

RESEARCH REPORT

A Review of State Grant Aid in Texas

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May 2021 (corrected June 2021)



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Acknowledgments

This report was supported by Arnold Ventures. We are grateful to them and to all our funders, who make it possible for Urban to advance its mission.

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We thank the staff of the University of Houston Education Research Center for facilitating access to data used in this report. The conclusions of this research do not necessarily reflect the opinion or official position of the University of Houston Education Research Center, the Texas Education Agency, the Texas Higher Education Coordinating Board, the Texas Workforce Commission, or the State of Texas. We are grateful to all the Texas higher education professionals who spoke with us and commented on our work. In particular, we could not have carried out this project without the support of Charles Puls and Jenna Watts.

Executive Summary

Texas has a need-based student aid system that provides significant support to selected low- and moderate-income residents pursuing higher education. Unlike many other states, Texas considers students' financial circumstances in the distribution of all state grant aid, rather than allocating some or all aid based on academic achievement only. The state has also made considerable progress developing a rich data system that documents finances and outcomes for individual students, providing evidence that can strengthen the effectiveness of the state grant system. But only a small share of eligible students receives state grants, and complex rules and procedures make it difficult for students to predict whether they will receive aid and, if so, how much.

Because the state grant programs are decentralized, with the state allocating funds to institutions and sectors rather than to individual students, some of the tensions in the system involve concerns about the equitable distribution of funds across institutions. Institutions in Texas are strikingly diverse, with 6 state university systems, 50 community college districts, and a robust private sector. Because institutions have considerable discretion over the distribution of aid to individual students, institutional resources and packaging practices, in addition to state rules and regulations, significantly affect how well the state supports low-income students.

The share of average tuition and fees covered by the average Toward EXcellence, Access, and Success (TEXAS) grant award fell from 100 percent in fiscal year 2000 and fiscal year 2001 to 79 percent in fiscal year 2010 and to 54 percent in fiscal year 2019 (OSFAP 2018, table 11; OSFAP 2020, vi). Clearly, adequacy—not just the distribution of the available funds—is a critical issue.

We encourage the state to clearly articulate the goals of its financial aid programs, defining the populations or students it hopes to support. Some of the recommendations we make could be incorporated into the current system without significant disruption. Other recommendations would involve more significant changes and could be implemented only over an extended time frame. Our goal is to support the state in its efforts to increase educational opportunity and attainment for Texas residents, with a focus on the success of low-income and underrepresented students. Our recommendations are grounded in economic principles of equitable and efficient public policy, Texas demographics, and political reality.

Key Points

Texas awards only need-based state grants, avoiding the problem many other states face of distributing scarce state funds to students who, on their own, could afford to enroll and succeed in college.

The Texas state grant programs fund only a fraction of students meeting the requirements for financial need and academic requirements for enrolling in state institutions. The Texas Educational Opportunity Grant (TEOG) program for students at public two-year institutions reaches a particularly small share of eligible students—less than 10 percent.

A set of sector-specific state grant programs with different eligibility criteria, combined with a decentralized structure that allows institutions considerable discretion in making awards to individual students, makes the system complicated and unpredictable.

Variation in prices and aid packaging practices across institutions create significant differences in net prices for students with similar need at different institutions, even within the same postsecondary system.

Eligible students who miss out on state grants do get some assistance from other sources of grant aid, but students receiving TEXAS and TEOG awards pay significantly lower net prices than students with similar EFCs who do not receive state grants.

Most state grant aid in Texas goes to recent high school graduates. Older students, independent students, and those who transfer from two-year to four-year institutions are less likely to receive state grant aid.

Recommendations

- The Texas state grant programs fund only a fraction of students meeting the requirements for financial need and academic requirements for enrolling in state institutions. A better-funded program serving more students would contribute more to the state's goals for increasing educational attainment.
- The state should ensure that the allocation of grant funds to individual institutions is predictable and based on students' financial circumstances, diminishing the tensions administrators face in funding their students.

- Texas should allocate more state grant aid for older students and those who transfer from two-year to four-year institutions.
- The academic requirements for continuing eligibility for state grant aid should be consistent with federal aid requirements.
- The state should reconsider the requirement that all TEXAS and TEOG recipients have their full tuition and fees covered by grant aid. This requirement makes it more difficult for institutions to maintain practices that ensure that students with lower ability to pay will receive more grant aid and pay lower net prices than those with higher EFCs who also qualify for state aid.
- The TEXAS grant academic priority criteria prevent many students with significant need who are academically qualified to enroll in college but do not meet these high standards from receiving aid. Many of these students are among those most dependent on financial aid to make college success possible. The state should rethink these priorities, recognizing that funding students with higher probability of success may not make the program more effective.
- The tuition set-aside programs are critical to the success of the state's student aid system and should be maintained.

Errata

This report was corrected on June 14, 2021, to indicate, on page 7, that the “formula for allocating funds to institutions does *not* look transparent or consistent to stakeholders.” A previous version said the formula did look transparent or consistent.

A Review of State Grant Aid in Texas

Texas has a need-based student aid system that provides significant support to selected low- and moderate-income state residents pursuing higher education. Unlike many other states, Texas considers students' financial circumstances in the distribution of all of its state grant aid. The state has developed a rich data system that documents finances and outcomes for individual students, providing evidence that can strengthen the effectiveness of the state grant system. But there is considerable room for improvement. Only a fraction of eligible students receives state grants, and complex rules and procedures make it difficult for students to predict whether they will receive aid and, if so, how much. Strengthening the state's financial aid programs is central to achieving the goals of the 60x30TX plan to significantly increase educational attainment and reduce student debt by 2030.

This report describes key elements of the state grant system, examines existing and new evidence about the distribution and impact of the state aid, and makes recommendations that could help the state use its funds more effectively and reach its goals more quickly. The report is based on an in-depth study of the Texas student aid system, including a review of program structures and rules, conversations with stakeholders, and analysis of the student-level data the state has collected.

Overview of Texas State Grant Programs

Students in Texas receive assistance from various state-funded programs. The major state grant programs are differentiated by institution sector. The Toward EXcellence, Access, and Success (TEXAS) grant program funds students at public four-year universities; the Texas Educational Opportunity Grant (TEOG) program supports community college students; and the Texas Equalization Grant (TEG) program aids students enrolled at private nonprofit colleges and universities. In the 2019 fiscal year, the three major state grant programs provided 124,000 students with \$534 million in grant funds (OSFAP 2020, appendix D). Three-quarters of these funds came through the TEXAS grant program for public four-year college students.

In addition to these three major programs, the state mandates that public institutions use a share of their tuition revenues for student aid. In 2018–19, students received \$486 million in state-mandated grant aid distributed by institutions through the Designated Tuition Set-Aside and Texas Public Educational Grant (TPEG) programs (OSFAP 2020, appendix D). In addition, both public and private nonprofit institutions frequently use a third type of aid—institutional grant aid—to supplement federal

and state aid to help students pay for college. For clarity, we consider the major state grant programs, tuition set-aside programs, and institutional grant aid separately. We refer to the three major programs—TEXAS, TEOG, and TEG—as state grant aid and refer to TPEG and the Designated Tuition Set-Aside as set-asides, while emphasizing that the latter, like state grant aid, are mandated by the state and that there is no way to reliably distinguish between institutional expenditures coming out of tuition revenues and expenditures coming out of state funding. Moreover, the fact that the state distributes grant funds to institutions to distribute to students, rather than directly funding individual students, blurs the line between state grant aid and the other aid institutions distribute to students.

A fourth category of aid comes in the form of optional or mandatory waivers and exemption programs for specific groups. These tuition exemptions and waivers (some of which are mandated, and others of which institutions can choose to participate in) provided almost \$800 million in subsidies to students at Texas institutions in 2018–19 (OSFAP 2020, appendix D). These discounts to students reduce the institutional funds available for other purposes.

State grant aid, tuition set-asides, and waivers and exemptions combined with a small amount of other state aid provided 28 percent of the \$6.9 billion in total grant aid Texas students received in 2018–19. The remainder came from the federal Pell and other grant programs (34 percent of total grant aid), institutional aid (33 percent), and aid from other outside sources (5 percent) (OSFAP 2020, appendix D).

The composition of aid differs across sectors (table 1). Texas students at public two-year colleges get 80 percent of their grant aid from the federal government, compared with 30 percent for public four-year college students and 11 percent for those at private nonprofit institutions. State aid provides 43 percent of the grant aid for public four-year college students but just 12 percent for those at public two-year colleges and 9 percent for those in the private nonprofit sector.

TABLE 1

Sources of Grant Aid, by Sector

Program type	Program	Total dollars disbursed	Sector's share of dollars from program category	Number of awards	Average award	Breakdown of state and institutional dollars	Share by source
Public four-year							
Major state grant programs	TEXAS grant	\$402,575,833	75%	79,831	\$5,043	17%	
Set-aside programs	TPEG and Designated Tuition Set-Aside	\$439,314,770	90%	205,262	\$2,140	19%	43%
Tuition waivers and exemptions; other state grants	Tuition waivers and exemptions; other state grants	\$784,397,571	85%	139,214	\$5,634	33%	
Institutional grants	Institutional grants	\$735,687,555	32%	177,072	\$4,155	31%	19%
<i>Total state and institutional</i>		\$2,361,975,729					
Federal	Pell, SEOG, veterans, other	\$1,149,225,963		309,128	\$3,718		30%
Other	Grants from other sources	\$264,533,917		57,663	\$4,588		7%
Total		\$3,775,735,609					
Private nonprofit four-year							
Major state grant programs	TEG	\$85,642,631	16%	25,133	\$3,408	5%	
Private nonprofit four-year	N/A	\$0	0%	0	N/A	0%	9%
Tuition waivers and exemptions; other state grants	Tuition waivers and exemptions; other state grants	\$82,914,574	9%	6,570	\$12,620	5%	
Institutional grants	Institutional grants	\$1,461,249,164	64%	100,636	\$14,520	90%	77%
<i>Total state and institutional</i>		\$1,629,806,369					
Federal	Pell, SEOG, veterans, other	\$211,262,927		44,804	\$4,715		11%
Other	Grants from other sources	\$64,155,952		12,180	\$5,267		3%
Total		\$1,905,225,248					
Public two-year							
Major state grant programs	TEOG	\$45,413,784	9%	19,527	\$2,326	21%	
12 set-aside programs	TPEG	\$46,666,445	10%	57,995	\$805	22%	12%
Tuition waivers and exemptions; other state grants	Tuition waivers and exemptions; other state grants	\$53,100,818	6%	32,656	\$1,626	25%	
Institutional grants	Institutional grants	\$70,322,026	3%	50,308	\$1,398	33%	6%
<i>Total state and institutional</i>		\$215,503,073					
Federal	Pell, SEOG, veterans, other	\$989,592,547		302,807	\$3,268		80%
Other	Grants from other sources	\$31,010,123		24,154	\$1,284		3%
Total		\$1,236,105,743					

Source: OSFAP (Office of Student Financial Aid Programs), *Report of Student Financial Aid in Texas Higher Education: Fiscal Year 2019* (Austin: Texas Higher Education Coordinating Board, OSFAP, 2020).

Notes: N/A = not applicable; SEOG = Federal Supplemental Educational Opportunity Grant; TEG = Texas Equalization Grant; TEOG = Texas Educational Opportunity Grant; TEXAS = Toward EXcellence, Access, and Success; TPEG = Texas Public Educational Grant. Percentages may not add up to 100 percent because of rounding.

In 2018–19, three-quarters of the funding from the three major state grant programs went to the TEXAS grant program for students at public four-year institutions; 16 percent went to TEG, and 9 percent to TEOG. The average award ranged from \$2,326 for public two-year college students to \$5,043 for recipients at public four-year institutions.

Each of the three major programs has its own eligibility requirements. In each case, the state allocates funds to institutions, which make awards to students following state rules. Because funding cannot serve all eligible students, institutions make choices within these guidelines.

Toward EXcellence, Access, and Success Grant

The TEXAS grant aids Texas residents from low-income households who are enrolled at least three-quarters time in a baccalaureate program at a public four-year institution or a health-related institution.¹ Most TEXAS grant recipients are recent high school graduates, as one of the eligibility pathways is enrollment within 16 months of high school graduation. Students who did not graduate from a Texas high school within 16 months of starting college can qualify through other pathways. They may have earned an associate degree from a public or private nonprofit institution in Texas or have been honorably discharged from the military within the previous 12 months. Some students who transfer from community college without having completed an associate degree may also be eligible if they received state grant aid through the TEOG program. Otherwise-eligible transfer students without an associate degree may be disqualified from the TEXAS grant only because they did not receive the aid for which they were eligible as community college students. But these other pathways do not provide meaningful opportunities, as 97 percent of initial-year recipients come directly from high school (OSFAP 2020, table 1).

Because state funds cannot make awards to all eligible students, the state has established priority criteria for the TEXAS grant program. Returning students are funded first. These students are eligible only if they received a TEXAS grant when they first enrolled and have met credit hour and grade point average (GPA) requirements. They must have continuing financial need but may have expected family contributions (EFCs) above the limit for first-time students, which is \$6,047 in 2020–21.

Once returning students are funded, institutions can award TEXAS grants to initial-year students, beginning with those with EFCs below the priority threshold, set at 60 percent of the statewide average for tuition and fees who meet priority academic requirements related to high school courses, GPA, and class rank.

Only after these students are funded can institutions provide TEXAS grant aid to eligible students with weaker academic records. Those who did not receive funding their initial year at the institution are permanently excluded. The state encourages institutions to award students who meet the priority application deadline of January 15 before others in similar circumstances.

Institutions are required to cover the full tuition and fee charges with grant aid for all TEXAS grant recipients. The recommended TEXAS grant maximum for 2020–21 is \$7,500, and the average award in 2018–19 was just above \$5,000, when in-state tuition was beyond \$11,000 on some campuses (OSFAP 2020, appendix D). Institutions must fill the gap with a combination of federal grant aid, tuition set-aside funds, and institutional grants. Since 2018–19, annual award maximums include the option for summer study.

