REPORT OF THE

STATE COUNCIL OF HIGHER EDUCATION

FOR VIRGINIA

ON

STUDENT AID IN VIRGINIA

TO

THE GOVERNOR

AND

THE GENERAL ASSEMBLY OF VIRGINIA

SENATE DOCUMENT NO. 3

COMMONWEALTH OF VIRGINIA
RICHMOND
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STATE COUNCIL OF HIGHER EDUCATION FOR VIRGINIA

STUDENT AID IN VIRGINIA: PROPOSALS FOR ENSURING CONTINUED ACCESS TO HIGHER EDUCATION

EXECUTIVE SUMMARY

This study recommends a number of improvements in certain existing state student financial aid programs in order to make them more cost-effective. In addition, several new programs designed to meet the changing needs of Virginia's students are proposed for the 1984-86 biennium. The recommendations and the principal conclusions upon which they are based are summarized below.

Although the cuts in federal student aid programs have not been as severe as those originally predicted, they have been significant. In combination with the sharp increases in tuition and fees, particularly at the state-supported institutions, the cuts in student aid are shifting more of the financial burden of attending college to the students. In order for students to pay a larger share of college costs, opportunities to borrow or to earn additional funds are needed. Because many students are already borrowing heavily to finance their education, and because existing loan programs are sufficient to meet current student loan demands, the establishment of a State Loan Program is not recommended. Rather, the expansion of employment opportunities for students is urged. Specifically, the study recommends:

1. That a new need-based student employment program emphasizing off-campus jobs with private business and industry be established to assist students beginning in 1984-85.

In 1984-85, the program's first fully operational year, an appropriation of $3.5 million in state funds for student wage subsidies and job development is recommended. This amount would generate an additional $2.0 million in wage money from employers. The total would provide approximately 5,000 students with annual earnings averaging $1,000. In order to place students in jobs beginning in 1984-85, however, a large number of off-campus jobs would need to be developed in 1983-84. Accordingly, the study also recommends that the program be authorized for 1983-84 and funded with a supplemental appropriation of $750,000 for job development support.

2. That institutions give high priority to expanding the number of cooperative education opportunities available to their students and that efforts of state-supported institutions in this regard be supported by the Governor and the General Assembly, the availability of funds permitting.

Although the primary objective of Cooperative Education Programs is to provide work experience related to education, rather than to aid financially needy students, these programs are an important source of financial assistance. Cooperative Education employers, most of which are business and industrial firms, pay 100 percent of the students' wages. The costs to the institution are limited to job development, placement and supervision.

In addition to the need to expand employment opportunities for students, there is also a need for continued state support of grant and scholarship programs. For several years, Virginia's need-based College Scholarship Assistance Program (CSAP) has been ineffective for lack of sufficient federal and state funds to meet the needs of an ever-expanding number of eligible applicants. Rather than seek additional funds for the program at this time, the study recommends:

3. That the CSAP be restructured for 1983-84 to provide grants of ''last resort'' to students who have significant financial need after exhausting all other sources of financial aid, including work and loan programs.

Under its present structure, CSAP awards are based on the student's financial need before other aid is received. This policy has spread small awards of $200 across a large number of eligible applicants whose individual access to other aid varies considerably. Under the ''last resort'' concept, available funds would be redirected in larger amounts to the relatively small number of CSAP applicants who have substantial financial need which cannot be met by aid from alternative sources, including work and loan self-help programs.

In addition to assisting the students most in need of additional aid through a restructured CSAP, there is also a need to demonstrate a statewide commitment to quality education by recognizing academically talented individuals and encouraging them to pursue higher education at Virginia institutions. The study therefore recommends:

4. That a modest statewide merit-based scholarship program be established for 1984-85.

The Scholarship Program would be phased in over a four year period. A first-year appropriation of $150,000 would provide 50 students with renewable scholarships of $3,000 per year. By the fourth year, the level of funding would peak at about $500,000 per annum. In order to implement the program for 1984-85, legislation authorizing the program would need to be enacted by the 1983 General Assembly. No appropriation would be required for 1983-84, however.

Several existing programs, in addition to the CSAP, are in need of minor modifications in order to accomodate new conditions which will affect students and institutions through the 1980's. To assist state-supported institutions, the study recommends:

5. That discretionary student aid funds received by institutions as part of their biennial appropriations be increased in proportion to future increases in tuition and fees.

Recent reductions in general fund support brought about by changing state priorities and limited resources are forcing institutions to increase tuition and fees significantly in order to support their Educational and General Programs. As college costs rise at rates exceeding inflation rates and students are expected to pay more, the institution's need for additional discretionary student aid funds increases proportionally.

In addition to the need to link discretionary student aid appropriations to future tuition and fee increases, there is a need at some senior institutions to direct more of this aid to graduate students. The reason is that the sharp increases in graduate tuition and fees are making it difficult for institutions to attract highly qualified graduate students. The Appropriations Act limits to 50 percent the amount of discretionary student aid funds senior institutions may use for graduate student aid. Accordingly, the study recommends:

6. That the Appropriations Act be amended to permit state-supported institutions to use up to 65 percent of their discretionary student aid funds for graduate assistantships and fellowships.

In addition to providing certain senior institutions with more flexibility in the use of their discretionary student aid appropriations, there is also a need to extend these funds to all state-supported institutions. Presently, only the 15 senior institutions and Richard Bland College receive such appropriations. Therefore, the Study Committee recommends:

7. That some discretionary student aid funds be appropriated to the Virginia Community College System beginning 1984-85.

The Council supported for the 1982-84 biennium an appropriation to the Community Colleges of $500,000 per annum in discretionary student aid funds, but the funds were not provided. Based on the sharp increases in Community College tuition and fees, reconsideration should be given to appropriating this annual amount starting in 1984-85.

The costs of attending private colleges are also rising as a result of inflation and other factors. In order to help Virginia's private institutions remain competetive with state-supported institutions, the study also recommends:

8. That appropriations for the private college Tuition Assistance Grant Program (TAGP) be increased as appropriations for the state-supported colleges and universities are increased.

Finally, the study recognizes the need to promote greater private business and industry support for higher education institutions through scholarships, fellowships, and assistantships. Increased support derives from a close working relationship between institutions and private business. Although a new State Student Employment Program and an expansion of existing Cooperative Education Programs would go a long way towards achieving this relationship, additional state initiatives are needed. Because increased financial support from business is directly linked to the services business receives as a return on their investment in higher education, the study recommends:

9. That a statewide effort be made to inform private business and industrial firms of the diverse human and material resources available from Virginia's colleges and universities.

10. That establishment of a statewide clearinghouse be considered for 1984-85 to help business and industry match their needs with the institutions' expertise and resources.

STUDENT AID IN VIRGINIA: PROPOSALS FOR ENSURING CONTINUED ACCESS TO HIGHER EDUCATION

A REPORT FROM

THE STATE COUNCIL OF HIGHER EDUCATION FOR VIRGINIA

TO

THE GOVERNOR

AND

THE GENERAL ASSEMBLY

Approved by the State Council of Higher Education

for Virginia on November 3, 1982.

(Appendices not included)

STUDENT AID IN VIRGINIA: PROPOSALS FOR

ENSURING CONTINUED ACCESS TO HIGHER EDUCATION

SUMMARY OF RECOMMENDATIONS

This study recommends a number of improvements in certain existing state student financial programs in order to make them more cost-effective. In addition, several new programs designed to meet the changing needs of Virginia's students are proposed for the 1984-86 biennium. The recommendations are summarized below:

1. That a new need-based student employment program emphasizing off-campus jobs with private business and industry be established to assist students beginning in 1984-85, with job development funds provided in 1983-84 (refer to pages 45-51);

Tentative Implementation Plan

Date Program Established: July 1, 1983

Appropriations

(Year)	(Amount)
FY 1983-84	$ 750,000
FY 1984-85	3,500,000
FY 1985-86	4,000,000

2. That institutions give high priority to expanding the number of cooperative education opportunities available to their students and that efforts of state-supported institutions in this regard be supported by the Governor and the General Assembly, the availability of funds permitting (refer to pages 42-46);

3. That the CSAP be restructured for 1983-84 to provide grants of ''Last Resort'' to students who have significant financial need after exhausting all other sources of Financial Aid, including work and loan programs (refer to pages 24-28);

4. That a modest Statewide merit-based scholarship program be established for 1984-85 (refer to pages 28-31);

Tentative Implementation Plan

Date Program Established: July 1, 1983

Appropriations

(Year)	(Amount)
FY 1983-84	$ 0
FY 1984-85	150,000
FY 1985-86	300,000

5. That discretionary student aid funds received by institutions as part of their biennial appropriations be increased in proportion to future increases in tuition and fees (refer to pages 33-34);

6. That the Appropriations Act be amended to permit state supported institutions to use up to 65 percent of their discretionary student aid funds for graduate assistantships and fellowships (refer to pages 34-35);

7. That discretionary student aid funds in the amount of $500,000 per year be appropriated to the Virginia Community College System beginning in 1984-85 (refer to page 34);

8. That appropriations for the private college Tuition Assistance Grant Program (TAGP) be increased as appropriations for the state-supported colleges and universities are increased (refer to pages 31-33);

9. That a statewide effort be made in 1983-84 to inform private business and industrial firms of the diverse human and material resources available from Virginia's colleges and universities (refer to pages 54-55); and

10. That a statewide clearinghouse be considered for 1984-85 to help business and industry match their needs with the institutions' expertise and resources (refer to pages 55-56).

INTRODUCTION

Faced with the possibility that federal funding of student aid programs might be severely curtailed in the immediate future, the 1982 Virginia General Assembly requested the Council of Higher Education to conduct a major study to assess the adequacy of Virginia's student financial assistance programs to provide access to higher education. The call for the study was contained in Senate Joint Resolution No. 81. The resolution reads, in part, as follows:

> The State Council of Higher Education is requested to determine the most equitable means whereby students, parents, and the state government should share the financing of higher education costs, and specifically, to recommend how Virginia's student financial aid programs should be structured in order to maintain student access to higher education in Virginia. The Council is also requested to determine what new programs, if any, might best promote access at the lowest possible cost to the Commonwealth's taxpayers. If a need for additional state aid programs is identified, the Council is requested, as a part of the study, to determine the feasibility of establishing a state loan fund, to be created through the issuance of state revenue bonds and private gifts, and a state scholarship endowment fund, to be created through tax revenues and private gifts for the purpose of encouraging meritorious students to remain in the state.

Governor Charles S. Robb expressed his concern about adequate student financial aid in a speech to the State Higher Education Executive Officers in March. In the speech, the Governor requested the Council, as a part of its study, to determine the feasibility of establishing a state work-study or cooperative education program to provide students with additonal student employment opportunities to help finance their college costs. The Governor also suggested a need for closer cooperation between higher education and the business and industry community and recommended that the Council explore with private enterprise the possibility of establishing scholarships in certain high demand disciplines.

To assist in conducting the study, the Council established a task force consisting of selected financial aid directors from both state-supported and independent institutions; members of the banking and business community throughout the state; board members and staff from the Council, the State Education Assistance Authority , and the Virginia Education Loan Authority; and knowledgeable citizens. The list of task force members is included as appendix A of this report. The task force divided into subcommittees to review the need for a state loan program; for state student work programs (including work-study and cooperative education options); for additional grant programs, including a merit-based program to retain outstanding students in Virginia; and for modifications in the two statewide financial aid programs, the College Scholarship Assistance Program and the Tuition Assistance Grant Program.

This report contains the results of the task force's review and its recommendations for re-structuring student aid in Virginia. The first chapter reports on the status of financial aid in Virginia, with an emphasis on the changes which have occurred in federal funding patterns for student aid. Chapter II outlines the task force proposals, while Chapter III summarizes the study and its principal recommendations regarding the Commonwealth's future financial aid programs. A supplemental paper which places student financial assistance in perspective within the financing of higher education will be submitted to the Governor and the General Assembly as a separate document. Presented as appendices to the study, in addition to the list of Task Force members, are technical papers which clarify the task force's recommendations on the student employment and grant programs. Also appended is a nationwide survey conducted by Council of Higher Education staff which summarizes actions taken -- or proposed-- in other states to compensate for the loss of federal aid funds.

CHAPTER I:

THE STATUS OF FINANCIAL AID IN VIRGINIA

The focus of the General Assembly resolution directing the study was access: can the present programs and levels of funding continue to ensure access for Virginia's students? To begin to answer this question requires a review of the status of federal student aid funding in Virginia and a brief introduction to the Virginia aid programs.

It is important to note in undertaking this review that this study was conducted at a time when state priorities and limited resources were forcing institutions to increase tuition and fees significantly in order to support their educational and general programs. The amount of student aid needed in Virginia, given the current expectations of students and parents, is dependent upon the costs of attending a college or university. As students are expected to pay more, the need for scholarship, loan and work study program money increases.

FEDERAL FUNDING FOR STUDENT AID IN VIRGINIA

Introduction

Students in Virginia's postsecondary institutions received over $62 million in federal student aid during the 1981-82 academic year.

This estimate of funding does not include about $100 million in aid received under the Guaranteed Student Loan program (the federal government does not provide the loan funds but does pay the administrative cost of the program, including interest and special allowance payments) or the $50 million in educational benefits made available to Virginia students under the Social Security program.

Federal Funding For the Pell Grant and the Campus-Based Aid Programs

Nationally, the funding for the federal financial aid programs reached a peak during the 1980-81 academic year. In that year, as shown in Table 1, the federal government appropriated almost $4 billion for the Pell Grant and the campus-based (Supplemental Educational Opportunity Grant, Work-Study, and National Direct Student Loan) student aid programs. With the advent of the Reagan Administration, a concerted effort began in Fiscal year 1981 to reduce federal expenditures. As a result, funding for the federal aid programs declined by almost $400 million in the 1981-82 academic year.

In late August, 1981, Congress passed a Budget Reconciliation Act partially restoring student aid funding which was lost in the Fiscal Year 1981 budget. The message, however, was clear: funding for student aid programs would in the future be severely restricted. Congress then began a protracted discussion regarding the funding levels for the 1982 Fiscal Year. Because of disagreements and indecision within Congress, student aid funding during the 1982-83

Table 1

A THREE-YEAR SUMMARY OF APPROPRIATIONS
FOR THE MAJOR FEDERAL STUDENT AID PROGRAMS:
1980-81 THROUGH 1982-83

Title IV Programs	FY 80 Final Appropriation [AY 80-81]	FY 81 Estimated Appropriation [AY 81-82]	FY 82 (Including Supplement [AY 82-83]
Pell Grants	$2,669,000,000	$2,346,000,000	$2,419,000,000
Supplemental Educational Opportunity Grants (SEOG)	370,000,000	370,000,000	355,000,000
National Direct Student Loans (NDSL)	286,000,000	186,000,000	179,000,000
College Work-Study (CWS)	550,000,000	550,000,000	528,000,000
State Student Incentive Grants (SSIG)	76,800,000	76,800,000	73,800,000
TOTAL	$3,952,000,000	$3,529,000,000	$3,554,800,000

academic year was appropriated on the basis of a continuing resolution which contained only minimal reductions in the amounts provided for the 1981-82 academic year.

In August, 1982, Congress attempted to appropriate additional funds for the Pell Grant and Supplemental Educational Opportunity Grant programs for the 1982-83 academic year. Although President Reagan vetoed the Supplemental Appropriation Bill containing the additional funds for the two programs, Congress eventually overrode the veto. Now, total funding will be slightly more than that provided in 1981-82.

Because of the funding uncertainties, a perception among students that the program cuts were more severe than they actually were, and a delay by the U.S. Department of Education in getting Congressional approval of the rules under which the various aid programs would operate in the 1982-83 academic year, institutions and students entered the academic year amidst considerable confusion. As a result, some students who were planning to enroll may have decided not to do so this year. Many who did enroll expressed much concern over the uncertainty of their awards.

Even though the academic year is well underway, there may yet be modification of the Guaranteed Student Loan program. The Reagan Administration continues to request additional changes in this program in order to restrict further student eligibility for the loans. Should any changes occur, however, " most students will probably not be affected immediately, because the majority will have already obtained their loans for this year under the requirements currently in place.

The future loss of any additional loan funds under the GSL program may be softened, in Virginia and other states, through the initiation of the PLUS (Parent Loans for Undergraduate Students)<1> program, a federally established, supplemental loan program. The creation of this program means that parents of dependent students and some independent students will have yet another source of loan funds. Although the interest rate was initially set at 14 percent (compared with the GSL rate of 9 percent) and other features have made it less attractive than the GSL, the program nevertheless provides families with an important auxiliary funding source. In addition, the interest rate declined to 12 percent for all new loans beginning November 1, 1982<2>. Virginia has only recently begun participating in this program, which is administered by the State Education Assistance Authority and involves about 80 participating banks and other lending institutions throughout the state.

<1> The acronym for the program has been retained even though the program was broadened to include other recipients.

<2> Section 427A(c)(2) of the Higher Education Act of 1965 (as amended in 1980) required that the available rate of interest be reduced to 12 percent if the average of the bond equivalent rates of 91-day Treasury bills auctioned over any 12-month period (beginning November 1, 1981) was equal to, or less than, 14 percent. The average rate for the 10-month period ending July 31, 1982, was 12.9 percent, and T-bill rates did not change appreciably over the next two-month period. Therefore, the average on by October, 1982, was also less than 14 percent.

The Administration's major reductions in the student aid programs are proposed for the 1983 Fiscal Year (the 1983-84 academic year). Under the President's proposals, the Supplemental Educational Opportunity Grant (SEOG), the National Direct Student Loan (NDSL), the State Student Incentive Grant (SSIG), and the Cooperative Education programs would be totally eliminated, while the Pell Grant and College Work-Study programs would be significantly reduced. Congress continues to work on the budget for 1983-84. At this time, it is not known if any of the President's proposals will be adopted. Nevertheless, it seems certain that federal student aid funds will not increase appreciably in the future; at best, the aggregate funding may remain at the current level.

The Loss of Federal Student Aid Funds in Virginia

The decline of federal student aid funds in Virginia is shown in Table 2. The Commonwealth lost approximately $7 million under the aid programs between the 1980-81 and 1981-82 academic years. Under the continuing resolution for 1982-83, Virginia students would have lost another $2 million. However, most of these funds were restored with the approval, in September, of the supplemental appropriations bill. If Congress should accept the President's student aid proposals for 1983-84, Virginia students would lose approximately $28 to $30 million over the funds received during the 1982-83 academic year.

Table 2

A THREE-YEAR SUMMARY OF ACTUAL AND PROJECTED FEDERAL FINANCIAL ASSISTANCE TO STUDENTS ENROLLED IN POSTSECONDARY EDUCATION IN VIRGINIA: 1980-81 THROUGH 1982-83

Title IV Programs	FY 80 Final Appropriation [AY 80-81]	FY 81 Estimated Appropriation [AY 81-82]	FY 82 Estimated Appropriation (Including Supplemen: [AY 82-83]
Pell Grants	$44,000,000	$40,000,000	$41,000,000
Supplemental Educational Opportunity Grants (SEOG)	6,500,000	6,800,000	6,700,000
National Direct Student Loans (NDSL)	5,100,000	3,300,000	3,200,000
College Work-Study (CWS)	12,000,000	10,900,000	10,000,000
State Student Incentive Grants (SSIG)	1,680,000	1,630,000	1,570,000
TOTAL	$69,280,000	$62,630,000	$62,470,000
Guaranteed Student Loans (GSL)	$110,000,000	$100,000,000	$80,000,000*
Social Security Educational Benefits	50,000,000	50,000,000	38,000,000

*Pending further program modifications.

Should such a loss occur, the total federal funds provided to Virginia students under the grant and campus-based aid programs included under Title IV would have decreased by 52 percent over the four-year period beginning with the 1980-81 academic year.

<u>Guaranteed Student Loans</u> and <u>Social Security Educational Benefits</u>

To understand the extent to which Virginia students rely on federally sponsored aid programs, it is instructive to review the status of the Guaranteed Student Loan and the Social Security Educational Benefits programs.

Since the enactment of the Middle Income Student Assistance Act of 1978 (MISAA), Guaranteed Student Loans have increased threefold nationally. During the 1981-82 academic year, the total GSL loan volume approached $10 billion. This enormous growth is the result of two major congressional actions: (1) providing GSL's to all students regardless of need, and (2) funding financial incentives to encourage lenders to keep pace with the growing demand for student loans.

As noted earlier, the federal government does not provide loan funds under the GSL program. Instead, it pays the administrative costs of the program, including an in-school interest subsidy and a special allowance between the interest paid by the student and a rate tied to the prime rate. Congress does set eligibility criteria for student loans, but is then obligated to pay the costs of the program regardless of the number of loans made. The program cost to the federal government during the 1981-82 school year exceeded $3.1 billion.

