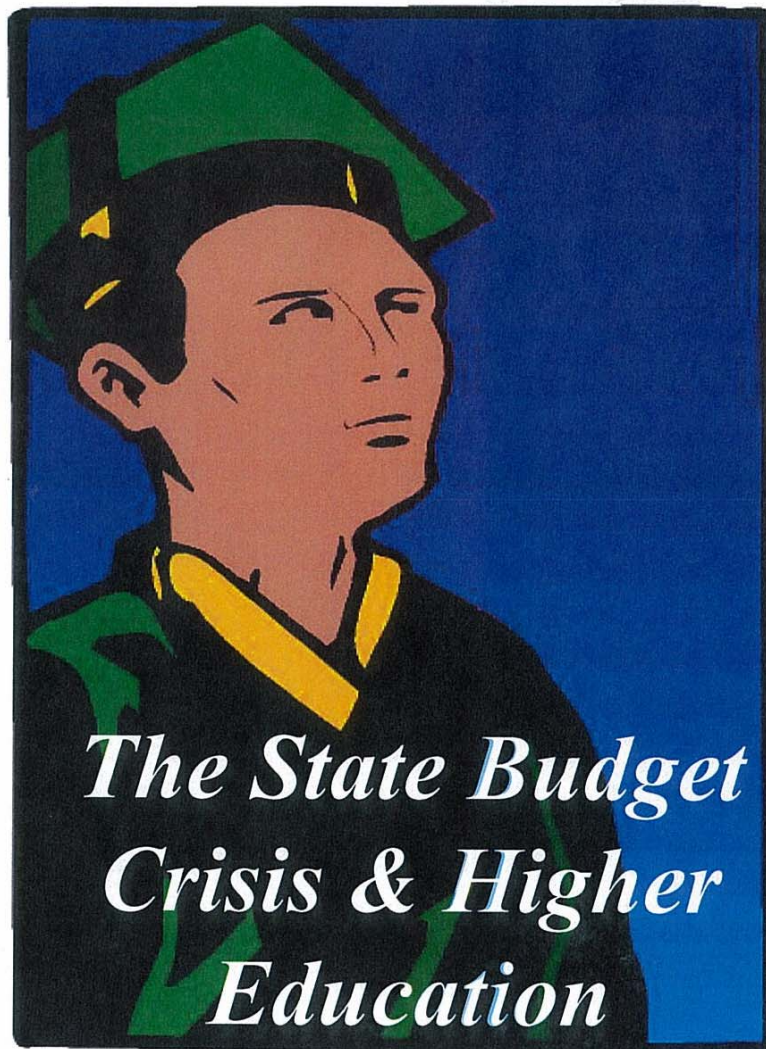


# *Slamming Shut the Doors to College*



A Congressional Report Prepared by the Democratic Staffs of:

Senate Committee on Health, Education, Labor, & Pensions  
Senate Subcommittee on Education Appropriations  
House Committee on Education and the Workforce and  
House Committee on Appropriations

with Additional Analysis by the Joint Economic Committee Democratic Staff

# **SLAMMING SHUT THE DOORS TO COLLEGE**

## ***The State Budget Crisis & Higher Education***

There is bad news on the horizon for America's college students: state colleges, facing the worst state budget crunch in a decade, are proposing the largest tuition hikes in recent history.

The shaky economic recovery has not caught up with state budgets. The states face a total deficit that is greater than \$40 billion, according to the National Governors Association. The National Conference of State Legislatures reports revenue shortfalls in 45 states and the District of Columbia. Nearly every state is legally required to balance their budgets. Education, which comprises more than one-third of state budgets, is inevitably in line for cuts.

States have already proposed to cut \$5.5 billion in state higher education funding. To offset state budget cuts, colleges and universities in California, Idaho, Illinois, Indiana, Massachusetts, Pennsylvania, Minnesota, Mississippi, Virginia, and Washington have proposed double-digit tuitions increases for this fall, according to the American Association of State Colleges and Universities. Private colleges seeing similar drops in endowment income and slowed growth in charitable giving may also be forced to raise tuition.

If these trends continue, an additional 110,000 students could be unable to afford college next fall. No longer a luxury for the elite, two-year and four-year college educations are increasingly important for all Americans' economic security. Over the course of a lifetime, a college graduate can expect to earn \$1 million more than a high school graduate.

At the same time, the Bush Administration has failed to recognize this need. Its budget cuts Pell grants from \$4,000 to \$3,900 and gives financial aid to 375,000 fewer students. It has proposed raising interest rates on existing student loans.

Projections are not destiny. In the next several months, state and federal policymakers will write next year's budgets. Their decisions will impact millions of current and prospective college students. To prevent the state budget crunch from limiting college opportunity, Congress must invest substantially more in student aid to help more college students.

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## KEY FINDINGS

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- **States Have Already Cut \$5.5 Billion from Higher Education.** Although the economy is improving, states are still struggling with the legacy of the economic slowdown: budget deficits that exceed \$40 billion.
    - ✓ This year, 30 states have rescinded a total of \$1.5 billion in higher education funding.
    - ✓ For next year, pending budget proposals fall \$4 billion short of maintaining current services in the face of inflation and rising enrollment.
  - **Higher Tuitions Could Close the Doors of College to 110,000 Students.** In past recessions, colleges have raised their tuitions by 11 percent or more—nearly twice the average in other years. Such an increase could make public college unaffordable for an estimated 110,000 students graduating from high school this year.
  - **The Bush Administration’s Student Aid Budget Would Serve 375,000 Fewer Low-Income Students.** According to the Congressional Budget Office, under the Bush budget, the maximum Pell grant would be cut to \$3,900. The Pell grant program needs a \$1.8 billion increase over the Administration’s budget to keep pace with growing enrollments and provide a \$4,400 maximum grant to match tuition increases.
  - **College Opportunity Remains Uneven.** An analysis by the Joint Economic Committee concludes that:
    - ✓ The demand for workers with postsecondary training is growing rapidly. College nearly doubles workers’ income, on average.
    - ✓ Even academically qualified low-income students are far less likely to go to college than their wealthier peers, largely due to the cost of college.
    - ✓ Currently, federal financial aid falls short of making college affordable for all. Recent policy initiatives have not been well designed to advance the fundamental goal of student aid: ensuring that all Americans can finance a college education.
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## **State Budget Deficits Lead to Cuts in College Funding**

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### **Most States Are Facing Mid-Year Fiscal Crises**

In December 2001, states faced a collective budget deficit of approximately \$40 billion, according to the National Governors Association. Nearly every state has constitutional or statutory balanced budget requirements. At least 40 states and the District of Columbia have (or expect to) cut spending to address fiscal year 2002 shortfalls (National Conference of State Legislatures, April 2002).

Some states, including Florida and Virginia, have delayed implementation of previously enacted tax cuts. Several states, including Alabama, North Carolina, and Ohio have enacted tax hikes to balance state budgets. Finally, a number of states, like Massachusetts and Arizona, have drawn down “rainy day” savings funds to balance their budgets (Center on Budget and Policy Priorities, January 2002).

### **States Cutting Higher Education**

**Public Colleges Have Already Felt a \$1.5 Billion Mid-Year Cut.** States have already made \$1.5 billion in mid-year cuts to higher education funding in their 2002 budgets, according to a Congressional survey of 49 state budget officers (see Table 1). That survey found:

- Thirty states made mid-year cuts in higher education.
- New York alone has cut \$425 million (or 10 percent) from its previously enacted 2002 budget in the aftermath of the September 11<sup>th</sup> attacks. Other states like Florida, Indiana, and Missouri have made comparable cuts in percentage terms.
- The 49 surveyed states funded public colleges at approximately \$56.8 billion, before cutting \$1.5 billion. Those institutions serve 11.9 million students.

**Education Will See Cuts.** Education funding comprises more than one-third of state budgets (U.S. Department of Education, *Digest of Education Statistics*, 2000). Because of the magnitude of the budget shortfalls, education cuts have proven inevitable in most states.

**States Are More Likely to Cut Higher Education than K-12 Funding.** Budget cuts to education have fallen disproportionately on higher education (Compare

**Table 1. In 2002, \$1.5 Billion in Mid-Year Cuts to State Higher Education**

(Dollars in millions)

State	2002 Public Enrollment	Original Enacted 2002 Budget	Mid-Year Cuts
Alabama	207,820	\$1,117.6	\$2.5
Alaska	27,074	\$555.1	\$0.0
Arizona	291,186	Not Available	Not Available
Arkansas	108,906	\$867.3	\$14.0
California	1,784,008	\$10,042.0	Not Available
Colorado	231,286	\$764.7	\$10.6
Connecticut	102,063	\$579.8	\$11.3
Delaware	38,887	\$200.9	\$3.6
Florida	570,179	\$1,828.1	\$111.6
Georgia	250,231	\$1,753.7	\$4.0
Hawaii	48,989	\$428.8	\$2.9
Idaho	55,456	\$357.5	\$11.0
Illinois	562,332	\$2,667.0	\$105.0
Indiana	243,274	\$1,472.0	\$115.0
Iowa	140,976	\$701.6	\$28.3
Kansas	165,571	\$706.9	\$0.0
Kentucky	154,472	\$1,166.9	\$17.3
Louisiana	198,756	\$934.5	\$0.0
Maine	42,528	\$224.7	\$0.0
Maryland	232,733	\$1,295.9	\$13.3
Massachusetts	191,316	\$1,011.0	\$6.8
Michigan	486,764	\$2,242.5	\$25.0
Minnesota	218,678	\$1,380.0	Pending
Mississippi	127,923	\$765.8	\$32.1
Missouri	210,087	\$1,150.5	\$95.0
Montana	40,406	\$138.8	\$0.0
Nebraska	93,159	\$525.2	\$8.8
Nevada	89,875	\$381.6	\$0.8
New Hampshire	36,813	\$103.8	\$0.2
New Jersey	277,995	\$1,285.5	\$64.3
New Mexico	108,694	\$605.2	\$0.0
New York	596,887	\$4,312.0	\$425.0
North Carolina	338,662	\$1,802.0	\$66.0
North Dakota	37,881	\$176.0	\$0.0
Ohio	433,764	\$2,565.1	\$121.0
Oklahoma	163,750	\$860.5	\$21.6
Oregon	156,179	Not Available	Not Available
Pennsylvania	355,124	\$1,826.0	\$34.6
Rhode Island	40,737	\$174.9	\$0.4
South Carolina	161,785	\$894.7	\$36.6
South Dakota	36,044	\$131.7	\$0.3
Tennessee	204,103	\$1,083.7	\$12.0
Texas	908,834	Not Available	Not Available
Utah	127,068	\$606.9	\$20.7
Vermont	21,691	\$71.8	\$1.8
Virginia	328,359	\$1,573.4	\$28.5
Washington	277,639	\$1,362.6	\$0.0
West Virginia	80,923	\$437.1	\$0.0
Wisconsin	263,087	\$1,258.3	\$0.0
Wyoming	29,453	\$359.8	\$0.0
<b>Total</b>	<b>11,900,404</b>	<b>\$56,751.3</b>	<b>\$1,452.1</b>

NOTES: Enrollment figures from the *Chronicle of Higher Education*. Budget figures from congressional staff survey of state budget offices. California figures were not available at press time. Oregon operates on a biennial budget; for FY02-03 the higher education budget is \$808 million. Texas operates on a biennial budget; for FY02-03 the higher education budget is \$15.4 billion.



