

## Informational Paper 38

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# Student Financial Aid

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# Student Financial Aid

## Introduction

There are four primary sources of student financial aid: (1) the federal government; (2) state programs; (3) higher education institutions; and (4) other private and community-based organizations. Each year, approximately one-half of all resident undergraduate students attending Wisconsin public and private, nonprofit postsecondary institutions receive need-based financial aid. In 2004-05, the most recent year for which information is available, there were 373,470 financial aid awards totaling approximately \$918.2 million in financial assistance. Of the total amount awarded, 71.0% was based on the students' financial need. The federal government determines the amount of need-based financial aid a student is eligible for, and funds the largest grant, loan, and work-study programs that make up the aid "package" that a student receives. In 2004-05, 72.8% of need-based aid to resident undergraduates in Wisconsin was provided through a variety of federal programs. An additional 12.2% was funded by state programs administered by the Higher Educational Aids Board and the institutions themselves awarded 12.3% of the total. The remaining 2.7% was provided from private and other sources.

In determining a student's financial need, the resources of the student and his or her family are compared to the estimated cost of the student's education. The total cost includes tuition, food, housing, transportation, books, and miscellaneous day-to-day expenses. The student's financial need is the cost of education that the current methodology assumes cannot be covered by student or family resources. "Unmet need" is the remaining cost of education that cannot be met by either personal contribution or financial aid. This

"unmet need" can be met by additional parental contributions beyond what is assumed, student earnings apart from work-study aid, or reductions in costs by the student.

In 2004-05 resident undergraduate students received \$651.9 million in need-based student financial aid, consisting of: \$474.4 million in federal assistance (grants, loans, and work study), \$79.5 million in state grants through Higher Educational Aids Board programs, \$6.4 million from private sources, \$80.4 million from institutional grant, work, and loan programs, and approximately \$11.2 million from other programs.

Table 1 shows need-based financial aid for Wisconsin resident undergraduate students for the most recent five years for which data are available.

**Table 1: Wisconsin Undergraduate Need-Based Financial Aid (\$ in Millions)**

	2000-01	2001-02	2002-03	2003-04	2004-05
Students Receiving Aid	89,129	92,735	99,923	105,721	110,093
Cost of Education	\$1,027.3	\$1,118.0	\$1,250.7	\$1,397.8	\$1,534.5
Financial Need Total Aid (All Sources)	\$671.7	\$730.6	\$840.4	\$960.1	\$1,049.1
Unmet Need	\$225.5	\$242.1	\$295.5	\$361.0	\$397.2
Unmet % of Financial Need	33.6%	33.1%	35.2%	37.6%	37.9%
% Chg in Total Aid	3.8%	9.5%	11.5%	10.0%	8.8%

In 2004-05, need-based aid covered approximately 62.1% of the remaining need, after family contributions, of those students eligible for aid. Between 2000-01 and 2004-05, the average cost of education for an undergraduate student increased by 20.9%, while average need-based aid

per student from all sources increased by 18.3%.

This paper presents an overview of state and federal financial aid programs. The first section discusses the methodology used to determine student financial need. The second section briefly describes the various sources of financial aid. The third section provides a more detailed description of each financial aid program. The fourth section discusses the process used to distribute financial aid. The final section provides interstate comparisons.

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### Needs Analysis

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The cost of postsecondary education varies greatly depending upon one's situation. In Wisconsin, the total cost of education, including tuition and fees, room and board, books and supplies, transportation and personal expenses, ranges from an average of \$23,348 at the private colleges to \$10,119 at the Wisconsin Technical Colleges, with the tribal colleges and the University of Wisconsin System institutions falling in between at \$10,861 and \$12,724, respectively. Individual student costs deviate greatly from these averages due to both institutional factors, such as tuition levels, and student factors, such as whether the student chooses to live on campus or at home. Financial aid is awarded based upon a systematic evaluation of a student's financial need, using the guiding principle that students and their families are primarily responsible, depending on their resources, for paying for a postsecondary, undergraduate education.

Congress has established a needs analysis system, referred to as the "federal methodology," which determines how much families and students must contribute towards the cost of their education. Students are expected to pay a part of their education from their earnings and savings. The contribution that a parent is expected to make takes into account family income, assets, number of

children and other dependents in the household, number of family members enrolled in higher education, liabilities, and unusual financial circumstances. The expected family contribution is determined from the portion of their income or assets that are determined to be "discretionary." In general, this family contribution increases with the family's discretionary income.

Although costs vary from school to school, the amount one is able to pay remains the same. The student's financial need is the difference between his or her expense budget for a school or college and the amount the family, including the student, is expected to contribute. The college then attempts to meet this need through an offer of a package of financial aid programs. Financial aid can be a combination of one or more types of assistance including scholarships, grants, loans, or work, depending upon a student's financial need and eligibility for a variety of programs.

In most cases, to be eligible to receive aid from the general need-based programs discussed in this paper, a student must:

- Demonstrate financial need.
- Have a high school diploma or a general educational development (GED) certificate.
- Be enrolled as a degree-seeking student.
- Be a U.S. citizen or an eligible noncitizen.
- Have a social security number.
- Make satisfactory academic progress in a degree or certificate-granting program, which is usually defined by the school, but often viewed as maintaining a "C" average.
- Register with the Selective Service, if required.

Some of the programs described in this paper



such as the federal Stafford Loan, PLUS Loan, and Direct Student Loan programs require the student to be enrolled at least half-time, which is usually defined as at least twelve credits per year. This is not a requirement to receive federal aid under the Pell Grant, Supplemental Educational Opportunity Grant, Work-Study, and Perkins Loan programs. For students attending less than full-time, the cost of education is proportionately reduced, which in turn decreases their financial need and the amount of financial aid they can receive.

Another determination made when one applies for financial aid is the student's dependency status. Dependency status is based on whether the student is considered a dependent of his or her parents and consequently must report his or her parents' income as well as the student's own, or whether the student is financially independent of his or her parents. This determination is necessary because most student aid programs are based on the assumption that parents have the primary responsibility of paying for their children's education, whether they choose to or not. Students who have access to parental support, according to federal guidelines, should not receive financial aid at the expense of students who do not have that access. A student is considered independent for financial aid purposes if he or she is one of the following:

- At least 24 years of age.
- Married.
- A graduate or professional student.
- Someone with legal dependents other than a spouse.
- A orphan or ward of the court.
- A veteran.
- Serving on active duty in the U.S. Armed Forces.

Table 2 shows an estimate of a student base budget for a full-time resident undergraduate student for the 2006-07 academic year as prepared by the financial aid office at UW-Milwaukee. In both columns, the data is for a dependent student. The budget figures in the first column are for a student living at home with a parent and the figures in the second column are for a dependent student living away from home. In this estimate, tuition accounts for 48.4% or 37.7% of the student's total budget, depending on whether he or she is living with a parent or away from home, while expenses other than tuition comprise the majority of the student's budget. In addition to the expenses shown for a dependent student, an independent student would have medical expenses estimated at \$1,118.

**Table 2: Dependent Student Base Budget Estimates -- 2006-07 Academic Year (9 Months)**

	Living With Parent	Living Away From Home
Tuition and Fees	\$6,860	\$6,860
Books/Supplies	950	950
Room	0	4,040
Board	2,910	2,910
Transportation	1,848	1,848
Medical	0	0
Personal/Misc.	<u>1,600</u>	<u>1,600</u>
<b>Total</b>	<b>\$14,168</b>	<b>\$18,208</b>

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### Sources of Financial Aid

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Financial aid is provided by a number of sources:

**Federal Government.** In 2004-05, over 70% of the need-based financial aid to resident undergraduate students was provided by the federal government. This aid included \$163.7 million in need-based grants and \$292.5 million in loans. Approximately one-third of the cost of

**Table 3: Federal Financial Aid Programs (\$ in Millions)**

	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Pell Grant	\$66.9	\$65.1	\$68.5	\$80.0	\$83.4	\$86.7	\$107.8	\$125.6	\$137.7	\$144.0
SEOG	13.2	12.8	14.3	15.4	15.0	14.4	15.5	15.8	15.7	15.1
College Work Study	12.1	13.0	14.7	14.8	13.7	13.6	14.7	15.6	16.5	18.2
Perkins Loan	23.5	21.3	20.9	22.6	22.5	24.3	24.9	28.6	34.7	37.1
Stafford Loan/SLS	230.4	218.2	187.9	180.5	181.7	174.5	184.1	202.5	227.8	255.4
LEAP (formerly SSIG)	1.3	0.7	1.1	0.5	0.5	0.9	1.1	1.4	1.4	1.4
Bureau of Indian Affairs	<u>1.2</u>	<u>1.6</u>	<u>2.5</u>	<u>2.7</u>	<u>3.1</u>	<u>3.0</u>	<u>3.4</u>	<u>3.9</u>	<u>4.2</u>	<u>4.7</u>
Total	\$348.6	\$332.7	\$309.9	\$316.5	\$319.9	\$317.4	\$351.6	\$393.5	\$438.0	\$475.9
Percent Change	7.4%	-4.6%	-6.9%	2.1%	1.1%	-0.8%	10.8%	11.9%	11.3%	8.7%

education of those receiving need-based financial aid in 2004-05 was met by federal funds. Table 3 provides expenditure levels for the major need-based financial aid programs administered by the U.S. Department of Education. These include the Pell Grant, Supplemental Education Opportunity Grant (SEOG), College Work Study, Perkins Loan, Stafford Loan/Supplemental Loan for Students (SLS), and Bureau of Indian Affairs Grants. Since 1995-96, total need-based federal financial aid for Wisconsin students has increased by \$127.3 million, or 36.5%, from \$348.6 million in 1995-96 to \$475.9 million in 2004-05.

**Higher Educational Aids Board (HEAB).** The Higher Educational Aids Board is the primary agency responsible for the management and oversight of the state's student financial aid system for Wisconsin residents attending institutions of higher education. As such, HEAB administers state-funded, student financial aid programs and negotiates interstate higher education reciprocity agreements. The Board is a part-time, independent policy making body composed of 11 members: the State Superintendent of Public Instruction; one member from each of the UW Board of Regents, the Wisconsin Technical College System (WTCS) Board, and a Board of Trustees of an independent college or University in the state; three financial aid administrators, including one from the UW System, WTCS, and a private, nonprofit college or university in the state; three undergraduate

students, including one from the UW System, WTCS, and a private, nonprofit college or university in the state; and one member of the general public. Except for the State Superintendent, all Board members are appointed by the Governor. Student members of HEAB serve two-year terms while nonstudent members serve staggered, three-year terms. HEAB has a staff of 12.86 full-time equivalent employees including an Executive Secretary who is appointed by the Governor.

By statute, HEAB awards need-based grants "based on a formula that accounts for expected parental and student contributions and is consistent with generally accepted definitions and nationally approved needs analysis methodology." Table 4 shows a history of funding for HEAB-administered need-based financial aid programs. Prior to 1998-99, all of these aid programs were supported with state, general purpose revenue (GPR) dollars. A provision in 1999 Act 9, transferred funding for the Indian student assistance grant program from GPR to program revenue (PR) derived from tribal gaming compacts. Act 9 also created a Wisconsin Higher Education Grant (WHEG) program for tribal college students that is also funded with tribal gaming revenues. Except for 2006-07, the data shown in the table reflects actual expenditures. Budgeted amounts are shown for 2006-07.

