

Meeting of the
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
October 27, 2022

AGENDA ITEM #11-b:

Oklahoma's Promise.

SUBJECT: FY2024 Official Funding Estimate for the Oklahoma's Promise Scholarship Program.

RECOMMENDATION:

It is recommended that the State Regents provide to the State Board of Equalization a funding estimate of \$67.7 million for the Oklahoma's Promise scholarship program for fiscal year 2024 to be allocated from the General Revenue Fund. It is further recommended that \$6 million of the program's trust fund reserves be designated in FY2024 for the State Regents to consider the consolidation of 20 percent of student mandatory fees into tuition.

BACKGROUND:

Oklahoma's Promise was created by the Oklahoma Legislature in 1992. The program is designed to increase the education attainment level of Oklahoma's population by providing an incentive for more students to aspire for college, prepare themselves academically in high school, and ultimately earn a college degree or other postsecondary credential.

Students must enroll in the program in the 8th, 9th, 10th or 11th grade. Beginning in the 2022-2023 school year, there are three levels of income eligibility based on the number of dependent children in the family. Students are eligible to enroll in the program if the federal adjusted gross income of the student's parent(s) does not exceed:

- \$60,000 per year for parents who have one or two dependent children;
- \$70,000 per year for parents who have three or four dependent children; or
- \$80,000 per year for parents who have five or more dependent children.

To earn the scholarship, students must complete a 17-course college preparatory curriculum, achieve at least a 2.50 GPA in the required core curriculum and a 2.50 GPA overall, attend school regularly, and refrain from substance abuse or delinquent acts. Students completing the requirements are eligible for a scholarship equal to public college tuition. In college, students are subject to an annual family income check at \$100,000. To retain the scholarship in college, students must also meet certain academic and conduct requirements.

During the 2007 session, the Oklahoma Legislature passed SB 820 providing a dedicated funding process to ensure full and stable financial support for the program. The implementation of a dedicated funding process for the Oklahoma's Promise program was a long-standing legislative goal of the State Regents.

By statute, the State Regents must provide a funding estimate to the State Board of Equalization no later than November 1 of each year. The funding estimate is for the fiscal year that begins the following July 1. The seven-member State Board of Equalization is comprised of the Governor, Lieutenant Governor, State Auditor and Inspector, State Treasurer, Attorney General, Superintendent of Public Instruction, and the

President of the Board of Agriculture. The Board is responsible for certifying the total amount of funds that the Legislature can appropriate from the state's General Revenue Fund. The Board also has the responsibility to determine the amount of revenue necessary to fund the Oklahoma's Promise scholarships and subtract that amount from the total funds available for appropriation from the General Revenue Fund.

Following are significant changes made to the program in the past five years:

2017-2018

- Application family income limit increased from \$50,000 to \$55,000 (statutory; first increase since 2000).
- Use of scholarship expanded to include most Career Tech programs (statutory).

2018-2019

- Prohibited scholarship payments for remedial, non-credit courses (statutory).
- Required an annual check of \$100,000 family income limit for Oklahoma's Promise college students rather than the previous one-time check when the student was an incoming freshman (statutory).
- Cap of 129 college credit hours placed on the scholarship beginning with the 2018 high school graduating class (cap mandated by statute; specific 129-hour limit set by State Regents in rules).

2021-2022

- Application family income limit increased from \$55,000 to \$60,000 (statutory).
- Application period expanded to include the 11th grade (statutory; previously grades 8 – 10).

2021-2022

- Application family income limit modified and increased based on the number of dependent children (statutory).
 - \$60,000 per year for parents who have one or two dependent children;
 - \$70,000 per year for parents who have three or four dependent children; or
 - \$80,000 per year for parents who have five or more dependent children.

POLICY ISSUES:

The Oklahoma's Promise program plays an important role in the State Regents' goal to increase the proportion of Oklahoma's population earning a college degree or other postsecondary credential.

