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Policy Brief Series

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Investing in College Access,
Supporting Completion

How Need-Based State Grant Aid Can Help Increase Higher Education Attainment Rates in Arizona

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About this Brief

This is the third in College Success Arizona's Policy Brief Series, and our fourth major publication on postsecondary attainment. It is intended to complement our most recent brief, *Expanding Opportunity in Arizona: How State Grant Aid Increases College Participation and Drives Attainment*. Our new brief provides information and insight to state leaders, legislators, and policymakers on the important role that state-sponsored need-based grant aid programs play in Arizona's efforts to increase our statewide postsecondary attainment rate and grow our economy. It also offers recommendations as to how Arizona can best design and implement effective state-sponsored need-based grant aid programs.

College Success Arizona would like to thank the Arizona Board of Regents for its exceptional generosity in providing data and guidance during the development of this brief. College Success Arizona would also like to acknowledge the important work of the Financial Aid Task Force, which consists of financial aid and education experts across the state and was convened by the Arizona Commission on Postsecondary Education.

About College Success Arizona

College Success Arizona is working to significantly increase the postsecondary attainment rate of students in Arizona, particularly for those who otherwise would not be able to attend or graduate. By doing so, we believe that we will improve the quality of life not just for those individuals and their families but also for the state as a whole

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Preface

In our previous policy brief, College Success Arizona demonstrated how reduced state support for higher education in Arizona has led to significantly diminished need-based state grant aid. The amount of need-based grant aid the state provided before it began to reduce support was already low. The recent reductions have the potential to significantly hinder Arizona's efforts to expand college access and attainment. This, our newest policy brief, shows how increasing state-sponsored need-based grant aid can help to reverse this damaging trend and put Arizona on track to reach its statewide attainment goal.

In fact, growing the number of residents who enroll in and complete a postsecondary program of study is a key priority for Arizona. Our ability to increase the postsecondary attainment rate will, in many ways, shape the future of our state. As we have consistently demonstrated, the economic and social benefits of increasing postsecondary access and attainment will substantially enhance the state's economy and expand opportunities for advancement to more Arizona residents. For these reasons, increased attainment is College Success Arizona's North Star, guiding our work to improve education outcomes for all Arizonans.

Achieve60AZ—a grassroots alliance of more than 60 community, business, philanthropic, and education organizations—is a testament to the mounting energy behind efforts to increase attainment rates in our state. Achieve60AZ's statewide attainment goal—to ensure that 60 percent of Arizonans hold a postsecondary degree or certificate by 2030—has drawn praise from Gov. Ducey, who plans to support Achieve60AZ's efforts in 2017.

Central to this effort is the irrefutable need to empower more low-income Arizonans with greater access to postsecondary education opportunities. As recently as three years ago, less than one-third of low-income students in our state enrolled in a postsecondary education program. Over the past 10 years, though, rather than investing in programs and initiatives that can help to increase access and attainment for low-income students, Arizona has been doing less and less to support higher education. We were hit hard by the Great Recession, and, since then, Arizona's cuts to funding for public colleges and universities have been more severe than those in any other state. As a result, tuition prices have soared—up 88 percent at four-year institutions since 2008—despite the best efforts of the Arizona university system to keep college affordable. Moreover, the largest community colleges in Arizona, Maricopa and Pima, have seen their funding from the state disappear completely.

Arizona's lack of a well-resourced and well-designed state grant aid program is particularly noteworthy in this context. Need-based state grant aid programs have been shown not only to increase postsecondary enrollment but also persistence and completion. This is especially true for low-income students, who, as a substantial body of research demonstrates, are the most sensitive to tuition prices. Other states—such as Kentucky, Tennessee, and Texas—have publicly committed to raising their postsecondary attainment rates and make significant investments in targeted grant aid programs that support low-income students. While these states have focused on those goals, Arizona has limited its investments in such programs.

We must do more, as a state, so that all Arizona residents—regardless of their socioeconomic status—have the opportunity and can afford to participate in our outstanding higher education system.

Vince Roig

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Why Need-Based State Grant Aid Matters

One of the most important ways that states provide financial aid to students is through subsidies to public institutions of higher education, including vocational institutions, community colleges, and four-year colleges and universities. These subsidies enable public institutions to offer discounted “in-state” tuition prices—lower than the total cost of education to the institution—for students who are state residents.

