



Memorandum

To: Oregon Higher Education Coordinating Commission's Subcommittee on Student Success and Institutional Coordination

From: John R. Burbank, Executive Director, Economic Opportunity Institute

Regarding: HECC Recommendations regarding Pay It Forward

Date: September 10, 2014

It has been a great pleasure to work with you in developing a pragmatic and financially feasible pilot proposal for Pay It Forward in the state of Oregon, as mandated in HB 3472. Thanks to Rob Fullmer's leadership, acumen, and patience, the Pay It Forward workgroup has taken the interest and mandate from the Legislature to work with you in teasing out the complications, solutions, and iterations for Pay It Forward. We hope that you will agree that the subcommittee's questions, comments, considerations, and concerns have been instrumental in pushing the workgroup to dig deeper and reflect upon and appropriately respond with evidenced-based research to these questions and concerns. This iterative process has enabled the development of a thoughtful, sophisticated, and financially sound pilot project. On behalf of the Economic Opportunity Institute, I thank you for that.

It is worthwhile to recall the legislative language of HB 3472: The Higher Education Coordinating Commission shall consider the creation of a proposed pilot program called Pay Forward, Pay Back... If the commission determines that a pilot program is warranted, the commission shall submit a proposed pilot program to the 2015 regular session of the Legislative Assembly for approval.

Given the parameters set forth in the authorizing legislation, we believe that the Pay It Forward workgroup has indeed developed a pilot which meets the requirements of HR 3472.

- This pilot can be implemented in a fiscally feasible and responsible manner.
- **Most importantly, this pilot creates access to higher education for lower income and middle class students, as well as workers who seek higher education, all of whom may be shut out of traditional avenues for access and financial aid.**
- Pay It Forward can be one important building block enabling Oregon to move its 40-40-20 policy from aspiration to reality in the next decade.

We have a few constructive suggestions regarding the proposed letter to the Legislature regarding Pay It Forward.

1. Instead of this phrase,

"(u)nder the Pay It Forward pilot, participating students would meet the financial obligations they incurred by paying a portion of their income for a period of years following their exit from higher education..."

we would like to suggest this phrase:

"(u)nder the Pay It Forward pilot, participating students would contribute a predetermined percent of their income (not to exceed 5%) for a predetermined number of years (not to exceed 20 years) following their exit from higher education."

We propose this change to emphasize that Pay It Forward is just that: a mechanism to build a fund to finance higher education for the next generational cohort of students. The participants are not paying back the cost of their education. They are paying for the education cost for future students. It is for this reason that there are transitional costs, before the program becomes self-sustaining. This may seem a bit nit-picky, but we believe that the narrative and rhetoric are most important in establishing the unique nature of this program and assuring that it is not interpreted to be a debt obligation with consequent loan mechanisms and impact on credit ratings.

2. Question #1: *"What mechanism would ensure that the up-front investments associated with Pay It Forward would not come at the expense of continued state support for need-based scholarship aid, Oregon community colleges, and Oregon public universities?"*

This question can be applied to any state appropriation, and is, therefore, not specifically germane to the Pay It Forward pilot proposal. The request for a satisfactory resolution of this question is attractive, but divorced from the reality of the appropriations process. All public services are in competition for funding. Therefore, none are insulated from legislative intent or action or disinvestment. But three points specific to Pay It Forward underline its strengths:

- The first is that Pay It Forward could attract dedicated private funding with no strings attached, which would not be available for other higher education financing.
- Secondly, Pay It Forward, unlike other higher education financing mechanisms, will eventually become self-sustaining.
- Thirdly, the incentives embedded in Pay It Forward create incentives for tuition stability and indeed, tuition reductions. Such movement would also enable the Oregon Opportunity Grant to cover more students, and obviously make higher education more affordable up and down the income ladder.

For these reasons, we believe the inclusion of Question #1 is not necessary.

