

**POLICY BRIEF**

**Research Department**

**Minnesota House of Representatives**

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# Minnesota’s Student Loan Forgiveness and Repayment Assistance Programs

The state of Minnesota funds six student loan forgiveness or repayment assistance programs. This publication describes these programs in detail and discusses policy issues related to their administration and design. It also lists loan forgiveness programs operating in other states.

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## Overview of Student Loan Forgiveness Programs

The state of Minnesota directly funds six programs that offer student loan forgiveness or repayment assistance to residents working in particular professions or geographic regions. These programs are as follows:

- The **Health Professional Education Loan Forgiveness Program**, administered by the Minnesota Department of Health (MDH)
- The **Minnesota State Loan Repayment Program**, administered by MDH
- The **Large Animal Veterinarian Loan Forgiveness Program**, statutorily assigned to the Office of Higher Education (OHE), but administered by MDH under an interagency agreement
- The **Teacher Shortage Loan Forgiveness Program**, administered by OHE
- The **Agricultural Education Loan Forgiveness Program**, administered by OHE
- The **Aviation Degree Loan Forgiveness Program**, administered by OHE

In addition to the six programs that receive state funds, the OHE administers one loan repayment assistance program, the **John R. Justice Student Loan Repayment Program**, for public defenders and prosecutors. The federal government provides all of the funding for that program,<sup>1</sup> and its rules are established in federal law.

## Other Loan Forgiveness and Repayment Assistance Programs in Minnesota

The **National Health Service Corps (NHSC) Loan Repayment Program** is a repayment assistance program for health professionals. Like the Minnesota State Loan Repayment Program, the NHSC Program is governed by the federal Public Health Service Act. Unlike the State Loan Repayment Program, the NHSC Repayment Program is fully funded and administered by the federal government.<sup>2</sup> This publication does not discuss that program in detail.<sup>3</sup>

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<sup>1</sup> In fiscal year 2016, Minnesota received \$39,644 in federal funds. U.S. Department of Justice Bureau of Justice Assistance, “2016 John R. Justice Student Loan Repayment Grant State Award Amounts,” <https://www.bja.gov/Funding/16JRJGuidanceAllocations.pdf>.

<sup>2</sup> While the program is federally operated, MDH provides technical assistance to sites and providers that apply to participate in the program.

<sup>3</sup> In addition to the program discussed in this section, the Minnesota Department of Education forgives some of the loans the department issues through the Grants to Prepare Indian Teachers program ([Minn. Stat. § 122A.63](#)). That program is distinct from other loan forgiveness programs because it does not forgive “typical” student loans issued by the federal government or a private lender—it only forgives loans issued through the program itself.

**Table 1: Student Loan Forgiveness and Repayment Assistance Programs in Minnesota**

<b>Program</b>	<b>Administering Agency</b>	<b>Funding</b>
Agricultural Education Loan Forgiveness Program	OHE	State
Aviation Degree Loan Forgiveness Program	OHE	State
Health Professional Education Loan Forgiveness Program	MDH	State
John R. Justice Student Loan Repayment Program	OHE	Federal
Large Animal Veterinarian Loan Forgiveness Program	MDH, via interagency agreement with OHE	State
Minnesota State Loan Repayment Program	MDH	50% State, 50% Federal
NHSC Loan Repayment Program	Federal government, with technical assistance from MDH	Federal
Teacher Shortage Loan Forgiveness Program	OHE	State

## Minnesota’s State-funded Loan Forgiveness and Repayment Assistance Programs

### Agricultural Education Loan Forgiveness Program<sup>4</sup>

<i>Program Summary</i>	The Agricultural Education Loan Forgiveness Program provides loan forgiveness to agricultural educators working full-time in Minnesota. The program was established in the 2017 legislative session, with the first funds available in fiscal year 2018.
<i>Administering Agency</i>	OHE
<i>State Appropriations</i>	Fiscal Year 2018: \$50,000 Fiscal Year 2019: \$50,000
<i>Eligibility</i>	To be eligible for the program, an individual must: (1) be employed in a nonadministrative position teaching agricultural education in grades 5 to 12 at a public school district, tribal contract school, charter school, or private school; and (2) have completed an undergraduate or graduate program in agricultural education.
<i>Service Requirement</i>	To qualify for loan forgiveness, an applicant for the program must agree to work full-time as an agricultural educator in Minnesota

<sup>4</sup> [Minn. Stat. § 136A.1794.](#)

	for one year. An individual must complete one year of service for each year the individual receives an award.
<i>Award Amount</i>	Program participants receive \$3,000 in loan forgiveness per year, but may not receive more than the balance of their student loans. Participants may receive an award through the program a maximum of five times.

