

STATE OF WISCONSIN

Student Financial Aid in Wisconsin

Legislative Fiscal Bureau
March, 1983

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INTRODUCTION

This study grew out of a series of discussions on student financial aids which occurred in the education discussion group of the Joint Committee on Finance during preparation of the 1981-83 state budget. At that time committee members raised questions about the administration and distribution of aid under the state's two major grant programs, Tuition Grants and Wisconsin Higher Education Grants. The intentions and concerns of committee members were expressed in a letter from Senator James Flynn and Representative Virgil Roberts, co-chairmen of the discussion group, to the Director of the Legislative Fiscal Bureau. Senator Flynn and Representative Roberts wrote:

We would request that you examine the purposes, and current impact of the Tuition Grant and Wisconsin Higher Education Grant Programs, and consider alternative methods of structuring these programs....Some members of the discussion group were particularly interested in seeing data on the distribution of grants by income in connection with their interest in more fully understanding the interplay between federal and state grant formulae and the distribution of state grants. However, it is our hope that the Bureau use its discretion in designing the parameters of the study and provide us with as comprehensive a review as possible.

This legislative directive has supplied the general orientation for staff research and has resulted in the organization and division of the study around three general themes: (1) the financial aids process; (2) the characteristics and distributional effects of federal and state financial aid; and (3) the administration and distribution of aid under the Wisconsin Higher Education Grant and Tuition Grant Programs. Recent interest in student financial aid programs both on the national and state level and the proliferation of legislative student financial aid proposals have suggested the need to undertake a comprehensive review to serve as a resource for the Wisconsin Legislature. The complexity and interdependence of federal and state student financial aid programs and the necessity of establishing an informational basis upon which program analysis can proceed also explain the selection and ordering of the topics. Nevertheless, it should be recognized that the analysis of the Tuition Grant and Wisconsin Higher Education Grant Programs is the primary focus of this report and the first three chapters, which discuss the financial aid process and the structure of federal and Wisconsin aid programs, are designed as background information.

Chapter Four on Tuition Grants and Chapter Five on Wisconsin Higher Education Grants explain the administrative rules and procedures of each grant program and present distributional data on the award populations according to income characteristics and the level of aid received. Award formulas are closely examined as to their purpose, structure and effect.

The report analyzes several formulary components of the Tuition Grant Program and illustrates their impact on the distribution of aid. Under the Wisconsin Higher Education Grant Program, the report examines the equity formula which awards small grants to large numbers of students and proposes alternative formulas for consideration. The report also analyzes administrative operations under each program and criticizes existing procedures which have resulted in award adjustments and significant accumulations of unexpended funds.

The study concludes with a general discussion of problems common to both state grant programs and a final overview of student financial aid in Wisconsin. It is suggested that Wisconsin students have not yet undergone a serious erosion of financial aid but that future appropriation reductions or denial of inflationary support in federal programs could occur. In order to maximize the efficacy of the current financial aids process, the report recommends a reevaluation of the existing use of state resources going beyond the Tuition Grant and Wisconsin Higher Education Grant Programs to include the allocation of University of Wisconsin System work and loan funds. The report concludes by noting the burgeoning growth in student loans and discussing some of the implications of this phenomenon for state policy and programs.

Information for this report was obtained from a wide variety of sources. Higher Educational Aids Board personnel and financial aid officers at University of Wisconsin (UW), Vocational, Technical and Adult Education (VTAE) districts, private colleges and universities, and proprietary institutions were interviewed as were staff from the UW System, Wisconsin Association of Independent Colleges and Universities (WAICU), the State VTAE Board and national educational organizations. Award data for the Tuition Grant and Wisconsin Higher Education Grant Programs came from both the Higher Educational Aid Board (HEAB) and educational institutions in the state. Whenever possible the most recent available program data was utilized although comprehensive information could not be obtained after the 1980-81 academic year. The assistance of the University of Wisconsin System and Marquette University merits special attention. On request, UW System staff generated a statistical file which grouped aid recipients by need and income category for each major federal and state aid program and which included all dependent students who received aid in the UW System during the 1980-81 academic year. Marquette University produced a complete file of the financial aid packages of all students receiving Tuition Grant awards in 1981-82.

CHAPTER 1

STUDENT FINANCIAL AID IN WISCONSIN

Student financial aid programs are sponsored by a variety of state, federal and private agencies with each program operating under its own specific eligibility and award criteria. The multiplicity of program rules and regulations has at times confused students and inhibited understanding of the purposes and effects of public policy. Nevertheless, there are ways of discussing student financial aid programs which permit elucidation of the principles and procedures by which aid is legislated and administered. Under this approach, student financial aid is best viewed as a process by which various agencies distribute selective categories of funds (grant, work and loan awards) to a constituency of institutions and students. Integral to this process is the determination of student need, whereby student and parental financial resources are evaluated to ascertain to what extent they can support a college education. No less important is the role of the financial aid officer who has final responsibility for administering and coordinating aid programs so that actual awards are consistent with needs analysis.

Types of Student Financial Aid

There are three general types of need-based student aid--grants, loans and work. Grants are readily distinguished from the two other aid types in that a student incurs no fiduciary obligation as a result of an award. The receipt of a grant award may act as an incentive toward enrollment in higher education or, as is more likely, may influence a student's decision as to what kind of an institution to attend. There are a wide variety of grant programs aiding students in Wisconsin educational institutions. Some, such as the federal Pell program, are open to all post-secondary students who can demonstrate need. Other grants are categorical in nature, awarding aid according to educational, personal or ethnic characteristics in addition to need. Grant aid is not the same as scholarship aid which is based on educational rather than financial factors and usually is granted outside the financial aids office, although a needy student's receipt of scholarship support will influence the amount of aid received from need programs.

The most important grant program providing aid for Wisconsin students is the Pell program, formerly the Basic Educational Opportunity Grant Program. In 1980-81, University of Wisconsin undergraduates received \$26.9 million in Pell awards which represented about 56% of all financial aid grants and about 25% of all need-based aid for these students. Total Pell awards for all post-secondary students attending nonprofit institutions in the state amounted to \$42.2 million in 1980-81. Other major need-based grant programs are the federal Supplemental Educational Opportunity Grant (SEOG) and the state Wisconsin Higher Education Grant (WHEG) and Tuition Grant Programs. The following table indicates the total amount of

need-based grant aid awarded through Wisconsin educational institutions in 1980-81 from major federal and state programs (Pell, SEOG, WHEG, Tuition Grant and Talent Incentive Grant Programs). Grants from nongovernmental institutionally controlled funds are not included because of data limitations which do not permit identification of need and scholarship awards, although it may be noted that according to the Higher Educational Aids Board's (HEAB) Wisconsin Student Information System undergraduate residents received six million dollars in such awards in 1980-81.

TABLE 1

Grant Aid to Students Attending
Wisconsin Nonprofit Post-Secondary Institutions
1980-81
(In Millions)

Educational System	Grant Program			Tuition Grant	Total
	Pell	SEOG	WHEG*		
UW System	\$26.9	\$8.0	\$7.0	N.A.	\$41.9
VTAE	8.5	0.9	2.7	---	12.1
Private	6.8	1.5	0.8	\$9.8	18.9
TOTAL	\$42.2	\$10.4	\$10.5	\$9.8	\$72.9

*Includes Talent Incentive Program Grants funded through the WHEG appropriation.

In 1980-81, 8,380 Wisconsin residents received a Tuition Grant award, 30,848 a WHEG award and over 50,000 received Pell grants. In 1980-81, grant aid equalled 25% of the total budget costs of needy Wisconsin residents attending post-secondary schools in the state. When expected contributions from parents and students are subtracted from these student budgets, grants funded 43% of total student need.

There are two forms of self-help aid--work and loans. These awards provide financial assistance to the student in return for employment service or interest repayment obligations following departure from school. In recognition of the fact that academic or personal commitments may not permit a student to work, recipients are given a choice of replacing work with loan aid. The federal work study program funds most of the work aid awarded to students in Wisconsin post-secondary schools. Federal allotments are received by the financial aid office, which is also responsible for the location of work-study jobs either at the school or at another nonprofit institution. Under the program, employers must match at least 20% of the federal contribution. One educational institution in the state, Marquette University, matches at a higher level in order to stretch federal funds and increase the number of work study jobs. In general, institutions with large enrollments and those located in urban areas have

the most extensive work study programs although some rural schools have expanded employment opportunities by setting aside funds for summer jobs.

Outside of the college work study program, many financial aid offices facilitate student employment opportunities by monitoring and publicizing available jobs on and off campus. The schools also may record off-campus jobs since students who are receiving aid under certain financial assistance programs must report outside earnings because of a prohibition against receiving aid in excess of need.

Table 2 indicates the amount of college work study aid which was expended on work study programs at Wisconsin educational institutions in 1980-81. The indicated figures include the federal and matching institutional share. It does not include nonwork study jobs obtained by students during the academic year or summer session.

TABLE 2

College Work Study Aid to Students Attending
Nonprofit Wisconsin Post-Secondary Institutions
1980-81
(In Millions)

UW System	\$9.7
VTAE	2.3
Private	<u>2.8</u>
TOTAL	\$14.8

The most prevalent form of student assistance is awarded through loans. While there are a variety of student loan programs, most aid comes from Guaranteed Student Loans (GSL) and National Direct Student Loans (NDSL). Participating students under each program can borrow at an interest rate below market cost while postponing principal and interest obligations until after leaving school. Under the National Direct Student Loan Program, monies are allocated directly to institutions for lending to students. Under the Guaranteed Student Loan Program, the conditions of eligibility and financial assistance are specified by law with private and state lenders using their own funds as loan capital. Private and public lenders in Wisconsin have actively participated in the Guaranteed Student Loan Program. In part, private lender involvement reflects the influence of the Higher Educational Aids Board, which was created to facilitate administrative and financial operations of the program. Wisconsin is also a lender of Guaranteed Student Loans under the State Direct Loan Program and receives an allowance from the federal government to offset related administrative costs.

In the past four years there has been a pronounced growth in state borrowing of Guaranteed Student Loans from \$69 million in 1978-79 to \$216 million in 1981-82. This increase has been attributed to: (1) the lifting of program income eligibility standards in 1978; (2) financial pressures on

students and their families; and (3) the program's attractiveness as a form of investment, since loans are interest-free during a student's school years and only 9% during subsequent years of repayment. For the 1982-83 year, the federal government reimposed a needs criteria in order to curtail spiraling GSL costs. The new regulation requires that student applicants with a family income exceeding \$30,000 submit to a needs test. Students above the income ceiling who qualify for the program are permitted to borrow monies equal to their estimated need. Students under the limit can borrow up to the annual maximum limit of \$2,500 for undergraduate and \$5,000 for graduate students. Initial indications are that the reimposition of a needs-test has not had a substantial effect on GSL borrowing in Wisconsin, perhaps because the new regulations certify many students with parental incomes over \$30,000 as eligible to participate. It is projected that the volume of GSL aid will decline by about 13% in 1982-83.

In 1980-81, 96,178 loans were issued to students under the Guaranteed Student Loan Program. Students in all types of educational institutions actively participated in the program. For instance, about 65% of the University of Wisconsin's need-based dependent student aid recipients borrowed some funds in 1980-81, while at Wisconsin's private colleges and universities borrowing was even more prevalent because of higher tuition costs. At Marquette University approximately 75% of its students receiving financial aid had some loan assistance in 1981-82. In recent years, student financial aid officers throughout the state have reported a marked increase in both the number and dollar volume of student loans. The average debt of graduating seniors in many private schools now exceeds \$5,000 and is expected to grow. Appendix 1 offers a survey of the average cumulative debt of seniors at selected private colleges and universities.

Table 3 indicates the total amount of National Direct Student Loans and Guaranteed Student Loans issued by state and private lenders in Wisconsin in 1980-81. It should be noted that the table includes loans made to graduate and professional students who do not qualify for most grant awards. Also, the table includes loans to students attending out-of-state and proprietary institutions.

TABLE 3

Student Loans Issued by Wisconsin Lenders
1980-81
(In Millions)

	<u>National Direct Student Loans</u>	<u>Guaranteed Student Loans</u>	<u>Total</u>
VTAE	\$0.1	\$23.1	\$23.2
UW System	12.0	96.5	108.5
Private Colleges and Universities Students Attending Out-of-State Schools and In-State Proprietary Schools	3.1	25.2	28.3
	<u>N.A.</u>	<u>32.0</u>	<u>32.0</u>
TOTAL	\$15.2	\$176.8	\$192.0

The types of aid discussed above are awarded through the financial aid office after an analysis of student educational expenses and financial resources. This aid, however, represents only a part of the total financial assistance which is awarded to Wisconsin students since other forms of assistance are provided outside the financial aid office's needs process. The major source of aid awarded outside the needs process comes from the federal government and, in particular, from the veterans and social security programs, although the social security program is in the process of being phased out and will no longer make awards after the 1984-85 academic year. The most recent available federal information shows that in 1979-80 student social security beneficiaries in Wisconsin received \$43,000,000 and that total educational benefits under veterans programs amounted to \$23,000,000 in 1981-82. Another form of indirect federal support is the income tax provision which allows parents of students more than eighteen years of age to claim their child as a tax deduction. In Wisconsin, other student aid programs administered outside the financial aids office needs process include the Department of Veterans Affairs grant programs, the National Guard Tuition Grant Program, most University of Wisconsin tuition remissions programs and the Minnesota-Wisconsin Student Reciprocity Program. A description of these programs is found in Appendix 2.

Available statistical data do not permit an unduplicated count of the number of students receiving financial aid awards by program in the state. However, in total, it is estimated that 65% of Wisconsin residents attending private colleges and universities in the state received some need-based financial aid, while about 32% of undergraduate UW students were awarded such assistance. The following section describes the method by which this aid is distributed to students. Subsequent chapters provide statistical data indicating aggregate allocations of aid by federal and state agencies and aid distribution under various programs.

Award Process

Student financial aid is distributed by a process which allocates types of program awards to students according to a systematic evaluation of their need. Submission of a financial aid form (FAF) commences the awarding process. The FAF is a four page application on which the student and his family list their previous year's income, assets and certain expenditures. This form is sent to the College Scholarship Service (CSS) and the Pell program which analyze the information to determine the family's ability to pay for the student's education. Included on the form are the schools to which the student has applied or is enrolled and which will receive the results of the CSS evaluation. Also, the Higher Educational Aids Board is referenced so that the agency can receive the CSS analysis in order to calculate state awards. A student is charged \$6.50 for the first school to which he or she applies and \$4.50 for each school thereafter. There is also a \$2.50 fee for listing the Higher Educational Aids Board. A student must submit a financial aid form each year he or she wishes to receive aid. There is no automatic renewal process given the variability of parental incomes. Subsequent adjustments are permitted in the need analysis if a student can document a change in financial situation, for instance, due to a parent's loss of a job.

A critical aspect of the CSS review is the inclusion of parental financial resources in evaluation of a student's ability to pay for his or her education. Without analysis of family income and assets the FAF would diminish in importance given the limited means of students. For this reason, the proper identification of self-supporting students affects the functions of the program and the distribution of awards. Currently, students are judged to be independent of parental support if they have not: (1) lived at home for more than six weeks in the previous year and the year for which the aid is applied; (2) received more than \$750 worth of support from their parents in this same period; and (3) been claimed as a dependent on their parents' federal income tax form during this time. In Wisconsin, about 40% of the student financial aid population in public post-secondary institutions and about 20% in private schools is classified as independent.

Under the CSS needs analysis, student and parental assets constitute a part of family financial strength and, therefore, are considered available to meet educational costs. The CSS formula identifies a number of different types of assets used to calculate the total asset contribution available for educational support. Savings, for instance, are evaluated under different criteria than are home assets, while assets held for retirement purposes are excluded from the formulas and supplementary formulas have been created for farm and small business families whose asset holdings often do not reflect their true wealth. The CSS needs analysis calculates available disposable income by subtracting formulary derived income and asset contribution amounts from standardized household budgets. These budgets are established after consideration of a number of factors, the critical one being family size, so that the greater the number of people in the family the greater the standardized budget and the lower the parent's expected contribution for education. Students that can document exceptional family expenditures in specified categories such as medical care can obtain formulary adjustments in recognition of higher resource needs. Students who have one or more siblings also attending

post-secondary schools receive an adjustment in their expected parental contribution to reflect total educational demands on family resources, although the formula requires a family with more than one child in school to contribute a higher portion of its disposable income towards educational support.

To demonstrate the way in which the CSS needs analysis operates and the effect of various aspects of the formula on expected contribution levels, the following table is provided which examines the 1982-83 needs analysis for a variety of students with income, asset and family budget characteristics. It should be noted that the table examines only certain variables. Other elements are assumed to be representative of the needs population.

TABLE 4

Example of the Impact of the College Scholarship
Service Needs Analysis on Certain Students
(1982-83 Formula)

Family Characteristics*					
<u>Income</u>	<u>Savings</u>	<u>Home Equity</u>	<u>Family Size</u>	<u># of Family in College</u>	<u>Expected Parental Contribution</u>
\$15,000	\$1,000	(rent)	6	1	\$0
15,000	1,000	(rent)	4	1	60
20,000	2,000	(rent)	4	1	300
20,000	2,000	10,000	4	1	410
20,000	2,000	10,000	4	2	205
25,000	2,000	10,000	4	2	590
25,000	2,000	15,000	4	1	960
25,000	2,000	35,000	6	1	370

*Assumes single wage earner of fifty years of age.

