

FEDERAL & STATE TEAMED FUNDING REPORT

# BETTER TOGETHER? STATE AND FEDERAL FUNDING FOR STUDENT FINANCIAL AID



EDUCATION  
COMMISSION  
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# EXECUTIVE SUMMARY

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College affordability continues to worsen. Federal efforts to solve college affordability by increasing the size of the Pell Grant program have not been successful. The federal government and states need to collaborate to solve the college affordability problem, and direct aid to students will likely be a key venue for this collaboration.

States differ in the size, funding and goals of their state student financial aid programs. State programs generally serve one of three goals:

- 1. ACCESS:** Serving students who would otherwise not go to college.
- 2. REWARDING PERFORMANCE:** Rewarding achievement in high school or in college by providing funding for students who meet certain academic benchmarks.
- 3. CHOICE:** Providing students the flexibility to attend the institution of their choice by equalizing price across postsecondary sectors.

We estimate the impact of different proposals for federal-state funding for college financial aid. Our findings follow:

*Block Grants* would reshape federal funding by providing current Pell Grant funding directly to states

instead of students, with each state receiving a grant proportional to its population size. Block grants will benefit states with smaller, older populations along with those that enroll more students in four-year institutions.

*Matching Programs* would match every state dollar spent on financial aid with an additional four dollars from the federal government. States with large need-based state financial aid programs would benefit because more federal funding would flow to states that provide such aid, while students in states with no need-based aid would see reduced aid and increased net prices as less federal funding flows to these states.

*Incentive Programs* would provide states with incentives to cover a certain proportion of the net price of college through student financial aid. This program would benefit states with large financial aid programs of any type. The cost of this program will rise over time as more states meet guidelines.

*Leveling Programs* would provide federal funding for those states where net prices are above a certain amount. States with high net prices would benefit, while states that have been working to lower net prices would not receive any help.





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# INTRODUCTION

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Federal and state policymakers have grappled with the issue of college affordability for many years. Federal programs provide direct grant funding to students, but have also worked to encourage states to provide additional student financial aid funding. Despite these efforts higher education costs and prices continue to climb. The purchasing power of both federal and state student aid has declined in the face of relentless increases in tuition and required fees for students.<sup>1</sup>

The inability of federal policy alone to improve college affordability has led many policy analysts to call for more federal engagement with state policy. In particular, there have been calls for the federal government to become directly engaged with how states fund higher education and how states provide financial aid for students.<sup>2</sup> These analysts argue that in order to improve college affordability the federal government must regulate or incentivize states.

We focus on one aspect of states' efforts to make college more affordable – state financial aid programs. These programs, which are a major contributor to reducing college costs, are a likely venue for joint federal-state policymaking. It may be more likely that the federal government can

affect change among the much smaller number of student financial aid programs than they can among the thousands of institutions of higher education. However, any effort to leverage existing state policy directions in the area of student financial aid must take into account the diversity in this area of policy. The 50 states have 10 times as many state student financial aid programs, each with their own goals, funding sources and eligibility requirements.<sup>3</sup>

In this brief, we review some of the main goals of state student financial aid programs and provide a few examples of how these programs are organized. We also describe how state programs vary in terms of who benefits. We then discuss various possible designs for joint federal-state policymaking in this area and study their impact. We find that four proposed models come with tradeoffs that result in clear winners and losers among the stakeholders at the federal, state, institutional or student levels. This finding points to the need for further development in conversations surrounding a federalist approach to the provision of financial aid. We posit that these programs are likely to work best in combination rather than any single program being chosen as a “silver bullet.”

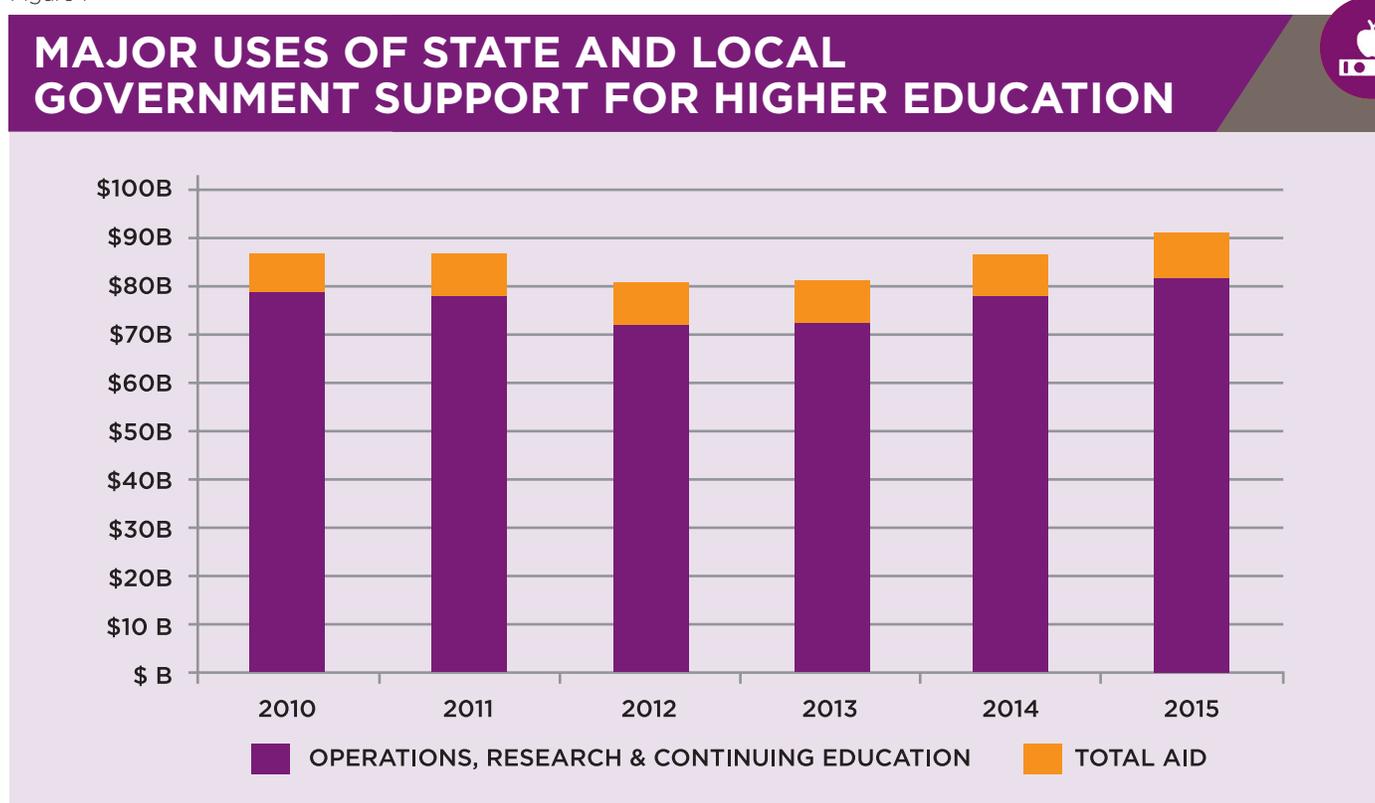
# TRENDS, GOALS AND DESIGN OF STATE FINANCIAL AID PROGRAMS

In 2014, states collectively provided nearly \$11.7 billion in financial aid to 4.5 million students, accounting for a key source of support to students and to postsecondary institutions across the nation.<sup>4</sup> What's more, financial aid programs have remained a relatively stable fixture in states' higher education budgets. From 2010 to 2014, the average percent change in state financial aid expenditures decreased by only 1.6 percent - relatively small when compared to the overall fluctuations in state support for higher education occurring over the same time period.<sup>5</sup> While state financial aid programs in most states still fall short of meeting the needs of all students,

the data indicate that, overall, many states strive to maintain these programs as relatively stable sources of student financial support for students.