### **Aviation Degree Loan Forgiveness Program<sup>5</sup>**

<i>Program Summary</i>	The Aviation Degree Loan Forgiveness Program provides loan forgiveness to pilots and aircraft technicians residing in Minnesota. The program was established in the 2017 legislative session, with the first funds available in fiscal year 2018.
<i>Administering Agency</i>	OHE
<i>State Appropriations</i>	Fiscal Year 2018: \$25,000 Fiscal Year 2019: \$25,000
<i>Eligibility</i>	<p>“Qualified aircraft technicians” and “qualified pilots” residing in Minnesota with loans used to pay for a professional flight training degree are eligible for the program.</p> <p>A qualified aircraft technician is an individual who earned an associate’s or bachelor’s degree from a postsecondary institution in Minnesota and who obtained an aviation mechanic’s certificate from the Federal Aviation Administration.</p> <p>A qualified pilot is an individual who earned a bachelor’s or associate’s degree in professional flight training and who is in the process of obtaining or has obtained an airline transport pilot certificate.</p>
<i>Service Requirement</i>	To qualify for loan forgiveness, an applicant for the program must commit to work full-time in Minnesota as a qualified pilot or qualified aircraft technician for one year.
<i>Award Amount</i>	<p>A qualified pilot is eligible for \$5,000 in loan forgiveness, but may not receive more than the balance of the participant’s student loans. A qualified aircraft technician is eligible for \$3,000 in loan forgiveness, but also cannot receive more than the individual’s loan balance.</p> <p>An individual may receive loan forgiveness through the program up to five times.</p>

<sup>5</sup> [Minn. Stat. § 136A.1789.](#)

## Health Professional Education Loan Forgiveness Program<sup>6</sup>

<i>Program Summary</i>	MDH administers the Health Professional Education Loan Forgiveness Program, which provides funds to health professionals working in certain rural or underserved urban communities. This is the largest loan forgiveness program operated by the state of Minnesota, with \$3,371,000 in annual funding for fiscal years 2018 and 2019.
<i>Administering Agency</i>	MDH
<i>State Appropriations</i>	Fiscal Year 2016: \$3,371,000 Fiscal Year 2017: \$3,371,000 Fiscal Year 2018: \$3,371,000 Fiscal Year 2019: \$3,371,000
<i>Eligibility</i>	To qualify for the program, an individual must have a license and practice as a health professional or be enrolled in a training or education program to become a health professional. Health professionals eligible for the program include physicians, nurses, nurse practitioners, pharmacists, dentists, and dental therapists.
<i>Service Requirement</i>	<p>Each category of health professional must commit to work in a specific geographic area for a certain number of years in order to qualify for loan forgiveness. For example, medical residents and mental health professionals must specialize in pediatric psychiatry or commit to work for three years in a designated rural area or underserved urban community. Pharmacists, advanced dental therapists, and public health nurses must work in designated rural areas for three years.</p> <p>The program designates six categories of professions and geographic areas that are eligible.<sup>7</sup> While most categories of health professionals must complete a three-year service obligation, the 2015 Legislature reduced the service obligations for nurses from three to two years.<sup>8</sup></p>
<i>Award Amount</i>	Health professionals who participate in the program receive annual payments equal to 15 percent of the average educational debt load for graduates in their profession. A loan forgiveness award may not exceed the participant's loan balance. Individuals may receive forgiveness through the program no more than four times. Program participants who do not complete their commitment of

<sup>6</sup> Minn. Stat. § 144.1501.

<sup>7</sup> Minn. Stat. § 144.1501, subd. 2.

<sup>8</sup> Laws 2015, ch. 71, art. 8, § 14.

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	service must repay to the state the loan forgiveness they previously received, with interest.
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## **Large Animal Veterinarian Loan Forgiveness Program<sup>9</sup>**

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<i>Program Summary</i>	The legislature created the Large Animal Veterinarian Loan Forgiveness Program in 2009. <sup>10</sup> The program provides loan forgiveness awards to large animal veterinarians working in rural areas in Minnesota.
<i>Administering Agency</i>	The program is statutorily assigned to the Office of Higher Education, but OHE has contracted with MDH to administer the program through an interagency agreement.
<i>State Appropriations</i>	<p>When it created the program, the legislature appropriated \$225,000 in initial onetime funding.<sup>11</sup> The law governing the program specifies that appropriations to the program do not cancel, meaning this initial funding was available until expended.</p> <p>In 2015, the legislature made an additional onetime appropriation to the program of \$250,000; these funds are available until June 30, 2022.<sup>12</sup> The 2017 Legislature appropriated \$375,000 for the program in fiscal years 2018 and 2019; that funding is the first time the program received an ongoing appropriation.</p>
<i>Eligibility</i>	The commissioner may select up to five applicants per year to participate in the program. In order to qualify, a participant must apply while on track to complete a degree in veterinary medicine at the University of Minnesota, within three years of receiving such a degree.
<i>Service Requirement</i>	Participants must commit to work for five years in an underserved rural area. The participant's job must be full-time, and in a practice that is at least 50 percent involved in the care of food animals. Individuals who fail to fulfill their five-year commitment must repay with interest the funds they received from the program.
<i>Award Amount</i>	Participants may receive up to \$15,000 in loan forgiveness each year that they meet the service requirements of the program, for up to five years. The amount of loan forgiveness an individual receives may not exceed his or her student loan balance.

