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# Special Report

 Washington Research Council March 27, 1998

## State's College Financial Aid Program Gets a Failing Grade

### Overview

The State Need Grant is Washington state's largest financial aid program for college students. This program should play a critical role in guaranteeing that talented young people have access to a first class higher education. However, as the program is currently structured, it fails in this role.

In 1993 the Higher Education Coordinating Board adopted a simplified methodology for awarding need grants. As a consequence, our state's financial aid system is far out of line with the practices in most other states.

The system favors students who are considered to be financially independent of their parents. The majority of aid recipients are age 25 or older. Sixty-four percent are enrolled in the community colleges. Seventy-two percent were enrolled in the first two years of college. Traditional college students under the age of 24 are not well served by the State Need Grant program.

The program should be completely overhauled.

### Background

The baby boom echo is beginning to bounce through the halls of Washington state's colleges and universities. The Office of Financial Management ("OFM") projects that overall state population will increase by 19 percent from 1998 to 2010. College-aged population will grow even more rapidly, and, if participation rates do not change, enrollments in the state's public four-year institutions will increase by 31 percent over the period. Public two-year college enrollments will increase by 23 percent.

As the Research Council's 1997 Special Report *Defining the Challenge: A Closer Look at Higher Education* explains, accommodating this growth in demand presents a challenge for state policymakers. The state has traditionally provided significant subsidies to college students, primarily by setting tuition rates at public colleges well below cost. But in the coming years the funds available to subsidize students are not likely to grow as rapidly as the college-aged population. To provide the resources necessary to maintain the quality of our institutions as they expand, tuition rates will have to rise. The Research Council has recommended that the state increase funding for financial aid so that higher tuition rates do not reduce access for economically disadvantaged students.

## Report Sources

### The Legislature's financial aid study is contained in three reports:

Harding, Edie and Laura Harmon, "Washington States Student Financial Aid Programs," Washington State Institute for Public Policy, The Evergreen State College, Olympia, January 1998. ("WSIPP")

"State of Washington Student Financial Aid Study," Human Capital Research Corporation, Chicago, January 1998. ("HCRC")

"Review of Tuition Authority and Support for Higher Education," Washington State Legislature, Senate Ways and Means Committee and House Appropriations Committee, Olympia, January 1998. ("SWM-HA")

### These three reports are available over the internet at:

<<<http://www.leg.wa.gov/www/senate/swm/other/othintro.htm>>>

### Other sources for this Special Report include:

"Higher Education Enrollment Statistics and Projections, 1997-99 Biennium," State of Washington Office of Financial Management Forecasting Division, Olympia, February 1997.

"Washington State Need Grant Program: An Overview and Summary of Current Policy," Washington State Higher Education Coordinating Board, Olympia, January 1998.

The Legislature has questioned whether the state's existing financial aid programs treat all students fairly. Older students, who are considered financially independent of their parents, get a disproportionately large share of state grant aid. Moreover, a disproportionately small share goes to students at the public and private four-year colleges. These concerns must be addressed if financial aid is to play an expanded role in assuring access.

The 1997 Legislature requested a comprehensive study of the state's system of financial aid. The results were presented this January in three reports (see Box 1). This Research Council *Special Report* analyzes the findings of the legislative study and makes suggestions for the future direction of financial aid policy.

### BOX 1

*Interstate comparisons show that Washington ranks near the middle in public college tuition rates, and somewhat higher in operating subsidies and need-based financial aid for students at four-year colleges.*

## National Comparisons of Tuition and Funding

Before describing the Washington financial aid system, it will be useful to compare this state's tuition rates and spending on higher education with those of other states.

Public colleges are funded with a combination of student tuition and taxpayer money. States appropriate taxpayer money both to subsidize college operations and to provide financial aid to students. Interstate comparisons show that Washington ranks near the middle in public college tuition rates, and somewhat higher in operating subsidies and need-based financial aid for students at four-year colleges.

Box 2 ranks states by average tuition rates for in-state students at public four-year colleges for the 1995-96 school year; Box 3, by average rates at public two-year colleges. Among the fifty states, Vermont ranked first in tuition at four-year public institutions with an average of \$5,898, while Hawaii was last with an average of \$1,576. Washington's average of \$2,791 ranked 21<sup>st</sup>. For two-year public colleges, South Dakota

Average In-State Tuition At public 4-year institutions		
RANK	STATE	TUITION
1	Vermont	\$5,898
2	Pennsylvania	\$4,723
3	New Hampshire	\$4,446
4	Massachusetts	\$4,253
5	Delaware	\$3,981
6	New Jersey	\$3,972
7	Virginia	\$3,907
8	Michigan	\$3,895
9	Rhode Island	\$3,856
10	Connecticut	\$3,845
11	New York	\$3,714
12	Ohio	\$3,603
13	Maryland	\$3,572
14	Maine	\$3,474
15	Illinois	\$3,352
16	Oregon	\$3,233
17	Minnesota	\$3,216
18	South Carolina	\$3,094
19	Indiana	\$3,037
20	Missouri	\$3,015
<b>21</b>	<b>Washington</b>	<b>\$2,791</b>
22	California	\$2,666
23	South Dakota	\$2,642
24	Wisconsin	\$2,614
25	Iowa	\$2,565
26	Alaska	\$2,489
27	Colorado	\$2,473
28	Mississippi	\$2,459
29	Montana	\$2,367
30	North Dakota	\$2,248
31	Alabama	\$2,240
32	Louisiana	\$2,221
33	Nebraska	\$2,182
34	Kentucky	\$2,161
35	Kansas	\$2,120
36	Georgia	\$2,103
37	Arkansas	\$2,028
38	West Virginia	\$2,024
39	Utah	\$2,011
40	Wyoming	\$2,005
41	Tennessee	\$1,990
42	New Mexico	\$1,940
43	Arizona	\$1,926
44	Oklahoma	\$1,839
45	Texas	\$1,820
46	Florida	\$1,767
47	Nevada	\$1,684
48	Idaho	\$1,682
49	North Carolina	\$1,639
50	Hawaii	\$1,576

