

Date of Hearing: March 18, 2014

ASSEMBLY COMMITTEE ON HIGHER EDUCATION
Das Williams, Chair
AB 1456 (Jones-Sawyer) – As Introduced: January 9, 2014

SUBJECT: Higher education: tuition and fees: pilot program.

SUMMARY: Requires the California Student Aid Commission (CSAC), the Trustees of the California State University (CSU), the Board of Governors (BOG) of the California Community Colleges (CCC), and requests the Regents of the University of California (UC) to conduct a study of the effects of enacting legislation to establish a "Pay it Forward, Pay it Back Pilot Program" (Pilot Program). Specifically, this bill:

- 1) Finds that the rapidly increasing cost of postsecondary education has grave consequences for students and the state's economy and declares that the Legislature increase the state's contribution to higher education funding and seek another approach to financing the students' share of higher education costs that will not result in students graduating from public colleges and universities burdened with debt.
- 2) Establishes that the Pilot Program would be designed to replace the current system of charging students upfront for tuition/fees and room/board for enrollment at public institutions.
- 3) Establishes that the Pilot Program would allow a resident student qualified for admission to enroll without paying upfront tuition/fees, and instead would sign a binding contract to, upon graduation, pay a specified percentage of his or her annual adjusted gross income to the state or the institution for a specified number of years.
- 4) Establishes that the Pilot Program could vary by institution in regards to the student costs and repayment terms and the portion of cost paid by the state.
- 5) Requires that the Pilot Program study:
 - a) Identify at least one campus of one or more of the public segments to participate;
 - b) Specify the number of years and percentage of annual adjusted gross income for a contract at each participating institution that would reimburse the nonstate cost of a student's attendance;
 - c) Establish an immediate source of funding for the first 15 to 20 years of the Pilot Program including the establishment of a revolving fund for depositing payments, and consider the use of social impact bonds as an immediate funding source.
- 6) Defines "social impact bond" to mean an agreement between a nongovernmental entity and a public institution of higher education under which a student's cost of attendance is paid for by the nongovernmental entity in exchange for a security interest in the student's repayments.

- 7) Requires CSAC to submit a report on the study of the pilot program to the Assembly Committee on Higher Education and the Senate Committee on Education on or before September 30, 2015.
- 8) Makes the provisions of this bill inoperative on June 30, 2016 and repeals the provisions of this bill on January 1, 2017.

EXISTING LAW establishes a policy governing student fees at the California Community Colleges (CCC) and establishes, effective summer 2012, a \$46 per unit fee. Existing law also provides that statutes related to UC are applicable only to the extent that the UC Regents make such provisions applicable and confers upon the CSU Trustees the powers, duties, and functions with respect to the management, administration, and control of the CSU system. UC and CSU fees are established each year through the Budget Act negotiations, with complementary actions on the part of the UC Regents and the CSU Trustees to adopt negotiated fee levels. Existing law establishes the Cal Grant and Middle Class Scholarship programs to provide financial aid at colleges and universities, to the extent that students and institutions are eligible.

FISCAL EFFECT: Unknown

COMMENTS: Background on Affordability in California. According to California Competes, to pace with demands of employers, California will need to produce 2.3 million more degree and certificate-holders than the 3.2 million the state is on track to achieve by 2025. The Institute for College Access and Success notes that a student's ability to pay for college is a major factor in enrollment and completion of a degree program; significant unmet need results in students being less likely to enroll and, once enrolled, low-income students are also less likely to complete their degree program. Financial aid plays a vital role in leveling the playing field and increasing access, retention, and completion rates. As this Committee heard at the October 7, 2013, oversight hearing on college affordability, California has made a substantial commitment to college affordability; still, there is room for improvement:

- There is an implicit policy whereby students and the State are expected to share educational costs, but the relative proportions are dependent on the State's fiscal situation. In the past decade the student share of educational costs has increased: In 2002-03, tuition at CSU covered 20% of educational costs, by 2013-14 the student share increased to 45%. At UC, by 2013-14, tuition covered over 50% of average educational costs.
- California's financial aid programs have grown in tandem with tuition and fees and as a result many students have been protected from fee increases. Between Cal Grants and institutional aid, many lower- and middle-income families pay no tuition. UC's Blue and Gold Opportunity Plan guarantees full tuition coverage for students with family incomes up to \$80,000. At CSU, students with family incomes up to about \$75,000 typically pay no tuition. The Middle Class Scholarship Program will reduce UC and CSU tuition for families with income up to \$150,000.
- State financial aid programs focus on tuition and ignore the cost of living expenses that families face, and in California these costs are about 20% higher than national averages. The Cal Grant B program provides an Access Award for living expenses of \$1,473 annually. As the chart below indicates, the stipend is not enough to cover living expenses.

