Financial Aid
Trends in the States
Education Commission of the States www.ecs.org
700 Broadway, Suite 810 • Denver, CO 80203-3442 • 303.299.3600 • ecs@ecs.org

# Trends in State Financial Aid

*Actions from the 2013 and 2014 legislative sessions*

*Sarah Pingel*

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The outcomes states gain from investing in postsecondary financial aid programs remain hotly debated, leading to great interest in developing programs that are both cost-effective and productive in helping states meet goals. In the 2012-13 academic year, states collectively provided approximately $11.2 billion in financial aid to students enrolled in postsecondary institutions across the country.[1]

States take a wide variety of approaches in making investments in postsecondary financial aid. This report reviews several trends in state financial aid programs enacted through state legislatures in the 2013 and 2014 sessions.

Major trends include changes to need- and merit-based programs, linking financial aid programs to workforce demands and state programs focused on two- to four-year transfer student pathways.

## *Key takeaways from this report*

- Trends in enacted policy include changes to need- and merit-based programs, linking financial aid and workforce outcomes, and focusing aid on transfer student pathways.
- States are playing an increasing role in loan repayment assistance or forgiveness policies, with at least four states enacting programs.
- A growing number of states — with at least 10 joining in the 2013 and 2014 legislative sessions — are using financial aid programs as a means to incentivize workforce outcomes.
- Five states passed legislation appointing commissions to extensively research college affordability issues, with reports due through spring 2015.
- At least 10 states created or made changes to existing need-based programs.
- **Maryland** and **Virginia** both enacted financial aid programs geared to students transferring from two- to four-year institutions.

## *Need-based programs*

### Why it matters

*Need-based aid programs enhance affordability for students who may not otherwise have the means to attend college.* At least seven states made changes or added new need-based programs in the 2013 and 2014 legislative sessions, with two states expanding definitions of *need* to increase middle class student participation.

- The **Maryland** First Scholarship Program was established in 2013 with the passage of H.B. 526. Through the program, need-based scholarship funds will be provided to first-generation college students who are accepted to a public two- or four-year institution and complete a minimum of 40 hours of community service prior to applying for the scholarship. The scholarship will cover 50 percent to 75 percent of tuition costs, depending on the type of postsecondary institution the student selects and funding availability.
- In 2013, **South Dakota** initiated need-based aid for the first time through S.B. 237. Prior to this legislation, the state only offered aid based on merit or area of study. The bill appropriates $1.5 million dollars to the fund, which amounts to about 35 percent of what the state devoted to merit funding in the 2012-13 school year.[2] Need-based awards to students may begin as early as 2016.[3]
- The DC Promise Establishment Act of 2014 will provide need-based grants to residents of the **District of Columbia** who graduate from in-district high schools. Students must matriculate in college at least half-time within three years of completing high school to be eligible for annual awards ranging from $2,500 to $7,500. DC Promise Grants are portable, meaning that eligible students can use them at any accredited institution in the country that offers at least a two-year degree. Students can also stack a DC Promise scholarship on top of a DC Tuition Assistance Grant if they are eligible for both district-sponsored programs.
- The **Tennessee** Promise Scholarship Act of 2014 was created to promise free tuition to thousands of eligible students across the state. The measure provides last-dollar scholarships, up to the average public two-year tuition cost, for students who enroll full-time in an eligible postsecondary institution in the fall term immediately following high school completion. Recipients must maintain academic progress and continuous, full-time enrollment.

### *Affordability Commissions*

Due to legislation passed in the 2014 session, five states are currently required to conduct thorough examinations of college affordability.

**Maine**
*Legislative Mandate:* L.D. 1849
A report examining college affordability and proposed solutions is due to the legislature in December of 2014.

**New Jersey**
*Pending Legislation:* S.B. 979
An examination of accelerated degree pathways, an affordable degree pilot and current aid programs may be issued in the spring of 2015.

**Ohio**
*Legislative Mandate:* H.B. 484
An exhaustive review of all aid programs currently operating in the state must be completed by the end of 2014.

