

ALASKA LEGISLATURE COMMITTEE FILES 1997-1998 00/2

9530 SENATE HEALTH EDUCATION & SOCIAL SERVICES

FISCAL NOTE

STATE OF ALASKA
1997 LEGISLATIVE SESSION

BILL NO. SB 189

Revision Date: _____
 Title: Education Loan Repayment
Eligibility; Occ Licensing
 Sponsor: Senate HES
 Requestor: Senate HES

Department Affected: Labor
 BRU: Workers' Compensation
 Component: Workers' Compensation

COMPONENT SERIAL NO. 344

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES	18.0	9.0	9.0	9.0	9.0	9.0
TRAVEL						
CONTRACTUAL	10.5	0.9	0.9	0.9	0.9	0.9
SUPPLIES	0.4	0.2	0.2	0.2	0.2	0.2
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	28.9	10.1	10.1	10.1	10.1	10.1

CAPITAL						
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CHANGE IN REVENUE						
FUND SOURCE #						

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipt						
1006 GF/MHTIA						
1007 Interagency Receipt	28.9	10.1	10.1	10.1	10.1	10.1
TOTAL	28.9	10.1	10.1	10.1	10.1	10.1

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY97) impact: \$ None

ANALYSIS: (Attach a separate page if necessary)

This legislation gives the Commission on Postsecondary Education (Commission) authority to collect certain workers' compensation benefits due an injured worker who has defaulted on an education loan. Section AS 14.43.147 appears to apply to workers' compensation payments and grant authority to the commission to obtain those payments. This legislation will require additional clerical time for the Workers' Compensation Division as attached:

Prepared by: Paul Grossi, Director *Paul Grossi* Phone: 465-2790
 Division: Workers' Compensation Date: 4/30/97
 Approved by Commissioner: Tom Cashen, Commissioner *Tom Cashen*
 Agency: Department of Labor Date: 4/30/97

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Analysis:

The Post Secondary Education Commission estimates approximately 17,000 student loans are currently in default. This legislation will require additional clerical time and costs for the Workers' Compensation Division as follows:

Each request for workers' compensation benefits payable would need to be researched and verified. It is anticipated based on the number of existing student loans currently in default the first year would require 6 months of an Administrative Clerk III time. Response letters to requests to claimant will need to be prepared advising insurers and employees of the potential impact to compensation benefits. Programming and procedures would need to be developed to respond to match up request with workers' compensation claim files. Additional mailings and reports may be required.

One month programming time will be required to meet bill requirements.

Line 100 Personal Services

50% of 1 Administrative Clerk III
(1st year, 25% subsequent years)

Salary	12.2
Benefits	<u>5.8</u>
	18.0

Line 300 Contractual Services

DP Programming (FY98 one time)	5.0
Postage	3.2
DP Operations one time overhead	0.4
Printing form letters	0.5
Indirect @ 8% salary	<u>1.4</u>
	10.5

Line 400 Commodities

Office Supplies	0.4
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Total	<u>28.9</u>
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FISCAL NOTE

STATE OF ALASKA
1997 LEGISLATIVE SESSION

BILL NO. SB 189

Revision Date: _____
 Title: Education Loan Repayment
Eligibility; Occ Licensing
 Sponsor: Senate HES
 Requestor: Senate HES

Department Affected: Labor
 BRU: Labor Standards & Safety
 Component: Mechanical Inspection

COMPONENT SERIAL NO. 346

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES	9.0	9.0	9.0	9.0	9.0	9.0
TRAVEL						
CONTRACTUAL	5.8	2.5	2.5	2.5	2.5	2.5
SUPPLIES	0.4	0.4	0.4	0.4	0.4	0.4
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	15.2	11.9	11.9	11.9	11.9	11.9

CAPITAL						
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CHANGE IN REVENUE						
FUND SOURCE #						

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipt						
1006 GF/MHTIA						
1007 Inter-Agency Receipt	15.2	11.9	11.9	11.9	11.9	11.9
TOTAL	15.2	11.9	11.9	11.9	11.9	11.9

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY97) impact: \$ None

ANALYSIS: (Attach a separate page if necessary)

(SEE ATTACHED)

Interagency Receipts: RSA with Department of Education, Postsecondary Education Commission

Prepared by: Alan W. Dwyer, Director *Al Dwyer* Phone: 465-4855
 Division: Labor Standards & Safety Date: 4/30/97

Approved by Commissioner: Tom Cashen, Commissioner *Tom Cashen*
 Agency: Department of Labor Date: 4/30/97

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ANALYSIS:

This legislation will require additional administrative and clerical time and costs for the Mechanical Inspection component as follows:

- 1) When individuals apply in person for new or renewal certificates of fitness at any of five offices (Anchorage, Juneau, Fairbanks, Sitka, and Kenai), the estimated increase in processing time will be 30 minutes per individual who is in non-compliance with an Alaska student loan. This does not include testing, proctoring, scoring or discussion of tests.
- 2) Renewal letters are mailed out monthly. New programming, different procedures, forms, and additional mailing and reporting costs will be incurred to provide the "temporary" renewal letters and to answer phone calls regarding the change.
- 3) Additional time will be required to process the releases and the permanent certificates, as individuals submit those to our office.
- 4) Two weeks programming time will be needed to respond to the bill's requirements.

Line 100 - Personal Services

25% of 1 PFT Admin Clerk II (PCN 07-4543)

Salary	6.1
Benefits	2.9
Subtotal	9.0

Line 300 - Contractual Services

Professional Services - DP Programming (FY98 one-time)	3.1
Postage @ \$2.52 x 2 x 5,650 x 5%	1.4
Printing - forms, notices, letterhead	0.1
DP Operations Overhead (FY98 one-time)	0.2
Phone Base & Long Distance	0.3
Indirect @ 8% of salaries	0.7
Subtotal	5.8

Line 400 - Commodities

Office Supplies	0.4
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TOTAL **15.2**

FISCAL NOTE

STATE OF ALASKA
1997 LEGISLATIVE SESSION

BILL NO. SB 189

Revision Date: _____
 Title: Education Loan Repayment
Eligibility; Occ Licensing
 Sponsor: Senate HES
 Requestor: Senate HES

Department Affected: Labor
 BRU: Employment Security
 Component: Employment/Unemployment Services
 COMPONENT SERIAL NO. 1807

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL						
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CHANGE IN REVENUE						
FUND SOURCE #						

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipt						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY97) impact: \$ None

ANALYSIS: (Attach a separate page if necessary)

(SEE ATTACHED)

Prepared by: Rebecca Nance, Director *R. Nance* Phone: 465-2711
 Division: Employment Security Division Date: 4/30/97

Approved by Commissioner: Tom Cashen, Commissioner *Tom Cashen*
 Agency: Department of Labor Date: 4/30/97

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**ATTACHMENT
FISCAL NOTE**

Page 2 of 2

This bill would give the Alaska Commission on Postsecondary Education additional tools to collect delinquent student loans. It has three main components: a grant of authority to attach wages and benefits by notice served on employers, political subdivisions, and state departments; a provision for denying state licenses to defaulting debtors; and a set of special provisions for permanent fund dividend attachment.

Attachment of wages and benefits. This provision will not significantly impact the Employment Security Division, because unemployment insurance benefits are exempt from attachment under AS 23.20.405 and AS 09.38.015. The bill would exempt any income which is exempted under AS 09.38.

Denial of State licenses. This provision will not directly affect ESD programs.

Permanent fund dividend attachment. No ESD impact.

Fiscal impact. No ESD fiscal impact.

FISCAL NOTE

STATE OF ALASKA
1997 LEGISLATIVE SESSION

BILL NO. SB 189

Revision Date: _____
 Title: An Act relating to eligibility for and default, collection, and repayment of student loans.
 Sponsor: (S) HES
 Requestor: (S) HES

Department Affected: Administration
 BRU: Centralized Administrative Services
 Component: Finance
 COMPONENT SERIAL NO. 59

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES	0.0	0.0	0.0	0.0	0.0	0.0
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

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						
1005 GF/Program Receipts						
1037 GF/Mental Health						
OTHER						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY 97) cost: \$ 0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.) This bill would require the Department of Administration, upon notification by the Alaska Commission on Post-secondary Education, to withhold money from a person to whom the State legally owes money. We understand similar legislation has been passed in other states and at the federal level to address the issue of collecting defaulted student loans. This document is intended to respond only to those provisions of the bill relating to the Department of Administration.

From a Division of Finance perspective, this means withholding of employee pay or vendor payments to satisfy the requirements of a withholding order, and turning the withholdings over to the Commission.

Prepared by Don Wanie
 Division Finance

Phone: 465-3435
 Date: _____

Approved by Commissioner: Mark Bover
 Agency: Department of Administration

Mark Bover
 Date: 4/18/97

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Revision Date: _____
Title: An Act relating to eligibility for and default, collection, and repayment of student loans; relating to nonrenewal of certain occupational licenses for default on a student loan; and providing for an effective date.

Department Affected: _____
BRU: _____

Education
Alaska Commission on Postsecondary Education

Sponsor: Senate HESS
Requester: Senate HESS

Component: Student Loan Operations

COMPONENT SERIAL NO. 213

EXPENDITURES/REVENUES:

OPERATING EXPENDITURES	FY98	FY99	FY00	FY01	FY02	FY03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	15.1	32.8	15.0	15.0	15.0	15.0
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	15.1	32.8	15.0	15.0	15.0	15.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUE ()						
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(Thousands of Dollars)

FUND SOURCE:

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
OTHER Corp. Receipts 1022	15.1	32.8	15.0	15.0	15.0	15.0
TOTAL	15.1	32.8	15.0	15.0	15.0	15.0

Estimate of any current year (FY 97) cost: \$

POSITION:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.)

The student loan fund continues to experience an erosion of fund equity each year, primarily due to the drain of uncollectable debt and losses due to interest-free periods on loans. This legislation will establish a front-end credit assessment of loan applicants as another step towards preservation of the fund for future generations. The only assessment of an applicant's credit-worthiness currently available is a check to ensure that the applicant is not delinquent on a previously awarded State of Alaska student loan.

Please see attached page.

Prepared by: Mike Maher, Director Phone: 465-6743
Division: Student Loan Operations Date: April 26, 1997

Approved by Executive Director: Diane Barrans
Agency: Alaska Commission on Postsecondary Education Date: April 26, 1997

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ANALYSIS: (continued)

The Commission proposes that credit assessments only be done on applicants 21 years of age and older. In the event that an applicant is denied due to "chronic" bad debt, the option of obtaining a co-signer who has good credit may be available. Credit reporting agencies generally have a model which analyzes credit histories based on a number of variables. Through the use of such models, the level of credit-worthiness can be assessed on a point basis, and a tolerance level for "chronic" debt can be established

In addition, this legislation provides for administrative wage garnishment authority of wages of defaulted Alaska Student Loan borrowers who work in Alaska, either in the private sector or for state or local government employers. It also expands the licensing intervention process, which assures that defaulted borrowers seeking to renew specific licenses would be unable to do so until they have negotiated a payment arrangement with ACPE.

Section 4 amends the rate of interest charged for administrative costs of the student loan program from two and one-half percent to three percent. This change will provide for an increased rate of return on funds loaned, to offset current interest losses to the fund. This change will also have a positive impact to the loan fund of approximately \$350,000 per year, beginning at repayment (3 to 5 years out), for each loan year.

Credit assessments. The following analysis represents the loss-avoidance to the loan fund as well as the cost to ACPE of doing credit assessments.

Award year	Applications (11/1/97-7/31/98)	21 & Older	Sub-total	Cost	Total Cost
1997-98 (FY98)	6,000 A	63% B	3,780	\$4 C (per assessment)	\$15,120
Estimated Award (11/1/97-7/31/98)	\$24,000,000 D	Chronic Debtors 13% E	Loss Avoidance \$3,120,000 F		
1998-99 (FY99)	13,010 A.1	63% B	8,196	\$4 C (per assessment)	\$32,785
Estimated Annual Award	\$70,000,000 D.1	Chronic Debtors 13% E	Loss Avoidance \$9,100,000 F		

- A** The estimated number of initial loan applications ACPE expects to receive between November 1, 1997 and July 31, 1998. These dates are being used as ACPE does not expect regulations to be in effect prior to November 1, 1997. Without regulatory/statutory authority, ACPE cannot deny applications based on the credit worthiness of potential borrowers.
- A.1** About 66.5% of the total number of applications received will be from borrowers with a prior loan. The estimated number of 1998-99 loan applications (17,000) less 66.5% of the number received between November 1, 1997 and July 31, 1998 (6,000) equals 13,010.
- B** Borrowers under the age of 21 do not generally have an established credit history. This population represents 37% of ASL borrowers. ACPE does not propose to assess the credit worthiness of applicants under 21 years of age.
- C** Credit report and risk score (credit worthiness) \$3.30 + \$0.55 = \$3.85 / assessment.
- D** The estimated net amount of dollars ACPE expects to award to borrowers between November 1, 1997 and July 31, 1998. These dates are being used as ACPE does not expect regulations to be in effect prior to November 1, 1997. Without regulatory/statutory authority, ACPE cannot deny applications based on the credit worthiness of potential borrowers.
- D.1** The estimated net amount of dollars ACPE expects to award to borrowers during the 1997-98 award year.
- E** Approximately 25% of applications received will be from borrowers ACPE could classify as having questionable credit worthiness. About half of this population, or 13% could be classified as having a history of "chronic" bad credit.
- F** The estimated principal amount of dollars ACPE would not award to borrowers demonstrating a high risk of default to the ASL fund.

ANALYSIS (continued)

Administrative wage garnishment authority allows for garnishment of wages of defaulted Alaska Student Loan borrowers who work in Alaska, either in the private sector or for state or local government employers. Historical information is the basis for the following:

ASSUMPTIONS

- A. Approximately 18% (17,000-) of borrowers default on the student loans.
- B. Approximately 9% (1,500-1,600) of defaulters are employed in the public sector in Alaska.
- C. Approximately 16% (2,700-2,800) of defaulters are employed in the private sector (non-federal and non-self-employed).
- D. Based upon current loan balances in default, these 4,200-4,400 defaulters owe between \$27.6 and \$28.9 million dollars to the Loan Fund.

Administrative wage garnishment will provide for efficient collection of defaulted loans to borrowers employed in the public and private sectors in Alaska.

License Renewal Intervention authority in this bill will expand the Commission's existing ability to use the State's licensing activity as an incentive for improved repayment behavior on the part of licensees who have defaulted on their Alaska Student Loans and who continue to ignore this financial obligation to the State. While administrative wage garnishment can be used to improve collection of defaulted loans for borrowers who are employed by public and private sector employers, license renewal intervention provides a tool to compel repayment from those borrowers more likely to be self-employed as a licensee in one of the identified fields or professions.

ASSUMPTIONS

- A. Approximately 61% of borrowers live in Alaska while in repayment. Approximately 10,000 defaulters reside in Alaska.
- B. Given the numbers of defaulters known to be employed by state/local government or by private sector employers, as many as 5,600 defaulters may be self-employed and holding employment related licenses. This sector currently represents approximately \$36 million in defaulted loans.

Alaska State Legislature



Senator Gary Wilken, Chairman
Senator Loren Leman, Vice Chairman
Senator Lyda Green
Senator Jerry Ward
Senator Johnny Ellis

State Capitol
Room 510
Juneau, Alaska 99801
(907) 465-3762

Senate Committee on Health, Education and Social Services

SPONSOR STATEMENT

SB 189 – Repayment of Student Loans

Currently the default rate of the student loans issued by the Alaska Commission of Postsecondary Education is unacceptable. Senate Bill 189 provides the Commission with the necessary financial tools to effectively and efficiently reduce the number of loans which are in default.

The ultimate goal of this legislation is to create a financially solvent Alaska student loan program that will be available to the next generation of Alaskan postsecondary students. SB 189 will (1) improve the credit rating of the Alaska Student Loan Program, (2) lower the loan program default rate, (3) improve the return rate on funds loaned to borrowers, and (4) increase the recovery rate on defaulted loans.

With the huge jump in loan demand that this program is now experiencing (20% – 25%), it is vital that the Commission be given the tools and authority to operate on a business-basis. Passage of Senate Bill 189 will be a step in the right direction.

SB 189
SECTIONAL ANALYSIS

An act relating to eligibility for and default, collection, and repayment of student loans.

Sections 1- 3: Technical conforming amendments to reflect the appropriate citation referencing the Family Education Loan Program (FELP).

Section 4: Increases by one-half of one percent the interest rate allowance to be used to offset costs of administering corporation and commission.

Section 5: Borrower eligibility section is amended to clarify that the borrower must be eligible not only at the time of application but also at the time the funds are received (may be several intervening months). Places the residency criteria in the appropriate section of statute (currently set out in AS 14.43.120(p)) and clarifies language relating to residency eligibility.

- **Substantive change is addition of (a)(6-8), page 4, beginning on line 23. Allows for assessment of applicants' credit history to identify chronic bad debt. Will allow program administrators to determine potential inability to repay.**

Section 6: Provides for loan eligibility if applicant obtains a credit-worthy cosigner.

Section 7: Expands tools for collecting on defaulted loans (Six months or more in arrears).

- **Page 5, lines 9 – 30, (AS 14.43.145) describes the sanctions that will be imposed when a borrower defaults.**
- **Page 5, line 31 – Page 7, line 29, (AS 14.43.147) authorizes administrative wage garnishment and describes the legal process. (Modeled after Child Support Enforcement's garnishment in AS 25.27.070.)**
- **Page 7, line 30 – Page 11, line 6, (AS 14.43.148) expands existing authority to intervene in the renewal of professional or occupational licenses and provides for issuance of a temporary license during a period when the licensee may dispute that agency's action. Excludes those licenses which may be jointly owned or which are not centrally controlled. Exclusion will eliminate potential damage to non-borrowers and avoids targeting licenses that would require intensive manual intervention to administer.**

Sections 8-14: Technical changes amending citation of FELP and making eligibility criteria consistent among Alaska Student Loans, Teacher Scholarship Loans and Family Education Loans.

Section 15: Clarifies that certain temporary licenses issued during a loan default appeal process are not eligible for transfer to a spouse of a deceased licensee.

Section 16: Re-states an existing Revenue statute to conform to this legislation (re: PFD garnishment).

