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OREGON'S "PAY FORWARD, PAY BACK" PROPOSAL

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You asked several questions about Oregon's "Pay Forward, Pay Back" proposal for financing higher education, which we answer separately below.

How Does "Pay Forward, Pay Back" Work?

"Pay Forward, Pay Back" is a proposal to replace the current system of charging in-state students tuition and fees at Oregon's public colleges and universities. Instead, the students would pay the state or institution a certain percentage of their annual adjusted gross income (AGI) for a specified number of years after graduation.

A proposal to create a pilot program will be studied by the state's Higher Education Coordinating Commission pursuant to legislation (HB 3472) passed this year. If the commission determines that a pilot program is warranted, it must submit a proposed program to the 2015 legislature for its approval.

2013 Legislation. The legislation establishes broad requirements for the pilot program, which include:

1. identifying the participating institutions;

2. allowing in-state students to enroll in these institutions without paying tuition and fees;

3. requiring the students to sign binding contracts to pay the state or institution a certain AGI percentage for a specified number of years after graduation;

4. specifying the AGI percentage and contract length at each participating institution, based on research to date; and

5. establishing an immediate funding source for the program's first 15-20 years, including a revolving fund for depositing payments made under the program.

The act allows the program requirements to vary across the selected institutions based on their respective educational costs, portion of those costs paid by the state, and the number of years and AGI percentage specified in the contract.

Proponents' Suggested Parameters. The Oregon program was proposed by students in a senior capstone class at Portland State University, in collaboration with several advocacy organizations. While the act does not establish specific parameters for the pilot program, its proponents suggest having four-year graduates pay 3% of their AGI for 24 years after graduation and two-year graduates pay 1.5% of their AGI during this period. If a student does not graduate, he or she would pay 0.75% of his or her AGI for each full-time academic year attended.

How Will Oregon Pay for the Program?

The program's proponents believe that it will be self-sustaining once it is fully implemented. They project that, once the first participating cohort has made 20 or more years' worth of payments, the program's revenues will be sufficient to cover current students' educational costs.

However, the program would accrue a substantial deficit before it becomes self-sustaining. According to an analysis by a program advocate, the Oregon Center for Public Policy, Pay Forward, Pay Back would run annual deficits in its first 24 years of operation, totaling approximately $9.3 billion in the aggregate, and would not begin to run annual surpluses until its 25th year of operation.

There is currently no identified funding source for this deficit phase of the program; the act requires the commission's study to identify such a funding source. Proponents have suggested state bonds or philanthropic contributions as possible funding sources.

How Much Would it Cost to Implement a Similar Program in Connecticut?

Operating a similar program in Connecticut would result in a cumulative net cost to the state through its 27th year of operation (see Table 1 below). The program would run annual deficits for its first 15 years, totaling approximately $3.9 billion in the aggregate, before beginning to run annual surpluses in the 16th year. After the 28th year, the program would have an estimated cumulative revenue gain of $476.7 million. Please note that the projections do not account for administrative costs (see below).

The tuition and enrollment data used in the projections were provided by Connecticut's constituent units of higher education. The projections are based on the following key assumptions:

1. current tuition revenue totals $376.6 million and will increase annually by an estimated 3.8%, the recent national average;

2. public college enrollment will remain constant over the period considered;

3. the average starting salary for a graduate with a two-year degree is $35,000, with an average experienced salary of $52,000;

4. the average starting salary for a graduate with a four-year degree is $43,000, with an average experienced salary of $75,000; and

5. average salaries will increase by 3% annually.

Factors Not Included in Projections. The projections do not account for what will likely be substantial administrative costs for operating the program. In the 28th year of operation, more than 1.1 million former students would be making payments. For comparison purposes, the Connecticut Department of Revenue Services spends approximately $48.4 million administering Connecticut's income tax with approximately 1.6 million returns each year.

The analysis also does not take into account the various policy decisions that would need to be considered by lawmakers. For example, as noted above, Oregon's legislation allows the program requirements to vary across the selected institutions, but our analysis assumes uniform requirements across Connecticut's public colleges and universities. Additionally, our analysis does not factor in participation and graduation rates, compliance levels, and other program parameters that could potentially impact the cost.

Table 1: Fiscal Impact of Pay Forward, Pay Back in Connecticut (in millions)

Program Year	Repayment Year	Annual Payback 1.5%/3%	Cost	Cumulative Net Impact
1	-	-	$376.6	($376.6)
2	-	-	390.9	(767.5)
3	1	$18.8	405.8	(1,154.5)
4	2	38.7	421.2	(1,536.9)
5	3	76.5	437.2	(1,897.6)
6	4	116.5	453.8	(2,234.9)
7	5	158.9	471.0	(2,547.0)
8	6	203.6	488.9	(2,832.3)
9	7	251.0	507.5	(3,088.9)
10	8	300.9	526.8	(3,314.8)
11	9	353.7	546.8	(3,508.0)
12	10	409.3	567.6	(3,666.3)
13	11	468.0	589.2	(3,787.5)
14	12	529.8	611.6	(3,869.3)
15	13	594.9	634.8	(3,909.2)
16	14	663.4	658.9	(3,904.7)
17	15	735.5	684.0	(3,853.2)
18	16	811.3	710.0	(3,751.8)
19	17	891.1	736.9	(3,597.7)
20	18	974.8	764.9	(3,387.8)
21	19	1,062.8	794.0	(3,119.0)
22	20	1,155.2	824.2	(2,788.0)
23	21	1,252.2	855.5	(2,391.3)
24	22	1,354.0	888.0	(1,925.3)
25	23	1,460.7	921.8	(1,386.4)

Table 1 (continued)

Program Year	Repayment Year	Annual Payback 1.5%/3%	Cost	Cumulative Net Impact
26	24	1,535.5	956.8	(807.6)
27	25	1,613.5	993.1	(187.3)
28	26	1,694.8	1,030.9	476.7

What are Possible Financing Sources for Connecticut?

To fund the program before it becomes self-sustaining, the state could (1) appropriate money from the General Fund, (2) issue General Obligation (GO) bonds, or (3) establish a dedicated tax revenue stream.

The use of GO bonds would substantially increase the program's costs beyond those listed in Table 1. For example, the interest cost of bonding the first year's anticipated cost of $376.6 million is approximately $197.7 million.

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