

# Washington State Need Grant Program 1998 Policy Study: Report and Final Recommendations

December 1998

## EXECUTIVE SUMMARY

### BACKGROUND

For the past several years, the Legislature and the Higher Education Coordinating Board (HECB) have engaged in discussions about the state's financial aid programs for college and university students. Several studies have been conducted, with particular emphasis on the State Need Grant (SNG) program. Many policies have been reaffirmed and others have been modified as a result of these evaluations. Earlier this year, the leaders of the Senate and House Higher Education Committees asked the HECB to study the SNG program, and to develop a set of recommendations prior to the 1999 session. This report provides an overview of the HECB's study and recommendations.

### PROGRAM OVERVIEW

The State Need Grant program is the state's oldest and largest student aid initiative. The Legislature created it in 1969, solely to help financially needy or disadvantaged Washington residents attend college. Since then, the program has provided access to higher education for hundreds of thousands of students who would not have been able to attend otherwise. During the 1998-99 academic year, about 50,000 Washington residents will share a total of \$72.4 million in State Need Grant assistance.

The Legislature has designated the HECB to administer the program and to adopt policies and procedures. Over the years, the SNG program has been altered in response to legislative direction, changes in federal law, and through the Board's own review and assessment.

Currently, the State Need Grant program has the following features:

- It serves the state's lowest-income students, with the lowest-income served first. For 1998-99, applicants must qualify as needy under a federal formula and have a family income less than 50 percent of the state median income for a family of four, 50 percent of the current median income is \$25,500
- The 1998-99 base grant for a year's study ranges from \$1,500 for students at community and technical colleges to \$2,500 at the state's independent colleges and universities. Base grants are designed to cover 15 percent of the cost of college attendance, which includes allowances for living expenses and education-related costs such as tuition, books and transportation.
- Most students who receive a State Need Grant also receive a Federal Pell grant. For 1998-99, the maximum Pell grant is \$3,000, regardless of which type of institution the student attends.
- Grants go to full- and part-time resident undergraduates for up to five years.

- A “dependent care allowance” of up to \$565 per year is available for students who are responsible for the care of dependent children or adults.
- The typical State Need Grant recipient is 25 years old, with a family income of less than \$15,000 per year. Sixty-three (63) percent are female, and 91 percent attend college full-time. Sixty-one (61) percent attend community and technical colleges; 29 percent attend public four-year colleges and universities; 6 percent are at private colleges and universities; and 4 percent attend private career schools.

## HECB STUDY ISSUES

The HECB study was designed to address a number of questions and issues that have been the subject of ongoing debate over the past several years. For example:

- How should a student’s financial need be established? Should eligibility be based strictly on family income, or should the state attempt to estimate how much money a single person or a family should be able to pay toward college costs?
- Should grant amounts be sized to reflect a portion of a student’s overall cost of attending college or only the costs directly related to education?
- Should students be required to meet a minimum “self-help” standard as a condition of receiving a grant?
- Should the State Need Grant be increased for students who provide for the care of dependent children or adults?
- Should the program permit continuing grants to students who experience a slight increase in family income that would make them ineligible?
- How should the State Need Grant program be coordinated with federal student aid?

## HECB RECOMMENDATIONS

At its October 28 meeting, the HECB adopted a set of recommendations that respond to the requests of the legislative higher education committee leaders, as well as address many of the issues that have been the subject of debate over the past several years. The Board reaffirmed many existing policies and procedures, and adopted several recommendations for change. The following recommendations are elaborated in the Board’s full report.

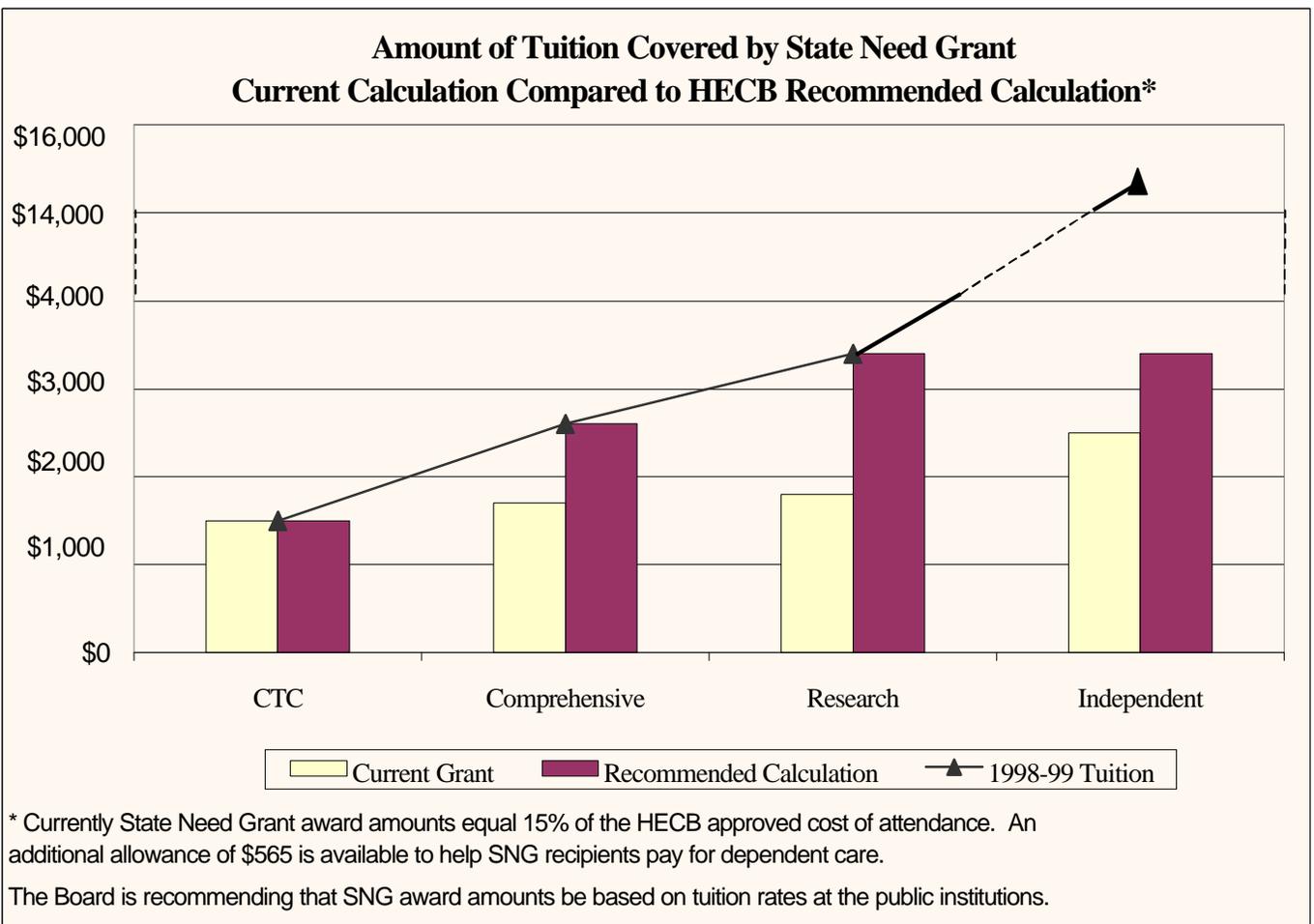
- **Family income should remain the standard for determining eligibility.**

The Board has recommended that family income, described as a percentage of the state’s median family income, be retained as the primary criteria for determining eligibility for a State Need Grant. Since the sole purpose of the State Need Grant program is to help low-income students gain access to college, family income remains the best yardstick for determining financial need.

