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Reference 6

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**REVISED MEMORANDUM**

To: Board of Regents

Thru: Patrick Gamble, President 

From: Ashok Roy, VP Finance/CFO   
Jim Lynch, AVP Finance

Date: August 5, 2014

Subject: Proposed modifications to the UA Scholars Program

We wish to present to you, in advance, a more clarified background paper on the program recommendations, along with various award increase scenarios, so that you have the opportunity to review the proposal and pose any questions we might address before the next Board meeting.

**PRINCIPAL CONSIDERATIONS & INITIAL RECOMMENDATIONS MADE TO THE BOARD**

Recommendations for the proposed changes were guided by four principal considerations:

1. Align the UA Scholars Program with the APS Scholarship Program and the priorities of *Shaping Alaska's Future*, specifically the recruitment and retention of high achieving students;
2. Encourage students from all across the state to attend and graduate from UA;
3. Increase the amount of the award as previously recommended by the Board of Regents and the public; and
4. Keep the cost of the UA Scholars Program within sustainable limits.

These principal considerations resulted in the three recommendations we initially brought to the board:

1. Increase the required minimum credit hours earned per academic year from 24 to 30 credit hours beginning in year two of the award: this recommendation addresses better alignment with the APS Program and Shaping Alaska's Future (Theme 1: Student Achievement and Attainment). Students who do not take 30 credits or more annually simply will not graduate in four years.
2. Require incoming scholars to register for classes at UA for the fall semester immediately following high school graduation: this recommendation creates a significant financial incentive (\$12,000) to choose UA rather than attend outside or simply skip a year. Of the estimated 550 scholars that attend college outside of Alaska each year or take a year off, only about 50 return to UA. According to national statistics, students who defer attendance for the one year are shown to be less likely to return to school or graduate in six years.
3. Increase the amount of the award from \$11,000 to \$12,000 (\$1,500 per semester): this recommendation aligns with suggestions by the Board and others to increase the amount of the award, yet be financially sustainable in the future. Note: If approved, the recommendations above will be implemented in FY2016, and have a cost impact of approximately \$330,000. The increase in cost should be covered by earnings of the fund.

#### **QUERIES RAISED BY THE BOARD ABOUT THE PROGRAM AND RECOMMENDATIONS**

**Query 1:** What is the impact of increasing the annual credit hour requirement for the second and third year from 24 to 30 credit hours?

**Response:** The proposal is to leave the freshman credit hour requirement at 24 credit hours and increase the requirement from 24 to 30 credit hours for year two through four of the award. The proposal brings the UA Scholars Program into better alignment with the Alaska Performance Scholarship (APS) requirements for full-time students and supports the goals of Shaping Alaska's Future and the Stay on Track Program. Projecting the reduced cost to the program will require additional research to determine the potential savings; however, the staff does not believe that the number of students that are unable to carry a 30 hour course load will be significant.

**Query 2:** What is the impact of dropping the one year-deferral period for year one?

**Response:** Historically, about 50 students have taken advantage of the UA one year deferral in the first year to attend another institution or simply take time off for some reason. The modification is intended to support the goals of the Board-approved *Shaping Alaska's Future*, the UA "Stay on Track Program," and to provide compelling incentive to attend UA. The cost savings for 50 students (if all of them turned down the UA

scholarship) would be \$600,000 (50 awards at \$12,000); however, the staff expects that would not be the case and many of those students would be incentivized to enroll immediately.

**Query 3:** What would be the impact of funding only books, room, and board for APS eligible students in order to avoid the last dollar issue?

**Response:** The impact on APS students is expected to be none. By law, AS 14.43.825 and 20 AAC 16.220(i) (Attachments 5 and 6), the distribution from APS is limited to the total the cost of attendance for federal financial aid purposes less any scholarships and non-loan aid. Clearly the legislature did not want APS to be a substitute for any other non-loan aid or scholarship, and so it is the last to pay out. Only ten out of more than a thousand UA students received reduced APS awards due to receiving excess funding. In order to provide additional background and information for your consideration of the recommendations, four attachments regarding program costs and funding projections are enclosed.

## **ATTACHMENTS**

### **Attachment 1: Data Summary**

This summary is intended to provide a conceptual view of the number of awards and dollars involved. Since the start of the program, approximately 42% of those classified as scholars have attended UA.

