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ABSTRACT

Some of the issues concerning the evolving relationship between state and federal agencies in the field of student financial aid are examined, with attention to the State Student Incentive Grant Program (SSIG). After tracing the history of the SSIG, the following issues are considered: SSIG portability; state control of fraud, abuse, and error; financial aid to nonprofit institutions, allocation formula; state capacity for student assistance; computation of state subsidy; and perspectives on student aid by state planners. It is suggested that the SSIG program was initiated to attract states into providing student financial aid at the state level, and this effort has been successful. Four alternative models that could be legislated to encompass future roles of the program are described. It is claimed that the federal policy-makers would like to see grants available to students attending school out of state, but states are concerned about sending students out of state when public colleges and universities are increasingly underutilized. There is increasing concern that funds are being awarded improperly and that institutions have mishandled funds in some instances. The federal government wants to include all nonprofit institutions but the states want to be able to be more selective. An index of state effort in support of postsecondary education is described, and the flow of dollars within a funding system is examined. The complexity of state-federal relations in higher education is suggested. (SW)

State Student Incentive Grant Program:

Issues In Partnership

STATE STUDENT INCENTIVE GRANT PROGRAM:

ISSUES IN PARTNERSHIP

By

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PREFACE

This publication is one product developed under a study of state student aid programs. The others in the series are Profiles of State Student Financial Aid Programs and Summary Description of the State Student Incentive Grant Program and Other State Student Assistance Programs.

The project was a joint effort by the Education Commission of the States (ECS) and the National Center for Higher Education Management Systems (NCHEMS). The project director was John Lee of ECS and the project manager was Kent Weldon. In addition to John Lee, Kent Weldon, Wayne R. Kirschling and Jane Muller who served as coauthors, ECS would like to recognize with appreciation the assistance and cooperation of Alex Ratnofsky and John Haines of the United States Office of Education, of Nancy M. Berve and Martha Kaufman, both of ECS, who served as editors and of Virginia McKibben of ECS who typed and proofread the final report.

The opinions and conclusions expressed in this document are those of the authors and do not necessarily reflect the positions of the respective organizations or the United States Office of Education.

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1. INTRODUCTION: KEY ISSUES IN A STATE-FEDERAL PARTNERSHIP

By John Lee

The major purpose of this report is to investigate some of the issues concerning the evolving relationship between state and federal agencies in the field of student financial aid. These issues have become increasingly important as the volume of student aid funds provided by the U. S. Office of Education has increased from nearly zero in 1957 to over $3 billion in 1977. Inclusion of the Guaranteed Student Loans/Federal Insured Student Loan programs pushes the total to over $4.8 billion. There has been a similar increase in state student aid programs in the same period, with the states now providing $645 million annually. The evolution of these programs has taken a different course in each of the states. As a result there is a great deal of confusion about how the planning, administering and coordinating of such programs should be handled in order to increase student opportunity to a maximum.

A report for the U. S. Office of Management and Budget by the study committee on policy management assistance began its recommendations with the following:

> The federal government should, in its domestic assistance programs, continue moving in the direction of revenue sharing block grants, grant consolidation and other funding devices that allow state and local government leaders more flexibility in allocating resources and coordinating the delivery of services and benefits within the framework of more clearly stated national objectives to be accomplished by the assistance programs.[1]

It is obvious that the federal system still lacks the flexibility and coordination recommended in this quotation. The administration of the majority of the federal postsecondary student assistance programs by-passes the state altogether. Of the five categorical student aid programs focused on in this report, funds

[1] Office of Management and Budget, Strengthening Public Management in the Intergovernmental System (Washington, D.C.: Government Printing Office, 1975), p. 17.

for the three campus-based programs go directly to institutions as do the majority of the student loan funds, although there are some state agencies that administer the loan program. Funds for the Basic Educational Opportunity Grants Program (BEOG) go directly to students, but states do have an opportunity to keep track of applicants. As the new multiple entry application format evolves, this relationship should improve. Only one student aid program has drawn the state and federal governments into a direct partnernership -- the State Student Incentive Grant Program (SSIG) -- and for this reason the SSIG program is the central concern of this report. Many relevant issues are examined, covering SSIG portability, state control of fraud, abuse and error, financial aid to non-profit institutions, allocation formula, state capacity for student assistance, computation of state subsidy and perspectives on student aid by state planners. All areas reflect the difficulties faced when states, institutions and federal agencies try to work together in the student financial aid field. Each partner is skeptical and somewhat distrustful of the motives and capabilities of the other. This report, especially in the concluding chapter which suggests policy options, will try to help bridge some of those gaps so that students can receive more effective financial aid service in the future.

The History of the State Student Incentive Grant Program

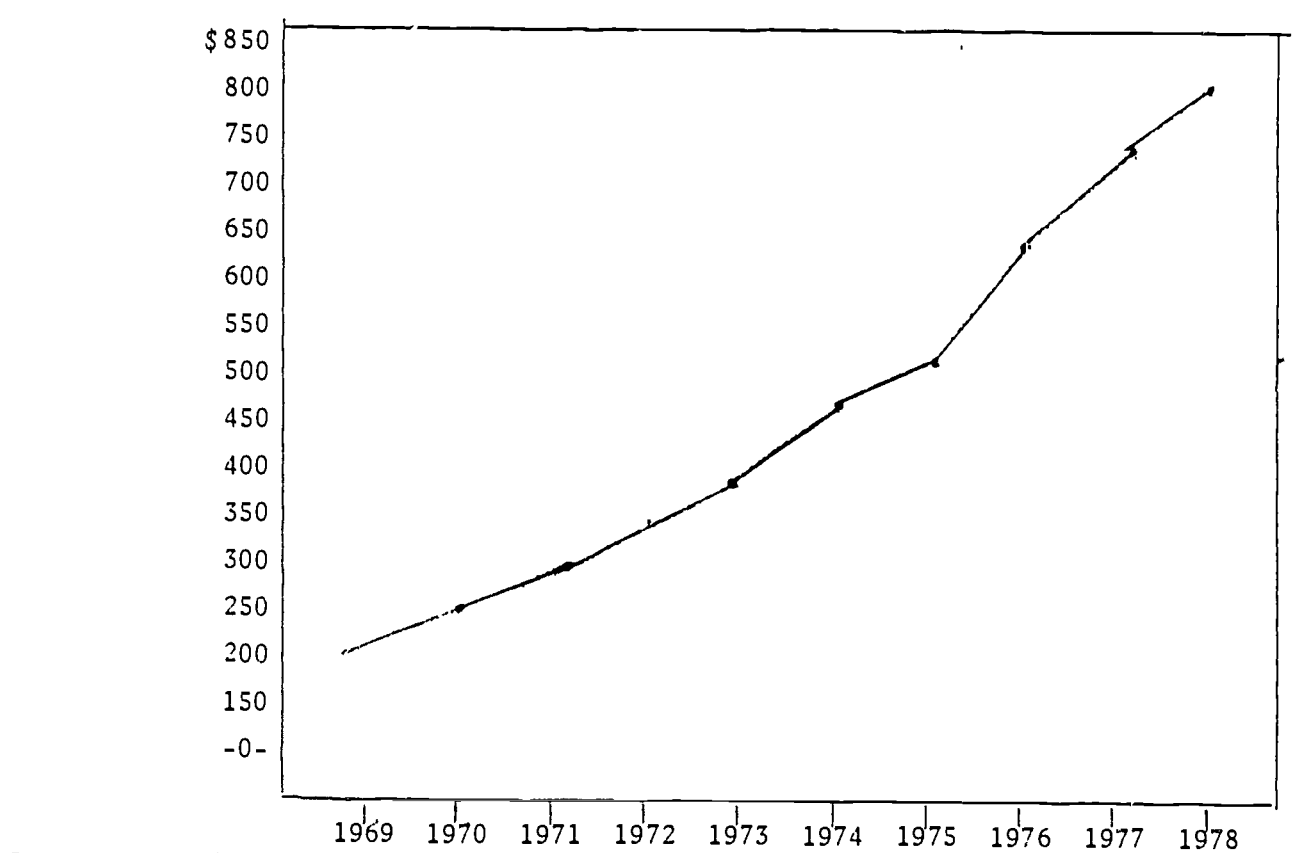
Congress authorized the SSIG program in 1972 "to make incentive grants available to the states to assist them in providing grants to eligible students in attendance at institutions of higher education." The legislation provided a 50-50 state/federal matching grant to encourage states to become involved. The conclusion of the program's first annual report (1975) states:

> ...the SSIG program strategy provides a low-cost delivery system for state agencies and officials to focus on student assistance. Also, state agency administration helps states cope with their own interinstitutional competition for students and support. Coordinated planning and services reinforce and supplement federal and institutional efforts, and accommodate changing state educational needs. Furthermore, the 50-50 matching of funds and broad state discretion provide a prototype for revenue sharing;

> state agency management thus can facilitate coordination to optimize the use of total federal, state and institutional financial aid resources.[2]

This statement provides some of the criteria by which the SSIG program might be evaluated and shows the progress made in the first three years of the program. There has been an increase in the number of states involved and the amount of state dollars committed to student grants since the program was initiated in 1974. $19 million in federal funds was made available for the first year of operation and 41 states, out of an eligible 56, participated in the program that first year. By the second year of operation 48 states participated in the program, providing a total of $20 million. The funding rose to $60 million in the 1977-78 school year. The following charts and table illustrate the increase in awards, states and dollars involved in need-based grant programs from 1969 to 1978.

CHART I
INCREASE IN STATE STUDENT ASSISTANCE DOLLARS
AWARDED TO STUDENTS, 1969-1975



Source: Data in Table I.

[2] "State Student Incentive Grant, First Annual Report," typed copy, 1975.

CHART II

INCREASE IN NUMBER OF STATES
WITH STUDENT ASSISTANCE PROGRAMS

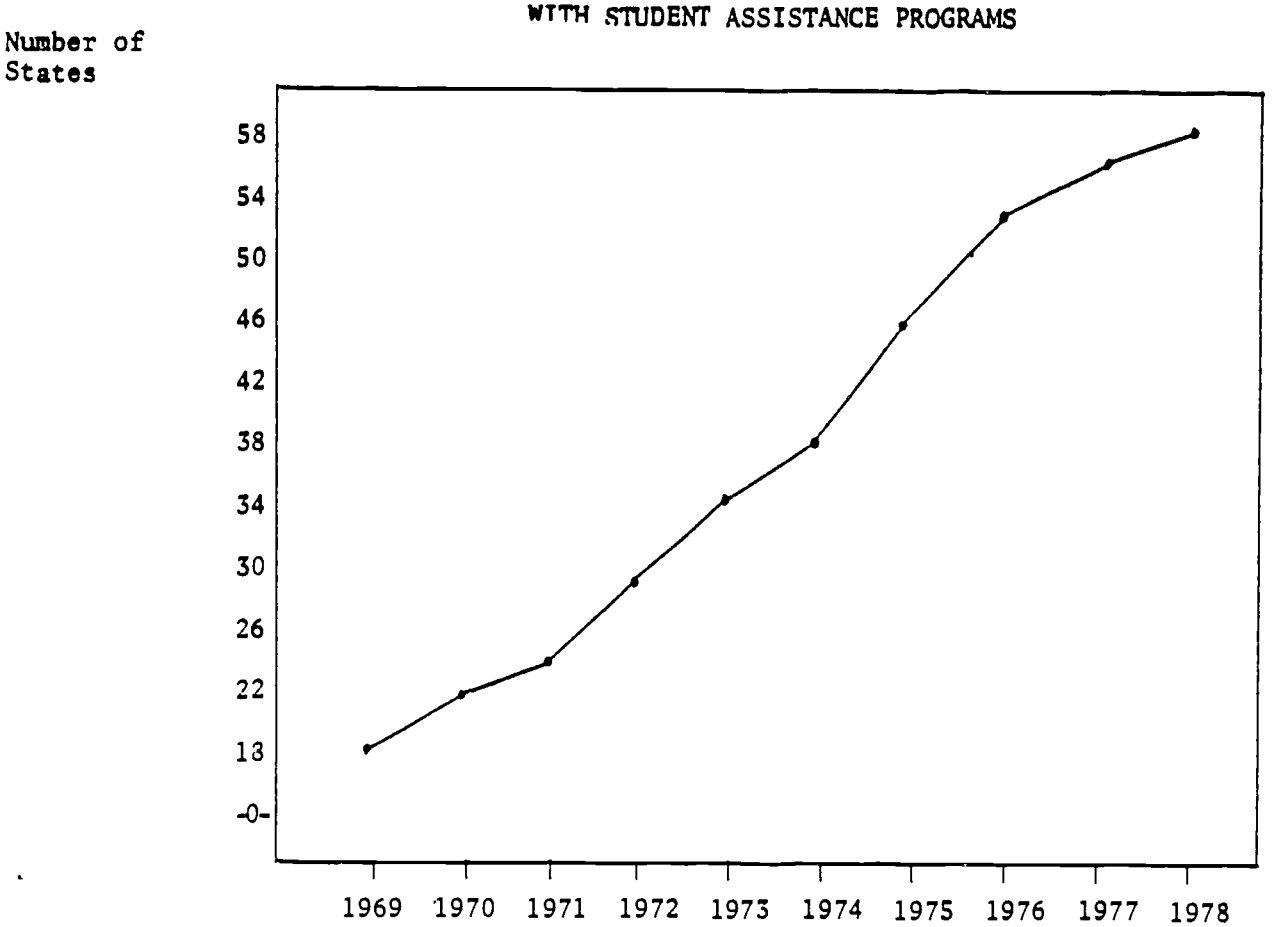
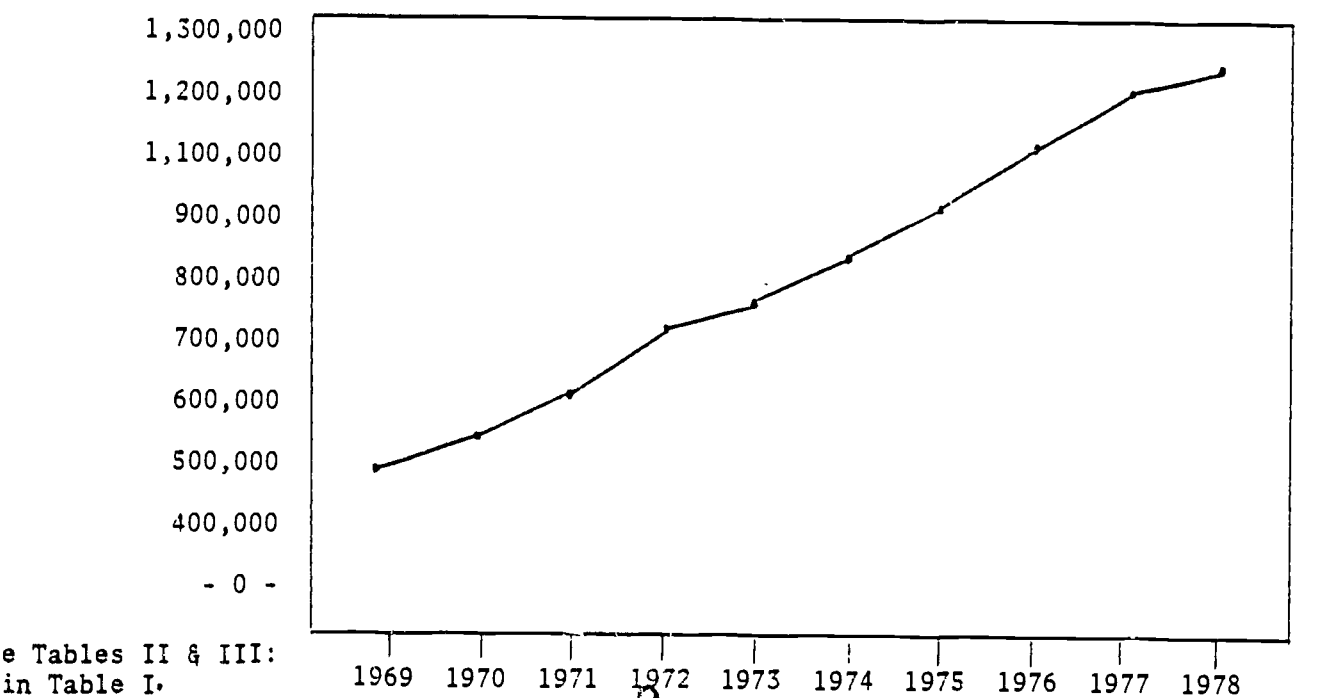


CHART III

INCREASE IN NUMBER OF STATE STUDENT
AID AWARDS, 1969-1978



Source Tables II & III: Data in Table I.

TABLE I

TEN STATES PROVIDING LARGEST
STUDENT GRANTS, 1969-70 - 1978-79
(IN MILLIONS)

State	Top Ten States Award Dollars 1969-70	Top Ten States Award Dollars 1978-79	1978-79 Rank	Percentage Change 1969-1978
New York	$ 58,800	$ 264,300	1	351
Pennsylvania	51,900	75,500	4	45
Illinois	26,000	84,275	2	224
Michigan	12,500	28,712	6	130
California	12,288	83,573	3	580
New Jersey	11,850	36,448	5	208
Indiana	3,080	21,100	10	585
Wisconsin	2,950	23,085	9	683
Maryland	2,900	5,000*	20	72
Massachusetts	2,000	15,557*	11	678
Ohio	---	25,925	8	
Minnesota	775*	26,827	7	3,362*
Top 10-State Total	$184,268	$ 669,745		263%
National Total	$191,484	$ 828,900		333%

*Not included in the totals for the year

Source: Joseph D. Boyd and Sybil E. Francis, National Association of State Scholarship and Grant Programs: 10th Annual Survey, 1978-1979 Academic Year (Deerfield, Ill.: Illinois State Scholarship Commission, 1978).

Special note should be taken of the New York state program that accounts for 31 percent of funds in all state grant programs. Any characteristics of the New York program will be strongly reflected in the national averages.

State Program Diversity

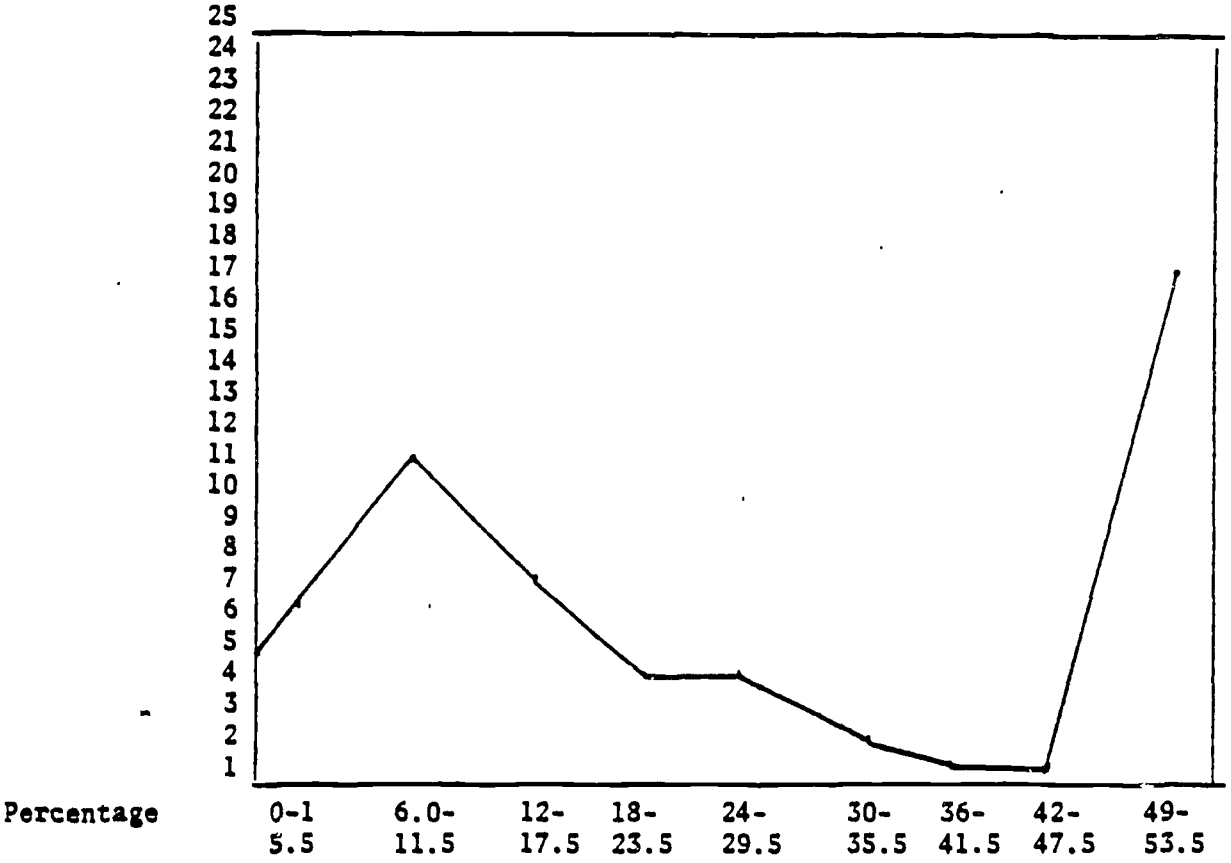
In the first year of SSIG funding, 1974-75, 9 states developed new programs to qualify for federal funds and in 1975-76 10 more programs started. In 1976-77 4 states joined the program, leaving Nevada as the only state without a student grant program qualifying for SSIG funding. Nevada became involved in 1977-78; in all, 24 state grant programs have started since the program was first funded.

The states are divided rather sharply in terms of the amount of state dollars which they provide for needy students. Chart IV offers a visual presentation

of this diversity. There are 21 states offering a significant overmatch to the SSIG funds -- at least 82 percent -- but, on the other hand, 20 states are just meeting the 50 percent match mandated by the federal legislation. In general, the older well-established programs are overmatched and the newer programs are providing the minimum match.

CHART IV

RANGE OF STATES BY PERCENTAGE OF ALL FUNDS
IN STATE GRANT PROGRAMS/SSIG FUNDS



Source: Boyd and Francis, p. 1.

The states are diversified in other ways besides the size and age of their grant programs. There are various rules by which states administer the funds and determine eligibility for awards. As a result, the states have developed a broad range of program differences. The main difference among the states is whether the student aid programs are administered in a decentralized, centralized or mixed form. Centralized administration is the most common form, whereby a student applies for aid directly to the state office where the application is reviewed, and the student's eligibility and award are determined. The student may then apply to a school secure in the knowledge that a state award is available.

Decentralized administration occurs when award decisions are made at the institutional level, and the information is forwarded to the state financial aid office for review and approval. Eight states and Puerto Rico are identified as places with decentralized administration, with small staffs at the state level averaging less than 10 people and with the smaller state programs. The third administrative technique is a combination of shared responsibility between state and institutional offices. This is the least common form and is found in only five states.

Staff size and the work volume are other variables that distinguish state programs. Most staffs at the state level have fewer than 10 people, as is the case in 31 states and territories. However, there are four states with staffs exceeding 100 persons -- California, Illinois, New York and Pennsylvania. The number of awards given

annually is also a good measure of program difference. It varies from 95 awards in Alaska to 422,000 in New York. Programs in 35 states and territories made fewer than 10,000 student awards in 1978-79. The modal number of state awards is less than 5,000 while the average number of awards is over 21,798. The divergence of these two figures indicates the inequality of program size among the states. The 35 states with the smaller programs provided less than 6 percent of all the grants given by states.

The size of the awards varies radically among states as do the methods of determining financial need. Alaska provides the largest average award ($1,579) and Hawaii the smallest ($103). The maximum award also varies a great deal. California will provide up to $3,600 in its college opportunity grants program while the maximum in several states limits awards to $500. Arkansas is the lowest with a $300 maximum.

The states use a mixture of systems to determine financial need. Of 46 states reporting, 16 use several techniques; 14 use College Scholarship Service exclusively; 5 use the BEOG system; 4 use American College Testing Program; 4 use their own system; 2 report using the uniform methodalogy; and 1 reports using the family application forms. There are other measurements that can be used to describe the differences in the state programs. The sections that follow will illustrate these in some detail.

The State-Federal Partnership in Student Financial Aid

The relationship between state and federal agencies really must be an individual partnership between each state and the federal government. The SSIG program is a good test of how this partnership might work and

what form it might take. The development of the program will set important precedents for later development of the state-federal partnership in postsecondary education student financial aid.

The SSIG program was initiated to attract states into providing student financial aid at the state level, and this effort has been successful. The major concern is the future role of the program. In anticipation of these roles, four alternative models could be legislated. The first model would develop SSIG as a program to encourage the states to assist the federal government in achieving the goal of student access. If this alternative is taken, the federal government would put more restrictions on states so that the SSIG program would help provide access to college for low-income students. The advantage of this approach for the federal government is that the state programs would serve primarily to supplement the federal funds. From the view of the states, this limitation may not be the best way to serve unique state goals, given differences in personal income and in cost of education among the states.

The second model would use state grant programs to improve student choice. In many respects, this is a most logical role for the state to play because the state has the power to set tuition rates in the public sector. If basic grants assure access, the states could help develop choice by providing grants sensitive to tuition levels. States with low tuition and a few high-cost schools might want to participate only marginally in the program, while states that have a high tuition level or a large independent sector might participate very heavily in SSIG. This is already happening to a large degree.

The third model would expand the SSIG program to help fill in the gaps in student assistance programs funded by other sources. The federal government has created a number of need-based programs to implement the national policy of student access. Although no one of these independently is able to take care of the total needs of the population, the programs do complement one another. SSIG, as a minor program, has taken the role of filling the gaps left by the others. This role gives the states some latitude in determining program operations, target populations and evaluation of need. This is the function that the SSIG program is currently fulfilling, and it is the most probable role which the program will provide in future federal policy. The policy issue for the federal government is determining how much money can be justified for a program that is supplementary in nature.

The fourth alternative model is that the SSIG program might be a major vehicle for state policy in student assistance. The major federal policy mechanism is the BEOG program. The institutional policy mechanism is provided by the campus-based programs. As the federal government does not make tax funds available to states to support their own programs, the SSIG program would be a form of federal revenue sharing in which states should have freedom to develop any student financial aid policy that they deem appropriate.

These alternative models of state-federal cooperation define a continuum from full federal control to full state control. Any position that is chosen will probably reflect a compromise on key issues and will not necessarily represent any one of the models identified.

The SSIG program has another function to perform in addition to aiding students. The original legislation mandated that the program be coordinated by a single office in each state. This would permit the development of a state office to coordinate and disseminate information on state, institutional and federal programs of student financial aid. The federal government's aid programs are mostly decentralized, as are the states' programs, and nowhere in the student aid system is there a central place where the information is available in a manner that is useful for policy and management purposes. The SSIG program has made a start in developing a needed dialogue between state and federal student aid offices, and the potentiality for the state offices to become the data collection and disseminatic centers between the U. S. Office of Education and institutions is a definite option at this time. The federal government's desire to have states take on more responsibility was illustrated in the 1976 legislation providing a bonus SSIG allotment to states with a state guaranteed loan agency. There is also the increased federal inclination to share the BEOG applicant information with states in a more timely way.

Review of Specific Issues in the Partnership

As the SSIG program has evolved, a number of specific policy questions have emerged that will shape the politics of the state-federal student aid debate in the foreseeable future. Seven of these issues are examined in the following chapters.

The first issue is portability of student aid. The federal policy makers would like to see grants made portable to students attending school out of state. This allows maximum choice of schools for students and is thus a reasonable goal. States on the other hand are concerned

about sending students out of state when public colleges and universities are increasingly underutilized. The issue is clear, but resolving these two views may be difficult.

The second issue to be addressed is the ability of states to help control fraud, abuse and error in student aid programs. There is increasing concern that funds are being awarded improperly and that institutions have mishandled funds in some instances. No clear distinction exists between the state and federal role in controlling the problem, but there is a concern that the federal agencies will impose rigid and expensive controls on student aid programs before states and institutions can be included in a plan. If one of the purposes of the SSIG program was to have each state establish a student aid office, that office's role can be enlarged to control fraud, abuse and error in all student aid programs.

A third issue is the matter of determining what institutions should be eligible for SSIG funds. The federal government wants to include all nonprofit institutions but the states want to be able to be more selective. There is concern that several states have constituted prohibitions against aiding students in religious schools. Others have excluded vocational schools and other schools are excluded because they lack regional accreditation. The states would like to be able to exclude certain institutions at their discretion, while the federal government would like to offer maximum choice for students. Accommodating these opposing views creates a problem. This issue has been addressed in a technical amendment to the 1976 Higher Education Amendments.

The fourth issue is less pressing than the previous questions and has to do with the allocation formula. SSIG is one of four federally funded student aid programs with a state allocation formula. (The others are the National Direct Student Loan Program, the College Work Study Program and the Supplemental Educational Opportunity Grant Program.) All the formulas are based on a measure of enrollment. Many critics find this inappropriate on several bases. (1) A measurement of student need is necessary to insure that the general purpose of the program, which is to meet financial need, is congruent with the allocation formula. (2) Exporting states suffer in relation to importing states. Importing states receive a larger share of SSIG funds but the out-of-state students are not eligible for the funds. (3) High state enrollment reflects, in many instances, high average incomes. Perhaps states with low proportion enrollment to population need more federal aid to help students attend school. The question is what would be an appropriate allocation formula for the SSIG program?

The fifth topic is more descriptive than issue oriented. It attempts to devise an index of state effort in support of postsecondary education. There are several questions that can be addressed with such information. For example, how able might a given state be to increase state support for student aid and what would happen if the distribution of SSIG dollars was dependent on measures of effort? This chapter is designed to provide federal planners with a helpful tool.

A related topic, which is an extension of the previous one, examines the flow of dollars within a funding system rather than acquisition and distribution of tax dollars. A number of persons have constructed various measures of state support for education. These measures of state effort are frustrated for several reasons:

- intergovernmental transfers lead to double counting;
- substate revenue districts are often not included;
- the diversity of procedures used to finance education causes a great deal of confusion.

This topic is designed to add to the ability of planners at the state and federal level to describe the level of state support.

The final topic is the most abstract and attempts to identify the various perspectives that state planners hold about student aid. In order for one to understand the possible reactions of states to various policy alternatives, it is helpful to identify these perspectives and the logic and beliefs upon which they are based. This will help untangle the series of statements that are loosely called the state perspective.

These are perhaps somewhat arbitrary selections for such a series of documents. But the topics cover a range of issues from the specific to the abstract and conceptual. The increasing complexity of state-federal relations in higher education can only be suggested in such a limited view. The SSIG program will, because of its uniqueness, go a long way in defining the nature of the intergovernmental relations in the field.