Senate HELP Committee and House Education and Workforce Committee, *Education in Crisis: The State Budget Crunch and Our Nation's Schools*, October 2001). According to state analysts, state officials believe that public colleges can offset revenue losses more easily than school districts by raising tuition and fees.

### **Additional Cuts Are Expected this Fall**

**State Budgets Face Hangover from the Recession.** Even as the economy begins to recover, state revenue growth is expected to lag. More often than not, income tax receipts lag behind income gains by as much as six months. Corporate taxes and capital gains tax receipts regularly lag more than a year due to loss carry-forward tax provisions and delayed sale of assets in stronger economic times. Overall state tax receipts typically lag an economic recovery by 12 to 18 months, according to the National Association of State Budget Officers.

The National Conference of State Legislatures reports that, in addition to the more than 40 states experiencing deficits in 2002, 37 states and the District of Columbia are projecting deficits in their 2003 budgets. As of the end of March, 24 states were failing to meet even projections that had been revised downward.

**State Revenue Is Still Dropping.** The current economic cycle lag between state revenue and overall economic growth is already evident. According to the Rockefeller Institute of Government at the State University of New York at Albany:

- During the third quarter of 2001, gross domestic product (GDP) shrank at an annual rate of 1.3 percent, according to the Bureau of Economic Analysis. In that same quarter, state revenues declined by 3.1 percent.
- During the fourth quarter of 2001, GDP *grew* at an annual rate of 1.7 percent, but state revenues again declined — this time by 2.7 percent.

**States Plan \$4 Billion in Additional Cuts to Higher Education.** According to a Congressional survey of state budget officers, additional cuts in higher education funding are planned for next school year (See Table 2).

- States plan an additional \$4 billion in cuts to higher education, after funding is adjusted for inflation and enrollment growth.
- Total cuts are likely to grow above \$4 billion as states grapple with continued shortfalls. New Jersey's governor, for example, estimates that the state will have

**Table 2. In 2003, \$4 Billion in Cuts to State Higher Education**

(Dollar figures in millions.)

State	2003 Enrollment	2003 Current Services	2003 Governor's Proposal	Shortfall
Alabama	211,369	\$1,191	\$1,146	\$45
Alaska	27,536	\$592	\$621	\$29
Arizona	296,159	\$972	\$888	\$84
Arkansas	110,765	\$925	\$867	\$57
California	1,814,475	\$10,705	\$10,222	\$483
Colorado	235,235	\$815	\$789	\$26
Connecticut	103,806	\$618	\$594	\$24
Delaware	39,551	\$214	\$201	\$13
Florida	579,917	\$1,949	\$1,859	\$89
Georgia	254,505	\$1,869	\$1,678	\$191
Hawaii	49,825	\$457	\$438	\$19
Idaho	56,403	\$381	\$317	\$64
Illinois	571,936	\$2,843	\$2,641	\$202
Indiana	247,428	\$1,569	\$1,458	\$111
Iowa	143,383	\$748	\$664	\$84
Kansas	168,398	\$754	\$706	\$47
Kentucky	157,110	\$1,244	\$1,159	\$85
Louisiana	202,150	\$996	\$936	\$60
Maine	43,254	\$240	\$232	\$7
Maryland	236,707	\$1,381	\$1,351	\$31
Massachusetts	194,583	\$1,078	\$997	\$81
Michigan	495,076	\$2,391	\$2,243	\$148
Minnesota	222,412	\$1,471	\$1,464	\$7
Mississippi	130,108	\$816	\$618	\$198
Missouri	213,675	\$1,226	\$1,081	\$145
Montana	41,096	\$148	\$147	\$1
Nebraska	94,750	\$560	\$546	\$14
Nevada	91,409	\$407	\$456	\$50
New Hampshire	37,442	\$111	\$107	\$4
New Jersey	282,742	\$1,370	\$1,221	\$149
New Mexico	110,550	\$645	\$597	\$48
New York	607,080	\$4,597	\$3,882	\$715
North Carolina	344,445	\$1,921	\$1,797	\$124
North Dakota	38,528	\$188	\$182	\$6
Ohio	441,172	\$2,734	\$2,589	\$145
Oklahoma	166,547	\$917	\$858	\$60
Oregon	158,846	Not Available	Not Available	Not Available
Pennsylvania	361,189	\$1,946	\$1,808	\$138
Rhode Island	41,433	\$186	\$181	\$5
South Carolina	164,548	\$954	\$896	\$58
South Dakota	36,659	\$140	\$138	\$2
Tennessee	207,589	\$1,155	\$1,218	\$63
Texas	924,355	Not Available	Not Available	Not Available
Utah	129,238	\$647	\$634	\$13
Vermont	22,062	\$77	\$73	\$3
Virginia	333,967	\$1,677	\$1,470	\$207
Washington	282,381	\$1,452	\$1,379	\$74
West Virginia	82,305	\$466	\$424	\$42
Wisconsin	267,580	\$1,341	\$1,287	\$55
Wyoming	29,956	\$384	\$364	\$20
<b>Total</b>	<b>12,103,637</b>	<b>\$61,469</b>	<b>\$57,428</b>	<b>\$4,042</b>

NOTES: Based upon a congressional survey of state budget officers. Total enrollment based on data from the *Chronicle of Higher Education*. Adjusted for enrollment growth and higher education inflation as per the Higher Education Price Index published by Research published by Research Associates of Washington. The Governor's recommendation for Mississippi for 2003 does not include \$40 million in additional Medicaid revenue to the state University Medical Center. Oregon operates on a biennial budget; for FY02-03 the higher education budget is \$808 million.

a budget deficit of \$6 billion in 2003. In February, California's Legislative Analyst raised its estimate of California's biennial 2002 and 2003 deficit by \$5 billion.

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## **Private Colleges Face Decline in Endowment Earning and Donations after September 11th**

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**Private Colleges Are Also Feeling the Lingering Impact of the Recession.** Even though the economy shows some recent signs of improving, some independent institutions were dealt a double blow last year: a drop in endowment income and in donations. Students on many of these campuses will feel the sting of higher tuition bills this fall.

**Last Year, College Endowments Suffered the Worst Losses in 17 Years.** According to National Association of College and University Business Officers, the average endowment showed a negative 3.6 percent return on investment (2001 Endowment Study, March 2002). NACUBO found that:

- While some institutions showed gains, two of every three endowments declined in value. Boston University was hit hard with a 27 percent loss. Carleton College suffered a 20 percent loss. Emory University had the second largest endowment loss in the country — a drop of \$712 million or 14 percent.
- The good times have stopped for many private institutions, large and small. The financial picture may be particularly bleak for those institutions that rely on endowment income to pay for faculty salaries, student financial aid, and other operating expenses. The lower and longer the financial markets lag, the larger the budget impacts on these institutions and the greater the pressure to raise tuition to offset endowment losses.
- Because endowment earnings make up over one-fourth of its annual operating budget, Texas Christian University announced last year that tuition would have to increase an additional 2 percentage points due to a \$72 million loss in investment income. Consequently, new students and returning sophomores at the university will pay \$16,300 in tuition and fees this fall, an increase of \$1,300 or 8.7 percent.

**The Sluggish Economy Has Undercut College Fundraising as Well.** Many potential donors are waiting for better performance in the financial markets before committing to big gifts. Donations to higher education institutions slowed to a



4.3 percent increase last year, compared to 13.7 percent the previous year (RAND Council for Aid to Education). However, this small increase was prior to the attacks on September 11<sup>th</sup>.

- September 11<sup>th</sup> put a damper on education fundraising. Twice as many education organizations reported decreases in funds raised in October than did in the month before the attacks (Association of Fundraising Professionals, *Study of the Impact of the Events of September 11 on Charities*, 2002).
- The associate vice president for marketing for the University of Cincinnati Foundation commented last fall, “Fair to say that private giving is down. The climate is not particularly good for planned gifts and major gifts. We hear that many if not most fund-raising organizations are experiencing this” (*Cincinnati Enquirer*, October 11, 2001).

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## Past Recessions Have Led to Higher Tuitions

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**College Tuition Increases Nearly Twice as Fast During Recessions.** Tuition grows nearly twice as fast during recessions (see Table 3). Across sectors of higher education, tuition grew by double-digit percentages in three of the last four recession years. Over the last 20 years, on average:

- Tuition at four-year public colleges rose by 11.5 percent during recessions and only 6.5 percent in other years;
- Tuition at four-year private colleges rose by 11.3 percent during recessions and only 6.7 percent in other years; and
- Tuition at two-year public colleges rose by 10.9 percent during recessions and only 6.4 percent in other years.

**Cuts in State Funding Is the Number One Cause of Higher Tuition.** The U.S. Department of Education recently completed a comprehensive, Congressionally chartered study of why college costs are rising so quickly (*Study of College Costs and Prices, 1988-89 to 1997-98*, December 2001). The Department concluded,

“For public four-year institutions, revenue from state appropriations remains the largest source of revenue and is the single most important factor associated with

changes in tuition. ... Decreasing revenue from government appropriations (in which state governments make up the majority) was the most important factor associated with tuition increases.”

