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State Need-Based and Merit-Based Grant Aid: Structural Intersections and Recent Trends

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Overall Context

While they are often discussed in opposition given state fiscal constraints and the philosophical debate over need-based versus merit-based financial aid, state need-based and merit-based financial aid programs exist side-by-side in many states across the country. According to the National Association of State Student Grant and Aid Programs' (NASSGAP) most recent survey of state financial aid programs, all 50 states, as well as Washington, D.C. and Puerto Rico, have state need-based financial aid programs; 30 states, according to the group, have state merit-based programs. Programs combining need and merit also exist but were only reported in 23 states (NASSGAP 2009–2010, Table 8).

This policy brief examines the three basic types of state grant aid, how they intersect, and trends affecting each. Its emphasis is on the context and core structures of state-based grant aid rather than on political debates surrounding types of aid. However, it is important to note that the elimination of the federal Leveraging Educational Assistance Program (LEAP)—in the bill signed into law by President Obama to avert a government shutdown in March 2011—will have as yet undetermined effects on state need-based financial aid programs. LEAP provided federal matching funds for state need-based aid programs; it received $64 million in federal funding at the time it was eliminated. In addition, the elimination of funding for the Robert C. Byrd Honors Scholarship program (a federally funded but state-administered merit aid program) for the remainder of FY 2011 in the same bill will affect its current recipients. In 2010, the program awarded $42 million in scholarships to 28,000 undergraduates across the country.

Context: State Residency and Financial Aid

State residency is the bedrock governing eligibility for state-level financial aid. But there are more potential layers to residency than might appear at first glance. Some common intersections of state financial aid eligibility and state residency are outlined below.

Individual state aid reciprocity agreements. Some U.S. states, commonwealths or territories—or individual public colleges or systems of higher education within those states—have individual reciprocity agreements or programs that allow residents to use state financial aid grants at out-of-state schools. These agreements can be with one neighboring state, with several states, or even throughout the country.

For example, in the District of Columbia, the DC Tuition Assistance Grant (DC TAG) Program for public colleges and universities pays up to $10,000 annually for five years to help eligible resident undergraduate students fund the gap between in-state and out-of-state tuition at participating public colleges across the country. For those attending private colleges, the grant is restricted to $2,500 per year for up to five years and to private colleges in the Washington, D.C. area (including Washington D.C. itself, several surrounding Maryland and Virginia counties, and the city of Alexandria, Va.). The program also provides up to $2,500 per year for resident undergraduates attending all private Historically Black Colleges and Universities (HBCUs) in the U.S. The program was created by the D.C. College Access Act of 1999.

While it is a notable example of a portable state grant, the DC TAG Program is not need-based. However, a parallel program, the DC College Access Program (DC-CAP), provides "last dollar" awards to needy students to help bridge the gap between financial aid, college costs and individual resources. This program is need-based and requires that recipients be D.C. public high school students.

Multi-state tuition reciprocity agreements. These multi-state agreements, sometimes called compacts or exchanges, vary in structure and participation level. Their basic format allows residents of participating states to attend college in another participating state and pay a lower tuition rate than nonresident students from nonparticipating states. Major examples are as follows:

- *Academic Common Market (ACM).* Administered by the Southern Regional Education Board (SREB), the program allows students in the 16 SREB member states to cross state lines to major in specific programs not offered in their home state. Students in those programs pay in-state tuition at participating institutions depending on the state's level of enrollment. Thirteen SREB states (Ala., Ark., Del., Ga., Ky., La., Md., Miss., Okla., S.C., Tenn., Va. and W. Va.) participate fully in the ACM. Some states (Fla., N.C., Texas) only participate in the ACM on the graduate level, and some (N.C., Texas) do not cover online programs.

- *Midwest Student Exchange Program (MSEP).* This program is offered through the Midwestern Higher Education Compact (MHEC) and provides discounts not only to eligible students majoring in specific programs at participating public colleges and universities in nine of its 12 member states (Ill., Ind., Kan., Mich., Minn., Mo., Neb., N.D., Wis.), but those majoring in specific programs at participating private nonprofit colleges and universities. Public institutions charge no more than 150 percent of their in-state tuition rate to MSEP students; private nonprofit institutions offer a 10 percent tuition discount for MSEP students.

- *New England Regional Student Program (RSP).* Administered by the New England Board of Higher Education (NEBHE) and established in 1957, this program provides a discounted regional tuition rate at participating New England public colleges and universities to New England residents (defined as residents of Conn., Mass., Maine, N.H., R.I. and Vt.) interested in majors not offered by public institutions within their own state. The regional rate varies, but is currently a maximum of 175 percent of in-state tuition (see here for details).