#### Estimated Cost at Various Increase Levels

Five scenarios at \$1,000 increments identify the dollar impact on the program at various levels from \$3.6 Million at the current \$11,000 level to \$5.3 Million at the \$16,000 level).

### **Attachment 2: Program Five-Year Award Cost Projection**

This schedule reflects the stability of the number of awards accepted, approximately 2,650 and the projected cost of the program for FY2015 through FY2019 if the \$1,000 award increase is effective for FY2016.

### **Attachment 3: Program Funding Projection**

This schedule identifies the projected spending allowance (funding) from the Land Grant Endowments that will be available for the UA Scholars program and the significant assumptions used to develop the projections. It includes a projection of the balance of the Endowment for the next five years. Since the annual funding is based on a five year moving average of the endowment at December 31<sup>st</sup> of each year, please note that future earnings of the Endowment will depend on market returns and contributions to the fund (income from trust properties and inflation proofing). There are also three priority annual distributions (i.e., Land Management Operations, System-Based Scholarships, and the UA Scholars Program). To be financially prudent, the university should limit any other



expenditures to “one-time” distributions *only*. Alternatively, in lieu of distributions the money could also be put in a “reserve” for any unforeseen catastrophic event.

The impact of the Scholars Award on the APS Awards to students is negligible at the current \$11,000 award level (e.g. three students at UAF and ten students university-wide). The potential impact of increasing to the \$15,000 or \$16,000 level has yet to be researched, but is unlikely affordable at this time. It should also be noted that the original intent of the UA Scholars Program in 1999 was not only to fund tuition, but to subsidize the overall cost of education and provide an incentive to attend UA without regard to exactly what education-related needs awards were spent on. At FY14 tuition rates (\$192/credit avg. cost) the program covers approximately 48% of tuition. Most scholars can go on to close the gap with APS and other awards/scholarships available.

**Attachment 4:** Award Cost Increase Scenario Projection

This page shows in graph form the impact of the cost and funding gap of five scenarios with \$1,000 increments to the UA Scholars award. It includes what would happen if the number of students accepting awards were to increase by 10% and 20% due to an increase in the annual award amount: The first graph shows the “unfunded” cost if the number of students accepting the award remains the same. The second and third graph show the “unfunded” cost if the number of students accepting the award increased by 10% and 20% respectively.

**Attachment 5:** Alaska Statute, AS 14.43.825

**Attachment 6:** Alaska Administrative Code, 20 AAC 16.22

**RECOMMENDATION**

We recommend the Board support the following motion:

“The Board of Regents approves three significant revisions to the UA Scholars Program, which will take effect in fall 2015 for all UA Scholars:

- 1) Increase the required minimum credit hours earned per academic year from 24 to 30 credit hours beginning in year two of the award.
- 2) Require incoming scholars to register for classes at a University of Alaska campus for the fall semester immediately following high school graduation.
- 3) Increase the amount of the award from \$11,000 to \$12,000 to be distributed at \$1,500 per semester.

## Data Summary

Number of semester awards paid annually	2,650
Current amount of a one semester award	\$1,375
Proposed amount of a semester award	\$1,500
Proposed increase per semester award	\$125
Annual cost increase (2,650 * \$125)	\$331,250
Annual cost of awards @ \$1,500 per semester (2,650 * \$1,500)	\$3,975,000

<u>Cohort year</u>	<u>Designated</u>	<u>Attended</u>	<u>%Attended</u>
2013	1027	444	43.23%
2012	1068	434	40.64%
2011	1027	443	43.14%
2010	1077	473	43.92%
2009	1072	463	43.19%
2008	1025	434	42.34%
2007	1039	416	40.04%
2006	1006	411	40.85%
2005	948	421	44.40%
2004	969	431	44.50%
2003	973	459	47.20%
2002	924	377	40.80%
2001	904	392	43.40%
2000	879	349	39.70%
1999	813	271	33.30%
	980	410	42%