The reasons driving this stability are likely varied, ranging from the political to the practical; however, the fact that states generally attempt to hold student financial aid programs harmless within budgetary discussions may make them an ideal avenue for federal and state collaboration. However, any collaborative approach must account for the array of student aid policy structures in place at the state level.

Figure 1



Currently, states' approaches to student aid range from not providing any state-funded aid in New Hampshire to providing hundreds of millions of dollars through broad-based programs in states such as New York and California. While the federal Pell Grant operates largely as an entitlement that follows a low-income student to the participating institution of their choice, state aid programs operate under a wider diversity of policy structures that recognize a larger number of factors. For example, in 70 of the 100 largest state financial aid programs, states begin with the federal Free Application for Federal Student Aid (FAFSA) process and then add additional criteria for state aid eligibility.<sup>6</sup> These additional criteria may be driven by time (for example, the FAFSA must be filed by a certain deadline), by financial need (for example, a student's EFC must fall within a certain range), or by academic merit (for example, minimum standardized test scores).

On the whole, however, state student financial aid programs generally work toward accomplishing

three goals. Many programs attempt to accomplish more than one of these goals at once. The three goals follow:

- 1) **ACCESS:** Financial aid should give students who would not otherwise go to college a chance to go to college.
- 2) **REWARDING PERFORMANCE:** Financial aid should reward achievement in high school or in college by providing funding for students who meet certain academic benchmarks.
- 3) **CHOICE:** Financial aid should provide students the flexibility to attend the institution of their choice by equalizing price across postsecondary sectors.

Below, we provide a broad overview of each of these types of programs as well as an example of how they work in specific states. We also discuss the tradeoffs inherent in each type of program. Our goal is to highlight the high level of contrast in state approaches to providing financial aid at the state level.

## The Three Goals of State Student Financial Aid Programs

1. **ACCESS:** Financial aid should serve students who would not otherwise go to college have a chance to go to college.
2. **REWARDING PERFORMANCE:** Financial aid should reward achievement in high school or in college by providing funding for students who meet certain academic benchmarks.
3. **CHOICE:** Financial aid should provide students the flexibility to attend the institution of their choice by equalizing price across postsecondary sectors.

## ACCESS/EQUITY

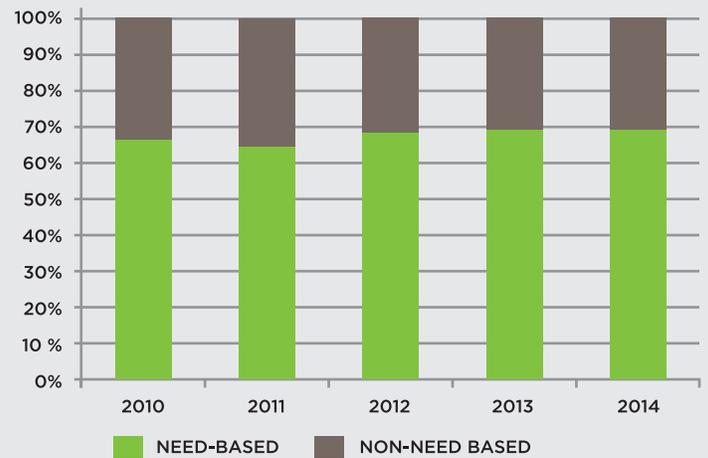
Policymakers in many states utilize student financial aid programs to increase access to higher education and to reduce gaps in attendance rates between different groups, such as high and low income students. These programs typically use the federal needs analysis methodology, a maximum income threshold or unmet financial need to determine eligibility. In some cases, state policymakers have also included a merit component to ration funding within the pool of eligible individuals. Notably, most state financial aid dollars are awarded on a financial need basis of some kind.<sup>7</sup>

As an example, New York has long had one of the largest need-based state student financial aid programs in the country. The Tuition Assistance Program, created in 1974, provides aid to students based on financial need at public and private institutions of higher education in the state. The program is administered by the New York State Higher Education Services Corporation and is funded out of general tax revenues. The program expends about \$955 million on 300,000 students annually for a per-recipient expenditure of about \$3,000. The maximum award level is \$5,165 or the stated tuition, whichever is less. The program operates on a sliding scale with a minimum award amount of \$500. Student eligibility for the Tuition Assistance Program is determined in a similar manner to student eligibility for federal student financial aid.<sup>9</sup>

Need-based student financial aid programs have been shown to be effective in increasing both student attendance and success.<sup>10</sup> As with need-based aid at the federal and institutional level, these programs provide additional financial support to students who have been shown to be the most sensitive to college prices. The downside to need-based programs at the state and federal levels is that they tend to be complex, with their award structures poorly understood by many students and policymakers alike.<sup>11</sup>

Figure 2

## SHARE OF NEED-BASED AND NON-NEED-BASED AID EXPENDITURES IN STATES, 2010-2014



## REWARDING PERFORMANCE

Perhaps the greatest departure between federal student aid and state-supported financial aid is the inclusion of merit-based criteria. Merit-based student aid programs range from small, targeted programs offered outside of a state's main need-based program to states that are exclusively focused on rewarding academic achievement through scholarships. While the majority of state student financial aid is offered based on need, about 30 percent of state-funded aid in 2014 was offered based on academic performance.<sup>12</sup>

The most prominent example of a state financial program based on achievement is the Georgia HOPE scholarship which began in 1992. Under current rules, students who achieve a 3.0 GPA in eligible classes while in high school can receive an award amount toward tuition at Georgia public colleges or an equivalent rate for up to 12 credit hours at private universities in the state. Students must maintain a 3.0 GPA during college to remain eligible for the award. Revenues from the Georgia Lottery fund the program.<sup>13</sup>

The Tennessee Promise program is another example of a state-funded aid program with eligibility criteria that reward certain behaviors in high school. While advertised as free community college, the program is much more complex in its particulars. Tennessee Promise operates as a "last dollar in" program and is available only for recent high school graduates. It provides additional funding up to the price of tuition only at community colleges for students whose tuition is not already covered either by federal and state need-based student financial aid or by the state's merit-based program. In order to qualify for this financial aid, a student must participate in a mentoring program while in high school, maintain

a 2.0 GPA and complete eight hours of community service.<sup>14</sup> In this way, the program rewards a different definition of achievement – as opposed to GPA, it uses other criteria as described above.

The advantage of merit-based programs is their simplicity. The requirements for such programs are generally quite easy to communicate. Surveys and focus groups in states with these programs generally reveal that students are aware of the eligibility rules for receiving this type of aid. The downside of merit-based programs is that they are inefficient – they provide large amounts of funding for students who would have gone to college without the additional financial support.<sup>15</sup>

The provision of merit versus need-based aid also has ramifications in the context of reformulating a federalist approach to student aid. Several states, such as Georgia and Florida, have built their state aid policy architecture on the premise that merit-based aid encourages greater levels of student achievement and increases resident students' propensity to remain and work in-state after graduation. These underlying philosophies are largely absent in the current federal aid policy environment, which is driven mainly on the premise that all students – regardless of financial background – should have access to college. While a federalist approach may not necessarily need to square these two objectives, it will need to recognize that the motivations and goals of some state-level student financial aid programs are different from those espoused at the federal level. In other words, any new approach intended to incentivize state-level spending may need to account specifically for what type of spending it seeks to encourage.

