

**The Funding of Indiana's College Scholarship Programs:
A Study Conducted Jointly by the Indiana Commission for Higher
Education and the State Student Assistance Commission of Indiana**

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Bernard Hannon, Laurie Gavrin, Angela Maher

Executive Summary

The 2009 Indiana General Assembly passed the following language in P.L. 182-2009(ss):

(a) The commission for higher education with the assistance of the state student assistance commission shall study the funding of college scholarship programs provided by the state student assistance commission and the state's public universities. The study must examine the following issues:

(1) The limits established for awards and the differences between the limits established for private and public universities.

(2) The extent to which criteria for establishing the eligibility of an applicant should consider receipt of Pell Grants, other wrap-around assistance provided by a university, tax credits, and other assistance.

(3) The relative amounts of assistance provided on the basis of merit and on the basis of need.

(4) Whether means tests should be required for students participating in the twenty-first century scholars program as those students enter college.

(5) Scholarships and awards provided for members of the military and National Guard.

(6) Scholarships and awards provided to individuals being held in state correctional facilities.

The financial aid available to Hoosier students and families attending postsecondary institutions in Indiana has been and remains a financial priority for the state but the distribution is complex. Aid comes in several different forms, including grants, loans or tax benefits, and from several sources, including the state and federal government, Indiana's postsecondary institutions, and private sources. This study focuses on the student financial aid distributed through the State Student Assistance Commission of Indiana (SSACI), and to a lesser extent from the public postsecondary institutions and state and federal tax benefits.

Of particular concern to the Indiana Commission for Higher Education (CHE), and other state policymakers, are the college completion rates of Indiana students. In the last year, advocacy groups have issued reports indicating how all types of students—those who work, are minorities, attend less-selective colleges, or come from low-income families—struggle in higher education. They have talked about the needs of the modern workforce, and how the United States is falling behind the rest of the developed world in terms of college completion.¹ Indiana has made progress in the college-going rate of Indiana citizens, but completion rates of students,

¹ Gates' Millions: Can Big Bucks Turn Students Into Graduates? Chronicle of Higher Education, August 8, 2010.

especially low income students who rely heavily on financial aid, have not increased with the college-going rate.

In designing Indiana's need-based aid program, the General Assembly wanted aid to follow the student. This has meant that as student demographics have changed, the distribution of aid has changed as well. Fewer students who qualify for need-based aid attend private colleges or even flagship public four-year colleges. More students are older than the traditional 17 to 24 year-olds. Many students are in their late 20's or early 30's, have jobs, housing, and families of their own. Many adults who have lost jobs are returning to college to gain training for new employment, and more jobs today require education beyond high school. As a result, in the last two years, need-based student demographics have switched from one-third adult students and two-thirds traditional students to slightly more than half of adult students and slightly under half of traditional students. Consequently, enrollments at Indiana colleges that cater to adult students, typically Ivy Tech Community College of Indiana (ITCCI) and proprietary/for-profit colleges have soared.

Recommendation #1: The state should consider establishing a separate fund to meet the financial needs and aspirations of adult students:

- (A) Consider Pell in the SSACI aid calculation for adult and independent students when the combined federal and state aid exceeds the cost of attendance. This would ensure these students receive the maximum amount of financial aid for all college costs while reducing state expenditures.
- (B) Encourage colleges to consider late applications for adult students for part-time aid or set aside more and separate part-time state aid for ITCCI or other colleges whose demographic is similar to Indiana's adult student population.

Recommendation #2: The state should allocate state aid to support student degree completion through acceleration and transfer models:

- (A) Allow SSACI aid to be available for summer school to the extent that students could complete in three years.
- (B) Increase the Frank O'Bannon grant subsidy to 100% of the relative caps for all students after they complete an associate degree and successfully transfer to a four-year college. This encourages students to complete one-half of their baccalaureate degree at the less expensive and more adult friendly community college before beginning at a four-year school. Most students attending the community college have not obtained an Academic Honors diploma and are, therefore, only eligible for the 80% subsidy.

