

Alaska State Legislature Joint Legislative Higher Education

Scholarship Funding Task Force



Report to the Legislature

Task Force Recommendations on

The Alaska Scholarship Program and

State-supported Educational Financial Assistance

Fall 2010

Funding and Finance

The first duty and priority for the Task Force was to “evaluate how best to provide long-term and sustainable funding for state provided financial aid for postsecondary institutions in the state” with particular emphasis being given to the performance-based Alaska Scholarship.

The Task Force analyzed – as representative examples – a number of funding and financing structures which were submitted to the Task Force. Those structures included: heavily capitalized, constitutionally protected endowment funds; heavily capitalized, statutorily created General Fund sub-accounts; moderately capitalized rolling-fund accounts; and, as a control group, the pay-as-you-go default case of annual General Fund appropriations. The Task Force also considered both the numerous revenue sources which could be tapped to provide monies for scholarships and the appropriation mechanisms available for directing such monies to specific programs, as well as the opportunities and challenges associated with each approach.

Relatively speaking, the ideal structure for ensuring a secure, long-term, sustainable funding source for the Scholarship would be a constitutional account, not unlike the Permanent Fund or Constitutional Budget Reserve, specific to the Scholarship and capitalized at a level where revenues generated from investment of the corpus would be sufficient to not only fully fund annual scholarship awards but also sufficient to inflation-proof the fund itself through reinvestment. Though subject to market volatility, such a mechanism (essentially a constitutionally protected endowment) would be highly durable, self-sustaining, more able to attract private donations through the newly augmented education tax-credit system and more likely to provide an adequate, predictable funding stream for the program.

However, such a constitutionally protected endowment account, due to the need for overwhelming legislative support and a further vote of the people, would be difficult and time consuming to create. Another substantial challenge would be capitalizing the account – identifying and appropriating the hundreds of millions of dollars in initial investment necessary to place the fund on the desired self-financing and self-sustaining footing.

One alternative to the constitutionally protected account was reflected in the Governor’s original Scholarship proposal. Senate Bill 224 and House Bill 297 each called for the establishment of a “scholarship fund” - a statutorily created sub-account of the General Fund, to hold appropriations, donations and income earned on investments of fund assets. Such a statutory account would have offered, though to a lesser degree, many of the same benefits as its constitutionally protected counterpart yet, because it could be created through a purely legislative process, would have been far easier to make and could have been established on a timeline as compressed as a single legislative session.

This option, however, suffered from the same fund capitalization shortcomings (both in immediacy and scale) as its counterpart. As described in Fiscal Note 2 of SB 224, the purely

statutory endowment would still have required an initial, immediate, investment of no less than \$400 million to approach fund self-sustainability.

Attempts to mitigate these capitalization challenges resulted in proposals which functionally resembled the revised School Bond Debt Reimbursement program. Under these designs, termed rolling-fund accounts by the Task Force, the fund capitalization threshold was reduced and the investment timeline extended. Under draft legislation requested for the Task Force (Attachments 15 and 16), the Scholarship Fund would be incrementally capitalized up to \$160 million over a series of years as monies were deposited into the fund in excess of those required for distribution as scholarship awards. Such a system would represent a moderate continuing strain on the State's finances but would allow the Legislature to capitalize the fund without the budgetary shock of a large, one-time appropriation. Also, though a smaller account balance would not afford the fail-safe, in perpetuity funding security of a heavily capitalized endowment, the corpus of a rolling-fund would provide a reasonable level of mid-term programmatic funding assurance; allowing the State the potential of a program wind-down while still having sufficient funds to meet its obligations to Scholarship awardees already in the training/education pipeline.

The Task Force considered all of these account options to be preferable to the pay-as-you-go default case of making no specific accommodation for the Scholarship and simply allowing the Administration to submit yearly funding requests for legislative consideration.

Therefore, *it is the recommendation of the Task Force that the Legislature immediately create, through statute, a Scholarship Fund as a sub-account within the General Fund.* As an account capitalization goal, *the Task Force recommends the Scholarship Fund account balance to be an amount sufficient to allow the Scholarship Fund to be wholly self-sustaining both for award distribution and inflation-proofing replenishment.* As an optimal capitalization strategy, *the Task Force would prefer, should sufficient funds be available, immediate account capitalization.* However, recognizing this may not be possible, *the Task Force recommends, as an alternative, incremental capitalization of the Scholarship Fund to a minimum balance of \$160 million*, or whatever amount the Legislature deems sufficient for it to act as a surety account for already obligated awards.

Possible funding sources for the Scholarship are many since the State has multiple sources from which it collects revenue (like severance taxes and corporate income taxes), multiple ways it generates income (like investment returns, dividends and program receipts) and dozens of existing accounts in which it is already holding money. Much of this income flows into the General Fund and is as available for appropriation to the Scholarship as it is for any other state program.