Texas Educational Opportunity Grant Program

TEOG supports Texas residents enrolled in an associate degree or certificate program at a public two-year institution. Whereas students must be enrolled at least three-quarters time (nine credit hours per semester) to receive TEXAS grants, those enrolled half time (six credit hours per semester) at eligible institutions can receive TEOG. Students with EFCs of \$6,047 or less have priority, as is the case for TEXAS grants. Unlike the TEXAS grant program, TEOG does not prioritize students with strong high school records. Academic requirements for continuing to receive TEOG after the first year are similar to those for the TEXAS grant.

Like the TEXAS grant, TEOG prioritizes returning students over initial-year students. Among initial-year students, state rules prioritize those with the highest financial need among similar students and meeting the January 15 priority application deadline is a determining factor. Awards are available for three terms per year, including summer.

Although the maximum award for 2020–21 ranges from \$4,965 at public community colleges to \$8,601 at public technical institutions, the average award was \$2,326 in 2018–19 (OSFAP 2020, appendix D). As is the case for TEXAS grants, institutions must fully cover the remainder of a TEOG student's tuition and fees using other grant funds. But in the two-year public sector, state grant awards are sometimes large enough to cover tuition and fees. In contrast to the TEXAS grant program, Pell grants do not count for this purpose. Because virtually all TEOG students are eligible for Pell grants, this means, in practice, that grantees can use their Pell grant funds for books and supplies and living expenses.

Texas Equalization Grant Program

The TEG program funds Texas residents with financial need who are enrolled at least three-quarters time at an eligible private nonprofit institution in the state. In contrast to the other state grant programs, TEG includes graduate students. Tuition charges at the recipient's private institution must be higher than tuition prices at comparable public institutions.

Academic requirements for continuing awards mirror those for TEXAS grants and TEOG. Undergraduate students are eligible for a maximum of five years for programs of four years or less, but there is no time limit for graduate students.

The maximum TEG award for 2020–21 is \$3,420, but students with EFCs of \$1,000 or less may receive up to 150 percent of the maximum (\$5,130 in 2020–21).

Tuition Set-Aside and Waiver Programs

State law requires public institutions to set aside a portion of tuition revenues for financial aid. Unlike the three major state grant programs, the Texas Public Educational Grant, funded through these set-asides, is available to nonresidents at public institutions who show financial need, in addition to Texas residents. Public institutions that charge tuition above \$46 per semester credit hour are also required to set aside at least 15 percent of tuition charges above this level for financial aid funding. These Designated Tuition Set-Aside grants support Texas undergraduate and graduate students who demonstrate financial need (OSFAP 2020, appendix D). This program ensures that funds will be available for students even in economic downturns, when funding for the major state grant programs may be constrained. As tuition inevitably increases during downturns, more set-aside funds become available, so the program is something of an automatic stabilizer.

Texas also has 54 tuition exemptions and waivers for qualified students. About half these programs are mandatory, and institutions have discretion over awarding the others (OSFAP 2020, 81). Although not explicitly directed at students from low-income households, these programs may benefit students with financial need, including children of deceased public servants, senior citizens, or dual enrollment students. The largest of these programs is the Hazlewood exemption, which exempts veterans, spouses, or children of deceased or disabled veterans, as well as legacy recipients (children who may use a veteran's unused eligibility), from tuition and mandatory fees for up to 150 credit hours at public institutions in Texas (Texas Veterans Commission 2018). In 2018–19, more than 45,000 students received Hazlewood exemptions, resulting in almost \$250million in forgone tuition and mandatory fees

for these students (OSFAP 2020, appendix M). Institutions do not receive compensation for these forgone revenues.

Institutional Grant Aid

In addition to the state-mandated student aid programs, public and private nonprofit institutions provide other institutional grant aid. The \$2.3 billion in institutional aid made up 33 percent of all grant aid for students in Texas in 2018–19, ranging from 6 percent at public two-year institutions, to 19 percent at public universities and health-related institutions, and to 77 percent at private nonprofit institutions (OSFAP 2020, appendix D). At public institutions, these funds come largely from general revenues, so it is not possible to precisely determine whether they come from state funds or tuition funds. Because the TEXAS and TEOG programs require that institutions meet full tuition and fee charges with grant funds for recipients, institutional aid is sometimes a required expenditure.

Decentralization

The state grant programs are administered as campus-based programs. The Texas Higher Education Coordinating Board (THECB) issues funds to institutions, which decide which students will receive awards, within the parameters of the state-set priorities. As a result, there could be significant variation across institutions in the share of eligible students receiving aid, the size of the awards, and the distribution of aid across income and demographic groups.

Texas's system of allocating aid funds to institutions and asking them to set awards for individual students in a manner consistent with the state's rules and regulations is unusual. Colorado, Nebraska, Virginia, and a few other states follow similar models, but in most states, the individual grant awards are assigned centrally. In some states, the award level depends on the specific institution in which the student enrolls. In other states, the award follows the student, at least within sectors. The decentralized grant system has some advantages for both state officials and institutions. The state does not have to determine individual award levels and directly field inquiries from students. There may be political advantages to making the institutions responsible for the awards students receive. And institutions have some control over meeting the needs of their own students.

But this grant system has significant downsides. The formula for allocating funds to institutions does not look transparent or consistent to stakeholders. Despite recent revision of the formula, historical precedent appears to determine base levels of funding in ways that are not obviously

equitable. Officials at some University of Texas campuses believe their students suffer because other campuses received larger allocations early on and therefore continue to receive disproportionate funding relative to the number and need levels of their students.

Aid officers wait to hear the results of the annual deliberations so they will know how many of their students with need they will be able to fund. The uneven allocations mean that students cannot accurately predict their state grant awards, even if they are considering several similarly priced institutions. An eligible student may receive a TEXAS grant at one public four-year institution but not at another. Moreover, each institution spends considerable time and energy determining the appropriate distribution of state grant funds across eligible students. This effort taking place all across the state likely increases the bureaucratic costs of the state grant programs—even though the state does not have to count those costs in the program budget.

The tuition set-aside funds are also distributed at the institutions' discretion, within the state-set parameters. The process around these funds is similarly opaque. Despite the widely accepted view that these dollars come from tuition payments, there is no way to draw a line between the institutional expenses funded directly by state appropriations and those funded by tuition revenues. Because even full-pay students receive a subsidy, paying less than the full cost of their education, it is reasonable to think of the set-aside funds as state dollars that flow through institutional budgets, rather than directly to the financial aid office as they would if they were incorporated into the other state grant programs.

Some institutions, including the University of Houston, use some tuition set-aside funds to support the housing expenses of students living on campus. Texas A&M University uses these funds for Regents' Scholarships for first-generation students with adjusted gross incomes below \$40,000.² Students who receive these \$5,000 grants, along with up to \$6,000 in Pell grants and \$5,000 in TEXAS grants, have enough grant aid to cover their tuition and fees of about \$12,000 and have several thousand dollars left over to put toward books and supplies and living expenses.

Distribution of Grants through Texas Programs

The design of grant programs, in addition to funding levels, can substantially affect enrollment and persistence in higher education. Receiving grant aid increases the probability that students—particularly low-income students—will enroll in college and affects the choice between two-year and four-year or public and private institutions (Cornwell and Mustard 2006; Dynarski 1999; Goodman

2008; van der Klaauw 2002). Additional grant aid increases the likelihood of degree completion and boosts later earnings (Alon 2011; Bettinger 2004; Denning, Marx, and Turner 2018).

Information about the distribution of funds among demographic groups of students, sectors of higher education, and individual institutions within sectors can provide insight into the equity and effectiveness of the Texas grant programs. To investigate how Texas grant aid design affects students, we use student-level data on those enrolled in Texas institutions to examine the distribution of student aid in the 2018 fiscal year. We look both at the overall distribution of aid and at variation across institutions. Our data analysis supplements valuable analyses from the Higher Education Coordinating Board. In addition, we held conversations with state officials, financial aid officers and other institution representatives, and advocates. Our data, combined with insights from these conversations, shed light on how these grant programs work in practice and point to potential areas for improvement.

Targeting low- and moderate-income students is a necessary but not sufficient characteristic of a well-designed and effective state grant system. It is important to ask how many eligible students receive funding, whether any groups are systematically excluded, and how the distribution of aid to students in similar circumstances differs across and within institutions. The decentralized character of the Texas state grant system gives considerable discretion to institutions, which have different priorities and different resources available to assist students.

In the following sections, we use student-level data on enrollment and student aid from the THECB to examine how state grant aid varies by institution, receipt of other financial aid (e.g., Pell grants), and expected family contribution. Our goal is to estimate how the rules and requirements of these programs affect the distribution of grant aid and how program changes might modify the profiles of those who receive aid.

Leaving Students Out

Meeting the eligibility requirements for the TEXAS grant, TEOG, or TEG does not mean students will receive a grant. Funding is too low to serve most students who qualify. In fact, our estimates indicate that although two-thirds of initial-year students enrolled at least three-quarters time with qualifying EFCs (and 72 percent of those with \$0 EFCs) received TEXAS grants in 2017–18, only about 29 percent of all such students—including both initial-year and continuing students—and about 32 percent of those with \$0 EFCs were funded. The state considers some of the continuing students who are not funded ineligible because they did not receive state grant aid their first year. And our estimate of those not served is inflated by our inability to exclude students who have not met satisfactory academic progress

(SAP) requirements, which could reduce the number who are eligible by as much as 25 percent. But clearly, many students progressing through public four-institutions who need state support do not receive it.

TEOG funds a much lower share of eligible students than the TEXAS grant program does. About 10 percent of \$0 EFC initial-year students enrolled at least half time receive state grants, and the shares are even smaller for those with higher (but qualifying) EFCs and for continuing students.

TEG funds about as many eligible initial-year students as the TEXAS grant program and somewhat larger shares of eligible students overall.

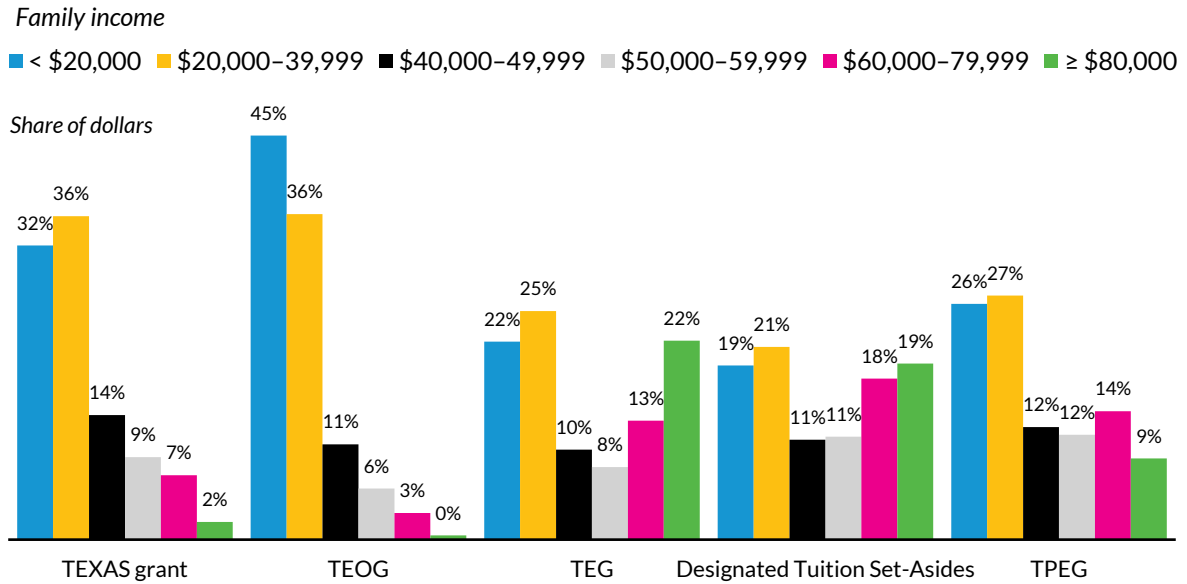
These shares are lower than the figures sometimes cited in the state.³ We include all students with EFCs below \$5,430, both initial year and continuing, who are enrolled at least three-quarters time (or half time, for TEOG). We are not able to determine whether continuing students meet SAP requirements, we do not apply academic priority criteria for the TEXAS grant, and we include continuing students who would be eligible except for the fact that they did not receive aid in their first year of college. All these students are recognized as financially eligible, and it is worth considering the factors that exclude them from funding and striving to diminish the financial barriers they face.

Targeting Low-Income Students

In 2017–18, two-thirds of dependent TEXAS grant recipients and more than 80 percent of dependent TEOG recipients were from families with incomes below \$40,000 (figure 1). Larger shares of the TEG, TPEG, and Designated Tuition Set-Aside grants went to dependent students from families with higher incomes.

FIGURE 1
Dependent Recipients of Texas State Grant and Tuition
Set-Aside Aid Funds, by Family Income, 2017–18

TEXAS and TEOG grants are directed more toward low-income students than grants from other state programs



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Source: 2017–18 data from the National Association of State Student Grant and Aid Programs.

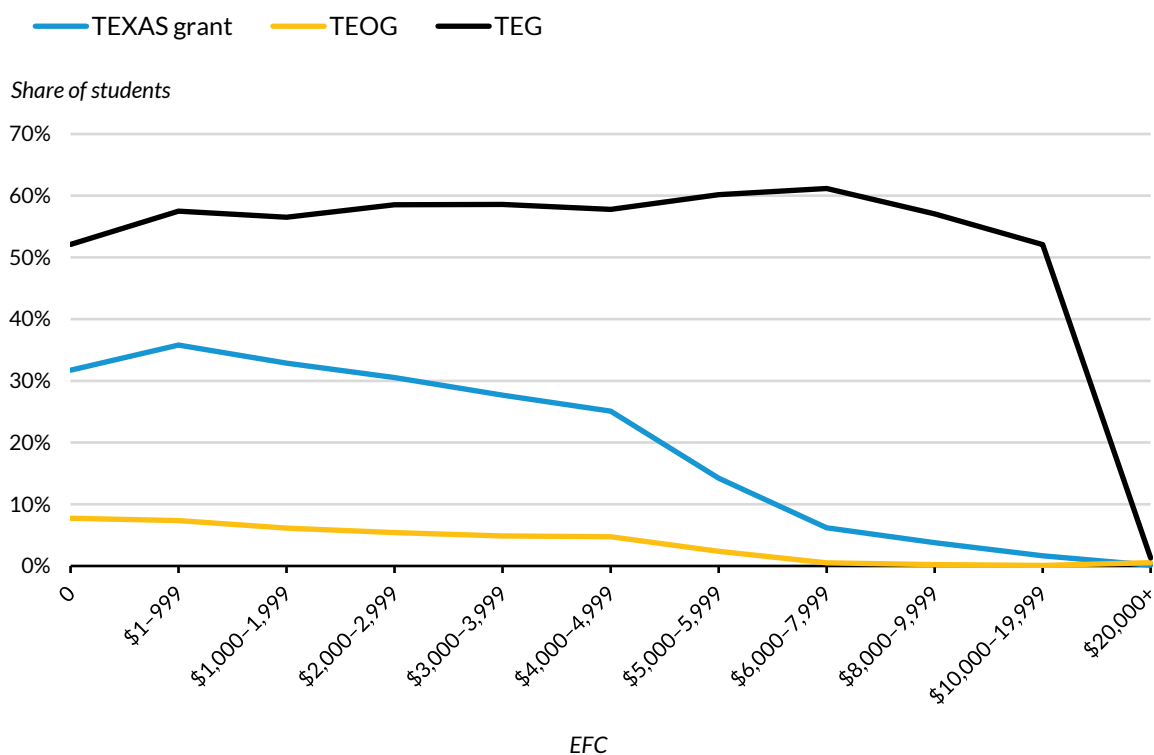
Note: TEG = Texas Equalization Grant; TEOG = Texas Educational Opportunity Grant; TEXAS = Toward EXcellence, Access, and Success; TPEG = Texas Public Educational Grant.

