Contact: Diana Gonzalez

"GRADUATE AND PROFESSIONAL STUDENT FINANCIAL RETENTION INCENTIVE"

Action Requested: Receive the presentation.

Executive Summary: The graduate and professional student governments at the three Regent universities have developed a proposal regarding a financial retention incentive for Iowa-educated graduate and professional students which will be mutually beneficial for the students and for the state. The proposal includes a 50% income tax break for all Iowa-educated graduate and professional students who remain employed in Iowa after graduation. The incentive would be offered for the first five years after completion of a program. As an added incentive for graduates who locate in rural Iowa, the incentive would include a 75% income tax break for the first five years after graduation.

Introduction

This proposal represents a collaborative effort by student leaders at all three Regent Institutions (IAICU Institutions will be represented in the final report). This is an executive summary prepared for the Board of Regents, State of Iowa. A full preliminary report on the proposal was finalized October 1, 2015 and was be submitted to Governor Terry Branstad and Lt. Governor Kim Reynolds for potential inclusion in their proposed education budget for 2016-2017 and beyond.

It is important to note that the three Regent institutions educate over 16,000 graduate, professional, and post-doctoral students every year. These students come from each of the 99 counties within the State of Iowa, as well as from across the U.S. and throughout the world. With current retention rates, graduates from these institutions have a profound impact on the everyday lives of citizens across the State of Iowa.

A financial incentive to retain Iowa-educated graduate and professional students in the state for employment after graduation will be mutually beneficial to both graduate and professional students and the State of Iowa as shown below and on the following pages.

Objectives for Graduate and Professional Students

The fiscal consequences of some graduate and professional programs are becoming more of a barrier to pursuing post-baccalaureate education. A financial retention incentive would help to defray the costs of pursuing these programs and promote the fiscal affordability and accessibility of graduate and professional education to students throughout the State of Iowa.

Furthermore, for graduate programs in which most students have no, or minimal, student loans due to stipends and Teaching Assistantships (TAs), a financial incentive would help to offset the opportunity cost of pursuing graduate and professional education. These students survive at less than double the poverty level well into their late twenties and have a decreased earning potential compared to most professional students. Since Iowa is a relatively low-wage state, a financial incentive could help to bridge the fiscal gap when students may be more motivated to move out of state for higher salaries.

Objectives for the State of Iowa

Despite the impressive economic growth over the last several years, the State of Iowa faces many economic challenges in order to maintain this growth over years to come. Many of these challenges have been highlighted in the recent Batelle Report (2014) led by the Iowa Partnership for Economic Progress (IPEP), an industry-led advisory board commissioned by Governor Branstad to study economic growth issues facing the State of Iowa. Some of these challenges can be, at least partially, addressed through this proposal as summarized below.

Iowa businesses continue to report workforce shortages for both middle- and high-skilled jobs despite outpacing the rest of the country since 2004 in workforce growth in these areas. Unless direct actions are taken, these shortages will continue to increase in the context of the Governor's varied programs to increase the influx of middle- and high-skilled jobs into the State (i.e., the High Quality Jobs Program). Indeed, the Battelle report suggests as a "Proposed Tactic" to financially incentivize recent graduates with an income tax credit to remain in Iowa for employment to combat these current and projected shortages.

Additionally, by retaining a young population of Iowa-educated graduate and professional students, the State will also aid in combatting the stagnant population growth in the State (especially in the 20 - 30 year old age groups) as well as help combat the specter of the "Brain Drain" problem.

This proposal would synergize well with many programs already initiated in the State. With tax incentives and other programs to bring high-skill high-salary jobs to the State, this proposal would help to ensure that these jobs were filled with quality Iowa-educated graduate and professional students. Furthermore, this proposal could help strengthen some of the job pipeline programs already in place such as the Governor's Future Iowa Ready Initiative.

