2015 HOUSE EDUCATION

HCR 3044

2015 HOUSE STANDING COMMITTEE MINUTES

Education Committee
Pioneer Room, State Capitol

HCR 3044
3/10/2015
24615

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature	Donna Whetham

Explanation or reason for introduction of bill/resolution:

Directing the Legislative Management to study the pay-it-forward model of funding higher education.

Attachment 1-3.

Minutes:

Chairman Nathe: opened the hearing on HCR 3044.

Representative Ben Hanson: **District 16,** introduced and in support of HCR 3044. (See Attachment 1-2).

Rep B. Koppelman: They wouldn't pay during school and when they got a job they would pay a percent of their income, I am assuming the amount they pay would equal what their debt was and if that is the case, how is this different from a low interest loan? How would that compare to a loan that had the same terms because most school student loans you don't start paying off until you are done with college anyway?

Representative Ben Hanson: it would be very similar to those college programs. It would be up to us if we want it to be interest bearing or not. Maybe lack of the interest would be part of the incentive. It would not have to be ran federally it can be ran locally and it could be targeted to those specific areas we need it. My guess is, say you have a degree that it cost $40,000 now and when that person gets into the job placement they take that 5% of their income until in adds up to $40,000 and as the cost of the tuition increases the next years would be assessed at that dollar rate. You would have to set up a funding mechanism. I am not saying it would be easy but it might be something that helps.

Rep B. Koppelman: What you have described is essentially a student loan program. I don't see how this differs other than possibly who holds the debt. Most student loans when they are due, if you can't afford them then there are options for them to refinance. I don't see what advantage this has?

Representative Ben Hanson: I can't see your point. I think because it is more local and because it isn't interest bearing. North Dakota would have more control over it because you don't have to mess with what the federal government does with the loans. It could be more targeted and it wouldn't bear the interest.

Chairman Nathe: In line 13 it says permitted to pursue a degree or diploma without incurring tuition costs. So the school wouldn't charge them tuition?

Representative Hanson: Correct. At the time you are going to college.

Chairman Nathe: Does the state have to pick up that tuition in the mean time?

Representative Hanson: The intent would be to have the state set up that fund. The state would have to put in the initial money that is why it is a pilot. The state would have to take a loss at first and they are paying it back as they work. So at the time they are not paying in.

Chairman Nathe: It is your intention the pay back would go to the state then since the state is picking up the tuition?

Representative Hanson: Yes it, they would pay it back to the fund that was set up.

Rep Zubke: If I agree to a percentage and my income increases dramatically 5 years later, does my percentage change then?

Representative Hanson: I would envision you could keep it at that percentage for until it gets paid off or you could pay it all off at once. i

Rep Zubke: You are saying that I am still only responsible for what my costs are, it is not a flat percentage for 20 years, I might be done in 10 years, correct?

Representative Hanson: That is correct. That is how I would envision it as we move forward with it. The point is to just pay back what you owed.

Rep. Olson: Have you spoken with Higher Ed at all about their desirability to become the fiscal agents to manage the debt. It is almost like a contract for deed for a degree. In exchange for the degree they would take on the debt for the student. With the bank you have some sophisticated risk models they use to decide who they should loan too. Do you know if universities would be willing to become managers of debt and risk to extend that kind of credit?

Representative Hanson: It is like a contract for degree. I would not have known who to talk to in Higher Ed. I don't view it as the Universities having to manage that. We would be looking at that from our standpoint as State government if a fund was to be set up. I don't think we would not want to give this out to just anybody. It would be to targeted industries and to individuals depending on what we would want to set up as the state who would qualify. I assume they would have to be excellent high school students. Just like the contract for deed if they violate the contract they would have to pay back the whole lump sum. You would have to have some kind of a contract that would place the risk on the student and they would have pay back the lump sum if they didn't continue their degree.

Chairman Nathe: Any other support for HCR 3044? Seeing none. Any opposition for HCR 3044?