We estimate that about half of TEXAS grant recipients had \$0 EFCs in 2017–18, but only 32 percent of \$0 EFC students in these public four-year institutions in fiscal year 2018 received TEXAS grants, as did 36 percent of those with EFCs of \$1–999 and 33 percent of those with EFCs of \$1,000–1,999 (figure 2). The share receiving TEXAS grant aid declined as students approached the suggested EFC threshold of \$5,430 for an initial-year award. (Because renewal students are not subject to the EFC threshold, some students with higher EFCs do receive TEXAS grants.) Only 8 percent of \$0 EFC students in TEOG-participating schools received state grants. The share declined as EFC increased—to 7 percent at \$1–999 EFCs, 6 percent at \$1,000–1,999 EFCs, and 5 percent at \$2,000–2,999 EFCs.

FIGURE 2

Share of Students Receiving Grant Aid, by EFC Level

The share of students receiving TEXAS and TEOG aid declines as EFC rises, but the pattern is less clear for TEG



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Source: Urban Institute analysis of Texas higher education data.

Note: EFC = expected family contribution; TEG = Texas Equalization Grant; TEOG = Texas Educational Opportunity Grant; TEXAS = Toward EXcellence, Access, and Success.

Non-TEXAS Grant Recipients Pay Higher Average Net Prices Than TEXAS Grant Recipients with Similar Ability to Pay

For students, the total amount of grant aid matters more than the sources of that aid. The significance of eligible students being excluded from the state grant aid programs depends on whether these students get enough aid from other sources to compensate. To understand how receipt of state grants affects students across the higher education system in Texas, we compare the net tuition and fee prices and net total cost of attendance for students who receive state grant aid with the net prices paid by those with similar EFCs who do not receive state grants.

For this analysis of average net prices, we look at all Texas students who are enrolled at least three-quarters time at four-year public institutions and meet basic state grant eligibility criteria, without

screening for other restrictions, such as TEXAS grant pathway requirements. Our aim is to estimate how much receiving a TEXAS grant, on average, affects net prices charged to students with similar ability to pay.

A \$0 EFC reflects a household that cannot contribute to a student's education. Students with \$0 EFCs are unlikely to be able to enroll without assistance, so it is reasonable to expect that those not receiving state grants have aid from the federal government (a Pell grant or Supplemental Educational Opportunity Grant) and from other state or institutional financial aid programs (TPEG and other set-asides, waivers, or other need-based or non-need-based aid).

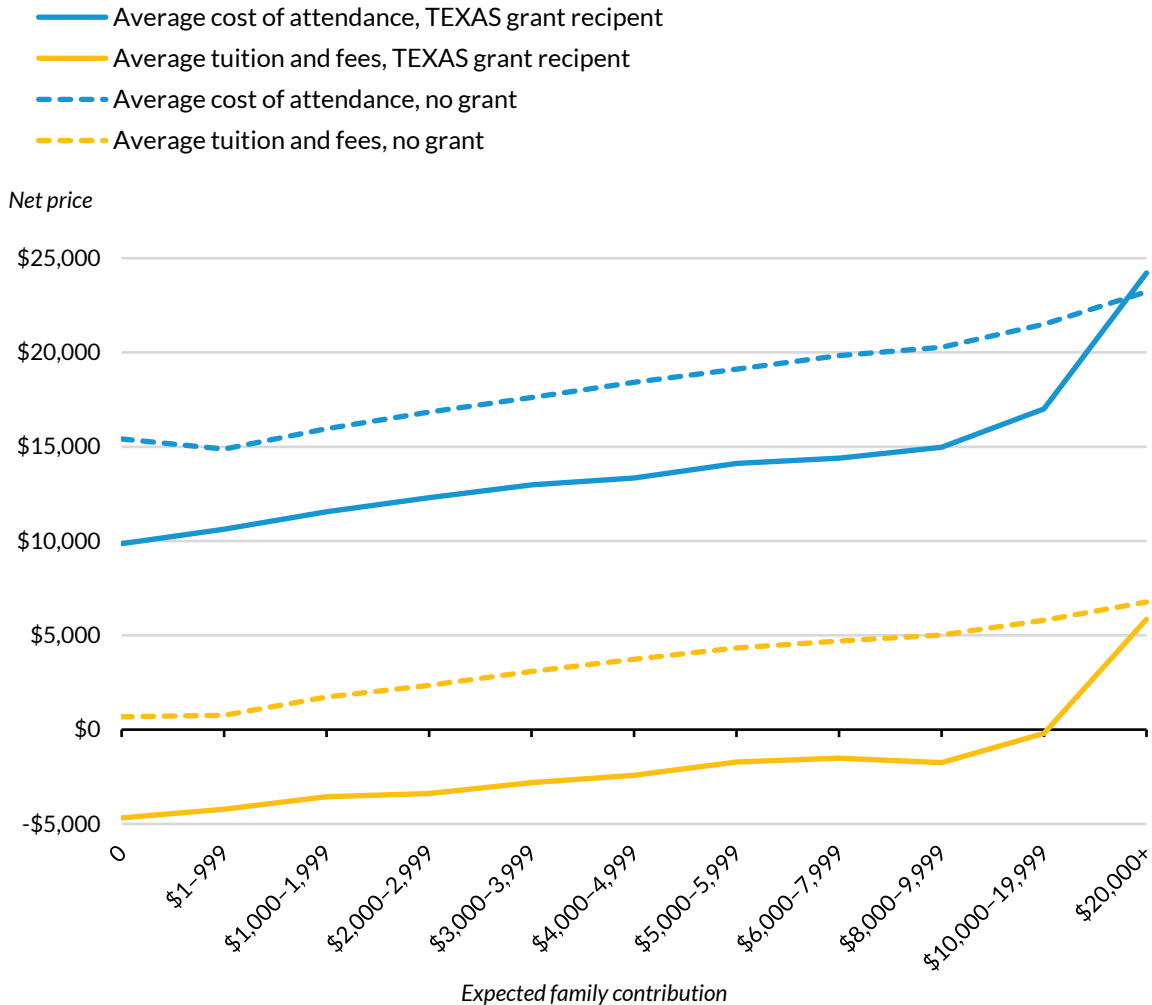
At public four-year institutions, only TEXAS grant recipients must have their tuition and fees fully covered by grant aid, but students with need who do not receive the TEXAS grant still receive substantial assistance with their college expenses from other sources (figure 3). The average \$0 EFC TEXAS grant recipient had \$4,680 in grant funds to put toward living expenses while in school (as indicated by the negative amount paid for tuition and fees), indicating that at least some institutions package grant aid exceeding the minimum required by the state grant program. In contrast, the average \$0 EFC TEXAS grant nonrecipient paid \$455 toward her tuition and fees, with the rest covered by grant aid from other programs; she had to cover all living expenses with loans, earnings, or other funding sources. The gaps between net tuition and fees for state grant recipients and nonrecipients with similar EFCs averaged between \$5,100 and \$5,800 within the EFC range of most grant recipients—more than the under-\$5,000 average TEXAS grant.

In other words, institutional financial aid packages do not close the gaps created by the exclusion of many eligible students from the TEXAS grant program. These students do receive aid from other sources, but that aid is similar to, or even less than, the amounts received from those sources by TEXAS grant recipients.

FIGURE 3

Estimated Net Tuition and Fees and Cost of Attendance, 2017–18

TEXAS grant recipients pay lower net prices than non-grant recipients with similar expected family contributions



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Source: Urban Institute analysis of Texas Higher Education Coordinating Board data.

Note: TEXAS = Toward EXcellence, Access, and Success.

Students with lower EFCs generally have lower average net tuition and fee prices and lower net costs of attendance than those with higher EFCs. But these averages conceal variation within and across institutions. Several institutions appear to cover tuition and fees with grant aid for the average \$0 EFC student not receiving a state grant. At others, the average \$0 EFC student not receiving state grant aid appears to pay more than \$5,000 in net tuition and fees after grant aid. At some institutions, a student with a \$0 EFC has a 74 to 96 percent chance of obtaining enough grant aid to cover tuition and fees, while at others, the same student may have a 10 to 21 percent chance. The difference in the

average net tuition paid by \$0 EFC state grant recipients and nonrecipients ranges from a few hundred dollars to more than \$10,000 (when grant recipients receive enough grant aid to cover both tuition and fees and a portion of living expenses).

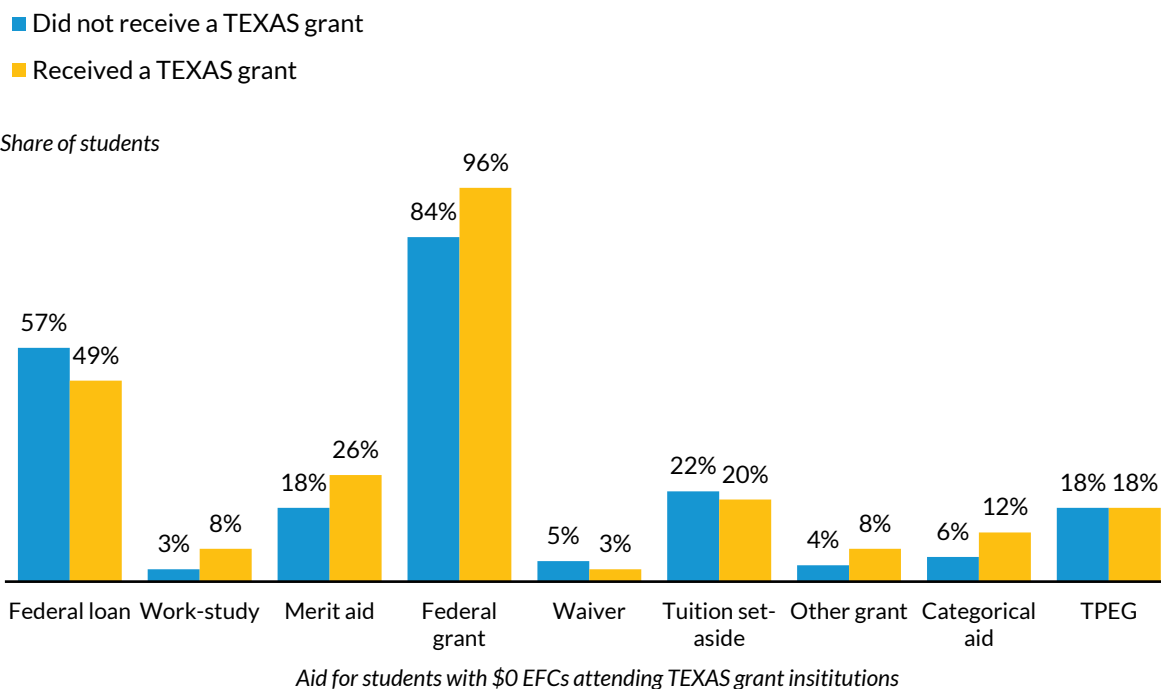
There is considerable variation in sticker prices within systems. For example, in 2017–18, in-state tuition and fees at the University of Texas ranged from \$7,822 at the Tyler campus to \$11,528 at the Dallas campus. Both these differences and differences in financial aid awarding practices contribute to the very different circumstances of students with similar financial resources attending different public institutions in Texas.

The components of the aid packages of TEXAS grant recipients are different from those of nonrecipients (figure 4). Among \$0 EFC students, non–grant recipients are more likely to use federal loans, waivers, and tuition set-asides; TEXAS grant recipients are more likely to have work-study, federal grant aid, institutional aid, and other or categorical grant aid (typically, grant aid from outside organizations). Further investigation could provide insight into the differences in receipt of federal grant aid.

FIGURE 4

**Share of \$0 EFC Students Receiving Financial Aid:
TEXAS Grant Recipients and Nonrecipients, 2017–18**

Among students with \$0 EFCs, TEXAS grant recipients are less likely than nonrecipients to use loans and are more likely to have federal grant aid



URBAN INSTITUTE

Source: Urban Institute analysis of Texas Higher Education Coordinating Board data.

Note: EFC = expected family contribution; TEXAS = Toward EXcellence, Access, and Success; TPEG = Texas Public Educational Grant.