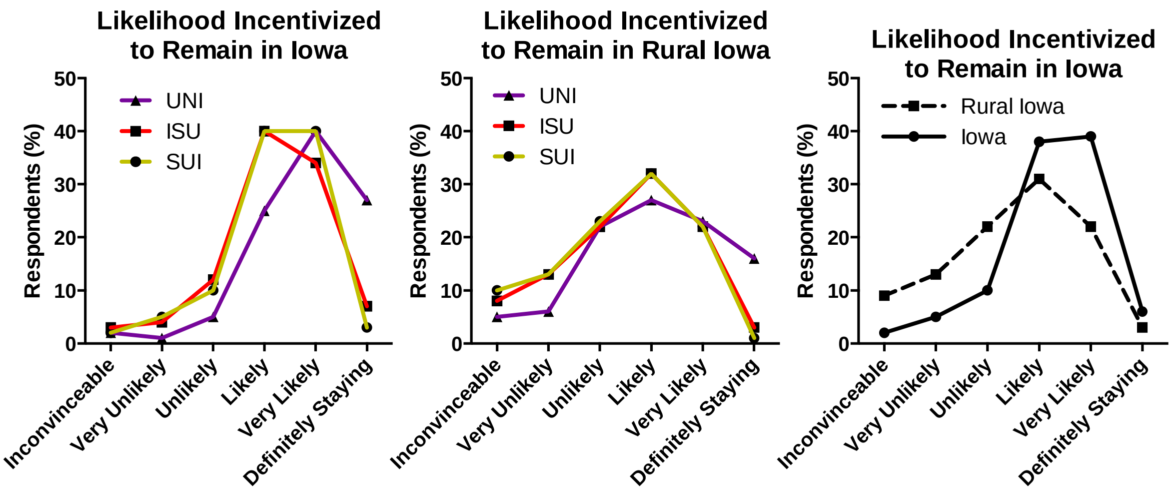
Data Collection and Analysis

A full report with the collected data representing the argument behind the proposal submitted to Governor Branstad's office.

Summary

Many graduate and professional students remain undecided about whether they will seek employment in Iowa (28% overall). However, with a financial incentive, the percentage of students who would likely, very likely, or definitely consider remaining in Iowa increases dramatically from 48% to 83%.

Similarly, many students are undecided about whether they will pursue employment in rural Iowa (25% overall) without a financial incentive. With a financial incentive, more than <u>triple</u> the number of graduate and professional students would consider moving to rural Iowa (17% to 56%).



Financial Incentive Format

From the results of our survey, it is clear that students from all three institutions would respond in positive ways to a tax incentive to remain in the state. However, this incentive must be large enough and provided in the right format in order to adequately motivate graduate and professional students to remain the in the State. Many other states offer retention incentives, mostly to undergraduate students, however the magnitude of the incentive provided as a loan repayment incentive is often minimal and therefore any such program is ineffective.

In order to determine the best mechanism and magnitude of the retention incentive, graduate and professional students were questioned on two different mechanisms, a tax credit based off of their student loan payments as well as a State income tax break.

Given that 38% of all survey respondents reported no or minimal (< $20,000) student debt, **we are proposing that the financial incentive take the form of an income tax break.** Student indebtedness is mostly determined by the degree program: most Ph.D. students are supported by stipends and have little to no student debt, while students in professional programs can owe more than $300,000. Additionally, as international students (11% of survey respondents) are ineligible to borrow U.S. student loans, a loan repayment program would also not be applicable to them.

To determine the magnitude of the income tax break, we asked students the <u>minimum</u> income tax break they would require to be incentivized to remain in the State after graduation. The figure on the following page demonstrates the cumulative percent of graduate and professional students who could be incentivized to remain in the State with a given income tax break. This is further broken down by the student's initial likelihood to remain in the State after graduation, demonstrating that those who were more unlikely to remain in State indeed would require a larger incentive.

Given the inflection point at 50% income tax break, **we recommend that the State offer graduate and professional students a 50% State income tax break for the first five years after completing their education to remain in the State for employment. Furthermore, as data suggests that graduate and professional students are less likely to move to rural Iowa, we recommend a 75% income tax break for the first five years after graduation if they secure a job in a rural region of the State.**

We believe that this would be a significant and impactful incentive to graduate and professional students while also being inexpensive to the state. Because this extra investment by the state is targeted only to those graduate and professional students who remain in the state, any expense by the state will incur is likely to provide a large return on investment. Indeed, by keeping more graduates in the state, this program may actually be a revenue generator for the state. However, we suggest that the Legislative Services Agency prepare a full economic impact report on this proposal."

Estimated income tax revenue and losses if 25%, 50%, or 100% of eligible students are retained in the state.