Indiana students, parents and policymakers have become increasingly concerned about college affordability, financial aid, and financial preparations for postsecondary education. A recent report from the National Center for Education Statistics found that 56 to 63 percent of high school seniors who planned to attend college said that the availability of financial aid is very important in choosing a college.² However, a *Student Poll* study published by the College Board found that the majority of students and parents are ruling out colleges based solely on a school's published sticker price without taking into account what they might receive in financial

² Getting Ready for College: Financial Concerns and Preparation Among the High School Senior Class of 2003–04, U.S. Department of Education, NCES 2010-204, April 2010.

aid.³ The study further noted that students often over- or under-estimate what they are likely to receive in financial aid, and they are not using financial aid calculators to draw these conclusions. This lack of accurate information about financial aid leads to poor financial planning for college and negatively impacts a student’s chance of earning a degree. The better information families have about paying for college, the more successful a college experience the student is likely to have.

Recommendation #3: The state should develop a customized state-wide college costs estimator. The service would be free to the public and be available online through CHE’s webpage, the state’s Learn More Indiana initiative and other outlets. The Estimator should include estimates of Expected Family Contribution (EFC) using the federal methodology and resulting federal, state and institutional aid eligibility at Indiana colleges and universities (including the seven public systems and the 31 independent colleges), for both dependent and independent students, with the ability to generate side-by-side comparisons of Indiana colleges.

The private colleges of Indiana are an integral part of its higher education system. They enroll 85,000 students and contribute substantially to the education of Indiana residents. The stated purpose of allowing students to take SSACI grants to private colleges is to allow a “freedom of choice” for students. Further, a higher cap for private schools makes public policy sense in that private schools are not receiving the state subsidy that public schools receive.

Recommendation #4: The state should affirm freedom of choice for students by maintaining the current formula for distribution of state financial aid between public and private institutions.

SSACI, either by statute or practice, has treated several of their scholarship program appropriations as fungible across programs. This has allowed SSACI great flexibility to move funds between programs to meet varying demands. However, this occasionally has the disadvantage of masking the true cost of individual programs, and leads to a lack of transparency in state financial aid policy. In addition, the ability to move appropriations is inconsistently granted across some SSACI programs, including the Higher Education Award (HEA) and the Freedom of Choice (FOC) funds. This could lead to the unintended consequence of requiring SSACI to leave funds unexpended in certain programs, specifically the FOC program unless SSACI is either given the ability to move appropriations across all programs, or the HEA/FOC appropriation is consolidated.

Recommendation #5: The state should merge the Freedom of Choice fund with the Higher Education Award fund into a single program with one appropriation. If these were combined into one fund (name to be determined, legislative changes needed), no student’s award amount would change and the state would never be in the position of leaving money unspent in a non-transferable fund. Caps could continue to reflect the legislature’s wish for proportionality without needing to legislate details within the Frank O’Bannon award.

³ *Student Poll*, Published by the College Board and Art & Science Group, LLC, Volume 8, Issue 1.

The quality of the analysis in any study is dependent on the availability and quality of the data. The authors found large and important gaps in the available data regarding financial aid. In some cases the data are simply not collected. In other cases the data are collected but unavailable to the study. In some cases the data exist but are housed in separate databases that must be linked before reasonable analyses could be conducted.

Recommendation #6: The state should expand its collection of current Student Information System (SIS) data to include the independent and proprietary sectors, certificate programs below one year, and course-level information from both colleges and high schools. Indiana currently does not have access to the SIS data collected from the independent institutions, nor does it have access to any student-level data from those proprietary institutions that are eligible for state student financial aid. Because it does not have statutory authority to authorize programs less than one year (with some exceptions), CHE does not collect data on certificate programs below one year in length. Currently, Indiana does not collect any course-level data but the Indiana Department of Education is in the process of implementing a collection mechanism for such information.

There is a concerted effort in Indiana to align state financial aid policy with state college completion policy. Accordingly, college enrollment managers have noted that some students use up several semesters of SSACI aid while making no real progress toward a degree. SSACI can tighten its Frank O'Bannon grant regulations to encourage college success. Under existing SSACI rules, students are eligible to receive eight semesters of SSACI aid, and must meet their college's Satisfactory Academic Progress (SAP) requirements to continue to receive aid. However, students may receive aid for failed semesters (up to a certain point). Colleges may count a student as full-time on the census date, but that student subsequently may drop down to part-time or drop out completely, and SSACI still pays the student's aid as if one were a successful full-time student.

