Arkansas Scholarship Lottery

Interim Study Proposal 2011-191
Prepared by the Bureau of Legislative Research
For Senators Jimmy Jeffress, Randy Laverty, and Johnny Key
September 18, 2012

Current Method of Funding

A student is eligible to receive between
$11,250 and **$18,000**

Examples:
- *Student A* – completes 3 years at 2 year College and final year at a 4 year Institution = ($2,250 *3 + $4,500) =**$11,250**

- *Student B* – completes all 4 years at a 4 year Institution = ($4,500*4) = **$18,000**

Current Revenues

- Sept. 2009 – June 2010 $82.5 million*
- July 2010 – June 2011 $94.2 million
- July 2011 – June 2012 $97.5 million
- July 2012 – June 2013 $97 million**
  - Additional revenues:
    - $20 million per year from General Revenues

Annual projection between $114 million and $117 million

*Not a complete year
**Projection of BLR

A look at this year's recipients
Freshman Class 2012

13,560 Students are recipients of the Lottery Scholarship

Current Funding Method Fall Semester

2 yr (3,389 students* $2,250) ÷ 2 = $ 3,812,625

4 yr (10,171 students * $4,500) ÷ 2 = $22,884,750

13,560 students   = $ 26,697,375

Current Funding Method Spring Semester

2 yr (2,576 students* $2,250) ÷ 2= $ 2,898,000

4 yr (9,357 students* $4,500) ÷ 2 = $21,053,250

11,933 students   = $ 23,951,250

Total Freshman Class 2012 Expenditures = **$50,648,625**

What happens in the first year?

	Students Entering Fall 2012	Students who entered in fall 2012 and maintained scholarship in Spring 2013	Students who entered Fall 2012 and still had award for Fall 2013	Award Amounts	Cost associated with those who maintained first year.
2 YR	3,389	2,576	1,423	*2250	$3,201,750
4 YR	10,171	9,357	6,306	*4500	$28,377,000
Number of Students	13,560	11,933	7,729		$31,578,750
Payout per Semester	$26,697,375	$23,951,250			

Total Freshman Class 2012 Expenditures =
$50,648,625

Total Freshman Class 2012 Expenditures that carry forward = **$31,578,750**

Difference = **($19,069,875)**

Current Method Scholarship Funding Calculations

2013 - 2014 Expenditures = $140.8M

2014 - 2015 Expenditures = $139.4M

2015 - 2016 Expenditures = $142.9M

2016 - 2017 Expenditures = $146.1M

Four year expenditure = $569.2M

Revenue Projection ($97M + $20M * 4 Years) =
$468 M

Difference = ($101.2 Million)

Lottery Revenue Growth?

Over the last 10 years Arkansas's population has grown by 10%; assuming the Lottery grows at the same rate of 1% per year what would revenue be in 4 years?

Year	Lottery Revenue (growth rate 1%)	General Revenue Contribution	Total	Current Funding Method Scholarship Expenditures	Difference
2013-2014	$98.5	$20	$118.5	$140.8	($22.3)
2014-2015	$99.5	$20	$119.5	$139.4	($19.9)
2015-2016	$100.5	$20	$120.5	$142.9	($22.4)
2016-2017	$101.5	$20	$121.5	$146.1	($24.6)

What are options to deal with this ?

- Tighten eligibility requirements
  - ACT scores
  - GPA
  - Remediation
- Reduce scholarship

Reduce Scholarship

Award Amounts $3,500/$1,750	Reduced Funding
• *Student A* – completes 3 years at 2 year College and final year at a 4 year Institution = **$8,750** • *Student B* – completes all 4 years at a 4 year Institution = **$14,000**	• 2013-2014 Expenditures = $129.3M • 2014-2015 Expenditures = $120.4M • 2015-2016 Expenditures = $118.0M • 2016- 2017 Expenditures = $116.3M 　**4 year expenditures = $484.0M** ❖ Revenue 4 years 　($97M + $20M) = $468 Million 　Difference = **($16 Million)**

What are options to deal with this ?

- Tighten eligibility requirements
  - ACT scores
  - GPA
  - Remediation
- Reduce scholarship
- Put more General Revenue into Scholarship Fund

Graduated Scholarship Amounts

ISP Requirements

The Interim Senate Committee on Education conduct a study of:
(1) The efficacy of using tiered scholarships for the Arkansas Academic Challenge Scholarship Program, including without limitation:
(A) Award amounts based on the number of credit hours the applicant successfully completed;

Statutory Requirements
- 0-27 hours
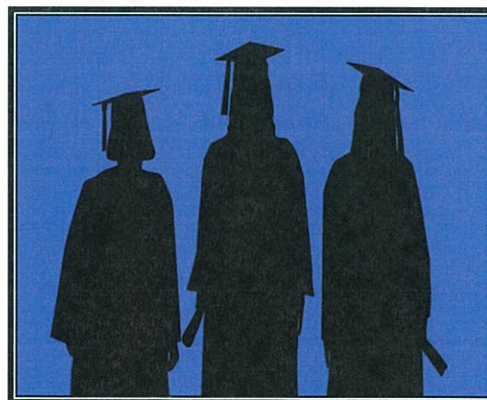- 28+30 = 58 hours
- 58+30 = 88 hours
- 88+30 = 118 hour

Study Translation
- Freshman – Year 1 student
- Sophomore – Year 2 student
- Junior – Year 3 student
- Senior – Year 4 student

Graduated Method of Funding

- Freshman - $2,000
- Sophomore - $3,000
- Junior - $4,000
- Senior - $5,000

  – Total of $14,000

A look at this year's recipients
Freshman Class 2012

13,560 Students are recipients of the Lottery Scholarship

Graduated Funding Method <u>Fall</u> Semester

(13,560 students * $2,000) ÷ 2 = **$ 13,560,000**

Graduated Funding Method <u>Spring</u> Semester

(11,933 students * $2,000) ÷ 2 = **$ 11,933,000**

Total Freshman Class 2012 Expenditures = **$25,493,000**

Funding Methods Compared

Graduated Method	Current Method
2013-2014 Expenditures = $115.0M	2013-2014 Expenditures = $140.8M
2014-2015 Expenditures = $104.3M	2014-2015 Expenditures = $139.4M
2015-2016 Expenditures = $106.3M	2015-2016 Expenditures = $142.9M
2016-2017 Expenditures = $110.6M	2016-2017 Expenditures = $146.1M
4 year expenditures = $436.2M	**4 year expenditures = $569.2M**
❖ Revenue 4 years =	❖ Revenue 4 years
($97M + $20M) = $468million	($97M + $20M) = $468million
Difference = **$31.8 million**	Difference = **($101.2 million)**

Expenses at end of 4 years

- Expenditures **Current Method** - **$139.4 million**
  - First full year of current method will be Fall 2014

- Expenditures **Graduated Method** - **$110.6 million**
  - If implemented in Fall 2013, first full year of all students receiving a graduated scholarship would be Fall 2016

Negatives of Graduated Method

- Creates a significant shift from original scholarship structure
- May cause confusion during transition
- Less initial financial assistance for students attending 4-year Institution
- May see a reduction in students attending 4-year Institutions

Benefits of Graduated Method of Funding

- Rewards success and creates an incentive to stay in college
- All Institutions of Higher Education would be on a level playing field
- Reverses the current negative cash-flow
- Reduces the likelihood of the Legislature having to reduce scholarship amounts
- Reduces the likelihood of the Legislature changing eligibility criteria
- More funding could be available for Non-Traditional students