▪ **Grant amounts should be based on public institutions' tuition rates.**

The HECB has established a goal that State Need Grants be equivalent to the tuition rates at the state's public colleges and universities. This recommendation was based on the Board's conclusion that State Need Grant amounts should be pegged to a direct educational cost rather than to expenses that would be incurred regardless of whether a person were a student and the Board's belief that tuition-sensitive grant amounts would help equalize differences in the costs of attending two- and four-year colleges and universities.

At present, the average State Need Grant covers virtually all of the tuition at community and technical colleges, but only 65 percent at the comprehensive universities, and 53 percent at the University of Washington and Washington State University. The main effect of this change is to increase the size of grants to students at public and private four-year colleges and universities, while preserving current grant levels at the community and technical colleges and private career schools.



- **There should be a self-help requirement for students.**

A “self-help” component will require students who receive a State Need Grant to contribute a minimum of 25 percent of the total cost of attending college from sources other than educational grants. Students can meet the self-help requirement with scholarships, wages from jobs, student loans, and other income.

- **Institutions should have flexibility to award dependent care allowances.**

Colleges and universities will be given more flexibility to award a supplemental dependent care allowance to students who are supporting children or adults in need of care. Students will have to document their need for this “dependent care allowance.” Currently, institutions have relatively little discretion, and documentation is not uniformly required.

- **Colleges should have flexibility to consider students’ continuing eligibility.**

Colleges and universities will have the flexibility to continue State Need Grants for students whose income increased slightly from year to year. Currently, students encounter a “cliff effect” in which they can lose their State Need Grant if their income increases beyond the maximum limit by even \$1. The Board’s recommendation will enable financial aid administrators to make limited exceptions for students in this situation.

- **The State Need Grant program should continue to be coordinated with federal policies and programs.**

Two recent federal initiatives – the Lifetime Learning and Hope Scholarship tax credits – are designed primarily to help middle-income families, although some State Need Grant recipients could be eligible for tax savings. Federal regulations for the programs have not been proposed, but the HECB will monitor the development of the rules to ensure that state funds are maximized in a way that will not jeopardize educational opportunities for the students served by the State Need Grant program.

## CONCLUSIONS

The State Need Grant program has been the subject of intense, continued study over the past several years. This year's HECB study, combined with the legislative study of 1997, and earlier efforts by the HECB and others, addressed a wide range of issues that are covered in depth in the full "Washington State Need Grant Program 1998 Policy Study: Report and Final Recommendations." The report leads to several important conclusions about state financial aid programs in general and the State Need Grant program in particular:

- The state's effort to help low-income students attend college remains a very effective means of helping Washington State residents achieve their educational goals. The program does not require major changes in order to continue to fulfill its purpose.
- The Board's recommendation that grant amounts be linked to the rate of public college and university tuition will increase grants to students at public and independent four-year institutions, helping more needy students complete a four-year baccalaureate program. This change will also link the State Need Grant to a direct educational cost, rather than to an estimate that includes students' personal living expenses.
- The addition of an explicitly-stated self-help requirement will make it clear to students and taxpayers that State Need Grant recipients are expected to contribute a reasonable share to the cost of their own education.
- Finally, the Legislature and Governor have, for many years, shown a strong commitment to the State Need Grant program that is reflected in both the current size of the program and the rate of increase that has been supported through budget enhancements. The history of the State Need Grant program demonstrates the importance of public investment in the education of Washington residents.

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This summary and the full report, "Washington State Need Grant Program 1998 Policy Study: Report and Final Recommendations," were prepared by the staff of the Higher Education Coordinating Board. For more information, contact the HECB at (360) 753-7800.

# **Washington State Need Grant Program 1998 Policy Study: Report and Final Recommendations**

*December 1998*

## **INTRODUCTION**

In 1969, the Washington Legislature created the state's first program of student financial aid, known as the State Need Grant (SNG) program. The enabling legislation<sup>1</sup> states that the sole purpose of the program is to provide needy or disadvantaged Washington residents with the opportunity to attend an institution of higher education. It establishes that recipients are to be selected on the basis of a statewide ranking, with awards to the neediest students first; that the program is to achieve statewide policy goals; and that grants should complement and supplement other resources up to the amount of a student's financial need.

Through the years, both the legislative and executive branches have evidenced a strong and consistent commitment to this program. As a result, State Need Grants have been instrumental in providing access to the benefits of higher education to thousands of Washington residents who could not otherwise have afforded to attend.<sup>2</sup>

The Legislature has vested with the Higher Education Coordinating Board the responsibility to adopt program policies and administrative procedures within the framework established by statute. The Board and its predecessor agencies have periodically amended State Need Grant policies in response to legislative directives, changes in federal student financial aid policies, and as a result of the Board's own review and assessment.

This report and recommendations are the result of a study undertaken at the request of the chairs of the Senate and House Higher Education Committees. Having completed its analysis, the Board affirms the purpose and structure of the program as established in the enabling legislation. Within that context, the Board's study has focused primarily on how "need" for the grant should be determined and how award amounts should be established, along with other related issues.

In conducting this review and forming their recommendations, the Board has taken into account the tuition and financial aid reports prepared in response to a 1997 legislative directive, and has engaged the participation of representatives from the public and private institutions of higher education.

Following the adoption of preliminary recommendations in September, the Board sought feedback from the Legislature's Senate and House Higher Education Committees, institutions, and other interested parties. This report incorporates the final recommendations adopted by the Board on October 28, 1998.

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<sup>1</sup> RCW 28B.10.800 - .824

<sup>2</sup> See Appendix A for a description of the program and a recipient profile.

