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As Income Share Agreement Politics Heat Up, San Diego Debuts First Renewable Learning Fund

Jun 20, 2019: As Democratic presidential candidate Sen. Elizabeth Warren, D-Mass., has attacked income share agreements, San Diego has launched the nation's first renewable learning fund by leveraging them.

Stifling student loan debt has spiked the interest in moving away from using loans to finance students' education and instead using Income Share Agreements (ISAs), which collect a set percentage of a student's future income. Students who fail to meet minimum income thresholds pay nothing when earning below the threshold.

In other words, students aren't on the hook for burdensome loan payments if they don't get good jobs after leaving a school.

ISAs have caught fire in the coding boot camp arena, and an increasing number of four-year institutions like Purdue University have launched ISA programs as well for students.

In December 2017, I hypothesized in this space that ISAs could also be used to create "renewable learning funds" to transform workforce development. Renewable learning funds would essentially be federal, state, and municipal government and philanthropically funded vehicles that replenished themselves as students paid a small percentage of their income back into the funds over time to create a more sustainable source for training workers.

Last month the San Diego Workforce Partnership (SWDP), a non-profit workforce development board, and the University of California San Diego Extension school announced the launch of the Workforce ISA fund. I was interested that Andy Hall, the chief operating officer of SWDP, had noted that he had come up with the idea for the Workforce ISA fund after reading my piece, so I caught up with him to learn more given the rising interest in ISAs.

Michael Horn: What is the Workforce ISA Fund? Who is involved?

Andy Hall: The new program was designed to address skill shortages in San Diego's fastest-growing industries. Workforce ISA Fund participants will have access to certificate-granting courses in digital marketing, business intelligence, java programming, and front-end web design at UC San Diego Extension through a unique model that requires no up-front tuition. Instead, once students complete their certificate and secure a job with an annual salary of at least \$40,000, they pay a set percentage of their income over a defined period of time. Because the payment amount scales with an individual's salary, the program ensures that no graduates will face the burden of payment during times of financial hardship. Students will also have access to a wraparound support system designed to help them succeed in both the classroom and the job market, including career coaching and mentoring, exclusive networking events and internship and job placement services.

The fund is run by the San Diego Workforce Partnership (workforce.org), and our first training partner is UCSD Extension. The funding is from philanthropic gifts from the Strada Education Network, Google.org, the James Irvine Foundation, and a private San Diego philanthropist. Vemo Education is the payment partner, and local technology executives and businesses have been involved designing the program and will provide mentorship, internship, and job placement opportunities for graduates.

Horn: From where did the idea for the Fund come? What challenges is the Fund looking to solve?

Hall: The San Diego Workforce Partnership has served hundreds of thousands of people looking for work over the last 45 years, and training financing through federal grants has always been a big part of our service model.

In 2017, I took a deep dive into our customer satisfaction survey data. Eighty-five percent of the 1,500 customers surveyed were satisfied with the services and said they got what they needed at one of our career centers. Fifteen percent said they didn't get what they needed. I dug into the open-ended comments of our unhappy customers and saw that many were frustrated because we had run out of funds to pay for short-term training courses for them.

So what was happening is that our centers helped these customers identify a new career path aligned to their interests, they verified it was a growing occupation with good wages in San Diego, and they found a pre-approved training program that taught the needed skills to be successful in the job, but we ran out of the money to pay the tuition for them. And because they did not have a way to finance the \$5,000 to \$10,000 needed to pay for it themselves, the person was stuck.

And it's no accident. Over the last 10 years, federal funding for the public workforce system—the funding we use for these short-term training scholarships—has been cut by about 40% across the country. The number of people we can provide training grants for has been declining year over year for a decade. At the same time, rapid technology changes and advances in our economy is requiring workers to more frequently sharpen their skills to be successful in the 21st-century economy. We were falling short creating opportunities for people, as well as our business customers who came to us looking for skilled workers. Asking customers to wait until next year for financing rings hollow when people need food on the table today.