## CHOICE

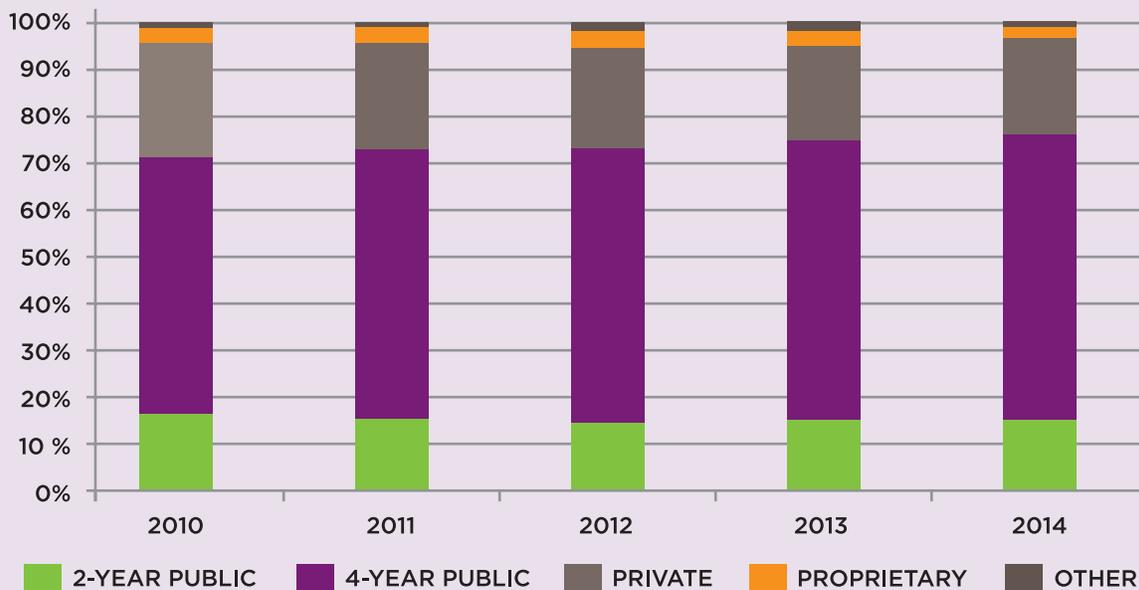
Programs centered on choice emphasize decreasing the difference in net price between students who attend private as opposed to public institutions. In many states, students who attend certain sectors are eligible for more state student financial aid than students in other sectors.<sup>16</sup> This means that the amount of aid students receive from the state may be quite different than the amount received from the federal government.

Figure 3 illustrates the share of state financial aid funding awarded by postsecondary sector from 2010-2014.<sup>17</sup> The data indicate that, by and large, dollars are focused on subsidizing the postsecondary experiences of students enrolled in four-year colleges – be they public or private. Far fewer dollars are focused in the two-year sector. Taken together with recipient count data, trends show that larger amounts of state aid are flowing to fewer students enrolled in

Figure 3



## SHARE OF STATE FINANCIAL AID EXPENDITURES BY CONTROL OF INSTITUTION, 2010-2014





the four-year public and private sectors, while a larger number of students are being served with smaller state financial aid awards in the two-year sector.

A prominent example of a state that emphasizes choice in its policy design is Minnesota. The Minnesota state grant provides \$220 million to about 95,000 recipients. While recipients can attend both public and private institutions, 34 percent of state grant funding goes to students attending non-profit or for-profit private institutions, and average grant amounts are much higher for students at private institutions.<sup>18</sup>

The promise of state student financial aid programs is that they may increase access by virtue of providing more students with more institutions from which to choose. They may also be an effective means of utilizing the existing capacity of private institutions at relatively low cost. However, there are key equity questions with any program based on choice. From the perspective of institutional leaders, these programs may increase equity, as they allow private institutions to compete for students with public institutions. From the perspective of students, these programs may not seem to be as fair, since a student attending a private institution may receive more funding than a student attending a public institution, even though they have the same income.

How states currently allocate their own financial aid resources across postsecondary sectors has implications for a federal/state partnership formulated through student aid programs. For example, in several states, state aid is used strategically in an attempt to equalize tuition between public and private options. In others, additional criteria such as application deadlines or merit criteria determined in high school lead to a de facto exclusion of students enrolling in the two-year sector. Therefore, any federalist approach to the provision of financial aid will be faced with the fact that the current distribution of state aid dollars by sector is not only sensitive to enrollment, but also to the explicit policy framing employed across and within states. Within the context of this brief, we disaggregate the impact of each proposed funding scenario by public institutional sector, but are limited in our treatment of private institutions that currently participate in state aid programs.

# PROPOSED DESIGNS FOR FEDERAL-STATE FUNDING FOR STUDENT FINANCIAL AID

There is growing momentum for changing federal funding for student financial aid in the United States. Even after two successive administrations ushered in large increases to the federal Pell Grant program, little progress has been made in reducing the net price of higher education.<sup>19</sup> This has led many analysts and policymakers to call for a more wholesale reconsideration of federal funding for higher education.

In this policy brief, we consider only those proposals that have to do with state student financial aid. There have been calls for broader changes, such as the Bernie Sanders' campaign call for entirely free tuition at public institutions. We do not consider these types of changes to the overall structure of funding public higher education in the states. We consider four possible policy designs, each of which would involve a fundamental rethinking of the federal-state partnership for providing student financial aid: block grants, matching grants, incentive programs and leveling programs. The set of programs we consider here are not exhaustive. There have been other proposals for reforming federal student financial aid, some of which involve combining elements of several of the programs described below. Rather, we chose these four program designs because they represent distinct approaches in reshaping federal and state funding for higher education.

## **BLOCK GRANTS**

The first possible redesign would involve changing the Pell Grant program to be a block grant, similar to recent changes within the Temporary Assistance to

Needy Families program.<sup>20</sup> Changing the Pell Grant program to a block grant would make the states the primary arbiter of how this aid is awarded and to whom. The federal government may choose to stipulate that aid would have to be awarded on a need-based basis or that state requirements for receiving such student aid would not be too onerous, among other possible requirements.

The tradeoffs to a block grant involve gaining autonomy at the expense of losing a reliable source of per-person funding. Autonomy comes about as block grants allow state leaders to use federal funding in a way that best suits state needs in combination with existing state efforts to fund student financial aid. Some state policymakers may wish to focus funding on students just out of high school, while other state leaders may want to focus on working adults. Typically, block grant programs are not indexed to growth in underlying program costs or client base, but instead to much broader measures such as state population. This means that if a particular state experiences a large increase in the number of students who might be eligible for the state program, federal funding may not increase. Instead, state leaders will be required to either cut benefits or use state funds to supplement the federal funding for this program.

## **FEDERAL-STATE MATCHING PROGRAM**

The next possible type of design is a federal-state matching program. Under a matching program, the federal government would spend a certain amount for every dollar spent by the state on

student financial aid. Similar to block grants, federal matching funds would be subject to various constraints. We assume (as with all of our program designs) that the funding would be required to be need-based with states allowed flexibility in their specific definitions. The best example of this in the history of student financial aid funding is the now discontinued State Student Incentive Grant (SSIG) program, which provided matching funds for states that created a need-based student financial aid system. While there is no conclusive evidence, SSIG is widely credited with increasing both the number of state need-based financial aid programs and the amount awarded by these programs. For example, New Hampshire eliminated their state aid program entirely when the incentive of SSIG was removed.

Matching programs provide clear incentives for states to conform their policies to federal priorities. If states and institutions decide that student need has been adequately met by the federal government, they have the flexibility under current policies to shift to other priorities, such as rewarding merit. A matching program could better align state and federal priorities by making state leaders pay a steep price for pursuing goals other than equity in the design of their state student financial aid programs.

If matching programs do not work as promised, students will pay the price for state intransigence. There are two relevant examples. The first is state leaders' response to the Affordable Care Act (ACA). Under the ACA, states could reap considerable benefits by both participating in exchanges and by agreeing to the Medicaid expansion. While both programs required state investment, both programs also provided much more federal money than was required from the state. Even given this relatively straightforward calculus, many state leaders refused to participate in ACA.<sup>21</sup> The other relevant example is the No Child Left Behind Act (NCLB), which in

reauthorization became the Every Student Succeeds Act, or ESSA. Under the provision of ESSA, states and school districts will be subject to fairly onerous requirements, including testing and providing certain curricula, and in return receiving federal funding for low-income students, also known as Title I funding. ESSA has much more flexibility in its design than NCLB, but still requires a great deal of state and school district cooperation. While ESSA is still being rolled out to the states with some debate around rulemaking, there is currently no clear indication that state leaders will refuse to participate in the program.<sup>22</sup> The question for any proposed matching program in the area of higher education is how state leaders might react, and under what conditions state leaders' responses might be favorable.

