

# Making a Case for Need-based Financial Aid in Georgia

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## Introduction

As a member state of Complete College America, Georgia reports that by 2020 an estimated 61 percent of all jobs in the state will require a career certificate or college degree.<sup>1</sup> Currently, only 34 percent of adults in Georgia have an associate degree or higher, creating a sizable skills gap that must be closed. Complete College America also reports that only 28 out of every 100 students at four-year public colleges in Georgia graduate within eight years, and only 14 out of every 100 students graduate within four years at two-year public colleges. These telling statistics indicate that Georgia is far from graduating enough students to meet future workforce demands.

**Currently, only 34 percent of adults in Georgia have an associate degree or higher.** Various factors influence whether a student pursues a postsecondary education and ultimately completes a program of study. A survey conducted by Public Agenda finds the need to work and make money as the number one reason students leave school before earning a degree or certificate.<sup>2</sup> Surveyed students stated that balancing work and school proved to be a greater barrier than finding money for tuition. As students and families across Georgia face the increasing cost of higher education, obtaining a postsecondary education is likely to become less of a reality for many students.

Higher education in Georgia has experienced significant cuts in state support since the Great Recession. State funding per full-time equivalent student reached its lowest level in over a decade while all need-based grant aid included in the FY 2011 budget is eliminated for FY 2012. This disinvestment in higher education occurred during a period of significant increases in the cost of higher education faced by students and families. As a result, the perfect storm of an economic downturn and slow recovery, significant growth in higher education costs and disinvestment in state support for higher education has become the daunting reality for Georgia.

This report presents the need for a targeted need-based financial aid program in Georgia. Students and families in Georgia are increasingly responsible for financing a larger share of higher education costs. As such, the absence of need-based financial aid coupled with public policies that shift more of the cost of higher education to students and families highlight the issue of access to higher education in Georgia. A need-based financial aid program could become an instrumental resource in helping close the sizable skills gap highlighted by Complete College America. Beyond the dollars and cents of financial assistance for higher education, building a more educated workforce is an issue of competitiveness. Without an educated and skilled workforce, Georgia will not be prepared to effectively attract good paying jobs and position itself as a desirable state in which to conduct business. Georgia is the only southern state that does not have a need-based grant aid program.<sup>3</sup> One might conclude that need-based financial aid is simply not an area of particular need in Georgia or, to the contrary, that greater attention and action is warranted.

This report finds the latter case to be true. In an effort to help meet the goals of Complete College Georgia and position the state to compete for good paying jobs, this report offers three recommendations:

1. **Establish a state-level, need-based financial aid program that provides grant awards to Georgia's neediest students pursuing a postsecondary education.**
2. **Reallocate funding for the Low Interest Loan program toward recommended need-based financial aid program. The state allocated \$20 million of higher education lottery funding for the loan program for FY 2012.**
3. **Identify and discontinue state tax credit and expenditure programs that are not effective in promoting and facilitating workforce development in Georgia. Expenditures allocated towards such programs can be redirected to a need-based financial aid program.**

## Education is Economics

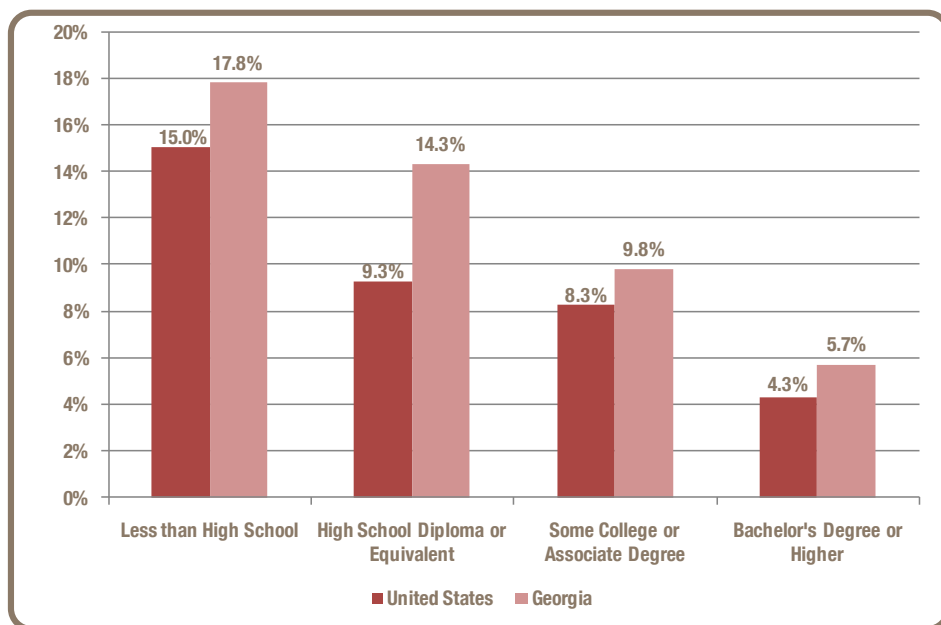
Education is commonly referred to as the great equalizer and seen as a catalyst for facilitating economic mobility. Studies across various academic fields find positive relationships between higher levels of education and a range of socioeconomic indicators. The College Board found positive correlations between education attainment, wage earnings, as well as civic participation.<sup>4</sup> Furthermore, researchers at Stanford University found higher education – rather than income or occupation – to be a stronger and more consistent predictor of good health.<sup>5</sup>

