

**REPORT OF THE COUNCIL OF HIGHER
EDUCATION ON**

**STUDENT FINANCIAL
ASSISTANCE**

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



HOUSE DOCUMENT NO. 55

**COMMONWEALTH OF VIRGINIA
RICHMOND
1996**



COMMONWEALTH of VIRGINIA

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February 12, 1996

The Honorable George F. Allen
Governor of Virginia, and
The General Assembly of Virginia
3rd Floor, State Capitol
Richmond, Virginia 23219

Dear Governor Allen and Members of the General Assembly:

The report transmitted herewith is pursuant to the 1995 Appropriations Act (Chapter 863 - Item 186 I.-J.) The Act requested the State Council of Higher Education for Virginia to examine the state's student financial assistance programs and make recommendations on future direction and funding. The Council approved the report at its meeting December 11, 1996.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "J. Michael Mullen".

J. Michael Mullen
Deputy Director

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PREFACE

The 1995 Appropriations Act (Chapter 853, Item 186 I.-J.) stated that:

I. The State Council of Higher Education shall study the Commonwealth's policies, purposes and objectives for undergraduate and graduate student financial assistance and shall make recommendations to the Governor and the General Assembly by Oct. 15, 1995. The study shall include the structure and content of student financial assistance appropriations in the Appropriations Act.

J. The State Council of Higher Education shall review the funding and expenditure policies and practices of the institutions of higher education for unfunded scholarships authorized in §23-31, Code of Virginia. The study shall include the role of unfunded scholarships in the Commonwealth's student financial assistance programs and shall make recommendations for changes in the Code and for changes in the structure and content of student financial assistance appropriations in the Appropriations Act. The study and recommendations shall be submitted to the Governor and the General Assembly by October 15, 1995.

The Council combined the two items into the following report which it approved at its December 11, 1995 meeting.

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EXECUTIVE SUMMARY

The 1995 Appropriations Act (Chapter 853, Item 186) directed the Council of Higher Education to examine the state's student financial assistance programs and make recommendations on future direction and funding. In reviewing student financial assistance in Virginia, the report considered the history of financial aid, how educational costs are calculated and how it effects families' ability to pay, and current federal, state, and institutional programs.

The report, which the Council approved December 11, 1995, made the following recommendations:

- 1) The state should continue to function as the provider of last resort after family resources and all other grant aid sources are considered.
- 2) All students should be expected to make minimum contributions to the cost of attendance.
- 3) Because of the low cost of attendance, a modified approach to needs analysis should be implemented for community college students recognizing that federal grants prove a much higher portion of cost than at other institutions.
- 4) Funding for the Tuition Assistance Grant Program should be increased to \$1,650 in 1996-97 and \$1,970 in 1997-98 with the understanding that the TAG increase should be greater if the E&G increase in state-supported institutions exceeds 17 percent.
- 5) The Community College Contract Program should be continued as a pilot program with possible expansion in 1997-98, if shown to be successful and cost-efficient.
- 6) Funding for the Virginia Guaranteed Assistance and Commonwealth Scholars programs should be increased from meeting 35 percent of remaining need in 1994 to 50 percent by 1997-98.
- 7) State support for need-based student assistance has increased to a very substantial sum and there should be more consistent use across institutions to advance state objectives. The following general policies should be used by campus aid officers in developing their award packages.
 - A. All awards should be based on and proportional to remaining need.
 - B. VGAP students should have priority for available funds and receive a larger award as an incentive for improved academic achievement.
 - C. An adjustment to the cost of attendance and maximum award should be made for the cost of a computer when one is required by the institution.
 - D. No minimum award amount should be established.
- 8) The Council supports Virginia State University's proposal to use discounted tuition and fees, both educational and auxiliary, as a means of increasing utilization of its dormitories, classrooms, and faculty resources.

REPORT ON STUDENT FINANCIAL ASSISTANCE

The Council of Higher Education was directed to examine the state's student financial assistance programs and make recommendations on future direction and funding to the Governor and General Assembly. The 1995 Appropriations Act includes two separate study requests that are combined in to a single report on undergraduate student aid.

The State Council of Higher Education shall study the Commonwealth's policies, purposes and objectives for undergraduate and graduate student financial assistance and shall make recommendations to the Governor and General Assembly by October 15, 1995. The study shall include the structure and content of student financial assistance appropriations in the Appropriations Act.

The State Council of Higher Education shall review the funding and expenditure policies and practices of the institutions of higher education for unfunded scholarships authorized in § 23-31, *Code of Virginia*. The study shall include the role of unfunded scholarships in the Commonwealth's student financial assistance programs and shall make recommendations for changes in the Code and for changes in the structure and content of student financial assistance appropriations in the Appropriation Act. The study and recommendations shall be submitted to the Governor and General Assembly by October 15, 1995. (Chapter 858, Item 186. I-J, Page 133)

The Council's staff have been working with representatives of the public and private colleges and universities, the staffs of the legislative money committees, and the Department of Planning and Budget to review the current student assistance programs and to identify necessary changes. This report focuses on undergraduate aid programs, except for the discussion and recommendations related to unfunded scholarships.

The report has four sections:

1. Background
2. Calculating the cost of education and ability to pay
3. Current federal, state, and institutional programs
4. Issues and Recommendations

A statistical profile of actual aid awards to students in the private and public colleges and universities in 1993-94 is included as attachment A.

1. BACKGROUND

The traditional role of the federal government, state government, and institutions in providing access to higher education for all qualified citizens has been a significant characteristic of American society for the last 50 years. While there were some federal and state government financial aid programs before the end of World War II, government support of financial aid fundamentally changed after the war. To stimulate economic growth, the federal government acted to expand access to higher education for returning veterans. The GI Bill allowed millions of veterans to enroll in colleges and universities. Opportunities for higher education were no longer limited primarily to the most affluent. The GI Bill and similar programs for Korean and Vietnam veterans raised the educational expectations for the veterans and their children. In 1940, 4.6 percent of American adults had college degrees. By 1985, almost 20 percent of the population had obtained college degrees. Annual expenditures for higher education grew from less than \$1 billion after World War II to over \$100 billion today as the number of enrolled students went from 1.5 million to over 14 million (Hart, p. 36).

During the beginning of this growth period, financial aid for non-veterans was not a priority for the federal government. It became a priority in 1958 with the passage of the National Defense Education Act. As part of the "Sputnik chase" and renewed emphasis on science education, numerous of grant and loans programs were created. States moved to expand their public colleges and universities to accommodate the first wave of enrollment growth as the baby boomers came of age.

The Higher Education Act of 1965 created most of the current student aid programs. Although the names have changed, the basic structure of the major federal programs has been retained. These programs provide federal grants for academically qualified but financially needy students, matching funds to encourage states and institutions to provide grants for needy students, and national markets for educational loans to students and parents.