In addition to the need-based programs shown

**Table 4: HEAB Need-Based Programs (GPR and PR Funds)**

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07*
Wisconsin Higher Ed. Grant									
UW Students	\$17,470,802	\$16,854,076	\$20,641,159	\$19,380,141	\$22,213,203	\$28,352,131	\$33,713,710	\$40,992,516	\$39,280,600
WTCS Students	11,795,124	11,354,630	13,879,602	14,157,863	14,369,851	14,796,980	14,628,703	15,792,630	16,712,400
Tribal College Students	N.A.	374,868	432,280	399,776	402,789	402,200	405,800	403,720	404,000
Tuition Grant	18,090,754	17,412,235	23,181,819	21,141,847	22,431,409	21,738,985	22,483,699	25,510,951	24,835,700
Talent Incentive Grant**	4,287,990	3,935,402	4,598,887	4,322,235	4,581,699	4,445,242	4,835,689	4,426,129	4,503,800
Indian Student Grant	727,181	755,205	784,444	748,575	798,865	777,328	791,663	774,117	787,600
Handicapped Student Grant	99,158	110,803	83,210	107,049	96,827	123,800	98,325	115,975	123,800
Minority Student Grant	693,961	690,574	698,376	720,542	737,850	741,858	767,895	752,284	756,900
Nursing Student Loan Program	N.A.	N.A.	N.A.	N.A.	449,499	379,486	389,479	407,122	450,000
Minority Teacher Loan	232,852	236,978	239,952	238,662	240,007	225,162	156,912	219,301	262,100
Teacher Education Loan	234,000	248,000	250,000	240,000	271,500	239,750	275,000	272,175	275,000
<b>Total</b>	<b>\$53,631,822</b>	<b>\$51,972,771</b>	<b>\$64,789,729</b>	<b>\$61,456,690</b>	<b>\$66,593,499</b>	<b>\$72,222,922</b>	<b>\$78,546,875</b>	<b>\$89,666,920</b>	<b>\$88,391,900</b>
Expenditure Change	7.8%	-3.1%	24.7%	-5.1%	8.4%	8.5%	8.8%	14.2%	-1.4%

N.A. Not applicable

\*Budgeted

\*\*Does not include federal Leveraging Educational Assistance Partnership (LEAP) Supplemental (SLEAP) monies.

in Table 4, HEAB administers the academic excellence scholarship (AES) program which provides merit-based scholarships and a scholarship for students studying to teach the visually impaired. Table 5 shows 2005-06 program expenditures and the number of students receiving aid for all HEAB financial aid programs. The total expenditure amount shown in Table 5 for 2005-06 differs from that shown in Table 4 because Table 5 includes the AES and teacher of visually impaired programs, which are not need-based, as well as federal funding provided for talent incentive grants.

**University of Wisconsin System.** The UW System currently administers two state-funded financial aid programs for minority and disadvantaged students: the advanced opportunity program; and the Lawton minority undergraduate retention grant. In addition, individual campuses provide over \$34.4 million in gift and endowment funds for grants and loans.

**Other State Agencies.** The Departments of Veterans Affairs, Commerce, Public Instruction, and Military Affairs administer financial aid programs for a select group of students.

**Independent Colleges.** Wisconsin's independent colleges and universities provide their own in-

stitutional aid for their students in addition to federal or state programs.

**Table 5: HEAB -- 2005-06 Program Expenditures**

	Number of Awards	Total Expended	Average Award
WI Higher Education Grant			
UW Students	24,345	\$40,992,516	\$1,684
WTCS Students	24,211	15,792,630	652
Tribal College Students	305	403,720	1,324
Tuition Grant	10,818	25,510,951	2,358
Talent Incentive Grant*	4,836	6,093,876	1,260
Academic Excellence Scholarship	2,910	3,155,461	1,084
Indian Student Grant	872	774,117	888
Minority Student Grant			
Private College Students	392	367,410	937
TCS Students	456	384,874	844
Handicapped Student Grant	69	115,975	1,681
Minority Teacher Loan	97	219,301	2,261
Nursing Loan Program	235	407,122	1,732
Teacher of the Visually Impaired	11	100,000	9,091
Teacher Education Loan	96	272,175	2,835
<b>Total</b>	<b>69,653</b>	<b>\$94,590,129</b>	<b>\$1,358</b>

\*Includes federal Leveraging Educational Assistance Partnership monies.

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## Financial Aid Programs

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Financial aid may be provided in a number of forms:

**Grants** - direct forms of financial aid, usually provided on the basis of financial need, that do not have to be repaid. In 2004-05, state, federal, and institutional grant programs accounted for 49.3% of need-based financial assistance.

**Loans** - financial aid that must be repaid. These loans can have their interest partially subsidized by a governmental agency and, in order to gain favorable interest rates, loan repayment may be guaranteed by a public or private agency. Some loans can have their principal forgiven if the recipient adheres to certain conditions, such as becoming a teacher in an inner city school or a physician in a medically underserved area. In 2004-05, student loan programs accounted for 45.0% of all need-based undergraduate financial assistance and 70.9% of non-need-based undergraduate financial assistance.

**Scholarships** - grants awarded completely or partly on the basis of grades, other achievements, or satisfying special conditions, such as a parent working for a particular employer or being a veteran.

**Remissions, Reciprocity** - institutions may remit or forego part of a student's tuition under certain conditions. In addition, states or individual institutions may have reciprocity agreements which enable a student from one state to attend a public institution in another state without having to pay nonresident tuition. Such an agreement exists between Minnesota and Wisconsin.

The following section provides descriptions, based on statutory requirements and HEAB policy, of the principal financial aid programs available to Wisconsin students. Unless otherwise indicated, program data is for Wisconsin resident undergraduate students attending college in-state. The administering entity is indicated in parentheses after the title of each program.

## **Grant Programs**

**1. Pell Grant (Federal).** This program, which provides the largest amount of grant aid to Wisconsin undergraduate students, is an entitlement program that ensures that all students who qualify for a grant receive an award. However, in recent years, the program has not been fully funded by Congress and consequently, the largest grants awarded have been less than the maximum amount permitted by law. It is intended to be the base upon which other financial aid is built because, in general, students eligible for Pell Grants are eligible for other forms of aid. In 2006-07, undergraduate students enrolled at least half-time and whose expected family contribution is less than \$3,850 are eligible to receive award amounts expected to range from a minimum of \$400 to a maximum of \$4,050 annually. For students enrolled less than full-time, grants are reduced proportionately. Students who receive a Pell Grant are eligible to receive the grant for up to five years as long as they maintain satisfactory academic progress as defined by the institution they attend. In 2004-05, 60,740 Pell Grants were awarded to Wisconsin students for a total of \$144.0 million, or an average of \$2,371 per grant.

**2. Supplemental Educational Opportunity Grant (Federal).** The Supplemental Educational Opportunity Grant (SEOG) is a campus-based program administered by financial aid officers at each participating postsecondary institution for undergraduates with exceptional financial need. Unlike the Pell Grant, which provides funds to every eligible student, each participating institution receives a certain amount of SEOG funds based upon a formula that considers the state's share of the national undergraduate student enrollment. Beginning in federal fiscal year 2000, each institution received at least the amount they received in 1999. The Federal Methodology is used to determine student aid eligibility and priority is given to students who receive Pell Grants. Awards are based on the availability of SEOG funds and the amount of other aid the student receives, as

well as financial need. Undergraduates enrolled full-time or part-time are eligible for awards ranging from \$100 to \$4,000 per year. In 2004-05, SEOG awards of \$15.1 million were provided to 22,015 Wisconsin students, for an average of \$684 per grant.

**3. Academic Competitiveness Grant (Federal).** Created under the federal Higher Education Reconciliation Act (HERA) of 2005, the academic competitiveness (AC) grant provides up to \$750 for the first year of undergraduate study and up to \$1,300 for the second year of study to eligible students beginning in the 2006-07 academic year. Actual award amounts will be based on the number of eligible students. To be eligible for an AC grant, a student must be: (1) a Pell Grant recipient; (2) enrolled full-time in a degree program; and (3) have completed a rigorous secondary school program of study. Second-year students must also have a cumulative grade point average of at least 3.0 for the first academic year.

**4. National Science & Mathematics Access to Retain Talent (SMART) Grant (Federal).** Also established under HERA, this program provides up to \$4,000 for each of the third and fourth years of undergraduate study to eligible students beginning in the 2006-07 academic year. To be eligible for a SMART grant, a student must be: (1) a Pell Grant recipient; (2) enrolled full-time in a degree program; (3) majoring in a physical, life, or computer science, mathematics, technology, engineering, or in a foreign language determined to be critical to national security; and (4) have a cumulative grade point average of at least 3.0.

**5. Wisconsin Higher Education Grant (HEAB).** The WHEG program provides grants to resident undergraduate students enrolled at least half-time at UW and Technical College institutions, and tribal colleges located in Wisconsin. Eligible students may receive grants of \$250 to \$3,000 per year for no more than 10 consecutive semesters. All awards are based on financial need. A student's need is established using the Federal Methodology,

but WHEG award amounts are calculated by formulas approved by HEAB.

WHEG awards are currently funded under three separate appropriations, one each for UW students, WTCS students, and tribal college students. HEAB approves three separate formulas for the distribution of funds under the WHEG program, one for each sector. Current law requires the Board to award grants based on a formula that accounts for expected parental and student contributions and that is consistent with nationally approved needs analysis methodology.

In 2005-06, a total of \$57,188,866 was expended for WHEG grants to students in all three sectors. Of the total, 24,345 UW students received \$40,992,516 GPR, 24,211 WTCS students received \$15,792,630 GPR, and 305 tribal college students received \$403,720 PR. Table 6 shows WHEG program expenditures from 1996-97 through 2005-06.

A provision in 2001 Act 109 linked WHEG-UW funding increases to tuition increases at UW institutions. Effective July 1, 2003, the appropriation for WHEG-UW changed from a biennial sum certain to a capped sum sufficient appropriation. Act 109 specified that the appropriation amount in any year would be the prior year amount adjusted by the highest increase in undergraduate resident tuition in the UW system, rounded to the nearest \$100. However, if tuition were to decrease or remain unchanged, funding would remain at the prior year amount.

