**SB 801**

# Department of Legislative Services

Maryland General Assembly
2014 Session

## FISCAL AND POLICY NOTE

Senate Bill 801 (Senator Ramirez, *et al.*)
Education, Health, and Environmental Affairs

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**Teach It Forward Act of 2014**

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This bill requires the Maryland Higher Education Commission (MHEC) to develop a Maryland Teach It Forward Pilot Program that allows students who intend to enroll in teacher preparation course of study to enroll in *one* specified Maryland public institution of higher education without paying tuition or fees. In return, each participating student must enter into a binding contract to pay the State a certain percentage of the student's adjusted gross income for up to 20 years after graduation. MHEC must select the public institution of higher education to participate. Beginning in fall 2015, the pilot program must last for two academic years with up to 50 students per academic year in each cohort. The bill mandates that the Governor include in the budget for the participating institution of higher education an amount equivalent to the tuition and fees otherwise owed by the participating students.

The bill takes effect July 1, 2014.

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## Fiscal Summary

**State Effect:** General fund expenditures increase by $59,700 in FY 2015 for MHEC to hire a full-time contractual policy analyst to develop and implement the Teach It Forward Pilot Program; the costs continue for three months in FY 2016. Assuming a four-year institution is selected to pilot the program, mandated general fund expenditures increase, and higher education tuition and fee revenues decrease, from FY 2016 to 2020 due to two cohorts of 50 students participating in the Teach It Forward Pilot Program. Specifically general fund expenditures increase $462,300 in FY 2016 for the first cohort, increasing to $933,900 in FY 2017 for the second cohort, and continue until at least FY 2020 to repay the participating institution for the lost tuition and fee revenue each year. General fund revenues increase as students begin repaying the Comptroller beginning in FY 2020 when the first cohort graduates from college (assuming they graduate in four years) and continue until FY 2040, (not shown below). **This bill establishes a mandated appropriation for FY 2016 through at least FY 2020.**

| (in dollars) | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 |
|---|---|---|---|---|---|
| Higher Ed Rev. | $0 | ($453,400) | ($933,900) | ($961,900) | ($990,800) |
| GF Expenditure | $59,700 | $462,300 | $933,900 | $961,900 | $990,800 |
| Net Effect | ($59,700) | ($915,700) | ($1,867,800) | ($1,923,800) | ($1,981,600) |

*Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect*

**Local Effect:** None.

**Small Business Effect:** None.

## Analysis

**Bill Summary:** The Maryland Teach it Forward Pilot Program must:

- allow students who are eligible for in-state tuition status at a Maryland public institution of higher education and who intend to enroll in a *teacher preparation course of study* to enroll in a selected Maryland public institution of higher education without paying tuition or fees; and

- require each student participating in the Maryland Teach It Forward Pilot Program to enter into a binding contract to pay the State a certain percentage of the student's adjusted gross income for up to 20 years after the student graduates.

MHEC may establish any other policies or procedures necessary to implement the Maryland Teach It Forward Pilot Program.

*Repayment*

MHEC must specify the percentage of a graduate's adjusted gross income that must be paid to the State. In determining the percentage, MHEC must consider the total cost of education at the participating public institution of higher education and the average salary of teachers employed in Maryland. MHEC may specify that repayment is not required if the graduate's adjusted gross income is below a level that is specified by MHEC.

The payments that graduates are required to make must be made to the Comptroller and must be deposited into the State's general fund.

*Data Metrics*

MHEC must identify data metrics regarding the success of the participating students including course grades, course completion rates, progress toward a degree, and employment status after graduation.

The participating public institution of higher education must collect the data metrics identified by MHEC for each participating student and for each nonparticipating student enrolled in a teacher preparation course of study to compare the impact of the Maryland Teach It Forward Pilot Program on student success.

*Reporting Requirements*

By December 1, 2015, the participating public institution of higher education must report to MHEC and the General Assembly on (1) the number of participating students; (2) the data metrics identified by MHEC; and (3) the percentage of the adjusted gross income required to be paid after graduation.

By December 1, 2016, and each year thereafter, the participating public institution of higher education must report to MHEC and the General Assembly on the performance of the participating students as compared to the performance of the nonparticipating students for each data metric identified by MHEC.

**Current Law:** For institutions within the University System of Maryland (USM), the Board of Regents sets tuition policies, including the determination of which students are eligible for resident tuition. The basic policy requires students to be identified as permanent residents of Maryland to qualify for resident tuition, meaning they have lived continuously in the State for at least 12 months immediately prior to attendance at a USM institution. An individual who is residing in Maryland primarily for the purpose of attending an educational institution is not considered a permanent resident.

The Board of Regents of Morgan State University and the Board of Trustees of St. Mary's College of Maryland set tuition policies for those institutions. The policies for the institutions are very similar to the USM policies. Both institutions require one year of residency in Maryland to qualify for in-state tuition rates.

