

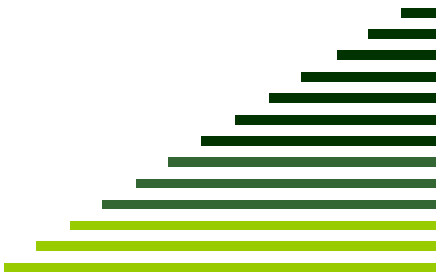


**Feasibility Study for Restructuring
Texas Student Financial Aid Programs**

Submitted to the
Texas Higher Education Coordinating Board

By

**Higher Education Insight Associates
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Feasibility Study for Restructuring Texas Student Financial Aid Programs By Higher Education Insight Associates

Table of Contents

Executive Summary	iii
I. Introduction	1
Historical Context	
Charge for the Feasibility Study	
Policy Context for the Feasibility Study	
Methods	
Organization of the Report	
II. Texas in the National Picture	5
Participation and Success in Higher Education	
Progress in Participation and Success	
Support for Higher Education and Student Aid	
III. Texas Student Financial Aid Programs	11
Overview of Texas Student Financial Aid Programs	
Characteristics of Recipients of State Grants	
Effectiveness of the TEXAS Grant	
IV. Summary of Findings.....	15
Interviews with Texas State Government Officials	
Steering Committee Discussions	
Texas Financial Aid Administrator Survey	
Student Focus Group	
Peer State Interviews	
Presentations by National Experts	
Distribution of State Grants	
Family Income and Affordability	
Conclusions	
V. Creating a Comprehensive Student Financial Aid System	27
Principles and Conditions	
Recommendations	
Laying the Cornerstone	
Participation and Success	
Efficiency and Accountability	

VI. Summary and Next Steps	41
Concluding Observations	
Suggested Next Steps	
Priorities for Future Investment and Program Expansion	
Advisory Committee.....	45
Data Sources	47
References	49
External Appendices	
A. Rider 49 and Contract Strategies	
B. Texas and Peer States: Demographic and Higher Education Characteristics	
C. Interviews with State Scholarship and Grant Program Directors in Peer States	
D. Texas Primary Student Financial Aid Programs: Characteristics of Students and Distribution of Funds by Income and EFC	
E. Results of the Survey of Texas Student Financial Aid Administrators	

Feasibility Study for Restructuring Texas Student Financial Aid Programs Executive Summary

This report provides the findings and recommendations of a feasibility study for restructuring Texas student financial aid programs conducted by Higher Education Insight Associates (HEIA). *Closing the Gaps by 2015* provided the policy context for the study and specific topics were defined by the General Appropriations Act (Senate Bill 1, Section 49, pages 111-154) of the 2006-2007 80th Texas Legislature and by the Texas Higher Education Coordinating Board (THECB).

Key Findings Between November 2007 and May 2008, HEIA met with a Steering Committee and conducted interviews with Texas higher education leaders and policy makers. A focus group was convened with students and financial aid administrators across the state were surveyed. The team consulted with national policy experts and interviewed student financial aid and higher education leaders in 14 peer states. Relevant data from numerous sources were analyzed and relevant literature reviewed. Key findings included:

- Although goals for college participation and success have not yet been fully realized, Texas has made notable improvements in high school preparation for college, college-going rates of recent high school graduates, total enrollment in Texas institutions, and college graduation rates.
- Texas' student financial aid programs appear to be serving the students they were designed to serve. The major programs—the TEXAS Grant, Tuition Equalization Grant, and the Texas Educational Opportunity Grant—serve low- and middle-income students. Most of these students are minorities and first-generation college students.
- Texas is among the national leaders in developing the student aid programs of the future—programs that blend need and merit criteria in a single program supporting both participation and success.
- The TEXAS Grant is making a difference. The graduation and persistence rates among TEXAS Grant recipients are approaching the national average for all students. This is remarkable because TEXAS Grant recipients are not typical college students—they are low-income, minority students whose parents did not attend college.

Principles: As an outcome of the information and data gathered for this study, HEIA identified principles to be used in evaluating existing programs and further development of a comprehensive student financial aid system for Texas students. Among the principles were:

1. Programs should be coordinated in a comprehensive system with consistent eligibility, aligned purposes, and simplified transitions.
2. Student financial aid funds should be used efficiently and effectively to support the state's highest priorities.
3. State financial aid should focus on providing access for low- and middle-income families and students.
4. The Texas student financial aid system should be easily understood by students and families. Information should be readily available so that

- students have an accurate estimate of the aid they might receive as they plan for college.
5. Students should be provided with positive financial incentives for academic performance and advancement.
 6. The financial needs of both traditional and non-traditional students should be addressed.
 7. An accountability structure should examine all aspects of the financial aid system on a regular basis with an emphasis on the extent to which goals for participation and success are being achieved by aid recipients.

During this study, much attention was directed to the six strategies described in Rider 49 and in the three additional topics that were part of the study assignment. These strategies reflect important issues and resourceful ideas. However, collectively they do not represent a comprehensive and coordinated student aid system. Our recommendations first set directions for development of a system that may incorporate the nine strategies or related alternatives. Three broad goal areas were identified and the recommendations address these areas: the TEXAS Grant as the cornerstone of a comprehensive system, participation and success, and efficiency and accountability.

The Cornerstone: The report includes 16 recommendations but the following four set the general directions and framework for a comprehensive student financial aid system:

- Maintain the TEXAS Grant as the cornerstone program for a comprehensive student financial aid system.
- Develop a long-range plan for aligning and merging the Tuition Equalization Grant and the Texas Educational Opportunity Grant with the TEXAS Grant to form one comprehensive financial aid program that is based on family financial strength and academic merit.
- Align the award criteria and allocation formulas for the TEXAS Grant, Tuition Equalization Grant, and the Texas Educational Opportunity Grant while maintaining separate funding streams.
- Assure that the least advantaged students, those from families in the three lowest income quintiles, receive the greatest benefit from state grant funds.

A related recommendation called for maintaining support for independent students during the transition to a consolidated program. It is also recommended that institution-based programs supported by tuition set-aside funds be retained in their current status and that the Texas B-On-Time Loan program be maintained at its current funding level.

Participation and Success: Several recommendations address participation and success:

- Add a merit criterion for initial eligibility for the Texas Grant to provide incentives for students and to assure that students with the most potential are getting grants. Meeting one of the following three criteria would qualify a student, who meets the need criterion, for a TEXAS Grant: completing the Distinguished Achievement Program; completing the Recommended High

School Program and Achieving a Score of 1350 or above on the SAT or a score of 18 on the ACT; or completing the Recommended High School Program and ranking in the top 50 percent of the student's high school graduating class

- Add a merit incentive of a one-time \$1,000 grant for books and supplies in addition to the TEXAS Grant for students who complete the Distinguished Achievement Program.

In addition, alternative criteria for non-traditional and independent students who did not have an opportunity to complete a college preparatory curriculum are suggested. It is also recommended that criteria for renewal of the TEXAS Grant be aligned with the standards for federal programs.

Efficiency and Accountability: Improving efficiency and accountability was addressed in several recommendations, key among them are:

- Maintain a decentralized approach to administration of the TEXAS Grant and the Tuition Equalization Grant with the following changes: a uniform formula for determining students' awards based on family financial strength and merit; a common process for allocating grant funds to institutions; a common FAFSA application priority date; phasing out priority for renewals; and limiting awards to the actual tuition and fees charged to the student or the program maximum, whichever is less.
- Establish a coordinated approach to developing the financial aid budget request that encourages institutions to estimate tuition and fee changes. Base student aid budget requests on these estimates. If institutions cannot provide tuition and fee estimates for the budget cycle, base appropriation requests, allocations, and award values for students at those institutions on national average tuition and fee increases.
- Develop an accountability system that monitors students' progress and success, institutional effectiveness in administering state programs, and progress toward state-wide goals for participation and success.

In addition, it is recommended that the information available to students and families be improved and awareness of college costs and TEXAS Grant eligibility be expanded. Consolidation of several of the special purpose grant programs into two programs—a workforce development program and a college readiness/early commitment program—was also recommended.

Next Steps: Next steps for this project will include the development of an implementation plan. Data will need to be collected so that several of the recommendations can be modeled and costs estimated. Additional attention will be directed toward transfers among institutions and transitions of student financial aid, particularly for community college and independent students. A framework for an accountability system will be developed and the technical support for implementation of various aspects of the system will be developed.

I. Introduction

In November 2007, The Texas Higher Education Coordinating Board (THECB) commissioned Higher Education Insight Associates (HEIA) to conduct a feasibility study for restructuring the Texas student financial aid system. The feasibility study was initiated, in part, in response to the Legislative Budget Bureau's report, *Texas State Government Effectiveness and Efficiency*, and the ideas from that report which became a part of the 49th Section of the 80th Texas Legislature's General Appropriations Bill (known as Rider 49). The Legislative Budget Board report had identified four primary concerns: some students are not eligible for federal grants because they do not complete the Free Application for Federal Student Aid; the current method of awarding TEXAS Grants through institutions reduces the incentive for college-preparation; tuition set-aside funds are awarded without performance requirements that support state goals; and Texas students may not be able to benefit fully from federal tax benefits. HEIA was asked to examine the ideas described in the legislative act as well as additional topics identified by THECB.

Historical Context

Beginning in the late 1990's and continuing for the next decade, a series of higher education policy initiatives were introduced and implemented by the Texas Legislature and the Texas Higher Education Coordinating Board. Several of those initiatives directly impacted Texas financial aid programs, high school curriculums, and behavior of students pursuing higher education in Texas.

The two primary initiatives were the Towards EXcellence, Access and Success (TEXAS) Grant program created by the legislature and implemented in 1999 and the adoption in 2000 of the state's higher education plan *Closing the Gaps by 2015*. These were followed by the implementation of the Recommended High School Program as a requirement for the TEXAS Grant Program in 2001, passage of the Texas B-On-Time Loan Program in 2003, and tuition deregulation in 2004. Then in 2004-05, the Recommended High School Program becoming the default curriculum for all high school students and the Distinguished Achievement Program was adopted for advanced students.

As these events occurred, a new model for providing access emerged. Texas evolved from a "low tuition" state to a state providing a significant amount of state financial aid along with moderate tuition. In a relatively short period of time Texas became a national "player" as a provider of state student financial aid.

As a result of these initiatives, uncertainty in the state and national economy, and rapidly changing demographics, Texas experienced a "perfect storm" of events. Increased awareness of the need for and availability of higher education by previously under-represented populations, and increased numbers of students graduating with the Recommended High School Program combined to expand the demand for TEXAS Grants. Concurrently, tuition and fee charges increased substantially while state appropriations for financial aid increased at a much slower rate. The TEXAS Grant, that began as a promise and guarantee, became an unfulfilled competition for limited dollars.

As a result of the confluence of these concerns, lawmakers and the Legislative Budget Board proposed that THECB undertake a feasibility study to address concerns of governmental officials and higher education policymakers about the increasing demand for student aid and its associated costs to the state.

Charge for the Feasibility Study

The General Appropriations Act (Senate Bill 1, Section 49, pages 111-154) of the 2006-2007 80th Texas Legislature directed the Texas Higher Education Coordinating Board to conduct a feasibility study on the restructuring of student financial aid programs in Texas. The study was to address the following six points:

“An analysis of the effects of requiring completion of the Free Application for Federal Student Aid as a condition of initial enrollment in a Texas public higher education institution;

A proposal for converting the TEXAS Grant program and all State financial aid programs into a direct student grant program based on a uniform assessment of financial need, including an estimate of changes in statewide facility use as a result of changes in student enrollment patterns;

An analysis of the effects of using tuition deregulation and TPEG state tuition set-asides as an additional funding source for TEXAS Grants and a projection of the number of additional TEXAS Grants that could be offered with the additional funds;

A proposal to convert the index used to establish the value of TEXAS Grants from the statewide average for tuition and fees to the statewide average for room and board (or other index) and to determine the cost of providing tuition waivers for students at institutions with tuition and fees above the state average;

A proposal for delivering TEXAS Grants as a stipend-based award that would allow students to access higher education tax credits through the federal income tax system; and

An analysis of distributing financial aid directly to students for the payment of tuition and fees and other expenses by debit card or other means.”