The CSS analysis produces an estimation of a family's ability to pay for a student's education. It should be emphasized that the resultant computation does not indicate a family's willingness to pay for that education. Some students do not receive the indicated amount of support either because their families will not budget such funds for educational expenses or because their families prefer to borrow the monies in Guaranteed Student Loans. Research has indicated that other students--particularly low income students--have a level of parental financial assistance which may exceed CSS expectations.

The College Scholarship Service takes about two to four weeks to process the average financial aid application. Once the review is

complete, the results are sent to the Higher Educational Aids Board, the school(s) to which the student is applying or is enrolled, and to the student. The financial aid officer utilizes the CSS analysis to calculate actual student need by subtracting the expected family contribution from standardized student budgets. Budgets are determined by adding noninstructional expenses to tuition and instructional fees. There are different budgets for independent students with families (adjusted for family size), single independent students (a 12-month budget), dependent students living on campus, off-campus and commuting. At least one institution (UW-Madison) has established a separate budget for older independent students. A financial aid officer can make individual adjustments in a budget if a student can document exceptional nondiscretionary costs. Budgets are composed by the school's financial aid officer and may vary from school to school. Most financial aid programs administered by federal and state agencies have standardized budgets for various categories of students. For instance, in 1982-83 the state's Tuition Grant and Wisconsin Higher Education Grant Programs use a standardized \$3,300 amount as the noninstructional costs for dependent students. Appendix 3 illustrates the growth in WHEG budgets from 1976-77 to 1982-83.

Once a school's financial aid officer has reviewed a student's budget and CSS analysis to determine his or her need, this determination can be compared with the need determination of other students to prepare for the distribution of aid or "packaging". Packaging is the selection of various types and amounts of program aid which when awarded to the student enable him or her to pay for educational costs. Some elements of a financial aid package are automatically included such as Pell, WHEG and Tuition Grants which are calculated by government agencies. With other programs, for instance the College Work Study, National Direct Student Loan, Supplemental Educational Opportunity Grant Programs and institutional grants, the financial aid office has distributional and administrative control. As a general rule, school officials try to award similar aid packages to students with similar need. Students with the lowest estimated need are awarded only self help funds while higher need students receive a package of grant, loan and work awards.

The financial aid package represents an attempt to rationalize and simplify the distribution of monies to students. It is not the final step in the aid process since the financial aid office does not control the distribution of Guaranteed Student Loan funds. Most student packages contain an amount of "unmet need" which the student can fill by obtaining a Guaranteed Student Loan from a private lender. If a bank will not lend the funds, eligible students can borrow from the State Direct Loan Program. The following table offers a sample of student aid packages.

TABLE 5

Examples of Student Aid Packages

	Student A (Budget) <u>(\$4,500)</u>	Student B (Budget) <u>(\$4,500)</u>	Student C (Budget) <u>(\$8,500)</u>
Expected Parental Contribution	\$1,000	\$500	\$2,000
Expected Student Summer Work Contribution	900	900	900
Grants	325	825	2,000
1. Pell	(225)	(700)	
2. WHEG	(100)	(125)	
3. Tuition Grant			(1,000)
4. Institutional			(1,000)
College Work Study	---	1,200	1,200
NDSL Loan	775	675	1,000
Unmet Need (or GSL Loan)	1,500	400	1,400

The above description follows the general process by which student aid applications are evaluated and funds distributed. There are, however, a variety of institutional and individual characteristics which also influence the flow of student aid in Wisconsin and which impinge upon this process. The timing of a student's financial aid application may affect the composition of a package since students who apply after an institutional deadline will not receive institutional or federal campus based program monies (NDSL, CWS and SEOG). Financial aid deadlines also differ significantly between educational institutions. VTAE schools have late deadlines since many students wait until the term begins to apply for admission. Private schools, on the other hand, may establish deadlines for new applicants more than six months prior to fall enrollment. Thus, a student who applies for admission in May for the following academic year may be treated differently by aid officers depending on the type of school.

Institutional size also affects the flow of dollars. UW-Madison and Marquette University both have large financial offices which are able to counsel students on sophisticated financial aid problems. Also, both have institutional programs which supply financial aid support for minority/disadvantaged students. Smaller institutions, on the other hand, and particularly small VTAE's schools, are often less equipped to counsel and aid students. Few VTAE schools have institutional funds. Also, NDSL aid is generally not available at these schools because of a policy to eschew such federal loans given the difficulty of collection.

The student financial aid office retains considerable influence over the distribution of funds despite the centralization of awards in the major federal and state programs. Most aid officers in Wisconsin tend to distribute grant aid to the students showing the largest apparent need. However, at least one school--UW-Stevens Point--has a different philosophy whereby grant aid is targeted in part on the basis of loan debt. As noted,

aid officers can affect the distribution of awards by the establishment of application deadlines and some officers set aside funds for late applicants. Administrative effectiveness also has distributional consequences. The allocation of federal funds ultimately rests on institutional applications documenting aggregate student need. Also, National Direct Student Loan allocations now take into consideration institutional default rates and reductions are made for campuses with default rates exceeding 10%. In a more technical way, financial aid officers face a variety of daily decisions which have a direct impact on student awards, such as whether to readjust a student's needs analysis based on inability to find summer employment or how to readjust the aid package of a scholarship student.

CHAPTER 2

FEDERAL FINANCIAL AID IN WISCONSIN

The preponderance of student aid in Wisconsin comes from federal programs either directly under the College Work Study, Supplementary Educational Opportunity Grant, National Direct Student Loan and Pell Programs or indirectly under the Guaranteed Student Loan Program. In addition to funding, the federal government also establishes the administrative rules which control the application, review and distribution of monies. Each federal program has its own set of regulations, and financial aid offices are routinely audited every two years for compliance with federal standards. Given this federal primacy, it is not surprising that the state's own financial aid programs are connected in very specific ways with federal programs. For instance, the Talent Incentive Grant Program depends on support from the federally sponsored State Student Incentive Grant Program, while federal special allowance monies are budgeted toward the WHEG program. WHEG, as explained below, also incorporates estimates of student Pell awards into its own distribution formula. From a broader perspective, changes in federal financial aid funding have influenced the financing of Wisconsin programs as perceptions of federal support have affected the level of budgetary requests and state appropriations.

Development of Federal Policy

The historical development of federal financial aid programs reveals a succession of policy initiatives with the creation of new programs and restructuring of old programs but with shifts never so dramatic as to entail the elimination of programs whose goals and purposes were unrelated to the new direction. Federal involvement in financial aid dates back to World War II when educational stipends were awarded to veterans as a way of recognizing and compensating them for military service and as a means of revitalizing the work force. Veteran grants were awarded because as a class servicemen were needy. However, need was not a factor in the grant itself, and grants were not extended to other groups.

A confluence of educational and political factors in the late 1950's and 1960's led to the establishment of a number of student aid programs whose goals were fundamentally need-based. The College Scholarship Service needs analysis system was developed during this time, an initiative which implicitly suggested and provided the technical apparatus for an alternative allocation of federal student aid dollars. Also, pressures associated with the launching of Sputnik highlighted the interconnections between national economic and technological performance and educational opportunity and student financial assistance. In 1958, the United States Congress established the National Defense Student Loan Program, later changed to the National Direct Student Loan Program, which offered partial

cancellation of principal and interest obligations as an inducement to students to enroll in careers vital to national defense. Congress established the Supplemental Educational Opportunity Grant and the College Work Study Programs in the mid 1960's, thereby constituting a complement of student financial assistance programs (grant, work and loan).

The policy purposes and administrative structure of these first need-based programs coincided in many respects. Perhaps most important, the level of funds appropriated did not suggest an entitlement. The federal government permitted the schools to select the number and amount of student awards according to general programmatic guidelines. Washington maintained only an indirect involvement in financing student financial aid through institutional block awards rather than being a direct participant in the needs process as would occur under the Pell Program.

The late 1960's and early 1970's saw the development of two new programs, the Guaranteed Student Loan and Basic Educational Opportunity Grant Programs, whose formation signified a fundamental shift in the federal government's role in financing higher education. Together, both lessened the degree to which financial considerations acted as a barrier to access to higher education. Most students could now obtain the financial resources to meet college costs through Guaranteed Student Loans which were available through many private banks and state programs. Under the Pell Program, federal financial aid facilitated not only "access" but "choice" as the dollars committed to this program and its practice of adjusting awards according to changes in educational cost enabled a group of students who only a few decades before had been generally denied education beyond high school the opportunity for admission to a variety of prestigious high cost institutions.

In the fall of 1978, Congress passed the Middle Income Student Assistance Act (MISA) which broadly expanded the level and scope of Pell and GSL support. The rationale behind this legislation was that existing programs only helped the needy, neglecting those whose family's ability to pay for an education purportedly had deteriorated during years of inflation and tuition increases. Research designed to test the validity of this hypothesis offered conflicting results with some studies concluding that growth in income had actually outstripped inflation and that families were better able to afford the cost of a college education. The most salient features of the legislation were its increase in Pell support from \$2.0 billion in 1978-79 to \$2.5 billion in 1981-82 and the liberalization of needs criteria so that students with parental incomes between \$20,000 and \$30,000 received significant increases in grant aid. Also, needs criteria under the Guaranteed Student Loan Program were eliminated so that students, irrespective of income or need, could receive a subsidized loan.

The impetus which gave rise to the Middle Income Student Assistance Act weakened somewhat after its passage as the costs associated with the legislation, particularly the increases in GSL subsidy costs, created pressure for program cutbacks. As a result, subsequent legislation enacted a series of changes in the GSL program including a increase in the interest charge from 7% to 9% and establishment of a needs test for students with

parental incomes above \$30,000. The attempt to reduce the costs of federal financial aid programs was intensified under the Reagan Administration which advanced a number of far-reaching proposals in this area such as: (1) shifting professional and graduate students from the Guaranteed Student Loan Program to a newly created loan program which would also provide funds to parents at market rates; (2) eliminating the Supplemental Educational Opportunity Grant and State Student Incentive Grant Programs and discontinuing capital fund allocations under the National Direct Student Loan Program; and (3) reducing Pell appropriations by 40%. To date, Congress has rejected all of the above financial aid proposals and funds for Pell and other major federal programs were provided under a continuing resolution for 1983-84.

Major Federal Programs and Distribution of Aid

The following section provides a short description of the major need-based federal financial aid programs. Other aid programs administered outside the needs process of the financial aids office are identified in Appendix 2.

Pell Grant. This program provides the largest amount of grant aid to Wisconsin students. Formerly called Basic Educational Opportunity Grants (BEOG), these funds are awarded by the federal government on the basis of evaluation of student costs and need. Students must submit annual applications to the federal government to obtain these awards. Undergraduates who are enrolled on at least a half-time basis in a post-secondary program can receive grants not to exceed more than 50% of the cost of attendance.

College Work Study (CWS). This program appropriates funds to post-secondary institutions for student employment. Monies must be matched by at least a 20% contribution by the employer. Any nonprofit organization can participate in the program. U.S. citizens enrolled more than half-time are eligible for this assistance.

National Direct Student Loan (NDSL). Under this program monies are awarded to post-secondary institutions for student loans. U.S. citizens enrolled more than half-time are eligible for assistance. Loans are interest-free during a student's in-school years. A 5% interest fee is charged beginning six months after a student leaves school or graduates. Students can borrow up to \$3,000 for the first two years of undergraduate study with cumulative borrowing limits of \$6,000 for undergraduates and \$12,000 for graduates, the latter ceiling including undergraduate study. Under this program, federal funds are matched by a 10% contribution from participating educational institutions. Student repayments are made, not to the federal government, but to the school which in turn allocates these monies to a revolving fund. Most VTAE schools do not participate in this program.

Supplemental Educational Opportunity Grant (SEOG). The SEOG program provides funds to post-secondary institutions for student grant awards.

U.S. citizens enrolled more than half-time are eligible for assistance. Grants range from \$200 to a maximum of \$2,000.

Guaranteed Student Loans (GSL). These loans are funded by private and state lending institutions under guidelines and subsidies provided by the federal government. The federal government assumes the interest payment while the student is in school and, in addition, pays the lender a money market subsidy referred to as "the special allowance" in order to make this loan competitive with other forms of investment. Undergraduate students can borrow up to \$2,500 per academic year to a maximum of \$12,500. Graduate students can borrow \$5,000 per year up to \$25,000 including undergraduate debt. Student interest payments begin six months after a student leaves school at a rate of 9% although students who received 7% loans before October 1, 1980 can continue to borrow at the lower rate.

State Student Incentive Grant. These funds are distributed for incorporation into state need-based financial aid programs. Federal allocations are determined according to the state's amount of student need and level of support. In Wisconsin, all funds received under this program are budgeted to the Talent Incentive Grant program for distribution to needy minority and disadvantaged students.

The following table depicts the amount of federal financial aid received by students attending Wisconsin post-secondary institutions in 1980-81. Only need-based aid is included since other awards such as social security and veterans benefits flow directly to individuals and are not awarded by the financial aids offices. Guaranteed Student Loans have been incorporated into this table, although the federal government only indirectly participates in this program with private and state agencies in Wisconsin supplying the capital for the notes. Also, all GSL aid is considered irrespective of whether students undertook a needs test since most of the students who received aid during this period would have qualified under the reimposed criteria. This information, which was collected from all UW, VTAE and nonprofit private colleges and universities in the state, reaggregates much of the data presented by program type in the previous chapter, to illustrate the extent of federal sponsored financial aid. It may be noted that the institutional data differs somewhat from federal expenditure amounts for Wisconsin. For instance, federal records indicate that \$49 million was expended on BEOG awards in Wisconsin in 1980-81. However, since the federal accounting system often does not reflect award adjustments and includes aid to proprietary institutions, it is believed that the institutional data is the best information available.

TABLE 6

Aid Received by Students Attending
Wisconsin Nonprofit Post-Secondary Institutions
Under Major Federal Programs*
1980-81
(In Millions)

Educational System	Aid Program						Total
	Pell	SEOG	NDSL*	CWS*	SSIG**	GSL	
UW System	\$26.9	\$8.0	\$12.0	\$9.7	N.A.	\$96.5	\$153.1
VTAE	8.5	0.9	0.1	2.3	N.A.	23.1	34.9
Private	6.8	1.5	3.1	2.8	N.A.	25.2	39.4
TOTAL	\$42.2	\$10.4	\$15.2	\$14.8	\$1.6	\$144.8	\$229.0

*Includes matching share.

**Not available by educational system. Does not include state match.

Table 7 indicates the growth in federal financial aid from 1975-76 to 1980-81. This data comes from the Wisconsin Student Support Information System and is compiled by the Higher Educational Aids Board which collects information on undergraduate need-based aid to Wisconsin residents. Federal aid information was first collected by the information system in 1975-76. Table 6 includes financial aid data for both resident and nonresident students while Table 7 shows the growth for resident students only, thereby explaining the variation in the two tables. Because of the difficulty of identifying need-based loan aid and because many resident graduate and professional students also receive this support, a separate table has been included for GSL increases.

TABLE 7

Federal Awards to Undergraduate Resident Students
Attending Wisconsin Nonprofit Post-Secondary Institutions
1975-76 to 1980-81
(In Millions)

<u>Year</u>	<u>Aid Program</u>					<u>Total</u>
	<u>NDSL</u>	<u>SEOG</u>	<u>CWS</u>	<u>SSIG</u>	<u>Pell</u>	
1975-76	\$8.8	\$6.9	\$9.1	\$0.5	\$11.2	\$36.5
1976-77	8.2	6.5	9.1	1.0	20.2	45.0
1977-78	9.0	6.4	9.0	1.3	19.4	45.1
1978-79	9.4	7.1	8.7	1.4	21.6	48.2
1979-80	9.9	8.0	10.9	1.6	34.8	65.2
1980-81	10.9	8.5	12.3	1.6	35.5	68.8

TABLE 8

Guaranteed Student Loan Aid
to Students Attending Wisconsin
Nonprofit Post-Secondary Institutions
1975-76 to 1981-82
(In Millions)

<u>Year</u>	<u>Private Lender</u>	<u>State Lender</u>	<u>Total</u>
1975-76	\$15.3	\$12.6	\$27.9
1976-77	18.6	10.9	29.5
1977-78	31.4	8.7	40.1
1978-79	40.8	13.0	53.8
1979-80	63.8	20.7	84.5
1980-81	115.7	29.1	144.8
1981-82	149.5	32.5	182.0

The above tables demonstrate a significant increase in federal aid throughout the 1970's and particularly after passage of the Middle Income Student Assistance Act. It should be noted that the impact of this act extended beyond the amount of dollars appropriated since the Pell formula was modified to permit participation of middle income families and an income ceiling was removed from the Guaranteed Student Loan Program. Information from the UW System indicates that this legislation increased the number of Pell recipients from 20,751 in 1978-79 to 32,090 in 1979-80 and that students with parental income in excess of \$15,000 received 63% of the Pell increase from 1978-79 to 1979-80. Table 8 shows that Guaranteed Student Loan expenditures increased more than sixfold during the seven years under review and by 238% from 1978-79 to 1981-82. An increase

in both the number of students borrowing under the program and the amount of money being borrowed was responsible for program growth. Thus, the number of borrowers went from 28,251 in 1978-79 to 57,495 in 1981-82 in the UW System and from 8,665 to 12,173 at Wisconsin's nonprofit private colleges and universities. The average loan increased from \$1,154 to \$2,112 in the UW System and from \$1,549 to \$2,512 at private colleges during this same period, an increase of 83% and 62%, respectively. This dramatic rise in GSL aid was far greater than growth in costs and is difficult to explain on the basis of financial need since the new students entering the program presumably had greater financial resources than previous borrowers and, therefore, required less per student assistance. Undoubtedly, the attractiveness of the GSL's 7% and 9% interest rates at a time of high money market charges partly explains this expansion.