#### **INCENTIVE PROGRAMS**

Incentive programs can be distinguished from matching programs in that there is no expectation that all states will participate. Many incentive programs are designed so that only a few states will benefit from their provisions. The most prominent recent example of an incentive program is Race to the Top, under which states that met federal requirements in terms of their K-12 system were provided with substantial federal funds. State leaders had to apply to the program, and not all states were expected to receive Race to the Top funding.<sup>23</sup> A similar design would involve the federal government setting out certain provisions for awarding student financial aid and providing substantial funding for those states that redesigned their financial aid system according to the federally specified principles. For example, the federal government might require a state to provide sufficient financial aid such that tuition would be free at community colleges or that tuition is no more than \$5,000 per-year at public four-year institutions. States that met these requirements would be eligible for a grant based on the size of the postsecondary student population or other metric. If designed



correctly, the grant could cover a large portion of the states' costs in meeting federal requirements.

Incentive programs help harness the energy and creativity of local and state leaders for solving key problems in the design and delivery of student financial aid. If implemented without other safeguards, such programs could leave states with little funding capacity even further behind.

### **LEVELING PROGRAMS**

Funding programs based on the idea of leveling would make up for state shortfalls. It's well known that state funding is pro-cyclical, as states must (mostly) balance their budgets and cannot respond to economic downturns and subsequent declines in state revenues by borrowing, but must instead reduce spending. Higher education funding is even more pro-cyclical, as state leaders rely on the fact that higher education can raise substantial amounts of revenue through tuition increases, while other areas of state spending such as K-12 education or corrections do not have access to alternative revenue streams. The result of this structural problem is that tuition tends to increase most quickly during times when students and families can least afford to pay.<sup>24</sup>

A leveling program would seek to solve this problem by using federal funding to maintain net prices at a certain level. A federal program might decide to either set a desirable level of net prices or a desirable rate of change in net prices. If the program is focused on a certain level, then the federal government will step in and make up the difference whenever net prices in a state rise above a certain level. For instance, the federal government might say that net price (tuition less financial aid) for community colleges should be no more than \$1,000 per year. In that case, the federal government would step in and provide additional funding any time a state increased

this price above \$1,000 per year. If the program is focused on a certain change in net prices, then the federal government will step in any time that net prices increase from one year to another at a rate above a specified level. For instance, the federal government might say that increases in net prices at public institutions should not exceed 2 percent a year. In this scenario, the federal government would step in and provide additional funding for state financial aid every time the net price increased at a rate above 2 percent.

A leveling program has the potential to solve one of the most pressing problems in student financing of higher education – prices tend to go up when student and family incomes are stagnant or even decreasing. Under such a policy, the federal government could use its ability to be counter-cyclical in its funding to make up for state shortfalls during difficult economic times. Another potential upside to such a program is that it could reduce the level of volatility in year-to-year funding for institutions of higher education, allowing them to better plan for the future.

There are quite clear downsides to a leveling program. Without careful policy design, it's quite likely that state policymakers could face perverse incentives under such a program. Using the examples above, states that raised tuition the most would receive the most funding. Many state policymakers might look on such a program as a windfall, and continue to allow college prices to increase until they hit whatever limits are put in place by the federal government.

In the next section, we estimate the impact of these different proposed designs on existing state student financial aid programs. By and large, we find that each program design comes with significant tradeoffs that may make these options unworkable for the federal government, states or students.

# IMPLICATIONS OF DIFFERENT PROGRAMS

In this section we discuss the impact of possible changes in the federal-state partnership for student financial aid on the total amount of public grant aid received by students. We define public grant aid as the combined amount of state and federal aid students receive on average. Figure 4 shows the total amount of federal and state grant aid received by students across the states. States with

large student grant aid programs with relatively generous provisions have the highest amounts of total public grant aid. As we make no distinction at this point between need-based aid and non-need-based aid, these states include those with large non-need-based systems (for example, Tennessee and Georgia) and those with large need-based systems (for example, New York and California).

Figure 4

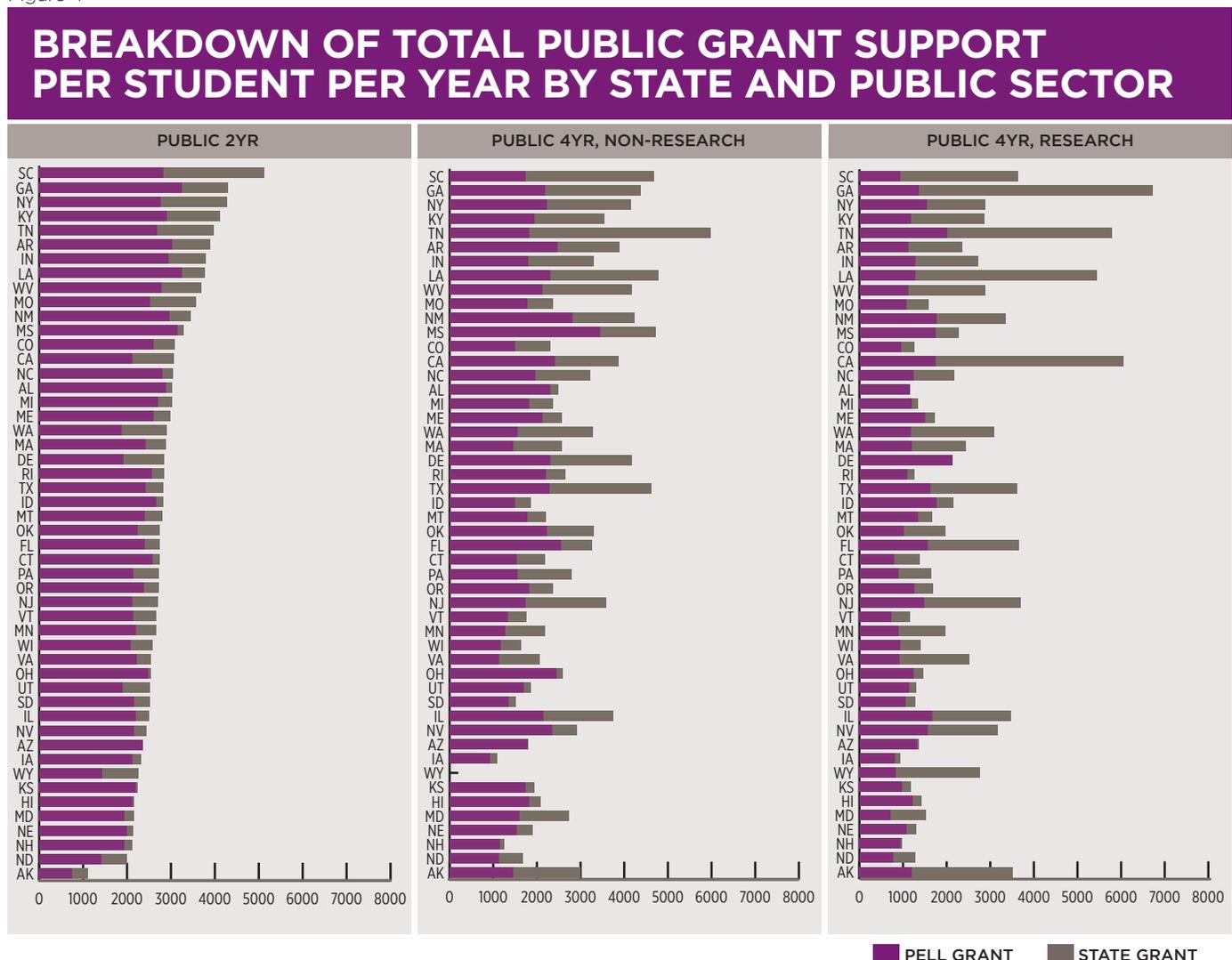




Figure 4 also shows that in most states federal grant aid provides much more money for students to attend college than do state governments. Many states provide relatively little student grant aid, meaning that their total amount of public grant aid support is driven entirely by federal grant aid.