2. MANDATED PORTABILITY OF STATE STUDENT INCENTIVE GRANTS

By John Lee

Review of Portability as an Issue

The suggestion that the State Student Incentive Grant Program (SSIG) awards be made portable by federal mandate raises some interesting questions: (1) What is it that federal policy makers hope to achieve by this mandate; (2) Why have states resisted the suggestion to provide portable grants to students; and (3) what is portability? Traditionally states have provided student access to public postsecondary education with subsidized tuition to reduce the student's cost of education. With the exception of a few states dominated by independent postsecondary education institutions, the use of general need-based student aid is a relatively new strategy for modifying the price that the student must pay for higher education. State policy tends to emphasize student access, but not choice.

Federal student aid policy stresses access and choice. Access is defined as the assurance that any student who desires can get into at least a minimal cost institution. Choice implies that a student should have an option to select an institution that is most appropriate to his needs. The development of portability of state grants partially funded with federal dollars is a reflection of the federal government's desire to increase student choice. A state boundary is an arbitrary barrier to a student who might find that the most appropriate educational institution for his needs is located in another state. His choice is limited if the net cost of attendance in another state is increased because the student could not receive the state grant for which he would be eligible in his home state and because he may not be able to afford the out-of-state option.

As to both tuition and financial aid, states tend to operate in a self-protecting way. In most states, nonresident students pay tuition charges that more nearly approximate the actual cost of education than those charged students who are residents of the state. Students generally are prohibited from using their student aid funds out of state, although there are several states that provide notable exception to this trend. If the goal is to increase student choice beyond state boundaries, there are two ways to do it -- lower tuition for students from out of state or provide grants to students who want to go out of state. Both techniques are being used in different ways.

Portability should be thought of in terms of degrees rather as an either/or proposition. At one end of the spectrum are the Basic Educational Opportunity Grants (BEOG), which are totally portable and for which students apply, attending school wherever they please. At the other end of this spectrum are institutionally based programs of student aid for which a student must attend that particular institution to receive the award package. One of the major problems involving institutional programs -- such as College Work Study, National Defense Student Loans and Supplemental Education Opportunity Grants -- is that institutions can use them as recruiting devices for students who might not attend the school simply for educational reasons.

Currently, most state programs are at an intermediary point and have a considerable degree of intrastate portability, even if the funds are not available for out-of-state attendance. Seven states, five territories and the District of Columbia provided portability of grants prior to the funding of SSIG. Six of the states had portability in 1970; Delaware began its student aid program in 1974 and the District of Columbia in 1976.

The states with portability are primarily located in the northeastern area of the United States and are states with a strong independent college sector. The states without portability have a strong public education orientation, making it difficult to justify providing their residents with assistance to attend out-of-state institutions when their own public and private institutions might be underutilized.

Seven states and the District of Columbia presently allow portability -- Connecticut, Delaware, District of Columbia, Massachusetts, New Jersey, Pennsylvania, Rhode Island and Vermont. There is a movement in New Jersey, Pennsylvania and Delaware to move to reciprocal agreements with other states. This is in response, in part, to New York's unwillingness to provide portable grants to its students. It appears that in the near future there may be a decline in the number of states that can be labeled portable. As indicated in Table I, there are a number of states that provide some form of assistance to students going out of state or to students from out of state attending in the state. These programs are not general need-based undergraduate programs and often are not large. This does suggest that there are a number of opportunities for students to receive funding beyond individual state borders from state sources.

Probability of states' grants is not a large factor in any of the state aid programs. As shown in Table I, the total dollars for portable grants in the District of Columbia and the seven states with portability are less than $20 million, which is less than three percent of all the state grants available in the country. New Jersey sends the largest number of students out of state, with about 30 percent of all their state grant recipients attending institutions out of state. However, the proportion of New Jersey students attending school out of state has declined in the past several years, and

students attending out-of-state institutions are eligible for smaller grants than they would get attending in state. The same is true in Pennsylvania. Vermont, Rhode Island and Massachusetts have full portability as students are eligible for the same grant out of state as they are in state. Delaware has limited the grant to students requiring programs out of state that are not available in the state institutions.

TABLE I

PROFILE OF STATES WITH
PORTABLE STUDENT ASSISTANCE
1976-1977

State	Number of Awards	Dollars	Average Award
Connecticut	1,269	$1,091,850	$ 860
Delaware	296	198,000	668
District of Columbia	251	278,488	1,109
Massachusetts	3,000	2,500,000	834
New Jersey	13,800	9,400,000	681
Pennsylvania	12,201	6,372,743	522
Rhode Island	1,014*	503,250*	496
Vermont	1,415	683,240	483

Source: Based on data gathered from each state.

*Estimated

A number of conditions differentiate the existing portable programs. Vermont uses the guaranteed student loan list to determine institutional eligibility for awards, which, thus, are very inclusive. Massachusetts mandates that institutions must be both degree granting and regionally accredited, which is a much less inclusive system than Vermont. Pennsylvania allows students attending out of state a maximum award of $618, but the student could qualify for $1,500 if attending in state. New Jersey gives the same award to in-state and out-of-state students, but students in state are eligible for other grants that could double their award.

Clearly, the administrative burden is increased for states with portable grants. Agreements must be reached with a number of institutions; enrollment status must be confirmed; and funds disbursed. Vermont, for example, with 28 institutions in state, disburses checks to over 600 institutions for Vermont students. Massachusetts is involved with over a thousand institutions. In reverse, institutions also are required to work with a number of state programs, which have different requirements, calendars and administrative procedures. If there is to be nationwide portability of state grants, a common system of procedures must be developed to reduce the administrative overhead placed on both state agencies and institutions.

There are alternatives to portability of grants as a way of expanding student choice. One is a reciprocal tuition agreement, such as that which Minnesota has with public institutions in North Dakota, South Dakota and Wisconsin and with selected institutions in northern Iowa. About 8,000 Minnesota students participate in these programs at a cost of about $9 million to the state in the current budget. Students in each of these states may attend school in the other at the instate tuition rate. The state provides a direct payment to the other state, covering the net differences between the cost of education and tuition paid. Other

states have attempted to develop such agreements, but one or the other of the partners found disadvantages that overshadowed the advantages.

A less inclusive form of state cooperation is student exchange programs. The regional compacts -- Western Interstate Commission for Higher Education (WICHE), Southern Regional Education Board (SREB) and the New England Board of Higher Education (NEBHE) -- have been instrumental in developing regional specialized programs that usually allow students to take programs not available at public institutions in their own state in another state at resident tuition. In general, the receiving state reserves a certain number of spaces for students from the other state. The sending state provides a direct subsidy to the receiving state to defray the cost of the program.

Many states allow certain types of nonresident students to attend public colleges at state resident levels. This opportunity is most frequently offered to military personnel and their families and to employees of state higher education institutions. There also are a number of unique waivers for out-of-state tuition.

These examples are options to portability of grants. They all exclude the independent sector students. There are a number of possible variations through direct student aid. The most permissive form of portability is a system where the students receive grants from their own state for attendance at any accredited school in the country. Another form exists where the home state provides a reduction in the grant if the student attends an out-of-state institution rather than an instate college. A third option is to provide reciprocal grants where a student may take a state grant only to

states that allow their students to carry grants to the first state. A final option is one where states provide a portable grant to students who want to take a program of study that is not offered in their state of residence.

An alternative to providing students attending out-of-state institutions with assistance is giving grants to students coming into a state. This would alleviate the fears of the institutions about losing students, but would concern taxpayers who would question the equity of providing tax money to students not paying state taxes. In some states, for example, nonresident tuition is waived for out-of-state graduate students. Table II identifies states that currently have programs for students coming from out of state. Most of the programs are small and very specialized. There is no example of a major program of aid being made available to out-of-state students.

TABLE II

STATES WITH PROGRAMS PROVIDING ASSISTANCE TO STUDENTS ATTENDING OUT-OF-STATE INSTITUTIONS AND TO NONRESIDENTS

State	Aid to Students Attending Out of State	Aid to Nonresidents Attending in State
Alabama	1	
Alaska		
Arkansas		
California		
Colorado	1	1
Connecticut	4	1
Delaware	3	3
District of Columbia	1	
Florida		
Georgia	4	
Hawaii		
Idaho	1	1
Illinois	2	4
Indiana		
Iowa		
Kansas	1	1
Kentucky	3	
Louisiana	1	
Maine	1	

Table II, continued

Maryland	2	1
Massachusetts	3	1
Michigan	2	2
Minnesota	3	1
Mississippi		
Missouri		
Montana	1	
Nebraska		
Nevada	1	2
New Hampshire	1	2
New Jersey	4	
New Mexico	1	
New York	3	
North Carolina	3	2
North Dakota	1	1
Ohio	1	1
Oklahoma	1	
Oregon	3	
Pennsylvania	2	
Rhode Island	3	
South Carolina		
South Dakota	1	
Tennessee	3	1
Texas		1
Utah	1	1
Vermont	4	
Virginia	1	
Washington	2	1
West Virginia	1	1
Wisconsin	4	2
Wyoming		

Source: Joseph D. Boyd, National Association of State Scholarship and Grant Programs: 8th Annual Survey, 1976-1977 Academic Year (Deerfield, Ill.: Illinois State Scholarship Commission, 1976), p.34.

Student Migration as a Factor in Implementing Portability Grants

A major concern brought on by portability is that states might lose or gain funds on the basis of grants going out of state. One can make the assumption that if all states provide portable grants, there would be no changes from current student migration patterns. If this assumption is made, then a student migration study published by the National Center for Education Statistics (NCES) in 1975 provides some worthwhile clues about what the net gain and losses might be for states under conditions of

portability. NCES developed two studies of student migration among states, one in 1968 and the second in 1975.[1] A less complete study, done in 1972, is not included in this analysis.

There is concern about the validity of the 1975 data because of the changed definition of residency which makes it easier for 18-year-olds to claim residency independently of their parents. In general, the net migration ratio declined between 1968 and 1975. The net migration ratio is defined by subtracting the number of students leaving a state to attend college from the number coming from out of state. A negative number results if a state is an exporting state, and a positive number occurs if it is an importing state. Enrollment is calculated by a headcount of all degree students, allowing comparisons to be made as enrollment levels change through time and comparisons to be made among states with various enrollment levels. The following states indicated in Table III were, in ratio terms, the largest net losers and gainers of students in 1975. (See Appendix I for the net ratios, 1968 and 1975, for the 50 states and District of Columbia.)

TABLE III

STATES SHOWING LARGEST NET
RATIO STUDENT GAINS AND LOSSES (1975)

States	Percentage Loss	State	Percentage Gain
New Jersey	(33.1)	District of Columbia	51.9
Alaska	(26.6)	Vermont	24.7
Connecticut	(19.3)	Utah	24.5
Minnesota	(9.3)	Arizona	21.1
North Dakota	(9.1)	New Hampshire	13.5
Maryland	(8.6)	Colorado	12.9
New Mexico	(5.8)	Rhode Island	12.0
New York	(5.8)	California	9.5
Pennsylvania	(5.6)	Massachusetts	8.9
Illinois	(5.3)	North Carolina	7.5
		Tennessee	7.5

Source: Residence and Migration of College Students, p.9.

[1]Data from the National Center for Education Statistics, Residence and Migration of College Students (Washington, D.C.: Government Printing Office, Fall 1975 Survey), preliminary data.

It should be noted that the average net ratio changed very little from 1968 to 1975 -- from 2.7 percent in 1968 to 2.5 percent in 1975. The standard deviation was significantly smaller in 1975 -- 12.4 percent compared to 18.6 percent in 1968, indicating less variation among states in the net migration ratio. In Alaska, for example, with minus 56.3 percent ratio in 1968 and a minus 26.6 percent in 1975, the state had a smaller loss in 1975 than in 1968. While the states seem to be approaching a closer balance of imports and exports, the proportion of students moving among states in fact increased slightly in the seven-year period. By dividing the number of students exported from a state by the enrollment in the state, the following figures were obtained:

-- In 1968, the total enrollment was 6,643,976, the total of students exported was 1,119,630, with a ratio of exports/ enrollment of 16.8 percent.

-- In 1975, total enrollment was 11,152,538, total number of students exported was 1,903,593, with a ratio of 17.1 percent.

As shown in Table IV, on a state-by-state level 23 states decreased the ratio of students exported between 1968 and 1975 while 28 states and the District of Columbia increased their ratio of students exported. The decreased variability of net ratios of student migration and the lack of change in the export ratio indicate that more balance is appearing between states in student migration. Two data points do not make a trend line, but it would appear that the proportion of students going to school out of state has declined in the Northeast and there appears to be increases in the number of students going out of state in the South and Mideast.

TABLE IV

INCREASES AND DECREASES IN THE PROPORTION OF STUDENTS EXPORTED: 1968 AND 1975

States with Increased Exports	States with Decreased Exports
Arkansas	Alabama
Colorado	Alaska
District of Columbia[2]	Arizona
Georgia	California
Indiana	Connecticut[2]
Iowa	Delaware
Kansas	Florida
Kentucky	Hawaii
Louisiana	Idaho
Minnesota	Illinois
Mississippi	Maine
Missouri	Maryland
Montana	Massachusetts[2]
New Hampshire	Michigan
New Mexico	Nebraska
North Carolina	Nevada
North Dakota	New Jersey[2]
Oklahoma	New York
Oregon	Ohio
South Dakota	Pennsylvania[2]
Tennessee	Rhode Island[2]
Texas	South Carolina
Utah	Virginia
Vermont[2]	
Washington	
West Virginia	
Wisconsin	
Wyoming	

Source: National Center for Education Statistics 1968 and 1975 Student Migration Study.

[2] Portable Grant State

It is not evident what policies or conditions lead to increased or decreased levels of student migration. From the existing evidence, it would appear that portability of state grants is a very minor factor in student migration as five of the seven portable states reported a decline in the proportion of students attending school out-of-state.

Conclusion

Increasing student choice to attend out-of-state institutions can be realized in ways besides full portability of grants. (1) Tuition for nonresident students could be reduced reciprocally, as has been done in Wisconsin, Minnesota, North Dakota, South Dakota and a part of Iowa; (2) development of regional agreements to share expensive or low-demand programs may be another way; or (3) reciprocal agreements can be reached among neighboring states so that students can use the state award in either state. As enrollments decline and space in public institutions is underutilized, it may prove easier for the federal government to help develop tuition reduction programs among states rather than to develop out-of-state tuition for low-income students, which is an approach not yet explored at the federal level. It must be noted that interstate tuition reduction continues to exclude participation of the independent sector and thus is a continuing limitation on students who might want to register in a nonsubsidized institution.

Portable grants funded by state funds will be more difficult for states to support as student enrollment declines. The American Council on Education (ACE) predicts that nine states will show a net decline in college-age students between now and 1985. They are Arkansas, Connecticut, Illinois, Minnesota, New Jersey, New York, North Dakota, Ohio and Pennsylvania. On the other hand, six states are expected to increase college-age populations in that same period -- Arizona, Colorado, Delaware, Florida, Idaho and Utah.

The remainder of the states are expected to remain at roughly the same potential enrollment levels.[3]

It is not evident from the scarce evidence that portability of State Student Incentive Grants (SSIG) would result in increasing interstate movements of students. There are not enough state funds at the present time in portable programs to assess their impact. It is interesting to note that the ratio of migrant students was maintained between 1968 and 1975, even though there were enrollment increases in community colleges and other public institutions. These are types of schools that generally do not attract out-of-state students. Before the federal government mandates full portability of the SSIG program, it may well be worth studying the factors that influence student migration between states.

Before any policy is selected, it is important to identify the desired goals and to determine the cost of obtaining those goals. Consideration should be given to how state programs can be coordinated with institutional and federal programs of student aid. State policy makers need to determine the importance of the continued financial health of both the independent and public sectors in the states. Consideration needs to be given to the conditions and amount of student aid and to the tuition levels in the public sector that can affect whether students will be likely to attend college in or out of state. As all these questions are addressed, the final consideration needs to be given to how much states are willing to spend to provide students a choice as well as a chance.

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[3] C. Henderson, "Impact of Expected Population Shifts and Migration Trends of Students in Enrollment of Traditional Age Freshmen in 1985," Policy Analysis Service (American Council of Education, unpublished draft, January 1977).

APPENDIX I

Difference in Largest Net Losses and Gains of Students, 1968 to 1975 Ratio *

STATE	1975	1968	Difference
ALABAMA	.468	.027	.021
ALASKA	-.266	-.563	+.297
ARIZONA	.211	.090	.121
ARKANSAS	-.048	-.005	.043
CALIFORNIA	.095	.014	.081
COLORADO	.129	.190	-.081
CONNECTICUT	-.193	-.216	+.023
DELAWARE	.001	-.043	+.043
DIST. OF COLUMBIA	.519	.610	+.091
FLORIDA	.025	-.023	.048
GEORGIA	.049	.055	.006
HAWAII	.017	-.105	.122
IDAHO	.067	-.076	.143
ILLINOIS	-.053	-.092	-.039
INDIANA	.054	.154	-.100
IOWA	-.012	.059	-.071
KANSAS	.012	.070	-.058
KENTUCKY	.039	.098	-.059
LOUISIANA	.050	.045	.005
MAINE	.020	.037	-.017
MARYLAND	-.086	-.145	.059
MASSACHUSETTS	.039	.155	-.066
MICHIGAN	.066	.058	.008
MINNESOTA	-.093	.030	-.123
MISSISSIPPI	-.020	.019	-.039
MISSOURI	.024	.110	-.086
MONTANA	-.052	-.052	0
NEBRASKA	.021	.115	-.094
NEVADA	-.018	-.118	.100
NEW HAMPSHIRE	.135	.202	-.067
NEW JERSEY	-.331	-.660	.329
NEW MEXICO	-.058	.009	-.087
NEW YORK	-.058	-.081	.023
NORTH CAROLINA	.075	.118	-.113

APPENDIX I, continued

STATE	1975	1968	Difference
NORTH DAKOTA	-.091	-.030	-.061
OHIO	-.029	.032	-.061
OKLAHOMA	.067	.067	0
OREGON	.068	.056	.012
PENNSYLVANIA	-.056	-.031	-.025
RHODE ISLAND	.120	.103	.017
SOUTH CAROLINA	.009	.002	.007
SOUTH DAKOTA	.002	.063	-.061
TENNESSEE	.075	.171	-.096
TEXAS	.051	.037	.014
UTAH	.245	.266	-.021
VERMONT	.247	.367	-.120
VIRGINIA	.023	-.147	.170
WASHINGTON	.016	.042	-.026
WEST VIRGINIA	.064	.182	-.118
WISCONSIN	.001	.106	-.105
WYOMING	-.007	-.065	.058

* The net migration ratio is defined by subtracting the number of students leaving a state to attend college from the number coming from out-of-state. A negative number results if a state is an exporting state, and a positive number occurs if it is an importing state. Enrollment is calculated by a headcount of all degree students, allowing comparisons to be made as enrollment levels change through time and comparisons to be made among states with various enrollment levels.

Source: National Center for Education Statistics, Fall 1975 Survey, preliminary data.

3. STATE CONTROL OF FRAUD, ABUSE AND ERROR

By John Lee

Fraud, abuse and error have become major issues of concern in the student financial aid community. There are many examples of the widespread scope of this problem, yet there are no definitive national data that allow one to determine the nature of the fraud, abuse and error that supposedly exists. Legislation might be precipitously passed to control these abuses but these measures might turn out to be damaging to the system or ineffectual in controlling the problem. On the other hand not enough action may be taken, and errors will continue to result in eligible students not receiving enough assistance while others receive too much. This chapter attempts to describe what states are doing to control fraud, abuse and error. States, as do federal agencies, have very little information on rates of error in their programs. The states, however, have taken more steps to control the error rate in their programs than has the federal government.

The problems of controlling fraud, abuse and error are often larger than the institutions themselves can handle, although a well-run institutional student aid office is the best source of control of these problems. The magnitude and cost of controlling these problems at the federal level is revealed by the recent attempts to validate applications in the Basic Educational Opportunity Grants Program (BEOG). Now that all states have developed student aid programs, it is appropriate to investigate what the state role might be in the control of these problems in the future.

The states are in an excellent position to help control fraud, abuse and error. Preliminary to any other procedures, states can license institutions

to operate. This means that states can provide the minimum basis for operation, cutting out the marginal institutions. States can match student aid applications with state tax forms, audit institutional programs, match applications for state programs with applications for BEOG grants, monitor student academic progress -- even if the students attend different institutions in the state -- and prosecute offenders under state law. States can also administer the information flow between agencies and other levels of government that is necessary for good management. States operating the Education Information Centers can help reduce error rates by providing help to students in the application procedures. Finally, they can help provide the training of student financial aid officers to improve the general quality of management at all levels. The states, standing midway between institutions and federal agencies, are in a unique position to help both.

Definitions

The definitions of "fraud, abuse and error" are not very clear. Fraud is a legal term, and most financial aid officers are hesitant to use the phrase unless there is a conviction in court, which does not happen in most instances. The costs of legal action are higher than any money that could be recovered. Because fraud implies intent, it is very simple in most instances for the student or his parents to plead ignorance or error in filling out the application. In most states, if there is a variance between the student's application and external confirmation of income and assets, the award is either denied, reduced or denied in the future.

There are anecdotal instances of fraud, but little formal data have been organized that allow a determination of the frequency among types of students or programs. There are reports of students taking grants and not attending schools, of using a false identity to gain awards and of submitting false

application information. At the institutional level there are instances where student aid funds have been diverted to other purposes and reports of bribery, kickbacks and other forms of criminal fraud. Again, the reported cases of institutional fraud are too infrequent to determine a pattern.

A special issue that may fall in the area of fraud is the determination of independent (emancipated) student status. The U. S. Office of Education (USOE) estimates that 35 to 40 percent of all eligible applicants for basic grants qualify as independent students. There are some who believe that this high proportion is evidence of fraud while others feel that more older students are taking advantage of educational opportunities that they could not afford in the past. There is no easy way to determine the accuracy of the students' statements of independence and it is only by a very expensive process that a student's claim can be fully verified. Most states and institutions are not willing to undertake such a process. The more stringent federal regulations defining independent student status may reduce the number of students in this category, but there is no way to estimate the number of fraudulent claims of independence.[1]

Error, a more encompassing term than either fraud or abuse, is the one used in this chapter, because it does not imply intent of fraud or abuse on behalf of any of the participants in the student aid transaction. Even without proving intent, it is difficult to determine the magnitude of error rates and the pattern of errors. Studies have been made at different times using different sources of information. Error rates may

[1] Karen J. Winkler, "How Much Fraud in Basic Grants for Students?" The Chronicle of Higher Education (April 4, 1977).

have changed as the rules have changed for applying for student aid. In past years, parents were asked to estimate current income instead of using actual income, and this may have increased error rates. Applications for different programs require different information and may cause some of the confusion. For example, there are significant differences in the information collected on the BEOG application compared to the information collected on the parental contribution form used to apply for institutional student aid programs.[2] The differences result in variations in award size, but not necessarily to the advantage of the student. The results may indicate the complexity and nature of the forms or the timing of the requests for information.

Error may occur at one of several points in the student aid delivery process, the first of which is with the application. Do the student and his parents present a true and complete picture of their financial condition? Another point is the packaging of a specific award with other awards. Does the whole package received by a student exceed the student's need? A third point concerns whether the student actually attends the school after he receives the award. Is it an abuse for a student to receive a student grant as a full-time student but during the school term reduce the school load to part-time and begin to work full-time while keeping the grant? Finally, there may be questions as to whether the operations of the student aid office or institution meet legal and accounting procedure requirements and whether there is opportunity for fraud and error at the state or federal level.

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[2]Paul T. Schonhart, "A Comparison of Reported Incomes: BEOG vs. Parental Contribution Schedule," Journal of Student Financial Aid, vol. 5, no. 2 (May 1975).

Background

There is some evidence to support the charges that there are large error factors in student financial aid programs. Approximately 15 percent of the BEOG applications tend to underestimate income and approximately 6 percent overestimate.[3] An audit of the Illinois scholarship and grant program found that more than 30 percent of the applications surveyed contained income information that varied from data provided on tax forms. Only 5.2 percent of the Illinois sample were disqualified from the program because the application data did not agree with tax information.

A study done from a sample of 130,000 of the 1975-76 basic grant applicants in which the applications were compared with federal tax returns indicates that over 21 percent of all applicants had reported income error by at least $200, 15 percent underreported and 6.2 percent overreported. The overall impact of these errors is probably minimal, but it does warrant an effective monitoring system.[4]

Another national study found that when parental contribution schedules (PCS's) were compared to Internal Revenue Service parental forms, 48.5 percent of the cases differ by more than $100 in parental contribution.[5]

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[3] Sylvia I. Diegnau, "Stretching Your Financial Aid Dollars: Another Look at Income Verification," Journal of Student Financial Aid, vol. 5, no. 3 (November 1975).

[4] Ibid.

[5] J. L. Bowman, "The Impact of Time of Filing on the Accuracy of Parent's Taxable Income Reports for the 1975-76 Processing Year" as presented at an Educational Testing Service Seminar, April 1977, Princeton, New Jersey.

Although, as the study notes, this difference is acceptable in practice, just over 35 percent of these cases should have contributed at least $100 more than they did, while only 13.4 contributed too much. The information was compiled for persons filing between January and March, after the parents' annual income was known. For those who filed the parental contribution schedule before December, the error rate increased to 70 percent. The study points out that the calculations were made on the basis of absolute differences reported in income with no professional judgments or interpretations being made. Such judgments might soften these differences.

In 1972 a sample of student cases was compiled which indicated that the tax paid was more than 20 percent higher or lower than an expected standard tax, or the family's reported income or assets were inconsistent with its standard of living. Of this sample, 56 percent were found to have underreported their income. Unreported assets were a significant factor in the error rate. Extrapolating from the data, the study estimates that 10 to 15 percent of the parental contribution schedule information was unreliable.[6]

There are reports of a strong tendency for low-income families to overestimate income and higher income families to underestimate income on the applications (see footnotes 8, 9 and 12). One report notes that the heaviest tendence to underreport was found in the $12,000 to $18,000 income range and that one explanation for this is that the middle-income group did not qualify under federal program eligibility ranges used at the time and had a difficult time financing postsecondary education costs.[7]

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[6] Grant Curtis, "How Reliable is Parental Contribution Schedule Information? The Case for Central Collection or Analysis of Tax Returns," The Journal of Student Financial Aid, vol. 2, no. 3 (November 1972).

[7] J. S. Collins, "Verification of Parental Income Estimates by Means of Federal Tax Returns," The Journal of Student Financial Aid, vol. 3, no. 3 (November 1973).

Using these studies as a guide, one may reasonably infer that there is a broad error range in student aid applications -- anywhere from 10 to 50 percent. It is difficult to determine if these figures represent a normal range of errors inherent in a system that demands slightly different information on each application or a significant attempt by parents and students to misrepresent income. If the Illinois study is a fair indicator, roughly five percent of awards are improperly given on the basis of misleading application information.

The Student Financial Assistance Study Group in its report to the Secretary of the Department of Health, Education and Welfare points out some of the reasons that student financial aid programs are vulnerable to abuse -- one of the major ones being the lack of information between responsible groups.[8] The current information base is inadequate and no policy makers, except possibly those at the institutional level, know about the total award package available at an institution, in a state or by any other region, student group or types of institution. Verified information is not available until after the fact, and even then there is still some information that is not available -- for example, information on the characteristics of BEOG recipients. The report charges that there has been a lack of appropriate management controls at all levels -- state, federal and institutional -- and that there is little management information available. Closely related are the inadequate staffing and minimal staff training provided student aid professionals at all levels.

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[8] Student Financial Assistance Study Group, A Report to the Secretary (Washington, D.C.: U.S. Department of Health, Education and Welfare, June 1977).

A final set of factors that probably adds to the error rate is the number and complexity of the student aid programs. The number of programs has grown rapidly and undergone innumerable legislative changes. Federal regulations providing guidance to the student aid community are either absent or several years late in some instances. The volume of dollars and awards has increased sharply, providing an increasing management burden on the system.

A number of steps are being taken to improve the general flow of information and management of aid programs. The movement to a common application form and multiple data entry of all the users will help simplify the student application procedures and the processing of the applications. The common application form should also result in a coordinated calendar of events at all levels and a common set of definitions and terms. After a period of initial confusion, the result should be a simpler and more responsive student aid system. When these changes are made, an overall improvement should occur in information flow and management control. There are also at least two federally funded training programs for student aid personnel that should assist in improved management. It makes sense to consolidate these programs and to administer them in a cooperative manner at the state level. These changes and the continuing maturation of the field should result in a reduction of errors in the student financial aid system. Beyond these general improvements in student financial aid management, the states have specific responsibilities for control of errors in student aid programs.

The State Role in Controlling Errors in Student Financial Aid Programs

Some states have a long history of involvement in student financial aid. The state of New York's programs provided the model for many of the federal programs that were developed in the early 1960s. The majority of states, however, have developed student aid programs relatively recently, and the range of program size and of state commitment varies significantly.

The material for this section was developed from the National Association of State Scholarship and Grant Programs' eight annual survey. This information allows a comparison of what forms of control are used and an indication whether the state or institution is responsible for exercising the control. In many instances both levels take responsibility for the tasks. The information in the five tables on the next pages, presented in percentages, was provided by 39 states.[9] Each table has three columns of figures: (a) the percentage of states indicating what form of control is used; (b) the percentage of institutional responsibility for the control; and (c) the percentage of state control. As indicated earlier, in many instances the control is utilized by both levels. Table I shows control on student applications.

[9] Joseph D. Boyd, National Association of State Scholarship and Grant Programs: 8th Annual Survey, 1976-1977 Academic Year (Deerfield, Ill.: Illinois State Scholarship Commission, October 1976).

TABLE I

CONTROL ON STUDENT APPLICATION DATA ACCURACY

	Percentage of Control		
	Form	Institutional	State
Match Against Tax Forms	72%	41%	62%
Match Against BEOG Applications	64%	44%	44%
Match Against Institutional Records	79%	49%	36%
Warnings of Prosecution	62%	26%	33%
Prosecution	28%	10%	23%

Source: Boyd, 1976.

Based on the 39 state responses in the supplement, it is clear that the match against institutional records is the most frequent form of control followed by checks against tax forms. There is very little differentiation between matching applications against BEOG applications and warning of prosecution. Significantly less emphasis is put on actual prosecution, as only 11 states indicated that they prosecuted students for false information while 24 states indicated that they warned students of prosecution. The survey reports that 22 of 41 states responding have authority to penalize applicants who provide fraudulent data. States are much more likely to pursue prosecution and are also more likely to check against tax forms than institutions. Institutions, on the other hand, are more likely to check against their own records. The remaining two areas, match against BEOG applications and warnings of prosection, are equally used by both for control.

Table II indicates the management controls that are used to check on the attendance and progress of state student financial aid recipients. The information indicates that this tends to be an institutional responsibility.