Under 2003 Act 33, the link was suspended during the 2003-05 biennium in order to accommodate a reduction in GPR funding for the WHEG-UW grant of \$1,093,700 GPR in 2003-04 and \$1,912,800 GPR in 2004-05. Supplemental funding was provided for the WHEG-UW grants through a program revenue (PR) appropriation funded by transfers from the UW System's auxiliary enterprises appropriation. Supplemental PR funding was \$6,453,700 in 2003-04 and \$15,032,800 in 2004-05. Under the provisions of 2005 Act 25, the PR fund-

**Table 6: Wisconsin Higher Education Grants\***

	UW System			Wisconsin Technical Colleges			
	Number of Students	Expenditures	Average Award	Number of Students	Expenditures	Average Award	Total
1996-97	19,205	\$15,871,482	\$826	15,927	\$10,618,597	\$667	\$26,490,079
1997-98	18,836	15,751,149	836	15,186	11,230,344	740	26,975,870
1998-99	18,379	17,470,802	951	15,561	11,795,124	758	29,265,926
1999-00	16,669	16,854,074	1,011	15,173	11,354,630	748	28,208,704
2000-01	17,943	20,641,159	1,150	18,892	13,879,602	735	34,520,761
2001-02	19,149	19,380,141	1,012	20,246	14,157,863	699	33,538,004
2002-03	20,505	22,213,203	1,083	20,112	14,369,851	714	36,583,054
2003-04	22,820	28,352,131	1,242	20,232	14,796,980	731	43,149,111
2004-05	26,108	33,713,710	1,291	23,497	14,628,703	623	48,342,413
2005-06	24,345	40,992,516	1,684	24,211	15,792,630	652	56,785,146

\*Excludes WHEG-Tribal Colleges.

ing used in the 2003-05 biennium was deleted and GPR funding was provided for the 2005-07 biennium. Act 25 also linked funding increases beginning in 2007-08 to the average increase in resident undergraduate tuition at all UW institutions, instead of to the greatest percentage change within the system.

**6. Tuition Grant (HEAB).** The tuition grant (TG) program provides need-based funds to resident undergraduates who attend private, nonprofit postsecondary institutions in Wisconsin.

Award amounts for TG recipients are determined using a statutory formula that relies in part on the amount by which the student's tuition exceeds UW-Madison tuition. Therefore, in the case of two applicants with the same expected family contribution, the applicant for whom this tuition differential is greater would be eligible to receive a larger award. Tuition grants are calculated by HEAB based on student need as established using the Federal Methodology. Separate formulas are used for dependent and independent students such that larger grants are provided to dependent students. Each year HEAB approves a formula for distribution of TG funds which is based the percentage of students expected to decline the awards (overawards). Overawards are limited by statute to 22% of the anticipated grants.

Students enrolled at least half-time are eligible for grants ranging from \$250 to \$2,900 per year for no more than 10 semesters. Prior to 2001 Act 16, the maximum award was statutorily set at \$2,300. Act 16 authorized HEAB to establish the maximum grant award if the Board determines that increasing the grant maximum would not decrease the total number of grant recipients receiving an award in the current year from the number who received an award in the previous year.

In 2005-06, a total of \$25,510,951 GPR was expended for tuition grants to 10,818 students. In that year, the average award was \$2,358. The private colleges with the largest number of TG recipients in 2005-06 were Marquette University (1,308), Alverno College (1,078), Carroll College (887), and Concordia University (755). Table 7 shows TG program funding from 1996-97 through 2005-06.

**7. Talent Incentive Grant Program (HEAB).** This program (known as "TIP") is intended to enhance educational opportunities and encourage attendance in postsecondary educational institutions. These grants are restricted to the most needy and educationally disadvantaged students selected by the staff of the Wisconsin Educational Opportunity Program (WEOP) in the Department of Public Instruction and institutional financial aid officers. TIP is supported by state general fund monies and

**Table 7: Tuition Grant Program**

	Number of Students	Expenditures	Average Award
1996-97	9,067	\$16,231,858	\$1,790
1997-98	9,788	17,462,100	1,784
1998-99	9,406	18,090,754	1,923
1999-00	9,306	17,412,235	1,871
2000-01	12,343	23,181,819	1,878
2001-02	11,089	21,141,847	1,907
2002-03	11,673	22,431,409	1,922
2003-04	10,392	21,738,985	2,092
2004-05	10,880	22,483,699	2,067
2005-06	10,818	25,510,951	2,358

federal funds through the Leveraging Educational Assistance Partnership (LEAP) Program, formerly called the State Student Incentive Grant (SSIG) program, and the federal Special Leveraging Educational Assistance Partnership (SLEAP) Program. These monies are distributed to states on a formula basis and can only be used to supplement financial aid programs that are not restricted to students attending a particular type of institution. LEAP funds must be matched on a dollar-for-dollar basis with state funds; for SLEAP funds, the required match is two state dollars for every one federal dollar. Total TIP expenditures in 2005-06 were \$6,093,876, of which \$4,503,800 was GPR funded.

Only students receiving TIP awards as freshmen are eligible to receive awards as upperclassmen; a student is eligible for a TIP award for no

more than 10 consecutive semesters. Freshmen TIP awards are made by financial aid officers and WEOP counselors and HEAB determines the awards for those who continue to enroll as upperclassmen. Unlike other financial aid programs, TIP funding is guaranteed, by statute, for continuing upperclassmen, thus obligating HEAB to four years of support once an initial award is made.

Students may be awarded both a maximum TIP award as well as a maximum WHEG or TG award. Freshmen may receive TIP awards of \$600 to \$1,800 while the maximum award for upperclassmen varies from year to year depending on the amount of federal funds received. In 2004-05, the maximum was \$1,400. Table 8 shows TIP expenditure levels for the UW System, WTCS, and private college sectors from 1996-97 through 2005-06.

### 8. Handicapped Student Grant (HEAB).

Under this program, Wisconsin residents who are enrolled as undergraduates at an in-state or eligible out-of-state public or private, nonprofit postsecondary institution and who have a hearing or visual impairment are eligible for financial assistance. The eligible out-of-state institutions include Rochester Institute of Technology (NY), Gallaudet College (DC), St. Paul Technical and Vocational Institute (MN), St. Mary's Junior College (MN), California State University-Northridge National Center on Deafness, and Northern Illinois University. All

**Table 8: Talent Incentive Grant Program\***

	UW System			Wisconsin Tech Colleges			Private Colleges		
	Number of Students	Expenditures	Average Award	Number of Students	Expenditures	Average Award	Number of Students	Expenditures	Average Award
1996-97	2,405	\$2,290,069	\$952	1,313	\$1,256,262	\$957	1,125	\$1,192,784	\$1,060
1997-98	2,160	2,362,929	1,094	1,127	1,047,305	929	1,032	1,150,927	1,115
1998-99	2,257	2,449,785	1,085	1,041	1,230,974	1,041	969	1,139,885	1,176
1999-00	2,130	2,254,554	1,058	1,075	1,147,670	1,068	901	1,042,297	1,157
2000-01	2,100	2,735,493	1,303	1,091	1,402,828	1,286	889	1,280,521	1,440
2001-02	2,188	2,756,147	1,260	1,119	1,344,032	1,201	901	1,239,707	1,376
2002-03	2,268	2,891,663	1,275	1,253	1,607,669	1,283	948	1,289,432	1,360
2003-04	2,199	2,839,034	1,291	1,180	1,497,729	1,269	982	1,324,902	1,349
2004-05	2,293	2,979,541	1,299	1,435	1,707,479	1,190	1,030	1,404,122	1,363
2005-06	2,244	2,896,636	1,291	1,492	1,723,192	1,155	993	1,342,824	1,352

\*Includes both state funds and federal state student incentive grant monies.

awards are based on financial need. Students are eligible for a maximum grant of \$1,800 a year for up to 10 semesters in addition any grants received under the WHEG or TG programs. Additional costs such as special equipment and materials are included along with expenses covered in the standard student budget. In 2005-06, 69 hearing impaired or visually impaired students received a total of \$115,975 under this program with awards averaging \$1,681. The largest group of award recipients (30) attended University of Wisconsin System institutions. Seven students attended out-of-state colleges, with five enrolled at Rochester Institute of Technology and two enrolled at Gallaudet University.

**9. Indian Student Assistance Grant (HEAB).** These funds are awarded to residents who are at least one-quarter Native American or are recognized as a member of a tribe by the appropriate tribal government. Full- and part-time graduate and undergraduate students who attend accredited institutions of higher education in the state are eligible for financial assistance. Grants are based on financial need and may be received for a total of five years. Funding for the program is from program revenues derived from the state's Indian gaming compacts. In 2005-06, 379 students enrolled at Wisconsin tribal colleges received grants totaling \$329,681. UW institutions enrolled 212 students who received \$200,750; Wisconsin Technical Colleges enrolled 234 students who received \$202,902; and there were 47 students enrolled in private institutions or proprietary schools who received \$40,784. Statewide, the average grant was \$888.

**10. Minority Undergraduate Retention Grant (HEAB).** Under this program, awards are made to resident minority undergraduates, excluding freshmen, enrolled at least half-time at the Wisconsin Technical Colleges, tribal colleges, or private, nonprofit postsecondary institutions in the state. By statute, a minority student is defined as a student who is African American, Native American, Hispanic, or from Cambodia, Laos, or Vietnam and admitted to the U.S. after December 31, 1975.

Awards are based on financial need with a maximum grant of \$2,500 a year for up to eight semesters. HEAB allocates half of all funds to the technical colleges and half to private institutions and tribal colleges.

In 2005-06, \$384,874 was awarded to 456 technical college students with an average award of \$844. A total of 292 students attending private colleges or tribal colleges received \$367,410 with an average award of \$1,258.

**11. Ben R. Lawton Minority Undergraduate Grant (UW System).** The Lawton Grant provides financial assistance to minority resident and Minnesota reciprocity undergraduate students who demonstrate financial need. Sophomores, juniors, and seniors, enrolled for at least six credits, are eligible for up to eight semesters of support and an annual maximum grant of \$2,500. Since freshmen are not eligible for Lawton grants, this is a retention, rather than a recruitment, program. Lawton grants are provided as "last dollar" grants, which means that they are awarded after all other aid for which a student is eligible has been determined. In 2005-06, 3,121 students received a total of \$5,237,391 averaging \$1,678 per grant. Under 2001 Act 109, annual funding increases for the Lawton appropriation were to be linked to the highest prior year increase for undergraduate resident tuition at any UW System institution starting in 2003-04, in the same way as the WHEG-UW program. However, 2003 Act 33 suspended the link until 2005-06. Under 2003 Act 33, base GPR support remained at \$3,080,800 annually, while supplemental funding of \$761,500 PR in 2003-04 and \$1,842,100 PR in 2004-05 was provided through a transfer of funding from the UW System's auxiliary enterprises appropriation. Under 2005 Act 25, the PR funding was deleted and GPR funding was provided for the 2005-07 biennium. Act 25 also linked funding increases to the average increase in resident undergraduate tuition at all UW institutions, instead of to the greatest percentage change within the system, beginning in 2007-08. Total funding for this



program is \$5,531,400 in 2006-07.

**12. Advanced Opportunity Program (UW System).** The AOP program provides grants to minority and economically disadvantaged graduate students enrolled at UW institutions. In 2003-04, the most recent year for which data are available, 83% of the grants were provided to minority students. Eligibility requirements vary by campus but are primarily based on financial need and/or academic performance. This is the only state-funded financial aid program that provides funds to nonresident students who are not covered by the Minnesota-Wisconsin Higher Education Reciprocity Agreement. While there are no statutory limits on the grant amount or number of eligible semesters, the program is funded through a sum certain appropriation. In 2005-06, 568 students received AOP awards totaling \$6,086,975; 349 residents received awards averaging \$9,095 and 219 nonresidents received awards averaging \$13,301. The UW treats AOP as a fellowship, rather than a grant program, thus making AOP recipients eligible for fringe benefits, such as health insurance. Because nonresident AOP recipients also receive tuition remissions, the value of these grants to nonresidents is considerably higher than the amount of the AOP award. AOP recipients are also eligible for assistantships. Under 2003 Act 33, base GPR support remained at \$4,905,900 annually, while supplemental funding of \$825,000 PR in 2003-04 and \$1,650,000 PR in 2004-05 was provided through a transfer of funding from the UW System's auxiliary enterprises appropriation. Under the provisions of 2005 Act 25, the PR funding used in the 2003-05 biennium was deleted and GPR funding was provided for the program in the 2005-07 biennium; total funding is \$7,090,800 in 2006-07.