The national, state, and personal investment has paid off for individual students in the form of higher wages and improved quality of life. It has provided the nation with a skilled, competitive workforce and a well-informed citizenry. Changes in demographics, increased global competition, and the quickening pace of technological change are increasing the demand for advanced education and workforce adaptability.

Today, the federal government is shifting responsibility for higher education access to the states and colleges and universities. Moreover, the character of federal support has changed. The balance of federal student assistance programs has shifted from grants to loans over the last ten years. States and institutions have increased the size of their grant programs but have not offset the changes in federal priorities and funding.

In recent years, Virginia has increased student aid funding as tuition and fees increased. Since 1990, state funding for need-based aid has grown by almost 200 percent, and additional resources are needed in 1996-98. The state's student aid programs were opened to community college students in 1992 when tuition increases

created barriers for some students seeking to prepare for work or additional education.

Changes in federal policies have increased the use of debt by students and parents as a way to finance college educations in Virginia and across that nation. The use of debt may represent an appropriate economic investment in future earnings, but, there is concern that the debt obligations of current students and their families may be excessive. This debt burden may increase loan defaults and restrict future economic growth. The Washington Post recently described the situation and the of public concerns:

College students and their families are in debt more than ever before. To pay for tuition they are relying on more loans, bigger loans, and borrowing at a rate that far exceeds the pace in which college costs and personal income are growing nationally. A recent report draws a stark portrait of how difficult it is becoming across the nation for many students and their families to afford college. The report documents the explosion in student borrowing that has occurred in the past five years, a fact that has been a key part of debate in Congress this year over the future of federally backed student loans. It also details rising anxiety among middle-income families who fear that college could soon be "out of reach" financially. About 6.5 million students, nearly half of the nation's college enrollment, have loans. Annual borrowing is at a record level of \$23.8 billion. Since 1990 student borrowing has grown at the rate of 22 percent per year--four times the annual growth in personal income. (The Washington Post, September 22, 1995)

Virginia's situation differs from the national profile in several significant ways. Student and parent borrowing in Virginia grew at twice the national average between 1992 and 1994. Virginia's tuition and fee increases exceeded the national average and increases in personal income. By 1994, tuition and fees approximated 17 percent of per capita income as compared to 13 percent in 1990. It appears that students are using loans to pay for an increasing portion of their educational expenses. In 1993-94, students at state-supported institutions received \$62 million in Pell grants and took at least \$132 million in loans. Students in the private colleges took at least an equal amount of loans. These figures do not include home equity loans, commercial credit lines, or the use of credit cards to pay tuition bills.

2. CALCULATING THE COST OF EDUCATION AND THE ABILITY TO PAY

A major factor in any discussion of student financial assistance is the cost of education. The cost of attending a college or university includes direct payments for tuition, required fees and books, and living expenses. The living expenses will vary depending on where the student lives. The cost of room and board is straight-forward for students living in college housing and using campus foodservice facilities. Alternative estimates are developed for commuting students who remain in the family home and for those living on their own. These expenditure estimates (financial aid budgets) are used by the institution to allocate funds to students.

In developing its estimates of the need for state financial assistance, the Council of Higher Education uses uniform costs for books, transportation, and living expenses for all institutions. These standard cost estimates reflect national average costs published by the College Board and tend to be lower than campus budget estimates. Actual tuition and required fees are used for all students. In a typical college budget, tuition and fees generally represents only about 35 percent of the total cost of attendance.

An increasing number of institutions are developing computing networks to provide students who own, or have access to, computers with access to information resources. Some institutions already require students in some programs to purchase a computer before enrolling. Many institutional restructuring plans provide for increased use of technology as a means of extending resources and improving the quality of education. At its September meeting the Council stated that where the acquisition of a computer is required, its cost should be factored into financial aid decisions. Beginning with 1996-98, the Council's budget estimates will include the cost of a computer if it is required by the institution.

EXPECTED FAMILY CONTRIBUTION

Another significant factor is the estimated contribution that the student and her family should make toward meeting the cost of education. This family contribution estimate is generally guided by the federal method that is used to determine eligibility for federal need-based programs. The Council of Higher Education modifies this method to include the expectation that dependent students will contribute from summer and other earnings to pay for a portion of their education. This adjustment is a fixed amount based on student level, with \$700 for first year students and \$900 for second, third and fourth year students. Independent students are expected to pay \$1,200.

NEED FOR FINANCIAL ASSISTANCE

Student need for state financial assistance is determined by adding the estimated family contribution, including student "self-help" amounts, and grant aid from all other sources. This amount is subtracted from the cost of attending the Virginia institution. This remaining amount is called, misleadingly, "unmet need." The name is misleading because, in fact, the "unmet need" is met in a variety of ways: students or their parents take educational loans; families take home equity loans; charges are added to credit cards or other consumer debt; students take off-hour jobs; or they extend their collegiate experiences by attending part-time in order to earn enough money to keep going to college. Increases in state need-based financial aid reduce the amount of higher education costs that are paid for in these ways.

The expectation that all students will contribute a minimum amount to their educational costs reduces the need for financial aid, as does the use of the uniform cost values in the financial aid budget estimates. If the federal method were not modified by the uniform cost estimates and the minimum contribution, the unmet need would be much larger.

The financial need of students should be fairly stable over the next two years if the Council's recommendations on contracts for tuition increases and for holding tuition at 1995-96 levels are accepted. There will be some increased need because of enrollment growth and the effects of federal budget policies.

3. CURRENT STUDENT AID PROGRAMS

While the balance between federal, state, and institutional student aid programs has changed over the last ten years, the federal government provides the majority of student aid. In 1985, federal aid represented about 80 percent of all aid received across the nation. By 1995, the federal share was reduced to 75 percent. Federal loans are the largest single source of aid. These loans represent 56 percent of all aid received. It is obvious that changes in federal aid programs will have significant effects on higher education and its students.

Significantly, the mix of aid changed with grants declining from 48 percent of total aid in 1985 to 43 percent in 1995; loans increasing from 49 to 56 percent; and work-related payments decreasing from 3 to 1 percent.

FEDERAL PROGRAMS

Current federal programs provide either grants or loans to students and families and provides the great majority of all aid to students. The balance between grants and loans has shifted as has the proportion of financial aid from federal sources.

Grant Programs. Two major programs provide almost all federal grants to financially needy students. Pell grants are the largest source of federal student assistance with funding at \$5.6 billion in 1994-95 and approximately 3.7 million awards. Students apply directly to the federal government for awards. Federal regulations and funding levels determine how many students may receive awards and the size of the award. The maximum award for Pell has been frozen for seven years at \$2,300. Next year the maximum award will increase to \$2,340. Because no additional funds have been appropriated; the number of students receiving awards will be reduced.