In an effort to control the rapid growth in Guaranteed Student Loan volume and cost, Congress raised the interest charged to new borrowers from 7 to 9 percent under the Higher Education Act Amendments of 1980. In 1981, Congress re-established, as part of the Omnibus Budget Reconciliation Act, an income ceiling of $30,000 (no one with an adjusted gross income in excess of $30,000 may borrow without verification of financial need) and instituted an origination fee under which a student returns 5 percent off the top of the loan to pay a part of the administrative cost.

In the 1980-81 academic year, approximately 40,000 Virginia students received guaranteed loans through either private lenders or the Virginia Education Loan Authority. The total loan volume for that academic year exceeded $110 million. Because the modifications which Congress made in the Guaranteed Student Loan program did not become effective until October 1, 1981, most students were able to obtain their loans for the 1981-82 academic year under the old provisions of the program. Therefore, loan volume in Virginia decreased by only about $10 million this past academic yar.

It is impossible to determine if Congress will adopt any additional changes in the program, so the impact of any modifications which might be made during the 1982-83 academic year cannot be determined. State officials estimate, however, that with the changes imposed in October of 1981, the loan volume in Virginia in the 1982-83 academic year might decrease another $20 to $30 million from the 1981-82 level. The loan funds available under the new PLUS program, however, may reasonably compensate for the lost GSL funds.

As a part of the effort to reduce the federal budget, Congress voted, in August 1981, to phase out the eligibility of students who qualify for Social Security Educational Benefits. These grants go to students who have a deceased or permanently disabled parent. Under the Budget Reconciliation Act, a student had to be enrolled before May 1, 1982, in order to receive any future benefits under the program. Students enrolled as of that date can continue to receive payments until they reach age 22 or until April, 1985, when the program will be completely eliminated. In the interim, students will receive benefits for only 8 (rather than 12) months, and the monthly benefit will be reduced by 25 percent each year.

Nationwide, about 760,000 students received Social Security Educational Benefit checks averaging $258 per month during the 1981-82 academic yar. In Virginia, at least 18,000 eligible students received benefits which, in the aggregate, totaled approximately $50 million. Under the planned phase-out, the funding to Virginia students will decrease to approximately $38 million in 1982-83, to $26 million in the 1983-84 academic year, and to $12 million in 1984-85, after which time the program stops. Since many beneficiaries of Social Security benefits nationwide presumably are from low-income families, the loss of the benefits is expected to place considerable pressure on other student aid programs. These students will be seeking assistance under other federal aid programs which are being reduced or, at best, stabilized.

Summary

Over the last two academic years, there has been a decrease in federal student aid funds. However, the decline has not been as precipitous as originally feared. Congress has not accepted the Administration's proposals for further reductions in student aid. In view of efforts to raise additional revenue, it may be possible for Congress to stablilize the programs at approximately the 1982-83 levels of funding. Because of increasing college costs, however, stabilization means that the federal programs would meet a smaller percentage of the students' total financial need.

Perhaps as serious as the actual decline in federal student aid is the perception among students and parents that the programs have been reduced far more than they have. This perception, together with administrative delays in making the funds available to students in the 1982-83 academic year, may have led to an overall decrease in the number of student applicants for aid this year and may also have discouraged some students from enrolling in college this year.

Several delays have occurred. First, the U.S. Department of

Education waited until August 2 to publish regulations for the campus-based aid programs, including the National Direct Student Loan, Work-Study, and Supplemental Educational Opportunity Grant programs. Early that same month, the Department finally granted permission to the institutions to award the students one-half of the expected allocations in each of these programs, but the Education Department had to allow Congress 45 working days to challenge the regulations. This meant that aid officers often will not be able to issue final awards this year until the end of the first semester.

A second problem was the uncertainty over the size of the Pell Grants. Although Congress had earlier appropriated $2.3 billion for the program, it put an additional $140 million into the supplemental appropriations bill that eventually was passed over the President's veto. Until Congress overrode the veto, colleges and universities did not know whether the maximum grant under the program would be $1,800 or $1,674.

Finally, the new formulae for determining eligibility under the Guaranteed Student Loan program were not released to the institutions until the first week in July, about three months later than usual. This action slowed the processing of Guaranteed Student Loans for the 1982-83 academic year.

State-Funded Student Aid Programs in Virginia

In Virginia, campus financial aid officers prepare student aid packages comprised not only of funds from appropriate federal programs, but also from state programs created to serve a variety of purposes. The two largest of the state programs are the College Scholarship Assistance Program (CSAP) and the Tuition Assistance Grant Program (TAG), both of which are administered by the Council of Higher Education. The CSAP program is based on financial need and, like the federal programs, helps to ensure access to higher education for needy students. Supported in part by federal State Student Incentive Grant (SSIG) money, the CSAP program has been particularly helpful to low and middle income Virginia students.

The TAG program, on the other hand, is not need-based ; it is an entitlement program for all Virginia students attending private colleges in the Commonwealth. It serves two purposes: (1) it narrows the tuition gap between private and public institutions of higher education in Virginia, thereby giving Virginia students greater freedom of choice among institutions of higher education; and (2) it permits Virginia to provide assistance to private higher education in the state.

Other state-funded programs serve students from particular geographic regions or socio-economic backgrounds or those who are enrolled in certain degree programs. In addition, each biennium the Commonwealth appropriates directly to the public four-year institutions and Richard Bland College funds to make awards to students. There are, however, statutory restrictions on the use of the appropriations.

As with many states, Virginia's efforts to provide student financial assistance are diverse. There is little coordination among the programs, and most of them are designed to meet the needs of special student groups or interests. The programs and the funding appropriated for each of them in the 1982-84 biennium are identified in Table 3. The programs meet differing needs or have various emphases. One provides aid to students who aspire to be soil scientists. Another assists students who are training as doctors or dentists. Some programs make funds available to students who elect to enroll at certain institutions (for example, in-state private colleges), while others reward citizens who serve the state in certain capacities (for example, as members of the National Guard). The awards under some programs are based solely on a student's financial need (for example, the College Scholarship Assistance Program), but those in other programs are determined by students' parental circumstances (for example, aid to war orphans). Most programs are sustained through specific appropriations, but the Unfunded Scholarship Program depends on an institution's ability to decrease its operating budget in order to convert some of its funds to student aid.

Table 3

VIRGINIA PROGRAMS OF STUDENT ASSISTANCE
(1982-84)

Tuition Assistance Grant Program	$23,400,000
Institutional Appropriations for Discretionary Student Aid	12,724,260
College Scholarship Assistance Program	5,004,500*
Commonwealth Incentive Grant Program	2,032,000
Contracts for Educational Spaces	1,222,650
Vocational Rehabilitation Scholarships and Loans	1,066,800
Virginia War Orphans Program	1,000,000**
Unfunded Scholarships	800,000***
Medical and Dental Scholarships	400,200
Senior Citizens Program	400,000**
Nursing and Dental Hygienist Scholarships	242,000
Affirmative Action Scholarships	241,000
National Guard Tuition Program	200,000
Eastern Shore Tuition Assistance Program	80,000
Soil Scientist Scholarships	22,000
	$48,835,410

*Does not include federal matching funds under the State Student Incentive Grant Program.
**Estimated cost of free tuition provided.
***Estimated cost of tuition remission provided.

The administration of the programs is spread over several agencies and institutions. The Council of Higher Education administers the CSA and TAG programs. It also develops the guidelines and makes funding recommendations on each program administered by the state-supported institutions and approves each institution's plan for the use of the aid funds appropriated to it. The Guaranteed Student Loan and the PLUS programs are administered through the State Education Assistance Authority, and the Virginia Education Loan Authority is separately established to serve as a direct lender under the GSL program. The State Department of Health administers the Nursing Scholarship Program, while the Division of War Veterans Claims certifies the eligibility of students to receive free college tuition under the War Orphans Act. The Department of Military Affairs administers the tuition program for members of the National Guard, and the list goes on. Moreover, most of the federal funds for student assistance are administered directly by the colleges and universities without any statewide review or coordination.

The number of special purpose programs is likely to increase as special needs or special groups of citizens are identified. The Commonwealth's continuing commitment to providing student assistance under Virginia's Equal Educational Opportunity Plan for Higher Education and the concern about the shortages of teachers in certain areas (for example, mathematics, science, industrial arts) in the public schools are two examples of proposed, new special programs. Despite the proliferation of special purpose programs which make statewide coordination of student aid more difficult, there is a pressing need to develop a coherent philosophy for Virginia's major student aid programs. Chapter II of this report, which presents the financial aid task force's proposals regarding the establishment of new programs and the modification of existing programs, introduces a philosophy of student aid for the Commonwealth. The programs proposed are consistent with that philosophy and are designed to meet changing needs of Virginia's students.

CHAPTER II:

PROPOSALS FOR RESTRUCTURING CERTAIN EXISTING STATE AID PROGRAMS AND FOR ESTABLISHING NEW PROGRAMS TO MEET CHANGING STUDENT NEEDS

INTRODUCTION

Student aid has in three decades become an important component in the total financing of higher education. The number, types, and sources of aid are as diversified as the populations of students they serve. Perhaps for that reason no single set of national objectives for student aid has evolved. Moreoever, except at the campus level when aid officers assemble each student's package of assistance, there has been no coordination among the different programs.

During the past 20 years when financial support for higher education was rising at a rate unparalleled in the nation's history, the lack of conceptual clarity and coordination among aid programs caused little concern. Slower growth rates and greater fiscal stringency, however, have created a demand for coherence. This chapter offers some broad objectives for student aid in Virginia. It also presents several proposals which, taken together, will establish a coherent approach to providing financial aid.

The objectives reflect a student aid philosophy geared to the changing student needs and financial exigencies of the 1980's. They include the following:

1. To ensure acceptable levels of student access and freedom to choose among institutions at reasonable cost to the Commonwealth and to the students;

2. To ensure that the aid available under various state student aid programs complements rather than supplants the aid available from other sources;

3. To encourage outstanding Virginians to pursue their higher education at Virginia institutions;

4. To attract to Virginia's colleges and universities promising students from other states, some of whom will be persuaded to remain in the Commonwealth as productive citizens, while others will contribute to the reputations and private resources of the colleges and universities in later life; and

5. To ensure that students receiving need-based financial assistance bear an appropriate share of the total cost of their education through self-help activities, particularly work and loan programs.

A. STATE-FUNDED GRANT AND SCHOLARSHIP PROGRAMS

Introduction

Currently the Commonwealth of Virginia funds two statewide grant programs, the College Scholarship Assistance Program (CSAP) and the Tuition Assistance Grant Program (TAGP). Both programs make grants available to domiciliary residents of Virginia who enroll for full-time study in eligible programs at institutions of higher education approved to confer degrees in the Commonwealth.

The CSAP is open to students attending both private and state-supported colleges and universities. Its purpose is to ensure that students are not barred from access to higher education solely because they cannot afford to enroll. The size of individual awards is determined by the number of eligible applicants, the demonstrated financial need of those applicants, and the total amount of funds available for distribution. Although the majority of CSAP dollars comes from state apporopriations, federal funds received under the State Student Incentive Grant (SSIG) Program presently comprise a significant portion of the total funds available each year (43 percent in 1981-82). Individual awards for 1982-83 are $200.

The TAGP is available to students attending accredited private non-profit institutions in Virginia. The grants help to reduce the cost difference that exists because of the state funding provided for instruction at the public institutions. For 1982-83, the amount of an individual TAGP award is $850; for 1983-84, an award of $950 is currently authorized.

In addition to CSAP and TAGP, Virginia supports a number of small special-purpose grant and scholarship programs. The Commonwealth also appropriates funds directly to the fifteen state-suppored senior institutions and Richard Bland College for use in providing need-based undergraduate grants and graduate fellowships and assistantships.

The Need to Restructure the College Scholarship Assistance Program (CSAP)

Although the CSAP is viewed as the Commonwealth's foundation program of need-based aid, a review of the program's Annual Reports over the past five years suggests it has yet to fulfill that role successfully. In order to function effectively as base awards to which other aid is then added to construct students' total aid packages, CSAP grants would have to meet a significant portion of the total financial need of a large percentage of eligible applicants. Awards under the federal Pell (Basic) Grant Program come close to meeting this criterion. CSAP awards do not.

CSAP's ineffectiveness is not new. During most of the program's nine years of existence, its funding has not kept pace with annual increases in the financial need of the growing number of eligible applicants. Because of this problem, the size of the average award has declined steadily to the point where the program is no longer viable. In 1978-79, for instance, CSAP awards averaged $404; by 1981-82, they averaged only $214. In 1982-83, all awards are $200, the minimum allowed under the federal regulations which control the matching funds received from the State Student Incentive Grant Program (SSIG). Since 1978, the cost of going to college in Virginia has increased approximately 45 percent, while the average CSAP award has decreased 50 percent.

In addition to the decrease in the average CSAP award, there is a growing disparity between the number of eligible applicants and the number who receive assistance each year. Between 1979-80 and 1981-82, the number of eligible applicants rose 57 percent, from 19,597 to 30,711. The number of eligible applicants receiving CSAP awards during this period, however, increased only 31 percent, from 13,079 to 17,198. In 1979-80, 67 percent of the eligible applicants were assisted. In 1981-82, because of insufficient funds, only 56 percent received aid even though the size of each award decreased drastically. Rather than assist all, or even a majority of the needy students who apply, CSAP now provides only small awards to those with the greatest need.

CSAP's inability to function effectively as a foundation aid program will affect larger numbers of students if additional cuts in federal need-based aid combine with rising college costs to increase both the number of eligible applicants and their aggregate financial need. Moreoever, its total demise is ensured if the federal SSIG funds are eliminated. The SSIG Program, which provides over 40 percent of the total CSAP funds each year, has been targeted for elimination by the Reagan Administration. At this time, the future of the program is uncertain.

To increase CSAP's funding to the level necessary for the program to function effectively as Virginia's foundation program of need-based aid would require an additional state appropriation of at least $8 million in the 1982-84 biennium. Given the present state of the ekonomy, it is impractical to expect this much money. Eliminating the program in order to spread its appropriation among other state aid programs would result in the state's voluntarily relinquishing $1.6 million in matching SSIG funds at the same time that additional aid sources are being sought.

A third, and more promising, alternative is to modify CSAP to provide need-based grants of last resort. Although fewer students would receive aid under this approach, they would at least get enough money to make a difference. Adoption of a last resort concept would change the program's purpose but restore its effectiveness at the present level of funding.

An aid program of last resort differs from a foundation program in the way in which available funds are awarded to students. A last resort program uses eligibility requirements which target funds only to those applicants whose financial ability to enroll is demonstrably dependent upon the receipt of additional grants or scholarships. For CSAP, as a last resort program, a student's enrollment in higher education will be considered dependent on additional gift aid when, after exhausting all available family financial resources and receiving an institutional package of aid, he or she has remaining financial need of at least $1,000. Awards will be limited further to students who have received a certain percentage, to be established by regulation, of their total aid package as self-help aid.

Under CSAP as presently structured, award eligibility is based on a student's total initial financial need before the amounts of other aid the student receives are subtracted. The need figure presently used to determine CSAP eligibility is calculated as the total cost of attendance at an institution less the student's total available financial resources, such as savings and the parental contribution. Moreover, under the present structure, students may qualify for awards even if they choose not to help pay for their education through student loans and earnings from work-study.

The incorporation into CSAP of more stringent last resort eligibility requirements would reduce the number of students eligible each year, thereby making possible larger awards at the program's present level of funding. By limiting program eligibility to students whose total combined financial support from all other sources is demonstrably inadequate, only those students most dependent upon additional assistance in order to enroll would qualify for awards. Moreover, by also requiring students who meet the remaining need criterion to pay a certain portion of their total cost of attendance through a combination of work-study earnings and student loans, the Commonwealth can be assured of assisting only those students with great need who are also willing to help themselves. In this way, both the student and the state enter into a partnership to provide access to higher education.

The modified CSAP would offer last resort grants to Virginia residents enrolled full time in eligible programs offered by public and private non-profit institutions approved to confer degrees in the Commonwealth. Individual awards would range from a minimum of $400 to a maximum of $1,000 or 65 percent of the student's remaining need, whichever is less.

For a last resort program to be effective, students must have access to self-help aid programs. For this reason, other sections of this chapter will propose ways in which programs of this type, particularly student employment opportunities, might be expanded to accommodate student needs.

The Feasibility of Establishing a Statewide Merit-Based Scholarship Program

Senate Joint Resolution No. 81 cited a need to retain Virginia's outstanding youth within the Commonwealth. Although the Council does not know how many outstanding young men and women leave the state to pursue higher education elsewhere, a 1981 study revealed that approximately 12,000 Virginians attend college out-of-state each year. Of this number, over 500 begin their college careers by enrolling at the following institutions: Brown, Carnegie-Mellon, Cornell, Duke, Emory, Georgetown, Harvard, Johns Hopkins, Massachusetts Institute of Technology, University of Michigan, University of North Carolina (Chapel Hill), Northwestern, Notre Dame, Princeton, Rensselaer Polytechnic Institute, Vanderbilt, Wake Forest, and Yale. The national reputation of these institutions supports the inference that the students attending them are superior. When outstanding Virginia students go elsewhere for their college education, the quality of the educational experience for students enrolled at Virginia's colleges is diminished, and Virginia is deprived of its most promising citizens.

The General Assembly resolution directed the Council, as part of its study, to determine the feasibility of

> establishing . . . a state scholarship endowment fund . . . for the purpose of encouraging meritorious students to remain in the state.

A significant number of merit-based scholarships are already available at Virginia's institutions, but few afford the statewide visibility and high level of competition and personal recognition that would be achieved through a statewide program.

The Financial Aid Task Force concluded that the establishment of a merit-based scholarship program was both possible and desirable.

The level of state funds required to operate an effective statewide scholarship program need not be large, because the positive effects brought about by recognizing outstanding students, even those who are not eventual recipients of awards, may help to retain those students within the state. In addition, the high level of visibility given the runners-up for awards might help to increase the prospects that these students will be offered other scholarships, thereby promoting their retention in Virginia at no cost to the state.

When fully operational, the cost of a state scholarship program would not exceed $500,000 per year. This amount would provide scholarships of $3,000 per year to approximately 160 Virginia residents enrolled for full-time study as undergraduates at Virginia colleges and universities. Up to 50 scholarships would be awarded to freshmen each year, with the total number of scholarships being phased in over a four-year period. Initial scholarships would be renewed automatically for a maximum of three additional years if the recipient successfully completes a full-time course load in the preceding academic year while maintaining a minimum cumulative grade point average of 3.0 on a four-point scale. A state appropriation of $150,000 would support the program in its first year of operation.

The scholarships would be targeted toward outstanding high school seniors planning to pursue their studies upon graduation. However, a small number of scholarships (for example, five each year) could be made available to high achieving adults attending Virginia's two-year colleges who desire to pursue their education at a senior institution.

A statewide scholarship program of the size described above would be relatively inexpensive to administer. Outstanding high school candidates could be identified efficiently from lists published each fall by the National Merit Scholarship Corporation. Over 300 students are named to this list from Virginia each year. Adult candidates could be identified with the assistance of Virginia's public and private two-year colleges.

The Council of Higher Education, as the administering agency, would secure the supporting information and recommendations needed to evaluate candidates. The Council would then appoint a scholarship selection committee to review the supporting data and recommend scholarship candidates to the Council for initial and renewal awards. The committee would be small in size and would be comprised of outstanding leaders from education, government, business and industry. Award notices would be issued beginning in March to the top candidates and, following the acceptance of all 50 awards (but not later than August each year), an official awards ceremony would be held for all recipients. The ceremony would honor the first-time scholarship recipients and their families and annually re-emphasize Virginia's commitment to excellence.

The Need to Continue Support of Virginia's Private Colleges

The average tuition students are charged to attend most private colleges is high compared to tuition at state-supported institutions. The lower average tuition charged by public institutions is made possible by state funds which pay a large portion of the total cost of instruction at these institutions. At private colleges, a larger part of the total cost of instruction must be borne by students in the form of higher tuition.

The Tuition Assistance Grant Program was estblished in 1973 to help private colleges by reducing the difference in tuition between public and private institutions. It does so by providing non-need based grants to Virginia residents who enroll for full-time study at Virginia's accredited private institutions of higher education. By reducing the tuition private college students must pay, TAGP awards help preserve a diverse system of higher education in which public and private institutions are able to compete effectively for their share of the pool of qualified students.

Virginia's support of private institutions through the TAGP demonstrates the Commonwealth's commitment to private higher education. From its inception, the TAGP has been the principal means by which Virginia could provide support, although indirectly, to the state's private institutions. In this sense, then, the TAGP is as much of an institutional support program as it is a program to assist students. Because Virginia should continue its policy of helping private higher education remain competitive with public higher education, funding for the TAGP should increase as appropriations for the state-supported colleges and universities increase.

