

Position Paper on State Higher Education  
Financial Aid Programs

Texas Association  
of Student Financial Aid Administrators  
(TASFAA)

February 23, 2015



## EXECUTIVE SUMMARY

Postsecondary institutions in Texas continue to face serious challenges in enrolling, retaining, and graduating students, especially those from historically underrepresented populations. These challenges relate to the level of academic preparedness, increasing cost of education, population changes, demographic trends, continued reliance on federal student financial aid and federal student loans (debt), along with the difficulty borrowers have in repaying their student loans.

Texas differs greatly in these respects from most other states. We have more postsecondary educational institutions, a decentralized system of higher education, a large and diverse population, and a low state financial aid/low tuition model, which has produced a high reliance on debt as the primary financing mechanism for attending and graduating from college. It is this last factor that prompts the Texas Association of Student Financial Aid Administrators (TASFAA) to respectfully submit these proposals to the 84<sup>th</sup> Texas Legislature.

Today, both state tax revenue and total revenue continue to increase at a rate much greater than projected in the State Comptroller's most recent Certification Revenue Estimate (CRE) of December 12 2013—[http://www.texastransparency.org/State\\_Finance/Budget\\_Finance/Reports/Certification\\_Revenue\\_Estimate/cr1415/index.php](http://www.texastransparency.org/State_Finance/Budget_Finance/Reports/Certification_Revenue_Estimate/cr1415/index.php). If this growth rate continues, tax collections for the biennium of \$102 billion will exceed the current estimate by as much as \$3.5 billion. Of this increase, around \$2 billion will be transferred to the Rainy Day Fund, while the certification balance should be double the current estimate. If tax revenue growth continues through FY15 at a growth rate comparable with that experienced last year and this year, biennium tax revenue will be over \$102 billion. Given this increase, the 84<sup>th</sup> Legislature may have a "surplus" of over \$5 billion when it convenes in January 2015. **If this scenario occurs, we encourage the 84<sup>th</sup> Legislature to use a portion of this projected surplus to continue the previous Legislature's trending action of investing in a well-educated population that will help ensure a bright social and economic future for Texas.**

## RECOMMENDATIONS

### **No New State Aid Programs Until Existing Programs Are Fully Funded**

Before the Legislature again considers establishing new programs that will further reduce funding for existing programs (which are largely well-designed in terms of the mix of grants, loans, and work-study), it should use appropriations to move toward fully funding the programs already in existence. These established programs, though currently under-funded, are designed to provide financial assistance to all eligible students. It should also not shrink the eligible population by adding additional merit requirements to the TEXAS Grant, Tuition Equalization Grant (TEG), or B-On-Time (BOT) programs.

### **Texas College Work-Study Program Expansion**

The cost of attending Texas institutions of higher education, which now serve a high percentage of needy undergraduates, has risen recently and dramatically. Both Federal and State work-study funds, on the other hand, have decreased. In FY 2009-2010, Congress appropriated \$1.25 billion for work-study and \$1.2 billion in FY 2012-2013. The Texas share during these years was \$60.2 million and \$55.8 million, respectively. Texas needs to grow part-time employment opportunities for low- and middle-income students who are willing to work. Such work opportunities facilitate greater college retention, and ultimately graduation, rates and reduces the need for student loan borrowing. For this goal to be achieved, it will be up to the Legislature to expand funding for the Texas College Work-Study program. TASFAA recommends at least a doubling in the funding of this self-help program to enhance access among needy students and reduce their reliance on borrowing.

## **Continued Flexibility in Awarding Campus-Based Grants**

The state has historically provided institutions with local control in the awarding of the Texas Tuition Equalization Grant and Texas Public Educational Grant (set aside). These programs ensure students from low- and middle-income families have true access to a higher education. The flexibility in awarding these funds allows each institution to utilize these grants in a manner that best serves their unique populations. To continue facilitating access to higher education for the state's diverse and needy population, these programs must be allowed to remain intact and managed at the school level.

## **Texas Educational Opportunity Grant and Increased Funding**

Community and public technical colleges enroll more than 60% of Texas' higher education population, and therefore, play a major role in meeting the state's higher education participation goals; especially among historically underrepresented populations. The TEOG program provides funding for needy Texas residents enrolled in the first 30 credit hours of the certificate and associate degree programs offered by these schools. Unfortunately, this program, designed to assist the many needy students at these colleges, is the most inadequately funded of all the foundational financial aid programs. In addition, the Legislature should allow community college greater flexibility in their awarding of these funds to help ensure the success of all students in obtaining both an associate's degree and a baccalaureate. The 84<sup>th</sup> Legislature should continue the state's funding trend for work study and increase its support for this crucial program.

## **TEXAS Grant**

TASFAA strongly supports fully funding the TEXAS Grant program as the best way for the state to achieve its higher education goals regarding participation and success. Though TASFAA realizes that while fully funding the program may not be feasible, it urges the Legislature not to adopt program changes that limit access among low- and middle-income families to a higher education.

A number of changes to the TEXAS Grant program have been proposed and are likely to be considered in the next legislative session. TASFAA recognizes the limitation of available resource and believes that some of the proposals will be more effective than others in helping to: 1) encourage on-time graduation from college; and 2) ensure the most effective use of limited TEXAS Grant funds.

There are several proposals to increase the minimum number of enrolled hours required to receive a TEXAS Grant. If such suggestions are to be considered, TASFAA is supportive of the one that establishes full-time enrollment of at least 12 hours. This approach allows for some enrollment flexibility, ensures enhanced progress to degree completion and utilizes aid funds to more effective advantage in assisting (at least as determined by enrolled hours) fully engaged students.

There has been some discussion of 15 hours as a minimum full-time definition for the program, but this suggestion is a cause for concern. Need-based students, who need the funding, are often the least prepared to take larger course loads initially. Further, it is inherently unfair to treat need-based students differently than those students without need (i.e., by only requiring need-based students to enroll in 15 hours each semester).

## **B-On-Time Loan**

One financial aid program of which there has been much discussion is the B-On-Time (BOT) Loan program. A major concern among some institutions is their inability under federal law (absent a preferred lender arrangement) to award students these loans without students first requesting a B-On-Time Loan. This barrier to

the automatic awarding of BOT funds is of significant disadvantage to students. Similarly, it poses a serious challenge to schools in terms of their ability to expend their full BOT allocations.

In addition, many schools are concerned about funds they have sent in previous years to the state that were earmarked for BOT use, but that have not been made available to the respective colleges and universities for awarding. Therefore, TASFAA recommends that the Legislature ensure these funds are allocated to the appropriate institutions of higher education for the awarding of BOT in order to help students as originally intended.