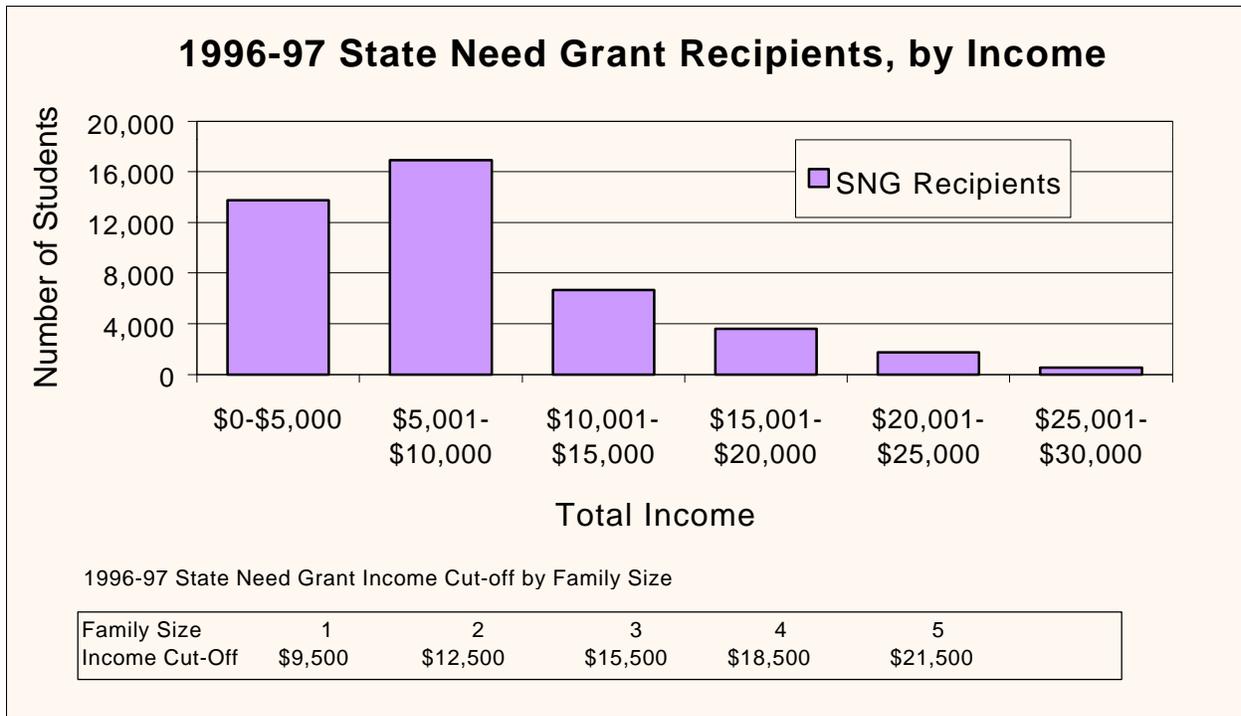
**Chapter 1**

**THE WASHINGTON STATE NEED GRANT PROGRAM  
DESCRIPTION OF CURRENT PROGRAM**

**The State Need Grant program helps low-income, undergraduate Washington residents access college. Recipients may attend a public community or technical college, public or independent college or university, or a participating accredited private vocational (proprietary) school.**

The program is targeted to the lowest income students who document financial need in accordance with a standardized federal need analysis formula. Funding for the 1998-99 academic year is sufficient to provide grants to approximately 50,000 eligible students with family incomes of up to 50 percent of the state’s median family income (MFI).<sup>3</sup> Charts 1 and 2 show the income distribution of 1996-97 State Need Grant recipients by total income and by income as a percent of the state’s median family income.

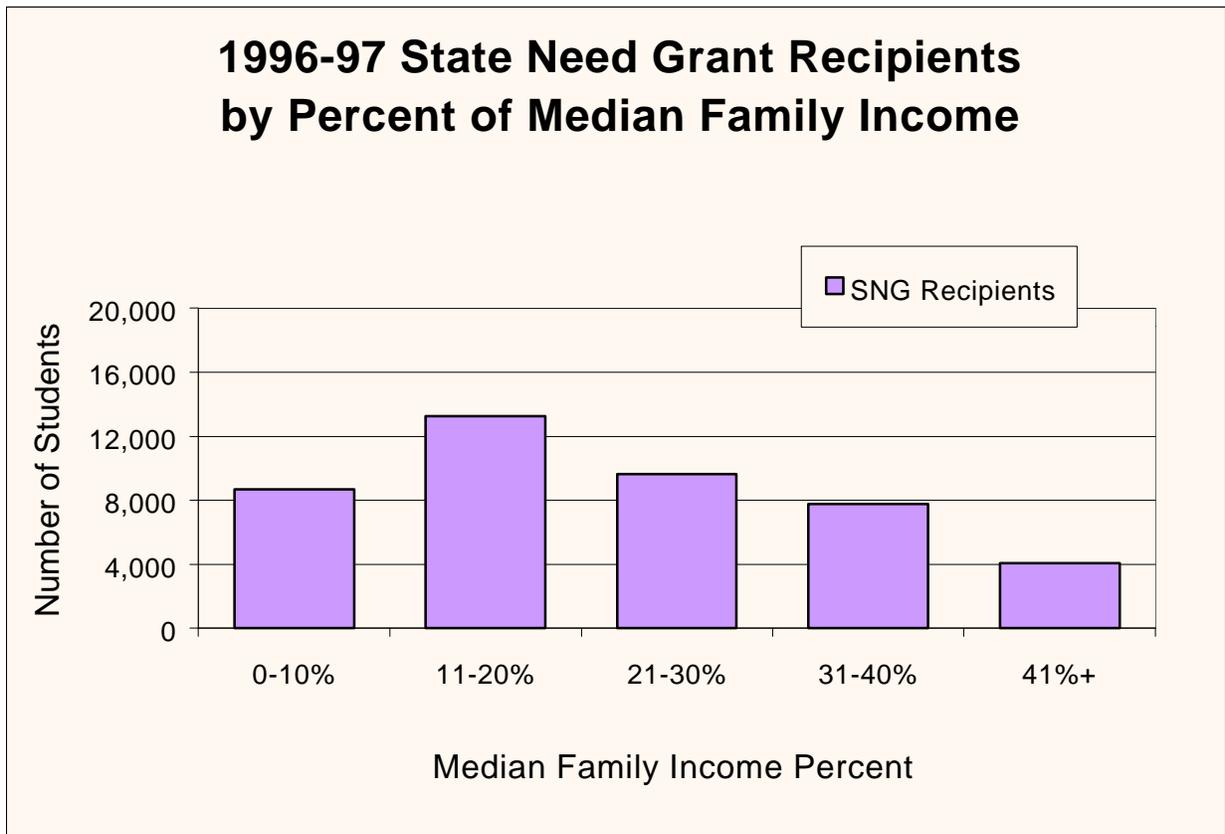
**Chart 1**



As shown in Chart 1, approximately 85 percent of the State Need Grant recipients in 1996-97 had incomes of \$15,000 or less; about 95 percent had incomes of \$20,000 or below.

<sup>3</sup> The State’s Median Family Income (MFI) is calculated by the Bureau of the Census of the U.S. Department of Commerce for a family size of four, with other family sizes indexed to that amount. During the 1998-99 academic year for a family size of four, 50 percent of the median family income is \$25,500. See Appendix A-2 for the income cutoff for other family sizes.

Chart 2



Grant amounts equal 15 percent of the Board-approved cost of attendance, including allowances for tuition, books, and living expenses. Since tuition differences (with limits for non-public institutions) are factored into the formula, grants vary from sector to sector. An additional allowance is available to help SNG recipients pay for dependent care.<sup>4</sup>

Rules governing student eligibility and grant amounts are established by the Higher Education Coordinating Board and are applied consistently by all institutions. Money is allocated to the institutions on a proportional basis that reflects their share of the state's total number of State Need Grant eligible students. The institutions determine whether individual students meet the criteria for initial and continuing grants, and they award the State Need Grant as part of each recipient's total financial aid package. Institutions are required to consider other sources of assistance available to needy students before they award a State Need Grant as part of the financial aid "package." Usually, the SNG is just one source of financial aid that a student uses to pay his or her educational costs.