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<sup>9</sup> [Minn. Stat. § 136A.1795.](#)

<sup>10</sup> [Laws 2009, ch. 95, art. 2, § 23.](#)

<sup>11</sup> [Laws 2009, ch. 95, art. 1, § 3, subd. 13.](#)

<sup>12</sup> [Laws 2015, ch. 69, art. 1, § 3, subd. 20.](#)

## Minnesota State Loan Repayment Program (SLRP)

<i>Program Summary</i>	<p>The SLRP is a joint state/federal program that provides repayment assistance to health professionals.<sup>13</sup> The federal funding for the program is provided by the National Health Service Corps. The SLRP is governed by a section of the federal Public Health Services Act.<sup>14</sup></p>
<i>Administering Agency</i>	MDH
<i>State Appropriations</i>	<p>Fiscal Year 2016: \$100,000 Fiscal Year 2017: \$100,000 Fiscal Year 2018: \$100,000 Fiscal Year 2019: \$100,000</p> <p>The program is 50 percent funded by the federal government and 50 percent funded by the state; the total annual budget is \$200,000.</p>
<i>Eligibility</i>	<p>The SLRP is open to a wide variety of health professionals, including physicians, dentists and dental hygienists, physician assistants, nurse practitioners, clinical social workers, and psychologists. Participants must work in a primary care setting at a nonprofit private or public site located in a federally designated Health Professionals Shortage Area. The site must also comply with patient cost and access requirements. The clinic site where a participant will be working must apply for the program along with the participant.</p> <p>MDH accepts only one application from each primary care site. Only health professionals with a permanent and unrestricted Minnesota license to practice independently and unsupervised may apply for the program.</p>
<i>Service Requirement</i>	<p>Award recipients in Minnesota must commit to complete a two-year service obligation.</p> <p>Participants who fail to complete their service obligation must repay the repayment assistance they received, plus a significant penalty. The penalty is the greater of \$31,000 or \$7,500 for each month of obligated service the participant did not complete. If a participant does not repay the state within a year of defaulting on the service obligation, the state will begin to charge interest on the amount owed. The state may also report the debt to a consumer credit agency or the participant's health-related licensing board.</p>

<sup>13</sup> The NHSC also administers a separate, federal loan repayment program called the National Health Service Corps Loan Repayment Program. That program is distinct from the SLRP, which is administered by the Minnesota Department of Health.

<sup>14</sup> 42 U.S.C. § 254q-1.

<i>Award Amount</i>	Full-time primary care providers at a qualifying site are eligible for \$20,000 per year in loan repayment assistance; half-time primary care providers are eligible for \$10,000 per year. During their second year in the program, participants may request a third or fourth year of repayment assistance. MDH approves such requests depending upon the availability of funds and program priorities. The state typically distributes five to ten loan repayment awards per year.
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**Teacher Shortage Loan Forgiveness Program<sup>15</sup>**

<i>Program Summary</i>	Provides loan forgiveness to individuals teaching in economic development regions or licensure fields experiencing a teacher shortage. The program was created by the 2015 Legislature. <sup>16</sup>
<i>Administering Agency</i>	OHE
<i>State Appropriations</i>	<p>Fiscal Year 2016: \$200,000          Fiscal Year 2017: \$2,200,000          Fiscal Year 2018: \$700,000          Fiscal Year 2019: \$200,000</p> <p>Funding for the teacher shortage program has been appropriated in both the higher education and K-12 education budgets. The 2015 omnibus higher education bill appropriated \$200,000 in fiscal years 2015 and 2016 for the program.<sup>17</sup> The 2016 omnibus supplemental budget bill appropriated an additional \$2,000,000 in onetime funds for the program,<sup>18</sup> and included a number of technical changes to the program’s language.<sup>19</sup> The onetime funds are available until the end of fiscal year 2019.</p> <p>The 2017 Legislature appropriated \$200,000 for the program in fiscal years 2018 and 2019 in the higher education omnibus bill,<sup>20</sup> as well as \$500,000 in onetime funding in the K-12 omnibus bill.<sup>21</sup> The \$500,000 appropriation is available until fiscal year 2019.</p>
<i>Eligibility</i>	To be eligible for an award, a teacher must work in a “teacher shortage area.” For the purposes of the program, a shortage area is defined as a licensure field or economic development region that

<sup>15</sup> Minn. Stat. § 136A.1791.

