



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #440

Wisconsin Higher Education Grant (HEAB)

[LFB 2005-07 Budget Summary: Pages 305-306, #3, #4, and #5]

CURRENT LAW

The Wisconsin higher education grant (WHEG) program provides need-based grants to resident undergraduates enrolled at UW campuses, Wisconsin Technical College System (WTCS) institutions, and tribal colleges. Students enrolled at least half-time are eligible for grants ranging from \$250 to \$2,500 per year for no more than 10 consecutive semesters. Funding for WHEG awards is provided in four separate appropriations within HEAB, one GPR and one PR appropriation for UW students, a GPR appropriation for WTCS students, and a PR appropriation for tribal college students.

Under 2001 Act 109, WHEG-UW funding increases were linked to the highest prior year increase for resident undergraduate tuition at any UW System institution, and the appropriation was modified from a biennial sum certain to a sum sufficient appropriation starting in 2003-04. Under 2003 Act 33, the link between prior year percentage increases in UW System undergraduate tuition and GPR funding for WHEG-UW grants was suspended until 2005-06.

GOVERNOR

Provide \$20,556,400 GPR in 2005-06 and \$26,944,900 GPR in 2006-07 and reduce funding by \$15,032,800 PR annually to replace base funding provided to the Wisconsin higher education grant (WHEG) program from the UW System auxiliary reserve. Delete the program revenue appropriation for the WHEG-UW program related to the 2003-05 auxiliary reserve transfer. Under 2003 Act 33, funding was provided for WHEG-UW from the UW System's auxiliary enterprises. In 2004-05, \$34,959,600 was provided for WHEG-UW grants with \$19,926,800 GPR and \$15,032,800 PR. This provision would increase total funding by 15.8% in

2005-06 to \$40,483,200 and an additional 15.8% increase in 2006-07 to \$46,871,700, as shown in the following table:

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
GPR	\$19,926,800	\$40,483,200	\$46,871,700
PR	<u>15,032,800</u>	<u>0</u>	<u>0</u>
Total	\$34,959,600	\$40,483,200	\$46,871,700
 Change to Prior Year (All Funds)			
Amount		\$5,523,600	\$6,388,500
Percent		15.8%	15.8%

In addition, modify the statutory base funding reference for calculating future WHEG-UW GPR sum-sufficient appropriation increases to reflect total funding provided under the Governor's provision in 2005-06 and 2006-07.

Provide \$250,000 in 2005-06 and \$495,000 in 2006-07 to increase funding for the WHEG program for technical college students by 1.7% in 2005-06 and 1.6% in 2006-07. The base funding would increase from \$14,874,000 in 2004-05 to \$15,124,000 in 2005-06 and \$15,369,000 in 2006-07.

Increase the maximum grant award for the WHEG grant recipients from \$2,500 to \$3,000 for any academic year.

DISCUSSION POINTS

1. HEAB currently administers 11 need-based financial aid programs totaling \$79,500,500 with \$63,276,100 GPR and \$16,224,400 PR. The WHEG programs are the largest source of state-funded need-based grants to UW and WTCS students. In 2003-04, total state-funded financial aid accounted for 11.3% of all need-based financial aid received by UW System undergraduates and 14.3% for WTCS students, while the federal government provided 85.8% for UW Students and 84.6% for WTCS students. The remaining funds for both sectors were provided through institutional and other sources. As a result of the federal government's role as the primary source for student aid, changes in federal funding and formulas have a much greater impact on the financial aid received by a student than changes in state funding.

2. The effect of the federal budget on federally-funded student financial aid is unknown since Congress has not yet acted on changes in federal funding for need-based grant programs for fiscal year 2006. However, recent updates to the Pell Grant formula, which accounts for approximately half of the Wisconsin undergraduate federal need-based financial aid, would result in a loss of Pell Grant aid for Wisconsin residents.