TABLE II

CONTROLS ON ATTENDANCE AND/OR PROGRESS

	Form of Control	Percentage Institutional Control	State Control
Check on Enrollment/Initial Attendance	97%	77%	54%
Check on Midterm Attendance	56%	46%	23%
Check on Course Completion	51%	46%	28%
Check on Academic Progress	56%	54%	38%
Partial Awards	3%	3%	-

Source: Boyd, 1976.

A check on enrollment or initial attendance was reported by all states except one. This is the most frequently used control and it is done most often by institutions, as are all the controls in this table. The term partial award means that if a student begins a term as a full-time student but finishes as a part-time student, the award is reduced accordingly. This approach was reported by only one state.

Table III presents information on the states' techniques for adjusting award size. Again the institutions were most likely to be responsible for these adjustments.

TABLE III

CONTROLS ON AWARD SIZE

	Form of Control	Percentage Institutional Control	State Control
Check to make sure other awards actually made	72%	56%	44%
Match against BEOG campus-based award files	72%	56%	41%
Recheck to insure award adjustments actually made	8%	5%	8%
Second review of aid packages	44%	36%	36%

Source: Boyd, 1976.

From this table it can be assumed that in over 25 percent of the states no check is made of the adjustment of the state award.

Table IV covers state controls on institutional student aid operations and indicates that fewer than half the states perform audits of institutional student aid operations. Given the fact that the federal government itself has carried out very few audits of student aid programs, this appears to be an area where states and federal agencies could cooperate to a greater degree.

TABLE IV

CONTROLS ON INSTITUTIONAL STUDENT AID OPERATIONS

	Form of Control	Percentage Institutional Control	State Control
Independent program audits	46%	10%	44%
Aid officer lending	5%	5%	5%
Aid officer certification	8%	5%	8%
Double signatures on all fund transfers	18%	8%	13%

Source: Boyd, 1976.

Very few controls are imposed by states on institutional program operations. Given the lack of federal audits and other controls, there are two possibilities -- student aid officers are not prone to misuse the funds that are entrusted to them or the magnitude of funds spent improperly because of inadequate audits is not known.

Table V describes the controls imposed by states on themselves. Again, audits are the main form of control used, but a quarter of the states did not report whether or not their operations were audited.

TABLE V

CONTROLS ON STATE ADMINISTRATIVE STAFF OPERATIONS

	Form of Control	Percentage Institutional Control	State Control
Independent program audits	74%	3%	72%
Bonding of staff members	38%	3%	36%
Double signatures on all fund transactions	33%	5%	33%

Source: Boyd, 1976.

Conclusions

States do more than the federal government in controlling error in student aid programs but defer to institutions in most instances. The institutional aid officer appears to be the first line of defense against error. The most frequent check of student aid applicants is with institutional records, and the second most frequent check is to make sure that no excessive awards have been made, which is usually carried out by the institution. The state checks on tax forms and has more ability to carry out prosecution if necessary. States are more likely to carry out institutional audits than the federal

programs, but there are still a number of institutions that are audited infrequently or not at all by either state or federal auditors and that depend on private auditors. The USOE currently requires an audit of student aid offices every two years. The basic conclusion of this chapter is that there is not an adequate definition of fraud, abuse and error. Indeed, up to now there seems to be only piecemeal evidence of the magnitude of the problem. Studies of rates of error in student aid programs have used different samples and different definitions of error. They report rates of error from 20 to 48 percent.

Undoubtedly better management practices, improved and simplified application procedures and better sharing of student aid data bases will reduce the error rate. If this general approach is followed, the appropriate center of error control should be at the institutional level. The states can support this effort by (a) providing institutional audits of all student financial aid with some financial help from federal funds (i.e., could the federal government purchase an audit from the state?); (b) checking all applications, or a sample, against state tax forms and providing the results to both institutions and the BEOG processor; and (c) acting as the appropriate enforcement agency if there is need to pursue cases of outright fraud. Probably total control of fraud, abuse and error is impossible. The costs of controls are too high and the administrative burden would be too great. However, as the questions are addressed, it will take the cooperation of the state, federal and institutional partners to control the problems.

4. STATE RESTRICTIONS ON FINANCIAL AID TO NONPROFIT INSTITUTIONS

By John Lee

The Education Amendments of 1976 added a clause to the State Student Incentive Grant Program (SSIG) mandating that all nonprofit postsecondary institutions be eligible to participate in state programs receiving SSIG funds. The U. S. Office of Education has interpreted "all institutions" to mean all those which participate in the federal student grant programs. Because of the problems which this created in the states, a technical amendment was added, allowing states to exclude institutions where state constitutional restrictions exist. In the 1979-80 Congressional debate on the higher education amendment further liberalization of the law is proposed. The suggested language would allow states to exclude institutions from participating in the SSIG program, if they were excluded by state statute prior to 1978. This amendment to include all nonprofit institutitions apparently was initiated on the belief that students in the independent collegiate sector in some, if not many, states were being excluded from SSIG awards because of restrictive state institutional eligibility rules. This was not the case as in 1976-77 only 53.8 percent of the state student grant dollars went to students in independent colleges (38 percent of the awards with an average award of $833 as compared to $440 per student in public institutions). At the time five state programs totally excluded eligibility for students from independent institutions -- Colorado, Hawaii, Montana, Nebraska and Utah. In 1977-78, in response to the federal legislation, all five of these modified their state program eligibility criteria to include independent college students. One state, South Carolina, excludes aid to students in public colleges. The issue is not relevant in Wyoming, as there are no independent colleges in the state, nor in Nevada, where there was no student grant program prior to 1977-78. Even with these five states excluding independent college students, the major proportion of state grant funds has gone to students in independent colleges.

The issue of nonprofit institutions is much more complicated than the degree to which students from the independent postsecondary sector are included or excluded from participation in state programs wishing to qualify for federal SSIG matching funds. Legal problems involving interpretation of state constitutional, statutory and policy prohibitions involving institutional eligibility must be resolved between the federal government and states if the program is to prosper as a partnership in the area of student financial aid. In general the federal government would like to see that the broadest range of students is assisted. There is some fear that states will arbitrarily limit eligibility in a way that is contrary to federal policy goals. The states, on the other hand, resent federal interference in a program that they perceive as being designed to serve states' needs within the federal Constitution's mandated responsibility of educational programs within their borders.

A number of questions need to be addressed by state and federal policy makers as regards participation in the SSIG program. Although the federal government has allowed states to exclude institutions if the institutions are barred because of state constitutional restrictions, the problem will be sharper in states where institutions are excluded because of state statute or policy statement restricting aid to a class of institutions. For example, some state programs exclude students attending community colleges. Other states exclude students enrolled in nonregionally accredited institutions. Other states exclude students enrolled in business, technical and allied professional programs in noncollegiate postsecondary schools. This has the most immediate impact on students whose educational goals are job rather than degree oriented. State policies on these de facto exclusions are not as clear as de jure exclusion.

As these questions of institutional eligibility are considered, it should be noted that different conditions of eligibility also exist among the various student aid programs operated by the U. S. Office of Education. For example, the list of institutions eligible for the Guaranteed Student Loan Program is much broader than that for the Basic Grant program. This is demonstrable evidence that among federal policy makers there is no general agreement on an optimum set of eligible institutions for all federal student aid programs.

Legal Problems

State constitutional prohibitions are not easy to interpret. Most states have constitutional language that is more restrictive concerning aid to previously denominational institutions (including schools of theology and seminaries) than is the language of the federal constitution, and courts may interpret this language strictly or permissively. Prohibitions against aid to institutions may or may not be interpreted to bar certain institutions from participating in student aid programs. When sectarian institutions are excluded, the definitions of sectarian may or may not also have been clearly specified by the courts. In many states, lacking court decisions, the interpretations of the attorney general may guide legislative and administrative practice.

The most rigid constitutional language, which seemingly excludes students enrolled in both independent and sectarian institutions, is found in the constitutions of Arizona, Colorado, Hawaii, Montana, New York, North Dakota and Washington. However, interpretations in some of these states have allowed aid to be given to students in the independent institutions and denied aid to those at sectarian institutions. Fourteen states have specific language prohibiting aid to students in sectarian schools -- Alaska, California, Illinois, Minnesota, Mississippi, Missouri, Montana, Nebraska, New Hampshire, Pennsylvania, South Carolina, Utah, Virginia

and Wyoming. Again the interpretation of the restrictive language is mixed. Most states on the list exclude students in schools that are of a narrow religious nature from receiving state aid. State courts have also restricted direct aid to some institutions other than sectarian schools. For example, the courts in Pennsylvania declared that the states may not provide direct institutional aid to hospital schools of nursing because they were not independent institutions of higher education according to a 1974 state law establishing formula grants to such institutions enrolling state student grant recipients.

The U. S. Supreme Court has not made a definitive ruling on the legality of aiding students attending sectarian schools. Proponents of student aid argue that higher education is not compulsory and, particularly if the student receives the money, the student should be permitted to carry the award to the type and particular institution of his choice. The challengers are arguing that student aid programs have the primary effect of aiding institutions even though the funds are channeled through students. If the Supreme Court agrees with the challenge, the institutional eligibility definition for each of the federal student aid programs will have to be revised. However, it is expected that the current listings of eligible institutions will be upheld.

A reading of state constitutions does not allow an easy determination to be made about eligibility of students attending independent or denominational colleges. However, the U. S. Office of Education, by its broad interpretation that state matching fund sources may be from other than appropriated funds, has allowed certain states to participate more completely in the SSIG program than otherwise possible by allowing state determined noneligible colleges to make a gift of the required 50 percent matching funds to the state. The state in turn uses the funds to match federal SSIG funds that are returned to the originating institution. This procedure has been used

as a temporary expedient by several states as a means to maintain broad institutional type representation in the SSIG program and by others when state appropriations were insufficient to match federal SSIG allotments.

It is obvious that the range of state legal and policy-based restrictions on student financial aid is diverse. In many instances the exclusions are designed to help reduce the demand for state student aid dollars, while in others it is a way of balancing the cost of attendance at more expensive schools. For example, the states of Delaware, Florida and Hawaii exclude students in community colleges. The most frequently excluded nonprofit institutions are those whose offerings are limited to under two-year vocational programs. This category includes some allied health profession programs offered by hospital schools of nursing as well as trade oriented courses offered by many public vocational/technical schools at the post-secondary level.

Problems of Institutional Eligibility

Institutional eligibility problems are perhaps even more difficult than the constitutional and legal problems. States with laws prohibiting aid to students in a particular sector may disqualify schools because they are not appropriately accredited. This problem applies primarily to under two-year vocational schools and to sectarian institutions that lack the more traditional regional accreditation. States have devised a number of ways to determine institutional eligibility for student aid purposes, many of which differ from those used by the U.S. Office of Education. A major problem still not solved is how the federal government and the states can agree on a list of eligible institutions. One option that has been suggested is to allow each state to determine its own list of eligible institutions.

Table I presents for each state the types of institutions that are excluded from eligibility in state student aid programs and the reasons for exclusion. As indicated earlier, the issue is very complex and lends itself unwillingly to specific tabular categorization. The table is limited to undergraduate need-based grants. In three states -- Alaska, Arizona and Nevada -- there are no programs indicated, as Alaska and Arizona started programs only in 1976-77, and Nevada has no SSIG program prior to 1977-78. Information on proprietary schools and out-of-state attendance is included, even though these are not involved in the current debate.

As shown on Table I, there are nine possible categories of exclusion, and every state has at least one exclusion. The most frequent exclusion is for attendance at out-of-state institutions. Six states have only one exclusion (California, Delaware, Minnesota, New York, South Dakota and Vermont), and four of these have extensive student aid programs. At the other end of the spectrum, five states have at least six exclusions (Colorado, Missouri, South Carolina, Virginia and Montana). It should be noted that several of these states are in the process of modifying their programs to allow a broader range of eligibility. These states are all either in the western or southern areas of the country and none has large student aid programs. Special note should be made that eight areas in the continental United States allow portability of student grants (Connecticut, Delaware, District of Columbia, Massachusetts, New Jersey, Pennsylvania, Rhode Island and Vermont). However, there are current efforts in several of these states to limit out-of-state grants only to states that provide reciprocal grants.

Three appendixes are provided to help in the interpretation of state laws relevant to the student aid eligibility question. Appendix I is a review of state constitutional constraints on aiding private higher education.

Beginning with the first column the prohibitions are of decreasing restrictiveness. All, however, are more restrictive than the First Amendment of the U. S. Constitution. The language, as pointed out earlier, is most relevant to direct aid to institutions. The question of indirect aid through students is much less clear in state constitutional language and interpretation.

There is very little case law in the states to help clarify the priority of aiding students in private schools, especially religious schools. Appendix II provides a listing of court cases from 1970 to 1976 relevant to funding church-related colleges or to students attending them. Appendix III is a review of the state mechanisms for determining eligibility of nonprofit institutions for the student financial aid purposes. The diversity of state procedures is obvious from the list.

In conclusion, any effort to make state SSIG programs more uniform by requiring all nonprofit institutions which participate in federal student grant programs to be included will create difficulty for many states. As noted earlier, 11 states have constitutional constraints on aiding schools of a religious nature. The continuing modification of the legislative language to include all nonprofit schools indicates the difficulty in mandating a single definition of eligibility for all states. There is not even agreement on which institutions should be declared nonprofit institutions of higher education for the purpose of eligibility for student aid. It is obvious that the threat of a nonprofit amendment has already had the desired effect of getting all states to include students in most private colleges, which was the main intent of the amendment. Further extension of institutional eligibility will force some very difficult choices between state autonomy to determine educational policy and federal desire to fund the broadest possible population of students.

TABLE I

INSTITUTIONS EXCLUDED FROM ELIGIBILITY FOR STATE STUDENT AID PROGRAMS
1976-77

State	Excluded Types of Institutions														
	Privates	Publics	Two-Year Jr. College	Hos. Schools of Nursing	Allied Health Programs	Sectarian Institution	Less Than Two-Year Nonprofit	Proprietary	Attendance of Out-of-State Institutions	REASONS FOR EXCLUSION	Constitution	Statute or Policy	Court Ruling	No Restrictions
Alabama					x	x			x					x
Alaska (1)														x
Arizona (1)											x	x		
Arkansas				x	x				x			x		
California									x					x
Colorado	x			x	x	x		x	x		x	x		
Connecticut				x	x			x						x
Delaware					x		x				x			x
District of Columbia				x	x									x
Florida					x			x	x			x		
Georgia					x	x		x	x			x		
Hawaii			x	x	x			x	x		x		x	
Idaho				x	x				x		x			x
Illinois						x	x	x	x			x		
Indiana				x	x	x		x	x			x		
Iowa					x	x		x	x				x	
Kansas				x	x	x		x	x			x	x	
Kentucky					x	x	x		x		x	x		
Louisiana				x	x			x	x					x
Maine (2)		x		x	x				x					x
Maryland				x	x			x	x			x		
Massachusetts					x		x					x		
Michigan				x	x	x	x		x			x		
Minnesota									x					x
Mississippi				x	x			x	x			x		
Missouri				x	x	x	x	x	x		x	x	x	
Montana	x			x	x	x		x	x		x	x		
Nebraska	x					x	x		x		x		x	
Nevada (1)														x
New Hampshire				x	x				x					x
New Jersey					x	x	x	x				x		
New Mexico						x		x	x		x			
New York							x		x		x	x		
North Carolina					x	x			x			x	x	
North Dakota					x			x	x		x	x		
Ohio				x	x	x		x	x			x		
Oklahoma				x	x			x	x					x
Oregon						x		x	x			x		
Pennsylvania						x	x					x		
Rhode Island (3)					x			x						x
South Carolina		x		x	x		x	x	x			x	x	
South Dakota									x					x
Tennessee				x	x	x		x	x			x	x	
Texas				x	x			x	x			x		
Utah				x	x	x		x	x		x			
Vermont							x							x
Virginia				x	x	x	x	x	x		x	x		
Washington				x	x	x		x	x		x	x	x	
West Virginia				x	x		x	x	x			x		x
Wisconsin								x	x					x
Wyoming (4)	x			x	x				x					x
American Samoa			x		x							x		
Guam			x					x						x
Puerto Rico			x	x				x	x			x		
Trust Territory												x		
Virgin Islands				x	x			x				x		

(1) Information is incomplete because there was no active SSIG program at time of study.
(2) Two-year public/vocational/technical only. University of Maine provides own program.
(3) War orphans scholarship provides aid to hospital schools of nursing & proprietary. No general.
(4) No private colleges in state. Source: Compiled from various sources by John Lee.

APPENDIX I

State Constitutional Provisions[1] *

	All appropriations to or in aid of private or sectarian higher education prohibited	All appropriations to or in aid of sectarian higher education prohibited	All appropriations to sectarian higher education prohibited	All appropriations to educational institutions controlled by a sect prohibited	Appropriations to sectarian education from certain funds prohibited	General Religious Freedom Clause: No support, establishment	General Religious Freedom Clause: Free exercise guaranteed	Aid to private corporations prohibited	Loaning state credit prohibited	Miscellaneous provisions
Alabama					x	x		x		x
Alaska			x			x	x			x
Arizona	x				x	x		x		
Arkansas					x	x				x
California			x[6]	x			x	x	x	
Colorado	x	x				x	x	x	x	x[3]
Connecticut					x	x	x			x
Delaware		x				x	x		x	x
Florida					x	x[4]			x	
Georgia						x[4]			x	x[3]
Hawaii	x					x	x			x
Idaho		x				x	x		x	
Illinois				x		x	x			x
Indiana						x	x		x	
Iowa						x	x		x	x
Kansas					x	x	x			
Kentucky		x				x	x		x	x
Louisiana						x	x			x
Maine						x				x
Maryland					x	x			x	x
Massachusetts						x	x	x		x[3]
Michigan						x			x	x
Minnesota				x[5]		x			x	
Mississippi			x			x		x	x	x
Missouri				x		x[4]	x	x		x[3]
Montana	x			x[6]		x	x	x		
Nebraska			x[7]			x	x		x	
Nevada						x[4]				x
New Hampshire				x		x				x
New Jersey					x	x		x	x	x
New Mexico	x					x	x	x	x	
New York		x					x	x		x
North Carolina							x	x		x
North Dakota	x				x				x	
Ohio					x	x	x		x	x[3]
Oklahoma					x	x[4]			x	x
Oregon						x			x	x[3]
Pennsylvania			x		x	x	x		x	x
Rhode Island					x	x				x
South Carolina				x[6]		x	x		x	
South Dakota		x				x[4]	x			x
Tennessee						x	x		x	
Texas					x	x[4]	x	x	x	x[3]
Utah				x[6]		x[4]			x	
Vermont						x	x			x
Virginia			x	x[6]		x	x			x[3]
Washington		x		x		x[4]			x	
West Virginia						x	x		x	
Wisconsin						x	x		x	
Wyoming	x			x		x[4]			x	

* Footnotes, p. 53.

Source: Final Report and Recommendations: Task Force on State Policy and Independent Higher Education, Report No. 100 (Denver, Colorado: Education Commission of the States, June 1977), pp. 49-50.

APPENDIX I Footnotes

[1]Any individual state constitutional provision may contain a clause, or clauses, which is difficult to place exactly in one category (or categories). The serious reader is urged to consult the exact language of each provision. See Legislative Drafting Research Fund of Columbia University, Constitutions of the United States: National and State (Dobbs Ferry, N.Y.: Oceana Publications, Inc., 1969, 1974).

[2]The identification "to or in aid of" signifies a possible juridical distinction between aid directly to institutions and aid indirectly to institutions through, for example, student aid. Indeed, some constitutions use the terminology "directly or indirectly," and the two phrases are used interchangeably here.

[3]This category indicates a provision authorizing a particular program of aid for private colleges or for students attending these colleges, which would circumvent an other more restrictive provision.

[4]This prohibition is stronger than most, prohibiting support in aid of any sectarian institution or purpose.

[5]Rather than control per se, the provision prohibits support for schools where "distinctive doctrines" are "promulgated or taught."

[6]Appropriations to any college controlled in whole or in part by any denomination are prohibited.

[7]Appropriations to any educational institution not exclusively owned or controlled by the state are prohibited.

APPENDIX II

FEDERAL AND STATE COURT DECISIONS -- PUBLIC FUNDS FOR CHURCH-RELATED COLLEGES OR STUDENTS ATTENDING THEM, 1970-76

A. Federal Programs

Type of Aid	Case	Court of Record	Decision Rendered St. Consti.	Fed. Consti.
•Facilities grants	Tilton v. Richardson[1] *	U.S. Supreme		+

B. State Programs

Direct Noncategorical	(a) Roemer v. Board of Public Works[2]	U.S. Supreme (MD)		+
	(b) Iona College v. Nyquist[3]	St. Supreme (NY)	-	-
	(c) Canisius College v. Nyquist[4]	St. Supreme (NY)	+	+
	(d) College of New Rochelle v. Nyquist[5]	St. Supreme (NY)	+	+
	(e) State ex rel. Warren v. Nusbaum[6]	St. Supreme (Wisc.)	-	-
	(f) Citizens for the Advancement of Public Education v. Board of Regents[7]	Fed. District (LA)	-pending-	
uition Grants rriv. Coll. Stu. only)	(a) Americans United v. Bubb[8]	Fed. District (Kan.)		+
	(b) State ex rel. Rogers v. Swanson[9]	St. Supreme (Neb.)	-	-
	(c) Americans United v. Pryor[10]	Circuit Ct. (Ken.)		+
	(d) Opinion of the Justices[11]	St. Supreme (Ala.)	-	-

* Footnotes, pp. 57-58.

APPENDIX II, continued

	(e) Hartness v. Patterson[12]	St. Supreme (SC)	-	
	(f) Smith v. Board of Governors (1976)	Fed. District (NC)	-pending-	
•Tuition Grants (Public and Priv. Coll. Students)	(a) Americans United v. Rogers[13]	St. Supreme (MO)	+	+
	(b) Americans United v. Blanton[14]	Fed. District (Tenn.)		-
	(c) Weiss v. Bruno[15]	St. Supreme (Wash.)	-	
	(d) Lendall v. Cook	St. Supreme (Ark.)	-pending-	
	(e) Smith v. Board of Governors[16]	Fed. District (NC)	-pending-	
•Loans (Public and Priv. Coll. Students)	(a) Durham v. McLeod[17]	St. Supreme (SC)	+	+
	(b) Smith v. Board of Governors[18]	Fed. District (NC)		+
	(c) Washington State Higher Educ. Asst. Auth. v. Graham[19]	St. Supreme (Wash.)	-	
	(d) Miller v. Ayres[20]	St. Supreme (VA)	-	+
	Miller v. Ayres[21]	St. Supreme (VA)	+	+
	(e) State Education Asst. Auth. v. Bank of Statesville[22]	St. Supreme (NC)	+	
•Educational Facil. Authorities	(a) Hunt V. McNair[23]	U.S. Supreme (SC)		+
	(b) Minn. Higher Education Facilities Authority v. Hawk[24]	St. Supreme (MN)	+	+
	(c) California Educational Facilities Authority v. Priest[25]	St. Supreme (CA)	+	+

APPENDIX II, continued

(d) Clayton v. Kervick[26]	St. Supreme (NJ)	+	+
(e) Nohrr v. Brevard County Educational Facilities Authority[27]	St. Supreme (FL)	+	+

Source: Final Report and Recommendations: Task Force on State Policy and Independent Higher Education, June 1977, pp. 47-48.

APPENDIX II Footnotes

[1]403 U.S. 672 (1971).

[2]44 L.W. 4939 (1976).

[3]316 N.Y.S. 2nd 139 (1970). Inasmuch as Iona College was found to be a sectarian institution, the Court concluded it would be ineligible to receive funds under the State or Federal Constitution. Canisius College and the College of New Rochelle (see next two footnotes) were found to be less than pervasively sectarian in the New York court's liberal interpretation of that state's constitution.

[4]320 N.Y.S.2d 652 (1971).

[5]326 N.Y.S.2d 765 (1971).

[6]198 N.W.2d 650 (1972). An arrangement whereby state funds for a dental school at Marquette University flowed directly to Marquette, without adequate restrictions to insure that funds would be used only for the secular purposes of the dental school, was found to violate the constitution. The court indicated, however, that a statute could constitutionally be drawn to sufficiently segregate the funds without dissolving the dental school as a part of the University. See State ex rel. Warren v. Reuter, 170 N.W.2d 790 (1969).

[7]Action has been filed in Louisiana against that state's program of institutional aid. No secular use clause was contained in the statute, and the defendants are attempting to remedy the defects in the statute at this time.

[8]379 F.Supp. 872 (1974).

[9]219 N.W.2d 726 (1974). Failure to restrict the funds to "secular subjects" was a principal defect in the statute.

[10]Franklin Circuit Court Civil Action No. 84114, March, 1974.

[11]280 So.2d 547 (1973). The program was found to fail the entanglement test.

[12]179 S.E.2d 907 (1971). The program was found to violate the state constitutional proscription disallowing aid "indirectly" to church-related colleges.

[13]State Supreme Court No. 59410, 26 July 1976.

[14]384 F. Supp. 714 (1974). The program failed due to the lack of a "secular purposes only" restriction. The case was appealed to the U.S. Supreme Court but remanded following statutory changes. A revised challenge is purportedly in the works.

APPENDIX II Footnotes, continued

[15]509 P.2d 973 (1973). The strict constitution of the state was violated.

[16]Three student aid programs are being challenged in the Smith case: two tuition grant programs available to private college students only. One need-based, the other an offset grant to every student -- and one public-private need-based scholarship program matching the federal SSIG funds. The state's loan program has already been upheld by the district court for want of a substantial federal question (see footnote 18).

[17]192 S.E.2d 202(1973). Appeal dismissed by the Supreme Court for want of a substantial question, 413 U.S. 902 (1973).

[18]Federal District Court, No. C-C-76-131, June 16, 1976.

[19]529 P.22 1051 (1974). The strict constitution of the state was violated.

[20]191 S.E.2d 261 (1972). The Virginia Constitution prior to 1974 prohibited grants to students but allowed loans. Under the first court test the "loans" repayable in academic work were found to be grants in violation of the state constitution.

[21]198 S.E.2d 634 (1973). A refashioned loan program with repayments to be made in dollars or service to the State was held to be constitutional.

[22]276 N.C.576 (1970). The case was decided on the "public purpose" nature of the appropriation. Church-state issues were not raised.

[23]413 U.S.734 (1973).

[24]232 N.W.2d 106 (1975).

[25]526 P.2d 513 (1974).

[26]267 A.2d 503 (1970), 285 A.2d 11 (1971). Case was remanded in light of the 1970 decisions of the U.S. Supreme Court. The New Jersey court sustained its earlier ruling in favor of the statute.

[27]247 So.2d 304 (1971).

APPENDIX III

Accrediting Mechanism for Determining Eligibility of Non-Profit Institutions for State Student Aid

National/Regional Accrediting Ass.

hio
laska
o. Carolina
alifornia
ew Mexico
ontana
ew Hampshire
aine
ashington
rizona
Missouri
New Jersey
Minnesota
Alabama
So. Dakato
Colorado
Tennessee
Kentucky
So. Carolina
Kansas
No. Dakota
Guam
Louisiana
Iowa
W. Virginia
Olkahoma
Hawaii
Oregon
Delaware
PENNSYLVANIA

Professional Accrediting A

Alaska
Maine
Connecticut
New Jersey
Alabama
So. Dak
Guam
Delawar

State Accrediting List

No. Carolina
Vermont
California
Illinois
New Hampshire
Maine
New Jersey
Alabama
Nevada
So. Dakota
Kentucky
Maryland
So. Carol
Guam
Wisconsin
Iowa
W. Virgin
Maine
Washingto

Basic Grant Approved Schools

orth Carolina
alifornia
ew Hampshire
No. Dakota
Guam
Delaware

Guaranteed Loan Approved Schools

Vermont
New Hampshire
Gaum
Wisconsin
Louisiana
Delaware

V.A. Approved Schools

New Hampshire
Gaum
Delaware

Other

Ohio
Illinois
Rhode Island
Michigan
Virginia
Iowa
Oklahoma

Specify

Board of Regent
Scholarship Commission
Nonprofit Status
State Board of Education
Attorney General
NCA - Accredited Iowa Schools
State Board of Regent

Not Applicable

Wyoming
Nebraska

APPENDIX III, continued

NO INFORMATION

Arizona
Arkansas
District of Columbia
Florida
Georgia
Idaho
Indiana
Kansas
Massachusetts
Mississippi
Nebraska
New York
Texas
Utah

Source: Compiled by John Lee and Kent Weldon.

5. STATE STUDENT INCENTIVE GRANT PROGRAM ALLOCATION FORMULA

By John Lee and Jane Muller

The current allocation formula used to distribute State Student Incentive Grant Program (SSIG) funds to states is an arbitrary formula based on the number of students enrolled in institutions of higher learning. Some policy makers question the basis for this procedure and are curious whether or not the current allocation formula favors certain states at the expense of others. This chapter examines the mechanics of this distribution formula and investigates alternative formulas that might be employed to distribute federal funds to the various states. The intent is to enable a better understanding of possible state-by-state variation as regards funding related variables and the way such variation may have impact on a state's student assistance allocation.

Current State Student Incentive Grant Program Allocation and the Higher Education General Information (HEGIS) Survey

The present SSIG allocations among the states are distributed pursuant to the following guidelines:

> ...the Commissioner shall allot to each State an amount which bears the same ratio to such sums as the number of students in attendance at institutions of higher education in such State bears to the total number of such students in such attendance in all the States.[1]

In addition, the U. S. Commissioner of Education is further authorized to use attendance data for the most recent year for which satisfactory data are available. The necessary data required by this guideline are obtained from the HEGIS survey.

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[1] A Compilation of Federal Education Laws, As Amended Through Dec. 31, 1974 (Washington, D.C.: Government Printing Office, Feb. 1975), p. 284.

Institutions are included in the HEGIS survey on the basis of their inclusion in the higher education section of the Education Directory, Colleges and Universities published by the National Center for Education Statistics (NCES).[2] The Division of Eligibility and Agency Evaluation of the Bureau of Higher and Continuing Education of the U.S. Office of Education (USOE) is the federal office that verifies institutional eligibility for inclusion in the directory. All eligible institutions participate in the HEGIS survey.

Criteria for inclusion are stated in the introduction of the directory. and all institutions in the United States and its outlying areas are listed if they meet the following requirements: (1) they are legally authorized to offer and are offering at least a two-year program of college-level studies in residence or, if nonresident in nature, they are either accredited or preaccredited by an accrediting agency recognized for such purpose by the U.S. Commissioner of Education; (2) they have submitted the information required for listing; and (3) they meet one of the traditional criteria for listing as institutions of higher education.

These criteria include:

- Institutions accredited by a nationally recognized accrediting agency or approved by a state department of education or by a state university.
- Institutions that have attained a preaccredited status with designated nationally recognized accrediting agencies.
- Institutions not meeting requirements of criterion one or two, if it can be confirmed that their credits have been and are accepted as though coming from an accredited

[2] Washington, D.C.: Government Printing Office, published annually.

institution by not fewer than three institutions accredited by nationally recognized accrediting agencies.