<sup>16</sup> Laws 2015, ch. 69, art. 3, § 10.

<sup>17</sup> Laws 2015, ch. 69, art. 1, § 3, subd. 28.

<sup>18</sup> Laws 2016, ch. 189, art. 25., § 43.

<sup>19</sup> Laws 2016, ch. 189, art. 1, §§ 12 to 15.

<sup>20</sup> Laws 2017, ch. 89, art. 1, § 2, subd. 31.

<sup>21</sup> Laws 2017, 1st spec. sess. ch. 5, art. 2, § 57, subd. 36.

	<p>the Minnesota Department of Education has identified as experiencing a teacher shortage. The department designates teacher shortage regions and licensure fields in its teacher supply and demand report.</p> <p>The 2017 Legislature expanded the definition of shortage area to include economic development regions in which there is a shortage of teachers who reflect the racial or ethnic diversity of the students in the region.<sup>22</sup></p> <p>The program is only open to an individual who holds a teacher's license. Recipients of loan forgiveness awards may apply the funds to any government, commercial, or foundation loan used to pay for tuition and reasonable educational and living expenses related to a teacher's preparation or further education.</p>
<i>Service Requirement</i>	<p>There is no requirement that a participant in the program make a commitment to work for a period of time, but an applicant must sign an affidavit that he or she is working in a teacher shortage licensure field or region.</p>
<i>Award Amount</i>	<p>Eligible teachers can apply to OHE for a maximum of \$1,000 in loan forgiveness per year. As with other state-funded loan forgiveness programs, awards are distributed directly to program participants. An individual may receive no more than five awards.</p>

## Policy Considerations for Student Loan Forgiveness and Repayment Assistance Programs

There are several policy questions that may be useful to consider when looking at implementing loan forgiveness and repayment assistance programs.

### Is loan forgiveness the most effective workforce development tool?

Minnesota's loan forgiveness programs are designed to encourage individuals to work in particular geographic regions or subfields of their profession. If a policymaker's goal is to attract workers to a particular geographic region, it is important to consider whether loan forgiveness is the most effective recruitment strategy.

### Advantages of Loan Forgiveness Programs

Student loan forgiveness and repayment assistance may have advantages relative to other workforce recruitment programs. First, student loan forgiveness or repayment assistance may be

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<sup>22</sup> [Laws 2017, 1st spec. sess. ch. 5](#), art. 2, § 45.

exempt from federal and state taxation,<sup>23</sup> meaning that a dollar of loan forgiveness would be relatively more valuable to a potential worker than a cash subsidy.<sup>24</sup> Second, loan forgiveness or repayment assistance may be better targeted to younger workers who are more likely to carry student loan balances than older workers. By reaching workers earlier in their careers, the program may be effective at recruiting and retaining workers to particular locations or occupations, because younger workers are less likely to be permanently settled.

### **Evidence that Loan Forgiveness can be an Effective Recruitment and Retention Tool**

Researchers have conducted several evaluations of the effectiveness of loan forgiveness programs in recruiting and retaining workers. The Minnesota Department of Health evaluated the state's loan forgiveness programs for health occupations in 2007.<sup>25</sup> Using data collected through surveys of program participants and health facilities, the department concluded that the program was effective in recruiting health care practitioners into high-need locations. The department additionally reported that a majority of health care practitioners who complete their service obligation continue to work in similar practice settings.

Academic research using similar methodologies has discovered evidence that loan forgiveness programs are effective tools for retaining workers in particular geographic regions. A 2004 research paper by Donald Pathman, et al., evaluated a number of different state strategies for recruiting physicians to work in rural and underserved areas.<sup>26</sup> The researchers identified a group of “unobligated physicians” who were not participating in a state program and compared the group with individuals participating in programs offering loan repayment assistance, scholarships, loans, resident support, and direct financial incentives. They found that loan repayment programs were the most effective intervention at retaining physicians at their service sites.

While the two studies described above provide evidence that individuals who participate in loan forgiveness programs for rural health professionals tend to remain in rural areas, it is impossible to determine how much of that effect was due to the loan forgiveness program itself. It is impossible to know how a particular award recipient would have behaved in the absence of the program. In addition, individuals participating in loan forgiveness programs are not identical to individuals who do not participate. It is possible—perhaps likely—that individuals who are predisposed to work in rural areas are more likely to participate in a loan forgiveness program. As a result, it is difficult to measure the precise effects of such programs on worker retention.

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<sup>23</sup> Taxation of student loan forgiveness is discussed in detail later in this publication.

<sup>24</sup> A subsidy would likely be taxable.