BOX 2

Source: SWM-HA

Average In-State Tuition At public 2-year institutions		
RANK	STATE	TUITION
1	South Dakota	\$3,430
2	New York	\$2,427
3	New Hampshire	\$2,420
4	Maine	\$2,381
5	Vermont	\$2,370
6	Massachusetts	\$2,359
7	Ohio	\$2,261
8	Alaska	\$2,120
9	Minnesota	\$2,065
10	Maryland	\$1,967
11	Indiana	\$1,937
12	Pennsylvania	\$1,909
13	New Jersey	\$1,878
14	Wisconsin	\$1,840
15	Iowa	\$1,782
16	Rhode Island	\$1,726
17	North Dakota	\$1,698
18	Connecticut	\$1,646
19	Michigan	\$1,529
20	Virginia	\$1,433
21	Montana	\$1,382
22	Utah	\$1,375
<b>23</b>	<b>Washington</b>	<b>\$1,369</b>
24	Colorado	\$1,340
25	Oregon	\$1,338
26	Alabama	\$1,317
27	West Virginia	\$1,312
28	Delaware	\$1,266
29	Oklahoma	\$1,260
30	Missouri	\$1,255
31	Illinois	\$1,232
32	Kansas	\$1,147
33	Nebraska	\$1,132
34	Kentucky	\$1,112
35	Florida	\$1,103
36	South Carolina	\$1,071
37	Georgia	\$1,062
38	Louisiana	\$1,031
39	Tennessee	\$1,022
40	Idaho	\$991
41	Nevada	\$970
42	Wyoming	\$948
43	Mississippi	\$941
44	Arkansas	\$903
45	Texas	\$771
46	Arizona	\$764
47	New Mexico	\$690
48	North Carolina	\$581
49	Hawaii	\$524
50	California	\$362

Source: SWM-HA

BOX 3

State Appropriations Per Student Public Four-Year Colleges		
RANK	STATE	APPROPRIATIONS PER STUDENT
1	Hawaii	\$13,727
2	North Carolina	\$8,581
3	Iowa	\$8,167
4	New Mexico	\$7,987
5	California	\$7,813
6	Oklahoma	\$7,731
7	Wyoming	\$7,610
8	Illinois	\$7,459
9	Mississippi	\$7,362
10	Georgia	\$6,949
<b>11</b>	<b>Washington</b>	<b>\$6,710</b>
12	South Carolina	\$6,249
13	Arizona	\$6,239
14	Nebraska	\$6,201
15	Arkansas	\$6,150
16	Alaska	\$6,086
17	Florida	\$6,075
18	Texas	\$6,010
19	Tennessee	\$5,989
20	Kentucky	\$5,673
21	Wisconsin	\$5,672
22	New Jersey	\$5,655
23	Alabama	\$5,624
24	Maryland	\$5,480
25	Missouri	\$5,430
26	Connecticut	\$5,370
27	Michigan	\$5,324
28	Kansas	\$5,262
29	Massachusetts	\$5,211
30	Nevada	\$5,135
31	North Dakota	\$4,993
32	Ohio	\$4,967
33	New York	\$4,947
34	Idaho	\$4,846
35	Indiana	\$4,735
36	Maine	\$4,530
37	Virginia	\$4,406
38	Rhode Island	\$4,270
39	Louisiana	\$4,253
40	Pennsylvania	\$4,229
41	Minnesota	\$4,217
42	Utah	\$4,203
43	Delaware	\$4,083
44	West Virginia	\$3,740
45	Montana	\$3,658
46	South Dakota	\$3,392
47	Oregon	\$2,957
48	Vermont	\$2,674
49	New Hampshire	\$2,415
50	Colorado	\$2,172

BOX 4

Source: SWM-HA

State Need-Based Grant Aid Per Full Time Undergraduate		
RANK	STATE	AID PER STUDENT
1	New York	\$1,412
2	Pennsylvania	\$799
3	Vermont	\$773
4	Illinois	\$717
5	New Jersey	\$682
6	Minnesota	\$550
7	Massachusetts	\$467
8	Iowa	\$416
9	Indiana	\$396
10	Connecticut	\$344
<b>11</b>	<b>Washington</b>	<b>\$302</b>
12	Virginia	\$274
13	Wisconsin	\$256
14	Ohio	\$251
15	Maine	\$250
16	Michigan	\$247
17	Rhode Island	\$223
18	Kentucky	\$223
19	New Mexico	\$213
20	Maryland	\$189
21	California	\$187
22	Colorado	\$156
23	South Carolina	\$147
24	Arkansas	\$145
25	Oklahoma	\$143
26	West Virginia	\$132
27	Tennessee	\$123
28	Oregon	\$119
29	Florida	\$96
30	Missouri	\$94
31	Kansas	\$90
32	Nevada	\$74
33	North Carolina	\$70
34	Texas	\$65
35	North Dakota	\$63
36	Louisiana	\$48
37	Nebraska	\$46
38	Delaware	\$45
39	New Hampshire	\$29
40	Alaska	\$26
41	South Dakota	\$25
42	Georgia	\$23
43	Idaho	\$19
44	Utah	\$15
45	Hawaii	\$15
46	Arizona	\$14
47	Montana	\$12
48	Alabama	\$12
49	Mississippi	\$12
50	Wyoming	\$10

Source: SWM-HA

BOX 5

ranked first with an average tuition of \$3,430; California, last with an average of \$362; and Washington 23<sup>rd</sup> with an average of \$1,369.