3. WHEG awards were provided to 22,820 UW Students and 20,232 WTCS students in 2003-04. The average grant was \$1,242 for UW students and \$731 for WTCS students. The number of students who will receive awards and the average amount of each award are determined by formula using nationally approved needs methodology. Currently, WHEG grants are limited by statute to a minimum of \$250 and a maximum of \$2,500 per academic year.

WHEG-UW

4. Since 2002-03 total funding for WHEG-UW grants has increased from \$21,839,600 to \$27,199,600 in 2003-04 and \$34,959,600 in 2004-05, which represents 24.5% and 28.5% annual increases, respectively. However, during the 2003-05 biennium, the GPR funding provided for WHEG-UW grants was reduced by \$1,093,700 GPR in 2003-04 and \$1,912,800 GPR in 2004-05. During this period, \$6,453,700 PR in 2003-04 and \$15,032,800 PR in 2004-05 were provided in a new supplemental appropriation funded with transfers from the UW System's auxiliary enterprises. The Governor and Legislature provided additional funding for the WHEG-UW program during the 2003-05 biennium to assist financially needy UW students affected by resident undergraduate tuition increases of between 16.6% and 18.7% in 2003-04 and between 14.4% and 15.8% in 2004-05. Current annual resident undergraduate tuition ranges from \$3,700 at UW-Colleges to \$5,254 at UW-Madison.

5. The Governor's provision would increase total funding for the WHEG-UW program by \$5,523,600 (15.8%) in 2005-06 to \$40,483,200 and an additional \$6,388,500 (15.8%) in 2006-07 to \$46,871,700. In addition, the Governor's proposal would replace \$15,032,800 PR annually that had been provided for WHEG-UW from the UW System's auxiliary operations.

6. The Governor's provision reestablishes the link between the WHEG-UW GPR appropriation increase and the highest prior year increase for resident undergraduate tuition at any UW System institution. Under 2001 Act 109, WHEG-UW funding increases were linked to the highest prior year increase for resident undergraduate tuition at any UW System institution, and the appropriation was modified from a biennial sum certain to a sum sufficient appropriation starting in 2003-04. Under 2003 Act 33, the link between prior year percent increases in UW System undergraduate tuition and GPR funding for WHEG-UW grants was suspended until 2005-06.

7. In addition to reestablishing the link, the Governor's provision would modify the base funding reference for calculating future WHEG-UW GPR sum-sufficient appropriation increases to reflect total funding provided under the Governor's provision in 2005-06 and 2006-07. The current statutory reference for the sum sufficient determination refers to the GPR funding provided for WHEG-UW in 2003-04 and 2004-05 rather than the total amount of funding provided for the program from GPR and PR during the 2003-05 biennium.

8. In 2004-05, the highest UW System resident undergraduate tuition increase was 15.8%. Increases in UW tuition are determined by the Board of Regents and depend, in part, on the level of funding provided in the University's budget and on salary increases provided in the state's compensation plan. Actual tuition for 2005-06 will not be approved by the Regents until July;

however, based on current enrollment and tuition revenue, the Board of Regents would need to increase undergraduate resident tuition by an estimated 5.0% to 6.3% in 2005-06 to accommodate the tuition portion of fuel and utilities funding, standard budget adjustments related to fringe benefit cost increases, and student technology fee included in the Governor's budget. In the Budget in Brief, the administration indicates that tuition will increase from 5% to 7% annually in the 2005-07 biennium.

9. For 2005-07, the Office of State Employment Relations has recommended an unclassified pay plan increase of 2% in 2005-06 and 2% in 2006-07 with an additional 1% effective April 1, 2007. The recommended pay plan would be funded at the traditional GPR/fee split. The tuition increase related to the 2005-07 unclassified and classified pay plan will not be known until the Joint Committee on Employment Relations approves it. For the 2005-07 biennium it is estimated that for every 1% increase in compensation, tuition would need to increase approximately 0.6% if funded at the traditional GPR/fee split. However, if compensation plan adjustments were to be funded completely through academic fees, it is estimated that for every 1% increase in compensation, tuition would need to increase 1.8%.