The second part of the first criterion, the clause relative to accreditation by a state university, is no longer applicable. In addition, while about 40 states have institutions that are approved by their state departments of education, only 14 institutions within these states rely on this single means of accreditation; most of the institutions have additional forms of accreditation to make them eligible for inclusion in the directory. Approximately 150 institutions are included in HEGIS on the basis of the third criterion.

In the past a user of the Education Directory could not identify which criteria apply to specific institutions. However, beginning with the 1976-77 edition, a new coding system enables the reader to make these distinctions. Each institution included in the directory is accorded a Federal Interagency Committee on Education (FICE) code number. This number is unique for each institution and, except for certain provisions listed in the directory, remains the identification number for that institution as long as it is in operation. Should that institution cease to exist, its number is deactivated. A new FICE code classification will ultimately replace the present classification system for universities and other four-year and two-year institutions, based primarily on the institutions' emphasis on student levels. However, this change will be gradual and the two systems will exist side-by-side for a number of years.

The total enrollment of students in each institution, or in each component of multicampus institutions, includes undergraduate and graduate, resident, extension, full-time and part-time students. Excluded are students in non-credited adult education courses, students taking courses at home or by correspondence, radio or television, students enrolled only for "short courses," auditors, students studying abroad and students enrolled at a branch campus or extension center of an American institution in a foreign country.

In summary, the Education Directory and its listing of institutions approved by the USOE Division of Eligibility and Agency Evaluation form the basis for inclusion in the HEGIS survey. The enrollment data collected through the HEGIS survey is important, since it provides the basis for the SSIG allocation formula. The question is whether or not there are consistent biases in the data that tend to favor certain states and whether or not alternative formulas appear to provide greater equity between the states.

State Variation in Reporting

A major problem in higher education is the inability to make meaningful comparisons of student enrollment figures. Presently the only common method of computing enrollment is by headcount, which has not proved helpful for the purpose of analyzing enrollment data because there is no way to distinguish between full- and part-time students. In many instances, to alleviate this problem, students are counted on the basis of full-time equivalent (FTE) enrollment. The FTE standard varies between states, which is a fact recently documented by Janice W. Rhodes and Charles M. Temple of of the University of Tennessee at Chattanooga in a research study.[3]

[3] Calculation of Full-Time Equivalency Enrollment In Fifty States (The University of Tennessee at Chattanooga, Nov. 1976), p.40.

This study substantiates the thesis that a major discrepancy exists in calculating full-time enrollment on a nationwide basis. The study also raises a number of questions as to how regional comparisons can be made when the FTE basis for the data is not standard. In addition to state-by-state variation in FTE calculation, it is important to note that variation also exists among institutions within a state, since various types of institutions calculate the data differently.

For the purpose of the HEGIS survey -- and ultimately for the data base on which the SSIG allocation rests -- guidelines are offered for the calculation by institutions of full-time students: "Full-time students are those whose academic load-course work or other required activity is at least 75 percent of the normal full-time load." The guidelines go on to define normal full-time load as "initially determined by dividing the total number of credits required for completing the program by the number of terms normally required to obtain them."[4] It is obvious that these guidelines are ambiguous and encourage considerable state-by-state variation in the way in which FTE figures are calculated and reported.

In an attempt to understand more fully the specific ways in which institutions report full-time enrollment for HEGIS, a telephone survey of a number of states was conducted in 1975. These states were selected on the basis of their having a central coordinating agency for HEGIS data and an individual within the agency designated at the HEGIS coordinator. The 1975-76 Education Directory reports that NCES has such cooperative arrangments with 35 states. In 29 of these states, state officials handle

[4] Opening Fall Enrollments in Higher Education (Washington, D.C.: Dept. of Health, Education and Welfare, U.S. Office of Education, 1974), p. 1125.

the mailings and data collection for all institutions and in 6 states for selected institutions. In the states with which NCES has no cooperative data-collection arrangement, an extra copy of each form that is to be completed and mailed to the state department of education is included in the packages mailed to specific institutions.

The telephone survey revealed considerable variability in the reporting of data. In addition to the HEGIS guidelines, several states apply their own specific definitions in an attempt to develop uniformity in the state. Therefore, it must be assumed that there is significant interstate variation in HEGIS reports. This conclusion should be tempered by the understanding that institutions provide their own information and that the state does not mandate the form or definitions. For this reason it cannot be concluded that there are statewide biases in the number of students counted for HEGIS. The survey also confirmed that considerable variation exists in interstate institutional reporting. While these inconsistencies may be viewed by some as appropriate, given program variety and state prerogative for education, they do contribute to a lack of uniformity when it comes to provisions for federal allocations for student assistance. The HEGIS state coordinators agree that ambiguity of definitions presents problems, both intrastate and interstate, for data collection and analysis. Clearly there is considerable variety in state reporting of enrollment information. In addition, it is possible that this reporting mechanism grants a special advantage to certain states when it comes to actual SSIG allocations; but there is no way to document this without a more detailed research study.

The Allocation Process and Questions of Equity Among the States

Unlike other student assistance programs, the SSIG program uses a total enrollment figure for calculating allocations. This figure includes full-time, part-time, graduate, degree and nondegree students. In addition enrollment figures from eligible proprietary institutions are included in the total enrollment figure. A funding level per each enrolled student is based on the total dollars available and total enrollment figures, except for the Canal Zone. This per student amount is then multiplied by the number of students enrolled by each state.[5]

A number of factors may bias the enrollment data, and thus the SSIG allocation, in the decision of certain states. In addition to possible discrepancies in the definition of full-time students, the number of part-time students and graduate enrollments and the number of nondegree and nonresident students may tend to favor certain states. In order to determine the impact of alternative enrollment figures on SSIG allotments, it is possible to identify the 10 states receiving the largest estimated entitlements for 1977, based on 1974 enrollments. These states are California, New York, Texas, Illinois, Pennsylvania, Michigan, Ohio, Massachusetts, Florida and New Jersey (see Table I for amounts of entitlements). Questionable is whether or not the allocation formula consistently works to the advantage of any of these states.

[5] From unpublished information provided by NCES.

TABLE I

STATE STUDENT INCENTIVE GRANT
ENTITLEMENTS -- 1977
(BASED ON 1974 ENROLLMENTS)

State	Total Dollars in Millions
California	$9,391
New York	5,386
Texas	3,147
Illinois	3,011
Pennsylvania	2,618
Michigan	2,589
Ohio	2,347
Massachusetts	2,065
Florida	1,782
New Jersey	1,603

Source: State Student Incentive Grant Program, unpublished materials.

• Part-Time Students: The use of gross headcount as a determinant for SSIG allocations allows states with a large proportion of part-time students more funds than states with fewer part-time students. (It should be noted that less-than-half-time students are not eligible to receive an SSIG award.) From an examination of the ratio of part-time to full-time students in each of the states based on NCES reports of 1976 fall enrollment, it is apparent that certain states have proportionately more part-time students than other states, notably Alaska, California, Maryland, New Jersey and Nevada, of which only California appears in Table I. If the ratio of .7 part-time student to each full-time student is used as a criterion, another seven states and the District of Columbia appear to have an advantage, at least in terms of the proportion of part-time students enrolled -- Arizona, Connecticut, Florida, Illinois, Michigan, Texas, Virginia and the District of Columbia. Of these only Illinois, Michigan and Texas appear in Table I.

Table II shows the impact of excluding certain categories of students from the enrollment count. The first column is the current SSIG allotment; the second column is the headcount on which that allotment is based; column three

TABLE 41

CHANGES IN SSIG ALLOTMENTS BY EXCLUDING CERTAIN STUDENT CATEGORIES

STATE	1 Current SSIG Allotment (Dollars)	2 Headcount Including Proprietary	3 2/3 of Part-Time Students	4 Graduate Students	5 Nondegree Students	6 Total: Col. 2 minus Cols. 3, 4 & 5	7 Revised SSIG Allotment
Alabama	$ 905,176	165,926	37,878	13,870	11,755	102,423	$1,026,080
Alaska	80,149	14,692	6,249	1,286	867	6,290	60,000
Arizona	876,208	160,616	42,928	17,620	24,671	75,397	756,000
Arkansas	323,085	69,224	9,247	4,992	2,457	52,528	528,000
California	9,391,679	1,721,570	570,470	151,769	327,593	671,738	6,762,000
Colorado	806,206	147,784	27,726	15,624	15,921	88,513	888,000
Connecticut	833,564	152,799	39,709	26,020	1,409	85,661	858,000
Delaware	204,530	37,492	7,429	1,746	2,224	26,093	258,000
District of Columbia	470,269	86,204	21,904	18,462	125	45,713	456,000
Florida	1,782,982	326,835	81,574	22,008	38,444	184,809	1,860,000
Georgia	1,054,542	193,306	30,416	23,024	8,949	130,917	1,314,000
Hawaii	246,481	45,182	9,262	3,639	7,916	24,365	240,000
Idaho	198,535	36,393	6,531	3,032	3,178	23,652	234,000
Illinois	3,011,685	552,066	151,039	68,317	82,481	250,229	2,520,000
Indiana	1,283,228	235,226	41,954	33,205	11,793	148,234	1,488,000
Iowa	649,633	119,083	13,394	12,090	13,058	80,541	810,000
Kansas	655,989	120,248	22,806	14,993	6,282	76,247	768,000
Kentucky	711,682	130,457	23,234	15,645	9,487	82,091	822,000
Louisiana	842,544	154,445	24,556	16,687	4,087	109,115	1,098,000
Maine	216,935	39,766	6,274	1,949	3,670	27,873	276,000
Maryland	1,043,391	191,262	55,212	23,036	25,027	87,987	882,000
Massachusetts	2,065,311	378,588	76,709	52,976	24,694	224,209	2,256,000
Michigan	2,589,052	474,594	130,733	52,946	87,169	203,746	2,052,000
Minnesota	1,149,579	210,727	32,045	20,481	7,239	151,022	1,518,000
Mississippi	484,943	88,894	13,553	9,894	11,329	54,118	540,000

TABLE 11 continued

STATE	1 Current SSIG Allotment (Dollars)	2 Headcount Including Proprietary	3 2/3 of Part-Time Students	4 Graduate Students	5 Nondegree Students	6 Total: Col. 2 Minus Cols. 3, 4 & 5	7 Revised SSIG Allotment
Missouri	$1,135,760	208,194	46,438	23,130	14,521	124,105	$1,248,000
Montana	173,773	31,854	3,138	2,332	1,475	24,909	250,800
Nebraska	425,126	77,929	13,056	7,235	4,998	52,640	528,000
Nevada	155,323	23,472	2,704	1,835	7,208	11,725	114,000
New Hampshire	204,432	37,474	3,407	2,223	3,444	28,400	282,000
New Jersey	1,603,203	293,880	79,448	39,588	21,358	153,406	1,542,000
New Mexico	308,355	56,524	11,000	5,606	1,863	38,115	378,000
New York	5,386,780	987,440	241,905	144,693	17,075	583,767	5,880,000
North Carolina	1,314,983	241,047	38,315	19,836	47,889	135,007	1,356,000
North Dakota	164,357	30,128	2,928	1,773	3,279	22,228	222,000
Ohio	2,347,426	430,302	84,754	46,374	51,219	247,995	2,496,000
Oklahoma	815,453	149,479	29,798	16,701	8,816	94,184	948,000
Oregon	791,095	145,014	36,177	11,555	32,908	64,374	648,000
Pennsylvania	2,618,107	479,920	91,606	53,558	37,924	296,912	2,988,000
Rhode Island	334,748	61,362	16,128	7,305	2,786	35,143	354,000
South Carolina	657,025	120,437	23,353	12,408	8,402	76,294	768,000
South Dakota	160,588	29,437	3,398	2,292	1,102	22,645	228,000
Tennessee	990,742	181,611	31,311	19,399	5,381	125,520	1,260,000
Texas	3,147,915	577,038	125,372	58,871	56,784	336,011	3,384,000
Utah	456,505	83,681	12,764	7,210	9,511	54,196	540,000
Vermont	154,325	28,289	4,030	1,981	921	21,357	210,000
Virginia	1,223,422	224,263	57,969	28,079	17,067	121,148	1,218,000
Washington	1,185,906	217,386	51,000	12,591	51,310	102,405	1,026,000
West Virginia	410,353	75,221	15,708	10,747	6,414	42,412	426,000
Wisconsin	1,322,501	242,425	48,800	23,752	52,563	117,310	1,176,000
Wyoming	108,108	19,817	5,670	1,423	2,240	10,404	102,000

Sources: National Center for Education Statistics data sheets, Cols. 1-2.
1974 fall enrollments, NCES, Cols. 3-5.

subtracts two-thirds of the part-time students from the headcount on the assumption that three part-time students are equal to one full-time student; and columns four and five subtract graduate and nondegree students. The last column gives the state allotment that could result following these subtractions. In terms of dollars--California, Illinois, Michigan and Washington would lose funds and New York, Pennsylvania, Georgia and Tennessee would gain significantly. In most instances, changes in total dollars allocated to a state would not significantly change the ranking of the states relative to one another. Exceptions to this are Minnesota and Tennessee as both states would gain dollars and relative rank at the same time.

- Graduate Students: States with a large proportion of graduate students are able to attract more SSIG funds, even though graduate students are not eligible for the grants. For 1976-77, states where graduate degree credit enrollment is 12 percent or more of undergraduate enrollment are:

TABLE III

States With 12 Percent or More Enrollment
In Graduate Program 1976-77

Connecticut (17%)	Kentucky (13%)
Indiana (16%)	Virginia (13%)
New York (15%)	Illinois (12%)
West Virginia (15%)	Maryland (12%)
Georgia (14%)	Minnesota (12%)
Massachusetts (14%)	Oklahoma (12%)
New Jersey (14%)	Rhode Island (12%)
Kansas (13%)	

Source: Based on 1977 data from NCES.

Of these states, only New York, New Jersey and Massachusetts are among the 10 states receiving the largest allotments.

• Degree Credit/Nondegree Credit: Nondegree credit students are not eligible for SSIG funds but are included in the HEGIS enrollment data used to determine the states' SSIG allotments. States with the largest proportion of nondegree enrollment for 1976-77 include:

TABLE IV

States With Largest Proportion of Nondegree Enrollment 1976-77

Nevada (38%)	California (26%)
Washington (32%)	Michigan (24%)
Wisconsin (31%)	Hawaii (22%)
Oregon (31%)	Arizona (20%)
North Carolina (27%)	Illinois (19%)

Source: Fall Enrollment in Higher Education, NCES, 1974.

Only California, Illinois and Michigan are states in the top 10 category of receivers.

An alternative to changing the current HEGIS procedures is to develop an alternative base for the allocation of SSIG funds. There are two reasons why this might be considered. First, the current allocation formula rewards states that import students. Nonresident students are included in the enrollment calculations and thus provide increased funds, although they are not eligible for awards; other states lose students, and their share of SSIG funds decreases. Thirty-four states have a net import of students and seventeen states have a negative net migration. In other words, the latter states actually lose students for the purpose of headcount enrollment. A second reason for consideration of changing the current allocation base is that it rewards states that traditionally have high enrollment rates in postsecondary education.

Alternatives that have been suggested include using a measure of population such as the state's resident population or the 18-24 year old population, the traditional college age group. An alternative recommended by

the National Association of State Scholarship and Grant Programs would utilize the high school graduate population as a base. Based on the current SSIG formula and using fall 1974 enrollment figures, California, New York, Texas, Illinois, Pennyslvania, Michigan, Ohio, Massachusetts, Florida and New Jersey, respectively, receive the largest amounts. Table V reveals that regardless of how the allocation is calculated California and New York receive the most funds, and in all but the formula based on high school graduates Texas remains the third highest. The general variable of population size obviously influences all of these formulas.

Apparently the amount of funds allocated to the states would be determined largely by the size of the state's population. However, these alternative formulas ought to be considered, if they prove to be more appropriate in terms of the goals of the program. Summarizing the information in Table V indicates that California benefits most from the current SSIG allocation formula based on enrollment, while Florida and Illinois appear to have an advantage if resident population figures are used. Massachusetts would have a slight advantage over the present method if funds were based on degree credit full-time enrollment. New Jersey, an exporting state, would benefit more if the allocation were based on resident population, New York if degree credit full-time enrollment were used and Ohio if the resident population, or resident population age 18-24 or the number of high school graduates, were used. The distribution in Texas and Michigan remains fairly constant regardless of which formula is used.

The most notable variation in total amount received is between the present allocation method for California and the other alternative formulas. A number of states would not have significant changes in the amount of money received regardless of which formula was used to

TABLE V

TEN STATES RECEIVING THE LARGEST SSIG ALLOCATIONS, BASED ON FIVE ALTERNATIVE ALLOCATION FORMULAS: 1974 DATA (IN MILLIONS)

CURRENT FORMULA		RESIDENT POPULATION ALL AGES		RESIDENT POPULATION AGES 18-24		HIGH SCHOOL GRADUATES		DEGREE CREDIT FULL-TIME ENROLLMENT	
STATE	DOLLARS	STATE	DOLLARS	STATE	DOLLARS	STATE	DOLLARS	STATE	DOLLARS
California	$9,391	California	$5,934	California	$6,132	California	$5,670	California	$7,500
New York	5,386	New York	5,142	New York	4,740	New York	4,896	New York	5,784
Texas	3,147	Texas	3,420	Texas	3,612	Pennsylvania	3,198	Texas	3,324
Illinois	3,011	Pennsylvania	3,366	Pennsylvania	3,126	Texas	3,126	Illinois	2,808
Pennsylvania	2.618	Illinois	3,162	Illinois	3,066	Ohio	3,096	Pennsylvania	2,808
Michigan	2,589	Ohio	3,048	Ohio	3,036	Illinois	2,952	Ohio	2,448
Ohio	2,347	Michigan	2,580	Michigan	2,670	Michigan	2,670	Michigan	2,364
Massachusetts	2,065	Florida	2,298	Florida	2,064	New Jersey	1,932	Massachusetts	2,238
Florida	1,782	New Jersey	2,082	New Jersey	1,836	Florida	1,866	Florida	1,722
New Jersey	1,603	Massachusetts	1,644	North Carolina	1,662	Indiana	1,560	New Jersey	1,566

Source: Based on unpublished data provided by NCES.

allocate funds. The next section discusses what happens to state allocations when very different data are employed for determination of the allocation of funds.

Alternatives

The State Student Incentive Grant Program (SSIG) was designed to achieve two basic objectives: to promote access and choice for needy students and to foster maximum state participation in student financial aid. While it is not the intent of this chapter to advocate particular goals, it does seem appropriate to ask whether or not state allocations would vary if programmatic goals were taken into account in the development of the funding formula. This section examines what might occur if these two objectives -- need and state funding of higher education -- are used in the SSIG allocation formula.

Table VI compares SSIG dollars allocated on a state-by-state basis when the formula is based on state and local expenditures for post-secondary education and a total appropriation of $60 million for the SSIG program. The top 10 states receiving the largest allocations based on this formula include:

TABLE VI

Top 10 States if Funds are Allocated on State and Local Expenditures for Post-secondary Education

California	$7,273,800	Ohio	$2,706,600
New York	4,546,200	Florida	1,948,200
Texas	3,475,200	Wisconsin	1,917,000
Illinois	3,306,600	Pennsylvania	1,721,000
Michigan	3,147,000	North Carolina	1,697,400

Source: U. S. Bureau of Census, Governmental Finances in 1974-75.

Again, the three largest states are California, New York and Texas. It is interesting to note that under this formula Missouri ranks last

of the 50 states in SSIG funds; while under the alternative formulas discussed in the previous section, Missouri ranked well in the top third of the states.

Table VII shows what the SSIG allocation would be if a measure of need (families on Aid to Dependent Children) and the number of basic grant recipients were used in the allocation formula. The total SSIG funding per state represents 50 percent of the total of the two factors. While the use of Aid to Dependent Children (ADC) data is highly questionable, due to a tendency to skew the data in the direction of certain states, for the purpose of this analysis it provides a figure from which a measure of need may be calculated. Perhaps other measures of need would be more effective, such as the number of students receiving Basic Educational Opportunity Grants (BEOG), or a fifty-fifty combination of ADC and BEOG. Based on a formula combining ADC and BEOG, the following 10 states ranked highest in terms of funding in millions.

TABLE VII

Top 10 States if Funds Are Allocated on the Basis of ADC and BEOG

California	$6.8	Ohio	$3.2
New York	5.6	Texas	2.6
Illinois	3.7	New Jersey	2.3
Pennsylvania	3.4	Massachusetts	2.0
Michigan	3.2	Florida	1.6

Source: Public Assistance Statistics, January 1977; U. S. Department of Health, Education and Welfare, National Center for Social Statistics.

National Education Association estimates, 1975-76.

Table VIII ranks the states for each of the seven alternative allocation formulas discussed previously. In each case the allocations were calculated on the basis of a $60 million SSIG appropriation to allow for

TABLE VIII

RANKING OF STATES UNDER SEVEN ALTERNATIVE FORMULAS FOR ESEA ALLOCATIONS:
BASED ON $60 MILLION APPROPRIATIONS AND 1974 DATA
(IN MILLIONS)

STATE	CURRENT FORMULA		RESIDENT POPULATION-ALL AGES		RESIDENT POPULATION AGES 18-24		HIGH SCHOOL GRADUATES		DEGREE CREDIT FTE		STATE/LOCAL EXPENDITURES		50% ADC/HSG	
	DOLLARS	RANK	DOLLARS	RANK	DOLLARS	RANK	DOLLARS	RANK	DOLLARS	RANK	DOLLARS	RANK	DOLLARS	RANK
ALABAMA	$ 900	21	$1,014	21	$1,020	22	$1,080	22	$ 978	21	$1,112	19	$ 964	22
ALASKA	80	52	96	51	120	50	144	49	102	51	153	47	73	51
ARIZONA	876	22	612	32	612	32	570	34	828	26	907	24	464	34
ARKANSAS	323	39	588	33	546	33	552	35	378	38	444	34	557	32
CALIFORNIA	9,400	1	5,934	1	6,132	1	5,670	1	7,500	1	7,273	1	6,849	1
COLORADO	806	26	708	28	810	26	768	27	852	25	1,127	17	621	31
CONNECTICUT	833	24	876	24	822	25	852	26	894	23	559	32	825	24
DELAWARE	204	43	162	48	168	47	180	47	204	46	273	38	177	46
DISTRICT OF COLUMBIA	470	34	204	44	228	41	150	48	516	33	137	50	314	38
FLORIDA	1,782	9	2,298	8	2,064	8	1,866	9	1,722	9	1,948	7	1,618	10
GEORGIA	1,054	18	1,386	14	1,446	14	1,308	17	1,200	16	1,113	18	1,367	12
HAWAII	246	41	240	40	282	39	252	44	240	41	390	36	278	40
IDAHO	198	45	228	41	228	42	264	41	216	45	241	40	178	45
ILLINOIS	3,011	4	3,162	5	3,066	5	2,952	6	2,808	5	3,306	4	3,698	3
INDIANA	1,283	13	1,512	12	1,530	13	1,560	10	1,470	11	1,601	11	1,289	14
IOWA	649	31	810	25	774	27	930	24	738	28	1,014	21	695	28
KANSAS	655	30	642	31	678	30	762	28	726	29	736	27	549	33
KENTUCKY	711	28	954	23	972	23	966	23	792	27	952	23	999	21
LOUISIANA	842	23	1,068	20	1,122	20	1,098	21	996	20	801	26	1,148	18
MAINE	216	42	300	38	282	38	288	39	240	42	222	43	321	37
MARYLAND	1,043	19	1,164	18	1,182	17	1,212	18	966	22	1,284	16	1,175	16
MASSACHUSETTS	2,065	8	1,644	10	1,554	11	1,554	11	2,238	8	1,007	22	1,850	9
MICHIGAN	2,589	6	2,580	7	2,670	7	2,670	7	2,364	7	3,147	5	3,173	5
MINNESOTA	1,149	16	1,110	19	1,140	19	1,368	15	1,362	12	1,410	14	1,036	19
MISSISSIPPI	484	33	660	29	684	29	582	32	450	36	649	30	808	25

TABLE VIII, continued

STATE	CURRENT FORMULA DOLLARS	RANK	RESIDENT POPULATION-ALL AGES DOLLARS	RANK	RESIDENT POPULATION AGES 18-24 DOLLARS	RANK	HIGH SCHOOL GRADUATES DOLLARS	RANK	DEGREE CREDIT FTE DOLLARS	RANK	STATE/LOCAL EXPENDITURES DOLLARS	RANK	50% ADC/HSG DOLLARS	RANK
MISSOURI	$1,135	17	$1,356	15	$1,320	15	$1,344	16	$1,218	15	$ 101	51	$1,417	11
MONTANA	173	46	210	43	210	44	282	40	216	44	238	41	185	43
NEBRASKA	425	36	438	35	444	35	468	36	456	35	465	33	327	36
NEVADA	155	49	162	47	150	48	138	51	120	50	153	48	114	49
NEW HAMPSHIRE	204	44	228	42	222	43	228	46	234	43	210	45	184	44
NEW JERSEY	1,603	10	2,082	9	1,836	9	1,932	8	1,566	10	1,501	13	2,258	8
NEW MEXICO	308	40	318	37	336	37	420	37	336	40	400	35	728	27
NEW YORK	5,386	2	5,142	2	4,740	2	4,896	2	5,784	2	4,564	2	5,564	2
NORTH CAROLINA	1,314	12	1,524	11	1,162	10	1,374	14	1,284	13	1,697	10	1,311	13
NORTH DAKOTA	164	47	180	46	192	46	228	45	186	48	234	42	150	47
OHIO	2,347	7	3,048	6	3,036	6	3,096	5	2,448	6	2,706	6	3,155	6
OKLAHOMA	815	25	768	27	762	28	756	29	876	24	692	29	654	29
OREGON	791	27	642	30	636	31	612	31	696	31	861	25	635	30
PENNSYLVANIA	2,618	5	3,360	4	3,126	4	3,198	3	2,808	4	1,721	9	3,433	4
RHODE ISLAND	334	38	264	39	264	40	258	43	336	39	256	39	255	41
SOUTH CAROLINA	657	29	796	26	906	24	894	25	696	30	696	28	776	26
SOUTH DAKOTA	160	48	192	45	198	45	264	42	198	47	213	44	187	42
TENNESSEE	990	20	1,170	17	1,164	18	1,104	20	1,164	18	1,053	20	1,096	20
TEXAS	3,147	3	3,420	3	3,612	3	3,126	4	3,324	3	3,475	3	2,598	7
UTAH	456	35	336	36	384	36	378	38	498	34	569	31	309	39
VERMONT	154	50	132	50	138	49	138	50	186	49	184	46	125	48
VIRGINIA	1,223	14	1,392	13	1,542	12	1,392	13	1,194	17	1,332	15	1,173	17
WASHINGTON	1,185	15	984	22	1,020	21	1,128	19	1,056	19	1,522	12	903	23
WEST VIRGINIA	410	37	510	34	474	34	576	33	438	37	338	37	435	35
WISCONSIN	1,352	11	1,296	16	1,314	16	1,398	12	1,242	14	1,917	8	1,287	15
WYOMING	108	51	102	50	102	51	120	52	96	52	149	49	78	50
PUERTO RICO	491	32	*	--	*	--	654	30	528	32	*	--	*	--
VIRGIN ISLANDS	10	53	*	--	*	--	18	53	6	53	*	--	*	--

*Not available

Source: Compiled by John Lee.

state-by-state comparisons. With few exceptions, the same states tend to appear among the first 10 states regardless of which formula is employed, and, in fact, all states tend to rank about the same regardless of the formula.

In summary, the purpose of this chapter has been to examine the mechanics involved in the distribution of SSIG funds and to explore possible state-by-state variations that may exist when alternative allocation formulas are used. On the basis of this review it is possible to conclude that if there are biases that consistently favor certain states, these biases do not appear to be an important factor in the ultimate distribution of dollars to the states. Perhaps what is needed, to be consistent with program intent, is a more sophisticated formula that combines elements of need and of state contribution to higher education. While such a formula might not significantly alter the actual distribution of funds to the states, it would offer a measure of philosophical consistency to the program.

6. State Capacity and Effort for Student Assistance

By Kent Weldon

A number of issues currently command attention in the federal-state partnership of student assistance. Many, perhaps all, arise from the federal assumption that the states are willing and able partners, whereas states, individually or collectively, are either unwilling or unable to cooperate. This general theme seems applicable to questions of grant portability, student aid equity, financial aid program administration and state role in providing reasonable choice. Often these issues have been characterized as ones of diverse state preference. This approach holds that states act rationally and overtly to carry out their own objectives, whatever they perceive them to be. Another line of inquiry focuses more on questions of state ability, rather than preference, to undertake adequate student financial assistance programs. This chapter investigates one of the latter: ability of states to locate sufficient funds to participate in the federal programs, including the State Student Incentive Grant Program (SSIG), Guaranteed Student Loan Program (GSL) and campus-based programs.

The SSIG Program

To understand the problems of state capability for student assistance, one should first examine the specific case of the SSIG program. Basically, SSIG is designed to encourage states to put more money into student assistance. While other goals have been inferred for the program, it essentially passes out federal dollars to states who can meet a 50-50 match. The other demands of the program are not too stringent, even if requirements such as grant portability or aid to proprietary institutions were imposed.

The operating assumptions are as follows:

- State budgets, presuming a rational budget, are constructed in such a way that the marginal benefits of an extra dollar in any line item are equal across all line items.
- The SSIG program seeks to redistribute the allocation implied in the state budget by essentially increasing the marginal returns in the category of student assistance. The states, other things being equal, will seek to double their money under the program, even if the marginal returns are not fully perceived as two for one.
- The matching incentive should continue to motivate the states until either the match can no longer be financed or the marginal returns decrease to the point of creating a new equilibrium.

All of these operating assumptions are suspect in varying degrees. There is, of course, no perfect "rational man" counterpart for state legislatures. Second, and a key point to the antagonists of SSIG, is that there may be no increased marginal returns to the states, especially after the costs of program operation, costs of "conscience" and disagreements with legislative authorization are all added up. Third, while states could theoretically set up a special scheme to fleece the federal government to an infinite degree, practicality dictates that the funds available for state matching are indeed limited. It is the third aspect, ability to finance student aid, that is of special interest, because none of this particularly relates to the operational aspects of providing student assistance and because the matter of distributing the funds wisely is not highly controlled by the incentive structure of the program.

The main concern of states' ability to come up with the financial resources to provide student assistance programs involves the following factors:

- Continuation and/or enlargement of any federal programs requiring more state dollars, including the campus-based programs, is contingent on state ability to respond.
- Federal programs are largely uniform in their treatment of the states, and there is a serious question whether this uniformity best serves the interests of the federal government.