Pell is the only federal program for which there exists comprehensive information on the income of students and their families since students apply outside the institution for Pell assistance and HEAB retains a file of all applicants and recipients. While income is of prime importance in the evaluation of need, other factors are also relevant to the needs formula, such as family size and assets and, therefore, distributional tables are included to illustrate the percentage of students who qualified for grants at various income ranges. It should be noted that students who are not eligible for Pell grants at the lower income ranges often have nonincome resources, such as social security or welfare payments, which reduce their need. Table 9 indicates the percentage of Pell program funds awarded to dependent students by adjusted gross parental income in 1981-82 in each educational system, while Table 10 presents data illustrating the pattern of eligibility for these awards at the same adjusted gross parent income categories.

TABLE 9

Distribution of Pell Awards to Dependent Students,
 Percentage of Program Funds Awarded by
 Adjusted Gross Parental Income
 1981-82

University of Wisconsin System

<u>Adjusted Gross Parental Income</u>	<u>Percentage of Program Funds</u>	<u>Cumulative Percentage</u>
\$0 - \$3,999	8%	8%
\$4,000 - \$7,999	13	21
\$8,000 - \$11,999	16	37
\$12,000 - \$15,999	16	53
\$16,000 - \$19,999	15	68
\$20,000 - \$23,999	14	82
\$24,000 - \$27,999	9	91
\$28,000 - \$31,999	6	97
\$32,000 - \$35,999	2	99
\$36,000 - \$39,999	1	100

Vocational, Technical and Adult Education System

<u>Adjusted Gross Parental Income</u>	<u>Percentage of Program Funds</u>	<u>Cumulative Percentage</u>
\$0 - \$3,999	12%	12%
\$4,000 - \$7,999	18	30
\$8,000 - \$11,999	18	48
\$12,000 - \$15,999	16	64
\$16,000 - \$19,999	15	79
\$20,000 - \$23,999	11	90
\$24,000 - \$27,999	6	96
\$28,000 - \$31,999	3	99
\$32,000 - \$35,999	1	100

Wisconsin Private Colleges and Universities

<u>Adjusted Gross Parental Income</u>	<u>Percentage of Program Funds</u>	<u>Cumulative Percentage</u>
\$0 - \$3,999	10%	10%
\$4,000 - \$7,999	14	24
\$8,000 - \$11,999	17	41
\$12,000 - \$15,999	16	57
\$16,000 - \$19,999	14	71
\$20,000 - \$23,999	11	82
\$24,000 - \$27,999	9	91
\$28,000 - \$31,999	5	96
\$32,000 - \$35,999	2	98
\$36,000 - \$39,999	1	99
\$40,000 +	1	100

TABLE 10

Percentage of Dependent Pell Applicants
Eligible for Awards by
Adjusted Gross Parental Income
1981-82

University of Wisconsin System

<u>Adjusted Gross Parental Income</u>	<u>Percent Eligible</u>	<u>Percent Ineligible</u>
\$0 - \$3,999	87%	13%
\$4,000 - \$7,999	80	20
\$8,000 - \$11,999	74	26
\$12,000 - \$15,999	71	29
\$16,000 - \$19,999	65	35
\$20,000 - \$23,999	56	44
\$24,000 - \$27,999	43	57
\$28,000 - \$31,999	32	68
\$32,000 - \$35,999	23	77
\$36,000 - \$39,999	15	85
\$40,000 +	7	93
Average	50%	50%

Vocational, Technical and Adult Education System

<u>Adjusted Gross Parental Income</u>	<u>Percent Eligible</u>	<u>Percent Ineligible</u>
\$0 - \$3,999	88%	12%
\$4,000 - \$7,999	84	16
\$8,000 - \$11,999	81	19
\$12,000 - \$15,999	75	25
\$16,000 - \$19,999	70	30
\$20,000 - \$23,999	60	40
\$24,000 - \$27,999	45	55
\$28,000 - \$31,999	31	69
\$32,000 - \$35,999	19	81
\$36,000 - \$39,999	16	84
\$40,000 +	4	96
Average	64%	36%

Wisconsin Private Colleges and Universities

<u>Adjusted Gross Parental Income</u>	<u>Percent Eligible</u>	<u>Percent Ineligible</u>
\$0 - \$3,999	89%	11%
\$4,000 - \$7,999	79	21
\$8,000 - \$11,999	67	33
\$12,000 - \$15,999	65	35
\$16,000 - \$19,999	61	39
\$20,000 - \$23,999	47	53
\$24,000 - \$27,999	35	65
\$28,000 - \$31,999	26	74
\$32,000 - \$35,999	15	85
\$36,000 - \$39,999	10	90
\$40,000 +	4	96
Average	40%	60%

The income distribution of Pell awards indicates that, while a substantial number of middle income students qualify for these awards, the overall distribution is weighted towards the needier students. Stated differently, higher awards to needier students create an allocation of program dollars which varies from the pattern of eligibility. For instance, Table 10 shows that 56% of applicants with parental incomes between \$20,000-\$23,999 in the University of Wisconsin System qualified for a Pell grant, 43% at parental incomes between \$24,000-\$27,999 and 32% at parental incomes between \$28,000-\$31,999. Yet, UW students in the income

range of \$20,000-\$31,999 received only 29% of all Pell aid with 68% of awards going to students with parental incomes below \$20,000. One surprising result indicated by this data is that students attending private colleges and universities in the state are less likely to qualify for Pell assistance than are students attending Wisconsin's public post-secondary institutions when similar levels of parental income are compared. Since the Pell formula is cost-sensitive, it might have been predicted that students at private schools would have received more aid given the higher cost at these institutions. A possible explanation of this award pattern is that private college families may have higher levels of personal assets and therefore generate less need.

Conclusion

While comprehensive information about federal funding of students attending Wisconsin post-secondary institutions was not available after 1980-81, aggregate nationwide expenditure and budgetary data indicates that Pell and campus based programs have and will remain at about the 1980-81 appropriation level of support through 1983-84. The lack of any growth in funding has affected students by requiring that they finance inflationary increases in costs from family or other aid sources thereby negating the real increase in support provided by the Middle Income Student Assistance Act. In the GSL program, a post-MISA change has resulted in the reimposition of an income related needs tests, although in Wisconsin 1982-83 borrowing activity suggests that this regulation should not cause a major reduction in loans. HEAB projects total GSL volume in the state at \$188,000,000 in 1982-83 which represents a 13% decrease from the 1981-82 level of \$216 million but exceeds by \$120 million loan volume in 1978-79.

Although the federal government has not provided any funding increases since 1980-81 for non-GSL programs, it is important to note that administrative proposals to eliminate or significantly reduce aid have also not been successful. Much of the recent expression of concern by the educational community over federal financial aids funding has represented a reaction to proposals to eliminate or reduce appropriations for the Pell, NDSL, SEOG and SSIG programs. It would appear that the most significant change in federal policy to date has been the phased federal elimination of college students from the social security program. Under recent legislation, children over the age of 18 enrolled in post-secondary institutions no longer qualify for social security benefits. Students who received benefits prior to May 1982 will see a reduction in their awards during a three year phase-out of the program. While social security aid is not need based, it can be expected that some students previously receiving aid under this program will now qualify for other types of federal student aid thereby intensifying the demands on these remaining resources.

In his 1984 federal budget message President Reagan has advanced a series of new financial aid proposals which differ in major respects in philosophy and content from previous administration suggestions. The Reagan Administration has announced that its intention is to shift the focus of student financial programs so that students and their families assume greater responsibility for financing educational costs, although the

overall level of non-GSL aid funding has not been reduced under the administration's budget. Perhaps the most important administrative proposal is to allow students to receive larger Pell awards while also requiring them to fund a portion of educational costs from their own resources. In order to assist students in meeting their financial obligations, an increase in College Work Study funding of 60% has been recommended. The administration has also proposed elimination of the State Student Incentive Grant and Supplemental Educational Opportunity Grant Programs and federal capital contributions under the National Direct Student Loan Program. If enacted, the Administration's proposal would result in federal funding for three financial aids programs, one each for work, grants and loans. The President also proposed restricting the GSL program so that students could only borrow up to the amount of their need and introduced a new tax provision which enables parents of students with incomes up to \$60,000 to receive tax benefits for the establishment of savings accounts for future educational costs.

CHAPTER 3

STATE FINANCIAL AID PROGRAMS

This chapter discusses state need-based financial aid programs. After an initial description of the development of these programs and the total level of state support currently available for student aid, the report concentrates on the state's two major grant programs, Tuition Grants and Wisconsin Higher Education Grants. The general purposes, goals and formulary structure of the two programs are identified and characteristics of grant recipients are examined to ascertain what kinds of students are receiving state awards. Administrative and distributional concerns are raised under both programs and alternative methods of operation considered.

Development of State Programs

The State of Wisconsin has a long history of involvement and support for student financial aid dating back to the establishment of the State Direct Loan Program in 1933. Outlines of the current structure of financial aid programs first began to emerge during the 1960's when a number of state initiatives increased the amount and type of funds available to students. Recommendations from a gubernatorial committee on scholarships and loans led to the establishment of the Wisconsin Tuition Grant Program and the Wisconsin Honor Scholarship Program. Responsibility for these programs and the State Loan Program was assigned to the newly-created Higher Educational Aids Board which was formed in 1965. In 1968-69, the state created a program for Teacher Scholarships and in 1971-72 initiated the Educational Manpower Grant Program and transferred an Indian Student Assistance Grant Program from the Department of Public Instruction to HEAB. To increase the amount of funds available for the State Direct Loan Program, the statutory authority of the Investment Board was modified to permit advances from the general fund to finance student loans. This change resulted in a growth in loan volume from \$204,400 in 1959-60 to \$2,694,800 in 1963-64 and an increase in the number of loans from 585 to 5,240 in this same period. In 1973, the state became a lender under the Guaranteed Student Loan Program and existing rules and regulations were brought into compliance with the federal program.

The federal move toward need-based financial aid programs which emerged during the 1960's and intensified with the creation of the Pell program had its counterpart in Wisconsin during the 1970's when categorical programs for Honor Scholarships and Teacher and Educational Manpower grants were discontinued in favor of a broad-based need program for Wisconsin Higher Educational Grants. At this same time, the state's measurement of need became more sophisticated as the Higher Educational Aids Board incorporated the College Scholarship Service's analysis of family financial resources into both the WHEG and Tuition Grant Programs, in the case of the latter program replacing a cruder needs criteria which had been based solely on income. Appropriations for grant programs expanded steadily from

the late 1960's to the late 1970's. For instance, GPR monies budgeted to the Wisconsin Higher Education Grant appropriation increased from \$4.6 million in 1973-74 to \$12.6 million in 1978-79 and Tuition Grant expenditures from \$4.6 million to \$8.2 million in this same period. The expansion in State Direct Loan expenditures was more pronounced due to the shift to revenue bond support in 1978. Lending under this program grew from \$10,557,600 in 1977-78 to \$24,108,300 in 1979-80 and \$34,816,000 in 1980-81. In 1979, legislation was also created to establish a revenue bond program to finance loans for medical and dental students, the Wisconsin Health Education Assistance Loan Program.

In the past two biennia, the direction of Wisconsin financial aid programs has diverged from the federal path as the state has resisted the expansion of program eligibility and funding embodied in the Middle Income Student Assistance Act. Under the State Direct Loan Program, income eligibility requirements lifted by federal law were reimposed as the Legislature established an adjusted income limit of \$25,000, although students with incomes exceeding this amount were permitted to qualify for aid if need could be demonstrated. Under the WHEG program, the Governor proposed and the Legislature approved a funding reduction of \$5.8 million for the 1979-81 biennium, based on the rationale that public post-secondary students would receive an increase in Pell and SEOG awards far exceeding the cutback. This trend continued into the 1981-83 biennium as the Legislature funded both the WHEG and Tuition Grant programs at a base or noninflationary appropriation level.

State educational institutions in preparation for the 1983-85 state budget have expressed concern over federal budget proposals and recent congressional action and have proposed expanding program funding to reverse recent reductions in state support. The Higher Educational Aids Board has advocated restoring the Wisconsin Higher Education Grant appropriation to its 1978-79 level in 1983-84 with a 5% inflationary adjustment in 1984-85. This proposal would require an additional \$6.2 million (\$2.8 million in 1983-84 and \$3.4 million in 1984-85). The Higher Educational Aids Board has also recommended eliminating the formulary proration in the Tuition Grant Program, imposed in 1980-81, and changing from a sum certain to a sum sufficient appropriation at a cost of \$5.1 million in 1983-84 and \$5.9 million in 1984-85. As noted, reductions in federal aid have been cited as the prime reason for these requests. It may be anticipated that any further decreases in federal financial aid will intensify submissions for additional state support.

State Programs and Distribution of Aid

The following section provides a short description of the major need-based state financial aid programs. The Wisconsin Higher Educational Aids Board (HEAB) administers all programs, except the Talent Incentive Program, which is jointly administered with the Department of Public Instruction. Other state student aid programs are identified in Appendix 2.

Wisconsin Higher Education Grant (WHEG). This program awards grant funds to state residents enrolled as undergraduates in Wisconsin's public post-secondary institutions in the UW and VTAE Systems. Students who are registered at least half-time are eligible for awards which are granted on a needs basis. The maximum annual grant is \$1,800. Students can receive these awards for up to ten semesters.

Tuition Grants. This program awards grants to state residents who are undergraduates in Wisconsin nonprofit post-secondary institutions which have tuition costs exceeding charges at UW-Madison. Tuition grant awards are provided for only that portion of tuition charges in excess of UW-Madison tuition so that no student pays less than Madison tuition under the program. Students who are registered at least half-time are eligible for awards for up to ten semesters. Grants are awarded on a needs basis. The maximum grant award is \$2,000.

Talent Incentive Program Grants (TIP). Talent Incentive Program Grants are intended to enhance educational opportunities and supplement existing financial aid for the urban and rural disadvantaged. Awards are distributed on a needs basis to first and second year post-secondary students with select personal, family and educational characteristics. The Educational Opportunity Program, which is operated by the Department of Public Instruction, has responsibility for identifying and selecting TIP recipients. Educational institutions also select candidates. To qualify for a TIP grant, a student must be a Wisconsin resident and registered at least half-time. Students can receive grants for up to ten semesters at a maximum annual level of \$1,800 including the student's WHEG award.

Indian Student Assistance Grants. This program awards grants to Wisconsin Native Americans who have one-quarter Indian blood and belong to a U.S. or Canadian tribe. Grants are awarded on a needs basis with an annual maximum grant of \$1,800 and a cumulative limit of \$9,000. Awards are often matched by an equivalent grant from the U.S. Bureau of Indian Affairs. A percentage of funds are also set aside to support the student costs of special programs.

State Direct Loan. Under this program, the state acts as a lender under the Guaranteed Student Loan Program providing loans to state residents attending post-secondary institutions. Monies for the program come from state revenue bonds. To be eligible for assistance, a student must be enrolled at least half-time and show evidence of having been denied a loan by a private lender. Families must have a family adjusted gross income under \$25,000 or demonstrate financial need to qualify for the program. Undergraduates can borrow up to \$2,500 per year to a maximum of \$12,500 and graduate students \$5,000 per year to a maximum of \$25,000. Interest rates are fixed at 9% with repayment beginning six months after a borrower leaves school, although students who borrowed under the former 7% rate are permitted to continue at this interest charge.

Wisconsin Health Education Assistance Loan Program (WHEAL). This program provides supplementary loan assistance to medical and dental students attending health professional schools in the state. The program

is funded by state revenue bonds and the loans are fully guaranteed by the federal government. Students can borrow up to \$15,000 per year to a total of \$60,000. Interest charges are based according to the rate of return on the revenue bond funding the program. The federal government limits the interest charge to no more than 3.5% over the rate of 90 day Treasury Bills averaged over the preceding quarter.

The next two tables indicate the growth and distribution of state financial aid awards. Table 11 shows growth in HEAB administered need-based grant and loan aid from 1970-71 to 1981-82. Table 12 utilizes information from Wisconsin post-secondary schools which collect information primarily on need-based aid to show the distribution of HEAB administered grant and loan funds among post-secondary institutions in the state (UW, VTAE and private colleges).