<sup>25</sup> Minnesota Department of Health, Office of Rural Health and Primary Care, “Bringing Health Care to the Heartland: An Evaluation of Minnesota’s Loan Forgiveness Programs for Select Occupations,” April 2007. <http://www.health.state.mn.us/divs/orhpc/pubs/loanforgivreport.pdf>.

<sup>26</sup> Donald Pathman, Thomas Konrad, Tonya King, Donald Taylor, and Gary Koch, “Outcomes of States’ Scholarship, Loan Repayment, and Related Programs for Physicians,” *Medical Care*, vol. 42, no. 6: June 2004.

### **Inframarginal Subsidization**

The difficulty in evaluating the effectiveness of loan forgiveness as a recruitment tool points to a potential disadvantage to using loan forgiveness as a workforce development strategy. Some individuals would choose to work in the targeted geographic region or career field even in the absence of the loan forgiveness program. If those workers receive loan forgiveness, the program would be expending funds without actually adding to the number of workers. Economists refer to such expenditures as an “inframarginal subsidy,” because they represent a subsidy to an individual who is not “on the margin” of working in a particular place or career field. A loan forgiveness program with a large degree of inframarginal subsidization would be an inefficient tool for workforce development.

### **Administrative Complexity**

Another potential disadvantage to a loan forgiveness programs relative to other workforce development programs is administrative complexity. Most loan forgiveness programs include a “service requirement,” which requires that an individual commits to work in the field or geographic region specified by the program. Program participants are usually required to verify to the program administrator that they have completed the requirement. If they ultimately fail to complete the requirement, the program administrator must “claw back” the amount of funds that were previously disbursed.

Because state loan forgiveness programs do not directly forgive student loans, the process of disbursing funds to program participants presents additional administrative challenges. These issues are discussed in more detail below.

### **Does another loan forgiveness program exist to serve the target population?**

There are several federal programs that offer student loan forgiveness to broad groups of student borrowers, as well as several programs targeted towards particular professions.<sup>27</sup> If the state forgives the loans of a borrower who is participating—or could participate—in a federal loan forgiveness program, it may be substituting state expenditures for federal expenditures, without providing an additional benefit to award recipients.

In spite of concerns over substitution, there are policy goals that the state may wish to achieve that only a state program could accomplish. Many federal programs, such as the Public Service Loan Forgiveness and Revised Pay As You Earn (REPAYE) programs, require participants to make payments for many years before receiving forgiveness. A state award could help recipients make their loan payments early in their careers, at a time when they earn less and repayment assistance could be particularly helpful. As a result, loan forgiveness could still be an effective tool to recruit workers to a particular geographic area within Minnesota or to recruit workers to Minnesota from other states.

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<sup>27</sup> Examples of broadly targeted programs are the Public Service Loan Forgiveness, Teacher Loan Forgiveness, and Revised Pay As You Earn (REPAYE) programs. The REPAYE program in particular is open to most borrowers with Direct Loans or Direct Consolidation Loans. The federal Teacher Loan Forgiveness program and NHSC are examples of federal programs targeted towards a particular profession.

## **Will loan forgiveness through the program be subject to taxation?**

### **Federal Taxation of Loan Forgiveness**

The structure of a program affects whether or not the loan forgiveness or repayment assistance is subject to taxation. In general, discharged debt is subject to federal taxation, because it is included in the Internal Revenue Code's definition of gross income. However, awards made through some student loan forgiveness and repayment assistance programs are excluded from income and therefore not subject to taxation.<sup>28</sup> Only certain student loans qualify for this exemption: those issued by the federal government, a state government, certain public benefit corporations, or certain educational organizations.

There are two provisions of the Internal Revenue Code that exclude certain kinds of student loan forgiveness from the definition of gross income. The first is a provision excluding from income discharges of student debt, which were "pursuant to a provision of such loan under which part or all of the indebtedness of the individual would be discharged if the individual worked for a certain period of time in certain professions for any of a broad class of employers."<sup>29</sup>

The second is a narrower provision that excludes from income most loan forgiveness programs for health professionals. That provision excludes the following from the definition of gross income:

- Loan forgiveness provided through the NHSC Scholarship Program or a State Loan Repayment Program
- Any other state loan forgiveness or repayment program "intended to provide for the increased availability of health care services in underserved or health professional shortage areas"

This provision covers loan forgiveness provided through the Minnesota State Loan Repayment program, the Health Professional Education Loan Forgiveness program, and the Large Animal Veterinarian Loan Forgiveness program.

The Internal Revenue Service provided the federal Bureau of Justice with an informational letter on the taxability of loan forgiveness under the John R. Justice Program. That letter indicates that the forgiveness through the program may be excluded from income provided that the loan is a Direct Loan, Family Federal Education Loan (FFEL), or Perkins Loan.<sup>30</sup>

There is no provision in federal law that explicitly discusses taxation of awards made through programs like the Teacher Shortage Loan Forgiveness program, Aviation Degree Loan Forgiveness program, and Agricultural Education Loan Forgiveness program. Discharges of debt

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<sup>28</sup> 26 U.S.C. § 108 (f).