**Table 3. Recessions Lead to Larger Tuition Increases**  
(Recession Years Shaded)

<u>Academic</u> <u>Year</u>	<u>Public Four-</u> <u>Year Tuition</u>	<u>% Change</u>	<u>Public Two-</u> <u>Year Tuition</u>	<u>% Change</u>	<u>Private Four-</u> <u>Year Tuition</u>	<u>% Change</u>
1976-77	\$617	N/A	\$283	15.51%	\$3,977	N/A
1977-78	\$655	6.16%	\$306	8.13%	\$4,240	6.61%
1978-79	\$688	5.04%	\$327	6.86%	\$4,609	8.70%
1979-80	\$738	7.27%	\$355	8.56%	\$5,013	8.77%
<b>1980-81</b>	<b>\$804</b>	<b>8.94%</b>	<b>\$391</b>	<b>10.14%</b>	<b>\$5,594</b>	<b>11.59%</b>
<b>1981-82</b>	<b>\$909</b>	<b>13.06%</b>	<b>\$434</b>	<b>11.00%</b>	<b>\$6,330</b>	<b>13.16%</b>
<b>1982-83</b>	<b>\$1,031</b>	<b>13.42%</b>	<b>\$473</b>	<b>8.99%</b>	<b>\$7,126</b>	<b>12.58%</b>
1983-84	\$1,148	11.35%	\$528	11.63%	\$7,759	8.88%
1984-85	\$1,228	6.97%	\$584	10.61%	\$8,451	8.92%
1985-86	\$1,318	7.33%	\$641	9.76%	\$9,228	9.19%
1986-87	\$1,414	7.28%	\$660	2.96%	\$10,039	8.79%
1987-88	\$1,537	8.70%	\$706	6.97%	\$10,659	6.18%
1988-89	\$1,646	7.09%	\$730	3.40%	\$11,474	7.65%
1989-90	\$1,780	8.14%	\$756	3.56%	\$12,284	7.06%
1990-91	\$1,888	6.07%	\$824	8.99%	\$13,237	7.76%
<b>1991-92</b>	<b>\$2,117</b>	<b>12.13%</b>	<b>\$936</b>	<b>13.59%</b>	<b>\$14,258</b>	<b>7.71%</b>
1992-93	\$2,349	10.96%	\$1,025	9.51%	\$15,009	5.27%
1993-94	\$2,537	8.00%	\$1,125	9.76%	\$15,904	5.96%
1994-95	\$2,687	5.91%	\$1,192	5.96%	\$16,602	4.39%
1995-96	\$2,848	5.99%	\$1,239	3.94%	\$17,612	6.08%
1996-97	\$2,987	4.88%	\$1,276	2.99%	\$18,442	4.71%
1997-98	\$3,110	4.12%	\$1,314	2.98%	\$19,070	3.41%
1998-99	\$3,229	3.83%	\$1,327	0.99%	\$19,929	4.50%
1999-2000	\$3,349	3.72%	\$1,338	0.83%	\$20,706	3.90%
2000-01	\$3,506	4.69%	\$1,359	1.57%	\$21,907	5.80%
<b>Recession Average</b>		<b>11.52%</b>		<b>10.93%</b>		<b>11.26%</b>
<b>Non-Recession Average</b>		<b>6.45%</b>		<b>6.67%</b>		<b>6.43%</b>

NOTES: Data from the U.S. Department of Education, *Digest of Education Statistics 2001*, Table 316. Data for four-year colleges not available before 1976-77. Data represent the average annual undergraduate tuition and required fees charged to in-state students for public colleges and all students for private colleges, weighted by enrollment. Tuition is not adjusted for inflation. An academic year was treated as a “recession year” if a recession occurred in the months prior to the beginning of that year, when policymakers generally set tuition. The recessions in the time period under analysis, as determined by the National Bureau of Economic Research, are the “double dip” recession of January 1980 until July 1980 and July 1981 until November 1982 (treated here, as elsewhere, as a single recession) and from July 1990 until March 1991. The Congressional Research Service helped collect and analyze this data.

**The Early 1990s Recession Restricted College Opportunity.** The National Center for Public Policy and Higher Education analyzed the impact of the early 1990s recession on higher education (*Coping with Recession*, 2002). It found that:

- Over three years, California cut funding by 19 percent for the University of California, 12 percent for California State University, 1 percent for California community colleges, and 15 percent for state student aid programs. This was a total cut of \$590 million in state support for higher education.
- Between 1990 and 1995, tuition at New York colleges rose from 4.2 percent to 7.7 percent of median family income. Tuition at California public colleges rose from 1.7 percent to 3.1 percent of median income.
- The report concluded, “When higher education faces cuts in state funding, the state and higher education institutions are likely to shift shortfalls to students and their families by raising tuition. Formulas for setting tuition are early victims of tight budgets.”

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## Higher Tuitions Reduce College Opportunity

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**Financial Aid Falls Far Short of the Need.** Even with financial aid, low-income students fall \$3,200 short of being able to afford even community colleges. Low-income students have an average unmet need of \$3,800 at four-year public colleges and \$6,200 at four-year private colleges (U.S. Department of Education, *College Access and Affordability*, 1999).

**Tuition Increases Will Push College Costs Out of Reach for More Americans.** Economists estimate that each \$1,000 increase in tuition will reduce the college enrollment rate by 5 percentage points (Thomas Kane, *The Price of Admission*, p. 114).

**College Opportunity Is at Risk for at least 110,000 Americans.** States have proposed to cut \$5.5 billion from higher education. At the same time, President Bush proposes to cut federal financial aid. If colleges respond by raising tuition at their historic average during recessions, public colleges could become unaffordable for 110,000 graduating seniors who would otherwise attend next year (see Table 4). In addition, higher tuition without greater student aid may force college students to drop out and deny adults the opportunity to return to school.

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**Table 4. Projected Tuition Hikes Could Deny College to 110,000 Graduating Seniors**

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High School Graduating Class of 2002	2,849,000
Projected Increase in College Tuition	\$772
<b>Students Priced out of College</b>	<b>110,000</b>

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NOTES: Graduating class from U.S. Department of Education, *Projections of Education Statistics until 2011*, Table 23. Projected increase in tuition from Table 3, as well as unpublished calculations for two-year private colleges, weighted by enrollment. Projected decline in enrollment is based on the assumption that a \$1,000 increase in tuition reduces the percent of graduating seniors who enroll in college within 20 months by 5 percentage points (Thomas Kane, *The Price of Admission*, pp. 19, 114); estimate does not include current college students or adults returning to school.

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## **The Bush Budget Leaves More than 375,000 College Students Behind**

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### **Higher Education Is at One of Its Most Difficult Moments in Recent History.**

Higher education institutions must cope with massive cuts in state funding, a drop in endowments, and soft private giving at a time of a record number of individuals who want a college education. It is a time when a strong investment in federal student assistance has never been more important.

### **A Record 15.8 Million College Students Are Projected to Enroll in 2003.**

Enrollments are expected to continue to grow through 2011. A greater share of these students will be from families requiring federal financial assistance to make their dream of a college diploma for their children a reality (U.S. Department of Education, *Projections of Education Statistics until 2011*).

**Colleges and Universities Face Unprecedented Demand.** Americans value education and understand that a higher education is essential in order to be successful in today's global economy. They believe that the federal government has a vital role to play in leveling the playing field so that all Americans, regardless of their income status, have access and opportunity to go to college. For example, 81 percent of respondents in a recent nationally recognized poll indicated that providing enough student aid for low-income students to enter and complete college is a good reason to increase federal spending on education (Ipsos-Reid poll released March 19, 2002).

**President Bush's FY 2003 Budget Leaves More than 375,000 College Students Behind.** The Bush budget makes no effort to meet the increased challenge of making

college more affordable for a growing number of low-income students facing double-digit tuition and fee increases.

- In fact, the Bush budget cuts student financial assistance programs \$1.4 billion below the amount needed just to accommodate higher education inflation and enrollment growth.
- As a result, more than 375,000 fewer college students would receive federal student financial assistance compared with a current services budget. (Table 5)
- Even with an additional \$1.4 billion, a current services budget would fall short of what is needed to fulfill the growing need for college aid for all who qualify.

**Table 5: Bush Budget Leaves More Than 375,000 College Students Behind**  
(Dollars in Millions)

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2003</u>	<u>Bush Cuts from Current</u>	
	<u>Appropriation</u>	<u>Current Services</u>	<u>Bush Budget</u>	<u>Services</u>	
				<u>Dollars</u>	<u>Students</u>
Pell Grants	\$10,314	\$11,944	\$10,863	-\$1,081	-101,000
<i>Memo: Pell Grant maximum award in dollars</i>	\$4,000	\$4,200	\$3,900	-\$300	N/A
Supplemental Educational Opportunity Grants	\$725	\$774	\$725	-\$49	-83,000
College Work Study	\$1,011	\$1,079	\$1,011	-\$68	-65,000
Perkins Loans	\$168	\$179	\$168	-\$11	-48,000
Leveraging Educational Assistance Partnerships	\$67	\$72	\$0	-\$72	-72,000
Loan Forgiveness for Child Care Providers	\$1,000	\$1,067	\$1,000	-\$67	0
TRIO	\$803	\$856	\$803	-\$54	-55,000
GEAR UP	\$285	\$304	\$285	-\$19	51,000
Byrd Fellowships	\$41	\$44	\$41	-\$3	-2,000
Javits Fellowships	\$10	\$11	\$10	-\$673	0
Graduate Assistance in Areas of National Need	\$31	\$33	\$31	-\$2	-200
Thurgood Marshall Scholarships	\$4	\$4	\$0	-\$4	-400
B.J. Stupak Olympic Scholarships	\$1	\$1	\$0	-\$1	-200
<b>Total</b>	<b>\$13,460</b>	<b>\$15,302</b>	<b>\$13,937</b>	<b>-\$1,365</b>	<b>-375,800</b>

NOTES: Committee staff estimates. FY 2003 current services level for Pell Grants is the Congressional Budget Office estimate of the cost to pay a \$4,200 maximum Pell award - the FY 2002 maximum Pell award level inflated by a projected 4.8% higher education inflation rate for FY 2003. The FY 2003 current services levels for other programs are calculated by multiplying their FY 2002 appropriations by a 4.8% higher education inflation rate and by a 1.8% higher education enrollment growth projection by the National Center for Education Statistics in *Projections of Education Statistics to 2011*. FY 2002 Appropriation column excludes Bush Administration Pell Grant supplemental request of \$1,276,000,000 for shortfalls in the 2001 and 2002 academic years. The FY 2003 Bush budget states that the Pell grant request would support a \$4,000 maximum award; however, the Congressional Budget Office estimates that the Bush FY 2003 budget would support only a \$3,900 maximum award. Calculations of the number of students served are derived from Congressional Budget Office estimates for Pell grants and from estimates of student awards in the *Department of Education FY 2003 Justifications of Appropriations Estimates to the Congress* for the other programs.

**The Bush Budget Cuts Pell Grants, Leaving over 100,000 Low-Income Students Behind.** Pell college scholarships for low-income students are the foundation of federal efforts to ensure that all qualified Americans can attend college. Because of the economic downturn, there has been an unprecedented expansion in the number of students applying for Pell Grants. More temporarily unemployed adults are going back to school and more families are qualifying for need-based financial aid. In the 2001 academic year, over 9.3 million students applied for a Pell Grant — the most ever.

- Last year, Congress insisted that the maximum Pell grant be increased by \$250 to \$4,000 for the 2002 school year. Nevertheless, the purchasing power of Pell grants has eroded to only about half its level 25 years ago (See *infra*, Joint Economic Committee, *A Risky Investment Strategy*, page 34).
- The Congressional Budget Office estimates that \$11.9 billion is needed to support a \$4,200 maximum Pell grant in the 2003 school year, the award level needed just to offset the effects of higher education inflation.
- Another \$723 million (\$12.7 billion in total) is needed to provide an increase in the maximum Pell grant to \$4,400 to keep pace with expected tuition increases.
- However, the Bush Pell grant request of \$10.9 billion is \$1.1 billion below the current services level. Moreover, the Congressional Budget Office estimates that the President's request would actually cut the maximum Pell award to \$3,900. Under the Bush request, about 100,000 fewer low-income students would receive Pell awards than under a current services funding level.
- The President has submitted a supplemental spending request of \$1.3 billion for Pell grants to fund shortfalls for the 2001 and 2002 school years caused by unprecedented applications due to the weak economy. The Administration, however, has asked Congress to rewrite last year's budget to pay for Pell by cutting mentoring, teacher training, rural education, and other K-12 education programs. It would "rob Peter to pay Paul" to address the unexpected increase in low-income student enrollment.