- *Western Undergraduate Exchange (WUE).* Students residing in states that are part of the Western Interstate Commission for Higher Education's (WICHE) Western Undergraduate Exchange (Ark., Ariz., Calif., Colo., Hawaii, Idaho, Mont., N.M., Nev., N.D., Ore., S.D., Utah, Wash. and Wyo.) can apply to participating institutions within the WUE for a reduced tuition rate that does not take financial need into account. Currently that rate is 150 percent of resident tuition; however, not all eligible applicants are guaranteed the rate since institutions can allot varying numbers of slots for WUE students. Institutions can also set their own admissions standards for WUE students (see here).

State waivers of residency requirements/redefinition of residency for particular groups. States can opt to waive or redefine residency requirements for certain categories of students, therefore permitting them access to in-state tuition rates as well as to state financial aid (if eligible) .

One prominent recent example is that of servicemembers or veterans attending state colleges and universities. For instance, the Ohio GI Promise, effective April 1, 2009, allows honorably discharged veterans with one year of military service and their dependents (along with the dependents of servicemembers killed in action [KIA], declared missing in action [MIA], or prisoners of war [POWs]) to be eligible for in-state tuition without living in Ohio for a year prior to enrollment. The program is part of an ambitious state plan to attract veterans and their families to Ohio's public colleges and universities.

As seen above, "residency" can thus be extended beyond a particular state's geographical borders to become a more regional concept. Alternately, it can be redefined in certain cases, such as that of veterans or active-duty servicemembers. This may further complicate future discussions of state need-based versus merit-based aid.

Need-Based State Financial Aid: Core Concepts

The core concept of all state-based financial aid programs is to help state residents gain access to and pay for college. That being said, philosophies differ on whether increasingly scarce state financial aid resources should be allotted to the neediest students, the most meritorious students, the students who are both the neediest and the most meritorious, or in some other manner entirely. Therefore, important structural elements of state aid programs are different restrictions that can be added to "need" (as defined by income) in order to allot funds.

At present, need-based state financial aid programs mostly use the following elements to determine eligibility beyond residency. Many programs combine one or more:

Degree-seeking status. The overwhelming majority of state aid programs require that students be seeking a degree. There are occasional exceptions. For example, the Vermont Non-Degree Grant is designed for students taking courses that will make them more employable or lead to further study. The grant can be used for continuing education or employer-based study programs.

Need as determined by FAFSA. This refers to a student's financial need as determined by the federal Free Application for Federal Student Aid (FAFSA). An overwhelming majority of state need-based financial aid programs require the FAFSA.

Some need-based aid programs go further and set specific Estimated Family Contribution (EFC) limits for eligibility; the EFC is determined by the FAFSA. For example, in Kentucky, the College Access Program (CAP) currently requires recipients to have an EFC no higher than $5,273 to be considered for the program. Massachusetts' primary need-based program, the MASSGrant, has an identical limit. By contrast, Maine's main need-based grant program sets a $3,000 EFC limit for 2011–2012, and the Oklahoma Tuition Aid Grant (TAG) program sets a $1,700 EFC limit for 2011–2012.

Income limit (state or federal). Some states set income limits for need-based financial aid based on either an applicant's state income tax return or federal Adjusted Gross Income (AGI) as reported on the FAFSA. This can require a student to file a separate application for state-level assistance.

One of the most prominent examples of state taxable income being used to determine need-based state aid is New York's Tuition Assistance Program (TAP). The current TAP combined family income limit for a dependent student or an independent student with dependents is $80,000, including federal, state or local pension funds excluded from the family's state tax returns. Married independent students without dependents have a family New York State taxable income limit of $40,000, and single independent students without dependents have a family NYS taxable income limit of $10,000.

A different example of income limits for need-based state financial aid is that of the Oregon Opportunity Grant, which limits eligibility for dependent students to those with income at or below 55 percent of the Oregon median family income (referred to as MFI). Household size is also taken into account.

Independent students' income must be 50 percent or less of the MFI; single independent students' income is further limited to a maximum of 30 percent of the MFI.

Additional criteria. States can set other eligibility criteria for need-based financial aid programs unrelated to income and/or financial need as determined by the FAFSA. Some common requirements across states are that the applicant have graduated from a high school in the state; be able to satisfy admissions requirements at a state institution or already be admitted; be working toward his or her first baccalaureate degree; not be in default on a federal or state student loan or owe a refund on a federal or state education grant; have registered for Selective Service if required; not be incarcerated.