Stuart Savelkoul: North Dakota United. In opposition to HCR 3044 (9:20-15:00) (See Attachment # 3).

Rep Rohr: The session before last we had a chancellor that said some of the students that were graduating, it may have taken up to 6 years and they had to take a job at McDonald's until they could find a job in the discipline they graduated from. Then what?

Stuart Savelkoul: That is an excellent point.

Rep Mock: When a student signs the agreement with the Oregon model does that apply only to their primary source of income or did the percent apply to all income if they had a small business on the side or capital gains? What income did that apply too?

Stuart Savelkoul: I am not sure. Oregon did not implement that, but my assumption is they would take it on whatever the tax liability was. Am I right?

Rep Mock: So it hasn't been implemented but theoretically it was from the tax liablility?

Stuart Savelkoul: Yes.

Chairman Nathe: Any other opposition to HCR 3044? Seeing none. Closed the hearing on HCR 3044.

Rep Looysen: Moved Do Not Pass on HCR 3044 and place on Consent Calendar.

Rep Zubke: Seconded.

Rep Looysen: There are a lot of issues to this, when it was addressed to me I thought it was a good idea to address funding going to college but it is becoming a larger issue as the years go on. The gentlemen noted that Oregon didn't even take it up they just studied so I don't think we need to waste our money or time doing it.

A Roll Call Vote was taken. Yes: 13 No: 0 Absent: 0. Motion carried.

Rep B. Koppelman: Will carry the bill.

Date: 3-10-15
Roll Call Vote #: 1

2015 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 3044

House Education Committee

☐ Subcommittee

Amendment LC# or Description:

Recommendation:
☐ Adopt Amendment
☐ Do Pass ☒ Do Not Pass ☐ Without Committee Recommendation
☐ As Amended ☐ Rerefer to Appropriations
☒ Place on Consent Calendar

Other Actions:
☐ Reconsider ☐

Motion Made By Rep Looysen Seconded By Rep. Zubke

Representatives	Yes	No	Representatives	Yes	No
Chairman Nathe	✓		Rep. Hunskor	✓	
Vice Chairman Schatz	✓		Rep. Kelsh	✓	
Rep. Dennis Johnson	✓		Rep. Mock	✓	
Rep. B. Koppelman	✓				
Rep. Looysen	✓				
Rep. Meier	✓				
Rep. Olson	✓				
Rep. Rohr	✓				
Rep. Schreiber Beck	✓				
Rep. Zubke	✓				

Total (Yes) 13 No 0

Absent 0

Floor Assignment Rep. B. Koppelman

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HCR 3044: Education Committee (Rep. Nathe, Chairman) recommends **DO NOT PASS** and **BE PLACED ON THE CONSENT CALENDAR** (13 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HCR 3044 was placed on the Tenth order on the calendar.

2015 TESTIMONY

HCR 3044

#1 HCR 3044 3/10/15

NORTH DAKOTA HOUSE OF REPRESENTATIVES

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<u>HCR 3044 Testimony; Rep. Ben Hanson</u>

House Committee on Education:

March 10th, 2015 testimony in regards to HCR 3044 ; A concurrent resolution directing the Legislative Management to study the pay -it -forward model of funding higher education.

Mr. Chair, fellow committee members, for the record my name is Ben Hanson and I am a representative from District 16 in Fargo and West Fargo. I stand before you today to testify in favor HCR 3044.

Committee members, as you are well aware, college tuition continues to a thorn in the side of those seeking to better serve the gaps in our workforce. In North Dakota, the need for skilled labor is even more pronounced.

With this in mind, I read with some interest about a new model Oregon looked into using for their potential college students: Pay-It-Forward. Conceptually it would entail putting a funding mechanism in place, via the state, to allow college students to attend college tuition "free" until they graduate and are place in a job. From there a percentage of their salary would go back into the fund until the debt was fully paid off.

