

States in the Driver's Seat:
*Leveraging State Aid to Align
Policies and Promote Access,
Success, and Affordability*

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Western Interstate Commission for Higher Education

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- Assist policymakers in dealing with higher education and human resource issues through research and analysis.
- Foster cooperative planning, especially that which targets the sharing of resources.

This publication was prepared by the Policy Analysis and Research Unit, which is involved in the research, analysis, and reporting of information on public policy issues of concern in the WICHE states.

*The U.S. Pacific territories and freely associated states includes three U.S. Pacific territories – American Samoa, the Commonwealth of the Northern Mariana Islands, and Guam – and three freely associated states – Marshall Islands, Federated States of Micronesia, and Palau. They join as a single member, with each territory and state electing individually to participate actively in the commission when it sees fit. The Commonwealth of the Northern Mariana Islands (CNMI) is the first of the group to participate.

March 2014
Printed in the United States of America
WICHE Publication Number 2A391

To download the complete "States in the Driver's Seat" document:
http://www.wiche.edu/info/publications/States_in_the_Drivers_Seat.pdf

This paper is one in a series of reports funded by Lumina Foundation. The series is designed to generate innovative ideas for improving the ways in which postsecondary education is paid for in this country – by students, states, institutions and the federal government – in order to make higher education more affordable and more equitable. The views expressed in this paper – and all papers in this series – are those of its author(s) and do not necessarily reflect the views of Lumina Foundation.

Executive Summary

With increasingly widespread calls to raise educational attainment levels without substantially growing public investment in higher education, policymakers and others have devoted growing attention to the role of financial aid programs in providing access to, promoting affordability for, and incentivizing success in college. Given relative levels of investment, most of that focus has been on federal financial aid programs. But for students enrolled in higher education, the vast majority of whom attend public institutions, the impact of federal aid policies is filtered through finance policies enacted at the state level. The wide differences in financing strategies among states mean that states ultimately determine to a great extent how college opportunities are distributed, costs are affordable, and students are successful.

This concept paper takes a closer look at state financial aid programs and how they are uniquely well-positioned to address many of the financial challenges in college access, success, and affordability that stand in the way of achieving educational attainment goals. It advances a framework for the distribution of aid that is efficient with scarce public funds, encourages students to make progress and succeed, promotes institutional behaviors that are aligned with public needs and expectations, and integrates state policies with federal and institutional policies and practices. Informed by a set of guiding principles, the paper makes the following policy proposals:

1. States can adopt a Shared Responsibility Model (SRM) as the framework for determining the eligibility for a state grant, as well as the amount of the grant.

The SRM is an approach to determining aid eligibility and award amounts that divides up a student's cost of attendance among key partners including: the student, his or her family, the federal government, the state government, and the institution. In so doing, it helps states make their policies on institutional appropriations, tuition-setting, and financial aid work together to ensure access and affordability for state residents. It also offers a framework for rationing scarce public funds in a manner consistent with state goals around educational attainment. Finally, it gives students and their families essential information about how to make a college education affordable.

2. States can encourage well-designed, state-supported programs to assist students in meeting their student contribution.

In adapting an SRM-based approach to distributing state aid, states are expecting a significant financial commitment from students. They can help students fulfill their commitment most effectively if they also consider how work-based learning programs – like co-operative education, paid internships, and work/study programs – might help students earn money while enhancing their academic experiences at the same time.

3. States can embed demand-side incentives that promote student success.

Incentives that encourage students who receive state grants to proceed as rapidly as possible through college are among the tools states can employ in their grant aid design. For instance, renewal of a state grant may be conditioned upon forward-looking merit criteria, such as basing award levels on the number of credits attempted and passed during the preceding academic term or year. States with established merit programs may be able to creatively integrate those programs in ways that preserve the incentives for students while simultaneously using the SRM approach to provide grant funding where it reaches students whose decisions are most influenced by that funding.

4. States can embed supply-side incentives that ensure that institutions share in both the risk and rewards of student success.

Adopting a set of supply-side incentives explicitly ties together the state's investment in needy students and its interest in the successful completion of target student populations. Such incentives should take the form of shared risks and rewards, through which institutions can expect to share in the rewards when the aid recipients in their care are successful, but stand to suffer a loss when they are unsuccessful.

5. States can leverage grant aid programs to encourage institutional aid expenditures that are aligned with state goals for student success, affordability, transparency, and predictability.

In 2012-13, institutions collectively provided \$44.4 billion in grants to students, an amount more than four times greater than the total grant aid provided by states.¹ To help ensure that those dollars are spent in ways that best advance the public's interest in educational attainment, states can require institutions to contribute towards meeting state-grant-supported students' costs of attendance as a condition for participating in the state grant program. Such a provision would need to account for institutions' differing capacity to make their own awards.

6. The federal government can recommit to its historic partnership with states in promoting well-designed grant programs through a contemporary LEAP program.

One of the casualties of the recent economic recession was a federal policy known as the Leveraging Educational Assistance Partnership (LEAP) program, which incentivized states to operate their own need-based grant programs. Given LEAP's historic role in encouraging states to create need-based aid programs, even if its effectiveness had declined in recent years, a more contemporary federal-state partnership program can prompt a new wave of state financial aid redesign efforts. Under such a policy, the federal government might provide funds to states not for simply maintaining a relatively modest need-based aid program as the old LEAP did, but would distribute support to states based on how well students are able to afford their costs of attendance. By generating a competition among states with affordability as the target, the policy could potentially serve to help keep rising tuition prices in check, an idea that merits further examination.

7. States can ensure that their grant programs include an expectation that standards of academic quality are maintained.

Such a commitment is foundational to the integrity of higher education, but it becomes important to monitor and evaluate this since these policy proposals include incentives aimed at institutions that benefit directly from the success of their aided students.

8. States can require that their financial aid programs are systematically evaluated.

As with any substantial subsidy program, states should think about how to evaluate the success or failure of the program as they are designing it, and states should require institutions that participate in their grant aid program to submit unit-level records on all their students, not just on those who receive state grants.

Getting the alignment of subsidies right is essential to our ability to achieve national and state educational attainment goals. Since much of the systematic variation in how higher education is financed results from state policy, states are in the driver's seat to foster better alignment. State grant aid programs are particularly well suited to achieve alignment between appropriations, tuition, and financial aid policies and to consider the relative contributions that key stakeholders must make in funding a student's college education. Those key partners are the students themselves, their families, the federal government, the state, and the institutions. A grant program that establishes the expectations for each stakeholder offers a state a clear conceptual framework for making policy choices about funding higher education. An especially well-designed model will include incentives aimed at students to be prepared for college and to accelerate their progress toward their educational goals. It also will create conditions for institutions to double-down on the state's investment in grant-aided students to better attend to and promote student success and to more effectively target their own discretionary resources to enhance affordability for those for whom it matters most. Finally, the federal government can create incentives for states to invest in grant aid programs aligned with national educational attainment goals in a way that respects the autonomy of and the wide disparities among states, and doing so in a way that leverages the federal investment to dampen the rise in college prices.

Notes

¹ National Association of State Student Grant and Aid Programs (NASSGAP), *43rd Annual Survey Report on State-Sponsored Student Financial Aid*, 2013 <http://www.nassgap.org/viewrepository.aspx?categoryID=3#collapse_351>; Sandy Baum and Kathleen Payea, *Trends in Student Aid* (New York, NY: The College Board, 2013).