Date of Hearing: August 25, 2014

ASSEMBLY COMMITTEE ON HIGHER EDUCATION
Das Williams, Chair
HR 49 (Jones-Sawyer) – As Introduced: August 4, 2014

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

SUMMARY: Encourages the Legislative Analyst as the lead, and the California Student Aid Commission (CSAC) to conduct a study, as specified, on the effects of enacting a "Pay it Forward, Pay it Back Pilot Program" (Pilot Program) as an alternative to existing student financial aid programs. Specifically, this resolution:

1) Makes numerous declarations and findings, including, but not limited to, the following:

   a) The Legislature recognizes that postsecondary education has expanded opportunities for Californians to qualify for high-quality jobs and entry into the middle class, providing clear benefits to this state's economy;

   b) The increasing unaffordability of a college education has forced students to borrow more money to pay for higher education, causing 51% of students graduating from four-year institutions of higher education in California to borrow an average of $18,879;

   c) Tuition at California's public institutions of higher education has been rising far more rapidly than family incomes. In 2000, the cost of attendance for a UC student living on campus was 25% of California's median family income. In 2009, this cost had grown to 39% of median family income. Costs at the CSU also grew relative to incomes, increasing from 19% of median family income in 2000 to 29% of median family income in 2009;

   d) By 2025, California is projected to have a shortage of 2.3 million college graduates in the state's workforce if the number of young and older adults who go to college and complete a higher education is not significantly increased; and,

   e) That the Legislature must halt the decrease in the state's support for public education and, over time, must increase its contribution to the funding of higher education; and, it must immediately seek another approach to financing a student's share of the cost of higher education in the state that will not result in students graduating from California colleges and universities burdened with debt; and, that the Legislature intends for a "Pay it Forward, Pay it Back" pilot program to be studied that would not replace existing forms of financial aid, including grants, scholarships, and loans, but would instead serve as an additional option for students to finance their education.

2) Encourages the Legislative Analyst and CSAC to conduct a study of the effects of enacting, in future legislation, the Pilot Program, with the Legislative Analyst encouraged to be the lead in charge of preparing the study.

3) Specifies that the study should evaluate the pilot program designed to provide an additional option for students to finance the costs of their education, including the costs of upfront tuition, fees, and room and board, for enrollment at institutions of higher education.

4) 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.

5) 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.

6) Specifies that the study of the Pilot Program:

   a) Identify at least one campus of the UC, CSU, and California Community Colleges, and at least one campus of a nonprofit private postsecondary educational institution that would participate in the pilot;

   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.

7) Specifies that the study of the Pilot Program should be presented for consideration to the Legislature.

8) Encourages the Legislative Analyst to submit a report on the study of the pilot to the specified Legislative Committees no later than September 30, 2015.

FISCAL EFFECT: Unknown

COMMENTS: Purpose of this measure. 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. The Pay it Forward (PIF) model—allowing 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, specifically requiring 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 next year. The State of Washington is also conducting a study of this model. 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.

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. Critics of PIF contend 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.

College Affordability and Student Debt in California. In the past decade, with the significant increases in student fees, students' share of educational costs have also increased—from 20% to 45% at CSU and to over 50% at UC. 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.

State financial aid programs focus on tuition, however, and generally do not cover cost of living expenses, which in California are about 20% higher than national averages. The average total cost of attendance for a full-time student is about $29,700 at UC, $20,100 at CSU, and $14,700 at CCC.

Relatively few California students report high debt levels. According to the Legislative Analyst's Office, 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 about $18,300 for UC students and $16,600 for CSU students. The national average student debt for students who left school in 2012 was $29,400.

Related legislation. AB 1456 (Jones-Sawyer) of 2014, which was held in Senate Rules Committee, was virtually identical to this resolution.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file.

Opposition

None on file.

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