

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

Senate Bill 626 (Senator Madaleno, *et al.*)

Budget and Taxation and Education, Health,
and Environmental Affairs

**University System of Maryland - Pay It Forward Pilot Program and Tuition
Freeze - Studies**

This bill requires the Board of Regents of the University System of Maryland (USM) to study (1) the creation of a potential pilot program called Pay It Forward (PIF), which would replace the current system of charging students tuition and fees to attend a constituent institution of USM and (2) whether public institutions of higher education could successfully implement a program that would guarantee that tuition rates would not be increased for incoming undergraduate students during four years of study at the institution. By December 31, 2014, the USM Board of Regents must report its findings for both required studies.

The bill takes effect July 1, 2014, and terminates June 30, 2015.

Fiscal Summary

State Effect: None. USM can conduct the required studies and produce the required reports using existing resources.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The study of a potential PIF pilot program must consider:

- allowing students who are residents of the State and who qualify for admission to an institution or school to enroll in the institution or school without paying tuition or fees;
- requiring each student participating in the pilot program to sign a binding contract to pay the State or the institution or school a percentage of the student's annual adjusted gross income for a specified number of years instead of paying tuition and fees;
- specifying the number of years and the percentage of annual adjusted gross income for the contracts required based on current research;
- establishing an immediate funding source for the first 20 years of the pilot program;
- establishing a revolving fund to deposit payments made under the pilot program;
- identifying the constituent institution or schools that would be best suited to participate in the pilot program; and
- allowing the program to vary by institution or school based on specified factors.

The four-year tuition rate study must include an analysis of (1) the “Western Tuition Promise” offered by Western Oregon University; (2) the “Finish in Four” program proposed in Florida; and (3) ways of mitigating the financial strain on an institution if the institution adopted a program that would guarantee that tuition rates would not be increased for incoming undergraduate students during four years of study at the institution.

Current Law/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 for public four-year institutions. 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” 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>

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 for the loans.

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 teaching.

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, Maryland Higher Education Commission makes almost 60,000 total financial aid awards every year.

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

	<u>FY 2012</u>	<u>FY 2013</u>
Awards Made	192	124
Average Annual Amount	\$5,860	\$6,142

LARP: Loan Assistance Repayment Program

Source: Maryland Higher Education Commission

Prior Introductions: None.

Cross File: HB 853 (Delegate Rosenberg, *et al.*) - Appropriations.

Information Source(s): Economic Opportunity Institute, Department of Legislative Services

Fiscal Note History: First Reader - February 24, 2014
ncs/rhh

Analysis by: Caroline L. Boice

Direct Inquiries to:
(410) 946-5510
(301) 970-5510