



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #365

### Reestimate Wisconsin Covenant Scholars Grants (Higher Educational Aids Board)

[LFB 2013-15 Budget Summary: Page 260, #2]

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#### CURRENT LAW

Students who signed the Wisconsin Covenant pledge as eighth graders and successfully complete the pledge as high school seniors are eligible to receive Wisconsin Covenant Scholars grants while enrolled in UW institutions, technical colleges, private nonprofit colleges and universities, and tribal colleges located in this state. The first class of Wisconsin Covenant Scholars enrolled in postsecondary education and received Wisconsin Covenant Scholars grants during the 2011-12 academic year. Grants range from \$125 to \$1,500 during the first two years of enrollment and are based on the student's financial need and enrollment status. Grants to third and fourth year students will be based on a formula approved by the HEAB Board. Base level funding for the Wisconsin Covenant Scholars grant program is \$7,990,000.

Under 2011 Act 32, no student may sign the Wisconsin Covenant Scholars pledge after September 30, 2011. The last class of Wisconsin Covenant Scholars will enroll in higher education in fall, 2015, and the last Wisconsin Covenant Scholars grants will be awarded to those students during the 2019-20 academic year.

#### GOVERNOR

Provide \$4,060,000 in 2013-14 and \$8,120,000 in 2014-15 for the Wisconsin Covenant Scholars grant program. Total program funding would be \$12,050,000 in 2013-14 and \$16,110,000 in 2014-15.

## DISCUSSION POINTS

1. The first class of Wisconsin Covenant Scholars enrolled in postsecondary education and received Wisconsin Covenant Scholars grants during the 2011-12 academic year. In that year, Wisconsin Covenant Scholars grants totaling \$3,650,800 were awarded to 5,093 students. This represented 28.5% of all students who signed the Wisconsin Covenant Scholar pledge as eighth graders in 2007. The amount of the Wisconsin Covenant Scholars grant a student receives is based on his or her financial need as measured by expected family contribution (EFC). A student's EFC is calculated by the federal Department of Education using information provided by the student and his or her family on the Free Application for Federal Student Aid (FAFSA). In calculating EFC, the Department of Education 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 situations. The student's own earnings and savings are also considered. Students with the greatest financial need generally have EFCs of \$0. Table 1 shows the maximum grant, the number of students who received grants, and the total amount of those grants in 2011-12 by expected family contribution (EFC). The Wisconsin Covenant Foundation, a nonprofit corporation, provided additional grants totaling \$763,200 to 535 students with EFCs of \$0 in that year.

**TABLE 1**

### **Wisconsin Covenant Scholars Grant by Student EFC, 2011-12**

	<u>Maximum Grant Amount</u>	<u>Scholars</u>	<u>Total Awards</u>
\$0 EFC	\$1,000*	544	\$510,452
Between \$0 and \$3,500	1,500	785	1,100,655
Between \$3,500 and \$12,000	1,000	1,634	1,526,703
Greater than \$12,000	250	<u>2,130</u>	<u>512,949</u>
		5,093	\$3,650,759

\*Eligible for additional privately funded grant from the Wisconsin Covenant Foundation.

2. During the 2012-13 academic year, a second class of Wisconsin Covenant Scholars enrolled in Wisconsin colleges and universities. Based on appropriation expenditures through April 30, 2013, and additional information provided by HEAB, it is estimated that Wisconsin Covenant Scholars grants to both first and second year students will total \$6,600,000 in 2012-13. The amount appropriated for the Wisconsin Covenant Scholars grant program in the current year is \$7,990,000. The difference between that amount and the actual program expenditures, currently estimated to be \$1,390,000, will lapse to the general fund at the end of the fiscal year.