10. According to the administration, the Governor provided an increase of 15.8% for the WHEG-UW program in 2006-07 to provide additional funding to increase the average grant amount received by the most needy students.

11. The total cost to the general fund of the Governor's recommendations relating to WHEG-UW is \$47,501,300 GPR in the 2005-07 biennium, of which \$30,065,600 GPR is attributable to replacing the PR funding in the base year that was drawn from UW auxiliary reserves. In view of the high cost of replacing this one-time PR funding in the base year and the significant annual increases in WHEG-UW funding provided in the 2003-05 biennium (24.5% and 28.5%, respectively), the Committee could choose to level-fund the appropriation. Under this alternative, the sum sufficient linkage for the appropriation would be eliminated, and \$34,959,600 GPR of annual funding would be provided for this program. This would maintain base level funding, and would decrease funding from the bill by \$5,523,600 GPR in 2005-06 and \$11,912,100 GPR in 2006-07.

12. As an alternative to level funding the WHEG-UW appropriation, the mid-point of the administration's estimated annual tuition increases (6%) could be used as the targeted funding increase. Under this alternative, the sum sufficient linkage for the appropriation would be eliminated, and \$17,130,400 GPR in 2005-06 and \$19,353,800 GPR in 2006-07 would be provided to replace the PR funding in the base year and fund 6% annual increases in total funding for the program. This would decrease funding from the bill by \$3,426,000 GPR in 2005-06 and \$7,591,100 GPR in 2006-07. A less costly alternative would be to provide a 1.7% increase in funding in 2005-06 and a 1.6% increase in 2006-07, which are the proposed increases under AB 100 for the WHEG-WTCS program.

WHEG-UW Maximum Grant

13. The additional funding provided in the Governor's budget, combined with a proposal to increase the maximum grant award from \$2,500 to \$3,000 for all WHEG recipients would enable HEAB to provide larger grants to the most needy students. However, the change in the amount of an individual's award due to an increase in program funding depends on a number of factors, including the number of eligible students and adjustments made by HEAB to the formula factors.

14. The current maximum grant is \$1,958 for the WHEG-UW and \$900 for the WHEG-WTCS. The statutory WHEG award maximum was increased from \$1,800 to \$2,500 under 2003 Act 33. Prior to that increase, the \$1,800 limit had remained unchanged since 1979-80. It could be argued that increasing the maximum grant award amount would result in fewer overall awards for the WHEG program grant recipients. However, that is less of a concern with the WHEG-UW awards given the level of funding provided by the Governor for the program under AB 100, and the continued link between WHEG-UW appropriation increase to tuition increases. Based on the Governor's proposed increase in the maximum award, HEAB has tentatively established a \$2,627 maximum award for WHEG-UW and an increase to \$960 for WHEG-WTCS.

15. Alternatively, allowing the HEAB Board to set the maximum under the WHEG formula would allow the formula to be set to provide higher financial aid awards to the most financially needy students. However, a statutory limit maintains legislative oversight. Nonetheless, the Committee could eliminate the statutory cap and allow HEAB to increase the maximum grant award if it determined, to the best of its ability, that increasing the grant maximum would not decrease the total number of grant recipients receiving an award. Such a provision was added under 2001 Act 16 related to eliminating the tuition grant statutory maximum.

WHEG-WTCS

16. Funding for WHEG-WTCS has remained unchanged at \$14,874,000 since 2002-03. During the same period, the total number of students receiving WHEG grants has remained at approximately 20,200 and the average grant award has remained within a range of \$714 to \$731. Since 2002-03, tuition for resident students has increased by between 3.2% and 4.5% in 2003-04 and between 6.2% and 8.6% in 2004-05. Tuition in 2004-05 for full-time resident technical college students ranges from \$2,280 for post-secondary and vocational adult programs to \$3,090 for college parallel programs. The WTCS Board recently approved tuition increases for 2005-06 of 5.9% for students enrolled in postsecondary/vocational adult programs and college parallel programs.