Because all of these reasons have legitimate policy ramifications, a more detailed discussion of these appears at the end of this chapter. First, however, it is necessary to discuss the tax approach and data sources and description.

Tax Approach

In order to take up the question of state ability to generate student aid dollars, one must understand first the notion of state "wealth." Usually, only the question of tax wealth is considered; this restriction is quite reasonable because:

- Most states operate on a current or cash basis and the concept of "capital wealth," while meaningful, is not very realistic in terms of state ability to generate dollars. Most state capital assets are never turned over.
- Taxation is the most controllable mechanism for achieving state revenues. Intergovernmental transfers to state governments are highly restricted and never enter the general fund as general allocation resources.

- Another mechanism of generating revenue -- sales and services -- is highly restricted to functional areas and, again, is not a general allocation.

The last point is certainly debatable as many states earmark or restrict certain taxes for specific functional purposes, commonly state gasoline taxes. In this respect tax revenues are not much different than sales/service revenues, although one could claim that expenditure restriction of state tax revenues is a perfectly arbitrary decision, while sales/service revenues are highly tied to operational profit centers. In practice, the sales/service notion accounts for only about 12 percent of total state/local own-source revenues.[1] In postsecondary education, the only sales/service revenue of significant interest is that corresponding to tuition and fees in public institutions. Also excluded from the general concept of tax wealth are tax expenditures, i.e., intentional, short-term reductions in collected taxes. In general, for purposes of investigating state wealth these are treated as tax credits; in other words, the effective taxation rate is lowered. A modest review of available information suggests that unconventional tax expenditure practices occur in only three states (Indiana, Georgia and North Carolina).

Traditionally, state tax wealth has been approximated by average taxation applied to personal income. While this approximation is reasonable for state personal income taxes, it is quite unreasonable for the many other forms of taxation -- including sales, corporate income, estate, severance, and property -- that are employed by the states. A major departure from the personal income approach was pioneered in 1962 with the Advisory Commission on Intergovernmental Relations' (ACIR) ground-breaking effort through the staff work of Selma J. Mushkin and Alice M. Rivlin.

[1] U. S. Bureau of the Census, Governmental Finances in 1976-77, Series GF77, no. 5 (Washington, D.C.: Government Printing Office, 1978), p.1.

This study[2] established the principles and methodology of the "representative tax" approach to measuring tax wealth. Since the original study, improvements and simplifications have been afforded by others.[3] Most recently D. Kent Halstead has provided even greater simplication of the methodology and has charted the evolution of state/local wealth through 1975.[4]

Briefly, the representative tax approach to measuring state wealth distinguishes between two quite commonly confused notions:

-- fiscal capacity, most often measured in dollars per capita, is the relative ability of state and local governments to obtain revenues out of their own sources through taxes;

-- fiscal effort, usually expressed as a percentage, is the extent to which governments actually use their tax capacity through collected taxes.

The representative tax approach tackles the problem of estimating state/local capacity by (1) identifying and estimating the various tax bases liable to taxation in a state, (2) estimating average or "representative" tax rates to be applied to these bases, (3) subsequently estimating tax yield from the tax bases and (4) aggregating the various tax yields to an overall estimate

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[2]ACIR, Measures of State and Local Fiscal Capacity and Tax Effort (Washington, D.C.: Government Printing Office, October 1962).

[3]John Akin, "Fiscal Capacity and the Estimation Method of the Advisory Commission on Intergovernmental Relations," National Tax Journal, vol. XXVI, no. 2 (June 1973); Robert Reischaner, "Rich Governments -- Poor Governments," unpublished manuscript (copies available from author, Washington, D.C.: Congressional Budget Office, 1974); Kenneth E. Quindry, State and Local Revenue Potential (Atlanta: Southern Regional Education Board, published annually); and Allen D. Manvel et al., Advisory Commission on Intergovernmental Relations, Measuring the Fiscal Capacity and Effort of State and Local Areas (Washington, D.C.: Government Printing Office, 1971).

[4]Tax Wealth in Fifty States (Washington, D.C.: Government Printing Office, 1978).

of tax capacity. Clearly, much of the problem in this approach lies in quantifying the tax base in each area and Halstead's approach is currently the most succinct and straightforward. Tax capacity estimates in the remainder of this chapter utilize his approach and build on the data base he has assembled.

Almost all of the work accomplished to date in estimating tax wealth presumes the aggregation, or at least coincident investigation, of state and local tax capacity and effort. This occurs not so much because of the highly elaborate fiscal relationships among states, counties, municipalities, townships, school districts and special districts but because these relationships are highly varied across the states. Without aggregation it becomes nearly impossible to identify data elements that are comparable across any sample of governmental entities. It should be noted that this aggregation is wholly irrelevant to measures of state/local capacity (except for the second-order role of localities in constructing "representative" taxes). The tax bases upon which capacity measures are built are equally accessible to any appropriate taxing authority. Tax effort, on the other hand, is highly dependent on state/local aggregations of taxes collected, since one state may choose to fund itself through emphasis on a local property tax, whereas another may utilize a centrally administered state income tax to derive the same revenues. In practice, state tax revenues, including localities, are unique blends of approximately 20 different types of taxation, many of which can be levied at the state level or at up to five local levels. In the remainder of this chapter, state tax capacity and effort are both presented as state/local aggregations, and no further discussion is undertaken about the state/local partnerships.[5]

[5]This rule is violated somewhat in the next section on state student aid expenditures where only state-level expenditures are considered.

The preceding discussion on state tax capacity and effort is applicable to state student aid expenditures. This construction makes some sense in studying state student assistance wealth and in determining if this notion is meaningful and useful. Capacity and effort are, respectively, stock and flow notions as applied to state/local wealth.[6] In the case of student assistance, the state/local general fund might be thought of as the "stock" if one believes that legislators view the general fund as a constrained resource. Alternatively, if one imagines that the planning of state expenditures actually precedes revenue collection (i.e., state revenues support expenditures but do not constrain them) then state/local tax capacity is a better estimate of the "stock." Because this is a rather moot point and because the truth undoubtedly is between the two extremes, both computations of capacity are shown in the remainder of the chapter. Student aid effort, then, has two natural definitions, one based on tax capacity as a "stock" and one based on state revenues, or expenditures, as a "stock."

It is interesting to note that, under the proposed framework, "student aid expenditures per student" would not be considered an effort measure, just as "tax collections per capita" would not be considered an effort measure. Both are, however, legitimate performance measures of student aid operations. The notion of effort, as used here, suggests degree of success with respect to a given starting point but not with respect to an endpoint. Thus, states might have high effort based upon low capacity, or vice-versa. This distinction is amplified somewhat in the following sections. Again, this discussion is concerned with state ability to generate revenue and expenditures for student aid

[6]The relationship between these terms and the classical economic terms of resource and efficiency is somewhat murky. Effort (as used here) is more of a commitment notion than an efficiency notion; efficiency is usually applied to a technological production process and not to a dichotomous resource allocation process.

and is specifically not concerned with how significant these dollars are to the student aid function. The student aid stock and flow notions discussed will subsequently be used to develop measures of state student aid effort.[7]

Data Sources and Description

Table I contains the data necessary to address the previously mentioned analytic constructs. The first three columns characterize state/local tax capacity or potentiality for Fiscal Year 1977. These data are presented as raw data but have in fact been computed through the rather lengthy procedure outlined by Halstead. Estimates of the various tax bases use Fiscal Year 1975 data; these statistics are projected to Fiscal Year 1977 using the same inflation rate represented by increases in tax revenues through the intervening years. Capacity per capita is computed on July 1977 population data and the per capita statistics are indexed using a weighted national average capacity per capita of $813.

The same format is employed for columns 4-6 dealing with Fiscal Year 1977 state/local tax collections. Tax collections are aggregated by state, including revenues by all local taxing authorities. It should be noted that the "representative" taxation rates are computed so that potential tax capacity and tax collections are the same within each tax. This, of course, requires that overall tax capacity, across all taxes, will equal overall tax expenditures, as noted on the bottom line of Table I.

Student aid expenditures are also presented in the same format in columns 6-9. Expenditure data here reflect only state undergraduate competitive and non-competitive need-based programs. While this definition is somewhat more constraining than desired, it does promote data comparability

[7] Theoretically, a state could derive from localities general fund revenue to be subsequently directed into student aid. In practice this does not happen. A more likely course -- one ignored here -- is that of school districts (i.e., junior college districts) generating tax revenue which is then used as an own-source for their own student aid.

Table I
Raw Data

	Tax Capacity[1]			Tax Collections[2]			Student Aid[3] Expenditures		
	$	$/Capita[4]	Index	$	$/Capita	Index	$	$/Student[5]	Index
10 - Alabama	2326.0	630.37	78	1870.7	506.97	62	470	3.55	5
11 - Alaska	429.9	1056.30	130	934.4	2295.71	282	72	10.55	13
12 - Arizona	1699.0	739.98	91	1597.8	826.58	102	769	6.65	8
13 - Arkansas	1364.7	636.62	78	1059.3	494.08	61	246	18.06	23
14 - California	19114.2	842.09	102	23842.9	1088.92	134	68288	60.45	77
15 - Colorado	2101.0	835.69	103	2157.6	823.92	100	8521	71.47	91
16 - Connecticut	2895.5	931.63	115	2750.9	885.10	109	15761	53.35	68
17 - Delaware	582.1	1000.19	123	482.7	829.36	102	599	24.71	31
18 - D.C.	708.5	1026.88	126	738.7	1070.58	137	699	11.44	15
19 - Florida	6679.1	790.24	97	5309.2	628.16	77	6922	27.14	35
20 - Georgia	3592.1	711.58	88	3074.7	609.10	75	1781	12.74	16
21 - Hawaii	779.4	870.85	107	872.1	974.39	120	196	[illegible]	6
22 - Idaho	581.4	678.42	83	547.9	639.36	79	255	8.14	10
23 - Illinois	10568.4	939.83	116	9674.0	860.29	106	69721	167.44	213
24 - Indiana	4239.4	804.77	99	3477.6	652.45	80	15209	106.75	136
25 - Iowa	2443.1	848.60	104	2155.2	748.60	92	10162	[illegible]	121
26 - Kansas	1981.1	851.71	105	1692.3	727.56	90	3965	42.36	54
27 - Kentucky	2502.8	723.76	89	2079.1	601.25	74	2444	24.62	31
28 - Louisiana	3250.9	829.09	102	2494.0	636.07	78	558	4.43	6
29 - Maine	647.5	596.78	73	714.1	658.12	81	487	14.09	[illegible]
30 - Maryland	3464.1	836.94	103	3601.8	891.97	110	1729	12.23	16
31 - Massachusetts	4577.3	781.28	96	5792.8	1001.87	123	13470	45.65	58
32 - Michigan	7523.1	821.76	101	8016.8	878.17	108	24928	69.55	89
33 - Minnesota	3124.3	801.08	99	3601.7	906.10	111	16712	114.56	146
34 - Mississippi	1347.3	563.98	69	1260.1	527.46	65	711	8.59	11
35 - Missouri	3693.3	759.27	93	2923.5	609.93	75	4207	24.39	31
36 - Montana	603.6	793.19	98	582.7	765.66	94	76	2.97	4
37 - Nebraska	1309.1	830.63	102	1208.1	773.90	95	285	4.80	6
38 - Nevada	735.0	1161.13	143	564.8	892.21	110	0		
39 - New Hampshire	653.6	769.85	95	525.0	618.26	76	269	7.97	10
40 - New Jersey	6779.2	919.53	113	6326.6	931.45	115	25697	122.53	156
41 - New Mexico	891.9	741.07	91	712.2	624.58	77	200	4.90	6
42 - New York	15131.1	847.14	[illegible]	22434.9	[illegible]	154	210800	281.86	359
43 - North Carolina	3500.3	630.59	[illegible]	3275.2	592.79	73	1571	7.54	10
44 - North Dakota	519.4	795.35	[illegible]	445.1	681.60	84	278	10.50	13
45 - Ohio	9041.1	846.10	[illegible]	6856.6	640.74	79	25000	73.49	94
46 - Oklahoma	2293.0	815.72	[illegible]	1681.8	598.30	74	1255	11.06	14
47 - Oregon	1827.4	777.53	96	1864.5	793.13	98	2879	26.47	34
48 - Pennsylvania	[illegible]	783.76	96	9074.6	770.01	95	65050	[illegible]	224
49 - Rhode Island	659.7	706.61	87	941.3	792.82	98	3398	47.50	60
50 - South Carolina	1787.6	621.56	76	1579.6	548.90	68	7716	72.63	92
51 - South Dakota	509.1	738.92	[illegible]	433.6	629.33	77	243	9.15	12
52 - Tennessee	[illegible]	661.11	[illegible]	2425.0	564.09	69	1347	[illegible]	13
53 - Texas	[illegible]	987.67	[illegible]	8173.3	627.44	78	12459	26.52	34
54 - Utah	[illegible]	669.74	[illegible]	[illegible]	652.19	80	670	[illegible]	12
55 - Vermont	[illegible]	680.87	[illegible]	391.3	810.10	100	2568	[illegible]	131
56 - Virginia	[illegible]	746.08	92	3462.1	675.30	83	1738	9.41	125
57 - Washington	[illegible]	799.99	98	2994.0	821.22	100	2975	17.03	22
58 - West Virginia	[illegible]	716.65	[illegible]	1257.1	622.40	77	2310	39.12	50
59 - Wisconsin	[illegible]	757.92	-	4049.2	870.41	107	19291	102.73	131
60 - Wyoming	454.9	1120.45	[illegible]	[illegible]	338.43	122	28	2.06	3
U.S.	175878.7	813.00	100	175878.7	813.01	100	649148	78.54	100

[1] Capacity measured using the representative tax methodology of Halstead. Total national capacity equals total national taxes for state and local governments. Halstead's FY76 data have been inflated for FY77 (Halstead, 1978). Dollars ($) in millions; dollars per capita are unscaled.

[2] Total collections for state and local governments, FY76-77, including special districts and school districts (Census, GF77, No. 5, 20). Dollars ($) in millions; dollars per capita are unscaled.

[3] Total student aid expenditures on undergraduate, student aid grant programs, AY76-77 payout year (Boyd, 9th Annual Survey, 1978). Dollars ($) in thousands; dollars per capita are unscaled.

[4] Population estimates as of July 1, 1977 (Census, GF77, No. 5, p.69).

[5] Total fall 1975 student full-time equivalent in traditional institutions (HEGIS data as reported in 1978 State Profiles, ECS 1978).

Source: Compiled by Kent Weldon.

among the states. Specifically excluded from such expenditures are loan programs; included are funds to the states from the SSIG program. SSIG funds were not excluded in the interests of expediency and compatability with published reports. It should be noted that student aid expenditures are indexed on a per student basis, although this index is largely ignored in the following discussion. Nonetheless per student expenditures are preferred as a reference statistic to per capita expenditures, since some states act as heavy importers or exporters of students.

Table II contains the effort measures relevant to Table I. The first column, labeled tax effort index, corresponds exactly to the state/local tax effort index computed by Halstead.[8] Columns 2 and 4 correspond to the two student aid effort measures already suggested. Measure A relates student aid expenditures to tax collections,[9] whereas Measure B relates these expenditures to overall tax capacity. Clearly, measures A and B differ by the tax effort index listed in column 1. Both measures A and B are indexed to facilitate comparison.

State/Local Tax Capacity and Effort

Before investigating state effort on student assistance, one first should examine the general context of state/local tax capacity and effort. The rationale for this is straightforward: governments must generate revenue before they can spend it and if their abilities to generate revenue are impaired, the financial effects will be pervasive.

The primary question, using the definitions provided earlier, is whether a strong relationship exists between state/local capacity and effort. Chart I

[8] All index statistics are multiplied by 100 to show percentage.

[9] As noted previously, total expenditures may be preferred to total revenues.

Table II

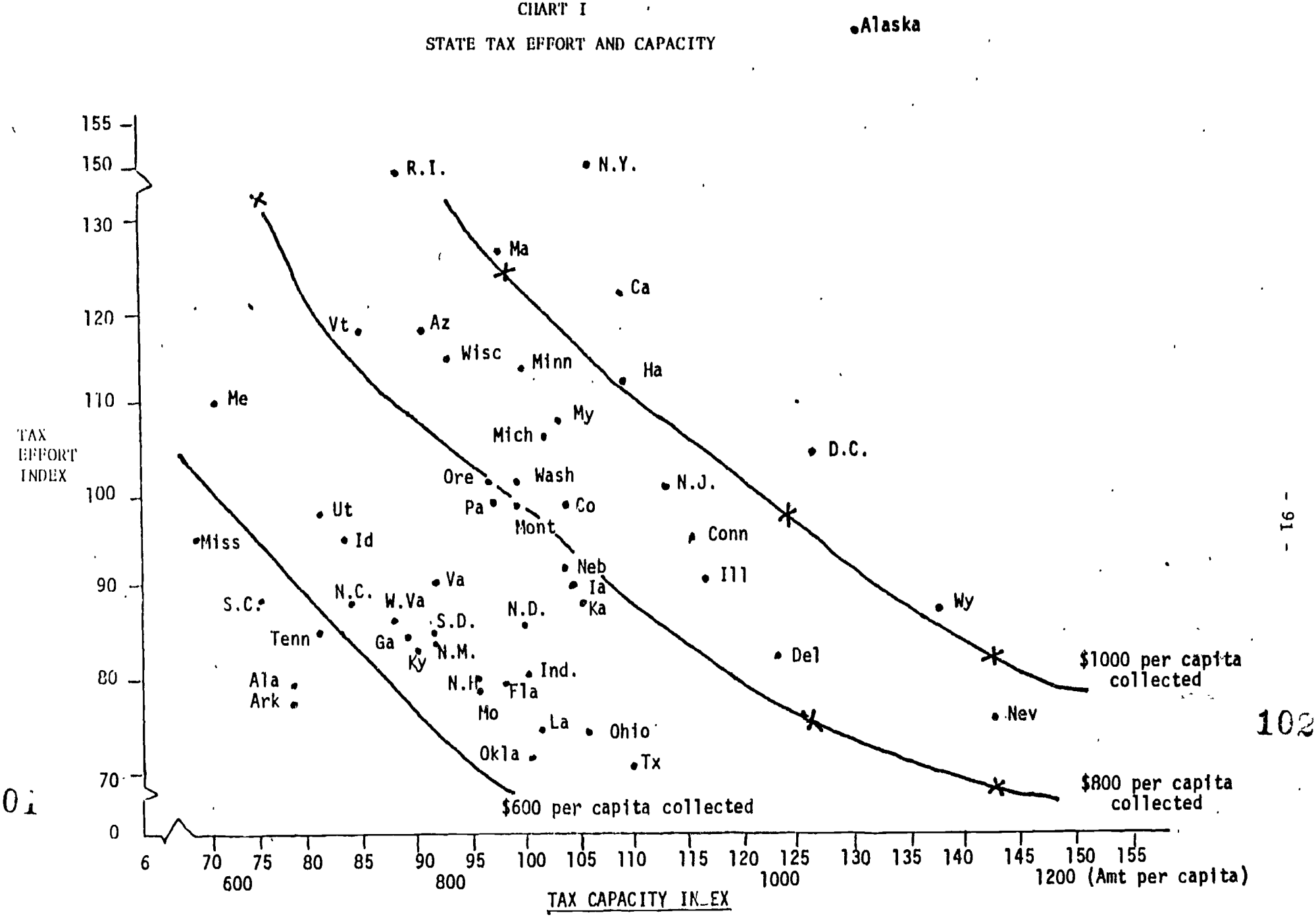
Computed Effort Indices

	Tax Effort Index (Tax Collections ÷ Tax Capacity)	Student Aid Effort A (÷ 000) (Student Aid Dollars ÷ Tax Collections)	Index	Student Aid Effort B (÷ 000) (Student Aid Dollars ÷ Tax Capacity)	Index
10 - Alabama	80.4	.251	7	.202	5
11 - Alaska	217.4	.077	2	.167	5
12 - Arizona	111.7	.405	11	.452	12
13 - Arkansas	77.6	.232	6	.180	5
14 - California	123.4	2.868	77	3.539	96
15 - Colorado	98.5	3.949	107	3.890	105
16 - Connecticut	95.0	2.094	57	1.989	54
17 - Delaware	82.9	1.241	34	1.029	28
18 - D.C.	104.3	.933	25	.973	26
19 - Florida	79.5	1.304	35	1.037	28
20 - Georgia	85.6	.579	16	.496	13
21 - Hawaii	111.9	.213	6	.238	6
22 - Idaho	94.2	.465	13	.438	12
23 - Illinois	91.5	7.207	195	6.594	178
24 - Indiana	81.1	5.236	142	4.246	115
25 - Iowa	88.2	4.715	128	4.159	113
26 - Kansas	85.4	2.343	63	2.000	54
27 - Kentucky	83.1	1.176	32	.977	26
28 - Louisiana	76.7	.224	6	.172	5
29 - Maine	110.3	.632	18	.752	20
30 - Maryland	106.6	.468	13	.499	14
31 - Massachusetts	128.2	2.325	63	2.781	81
32 - Michigan	105.6	3.109	84	3.283	89
33 - Minnesota	113.1	4.640	126	5.248	142
34 - Mississippi	93.5	.564	15	.527	14
35 - Missouri	79.2	1.439	40	1.140	31
36 - Montana	96.5	.130	4	.125	3
37 - Nebraska	92.3	.236	6	.218	6
38 - Nevada	76.8	---	--	---	--
39 - New Hampshire	80.3	.512	14	.411	11
40 - New Jersey	101.3	3.764	102	3.813	103
41 - New Mexico	84.3	.269	7	.227	6
42 - New York	147.8	9.392	254	13.881	376
43 - North Carolina	87.1	.480	13	.418	11
44 - North Dakota	95.7	.627	17	.537	15
45 - Ohio	75.7	3.645	99	2.760	75
46 - Oklahoma	73.3	.747	20	.548	15
47 - Oregon	102.0	1.528	41	1.559	42
48 - Pennsylvania	98.2	7.168	194	7.039	191
49 - Rhode Island	142.5	2.537	68	3.615	98
50 - South Carolina	88.3	4.889	132	4.316	116
51 - South Dakota	85.1	.560	15	.477	13
52 - Tennessee	85.3	.597	16	.509	14
53 - Texas	71.8	1.523	41	1.094	30
54 - Utah	97.4	.810	22	.798	21
55 - Vermont	118.0	6.563	178	7.744	210
56 - Virginia	90.5	.501	14	.453	12
57 - Washington	102.7	.900	27	1.017	28
58 - West Virginia	86.9	1.996	54	1.723	47
59 - Wisconsin	114.9	4.763	129	5.473	27
60 - Wyoming	38.2	.070	2	.062	2
	100.0	3.691		3.691	

Source: Compiled by Kent Weldon.

CHART I

STATE TAX EFFORT AND CAPACITY



101

102

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Source: Compiled by Kent Weldon.

suggests a mixed response, as there are very few high capacity, high effort states. With the exception of Alaska, the states collecting more than $1000 per capita in Fiscal Year 1976-77 are more appropriately labeled either high capacity or high effort rather than a combination of the two. Moreover, it should be noted that Alaska's revenue situation has been highly unstable over the last four years due to the singular impact of its oil pipeline. To contrast the absence of high capacity, high effort states, there is a super-abundance of states, 22, which would be considered to have low capacity and low effort. While eleven of these are southeastern states, it should be noted that there are several western states, as well as the eastern standout, New Hampshire. This situation has been noted widely in state finance studies.

The central and crucial observation is that for approximately half of the states the argument that low tax capacity can be compensated by high tax effort is not reasonable. In this regard it is interesting to note that of the 30 states collecting less than average per capita taxes, the 22 cited are grouped in the low capacity, low effort classification. Looking at the states collecting greater than national average per capita taxes, one sees a much broader diversity of capacity/effort relationships. Here it can be said that states seem to be accomplishing a trade-off of sorts between capacity and effort. For example, both Massachusetts and Wyoming collect approximately $1000 per capita in taxes, yet Massachusetts is an extremely high effort state operating on only average tax capacity, while Wyoming makes only sub-average effort on a very high tax capacity base. Obviously, the composition of the tax bases for these states is quite disparate; capacity as reported here is merely the summation of capacities for many state and local taxes. As an aside for purposes of later discussion, five states are quite average as regards both tax capacity and effort: Oregon, Washington, Montana, Colorado and Pennsylvania.

State Effort on Student Assistance

Traditionally, "effort" is defined as the extent to which capacity is utilized. Thus, student aid expenditures per student (see Table I) is considered a performance rather than an effort measure. Here, two effort measures can be investigated: (1) student aid expenditures divided by tax collections and (2) student aid expenditures divided by tax capacity. If one views student aid appropriations as an act contingent on money in the state treasury, the first measure is appropriate.[10] If one sees state spending programs as directly tied to state taxation practice, the second measure is more appropriate. In this respect, while several states have specific tax expenditure programs which could be viewed as student assistance, no states have separately financed student assistance programs which have their own taxing authority. These two effort measures have been computed and appear in Table II. Measure A shows the ratio of student aid expenditures to overall tax collections, while measure B shows the ratio of student aid expenditures to tax capacity. The contrasts between measures A and B (and the performance measure student aid expenditures per student) can be seen in Table III which contains data for states with relatively large student aid operations.

TABLE III

STUDENT AID EFFORT AND PERFORMANCE INDICES
FOR LARGE STUDENT AID STATES

	Student Aid Dollars Per Student	Student Aid A Dollars Per Collections	Student Aid B Dollars Per Capacity	Overall Tax Capacity	Overall Tax Effort
New York	359	254	376	104	148
California	77	77	96	108	123
Illinois	213	195	178	116	92
Pennsylvania	224	194	191	96	98
Ohio	94	99	75	104	76
New Jersey	156	102	103	113	101
Michigan	89	84	89	102	106
Minnesota	146	126	142	99	113
Wisconsin	131	129	148	93	115
Indiana	136	142	115	99	81

[10] Actually, in an age of deficit spending, total state expenditures may be a more appropriate denominator, especially since this practice is common in some states. The preference here is to consider tax revenues the pool, since revenues must be used to finance all debt repayment and interest, both of which are long-term discretionary items.

Table III contains several interesting cases. First, the major student aid states (in terms of student aid dollars) tend to be average or above average in overall tax capacity. With the exceptions of Ohio and Indiana, these same states tend to have comparatively high overall tax effort. But when one considers the conversion of either tax capacity or revenues to student aid dollars, these states, excepting Michigan and California, fare much better than even their tax capacity/effort measures would suggest. This leads to a trial hypothesis that high collection, i.e., taxes per capita, states tend to be extremely high in student aid expenditures. On inspection, this hypothesis must be rejected; of the 22 states with above average tax collections per capita, only seven have above average student aid effort. These states are Colorado and the seven in Table III.

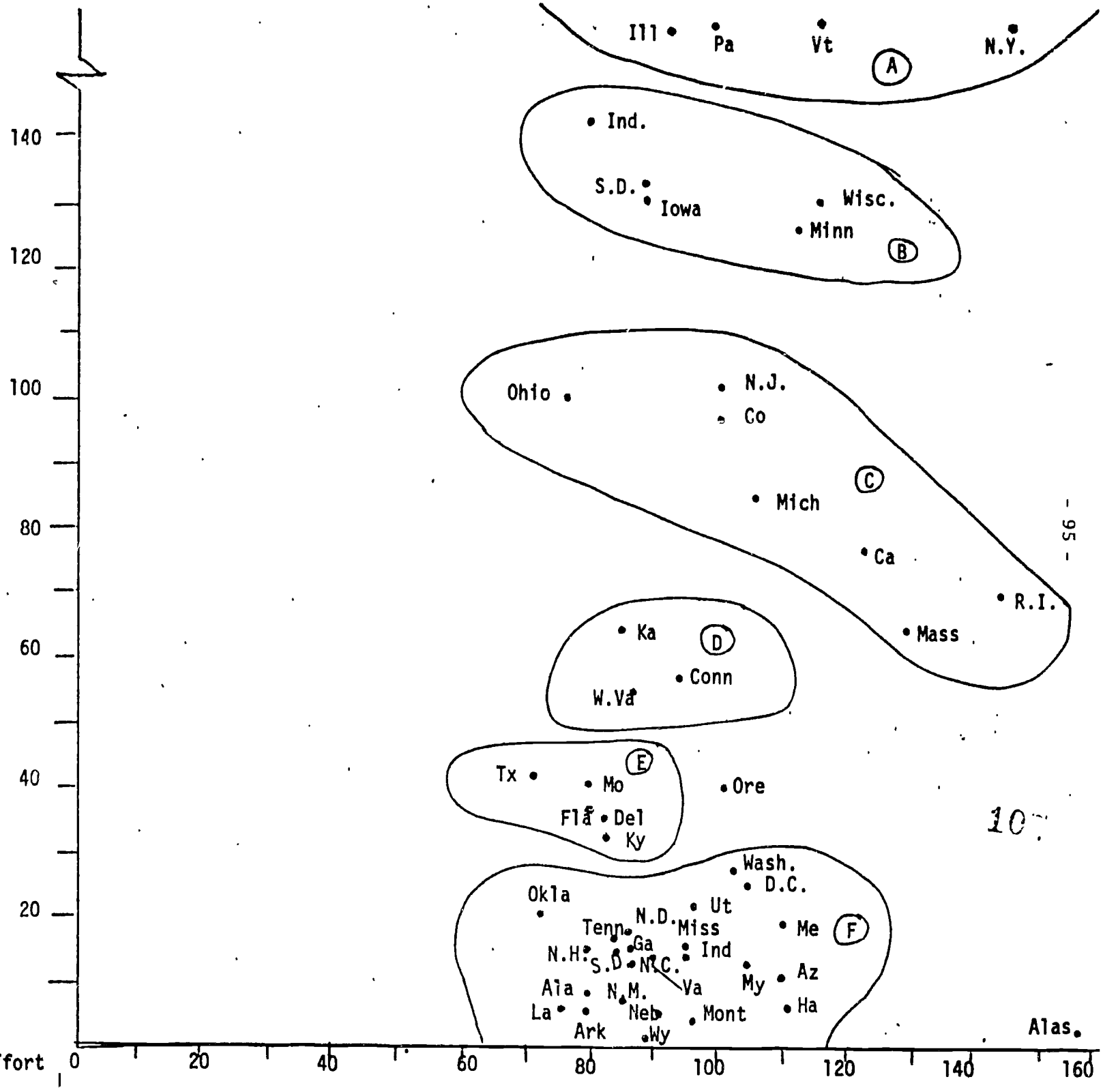
What then of the relationship between state tax effort and state student aid effort? Chart II helps clarify the situation. First, it is clear that student aid expenditure effort is considerably more variable than state tax effort. While there is no obvious reason to expect this, it may occur because states have had plenty of opportunity to normalize taxation practices by continual peer comparison, but have had less time to do this in student aid. A second possible reason is that taxation effort essentially represents a dichotomous decision between collecting taxes and not collecting taxes. Student aid, on the other hand, is only one of many possible welfare expenditures. Indeed, one would expect a much tighter distribution if total state/local education subsidy were plotted instead of student aid subsidy.