ANALYSIS:

Fiscal Year 2023-2024 Funding Estimate

Based on current data and projections, the funding estimate for the Oklahoma's Promise program in 2023-2024 is \$67.7 million, an increase of \$2.9 million or 4.5 percent from the 2022-2023 funding level of \$64.8 million. The number of students expected to receive an Oklahoma's Promise award in 2023-2024 is about 14,900.

Factors taken into consideration to calculate the estimate include:

- Enrollment rates of 8th, 9th, 10th, and 11th grade students in the program.

- The rate at which Oklahoma’s Promise students complete the high school requirements to be eligible for the scholarship.
- High school-to-college-going rates.

Note: COVID-19 appears to have negatively impacted the direct-from-high school-to-college rates of the 2020 and 2021 high school graduating classes of Oklahoma's Promise students. The college-going rate of 2020 high school graduates in 2020-2021 was 68 percent, down 5 percent from the 73 percent rate of 2019 high school graduates in 2019-2020 (the largest single year decline in the history of the program). The 2021 high school graduating class had a similarly lower college-going rate in 2021-22 of 67 percent.

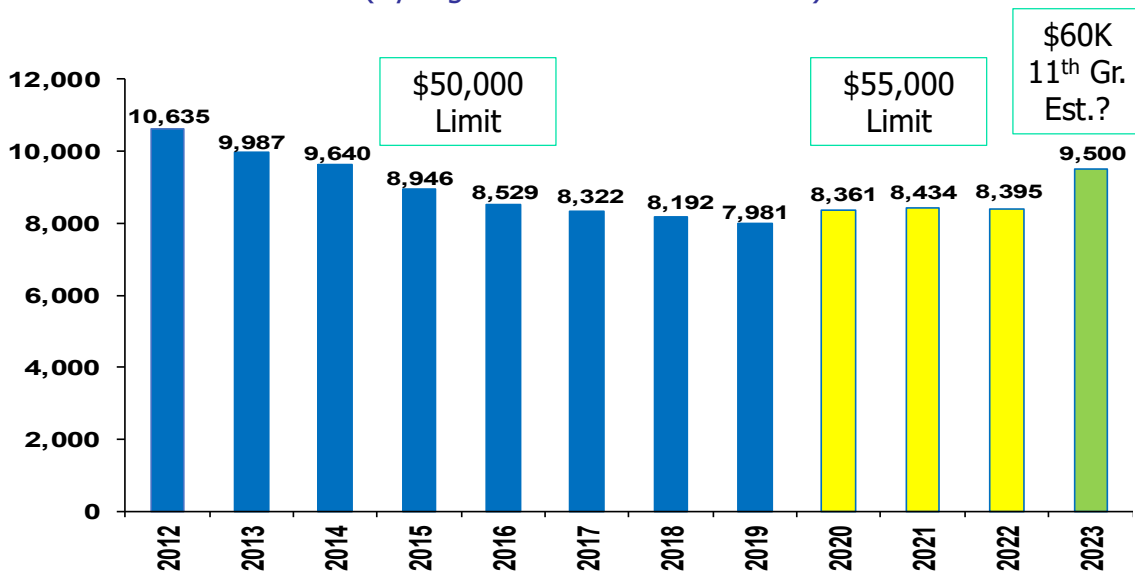
- Student enrollment patterns at colleges in Oklahoma.
- Student persistence/award-retention rates in college.
- The number of college semester credit hours in which students enroll.
- The tuition rates at each institution.
- Estimated tuition increases for 2023-2024.

High School Student Enrollment in Oklahoma’s Promise

The number of high school students enrolling in Oklahoma’s Promise declined steadily from 2012 to 2019. Enrollment then grew in the high school graduating classes of 2020, 2021 and 2022, reflecting the increase in the application family income limit from \$50,000 to \$55,000. The 2023 graduating class is projected to increase significantly by 1,000 or more students due to two primary changes – a further increase in the application family income limit from \$55,000 to \$60,000 and the expansion of the application period to the 11th grade. An additional increase in enrollment can probably be expected for the 2024 graduating class due to the new higher income limits based on the number of children in the family that went into effect in the 2022-2023 academic year.