Students attending Virginia's colleges received \$81.8 million in Pell grants in 1993-94, which represents 14 percent of all aid received. Historically, a smaller proportion of students attending Virginia's institutions receive Pell grants than the national average. In 1994, nationally about 26 percent of all students attending post-secondary institutions received Pell grants. In Virginia, only 19 percent of students received Pell grants.

The second major federal program is the Supplemental Educational Opportunity Grant (SEOG). This program, Work Study, and Perkins Loans are the core of the "campus-based" federal programs. Federal funds are distributed to individual colleges and the colleges decide how to award the funds as they combine various programs into individual student financial aid packages. Eligibility is limited to students with exceptional financial need, with priority given to Pell grant recipients. The SEOG

program was funded at \$546 million in 1994-95. Students attending Virginia's institutions received \$10.5 million in SEOG grants in 1993-94, or about two percent of all aid received.

Recent federal budget actions have limited the funds available for Pell and SEOG awards while increasing the size of the maximum award. This will result in larger awards to fewer students. If these budget provisions are enacted, approximately 250,000 students across the nation and 1,500 Virginians will be eliminated from Pell and SEOG.

Loan Programs. Federal loans to students and parents provide the majority of debt resources used for education. The Perkins Loan Program is administered by individual colleges from loan repayments and federal capital replenishment appropriations. The Stafford and PLUS loan programs provide low cost loans made by financial institutions or directly by the federal government to students and parents. In the 1992 reauthorization of the Higher Education Act, changes were made that dramatically increased both the number of borrowers and the size of loans. Higher loan limits were set for student loans and limits for parent loans were removed.

A recent study by the Education Resources Institute reported that students and their families borrowed more than \$100 billion since 1990, are adding debt at the rate of \$23-25 billion per year, and will likely be borrowing more than \$50 billion annually by 2000. Ted Freeman, president of the Educational Resources Institute, indicated that by making loans easier to obtain, the government had significantly increased student debt and is relying on debt rather than grants to pay for college costs. "The danger with this approach is that the government doesn't care if there is any way the student or family can support the debt." (Chronicle of Higher Education, September 29, 1995, p. A56)

Recent federal budget discussions have focused on reducing the cost of this expanding loan program on the federal budget, especially in future years as deficit reduction goals become more challenging. All proposals will have the effect of making loans more expensive. For example, federal capital contributions to Perkins loan funds held by campuses would cease and the program would terminate or become so small as to be ineffective.

Budget discussions continue in Washington and many of the changes in federal programs have been modified or eliminated. The federal loan programs are embroiled in controversy. The administration, for instance, began direct-lending, in which the institutions rather than banks make Stafford and PLUS loans, but Congress may cut it back. Although the final outcome will not be known for some time, it can be assumed that fewer students will receive less grant aid and the cost of loans will increase to students. What is not clear, is the extent that program changes will reduce student access to loans or extend the time needed to process financial aid applications.

Work Study. The federal work study program is a campus-based program that allows students to earn money to help pay educational expenses. Students are employees and a portion of the wages are paid from federal funds. Students must qualify as financially needy to participate in the program. This program is funded at \$749 million

nationally and students in Virginia colleges received payments of \$13.6 million during 1993-94 as work-study employees.

STATE FINANCIAL AID PROGRAMS

There are three major state programs for students attending Virginia institutions. The Tuition Assistance Grant (TAG) program provides non-need-based tuition equalization grants to Virginia residents attending a private college or university on a full-time basis. In 1994-96, \$19 million was appropriated for this program each year, which provides grants of \$1,500 to approximately 12,500 students.

The College Scholarship Assistance Program (CSAP) provides need-based awards to Virginia residents attending a public or private institution. State and federal matching funds provide \$5.9 million in grants annually. Included in this appropriation is \$25,000 for a small work-study program for a limited number of for-profit private colleges. The federal program that provides the matching funds was reduced in 1995-96 and periodically has been identified for elimination. Its status in 1996-97 is still unknown.

The state student financial assistance program provides need-based awards to undergraduate and graduate students at public colleges and universities. Historically known as Discretionary Aid, the appropriation for student assistance provides approximately \$63 million per year for awards to undergraduate and graduate students. In 1995, this single appropriation was modified to provide funding for two programs, the new Guaranteed Assistance Program and Commonwealth Scholarships, the new name for discretionary aid.

The Virginia Guaranteed Assistance Program (VGAP) was designed as an incentive to alter curricular decisions and academic achievement of high school students. Eligibility requirements include a 2.5 grade point average in high school and full-time college enrollment. Participation in VGAP in 1995-96 was limited to the most needy students at each institution who entered as first-time freshmen.

Increases in tuition and fees, decreases in federal grant aid awards, changes in family economic conditions, and expanded student eligibility have more than offset the 200 percent increase in state funding for student aid since 1990. Students attending community colleges were not eligible to participate in this program prior to 1992-94. In 1990-91, the appropriation for discretionary aid met 50 percent of remaining need. In 1994-95, the appropriation for VGAP and Commonwealth awards met only 35 percent of need.

There are a number of special purpose aid programs that are designed to meet specific objectives. Some serve regional needs, such as the Eastern Shore Grant program that provides grants to residents of the Eastern Shore attending Maryland institutions to offset the cost of non-resident tuition rates. Several programs are part of the state's Equal Educational Opportunity programs, including the SREB Doctoral program. Other programs target special situations, such as soil-scientists, cadetships, or community college transfer students.

INSTITUTIONAL AID PROGRAMS

Institutional financial aid programs are becoming more important as institutions, both public and private, attempt to offset reductions in federal grant programs and cost increases. Institutional grants include funds from private sources and endowment earnings, as well as tuition waivers. Tuition waivers are a long-standing practice in private institutions and are increasing in popularity at public institutions.

Virginia's public colleges are authorized in section 23-38 of the *Code of Virginia* to provide "unfunded scholarships" to needy undergraduate and graduate students and to waive the out-of-state tuition differential for certain employed graduate students. In 1994-95, approximately \$27 million worth of unfunded scholarships were awarded by the four and two-year public institutions. Most of the awards were to graduate students.

Endowment earnings and annual giving are a major source of scholarships at private and public institutions. The Undergraduate and Graduate Student Assistance Program was created in 1992 to provide an incentive for public colleges and universities to raise private funds to meet the need for additional student financial assistance resources. The state responsibility is to match investment yields on endowment gifts to this program. For 1995-96, the state appropriation of \$150,000 is inadequate to match the earnings on approximately \$30 million in endowment funds held by the public institutions. About \$1.5 million per year in new funding would be required to match institutional earnings.

4. ISSUES AND RECOMMENDATIONS

This discussion is limited to the major policy issues related to undergraduate student financial assistance. A brief discussion of each issue is presented along with recommended actions. Recommendations are printed in italics.

The state is one of four participants responsible for maintaining access to the higher education system, along with the federal government, institutions, and students. While the federal government is backing away from its historic role in maintaining access to college, it is not clear how much of the resulting gap in funding should, or will, be assumed by the other participants. Primary responsibility for meeting college costs will continue to rest with students and their families.