To apply for a State Need Grant, students must only complete the Free Application for Federal Student Aid (FAFSA). They are automatically considered for the State Need Grant and are not required to complete additional paperwork. Institutional financial aid administrators use information from the FAFSA and other available records, (such as the number of credits attempted and completed, etc.) to determine whether or not a student is eligible for a State Need Grant.

<sup>4</sup> See Chapter 3 for more information on grant amounts.

There are two important benefits to the current method of determining eligibility and distributing grant funds:

- Since eligibility is determined uniformly by all schools, students are treated consistently regardless of where they attend.
- Institutions take into account all resources available to each student and monitor the continuing eligibility of recipients, thereby maximizing the state's investment in this program.

Recipient Profile: During the 1998-99 academic year, State Need Grants will be awarded to approximately 50,000 students attending one of the 72 participating colleges, universities, or vocational schools.<sup>5</sup>

As reported by institutions on the 1996-97 financial aid Unit Record Report:<sup>6</sup>

- State Need Grants were made to nearly 40 percent of all students who received any financial aid based on need.
- Ninety percent of the recipients attended a public institution. (61 percent were enrolled in a community/technical college; 29 percent at a public four-year institution.)
- Seventy-one percent of the recipients were enrolled in the first two years of a college education.
- Although grants may be awarded for half-time attendance, 91 percent of the recipients were enrolled full-time.
- Seventy-nine percent were considered to be independent of parental support, with eligibility determined on the basis of their own incomes.
- On average, SNG recipients were awarded grants from all sources representing approximately 41 percent of their total nine-month academic year costs of attendance.

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<sup>5</sup> Appendix A-3 lists institutions approved to participate in 1998-99. Several additional private vocational schools have indicated interest in participating.

<sup>6</sup> See Appendix A-4 for a profile of 1996-97 recipients. Information for the 1997-98 award year is currently being compiled. Profile information is not expected to change significantly, since there were no major program modifications.

## Chapter 2

### STUDENT ELIGIBILITY

Washington State law and Higher Education Coordinating Board regulations require that a State Need Grant recipient:

- Be a Washington resident
- Be an undergraduate
- Meet the specified “need” criteria
- Be eligible for federal need-based aid
- Enroll at least half-time in an eligible program at a school that has been approved to participate
- Not be in repayment status on a federal or state grant or in default on a student loan
- Maintain satisfactory progress toward program or degree completion
- Not have exceeded maximum program or lifetime eligibility limits

The Board considered and affirmed these eligibility criteria, focusing its attention on two primary facets of eligibility: 1) How “need” should be determined, and 2) Whether the policy specifying an absolute income cutoff should be modified to eliminate or smooth out what has been characterized as the “cliff effect” – that is, the effect that occurs when a student becomes ineligible for a State Need Grant if his or her family income exceeds the eligibility limit by even \$1.

Following are the recommendations of the Higher Education Coordinating Board, along with a brief discussion of each of these issues.

#### Determination of “Need”

**Recommendation:** “Need” for a State Need Grant will be determined by family income, described in relationship to the state’s median family income, taking into account family size and the number of family members enrolled in college.

**Discussion:** Financial need can be measured and described in many ways. Following initial discussion, the Board focused on the two that appeared most relevant to the State Need Grant program: 1) Family income (the current measure), and 2) The methodology used to determine eligibility for federal financial aid programs (called “expected family contribution”). Both approaches have advantages and disadvantages, and both have proponents and opponents.

Both alternatives take into account in one way or another, income, family size, and the number of family members in college. The federal expected family contribution formulas provide greater differentiation among family types, e.g., dependent students, single independents, and independent students who are married or who have dependents of their own. In addition, the federal formulas include consideration of assets other than the primary residence.<sup>7</sup> However, the low-income families served by the State Need Grant program typically do not have assets available to help meet college costs.

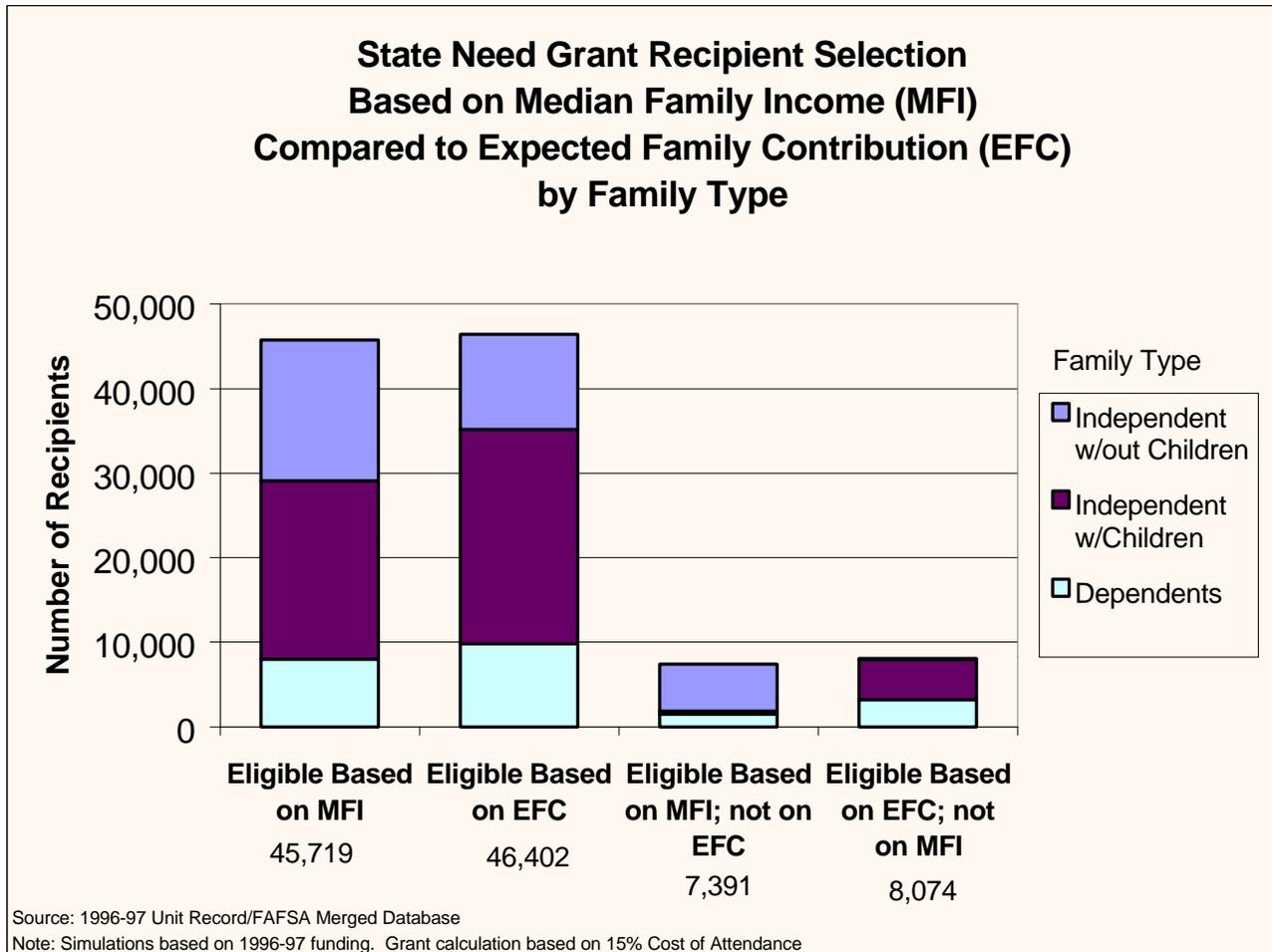
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<sup>7</sup> Assets are not considered if income is \$49,999 or less and the student/parent is eligible to file a 1040A or 1040EZ.