Box 4 ranks the states by appropriations for institutional support at public four-year colleges divided by full time equivalent ("FTE") enrollment. Appropriations per student provide a commonly used measure of the state tuition subsidy (albeit an imperfect measure as the appropriations also cover state-funded research and public service activities of the colleges). For 1995-96 Washington's appropriation per student was \$6,710, which ranked 11<sup>th</sup> among the 50 states.

Because the funding arrangements for two-year colleges vary significantly from state to state, valid national comparisons of appropriations per student at these schools are not possible.

Box 5 shows state rankings of appropriations per student for need-based financial aid. Washington, at \$302 per student, ranked 11<sup>th</sup> by this measure. New York was the top state, spending \$1,412 per student. Wyoming spent \$10 per student.

## Higher Education Sectors

In 1995-96, the state provided financial aid to students pursuing higher education at institutions in five sectors.

- Research**  
The University of Washington and Washington State University
- Comprehensive**  
Central Washington University, Eastern Washington University, The Evergreen State College, and Western Washington University
- Private**  
Bastyr University, Cornish Institute, Heritage College, Gonzaga University, Northwest College, Pacific Lutheran University, Saint Martin's College, Seattle Pacific University, Seattle University, University of Puget Sound, Walla Walla College, Whitman College, Whitworth College
- Community and Technical Colleges**  
These include the 33 public institutions under the State Board for Community and Technical Colleges as well as 6 private schools
- Proprietary**

In addition Washington residents attending Portland State University and North Idaho College may receive state aid under reciprocity agreements.

Research comprehensive, and private institutions are referred to as the four-year colleges; the community and technical colleges, as the two-year colleges.

BOX 6

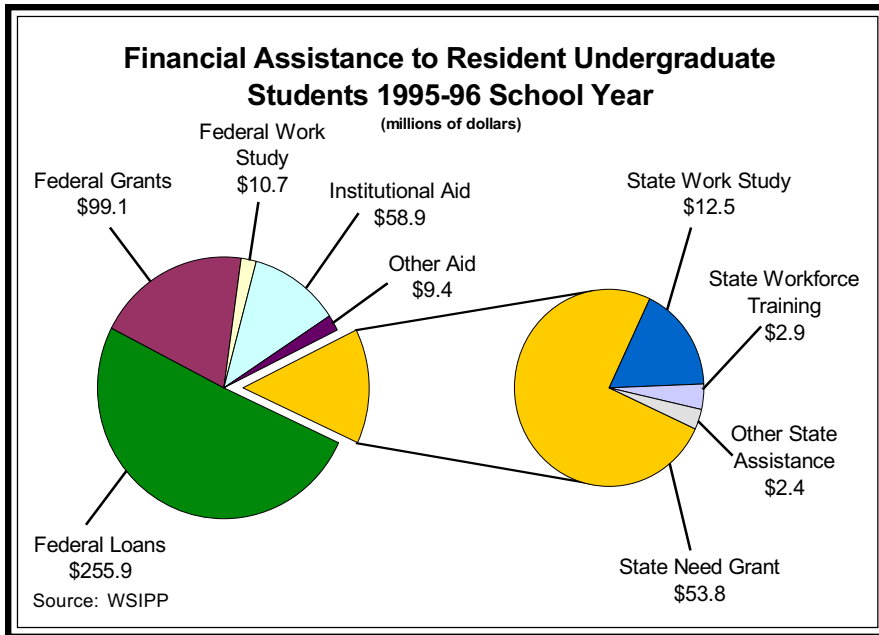
## The Financial Aid System in 1995-96

Aid is provided to students in three main forms.

- Grants
- Work Study
- Loans

Grants, which directly reduce the cost of college, are the most valuable form of aid to students. Work study, which requires students to work for their aid, is relatively less attractive to students. Many policy makers like the work requirement because it screens out some students

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**BOX 7**

who are not truly economically disadvantaged. Loans allow students to postpone the payment until the time that they are (presumably) earning a return from their education. Aid comes from the federal government, the state government, and from the institutions themselves.

For the 1995-96 school year the state's public two-year colleges enrolled approximately 118,000 students FTE; the public four-year colleges, 78,000 FTE; and the private four-year colleges, 31,000 FTE. Resident undergraduate students received \$505 million in financial assistance in that year, as shown in Box 7. Federal loans amounted to one-half of the total

amount; federal grants, 20 percent; and federal work study, 2 percent. Institutional aid, which is particularly important at the private colleges, represented 12 percent. State financial aid expenditures totaled \$72 million, 14 percent of overall financial assistance.

