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Sizing Up the 2014-15 Texas Budget: Student Financial Aid

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Need-based financial aid, including grants and forgivable loans, are critical tools for improving college access and completion, especially for students and families with few resources to pay for college. Adequate grant aid reduces financial barriers by enabling students to work less and study more. Grant aid can also reduce a student's dependence on loans, thereby improving college completion and post-college outcomes.

Unfortunately, need-based grant aid is in short supply, while financing college in the form of loans has become the predominant source of paying for college. In Texas, three-quarters of financial aid funds come from federal sources, and over half of financial aid awarded to Texas students is in the form of student loans.¹

Although the 2013 Texas Legislature restored funding for Texas' need-based grant programs and made positive steps towards reducing student loan defaults, Texas students still face large barriers in paying for college without outside debt. This policy page provides an overview of financial aid investments in the 2013 Legislative session and makes recommendations to further improve college outcomes through a more robust financial system that meets the needs of Texas' college students.

Financial Aid in the Budget

The 2014-15 state budget restores support for the state's major financial aid programs, but it does not address the chronic underfunding of need-based grant programs in a growing state. With grant award amounts down and too little funding to serve all students with financial need, many students may be faced with too little grant aid to enter and complete college.

2013 Legislative Session: Overview of Major Financial Aid Programs in the Texas Budget- 2014-15

Program	2012-13 Base	2014-15	Additional Funds	Percent Change	Estimate of Students Served
	(in millions of dollars)				
TEXAS Grants	579.7	724.6	144.9	25%	145,800
Texas Educational Opportunity Grant	23.1	27.8	4.7	20%	6,703 (2014) 16,352 (2015)*
Texas-B-On-Time	107.1	112.0	4.9	5%	9,650
College Work Study	17.7	18.8	1.1	6%	4,603
Tuition Equalization Grant Program	168.8	180.1	11.3	7%	27,800
Top 10 Percent Scholarships	39.6	39.6	-	-	24,900
	\$936.0	\$1,102.9	\$166.9	18%	

Source: CPPP Analysis, Legislative Budget Board, Senate Bill 1; and Texas Higher Education Coordinating Board Budget Summary, Strategy Descriptions and Estimated Impacts of Funding for the 2014-15 biennium.

*Under SB 215, the TEXAS Grant program will become a four-year public institution program in fiscal 2015. Funds previously appropriated to community college students will be transferred to TEOG. B-On-Time Loans will become a public and private university program only. BOT funds for community college students will be transferred to TEOG. The calculation of BOT funds to be transferred to community colleges has not yet been determined for fiscal 2015 TEOG awards.

Nearly 550,000 students at Texas' public colleges and universities receive a Pell Grant—the largest federal need-based grant program serving low-income students with exceptional financial need. The average Pell Grant in Texas covers roughly [one-fifth](#) of college costs at public four-year institutions and one-quarter of costs at public community colleges, making state grant aid essential to college access for low-income college students.²

After the 2011 Texas Legislature cut state financial aid programs by 15 percent for the 2012-13 biennium, institutions began making lower TEXAS Grant award amounts—the state's major need-based grant program—to serve more students. Postsecondary institutions reduced the maximum annual awards from \$7,100 to \$5,000 at four-year public institutions, and from \$1,890 to \$1,325 at two-year public institutions.

In 2014-15, higher education institutions will continue to award lower amounts even though the total [cost of attendance](#) increases every year and has surpassed \$20,000 annually at Texas' public four-year institutions, and over \$12,000 annually at public two-year institutions.³ To make up the difference between grant aid and total college costs, some students turn to loans or working during school to help pay for books, transportation, living expenses, and other costs associated with going to college.

The current budget strategy also fails to serve all students with financial need. The Texas budget for need-based financial aid is expected to serve current low-income college freshmen and sophomores, as well as future college students—Texas’ low-income, high school juniors and seniors. But the current budget only funds approximately 95,000 TEXAS Grant awards in fiscal year 2014, just a fraction of the number of low-income students enrolled in college each year. More than 40,000 economically disadvantaged high school graduates—students eligible for free or reduced priced meals—enroll in college each year alone.⁴ In 2009, for example, nearly half of (49 percent) economically disadvantaged high school graduates enrolled in higher education—roughly 46,000 students.⁵

Restructuring Financial Aid Eligibility

In addition to restoring funding, the 2013 Legislature made several changes to state financial aid programs.