**The Bush Administration Proposed Higher Rates on Student Loans.** In April, the Administration proposed raising \$1.3 billion in revenue by raising interest rates on refinanced student loans. Student debt is skyrocketing as college tuitions rise. Low student interest rates are critical to maintaining college affordability. The Administration's plan would require a student with a \$25,000 loan to pay more than \$6,000 in additional interest over a 15-year term of the loan.



**The Bush Budget Includes No New Funds for Campus-Based Programs, TRIO, and GEAR UP, Leaving 200,000 Low-Income Students Behind.** The Bush FY 2003 budget requests no additional funding to offset inflation or accommodate enrollment growth for the campus-based programs — College Work Study, Supplemental Education Opportunity Grants (SEOG), and Perkins Loans — or for TRIO and GEAR UP.

- In total, the \$3.0 billion budget freeze for these programs is \$201 million below a current services level.
- Under the Bush budget, 200,000 fewer low-income students will receive campus-based aid and college preparation support than under a current services funded budget (Table 5).
- The three campus-based programs help the most needy students overcome financial barriers to enrolling in and graduating from college. Approximately 38 percent of College Work Study recipients report incomes less than \$20,000. Approximately 45 percent of SEOG recipients report incomes below \$12,000. About 41 percent of Perkins Loan recipients report incomes below \$20,000 (U.S. Department of Education FY 2003 Justifications of Appropriations Estimates to the Congress).
- The TRIO program helps first-generation college students succeed in college. Two-thirds of TRIO students come from families with incomes below \$24,000. (Student Aid Alliance, 2002)
- GEAR UP helps disadvantaged middle school students get ready for college by providing counseling, tutoring, mentoring, and scholarships to raise their educational aspirations and assure them that college is both attainable and affordable. GEAR UP projects are targeted to schools in which at least 50 percent of the students are low-income students.

**The Bush Budget Eliminates LEAP, Leaving 72,000 Students Behind.** The Leveraging Educational Assistance Partnerships program (LEAP) encourages states to continue to expand their own need-based student assistance programs and is especially important when states are experiencing budget difficulties. Approximately 62 percent of LEAP recipients report incomes of less than \$20,000. However, the Bush budget proposes to terminate the program in FY 2003, eliminating assistance to 72,000 students compared to a current services level (Table 5).

**The Bush Budget Cuts Other Scholarships.** The Bush budget eliminates scholarship programs targeted to students pursuing legal studies and to Olympic athletes, and includes no additional funding for merit-based and graduate fellowships. In total, these programs are cut \$11 million below the current services level. As a result, approximately 2,800 students would not receive awards (Table 5).

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## **Case Studies: Tuitions Rising in States Across the Nation**

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### **Wisconsin: Students Left in the Lurch as the State Assembly Slashes the University of Wisconsin's Budget**

Thousands of prospective students were left in the lurch on March 8<sup>th</sup> when the University of Wisconsin abruptly halted undergraduate admissions due to uncertainty about whether the University could accommodate additional students next year in the face of severe state budget cuts.

One single mother from Appleton, Wisconsin, with an associates degree who hopes to enroll at the four-year campus in Oshkosh this fall said, "I've proven myself, I have my letters of recommendation; I have my grade-point average. And now they're telling me it's all for nothing. Why am I being punished?" (*New York Times*, March 15, 2002).

State legislators continue to rework the state's previously adopted biennial budget because of a \$1.1 billion budget deficit — the largest in Wisconsin's history. Meanwhile, the University of Wisconsin, which has begun taking applications for admissions again, faces the unwelcome prospect of imposing sharp tuition increases, eliminating 400 to 500 positions, cutting back on enrollment, and scuttling an initiative to recruit more minority students in order to close the budget gap for the upcoming school year.

The University of Wisconsin already has had to cut \$20 million out of its current budget, and is being asked to absorb even deeper reductions next year. While the Governor proposed a \$40 million cut and the state senate proposed a \$20 million cut for the 2002-03 academic year, the state assembly has proposed an even deeper \$108 million cut — about 12.5 percent of the state's allocation to the university.

These budget differences must be resolved over the next few weeks, but either way students at the University's 26 campuses inevitably face tuition increases of 8 to 10 percent this fall. The 28,000 undergraduate students at the flagship Madison,

Wisconsin campus, for example, could face a tuition and fee bill of about \$4,500, an increase of \$700 or 19 percent over two years. Tuition and fee increases for the 2003 school year will be determined next year, but will likely build upon the 2002 school year fee hikes.

### **Ohio: College Students Pay the Price for State Cuts**

Students will pay the price for the higher education cuts in Ohio. The budget gap in Ohio this year is projected at \$725 million and it is expected to grow to nearly \$800 million in 2003. To compensate, the Governor implemented a 6 percent across-the-board budget reduction. Additional cuts are expected for 2003.

Ohio State University's share of the state cuts is \$20 million. In order to address the funding shortfall, the university initially proposed a 35 percent tuition increase for all incoming students. It has decided to phase in the increases over the next three years.

This fall, the 43,000 current Ohio State University undergraduates will pay \$5,217 in tuition and fees, the second consecutive 9 percent increase. Meanwhile, incoming freshman will be charged an additional \$475—an 18 percent increase—for a total of \$5,692 in tuition and fees. And, under the University's plan, students can expect to see at least 9 percent annual increases for the next several years.

Other Ohio universities also plan tuition increases as a result of the state's fiscal squeeze. For example, Ohio University announced that tuition for continuing students will increase by 9.9 percent to \$6,036, while incoming freshman will pay \$6,336, a 15 percent increase. The University of Cincinnati will increase tuition for in-state undergraduates by 9.5 percent to \$6,936.

Ohio students are worried about their ability to pay for their education. A high school senior in Ohio lamented, "My dad just lost his job.... We're applying for scholarships, but that's never enough. [A tuition hike] would affect me a lot." (*Cincinnati Enquirer*, February 3, 2002)

One financial planner cautioned, "It's going to be a struggle for parents, and kids are going to walk away with debt. There's no doubt about it" (*Cincinnati Enquirer*, February 11, 2002).

### **Pennsylvania: State Cuts Force Double-Digit Tuition Increases**

The souring economy has created a \$622 million 2002 budget shortfall for the state of Pennsylvania, causing Governor Mark Schweiker to implement a \$366 million across-the-board reduction in order to close the budget gap. As a result, Pennsylvania students will see double-digit tuition increases next year.

State funding for Penn State University is expected to decrease by 5 percent, from \$335 million in 2001 to \$318 million in 2002 — the second largest cut in the University's history. Penn State University President Graham Spanier explained, "we could not see any tuition increase in the single digits without additional funding from the state" (*Pittsburgh Post-Gazette*, February 27, 2002). One Penn State dean warned, "further cuts could worsen the problem, meaning fewer new faculty, larger class sizes and tuition increases for students" (*The Collegian*, January 14, 2002).

The combination of increased operating costs and declining state funding is forcing Penn State to contemplate tuition increases of as much as 14 percent for the upcoming academic year. More than 40,000 students are enrolled in the university. Freshman undergraduates who enrolled at Penn State in 2000 paid \$6,852 in tuition and fees that year and \$7,396 in 2001. If tuition and fees were to increase by 14 percent in 2002, their tuition charges would climb to \$8,431 — a \$1,579 or 23 percent increase over two years.

Tuition and fee increases for 2003 have yet to be determined. However, it is likely that tuition for the 2003 academic year will build upon previous tuition hikes.

The deep cut in state subsidies is expected to generate a 13 percent tuition hike for the 99,000 students enrolled in the 14 universities that make up the Pennsylvania state system of higher education — each student would pay about \$500 more per year. Moreover, students at Temple University and Lincoln University may see increases of about 10 percent, which would mean paying about \$700 and \$600 more per year, respectively, at each institution.

### **Iowa: Mid-Year Cuts and Stiff Tuition Increases**

Iowa is experiencing the lowest revenue growth in 50 years. Iowa's universities and other state agencies implemented three waves of budget cuts during the current fiscal year as the state wrestled with a \$200 million budget shortfall. The Governor's revised fiscal year 2003 budget would have addressed the immediate needs of Regents' universities, while maintaining support for community colleges and tuition

grants. However, the Iowa Legislature has proposed additional cuts in state support of higher education for fiscal year 2003.

Iowa's Regents' universities —the University of Iowa, Iowa State University, and the University of Northern Iowa—were hit by cuts totaling almost \$81 million or about 12 percent of their state appropriations in fiscal year 2002. To put that into perspective, the reduction was the equivalent of the entire state appropriation for the University of Northern Iowa.

Looking at this bleak picture, the Iowa State University student government president lamented, "If the water gets any deeper, we're drowning" (*Daily Iowan*, March 1, 2002).

The state budget cuts have been steep and painful, particularly because they occurred mid-year. One college official noted, "Any cut at this time of the year will be very, very bad . . . There is nothing left through attrition to cut" (*Daily Iowan*, February 26, 2002). The Regents' universities have attempted to protect the quality of educational programs, but have been forced to make difficult decisions to limit course offerings, reduce financial aid and close and consolidated academic programs.

For the 2002-2003 academic year, the Iowa Board of Regents has approved an 18.5 percent tuition increase for the flagship universities. In all, over 55,000 undergraduates will pay the tuition hike next fall. A freshman undergraduate at the University of Iowa who enrolled two years ago paid tuition and required fees of \$3,204 in 2000 and \$3,522 in 2001, but will pay \$4,191 in 2002 — a two-year increase of \$987 or 31 percent. Tuition rates for the 2003-2004 academic year have not yet been set, but additional increases could be considered by November.

Iowa's community colleges are experiencing similar pressures. State aid for general operating expenses have been cut by \$9 million from one year ago, a reduction of roughly 7 percent. On average, tuitions rose 13 percent over the past year. As a result in the current academic year, revenues from tuition are expected to exceed state aid for the first time.

### **California: Budget Cuts Could Deny Students Access to Higher Education**

As a result of the worst one-year decline in state revenue since World War II, California's colleges and universities slashed current academic year budgets twice this year to generate their share of an approximate \$3 billion cut from California state agencies. They may face additional reductions as the state legislature works to close

a budget shortfall that the State Legislative Analyst says could reach \$17.5 billion in 2002-2003.

California's dire financial condition could force state legislators to consider increasing in-state fees at the University of California and California State University, a proposal suggested by the State Legislative Analyst, but shunned by many state legislators. Such increases are not included in the Governor's budget proposals. Non-resident students are more likely to see stiff tuition increases. California State University, for example, has proposed to increase non-resident tuition this fall by 12 percent from \$9,256 to \$10,336.