In addition, states can either restrict award amounts depending on the type of institution attended or specify the types of institutions students may attend. For example, the Delaware Scholarship Incentive Program (ScIP) requires that students be enrolled in a nonprofit regionally accredited institution. In Arkansas, the Academic Challenge Scholarship awards more money to students enrolled at four-year institutions than at two-year institutions.

Some states also require that students take particular high school preparatory curricula, contribute a portion of college expenses themselves (e.g., the Minnesota State Grant), not have been convicted of drug-related felonies, and/or pledge to remain drug-free.

Need-Based State Financial Aid: Trends

The previously cited 2009–2010 NASSGAP study shows an overall increase from 2008–2009 to 2009–2010 of $275 million in need-based state financial aid. It also notes that strictly need-based financial aid consisted of approximately 47 percent of all state financial aid to undergraduate students. In 2008–2009, 48 percent of state financial aid to undergraduate students was strictly need-based; in 2005–2006, 49 percent was strictly need-based (NASSGAP, 2008–2009, 2005–2006). Therefore, the overall change in the percentage of need-based aid awarded over five years to undergraduates has been very low. But according to NASSGAP, state need-based financial aid funding for undergraduates has risen from approximately $4.9 billion in 2005–2006 to approximately $6.3 billion in 2009–2010—a $1.4 billion increase over four award years (NASSGAP, 2009–2010, 2005–2006).

However, the most current trend in need-based state financial aid is one of budget cuts. The elimination of LEAP is recent enough that the full impact on need-based state financial aid programs relying on its matching monies remains to be seen. But given ongoing economic issues across the country, as well as state appropriations for public colleges and universities in 35 states being lower in FY 2012 than in FY 2011 (as reported in the AASCU State Outlook, July 2011), cuts in state need-based financial aid are beginning to appear.

For example, Arizona reports that its student financial aid programs have been cut by 70 percent over the past two years due to state revenue shortfalls. This has led to the suspension of the state's primary need-based state financial aid program. A less drastic example is that of Illinois, which reduced its need-based Monetary Award Program (MAP) grant awards by between 3.7 percent and 5 percent in Spring 2011, as well as cut off eligibility earlier for the 2011–2012 academic year. Students who did not complete their 2011–2012 FAFSAs by the cutoff date will not receive MAP awards unless unclaimed funds can be redistributed. Also, the previously mentioned Oregon Opportunity Grant has cut off applications for the 2011–2012 academic year because its funds are exhausted.

Merit-Based State Financial Aid: Core Concepts

Purely merit-based state financial aid programs are intended to assist students who demonstrate exceptional academic merit, regardless of financial need or lack thereof. According to NASSGAP, approximately $1.8 billion of purely merit-based financial aid was awarded by states to undergraduates in 2009–2010 (NASSGAP 2009–2010, Table 8). In

2005–2006, approximately $1.5 billion of purely merit-based financial aid was awarded to undergraduates (NASSGAP 2005–2006, Table 8).

Specific criteria for solely merit-based state financial aid vary by state and program. Some common criteria across states, in addition to state residency, are listed below.

Standardized test scores. Most states require a minimum ACT or SAT score for students to be considered for merit-based financial aid; some divide their programs into tiers based on scores. For example, the Governor's Scholars Program in Arkansas has two award levels: Governor's Distinguished Scholars and Governor's Scholars. All applicants are required to have a high school academic GPA of 3.5 (on a 4.0 scale) or an ACT composite score of 27/combined SAT score of 1220 (math and critical reasoning). They must also demonstrate leadership.

To be considered for the Governor's Distinguished Scholars award (currently up to $10,000 per year for tuition, fees, room and board at an approved Arkansas college or university), applicants must score either a 32 composite on one ACT test or a combined 1410 (math and critical reasoning) score on one SAT test. In addition, they must have a 3.50 academic high school GPA or have been selected as either a National Merit® Finalist or a National Achievement® Finalist.

However, students who do not meet GPA and standardized test score requirements for the Distinguished Scholars award can be considered for the Governor's Scholars award (up to $4,000 per year). This goes to the highest-scoring student in each of the state's 75 counties. Selection criteria are weighted as follows: 45 percent ACT or SAT score; 35 percent high school academic GPA; 10 percent class rank; 10 percent leadership.