## Estimated Cost at Various Increase Levels:

<u>Award increase</u>	<u>0</u>	<u>\$1,000</u>	<u>\$2,000</u>	<u>\$3,000</u>	<u>\$4,000</u>	<u>\$5,000</u>
4 year award value	\$11,000	\$12,000	\$13,000	\$14,000	\$15,000	\$16,000
Semester award value	\$1,375	\$1,500	\$1,625	\$1,750	\$1,875	\$2,000
Number semester of awards paid annually	2650	2650	2650	2650	2650	2650
Total annual cost	\$3,644,000	\$3,975,000	\$4,306,000	\$4,638,000	\$4,969,000	\$5,300,000
Cost increase over current cost	\$0	\$331,000	\$662,000	\$994,000	\$1,325,000	\$1,656,000
Percent increase over current cost	0%	9%	18%	27%	36%	45%

## Program Five-Year Award Cost Projection

## UA Scholar's Program:

	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>	<u>FY2011</u>	<u>FY2012</u>	<u>FY2013</u>	<u>FY2014</u>	<u>Avg.</u>	<u>Projected</u>				
									<u>FY2015</u>	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>	<u>FY2019</u>
High School Juniors	10599	10937	10874	10725	9989	9701	9668	10316	9829	10256	10307	10222	10051
High School Seniors	10092	9787	9778	9643	9977	9798	9605	9765	9368	9959	9723	9776	9549
High School Graduates	8008	7943	7749	7950	7414	7274	7320	7665	7304	7621	7659	7596	7469
<i>High School Graduation Rate</i>	<i>76%</i>	<i>73%</i>	<i>71%</i>	<i>74%</i>	<i>74%</i>	<i>75%</i>	<i>76%</i>	<i>74%</i>	<i>74%</i>	<i>74%</i>	<i>74%</i>	<i>74%</i>	<i>74%</i>
Awards Offered	1039	1025	1072	1077	1027	1068	1027	1048	1020	1026	1031	1022	1005
Percent of Graduates	<u>13.0%</u>	<u>12.9%</u>	<u>13.8%</u>	<u>13.5%</u>	<u>13.9%</u>	<u>14.7%</u>	<u>14.0%</u>	<u>13.7%</u>	<u>14.0%</u>	<u>13.5%</u>	<u>13.5%</u>	<u>13.5%</u>	<u>13.5%</u>
Freshmen Paid	416	434	463	473	443	434	444	444	432	434	437	433	426
Percent of Offers	<u>40.0%</u>	<u>42.3%</u>	<u>43.2%</u>	<u>43.9%</u>	<u>43.1%</u>	<u>40.6%</u>	<u>43.2%</u>	<u>42.4%</u>	<u>42.4%</u>	<u>42.4%</u>	<u>42.4%</u>	<u>42.4%</u>	<u>42.4%</u>
Full Award Amount			\$11,000	\$11,000	\$11,000	\$11,000	\$11,000		\$11,000	\$11,000	\$12,000	\$12,000	\$12,000
Total Actual Distributions			\$3,638,938	\$3,674,000	\$3,639,625	\$3,646,500	\$3,583,250	<u>Avg.</u> \$3,636,463					
Semester Award Amount			\$1,375	\$1,375	\$1,375	\$1,375	\$1,375	\$1,375	\$1,375	\$1,375	\$1,500	\$1,500	\$1,500
Number of Semester Awards Paid			2647	2672	2647	2652	2606	2645	2650	2650	2650	2650	2650
Total Projected Award Cost									<u>\$3,644,000</u>	<u>\$3,644,000</u>	<u>\$3,975,000</u>	<u>\$3,975,000</u>	<u>\$3,975,000</u>

## Significant Assumptions:

- 1 HS graduation rate remains constant
- 2 Awards offered based on Junior class projections
- 3 Freshmen paid remains constant
- 4 No significant change resulting from proposed modifications
- 5 Award increase from \$11,000 to \$12,000 in FY2017