3. A third class of Wisconsin Covenant Scholars will enroll in Wisconsin colleges and universities during the 2013-14 academic year and a fourth class will enroll during the 2014-15 academic year. Based on actual expenditures in 2011-12 and 2012-13, preliminary data on

Wisconsin covenant scholars in the class of 2014, and current award amounts, it is estimated that the cost of the program will increase by \$2,630,000 in 2013-14 and an additional \$2,940,000 in 2014-15. This is the net of an increase in costs due to the new scholars and a decrease in costs due to continuing students losing eligibility or receiving smaller awards. Continuing students may lose eligibility if they dropout, fail to meet acceptable academic standards, or do not fill out the FAFSA each year and may receive smaller awards if they enroll part-time or if their EFCs increase. Total program expenditures are estimated to be \$9,230,000 in 2013-14 and \$12,170,000 in 2014-15. These estimates assume that maximum grant amounts for third and fourth year students will be the same as for first and second year students (shown in Table 1).

4. The Governor's budget assumes that the full amount appropriated for the Wisconsin Covenant Scholars grant program will be expended in 2012-13 and that each additional class of Wisconsin Covenant Scholars will increase program costs by \$4,060,000. Based on these assumptions, the Governor's budget recommendations would provide total funding of \$12,050,000 in 2013-14 and \$16,110,000 in 2014-15. Using this office's estimates that expenditures in 2012-13 will be less than budgeted and will increase by smaller amounts from this lower starting point, the Committee could reduce funding in the bill for the Wisconsin Covenant Scholars grant program by \$2,820,000 in 2013-14 and by \$3,940,000 in 2014-15.

5. The amount of Wisconsin Covenant Scholars grants for students in their first and second years of enrollment are set by administrative rule. Grants for students in their third and fourth of enrollment will be determined using a formula approved by the HEAB Board. The first class of Wisconsin Covenant Scholars will enter their third year of postsecondary education in 2013-14. It is anticipated that the HEAB Board will approve a formula for determining grants for those students at its meeting in August of this year. If more funding is provided than would be required to provide grants to all Wisconsin Covenant Scholars at current grant levels (shown in Table 1), the HEAB Board could provide larger awards to third and fourth year students. For example, it is estimated that HEAB could increase awards to third year students with EFCs of less than \$12,000 by \$1,125 (to \$2,125 and \$2,625) in 2013-14 and could increase awards to third and fourth year students with EFCs of less than \$12,000 by \$825 (to \$1,825 and \$2,325) in 2014-15 if the funding provided in the Governor's budget is approved.

6. The Committee could set by statute maximum grant amounts for third and fourth year students equal to the amounts already set for first and second year students by administrative rule. This would limit future program costs while also providing certainty to students. If grant amounts are set by statute and administrative rule, the Committee may consider making the appropriation a sum sufficient appropriation instead of a sum certain appropriation as under current law. This would be consistent with the appropriation for the Academic Excellence Scholarship (AES) program, also under HEAB, which provides scholarships to resident students enrolled at UW institutions, Wisconsin technical colleges, and private colleges and universities located in this state who graduated at the top of their high school class. The state-funded portion of scholarships awarded through the AES program is limited to \$1,125 annually and funding for the program is provided through a sum sufficient appropriation.

Under current law, if total Wisconsin Covenant Scholars grants exceed the amount

appropriated, HEAB would have to submit a request for additional funds to the Joint Committee on Finance under s. 13.10. If the Wisconsin Covenant Scholars grants appropriation was a sum sufficient appropriation, grants would be awarded to all Wisconsin Covenant Scholars without additional approval by the Legislature even if the total amount of those grants exceeded the amount of funding provided in the appropriation. Total grants to Wisconsin Covenant Scholars could exceed the amount appropriated if more students than expected successfully complete the pledge or if more continuing students remain eligible for grants.