Section 17: Technical conforming repealers. Specifically, AS 08.02.025 is replaced by new AS 14.43.148; AS 14.43.120(i) and (q) are replaced by new AS 14.43.145; 14.43.740(b) is replaced by amended AS 14.43.720(a); and, AS 14.43.790 is replaced by amended AS 14.43.740(a).

Section 18: Authority to promulgate regulations prior to effective date of this act.

Section 19: Providing for an immediate effective date for Section 18.

Section 20: Providing for an effective date of July 1, 1997 for the act.

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

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

SB 189-- "An act relating to eligibility for and default, collection and repayment of student loans; relating to nonrenewal of certain occupational licenses for default on a student loan; and providing for an effective date."

- Allows the Alaska Student Loan Programs (ASLP) administrators to assess applicants' credit history to identify chronic bad debt. This provides an indicator of a borrower's potential ability to repay their debts;
- Provides applicants, found to have chronic bad debt, with an opportunity to obtain a credit worthy co-signer;
- Provides cost-effective, relevant sanctions that will be imposed when borrowers default and which will motivate borrowers to repay to avoid sanctions;
- Provides an increased rate of return on funds loaned to offset current interest losses to the fund;
- Provides for issuance of a temporary occupational/professional license during a borrower appeal of the nonrenewal of a license.

The ultimate goal of this legislation is to create a financially solvent Alaska student financial aid resource that will, without further assistance from the State coffers, still be available to the next generation of Alaskan postsecondary students. This bill contains a number of tools which are necessary to achieve specific objectives: improving the credit rating of the Alaska Student Loan Program; lowering the loan program default rate; improving the return rate on funds loaned to borrowers; and, increasing the recovery rate on defaulted loans.

These objectives are measurable and should be measured. If this bill is enacted, it would be with the intent that the Commission, in its annual report to the Governor and the Legislature, include these statistics as a report card on the effectiveness of these tools and to insure accountability on the part of program administrators. This bill supports this legislature's and the administration's goals for self-sustaining government operations.

Are These Legislative Changes Really Necessary?

The Alaska Student Loan Corporation is in critical need of assistance through legislative changes to the programs it funds. These are changes that would have been prudent to make at the point in time when the General Fund subsidy was eliminated, thereby funding the programs solely with private capital. The following are fund loss statistics.

- The total amount of forgiveness granted from 1972 to June 30, 1996 was approximately \$70 million. Of that amount, over \$57.3 million has been granted since the Corporation was created in 1987. Staff estimate that the Corporation will have to pay another \$8.7 million as these older loans are retired. Had the Corporation

continued to receive General Funds to offset these losses, it would have had a retained earnings balance of \$19.1 million at the end of the FY96 instead of the current deficit balance of \$47.3.

- Losses due to loans written-off (death, disability, bankruptcy and lack of payment activity) since the Corporation's creation total approximately \$47.8 million at 6/30/96. Staff estimate that another \$97.1 million, of the current loan portfolio, will be written-off in the future.
- Another 'public policy' loan issue is interest accrual. The September 30, 1996, unaudited financial statements indicated that loans totaling \$122,662,495, or 23% of the portfolio at September 30, 1996, were not accruing interest because they were in an interest-free period. Of these loans, approximately 60% were financed with bond proceeds. From a purely business perspective, any interest-free period on these student loans results in a loss to the Corporation as it pays interest on outstanding bonds from issuance until retirement of the bond debt and forgoes interest income on funds used to originate the loans.

At the time the Corporation was created, the ASLP was overcapitalized to a significant extent. Additionally, the Corporation adopted, and the legislature initially funded, the "Millennium Plan", a capitalization plan that assumed yearly influxes of General Funds leaving little concern that the Corporation would not be able to easily meet the debt service coverage ratio of 150% stipulated in its master bond indenture. The unanticipated elimination of General Fund support caused the abrupt curtailment of that plan in 1991, leading to several years of large bond issues to keep up with student borrowing needs. As a result, the Corporation is now very close to the minimal level of debt service coverage required by the master bond indenture.

With the huge jump in loan demand that the program is now experiencing (20% - 25%), it is vital that the Commission be given the tools and authority to operate on a business-basis. Alaska can no longer afford to characterize and consider this student aid source as simply a social service.

What Methods Will be Used to Measure the Success of these Changes, if Enacted?

The Commission/Corporation provides a variety of indicators that will reflect the effectiveness of program changes. They include: program default rate, annual audited financial statements, default recovery statistics, etc.

STATE OF ALASKA

TONY KNOWLES, GOVERNOR

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

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EXCERPTS OF APPROVED MINUTES OF THE COMMISSION MEETING OF THE ALASKA COMMISSION ON POSTSECONDARY EDUCATION DECEMBER 13, 1996 RE: PROPOSED LEGISLATION

Commission members present for all or portions of the meeting were: Mark Begich, Chairman; Bobette Bush, Vice Chair; Dr. Milton Byrd; Senator Johnny Ellis; Rosa Foster; Dr. Roger Jarvis; Charles H. Parr; Scott Sterling; Dr. Alice Galvin and Dr. Lydia Hays.

At page 13:

LEGISLATIVE/REGULATION UPDATE

Endorsement of Legislative Amendment Proposal - Diane Barrans

Ms. Barrans provided a summary of comments received from various identified constituency groups concerning the proposed legislation. Our primary focus group was student representatives, and every effort was made to get a good sense of attitudes towards the different discussion items. Overall responses were positive, with some cautionary words regarding the Commission taking a deliberative approach to making positive reasoning changes. The most common comment was to use these instruments as a leverage and not a hammer...

Dr. Lydia Hays moved to approve the legislative package as identified by Ms. Barrans. The motion was seconded by Ms. Bush.

Mr. Parr asked what the procedures for administrative wage garnishment would entail. Ms. Williams stated that if the Governor's office asks her to draft something to implement this procedure, she would follow the child support enforcement division's administrative wage garnishment process.

Mr. Sterling stated that this type legislation continues to demonstrate to the underwriters of our bonds that we are fiscally serious people and that, within reason, we are going to reform a number of approaches we have taken to be on a business-like basis as possible, while at the same time keeping access to ASL far more open than [private] programs would ever allow. We need as many tools as the law allows. He stated that collections through the courts are difficult because an attorney will not consider a case unless it involves a large sum of money. Ms. Barrans stated that whatever enhancements we make to the program translates into more marketable bonds, at lower rates, which lowers the rate borrowers will pay.

Ms. Bush stated that she is familiar with the child support wage garnishment system from an employer's standpoint and feels it involves little paperwork and provides an efficient program in dealing with the state. It is very effective and if what we do is tailored along those lines, she is highly supportive of the proposal...

Mr. Begich asked for any objections to moving forward with the proposed legislation to be presented to the Governor, excluding the setting of institutional authorization fees. There being no objections, the motion carried.

CORRECTION

THE FOLLOWING DOCUMENT(S)
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EXCERPTS OF APPROVED MINUTES OF THE COMMISSION MEETING OF THE ALASKA COMMISSION ON POSTSECONDARY EDUCATION DECEMBER 13, 1996 RE: PROPOSED LEGISLATION

Commission members present for all or portions of the meeting were: Mark Begich, Chairman; Bobette Bush, Vice Chair; Dr. Milton Byrd; Senator Johnny Ellis; Rosa Foster; Dr. Roger Jarvis; Charles H. Parr; Scott Sterling; Dr. Alice Galvin and Dr. Lydia Hays.

At page 13:
LEGISLATIVE/REGULATION UPDATE

Endorsement of Legislative Amendment Proposal - Diane Barrans

Ms. Barrans provided a summary of comments received from various identified constituency groups concerning the proposed legislation. Our primary focus group was student representatives, and every effort was made to get a good sense of attitudes towards the different discussion items. Overall responses were positive, with some cautionary words regarding the Commission taking a deliberative approach to making positive reasoning changes. The most common comment was to use these instruments as a leverage and not a hammer...

Dr. Lydia Hays moved to approve the legislative package as identified by Ms. Barrans. The motion was seconded by Ms. Bush.

Mr. Parr asked what the procedures for administrative wage garnishment would entail. Ms. Williams stated that if the Governor's office asks her to draft something to implement this procedure, she would follow the child support enforcement division's administrative wage garnishment process.

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Mr. Begich asked for any objections to moving forward with the proposed legislation to be presented to the Governor, excluding the setting of institutional authorization fees. There being no objections, the motion carried.

TO: Diane Barrans
C: Pat Born
Charlene Morrison

FROM: Smith Barney Inc.

RE: Revenue/Expense Enhancements

DATE: April 1, 1997

Alaska Student Loan Corporation ("ALSC") seeks ways to achieve positive future operating results with a goal of not attempting to fully recover prior losses from the pockets of current borrowers. Thus a long term strategy is essential to achieve an equitable turnaround of ASLC's finances. The purpose of this memorandum is to set forth our estimates for the effect several initiatives may have on ASLC earnings and net worth. These initiatives are set forth below:

- A) Pre-screening applicants for credit history/co-signers (we estimate that approximately 13% of applicants would be required to acquire a credit-worthy cosigner or be denied a loan)
- B) Increase array of sanctions/collection tools on defaulted loans to include:
 - i) Administrative wage garnishment (we estimate that 25% of ASL defaulters could be subject to this collection tool)
 - ii) Expanded occupational/professional license renewal intervention
- C) Increase of administrative cost cap in interest rate formula from 2.5% to 3%; ~~or~~
- D) Charge interest during all borrowing periods

Current Financial Situation

Over the last 5 years, ASLC has experienced an average *annual* loss, and thus decrease of Net Worth, of approximately \$3.5 million. This annual loss is the result of several major factors: (1) losses due to defaulting borrowers, (2) losses due to policies where borrowers are not charged interest during certain periods, and (3) expenses of servicing and administering the portfolio. Significant improvement in lowering defaults and charging interest during all periods would reverse the annual loss, and provide ASLC with annual surplus. This is particularly important now that annual origination is higher, and the ability to meet additional bonds test less certain.

- A. Pre Screen Applicants: Clearly, implementing credit underwriting standards would have a positive effect on reducing future default costs. Statistics nationally show that credit underwriting standards slightly less rigorous than home mortgage requirements will produce 2 to 4% default rates, whereas credit blind underwriting standards will produce default rates of 10% to 20% depending on the demographics of the target population. Alaska's experience recently is at the high end of this range with loan loss rates of 11% to 12%. Assuming \$70,000,000 of annual originations and an initiative that reduced that loss rate by 3% (from

SMITH BARNEY

A Member of Travelers Group

say 12% to 9%) ASLC would save \$2.1 million for each annual cohort of loans. Thus, a reduction of 3% would slowly help stem the annual corporate loss, a great result from a financial perspective, but instituting credit standards on 13% of applicants carries significant public policy concerns. The benefits of reduced future defaults will occur in the first three years of repayment, or three to five years after implementation. This lag time makes this alternative the slowest acting change element when compared to either enhanced collection or restructured interest rates.

- B. Enhanced Collection Tools: From a financial standpoint, ASLC should utilize all of the collection tools available, including Permanent Fund Dividend garnishment, wage garnishment, license renewal intervention, commercially diligent loan collection, etc. National rules of thumb for recovery rates approach 50% of defaults and anything less than 30% recovery would be sub-standard. ASLC should target obtaining at least 50% recovery due to the availability of the Permanent Fund Dividend.

A program which allow rescheduling the debt or an amnesty with respect to late fees and overdue interest could enhance collections. Given the amount of defaulted loans, any collection improvement will yield large results compared to the size of the recent annual losses.

Any increase in collection of prior default has the additional benefit of results within twelve months. On the negative side, the enhancement to earnings comes from those least able to pay.

- C. Increase Interest Rates: Increasing interest rates by ½ of 1% will have an obvious positive impact of \$350,000 per year in repayment for each annual cohort of loans. This increase of revenue will begin at repayment (i.e., 3 to 5 years hence).
- D. Charge interest during in-school period: This alternative is very attractive as it will produce significant and immediate results. Currently, students do not pay interest during the in-school period. The proposal is to charge interest during this period. Below is a table which outlines the annual added revenue ASLC will receive, and the added cost to a student, under various scenarios. It is assumed that annual originations are \$70 million, and borrowers are in school an average of two years.

Assumed Interest Rate	First Year Enhanced Revenue to ASLC ¹	Second Year and Succeeding Years Annual Enhanced Revenue to ASLC ¹	Added Cost to Borrower with \$15,000 of Loans ²	Added Cost to Borrower with \$30,000 of Loans ²
3%	\$2.1 million	\$4.2 million	\$1,600	\$3,200
4%	\$2.8 million	\$5.6 million	\$2,140	\$4,280

1 Assumes \$70 million annual originations

2 Assumes 2 year in school period, borrower does not pay interest but it is added to principal of loan at repayment, interest rate on loan is 8.6%.

If ASLC starts to charge interest during the in-school period, ASLC can give the borrowers the option to pay the interest currently, or have accrued interest added to the balance of the loan. In either scenario, ASLC will record enhanced revenue, which will help produce a small annual surplus, with immediate results beginning in the first year.

- E. Title IV Loans: We continue to urge a careful review of using Title IV Loans to supplement the Alaska Loan. As discussed above, the two major reasons for losses at ASLC are default costs and in-school interest rate subsidies; the federal government covers these two costs in the Title IV program. To the extent a borrower takes out a Title IV Loan instead of an Alaska Loan, there is a significant saving which can be (i) taken by ASLC, (ii) given to the borrower in a significantly lower interest rate, or (iii) a combination of the two.

Borrower Benefit Programs

ASLC should consider incenting borrowers to pay on time. The most significant cost to ASLC of servicing a loan is corresponding with borrowers who are late. Thus, an incentive to cause borrowers to be on time with payments is of interest. The most prevalent borrower benefit program nationally is a program whereby if a borrower is on time (within 10 days of due date) for 48 consecutive payments, then for the balance of the loan term, the interest rate is reduced by 2% per year (i.e., from say 8% to 6% per year). Since most borrowers will not qualify (only 20% of borrowers are expected to pay on time) and since a good portion of the loans will be paid off after 48 months, the annual cost to ASLC is modest. Such a program is likely to reduce the overall yield on the borrower benefit portfolio by approximately 10 basis points per year, or \$70,000 per year for a \$70 million portfolio.



FOR IMMEDIATE RELEASE: January 8, 1997 CONTACT: Corinne Russell 202-667-0901

SCHOOLS, LOAN COMMUNITY AND CONGRESS APPLAUDED FOR CONTINUED DROP IN STUDENT LOAN DEFAULTS

Clinton Administration to Announce New Figures on Thursday

Washington, DC – Cooperation between the education, political and financial communities is being credited with bringing about another dramatic drop in student loan defaults, according to the Coalition for Student Loan Reform (CSLR). New figures for FY 1994 (the latest period for which data is available), to be announced by the Clinton Administration on Thursday, will show that student loan defaults have dropped for the fourth straight year.

This trend of declining defaults can largely be attributed to reforms passed by Congress beginning in the late 1980's and implemented by schools, the guaranteed student loan community and the Department of Education. In particular, changes in institutional eligibility rules resulted in the elimination of hundreds of high default rate schools from the student loan program.

"This continued decline in the default rate is the result of teamwork that continues to benefit students and taxpayers nationwide," said CSLR Executive Director Mark Cannon. Today's students are avoiding default for two major reasons: greater borrower counseling available at the school and improved techniques used by loan guarantors to get delinquent borrowers quickly back on a repayment schedule.

"The underlying number behind the drop in defaults," said Cannon, "is really the sharp increase in the amount of defaults prevented." Based on guarantor data compiled by the National Council of Higher Education Loan Programs (NCHelp), the amount of delinquent loans returned to repayment status prior to default has increased by 68 percent over the last two years. This past year alone, guarantors successfully prevented a record number of more than \$13.3 billion in loan defaults.

"Also, thanks to greater loan counseling at the school, student borrowers better understand their options and obligations before they even borrow a dime," said Cannon.

The impetus for all this activity were several reform measures passed by Congress. As a result:

- The Department of Education bars schools with consistently high default rates from participation in the federal student loan programs

- Colleges and universities provide better counseling to students about their options.

- Student loan guarantors have improved the systems and technology that help track and prevent defaults.

- Private sector lenders and holders are offering more flexible repayment options.

- Guarantors have greater enforcement tools, such as wage garnishment, to collect on bad debts.

Cannon emphasized that the new default figures are comprised of virtually all guaranteed loans and the

continued decline in defaults are thus a reflection of improvements made in the thirty-year old Federal Family Education Loan Program. The new default figures are based on borrowers who began repaying their loans in Fiscal Year 1994. (The first Federal Direct Loan was not issued until nine months into that fiscal year---- on July 1, 1994---- making it a virtual mathematical impossibility that direct loans had any significant presence in these statistics).

The decline in defaults from 1990 through 1994 is especially noteworthy when factoring in that it was achieved while the volume of guaranteed loans climbed 88 percent over the same period (from \$12.3 billion in 1990 to \$23.1 billion in 1994).

Also, not reflected in the reporting of the cohort default rate, is the post-default collections which are up 96 percent from three years ago. Last year, collections resulted in the return of an estimated \$1.6 billion in loan funds that the government previously paid out in default claims.

Amid all this good news, Cannon cautioned against thinking that defaults will decline forever. "A certain amount of default is unavoidable in a federal program that seeks to open the doors of educational access wide and rightfully does not impose credit worthiness as a criterion for borrowing," said Cannon.

Cannon pointed out that the net default rate (after collections) currently hovers around 5 percent, a statistic strikingly similar to basic estimates of 'structural unemployment' in the economy.

"Based on the positive results demonstrated over the past several years, it will be important for Congress to retain the infrastructure and stable financing of nonprofit and state-based guarantors to keep the default rate as low as practical," said Cannon.

###

See Attachment - [Default Prevention Chronology](#)

The Coalition for Student Loan Reform (CSLR) is a nationwide group of nonprofit guarantors and secondary markets who are committed to helping students and families finance a college education by working to improve the Federal Family Education Loan Program (FFELP). CSLR was formed in April 1993 to offer a reform plan to serve as an alternative to direct government lending and explain the merits of current federal guaranteed loan programs.