## Program Funding Projection

	FY2011	FY2012	FY2013	FY2014	Projected					
	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Endowment Value Dec. 31	\$117,570,000	\$123,850,000	\$115,850,000	\$128,950,000	\$139,000,000	\$145,250,000	\$151,780,000	\$158,600,000	\$165,730,000	\$173,180,000
Increase Rate		<u>5.3%</u>	<u>-6.5%</u>	<u>11.3%</u>	<u>7.8%</u>	<u>4.5%</u>	<u>4.5%</u>	<u>4.5%</u>	<u>4.5%</u>	<u>4.5%</u>
Average Endowment Increase FY2012 - FY2015					<u>4.5%</u>					
5-Year Moving Average					\$125,040,000	\$130,580,000	\$136,170,000	\$144,720,000	\$152,072,000	\$158,908,000
Spending Rate					<u>4.5%</u>	<u>4.5%</u>	<u>4.5%</u>	<u>4.5%</u>	<u>4.5%</u>	<u>4.5%</u>
Spending Allowance				\$5,260,339	\$5,627,240	\$5,876,000	\$6,128,000	\$6,512,000	\$6,843,000	\$7,151,000
Spending Plan:										
Land Mgt. Support				(\$1,050,000)	(\$1,000,000)	(\$1,050,000)	(\$1,103,000)	(\$1,158,000)	(\$1,216,000)	(\$1,277,000)
System-Based Scholarships				(\$160,000)	(\$160,000)	(\$160,000)	(\$176,000)	(\$194,000)	(\$213,000)	(\$234,000)
Other Distributions				(\$120,000)	(\$667,000)	(\$667,000)	(\$667,000)	(\$667,000)	(\$667,000)	(\$667,000)
UA Scholars Program				(\$3,583,000)	(\$3,644,000)	(\$3,644,000)	(\$3,975,000)	(\$3,975,000)	(\$3,975,000)	(\$3,975,000)
Projected Available				\$347,339	\$156,240	\$355,000	\$207,000	\$518,000	\$772,000	\$998,000
Potential total funding available for the UA Scholars Program					\$3,800,240	\$3,999,000	\$4,182,000	\$4,493,000	\$4,747,000	\$4,973,000

Significant Assumptions:

- 1 Endowment increase FY2016 - FY2020 will be the same as FY2012 - FY2015
- 2 Spending allowance rate will remain at the current 4.5% level
- 3 Land Mgt. expenses will grow by 5% per year
- 4 System-Based Scholarships will increase by 10% per year based on estimated increases in foster youth participation
- 5 The number of UA Scholars awards will remain constant FY2015 -FY2020
- 6 The amount of the UA Scholars award will increase to \$12,000 for FY2017
- 7 Other Distributions represents a margin of safety for Scholars funding shortfalls or one-time awards
- 8 Projected Available represents the funds available for potential variations in the number of Scholars' awards accepted and administrative e. Commitment of all of the fund available would not be prudent based on the potential for unforeseen changes in activity levels.
- 9 Potential funding available for the UA Scholars Program represents the sum of the estimated scholars program distributions and the remaining uncommitted funds which become dedicated to the UA Scholars Program for scholars administrative costs and unanticipated fluctuations in the number of awards, unless otherwise approved by the board.

## Note:

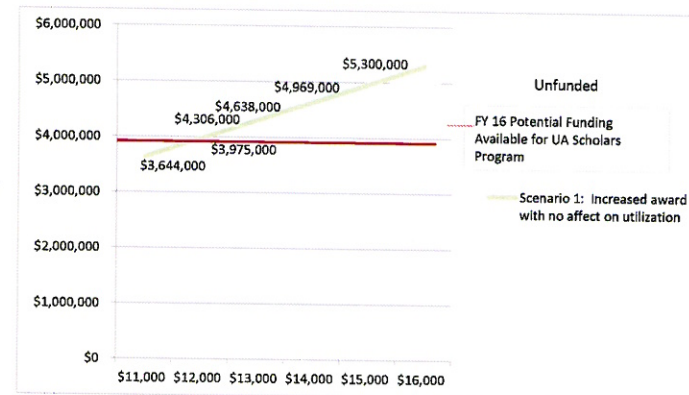
- A UA Scholars award costs are based on estimates which are subject to significant change in award acceptance based on economic and social conditions.
- B Future endowment increases are subject to market returns, contribution of the net proceeds for land development and sales.
- C Due to the uncertain nature of the revenue stream, consideration should be given to limiting other distributions to one-time activities that can be discontinued .
- D Impact of the Scholars Award on the APS Awards to students in negligible at the current \$11,000 award level (e.g. 3 students at UAF). The impact of increasing the Scholars' to the \$15,000 or \$16,000 level has yet to be researched.