The Need for Increased Support and Greater Flexibility in the Use of Discretionary Student Aid Funds Appropriated to Virginia's State-Supported Institutions

Each state-supported senior institution and Richard Bland College has in its operating budget a line-item appropriation for student assistance. An institution, with approval from the Council of Higher Education, may use its appropriation to (1) make undergraduate need-based grants, (2) provide the institutional match for any federal or private financial assistance program which requires matching funds, (3) make contributions to the institution's State Student Loan Fund, or (4) make awards to graduate students.

Competing priorities and limited state resources are forcing state-supported institutions to increase tuition and fees significantly in order to support their educational and general programs. For instance, in 1981-82, students at all senior state-supported institutions paid tuition and fees equal to about 30 percent of the costs of their education. State policy for 1982-83 took the percentage at some institutions to 32.5, but reductions in general fund allotments resulted in the tuition and fee share increasing to as much as 35 percent.

As tuition and fees rise, the importance of discretionary student aid funds increases dramatically. Accordingly, the amount of funds appropriated should be increased in proportion to future increases in tuition and fees.

Discretionary student aid appropriations should also be extended to the community colleges. For the 1982-84 biennium, consideration was given to providing Virginia's community college system with some discretionary student aid funds, but the funds were not appropriated. Because of the recent cuts in federal student aid, the sharp increases in community college tuition, and the fact that many community college students apply for admission late in the fall after most financial aid has been awarded, an appropriation of discretionary student aid funds to the community colleges should be reconsidered. Without these funds and the flexibility they provide, a significant number of financially needy Virginia residents may be denied access to higher education. Therefore, the Virginia Community College System should receive an annual appropriation of $500,000 to be distributed among the institutions for use as discretionary financial aid beginning in 1984-85.

A minor change in the statutory provisions which prescribe how institutions may use their discretionary student aid appropriation is also desirable. Presently, the Appropriations Act limits to 50 percent the amount of discretionary student aid funds which can be used to provide grants to graduate students.

For institutions which emphasize graduate study, these restrictions may prove educationally counterproductive. Graduate students desiring to enroll at Virginia's institutions are also affected by rising college costs and diminished federal support. Therefore, institutions emphasizing graduate education should be granted greater flexibility in the use of discretionary student aid funds to support graduate studies. This could be accomplished by increasing the percentage of discretionary funds that may be targeted to graduate students from 50 to 65 percent.

B. STUDENT LOAN PROGRAMS

Introduction

As part of this study, the Council was requested by the Governor and the Virginia General Assembly to determine whether a supplementary state loan program might be needed in Virginia. Because of the actual and proposed cutbacks in the federal Guaranteed Student Loan Program and the potential effect on students' ability to enroll in higher education, a number of states have implemented or are considering proposals for supplementary state loan programs. Most of the programs are intended to assist students attending private institutions, although it is possible that students in the state-supported institutions might also participate.

The Availability of Loan Funds for Virginia Students

The primary source of low-interest student loans in Virginia is the federally sponsored Guaranteed Student Loan (GSL) Program. GSL's are available from private sector lenders, such as banks, savings and loan associations, and credit unions. They are also available from the Virginia Education Loan Authority (VELA), a quasi-public lending organization established by the Virginia

General Assembly to make guaranteed loans to Virginia residents. VELA loans, financed through the sale of tax-exempt bonds, account for about 62 percent of Virginia's total loan volume under the GSL Program.

Effective this year, several legislative changes were implemented in the GSL Program in an attempt to reduce the volume of loans without excluding from eligibility those students who could not attend college without one. As noted in Chapter I, the most significant of these changes was the reinstatement of a financial needs test for loan applicants with family adjusted gross incomes exceeding $30,000. Students not passing the needs test are not eligible to borrow under the GSL Program. From all indications, the needs test has succeeded in barring upper income students from the GSL Program. The volume of GSL applications has decreased nationally by 30 percent. In Virginia, VELA and private lender applications for 1982-83 are also down 30 percent from the 1981-82 level.

The reduction in GSL loan volume in Virginia is not attributable to a decrease in the amount of funds available for the program. During the 1981-82 academic year, for example, about $90 million was made available to Virginia students by the Virginia Education Loan Authority alone. For 1982-83, VELA has approximately $120 million available for GSL's, a $30 million increase over the level available in 1981-82.

Not all of the 30 percent reduction in GSL loan volume in Virginia can be attributed to a decline in the number of applications from high-income students. It is possible that a substantial number of middle income students have elected not to apply because of an impression that their family income level would exclude them from eligibility under the program.

As eligibility for the GSL program has become more restrictive and the volume of loans has declined, loans under a new federal program known as PLUS have become available for Virginia students. This program was established by the federal government to provide an auxiliary source of loan funds for parents and some independent students. Presently, PLUS loans are less attractive to borrowers than GSL's. The PLUS interest rate has been 14 percent (versus GSL's nine percent) and repayment for most borrowers begins within 60 days of the loan disbursement (versus six months after the student graduates). PLUS loans are likely to become more attractive to prospective borrowers because the interest rate on the loans dropped to 12 percent in November, 1982. In view of the lower interest rate, it is doubtful that any alternative state loan program could provide loans at a rate lower than the PLUS Program without costly state or institutional subsidies. In fact, most states planning to establish loan programs have indicated that the interest rate will be at least 12 or 13 percent and could be much higher because of administrative costs.

State Efforts to Replace Lost GSL Funds

Following the lead of Illinois, several states have passed legislation enabling private foundations to finance new loan programs. In a few states, bond issues have recently been sold to generate loan capital. In most instances, the bonds are backed by collateral provided by the participating institutions.

A recent Council telephone survey of officials in states which have established new state loan programs elicited comments suggesting that the rush to get the programs in place may have been premature. The major factor cited as prompting the states to initiate the new programs appears to be the public perception that federal budget cuts would be more drastic than they actually were. Based on the Reagan Administration's earlier budget reductions, several states assumed that additional proposals from the Administration to restrict student eligibility and lender participation under the GSL Program would be more severe and would be approved by Congress more quickly than they have been. Although the large federal deficit makes further cuts in the GSL Program a strong possibility, the additional reductions, if they come, are not likely to be as radical as once assumed. Neither will they affect most students immediately, which allows Virginia to see whether the combination of federal loan programs now available is adequate to meet student need.

A second pressure which encouraged states to establish new loan programs is skepticism that students and parents will turn to the PLUS Program for loan funds. However, despite any relative disadvantages of PLUS, there is no evidence available to confirm the fears expressed by some educators that students denied a GSL will reject the PLUS Program (or that their parents will do so) if it represents the only remaining source of money available to finance a student's college education.

Clearly, the use of the PLUS Program bears close monitoring over the next year, but fears that it will not function as an effective supplemental loan program are unsubstantiated.

Summary

Whether the new loan initiatives in various states will be successful remains to be seen. Most of the new programs have yet to make their first loans, in part because the colleges involved are beginning to question whether they have sufficient resources to provide the required collateral and to cover the initial administrative expenses. As a result, it is possible that only the well-endowed private colleges will benefit eventually from the new programs. Most of Virginia's private institutions are relatively small and many have only modest endowments. It is unlikely, therefore, that they could pledge the resources necessary to begin such a program in Virginia. Moreover, given the level of funding required to estblish a loan program, it would be financially unwise for the Commonwealth to back the issuance of bonds with the "full faith and credit" of the state.

Although it is too early to predict what the effects of the PLUS Program will be in Virginia, preliminary indications are that the program will be able to compensate successfully for any GSL dollars lost by students because of the change in the eligibility requirements. To date, there are approximately 80 lenders participating in the program. However, the volume of loan applications has been minimal, probably because of the expected decline in the interest rate charged under the program and because the public is not yet fully aware of the program.

The experiences reported by other states which have initiated new loan programs, the data suggesting no lack of available loan money in Virginia, the probability that PLUS will be able to compensate for lost GSL funds, and the impossibility of establishing a state program that could offer an interest rate below that now charged under PLUS argue against the establishment of any state-funded loan program at this time. There is a need, however, to correct the public misconception that loan funds are not available.

C. STUDENT EMPLOYMENT PROGRAMS

Introduction

Presently, there are two programs which provide employment opportunities for Virginia students. Both depend largely on federal support. The larger program, the federal College Work Study (CWS) Program, assists about 15,000 students in Virginia each year. The smaller program, the Cooperative Education Program, serves approximately 5,000 students.<3>

Federal support for the two programs has declined over the past two years and further reductions are probable. In 1980-81, for example, Virginia's colleges and universities received approximately $12 million from the federal government for CWS. In 1982-83, the institutions will receive about $10 million. The Cooperative Education Program has also experienced dwindling support and may be eliminated within the next year.

<3>Cooperative Education is traditionally defined as a dual educational approach involving alternating or parallel periods of classroom study and off-campus professional-level employment. The work experience is closely rated to the student's academic study or career goals. Cooperative education positions are supervised and evaluated. Priority is given to the needs of the individual student. Academic credit may be awarded for the work experience.

The reductions in the work-study and cooperative education programs have reduced significantly the earnings of Virginia's students. In 1980-81, Virginia students averaged over $1,000 in annual earnings under the CWS Program. For 1982-83, the federal government estimates that this average will drop to $800.

Even at its 1980-81 level of funding, the federal CWS Program was unable to provide work opportunities for all needy students in Virginia. In that year, the 15,000 students who were placed in jobs under the CWS Program represented less than one-third of the 55,107 needy students statewide who applied to Virginia's institutions for financial assistance.

The decrease in work opportunities for Virginia students comes when the need to expand these opportunities is increasing because of rising college costs, reductions in other federal student assistance programs, and an inability to secure part-time and summer jobs in private industry. The Commonwealth should, therefore, establish a supplementary state student employment program to expand work opportunities.

Student Employment Initiatives in Other States

A Council survey of the states revealed the recent establishment of several state-funded student employment programs designed to supplement job opportunities available to students through the federal CWS Program. A substantial number of other states were considering proposals for such programs. The major reasons the states are establishing them, in addition to recognizing a need for more student aid, are:

1. acceptance of the principle that students should be expected to bear a larger share of the cost of their education through self-help programs;

2. reluctance to encumber the students' future lives with more and larger student loans; and

3. concern for bridging the perceived gap between education and work.

Although both the state-supported employment programs and the federal CWS Program are intended to assist needy students, the state programs differ in several ways. The principal difference is the strong emphasis which most state programs place on the value of the work experience as it is related to the students' educational and career interests. A second and related difference is the state program's expansion of the work opportunities to include off-campus employment, particularly with private sector business. The federal CWS Program limits student employment to public and private non-profit organizations, which narrows the range of work experiences available to students. Indeed, over 90 percent of all Virginia's CWS students are placed in on-campus jobs.

A Proposal for Expanding Student Employment Opportunities in Virginia

A recent survey of parents of high school students nationwide found that student employment programs would receive broad public support. Seventy-nine percent of the 6,600 parents who responded to the survey supported student employment as a "most-favored" plan for financing a student's higher education. The support for student employment programs was nearly equal among black and white parents.

A Virginia student employment program would complement the employment opportunities made available under the CWS and Co-operative Education Programs. The college work study program is first and foremost a financial aid program although it acknowledges the potential educational value of the student's work experience. A Virginia employment program would also function primarily to provide financial assistance, but would, in addition, more actively promote the non-financial benefits of work experience by placing students in jobs demonstrably related to the students' educational or career interests.

In order to ensure that a sufficient number of jobs are available to match the diverse educational and career goals of eligible students, the program would expand off-campus employment opportunities to include for-profit as well as not-for-profit organizations. Some on-campus employment would be allowed, but only if state funds would not be used to supplant federal CWS funds and if the on-campus job had potential educational and career benefits.

Because of its distinct objectives, a Virginia student employment program would also complement the cooperative education programs offered at 80 percent of Virginia's campuses. Cooperative education is an important source of student financial assistance and, as such, warrants strong independent support; however, its main purpose is educational, not financial. Accordingly, the work experience under cooperative education oftentimes carries degree credit. The primacy of cooperative education's educational purpose is reflected in the program's eligibility criteria, which typically prescribe that, in order to participate, a student must have completed one to two years of college work with a minimum cumulative grade point average of 2.0 or higher. Notably, financial need is not a factor in the determination of a student's eligibility. A Virginia student employment program would complement cooperative education by reserving its employment opportunities for students with demonstrated financial need who indicate no interest in cooperative education or who are otherwise ineligible for placement under that program. Degree credit would not normally be available for work experiences acquired under a State student employment program.

A key factor motivating off-campus employers to create the necessary number of additional jobs for students under a state student employment program would be a student wage subsidy. Under this approach, an employer is expected to pay only a portion of a student's wage, with the remainder coming from state funds. The maximum wage-subsidy rate allowable under most state work programs ranges from 50 percent to 80 percent. Public and non-profit organizations typically receive higher subsidy rates than business operated for profit. The maximum subsidy rate under a Virginia work program might be set initially at 65 percent for public and non-profit organizations and 55 percent for private businesses. Institutions would be encouraged to seek lower rates in order to assist a larger number of students.

A prevailing concern among states which subsidize off-campus student employment is the possible displacement of regular employees. To guard against such an occurrence, jobs included under a Virginia student employment program normally would be limited to part-time or summer positions especially created for students or to existing positions which had been left vacant for a minimum of one year preceding the date of approval. Regulations would prohibit the use of state student employment funds to displace full-time employees or student employees placed in jobs under unsubsidized cooperative education programs.

The development of a significant number of additional off-campus jobs will require an increased administrative and financial commitment from the institutions. There will also be a need for improved coordination of institutional off-campus job development efforts within geographic regions. Cooperative Education coordinators at Virginia's campuses report that off-campus employers frequently are approached by several representatives of the same institution seeking similar jobs for students under various institutional programs. This results in a costly and unnecessary duplication of effort. Moreover, employers flooded with uncoordinated requests for student jobs are unlikely to develop favorable impressions of higher education institutions. Improved coordination of regional job development activities is therefore critical if off-campus student employment opportunities are to be expanded, costly duplications of effort reduced, and relationships between institutions of higher education and business and industry strengthened.

A Virginia student employment program would provide, in the form of institutional incentive grants, matching funds to improve off-campus job development efforts. Individual institutions applying for funds would be eligible for matching grants to cover up to 50 percent of the cost of their proposed job development activities. In order to promote the regional coordination of such activities, however, two or more institutions applying jointly would be eligible to receive matching funds for as much as 60 percent of their total projected expenses.

The incentive grants would be awarded competitively on the basis of proposals submitted to the Council by the institutions. A similar procedure is used by the Council in awarding state funds under the Funds for Excellence Program. An institution's share of its projected development costs could come from its operating budget or from its federal CWS funds, up to $25,000 of which can be spent for off-campus job location and development.

Two years would probably be required to implement a Virginia Student Employment Program because of the program's focus on off-campus employment with private business. In the first year, funds would be needed to support the development of the off-campus jobs in which students would be placed during the program's second year. Administrative procedures, informational materials, and special forms would also need to be developed in the first year.

An appropriation of $750,000 would be needed to support first year activities, $700,000 of which would be set aside for incentive grants to support the intensified off-campus job development effort so critical to the program's success. The remaining $50,000 would be used to cover the costs of implementing the program.

In its second year of operation, the program should be funded at about $3.5 million. Approximately $500,000 of this total would be set aside for incentive grants to continue support for off-campus job development. The remaining $3 million would be used to provide the institutional portion of the student wage subsidies. The $3 million would be earmarked for individual institutions based on a formula to be developed by the Council with assistance from the institutions. Such a formula would necessarily take into account the number of eligible students enrolled and the number of off-campus jobs potentially available within the area.

The $3 million in state funds for student wages would generate $5.0 million in total student earnings at an average state wage subsidy of 60 percent. This figure includes $2.0 million in employer contributions, most of which would come from private sector businesses. The $5.0 million would provide awards averaging $1,000 per year to approximately 5,000 students. The $3.0 million in state funds would offset the $2.0 million the reduction in federal CWS support which occurred between 1980-81 and 1982-83 and most of the additional cuts anticipated between 1982-83 and 1984-85, the earliest year the program could assist students.

Funds annually designated for state-supported institutions would be disbursed by the Council directly to those institutions. In order to avoid any potential legal entanglements, funds identified for students in private institutions would be provided to the institutions under "contracts for services." Virginia's Constitution allows the state to enter into such arrangements. All institutions would have to comply with the rules and regulations established for the program by the Council of Higher Education, the administering agency.

To ensure the most efficient use of state funds, only Virginia residents enrolled for full-time study in eligible programs offered by public or private non-profit institutions of higher education approved to confer degrees in the Commonwealth of Virginia would participate in the state program. In addition, students would be required to demonstrate sufficient financial need in order to qualify for job placement. The method for determining financial need would be prescribed in program regulations developed by the Council. Students could not be employed under both the federal CWS and the Virginia student employment programs in any single school term.

In addition to promulgating program regulations, the Council of Higher Education would annually determine institutional allocations and disburse funds appropriated for the program. Institutions would be required to sign a written agreement certifying that they would administer the program in accordance with the rules and regulations. The regulations would require institutions which participate in the program to secure similar written agreements from the off-campus employers of their students. The employer-institution agreements would specify the terms and conditions under which employers would be eligible to receive state wage subsidies for students. The institution's responsibilities to the employers would also be specified.

D. BUSINESS AND INDUSTRY SUPPORT OF

SCHOLARSHIPS, FELLOWSHIPS AND ASSISTANTSHIPS

Introduction

Virginia's business and industrial firms have a vital stake in the well-being of higher education in the Commonwealth. Traditionally, the Commonwealth's colleges and universities have supported business and industry by providing graduates with the knowledge and skills necessary for entry level employment into a variety of professional and technical career fields. Colleges and universities also offer graduate-level and in-service training opportunities for employees of business firms, thereby assisting them in the recruitment, retention, and promotion of employees.

Under the leadership of Governor Charles S. Robb, the Commonwealth has begun a major effort to expand and strengthen the partnership which has existed between business and higher education since the turn of the century. Only recently have the benefits of this partnership begun to attract public attention. Although most of the benefits lie outside the scope of this study, one is of direct interest: the financial support which business provides to higher education in the form of student scholarships, assistantships and fellowships.

Business-funded student awards are available at selected institutions throughout the Commonwealth, but they are fewer in number than they might be with some encouragement from state government. Accordingly, Governor Robb requested the Council, as part of the study, to consider ways of expanding statewide the number of these awards, particularly in such critical disciplines as computer science, engineering, mathematics, and business.

The Importance of Providing Reciprocal Services

For private businesses and industries to be willing to provide additional support for higher education in the form of scholarships, fellowships and assistantships, they must see evidence of reciprocal services from higher education institutions. The promise of getting something of value in return for financial support is an increasingly important incentive. Current economic conditions are affecting business profits and limiting the amount of funds available for the support of activities which do not produce short-range benefits. In addition, requests for support from public and non-profit organizations are growing rapidly.

If higher education is to enjoy increased business support, it will do so only if institutions provide services to business in return. Such services include, but are not limited to, the following: (1) applied research studies and projects designed to assist local business firms in solving particular problems; (2) in-kind contributions of faculty members who serve as consultants; (3) identification of students for part-time employment who bring with them certain skills and who may be attracted into a career training opportunity following graduation; (4) use of university resources, including facilities, equipment, and materials for certain activities; and (5) increased participation by business and industry in curricular design so as to produce better-prepared prospective employees. These are all sensitive points, the first and the last most so. Colleges and universities should be willing to explore cooperative and reciprocal arrangements, but they must be careful to compromise neither the researchers' freedom nor the integrity of the academic curriculum. This is not a matter of easy dichotomies; the role of higher education in a technologically sophisticated society is too complicated for that. But it is a matter requiring thoughtful discussion and consideration of higher education's proper mission.

The Role of the State in Improving Relationships Between Higher Education Institutions and Private Enterprise

Currently, one of the major problems impeding the expansion of private support of student scholarships, fellowships and assistantships may be the lack of effective communication between business and industrial firms and institutions of higher education. Local businesses and industries frequently lack accurate information regarding the resources and expertise available at Virginia's institutions. Faced with a need for outside assistance, many of these firms are forced to turn to consulting firms when the solution to their problems might be obtained at less expense at a local college or university.

With state-level encouragement and assistance, the communications barrier might be reduced and eventually eliminated. A first-step would be a statewide campaign beginning in 1983-84 to inform business and industry of the diverse human and material resources potentially available at Virginia's colleges and universities.

In order to succeed, a communications campaign would require the wide distribution of brochures and scheduled presentations by higher education leaders at state and local Chambers of Commerce, the Virginia Manufacturer's Association, and the Virginia Council of Business. The dialogue at such meetings would help to identify the specific kinds of services most desired from higher education in return for increased monetary support.

If the response of the business community indicates a desire for a closer working relationship with higher education, a state clearinghouse could be established beginning in 1984-85. Such a service would function solely to facilitate direct contact between companies desiring a specific service and institutions available to provide that service. The clearinghouse could be housed in any existing state-level agency or organization which would maintain, by discipline or occupational field, an automated catalogue of business and industry needs that might be met by institutions of higher education. The catalogue file could be made accessible to all

Virginia colleges and universities at minimal cost through computer-telephone dial-in linkages.