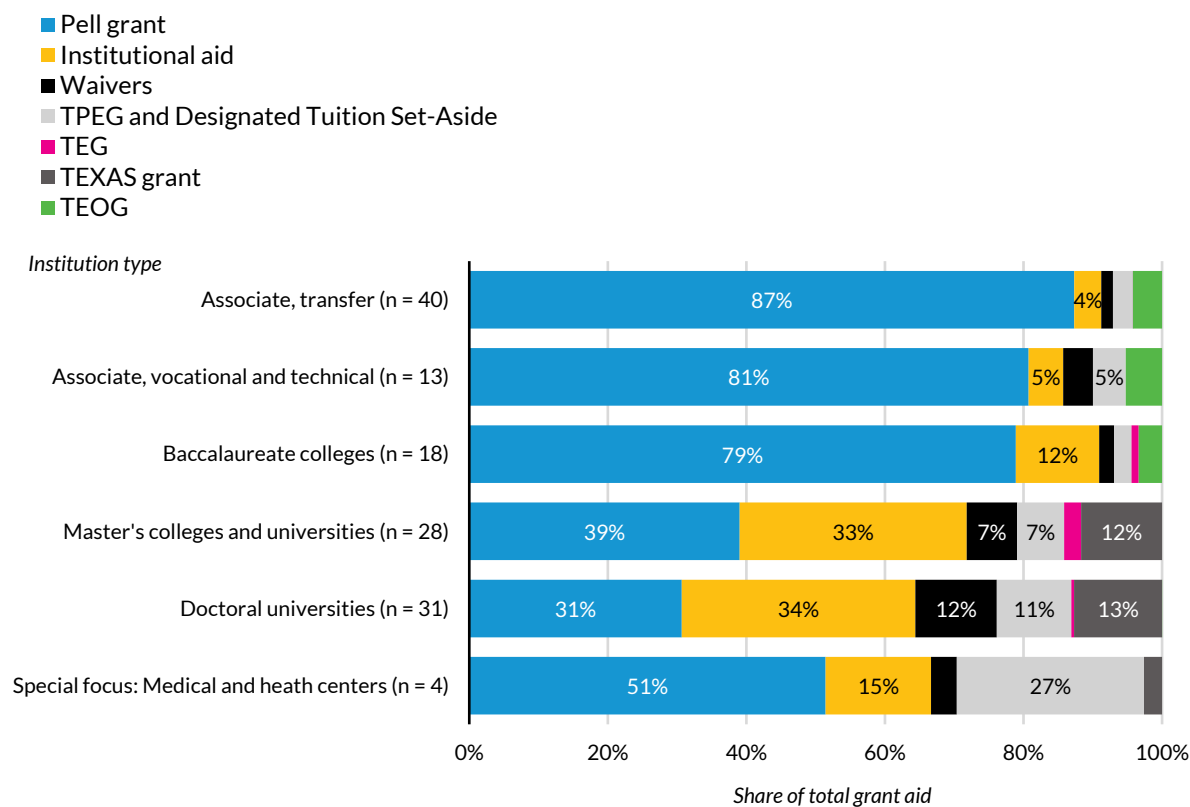
The Distribution of State Grant Aid and Set-Aside Funds Varies by Institution Type

The sources of grant aid for undergraduate students in Texas vary considerably across types of institutions (figure 5). For example, students at two-year institutions tend to receive a high share of their grant aid from Pell grants, with relatively small shares from waivers and state grant aid. At two-year schools, only 3 to 5 percent of grant aid dollars in 2017–18 were from TEOG; at four-year institutions, an average of 12 to 13 percent of total grant aid was from TEXAS grants. At doctoral universities, which tend to be the most-selective four-year schools, the share of total aid coming from Pell grants is lower than at broader-access institutions, which tend to enroll more low-income students.

FIGURE 5

Share of Grant Aid, by Source and Undergraduate Carnegie Classification

State grant programs contribute a small share of average financial aid packages



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Source: Urban Institute analysis of Texas higher education data.

Notes: TEG = Texas Equalization Grant; TEOG = Texas Educational Opportunity Grant; TEXAS = Toward EXcellence, Access, and Success; TPEG = Texas Public Educational Grant. Classifications are based on the Basic Carnegie Classification from 2018 and include both public and private colleges that report to the Texas Higher Education Coordinating Board.

Evaluating the TEXAS grant program requires understanding patterns among individual institutions in addition to overall averages. The composition of aid packages varies at least in part because institutions have different resources available to “top up” student funding to cover tuition and fees. For example, 6 institutions (out of 36) allocate Designated Tuition Set-Aside or TPEG funding to the majority of their \$0 EFC TEXAS grant students. Two institutions provide institutional aid to more than half their \$0 EFC TEXAS grant students. These institutions also allocate TPEG funds to more than half these students. But at 11 institutions, less than 20 percent of \$0 EFC TEXAS grant recipients receive institutional grant aid. At some of these institutions, less than 20 percent of these students receive TPEG, but at others, the share is as high as 49 percent.

In line with our observations around the decentralization of TEXAS grant aid, allocations of aid vary across institutions, as do decisions about how to allocate that aid. Overall, TEXAS grant institutions received about \$1,700 of state grant funds per eligible student in 2017–18. We estimate that they awarded these funds to 31 percent of eligible students (Texas residents attending full time or three-quarters time) with EFCs below \$6,000.⁴ (A small number of students with higher EFCs also received state grant aid.) The average grant was \$4,988.

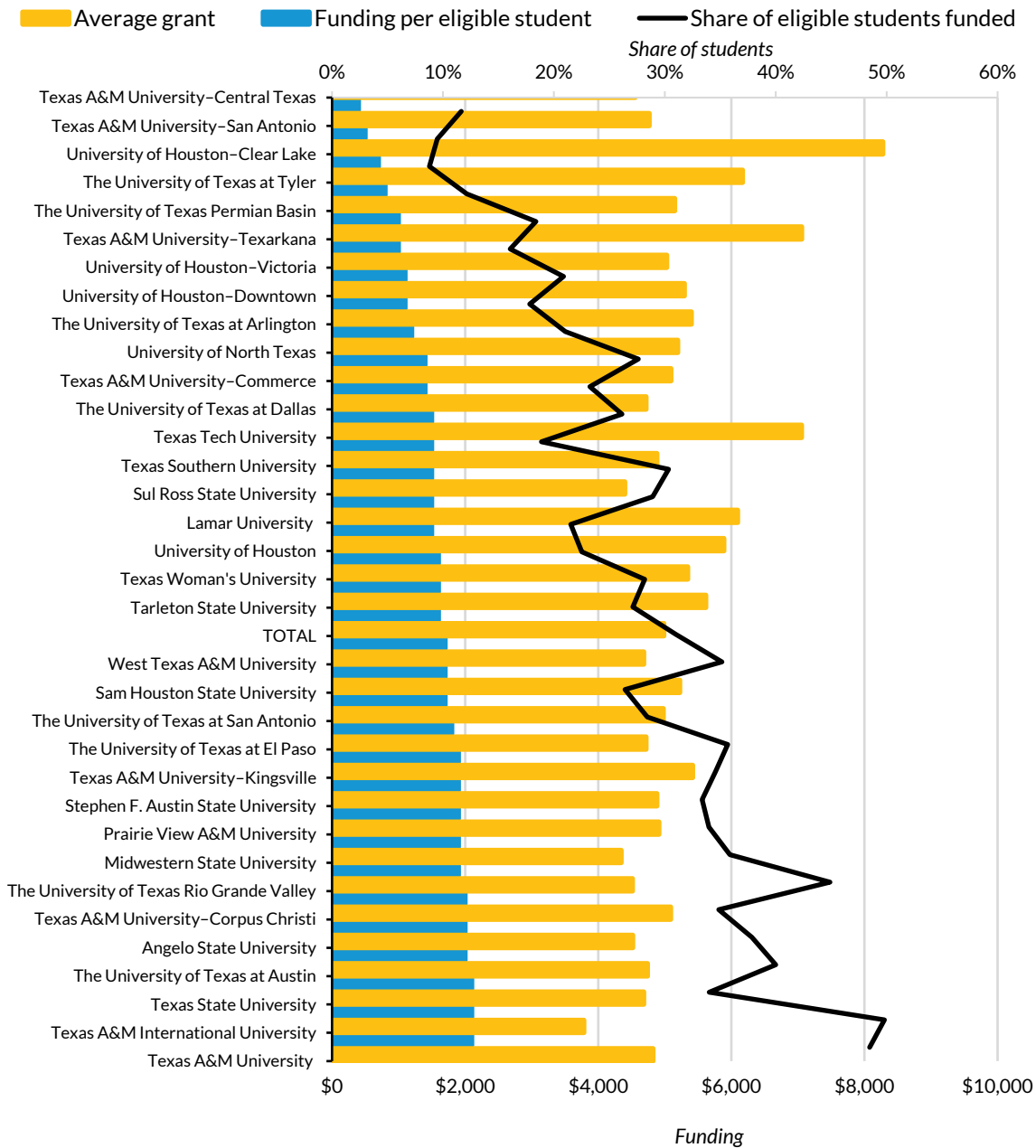
Despite recent revision of the allocation formula for state grant funds, there appear to be anomalies in institutional funding levels. TEOG funds are allocated to institutions based on the share of students who are Texas residents, are attending at least half time, and have a nine-month EFC at or below the Federal Pell Grant Program eligibility cap. But TEXAS grant allocations are based on a more complex formula. These funds are provided to institutions based on the share of all prior-prior year allocations of overall initial and renewal awards, combined with the sum of eligible freshman and transfer students who are Texas residents enrolled at least three-quarters time and have EFCs at or below the TEXAS grant eligibility cap in the prior-prior year.

TEXAS grant fund allocations per eligible student vary widely across institutions, with funding per eligible student ranging from less than \$1,000 at 4 institutions to \$2,000 or more at 7 institutions in 2017–18 (figure 6). Eight campuses out of 34 awarded TEXAS grant aid to less than 20 percent of eligible students with EFCs below \$6,000, and 4 awarded the grant to 40 percent or more.

At five institutions, the average grant exceeded \$6,000. The average share of eligible students funded at these institutions was 16 percent. At the five institutions where the average grant was less than \$4,600, the average share of eligible students funded was 39 percent. In other words, institutions have varying resources to allocate and make different decisions about the trade-off between funding more students and awarding larger TEXAS grants.

FIGURE 6
TEXAS Grant Allocations per Eligible Student, Average Award Levels, and Share of Eligible Students Funded

Both the share of eligible students funded and average award levels vary widely across public four-year institutions



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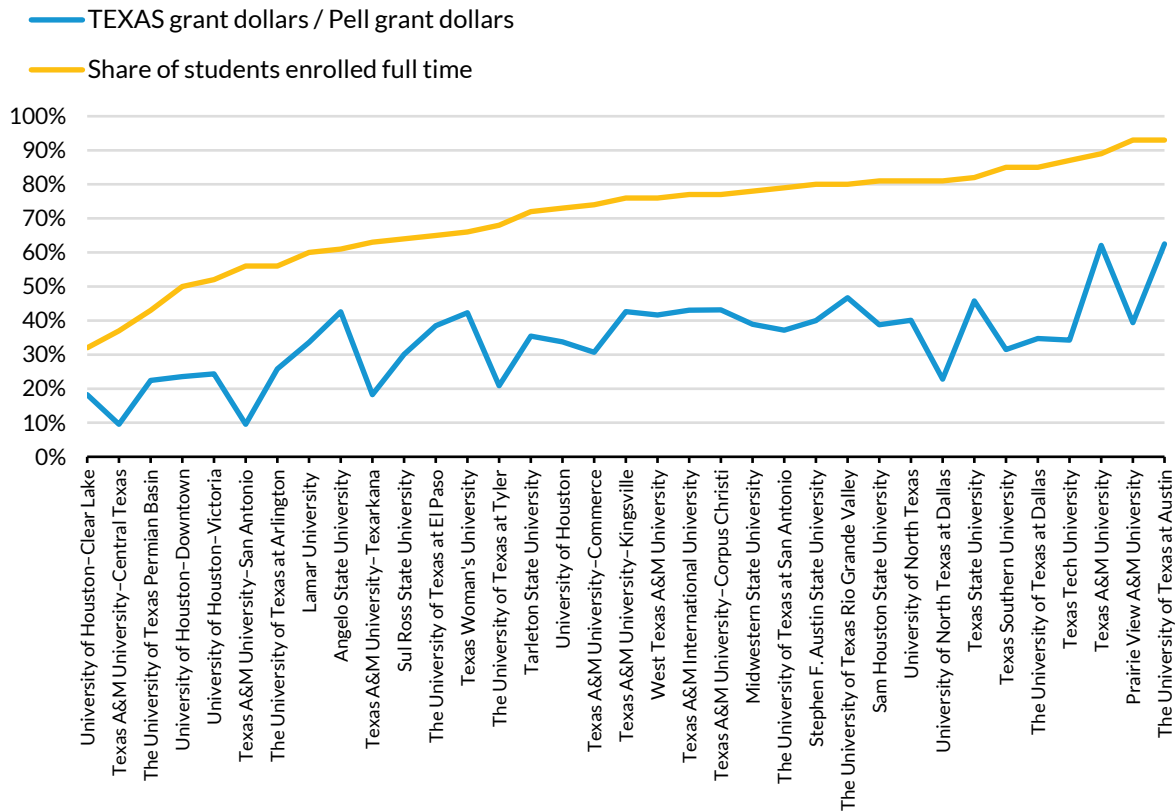
Sources: Estimated allocation of aid across eligible students is based on Urban Institute analysis of Texas Higher Education Coordinating Board data. Average award levels are from Office of Student Financial Aid Programs (OSFAP), *Texas Grant Program Report to the Texas Legislature: Fiscal Years 2017–2019* (Austin: Texas Higher Education Coordinating Board, OSFAP).

Note: TEXAS = Toward EXcellence, Access, and Success.

There is a strong positive correlation between allocated funds per eligible student and the share of students funded (correlation coefficient of 0.93). For example, the average share of eligible students funded at the 10 schools with the lowest funding per student was 16 percent, and at the 10 schools with the highest funding per student, it was 39 percent.

Another way to look at the variation in TEXAS grant allocations across institutions is in relationship to Pell grants. The ratio of TEXAS grant dollars to Pell dollars at public four-year institutions in Texas ranges from 10 percent to 63 percent. Universities with small shares of part-time students—who are unlikely to be eligible for TEXAS grants—generally have high ratios of TEXAS funds to Pell funds. But the correlation is far from perfect (figure 7). Other factors are in play.

FIGURE 7
Ratio of TEXAS Grant Dollars to Pell Dollars and Share of Students Enrolled Full Time, 2017–18
Institutions with larger shares of full-time students generally have higher ratios of TEXAS to Pell funds, but the correlation is far from perfect



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Source: Office of Student Financial Aid Programs (OSFAP), *Texas Grant Program Report to the Texas Legislature: Fiscal Years 2017–2019* (Austin: Texas Higher Education Coordinating Board, OSFAP), authors’ calculations.