The largest of the state programs, by far, is the State Need Grant, which aided approximately 42,000 students. Second largest is State Work Study, with 6,200 recipients. These two programs are administered by the Higher Education Coordinating Board ("HEC Board") and are available to Washington resident students at both private and public colleges. The third largest program is the Workforce Training program administered by the State Board for Community and Technical Colleges, which aided 2,300 students.

### Pell Grants & Stafford Loans

The major federal grant program is the Pell Grant. Washington resident students at Washington colleges received \$88.3 million from this program in 1996. The largest federal loan program is the Subsidized Stafford Loan. Resident students received \$162 million in 1995-96.

Source: WSIPP

**BOX 8**

*Since 1970 tuition rates at Washington's colleges have increased significantly.*

## Changes Over Time in Tuition and Financial Aid

Since 1970 tuition rates at Washington's colleges have increased significantly. Box 10 shows the growth in the undergraduate resident tuition rate at the University of Washington and Washington State University and the per capita income of state

### Institutional Aid

Private colleges generally must set much higher tuition rates than the subsidized public colleges. To soften the blow, private colleges award relatively more institutional aid than do the public colleges. The state's private colleges gave about \$1,200 institutional aid per student in 1995-96. The public colleges gave about \$110 per student.

Source: WSIPP, WRC

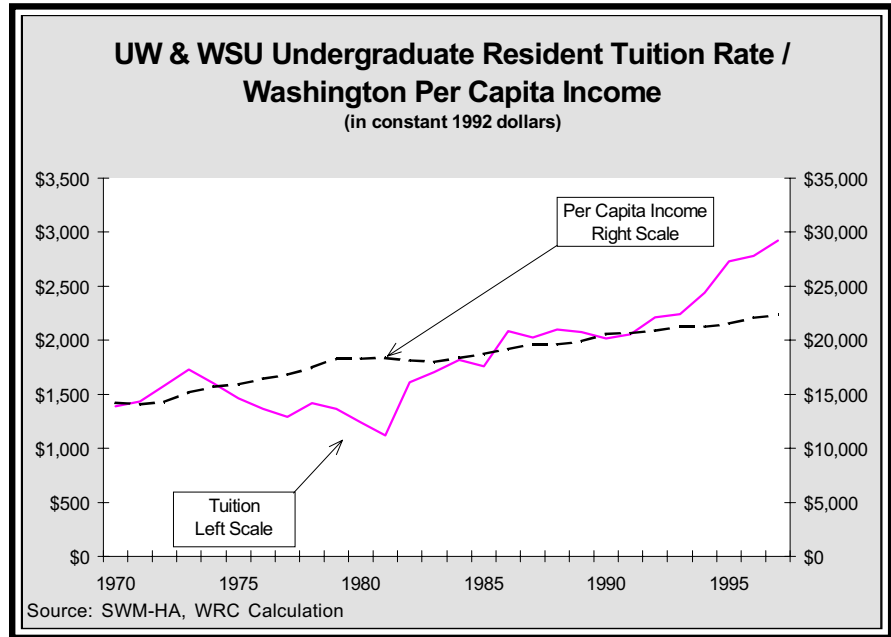
**BOX 9**

residents, in constant 1992 dollars. From 1969-70 to 1996-97, inflation adjusted tuition more than doubled. Over the same period real personal income per capita grew by 58 percent.

One factor behind the increase in tuition rates has been a decrease in the share of cost covered by state appropriations. By the state Higher Education Coordinating Board's calculation, between 1978 and 1995 the share of instruction cost covered by tuition increased from 25 percent to 41 percent.

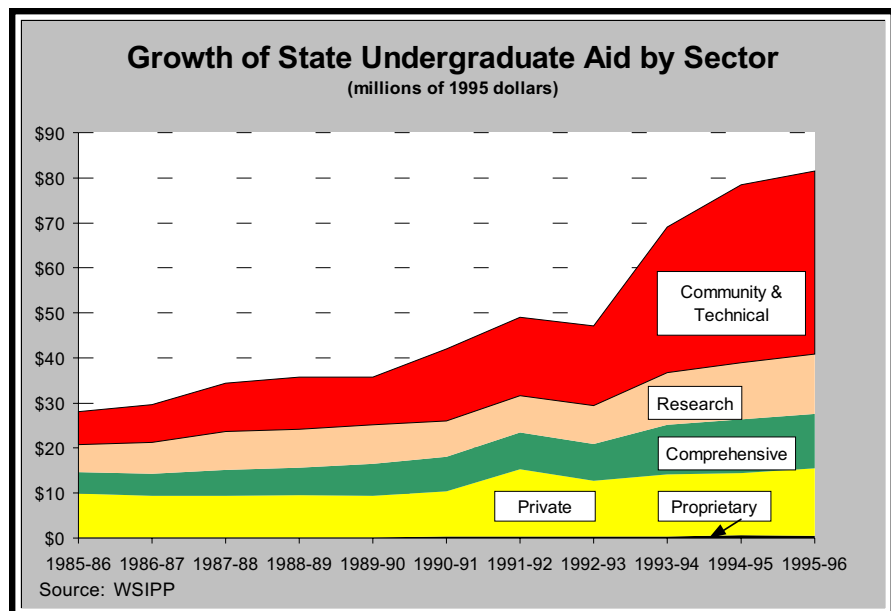
Rising public college tuition rates, with an increasing share of costs covered through tuition, has been the pattern nationally, as higher education faces stiff competition for limited state funds. Washington's experience is typical. As the baby boom echo enters college in the coming years, the pressure to raise tuition rates will be even stronger.

