



## House Bill 2662

### House Higher Education, Innovation & Workforce Development Committee

March 6, 2015

Chair Read, Vice Chair Gallegos, Vice Chair Whisnant, Members of the Committee;

For the record, my name is Bob Brew, and I am the Executive Director of the Office of Student Access and Completion, more commonly known as OSAC.

OSAC's mission is to help students plan and pay for college. As the student financial aid arm of the Higher Education Coordinating Commission, we administer the Oregon Opportunity Grant, as well as many other state and federal education grants. We also provide administrative services to assist The Oregon Community Foundation, The Ford Family Foundation and many other smaller private donors in distributing their private scholarship money. Altogether, we dispense more than \$75 million per year to Oregon students.

The Pay It Forward proposal describes a program that would allow students to attend a public college or university for a period of time. During the initial period of the program, their tuition and fees would be paid by the State of Oregon. Once they graduated or otherwise left school, they would have a grace period, after which they would begin contributing a fixed percentage of their monthly income back to the program. If the program is successful, the hope is that the money returned to the program by this earliest group of students would be recycled and used to pay the tuition and fees of a future group of students until the program became self-sustaining.

Under House Bill 2662, OSAC will ultimately be responsible for administering any Pay It Forward pilot or program that is adopted.

During the 2013 session, the Oregon Legislature passed House Bill 3472, which directed the Higher Education Coordinating Commission to consider the creation of a Pay It Forward pilot. A workgroup was appointed and met from January through August of 2014. I provided staff support to that workgroup, as did my colleagues Susan Degen from OSAC and Donna Lewelling from the HECC. The workgroup was chaired by HECC Commissioner Rob Fulmer.

A final 36-page report was presented to and adopted by the HECC on September 11, 2014. Subsequently a letter to the Legislature was prepared by HECC Chair Tim Nesbitt and Executive Director Ben Cannon on behalf of the Commission. In that letter, they expressed support for further development of the Pay It Forward concept, calling out three specific advantages to the program:

- The income-based payment model is more “user-friendly” to recent graduates;
- The program could be, over the long term, self-sustaining; and
- Pay-It-Forward eases the financial burden on middle-income students who are potentially ineligible for most need-based financial aid.

They recommended creation of a pilot program, with the following caveats:

- Funds to support the pilot should not come at the expense of continued support for need-based aid;
- The State should design a funding structure that recovers the cost of the program from the participants; and
- Before beginning the pilot, the State should carefully consider the costs and benefits of such a program to those available through any federally-sponsored income-based-repayment loan program existing at the time.

While the final report I mentioned gives specific recommendations on how a pilot program could be administered, House Bill 2662, the bill you are considering today, is less prescriptive, and gives the HECC some latitude to design the specific parameters of the pilot through administrative rule.

As an agency director, I appreciate the flexibility offered in this bill at this stage of development. What you might not know about my agency, OSAC, is that for the 38 years between 1967 and 2005, we were the administrator for Oregon students participating in the Guaranteed Student Loan, which was later renamed the Federal Family Education Loan program (FFELP). At our highpoint, we had nearly 100 employees monitoring and servicing these loans. This gives my agency some level of knowledge and experience in managing loan programs. While the Federal Direct Loan Program, which replaced the FFELP, is now run by the Federal government, OSAC still maintains a small portfolio of other programs established by prior legislatures, including the Nursing Faculty Loan, the Paul Douglas Teacher Scholarship, the Medical/Dental Loan Program, the Oregon Teacher Corps Program, the Oregon Nursing Loan Program and the Nursing Services Program.

These programs were either straight loan programs, or scholarships that converted to payable loans when the recipient didn’t meet the service expectations they agreed to. While the Pay It Forward proposal is decidedly not a loan program, these other programs are instructive because they were funded for a biennium or two, some as long as 20 years ago, but they are still actively under OSAC management. Any proposed Pay It Forward pilot would have a lifespan at least as long.

To restate the old cliché, when it comes to a new program as potentially revolutionary as the Pay It Forward program, the devil will be in the details, and the same will hold true for any pilot. We have made an attempt to forecast the costs associated with developing a pilot, and some are fairly well known – for instance, we know we will need some level of computer software, whether we are monitoring 500 accounts or 50,000. The variable costs will depend on the parameters of the program. Some of the questions we will attempt to answer as the program is developed are:

- Will students be able to drop in and drop out of participation, term by term?
- Will students be able to attend any public college or university, or will participation be limited to a subset of schools?
- How will participants be selected, and how can we assure selection is fair and equitable while ensuring financial sustainability of the program?
- How will we treat the income of students that get married and file taxes jointly, particularly if the Pay-It-Forward participant is not a significant wage earner?
- Will students in educational programs or schools that have significantly different tuition and fees be treated the same in the “contribution” or “repayment” phase?
- Will these obligations be eligible to be discharged through bankruptcy?
- How will we be able to efficiently collect from students who leave Oregon for other states or countries, particularly if we don’t have any reciprocity agreement with them?
- Will collections be sufficient to fund the administration of the repayment program, even if the pilot does not evolve into a long-term program?

And while they are not specifically related to costs of administering the program, other questions that are worthy of further exploration before a pilot is undertaken include these:

- How will these obligations be treated by regulators vis a vis consumer protection law?
- How will these contracts be treated by creditors and the Internal Revenue Service?
- Will the program withstand legal challenge, and if not, what becomes of the outstanding obligations?

These are all complex questions with associated costs, both financial and administrative. Nobody wants to saddle students with long-term obligations they weren’t adequately prepared to assume; neither do we want the state to create a program that generates more cost than benefit, particularly through unintended consequences. I believe the process for developing a sound Pay It Forward program through statute and rule-making, while potentially worthwhile, will be long and complex.

Thank you for your attention, and I’ll be glad to answer any questions.