



# State Fiscal Note for Bill Number: 2014-H-7201

**Date of State Budget Office Approval:**

**Date Requested:** Tuesday, February 11, 2014

**Date Due:** Friday, February 21, 2014

<i>Impact on Expenditures</i>		<i>Impact on Revenues</i>	
FY 2014	0	FY 2014	NA
FY 2015	\$150,000 - \$250,000	FY 2015	NA
FY 2016	Indeterminate	FY 2016	Indeterminate

*Explanation by State Budget Office:*

This act requires the Executive Committee of Education, established pursuant to RIGL 16-97-3, to develop a three-year pilot program called the "Pay it Forward, Pay it Back Program", which would replace the current system of charging students tuition and fees for enrollment in public institutions of higher learning. The Executive Committee is composed of the presidents of URI, RIC, and CCRI, as well as the Commissioner of Higher Education and the Commissioner of Elementary and Secondary Education. Before being implemented, the Executive Committee is required to submit a pilot program, which selects one or more public institutions to participate in the program, to the 2015 regular session of the General Assembly for approval. After approval by the General Assembly, the pilot program would begin on or before June 30, 2015 and would be terminated on June 30, 2018. Only courses of study and careers deemed essential by the Executive Committee for Rhode Island's workforce development would be included in the program. To be eligible for the program, students must be residents of the state and must complete their course of study and graduate on time. Associate degrees must be completed within two years and bachelor degrees must be completed within four years.

The act provides further specifies that: (1) in lieu of paying tuition and fees, students would sign contracts to pay the State of Rhode Island or the institution, a certain percentage of their adjusted gross income upon graduation from the institution for a specified number of years; (2) a funding source would be established to fund tuition and fees for the first three years of the program; (3) a revolving fund would be established to deposit payments made under the pilot program. The act also provides that the pilot program established by the Executive Committee of Education may vary by institution depending on (1) the total cost of education at the institution; (2) the portion of the cost that is paid by the State of Rhode Island; (3) the number of years of repayment specified in the contract; (4) and the percentage of annual adjusted gross income specified in the contract.

On an unrelated matter, this act requires the Executive Committee to conduct a study to determine whether the public universities and colleges in the state can successfully implement a tuition freeze that would guarantee that incoming undergraduate students would have the same tuition rate for four years. The act requires the study to be submitted to the General Assembly on or before January 1, 2015.

*Comments on Sources of Funds:*

The cost for the Executive Committee of Education to develop a "Pay it Forward, Pay it Back" pilot program would likely be funded from a state general revenue

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*Prepared by:* Gregory B. Stack / 4012222194 / gregory.stack@budget.ri.gov



appropriation in the Office of Postsecondary Education.

*Summary of Facts  
and Assumptions:*

It is assumed that the dollars required to finance student tuition and fees for the “Pay it Forward, Pay it Back” program would be funded from a general revenue appropriation, revenue bonds, or other debt instruments issued by the State of Rhode Island or the other education bonding institutions, such as Rhode Island Health and Educational Building Corporation (RIHEBC).

The Executive Committee of Education is required develop and to submit a pilot “Pay it Forward, Pay it Back” program to the General Assembly for approval during the 2015 regular session. The pilot program would be operational for a three-year period, commencing on or before June 30, 2015 and terminating on June 30, 2018. During this three-year period, eligible students taking eligible courses, or in eligible career fields, would have tuition and fees paid for from a revolving loan fund that is to be established, in lieu of paying tuition and fees to the institution(s). The revolving loan fund would need to be capitalized from one or more funding sources, including a general revenue appropriation, revenue bonds, or other debt instruments issued by the State of Rhode Island or the other education financing institutions, such as Rhode Island Health and Educational Building Corporation (RIHEBC).

Because the legislation provides that the pilot program would only be operational for three-years, eligible students at RIC and URI would not be able to utilize the “Pay it Forward, Pay it Back” program for all four years at these institutions. For the fourth year of study, students would need to access traditional sources of education funding, such as student loans.

Even if the pilot program were ended on June 30, 2018 after three years of operation, administrative costs of ensuring students repay the percentage of annual adjusted gross income specified in their contracts for the specified number of years would continue for 10, 20 or 25 years after the pilot program sunsets until provisions of student repayment contracts are fulfilled. Enforcing contract provisions may be difficult if a student moves out of state or overseas, which could result in substantial legal costs to the State or debt issuance institutions.

The Budget Office assumes that the study to determine whether the public universities and colleges in the state can successfully implement a tuition freeze for four years for incoming undergraduates would be conducted by current staff in the Office of Postsecondary Education.

Tuition and fees for the 2014 – 2015 school year at the three state institutions are \$12,506 for URI, \$7,602 for RIC, and \$3,950 for CCRI. If 100 students at each institution were to participate in the program for one year, direct program costs for tuition and fees (does not include program administrative costs) would be \$2,405,800. If the same 100 students were to participate in the program for the maximum duration of the program (three years for URI and RIC students, and two years for CCRI students) and tuition and fees were held level at the 2014 – 2015 rates, direct program costs would be \$6,822,400 for the three-year period.

*Summary of Fiscal  
Impact:*

The State Budget Office estimates that the cost of developing a “Pay it Forward, Pay it Back” pilot program to be between \$150,000 and \$250,000. This assumes 1.0 to



1.5 full-time contract staff are assigned to the program for 6 to 8 months, and expert management services are hired to advise the Executive Committee of Education on program design. The funding to develop the pilot program would require a general revenue appropriation in the Office of Postsecondary Education.

The cost of executing the "Pay it Forward, Pay it Back" plan cannot be estimated until the provisions of the pilot program are established by the Executive Committee and approved by the General Assembly. The cost of the program would be largely determined by the Executive Committee of Education, which would decide how many students, what institutions, and what courses of study would participate in the program. The funding to implement the "Pay it Forward, Pay it Back" program would likely come from of a state general revenue appropriation, a bond issuance, or some other debt instrument. The design of the pilot program would determine which institution(s) would assume the financial risks should repayments to bond holders or debt instrument holders not be made in a timely manner.

Budget Office Signature:

*Thomas A. Mellany* 2/28/14

Fiscal Advisor Signature:

*Gregory B. Stack* 3/4/14