In recent years, state financial aid has grown more rapidly than instructional support. Between 1985-86 and 1995-96 inflation adjusted state undergraduate financial aid grew by 190 percent, from \$28.1 million to \$81.5 in 1995 dollars, while inflation-adjusted appropriations for instructional support grew by only 4 percent. Box 11 shows the growth of state aid allocations by sector. Between 1985-86 and 1995-96, the share going to community and technical college students grew from 26 percent to 50 percent. The share going to students at the research and comprehensive universities fell from 39 percent to 31 percent, while the share going to students at the four-year private institutions fell from 35 percent to 18 percent. Over this period annual FTE enrollments increased by 25% in the community and technical colleges and 13% in the research and comprehensive universities. Fall headcount enrollment increased by 33% in the private four-year colleges.

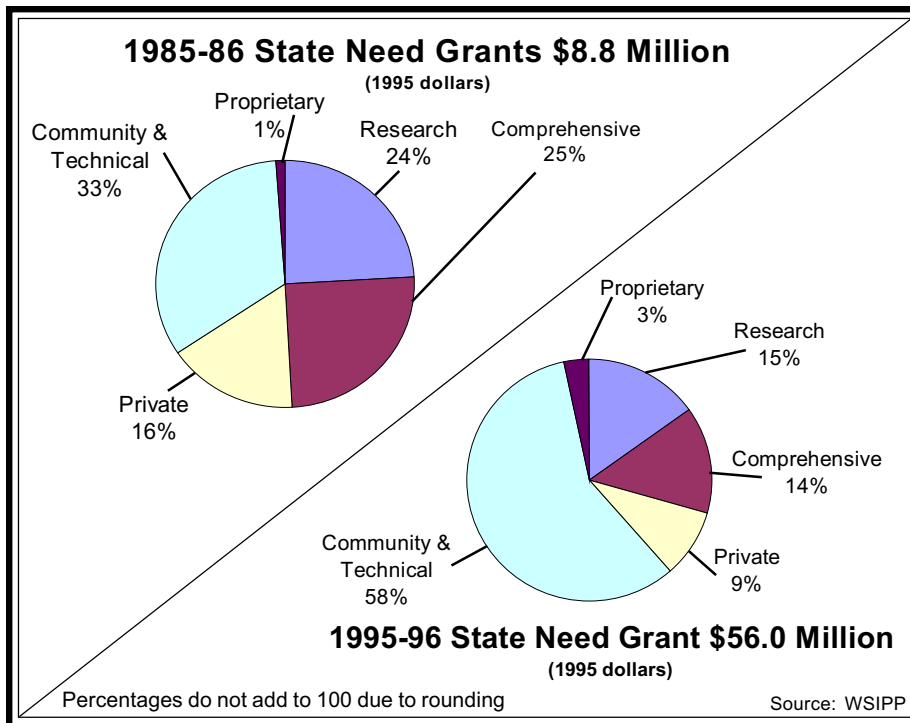


BOX 10

*In recent years, state financial aid has grown more rapidly than instructional support.*



BOX 11



BOX 12

Most of the growth in state financial aid has been in grant rather than work study funding. Inflation adjusted state grant aid for resident undergraduate students grew by 536 percent, between 1985-86 and 1995-96, from \$8.8 million to \$56.0 million in 1995 dollars. Box 12 shows the percentage breakdown in grant aid for 1985-86 and 1995-96. The increase in the share going to students at the community and technical colleges is again dramatic, from 33 percent to 58 percent. The share going to students at the public research and comprehensive universities fell from 49 percent to 29 percent, while the share going to students at the private colleges fell from 16 percent to 9 percent.

*Two changes to the State Need Grant program contributed significantly to the increase in the share of aid going to community and technical college students.*

In recent years Washington's welfare programs have encouraged college attendance by welfare clients. As a result the proportion of welfare recipients among financial aid students has increased from 7 percent in 1985-86 to 17 percent in 1995-96.

Sixty-four percent of State Need Grant recipients in 1995-96 were women.

Two changes to the State Need Grant program contributed significantly to the increase in the share of aid going to community and technical college students. First, prior to the 1990-91 school year, applicants from all schools drew aid money from a common pool. Those who met the eligibility requirements received grants, first come first served, until funds were exhausted. The HEC Board found that students at the community and technical colleges tended to apply for aid later than did students at the other institutions and therefore were more likely to be turned down because the money had run out. In 1990-91 the program shifted to a "fair share" model where each school is reserved a share of the State Need Grant funds. Each school's pool is based on the number of economically disadvantaged students it enrolled in prior years. As a result community and technical college students share of need grants increased from 40 percent in 1989-90 to 51 percent in 1990-91.



The second change became effective for the 1993-94 school year, when the state changed the methodology used to define eligibility for the State Need Grant. In prior years the HEC Board had used the federal government's fairly complex procedure for assessing student need. The Board justified the simpler methodology it adopted as more easily understandable by the Legislature and the public. As a consequence of this change, however, the share of state need grants going to community and technical college students increased from 51 percent in 1992-93 to 57 percent in 1993-94.