Our goal through this section will be to show how different possible arrangements explored previously – block grants, matching grants, incentive programs or leveling programs – could change the existing levels of public grant support to students. We do not attempt to anticipate the response of state leaders to changes in policy, but instead simply estimate the impact of policy changes on current practices.<sup>25</sup>

For each policy design, we estimate the amount by which it would increase or decrease existing state student financial aid programs currently in place. We then apply this proportional increase or decrease to the amount of state student financial aid received on average by students. This assumes that the overall increase or decrease in state student financial aid will be reflected in the average price paid by students – an assumption we can check based on past changes.

Our estimates are not predictions of what will happen if these programs are put into place. Any federal policy change will result in actions at the institution and state levels that we cannot entirely anticipate. Instead, these estimates serve to begin a conversation about the likely tradeoffs involved in

the implementation of these programs. In addition, we must make assumptions about how these programs will work, and our results do depend on these assumptions. Changing the underlying assumptions around each program will result in different estimates of benefits and costs.

### **BLOCK GRANTS**

The block grant proposal that we test for this paper involves replacing the entire Pell Grant program with a state-by-state block grant, based on total population of the state. Under this design, each state receives a share of total Pell Grant funding equivalent to the state's share of the United States population. Our analysis assumes that this change would not include any increases in the size of the Pell Grant program, only a change in how the funds are distributed.

The implications of a block grant program for changes in net price depend critically on how the funding would be spent within each state. Different block grant programs allow for different levels of state flexibility in expending funds. In designing our simulation, we assume that states would expend the funds proportionally by student enrollment, with each higher education sector receiving a share of funds based on the proportion of students enrolled.

Figure 5 shows the predicted change in average per-student public grant support under a block grant program. Two types of states would likely benefit from such a change under current conditions: smaller

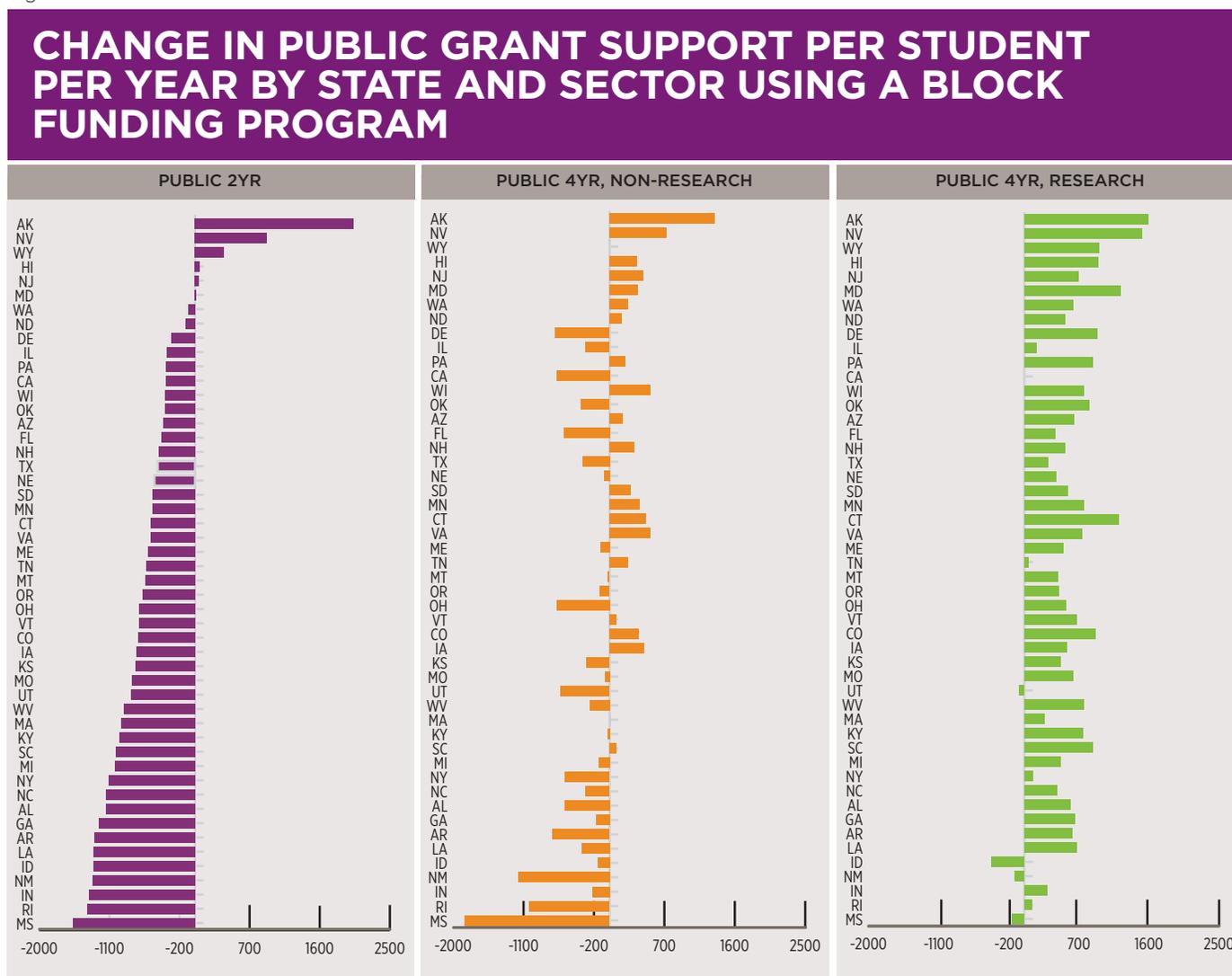


states would see an increase in funding, particularly smaller states with fewer young people. For instance, students in Wyoming would see their per-student combined federal and state grant funding increase by nearly \$1,000 per student per year under this type of block grant program. In addition, states where fewer students enroll in community colleges would see an increase in funding. This is in part because the block grant program being simulated here does not target funds on low-income students. For example, this type of block grant program would be predicted to reduce per-student grant support for community college

students in New Mexico by about \$1,000 per student per year. Because more low-income students attend community colleges, any program that does not maintain income targeting would redistribute funding away from students attending community colleges.

From this analysis, there are clear tradeoffs when pursuing a block grant system. Smaller states and states with fewer students in community colleges might see net prices increase, while larger states with higher enrollments in community colleges could see substantial increases in the price of college.

