Oregon HECC - SSIC Sub-Committee Meeting, September 10, 2014: Remarks by John Gibson

Chair Nesbitt, Commissioners, Executive Cannon, thank you for the opportunity to speak today. My name is John Gibson. I advised the PIF Pilot Workgroup on economic and financial analysis and modeling of the PIF Pilot Program. This included evaluation of cash flows, contribution options, and sensitivity analysis to key factors that might vary as the Pilot unfolds.

I would like to offer comments on two aspects of the proposed PIF Pilot Program

1. The purpose and benefits of starting with a Pilot, and
2. The significance of uncertainty and sensitivity analysis results.

1. The Pilot

Fundamental Purpose: The role of a pilot is to test a promising program idea and answer questions about it. The outcome can inform go/no-go decisions as well as appropriate design features for a full-scale program.

In the case of the PIF Pilot, where there is financial and performance uncertainty, the Pilot's emerging results can allow you to garner information to narrow that uncertainty and do a course correction without a potentially onerous over-commitment to a specific program design.

The Pilot will deliver various types of information on participation, payment, cohorts served, administrative requirements and other features beginning in its early years. These are described in the Workgroup Report

Pilot Flexibility: The PIF Pilot is suitable for course corrections

The range of potential increase in payment percentage for worst case outcomes is reasonable:

- Even the extreme adverse selection scenario of ECONW would be covered by increasing the OUS contribution rate from 4.0% to 4.5%;
- Even the extreme scenario where tuition growth led to students paying 100% of costs would be covered by increasing the OUS contribution rate from 4.0% to 5.5%

There is also room to scale the PIF Pilot down to budget-constrained levels while retaining a sufficient participant sample size to obtain meaningful Pilot results.

2. Sensitivity Analysis Interpretations

Much has been made of PIF sensitivity analysis Sensitivity analysis is a useful tool only when used well.

- The range of values considered should be realistic
- The impact metric used should be meaningful and understandable
- The available responses to adverse cases and outcomes should be considered thoroughly

The sensitivity analysis results featured to date do not always meet those criteria

- The tuition increase value highlighted - +1% per year above inflation - is politically and practically unsustainable
- The reported results of that case have been a percentage change that refers to a cash flow over a limited period that does not include accrued contribution obligations
- The measure is also a net value (payments minus contributions), so if payments were 100 and contributions were 95, the base is 5. Then a 60% increase as highlighted by ECONW would mean a net cost increasing from 5 to 8. That is equivalent to contributions remaining at 95 and costs increasing by 3% to 103.
- When the context is evaluating program affordability, a 60% increase sounds like a lot. The actual 3% increase that underlies that calculation is not nearly as significant.

I would urge the Commission to consider these points:

The realistic range of potential economic and financial outcomes of a PIF Pilot is not extreme, and

Ongoing Pilot review and oversight will afford opportunities to refine several program parameters to both manage ongoing financial outcomes of the Pilot and discover best design options for a potential expansion of the Pilot in the future.

Thank you for your time, and for your in-depth consideration of the proposed PIF Pilot.