PROGRAM PURPOSES

There are five purposes or goals that should be used to measure the effectiveness of financial aid programs. Each program should be examined periodically and modified as necessary.

The first purpose of state student assistance is to **maintain access to both public and private higher education through a system of need-based grants that pay for all or part of tuition and required fees**. The Virginia Guaranteed Assistance Program expands the maximum award to include the estimated cost of books as an added incentive

for students who meet academic qualifications. The Council has recommended that the cost of required computers be included in the cost of education. *The state's need-based financial assistance programs should continue to function as the provider of last resort after family resources and all other grant aid sources are considered. In determining the amount of state need-based aid required for funding and allocation among institutions, all students should be expected to make a minimum contribution to the cost of attendance. Because of the low cost of attendance, a modified approach should be implemented for community college students that recognizes that federal grants provide a much higher portion of cost than at other institutions.*

The second purpose is to **maintain the diversity of the higher education system and to make efficient use of the private colleges and universities in meeting current and future enrollment demands of Virginians.** The Tuition Assistance Grant Program provides an incentive for students to select a private college through grants that partially offset the differential between public and private tuition rates. The Community College Contract program is a pilot test of a program to provide access to undergraduate degree programs at private colleges when there is no public institution in the area. *These non-need based programs should be continued and receive additional funding. The Council has recommended a TAGP increase to \$1650 in 1996-97 and \$1750 in 1997-98, with the understanding that the TAG increase should be greater if the E&G increase to state-supported institutions exceeds 17 percent. The Community College Contract program began with the 1995-96 academic year. Until more complete information is available, it should be continued as a pilot program with possible expansion in 1997-98 if shown to be successful and cost-efficient.*

The third purpose is to **meet state, or special population, needs.** Through grants, or loans that can be forgiven through service, the state provides an incentive for students to obtain degrees in specialties or disciplines that are needed in underserved areas. The components of the Equal Educational Opportunity Program are designed to encourage the enrollment of underrepresented minority groups and to increase the potential pool of qualified minority faculty and staff. Some of the specialized programs are funded as regional grants or contracts. *These programs should be continued but each should be evaluated to ensure that it is meeting a real and current need.*

The fourth purpose is to **provide an incentive for institutions to seek private funding to supplement the available federal and state funds for student assistance.** The Undergraduate and Graduate Assistance Program was modeled on the Eminent Scholars Program, with state funding matching the investment yield on restricted endowment to increase merit and need-based student aid. Several institutions are using unfunded scholarships to increase aid resources for undergraduates. It has been a general practice in private institutions to discount tuition rates for some students as institutional aid.

The Commonwealth should provide incentives for institutions to seek private funds to supplement federal and state scholarship resources. Funding for the Undergraduate and Graduate Assistance Program should be increased to provide 100 percent matching of investment yields on endowment restricted to this program over four years. Institutions

should be encouraged to use unfunded scholarships to increase scholarship resources for undergraduate students as necessary.

The fifth purpose is to **create incentives for students and parents to prepare in advance for college work and the cost of education**. In 1994 the General Assembly authorized two new programs designed to change the behavior of students and their families. The Virginia Guaranteed Assistance Program was created to encourage high school students to take more demanding academic courses with an expectation of above average achievement levels. The program combines K-12 curricular and information activities and a new collegiate financial aid program with increased eligibility requirements. A phased implementation of the VGAP program was begun in 1995 but was limited to the most needy of the eligible students because of funding limitations.

The General Assembly also acted in response to general concerns that higher education was becoming unattainable because of high tuition costs and created the Virginia Higher Education Tuition Trust Fund. With this action, Virginia joined a growing number of states having Pre-Paid Tuition programs. The main purpose of the Fund is to provide a savings vehicle for families that want the assurance that their education financial planning will be adequate when their children are ready for school. Plans are underway to begin the program on July 1, 1996. It will be several years before the first student with a pre-paid tuition contract is ready to enroll in a Virginia college or university.

The Commonwealth should continue to provide an incentive for high school students to take more challenging courses and to achieve above average performance as a means of increasing participation, retention, and graduation rates of Virginia's colleges. Additionally, the Commonwealth should provide incentives for parents to plan for their children's college expenses in advance through increased savings and participation in the state's pre-paid tuition program.

ADEQUATE FUNDING

The major policy issue for 1996-98 is adequate funding for need-based programs and the Tuition Assistance Grant program. Even with a 200 percent increase in funding for the "Discretionary Aid" program in the public institutions, the percent of remaining need that can be met has decreased from 50 percent to less than 35 percent. Increases in state and institutional aid have not been adequate to offset the cumulative effects of tuition increases, changes in family economic status, and the decreasing value of federal grant programs.

The value of Pell grants has declined over the last ten years. The College Board reported that the maximum Pell award declined from 20 percent of costs at private institutions to 10 percent by 1994, and from 50 percent of costs at public four-year colleges and universities to about 33 percent. Although their value has declined, Pell grants still equal more than 60 percent of the cost of attending a public two-year institution. Virginia's situation is about the same as the national averages for private colleges and the community college system. However, because of the very high tuition

and fee rates in the four-year public institutions, Pell grants represent only 25 percent of the cost of attendance.

The VGAP will continue its implementation in 1996-98 with the addition of two additional classes of eligible students. VGAP awards are intended to be larger than other awards made from "Discretionary Aid" appropriations. Students with academic qualifications to be eligible for VGAP tend to have higher retention and graduation rates than students with lesser high school preparation and achievement levels.

Funding of the VGAP and Commonwealth Scholars, the component parts of the old "Discretionary Aid" program, should be increased from meeting 35 percent of remaining need in 1994 to 50 percent by 1997-98. The estimated cost of moving from 35 to 50 percent is approximately \$31 million for 1996-98. The Council made this recommendation in October.

Funding for the Tuition Assistance Grant program has been essentially stable since 1989-90. The maximum award has been set at \$1,500 since then. The number of students receiving TAG awards peaked in 1989-90 at 13,300 and declined to 12,370 in 1994-95. Because of declining enrollments, the program ended the last two years with significant fund balances. These balances have been used to increase the size of student awards. Awards in 1995-96 will equal \$1,500. Fund balances on June 30, 1996, are estimated to exceed \$1 million.

The relationship of the TAG maximum award and average general fund appropriations per student in the public institutions has changed over the last six years. In 1995-96, the TAG award approximates 36 percent of the general fund appropriation per in-state FTES. The Council has recommended that the TAG award increase to \$1,650 in 1996-97 and to \$1,750 in 1997-98, with the understanding that the TAG increase should be greater if the E&G increase to state-supported institutions exceeds 17 percent.