## The Purpose of Financial Aid

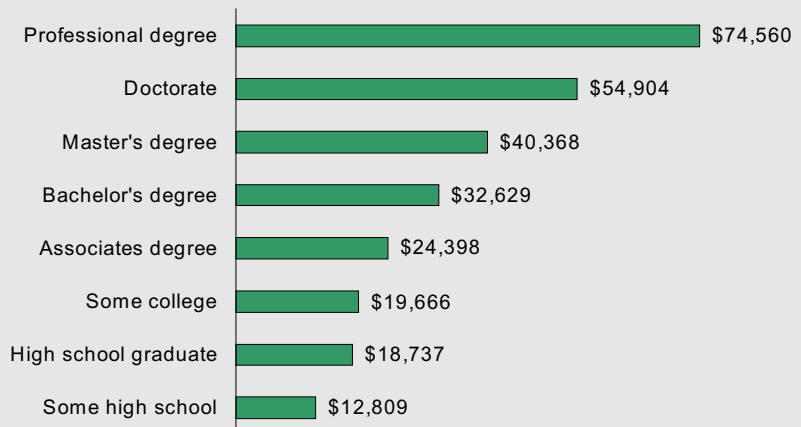
The federal and state governments – and the schools themselves – design financial aid systems to accomplish a number of different purposes which can be broadly categorized as either need-based or merit-based.

A college education can significantly increase students' earnings later in life (Box 13). It is thus fair to make students pay a large share of college costs. Need-based aid is intended to assure that capable students are not denied access to college solely because they lack the funds to pay tuition and living expenses. Aid programs use a mixture of grants, jobs, and loans to allow liquidity-constrained students to finance an investment in education. The purpose of the aid programs is to facilitate access, not to redistribute income. Therefore, most need-based financial aid programs do not target grants exclusively at the very poorest students. Rather, they define need in the context of the costs each student's educational plan.

Merit-based aid programs take numerous forms. Colleges target certain candidates, National Merit Scholars or athletes for example, to enhance their student profile. This year the University Achievement Award program at Washington State University has offered \$2,500 to freshman applicants with high school grade point averages above 3.6 and \$1,500 to those between 3.3 and 3.6. Schools also may use financial aid to increase

### Mean Annual Earnings for Persons 18 and Older By Level of Education, 1992

The figure below, reproduced from the HEC Board's 1996 Master Plan, shows how average annual earnings varied by educational attainment, as estimated by the U. S. Census Bureau.



Earnings depend on many factors in addition to education, including talent, effort, and family advantages. Thus, these observed income variations should be interpreted cautiously. They may overstate somewhat the pure returns to education.

**BOX 13**

*The purpose of the aid programs is to facilitate access, not to redistribute income.*

## Parental Support

The most significant financial resource for many students is the willingness of parents or other relatives to contribute towards their education. Placing a value on such parental "good will" presents one of the trickiest problems in defining student financial need. Except in rare instances, parents are under no legal obligation to fund their children's college education. The common approach is to apply arbitrary criteria such as the student's age to distinguish those who are assumed to enjoy parental support from those who are not.

BOX 14

the ethnic and geographic diversity of their student bodies. In addition, institutions use financial aid as a marketing tool, to build enrollments or to give selective discounts in response to competitive pressures.

Finally, financial aid can be used to direct students into certain courses of study. Washington state has had special aid programs to encourage students to become teachers and health professionals.

## Defining Need: the Differing Federal and Washington State Approaches

The procedures used by the federal government to determine the financial need of Pell grant applicants is called the *federal methodology*. This methodology is also widely used by colleges and states in making financial aid awards. A survey of 56 public and private colleges and universities in Washington state found that all but two use the federal methodology in awarding institutional aid.

*A survey of 56 public and private colleges and universities in Washington state found that all but two use the federal methodology in awarding institutional aid.*

The key concept in the federal methodology is the *expected family contribution* ("EFC") towards the cost of education. Each student is considered to be part of a "family" whose specific situation determines an amount that can reasonably be paid for college. If the student is age 24 or older, is married, or is a military veteran, his or her parents are not included in this family. The student is then said to be "independent" (Box 14). Students requesting aid complete the *Federal Free Application for Financial Aid* – 11 pages long for 1997-98. A complex formula determines the EFC, depending upon the composition of the family, the age of the family head, taxable and tax-free income, taxes paid, holdings of various financial assets, the number of college students supported by the family, and other factors.

The difference between the attendance cost and the EFC defines the student's need. Students whose EFC falls below a threshold are eligible for a federal Pell Grant. The amount of the grant varies with need.

Until the 1993-94 school year, Washington used the federal methodology in awarding State Need Grants. In 1992, Congress revised the federal methodology. Home equity was excluded from the calculation of expected family contribution. The effect was to greatly decrease the expected family contribution for many dependent students. In addition, eligibility for independent students was tightened.

The HEC Board predicted that the use of the revised federal methodology would increase State Need Grant costs by \$4 to \$6 million annually. Citing the difficulty of explaining the intricacies of the federal methodology to the Legislature and the public, the HEC Board adopted a new, simpler formula for awarding need grants. The new state methodology determined eligibility on the basis of only family size and income. The HEC Board believed that, with the eligibility cut-off set at 65 percent of median family income (“MFI”), the new state methodology would result in substantially the same distribution of aid as had occurred under the old federal methodology.

Subsequently, the Legislature required the HEC Board give priority to the lowest income students if appropriated funds were not sufficient to cover all students with family incomes below 65 percent of MFI.

Washington is one of only three states to use only family income and size in determining which students get financial aid. The other states use the federal methodology or a close analogue.