### **Develop A State Long-Range Strategic Plan for Student Financial Aid and Support Programs**

State financial aid programs must be sustainable for more than one or two biennia if they are to continue to meet the state's higher education goals pertaining to closing gaps in participation and completion. The THECB, in consultation with the Texas Financial Aid Advisory Committee, should develop a long-range strategic plan for financial aid to complement the *Closing the Gaps* plan for higher education. The plan should also consider how the state programs relate to the much larger federal programs in terms of effectiveness, efficiency, and consistency.

### **Enhance State Student Loan Default Prevention Efforts**

The state's long-range strategic plan should include a robust program addressing the issues of student loan delinquency and default prevention, personal financial literacy, applying for student financial aid and paying for college, debt management, and in-school student loan counseling. These programs should be housed within an established entity with experience, staffing, and resources focused on these areas. Texas' heavy reliance on federal student loans as the primary funding source for students to access and graduate from postsecondary schools, as well as the increased usage of the State's College Access Loan Program, requires the State to also ensure that these individuals have the support necessary to manage and repay successfully their debt. The default aversion pilot program authorized by SB 680 is one such initiative. The expansion and funding of this program would be of benefit to Texas student loan borrowers.

**Finally, TASFAA is grateful for the opportunity to submit these recommendations on strengthening Texas' student financial aid programs. Its leadership stands ready to discuss them with legislators and/or legislative staff at their convenience. For more information, please contact:**



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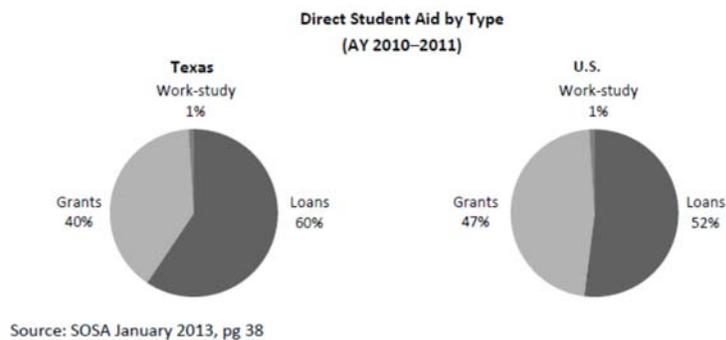
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## OVERVIEW

### Texas Higher Education and Financial Aid

Both across the nation and here in Texas, urgent and unprecedented challenges to higher education threaten our prospects for achievement, prosperity, and social well-being. Tuition rates are high, and graduation rates are low. Student loan debt has surpassed one trillion dollars, while the percentage of the population with a bachelor's degree lingers at around 28 percent<sup>1</sup>. Of the national outstanding student debt load, Texans hold approximately \$70 billion<sup>2</sup>. With real incomes long stagnate and household wealth only beginning to recover from the recession, many need-based grant programs struggle just to maintain level funding. Even in the absence of the sequester, education budgets nationwide have been stretched to the limits. The populations that demographers report are growing most rapidly—those on whom the quality of our future largely depends—are those both historically and currently most underserved by our education system. All told, it seems that higher education is quickly losing its ability to serve its historical role as the engine of broad-based prosperity and indispensable lever of social mobility.

We as Texas educators, advocates, researchers, and citizens have witnessed some of the worst consequences of these troubling facts and trends. It seems that in our state, each national challenge to education becomes magnified by our population's size, youth, and growth rate<sup>3</sup> and by our lingering history of poor socioeconomic performance. Once a significant bargain, our tuition rates have increased to about 94 percent of the national average, and the gap continues to shrink<sup>4</sup>. Our students tend to be less prepared for postsecondary education, as evidenced by lower than average test scores and college retention rates<sup>5</sup>. At 40 percent, Texas' six-year graduation rate for bachelor's degree programs is a full six percentage points lower than the national average<sup>6</sup>. Texas college students rely on loans for 60 percent of their direct student aid versus 52 percent nationally<sup>7</sup>, so while tuition rates were lower, the median Texas student borrower owed about \$1,400 more in student loans than the U.S. median student borrower upon bachelor's graduation<sup>8</sup>. The emerging national consensus around cost, debt, and completion as the key areas of concern for higher education in this decade only serves to confirm the magnitude of the issues we in Texas have faced for years.



<sup>1</sup> U.S. Dept. of Commerce, U.S. Census Bureau, American Community Survey. 2009. Educational Attainment in the United States: 2009. <http://www.census.gov/prod/2012pubs/p20-566.pdf>.

<sup>2</sup> This figure is based on both per capita student loan debt for 2013 Q2 using the Federal Reserve Bank of New York's *Quarterly Report on Household Debt and Credit* and the author's calculations based on U.S. Census population estimates, Texas Department of State Health Services (DSHS) population projections, and Federal Reserve Bank of New York by-county estimations of the credit-report having population of Texas.

<sup>3</sup> U.S. Census Bureau, Press Release: December 20, 2012. <http://www.census.gov/newsroom/releases/archives/population/cb12-250.html>.

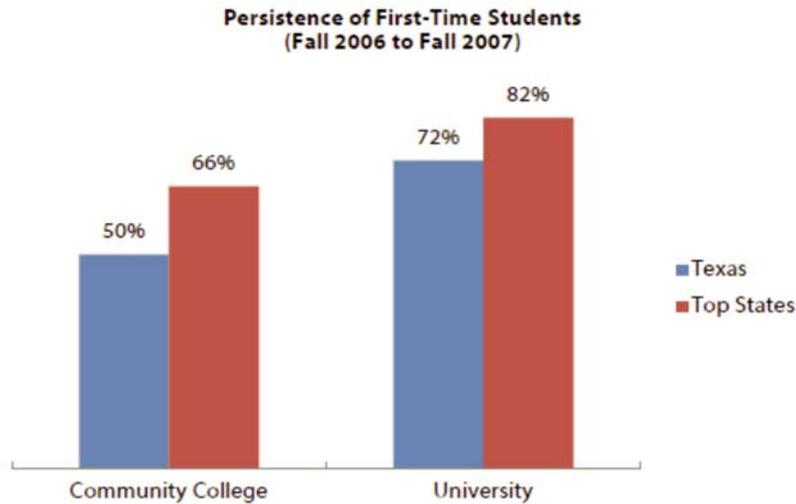
<sup>4</sup> TG, State of Student Aid and Higher Education in Texas, January 2013: pp. 35.