## Award Cost Increase Scenario Projections

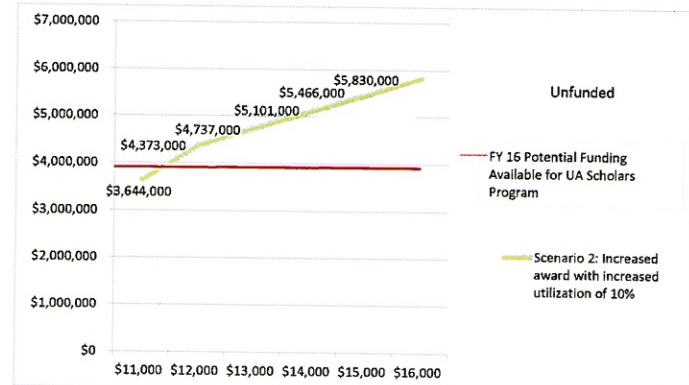
## Scenario 1: Increased award with no affect on utilization

Award Amount	Total Cost	Awards paid annually (utilization)	Semester award amount	FY 16 Potential Funding Available for UA Scholars Program	Unfunded amount	%Increase to current expense
\$11,000	\$3,644,000	2650	\$1,375	\$3,999,000	\$355,000	0%
\$12,000	\$3,975,000	2650	\$1,500	\$3,999,000	\$24,000	9%
\$13,000	\$4,306,000	2650	\$1,625	\$3,999,000	(\$307,000)	18%
\$14,000	\$4,638,000	2650	\$1,750	\$3,999,000	(\$639,000)	27%
\$15,000	\$4,969,000	2650	\$1,875	\$3,999,000	(\$970,000)	36%
\$16,000	\$5,300,000	2650	\$2,000	\$3,999,000	(\$1,301,000)	45%



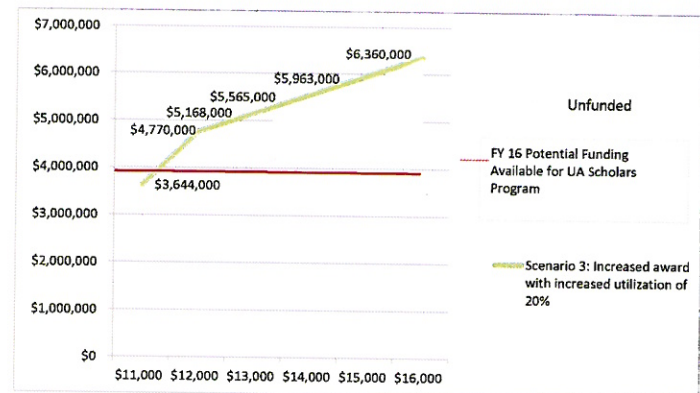
## Scenario 2: Increased award with increased utilization of 10%

Award Amount	Total Cost	Awards paid annually (utilization)	Semester award amount	FY 16 Potential Funding Available for UA Scholars Program	Funding Gap Available v. Projected FY 16	%Increase to current expense
\$11,000	\$3,644,000	2650	\$1,375	\$3,999,000	\$355,000	0%
\$12,000	\$4,373,000	2915	\$1,500	\$3,999,000	(\$374,000)	20%
\$13,000	\$4,737,000	2915	\$1,625	\$3,999,000	(\$738,000)	30%
\$14,000	\$5,101,000	2915	\$1,750	\$3,999,000	(\$1,102,000)	40%
\$15,000	\$5,466,000	2915	\$1,875	\$3,999,000	(\$1,467,000)	50%
\$16,000	\$5,830,000	2915	\$2,000	\$3,999,000	(\$1,831,000)	60%



## Scenario 3: Increased award with increased utilization of 20%

Award Amount	Total Cost	Awards paid annually (utilization)	Semester award amount	FY 16 Potential Funding Available for UA Scholars Program	Funding Gap Available v. Projected FY 16	%Increase to current expense
\$11,000	\$3,644,000	2650	\$1,375	\$3,999,000	\$355,000	0%
\$12,000	\$4,770,000	3180	\$1,500	\$3,999,000	(\$771,000)	31%
\$13,000	\$5,168,000	3180	\$1,625	\$3,999,000	(\$1,169,000)	42%
\$14,000	\$5,565,000	3180	\$1,750	\$3,999,000	(\$1,566,000)	53%
\$15,000	\$5,963,000	3180	\$1,875	\$3,999,000	(\$1,964,000)	64%
\$16,000	\$6,360,000	3180	\$2,000	\$3,999,000	(\$2,361,000)	75%