In addition, the THECB in consultation with the Office of the Governor asked HEIA to address the following additional topics: 1) adding a merit component to the TEXAS Grant program; 2) considering the role, funding level, and funding sources for the Texas B-On-Time Loan Program in student financial aid in Texas; and 3) collapsing the small state grant programs and adding those funds to the TEXAS Grant program. The six points defined by Rider 49 and the three additional topics are referred to in this report as the nine strategies.

Policy Context for the Feasibility Study

Closing the Gaps, The Texas Higher Education Plan served as the financial aid policy context for the feasibility study. Adopted in 2000, the plan identified four major goals for Texas higher education to be accomplished by 2015:

Goal 1: Close the gaps in participation. By 2015, close the gaps in participation rates across Texas to add 500,000 more students.

Goal 2: Close the gaps in success. By 2015, increase by 50 percent the number of degrees, certificates and other identifiable student successes from high quality programs.

Goal 3: Close the gaps in excellence. By 2015, substantially increase the number of nationally recognized programs or services at colleges and universities in Texas.

Goal 4: Close the gaps in research. By 2015, increase the level of federal science and engineering research funding to Texas institutions by 50 percent to \$1.3 billion.

Goals 1 and 2 are particularly relevant to the feasibility study and serve as contextual framework that guided development of the study. In establishing goals for participation and success the THECB chose wisely as these were significant shortcomings in Texas Higher Education. The Goals and the related strategies described in *Closing the Gaps* were considered in the evaluation of the nine strategies that were the focus of this study and this report's accompanying recommendations.

Methods

The feasibility study began in November 2007 and concluded in May 2008 and consisted of the collection of information from multiple sources, analysis of data, assessment of each of the nine strategies in the context of *Closing the Gaps*, assessment of state and national trends, and development of recommendations for a comprehensive student financial aid system for Texas.

A Steering Committee was formed to assist with the project and meetings were held in November, January, February, and April. In addition, a comprehensive survey of Texas financial aid administrators was conducted to collect information about current practices and obtain their opinions about each of the nine strategies being considered in the feasibility study.

The HEIA staff conducted interviews with students, the Governor's staff, legislators, legislative staff, Legislative Budget Board staff, and representatives of higher education organizations. The project team also conducted interviews with higher education and financial aid leaders in the 14 states with the largest populations and additional state grant program directors that had implemented strategies similar to those proposed for Texas. Trends in enrollment, participation, appropriations, tuition, room and board, and student financial aid in Texas and peer states were reviewed. Reports and analyses from THECB, other Texas sources, and relevant current literature were considered.

THECB staff provided extensive support and expert advice for the feasibility study. They provided orientation to the Texas student financial aid programs and processes. Several sets of data were provided in response to special requests. The staff arranged for all meetings and interviews and provided other support for the project.

Two nationally recognized researchers and policy leaders provided input and made presentations at Steering Committee meetings. David Longanecker, President of the Western Interstate Commission for Higher Education, provided a comparison of national and Texas' approaches to providing access to students. Donald F. Heller, Director of the Center for the Study of Higher Education at Penn State University, examined trends in merit and need-based aid. In addition, Elaine Maag, Research Associate with the Urban-Brookings Tax Policy Center, discussed federal tax policies with the HEIA team and THECB staff as they relate to financial aid and subsidizing higher education through tax and direct aid programs.

With information from these sources, each of the nine strategies was evaluated and the advantages and disadvantages described. Alternatives for achieving the intended objectives were considered and recommendations were developed.

Organization of the Report

The report has been developed as a summary of the findings and recommendations of the Feasibility Study for Restructuring Texas Student Financial Aid Programs conducted by Higher Education Insight Associates. Section 2 of the report examines key variables for Texas in context of peer states and is followed by a brief review and analysis of Texas student financial aid programs in Section 3. The fourth section provides a summary of findings and Section 5 provides recommendations for restructuring Texas student financial aid programs into a comprehensive system as well as the principles that guided the development of the recommendations. The final section provides a summary and identification of potential next steps, and suggests priorities for future investment.

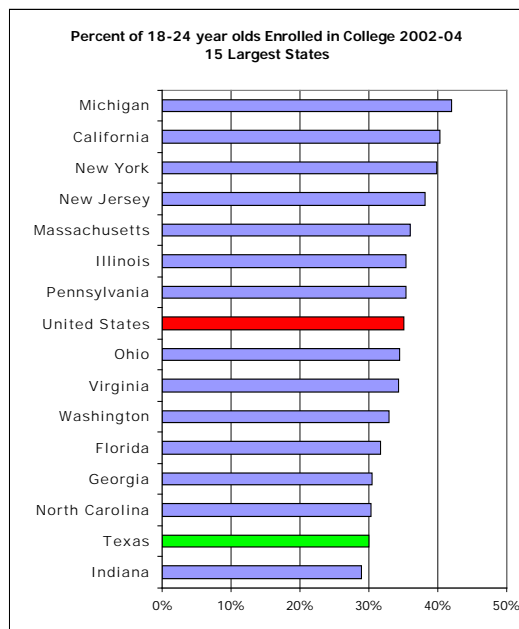
The appendices to this report are integral to the project and contain the data and analyses to support the findings and recommendations and to serve as reference materials for the THECB staff and others. Appendix A contains a detailed examination of each of the nine strategies, the advantages and disadvantages, potential alternatives, and related policy issues. The remaining appendices include: B) Texas and Peer States: Demographic and Higher Education Characteristics; C) Interviews with Student Financial Aid Administrators in Peer States, D) Texas Primary Student Financial Aid Programs: Characteristics of Students and Distribution of Funds by Income and EFC; and E) Results of the Survey of Texas Student Financial Aid Administrators

II. Texas in the National Picture

To provide a context for the feasibility study, 14 peer states were selected on the basis of population size for comparison with Texas. These states also have the largest state-funded student aid programs in the country. In this section, comparative information on Texas and the 14 other states with the largest population are summarized. Appendix B provides detailed information about the peer states.

Participation and Success in Higher Education¹

Texas ranks second among the total 15 states in population and in the percent of the population who are minority. Among all 50 states, Texas is 25th in per capita income and second in the number of students enrolled in public and independent colleges and universities. In the fall of 2007, 1.2 million students were enrolled in Texas institutions with 1.1 million enrolled in public universities and community and state colleges. Texas enrolls approximately seven percent of the college and university students in the country. (THECB enrollment and 2007 Almanac of the Chronicle of Higher Education)



Texas ranks 14th among 15 peer states in college participation. During 2002-04, fewer of Texas' young adults were enrolled in college than in most other states. Nationally, 35 percent of the 18-24 year old population was enrolled in colleges and universities.² Texas, at 30%, tied with Alaska, Georgia, North Carolina, and West Virginia for 40th among all states. Among the 15 states with the largest population, Texas ranked 14th in participation of the 18-24 year old group. (Measuring Up 2006)

Of particular concern is the pipeline for minority students. Texas' Hispanic/Latino population is growing faster than other groups. By 2020, over one third of the population will be Hispanic/Latino and over half of the population will be minority. According to the 2000 Census, the Hispanic

population is less likely to have a high school credential and less likely to have any college degree than whites or African-Americans. (National Center for Public Policy and Higher Education, Policy Alert, November 2005)

¹ Throughout this section the most recent data available are used. The timeframe for comparative data differs by measure and source. While more recent data may be available for Texas, it is generally not available for other states and the nation.

² An average of the participation rates for 2002, 2003, and 2004 reported in the *Current Population Reports* of the US Census Bureau and provided by www.measuringup.highereducation.org

Participation rates among low-income and minority students are traditionally lower than those for other groups. The same was true for Texas in the 2002-04 period—36 percent of the white 18-24 year old population and 26 percent of the non-white population were enrolled, a 10 point difference. There was an even larger differential between low income (28 percent) and high income (51 percent) people in this age group. For each of these groups—white, non-white, low income, and high income—participation of Texas students is below the national averages. (Measuring Up 2006)

Texas was 14th among peer states in degree completion. Data from the NCES *Graduation Rate Survey* for 2003-04 indicate that 55 percent of students³ attending four-year institutions complete a degree within six years. Graduation rates among the states ranged from Alaska's 21 percent to 67 percent in Massachusetts. With a graduation rate of 51 percent, Texas ranks 31st among all states and 14th among peer states.

Progress in Participation and Success

Texas has made substantial progress in improving participation and success. National comparison data do not fully reflect the innovations to improve participation and success that have been implemented in the past eight years in Texas. While Texas may not yet be where it wants to be, considerable progress has been made on several measures.

- **Preparation** *Measuring Up 2006* indicates that high school preparation for college has improved substantially in the past 12 years. The number of courses taken has increased in all academic subject areas. More students are taking Advanced Placement courses. Proficiency in mathematics and science has improved.
- **Participation** THECB data indicate that college participation has also improved. Participation of recent high school graduates increased across all ethnic groups. The increases are notable because of the short period of time.
- **Enrollment** Total enrollment in Texas institutions has increased since 2000. Texas is 12th among all states and 3rd among peer states in the percent of enrollment increase. (Digest of Education statistics, 2006, Table 193)
- **Graduation Rates** *Measuring Up 2006* reports that six-year completion rates at Texas four-year institutions improved from 44 percent in 1996-97 to 51 percent in 2003-04.

Texas has made substantial progress in a relatively short period of time. It is reasonable to conclude that the initiatives associated with *Closing the Gaps*, including the TEXAS Grant and other financial aid programs, have been effective.

³ Students are first-time, full-time students enrolled in a public or private four-year institutions who obtain the bachelor's degree at the institution they entered within six years of enrolling. Part-time students, returning students, and students who transfer to another campus are not captured.

Support for Higher Education and Student Aid

Texas ranks ninth among peer states and 22nd among all states in appropriations per FTE student. However, the “family share” of higher education resources is below the national average. Table 1 shows that Texas is second among states in total state tax appropriations for public higher education general operations. In fiscal year 2006, state tax appropriations per full-time equivalent (FTE) student for public higher education ranged from about \$3,000 in Vermont to over \$13,000 in Wyoming. With over \$6,200 per FTE student, Texas was very close to the national median of \$6,300 in appropriations per FTE student and 22nd all among states. (SHEEO, SHEF 2006) More recent data show that in 2008, Texas’ total tax appropriation for higher education increased substantially, more than the national average. Texas appropriations increased 11 percent while appropriations nationally increased 7.5 percent. (Grapevine, 2008).

	Educational Approps for Public HE* (millions)	Ed Approps per FTE	Family Share⁴
US	\$64,447.0	\$6,325	36%
Texas	5,151.0	6,276	32%
California	10,947.2	6,586	17%
Florida	3,005.0	5,641	22%
Georgia	2,289.7	7,824	18%
Illinois	2,577.3	6,689	29%
Indiana	1,178.9	5,390	50%
Mass	1,171.7	8,372	40%
Michigan	2,190.0	5,799	53%
N Carolina	2,547.2	7,522	24%
New Jersey	1,857.7	8,145	42%
New York	3,906.0	7,784	32%
Ohio	1,791.4	4,690	53%
Penn	1,852.2	5,660	56%
Virginia	1,387.3	5,223	47%
Washington	1,371.3	6,437	24%
* Excludes funds for medical schools and operations and student aid at private institutions Source: SHEEO, <i>State Higher Education Finance, Fiscal Year 2006, Table A-6 and Table A-10</i>			

The percent of total public higher education revenues derived from tuition and fees, adjusted for state financial aid, has been described as the “family share.” A lower family share suggests that public education may be more affordable, either because

⁴ Net tuition as a share of total educational appropriations for public institutions. Net tuition is the sum of Gross Tuition and Mandatory Fee Assessments minus state-funded student financial aid, institutional discounts and waivers, and medical school student tuition revenues

of low tuition, high financial aid, or a combination of these factors. The SHEF data show that in 2006 family share ranged from 13 percent in New Mexico to 77 percent in Vermont with a national average of 36 percent. The 32 percent family share in Texas is below the national average, despite significant increases in tuition in recent years.