<sup>5</sup> *Ibid* pp. 25-27.

<sup>6</sup> U.S. Dept. of Education, National Center for Education Statistics. 2011. Integrated Postsecondary Education Data System. <http://nces.ed.gov/ipeds/>.

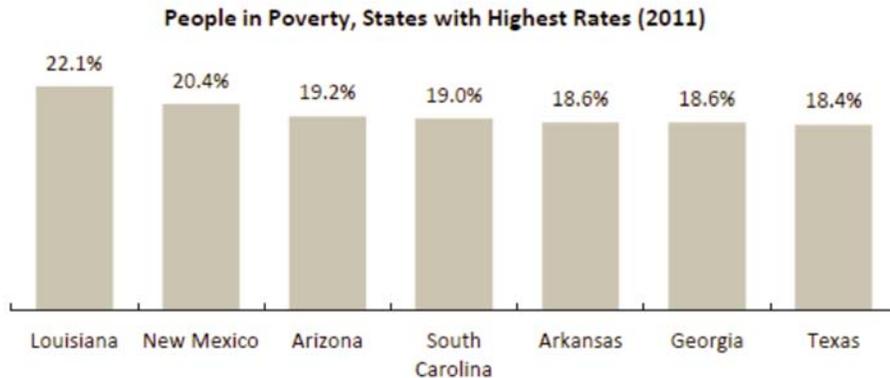
<sup>7</sup> TG, State of Student Aid and Higher Education in Texas, January 2013: pp. 38.

<sup>8</sup> U.S. Dept. of Education, National Center for Education Statistics. 2009. Baccalaureate and Beyond Longitudinal Study. <http://nces.ed.gov/surveys/b&b/>.



Source: TG, State of Student Aid and Higher Education in Texas, January 2013: pg 25

Serious fiscal challenges threaten to intensify the already troubled state of Texas education, particularly for the least well off among us. In keeping with the national trend toward state divestment from higher education, Texas cut higher education funding by about \$1 billion in the 82<sup>nd</sup> legislative session<sup>9</sup>, with the centerpiece TEXAS Grant program taking a ten percent cut that brought the award rate to 30 percent of eligible new students<sup>10</sup>. Public school funding has fallen to levels that State District Judge John Dietz, after hearing substantial testimony from the state and numerous school district representatives, determined to be in violation of the constitutional obligation to provide equitable, adequate education to our young people<sup>11</sup>. While some of the funding was restored by the 83<sup>rd</sup> Legislature, college readiness and completion rates in Texas are already lower than the national average; if the public schools charged with preparing our students for further education lack adequate resources, this issue will only grow more prevalent, expensive, and damaging to Texas' long-term prospects.



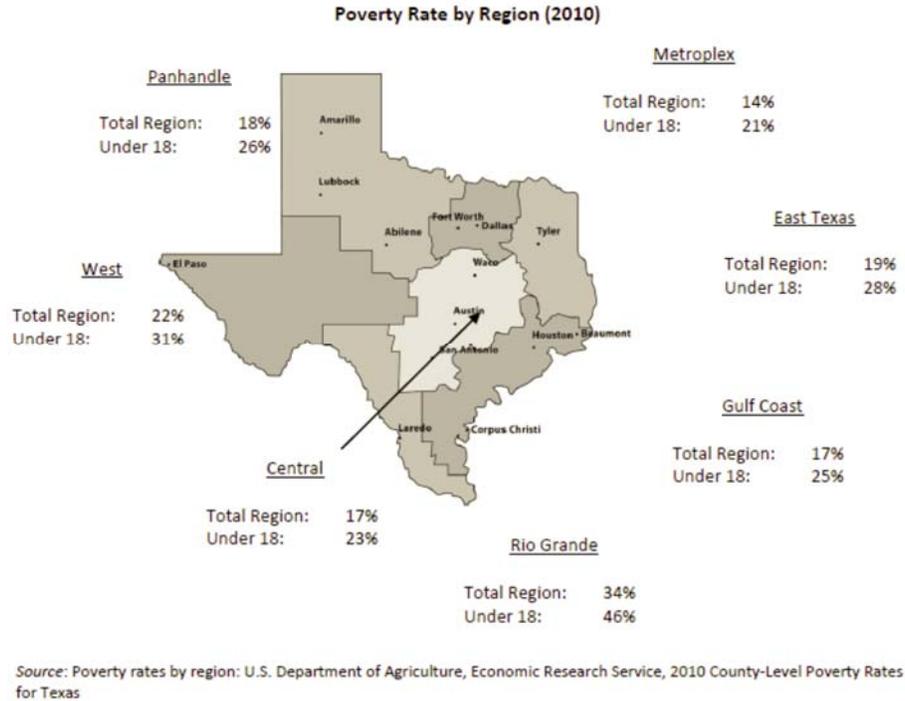
Source: U.S. Census Bureau, Current Population Survey, 2011 Poverty Tables, Poverty Status by State (Sample Person Count, 100 Percent of Poverty, All Ages)

<sup>9</sup>Texas State Historical Association. 2012. Texas Almanac, Recent Developments in Texas Higher Education. <http://www.texasalmanac.com/topics/education/recent-developments-texas-higher-education>.

<sup>10</sup> Texas Higher Education Coordinating Board. 2011. Overview: TEXAS Grant. <http://www.thecb.state.tx.us/download.cfm?downloadfile=85CCAF6B-A4AA-8D8A-0A5FA337BC7C9300&typename=dmFile&fieldname=filename>.

<sup>11</sup> Lindell, Chuck, Austin American-Statesman, "Judge: Texas school finance system unconstitutional", August 28, 2014. <http://www.statesman.com/news/news/judge-texas-school-finance-system-unconstitutional/nhBWz/>.

That our poverty rate is the seventh highest in the nation and the highest among the six largest states<sup>12</sup> seriously exacerbates ongoing educational challenges, including low attainment levels<sup>13</sup>. As shown below, poverty rates vary by region, with over one-third of Rio Grande residents living in poverty. However, across all regions, one trend is unwavering—the child poverty rate is considerably higher than the overall rate. Within Texas, over 25 percent of children live in poverty. Texans, especially those with children, tend to be ill-equipped to compensate for decreased public funding out of their own pockets, which places added importance on adequate appropriations for education and other service institutions.