High school GPA and/or class rank. High school GPA and/or class rank are factors in many state-based merit aid programs. One program using high school GPA as a major eligibility criterion is the lottery-funded Georgia HOPE Scholarship Program. In order to be eligible, students must graduate from an approved Georgia high school or complete an approved home study program with a 3.0 GPA. Alternatively, if their high school/home study program is not approved by the state, they can qualify by scoring in or at the national composite 85th percentile on the SAT or ACT (currently requiring a composite SAT score of 1850 or a composite ACT score of 26). Students are required to maintain a 3.0 college GPA.

Until Summer 2011, the HOPE Scholarship covered full tuition plus required fees for eligible students at Georgia's public colleges and universities, in addition to offering a book stipend. However, due to program growth and budget issues, the program no longer covers fees and the book stipend has been eliminated. Eligible students at public colleges and universities now receive varying awards per credit hour, while eligible students at private colleges and universities receive a maximum of $1,800/semester or $1,200/quarter for full-time study. The program awarded a little over $748 million in aid to 256,529 students in the 2010–2011 academic year. By contrast, as this brief is being written, approximately $77 million in HOPE Scholarship funds have been awarded to 81,362 students for the 2011–2012 academic year.

National Merit Scholarship® Program/National Achievement® Scholarship Program status. Some states use selection for either or both of these highly competitive national programs as a subsidiary/substitute criterion for merit aid (e.g., the Arkansas Governor's Scholars Program).

Other criteria (e.g., leadership, community service). Leadership, community service or other similar factors are sometimes used by states as a factor in awarding merit aid.

Merit-Based State Financial Aid: Trends

While the previously cited NASSGAP data shows a nationwide increase in purely merit-based state financial aid from 2005–2006 to 2009–2010, state budget shortfalls have resulted in cuts to individual merit-based aid programs since 2009–2010. In some instances, these are ongoing cuts or suspensions.

For example, Indiana suspended its merit-based Hoosier Scholar Program for 2011–2012 specifically to protect need-based financial aid and other educational programs. Missouri cut its Bright Flight merit-based awards in 2010–2011 due to budget issues. Illinois has not funded its Merit Recognition Scholarship (MRS) Program since 2004–2005. The Michigan Promise Scholarship has not been funded since 2009. Ohio suspended its merit-based Academic Scholarship Program in 2009–2010. And Colorado's Centennial Scholars Program has been unfunded since 2009–2010 (see here, p. 26 for details).

Given the ongoing fiscal challenges confronting states and the number of suspensions/cuts to both need-based and merit-based financial aid programs, it is unlikely that merit-based state financial aid programs will see significant funding increases in coming years.

Need- and Merit-Based State Financial Aid: Core Concepts

State-level financial aid programs based on need and merit are intended to reward students who are both academically successful and financially needy rather than basing awards entirely on either need or merit. According to a recent survey by the State Higher Education Executive Officers (SHEEO) association, 39 states did not have a formal policy on state-based financial aid combining need and merit. Unsurprisingly, individual program sizes, complexities and requirements differ greatly by state.

The 23 states offering financial aid based on need and merit combined awarded, according to NASSGAP's most recent survey, approximately $1.6 billion in such aid in 2009–2010 (NASSGAP, Table 8). This figure only accounts for 16.3 percent of total state expenditures on undergraduate student aid programs.

The largest program reported by NASSGAP as mingling need and merit was California's Cal Grant A, B and C program (subdivided in the case of Cal Grant A and B into entitlement and competitive grants, as outlined here). It awarded $1.04 billion in 2009–2010 (NASSGAP Data Check, Calif.). To meet basic eligibility requirements, students must:

- Be U.S. citizens or eligible noncitizens;
- Be California residents upon graduating from high school;
- Attend a qualifying California college at least half-time for an undergraduate degree or certificate program;
- Have financial need based on college costs;
- Meet minimum GPA requirements;
- Register for Selective Service if required;
- Not be in default on a state or federal grant or student loan; and
- Submit a FAFSA and a separate Cal Grant application.

In addition, Cal Grant income ceilings range from $28,600 (for a single independent student with no dependents, Cal Grant A, B and C) to $90,300 (for a dependent student with a family size of six or more, Cal Grant A and C). The program also sets asset allowances ranging from $28,800 (for independent students without dependents) to $60,500 (for dependent students and independent students with dependents other than a spouse).

The merit component for Cal A and B competitive grants requires students who do not qualify for Cal A and B entitlement grants to have a minimum 3.0 GPA (Cal A competitive) or a minimum 2.0 GPA (Cal B competitive). These grants are not guaranteed and are limited to 22,500 new awards each year by statute. According to a report submitted to the state legislature by the California Student Aid Commission on the full Competitive Cal Grant Program from 2007–2008 through 2009–2010, the number of on-time applicants who were eligible for competitive grants but did not receive them increased to 184,400 in that time period—an increase of over 50 percent.