<sup>29</sup> Ibid.

<sup>30</sup> Department of Treasury, Internal Revenue Service Office of the Chief Counsel, letter to the Bureau of Justice Assistance Office of Justice Program's Office of General Counsel, December 31, 2012, <https://www.bja.gov/Programs/IRS-JRJ-Letter.pdf>.

through those programs may be excluded from the definition of gross income under the broader exemption discussed above, but it is unclear if such programs are covered by that provision.

### **State Taxation of Loan Forgiveness**

For the purposes of the state income tax, Minnesota's definition of "taxable income" is based upon the federal definition. As a result, discharged debt that is taxable on the federal level would also be taxable on the state level unless the state explicitly exempted the debt from taxation. The 2017 Minnesota Legislature exempted from state taxation any student debt that was discharged through certain federal loan forgiveness programs, as well as from the Teacher Shortage Loan Forgiveness program.<sup>31</sup>

### **Should the program include a service requirement?**

Four of the loan forgiveness programs administered by the state require applicants to commit to a "term of service" in a particular profession or geographic area in order to qualify for loan forgiveness or repayment assistance. The Teacher Shortage Loan Forgiveness Program is the only state-administered program that does not contain such a service requirement.

Service requirements have at least two potential advantages. First, if one goal of loan forgiveness programs is to encourage health professionals to work in a particular geographic region, a service requirement guarantees that award recipients work in the region for a certain number of years. An award recipient who completes a multiyear service commitment may be more likely to stay in the region after the commitment ends because the recipient has established deeper roots in the community.

Second, including a service requirement may make a loan forgiveness award less likely to be taxable under federal law. For a state loan forgiveness award to be nontaxable, it must either be targeted to health professionals or require a recipient to work "for a certain period of time in certain professions for any of a broad class of employers."<sup>32</sup>

There are also disadvantages to service requirements. First, a policymaker may wish to provide student debt relief to a broad population rather than recruit workers for a particular profession or geographic region. Including a service requirement could limit the number of workers eligible for an award and deter those who are unwilling to make a commitment from benefitting from the program.

Second, service requirements add a layer of administrative complexity to loan forgiveness programs. They require the program administrator to verify that a participant is working in a qualifying position prior to disbursing an award. If an award recipient fails to complete his or her service requirement, the program administrator may need to collect from the recipient the awards

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<sup>31</sup> The federal programs excluded from state taxation are the income-based repayment plan, the income contingent repayment plan, the Pay As You Earn (PAYE) plan, and the Revised Pay As You Earn (REPAYE) plan. [Laws 2017, 1st spec. sess. ch. 1](#), art. 1, § 8.

<sup>32</sup> 26 U.S.C. § 108 (f).

that were previously disbursed.

## **How will the program disburse awards to recipients?**

Because most student loans are issued by the federal government or private lenders, the state does not directly “forgive” student loans. In the six programs funded by the state, the program administrator disburses a cash award directly to recipients. The recipients must subsequently prove that they applied the full cash award they received towards their student loans.

In contrast to the state-funded programs, the OHE disburses awards under the John R. Justice Program directly to student loan servicers. Requiring loan forgiveness to be disbursed directly to a loan servicer may cause administrative problems for the state agency administering the program. It is not uncommon that an individual’s loan servicer changes, meaning payments may be sent to the wrong servicer.

In addition, many student loan servicers have no mechanism in place to receive multiple payments on different accounts at the same time, meaning that OHE must send multiples checks to each loan servicer and verify that the payments were applied to the correct accounts. In the case of the Justice Program, some lenders have applied award checks from OHE toward a student’s monthly payments, which causes difficulties for individuals who are participating in programs like the federal Public Service Loan Forgiveness Program.<sup>33</sup>

Disbursing awards directly to program participants has its own administrative complexities because it requires participants to prove to program administrators that their award was applied to their student loans. Administrators may find it difficult to recover awards if a student fails to prove that the award was applied to his or her loans.

*For more information about higher education, visit the higher education area of our website, [www.house.mn/hrd/](http://www.house.mn/hrd/).*

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<sup>33</sup> That program requires participants to make 120 monthly payments while working for a public service organization to qualify for loan forgiveness.