**13. Bureau of Indian Affairs (BIA) Grant (Federal).** A grant available to students who are members of, or at least one-quarter descendants of a member of, a federally recognized tribe and who meet eligibility criteria established by the tribal affiliations. The appropriate tribal office selects

eligible students and determines the amount of each award. The student is eligible for a BIA grant for up to five years. In 2004-05, 1,158 students received BIA grants totaling \$4,658,685 with an average award of \$4,023.

**14. Veterans Tuition and Fee Reimbursement Grants (Veterans Affairs).** This program provides reimbursement, upon an eligible veteran's successful completion of a semester, of up to 100% of the cost of the individual's undergraduate tuition and fees, less any other grants, scholarships, or remissions received, based on the costs of a UW-Madison resident undergraduate. Under a separate program described later in this paper, the state provides a tuition remission for eligible veterans who attend UW System and Wisconsin Technical College System institutions. The veterans tuition and fee reimbursement grants apply to the unremitted portion of tuition and fees at those institutions. The veteran may enroll on a full-time or part-time basis at any UW institution, state technical college, approved private post-secondary institution, public or private high school, or similar institution that has a reciprocity agreement with Wisconsin. Part-time students may also be reimbursed for courses taken at out-of-state institutions if the institution is within 50 miles of the veteran's residence and the state boundary and if a correspondence course is not offered in this state.

Veterans are eligible for reimbursement based on their length of service. Veterans that were on active duty for at least 90 days may be reimbursed for up to 30 credits or two semesters; veterans with at least 181 days of active duty service are eligible for up to 60 credits or four semesters; and veterans with at least 731 days of active duty service are eligible for up to 120 credits or eight semesters.

Veterans are eligible for tuition and fee reimbursement for full-time study only for credits begun prior to their 10-year anniversary of their separation from active duty. Up to 60 credits of part-time study may be reimbursed with no time limits. Eligibility is restricted to veterans with

incomes of \$50,000 or less (plus \$1,000 for each dependent in excess of two). Veterans are not eligible for reimbursement if they are eligible for National Guard tuition reimbursement or if they have an undergraduate degree. For information on claiming reimbursement, see the Legislative Fiscal Bureau's "State Programs for Veterans" informational paper.

In 2005-06, 2,143 tuition and fee reimbursement grants were awarded, totaling \$4,534,400 SEG from the veterans trust fund and averaging \$2,116 each.

**15. National Guard Tuition Grants (Military Affairs).** Wisconsin National Guard members are eligible to receive reimbursement grants equal to 100% of the maximum resident undergraduate tuition rates charged by UW-Madison for a comparable number of credits. The grants may be received for up to eight semesters of full time study or 120 credits of part-time study. Eligibility is limited to enlisted members and warrant officers of the Wisconsin National Guard who do not hold a bachelor's degree or its equivalent. Reimbursement of tuition may be obtained by National Guard members who were enrolled at any accredited institution of higher education in Wisconsin or out-of-state institution that has a reciprocity agreement with this state, including certain institutions in Minnesota, Michigan, Illinois and Iowa. No National Guard member may receive reimbursement grant under this program in any semester in which the person also receives a grant under the veterans tuition and fee reimbursement grant program. In 2005-06, 2,596 grants were awarded, totaling \$3,714,800 GPR. Average fall and spring semester grants were \$1,471 and average summer session grants were \$896. Beginning in 2005-06, National Guard members that classify as veterans may be eligible for tuition remissions at University of Wisconsin System and Wisconsin Technical College System institutions.

### **Forgivable Loan Programs**

#### **1. Nursing Student Loan (HEAB).** In 2001

Act 16, a loan program for nursing students was created, beginning in 2002-03. These loans are provided to Wisconsin residents who are enrolled at least half-time at an eligible in-state institution that prepares them to be licensed as nurses, either RN or LPN. The maximum award per year is \$3,000 with an overall maximum of \$15,000. Students who participate in the program must agree to be employed as a licensed nurse in Wisconsin. For each of the first two years that individual is employed full-time as a nurse or nurse educator in Wisconsin and meets the eligibility criteria, 25% of the loan is forgiven. Forgiveness may be prorated for individuals working less than full-time. The balance remaining after forgiveness must be repaid at an interest rate not to exceed 5% annually. If the student does not practice nursing in Wisconsin or meet the eligibility criteria, the loan must be repaid at an interest rate not to exceed 5%. In 2005-06, 235 students received loans totaling \$407,122. More than half of the recipients (138) attended WTCS institutions, 61 attended an independent college or university, and 36 attended the UW System. In 2006-07, \$450,000 GPR is budgeted for the nursing student loan program.

**2. Minority Teacher Loan (HEAB).** This program provides loans, at 5% interest, of up to \$2,500 per year to a maximum of \$5,000, to resident minority undergraduate students who: (1) are enrolled at least half-time at a UW campus or private, nonprofit postsecondary institution in Wisconsin; (2) are registered as juniors or seniors, or hold a bachelor's degree and are registered as special students; (3) are enrolled in programs leading to teacher licensure and are not currently licensed; (4) meet academic criteria specified by HEAB; and (5) agree to teach in a school district located in the state in which minority students constitute at least 29% of total enrollment or in a school district participating in the interdistrict pupil transfer (Chapter 220) program. The loan principal and interest is forgiven at a rate of 25% for each year the recipient teaches in an eligible school district. If the student does not teach in an

eligible district, the loan must be repaid with the funds deposited in the general fund.

For 2005-06, a total of \$219,301 was expended for 97 students, averaging \$2,261 per student. Of these students, 78 were enrolled at UW institutions and 19 were enrolled at private colleges. UW-Milwaukee, with 59 students, had the most participants. Under the forgiveness component of the program, out of 1,162 borrowers, over 45% had loans either forgiven or paid in full. An additional 27% are either in forgiveness or repayment, approximately 8% are still enrolled at least half-time in school, and 13% withdrew from the program and refunded the money. The remaining 8% have deferred loan repayment, are in forbearance, or have defaulted; of those students, 64 have defaulted on their loans and eight are in forbearance. In 2006-07, \$262,100 GPR is budgeted for the minority teacher loan program.

**3. Teacher Education Loan Program (HEAB).** This program provides loans to Wisconsin residents enrolled in the teacher education programs at the Milwaukee Teacher Education Center (MTEC). Loan recipients must agree to teach in a first-class city school system under Chapter 119 of the statutes (currently, this includes only the Milwaukee Public Schools). For each year the student teaches in the eligible school district, 50% of the loan is forgiven. If the student does not teach in the eligible district, the loan must be repaid at an interest rate of 5%.

For 2005-06, a total of \$272,175 was expended for 96 students with an average award of \$2,835. Since it was implemented, 1,093 recipients have received loans. Of those recipients, 466 loans have been forgiven, 172 are currently in forgiveness, 198 withdrew from the program and refunded the loan, 125 have either paid in full or are in repayment, and 42 have defaulted. Ninety loan recipients are currently enrolled. For 2006-07, \$275,000 GPR is appropriated for this program.

**4. Loans for Teachers and Mobility Instructors of Visually Impaired Pupils (HEAB).** This program provides loans of up to \$10,000 per year to defray the cost of tuition, fees, and expenses for students enrolled in a degree-granting program that prepares them to be licensed as teachers of visually impaired pupils or as orientation and mobility instructors. A student may receive a maximum of \$40,000 in loans under the program. Loan recipients must be Wisconsin residents who are enrolled at least half-time at an accredited institution of higher education in Wisconsin, Minnesota, Iowa, Illinois, or Michigan. HEAB is required, to the extent possible, to give preference to persons who are likely to return to Wisconsin to work with visually impaired persons.

Once a recipient completes the degree program, their loans are forgiven if they are licensed and employed as a teacher of visually impaired pupils or as an orientation and mobility instructor by a Wisconsin school district, the Wisconsin Center for the Blind and Visually Impaired or a cooperative educational service agency. For loan recipients who are employed full-time, HEAB is required to forgive 25% of the principal and interest on the loan for each of the first and second fiscal years and 50% of the principal and interest amount for the third fiscal year. For persons who are employed less than full-time, HEAB may forgive loans on a prorated basis. For 2006-07, \$100,000 GPR is appropriated for the program.

For 2005-06, a total of \$100,000 was expended for 11 students, averaging \$9,091 per student. Of these students, two were enrolled at out-of-state institutions and nine were enrolled at in-state institutions.

**5. Physician and Dentist Loan Assistance Program (Department of Commerce).** Under this program, loans are repaid for physicians and dentists who agree to practice in an eligible practice area. Physicians and dentists may also participate in an expanded loan assistance program funded with federal and matching state funding if

they are a U.S. citizen and meet other requirements including: (1) agreeing to practice at a public or private nonprofit entity in a health professional or dental health shortage area as defined under federal law; (2) accepting Medicare assignment as payment in full for services or articles provided; and (3) using a sliding fee scale or a comparable method of determining payment arrangements for patients who are not eligible for Medicare or medical assistance and who are unable to pay the customary fee for the physician's services. The Department of Commerce may repay, on behalf of a physician or dentist, up to \$50,000 over a three-year period in educational loans obtained by the physician or dentist from a public or private lending institution for education in an accredited school of medicine or for postgraduate medical training. The loans are repaid according to the following schedule: (1) 40% of the principal up to \$20,000 in the first year; (2) 40% of the principal up to \$20,000 in the second year; and (3) 20% of the principal up to \$10,000 in the third year.

Through June, 2006, 152 physicians and two dentists had participated in the program. The physician and dentist loan assistance program is funded through the Department of Commerce's physician, dental, and health provider loans appropriation; funding for the appropriation is \$488,700 PR and \$200,000 FED in 2006-07.

**6. Health Care Provider Loan Assistance Program (Department of Commerce).** This program's purpose is to encourage primary care providers, including physician assistants, nurse-midwives, nurse practitioners, and dental hygienists to locate to areas of the state that are underserved by primary care providers or dental professionals according to a federal definition. The program also provides an expanded loan assistance program funded with federal and matching state monies. To be eligible for loan repayment under this program, the health care provider must be a U.S. citizen and not have a judgment lien against their property for a U.S. government debt. The health care provider must

also meet the following additional requirements: (1) practice at a public or private nonprofit entity in a health or dental health professional shortage area as defined under federal law; (2) agree to accept Medicare assignment as payment in full for services or articles provided; and (3) use a sliding scale or comparable method of determining payment arrangements for patients who are not eligible for Medicare or medical assistance and who are unable to pay the customary fee for the provider's services.