TABLE 11

Need-Based State Student Financial Aid Expenditures*
1970-71 to 1981-82

<u>Program</u>	<u>1970-71</u>	<u>1971-72</u>	<u>1972-73</u>	<u>1973-74</u>	<u>1974-75</u>	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>	<u>1978-79</u>	<u>1979-80</u>	<u>1980-81</u>	<u>1981-82</u>
Tuition Grants	\$2,338,200	\$2,751,500	\$3,762,400	\$4,626,200	\$5,294,500	\$5,999,600	\$6,675,600	\$7,421,400	\$8,174,800	\$10,433,700	\$9,818,900	\$9,962,400
Honor Scholarships	686,200	749,500	748,400	557,200	583,800	774,500	Program Discontinued					
Tuition Reimbursement Grants	353,900	332,200	340,300	Program Discontinued								
Educational Manpower Grants		138,000	313,000	237,500	362,100	363,000	Program Discontinued					
Indian Student Assistance		294,800	736,900	853,800	884,200	937,100	972,200	979,000	829,700	937,300	854,800	892,400
Talent Incentive Grants			412,500	650,200	978,100	1,096,600	854,700	556,000	958,300	913,600	618,800	645,700
Higher Education Grants*				3,749,900	3,689,400	5,776,900	9,767,000	10,958,200	11,741,100	7,816,100	8,280,700	7,647,700
Safe Streets Grants			45,300	71,700	60,500	Program Discontinued						
Teacher Scholarships	135,100	Program Discontinued										
Teacher Stipends	81,600	Program Discontinued										
State Direct Loans	6,935,100	8,021,500	7,996,100	8,328,400	11,591,600	14,415,500	12,495,000	10,557,600	15,471,100	24,108,300	34,816,000	37,693,000
Wisconsin Health Education Assistance Loans											3,648,800	5,171,500
TOTALS	\$10,530,100	\$12,287,500	\$14,354,900	\$19,074,900	\$23,444,200	\$29,363,200	\$30,764,500	\$30,472,200	\$37,175,000	\$44,209,000	\$58,038,000	\$62,012,700

*Excludes \$3,389,000 State Student Incentive Grants incorporated into the Talent Incentive Grant Program.

TABLE 12

Distribution of Major State Grant and Loan Program
Awards, by Wisconsin Nonprofit Post-Secondary Institutions
1980-81
(In Millions)

	<u>WHEG*</u>	<u>TIP**</u>	<u>Indian Grant</u>	<u>Tuition Grant</u>	<u>State Direct Loan***</u>	<u>Total</u>
UW System	\$6.1	\$0.9	\$0.4	---	\$16.9	\$24.3
VTAE	2.1	0.6	0.2	---	7.6	10.5
Private	---	<u>0.8</u>	<u>0.2</u>	<u>\$9.8</u>	<u>4.6</u>	<u>15.4</u>
 TOTAL	 \$8.2	 \$2.3	 \$0.8	 \$9.8	 \$29.1	 \$50.2

*Includes \$1.2 million in federal special allowances expenditures.

**Includes \$1.6 million in federal Student Incentive Grant funds.

***Excludes \$5.7 million in awards to proprietary and out-of-state students.

Table 13 lists the total amount of financial aid distributed under state funded or sponsored student financial aid programs in 1980-81. This includes all types of aid programs whether administered by a financial aid office or through another state agency and encompasses programs supported by segregated or bonding revenue such as the State Direct Loan Program. In addition, the table includes Wisconsin students attending Minnesota institutions under the higher educational reciprocity agreement between the two states and the cost of nonresident tuition remissions at the University of Wisconsin System. This table contains the most comprehensive picture of the total amount of resources devoted to state sponsored programs.

TABLE 13

Student Financial Aid Distributed
Under State Sponsored Programs
1980-81

<u>General Purpose Revenues</u>	
Wisconsin Higher Education Grant	\$8,280,700
Tuition Grant	9,818,900
Talent Incentive Grants ¹	618,800
Indian Student Assistance Grant	854,800
National Guard Tuition Grant	115,400
Advanced Opportunity Grant	2,056,500
Forgiveness of Critical Manpower Occupations ²	266,100
State Vietnam	
Era Veterans Educational Grant ³	479,200
TOTAL	<u>\$22,490,400</u>
 <u>Fee Remissions</u>	
Minnesota Tuition Remission ⁴	\$4,695,000
University of Wisconsin Tuition Remissions	11,283,400
TOTAL	<u>\$15,978,400</u>
 <u>Segregated Revenue</u>	
State Direct Loans ⁵	\$34,816,000
Wisconsin Health Education Assistance Loans ⁶	3,648,800
Veterans Economic Assistance Loans	648,500
State Veteran Correspondence Courses and Part-Time Classroom Study	1,092,500
TOTAL	<u>\$40,205,800</u>
 TOTAL	 <u>\$78,674,600</u>

¹Excludes \$1.6 million in matching SSIG funds.

²This loan forgiveness program was discontinued in July 1976 and students can no longer qualify for forgiveness of loans. However, students who borrowed under this program before July 1, 1976 continue to receive forgiveness of loan payments.

³Converted to segregated fund support in 1981-82.

⁴Includes tuition remission cost of Wisconsin students enrolled in Minnesota institutions. Not included is the cost of Minnesota students enrolled in Wisconsin institutions (\$9,658,300). Also does not include some students who attend Minnesota vocational centers and Upper Michigan post-secondary institutions under compact agreements which do not include provisions for cost reimbursement.

⁵This program may be viewed as both a state and federal program. The federal government establishes the general borrowing and lending requirements of the program. Lenders, in this case the State of Wisconsin, are responsible for raising the revenues used as loan capital.

⁶Includes revenue bond supported loan costs only. A forgiveness program is also currently in place which should begin making awards during the 1983-85 biennium.

CHAPTER 4

TUITION GRANT PROGRAM

Program Description

The Tuition Grant Program is a need-based financial aid program directed at promoting access to private colleges and universities in the state through the granting of supplemental tuition awards. The program originated in 1966-67 under a recommendation from a gubernatorial scholarship and loan committee which advocated that the maximum grant award be set at an amount equal to the state subsidy students receive at the University of Wisconsin, a continuing goal of the Higher Educational Aids Board. The establishment of this program mirrored a general trend emerging throughout the nation of extending student financial aid beyond the purpose of funding basic educational and subsistence costs so as to allow students to choose between private and public institutions of higher learning by indirectly reducing their differences in price. All needy state residents attending schools with tuition charges higher than UW-Madison's tuition are eligible to receive Tuition Grant awards. The maximum grant is \$2,000 although the state pays tuition costs only in excess of UW-Madison's charges and, therefore, students attending a few lower-cost, private institutions such as nursing schools are not eligible for a \$2,000 award. A few students attending high cost VTAE programs also receive aid under this program. Students can qualify for awards for up to ten semesters and must be registered at least half-time to receive aid. Proprietary school students are excluded from this program under a statutory section which permits only accredited, nonprofit institutions to participate. Any student who receives a grant but does not complete the semester for which the grant is received must return a prorated share of the award.

The Tuition Grant Program is administered by the Higher Educational Aids Board in conjunction with eligible college and universities in the state. The student applies for the program through a financial aid application by indicating that a copy of the College Scholarship Service's needs analysis be sent to the Higher Educational Aids Board. The state agency, in turn, incorporates CSS's determination of parental ability to pay into the state Tuition Grant formula (explained below) and notifies the institution of the amount of the student's award if he or she qualifies for a grant. A check is later sent to the business office or the bursar of the school and disbursed to the student under regulations subject to audit by HEAB and the Legislative Audit Bureau. Students can apply for Tuition Grants throughout the year and both the school and HEAB are routinely exchanging award lists and program information. A procedure also exists whereby students who have experienced a significant change in their family's financial situation can ask for an adjustment in their award.

The Tuition Grant Program distributes awards according to a formula which is sensitive to variations in tuition cost and student need. The

formula works by allocating a student's expected family contribution proportionately towards tuition and noninstructional costs. Under this approach awards are adjusted according to changes in levels of expected family contribution and tuition charges. Thus, in the case of two students with the same expected CSS contribution levels attending differently priced schools, the student enrolled at the higher cost institution would receive a larger grant award.

The Tuition Grant formula operates under the following four-step process for a dependent student:

Step #1--The institution's "net tuition" is determined. Net tuition is equal to the tuition at the student's institution less the estimated tuition fee at UW-Madison.

Step #2--A determination is made as to what percentage this net tuition represents of total student costs (including such items as tuition, room, board and books). In 1982-83, a standard \$3,300 amount is used for all schools as the budget for noninstructional costs for dependent students.

Step #3--The percentage derived under step two is multiplied times the CSS family contribution in order to calculate a "tuition offset."

Step #4--The grant award is determined by subtracting the difference between net tuition and the tuition offset although this is affected by a proration percentage (explained below). The actual grant may not exceed \$2,000 per year.

The following hypothetical example illustrates how this formula would operate for two dependent students, one with a \$3,000 expected contribution, another with a contribution of \$4,000 and both attending a school with tuition costs of \$4,000 (net tuition \$3,000) and total budget costs of \$7,300.

TABLE 14

Example of Tuition Grant Formula for Two Dependent
Students at Varying Contribution Levels, 1982-83

	Student A (\$3,000 family contribution)	Student B (\$4,000 family contribution)
1. Net Tuition	\$3,000	\$3,000
2. Net Tuition/Total Cost	41%	41%
3. Step 2 x Family Contribution	\$1,230	\$1,640
4. Step 1 minus Step 3 = Grant Award*	\$1,770	\$1,360

*Prior to proration which is explained below.

The grant award formula for independent students follows the same procedure as for dependent students except that independent students have higher noninstructional budgetary costs. Annual standardized noninstructional budgets have been established for independent students according to family size. These same standardized budgetary components are used for the Wisconsin Higher Educational Grant Program. Also, independent students have an expected minimum contribution of \$2,400 for single students and \$4,800 for married students.

Prior to 1980, the Legislature funded Tuition Grants through a sum sufficient appropriation. A nonstatutory section in the state's 1980 annual review budget, however, specified a proration procedure for the program which would have significantly exceeded estimates in the appropriation schedule due to tuition increases and a change in the CSS needs analysis. This proration controls total program expenditures by an adjustment in the expected contribution level. By raising the formulary amount required from students and their parents, the state reduces its share of support. The proration technique acts upon the Tuition Grant formula by increasing the amount of the tuition offset and thereby decreasing grant awards (see steps 3 and 4 in Table 14). The distributional impact of the above procedure is to reduce total student awards at a proportional instead of a flat rate. As a consequence, students with greater need or a lower expected parental contribution have a smaller grant reduction and students with higher parental contribution levels have a greater grant reduction than would have been the case if the

grants had been lowered by a uniform dollar amount. The rationale behind this adjustment is that the less affluent student is particularly affected by any grant decrease and is less capable of finding alternative means of support. In 1982-83, HEAB also began adjusting proration percentages as a way of altering award amounts to various categories of students (single independents, independents with dependents and dependents).

As tuition and noninstructional costs have continued to increase in the past few years while the appropriated amount has remained stable, the difference between the dollars provided through the Tuition Grant appropriation and the hypothetical sum generated by the grant formula have widened. The Board has estimated that fully funding the formula at the current maximum annual award of \$2,000 for the 1983-85 biennium would require a 51% appropriation increase of \$11 million. If the maximum award were equal to the GPR subsidy at the University of Wisconsin, as calculated according to the cost per student level of support, it is estimated that the program would require more than a \$21 million increase during this same period. These estimates were developed prior to a second semester grant reduction of \$175 per student and therefore, are likely to understate expenditures under full funding by about 10%.

Level and Distribution of Tuition Grant Awards

The following table shows the change in Tuition Grant expenditures from 1970-71 to 1981-82.

TABLE 15

Tuition Grant Expenditures 1970-71 to 1981-82

<u>Year</u>	<u>Amount</u>
1970-71	\$2,338,200
1971-72	2,751,500
1972-73	3,762,400
1973-74	4,626,200
1974-75	5,294,500
1975-76	5,999,600
1976-77	6,675,600
1977-78	7,421,400
1978-79	8,174,800
1979-80	10,433,700
1980-81	9,818,900
1981-82	9,962,400

The decline in awards in 1980-81 resulted from a 4.4% budgetary reduction enacted by the Governor and the Legislature. The 1981-82

decrease reflects a lapse of \$507,400 directed by the Department of Administration. More generally, the absence of appropriation increases in the 1979-80 to 1981-82 years is evidence of the general fiscal condition of the state and the Legislature's decision not to supplement student aid programs because of the growth in federal financial aid awarded through the Middle Income Student Assistance Act.

The average tuition increase for students attending private colleges and universities in the state is shown in Table 16. This information obtained from the Wisconsin Association of Independent Colleges and Universities indicates that tuition increased by 85% from 1976-77 to 1982-83. The average tuition paid by these students exceeded the maximum tuition grant award by \$2,565 in 1982-83.

TABLE 16
Average Private College and University Tuition
1976-77 to 1982-83

<u>Year</u>	<u>Average Tuition</u>
1976-77	\$2,503
1977-78	2,719
1978-79	2,946
1979-80	3,254
1980-81	3,510
1981-82	4,037
1982-83	4,565

The following tables examine the distribution of Tuition Grant awards. Table 17 compares Tuition Grant expenditures with resident enrollment at eligible institutions. Tables 18 to 20 show both the rate of program eligibility and the receipt of awards at various income ranges.

TABLE 17

Comparison of Distribution of Tuition Grant Awards
and Resident Enrollment at Private Colleges and Universities
1980-81

<u>Schools</u>	<u>Number of Recipients</u>	<u>Percentage of Tuition Grant Funds</u>	<u>Resident Enrollment</u>	<u>Percentage of Total Private School Enrollment</u>
Alverno	241	2%	1,194	8%
Beloit	129	2	180	1
Cardinal Stritch	213	2	609	4
Carroll	610	9	903	6
Carthage	342	5	505	3
Concordia	227	1	434	3
Edgewood	194	2	378	2
Lakeland	244	3	330	2
Lawrence	303	5	494	3
Marian	271	3	418	3
Marquette	2,027	26	3,948	25
Milton	152	2	230	1
Milw. School of Engineering	554	6	1,207	8
Mount Mary	305	2	690	4
Mount Serario	233	3	255	2
Northland	193	2	210	1
Ripon	283	4	426	3
St. Norbert	642	8	1,049	7
Silver Lake	173	2	252	2
Viterbo	504	6	642	4
St. Frances de Sales	12	*	47	*
W. College Conservatory	62	1	106	1
W. Lutheran College	57	1	80	1
Holy Redeemer	15	*	13	*
Patricia Stevens	42	1	90	1
Milw. School of Arts	90	1	231	1
Schools of Nursing	243	1	654	4
VTAE Schools	21	*	N.A.	N.A.
TOTAL	8,382	100%	15,575	100%

*Less than 1% of total.

The preceding table shows a significant correlation between the levels of resident enrollment at Wisconsin private colleges and universities and the allocation of Tuition Grant awards. Perhaps only in the case of Alverno College is there a marked difference between the two and this may be explained by a higher incidence of part-time student enrollment. Award data also indicates that higher tuition schools such as Beloit and Ripon do not receive a much greater share of program aid.

TABLE 18

Percentage of Dependent Tuition Grant Applicants
Eligible for Awards by Adjusted Gross Parental Income
1981-82

<u>Adjusted Gross Parental Income</u>	<u>Percent Eligible</u>	<u>Percent Ineligible</u>
\$0 - \$3,999	94%	6%
\$4,000 - \$7,999	88	12
\$8,000 - \$11,999	85	15
\$12,000 - \$15,999	87	13
\$16,000 - \$19,999	88	12
\$20,000 - \$23,999	86	14
\$24,000 - \$27,999	86	14
\$28,000 - \$31,999	75	25
\$32,000 - \$35,999	61	39
\$36,000 - \$39,999	50	50
\$40,000 +	24	76
Average	73%	27%

TABLE 19

Distribution of Dependent Tuition Grant Recipients
by Adjusted Gross Parental Income
1981-82

<u>Adjusted Gross Parental Income</u>	<u>Percentage of Recipients</u>	<u>Cumulative Percentage of Recipients</u>
\$0 - \$3,999	3%	3%
\$4,000 - \$7,999	5	8
\$8,000 - \$11,999	8	16
\$12,000 - \$15,999	9	25
\$16,000 - \$19,999	12	37
\$20,000 - \$23,999	14	51
\$24,000 - \$27,999	17	68
\$28,000 - \$31,999	14	82
\$32,000 - \$35,999	9	91
\$36,000 - \$39,999	5	96
\$40,000 +	4	100

TABLE 20

Distribution of Tuition Grant Awards to
Dependent Students Percentage of Program Funds Awarded
by Adjusted Gross Parental Income
1981-82

<u>Adjusted Gross Parental Income</u>	<u>Percentage of Program Funds</u>	<u>Cumulative Percentage</u>
\$0 - \$3,999	4%	4%
\$4,000 - \$7,999	6	10
\$8,000 - \$11,999	10	20
\$12,000 - \$15,999	10	30
\$16,000 - \$19,999	13	43
\$20,000 - \$23,999	15	58
\$24,000 - \$27,999	16	74
\$28,000 - \$31,999	12	86
\$32,000 - \$35,999	8	94
\$36,000 - \$39,999	4	98
\$40,000 +	2	100

Table 18 shows that 73% of dependent financial aid filers are eligible for Wisconsin Tuition Grants and that at every adjusted gross parental

income range below \$40,000 at least 50% of filers qualify for awards. Tables 19 and 20 illustrate that most grant awards and program expenditures go to students with incomes substantially below the upper income category. For instance, 51% of recipients have parental incomes below \$24,000, and these students receive 58% of total program awards. Another interesting distributional point concerns the large number of students who receive an award near or at the maximum annual level. For instance, 60% of dependent students receiving awards have a grant of more than \$1,600. As discussed below, the average award for independent students is less than the award for dependent students.

