May 27, 2009

Keeping Faith with Oregon's College Students

Prioritizing State Student Aid In Recessionary Times

Executive Summary

During difficult times, people sometimes react with the best of intentions but later find their actions have unintended negative consequences. Oregon's legislators are about to take some of those actions.

- Oregon's substantially under-funded Opportunity Grant program is slated for increasingly steep cuts, using US Congress student aid stimulus as an excuse to further deplete the program rather than as an assist toward improving this vital source of student aid throughout Oregon.
- Legislative leaders are also entertaining creation of a dedicated state student aid fund out of their control and exclusively for students attending state universities.
- Wealthy students at public colleges and universities will continue to enjoy state-subsidized tuition breaks while low- and middle-income students are further pummeled by tuition increases.

Major increases in Federal Pell Grants and tuition tax credits, intended by the US Congress as economic stimulus for beleaguered low and middle-income college students, may now be siphoned off by Oregon legislators to shore up other state services, including continued tuition subsidies for wealthy Oregonians who need no public assistance to pay the true cost of their family's higher education.

This diversion of federal funds is easily hidden in the new and confusing "Shared Responsibility Model" (SRM) formula by which Oregon determines who is eligible for state student aid and how much each eligible student will get.

Heralded as a major breakthrough in determining student financial need and in adequately and fairly assisting all college students across Oregon, the SRM was enacted by the 2007 Legislature and went into operation for the 2008-09 school year. A major public relations campaign was mounted to assure that all eligible Oregonians were taking advantage of the program. Projections are that by the time this school year is over in June the state will have invested about $70 million this year in the new SRM Opportunity Grant program – up from $35 million in the prior school year. The number of awards is running more than 40 percent ahead of last year, with projections that total students served will rise from about 28,000 under the old program to over 38,000 under the new program.

It seemed to be a good start at making higher education more affordable for low- and middle-income Oregonians, until it became apparent that the state budget could not fully fund the program as designed.

The basic design of the SRM formula is:

Total Cost of Attending a Public College or University
– Federal Pell and Tax Credit Aid
– Reasonable Student-Generated Funds
– Federally-determined Family Contribution
= Oregon Opportunity Grant

Best estimates were that fully funding that formula would require about $120 million in the 2008-09 school year. Launching the program within the state's $70 million budget required substantial negative alterations* in the formula's details, as follows:

- Total Cost is computed in the SRM using the average of ***last year's*** tuition, fees, room, board and miscellaneous expenses, with one figure for community colleges and one figure for state universities. *No third figure is used for private colleges where the costs are necessarily higher due to their lack of operating support from the State.*

* *Italicized in upcoming text.*

- Federal Pell Grants and Tax Credits are determined using complex formulas factoring in family income and liquid assets, number in school and the student's IRS status as a dependent or as an independent citizen. When a student files a federal FAFSA form with all this data anytime after January 1, the federal Department of Education will respond with a calculated Pell Grant for the following school year, commencing in the fall. But computing what a student or family is likely to receive as a federal tuition tax credit in the spring of the upcoming school year requires that the Oregon Student Assistance Commission include many of these same factors in its SRM formula for each applicant.
- Student Funds are computed to be what a student can earn working at minimum wage full-time all summer and part-time during the school year, with no allowance for students who cannot find that combination of work. In addition, the formula computes that all students attending 4-year institutions should also contribute, in addition to work income, a student loan amount of $3,000 per year.
- Federally-determined Expected Family Contribution (EFC) takes into account parental income, liquid assets and family size. ***To save state funds this figure has been significantly bloated for the 2008-09 school year by including an expected student income figure (already applied in the previous bullet) and then inflating the entire larger EFC by 19 percent. In addition, families with AGI above $70,000 are precluded from the program, regardless of actual need due to number in college, etc.***
- The actual Opportunity Grant, thus calculated, ***is then, to save state money, capped at $3,200 on the high end and at $400 on the low end. Any funds due a student beyond $3,200 are lopped off and any grants computed to be smaller than $400 are not paid.***
- ***Even with these limitations, the state funds appropriated for the 2008-09 school year proved insufficient, due to high demand caused by the marketing campaign and the beginning of the recession. All full-time recipients had their second semester or spring quarter grants reduced by $80 and an additional 6,000 eligible students applied too late (after November 30, 2008) to receive any funds at all for this school year.***