7. The Wisconsin Covenant program was established by a memorandum of understanding (MOU) signed by the previous Governor, the Superintendent of Public Instruction, and the presidents of the UW System, the Wisconsin Technical College System, and the Wisconsin Association for Independent Colleges and Universities (WAICU) in 2006. According to the MOU, one of the goals of the program is to promote success in higher education by promoting high standards and encouraging students to take courses that prepare them for higher education. One measure of student success is the first-to-second year retention rate. Table 2 shows the number of Wisconsin covenant scholars who graduated from high school in 2011 and who received grants during 2011-12 and 2012-13 and the estimated percentage of 2011 Wisconsin covenant scholars who were retained to the second year by sector. For comparison, the weighted average first-to-second year retention rate for new freshmen who enrolled full-time in fall, 2010, was 79% for both UW and WAICU member institutions. The weighted average retention rate was calculated using data retrieved from the Department of Education's Integrated Postsecondary Education Data System (IPEDS) and weighted based on the number of Wisconsin Covenant Scholars enrolled in each institution. Similar data was not available for the Wisconsin technical colleges.

**TABLE 2**

**Wisconsin Covenant Scholars Grants to Members of the Class of 2011**

	<u>UW System</u>	<u>Technical Colleges</u>	<u>Private Colleges and Universities</u>
Awards in 2011-12	3,924	361	805
Awards in 2012-13	3,271	311	716
Estimated Percent Retained to Second Year	83%	86%	89%

8. The first-to-second year retention rates calculated by UW and WAICU member institutions include only students who enroll at the same institution in the second year. By contrast, the data used to calculate the estimated percentage of Wisconsin covenant scholars who were retained in the second year includes students who transferred between institutions as well as between sectors. For that reason, one would expect the estimated percentage of Wisconsin covenant scholars who were retained in the second year to be higher than the first-to-second year retention rates reported by the institutions. Without additional data, the amount of the difference in retention rates that is attributable to differences in methodology and the amount that may be attributable to the Wisconsin covenant scholars program is unknown. However, given the significant difference between the estimated percentage of Wisconsin covenant scholars who were retained and the

weighted average first-to-second year retention rates, particularly at the private colleges and universities (79% versus 89%), it is likely that Wisconsin covenant scholars were retained at greater rates than other new freshmen. This data suggests that the Wisconsin covenant scholars program may have had a positive effect on student success.

## **ALTERNATIVES**

### **A. Funding**

1. Approve the Governor's recommendation.
2. Reestimate Wisconsin Covenant Scholars grant program expenditures at \$9,230,000 in 2013-14 and \$12,170,000 in 2014-15 based on actual expenditures, preliminary data on Wisconsin covenant scholars in the class of 2014, and current award amounts. Decrease funding under the bill for the Wisconsin Covenant Scholars grant program by \$2,820,000 in 2013-14 and \$3,940,000 in 2014-15.

<b>ALT A2</b>	<b>Change to Bill</b>
	Funding
GPR	- \$6,760,000

### **B. Award Amounts and Appropriation**

1. Specify that grants to third and fourth year students enrolled full-time should be as follows: \$1,000 for students with EFCs of \$0; \$1,500 for students with EFCs of greater than \$0 but not more than \$3,499; \$1,000 for students with EFCs of greater than \$3,499 but not more than \$11,999; and \$250 for students with EFCs of \$12,000 or more. Specify that grants to third and fourth year students enrolled half-time should be as follows: \$750 for students with EFCs of not more than \$3,499; \$500 for students with EFCs of greater than \$3,499 but not more than \$11,999; and \$125 for students with EFCs of \$12,000 or more. Under this alternative, maximum grant amounts for third and fourth year students would be the same as for first and second year students. Maximum grant amounts for first and second year students were established by HEAB administrative rule.

In addition, modify the Wisconsin Covenant Scholars grants appropriation such that it is a sum sufficient appropriation, which would allow HEAB to fully fund the statutory grant amounts in the case that actual demand exceeds budgeted funding.

2. Take no action. Grants to third and fourth year students would be determined using a formula approved by the HEAB Board. The Wisconsin Covenant Scholars grants appropriation would remain a sum certain appropriation.

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