Funding for Public Colleges and Universities Since 2008



Per Student Spending in Arizona Since 2008



Source: Center on Budget and Policy Priorities

Nationally, however, in the face of budget constraints, states increasingly are cutting back on subsidies for institutions. This is particularly true in Arizona, where funding for higher education has been severely diminished in recent years; indeed, no state has made greater cuts. Since 2008, the state has cut funding for public colleges and universities by 56 percent, leading to an 88 percent tuition price increase.ⁱ This amounts to a \$3,615 reduction in per-student spending. These cuts have significantly increased the financial burden that Arizona students must bear—and which many cannot.

As College Success Arizona has shown, the amount of need-based state grant aid available in our state has also shrunk substantially since 2008. This sets Arizona apart from most states. The general national decline in state support for higher education has typically occurred in parallel with a shift away from subsidizing institutions. States have instead emphasized subsidies, in the form of grant aid, for students themselves.ⁱⁱ Arizona, though, has reduced financial support for institutions *and* students. In 2015-16, the state subsidized just 34 percent of the cost of education for in-state students in the Arizona university system, and state-sponsored student financial aid, of any kind, amounted to “less than one-half of one percent of the total system-wide financial aid.”ⁱⁱⁱ



Arizona's universities have tried to ensure that college remains affordable for low-income students but rising costs of attendance have outpaced increases in institutional funding for need-based aid. This has led to an increase in the average amount of unmet financial need for in-state students, which stood at 48.5 percent in 2015-16.^{iv}

Data from the Helios Education Foundation show that, if Arizona is to reach its statewide attainment goal of 60 percent, "more needs to be done to increase access and opportunities for postsecondary enrollment."^v With this in mind, it is particularly problematic that low-income students in Arizona must increasingly try to afford a higher education in the face of rising tuition and falling levels of state aid. This is especially true as our state intensifies its efforts to increase the statewide attainment rate. After all, more than three decades of research shows that, when it comes to higher education access and completion, money matters.^{vi}

The Impact of Grant Aid on Access to Higher Education for Low-Income Students

For many low-income students, the net price of enrolling in and attending college is often impossible to afford, even after federal and institutional aid are considered. Unsurprisingly, researchers note that low-income students and students of color are more likely than their peers to have significant unmet financial need. This is true even after all types of aid, including available grants and loans, are accounted for.^{vii} When it comes down to unmet need, even relatively small differences between the price low-income students are asked to pay, however discounted, and the amount of grant aid they receive can have a significant impact on their likelihood of enrolling in college.

Numerous studies have found that reducing that net price of college by as little as \$1,000—through tuition reduction or increased grant aid, for example—can lead to a three to five percent increase in college enrollment.^{viii} Another study, from 2004, showed even more dramatic enrollment increases resulting from the reduced net price of college. Conducted by the Indiana Education Policy Center at Indiana University, the study finds that "on average, for every \$1,000 of need-based grant aid, enrollment rose 11.5 percentage points."^{ix} This same study notes that, at adequate levels, need-based state grant aid has been shown to "equalize persistence across diverse groups."^x





Taken together, these findings highlight the powerful effect that need-based state grant aid can have on two key factors that impact statewide attainment rates. In fact, research indicates that need-based aid is the best option “when considering the most effective aid for low-income students specifically.”^{xi}

In recognition of the impact that need-based grant aid can have for low-income students, the University of Kentucky recently announced that it was revising its financial aid strategy to award the majority of its institutional aid based on financial need rather than merit. This strategic realignment is designed to improve student retention and graduation rates; the University’s analysis of its retention rates found that when a student’s unmet financial need is greater than \$5,000, his or her likelihood of persisting declines sharply.^{xii}

In view of the prohibitively high levels of unmet need that many low-income students face, states, and Arizona in particular, must not retreat from the at-once noble and economically beneficial idea that increased access to higher education is central to the mission of the state’s overall education system. Robust, need-based state grant aid programs are worthy investments. Such investments increase the likelihood of students completing their chosen course of study and earning a credential.^{xiii}

