2002.

BILL SECTION	AK STATUTE SECTION TITLE	PAGE	LINE	PURPOSE OF SECTION	TYPE OF CHANGE	EFFECTIVE DATE
27	Lien.	16	7-18	Describe the lien authority of the ACPE regarding defaulted student loans.	New Language.	Immediately
28	Definitions.	16 17	19-31 1-14	Conforming changes.	Amended Language.	Immediately
29	Establish the federal guaranteed AKAdvantage and the Alaska Supplemental Education Loan Programs.	17-22			New Language.	Immediately implement, but loans disbursed on or after July 1, 2002.
29	Sec. 14.43.161 Purpose; creation.	17	16-20	Sec. 29 as a whole, describes the new, integrated loans programs. AKAdvantage to be first loan offered to borrowers.		
29	Sec. 14.43.162 Eligibility.	17 18	21-31 1-11	Recognize that the eligibility criteria is established by federal student loan rules. Additional AKAdvantage criteria are that a borrower be an Alaska resident or attending school in Alaska. Defines residency criteria.		
29	Sec. 14.43.163 Restrictions on award.	18	12-22	Recognize that annual lending limits under this program are set by federal student loan rules.		
29	Sec. 14.43.164 Use of loan.	18	23-25	Recognize that permitted use of funds determined by federal student loan rules.		
29	Sec. 14.43.165 Interest.	18 19	26-31 1-9	Recognize: (1) that the formula for setting the interest rate on the loan is determined by federal rules (variable with current cap of 8.25%); (2) the rate may be no more than the federal student loan rate; (3) interest accrues from the time the loan is disbursed to the borrower; (4) during periods of enrollment or deferment the borrower may elect to pay the interest or to have it capped; and (5) for those borrowers who qualify, the federal government may pay interest on their behalf during qualifying periods.		
29	Sec. 14.43.166 Repayment.	19	10-17	Clarify that loan terms include a six-month grace period during which payments are deferred. Clarify that loans obtained in error or by falsification by borrower may be subject to accelerated repayment requirement permitted by federal student loan rules.		
29	Sec. 14.43.167 Consolidation of loans.	19	18-25	Clarify ACPE authority to offer consolidation of loans.		

BILL SECTION	AK STATUTE SECTION TITLE	PAGE	LINE	PURPOSE OF SECTION	TYPE OF CHANGE	EFFECTIVE DATE
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29	Sec. 14.43.174 Interest.	22	13-21	Provide authority for the ASLC to set the interest rates and provides that the rate not exceed 8.25%. Clarify that interest accrues from the time a loan is disbursed and that interest may be paid or deferred and capped, as elected by the borrower.		
29	Sec. 14.43.175 Repayment of loans.	22	22-27	Provide for a six-month grace period following the in-school period when payments are deferred.		
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31	Memorial loan payment.	23	6-12	Conforming changes.	Amended Language.	Immediate

BILL SECTION	AK STATUTE SECTION TITLE	PAGE	LINE	PURPOSE OF SECTION	TYPE OF CHANGE	EFFECTIVE DATE
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40	Repayment.	24	28-31	Provide for collection authority in the event of default of a WICHE Professional Student Exchange Program loan.	New Language	Immediate
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42	Repealer section.	25	4-5	Repeal 14.42.010(a), ACPE purpose and intent, and 14.42.030(c) ACPE functions. Replaced in Secs. 1-4 of this bill. Repeal 14.42.390, ASLC definitions, replaced in Sec. 16 of this bill.	Amending Language.	Immediate

BILL SECTION	AK STATUTE SECTION TITLE	PAGE	LINE	PURPOSE OF SECTION	TYPE OF CHANGE	EFFECTIVE DATE
				<p>Repeal 14.43.090, creation of the scholarship loan fund, which is replaced in Sec. 17 of this bill.</p> <p>Repeal 14.43.255(c), memorial loan fund, authority to sell or assign loans to the corporation.</p> <p>Repeal 14.43.315, memorial loan discrimination prohibited section. Protection provided through incorporation by reference in Sec. 32 of this bill.</p> <p>Repeal 14.43.730; family education loan administration section. Authority provided through incorporation by reference in Sec. 3 of this bill.</p> <p>Repeal 14.48.050(10), ACPE power to establish fees for review of institution. Replaced in Sec. 4 of this bill.</p>		
43	Transition language.	25	6-13	Provide ACPE with ability to immediately begin AKAdvantage implementation processes that are necessary in order to offer student loans under the new program for the 2002-2003 academic period.	Transition language.	Immediate
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45	Instruction to Revisor	25 26 27	21-31 1-31 1-9	Conforming changes to provide consistent use of terminology relating to loan programs administered by ACPE.		Immediate
46	Effective Date Section.	27	10-11			
47	Effective date section.	27	12			

TONY KNOWLES
GOVERNOR

HB 2001
D. B. J. ...
J. ...
...

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 20, 2001

The Honorable Brian Porter
Speaker of the House
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182

Dear Speaker Porter:

Alaska's student loan program has achieved great success in the past few years. The Commission on Postsecondary Education and the Alaska Student Loan Corporation have turned the program around -- running it in the black for the first time in history and paying a dividend back to the state. This year the dividend payment is \$2.2 million with another \$4 million expected for fiscal year 2002. All of this while serving over 90,000 Alaska student loan customers with \$615 million in loans.

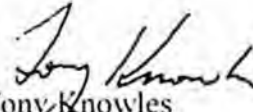
This bill I transmit today establishes the AlaskAdvantage Loan Program, the next step in continuing the growth and financial integrity of the state student loan program. Under this legislation, Alaska would participate in the federal guaranteed student loan program which brings benefits including low interest rates for borrowers and reduced risk to the state through federal loan guarantees.

This bill also creates a supplemental loan program to provide financial assistance in the event the AlaskAdvantage Loan is insufficient to cover education costs or the student does not qualify for assistance under the federal guaranteed student loan program.

This bill will create a one-stop financial aid information center and financial opportunity, guaranty the lowest possible borrowing rates, streamline aid delivery and reduce financial risk to the State through the federal guarantee. This program will also offer expanded options for borrowers with special needs in loan repayment.

At a time when access to quality education is at the forefront of our legislative agenda, I urge your prompt and favorable action on this measure.

Sincerely,


Tony Knowles
Governor

SENATE FINANCE COMMITTEE

SIGN-IN

HB 204-STUDENT LOANS/COMN. ON POSTSECONDARY ED.

NAME: Dianna Buxton Subject/Bill No: _____
Co./Dept./Title: ACPE Director Phone: 465-6740
Address: _____ Zip: _____
Do you wish to testify? Yes No Respond To Questions

NAME: Sheik King Subject/Bill No: _____
Co./Dept./Title: ACPE Finance Officer Phone: 465-6757
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

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

SITE: ANCHORAGE LIO

COMMITTEE: Senate Finance

DATE: 5-4-2001

SUBJECT OF MEETING:

Bills Previously Heard/Scheduled

UPDATE #:



PLEASE SIGN IN

PLEASE PRINT:

NAME

ADDRESS (MAILING & ZIP)

REPRESENTING

DO YOU WANT

TO TESTIFY?