**Vermont**
*Legislative Mandate:* S.B. 40
Policy proposals aimed at restoring the difference between state incentive grants and tuition rates to 1980 levels will be forthcoming in January of 2015.

**Washington**
*Legislative Mandate:* S.B. 6436
Recommendations tailored to the College Bound Scholarship Program, an early promise initiative, must be completed by the end of 2014.

### Expanding definitions of need to include the middle class

At least two states changed or initiated programs linked to total family incomes that reach into the middle class.

- **New Mexico** Scholars Act scholarships are awarded to state resident high school graduates who enroll full-time in an eligible institution before their 21st birthday. Eligible students must also meet merit- and financial-need qualifications. Through S.B. 301, passed in the 2013 legislative session, the maximum family income to qualify for the program was doubled from $30,000 per year to $60,000 and will adjust for future years with the consumer price index. According to the legislation's fiscal analysis, the $30,000 cap, coupled with the additional residency and merit criteria, made the scholarship difficult to award and left the majority of the annual $1 million appropriation unspent in 2012.[4]
- The **California** legislature enacted the Middle Class Scholarship Program through the passage of A.B. 94 in 2013. Through this legislation, students with household incomes of up to $150,000[i] per year may be eligible to have up to 40 percent of tuition charges covered at a University of California or California State University institution.

## *Merit-based programs*

### Why it matters

*Merit aid programs are intended to help states retain their brightest talent.* While most state programs remained at least partially based on financial need criteria, about one-quarter of the total state aid disbursed to students in the 2012-13 school year was based on non-need criteria.[5] Merit aid programs may be designed as a state response to increase college persistence and completion.[6] However, the research evidence supporting this hypothesis is mixed,[7] [8] with analyses from Florida and Massachusetts demonstrating limited impacts on degree production.[9] [10]

At least three states — Florida, Louisiana and New Jersey — made changes to merit-based programs during the 2013 and 2014 legislative sessions.

- **Florida** awarded the second-largest dollar amount of merit-based aid in the country in the 2012-13 academic year.[11] Adding to the merit-based options in the state, the Florida National Merit Scholar Incentive Program was initiated through the passage of H.B. 5101 in 2014. Through the program, resident students who qualify as National Merit Scholars also qualify for a last-dollar scholarship that covers the balance of the cost of attendance at an in-state institution not already covered by other sources of aid. Students also may take their award to a private institution located within the state, up to the highest cost of attendance at a public institution.
- The Taylor Opportunity Program for Students (TOPS) is the largest aid program operated by the state of **Louisiana** and is based solely on academic merit criteria. Historically, both resident and non-resident students have been eligible for TOPS funding. After the passage of H.B. 243 in the 2013 legislative session, nonresident students can become eligible for TOPS awards by earning an International Baccalaureate (IB) diploma. Additionally, students with IB diplomas granted outside of the United States may be eligible for a TOPS-Tech award, which targets students studying in science, math and technology fields.
- The **New Jersey** Student Tuition Assistance Reward Scholarship, or STARS program, provides merit-based, full-tuition scholarships to resident students attending their local county college. Through A.B. 2364, merit will be assessed using the class rank obtained in a student's junior year of high school rather than senior year. This change provides students with earlier indications of their award eligibility.

[i] The legislation does not indicate how family size may impact the maximum income threshold.

## *Aid focused on the workforce*

### Why it matters

*Lowering the cost of college through financial aid programs may contribute to a supply of educated workers in high-need or historically low-wage fields.* Many states are seeking avenues to link higher education and state workforce demands. In at least six states, financial aid is one tool that policymakers use to target key workforce populations. In addition to grants and scholarships, state leaders are looking to student loan forgiveness or repayment programs as a means to incentivize workforce outcomes.