Analysis

The general administrative and formulary structure of the Tuition Grant program corresponds to the purpose for which it has been established, that is, to provide dollars to needy students in order to offer them a choice between enrollment at a public or private educational institution. There are, however, a number of financing procedures, policy directives and administrative practices which merit analysis as to their efficacy and/or appropriateness to the program. The conceptual approach of the Tuition Grant formula, as explained above, is a simple one in that it incorporates the expected family contribution of students by apportioning it between noninstructional and instructional costs. The award is calculated by subtracting that portion of the expected contribution dedicated to tuition costs from the student's net tuition amount. This formulary treatment of the CSS needs analysis seems reasonable since there is no inherent reason why a family's financial resources should fund disproportionately instructional or noninstructional costs. What appears more problematic is the absence of other resource elements in the formula since students receive many other forms of financial assistance such as Pell, SEOG, College Work Study and Talent Incentive Program awards.

A number of methods to include other aid receipts in the Tuition Grant award formula could be considered. One method would involve apportioning a student's Pell award towards noninstructional and instructional costs thereby adding a step in the formula whereby Pell and family contribution resources are considered together in determining need. To include other aid awards, such as SEOG or institutional grants, would prove unworkable since these funds are among the last elements assembled by the campus aid officer in completing a student's financial aid package. The Wisconsin Higher Education Grant already considers student Pell awards in its grant formula. However, given the changes which have occurred within the Pell formula and uncertainty over the level and distribution of future Pell aid one can question the appropriateness of such a change. Also, this formulary modification would affect the distribution of awards by lowering grants for the neediest students, Pell recipients.

Perhaps a more promising approach would involve a standard adjustment in the Tuition Grant formula to reflect levels of outside award activity. This could take the form of a standard dollar offset or an applied uniform percentage multiplied against family contribution amounts. The percentage could be determined by comparing the relationship between total amounts of

nonloan assistance received by participating students and their contribution amount. For instance, in 1980-81, such aid represented about 45% of the total expected contribution. It is estimated that if the Tuition Grant formula were changed in the manner described above, the additional cost of fully funding the formula for the 1983-85 biennium would be reduced by about half. Prorating, of course, could continue irrespective of formulary changes.

A fundamental goal of the Higher Educational Aids Board for the Tuition Grant program has been to establish a maximum Tuition Grant award equal to the GPR subsidy received by University of Wisconsin students. The Board has advocated adoption of this criterion of support since all UW students receive such indirect aid regardless of need. Also, it is asserted that embracing this goal does not create additional costs at least in the sense that a student who decides to attend a private college because of a Tuition Grant award will actually receive less state support than if he were attending a UW institution. This so-called equalization concept assumes that private college and university programs are similar to those programs at the state's public universities. However, because of the higher proportion of liberal arts students at private nonprofit institutions, one could argue that equalization should be tied to the average cost per liberal arts degree instead of the average cost of all degree programs (\$2,913 compared to \$2,984 in 1981-82). A more basic limitation is that new students attending UW institutions are not funded according to average costs but by the marginal or incremental costs associated with their education. Under the enrollment funding formula for the UW System, funds provided per new FTE student in 1981-82 amount to \$1,886 at doctoral cluster institutions (UW-Madison and UW-Milwaukee) and \$1,785 at the eleven other four-year UW institutions. Viewed from this perspective, the maximum award under the Tuition Grant program of \$2,000 actually exceeds the state subsidy provided to new students at the University. The average Tuition Grant award of \$1,385 in 1981-82 is about \$400 to \$500 less than average amount of state support expended under the enrollment funding formula.

Because of the variety of ways that one can approach the issue of state support for the UW System, it seems appropriate to suggest that the Higher Educational Aids Board reconsider its policy of advocating that the maximum grant be based on the average GPR cost per student subsidy. The intent of the Tuition Grant program is to diminish the difference in tuition cost between public and private schools for needy students. To the extent that the equalization issue focuses attention on the state subsidy it obscures the nature of the changing relationship between public and private tuition charges.

Another aspect of the Tuition Grant formula which merits examination involves independent students. Examination of the distribution of funds between dependent and self-supporting students as shown in Table 21 indicates that the program has consistently awarded independent students less than dependent students.

TABLE 21

Average Award* for Tuition Grant Recipients
According to Financial Status
1978-79 to 1981-82

<u>Year</u>	<u>Independent</u>	<u>Dependent</u>	<u>Program Average</u>
1981-82	\$788	\$1,527	\$1,385
1980-81	946	1,366	1,282
1979-80	1,014	1,321	1,256
1978-79	964	1,128	1,095

*Average for students receiving funds under the program.

In 1982-83, the Higher Educational Aids Board modified the Tuition Grant formula by establishing separate proration percentages for single independent students (200%), independent students with dependents (100%) and dependent students (160%). These formulary alterations resulted in an average award of \$1,612 for dependent students, \$1,173 for single independent students and \$1,271 for independent students with dependents, although awards were reduced by \$175 per student in the second semester in order to maintain funds within the appropriated amount. One could challenge the legality of establishing these three proration categories since this practice results in a distribution of awards unrelated to language authorizing program awards in the statutes and in nonstatutory provisions of the budget act. For instance, the nonstatutory provision creating the procedure for prorating a grant award states that "the board shall incorporate a proration of grant awards through application of fixed percentages of each dependent student's family contribution and of each independent student's adjusted available income."

Conversations with financial aid officers at private and public colleges and universities in the state reveal some conflicting attitudes towards the aiding of independent students. On the one hand, it is generally recognized that the self-supporting student population contains some of the most needy aid applicants who have significant financial obligations and little means of support. On the other hand, there is suspicion that some students are manipulating the process by establishing a claim of independence in order to qualify for aid from which their parental resources might exclude them. Aid officers have even indicated that some students are establishing claims of independence while enrolled in school.

Given the potential for abuse which exists in the declaration of self-supporting status and the difficulty of monitoring indirect means of parental support, it seems that the Board's allocations of Tuition Grant awards are intended to discourage claims of independence by reducing the resulting incentive or award for such a claim. The success of this

approach cannot be determined since it would require the identification of students who have been discouraged from changing their dependent status as a result of this policy. However, it should be noted that the program does not exclude students from grants under this procedure and, therefore, there is still an inducement to claim independence.

An alternate strategy to the current policy of providing lower awards for self-supporting students would constrict eligibility standards for independent status. One simple restriction would involve the adoption of a statutory provision or administrative rule which would prohibit students, for financial aid purposes, from becoming self-supporting while enrolled in school. A more restrictive modification would require a student to submit evidence of one or more additional years of self-sufficiency instead of only one year prior to the year of application, as is currently the practice. A number of states such as Washington and California have adopted this rule. Another approach the Legislature could examine and which the federal government is considering would establish an age threshold as one principal criteria under which all single students would be judged as being dependent of parental support. The rule could exempt students who are married, whose parents are deceased or who are wards of the state from qualifying as independents. Proponents of this policy argue that it is consistent with the general philosophy of needs analysis which measures parental ability to pay, not willingness to pay, and that it would exclude a number of students now falsely claiming self-supporting status. Opponents object that such a policy would affect students who are truly independent of parental support but below the threshold age. The federal government is currently studying the feasibility of establishing an age threshold as one of its criteria for independent status, an age cut-off of 22 years of age having been mentioned in this discussion.

The following table provides an age breakdown of single independent students receiving Tuition Grant awards in 1981-82. These students represent about two-thirds of the total number of independent students receiving aid in this year, the remainder being self-supporting students with one or more dependents.

TABLE 22

Age Distribution of Single Independent
Tuition Grant Recipients
1981-82

<u>Year of Birth</u>	<u>Number of Recipients</u>	<u>% of Recipients</u>
1940-1950	72	6
1951	19	2
1952	19	2
1953	28	3
1954	27	2
1955	35	3
1956	79	7
1957	86	8
1958	126	11
1959	174	16
1960	243	22
1961	140	13
1962	35	3
1963	23	2
TOTAL	1,106	100%

Based on the above data, it can be estimated that over half of the single independent student population would not qualify for awards if single independents age 22 and under, or those born after 1957 and 1958, were excluded from the program. Those declared ineligible because of age would not be automatically denied grants but asked to apply under dependent status.

The Legislature may wish to reexamine the current practice of underawarding independent students. Self-supporting students are required under the Tuition Grant formula to make substantial minimum contributions in comparison to dependent students. Many also have higher budgetary needs. The resource requirements for single independent students are increased by the use of multiple proration percentages which have the effect of increasing the minimum contribution for single independent students by 25% over dependent students and by 100% over self-supporting students with dependents. Certainly, one approach that could be considered and would appear more consistent with the statutory formula would be to adopt the same proration percentage for all students. Recognition of the special needs of self-supporting students with dependents could continue through adjustments in the minimum expected contribution amounts.

The Tuition Grant program excludes students attending proprietary schools by virtue of a statutory requirement limiting program eligibility to nonprofit institutions. The major proprietary schools in this category

include Milwaukee Stratton, Acme, Milwaukee Business Training Institute, Madison Business and Madison School of Electronics although students at a variety of other schools including beauty schools would also qualify for awards. These schools offer a wide range of courses and programs in fields of computer operations, business, electronics, cosmetology, drafting and tool and die design. The length of the programs vary according to course of study but most range from nine months to two years. Three schools offer an associate degree: Madison Business College, Wisconsin School of Electronics and Milwaukee Stratton. All of the above schools are accredited either through the National Association of Independent Trade and Technical Schools or through other national accrediting associations. Information on the educational and financial status of these schools is filed with the Educational Approval Board. Annual tuition costs at Wisconsin proprietary schools vary according to institution and course of study. Most full-time students pay in excess of \$2,000 and some students, for instance those enrolled in high technology courses at Milwaukee Stratton and Acme Institute of Technology, have tuition charges of about \$5,000 in 1982-83.

The exclusion of proprietary students from the Tuition Grant program has received frequent attention from the Wisconsin Legislature which has considered and rejected bills designed to expand eligibility to permit the participation of these students. The most recent legislation was introduced in 1982 as Senate Bill 784. Sponsors of this legislation argued that expanding the Tuition Grant program to include proprietary students would conform to the program's goal of promoting educational opportunities for Wisconsin residents and would recognize that the schools perform a valuable training service. It is noted that proprietary students receive federal financial aid assistance from the Pell, NDSL, SEOG and GSL programs. These students also receive State Direct Loans. Opponents have criticized this proposal since it would aid students attending profit-making institutions. Also, proprietary students usually enroll for one year instead of four and, therefore, do not have the cumulative financial costs that students incur who attend private liberal arts schools.

It is not possible to make an exact determination of the cost of expanding the Tuition Grant Program to include proprietary students since proprietary students do not customarily submit aid applications to the College Scholarship Service and neither the number of eligible students nor their need is known. In association with Senate Bill 784, Higher Educational Aids Board staff prepared a fiscal note which estimated the annual cost of including these students at \$1.2 million in 1981-82. However, this projection is undoubtedly low since a subsequent analysis of students attending five major proprietary schools (Acme Institute, Wisconsin School of Electronics, Milwaukee Stratton, Madison Business College and MBTI Business Training) performed by staff at MBTI projected an annual cost of \$1.2 million for only these five schools. Based on this internal analysis it can be estimated that when other proprietary institutions are considered, total cost increases due to this eligibility change may approach two million dollars per year or 20% of current expenditures under the program.

Conclusion

The preceding analysis of the Tuition Grant Program concentrates on its formulary, distributional and statutory aspects. A discussion of administrative operations and funding procedures is included in the following section on the Wisconsin Higher Education Grant Program since both the private and public grant programs are governed by similar administrative methods. Because of the private status of the institutions served by the Tuition Grant Program, assessment of the program's effectiveness and appropriateness may ultimately reflect one's point of view about the nature of these institutions. From one perspective--when compared against the overall commitment of state resources and programs--the income of Tuition Grant recipients appears high and the argument questionable that the state obtains substantial financial benefits from this program by avoiding the payment of educational subsidies to students who might otherwise attend public schools. From a different perspective, the information developed for the report suggests that the Tuition Grant Program has been effective in promoting in Wisconsin the concept of choice in higher education. The number of students eligible for this program, 73% of applicants, and the relatively high average award of about \$1,400 demonstrates that the program is an important resource for students wishing to attend private colleges. The amount of state funds awarded to students attending Wisconsin private colleges and universities through major state need programs is similar to the amount of scholarship and grant funds distributed to such students by other midwestern states according to a survey by the National Association of State Scholarships and Grant Programs. In Wisconsin, about 51% of major grant program funds went to private school students in 1980-81. The survey indicates that, throughout the midwest, 53% of total grant and scholarship funds were received by students attending private four year colleges and universities, with students attending two year private colleges receiving 4% of state funds and students attending schools of nursing and allied health programs receiving 1%. It may be noted that tuition costs at private colleges and universities exceed public tuition rates by an amount substantially more than the average or maximum Tuition Grant award requiring either the students or institutions to fund these additional costs. Thus, in 1982-83 the average instructional fee paid by a student attending a private nonprofit institution was \$4,565 or about \$2,565 more than the maximum Tuition Grant.

Regardless of the overall impact of the Tuition Grant Program one can raise substantive questions about the method by which awards are given out. The formulary allocation of other aid receipts towards nontuition expenses appears inappropriate and requires the state to assume under the formula a disproportionate share of supplementary tuition costs, although due to the current proration of awards the funding implications of the formula are not realized. Also, in the distribution of grant awards, the underawarding of independent students and the exclusion of proprietary students from the program raise equity considerations. Given the serious financial circumstances of many independent students, the current practice of underawarding single self-supporting students is a poor alternative to prescribing criteria which would more rigorously identify members of this population.

CHAPTER 5

WISCONSIN HIGHER EDUCATION GRANT PROGRAM

Program Description

The Wisconsin Higher Education Grant Program is the state's basic grant program for Wisconsin undergraduates enrolled in the University of Wisconsin and Vocational, Technical and Adult Education Systems. To be eligible for a WHEG award a student must be a resident of Wisconsin, enrolled in a public postsecondary institution and registered at least half-time. Students can receive a maximum award of \$1,800 per year and eligibility lasts ten semesters.

The Legislature created the WHEG program in 1973-74 as a mechanism to provide general financial aid assistance to needy post-secondary students who attend public institutions. The program replaced a number of special purpose categorical financial aid programs which had focused on educational criteria in addition to need. The new WHEG program distributed funds on a lump sum basis to UW and VTAE schools which in turn made awards to individual students within general guidelines established by HEAB. In 1976-77, however, the program was changed so that WHEG awards were determined by HEAB under a uniform award formula. In 1980-81 the Legislature modified the program to permit federal special allowance revenues received from the State Direct Loan Program to be budgeted to replace GPR monies previously committed to the program.

The allocation of WHEG awards proceeds from an evaluation of applicant costs and financial resources. Under the equity formula, awards are intended to be directed to students in such a way as to bring grant recipients in each standardized budgetary category up to a level at which there is equity among parental, personal and Pell resources. The Board has established the principle that funds are distributed between independent and dependent students in proportion to the number of needy applicants. The equity level for each is fixed according to the program's appropriation and HEAB's estimation of aggregate student need, that is, the level of family contribution and Pell support. In contrast to the Tuition Grant Program, whose statutory formula exists irrespective of funding commitments, the WHEG formula spends the amount appropriated by the Legislature without any implication of a student's entitlement. The formula incorporates the CSS analysis, as does the Tuition Grant formula, because it supplies the staff with a vigorous examination of parental resources and ability to pay for college costs. CSS also computes the student's expected Pell award, and this estimation is incorporated into the formula. The same standardized expected student contribution from summer work is used as under the Tuition Grant Program.

The following example illustrates how the WHEG equity principle operates for two, dependent, University of Wisconsin students, one with an

expected parental contribution of \$1,000 and a Pell grant of \$300 and the other with an expected parental contribution of \$500 and a Pell award of \$600. Grants to VTAE students are made in the same manner except that separate equity and student budget levels are used to reflect educational cost differences.

TABLE 23

Example of the WHEG Equity Formula
for Two Dependent UW Students With Varying Family
Contributions and Pell Grants
1982-83

Student A

Step 1:	Calculation of Resource Contribution	
a.	Parental contribution	\$1,000
b.	Student summer work (expected contribution)	700
c.	Pell award	<u>300</u>
	Total	\$2,000
Step 2:	Calculation of Award	
a.	Equity level (-)	\$2,200
b.	Resource contribution (=)	2,000
c.	Grant	200

Student B

Step 1:	Calculation of Resource Contribution	
a.	Parental contribution	\$500
b.	Student summer work (expected contribution)	700
c.	Pell award	<u>600</u>
	Total	\$1,800
Step 2:	Calculation of Award	
a.	Equity level (-)	\$2,200
b.	Resource contribution (=)	1,800
c.	Grant	400

Since budgets of independent students vary according to family size, there is no uniform level up to which students receive awards. Instead, there is utilization of a uniform percentage, which is applied to student need amounts and which is annually determined after correlating levels of independent need and funds budgeted to independent applicants. Self-supporting students have an expected minimum contribution of \$2,400 for single students and \$4,800 for married students. The following table illustrates how the WHEG formula operates for two independent VTAE students in 1982-83. The first example considers a single student; the second, a single student with one child. In 1982-83, the equity percentage for self-supporting students is 8% of need.