Y or N

NAME	ADDRESS (MAILING & ZIP)	REPRESENTING	DO YOU WANT TO TESTIFY? Y or N
Mary Ellen Beardsley		AG's Office	Ans. ?s on HB 204

HB

208

HFEIN

FILE

HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: March 13, 2002

FURTHER REFERRALS:

Date of Committee Action: 4/2/02

The FINANCE Committee considered:

HB 208

HOUSE BILL NO. 208

AQUATIC FARMS FOR SHELLFISH

"An Act relating to aquatic farming of shellfish; and providing for an effective date."

Recommends it be replaced with CS HB 208 (RES) Same Title [] New Title
 For Senate Bills with new title: [] Technical Title [] New Title: HCR _____

- [] attach amendments
- [] add new referral to _____ Committee
- [] Letter of Intent _____ Committee

List of Abbrev. for Depts.:
 ADM
 CED
 COR
 CRT
 EED
 DEC
 DFG
 GOV
 HSS
 LAA
 LAW
 LWF
 MVA
 DNR
 DPS
 REV
 DOT
 UA

<u>NEW FISCAL NOTES</u>				
*For Chief Clerk's Office Use Only				
List by Dept(s):	*FN#	Fiscal	Indet.	Zero

<u>PREVIOUS FISCAL NOTES</u>				
List by Dept(s):	FN#	Fiscal	Indet.	Zero
DNR	2	✓		
DFG	3	✓		
DFG	4	✓		

<u>Signing with recommendations</u>	Printed Last Name	DP	DNP	NR	AM
	Whitaker	✓			
	HARRIS	✓			
	Daniel	X			
	Lancaster	✓			
	Hudson	✓			
Chair:	Mulder	✓			
Chair:	Williams	✓			

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: 2
 Bill Version: CSHB 208(FSH)
 (H) Publish Date: 3/6/02
 Dept. Affected: Natural Resources
 BRU: Minerals, Land & Water Dev
 Component: Claims, Permits and Leases
 Component Number: 2460

Revision Date/Time (Note if correction): _____
 Title: Aquatic Farms for Shellfish
 Sponsor: Rep. SCALZI, Chenault, Lancaster, Harns, Hudson, James
 Requester: (H) FSH

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personnel Services	116.6	155.6				
Travel	5.0	10.0				
Contractual	2.5	325.0				
Supplies	1.0	1.0				
Equipment	7.0	0.0				
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	132.1	491.6	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	0.0	58.5+	58.5+	58.5+	58.5+	58.5+
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FUND SOURCE (Thousands of Dollars)

FUND SOURCE	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
1002 Federal Receipts						
1003 GF Match						
1004 GF	132.1	491.6				
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	132.1	491.6	0.0	0.0	0.0	0.0

Estimate of any current year (FY2002) cost: none
 Check this box (X) if funding for this bill is included in the Governor's FY2003 budget proposal:

POSITIONS

Full-time	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Full-time	3	3				
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Figures shown here are only preliminary estimates.

This bill creates a one-time disposal program of at least 90 aquatic farmsites; changes the criteria of determining fair market value of a site where culture of indigenous shellfish is proposed; and requires DNR to condition leases for sites that culture wild stocks of indigenous shellfish to restore the wild stock upon termination or expiration of the lease to the population level that existed prior to issuance of the lease. It expands DNR's current aquatic farm program, which operates on program receipts with one employee and brings in approximately \$48.0 a year.

Operating expenditures for HB 208 could increase for FY 2004 if leases are issued for longer than 10 years, which would necessitate cadastral surveys of each site (AS 38.04.045). [CONT.]

Prepared by: Bob Loeffler Phone 269-8600
 Division: Mining, Land and Water Date/Time 1-Mar-02
 Approved by: Pat Pourchot Date 1-Mar-02
 Agency: Natural Resources

ANALYSIS: (continued) CSHB 208(FSH) - #2

This analysis assumes that under Sec. 3 of the bill, it would take a full year to prepare for the one-time disposal of 90 farmsites at auction. A new unit consisting of one Natural Resource Manager I, one Natural Resource Officer II, and one Natural Resource Technician would be required. (Additional appraisal services would also be required, but would be done under contract.) Because it would take approximately three months to establish and fill the positions, only nine months of personal services costs are shown for FY 2003. Once hired, the unit will need approx. 12 months to develop timelines and procedures; give public notice to solicit nominations; write preliminary disposal decisions; evaluate nominated sites and conduct the coastal consistency review and agency/public comment period (including limited hearings); review comments/resolve conflicts; write final decisions listing approved sites; inspect sites with ADF&G and DEC to determine suitability and whether indigenous shellfish are present; contract for appraisals (\$50.0) that consider the value of existing harvestable shellfish and site productivity; give public notice of the auctions; conduct auctions; and issue final leases. The auctions would likely not be held until the fall of 2003.

Total estimated costs for DNR's portion of one-time mariculture disposal: \$351.2

As part of the disposal, the bill requires the amount of sustainable harvestable shellfish to be determined so that a value could be placed on the resource. This information is outside DNR's expertise and would likely be obtained by a Reimbursable Services Agreement with ADF&G. Costs for this item were estimated by ADF&G and are shown as a contractual item for FY04.

Total estimated costs for DNR's RSA to ADF&G to evaluate site suitability, estimate populations of wild stock consistent with sustainable yield management and the potential productivity of the site: \$272.5

Changes in revenue: +\$58.5

If all 90 sites were leased, the possible revenue of \$58.5 annually would begin in FY04. This estimate is based on an average 3-acre suspended culture site x 60 sites = \$33,000 and an average of 5-acre on-bottom culture site x 30 sites = \$25,500 (plus the additional value placed on the amount of harvestable shellfish and the potential productivity of the site; these are unknowns at this time). However, it is not known whether the market could absorb such a large number of sites at once.

Personal Services New Position Detail

DRAFT

Department of Natural Resources

Scenario: DNR FY2003 Fiscal Notes - for Positions (2481)
 Component: Claims, Permits & Leases (2460)
 BRU Name: Minerals, Land, and Water Development (330)

PCN	Job Class Title	Time Status	Retire Code	Barg Unit	Location	Salary Sched	Range & Steps	Budgeted Months	Split / Annual Count	Annual Salary	COLA	Premium Pay	Annual Benefits	Total Costs
10-#075	Natural Resource Off I	FT	A	GG	Anchorage	2A	14 C	9.0		26,538	426	0	11,193	38,157
Justification: HB208						Funding Detail:								
						1004	General Fund Receipts					100.00%	38,157	
						Total Funding:						100.00%	38,157	
10-#076	Natural Resource Off II	FT	A	GG	Anchorage	2A	16 D	9.0		31,656	509	0	12,242	44,407
Justification: HB208						Funding Detail:								
						1004	General Fund Receipts					100.00%	44,407	
						Total Funding:						100.00%	44,407	
10-#077	Natural Resource Tech II	FT	A	GG	Anchorage	2A	12 C	9.0		23,247	373	0	10,519	34,139
Justification: HB208						Funding Detail:								
						1004	General Fund Receipts					100.00%	34,139	
						Total Funding:						100.00%	34,139	

Component Summary:

Total New Positions: 3

Fund Description	Fund Percent	Fund Amount
1004 General Fund Receipts	100.00%	116,703
Total Funding:	100.00%	116,703

Note: If a position is split, an asterisk (*) will appear in the Split/Count column. If the split position is also counted in the component, two asterisks (**) will appear in this column.