The Need Grant amount was set at 15 percent of the cost of attendance: tuition and fees plus a living allowance. For private schools the tuition used for the calculation of the Need Grant was capped at an amount equal to the tuition at the state research universities plus the average per student state appropriations for instruction at the public institutions. Need Grants for 1995-96 are shown in Box 15. The maximum Need Grant at private colleges, \$2,300, exceeded the maximum at the research universities by \$700, but this amount was far less than the average state appropriation for instructional support at all public colleges, \$4,437, calculated by the HEC Board.

## Consequences of the State Methodology

The state methodology has major consequences for the distribution of aid among students and schools.

The new state methodology was first used for the 1993-94 school year. The Need Grant appropriation for 1993-94 was double that for 1992-93. The HEC Board had predicted that the state methodology with a 65

	Living Allowance	+	Tuition	=	Attendance Cost	Need Grant = Attendance Cost X 15%
<b>RESEARCH</b>	\$7,734		\$3,021		\$10,755	\$1,600
<b>COMPREHENSIVE</b>	\$7,734		\$2,342		\$10,076	\$1,500
<b>PRIVATE FOUR-YEAR</b>	\$7,734		\$7,458		\$15,192	\$2,300
<b>COMMUNITY/TECHNICAL AND PROPRIETARY</b>	\$7,734		\$1,350		\$9,084	\$1,400

Note: Tuition for Private four-year colleges is capped at the sum of the tuition at the research institutions plus the average state instructional support at public colleges. This cap was \$7,458 for 1995-96.

Source: WSIPP

**BOX 15**

*Washington is one of only three states to use only family income and size in determining which students get financial aid. The other states use the federal methodology or a close analogue.*

percent cut-off would serve substantially the same student population as had been served under the old federal methodology. The program, however, was only able to fund students below a 50 percent MFI cut-off, even with the increased funding.

In the first year with the new state methodology, the share of Need Grant Funds going to community and technical college students went from 51 percent to 57 percent.

*Students who look equally needy under the state methodology may have quite different levels of need by the federal calculation.*

A data set assembled by Human Capital Research provides a detailed picture of the Washington's financial aid recipients in 1995-96. The students attending Washington higher education institutions in 1995-96 had just under \$700 million in aggregate financial need as measured by the federal methodology.

Students who look equally needy under the state methodology may have quite different levels of need by the federal calculation. Over 13,000 students with expected family contributions by the federal methodology below \$1,000 did not qualify for a State Need Grant for 1995-96.

In part, this occurs because the state does not take into account asset holdings. But an important factor is the relatively generous treatment of independent students by the state. Human Capital Research finds that independent students "are consistently more likely to be eligible for a state grant than dependent students" of comparable family size and federally determined need. The federal methodology recognizes that parents have a need to save for retirement and adjusts the expected family contributions of dependent students' families accordingly. And the federal methodology expects independent students without children to contribute a larger share of their income than independents with children.

*With the program favoring independent students, it is not surprising that the majority of aid goes to older students.*

This favoring of independent students shows up in the aggregate distribution of aid between dependent and independent students. In 1995-96, while dependent students accounted for one-third of need according to the federal methodology, they were only 21 percent of State Need Grant recipients. With the program favoring independent students, it is not surprising that the majority of aid goes to older students. The median age of need grant recipients is 25. One third of the recipients are age 30 or older. The concentration of these older students contributes to the community colleges' large share of State Need Grant funds.

Because the maximum grant amount is set at 15 percent of the cost of attendance, the State Need Grant program does little to offset the tuition differential between the community colleges and the comprehensive and research universities. (In 1995-96, the tuition differential between the research universities and community colleges was \$1,671. The difference in maximum grants was only \$200.) Economically disadvantaged students are thus encouraged to attend the community colleges.

## Alternative Financial Aid Policies

The simulation model constructed by Human Capital Resources distinguishes financial aid systems by the way they answer seven crucial questions.

- What costs other than tuition does the financial aid plan cover?
- How much of the cost of education should the student cover through work or loans?
- How is the family's ability to contribute to the cost of education determined?
- Is the student's federal Pell Grant recognized when the need for state aid is assessed?
- What is the relationship between the student's need and the grant amount? Is there a maximum grant?
- Does the program set an eligibility threshold to target only the more needy students?
- How does the program differentiate between part time and full time students?

The Human Capital Resources report simulates the current Washington need grant system and six alternative models, which span the range of state financial aid systems employed nationally.

1. "Baseline"

This represents the current Washington system.

2. "Modified MFI"

This is based on the current Washington system with three modifications. The reported incomes of the families of younger independent students are adjusted upwards, to reflect their ability to devote a larger share of their resources to paying for education. Cost of attendance is reduced by the Pell grant received. The income cut-off is increased.

3. "Shared Responsibility"

This is modeled on Minnesota's state program. Students are expected to pay one-half of the cost of attendance. Families of dependent students are expected to contribute as per the Federal Methodology. Families of independent students at one-half of the Federal methodology level. The state grant covers the remainder of attendance costs.

4. "Constant Percent of Need Met"

Need is determined as attendance cost less the student's Pell grant and the expected family contribution by the Federal Methodology. Grant is 50 percent of need. To stay within budget, students with need below a cut-off get no grant.

5. "Direct cost"

Need is tuition (to a maximum of \$3,300) less expected family contribution by the federal methodology. Grant is 70 percent of need.