Although tuition and fees at the University of Texas are above the national average for flagship universities, costs are below average at other public four-year institutions and community colleges. Historically a low-tuition state, Texas has seen substantial increases since tuition was deregulated. Tuition and required fees at the Texas flagship, the University of Texas at Austin, may be characterized as high. Tuition and fees at comprehensive universities are moderate and community college tuition and fees are low. Among the 15 peer states, tuition and required fees at flagship institutions ranged from \$3,206 in Florida to \$11,905 in Pennsylvania. The cost of \$5,411 at the Texas flagship is 7th in this group. The average for Texas' comprehensive institutions is slightly below the national average and 10th among the peer states. Texas's community college tuition and fees are below the national average and lower than most of the peer states.

Table 2
State Appropriations for Student Financial Aid
as a Percentage of Total Higher Education Appropriations
2006

	State Approps for Higher Education (millions)	State Student Financial Aid (millions)	Fin Aid % of Higher Education Approps	Peer State Rank
U.S.	\$68,402.7	\$7,043.2	10.3%	--
Texas*	5,411.5	399.5	7.4	12
California	10,127.9	758.2	7.5	11
Florida	3,202.2	418.0	13.1	5
Georgia	2,099.6	465.4	22.2	1
Illinois	2,641.2	383.1	14.5	4
Indiana	1,430.4	287.0	2.1	15
Massachusetts	1,232.3	80.1	6.5	13
Michigan	2,012.3	201.4	10.0	9
New Jersey	2,029.4	257.4	12.7	6
New York	5,112.5	899.8	17.6	3
North Carolina	3,058.5	196.8	6.4	14
Ohio	2,111.7	221.4	10.5	8
Pennsylvania	2,047.1	412.5	20.1	2
Virginia	1,594.6	147.9	9.3	10
Washington	1,536.3	173.8	11.3	7

*State financial aid for Texas of \$499.5 millions excludes awards to graduate students.

Source: SHEEO, SHEF Report, 2007, Table A-1; NASSGAP, 37th Annual Survey, 2007, Table 1

Texas ranks 12th among peer states in the proportion of its higher education budget dedicated to student financial aid. Table 2 compares total state funding for higher education to state student financial aid appropriations. Nationally, student

aid appropriations represented 10 percent of higher education funding in FY2006. Among the peer states, student aid appropriations ranged from two percent in Indiana to 22 percent in Georgia. With 7.4 percent, Texas ranked 12th among the peer states.

III. Texas Student Financial Aid Programs

This section describes Texas' student financial aid programs, identifies characteristics of program recipients, and discusses the effectiveness of the Towards EXcellence, Access and Success (TEXAS) Grant Program. Appendix D provides detailed information on the Texas student financial aid programs.

Overview of Texas Student Financial Aid Programs

Texas provides student financial aid through several programs. As shown in Table 3, the primary state-funded programs include the TEXAS Grant Program, Tuition Equalization Grant Program, and the Texas Educational Opportunity Grant. Other major programs—the Texas Public Education Grant and the Designated Tuition Set Aside Program—are funded by tuition set-aside funds and administered by individual institutions. In 2007, \$441 million were disbursed through these programs with almost 250,000 awards.

	Number of Recipients	Disbursements by Program
Primary State-Funded Programs		
TEXAS Grant Program	52,585	\$175,030,246
Tuition Equalization Grant Program	30,319	98,832,409
Texas Educational Opportunity Grant	3,662	4,479,902
Tuition Set-Aside Programs		
Texas Public Education Grant	112,313	102,619,935
Designated Tuition Set-Aside Program	50,622	60,189,481
Total Awards	249,501	\$441,151,973

These major Texas student financial aid programs serve students in all sectors of higher education.⁵ Table 4 provides a summary of selected characteristics of these programs and the federal need-based Pell Grant program. In 2006-2007 nearly 250,000 awards were made from the five programs. In general, these programs serve students with financial need; the TEXAS Grant includes an initial merit requirement for eligibility. A majority of the recipients of grants from the Texas programs also receive a Federal Pell Grant and many receive aid from more than one state student financial aid source. While the programs serve both dependent (supported by their families) and independent (self-supporting) students, the TEXAS Grant focuses on dependent students.

⁵ Not included in this analysis are the special purpose programs which served 19,000 students with \$23 million in FY2007. These programs are described in another section of this report.

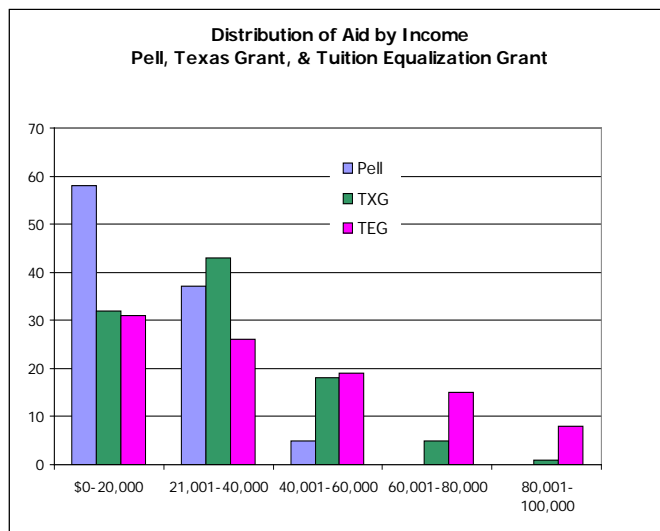
**Table 4
Selected Characteristics
Federal Pell Grant and Major Texas Grant Programs
FY2007**

	Pell	TXG	TEG	TEOG	TPEG	Designated
Mean Award*						
Public 2-yr	2,443	1,300	-	1,298	736	-
Public 4-yr	2,772	3,220	-	-	1,435	1,640
Independent	2,708	4,298	3,438	-	-	-
% of funds to low and middle income students	99	93	75	99	89	84
% Dependent	46	90	63	39	44	57
% Receiving Pell	100	Pub 4s-81 Pub 2s-91	49	91	Pub 4s-61 Pub 2s-59	53

*Dependent students

Characteristics of Recipients of State Grants

Texas student financial aid programs are serving the students they were designed to serve. All of the major programs serve low- and middle-income students. A majority of the recipients of all programs are minority students. Most of the grant recipients were the first generation in their families to go to college. A majority of the students also qualified for Federal Pell Grants and other financial assistance.



The distribution of funds from the TEXAS Grant and the Tuition Equalization Grant show the high priority placed on providing opportunities for low-income students. A majority of the TEXAS Grant recipients are drawn from the lowest two income groups with an additional 17 percent from the middle income group.

Fifty-five percent of the Tuition Equalization Grant recipients are drawn from the lower two income groups, with an additional 20 percent drawn from the middle group.

TEXAS Grant Recipients The TEXAS Grant is awarded on the basis of both financial need and merit. The average adjusted gross income of 2006-07 recipients was \$29,000. More than half the recipients appear to be first-generation college students and 74 percent are minority; females represented

about 60 percent of dependent recipients. Independent students represented 10 percent of TEXAS Grant recipients.

Tuition Equalization Grant Recipients The Tuition Equalization Grants (TEG) are available to students attending independent colleges and universities in Texas. The average adjusted gross income of TEG dependent recipients at two- and four-year institutions was \$45,000 and for independent students was \$22,000. More than half of these recipients' parents had college experience, 60 percent of them were female, and about 50 percent were minority. More than 36 percent of the TEG recipients were independent students.

Texas Educational Opportunity Grant Recipients The Texas Educational Opportunity Grant (TEOG) program serves community college students. A majority of the TEOG recipients were first generation, 64 percent were minority students, and 59 percent were independent. Nearly 80 percent of the independent students were female. The average adjusted gross income of TEOG recipients was \$19,000.

Texas Public Education Grant Recipients The TPEG programs is funded by tuition set-aside funds at public universities and community colleges. The average income of dependent TPEG recipients at public four- and two-year institutions was very similar - \$40,000 and \$37,000 respectively implying that funds were used to assist middle-income students. Nearly 65 percent of recipients were minorities at both public two- and four-year institutions. Independent students represented nearly 54 percent of TPEG recipients and had average adjusted gross incomes of \$19,000 at public four-year institutions and \$22,000 at public two-year schools.

Designated Tuition Set Aside Program Recipients Designated Tuition Set Aside Program funds are available to students at public four-year institutions and public health-related schools. Designated Tuition Set Aside Program recipients are similar to TPEG recipients except their mean income was slightly higher. Recipients were somewhat more likely to be male, less likely to be minority, and less likely to be eligible for Pell Grants. More than 61 percent of dependent TPEG recipients had Pell Grants compared to 53 percent of the Designated Tuition Set Aside Program grant recipients. Both groups of recipients, however, were borrowing at about the same rate with loans of equal size.

Very few independent and non-traditional students are served by Texas' major student aid programs. Independent students represented 10 percent of the Texas Grant recipients, 39 percent of the Tuition Equalization Grants, and 61 percent of the community college students served by the Texas Education Opportunity Grant. Overall, less than one-fourth of the recipients of grants from these programs were independent.

Effectiveness of the TEXAS Grant

The TEXAS Grant has been effective in improving participation and success. As noted previously, Texas has made considerable improvement in college preparation, college participation, total enrollment, and degree completion. At least

some of this improvement may be attributed to the effectiveness of the TEXAS Grant program.

Considering that the national average six-year bachelor's degree completion rate is 55 percent, the graduation and persistence rates among TEXAS Grant recipients shown in Table 5 are higher than expected for low-income students. They approach the national average for all students and higher than the average for all Texas students in 2000. This is remarkable because TEXAS Grant recipients are not typical college students—they are low-income, minority students whose parents did not attend college. Among African-American and Hispanic-Latino students, TEXAS Grant recipients persisted and graduated at higher rates than their higher income counterparts who did not qualify for need-based aid.

Table 5 Persistence and Completion of TEXAS Grant Recipients 2000 Public University Cohort			
	2000 Cohort by 2006		
	% Graduated	% Still Enrolled	% Graduated or Still Enrolled
All Students	57%	18%	75%
Students with no financial aid	64	14	78
TEXAS Grant Recipients	54	22	76
Students with other financial aid but not TEXAS Grant	48	20	68
Source: THECB Staff, Baccalaureate Graduates, TEXAS Grant Recipients and Non-TEXAS Grant Recipients.			

IV. Summary of Findings

Information and data were collected for this study through a series of interviews - with students, government officials, and state grant program directors – and through a survey of Texas financial aid administrators. Several national experts were consulted and data from the THECB student aid data base were analyzed. Finally, the consultants met with the project Steering Committee in December, January, February, and April. This section contains a summary of the information collected through each of these efforts.

Interviews with Texas State Government Officials

Over the course of this study the consultants met with 25 governmental officials including Governor's staff, Legislative Budget Board staff, members of House and Senate Committees on Higher Education and their staffs, and representatives of the Committee on Budget and Oversight for Public Education and the Senate Committee on Finance. The interview protocol included questions about the conditions that led to the passage of Rider 49, the concerns that Rider 49 was designed to address, and higher education and student aid issues of current importance to state policymakers.