TABLE 24

Example of WHEG Equity Formula for Two
Self-Supporting VTAE Students,
1982-83

Student A--Single Self-Supporting (Budget \$5,260)	
Step 1: Deduct CSS contribution or minimum contribution of \$2,400, whichever is greater, and Pell award (\$500) from standard budget (\$5,260)	\$2,360
Step 2: Apply equity percentage of 8% to calculate award	\$189
Student B--Single Self Supporting With One Child (Budget--\$8,490)	
Step 1: Deduct CSS contribution or minimum contribution of \$2,400 whichever is greater, and Pell Award (\$1,000) from standard budget (\$8,490)	\$5,090
Step 2: Apply equity percentage of 8% to calculate award	\$407

Level and Distribution of Wisconsin Higher Education Grant Awards

Table 25 lists award expenditures under the Wisconsin Higher Education Grant Program since the program's inception in 1973. Expenditures differ from appropriated amounts since Talent Incentive Grants are also funded from the appropriation and since, prior to 1981-82, the WHEG appropriation was a biennial appropriation and monies could be transferred between years of the biennium. Federal funds are special allowance revenues received from the State Direct Loan Program.

TABLE 25

Wisconsin Higher Education Grant Expenditures
1973-74 to 1981-82

<u>Year</u>	
1973-74	\$3,749,900
1974-75	3,689,400
1975-76	5,776,900
1976-77	9,767,000
1977-78	10,958,200
1978-79	11,741,000
1979-80	7,816,100
1980-81	8,280,700
1981-82	7,647,700

The growth in tuition costs of students attending the University of Wisconsin System is provided on Table 26. Additional information on budget costs is shown in Appendix 3, which lists changes in WHEG budgets from 1976-77 to 1981-82.

TABLE 26

UW Resident Undergraduate Tuition
1972-73 to 1982-83

	<u>Doctoral</u>	<u>Nondoctoral</u>
1972-73	\$470	\$400
1973-74	465	426
1974-75	485	440
1975-76	540	524
1976-77	574	544
1977-78	631	581
1978-79	712	620
1979-80	769	677
1980-81	862	751
1981-82	895	776
1982-83	994	836

The following tables indicate the distribution of WHEG awards by parental income to dependent students attending University of Wisconsin and Vocational, Technical and Adult Education campuses in 1981-82. A subsequent table is also provided showing the income pattern of program

eligibility, that is, the number of students who qualify for grant awards according to the level of parental income.

TABLE 27

Distribution of Wisconsin Higher Education
Grants to Dependent Students,
Percentage of Program Funds Awarded by
Adjusted Gross Parental Income
1981-82

<u>Adjusted Gross Parental Income</u>	<u>Percentage of Awards</u>	<u>Cumulative Percentage</u>
\$0 - \$3,999	4%	4%
\$4,000 - \$7,999	8	12
\$8,000 - \$11,999	12	24
\$12,000 - \$15,999	16	40
\$16,000 - \$19,999	17	57
\$20,000 - \$23,999	18	75
\$24,000 - \$27,999	14	89
\$28,000 - \$31,999	9	98
\$32,000 - \$35,999	2	100

TABLE 28

Percentage of Wisconsin Higher Education Grant
Dependent Applicants Eligible for Grant Awards,
by Adjusted Gross Parental Income
1981-82

<u>Adjusted Gross Parental Income</u>	<u>Percent Eligible</u>	<u>Percent Ineligible</u>
\$0 - \$3,999	47%	53%
\$4,000 - \$7,999	42	58
\$8,000 - \$11,999	51	49
\$12,000 - \$15,999	54	46
\$16,000 - \$19,999	51	49
\$20,000 - \$23,999	43	57
\$24,000 - \$27,999	33	67
\$28,000 - \$31,999	21	79
\$32,000 - \$35,999	10	90
\$36,000 - \$39,999	5	95
\$40,000 +	2	98
Average	34%	66%

It should be noted that Table 28 was prepared based on a sample of WHEG applicants. Updated information indicates that late applicants have a much higher rate of eligibility resulting in a dependent eligibility rate just exceeding 50%. Data from the above tables can be compared with previous grant data to show relative characteristics of the WHEG program, although comparison with the Tuition Grant Program should be made cautiously since all Tuition Grant recipients must pay tuition costs equal to UW Madison's and the grant only meets part of the additional tuition fee. Nevertheless, it is interesting to note that 73% of applicants are eligible for Tuition Grants compared to 50% for the WHEG program. Comparison with the Pell program shows some variation in their respective award population. For instance, 50% of UW applicants and 64% of VTAE applicants received a Pell grant. In the lowest income ranges, some applicants did not receive a WHEG award because they were already receiving substantial Pell aid or other nonincome assistance. In the middle income range, more than half of Pell applicants became ineligible over the adjusted gross income level of \$24,000. In the WHEG program, this point was reached at \$20,000. Data on the distribution of awards in Table 27 indicates that 57% of WHEG funds were awarded to students with parental incomes below \$20,000 and 89% of funds to students with incomes below \$28,000. Under Pell 68% of UW, 79% of VTAE and 71% of private college and university awards went to recipients with parental incomes of less than \$20,000. Despite differences in eligibility and distribution, the pattern of award allocation in the Pell and WHEG programs is not as disparate as might be expected when viewed from the perspective of their six to one

ratio in dollar resources. This confluence reflects the broad disbursal of funds under the WHEG program and its low level of awards.

As has been shown, WHEG funds are not allocated on a block basis between the UW and VTAE system but students are evaluated according to a needs formula which recognizes only differences in educational costs between the schools. As a result of this procedure, the allocation of awards to VTAE and UW students reflects the financial need of each population. Analysis of application and award data shows that VTAE students are somewhat more needy than UW students and, therefore, have a higher rate of program eligibility (38% to 33%). The allocation of awards is higher for independent VTAE students than for independent UW students but the reverse is true for dependent students (see Table 29).

Analysis

The Wisconsin Higher Education Grant Program, in contrast to the Tuition Grant Program, contains only general statutory language authorizing the distribution of grants. Under section 39.435, the Board is authorized to make grants to eligible students attending nonprofit public institutions up to an annual award of \$1,800 and is directed to "establish a minimum grant amount, uniform need determination procedures, a reporting system to periodically provide student economic data, and other rules as the board deems necessary to assume uniform administration of the program." The Wisconsin Administrative Code also has no provision on the formulary allocation of WHEG awards. Three sections of the code pertain to WHEG and concern the definition of half-time students, establishment of a rolling deadline, and procedures to allow for award adjustments.

Given the lack of statutory language and administrative rules governing the distribution of WHEG grants, it is clear that the Board has substantial independent authority to disburse program funds. HEAB staff do not believe that there exists any implicit unwritten obligation to seek statutory authority for formula changes even though the equity formula has been in place since 1976-77 and has been presented to the Legislature as the mechanism by which appropriated funds would be expended. The absence of statutory authority for the distribution of WHEG awards merits serious examination. The Wisconsin Higher Education Grant Program is the state's basic student grant program for students attending public post-secondary institutions. Because of WHEG's role in aiding these students and the amount of funds committed to the program, the Legislature may wish to statutorially designate how such monies are to be distributed. If not, it must be recognized that the Board may act to change current procedures controlling the allocation of funds. The staff is currently preparing a number of alternative distributional formulas for Board consideration, many of which, if approved, are intended to be implemented independently of legislative action.

The purpose of the WHEG equity formula is to disburse funds to students so as to equalize the amount of monies received from student, parent, Pell and state resources. The award formula incorporates parental resources since without examination of this potential funding source needs

determination would be impossible. The use of CSS analysis to calculate the expected parental contribution provides a sophisticated measurement which has been adopted by many states. The incorporation of Pell awards into the formula is more arbitrary. It proceeds from the premise that need is more accurately determined after consideration of the amount of funds a student receives from this primary federal program. However, as shown below, the actual effects of this formulary procedure have produced less than satisfactory results.

It should be pointed out that the Pell grant amount used in the equity formula is only an estimate of the actual grant to be received by the student as projected by CSS. In recent years there have been frequent changes in the funding and distribution of the Pell program. These modifications have occurred not only after passage of major legislation such as the Middle Income Student Assistance Act but also as a result of annual and mid-year Congressional adjustments in budgetary appropriations and distributional formulas. HEAB staff have administratively adapted to these changes by selecting a point in time at which existing or projected dollar and formulary elements under the Pell program are used as the basis to compute WHEG awards. This approach prevents federal delays from postponing the allocation of state funds. However, announced awards have differed from what awards would have been after final Congressional action in the Pell program.

It can also be argued that the conceptual structure of the WHEG formula obscures the impact of state aid and the changing nature of state support since adjustments in the equity level reflect a composite of CSS, federal and state action. A rise or fall in the equity level, by itself, tells little about the state commitment to the program. A related objection is that the current formula lacks a substantive policy commitment other than that of equalizing supposed inequities of need not remedied by Pell. By its logic, the WHEG formula commits the state to respond inversely to changes in federal policy. If Pell targets its aid towards the neediest students, the WHEG formula is intended to adjust by aiding those students at somewhat higher need ranges who might have been underawarded by Pell. If Pell targets aid more toward middle income students, the state formula should apply funds towards higher need students. Aside from the issue of whether the equity formula acts as intended, the appropriateness of this formula can be questioned on theoretical grounds given the frequency of federal program changes and the absence of a state policy on targeting aid.

Perhaps the most important distributional effect of the current equity formula is the way in which it spreads the amount of program dollars across a broad number of participating students thereby resulting in low award amounts. One reason for this distributional pattern is that the Pell program eliminates some resource inequity prior to application of WHEG funds because of the universal nature of the federal program and the level of its funding. This conclusion is supported by a HEAB staff study of the impact of the Middle Income Student Assistance Act which reveals that in 1979-80 only 7.5% of all eligible WHEG dependent students were ineligible for Pell grants. Also, by considering both Pell and WHEG aid together the

most needy students are not able to receive a sizeable grant from the WHEG program which constricts their ability to meet costs through grant resources. Since Pell uses a different needs analysis than CSS, it appears that one of the main thrusts of the WHEG program is to eliminate variations in the needs treatment of the two analytical systems. Stated differently, the WHEG formula brings the Pell program into greater conformity with the CSS needs analysis.

The following table shows the average WHEG award from 1977-78 to 1981-82 according to the dependent status and the type of institution of eligible students. This data includes grants to all recipients which to some degree reduces the size of the average award since students who drop out mid-year or during a semester are reflected in the total.

TABLE 29

Average WHEG Award
1977-78 to 1981-82

Year	UW		VTAE		Average	
	Independent	Dependent	Independent	Dependent	Independent	Dependent
1981-82	\$217	\$325	\$275	\$287	\$240	\$316
1980-81	237	330	303	324	260	329
1979-80	299	364	355	407	318	373
1978-79	562	511	569	425	565	486
1977-78	450	451	385	454	438	452

Table 29 shows an annual decline in the average WHEG award from 1978-79 to 1981-82 for both UW and VTAE students. The average award for dependent students at UW institutions decreased by 36% and for VTAE students by 33% during this time. The average award for independents declined by 61% at UW schools and by 52% at VTAE institutions. Student instructional and noninstructional costs have continued to increase during this same period, thereby compounding the real reduction in award amounts. For instance, the 1978-79 average award represented 13.5% of a single independent student's standardized budget in 1978-79 but only 4% of this same budget in 1981-82. Given the current size of WHEG awards and annual student costs, the overall impact of the WHEG program must be questioned both in terms of its financial support to students and its effectiveness in encouraging access to higher education. Table 29 provides distributional data on allocation of awards to independent and dependent students previously examined under the Tuition Grant Program. As the table indicates, in four of the last five years dependent students have received average awards higher than independent students. It may be noted that all of the arguments previously discussed concerning restriction of independent status for Tuition Grant applicants could also be applied to the Wisconsin Higher Education Grant Program.

As part of this report, a file of all Wisconsin resident dependent students in the University of Wisconsin System was obtained from the Office of Analysis Services and Information Systems at the University of Wisconsin System. These data include a breakdown of the number and amount of all major grant, loan and work program awards according to parental income and student need. Shown below is the distribution of total grant aid and WHEG aid by categories of student need.

TABLE 30

Distribution of WHEG and Other Grant
Awards to Dependent Students in the UW System
by Need Category,* 1980-81

Need Range	WHEG		Other Grants		Total	
	Number	Amount	Number	Amount	Number**	Amount
\$1-\$1,000	359	\$78,400	1,955	\$843,600	2,082	\$922,000
1,001- 2,000	2,563	730,600	5,213	3,158,400	5,546	3,889,000
2,001- 3,000	6,690	2,436,200	12,252	9,241,100	9,042	11,677,300
3,001 +	3,507	1,244,900	7,688	6,730,900	4,491	7,975,800
TOTAL	13,119	\$4,490,100	27,108	\$19,974,000	21,161	\$24,464,100

*Need is determined by subtracting expected family contribution from budgetary costs.

**Unduplicated count of student recipients.

The data indicate that WHEG awards are proportionately distributed towards students most in need, although in comparison to other grant programs WHEG aid is directed towards students in the middle range of need, defined as \$1,001 to \$3,000. For instance, 3% of WHEG awards are granted to students in the lowest need category of \$1 to \$1,000 compared to 4% of other grants. Students in the highest need range of \$3,000+ comprise 27% of the WHEG population and receive 28% of all WHEG funds while 28% of other grant awards and 34% of all other grant funds are directed to this group.

The UW data indicate that there is little or no change in the size of the average award with changes in student need and that the amount of need remaining after the distribution of all grant funds is highest for students with the greatest need. These data, as indicated in Table 31 below, suggest that the WHEG program does not operate as intended, that is by bringing all students up to the same level of unmet need, and that the pattern of low awards to needy students cannot be justified on the basis of equity. Distributional inequities can also be attributed to institutional decisions since SEOG and institutional aid are included in this sample. It should be noted that the wide variation of need among WHEG recipients is greater than is represented by HEAB's data base, possibly because of differences in the needs analysis or the institutional use of multiple budgets to reflect variance in noninstructional costs such as for commuting

students and students living off-campus. HEAB uses only one standard budget for dependent students and, consequently, the formula does not recognize need differences arising from such costs.

TABLE 31

Distribution of Average WHEG Awards and
Average Grant Awards by Dependent Need Category, 1980-81

<u>Need Range</u>	<u>Average WHEG Award</u>	<u>Average Grant Funds Per Recipient (All Sources)</u>	<u>Remaining Need*</u>
\$1 - \$500	\$150	\$290	\$210
501 - 1,000	229	518	482
1,001 - 1,500	265	674	826
1,501 - 2,000	295	721	1,279
2,001 - 2,500	357	1,068	1,432
2,501 - 3,000	370	1,492	1,508
3,001 - 3,500	354	1,766	1,734
3,501 - 4,000	387	1,755	2,245
4,001+	333	1,823	2,677**

*Calculated by subtracting average grant funds per recipient from maximum need in each category.

**Assumes an upper range of \$4,500.

The administrative tasks of operating the WHEG program fall to both the Higher Educational Aids Board and the student financial aids offices. HEAB is responsible for the computation of awards, notification of schools, vouchering of checks, recordkeeping and award adjustments. The student financial aids office maintains the student's record, verifies the award amount, resubmits for award adjustments if necessary, advises HEAB on actual and estimated changes in enrollment status of eligible award recipients and creates the financial aids package. The most critical and perhaps time consuming part of WHEG administration involves the estimation of aggregate student need. In order to expend the funds within the appropriation, HEAB annually "overawards" the amount of WHEG and Tuition Grant funds knowing that a certain percentage of students will not enroll or will leave school during the academic year. To correctly estimate the proper percentage of overawards each year, HEAB considers projected enrollments, changes in student need and Pell formula changes. Historical experience under the program is helpful in providing these estimates but year-to-year fluctuations prohibit precise calculation. Further complicating this process is the fact that there is no application deadline for the program and that the rate of student applications may vary. For instance, students applied for 1981-82 grants earlier in the 1980-81 year because of impending federal restrictions on the GSL program. This change in student behavior led the agency to overestimate the total number of

eligible students thereby creating a lower level of per student awards than could have been supported by the appropriation.

Each fall, financial aid officers review award expenditures in order to reestimate the level of funding and number of WHEG awards to correlate anticipated expenditures with the program's appropriation to ascertain the possible need of award adjustments. HEAB staff have stated that experienced financial aid professionals should be able to produce a mid-year estimate within 5% of the actual level of expenditures and a number of the more experienced financial aid officers have had estimates within this range. However, some officers have seriously miscalculated final program expenditures, at times by more than 50%. Reconciliation miscalculations have complicated the task of managing program funds and have resulted in the accumulation of unexpended funds within the Tuition Grant and Wisconsin Higher Education Grant Programs, with the public grant program sustaining the largest loss.

Budgeted and expended funds under the Tuition Grant and Wisconsin Higher Education Grant Programs from 1977-78 to 1981-82 are illustrated on Table 32. It may be noted that the Department of Administration mandated a lapse of \$1,300,000 GPR in WHEG and \$604,700 GPR in Tuition Grants in 1981-82 since HEAB had identified these funds as unexpended program surplus during the fall 1981 reconciliation process. HEAB would have expended most of the 1981-82 funds if the Department of Administration had not acted, although the impact of such aid can be questioned since student packages had been developed to meet the original estimate of student need and the agency intended to distribute these monies outside of program formulas. Table 32 includes GPR supported Talent Incentive Grants which are funded by the WHEG appropriation.