Second, and a point made often about state student assistance, is that only 10 states achieve greater than average student aid effort ratings; these are evenly split between above-average and below-average tax effort indices. Third, it appears to be both necessary and sufficient that states with comparatively low student aid effort are also quite remarkable in taxation effort. Fourth, apparently the states can be partitioned into approximate peer groups which are

Chart II

Student Aid Fffort
Measure A

Source: Compiled by
Kent Weldon.



mostly dependent on student aid effort and less so on taxation effort.

It is instructive to study more closely the tax capacity/effort characteristics of the exceptional states in Chart II. Groups A-E are heavily populated with mid- to high-capacity states. Groups A-C are concomitantly populated largely by mid- to high-tax effort states. In these three groupings there are several interesting cases. Vermont and Rhode Island have emphasized student aid on the basis of a very high-tax effort applied to a comparatively weak tax base. South Carolina is an unusual ase in making a large commitment to student aid with a state taxation situation which must be considered very low-capacity and low effort. Groups D and E are characterized by having made a modest commitment to student aid, but simultaneously making a low to very low overall tax effort. On further inspection, Group F really comprises two subgroups: the low-tax capacity, low-tax effort group cited previously and a group accomplishing modest tax collections. The former group is principally characterized by low-tax effort; half the 24 Group F states fit this description. The remaining states all have mid- to high-tax effort; only three of these (Utah, Mississippi and Idaho) could be described as having exceptionally low-capacity.

Policy Comments Several observations relevant to policy emerge from the preceding discussion:

-- tax wealth is poorly approximated by personal income;

-- very few states have a tax situation which could be described as high-capacity and high effort;

-- states with high levels of taxation per capita are characterized by quite diverse tax capacity and effort measures;

-- states with low levels of taxation per capita (around $600 per person) are best characterized as both low-capacity and low-tax effort;

-- the states maintaining the largest student assistance programs, both in dollars and dollars per student, tend to be medium-capacity, high-tax effort states;

-- with only few exceptions, the states making the greatest commitments to student aid (i.e., have the highest student aid effort measures) have mid- to high-tax capacity measures;

-- of the states which have only small to insignificant commitments to student assistance (half of all states), approximately half are chronically low-capacity, low-effort states. Eight of the remaining states have tax collections in excess of the national average.

It is helpful to think through what these observations might mean to federal student assistance programs, with emphasis on SSIG. First, while it might seem that states which tax themselves highly (with respect to available capacity) might spurn the development of new expenditure areas such as student aid, precisely the reverse seems to be true.[11] The high degree of effort placed on student aid by these states suggests they will continue to be responsive and receptive to federal student aid programs which extend their existing efforts.

Second, it has been observed that low-tax capacity, low-tax effort states do not tend to develop student aid to a significant degree. Only three states (Kentucky, West Virginia and South Carolina) have escaped this mold.

[11] This ignores the fact that most of the major state student aid programs have been extant for some time.

In general, low effort and ..ence likely conservative states have been the last to create student assistance programs, and it is highly problematic whether these states would continue student aid funding without the SSIG incentive. Indeed, many of these states have even been slow to respond to the incentives of SSIG. It is plausible that those states which have low-tax effort but high-capacity may well adopt a student aid attitude after several years of federal incentives. But this argument could apply only to Texas, Alaska, Wyoming and Nevada; the remaining high-capacity states have long histories of providing student aid. For these states, incentive programs are just additional revenue.

Is there hope that with federal incentives the traditionally low-tax effort, low-tax capacity states can be elevated to high effort states (presumably with a new penchant for domestic welfare programs)? In this regard, only one existing low-tax-capacity, high-tax-effort state, Arizona, could be thought of as a newcomer. The Arizona paradigm might conceivably be applicable to Utah and New Mexico, which are both growth states, but does not seem applicable to the remaining states. Furthermore, it should be observed that Arizona has not yet itself bought the student aid incentive.

Finally, but perhaps too removed from federal concepts of state equity to be useful, it does seem possible with Charts I and II to identify those states for which federal incentives may well serve to get state student aid momentum launched. Briefly, the states involved have reasonable tax capacity levels and modest to good tax effort ratings. They include Wyoming, Nebraska, Virginia, Maryland, District of Columbia, Arizona, Hawaii, Montana and Alaska. The western, public education and conservative nature of seven of these states may make the effort pointless, but a negative response could not be based on a lack of resources.

The preceding discussion is strongly influenced by the inherent taxation capabilities of the states and their past records in accomplishing the taxation. These are clearly not sufficient factors in guessing the long-term viability of strong state-level student aid programs, but they are likely to be necessary factors. The omission of these factors in federal student aid planning may well be fatal to new programs or to elaborations of old ones.

7. Notes on the Computation of State Subsidy for Postsecondary Education

By Kent Weldon

This chapter addresses the problem of how to deduce precisely how much a state subsidizes education. The simplicity of the problem belies the difficulty of its solution, for like the federal government states have many ways of financing education. Moreover, the various efforts to capture postsecondary education subsidies tend to tackle isolated parts of the financing puzzle and this approach accounts for endless overlaps, differences in definition and procedure and outright misinterpretations of the financing process.

There are several good reasons for discussing the extent of state subsidization of education. The rationale which has motivated most existing studies[1] is that legislative/administrative leaders are interested in determining "where they stand" vis-a-vis the states they consider peers. While the reasons for this self-interest are diverse, the predominant motivation must be considered political. Also, at the federal level there is inevitably concern for what might be called "state equity," i.e., whether, when federal benefits are distributed, states get their "fair share" where "fair" is a concept liberally and loosely applied to meet the needs of the moment. Increasingly, the concept of "fairness" for purposes of dispensing federal funds has extended well beyond the simple allotments of full-time equivalent students and into the realm of "need" and "effort" measures. Certainly, these concepts have already crept into student assistance at a recipient-specific level; for example, students with greater need receive larger Basic Educational Opportunity Grants Program (BEOG) awards. But the "need" and "effort" notions are also applied to state and local governments. Indeed, the State Student Incentive Grant Program (SSIG) contains a maintenance of "effort" provision

[1]The most significant are Marilyn McCoy and D. Kent Halstead, Higher Education Appropriations in the Fifty states: An Interstate Comparison for Fiscal year 1976 (Washington, D.C.: Government Printing Office, forthcoming) and M. M. Chambers, State Tax Funds for Operating Expenses of Higher Education, 1977-78 (Washington, D.C.: National Association of State Universities and Land-Grant Colleges, 1977).

and many proposals have been advanced to use need/effort indices to allocate federal funds among governments. In most cases "need and effort" are translated as financial need or effort, and these translations eventually demand the computation of subsidy.

These interests in computing state subsidy face two inherent roadblocks. First, there are many ways to subsidize postsecondary education --e.g., through tuitions appropriation, tax benefits, scale of service -- and there is a constant danger of omitting part of the financing picture in the haste to compare numbers. A second and more insidious problem is the tremendous diversity of financing strategies utilized by state and local government; this diversity frustrates simple statements or conclusions of any type. This discussion tries to combat the absence of information on state subsidy of postsecondary education in two ways:

1. A broad model is introduced which seeks to capture many aspects of state postsecondary education financing.
2. Data sources to support this model are discussed.

The sections which follow correspond to these efforts.

A Framework for Capturing State Subsidy

Before the presentation of a framework of state finance to postsecondary education, several problems are posed here to guide further discussion:

- Since the relationship of state governments to local governments is diverse among the states, it raises a question of fundamental importance. Where does "state" subsidy begin and end?
- What exactly is meant by "postsecondary education" and how important is this definition in computing state subsidy?

- Should state subsidy be measured the same way for all sectors of postsecondary education?

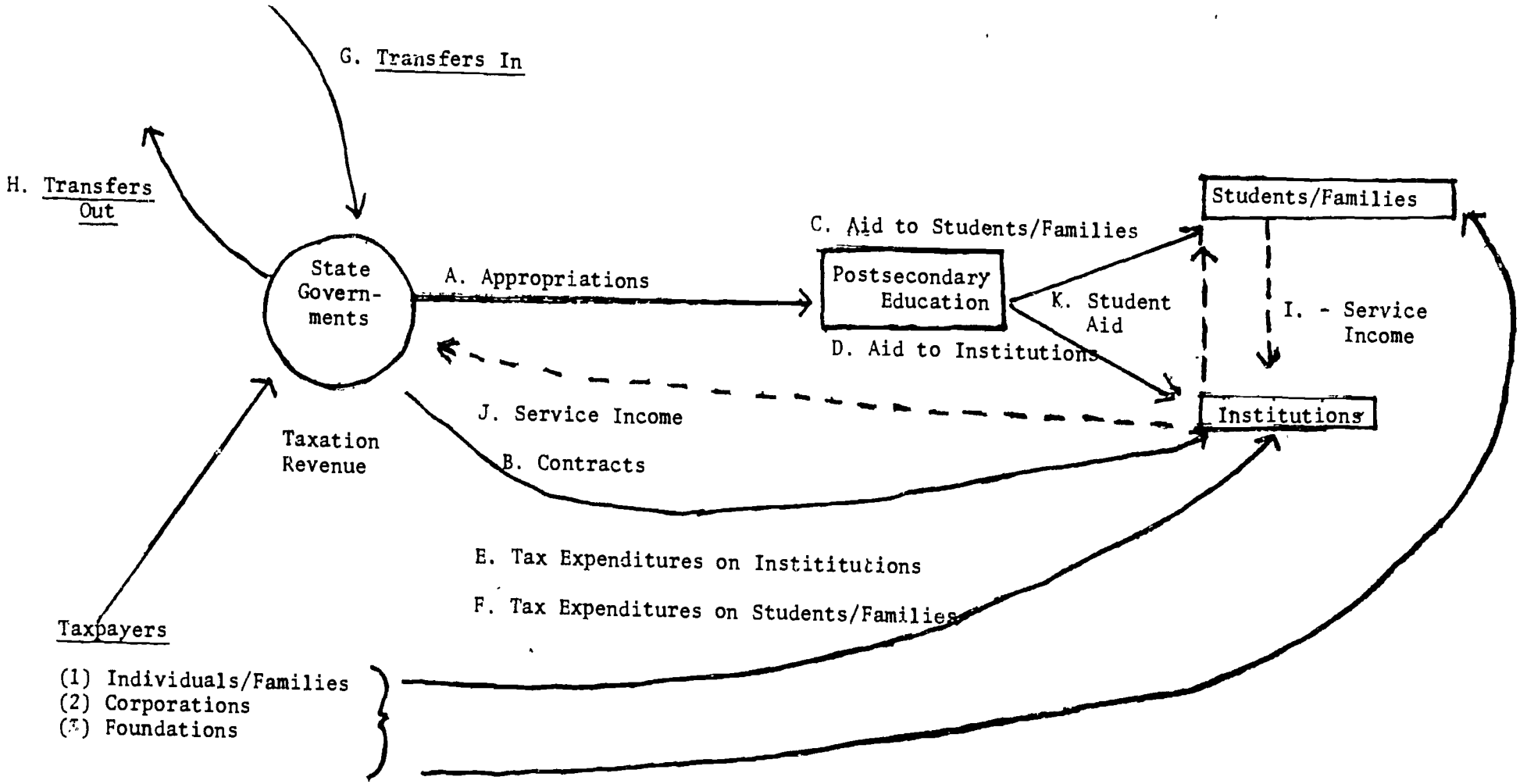
These topics suggest that determining state subsidy is both a question of what is to be included, as well as a question of how many public dollars are involved. Chart I is a starting point which illustrates the context of the preceding questions. The focus here is on analyzing the special circumstances created by broad and often superficial approaches to measuring postsecondary finance, so the model is useful as a point of departure.

The first question deals with the node on Chart I marked "State Government." What happens in this case, which is quite common in the West, where public institutions are administered by districts, e.g., community colleges, and not the state? In such cases, the state commonly provides a capitation grant to the district (a transfer out) or, alternatively, an appropriation directly to the institution. In either case, the beneficiary institution will treat these revenues as either "state appropriations" or state "grants and contracts." It should be observed that this situation involving community-controlled colleges is really no different from the case of independent, or in some cases proprietary, institutions.

There are two solutions to this puzzle: (1) lump state and local governments together financially and treat them as a single entity or (2) create a new classification of institutions labeled "independent public." The first treatment is most commonly used and, while realtively easy to implement, erroneously implies that "state/local" is an operating entity. The latter possibility, while more direct, violates both current sensibilities and analytic practice by creating a new class of public institution.

CHART I

Simplified Model of State Role
in Subsidizing Postsecondary Education



Source: Compiled by Kent Weldon.

From the standpoint of data both procedures are utilized. Currently the most definitive source of state/local support data, McCoy and Halstead, has chosen to wholly aggregate state and local governments as single revenue generation, single appropriation pseudo-entities. This process avoids altogether the problem of intergovernmental transfers. Unfortunately the McCoy and Halstead data only encompass the traditional realm of postsecondary education; this failing is discussed later. The U. S. Census Bureau (CENSUS), through its Government Finances reports, takes exactly the reverse tack; state governments and five kinds of local governments are all treated independently. But there is no single way to distinguish intergovernmental from direct expenditure aid destined for a postsecondary education institution. Chambers' data take the same approach as CENSUS, but omit altogether the problems of intergovernmental transfers.

Link A (state appropriations) in Chart I is artificial in the sense that legislatures do not generally make a conscious appropriation to postsecondary education which can be subsequently apportioned between student and institutional aid. However, it does signify an important problem -- declaring exactly what postsecondary education means vis-a-vis other state expenditures. In practice this question comes up in two circumstances:

1. Does postsecondary education (at least with respect to questions of state subsidy) encompass:
   a. education where education is the primary purpose;

b. both (a.) and where education is a secondary purpose; or

c. education as defined by funds administered or reviewed by an education agency?

2. Does postsecondary education mean:

a. education of adults over 18; or

b. education of persons in designated postsecondary institutions?

These questions no doubt seem superficial, but they are essential to data comparability among the states. The first question is almost always answered by (c.) and this definition seems largely workable across the majority of the states with only minor complications.[2] The second question is more difficult to deal with and indeed challenges the basic mission of many public institutions. Primarily, this is a question involving vocational/occupational education, since most other types of education can be conveniently classified as either elementary/secondary or postsecondary education. In the case of vocational education, however, the following situation arises:

		Institutional Perspective	
		High School	Postsecondary Education
Learner Perspective	pre-adult	A	B
	adult (18+)	C	D

[2] Problems arise in two contexts. First is the case of vocational rehabilitation, either institutional contracts or student aid. Here the primary purpose is health/welfare, but the states vary considerably as to whether this is part of the educational enterprise. Second, and a matter of considerable importance, is the inclusion, or exclusion, of student aid benefits for selected groups -- firemen, Vietnam veterans, etc. -- which is really compensation -- or deferred compensation -- for something quite different from education. The preferred solution is to omit both of these problem areas in computation of state subsidy; in the latter case this is easy to accomplish because of separate budgeting; the former case is extremely difficult because of diverse state budgeting practices.

Cells A and D have obvious solutions as regards state subsidy. For all practical purposes, cell B is empty. Cell C, however, is cause for concern in data comparability, since vocational education is, for some states, almost exclusively the province of elementary/secondary education; in others, the function is subsumed within state and community colleges; in others there is a curious mix of treatments. From the standpoint of estimating state subsidy, this is an important problem; not only are there large state dollars in cell C but the treatment of enrollments is significant in the apportionment of federal funds.[3]

Links C and D (Aid to Students/Families and Institutions, respectively) in Chart I reflect a very obvious apportionment of funds between students and institutions. This is rather straightforward, and is cluttered by only two situations:

1. Institutions dispense student aid as well as states (see link K), which may involve state dollars. In general this presents no problem as long as link K (Institutional Student Aid) is separately identified and, of course, is not double-counted within link C.
2. Institutions receive service income -- including tuition, sales and services of auxiliary enterprises -- which, in many states, essentially reverts to the state treasury. Often, state appropriations presume these alternate sources of revenue. Again, this provides no special problem as long as link I (Service Income) is separately identified and link D is shown netted out.[4]

[3] There is, of course, no simple answer to this dilemma. In a later section I suggest that estimated funds associated with cell C be uniformly included or omitted, depending on the use of the state subsidy measure.

[4] There remains the puzzle regarding who exactly is making the fiscal effort, and, of course, who is providing subsidy. I address this question again later.

Link B (Contracts) is shown separately for two reasons. First, state and local governments commission various research and demonstration/ community service projects, and while it could be argued that these support other major state functions -- for example agriculture, welfare, highways -- it is customary, just as at the federal level, to view such contracts as support for education.[5] Second, many state governments purchase instructional services from independent institutions through the grants and contracts mechanism. This is certainly a case of state subsidy and, of course, should be appropriately included.

Links E and F (Tax Expenditures on Institutions and Students/Families, respectively) are quite interesting as they are not commonly considered in estimating state subsidy of postsecondary education. As set forth by Sunley, tax expenditures are:

> . . . revenue losses attributable to provisions of (federal) tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability.[6]

Sunley goes on to itemize nine types of federal tax expenditures that benefit higher education; in total, these amounted to nearly $4 billion in Fiscal Year 1977. While Sunley's primary interest lies in federal tax expenditures, it is clear that many of his observations follow at the state and local levels. In fact, he claims:

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[5] There is, however, a fair argument that these funds should be omitted from state subsidy calculations since nothing is being subsidized and especially because there is no commitment to carry the funding forward. The best conceptional solution is to include dollars for "departmental research" and the like and to exclude specific, separately budgeted research project funds.

[6] Emil M. Sunley Jr., "Federal and State Tax Policies," Public Policy and Private Higher Education, ed. David W. Brenneman and Chester E. Finn Jr. (Washington, D.C.: The Brookings Institution, 1978), p.283.

> The principal state and local tax subsidy for higher education is the exemption of educational institutions from property taxes . . . . In aggregate, the property tax exemption may save colleges and universities $205 million a year in taxes . . . .[7]

Sunley also criticizes the equity of the various tax expenditures, claiming that the "tax subsidies taken together hardly constitute a rational program of support for higher education" and that " . . . in designing a comprehensive income tax, none of these tax incentives would be retained."[8]

The purpose of this discussion is not to quarrel with the current tax system, nor to suggest modifications for more effective use of the tax system for obtaining education subsidy. Sunley's comments are useful, however, in reminding readers that major, undiscussed educational subsidies exist by the sheer grace of state taxation policies. In fact, nearly every federal tax expenditure identified by Sunley has a counterpart at the state, and often local, level. Since these are, almost without exception, federally initiated tax expenditures and since the states are almost uniform in their adoption of these initiatives, it seems of little benefit to pursue the distribution of these tax expenditures across the states.[9] Even though the states have very diverse taxation strategies and the postsecondary education institutions within the states could be expected to benefit differentially, this benefit does not result in reallocable dollars and hence is of little interest. Moreover, as regards institutional taxation only, it should be noted that (1) there is a long legislative history of not taxing public institutions and (2) the case of private institutions is not unique among nonprofit corporations.

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[7] Sunley, p. 292.

[8] Ibid., p. 318.

[9] Sunley has a convincing argument that many tax expenditures strongly benefit states with a considerable private education sector. I am raising the issue of tax subsidies, but because of lack of data cannot indicate the results.

It does make sense, however, to take cognizance of special tax expenditure programs applicable specifically to postsecondary education. Although definitive reports on the statistics of these practices are not published, The Education Commission of the States (ECS) identifies the existence of special purpose programs in Idaho and Indiana.[10] Briefly, these are the tax credit programs which serve as strong incentives for public contributions to postsecondary education institutions. To consider these programs as subsidies is appropriate, since the aggregate effect is equivalent to collecting the tax funds and subsequently appropriating them to institutions. The potential impact of these is significant; estimates of the possible state subsidy provided are $10.7 million for Idaho and $66.6 million in Indiana.[11] The size of these tax expenditures necessitates their inclusion in overall state subsidy estimates.

Data Sources and Related Problems

The subsidy model proposed in the preceding section is necessary in order to provide hooks for the various data sources. Understanding the aspects of state subsidy is one matter but actually estimating it is quite another. As evidence of this fact, there is literally no single data source which captures state subsidy as a simple, single number.

Chart II indicates the primary data sources that could inform a computation of state subsidy. With one exception, these sources represent annually collected data that have some degree of credibility in the postsecondary

[10] Higher Education in the States, vol. 7, no. 1 (Denver, Colo.: Education Commission of the States, 1978).

[11] Neither state monitors carefully the amounts or the beneficiaries of these funds. The programs are constructed in such a way that there is a net positive cost for not contributing. I have roughly estimated program value by multiplying number of state tax returns by a 50 percent participation rate by $100 (the maximum tax credit).

CHART II

Data Sources for Estimating State Subsidy
of Postsecondary Education

	HEGIS[a] *	ECS[b]	CENSUS[c]	CHAMBERS[d]	SSIG[e]	NASSGP[f]
State Appropriations to Institutions	**					
1. By Sector: Public/Private/Proprietary	1	6	-----	14	✓	-----
2. By Function: Institution/Research/ Public Service/Student Aid/ Capital Expenditure	2	7	10	-----	------	-----
3. By Type of Instruction: Regular Degree/Compensatory/Vocational	3	-----	-----		-----	-----
State Grants and Contracts to Institutions	1, 2, 3	6	-----	15	-----	-----
State Tax Expenditures for Institutions	-----	8	-----	-----	-----	-----
Intergovernmental Transfers	4	-----	11	-----	-----	-----
Institutional Revenues						
1. Tuitions	✓	-----	-----	-----	-----	-----
2. Tuitions Remitted to State	5	-----	12	-----	-----	-----
3. Sales/Service Receipts Remitted	5	-----	12	-----	-----	-----
State Appropriations for Student Assistance						
1. By Sex/Racial/Ethnic Class	-----	-----	-----	-----	17	-----
2. By Type of Institution Attended	-----	9, 6	-----	-----	17	✓
3. By Residence Status	-----	8	-----	-----	8	8
4. By Type of Aid: Loans/Grants, etc.	-----	✓	13	16	✓	✓

* Data sources, p.112
** Footnotes, p. 111

Source: Compiled by Kent Weldon.

Footnotes for Chart II

1. Traditional postsecondary education only; excludes proprietaries and Area Vocational Technical Institutes (AVTI) not accredited as traditional institutions.

2. HEGIS contains institutional expenditure data for these line items, but it is impossible to attribute support to state appropriations.

3. These data are not collected per se, but could be inferred using HEGIS earned degrees data (for regular degree and vocational education only).

4. All intergovernmental transfers to local districts will appear as "LOCAL APPROPRIATIONS" in HEGIS.

5. HEGIS shows net revenues, even if these are subsequently debited from state appropriations.

6. Private, nonprofit (independent) education only.

7. Similar information is available, although not by the indicated classifications.

8. States with special programs are listed; no statistics are provided.

9. The indicated statistics are usually provided, but not in all cases.

10. The only useful classifications are current fund, auxiliary enterprises and "other."

11. It is impossible to separate intergovernmental transfers destined for postsecondary education institutions from the statistics reported.

12. The only useful classifications are auxiliary enterprises and "other."

13. All student assistance is buried within "other education: Assistance and subsidies."

14. This information is deducible with additional data.

15. These data are separately identified only if the state legislature created a separate line item.

16. These funds are listed if they correspond to a separate, state-level program(s). Institutional student aid funds are included in regular institutional appropriations.

17. Statistics exist only for undergraduate, need-based grant programs.

education community.[12] Briefly, these sources are:

a
HEGIS - Higher Education General Information Survey; yearly collection by the National Center for Education Statistics (NCES), particularly the Finance Schedule.

b
ECS - Education Commission of the States: Higher Education in the States annual series, especially annual reports on aid to independent education.

c
CENSUS - U. S. Bureau of the Census: Government Finances (CENSUS GF series); annual collection of data on revenue sources and expenditure patterns of state governments and annual sampling of five levels of local government statistics.

d
CHAMBERS - Annual surveys of state appropriations of tax funds conducted by M. M. Chambers and published by the National Association of State Universities and Land-Grant Colleges (NASULGC).

e
SSIG - State Student Incentive Grant Program: data about state student assistance programs collected by the National Association of State Scholarship and Grant Programs (NASSGP) in conjunction with joint ECS and National Center for Higher Education Management Systems (NCHEMS) study of SSIG.

f
NASSGP - National Association of State Scholarship and Grant Programs: annual tabulations of state student assistance programs compiled by Joseph Boyd of the Illinois State Scholarship Commission for NASSGP.

Each of these data sources has its strengths and weaknesses as regards computing state subsidy of postsecondary education. For example, if one were interested in a single best estimate of total dollar subsidy, one would probably use Chambers' estimate, although this estimate would (1) exclude capital expenditures and (2) violate any reasonably uniform definition of "postsecondary education" in at least several states. It should be noted

[12] There is a good possibility that one or more of the sampled surveys could answer some distributional questions about state, or state plus institutional, student aid better than either the states or institutions. These sources are omitted here, not because of their accuracy but rather because they do not address the questions of subsidy per se.

that the other pertinent data sources could do no better. HEGIS omits the proprietary and unaccredited sectors altogether and CENSUS makes it totally impossible to separately identify student aid and related expenditures. All data sources omit even a mention of tax expenditures; as indicated in the preceding section, this could be significant for at least some states.

Chart II can be generally condensed as follows. First, HEGIS addresses only traditional postsecondary education institutions and, hence, omits the sizeable proprietary[13] and unaccredited sectors.[14] Within the traditional sectors, HEGIS data are the most accurate. The most unfortunate aspect of the HEGIS Finance Survey is absence of a source/use matrix to correlate expenditures, such as student aid, with revenue source, such as state appropriations.

Second, ECS annually provides the only annual summary of state aid to independent higher education (programs in operation or approved) including state contracts with private schools for educational services -- a piece of information HEGIS cannot provide. Generally, however, these data are presented at the program level and aside from incidental comments on fund usage, the format is not designed to indicate which institutions, or students, get which funds.

Third, CENSUS reports state appropriations to higher education in rather gross terms: capital/operating funds and regular/auxiliary funds. Student assistance is classified as general assistance and is excluded from the

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[13] It has been suggested that one could estimate the operating budgets of proprietaries by using ENROLLMENT and TUITION data from NCES' Directory of Occupational and Vocational Schools. This, however, would not lead to state appropriations to individual institutions, which is the desired data.

[14] The nontraditional component of postsecondary education largely comprises the occupational and vocational schools already mentioned. However, such entities as universities without walls, free schools and adult vocational education within high schools would not appear within NCES' Directory.

higher education picture. CENSUS' definition is based on the basic nature of institutions; hence, such judgment as where Area Vocational Technical Institutes (AVTI) appear is left to the states.

Fourth, CHAMBERS' data, as mentioned, completely omit capital expenditures and has the same problem as CENSUS data as regards defining higher or postsecondary education. Within states, Chambers' line items are irregularly used; this is expected as these mirror the line items in state budgets.

Fifth, the two NASSGP surveys mentioned in Chart II attempt to paint a comprehensive view of state student assistance programs. There are, however, several weaknesses. State loan program expenditures, if any, are not netted out from federal contributions. Also, the ongoing NASSGP data focus on undergraduate, need-based grant programs and hence the broader collection of state programs[15] receives less than annual attention.

Chart II also illustrates two serious omissions. First, there are no annually collected data of any type on state tax expenditures. As suggested previously in this chapter, the number of special purpose state tax expenditure programs is small and a yearly ad hoc computation of their magnitudes is not exceedingly difficult. Second, the problem of intergovernmental transfers is significant only if CENSUS data are used. (Note that if state public and nonstate public institutional appropriations are aggregated and if only traditional institutions are of interest, then HEGIS data can be used in place of CENSUS data).

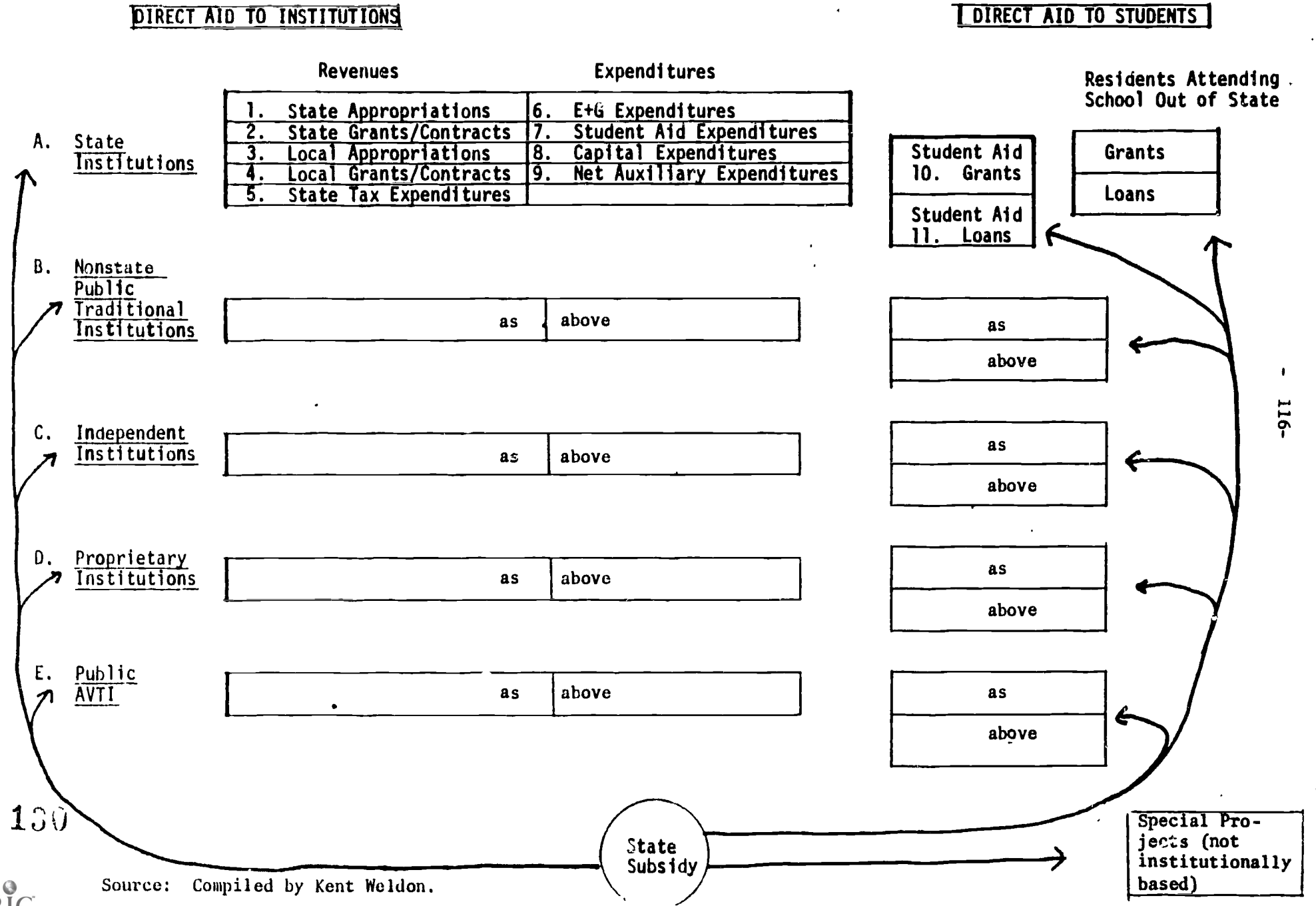
[15] See John Lee and Kent Weldon, Descriptive Profiles of State Student Assistance Programs: Summary Document (Denver, Colo.: Education Commission of the States, 1977).