By contrast, the TEXAS (Towards EXcellence, Access and Success) Grant program—which awarded over $277 billion in aid, combined with S/LEAP in 2009–2010 according to NASSGAP (Data Check, TX)—structures its grants differently. All applicants must:

- Be Texas residents;
- Not have been convicted of a crime involving a controlled substance or a felony;
- Have financial need and an Estimated Family Contribution (EFC) less than or equal to $4,000;
- Register for Selective Service if required;
- Be a graduate of an accredited Texas high school no earlier than 1998–1999;
- Have completed the Recommended High School Program or the Distinguished Achievement Program while in high school;
- Enroll in a nonprofit public college or university in Texas within 16 months of graduation from high school; and
- Have already earned no more than 30 semester credit hours, excluding dual/concurrent courses or those earned by credit by examination.

Alternately, residents who have earned an associate degree from a public technical, state or community college in Texas and who enroll in any Texas public university no more than 12 months after earning the associate degree can qualify if they meet the other requirements regarding financial need and residency.

A third structure, one of the smallest programs reported by NASSGAP, is that of New Hampshire's Leveraged Incentive Grant Program. The program awarded $540,000 in 2009–2010 but was not funded in the state's current budget; therefore, it will not be available in the 2011–2012 or 2012–2013 academic years. Its requirements were very different from those of California or Texas. Resident sophomores, juniors and seniors were required to demonstrate financial need (as per the FAFSA) *and* merit (as defined by accredited institutions in New Hampshire); institutions determined individual award amounts.

Need- and Merit-Based State Financial Aid: Trends

Again unsurprisingly, the most recent trend in these programs—despite their relatively small share of total undergraduate state financial aid expenditures—is to cut them. In addition to the above-mentioned New Hampshire defunding, in July 2011 Texas cut its TEXAS Grant program 9 percent for each of the next two years. This cut is anticipated to reduce the number of total students in the program by approximately 28,700 (see here for details).

Observations

The definition of state residency for higher education purposes is evolving in some ways. Tuition reciprocity arrangements between neighboring states add subcategories to definitions of state residency. States choosing to redefine or waive in-state residency requirements for particular categories of students also shift the definition of residency for those groups. In the case of servicemembers, veterans and/or military dependents, this redefinition of residency is partly recognition that the special demands of military service lead to forced mobility (particularly for underage military dependents). It is also a way of honoring their service to the country.

However, the core concept behind residency criteria—to provide a state's residents/taxpayers with cheaper access to public institutions of higher education—remains the same. Despite this constancy, revenue differentials between in-state and out-of-state tuition, combined with decreased state appropriations, make balancing resident and nonresident enrollment a delicate task. This pressure shows no signs of abating.

Financial pressures on states have led to recent cuts in all types of state-based financial aid programs. States have chosen different approaches to cutting state-based financial aid depending on their particular fiscal problems and overall philosophy on how financial aid should be distributed to state residents (see this SHEEO report for a discussion of philosophies). However, no type of program has been automatically exempted from reductions.

The merit versus need debate will continue. Given increasing economic pressures on all but the wealthiest Americans, tensions are inevitable between proponents of restricting limited state grant aid to the lowest-income students and proponents of allowing academically strong students to receive state grants regardless of income. State and federal politics will also continue to affect this ongoing debate.

Conclusion

While state need-based and merit-based financial aid programs appear, at first glance, to be in opposition (and are often discussed as such), a middle ground of state financial aid programs combining need and merit is sometimes overlooked. Another related middle ground is that of states' choosing to engage in cross-border compacts to allow in-state tuition and/or redefine state residency for particular groups of students. And while longitudinal data show an increased commitment by states to need-based financial aid as well as merit aid, more recent program cuts and ongoing economic uncertainty may well diminish these gains in the future.

Resources

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Consortium Web sites

Midwestern Higher Education Compact (MHEC) Midwest Student Exchange Program: http://www.mhec.org/MSEPDescription

New England Board of Higher Education (NEBHE) Regional Student Program (RSP) Tuition Break: http://www.nebhe.org/programs-overview/rsp-tuition-break/overview/

Southern Regional Education Board (SREB) Academic Common Market: http://www.sreb.org/page/1304/academic_common_market.html

Western Interstate Commission for Higher Education (WICHE) Western Undergraduate Exchange (WUE): http://wiche.edu/wue

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