Recommendation #7: The state should consider requiring students who receive a SSACI grant to achieve a more stringent satisfactory progress requirement before additional SSACI aid would be disbursed in future semesters.

Most students finance their education by combining different types of financial aid from different sources. Financial aid is often divided into grants and scholarships (which do not need to be repaid), loans (which do need to be repaid), and work programs. The major sources of financial aid include the federal government, state government, institutions, and private organizations. There are also favorable tax deductions and tax credits that help families of all incomes pay for college. All of the sources of financial aid must be understood by families and policymakers. However, it would be counter-productive to consider all types of aid in calculating the state financial aid awards through SSACI.

Recommendation #8: The state should not consider the receipt of Pell Grants in the calculation for state financial aid for traditional students. Pell grants are already being distributed to students with the greatest financial need. Increasing funds for aid to non-Pell grant recipients (i.e. those students/families with higher incomes) should not come at the expense of aid to Pell grant recipients (i.e. those students/families with the lowest incomes). Pell grants are not limited to tuition and fees rather they take into account the total cost of attendance for college. The laws that govern Pell grants intend that they should be used towards total costs of attendance. Moreover, if state financial aid considered receipt of Pell grants, then for every dollar of increased Expected Family Contribution (EFC), two dollars of aid would be lost because both Pell grants and Frank O'Bannon are calculated by subtracting a family's EFC.

Recommendation #9: The state should not require SSACI to incorporate institutional financial aid in its financial aid offers. Institutional aid serves a different and specific function from financial aid in general. Institutions use their aid to attract and retain students, including awarding merit-based financial aid to reward achievement. It is assumed that institutions use their aid to maximize the benefit to their institutions. Additionally, the state has no control over institutional aid; that control is in the hands of the trustees. If the state were to take into account institutional aid when creating state awards, the institutions would alter how they distribute aid to maximize receipt of state funds for students.

Recommendation #10: The state's public and private postsecondary institutions should wrap around their institutional financial aid with state and federal financial aid. Some examples of exemplary wraparound assistance include the Pell Promise and 21st Century Scholars Covenant at Indiana University. The Pell Promise program provides the balance of funds needed to cover the fall tuition and mandatory fees for in-state undergraduates who qualify for federal Pell grants. The 21st Century Scholars Covenant covers the full cost of attendance, including books and room and board, up to financial need.

Recommendation #11: The state should not consider receipt of tax credits when determining student eligibility for state financial aid. Tax credits are post-hoc to the financial aid process, as they are claimed the year after the financial aid is awarded and received.

The majority of state financial aid distributed through SSACI is provided based on need, although a merit component is part of the Frank O'Bannon calculation and there are a few non-need based programs.

Recommendation #12: The state should affirm that state aid distributed through SSACI be based primarily on need.

The Twenty-first Century Scholars Program seeks to meet many critical needs of students and residents in Indiana. The Program began in 1990 as Indiana's way of raising the educational aspirations of low- and moderate-income families. By statute, the program is charged with seven goals.

Section 21-12-6-1 of Indiana's Code states that the Twenty-first Century Scholars Program is established to:

1. Reduce the number of students who withdraw from high school before graduation.
2. Increase the number of students who are prepared to enter the workforce upon graduation.
3. Increase the number of students entering postsecondary educational institutions in Indiana.
4. Encourage eligible students to attend postsecondary educational institutions in Indiana by reducing the financial burden on the eligible students and their families.
5. Decrease drug and alcohol abuse by encouraging higher educational pursuits.
6. Increase economic vitality.
7. Improve the overall quality of life for many Indiana residents.

The Program has been enormously successful in enrolling students and in raising the high school graduation rate of Twenty-first Century Scholars. However, there is no significant evidence that the program has helped low income students actually graduate from college. While many students take advantage of the early intervention and students services programs available to them, many students do not, rendering the main purpose of the program ineffectual. The tuition scholarship program is also experiencing heavy demand, in excess of state appropriations by nearly \$30,000,000 in the current biennium. That excess demand is met by drawing funds away from the state's need based financial aid program, resulting in lower student aid awards to needy students. Moreover, the evidence indicates that roughly 1 out of 6 (17%) Twenty-first Century Scholars students do not meet the income eligibility requirements when they enroll in the program, and 1 out of 5 (20%) Scholars do not show financial need when they attend college. Those 20% of students use roughly 33% of the Twenty-first Century Scholars' appropriation.