Note: TEXAS = Toward EXcellence, Access, and Success.

The average TEXAS grant is smaller at schools with higher shares of eligible students funded, but the correlation is weaker (-0.42). The mean average grant at the 10 schools with the lowest funding per student was \$4,630, and at the 10 schools with the highest funding per student, it was \$5,690. In other words, both available funds and the patterns of funding students differ considerably from institution to institution.

Overall, there are more than twice as many tuition set-aside grants as TEXAS grants (79,831 in fiscal year 2019) issued at TEXAS grant institutions—although some students may receive both TPEG (75,679) and Designated Tuition Set-Aside (129,583) funds. Total set-aside exceeded total TEXAS grant funds in 2018–19, but the pattern varied dramatically across institutions. At 8 (of 36) institutions, total set-aside funds were less than half the value of TEXAS grant funds. Ten institutions had more than 50 percent more set-aside dollars than TEXAS grant dollars.

Distribution of TEOG

Like low-EFC students who miss out on TEXAS grants at public four-year institutions, low-EFC students at two-year colleges in Texas who do not receive TEOG awards pay higher net prices, on average, than similar students who benefit from the state grant program. Patterns in average net tuition prices and average net cost of attendance for TEOG recipients and eligible nonrecipients are similar to those in the TEXAS grant institutions, although the dollar differences are smaller because TEOG awards are smaller than TEXAS grant awards (figure 8). In 2017–18, the average TEXAS grant award was \$4,988, and the average TEOG award was \$2,170 (OSFAP 2019, appendix E). On average, potentially eligible students with \$0 EFCs at a TEOG-granting institution receive grant aid that covers their tuition and fees, whether or not they receive TEOG funding. But average total grant aid for TEOG recipients is substantially higher than that for nonrecipients. For example, on average, TEOG recipients with \$0 EFCs received about \$5,000 in grant aid exceeding tuition and fees that could be put toward living expenses, compared with \$2,000 for non-TEOG recipients.

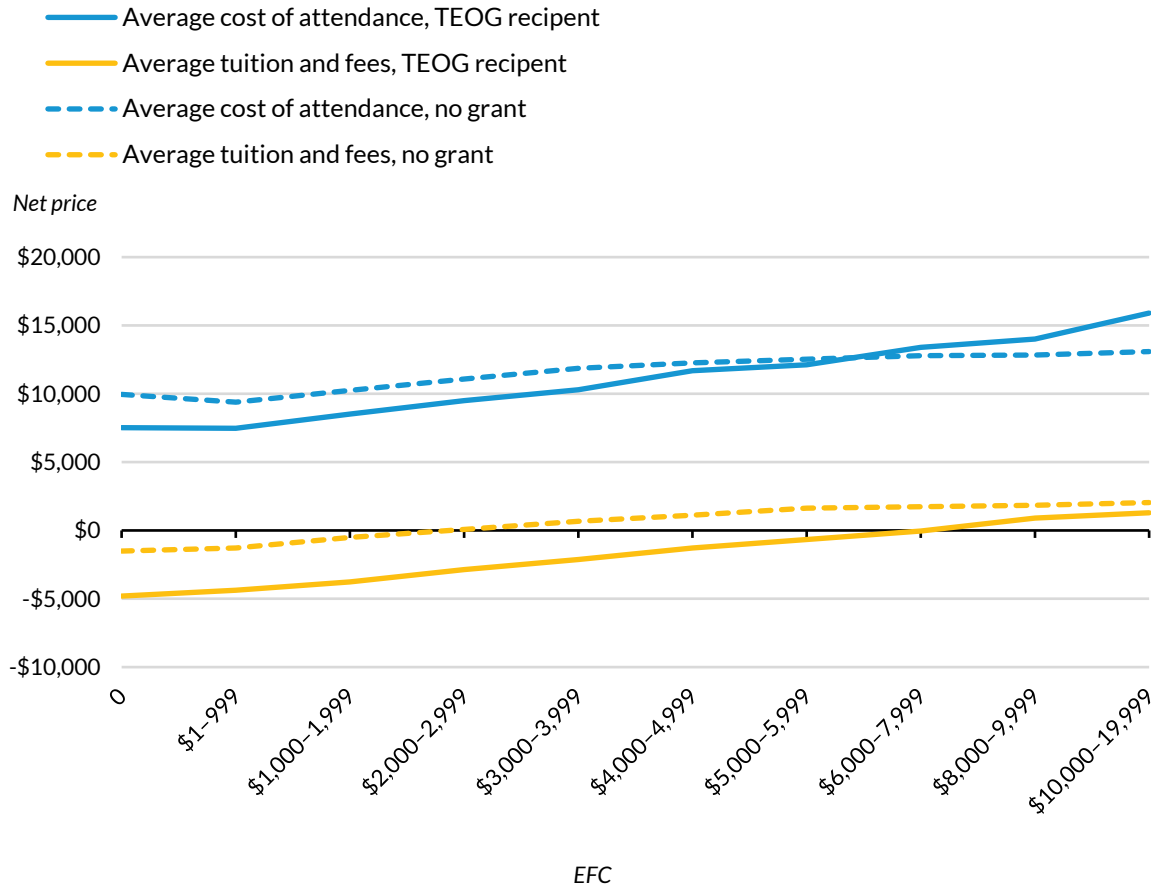
Whereas the gap in total grant aid between TEXAS grant recipients and nonrecipients is fairly constant across the EFC scale, the gap in total grant aid between TEOG recipients and nonrecipients decreases as EFC increases. In other words, either TEOG awards are smaller for students with higher EFCs or lower-EFC TEOG recipients receive additional grant aid not distributed to non-TEOG recipients.

We observe relatively similar trends in net tuition and fees and cost of attendance by TEOG receipt within institutions.

FIGURE 8

TEOG Recipients Pay Lower Net Prices Than Nonrecipients with Similar EFCs

TEOG recipients have lower average net prices than nonrecipients with similar EFCs, but this gap narrows at higher EFC levels



URBAN INSTITUTE

Source: Urban Institute analysis of Texas Higher Education Coordinating Board data.

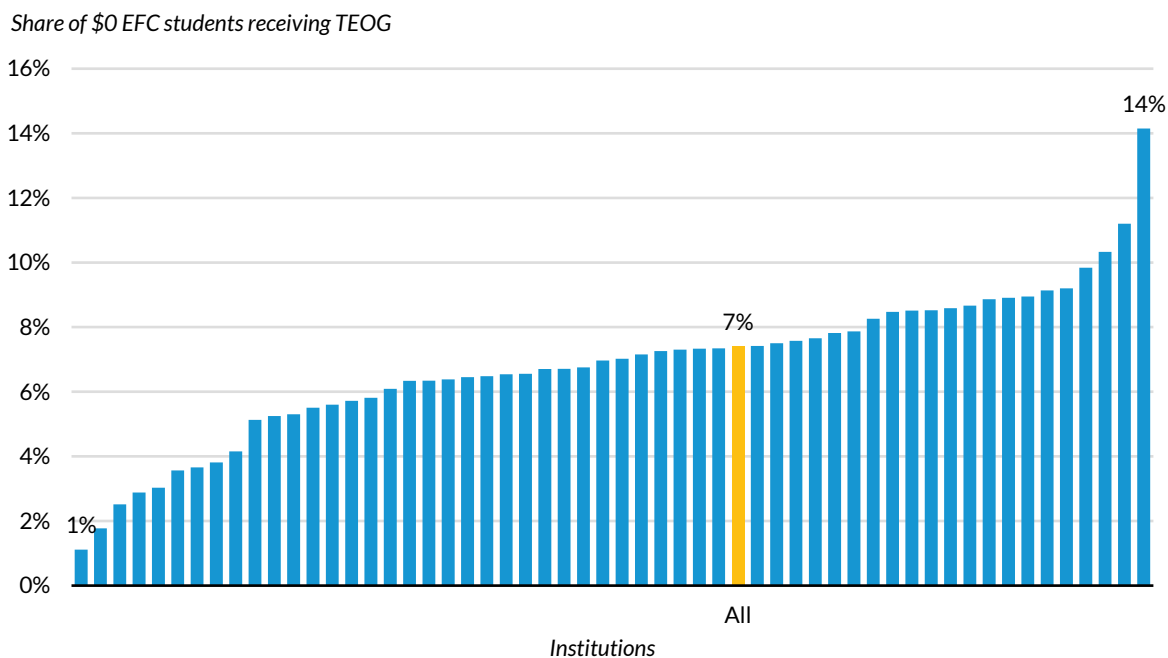
Note: EFC = expected family contribution; TEOG = Texas Educational Opportunity Grant.

Only 7 percent of eligible (Texas resident) \$0 EFC students who are enrolled at least half time at Texas community colleges received TEOG in 2017-18. At individual institutions, the share receiving grants ranged from 1 percent to 14 percent, with a quarter of institutions awarding state grant aid to 6 percent or fewer eligible \$0 EFC students and a quarter awarding grants to 8 percent or more. In contrast, an estimated 14 percent of eligible \$0 EFC students at Texas State Technical College received TEOG (figure 9).

FIGURE 9

Share of Eligible \$0 EFC Students at TEOG Institutions Receiving State Grants

The share of apparently eligible students receiving grant aid varies among institutions



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Source: Urban Institute analysis of TEOG data.

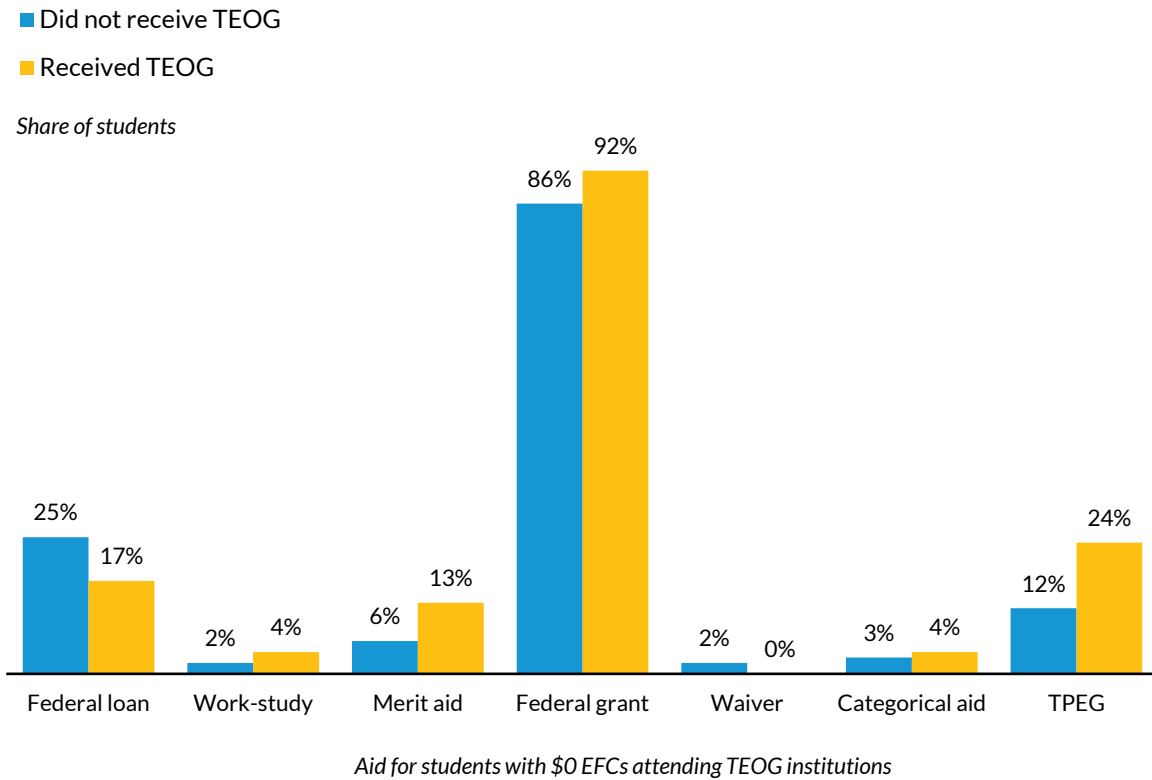
Note: EFC = expected family contribution; TEOG = Texas Educational Opportunity Grant.

Students at TEOG institutions are less likely than those at TEXAS grant institutions to rely on student loans, although those with \$0 EFCs who do not receive TEOG are more likely to borrow than TEOG recipients (figure 10). TEOG recipients are more likely than nonrecipients to receive a federal grant (e.g., a Pell grant or Supplemental Educational Opportunity Grant), to receive aid through TPEG, and to receive institutional aid. Again, understanding these differences in federal grant aid requires additional information. Institutions have no choice but to package funds for TEOG recipients to meet the program’s requirements. As is the case for TEXAS grants, packaging for TEOG varies substantially by institution. For example, some institutions provide TPEG funding to a large share of TEOG recipients with \$0 EFCs, while others are less likely to allocate this aid to TEOG students, who are more likely to have federal loans.

FIGURE 10

Share of \$0 EFC Students Receiving Financial Aid, TEOG Recipients and Nonrecipients

Among students with \$0 EFCs, TEOG recipients are less likely than nonrecipients to use loans and are more likely to have federal grant aid



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Source: Urban Institute analysis of Texas Higher Education Coordinating Board data.

Note: EFC = expected family contribution; TEOG = Texas Educational Opportunity Grant; TPEG = Texas Public Educational Grant.

Distribution of TEG and TPEG

Comparisons between TEG recipients and nonrecipients are more difficult because of the wide range of sticker prices in the private nonprofit sector. In addition, state guidelines for grant allocation under TEG are less prescriptive than those for the TEXAS and TEOG programs. On average, \$0 EFC students at private nonprofit colleges receiving TEG aid in 2017–18 paid about \$1,500 less in tuition than \$0 EFC non-TEG recipients. No consistent pattern in the gaps between TEG recipients and non-TEG recipients is evident across EFC levels.

Tuition set-aside programs work differently from the three basic state grant programs. Institutions use these funds to fill in the gaps for state grant recipients whose full tuition and fees must be covered

by grant aid, as well as to assist other students who have financial need. Those who receive TPEG funds consistently pay less, on average, in net tuition and fees than students with similar EFCs who do not receive these funds. The typical TPEG recipient pays about \$1,000 less for tuition and fees, on average, than a non-TPEG student with a similar EFC.