How then can the various data sources be used to formulate an estimate of state subsidy? Chart III represents a modest attempt to unify the details. The approach taken here is not one of computing a single state subsidy measure, but rather to formulate a collection of data elements which describe the provision of funds by individual states. This approach is one which is strongly guided by HEGIS but which is augmented by the remaining data sources in what amounts to an ad hoc triangulation on key data elements.

First, Chart III shows a delineation among various institutional sectors. The referenced classification scheme is dissimilar from existing classifications, but does reflect the minimal groupings of institutions necessary to understand state, and local, funding roles. For example, the use of a "NONSTATE PUBLIC" classification draws attention to a group of institutions for which the state is not responsible but which generally receives significant state funding. Independent institutions are generally treated differently than proprietary institutions; hence, two classifications. AVTI are not always traditional education institutions, yet figure significantly into the overall subsidy picture in many states. The implication of Chart III is that state subsidy statistics computed without reference to such groupings of educational institutions will seriously distort interpretations of the use of public funds.

For each classification of institutions, several data elements are suggested as essential to discussions of state subisdy. Mostly, these data elements are appropriate to state and local institutions and less so to the other institutional classifications. Institutional revenues are separated to reflect both state and local sources. Grants and contracts are included for the reasons cited earlier; it is important to recall that a significant amount of state aid to private institutions occurs as grants and contracts rather than as general state appropriations.

CHART III
Computation of State Subsidy Data Elements



Source: Compiled by Kent Weldon.

Chart IV

Explanation of Line Items in Chart III*

Line		
A.1	Net State Appropriations	- HEGIS Finance: Line A3
A.2	State Grants/Contracts	- HEGIS Finance: Line A7 + Line A8
A.3	Net Local Appropriations	- HEGIS Finance: Line A4
A.4	Local Grants/Contracts	- HEGIS Finance: Line A9 + Line A10
A.5	State Tax Expenditures	- Separately estimated
A.6	E+G Expenditures	- HEGIS Finance: Line B12 less Lines B9, B10, B11
A.7	Student Aid Expenditures	- HEGIS Finance: Line B9 plus Line B10
A.8	Capital Expenditures	- HEGIS Finance: Sum of C1, C2, C3; column (3)
A.9	Net Auxiliary Expenditures	- HEGIS Finance: Sum of Line B14 less A16 Line B16 less A17 Line B18 less A19
A.10	State Student Aid Grants	- NASSGP/Boyd
A.11	State Student Aid Loans	- (no source) This line item used only when there is a net state contribution to student loans, after netting out federal reimbursement

* The data sources cited here apply to traditional postsecondary education institutions (i.e., those described by HEGIS). For proprietary and area vocational/technical institutions, the estimation procedure is ad hoc (see text).

Expenditure data are suggested in Chart III largely because of the absence of source/use data in HEGIS. This omission makes it extremely difficult to show precisely for what the state, or local, government pays. Thus, in the absence of direct attribution of dollars, it makes sense to at least understand "share" of expenditures supported by these governments. It should be noted here that the treatment of capital expenditures is inadequate, since state fiscal practices regarding postsecondary education facilities are quite diverse. For example, in some states, capital construction funds are not recorded at the campus level, but rather by a state facilities commission. In such cases, these funds must be apportioned to campus (classification) by ad hoc procedures. Suffice it to say that if institutions account for capital funds at all, these can be properly indicated as shown in Chart III.

The case of student aid is complicated by the existence of decentralized state student aid program operations. Where institutions serve as agents, state program dollars will not appear in any HEGIS finance category. In such cases, these funds can be apportioned among institutional groups as "DIRECT AID TO STUDENTS." If institutional student aid funds are part of a general appropriation, these will be legitimately reported under both "STATE APPROPRIATIONS" and "STUDENT AID EXPENDITURES." However, when there is a substantial institutional role in disbursing state student assistance dollars, either of the mentioned reporting strategies can be used and, unfortunately, it is difficult to determine which approach is utilized.[16]

[16] Ideally, of course, one would like to understand the source and nature of all institutionally-administered student assistance funds, whereupon such ambiguity can be immediately resolved. Annually collected data for institutionally administered funds are not currently available.

How, then, should the analytic juggling take place? The following procedure is suggested:

1. Estimate all significant state tax expenditures using ECS to locate such programs and using state revenue department data to estimate the magnitude and distribution of these funds to institutional groupings. (In the case of both Idaho and Indiana, such programs only apply to public and private, nonprofit accredited institutions).
2. Compute the data elements for the "state," "nonstate public" and "independent" institutions using HEGIS finance data. (Note that there are a small number of accredited proprietary institutions within the HEGIS universe).
3. Consult CHAMBERS to complete the "STATE APPROPRIATIONS" data element for "proprietary" and AVTI institutions.
4. Consult CHAMBERS and NASSGP simultaneously to complete the "DIRECT AID TO STUDENTS" categories. Here, NASSGP usually apportions undergraduate need-based aid among public and private institutions. Cross-check with ECS.
5. Compare HEGIS "capital expenditures" with CENSUS to determine, roughly, if all capital expenditures are captured at the campus level. If not, make a best approximation or follow-up with the state coordinating commission.
6. Compare NASSGP with institutional student aid expenditures to determine if state program dollars are included in institutional data. If so, subtract these dollars from both "state appropriations" and "student aid expenditures."

7. Compare gross expenditures from CENSUS with state revenues in Chart III as a final check against lost dollars.

The foregoing ad hoc procedure is intended to yield roughly comparable data describing use of state postsecondary education dollars. The approach intentionally focuses on developing disaggregate statistics; the assumption is that more informed use and interpretation of summary data will result from a better understanding of component data elements. In a sense, the need for procedures such as those suggested in this discussion indicates basic deficiencies in the data collection system. This judgment is perhaps too hard; the demands for good state-level data are overshadowed -- and rightfully so -- by data needs at the student, institutional and department level. Concomitantly, it should be noted that while the existing sources of information are not clearly supportive of each other, they do serve an important "triangulation" role by providing multiple perspective and measurements of essentially the same state-, and local-level, activities.

8. STUDENT AID: FEDERAL-STATE RELATIONSHIPS

by Wayne R. Kirschling

The phenomenal growth of student financial aid since the late 1950s, an average of about 23 percent annual expansion, is ample evidence of the popularity of direct support to students at the federal, state and campus levels. It is now possible to begin to assess whether this national commitment to student financial assistance has accomplished its original intent, and scattered evidence indicates that financial barriers to access have shrunk considerably.[1] However, although much more student financial assistance exists in the system than was previously the case, there are a number of doubts about direct and indirect impacts of this assistance.[2] This chapter examines student financial aid within a larger context of federal-state relationships as they affect postsecondary education, addressing federal concern about variability among the states and key issues for federal-state dialogue.

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[1] The following studies, which are not the only evidence which could be cited, strongly suggest that financial barriers to access may be at reasonable levels: Larry L. Leslie et al., "The Impact of Need-Based Aid Upon the College Attendance Decision," Journal of Education Finance, vol. 2 (Winter, 1977), 269-285; Alexander W. Astin, Financial Aid and Student Choice (Los Angeles: Higher Education Research Institute, Inc., 1978); Humphrey Doermann, untitled and unpublished paper presented at the Aspen Institute Conference on Student Aid Policy (Aspen, Colo., July 1978).

[2] See Gregory A. Jackson, "Financial Aid and Student Enrollment," Journal of Higher Education, vol. 49, no. 6. (1978); Samuel S. Peng and William B. Fetters, "Variables Involved in Withdrawal During the First Two Years of College: Preliminary Findings from the National Longitudinal Study of the High School Class of 1972," American Educational Research Journal, vol. 15, no. 3 (Summer 1978); Joseph D. Boyd et al., "Trends in Meeting College Costs Over the Past Ten Years," The Journal of Student Financial Aid, vol. 8, no. 3 (November 1978).

Diversity Among the States

At first glance, it is somewhat surprising to find that there is confusion about appropriate federal and state roles as regards postsecondary education. Lawrence E. Gladieux and Thomas R. Wolanin note:

> In the support and control of public higher education, the states have the primary responsibility. This is the most durable assumption concerning the relationship between the federal government and higher education. At the Constitutional Convention of 1787, several proposals were advanced to give the federal government authority to establish institutions of higher education, or at least a national university as the "cap of the system." All were rejected . . . the federal role in higher education has always been one of supplementing the states. [3]

The Carnegie Commission on Higher Education summarizes the importance of the states and especially of state financing to higher education in these words:

> As goes state support, as goes state understanding, as goes state acceptance of autonomy, so also goes, beyond any other external influence, the future of higher education in the United States.[4]

Yet, the primacy of the states does not sit well with many in the federal government, especially when individual states fail to respond to national goals articulated and programmed at the federal level. When this happens, state primacy is strongly questioned, at least in the limited sphere where there is current federal interest. Hence, state primacy is often accepted in principle, but often compromised in practice because of federal frustration with the diversity of independent state responses.

There is agreement across federal and state lines on at least one matter regarding higher education; it is difficult, if not impossible, to develop strong paradigms for characterizing states or determining how their decisions are arrived at. "The one simple statement about the states and higher

[3] Congress and the Colleges: The National Politics of Higher Education (Lexington, Mass.: Lexington Books, 1976), pp. 3-4.

[4] The Capitol and the Campus: State Responsibility for Postsecondary Education (New York: McGraw-Hill Book Company, 1971), p.5.

education that is true is that no simple statement about them is true."[5] The fact is that states show considerable diversity in most of the factors which could be expected to influence their approach to higher education. Examples are: (1) fiscal resources, (2) demographics, (3) mix of public/independent/proprietary institutions, (4) manpower needs in the public and private sectors, (5) per capita and per family incomes, (6) tax capacity, (7) constitutional limitations, (8) budgeting processes, (9) general levels of education, (10) degree of urbanization, (11) political party dynamics and (12) attitudes towards taxation and proper uses of tax revenues. With so much diversity among the states, it is understandable that states would not respond in a consistent way and with equal vigor to federal programs that left states with discretion. For example, there is a widespread preference in the federal student-aid community that states should make their student aid dollars portable -- that is, aid recipients should be allowed to use them without prejudice at either an instate or out-of-state institution. Yet, as a recent study by Cathy Henderson points out:

> By 1985, there will be approximately 3.6 million 18-year-olds in the U.S., 600,000 less than the 1975 figure of 4.2 million. The decline in the number of traditional-age-freshmen, however, will vary by state. Indeed, if general population shifts toward the South and the West continue through the next decade, twelve states will have a larger 18-year-old population in 1985 than in 1975. The remaining thirty-nine states, however, are expected to have fewer 18-year-olds in 1985.[6]

It seems inevitable that states such as Alaska and Nevada, which have projected increases in 18-year-olds between 1975 and 1985 of 36 percent and 32 percent respectively, would look at the portability issue more favorably than would states such as Rhode Island and West Virginia, which have projected decreases of

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[5]Carnegie Foundation for the Advancement of Teaching, The States and Higher Education: A Proud Past and a Vital Future (San Francisco: Jossey-Bass Publishers, 1976), p. 59.

[6]Changes in Enrollment by 1985, Policy Analysis Service Reports, vol. 3, no. 1 (Washington, D.C.: American Council on Education, December 1977), pp. 1-2.

50 percent and 38 percent respectively.[7]

But even this analysis is not deep enough to help understand state differences because instate 18-year-old populations do not translate directly into instate enrollments. According to another study:

> The reduction in college enrollments will not be uniform across the nation. The outlook for a particular state depends on three factors: first, general population shifts from one part of the country to another; second, the tendency of the state's high school graduates to attend in-state colleges; and third, the state's historical record as a "net importer" or "net exporter" of undergraduates. In many cases, these factors balance one another out. For instance, looking just at freshman enrollments, we find that only eleven states are likely to suffer significant declines by 1985; six others may actually experience substantial increases; and the remainder are projected to maintain relatively stable freshman enrollments between 1975 and 1985.[8]

Interestingly, Alaska and Nevada are projected to have fewer freshmen enrolled in 1985 than in 1975 (in spite of their substantial 18-year-olds growth rates). In fact, the percentage of Alaska's projected 1985 drop in freshmen is larger than either Rhode Island's or West Virginia's whose 18-year-old populations will drop, almost precipitously.[9]

Yet, in spite of these well-known differences among states, which would certainly seem to call justifiably for different stances on the portability issue, there are still those who would urge the federal government to somehow make interstate portability a major federal priority. One such suggestion has been made by Robert W. Hartman in his request for reforms in the State Student Incentive Grant Program (SSIG):

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[7]Henderson, p.13.

[8]Cathy Henderson and Janet C. Plummer, Adapting to Changes in the Characteristics of College-Age Youth, Policy Analysis Service Reports, vol. 4, no. 2 (Washington, D.C.: American Council on Education, December 1978), p.2.

[9]Henderson, p.19.

> . . . federal criteria under a reformed program would be very different from the current law governing state scholarship incentive grants . . . The single most important mandatory criterion ought to be the full and free portability of the state scholarships. The unwillingness of all but a few states to adopt this on their own largely justifies federal intervention.[10]

While Hartman's call for mandatory portability is tied only to SSIG funds, it is but a short step for someone else to suggest that no students or institutions in a particular state could receive any federal student aid funds -- or for that matter, any federal educational support -- unless the state had a "full and free portability" policy.

In view of the federal reaction to state diversity, it is interesting to consider state response to federal diversity. If the federal government is unable to adjust its policies and programs to 50 states, consider the plight of the individual states who need to adjust their policies and programs to the federal government which spends $17 billion on higher education under 400 separate authorizations. Furthermore, these monies and programs are administered by almost 50 separate agencies. In fact, if state diversity is troublesome to the federal government, federal diversity may be overwhelming to many states. As noted by Andringa: ". . . the jurisdictional authority for education in the Congress is split among three or four dozen subcommittees, none of which necessarily wants to stir the waters and get outside of its own narrow jurisdiction."[11] For some reason it is acceptable, or at least understandable, for executive agencies and legislative committees at the federal level to stay within their "own narrow jurisdiction." Yet, individual states, despite their admittedly different constituencies and circumstances, are subjected to federal incentives to get them to respond in uniform ways.

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[10] "Federal Options for Student Aid," Public Policy and Private Higher Education, ed. David W. Brenneman and Chester E. Finn Jr. (Washington, D.C.: The Brookings Institution, 1978), p. 267.

[11] Robert Andringa et al., Perspectives on Federal Educational Policy (Washington, D.C.: Institute for Educational Leadership, George Washington University, 1976), p.14.

Components of State Diversity

Although the federal government operates massive student aid programs, its purpose is not so much to provide financial aid as it is to affect net prices for certain groups of students. Kenneth M. Dietch's observations provide a good summary:

> . . . it is useful to summarize two central characteristics of the current (pricing) system. First, it is about as thoroughly developed, pervasive, and well-functioning a system of price discrimination as exists in any ongoing economic endeavor. The term "price discrimination" is unfortunate because the word "discrimination" has such unpleasant and emotion-laden connotations. However, price discrimination is precisely what is happening, and it would not be helpful to our understanding to avoid the phrase.
>
> Second, the system's outcome depends upon the interaction of two sets of forces, those establishing prices and those establishing rules for altering them for some students. For a very wide spectrum of higher education, decisions regarding prices and the basic rules governing the award of financial aid are made by separate groups. Of course a state has the option of making both sets of decisions in this sense: it sets prices in the public sector, and it can simultaneously determine the rules for awarding its own financial aid. In reality, however, there are limits to the degree to which states actually achieve a high level of coordination between pricing and financial aid policy.[12]

Quite clearly, the relationship between prices, or educational costs more generally, and student aid is crucial as only states are in a fairly favorable position to affect net costs, at least in the public sector. This, understandably, is a source of concern to some within the federal government. Also, it is not clear that individual states approach the net cost equation in any straightforward way. Rusk and Leslie's study of tuition levels among major state universities suggests all or some of the following: "...(1) tuitions are set in relation to prevailing

[12] "Pricing and Financial Aid," unpublished paper presented at the Aspen Institute Conference on Student Aid Policy (Aspen, Colo., July 1978), p. 53.

state and regional norms, i.e., in relation to 'commonly accepted area values'; (2) prices are set in response to area competition; (3) state government seeks to maintain some general ratio of prices within the public sector and in relation to prices in the private sector."[13] The authors also suggest some other variables, including: tuitions are higher as the state percent of enrollment in the private sector is higher; tuitions are higher as state student aid awards are higher; and tuitions tend to be higher as the percentage of state and local expenditures is lower, "which could be interpreted to suggest that as the state financial effort for higher education slackens, tuitions are raised to make up the difference."[14] If this study is representative, pricing decisions in the public sector seem to be related to student aid decisions but are affected by a good many other considerations.

Like pricing patterns, student aid decisions among states also are complex and are intended to address much more than just aid to students. The original motivations of many states in supporting either centrally administered or campus based programs may have centered in a desire to reduce the financial barriers and/or the financial burdens of higher education for persons from lower income groups. However, it is currently clear that the motivations of many states have become more complex than net cost considerations alone would suggest.

Clearly, there are a number of states in which student aid programs exist principally because of the availability of matching federal funds. In the absence of these matching funds probably many, if not most, of these states would eliminate state student aid. Likely candidates are the District of Columbia and the fifteen states that exactly match federal SSIG funds -- Alaska, Arizona, Arkansas, Hawaii, Idaho, Louisiana, Mississippi, Montana, Nebraska, Nevada, New Hampshire, New Mexico, North Carolina, Oklahoma and South Dakota.[15] As regards state level

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[13] James J. Rusk and Larry L. Leslie, "The Setting of Tuition in Public Higher Education," Journal of Higher Education, vol. 49, no. 6 (1978), 540.

[14] Ibid.

[15] Joseph D. Boyd and Sybil E. Francis, National Association of State Scholarship and Grant Programs: 10th Annual Survey, 1978-1979 Academic Year (Deerfield, Ill.: Illinois State Scholarship Commission, 1979), p.7.

student aid programs, these states fit Chester Finn's pessimistic description of states: "I see the states saying to Washington that they'll cheerfully take federal funds for any and all purposes. The income is largely 'fungible' and it lightens their own tax burden."[16] At the other end of the spectrum are thirteen states where federal funds are less than ten percent of total state scholarship/grant program dollars. In four states the federal share is less than five percent -- New York, two percent; Minnesota, four percent; Pennsylvania, four percent; Illinois four percent; and Vermont, four percent.[17]

A prominent consideration in many states is the desire to bolster up private institutions without providing direct assistance to private institutions. A recent Education Commission of the States (ECS) survey of programs in operation or approved for state support of private education reports:

> In 1977 all but four states (Arizona, Nebraska, Nevada and Wyoming) and the District of Columbia made aid (in addition to tax exemption) in some form, indirect or direct, available to private institutions or their students. The forms of such aid fall into six major groups: student assistance; direct institutional aid; contracts; special programs for disadvantaged students; support for medical, dental, nursing and health-related fields; and provision of facilities authorities to enable independent institutions to take advantage of tax-exempt bonds for capital construction. (p. 1)
>
> . . . the states, as judged by action, have been and are far more responsive to the issues and problems of independent institutions than the federal government. . . . federal programs overlooking the diversity of the states and their approaches to the issue, particularly programs that propose uniformity in procedures and treatment across states, may well be counterproductive from the standpoint of state response. It would seem that the states, far more than the federal government, are seriously concerned with the continued health of the private as well as the public sectors of higher education. (p. 31)[18]

[16] Robert Andringa et. al., Perspectives on Federal Educational Policy (Washington, D.C.: Institute for Educational Leadership, The George Washington University, 1976), p.14.

[17] Boyd and Francis, p.7.

[18] Richard M. Millard, "The States and Private Higher Education," Higher Education in the States, vol. 7, no. 1 (Denver, Colo.: Education Commission of the States, 1978)

Another factor in state student aid programs is the existence of special interest groups within a state to promote the cause of financial assistance to students. One obvious special interest is the private sector. Where the private sector is well organized, it is likely that student aid programs have fared well. Student lobbies also are a consideration. A third group is the state agencies that are entrusted with responsibility for state student aid programs. One would expect that separate student aid agencies would consistently advocate the need for sufficient funds. Table I seems to confirm this suspicion. While cause and effect cannot be inferred, it is interesting to note the substantially larger effort made by states that have separate student aid authorities or commissions compared to states with other structural arrangements. In fact, only one state that has a separate authority or commission (Louisiana) merely matches federal funds. The other fifteen states who only match are spread out over the other four types of arrangements.

Intangible factors, but still important, are the prevailing views within individual states about issues such as accountability, the proper role of government and competition. One observer notes:

> Governors like Brown (California), Dukakis (Massachusetts) and Lucey (Wisconsin) want both less government and greater accountability . . . Even though their vision of politics may be wrong, nonetheless it is a vision likely to have real force in the coming years.
>
> So the politics of higher education might well be influenced to a significant extent by how elected officials sort out conflicting values in their own ideologies. If they prefer accountability, they may emphasize allocations to public institutions. If they give greater weight to curbing the size of government, they might well develop funding systems (especially

> student choice systems) which allow private institutions to survive.[19]

It seems likely that some states will opt for strong student aid systems not so much because they believe more strongly than other states that their students have unmet needs, but rather because they believe that students should help to shape the higher education system within the state.

An additional factor affecting state student aid efforts, and state efforts of almost every kind, is peer influences. The apparent effect of peer comparisons regarding tuition levels was discussed previously. A study of factors affecting tuition levels at the major state university in each of the states points out:

> The foremost of these variables appears to be the tuitions charged by others in the "market area." If the states, as represented by their leading universities, are divided into four regions, the national range in resident tuition and fees is almost halved. Further subdivisions indicate even tighter ranges of charges; for example, if the Midwest is divided into the Great Lakes and Plains Regions the range again almost is halved. Similar patterns are evident in a comparable analysis of nonresident charges. In both cases the reduced ranges indicate that there are decided regional patterns. Clearly suggested also is that those responsible for establishing student charges are aware of tuition and fee levels in adjoining states.[20]

A regional comparison of state student aid efforts is reported in Table II, showing strong regional differences. While there are "within region" differences, even when "high" and "low" states within each region are ignored, the regional rankings do not change. The middle Atlantic states (New York, New Jersey and Pennsylvania) and the east north central states (Ohio, Indiana, Illinois, Michigan and Wisconsin) clearly make the largest state student aid efforts.

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[19]Private communication reported in Robert O. Berdahl, "The Politics of State Aid," Public Policy and Private Higher Education, ed. David W. Brenneman and Chester E. Finn Jr. (Washington, D.C.: The Brookings Institution, 1978), pp. 351-52.

[20]Rusk and Leslie, p. 534.

AGENCY RESPONSIBLE FOR STATE ADMINISTRATION OF UNDERGRADUATE SCHOLARSHIP/GRANT NEED-BASED PROGRAMS*

Separate Authority or Commission		Div. of State Board of Higher/Postsecondary Education		State Office of Education		1202 Postsecondary Commission		Other	
State	% State Funds	State	% State Funds	State	% State Funds	State	% State Funds	State	% State Funds
California	86	Alabama	56	Florida	79	Arizona	50	Alaska	50
Colorado	92	Arkansas	50	Maine	79	Colorado	92	D. C.	50
Georgia	65	Connecticut	90	Michigan	91	Delaware	68	Idaho	50
Illinois	96	Kansas	84	South Dakota	50	Hawaii	50	Mississippi	50
Indiana	94	Massachusetts	86	Average	74.8	Nebraska	50	Nebraska	50
Iowa	95	Minnesota	96			New Hampshire	50	North Carolina	50
Kentucky	84	Missouri	86			New Jersey	95	Texas	78
Louisiana	50	Montana	50			Washington	73	Average	54.0
Maryland	78	Nevada	50			Average	66.0		
New York	98	New Mexico	50						
Ohio	91	New Jersey	95						
Oregon	88	North Dakota	52						
Pennsylvania	96	Oklahoma	50						
Rhode Island	90	Utah	75						
South Carolina	92	Virginia	62						
Tennessee	76	W. Virginia	86						
Vermont	96	Average	69.9						
Wisconsin	94								
Wyoming	72								
Average	85.9								

Source: Adapted from Boyd and Francis, pp. 7, 15.

* State Student Aid Efforts as a Percentage of Total Federal and State Funds for State Administered Programs

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TABLE II

STATE STUDENT AID EFFORTS IN CENSUS REGIONS

Region	State	% State Funds	Regional Average	Adjusted Regional* Average
Middle Atlantic	New York	98	96.3	96.0
	New Jersey	95		
	Pennsylvania	96		
East North Central	Ohio	91	93.2	93.0
	Indiana	94		
	Illinois	96		
	Michigan	91		
	Wisconsin	94		
North East	Maine	79	81.8	86.2
	New Hampshire	50		
	Vermont	96		
	Massachusetts	86		
	Rhode Island	90		
	Connecticut	90		
West North Central	Minnesota	96	73.3	73.4
	Iowa	95		
	Missouri	86		
	North Dakota	52		
	South Dakota	50		
	Nebraska	50		
	Kansas	84		
South Atlantic	Delaware	68	72.5	73.0
	Maryland	78		
	Virginia	62		
	West Virginia	86		
	North Carolina	50		
	South Carolina	92		
	Georgia	65		
	Florida	79		
Pacific	Washington	73	69.4	69.7
	Oregon	88		
	California	86		
	Alaska	50		
	Hawaii	50		
East South Central	Kentucky	84	66.5	66.0
	Tennessee	76		
	Alabama	56		
	Mississippi	50		
Mountain	Montana	50	61.1	57.8
	Idaho	50		
	Wyoming	72		
	Colorado	92		
	New Mexico	50		
	Arizona	50		
	Utah	75		
	Nevada	50		
West South Central	Arkansas	50	57.0	50.0
	Louisiana	50		
	Oklahoma	50		
	Texas	78		

*High and low numbers are dropped from the calculation of the mean.

Source: Adopted from Boyd and Francis, p. 7.

At the other end of the spectrum are the mountain states (Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah and Nevada) and the west south central states (Arkansas, Louisiana, Oklahoma and Texas). Table III relates the Rusk and Leslie data on charges at the major state universities to the Boyd and Francis data on state student aid efforts. Judging from this table, peer influences affect both tuition and student aid.

TABLE III

COMPARISON OF STATE STUDENT AID EFFORT AND UNDERGRADUATE CHARGES AT MAJOR PUBLIC UNIVERSITY BY CENSUS REGIONS

Region	(78-79) Average % State Funds	(76-77) Average Resident Undergraduate Tuition and/or Required Fees at Major Public University
Middle Atlantic	96.3	$ 1008
East North Central	93.2	$ 793
North East	81.8	$ 956
West North Central	73.3	$ 650
South Atlantic	72.5	$ 689
Pacific	69.4	$ 540
East South Central	66.5	$ 574
Mountain	61.1	$ 536
West South Central	57.0	$ 433

Source: Compiled by Wayne Kirschling.

Another factor that has influenced state student aid efforts, and one that is likely to continue to influence, is the fiscal strength of the individual states. Table IV shows that from 1950 to 1973 the proportion of state expenditures going directly to higher education increased dramatically. However since 1965, the proportion has held steady. The major shifts since 1965 in state expenditure have occurred in highways (about a 10 percent drop) and in public welfare (about a 7 percent rise). These shifts are important because program areas

differ considerably in their budgetary flexibility. That is, it is easier for states to reduce their expenditures in some program areas than in others when state revenues drop from expected levels.

TABLE IV

DIRECT GENERAL EXPENDITURE OF STATE GOVERNMENTS, UNITED STATES 1950-1973 (IN %)

General expenditures	1950	1955	1960	1965	1970	1971	1972	1973
Institution of higher education	4.0	8.5	10.5	13.0	14.2	14.0	13.5	13.2
Other education*	23.8	20.9	22.0	22.9	25.6	25.4	25.3	25.3
Highways	21.8	28.0	26.9	24.3	17.4	16.6	15.6	13.9
Public welfare	19.2	15.4	13.6	13.4	17.0	18.3	19.4	20.1
Health & hospitals	8.5	8.5	7.6	7.3	6.9	6.9	7.0	6.8
Police protection	0.6	0.8	0.9	0.9	1.0	1.0	1.0	1.0
Correction	1.2	1.6	1.6	1.6	1.4	1.4	1.4	1.4
Natural resources	3.9	3.6	3.2	3.4	2.9	2.9	2.6	2.5
Housing and urban renewal	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.4

* Other education expenditures are all education expenditures excluding higher education expenditures.

Source: Fred C. White and Wesley H. Musser, "Business Cycles and State Governmental Finances: Implications for Higher Education," Higher Education, no. 7 (1978), p. 181.

Clearly, the federal government, because of its influence on the national economy, has a major effect upon the financial health of states and indirectly, then, upon the financial generosity of states regarding higher education. White and Musser, in their study of business cycle and state government finances, report:

> Historically, state governments depended largely upon property taxes as a source of revenue. While property values fluctuated with the level of economic activity during business cycles, the short-run income elasticity of property tax revenue was not high so that revenues were stable except for protracted periods of economic depressions such as the 1930s. During

> the 1930s, other forms of taxation grew in importance to assist in balancing state budgets. These taxes were of three categories -- special excise taxes, general sales taxes, and income taxes . . . .
>
> These structural changes in state finance have been advantageous for the process of raising revenue to finance the rapidly growing public service sector. Income tax yields are the most responsive to economic growth, while general sales taxes, property taxes and excise taxes are less responsive. However, increased dependence of total revenue on income taxes also results in total revenue being increasingly subject to short-run business cycles.[21]

Hence, it seems that states are becoming more susceptible to economic fluctuations, which is no small way are the result of federal fiscal and monetary policy. In investigating whether higher education is more or less affected than other state program areas by these fluctuations, these same authors find that although state government support for higher education grew remarkably since about 1950, the size of the increase in state support has been directly linked to the general level of economic activity. They note that in general the rate of increase in real support did decline greatly in the seventies compared to the previous decade. However, this decreasing rate of increase of support for higher education accompanies the decline in rate of increase in real personal income during this period. After comparing the elasticity of expenditures for both current and capital outlays for all regions in the United States (see Table V), which can be compared with a similar elasticity for other general expenditures of all state governments, White and Musser conclude that higher education would be relatively more vulnerable to business cycles than the rest of the state program areas.[22]

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[21] White and Musser, pp. 179-180.