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: 3
 Bill Version: CSHB 208(RES)
 (H) Publish Date: 3/13/02

Revision Date/Time (Note if correction): _____ Dept. Affected: Fish and Game
 Title Aquatic Farms For Shellfish BRU Commercial Fisheries
 Component Fisheries Development
 Sponsor Representative Scalzi
 Requester House Resources Component No. 1942

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services	40.0	25.0	*	*	*	*
Travel	10.0	5.0	*	*	*	*
Contractual	30.0	10.0	*	*	*	*
Supplies	5.0	3.0	*	*	*	*
Equipment	5.0	2.0	*	*	*	*
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	90.0	45.0	*	*	*	*

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	90.0	45.0				
1005 GF/Program Receipts						
1037 GF/Mental Health						
TOTAL	90.0	45.0	*	*	*	*

Estimate of any current year (FY2002) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary	2					

ANALYSIS: (Attach a separate page if necessary)

ADF&G is required to provide consultation to DNR regarding the suitability of various sites before they are offered for lease. The Mariculture Program Leader and Assistant will lead and coordinate, in conjunction with industry nominations, the selection of sites to survey as well as field activities with ADF&G regional staff, and staff from other participating agencies. To accomplish site surveys for suitability, ADF&G will conduct dive surveys on potential sites. Personnel costs include funding for a seasonal Fisheries Biologist I, certified divers associated with dive surveys and inspections at proposed aquatic farm sites, and laboratory testing of samples taken from the sites. Travel costs include per diem and transport of department staff, including certified divers, to proposed and existing farm sites. Contractual costs include vessel time to conduct surveys and

Prepared by: Doug Mecum
 Division: Director
 Approved by: Gordy Williams for Commissioner Frank Rue
 Agency: Fish and Game

Phone 465-6100
 Date/Time 3/5/02 3:15 PM
 Date 3/5/2002

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

BILL NO. CSHB 208 (RES) - FN#3

ANALYSIS CONTINUATION

inspections of proposed farm sites, and laboratory work for the analysis of water quality samples and PSP and Domoic Acid analysis for growing area certifications. Supplies include materials necessary for dive surveys, scientific supplies and data processing supplies, and assistance with regional mariculture plan development.

Additional time and funding needed to complete the work associated with identification of new areas in FY 2004 are roughly estimated at 50% of the FY 2003 costs.

* There will also be increasing costs associated with any large increases in mariculture permitting and support. Many services, such as water quality and product testing, currently provided at little or no cost to aquatic farm operators by various state facilities, resources, and personnel, will probably not be fiscally possible as the number of mariculture operations increases, unless funding is provided. These are essential to meet statutory requirements. Since such impact is completely contingent on the number of new farms and the size of the farms, these costs are impossible to estimate. This fiscal note merely identifies the likelihood of additional long-term costs.

NOTE: ADFG Division of Habitat and Restoration has also submitted a fiscal note.

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: 4
Bill Version: CSHB 208(RES)
(H) Publish Date: 3/13/02

Revision Date / Time (Note if correction): _____ Dept. Affected: ADF&G
Title: Aquatic farms for shellfish BRU: Habitat and Restoration
Component: Habitat
Sponsor: Representative Scalzi
Requester: House Resources Component No.: 486

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services	65.5	33.0	*	*	*	*
Travel	5.0	2.5	*	*	*	*
Contractual	2.0	1.0				
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	72.5	36.5	*	*	*	*

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	72.5	36.5	*	*	*	*
1005 GF/Program Receipts						
1037 GF/Mental Health						
Interagency Receipts from DNR						
TOTAL	72.5	36.5	*	*	*	*

Estimate of any current year (FY2002) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal:

POSITIONS

Full-time	1					
Part-time						
Temporary	2					

ANALYSIS: (Attach a separate page if necessary)

CSHB 208 (FSH) creates a one-time offering of at least 90 aquatic farm sites for lease.

In addition to the requirements in the bill, the requirements of other State and Federal statutes may affect sites that could be offered. These may include, but are not limited to, the Alaska Coastal Management Plan, District Plans, legislatively designated areas statutes and regulations, and 16.40.100-199 which requires that the physical and biological characteristics of a site be suitable for shellfish farming, that a farm site not require significant alterations in traditional fisheries or other existing uses of fish and wildlife resources, and may not affect fisheries, wildlife or their habitats [cont]

Prepared by: Chip Dennerlein Phone 465-3065
Division: Habitat and Restoration Date/Time 3/5/02 12:30 PM
Approved by: Gordy Williams for Commissioner Frank Rue Date 3/5/2002
Agency: Fish and Game

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

BILL NO. CSHB 208(RES) - FN#4

ANALYSIS CONTINUATION

in an adverse manner. ADNR aquatic farm statutes and guidelines have specific requirements for such things as avoidance of eagle nests, marine mammal and seabird rookeries, and commercial seining areas. ADF&G maintains this information.

Identifying and evaluating 90 permittable lease sites will require intensive effort and additional staff will be needed. A Habitat Biologist III is needed to work with ADNR, ADEC, and ADF&G CFMD to identify potential lease sites. Existing fish and wildlife, habitat and public use data on sites will be collected and evaluated. Potential lease sites will be identified and surveyed in the field to determine suitability. The biologist will: review land use plans, coordinate with ADF&G Wildlife Conservation and Subsistence Divisions, ADNR, ADOL, local governments, and federal agencies; prepare site reports; attend public meetings and hearings; and issue Special Area permits as necessary. A 3-month FT III will aid in habitat site evaluations in the field, and one month of Cartographer 2 time will be needed to enter data into the GIS system.

* Costs for administration and oversight of additional levels of mariculture activity in subsequent years may be significant, but are difficult to quantify at this time.



Alaska State Legislature

Official Business

REPRESENTATIVE DREW SCALZI

State Capitol
Juneau, Alaska 99801-1182

(907) 465-2689; (800) 665-2689

FAX: (907) 465-3472

Representative_Drew_Scalzi@legis.state.ak.us

HB 208

Aquatic Farms for Shellfish

"An Act relating to aquatic farming of shellfish; and providing for an effective date."

The mariculture industry has the potential to increase the availability of fresh seafood to Alaskans, strengthen the competitiveness of Alaskan seafood products in the world marketplace and provide a premium product year-round.