This raises many questions. With 21 states passing studies or out-and-out laws creating similar funding formulas I feel there is a benefit to studying this model. Even if the Education Interim committee were to find that the models being used in other states are not specifically to North Dakota's liking, we could still make our own that targets specific job areas or runs a pilot program to see how well it works with a limited body of initial students.

#2
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What is "Pay It Forward?"

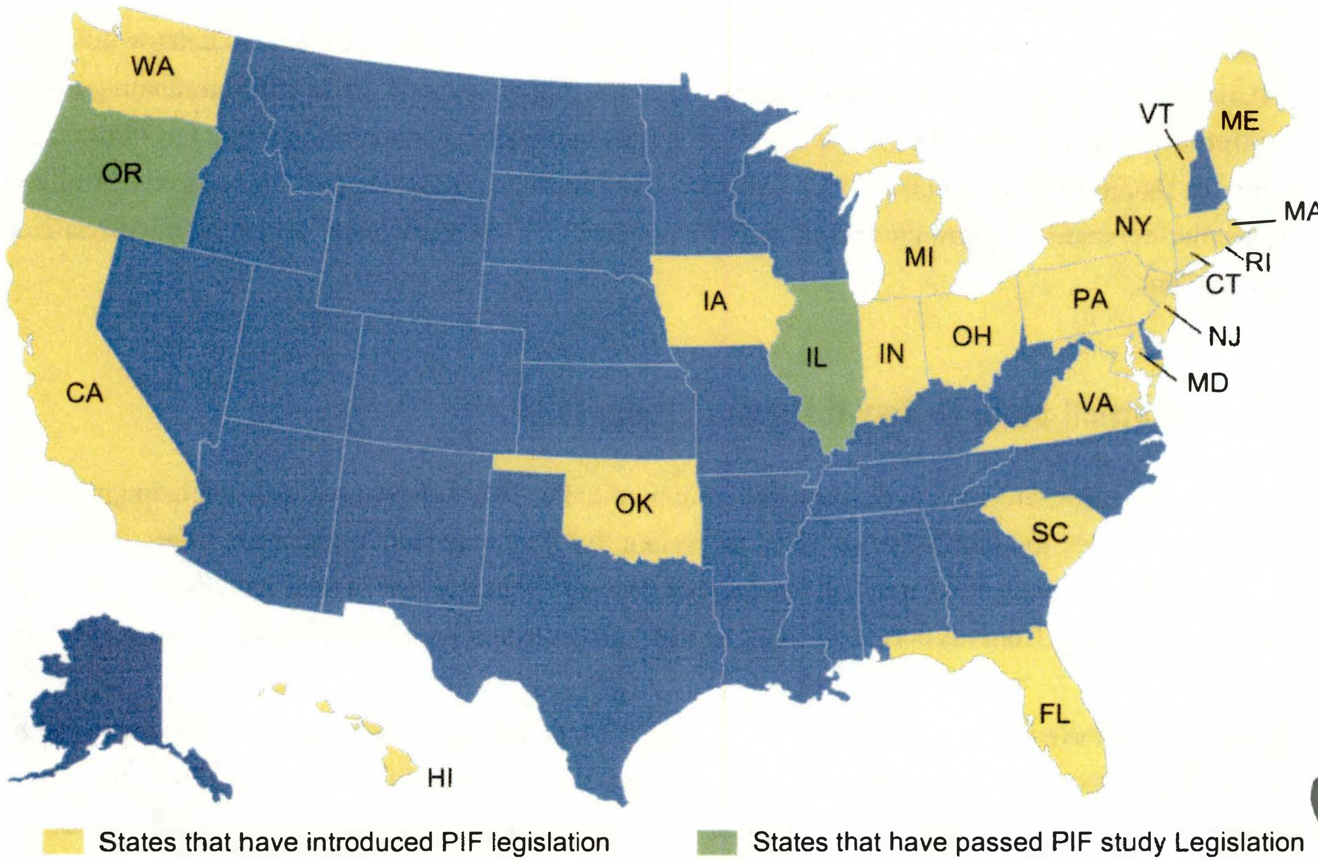
A new model for financing higher education, most commonly referred to as "Pay It Forward," or "Pay Forward, Pay Back," would allow students to attend college without payments up front. Instead, students would sign a contract and agree to pay a portion of their income for a designated amount of time after graduating and entering the workforce. The idea behind "Pay It Forward" proposals came from a student-led project at Portland State University in December 2012. Students of a capstone class on student debt designed the proposal, similar to ideas from the Economic Opportunity Institute in Washington and loan-repayment programs in Australia and the United Kingdom.