### Grants and scholarships

- In **Michigan**, S.B. 649 establishes a grant program for minority students who are enrolled in medical, dental, nursing or physician's assistant programs. Students must demonstrate financial need and preference will be given to Michigan residents. After completing their studies, students must accept a work assignment within the state, equal to the number of years for which the student accepted a grant. If a student does not complete the service obligation, they must repay double the initial grant amount, plus interest. If a student does not complete their academic program, they must repay the actual grant amount received. In both cases, repayment must be made within three years.
- To support critical needs in **South Dakota**, the provisions in S.B. 233 will grant scholarships to students agreeing to teach in high-need fields within the state for five years after graduation. The legislature also appropriated $1.5 million dollars to initiate the program.
- In 2014, the **West Virginia** legislature enacted H. B. 4188 which will add a $10 fee to nursing licensure applications. The funds will provide scholarship support for students enrolled in accredited nursing licensure programs. In exchange, students must agree to practice or teach nursing within the state for one to two years, depending upon the scholarship amount the student accepts.

### Student loan repayment or forgiveness programs

At least four states enacted loan repayment assistance or forgiveness programs for teachers meeting certain eligibility requirements and agreeing to certain service requirements within the state.

- Enacted in **Connecticut**'s 2014 legislative session, S.B. 18 allows for up to $25,000 in student loan reimbursement over five years for English language learner educators serving in public schools within the state. Recipients also must have completed their teacher preparation program in a state institution.
- **New Mexico**'s H.B. 53 also enacts loan forgiveness for teachers. The measure is intended to increase the number of teachers in schools with academic proficiency that is below state standards or schools located in high-poverty areas.
- The Teacher Loan Repayment Program, created through S.B. 330 in **Indiana**, will reward educators in STEM or other high-need fields with loan repayment assistance. Recipients must be high-merit graduates of a state high school, graduate with a four-year degree with a minimum 3.5 grade point average and teach for at least three consecutive years in an Indiana public school.
- The **Mississippi** legislature granted authority to the Postsecondary Education Financial Assistance Board to research and establish loan forgiveness programs targeted at high-need professions within the state through S.B. 2499, which was signed into law in May 2014.

## *Aid focused on transfer students*

### Why it matters

*Students are increasingly mobile and may face higher costs when moving from one institution to another.* According to the National Student Clearinghouse, approximately one-third of all first-time undergraduate students enrolled in more than one institution within a five-year period.[12] Given the growth in this pathway to a degree, facilitating the passage through financial aid programs may assist students in making the transition from a two- to four-year institution.

- The 2+2 Transfer scholarship provides funding at a four-year public or private institution for **Maryland** resident students who have completed at least 60 credits in a community college. Students also must meet academic merit- and financial-need eligibility requirements. In the 2014 legislative session, S.B. 785 limited the duration of the award to three years and reduced the amount from $3,000 to $1,000 per year, or to $2,000 for students studying in certain high-need fields. The bill also reduced the GPA needed to renew the award from 3.0 to 2.5. Finally, at least $2 million must be provided for the program in each year's state budget. Should the state budget not include the full $2 million, the funds must be transferred from the Student Financial Assistance Fund.
- In the 2012-13 academic year, the **Virginia** Two-Year College Transfer Grant Program provided more than $1 million in aid to approximately 800 students. Through H.B. 133, transfer students now will be able to qualify for funds if they transfer in the spring semester rather than only the fall semester.

## *Conclusion*

The state financial aid initiatives described in this report represent the major actions in student financial aid taken in the 2013 and 2014 legislative sessions. By and large, states are looking to use financial aid as a policy tool to drive enrollment, and in some cases, enrollment in specific areas of study. Considering these state actions in light of the national demography and the student financial aid research literature, future changes to policies may need to respond to new and emerging challenges.