Mariculture is new to Alaska. The permitting process is complex due to the number of agencies that oversee aquatic farming, i.e., Fish and Game, Environmental Conservation, Natural Resources and Governmental Coordination. With cooperation from these entities, this industry, which has proven extremely successful in other states, can certainly enhance economic development in our coastal communities with year-round employment for farmers and processors.

In a good faith effort to encourage good relationships between government agencies and the industry, HB 208 is being introduced as companion legislation to Senator John Torgerson's SB141.

HB 208 requires the Department of Natural Resources to offer public leases on 60 suspended shellfish sites, 20 clam sites and 10 geoduck sites. These lease sites are in addition to those already permitted. Security bonds must be posted according to the value of the product on-site and will be returned upon termination of the lease. Farmers must abide by the sustained yield principle of management when harvesting the wild stock. The Commissioner of DNR must solicit nominations from industry for sites that do not interfere with established commercial, subsistence or personal use.

HB208 is the means for encouraging the state to develop another resource that will add economic diversity to our coffers -- while protecting the right of Alaskans to harvest a common property resource.

QUTEKCAK SHELLFISH HATCHERY

PO Box 369
101 Railway Avenue
Seward, AK 99664
907-224-5181 fax 224-5282
qshatch@arctic.net

February 28, 2002

Dear Representative Scalzi,

On behalf of the Qutekcaq Native Tribe and the hatchery, I would like to express our support for HB-208, and our appreciation for your sponsoring this important legislation.

The economics of coastal communities have been negatively impacted in the recent past for a variety of reasons too numerous to recount here. What's important is to look for possible solutions, and we feel the shellfish farming industry has demonstrated the potential to bring needed economic diversity to these communities. That potential is enhanced due to the fact that many of the individuals who have been hardest hit are commercial fishermen who already possess many of the necessary skills and equipment.

Over the past few years we have witnessed an increased awareness of this industry's potential in Alaska, and have managed to dispel some perceptions that draw inaccurate parallels between finfish farming and shellfish farming. We have not been as successful in streamlining the permitting process in a way that will allow the industry to reach the "critical mass" necessary to support the hatchery as our research nears completion and the funding for that research needs to be replaced by marketing the developed product.

We recognize that there is no magic wand, and that the proper course for our industry is incremental and steady improvements in regulation and understanding, and in further demonstrating the economic benefits of the industry. This legislation represents an important step along that course of improvement by making available sites that will increase our customer base. We are cognizant that some investment in the form of agency budgets will be necessary on the State's part to make this legislation work, but are confident that we can provide returns over time on that investment many times over.

Thank you for your support and best regards,

Ron Long,
Director

Letters of Support



Rodger Painter, vice president
P.O. Box 20704 Juneau, AK 99802
Phone/Fax: (907) 463-3600
rodgerpainter@hotmail.com

February 11, 2002

Senator John Torgerson
State Capitol, Room 427
Juneau, AK 99801-1182

Dear Senator Torgerson:

After carefully considering your comments on our proposed "aquaculture development zone" concept, we have decided that your approach on Senate Bill 141 is superior. We'd like to work closely with you and Rep. Scalzi in getting the legislation approved this session.

There is one amendment to SB 141 that we believe is vital to accomplishing the intent of the legislation: removal of the section on lease valuation. Here's the language we'd like to have deleted:

In determining the fair market value of a lease for an aquatic farming site where shellfish indigenous to the site are cultured, the department shall consider the value of the harvestable shellfish resource on the site and the potential productivity of the site for cultured shellfish.

Here's our rationale for removal of the language:

- Adoption of regulations by ADF&G subsequent to development of SB 141 has effectively rendered this section moot. Under current ADF&G procedures, the harvestable "standing stock" of native shellfish on an aquatic farm site must be harvested under commercial fishing permits prior to transfer of the site to the applicant. In addition, ADF&G policies prohibit applicants from obtaining sites with significant numbers of wild geoducks. Insertion of this language could confuse the validity of these practices.
- SB 141 also contains language codifying current ADF&G regulations and permit conditions requiring growers to replace standing stocks prior to relinquishing the site. The practical effect of putting both sections into law would be to require growers to pay for standing stocks twice, in addition to paying the state the same fisheries business tax rates of commercial fishermen AND lease fees for use of state land and waters.
- The existing language could create concerns for growers attempting to farm mussels and other species not subject to commercial fisheries. If the shellfish is not subject to commercial fisheries and we have a great abundance of the species, the state shouldn't create disincentives for utilizing surplus natural resources.
- The final clause of the section includes "potential productivity of the site" as a reason for increasing lease valuations. ASGA has objected strongly to this

language in ADF&G regulations and we will seek to have it removed when a more friendly administration takes office. The "potential productivity" of a site is an extremely elusive concept that is extremely troublesome for the industry.

- Alaska already has some of the highest tidelands lease fees for aquatic farm sites of any jurisdiction in North America, and we have been attempting to convince DNR to bring them more in line with our competitors. The existing language in SB 141 has the potential for increasing existing lease fees and moving us away from our goal.

After discussing your intent behind SB 141, we have become convinced it is a very good approach to moving the industry forward. DNR confirms the sites will remain "in the bank" following the initial offering and that it is possible to obtain annual offerings or even an over-the-counter approach. DNR also says it will be possible to divide a large site between two or more applicants.

We were unaware of these attributes of the state's land disposal process. We appreciate your vision in putting together this package and apologize for taking so long to get solidly behind the legislation. We look forward to working with you and Rep. Scalzi in getting SB 141 approved during this legislative session.

Sincerely,

Rodger Painter

c.c. Rep. Drew Scalzi
Sen. Robin Taylor
Rep. Lesil McGuire



Rodger Painter, vice president
P.O. Box 20704 Juneau, AK 99802
Phone/Fax: (907) 463-3600
rodgerpainter@hotmail.com

February 20, 2002

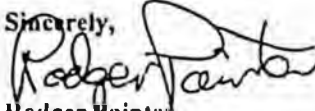
Honorable John Torgerson
State Capitol, Suite 427
Juneau, AK 99801-1182

Dear Senator Torgerson:

Your efforts to create a "bank" of aquatic farm sites are greatly appreciated by aquatic farmers throughout the state. The committee substitute for SB 141 you have developed has made good bill even better, and we are enthusiastic about working with you to move it through the process this year.

We are particularly grateful for the changes in the committee substitute. We believe SB 141 represents a wise investment in creating new economic development opportunities in coastal Alaska with the use of one of the state's most abundant natural resources. What a better way to bolster the sagging economies of coastal regions than promote an environmentally friendly industry supporting year-round jobs.

We believe this approach to aquaculture development may become a model for the rest of the country. We again thank you.