TABLE 32

Unexpended Funds of Tuition Grant and
Wisconsin Higher Education Grant Programs
1977-78 to 1981-82

Year	Wisconsin Higher Education Grant*			Tuition Grant		
	Appropriation	Expenditure	Unexpended Funds	Appropriation	Expenditure	Unexpended Funds
1977-78	\$11,641,100	\$11,514,200	\$126,900	\$7,421,400	\$7,421,400	---
1978-79	12,591,100	12,699,400	-108,300	8,286,900	8,174,800	\$112,100
1979-80	8,160,000	8,729,800	-569,800	10,706,900	10,433,700	273,200
1980-81**	10,886,900	8,899,500	1,987,400	10,308,500	9,818,900	489,600
1981-82	9,774,000	8,293,400	1,480,600	10,782,900	9,962,900	820,000

*Wisconsin Higher Education Grants were funded by a biennial appropriation until 1981-82 and therefore expenditures exceeded appropriated amounts in some years due to a transfer of funds during the biennium.

**Includes 4.4% GPR reduction.

Given the level of recent unexpended funds, more than \$4.2 million in the past two years when adjusted for a technical transfer of funds from 1980-81 to 1979-80, the Legislature may wish to consider alternative administrative procedures for operating state grant programs to ensure a more effective use of appropriated state monies, particularly for the Wisconsin Higher Education Grant Program which had unexpended funds of 13% in 1980-81 and 15% in 1981-82. One approach would involve a change in the distributional formula to target grant funds to fewer numbers of students. This would simplify the staff's task of projecting the number of eligible students and aggregate student need but would not guarantee that significant lapses would not occur as evidenced by the experience of the Tuition Grant Program. Another alternative, which could be implemented together or separate from a formula change, would establish an application deadline date so that staff would determine awards after evaluation of all aid applications. This modification would provide the greatest assurance of a congruence between appropriated and expended funds, although some program lapses would continue because of changes in student enrollments. The greatest disadvantage to the establishment of an aid deadline is that needy, late applicants would be ineligible for awards. The number of students disqualified would depend on the deadline date and the degree to which some students might adjust their time of application to avoid ineligibility. Based on past practice, it would appear that HEAB could administer the program under an awards deadline established for the early summer. In 1982-83, about 60% of VTAE students and 80% of UW students had applied for WHEG awards by mid-June of 1982. Since 70% of program funds are awarded to UW students, it would be feasible to establish a later application deadline for VTAE students in order to compensate for the greater number of late applicants in this system.

Since 1980-81 the state has funded the Wisconsin Higher Education Grant Program partly from federal special allowance revenues from the State Direct Loan Program. In 1980-81, \$2.6 million was budgeted from this fund, in 1981-82 \$3.6 million, and in 1982-83 \$9.8 million, which resulted in the replacement of all GPR support in that year. The federal government awards special allowance monies to holders of guaranteed student loans as a supplement to interest rates and as an incentive to encourage lenders to participate in the loan program by providing a rate of return competitive with other money market investments. The formulas for determining special allowance payments are based on the market rate on 90-day treasury bills averaged over the preceding quarter. In Wisconsin, federal special allowance revenues are received under the revenue bond program for state direct loans which establish their primary use as the funding of operating and reserve costs. After meeting these requirements, the special allowance can be applied to other purposes provided the bond trustee certifies that there are no deficiencies in reserve accounts which could be funded by these revenues. The bond resolution specifies those purposes for which the monies can be used as: (1) redemption or purchase of bonds with the consent of the Commission; (2) financing eligible loans; (3) financing other student loans; (4) "or any other purpose of the Board which is at the time of application authorized by law and for which there exists an appropriation by the State Legislature." To date, the Legislature has used excess special allowance revenues to fund HEAB administrative costs

unrelated to the bond program and the Wisconsin Health Education Assistance Loan and the Wisconsin Higher Education Grant Programs.

The fluctuation of money market rates which are the basis of the special special allowance formula complicates the budgeting of these funds and creates a variability which is unsettling to students and institutions who depend on this revenue source and who could conceivably suffer an adjustment in grant support in the face of declining formula rates. It may be noted that a deficit in the WHEG special allowance account of an estimated \$2.4 million is anticipated for 1982-83. The Department of Administration is currently studying ways of funding this deficit and a reduction in student grants is not expected. A repetition of this shortfall in 1983-84 or 1984-85 could, however, result in grant adjustments.

Despite the variability of special allowance revenues, it is difficult not to utilize these funds given the fiscal condition of the state and the fact that the bond program limits their use to support of HEAB programs, thereby prohibiting a transfer to the state's general fund. One technical improvement which might alleviate some of the problems associated with the budgeting of special allowance revenue, would involve the establishment of an applied receipts appropriation for the Wisconsin Higher Education Grant Program. Under this approach, the Legislature would specify in the biennial budget a funding level which it would support for the state program with amounts estimated for the program's federal allowance appropriation and for a new GPR appropriation. The actual commitment of GPR funds would depend on the level of federal special allowance receipts. In this way, the Legislature could budget special allowance revenue for the program without having changes in short term money market rates responsible for a lowering of student grants.

Given the limitations of the existing WHEG program, the Legislature may wish to consider a variety of alternative criteria for the distribution of Wisconsin Higher Education Grants. Such standards could exist as a supplementary part of the current formula or under a reconstituted WHEG awarding process. One possibility which Higher Educational Aids Board staff are currently examining would involve targeting aid to freshmen and sophomore students under the current equity formula. This proposal is advanced as a method of encouraging access to higher education by lowering its initial cost and targeting grant support to those students who may not realize the financial benefits derived from a college degree. The consequence of this policy would be to shift loan aid to junior and senior students who, it is argued, are more likely to graduate and, therefore, better able to assume loan obligations. Opponents of this policy have claimed that it misleads entering students about the cost of a four-year college degree and may increase dropouts between the sophomore and junior years. Some also object to any policy which would exclude a group of needy undergraduates from a financial aids program. UW staff have also noted that this proposed change would have a negative effect upon its student population since the vast majority of VTAE students are first and second year students and would continue to receive awards. The proposal would also cause an internal redistribution of funds within the UW System away

from the doctoral campuses (UW-Madison and UW-Milwaukee) which have a greater percentage of junior and senior students.

Table 33 illustrates the 1982-83 distribution of University of Wisconsin and VTAE Wisconsin higher education grant recipients by level (freshman and sophomore--Level 1, junior and senior--Level 2). This 1982-83 data is incomplete, although useful for establishing relative rates for the distribution of WHEG aid.

TABLE 33

Distributional Sample of WHEG Awards
to UW and VTAE Students by Student Level
1982-83

Student Level	Dependent		Independent		Total	
	Number	Amount	Number	Amount	Number	Amount
Level 1						
UW	6,730	\$2,725,252	2,289	\$560,198	9,019	\$3,285,450
VTAE	2,498	857,340	4,390	1,265,763	6,888	2,123,103
Level 2						
UW	3,410	1,163,277	5,093	1,051,227	8,503	2,214,504
VTAE	89	23,333	362	101,284	451	124,617
TOTAL	12,727	\$4,769,202	12,134	\$2,978,472	24,861	\$7,747,674

Based on Table 33, it can be estimated that if the WHEG program were restricted to freshmen and sophomore students, about 30% would be available for redistribution and the number of students served would decline by 36%. The impact of this change upon students remaining within the program would be represented by a \$175 increase in the average award although the actual award increase would be less since additional Level 1 students would qualify for the program. The overall distribution of funds would shift from a current split between UW and VTAE students of 71% to 29% to 61% to 39%. Since a greater proportion of independent students are juniors and seniors, one consequence of this policy would be that the number of aided independent students would substantially decline, an effect which may be considered a liability, given the financial circumstances of self-supporting students.

A second alternative which would entail a more fundamental restructuring of the WHEG program would remove HEAB from administering WHEG grants in favor of a direct distribution of funds to UW and VTAE institutions for allocation to students. Many financial aid officers contacted for this report have advanced this alternative on the grounds that it would simplify administrative tasks and allow for an improved distribution of awards. It is recognized that such a procedure might

require some criteria governing the allocation of funds to institutions and to needy students although no specific guidelines have been proposed.

In evaluating the impact of a decentralized grant program, it should be recognized that block allocation of funds to institutions should reduce or eliminate the lapsing of program funds, although more modest changes such as establishment of a program deadline would also have this effect. Such a decentralization would also lessen the administrative requirements of the program. However, it may be questioned whether this measure is an appropriate response to the perceived problem of excessive administrative requirements and, indeed, whether existing administrative procedures are too demanding given the scale and purpose of the program. Most financial aid officers have demonstrated their ability to effectively administer WHEG program awards. Financial aid officers at private institutions who operate under the same general procedural structures for the Tuition Grant Program had few complaints about HEAB's administrative requirements. In 1976-77, the Wisconsin Higher Education Grant Program discontinued block institutional allocations which were replaced by a uniform grant distribution formula because students with similar financial needs were receiving differing grant amounts at various public institutions. With a return to an institutional allocation, equity problems could reappear. The substantial sums of Supplemental Educational Opportunity Grant funds received by most public schools in the state provide financial aid officers with discretionary grant support which is used in the packaging of awards. These funds offer aid officers greater flexibility in the administration of their program, although it should be noted that the WHEG program can respond to individual changes in circumstance through need adjustments and thus retains certain features of a decentralized system. Nevertheless, if the United States Congress were to eliminate the SEOG program, as the Reagan administration has proposed in its 1984 federal budget, the case for decentralizing the WHEG program would emerge much stronger.

Another alternative for the WHEG program would involve reconstruction of the grant formula so that awards are more highly targeted to needy students. One simple modification which would help to accomplish this goal would establish a needs cut-off below which students would not qualify for grant awards but rather meet financial costs through work and loan assistance. As part of such a modification, HEAB could be encouraged to discontinue its current practice of using only one dependent student budget in favor of establishing one or more additional standardized budgets which might better reflect the needs diversity in the WHEG aid population. The single budget overstates the need of some students such as commuter students whose budgetary costs as determined by financial aid officers can be as much as \$1,700 lower than other students housed on campus. Also, the Legislature could require HEAB to establish a separate formula for part-time students. Currently, part-time students are treated no differently than full-time students under the WHEG formula with both being assigned the same budget or equity level. A separate part time formula could be formed to reflect the actual educational costs of the student applicant or the student's grant could be prorated according to the level of his or her course load.

The redistributational effects of a needs cut-off for the WHEG program would depend on the type and level of eligibility criteria selected. For instance, a needs criteria could operate according to a certain percentage of a student's standardized budget or a specified level of need. Utilizing the information in Table 28, one can estimate that, had a need eligibility criteria of \$2,000 been established for dependent students, the number of UW recipients would have declined by 22% and the remaining students would have received an average annual increase of \$79 in their WHEG awards. It must be cautioned that this calculation is based on UW data and HEAB's data base would have to be expanded and its formula changed by increasing the number of WHEG budgets before the same degree of cost variation would appear.

Any formula modification should have as a fundamental goal the establishment of criteria which are more sensitive to increases in need and which show variation in awards with changes in need. The calculation of awards on a percentage basis of need is one way to accomplish this goal, although to implement such a methodology more information about student budget and need variations would have to exist within the HEAB data system to better identify the high need students. Such an approach also would have to be combined with a needs cut-off in order to target funds to the needy population. The Legislature could also consider reconstituting the WHEG formula without the inclusion of the student's Pell award. As shown, the effect of the current formula is to produce a distribution of grant awards which demonstrates little variation with changes in level of student need. Since the highest need students receive the largest Pell grants, removing this federal aid from the WHEG formula would shift funds toward the needier student. Such a redistribution would primarily affect the dependent student because of the impact of the equity budget ceiling. Independent students whose award is calculated according to a percentage of need would experience little redistributational effect. It is estimated that dependent students would have an average grant increase of approximately \$140 if the Pell grant were removed from the WHEG formula.

The three above alternatives consider a major restructuring of the WHEG program. A more narrowly focused technical change which could be considered either separately or as part of the current grant formula would involve the establishment of a minimum grant award. Under current practice, HEAB staff encourage financial aid officers not to submit for a student award if it is less than \$50. However, there is no rule establishing a minimum award and each year a few grants are made which are below \$50. Consideration should be given to the establishment of a minimum grant possibly at a level above the \$50 amount. It is estimated that grant eligibility would decrease by about 40% and the average award would increase by over 50% if an annual minimum award of \$250 were established. A \$250 minimum award should perhaps be viewed as the upper limit for the program. A more modest increase in the minimum grant would, of course, reduce the amount of funds freed up for reallocation.

Conclusion

Information gathered on the Wisconsin Higher Education Grant Program suggests the need for a major reordering of the program. With current budgetary costs of even dependent students exceeding \$4,000 and an average award of less than \$300, the impact of the current program for most students seems negligible both in promoting access and providing them with the means to subsist. Spreading \$8,000,000 over 30,000 students ensures that few students receive meaningful financial assistance. The problem of small awards also appears compounded by a distributional process which has a flat instead of proportional relationship to student need. This report has explored alternative distributional formulas which would target aid to freshmen and sophomore students, decentralize the program, or redefine the current distributional formula. As shown, each of these proposals would have varying effects on the student population, although from the perspective of targeting student aid all would seem an improvement over the current process.

The report has also examined statutory, budgeting and administrative processes under WHEG. It should be recognized that the formula responsible for the allocation of WHEG awards exists neither in statute nor administrative rule and that HEAB staff believe that the Board has significant independent authority to change existing procedures governing distribution of grants, such as restriction of awards to freshmen and sophomore students. Establishing the WHEG program in the statutes in order to make the program consistent with the Tuition Grant Program should be considered to ensure that appropriated funds are allocated in a consistent manner. The amount of unexpended WHEG funds has also become a serious problem in recent years and has resulted in program expenditures often significantly below the level of monies appropriated by the Legislature. The advantages of a rolling application process may no longer outweigh its apparent deficiencies and the program may benefit from the establishment of an application deadline. If such a procedure is preferred, the program ought to incorporate a dual procedure which would permit an adjustment to reflect the large number of late VTAE applicants. Finally, this report proposes consideration of an applied receipts approach to the budgeting of special allowance funds which would permit the utilization of federal dollars but eliminate the potential negative effects of award adjustments created by changes in this revenue source.

CHAPTER 6

CONCLUSION

Tuition Grants and Wisconsin Higher Education Grants constitute the state's two major need-based financial aid grant programs. The Tuition Grant Program is designed to permit resident access to private educational institutions in the state by aiding a portion of the tuition costs of students attending these higher priced schools. The Wisconsin Higher Educational Grant Program awards grants to Wisconsin residents attending UW and VTAE institutions to offset public tuition and noninstructional costs. Both incorporate a sophisticated analysis of student financial resources as performed by the College Scholarship Service in order to determine student need and calculate awards. Both also exist within a highly diversified and bureaucratic structure of financial aid programs which offer a variety of types of aid (loan, grant, work) to students to help them meet their annual budgets. No grant program by itself awards sufficient funds to permit a needy student to meet his or her costs.

This report has identified a number of common issues which pertain to both the Wisconsin Higher Education Grant and Tuition Grant Programs. First, it has been shown that the allocation of awards rests on directives which lie outside statutory or administrative rules. In the case of the Tuition Grant Program, a Board-initiated proration procedure which differentiates between dependent, single independent and self-supporting students with dependents has a major impact upon the distribution of program funds. In the Wisconsin Higher Education Grant Program, no component of the formula is identified either in statute or code. HEAB now has substantial independent authority to designate the allocation of funds in these two need-based programs. The Legislature may wish to consider whether this independence is consistent with previous and current legislative intentions.

The report also shows that HEAB favors dependent over independent students in the distribution of awards. In 1981-82, the average WHEG award for independent students was \$240 and the average WHEG award for dependent students was \$316. In 1982-83, the Tuition Grant Program produced an average award of \$1,612 for dependent students, \$1,173 for single independent students and \$1,271 for married independent students prior to a \$175 second semester grant reduction. Statistical and anecdotal information does not support the conclusion that independent students are less needy than dependent students. Based on average debt load for private college students, it would appear that self-supporting students at these institutions are more needy. A UW study of 1980-81 aid recipients indicates that 20% of dependent students have need over \$3,000 while 50% of independent students have need over \$3,000.

HEAB's policy of underawarding independent students would seem to represent an attempt to control the number of abuses in the establishment

of independent status. One can fault this awarding practice not only because it does not identify students who manipulate the aid process, but because it affects all self-supporting students, some of whom may have extreme financial need. The Legislature may wish to explore a suggestion made by a number of financial aid officers to prohibit students who enroll in school as dependents from establishing independence under state financial aid programs while enrolled in school. Other broader restrictions also merit examination such as requiring two or more years of self-supporting status prior to application, instead of one year as required by current rules, and specifying an age threshold under which most students would be denied self-supporting status. If self-supporting criteria are redefined, it would also seem appropriate to reorganize the existing distribution of funds to the independent student population. In the Tuition Grant Program, removal of the multiple proration percentages would redistribute money to single independent students. In the Wisconsin Higher Education Grant Program, the Higher Educational Aids Board could be directed to adjust its award practices to ensure that independent and dependent students receive the same average award. The Legislature could also consider establishing a provision which would divide funds on the basis of cost or need rather than the number of students.