In considering these alternate approaches to determining “need,” the Board evaluated the impact of changing from the current income-based approach to the federal methodology. A simulation of 1996-97 financial aid applicants<sup>8</sup> indicated that 84 percent of the students who qualify for a State Need Grant under the current income-based selection criteria would also be awarded a grant if eligibility were determined using the federal expected family contribution. Similar numbers of students would gain or lose eligibility. However, the distribution of recipients by family status and by the type of institution attended differs between the two selection criteria.

As observed in Chart 3 and Appendix B, if the SNG program were to use the federal methodology to determine eligibility, the program would serve an estimated 1,751 more dependent students. However the greatest impact would be a change in the types of independent students who would receive awards. Using the federal methodology would eliminate eligibility for an estimated 5,345 single or married independent students without children; and it would create eligibility for an additional 4,277 single or married students who have children of their own.

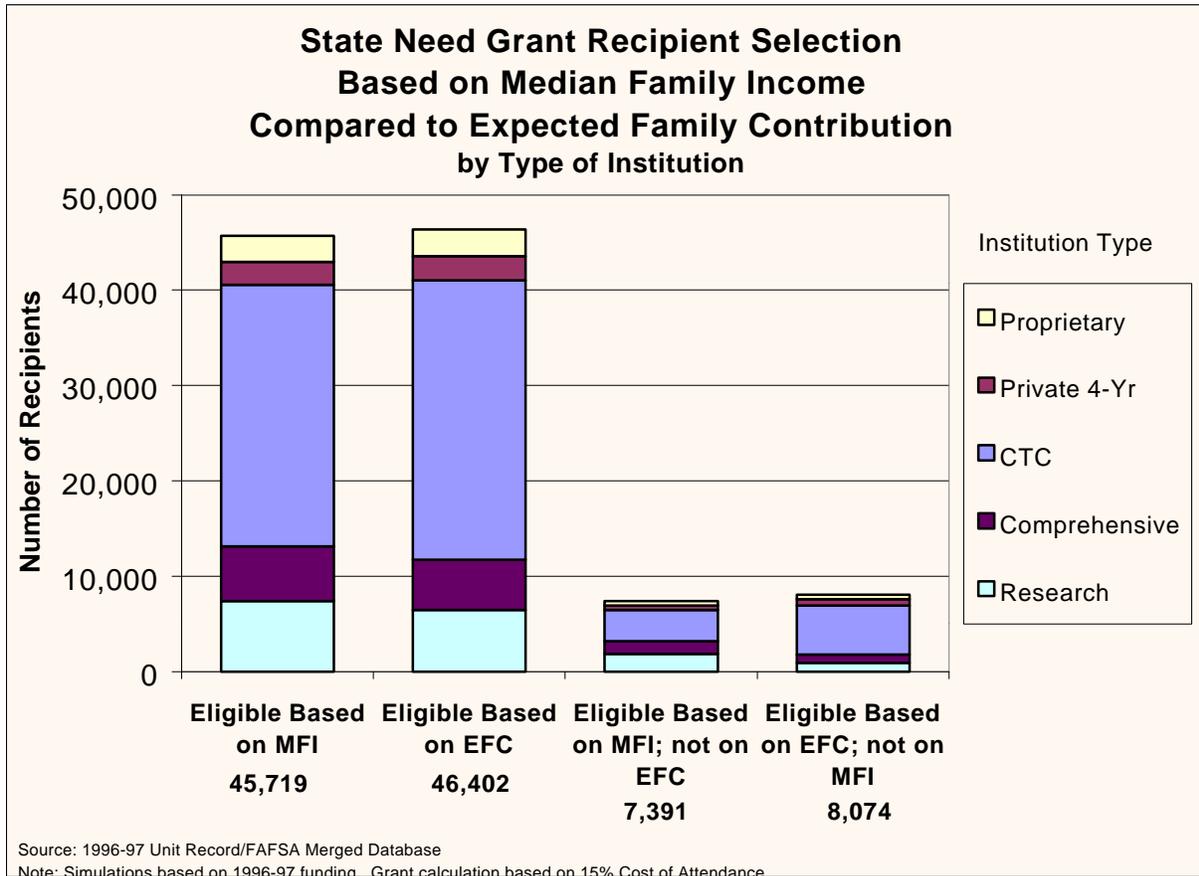
Chart 3



<sup>8</sup> See Appendix B for detailed information.

The distribution of grant recipients attending various types of institutions would also be affected by such a change. As indicated in Chart 4, use of the federal methodology to determine eligibility would reduce the number of grant recipients attending public baccalaureate institutions by 1,404, and increase the number of awards to students attending public community or technical colleges by 1,874.

**Chart 4**



- The Board agreed that family income, indexed by family size, has been a reasonably accurate indicator of students’ ability to pay for college. The members were not persuaded that a change to the federal method for calculating an expected family contribution would either improve service to needy students or further any other identifiable state goal.
- Further, Board members believed that it is essential that the public as well as state policy-makers understand how students may qualify for a State Need Grant. They concluded that an income-based cutoff is much clearer than the federally calculated expected family contribution.
- Most importantly, the Board felt that State Need Grant eligibility criteria should remain independent from federal eligibility formulas. This independence will ensure that the state maintains its ability to determine who is served by the Need Grant program, rather than becoming dependent on federal policies that might not be consistent with state goals.

For these and other reasons, the Board recommends that median family income, indexed for family size, be used as the basis for establishing need for a State Need Grant.

## Income Cutoffs

**Recommendation:** The Board recommends continued use of statewide standard income cutoffs (based on family size) to determine SNG eligibility. However, the Board recommends that, at the discretion of an institution's aid administrator, a student who is eligible for a State Need Grant in a given academic year may be deemed eligible for the ensuing academic year if his or her family income increases by no more than 3 percent, even if the stated median family income cutoff for grant eligibility is lower than that amount.