3. Question #2: *"Could the State of Oregon achieve many of the same benefits as Pay It Forward by establishing a state loan program with an income-based repayment option and loan forgiveness? ... A state loan program, including options for income-based repayment and loan forgiveness under some circumstances, could help fill in remaining gaps using a more familiar legal structure than Pay It Forward."*

- This proposal could be actuarially compromising, especially with loan forgiveness and adverse

- selection.
- The Pay As You Earn program of the federal government is sustainable in large part because the federal government can and does run a budget deficit. Oregon does not have this luxury.
 - Further, there is no current structure for doing this, nor has this been developed. It has not been authorized nor requested by the Oregon Legislature, as opposed to the specific request regarding Pay It Forward.
 - It would necessarily be a piecemeal approach, with a lot of moving parts (including the extent of Federal loans and how much Oregon would have to top off those loans with another loan program)
 - There is no guarantee of repayment.
 - A loan program such as this would further legitimize the current trend of disinvesting from higher education.
 - It doesn't flatten the psychological and financial barriers (the sticker price) for higher education, and in so doing, it doesn't open doors for would-have-been students. These are the students that Oregon will need to meet its 40-40-20 goal.

For these reasons, we believe the inclusion of Question #2 is not necessary.

4. *Questions #3 and #4: To what extent does the political and public viability of Pay It Forward depend on its up-front costs being recouped by the program? What enhances the likelihood that Pay It Forward would be sustained?*

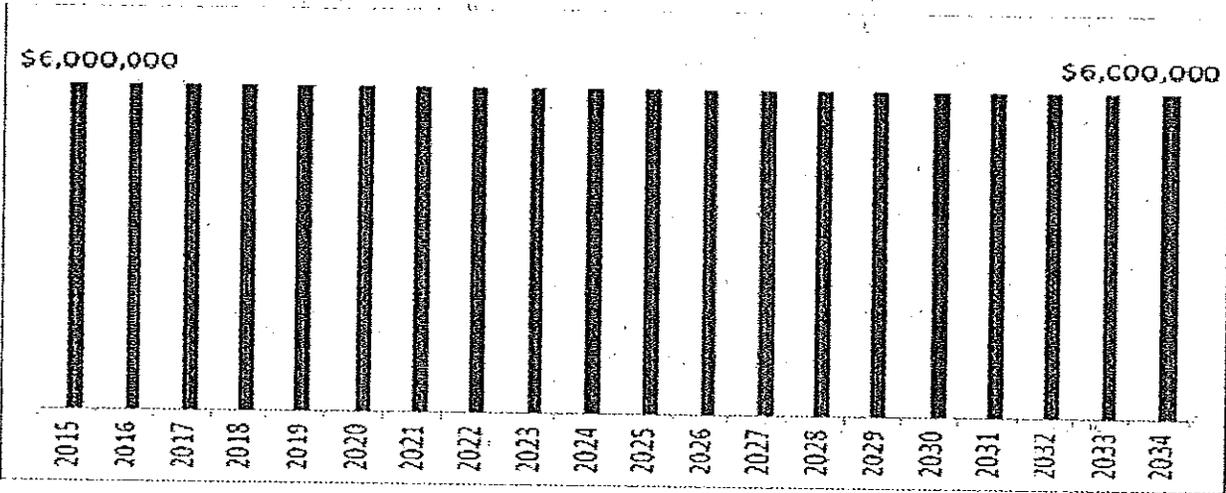
These are again political questions that were not within the legislative mandate of HR 3472 to research. Nor should they be, as these are questions for future legislatures, and indeed, the current legislature cannot bind future legislatures. It is important to note that because of Pay It Forward's transition costs, it will result in up-front costs. How these are recovered or not recovered over time depends on many factors outside the Pay It Forward model, such as cost of tuition, income growth or stagnation, and overall state funding of higher education.

For these reasons, we believe the inclusion of Questions #3 and #4 is not necessary. However, another approach to these questions is to consider a Pay It Forward program with a steady constant dollar appropriation each year. With this approach, we are not worrying about recouping transition costs or the tailing off of state appropriations. Instead, we begin with a constant annual investment with a certain number of students. Each year, on top of that investment, Pay It Forward contributions are added and these contributions grow over time. As a result, the number of students covered under Pay It Forward also grows over time, such that within 17 years, for the same annual investment, twice as many students are benefitting from Pay It Forward.

