SENATE COMMITTEE ON EDUCATION
Senator Benjamin Allen, Chair
2017 - 2018 Regular

Bill No:	AB 2479	**Hearing Date:**	June 27, 2018
Author:	Voepel		
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Urgency:	No	**Fiscal:**	Yes
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Subject: Public postsecondary education: income share agreement: pilot program

SUMMARY

This bill requires the establishment of an income share agreement (ISA) pilot program at one campus each of the University of California (UC) and the California State University (CSU), contingent on funding for this purpose.

BACKGROUND

Existing law establishes the Middle Class Scholarship Program to offset a portion of tuition costs at the UC and CSU for students with annual household incomes less than $150,000. (Education Code § 70020, et seq.)

ANALYSIS

This bill:

1) Requires, commencing with the 2020-21, the CSU and as a condition of receipt of moneys appropriated for purpose of the bill, the UC, select a campus of their respective system to establish a pilot program to provide moneys from the campus's Income Share Agreement Revolving Fund, to participating students who enter into an income share agreement with the campus.

2) States that it is the intent of the Legislature that the pilot program target students who would benefit from an income share agreement as a feasible alternative to using student loans to pay for a portion of their costs of attendance at the campus.

3) Defines for purposes of the bill, "income share agreement" to mean an agreement between a participating campus and a student under which the student commits to pay a specified percentage of his or her future income, for a specified period of time, in exchange for payments to, or on behalf of, the student for a portion of his or her cost of attendance at the campus.

4) Requires each of the income share agreements be subject to all of the following requirements:

   a) Base monthly payments on a specified percentage of the student's annual income for a specified period of repayment not to exceed 10 years. Specifies the period of repayment commence six months after the student's graduation.

b) Provide that no monthly payment is owed by the student for the period of time the student's annual income is below $20,000.

c) Provide that the period of repayment determined may be extended by the number of years equal to the number of years the agreement is in force for which the student's annual income is below $20,000.

d) Specify the definition of "income" to be used for purposes of calculating the student's repayment obligation under the agreement.

e) Specify the terms and conditions under which the student may extinguish his or her repayment obligation under the agreement before the end of the repayment period.

f) Specify a cap on the total amount that a student would have to pay pursuant to the agreement.

5) Provides that an income share agreement is not in compliance with the bill unless the student, prior to entering into the agreement, is provided a disclosure document that clearly states all of the following:

a) That the agreement is not a debt instrument.

b) That the amount the student will be required to pay under the agreement may be more or less than the amount provided to the student, but not exceed the cap specified in the agreement and may vary in proportion to the student's future annual income.

c) That the repayment obligation of the student under the agreement may not be dischargeable under the bankruptcy law.

d) Under what terms the student's repayment obligation under the agreement may be extinguished by accelerating payments.

e) The duration of the student's obligation under the agreement, including any circumstances under which the contract may be extended.

f) The percentage of the student's future income he or she is committing to pay under the agreement and the minimum amount of the annual income that triggers the student's repayment obligation under the agreement.

g) The definition of "income" to be used for purposes of calculating the student's repayment obligation.

6) Authorizes a campus to impose additional terms or requirements in the income share agreements that are consistent with the bill's provisions.

7) Prohibits the campus from exerting authority over a student's selection of a baccalaureate degree program based solely on the student's participation in the pilot program. State's that it is the Legislature's intent that students approved to participate in the pilot program be enrolled in a wide variety of baccalaureate degree programs.

8) Provides that the pilot program be open to students in their sophomore, junior, or senior year and specifies that individuals may enter into agreements for one or more of those years.

9) Authorizes the university to impose other eligibility requirements and cap the number of participants based on the amount of moneys appropriated for the pilot program.

10) Requires moneys appropriated to implement the pilot program be deposited into the University of California (UC) Income Share Agreement Revolving Fund and the California State University (CSU) Income Share Agreement Fund. Requires moneys in each fund be transferred to the applicable campus without regard to fiscal years to provide moneys to each student who enters into an income share agreement with the campus. Requires payments made by the student to the income share agreement be deposited into the applicable fund and be used by the campus to enter into additional income share agreements. Authorizes the campus to use up to 5 percent of moneys annually deposited into its fund for the cost of administering the pilot program.

11) Requires each participating campus submit a report to the appropriate policy and fiscal committees of the Legislature not later than November 1, 2022, and again November 1, 2025, that includes information regarding program participation.

12) Makes implementation of the pilot program contingent upon the appropriation of funds for this purpose in the annual Budget Act or other statute.