However, relying primarily on General Funds for support of a program is to subject it to the uncertainty of the budgetary process by placing it in competition with all other programs for yearly legislative prioritization and appropriation. This is a situation the Task Force, with an

overarching interest in assuring an adequate, secure and predictable funding stream to the Scholarship, would hope to avoid. Therefore, the Task Force advocates a funding regime which would require General Funds as supplemental funds only, if at all.

In general, and as much as is practicable, ***the Task Force recommends that sources of funding for the Scholarship by positively identified, “funds-in” revenue be affirmatively designated*** and General Funds be used as necessary and in supplement only. In order of preference, from “first place to go” to last, the Task Force advises the Legislature to fund the Scholarship Fund as follows:

1. Designating Interest from Specific, Existing Accounts
2. Designating Program Receipts and Dividends
3. Designating Revenues from Specific, External Sources
4. Re-appropriated Assets from Liquidated Accounts
5. General Funds

Needs-Based Component

The original scholarship proposal (SB 224/HB297), as submitted, provided only for merit-based financial assistance but was later amended to include a needs-based component that was supplemental to the merit-based Scholarship. By supplemental, it is meant that the needs-based component was integrated within the merit-based Scholarship, creating a single program whereby a student would have to be a Scholarship recipient to be eligible to receive needs-based assistance. The goal of integrating a needs-based component into the merit scholarship was to ensure that the lesser socio-economically advantaged students who qualified for the merit scholarship would have the ability to use their merit-based award.

However, the statute that created the Scholarship (SB 221) used the AlaskAdvantage education grant program – an existing, stand alone program which, as a function of historic funding levels, had only been able to provide grants to those students demonstrating the highest level of financial need based on the methodology used in the Free Application for Federal Student Aid: primarily non-traditional, older students - to address the possible necessity for added assistance by Scholarship awardees specifically and the acknowledged insufficiency of state-funded needs-based financial assistance in Alaska generally.

This was not a perfect fit as these programs were not designed to work in concert and generally target groups which are not aligned. The AlaskAdvantage grant program has much broader eligibility standards than the Scholarship. Seeking to make the Scholarship's qualifications the same as for AlaskAdvantage would greatly impair, or even eliminate, its efficacy related to its broad-based programmatic goals just as seeking to amend AlaskAdvantage education grant's qualifications to mirror those of the Scholarship would render it unavailable to many of the groups it currently serves. However, the Task Force recognizes the value of the programs, their complementary natures and the statewide benefit of maintaining them both.

Therefore, ***the Task Force recommends the creation of a second needs-based assistance program: a needs-based component, similar or identical to the one proposed in Education Committee versions of SB224/HB297, to be reintegrated into the Scholarship.*** Such a supplement will allow the Scholarship to more fully serve its high achieving, traditional student population. However, recognizing the indeterminate funding liability potential of the need-based supplement, ***the Task Force recommends the integrated needs-based component be capped, either at a 2010 amount of \$4,755 (as the merit-based portion of the Scholarship award has been capped at the 2010 UA tuition amount) or some other reasonable figure. The Task Force further recommends continued funding, at a level commensurate with its full functioning, of the AlaskAdvantage grant program,*** allowing it to serve the non-traditional, General Education Development (GED), and older students as prioritized for grants under the program's current criteria. Finally, though they are to be programmatically separate, ***the Task***

Task Force Recommendations

Needs-Based Component



Force recommends the supplemented Scholarship and AlaskAdvantage grant programs be funded through the same mechanism, perhaps, though not necessarily, under a funding formula which will ensure adequate support for both.

Attachment 8

Alaska's state financial aid policy goals

By *combining strategies* of needs-based and performance-based financial aid opportunities, Alaska's governor and legislature are utilizing two components that are each critical to Alaskans' access to and success in postsecondary education—academic and financial capacity.

2010 Legislative models

HB297(EDC)/SB224(EDC) entitled scholarship recipients to an additional 50% of unmet cost of attendance (COA) > \$2,000

B-level Award Distribution by Family Income Level

| Family AGI | \$25,000 | \$50,000 | \$75,000 | \$100,000 |
|-----------------------------------|----------|----------|-----------|-----------|
| Cost of attendance | \$18,500 | \$18,500 | \$18,500 | \$18,500 |
| Less Pell grant | -\$5,550 | -\$0 | -\$0 | -\$0 |
| Remaining costs | \$12,950 | \$18,500 | \$18,500 | \$18,500 |
| Less APS award | -\$3,566 | -\$3,566 | -\$3,566 | -\$3,566 |
| Remaining costs | \$9,385 | \$14,934 | \$14,934 | \$14,934 |
| Less EFC+\$2,000 | -\$2,000 | -\$6,772 | -\$14,157 | -\$15,401 |
| Unmet need | \$7,384 | \$8,212 | \$777 | \$0 |
| Less needs award @ 50% | -\$3,692 | -\$4,106 | -\$388 | \$0 |
| Remaining family costs | \$3,692 | \$4,106 | \$389 | \$0 |
| Total State aid | \$7,258 | \$7,672 | \$3,954 | \$3,566 |
| Total student & family paid costs | \$5,692 | \$10,878 | \$14,546 | \$15,401 |