

February 2020

## The Vermont Student Debt Crisis

### Sen. Alison Clarkson's Request:

Would like students to research creative ways VT might tackle the issue of student debt. We know that student debt is one of the biggest reasons young professionals don't accept jobs in rural states. How can we competitively woo young people with an incentive of reducing student debt - given we have such a tight budget? The budget won't grow until we have more taxpayers - more young professionals - to help boost revenues.

### Description of the Issue

Finding a good paying job to repay school debt is a major reason why college graduates choose to leave rural areas, according to a [Federal Reserve report](#). Following recent trends within the US, Vermont's economy is shifting focus from low-skill labor to skilled labor within the service industry<sup>1</sup>, which is contributing to Vermont's labor shortages across multiple industries, creating a higher need for in-state professionals.

Urban areas typically offer higher starting pay and more economic opportunity, offsetting the burden of student loan debt which prevents young professionals from starting a family, buying a house, or opening a business, activities which would further [stimulate the state economy](#). Recognizing the influential role student debt plays within a graduates decision to stay or move to rural areas, it is imperative to pursue policy that minimizes the burden of student debt in order to entice recent graduates.

### Vermont Student Loan Debt: By the numbers

#### *Loan debt average:*

- Vermont has a state average of \$31,432 in loan debt per student, higher than the national average of \$28,565.

#### *Years needed to pay off debt:*

- The average Vermonter would need 13.02 years to pay off their student debt, ranking 43rd in loan repayment time among the 50 states.<sup>2</sup>

#### *Young professionals to leave Vermont:*

- According to a 2019 Burlington Young Professionals [survey](#) over 40% of respondents indicated an intent to leave the state due to high housing costs and low wages.

#### *Uncertainty of loan forgiveness program:*

- UVM Medical School currently has a [loan forgiveness program](#): "VT Educational Loan Repayment for Health Care Professionals"
- It is uncertain if a program like this will have long-term success.

### How Are Other States Solving this Problem?

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<sup>1</sup> <https://governor.vermont.gov/governor-scotts-blog/dustin-degree-need-more-workers-taxpayers>

### ➤ Maine

- 1.34 million, about twice the size of Vermont’s population.
- flagship state university (UMaine) very similar in size and demographic to UVM.
- The [Maine Education Opportunity Tax Credit](#) works to relieve student debt by subtracting the money you owe in student debt from state income taxes (e.g., “if you pay \$1,800 toward your loan and owe the state \$2,000 in taxes, you’ll end up paying Maine \$200 in taxes).<sup>2</sup>
  - Initially offered to Maine residents who earned a B.A. or Associates degree at a Maine College (further incentivizing in-state graduates to stay in-state) but in 2016 was expanded to anyone who has earned a BA or associates from any accredited institution (see **Figure 1**.)
  - Businesses that employed qualified program graduates are eligible for tax credit, which incentivizes hiring people enrolled in the plan. (see [here](#) for eligibility)
- Drawbacks:
  - Maine is “routinely giving up millions of dollars in forgone revenue” despite the benefits for the state remaining unclear.<sup>10</sup> The *Bangor Daily Reports* that along with little work done to advertise it, [the application process is also very intensive](#). Attempting to simplify the program could lead to increased usage and widespread appeal.

### ➤ Kansas

- 2.912 million, almost five times the size of Vermont’s population, Kansas offers solutions that may specifically benefit a more rural state. UKansas is about 2.5x the population size of UVM.
- The [Rural Opportunity Zones Program](#) (ROZ) incentivizes graduates to move to Kansas’s rural counties through either tax waivers, loan repayments, or both depending on the county.
  - The broad tax credit works to incentivize a broad spectrum of individuals to move into these counties while the student debt repayment plan specifically targets recent graduates.
  - The student loan payments allow for a total repayment of up to \$15,000 over five years
  - See **Figure 2** for a depiction of how Kansas has identified each county and the tax incentive offered.
- Drawbacks:
  - The [Kansas Annual Report](#) on the ROZ for 2019 found that, “The ROZ program did not successfully meet its primary goal of independently reducing rural depopulation.”
    - 91% of ROZ communities still continued to experience out-migration with the implementation of the program.
    - The report’s findings also showed that many of the people who did relocate to these eligible counties would have done so without the financial benefits
  - The report suggests a restructuring of the ROZ program to be more customly tailored to individual communities.

<sup>2</sup> [https://www.maine.gov/revenue/faq/eotc\\_faq.html](https://www.maine.gov/revenue/faq/eotc_faq.html)

<sup>10</sup> <https://bangordailynews.com/2015/08/22/the-point/does-a-tax-credit-make-a-difference-for-maine-debt-laden-college-grads/>

➤ **New York**

- State population and schools are significantly larger than those in VT but the program is also implemented in rural areas upstate, which are similar to that of VT.
- [New York State's Excelsior Scholarship Program](#) allows residents to go to a SUNY/CUNY school tuition-free if they agree to reside in New York state after they graduate for the same length of time they received the scholarship.
  - Conditions: limited to 4-year degrees. Failure to reside and be employed in the state for the appropriate amount of time results in scholarship conversion to a student loan at the discretion of the employer
  - [Current bill](#) pushing for program expansion
- Incentives:
  - Incentivizes young professionals to work and live in the state upon graduation.
  - Increase secondary education enrollment in the state of New York
- Drawbacks:
  - Living and working anywhere in the state qualifies someone for this scholarship. Students who live in more urban areas, such as New York City (an already popular post-grad destination) will qualify, so populations in rural areas of the state may not benefit
  - [Critics](#) have pointed out that the bill also allows SUNY and CUNY schools to increase tuition for students who do not qualify for the program. Rising costs for some will offset free tuition for others.