Eligibility Restrictions Limit Access for Students Who May Need the Aid Most

Nearly all Texas state grant programs are based on ability to pay, but these programs, particularly the TEXAS grant, introduce additional eligibility and prioritization criteria that may exclude students who have high need for financial assistance.

TEXAS Grant Priority Criteria Favor Recent High School Graduates

In fiscal year 2018, 91 percent of new TEXAS grant recipients enrolled within 16 months of high school graduation and obtained the aid through the high school graduation pathway, and 9 percent of new recipients followed the associate degree pathway. In fiscal year 2019, these shares were 97 percent and 3 percent (OSFAP 2020, table 1). Less than 1 percent followed the TEOG or military pathways. In our conversations with aid officers and officials in Texas, some pointed to the priority criteria as the reason most TEXAS grant students are admitted through the high school graduation pathway.

Like the distribution of TEXAS grant funds, the share of new TEXAS grant recipients who enter through different pathways varies by institution. Although most admit the majority through the high school pathway, a few institutions (e.g., the University of Houston and Texas A&M University–Central Texas) admit a substantial share of TEXAS grant students through the associate degree or TEOG pathway.

Dependent Students Are More Likely Than Independent Students to Get State Aid

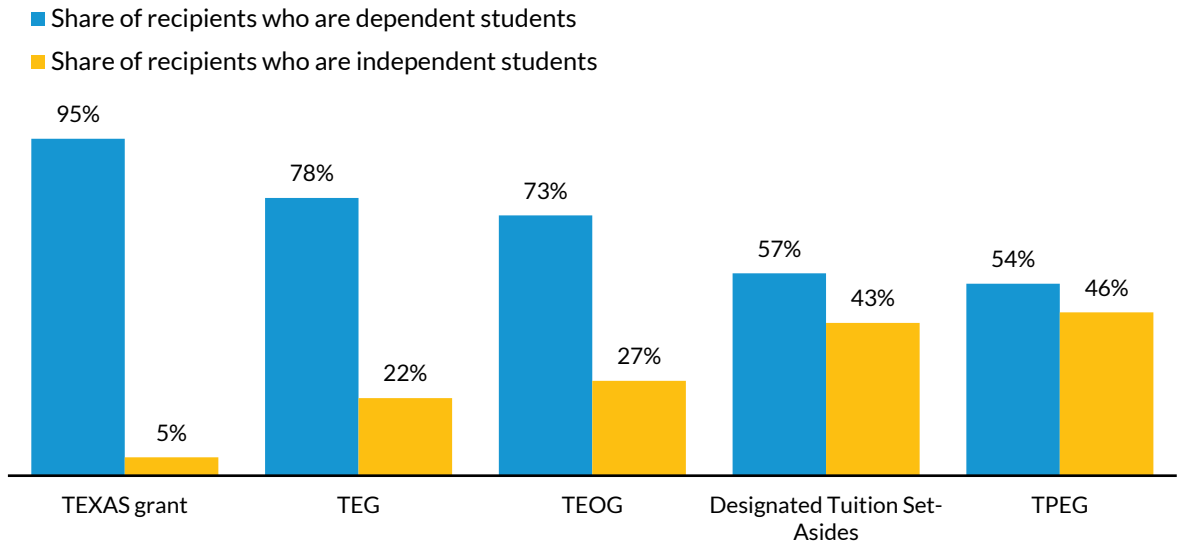
Available data confirm that state grant funds in Texas are well targeted to students from relatively low-income households. But almost all TEXAS grant recipients (95 percent) are dependent students (typically, younger than 24, unmarried, and without dependents), as are most students served by the other state aid programs—including 73 percent of TEOG recipients. In contrast, 46 percent of TPEG recipients are independent.⁵ The focus on dependent students raises questions about how well the

state financial aid programs serve students other than recent high school graduates—those who are returning to school to improve their opportunities for success in the labor market.

FIGURE 11

Shares of Texas State Grant and Tuition Set-Aside Recipients, by Dependency Status

Most state grant aid goes to dependent students



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Source: Fiscal year 2018 data from the National Association of State Student Grant and Aid Programs.

Note: TEG = Texas Equalization Grant; TEOG = Texas Educational Opportunity Grant; TEXAS = Toward EXcellence, Access, and Success; TPEG = Texas Public Educational Grant.

TABLE 2

Shares of Texas State Grant and Tuition Set-Aside Recipients and Dollars, by Dependency Status

	Share of recipients who are dependent	Share of recipients who are independent	Share of dollars going to dependent students
TEXAS grants	95%	5%	95%
TEG	78%	22%	80%
TEOG	73%	27%	76%
Designated Tuition Set-Asides	57%	43%	61%
TPEG	54%	46%	57%

Source: Fiscal year 2018 data from the National Association of State Student Grant and Aid Programs.

Note: TEG = Texas Equalization Grant; TEOG = Texas Educational Opportunity Grant; TEXAS = Toward EXcellence, Access, and Success; TPEG = Texas Public Educational Grant.

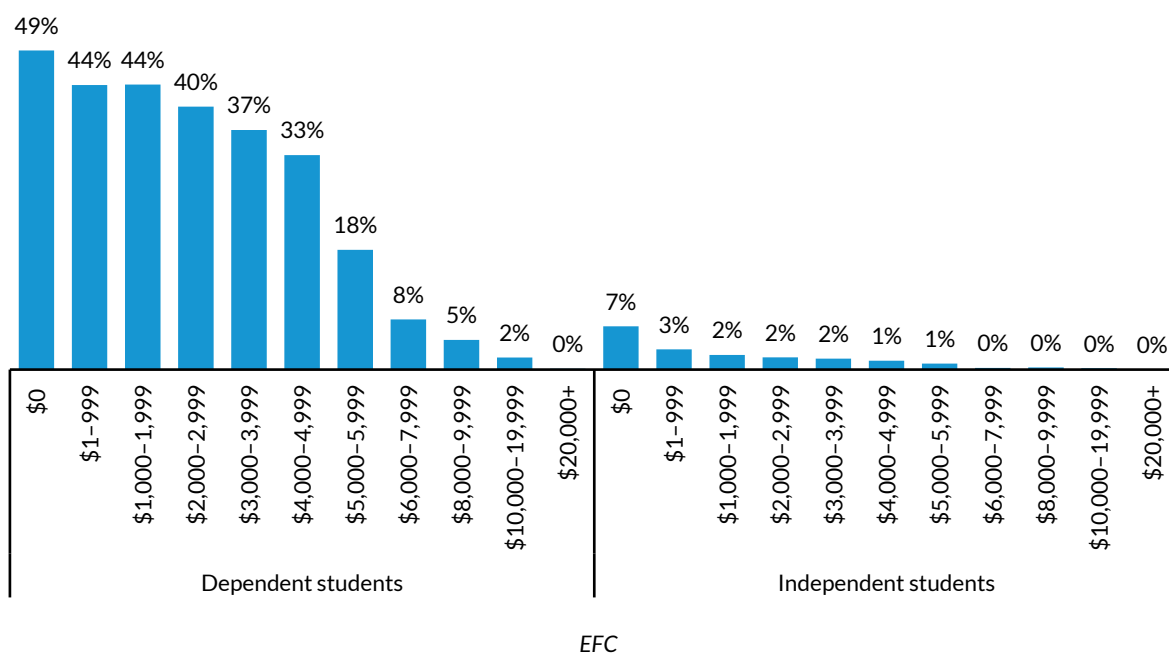
According to our analysis, dependent students are more likely than independent students with similar EFCs to receive TEXAS grant and TEOG aid. Almost half of eligible \$0 EFC dependent students at TEXAS grant institutions received a grant in 2017–18; only about 7 percent of \$0 EFC eligible independent students received a TEXAS grant (figure 12).

FIGURE 12

Shares of Students Receiving TEXAS Grants, by EFC and Dependency Status

Very few independent students receive TEXAS grant aid

Share of students receiving a TEXAS grant



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Source: Urban Institute analysis of Texas Higher Education Coordinating Board data.

Note: EFC = expected family contribution; TEXAS = Toward EXcellence, Access, and Success.

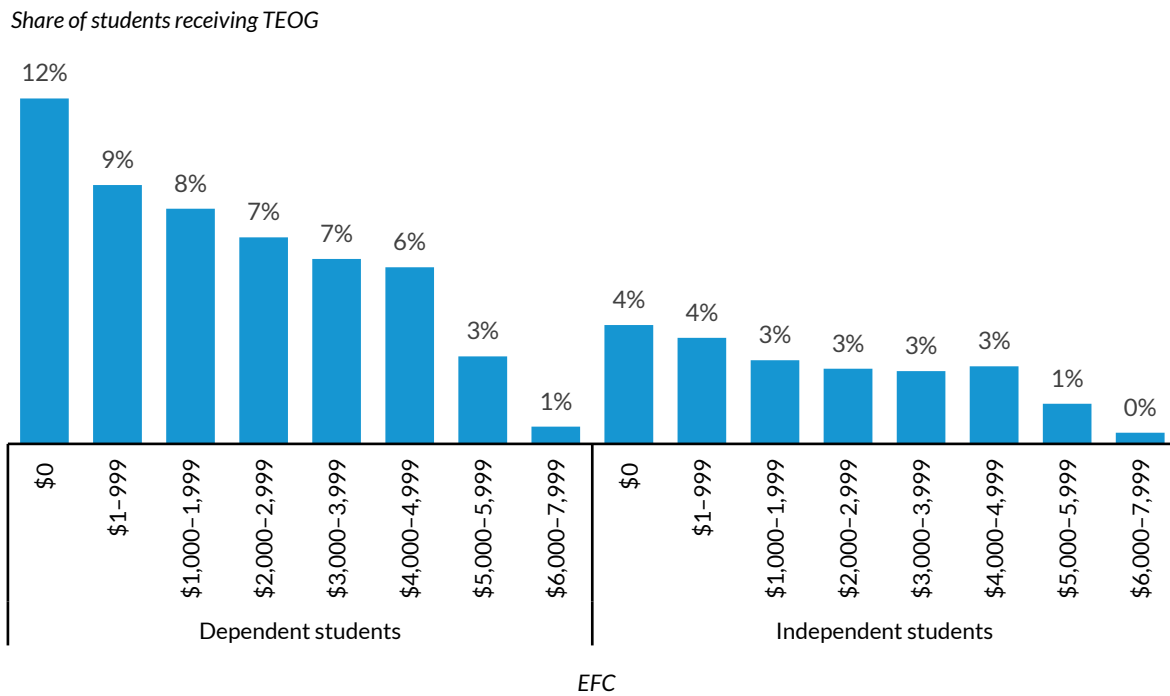
More than 40 percent of eligible dependent students with EFCs between \$1 and \$2,000 received TEXAS grant aid in 2017-18, compared with less than 5 percent of eligible independent students. This difference is likely caused more by program eligibility restrictions than by institution-level allocation procedures. TEXAS grant recipients entering the program through the high school pathway and meeting priority high school academic factors are first in line after returning grant recipients, so we would expect that dependent students would be more likely to receive this aid. Other eligibility factors could also indirectly affect TEXAS grant receipt by dependency status. For example, dependent students coming directly from high school might have an advantage in submitting application materials before the priority eligibility deadline. We note that initial TEXAS grant recipients with \$0 EFCs submitted their financial aid materials, on average, 70 days earlier than nonrecipients with the same EFCs. But the gap between recipients and nonrecipients in financial aid submission timing varies widely by institution. TEXAS grant recipients submit, on average, only 25 to 35 days earlier than nonrecipients at some institutions and as much as 100 days earlier at others.

Patterns in TEOG receipt by dependency status are similar but less pronounced (figure 13). Although the share of eligible students receiving TEOG is low overall because of limited funding, about 12 percent of eligible dependent students with \$0 EFCs received TEOG funds in 2017–18, while 4 percent of independent students with \$0 EFCs received this aid. Although TEOG does not have a priority high school pathway, this difference may also be the result of eligibility criteria. Dependent students may be better able to meet the priority TEOG deadline of March 15 and may be less likely to have accumulated 30 semester credit hours (outside of dual enrollment) before applying.

FIGURE 13

Shares of Students Receiving TEOG, by EFC and Dependency Status

Independent students are less likely than dependent students with similar EFCs to receive TEOG



URBAN INSTITUTE

Source: Urban Institute analysis of Texas Higher Education Coordinating Board data.

Note: EFC = expected family contribution; TEOG = Texas Educational Opportunity Grant.

Although dependency is the most significant demographic factor dividing students with similar EFCs who do and do not receive TEXAS grant or TEOG aid, there are also small differences in grant receipt by race and ethnicity. Slightly larger shares of eligible Hispanic white and Asian students than of non-Hispanic white and Black students with similar EFCs receive these grants. These differences could be a function of individual student characteristics that correlate with race and ethnicity (e.g.,

dependency status or TEXAS grant pathway) or of the institutions where students of different races and ethnicities enroll.

SAP Requirements Cause Some Students to Lose Their Grant Aid

Students with state grant aid are required to meet satisfactory academic progress criteria to retain their aid. Institutions set the SAP policy for students' first year. Generally, students must maintain a 2.0 GPA to retain their Pell funding. State criteria are more stringent. After the second year, students are required to maintain a minimum 2.5 GPA to continue receiving state grant aid.

Many students fail to meet SAP, putting their aid at risk. We find that 24 percent of TEXAS grant recipients, 20 percent of TEOG recipients, and 13 percent of TEG recipients did not meet the state SAP requirement in the 2018 fiscal year. These SAP results should be interpreted in context with other program rules and policies.

To further investigate the role of SAP and other criteria that might affect grant receipt (e.g., credit hours), we tracked the progress of students who started at their public four-year institution in fiscal year 2016 with a state grant. Sixty-six percent of these students retained their TEXAS grant for at least two years. Of those who received the grant in fiscal year 2016, 23 percent did not reenroll the following school year, and 10 percent enrolled in the institution for at least the next year but no longer received the TEXAS grant. Those who lost TEXAS grant aid had, on average, about \$8,000 less total grant aid in fiscal year 2017 than in their initial year. This decline may also reflect the loss of Pell grant funds because of failure to meet federal SAP requirements or could be associated with cutting back credit hours. Among TEOG recipients who started in fiscal year 2016, 45 percent received the grant the following year (36 percent did not reenroll, and 19 percent continued without the TEOG). Those who lost TEOG aid had, on average, about \$4,000 less total grant aid in fiscal year 2017 than in their initial year. Among TEG recipients, 55 percent received the grant the following year, with 28 percent not continuing and 17 percent continuing without the grant aid.