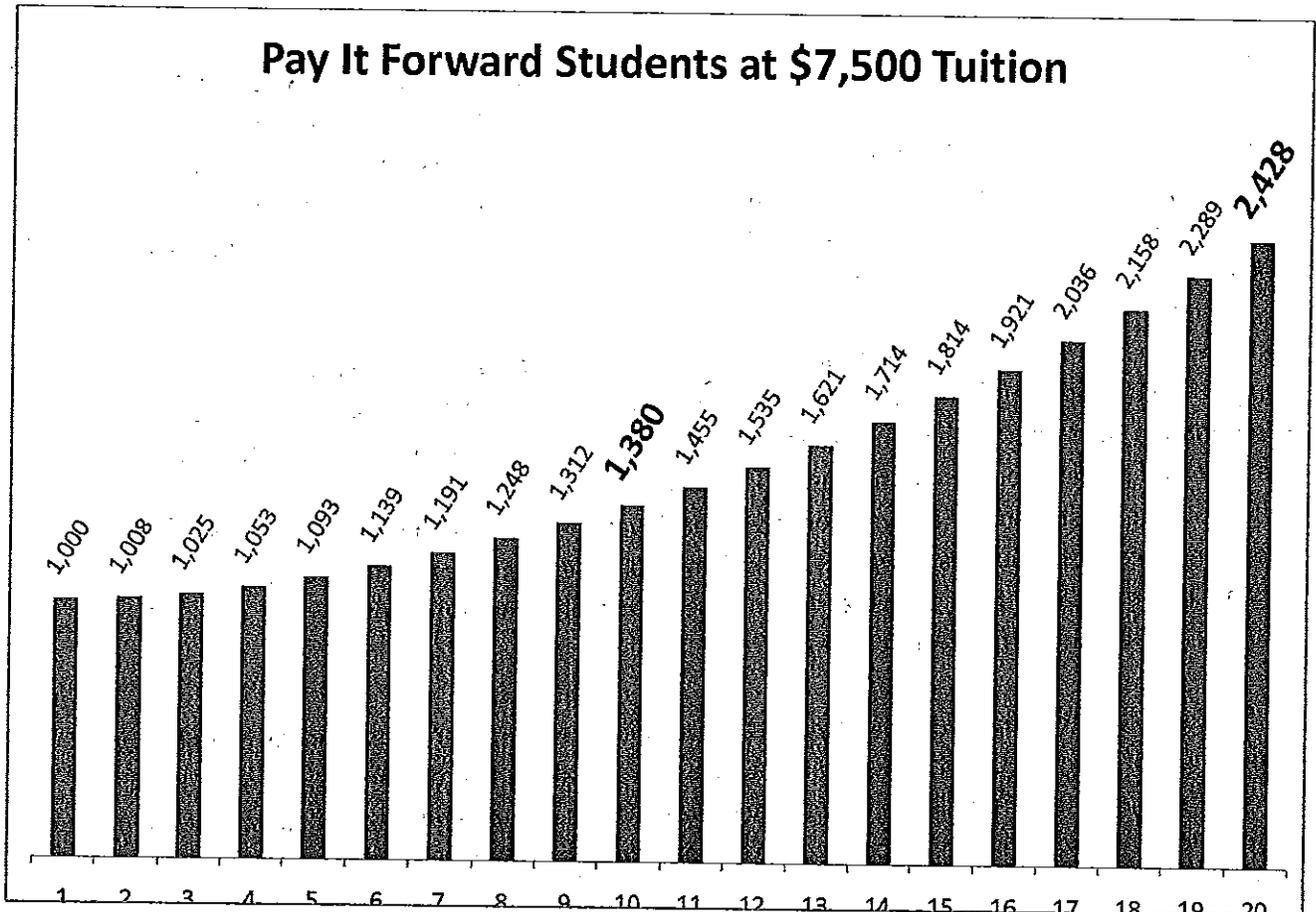
So, for example, if the Legislature simply allocated \$6 million a year, every year, and PIF contributions came on top of that, the Legislature would not have to worry about first the increasing and then the decreasing appropriations for Pay It Forward and the variables of that, and the PIF population would roughly double in 17 years from 1,000 to 2,000 students with the same constant annual appropriation

We could show annual appropriations like this:

\$6 million annual investment



And consequent growth in annual Pay It Forward participants like this:



We commend the Higher Education Coordinating Commission for their proposed recommendation of the Pay It Forward pilot program.

We believe that Pay It Forward complements the HECC's strategic plan, as stated: the HECC is "a coordinating commission for students, mindful of the state's interest in their success as contributing members of society.... Our goal is to build accessible and affordable pathways to opportunity and success for Oregonians..." Further, we believe that Pay It Forward enables the new paradigm developed by HECC, such that the "public system is organized to maximize student success."

Thank you for your work and dedication to enabling access to and opportunity for higher education in Oregon.