While the Governor has proposed \$261 million in 2002-2003 to accommodate additional enrollment at the University of California, California State University and the California Communities Colleges, the ability of these campuses to handle an influx of new students will be sorely tested.

One example is the Los Angeles Community College District (LACCD). The LACCD, comprised of nine community colleges, faces significant financial challenges. It may have to turn away 10,000 to 17,000 students — 7 to 12 percent of current enrollments — because of inadequate funding to hire the necessary faculty to teach courses. In response to the dire budget situation, the LACCD Chancellor noted, "We're really at the end of our rope" (*Los Angeles Times*, March 17, 2002).

### **Massachusetts: Budget Crunch Puts State Universities on the "Bleeding Edge, Not the Leading Edge"**

Double-digit fee increases are on the table for Massachusetts' public college students, as the state's universities scramble to adjust to the state budget crunch. Plummeting revenues could lead to a 2003 state budget deficit as high as \$3 billion.

University of Massachusetts (UMass) officials already have had to shave \$25 million from this year's operating budget. At the state's flagship campus at Amherst, the university shut down seven of its varsity sports teams, closed academic departments, eliminated the child care center, and downsized campus security in order to come up with its \$10 million share of the cuts. Plans to build a separate campus are in limbo. One U Mass faculty member decried, "We can't become a national research university with this terrible budget — cut after cut puts us on the bleeding edge, not the leading edge" (*Boston Globe*, March 17, 2002).

In January, Governor Jane Swift called for additional higher education cuts of \$14 million in 2002-2003, of which \$3.5 million is proposed for the university system.



The Governor's plan also calls for an 8 percent cut for state colleges and a 7 percent cut for the community colleges.

In February, the University of Massachusetts board of trustees voted to raise student fees at four campuses. Fees will increase at the Amherst, Lowell, Boston and Dartmouth campuses by 13 percent, 13 percent, 14 percent, and 24 percent respectively.

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## **Conclusion: A Greater Federal Investment Is Needed**

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Although the economy now shows promising signs of recovery, the recession has left a bitter legacy: the worst state budget crunch in a decade. Forty states have been forced to cut a combined \$5.5 billion from their higher education budgets. Students can expect double-digit tuition increases this fall—increases that could lead an estimated 110,000 students to give up on college altogether.

In the coming months, Congress will face a choice. It can provide additional resources for student aid to keep college affordable for low-income students facing double-digit tuition increases. Or it can turn their back on this challenge, as the Bush Administration's budget does, and let the power of student aid programs erode.

More and more, education beyond high school is critical to America's lifelong economic security. Congress' decision will have long-lasting impact on the lives of hundreds of thousands of Americans.

# **A RISKY INVESTMENT STRATEGY**

## ***Recent Trends in Federal Financial Aid Policy Do Not Meet the Needs of Low-Income Students***

**Joint Economic Committee, Democratic Staff**

Since the passage of the GI Bill in 1944, which allowed thousands of returning veterans to attend college, the federal government has made a significant investment in higher education – primarily through the provision of direct financial aid to students. In the 2000 – 2001 school year, the federal government dispensed \$50 billion in aid. As a nation, we have reaped the rewards of this investment: a highly skilled workforce; enhanced productivity and economic growth; and higher wages for college graduates.

Over the last fifty years, the number of students pursuing postsecondary education has grown seven-fold to almost 15 million.<sup>1</sup> The demand for highly educated and skilled workers will only continue to grow in the future. Most of the fast growing professions – such as health care and computer science – require at least a bachelor's degree. Jobs that require some type of postsecondary certification (a vocational award or higher) are expected to have faster-than-average employment growth in the coming decade and account for about 42 percent of total job growth from 2000 to 2010.<sup>2</sup>

Recent economic and financial aid policy trends, however, may keep many young people from being able to pursue higher education at a time when the nation most needs it. The problem is particularly acute for low-income students. Since the early 1970's, average tuition and fees at four-year public universities have more than doubled (in constant 2000 dollars).<sup>3</sup> For households making \$25,000 a year, annual tuition and living expenses at a public university would consume almost half of their annual income. These prohibitive costs are part of the reason that low-income high school graduates enroll in college at a consistently lower rate than their higher-income peers.

Federal financial aid has not kept pace with rising costs. The Higher Education Act of 1965 outlined a federal commitment to give equal access to college for all students. It created the programs that have become the cornerstone of federal assistance – need-based aid, guaranteed student loans and work-study. Traditionally,

this aid has been targeted toward the most risk-averse and cash constrained students. However, recent policy decisions have devoted a growing share of federal financial aid resources to middle- and upper-income students, primarily through the growth of the student loan program, tax credits and other tax incentives. At the same time, Pell Grants for low-income students have declined in purchasing power over the last 25 years.

To meet the future demands of our increasingly technological and skill-based labor market, we need to continue to invest in higher education and increase the number of people with access to postsecondary education and training. Federal financial assistance for students who already have sufficient resources to afford college does little to increase the number of highly educated workers. The most efficient and effective use of federal dollars would be to concentrate them on those students who cannot otherwise afford postsecondary education.

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## I. Investing in Higher Education

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Federal investment in higher education generates economic benefits in several ways:

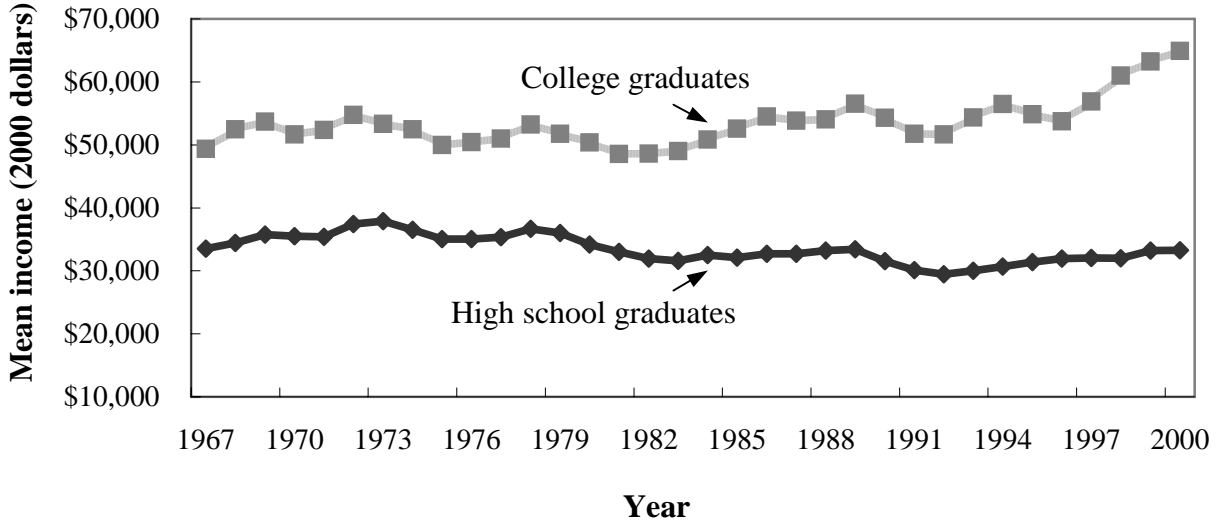
- **Meeting the Demand for a Highly Skilled Workforce.** More and more jobs in our economy require technological or specialized training. The need for workers with postsecondary training is expected to increase at a faster rate than the need for low-skill workers in the coming decade. According to estimates by the Bureau of Labor Statistics, almost a third of the growth in employment from 2000 to 2010 is expected to occur in occupations that require at least a bachelor's degree. Two of the fastest growing fields – computer science and health care – require at least a college education. Another 13 percent of job growth is expected to occur in fields that require an associate's degree or postsecondary vocational training, such as medical assistants and computer support specialists. These high-skill jobs also typically pay wages significantly above the average for all workers. Low-skill jobs are predicted to account for a larger share of employment growth. But most of these positions, such as food preparation, pay very low wages.<sup>4</sup>
- **Enhancing Productivity.** A key to long-term economic growth is an increasingly productive labor force. Workers become more productive both by having new and better equipment with which to work, and by acquiring new skills and knowledge. Improvements in labor force skills and “improvements in knowledge” account for a significant part of economic growth. Several researchers conclude that education alone accounts for about 15 to 20 percent of

the growth in national income, with about a quarter of that stemming from higher education.<sup>5</sup>

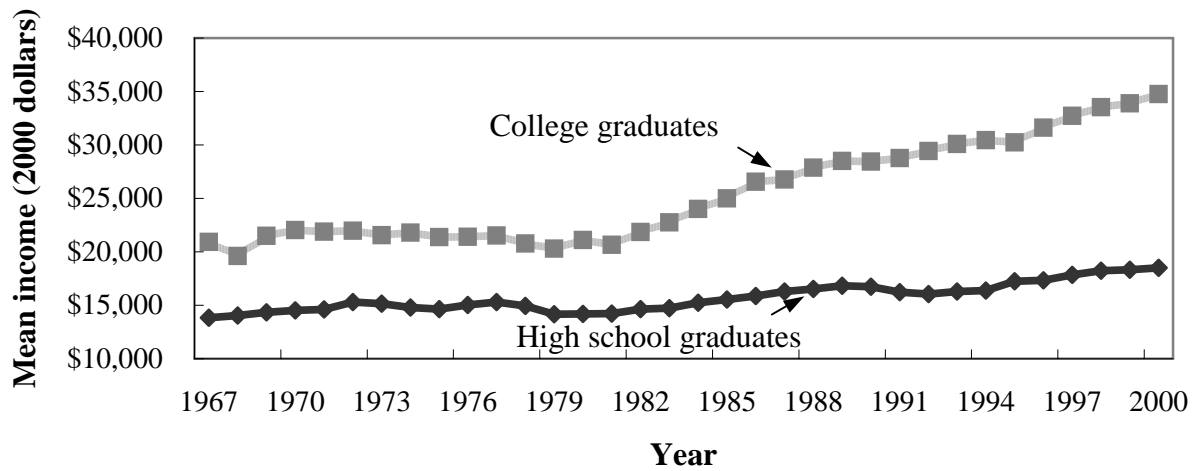
- **Expanding the Labor Force.** Individuals with higher levels of education are more likely to be in the labor force. About 80 percent of adults with a bachelor's degree or higher were labor force participants in 2000. However, less than half of adults without a high school diploma were working or actively seeking work.<sup>6</sup> College educated workers are also less likely to be unemployed. In 2000, the unemployment rate for workers with a bachelor's degree was only 1.8 percent, according to the Bureau of Labor Statistics. High school graduates, however, had an unemployment rate that was almost twice as high. This holds true even during a recession. During the 1990 – 1991 recession, the March 1991 unemployment rate for high school graduates (6.7 percent) was more than twice as high as that of college graduates (2.9 percent).
- **Increasing Wages.** College graduates have always earned more, on average, than those with less education. Since the 1980s, however, college graduates have experienced a much faster growth in average income than high school graduates. The gap widened during the economic boom of the 1990s. In 2000, the average income for a man with a college education was almost double that of a man with a high school diploma. Women with a college education had an average income that was almost 90 percent greater than women with a high school degree (see Graph 1). With higher wages, families have less need for social services and more disposable income to increase consumption.