2013-14 Student Budgets	UC	CSU	CCC
Tuition and Fees	\$13,227	\$6,647	\$1,380
Housing and Food	\$10,496	\$9,103	\$7,378
Books and Supplies	\$1,504	\$1,723	\$1,710
Transportation/Other Expenses	\$4,486	\$2,665	\$4,222
Total Costs	\$29,713	\$20,138	\$14,689
Tuition/Fees as % of Costs	45%	33%	9%

- Relatively few California students report high debt levels. According to the LAO, in 2010-11, about half of UC and CSU baccalaureates graduated with no student loan debt. Among students who borrowed, the average debt upon graduation for UC students was \$18,346 and for CSU students was \$16,648. The national average student debt for students who left school in 2012 was \$29,400.
- Recommendations to the Committee included increasing the amount of the Cal Grant B Access Award, increasing the number of awards provided in the competitive Cal Grant program, and focusing aid to students with identified need, among other recommendations. Several witnesses testified to the importance of increasing overall state support for institutions so that institutions could continue to enroll eligible students and provide adequate access to courses to ensure on-time graduation.

Purpose of this bill. According to the author "California's current financial aid system is broken into basically three parts, loans, grants and scholarships. If a student's parents cannot pay for college, nor do they qualify for grants or scholarships and he/she does not want to take out loans then that person will not be able to attend college. This legislation is necessary in order to study a fourth type of financial aid, Pay it Forward Pay it Back. This policy will allow a student to attend a public college or four year university in California without paying tuition, room and board. Upon graduating they pay 2%-4% of their gross income to a state or college trust fund for a specified number of years."

Background on Pay it Forward. The Pay it Forward (PIF) model, which would allow students to attend college without upfront payments by signing a contract to agree to pay a portion of their income for a designated amount of time after graduation, appears to have originated from a student-led project at Portland State University in December 2012. This proposal is similar to ideas from the Economic Opportunity Institute in Washington and income-based payment programs in Australia and the United Kingdom. In July 2013, Oregon became the first state to pass legislation related to the proposal; the Oregon bill (HB 3472) requires the state's higher education coordinating commission to study and consider proposing a pilot program. If the Oregon commission determines a PIF pilot model is feasible, a proposal is due to the Legislature in 2015. In addition to California, at least 19 states have or are considering legislation that appears based on the PIF model. Two measures were introduced in Congress that would direct the U.S. Department of Education, the Treasury and the Consumer Financial Protection Bureau to study the feasibility of the model.

Overall cost of education. Proponents of PIF argue the model increases access to college by providing an alternative to up-front payments and loan-financed education that will ultimately result in predictable, stable and manageable post-graduation contribution requirements. However, critics have expressed concern that PIF may result in students paying more over their lifetime versus other alternative payment structures. For example, critics note that if PIF covers

only tuition and fees, many students would still need to take out loans to cover access costs; meaning they would be paying both PIF and loan payments upon graduation. Further, it is unclear whether a student that would currently qualify for a grant or scholarship would, under PIF, be required to make payments toward those costs. The author's office has indicated an intention, which is not currently made clear in this bill, for the Pilot Program to cover tuition and access costs and for students to continue to access existing grant programs.

Share of cost equation. Critics of PIF have expressed concern that the model reinforces the concept of higher education as an individual transaction rather than a public good, and reduces the burden on states to sustain/increase funding of higher education. Critics point to the Australian contribution model, which they argue resulted in cost shifting from government to the students themselves. Proponents of PIF argue the model is a social insurance plan in which graduates share of cost will ultimately be more favorable than under the current tuition structure. The author's office has indicated an intention for the Pilot Program to ensure the student's share of cost is capped at 2% - 4% of gross income; however this provision is not included in the scope of the study outlined in the bill. It is also unclear how, without assurances of General Fund support for the segments, this limitation would impact overall funding for higher education and student access.

PIF vs. student loans. Proponents of PIF argue that the proposal is not a loan, but more closely resembles Social Security or Medicare. Contributions are not dependent on the cost of education the student received; rather than borrowing and then repaying a specific amount of money under specific loan conditions, students would pay a percentage of their income for a specific number of years. The Study of the Pilot Program outlined in this bill would establish guidelines for the terms of payments. While not identical, the payment shifting and shared responsibility elements of PIF are somewhat similar to the Tuition Postponement Option (TPO) provided at Yale in 1971. Under TPO, about 3,300 alumni agreed to pay 4% of their annual income for every \$1,000 borrowed until the entire cohort's debt was paid off. The wealthier students bought out of TPO early, paying 150% of what was borrowed plus interest. Other students defaulted, leaving lower-income students left covering a greater burden of debt. In 2001 TPO ended, after Yale partially bailed out those students still repaying on loans.

REGISTERED SUPPORT / OPPOSITION:

Support

California Communities United Institute
Veterans Caucus of the California Democratic Party

Opposition

California Teachers Association

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