Student Aid News

The Independent Biweekly News Service on Student Financial Assistance Programs

Vol. 24, No. 2
January 17, 1997

* Student Loan Default Rates Drop To Lowest Level Ever

The number of student loans in default dropped to 10.7 percent for fiscal 1994, the lowest rate since the Education Department began recording cohort default rates in 1987.

The fiscal 1994 default rate is nearly half of the 22.4 percent rate for fiscal 1990, the highest level recorded.

Both President Clinton and Education Secretary Richard Riley praised tighter school eligibility requirements since 1992 for leading to the lower default rates in a White House ceremony last week.

"The Congress, by passing better laws, gave us the tools to do the job," Riley said.

DSL Could Drive Rates Lower

Education Department officials say the rate could fall even further once Direct Student Loan (DSL) debts go into repayment.

The new 10.7 percent default rate includes loans made through the Family Education Loan (FEL) program, but doesn't represent loans made through DSL, which started in 1993.

"If you have a school with a low FEL rate, you'll see a correlation with DSL," said Elizabeth Hicks, ED's deputy assistant secretary for student financial aid.

She said it will be easier for students to repay direct loans because a single entity—the federal government—holds the loan, reducing confusion over repayment procedures.

Trade School Danger

But a number of schools participating in the DSL program are proprietary schools, which traditionally have higher default rates. That could threaten the department's prediction

(more on p. 3)

In This Issue

Guarantors' Default Averages Show Impressive Drop Page 3

Tax Code Could Bar Trade Schools From Prepaid Tuition Plans Page 5

Computer Errors Cause Brief Delay For Renewal FAFSAs Page 5

GOP Education Committee Roster Still Not Full Page 7

Legislative Update Page 7

Student Aid Profile Of Fall 1996 College Freshmen Page 8

More Freshmen Fretting Over College Costs

Two-thirds of college freshmen say they're worried about having enough money to finish college, causing many to choose schools with low tuition and available financial aid, a new survey says.

Record numbers of first-year students said financial aid was a "very important" reason for choosing their college, according to the 31st annual survey of freshmen attitudes, conducted by the American Council on Education (ACE) and the University of California-Los Angeles (UCLA).

Thirty-three percent of college freshmen said they selected their college based on aid options, compared to 31.6 percent in 1995. And 31.3 percent of first-year students—another

(more on p. 2)

Loan Default Rates Drop To Lowest Level (Cont. from p. 1)

for continued default rate reduction, a study of institutional default rates shows.

The average default rate for all proprietary schools for fiscal 1994 was 21.1 percent, while the rate for four-year public schools was 6.8 percent (*see chart, right*).

Thirty-one DSL schools—mostly proprietary schools—have been targeted for elimination from the federal loan programs for continually high default rates. And nine schools have exceeded the default-rate threshold for being kicked out of all federal student aid programs.

All schools reaching the threshold for elimination may appeal their default rates with the department.

Schools with high numbers of disadvantaged students or with low loan volumes are exempt from the department's sanctions.

If an institution reaches a 25 percent default rate for three consecutive years, it may become ineligible to participate in either of the loan programs. Schools that hit 40 percent in one year may be excluded from all federal aid programs.

ED last summer eliminated a requirement that schools hitting a 20 percent default rate file a default management plan.

A department spokeswoman said officials determined that the sanctions were sufficiently severe and reports were no longer needed.

"We have done our part by placing tough

Student Loan Default Rates By Institution Type, Fiscal 1994

Type of institution	Number of schools	Borrower default rate
Public		
Four-year	676	6.8%
Two-year	1,362	13.8
Private		
Four-year	1,551	6.3
Two-year	709	13.5
All proprietary	3,236	21.1
Four-year	89	16.7
Two to four years	516	18.9
Less than two years	2,631	23.0
Foreign	377	5.7
Unclassified	24	4.0
Total	7,935	10.7%

Source: Education Department.

standards on schools that haven't played their part," Clinton said (*see story, below*).

David Longanecker, ED's assistant secretary for postsecondary education, said the rules have worked well, but there is still room for improvement. "We've agreed to rethink whether we've achieved our purpose in using default rates," he said. "I think it's worked extremely well." ###

Guarantors' Default Averages Show Impressive Drop

New student loan default rates for guarantee agencies show a dramatic drop over the past several years.

Default rates for fiscal 1994, the most recent available, show 22 of the 42 guarantors had default rates of 10 percent or less. The highest rate, for the Louisiana Office of Student Financial Assistance, was 16.1 percent.

In contrast, the highest default rate in fiscal

1991 was 36.1 percent, also for Louisiana. Only 17 of the 49 guarantors had rates of 10 percent or less that year.

Brett Lief, president of the National Council of Higher Education Loan Programs (NCHELP), said a combination of factors contributed to fewer loan defaults.

He said better cooperation between guarantors
(more)

Guarantors' Default Averages Show Impressive Drop (Cont.)

and ED, amendments to the Higher Education Act (HEA) in 1992 that tightened schools' eligibility for aid programs, and a strong economy all played a role.

"It's showing that everyone's working together," he said.

Loan Volume Still Increasing

And while default rates are dropping, loan volume continues to increase. The explosion in loan volume started after the 1992 HEA amendments, which broadened student loan eligibility, and most of those borrowers aren't in repayment yet.

Since the 1992-93 academic year, student and parent loan volume has increased 63 percent (SAN, Sept. 27, 1996).

Dana Callihan, spokesman for the California Student Aid Commission (CSAC), said the agency is preparing for the repayment of those loans, which are just coming due.

"We're putting together a repayment unit to help borrowers before they default," he said.

The new unit calls students who have delinquent loans and offers repayment options, such as consolidating several loans into one payment, to prevent borrowers from defaulting.

CSAC's default rate for fiscal 1994 dropped to

15.7 percent, down 2.2 percentage points from fiscal 1993.

Callihan attributes the drop to rules that have booted postsecondary institutions with high default rates from the federal loan programs.

He said the more stringent requirements have weeded out the riskiest proprietary schools.

"We have a core of much higher quality vocational institutions that remain," Callihan said.

A spokesman for the country's largest student loan guarantor, USA Group, said there also is a new emphasis on preventing defaults by helping borrowers with delinquent loans.

"It's a continuing challenge when the loan volume has been growing as it has been," said Robert Murray. "We put a significant emphasis on preventing student loan defaults."

Murray said the company has a system similar to CSAC's, with 200 full-time employees calling borrowers in an effort to prevent defaults.

Callihan added that consolidations of delinquent loans also have contributed to lower default rates. Students at risk of defaulting on a loan can combine that debt with other student loans to make a single payment.

"The consolidation program helps make loan payments more manageable," he said. ###

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Administrative Wage Garnishment Pays Off

Administrative Wage Garnishment (AWG) has proven very successful in LOSFA's collection endeavors. A provision of Federal Regulations 34 CFR 682.410 (b) (10) allows LOSFA to garnish 10% of the disposable pay of a borrower who is not making payments on a defaulted student loan held by the agency.

LOSFA selects accounts as possible candidates for AWG based on the days of delinquency. LOSFA then notifies the borrower of its intent to garnish his wages. This gives the borrower the opportunity to begin making voluntary payments. If the borrower does not begin making regular and consistent voluntary payments within 30 days, LOSFA will notify the employer to begin garnishment of wages.

When LOSFA began AWG in April 1995, the agency was only able to select small batches of borrowers. The first month LOSFA succeeded in generating only \$227.02 from employers. Overtime, LOSFA has dramatically increased its AWG collections. Each month approximately 88 new accounts are selected for AWG. All accounts are reviewed monthly to determine if the borrower has kept the voluntary payment agreement or that the employer is continuing to forward garnishment checks.

One year from the start of the program, LOSFA is receiving an estimated \$36,114 per month of voluntary payments from borrowers selected for AWG and approximately \$32,097 of garnishment payments come from the employer. AWG has made a significant contribution to LOSFA's monthly collections.

There are few reasons which would allow an account to be removed from AWG once the garnishment has begun. The most plausible reasons for cancellation of the AWG order are the account has been transferred to the U.S. Dept. of Education, the borrower is no longer employed, the garnishment amount would not be adequate, the student loan has been discharged by total and permanent disability or through bankruptcy, or the account has been paid in full.

The Administrative Wage Garnishment program has not only given guarantee agencies additional power to collect defaulted student loans but has also made borrowers accountable for their student loan debt.

START Saving Plan *Continued from page 1*

The Minimum Wage Bill, which at press time was awaiting the President's signature, contains a number of changes to the tax code which will prove advantageous to the START Saving Program and to families that participate in the program. U.S. Senator John Breaux, along with other key senators, played a pivotal role in drafting these tax code revisions and having the Senate Finance Committee add them to the bill as the Breaux-Graham Amendment. When the bill is signed by the President, some of the more important provisions affecting the START Saving Program to be enacted are:

- As a qualified state program, the program itself will be exempt from federal income tax, which

assures participants that taxes will not be levied against the program to reduce the return on their investments;

- The tuition assistance grants awarded by the program to the beneficiaries of qualifying accounts may be excluded from the beneficiary's gross income as a scholarship, up to the amount provided by present law;
- Contributions to a program account will be treated as incomplete gifts for Federal gift tax purposes and the tax consequence determined at the time distribution is made;
- Earnings on a program account which are disbursed to pay the qualified education costs of a beneficiary

will be included in the gross income of the beneficiary at the time of disbursement, not reported as income to the contributor;

- Funds in a program account may be "rolled over" to another family member, or a beneficiary changed to another family member, without tax consequences; and
- Earnings on a program account which are not used to pay the beneficiary's education expenses will be subject to a penalty, if refunded. The penalty will not apply if the refund is made because the beneficiary died or was disabled or the refund offsets the amount of a scholarship received by the beneficiary.

State's student loan default rate continues downward trend; decrease attributed to default prevention efforts

The 1994 default rate for student loans guaranteed by the Oklahoma Guaranteed Student Loan Program (OGSLP) is the lowest in four years and has dropped three percentage points since 1993, the Oklahoma State Regents for Higher Education reported.

The 1994 default rate of 12.6 percent for loans guaranteed by the agency is down from 19.8 percent in 1991 — the first year guarantee agency default rates were calculated by the U.S. Department of Education — and from 15.4 percent in 1993.

In Oklahoma, loans for higher education or post-secondary education made to students by private or public lending institutions are guaranteed by the federal government through OGSLP, which is administered by the State Regents.

As a result of default prevention efforts, \$375.3 million in potential defaults were averted in 1996, up \$190.4 million or 103 percent from \$184.9 million in 1994.

If default prevention efforts fail, Oklahoma's guarantee agency continues to seek repayment of student loan obligations after borrowers default on their loans.

Over the past eight years, collections on defaulted student loans have increased from \$2.9 million in 1989 to \$17.6 million in 1996, an increase of \$14.7 million or 507 percent.

OGSLP officials attribute the decreasing default rate to default prevention efforts, such as ensuring students are aware of their responsibilities when they first apply for student loans and just prior to graduation, adding more toll-free borrower hot lines and updating informational video tapes and brochures.

OGSLP has also increased efficiency by expanding its computer capabilities to allow agency personnel to manage loan cases more efficiently and to have more one-on-one contact with student borrowers, schools and lenders.

Default rates for loans guaranteed by the agency continue to drop despite a 30 percent increase in the Oklahoma student loan volume, from \$184.9 million in 1989 to \$238.3 million in 1994.

When default prevention efforts fail, OGSLP collects loans by bringing litigation against defaulted borrowers, withholding federal or state income tax refunds, or withholding a percentage of defaulted borrowers' wages.

The agency is also implementing a legislatively-mandated program that will revoke or suspend professional licenses and commercial drivers' licenses of defaulted borrowers who do not have an approved payment plan.

The 1994 default rates reflect the percent of student borrowers who entered into repayment during the 1994 federal fiscal year and defaulted on their loan payments during either that fiscal year or the next one.

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Jeanie Edney
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Editor

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51

###



SB

193

SENATE COMMITTEE REPORT
First Committee of Referral

DATE: 5/2/97

FURTHER: Finance

Date of 5-Day Notice: 5/2/97
 (in accordance with Uniform Rule 23)
 (24-hr rule in effect)

DATE TURNED
 IN TO OFFICE: 5/7/97

Health, Education and Social Services Committee considered SENATE BILL NO. 193

"An Act relating to a limitation on administrative expenditures of school districts; and providing for an effective date."

and recommends:

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

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

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>Loren A. Lemmon</i>	✓				
<i>[Signature]</i>	✓				
<i>[Signature]</i>	✓				
CHAIR: <i>[Signature]</i>	✓	CHAIR: <i>[Signature]</i>			

NEW FISCAL NOTE(S):

Department Date Zero Fiscal

DOE	5/7/97		\$93.1

PREVIOUS FISCAL NOTE(S):*

Department Date Zero Fiscal

APPROPRIATION -- no fiscal note

*include fiscal notes accompanying Governor's bill

FISCAL NOTE

STATE OF ALASKA
1997 LEGISLATIVE SESSION

BILL NO. SB 193

Revision Date: _____ Dept. Affected: EDUCATION
 Title: An act relating to a limitation on administrative expenditures of school districts BRU: School Finance
 Component: District Support Services
 Sponsor: Senator Torgerson
 Requester: Senate Health, Education & Social Services COMPONENT SERIAL NO. _____ 155

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY98	FY99	FY00	FY01	FY02	FY03
PERSONAL SERVICES	54.1	54.1	54.1	54.1	54.1	54.1
TRAVEL						
CONTRACTUAL	35.0	35.0	35.0	35.0	35.0	35.0
SUPPLIES						
EQUIPMENT	4.0					
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	93.1	89.1	89.1	89.1	89.1	89.1

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

CHANGES IN REVENUES						
---------------------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	93.1	89.1	89.1	89.1	89.1	89.1
1005 GF/Program Receipts						
Other:						
TOTAL	93.1	89.1	89.1	89.1	89.1	89.1

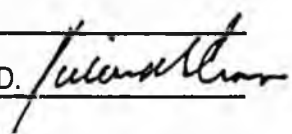
Estimate of current year (FY97) cost: \$

POSITIONS:

FULL-TIME	1.0					
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

The legislation requires that a school district may not spend more than \$950 per ADM multiplied by the area cost differential for school and district administration. The department must determine the districts that do not meet the requirements and the commissioner shall withhold state aid unless a waiver has been granted by the State Board of Education. The legislation also requires that the waiver requests be submitted to Legislative Budget & Audit for their review prior to submission to the SBOE. The department believes that this requirement violates the constitutional separation of powers. Preliminary estimates indicate that 44 districts would not meet these requirements. The Department does not have sufficient staff to work with districts or the waiver process. Costs include a Project Assistant, Range 16A; contractual for legal services, phone, fax, printing, mailing; and equipment.

Prepared by: Eddy Jeans, School Finance Manager Phone: 465-8650
 Division: Education Support Services Date: 5/3/97
 Approved by Commissioner: Shirley J. Holloway, Ph.D.  Date: 5/3/97
 Agency: Department of Education

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Senator John Torgerson

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Kenai, AK 99611
(907) 283-2690
fax 283-9267

Session Address:
State Capitol: Room 514
Juneau, AK 99801-1182
(907) 465-2828
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Sectional Analysis

SB 193 - School Administrative Expense Cap

Sec. 1 (a) Adds a new section to AS 14.17, establishing that a district may not budget for or expend more than \$950 per ADM multiplied by the area cost differential under statute for the combined school administration and district administration components.

(b) Provides authority to the commissioner to reject a budget which does not comply with (a) and also to withhold payments to the district until the budget is revised to comply with (a), subject to a waiver process set forth in (d);

(c) Directs the commissioner to review annual district audits for compliance and sets forth a process for deducting amounts from state aid if they are not in compliance, subject to the waiver in (d);

(d) Establishes a process by which a district can request a waiver by the board. The process is to submit a written request to the LB&A, who then reviews the request and makes recommendations to the board. The board shall then either grant or deny the waiver.

(e) Requires the commissioner to annually submit a report on actions by the commissioner or the board under this section to the LB&A.

Sec. 2. Effective date of the legislation.