The Department of Commerce may repay, on behalf of health care providers, up to \$25,000 over a three-year period in loans obtained from a public or private lending institution for education related to the health care provider's field of practice. The loans are repaid according to the following schedule: (1) 40% of the principal up to \$10,000 in the first year; (2) 40% of the principal up to \$10,000 in the second year; and (3) 20% of the principal up to \$5,000 in the third year.

Through June, 2006, 46 health care providers had participated in the program. The health care provider loan assistance program is funded through the Department of Commerce's physician, dental, and health provider loans appropriation; funding for the appropriation is \$488,700 PR and \$200,000 FED in 2006-07.

## **Repayable Loan Programs**

**1. Perkins Loan (Federal).** This is a campus-based program that provides loans at 5% interest to assist undergraduate and graduate students with exceptional need pay for educational costs. Each participating educational institution is required to match federal funds with an amount equal to one-third of the federal contribution. Repaid loans become part of a revolving account from which new loans are made. With the exception of students enrolled in certain required teacher certification coursework, students do not have to be enrolled at least half-time to be eligible for Perkins loans. Awards are based on financial need,

the availability of funds and the amount of other aid a student receives.

The maximum amount that may be borrowed under the Perkins Loan program is \$4,000 annually for undergraduates, with a maximum total of \$20,000 for undergraduate study, and \$6,000 per year for graduate students, with a maximum total of \$40,000 including any amounts borrowed as an undergraduate. Interest does not accrue while the student is in school and repayment does not begin until nine months after one's studies are completed. Depending upon the size of the loan, students have up to ten years to repay. Up to 100% of a Perkins loan may be forgiven if, upon graduation, the borrower is employed as a qualifying teacher, nurse or medical technician, an employee of a qualifying child or family service agency, a qualified professional of early intervention services, a Head Start program staff member, or a qualifying law enforcement or corrections officer. In addition, borrowers in the Armed Forces may have up to 50% of their loans forgiven, 12.5% for each period of full-time active service in an area of hostility or imminent danger. Peace Corps and ACTION volunteers may also have up to 70% of their loans forgiven. In 2004-05, a total of \$37.1 million was provided to 16,913 resident students, with loans averaging \$2,196.

**2. Stafford Student Loan (Federal).** The SSL is a low-interest loan provided by a private-lender such as a bank, credit union, or savings and loan association to help finance educational costs. These loans are insured by a guarantee agency, such as the Great Lakes Higher Education Corporation (GLHEC) in Wisconsin, and reinsured by the federal government. Students who are enrolled at least half-time in an undergraduate or graduate program are eligible. If financial need is demonstrated, students may qualify for a subsidized loan. The federal government pays the interest on these subsidized loans while the student is in school or in deferment. Students who do not qualify for subsidized loans receive unsubsidized loans and must pay interest while in

school.

Under the subsidized loan program, dependent undergraduate students may borrow up to \$2,625 in the first-year, \$3,500 the second year, and \$5,500 in subsequent years, up to a maximum of \$23,000. Independent students may borrow up to \$6,625 in the first year, \$7,500 the second year, and \$10,500 in subsequent years, up to a maximum of \$46,000. However, these loans may be subsidized only up to the maximum amounts available for dependent students. Graduate and professional students may borrow up to \$18,500 each year up to a maximum of \$138,500. Of this amount, only \$8,500 annually may be in the form of subsidized loans.

Under the federal Higher Education Reconciliation Act (HERA) of 2005, maximum loan amounts will increase for some students beginning in 2007-08. Dependent students will then be able to borrow up to \$3,500 in the first year and \$4,500 in the second year; for independent students these amounts will increase to \$7,500 and \$8,500. There will be no change in the maximum loan amount in subsequent years or in the maximum total loan amount for either dependent or independent students. In addition, graduate and professional students will be able to borrow in \$20,500 in each year, however, neither the maximum total loan nor the subsidized amount will increase for these students.

Beginning on July 1, 2006, all new Stafford loans are subject to a fixed interest rate of 6.8%. Subsidized and unsubsidized Stafford loans effective prior to that date are subject to a two-tier variable interest rate structure capped at 8.25%. The interest rates for Stafford loan effective prior to July 1, 2006, are determined by a formula. That formula sets the interest rate for any Stafford loan first disbursed on or after July 1, 1998, at 1.7 points above the average, three-month Treasury bill rate for borrowers who are in school or grace and deferment periods. The interest rate for loans that are in forbearance or repayment is set at 2.3 points above the average, three-month Treasury bill rate. For the period July 1, 2004, through June 30, 2005, the in-

terest rate for loans in repayment is 7.14%. The loans also carry a loan origination fee of 2% as well as a loan guarantee fee of 1%. Loan repayments may be deferred up to three years in the event of economic hardship, and may be canceled in the event of the death or permanent disability of the borrower. The Stafford Student Loan program is the largest federal loan program in Wisconsin. In 2004-05, 84,512 Wisconsin undergraduates received Stafford Loans averaging \$3,021, for a total value of \$255.4 million.

**3. Parent Loans for Undergraduates (Federal).** This non-need based loan program is made by private lenders to parents of dependent students who are enrolled at least half-time. Like the Stafford Loan program, PLUS loans can only help finance educational costs and are provided by private lenders who are insured by GLHEC and reinsured by the federal government. The amount borrowed cannot exceed the difference between the student expense budget and all other financial aid. Beginning on July 1, 2006, all new PLUS loans are subject to a fixed rate of 8.5%. Loans effective prior to that date are subject to a variable interest rate based on the three-month Treasury bill and is adjusted annually with a cap of 9%. For 2006-07, the interest rate is 7.94%. The loans also carry a loan origination fee of 3% as well as a loan guarantee fee of up to 1%. Unlike the Stafford Student Loan, the federal government does not pay the interest while the student is in school. Borrowers may defer payments of the principal, and accrue interest, while in school or due to circumstances of economic hardship. If either the borrower or the child of the borrower dies, the loan may be forgiven.

**4. Federal Direct Student Loan (Federal).** This program consists of Federal Direct Stafford Loans (subsidized and unsubsidized) and Federal Direct PLUS loans. The difference between these loans and their counterparts previously described is that the U.S. Department of Education is the lender, rather than a bank or credit union, and delivers loan proceeds through the school. Direct Loans were first made for periods of enrollment

beginning on or after July 1, 1994. In 2006-07, three UW institutions (Eau Claire, Superior, and Whitewater), and four private colleges (Concordia University, Lawrence University, Marquette University, and Saint Norbert College) offer direct student loans.

**5. Consolidation Loan (Federal).** This program allows the borrower to replace Stafford, Perkins, and Federal Direct Student Loans with one loan having a lower payment than the total payments on the original loans. Parents may also be able to consolidate PLUS loans. Three payment options (fixed, graduated, and income-contingent) are available. Interest rates on consolidation loans are fixed and equal to the weighted average of the interest rates on the original loans, rounded up to the nearest 1/8%. By law, the interest rate cannot exceed 8.25% for student loans and 9.0% for PLUS loans.

**6. Personal Loan Program (Veterans Affairs).** Under the personal loan program, eligible veterans may receive a low-interest loan of up to \$25,000 for up to 10 years for a variety of purposes, including the education of a veteran, spouse, or child. The Department has established variable interest rates, depending on the securitization of the loan. In the third quarter of 2006, interest rates ranged from 6% for five-year loans secured by a mortgage to 10% for five-year loans secured by a guarantor. There were no loans issued for educational purposes in 2005-06.

### **Scholarship Programs and Institutional Aid**

Scholarship money may come from a variety of governmental and private sources. For example, the Byrd Scholarship is a federally-funded award given to selected high school graduates for their first year of college studies. In addition, students may receive a National Merit Scholarship or scholarships funded by local civic or religious groups. The academic excellence scholarship is the only current state-supported financial aid grant program that is not need-based.

**1. Academic Excellence Higher Education Scholarships (HEAB).** This program provides scholarships to selected 12th grade students who have the highest grade point average (GPA) in each public and private high school in the state. The number of scholarships for which each high school is eligible is based on total student enrollment. One scholarship is awarded to each high school with an enrollment of between 80 and 499 students. If a high school has an enrollment of 500 students or more, scholarships are awarded as follows: 500-999 students--two scholarships; 1,000-1,499--three scholarships; 1,500-1,999--four scholarships; 2,000-2,499--five scholarships; and over 2,500, six scholarships.

For those high schools with total enrollments of less than 80 students, no more than 10 scholarships, in aggregate, may be awarded. Under HEAB administrative rule, the 10 students with the highest GPAs are awarded scholarships. In the event of a tie, eligible students are ranked according to ACT or SAT scores. If a tie still remains, students are chosen based on the quality and content of letters submitted by the students indicating the reasons they feel qualified to receive the scholarship.

For those high schools with enrollments greater than 80 students, the faculty of each public or private high school is required to name the 12th grade student who has the highest GPA, as it is normally determined by that high school, as eligible to receive a scholarship. Except under certain circumstances, if two or more students in the same high school have the same GPA, the faculty is required to select the student to receive the scholarship and designate the other student as an alternate. HEAB administrative rules require each high school to have a written policy that describes tie-breaking procedures and criteria used to determine and rank scholars. If the student who is initially selected does not use the scholarship by September 30 following high school graduation, the scholarship is awarded to the alternate. In most cases, the alternate scholar must have the same GPA as the originally designated scholar or scholars. However, this

requirement does not apply to a high school that applies different weights to courses to determining each student's GPA. For these schools, if there is no other senior student with the same GPA as the originally designated scholar, the senior with the next highest grade point average is named the alternate scholar. In 2005-06, 156 alternates received scholarships.

In order to receive a scholarship, a student must be enrolled at a participating UW, Wisconsin Technical College, or private, nonprofit postsecondary institution in the state by September 30 of the academic year following the year in which the student graduated from high school. The student must enroll on a full-time basis. Scholars receive a maximum of \$2,250 per year. Half of the scholarship is funded by the state from a GPR sum sufficient appropriation, while the other half is matched by the institution. Tuition and fees in excess of \$2,250 are paid by the student. UW System institutions may use tuition remissions as part of the institutional match.

For each year the student is enrolled full-time, he or she must maintain at least a 3.0 cumulative grade point average and make satisfactory progress toward an associate or a bachelor's degree. Therefore, a student may lose, and then regain program eligibility as their cumulative grade point fluctuates. No student is eligible for a scholarship for more than four years at a UW or private, nonprofit postsecondary institution or for more than three years at a Wisconsin Technical College.

In 2005-06, a total of 2,916 academic scholars were enrolled in eligible schools: 790 freshmen, 724 sophomores, 702 juniors, and 700 seniors. The total value of the scholarships was \$6,294,048. The enrolled students represent approximately 83% of the 3,492 available scholarships. In 2006-07, of the 880 freshman scholarships available, 672 (76%) of the eligible recipients have indicated that they will enroll in Wisconsin institutions. Approximately 86 alternate scholarships were awarded, in part, as a result of eligible scholars enrolling in non-

Wisconsin institutions. Table 9 details Academic Excellence Scholarship recipients by campus for the past four years.