## Appendix: State-funded Loan Forgiveness Programs in Other States

### Programs Not Tied to Particular Occupations

State	Program	Legal Reference
Kansas	Rural Opportunity Zones	Kan. Stat. § 74-50, 222-223
New York	NYS Get on Your Feet Loan Forgiveness Program	N.Y. Educ. Law § 1-14, part 2, sub-part 4, section 679-G

### Programs for Agricultural and Veterinary Workers

State	Program	Legal Reference
Arkansas	Out-of-State Veterinary Medical Education Loan Repayment	A.C.A. § 6-81-1106
Kentucky	Kentucky Large/Food Animal Veterinary Incentive Program	
Maine	Maine Veterinary Medicine Loan Program	Me. Stat. tit. 20-A, § 12121-12122
Missouri	Dr. Merrill Townley Large Animal Veterinary Student Loan Program	Mo. Rev. Stat. § 340.381-340.396
Nebraska	Food Supply Animal Veterinary Incentive Program	Neb. Rev. Stat. § 54-501
New York	New York State Young Farmers Loan Forgiveness Incentive Program	N.Y. Educ. Law § 679-F
North Dakota	North Dakota Veterinary Loan Repayment Program	N.D. Cent. Code § 43-29.1
Pennsylvania	Urban and Rural Teacher Loan Forgiveness Program	22 Pa. Code § 121.301
Vermont	Vermont Food Animal Veterinary Education Loan Repayment Program	6 V.S.A. § 20
Wyoming	Wyoming Veterinary Loan Repayment Program	Wyo. Stat. § 11-18-119

### Programs for Dentists

State	Program	Legal Reference
Arizona	Primary Care Provider Loan Repayment Program (PCPLRP)	Ariz. Rev. Stat. § 36-2172
Georgia	Dentists for Rural Areas Assistance Program (DRAA)	O.C.G.A. § 49-10-3 (Lexis), Ga. Comp. R. & Regs. 195-14-.01
Maine	Maine Dental Education Loan Program	Me. Stat. Tit. 20-A § 12301-12302
North Dakota	Dentists' Loan Repayment Program	N.D. Cent. Code § 43-28.1
Ohio	Ohio Dentist Loan Repayment Program	Ohio Rev. Code § 3702.85
Oklahoma	Oklahoma Dental Loan Repayment Program (ODLRP)	Okla. Stat. tit. 310 § 526-3-1

<b>State</b>	<b>Program</b>	<b>Legal Reference</b>
Texas	Dental Education Loan Repayment Program	Texas Educ. Code. § 61.901

### Programs for Health Professionals

<b>State</b>	<b>Program</b>	<b>Legal Reference</b>
Alabama	Board of Medical Scholarship Awards	Ala. Code § 16-47-126
Alaska	SHARP-II	Alaska Stat. § 18.29
Arizona	Rural Private Primary Care Provider Loan Repayment Program (RPPCPLRP)	Ariz. Rev. Stat. § 36-2174
California	The Steven M. Thompson Physician Corps Loan Repayment Program	Cal. HSC. § 128560-128585
Colorado	Colorado Health Service Corps	Colo. Rev. Stat. § 25-1.5-501
Florida	Nursing Student Loan Forgiveness Program	Fla. Stat. § 1009.66
Georgia	Physicians for Rural Areas Assistance Program (PRAA)	O.C.G.A. § 195-12
Georgia	Physician Assistant Loan Repayment Program (PALRP)	O.C.G.A. § 195-15
Georgia	Advanced Practice Registered Nurse Loan Repayment Program (APRNLRP)	O.C.G.A. § 195-16
Idaho	Rural Health Care Access and Physician Incentive Program (RHCAP/RPIP)	I.C. § 39-5901-5913
Illinois	Nurse Educator Loan Repayment Program	23 Il. Admin. Code. pt. 2758
Illinois	Veterans' Home Medical Providers' Loan Repayment Program	23 Il. Admin. Code. pt. 2757
Illinois	Podiatric Scholarship and Residency Act.	110 Ill. Comp. Stat. § 978/5-
Iowa	Iowa Registered Nurse and Nurse Educator Loan Forgiveness Program	Iowa Code § 261.23
Iowa	Rural Iowa Primary Loan Repayment Program	Iowa Code § 261.113
Iowa	Rural Iowa Advanced RN Practitioner and PA Loan Repayment Program	Iowa Code § 261.114
Missouri	Primary Care Resource Initiative for Missouri (PRIMO)	Authorized by Mo. Rev. Stat § 191.411
Montana	Montana Institutional Nursing Incentive Program	Mont. Code § 20-26-1511
Montana	Montana Rural Physician Incentive Program (MRPIP)	Mont. Code Ann. § 20-26-1501
Nebraska	Nebraska Loan Repayment Program	Neb. Rev. Stat. § 71-5668
New Jersey	Nursing Faculty Loan Redemption Program	N.J. Rev. Stat. § 18A:71C-50
New Jersey	Primary Care Physician and Dentist Loan Redemption Program	N.J. Rev. Stat. § 18A:71C-32
New York	NYS Nursing Faculty Loan Forgiveness (NFLF) Incentive Program	N.Y. Educ. Law § 670-D