**Discussion:** In response to a legislative directive, the Board has adopted a policy that eligible students should be awarded from the lowest income up. The same income cutoffs are applied by all institutions. Each year, Board staff estimate the income level that can be served with available appropriations, and all institutions select recipients on that basis. Students with a family income at or below the established income cutoff are eligible for State Need Grants; those with incomes over the threshold do not receive grants. This phenomenon, in which an additional dollar in income can make a student ineligible, has been referred to as the "cliff effect."

The Board has in place a policy that is intended to partially mitigate the cliff effect. That policy, which applies to students who have incomes above 50 percent of the state median, has the effect of "stepping down" grant amounts as income increases.<sup>9</sup> In recent years, however, available funding has limited awards to less than 50 percent of the median family income.

As a part of this study, the Board considered whether the grant adjustment formula should start at a lower income level and have more intermediate steps to reduce the effect of the "cliff." Based on input from institutional financial aid administrators, the Board concluded that it would be detrimental to the state's lowest income families to reduce grants for students with incomes below 50 percent median family income.

Financial aid administrators also noted that, so long as all students couldn't be funded, one dollar above any established eligibility cutoff would make a student ineligible – that the edge of the cliff would only be at a different income cutoff. They indicated that multiple grant amounts would be administratively burdensome and suggested that institutions are best able to deal with the "cliff effect" through local financial aid packaging strategies.

- The Board was convinced that it is in the best interest of the program to set statewide-consistent income cutoffs, based on anticipated student eligibility and available appropriations.
- The Board also affirmed its current policy that reduces grants awarded to students with a family income above 50 percent of the median family income.
- However, the Board concluded that, for the program to better accomplish the goals of access and persistence, a low-income student who receives a State Need Grant should not automatically lose eligibility in the ensuing year due to a slight increase in family income. The recommendation adopted by the Board authorizes institutional financial aid administrators, based on their professional judgement and their knowledge of the student's circumstances, to renew a State Need Grant for a recipient who, as a result of an increase in income of 3 percent or less, would not qualify.

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<sup>9</sup> See Chapter 3 for details.

### Chapter 3

#### STUDENT GRANT AMOUNTS

Currently, the amount of a student's State Need Grant is based on a percentage of the average cost of attendance at his or her chosen institution. The average cost of attendance includes tuition and fees,<sup>10</sup> as well as books, transportation, room and board and other living expenses. Students who support a dependent child or adult may receive an additional "dependent care allowance." Table 1 below lists current grant amounts.

Table 1

<b>1998-99 State Need Grant Award Amounts</b>	
<u>Institution Type</u>	<u>Base Award Amount</u>
Public Research University	\$1,800
Public Comprehensive University	\$1,700
Independent Four-Year College/University*	\$2,500
Public Community/Technical College	\$1,500
Private Vocational School	\$1,500
Additional Dependent Care Allowance (DCA) = \$565	
*Grant amount limited by state statute	

Grants are prorated for recipients who attend less than full time or for less than the full academic year. And, in accordance with the formula shown in Table 2, grants awarded to students with incomes above 50 percent of the state's median family income are also reduced, based on the assumption that, as income increases, so does ability to pay for college costs.

Table 2

<b>State Need Grant Award Adjustment Formula For Incomes Over 50 Percent MFI</b>	
<u>Median Family Income</u>	<u>% of Maximum Base Grant</u>
0 – 50%	100%
51 – 75%	75%
76 – 100%	50%
101 – 125%	25%

Board policy has established that grants will be no less than 15 percent and no more than 20 percent of the HECB recognized cost of attendance.<sup>11</sup> This policy is based on a consideration of total college costs, the amount available to students from the Federal Pell Grant program, and the amount a student could reasonably be expected to raise through work and loans.

<sup>10</sup> The recognized amount of tuition for students attending private career colleges is capped at the community /technical college tuition level; for students attending independent colleges or universities, it is calculated according to a formula established in the enabling legislation for the State Need Grant program.

<sup>11</sup> Although Board policy permits SNG awards up to 20 percent of the recognized cost of attendance, grants have been limited to 15 percent (plus the dependent care allowance, if applicable) since the policy was adopted.

Since living costs represent a large portion of the overall cost of college attendance, basing grants on this formula minimizes differences in grant amounts for students at the various types of institutions.

As observed in Table 3, grants for students at community and technical colleges cover tuition, but that is not the case for students at four-year institutions.

Table 3

<b>Percent of Tuition Covered by Current State Need Grant*</b> <b>1998-99 Academic Year</b>				
<u>Institution Type</u>	<u>Living Allowance</u>	<u>Tuition</u>	<u>SNG Award Amount</u>	<u>SNG as a % of Tuition</u>
Public Research University	\$8,598	\$3,381	\$1,800	53%
Public Comprehensive Univ.	\$8,598	\$2,631	\$1,700	65%
Independent College/Univ.	\$8,598	\$15,454	\$2,500	16%
Public Community/Technical	\$8,598	\$1,515	\$1,500	99%
Private Vocational School	\$8,598	N/A	\$1,500	N/A

\*Plus \$565 Dependent Care Allowance, if appropriate

### Base Award Amount

**Recommendation:** The Board's goal is that the base State Need Grant should be equivalent to 100 percent of tuition charged to resident undergraduate students attending Washington's public colleges and universities. Students who attend eligible independent baccalaureate colleges and universities will receive awards equal to the base grant at public research universities. Students at eligible private career colleges will receive awards equal to the base grant at community and technical colleges.

**Discussion:** The Board has recommended that grant amounts be linked to the amount of tuition charged at the state's public institutions for the following reasons:

- Grants that cover the full cost of tuition will enable more low income students to attend the institutions that best meet their educational needs, not just their economic circumstances.
- Students, their parents and their families can easily understand a policy that pegs grant amounts to the cost of tuition.
- Tuition is a direct, measurable cost incurred only by individuals enrolled in college. It could not easily be argued that State Need Grants supplement living costs which would be sustained whether or not an individual were a student.
- Grant amounts based on tuition establish a direct linkage between tuition increases and the need for additional financial aid. There would be a clear, dollar-for-dollar connection between tuition increases and the additional amount of funds required to hold SNG recipients harmless.

Another factor that lead the Board to this recommendation was its concern regarding the extent to which SNG recipients at the baccalaureate institutions are borrowing. As seen in Table 4, a high percentage of the SNG recipients attending four-year institutions borrow – and they borrow heavily.

Table 4

<b>Proportion of SNG Recipients Who Borrowed Student Loans and Average Annual Reported Loan Amounts for Those Students 1996-97 Academic Year</b>		
<u>Institution Type</u>	<u>Proportion of SNG Recipients Who Borrowed</u>	<u>Average Annual Reported Loan Amounts: SNG Recipients Who Borrowed</u>
Public Research University	85%	\$5,681
Public Comprehensive Univ.	86%	\$5,458
Independent College/Univ.	91%	\$6,795
Public Community/Technical	28%	\$2,957

- Having observed the rate of borrowing by SNG recipients attending four-year institutions, the Board was persuaded that grants for these students should be increased to help offset their higher educational expenses.