ADM Rates - All Districts

District	ADM	Admn Costs	Admn/ADM	ACD
Ketchikan	2,856	\$1,985,239	\$695	1
Anchorage	46,470	\$33,172,827	\$714	1
Fairbanks	16,132	\$11,848,441	\$734	1.04
Mat-Su	12,352	\$9,382,327	\$760	1
Juneau	5,586	\$4,370,736	\$782	1
Sitka	1,770	\$1,394,230	\$788	1
Kenai Peninsula	10,342	\$8,746,839	\$846	1
Petersburg*	763	\$658,919	\$864	1
Valdez*	877	\$890,343	\$1,015	1.11
Craig*	422	\$443,122	\$1,050	1.03
Haines	445	\$470,125	\$1,057	1.05
Wrangell*	528	\$565,712	\$1,071	1
Kodiak	2,862	\$3,181,616	\$1,112	1.09
Copper River	773	\$901,422	\$1,167	1.14
Cordova*	534	\$639,532	\$1,197	1.11
Nome*	777	\$1,065,648	\$1,372	1.34
Yukon Flats	444	\$620,469	\$1,397	1.46
Delta/Greely	844	\$1,218,318	\$1,444	1.16
Dillingham*	542	\$807,528	\$1,490	1.27
Unalaska*	375	\$562,153	\$1,501	1.27
Chatham	334	\$506,732	\$1,516	1.03
Denali	391	\$620,634	\$1,588	1.14
Bristol Bay	313	\$510,105	\$1,627	1.27
Hoonah*	271	\$461,843	\$1,704	1.08
Northwest Arctic	2,000	\$3,530,168	\$1,765	1.45
Alaska Gateway	573	\$1,014,425	\$1,771	1.19
Lower Yukon	1,736	\$3,114,905	\$1,794	1.35
Lower Kuskokwim	3,372	\$6,284,600	\$1,864	1.42
Yakutat	160	\$302,388	\$1,890	1.08
Klawock*	210	\$397,586	\$1,891	1.03
SouthEast Island	326	\$627,712	\$1,928	1.04

ADM Rates - All Districts

District	ADM	Admn Costs	Admn/ADM	ACD
Hydaburg*	116	\$226,802	\$1,955	1.03
Skagway*	137	\$270,864	\$1,982	1.05
Southwest Region	701	\$1,403,232	\$2,002	1.31
St. Mary's*	130	\$261,600	\$2,012	1.3
Nenana*	173	\$352,405	\$2,032	1.2
Annette	403	\$830,062	\$2,060	1.03
Bering Strait	1,706	\$3,544,339	\$2,078	1.39
Kuspuk	474	\$1,025,076	\$2,164	1.33
Kake*	200	\$436,570	\$2,184	1.03
Yukon/Koyukuk	556	\$1,229,796	\$2,213	1.34
Kashunamiut*	247	\$557,511	\$2,258	1.33
Chugach	157	\$410,661	\$2,616	1.14
Galena*	161	\$435,555	\$2,705	1.3
Pribilof	197	\$542,680	\$2,752	1.3
Lake & Peninsula	524	\$1,507,500	\$2,879	1.31
Yupitit	401	\$1,161,617	\$2,897	1.41
Iditarod	416	\$1,290,678	\$3,104	1.33
Aleutians East	372	\$1,208,505	\$3,249	1.32
Tanana*	93	\$339,355	\$3,649	1.3
Pelican*	32	\$128,097	\$4,035	1.08
North Slope	1,937	\$8,204,600	\$4,236	1.45
Aleutian Region	34	\$221,029	\$6,501	1.31
Totals	124,544	\$125,885,178		

@950 MAX per ADM

Districts	ADM	Total Admn Costs	All Adm to ADM	ACD current	NEW Base per ACD	Total to Adjust to base	Total extended cuts
Ketchikan	2,856.25	\$1,985,239	\$695	1.00			n/a
Anchorage	46,470.40	\$33,172,827	\$714	1.00			n/a
Mat-Su	12,352.13	\$9,382,327	\$760	1.00			n/a
Juneau	5,586.45	\$4,370,736	\$782	1.00			n/a
Sitka	1,769.60	\$1,394,230	\$788	1.00			n/a
Kenai Peninsula	10,341.96	\$8,746,839	\$846	1.00			n/a
Petersburg*	763.05	\$658,919	\$864	1.00			n/a
Wrangell*	528	\$565,712	\$1,071	1.00	\$950	(\$121)	(\$63,888)
Craig*	422	\$443,122	\$1,050	1.03	\$979	(\$71)	(\$29,984)
Chatham	334.30	\$506,732	\$1,516	1.03		(\$537)	(\$179,452)
Klawock*	210.3	\$397,586	\$1,891	1.03		(\$912)	(\$191,702)
Hydaburg*	116	\$226,802	\$1,955	1.03		(\$976)	(\$113,238)
Annette	403.00	\$830,062	\$2,060	1.03		(\$1,081)	(\$435,525)
Kake*	199.9	\$436,570	\$2,184	1.03		(\$1,205)	(\$240,868)
Fairbanks	16,131.70	\$11,848,441	\$734	1.04	\$988	n/a	n/a
SouthEast Island	325.55	\$627,712	\$1,928	1.04		(\$940)	(\$306,069)
Haines	444.90	\$470,125	\$1,057	1.05	\$998	(\$59)	(\$26,115)
Skagway*	136.66	\$270,864	\$1,982	1.05		(\$984)	(\$134,477)
Hoonah*	271	\$461,843	\$1,704	1.08	\$1,026	(\$678)	(\$183,797)
Yakutat	160.00	\$302,388	\$1,890	1.08		(\$864)	(\$138,228)
Pelican*	31.75	\$128,097	\$4,035	1.08		(\$3,009)	(\$95,522)
Kodiak	2,862.01	\$3,181,616	\$1,112	1.09	\$1,036	(\$76)	(\$216,574)

@950 MAX per ADM

Districts	ADM	Total Admn Costs	All Adm to ADM	ACD current	NEW Base per ACD	Total to Adjust to base	Total extended cuts
<i>Valdez*</i>	<i>877</i>	<i>\$890,343</i>	<i>\$1,015</i>	<i>1.11</i>	<i>\$1,055</i>	n/a	n/a
<i>Cordova*</i>	<i>534.3</i>	<i>\$639,532</i>	<i>\$1,197</i>	<i>1.11</i>		<i>(\$142)</i>	<i>(\$75,846)</i>
Copper River	772.60	\$901,422	\$1,167	1.14	\$1,083	<i>(\$84)</i>	<i>(\$64,696)</i>
Chugach	157.00	\$410,661	\$2,616	1.14		<i>(\$1,533)</i>	<i>(\$240,630)</i>
Denali	390.90	\$620,634	\$1,588	1.14		<i>(\$505)</i>	<i>(\$197,289)</i>
Delta/Greely	843.65	\$1,218,318	\$1,444	1.16	\$1,102	<i>(\$342)</i>	<i>(\$288,616)</i>
Alaska Gateway	572.65	\$1,014,425	\$1,771	1.19	\$1,131	<i>(\$640)</i>	<i>(\$366,758)</i>
<i>Nenana*</i>	<i>173.45</i>	<i>\$352,405</i>	<i>\$2,032</i>	<i>1.20</i>	<i>\$1,140</i>	<i>(\$892)</i>	<i>(\$154,672)</i>
<i>Dillingham*</i>	<i>542.05</i>	<i>\$807,528</i>	<i>\$1,490</i>	<i>1.27</i>	<i>\$1,207</i>	<i>(\$283)</i>	<i>(\$153,274)</i>
<i>Unalaska*</i>	<i>374.6</i>	<i>\$562,153</i>	<i>\$1,501</i>	<i>1.27</i>		<i>(\$294)</i>	<i>(\$110,011)</i>
Bristol Bay	313.45	\$510,105	\$1,627	1.27		<i>(\$420)</i>	<i>(\$131,771)</i>
<i>St. Mary's*</i>	<i>130</i>	<i>\$261,600</i>	<i>\$2,012</i>	<i>1.30</i>	<i>\$1,235</i>	<i>(\$777)</i>	<i>(\$101,050)</i>
<i>Galena*</i>	<i>161</i>	<i>\$435,555</i>	<i>\$2,705</i>	<i>1.30</i>		<i>(\$1,470)</i>	<i>(\$236,720)</i>
Pribilof	197.20	\$542,680	\$2,752	1.30		<i>(\$1,517)</i>	<i>(\$299,138)</i>
Tanana*	93	\$339,355	\$3,649	1.30		<i>(\$2,414)</i>	<i>(\$224,500)</i>
Southwest Region	700.80	\$1,403,232	\$2,002	1.31	\$1,245	<i>(\$757)</i>	<i>(\$530,736)</i>
Lake & Peninsula	523.55	\$1,507,500	\$2,879	1.31		<i>(\$1,634)</i>	<i>(\$855,680)</i>
Aleutian Region	34.00	\$221,029	\$6,501	1.31		<i>(\$5,256)</i>	<i>(\$178,699)</i>
Aleutians East	372.00	\$1,208,505	\$3,249	1.32	\$1,254	<i>(\$1,995)</i>	<i>(\$742,017)</i>

@950 MAX per ADM

Districts	ADM	Total Admn Costs	All Adm to ADM	ACD current	NEW Base per ACD	Total to Adjust to base	Total extended cuts
Kuspuk	473.70	\$1,025,076	\$2,164	1.33	\$1,264	(\$900)	(\$426,319)
Kashunamiut*	246.95	\$557,511	\$2,258	1.33		(\$994)	(\$245,366)
Iditarod	415.86	\$1,290,678	\$3,104	1.33		(\$1,840)	(\$765,031)
Nome*	776.55	\$1,065,648	\$1,372	1.34	\$1,273	(\$99)	(\$77,100)
Yukon/Koyukuk	555.60	\$1,229,796	\$2,213	1.34		(\$940)	(\$522,517)
Lower Yukon	1,735.95	\$3,114,905	\$1,794	1.35	\$1,283	(\$511)	(\$887,681)
Bering Strait	1,706.00	\$3,544,339	\$2,078	1.39	\$1,321	(\$757)	(\$1,290,713)
Yupitit	401.00	\$1,161,617	\$2,897	1.41	\$1,340	(\$1,557)	(\$624,277)
Lower Kuskokwim	3,371.53	\$6,284,600	\$1,864	1.42	\$1,349	(\$515)	(\$1,736,406)
Northwest Arctic	2,000.10	\$3,530,168	\$1,765	1.45	\$1,378	(\$387)	(\$774,030)
North Slope	1,936.80	\$8,204,600	\$4,236	1.45		(\$2,858)	(\$5,535,690)
Yukon Flats	444.00	\$620,469	\$1,397	1.46	\$1,387	(\$10)	(\$4,641)
Totals	124,544.15	\$125,885,178					(\$20,197,312)

LEGEND:

REAA's

City District

Boroughs

ALASKA DEPARTMENT OF EDUCATION
 FY97 FOUNDATION PROGRAM
 SB193

	FY97 ADM	\$950 Per ADM	Area Diff.	Maximum Admin.	FY97 Budgeted		Total Admin.	% over Allowance	FY97 Foundation Aid	Reduction in State Aid
					School Admin.	District Admin.				
ALASKA GATEWAY	572.65	544,018	1.19	647,381	470,805	543,620	1,014,425	36.18%	5,414,827	1,959,084
ALEUTIAN REGION	34.00	32,300	1.31	42,313	30,829	190,200	221,029	80.86%	720,201	582,355
ALEUTIANS EAST	372.00	353,400	1.31	462,954	380,240	828,265	1,208,505	61.69%	3,761,704	2,320,595
ANCHORAGE	46,470.40	44,146,880	1.00	44,146,880	18,929,109	14,243,718	33,172,827	0.00%	183,046,419	0
ANNETTE ISLANDS	391.00	371,450	1.03	382,594	273,166	556,896	830,062	53.91%	1,696,475	914,570
BERING STRAIT	1,706.00	1,620,700	1.39	2,252,773	1,643,375	1,900,964	3,544,339	36.44%	15,630,898	5,695,899
BRISTOL BAY	313.45	297,778	1.27	378,178	170,117	339,988	510,105	25.86%	1,843,088	476,623
CHATHAM	334.30	317,585	1.03	327,113	189,519	317,213	506,732	35.45%	3,141,453	1,113,645
CHUGACH	157.00	149,150	1.14	170,031	55,000	355,661	410,661	58.60%	1,820,876	1,067,033
COPPER RIVER	772.60	733,970	1.14	836,726	409,290	492,132	901,422	7.18%	6,135,171	440,505
CORDOVA	534.30	507,585	1.11	563,419	298,877	340,655	639,532	11.90%	2,648,739	315,200
CRAIG	422.00	400,900	1.03	412,927	140,858	302,264	443,122	6.81%	2,273,847	154,849
DELTA/GREELY	843.65	801,468	1.16	929,703	576,960	641,358	1,218,318	23.69%	5,164,694	1,223,516
DENALI	390.90	371,355	1.23	456,767	276,864	343,770	620,634	26.40%	3,076,786	812,272
DILLINGHAM	541.25	514,188	1.27	653,019	291,854	515,674	807,528	19.13%	3,360,559	642,875
FAIRBANKS	16,131.65	15,325,068	1.04	15,938,071	6,292,778	5,555,663	11,848,441	0.00%	66,266,686	0
GALENA	165.00	156,750	1.30	203,775	142,306	293,249	435,555	53.21%	1,559,006	829,547
HAINES	444.90	422,655	1.05	443,788	245,167	224,958	470,125	5.60%	2,356,660	131,973
HOONAH	271.00	257,450	1.08	278,046	127,477	334,366	461,843	39.80%	1,843,962	733,897
HYDABURG	117.00	111,150	1.03	114,485	41,024	185,778	226,802	49.52%	987,649	489,084
IDITAROD	415.86	395,067	1.33	525,439	648,304	642,374	1,290,678	59.29%	5,229,673	3,100,673
JUNEAU	5,586.45	5,307,128	1.00	5,307,128	1,956,201	2,414,535	4,370,736	0.00%	21,472,481	0
KAKE	199.90	189,905	1.03	195,602	149,120	287,450	436,570	55.20%	1,372,984	757,887
KASHUNAMIUT	246.95	234,603	1.33	312,022	98,500	459,011	557,511	44.03%	1,807,644	795,906
KENAI	10,341.96	9,824,862	1.00	9,824,862	5,489,608	3,257,231	8,746,839	0.00%	43,308,644	0
KETCHIKAN	2,856.25	2,713,438	1.00	2,713,438	1,145,381	839,858	1,985,239	0.00%	9,765,241	0
KLAWOCK	210.30	199,785	1.03	205,779	120,187	277,399	397,586	48.24%	1,527,896	737,057
KODIAK	2,862.01	2,718,910	1.09	2,963,612	1,742,335	1,439,281	3,181,616	6.85%	13,324,204	912,708
KUSPUK	473.70	450,015	1.33	598,520	389,232	635,844	1,025,076	41.61%	5,136,846	2,137,442

ALASKA DEPARTMENT OF EDUCATION
 FY97 FOUNDATION PROGRAM
 SB193

	FY97 ADM	\$950 Per ADM	Area Diff.	Maximum Admin.	FY97 Budgeted		Total Admin.	% over Allowance	FY97 Foundation Aid	Reduction in State Aid
					School Admin.	District Admin.				
LAKE AND PENN.	523.55	497,373	1.31	651,559	677,100	830,400	1,507,500	56.78%	6,937,552	3,939,141
LOWER KUSKOKWII	3,371.53	3,202,954	1.42	4,548,195	3,760,000	2,524,600	6,284,600	27.63%	36,904,560	10,196,731
LOWER YUKON	1,735.95	1,649,153	1.35	2,226,357	1,591,432	1,523,473	3,114,905	28.53%	13,600,325	3,880,171
MAT-SU	12,352.13	11,734,519	1.00	11,734,519	6,504,293	2,878,034	9,382,327	0.00%	58,193,865	0
NENANA	173.45	164,778	1.20	197,734	78,318	274,087	352,405	43.89%	1,492,067	654,868
NOME	776.55	737,723	1.34	988,549	508,761	556,887	1,065,648	7.23%	5,107,796	369,294
NORTH SLOPE	1,936.80	1,839,960	1.45	2,667,942	2,738,400	5,466,200	8,204,600	67.48%	11,157,270	7,528,926
NORTHWEST ARCT	2,000.10	1,900,095	1.45	2,755,138	1,849,606	1,680,562	3,530,168	21.95%	17,632,060	3,870,237
PELICAN	31.75	30,163	1.08	32,576	0	128,097	128,097	74.57%	555,036	413,890
PETERSBURG	763.05	724,898	1.00	724,898	377,817	281,102	658,919	0.00%	3,250,595	0
PRIBILOF	197.20	187,340	1.30	243,542	119,280	423,400	542,680	55.12%	1,739,504	958,815
SITKA	1,769.60	1,681,120	1.00	1,681,120	799,642	594,588	1,394,230	0.00%	6,640,829	0
SKAGWAY	136.66	129,827	1.05	136,318	166,454	104,410	270,864	49.67%	723,303	359,265
SOUTHEAST	325.55	309,273	1.04	321,644	120,287	507,425	627,712	48.76%	3,590,022	1,750,495
SOUTHWEST	700.80	665,760	1.31	872,146	606,733	796,499	1,403,232	37.85%	5,994,827	2,269,042
ST. MARY'S	130.00	123,500	1.30	160,550	65,300	196,300	261,600	38.63%	1,428,845	551,963
TANANA	102.00	96,900	1.30	125,970	94,881	244,574	339,455	62.89%	1,181,898	743,296
UNALASKA	374.60	355,870	1.27	451,955	228,076	334,077	562,154	19.60%	1,898,564	372,119
VALDEZ	877.00	833,150	1.11	924,797	532,644	357,699	890,343	0.00%	3,342,987	0
WRANGELL	528.00	501,600	1.00	501,600	312,599	253,113	565,712	11.33%	2,473,125	280,205
YAKUTAT	160.00	152,000	1.08	164,160	46,834	255,554	302,388	45.71%	1,234,244	564,173
YUKON FLATS	444.00	421,800	1.46	615,828	128,780	491,689	620,469	0.75%	6,027,523	45,206
YUKON/KOYUKUK	555.60	527,820	1.34	707,279	198,858	1,030,938	1,229,796	42.49%	6,879,611	2,923,147
YUPIIT	401.00	380,950	1.41	537,140	428,471	733,146	1,161,617	53.76%	4,081,286	2,194,099
TOTAL	124,545.30	\$118,318,039		\$126,258,861	\$64,659,049	\$61,226,229	\$125,885,279		\$617,763,007	\$72,210,280

cc:Mail for: Sheila Peterson

Subject: need help?

▷ Forwarded: Senator Gary Wilken 2/3/98 6:26 AM

To: Sheila Peterson

John:

G'Mornin!

This was on my e-mail this morning.

With friends like this who needs humor.

Gary

Forward Header

Subject: need help?

Author: kenaipea@alaska.net (Jack Castimore) at CC2MHS1

Date: 8/27/56 1:30 PM

Ref: SB 193 (Torgerson) to limit administrative costs.