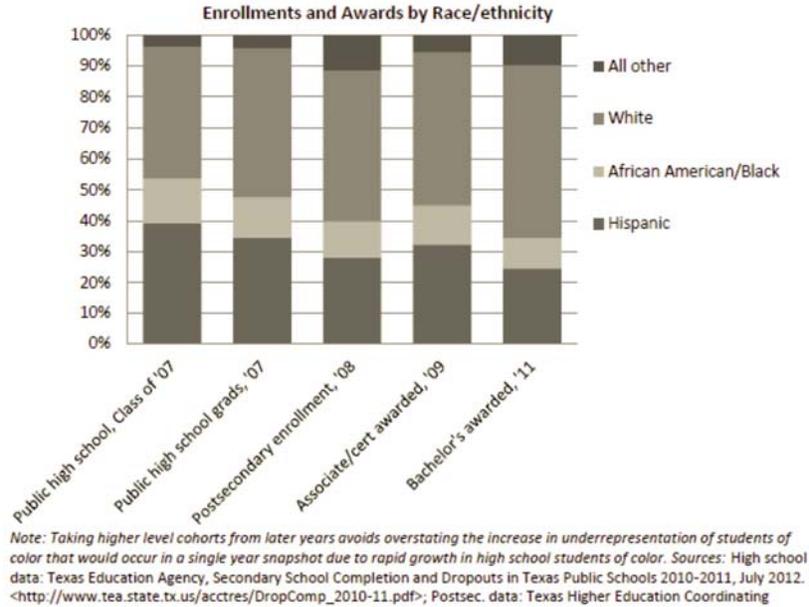


While the conditions above describe how Texas sits at the intersection of current national challenges to higher education, it is our demographic trends that establish the state as a microcosmic preview of national challenges to come. Texas is already a majority-minority state, and—with Hispanics accounting for 48 percent of public K-12 enrollment and 64 percent of prekindergarten enrollment<sup>14</sup>—will see a Hispanic plurality by 2017 or 2019 and a Hispanic majority by 2036 or 2040, depending on migration trends in coming years<sup>15</sup>. Policymakers on the national scene have discussed the need to prepare our social infrastructure to serve a population with growing numbers of Hispanics and other historically underserved groups; in Texas, the time to prepare has come and gone, and the consequences of our institutions' inability to adapt are already taking shape.

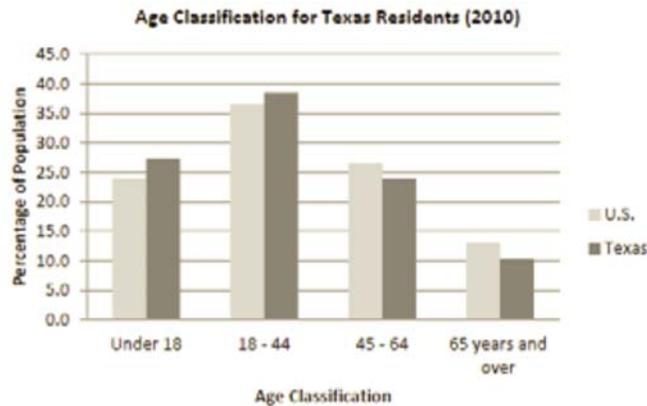
In our limited experience with the new demographic landscape, we have already learned firsthand the crucial need to rethink strategies for access and achievement at all levels of education. African-Americans and Hispanics constitute about 60 percent of Texas public high school students but 55 percent of graduates<sup>16</sup>, 43 percent of postsecondary students, and just 39 percent of all bachelor's, associate, and certificate degrees

<sup>12</sup> U.S. Census Bureau, Current Population Survey. 2011. Poverty Tables, Poverty Status by State (Sample Person Count, 100 Percent of Poverty, All Ages). [http://www.census.gov/hhes/www/cpstables/032012/pov/POV46\\_002\\_100125.htm](http://www.census.gov/hhes/www/cpstables/032012/pov/POV46_002_100125.htm).  
<sup>13</sup> U.S. Census Bureau. 2012. The 2012 Statistical Abstract, Educational Attainment by State: 1990 to 2009. <http://www.census.gov/compendia/statab/2012/tables/12s0233.pdf>.  
<sup>14</sup> Texas Education Agency. 2011. Enrollment in Texas Public Schools 2010-11: pp. 18. [http://tea.texas.gov/acctres/Enroll\\_2010-11.pdf](http://tea.texas.gov/acctres/Enroll_2010-11.pdf).  
<sup>15</sup> Texas State Data Center, Tables for Texas Population Projections. <http://www.txsdcenter.org/Data/TPEPP/Projections/Index.aspx>.  
<sup>16</sup> Texas Education Agency, Secondary School Completion and Dropouts in Texas Public Schools 2010-11, July 2012. [http://www.tea.state.tx.us/acctres/DropComp\\_2010-11.pdf](http://www.tea.state.tx.us/acctres/DropComp_2010-11.pdf).

awarded<sup>17</sup>. This situation is not only unacceptable on its face, but also both socially and economically damaging for our state in the long run. Given that the Census Bureau currently projects the U.S. white, non-Hispanic population to fall in relative and absolute numbers starting in 2024, and the nation to reach majority-minority status by 2043<sup>18</sup>, Texas can be thought of as quite literally “ahead of the curve” with respect to national demographic change. As such, our difficulty in educating rapidly increasing numbers of young people should be cause for both concern and attention at the national level.



There is one key demographic area in which Texas differs significantly from the nation both as it looks today and as it will look in the decades ahead: age. Like the United States as a whole, Texas is growing older, but we are doing so far more slowly than most. From the standpoint of social policy, this relative youth is an invaluable resource. We as a nation have long relied on the achievements of each new generation of young adults to drive economic growth, renew our innovative, entrepreneurial spirit, and do their part to maintain the social safety net. Slow population growth will threaten each of these concerns at the national level, but Texas is fortunate enough to host the second-youngest population in the nation. In stark contrast to many other states and regions, Texas has the young people necessary to replace the aging baby boomers currently exiting the workforce.

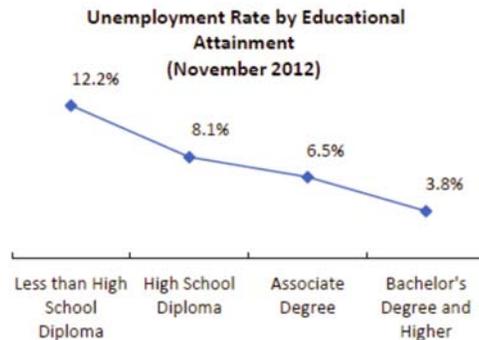


Source: U.S. Census Bureau, 2010 Census Summary File 1.