**Our Opinion**

As current UVM undergraduates who will soon face the student debt crisis, we felt weighing in on the programs listed above may be helpful for legislators considering similar policy initiatives.

We recommend:

- A more streamlined version of Maine's Educational Opportunity Act that would be easy for recent grads to understand and utilize, with a simpler application/authorization process. Attempting to simplify the program could lead to increased usage and widespread appeal.
- New York's approach offers pros that we like and cons we understand:
  - Pros:
    - Cooperation with the private sector that allows students to attend school for free and work in-state post-grad
  - Cons:
    - Vermont's rising tuition
    - Program should be exclusively offered to students in the program, which makes the program likely to be widely opposed.
    - One of the goals of this is to increase state-wide enrollment in secondary education so it may not be the most applicable policy for Vermont

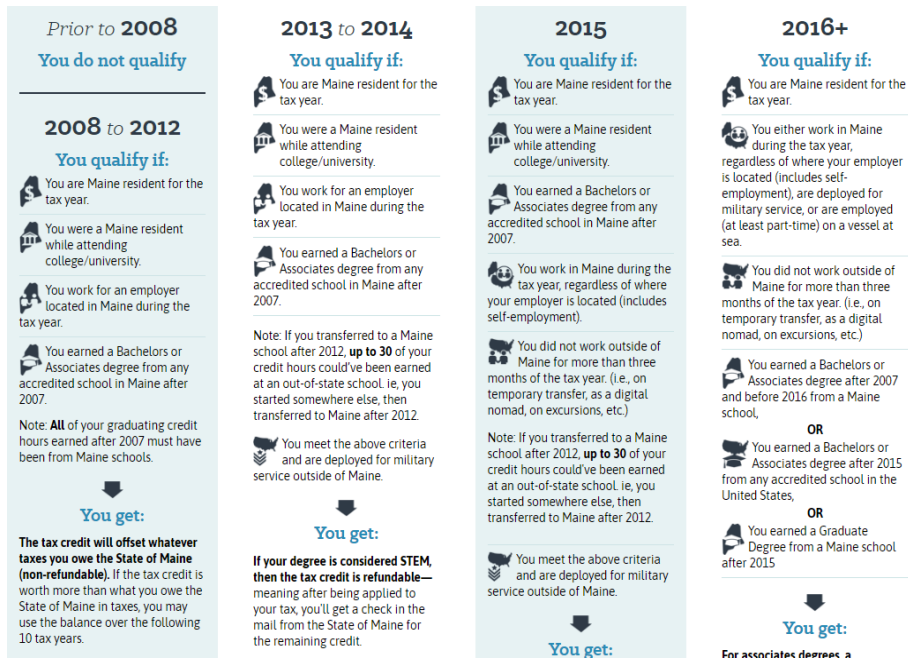
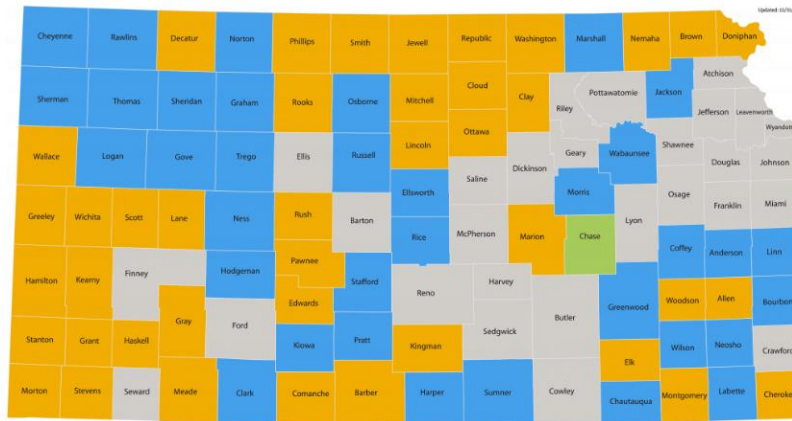


Figure 1: Phases of the Maine Education Opportunity Tax Credit Program



**ROZ Incentive Packages**

- Student loan repayments up to \$15,000 with employer or county sponsorship, and Kansas income tax waiver.
- Student loan repayments up to \$15,000 with employer sponsorship and Kansas income tax waiver.
- Kansas income tax waivers for up to five years, only.
- County without ROZ incentives.

Figure 2: [Kansas Rural Opportunity Zones \(ROZ\) Map](#), by County

**More Sources Available Upon Request**

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