We wanted to figure out another way to finance up-skilling that was both scalable and connected with labor market outcomes. And we wanted training providers to put some skin in the game and create radical transparency in wage outcomes for customers. That's when I came across your article in Forbes in December of 2017 about the idea of a "renewable learning fund." It hit all our marks. So we raised some money, talked to our business customers about what skills they were looking for, partnered with UC San Diego Extension, and went about putting this thing together as best we could.

Horn: Why is the Fund based on an income share agreement model, rather than loans or grants?

Hall: The San Diego Workforce Partnership and UCSD Extension believe that quality higher education should be accessible and affordable for everyone, and we see Income Share Agreements as one tool to make that happen. ISAs allow us to offer education, coaching, and support to those who could otherwise not afford it. Our goal is to create a sustainable program that can offer thousands of San Diegans the chance to launch a new career and secure a better future for themselves and their families. And when they are successful, they can pay it forward for their neighbor to have a shot. This concept of shared risk, shared success, and shared incentives really resonated with the customers we worked with to design the program.

Horn: What challenges do you foresee as the fund takes shape? How do you plan to address those challenges?

Hall: The list is pretty long. While our agency is 45 years old with established infrastructure, policies, and procedures for many of our long-running programs, our ISA department is in start-up mode. So we are running into new challenges every day that we are learning from, overcoming, growing, and moving forward smarter and better prepared for the next one. There really isn't a playbook for a public workforce board to launch and run an ISA fund, so we are creating one as we go within the frameworks of a 501(c)3 non-profit working on behalf of the county and city of San Diego in the public interest. It's a very interesting place to be.

That being said, certainly regulatory risk and policy uncertainty is one of our top priorities and concerns. Because of the nature of our funding, we are not beholden to any shareholders or equity investors of the fund, so we have been able to err on the side of the consumer at every decision point. When developing our term sheet,

when talking about how we will handle ISA servicing, about defaults, anything really, we constantly ask ourselves and our legal team, “what is best for the consumer?” Then we choose that path. In doing that, we are hoping to create one of the models for a consumer-friendly, radically inclusive—we are not screening out for credit score, criminal background, or education level—and economically viable financing program. Time will tell if we hit all our goals.

Scale is also a big question for us as we move ahead. Our path to scale includes working with federal and state government leaders and policymakers to explore how a portion of our federal funds could be used to structure an ISA public option.

In the long run, we may have a mixed capital stack with philanthropy, federal funding, social impact capital, and commercial investors. We understand that the nature of the money coming into the fund can have an impact on the original vision to provide access to opportunity for people who have been locked out of the wealth and prosperity of the knowledge economy. Under no circumstances will our fund compromise on that value. So how we scale and with what financing partners really matter.

Horn: What does the future hold for ISAs in the workforce development context?

Hall: In the last few months, several other public workforce boards and other public sector education and training agencies have reached out to learn about what we are up to and how we pulled it together. I don't think that is an accident. The public workforce system can and should be a powerful voice in the national conversation about ISAs. There are about 550 workforce boards working in the public interest with no profit motive. They are charged with understanding their local labor markets and making strategic, targeted investment to close the skill and opportunity gaps in those markets. And they have an established infrastructure already in place serving millions of citizens across the country looking for work, up-skilling, and/or retraining. Workforce boards also know about most layoffs and dislocated workers in their communities and are charged with retraining them and placing them back into the workforce through training financing. ISAs are lined up with the core mission of workforce boards and workforce boards and their partners have a lot of the operational pieces already in place to run a successful ISA program.

Add that operational reality to the fact that federal funding for workforce boards has been cut dramatically over the last decade, workforce boards are actively working to make each dollar stretch just a little bit further to meet local workforce development and talent needs to drive broad-based economic prosperity for their regions. The quality of outcomes data and the ability for every successfully invested dollar to come back into the system in the form of a “renewable learning fund” pay-it-forward model can do just that.