In 2005-06, \$3,147,024 GPR was expended by HEAB on these scholarships. In addition, the UW

**Table 9: Enrollment Data for Academic Scholars Attending Wisconsin Postsecondary Institutions**

	2002-03	2003-04	2004-05	2005-06
<b>UW System</b>				
Madison	1,469	1,517	1,568	1,537
Milwaukee	103	107	101	99
Eau Claire	144	148	132	148
Green Bay	60	67	57	51
La Crosse	130	150	154	162
Oshkosh	66	71	83	84
Parkside	18	23	23	23
Platteville	76	74	75	71
River Falls	54	49	52	56
Stevens Point	105	94	92	85
Stout	33	28	20	21
Superior	12	14	14	16
Whitewater	57	47	57	56
Colleges	<u>17</u>	<u>16</u>	<u>22</u>	<u>19</u>
Subtotal	2,344	2,405	2,450	2,428
<b>WI Technical Colleges</b>	24	22	32	26
<b>Independent Colleges</b>				
Alverno	8	3	4	5
Bellin	0	3	3	2
Beloit	13	12	9	11
Cardinal Stritch	7	5	4	6
Carroll	31	30	21	26
Carthage	8	10	14	13
Concordia	10	15	16	16
Edgewood	10	10	5	12
Lakeland	4	6	2	4
Lawrence	43	45	41	41
Maranatha	9	8	6	9
Marian	4	3	2	1
Marquette	155	150	155	158
Milw. Art & Design	0	1	2	2
Milw. Sch. of Engineering	47	43	35	29
Mount Mary	5	4	4	10
Northland	4	8	6	6
Ripon	29	30	25	29
St. Norbert	66	66	60	48
Viterbo	10	13	13	20
Wisc. Lutheran	<u>20</u>	<u>19</u>	<u>20</u>	<u>14</u>
Subtotal	483	484	447	462
<b>Total</b>	<b>2,851</b>	<b>2,911</b>	<b>2,929</b>	<b>2,916</b>

System provided approximately \$635,000 in funds and \$2.5 million in tuition remissions to fulfill the institutional match requirement.

**2. UW Institutional Financial Aid.** In 2005-06, UW students received approximately \$35.4 million from institutionally funded financial aid grant, loan and work programs through gifts and donations, trust funds, and the UW Alumni Research Foundation. The largest campus-based programs were at Madison (\$31.2 million), Oshkosh (\$836,500), and Milwaukee (\$768,300).

**3. Technical College Institutional Financial Aid.** Technical colleges offer institutional assistance to students through grants from technical college foundations and student employment. For 2004-05, technical colleges provided approximately \$1.3 million in institutional assistance to students. Of this aid, approximately \$103,500 was provided as need-based grants and \$1,185,400 was provided in the form of non-need-based employment, grants, scholarships and loans.

**4. Aid Provided by Independent Colleges and Universities for Resident Undergraduates.** For 2004-05, need-based financial aid provided by individual private colleges and universities in Wisconsin to resident undergraduate students totaled \$80.3 million, or approximately 39% of the total need-based aid provided to resident undergraduates attending independent colleges. This aid consisted of \$78.3 million in institutional grants, \$0.3 million in institutional loans, and \$1.7 million in institutional work-study. In addition, independent colleges provided \$44.3 million in non-need-based employment, grants, scholarships and loans in 2004-05.

### Special Programs

**1. Minnesota-Wisconsin Reciprocity Program.** This agreement allows Minnesota and Wisconsin residents to attend public postsecondary institutions in the adjacent state without having to pay nonresident tuition. Students participating un-



der the agreement pay a reciprocal fee that cannot exceed the higher of the two states' resident tuition rates. The agreement is negotiated and administered jointly by HEAB and the Minnesota Office of Higher Education (MOHE). While the agreement is not included in the Minnesota statutes, Wisconsin law specifies that the agreement is subject to the approval of the Joint Committee on Finance. In addition, HEAB and MOHE are required to jointly prepare an annual administrative memorandum that establishes the policies and procedures for implementation of the agreement, including a description of how the reciprocal fees will be calculated for the upcoming academic year. The administrative memorandum is subject to the approval of the Joint Committee on Finance under a 14-day passive review process. While the current agreement does not contain a specific expiration date, it may be modified at any time upon mutual agreement of both states. Additional details on this agreement are contained in the Legislative Fiscal Bureau's informational paper entitled, "Education and Income Tax Reciprocity Agreements."

**2. UW System Nonresident Tuition Remissions.** Current law permits the Board of Regents to remit the nonresident portion of tuition for a number of students including: (1) those on athletic scholarships; (2) needy and worthy students on the basis of merit; (3) students who are deserving of relief due to extraordinary circumstances; and (4) needy and worthy foreign students and U.S. citizens not currently residing in the U.S. The value of these remissions is limited to the value of such remissions in 1970-71 adjusted for tuition increases since 1976-77. The Regents also remit nonresident tuition for students enrolled under the tuition award programs (TAP) at the Superior and Parkside campuses.

In 2005-06, 3,259 students received these remissions, which amounted to \$21.8 million. About 53% of this amount was for needy and worthy students and students in extraordinary circumstances. Other nonresident recipients of remissions included athletes receiving scholarships

(14%) and foreign students (22%).

**3. UW System Tuition Remissions for Graduate Assistants.** UW-Madison and UW-Milwaukee provide full remission of resident and nonresident tuition for teaching assistants, program/project assistants, and research assistants, as part of the collective bargaining agreements for these groups. Remissions for graduate assistants on the comprehensive campuses are handled on a campus-by-campus basis. In 2005-06, most of these campuses provided remissions of nonresident tuition to qualifying graduate students but few remitted any portion of resident tuition and fees.

In 2005-06, a total of 10,799 graduate assistants and fellows received approximately \$99.1 million in remissions. Of these, 2,708 students were residents who received remissions totaling \$11.8 million. Of graduate students who received remissions under this provision, 87% were employed at UW-Madison while approximately 11% attended UW-Milwaukee.

**4. Tuition Remissions for Veterans.** Under 2005 Act 25, UW and WTCS institutions are required to grant a 50% remission of fees, including tuition and student segregated fees, less any amount paid under federal programs providing for the education of officers and disabled veterans, to students who are qualified veterans during the 2005-06 and 2006-07 academic years. Under 2005 Act 468, these remissions will increase to 100% of tuition and fees beginning in the 2007-08 academic year. Qualified veterans are eligible for this remission for up to 128 credits or 8 semesters, whichever is longer. To qualify as a veteran for this remission, a student must: (1) be verified by the Department of Veterans Affairs as a resident of this state for the purpose of receiving benefits; and (2) have been a resident of this state at the time of entry into the armed services. In addition, a student's military service must meet one or more of the following criterion: (1) service of at least one term under honorable conditions during a war period or in a crisis zone; (2) service on active duty

under honorable conditions for the full period of the initial service obligation; (3) service qualifying for certain service-related medals; (4) service ending in honorable discharge for a service-related disability or for reasons of hardship; or (5) service ending in release under honorable conditions due to a reduction in the armed forces. For students who qualify for this remission but do not qualify for resident tuition as determined by the UW System and WTCS, the nonresident portion of tuition is also remitted.

**5. Tuition Remissions for Children and Spouses of Eligible Veterans.** Under 2005 Act 25, UW and WTCS institutions are required to grant a full remission of fees, including tuition and academic fees, for 128 credits or 8 semesters, whichever is longer, to the spouse, unremarried surviving spouse, and children of eligible veterans. An eligible veteran is one who: (1) was a resident at the time of entry into the armed services; (2) served under honorable conditions; (3) either died on active duty, died on inactive duty for training purposes, died as the result of a service-related disability, or has been awarded at least a 30% service-related disability rating; and (4) was a resident of this state at the time of death or service-related disability. The spouse, in the case of disability, or the unremarried surviving spouse, in the case of death, of an eligible veteran is eligible for this remission during the first ten years after the receipt of the disability rating or the death of the eligible veteran. Children of eligible veterans may receive this remission as long as they are at least 18 years of age and not yet 26 years of age, regardless of when the eligible veteran died or received his or her disability rating.

**6. Tuition Remissions for Children and Spouses of Certain Protective Services Officers.** Current law requires UW and WTCS institutions to grant full remission of fees, including tuition and student segregated fees, to any resident student who is enrolled in a college parallel program or a program leading to a bachelor's degree, associate

degree, or vocational diploma and who is the child or surviving spouse of a correctional officer, fire fighter, law enforcement officer, ambulance driver, or emergency medical services technician who was killed in the line of duty in this state or died as the result of a qualifying disability. In order to be eligible to receive the remission, a child must have been under the age of 21 or not yet born when his or her parent was killed. In 2006-07, \$30,000 GPR is provided to the UW Board of Regents, and \$14,300 GPR is provided to the WTCS Board to cover the cost of the remissions.

**7. Tuition Remissions for Funeral Assistants.** Under 2005 Act 22, a funeral director may issue a tuition voucher in the amount of \$25 to a student who sounds "Taps" during a funeral for which military honors are held. To be eligible for this voucher, the student must be enrolled in grades 6 through 12 or at a post-secondary institution. These tuition vouchers may be used for the payment of tuition at any UW institution. In 2005-06, 13 students used vouchers totaling \$2,675.

**8. College Work-Study (Federal).** This is a campus-based program that provides part-time jobs for undergraduate and graduate students. Students may be employed by the institution, public or non-profit employers, and must be paid the federal minimum wage. In most cases, the employer must provide at least 25% of the student's salary with the remainder being paid by the federal work-study program. Individual institutions may require that employers pay a greater share of the student's salary; by reducing the percentage of the salary paid by the federal work-study program, the institution is able to increase its number of work-study participants. The award amount is based on financial need, availability of funds, and the amount of aid the student receives from other programs. Earnings from work-study jobs are not included in the student's income when reapplying for financial aid in subsequent years. In 2004-05, a total of \$18.2 million was provided to 13,147 students, averaging \$1,382.

**9. Wisconsin's Section 529 College Savings Program.** Prior to January, 2003, the EdVest Wisconsin Program consisted of two separate programs: (a) the college tuition and expenses program (also known as the tuition unit purchase program) that was created by 1995 Act 403 and was first available beginning July 1, 1997; and (b) the college savings program, which is an educational savings plan offering a range of investment options. These programs are collectively known as Wisconsin's Section 529 College Savings Program and are managed by the State Treasurer's Office.

*College Tuition and Expenses Program.* As permitted under the law, the State Treasurer elected, effective December 20, 2002, to terminate any future enrollments in the EdVest Program's original tuition unit option and to curtail the sale of any new tuition units to current account holders. Current tuition unit account holders may continue to hold their tuition unit investments until maturity or may convert their account to any of the investment options now offered under the college savings program described below. As of June 30, 2006, under this program there were a total of 1,161 accounts with total assets of \$7,110,458.

*College Savings Program.* This program was initially established by 1999 Act 44 and subsequently further modified by 2001 Act 7. Popularly known as "EdVest," it is a qualified state tuition program under section 529 of the U.S. Internal Revenue Code and is designed as a savings vehicle for higher education expenses. It is administered by the Office of the State Treasurer under the authority of the College Savings Program Board. The Board is composed of 11 members (the State Treasurer, the President of the University of Wisconsin Board of Regents, the President of the Wisconsin Association of Independent Colleges and Universities, the President of the Wisconsin Technical College System, the Chair of the State Investment Board and six public members appointed by the Governor to four year terms). Day-to-day management of the program is contracted to Wells Fargo Funds Management, LLC, which is responsible for the program's investment

management, marketing activities, account administration, and record-keeping. In addition, a somewhat different version of the program, called Tomorrow's Scholar college savings plan, is also offered by Wells Fargo.