Sincerely,

Rodger Painter
Vice President

STATE OF ALASKA

TONY KNOWLES, GOVERNOR

DEPT. OF ENVIRONMENTAL CONSERVATION

DIVISION OF ENVIRONMENTAL HEALTH
DIRECTOR'S OFFICE
555 CORDOVA STREET
ANCHORAGE, ALASKA 99501
<http://www.state.ak.us/dec/deh>

Telephone: (907) 269-7644
Fax: (907) 269-7654
e-mail: Janice_Adair@envircon.state.ak.us

March 1, 2002

The Honorable Drew Scalzi
Alaska House of Representatives
Room 13, Capitol Building
Juneau, AK 99801

Re: HB 208, an Act relating to aquatic farming of shellfish

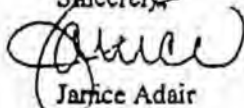
Dear Representative Scalzi:

Enclosed please find a copy of a letter I recently sent to Senator Torgerson regarding SB 141 which, as you know, is the companion bill to yours referenced above.

Although the Department of Environmental Conservation (DEC) has now submitted zero fiscal notes on both pieces of legislation, it is important that everyone understand that any shellfish sites must be certified by DEC under the National Shellfish Sanitation Program (NSSP) before the product can be sold in commerce. We are required by both state law (AS 17.20.005(6)) and federal law to comply with the NSSP. There are significant costs associated with certification, some of which are currently borne by the farmers themselves. The rest is covered in DEC's operating budget. Should either of these bills pass, down the road there will be increased costs to DEC for this certification. In the interest of full disclosure, I wanted you and the rest of the committee members to know that.

I do not plan to be on line for the hearing on HB 208 unless you'd like me to be available to answer questions, which I would be happy to do. You or your staff can reach me at 269-7644 or via email at Janice_Adair@envircon.state.ak.us to let me know.

Sincerely,



Janice Adair
Director

Enclosure:

- Letter to Senator Torgerson dated February 28, 2002

Safe Food, Safe Water, Healthy Communities

DEC Comments

STATE OF ALASKA

TONY KNOWLES, GOVERNOR

DEPT. OF ENVIRONMENTAL CONSERVATION

DIVISION OF ENVIRONMENTAL HEALTH
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Fax: (907) 269-7654
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February 28, 2002

The Honorable John Torgerson
Chairperson, Senate Resources Committee
Room 427, Capitol Building
Juneau, AK 99801

Re: SB 141, Shellfish Growing Areas

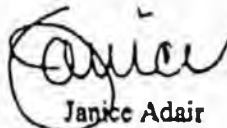
Dear Senator Torgerson:

I have had a chance to discuss the above-referenced legislation with Rodger Painter with the Alaska Shellfish Grower's Association. As you know, we did include a fiscal note on this bill because we interpreted "suitable" to mean certified under the National Shellfish Sanitation Program (NSSP).

While the definition of "suitable" was not discussed in any of the testimony on the bill that I heard, Rodger did point out some very legitimate problems with certifying an area so early in the process. Therefore, I will be submitting a zero fiscal note on the committee substitute when it arrives in the Senate Finance Committee. Certification under the NSSP normally takes place shortly before commercial harvesting begins. Although the industry currently pays for a part of the cost to certify growing areas and we would expect that to remain the case, there will be an increased cost to the department when certification of growing areas is required. However, from talking with Rodger, I believe those costs will be incurred after the time frame covered by the fiscal note form.

I hope our misunderstanding of the bill and the resultant fiscal note did not cause you any undue problems in moving this legislation, and please accept my sincere apologies if it did.

Sincerely,



Janice Adair
Director

cc: Michele Brown, Commissioner

Safe Food, Safe Water, Healthy Communities

Why Clam Farming?

Alaska has enormous potential as a supplier of littleneck clams, often called steamer clams, to the seafood market. Past and current efforts to develop a commercial fishery on the abundant clam resources of Alaska have resulted in limited harvest caused by logistics and economic problems associated with managing the fishery. At present, only Kachemak Bay has a commercial harvest of littleneck clams, and because of depleted stocks, the fishery is limited to only 25,000 pounds annually.

The topic of clam farming in Alaska first appeared as an agenda item at the 1987 4th Alaska Sea Grant Aquaculture Conference. With high worldwide consumer demand for steamer clams and short supply of littleneck clams for the Alaska seafood market, new and existing farms are eager to pursue clam farming.

In 1991, Alaska's original clam farmers were allowed to harvest clams only under commercial fisheries regulations of the Alaska Department of Fish and Game (ADF&G). The first official clam farms were permitted in 1993. Expecting broader interest in clam farming a conference, titled Broadening Shellfish Farming Opportunities in Alaska, was sponsored in 1996 by the ADF&G, the Alaskan Shellfish Growers Association, and the University of Alaska Marine Advisory Program. The purpose of the conference was to begin development of a regulatory program for on-bottom aquaculture in Alaska. At the conference, ADF&G representatives issued a clear statement that the department did not have the resources to manage a commercial clam fishery beyond that existing in Kachemak Bay and favored development of clam farming.

By the end of 1997, three aquatic farmers have obtained tidelands leases to farm littleneck clams in southeastern Alaska. Their combined 1998 harvest was 35,014 pounds of clams worth nearly \$87,535.

What is Clam Farming?

Farming clams requires application of well established farming practices to an existing clam population that will increase the beach productivity and allow for a sustained harvest of the enhanced clam population. In Alaska, farming activities include:

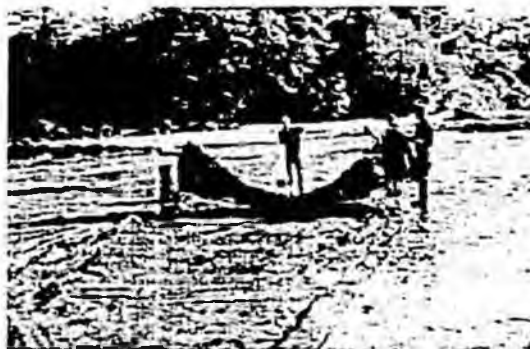
1. Regular inventories of standing stock and determination of the size composition of the clams.
2. Optimizing growth and production of clams by controlling their density by harvest planning, redistribution of seed from overstocked parts of the bed, and/or planting hatchery produced clam seed.
3. Reducing clam mortality by appropriate use of predator exclusion netting.
4. Maintaining the beach free of major deposits of large debris and improving the substrate quality.
5. Harvesting clams to maximize their value and marketability.
6. Complying with the required Alaska Department of Environmental Conservation water quality testing program, and marine toxin certification of farmed product.

Performance of these farming activities, is far beyond what is required of a commercial clam harvester.

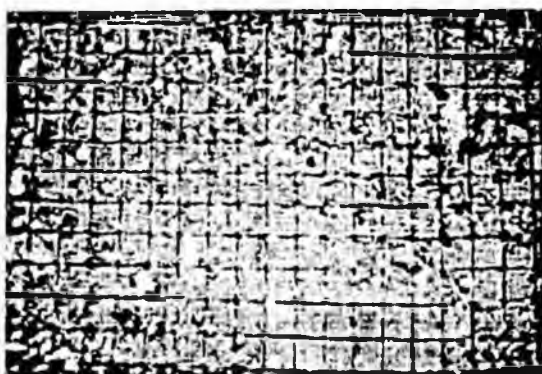
What is a clam farm? A pictorial tour



Clam farming may require application of predator exclusion netting. In this picture, a trench has been dug to anchor the margins of the net.