Although the Great Recession was declared officially over in July 2009, local and state economies continue to recover at a slow and tenuous pace two years later. Nevertheless, as states work to address job crises around the country, the value of an educated citizenry must not be underestimated.

Economic data show that individuals with higher levels of education are less likely to be unemployed in the current economic environment. And, individuals with only a high school diploma are more than twice as likely to be unemployed compared to individuals with a bachelor's degree or higher (Figure 1).

Economic data highlight a positive relationship between education attainment and wage earnings.

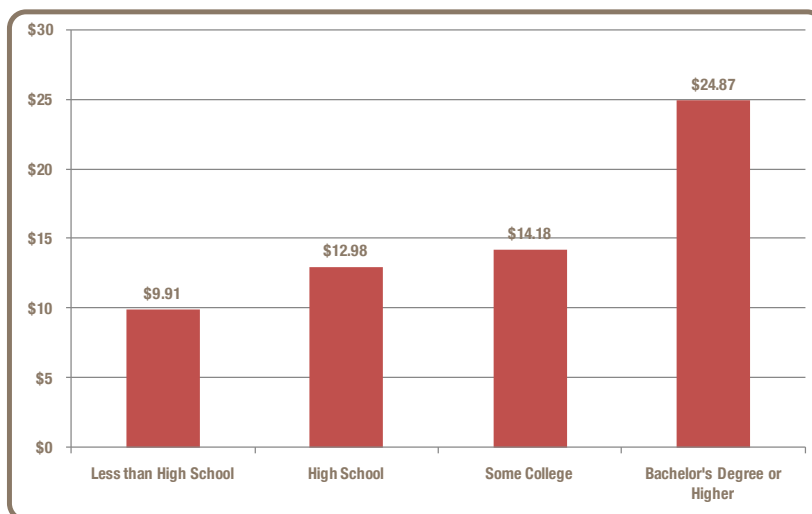
**Figure 1 Unemployment Rates by Level of Education Attainment**



Sources: U.S. Bureau of Labor Statistics and the Economic Policy Institute (EPI) analysis of Current Population Survey. Unemployment rates for the United States is based on July 2011 BLS data, and Georgia unemployment rates are based on 2010 EPI data.

Wage data from EPI show that the median wage for individuals with a bachelor's degree or higher in Georgia was twice the median wage for individuals with just a high school diploma in 2010 (Figure 2). There is consensus amongst research and economic data that the economic benefits associated with higher levels of education are significant. However, education serving as an equalizer will remain laudable only in rhetoric until a focused commitment is made in Georgia that ensures higher education is indeed accessible to all qualified students, regardless of economic status.

**Figure 2 Median Hourly Wages in Georgia (2010)**



Source: Economic Policy Institute Current Population Survey data, 2010

## Costs of Higher Education

A growing body of research suggests that the number of jobs that will require some level of postsecondary education will continue to increase in the years ahead. The Great Recession essentially accelerated the shift to jobs that require postsecondary education, with an estimated 820,000 out of 1.4 million vacant jobs in Georgia requiring some postsecondary credential by 2018.<sup>6,7</sup>