What is the current state of "Pay It Forward" proposals?

Currently several states are considering legislation related to the "Pay It Forward" idea, including pilot programs and studies to generate more information about the system for financing higher education under "Pay It Forward" models. In July 2013, Oregon became the first state to pass and sign into law legislation which directs the Higher Education Coordinating Commission in the state to study and consider proposing a pilot program (H.B. 3472).

(Update on "Pay It Forward" in Oregon) As of summer 2014, the commission's Pay It Forward workgroup submitted a draft report outlining further details of what the pilot program might look like. Given the current budget proposal and available funds for higher education in Oregon, it is unclear if the state will authorize the pilot program, especially with the estimated price tag unveiled in the workgroup's report.

Legislation introduced in other states around the country vary in terms of when and how to go about studying the proposal. In general, the specifics of how such proposals would be implemented have not yet been developed. States considering pilot programs must first address the myriad questions about if and how "Pay It Forward" would work as a model for financing higher education.



(Map last updated Summer 2014)

In addition, U.S. Senator Merkley (D-OR) in the Senate and U.S. Representatives Bonamici (D-OR) and Kilde (D-MI) in the House have introduced The "Pay It Forward" Guaranteed College Affordability Act on the federal level (S. 1884 and H.R. 3959). The legislation would direct leaders at the U.S. Department of Education, U.S. Department of the Treasury, and the Consumer Financial Protection Bureau (CFPB) to conduct a study on the feasibility of, and options for, implementing a Pay It Forward model, "in a manner that is in the best interests of students." Not later than a year after the completion of such initial study, a limited number of states may apply for competitive grants to carry out a Pay It Forward pilot program in their state. Unlike the majority of state legislation introduced, the federal legislation includes a state contribution and maintenance of effort requirement.

What is everyone else saying about Pay it Forward?

On October 4th, 2013, New America Foundation, in partnership with the Lumina Foundation, sponsored a 2-part panel discussion that brought policymakers, researchers, and entrepreneurs together to discuss key questions and the general viability of implementing an income share agreement like "Pay It Forward."

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2014

House Bill 3472: Pay It Forward

A report to the Oregon Higher Education Coordinating Commission

From the Pay It Forward Workgroup

Design Details

1. The program would be voluntary, scoped to a stratified random selection of those who apply through a simple online or paper application collected by OSAC. Students graduating from one or two selected high schools attending an eligible institution would also be guaranteed participation. The high school(s) will be chosen based upon a set of parameters that will be developed considering factors including but not limited to socio-economic status, location and size. For those in the pilot, continuing eligibility is dependent on participants meeting satisfactory academic progress each year.

2. The percentage of "annual income" contributed would be based on the number of credits for which a student is registered and attended classes through the first three weeks of the academic term. Preliminary calculations ensuring the trust fund's support rates of 0.0167% of annual income per credit at a community college and 0.0222% of annual income per credit at a four-year university. These rates result in a contribution rate of 1.5% annual income for a typical community college graduate who has enrolled in 90 credits of coursework and 4% for a typical university graduate who has earned 180 credits. To be clear, the contribution rates are per credit, and the student chooses if she wants that credit to be in her PIF contribution plan or funded in some other way.

