

Government of the District of Columbia
Office of the Chief Financial Officer



Jeff DeWitt
Chief Financial Officer

MEMORANDUM

TO: The Honorable Phil Mendelson
Chairman, Council of the District of Columbia

FROM: Jeff DeWitt
Chief Financial Officer

DATE: February 3, 2014

SUBJECT: Fiscal Impact Statement – “DC Promise Establishment Act of 2013”

REFERENCE: Bill 20-528– Draft Amendment in the Nature of a Substitute shared with the Office of Revenue Analysis on February 3, 2014

This revised fiscal impact statement incorporates the changes made to the amended bill in the nature of a substitute, and replaces the fiscal impact statement issued on December 11, 2013.

Conclusion

Funds are not sufficient in the FY 2014 through FY 2017 budget and financial plan to implement the bill.

The higher education grants authorized by the bill are estimated to cost \$7.8 million in FY 2015 and approximately \$42.6 million in the four-year financial plan period. The bill’s implementation is subject to appropriation in an approved budget and financial plan.

The federally funded District of Columbia Tuition Assistance Grant Program (D.C. TAG) provides approximately \$30 million per year in grants to District residents studying in public colleges and universities around the country. The proposed D.C. Promise Program targets a slightly different group of students—students from households with relatively lower incomes, attending public *or private* colleges or universities throughout the United States.¹ The cost estimate presented in this fiscal impact statement assumes that D.C. TAG will continue to receive similar levels of funding from the federal government, and D.C. residents will continue to benefit from D.C. TAG funds as intensively as they do now. Any reductions in federal funding, changes in recipient behavior, or administrative gaps that result in students not fully exploiting D.C. TAG funding before receiving D.C. Promise funds will result in higher costs for the D.C. Promise Program.

¹ D.C. TAG support of students attending private colleges and universities is limited to those attending private colleges and universities located in the District and historically black colleges and universities.

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The bill does not impose any limits on the maximum amount of funds that could be budgeted under D.C. Promise Program, but the benefits offered under the program are limited to its budget; that is, the bill does not create an entitlement.

Background

The bill establishes a new grant program to help District students pay tuition or other eligible costs² to attend a post-secondary institution of higher learning ("college").³ The program cannot be used to support tuition payments to a college that participates in D.C. TAG, but can be used to pay for non-tuition expenses.

A student is eligible to receive a grant if he or she attends and graduates from a District public or private secondary school (or obtains an equivalent diploma.) In addition to age and domicile limitations, participation in the program is limited to students from households with a taxable income of no more than 200 percent of the Department of Housing and Urban Development's calculation of the Area Median Income for the Washington Metropolitan Statistical Area, adjusted by household size (AMI). The amount of the individual grant depends on how a given student's household income compares to the current AMI, as outlined in the table below:⁴

Annual household taxable income	Annual grant maximum	Lifetime grant maximum
Up to 80% of AMI	\$7,500	\$37,500
More than 80% but less than or equal to 125% of AMI	\$5,000	\$25,000
More than 125% but less than or equal to 200% of AMI	\$2,500	\$12,500

Students who have been participants in the District's Foster Care system are eligible for up to an additional \$10,000 per year of assistance.

The bill allows the Mayor to adjust eligibility requirements and award levels, but limits the participation to a six year maximum from date of enrollment in a college. The bill also expresses that the grant may only supplement, not replace, other types of tuition assistance such as financial

² Other eligible costs, or non-tuition expenses, exclude tuition and fees, are to be determined by Executive rulemaking.

³ An institution of higher learning is defined in the bill as "an educational institution that a) Admits as regular students persons having a certificate of graduation from a school providing secondary education, or the recognized equivalent of a secondary school diploma, b) Is legally authorized within a State to provide a program of education beyond secondary education, c) Provides an educational program for which the institution awards a bachelor's degree or provides not less than a 2-year program that is acceptable for full credit toward such a degree or not less than a one-year program of training to prepare students for gainful employment in a recognized occupation, d) is a public or private non-profit institution, and e) is accredited by a nationally recognized accrediting agency..."