Under either of the programs, any person aged 18 or over may open an account and the beneficiary of an account may be anyone, even the account owner. There may be only one beneficiary per account, but a person may open any number of accounts. There is no state residency requirement or income limitation on the person opening the account. A minimum initial investment of \$250 is required unless an automatic investment plan is selected. There is no limit on the maximum annual contribution except that the maximum amount that may be contributed to an account is \$246,000. The beneficiary of an account may use the proceeds of the account at any eligible post-secondary school in this country or elsewhere. The money may be used for a wide-range of educational expenses such as tuition and other fees, room and board, and educational supplies.

The investment options under the two programs vary somewhat. There are currently 10 different portfolio options under the EdVest college savings program: Vanguard Stock Index Portfolio; Vanguard Balanced Portfolio; Legg Mason Aggressive Portfolio; Wells Fargo Aggressive Portfolio; Wells Fargo Moderate Portfolio; Wells Fargo Balanced Portfolio; Wells Fargo Bond Portfolio; Baird Bond Portfolio; Wells Fargo Stable Value Portfolio; and the Wisconsin Select Portfolio.

There are also three age-based options where the contributions in the account are periodically shifted to more conservative fund portfolios based on the number of years remaining before the account beneficiary will be enrolled in a higher educational institution. Investors can choose among an aggressive, moderate, or conservative growth track. These portfolio offerings are all currently invested in various Wells Fargo Funds.

Under the Tomorrow's Scholar college savings plan, there are currently 10 investment options. There are seven different portfolio options: aggressive, growth, moderate growth, balanced, conservative, income, and stable value. There are also three different age-based (years to enrollment) options (which blend various equity percentage portfolios, based on the number of years to college for the beneficiary), under an aggressive, moderate, or conservative growth approach. In this program, each portfolio is aimed at meeting its objectives by investing primarily in a variety of mutual funds offered by Wells Fargo, RiverSource, ING, Columbia, and Harbor.

Under either of the two programs, only one investment option per account may be selected. However, a different investment option for an account may be selected once during any 12-month period.

Under current law, Wisconsin residents who make a contribution to an EdVest college savings program account (including the Tomorrow's Scholar program) that they have established for their dependent child or for their grandchild, great grandchild, niece or nephew, may claim a Wisconsin state income tax deduction of up to \$3,000 annually per beneficiary for such contributions. Investment earnings and distributions from an account established through a qualified tuition program, including such programs sponsored by EdVest, by other states, and, effective with tax year 2004, by private institutions, are exempt from both federal and Wisconsin income taxes if the withdrawals are used for qualified higher education expenses.

Under the EdVest college savings program, there is a \$20 per year account maintenance fee (which is waived for Wisconsin residents or if an automatic deduction plan has been elected or the account balance is above \$25,000). In addition, there is an annual assessment fee levied, based on percentage amounts that vary based on the fund or funds

selected and levied against the total assets in the account invested in the respective investment option. Table 10 shows the composition and total amount of the assessment fee for each of the available portfolios under this program.

**Table 10: College Savings Program Summary of EdVest Portfolio Expenses Assessed as % of Account Assets**

	<u>Administrative Fee</u>		<u>Underlying</u>	<u>Expense</u> Total
	State*	Account Manager	Fund Expense	
Baird Bond	0.00%	0.30%	0.30%	0.60
Legg Mason Aggressive	0.00	0.30	0.73	1.03
Wells Fargo Aggressive	0.00	0.15	0.95	1.10
Wells Fargo Moderate	0.00	0.12	0.83	0.95
Wells Fargo Balanced	0.00	0.18	0.72	0.90
Wells Fargo Bond	0.00	0.19	0.46	0.65
Wells Fargo Stable Value	0.00	0.20	0.50	0.70
Wisconsin Select	0.00	0.26	0.85	1.11
Vanguard Balanced	0.00	0.30	0.16	0.46
Vanguard Stock Index	0.00	0.30	0.05	0.35

\*The College Savings Program Board has voluntarily waived the entire Board Fee of 0.10% (0.05% for the Wells Fargo Stable Value Portfolio). The State Administration Fees shown include these waivers. Voluntary waivers may be modified or terminated at any time.

Under the Tomorrow's Scholar program, there is a \$20 per year account maintenance fee (which is waived if an automatic deduction plan has been elected or the account balance is above \$25,000). In addition, there is an annual assessment fee levied, based on percentage amounts that vary based on the fund or funds selected and levied against the total assets in the account invested in the respective investment option. Since all Tomorrow's Scholar accounts are opened through a financial advisor, there is also a commission sales charge or other fee to compensate the advisor for his or her services. Table 11 shows the composition and total amount of the assessment fee for each of the available portfolios through the Tomorrow's Scholar program as of January 1, 2007. The table does not reflect the additional sales charges and fees required to be paid to the financial advisor.

**Table 11: Tomorrow's Scholar Program Summary of Portfolio Expenses Assessed as % of Account Assets**

Fixed Portfolio	Administrative Fee		Underlying Fund Expense	Portfolio Expense Total
	State	Account Manager		
Aggressive	0.10%	0.20%	0.94%	1.24%
Growth	0.10	0.20	0.85	1.15
Moderate Growth	0.10	0.20	0.79	1.09
Balanced	0.10	0.20	0.74	1.04
Conservative	0.10	0.20	0.65	0.95
Income	0.10	0.20	0.58	0.88
Stable Value	0.05	0.20	0.50	0.75

Note: The portfolio expenses listed above do not include sales charges and fees required to be paid to financial advisors who sell the fund shares.

As of June 30, 2006, there were a total of 121,779 accounts open in the EdVest program with total assets of \$893.7 million and a total of 92,786 accounts open in the Tomorrow's Scholar program with total assets of \$819.2 million. Ninety-three percent of the EdVest accounts were owned by Wisconsin residents and/or were for beneficiaries who were Wisconsin residents. Eight percent of the Tomorrow's Scholar program accounts were owned by Wisconsin residents and/or were for beneficiaries who were Wisconsin residents.

**10. Wisconsin Educational Opportunity Programs (Public Instruction).** The Department of Public Instruction administers five statewide programs and one federal program whose primary goal is to assist minority and economically disadvantaged middle school and high school students in pursuing postsecondary educational opportunities. Currently, students in all school districts are counseled through seven district offices located in Ashland, Eau Claire, Green Bay, Madison, Milwaukee, Racine, and Wausau. A total of 35.6 full-time equivalent positions, including 13.0 GPR positions, are currently authorized for Wisconsin Educational Opportunity Programs. In 2005-06, \$1,077,600 GPR was expended to operate the district offices. One of the five programs, the talent incentive program, was discussed earlier in this paper. The other four programs are:

*Talent Search Program.* Counselors assist high school students and adults in defining educational

goals, applying and enrolling in postsecondary institutions and obtaining financial aid. WEOP staff members also work with institutions, schools, community organizations, and churches by giving presentations and acting as a resource for materials and information. In 2005-06, a total of \$267,100 supported WEOP activities, including 4,247 individual counseling sessions with students, provided under the program.

*Early Identification Program.* WEOP annually identifies and recruits economically disadvantaged eighth-grade students to participate in this program which provides early intervention services to students in order to reduce attrition at the secondary and postsecondary levels. Program staff work with eighth- through twelfth-grade students, their parents, and schools to address the problem of low matriculation through long-term counseling and career goal assessment. Students remain in the program throughout high school and into college. Of the 542 students in the program in 2005-06, 96 were seniors. Of these seniors, 76 enrolled at postsecondary institutions. Each year, many of these students are selected to receive TIP grants.

*Minority Precollege Scholarship Program.* This program provides grants to minority middle school and high school students to cover full student costs of precollege programs, including courses, books, supplies, and room and board, if necessary. In an agreement with the federal government, the Department of Public Instruction in-

icated that the program will be open to all low-income pupils in the future. Precollege programs which emphasize academic skills development, career guidance, curriculum enrichment, and financial aid information are offered to eligible students through UW campuses, Technical Colleges, and private colleges. The student must first be admitted to a precollege program to qualify for a scholarship. In 2005-06, approximately 2,900 middle and high school students received a total of \$2,153,900 to fund their participation in precollege programs statewide. All 425 school districts are eligible to participate in the program.

*Gear Up Program.* Since 1995-96, WEOP has administered this federal program. In 2005-06, 140 low-income students received a total of \$204,700 in college and precollege scholarships under the program. An additional \$1,655,800 was expended to support activities, such as college visitations and parental involvement programs, serving approximately 3,000 pupils in 11 school districts.

## **Tax Incentives**

**1. Higher Education Tax Deduction (State).** Since tax year 1998, state law has allowed a deduction from income for tuition expenses. The deduction applies to tuition paid on behalf of the taxpayer or the taxpayer's dependent. Allowable tuition expenses include tuition paid to attend any university, college, technical college, or a school approved by the Education Approval Board that is located in Wisconsin or a public vocational school or public institution of higher education in Minnesota under the Minnesota-Wisconsin tuition reciprocity agreement.

For tax years prior to 2005, the maximum tuition deduction was \$3,000 per eligible student. Under 2005 Act 25, effective for taxable years beginning on or after January 1, 2005, the maximum deduction was increased to twice the average amount charged by the Board of Regents of the University of Wisconsin System at four-year institutions for resident undergraduate academic

fees for the most recent fall semester. The maximum deduction was \$4,244 for tax year 2005, and is \$4,536 for 2006.

The maximum deduction is phased out in specified ranges of federal adjusted gross income (AGI) that vary with filing status. The phase-out ranges are as follows: (a) \$50,000 to \$60,000 for single and head-of-household filers; (b) \$80,000 to \$100,000 for married couples filing joint returns; and (c) \$40,000 to \$50,000 for married couples filing separate returns.

**2. Higher Education Tax Deduction (Federal).** Federal law provides a deduction for up to \$4,000 of qualified higher education expenses. The maximum deduction is phased out for federal adjusted gross income between \$65,000 and \$80,000 (\$130,000 to \$160,000 for married couples filing joint returns). The federal deduction first applied for tax year 2002, when the maximum deduction was \$3,000. The deduction was increased to \$4,000 starting in 2004, and is set to expire at the end of tax year 2007.

**3. HOPE Scholarship Tax Credit (Federal).** Hope credits are available to individuals who pay qualified tuition and related expenses of higher education for either themselves or a dependent. Degree-seeking students who are enrolled at least half-time and are in one of the first two years of college are eligible for a tax credit of up to 100% of the first \$1,000 and 50% of the second \$1,000 in tuition expenses. Eligible expenses include tuition and required fees less any grants, scholarships or other tax-free financial assistance. For tax year 2006, the credit is gradually phased out for taxpayers with taxable incomes between \$45,000 and \$55,000 for single filers and between \$90,000 and \$110,000 for joint filers. The maximum credit amounts and income limits are indexed for inflation.