STAFF COMMENTS

1) ***Need for the bill.*** According to the author, "existing law has taxpayers subsidize postsecondary education at UCs and CSUs through the state's General Fund and the students cover the remaining cost of tuition and fees out-of-pocket, with loans, or grants. California college students with an annual family income of $76,500 or less qualify for financial aid in the form of federal and state grants. Students who do not qualify for financial assistance must seek other financing options, such as federal or personal loans."

   The author asserts that an "income share agreement offers opportunities for California investors, relives the burden of student loan debt, and eases the cost of education on taxpayers."

2) ***Student loan debt.*** According to The Institute for College Access and Success (TICAS) and its Project on Student Debt, 68 percent of seniors who graduated from public and nonprofit colleges in 2016 had student loan debt, with an average nationally of $30,100 per borrower. TICAS reports that the share of

graduates with debt rose modestly over the last decade (from 65 percent to 69 percent). TICAS also reports that average debt in California is $22,744 at public and private non-profit colleges and that about 53 percent of students graduate with debt, ranking California 48th and 37th lowest nationally, respectively. The highest ranking state is New Hampshire with an average debt of $36,367 and 74 percent of students graduating with debt. Over California falls well below the national average for student loan debt.

3) ***Existing aid program for middle-class families***. The state's Middle-Class Scholarship program provides grant aid to undergraduate students enrolled in the University of California (UC), the California State University (CSU) or a community college who is enrolled in a B.A. pilot program with family incomes of up to $150,000 and household assets of up to $156,000. The scholarship amount is limited to no more than 40 percent of the UC or CSU, California Community Colleges (CCC) mandatory system-wide tuition and fees. The individual award amount is determined after any other publicly-funded financial aid is received. In addition, grant recipients must be a California resident, or have AB 540 status; not be incarcerated; not be in default on a student loan; maintain a 2.0 GPA. According to the California Student Aid Commission, over 49,000 MCS grants were paid during the 2015-16 academic year which resulted in a 94.2 percent paid rate.

4) ***Income Share Agreements (ISA).*** An ISA is a contract in which a person agrees to pay a fixed percentage of their income for a defined length of time in exchange for up-front funding or services. In higher education, this contract is typically between a student and an institution. An ISA differs from a loan in how the amount owed is calculated. In a loan, the individual makes payments based on an interest rate until their principal balance is reduced to zero. With an ISA, the individual pays a percentage of their income for a set period of time, regardless of the total amount paid. While investors have provided ISAs to individuals, only a few colleges have implemented an ISA program. Institutional ISA programs are not intended to replace grants, scholarships, or government-subsidized student loans, but may provide a financing option for students who might otherwise take out private loans or federal Parent Plus loans, each of which carry higher interest rates than government-subsidized loans.

5) ***Things to consider***. Though income share agreements can provide students with an additional option to cover the cost of college and some universities have implemented programs like the one proposed, the funding provided through an income share agreement is borrowed money that needs to be repaid. According to the American Institutes for Research, 2017 brief on Income Share Agreements: An Alternative to Traditional College Financing, "ISAs share many of the advantages of income-driven loan repayment, but ISAs are based on a time period rather than a debt amount. Recipients could end up paying more or less than they originally receive over the course of the agreement." Additionally, ISAs do not treat all borrowers the same and risk assessment could take into account credit history and field of study. In a recent 2017 publication by New America, "Income Share Agreements (ISA) Aren't a Solution to Student Debt," cautions if not appropriately regulated ISAs could be susceptible to irresponsible and unfair borrowing to vulnerable student populations. *It appears that ISAs if*

implemented responsibly could be a useful option for some students but this activity/industry is somewhat new and could use greater oversight to protect consumers from bad actors or unintentionally overly committing their repayment obligation. In general, the Legislature may wish to proceed with caution when considering development of these types of programs.

The provisions in this bill establish two pilot programs to be administered by a California State University and University of California campus respectively. It also provides some consumer protection provisions that include disclosure of student's repayment obligation prior to entering into the agreement. The participating campuses would report twice to the Legislature on the results of the pilot program. This bill's provisions are contingent upon an appropriation from the annual Budget Act. Staff is unaware of funding provided for that purpose.

6) ***Related legislation.*** AB 1972 (Choi), in the Assembly Banking and Finance Committee, authorizes the use of ISAs, as specified, between two parties – as ISA funder and a receiver, for the purpose of funding costs associated with the receiver's postsecondary education.

SUPPORT

None received

OPPOSITION

None received

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