This section of the report has attempted only to introduce the prospect that both private enterprise and higher education have much to gain from closer cooperation. Although several specific suggestions for better cooperation have been recommended, it is very possible that the recently established Governor's Commission on Science and Technology will find additional ways. Therefore, the Commission will be informed about the recommendations in this report and will be asked to supplement them as it deems appropriate.

CHAPTER III:

SUMMARY AND CONCLUSIONS

In the past two years, federal financial aid for Virginia students has declined, but the reduction has not been as drastic as initially expected. Many students and their parents believe that fgderal aid cuts have been more precipitous uhan they have been, and this perception may have resulted in some students who would have been eligible for aid not applying for it in the current school year.

Between the 1980-81 and the 1982-83 academic years, the amount of federal funds going to students at Virginia's institutions under the Pell Grant and campus-based aid programs decreased $7 million. A further reduction of some $2 million would have occurred in 1982-83 if Congress had not overridden a presidential veto in order to provide supplemental student aid. During this same period, loans in Virginia under the Guaranteed Student Loan Program declined in volume by at least 30 percent. The decrease happened primarily because of changes in the eligibility requirements, but also kn part because students wrongly assumed that they no longer qualified under the program. Declines in other aid programs have occurred as well, particularly in the Social Security Educational Benefits program, which is being phased out over the next four years.

In accordance with a directive from the 1982 General Assembly, the Council of Higher Education, with the assistance of a study committee composed of a number of financial aid, banking, and business experts, reviewed the loss in federal student aid funds in Virginia within the context of the changing pattern for financing higher education in the Commonwealth. As a result of the deliberations, several proposals for either re-structuring existing Virginia student aid programs or establishing new programs in order to meet the changing needs of Virginia's students were presented in Chapter II of this report. The study committee was aware that the division of responsibility to pay for higher education among students, their parents, and the government is changing. (Given increasingly scarce resources at all levels of government, students throughout the nation will in the future be expected to pay a greater share of the cost of their education through self-help opportunities made available under work and loan programs.

To ensure that Virginia students have access to self-help opportunities and to offer a viable alternative to loan programs, this study proposes the establishment of a state student employment program. A state student employment program would supplement the federal College Work-Study program by encouraging the development of jobs for students in off-campus, private-sector environments. The jobs generated in business and industry would offer educational and career benefits in addition to providing needed financial assistance. The number of jobs initially established under this program, and the funds made available to students as a result, would off-set the loss of federal funds under the work-study program. To assist institutions in finding off-campus jobs, or to update their existing job dmvelopment efforts through Cooperative Education centers, incentive grant funds would be made available on a competitive basis.

In addition to a new student employment program, the study also proposes that institutions give high priority to the development ant expansion of cooperative education programs which help students finance their education at no cost to the State. Presently, a majority of Virginia's colleges and universities operate these programs.

Although this study promotes the concept of student self-help in financing higher education, it discourages the establishment of a state loan program. Over the past five years, loan programs in Virginia and elsewhere have expanded rapidly in order to meet student loan demand. As grant programs have decreased in size and part-time jobs have become increasingly scarce, many students have been forced to mortgage their futures in order to obtain funds for higher education. The average size of a Guaranteed Student Loan for undergraduate borrowers across the nation is now $2,264 annually, according to the American Council on Education. Therefore, there is an immediate need to provide students with access to other kinds of self-help opportunities.

Virginia's lending institutions, including the Virginia Education Loan Authority, have made a commendable effort to see that loan funds wure available to Virginia students through the GSL program. Although it now appears that changes in student eligibility requirements will preclude a number of potential borrowers from the GSL program, the new PLUS program should be able to accommodate those borrowers who no longer qualify under the GSL. Because of the availability of PLUS and the recent drop in the interest rate under the program to 12 percent, the establishment of a state loan program in Virginia is unnecessary. It would also be too costly.

For the last several years, the College Scholarship Assistance Program has ceased to be viable because of limited appropriations and an ever-expanding number of eligible applicants. As a result, awards under the program have declined to only $200 in 1982-83. In order for this program to become useful once again to students and the Commonwealth, this study has proposed that CSAP become a program of last resort effective for the 1983-84 award year. Under this concept, only students who need the funds to enroll, after all other forms of aid have been considered, as determined by institutional aid officers using criteria approved by the Council, would receive awards. This change in the program would transform it from its current role as a foundation program to one which targets awards to a limited group of students. The size of awards under the modified program would range from $400 to $1,000, so that the funding received by individual students would make a difference in their ability to continue their education.

In addition to the changes proposed in the College Scholarship

Assistance Program, the study also recommends that the discretionary student aid appropriations to state-supported institutions be increased in proportion to future increases in tuition anf fees, that some discretionary funds be appropriated to the Virginia Community College System, and that senior institutions which emphasize graduate education be given the flexibility to direct more of their student aid funds to graduate students. The Study also supports increases in appropriations for the Private College Tuition Assistance Grant Program as appropriations for the state-supported colleges and universities are increased.

The financial aid task force shared the concern of the General Assembly, as expressed in the resolution calling for this study, that Virginia may be losing annually a number of outstanding students to colleges and universities in other states. Although no data exist to show the number of outstanding students who now go out-of-state or to indicate if, given incentives, some of those students might decide to remain in Virginia, the study nevertheless proposes the establishment of a modest merit-based program. The program would attempt to keep some of "the best and the brightest" in the Commonwealth's institutions, and would emphasize Virginia's commitment to quality education at all levels.

Most of the proposals offered in this study depend for success on the improvement of communications between higher education and business and industry. Obviously, if a new work program is to be effective, its success will depend heavily on the support received from the private sector. But there are many other ways in which private enterprise and higher education can cooperate. The relationship, as this study points out, should not be one-sided. Business and industry should receive as much (through, for example, access to research opportunities, consultants, and student assistance) as higher education obtains in increased financial support. To assist in furthering the cooperation between the two sectors, the study proposes the establishment of a clearinghouse in 1984-85 to match the needs of business and industry with the expertness available in Virginia's institutions of higher education. It also suggests that the Commission on Science and Technology, which was recently established by Governor Charles S. Robb, might in the future be able to offer other recommendations for improving the relationship.

Finally, it should be noted that a number of the recommendations contained in this report will, if adopted, result in the additional expenditure of State funds. However, the investment would be a wise one, not only because of the immediate need for additional student aid in Virginia, but because most of the proposals can result in long-term economic as well as educational gains for the Commonwealth. The Council believes, therefore, that the increased costs are justified.

APPENDIX A

COUNCIL OF HIGHER EDUCATION

FINANCIAL AID TASK FORCE

MEMBERSHIP

Mr. James Antonick
Director of Professional
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Old Dominion University

Dr. Max L. Bassett
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Mr. Ronald J. Ballance
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Mr. Rawley F. Daniel
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Mr. Lawrence E. Gladieux
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Mr. Robert E. Glenn
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Mr. Donald A. Holden
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Mr. H. S. Johnston, Jr.
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Mr. Thomas C. Little
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Ms. Geraldine Weaver
Research and Information Officer

STAFF TECHNICAL PAPERS

1. Restructuring the College Scholarship Assistance Program
2. Virginia Student Employment Program
3. The Commonwealth Scholarships for Excellence Program

The Staff Technical Papers that follow clarify the respective Program Proposals described in Chapter II. They also describe in greater detail how each Program Proposal might be implemented. In the latter regard, the papers should be considered as draft implementation plans subject to futher refinements based on consultation with appropriate agencies, individuals and Advisory Committees.

State Council of Higher Education

Technical Paper No. 1

A Tentative Plan for Restructuring the College Scholarship Assistance Program (CSAP)

INTRODUCTION

Presently, the funding for the College Scholarship Assistance Program (CSAP) is insufficient to provide adequate awards to the nearly 40,000 needy students who annually apply for aid under the program. Moreover, past efforts to secure additional funds in order to meet the financial need of a steadily expanding pool of applicants have been unsuccessful. As a result, the program has become ineffective in providing student access and choice.

In 1981-82, limited funds resulted in half of the eligible CSAP applicants receiving only $200 awards. Over a third of the applicants received nothing. Moreover, the awards met only six percent of the average financial need of the students who received grants under the program. When

CSAP was first established, a larger percentage of applicants was assisted and awards averaged $400 even though the financial need of the students who applied was considerably lower.

Limited State resources and the need for a supplementary Student Employment Program in 1984-85 practically eliminate the possibility of securing additional funds for CSAP. This leaves at least two alternatives. One is to restore the CSAP's viability by redistributing program funds in a more effective way (larger awards to only the most needy individuals). Another is to eliminate the program altogether, perhaps reallocating the state share of CSAP funds to other student aid programs. The problem with the latter alternative is that eliminating the program would result in an immediate loss of $1.6 million per year in federal matching funds.

DESCRIPTION OF THE RESTRUCTURED PROGRAM

In November 1982, the Council approved a plan to restructure the CSAP to provide grants of "last resort". Under the last resort concept, the program would no longer base awards solely on the students' total financial need, but would, in addition, take into account the other aid the students are receiving. The restructured program would also require students to assume a reasonable share of the costs of their education through some form of self-help (*e.g.*, work study, student loans).

Presently, financial need under CSAP is calculated by subtracting the student's expected family contribution (1) from the student's cost of attendance.(2) Under the last resort concept, the other aid a student receives would also be subtracted yielding a net financial need total. Awards would be based on the student's net need rather than the total need thereby ensuring that CSAP funds are targeted so as to complement the aid available from other sources.(3) The incorporation into CSAP of more stringent financial need requirements will reduce the number of students eligible each year without adversely affecting student access.

By also expecting students to meet a minimum portion of the costs of attending college through some form of self-

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(1) Calculated by the Uniform Methodology

(2) The cost of attendance, frequently referred to as the student's budget, includes tuition, fees, room, board, books and supplies, travel and miscellaneous allowable personal expenses.

(3) A recent analysis of 1981-82 recipients of $200 CSAP awards revealed sharp differences in the students' net (remaining) need after other aid was taken into account (reported on CSAP enrollment rosters Fall 1981). The amounts of the remaining need for these students ranged from under $100 to over $6,000. Such a disparity in remaining need amoung students and institutions suggests that CSAP dollars are not being distributed in a way that effectively complements the aid available from other sources. As a result, many needy individuals are being forced to borrow excessively, to delay enrolling, or to attend lower cost institutions.

help, the Commonwealth can be assured of assisting only those needy students who are willing to help themselves. In this way, both the student and the state enter into a partnership to provide access to higher education. The self-help requirement would reduce further the number of eligible applicants.

Council adoption of the last resort concept now requires that the practice of determining individual awards centrally be abandoned. Instead, the program will be re-designed so that institutions will recommend the names of students who should receive awards and the amounts each should receive--within limits established by the Council through program regulations. Giving institutions a direct role in the determination of awards is necessary under the last resort concept because the institutions are the sole source of information about the "other aid" a student is to receive.

The objectives of the CSAP, restructured as a source of grant aid of last resort, are:

1. to ensure access to Virginia's higher education institutions for eligible students whose financial need exceeds substantitally the total financial resources made available to them by parents, institutions, and other sources of student

financial assistance;

2. to ensure that recipients of CSAP grants bear a reasonable share of the cost of their own higher education (self-help);

3. to ensure that CSAP funds do not supplant aid potentially available from other sources.

Determination of Student Need and the Amount of Individual Awards

Under the last resort concept, institutions will determine the student's financial need for a CSAP award based on minimum criteria established by Council and supplemental criteria developed by each institution in accordance with Council guidelines. Presently, the Council determines the student's financial eligibility. The institution will calculate the student's financial need using a single federally-approved methodology for all of its CSAP applicants. The cost of attendance figures used by each institution to calculate need will be those developed for the federal campus-based aid programs (minus tuition assistant grants for private colleges). If a student meets all eligibility requirements, including supplemental requirements set by each institution, the student could be recommended for an award, subject to the availability of sufficient funds.

The Council will require, as minimum financial criteria for CSAP eligibility,

1. that after all of the student's other aid is packaged, the student has substantial unmet need exceeding a minimum amount to be established by the Council each year. Tentatively, $1,000 is the minimum for 1983-84.

2. that the student is contributing towards his or her total cost of attendance (self-help expectation) in an amount equal to or greater than the minimum percentage of the student's total cost of attendance established each year by the Council. The minimum percentage proposed for 1983-84 is 20 percent.

CSAP would, of course, continue to serve only domiciliary residents of Virginia who are enrolled for full-time undergraduate study at a Virginia public or private non-profit college or university.

An institution may recommend individual awards ranging from $400 to $1,000 per academic year (in increments of $100 pro-rated by term) for any applicant meeting the minimum

Council eligibility criteria. However, because the total CSAP funds available are insufficient to provide awards to all of the students meeting the minimum financial need criteria established by the Council, institutions will be required, under program regulations, to develop supplemental award criteria. These criteria will help institutions determine (1) which of the applicants at their campuses will be recommended for awards and (2) the award amounts that will be recommended for each student.

Guidelines specifying allowable supplemental criteria will be developed by April, 1983, with assistance from the Council's Financial Aid Advisory Committee. For instance, institutions might establish net financial need and self-help requirements above the minimum values set by Council regulations ($1,000 and 20 percent, respectively).

Each institution would submit to the Council as part of the institutional agreement filed each year a list of its supplemental criteria. The Council would issue no official award notices until these criteria were received. Students should also have access to this information on request. Institutional use of objective supplemental criteria ensures that the additional discretion given to institutions in the determination of individual awards will not result in legal liabilities for the institution or the Council. In addition, the supplemental criteria afford diverse institutions the flexibility to target CSAP funds in ways most effective in promoting student access at their campuses.

Allocation of Funds to Institutions

An institution's direct role in determining a student's individual award under the restructured CSAP requires that institutions be given a budget to work from each year. Notice of institutional CSAP budgets (allocations) will be issued by the Council on or before May 1 preceding the opening of the fall term of each award year.

Presently, CSAP funds flow to institutions in direct proportion to the total financial need of the eligible applicants who enroll, independent of differences in the amounts of other aid the students are receiving. Because the last resort concept takes into account the student's other aid, implementation of the restructured CSAP requires the development of a formula for allocating CSAP funds to institutions in proportion to their students' unmet need.

In order to ensure that the allocation formula does not dramatically reduce the level of student aid funds available at any individual institution in a given year, an amount equal to 70 percent of the 1982-83 statewide CSAP total funds will be set aside beginning in 1983-84 for distribution in proportion to the CSAP funds the institutions receive in 1982-83. Only the balance of Virginia's total CSAP funds each year will be subject to last resort reallocation based upon the new unmet need distribution formula. For instance, if an institution receives $100,000 in 1982-83, it will receive at least $70,000 (70%) as its conditional guarantee for 1983-84 and for each year thereafter. Any additional CSAP funds received by the institution would be determined by the new formula.

The formula for allocating additional CSAP funds (i.e., funds not set aside to meet conditional guarantee obligations) would estimate, for each institution's pool of potentially eligible need-based aid applicants, the aggregate total costs of attendance (student budgets) and the aggregate student aid and family resources available. By subtracting the other aid and family resources from the costs, an aggregate institutional unmet need figure would be determined. For a detailed explanation of the calculation of an institution's unmet need total, including the sources of data, refer to Attachment 1.

The resulting institutional unmet need totals reflect the relative need for CSAP funds among institutions. Because different proportions of this need will be met at each institution through CSAP conditional guarantee allocations, the final step of the formula would subtract from each institution's unmet need total the institution's CSAP conditional guarantee allocation. The result would be an adjusted unmet need total which would reflect the institution's relative need for CSAP funds above the level provided by the conditional guarantee. Each institution would then receive a supplemental CSAP allocation in proportion to its total adjusted unmet need.

As total funding for the program grows in relation to the 1982-83 conditional guarantee amount, the percentage of total CSAP funds distributed by the formula annually would increase. Should funding for the program be reduced, however, the burden of the reductions would be distributed equitably across all institutions in proportion to the preceding year's funding allocations.

Application Procedures

For 1983-84, students would use the College Scholarship Service's (CSS) Virginia Financial Aid form (FAF) to apply for CSAP and would, therefore, be required to pay to CSS the additional $2.50 processing fee for the State program. The closing date for 1983-84 CSAP applications will be April 15. Beginning in 1984-85, however, the FAF will no longer be required by the Council for CSAP, thereby eliminating the additional $2.50 fee. The April 15th closing date will also be eliminated in 1984-85 with the result that many students admitted too late to benefit from other aid programs may qualify for last resort assistance under CSAP if sufficient funds are available at that time. Because institutions frequently have exhausted their limited aid reserves before the opening of the fall term, this added flexibility under CSAP is desirable to ensure access for these students.

In 1983-84, the Council will pre-screen VFAF filers to determine whether they meet program eligibility requirements other than need (e.g., domicile), and will forward applicant eligiblity status rosters to the students' first choice institution. For 1983-84 only, all applicants will be informed directly by the Council regarding their potential eligibility for an award, subject to the first-choice institution's evaluation of their financial need. Those applicants potentially eligible will receive information about the minimum financial need criteria which must be met in order to be eligible to receive an award. The institution's expanded role in determining individual awards will also be explained.

Students will be urged to inform the Council or the institution immediately of any change in enrollment plans, as awards under last resort are no longer transferable among institutions. Prior to 1983-84, awards were transferable if the student's financial need did not decrease to a level below the minimum required in order to receive the award.

<u>Processing</u> of <u>Award Nominations</u> (and Rejections for 1983-84)

Once an institution has determined that a CSAP award should be included as part of a student's total aid package, the institution will be authorized to offer the award as part of the total package, specifying that the award is subject to the availability of sufficient funds and official written confirmation by the Council. Institutions may commit more than their allocated amounts to allow for attrition, but the Council will not be financially obligated for these over-commitments.

Official confirmation of awards will be issued by the Council in the form of Student Eligibility Notices (SEN's), but only after the student has actually enrolled at the institution. Institutions will be required to submit by the close of the normal "add period" in the fall term a roster (or computer tape which meets Council specifications) listing the names, Social Security numbers, mail addresses (for 1984-85 and after), and award amounts (pro-rated by term) for all enrolled students whom the institution has approved to receive a CSAP award. Once each month thereafter, institutions would have the option of initiating a similar transmittal of information in order to process additional awards or revise the amounts of awards previously recommended.

The Council's confirmation of CSAP awards after students have enrolled eliminates much of the workload that would result if official award notices were issued prior to that time. For instance, more than one institution may offer awards to the same students. This duplication of awards would cause considerable confusion and add substantially to the correspondence between the Council, the institutions, and the students.

The official award confirmation (SEN), when completed by the student and returned to the Council, will double as the student's application of record. After 1983-84, it will also provide the Council with data to confirm that student eligiblity is being properly determined by the institutions.

For 1983-84 only, institutions will also have to identify, on a roster of eligible applicants provided by the Council, the names of enrolled CSAP applicants who should receive official rejection letters. The Council will then inform those students that they will not receive an award at that institution.

CSAP applicants rejected by institutions for 1983-84 awards solely because of insufficient CSAP funds will be informed by the Council that their names have been placed on a waiting list and that they may be nominated for an award by the institution at a later date should funds become available through attrition. In 1984-85, when the VFAF is no longer required for CSAP, this notification procedure will be unnecessary because the only students eligible for CSAP will be those who are nominated for awards by the institution.

Disbursements and Reallocation of Unused Funds

Upon receipt of the award recommendations from institutions, the Council will issue a Student Eligiblity Notice (SEN) directly to the student with instructions to return it to the Council confirming his or her formal acceptance of the award at the institution which recommended it. Funds will simultaneously be released for disbursement to the institution at the next scheduled disbursement date. Should a student recommended for an award have exhausted his or her eligibility (maximum number of terms), the institution will be requested to withdraw the award. In such cases, the Council will not issue an award confirmation in the form of an SEN.

The institutions will receive their fall term disbursements within 15 working days after the list of award nominees are received by the Council. Disbursements for second or third terms will be sent at the opening of the term. One supplemental disbursement will be made later in each term to cover the enrollment of recipients whose funds were not included with the first disbursement.

Should a CSAP recipient leave school or become ineligible to receive his or her award, the unused funds could be reallocated by the Institutional Aid Officer as new awards for other eligible applicants or as revised (larger) awards for previously recommended CSAP recipients. Reallocations would be accomplished by repeating the simple award nomination procedure described earlier. Reductions or cancellation of awards resulting in unused funds will continue to be reported by the institutions on the disbursement accountability report rosters. If an institution's unused funds are not reallocated, they will be returned to the Council in mid-year for subsequent redistribution to institutions which can use them (*e.g.*, for mid-year transfers).

