



Oregon

Higher Education Coordinating Commission
775 Court St. NE
Salem, OR 97301
503-378-5690

September 11, 2014

Dear Legislator,

In accordance with HB 3472 (2013), attached please find a proposed pilot design for the concept known as “Pay Forward, Pay Back” or “Pay It Forward.” The pilot proposal is the product of a Higher Education Coordinating Commission (HECC)-designated workgroup that met monthly beginning in January 2014. The attached report contains more about the composition of this group and the charge it received from the Commission.

The HECC has closely followed the workgroup’s progress and the development of the pilot proposal. The HECC’s Subcommittee on Student Success and Institutional Coordination received monthly updates from the workgroup, and its members have provided feedback to the workgroup on various drafts of the pilot design. HECC members have closely reviewed the workgroup’s proposal, including the voluminous testimony that was provided to the workgroup and the subcommittee (included as attachments to the workgroup report). Finally, the HECC asked consulting firm ECONorthwest to conduct an independent analysis of the actuarial model upon which the workgroup’s proposal is based. This report is also included as an attachment to this correspondence.

After thorough review, the HECC views the Pay It Forward pilot as proposed by the workgroup as a worthy initiative for the Legislature to undertake, subject to the availability of funding over and above our core investment priorities – especially expansion of state need-based aid (the Oregon Opportunity Grant) -- and assuming the satisfactory resolution of several additional considerations that are described below.

We view the following as significant virtues of the workgroup’s Pay It Forward proposal:

- Under 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 appreciate that income-based payments are more friendly to many students – especially recent ones – than the fixed payments associated with conventional loans.
- While the start-up costs of Pay It Forward are significant even at a pilot scale, we appreciate that the bulk of the state’s transitional investment costs could be recouped through contributions from those who benefited. In contrast to other

forms of state support for higher education, including need-based grants and institutional support, Pay it Forward is intended to become self-funding after a period of years – meaning that there would eventually be little or no ongoing draw on the state’s General Fund.

- As envisioned by the workgroup, Pay It Forward seems likeliest to appeal mostly to middle class students and families who don’t qualify for other forms of state and federal financial assistance for higher education. We appreciate that it is unlikely to become the primary way in which higher education is paid for, and we agree with the workgroup that start-up funding for Pay It Forward should not replace other forms of state support for higher education students and institutions.

Before creating and funding a Pay It Forward pilot project, however, we recommend that the Legislature consider the following questions and issues:

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?* While the Pay It Forward pilot is designed to be largely self-funding after approximately 23 years, the state’s transitional costs would be significant and long-lived. Especially given that higher education has not maintained its share of Oregon’s general fund in the face of severe budget pressures over the last two decades, we must avoid a situation where funding for Pay It Forward results in further diminishment of the state’s support for institutions and scholarship aid.
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?* One appealing feature of Pay It Forward – the ability of students to meet their obligations for higher education costs through income-based payment – has become available to many student borrowers who hold federal loans. Moreover, these loans may be forgiven after a fixed period of repayment. As the workgroup points out, however, because these options are limited to certain borrowers participating in certain federal loan programs, they do not meet the full need of students and their families. 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
3. *To what extent does the political and public viability of Pay It Forward depend on its up-front costs being recouped by the program?* The workgroup and the EcoNorthwest analysis note that the Pay It Forward pilot would not be fully self-financing. The workgroup’s modeling demonstrates, however, that after roughly

20 years the program would allow for positive cash inflows. In order for the program to be fully self-financing in real terms, the income contribution rate, duration of repayment, or both would need to be increased. In addition, EcoNorthwest points out that the program is highly sensitive to the assumption that future tuition increases will not outpace growth in earnings. To be clear, the HECC does not believe that Pay It Forward should be rejected just because it is not fully self-funding. But we are cognizant that a program that would compete for transitional resources against other worthy initiatives, that would encumber the state for a substantial period of time, and whose benefits are not directed exclusively to those who demonstrate the greatest financial need, would likely need to provide a reasonable degree of certainty about the up-front costs the state is incurring and the marginal impact those investments would have on 40-40-20. As a result, we agree that a pilot program makes the most sense, where predictions and assumptions can be tested and verified.

4. *What enhances the likelihood that Pay It Forward would be sustained?* Absent a dedicated and stable source of funding, it's difficult to see how Pay It Forward would be insulated from the same phenomena (eg recessions, political changes) that afflict other worthy state programs. This is a particularly important for a program that has a 20-plus year "tail" in state responsibility for administrative costs associated with repayment and would require 22 years of transitional investment before it is expected to become self-funding.

The HECC appreciates the attention that the Oregon Legislature continues to bring to the problem of affordability for higher education students through the interest you have shown in Pay It Forward, free community college, tuition freezes, and the Oregon Opportunity Grant. We look forward to discussing these concepts with you between now and the conclusion of the 2015 session.

Yours sincerely,

Tim Nesbitt, Chair

Ben Cannon, Executive Director