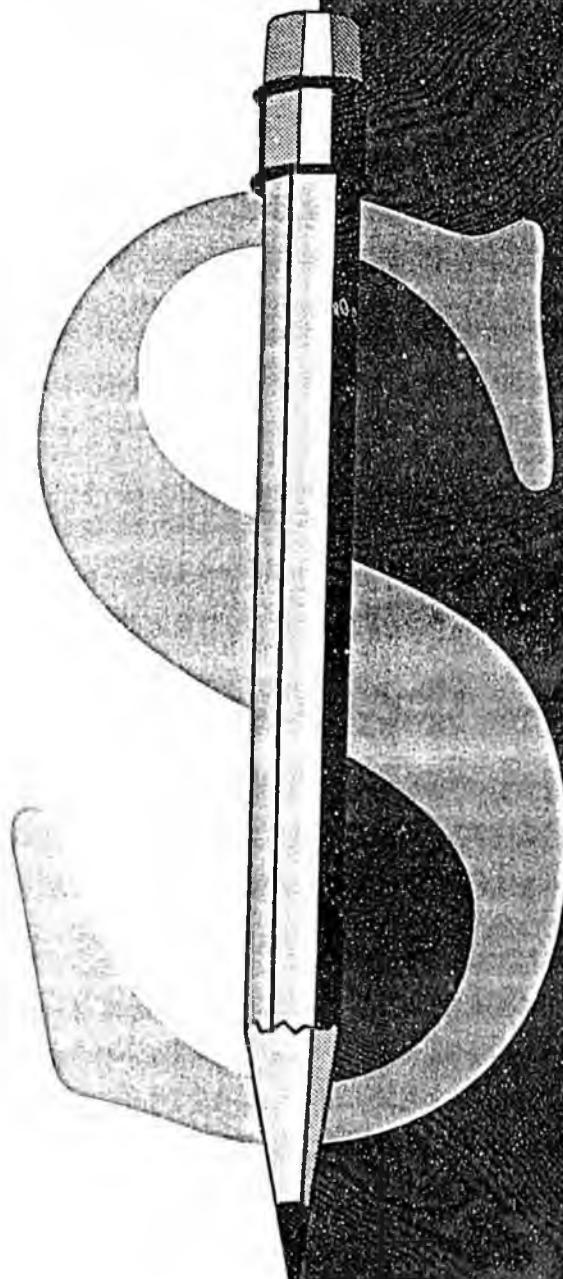
Dear Senator Gary Wilken,

I find this very, very humorous. Before the bill (SB193) is out of committee, the Kenai Peninsula Borough School District has reclassified dozens of administrators, and classified these NON-teaching staff as teachers. That is right, last years Director is this years Program Manager or Coordinator, or Specialist and listed by this growing government agency as a teacher, BUT they do NOT have a classroom or teach a single student. They have beat you before your horse is out of the gate. Ha, Ha, Ha! If you would like to talk to someone with an inside track, I suggest you speak with Kenai City Councilman Hal Smalley at 283-7469 or talk to Dean Castimore in Kenai at 283-4609 or 283-1426 and he can provide a great deal of specific inside information. Good Luck ! you will need it when dealing with these government administrators !

From: Jack Castimore, 2775 Watergate Way, Kenai, Ak 99611

NATIONAL CENTER FOR EDUCATION STATISTICS

**DEVELOPMENTS IN
SCHOOL FINANCE, 1995**



U.S. Department of Education
Office of Educational Research and Improvement NCES 96-344

A Study of Administrative Expenditures in Texas Public Schools

Chrys Dougherty
University of Texas at Austin

This paper reports on the results of a 1992 study of administrative expenditures in Texas public school districts in the 1990-91 school year. A research team at the LBJ School of Public Affairs at the University of Texas at Austin sought answers to the following questions:

1. What definition of "administrative expenditure" makes sense if the goal is to impose state limits on administrative expenditures by local school districts?
2. What is the relevant variable to analyze: the administrative expenditure per student, or the ratio of administrative expenditure to instructional expenditure?
3. What student or school district characteristics are associated with high administrative expenditure?

4. Is there a relationship between administrative expenditure and student learning?
5. What do districts with unusually high or low administrative expenditures do differently?
6. What administrative expenditure limits make sense?

We used data from the Texas Education Agency's Public Education Information Management System (PEIMS) to analyze school district expenditures. PEIMS classifies expenditures into 18 functional categories. We classified six of these categories as administrative expenditure: General Administration, School Administration, Instructional Administration, Curriculum and Staff Development, Communication and Dissemination, and Data Processing Services. In school year 1990-91, these combined expenditures represented about 13 percent of public school expenditures in the state of Texas.

Our study was funded by the state legislature through the Educational Economic Policy Center. Overall, the study recommended specific administrative expenditure limits that would redirect an estimated \$289 million per year (approximately \$80 per-pupil) to the classroom by school year 1996-97.

An Overview of Administrative Expenditure in Texas School Districts

In school year 1990-91, Texas had 1,053 school districts. Although several of these districts are large (Houston, with almost 200,000 students, is the fifth largest school district in the nation; Dallas, with 138,000 students, is the 10th largest school district), most are very small. The median Texas school district contained 775 students in 1990-91, and there were 393 districts with less than 500 students. The smallest district, Allamoore, had only two students (see Table 1).

This proliferation of small districts has an impact on administrative expenditure per student. Even very small districts are likely to hire a superintendent or principal, or both. Of the 211 districts in Texas that had only one campus in 1990-91, 92 employed both a full-time superintendent and a full-time principal. State funding formulas provide extra money per student for districts that are very small and/or have very low population densities.

As a result, the administrative spending per student and the ratio of administrative to instructional spending are higher in small districts, as shown in Figures 1 and 2. Beyond a district size of around 2,000 students, however, these apparent economies of scale vanish. Table 2 compares administrative expenditures for large and small districts in Texas.

Definition of Administrative Expenditure

Since the policy issue we were concerned with was whether to penalize districts with excessive administrative expenditures, we used a broad definition of these expenditures to discourage creative accounting. We thought it particularly important to include school administration (category 23) in our definition, since measured administrative expenditure could be reduced by paper reassignments of central office personnel to specific campuses. Likewise, omission of instructional administration (category 21) from the state's definition of administrative expenditure might result in a proliferation of curriculum coordinators in school district offices. Table 3 shows the types of expenditures that were classified as administrative and non-administrative expenditures.

We considered several types of administrative expenditure ratios for use in our analysis. In particular, we might have focused on:

- the administrative expenditure per student;
- the ratio of administrative to instructional expenditure;
- the ratio of administrative to total operating expenditure.

Defining instructional expenditure as category 11 in the PEIMS data, we based most of our recommendations on the ratio of administrative to instructional expenditure, for three reasons:

1. Districts could improve their ratio in four ways, all of which are desirable:
 - a. reduce administrative expenditure per student;
 - b. shift resources from administration to instruction;

In school year 1990-91, Texas had 1,053 school districts...which has an impact on administrative expenditure per student.

Table 1.—A profile of Texas school districts

Characteristics	School Year		
	1990-91	1991-92	1992-93
Number of districts	1,053	1,050	1,048
Number of districts with:			
Less than 2,000 students	778	766	760
Half the students	46	46	46
More than 20,000 students	35	37	38
Enrollments			
Smallest district	2	2	7
Largest district	194,208	196,512	198,013
Total spending per student			
95th percentile ¹	\$8,136	\$8,330	\$8,522
75th percentile	5,203	5,605	5,893
50th percentile	4,454	4,724	5,084
25th percentile	3,978	4,247	4,547
5th percentile	3,542	3,774	4,051
State average (Texas)	4,200	4,452	4,774
U.S. average ²	4,890	5,103	5,334

¹ Represents spending in the 95th percentile district, not spending on the 95th percentile student. The latter number would be substantially lower, since many of the highest-spending districts are very small.

² Texas and U.S. average spending per student are not adjusted for differences in the cost of living between Texas and the United States as a whole.

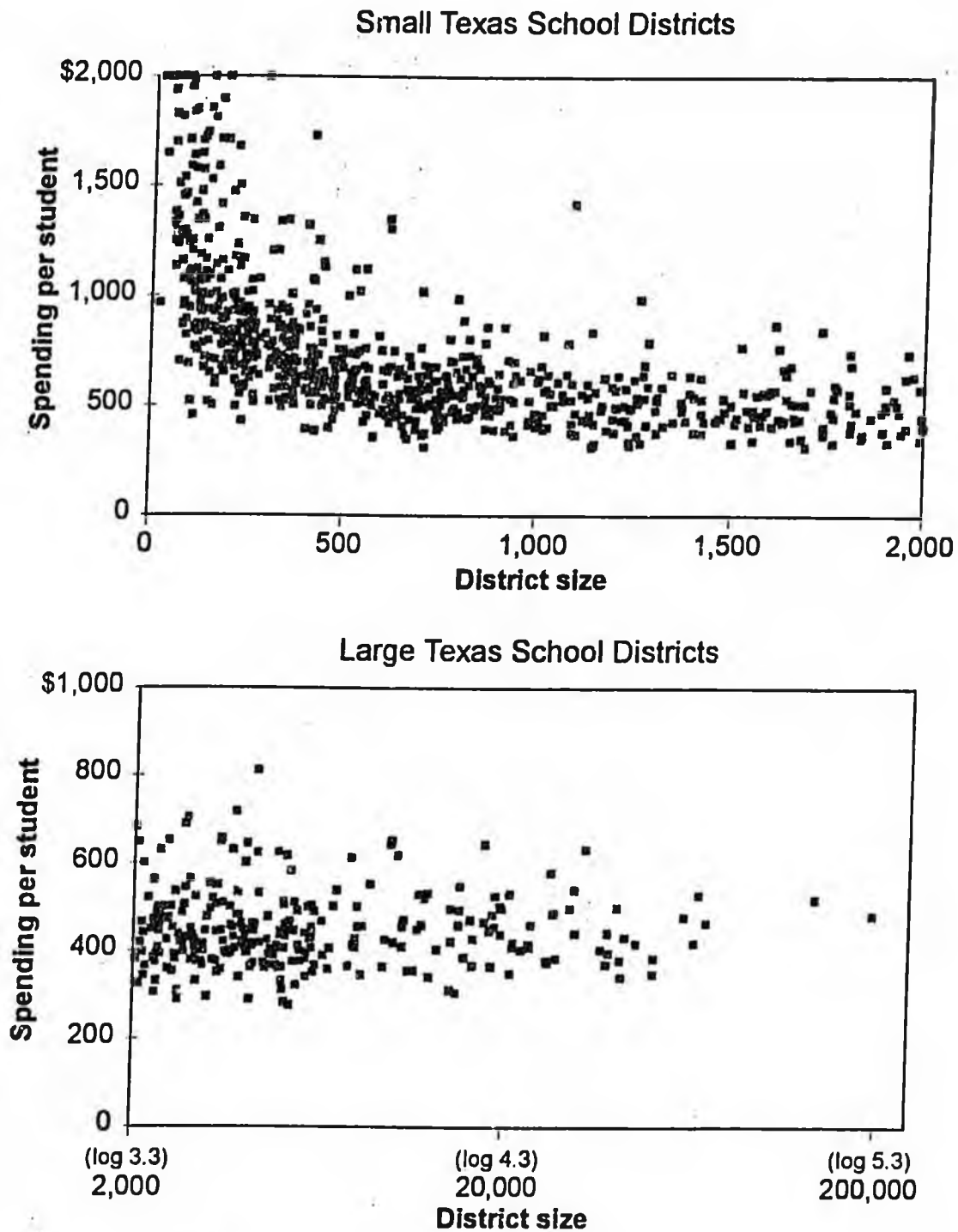
SOURCE: Texas Education Agency, *Snapshot 91'*, *Snapshot 92'*, and *Snapshot 93'*.

Table 2.—Spending in large and small Texas school districts

Spending	Districts with:		All districts
	More than 2,000 students	Less than 2,000 students	
Spending per student	\$4,128	\$4,611	\$4,200
Administrative spending per student	451	594	472
Administrative/instructional spending	22.9%	27.6%	23.6%
Administrative/total spending	10.9%	12.9%	11.2%

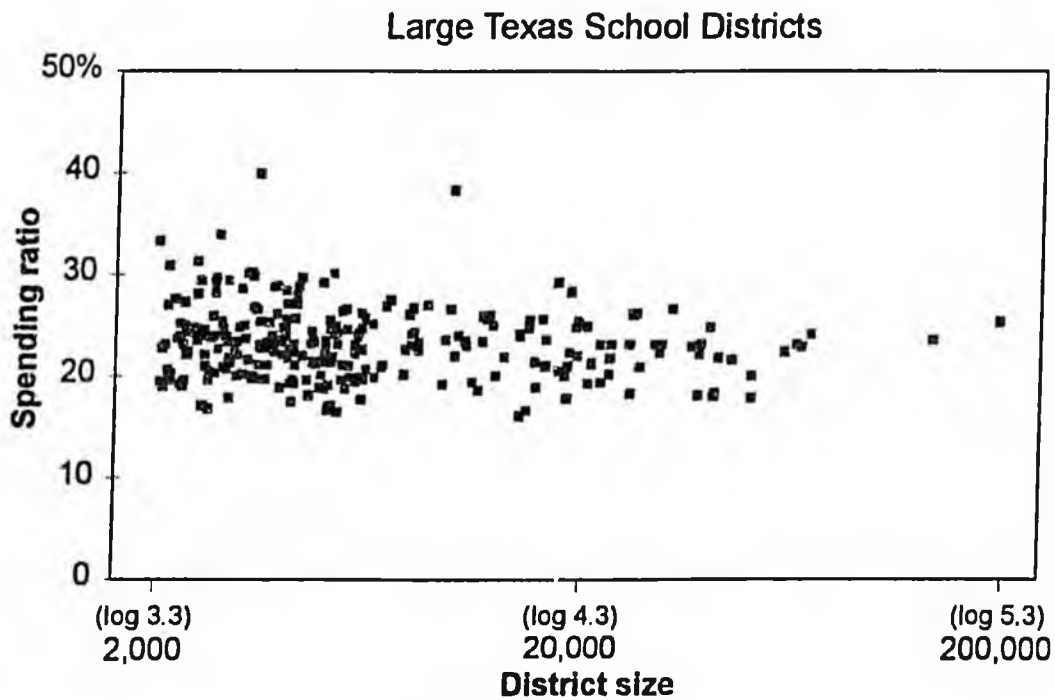
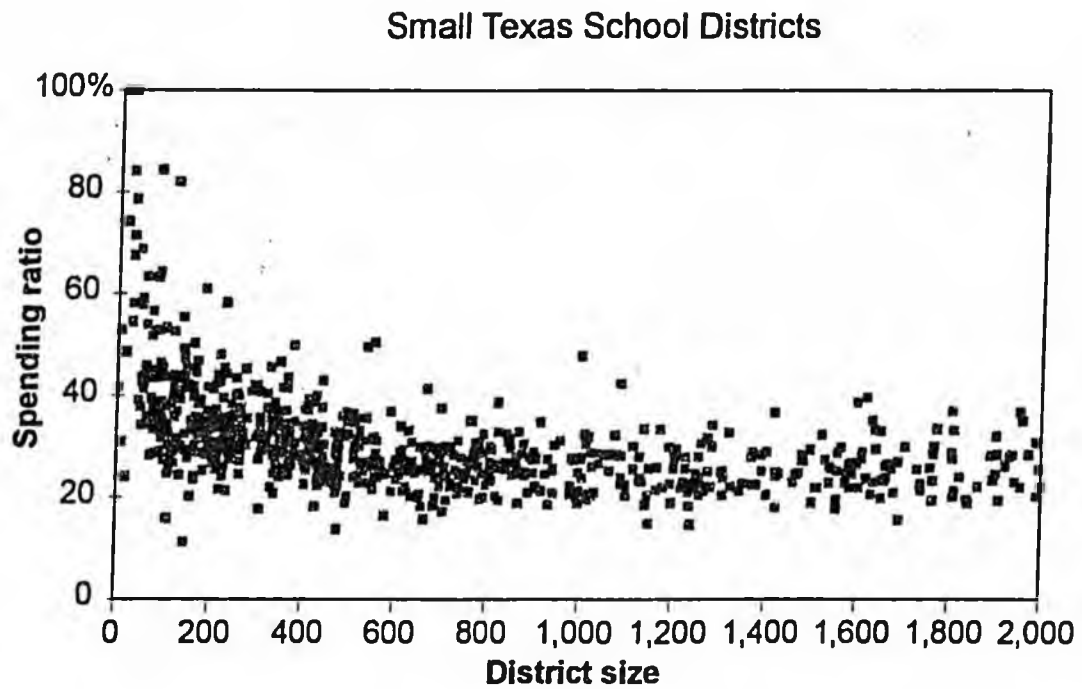
SOURCE: Texas Education Agency, *Snapshot 91'*, *Snapshot 92'*, and *Snapshot 93'*.

Figure 1.—Spending per student on administration in small and large Texas school districts



SOURCE: Texas Education Agency, Public Education Information Management System (PEIMS) data.

Figure 2.—Administration/instruction spending ratio in small and large Texas school districts



SOURCE: Texas Education Agency, Public Education Information Management System (PEIMS) data.

Table 3.—PEIMS expenditure categories

Expenditure Categories Defined as Administrative Cost:

Category Number	Definition
21	Instructional Administration
23	School Administration
25	Curriculum and Staff Development
26	Communication and Dissemination
41	General Administration
75	Data Processing Services

Other PEIMS Expenditure Categories:

Category Number	Definition
11	Instruction
22	Instructional Resources and Media Services
31	Guidance and Counseling Services
32	Social Work Services
33	Health Services
34	Student Transportation
36	Co-curricular/Extracurricular
37	Food Services
42	Debt Services
51	Plant Maintenance and Operations
52	Facilities Operation and Construction
81	Community Services

SOURCE: Texas Education Agency.

c. shift resources from other non-instructional areas to instruction; and

d. use increased tax revenues to increase overall spending for instruction.

Use of a per-student administrative spending measure sacrifices the incentive for options (c) and (d), while the administrative/total operating expenditure measure does not provide an incentive for (c).

2. There would be no need to change the "allowable" ratio every year to adjust for inflation and increases in school district expenditures and revenues, as would be the case with a per-pupil measure.

3. Fewer variables would need to be taken into account in adjusting allowable district administrative expenditure for factors that are beyond the district's control. A per-pupil measure would require consideration of seven such variables, while the ratio

measure requires adjustment only for size and the district's percentage of Limited English Proficient (LEP) students.

School spending in Texas consists of expenditure from the general fund (Fund 10), and a large number of special revenue funds dedicated to categorical programs, such as Chapter 1 and the Job Training Partnership Act. The administrative expenditure ratio for all of these programs combined is only slightly higher than for the general fund; however, this ratio varies widely across programs. For example, a grant to write a new curriculum might be counted almost entirely as administration.

In order not to penalize districts for receiving those grants, we separated the general fund (Fund 10) from categorical funds, and recommended excluding the categorical programs when calculating the ratio of administrative to instructional expenditure.

Variables Associated with Administrative Expenditure

We used ordinary least squares regression to determine which variables are systematically associated with administrative expenditure, measured on a per-pupil basis or as a ratio of administrative to instructional expenditure. Our working assumption was that causality runs one way from each of the variables in Table 4 to administrative expenditure per student or the administration/instruction expenditure ratio. Our initial hypotheses are shown in the right-hand column of Table 4.

Our actual analysis, as shown in Tables 5 and 6, revealed the following results:

- Instructional spending per student increases in large districts.