<sup>17</sup> Texas Higher Education Coordinating Board, Closing the Gaps Dashboard. 2011. Accessed February 20, 2012. [http://reports.theccb.state.tx.us/approot/closingthegaps/ctg\\_main.htm](http://reports.theccb.state.tx.us/approot/closingthegaps/ctg_main.htm).

<sup>18</sup> U.S. Census Bureau, Press Release: December 12, 2012. <http://www.census.gov/newsroom/releases/archives/population/cb12-243.html>.

The rising group of young Texans can deliver these larger social and economic benefits if, and only if, they are able to fulfill their own potential in the classroom and workplace. Combined with this simple fact, the knowledge that the majority of our young population is Hispanic and concentrated in major urban areas must redouble our efforts to refocus the terms of the education policy debate on historically underserved populations. The previous paragraph stated that Texas' relative youthfulness distinguishes it from both current and future U.S. demographics; however, Texas again mirrors the nation's future in the growing proportion of Hispanics among all children. In a sense, the future national initiative to more seriously consider the needs of Hispanic students is more pressing than the current need to do the same in Texas. As the national ratio of young to old continues to decrease, the relative demand made on each individual young person to the overall social and economic endeavor increases. In Texas, to succeed in providing quality education that prepares all students for productive, well-paying jobs means setting the stage for an economic and social windfall. For the nation as a whole, the same sort of success may barely serve to compensate for the consequences of an aging population, shrinking workforce, and slowing economy.



Source: Bureau of Labor Statistics. "Employment Status of the Civilian Population 25 Years and Over by Educational Attainment," August 2011 (<http://www.bls.gov/news.release/empsit.t04.htm>).

Even absent such long-term, population-wide concerns, the positive incentive—i.e., the return on investment—remains more than sufficient to spur us to improve higher education in Texas and across the United States. The benefits of a college education are as numerous as they are well-documented. College graduates earn more money and are less likely to be unemployed<sup>19</sup>. They get sick less often<sup>20</sup> and stay more involved in their communities<sup>21</sup>. Perhaps most significantly, children of parents with an associate degree or higher are 25 percent more likely to begin postsecondary education at a four-year institution and 16 percent more likely to finish any academic program within six years<sup>22</sup>. One college graduate can change the fortunes of a family for generations; a critical mass of graduates can transform an entire community.

<sup>19</sup> U.S. Census Bureau. 2012. The Big Payoff: Educational Attainment and Synthetic Estimates of Work-Life Earnings, Day and Newburger. <http://www.census.gov/prod/2002pubs/p23-210.pdf>.

<sup>20</sup> Georgiou, CC et al, "Among young adults, college students and graduates practiced more healthful habits and made more healthful food choices than nonstudents", J of the American Dietetic Assoc [1997, 97(7):754-759]. <http://europepmc.org/abstract/MED/9216552/reload=0;jsessionid=Bfgxn4khaM1yh5DWKF59.0>.

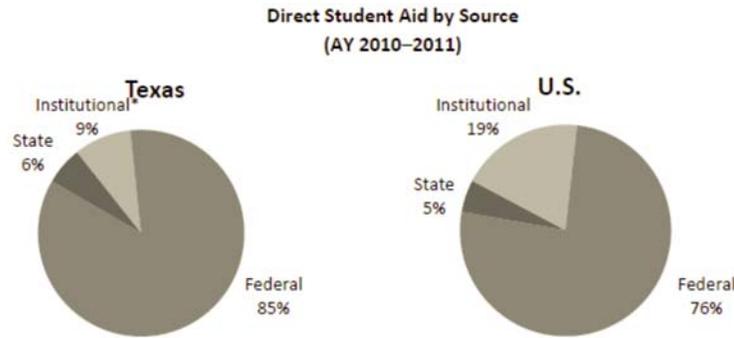
<sup>21</sup> Bowen and Bok, *The Shape of the River*, Princeton UP 1998.

<sup>22</sup> U.S. Dept. of Education, National Center for Education Statistics, 2003-2004 Beginning Postsecondary Students Longitudinal Study, Second Followup (BPS:04/09).



Source: U.S. Census Bureau, American Community Survey 2010 (<http://www.census.gov/acs/www/>).

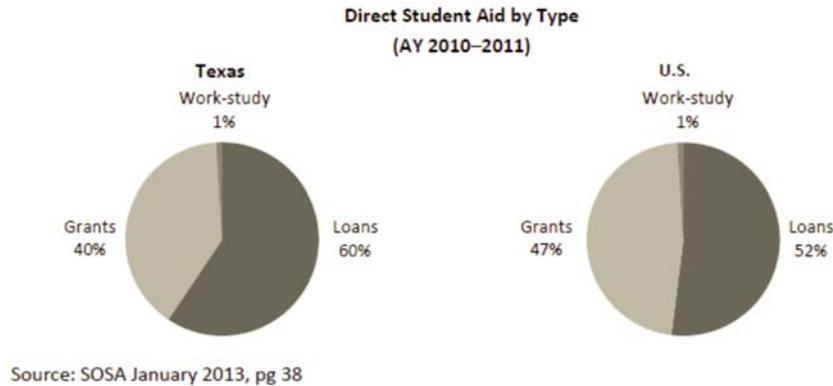
If a college education can provide such desirable benefits, then its opposite—no degree where there might otherwise have been one—must be seen as a great failure. Even a small margin of “missed” degrees among a population or community is an immense opportunity lost, if not something of a social disaster. That is what is at stake in how Texas meets these challenges, and it would be neither prudent, effective, nor even truly possible to meet them competently without collaborating both within and beyond our borders. In 2003, underfunded and newly deregulated Texas public universities began increasing tuition rapidly without substantial set-asides for aid, leaving their students to rely increasingly on the federal government for financial support. Today, most grant money and almost all student loan dollars come from the federal government, and these loans account for a disproportionate amount of all direct aid funding in Texas. As the funding source breakdown below shows, 85 percent of student aid in Texas as of AY 2010 - 2011 came from federal sources, compared to 76 percent nationwide (that 76 percent figure represents a ten percent increase since 2008<sup>23</sup>). As other states attempt to manage severe budget deficits, students around the country are also moving toward greater reliance on federal funds.



\*Private institutional aid in Texas is for AY 2009-2010

Source: SOSA January 2013, page 37

<sup>23</sup> The College Board. 2012. Trends in Student Aid 2012. <http://trends.collegeboard.org/sites/default/files/student-aid-2012-full-report-130201.pdf>.