While postsecondary education increasingly becomes a necessity in a 21st century economy, students and families are confronted with the growing cost of higher education. The National Center for Public Policy and Higher Education highlights the growth in higher education costs and warns that the continuation of trends of the last quarter century will place higher education beyond the reach of most Americans while greatly exacerbating the debt burdens of those who do enroll.<sup>8</sup> Since 1982, college tuition and fees increased at nearly twice the rate of medical care costs, at three times the rate of median family income, and at four times the rate of inflation.<sup>8</sup>

The cost of higher education in Georgia has steadily increased over the past decade. Since 2000, tuition and mandatory fees increased by an average annual rate of 12.6 percent (Table 1). When assessing tuition and fees by institution type, public research universities experienced the largest increase in average annual tuition and fees, 17.8 percent, while state colleges experienced the lowest average annual increase, 6.3 percent.

Georgia has advanced amongst southern peer states in the cost of higher education in recent years. Georgia historically ranked near the bottom of peer southern states in tuition and fee costs for its public colleges and universities. In 2005, Georgia ranked 14th among 16 Southern Regional Education Board states in average tuition and fees for public four-year colleges and universities.<sup>10</sup> By 2010, Georgia ranked 10th while ranking fourth in total dollar increase in tuition and fees since 2005.

**Table 1 University System of Georgia Enrollment, Tuition and Mandatory Fees by Institution Type (FY 2000 and FY 2011)**

University System of Georgia	Fall 2000	Fall 2010	% Change	Annual Average
Total Enrollment	154,941	311,442	101.0%	10.1%
<b>Sector Averages</b>				
<b>Tuition and Mandatory Fees<sup>a</sup></b>	<b>Fall 2000</b>	<b>Fall 2011</b>		
Research Universities	\$3,165	\$9,361	195.8%	17.8%
Regional Universities	\$2,467	\$6,625	168.5%	15.3%
State Universities	\$2,384	\$6,111	156.3%	14.2%
State Colleges	\$2,217	\$3,764	69.8%	6.3%
Two-year Institutions	\$1,521	\$3,417	124.7%	11.3%
<b>University System Average</b>	<b>\$2,240</b>	<b>\$5,353</b>	<b>138.9%</b>	<b>12.6%</b>

Sources: University System of Georgia, Fiscal Affairs Division, Tuition and Fee Information, Fall 2000-2011.  
University System of Georgia, Office of Research & Policy Analysis, Enrollment Reports, FY 2000-FY 2010.

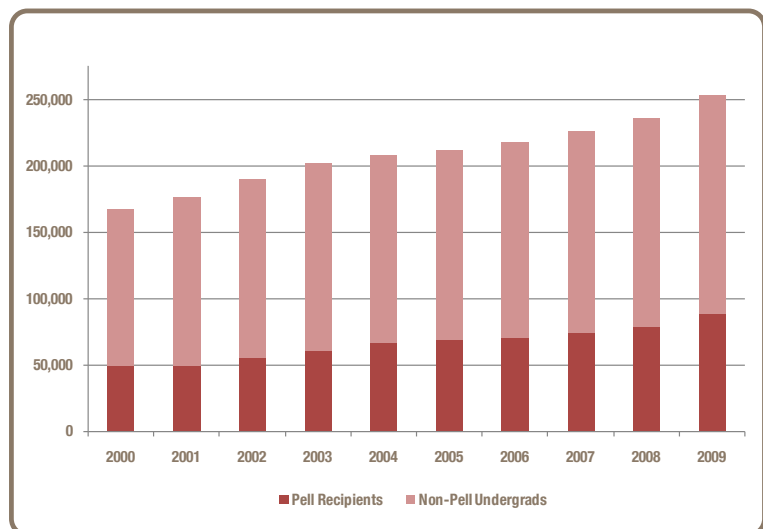
## Affordability

With the passage of the federal *Higher Education Opportunity Act of 2008* (HEOA) colleges and universities that participate in federal Title IV financial aid programs now are required to report pricing data.<sup>11</sup> This mandated pricing data provide net price information for public and private institutions, with net price defined as the amount of money students must contribute toward their postsecondary education after all forms of federal, state, and institutional grant aid are considered. Prior to HEOA such data were not readily and publicly available for public or private institutions.

HEOA data also provide average net price by income level for full-time undergraduates who received Title IV financial aid. This income-level data only apply to first-time, full-time freshman receiving federal financial aid. For the 2009 academic year the overall average net price for students attending four-year public colleges and universities in Georgia was \$9,693, while the net price for low-income students at four-year public colleges and universities in Georgia was \$8,294.<sup>12</sup> This average net price accounts for grant and scholarship aid from all sources, including HOPE scholarships and Pell grants.