Figure 5



## MATCHING GRANTS

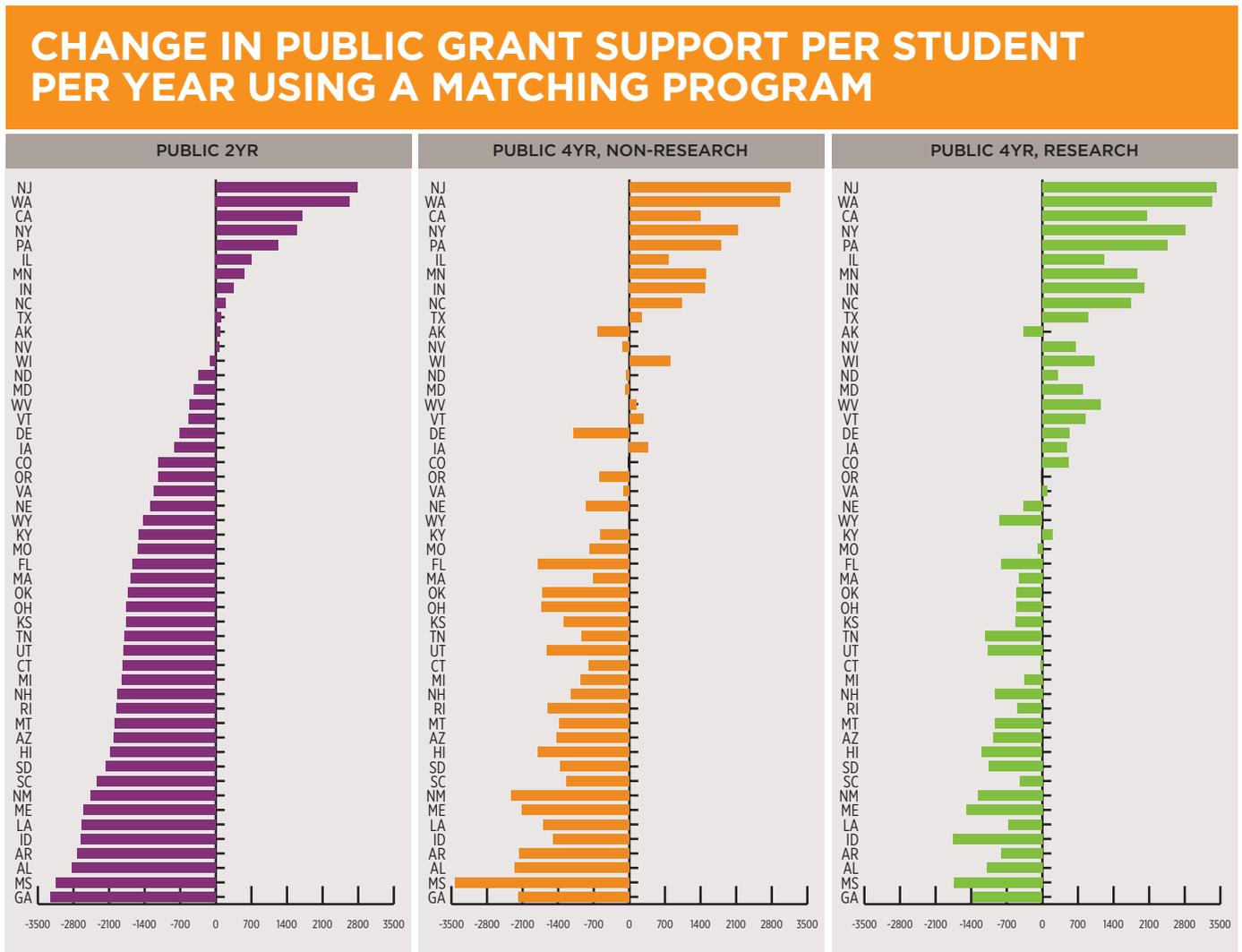
The matching grant proposal that we test involves replacing the entire Pell Grant with a federal-state matching program. This program would pay states four federal dollars for every state dollar spent on need-based financial aid – a ratio that would end up providing about the same overall amount of Pell Grant funding that is awarded now. As with the block grant program, we assume that this program would not involve expending any new funds.

grant support if a matching program were to be implemented today. As the figure shows, states that expend a large amount on need-based financial aid would see their per-student funding to attend college increase rapidly under such a program, given current conditions. Students attending public four-year open access institutions in California, New Jersey, New York and Washington would all see their public funding increase by more than \$1000 per student per year under this type of matching program.

Figure 6 shows the predicted change in total public

States that do not invest in any state financial aid

Figure 6



program and states that use only a non-need-based program would see their funding decrease under this type of matching program. These include states with large merit-based aid programs such as Georgia and New Mexico. It also includes states that provide little funding for state student financial aid, such as Alabama.

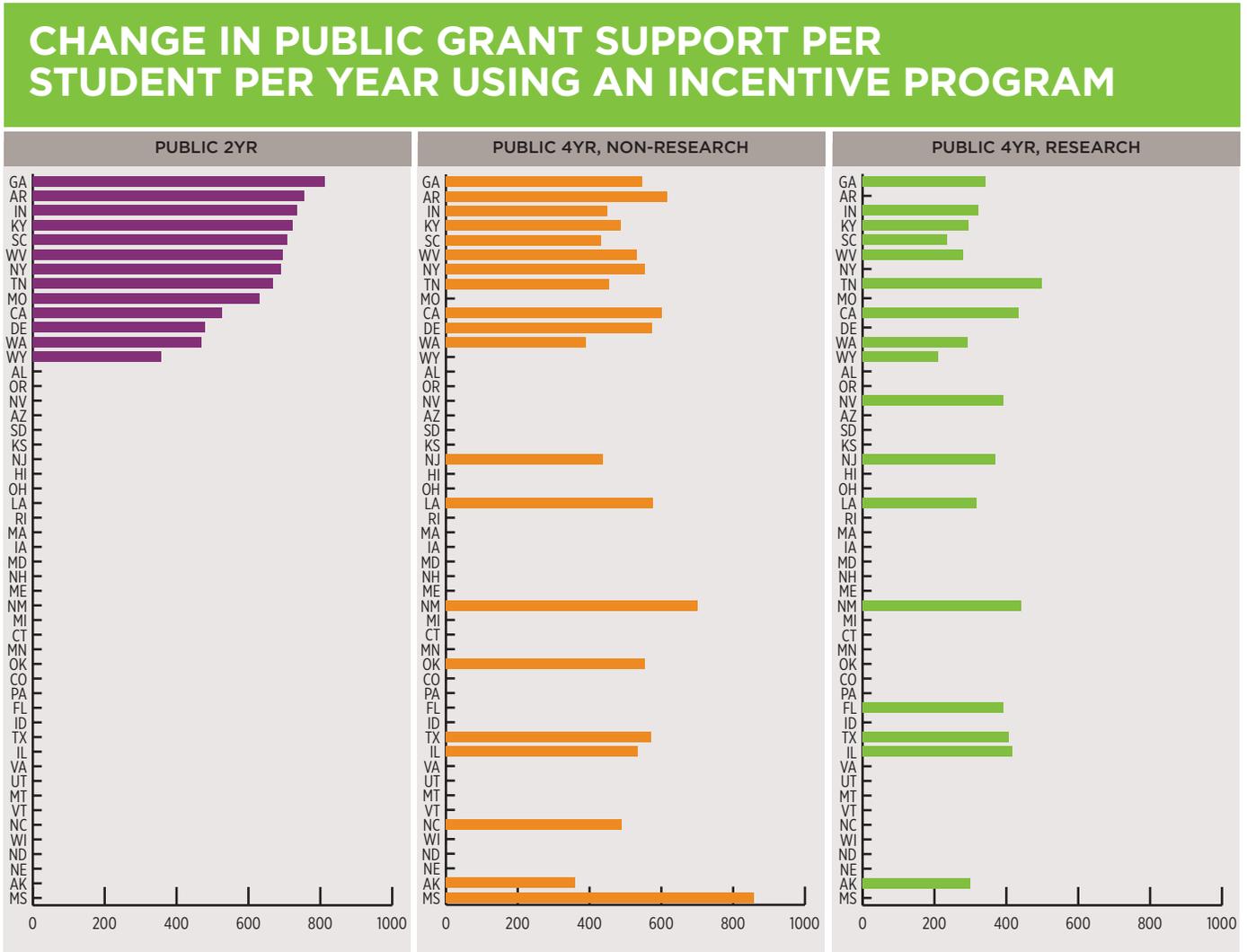
A matching program would reward states that are acting as meaningful partners with the federal government in providing additional student financial aid. The clear downside to implementing a matching program is that low-income students in states that

already do not have need-based financial aid programs could find themselves with even higher college prices.

### INCENTIVE PROGRAM

An incentive program would provide federal funding for those states that met the requirements set out by the federal government. We suggest a simple version of this, just to see what the implications might be for states. Under this plan, states that have student financial aid programs that provide aid such that on average 10 percent of net price is covered in a given sector would be given an additional 25 percent on

Figure 7





top of their existing Pell Grant funding. The intention of such a program would be similar to the Race to the Top Program, which rewarded states that met federal requirements with additional funding and resources.