⁴ Other requirements include the following: The student must have attended grades 9 through 12 in a District school, have not already completed a bachelor's degree, have been accepted to college on at least a half-time basis, and be domiciled in District for no less than 12 consecutive months prior to enrollment in the college, 24 years old or younger and domiciled in the District, at the time of application, and once admitted to the program, maintain half-time status, continue to be domiciled in the District, and maintain satisfactory progress.

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aid and loans—students applying to D.C. Promise grants must demonstrate that he or she has applied for other public, private and federal support for tuition including the D.C. TAG program. The amounts a student receives from such programs would be subtracted from the total subsidy this student would qualify for under the D.C. Promise Program.

The bill also establishes a grant award to support training and post-secondary education for people meeting the eligibility requirements but who are more than 24 years old. The eligibility requirements and award amounts are not known at this time, and so are not included in the cost estimate of this fiscal impact statement.

Office of the State Superintendent of Education would be responsible for administering the D.C. Promise Program. The bill limits the administrative costs for the Program to 5 percent of the total grants issued each year.

Lastly, the bill allows the Mayor to make adjustments to the grant levels should the total cost of grants under the terms of the bill exceed the total budget of the Program. This means that the grants under the D.C. Promise Program are not entitlements, and could be adjusted from year to year if the budgeted funds are not sufficient.

Financial Plan Impact

Funds are not sufficient in the FY 2014 through FY 2017 budget and financial plan to implement the bill. The higher education grants authorized by the bill are estimated to cost \$7.8 million in FY 2015 and approximately \$42.6 million in the four-year financial plan period. The bill's implementation is subject to appropriation in an approved budget and financial plan.

An estimated 5,125 District students in public, private and parochial schools will attend 12th grade in District schools in 2015. Given graduation rates and college enrollment rates, approximately 2,759 of these students (including children under foster care, and recipients of GED degrees) are likely to enroll in college, and thus, benefit from the D.C. Promise Program.⁵ The Office of Revenue Analysis estimates that 55 percent of these students are likely to come from households with income below \$85,840 and could qualify for the highest amount of grants at \$7,500 per year. The table below shows the distribution of benefits across different groups identified in the bill.

Underlying population for the D.C. Promise Program		
Group (income estimates based on AMI and current DC incomes) ^{1,2}	Percent of grant recipients ⁵	Maximum Grant amount
\$0-\$85,840	55%	\$7,500
\$86,001-\$134,125	10%	\$5,000
\$134,126-\$214,600	24%	\$2,500
Foster ³	Less than 1%	\$10,000
GED ⁴	10%	\$7,500

Table notes:

⁵ In comparison, currently over 6,600 students are enrolled in the D.C. TAG program—or approximately 2,200 in each cohort.

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¹ Household Income estimates based on U.S. Census American Community Survey 5-year Estimates, 2007-2011.

² Assumes a household size of 4 for all AMI level calculations.

³ 24 students, based on current estimated District high school students in the Foster Care System.

⁴ Assumes half the GED recipients enroll in college, and all will receive maximum grant amount.

⁵ Assumes a graduation rate of approximately 65 percent and college enrollment rate of 75 percent.

Not all students enrolled in the District schools will graduate, or graduate on time, and not all students will enroll in college. The estimate assumes that 75 percent of high school graduates will choose to enroll in college.⁶ It also assumes a 61 percent survival rate over four years—that is 61 percent of the enrollees will reach their fourth year in a post-secondary institution and still benefit from D.C. Promise grants.⁷ As a result, the cost of the program for each cohort will decline slightly every year. Finally, because students must demonstrate that they have applied to D.C. TAG and other available programs, their grants will be reduced by the awards from these other programs. The estimate assumes that these grants from D.C. TAG will remain constant, and reduce the cost of the D.C. Promise Program by the amount spent expected to be spent on D.C. TAG.⁸