Predator exclusion netting is rolled out over the prepared plot.



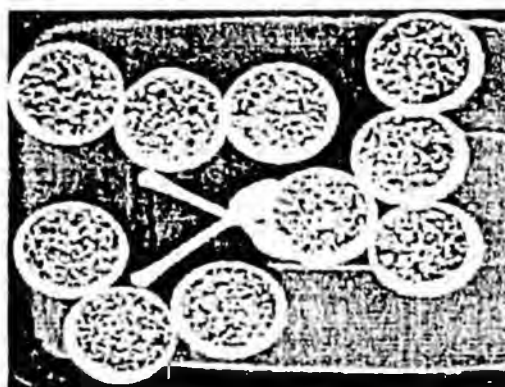
Predator netting is about 1" square mesh. It is not intended to exclude all predators. Crabs and starfish are the farmers primary concern. Birds can feed through the netting



Predator nets anchored and ready for seeding clams.



The farm plot after a few months. Predator netting is partially covered by sediment and algae growth.



Measured quantities of clam seed ready for planting the farm.



Planting clam seed over the netting. Clams are smaller than the net mesh and will dig themselves in as the tide covers them.



In Alaska, clam harvesting is done by hand.

Impacts of clam farming

Environmental (Statements in parenthesis are editorial comments needed for clarification).

Mojica, R. and W.G. Nelson. 1993. Environmental effects of a hard clam (*Mercenaria mercenaria*) aquaculture site in the Indian River Lagoon, Florida. *Aquaculture*. Volume 113, page 326.

- "Measurements of water column nutrients and chlorophyll concentrations gave no indication of changes..."
- "sediment differences were not associated with significant changes in benthic dwelling organisms."
- "Differences in mobile macrofauna were minimal ..." (between aquaculture and natural sites)

Spencer, B.E., M.J. Kaiser, and D.B. Edwards. 1997. Ecological effects of intertidal Manila clam cultivation: observations at the end of the cultivation phase. *Journal of Applied Ecology*. Number 34. Page 451.

"Our results suggest that the biotic and abiotic changes caused as a result of clam cultivation are relatively benign compared to other forms of marine cultivation..."

Kaiser, M.J., I. Laing, S.D. Utting, G.M. Burnell. 1998. Environmental impacts of bivalve mariculture. *Journal of Shellfish Research*. Volume 17. Number 1. Page 63.

"...the benthic community within dredged plots was indistinguishable only 3 months after harvesting regardless of the scale of disturbance..."

Brooks, K. 1996. Intensive clam culture and the environment. Proceedings of the conference: Broadening Alaska's shellfish farming opportunities: A conference and workshops focusing on public issues involved with the development of on-bottom culture of indigenous shellfish. University of Alaska Marine Advisory Program, Anchorage, Alaska. Page 41.

"Of all the forms of aquaculture, intertidal shellfish culture is undoubtedly the most benign. If you minimize encroachment on eel grass beds and find effective methods of predator control, the several hundred pages of literature reviewed in preparing this talk suggest only positive environmental affects associated with either intensive clam or oyster culture."

Economic impacts

The current commercial harvest limit for littleneck clams in Kachemak Bay is 40,000 lbs. Local management has set the commercial harvest at 25,000 lbs having a market value at \$2.50/lb or \$62,500. Actual 1998 harvest was less than 20,000 lbs.

An aquatic farm can produce, with predator protection and seeding, about 10 times the biomass of clams as a natural population. By any definition, this level of production increase would be considered enhancing the clam population of the beach.

Aquatic farming in can produce an estimated conservative production of 12 harvestable clams per square foot per year. From a 10 acre plot, the annual harvest would be 435,000 lbs. worth approximately \$1.1 million.

What is the market?

Homer

- Lands End during the summer buys 6,000 lbs and had indicated that they could sell more than 20,000 lbs if more clams were available.
- His Catch Seafood, Homer, Alaska indicated a sales potential of over 40,000 lbs. annually.

Anchorage

- Favco, Anchorage's largest seafood wholesaler, estimates the Anchorage market demand for littleneck clams at over 1,000,000 lbs. annually.

Western Region of U.S. (Aquaculture situation outlook, Western Regional Aquaculture Center)

- "In 1997, it is estimated that over 5.4 million pounds of clams were produced at an estimate of over \$13.7 million." Farmers are converting oyster production into clam farms, and by 2002 production will increase to 7.7 million pounds

United States

- The long term trend (1988-1998) for clam landings showed an overall decrease, however, imports have increased.

Export market

- The long term trend of clam exports (1988-1998) have shown an increase of 196.16% from 661 metric tons to 1,958 metric tons.
- Recently, exports of clams have been somewhat variable depending on the economic circumstances in Asia. In 1998 exports rose 8% while in first half of 1999, exports declined by 15%. We do know, however, that water quality in Asia is a great concern, and shellfish grown in clean water will have an economic advantage.

Effect clam farming on other clam fisheries in Alaska

- There is no littleneck clam fishery outside of Kachemak Bay
- The Kachemak Bay clam commercial fishery is very limited
- In a hearing before the Alaska Legislature: House Resources Standing Committee Mr. Kevin Duffy, acting deputy director of the ADF&G Division of Commercial Fisheries Management and Development was asked by Representative Harris.

Rep Harris: "Is there anything about this industry that has a negative effect on any other seafood industries that it works around or that it's processed around?"

Kevin Duffy: "The clear answer to that is no."

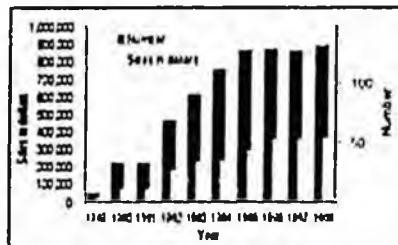
Shellfish Mariculture in Alaska: Economic Opportunity for Coastal Residents

Rodger Painter - ASGA
 Bob Hartley - KSMA
 Ron Long - Qutekcaq Shellfish Hatchery
 Jon Agosti - Qutekcaq Shellfish Hatchery
 Raymond ReLonde - UAF/Marine Advisory Program
 February 21, 2001

Where are the farms located?



Production of Alaskan Oysters



Constraints to Aquatic Farming in Alaska

- Negative regulatory climate
- High cost of doing business in rural Alaska
- Lack of infrastructure
- Slower growth rates than competitors
- Lack of investment capital
- Research and development hampered by lack of governmental support

Examples of ADF&G Regs

- Applicants must file a development plan showing by quarter over a ten-year period the amount of seed planted, number of shellfish harvested, gear deployed and number of employees.
- Farmers must demonstrate to ADF&G "increases in productivity" over natural levels before harvesting a crop including natural recruitment.
- Standing stocks of native shellfish must be harvested under common property fisheries before a site is transferred to an aquatic farmer even if there are no fisheries for the target species.