Figure 7 shows the possible impact of an incentive-style program on public grant support for students. For community colleges, there are 13 states that would meet the requirement that current state grant funding covers 10 percent of the net price. These states would receive an increase in per-student funding of between \$500 and \$750 per student per year. Similarly-sized increases would be provided to the 20 states that meet the criteria for open-access public four-year institutions.

An incentive program structured as described above would cost approximately an additional \$2.5 billion per year if applied to current state policies. We would expect that the intention of such a program would be to increase the number of states meeting the threshold requirement, either through an increase in state funding or a decrease in net prices. This would imply an increasing cost over time as more states meet these requirements.

### **LEVELING PROGRAM**

Under a simple leveling program, the federal government would step in and provide additional funding to reduce net prices. We test the idea that the federal government would reduce net prices to the current median at both community colleges and public four-year colleges. Other ideas that have been suggested include providing free community college for all students or providing free public college for all students. We follow this more modest proposal in order to provide a middle ground in this conversation.

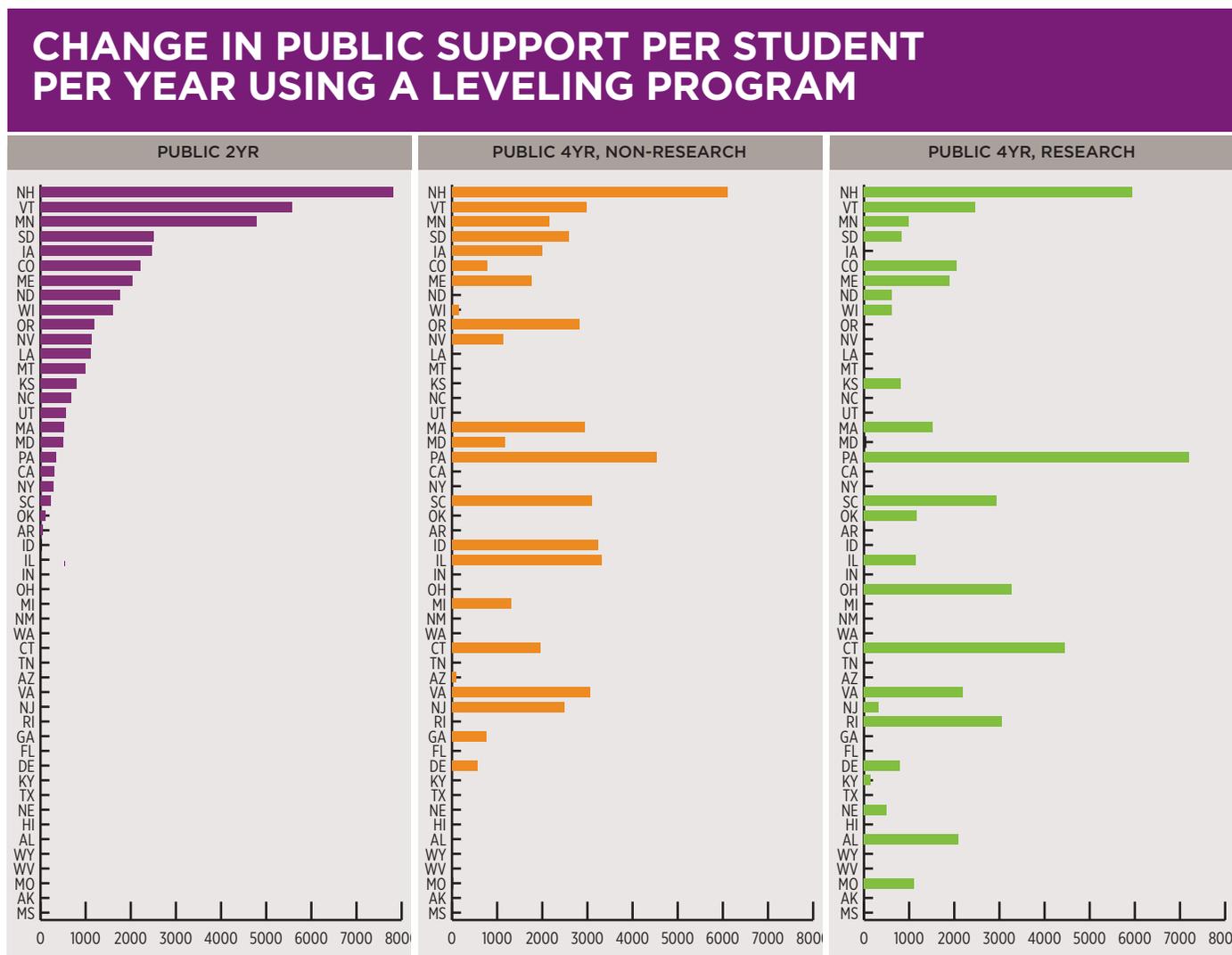
Figure 8 shows the changes that would result if a federal program were implemented to decrease net prices such that no state had a net price above the current median. By design, this means providing additional funding for only half of the states – those that are currently above the median. States with very high net prices would see the biggest increases under such a plan. New Hampshire, Pennsylvania, South Carolina and Vermont and would be among the states to see the biggest increases in per-student public support if such a program were to be implemented.

While a program to equalize net prices could achieve its desired effect of reducing net prices in the most expensive states, there are several considerations. First, the overall cost of the program using the assumptions built in here would be \$6.7 billion for a single year. The incentive structure for this program would also likely make it more expensive over time, but in this case the increased cost would come from states either increasing net prices or decreasing state student financial aid.

### SUMMARY OF FINDINGS

Each of the four scenarios explored above is, in its own right, a viable option to incent states to make investments in financial aid programs. However, each scenario comes with tradeoffs that may ultimately make it unworkable for both federal and state governments. Table 1 summarizes the impacts of each program. Under a block grant program, a lack of income targeting can cause consequences in allocations by state and by postsecondary sector.

Figure 8



## SUMMARY OF PROPOSED PROGRAMS

PROPOSAL	TOTAL ADDITIONAL COST	TYPES OF STATES THAT WOULD BENEFIT	EXAMPLES OF STATES WITH LARGEST INCREASES AND DECREASES	TRADEOFFS
<b>BLOCK GRANTS</b>	No additional cost above Pell total	Smaller states with smaller, older populations; and states with large proportion of students in four-year institutions	LARGEST GAINS: Alaska, Nevada, Wyoming, Wisconsin, Virginia  LARGEST DECREASES: Mississippi, New Mexico, Arkansas, Ohio	POSITIVE: Program funding would be stable over time  NEGATIVE: Not responsive to changes in state needs
<b>MATCHING PROGRAM</b>	No additional cost above Pell total	States with generous need-based financial aid programs	LARGEST GAINS: New Jersey, Washington, New York, Pennsylvania, California  LARGEST DECREASES: Mississippi, New Mexico, Alabama	POSITIVE: Provides incentives for states to give more aid  NEGATIVE: Reduced funding in states where financial aid is already low
<b>INCENTIVE PROGRAM</b>	\$2.5 billion per year under current system	States with large amounts of student financial aid and/or relatively low net prices	LARGEST GAINS: Arkansas, New York, Georgia, West Virginia, California  LARGEST DECREASES: Many states (more than half) would receive no additional funding	POSITIVE: Provides incentives without punishing students in states with low financial aid amounts  NEGATIVE: Provides more in states where affordability is already strong
<b>LEVELING PROGRAM</b>	\$6.7 billion per year under current system	States with high net prices	LARGEST GAINS: New Hampshire, Pennsylvania, Vermont, South Carolina  LARGEST DECREASES: Half of states would receive no additional funding	POSITIVE: Reduced net prices for those students who needs it most  NEGATIVE: Provides incentives for state to raise prices

A matching grant program, as we have conceived it in this analysis, may actually exacerbate affordability problems for the lowest income students. States that provide financial aid that covers 10 percent of net price and receive additional funding through an incentive scenario would require drastic infusions of new funding into the system. Finally, a simple leveling proposal also requires new funding and may become more expensive over time.