It is important to note that Congresswoman Norton has raised a concern in a memorandum⁹ to the Council that this bill may put federal D.C. TAG funding (approximately \$30 million per year) at risk if it is perceived by appropriators as supplanting the federal program. In an effort to address those concerns, the Committee has proposed an amendment to the bill requiring that no D.C. Promise funding be spent on tuition for students who are enrolled in a college participating in the D.C. TAG Program. It is not possible to estimate how this would change the costs, student behavior, or the federal budget proposals. The cost estimate presented in this fiscal impact statement assumes that D.C. TAG will continue to receive similar levels of funding from the federal government, and will be used as intensively as it is used today. Any reductions in federal funding, changes in recipient behavior, or administrative gaps that result in students not fully exploit D.C. TAG funding before receiving D.C. Promise funds, will result in higher costs for the D.C. Promise Program.

This cost estimate assumes the earliest the program could be in place is FY 2015. It also assumes that D.C. Promise will only be open to new college enrollees; students currently enrolled in a post-secondary institution would not be able to apply.¹⁰ Therefore the costs will increase rapidly in the first four years since each year a new cohort will be added into the program.

⁶ Across the United States, the college enrollment rate among females is at 75 percent and among males, 66 percent. In the District the rates are lower—for example among the students that participate in the D.C. CAP program, female enrollment rate is only 66 percent and male enrollment is 56 percent. This number is likely to be higher across the District given the profile of D.C. CAP participants. For more information, please see Traditional College Retention Strategies & New Initiatives available at: <http://osse.dc.gov/sites/default/files/dc/sites/osse/publication/attachments/Traditional%20College%20Retention%20Strategies%20and%20New%20Initiatives.pdf>

⁷ Again, for comparisons, consider that the 6-year graduation rate among D.C. TAG program participants is 55 percent. For details, please see D.C. TAG Program Accomplishments and Facts, July 2013 available at <http://osse.dc.gov/sites/default/files/dc/sites/osse/publication/attachments/DCTAG%20Accomplishments%202013.pdf>

⁸ D.C. TAG program participants, on average collected \$6,371 each under the D.C. TAG program and there is an average of 1,400 recipients in each annual cohort.

⁹ Memorandum dated January 24, 2014 from Congresswoman Eleanor Holmes Norton to all Councilmembers titled "DC Promise Establishment Act."

¹⁰ The bill's eligibility requirements state a student must have graduated from high school (or obtained an equivalent diploma) after January 15, 2015.

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The table below outlines the estimated costs. It should be noted that the program will reach a steady state at the end of its fourth year—at this time the number of new enrollees and the number of students who “graduate” from the D.C. Promise Program should be roughly equal. At maturity, the program is estimated to cost \$25 million annually (not displayed in the table, since this falls outside of the financial plan). After this point the total annual costs should stabilize at this level.¹¹

Estimated Fiscal Impact of “DC Promise Establishment Act”					
FY 2014 – FY 2017					
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2014-FY 2017
Estimated cost of grant awards ^{1,4}	NA	\$7,497,094	\$13,869,624	\$19,286,274	\$40,652,992
Administrative Costs ²	NA	\$374,855	\$693,481	\$964,314	\$2,032,650
Total Cost of the program ³	NA	\$7,871,949	\$14,563,105	\$20,250,588	\$42,685,641

Table Notes

¹ Assumes a 65 percent graduation rate, 75 percent college take-up rate (except for GEDs where the rate is assumed to be 50 percent) and a 61 percent four-year survival rate.

² Five percent of total grants awarded under the program

³ The estimate does not include cost of adult education provision outlined in Section 8 of the bill, as the details of that program are unknown.

⁴ Total enrollment based on school aged children estimates in the U.S. Census, 2010.

It is important to note that the estimate provided in the table above does not include the cost of adult education provision. The details of this program are unknown and therefore cannot be reliably estimated at this time.

Furthermore if other federal or private grants are no longer available for D.C. Residents, the full cost of D.C. Promise Program could go as high as \$55 million annually, once fully implemented and reaches steady state.

¹¹ This is the full cost of the program. If the Council and the Mayor decide to open the D.C. Promise Program to all college students and not first-time enrollees, then the costs could reach this amount much sooner.