The number of students receiving Pell grant awards provides insight into the level of low- and moderate-income students enrolled in colleges and universities.<sup>13</sup> In 2000, approximately 30 percent of all undergraduate students attending four-year public institutions within the University System of Georgia received Pell grant awards.

**Figure 3 Total Pell Recipients as a Percentage of Total Undergraduate Enrollment (Fall 2000 - Fall 2009)**



Sources: University System of Georgia, Student enrollment by class level, fall 2000 to fall 2009. U.S. Department of Education, Distribution of Federal Pell Grant Program Funds by Institution, 2000 to 2010.

By 2009, this percentage increased to 35 percent (Figure 3). During a period of significant enrollment growth in the university system (51 percent), the number of Pell grant recipients grew even faster (78 percent), while the purchasing power of the federal Pell grant has declined over time. In 1976, the maximum Pell grant covered 72 percent of the cost of attendance at a typical four-year public college.<sup>14</sup> By 2010, the maximum Pell grant covered just 36 percent of the cost of attendance at a typical four-year public college, only half of what the maximum Pell grant purchased in 1976.

While the cost of higher education increased and the purchasing power of the Pell grant declined, the median household income in Georgia also declined over the past decade. The U.S. Census Bureau reports that the median household income in Georgia was \$44,082 in 2010. Median household income in Georgia in 2000, when adjusted for inflation to reflect 2010 income, was \$52,320 – representing a 15.7 percent decline in median household income purchasing power over the past decade.

## Need-based Grant Aid

Need-based grant aid programs exist in various forms across states. Minnesota, Illinois, and New York are three states that rank high nationally in state support for need-based financial assistance. Minnesota and Illinois each have programs that follow a shared responsibility approach, in which each state provides funding for a portion of the cost of attendance at eligible institutions while students and families are expected to cover a portion of the cost of attendance. In FY 2009 Minnesota appropriated \$143.5 million in state funds toward its Minnesota State Grant Program, serving more than 84,000 students.<sup>15</sup> In Illinois, expenditures for its Illinois Monetary Award Program (MAP) totalled \$386.7 million for FY 2010, and provided more than 140,000 awards.<sup>16</sup> In addition to considering family income level, the New York State Tuition Assistance Program (TAP) also considers the type of postsecondary institution and tuition costs in determining annual TAP award amounts.

Georgia does not provide need-based grant aid to students pursuing a postsecondary education. Nearly all state funding provided for higher education financial assistance, funded largely with higher education lottery funding, supports merit-based grant and scholarship programs. For FY 2012 the College Opportunity Grant program and the federally-matched Leveraging Educational Assistance Partnership program, both need-based grant aid programs, were eliminated.<sup>17</sup> As a result, Georgia now stands alone among southern states in not providing need-based grant aid. A peer review finds that, excluding Georgia, all Southern Regional Education Board (SREB) states have at least one need-based grant aid program, totaling more than \$1.1 billion in expenditures in 2010. The level of funding for need-based financial aid varies amongst SREB states. While North Carolina, Delaware, and West Virginia rank high nationally in the level of need-based grant aid provided – as measured relative to total Pell grant funding available – Mississippi and Alabama rank near the very bottom. However, all SREB states received a grade of “F” for college affordability on state report cards issued by the National Center for Public Policy and Higher Education in its report, *Measuring Up 2008: The National Report Card on Higher Education*.<sup>18</sup>

While Georgia’s merit-based HOPE program provides significant financial assistance for higher education, over \$580 million for FY 2012, beneficiaries of the program do not reflect the state’s economic demographics (Table 2). Of all households in Georgia, 18.3 percent reported income of \$100,000 or more in 2009; however, HOPE recipients from households earning \$100,000 or more at research, regional, and state universities far exceeded the state level (Table 2). HOPE recipients from households earning \$40,000 or less at two-year and technical colleges far exceeded the state average of 32.9 percent.