OKPromise High School Enrollment (By High School Graduation Year)



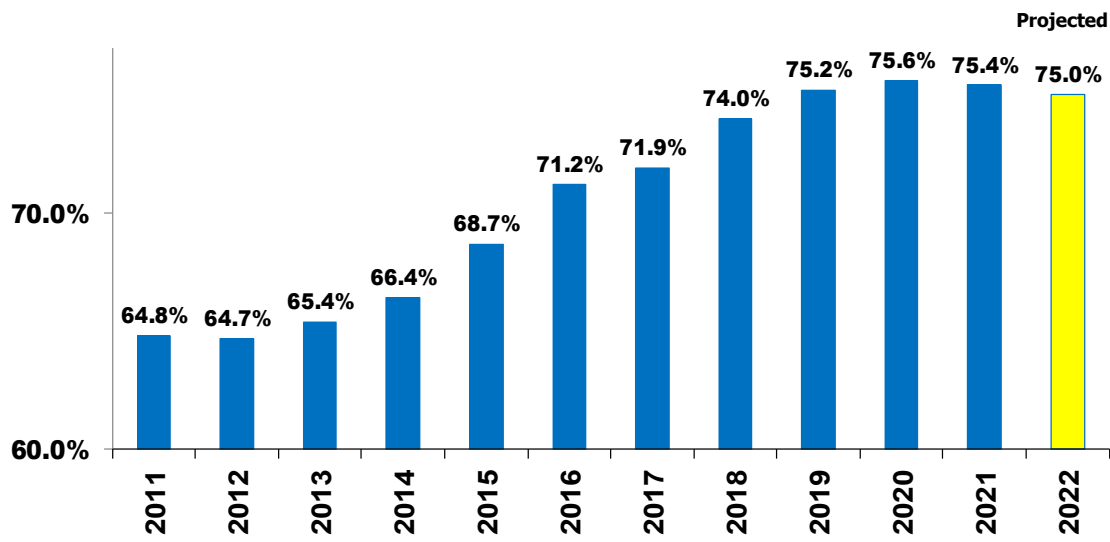
As of 9/22/2022

High School Requirement Completion Rates of Oklahoma's Promise Students

Between 2013 and 2019 the proportion of enrolled students who successfully completed the program's high school requirements to be eligible for the scholarship increased by ten percentage points from 65 percent to 75 percent. Since 2019, the completion rates have remained steady at about 75 percent.



High School Requirement Completion Rates (by grad year)



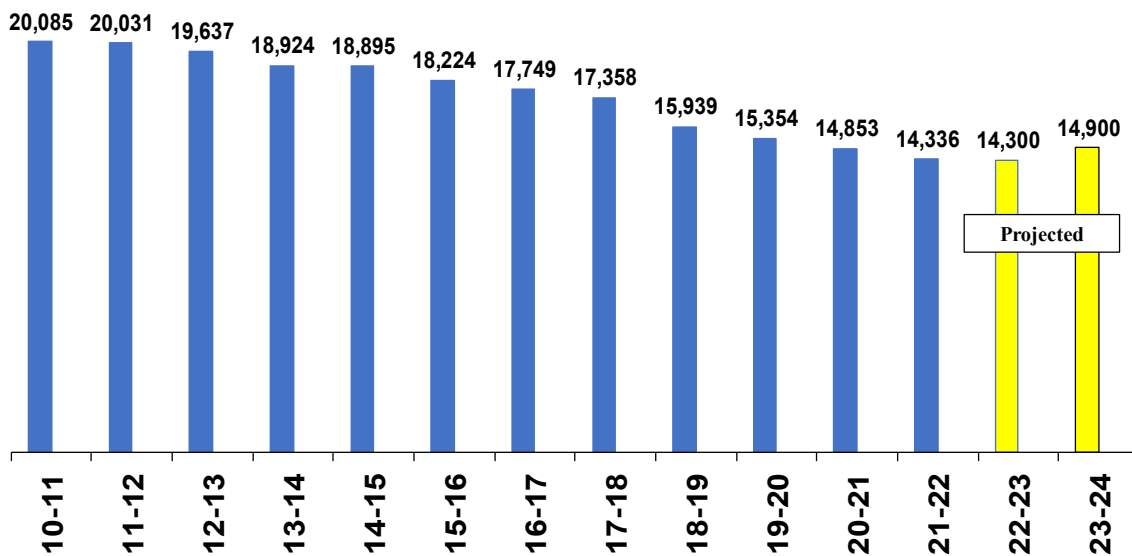
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Projected Scholarship Recipients