Considerations for what may be on the horizon for financial aid policy development include:

- Many state-sponsored aid programs disproportionately serve traditional-age college students who matriculate directly from high school. However, this student population declined from 2010-11 to 2013-14 and is projected to remain relatively stable through 2022-23.[13] States looking to increase postsecondary enrollment and attainment may be faced with considering how their aid programs can encourage enrollment, persistence or completion among a broader diversity of student populations.
- Research demonstrating the impact that financial aid programs can play in impacting college completion or workforce outcomes is limited.[14] Further analysis is needed in this area, and states may consider if the financial aid system is the best vehicle for workforce policies.
- States are playing an increasing role in student loan repayment assistance and forgiveness programs. While these types of programs may lead to advantageous workforce outcomes within a state, the programs direct state dollars towards federal and, in some cases, private banks. States may consider if applying the funds towards lowering the initial cost of college may produce similar outcomes, while also reducing the need for students to borrow loans.

***State policy citations***

| | Need and Merit Programs | | Workforce | | Transfer Students |
|---|---|---|---|---|---|
| | Changes to Need-Based Programs | Changes to Merit-Based Programs | Grants and Scholarships | Loan Forgiveness | |
| **California** | A.B. 94 | | | | |
| **Connecticut** | | | | S.B. 18 | |
| **District of Columbia** | B20-0528 | | | | |
| **Florida** | | H.B. 5101 | | | |
| **Hawaii** | | | | S.C.R. 116 | |
| **Illinois** | | | S.B. 3306 | | |
| **Indiana** | | | | S.B. 330 | |
| **Kentucky** | S.B. 64 | | H.B. 2 | | |
| **Louisiana** | | H.B. 243 | | | |
| **Maryland** | H.B. 526 | | | | S.B. 785 |
| **Michigan** | | | S.B. 649 | | |
| **Mississippi** | | | | S.B. 2499 | |
| **New Jersey** | | A.B. 2364 | | | |
| **New Mexico** | S.B. 301 | | | H.B. 53 | |
| **South Dakota** | S.B. 237 | | S.B. 233 | | |
| **Tennessee** | S.B. 2471 | | | | |
| **Virginia** | | | | | H.B. 133 |
| **West Virginia** | | | H.B. 4188 | | |
| **TOTAL** | **7** | **2** | **5** | **5** | **2** |

## Author

*Sarah Pingel is a researcher for the Education Commission of the States. Contact her at spingel@ecs.org or (303) 299.3695.*

## Endnotes

[1] *National Association of State Student Grant and Aid Programs 44th Annual Survey Report on State-Sponsored Student Financial Aid* (Washington, DC: NASSGAP, 2014)
[2] Author's calculations from NASSGAP survey data, 2014
[3] Bob Mercer, *South Dakota Board of Regents may seek $3 million more in need-based aid.* *http://articles.aberdeennews.com/2013-08-09/news/41209957_1_need-based-aid-state-universities-non-resident-students*
[4] http://www.nmlegis.gov/Sessions/13%20Regular/LESCAnalysis/SB0301.PDF
[5] NASSGAP, 2014
[6] William R. Doyle, "Adoption of Merit-Based Student Grant Programs: An Event History Analysis," *Educational Evaluation and Policy Analysis* 28, no. 3 (2006): 259-285.
[7] Eric Bettinger, "Financial Aid: A Blunt Instrument for Increasing Degree Attainment," *Getting to Graduation: The Completion Agenda in Higher Education* (Baltimore: Johns Hopkins University Press, 2012)
[8] Nicholas Hillman and Erica Lee Orians, "Financial Aid's Role in Meeting State College Completion Goals," *Education Finance and Policy* 8, no. 3 (2013): 349-363.
[9] Liang Zhang, Shouping Hu, and Victor Sensenig, "The Effect of Florida's Bright Futures Program on College Enrollment and Degree Production," *Research in Higher Education* 54 (2013): 746-764.
[10] Sarah Cohodes and Joshua Goodman, *Merit Aid, College Quality, and College Completion: Massachusetts' Adams Scholarship as an In-Kind Subsidy*. Harvard University, 2014.
[11] NASSGAP, 2014
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[13] Western Interstate Commission for Higher Education, *Knocking at the College Door: Projections of High School Graduates* (Boulder, Colorado, 2012)
[14] Bettinger (2012), Hillman (2013)