Going forward, the governor and legislature planned to increase state appropriations for the 2009-11 biennium enough to ease some of these restrictions on a full grant as originally designed. In the summer of 2008 the Student Assistance Commission requested that the Governor's Budget for the 2009-11 biennium include **$250 million** for two years of a fully-funded non-restricted program based on the apparent number of eligible students who were applying for the 2008-09 school year.

Late that fall of 2008 the Governor's Budget was released and it included **$163 million** for the program – far short of the actual need for fully-funded grants, but nevertheless a slight improvement over the prior year's funding. The only SRM formula change reflected in the governor's budget was a modest assumption of 3 percent growth in tuitions from the prior year and a slight increase in Oregon's minimum wage.

The recession was well underway by the time the legislature convened in January and it became apparent that the SRM Opportunity Grant would need to be trimmed to the bare essentials, which were now assumed to be funding only that number of students who qualified and were actually funded during the program's first year (forgetting about the unfunded late applicants.) It was also assumed that no adjustments for tuition and other cost of education increases would be made for the next year and that the inflated family contribution would be retained. These assumptions generated a new funding target, called the Essential Budget Level (EBL), of **$148 million** for the biennium.

Then in February, 2009 the federal stimulus package included new funds for Pell Grants and higher tuition tax credits. The Oregon Legislative Fiscal Office estimates these benefits will increase the Federal Pell and Tax Credit contributions to the SRM formula by an overall $35 million among current program participants.

This was a wonderful opportunity to relieve some of the initial artificial SRM restrictions on Opportunity Grant size and the bloating of expected family and student contributions. Doing so would have been keeping faith with the governor's priorities and the US Congressional intent of increasing overall financial assistance to struggling college students. In Minnesota, the state that pioneered the SRM approach to student aid, the legislature chose to do exactly that, using these federal stimulus relief funds to eliminate the deficiencies that had crept into their SRM formula over the years. In Oregon we seem headed in the opposite direction.

Instead, our legislative Ways & Means Co-Chairs published their budget on May 19 and declared that the new $35 million federal investment in student aid provides the state an opportunity to spend that much less on Opportunity Grants and therefore can be spent on other state programs. And, in addition, after deducting the $35 million from the $148 million EBL, the Co-Chairs Budget applies a general 15 percent reduction to the new figure as one of their many reductions necessitated by the state's pending budget shortfall. The latest SRM Opportunity Grant funding target, as of the end of May, is **now less than $100 million** for both years of the upcoming biennium.

At that funding level, all Opportunity Grants will plummet and there will likely be a need for even earlier cutoff dates for the 2009-10 student applicants.

At the same time the Co-Chairs are proposing to abandon the priority commitment made in the 2007 legislative session to the Opportunity Grant program, they are proposing that 30 percent of the upcoming tuition increases at state universities be dedicated to student aid on those campuses. If the Co-Chairs really want to honor legislative intent of making the Opportunity Grant program the centerpiece of State student aid – rationally conceived and shared equitably among all needy Oregon college students – then they would:

a) Instruct the state universities to keep the extra 30 percent of tuition increases for instructional operations. That's what the university students should be paying for – not student aid.

b) Shift that amount of state appropriations from state university operations to the Opportunity Grant fund. The legislature should stop trying to manage academic institutions and get serious about helping students with demonstrated need for financial assistance.

c) Take comfort knowing that state university students who qualify for student aid are being served by an SRM Opportunity Grant that is designed to provide all the funds they need, no matter how much their tuition rises to pay for a quality university education.

And if legislators really want to assure taxpayers that every state dollar in these recession times is going only to truly needy Oregonians, then they would seriously consider the ongoing unnecessary expenditure of hundreds of millions of state dollars appropriated to public college and university operations as a way of subsidizing public tuitions, including those of wealthy Oregonians who need no public assistance paying for the college of their choice.

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