The key concerns expressed by Texas State Government officials generally focused on affordability, accountability, and cost control. Several of the governmental officials indicated that student financial aid was becoming an increasingly important issue in the Texas Legislature. Related issues and themes of importance included the following:

- The need to use limited state student aid funds for the best and brightest;
- Merit standards for both access and retention for the TEXAS Grant;
- Affordability for the middle class;
- Consistency in awards among institutions;
- The viability of the Texas B-On-Time Loan Program;
- More focus needed on the TEXAS Grant;
- Growing student debt;
- Loan debt reluctance in the Latino community;
- Student aid program(s) funding;
- Time-to-degree issues;
- Community college to four-year transfer;
- College cost increases since tuition deregulation;
- Balancing student aid and formula funding allocations;
- Leveraging more federal funds; and,
- The role of the state in student aid programs.

Steering Committee Discussions

The Steering Committee totaled 23 members and was comprised of institutional financial aid administrators, bursars, and admissions staff; high school guidance counselors; Governor's staff; and Legislative Budget Board staff. Throughout the course of the project, the Committee met four times with the consultants and THECB staff. Meetings focused on identifying concerns of the Committee members related to state student aid programs and their delivery, assessing the impact of the Rider 49

strategies, and identifying priorities for an improved state student financial aid system. The Committee was concerned about process changes as much as policy changes, citing issues such as the timing of institutional allocations, consistency in requirements across programs including coordination between state and federal programs, and the timing of information to students.

The Committee strongly expressed the need for transparency and simplicity, for increased outreach and information to students and families, and the need to align various financial aid programs. Committee members offered suggestions on the design of financial aid programs and opinions on the impact of changes at their respective institutions.

The Committee's overriding concern, however, was funding, the need for more state resources to fully fund the TEXAS Grant Program. They cited the need for additional funding to increase the Expected Family Contribution (EFC) cutoff, currently \$4,000, and to fund additional eligible freshmen students. A second concern was establishing a qualifier or alternative means for non-traditional students and community college students to qualify for TEXAS Grants.

Members of the Committee valued the TEXAS Grant's guarantee of covering tuition and fees for students below a specific EFC or income level; they thought the predictability of providing that level of support was particularly important. Their concern, again, was the inability to provide grants to all students who qualified for it. The Committee members indicated that when passed by the Texas Legislature and implemented by THECB, the TEXAS Grant Program represented a bold new initiative in financial aid promising students that if they were academically prepared they would have a TEXAS Grant. Unfortunately the "promise" was not fulfilled. After being fully funded in the early years, subsequent appropriations did not keep pace with demand. What was once perceived and marketed as a "promise" is now understood to be a "maybe."

Some members of the Committee suggested exploring sources of revenue from corporations, workforce agencies, or through moving B-On-Time funds to TEXAS Grants. They had strong opinions, however, on the need to retain tuition set-aside funds on campus for their students noting that these funds were used to fund students eligible for TEXAS Grants who didn't receive them when state funding fell short as well as for independent students and middle-income students.

Texas Financial Aid Administrator Survey

An electronic survey was conducted with the financial aid directors at 160 Texas campuses in January 2008. Responses were received from 117 institutions resulting in a 73 percent response rate. Survey topics included: TEXAS Grant and Tuition Equalization Grant (TEG) eligibility criteria and allocation methodologies; FAFSA policies; priorities for Tuition Set-Aside funds; eligibility for Federal tax credits; use of debit cards; elimination of small state grant programs; and changes in the structure and delivery of state grant programs. All the Rider 49 strategies were addressed in the survey questions. Appendix E provides the results of the survey and summaries of the findings by topic area are listed below.

FAFSA: None of the respondents' institutions required students to file a FAFSA for admission; respondents were averse to the idea and even more so

to the idea of requiring students and their parents to complete a FAFSA for high school graduation.

Initial Eligibility for a TEXAS Grant: Nearly three-fourths of the respondents said that less than 50 percent of their freshmen who were eligible for a TEXAS Grant received one. When deciding which students would receive the grant, schools used different criteria; most based eligibility on either the date the student filed the FAFSA or on the student's EFC. Some based the decision on the amount of unmet need.

"I would hate to not have enough money for renewal students but our freshmen class has doubled and we only have funds for 23% of them."

Continuing Eligibility for a TEXAS Grant: More than one-third of the respondents indicated that more than 50 percent of their returning students did not qualify for additional TEXAS Grant aid, primarily because students did not achieve the required grade point average. Community college respondents were more likely to indicate a greater proportion of students not satisfying the GPA or 24 credit hour requirements than were respondents from other school types.

Additional Merit Requirements: Nearly two-thirds of respondents disagreed that a stronger initial merit component should be required for TEXAS Grant eligibility and more than 70 percent disagreed that a stronger merit component should be required of renewal students.

Tax Credits: Asked whether the TEXAS Grant should be targeted to cover room and board rather than tuition and fees so student could take advantage of Federal tax credits, 85 percent of the respondents said no. Respondents also indicated that institutions would continue to use other aid, such as Federal Pell Grants, to ensure that tuition and fee costs were covered for financially needy students thereby defeating the intent of focusing TEXAS Grants on other costs.

"Students who qualify for the benefit would likely be hurt because they can't pay their tuition and fees upfront and would have to borrow or drop out."

Tuition Set Asides: School aid officials indicated that TPEG funds were used to assist middle-income students; to assist other students with an EFC of \$4,000 or below who did not receive a TEXAS Grant due to funding shortfalls; and to provide aid to independent students. Designated Tuition Set Aside Program funds were most often used by public universities to assist middle-income students, assist students who qualified for but didn't receive a TEXAS Grant, and to support graduate students.

"Our middle-income families are the ones that struggle the most."

Tuition Equalization Grants: The majority of independent institution respondents indicated that more than half their prior year recipients received a TEG award the next year. Grade point average was the primary reason for continuing students not to retain eligibility.

Combining Programs such as TEXAS Grant, TEG, and TEOG into One

"Too many programs with too many rules. I recommend rolling all the programs except TPEG into one big grant program with straight forward and simple guidelines."

Program: A majority of respondents thought combining these programs into one program with a common formula would: make financial aid easier to explain to students, result in increased understanding of student aid policy by legislators and government officials, and be easier to administer. A majority also agreed, however, that institutions would lose flexibility in addressing individual student needs if programs were consolidated.

Program Administration: Respondents thought the greatest detriments of centralizing administration of a grant program that combined TEXAS Grants, TEG, and TEOG, would be a more complex student aid packaging process as increased coordination would be needed between the state and the institution, and a loss of flexibility for institutions to adapt financial aid packages to the needs of their students.

"Consolidation would be a tremendous loss of flexibility especially for community colleges, who try to help those with a loss of jobs, divorce, etc., who may not qualify for other aid."

Debit Cards: Nearly three-fourths of the respondents issued debit cards to their students that could be used for covering a variety of college costs from tuition and fees to purchases at off-campus grocery stores. Community colleges were more likely than other school types to issue

debit cards. A majority of respondents thought delivering state grant aid via a separate debit card would increase the potential for fraud and abuse.

Other general comments focused on increasing funding, developing more consistent rules across all programs, consolidating small programs, simplifying the process by putting more control at the institutional level, and ensuring institutions and students have early notification as to funding and awards.

Student Focus Group

A focus group of six students was convened at Texas State University at San Marcos in early April. Most of the students were receiving financial aid including TEXAS Grants. Asked about the strategies contained in Rider 49, they didn't think requiring the FAFSA to be filed as a condition for enrollment was a good idea because some families would not want to reveal their financial information. One student noted that he helped his parents complete the form, encouraging them to get their tax forms filed early. Another cited difficulties for Spanish-speaking families in filing the form.

"Look at potential and need and create a system to do that."

Several students indicated they took summer term classes at their local community college for two reasons: to improve their grade point average and to earn additional credit hours in order to graduate earlier. All members of the group were adamant that debit cards for state grants were not a good idea. They thought younger students

"I see a state debit card being a bad idea real quick."

would be less responsible in managing a significant sum of money on the card; that confusion would exist in determining where to mail the card particularly for older, independent students who don't live at home; and the responsibility of having another item to manage when dealing with a number of issues upon arriving at college would be an added burden. Other comments from the group included:

- Keep financial need as the top component for aid eligibility if merit is added in.
- If eligibility depended solely on SAT scores, some students wouldn't be in school.
- Found out about tax credits by accident.
- Have never heard of the B-On-Time Program.
- Students need to understand the process and the continued eligibility requirements to have the ability to drop classes to keep their aid.
- The renewal process is a lot easier than the original FAFSA filing because it's on-line.
- GPA requirements affect course load and how much students can work.
- The "whole" student needs to be considered in the eligibility process and the most important factor affecting persistence is being involved in extracurricular activities on campus.

Peer State Interviews

Fourteen peer states were selected based on population size in comparison to Texas. The states are shown in the Table 6 below in order of size and all but one of the states with large state grant programs were in this group. Telephone interviews were conducted with the directors of state scholarship and grant programs about whether their states currently used or had considered using the strategies addressed in Rider 49. (See Appendix B for information about these states and Appendix C for a summary of the interviews with state program administrators)

	\$ in Millions	# Recipients	Average Award
California	\$758	200,586	\$3,778
Texas	\$186	61,058	\$3,049
New York	\$862	331,750	\$2,598
Florida	\$101	100,248	\$1,008
Illinois	\$347	146,853	\$2,365
Pennsylvania	\$400	163,310	\$2,449
Ohio	\$147	106,418	\$1,384
Michigan	\$35	26,434	\$1,308
Georgia	\$1	2,654	\$528
North Carolina	\$110	69,842	\$1,580
New Jersey	\$194	57,459	\$3,378
Virginia	\$47	34,956	\$1,334
Massachusetts	\$24	28,441	\$842
Washington	\$154	66,198	\$2,325
Indiana	\$145	45,905	\$3,168

Source: NASSGAP Report, FY2006

Each state grant program was unique arising from the political environment, culture, and traditions of the state. Although program objectives were similar – “to provide broad access for lowest income students,” “to remove financial barriers to economic, social, and education goals,” and “to create a level playing field for students by providing more aid at higher-cost colleges,” – the formulas and eligibility criteria used to implement those goals differed across states.

None of the states required families to file the FAFSA as a condition for graduation or college enrollment with one state noting that “the legislature would not think it fit with our state culture,” and another, “some parents don’t want to reveal their financial status and students can’t get them to file.” All of them, however, as does Texas, required it to be filed for state grant aid. Nearly all have priority filing deadlines for consideration. Those filing dates ranged from March first prior to the start of the school year to New York’s year-round processing through the following May. Some vary dates by school type to be attended; some by whether the student is new or returning.

None of the states used a debit card for delivery of state grant aid noting concerns about misuse, similarity to vouchers, and that institutions already used them to disburse funds for indirect costs after direct costs such as tuition and fees and room and board were covered.

The majority did not consider tax credits in their awarding process citing that the majority of students eligible for their programs would not be eligible for tax credits. One state assumed a flat amount for tax credit eligibility in their need analysis formula primarily as a rationing mechanism for state funds; whether the student ever collected the tax credit was not considered.

“Our awards go to families with income under \$65K so we don’t worry about it.”

None of the states disbursed state grant aid as a stipend thereby creating the potential that students would have uncovered tuition and fee costs that would allow them to claim a tax credit. All the interviewed states based their awards on tuition and fee costs and for the most part, the state grant could only be used to cover tuition and fees.

Almost all the states used a uniform formula for determining state grant aid eligibility. The majority of those formulas were based on financial need – cost minus resources – but in some states eligibility was tied to family income or as in Texas, the EFC. All states included public four-year institutions, community colleges, and independent institutions in their primary grant program except Virginia and Texas; both have separate programs for students at independent colleges.

The majority of states used a centralized approach to program administration but some are using their decentralized approach to emulate a centralized system at a lower-cost to the state.