It is important to note that under the last resort concept, overawards (awards in amounts exceeding the students' financial need) will no longer be allowed. The amount of an overaward, rounded up to the nearest $100, will be deducted by the institutional aid officer from the overawarded student's total aid package, and reallocated to another eligible student. Should a student's total CSAP award be reduced to an amount below the $400 annual minimum (pro-rated by term), the entire award would have to be withdrawn.

In order to minimize the number of overawards, institutions which assemble student aid packages early are encouraged to leave at least 35% unmet need in the student's total aid package to allow room for late awards. Institutions which elect not to take this approach are encouraged to recommend CSAP awards above the minimum of \$400. Should need be exceeded, the larger awards can be reduced without going below the \$400 minimum, thereby avoiding mandatory withdrawal of the total award.

Record Keeping and Reporting Requirements

Institutions will be required to maintain proper documentation of eligiblity and disbursements on all students they recommend for CSAP awards. This documentation shall include, but not be limited to, a needs analysis worksheet clearly showing that the student met the financial and self-help requirements for a CSAP award and other information upon which the student's eligibility was based (*e.g.*, domicile information). A copy of the institutional award letter to the student may double as the needs analysis worksheet if the data it contains can be used to verify that the minimum unmet need and self-help requirements were met at the time the student's aid package was assembled.

Under the last resort concept, institutions will file each year two kinds of reports. The first will provide information about applicants, college costs (student budgets), and other aid. This information is needed by the Council to determine annual institutional allocations of CSAP funds. The report, first due in November 1983, will be closely patterned after Part II, Sections E and F of the Federal Application and Fiscal Operations (FISAP) Report, but will include information only for students who are Virginia domiciliary residents. Student budgets will be those used for in-state students. For example, the November 1983 report will require resident applicant data for 1981-82 and resident student budgets and other aid data for 1980-81. This data would be used to determine institutional CSAP allocations for 1984-85.

Because institutions need more time to develop FISAP data for Virginia residents only, the institutional allocations for 1983-84 will be based on the combined resident and non-resident data taken directly from the FISAP reports submitted by institutions in November 1982. These reports include 1980-81 applicant data and data on other aid for the 1979-80 academic year. In order to be consistent, the cost of attendance figures used to help determine 1983-84 allocations will be the student budgets approved for CSAP for 1979-80.

The second type of report to be filed annually will furnish the Council with demographic information on CSAP recipients. Such information is needed for end of year reports to the Council. It is also needed for the annual report required under the federal State Student Incentive Grant (SSIG) Program which provides a large portion of total CSAP funds each year. The report would include, but not be limited to, information on the number of CSAP recipients and average award amounts (1) by total family income (2) by race (3) by sex (4) by student level (5) by independent and dependent students, and (6) by age category. Because most of the information required on this report will be furnished directly by CSAP applicants on the VFAF for 1983-84, the first report of this kind will not be due until August 1985 (on 1984-85 CSAP recipients). By providing student data in the form of an end of year report, institutions make possible the simplified CSAP award nomination procedure described earlier in this paper.

State Council of Higher Education

Technical Paper No. 2

A Proposal For The Implementation of a State-Supported Work Program:

The Virginia Student Employment Program (VSEP)

THE NEED TO EXPAND STUDENT EMPLOYMENT OPPORTUNITIES

Several factors support state student employment initiatives in Virginia at this time. First, the gap between the cost of attending most colleges and the resources available to students to meet those costs recently has widened. The reason is that the growth in family income, even adjusted for inflation, has neither kept pace with the increases in college costs nor been offset by the modest increases in federal and state support for student financial aid programs. Indeed, several federal programs, including the campus-based programs which provide need-based grant, loan, and work opportunities, have been substantially reduced. In addition, federal funding for the non-need based work program, the Cooperative Education Program, has been cut and the program targeted for future elimination.

The widening gap between college costs and the financial aid available has shifted more of the total financial burden of attending college to the students. Students are expected to pay this enlarged share out of past earnings (savings), present earnings (work), or future earnings (loans). Because relatively few youths have had the opportunity to acquire sufficient funds to pay their share wholly from savings, and because total reliance on student loans would seriously reduce the students' future purchasing power as well as increase the probability of future defaults, a significant portion of the students' share of college costs should come from earnings accrued while the students are attending school.

Of the two major types of self-help aid, loans and work, a student employment program is the most cost-effective. Work programs generate additional matching funds from off-campus employers and can be made reasonably efficient to administer. Loan programs are costly by comparison because of long-term administrative costs associated with billing and collection and lost revenues resulting from defaults.

Various studies have demonstrated the value of the work experience -- especially if that experience is related to a student's field of study or career plans. The studies also show that students who have participated in student employment programs gain quicker entrance into the work force at higher starting salaries than students without work experience.

In summary, imposing a larger share of college costs on students is necessary because states cannot afford to offset the total reductions in federal aid. A Virginia student employment program is needed to increase the opportunity for students to pay, out of current earnings, a greater share of the rapidly rising costs of their education. The alternative to expanding student employment opportunities is to deny many needy students access to college or to force these students to mortgage their futures through excessive reliance on student loans.

THE PROPOSED PROGRAM AND ITS RELATIONSHIP TO EXISTING STUDENT EMPLOYMENT PROGRAMS

The main objective of a Virginia Student Employment Program (VSEP) is to ensure access by providing Virginia's needy students with opportunities to earn money to help pay their share of college costs. A second but equally important objective of the VSEP, however, is to provide students with the benefit of work experience related to their career or educational interests.

The VSEP is not intended to supplant student employment opportunities currently available under the federal College Work Study (CWS) and Cooperative Education Programs established at many of Virginia's institutions of higher education. Rather, the VSEP would promote the development of additional job opportunities for Virginia students. The VSEP would complement the federal CWS program :

(1) by emphasizing the relatedness of the work-study job to the student's educational and career interests. The CWS focuses primarily on meeting a student's financial need and only secondarily on placing the student in a job related to the student's education.

(2) by emphasizing the placement of students in off-campus jobs. In Virginia, over 90 percent of students assisted under CWS are placed in on-campus jobs.

(3) by including, as eligible off-campus employers, not only public and private non-profit organizations, but proprietary businesses and industries as well. The CWS bars proprietary enterprises from participation as employers. The private sector employer's share of student wages would add substantially to the total aid dollars available to Virginia's students at no cost to the state.

(4) by targeting work opportunities to needy students not placed in jobs under the CWSP. Reductions in CWSP funding prevent many students with moderate need from being placed in jobs under the program. Moreover, certain needy students would benefit more from the off-campus job experience available under the state program than from on-campus employment under CWS.

(5) by limiting eligibility to Virginia domiciliary residents enrolled for full-time undergraduate study. Under the federal CWSP part-time students, graduate students, and out-of-state residents in attendance are eligible.

The VSEP would also complement existing cooperative education programs. First, the VSEP is primarily a financial aid program, but one which additionally provides benefits from work experience broadly related to the students career or educational interests. Cooperative Education, on the other hand, is primarily an educational program integrated with the students' formal programs of study and only incidentally provides financial aid to students who participate.

Second, the target populations served by VSEP and Cooperative Education differ, although some overlap may occur. The VSEP assists only those students who demonstrate significant financial need while Cooperative education serves students, independent of financial need, who satisfy other kinds of requirements. Generally, these requirements include the completion of at least one year of college and a minimum cumulative grade point average of 2.0 or higher.

Students who apply and are placed in Cooperative Education jobs or other credit-bearing externships and who also meet VSEP eligibility requirements, as certified by an institutional Financial Aid officer, may apply their VSEP award to that work assignment. Cooperative Education is therefore a potentially important source of jobs for VSEP recipients who also desire academic credit or certification for the work experience. Jobs developed exclusively for VSEP will not normally qualify for academic credit, however.

HOW THE PROGRAM WOULD WORK: AN OVERVIEW

The VSEP would be administered as a decentralized campus-based program. The Council of Higher Education will oversee administration of the VSEP through the promulgation of regulations and guidelines and the conduct of campus program reviews. The Council will also determine institutional allocations of funds for the program. A Student Employment Program Sub-Committee of the Council's Financial Aid Advisory Committee will be appointed by the Council. Comprised of financial aid officers and augmented by institutional representatives with experience in student employment programs, the sub-committee will assist in the development of program regulations and guidelines and also provide expert advice to the Council staff regarding needed changes in the VSEP.

Each institutional financial aid office will coordinate its program, determine which students receive awards, and maintain records on VSEP recipients. The central role of

Financial Aid Offices notwithstanding, institutions would also be encouraged to use other campus units, such as career placement and counseling and Cooperative Education, to provide expertise and staff support for VSEP in the areas of off-campus job location and development and student placement, particularly where private business and industrial firms are involved as employers.

Students will apply for the program by filing either the College Scholarship Service's Financial Aid Form (FAF) or the federal Pell Grant application form. Students who the institution determines to be eligible for placement under VSEP will be notified of their awards by the Financial Aid Officer (FAO). The FAO will base the determination of student eligibility mainly on the student's demonstrated financial need, the availability of appropriate jobs, and total VSEP funds available to the institution for that year. The one exception concerns students lacking in basic skills. These students should normally not be placed in jobs under VSEP, particularly where private sector employers are involved, until the required developmental studies courses have been completed successfully.

Institutional aid officers will be notified of their annual VSEP allocation under the program in April of the academic year preceding the award year. The amount received by each institution will be determined by a formula which distributes the statewide VSEP appropriation among participating institutions in proportion to the aggregate financial need of their eligible students and the number of off-campus jobs to which those students have access. The specifics of the formula will be developed with the assistance of the Council's Financial Aid Advisory Committee once the program is statutorily authorized.

Accompanying the institution's notice to a student of a VSEP award will be directions for the student to report to the institution's designated student employment center upon arrival at the campus if the student plans to accept the VSEP award. Institutions will be required to ensure that key information on all off-campus job vacancies approved for VSEP are listed at the center. This information will be secured by the institution from the employer as part of its job location and development effort. Prospective employers will be required to complete an informational employment form providing a brief description of the proposed job and the minimum qualifications required of applicants. In addition, employers might be asked to specify the skills or knowledge a student would acquire as a result of the job experience, the minimum work schedule acceptable, and the rate of hourly compensation. For a sample of such a form, refer to Attachment 1.

At the center, students will secure referral slips for up to three vacant positions which they considered related to their career or educational interests They will also be issued a work voucher to present to prospective employers and information helpful in securing a job. The voucher will specify the maximum student compensation that will be subsidized with state funds, the subsidy rate and the term and conditions of the award. The students will normally be responsible for arranging their own off-campus job interviews, although institutional career planning and placement units might be engaged to provide training in this area.

Employers will, upon hiring a particular student, enter on the student's voucher a brief description of the job, the hourly rate of compensation, the student's work schedule, and any other required certifications. The student will then return the completed voucher to the financial aid office which, in turn, will notify the campus student employment center that the position has been filled. Because the work voucher will double as the student-employer agreement, copies will be retained by the student and the employer as confirmation of the agreement.

In addition to the student-employer agreement, an agreement between each employer and the institution will also be required before any student from the institution can be eligible for a VSEP wage subsidy for work performed for that employer. The institution-employer agreement will describe the responsibilities of both parties and will also specify how the employer is to report student earnings to the institution as well as how the institution is to reimburse the employer for the state's portion of the student's wages.

PRINCIPAL FEATURES OF THE PROGRAM

Key features of the VSEP include incentives to create additional employment opportunities for students without displacing the regular work force. Other important features aim at reducing the cost of administering the program.

Critical to the program's success will be the creation of a sufficient number of <u>additional</u> off-campus jobs, particularly those with private (proprietary) sector employers. Two fiscal incentives have been incorporated into the program to ensure the development of new jobs. The first is a state wage subsidy designed to encourage off-campus employers to hire students. Provisions are included to prevent students from displacing the regular work force, however. The second is a modest line item appropriation for institutional incentive grants aimed at expanding the institutions capability to locate and develop off-campus jobs for students. The incentive grants would also promote more effective regional coordination of off-campus job development efforts.

State Subsidization of Student Wages

In order to make it economically feasible for off-campus employers to create new jobs for students, a student wage subsidy is necessary. Subsidized wages are a common feature of all student employment programs where the program's primary purpose is to provide financial assistance to students. For instance, the federal CWS program subsidizes up to 80 percent of a student's wages while work study programs offered by states typically subsidize wages at somewhat lower rates. In the states which sponsor work study programs, wage subsidies are as low as 50 percent for students employed by private businesses. Students employed off-campus by public or private non-profit organizations typically receive a larger wage subsidy.

In Virginia, under VSEP, the state's share of wages paid to students working for private sector employers will be limited to 50 percent while 65 percent will be the maximum subsidy for students employed by public and non-profit agencies, including institutions of higher education which elect to employ students on campus. Lower wage subsidy rates might be prescribed by program regulations, however, in order to further program objectives at the least cost to the state. For instance, the state's share of the salary or wages paid to an individual student employed under the VSEP might be decreased automatically by five percent per annum if the student is re-employed in the same position with the same duties a second, third, or fourth year. Such a stipulation provides employers with a financial incentive to promote capable student employees while recognizing that students retained in a position beyond one year are more valuable to the employer because of the prior job experience they have acquired. The incentive to promote students recognizes the students' need to continue to develop new skills. It also encourages annual job turnover, which may enable other students to benefit from the same job experience.

The VSEP funds targeted for wage subsidies will be allocated by the Council to participating institutions each year using the criteria described earlier under the section entitled "How the Program Would Work: An Overview". For 1984-85, a total appropriation of $3.0 million is recommended for student wage subsidies statewide. For 1985-86, an additional $500,000 is recommended to cover program expansion and wage increases brought about by inflation.

Because the wage subsidy under VSEP may make the employment of students more economically attractive than the employment of regular employees, particularly at the lower job classification levels, the program will include statutory provisions to prevent the displacement of regular or classified personnel. Similarly, the program will statutorily prohibit interference with existing contracts for services. VSEP will prohibit the use of state funds to compensate, in part, a student who is replacing a regular employee unless the postion occupied by that employee has been vacant for at least one year. Similarly, VSEP recipients may be placed in jobs with private business only if placement will not violate existing labor contracts or collective bargaining agreements. VSEP receipients also will be barred from filling positions which are temporarily unoccupied because of labor negotiations.

Institutional Incentive Grants for the Support of Coordinated Job Location and Development Programs Among Participating Institutions

Because most student employment in Virginia is on-campus, few institutions have the capability to develop off-campus jobs and to place students in the numbers that would be required under VSEP by 1984-85. The institutional capability to locate and develop appropriate off-campus positions is made more important because of the VSEP's emphasis on job placement related to the students' educational or career interests. To qualify under VSEP, prospective jobs would have to be evaluated for their potential to benefit students not only financially but educationally. Oftentimes, such an of evaluation requires expertise not possessed by the staff of institutional financial aid offices, and perhaps, not by the institution as a whole.

In order to assist institutions in the development of the types and number of jobs required for their active participation in VSEP, a appropriation will be needed annually for institutional incentive grants. For the 1984-86 biennium, an appropriation of $500,000 per annum is recommended. In addition, an appropriation of $750,000 for is sought for 1983-84 to support the development of off-campus jobs that will be needed in the fall of 1984 when students will first be eligible for placement under the program.<1>

The Council of Higher Education will award the incentive grants to institutions or, preferably, to regional groups of institutions, on a competitive basis in response to proposals submitted by the institutions. The grants would function to help institutions expand the number and quality of off-campus job opportunities available to their students and to strengthen, by promoting regional coordination of institutional job development efforts, the relationships between business and industry and institutions of higher education. Private businesses repeatedly approached about student employment by different institutions and different offices within the same institution are not likely to

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<1> Approximately $50,000 of this first year appropriation would be retained by the Council for the development and distrubiton of the necessary forms and materials required to implement the program.

develop favorable impressions of the institutions or student employment programs.

To receive an incentive grant, an institution will be required to match in dollars or in-kind contributions up to 50 percent of the state funds requested in the grant proposal. In order to promote regional coordination of job development activities, two or more institutions filing a joint application for incentive grant funds will have to meet only a 40 percent matching requirement. Other factors being equal, preference for funding will be given to incentive grants proposals submitted jointly by two or more institutions. This would be a second means of promoting regional coordination of job development activities. Grant proposals will be funded only if they include workable plans for ensuring intra-institutional coordination of off-campus job development among cooperative education, placement, and financial aid offices. Improved regional and institutional coordination of off-campus job development efforts is critical if the number of off-campus student employment opportunities is to be expanded efficiently and effectively.

Institutions seeking to minimize the amount of institutional funds required to match VSEP incentive grant funds will be strongly encouraged to establish job location and development programs authorized under the federal CWS program. Under this option, institutions are allowed to deduct from their CWS allocation the lesser of 10 percent or

$25,000 for use in the development of off-campus jobs. Because the jobs developed with federal CWS funds do not have to be filled with CWS recipients, institutions may use the funds to support the expansion of the VSEP employment opportunities.

The institution's use of the Incentive Grant Funds will generally be restricted to non-personnel expenditures. One exception to this restriction would apply to grants made to regional consortia comprised of two or more institutions. In such cases, the regional focus would provide justification for up to 50 percent of the incentive grant or $25,000, whichever is less, to be used to support personnel involved in the coordination of job development efforts among the institutions involved. A second exception would allow expenditures of incentive grant funds for part-time (temporary) help or contractual services where the staffing levels or expertise available within the institutions is deemed insufficient to achieve the objectives set forth in the grant proposal. An example might be the need to secure an outside consultant to provide professional training for faculty and staff, particularly if the recipient institution is initiating a new job development program. A second example would be an institution electing to contract with an outside agency for job development and placement for the summer vacation period (e.g., The Virginia Program).

Incentive grant funds may not be used to subsidize student wages or salaries or to supplant federal or institutional funds which might otherwise be available for the support of student employment activities. Neither may grant funds be used to support planning activities after the program's first full year of operation.

With the assistance of a Student Employment Advisory Committee, the Council will develop incentive grant priorities and establish general guidelines for institutions to use in developing proposals. The initial priority might be to encourage the expansion of regionally coordinated off-campus job development programs at Virginia's institutions and to establish a statewide job bank which institutions could use to refer VSEP recipients to appropriately matched summer jobs. In succeeding years, proposal guidelines would be revised to reflect the changing priorities for the VSEP. The advisory committee will also assist in specifying the criteria and procedures to be used by the Council to evaluate institutional grant proposals and would advise the Council on institutional grant awards.

Important Cost-Cutting Features of the Program

Several key features of VSEP promise to minimize the cost of administering the program. One feature is the VSEP Student Work Voucher.

The major administrative cost of VSEP, because of its focus on off-campus employment related to the students' career or educational interests, involves the development of jobs and the placement of students in these jobs. The work voucher, issued to the student upon arrival on the campus, affords institutions the opportunity of shifting much of the administrative burden of job development or placement to the student. For instance, in a metropolitan area populated by many prospective employers, the work voucher, with some modifications,<2> could be used by the student to develop his or her own job through direct contact with employers. The job would have to be approved by the institution upon the student's return of the voucher and the submission of a job description. Conversely, if referred by the institution to a specific employer for a job already approved for VSEP, the voucher would enable the student to arrange for his or her own placement because, once completed by the employer and returned to the institution by the student, the voucher serves as the official employer-student agreement.

Ensuring an appropriate match between a specific job and an individual student is a difficult task, but a necessary one given the objectives of VSEP. A second cost-cutting feature of VSEP reduces the burden of evaluating the job

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<2> The work voucher would include (1) a list of the criteria for approving jobs under the program, (2) the maximum amount of the student's VSEP award, (3) the percentage of the student's salary that would be reimbursed by the state, and (4) who to contact at the institution for additional information.

experience and the job's relationship to the student's career or educational interests by relying on the student for this information. Most state student employment programs similar to VSEP rely on institutional staff to make these determinations, a practice which adds significantly to the operating costs of these programs.

A third cost cutting feature is tied to the decentralized administrative structure of the program which limits the state's administrative role program review and reporting. This structure makes possible the institutional reporting of expenditures and recipient data as a an end-of-year report comparable to that which will be required under the restructured College Scholarship Assistance Program beginning in 1984-85. In fact, eventually the reports for the two programs may be combined. Because most state work study programs are not fully decentralized, they involve considerably more transmittal of information between institutions and the administering state agency, a fact which contributes to increased administrative costs.

OTHER PROGRAM PROVISIONS AFFECTING STUDENT RECIPIENTS, INSTITUTIONS, AND EMPLOYERS

In addition to incentives aimed at increasing the number of jobs for students and structural features designed to minimize administrative costs, several other features of the program are important. Included are provisions governing awards, work schedules, eligible employment opportunities and disbursements and reallocation of unused funds.

Student Awards

The state work-study award, when combined with the student's resources and other forms of financial aid, will not exceed the student's demonstrated need. The maximum amount of an individual's award, including both the state and employer's shares, will be determined by the institutional Financial Aid officer. However, the total may not exceed $3,000 per year.