- Wealth has the expected effect on administrative spending per student. Moreover, school districts treat administration as a luxury good: other things equal, the administration/instructional expenditure ratio rises as wealth increases.
- Reducing the number of campuses has the expected effect on the administrative/instructional expenditure ratio. However, this effect appears not because districts with fewer and larger campuses are spending less on administration, but because they are spending more per student on instruction.
- More teachers per 100 students (a lower pupil-teacher ratio) leads to more administrative spending per 100 students. In small districts, however, administrative expenditure does not increase as rapidly as instructional expenditure.

School spending in Texas consists of expenditure from the general fund (Fund 10), and a large number of special revenue funds dedicated to categorical programs...

- Districts with more LEP students, many of them heavily Hispanic districts in the Rio Grande Valley of Texas, spend more on administration both per-pupil and relative to instruction.
- Small districts with a higher percentage of special education students spend less on administration.
- Compensatory education only has an impact on administrative expenditure in large districts. This is because the administrative expenditures associated with Chapter 1 are categorical program expenses not included in the Fund 10 expenditures counted in this analysis.

Table 4.—Variables which might affect administrative expenditure

Variable	Initial hypothesis
District size	Larger districts should have lower administrative costs per student relative to instructional expenditures. However, beyond around 2,000 students, there are no additional expenditure savings from additional size.
District wealth	Wealthier districts should spend more per student, but it is not obvious whether they would spend more relative to instruction.
Average campus size	For a given district size, a larger campus size implies fewer campuses, saving on both measures of administrative expenditure.
Student-teacher ratio	A higher student-teacher ratio implies fewer teachers per student to supervise, lowering administrative expenditure per student; it is not obvious what happens to the administrative/instructional expenditure ratio.
Percent of LEP students	More bilingual students implies more expense in curriculum development, raising administrative expenditure per student; it is not obvious what happens to the administrative/instructional expenditure ratio.
Percent of students in special education	Same as for LEP students.
Percent of low income students	Same as for LEP students.
Percent mobile students	Higher student mobility increases the expenditure of keeping track of students, raising administrative expenditure per student and the administrative/instructional expenditure ratio.
Administrative salary index	Higher administrative salaries in neighboring districts increase administrative expenditure per student; if teacher salaries are also higher, it is not obvious what happens to the administrative/instructional expenditure ratio.
Five-year percent change in enrollment	Districts may adjust their administrative spending with a time lag when enrollments increase, causing a negative relationship between this variable and both measures of administrative expenditure.

SOURCE: Chrys Dougherty's hypotheses.

Table 5.—Variables associated with administrative expenditure

Variables	Dependent variable			
	Administrative/instructional ratio		Admin exp/student	
	Small districts	Large districts	Small districts	Large districts
Natural logarithm of district size	-	(-)	-	
Natural logarithm of district wealth	+	+	+	+
Average campus size (in hundreds)	(-)	-	+	
Student-teacher ratio	+	-	-	-
Percent LEP students	+	+	+	+
Percent special education students	(-)		-	
Percent low income students				(+)
Student mobility rate		+		
Administrative salary index				
5-year percent enrollment change		(-)		(-)

Parentheses imply significance at the 10% level; no parentheses imply significance at the 5% level or better.

SOURCE: Chrys Dougherty's statistical analysis.

Table 6.—Results of administrative expenditure regressions

Variables	Dependent variable			
	Administrative/instructional ratio		Admin exp/student	
	Districts with greater than 2000 students	Districts with less than 2000 students	Districts with greater than 2000 students	Districts with less than 2000 students
Constant	0.249 (3.76)	0.137 (1.68)	217.1 (1.02)	-187.8 (-1.14)
Natural logarithm of size	-0.060 (-11.5)	-0.005 (-1.68)	-213.8 (-12.7)	-2.26 (-0.38)
Natural logarithm of wealth	0.030 (7.75)	0.013 (2.76)	217.7 (17.0)	83.2 (8.52)
campsize (in hundreds)	-0.005 (-1.77)	-0.005 (-2.94)	25.6 (2.38)	-3.69 (-1.01)
stu/tch	0.006 (2.99)	0.000 (0.02)	-52.8 (-8.76)	-20.0 (-4.88)
Percent LEP	0.002 (3.41)	0.001 (2.62)	6.81 (4.77)	2.47 (4.18)
Percent special ed.	-0.001 (-1.82)	-0.001 (-1.39)	-11.1 (-5.36)	-3.39 (-1.60)
Percent low income	0.000 (0.69)	0.000 (0.89)	-0.318 (-0.58)	0.662 (1.81)
mobility	0.000 (0.04)	0.001 (2.42)	-0.583 (-0.66)	0.895 (1.55)
salindex (in thousands)	0.002 (1.35)	0.001 (0.91)	-3.13 (-0.80)	2.53 (1.37)
Percent sizchg	0.000 (1.29)	-0.000 (-1.68)	-0.412 (-0.79)	-0.566 (-1.96)
R ²	.462	.137	.762	.440
Adjusted R ²	.455	.104	.759	.418

NOTE: t-statistics are in parentheses.

SOURCE: Chrys Dougherty's regressions using PEIMS and TAAS data from the Texas Education Agency.

- High student mobility has little effect on administrative spending per student.
- Administrative salaries paid in neighboring districts have no impact.
- High percentage enrollment increases have the expected effect, but only in large districts.

The Relationship Between Administrative Expenditure And Student Learning

To examine the relationship between administrative expenditure and student learning, we regressed test score data on a set of demographic and expenditure variables. The dependent variable we used was the average of the third- and fifth-grade reading, writing, and mathematics scaled scores on the Texas

Assessment of Academic Skills (TAAS) test, which was administered in Texas elementary schools in October 1990. These scaled scores had a mean of 1,600 and standard deviation of 73.3. We had data on these scores in 1,323 schools.

Gain scores—the average difference between individual students' test scores in consecutive years—would be a more appropriate dependent variable to use in this analysis. However, the TAAS at the time was not designed to be gain-scored, and was not administered to the same students in successive years. Thus, we lacked the data to implement this more desirable alternative.

The independent variables we used were:

- percent low income students
- percent black students
- percent Hispanic students
- percent LEP students
- percent of students in special education
- percent mobile students
- district size
- campus size
- student-teacher ratio
- teacher's average years of experience
- expenditure per teacher on central administration
- expenditure per teacher on school administration
- expenditure per teacher on instructional administration
- expenditure per teacher on counseling, health, and social work services
- expenditure per teacher on instruction

The results, as shown in Table 7, indicate that there is little association between administrative spending per teacher and student learning. However, there is also no evidence that administrative spending has a *negative* effect on instruction. We were unable to explain the opposite-sign relationships between

campus and instructional administrative spending and student learning.

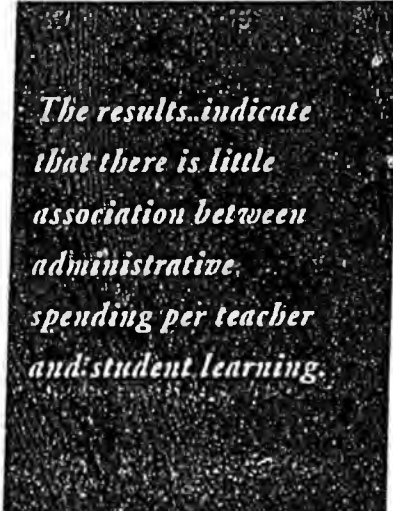
What Do Districts With Unusually High Administrative Expenditures Do Differently?

We selected seven Texas school districts with unusually low or high ratios of administrative to instructional expenditure. For site visits our judgment about which districts' administrative costs are unusually low or high was based on residuals from a regression equation similar to that used in Table 5.

When administrative expenditures are especially high, how do school districts spend the money? In some cases, the district uses the school district administrative budget as an employment program.

One high-expenditure district with 18,000 students had a staff of 2,500 of whom 995 were teachers. This district had the state's 13th-highest ratio of non-teachers to total staff. Judging from interviewees' comments in a number of districts, "kicking the bad principals upstairs" into the central office is a fairly common practice.

Other districts have special circumstances. One small, suburban high-wealth district hired extra staff to process the thousands of job applications received each year from teachers anxious to work in that district. Another district was paying three superintendents, two of whom had been dismissed from multi-year contracts in the previous two years. One of these former superintendents had sued the district for wrongful termination, creating high legal costs as well.



The results indicate that there is little association between administrative spending per teacher and student learning.

Table 7.—Results of test score regressions

Variables	TASS Scaled Score	TASS Scaled Score
Constant	1,658.7	1,649.2
Percent low-income students	-1.83 (-16.8)	-1.84 (-17.0)
Percent black students	-0.592 (-5.64)	-0.571 (-5.45)
Percent Hispanic students	-0.236 (-2.25)	-0.216 (-2.06)
Natural logarithm of district size	4.78 (4.48)	5.80 (3.98)
campus size	-0.012 (-1.64)	-0.009 (-1.12)
Student-teacher ratio	-2.37 (-3.28)	-2.244 (-3.03)
Teachers average years of experience	1.22 (2.07)	1.358 (2.30)
Expenditure per teacher on total administration (in thousands)	1.360 (1.34)	--
Expenditure per teacher on central administration (in thousands)	--	1.31 (0.80)
Expenditure per teacher on school administration (in thousands)	--	3.88 (2.30)
Expenditure per teacher on instructional administration (in thousands)	--	-5.57 (-2.10)
Expenditure per teacher on classroom instruction (in thousands)	0.573 (1.38)	0.449 (1.08)
R ²	.636	.638
Adjusted R ²	.632	.634

NOTE: t-statistics are in parentheses.

Variables which were not statistically significant are not shown: percent LEP students, percent special education students, percent mobile students, and expenditure per teacher on counseling, health, and social work services.

SOURCE: Chrys Dougherty's regressions using PEIMS and TAAS data from the Texas Education Agency.

What Do Districts With Unusually Low Administrative Expenditures Do Differently?

Districts with below-average administrative expenditures employ several expenditure-saving measures. First, they limit expenditures on instructional administration, relying on their teachers or the state's Regional Educational Service Centers for curriculum development services. Second, they expect senior administrative staff to share clerical and support staff. Third, they pay their administrators less. This option may not be available to districts that hope to attract top-flight principals and superintendents, however.

An underutilized option is the formation of multi-district cooperatives to share expenditures in areas such as curriculum development and data processing. To examine the use of cooperatives, our study contacted 48 school districts, 25 with a high administrative/instructional expenditure ratio and 23 with a low administrative/instructional expenditure ratio. While 46 of these districts participated in cooperatives to pool resources for special education and several do the same for vocational education, only two districts were members of cooperatives designed to achieve economies in general administrative expenditures. One district was part of a seven-district cooperative designed to share data processing expenses. The second cooperative served 13 districts, providing services in data processing, staff development, and technology support.

Recommendations Made Based on the Administrative Expenditure Study

As a result of our study, we made the following recommendations to the Texas legislature in 1993:

- Define administrative expenditure broadly (including campus and instructional administration) to limit creative accounting.
- Establish allowable ratios of administrative to instructional expenditure.
- Set these ratios at the 1990-91 statewide average to be reduced to 85 percent of that average in three years.
- Adjust the allowable ratio for district size and percent of students in bilingual programs.
- Withhold a dollar of state funding for every dollar by which the district exceeds its allowable expenditure ratio.

We projected that this approach would redirect \$269 million into the classroom by the 1996-97 school year, or about \$70 per student based on an enrollment of 3.8 million students in Texas. Compelling small districts' administrative/instructional expenditure ratio to conform to the state average would redirect an additional \$20 million.



What Passed the Legislature in the 1993 Session

Distracted by school finance issues and the threat of a court-ordered shutdown of public schools, the 1993 Texas Legislature paid relatively little attention to administrative expenditure. The administrative expenditure control measure that passed was considerably different from the one recommended in the Administrative Expenditure Study. The Legislature divided school districts into five size categories, and specified that the Commissioner of Education would set allowable ratios of administrative to instructional expenditure for each category. "Administrative expenditure" as

defined by the legislature excludes campus administration, but includes state and local categorical programs.

This legislation was first implemented in the 1993-94 school year. As actual expenditure data from subsequent years become available, it should be possible to assess the impact of this legislation.

SB

197

SENATE COMMITTEE REPORT

DATE: 5/7/97

FURTHER:

Date of 5-Day Notice: 1/8/98
(in accordance with Uniform Rule 23)

DATE TURNED IN TO OFFICE: 1/21/98

HESS Committee considered

SENATE BILL NO. 197

"An Act relating to health care services provided by, and practices of, a health maintenance organization; and prohibiting health maintenance organizations from limiting free speech of health care providers."

and recommends:

be replaced with _____ CS _____ (_____)

adopt previous _____ CS _____ (_____)

attached amendment(s)

adopt Letter of Intent by _____ Committee

further referral to the _____ Committee

Senate Bill:

same title

new title

House Bill:

same title

technical change

new: SCR# _____

SIGNING DQ PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>[Signature]</i>	✓	<i>Kerwin D. Roman</i>	✓		
<i>[Signature]</i>	✓	<i>[Signature]</i>			✓
		<i>[Signature]</i>			✓
CHAIR:		CHAIR:			

NEW FISCAL NOTE(S):

Department	Date	Zero	Fiscal
<i>Commerce + Development</i>	<i>1/13/98</i>	✓	

PREVIOUS FISCAL NOTE(S):*

Department	Date	Zero	Fiscal

APPROPRIATION -- no fiscal note

*Include fiscal notes accompanying Governor's bill

FISCAL NOTE

STATE OF ALASKA
1998 LEGISLATIVE SESSION

BILL NO. SB 197 | _____

Revision Date (Note if correction) _____ Dept. Affected Commerce & Economic Development
 Title Regulating Health Maintenance Orgs. Insurance
 Component Insurance
 Sponsor Senator Taylor
 Requester Senate Heds Component Serial No. 354

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

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

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

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY98) cost: 0.0

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Although there has been enabling legislation since 1990, there are no HMOs in Alaska.

Prepared by Lianne K. Burke, Director
 Division Insurance
 Approved by Commissioner Deborah Sedwick
 Agency Commerce and Economic Development

Phone 465-2515
 Date 1/13/98
 Date 1/13/98

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SENATOR DAVE DONLEY

ALASKA STATE LEGISLATURE

SPONSOR STATEMENT - SB 197

Prohibiting HMOs from having gag orders on physicians, requiring HMOs identify medical treatments that may be denied and clarifying access to chiropractic care

Tension between quality medical care and cost containment has been growing in the health care industry. Serious problems have developed in the use of Health Maintenance Organizations (HMOs). Public concern has grown about HMO gag clauses that prohibit physicians from discussing alternative treatment options, financial incentives or second opinions with patients. Some HMOs have not clearly identified medical services that may be denied coverage and guidelines on access to chiropractic care are oftentimes unclear or non-existent. Senate Bill 197 was introduced in response to these concerns and bans gag clauses between physicians and patients, requires HMOs identify treatments that may be denied and clarifies guidelines on access to chiropractic care.

SB 197 bans HMOs from having gag orders which prohibit physicians from discussing alternative treatment options, financial incentives or second opinions with patients. The practice by HMOs of hindering open patient-physician communications was exposed in a December 1995 editorial in the New England Journal of Medicine, and later in a January, 1996 Time magazine cover story. President Clinton has urged Congress, doctors, nurses, health care professionals, and consumers to craft legislation banning gag orders for Americans in HMOs. State legislatures responded and by March, 1997 all but 14 states had enacted legislation or passed rules banning gag clauses. Twelve of the remaining states, including Alaska with SB 197, have introduced legislation banning gag orders.

To prevent confusion about treatments that are not covered, SB 197 requires HMOs clearly identify treatments that may be denied a patient. This prevents the HMO from denying coverage to a patient after treatment has been performed but cost is not covered. In an April, 1997 issue of California Medicine, the California Physician's Alliance identified this problem as a primary abuse by HMOs.

SB 197 allows patients direct access to chiropractic care with a licensed chiropractor of their choice and does not require prior consent of a gatekeeper. HMOs attempt to control costs by requiring all patients initially see a gatekeeper, either a Medical Doctor or Registered Nurse, who refers the patient to an appropriate health care provider. Many times a gatekeeper will not recommend chiropractic care, even if the HMO covers chiropractic services.

The concept behind SB 197 is widely supported by the American public, the Federal government, chiropractors and many medical doctors. Although there are no HMOs currently operating in Alaska, SB 197 bans HMOs from having gag orders on physicians, requires HMOs identify treatments that may be denied and clarifies access to chiropractic care.

If you have further questions, please contact Karen Brand of my staff 3892.

DD/kb 1/11/98

January-May: STATE CAPITOL • JUNEAU, AK • 99801-1182 • (907) 465-3892 • FAX: (907) 465-6595
June-December: 716 W. 4TH AVE. • STE. 430 • ANCHORAGE, AK • 99501 • (907) 258-8181 • FAX: (907) 258-1648

MEMBER: Senate Finance Committee • Legislative Budget & Audit Committee
• Senate Community & Regional Affairs Committee

U.S. to set new rules on HMO doctor fines

Los Angeles Times-
Washington Post News Service

HEALTH/MEDICINE

WASHINGTON - In an effort to ensure that patients receive appropriate treatment, the federal government will impose new rules on Medicaid and Medicare providers next week limiting financial penalties levied against doctors who order referrals or expensive procedures.

The new regulation will still allow health maintenance organizations to tie the pay of physicians to their ability to control costs, but will restrict the financial losses they can be forced to absorb for referring patients to specialists, conducting sophisticated tests or prescribing elaborate treatments more often than an HMO prefers.

The move by the Health Care Financing Administration strikes at the heart of the tension between quality care and cost containment that has dominated the health industry in recent years. With the spread of managed care, skyrocketing medical costs in the United States have been reined in, partly by providing doctors with incentives to curb unneeded treatment. But the ledger-book approach has led to rising fears that at times

sound medicine has been sacrificed to the bottom line.

"We do want to provide incentives to hold down costs, but not at the expense of avoiding necessary care," said Bruce M. Fried, director of the agency's Office of Managed Care.

The rules on incentive arrangements take effect with the new year.

In September, President Clinton announced he would appoint a commission to study the quality of medical care in the current cost-cutting environment. In October, he signed a law prohibiting insurance companies from forcing new mothers out of hospitals in less than 48 hours. And in November, federal officials warned HMOs not to enforce "gag rules" barring doctors from advising Medicare patients of medically necessary but expensive treatment options.