An individual who attended and graduated from a Maryland high school is exempt from paying out-of-state tuition, and in certain instances out-of-county tuition, at community colleges in Maryland if the individual (1) attended a secondary school in the State for at least three years; (2) graduated from a high school in the State or received the equivalent of a high school diploma in the State; (3) provides documentation that the individual or the individual's parent or legal guardian has filed a Maryland income tax return annually for the three years while the individual attended a high school in the State, during any period between high school graduation and registration at a community college, and during the period of attendance at the community college; and (4) registered at a community college within four years of high school graduation beginning with students entering college in January 2013. Nonimmigrant aliens who are in the country on student visas do not qualify for the exemption, but otherwise the exemption applies regardless of residency status. An individual who graduates from or earns a certain number of credits from a community college is then exempt from paying nonresident (*i.e.*, out-of-state) tuition at a public senior higher education institution in Maryland under specified circumstances.

**Background:** Maryland had the second smallest tuition increase in the nation from fiscal 2009 to 2014, according to a 2013 College Board report, ranking behind only Missouri. Because of this, Maryland now ranks as the twenty-eighth most expensive state for public four-year institutions, compared to seventh in fiscal 2005.

Despite this progress, due in part to Maryland's in-state tuition freeze from fiscal 2007 to 2010 and tuition buy-downs to 3% increases since fiscal 2011, many Maryland students still find affording higher education a challenge. In the face of this challenge, obtaining a bachelor's degree remains important to long-term economic well-being. In Maryland, those with an associate's degree, on average, earn $12,000 more annually than if they only had a high school diploma, and those with a bachelor's degree earn about $10,000 more than if they had an associate's degree.

*Pay It Forward, Pay It Back*

In July 2013, the Oregon legislature passed HB 2838, which gave Oregon's higher education institutions two years to study whether a "Pay It Forward, Pay It Back" (PIF) plan should be piloted. Under this model, rather than paying tuition to attend public institutions, students would pay a fixed percentage of adjusted gross income for a set amount of time after graduation into a trust fund. Essentially, the state or university system would function as a bank.

This restructuring of higher education finance came from a 2012 policy paper titled "Pay It Forward" by the Economic Opportunity Institute (EOI), which was specific to the State of Washington but received more attention in Oregon. A similar model was proposed at the University of California, Riverside in 2012 but did not move forward. As of December 2013, the New Jersey legislature's S2965 recommends the creation of a pilot PIF program. Proponents of the PIF model highlight that it opens access to higher education for more students as the cost of attendance is dramatically lowered, and students may pursue any career option with less concern over making student loan payments. Additionally, universities' budgets will be tied to the outcomes of their own graduates which creates a new form of accountability.

The original EOI report is online at:
[http://www.eoionline.org/wp/wp-content/uploads/higher-education/PayItForward-Oct12.pdf](http://www.eoionline.org/wp/wp-content/uploads/higher-education/PayItForward-Oct12.pdf)

The closest real world example to PIF in the United States would be Yale University's Tuition Postponement Option (TPO), which Yale ran for students enrolled from 1971 to 1978. During that time, a total of 3,300 alumni participated in the program and were required to pay back 4% of their annual income. Unlike the PIF model, the TPO model pooled total student debt for each class and the cohort would continue paying back until the entire debt was paid off or 35 years had passed. Many alumni became very concerned that, as a class, the cohort's debt was not being paid off very quickly. Although enrollment in TPO ended in 1978, Yale had to partially bail out the program in 1999 and cancel all further payments prematurely in 2001 due to alumni backlash. While the pooled debt mechanism was unique to TPO, the long time period for planning and payback illustrates the complexity of operating similar alternative financial aid programs, even at a single, wealthy private institution.

*Federal Student Loans*

Many students finance higher education through loans from the federal government or private financial institutions, such as banks or credit unions. In terms of having students pay for higher education after graduation at a set rate of personal income, the PIF model is very similar to programs run by the U.S. Department of Education (ED). In both cases, federal loans made directly to the student have, compared to privately sourced loans, very generous repayment terms, although a student must apply.

Federal loans, by default, enter a 10-year loan repayment plan. If a student can demonstrate a partial financial hardship, using criteria set by ED, the student is eligible to enroll in more generous loan repayment plans, with payments based on income and family size. These plans have provisions for a portion of the loans to be forgiven under certain circumstances. In addition, there are also separate federal plans for students who are pursuing public sector or nonprofit careers and for students who are teachers.

*Maryland Programs*

Although Maryland has not offered student loans since the 1980s, the State funds several loan assistance repayment programs (LARPs) for physicians, dentists, and other occupations such as teaching and law. LARPs provide loan repayment assistance in exchange for certain service commitments to help ensure that underserved areas of the

State have sufficient numbers of skilled professionals working in underserved areas of the State or on behalf of low-income families. However, funding has been relatively flat at about $1.8 million for several fiscal years, and the number of students receiving awards has remained relatively low. As shown in **Exhibit 1**, in fiscal 2012, nonmedical LARP awards averaged about $6,000 and went to fewer than 200 recipients. In comparison, MHEC makes almost 60,000 total financial aid awards every year.