Where Alaska's Aquatic Farm Dollars Go?

(as a percentage of gross annual revenue)

Local Economy (Prince of Wales Island)	53%
Region (Southeast, including POW)	74%
State Treasury (lease fees, taxes, licensing)	3.6%
Alaska	96.6%

Source: Based upon 2001 expenditures of Tenesse Pass Shellfish Company, an oyster and clam farm located on Prince of Wales Island.

Economic Spin-offs of Shellfish Farms

- Services (fuel, groceries, supplies, welding, outboards, etc.)
- Shellfish Nurseries (513,000 net production seed)
- Processing (Previous year round flow of product)
- Air Service (My farm has hauls 600-1,000 lbs/week)
- Revenue Sharing (Farms pay Fisheries Business Tax)
- Employment (My farm employs 4 on a year-round basis)

Economic Impact

\$20,000 gross revenues per acre for Alaska oyster and clam farms

(Based upon performance of 8-acre B.E. and 1-acre Kachemak Bay farms over a five-year period.)

At this rate, Alaska would require only 5,000 acres of coastline to create a \$100 million industry!

Kachemak Shellfish Growers Cooperative

- Cooperative provides
 - Shellfish nursery for optimum size and quality of seed for farmers.
 - Security for fishermen while absent from the farm.
 - Cooperative marketing assures year around market for those who need a flexible harvest schedule.



Commercial Fishermen and Farming

- 16 Active farms in Kachemak Bay
- 12 farms operated by current or former commercial fishermen
 - 8 active

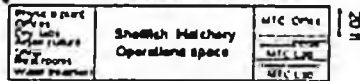


Qutekcak Shellfish Hatchery The nuts and bolts

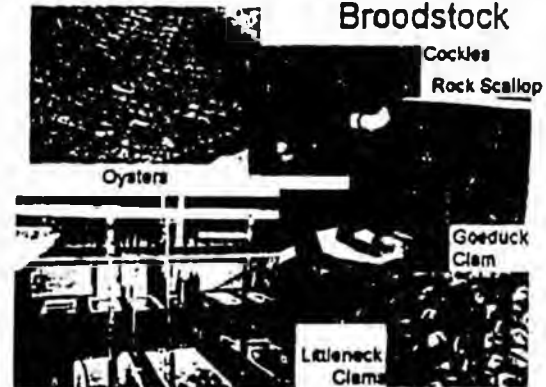
- Hatchery (background)
 - State-of-the-art
 - 8,370 m² capacity
 - Highly treated water
 - Easy access
 - Integrated plumbing
 - Heat recovery
 - Sterilized effluent
- MTC research center
- Nursery pond (foreground)
 - Initial seed rearing



Floor Plan 26 ft



Broodstock



Algae Culture

- Live algae needed to feed
- Broodstock
 - Larvae
 - Seed



Shellfish Larva Culture

- 18,000 liter larva tanks hold in excess of 40 million larva
- Larva fed live cultured algae for three weeks



Shellfish larva - 1x mm



Larva Setting

- Larva placed in upwelling tanks at - 0.25 mm
- Larva set and develop into adult form
- Reared in tanks to 2-3 mm
- Removed to nursery



Seed "Spat"



Qutekcak Shellfish Hatchery An Investment for the Alaskan Economy

- \$3.2 million facility
- Produces seed of oysters and indigenous species
- EDD study 1993 primary goal identified to control seed supply.
- Five year bumpy startup exceptional for a hatchery
- Non-state investment over 5 years of \$1.4 million



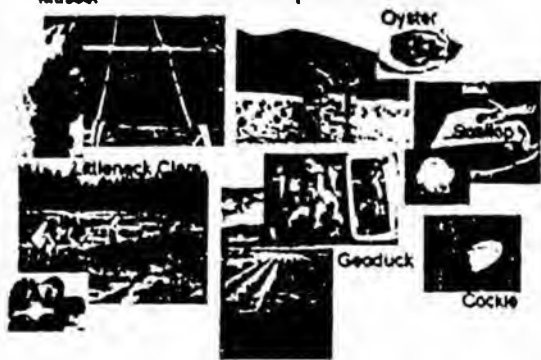
What the Hatchery Needs to Succeed

- Bottom line: We need customers in the form of permitted farms
- Enhancement opportunities for depleted stocks
- Technology does not pay the bills.
- Supporting statutes and regulations
- SB-141/HB-208

"Seeding" a Clam Plot

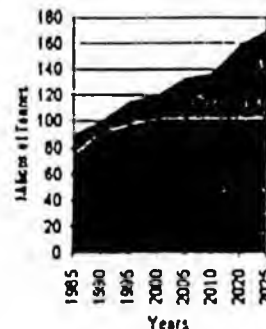


Mussel Shellfish Aquaculture

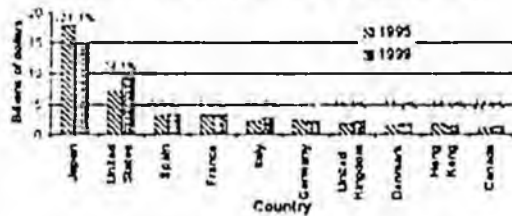


An Aquaculturist View

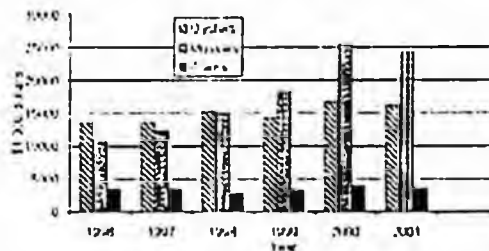
- Captured fisheries are at or near their maximum level
- Consumer demand will continue to increase
- Aquaculture is required to make up the difference
- Aquaculture is the US fastest growing agriculture sector



Seafood Imports By Country

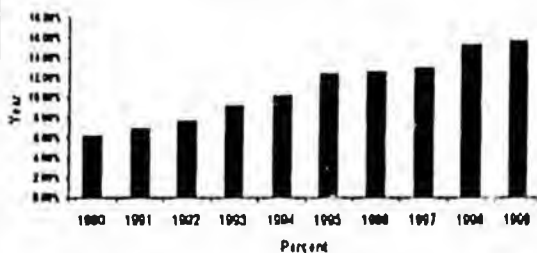


Imports of Bivalve Shellfish Into the United States

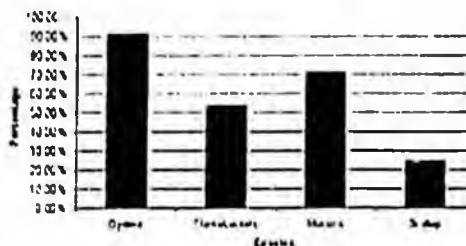


Total US production in 1998 589 million

Percentage of Farmed Marine Fish Compared to the Commercial Fishery Harvest

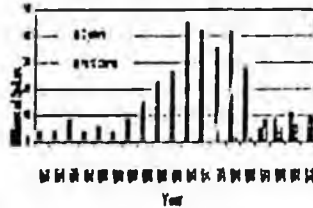


Farmed Shellfish as a Percentage of the Commercial Fishery Harvest



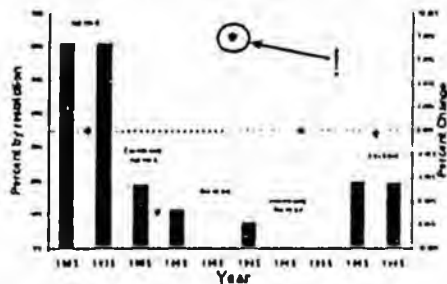
Connecticut

- \$60 million farmgate
- 600 jobs
- 52,000 acres of oyster farms
- Using the standard multiplier \$200 million contribution
- Challenges with disease in recent years
 - Prospects good for future
 - Clam production added