Federal programs play an enormous role in encouraging college access nationwide, but this role is even more crucial in Texas, which entails great importance for the nation as a whole. After all, approximately one in ten people in the U.S. under age 18 live in Texas and will probably rely disproportionately on federal aid, especially federal loans<sup>24</sup>.

The Texas higher education system resembles that of a developed western nation more than it does most other U.S. states. Spread out among Texas' more than 261,000 square miles and more than 25 million citizens are 148 public and private non-profit postsecondary educational institutions. These include 50 community college districts with 73 campuses, 38 public four-year universities, 39 private four-year universities, 4 public technical colleges, 10 health related institutions, and 70 Minority Serving Institutions. There are 1.6 million postsecondary students in Texas, nearly a third of who rely on federal student loans annually. In essence, Texas contains a nation's worth of higher education. As the second largest postsecondary student population in the country, Texas students represent an enormous stakeholder group in federal education policy. Therefore, when a federal decision is made, much of its total impact derives from its effect on Texas students. The dependence of this immense student population on the United States government further amplifies its relative "share" in the outcomes of federal decision making. Furthermore, this population does not mirror the nation as a whole, but rather differs significantly in ways that reflect key national demographic trends. A large, disproportionately reliant constituency with distinct needs and concerns deserves to be heard, and heard loudly, in the conversations that sway its future.

As argued above, trends in Texas higher education today both magnify current national issues and portend those still on the horizon. Not without a measure of foreknowledge, Texas is currently undergoing a collision of challenges to its ability to provide higher education to its citizens. We are faced with the gargantuan task of serving more students, slowing tuition increases, boosting quality and completion rates, expanding need-based grants, containing student debt, preventing student loan default, retraining a largely high school educated workforce for an evolving economy, and dramatically increasing participation and achievement among fast growing and historically underserved populations. That we face these challenges in the midst of a historic budget crunch sets the stage for an attainment dip that will impact our social and economic well being for decades to come.

On the other hand, it is on account of these same circumstances that Texas must seek not only a place at the table, but also a vocal and visionary leadership role. The challenges to access, affordability, and completion currently troubling the students and families of Texas are fast approaching the nation as a whole. By turning the terms of the debate toward our own circumstances, a Texas-based financial aid coalition would

<sup>24</sup> The Annie E. Casey Foundation, Kids Count, Total population by child and adult populations (number)-2011. <http://datacenter.kidscount.org/data>.

simultaneously turn the debate toward evidence based, forward thinking national solutions. As a state, Texas has not yet lived up to its potential to serve as the model of the adaptive, innovative education policy that our nation so desperately needs for the years ahead—but it will, because it must. The alternative scenario, in which we become a grim warning of the failure to act, cannot be an option. Surmounting state and national challenges to higher education is a daunting task that will require cooperation and coordination from all involved, but it is essential if we are to maintain and improve our ability to serve today’s students and those of generations to come.

## **Landscape**

All of the circumstances described above concerning costs, population changes, demographic trends, the disproportionality among state and federal student financial aid and the distribution of funds among need-based grants, loans, and work-study, point to the absolute necessity of, at the very least, maintaining the state student financial assistance programs. Such funding provides a critical supplement to the federal Title III, IV, and V programs offered through the Higher Education Act, institutional financial aid, and family financial contributions to meet the rising costs of obtaining a postsecondary education in Texas.

Most important, however, the Texas student financial aid community believes, supports, and most strongly urges the 84<sup>th</sup> Texas Legislature to work to ensure that any changes to these programs be proposed, considered and made with the priority objective being a well educated population and workforce. We also encourage policymakers not to simply save money by restricting access to these programs among those who are in most need of the assistance. These issues are too important to be considered within a process that has as its goal to raise revenues, reduce spending, and balance the budget.

Until the middle of the last decade, Texas offered its residents low tuition rates at its public colleges and universities. These rates were kept well below national averages until “tuition deregulation” was implemented in 2003. Until 2003, “designated tuition” remained capped at the “statutory tuition” rate. In 2003, however, the 78<sup>th</sup> Legislature, in response to a budget shortfall, removed the cap on “designated tuition”, allowing institutions to establish their own “designated” tuition rates. This deregulation of tuition shifted Texas from the “low-tuition, low-student financial aid” model to a market-based model that allows tuition to increase with demand.

Many state tuition and fee exemption and waiver programs were established over the years for various purposes. Examples of these include exemptions granted to the highest-ranking high school graduates, the children of Texas servicemen and women killed in the line of duty, firemen attending classes in firefighting, waivers of nonresident tuition for students from Mexico attending a Border-area college or students from border counties in neighboring states attending colleges in border counties in Texas.

In 1965, Texas created the Hinson-Hazlewood Student Loan Program, funded through the sale of state bonds.

In 1971 Texas established its first major state grant program, the Tuition Equalization Grant (TEG) program. The TEG program provides financially needy students at private and independent institutions with grants to help cover the higher costs of attendance at these institutions. The program was established at a time when rising college enrollments had placed a strain on public higher education facilities. The TEG allowed the state to educate more students while easing the need for new public facilities. Since tuition rates at public institutions continued to be low, the state’s role in providing grant aid to students at public institutions remained small.

New increases in tuition rates led the 69<sup>th</sup> Legislature in 1985 to create a second major need-based grant, the Texas Public Educational Grant (TPEG) program, funded by set-asides from the higher tuition revenues. The

set-aside for resident undergraduate tuition revenues is currently 15 percent, although the statute allows up to 20 percent; for nonresident undergraduates, the set-aside is 3 percent of tuition revenues. For community and technical colleges, the set-aside is from 6 percent to 20 percent of in-district tuitions; most colleges' set-aside is 6 percent. The program is campus-based, with each campus distributing TPEG funds through its student financial aid office. The only state criterion for its use is financial need, giving individual institutions significant flexibility to use TPEG aid as they deem best.

In 1999, the 76th Legislature established the State's second primary need-based grant program, the Towards Excellence, Access and Success (TEXAS) Grant program, and two years later followed it with a smaller program for students at community and technical colleges called TEXAS Grant II (later, renamed the Texas Equal Opportunity Grant). Although initial appropriations for both programs were modest, their creation marked the beginning of a major expansion of state-funded student financial assistance.

To help offset the impact of tuition increases on financially needy students, the Legislature maintained the tuition 15 percent set-aside requirement and added a new 20 percent set-aside for designated tuition revenues above the old cap of \$46 per semester credit hour with 5 percent allocated for the B-On-Time Loan and 15 percent for other aid. Although universities have raised tuition to varying levels under deregulation, the percentage set-aside has also increased the amount of funds available for financially needy students attending these institutions; i.e., the higher the tuition level, the more funds become available for financial aid.