The number of scholarship recipients has declined significantly over the past twelve years. Due in large part to the 2017 legislative fiscal reforms, the largest single year drop was in 2018-2019 which saw a reduction of 1,400 or eight percent compared to 2017-2018. Since then, the number of scholarship recipients has continued to decline to about 14,300 in 2021-2022. The projected number of scholarship recipients in 2022-2023 is expected to remain at about 14,300 with an increase in 2023-2024 of about 600 recipients to 14,900.



Scholarship Recipients



As of 10/1/2022

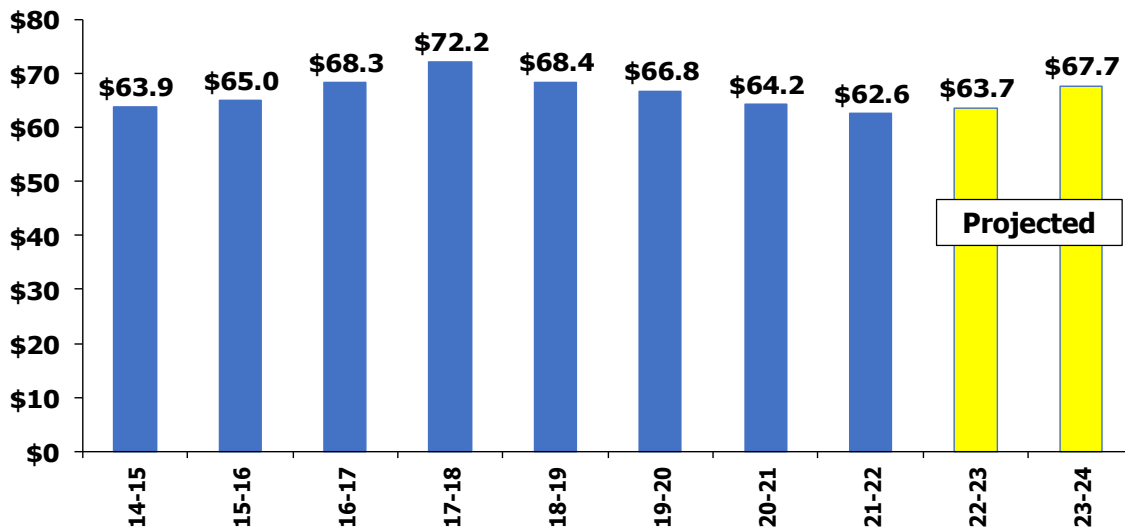
Scholarship Expenditures

From 2017-2018 to 2021-2022, annual scholarship expenditures decreased from \$72.2 million to \$62.6 million, a decline of \$9.6 million or thirteen percent. Two primary factors contributed to the cost savings – (1) the implementation of statutory fiscal reforms approved by the Legislature in 2017, and (2) an increase in the number of state system institutions not raising tuition. Expenditures are projected to increase modestly in 2022-2023 and then increase by about \$4 million 2023-2024.



Scholarship Expenditures

(In \$ millions, by academic year)



As of 9/19/2022

Oklahoma's Promise Award as a Percentage of College Costs

The Oklahoma's Promise award pays the student's actual tuition costs at state system colleges and universities (the award for students attending private colleges is limited to the comparable public college tuition). The award amount does not cover fees, books, supplies, or room and board. The table below provides examples of the proportion of average total college costs covered by the Oklahoma's Promise award for full-time students enrolled at state system colleges in 2022-2023. The award covers about 19% at the research universities, 37% at the regional universities, and 29% at the community colleges.