The majority of states based eligibility on financial need and based continued academic eligibility on meeting Satisfactory Academic Progress requirements. Two states based initial eligibility on high school GPA, one on ACT scores, and a fourth on the type of high school diploma earned. Only one state had a specific GPA requirement for continued eligibility and that was Georgia’s Hope

Scholarship Program, a program with no financial need criterion. The rest used Satisfactory Academic Progress, the standard required by the U.S. Department of Education for continued eligibility for federal student aid programs. At a minimum it requires a 2.0 GPA on a 4.0 scale and completion of 67 percent to 75 percent of credit hours attempted.

Presentations by National Experts

David Longanecker In a presentation to the Steering Committee in January, David Longanecker, Executive Director of the Western Interstate Consortium for Higher Education, traced the development of state student financial aid programs—the need-based programs of the 1960s through the 1980s, emergence of merit programs in the 1990s, and the development of blended need-merit programs in the new millennium. He noted that the TEXAS Grant, a need-merit program, was nearly a generation ahead of most other state programs.

Dr. Longanecker discussed financial aid programs and trends in states across the country. While Georgia has a very strong merit program, he would not recommend it for Texas because Texas has a different set of issues than Georgia. In Georgia, middle-income students tended not to attend college whereas in Texas the concern is with lower-income students. Dr. Longanecker also noted that Texas ranked second in the nation in growth in student financial aid dollars over the past ten years moving Texas from a low rank among states to the “upper middle of the pack.” He explained that the new world in student financial aid involves integrating appropriations, financial aid, tuition and academic preparation in a coherent plan for state higher education. He suggested that Texas is doing well at blending academic preparation and targeted financial support but the missing link is that financing for adult learners is not adequate.

Donald Heller At the February meeting of the Steering Committee, Donald Heller, Director of the Center for the Study of Higher Education, The Pennsylvania State University, reported on his research on merit aid programs and the consequences of merit-based aid. Dr. Heller spoke of the difficulty and obstacles that bright, low-income students must overcome to attend college and that the college-going rates of academically talented lower-income students matched exactly the rate of high-income students with less academic ability.

He noted that the Civil Rights Project at Harvard University found that “90 percent of expenditures on the Georgia HOPE Scholarship Program subsidized existing college participation and the participation gap between white and African American students has widened.” He also reviewed studies of merit aid programs in Massachusetts, Georgia and New Mexico which show unintended consequences of applying strict merit criteria that included students taking lighter course loads; a heavier than average course withdrawal rate; and students registering for easier courses or majors rather than more difficult or demanding majors. Finally he pointed out that the use of tax credits was primarily benefiting upper-middle and upper-class students and suggested the Committee examine blended need and merit programs in Indiana, Oklahoma and Washington.

Elaine Maag In a phone call with HEIA and THECB staff in January, Elaine Maag, researcher at the Urban-Brookings Tax Policy Center discussed her work with the College Board on a national project entitled *Rethinking Student Financial Aid* and research she is doing on the increasingly important role that tax benefits have played

in federal higher education policy. In 1997 Congress enacted a number of tax benefits directed toward helping middle and upper-middle income groups meet rising college costs. She reviewed the Hope and Lifetime Learning credits and the tax deduction for tuition and fees and discussed options that might improve the effectiveness of federal policy instruments.

She pointed out the difficulty that institutional aid officers have in packaging aid in the summer or fall when they don't know when or if students will receive a tax credit. Her research and the studies she has reviewed indicate that the tax credits have no effect on the marginal student and do not impact college attendance. Maag concluded by indicating that the timing of the issuance of tax credits is a major problem and the only way they could benefit low- and low-middle income families is if the tax credit was refundable.

Distribution of State Grants

Several types of data were collected from the Board's database. The characteristics of award recipients were described in the previous section. Data were also examined that focused on the distribution of state grant aid by income, EFC, school type, and dependency status. The distribution of family income in Texas was also of interest and a summary of some of these data is provided here.

Distribution by Income and EFC

Table 7 shows the distribution of more than 50,000 2006-07 TEXAS Grant recipients by school type and income. Nearly 68 percent of the recipients attended public four-year institutions and 28 percent were at community colleges. The remainder attended independent institutions which participated to a limited extent in the program in FY2007. About 77 percent had adjusted gross incomes of \$40,000 or less and 94 percent had incomes under \$60,000. About 75 percent of the funding or \$129 million was awarded to students whose incomes were \$40,000 or below. More than 90 percent of TEXAS Grant recipients were classified as dependent students, those who are under 24 years of age and are neither married, wards of the court, veterans, nor supporting a child.

Sector	\$0 - 20,000	\$20- 40,000	\$40- 60,000	\$60- 80,000	\$80- 100,000	Over \$100,000	Total
Independent	4,75	696	574	280	125	55	2,205
Public 2-Year	5,414	6,590	1,787	149	10	4	13,954
Public 4-Year	11,159	14,399	6,308	1,850	403	194	34,313
Total	17,048	21,685	8,669	2,279	538	253	50,472
%	34	43	17	5	1	1	100

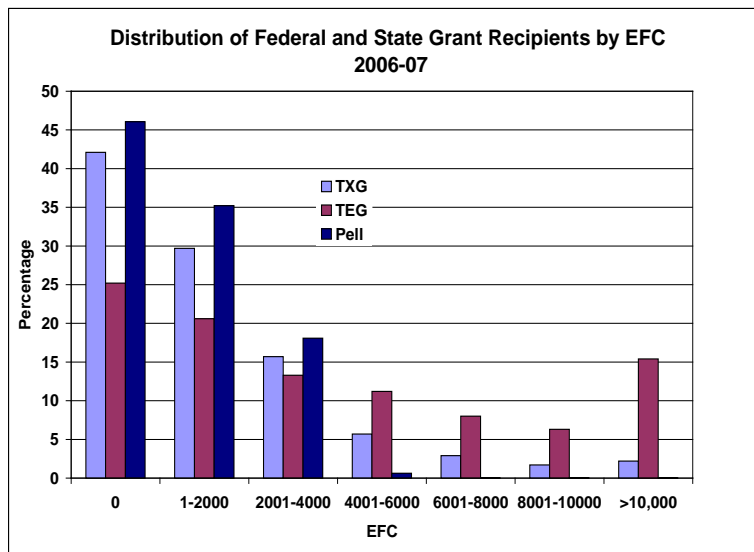
Table 8 provides similar data for Tuition Equalization Grant (TEG) recipients for 2006-07. Data were available for nearly 26,000 recipients, 73 percent of whom were characterized as dependent students. More than 55 percent of the TEG recipients had incomes of \$40,000 and less and received 58 percent or \$51 million of TEG funding.

Nearly 69 percent of the TEG dependent recipients had incomes under \$60,000 and when independent students were included, 75 percent had incomes under this level and received 75 percent of total funding.

Table 8
Distribution of TEG Grant Recipients by Adjusted Gross Income
2006-2007

Student Type	\$0 to \$20,000	\$20-40,000	\$40-60,000	\$60-80,000	\$80-100,000	Over \$100,000	Total
Dependent	3,694	4,799	4,495	3,627	2,012	162	18,789
%	20	25	24	19	11	1	100
Independent	4,073	1,787	746	358	117	19	7,100
%	57	25	11	5	2	<1	100
Total	7,767	6,586	5,241	3,985	2,129	181	25,889
%	30	25	20	15	8	1	100

Financial eligibility for the TEXAS Grant program is based on the Expected Family Contribution (EFC), a Congressionally-defined measure of family financial strength derived from income and assets. The chart below shows the distribution of Federal Pell Grants, TEXAS Grants, and TEG Grants by EFC. In 2006-07, Federal Pell Grants were limited to students whose EFCs were \$3,850 or less. TEXAS Grant eligibility is limited to students with a \$4,000 EFC or less. However, renewal students continue to



be eligible for a TEXAS Grant regardless of their EFC as long as they have financial need. Thus a small percentage of TEXAS Grant recipients can be seen at EFCs above \$4,000. TEG eligibility is based on financial need and a wider dispersion is seen of these recipients across EFC levels. This is primarily a function of cost; as college costs go up, students continue to show need.

Family Income and Affordability

Income data were also collected from the Current Population Survey to develop a better understanding of family income for Texas residents. These income data are for 2006; students who filed a FAFSA for school year 2007-08 were required to report 2006 income data. As noted above, about 94 percent of TEXAS Grant recipients had incomes under \$60,000 which indicates most recipients are in the first three family income quintiles. About 77 percent of TEG recipients have incomes that place them in these same family income quintiles; 23 percent are in higher income quintiles.

	Minimum	Maximum	Average
1st Quintile	\$0	\$22,000	\$12,208
2nd Quintile	\$22,001	\$39,299	\$30,587
3rd Quintile	\$39,300	\$61,684	\$49,345
4th Quintile	\$61,685	\$98,249	\$77,490
5th Quintile	\$98,250	on up	\$173,724

Source: Current Population Survey

The average of the income quintiles was used to calculate EFC and award eligibility for TEXAS Grants and Federal Pell Grants for hypothetical dependent students at different school types. These calculations assume a dependent student from a family size of four with no assets exceeding the protection allowances provided for in Federal Methodology. The college costs used in the examples are the average costs of each sector reported to the Board for 2007-2008 and include tuition and fees, room and board, books and supplies, transportation and personal expenses for a Texas resident student living off campus.

	1st Quintile	2nd Quintile	3rd Quintile	4th Quintile
Average Income	\$12,208	\$30,587	\$49,345	\$77,490
Public University				
Cost	\$16,995	\$16,995	\$16,995	\$16,995
- EFC	0	1,492	4,693	14,044
- Pell	4,310	2,860	0	0
- TXG	5,170	5,170	0	0
= Remaining Need	\$7,515	\$7,473	\$12,302	\$2,951
Community College				
Cost	\$10,456	\$10,456	\$10,456	\$10,456
- EFC	0	1,492	4,693	14,044
- Pell	4,310	2,860	0	0
- TXG	1,730	1,730	0	0
= Remaining Need	\$4,416	\$4,373	\$5,763	\$-3,588
Independent Institution				
Cost	\$26,201	\$26,201	\$26,201	\$26,201
- EFC	0	1,492	4,693	14,044
- Pell	4,310	2,860	0	0
- TXG	3,902	3,097	3,147	3,150
= Remaining Need	\$17,989	\$18,752	\$18,361	\$9,007

Table 10 shows results for students at three school types. At the public university the first income quintile student has no expected family contribution for college at a family income level of \$12,208 and would receive a full Pell Grant and a full TEXAS Grant. The student still has remaining need of \$7,515 that would need to be met through TPEG funds, other institutional or federal student aid, student loans, or work. The second income quintile student receives a partial Pell Grant, a full TEXAS Grant and has about the same amount of remaining need; when combined with the Pell Grant, the TEXAS Grant provides equitable treatment of students in these two income categories. The third income quintile student receives neither grant and represents the middle-income student for whom institutions indicate they need to use Tuition Set-Aside funds. Of additional concern is the “cliff” or drop-off in TEXAS Grant eligibility that occurs between students with a \$4,000 EFC and those just over the cutoff.

These data show the need to smooth that drop to improve equity for students. The student in the fourth income quintile has the lowest remaining need and the largest EFC of \$14,000. Since the EFC is a measure of family financial strength, the fourth income quintile family may be better positioned to help cover college costs although perhaps not to the extent suggested by the EFC.

The community college student shown in Table 10 also receives a full TEXAS Grant at the first and second income quintiles and full Pell Grant and partial Pell Grant at the second income quintile. Remaining need still totals over \$4,000 at these lower-cost institutions and would need to be addressed through other types of funding. In this case state and federal grant funding result in more equitable treatment across the first three income quintiles although remaining need at the third quintile is about \$1,400 greater than the lower quintiles.

For students at an independent institution, the average Tuition Equalization Grant (TEG) was derived from the average amount awarded to students for the 2006-07 school year at the EFC calculated for each quintile. First income quintile students continue to receive full Pell Grants and received an average of \$3,900 in TEG funds. Remaining need for this student at a higher-cost institution totaled nearly \$18,000. Again, this difference would need to be made up through a combination of institutional funds, other federal sources, student loans, and work to make college attendance a reality. Remaining need is similar across the first three income quintiles and then decreases for the student in the fourth income quintile. That student also receives an average TEG grant of more than \$3,000.