Financial Aid by Type of Institution:

Through SB 215, Texas’ state financial aid programs will now be distinct programs for each institution type.

- All TEXAS Grant and B-On-Time Loan funds previously allocated to community colleges will be transferred to the Texas Educational Opportunity Grant, a more flexible program serving two-year public institutions;
- TEXAS Grants will only serve public university students; and
- Texas B-On-Time Loans will only serve public and private university students.

Expanding TEXAS Grant Eligibility to Transfer Students:

Other changes in SB 215 include an improved transfer pathway for community college students to become eligible for a TEXAS Grant award. Community college students with at least 24 semester credit hours and a 2.5 grade point average may be eligible for a TEXAS Grant upon transferring to a public four-year institution.

Student Loan Default Prevention

Student loans can open the door for many students to get a degree and start their career. However, if borrowers fail to make payments on their loan and go into default, they can face serious consequences including damaged credit, wage garnishment, an increase in fees, additional interest, court costs, and other costs associated with the collection process.⁶

Unfortunately, thousands of Texas college students default on their federal student loans each year. Texas' 2009 three-year cohort default rate for federal student loans is 16.1 percent (34,083 students) compared to the national average of 13.4 percent.⁷ The cohort default rate represents the share of student borrowers who went into repayment in 2009 and defaulted on their loan within the past three years.⁸

The Texas Legislature made several positive steps towards reducing student loan defaults in the state.

The Student Loan Default Prevention and Financial Literacy Pilot Program:

Under SB 215, the Texas Higher Education Coordinating Board (THECB) will develop the Student Loan Default Prevention and Financial Literacy Pilot Program to improve student loan default rates and financial literacy education for Texas college students. The program will ensure that students receive information and education about financial aid, including the consequences of borrowing to finance college; the financial consequences of a student's academic and career choice; and strategies to reduce loan delinquency and default.

THECB will select institutions from four categories of postsecondary institutions, including, a four-year public institution, a public community college, a private or independent institution, and a career school or college. The pilot will target institutions with higher default rates or higher growth patterns in the number of defaults at their institutions.

B-On-Time Loan Counseling and Default Prevention Strategies

The B-On-Time loan program is an interest-free state loan that can be forgiven for borrowers who complete their degree within four years with a 3.0 grade point average.

The 2012-13 Sunset Commission review of the Texas Higher Education Coordinating Board found that the B-On-Time loan program had a lower than expected forgiveness rate—only 38 percent of students received loan forgiveness.⁹ The Commission also found that the program had a high default rate of 22 percent, indicating that many students may not understand their responsibility in repaying their loan.¹⁰

The 2013 Legislature recognized the importance of providing students with information on how the BOT loan program works and how to achieve loan forgiveness and avoid default.

SB 215 requires THECB, in collaboration with institutions of higher education and other college access organizations, to develop measures to improve participation and success in the B-On-Time Loan program, including requiring loan counseling for students attending institutions with high default rates and a low forgiveness rate in the program. BOT loan counseling will be required for students attending institutions with the following performance indicators:

- Institutions with a BOT loan default rate that exceeds the statewide average default rate; and
- Institutions with a loan forgiveness rate that is less than half the statewide average for forgiveness. Under the current BOT forgiveness rate, this requirement would apply to schools with less than 21 percent of student borrowers completing within four years and a B average.