A minimum award under VSEP is also desirable. Because off-campus employers will need to invest in some training of student employees, they will want to be assured of a significant return in the form of a minimum period of productive student employment. Normally, this would require that a VSEP award be sufficient to cover a minimum of two terms of part-time work during the academic year or full-time employment for the entire summer vacation period. Accordingly, the minimum award will be set at $1,000 in total compensation (State and employer shares). A minimum award as high as $1,000 is desirable because the hourly wages for most off-campus jobs will be higher than the minimum federal wage which is typically paid to students employed on campus. Higher wage rates result in less employment time per award dollar. For instance, at an estimated compensation rate of $4.00 per hour, a $1,000 award buys only 250 hours of employment. Working 20 hours per week, a student would exhaust a $1,000 award in just under 13 weeks.

Student Work Schedules

Students will be allowed to work up to 24 hours per week while attending classes and up to 40 hours per week during vacation periods including summer vacations. Enrollment for summer term courses might limit the hours worked per week during the summer vacation, however. Notwithstanding the maximum work schedule allowable, the student's approved employment schedule should not be permitted to intefere with the academic progression normally expected of a student enrolled full-time at the institution.

Eligible Employment Opportunities

Students should be placed in off-campus jobs whenever possible. A student may be employed on campus only if an appropriate off-campus position is not available or if the on-campus position would provide a demonstrably better educational experience for the student. A particular student's preference for on-campus employment is, of itself, insufficient as justification for on-campus placement. The maximum number of on-campus placements under VSEP shall not normally exceed 5 percent of the institution's total VSEP placements, without Council approval.

Each institution placing students in on-campus jobs under VSEP will be required to develop a job classification schedule for the compensation of those students. The schedules will be submitted annually to the Council of Higher Education for approval. An example of such a schedule (developed by the University of Washington for the Washington State Work Study Program) is included as Attachment 2.

Institutions in rural areas of Virginia which do not have access to a sufficient number of local off-campus jobs might use VSEP primarily as a summer work program for students willing and able to leave the area during that period in order to secure full-time employment, perhaps near the permanent residences of their families. These students would receive their awards in the spring. Students planning to enroll at an institution for the first time in the fall term would not be eligible for placement under VSEP in the summer immediately preceding that term.

Out-of-state agencies or businesses may also be eligible employers for recipients of VSEP awards, subject to legal approval by the Attorney General's office, but only if the employer is within commuting distance of a Virginia institution located near the borders of a neighboring state. Advance approval of out-of-state employment would be required. Out-of-state job placements will normally not exceed two percent of the total number of VSEP placements per academic year at any institution without prior Council approval.

<u>Disbursement</u> of <u>Funds</u> and <u>Reallocation</u> of <u>Funds</u> Not Used

As noted earlier, institutions would receive their annual disbursement of VSEP funds, as determined by a formula to be developed after the program's authorization, in the first month of the fiscal year. The amounts to be allocated would be made known to each participating institutuion by April preceding each award year.

Institutions would report and refund to the Council by January, of each award year, any funds which remain uncommitted. These funds would then be reallocated to institutions in proportion to the amounts of additional funds institutions report that they need.

Amounts of unused funds returned to the Council after January should not normally exceed two percent of the institutions total VSEP allocation for that year. Institutions returning amounts of unused funds exceeding two percent (after March 1) will be subject to having their allocations for the next year reduced by the amount of the overage (the sum in excess of two percent of the institution's allocation). This procedure will ensure that the distribution of VSEP funds works to the maximum advantage of students the VSEP is designed to serve.

A TENTATIVE PLAN FOR IMPLEMENTING THE PROGRAM

The program is tentatively scheduled for initiation in 1983-84 in order to be able to assist students beginning in 1984-85. To provide the additional jobs needed by fall 1984 and to develop and distribute to institutions the necessary regulations, administrative procedures and forms, a supplemental appropriation of $750,000 will be requested for 1983-84. Approximately $50,000 of this initial year appropriation would be retained by the Council to cover the additional expenses of implementing the program (*e.g.*, the printing costs for standardized forms for employers to use when requesting from institutions reimbursement of the state's share of student wages). The remaining $700,000 would be used to fund 1983 Institutional Incentive Grants for job location and development.

The first step in implementing the program would be the establishment of a Student Employment Program Sub-Committee in March 1983. The sub-committee's first task would be to develop information publications about the program for distribution in the fall of 1983 to employers and counselors, students and the general public. Included among the latter publications would be information about application procedures. The second task of the committee would be to develop the various forms and working documents needed by employers and institutions to "administer the program as well as model institution-employer and Council-institution agreements which would specify the responsibilities of the respective parties under the program. Forms for employers to use in evaluating the program and the students they employ would also be needed along with forms on which VSEP recipients would evaluate the work experience (av the end of each year).

By March 1984, the committee would have developed the criteria and guidelines needed by institutions to prepare proposals for job development incentive grant funds. These funds would be awarded to institutions in April or May of 1984, subject to the 1984 General Assembly appropriating funds for student wage subsidies for 1984-85.

The committee would also have agreed by March 1984 on an allocation formula which would be used to determine the amount of VSEP wage subsidy funds each institution participating in the program would receive in 1984-85. Institutions desiring to participate in the program in 1984-85 would have declared their interest in doing so prior to January 1984. Allocations for 1984-85 would be released to participating institutions in April 1984.

State Council of Higher Education

Staff Technical Paper No. 3

A Tentative Implementation Plan for the Proposed Merit-Based Scholarship Program

The Commonwealth Scholarships for Excellence Program (CSEP) would provide competitive, merit-based state scholarships to a small number of Virginia domiciliary residents electing to enroll as first-time undergraduate students at eligible Virginia colleges. Most of the scholarships would be targeted to recent high school graduates. However, a small number of awards would be reserved each year for outstanding adults at Community Colleges who desire to pursue a baccalaureate degree at a senior institution. The objective of the program would be to give statewide recognition to outstanding individuals, thereby encouraging them to pursue their undergraduate studies in Virginia. More important, the program would represent a tangible commitment of the Commonwealth to quality education at all levels. Quality education in the classroom is as much a function of outstanding students as it is outstanding faculty.

Awards

The amount of an individual scholarship would be set at $3,000 per year, independent of the students' financial need. Once awarded, the scholarships would be renewed at the student's request for the number of years of full-time study required to complete the program, normally not to exceed two years for an associate degree program and four years for a baccalaureate degree program. The scholarship would be transferable among eligible Virginia institutions. Renewal of a scholarship, however, would not occur (1) if a student's grade point average at the close of the preceding academic year as less than 3.0 for freshman, 3.2 for sophomores and 3.4 for juniors (on a four-point scale), or (2) if the student failed to be advanced to the next highest student level by the opening term of the award year.

Funding

The program would be supported by a state appropriation not to exceed $500,000 per year. Additional private sector funds might be accepted to offset the cost of the program in the future, but such funds would not be actively solicited.

Phased in over a four-year period, beginning in 1984-85, operation of the program would not be fully funded until 1987-88. In 1984-85, for instance, $150,000 would be needed to award $3,000 scholarships to 50 first-time students. In 1985-86, an appropriation of approximately $300,000 would fund about 50 new scholarships in addition to the renewal awards for those recipients who continue their studies at

Virginia institutions and who also meet the program's minimum standards regarding sustained academic achievement. By the program's fourth year, there would be about 160 scholarship recipients in all four classes receiving a total of about $500,000 per annum.

Administration

A statewide scholarship program of the size described above would be relatively inexpensive to administer. Outstanding high school candidates could be identified efficiently from lists published each fall by the National Merit Scholarship Corporation. Two lists are available. The first lists high school seniors designated as semi-finalists for the National Merit Scholarship Program Competition. About 300 Virginia students are included in that list per year. The second list includes black high school seniors chosen as semi-finalists in the National Achievement Scholarship Program for Outstanding Negro Students. About 30 black Virginians are listed.

Outstanding adult semi-finalists for scholarships would be identified with institutional help from the pool of sophomores attending Virginia's two year colleges. About five scholarships per year would be reserved for adult recipients who pursue baccalaureate degree study at one of Virginia's eligible senior institutions. The criteria for identifying adult semi-finalists would include, but not be limited to, the students' cumulative grade point average at the Community College and the recommendations of appropriate college officials.

In part, because of the confidentiality of information collected by the National Merit Scholarship Corporation, all information and recommendations supporting candidates for CSEP awards would have to be secured by the Council Staff directly from the high school or two year college the candidate is attending. Consent to provide that information would have to be secured using a simple application form bearing the student's signature. The Council staff would collect the information between September and December of the calendar year preceding the opening of the academic year for which the scholarship would be awarded.

In January, the Council would convene a five-member scholarship selection committee to review the supporting data and recommend scholarship candidates to the Council for initial and renewal awards. The committee would be comprised of outstanding leaders from education, government, private sector business and the Council Staff. Award offers would be issued beginning in March to the top candidates and, following the acceptance of all 50 awards (but not later than August each year), an official awards ceremony would be held for all first-time recipients. The ceremony would not only honor the scholarship recipients and their families, but would annually publicize Virginia's commitment to excellence.

Disbursements of student scholarship funds would be issued to institutions each term using procedures similar to those employed for CSAP and TAGP. Institutions would be responsible for certifying that the student meets the eligibility requirements for award receipt and renewal.

In order to implement the program for 1984-85, authorizing legislation for the program would have to be enacted by the 1983 General Assembly, because the processing of candidates for 1984-85 awards would have to begin by September 1983. It is important to note, however, that no appropriation of funds for the program would be required for 1983-84.

RESPONSES OF OTHER STATES

TO REDUCTIONS IN FEDERAL STUDENT ASSISTANCE PROGRAMS:

AN OVERVIEW

State Council of Higher Education for Virginia -- May 26,1982

INTRODUCTION

In addition to the tuition and fees collected from students, higher education draws its financial support from two major sources. Public institutions receive direct support from state or local governments in the form of appropriations. Both public and private institutions receive additional indirect support in the form of state and federal financial aid dollars awarded to their students.

During the last year, financial aid has become a major issue at both the state and federal levels. The current Administration's attempt to lower the national budget deficit by reducing or eliminating support for social programs, including education, has already resulted in substantial reductions in federal student grant, loan and work-study programs. The cuts made to date have not proved debilitating to higher education. However, the major reductions proposed for 1983-84, if adopted, may have serious effects. Anticipation of this possibility has led many states to initiate or consider new student aid programs in order to ensure that student access to higher education is maintained and that the distribution of students among institutions is not unduly disrupted by enrollment shifts from higher-cost to lower-cost institutions.

The main purpose of this paper is to acquaint the reader with new student aid initiatives which are proposed or are underway in other states. The paper is divided into four sections. State work programs are discussed in Section I. Section II describes new state loan programs. Section III explores innovative grant and scholarship programs. Other state programs of interest are described in Section IV. A compendium of detailed information on specific work study and loan programs is attached.

No attempt is made in the paper to present a comprehensive picture of all state programs in operation today. Rather, the paper emphasizes recent initiatives or program modifications made by states in direct response to cuts in federal aid programs.

The information presented in the paper was obtained by a telephone survey. Thirty two states known to be initiating or considering new student aid programs or to have existing programs of potential interest were contacted. Each was asked to provide the Council staff with copies of all available information about its activities. These materials included legislation, regulations, guidelines, proposals and studies. Staff review of the materials frequently resulted in a follow-up call to secure more detailed information or to clarify certain points.

I. THE STATE WORK PROGRAMS

INTRODUCTION

Five states have had operating work-study programs for several years. Partly because of the reductions in federal student aid programs, however, several other states have begun implementation of work-study programs or have proposals under serious consideration. No state-level initiatives regarding cooperative education programs were identified.

There are several factors in addition to the reductions in federal student aid funds which have prompted states to consider state work study programs. Among these are:

1. The desire to establish stronger ties between higher education curricula and work, thereby improving opportunities for post-graduate employment; and

2. The states' desire to secure business and industry support of college programs that directly benefit the private sector and lead potentially to further support of educational institutions.

Among the states with programs in operation for some time are Pennsylvania, Connecticut, Colorado, Minnesota, and Washington. States where new work programs are being considered include Alaska, Delaware, Florida and Kentucky. New York has just begun implementation of its new work program to be phased in over a three-year period.

THE FEDERAL PROGRAM

The unique character of the states' work programs is most visible when viewed in relation to the federal College Work-Study Program (CWSP). The CWSP is a campus-based program. Institutions participating in the program are responsible for administering it in compliance with federal law and regulations. The role of the federal government is limited to funding and regulation.

The purpose of the CWSP is to ensure the availability of part-time job opportunities for students who need help in order to finance their education. To accomplish this purpose, the federal government annually allocates to institutions funds which may be used to pay up to 80 percent of the wage costs of the students who are given jobs. Students must be paid at least the minimum hourly wage under the program. Although providing financial assistance is the primary objective of the CWSP, federal regulations also encourage institutions to place CWSP recipients in jobs which complement the students' educational programs and career interests.

Eligible employer organizations are restricted to public or private, non-profit organizations or agencies. Privately owned "for-profit" businesses or industries and individuals are not eligible to participate as employers under the CWSP.

In order to receive a CWSP award, students must generally be enrolled for at least half-time study and must also be making satisfactory progress in an eligible academic program. The students must, in addition, have financial need in order to qualify for an award. Both graduate and undergraduate students are potentially eligible if they are U. S. citizens or permanent residents. The amount of an award, including all other student aid, cannot exceed the individual student's financial need.

THE STATE PROGRAMS

By and large, the state work study programs are modeled after the federal CWSP. Some state work study programs such as those in New York and Pennsylvania do little more than supplement the funds that institutions which employ students on-campus must come up with to meet the 20 percent matching requirement under the CWSP. The work programs in other states stand independent of the CWSP and have modified objectives.

Generally, these independent state programs are targeted to a narrower spectrum of the total student population, in some cases addressing the needs of students ineligible for assistance under the CWSP. In Colorado, for instance, 25 to 30 percent of state work study funds are targeted to students who cannot demonstrate financial need but who are likely to benefit from the work experience.

In Washington, the state work program is targeted to students with moderate need (middle income students) who would otherwise have to finance their education with student loans. The student's financial need, however, must be sufficient to permit an award large enough to ensure a meaningful employment experience. In contrast to the federal CWSP, the Washington program assigns top priority to matching the students' educational program and career interests with the position the student is assigned. In Alaska a proposal for a program similar to Washington's was recently defeated in the legislature. Although the bill did not pass, it received a good deal of support and is expected to be introduced again in the next legislative session.

Minnesota's work program is more like the CWSP by virtue of the primacy it assigns to financial need over that of job experience. However, it, too, is set apart by being targeted to needy students who, in addition, may not be eligible for other types of aid. The program restricts eligibility to full-time undergraduate and graduate students.

Generally, state work programs are targeted to serving in-state residents with priority given to undergraduates. Where the state programs function partly to provide matching funds for the federal CWSP or where they duplicate the CWSP in terms of clientele served, a maximum award limit may be imposed. For instance, Connecticut's program which parallels most closely the CWSP has a maximum award of $1,500, even if the student's need is greater.

Under several state work programs, the objective of providing students with a meaningful work experience achieves primacy over the objective of meeting financial need. State programs with this emphasis also tend to differ from the CWSP in other important ways. The first is involvement in the state programs of a wider variety of employers (job diversity). The Minnesota Program, for instance, includes as eligible employers any handicapped person or person over 65 years of age who could benefit from the help provided by a work-study student. Yet another example is found in Washington where profit-making businesses are encouraged to participate as student employers. Washington's contribution for such off campus employment, however, is limited to 65 percent of the student's wages. The maximum state share of wages paid by participating public and private non-profit institutions of higher education, on the other hand, remains at 80 percent, the same as that allowed under the CWSP which excludes proprietary enterprises from participation.

Delaware and Florida presently have proposals for work programs under consideration which also permit profit-making businesses and industries to participate. According to the Delaware proposal, expanding the scope of employers gives students valuable exposure, both to the expectations of private sector employers and to a greater variety of careers.

A second difference between the state and federal work programs concerns student wages. The state programs often require compensation exceeding the federal minimum wage established for the CWSP. Higher wage requirements characterize state programs which assign primacy to achieving a close relationship between the job and the students' educational program and career interests. For instance, the Washington work program which has this as its primary goal requires that the rate of student compensation be equal to the entry level salary for a comparable position with the employing organization. Similarly, Colorado requires that student wages be commensurate with the duties and responsibilities of the job. More specifically, regulations direct that compensation must equal at least 85 percent of the rate of regular full-time employees performing the same work. Moreover, compensation rates of less than 100 percent may be justified only on the basis that students are temporary employees and may be given somewhat less responsibility than their full-time counterparts.

In summary, the state work-study programs, with few exceptions, reflect greater concern about the relationship between education and work than the federal CWSP which assigns primacy to the goal of providing financial assistance. This concern is manifested in the programs' governance and key characteristics, one of which is the involvement of a more diverse array of employers. The state programs are also targeted in many cases to serve students not helped by other programs, including the CWSP. For a more detailed comparison between state work programs and the CWSP, refer to Tables 1 and 2 in the Appendix.

II. STATE LOAN PROGRAMS

INTRODUCTION

Several states have established new loan programs to ensure that the loan funds available in their states will be sufficient to maintain acceptable levels of student access to higher education. Many other states are contemplating similar actions. The pressures to establish state loan programs stem from:

1. The perceived effects on enrollment of the exclusion of many students from the federal Guaranteed Student Loan Program (GSLP) as a result of newly imposed eligibility requirements. In Virginia, the more restrictive eligibility requirements could reduce loan volume by as much as 30 percent in the 1982-83 academic year.

2. The belief that students denied a GSL would defer enrollment or attend a lower cost institution rather than pay the higher 14 percent interest rate required under the recently established supplement to the GSLP, referred to as the federal PLUS (auxiliary) loan program.

3. The uncertainty about the success of federal proposals to curb GSLP costs by reducing or eliminating the special allowances and in-school interest subsidies paid to lenders by the federal government. These federal subsidies are the major incentives for private lenders to participate in the GSLP.

4. The belief that the rising costs of attendance coupled with possible sharp reductions in federal support of gift aid and work-study programs will make access to loan funds the critical determinant in providing access to higher

education, particularly at high cost institutions.

THE FEDERAL PROGRAMS: BACKGROUND

The GSLP makes low interest loans with attractive repayment provisions available to undergraduate and graduate students to help them finance their education. Lenders participating in the GSLP in Virginia from the private sector include banks, savings and loan associations and credit unions. Virginia has also established a quasi-public direct lender, the Virginia Education Loan Authority (VELA), to supplement the loan capital made available by private sector lenders. The VELA derives its loan funds through the sale of tax-exempt revenue bonds. Financial obligations incurred by VELA through bond sales and other transactions are not backed by the Commonwealth's full faith and credit.

The passage in 1978 of the Middle Income Student Assistance Act (MISAA) opened the GSLP to virtually all students regardless of need by removing the $25,000 family cap above which students were ineligible to receive a GSL. Removal of the income cap not only ensured assistance for needy middle income students previously ineligible for GSL's, but made it profitable for some higher income students to borrow the maximum amount and use it for a variety of non-educational purposes. Runaway program costs at the federal level were one result of the MISAA.

In order to bring the costs of the GSLP under control, the Congress re-established an income cap, effective in October, 1981. The new cap extends eligibility to students whose family incomes fall below $30,000. Students from families whose incomes exceed $30,000 are eligible only if they pass a needs test which, if the students' family income exceeds $75,000, is especially stringent.

Under the GSLP, undergraduates may borrow up to $2,500 in an academic year with an aggregate limit of $12,500. Graduate students are eligible to receive up to $5,000 annually with a total indebtedness of $25,000 (including loans previously received as an undergraduate). New loans carry a 9% interest rate which is paid by the federal government in the form of an interest subsidy while the student is in school. Repayment is deferred until six months after the student graduates or leaves school. A student may take up to ten years to repay the loan.

The federal government has also established a new loan program known in Virginia as the PLUS program. PLUS loans are not as financially attractive to students as are GSL's, nevertheless, they cost less than most commercial loans. The interest rates for PLUS loans is 14 percent with repayment commencing not later than 60 days after disbursement, except in those cases where the borrower is attending school full time. In such cases, repayment may be deferred but only with regard to the loan principal. Deferment of interest payments is not permitted except by special arrangement with the lender. The maximum PLUS loan is $3,000 per year for all but independent undergraduate students ($2,500) with a cumulative limit of $15,000 on the total amount borrowed including the total borrowed under the GSLP ($12,500 for independent undergraduates). Targeted to the parents of dependent undergraduate students, independent students and graduate students, the PLUS program may become an important source of aid for students unable to qualify for a loan under the GSLP. In Virginia, PLUS loans will be available through participating private sector lenders.

Important to the success of the federal GSL and PLUS programs are the built-in incentives which encourage lender participation by increasing the earning power of loan capital and ensure that loans made available to students are less costly than commercial loans. A state program, in order to be effective, must have provisions which accomplish these same ends.