Recommendation #13: The state should refocus the Twenty-first Century Scholars program on early intervention, student services, program requirements, and college and workforce preparation goals. The early intervention and student services should be coordinated to be seamless for students as they transition from high school to college.

Recommendation #14: The state should expect that Twenty-first Century Scholars students participate in the early intervention and student services offered by the Twenty-first Century Scholars program.

Recommendation #15: The state should consider that Twenty-first Century Scholars students must show an aptitude and desire to be college prepared by having a minimum high school cumulative grade point average of 2.5.

Recommendation #16: The state should develop a sustainable funding model to ensure the long-term viability of the Twenty-first Century Scholars program. The state should consider when allocating financial aid whether Scholars meet statutory income requirements when they graduate from high school and enter college. This report makes no specific recommendation on how to allocate funds based on demonstrated financial need but acknowledges that ensuring eligibility will have the effect of providing more funding for low-income students who qualify for a Frank O'Bannon grant. (Recall, that the Twenty-first Century Scholars Program currently draws substantial funds from the Frank O'Bannon program).

The Child of Veteran and Public Safety Officer Supplemental Grant Program (CVO) provides benefits to family members of Indiana veterans, Guard members, and public safety officers. Some of the programs are administered by agencies other than SSACI even though SSACI is the fiscal agent.

Recommendation #17: The state should assign all fiscal and administrative duties for the Child of Veteran and Public Safety Officer Supplemental Grant Program (CVO) to Indiana Department of Veterans' Affairs (IDVA). The CVO program does not fit well with the rest of SSACI's financial aid programs. SSACI has established uniform eligibility requirements for its programs, but since SSACI does not have regulatory authority over the CVO program, the CVO program remains inconsistent with how other SSACI aid is administered. Moreover, the multiple programs within the CVO program are inconsistent with each other. There are three separate certifying agencies for different CVO programs; IDVA, SSACI, and the Military Department of Indiana (MDI). While SSACI aid is generally limited to eight semesters of undergraduate education, not a single CVO program incorporates both the eight-semester and undergraduate limits. In fact, many CVO programs can be applied to graduate education. Additionally, several CVO programs have a 124 credit hour limit, instead of eight semesters, and some programs have no limit at all.

SSACI treats incarcerated students the same as all other students. Because incarcerated students have no income, they all qualify for need-based aid. Treating incarcerated students the same as other students in the financial aid process creates several problems. First, the SSACI requirement that all students receiving state aid file a FAFSA by March 10th limits incarcerated students' ability to pay for college. Another difficulty results from the award caps. A limited number of public and private institutions provide prisoner education. Because the law establishes different cap levels for public and private institutions, incarcerated students are receiving different levels of aid based on which institution happens to provide education at their facility. This unintended inequity needs to be recognized. Perhaps the greatest issue in prisoner education results from the different goals of the incarcerated student population and the traditional student population. It is well documented that if prisoners can find gainful employment after release they are unlikely to reoffend. Increasing offender employment is the best way to reduce recidivism rates and reduce correctional costs to society. The Department of Corrections believes that workforce certification programs are the key to providing inmates with employable skills. However, state financial aid only funds traditional associate and bachelor degrees. Institutions that provide prisoner education will not offer workforce certification programs because SSACI does not fund these programs.

Recommendation #18: The state should fund prisoner education through the Department of Corrections. By divorcing financial aid for prisoners from SSACI, the state will have the flexibility to adopt the most appropriate education programs for prisoners. The Department of Corrections can analyze the educational needs of prisoners, and put out an RFP to provide the desired services. Any public or private Indiana postsecondary institution should be able to respond to the RFP.

Some emerging issues were identified during the development of this study that warrant additional study. While these issues are important enough to bring to light in this study, it was considered to be beyond the legislative charge to make specific recommendations hereto. Therefore, they are presented here as a call for future analysis and potential action.

Recommendation #19: The state should further consider the following emerging issues in state aid:

- (A) Twenty-first Century Scholarship and Foster Care
- (B) Contract for Space
- (C) Data on Transfer Students
- (D) FAFSA Simplification
- (E) Programs with Repayment Requirements
- (F) National Guard Supplemental Grant
- (G) Financial Aid for Middle-Income Students and Families