Policy Recommendations

Difficult as it is to imagine increased funding for state grant programs in the COVID-19 era and its wake, the reality is that funding state grants for only a relatively small share of eligible college students likely harms the academic outcomes of students from low-income backgrounds. The state designed the need-based grant system to provide targeted funding to students whose financial constraints interfere

with their ability to enroll and succeed in college. The long-run cost to the state of failing to fund so many eligible students could be quite high. Accordingly, it is impossible for us not to recommend putting more money into the system to fund students with financial need, even if it requires higher net prices for students from higher-income backgrounds or additional funding from state taxpayers.

In addition to this urgent need, it is constructive to consider aspects of the state grant system's design that might be modified to increase the effectiveness of the limited funds currently available for financial aid in Texas. The recommendations that follow do not depend on a larger budget for financial aid—although some of them might increase the number of eligible students—but focus on structural changes that could help vulnerable students.

Texas policymakers should articulate financial aid program goals as they relate to the state's 60x30TX strategy and other aspirations for educational opportunity and attainment in Texas and focus on program modifications most likely to help them reach those goals.

Allocation of State Aid Funds to Institutions

Most states have a centralized system that allocates grants to individual students, rather than distributing the funds to institutions and allowing them discretion over award levels. Such a system ensures more consistent and predictable funding for students. It would be possible for Texas to switch to this model without combining the TEXAS grant, TEOG, and TEG programs. The size of students' awards could differ based on the category of institution and range of the tuition and fee charges. But the state could develop tables that would show students, given their income levels, how much state grant aid they could expect to receive. The state, rather than institutions, would be responsible for allocations to individual students when funding is not adequate. But such a change does not appear to have much support among state constituencies.

Still, institutional staff frequently voice concerns about the difficulty of predicting the amount of funding they will receive annually and of understanding the logic behind the allocations. This unpredictability prevents them from providing timely and reliable information to students applying to college about the aid they will receive. Moreover, perceived inequities based on historical precedent and questions about the formula lead to concerns about whether institutions with large low-income populations or high shares of students of color are receiving their fair share of the available funds.

Absent this significant change, the state should attempt to address the key problems generated by the decentralized system—the lack of predictability of awards for students and the tension institutions experience because of uncertainties and perceived inequities in the institutional allocation formula.

Tweaking the allocation formula can accommodate changes in funding levels. But the state grant program should support students based on their levels of need and should adjust for funding levels in an equitable and transparent way.

Recommendation. Over the long run, if the state chooses to maintain the decentralized structure of its financial aid system, it should develop a system that will allocate funds in a way that treats individual students equitably across institutions, removing historical inequities and making grant aid as predictable as possible for students who are uncertain about where they will enroll.

Requirement to Cover Tuition and Fees with Grant Aid for State Aid Recipients

The strongest argument for requiring institutions to cover full tuition and fees with grant aid for all state aid recipients is that it ensures that most state grant recipients will be able to manage financially. Many may have to borrow or work to cover their living expenses, particularly at TEXAS grant institutions, where Pell grants are counted as part of the aid covering tuition and fees. Still, meeting educational expenses becomes more feasible if students do not have to worry about paying tuition.

There are, however, downsides to this policy. This approach essentially requires a single flat level of total grant aid for all state grant recipients, regardless of degree of need. With the current recommended maximum EFC of \$6,047, households that are deemed able to contribute \$6,000 a year to education must get the same minimum amount of total grant aid as those with \$0 EFCs. And low-income students could receive less from the combination of state and institutional funds than students with somewhat higher incomes, because the former have larger Pell grants.

The data suggest that some institutions package more generous grant aid than the minimum required for some TEXAS grant students—particularly for students with the lowest EFCs—but this is not always the case and it is not the direction supported by the policy.

It would be more logical to require that EFC plus all grant aid cover tuition, fees, books and supplies, and some other expenses. Such a policy could continue to provide state grants to students with the same range of EFCs but would ensure that the total funds available to grant recipients at different income levels (including family resources) were similar—rather than that grant funds were similar regardless of family resources.

Another option is to award the same amount of state and institutional dollars to all Pell grant recipients. This approach would preserve the Pell system’s progressivity, increasing the maximum grant from the Pell maximum to that amount plus the standard state aid. Allowing the state aid to taper before falling to zero would prevent creating a sudden drop-off in aid for students just above the cutoff.

Recommendation. Reconsider the policy requiring that grant aid cover tuition and fees for all state grant recipients. Consider replacing it either with a policy requiring that grant aid plus EFC cover tuition, fees, an allowance for books and supplies, and some living expenses for all grant recipients or with a policy that awards a fixed amount of state aid to all Pell recipients, tapering at higher incomes to avoid a sudden cliff in the aid amount.

Access to Aid for Older, Part-Time, and Transfer Students

The Texas grant programs are all need-based programs and target students with low EFCs. But because of program rules, little aid goes to older students, to students enrolled less than three-quarters time, and to transfer students. Is restricting access to funding for these groups consistent with the state’s goal of increasing educational opportunities and attainment, even if funds are limited?

Older students and part-time students are disproportionately represented in the public two-year sector, where less than 10 percent of eligible students receive TEOG funding.

Recommendations. The state could eliminate the priority requirements for recent high school graduates in the TEXAS grant program to broaden the range of students receiving aid. It could also include students enrolled half time, prorating their awards consistent with their enrollment patterns. The state could also increase the share of total state grant funds allocated to TEOG because so few community college students—many of whom have particularly limited financial means—receive state grant aid. These changes would help the state achieve the goals articulated in the 60x30TX plan.

Facilitation of Transfer across Institutions

If it is not possible to fund all eligible students, it is important to consider the current system’s priorities. If a goal is to ensure that as many students as possible who have completed some of their degree requirements go on to earn bachelor’s degrees, encouraging transfers from community colleges is vital. The demographic characteristics of students who begin at community colleges make them particularly vulnerable to financial barriers to college completion.

It is not clear why transfer students who were eligible for TEOG at the community colleges from which they transfer would not be considered comparable with continuing students. Having received a TEOG award is not a reasonable criterion for eligibility because so few students who are eligible actually receive the funding.

Recommendation. Modify TEXAS grant priorities to allow more students transferring from community colleges to four-year institutions to receive state grant aid. An important step would be to remove the requirement that students have to have received TEOG to be eligible for the transfer pathway. Transfer students who did receive TEOG would be renewal students for TEXAS grants. Another possibility would be to earmark a set amount of funding for transfer students. And because transfer students tend to apply later than students applying from high school, it may be helpful to extend the priority deadline for these students.

Multiple State Grant Programs

The three major state grant programs connected to the public four-year, public two-year, and private nonprofit sectors have different designs. It would be useful to revisit the logic of the distinctions. The system is more complicated because of the wide array of rules and regulations, funding levels, and allocation practices.

It is relatively straightforward to see the rationale for some distinctions. Some provisions have clear explanations, but there are also convincing opposing arguments. And in other cases, explanations may lie more in politics and history than in logic.

WHAT IS THE LOGIC FOR SETTING THE DIFFERENT MAXIMUM OR RECOMMENDED GRANT LEVELS IN EACH OF THE SECTORS?

State grant levels are higher for public four-year college students than for those enrolled in other sectors. It is reasonable to give larger grants to students in higher-price sectors without making grants sensitive to differences in prices across institutions, which could create incentives for raising tuition. And the fact that grants are smaller for students in private nonprofit institutions reasonably represents a compromise between funding these students—who would receive more support from the state if they attended public institutions—and supporting those attending state-run institutions to ensure access to postsecondary opportunities. The precise dollar differences in grant levels are likely to be arbitrary, but the state has an interest in supporting students in all sectors and should continually monitor differences in both average grant levels and the share of eligible students receiving funding.

WHY DOES TEG COVER GRADUATE STUDENTS WHILE THE TEXAS GRANT IS ONLY FOR UNDERGRADUATES?

There is likely a historical explanation for this practice, but no sound public policy explanation is obvious. It would seem more consistent with the goals of the state grant program to eliminate grants for graduate students but maintain the level of funding to the private nonprofit sector, allowing more grant aid for undergraduate students.

Recommendation. Eliminate TEG for graduate students but maintain the level of funding to the private nonprofit sector, allowing more grant aid for undergraduate students.

WHY DOES ONLY THE TEXAS PROGRAM HAVE ACADEMIC PRIORITY RULES?

The relevant question is not why TEOG does not have academic priority rules. Two-year institutions aim to provide access to postsecondary education for students who may not have strong academic records. These are likely to be students most in need of financial support.

Justification for the academic priority rules at four-year institutions might be either to strengthen incentives for high school students to prepare as well as possible for college or to focus on students most likely to succeed. Evidence about the effectiveness of merit-based awards in improving students' high school performance is mixed. A central problem is that the students whose schools are least likely to provide rigorous coursework are those most likely to depend on financial support.

If a student is accepted and enrolls at a university, it is in the interest of the students, the university, and the state to increase that student's chances of success. Denying them state grant aid because of their level of academic preparation can only hurt their chances. To the extent that the state hopes to increase the success rates of grant recipients, the strategy should be to provide the necessary financial and academic supports to increase probabilities of success. Eliminating students with lower chances might increase the success rates for grant recipients, but it is likely to decrease overall success rates and the success rates of vulnerable students.

Most likely, the current priority rules are primarily a rationing strategy. Because there is not enough funding to go around, prioritizing recipients becomes necessary. But the goal should be using the funds in an equitable manner to improve access and success as much as possible without creating negative incentives, not to target subsidies toward students most likely to succeed. These priority rules have little impact at the most selective universities because virtually all admitted students meet the standards. But at less selective universities, this is likely not the case. It is reasonable and constructive to have academic requirements for the continuing receipt of state grant funds. But excluding enrolling

students because they do not meet “priority” requirements is likely counterproductive. Some potential students may be ill equipped to succeed in college and perhaps should be directed into alternative career-development pathways. But the state’s goal should be to minimize financial barriers for all enrolled students. Denying them state grant funds because of their high school records can only make them less likely to complete their programs. The state’s goal should be to provide need-based grant aid to all eligible students who meet enrollment requirements at the state’s institutions.

Recommendation. Gather further evidence about otherwise-eligible students who do not receive TEXAS grants because they do not meet the priority academic requirements. Consider college acceptance the academic threshold for receiving state grant aid, without further differentiating among students based on high school performance.

IS IT LOGICAL FOR PELL GRANTS TO COUNT TOWARD MEETING TUITION AND FEES FOR TEXAS GRANTS BUT NOT FOR TEOG?

The advantage of allowing Pell grants to count toward covering tuition and fees is that the program can cover more students. The disadvantage is that fewer students have any grant funds for their nontuition expenses. Staff at community colleges sometimes argue for a rule change. But for community college students, with the notable exception of those for whom there is no in-district institution, TEOG frequently covers tuition and fees, so the question of counting Pell is irrelevant. Living expenses are the largest share of the budget for most community college students. It is not clear that reducing the total grant dollars allocated to TEOG recipients is a reasonable way to address the underfunding of the program.

For many four-year institutions, it would be impossible to fill in the gap between TEXAS grants and tuition and fees for more than a very small number of students without counting Pell grants.

Recommendation. The requirement that tuition and fees be covered by grant aid for all TEXAS grant and TEOG recipients creates a single level at which the institution must fund recipients, without respect for differences in need. But as long as that provision is in place, the current structure is probably the best one. Allowing Pell to count toward tuition and fees for TEOG recipients would effectively eliminate many of the lowest-EFC students, who receive the largest Pell grants, from the state grant program.

WHY ARE HALF-TIME STUDENTS ELIGIBLE FOR TEOG BUT NOT FOR TEXAS AND TEG?

The share of students enrolling part time is considerably higher at two-year institutions than at four-year institutions. For example, 93 percent of undergraduates at the University of Texas at Austin, 73

percent at the University of Houston, and 61 percent at Angelo State University are enrolled full time. This compares with 22 percent at Austin Community College, 30 percent at El Paso Community College, and 42 percent at Texas State Technical College. Failing to fund half-time students at two-year institutions would significantly reduce TEOG's ability to support high-need students.

The relevant question is whether the TEXAS grant and TEG should also fund half-time students. As is the case with other provisions, the current restriction is at least in part a rationing device and an effort to encourage timely completion. Expanding eligibility would likely only create more eligible students who do not receive funding. That said, the current policy limits the feasible options for students with work and family responsibilities to short-term programs.

Recommendation. Review the demographics of part-time students and the funding available to them at different types of institutions. Estimate the impact on funding levels, enrollment levels, and success rates of expanding state grant aid at four-year institutions to include prorated awards for half-time students.

WHY IS THE SHARE OF ELIGIBLE STUDENTS RECEIVING TEXAS GRANTS SO MUCH HIGHER THAN THE SHARE RECEIVING TEOG?

By our estimates, less than 10 percent of eligible students receive TEOG, while almost one-third of students at public four-year institutions meeting EFC and enrollment criteria receive TEXAS grants. Both these shares are low. But the TEOG share is so low as to make the program irrelevant to most students who could benefit from it. For many students, associate degrees and certificates are the most promising route to economic stability.

But tuition and fees at community colleges in Texas are among the nation's lowest. In contrast, public four-year university prices are close to the national average. Low tuition for all students in the two-year sector is a reasonable alternative to more generous need-based grant aid, given student demographics at these institutions.

Recommendation. Increase the share of eligible students receiving funding from all the state grant programs. Focus on TEOG, which funds less than 10 percent of eligible students. Increased funding would help, but spreading funding across more students in the two-year sector may also be advisable.

Satisfactory Academic Progress Requirements

Renewal of a TEXAS grant requires a 2.5 GPA after the second year—higher than the 2.0 GPA generally required for Pell eligibility and for good standing at the university. Students might lose their state funding for academic reasons while remaining in good standing at their institutions and eligible for Pell grants. There is strong consensus that GPA requirements for continuing eligibility for state grant aid should be consistent with the requirements in the Federal Pell Grant Program.