# Graph 1

## Mean Income by Education Level for Men, 1967 - 2000 (2000 dollars)



## Mean Income by Education Level for Women, 1967 - 2000 (2000 dollars)

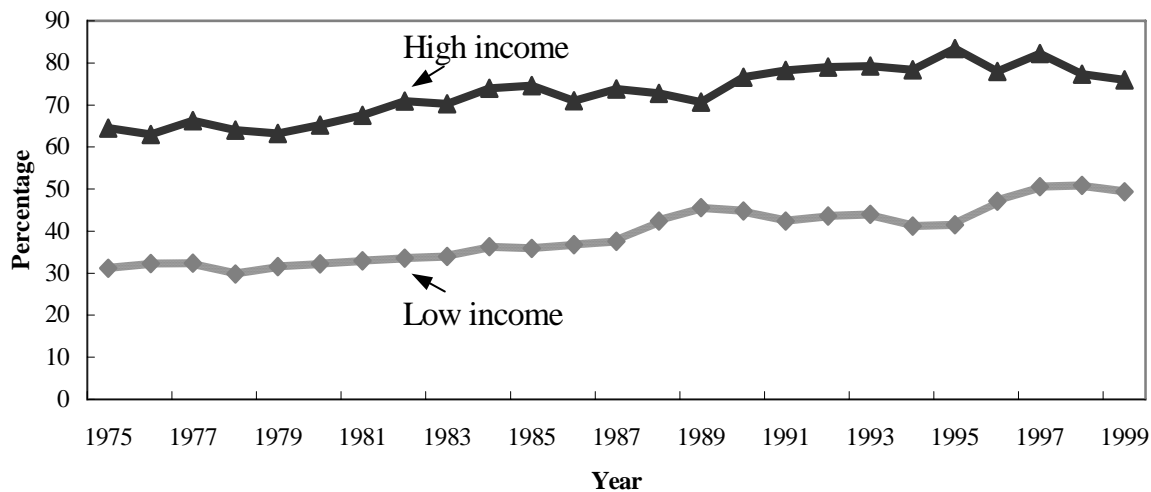


Source: Bureau of the Census, U.S. Department of Commerce

## Inequities Persist

Despite the availability of federal student aid, there is still a persistent income gap in college attendance and completion. Low-income students are less likely to enroll and stay in college than high-income students. Every year for the last 25 years, less than half of high school graduates from families in the lowest income quintile proceed to college directly compared with more than three-quarters of students in the highest income quintile (See Graph 2).

**Graph 2. Percentage of High School Graduates Enrolled in College by October after Completing High School 1975 - 1999**



Source: U.S. Department of Education, *The Condition of Education*, 2001.

In the 1999 – 2000 academic year, only 6.5 percent of financially dependent undergraduates came from families with incomes less than \$20,000. Compared to higher income students, they were more likely to be members of a minority group and have parents with only a high school education or less.<sup>7</sup>

Lack of adequate academic preparation appears to account for only a portion of this difference in enrollment. Students from low-income families are more likely to attend lower-quality public schools and may not be as well prepared to enter college. But even when we look at those with adequate preparation, the gap persists. A study of academically qualified 1992 high school graduates found that only about half of



the students from families who made less than \$25,000 a year (1992 dollars) enrolled in a four-year college, compared with more than 80 percent of students from families that made \$75,000 or more (1992 dollars). If we narrow our focus to the most academically prepared students – who would likely have the greatest motivation to go to college – the income gap is just as large. Among students with the highest standardized test scores, only 58 percent of students from families in the lowest income quartile enrolled in college within two years compared with 86 percent of students from families in the highest income quartile.<sup>8</sup>

Despite the clear advantages to both the individual and society, some academically prepared students may not pursue higher education because of the high cost. Given the higher average wages for college graduates, students without enough cash on hand should be able to borrow against future earnings. But evidence suggests that students are much more sensitive to the high direct costs of going to college than the prospect of future income.<sup>9</sup> A high degree of uncertainty surrounds the investment in higher education. There is no guarantee that students will complete their degrees. There is no guarantee of their future salary level. This uncertainty can make individuals less willing to take out loans. This is particularly true for low-income and minority students who may be more financially risk-averse than their wealthier peers.

Without a well-educated workforce, productivity and the economy could suffer. The federal government intervenes in the form of grants and guaranteed loans to help lower the cost of education and provide the means for people to pursue a college degree.

### **The Rising Cost of a College Education**

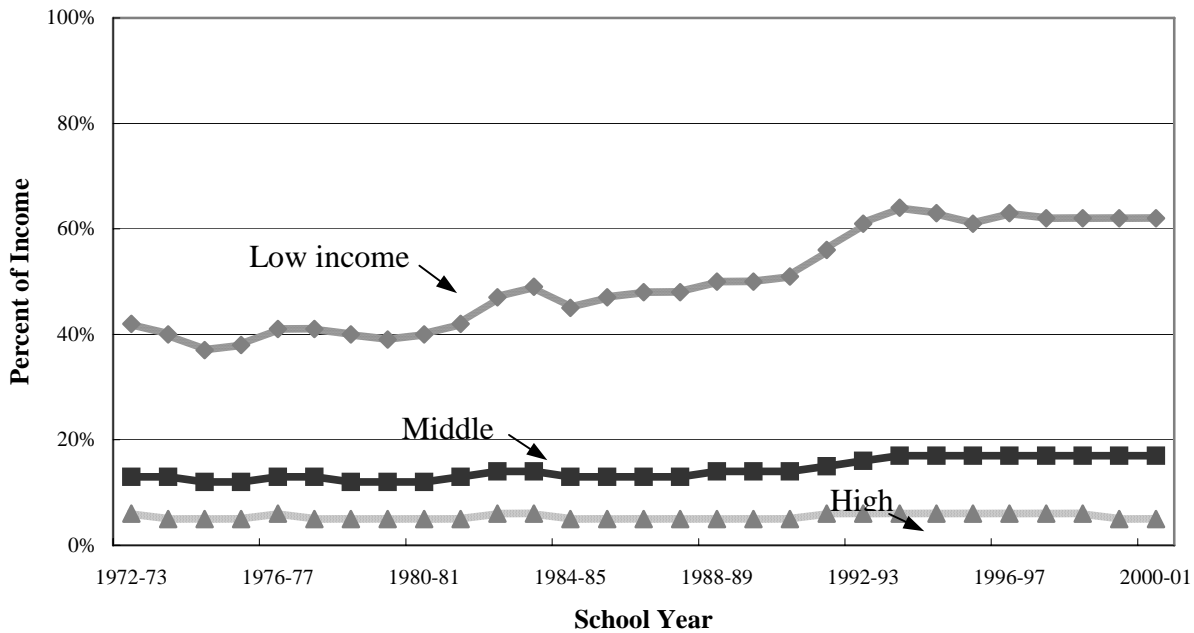
Low-income families have been hardest hit by the skyrocketing increases in college tuition over the last twenty years. Since the 1980s, average tuition has risen at twice the rate of inflation. For families in the top income quintile, the cost of college has remained steady at five to six percent of income because those families enjoyed rapid income growth over the same period.

But for families in the lowest income quintile, who earned an average of \$10,190 in 2000, the cost of college as a percentage of income has risen dramatically. In 2000–2001, the average public university cost would have consumed about 62 percent of income for these families. Adding books, transportation and other

expenses pushes the in-state cost of one year at a four-year public university even higher. The full cost is more than the mean income of families in the lowest income quintile and almost half the income of families in the next quintile. The cost of a private university was even more staggering — 166 percent of income.<sup>10</sup>

The situation is poised to become worse in the coming academic year. Historically, public university tuition increases are counter-cyclical — increasing when unemployment rates are rising.<sup>11</sup> With the recent economic downturn, several states have already announced double-digit increases in tuition. In Washington, the legislature is considering a 16 percent increase in in-state tuition to make up for a \$54 million cut in state university budgets. The University of Kansas may double the price of tuition over the next five years. To meet these costs, lower income students need substantial financial aid.

### Cost of Attendance at a Public University as a Percentage of Income, 1972 - 2000



SOURCE: College Board, *Trends in College Pricing*, 2000.

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## II. Financial Aid Trends

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The federal government is by far the largest provider of direct financial aid to students enrolled in postsecondary education and training. In the 2000 - 2001 school year, almost 70 percent of all direct student aid – about \$50 billion – came from federal sources. The amount of federal dollars devoted to student aid has grown by more than 80 percent over the last decade. In addition to direct aid, the government also provides funding to universities and colleges to help make college more affordable.<sup>12</sup>

Federal financial aid policy has gradually been moving away from its primary focus and commitment to helping the most financially needy students afford a college education. The share of federal need-based aid has dropped from 80 to 60 percent of all federal student aid over the last twenty years.<sup>13</sup> Policy decisions about how much aid to offer and how to deliver the aid to students has meant that a much greater share of financial aid dollars is going to middle- and upper-income students.

Unsubsidized student loans, tax credits and other tax incentives have replaced grants as the primary vehicle for delivering federal financial aid. None is efficient at targeting low-income students. Loans are not an appealing option to low-income students who are likely to be financially risk-averse. Students cannot take advantage of non-refundable tax credits or deductions if they do not have any income tax liability. Tax-advantaged college savings accounts offer little help to families with limited disposable income.

### **Shift to Loans**

Over the last twenty years, federal financial aid has shifted from a system based predominantly on grants to one based on loans. In 2000, roughly two-thirds of federal student aid was in the form of loans.<sup>14</sup> Twenty years ago, however, loans made up only about 40 percent of federal aid to students. Over the last decade, the amount of loan aid has increased by more than 135 percent.<sup>15</sup>

Loan aid has increased primarily due to the creation of unsubsidized Stafford loans in 1992. Unlike subsidized loans aimed at lower-income students, these loans are open to all students regardless of income. At the same time, Congress increased the maximum loan amount. Today, almost half of all federal education loans — \$18 billion in 2001 — are unsubsidized loans to students or parents. The majority of these federal aid dollars are going to middle- and upper-income students. In 1999,

more than 80 percent of unsubsidized loans were to students with family incomes greater than \$40,000.