Horn: What's next for the Workforce ISA Fund?

Hall: As a local workforce development board, we sit at the center of the talent development ecosystem here in San Diego. Through our research, we have identified the key sectors that are driving economic growth and creating opportunities for San Diegans to break into the middle class. Our vision is to raise \$25 million in capital for the fund over the next five years to make strategic investments across our key sectors, including other tech occupations like drone aviation and cybersecurity, health care, advanced manufacturing, life sciences, clean energy and construction, and public sector occupations like teachers.

We also see a ton of related applications for ISAs to bust through labor market inefficiencies. For example, San Diego is a large refugee resettlement site for the US government. We have all these talented people with professional degrees from all over the world working in retail, driving for Lyft or Uber, and just trying to make ends meet. A nurse resettled in San Diego from Syria could be a great addition to the local health care system; our hospitals cannot find enough nurses generally and especially not enough nurses that speak Arabic. It costs between \$6,000 and \$9,000 to get international health care credentials to transfer over, plus some tests and vocational English language courses and other miscellaneous expenses. If we were able to take care of that through an ISA, we are a) unlocking some amazing talent and experience for our San Diego economy and b) providing a career—not just a job—to help this person build a new life for themselves and their family. Oh,

and the earnings potential compared to the relatively low up-front costs turns out to be a very economically viable investment for the fund. These are the types of opportunities in local communities that a grounded organization with firm roots and relationships with businesses and residents can help identify and overcome with a well-structured ISA fund.

Horn: Last question. Massachusetts Senator and presidential candidate Elizabeth Warren recently made news when she delivered a blistering attack on ISAs. Is there any merit to her concerns? What is she missing?

Hall: We actually agree with a lot of what Senator Warren said. I think public scrutiny of ISA terms and contracts, in particular, is a very useful, important thing. We're eager to have an open dialogue about the structure and benefits of our own program, but we also acknowledge that ISAs are a really broad concept that can be utilized for good or ill. It should be a lot harder than it is right now to build ISA programs that don't do right by consumers — that don't serve as a lever of affordability and opportunity for students of all kinds. If this scrutiny from Senator Warren and others can lead to more meaningful constraints, through regulation or otherwise, on ISA programs, we would see that as only good news. We're actually advocating for that kind of regulation to our local congressional delegation right now.

A lot of what has been said in the past few weeks seems aimed mostly at the Department of Education. That's an inter-party, inter-branch dispute in Washington that we definitely don't want any part in. One thing I will say is that ISAs are still so new. I think the way the model has partially emerged in practice so far, with schools and communities like ours starting small-scale, local ISA programs are sensible. In a few years, we'll have a much clearer sense of the practical effects and benefits of ISAs, which would be a great time to consider how ISAs might be deployed at the national level.

[Michael Horn](#)

Speaks and writes about the future of education and works with a portfolio of education organizations to improve the life of each and every student.



SDWP is the leader for innovative workforce solutions in San Diego County. It funds and delivers job training programs that enable all job seekers to develop the skills and knowledge needed for in-demand careers. SDWP also provides ongoing labor market research on the region's workforce trends and key industries. Its vision is to ensure that every business in our region has access to a skilled workforce and every job seeker has access to meaningful employment. Recipient of the 2018 WIOA 'Trailblazer' Award from the National Association of Workforce Boards (NAWB). More info: workforce.org.

More information on the Workforce Partnership ISA Fund... workforce.org/isa

The Fund offers access to high quality UC San Diego Extension certification programs lasting 9–12 months in fast-growing technology fields with career readiness, mentoring and job placement support. As well as receiving instruction from industry professionals, participants will also have access to the following services:

- A mentor currently employed in the field relevant to your coursework and career path
- A career consultant who will walk with you every step of the way
- Exclusive networking events sponsored by San Diego's technology community
- Career readiness training, resume assistance and interview preparation support
- Internship and job placement services
- A network of support for technology, transportation, child care and other services to empower you to be successful inside the classroom and on the job