6. "Financial Aid Administrator 1"

Need equals cost of attendance (as calculated under the current Washington system) less the student's Pell grant and the expected family contribution as per the federal methodology. The grant is the lesser of need, actual tuition, or (for students at private colleges) tuition at the research universities. To stay within budget only the most needy students as measured by EFC receive grants.

Human Capital Resources discusses but does not simulate a seventh model, "Financial Aid Administrator 2." Under this model, state grant money would go to the campuses where local financial aid administrators would decide how it would be distributed among students

A more complete description of all of these alternatives can be found in the Human Capital Resources report.

## Results of Human Capital Research Simulations

	Current Washington Baseline	Modified MFI	Shared Responsibility	Constant Percent of Need Met	Direct Cost	Financial Aid Administrator 1
Number of Recipients	37,592	38,800	35,721	28,998	46,529	30,401
Percentage Independent	81%	76%	64%	65%	72%	83%
Independents' Average Award	\$1,337	\$1,336	\$1,253	\$1,663	\$1,092	\$1,799
Dependents' Average Award	\$1,447	\$1,463	\$1,625	\$1,775	\$1,170	\$2,051
Sector Share of Funds						
Research	19%	19%	28%	39%	29%	23%
Comprehensive	14%	14%	18%	22%	16%	18%
Private	10%	10%	34%	17%	13%	9%
Community	54%	52%	17%	18%	38%	42%
Proprietary	5%	4%	4%	4%	3%	5%

Source: HCRC

### BOX 16

*The Washington system distributes grants among students and institutions quite differently than do the systems of other states.*

Additionally, because the amount of the need grant does not vary with income below the cut-off, students face a large “cliff” at the MFI cut-off: small differences in income are associated with large differences in state support.

## Simulations of Alternative State Need Grant Policies

The Washington system distributes grants among students and institutions quite differently than do the systems of other states. This is illustrated in simulations of alternative aid systems conducted by Human Capital Research.

Human Capital Research’s simulations are based on the profile of applicants for financial aid in Washington state in 1995-96. The report presents simulations of five alternative models for distributing State Need Grants, as well as a baseline simulation of the existing Washington system. These models are described on page 13. They were chosen to encompass the range of approaches followed nationally and to illustrate the tradeoffs faced in designing financial aid programs.

Box 16 presents results from these simulations. The simulations reveal the basic tradeoff in designing aid programs between the average grant and the number of students served.

The baseline simulation, shown in the first column, closely reproduces the actual distribution of aid in 1995-96.

The model shown in the second column (Modified MFI) uses a modified form of the state's median family income methodology to determine need. The qualification thresholds for younger independent students are increased, while the thresholds for the remaining students are decreased so that overall expenditures are approximately unchanged. The modification has little effect on the distribution of aid between independent and dependent students or among the different types of institution.

The remaining four models all use the Federal Methodology for calculating need although they differ in many other details. In all four cases, community college students receive a smaller share of aid funds than in the baseline simulation, while research and comprehensive students receive greater shares. In three of the four cases the percentage of recipients who are independent falls relative to the baseline. In the fourth case the percentage of independent recipients rises. But in this case the average grant to dependent students is increased sufficiently that the share of funds going to dependent students actually rises relative to the baseline.

The effects can be quite dramatic. For example, under the Constant Percent of Need Met model, the share of funds going to students at the research universities doubles, from 19 percent to 39 percent, while the share going to students at the community colleges falls by two-thirds. The percentage of recipients who are dependent rises from 19 percent to 35 percent.

Similarly, in the Shared Responsibility model, which is patterned closely on the Minnesota state program, the percentage of dependent recipients rises to 36 percent, and the share of funding to community college students drops to 17 percent. In this case, however, the funding for students at private colleges increases to 34 percent, from 10 percent in the baseline. This reflects the fact that the Shared Responsibility model recognizes the full value of private college tuition in the calculation of grants.

## Discussion

In the coming years, Washington state's system of higher education will expand to serve the baby boom generation's children. Funding this expansion presents a challenging problem for state policymakers. Almost surely, one element of the solution to this funding problem will be higher rates of tuition at the state's public colleges.

Higher rates of tuition, however, could reduce access to higher education for economically disadvantaged students. It is important that the state have a well-funded and well-designed need-based financial aid program to serve these students.

*In all four cases, using the federal methodology, community college students receive a smaller share of aid funds than in the baseline simulation, while research and comprehensive students receive greater shares.*

*Higher rates of tuition, however, could reduce access to higher education for economically disadvantaged students. It is important that the state have a well-funded and well-designed need-based financial aid program to serve these students.*

*. . . the design of the system is seriously flawed. In the early 1990s the HEC Board turned away from the federal methodology for assessing need. As a result the system gives relatively little aid to students who are not financially independent of their parents. A disproportionate share of aid goes to students enrolled at the low tuition community colleges.*

As tuition rates have increased in recent years, the Legislature has increased appropriations for financial aid. Washington state ranks high in national comparisons of financial aid funding per student.

However, the design of the system is seriously flawed. In the early 1990s the HEC Board turned away from the federal methodology for assessing need. As a result the system gives relatively little aid to students who are not financially independent of their parents. A disproportionate share of aid goes to students enrolled at the low tuition community colleges.

Washington's State Need Grant Program is far out of line with the practices of other states. In its current form it does a poor job of ensuring access to the baccalaureate institutions for economically disadvantaged students who are under the age of 24. To meet the challenge of the expanding college enrollments, the Need Grant program will have to be fundamentally redesigned.

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