17. In past budgets, efforts were made to maintain balance among the three major need-based financial aid programs administered by HEAB, including the tuition grant program for private college students, WHEG-UW, and WHEG-WTCS. However, over the past three biennia, increases for these three programs have not been equal. While the Governor's proposal would provide additional funding of 15.8% annual increases for the WHEG-UW program and \$15,032,800 annually to replace funding that had been provided from the UW System auxiliary reserve, the additional funding provided to WHEG-UW in 2006-07 beyond the amount necessary to fund the

sum-sufficient estimate could be redistributed among the major financial aid programs in each higher education sector. One alternative would be to use the mid-point of the administration's estimated UW System tuition increase (6%) for all sectors in 2006-07.

ALTERNATIVES

A. WHEG Program for UW Students

1. Approve the Governor's recommendation, which would provide 15.8% annual increases in funding.

2. Reduce funding by \$3,959,500 in 2006-07 and modify the statutory base funding reference for calculating future WHEG-UW GPR sum-sufficient appropriation increases to reflect total funding of \$42,912,200 in the 2006-07 fiscal year. This would provide a 6% increase in 2006-07, rather than 15.8% as under the bill.

<u>Alternative A2</u>	<u>GPR</u>
2005-07 FUNDING (Change to Bill)	- \$3,959,500

3. Reduce funding by \$3,426,000 in 2005-06 and \$7,591,100 in 2006-07 and eliminate the WHEG-UW sum sufficient link to UW-System resident undergraduate tuition increases; instead, provide this funding in a biennial sum certain appropriation. This alternative would provide 6% annual increases in total funding for the program.

<u>Alternative A3</u>	<u>GPR</u>
2005-07 FUNDING (Change to Bill)	- \$11,017,100

4. Reduce funding by \$4,929,300 in 2005-06 and \$10,748,900 in 2006-07, and eliminate the WHEG -UW sum sufficient link to the highest UW System resident undergraduate tuition increase. Instead, provide this funding in a biennial sum certain appropriation. This alternative would provide an increase of 1.7% in 2005-06 and 1.6% in 2006-07.

<u>Alternative A4</u>	<u>GPR</u>
2005-07 FUNDING (Change to Bill)	- \$15,678,200

5. Reduce funding by \$5,523,600 in 2005-06 and \$11,912,100 in 2006-07 and eliminate the WHEG-UW sum-sufficient link to the highest UW-System resident undergraduate tuition increase; instead, provide this funding in a biennial sum certain appropriation. This alternative would provide total funding of \$34,959,600 GPR annually for the WHEG-UW program, which would maintain base level funding for the program, but would replace the \$15,032,800 of PR

funding in the base with GPR.

<u>Alternative A5</u>	<u>GPR</u>
2005-07 FUNDING (Change to Bill)	- \$17,435,700

B. WHEG Program for WTCS Students

1. Approve the Governor's recommendation, which would provide an increase of 1.7% in 2005-06 and 1.6% in 2006-07.

2. Modify the Governor's recommendation and provide an additional \$662,400 in 2006-07, which would fund a 6% increase in that year.

<u>Alternative B2</u>	<u>GPR</u>
2005-07 FUNDING (Change to Bill)	\$662,400

3. Delete the provision and maintain base funding for WHEG-WTCS at \$14,874,000 annually.

<u>Alternative B3</u>	<u>GPR</u>
2005-07 FUNDING (Change to Bill)	- \$745,000

C. WHEG Maximum Grant Award

1. Approve the Governor's recommendation to increase the maximum grant award for the WHEG grant recipients from \$2,500 to \$3,000.

2. Delete the Governor's recommendation and permit the HEAB Board to set the maximum WHEG formula provided that the Board determines to the best of its ability that an increase in the maximum grant award would not decrease the total number of grant recipients receiving an award.

3. Delete the provision.

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