POLICY CLARIFICATION AND SIMPLIFICATION

A single appropriation could simplify administration of the two programs but only if there is enough money to allow institutions the flexibility to which they are accustomed. VGAP requires that some students go to the front of the line and receive larger grants. If funds are too limited, some other students will receive less and or none at all.

At issue here are the introduction of a "merit" ingredient into the need-based financial aid and the fact that the state support for need-based aid has increased to a very substantial sum. Now that the institutions are appropriated \$63 million, the state is more concerned to ensure that the money is being used consistently across institutions to advance state objectives. The Council of Higher Education and institutions will have to work with the administration and the General Assembly to ensure that higher education is fully accountable while at the same time sufficient local flexibility is maintained. This is a process that will continue over the coming biennium and probably beyond.

The Commonwealth has decided to decentralize the administration of its financial aid programs but to provide general guidelines for program eligibility and operation of its need-based programs. *The following general policies should be used by campus aid officers in developing their packaging allocations with the understanding that professional judgment should be used in making individual VGAP or Commonwealth Scholar awards.*

1. *All state need-based awards should be based on and proportional to remaining need,*
2. *VGAP students should have priority for available funds and receive a larger award as an incentive for improved academic achievement.*
3. *An adjustment to the cost of attendance and maximum award should be made for the cost of a computer when one is required by the institution.*
4. *No minimum award amounts should be established.*

To simplify budget planning for financial aid, need calculations should be based on current enrollments rather than on estimates of future needs. Annual reviews can be made to adjust for realized enrollment growth and changes in federal aid programs.

UNFUNDED SCHOLARSHIPS

Summaries of unfunded scholarship awards by institution for 1994-95 are provided in appendix B. In addition to the issues identified above related to unfunded scholarships, one issue emerged during the review of institutional aid programs.

Some institutions may wish to discount tuition and fees, both auxiliary and educational, as a means of increasing staff productivity and utilization of fixed assets, like buildings. This idea was advanced by Virginia State University as a means of increasing the utilization of its dormitories, classrooms, and faculty resources. The university believes that it can increase the number of out-of-state students if it can engage in variable pricing as a means of filling out its entering class. The university indicates that it could use this additional flexibility to add academically qualified students with no additional faculty or staff and that will help keep charges for room and board at a reasonable level.

This may be an innovative approach to enrollment management and productivity. It also responds to the special economic pressures faced by certain institutions because of the socio-economic profile of their students. *The Council staff recommends support of the VSU proposal.*