While the creation of unsubsidized loans has helped middle- and upper-income students with college costs, the availability of loans is less likely to induce students from low-income families to enroll in higher education. Most of these students cannot rely on their parents to help them financially either during or after college. A great many of them may be the first generation in their family to go to college. Low-income and minority students may have a greater level of uncertainty about their future earnings and they are more likely to be financially risk-averse. As a result, the availability of funds for school in the form of loans is not sufficient to make them think seriously about pursuing postsecondary education and training. Grants do not carry the same sort of financial risk for the student. Low-income and minority students are more likely to respond to grant aid rather than loans.<sup>16</sup>

### **Shift to Tax Credits and Deductions**

With the introduction of the HOPE and Lifetime Learning credits in 1997, more financial aid is being delivered through the tax code. The Economic Growth and Tax Relief Reconciliation Act of 2001 expanded existing tax incentives, such as eliminating the federal income tax on withdrawals from state college tuition savings plans. It also created an above-the-line deduction for higher education expenses. [See box for descriptions of tax credits and incentives.] (The Act also included other higher education tax incentives – such as student loan deductions and loan forgiveness. This paper concentrates on tax provisions designed to help students pay tuition while they are in school.) Overall, the Joint Committee on Taxation estimates that these higher education tax credits and deductions will cost \$8 billion in FY 2002.<sup>17</sup>

#### ***Tax Credits and Tax Deductions***

*A tax credit* is used to reduce an individual's income tax liability. The recipient generally must complete an income tax return to get the credit. If the credit is refundable, amounts in excess of a filer's tax liability are paid to the individual. The value of a tax credit is the same for all income levels.

*A tax deduction* reduces an individual's taxable income. Unlike a tax credit, a tax deduction increases in value for filers in higher tax brackets.

While tax credits, deductions and incentives help ease the financial burden of college for middle- and upper- income students, they have almost no impact on low-income students. For the most part, financial assistance delivered through the tax code is

inaccessible to low-income students, it does not meet their funding needs and it does not offer them the same amount of benefits as it does for higher-income students.

**Financial aid delivered through the tax system is relatively inaccessible to low-income students for several reasons:**

- **In order to claim one of the tax credits or the deduction, families must have income tax liability.** Students from families with incomes too low to incur taxes are not able to get any benefits. Families with low tax liability (less than the maximum amount of the credit) will have the value of the credit reduced so it does not exceed their tax liability. This means that the poorest students are ineligible for the HOPE and Lifetime Learning credits and the higher education deduction. Income tax data from 1999 show that less than 20 percent of filers who claimed a HOPE or Lifetime Learning credit had incomes below \$20,000 while almost 40 percent had incomes between \$50,000 – \$100,000.<sup>18</sup>

If existing higher education tax credits were made refundable, they would be more accessible to low-income students. With a refundable credit, students with no tax liability would be eligible for the credit and students with low tax liability would not have their credit reduced. However, students would still have to file a federal income tax return – even if they do not owe income taxes – in order to get the credit. This step adds another layer of complexity to the federal financial aid process.

- **Low-income families are less likely to have sufficient disposable income to take advantage of the new tax incentives for savings.** The new tax changes raise the contribution limit on Coverdell accounts from \$500 to \$2,000 annually. Families can also now make contributions to both a Coverdell account and a state tuition savings plan in the same year. These changes may increase the amount of saving in middle- and upper-income families. However, low-income families are much less likely to have the funds necessary to make these investments over time so they cannot reap any benefits from these tax incentives.

**Tax incentives deliver the greatest benefits to those with the highest incomes:**

- **The amount of the credit or deduction is reduced by other financial assistance.** The credits or deduction can only be applied toward money spent by the student on tuition and fees. Any scholarship or grant funds reduce the amount of award. To receive the maximum credit, students must have at least

\$2,000 in tuition and fees. As a result, low-income students who receive a Pell Grant or attend a lower cost college are probably not eligible for the maximum credit or deduction. In 1999, income tax data show that the average amount received by high-income filers who claimed a HOPE or Lifetime Learning Credit was almost twice as much as the average for the lowest-income filers who received a credit.<sup>19</sup>

- **The value of a tax deduction increases with income.** Families in higher tax brackets get a larger benefit from the higher education tax deduction than those in lower tax brackets. For example, a family in the 15 percent tax bracket would save \$15 by deducting \$100 in qualified higher education expenses. A family in the 27 percent bracket would save \$27. Families with no income tax liability would not be able to take the deduction at all.<sup>20</sup> This means that tax deductions disproportionately help the highest income students.

#### **Tax credits do not help meet the cash flow constraints of low-income students:**

- **Tax credits and deductions do little to help low-income students pay the tuition bill when it is due.** Families do not receive the benefits of a tax credit or deduction until they file their tax return – which is likely to be several months after they have paid the tuition bill. A tax credit or deduction does not help lower income families who must struggle to come up with the funds in September and January to pay tuition costs.
- **The value of the credit is not clear in advance.** The value of the education tax credits is calculated as a fraction of funds spent and taxable income. Students, therefore, do not know exactly how much they will receive until after their tuition dollars are spent. This uncertainty makes it difficult for students to rely on tax credits as a steady source of funding, so credits may have little impact on their assessment of the affordability of college.
- **Tax credits do not cover living expenses.** Even if low-income students can lower their tuition costs with grants or by attending a less expensive school, they are still faced with the reality of living expenses. Based on a survey of college students, the College Board estimates the living expenses of an in-state public university student to be more than \$8,000 annually.<sup>21</sup> In many cases, these costs exceed the price of tuition. Neither the education tax credits nor the higher education deduction can be used for these costs.

## Higher Education Tax Credits and Deductions

Below is a brief description of existing higher education tax credits and deductions, including changes and additions as a result of The Economic Growth and Tax Relief Reconciliation Act of 2001. The Act also included other higher education tax incentives — such as student loan deductions and loan forgiveness. This paper concentrates on tax provisions designed to help students pay tuition while in school.

### **Tax Credits and Deductions:**<sup>22</sup>

#### ***HOPE Scholarship and Lifetime Learning Tax Credits***

The HOPE and Lifetime Learning tax credits were introduced as part of the Taxpayer Relief Act of 1997. The HOPE credit is for undergraduates in their first two years of postsecondary education. In 2001, the maximum credit was \$1,500: 100 percent of the first \$1,000 of qualified tuition and fees and half of the next \$1,000. As of 2002, the maximum credit will be indexed to inflation. Students enrolled in any year of postsecondary education can claim the Lifetime Learning credit. The maximum credit is \$2,000 — 20 percent of the first \$10,000 of qualified expenses. Only one credit can be claimed per student in any tax year.

Both credits are non-refundable so a student must have income tax liability to claim them and the amount of the credit cannot exceed the filer's tax liability. They are targeted to lower- and middle-income students. Both credits phase out between \$40,000 and \$50,000 for single filers and between \$80,000 and \$100,000 for joint filers. (These income thresholds will be indexed to inflation as of 2002.) The credit can be used for tuition and required fees. The amount of qualified expenses is reduced by scholarships, Pell Grants, veteran's educational benefits or employer-provided tuition reimbursements. The Joint Committee on Taxation estimates that these two credits will cost \$4.3 billion in FY 2002.

#### ***Higher Education Deduction***

The Higher Education Deduction was enacted through the Economic Growth and Tax Relief Reconciliation Act of 2001. This is an above-the-line deduction that reduces the taxpayer's adjusted gross income. The deduction has higher income limits than the education tax credits. In 2002 and 2003, individuals with modified adjusted gross income of up to \$65,000 and joint filers up to \$130,000 can take a maximum deduction per return of \$3,000.

In 2004 and 2005, the maximum deduction rises to \$4,000 with the same income limits. In addition, individuals with modified gross income of more than \$65,000 but less than \$80,000 and joint filers with modified gross income of more than \$130,000 but less than \$160,000 will be eligible for a \$2,000 deduction. The deduction can be used for tuition and fees in any year of postsecondary education. It is set to expire on January 1, 2006. The Joint Committee on Taxation estimates the deduction will cost \$1.5 billion in FY 2002.

### **Tax-Advantaged Savings Accounts:**

#### ***Coverdell Education Savings Accounts***<sup>23</sup>

Formerly known as education IRAs, Coverdell education savings accounts are tax-advantaged personal investment accounts for education expenses (including tuition, room and board and books). Contributions to an account are not deductible, but distributions are not taxed. The Economic Growth and Tax Relief Reconciliation Act of 2001 made several changes to current law that became effective on January 1, 2002. Coverdell accounts can now be used for any year of education – kindergarten through college. The annual contribution limit per beneficiary has been raised to \$2,000. This maximum contribution amount phases out for individuals with modified adjusted gross income between \$95,000 and \$110,000 and for joint filers between \$190,000 and \$220,000. Students can get a Coverdell distribution and claim a HOPE or Lifetime Learning credit in the same year but not for the same expenses. Contributions can be made to a Coverdell account and a qualified tuition savings plan in the same year. Taxpayers cannot take the higher education deduction for expenses paid for with funds from a Coverdell. Funds from a traditional or Roth IRA can be used for qualified higher education expenses without having to pay a penalty for early withdrawal. The funds are taxed as income however. The Joint Committee on Taxation estimates the exclusion of earnings for donations to Coverdell accounts will cost \$300 million in FY 2002.

#### ***Qualified Tuition Savings Plans***<sup>24</sup>

There are two types of qualified tuition savings plans (QTPs). In a *prepaid tuition plan* individuals purchase tuition credits at current prices at eligible postsecondary schools. *College savings plans* are state-sponsored investment accounts that can be used for any institution of higher education. QTPs are state-run so there is considerable variation from state to state. About 22 states have prepaid tuition plans and 46 states have college savings plans. The Economic Growth and Tax Relief



Reconciliation Act of 2001 allows private institutions to establish prepaid tuition plans.

In most states, there is no income limit for contributors. Earnings accumulate tax-free and, as of January 1, 2002, there is no federal income tax on withdrawals from state-sponsored QTPs. The funds can be used for qualified higher education expenses which include tuition, fees, books, supplies, and equipment required for enrollment or attendance, and reasonable costs for room and board for students attending at least half-time.

Contributors can establish accounts for the same student in several states. Contributions can be made to a Coverdell account and a QTP in the same year. A HOPE or Lifetime Learning credit can be claimed in the same year as a withdrawal from a QTP but they cannot be used for the same expenses. Taxpayers cannot take the higher education deduction for any expenses paid with funds from a QTP withdrawal.

Distributions from a prepaid tuition plan reduce the student's cost of attendance in the calculations for federal financial aid. However, assets in a college saving plan owned by someone other than the student's parent (e.g., grandparent) are not reported on the FAFSA.

Changes in federal tax treatment of QTPs that were the result of The Economic Growth and Tax Relief Reconciliation Act of 2001 are slated to sunset on December 31, 2010. The Joint Committee on Taxation estimates the exclusion of earnings on contributions to QTPs will cost \$50 million in FY 2003, but that the cost will reach over \$250 million by FY 2010.

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### **III. Declining Grant Aid**

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#### **Declining Purchasing Power of the Pell Grant**

The Pell Grant program is designed to target the lowest-income students with grants that can be used toward tuition and living expenses. While this is an efficient mechanism for targeting appropriate aid to poor students, the size of the grant has not kept pace with rising costs.