As shown in Table 5 below, the effect of calculating the value of grant amounts based on the amount of tuition charged at the public institutions would be to hold harmless students at community/technical colleges and to increase grant amounts for students attending public or independent baccalaureate institutions. For the low-income students who receive State Need Grants, this change would equalize the cost of attendance at two- and four-year public institutions, enabling recipients to enroll in the institution that best meets their educational needs.

Table 5

<b>Comparison of Grant Amounts and Remaining Costs of Attendance, by Sector 1998-99 Academic Year</b>					
<u>Institution Type</u>	<u>Total Cost of Attendance</u>	<u>Tuition</u>	<u>Current SNG Base Grant</u>	<u>Proposed SNG Base Grant*</u>	<u>Remaining Costs of Attend.</u>
Public Research	\$11,979	\$3,381	\$1,800	\$3,381	\$8,598
Public Comp.	\$11,229	\$2,631	\$1,700	\$2,631	\$8,598
Independent C/U	\$24,052	\$15,454	\$2,500	\$3,381	\$20,671
Public CTC	\$10,113	\$1,515	\$1,500	\$1,515	\$8,598

\*Grants would be rounded.

Approximately 95 percent of the SNG recipients also receive a Federal Pell Grant. Assuming a full Pell Grant of \$3000, a State Need Grant recipient would still have to meet approximately \$5600 of his or her academic year expenses by working and/or borrowing, or through other resources.

## Dependent Care Allowance

**Recommendation: Institutions may award a Dependent Care Allowance (DCA) to State Need Grant recipients who document their need for such assistance, after taking into account other public funds provided for like purposes.**

Discussion: The State Need Grant program currently provides a supplemental grant for students who support children or adults who need care. As part of its study, the Higher Education Coordinating Board considered whether the need for the dependent care allowance (DCA) is still as great today as when this provision was adopted by the Board in 1988.

- The Board found that the availability of resources to assist State Need Grant recipients in paying for child care, or care for dependent adults, varies widely across the state. To ensure that students who cannot afford this care are not disadvantaged, the Board has recommended that the dependent care allowance<sup>12</sup> be retained at this time.
- However, the Board recommended changes in the administration of the DCA:
  - ♦ Institutions should be given discretion over whether to award the DCA on a case-by-case basis.
  - ♦ Students should be required to document their need.
  - ♦ Institutions should determine whether other public funds (from such programs as WorkFirst) would be available in specific cases.

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<sup>12</sup> The dependent care allowance for the 1998-99 academic year is \$565, or \$63 per month for a nine-month school year.

## Chapter 4

### COORDINATION WITH FEDERAL PROGRAMS

**Recommendation:** To the extent practical, the State Need Grant program will be coordinated with federal policies and programs.

**Discussion:** The enabling legislation for the State Need Grant program requires that it be coordinated with federal programs and that it be designed to complement and supplement existing federal, state, and institutional programs. These principles have served as a foundation for the development of all program policies and administrative procedures. This approach has been effective in helping the state achieve its service goals and in maximizing the state's investment in student financial aid.

#### Hope Scholarship and Lifetime Learning Credit

Two initiatives recently adopted by Congress – the Hope Scholarship and Lifetime Learning Tax Credit programs – will require such coordination. Although they are designed primarily to assist middle-income families, some State Need Grant recipients could be eligible for tax benefits from these programs.

The Hope Scholarship is for students in their first two years of college. It creates a \$1,500-per-year tax credit, reimbursing 100 percent of the first \$1,000 that a student pays for tuition and fees, and 50 percent of the second \$1,000. The program began January 1998.

The Lifetime Learning program creates a credit for college juniors and seniors, graduate students, and for working adults who need additional job skills. This program provides a credit equal to 20 percent of the first \$5,000 of tuition and fees paid through the year 2002, and for the first \$10,000 thereafter. This credit began July 1, 1998.

Under both programs, an individual can claim a credit only against taxes owed. Because many of the students served by the State Need Grant program have little or no tax liability, the potential impact on this population is expected to be limited.

Since federal regulations implementing these programs have not yet been proposed, it is difficult to forecast with certainty the extent to which SNG recipients will be affected. However, information available to date indicates that grants received by an individual will have the effect of reducing eligibility for the tax credit.

A simulation of the 1996-97 SNG recipient population indicated that, had these tax credit programs been fully implemented in that academic year, less than 2 percent of the State Need Grant expenditures would have resulted in reduced eligibility for federal tax credits.

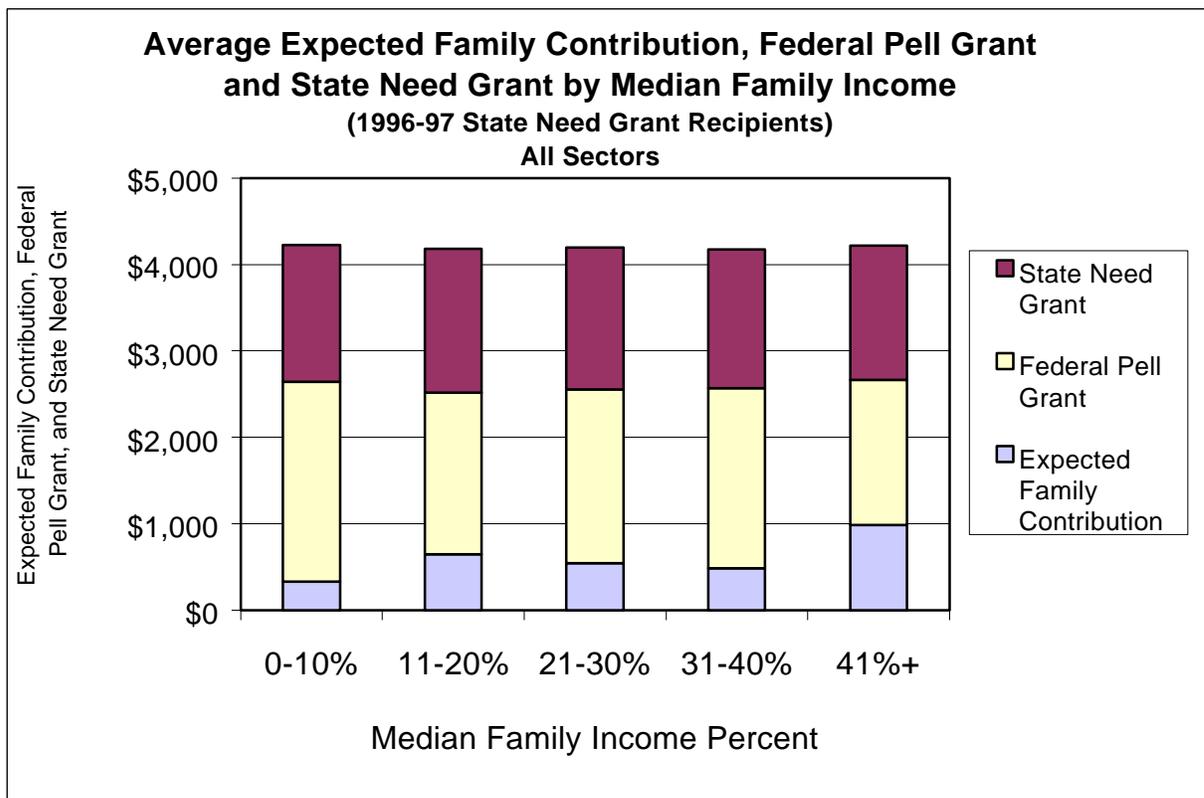
- The Board will monitor the development of federal regulations and evaluate the impact of these new federal tax credit programs on State Need Grant recipients as more information becomes available. The Board will then modify the program as necessary to ensure that state funds are maximized in a way that will not jeopardize educational opportunity for the low-income students served by the SNG program.