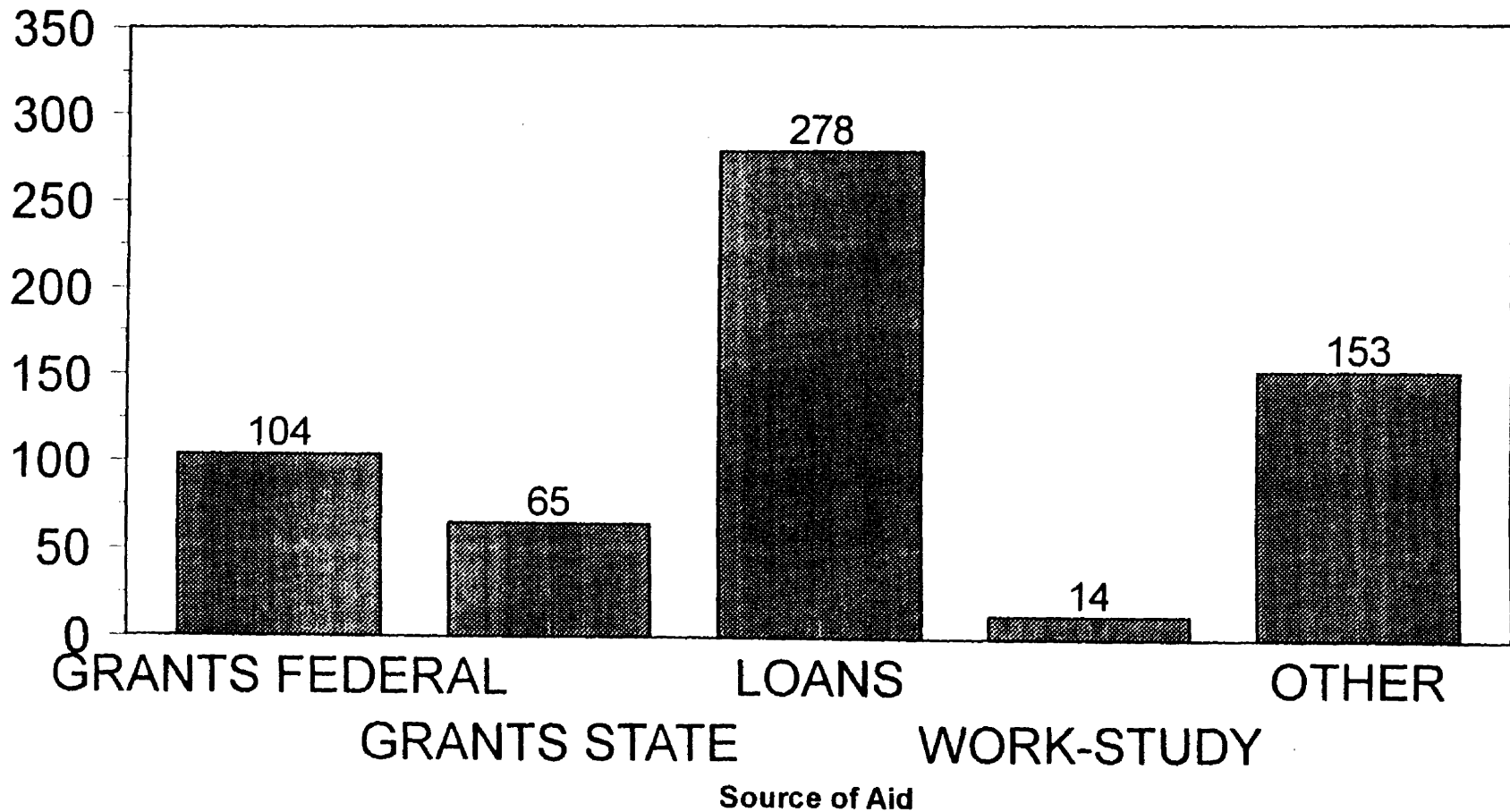
APPENDICES

Appendix A

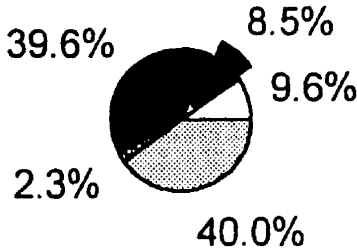
Financial Aid Profile

UNDERGRADUATE AID BY TYPE PROGRAM

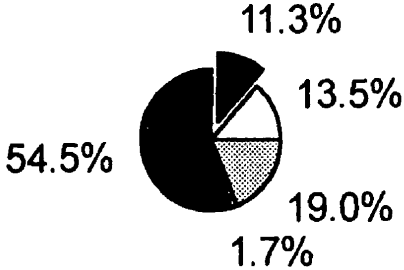
Aid awards in millions



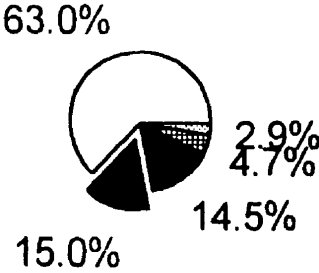
AID PACKAGES BY TYPE INSTITUTION



PRIVATE



4-YEAR

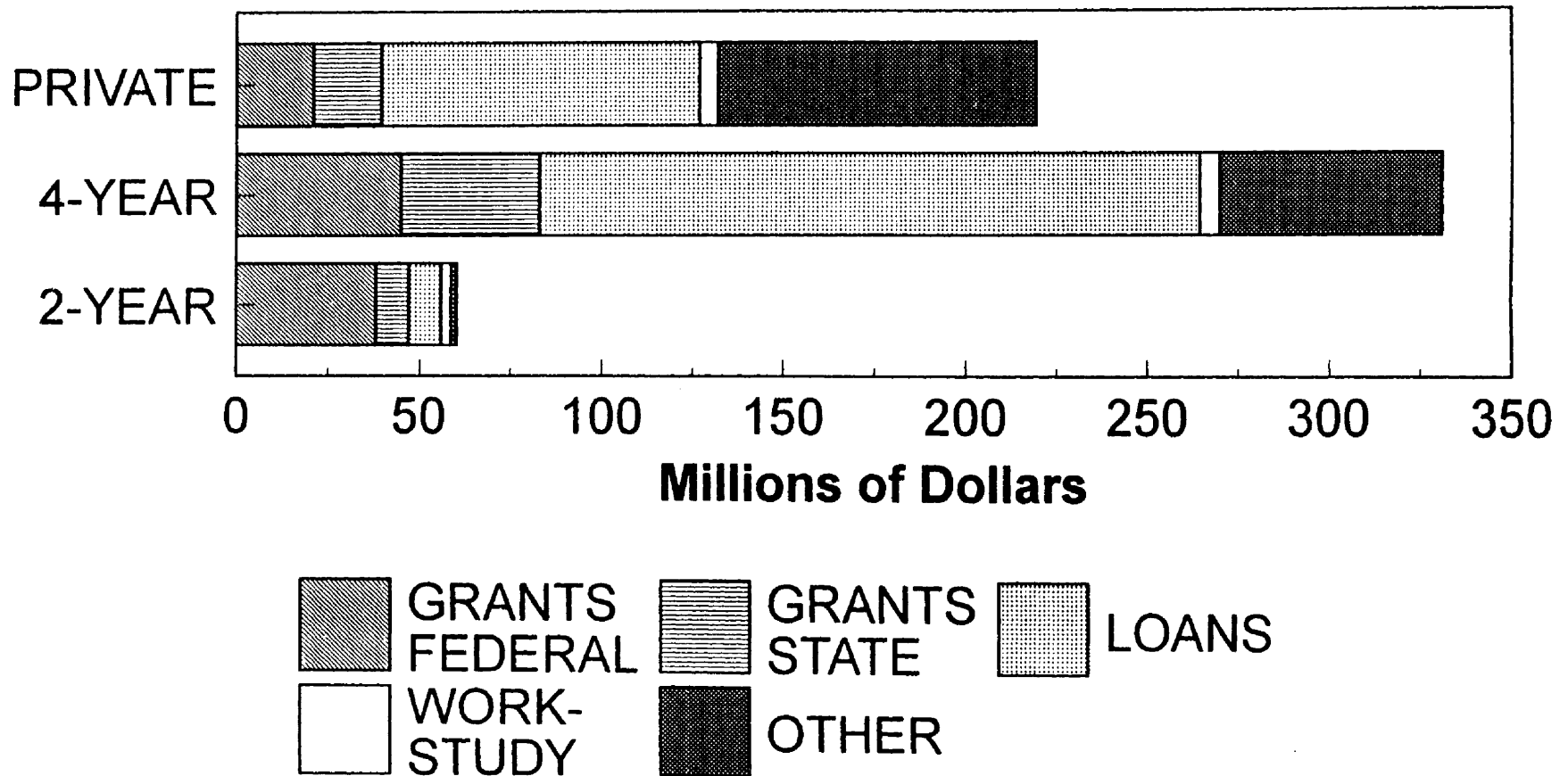


2-YEAR