The Legislature increased funding for the Program despite the shortfall and other budget demands for the 2004-2005 biennium, the THECB allocated \$323.2 million to colleges and universities for TEXAS Grants, an increase of 20.7 percent from the 2002-2003 biennium -- and 62 percent of the estimated cost needed to offer grants to all eligible candidates.

The TEXAS Grant Program received \$724.6 million for the 2014-15 biennium, an increase of 25 percent over the previous biennium. The total includes \$30 million donated by the Texas Guaranteed Student Loan Corporation. The Coordinating Board estimates that the program will serve all renewal and approximately 84 percent of newly eligible students at a target award amount of \$5,000 at universities and \$1,325 at community colleges. Per legislation enacted by the 83<sup>rd</sup> Legislature, the TEXAS Grant has become a university-only program.

In 2003, the 78th Legislature created a unique student loan program, the Texas B-On-Time Loan Program (BOT). The BOT program provides eligible students with zero-interest loans that are forgiven if they graduate on time and with a minimum grade point average set in state law. Initial funding for the program came from the refinancing of bonds sold to support the THECB's Hinson-Hazlewood Student Loan Program and from the provision in H. B. 3015 that dedicates 5 percent of any designated tuition at public universities above \$46 per SCH to BOT.

The original intent of the BOT program was to assist middle-income families who do not qualify for need-based grants. Because funding for both the BOT program and the TEXAS Grants was limited, however, colleges and universities were directed to give preference for BOT awards to students who are eligible for TEXAS Grants but did not receive them due to the shortfall.

The BOT Program received \$112 million in the 2014-15 biennium; a 5 percent increase from the previous biennium. This program provides zero-interest loans to eligible students, which are forgiven if the student meets academic and time-to-degree requirements. This level of funding will allow approximately 9,650 students to participate in the BOT Loan Program during the biennium; 6,750 students at public universities

funded from tuition set-asides, and 2,900 students at private colleges and universities funded from the general revenue portion of the appropriation.

SB 215 (83<sup>rd</sup> Legislature) makes BOT and TEXAS Grant university-only programs beginning in FY15, and funding for community college students in the program will be transferred to Texas Equal Opportunity Grant (TEOG).

The Texas Equal Opportunity Grant (TEOG) program received a 20 percent increase to funding; from \$23.2 million in FY12-13 to \$27.8 million in FY14-15. The appropriation levels will allow about 6,703 students per year to receive a TEOG at an average award of \$2,074. After anticipated transfers, approximately 16,350 new community college students will receive a TEOG grant in FY15 that would previously have received a TEXAS Grant.

The same scenario holds true for the state's Tuition Equalization Grant program for students attending one of Texas' private institutions. The annual appropriation for this program had been funded at the same level of \$106 million from 2005 – 2011. The annual appropriation dropped to \$84.4 million for 2011-2012 before being increased to \$168.8 million and \$180.1 million for the 2012-13 and 2014-15 biennium, respectively.

Funding levels for other financial aid programs are:

- \$18 million (a 6 percent increase) for the Texas College Work-Study program;
- \$39.6 million (level funding) for the Top 10 percent Scholarship program;
- \$7.12 million (level funding) for the Texas Armed Services Scholarship program.

## **FULL RECOMMENDATIONS**

### **No New State Aid Programs Until Existing Programs Are Fully Funded**

While the 83<sup>rd</sup> Legislature increased funding for the TEXAS Grant program, the increased funding was coupled with merit requirements. However, the program still is not fully funded.

Before the Legislature again considers establishing new programs that will further reduce funding for existing programs (which are largely well-designed in terms of the mix of grants, loans, and work-study), it should use appropriations to move toward fully funding the programs already in existence. These established programs, though currently under-funded, are designed to provide financial assistance to all eligible students. It should also not shrink the eligible population by adding additional merit requirements to the TEXAS Grant, Tuition Equalization Grant (TEG), or B-On-Time (BOT) programs.

### **Texas College Work-Study Program Expansion**

Needy Texas students are willing to work hard in order to earn college degrees, not only at their studies but in part-time employment opportunities when such opportunities exist. Part-time on-campus jobs can be particularly positive. They are truly part-time, generally requiring 10 to 15 hours of work per week. They help students avoid debt and acquire practical workplace and time management skills. Often, they help students become more engaged in the college and university communities. Small wonder that research has consistently

shown working 1-15 hours per week—Ideally on campus or in positions related to their academic interests—to have positive effects on persistence and degree completion. Working to pay for some higher education costs can also decrease conscientious students' reliance on debt.

The federal government is the primary funder of work-study employment in Texas. However, the growing population of needy students attending our state's colleges and universities are not well-served by the Federal Work-Study program's statutory allocation formula. It includes "hold harmless" provisions forcing the U.S. Department of Education to allocate today's work-study funds largely on the basis of past institutional allocations. This benefits colleges and universities in the Northeast and Midwest that, many years ago, captured larger federal allocations because they were high in price, enrolled large numbers of needy students, or both.

The cost of attending Texas institutions of higher education, which now serve a high percentage of needy undergraduates, has risen recently and dramatically. Both Federal and State work-study funds, on the other hand, have decreased. In FY 2009-2010, Congress appropriated \$1.25 billion for work-study and \$1.2 billion in FY 2012-2013. The Texas share during these years was \$60.2 million and \$55.8 million, respectively.

Texas needs to grow part-time employment opportunities for low- and middle-income students who are willing to work. For this goal to be achieved, it will be up to the Legislature to expand funding for the Texas College Work-Study program. TASFAA recommends at least a doubling in the funding of this self-help program to enhance access among needy students.

### **Continued Flexibility in Awarding Campus-Based Grants**

The state has historically provided institutions with local control in the awarding of the Texas Tuition Equalization Grant and Texas Public Educational Grant (set aside). These programs ensure students from low- and middle-income families have true access to a higher education. The flexibility in awarding these funds allows each institution to utilize these grants in a manner that best serves their unique populations. To continue facilitating access to higher education, these programs must be allowed to remain intact. In addition, the state's continued decentralized approach, in favor of local stewardship, will allow each institution to use these funds to best assist their diverse and needy student populations.

### **Texas Educational Opportunity Grant and Increased Funding**

Community and public technical colleges enroll more than 60% of Texas' higher education population, and therefore, play a major role in meeting the state's higher education participation goals; especially among historically underrepresented populations.