These findings point to the need for more refined approaches to incenting state investment in

financial aid programs. In particular, these findings suggest that no single approach will suffice. In the 1972 amendments to the Higher Education Act, Congress did not choose a single way to increase student financial aid, instead creating both the Basic Education Opportunity Grant (later Pell) and the State Student Incentive Grant program.<sup>26</sup> Any combination of programs created must be able to solve two problems: first, the most vulnerable students will not be made worse off; and second, state policymakers should have every incentive to spend more on student financial aid.

## QUESTIONS FOR POLICYMAKERS

- How do any of the proposed changes improve the core federal interest in higher education of increasing access by lowering prices for those who would not otherwise attend higher education?

*For which people in which states will the price of higher education be lowered? Are these the groups that should be targeted? Who might see the price of higher education increase?*

- What is the appropriate balance between ensuring that federal goals are met and allowing discretion among state policymakers?

*The current system allows almost no discretion in how federal funds for financial aid are distributed on a state-by-state level. Should this be changed to allow for more state variation? If there is more state variation, will it improve affordability - and therefore access - overall?*

- How do goals for proposed federal legislation reinforce or contradict existing state goals for financial aid?

*States currently pursue the goals of access, choice and rewarding performance in their state student*

*financial aid programs. Will federal programs work with or against a state's financial aid program goals? Will this be by design or by accident?*

- What incentives for states will be created by proposed federal legislation?

*Programs that work on a matching basis would, if implemented now, give more money to those states that already provide substantial funding for students. Programs that make up for a lack of student funding will reward those states that have done the least to make college affordable.*

- Where are the areas of greatest need? Are they covered by existing state efforts?

*Nationwide figures mask substantial state-to-state variation in the provision of financial aid. There are large between-state differences in the amount of aid provided and the types of students who receive that aid. Even within states, there are real differences in the amount of aid received by institutional type and by student characteristics. How will federal policymaking deal with this variation?*

## ENDNOTES

- <sup>1</sup> Delaney, J. (2014). The role of state policy in promoting college affordability. *The Annals of the American Academy of Political and Social Science*, 655(1), 56-78.
- <sup>2</sup> For example, *Doing Away with Debt: Using Existing Resources to Ensure College Affordability for Low and Middle-Income Families* (Washington, DC: Education Trust, 2013).
- <sup>3</sup> Education Commission of the States. (2015). *50-State financial aid database*. Denver, CO: ECS. Retrieved from [www.ecs.org](http://www.ecs.org).
- <sup>4</sup> National Association of State Student Grant and Aid Programs. (2015). *NASSGAP annual survey*. Retrieved from [www.nassgap.org](http://www.nassgap.org).
- <sup>5</sup> Author's calculations from 2010-2014 NASSGAP surveys
- <sup>6</sup> Education Commission of the States. (2015). *50-state financial aid database*. Denver, CO: ECS. Retrieved from [www.ecs.org](http://www.ecs.org).
- <sup>7</sup> Ibid, NASSGAP
- <sup>8</sup> Ibid, NASSGAP
- <sup>9</sup> New York Education Law § 667
- <sup>10</sup> Dynarski, S. (1999). *Does aid matter? Measuring the effect of student aid on college attendance and completion* [Working Paper No. 7422]. Cambridge, MA: National Bureau of Economic Research.
- <sup>11</sup> Bill & Melinda Gates Foundation. (2015). *Better for students: Simplifying the federal financial aid process*. Seattle, WA: Author. Retrieved from [http://postsecondary.gatesfoundation.org/wp-content/uploads/2015/07/FAFSA-Approach\\_FINAL\\_7\\_7\\_15.pdf](http://postsecondary.gatesfoundation.org/wp-content/uploads/2015/07/FAFSA-Approach_FINAL_7_7_15.pdf).
- <sup>12</sup> Ibid, NASSGAP
- <sup>13</sup> O.C.G.A. Title 20 Chapter 3 Article 7 Part 7
- <sup>14</sup> Tennessee Student Aid Commission. (2016). *About the Tennessee Promise Program*. Location unknown: Author. Retrieved from <http://www.tnpromise.gov/about.shtml>.
- <sup>15</sup> Doyle, W.R. (2006). *Adoption of merit-based student grant programs: An event history analysis*. *Educational Evaluation and Policy Analysis*, 28(3), 259-285.
- <sup>16</sup> Ibid, 50-State Financial Aid Database
- <sup>17</sup> Ibid, NASSGAP
- <sup>18</sup> Minnesota Statutes § 136A. 1201
- <sup>19</sup> Ma, J., Baum, S., Pender, M., & Bell, D. (2015). *Trends in college pricing 2015*. New York, NY: The College Board. Retrieved from <https://trends.collegeboard.org/sites/default/files/trends-college-pricing-web-final-508-2.pdf>.
- <sup>20</sup> Center on Budget and Policy Priorities. (2015). *An introduction to TANF*. Washington, DC: Center on Budget and Policy Priorities. Retrieved from <http://www.cbpp.org/sites/default/files/atoms/files/7-22-10tanf2.pdf>.

## ENDNOTES

<sup>21</sup> Kaiser Family Foundation. (2016). *Status of state action on the Medicaid expansion decision*. Menlo Park, CA: Author. Retrieved from <http://kff.org/health-reform/state-indicator/state-activity-around-expanding-medicaid-under-the-affordable-care-act/?currentTimeframe=0&sortModel=%7B%22colId%22:%22Location%22,%22sort%22:%22-asc%22%7D>.

<sup>22</sup> Ujifusa, A. (2016). Education secretary spars with senators over school ratings, ESSA timeline. *Education Week*. Retrieved from [http://blogs.edweek.org/edweek/campaign-k-12/2016/06/senate\\_essa\\_oversight\\_hearing\\_school\\_ratings\\_timeline.html?r=805578755](http://blogs.edweek.org/edweek/campaign-k-12/2016/06/senate_essa_oversight_hearing_school_ratings_timeline.html?r=805578755).

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<sup>24</sup> Delaney, J. A. and Doyle, W. R. (2007). The role of higher education in state budgets. In Shaw, K. M. and Heller, D. E. (eds.), *The Challenges of Comparative State-Level Higher Education Policy Research*. Sterling, VA: Stylus.

<sup>25</sup> This practice, called static scoring, is also utilized by the Congressional Budget Office. We provide full details of our methodology in a technical appendix available upon request. All of the code used to generate these results is also available upon request.

<sup>26</sup> Gladieux, L. (1995). *Federal student aid policy: A history and an assessment*. Washington, DC: Office of Postsecondary Education. Retrieved from <https://www2.ed.gov/offices/OPE/PPI/FinPostSecEd/gladieux.html>.



## ABOUT THE INITIATIVE

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Education Commission of the States coordinated the creation and dissemination of a series of policy briefs focused on the interaction between state- and federal level policies pertaining to higher education. The briefs are composed by a diverse collection of education policy and thought leaders representing state and federal perspectives. The goal of this collection of briefs is to highlight how federal and state higher education policies can provide a cohesive policy playbook to support student success and the progression toward meeting aggressive attainment goals.

The brief production process began in late-summer 2016 with authors beginning the writing process. Dissemination of the briefs was provided through informal policy briefings with state and federal audiences through fall 2016 and the public release in December 2016. Topics explored in the briefs include, but are not limited to, financial aid, data policies, funding, the “triad” and workforce needs.

Education Commission of the States would like to thank the two core funders for this initiative, the Bill and Melinda Gates Foundation and Lumina Foundation, for their support of this paper series and the ongoing work with federal and state higher education policies. Both foundations understand the necessity of marrying federal and state higher education policies to better serve students and citizens. Education Commission of the States would also like to thank the brief authors for their hard work and dedication to this important topic.



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