## Significant Assumptions:

- 1 The earliest possible implementation of an increase is FY17
- 2 Award utilization is calculated by determining the total awards paid in an academic year. (Total cost / Semester award amount, i.e., \$3,644,000/\$1375.)



## Alaska Statute, AS 14.43.825

**Sec. 14.43.825. Maximum annual awards.** (a) The maximum annual awards for the Alaska performance scholarships are as follows:

- (1) the first award level is \$4,755 and requires a
  - (A) 3.5 grade-point average or above; and
  - (B) very high minimum score on a college entrance examination;
- (2) the second award level is \$3,566 and requires a
  - (A) 3.0 grade-point average or above; and
  - (B) high minimum score on a college entrance examination;
- (3) the third award level is \$2,378 and requires a
  - (A) 2.5 grade-point average or above; and
  - (B) moderately high minimum score on a college entrance examination.

(b) A student's eligibility for a scholarship terminates six years after the date the student graduates from high school unless the student qualifies for an extension of time allowed by the department by regulation.

(c) Except as provided in (b) of this section, a student receiving a scholarship may remain eligible for up to eight semesters of enrollment in good standing at a qualified university or college, which may include graduate courses.

(d) Scholarships may be awarded to a full-time student or, if a student is enrolled part time, prorated based on the number of credits. In this subsection, "full time" means enrollment in a course of study that is not less than 12 credits, and "part time" means enrollment in a course of study that is not less than six credits but less than 12 credits.

(e) The amount of a scholarship award may not exceed the amount of the student's costs of attendance as certified by the postsecondary institution for the purposes of federal financial aid, less any other scholarships or nonloan financial aid awarded to the student.

(f) Payment of a scholarship is subject to appropriation and the availability of funds for expenditure under [AS 37.14.750](#). If insufficient funds are appropriated or available in a fiscal year to pay all eligible scholarships, the commission may not award a scholarship to a new applicant, and the commission shall pay existing awards on a pro rata basis for that fiscal year.

requirements of (b)(3) and (c)(3) of this section through an approved, accelerated method of delivery.

(e) A student enrolled in an otherwise qualifying accelerated program of study may have accelerated award eligibility. For purposes of this subsection,

(1) "accelerated program of study" means an academic program of study in which the student is completing at least 150 percent of the full-time credit hours required in this section, per calendar year of attendance;

(2) "accelerated award eligibility" means eligibility for an additional 50 percent of full-time award, based on the number of credits being completed in the accelerated program of study; and

(3) accelerated awards reduce the student's semesters of eligibility as set out in AS 14.43.825 (c).

(f) The minimum scholarship award per school year is \$500.

(g) For purposes of determining award eligibility and estimating annual scholarship amounts each year, the executive director shall set and publish on the commission's website a deadline for certification of scholarship applicant enrollment by postsecondary institutions. Scholarship applicants certified by postsecondary institutions as having qualifying enrollment after the deadline will be considered for an award if money is available after payment to students certified by the deadline.

(h) If appropriations are insufficient to pay all eligible scholarship applicants, existing awards will be paid first on a pro rata basis. For purposes of this section, existing awards are those certified by the postsecondary institution before the published deadline established in (g) of this section.

(i) For purposes of calculating maximum award eligibility, scholarship money is used to supplement other non-loan aid. In order not to supplant other non-loan aid, an otherwise qualifying student's costs of attendance are reduced by other scholarships, grants, or stipends, or any other non-loan aid that would be paid to support the student's participation in the educational program for the same program of study or academic period.

(j) For purposes of this section, a grant received under AS 14.43.400 reduces an applicant's eligible costs of attendance for purposes of calculating a scholarship award amount.

(k) A student is eligible for only one scholarship award per career and technical school certificate program completed. A student who enrolls in multiple career and