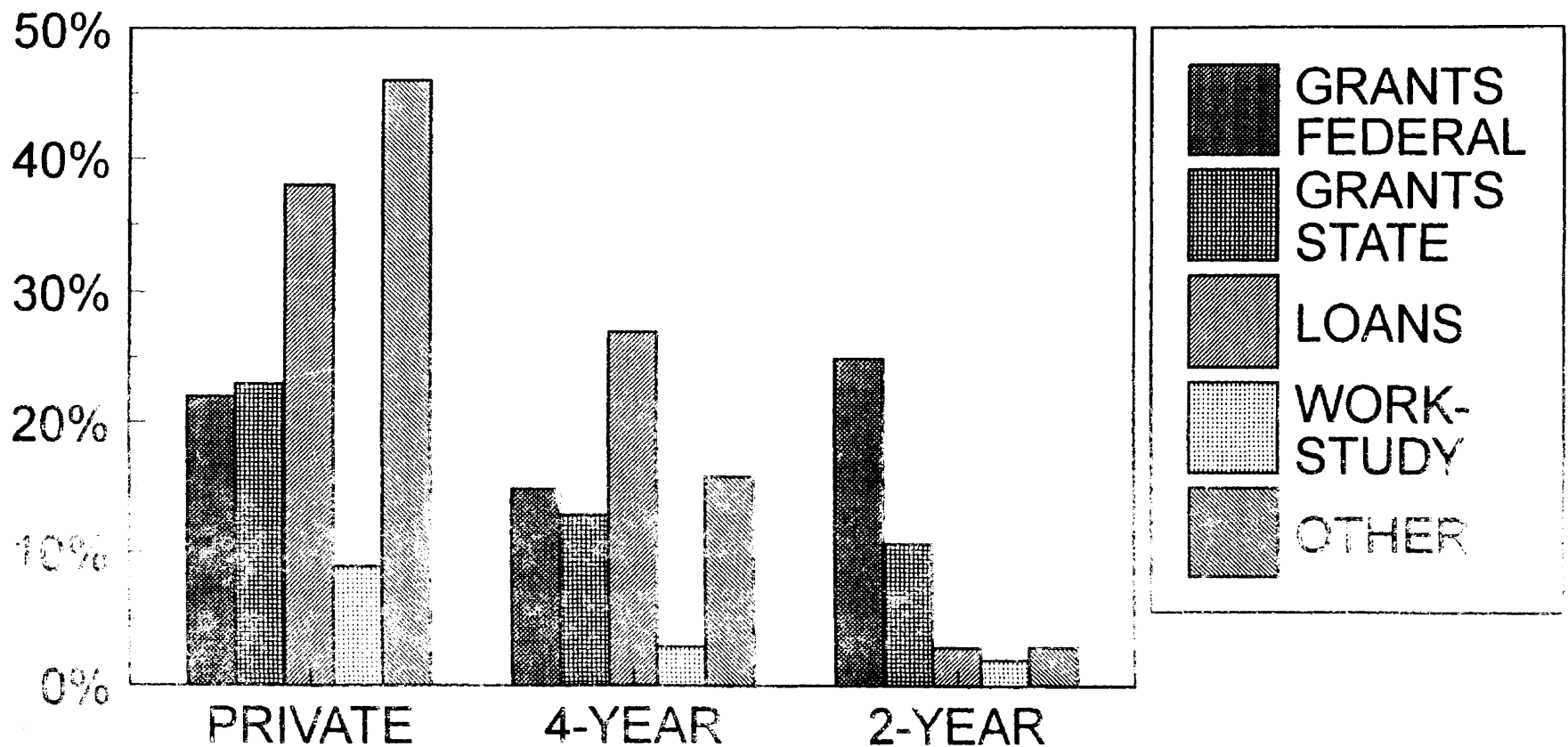


UNDERGRAD AID BY TYPE INSTITUTION & PROGRAM

1994 Aid Profile



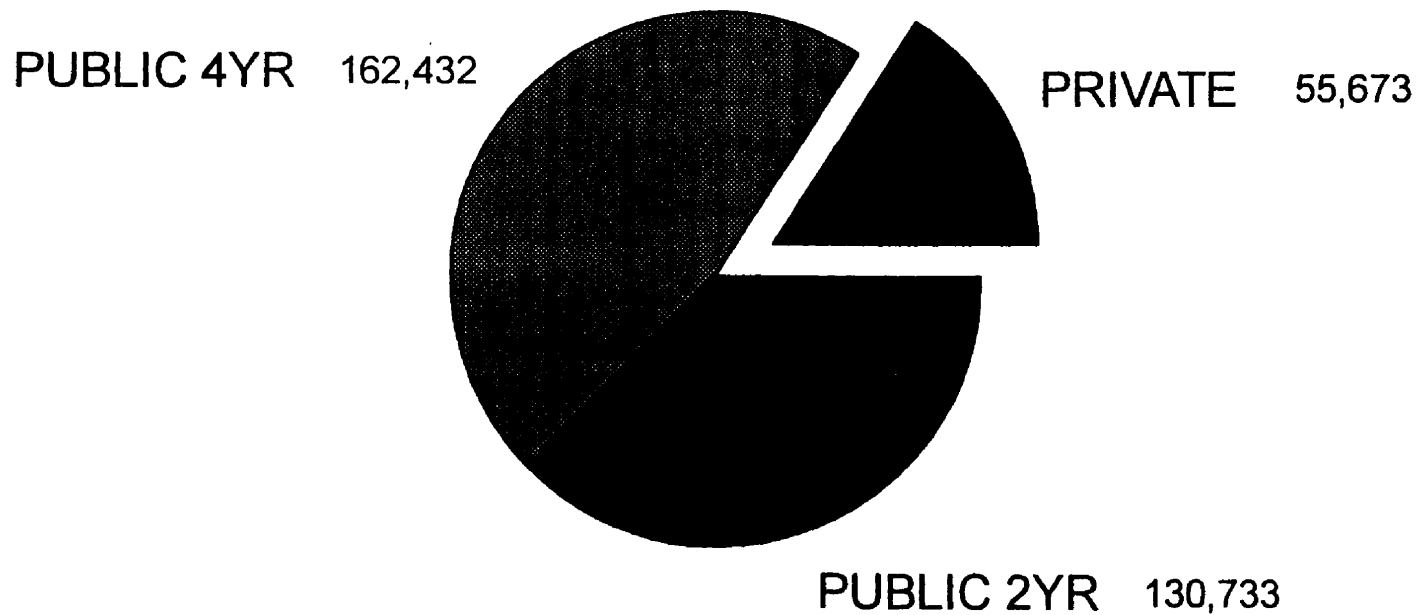
FINANCIAL AID PARTICIPATION RATES



AVERAGE FINANCIAL AID AWARDS

AVERAGE AMOUNT	PRIVATE	4-YEAR	2-YEAR
GRANTS FEDERAL	1,770	1,837	1,163
GRANTS STATE	1,512	1,778	653
LOANS	4,249	4,077	2,056
WORK STUDY	1,009	1,014	969
OTHER	3,500	2,326	379