**Exhibit 1**
**Janet L. Hoffman LARP Awards**
**Fiscal 2012-2013**

| | FY 2012 | FY 2013 |
|---|---|---|
| Awards Made | 192 | 124 |
| Average Annual Amount | $5,860 | $6,142 |

LARP: Loan Assistance Repayment Program

Source: Maryland Higher Education Commission

**State Revenues:** Higher education tuition and fee revenues decrease beginning in fiscal 2016 for to two cohorts of 50 students participating in the Teach It Forward Pilot Program. Specifically, revenues decrease $453,350 in fiscal 2016 for the first cohort, increasing to $933,900 in fiscal 2017 when the second cohort is added. The following information and assumptions were used in this estimate.

- It is assumed that the Teach It Forward Pilot Program will be established at a public four-year institution with a school of education and that all participants would otherwise have received in-state tuition. In fiscal 2015, average in-state tuition and mandatory fees at the public four-year institutions of higher education that have schools of education will be $8,803. It is assumed that tuition and fees will increase by 3% per year.

- Thus, tuition and fees will be approximately $9,067 when the first cohort of the pilot program begins in fall 2015 (fiscal 2016). It is assumed that 50 students will participate in each cohort, and there will be no attrition from the program. It is further assumed, for the purposes of this estimate, that all participants will graduate in four years. The bill does not specify how many years a student is exempted from paying tuition and fees.

- Therefore, the institution of higher education chosen to participate in the program will lose a total of approximately $453,350 in tuition and fees from the first cohort of 50 students in fiscal 2016.

- When the second cohort of 50 students is added in fall 2016 (fiscal 2017) for a total of 100 participants in both cohorts, tuition and fees are an estimated $9,339. Thus, tuition and fee revenues decrease by a total of $933,900, as shown in the table below.

| | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 |
|---|---|---|---|---|---|---|
| Average Tuition | $8,803 | $9,067 | $9,339 | $9,619 | $9,908 | $10,205 |
| Cohort 1 | | 50 | 50 | 50 | 50 | |
| Cohort 2 | | | 50 | 50 | 50 | 50 |
| Total Participants | | 50 | 100 | 100 | 100 | 50 |
| | | | | | | |
| Lost Tuition | | 453,350 | 933,900 | 961,900 | 990,800 | 510,250 |
| Mandated GF | | 453,350 | 933,900 | 961,900 | 990,800 | 510,250 |
| MHEC Costs | 59,650 | 8,996 | - | - | - | - |
| | | | | | | |
| **Total Effect** | **$59,650** | **$915,696** | **$1,867,800** | **$1,923,800** | **$1,981,600** | **$1,020,500** |

- It is assumed that the students in the first cohort will graduate in spring 2019 (fiscal 2019) and begin repaying the Comptroller a percentage of their salaries as determined by the regulations developed MHEC beginning in fiscal 2020. It is assumed that the cohort will be required to repay a percentage of their salary for 20 years and, thus, will be in repayment until fiscal 2039. It is assumed that the second cohort will graduate in spring 2020 (fiscal 2020) and be in repayment until fiscal 2040. It is assumed that the Comptroller can receive these payments using existing resources; however, any repayment enforcement will require additional resources.

- Further study is needed to determine what percentage of a participant's salary will need to be repaid; however, it is assumed that it will be enough to repay the lost tuition and fees. The contractual policy analyst hired by MHEC will need to determine the percentage. However, most PIF studies have determined that participants will repay from 1% to 5% of their salaries. The average minimum salary for a Maryland public school teacher with a bachelor's degree for the 2013-2014 school year is $43,375.

**State Expenditures:** As mandated by the bill, general fund expenditures increase by an amount equivalent to the tuition and fees otherwise owed by the participating students.

Thus, general fund expenditures increase by $453,350 in fiscal 2016 increasing to $933,900 in fiscal 2017 as shown in the table above. General fund expenditures continue until at least fiscal 2020 when the second cohort graduates (after four years) from the program.

General fund expenditures increase by $59,650 in fiscal 2015 and $8,996 in fiscal 2016 for MHEC to hire a full-time contractual policy analyst to develop and implement the pilot program. The analyst will need to select a public institution of higher education to participate in the program, determine the percentage of a graduate's adjusted gross income that must be paid to the State, determine the data metrics regarding the success of the participating students, and establish any other policies or procedures necessary to implement the program. This estimate reflects the bill's July 1, 2014 effective date, and it includes a full-time salary, fringe benefits, one-time start-up costs, ongoing operating expenses, and assumes termination of the contractual employee on September 1, 2015.

| | FY 2015 | FY 2016 |
|---|---|---|
| Contractual Position | 1 | |
| Salary and Fringe Benefits | $54,700 | $8,896 |
| Operating Expenses | 580 | 100 |
| Start-up Costs | 4,370 | 0 |
| **Total State Expenditures** | **$59,650** | **$8,996** |

## Additional Information

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Maryland Higher Education Commission, University System of Maryland, Department of Legislative Services

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