"All of those are the pendulum swinging a bit back," Fried said.

Industry leaders said yesterday they have no philosophical objections to the new rules and have resolved most of the technical issues that had troubled them.

STATE OF ALASKA

DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT

DIVISION OF OCCUPATIONAL LICENSING

TONY KNOWLES, GOVERNOR

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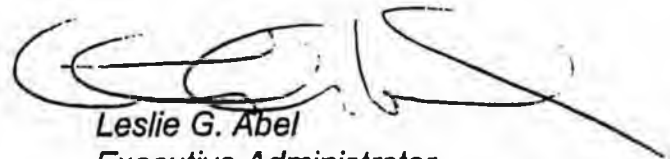
September 30, 1997

Senator Dave Donley
716 West Fourth Avenue Suite 430
Anchorage AK 99501

Senator Donley, the Alaska State Medical Board reviewed your letter and SB 197 at its board meeting on September 25, 1997.

The board asked me to advise you that they are in favor of and support the changes provided in SB 197, Sections 1 and 3 of the statute. The board did not feel it could render an opinion on Section 2 and suggested that perhaps you may wish to refer this section to the Board of Chiropractic for their review.

The board asked me to also convey to you their appreciation for soliciting their opinion of this important legislation and to wish you success in your endeavors.



Leslie G. Abel
Executive Administrator
Alaska State Medical Board

Petition to Support Senate Bill 197

We, the undersigned, urge members of the Alaska State Legislature to support passage of Senate Bill 197, sponsored by Senator Dave Donley, which clarifies guidelines on access to chiropractic care, bans gag orders on physicians and requires Health Maintenance Organizations identify treatments that may be denied.

Specifically, SB 197:

- Allows patients direct access to chiropractic care with a licensed chiropractor of their choice and does not require prior consent on a medical doctor or registered nurse;
- Bans HMOs from having gag orders which prohibit physicians from discussing alternative treatment options, financial incentives, or second opinions with patients; and
- Prevents confusion about treatments that are not covered by requiring HMOs clearly identify treatments that may be denied a patient.

The concept behind SB 197 is widely supported by consumer groups, chiropractors, and many medical doctors. Thirty seven states have passed legislation or rules banning gag orders and 12 of the remaining 14 have legislation pending.

Name (print)	Signature	Address	Phone
Tara L Blanchard	<i>Tara Blanchard</i>	501 Oceanview Dr.	315-4758
Jessica T. Ames	<i>Jessica Ames</i>	1200 Jackson Dr.	349-7662
Mellician Charles	<i>Charles Mellician</i>	1709 HADLTON DR	345-4626
Dr. Gee	<i>Dr. Gee</i>	2620 LYNN LN	244-2571
ROBERT KRAM	<i>Robert Kram</i>	511 BOUNTY DR.	345-7929
ROBERT J LORANGER	<i>Robert J Loranger</i>	3041 W 91 ST ANCHORAGE	243-4753
BRUCE W. TEAGUE	<i>Bruce W. Teague</i>	11435 Oldseward Hwy	583-7500
GUMMINK TERRY	<i>Terry Gummink</i>	12221 SULTANA	345-9792
WILLIAM MISSAL	<i>William Missal</i>	12000 AUDUBON DR	345-7520
Allen Hall	<i>Allen Hall</i>	1930 Brigadier Dr.	522-9065
Pamela Murray	<i>Pamela Murray</i>	110 Bree Ave	345-3071
Sinner	<i>Sinner</i>	2221/ANIS CIR	845-9580
Brendy Shepard	<i>Brendy Shepard</i>	10535 Toke S. ^{Cape Prince} Dr.	694-4836
Ted Wilberding	<i>Ted Wilberding</i>	8515 Blackberry	243-6065

SANDRA T. JACQUES, D. C.

4316 KINGSTON DRIVE
ANCHORAGE, AK 99504
TELEPHONE (907) 337-6770
FAX (907) 337-9604

Senator Gary Wilken
State Capitol, Room 510
Juneau, AK 99801

7 November, 1997

Dear Senator Wilken,

I would like to address House Bill 219 and Senate Bill 197 currently passing through the Legislature. I understand that these bills are designed to allow patients enrolled in HMOs to self-refer for chiropractic services if their HMOs do not offer this type of referral service.

I fully support both bills. I feel that it is of utmost importance for patients to be able to select the type of treatment they desire. HMOs should consider patient choice when referring them to health care providers. Additionally, HMOs should be required to utilize funds paid by patients in the form of health care premiums to pay for the treatment of the patients' choice first.

Please consider both of these bills favorably when they come to vote.

Thank You,

Sandra Talt, D.C.

Sandra Talt, D.C.



Northern Chiropractic

Gregory M. Culbert, D.C.

11723 Old Glenn Highway, Suite 101
(Parkgate Building)
Eagle River, Alaska 99577

Telephone: (907) 696-4878

November 10, 1997

Senator Gary Wilken, Chair
State Capitol, Room 510
Juneau, AK 99801

RE: SB 197

Dear Senator Wilken:

Senator Dave Donley is sponsoring SB 197, a bill prohibiting HMO's from placing "gag orders" on physicians, requiring HMO's to identify medical treatments that may be denied, and clarifying access to chiropractic care.

I urge you to support this bill. Currently, there are no HMO's in the State of Alaska, but it is only a matter of time. Being proactive in dealing with HMO's would benefit Alaskans.

This bill will also allow patient's direct access to chiropractic care by a licensed chiropractor of their choice without prior consent from a gate keeper. Most gate keepers, as they often do not understand chiropractic care, do not refer the patient for chiropractic care when it may indeed be warranted. Senate bill 197 would prevent "gag orders" from being placed on physicians and would allow direct access to chiropractic care when appropriate.

By March of 1997, all but 14 states had enacted legislation or passed rules banning gag clauses. Including Alaska, 12 of the remaining states are in the process of doing this. Alaska Senate Bill 197 would ban gag clauses on physicians, would require HMO's to identify treatment that is denied, and further clarify access to chiropractic care.

Please support this bill.

Sincerely,

Gregory M. Culbert, D.C.
kd



NORTHERN LIGHTS CHIROPRACTIC

AMBER ALEXANDER, D.C.
1867 Airport Way, Ste. 140-C
Fairbanks, Alaska 99701

Telephone: (907) 452-3309

RECEIVED
NOV 17 1997

November 14, 1997

Senator Gary Wilken, Chair
State Capitol
Room 510
Juneau, AK 99801

Dear Mr. Wilken,

I would like to encourage your support for House Bill 219 and Senate Bill 197, allowing patients in HMO's to self-refer for chiropractic services. This legislation is necessary to allow patients freedom of choice in health care and to help keep HMO's responsible for preventative health care as well as crisis care.

Very truly yours,

Dr. Amber Alexander

Dr. Amber Alexander

gd/aa

Ketchikan Chiropractic Center
R. Clark Davis, D.C.
320 Bawden, Suite 306
Ketchikan, Alaska 99901

RECEIVED

NOV 14 1997

November 12, 1997

Senator Gary Wilken, Chair
State Capitol, Room 510
Juneau, AK 99801
FAX: 465-4714

Dear Senator Gary Wilken,

I am writing to encourage your support of Senate Bill 197. This bill will allow patients to self refer themselves for chiropractic care if an HMO health maintenance organization gatekeeper (medical doctor) refuses to refer the patient for chiropractic care. Many conditions, for example back pain, are helped by chiropractic care when medical care has failed. Medical school curriculum does not regularly teach chiropractic methods, chiropractic research, or chiropractic referral. Some people also prefer chiropractic care over medical or surgical treatment. The Alaskan public deserves proper access to chiropractic care. Thank you for your time on this important matter.

Please let me know your thoughts on this issue so I can inform my patients.
Thanks again.

Sincerely,



R. Clark Davis, D.C.

Chapter 21.86. HEALTH MAINTENANCE ORGANIZATIONS

Sec. 21.86.010. Establishment of health maintenance organizations.

(a) A person may apply to the director for and obtain a certificate of authority to establish and operate a health maintenance organization in compliance with this chapter. A person may not establish or operate a health maintenance organization in this state unless the person obtains a certificate of authority under this chapter. A foreign corporation may, subject to its registration, qualify under this chapter to do business in this state as a foreign corporation.

(b) An application for a certificate of authority must be verified by an officer or authorized representative of the applicant, must be in a form prescribed by the director, and must contain or be accompanied by

(1) a copy of the organizational documents of the applicant, including the articles of incorporation, articles of association, partnership agreement, trust agreement, or other applicable documents, and all amendments to the documents;

(2) a copy of the bylaws, regulations, or similar document, if any, regulating the conduct of the internal affairs of the applicant;

(3) a list of the names, addresses, and official positions of the persons who are responsible for the conduct of the affairs of the applicant, including all members of the board of directors, board of trustees, executive committee, or other governing board or committee, the principal officers in the case of a corporation, and the partners or members in the case of a partnership or association;

(4) a copy of contracts made or to be made between the applicant and providers or between the applicant and persons listed in (3) of this subsection;

(5) a copy of the form of evidence of coverage that is to be issued to the enrollees;

(6) a copy of the form or group contract, if any, that is to be issued to employers, unions, trustees, or other organizations;

(7) financial statements showing the applicant's assets, liabilities, and sources of financial support; if the applicant's financial affairs are audited by independent certified public accountants, a copy of the applicant's most recent certified financial statement satisfies the requirement of this paragraph unless the director finds that additional or more recent financial information is required for the proper administration of this chapter;

(8) a description of the proposed method of marketing, a financial plan that includes a projection of operating results anticipated until the organization has had net income for at least one year, and a statement as to the sources of working capital as well as any other sources of funding;

(9) a power of attorney executed by the applicant, if not domiciled in this state, appointing the director and the director's successors in office, and authorized deputies, as the true and lawful attorney of the applicant in and for this state, upon whom all lawful process in any legal action or proceeding

against the health maintenance organization, on a cause of action arising in this state, may be served;

(10) a statement reasonably describing the geographic area or areas to be served;

(11) a description of the complaint procedures to be used, as required under AS 21.86.100;

(12) as required by regulations adopted by the director, a description of the procedures and programs to be implemented to assure compliance with state and federal statutes and regulations regarding the quality of health care;

(13) a description of the mechanism by which enrollees will be afforded an opportunity to participate in matters of policy and operation under AS 21.86.040;

(14) the deposit required under AS 21.86.140(b);

(15) other information that the director requires in order to make a determination under AS 21.86.020;

(16) the application fee prescribed under AS 21.06.250.

(c) An applicant, or a health maintenance organization holding a certificate of authority granted under this chapter, shall, unless otherwise provided for, file a notice describing any material modification of the organization's operation as described in the information submitted under (b) of this section. The notice shall be filed with the director before the modification. If the director does not disapprove the modification within 30 days after the filing of the notice, the modification is considered approved. The director may adopt regulations exempting from the filing requirements of this subsection those items that the director considers unnecessary to report.

(d) An applicant, or a health maintenance organization holding a certificate of authority granted under this chapter, shall file with the director all contracts of reinsurance. An agreement between the organization and an insurer is subject to the laws of this state regarding reinsurance. All reinsurance agreements, and modifications to a reinsurance agreement, shall be filed with the director and must be approved by the director. A reinsurance agreement remains in full force and effect for at least 90 days following written notice to the director, by registered mail, of cancellation by either party.

Sec. 21.86.020. Issuance of certificate of authority; approval of changes.

(a) Within 10 days after receipt of an application for a certificate of authority, the director shall forward a copy of the application to the commissioner of health and social services. Within 60 days after the commissioner of health and social services receives the copy of the application, the commissioner shall make a recommendation regarding the granting of the certificate of authority.

(b) The director shall either issue or deny a certificate of authority within 30 days after receipt of the commissioner of health and social services' recommendation. However, the director may extend the time for issuance or

denial of a certificate of authority if additional information is needed in order to make a decision, and notice of the extension is provided to the applicant by the 90th day after the director received the application. A certificate of authority shall be issued if the director determines that the following conditions are met:

(1) the persons responsible for the conduct of the affairs of the applicant are competent and trustworthy;

(2) the applicant will effectively provide or arrange for the provision of basic health care services on a prepaid basis, through insurance or otherwise, except to the extent of reasonable requirements for copayments;

(3) the applicant is financially responsible and may reasonably be expected to meet its obligations to enrollees and prospective enrollees; in determining if this condition is met, the director may consider

(A) the financial soundness of the arrangements for health care services and the schedule of charges used in connection with those services;

(B) the adequacy of working capital;

(C) an agreement with an insurer, a hospital or medical service corporation, a government, or other organization for ensuring the payment of the cost of health care services or providing for automatic applicability of an alternative coverage if the health maintenance organization is discontinued;

(D) an agreement with providers for the provision of health care services; and

(E) a deposit of cash or securities submitted under AS 21.86.140;

(4) the enrollees will be afforded an opportunity to participate in matters of policy and operation as provided in AS 21.86.040;

(5) nothing in the proposed method of operation, as shown by the information submitted under AS 21.86.010 or by independent investigation, is contrary to the public interest;

(6) the information submitted under AS 21.86.010(b)(12) indicates that the applicant will be able to comply with state and federal statutes and regulations regarding the quality of health care.

(c) If a certificate of authority is denied under this section, the applicant may request a hearing under AS 21.86.200.

Sec. 21.86.030. Powers of a health maintenance organization.

(a) A health maintenance organization may

(1) purchase, lease, construct, renovate, operate, or maintain hospitals, other health care facilities, their ancillary equipment, and property reasonably required for its principal office or for purposes necessary in the transaction of the business of the organization;

(2) make loans to a medical group under contract with it in furtherance of its program, or make loans to a corporation or corporations under its control for the purpose of acquiring or constructing medical facilities and hospitals or in furtherance of a program providing health care services to enrollees;

(3) furnish health care services through providers that are under contract with or employed by the health maintenance organization;

(4) contract with a person for the performance, on the organization's behalf, of certain functions such as marketing, enrollment, and administration;

(5) contract with an insurance company licensed in this state, or with a hospital or medical service corporation authorized to do business in this state, for the provision of insurance, indemnity, or reimbursement against the cost of health care services provided by the health maintenance organization;

(6) offer other health care services, in addition to basic health care services.

(b) A health maintenance organization shall file a notice and adequate supporting information with the director before the exercise of a power granted in (a)(1), (2), or (4) of this section. The director may disapprove the exercise of a power only if, in the director's opinion, it would substantially and adversely affect the financial soundness of the health maintenance organization and endanger its ability to meet its obligations. If the director does not disapprove the exercise of power within 30 days after the filing of the notice, it is considered approved. The director may adopt regulations exempting from the filing requirement of this section those activities having a minimal effect on the health maintenance organization.

(c) Nothing in this section relieves a health maintenance organization that wishes to exercise the power described in (a)(1) of this section from the requirements of

(1) AS 18.07, regarding obtaining a certificate of need;

(2) AS 18.20, regarding regulation of hospitals; and

(3) other statutes applicable to hospitals or other health care facilities.

Sec. 21.86.040. Governing body; enrollee participation.

(a) The governing body of a health maintenance organization may include providers, or other individuals, or both. At least one-third of the governing body must consist of consumers who are substantially representative of enrollees.

(b) The governing body of a health maintenance organization shall establish a mechanism to afford its enrollees an opportunity to participate in matters of policy and operation through the establishment of advisory panels, by the use of advisory referenda on major policy decisions, or through the use of other mechanisms.

Sec. 21.86.050. Fiduciary responsibility.

(a) A director, officer, employee, or partner of a health maintenance organization who receives, collects, disburses, or invests money in connection with the activities of that organization is responsible for that money in a fiduciary relationship to the organization.

(b) A health maintenance organization shall maintain in force a fidelity bond on employees and officers in an amount not less than \$100,000,

or another amount prescribed by the director. The bond must be written with at least a one-year discovery period and, if written with less than a three-year discovery period, must contain a provision that cancellation or termination of the bond, whether by or at the request of the insured or by the underwriter, does not take effect sooner than 90 days after written notice of cancellation or termination has been filed with the director, unless an earlier cancellation or termination date is approved by the director.

Sec. 21.86.060. Provision of services.

(a) A health maintenance organization may provide physician services directly, through physician employees, or may provide the services under arrangements with individual physicians or one or more groups of physicians.

(b) In addition to basic health care services, a health maintenance organization may provide, or arrange for, other health care services on a prepayment or other financial basis.

(c) Health care services may be provided only by appropriately licensed health care providers.

Sec. 21.86.070. Evidence of coverage; charges for health care services.

(a) An enrollee residing in this state is entitled to evidence of coverage. If an enrollee obtains coverage from an insurance policy or from a subscriber contract issued by a hospital or medical service corporation, whether by option or otherwise, the insurer or hospital or medical service corporation shall issue the evidence of coverage; otherwise, the health maintenance organization shall issue the evidence of coverage. Each subsequent change in coverage must be evidenced in a separate document issued to the enrollee.

(b) Except as provided in (d) of this section, evidence of coverage, or an amendment or endorsement to coverage, may not be issued or delivered to a person in this state until a copy of the form of the evidence of coverage, amendment, or endorsement has been filed with and approved by the director. A filing shall be made not less than 30 days before the intended date of delivery or issuance. The form of evidence of coverage, amendment, or endorsement is considered approved 30 days after it was filed, unless it is affirmatively approved or disapproved by an order of the director before the expiration of the 30-day period. If the form of evidence of coverage, amendment, or endorsement is disapproved, the director's order must specify the reasons for disapproval. A hearing shall be granted to a person aggrieved by either an approval or disapproval under this subsection if a written request is made by that person to the director. The hearing shall be granted within 30 days after the receipt of the written request.

(c) An evidence of coverage

(1) may not contain a provision or statement that is unjust, unfair, inequitable, misleading, deceptive, or encourages misrepresentation, or that is untrue, misleading, or prohibited under AS 21.86.150; and

(2) must contain a clear and concise statement, if a contract, or a reasonably complete summary, if a certificate, of

(A) the health care services and the insurance or other benefits, if any, to which the enrollee is entitled;

(B) limitations on the services, kind of services, benefits, or kind of benefits, to be provided, including a deductible or copayment feature;

(C) where, and in what manner, information is available as to how services may be obtained;

(D) the total amount of payment for health care services and the indemnity or service benefits, if any, that the enrollee is obligated to pay with respect to individual contracts; and

(E) the health maintenance organization's method for resolving enrollee complaints.