The TEOG program provides funding for needy Texas residents enrolled in the first 30 credit hours of the certificate and associate degree programs offered by our state's community and public technical colleges. Unfortunately, this program, which is designed to assist the many needy students at these colleges, is the most inadequately funded of all the foundational financial aid programs. The 84<sup>th</sup> Legislature should continue the trend and increase support for this crucial program. In addition, the Legislature should allow community college greater flexibility in their awarding of these funds to help ensure the success of all students in obtaining both an associate's degree and a baccalaureate.

The 82<sup>nd</sup> Legislature increased TEOG appropriations by 71% and the 83<sup>rd</sup> Legislature increased the program's funding by another 20% for the current biennium from \$23.2 million to \$27.8 million. With additional

appropriations next year from the legislatively mandated transfers to the TEOG from the TEXAS Grant and BOT programs, more than 22,000 community college students will receive TEOG awards. This figure is approximately 4% of total community college enrollment. By underfunding TEOG, Texas misses opportunities to increase its population of workers with the mechanical and scientific skills required by today's high-tech economy.

## **TEXAS Grant**

TASFAA strongly supports fully funding the TEXAS Grant program as the best way for the state to achieve its higher education goals regarding participation and success. Though TASFAA realizes that while fully funding the program may not be feasible, it urges the Legislature not to adopt program changes that limit access among low- and middle-income families to a higher education.

A number of changes to the TEXAS Grant program have been proposed and are likely to be considered in the next legislative session. TASFAA recognizes the limitation of available resource and believes that some of the proposals will be more effective than others in helping to: 1) encourage on-time graduation from college; and 2) ensure the most effective use of limited TEXAS Grant funds.

There are several proposals to increase the minimum number of enrolled hours required to receive a TEXAS Grant. If such suggestions are to be considered, TASFAA is supportive of the one that establishes full-time enrollment of at least 12 hours. This approach allows for some enrollment flexibility, ensures enhanced progress to degree completion and utilizes aid funds to more effective advantage in assisting (at least as determined by enrolled hours) fully engaged students.

There has been some discussion of 15 hours as a minimum full-time definition for the program, but this suggestion is a cause for concern. Need-based students, who need the funding, are often the least prepared to take larger course loads initially. Further, it is inherently unfair to treat need-based students differently than those students without need (i.e., by only requiring need-based students to enroll in 15 hours each semester).

## **B-On-Time Loan**

One financial aid program, of which there has been much discussion, is the B-On-Time (BOT) Loan program. A major concern among some institutions is their inability under federal law (absent a preferred lender arrangement) to award students these loans without students first requesting a B-On-Time Loan. This barrier to the automatic awarding of BOT funds is of significant disadvantage to students. Similarly, it poses a serious challenge to schools in terms of their ability to expend their full BOT allocations.

In addition, many schools are concerned about funds they have sent in previous years to the state that were earmarked for BOT use, but that have not been made available to the respective colleges and universities for awarding. Therefore, TASFAA recommends that the Legislature ensure these funds are allocated to the appropriate institutions of higher education for the awarding of BOT in order to help students as originally intended.

## **Develop A State Long-Range Strategic Plan for Student Financial Aid and Support Programs**

State financial aid programs must be sustainable for more than one or two biennia if they are to continue to meet the state's higher education goals pertaining to closing gaps in participation and completion. The THECB, in consultation with the Texas Financial Aid Advisory Committee, should develop a long-range strategic plan for financial aid to complement the *Closing the Gaps* plan for higher education. The plan should also consider

how the state programs relate to the much larger federal programs in terms of effectiveness, efficiency, and consistency.

The plan should address the state's demographic challenges, particularly its need to assist more first-generation and minority college students. The plan should establish objectives and strategies to realize the goals of the *Closing the Gaps* plan, simplify programs and ensure the most efficient use of state dollars.

### **Enhance State Student Loan Default Prevention Efforts**

The state's long-range strategic plan should include a robust program addressing the issues of student loan delinquency and default prevention, personal financial literacy, applying for student financial aid and paying for college, debt management, and in-school student loan counseling. These programs should be housed within an established entity with experience, staffing, and resources focused on these areas. Texas' heavy reliance on federal student loans as the primary funding source for students to access and graduate from postsecondary schools requires the State to also ensure that these individuals have the support necessary to manage and repay successfully their debt.

As already pointed out, Texans are heavily dependent on student debt through the use of the federal student loan programs to finance their, and their children's, postsecondary educations, and have compiled over \$160 billion in outstanding student loan debt. If the state's policymakers continue to rely more on student loan debt than most other states, and expect to enroll and graduate more first-generation students from historically underrepresented populations through the *Closing the Gaps* initiative, they should establish a statewide student loan default prevention program. The program should include academic and career counseling, integrated service delivery approaches that combine counseling with other non-academic student support services, financial education courses built into existing curriculum, and in-person and online student loan counseling at different intervals of a student's academic career. In addition, the program should offer- student success courses (credit bearing) that integrate career exploration, financial education, student engagement activities, and other topics that can help create a better informed student and graduate.

Texas needs to encourage higher education students to be informed consumers. **S.B. 680** requires the Texas Higher Education Coordinating Board (THECB) to select institutions with high, or higher trending, default rates to participate in a pilot program. The program is designed to target students who are more likely to default on their loans and provide them with individualized attention at the beginning of their college career so as to help them make sound financial decisions relative to borrowing student loans.

The bill allows THECB to contract with nonprofits to administer this pilot program. Institutional participants will include general academic institutions, public junior colleges, private or independent institutions of higher education, and career schools or colleges. It is a goal of this legislation that best practices learned from this pilot program be applied statewide when the pilot expires in 2020. Because student loan default prevention is so important, we recommend converting SB 680 into a permanent program as soon as possible.

# TASFAA Mission Statement

The Texas Association of Student Financial Aid Administrators "TASFAA" is a professional statewide organization with diverse membership that works towards the ultimate goal of providing students with the resources and choices necessary to access higher education opportunities.

Founded in 1969, TASFAA serves multiple roles including:

- **Encouraging** students to pursue higher education.
- **Promoting** student financial aid programs in the post-secondary institutions of the state.
- **Facilitating** communication, activities, services and professional development among constituencies involved in student financial aid administration in the state.
- **Inspiring** professional competencies in the field of student financial aid administration.
- **Motivating** innovation and creativity in the financial aid field to span all cohorts.

***Encourage, Promote, Facilitate, Inspire, Motivate***

**[www.tasfaa.org](http://www.tasfaa.org)**