The first incentive is an in-school interest subsidy whereby the federal government pays the student's interest on the GSL principal while the student is in school. Repayment of the principal is deferred until the borrower leaves school. This subsidy not only benefits student borrowers but lenders as well because of the savings from not having to bill individual borrowers. A second incentive is the government's payment to lenders of a special allowance which amounts to the difference between the interest rate the student pays (7 or 9 percent) and the prevailing market interest rate which is tied to the 91-day treasury bill rate. The fact that the loan is insured by the federal government against student default, disability or death constitutes a third incentive. There is virtually no capital risk for lenders. The fourth major incentive is the provision of a secondary loan market (The Student Loan Marketing Association) which enables lenders to sell loans for quick liquidity before they enter repayment status. A secondary market can promote the recirculation of loan capital and free lenders from the additional expenses associated with loan billing and collection.

THE STATE PROGRAMS

The concept of state loan programs is fairly new and only a few states have fully operational programs. However, a number of states are seriously considering establishing such programs. Several of them have developed proposals.

Some of the state loan programs act primarily to increase the amounts students can borrow above the limits set by the GSLP and PLUS programs. In a sense, they piggyback on those programs. Several proposals from Connecticut fall into this group. One of Connecticut's proposals, for instance, would set the maximum loan amount at an amount considerably higher than the $3,000 ceiling permitted under PLUS. The first $3,000 would be federally-insured under PLUS and carry the PLUS interest rate of 14 percent. The amount exceeding $3,000 would be insured by the state and carry the prevailing market interest rate. One problem cited in the proposal is that Connecticut would be responsible for the portion of the loan that it insured if the borrower defaulted.

Other state programs seek to fill the service gaps resulting from the cuts in federal aid, particularly the one brought about by the changes in GSLP eligibility requirements (the $30,000 income cap). For instance, a second Connecticut proposal calls for loans to be targeted to the parents of dependent undergraduates eliminated from GSLP eligibility because their family income exceeded the $30,000 cap and no need could be demonstrated. The program would conform to PLUS regulations except that the interest rate levied on borrowers would be set at 9.5 percent (versus 14 percent under PLUS), only a half percentage above the GSLP rate. The proposal cautions, however, that because the interest rate on tax exempt bonds is presently higher than 9.5 percent, the state would have to make up the difference. The administrative costs and the costs of defaulted loans (state-insured) would also have to be taken into consideration.

Several specific loan program options are of interest. One is another Connecticut proposal which would establish a revolving loan fund at public institutions. The funds would be raised through the sale of tax exempt revenue bonds. A portion of the bond proceeds would be used to disburse educational loans to the school's students who do not qualify for federal aid. The remaining funds would be reinvested to lower program costs. The state would absorb the costs of program administration, defaulted loans, and any gap between the bond indebtedness and the revenues generated from the invested portion of the bond proceeds.

Alaska has supported a similar revolving loan fund program for 11 years. Capital for loans was initially appropriated by the state. Loan principal and interest are paid back into the account to be used for new loans and to pay administrative costs. If the estimated funds available are inadequate fully to fund projected loan volume in any fiscal year, additional state appropriations may be requested.

Eligible Alaska undergraduate and graduate students enrolled as full-time students may borrow up to $6,000 and $7,000 per year, respectively, at a five percent interest rate. Undergraduate or graduate students may not receive loans for more than five years with an aggregate limit for both undergraduate and graduate studies of eight years. Repayment begins no later than one year after the borrower terminates his or her studies. Up to 50 percent of the loan principal and interest may be cancelled if the borrower remains a resident of the state.

The Connecticut proposal for a revolving loan fund cites several reservations. The major concern is the possibility that if money currently used for grants or tuition waivers is diverted to support the program, assistance for low income students could be jeopardized. Such a program, according to the author, could also result in an overdependence on loans to finance one's education.

A second loan program potentially of interest here in Virginia is one designed to serve students enrolling at high cost independent colleges and universities. Designed to supplement the GSLP and PLUS programs, such a program is purported to help reduce the dependence of private institutions on government funding. Programs of this type recently have been established in Illinois and Massachusetts; they are being considered in Florida, Connecticut and Maryland.

The predominant structure of this type program requires an independent loan authority to be established and given power by the state to sell tax-exempt bonds. The credit and full faith of the state, however, are not pledged. Financial obligations are shared by the Authority and the participating private institutions. The Authority sells bonds and, in turn, lends the bond proceeds to participating colleges and universities at a fixed rate of interest. The institutions then re-lend these funds to eligible students and parents. Each institution sets its own interest rates and repayment terms which vary depending on the subsidies the institutions can afford to provide. The Authority issues bonds in the amount that institutions or groups of institutions wish to borrow based on the institutions' estimates of loan demand. Institutions must contribute funds or collateralize properties and endowments to provide security for the bonds as a condition of participation. Some institutions may have difficulty in meeting these requirements.

A third type of program, considerably different from all others, has been proposed by John Silber, President of Boston University. Originally conceived as a federal alternative to the GSL and PLUS programs, the program may be difficult to apply at the state level. The uniqueness of the idea, however, makes the program worth considering. Named the Tuition Advance Fund (TAF), the program is based on the assumptions (1) that the price of higher education should be borne by those who receive it, and (2) that higher education is a long-term investment whose costs can be repaid from the lifetime earnings of recipients.

Under the TAF, the government would establish a fund from which any undergraduate student, regardless of need, could draw an advance (loan) for tuition and reasonable living expenses. In place of interest, a simple surcharge of 50 percent of the total amount borrowed would be capitalized and added to the loan principal to make up the total amount owed. Payments would be due in any year during which the borrower's income would equal or exceed $10,000 with payments being levied in the form of payroll deductions ranging from two to six percent, depending on the borrower's income level. Therefore, students who earn high incomes after graduation would pay back their debt quickly, while students with incomes only slightly above $10,000 might continue to pay throughout their working lives. Persons with annual earnings of less than $10,000 would not be required to repay the loan.

Because repayment is accomplished through payroll deductions, defaults are not possible. Repayments are redeposited into the fund. A portion of the fund is invested to cover costs. The fund, according to Silber, should become self-sustaining within 20 years.

Before the TAF could be considered in Virginia as an alternative loan program, several important issues would need to be resolved. The state would need to determine (1) if its present tax structure and administrative machinery could handle the payroll deduction, and (2) what alternative repayment provisions would be needed to accommodate borrowers who leave the Commonwealth to reside elsewhere.

In summary, the state loan programs are mostly geared to assisting students who desire to enroll at higher cost institutions. The structure of these diverse programs as well as their financial characteristics and governance varies with the kinds of students and institutions they are designed to assist. For a more detailed comparison between state loan programs and the federal GSL and PLUS programs, refer to Tables 3 and 4 in the Appendix.

III. SCHOLARSHIP AND GRANT PROGRAMS

A third type of student aid program examined as part of this paper were what might be termed "unique" scholarship and grant programs, particularly those partly supported by private business and industry. Such programs are of special interest because if implemented in Virginia:

1. They might increase the amount of funds made available in Virginia for the support of undergraduate and graduate gift aid without overtaxing limited state revenues; and

2. They might further the efforts of Governor Robb and Virginia's General Assembly to expand employment opportunities, stimulate industrial development and upgrade the quality and value to the state and its citizens of selected academic programs at Virginia's institutions of higher education.

The Council staff's telephone survey of the states revealed only two direct state government initiatives of this type (Colorado and Alaska). Arizona officials, however, also reported a unique institutionally initiated/state-endorsed program which has achieved statewide recognition for its positive achievements.

One state effort is a pilot project in Colorado designed to test the assumption that private donors will be more willing to make contributions if they know their funds will be matched by state funds. The state has set aside funds to match a portion of all 1982-83 contributions to student aid in excess of the amount raised in 1981-82. Institutions may use the state matching funds for need-based grants, merit-based scholarships, work-study awards or loans. Only public two and four-year institutions are eligible to participate in the program, however.

A similar state initiative is Alaska's legislative proposal to establish a Cooperative Scholarship Program. Under this program, the state would match contributions made to institutions by private industry for the purpose of providing student assistance. For each scholarship, the institution and the sponsoring business would agree on the terms and conditions of the scholarship and specify the academic discipline for which the scholarship would be offered. The state would match each scholarship up to $2,500. Alaska's Bill did not pass in this year's legislative session, but it is expected to be reconsidered next year.

A third scholarship program was the indirect result of a project undertaken by Arizona State University (ASU) with support from state government and private industry. The program's success stems from the reciprocal benefits enjoyed by ASU and participating industries. Initially, the University asked industry to assist in the evaluation of its engineering curriculum and to help in the development of a plan designed to upgrade the quality of the engineering curriculum and research facilities. The result was a five-year plan requiring a total commitment of $32 million divided among state(61%) and federal(9%) governments and private industry(30%). The plan targeted funds for the construction of a new engineering building, the acquisition of new equipment, the support of research projects, and the funding of scholarships in certain disciplines. Now only in its second year, more than $23 of the $32 million called for in the plan has been raised.

In addition to the student scholarships, the benefits to both institutions and industry are readily apparent. For example, prior to the plan's development, ASU had no computer science department and offered computer science courses as part of its engineering program. With support from industry and state government, a separate computer science department was established, and the quality of the computer science program was ensured. In response to certain industry needs, ASU also established a Center for Professional Development for continuing education in engineering and has since expanded the number of its offerings by a factor of five. In the fall of 1982, a closed circuit television system will be installed in nearby industrial plants to allow working engineers to take college courses.

Industrial leaders led the move to obtain the necessary state support for the plan, shepherding it successfully through the legislative process. They also took an active role in securing the necessary financial support from their own companies.

The state also benefited from the close ASU-industry relationships Because of the program and ASU'S responsiveness to industry's needs, a computer company has decided to relocate to the state. More than 3,000 new jobs will be created as a result.

IV. OTHER STATE PROGRAMS

As a part of the Council's telephone survey, officials in other states were asked to identify any other student aid programs in their state which might be relevant to Virginia's study of financial aid under SJR 81. Several programs were identified.

The proposals of two states, if adopted in Virginia, could potentially provide assistance to students attending proprietary (for profit) schools. Maryland, for instance, has proposed the creation of a Guaranty Student Tuition Fund. Presently, proprietary schools must acquire surety bonds from insurance companies in order to be licensed or approved to operate in Maryland. Surety bonds are also mandated in Virginia. The purpose of the bonds and the Fund are the same -- to reimburse students entitled to a refnd of tuition and fees in the event that a proprietary school goes out of business.

Under the Maryland proposal, schools would be required to pay a specified amount into the Fund instead of securing a surety bond. Payments would be deposited into an account with the State Comptroller who would invest the money. All earned income would be redeposited into the Fund. When the Fund exceeded the total amount needed to protect students' tuition, the state would decide how to use the surplus. One proposal which has received a favorable response is to use it as capital for scholarships (or loans). However, the

Fund is not expected to reach a level sufficient to support scholarships (or loans) for at least five years.

Connecticut has had a similar fund for several years. Recently, legislation was defeated in a legislative committee to use the fund's investment income for scholarships. Administrators in the Department of Education were of the opinion that the fund was not sufficient at its present level to provide insurance against proprietary school closings and at the same time support scholarships.

New York State also reported two unusual types of aid programs. The first is similar in structure to an Individual Retirement Account (IRA). The second resembles in concept the tuition tax credit plan being proposed nationally by the Reagan Administration.

New York's Parents and Students Savings Plan (PASS) allows parents and dependents to create a tax-sheltered savings fund for the expected cost of postsecondary education. Up to $750 annually may be contributed to a PASS account for each beneficiary. Individual contributions to a PASS fund lower the federal adjusted gross income used to determine the state's total taxable income. In addition, interest earned on the account may also be deducted if this income was included in the calculation of the federal adjusted gross income. Disbursements from the account are taxable only after the student leaves school. The tax is paid by the beneficiary.

Under a program called the Tuition Deduction Plan, New York residents may receive a tax deduction for part of the tuition expenses paid during a taxable year. For each dependent, one-half of paid tuition minus any state tuition awards or $1,000 (whichever is less) may be claimed as a deduction. Only

TABLE 1

A COMPARISON OF STATE & FEDERAL
WORK-STUDY PROGRAMS

Federal College Work-Study Program (CWS)	State Work-Study Programs and Proposals (Features which build on or deviate from the federal program)
PROGRAM OBJECTIVES	**PROGRAM OBJECTIVES**
1. To provide part-time employment to students with financial need. 2. To provide employment that complements and reinforces needy students' educational programs and career goals.	1. To supplement the federal CWSP (CT, CO, WA, DE, MN, FL, AK). 2. To provide incentives for the employment of students and to expand student employment opportunities in the public and/or private sectors. (CT, CO, WA, DE, MN, FL, AK). 3. To provide assistance to students who demonstrate financial need, but who may not be eligible for other types of aid (MN, WA). 4. To fulfill the work needs of students (CT, CO, WA, DE, MN, FL, AK). 5. To provide employment for students without financial need but who could benefit from the work experience (CO). 6. To provide institutions with a portion of the matching funds required for participation in bhe federal CWSP (CT, CO, NY, PA). 7. To provide non-profit service agencies, handicapped persons and persons over 65 with low cost student assistance (MN).
TARGET PROPULATIONS	**TARGET POPULATIONS**
1. Students who demonstrate financial need.	1. Students who demonstrate financial need but may not be eligible for other types of aid (MN, WA). 2. Students who do not demonstrate financial need but could benefit from the work experience (CO).
FINANCIAL ARRANGEMENTS	**FINANCIAL ARRANGEMENTS**
Institutional Allocations of Federal Funds	*Institutional Allocation of Federal Funds*
1. Federal funding formula is not relevant to state programs.	1. State funds are allocated to participating institutions based on the institution's percentage of the total federal CWS funds allocated to the state (CT). 2. State funds are allocated based on the total estimated financial need of eligible students at each institution in proportion to the total financial need at all eligible institutions (CO). a. Financial need is adjusted for tuition and enrollment changes. b. No institution receives less than 90% of the amount received two years prior to the current allocation period. c. No institution will receive more than its request for funds. 3. A state review committee recommends institutional allocations based on the institution's application for federal funds and other parameters recommended by the committee (WA).

TABLE 1 CONT'D

Cost Sharing Provisions

1. Federal funds are used as a base against which institutional and off-campus employers are required to contribute matching funds for student wages.
    a. Federal share may not exceed 80%.
    b. Institutional and off-campus employers must contribute at least 20%.
2. Institutional share may be paid in the form of services and equipment such as tuition, books, room and board.
3. The off-campus employer may be required to pay a share of the student's social security or workers' compensation.

Use of Federal Funds

1. A percentage of the institution's allocation may be used for administrative costs; the percentage is determined by the amount of the allocation.
2. Not more than 10% of an institution's allocation may be used for students enrolled less than half time.
3. An amount of 10% or $25,000, whichever is less, may be used for the creation or expansion of a job location and development project.

Amount of Award

1. The amount of the student's award is determined by the student's financial need minus the student's resources.
    a. Financial need is the difference between a student's cost of attendance and the expected family contribution.
    b. If family income is less than $30,000 GSL may be used to replace expected family contribution. (The amount of GSL in excess of expected family contribution must be considered as a student resource.)
    c. Student resources include: Pell grants, tuition and fee waivers, scholarships and grants, fellowships and assistantships, students' social security benefits, insurance benefits, GSL, and student earnings.

4. State funds are allocated to each institution based on the previous year's proportion of total full year equivalent enrollment of all participating post-secondary institutions (MN).

Cost Sharing Provisions

1. State funds are used as a base against which off-campus employers are required to contribute matching funds.
    a. Employers contribute at least 35%; state contributes not more than 65% (WA, AK).
    b. Employers contribute at least 50%; state contributes 50% (FL).
2. State funds are used as a base against which institutional employers may be required to contribute matching funds.
    a. State contributes 100% (CT, CO).
    b. Institutions contribute at least 20%; state contributes no more than 80% (WA, MN, AK).
    c. Institutions contribute 50%; state contributes 50% (FL).
3. Employers must contribute to social security, workers' compensation or other insurance programs (MN, WA, AK).

Use of State Funds

1. State funds may be used by the institutions to meet all(CT)or a portion (CO) of the matching funds required to participate in the federal College Work-Study Program.
2. Approximately 75% of the institution's allocation must be used for students with financial need; remaining funds must be used for students without need, but who could benefit from the job experience (CO).
3. A limited portion of the institution's allocation may be awarded to graduate students.
    a. Amount may not exceed 10% of an institution's allocation (CT).
    b. Amount may not exceed the percentage of graduate students in the institution's total enrollment (MN).

Amount of Award

1. Maximum award may not exceed the student's financial need of $1,500 (CT).

TABLE 1 CONT'D

Student Wages

1. The rate of compensation must not be less than the current minimum wage and must be computed on a hourly basis.
2. Compensation may not be in the form of a salary, commission or fee. (Graduate students may be paid a salary.)
3. Fringe benefits may not be counted as part of the wage rate.

Payment

1. Students must be paid at least once a month.
2. Federal share of each payment must be by check or other similar instrument requiring the student's endorsement.
3. Institutions may pay a student its share in the form of services and equipment; student must be informed of the amount earned before the close of the final payroll period.

Employer Eligibility

1. An employer is eligible to participate in the federal CWSP if it is:
   a. an educational institution.
   b. a federal, state or local public agency.
   c. a private non-profit organization.

Student Wages

1. The rate of compensation must be equal to the entry level salary of a comparable position within the employing organization (WA, AK).
2. The rate of compensation must be equal to 85% - 100% of the wage paid to regular full-time employees performing the same work (CO).

Payment

1. Same as federal program.

Employer Eligibility

1. Employer must be located in the state (CO).
2. Employer may be a profit making organization (DE, FL, WA, AK).
3. Employer may be a handicapped person or an agency providing services for the handicapped (MN).
4. Employer may be a person over 65 or an agency providing services for the elderly (MN).

Student Eligibility

1. A student is eligible for employment in the work-study program if the student is:

    a. a regular student
    b. enrolled or accepted for enrollment in an eligible program as a graduate or undergraduate student
    c. a U.S. citizen or national
    d. in need of financial assistance
    e. maintaining satisfactory progress according to standards and practices of the institution.

Work Placement Guidelines

1. Students should be placed in jobs, whenever possible and practical, which will complement and reinforce their educational programs or career goals.

Academic Credit

1. Academic credit may be given for work-study jobs that satisfy a requirement for a degree or certificate.

Administrative Structure

1. Federal agency governs the program; institutions administer the program.

Student Eligibility

1. Only state residents are eligible (MN, CT, CO).

2. Non-residents are eligible to participate (WA, AK).

3. Only undergraduate students are eligible (CO).

4. Only full-time students are eligible (MN). (Students may drop to part-time status during the academic year and still be eligible if the status change is approved by the institution.)

Work Placement Guidelines

1. Students should be placed in off-campus positions whenever possible (MN).

2. Priority should be given to the student whose academic major and/or career interests match the responsibilities of the job (WA, AK).

3. Priority must be given to state residents (WA, AK).

4. Priority must be given to students with moderate need who would otherwise have to finance their education with loan monies (WA, MN).

Academic Credit

1. Institutions are encouraged to offer academic credit for experience gained through the work-study program (WA, AK).

Administrative Structure

1. State agency governs the program; institutions administer the program (CT, CO, WA, DE, MN, FL, AK).

TABLE 2

A COMPARISON OF SELECTED STATE WORK PROGRAMS
WITH THE FEDERAL WORK-STUDY PROGRAMS

Program Features	Federal College Work Study Program (CWSP)	Connecticut	Colorado	Minnesota	Florida (proposal)	Washington
Funding Match A. On campus jobs B. Public/non-profit agencies (off campus) C. Profit-making business (off campus)	Federal/Employer A. 80%/20% B. 80%/20% C. -- --	State/Employer A. 100%/0% B. 80%/20% C. -- --	State/Employer A. 100%/0% B. 80%/20% C. -- --	State/Employer A. 80%/20% B. 80%/20% C. -- --	State/Employer A. 50%/50% B. 50%/50% C. 50%/50%	State/Employer A. 80%/20% B. 65%/35% C. 65%/35%
Eligible Employer Organizations	Educational institutions (public/non-profit), Public agencies, Private non-profit agencies	Same as CWSP	Same as CWSP	Same as CWSP and persons over 65 and handicapped persons	Same as CWSP and business and industry	Same as CWSP and business and industry
Eligible Students	At least half time students enrolled or accepted, U. S. citizens/nationals, Financial need, Satisfactory progress, Graduates or undergraduates	Same as CWSP and state residents only	Same as CWSP and undergraduate students only, open to non-needy students also (eligibility requirements for non-needy students are determined by institution)	Same as CWSP and state residents only, full time students only, students not eligible for other types of aid	State residents only, full time students only	Same as CWSP and middle income (moderate financial need)
Student Compensation	Must be equal to or greater than the established federal minimum wage	Same as CWSP	Must be equal to 85%-100% of wage paid to regular full-time employees performing the same work at employing organization	Same as CWSP	Not yet determined	Must be equal to the entry level salary of a comparable position with the employing organization
Maximum award	Not to exceed financial need after other aid	Same as the CWSP or $1,500, whichever is less	Same as CWSP	Same as CWSP	Not yet determined	Same as CWSP

TABLE 3

A COMPARISON OF STATE AND FEDERAL LOAN PROGRAMS

Federal Loan Programs (GSL and PLUS)

PROGRAM OBJECTIVES

1. To provide low-interest loans to: eligible graduate and undergraduate students (GSL).

2. To provide graduate students, independent undergraduate students and parents of undergraduate students additional loan funds for educational expenses (PLUS).