**Table 2 HOPE Award Recipient by Family Household Income (FY 2010)**

Family Household Income Level of HOPE Recipients		
Institution Type	\$40,000 or less	\$100,000 or more
Public Research	28.1%	44.6%
Public Regional	29.7%	35.9%
State University	35.4%	29.6%
State College	46.1%	18.1%
Two-Year College	58.0%	13.6%
Technical College	72.5%	4.8%
Private Colleges	36.9%	26.7%
Proprietary	61.1%	16.7%
<b>All Georgia Households (2009)</b>	<b>32.9%</b>	<b>18.3%</b>

Sources: Georgia Student Finance Commission; U.S. Census Bureau, Community Survey 3-year Average, 2005-09

## Policy Considerations

In an effort to help build a workforce that can meet the demands of a 21st century economy, this report recommends creating a need-based financial aid program. The core objective of the program is to help make higher education more affordable for low-income students in Georgia by providing grant awards to students who are least able to finance a postsecondary education. This program would target Georgia's neediest students, as measured by the expected family contribution of students receiving federal Pell grant awards.

Recommendations:

- 1. Establish a state-level, need-based financial aid program that provides grant awards to Georgia's neediest students pursuing a postsecondary education.**
- 2. Reallocate funding for the Low Interest Loan program toward recommended need-based financial aid program. The state allocated \$20 million of higher education lottery funding for the loan program for FY 2012.**
- 3. Identify and discontinue state tax credit and expenditure programs that are not effective in promoting and facilitating workforce development in Georgia. Expenditures allocated towards such programs can be redirected to a need-based financial aid program.**

## Establish a state-level program

The mission and structure of the proposed need-based financial aid program is simple. The goal of the program is to promote access to, and persistence in, higher education by providing financial assistance to Georgia students who demonstrate the greatest financial need. Financial need would be based on the expected family contribution determined once a student completes the Free Application for Federal Student Aid (FAFSA) application, which determines whether a student qualifies for federal financial assistance. Non-repayable grant awards would be provided to students with expected family contribution (EFC) amounts in the bottom 30 percent of all Georgia students receiving Pell grant funding. Qualified students who receive HOPE grants and scholarships, as well as Pell grant recipients, would also be eligible to receive need-based grant awards. Total need-based grant awards would not exceed the total cost of attendance when all grant aid are considered.

Based on most recent available Pell grant information, the estimated cost of the recommended need-based financial aid program would amount to \$45 million for FY 2010 and serve more than 65,000 Georgia students. For FY 2012 the estimated cost of the program would be \$50 million and serve more than 72,000 students.<sup>19</sup> Table 3 provides an estimated cost of the proposed need-based financial aid program.

**Table 3 Estimated Need-based Grant Aid Program Cost by Institution Type (FY 2012)**

Institution Type	Need-based Grant Award Amount	Estimated Grant Award Recipients	Estimated Total Grant Aid Funding
Public Research	\$1,000	4,923	\$4,922,665
Public Regional	\$1,000	3,231	\$3,231,046
State University	\$1,000	11,846	\$11,846,454
State College	\$700	6,910	\$4,837,041
Two-Year College	\$700	9,487	\$6,640,860
Technical College	\$400	28,845	\$11,538,120
Private Two-year	\$700	115	\$80,619
Private Four-year	\$1,000	6,803	\$6,802,950
<b>Total</b>		<b>72,161</b>	<b>\$49,899,755</b>

Sources: University System of Georgia, Pell Grant Reports; U. S. Department of Education, Distribution of Federal Pell Grants Program Funds by Institution (FY 2010); and the National Center for Education Statistics, Integrated Postsecondary Education Data System.

## Reallocating Existing State Funding

The recommended need-based financial aid program can be partially funded by reallocating state funding currently appropriated for financial assistance for higher education. For FY 2012 the state established a \$20 million Low Interest Loan Program that provides loans to students that demonstrate financial need, regardless of a student's family income. Ironically, this is the only loan program funded with higher education lottery funding, with the remaining \$592 million in higher education lottery funding targeted toward non-repayable merit-based scholarship and grant programs. Thus, the only lottery funding for need-based financial assistance is a modest loan program that requires students to make interest payments while in school. Reallocating current funding for the loan program toward a need-based grant aid program naturally aligns with other lottery-funded financial aid programs, which do not saddle students with debt.

Discontinuing existing state tax credit and expenditure programs that do not effectively facilitate workforce development would create additional funding for the proposed need-based aid program. Georgia offers a range of tax incentive and expenditure programs that aim to promote and to facilitate workforce and economic development. These programs are not evaluated on a periodic basis or in a manner that informs whether they are effective in accomplishing the goals they were created to meet. Examination of these programs would identify efforts that are ineffective and do not merit state financial support. These expenditures could then be targeted toward need-based financial aid.