Recommendations for Strengthening State Financial Aid

In our 2012 report, *The Cost of College: How Texas Students and Families are Financing College Education*, we made recommendations to reduce student loan dependence in the state through increased financial aid investments, more financial education for students on how to finance college, and improving the delivery of financial aid to reach more students. While the 2013 Legislative session advanced several of these proposals, the Texas Legislature can continue making progress towards a system that reduces student loan dependence and encourages student success by incentivizing completion and promoting student engagement on college campuses.¹¹

During the interim, the Texas Legislature should engage in the following efforts to promote a stronger financial aid system:

- Study the impact of the TEXAS Grant priority model on college access and completion, including how these changes have affected enrollment, school choice, persistence, and completion for different demographic groups, including by race, age, geography, and income.
- Identify student support strategies to promote college access and success. Specifically, the Legislature should study best practices in student engagement programs such as learning communities, and mentoring programs, and integrated service delivery on campus, including benefits access, and tax and FAFSA preparation.
- Explore strategies and best practices for reducing student loan default rates in Texas. While efforts are underway to reduce student loan defaults through the new default prevention pilot program, the Legislature should not wait to identify new measures and strategies for reducing defaults, including innovative ways to deliver loan counseling and financial education to students.
- The Legislature should study best practices in college work study programs in Texas and across the country to connect more Texas employers with students at public colleges and universities. Developing a stronger college work study consortium would provide students with new opportunities to earn college credit while they gain hands-on experience in their field of study.

Conclusion

To meet the needs of low-income college students, Texas must invest in more meaningful grant aid that lessens the debt load and enables students to truly afford the college experience, including working less and taking part in student engagement activities, and other on-campus experiences that promote success.

Endnotes

¹ Texas Higher Education Coordinating Board, Report on Student Financial Aid in Texas Higher Education, Fiscal Year 2012, June 2013. Web. <http://www.theccb.state.tx.us/reports/PDF/3126.PDF?CFID=42938443&CFTOKEN=59087731>.

² TG, State of Student Financial Aid, January 2013, p. 43. Web. <http://www.tgslc.org/pdf/sosa.pdf>; and Texas Higher Education Coordinating Board, Report on Student Financial Aid in Texas Higher Education, Fiscal Year 2012, June 2013. Web. <http://www.theccb.state.tx.us/reports/PDF/3126.PDF?CFID=42938443&CFTOKEN=59087731>. Note: CPPP estimate based on average Pell Grant awards and total cost of attendance.

³ THECB, Report on Student Financial Aid, p. 46-49.

⁴ Texas Education Agency, Enrollment Trends, 2011-12, Enrollment of Economically Disadvantaged Students within grades, Table 13, p.21. Note: Estimate of the number of TEXAS Grant recipients is based on the 2014-15 Texas Budget estimated number of TEXAS grants for FY 2014. The estimate for number of students served during the biennium is 145,800 students with a target award of \$5,000.

⁵ Texas Higher Education Coordinating Board, Texas High School Graduates-College Enrollment Trends, 2003-2009. Web. <http://www.theccb.state.tx.us/reports/PDF/2455.PDF?CFID=311372&CFTOKEN=81611123>.

⁶ Department of Education, Student Aid.Gov. Web. <http://studentaid.ed.gov/repay-loans/default>.

⁷ Department of Education, First Official Three-Year Student Loan Default Rates Published, news release, September 28, 2012., Fiscal Year 2009, 3-Year Official Cohort Default Rates by State/Territory, web. <http://www.ed.gov/news/press-releases/first-official-three-year-student-loan-default-rates-published>; and <http://www2.ed.gov/offices/OSFAP/defaultmanagement/2009staterates3yr.pdf>

⁸ Note: As required by the Higher Education Opportunity Act of 2008, the U.S. Department of Education is phasing in the new three-year cohort default rate as the official rate. The new rate will better measure the extent of loan defaults and assess sanctions on schools with high default rates. Previously, the Department of Education used the two-year cohort default rate as the official measure. The 2010 three-year cohort default rate is due for release in September 2013.

⁹ Sunset Advisory Commission, Final Report with Legislative Action, Texas Higher Education Coordinating Board, July 2013, p. 51. Web. http://www.sunset.state.tx.us/83rd/hecb/hecb_fr.pdf

¹⁰ Sunset Advisory Commission, p. 51.

¹¹ CPPP, Cost of College: How Texas Students and Families are Financing College Education, Web. http://library.cppp.org/files/2/2012_05_JO_Cost_Of_College.pdf.

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