<b>State</b>	<b>Program</b>	<b>Legal Reference</b>
North Dakota	Health Care Professional Student Loan Repayment Program	N.D. Cent. Code § 43-12.3
Oregon	Oregon Medicaid Primary Care Loan Repayment Program (MPCLRP)	Or. Rev. Stat. § 413.233
Pennsylvania	Pennsylvania Primary Health Care Loan Repayment Program	
Rhode Island	Health Professionals Loan Repayment Program	23 R.I. Gen. Laws § 14.1
South Dakota	Rural Healthcare Facility Recruitment Assistance Program	S.D. Codified Laws § 44:71
Texas	Border County Doctoral Faculty Education Loan Repayment Program	Authorized by Tex. Educ. Code § 61.701, implemented in 19 Texas Admin. Code § 23.155
Texas	Nursing Faculty Loan Repayment Assistance Program	Tex. Educ. Code § 61.9821
Texas	Physician Education Loan Repayment Program	Tex. Educ. Code § 61.531
Utah	Rural Physician Loan Repayment Program (RPLRP)	Utah Code § 26-46a
Washington	Health Professional Loan Repayment Program (HPLRP)	Wash. Rev. Code § 28B.115.030
West Virginia	Medical Student Loan Program (includes a forgiveness program)	W. Va. Code § 18C-3-1
Wisconsin	Health Professions Loan Assistance Program	Wis. Stat. § 36.61
Wisconsin	Rural Physician Loan Assistance Program	Wis. Stat. § 36.60

## **Programs for Lawyers**

<b>State</b>	<b>Program</b>	<b>Legal Reference</b>
Illinois	Public Interest Attorney Law Repayment Assistance Program	30 ILCS 105/5.737
Maryland	Janet L. Hoffman Loan Assistance Repayment Program (LARP)	Md. Code, Education Art. § 18-1502
Nebraska	Legal Education for Public Service and Rural Practice Loan Repayment Assistance Program	Neb. Rev. Stat. § 7-201
New Mexico	Public Service Law Loan Repayment Program	N.M. Stat. § 21-22F-1
New York	NYS District Attorney and Indigent Legal Services Attorney Loan Forgiveness (DALF) Program	N.Y. Educ. § 679-e

### Programs for Mental Health Professionals and Social Workers

State	Program	Legal Reference
Indiana	Indiana Mental Health and Addiction Professionals Loan Repayment Assistance	Ind. Code § 21-44-6-6
New York	NYS Licensed Social Worker Loan Forgiveness (LSWLF) Program	N.Y. Edu. § 679-a
Texas	Loan Repayment Program for Mental Health Professionals	Tex. Educ. Code § 61.601

### Programs for Science, Technology and Engineering (STEM) Workers

State	Program	Legal Reference
Maine	Maine Engineers Recruitment and Retention Program	Me. Rev. Stat. tit. 20-A § 12522
Maine	Future for Youth in Maine Loan Repayment Program	Me. Rev. Stat. tit. 20-A § 12532
North Dakota	STEM Occupations Student Loan Program	N.D. Cent. Code § 15-10-37
Texas	Math and Science Scholars Loan Repayment Program	19 Tex. Admin. Code § 23.286
North Carolina	Forgivable Education Loans for Service	N.C. Gen. Stat. § 116-209.45

### Programs for Teachers

State	Program	Legal Reference
Arizona	Math, Science and Special Education Teacher Loan Forgiveness Program	Ariz. Rev. Stat. § 15-1782
Arkansas	State Teacher Education Program (STEP)	Ark. Code § 6-81-1606
Illinois	Illinois Teachers Loan Repayment Program	110 Ill. Comp. Stat. § 947/65.56
Indiana	Teacher Loan Repayment Program and Fund	Ind. Code § 21-13-10
Iowa	Iowa Teacher Loan Forgiveness Program	Iowa Code § 261.112
Maine	Educators for Maine Program	Me. Stat. tit. 20, § 12502
Mississippi	Mississippi Teacher Loan Repayment Program (MTLR)	Miss. Code Ann. § 37-106-55
Montana	Quality Educator Loan Assistance Program	Mont. Code Ann. § 20-4-5
North Carolina	Forgivable Education Loans for Service	N.C. Gen. Stat. § 116-209.45
North Dakota	Teacher Shortage Loan Forgiveness Program	N.D. Cent. Code § 15-10-38
Pennsylvania	Urban and Rural Teacher Loan Forgiveness Program	24 Pa. Stat. § 5194
Pennsylvania	Early Education Professional Loan Repayment Program	24 Pa. Stat. § 7103
Texas	Loan Repayment Program for Speech-Language Pathologists and Audiologists	Tex. Educ. Code § 61.9811
Texas	Teach for Texas Loan Repayment Assistance Program	Tex. Educ. Code § 56.351