Adopting the recommendations presented in this report would serve as a positive step forward in helping to build a workforce that can meet 21st century business demands. Financial assistance targeted toward the neediest students in Georgia ensures that limited resources are awarded to students who are least able to afford the cost of a postsecondary education. Reallocating existing state funding for higher education financial assistance reduces the amount of additional

funding required to fund such a program. Georgia's ability to attract and retain good paying jobs will largely depend on the quality of its workforce. To achieve the goals set forth for Complete College Georgia, effort must be made to not only get more students into the higher education pipeline, but also make certain more students exit the pipeline with a credential that has value in the marketplace. Establishing a meaningful need-based financial aid program presents an opportunity to help meet these goals.

## End Notes

- <sup>1</sup> Complete College America website, State Profile, Georgia 2011. For an overview of Complete College America, visit [www.completecollege.org](http://www.completecollege.org).
- <sup>2</sup> *With Their Whole Lives Ahead of Them: Myths and Realities About Why So Many Students Fail To Finish College*; A Public Agenda report for the Bill & Melinda Gates Foundation; released December 2009.
- <sup>3</sup> Southern states in this report refer to Southern Regional Education Board (SREB) states, which include: Alabama, Arkansas, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia.
- <sup>4</sup> Baum, Sandy and Ma, Jennifer; *Education Pays: The Benefits of Higher Education for Individuals and Society*; College Board, Trends in Higher Education Series, 2007.
- <sup>5</sup> Fortmann, Stephen P., MD, Frank, Erica, MD, MPH, Jatulis, Darius E., MS, Winkleby, Marilyn A., PhD; *Socioeconomic Status and Health: How Education, Income, and Occupation Contribute to Risk Factors for Cardiovascular Disease*; American Journal of Public Health, June 1992, Vol. 82, No. 6.
- <sup>6</sup> Carnevale, Anthony P., Smith, Nicole, Strohl, Jeff; *Help Wanted: Projections of Jobs and Education Requirements Through 2018*; Georgetown University Center on Education and the Workforce, full report; released June 2010.
- <sup>7</sup> *Ibid.* State-level Analysis (Pages 31-32).
- <sup>8</sup> *Measuring Up 2008: The National Report Card on Higher Education*; The National Center for Public Policy and Higher Education; San Jose, California; 2008, Page 8.
- <sup>9</sup> Tuition and mandatory fee rates are for full-time in-state students, as published by the University System of Georgia.
- <sup>10</sup> See endnote 3.
- <sup>11</sup> Title IV funding is federal funding most commonly accessed by applying with the Free Application for Federal Student Aid (FAFSA). The most common financial aid from title IV funding are the Pell grant, SMART Grant, Work Study, and federal Student loans like the Stafford, Perkins and Parent PLUS loans.
- <sup>12</sup> Net price data accessed using the Integrated Postsecondary Education Data System provided by the National Center for Education Statistics. Net price data is not available for seven of the 27 four-year institutions within the University System of Georgia (Abraham Baldwin Agricultural College, College of Coastal Georgia, Gainesville State College, Georgia Gwinnett College, Gordon College, Middle Georgia College, and the Medical College of Georgia).
- <sup>13</sup> Pell grant funding is available to undergraduate students who meet certain qualifications, which includes family income and expected family contribution.
- <sup>14</sup> *Federal Higher Education Grant Program – Pell Grant Program*; The New America Foundation, Federal Education Budget Project; last accessed online on October 20, 2011.
- <sup>15</sup> Minnesota Office of Higher Education.
- <sup>16</sup> Illinois Student Assistance Commission.
- <sup>17</sup> To qualify for the College Opportunity Grant program, a student was required to be a recipient of the federal Pell Grant program and fulfill a community service requirement.
- <sup>18</sup> See endnote 8.
- <sup>19</sup> The author's cost estimates are based on Pell grant information for FY 2010, the most recent year for which information is available. Program cost for FY 2012 assumes a 10 percent increase in total Pell recipients between 2010 and 2012. It is noted that from FY 2007 to FY 2009 number of Pell Grant recipients in Georgia increased by an annual average of 7.4 percent. However, total Pell Grant recipients increased by 35.9 percent from FY 2009 to FY 2010 as a result of the Great Recession.