Pell Grants were authorized by Congress in 1972 to provide financial assistance to the neediest undergraduates. Measured in constant dollars, the maximum and minimum awards have declined since mid-1970's.

In the 1975– 1976 school year, about 1.2 million students received a Pell Grant. The maximum award was \$4,484 and the average award was \$2,436 (both in 2000 dollars).<sup>25</sup> The maximum Pell Grant covered about 84 percent of the average tuition, room and board of a public four-year university.<sup>26</sup>

For the 2001 - 2002 school year, about 9.4 million students applied for a Pell Grant, an increase of 9.8 percent over the previous year and significantly higher than the five-year average growth of 1.1 percent per year. 4.3 million students received a grant. The maximum award was \$3,750 and the average award was \$2,299.<sup>27</sup> The maximum Pell Grant covered about 42 percent of a student's educational expenses at a public, four-year university.<sup>28</sup>

This represents a 50 percent decline in the purchasing power of a Pell Grant since 1975. Low-income students now must make up more of the difference in college costs with loans. Close to 90 percent of Pell Grant recipients who graduated from college in 1996 had borrowed a student loan, while less than 45 percent of all graduating students had loan debt.<sup>29</sup>

## **State Grants**

At the state level, the majority of student financial aid is need-based, but the share of merit aid is rising. The amount of money devoted to merit aid has grown by over 300 percent since the early 1980's. Need-based aid has grown by 88 percent over the same period.<sup>30</sup> In 2000 – 2001, 24 percent of state aid was not need-based, compared with 15 percent in 1995 – 1996.<sup>31</sup>

In 1972, Congress established a program that is now called the Leveraging Educational Assistance Partnership (LEAP) to encourage states to set up need-based grant and work-study aid programs. States are awarded funds through a formula and they must match federal funds dollar-for-dollar. In 1999 – 2000, more than \$900 million in need-based aid was awarded in addition to the \$25 million in federal funds appropriated for the program. Almost half of the dependent undergraduates who received LEAP funds came from families with incomes of \$20,000 or less.<sup>32</sup>

When the program was first started, only half the states had a need-based grant program. Today, all fifty states and the District of Columbia offer need-based grants

and work-study aid. However, the President’s fiscal year 2003 budget did not request any funds for this program.

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## IV. Not Meeting the Need

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These shifts in the amount and type of aid available mean that low-income students are coming up short in trying to pay their tuition bill and living expenses.

An analysis by the Department of Education of students in the 1995 – 1996 school year found that the unmet need of dependent students in the lowest income quartile far exceeded that of those students from high-income families. Unmet need is calculated as the cost of tuition and expenses minus financial aid and the expected family contribution. The unmet need of low-income dependent students at a public university is almost 10 times greater than that of students in high-income families.

<b>Financial Aid Falls Far Short of Need</b>	
<u>Family Income Quartile</u>	<u>Unmet Need, 1995-96</u> <u>(1995\$)</u>
<u>Public 2-Year College</u>	
<b>Lowest quartile</b>	<b>\$3,200</b>
Second quartile	\$2,700
Highest quartile	\$ 100
<u>Public 4-Year College</u>	
<b>Lowest quartile</b>	<b>\$3,800</b>
Second quartile	\$3,000
Highest quartile	\$ 400
<u>Private 4-Year College</u>	
<b>Lowest quartile</b>	<b>\$6,200</b>
Second quartile	\$4,900
Highest quartile	\$3,000

SOURCE: U.S. Department of Education, *College Access and Affordability*, 1999

Two-year community colleges are often seen as a more affordable option for low-income students. But while the overall tuition cost may be lower, the out of pocket cost to the low-income student appears to nearly as high as that of a four-year college. It is unclear exactly how low-income students cover their unmet need — most likely through a combination of work and parental loans.<sup>33</sup>

## Looking Ahead

These challenges are likely to become more acute in the coming years. The demand for postsecondary training will increase – as will the demand for financial aid. By the end of this decade, the number of high school graduates will top three million. A large share of these students will want to continue their education. The Department of Education expects college enrollment to jump to 17.7 million students by 2011 — a 20 percent increase over current levels.<sup>34</sup> At the same time, members of the baby boom generation will be retiring and our labor force will need an influx of educated and skilled workers.

A large share of these students will likely be from low-income families. Analysts from the Educational Testing Service have estimated that 80 percent of the increase in new students between 1995 and 2015 will be minorities.<sup>35</sup> It is difficult to predict accurately how many of these new students will come from low-income families. But given the strong correlation between ethnicity and income, we can expect that more low-income students will be applying to college and they will need significant financial assistance.

Despite the increasing demand for highly educated workers, our federal financial aid policy is shifting away from need-based grants to loans, tax credits and other tax incentives. Students from low-income families are less able to access these forms of aid and they do not provide adequate or appropriate assistance. Federal policies that provide sufficient support for need-based grant aid are most likely to induce and enable more low-income students to enroll in college and acquire the skills they need for the future.

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<sup>1</sup> *Digest of Education Statistics 2001*. United States Department of Education. National Center for Education Statistics. 2002. NCES 2002 – 130. Table 172, page 206.

<sup>2</sup> “Occupational Employment Projections to 2010.” Daniel E. Hecker. *Monthly Labor Review*, November 2001.

<sup>3</sup> All figures in this report are in 2000\$ unless otherwise noted.

<sup>4</sup> “Occupational Employment Projections to 2010.” Daniel E. Hecker. *Monthly Labor Review*, November 2001.

<sup>5</sup> *The Economic Value of Higher Education*. Larry L. Leslie and Paul T. Brinkman. 1988. New York: American Council on Education and Macmillan Publishing Company.

<sup>6</sup> *Digest of Education Statistics 2001*. United States Department of Education. National Center for Education Statistics. NCES 2002 – 130. Page 443.

<sup>7</sup> *National Postsecondary Student Aid Study: Student Financial Aid Estimates for 1999-2000*. United States Department of Education. National Center for Education Statistics. NCES 2001-209. July 2001.

<sup>8</sup> *College Access and Affordability: Findings from The Condition of Education 1998*. Susan P. Choy. January 1999. The United States Department of Education. NCES 1999-108.

<sup>9</sup> “Rising Public College Tuition and College Entry: How Well Do Public Subsidies Promote Access to College?” Thomas J. Kane. July 1995. National Bureau of Economic Research Working Paper Series. Working paper 5164.

<sup>10</sup> In 2000, the mean income of households in the lowest income quintile was \$10,190 and \$25,334 for the second lowest quartile. The average tuition for a public university was \$3,754. Data from the Annual Survey of Colleges found that the average annual expenses for a student living on campus was \$8,200. This brings the total cost of one year of public in-state college to \$11,954. This is 117% of the mean income for the lowest quartile and 47% of the mean income for the second lowest quartile.

<sup>11</sup> “College Entry by Blacks since 1970: The Role of College Costs, Family Background and the Returns to Education.” Thomas J. Kane. *The Journal of Political Economy*, Volume 102, Issue 5, October 1994.

<sup>12</sup> *Trends in Student Aid 2001*. The College Board. 2001.

<sup>13</sup> *Trends in Student Aid 2001*. The College Board. 2001.



<sup>14</sup> *The Role the Federal Student Loan Programs Play in Supporting Postsecondary Students*, March 12, 2001, by Adam Stoll. Congressional Research Service.

<sup>15</sup> *Trends in Student Aid 2001*. The College Board. 2001.

<sup>16</sup> Linsenmeier et al 2001 found that the enrollment rate of low-income minority applicants increased by about six percentage points when loans were replaced with grants in financial aid packages for low-income students. Jackson 1990 found that black college applicants responded more positively to scholarship aid than white college applicants – they were 11 percentage points more likely to enroll. Black applicants responded to scholarship aid more positively than loan aid. This study only looked at those who have decided to apply, it does not test the impact on high school students.

<sup>17</sup> This total includes the HOPE and Lifetime Learning credits, the higher education expenses deduction, exclusion of earnings in Coverdell accounts, exclusion of earnings of qualified tuition programs, exclusion of scholarship and fellowship income and exclusion of employer-provided education assistance benefits. It does not include the cost of the deduction for student loans.

<sup>18</sup> “Individual Income Tax Returns, 1999.” David Campbell and Michael Parisi. Fall 2001. *SOI Bulletin*.

<sup>19</sup> *Higher Education Tax Credits and Deduction: An Overview of the Benefits and Their Relationship to Traditional Student Aid*, March 7, 2002, by Adam Stoll and James B. Stedman. Congressional Research Service.

<sup>20</sup> *RS20289: Education Savings Accounts for Elementary and Secondary Education*, Updated August 23, 2001, by Bob Lyke and James B. Stedman. Congressional Research Service.

<sup>21</sup> The College Board. *Trends in College Pricing 2001*.

<sup>22</sup> *Higher Education Tax Credits and Deduction: An Overview of the Benefits and Their Relationship to Traditional Student Aid*, March 7, 2002, by Adam Stoll and James B. Stedman. Congressional Research Service.

<sup>23</sup> *RS20289: Education Savings Accounts for Elementary and Secondary Education*, Updated August 23, 2001, by Bob Lyke and James B. Stedman. Congressional Research Service.

<sup>24</sup> *Saving for College Through Qualified Tuition (Section 529) Programs*, December 17, 2001, by Linda Levine. Congressional Research Service.

<sup>25</sup> *2000 Status Report on the Pell Grant Program*. Jacqueline E. King. American Council on Education Center for Policy Analysis. 2001.

<sup>26</sup> *Access Denied: Restoring the Nation’s Commitment to Equal Educational Opportunity*. Advisory Committee on Student Financial Assistance. February 2001.

<sup>27</sup> United States Department of Education Budget Service.

<sup>28</sup> According to the *Trends in College Pricing 2001* by The College Board, the average tuition, room, and board for a four-year public university was \$9,008. Therefore, the maximum Pell Grant of \$3,750 is 42 percent of the cost of attendance.

<sup>29</sup> *2000 Status Report on the Pell Grant Program*. Jacqueline E. King. American Council on Education Center for Policy Analysis. 2001.

<sup>30</sup> *Trends in Student Aid 2001*. The College Board. 2001.

<sup>31</sup> “State Spending on Student Aid has Surged in Recent Years, Study Finds.” Peter Schmidt. *The Chronicle of Higher Education*. Friday April 19, 2002. Article cites numbers from a report by the National Association of State Student Grant and Aid Programs.

<sup>32</sup> *Leveraging Educational Assistance Partnership Program (LEAP): An Overview*, March 26, 2002, by Laura L. Monagle. Congressional Research Service.

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<sup>34</sup> *Projections of Education Statistics to 2011*. United States Department of Education. National Center for Education Statistics. 2001a. NCES 2001- 083.

<sup>35</sup> *Crossing the Great Divide: Can We Achieve Equity When Generation Y Goes to College?* Anthony P. Carnevale and Richard A. Fry. 2000. The Educational Testing Service.