Conclusions

A number of conclusions can be drawn from the interviews with government officials, peer states, students, and state grant program directors as well as the survey and data analysis and work of the Steering Committee. Ten conclusions from this work were used to inform the recommendations contained in the next section and include:

- Student financial is becoming an increasingly important budget and policy issue in Texas.
- The guarantee offered through the TEXAS Grant contains a powerful message but additional funding is needed to fulfill that message.
- Funding increases require accompanying accountability measures.
- The TEXAS Grant should focus on funding students with need and potential.

- Once the “merit threshold” has been achieved, students should continue to receive funding if they have financial need.
- Strict merit renewal requirements can lead to unintended behavior that is counter productive to students completing college on a timely basis.
- Additional financial aid for independent students/adult learners is needed.
- A uniform formula for need-based aid programs results in more equity across students and institutions.
- Many larger state delivery systems are centralized but some states are moving toward a hybrid or more decentralized system that emulates the results of a centralized approach and captures the benefits of both.
- Rather than expediting the delivery process, a state debit card creates an additional burden for students.

V. Creating a Comprehensive Student Financial Aid System: Principles, Directions and Recommendations

Higher Education Insight Associates conducted the feasibility study on the restructuring of student financial aid programs in Texas in the context of the goals of *Closing the Gaps*. In this section, HEIA presents its overall recommendations for creating a coordinated and comprehensive student financial aid system for Texas. Principles guiding our recommendations are described and strategies to achieve statewide goals are recommended. Three broad goal areas were identified and the recommendations address these areas: the TEXAS Grant as the cornerstone of a comprehensive system, participation and success, and efficiency and accountability

During this study, much attention was directed to the six strategies described in Rider 49 and in the three additional topics that were part of the study assignment. These strategies reflect important issues and resourceful ideas. However, collectively they do not represent a comprehensive and coordinated student aid system. Our recommendations first set directions for development of a system that may incorporate the nine strategies or related alternatives. Assessments of each Rider 49 strategy and specific recommendations related to them are provided in Appendix A.

This study examined each of the student aid programs supported by Texas state funds with a particular focus on the three primary programs—the TEXAS Grant, the Tuition Equalization Grant, and the Texas Educational Opportunity Grant programs. In addition, the institutionally administered programs funded by tuition set-aside funds were included in the study.

With over \$278 million invested in Fiscal Year 2007, the primary programs represent a significant commitment on the part of the State of Texas to providing access and opportunity for students. As discussed in Section III, the major programs appear to be serving the students for whom they were designed. Texas has made substantial progress toward its participation and success goals and these programs have undoubtedly been an important factor in this success.

Principles and Conditions

As an outcome of the information and data gathered for this study, HEIA identified the following principles to be used in evaluating existing programs and further development of a comprehensive student financial aid system for Texas students.

1. Programs should be coordinated in a comprehensive system with consistent eligibility, aligned purposes, and simplified transitions.
2. Student financial aid funds should be used efficiently and effectively to support the state's highest priorities.
3. State financial aid should focus on providing access for low- and middle-income families and students.
4. The Texas student financial aid system should be easily understood by students and families. Information should be readily available so that students have an accurate estimate of the aid they might receive as they plan for college.

5. Students should be provided with positive financial incentives for academic performance and advancement.
6. The needs of both traditional and non-traditional students should be addressed.
7. An accountability structure should examine all aspects of the financial aid system on a regular basis with an emphasis on the extent to which goals for participation and success are being achieved by aid recipients.

Consistent with these principles, *Closing the Gaps* provides the necessary policy context for the continued development of the Texas student financial aid system. While the recommended policy and program modifications will assist in achieving the goals of *Closing the Gaps* other conditions are necessary for success. These include effective coordination by the THECB and other governmental organizations, cooperation among institutions, continued support from the Legislature, and a commitment of cooperation from the financial aid community during the period of transition.

Laying the Cornerstone

Recommendation 1: Maintain the TEXAS Grant as the cornerstone program for a comprehensive student financial aid system.

The TEXAS Grant is and should continue to be the cornerstone of the Texas student financial aid system. The Texas Grant meets the needs of students for access and the needs of governmental leaders for accountability and effectiveness. These recommendations are based on the following findings and observations:

- Texas is among the national leaders in developing the student aid programs of the future—programs that blend need and merit criteria in a single program supporting both participation and success.
- Analysis of THECB data shows that the TEXAS Grant is serving the low and low-middle income students it was designed to serve. Further, a majority of the recipients are minority and first generation college students.
- The TEXAS Grant program has been effective. Data show that six-year graduation and persistence rates among TEXAS Grant recipients are higher than expected for low-income students, approaching the national average for all students and higher than the Texas average for 2000.
- Among African-American and Hispanic-Latino students, the lower-income TEXAS Grant recipients persist and graduate at higher rates than minority students who do not qualify for need-based aid.

Recommendation 2: Develop a long-range plan for aligning and merging the Tuition Equalization Grant and the Texas Educational Opportunity Grant with the TEXAS Grant to form one comprehensive financial aid program that is based on family financial strength and academic merit.

Combining funding from these programs will expand the reach and visibility of the successful TEXAS Grant Program and eliminate any competition for funds among a number of diverse programs. One large program promotes transparency; families

and policymakers are more likely to recognize and become familiar with the program and to understand the benefits of the program. One large program improves portability; the Texas Grant would be available whether students attend a public university, an independent institution, or a community or state college. Further, one large state grant program creates an opportunity for the Board to work in collaboration with system heads and university presidents to mutually support that program and advocate for their students who benefit from it.

The long-range plan for merging the programs should incorporate an evaluation of the Texas Education Opportunity Grant, a program that currently assists low-income and nontraditional students at community colleges. This evaluation should take into consideration the types of programs of study being pursued by these students, the extent to which they meet TEXAS Grant requirements, the importance of the TEOG Program in meeting the state's immediate workforce needs, and whether merging the program would have any negative impact on *Closing the Gaps*.

Recommendation 3: Align the award criteria and allocation formulas for the TEXAS Grant, Tuition Equalization Grant, and the Texas Educational Opportunity Grant while maintaining separate funding streams.

While both the TEXAS Grant and the Tuition Equalization Grant are contributing to Texas goals for higher education, these major programs along with the Texas Education Opportunity Grant have substantially different eligibility and renewal requirements and award levels as shown in Table 11. Both the need and merit criteria for the Tuition Equalization Grant are less restrictive than for the TEXAS Grant although students receiving TEG must be enrolled on a full-time basis. Conversely, eligibility criteria for the TEOG Program are less stringent than for the TEXAS Grant.

In order to pave the way toward ultimately combining these programs, common student eligibility and award criteria will need to be established as will a common institutional allocation formula. At the same time, this recommendation would delay combining program funding until sufficient funding can be obtained to expand TEXAS Grant eligibility for independent students at public institutions.

Aligning the criteria for these programs would improve access and simplify the financial aid process for students and families. Parents and students would be better able to estimate the aid they might receive and low-income students could work toward being academically eligible for a grant regardless of the institution they ultimately decided to attend. Further, with a uniform allocation formula for the two programs, the THECB would be able to streamline the process of allocating and monitoring state financial aid funds.

Table 11 Comparison of Eligibility Criteria			
Criterion	TEXAS Grants	TEG	TEOG
Texas Resident?	Yes	Yes or non-resident National Merit Finalist	Yes
Undergraduate?	Yes	Yes and graduates	Yes
School Type	Public 2- or 4-yr	Independent	Public 2-yr; public state; public technical
Student Type	High school graduate who enrolls within 16 months after graduation, or, has earned an associate degree and enrolls in a public 4-year institution within 12 months	Dependent or independent	Dependent or independent
Enrollment	¾ time	Full-time	½ time
Initial Merit	Recommended High School Program	None	None
Continuing Merit	Year 1: SAP Year 2: 75% of hrs attempted; 2.5 GPA; 24 semester hrs per year	2.5 GPA; completion of 24 semester hours per year (18 if a graduate student)	Year 1: SAP Year 2: 75% of hrs attempted; 2.5 GPA
Financial	EFC = \$4000 or less for initial year	Financial need	EFC = \$2,000 or less for initial year
Award Amounts	Tuition and Fees	Up to \$3,331 per year or \$4,966 if EFC is \$1,000 or less	Tuition and Fees
Other		Tuition costs at eligible institutions must be higher than at a public institution	

Recommendation 4: Assure that the least advantaged students, those from families in the three lowest income quintiles, receive the greatest benefit from state grant funds.

Program equity for students means that students with similar financial situations should receive similar grant amounts when faced with similar college costs. Equity for students would be enhanced through a combination of these programs. Currently first and second income quintile students at independent institutions receive less state support than if they attended a public university and, in most cases, face higher tuition costs at the independent institution. In order to provide those students with some element of choice, while at the same time allowing the state to take advantage of the capacity offered by independent institutions, these students should receive at least similarly-sized awards as their counterparts at public universities. While providing choice is a desirable goal for the state, given current funding constraints, awards should be limited to students from the three lowest family

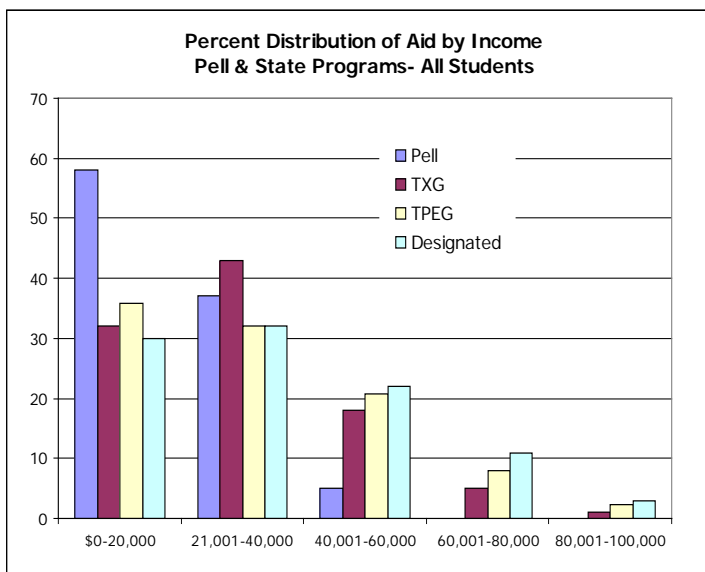
income quintiles. In addressing this recommendation, consideration should be given to increasing the EFC cutoff for students at public institutions and providing partial awards to lower-middle income students.

There are disadvantages to aligning and ultimately merging the two programs. Although current students should be held harmless, students from the upper two income quintiles would no longer be eligible for the Tuition Equalization Grant. It is possible that institutional funds or other sources of aid could be used for students in the upper-middle income quintiles who also need support for enrollment. Private institutions would have less flexibility in packaging state aid for individual students than they now have although a consistent award structure would also reduce the flexibility of public institution financial aid offices as well.

Recommendation 5: Maintain components of the Tuition Equalization Grant and the Texas Educational Opportunity Grant that serve non-traditional students until they can be consolidated into the TEXAS Grant program.

A major concern in the overall design of the Texas student financial aid system is the status of independent, non-traditional students who are older and self-supporting. Current non-traditional students are unlikely to have completed a college-preparatory curriculum in high school that would qualify them for the TEXAS Grant. These students are likely to attend college part-time and their studies may be interrupted for family and financial reasons and, therefore, would not qualify for renewal of the TEXAS Grant. While very few independent students are recipients of the TEXAS Grant, over one-third of the students served by the Tuition Equalization Grant are independent. The recommendation to maintain separate funding streams for the two programs at the current time is based entirely on ensuring that independent students at independent institutions are not disenfranchised.

Recommendation 6: Maintain the set-aside funds as institution-based and administered programs.