[22] Ibid., pp. 183-186.

TABLE V

SHORT-RUN INCOME ELASTICITIES FOR CURRENT AND CAPITAL EXPENDITURES FOR HIGHER EDUCATION BY REGIONS OF THE UNITED STATES

Regions *	Current expenditures		Capital expenditures	
	Short-run elasticity	Standard error	Short-run elasticity	Standard error
North East	0.826	0.575	1.537	3.023
Mid-Atlantic	0.855	0.782	1.709	2.500
Eastern North Central	0.486	0.314	2.611	1.373
Western North Central	0.299	0.297	0.335	1.019
South Atlantic	0.265	0.327	1.477	1.058
Eastern South Central	0.596	0.445	2.389	1.876
Western South Central	0.927	0.404	1.935	2.141
Mountain	0.573	0.415	0.748	1.435
Pacific	0.794	1.054	-1.951	2.825
United States	0.544	0.364	1.826	1.097

*The regional classification scheme used herein corresponds with that presented in U.S. Bureau of the Census, Statistical Abstract of the United States: 1975, Washington, D.C., 1975.

Source: White and Musser, p. 186.

The White and Musser study, unfortunately, did not look at the elasticity of state student aid expenditures. This is an important omission which should be corrected. In the absence of such a study, it is essential to note that arguments can be made for student aid expenditures either being more or less elastic than operating expenditures. It would seem highly unlikely that student aid expenditures would be less elastic than capital expenditures. The case for student aid expenditures being more elastic than operating expenditures rests upon the relative newness, and hence greater vulnerability, of most state student aid programs and upon the relative strength of the institutional lobby. The counter case that student aid may be less elastic than operating expenditures rests upon the previously mentioned point that student aid is a growing social expectation. The number of voters touched by direct student aid expenditures may be larger in some states than those directly touched by institutional expenditures. Consequently states may find it easier to appear to have institutions rather than students bear the burden of any necessary budget cutting.

A Context for Federal-State Dialogue

If for no other reason than the dollars that are attached to it, student financial aid has become a central part of the higher education milieu. While there are legitimate doubts about whether the massive student aid effort has leveled financial barriers to access (partly because these barriers may never have been as important as some thought), there is no doubt that financial aid has significantly affected how higher education is financed and who pays what portion of the bill. Probably most important of all, the student aid movement has placed another financing tool in the hands of the states as well as the federal government.

It is hard to imagine circumstances under which student aid would decrease in importance, partly because of the numerous special interest groups which have developed around student aid. In fact, student aid is no longer just a financing mechanism; it is a full-fledged business that is complete with profit-making organizations and with associated student aid professionals and professional societies. This business seems destined to prosper unless some rather major problems occur. Yet, the probability of serious mistakes is not as low as might be expected. Arthur S. Marmaduke observes that "the pressures from various interest groups (including both low and middle income families) . . . will reinforce the national commitment to financial aid funding unless governance and management deteriorate to a point of losing public confidence."[23] Given recent scandals in the loan programs and in the recruitment of students, it does not stretch the imagination too far to envisage the current systems of governance and management publicly breaking down to the point where public confidence is lost, not in the idea of student aid but in the ability of government and institutions to reasonably implement the idea. Doermann raises another damaging possibility:

[23]"Implementing the Student Financial Aid Partnership," unpublished paper presented at the Aspen Conference on Student Aid Policy (Aspen, Colo., July 1978), p.15.

> I believe that much . . . harm can occur throughout the whole system if it is over-funded and if postsecondary education thereby becomes in any noticeable sense a warehousing or welfare program, and if the general taxpayer then concludes it is all a boondoggle whose primary benefit is to teachers and administrators and educational bureaucrats in government. After Proposition 13 one does not need to argue the virtues of keeping lean the design of public programs.[24]

Given the evidence that was cited earlier, it may well be that the current student aid system is roughly at the right size, considering its current definitions of target populations. If it were to be substantially increased, it would respectively increase the risks that Doermann is concerned about.

If the current student aid system is roughly at the right size, this is best attributed to good fortune rather than to carefully orchestrated public policy. The lack of a coordinated federal and state policy is surely not due to a lack of proponents. Yet as persistent as the call is for federal-state partnership at both the policy and operational levels, such a development does not seem to be much closer to realization than a decade ago. This view may be too pessimistic, as there are indications that educational policymaking -- which has existed with separate jurisdiction at the local level, with isolated state-level administration and with simple and infrequent state-level legislation -- is finally entering the American federal system.[25] At the same time, such an optimistic attitude is tempered by William D. Van Dusen's observation that the development of publicly funded student aid in the United States is an example of the type of compromise common in this country's puralistic, democratic society. He says, "Often competing and occasionally conflicting public and private goals have been modified and amalgamated into a series of student aid programs which fulfill, or attempt to fulfill, a variety of purposes ... the current

[24]Untitled, unpublished paper, p.6.

[25]Andringa et al., p.11.

configuration ... appears to work adequately for many, or even most."[26]

Because the current arrangements are getting the job done, it is unlikely that there will be major changes in the structure of student aid administration. Again, this lack will not be due to a shortage of urging and alternatives. For example, Van Dusen has described two possibilities: (1) an independent government agency, with a representative governing board having congressionally-delegated power, modeled after various state student aid commissions or (2) a congressionally-chartered public corporation with an independent governing board that would increase the separation of the governance of student aid from legislative and bureaucratic dominance.[27] Doermann's list of possibilities includes two similar to those offered by Van Dusen and also suggests: (1) a new self-governing national organization with a formal structure and with voluntary representational membership from institutions, states, educational associations, the federal government and students and (2) a similar model but one that would leave operational responsibilities for need analysis guidance systems, training, etc. with existing agencies.[28]

As all parties gain more experience with the current student aid systems, the risks inherent in the system are becoming clearer. One of the real challenges to the various parties which affects the system is to achieve an appropriate balance between the risks that exist. Some of these that confront the student aid system are described in Table VI.

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[26] The Coming Crisis in Student Aid: Report of the 1978 Aspen Institute Conference on Student Aid Policy (New York: Aspen Institute for Humanistic Studies, 1979), p.5.

[27] Ibid., p. 27.

[28] Doermann, pp. 19-21.

TABLE VI

EXAMPLES OF ANTITHETICAL RISKS INHERENT IN THE STUDENT AID SYSTEM

	Risk #1		Risk #2
1a.	too few funds, resulting in significant financial barriers or burdens.	1b.	too many funds, resulting in financial rewards and abuses.
2a.	too little redundacy among aid programs resulting in no ability for mistakes in one program to be corrected in another.	2b.	too much redundacy resulting in substitution of federal dollars for state dollars, state dollars for parental dollars, etc.
3a.	too little support for choice resulting in private institution trauma.	3b.	too much support for choice resulting in public institution trauma and some students dining on "steak" while others have to be satisfied with "hamburger."
4a.	too lax a screening of financial need with the result that: (1) awards are made that are too high or should not have been made (2) cheating is implicitly encouraged.	4b.	too tight a screening of financial needs with the result that awards are wrongfully denied and access and choice opportunities damaged for the victims of the tough screening.
5a.	financial aid awards made on the basis of very rigid criteria which frustrate the consideration of unusual but important individual circumstances.	5b.	substantial discretion allowed in financial aid awards with the result that persons in equal circumstances but different locales are treated differently.
6a.	not enough financial aid funds to encourage access and choice	6b.	too much emphasis on the financial barriers and too little emphasis on the non-financial barriers to access and choice.
7a.	too little emphasis on equal educational opportunity.	7b.	too little emphasis on the quality of the educational opportunity.
8a.	not enough "purchasing power" in the hands of prospective students.	8b.	benign neglect of the non-instructional aspects of higher education.
9a.	absence of a partnership among federal and state governments in providing access for traditional, college-age persons.	9b.	duplication of target populations among programs with the result that other needy populations are underfunded or overlooked.
10a.	intrusion of federal government into state and institutional affairs.	10b.	unequal educational opportunities in different areas of the country.
11a.	aid awards that are not sufficiently responsive to costs (e.g., income based aid).	11b.	aid awards that encourage cost increases (e.g., excessive tuition increases).

TABLE VI, Continued

12a. too stringent aid processes	12b. a growing sense of entitlement and a decreasing sense of obligation.
13a. too little assistance for those with the greatest financial need.	13b. a growing sense that the poor are "overprivileged" with concomitant loss of widespread support.
14a. insufficient attention to financial need.	14b. insufficient attention to persons with special academic needs (e.g., the academically handicapped and gifted).
15a. too little emphasis on access	15b. too little emphasis on persistence and educational outcomes.
16a. student aid professionals not given a large enough voice in aid policy and sufficient discretion in the operation of aid programs.	16b. public policy and public programs being dominated by professional rather than political processes and by special interest groups rather than elected and appointed officials.
17a. a jumbled student aid system	17b. a consolidated student aid system that requires enormous political energy to hold together.
18a. federal programs that do not involve the states or allow state discretion.	18b. incentives for states to "rob the federal treasury" or not participate thereby denying program benefits to citizens who reside in that state.
19a. too little attention on adequate funding of existing programs.	19b. too little attention on the effective and efficient operation of current programs.
20a. overly high expectations for parental contributions and student self-help.	20b. taxpayers' assuming someone else's bills.

Source: Compiled by Wayne Kirschling.

As noted before, the current system is working and probably getting better. It may just seem as though it is getting worse because the inherent risks that always existed are now recognizable. As the many capable individuals throughout the student aid system grow in experience, one can expect the overall blending of risks to improve and the overall results, and perhaps even the teamwork, to get better.

An Agenda for Federal-State Dialogue

While the temptation is strong to seek the perfection of the current student aid system, this temptation is best resisted. The trite and important truism that the "only constant is change" is fully applicable to student aid. Hence, what is needed is a dedication to improvement of the current system and a corresponding openness to change, even major change. This section identifies a brief agenda of some of the change-oriented issues that will be placing strains on both the student aid system and on the respective roles in that system of the federal and state government. These issues are not the only important ones that the system will need to consider nor do they necessarily supplant current concerns such as single application procedures, uniform needs analysis systems and interstate portability. Rather, they are suggested as the best estimations of important and controversial issues that will permeate student aid dialogues and that likely will change the student aid system over the next decade. Specifically, the issues to be discussed are: (1) persistence and educational quality, (2) merit and (3) new clientele.

The first issue demanding attention is persistence and educational quality. One useful way of describing the evolution of the student aid system is to describe the trend in its operational, as contrasted with its rhetorical, objectives. The first operational objective was access. In recent years, the choice objective has begun to take effect. The next difficult step is beginning to implement persistence and quality objectives.

The persistence objective will be difficult, not because there is disagreement over its desirability but rather because few, if any, good financial strategies for impacting persistence have been advanced. For example, there is some dated but still interesting evidence that financial aid officers orient grants towards freshman and work-study loans towards upperclassmen. This data is reported in Table VII.

TABLE VII

RECIPIENT PREFERENCES OF FINANCIAL AID OFFICERS

		Public			Private		
Program	Preference Given To	Univ.	4-year	2-year	Univ.	4-year	2-year
EOG[1]	Freshman	87.2%	85.6%	68.2%	100.0%	79.4%	68.4%
	Upperclassmen	19.2	25.0	39.5	11.8	33.7	45.6
CWS[2]	Freshman	-------	16.6%	overall	----------		
	Upperclassmen	-------	35.5%	overall	----------		
NDSL[3]	Freshman	13.5	11.8	12.4	23.2	16.5	22.8
	Renewing Upperclassmen	54.7	52.9	50.6	62.1	61.1	34.8
	First-time Upperclassmen	2.3	5.9	8.7	16.8	6.7	7.0

[1]Columbia University 1969-70 national survey of 1,620 institutions participating in Equal Opportunity Grant (EOG) Program.

[2]Columbia University 1970-71 national survey of 2,006 institutions participating in the College Work Study (CWS) Program.

[3]Educational Testing Service 1973-74 national survey of 1,457 institutions participating in the National Direct Student Loan (NDSL) Program.

Source: Adapted from Daryl Carlson, Student Price Response Coefficients for Grants, Loans, Work-Study Aid, and Tuition Changes: An Analysis of Student Surveys (Menlo Park, Calif.: Stanford Research Institute, 1974), pp. 21-23.

If these tendencies still hold true, it is likely that they tend to promote access but degrade persistence. By emphasizing self-help in the final years, the system in effect increases the costs to the continuing students. Presumably this pattern is reinforced, at least in part, by some kind of notion that upperclassmen will be willing to pay more if necessary because they have to protect their earlier investment or because they are closer to goal-completion. Whether or not this is the logic and whether or not this logic explains student behavior, it is true that

increasing reliance on self-help options will increase the costs to the student. Since these increased costs will tend to reduce persistence, this problem needs to be thought through more carefully than it has to date and new patterns considered. For example, it might be useful to think about loan forgiveness options where the forgiveness would increase as the student neared graduation.

The educational quality objective will likewise be difficult to make operational. Again, this will not be attributable to disagreement over the objective. Rather, the problem will be one of trying to define quality and of distinguishing between high cost and high quality. It just may be that the definitional problems in this area will be too great for any operational progress to occur. Rather, the current quality assurance systems (e.g., accrediting and program review and approval) will continue, but there will be no explicit links between financial aid awards and educational quality beyond those tenuous relationships implied by cost.

A second major issue which likely will bedevil the student aid community is the issue of merit. In fact, fifteen states now operate student aid programs where potential academic ability is required as a condition of original eligibility. These states make over 200,000 awards in these programs with funding totaling more than $167 million.[29] The candle of academically based undergraduate scholarships still flickers and in some places burns brightly at the state level, even though it is seemingly snuffed out at the federal level. In fact, in some segments of the student aid community, merit is viewed as an attack, albeit indirectly, upon the sanctity of need-based programs. For example, Doermann believes: "Without greater self-discipline or regulation, the

[29] Boyd and Francis, p.11.

public will put in more funds to buy access only to watch the other actors nullify or offset that good intent by siphoning . . . out 'merit' or 'no-need scholarships.'"[30] Van Dusen expresses a very similar concern:

> Another example of the potential for serious conflict in goals is the increasing use by institutions of their own resources to recruit the academically talented with "no-need" scholarships while at the same time they use public money to recruit the financially disadvantaged with need-based offers of assistance. There is the real possibility of loss of public confidence in a system that stimulates increases in public appropriations for need-based programs and, at the same time, permits increases in institutional and private programs supporting no-need awards.[31]

All the ingredients for dissention are present as regards the merit issue, if for no reason than each side feels so right about its position.

The final issue to be raised here is that of new clientele. To an amazing extent, federal and state student aid programs have focused on the same groups -- "college-age" undergraduate students with demonstrable financial need who are enrolled full-time. These persons literally are enjoying a student aid banquet. At the same time, there are growing numbers of nontraditional students who have clear educational and financial needs. Certainly the temptation is going to become stronger for individual states to withdraw from federally defined student aid and reassemble on new fronts. This temptation has grown even stronger with the recent federal movement into middle-income financial assistance.

Since leadership states preceded the federal government into the need-based area, it is likely that they will also lead in exploring new financial aid

[30] Untitled and unpublished paper, p.13.

[31] The Coming Crisis in Student Aid, p.6.

territory. While there will be some within the aid community who will protest this, such initiative is likely to take place in the near future. If successful, these leadership initiatives will put strong pressures on other states to assume complete responsibility for financial need in traditional college populations and especially on the federal government to examine the federal role with respect to new populations.

There can be little doubt that the student aid system is one of the major accomplishments of the educational community over the last two decades. Although the system appeared and developed in a period of growth, its most valuable contributions may yet come in the dark period of enrollment and financial instability which faces the educational community. Direct payments to students, which were little used until recently, are now available to the federal government, the states and the institutions. These, along with categorical programs and direct institutional aid, should allow those entrusted with the course of American education at all levels to act with more accuracy and grace than would have otherwise been possible. If this is so, the national investment in the student aid system will have been successful, not only in terms of those whom it has already helped but also in terms of those whom it will help in the future.

9. STATE STUDENT INCENTIVE GRANT PROGRAM POLICY OPTIONS

By John Lee

Because the federal incentive to induce states to develop a student aid program is no longer adequate now that all states have a program, it is necessary to consider some alternative goals that might be fulfilled by a state-federal program in the near future. Clearly neither the Administration nor Congress perceives a new role for the State Student Incentive Grant Program (SSIG) that warrants any large increases in funding. Generally representatives of states take the position that states ought to get federal funds with few federal controls on the use of that money, which is an argument that has not proven to be overwhelmingly persuasive. Given this rather listless debate, there is not much expectation for changes in the program or for increases in funding, which is unfortunate because the nation needs new policies for a new era in postsecondary education. There is evidence that the changed demographics of the 1980s coupled with increasing conservatism about spending on social programs will result in a very different environment for postsecondary education. The mix of enrollment will probably change with increasing proportions of adult and part-time students. Enrollments will increase in some areas and institutions at the same time that others are declining. Some states will be willing to increase spending for higher education while others will be more reticent. This increasing turbulence will result in a greater potentiality for conflict among states and institutions and the federal government.

An example of potential conflict is the possibility that states will increase tuition and reduce student aid appropriations in order to capture a larger share of federal student aid dollars. There are some early indications that this is beginning to happen as the Basic Educational Opportunity Grants Program (BEOG) and Guaranteed Student Loan Program (GSL) have been liberalized

to expand student elibility. Some states have considered reductions in their own student aid programs and increases in tuitions. This possibility sets the stage for a clash between state and federal governments. If the state goal is to save money and the federal goal is to increase access and choice, there is bound to be conflict. The federal government might well make constraint of tuition increases a condition for receipt of student aid, a recommendation that would probably be resisted by the majority of institutions and states who need freedom to make fiscal and policy decisions. This conflict exemplifies the central issue for the eighties, which is the need to protect and extend student access and choice while assuring the autonomy and independence of states and institutions.

In view of the expected change and resulting problems, there are a series of possible goals SSIG might help reach in the future, including:

- protection of the diversity of postsecondary education opportunity;
- provision of incentives to states to increase support of post-secondary education;
- protection of the private sector in higher education; and
- control of inflation of tuition and fees.

In many instances there are several approaches to these goals, so the following suggestions, which are laid out in general terms and not in detail, will be considered as exemplary and not exhaustive. Consideration of funding levels, state allocation formulas and mechanics of operation would need to be worked out as a proposal is given careful consideration. The purpose here is to identify possible goals of the program, possible program design factors and pros and cons of each approach.

Protection of the Diversity of Postsecondary Education Opportunity

Under its original legislation a broadly defined SSIG program has helped protect admirably the diversity among states on almost every phase of program

operation. Each state has the freedom to generate a program appropriate for the political climate, for institutional preference, for type of students served and for the financial commitment of the state. Examples of this diversity can be recognized in eligibility of students and institutions. Some states require an academic qualification as well as a definition of need for recipients of state aid. Some states reserve the majority of funds for students attending private colleges while others make the same award to all students regardless of cost of attendance. Eligibility for part-time students, out-of-state portability of grants and eligibility of students in proprietary institutions are all examples of characteristics that differentiate state programs of student aid.

Although this rich diversity of programs can be identified as a positive result of the program and an argument can be made that it should continue, there is concern at the federal level that the SSIG program does not really do much to help realize federal goals. States have restricted awards in ways that hinder student access and choice. For example, student choice is not advanced if a student is restricted in his choice of institution or of state. Access for the poor is less than well served if only students in the private sector receive support from the program.

However a broader approach to flexibility could be designed in a state federal partnership. Since the current approach is limited to student aid programs, an option is to allow states to match federal funds with either institutional subsidy or direct subsidy to students. This approach would require that the total subsidy for students would be assessed in light of the total costs of education provided to students. For example, if undergraduate students in a public community college received an education worth $30,000 at $300 tuition, the subsidy from the state would be $2,700. A student attending a private

school at a cost of $3,000 with no state support would have a subsidy of zero. In the case of the community college, 90 percent of the funds could be used for institutional subsidy and 10 percent for student aid, while in the case of the private school 100 percent of the funds would go to student aid and none for an institutional subsidy. In practice a state like Texas, which has a low public tuition policy, could use a large share of SSIG money for institutional support in the public sector and for student aid in the private sector. A state like Vermont, with high tuition policy in the public sector and with a sizeable private college sector, would use a greater proportion of the money as direct aid to students. The plan would not prevent a state from putting more than a minimum amount of money in student aid, but it would provide a maximum amount that could be given to institutions.

This plan allows states more flexibility in how they might use federal funds. The money going to institutions could be constrained for use in certain programs, such as special programs for low achieving students. This would allow matching conditions to be defined and would also insure that federal policy goals were being met. It would be important to make sure that the funds available to students choosing the private sector would continue to be served by SSIG in such a plan. This approach would help control tuition inflation in the public sector by allowing a tradeoff between institutional and student support. It would allow greater state latitude and thus would find a broad base of support in the states.

Possible objection to this approach from the federal perspective is twofold: first, there is no assurance that a clear set of goals is being served and, second, there may be suspicion that federal money is displacing state dollars in realizing state, but not necessarily federal, goals. Provisions or allowance for diversity does not appear to be a major federal goal, at least

as it applies to states. Thus an alternative approach is to induce states into playing some role complementary to federal goals. It may be that the federal government could be induced into increasing funding for a program that is related to federal goals. Naturally, regardless of which approach is chosen, there is concern about helping students attend some form of postsecondary education appropriate to their needs. That is true in the state diversity model as well as the yet to be described complementary state-federal approaches.

Provision of Incentives to States to Increase Support of Postsecondary Education

Provision of incentives to states to provide more support for postsecondary education is a broader goal than the current program, which is focused on the states support of student aid programs regardless of other forms of support that might be provided to students. To use the previous examples, Texas has a very low tuition rate in the public sector while Vermont has a very high public tuition. Vermont also has a large student aid program to help offset these costs. Texas provides student aid but relatively nothing like the rate in Vermont. Although both states are providing student access in different ways, the federal policy of looking only at student aid programs misses this difference in policy.

The only time tuition policy becomes a serious consideration occurs when there is a belief that states are going to raise public tuition in order to capture federal funds for student aid. One way to neutralize this concern is to provide greater shares of SSIG money to those states that are willing to spend high levels of public money on postsecondary education. This is the exact reverse of the current system which provides more student aid to states with high public tuition or with a large private sector. The implicit model in the federal incentives is one that induces states to raise public tuition and to provide more aid to students who can chose schools without consideration for

artificially low costs induced by state subsidized tuition. If this is the desired model, then there should not be unhappiness with the threat of a steep increase in public tuition.

To do the opposite of current policy, that is, provide incentives to states to increase public support, would have the reverse outcome of increasing federal subsidy to states with large public low tuition systems. This would come at the expense of students in high cost states where relatively little state money is spent on higher education as a whole. This approach, unacceptable as it might be, has the merit of highlighting the nature of current federal student aid policy incentives to states to spend less on education.

In order to neutralize such a bias in policy but still reward state effort, it would be possible to enlarge the concept of effort to include private support for higher education as well as public support. Why should a policy distinguish between a state which taxes private citizens and in turn spends that money on higher education versus the state that allows private citizens to support higher education directly either through gifts or tuition? Thus a state such as Massachusetts that depends on a relatively low level state support but high private support would fair as well as a state like California with high public support relative to private support.

Effort, whether public only or a combination of both public and private, needs to be carefully defined because the definitions will result in very different outcomes. For example, if effort is measured in terms of support per student, poor states would lose aid to rich states that spend more per student. An alternative would be to develop a measure of effort per $1,000 personal income. This helps to equalize a state like Arkansas, with a low personal income level, with Connecticut, which has a high personal income. A bonus for sparsely populated states could be provided to help offset the greater expense of providing education in such areas. Schemes based on increasing effort in both the public and private sectors would not stop states from shifting state

support from public sources to tuition, i.e., the private sector, but it would help if in the process such a state would not receive a bonus from federal student aid programs. Such a federal policy would be neutral as to how education was paid for; it would reward effort of any sort. This approach has a great deal of appeal in a period when states are looking for ways to save money. It is an advantage to the federal government over the current system,which rewards state impulse to save money.

Protection of the Private Sector in Higher Education

Another major goal for a modified SSIG program is to help assure the well being of the private sector. In a period of declining enrollments, those institutions that are heavily dependent on tuition are more vulnerable to loss of students than those that can depend on a state subsidy. This approach could be implemented by imposing a more uniform definition of need on the SSIG program that would direct dollars to students attending high cost schools. The supposition is that basic grants can help students attending the relatively low cost public sector that is providing access, while the SSIG program provides choice, i.e., the relatively high cost private sector. This is the essence of the current Carnegie recommendation.[1] The recommendation for the SSIG program is due to the fact that tuition policy in public higher education is set at the state level, where the size of the tuition gap between public and private institutions of higher education is determined. Because the program would meet high tuition costs, much of the state money would go to middle-to upper-income students attending high priced schools. This might cause problems in some states, but in fact a large share of current SSIG awards

[1] The Carnegie Council on Policy Studies in Higher Education, The States and Private Higher Education: Problems and Policies in a New Era (San Francisco: Jossey-Bass Publishers, 1977), pp. 43-48.

go to students in the private sector.

Robert W. Hartman suggests a similar role for SSIG whereby the program would be focused on those costs in excess of those covered by basic grants.[2] Both the Carnegie Foundation and Hartman indicate that to be effective federal funding for SSIG would have to expand sharply; Hartman suggests $30 million and the Carnegie report suggests funds in excess of $900 million. The changes suggested by this plan go beyond SSIG. It obviously has implications for the other student aid programs. Much of the money to enrich the SSIG program would come from other existing programs, either Supplemental Education Opportunity Grants or BEOG. This approach would also require significant changes in the legislation of these other programs.

Control of Inflation of Tuition and Fees

The final goal that could be addressed by SSIG is that of controlling inflation of tuition and fees, as the federal government can cause inflation of costs in providing funds to students. The problem is similar to medical insurance; the client feels less responsible to control costs if a third party pays the cost and then the provider of the services can increase costs without too much immediate resistance. One very direct way to provide disincentives to states for increasing tuition would be to reduce the SSIG matching funds in direct proportion to the average increase in public tuition and fees above inflationary guidelines. The incentive to the states is clear in such a model, but the result is that students could pay higher tuition and lose a portion of the federally funded student aid. Another limitation of such an approach is that a state may want to increase both public tuition and state student aid funding. This federal disincentive would provide barriers to such

[2]"Federal Options for Student Aid," Public Policy and Private Higher Education, ed. David W. Brenneman and Chester E. Finn Jr. (Washington, D.C.: The Brookings Institution, 1978).

modifications of state policy.

Cooperative Agreements

Any significant shift from current policy would cause severe difficulties for many states. Regardless of how these potential models were to be implemented, there would be a great deal of negative response. An alternative to a single federal approach would be to allow the states to make cooperative agreements with the federal government to utilize their share of the SSIG funds. In this approach the federal government could define a series of goals which could be funded. States could select areas from the list important to them and write a specific agreement. The plan could form the basis for accountability between the state and the federal government.

The list of federal concerns beyond the standard litany that could be addressed in this manner might include the following:

- aid for part-time students;
- aid for graduate students;
- special student aid for states attempting to desegregate their systems,
- tuition equalization grants; and
- help in supporting students forced to change schools because of institutional closure.

This approach has several advantages. First, it is flexible. States would not need to conform to increasingly narrow federal prescriptions. Second, this process allows the program to be integrated into a comprehensive state approach. In many instances a general student aid program as exists currently may not be the most sensible policy for a state. Third, the federal government has assurance that federal priorities are being addressed. The difficulty with such an approach is the increase in time necessary to reach agreement, to audit the results and to conclude each annual grant. One likely result,

at least at first, would be that most states would continue the same general approach that is currently used. The changes would be evolutionary. The large state programs probably would be the least likely to change but the approach may prove to be a boom to small states that need flexibility.

The lack of a clear set of goals frustrates the continued growth of the SSIG program and as a result erodes the larger sense of partnership between the states and the federal government. The changing conditions affecting higher education in the 1980s provide a good time to reconsider the program and to redesign it to reach new goals. The central factor affecting design is the degree of latitude given to states. Approaches giving states a broad set of options are clearly preferred by states. The current program is such an example. The preferred alternative suggested here is for the federal government to agree cooperatively with each individual state as to the use of SSIG funds. This has the advantage of providing flexibility for the states and assurances to the federal government that federal goals are being met.

The approach providing less flexibility to states is to define a specific federal goal and implementing program, but the risk is that some states may not wish to cooperate with such a shift in priorities. If the federal government desired to change the program significantly, a four-year phase-in period should be allowed so states could meet current commitments to students. The risk of losing states under more closely defined federal goals may require that the incentives to states be increased. For example, state student aid funds used by students out-of-state could receive a larger federal match than funds used by students in-state. In this manner the federal goal of choice for students would more likely be met. The other way to increase incentives is to increase the federal funds. The Carnegie Council estimates that if SSIG

were to play a strong role in tuition equalization, nearly $1 billion of federal money would be needed.[3]

Many of the options discussed here are aimed at the SSIG program but imply a much broader concern with student aid and financing in general. Even if there were no SSIG program, states would be required to take federal programs into consideration, as the size of the federal effort demands attention by the states. Likewise, as federal planners design student aid programs with the aim of helping students, the states must be taken into consideration. The incentives for states must be emphasized, especially in a period of decline and in a time when states want to save money. If potential state action is not taken into consideration, states may take actions contrary to the realization of federal goals. The net result could be that the federal goals of choice and access will be neutralized by contrary state actions. The SSIG program has the potentiality to act as a point of relationship between the two levels of government but at its current magnitude stands little chance of making much more than a symbolic difference. The nature of the partnership needs to be considered on broader terms. This is especially true in the less predictable environment of the 1980s where diversity will increase and agreement on policy will become more difficult.

[3]Next Steps for the 1980s in Student Financial Aid: A Fourth Alternative (Berkeley, Calif.: The Carnegie Council on Policy Studies in Higher Education, 1979).

The Education Commission of the States is a nonprofit organization formed by interstate compact in 1966. Forty-six states, American Samoa, Puerto Rico and the Virgin Islands are now members. Its goal is to further a working relationship among governors, state legislators and educators for the improvement of education. This report is an outcome of one of many commission undertakings at all levels of education. The commission offices are located at Suite 300, 1860 Lincoln Street, Denver, Colorado 80295.

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