Public Good or Private Benefit: Orienting the Public Investment in Higher Education Through State Financial Aid

David Longanecker
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States in the Driver’s Seat

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• Policy drift: What’s the right balance? No consensus on what affordability means -- has it eroded or not?

• Current Noise:
  – The public benefit/private benefit rift
  – Debt is the problem
  – The something for nothing ideas
  – Myth over reality – the middle-class squeeze
  – Malaise – all is lost/ isn’t anything we can do

• WICHE’s attempt:
  – Align funding with state goals
  – Suggest a framework for finding an appropriate balance of payment sources
  – Stimulate greater coherence in state finance policies
  – Integrate sources of subsidy
  – Include a possible means for restraining prices through a federal/state partnership
Financial Aid Makes ATFA Go

Appropriations

Tuition-Setting

Financial Aid

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Financial Aid
Guiding Principles

• Compelling philosophical rationale
• Clearly Integrate policy and roles
• Establish demand-side interventions
• As well as supply-side interventions
• Ensure strong program administration
Five Partners Share Responsibility for Meeting the Cost of Attendance

5. The institution is responsible for any difference between the recognized COA and its own actual COA.
4. The state grant award makes up the remaining difference.
3. The model accounts for the federal government’s contribution (i.e., Pell, tuition tax credits, other transfer payments).
2. The student’s parents contribute their share, which is determined by the federal methodology.
1. Each student, as the principal beneficiary, is expected to contribute toward his/her own educational costs. Sources include: earnings, savings, borrowing, or scholarships.
Recognizing the Difference in Costs Between Sectors

Two-Year Sector

- Student
- Family
- Feds
- State

Cost of Attendance

Four-Year Sector

- Student
- Family
- Feds
- State

Cost of Attendance

A cost to choice, linked to a reasonable borrowing expectation

Earnings, given a reasonable work commitment at minimum wage
Targets for Incentives

Students
More and faster success

Institutions
Shared risks/rewards
Aligning investments

States
Supporting strategic redesign
Demand-Side Incentives

- Initial eligibility for recent HSGs dependent on coursework
- Rewarding progress (forward-looking merit)
- Pay in increments; not all at once
- Folding existing and politically popular merit programs into the SRM approach
- Workplace experience can help students meet their expected contribution
Supply-Side Incentives

• “Double down” on the state’s investment in aid recipients: explicitly link state financial aid to those students’ success.
• Recognize COA as costs, not just tuition
• Commitment to serve aided students with needed courses and other supports
• Shared risk, shared reward
• Institutional match
Supply-Side Incentives: Institutional Match

• $44.4 billion of institutional aid in 2011-12, much spent on rankings- and prestige-driven priorities

• Match based on a schedule that accounts for role and mission and institutional wealth

*This component reflects the requirement that an institution cover any difference between the state’s recognized COA and its own actual COA, for state grant recipients.
State Incentives: A Renewed and Reinvigorated Federal/State Partnership

• LEAP (formerly SSIG) originally stimulated creation of state need-based aid programs. Never modernized, effectiveness diminished, eliminated in FY12.

• WICHE: set states in competition for federal funds based on affordability with more funds provided to states with a better affordability index.

• SHEEO: sets affordability threshold based on IBR (15% of discretionary income), states match federal funds up to that threshold, no match beyond that required
Shared Responsibility

• Means real shared responsibility
  – Feds, for sure
  – Students as principal beneficiaries
  – Families before tax payers
  – States to fill in the gap
  – Institutions to fill in the “exceptional” gap

Shared responsibility means real sharing of responsibility – it’s that simple.