### Federal Pell Grant Program

Recently some have questioned whether State Need Grants should be awarded to students who also qualify for a Federal Pell Grant, or whether the SNG program should include Pell awards in the calculation of state grant amounts. These issues were incorporated into the Board’s policy review.

- The Board affirmed that State Need Grant program design – in particular in the establishment of grant amounts – takes the Federal Pell Grant program into account.
- While the relationship between State Need Grants and Pell Grants is not as explicit in Washington’s program as in some other states, the SNG program is designed to supplement Pell Grants to provide a threshold level of grant assistance for Washington’s low income students. (Approximately 95 percent of the SNG recipients also receive a Federal Pell Grant.) As can be seen in Chart 5, the Pell Grant forms a foundation upon which the State Need Grant builds.

Chart 5



- The Board was persuaded that neither the State Need Grants nor the Pell Grant alone provide an adequate amount of grant funds for most low-income students. As noted previously in this report, a student enrolled in a public institution who receives a full tuition-based SNG and a full Pell Grant will need additional resources totaling approximately \$5,600. It is the Board’s position that a lesser amount of grant aid would significantly jeopardize the ability of the students served by the State Need Grant program to enroll and persist to program completion.

## Chapter 5

### OTHER ISSUES

In addition to issues dealing with student eligibility, grant amounts, and coordination with federal programs, the Board considered various other aspects of the State Need Grant program. Following is a summary of the Board's deliberations on three issues of interest to policymakers.

#### Self Help Requirement

Periodically a question surfaces regarding whether State Need Grant recipients receive all grant assistance. In reviewing the financial aid awards of 1996-97 SNG recipients, the Board found that, on average, between 41 and 44 percent of the nine-month cost of attendance was met with state, federal, and institutional need-based grants. The remaining 56 to 59 percent of the cost of attendance was met through some combination of student loans, work, expected family contribution, and unmet need. Fewer than 2 percent of the full-time SNG recipients attending college throughout the 1996-97 academic year received grants totaling more than 70 percent of their cost of attendance.

While it is extremely unusual for a State Need Grant recipient's need to be met in full by grant aid, current regulations do not eliminate that possibility. In the interest of ensuring confidence that the program is administered efficiently, the Board has recommended that the program incorporate a minimum student self-help requirement.

**Recommendation: A student's total cost of education includes tuition, fees, books, transportation, and a modest living allowance. Low-income students may receive assistance from many sources to help meet these costs. Both national and state-specific research indicate that aided students who receive financial aid awards combining grants with a reasonable amount of work and loans are more likely to persist to program or degree completion than are aided students who receive all grant funds. Therefore, State Need Grant recipients will be required to contribute a minimum of 25 percent of the total cost of their education through self-help, (e.g., earnings from work, loans, scholarships, family resources, grants that are not based on financial need or on student status, or unmet need).**

Discussion: Although, on average, SNG recipients meet more than 25 percent of their costs through non-state or federally appropriated grant assistance, it was the Board's feeling that the minimum should be set cautiously since this is a new requirement. While the Board wished to communicate that SNG recipients are expected to contribute toward their own education, it did not want to make access unnecessarily difficult for the population served by this program.

The amount students would be required to contribute from sources other than state or federally appropriated grant assistance is shown in the following table.

Table 6

<b>Minimum Self-Help Requirements By Type of Institution</b>				
Figures Based on 1998-99 Cost of Attendance				
<u>Institution Type</u>	<u>Tuition</u>	<u>Living Allowance</u>	<u>Total Costs</u>	<u>Min. Self Help at 25%</u>
Public Research	\$ 3,381	\$8,598	\$11,979	\$2,995
Public Regional	\$ 2,631	\$8,598	\$11,229	\$2,807
Independent C/U	\$15,454	\$8,598	\$24,052	\$6,013
Public CTC	\$ 1,515	\$8,598	\$10,113	\$2,528

The Board's recommendation permits the self-help requirement to be met from any source other than grant aid. Therefore, a student's State Need Grant eligibility will not be affected if he or she received a scholarship or other privately-funded grant.

### Student Budgets

The amount of financial aid (if any) a student may receive is dependent on two factors: 1) how much it costs to attend a college, and 2) the amount the student and his or her family are judged able to pay toward those costs. As stated in the Monograph Number 9, *Constructing Student Expense Budgets*,<sup>13</sup> "The guiding principle in defining any student expense budget is reasonableness. From the earliest days of the financial aid profession, the phrase 'modest but adequate' has characterized discussions of student budgets. Following this prescriptive norm, aid administrators generally accommodate a low to moderate standard of living in student expense budgets. The aid recipient is expected to live neither in luxury nor poverty, being to the extent possible, indistinguishable from their non-aided counterparts."

Student budgets are designed to provide an accurate projection of reasonable costs. They are used by institutions to determine the amount of financial aid for which a student qualifies, and by students and their families for budgeting purposes. And, they are used in the current method used by the Board to establish SNG award amounts. (If grant amounts are based on tuition, rather than as a percent of the total cost of attendance, this issue is no longer central to SNG program administration.)

Each year, the Washington Financial Aid Association (WFAA) evaluates student costs at various colleges and recommends budget guidelines to assist institutions in setting their local student budgets. Periodically the Board – most recently in cooperation with WFAA – has conducted comprehensive student expense surveys to test the validity of the student budgets and to recommend any adjustments that may be needed.

<sup>13</sup> National Association of Student Financial Aid Administrators, April 1993.

Additionally, the Board observed that student budgets appear to be reasonable when compared to the standard used for other assistance programs. As another point of comparison, 1997-98 student financial aid budgets were 107% of the DSHS Standard of Need.

Based on its review, the Board concluded that the budgets used to award State Need Grants and student financial aid in general are appropriate and should not be artificially reduced, as is the practice in some states, to ration limited grant funds.

### **Distribution Formula**

In response to the request of the chairs of the Senate and House Higher Education committees, the Board has directed staff to analyze the processes used to allocate State Need Grant funds for distribution to students.

Institutions have been asked to identify concerns about current administrative requirements. Staff intend to review the current distribution model and reporting requirements, and investigate possibilities for streamlining business processes for both the institutions and the Higher Education Coordinating Board. Board staff will conduct this review in collaboration with the financial aid community, technical experts and other interested parties.