Until state funding support can be provided for independent students/ adult learners, the Texas Public Education Grant and the Designated Tuition Set Aside Program should continue to be administered by institutions. Funded with tuition revenue, these programs are serving middle-income and adult students not currently served by other programs. More than half the recipients are independent students and more than half are minority students. These funds also provide institutions with the flexibility to meet the unique

needs of students they serve and support mission-specific priorities.

Recommendation 7: Maintain the Texas B-On-Time Loan Program as a secondary incentive program for the 36 percent of Texas students who attend college on a full-time basis.

State Legislators and policy makers across the nation are examining ways to provide incentives to shorten the time-to-degree rates at college and universities. States have adopted level tuition programs for four years and have attempted other incentives to encourage students to complete their degree in a timely fashion. When considering such incentives it is important to recognize that the college student of today is much different than the often held traditional view of an 18-22 year old attending school full-time, living on-campus in a dormitory, and completing college in four years. Data from national studies indicate that this image is true for about one student in six. In Texas only 36 percent of students attend college on a full-time basis (*The State of Student Aid and Higher Education in Texas, 2007*). The other 64 percent are attending part-time; many are raising families and working full or part-time. Therefore, it seems entirely appropriate to have an incentive program like B-On-Time loans for the one-third of the students who are full-time; but the Texas Grant should be the primary program as it serves needy students and those unable to carry a full-time load of college courses.

Participation and Success

The TEXAS Grant program was established as a blended program with both financial need and merit criteria. In recent years the program has lost some of its effectiveness as an incentive for students to prepare for college academically and financially. Funding increases have not kept pace with growing numbers of students who qualify by completing the Recommended High School Program. In addition, grant funds are allocated to institutions for returning students first, and whatever funds remain are allocated to new students.

Recommendation 8: Add a merit criterion for initial eligibility for the Texas Grant to provide incentives for students and to assure that students with the most potential are getting grants. Meeting one of the following three criteria would qualify a student, who meets the need criterion, for a TEXAS Grant:

- ***Completing the Distinguished Achievement Program***
- ***Completing the Recommended High School Program and achieving a score of 1350 or above on the SAT or a score of 18 on the ACT***
- ***Completing the Recommended High School Program and ranking in the top 50 percent of the student's high school graduating class***

High school counselors and college and university financial aid administrators report that they are reluctant to mention the Texas Grant as an incentive because as many as half of the new students do not receive a grant because of lack of funds. Now that the Recommended High School Program has become the default curriculum for all high school students, the merit incentive of the TEXAS Grant has been diluted.

Governmental leaders, however, are interested in adding merit criteria to the TEXAS Grant program for both initial eligibility and renewal in order to assure that grant funds are being used effectively. While data were not available to assess the types of test scores and class ranks TEXAS Grant recipients are achieving, or to assess the

impact on students of the requirements specified here, such analysis should be completed before final standards are put in place. For a merit-based program to be effective in changing the choices of curriculum and improving academic performance, the awards need to be guaranteed. (Heller presentation, February 21, 2008) Of the 14 states that have a merit program, all consider the awards to be entitlements. With considerably less than full funding, the TEXAS Grant program is not an entitlement program. The purpose of this recommendation is to move the program closer to being a guarantee.

The TEXAS Grant was designed to incorporate the best features of traditional need-based programs and merit-based programs. The key to its effectiveness is the balance of need and merit criteria—promoting both access and academic achievement. Of the 14 peer states, four have merit criteria for their primary grant program—California, Michigan, Georgia, and Texas. Only Georgia's HOPE program does not have a need criterion.

State-funded merit-based programs tend to raise academic expectations, encourage academic performance and preparation for college, and reduce the amount of debt that middle class families incur. Georgia reports that enrollment at public institutions has increased faster than neighboring states since the HOPE Scholarship was adopted, more students have completed a college-preparatory curriculum and statewide SAT scores are higher. (Southern Regional Education Board,)

Groups who are traditionally under-represented in college—low income, minority, first generation college students, students with disabilities—are less likely, however, to qualify for a need-based program with a merit component. (Heller and Marin)

The recommendations are designed to maintain the balance between need and merit and to provide incentives for students to achieve academically without placing barriers to access. The opportunity to qualify through a choice of criteria assures that students with differing strengths and learning styles will be able to meet the academic requirements for an award.

Recommendation 9: Add a merit incentive of a one-time \$1,000 grant for books and supplies in addition to the TEXAS Grant for students who complete the Distinguished Achievement Program.

To provide an additional incentive for students to complete the Distinguished Achievement Program, consideration could be given to providing an additional one-

All Texas Students	1481
Mexican/Mexican American	1353
Other Hispanic/Latino	1342
Black/African American	1292
Income > \$10,000	1251
\$10 – 20,000	1344
\$20 – 30,000	1344
\$30 – 40,000	1421
\$40 – 50,000	1443
\$50 – 60,000	1463
Top 10% Class Rank	1713
Second 10%	1524
Third and fourth 10%	1422
Lowest 60%	1322
Source: College Board SAT, 2007 College-Bound Seniors, State Profile Report, Texas. *US Sum of Means = 1511, range 600-2400	

time \$1,000 grant to students who meet the requirements for the TEXAS Grant and complete the Distinguished Achievement Program.

Recommendation 10: Add a merit alternative qualifying criterion for students to qualify for a TEXAS Grant. Meeting one of the following criteria would qualify a needy non-traditional, independent student for a Texas Grant:

- ***Earn an associate degree or***
- ***Complete 12 hours of transferable general education courses with a grade point average of 3.0 in these courses or***
- ***Complete 24 hours of transferable courses (general education and/or major-specific courses) with a grade point average of 3.0***

Very few independent, non-traditional students are currently served by the TEXAS Grant and this recommendation would allow these students to demonstrate their eligibility for the program. For traditional students, the college preparatory curriculum taken in high school serves as the foundation for the college general education program. For non-traditional students successful performance in college level courses, particularly general education, is clear evidence of their ability to participate and succeed in college. This alternative qualifying method would particularly benefit students who begin their studies at low-cost community colleges and smooth their transition to four-year institutions to complete their studies.

Currently, the Tuition Equalization Grant is available for independent, non-traditional students attending private institutions. Equity across programs would be improved if these students were also eligible for the TEXAS Grant and it would pave the way for the eventual merger of the two programs.

Recommendation 11: Align renewal criteria for TEXAS Grant with the satisfactory academic progress standards institutions are required to establish for the Federal Pell program, Federal Campus-Based Programs, and Stafford Loans.

Currently TEXAS Grant recipients are required to meet the institution's satisfactory academic progress (SAP) criteria during the first year. In the second and subsequent years, recipients must maintain a 2.5 GPA, complete 24 semester hours per year, and earn credit for 75 percent of the coursework they attempt. This recommendation would reduce the GPA and minimum credit hour requirements to retain the TEXAS Grant. One purpose of this recommendation is to simplify the financial aid process for students and their families. A substantial majority of the recipients of the TEXAS Grant have at least one other federal or state grant or loan. Usually, the institution's Satisfactory Academic Progress policy is in effect for continued receipt of these funds. Although these policies vary among institutions, a typical policy requires a 2.0 GPA and completion of 67 to 75 percent of the credit hours attempted.

A second purpose for making this recommendation is that, while high criteria for retaining grants may encourage academic performance, they may also result in decreased full-load enrollment and increased course withdrawals. Students in engineering and sciences are more likely than students in other fields to lose their merit scholarship. (Heller and Marin)

Recommendation 12: Increase student and family awareness of college costs and TEXAS Grant eligibility through alternative approaches such as a TEXAS Grant estimator on the THECB's website, rather than developing a state grant debit card. At the same time ensure the state's contribution in student aid is recognized on institutional award notifications.

The Pennsylvania student aid agency provides a table on its website that shows the likelihood of being eligible for an award and the typical award size. These data are provided by different amounts of family income and family size. Such information would allow students and families to gain some idea about their potential for eligibility for a TEXAS Grant. While this concept can't be compared to providing students with a voucher, or with a state debit card, it does empower students to some extent by increasing their knowledge about what is possible thereby serving as an incentive for college preparation.

Efficiency and Accountability

The major Texas student financial aid programs are administered by the Texas Higher Education Coordinating Board which allocates funds to institutions for distribution to students. This process enables institutions to individualize financial aid packages for students. The decentralized approach uses the extensive personnel and other resources at institutions rather than establishing a new office or agency at the state level. However, given funding limitations, year-to-year changes in enrollment patterns, and differences in students served, it is possible that there are inconsistencies in awards across institutions. The following recommendations are designed to maintain the strengths of the existing system while assuring consistency and equity for students.

Recommendation 13: Maintain a decentralized approach to administration of the TEXAS Grant and the Tuition Equalization Grant with the following changes:

- ***A uniform formula for determining students' awards based on family financial strength and merit***
- ***A common process for allocating grant funds to institutions***
- ***A common FAFSA application priority date***
- ***Phasing out priority for renewals***
- ***Limiting awards to the actual tuition and fees charged to the student***

In a centralized approach, a state agency typically processes student applications for aid, determines who is eligible and for how much, announces awards to students, and pays the institution on the student's behalf. In a decentralized approach, funds are allocated to institutions for distribution to students based on eligibility criteria either determined by the institution or by the state. The two key questions in the administration of a state grant program are, "who determines which students are eligible for awards?" and "who determines how much each student shall receive?" Some states have hybrid programs which allocate the funds to institutions and specify award criteria in such a way that the result of this decentralized approach is to emulate the same results of a centralized approach. The benefit to the State is a reduction in administrative costs including overhead, processing charges, and systems development and maintenance because the institution is performing these functions. Some of the advantages and disadvantages of a pure decentralized and centralized system are shown in Table 13.

Table 13 Comparison of a Centralized and Decentralized System		
Attributes	Decentralized System	Centralized System
Access		↑Portability
Equity	↓Less likely that students treated equally across institutions	↑ More focus on needs of student than of institution
Institutional Flexibility	↑Better able to adapt to specific needs of students	
Efficiency	↑Less administrative overhead needed	↓Additional administrative overhead needed
Minimizing Complexity		↑Students and parents may be better able to calculate State aid ↓More complex packaging/coordination
Source: <i>Review of Undergraduate Student Financial Aid in Virginia's Public Institutions, 1999</i>		

While the TEXAS Grant system is technically decentralized, some of the eligibility criteria are determined by the State, i.e., who qualifies for awards (those with an EFC of \$4,000 and less) and how much they can receive (an amount not to exceed the average sector tuition and fees). There is discretion in the system, however, because funding is not adequate to support all eligible students. Thus the institution selects from among its pool of eligible students by use of an arbitrary measure such as FAFSA filing date, EFC, or unmet need.

The TEG program is even more decentralized in that the institution determines awards based on financial need and can decide which students receive them and how much each should receive. Further, individual institutions can make modifications based on assumptions they build in their need analysis systems.

This recommendation supports continuing to allocate funds to institutions for delivery to students but through a uniform award structure that includes a FAFSA priority filing date. The ability to publicly provide a FAFSA priority date to students and their families for state grant aid rather than telling them to "apply early" makes the student aid process more transparent for families.