**4. Lifetime Learning Tax Credit (Federal).** Tax filers may claim a lifetime learning tax credit if they pay qualified tuition and related expenses of higher education for an eligible student, either

themselves, a spouse, or a dependent, that is claimed as an exemption. Students beyond the first two years of college or those enrolled less than half-time are eligible for a 20% tax credit on the first \$10,000 in expenses. Eligible expenses include tuition and required fees less any grants, scholarships, or other tax-free financial assistance. In 2006, credit phased out for taxpayers with taxable incomes between \$45,000 and \$55,000 for single filers, and between \$90,000 and \$110,000 for joint filers.

**5. Coverdell Education Savings Accounts (State and Federal).** Married taxpayers filing joint tax returns and individual filers (including the beneficiary) may contribute up to \$2,000 per designated beneficiary per year to a Coverdell Education Savings Account (CESA, formerly called an Education IRA). There are no relationship requirements between the contributor and the beneficiary. While contributions are not deductible from income, interest earnings are tax exempt and withdrawals are excluded from the beneficiary's income if used for eligible education expenses. Under coordination rules with other tax deductions and credits for education, qualified expenses for purposes of a CESA are reduced to reflect other education tax benefits taken.

The ability of an individual to make a contribution to a CESA is gradually phased out for contributors with taxable income between \$95,000 and \$110,000 (between \$190,000 and \$220,000 for joint filers). Starting with tax year 2002, funds from a CESA may be used to pay for qualified elementary and secondary education expenses in addition to qualified higher education expenses.

**6. IRA Withdrawals (Federal).** Early (before age 59½) withdrawals from a traditional IRA are not subject to the 10% tax penalty provided the distributions are used for postsecondary education expenses of the taxpayer, or the taxpayer's spouse, child or grandchild.

**7. Student Loan Interest Deduction (State and Federal).** An individual may deduct up to \$2,500 annually for interest paid on student loans during the life of the loan. The deduction is phased out for single filers with taxable income between \$50,000 and \$65,000 and for joint filers with taxable income between \$100,000 and \$130,000.

**8. Employer-Provided Education Benefits (State and Federal).** Taxpayers may exclude from their taxable income up to \$5,250 in educational assistance benefits received from their employer. Eligible benefits include payments for tuition, fees, books, supplies, and equipment. Courses do not have to be related to the business of the employer.

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### Financial Aid Package

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After a student applies for financial aid, the college attempts to meet as much of a student's need as possible by the offer of a financial aid package. Institutional financial aid officers are responsible for packaging a student's financial aid based on the needs analysis. Packaging is the selection of various types and amounts of aid which enable a student to pay for educational costs. Some elements of a financial aid package are automatically included such as Pell Grants, which are determined at the time the parental contribution is determined by the federal processor, and WHEG and tuition grants which have been calculated by HEAB. On the other hand, programs such as Supplemental Educational Opportunity Grants, college work-study, Perkins Loans, and institutional grants are controlled and distributed by an institution's financial aid office. However, the amount of these awards is dependent upon the amount of Pell Grant, WHEG or TG funds awarded. Federal law allows greater latitude to aid officers in making changes to student contribution levels that may affect award amounts.

The financial aid package represents an attempt to rationalize and simplify the distribution of monies to students. The package is also developed in a hierarchy. For example, grants and scholarships are more desirable than loans and are, therefore, applied first to reduce a student's need. One exception to this rule is state grant programs for minority/disadvantaged students. These are added last to the financial aid package, replacing federal loan aid with state grant aid. For 2004-05, grant funds accounted for 50.3% of need-based financial aid, with loans at 45.0%, and work-study at 3.1%. This ratio varies by the type of institution attended: grants account for 64.3% of the aid at independent colleges (where costs, and consequently need, are the highest), 59.9% at technical colleges, and 36.7% at UW campuses.

This package is not the final step in the aid process, however, since the financial aid office does not control the distribution of guaranteed student loans from private lenders, although they do calculate a maximum loan. Finally, a student is under no obligation to accept the entire package. For example, a student could accept the grant and

work-study aid but refuse the loans. Students must be registered for classes before aid can be issued to them at the beginning of a semester. They are also required to pay their tuition and fees with the proceeds of the aid before the remaining aid is given to them.

Table 12 compares the average cost, need, and need-based aid over the most recent five-year period for which information is available by type of institution. While the average cost of attending a UW institution is only 26% greater than the cost of attending a Technical College, on average UW students receive approximately 72% more aid. As a result, the unmet need of a technical college student is approximately 55% higher than that of a student attending a UW institution. Some of the differences may be explained by the types of student attending technical colleges; for example, more students are part-time and independent, which affects their eligibility for certain federal aid programs. In addition, both private colleges and the UW System have more institutional and private aid available to students.

**Table 12: Financial Aid Data by Institution Type: Resident Undergraduates**

	No. of Recipients	Avg. Cost	Avg. Contribution	Avg. Need	Avg. Aid	Unmet Need
<b>UW System</b>						
2000-01	43,024	\$9,865	\$3,344	\$6,521	\$4,853	25.6%
2001-02	44,404	10,324	3,541	6,783	5,031	25.8
2002-03	46,601	10,911	3,670	7,241	5,290	26.9
2003-04	49,630	11,594	3,809	7,785	5,610	27.9
2004-05	52,449	12,724	4,137	8,588	6,026	29.8
<b>Technical Colleges</b>						
2000-01	26,883	\$9,155	\$2,830	\$6,325	\$3,139	50.4%
2001-02	29,049	9,698	2,772	6,926	3,306	52.3
2002-03	32,753	9,403	2,631	6,773	3,393	49.9
2003-04	34,190	9,954	2,513	7,440	3,514	52.8
2004-05	35,544	10,119	2,630	7,490	3,512	53.1
<b>Private Colleges</b>						
2000-01	18,703	\$18,910	\$7,232	\$11,678	\$8,068	30.9%
2001-02	18,679	20,024	7,982	12,042	8,902	26.1
2002-03	19,900	21,553	7,674	13,880	9,232	33.5
2003-04	21,187	22,361	7,653	14,707	9,291	36.8
2004-05	21,419	23,348	8,125	15,223	9,662	36.5



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## Interstate Comparisons

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The appendix to this paper shows the relative importance of need-based and total financial aid in state higher education budgets for 2004-05. Wisconsin is lower than the national averages in need-based grants per full-time undergraduate student (\$410), total aid (\$562), the percent of students receiving aid (29.6%), and aid as a percentage of state general funds for higher education (11.0%). Nonetheless, Wisconsin ranks in the top fifteen of all states in need-based grant per full-time undergraduate student and near the median in the other three areas. Wisconsin's ranking in terms of percent of students receiving aid and aid as percentage of state funds for general education fell between 2000-01 and 2002-03. Since that time, Wisconsin's ranking on all four measures has been relatively stable.

Different financial aid programs accommodate a range of policy objectives. Need-based grant programs are generally used to help equalize participation in higher education across income levels. Merit based aid, such as the academic excellence scholarship program in Wisconsin, encourage better high school performance. Loans, primarily offered by the federal government, help students and families bridge the financial gap to future earnings. Finally, categorical aid, such as nursing or health professional grants, target specific professions or student populations for grants or loans.

Funding for student financial aid among the states is an accumulation of both financial aid and tuition policy decisions. Some states, particularly in the South and Mountain West, have been "low aid-low tuition" states, while Wisconsin and other Midwestern states have followed a medium tuition-medium aid policy, and Northeastern states had a high tuition-high aid policy. Table 13 shows flagship public university tuition in Midwestern states for 2004-05, the estimated state-funded need-based grants funds available to students, and the grants as a percent of tuition. Illinois, Indiana, Minnesota, and Iowa all surpass Wisconsin by providing need-based grants that, as a percent of tuition, are greater than the 6.2% provided by Wisconsin.

**Table 13: Tuition at Flagship Universities and Estimated Need-Based State Undergraduate Grant Dollars per Undergraduate Enrollment (2004-05)**

	Resident Undergraduate Tuition-Fees	Estimated Grant Dollars per FTE*	Grants as % of Tuition
Indiana	\$6,750	\$686	10.2%
Illinois	7,944	751	9.5
Minnesota	8,037	595	7.4
Ohio	7,542	554	7.3
Iowa	5,396	335	6.2
Wisconsin	5,862	363	6.2
Michigan	8,722	496	5.7

\*Grant dollars per FTE data from National Association of State Student Grant and Aid Programs.



## APPENDIX

### 2004-05 State Grant Dollars to Undergraduate Students by State

	<u>Grants Per Full-Time Student</u>		% of Students Receiving Aid	Aid as % of State Higher Ed. Funds
	Need-Based Aid	Total Aid		
New York	\$1,327	\$1,356	39.4	22.5%
New Jersey	843	957	36.0	13.2
Pennsylvania	790	740	38.8	18.2
Illinois	691	751	32.9	13.8
Indiana	641	686	26.3	19.5
Minnesota	595	595	45.5	10.3
Tennessee	586	621	28.3	12.2
Washington	581	625	30.3	10.6
Vermont	568	571	42.6	21.4
California	499	499	12.2	8.2
Kentucky	458	972	64.1	14.3
Texas	417	417	26.3	7.5
Ohio	370	554	42.1	11.4
<b>Wisconsin</b>	<b>349</b>	<b>363</b>	<b>27.8</b>	<b>7.5</b>
Iowa	332	335	13.8	6.9
West Virginia	330	759	39.4	19.2
North Carolina	329	486	27.9	6.8
Connecticut	321	324	13.9	4.7
South Carolina	309	1,636	59.4	33.7
Massachusetts	305	305	30.6	8.7
Virginia	298	445	29.6	9.3
Maine	284	284	30.0	5.3
Maryland	282	304	21.0	5.7
Delaware	258	347	10.5	6.2
Oklahoma	242	309	49.0	6.2
Colorado	232	300	17.9	10.5
Rhode Island	232	232	19.3	8.0
Michigan	231	496	38.7	10.3
New Mexico	179	724	47.7	8.7
Oregon	176	177	22.3	4.0
Arkansas	170	176	13.2	3.1
Florida	163	636	40.0	11.9
Nevada	159	645	44.2	7.9
Kansas	117	124	7.3	2.2
Missouri	110	258	16.0	7.5
Nebraska	106	106	49.2	1.6
Montana	82	82	12.4	2.0
New Hampshire	76	76	9.2	3.2
District of Columbia	69	780	9.1	N.A.
Utah	50	50	16.4	1.3
North Dakota	49	62	7.0	0.9
Mississippi	19	193	24.4	2.7
Idaho	17	98	17.7	1.7
Arizona	10	10	1.1	0.3
Hawaii	10	10	11.5	0.1
Louisiana	8	640	21.6	9.5
Wyoming	7	7	1.5	0.1
Alabama	7	17	5.2	0.4
Georgia	5	1,485	79.6	23.8
Alaska	N.A.	N.A.	59.5	N.A.
South Dakota	N.A.	N.A.	N.A.	N.A.
U.S. Average	\$410	\$562	29.6%	11.0%

Source: National Association of Student Grant and Aid Programs 36th Annual Survey Report.