

Department of Legislative Services  
 Maryland General Assembly  
 2015 Session

FISCAL AND POLICY NOTE

House Bill 211 (Delegate Hill, *et al.*)  
 Appropriations

Task Force to Study Pay It Forward

This bill establishes the Task Force to Study Pay It Forward. The Maryland Higher Education Commission (MHEC) must provide staff for the task force. A report with findings and recommendations is due by December 1, 2016.

The bill takes effect July 1, 2015, and terminates June 30, 2017.

Fiscal Summary

**State Effect:** General fund expenditures increase by \$25,000 in FY 2016 and \$11,000 in FY 2017 for MHEC to hire a half-time contractual analyst to support the task force and complete the required report. Revenues are not affected.

(in dollars)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	25,000	11,000	0	0	0
Net Effect	(\$25,000)	(\$11,000)	\$0	\$0	\$0

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

**Local Effect:** None.

**Small Business Effect:** None.

## Analysis

**Bill Summary:** The task force must:

- examine the possibility of replacing the current system of charging students tuition and fees upfront to attend a public institution or school in the State with the concept of Pay It Forward (PIF), which would allow students to attend higher education and pay for the education received with a percent of their gross income for a certain number of years;
- investigate the model used at Yale University regarding tuition and fees being paid retroactively as a percent of wages earned by the student and identify best practices;
- examine similar proposals, studies, and reports in Oregon, New Jersey, Ohio, and Pennsylvania; and
- analyze the possibility of long-term private financing as the seed money for a PIF program until such program can be self-sustaining, including the feasibility of private donations and private foundations.

The task force must make recommendations on (1) the possible implementation, feasibility, and phase-in schedule of a PIF program; (2) potential problems with a PIF program in the State; (3) how to determine the payback percentage per year and the number of years payback should occur; and (4) any additional findings of the task force.

Task force members may not receive compensation but are entitled to reimbursement for expenses under the standard State travel regulations, as provided in the State budget.

**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 in fiscal 2011 through 2015 at most institutions, 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 2013, the Oregon legislature passed House Bill 3472, which gave Oregon's Higher Education Coordinating Commission (HECC) and others two years to study whether a 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.

Following its review, in September 2014, HECC recommended that the Oregon legislature undertake a PIF pilot program subject to the availability of funding over and above its current higher education funding obligations, especially state need-based aid. HECC noted that income-based plans are friendlier to many students and appeal to middle-class students who do not qualify for other forms of financial assistance. And while the start-up costs of a PIF program are significant even at a pilot scale, the program is intended to become self-funding after a period of years (decades).

HECC recommended that, before creating and funding a PIF pilot, the legislature ensure that the PIF pilot adhere to the following conditions: (1) not diminish current state support for institutions and financial aid due to up-front investment; and (2) insure that the structure and timeframe for the recovery of costs from program participants is actuarially feasible. HECC also recommended that the state investigate the utilization and capacity of existing federal income-based repayment (IBR) loan programs to meet the needs of Oregon students and the potential costs, appeal, and benefits of a state-sponsored IBR program compared to the costs, appeal, and benefits of the PIF program.

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. 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 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 (known as the Janet L. Hoffman LARP). 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 them or on behalf of low-income families. State funding has been relatively flat at about \$1.8 million for several fiscal years for the Hoffman LARP (the Governor's proposed budget includes \$1.6 million for the program in fiscal 2016), and the number of students receiving awards has remained relatively low. As shown in **Exhibit 1**, in fiscal 2012, Hoffman LARP awards averaged about \$5,900 and went to fewer than 200 recipients. In fiscal 2014, the average annual award amount decreased by approximately \$100, and the number of recipients increased to nearly 240 individuals. In comparison, MHEC makes almost 60,000 total financial aid awards every year.

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**Exhibit 1**  
**Janet L. Hoffman LARP Awards**  
**Fiscal 2012-2014**

	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Awards Made	192	124	238
Average Annual Amount	\$5,860	\$6,142	\$5,753

LARP: Loan Assistance Repayment Program  
Source: Maryland Higher Education Commission

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**State Expenditures:** General fund expenditures increase by \$25,012 in fiscal 2016 for MHEC to hire a half-time analyst to support the task force and complete the required report. This estimate assumes an October 1, 2015 start date following a 90-day start-up delay, a half-time salary, fringe benefits, and ongoing expenses.

	<u>FY 2016</u>	<u>FY 2017</u>
Contractual Position	0.5	-0.5
Salary and Fringe Benefits	\$20,507	\$10,882
Operating Expenses	<u>4,505</u>	<u>124</u>
<b>Total State Expenditures</b>	<b>\$25,012</b>	<b>\$11,006</b>

Future year expenditures reflect elimination of the half-time position on December 1, 2016, upon the completion of the required report.

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Economic Opportunity Institute, Oregon Higher Education Coordinating Commission, Maryland Higher Education Commission, Department of Legislative Services

**Fiscal Note History:** First Reader - February 8, 2015  
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