2022-2023 Average Cost of Attendance Full-Time Undergraduate Resident (30 Credit Hours)

Resident Students	Research Universities	Regional Universities	Community Colleges
Tuition	\$5,168	\$5,897	\$3,460
Mandatory Fees	\$4,109	\$1,667	\$1,257
Average Academic Service Fees	\$4,980	\$724	\$376
Total of Tuition and Fees	\$14,257	\$8,288	\$5,093
Estimated Books & Supplies	\$1,000	\$1,147	\$1,332
Average Costs for Commuter	\$15,257	\$9,435	\$6,425
Room & Board	\$11,988	\$6,600	\$5,693
Average for On-Campus Student	\$27,245	\$16,034	\$12,118

Tuition as % of On-Campus Total Cost	19%	37%	29%
Mandatory Fees as % of Total Cost	15%	10%	10%
Academic Service Fees as % of Total Cost	18%	5%	3%

The State Regents define “Mandatory Fees” and “Academic Services Fees” in policy.

Mandatory Fees: Fees required of **all** students for enrollment to the institution. These fees are used to support the mission of the institution, its facilities, and student services. Most mandatory fees are assessed on a per-credit-hour basis. Some common mandatory fees include: library fees, technology fees, student assessment fees, student activity fees, student facility fees, and academic records fees.

Academic Services Fees: Fees assessed to students enrolled in **certain** courses or programs to cover the actual costs of instruction and related academic services such as laboratory supplies, materials, equipment and specialized testing.

Recommendation: Designate \$6 million of the program’s trust fund reserves to consider the consolidation of 20 percent of student mandatory fees into tuition in 2023-2024.

At some Oklahoma public colleges, the cost of fees can be a source of confusion and frustration for parents and students. In some situations, the cost of all fees exceeds the student’s cost of tuition. In addition, Oklahoma’s Promise students attending colleges with higher fee costs are more likely to rely on student loans to cover their cost of education. As shown in the table below, in 2019-2020 at the research universities, about half of Oklahoma’s Promise students depended on student loans averaging nearly \$7,000. The rates of borrowing and the average annual loan amounts were much less at the regional universities and the community colleges.

Oklahoma's Promise Students					
Loan Data for 2019-2020					
<u>Institution Tier</u>	<u>OKPromise Recipients</u>	<u>OKPromise Recipients with Loans</u>	<u>% of OKPromise Recipients with Loans</u>	<u>Total Loans</u>	<u>Average Loan</u>
Research Universities	4,532	2,219	49%	\$15,287,823	\$6,890
Regional Universities	5,600	1,879	34%	\$9,588,925	\$5,103
Community Colleges	4,771	710	15%	\$2,780,096	\$3,916
State System	14,259	4,808	34%	\$27,656,844	\$5,752

To provide an opportunity for the State Regents to consider addressing these concerns in 2023-2024, it is proposed that the State Regents’ FY2024 funding recommendation for Oklahoma’s Promise include designating \$6 million from the program’s reserve funds to possibly cover the initial cost of consolidating the equivalent of 20 percent of student mandatory fees (excluding academic service fees) into institutional tuition rates.

Key Points:

- Systemwide, mandatory fees equate to about 43 percent of tuition costs. Compared to the projected FY2024 tuition costs of Oklahoma’s Promise recipients at \$67.7 million, the students’ total related mandatory fee costs would be about \$29.3 million. To reduce mandatory fees by 20 percent in FY2024 and consolidate that revenue into tuition rates, the cost to the Oklahoma’s Promise program would be about \$5.9 million (\$29.3 million X 20 percent = \$5.9 million).
- As of June 30, 2023, the Oklahoma’s Promise trust fund is projected to have a reserve balance of about \$28.5 million; \$6 million would equate to about 21 percent of available reserves.
- If approved by the State Regents, this funding recommendation would not mandate the consolidation of any mandatory fees in 2023-2024. The recommendation provides a potential framework for the State Regents and institutions to consider an incremental approach to address this issue beginning in the 2023-2024 academic year.
- Any mandatory fees consolidated into tuition will become part of the ongoing scholarship costs of Oklahoma’s Promise in future years.
- The consolidation of mandatory fees into tuition does not have an impact in relation to the statutory limits on tuition and fees since the limits apply to combined tuition and mandatory fee levels.
- The recommendation would not require any change in statute or State Regents’ policy.