TARGET POPULATIONS

1. Dependent graduate and undergraduate students whose parents' income is less than $30,000 (GSL).

2. Dependent graduate and undergraduate students whose parents' income is $30,000 or more but less than $75,000 and who can demonstrate financial need (GSL).
   a. Incomes exceeding $75,000 require a more stringent needs test.

3. Independent undergraduate and graduate students whose income is less than $30,000 or can demonstrate financial need if income equals or exceeds $30,000 (GSL).
   a. If married, spouses income must be included.

State and Independent Loan Programs

PROGRAM OBJECTIVES

1. To provide loans to students:
   a. who are eliminated from the GSL program.
   b. who are considered a credit risk by private lenders.
   c. who need money in excess of the GSL maximum to meet costs of attendance (CT).

2. To ensure the availability of loan capital in geographical areas where private lenders are reluctant to make loans to students (CT).

3. To provide a source of loans to state residents (AK).

4. To provide parents with a less expensive alternative to PLUS or commercial loan programs (CT).

5. To supplement the maximum loan amount permitted under the federal PLUS program while keeping the state's liability low (CT).

6. To provide additional capital to state supported institutions to make educational loans to their students (CT).

7. To provide capital for public and private institutions to establish a national revolving loan fund (TAF).

8. To raise additional capital for educational loans made by private institutions (CT, FL, IL, MA, MD, NC).

9. To lessen the dependence of private institutions on financial aid provided by state and federal sources (CT, FL, IL, MA, MD, NC).

TARGET POPULATIONS

1. Students eliminated from eligibility under revised GSL statutes and regulations (CT, FL, IL, MA, MD, NC).

2. Eligible students unable to secure a GSL because of credit standards set by lenders (CT).

3. Parents and students who need money in excess of GSL maximum (CT, FL, IL, MA, MD, NC).

4. Students in geographical areas where private lenders are unwilling to make loans to students (CT).

5. Students who are residents of the state (AK).

4. Parents of undergraduate students, independent undergraduate students and graduate students (PLUS).

FINANCIAL ARRANGEMENTS

Loan Capital and State Obligations

1. Capital for GSL and PLUS loans is provided by private lenders.

2. In Virginia, capital for GSL (VELA) is generated through the sale of tax exempt bonds which are not backed by the state's full faith and credit.

Special Financial Features

1. Federal government insures lenders against loss (GSL, PLUS).

2. Federal government pays lenders a special allowance (GSL, PLUS).

    a. Special allowance is intended to subsidize a portion of the difference between the interest rate charged on GSL and PLUS loans and the interest rates charged on commercial loans.

    b. Formula for the determination of special allowance is tied to the interest rate for 91-day Treasury Bills.

6. Parents of undergraduate students and graduate students (CT, FL, IL, MA, MD, NC).

7. Students who request money for educational purposes regardless of need (TAF).

FINANCIAL ARRANGEMENTS

Loan Capital and State Obligations

1. Direct state appropriations (AK, CT).

2. Federal appropriations (TAF).

3. Tax exempt bonds not backed by the state's full faith and credit (CT, FL, IL, MA, MD).

4. Tax exempt bonds backed by the state's full faith and credit (CT).

5. Non-tax exempt bonds (NC).

6. Loan repayment proceeds (AK, CT, FL, IL, MA, MD, NC, TAF).

7. Contributions from private sources (NC).

8. Contributions from participating institutions (NC).

Special Financial Features

1. Bonds are tax exempt (CT, FL, IL, MA, MD).

2. Lenders' debt could be refinanced if interest rates dropped significantly (CT, FL, IL, MA, MD, NC).

3. Institutions establish a financial cooperative to maximize bargaining power and to minimize cost (CT, FL, IL, MA, MD, NC).

4. Contributions from private sources are deposited into a revolving fund, thereby decreasing the need for additional contributions (NC).

5. Over time, the number of students receiving aid will decrease, while the number of persons repaying loans will increase (TAF).

6. Collection process is simplified because loans are repaid through payroll deductions (TAF).

7. Default is not possible (TAF).

TABLE 3 CONT'D

Amount of Awards

1. Award not to exceed the costs of attendance less expected family contribution (GSL, PLUS).
2. Award for student whose parents' income is $30,000 or more not to exceed financial need as calculated by needs test.
3. Maximum undergraduate annual award is $2,500 with an aggregate limit of $12,500 (GSL).
4. Maximum graduate annual award is $5,000 with an aggregate limit of $25,000 (including loans for undergraduate study) (GSL).
5. Maximum annual award is $3,000 a year, with an aggregate limit of $15,000 for graduate students and parents of undergraduate students (PLUS).
6. Maximum annual award is $2,500 a year (including GSL) with an aggregate limit of $12,500 (including GSL) for independent undergraduate students.(PLUS).

Funding Levels

1. Congress must appropriate sufficient funds to cover the cost of interest subsidies and special allowances (GSL, PLUS).
2. Level of funding is dependent upon:
   a. loan volume
   b. availability of capital on the bond market
   c. availability of capital from private lenders (GSL, PLUS).

Federal Program Cost

1. The level of operating cost is dependent upon:
   a. the cost of the special allowances to lenders.
   b. the average quarterly rate of 91-day Treasury Bills.
   c. the cost of interest subsidies.
   d. the amount of non-collectable defaulted loans.
   e. the collection cost of defaulted or delinquent loans.
   f. the amount of loans cancelled because of borrower death, disability or bankruptcy.

Amount of Awards

1. Award not to exceed the cost of attendance less expected family contribution and all other forms of aid (CT, FL, IL, MA, MD).
2. Award not to exceed $5,000 annually (NC).
   a. minimum award of $2,000.
   b. average award ranges from $3,000 to $5,000.
3. Fixed award of $2,500 annually (CT).
4. Award not to exceed $7,000 annually (TAF).
5. Undergraduate award not to exceed $6,000 annually; graduate award not to exceed $7,000 annually (AK).

Funding Levels

1. The level of funding is dependent upon:
   a. availability of state funds (AK,CT).
   b. the cost and availability of money in the tax exempt bond market or the capital bond market (CT, FL, IL, MA, MD, NC).
   c. the state's credit rating (CT).
   d. the extent to which funding of federal programs is reduced and its impact on public and private institutions (CT, FL, IL, MA,MD, NC, TAF).
   e. the number of institutions participating in the program (CT, FL, IL, MA, MD, NC).
   f. financial condition of participating institutions (CT, FL, IL, MA,MD, NC).
   g. the ability of institutions to contribute collateral (CT, FL, IL, MA,MD, NC).
   h. the ability to secure contributions from private sources (NC).

Program Costs

1. The level of operating cost is dependent upon:
   a. the number of loans awarded (AK, CT, FL, IL, MA, MD, NC).
   b. the variations in the amounts of awards (AK, CT, FL, IL, MA, MD, NC).
   c. the cost of default insurance (CT, FL, IL, MA, MD, NC).
   d. the level of funding for the default reserve (NC).
   e. the amount of defaulted and delinquent loans (AK, CT, FL, IL, MA, MD, NC).
   f. the cost of loan servicing (AK, CT, FL, IL, MA, MD, NC).
   g. the interest rates (AK, CT, FL, IL, MA, MD, NC).
   h. the portion of the interest subsidized by the institutions (NC).

Governance Structure

1. The U. S. Department of Education governs the federal student and parent loan programs (GSL, PLUS).
   a. sets guidelines and regulations.
   b. insures lenders against loss
2. State guarantee agency sets policy and requirements for participating lenders and students.
   a. State agency may also be a direct lender.
3. Private financial institutions lend money to students and parents and administer the loan programs.

DISTINGUISHING ADMINISTRATIVE FEATURES

Eligible Student

1. A student is eligible to receive a GSL or PLUS loan if the student is enrolled or accepted for enrollment in a participating school as at least a half-time student.
2. If enrolled, the student must be in good standing and maintaining satisfactory progress as determined by the school (GSL, PLUS).
3. A student whose parents' income equalsor exceeds $30,000 must demonstrate financial need (GSL).

REPAYMENT PROVISIONS

1. Repayment of principal is deferred while student is in school or during a 6 month grace period. Interest is paid by the federal government during the deferment period. Minimum payment is $50.00. Maximum repayment term is 10 years (GSL).
2. Repayment of principal and interest begins no later than 60 days after disbursement of loan, except when the borrower is a full-time student. Then repayment of principal may be deferred while student is in school and in the 6 month grace period. Borrowers with deferments may capitalize interest (PLUS).

Interest Rates

1. Interest rates for federal programs are:
   a. 9% (GSL)
   b. 14% (PLUS)

Governance Structure

1. Authority is established by state legislation and governs the loan program. Participating institutions administer their own loan program according to the regulations and guidelines set by the legislation and the Authority (CT, FL, IL, MA, MD).
2. Institutions form a financing cooperative which sets policy and guidelines. Participating institutions administer their own loan program (NC).
3. State's higher education agency governs and administers the program (AK).

DISTINGUISHING ADMINISTRATIVE FEATURES

Eligible Student

1. Eligibility criteria has not been defined in CT, FL, IL, MA, MD and NC.
2. Any undergraduate student who requests money for education purposes (TAF).
3. Undergraduate and graduate students who are residents of the state (AK).

REPAYMENT PROVISIONS

1. Repayment of principal is deferred while student is in school; interest payments begin no later than 60 days after disbursement of loan (CT).
2. Repayment of principal and interest begins no later than one year after the student graduates or leaves school (AK).
3. Repayment of principal is deferred while student is in school, during which time the state may provide a partial interest subsidy (CT).
4. Repayment provisions are established by each of the participating institutions (CT, FL, IL, MA, MD).
5. Partial interest subsidies may be provided by participating institutions while the student is in school (NC).
6. Repayment of principal and surcharge is deferred while student is in school; repayment begins when the borrower attains an annual income level of $10,000 (TAF).

Interest Rates

1. Interest rates on educational loans made by public institutions is 10% (CT)
2. Interest rate is set at 5% (AK).
3. Interest rate is set at .5% above GSL (CT).

TABLE 3 CONT'D

4. Interest rate on first $3,000 is the same as the PLUS program (14%) while interest rate on the amount in excess of $3,000 is set at the current market rate for commercial loans (CT).

5. Interest rates are set by each of the participating institutions (CT, FL, IL, MA, MD).

6. Interest on loan principal is dependent upon the rate of interest subsidy contributed by the institutions (NC).

7. Tuition Advance Fund does not bear conventional interest; repayment includes a 50% surcharge on the total amount borrowed.

FISCAL RISK REDUCTION

1. Federal government insures lenders against student default, delinquency, disability and death (GSL, PLUS).
2. Federal government subsidizes a portion of the difference between the fixed interest rates charged on GSL and PLUS loans and the interest rates charged on commercial loans.
3. Federal government authorizes the Student Loan Marketing Association to purchase and service loans in repayment status (GSL, PLUS).

FISCAL RISK REDUCTION

1. Borrowers must meet financial qualifications (CT, FL, IL, MA, MD, NC).
2. Participating institutions must contribute collateral for default reserve fund (CT, FL, IL, MA, MD, NC).
3. Contributions from private sources are used for a default reserve fund (NC).
4. Loans are made to parents; students co-sign (CT, FL, IL, MA, MD, NC).
5. Institutions and servicing agents work together in the collection of delinquent loans (NC).
6. Institutions are directly involved in all phases of lending from orgination to collection to keep deliquencies and defaults at a minimum (NC).
7. No collateral required for TAF because repayments are automatically deducted from pay; therefore, offering no possibility for default.

ADVANTAGES/DISADVANTAGES TO BORROWERS

Advantages

1. Federal loan programs ensure students access to higher education and provide some choice of institution and educational programs (GSL, PLUS).
2. The loan principal is deferred while student is in school (GSL).
3. Interest is paid by the federal government while student is in non-repayment status (GSL).
4. Deferrment is allowed under the PLUS program if the borrower is a full-time student.
5. Loans are provided at interest rates lower than commercial plans (PLUS).

ADVANTAGES/DISADVANTAGES TO BORROWERS

1. Additional loan sources and programs ensure students choice of institutions and educational programs (CT, FL, IL, MA, MD, NC).
2. The loan principal and/or interest may be deferred while student is in school (AK, CT).
3. Repayment of loan is deferred until student attains an annual income level of $10,000 (TAF).
4. Students attending private institutions will not have to transfer to a less expensive school to complete their education (CT, FL, IL, MA, MD, NC).
5. Cost of loans is lower than commercial programs if institutions provide interest subsidies (NC).

Disadvantages

1. Students and parents become overly dependent on loans (GSL, PLUS).

2. Repayment begins no later than 6 months after disbursement of loan funds (PLUS).

ADVANTAGES/DISADVANTAGES TO THE STATE

Advantages

1. Loans are insured by the federal government (GSL, PLUS).

Disadvantages

Disadvantages

1. Cost of loan may not be lower than commercial loans if interest subsidies are not provided (NC).

2. Repayment period may span the working lifetime of the student (TAF).

ADVANTAGES/DISADVANTAGES TO THE STATE

Advantages

1. Loan programs which do not provide deferments would have lower program costs (CT).

2. The structure of some loan programs would lower the default rate (CT).

3. Programs would operate with no cost or liability to the state (CT, FL, IL, MA, MD, NC).

4. Program would operate with minimal cost and liability to the state (TAF).

5. Programs would protect diversity of higher education in the state (CT, FL, IL, MA, MD, NC).

Disadvantages

1. State would be responsible for administrative costs, defaulted loans (not insured by federal government) and the difference between bond indebtedness and the revenues earned on invested portion of the bonds proceeds (CT).

2. Sale of bonds could overextend the state and affect its ability to borrow (CT).

3. Because the state must sell tax exempt bonds to raise money and a private foundation would be authorized to enter the tax exempt bond market, the foundation may be competing with the state for revenue (CT, FL, IL, MA, MD,)

TABLE 4

COMPARISON OF SELECTED STATE LOAN PROGRAMS
WITH FEDERAL LOAN PROGRAMS

	Federal Programs		State Programs		Unconventional Programs
Program Features	GSL	PLUS	Scholarship Loan Program (Alaska)	Independent Loan Authority (IL,MA,FT,CT,MD)	Tuition Advance Fund
Eligible Post Secondary Institutions	1) Public 2) Private 3) Proprietary	1) Public 2) Private 3) Proprietary	1) Public 2) Private 3) Accredited Proprietary	Private	1) Public 2) Private
Eligible Students	At least half-time students, enrolled or accepted, maintaining satisfactory progress	At least half-time students, enrolled or accepted, maintaining satisfactory progress	Same as federal programs and 1) State residents 2) full-time students	Not yet determined	Undergraduates who request money for educational purposes regardless of need.
Maximum Annual Award / Aggregate Award Limit a. parents b. dependent undergraduate students c. independent undergraduate students d. graduate students	a. N/A b. $2,500/$12,500 c. $2,500/$12,500 d. $5,000/$25,000*	a. $3,000/$15,000 b. N/A c. $2,500/$12,500 (including GSL) d. $3,000/$15,000	a. N/A b. $6,000/$30,000 c. $6,000/$30,000 d. $7,000/$53,000*	Not yet determined	a. N/A b. $7,000/$28,000 c. $7,000/$28,000 d. N/A
Interest Rate	9% (Students who currently have a 7% GSL may receive additional loans at 7%.)	14%	5%	Established by the lending institution	50% surcharge of total amount borrowed is added to the principal
Interest Subsidy	Interest paid by the federal government while student is in non-repayment status	-- --	A portion of interest paid by state while student is in non-repayment status.	Not yet determined	--- --- ---
In-School Deferment	While student is attending at least half-time and during 6 month grace period (7% loan-9 month grace period)	If borrower is a full-time student: 1) principal may be deferred during school and grace period.) 2) borrower pays interest during deferment period.	While student is attending full-time and during 1 year grace period	Not yet determined	Repayment is deferred until student attains annual income level of $10,000.
Repayment term	10 years	variable	10 years	Established by lending institution	variable-determined by borrower's income level

* - including undergraduate loans

TABLE 4 CONT'D

COMPARISON OF SELECTED STATE LOAN PROGRAMS
WITH FEDERAL LOAN PROGRAMS

	Federal Programs		SELECTED CONNECTICUT OPTIONS			
Program Features	GSL	PLUS	Interest Subsidy Program	Loan Insured Program	Parents Loan Program	Public Institution Loan Program
Eligible Post Secondary Institutions	1) Public 2) Private 3) Proprietary	1) Public 2) Private 3) Proprietary	Same as PLUS	Same as PLUS	Same as PLUS	Public
Eligible Students	At least half-time students, enrolled or accepted, maintaining satisfactory progress	At least half-time students, enrolled or accepted, maintaining satisfactory progress	Same as PLUS	Same as PLUS	Same as PLUS	Students who are not eligible for other federal aid.
Maximum Annual Award / Aggregate Award Limits a. parents b. dependent undergraduate students c. independent undergraduate students d. graduate students	a. N/A b. $2,500/$12,500 c. $2,500/$12,500 d. $5,000/$25,000*	a. $3,000/$15,000 b. N/A c. $2,500/$12,500 (including GSL) d. $3,000/$15,000	Same as PLUS	State insures a loan amount in excess of maximum permitted under PLUS	a. $3,000/$15,000 b. N/A c. N/A d. N/A	$2,500/not yet determined
Interest Rate	9% (Students who currently have a 7% GSL may receive additional loans at 7%)	14%	14% less state subsidy	Current market rate on amount insured by state	.5% above the current GSL rate	10%
Interest Subsidy	Interest paid by federal government while student is in non-repayment status	-- --	Amount not yet determined, only a portion of the 14% will be subsidized.	Not specified	Same as PLUS	Not yet determined
In-School Deferment	While student is attending at least half-time and during grace period	If borrower is full-time student: 1) principal may be deferred during school and grace period. 2) borrower pays interest during deferment period.	Same as PLUS	Not specified	-- --	Not Specified
Repayment Term	10 years	variable	Same as PLUS	Not specified	Same as PLUS	Not yet determined

* - including undergraduate loans

TABLE 1

A COMPARISON OF STATE & FEDERAL
WORK-STUDY PROGRAMS

Federal College Work-Study Program (CWS)	State Work-Study Programs and Proposals (Features which build on or deviate from the federal program)
PROGRAM OBJECTIVES	**PROGRAM OBJECTIVES**
1. To provide part-time employment to students with financial need.	1. To supplement the federal CWSP (CT, CO, WA, DE, MN, FL, AK).
2. To provide employment that complements and reinforces needy students' educational programs and career goals.	2. To provide incentives for the employment of students and to expand student employment opportunities in the public and/or private sectors. (CT, CO, WA, DE, MN, FL, AK).
	3. To provide assistance to students who demonstrate financial need, but who may not be eligible for other types of aid (MN, WA).
	4. To fulfill the work needs of students (CT, CO, WA, DE; MN, FL, AK).
	5. To provide employment for students without financial need but who could benefit from the work experience (CO).
	6. To provide institutions with a portion of the matching funds required for participation in the federal CWSP (CT, CO, NY, PA).
	7. To provide non-profit service agencies, handicapped persons and persons over 65 with low cost student assistance (MN).
TARGET POPULATIONS	**TARGET POPULATIONS**
1. Students who demonstrate financial need.	1. Students who demonstrate financial need but may not be eligible for other types of aid (MN, WA).
	2. Students who do not demonstrate financial need but could benefit from the work experience (CO).
FINANCIAL ARRANGEMENTS	**FINANCIAL ARRANGEMENTS**
Institutional Allocations of Federal Funds	Institutional Allocation of Federal Funds
1. Federal funding formula is not relevant to state programs.	1. State funds are allocated to participating institutions based on the institution's percentage of the total federal CWS funds allocated to the state (CT).
	2. State funds are allocated based on the total estimated financial need of eligible students at each institution in proportion to the total financial need at all eligible institutions (CO). a. Financial need is adjusted for tuition and enrollment changes. b. No institution receives less than 90% of the amount received two years prior to the current allocation period. c. No institution will receive more than its request for funds.
	3. A state review committee recommends institutional allocations based on the institution's application for federal funds and other parameters recommended by the committee (WA).