OREGON WORKING FAMILIES

Jeff Anderson, UFCW Local 555
Chair
Cherry Harris, IUOE Local 70
Treasurer
Wesley Buchholz, LiUNA 483
Dawn DesBrisay, ILWU Local 8
Robin Rabiroff, IBEW Local 48
Tom Leedham, Teamsters 206
Ben Nelson, District Council of Laborers
Stefan Ostrach, UAW
Andrea Paluso, Portland Chapter
Shanti Lewallen, ILWU Local 8
Mark Sturbois, CWA 7901
Barbara Dudley
Senior Policy Advisor

VIA EMAIL AND HARD COPY

March 11, 2015

Rep. Tobias Read
Oregon State Capitol, H-286
Salem, Oregon 97301

Re: "Pay It Forward" pilot proposal – Notes on given testimony

Chair Read:

Thank you for holding a public hearing on House Bill 2662, the "Pay It Forward" (PIF) pilot proposal, on Friday March 6, and especially for ensuring that all attendees who wished to testify were given that opportunity.

Because this proposal has gone through over several years' worth of workgroups and other discussion before arriving at its current HECC-approved design, I fear that some of the testimony in opposition during Friday's hearing was speaking to an outdated concept. Some of the concerns aired were in fact brought up and addressed by work-group members over the past year, and are not components of the current proposal.

I wanted to outline a few of those items here, and I would urge you – if there is any confusion – to refer to the HECC report approved on September 11, 2014 (available on OLIS).

AFT Oregon
The American Federation of Teachers through Mr. David Rives offered testimony that suggested a disconnect between Pay It Forward and other funding priorities:

1. *"We have to look at the high levels of student debt and the disinvestment in higher education funding as two interconnected issues, and they can't be looked at separately one from the other. I'm afraid that's what Pay It Forward is doing by looking at just student debt as separate from the funding issue."*

The Pay It Forward proposal is not exclusive to the robust financing of Oregon's higher education system. In fact, many supporters of Pay It Forward are also champions of such efforts. As a case in point, Mr. Rives himself then went on to advocate for additional financing of the Opportunity Grant: "I think this committee should be thinking about that – about steps to really, truly fund the Opportunity Grant." In this way, Mr. Rives shows that one can support direct aid programs while still supporting higher education funding.

2. *"The Representative mentioned that by 2020 we're looking at $20 million a year; that's $40 million in the biennium, each biennium."*

As noted in the materials provided, that amount represents one possible scope of the pilot program over time. Nothing in HB 2662 or a resulting funding mechanism would obligate the Legislature to finance Pay It Forward at any particular size or at any particular amount. It is my sincere hope that the data generated by a pilot program over the next several years will convince the Legislature – through a quantitative analysis of costs and benefits – to continue its support and to expand the program. However, nothing obligates the Legislature to future payments.

3. *“Looking at interest-based repayment as a funding mechanism is not sustainable and it should not be looked at as a sustainable funding mechanism.”*

Payments made by students as PIF obligations are not a funding mechanism for higher education. Rather, those payments return to the Pay It Forward implementation fund, which determines the prospective scope of the program. At no point are campuses expected to rely on a students’ PIF payments for funding.

Mr. Drew Hatlen also raised some of AFT Oregon’s concerns:

4. *“There was a large concern as to whether or not this program was going to negatively impact the Oregon Opportunity Grants...”*

When funding mechanisms were initially discussed, PIF workgroup members had conversations with HECC staff and members as to whether it would be appropriate to seek general fund dollars. Subsequently, it was determined that seeking Lottery bond proceeds or an alternate source of funds was a more appropriate vehicle for financing a program designed to become self-sustaining. (As opposed to a program that would require a constant and growing supply of funds each biennium.)

5. *“We don’t want to encourage the bright young minds of Oregon to take their chances elsewhere outside of the State...”*

The Pay It Forward program is entirely voluntary, not exclusive to any other form of payment or aid, and could therefore not discourage attendance by virtue of existing. Case in point: the State of Oregon currently runs a student loan program with minimum rates of 7% (see ORS 348.050) which is above rates that are available elsewhere. The existence of this option has not discouraged students from seeking assistance or attending school in Oregon through other means.

Oregon State University

Ms. Kate Peterson of Oregon State University made several assertions in her testimony which bear a response:

6. *“The Pay It Forward program could serve to discourage students from attending college because it will appear to them as a set tax or fee on an unknown future income.”*

Similar to the response to Mr. Hatlen’s assertion above, the Pay It Forward program is entirely voluntary and could therefore not discourage attendance by virtue of existing.

7. *“The average Direct Loan debt upon graduation for an OSU student is currently $24,591. If this amount is repaid over ten years at 4.66 percent interest… Total cost to the student over the term of the loan would be $30,500.” [Then this figure was compared to PIF participants making $80,000/year and $38,000/year facing total costs of $64,000 and $30,500, respectively.]*

This is based on a non-parallel comparison, and ignores the fact that PIF is not an “all-or-nothing” mechanism. Students may use PIF to finance all or a portion of their education, and will see their obligation amount adjusted accordingly.

The OSU website identifies fees and tuition costs for 4 years at $36,492. If the comparable loan amount is $24,591 that loan covers about 67% of OSU costs for four years. Thusly, about 33% is coming from elsewhere – whether that’s a job or a family contribution or some other source. Assuming that an exemplar student is able to somehow self-finance one-third of their education, that’s true whether the remaining need is PIF-financed or loan financed.

Taking PIF for that same two-thirds of costs results in an effective PIF obligation of 120 credits (out of 180) multiplied by 0.0222% of annual income per credit, or about 2.66% of salary over 20 years. (Not 4% as suggested… see page 8 of the HECC report on OLIS or the HECC website.) At an $80K/year job, that's $42,500 total payout – still more than a loan – but the example of the $38,000/year job has a $20,216 total payout – less than the loan. In either event, the risk mitigation value of the PIF bears a significant economic value because, as Ms. Peterson noted earlier, these students face "an unknown future income."

> *8. "(Most students, other than engineers, don't start at an $80,000 salary. But the salaries of nearly all students over the next 20 years will exceed $80,000.)"*

This comparison accounts for prospective increases in salary (and therefore in amount of total PIF obligations) but not for prospective increases in tuition and necessary loan amounts, which are held steady to the current average. Additionally, according to the 2010 census, Oregon mean income for bachelor's degree holders one year after graduation was $27,275. 20 years after graduation, it was $65,965. While Pay It Forward may not be the most affordable solution for every student, it will be for many Oregonians.

Conclusion

In sum, I think that these are some fantastic concerns, and mirror a lot of the discussion held by workgroup members, legislators, and other stakeholders over the past several years.

It is important to note, though, that the legislation and accompanying HECC report in front of you today is much evolved from the initial concepts from several years ago. I urge you and your committee to reach out to me, other stakeholders, or the HECC report (on OLIS) with any further questions you may have. I look forward to meeting with you in person to discuss how we can work together on this.

Thank you.

Karly Edwards

Karly Edwards
State Director
Oregon Working Families

Cc: House Committee on Higher Education, Innovation, and Workforce Development