3. The pilot program will limit the number of lifetime credits for which a student may participate in PIF. The maximum lifetime participation will be 180 credits at community college (which would result in a contribution rate of 3% of annual income). For universities, maximum lifetime participation is 225 credits (which would create a contribution rate of 5% of annual income). Students may earn credits at both a community college and a four-year institution but , in no case may a student enroll in a number of PIF credits that will cause her contribution rate to exceed 5% of annual income.

4. The term "annual income" means an amount equal to the sum of—

(A) Annual adjusted gross income, as defined by Oregon law, which is reflected as "income after subtractions," line 20 of Oregon Individual Income Tax Return Form 40; and

(B) Any amount described as "gross income" under section 103, subsections (b) and (c) of the Internal Revenue Code of 1986 (http://www.law.cornell.edu/uscode/text/26/103).

5. Contributions to the fund would begin after a six-month grace period upon the completion of the terminal degree (associate's or bachelor's degree) or cessation of studies for those who do

not earn a degree. The total length of participation before contributions would begin could not exceed 10 years regardless of degree attainment. This provision enables intermittent students to rely on PIF.

6. Contributions would continue for 20 years in all cases once the contribution term begins; there are no "buyouts" or capped contribution limits over that period.

7. Participation, per credit, would cover tuition and mandatory fees; other financial aid (Pell and Oregon Opportunity Grants, work study, private aid, etc.) could be focused on living expenses, or on academic credits not financed through PIF, at the choice of the participating student.

8. OSAC would work with the Department of Revenue as partners in the receipt of contributions from participants. Details around these collections have been discussed extensively by the Workgroup, and are discussed in Appendix E.

9. The costs to administer the PIF program have been estimated by OSAC and are modest, at less than 1% of overall program costs over the pilot evaluation period. Details are included in Appendix E.

10. The cost of tuition and fees, as well as graduate earnings, are assumed to rise at the overall rate of inflation. Tuition and fees have been growing more rapidly than inflation in the past 2o years, but the cost of running our public universities has not. Tuition and fees have risen as costs were shifted to students. If the state maintains its financial support of Oregon's public higher educational institutions at least at the historically very low rates of the present, tuition and fees should not continue to rise more rapidly than other costs.

Pilot Implementation Timeline

If the pilot is approved by the HECC for recommendation to the legislature for funding, and if the legislature elects to fund a pilot in the 2015 legislative session, it would begin in the 2016-2017 school year. OSAC will create a form for applicants, put in place a mechanism to run the lottery to determine whom among applicants will be pilot participants, and retool their collection operations to include the PIF program. Further, the HECC and OSAC will work with Legislative Counsel to update the laws related to the collection of income share from participants. Applications from degree- and certificate-seeking students at all undergraduate credit levels would be accepted starting in the financial aid window beginning January 2016.

Who Would Benefit

We need to rebuild the middle class in Oregon which begins with helping people achieve a firm foundation for success. The PIF pilot will directly benefit the thousands of students who are selected randomly from a cross-section of Oregonians and hundreds of students who attend targeted high schools, including youth who face multiple barriers to accessing higher education because of their socioeconomic status, family status, ethnicity or other disadvantages. Traditionally underserved populations comprise the fastest growing demographic in Oregon and the country, and are essential for helping Oregon reach its 40-40-20 goals.

Oregon benefits when we invest in policies that increase opportunities for our neighbors, friends and co-workers to succeed. Communities with an educated workforce are safer, healthier, more stable, less dependent on social services, and more attractive to investors. Oregon has a history of ingenuity, innovation and independence. Just as we invest capital in infrastructure and other supports, Oregon should increase its investment in human capital and help students maximize their potential without being encumbered by debt. We can ensure that every person, every family, and every community in Oregon can prosper.

How Would They Benefit

Students benefit from PIF by avoiding or significantly mitigating debt encumbrance during their college attendance. Students can then graduate into a financially stable position. Graduates can begin contributing to the local and state economies without heavy debt loads holding them back. As a result we can expect an increase in economy-building investments such as buying a home or starting a business.