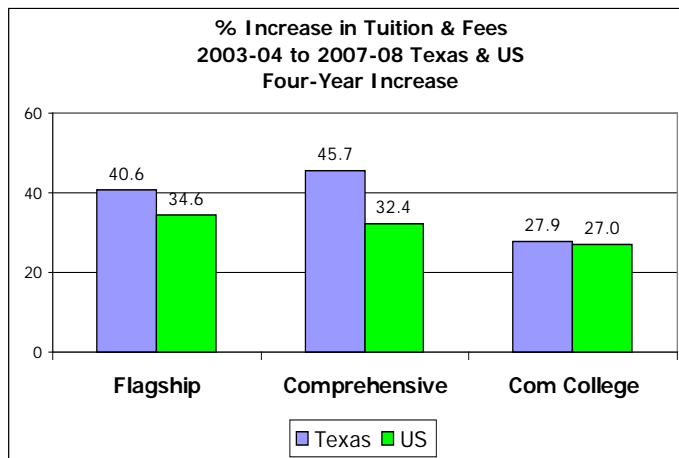
The formula for allocating funds to institutions should reflect the results of the distribution of funds that would occur if students were to carry them there. Additional data would need to be collected in order to develop and model the allocation formula and award structure. Currently, the Board has a substantial student enrollment data base and student aid data base but does not have test scores, class rank, or high school curriculum data by student. The Board's staff is in the process of collecting data from the federal FAFSA processor that would allow modeling by initial FAFSA filing date. An important consideration would be to assess the impact of a FAFSA priority date on community college recipients who tend to apply later in the application cycle. This may not be an issue, however, at the current funding level of the TEXAS Grant.

Two other parts of this recommendation address removing the current priority for renewal students. Because the TEXAS Grant is not fully funded a more equitable approach would be to allow any qualified student to have an equal opportunity to receive a grant on a "first-come, first-served" basis. The final issue relates to the amount of award students receive. Currently, students at colleges whose tuition and fee costs are less than the average for the sector, receive the average, or an amount that exceeds tuition and fees. With the availability of Federal Pell Grants and the scarcity of TEXAS Grant dollars, awards should be limited to the tuition and fees budget figure reported by the institution.

This study also supports the requirement that institutions make up the difference in tuition and fees when those costs exceed the average figure used for the maximum TEXAS Grant award value for the sector. Since students at lower-cost institutions receive a TEXAS Grant sufficient to cover their tuition and fees and a Pell Grant they can use for other college costs, institutions whose tuition and fees exceed the maximum TEXAS Grant should seek to cover those costs with funds other than the Pell Grant.

Recommendation 14: Establish a coordinated approach to developing the financial aid budget request that encourages institutions to estimate tuition and fee changes. Base student aid budget requests on these estimates. If institutions cannot provide tuition and fee estimates for the budget cycle, base appropriation requests, allocations, and award values for students at those institutions on national average tuition and fee increases.

Because of significant changes in tuition and fees particularly at public universities in recent years, Rider 49 asked that room and board figures be considered for use as the basis for determining the maximum TEXAS Grant value. A review of these figures shows that they are larger than tuition and fees and that the change in them at



community colleges has been just as volatile as that in tuition and fees in recent years. All states face similar issues in trying to estimate the impact changes in tuition and fee costs will have on program demand particularly when the budget request has to be developed more than two years in advance of actual enrollment. For Texas, the issue is compounded by its biennial budget process. The estimated tuition and fee costs noted in this recommendation are those

collected annually by the State of Washington Higher Education Coordinating Board.

Data from the Washington Board's annual survey shows the percentage increase in tuition and fees since FY2004 and shows the growth that has occurred in these costs over that time period for Texas in comparison to the rest of the country. Even with increases larger than the national average, only the flagship tuition and fees in FY2008 exceeded the national average; costs at the comprehensive colleges were

nearly equal to the national average for that group of institutions and Texas' community college costs continued to be less than the national average.

For the four-year period shown in the graph, annualized tuition and fee increases were 7.7 percent nationally at flagship universities compared to 9.5 percent in Texas; 6.2 percent nationally at comprehensive institutions compared to 6.7 percent in Texas; and, 7.3 percent nationally at community colleges compared to 9.9 percent in Texas.

Recommendation 15: Collapse several smaller programs into two: a workforce shortage program and a college readiness/early commitment program. Add a sunset provision to all new small programs.

Seven of Texas' small-scale grant programs that provided \$23 million to 19,000 students were reviewed. These programs, listed in Table 14, served a significant number of students and accounted for a substantial share of state funds allocated to student financial aid. While these programs serve important objectives, they generally do not contribute directly to achieving the participation and success goals of *Closing the Gaps*.

The strongest argument for consolidating or eliminating the small grant programs is that the funds could be used to address the under funded cornerstone TEXAS Grant Program. For example, if the programs were eliminated and the funds transferred to the TEXAS Grant Program, approximately 5,500 additional students at public universities or almost 18,000 additional community college students could be funded. Several of the programs, however, have dedicated funding sources and this might limit their availability as alternative funding sources.

In general, we would recommend collapsing the smaller programs into two. Those programs whose funding source is the Foundation School Fund might be collapsed into one college readiness/early commitment program. Given the amount of funding available, several pilot demonstration projects might be established that could mirror successful early commitment/college readiness programs underway in Indiana, Oklahoma and Washington.

Secondly, the workforce related programs (nursing, engineering, etc.) could all be collapsed into one Workforce Shortage Scholarship that would be reviewed periodically by a group of representatives of business organizations, employment agencies, state and local government, education and college placement officers, to determine the most critical need or shortage area in the Texas workforce. It may be nursing currently, but it might be special education teachers or other areas of shortage in the future.

Small Grant Programs⁶	FY 2007 Number of Recipients	FY 2007 Disbursements per Program
Educational Aide Exemption Program	5,915	\$9,783,370
Early High School Graduation Scholarship	6,231	5,821,048
Texas College Work-Study Program	5,408	6,016,307
Professional and Vocational Nursing Scholarship Programs	994	959,083
Fifth Year Accounting Student Scholarship	352	553,408
TANF/AFDC Exemption Program	111	188,803
License Plate Insignia Scholarship Program	40	49,999
Texas New Horizons Scholarship Program	3	5,897
Total Selected Small Programs	19,054	\$23,377,915
Source: THECB Staff Analysis		

This recommendation also strongly suggests that any legislative language for potential new programs include a sunset provision that provides for a study and elimination of the program within five years if proven ineffective for its intended purpose.

Recommendation 16: Develop an accountability system that monitors students' progress and success, institutional effectiveness in administering state programs, and progress toward state-wide goals for participation and success.

Texas is making a substantial investment in higher education and has supported the goals for participation and success as defined in *Closing the Gaps*. To improve understanding of the role that the student financial aid system plays in achieving these goals, to assess the effectiveness of financial aid policies, and to provide accountability, a regular reporting system should be developed. Part of that system should include a formal reporting process to the Governor and state legislature on the impact of the TEXAS Grant Program. The system should also address any expansion that might be needed in program reviews, or changes in the funding reallocation process that support merging programs into the TEXAS Grant and delivering aid through a decentralized process.

⁶ The Texas Educational Opportunity Grant was excluded from this list because it is the primary grant for community college students. However, the three largest programs in this table are larger than the TEOG in numbers of awards and two of these programs had more funds allocated in FY 2007.

Summary and Next Steps

Concluding Observations

Texas is making substantial progress on its important goals for participation and success. There are indications that enrollment and degree completion rates are improving among Texas students. Individually and collectively, the programs in the Texas student financial aid system are largely accomplishing the objectives for which they were established. The array of programs addresses differing needs and diverse groups of students. For the most part, the major programs appear to be serving the students for whom they were designed. Texas has made substantial progress toward its *Closing the Gaps* goals and these programs have undoubtedly been an important factor in this success.

This feasibility study began in November 2007 and concluded in May 2008 and consisted of the collection of information from multiple sources, analysis of data, assessment of each of the nine strategies in the context of *Closing the Gaps*, assessment of state and national trends, and development of recommendations for a comprehensive student financial aid system for Texas.

During the course of the study several areas of the student financial aid system were identified for potential improvements. Student financial aid is of increasing importance to Texas families, institutions, governmental officials and policymakers and the recommended improvements focus on unifying the significant programs that have been implemented in the past decade into a coordinated and comprehensive system of student financial aid that assists in achieving the participation and success goals of *Closing the Gaps*. Efforts must continually simplify the system, make it more efficient and accountable, while improving student academic performance and affordability.

HEIA has suggested three broad goals and a number of more specific recommendations to help take Texas' student financial aid programs to the next level. The broad goal areas and the recommendations address three areas:

- Keep the TEXAS Grant as the cornerstone of a comprehensive system,
- Continue to pursue participation and success goals, and
- Improve efficiency and accountability

The sixteen specific recommendations in this report target areas where further improvements might be made to support *Closing the Gaps* and making Texas higher education more affordable for students and their families. It is suggested that THECB give consideration to retooling existing financial aid programs into the coordinated and comprehensive financial aid system recommended in this report.

Suggested Next Steps

The logical next immediate effort to be made by THECB will require development of a detailed plan to begin a timely and orderly implementation of the comprehensive financial aid program recommendations contained in this report. This plan should include the sequencing of recommendations and the development of accompanying

benchmarks that can guide the timing of any needed legislative changes and provide budget request guidance for the 2009-10 and 1011-12 biennium budgets. Among other items, such a plan should address 1) merging programs while assessing the impact on currently eligible students, 2) considerations for process and procedural changes at the campus level and accompanying training, 3) any needed systems changes at THECB, and 4) the rollout of the proposed accountability measures.

A second immediate and significant effort requires data gathering to model implementation scenarios and strategies. During the course of our study, THECB began the process to obtain data from the federally-approved FAFSA processor. The Board had not yet begun to download and analyze this information when this report was written. Having such key financial aid data available will allow THECB to match Texas program recipient data against FAFSA records and assess the impact of a common FAFSA priority filing date as well as develop future cost estimates of potential extensions to in such a priority date.

In addition, financial modeling is needed to:

- Collect test score and class rank data for current TEXAS Grant, TEG, and TEOG recipients to assess their eligibility under the proposed initial merit requirements.
- Assess movement to the common award distribution formula.
- Establish more precisely the impact of various award structures on students and institutions.
- Assess the cost of extending TEXAS Grants to qualified independent students

Third, the implementation plan and data analysis should address simplifying transition and transfer between institutions for students, particularly community college and independent students. The implementation plan for merging the major programs should incorporate an evaluation of the Texas Education Opportunity Grant, a program that currently assists low-income and nontraditional students at community colleges. This evaluation should take into consideration the types of programs of study being pursued by these students, the extent to which they meet TEXAS Grant requirements, and the importance of the TEOG Program in meeting the state's immediate workforce needs.

Fourth, implementation plan should include design of a framework for the accountability measures outlined in this report, including mock drafts of reports required, timelines for notifications, etc. This accountability design needs to identify performance measures, establish a reporting structure for assessing the success of the TEXAS Grant program, address the institutional allocation and reconciliation process, and design an institutional program review process.

Fifth, the implementation plan should address providing THECB staff with the technical expertise to move toward electronic implementation of the various programs and analysis of program data. This would include developing specifications for the formula and process for the institutional allocations, and a data exchange process to assist THECB in working with the federal processor to do their own program modeling in the future. This would also include data collection and design of a website look-up table so students and parents could get an estimate of the amount of state student financial aid that a student could receive.

Priorities for Future Investment and Program Expansion

In preparing the recommendations and examining the opportunities for future investment in student financial aid, Higher Education Insight Associates examined priorities for the future with two questions in mind:

- How can Texas make better use of current funds for student financial aid? and,
- What strategic investment opportunities can be made to further the Board's efforts in *Closing the Gaps* goals?

Based on the findings, conclusions and recommendation in this report, HEIA recommends five priorities for investment opportunity as funds become available in the next biennium and/or succeeding biennia:

1. Fund more students who are eligible but currently not receiving Texas Grants, especially graduating high school students who will immediately enter college. In addition, begin phasing independent students at public institutions into the TEXAS Grant Program.
2. Expand eligibility for the TEXAS Grant upward to serve students from families in the third or middle-income quintile by raising the expected family contribution from \$4,000.
3. Implement the recommendation on use of satisfactory academic progress which will have some additional cost requirements.
4. Provide TEXAS Grant recipients a financial incentive awarded to those students who complete the Texas Distinguished Achievement Program.
5. Extend the FAFSA priority deadline to allow additional late applicants and community college students to be eligible for the Texas Grant.

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