(d) If a form of the evidence of coverage, or an amendment or endorsement to it, is subject to the jurisdiction of the director under AS 21.42.120 and 21.42.130, or under AS 21.87.180, the filing requirements of (b) of this section do not apply. If a form of evidence of coverage, or an amendment or endorsement to it, is subject to AS 21.42.120 and 21.42.130, or to AS 21.87.180, those applicable provisions, as well as (c) of this section, apply to the content of the form of evidence of coverage, amendment, or endorsement.

(e) A schedule of charges for enrollee coverage for health care services, or an amendment or endorsement to it, may not be used until a copy of the schedule has been filed with and approved by the director. A filing shall be made not less than 30 days before its proposed use. The schedule of charges, amendment, or endorsement is considered approved 30 days after it was filed unless it was affirmatively approved or disapproved by an order of the director before the expiration of the 30-day period. If a schedule of charges, amendment, or endorsement is disapproved, the director's order must specify the reasons for disapproval. A hearing shall be granted to a person aggrieved by either an approval or disapproval under this subsection if a written request is made by that person to the director. The hearing shall be granted within 30 days after receipt of the written request.

(f) A schedule of charges, or an amendment or endorsement to it, shall be established according to sound actuarial principles for various categories of enrollees, but charges applicable to an enrollee may not be individually determined based on that enrollee's health status. The charges may not be excessive, inadequate, nor unfairly discriminatory. Certification by an actuary who is a member in good standing of the American Academy of Actuaries or another person who is considered qualified by the director, as to the appropriateness of the application of the charges, based on reasonable assumptions, must accompany each filing under (e) of this section, along with adequate supporting information.

(g) The director may require that additional relevant material considered necessary by the director be submitted in order to determine the acceptability of a filing made under either (b) or (e) of this section.

Sec. 21.86.080. Annual statement; additional reports.

(a) A health maintenance organization shall file an annual statement with the director under AS 21.09.200 and shall provide a copy to the commissioner of health and social services. The annual statement shall be verified by at least two principal officers of the organization. The director may require additional reports that are reasonably necessary and appropriate in order for the director or the commissioner of health and social services to carry out the duties prescribed by this chapter.

(b) The director may require a health maintenance organization to file quarterly financial statements. If quarterly financial statements are required, the statements must follow for a given quarter the reporting specified in the quarterly financial statement blank form and instructions most recently approved by the National Association of Insurance Commissioners.

(c) A filing under this section is subject to AS 21.09.200 and 21.09.205.

Sec. 21.86.087. Insurance report.

(a) The director shall require reporting of and shall compile information necessary to evaluate the effect of the measures enacted in chapter 26, SLA 1997 on the availability and cost of insurance in the state.

(b) Information described in (a) of this section shall be provided by all insurers doing business in this state in the format specified by the director and must include factual information stating premiums, claims, losses, expenses, and solvency of the company as a whole. Information shall be compiled by the division in a way that protects the identity of individual insureds.

(c) The director shall adopt regulations to implement and interpret this section, including requiring insurers doing business in the state to provide information necessary for the division to carry out its responsibilities under (a) and (b) of this section. If there are indications of market disruption, the director may waive all or part of the reporting requirements in this section.

(d) Beginning June 1, 2000, the information compiled under (a) of this section shall be reported annually to the governor and the judiciary committees of both houses of the legislature.

(e) The division may consult with the Alaska Judicial Council when determining what information to require to be reported under (a) - (c) of this section and when implementing the compilation required under (a) of this section.

Sec. 21.86.090. Information to enrollees.

A health maintenance organization shall promptly notify its enrollees of a material change in its operation that would directly affect the enrollees.

Sec. 21.86.100. Complaint system; report.

(a) A health maintenance organization shall establish and maintain a complaint system to provide reasonable procedures for the resolution of written complaints initiated by its enrollees. A complaint system must provide a procedure for forwarding to the commissioner of health and social

services a duplicate copy of a complaint relating to patient care or facility operation.

(b) A health maintenance organization shall annually, on or before March 1, submit to the director, in a form prescribed by the director, a report covering the preceding calendar year. The health maintenance organization shall provide a copy of this report to the commissioner of health and social services. The report submitted under this subsection must include

- (1) a description of the procedures used in its complaint system;
- (2) the total number of complaints handled through its complaint system and a compilation of the causes underlying the complaints filed; and
- (3) the number, amount, and disposition of malpractice claims made by an enrollee that were settled during the year by the health maintenance organization; information concerning malpractice claims shall be held confidential by the director and by the commissioner of health and social services, and is not subject to public disclosure.

(c) The director or the commissioner of health and social services may, at any time during normal business hours, examine the complaint system in any place of business of the health maintenance organization in order to determine compliance with this section.

Sec. 21.86.110. Recovery of health care costs.

If a health maintenance organization determines that an enrollee has received health care services that the enrollee is not entitled to receive under the terms of the health maintenance agreement, the organization may not recover an amount above the actual cost of providing the health care service. This section does not apply if the enrollee gave or withheld information to the health maintenance organization with the intent to mislead or misinform the organization as to the enrollee's right to receive the health care services.

Sec. 21.86.120. Return of agreement.

A person who enters into a health maintenance agreement may return the agreement to the health maintenance organization or the agent from whom it was purchased within 10 days of the delivery of the agreement to the person if the person is not satisfied for any reason. Upon return of the agreement, the health maintenance organization shall promptly refund the fee paid for the agreement. Notice of the substance of this section must be printed on the face of the agreement.

Sec. 21.86.130. Investments.

With the exception of investments made under AS 21.86.030, a health maintenance organization's money may only be invested as allowed by AS 21.21 for the investment of legal reserves of a life insurer.

Sec. 21.86.140. Protection against insolvency.

(a) Except as otherwise provided in this section, a health maintenance organization shall deposit with the director, or with an organization or trustee acceptable to the director through which a custodial or controlled account is used, cash, securities, or a combination of these or other means acceptable to the director in the manner and amount required by this section.

(b) Except as provided in (d) and (e) of this section, the deposit amount for a health maintenance organization that begins operation after June 8, 1990 is the greater of 10 percent of its estimated expenditures for health care services for its first year of operation, twice its estimated average monthly uncovered expenditures for its first year of operation, or \$250,000. Except as provided in (d) and (e) of this section, at the beginning of each succeeding year of operation, the organization shall deposit with the director, or organization or trustee, cash, securities, or a combination of these or other means acceptable to the director in an amount equal to four percent of its estimated annual uncovered expenditures for that year. Each year's estimate, after the first year of operation, shall reasonably reflect the prior year's operating experience and delivery arrangements.

(c) Except as provided in (d) and (e) of this section, a health maintenance organization that is in operation on June 8, 1990 shall, on the first day of its fiscal year beginning six months or more after June 8, 1990, make a deposit equal to the greater of one percent of the preceding 12 months' uncovered expenditures or \$250,000. The organization shall, at the beginning of its second fiscal year after June 8, 1990, deposit an amount equal to two percent of the organization's estimated annual uncovered expenditures for that year. At the beginning of its third fiscal year, the organization shall deposit an amount equal to three percent of its estimated annual uncovered expenditures for that year. At the beginning of the fourth fiscal year and subsequent years, the organization shall deposit an amount equal to four percent of its estimated annual uncovered expenditures for that year. Each year's estimate, after the first year of operation, must reasonably reflect the prior year's operating experience and delivery arrangements.

(d) The director may waive the deposit requirements in (b) and (c) of this section if the director is satisfied that

(1) the organization has sufficient net worth and an adequate history of generating net income to assure its financial viability for the next year;

(2) the organization's performance and obligations are guaranteed by another organization that has sufficient net worth and an adequate history of generating net income; or

(3) the assets of the organization, or its contracts with insurers, hospital or medical service corporations, governments, or other organizations, are reasonably sufficient to assure the performance of its obligations.

(e) The annual deposit requirements of (b) and (c) of this section do not apply if

(1) a health maintenance organization has achieved a net worth, not including land, buildings, and equipment, of at least \$1,000,000 or has

achieved a net worth, including land, buildings, and equipment, of at least \$5,000,000;

(2) the total amount of the health maintenance organization's accumulated deposit is equal to 25 percent of its estimated annual uncovered expenditures for the next calendar year, or is equal to the capital and surplus requirements for the formation for admittance of a health insurer in this state, whichever is less;

(3) a health maintenance organization has a guaranteeing organization that

(A) does not sponsor any other health maintenance organization; and

(B) has been in operation for at least

(i) five years and has a net worth, not including land, buildings, and equipment, of at least \$1,000,000; or

(ii) 10 years and has a net worth, including land, buildings, and equipment, of at least \$5,000,000; or

(4) a health maintenance organization has a guaranteeing organization that sponsors more than one health maintenance organization and that

(A) has been in operation for at least

(i) five years and has a net worth that is at least that required by (3) (B) (i) of this subsection multiplied by a number equal to the number of organizations sponsored; or

(ii) 10 years and has a net worth that is at least that required by (3) (B) (ii) of this subsection multiplied by a number equal to the number of organizations sponsored; or

(B) has, for each organization sponsored, a net worth at least equal to the capital and surplus requirement for a health insurer.

(f) All deposit income belongs to the depositing health maintenance organization, and shall be paid to it as it becomes available. A health maintenance organization that has made a deposit of securities may withdraw that deposit, or any part of it, after making a substitute deposit of cash, securities, or a combination of these or other means of equal amount and value. Substitution of securities must have prior approval by the director.

(g) In a year in which an annual deposit is not required of a health maintenance organization under this section, at the organization's request the director shall reduce the required, previously accumulated deposit by \$100,000 for each \$250,000 of net worth in excess of the amount that allows the organization not to make the annual deposit. If the amount of an organization's net worth is reduced to less than the amount that allowed a reduction in accumulated deposit, the organization shall immediately redeposit \$100,000 for each \$250,000 of reduction in net worth, except that the total deposit need not exceed the maximum required under this section.

(h) A health maintenance organization that obtains a certificate of authority shall have and maintain a capital account of at least \$100,000 in addition to deposit requirements under this section. The capital account must equal at least \$100,000 after deducting accrued liabilities, and must be in

the form of cash, securities, or a combination of these or other means acceptable to the director.

Sec. 21.86.150. Prohibited practices.

(a) A health maintenance organization or a representative of a health maintenance organization may not cause or knowingly permit a person to provide, on behalf of the health maintenance organization, health care services that the person is not licensed to provide.

(b) A health maintenance organization, or a representative of a health maintenance organization, may not cause or knowingly permit the use of advertising that is untrue or misleading, solicitation that is untrue or misleading, or a form of evidence of coverage that is deceptive. For purposes of this chapter,

(1) a statement or item of information is considered to be untrue if it does not conform to fact in any respect that is or might be significant to an enrollee of, or person considering enrollment with, a health maintenance organization;

(2) a statement or item of information is considered to be misleading, whether or not it is untrue, if, in the total context in which the statement is made or the item of information is communicated, the statement or item of information might be understood by a reasonable person, not possessing special knowledge regarding health care coverage, as indicating a benefit or advantage or the absence of an exclusion, limitation, or disadvantage of possible significance to an enrollee of, or person considering enrollment in, a health maintenance organization if the benefit or advantage or absence of limitation, exclusion, or disadvantage does not exist;

(3) an evidence of coverage is considered to be deceptive if the evidence of coverage taken as a whole, and with consideration given to typography and format, as well as to language, might cause a reasonable person, not possessing special knowledge regarding health maintenance organizations or an evidence of coverage, to expect benefits, services, charges, or other advantages that the evidence of coverage does not provide or that the health maintenance organization issuing the evidence of coverage does not regularly make available for an enrollee covered under the evidence of coverage.

(c) AS 21.36 applies to health maintenance organizations and to an evidence of coverage except to the extent that the director determines that the nature of health maintenance organizations and the evidence of coverage renders that chapter clearly inappropriate.

(d) A health maintenance organization may not cancel or refuse to review an enrollee, except for

(1) reasons stated in the organization's regulations applicable to all enrollees;

(2) failure to pay the charge for the enrollee's coverage; or

(3) other reasons adopted by the director by regulation.

(e) Unless it is licensed as an insurer, a health maintenance organization may not refer to itself as an insurer or use a name deceptively similar to the name or description of an insurance or surety corporation doing business in the state.

(f) A person may not use the phrase "health maintenance organization" or "HMO" in the course of the person's operations unless the person possesses a valid certificate of authority issued under this chapter.

(g) A health maintenance organization that offers, renews, issues for delivery, or delivers in this state a health care insurance plan in the group market that does not impose a preexisting condition exclusion with respect to a particular coverage option under the plan may impose an affiliation period for that coverage option only if the affiliation period

(1) is applied uniformly without regard to a health status factor;

(2) does not exceed two months for new enrollees and three months for late enrollees;

(3) begins on the enrollment date; and

(4) runs concurrently with any waiting period under the plan.

(h) A health maintenance organization may use a method other than a preexisting condition exclusion or an affiliation period to lessen the risk of adverse selection only with prior written approval of the director.

Sec. 21.86.160. Regulation of agents.

(a) The director may adopt regulations necessary to provide for the licensing of health maintenance organization agents.

(b) The director may, by regulation, exempt certain classes of persons from the requirement of obtaining an agent license if

(1) the function the class performs does not require special competence or trustworthiness, or the regulatory surveillance made possible by licensing; or

(2) other existing safeguards make regulation through licensing unnecessary.

Sec. 21.86.170. Powers of insurers and of hospital or medical service corporations.

(a) An insurer licensed in this state, or a hospital or medical service corporation authorized to do business in this state, may, either directly or through a subsidiary or affiliate, organize and operate a health maintenance organization under the provisions of this chapter. Two or more insurance companies, hospitals or medical service corporations, or subsidiaries or affiliates of them, may jointly organize and operate a health maintenance organization. The business of insurance is considered to include providing health care by a health maintenance organization owned or operated by an insurer or subsidiary of an insurer.

(b) An insurer or hospital or medical service corporation may contract with a health maintenance organization to provide insurance or similar protection against the cost of care provided through a health maintenance

organization and to provide coverage in the event of the failure of the health maintenance organization to meet its obligations. The enrollees of a health maintenance organization constitute a permissible group under this title. Under a contract authorized by this subsection, the insurer or hospital or medical service corporation may make benefit payments to health maintenance organizations for health care services rendered by providers.

Sec. 21.86.180. Examinations.

(a) The director shall examine the affairs and transactions of a health maintenance organization in the same manner as prescribed for an insurer in AS 21.06.140 - 21.06.180.

(b) As often as is reasonably necessary for the protection of the interests of the people of the state, but at least once every three years, the director shall require submission of an independent review of the quality of care provided by a health maintenance organization either directly or indirectly through contract, agreement, or other arrangement for provisions of health care services to enrollees of the health maintenance organization. The review required under this subsection shall be done by a review organization approved by the Department of Health and Social Services and shall be done under regulations adopted by that department. The health maintenance organization shall pay the cost of the review.

Sec. 21.86.190. Suspension or revocation of certificate of authority.

(a) After compliance with AS 21.86.200, the director may suspend or revoke a certificate of authority issued to a health maintenance organization under this chapter if

(1) the health maintenance organization is operating significantly in contravention of its basic organizational document or in a manner contrary to that described in other information submitted under AS 21.86.010 or 21.86.020;

(2) the health maintenance organization issues an evidence of coverage, or uses a schedule of charges for health care services, that does not comply with the requirements of AS 21.86.070;

(3) the health maintenance organization does not provide or arrange for the provision of basic health care services;

(4) the health maintenance organization is not in compliance with state and federal statutes and regulations as required under AS 21.86.010(b)(12), or is unable to fulfill its obligations to furnish health care services;

(5) the health maintenance organization is no longer financially responsible and may reasonably be expected to be unable to meet its obligations to enrollees or prospective enrollees;

(6) the health maintenance organization has failed to implement a mechanism affording the enrollees an opportunity to participate in matters of policy and operation under AS 21.86.040;

(7) the health maintenance organization has failed to implement the complaint system required by AS 21.86.100 in a reasonable manner to resolve valid complaints;

(8) the health maintenance organization, or any person on its behalf, has advertised or merchandised its services in an untrue, misrepresentative, misleading, deceptive, or unfair manner;

(9) the continued operation of the health maintenance organization would be hazardous to its enrollees;

(10) the health maintenance organization has otherwise failed substantially to comply with this chapter.

(b) If the certificate of authority of a health maintenance organization is suspended, the health maintenance organization may not, during the period of the suspension, enroll additional enrollees except newborn children or other newly acquired dependents of existing enrollees, and may not engage in advertising or solicitation. The director may, by written order, specify limitations in the operation of the organization during the period of suspension as the director finds to be in the best interests of enrollees.

(c) If the certificate of authority of a health maintenance organization is revoked, the organization shall, immediately following the effective date of the order of revocation, proceed to wind up its affairs, and may not conduct further business except that essential to the orderly conclusion of the affairs of the organization. The organization may not engage in further advertising or solicitation. The director may, by written order, permit continued operation of the organization as the director finds to be in the best interest of enrollees, so that enrollees will be afforded the greatest practical opportunity to obtain continuing health care coverage.

Sec. 21.86.200. Administrative procedures.

(a) If the director has reason to believe that grounds for the denial, suspension, or revocation of a certificate of authority exist, the director shall notify the applicant or the health maintenance organization in writing, specifically stating the grounds for denial, suspension, or revocation. A person aggrieved by a decision of the director regarding denial, suspension, or revocation of a certificate of authority may request a hearing under AS 21.06.180. If a hearing is requested, it shall be held under the procedures in AS 21.06.170 - 21.06.220, except that AS 21.06.190 does not apply in the case of a hearing regarding denial of a certificate.

(b) After a hearing under (a) of this section, or upon the failure of an applicant or health maintenance organization to appear at such a hearing, the director shall make written findings and issue an order, that shall be mailed to the applicant or health maintenance organization and concurrently provided to the commissioner of health and social services. An appeal of the director's order may be made in the manner provided by AS 21.06.230.

Sec. 21.86.210. Rehabilitation, liquidation, or conservation.