ENROLLMENT BY TYPE INSTITUTION, FALL 1994



FALL 1994
HEADCOUNT

Appendix B

Unfunded Scholarships

STATE COUNCIL OF HIGHER EDUCATION FOR VIRGINIA
UNFUNDED SCHOLARSHIPS TO (UNDERGRADUATES)
ACADEMIC YEAR 1994-95

NAME OF INSTITUTION	IN-STATE UNDERGRADUATE SCHOLARSHIPS			OUT-OF-STATE UNDERGRADUATE SCHOLARSHIPS			COMBINED TOTALS		
	NUMBER STUDENTS	TOTAL DOLLARS	AVERAGE AWARD	NUMBER STUDENTS	TOTAL DOLLARS	AVERAGE AWARD	NUMBER STUDENTS	TOTAL DOLLARS	AVERAGE AWARD
GEORGE MASON UNIVERSITY	0	\$0.00	\$0.00	121	\$448,920.00	\$3,710.08	121	\$448,920.00	\$3,710.08
OLD DOMINION UNIVERSITY	87	\$206,414.00	\$2,372.57	0	\$0.00	\$0.00	87	\$206,414.00	\$2,372.57
UNIVERSITY OF VIRGINIA	41	\$92,700.00	\$2,260.98	704	\$2,004,578.00	\$2,847.41	745	\$2,097,278.00	\$2,815.14
VIRGINIA COMMONWEALTH UNIVERSITY	0	\$0.00	\$0.00	0	\$0.00	\$0.00	0	\$0.00	\$0.00
VIRGINIA POLYTECHNIC INSTITUTE	27	\$23,000.00	\$851.85	460	\$477,000.00	\$1,036.96	487	\$500,000.00	\$1,026.69
COLLEGE OF WILLIAM AND MARY	4	\$5,247.00	\$1,311.75	284	\$1,004,753.00	\$3,537.86	288	\$1,010,000.00	\$3,506.94
TOTAL DOCTORALS	159	\$327,361.00	\$2,058.87	1,569	\$3,935,251.00	\$2,508.13	1,728	\$4,262,612.00	\$2,466.79
CHRISTOPHER NEWPORT UNIVERSITY	1	\$1,618.00	\$1,618.00	8	\$43,400.50	\$5,425.06	9	\$45,018.50	\$5,002.06
CLINCH VALLEY COLLEGE	16	\$40,086.00	\$2,505.38	3	\$12,050.00	\$4,016.67	19	\$52,136.00	\$2,744.00
JAMES MADISON UNIVERSITY	0	\$0.00	\$0.00	0	\$0.00	\$0.00	0	\$0.00	\$0.00
LONGWOOD COLLEGE	0	\$0.00	\$0.00	0	\$0.00	\$0.00	0	\$0.00	\$0.00
MARY WASHINGTON COLLEGE	0	\$0.00	\$0.00	0	\$0.00	\$0.00	0	\$0.00	\$0.00
NORFOLK STATE UNIVERSITY	137	\$386,214.00	\$2,819.08	89	\$411,049.00	\$4,618.53	226	\$797,263.00	\$3,527.71
RADFORD UNIVERSITY	0	\$0.00	\$0.00	0	\$0.00	\$0.00	0	\$0.00	\$0.00
VIRGINIA MILITARY INSTITUTE	0	\$0.00	\$0.00	0	\$0.00	\$0.00	0	\$0.00	\$0.00
VIRGINIA STATE UNIVERSITY	0	\$0.00	\$0.00	0	\$0.00	\$0.00	0	\$0.00	\$0.00
TOTAL COMPREHENSIVES	154	\$427,918.00	\$2,778.69	100	\$466,499.50	\$4,665.00	254	\$894,417.50	\$3,521.33
TOTAL 4-YEAR COLLEGES	313	\$755,279.00	\$2,413.03	1,669	\$4,401,750.50	\$2,637.36	1,982	\$5,157,029.50	\$2,601.93
RICHARD BLAND COLLEGE	0	\$0.00	\$0.00	0	\$0.00	\$0.00	0	\$0.00	\$0.00
VIRGINIA COMMUNITY COLLEGES	130	\$26,854.00	\$206.57	0	\$0.00	\$0.00	130	\$26,854.00	\$206.57
TOTAL (PUBLICS)	443	\$782,133.00	\$1,765.54	1,669	\$4,401,750.50	\$2,637.36	2,112	\$5,183,883.50	\$2,454.49

SCHEV rdb 09/12/95

NOTE: Data Source— SCHEV S-1/S-2 Unfun ed Scholarships, 1994-95.

STATE COUNCIL OF HIGHER EDUCATION FOR VIRGINIA UNFUNDED SCHOLARSHIPS TO (GRADUATES) ACADEMIC YEAR 1994-95

NAME OF INSTITUTION	IN-STATE GRADUATE SCHOLARSHIPS			OUT-OF-STATE GRADUATE SCHOLARSHIPS			COMBINED TOTALS		
	NUMBER STUDENTS	TOTAL DOLLARS	AVERAGE AWARD	NUMBER STUDENTS	TOTAL DOLLARS	AVERAGE AWARD	NUMBER STUDENTS	TOTAL DOLLARS	AVERAGE AWARD
GEORGE MASON UNIVERSITY	169	\$377,542.00	\$2,233.98	352	\$1,689,706.00	\$4,800.30	521	\$2,067,248.00	\$3,967.85
OLD DOMINION UNIVERSITY	71	\$270,618.00	\$3,811.52	128	\$938,920.00	\$7,335.31	199	\$1,209,538.00	\$6,078.08
UNIVERSITY OF VIRGINIA	323	\$865,211.00	\$2,678.67	1,043	\$6,731,024.00	\$6,453.52	1,366	\$7,596,235.00	\$5,560.93
VIRGINIA COMMONWEALTH UNIVERSITY	113	\$404,085.00	\$3,575.97	130	\$1,291,025.00	\$9,930.96	243	\$1,695,110.00	\$6,975.76
VIRGINIA POLYTECHNIC INSTITUTE	802	\$1,813,861.93	\$2,261.67	2,645	\$6,565,841.89	\$2,482.36	3,447	\$8,379,703.82	\$2,431.01
COLLEGE OF WILLIAM AND MARY	79	\$217,365.00	\$2,751.46	124	\$322,635.00	\$2,601.90	203	\$540,000.00	\$2,660.10
TOTAL DOCTORALS	1,557	\$3,948,682.93	\$2,536.08	4,422	\$17,539,151.89	\$3,966.34	5,979	\$21,487,834.82	\$3,593.88
CHRISTOPHER NEWPORT UNIVERSITY	0	\$0.00	\$0.00	1	\$3,298.00	\$3,298.00	1	\$3,298.00	\$3,298.00
CLINCH VALLEY COLLEGE	0	\$0.00	\$0.00	0	\$0.00	\$0.00	0	\$0.00	\$0.00
JAMES MADISON UNIVERSITY	0	\$0.00	\$0.00	0	\$0.00	\$0.00	0	\$0.00	\$0.00
LONGWOOD COLLEGE	0	\$0.00	\$0.00	0	\$0.00	\$0.00	0	\$0.00	\$0.00
MARY WASHINGTON COLLEGE	0	\$0.00	\$0.00	0	\$0.00	\$0.00	0	\$0.00	\$0.00
NORFOLK STATE UNIVERSITY	0	\$0.00	\$0.00	0	\$0.00	\$0.00	0	\$0.00	\$0.00
RADFORD UNIVERSITY	42	\$86,634.00	\$2,062.71	17	\$66,530.00	\$3,913.53	59	\$153,164.00	\$2,596.00
VIRGINIA MILITARY INSTITUTE	0	\$0.00	\$0.00	0	\$0.00	\$0.00	0	\$0.00	\$0.00
VIRGINIA STATE UNIVERSITY	0	\$0.00	\$0.00	0	\$0.00	\$0.00	0	\$0.00	\$0.00
TOTAL COMPREHENSIVES	42	\$86,634.00	\$2,062.71	18	\$69,828.00	\$3,879.33	60	\$156,462.00	\$2,607.70
TOTAL 4-YEAR COLLEGES	1,599	\$4,035,316.93	\$2,523.65	4,440	\$17,608,979.89	\$3,965.99	6,039	\$21,644,296.82	\$3,584.09
RICHARD BLAND COLLEGE	0	\$0.00	\$0.00	0	\$0.00	\$0.00	0	\$0.00	\$0.00
VIRGINIA COMMUNITY COLLEGES	0	\$0.00	\$0.00	0	\$0.00	\$0.00	0	\$0.00	\$0.00
TOTAL (PUBLICS)	1,599	\$4,035,316.93	\$2,523.65	4,440	\$17,608,979.89	\$3,965.99	6,039	\$21,644,296.82	\$3,584.09

SCHEV rdb 09/12/95

NOTE: Data Source— SCHEV S-1/S-2 Unfun