Strengthening State Grant Aid in Arizona

A 2012 report from the Brown Center on Education Policy, at the Brookings Institution, describes state grant aid programs as important sources of funding that can enable more students, who might not otherwise be able to afford higher education, to enroll in college.^{xiv} To be worthwhile, such programs must be well-designed to maximize not only their impact on students but also to achieve the greatest possible return on taxpayer investment. Broadly, the report recommends three key principles for designing effective grant aid programs:^{xv}

- ▶ **State grant aid programs should target students with financial need and focus resources on those who will benefit the most—namely, the students whose opportunity to enroll and succeed in college will be maximally increased—from state grant aid**
- ▶ **State grant aid programs should be easy for students and their families to understand and navigate**
- ▶ **In addition to increasing access to higher education, state grant aid programs should be designed to promote student success after they enroll**

These expansive program design principles for state-sponsored grant aid align with the principles for program design supported by two prominent national education organizations, Education Commission of the States and Lumina Foundation, as well as with recommendations specific to Arizona. In 2015, the Arizona Commission on Postsecondary Education convened a Financial Aid Task Force to explore potential solutions to the financial barriers that inhibit access to higher



education for low-income students. Members included experts from a broad array of prominent Arizona institutions, such as the Arizona Board of Regents (ABOR), the Morrison Institute of Public Policy, and the Arizona State Senate. Specifically, the Task Force sought to identify the financial barriers to higher education access for low-income students and the resulting effects on the state and to developing potential solutions to those financial barriers.

As a result of its collaborative work, the Task Force identified state grant aid as a priority for Arizona in the effort to increase access to higher education and support completion for low-income students. The Task Force also identified four key characteristics that define effective state grant aid programs that meet the needs of Arizona's low-income students, all of which overlap with the recommendations from national organizations:

- ▶ **Need-Based Eligibility:** Grant aid programs should be accessible to individuals with the most financial need.
- ▶ **Portability:** Grant aid should be applicable to any higher education institution in Arizona.
- ▶ **Transparency:** Grant aid programs should be visible to Arizona middle and high school students to encourage attainment.
- ▶ **Accountability:** Data should be collected and used to assess the success of any state-sponsored grant aid program.

The foundation of any well-designed state grant aid program is adequate and sustainable funding from the state. Without the necessary resources, even the most carefully conceived and implemented programs will fail to significantly impact higher education participation and completion rates. In Arizona, numerous need-based grant aid programs have been suspended or eliminated in recent years due to funding cuts. This means that thousands of low-income students have lost access to grants that would have, for many, helped to make higher education possible and, for all, more affordable.

Characteristics of Effective State Grant Aid Programs

Organization	Targeted	Need-Based Eligibility	Flexible & Portable	Transparency & Timeliness	Data-Driven
Education Commission of the States			★	★	★
Lumina Foundation	★	★	★	★	
Brookings Institution	★	★		★	
ACPE Financial Aid Task Force	★	★	★	★	★



Additionally, research shows that program design—particularly eligibility rules and application/re-application procedures—has a substantial impact on the effectiveness of grant aid, with regard to higher education access and completion. As Dynarski and Scott-Clayton argue, “complexity, delay, and lack of transparency in the [grant] aid process mean that students and their families have little idea how much aid they will receive until after they have applied to college, which students may never do if they think they cannot afford to go.”^{xvi} State grant aid programs that promote early awareness and have easily understood eligibility rules are likely to have the greatest impact.

Exemplary State Grant Aid Programs in Three Peer States

Prominent need-based grant aid programs in Kentucky, Tennessee, and Texas embody many of these characteristics of effective state-sponsored programs. Notably, these programs provide grant aid that—much like grant aid provided through the federal Pell Grant program—is substantial, targeted, and flexible, albeit with varying restrictions on the portability of the grants. In Kentucky and Tennessee, for example, certain grants can be used at both public and private institutions, so long as those institutions meet state eligibility criteria. By contrast, Toward EXcellence, Access and Success (TEXAS) grants may be used at any public postsecondary institution—including community colleges—but not at private institutions.

