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Baltimore and Howard Counties

Health and Government Operations
Committee

Subcommittee

Government Operations
and Estates and Trusts

Public Health and
Minority Health Disparities



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HB1172

Higher Education – Pay It Forward Program and Pay It Forward Fund – Established

March 9, 2021

Chairman McIntosh, Vice-chair Chang, and House Appropriations Committee Members,

HB1172 creates a pilot Pay-It-Forward style program and fund option for financing Maryland higher education, making college more affordable. The program and fund mitigate the rapidly expanding student debt crisis that threatens the current and next generation of students, delaying or preventing their becoming financially independent and secure. This stifling of economic potential has far reaching implications beyond its impact on the individual borrower, with negative ripple effects on families, communities, and the nation. And because the borrowers most vulnerable to the insidious effects of loan debt are those for whom the long chains of race and class inequalities have created a lack of transgenerational wealth, the rising cost of higher education coupled with our profit-driven, debt-financed student loan system especially impacts the historically, systematically and institutionally disadvantaged poor, brown and Black communities.

There is broad agreement about the need for fundamental, substantive changes in how education is delivered, leveraged, and paid for. It is the how and not the why that is at question. Thus the national debate around tuition free college, restructuring of student loans, and student debt forgiveness. The economic impact of the pandemic-related financial crises, and associated loss of career and economic predictability for many, is accelerating the widening of wealth disparities and adding uncertainty as to the true value of higher education as compared to its cost to students.

Marylanders are increasingly less confident in our ability to pay tomorrow the debts we assume today. Recognizing that the current debt-financed approach to higher education financing is not sustainable, an alternative is needed. Universities and colleges that are able to help students find better ways to pay for education, or to find ways to better control costs, those that are nimble enough to adjust and evolve, will have a competitive advantage for survival. Pay-It-Forward models are income-contingent, usually structured through Income Share Agreements (ISA), and shown to be more sustainable and just than debt-financed approaches. If successfully implemented, it could provide participating Maryland schools a competitive advantage over non-participating in-state and out-of-state colleges and universities which remain tied to debt-based approaches, and broaden access to higher education, particularly within Black, brown, poor, and other traditionally marginalized communities.

As in 2021, for some years to come the state will likely struggle to maintain current higher education funding levels, let alone fund new initiatives. Pay-It-Forward legislation has previously been considered by this committee, but the sticking point to moving from our current funding system to more sustainable models has been the need to set aside millions per year up front and then wait a decade or more for program

participants to contribute enough to cover program outlays. By soliciting and leveraging philanthropic dollars, **HB1172** offers an actionable solution.

Under **HB1172**, Maryland Higher Education Commission (MHEC) would be charged with developing the program parameters and plans for soliciting philanthropic seed dollars, leveraging participants' support to motivate other philanthropic entities to join, and to gradually broaden the program to cover all four years of undergraduate education at participating institutions, graduate education, and otherwise expand the program as indicated.

MHEC would determine the contract terms (i.e. duration, income share percentage, minimum income threshold, payments caps), as well as the best cohort to whom this alternative financing option should be first offered. For example, the initial cohort might be sophomores, who, unlike freshman have demonstrated a likelihood to successfully complete their degree, and whose loans are relatively few thus simplifying the repayment obligations for the borrower, but prolonging the time before seeing borrowers begin paying it forward through fund contributions. Alternatively, seniors, while being closer to degree completion and thus closer to being able to pay forward into the fund, would likely have a complex mix of loans which could largely negate the benefits to them of the ISA option and increase the risk to the program. They might also choose to limit the initial participants by degree pursued, projected debt, or other parameters.

Amendments will be offered for the committee's consideration to:

- 1) direct Maryland Higher Education Commission (MHEC) to work in consultation with experts in the field of Income Share Agreement design, such as the Education Finance Institute or Lumina Foundation in developing the program parameters;
- 2) broaden pilot criteria to include students attending any or all of Maryland colleges and universities who would otherwise be at higher risk for incurring disabling loan indebtedness;
- 3) clarify that the Pay It Forward Fund would solicit philanthropic and not entrepreneurial underwriting, with the goal of being self-sustaining and not of returning profits to its investors; and
- 4) require a set aside of at least 10%, or more as the MHEC determines to be necessary, to insure borrowers and donors against pilot and program failure.

In this historic moment, urgent calls are resonating for the changes necessary to make the current fight for social, racial and economic justice the last, and not simply the latest. Higher education financing partnership initiatives like Michael Bloomberg's Bloomberg Philanthropies Greenwood Initiative, and of Robert Smith's Fund II Foundation's Student Finance Institute have the potential to propel us past centuries of systemic oppression, rapidly creating the kind of intergenerational wealth and other advantages needed for tangible and lasting progress. Mackenzie Scott's recent gifts to Morgan and Bowie State Universities and the University of Maryland Eastern Shore further proves the interest is real. How do we dare to let the opportunity pass and risk Maryland being left behind?

When you find yourself in a hole the first thing to do is stop digging. We can't keep doing what we've been doing. Impetus, interest and opportunity have aligned for Maryland to take dramatic and strategic steps to build back better. I urge a favorable report.

A handwritten signature in black ink, appearing to be "B. A. P.", located at the bottom left of the page.