Oregonians will be better positioned to start a family, finance their children's early childhood education and child care and save for retirement.

Our entire state will benefit from an educated workforce that meets the degree requirements of new industries and relies less on public assistance programs. Innovation will flourish when Oregonians are free to channel their income towards improving themselves and their state. Creativity is snuffed out when bright people can't afford school or are so burdened by debt they cannot take risks. It is imperative that our state increase our college completion rates in a financially sustainable and prudent manner and move forward with an educated workforce ready to meet the challenges for our future prosperity.

Funding

This PIF pilot has been designed from the outset to be self-sustaining in the long term given initial seed funding. The pilot design calls for gradually increasing investment over the first four years, with that investment reaching a maximum level at year four and declining every

#3
HCR 3044
3/10/15

Great Public Schools — NORTH DAKOTA UNITED — Great Public Service

Testimony before the House Education Committee
In opposition to House Concurrent Resolution 3044
Stuart Savelkoul, North Dakota United
March 10, 2015

Good afternoon Chairman Nathe and members of the committee. My name is Stuart Savelkoul and I am the Assistant Executive Director of North Dakota United. I am here today representing the interests of educators and public employees across the state of North Dakota including the more than 11,000 members of NDU. We, respectfully, urge you to assign a "do-not-pass" recommendation to HCR 3044. My testimony will provide you with evidence that this idea, even being proposed as only study, is not worth a significant amount of the legislature's time.

Obviously, public higher education, even in North Dakota, is facing a crisis of affordability. As college tuition has increased, young people are forced to choose between foregoing college altogether or taking on overwhelming amounts of debt. Proposals like "Pay It Forward" shift the cost of higher education even further onto students and families by restructuring how they pay for education.

Pay It Forward presents many practical problems, most notable its potential to accelerate college cost growth and the feasibility of creating new fee collection mechanisms to implement the programs. North Dakota United has serious concerns about the Pay It Forward concept both as a way for students to afford higher education and for states to fund it.

1) Increases the overall cost of higher education

One of the biggest concerns about Pay It Forward is that it might end up costing students more in the end. Initial analyses by education experts Sara Goldrick-Rab and Mark Kantrowitz, have projected Pay It Forward would cost most students thousands more over their lifetime versus other alternative payment structures. Additionally, taxpayers would face high start-up costs to cover the initial cost of the program.

2) Does not address the cost of college

The Pay It Forward structure does nothing to address tuition levels or college costs for students, nor does it adequately address funding for the instruction, research, and robust student support services that are the hallmark of a high quality college education. In the long run, this program will likely make the growing college cost problem worse for most families by making it less likely for the legislature to increase its investment in quality education.

3) The full scope of the cost of attending college is not addressed

Tuition and fees make up only a portion of the cost of a college education. When looking at how to make college more affordable for middle- and working-class students and families, we must find holistic solutions that include books, transportation, room and board, and classroom supplies. Even with Pay It Forward, many students would still have to borrow heavily to finance these other costs, incurring additional debt that would not be financed through the Pay it Forward program model.

4) Causes unintended consequences

Despite assurances that Pay It Forward would not impact federal and state financial aid, evidence suggests otherwise. As a result of Pay It Forward, the poorest students who currently receive grant aid for tuition and fees would likely end up paying thousands more than they otherwise would have. Pay It Forward could also have devastating effects on student government and other student organizations because the program would replace tuition *and* student fees, which are often the sole funding stream for civic engagement organizations on campus. Additionally, Pay It Forward may incentivize colleges to recruit students and fund academic programs that are more likely to produce high earners after graduation, since its entire funding structure is based on post-graduation earnings.

We are heartened that the bill-sponsors are taking the student debt crisis seriously and are seeking solutions. However, these solutions need to actively attack, not obscure, the root cause of rising student costs and debt. Pay It Forward moves us in the wrong direction. Again, I ask for your "do-not-pass" recommendation.