In recent years, the Higher Educational Aids Board has experienced a series of problems in correlating grant awards with appropriated funds. Miscalculations have resulted in mid-year reductions of grant awards and significant accumulation of unexpended funds. The history is as follows: in 1982-83, the Board reduced Tuition Grants by \$175 in the second semester to correct an anticipated funding shortfall; in 1981-82, an unexpended surplus of \$1,300,000 in the WHEG program and \$604,700 in the Tuition Grant Program had accumulated at mid-year and was lapsed to the general fund by the Department of Administration; and in 1980-81, HEAB reduced second semester awards by \$100 in WHEG and \$25 in the Tuition Grant Program, due to a perceived funding shortfall, but the projection proved inaccurate and \$1,417,600 in WHEG and \$489,600 in Tuition Grant monies remained unexpended at the end of the fiscal year. The principle reason for grant funding miscalculations resides in the absence of any application deadline date, thereby requiring the HEAB staff to make decisions on grant awards with incomplete information on the number of eligible applicants. This open-ended approach reflects a Board policy designed to favor late applicants who are believed to comprise the neediest students. The Legislature may wish to consider whether the benefit of this policy outweighs the impact on the general student population which has suffered award reductions and exclusion from the program because of incorrect expenditure projections.

Since 1980-81, the state has used excess federal special allowance revenues to finance the Wisconsin Higher Education Grant Program. These funds are made available from the revenue bond account of the State Direct Loan Program, which permits the use of excess monies for Board programs, and ultimately come from the federal government as an interest supplement to lenders under the Guaranteed Student Loan Program. Application of federal special allowance revenues has improved the fiscal condition of the state through the replacement of \$16 million in GPR funds previously

allocated to the WHEG program. However, special allowance revenues are allocated according to formulas based upon 90 day treasury bills and the variability of these money market rates complicates the budgeting of this revenue to state programs. To alleviate the inherent problem of budgeting these funds and the possibility of future award reductions if estimates prove incorrect, the Legislature could consider the adoption of an applied receipts approach to funding the WHEG program. Under this budget procedure, the Legislature would establish an overall funding level with actual GPR commitments fixed at the end of the fiscal year depending on the amount of federal funds received.

This report has questioned the fundamental assumption of the distributional formula of the Wisconsin Higher Education Grant whose principle policy commitment is that of equalizing supposed inequities of need not remedied by Pell, thereby requiring the state to respond inversely to changes in the Pell Program. It has been suggested that given the variability and uncertainty surrounding federal policy, the Legislature may wish to consider the adoption of a more independent and targeted state program. Data on Wisconsin Higher Education Grants supports existing concerns that the average grant is too low and raises questions about the program's effectiveness either as a means of promoting access to public post-secondary education or as a means of financial assistance, the average grant now representing about 8% of a dependent student's WHEG budget and 4% of an independent student's budget. A survey of all undergraduate, resident dependent students at the UW System shows that the impact of the program's equity formula is not as intended, that is, to bring all students up to the same amount of unmet need but to distribute grants in a flat, nonproportional manner. Thus, the average award of student recipients in the survey was \$357 at a need range of \$2,001 to \$2,500 but only \$333 at a need range above \$4,000.

Three alternative means of WHEG allocation have been examined: (1) restriction to freshmen and sophomore students; (2) program decentralization; (3) reconstruction of the current WHEG formula. It has also been suggested that a minimum award could be established for the program. Limiting WHEG awards to freshmen and sophomore students would indirectly shift loan aid to juniors and seniors who are more likely to graduate and presumably better able to repay such loans. The effect of this eligibility change, of course, would further target and reduce the eligibility pool thereby increasing the average award. This proposal would not affect the distribution of aid by need level. Examination of current award data also indicates such a change would shift funding from UW to VTAE institutions and from independent to dependent students.

Program decentralization would simplify administrative tasks associated with the WHEG program and offer financial aid officers greater freedom to target grant awards. Conversely, decentralization could lead to inequitable institutional treatment of students, that is, students with similar financial needs receiving different grant amounts, as happened prior to 1976 when WHEG was administered through the schools. UW data indicate that Supplemental Educational Opportunity Grants which are under the control of the campus aid officers are distributed in a manner more

proportionately correlated to need than is WHEG assistance, although SEOG allocations do not eliminate substantial need differences among students. This distributional pattern indicates that decentralization would perhaps result in a more equitable allocation of aid than under the current WHEG program although institutions do have the capacity to respond to student needs more effectively than they are now doing.

A third alternative would modify the WHEG formula in order to target aid to a more limited group of needy students. This could be accomplished through establishment of a needs cut-off which would also incorporate the expansion of the number of noninstructional student budgets in order that need calculations might more closely reflect actual diversity of student cost experience. Another modification would involve eliminating the inclusion of the student's Pell award in the equity formula. The advantage of this alternative is that it would provide more grant aid to the neediest students among the WHEG population. Such a procedure, however, could disqualify many middle income students currently served by the program.

The Tuition Grant Program does not suffer from the same malady as the WHEG program, that is a broad distribution of small awards across a large student population. Data indicate that 73% of all applicants are eligible for assistance and that the average award approaches \$1,400, an amount which exceeds that of any other grant program including Pell. This report has questioned the distributional formula of the Tuition Grant Program which recognizes parental and student resources but not other types of aid as an offset to supplemental tuition charges. It has also shown that the impact of the formula and proration technique is to direct funds to the needier students. Nevertheless, 26% of program monies are awarded to students with parental incomes exceeding \$28,000 and 50% of students with parental incomes between \$36,000 and \$39,000 are eligible for grants. Perhaps it should not be surprising that a need-based tuition program for students attending high cost private institutions reveals the existing distribution of income although there may be some income level at which the Legislature may no longer wish to support student awards. It also must be pointed out that award recipients do not appear to have an advantageous position when compared to their public school counterparts since the average Tuition Grant is less than half of the average additional tuition charges paid by private college and university students.

In the next decade, the state should continue to reassess the benefits derived from a policy of choice. Choice has certain implications for the state which do not exist for the federal government since the state operates its own post-secondary educational facilities. The Tuition Grant Program was developed at a time during the 1960s when there was minimal conflict between private and public institutions regarding this policy, since post-secondary enrollment was growing as a result of the post war baby boom and Tuition Grants served not only to promote access to private institutions but to relieve some of the enrollment pressure on the public schools. In the 1980s and the 1990s, this demographic climate will invert. A steady decline in the number of 18-year-olds is widely anticipated to create unprecedented enrollment and financial pressures which may be relieved but not eliminated by an increase in the number of older students.

Under such conditions, the policy of choice introduced by the Tuition Grant Program may have more obvious disadvantages to the public educational systems although any cutback of Tuition Grant dollars will have significant institutional consequences among Wisconsin private universities and colleges which are not highly endowed and must depend on tuition revenue.

The Wisconsin Higher Education Grant and Tuition Grant Programs have assumed the analytical focus of this report. However, in the process of examining the development of federal and state programs and their administrative operations and award procedures, information was obtained which had overall implications for student financial aids and state policy. In some cases, issues could not be comprehensively treated since data was not available over an adequate period of time. In other cases, issues were identified which were outside the purview of the grant programs although general avenues of further study have been suggested.

A persistent question in the discussion and the debate over financial aid policy has concerned the changing level of federal and state financial aid expenditures and the adequacy of current funds to support increasing educational costs. Unfortunately, any answer to this question must rest upon the time frame selected for analysis. When viewed from the perspective of the past two years, students are now experiencing greater difficulty in meeting their financial cost in the face of tuition and noninstructional cost increases without a corresponding increase in financial aid. When viewed from a longer range perspective, the growth throughout the 1960s and 1970s of federal student financial aid programs and appropriations has extended opportunities to many students which continue to exist today. Much of the concern expressed by the educational community over the economic prospects of students and their parents to pay for college costs has represented a reaction to the Reagan administration's budget proposals most of which have not been enacted into law such as the reduction of Pell funding by 40%, the elimination of SEOG and new capital NDSL funding and the exclusion of professional and graduate students from the Guaranteed Student Loan Program. The most significant piece of newly enacted legislation, the reimposition of an income eligibility ceiling of \$30,000 under the Guaranteed Student Loan Program, still allows students above this income limit to qualify for loan aid on the basis of need. Preliminary indications of borrowing for the 1982-83 academic year indicate that one quarter of all GSL aid in Wisconsin will go to students above the \$30,000 mark. Total GSL aid is projected to exceed 1978-79 aid by about \$120 million.

Of course, any review of past funding levels may have only limited relevance for future policy action. In the context of impending federal and state budget deficits and funding reductions, financial aid programs may not be able to continue to support current levels of funding or keep up with inflationary increases in student costs. Students, their families and educational institutions may have to assume a greater share of the responsibility for meeting these costs. In Wisconsin, public institutions may have to examine their own institutional resources with the aim of expanding the base of student financial aid support. Such an internal reexamination might prove productive particularly in the case of the

University of Wisconsin System which could benefit through improved allocation of its work and loan funds.

As shown in Appendix 4, which provides a breakdown of both work study aid and other student salary expenditures by program activity, most student work dollars expended within the UW System are allocated outside the work study program and, therefore, are not distributed on the basis of need. While this distribution system at one time may have provided sufficient employment to all students seeking jobs, UW aid officers consulted for this study report a widespread demand for student jobs in recent years which their offices have been unable to satisfy. A needs system should not incorporate all existing UW student work jobs since educational criteria are an important factor in the selection of some types of student workers such as laboratory assistants. However, it would appear that many jobs could be awarded through financial aid offices as part of a student's aid package. Marquette University, it may be noted, has adopted a policy whereby work study jobs are matched by a greater percentage of institutional funds than is required by federal regulations. This policy spreads federal monies over a wider group of students and enlarges the number of jobs. It is suggested that the allocation of student help opportunities within the University of Wisconsin System be examined in order to identify those jobs which could be transferred to work study or otherwise incorporated into the financial aids process.

One of the most striking characteristics of the method by which student costs are financed in Wisconsin is the current dependence upon student loans and the rapid growth in student borrowing. In Wisconsin, in 1977-78 lenders issued \$50.8 million for an average loan amount of \$1,215 under the Guaranteed Student Loan Program. In 1981-82, lenders issued \$216 million under the program for an average loan amount of \$2,181. The incidence of student borrowing has had a direct impact upon the cumulative debt loan of graduating seniors. Accurate information on student debt could only be obtained from Wisconsin private colleges and universities (Appendix 1). However, financial aid officers contacted at all public and private universities expressed concern over the amount of student debt and its rate of growth. This reliance on loans is an act of faith in the future ability of the national and state economy to provide the jobs and the earning capacity necessary for graduating seniors to meet their debt obligations. Wisconsin's Guaranteed Student Loan Program has recently exhibited the repayment difficulties created by a sluggish economy since in 1982-83, for the first time, the program is anticipated to have a claims, or default rate, exceeding 5% thereby preventing it from qualifying for full reimbursement on defaulted loans. From a long range perspective, it must be asked whether the persistence of such repayment problems could affect the public's perception of the value of education and ultimately student enrollment.

The issue of the level of student borrowing has several direct connections to state policy and the NDSL and GSL programs. First, it brings into question the current University of Wisconsin practice of distributing National Direct Student Loans. UW financial aid officers consulted for this report did not attempt to target NDSL funds to high need

students or students with actual or anticipated high loan debt even though NDSL aid has a 5% interest obligation compared to a 9% GSL rate. Failure to identify and assist certain students with lower interest loans may aggravate future repayment and collection problems by creating substantial additional interest obligations which selective NDSL policies might alleviate. It is recommended that the University of Wisconsin System study this issue with the purpose of formulating regulations and procedures to allocate at least a portion of NDSL funds to students with potential or actual high debt loads. In regard to the State Direct Loan Program, a recent study by the University of Wisconsin System of 1980-81 aid recipients indicates that about 46% of students with parental incomes below \$30,000 borrowed funds beyond the amount of their need (see Appendix 5). Unfortunately, the UW study did not distinguish between loans originated by private lenders and loans originated by the state. The Legislature may wish to examine this issue in further detail to determine to what degree restricting the state program to a needs only basis could affect the demand on state loan funds and control the monetary debt of students. Such a restriction would also affect the dollar and position costs of administering this program which has grown rapidly in recent years.

APPENDIX 1

Average Cumulative Loan Debt, 1981 Seniors at
Selected Wisconsin Private Colleges and Universities

	<u>Independent</u>	<u>Dependent</u>
Alverno	\$9,490	\$6,595
Beloit	5,128	5,350
C. Stritch	4,788	4,235
Carroll	5,250	6,000
Carthage	3,754	3,456
Lakeland		4,285*
Lawrence	10,000	6,800
Marian	6,871	4,762
Milw. School of Engineering	7,300	6,400
Mt. Mary	4,113	3,422
Ripon	9,700	4,876
St. Norbert	7,631	7,596
Silver Lake	4,959	6,263
Viterbo	8,573	6,550

*Average regardless of dependent status.

APPENDIX 2

Major Student Financial Aid Programs Awarded Outside Financial Aids Office Needs Analysis

1. Veterans Educational Assistance. This federal aid provides grant assistance of up to \$342 a month for unmarried recipients (more for married students). Veterans who have served at least 181 days of continuous duty part of which occurred after January 1, 1955, and before January 1, 1977, are eligible for support. Veterans receiving the above grants and who are enrolled on at least half-time basis are also eligible for Veterans Assistance loans. These loans are interest-free while in school with a 7% interest rate assessed nine months after a recipient graduates or leaves school.

2. Social Security Assistance. Social Security provides grant awards to students enrolled full-time whose parents are deceased or receiving Social Security. This program is currently being phased out by the federal government and new grant awards will not be made to students who have enrolled in higher educational institutions after May, 1982. Students currently receiving social security aid will receive annual reductions in their awards.

3. Contributory Educational Assistance Program. Under this program, grants are provided to veterans or to servicemen who have completed their first period of service and who entered active duty after December 31, 1976. Benefits are paid according to the amount of money contributed by the participant. These funds are matched by a two to one federal contributing share.

4. ROTC Scholarships and Regular ROTC Program. These programs provide monthly stipends to students in return for military service obligations after leaving school. Scholarships are awarded for one to four years and include support for tuition fees and books. The regular ROTC program covers the students last two years of school.

5. State Veterans Educational Grants. This program provides qualifying veterans reimbursement for fees paid including costs of textbooks for courses completed at any accredited college or school.

6. State Vietnam Era Veterans Education Grant. This program provides annual grants to full-time undergraduate students of up to \$400 for married veterans and up to \$200 for single veterans per academic year. Full-time undergraduates without a degree who are Wisconsin residents and served on active duty between August 5, 1964 and July 1, 1975 are eligible for funds.

7. Nursing Grant and Loans. Under this program, nursing grants of up to \$2,000 and loans of up to \$2,500 per academic year are provided by the federal government to needy students. Loans have an interest payment of 3%.

8. Wisconsin National Guard Tuition Grant Program. This program provides reimbursement of one-half actual UW tuition charged for undergraduate students without prior military service who have enlisted in the Wisconsin National Guard on a part-time basis. Any National Guard members without prior military service can also qualify for reimbursement of up to one-half of educational expenses.

9. Minnesota-Wisconsin Reciprocity Nonresident Tuition Remissions. Under this program, the Minnesota-Wisconsin public higher education reciprocity agreement exempts Wisconsin and Minnesota residents who attend public post-secondary institutions in the other state from the payment of nonresident tuition fees. Admission fee and tuition requirements are applied irrespective of residency, with the exception that the receiving institution must have available space in the program the nonresident seeks to enter.

10. University of Wisconsin Nonresident Tuition Remissions. Under this program, nonresident tuition fees are remitted for various categories of undergraduate and especially graduate students. Remission categories include: graduate assistantships, graduate fellowships, foreign students, and armed service personnel. Funds are also set aside for cases of need and academic performance. The total value of UW remissions is fixed by Wisconsin Statute.

APPENDIX 3

Wisconsin Higher Education Grant Student Budgets 1976-77 to 1982-83

<u>Year</u>	<u>Single Independent*</u>	<u>Dependent</u>
1982-83	\$5,690	\$4,330
1981-82	5,317	4,037
1980-81	4,920	3,755
1979-80	4,450	3,400
1978-79	4,155	3,035
1977-78	3,870	2,810
1976-77	3,700	2,600

*Independent student budgets vary according to the number of dependents of the student. This budget is for a single UW independent student. VTAE student budgets are somewhat lower to reflect the difference in educational costs.

APPENDIX 4

University of Wisconsin System
 Student Help and Work Study Expenditures
 (All Funds)

1981-82

	<u>Work Study</u>	<u>Student Help</u>	<u>Total</u>
Instruction	\$3,184,900	\$2,908,900	\$6,093,800
Research	565,800	3,836,100	4,401,900
Public Service	160,000	799,700	959,700
Libraries	1,018,300	2,774,200	3,792,500
Farm Operations	27,800	77,700	105,500
Student Services	1,069,600	982,100	2,051,700
General Operations	344,300	947,500	1,291,800
Operation & Maintenance of Plant	132,500	439,200	571,700
Student Aid	1,057,400	16,900	1,074,300
Hospitals	18,300	464,600	482,900
Auxiliary Enterprises	<u>1,384,700</u>	<u>8,947,600</u>	<u>10,332,300</u>
TOTAL	\$8,963,600	\$22,194,500	\$31,158,100

APPENDIX 5

Need-Based Borrowing of Guaranteed Student Loans
Among University of Wisconsin Students,*
1980-81

	<u>Income Over</u> <u>\$30,000</u>	<u>Income Under</u> <u>\$30,000</u>	<u>Total</u>
Amount Borrowed to Meet Need	\$2,463,400	\$31,143,100	\$33,606,500
<u>Total Borrowed</u>	7,019,200	57,812,100	64,831,300
Percent of Need Based Borrowing	35.1%	53.9%	51.8%

*This total is based on UW financial aid data but is not a comprehensive amount. HEAB records indicate that UW students borrowed \$96,483,500 in 1980-81.