Potential Benefits of the Consolidation of Mandatory Fees into Tuition

- All students enrolled in state system institutions, not just Oklahoma's Promise students, would benefit from a more simplified, transparent and understandable billing structure for college expenses.
- The proposal would help reduce student debt for Oklahoma's Promise students attending colleges that currently have higher fees. Loan debt can be especially sensitive for Oklahoma's Promise college students whose average family income in 2020-2021 was about \$37,000.
- The proposal would benefit institutions by allowing them to simplify their billing and also enhance the scholarship awards that their Oklahoma's Promise students receive.
- The proposal would complement institution efforts to raise funds to increase student aid and lower student debt – such as Oklahoma State University's recently announced goal to limit student debt to a maximum of \$3,000 per year and the University of Oklahoma's goal to raise \$500 million for scholarships. These new initiatives are in addition to current programs at OSU and OU that provide aid for some non-tuition expenses of Oklahoma's Promise students (Cowboy Covenant and Crimson Commitment).

Sources of Funding and Year End Trust Fund Balances

As shown below, the program’s trust fund had a balance of \$32.8 million at the end of FY2022. The FY2023 funding estimate included \$6 million budgeted from the trust fund balance. However, current estimates for FY2023 project that only about \$4.3 million of the \$6 million budgeted from the trust fund balance will be utilized. For FY2024, it is recommended that \$6 million from the trust fund balance be designated for the purpose of considering the consolidation of 20 percent of mandatory student fees into tuition.

Oklahoma's Promise
Funding Sources / Year End Trust Fund Balances

Fiscal Year	Funding Estimate	From General Revenue	Budgeted From Trust Fund	June 30 Trust Fund Balance	Balance as % of Funding	
FY'2011 actual	\$57,000,000	\$57,000,000		\$15,626,849	27.4%	
FY'2012 actual	\$63,200,000	\$63,200,000		\$20,121,256	31.8%	
FY'2013 actual	\$63,000,000	\$57,000,000	\$6,000,000	\$19,852,259	31.5%	
FY'2014 actual	\$62,700,000	\$57,000,000	\$5,700,000	\$12,400,074	19.8%	
FY'2015 actual	\$61,000,000	\$57,000,000	\$4,000,000	\$4,910,968	8.1%	
FY'2016 actual	\$61,700,000	\$59,000,000	\$2,700,000	\$649,223	1.1%	
FY'2017 actual	\$67,800,000	\$67,800,000	\$0	\$521,449	0.8%	
FY'2018 actual	\$74,300,000	\$74,300,000	\$0	\$2,120,053	2.9%	
FY'2019 actual	\$76,800,000	\$76,800,000	\$0	\$10,867,838	14.2%	
FY'2020 actual	\$77,300,000	\$77,300,000	\$0	\$22,600,628	29.2%	
FY'2021 actual	\$72,400,000	\$70,000,000	\$2,400,000	\$29,066,612	40.1%	
FY'2022 actual	\$69,400,000	\$65,400,000	\$4,000,000	\$32,795,857	47.3%	
FY'2023 estimated	\$64,800,000	\$58,800,000	\$6,000,000	\$28,500,000	44.0%	
Total Budgeted From Trust Fund FY'13 to FY'23			\$30,800,000			
FY'2024 estimated	\$67,700,000	\$67,700,000	\$6,000,000	*	\$22,500,000	33.2%
FY'2025 estimated	\$77,500,000	\$77,500,000	\$6,000,000	*	\$16,500,000	21.3%
FY'2026 estimated	\$87,000,000	\$87,000,000	\$6,000,000	*	\$10,500,000	12.1%

*It is recommended that \$6 million from the program's trust fund reserve be designated to covering the initial cost to consolidate 20% of student mandatory fees into tuition in FY2024. Tuition rates would be adjusted to maintain the revenue of the eliminated fees. The FY2025 and FY2026 estimates show the impact if the practice was repeated in those years.