The massive upswing 1982-1992 was due mainly to \$4 million investment public funds

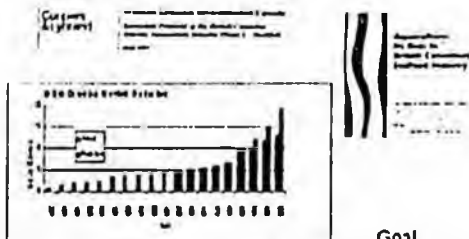
Water Quality



Alaska has zero (0) acres of restricted shellfish growing areas

British Columbia

British Columbia's Shellfish Farming Initiative



Goal
\$100 Million Dollar Industry
By 2006

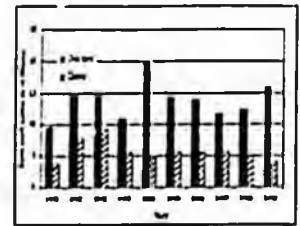
Shellfish Quality, Marketing, and Safety Program

- USDA/CREES grant "Alaskan Shellfish Quality, Safety, and Markets"
 - \$132,712 over two years
- Support of alternative PSP testing research
 - In-kind sampling for ASTF projects
 - Conferences in 1999, 1999, 2001
 - Current Sea Grant project \$46,000 over two years
 - ASTF funded marketing program



Washington

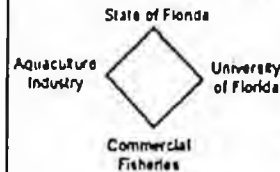
- Production has leveled
 - Little room for expansion
 - Concentration on shucked oyster meat
 - Water quality concerns that reduce rearing areas
 - Seasonality of sales
 - Few off-shore areas for growing high valued halfshell oysters



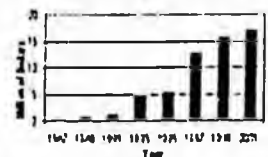
Florida Clam Farming

- Statewide in 1998
 - 1,440 acres of farms
 - 50 nurseries
 - 300 growers
- Cedar Key Florida
 - 50 million clams
 - Average farmer clears \$30,000 annually
 - \$7.5 million annually to the local economy

Partnerships That Work



Florida Clam Production



Significant Developments in Alaska

Oyster Broodstock

Nursery products



Growout research

Education and Training

Conferences



What Alaska Has to Offer

- Impressive biological advances
- Alaska's pristine environment
- We have tidelands available
- Expertise is growing
- Reputation for exceptional quality and safety
- University with fisheries and oceanography
- Consumer demand far greater than supply

What Alaskan Shellfish Farming Needs

- Regulatory relief with permit application and review
 - Shellfish farming is diligent use of tidelands
 - Shellfish aquaculture is environmentally responsible
 - Policies and regulations must be developed that
 - Reduce conflict
 - Clarify regulations
 - Modify the application
 - Increase efficiency
- Develop partnerships
 - University of Alaska - Research
 - Investment capital that comes with regulatory reform
 - Cooperative regulatory agencies
 - Support of Alaskan economic interests

Summary Of Current and Future Initiatives

Funded (\$425,000)

- November 2001- Conference (Environmental effects of on-bottom aquaculture) (ADF&G, PAC, SEA GRANT, MAP, ASGA)
- 2000-01- Little Neck clam culture field research (ASTP)
- 2000-02- Environmental codes of practice (Alaska Conservation Foundation)
- 2002-04- Scallop culture field research (Sea Grant)
- 2002-04- Cockle culture research (SBIR)
- 2001-2004- Prince of Wales Island aquaculture development program (CES, PRF, Sea Grant)
- 2002-03 Shellfish marketing study USDA/CREES

Proposed (\$260,000)

- 2002+ - University of Alaska Initiative

Analysis of ADF&G Fiscal Notes for CSHB208

On-site Investigations

The fiscal notes for Com Fish and Habitat both assume that the agencies will conduct on-site investigations. ADF&G rarely conducts on-site investigations of mariculture sites during the regular application process. Applicants are expected to provide enough information to evaluate the sites.

The Alaskan Shellfish Growers Association (ASGA) and the UA's Marine Advisory Program already is assessing potential sites on Prince of Wales Island, and industry plans to survey areas in Prince William Sound this summer if the lease program is authorized. ASGA also plans to work closely with DNR to identify previously permitted sites and other areas where environmental and oceanographic data already has been collected. The University also is actively researching sources of environmental data that can be utilized in the process.

Some Questions for ADF&G

- Why is this process so different than scheduled openings?
- Won't industry and communities nominating sites be asked to provide site-specific information?
- Sixty of the 90 sites are for suspended culture operations. Has ADF&G ever visited proposed suspended culture sites in the past?
- What is the daily cost of an ADFG vessel?

Laboratory Tests

The Com Fish note includes laboratory costs for conducting water quality and PSP tests of sites. DEC zeroed out its fiscal note because the testing isn't necessary for the lease sale. Why is ADF&G proposing to conduct these same tests?

Timelines

DNR plans to initiate the legislation by hiring new personnel, a process expected to take three months. The next step would be to solicit nominations for the 90 sites, a process expected to take another three months. Consequently, FY2003 will be half gone before candidate sites will be identified. Yet, Habitat's note funds a Habitat Biologist III for all of FY2003.

Is ADF&G Guaranteeing a Permit will be Issued?

Critical in examining ADF&G's fiscal notes is the determination of whether the agency is prepared to automatically issue operating permits to all successful bidders. Or, will the agency reserve the right to reject applications and require case-by-case determinations through the coastal zone management process? DNR is prepared to issue leases immediately upon accepting a successful bid, but ADF&G is not prepared to follow suit. If this is the case, ADF&G's notes should support a review process that is designed to simply screen the sites for potential conflicts and environmental problems. Under this scenario, funds for on-site surveys, travel and personnel costs should be reduced significantly.

Recommended Funding Levels

Comm Fish		
Operating Expenditures	FY 2003	FY 2004
Personal Services	20	20
Travel	5	2
Contractual	0	0
Subtotal	25	22

Habitat		
Operating Expenditures	FY 2003	FY 2004
Personal Services	33	0
Travel	2.5	0
Contractual	0	0
Subtotal	35.5	0

TOTALS 60.5 22

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