- ▶ **Kentucky’s College Access Program Grant**^{xvii} offers grant aid of up to \$1,900 a year for undergraduates who are Kentucky residents and demonstrate financial need. There are no merit-based components, and students may qualify for the grant at any eligible college or university (public or private), proprietary school, or technical college. Funding for the program comes from the state lottery. In 2013, 39,752 students received College Access Program grants.
- ▶ **The Tennessee Student Assistance Award Program (TSAA)**^{xviii} provides grant aid to undergraduate students who are Tennessee residents and demonstrate financial need; there are no merit-based components. Students may qualify for the grant by attending any eligible postsecondary institution in the state, including colleges and universities (public and private), technical colleges, and career schools. Award amounts range from \$1,000 (Tennessee College of Applied Technology) to \$4,000 (two-/four-year private institutions). Funding for the program comes from the state’s General Fund and the state lottery. In 2013, 32,606 students received TSAA grants.
- ▶ **Toward EXcellence, Access and Success (TEXAS) Grant Program**^{xix} provides grant aid to high school graduates with demonstrated financial need. It provides initial awards to the neediest applicants who meet basic academic qualifications. Continuation of the grant is contingent upon students maintaining satisfactory academic progress in the first year, as defined by their institution, and meeting grant-specific achievement standards to continue with the grant beyond the second year. TEXAS grants may be used at any public postsecondary institution in the state, including community and technical colleges. The maximum award for 2016-17 is \$8,722 for public universities and state colleges, and \$4,572 for public technical colleges. Funding for the program comes from the state’s General Fund. In 2013, 87,341 students received TEXAS grants.



Recommendations for Policymakers

It is increasingly clear that Arizona needs to significantly improve its postsecondary attainment rate in order to remain competitive and to ensure that its residents—and its low-income residents, in particular—are not left behind in our ever-changing economy. Policymakers can take important action to increase statewide rates of higher education access, enrollment, and completion by focusing on developing robust and sustainable state-sponsored need-based grant aid programs.

- 1. Increase and sustain investment in state grant aid programs.** Arizona's existing programs are severely underfunded and, as a result, they serve very few students, leaving Arizona far behind other states when it comes to basic state support for higher education access and success. Increased and sustained funding will enable the state to resume suspended programs and establish new programs to meet state goals. More broadly, increased grant aid investment will expand access to higher education for all Arizonans, especially low-income students, and increase college attainment across the state. Increased attainment, in turn, will help to grow Arizona's economy; if Arizona matches the national average for attainment, the economic and social gains would amount to more than \$6.3 billion annually.
- 2. State grant aid should be substantial and reliable.** Currently, Arizona's state-sponsored grant aid programs provide only minor support for low-income students. Substantial awards that students can count on from year to year will support higher education access as well as completion. These awards help to ensure that students have the resources they need to succeed in their program of study without having to drop out for financial reasons. Additionally, generous and sustainable state-sponsored grant aid programs have the potential to mitigate Arizona's over-reliance on tuition set-asides.
- 3. State grant aid programs should provide low-income students with precisely targeted awards that can be used to attend any accredited postsecondary institution in the state.** Portability enables students to use grant aid at any eligible institution, empowering them through expanded choices among numerous opportunities and pathways to success. Although the particulars of institutional eligibility will need to be examined carefully by policymakers, especially when it comes to public vs. private institutions, conversations about grant aid portability are essential to developing effective grant aid programs. After all, the goal of targeted and portable aid is to increase access and attainment for low-income students at all levels of postsecondary education, such as community colleges and technical schools, not only for those attending institutions in the Arizona university system.



- 4. State grant aid programs should promote early awareness.** New need based grant aid programs should be designed to reach low-income students in middle school, a critical time in their academic careers. Early awareness helps to increase college participation rates for low-income students and foster a college-going culture in schools and communities where higher education is too often considered out of reach. Early awareness of the possibility of college can also encourage academic achievement in middle and high school. Additionally, existing grant programs should be redesigned to promote early awareness and treat it as a vital program goal.
- 5. State grant aid program eligibility rules and application procedures should be easy to understand.** To ensure that the significant investments Arizona would make in a need-based state grant aid program are as impactful as they can be, such grant aid programs should be designed to ensure that all students and their families—and especially low-income students and families, many of whom may be unfamiliar with the higher education system and its intricacies—can easily take advantage of the tremendous opportunity that state grant aid represents.

Endnotes

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