According to the Legislative Budget Board, the logic behind this requirement is that “because a larger share of students with GPA above 2.5 than below graduate within 6 years, giving grant aid to those students will increase graduation rates” (Texas Legislative Budget Board 2017, 332).

Excluding students with GPAs between 2.0 and 2.5 may increase the six-year graduation rate of TEXAS grant recipients, but it is likely to have the opposite impact on the overall graduation rate because these are likely to be students on the margin of succeeding who could be particularly vulnerable to the loss of funds. Students who are in good standing at their institutions and remain eligible for Pell but lose their Texas state grant are less likely to complete their programs than they would be with a 2.0 GPA requirement consistent with Pell.

Recommendation. The Financial Aid Advisory Committee to the THECB proposed aligning state aid programs’ satisfactory academic progress criteria with the federal SAP requirements as defined by each institution’s SAP policy. This change would diminish both confusion among students and bureaucratic complexity for institutions. It might also increase the overall student success rate. It would, however, be preferable to standardize these requirements across institutions. The state should lower the GPA requirement for renewing Texas state grant aid to 2.0 to match the federal aid requirements.

Waivers and Exemptions

Tuition waivers and exemptions play the same role as state grants, reducing the prices students pay. To the extent that institutions must finance these awards, they reduce the resources available for supporting educational expenses and providing financial aid to other students. Accordingly, these awards should be included in discussions of the overall level and distribution of state grant aid.

Recommendation. If the state puts a priority on funding the students covered by the waiver and exemption programs, it might consider providing the dollars rather than leaving it to institutions to find these extra dollars.

Set-Aside Programs

These programs may be controversial because they are labeled as coming from students' tuition payments. But this funding is necessary if institutions are to have the capacity to supplement state grants to help meet tuition and fee charges.

Moreover, it is somewhat misleading to think of these dollars as coming from tuition. Full-pay students are not paying the total cost of their education but are subsidized through state appropriations. It would be reasonable to think of institutional grant funds coming from these appropriations and of the tuition dollars students pay as going directly to cover the costs of their own education. Students are not actually subsidizing other students. They are just receiving smaller public subsidies than the students who receive aid under any of the state grant programs, including tuition set-asides.

It would be possible to combine the funding sources into a larger state grant program, which would make it clear that this is actually state funding, not students subsidizing other students through their tuition payments.

But the established rules for tuition set-asides probably make these funds less vulnerable to the budget cycle than the state grant funds. Clearly, diminishing or eliminating this program without building the funds into the state grant program would severely decrease the aid available to low-income students.

Recommendation. Maintain the TPEG and Designated Tuition Set-Aside programs to ensure institutions have adequate institutional grant funds. Consider renaming the programs and modifying communication about them to diminish the misperceptions among full-pay students, who may believe they are paying more than the full cost of their education and directly subsidizing grant recipients.

Coordinating State and Institutional Grant Aid

An obvious question is whether it is better to award smaller grants to more students or to ensure that students who receive grants have enough funding to address their needs. Setting a "target" award that is less than the maximum allowed by law aims to spread aid to more students. But with the requirement for institutions to cover tuition and fees with grant aid, it merely transfers the problem from the state to the institutions, which must fill larger gaps when state awards are smaller.

Given the tuition-and-fee coverage requirement, the state grant size matters to students only to the extent that total grant aid can exceed tuition and fees. It is worth considering closer integration of state grant aid with institutional grant aid not funded by outside sources. It would be less confusing to students if their state grant award were defined as including the dollar amount of nonfederal funding they are promised with this award.

Recommendation. Develop a system for informing students of the full amount of grant aid they will receive as state grant recipients. The distinction between TEOG or TEXAS, set-aside, and institutional funds has little practical import for students. And the state grant rules dictate a minimum total for this aid. Presenting it to students as a package could improve students' understanding of the system and relieve tensions.

Time to Degree

Restrictions on eligibility for state grant programs can be viewed as rationing devices for limited funds, as constructive incentives for students to meet such requirements as minimum GPA levels, or as mechanisms to exclude from the program students least likely to succeed, possibly to avoid wasting funds. But these restrictions can also exclude some students most dependent on additional funds to make college success realistic.

Considerable rigorous evidence supports the idea that grant programs that incorporate rewards for academic progress can have a significant positive impact on outcomes (Dynarski and Scott-Clayton 2013). These incentives have to be carefully designed to avoid criteria college students have no power to change (e.g., high school GPA) or may not know how to achieve (e.g., a specific, high college GPA). Most of the positive evidence comes from rewarding credit accumulation, sometimes with modest GPA requirements.

The pros and cons of some requirements are more difficult to balance. Requiring full-time enrollment is one example. Students who consistently enroll full time are more likely to graduate—and in a timely manner—than those who enroll part time. Students who consistently enroll part time have particularly weak outcomes. For example, among students who first enrolled at public four-year colleges in fall 2013, 67 percent had earned a degree six years later. But the graduation rate was 84 percent for those who enrolled exclusively full time, 49 percent for those with mixed enrollment patterns, and 21 percent for those who enrolled exclusively part time (National Student Clearinghouse Research Center 2019, appendix tables 27 and 28).

But aside from the obvious fact that it will take students longer to accumulate the credits necessary for a degree if they enroll part time, students with different enrollment patterns have very different characteristics and circumstances. It is not clear that requiring a single parent supporting young children to enroll full time will increase her chances of success. Making her ineligible for aid unless she enrolls full time may simply diminish her chances of success.

In its 2017 staff report, the Legislative Budget Board argues that “Requiring TEXAS Grant recipients to enroll full time would accomplish two goals. It would encourage some students to enroll in more semester credit hours (SCH), thereby increasing the likelihood that they graduate in a timely fashion. Additionally, funds that might have been awarded to students who were unwilling or unable to enroll full time could instead be redirected to other students who have a greater likelihood of timely completion” (Texas Legislative Budget Board 2017, 333).

The report proposes requiring 30 (instead of 24) semester credit hours per academic year for award renewal and providing summer funding to facilitate this. Hardship exceptions would continue to be available. The report also notes that students with higher GPAs (above 2.5) have higher completion rates and argues that the 2.5 GPA threshold increases the completion rates of TEXAS grant recipients.

The correlations between GPA and accumulation of credit hours and timely completion are clear and logical. But the logic behind the proposed solutions is questionable. Providing additional aid as an incentive to enroll in and complete additional credit hours is a constructive incentive. But excluding students who cannot meet a strict standard is likely to prevent many students from graduating.

Decreasing the time it takes students to complete their degrees—not just increasing the number of college graduates—should be an explicit state grant program goal. Students who spend longer than four years earning bachelor’s degrees or much longer than two years earning associate degrees pay more total tuition and fees than they would otherwise, and they pay a high cost in forgone labor market earnings because they could be out of the labor force for less time and be earning college-graduate wages sooner. Moreover, debt levels increase dramatically the longer students take to complete their studies.

The Legislative Budget Board staff report cites target graduation rates for TEXAS grant recipients of 15.7 percent in four years and 41.0 percent in six years. These rates are startlingly low.

Defining full time as 12 SCH encourages a norm that stretches out time to degree. As long as most associate degrees require 60 SCH and most bachelor’s degrees require 120 SCH, students must complete an average of 15 SCH or make up the shortfall over the summer to graduate on time. The fact

that the Federal Pell Grant Program defines full time as 12 or more credit hours makes it complicated for the state to do otherwise. Nonetheless, there are ways to mitigate the problem.

Allowing state grant funding for summer courses likely increases the number of students who take advantage of this opportunity, promoting timely completion. Defining full time as 15 credit hours per semester or ensuring that students enrolled for 15 SCH receive more grant aid than those enrolled for 12 SCH could also reduce the gap between the four- and six-year graduation rates (Texas Legislative Budget Board 2017, 330).

Recommendations. Eliminating grant aid for students who do not complete 30 credit hours a year is likely to deprive many students of needed funds. But Texas could follow Minnesota’s lead, prorating grant aid according to the number of credit hours for which students are enrolled. Instead of awarding full-time grants to students regardless of whether they are enrolled for 12 or more credit hours, they could receive 1/15 of the full award for each SCH. This strategy would provide an incentive for more intensive enrollment, without discriminating against students whose other obligations do not allow for full-time enrollment.

Questions to Consider

Designing a grant program involves numerous trade-offs. Despite the amount of available evidence clarifying which program characteristics increase equity and effectiveness, there are many issues on which there are not clear answers. Understanding the trade-offs involved and making thoughtful choices is the best option.

Issues that deserve serious consideration include the following:

- Does the complexity of state grant funding in Texas, with discretion given to individual institutions to award state grant funds, make it easier for schools to efficiently package aid but difficult for students to predict how much aid they will receive?
 - » Modifying program provisions to minimize uncertainty is the best solution, but even absent such changes, the state could help students overcome these difficulties. Providing simple tables of the aid students in different financial circumstances receive at each institution would be helpful.
- Is it better to serve more students by making smaller awards, or to serve fewer students but ensure that the grants are large enough to make a measurable difference in outcomes?

- » The requirement that state grant recipients receive enough total grant aid to cover tuition and fees limits the number of students who can be served and limits the options for institutions in distributing their other grant aid.
- » The target TEXAS grant award level, which is lower than the legislated standard, allows the funds to be disbursed more widely than they would otherwise be but only if institutions have the resources to cover tuition and fees for more students.
- Should students with the most limited resources be first in line for aid, or should students with the best chance of succeeding get priority?
 - » The goal is to help more students succeed, not to fund more students who can succeed with or without state grants.
 - » Very low-income students are not the only ones who face financial barriers. Setting the cutoff for aid too low risks making moderate-income students vulnerable to having insufficient funds.
 - » Excluding admitted students from aid programs because of their risk factors is likely to generate a self-fulfilling prophecy, as these students are more likely to fail without generous assistance.
- Should funding tuition and fees for all grant recipients take precedence over helping high-need students buy books and supplies and meet their living expenses?
 - » Even students who do not have to pay tuition and fees may face significant financial barriers to college success, as nontuition expenses account for more than half the budgets for most in-state public college students.
 - » The biggest cost of college for many students is forgone wages. It is difficult to work full time and go to school full time, so students without ample parental support face real challenges supporting themselves while they are in school.
 - » Providing funding to cover all expenses is inconsistent both with the general social safety net in the US and with the idea that students can contribute to their own education with in-school and future earnings. Finding the right balance is a challenge.
 - » Discussions of food and housing insecurity are really conversations about whether students have enough money to sustain a reasonable standard of living while they are in college.
 - » Books and supplies are a real cost of going to college. People have to eat and pay for housing whether or not they are in school, but books and supplies belong on the same side of the ledger as tuition and fees.

- Should the state limit the amount of time students can receive grant awards?
 - » Limits that provide no leeway for students can prevent students who are close to completing their degrees from finishing. Limits that are too loose can diminish the incentives for timely completion and provide unduly generous aid to students who meander through college.
 - » Under current TEXAS grant rules (THECB, n.d.), students are eligible for five years (or three years if they transfer to four-year institutions with associate degrees), with a maximum of 150 credit hours attempted. TEOG allows four years, with a maximum of 75 credit hours attempted.⁶
 - » A recent move to reduce the number of hours a TEXAS grant can cover failed, but the issue will surely arise again because of the belief that it would provide stronger incentives for students to complete on time. Some observers are concerned that students who require remediation or have other difficult circumstances will be cut off too early. But allowing 25 percent more than the standard number of credits required for a bachelor's degree may be too generous.

- How much can emergency financial aid help cover situations regular financial aid cannot address and increase completion rates?
 - » The state allows for institutions to fund emergency loan programs out of the designated tuition funds. Emergency loan programs can help get students through unanticipated circumstances, but an emergency grant program would be even more helpful.
 - » No regular need-based grant program can provide the necessary support for a student whose family member can no longer care for their children, who faces unexpected medical problems, or who is suddenly without transportation. Even small unplanned expenses can derail the studies of students just managing to get by.
 - » Funds set aside for this purpose—and carefully monitored—could reduce dropout rates, even with a relatively small investment.
 - » The state could directly fund an emergency aid program.

Conclusion

The Texas state grant system has many strengths, most salient of which is its commitment to need-based aid. Targeting aid to students with the most limited resources is the most effective strategy for using these funds to increase college access and success. But the system is complicated, and neither

students nor institutions can easily predict grant amounts in advance. Moreover, the combination of funding levels and program structures excludes many students whose chances of completing their postsecondary programs would be higher if they received more grant aid.

The coronavirus pandemic is putting unprecedented strains on both state and institutional budgets, and it is likely to be some time before more adequate funding for higher education—including both operating budgets and targeted student aid—will be available. But thoughtful modification of some existing provisions could improve outcomes even without significant additional investment. Keeping the principles of simplicity and transparency, as well as the inverse correlation between students' economic circumstances and their price sensitivity, front and center can help focus system reforms. Prices net of financial aid matter more than sticker prices, and letting low-income and first-generation students know well in advance about the support that will be available to them is critical.

One approach to a comprehensive review of state grant programs with an eye toward increasing their equity and effectiveness would be to create a commission that includes stakeholders, policymakers, and experts to develop and analyze reforms. We recommend that the state review its restrictions on student aid that limit participation by older students, transfer students, and students who are admitted but do not meet the highest academic standards. Modifying the rules for covering tuition and fees for all state grant recipients and for continuing eligibility would be constructive steps. And better coordination between the different sources of grant aid that are funded or mandated by the state would create a more efficient and equitable system.

Notes

- ¹ Until fall 2014, community colleges and public technical institutes could also issue TEXAS grants. These institutions now issue only renewal-year awards.
- ² Based on conversations with representatives of these institutions.
- ³ See, for example, Groves and Helmcamp (2015).
- ⁴ Estimated location of aid across eligible students is based on Urban Institute analysis of THECB data. Average award levels are from OSFAP (2020).
- ⁵ See table 83 in the US Department of Education's *2019 Pell Grant End-of-Year Report 2017-18*, available at "Federal Pell Grant Program Annual Data Reports," US Department of Education, accessed February 27, 2021, <https://www2.ed.gov/finaid/prof/resources/data/pell-data.html>.
- ⁶ "Texas Education Opportunity Grant Program (TEOG)," College for All Texans, accessed February 27, 2021, <http://www.collegeforalltexans.com/apps/financialaid/tofa2.cfm?ID=529>.

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