



# Oregon

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

September 24, 2014

Dear Legislator,

In accordance with House Bill 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 information about the composition of this workgroup 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 Collaborations has 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 analysis 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 Oregon 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 pilot 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 students—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 it is intended to eventually have little or no impact on the state’s General Fund.

- As envisioned by the workgroup, Pay It Forward seems likeliest to appeal 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 ensure that a pilot project adheres to the following conditions:

1. *Up-front investments associated with Pay It Forward should not come at the expense of continued state support for need-based grant 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 not fund Pay It Forward by diminishing state support for institutions and financial aid.
2. *The state should establish an actuarially feasible structure and timeframe for the recovery of costs from program participants.* The ECONorthwest analysis noted that the Pay It Forward pilot would not be fully self-financing, and it highlighted risks associated with some of the assumptions the workgroup used in its financial modeling. While we share the workgroup’s view that the project may not need to be fully self-financing in order still to represent a worthwhile endeavor by the state, it should be structured at the outset in a way that maximizes the likelihood that the state’s up-front investments will be fully recouped. Because uncertainty about this will inevitably remain, we agree that a pilot program makes the most sense, where predictions and results can be tested and verified.

In addition, we offer the following recommendation to policymakers:

- *The state should investigate the utilization and capacity of existing federal income-based repayment (IBR) loan programs to meet the needs of Oregon students and the potential cost, appeal and benefits of a state-sponsored IBR loan program compared to the costs, appeal and benefits of the PIF program.* 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.

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