

TRENDS IN STATE FUNDING FOR STUDENT FINANCIAL AID

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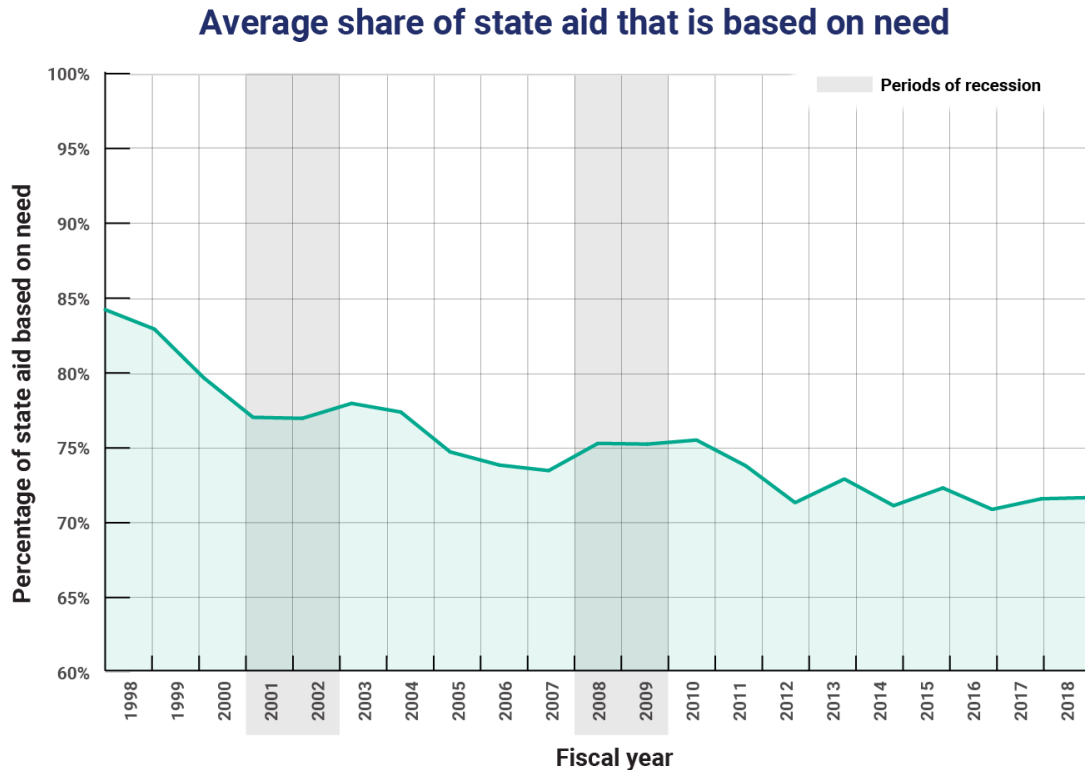
States spent \$99 billion on funding for higher education in Fiscal Year 2018. These funds primarily support public colleges in the form of direct state appropriations, but more than \$12 billion was allocated for student financial aid.¹ Although a small share of overall state funding for higher education, spending on student financial aid has represented a growing share of funds in recent years, rising from 6 percent of funds in 1998 to 12 in 2018 (all figures inflation-adjusted to 2019 dollars).

State financial aid can be awarded based on several different dimensions. Most commonly, states award financial aid based on financial need, academic merit, or some combination of the two. The state can assess financial need based on metrics like family income or a student's expected family contribution, an estimate of how much a family is able to contribute toward educational expenses (generated from information submitted in financial aid applications). Merit can be measured by high school GPA, a college entrance exam score (SAT/ACT), or some other academic indicator (e.g., performance on a statewide assessment).

States face a difficult decision when determining how much student financial aid will be distributed based on need versus merit. In general, when states increase the amount of financial aid allocated based on merit, they reduce the amount based on need (instead of increasing the total amount of financial aid).² While state financial aid can benefit all types of students, prior research has found that need-based aid is particularly helpful with the enrollment and persistence of students from lower socioeconomic backgrounds.³

Figure 1 shows the average share of state aid awarded based on a student's financial need for Fiscal Year 1998 to Fiscal Year 2018. These data, from the National Association of State Student Grant and Aid Programs (NASSGAP), show the percentage of state financial aid dollars awarded based on need. This period encompasses two recessions: a shallow recession from March 2001 to November 2001 and the Great Recession from December 2007 to June 2009.⁴

Figure 1



Note: NASSGAP data.

While states awarded approximately 84% of student financial aid based on need in Fiscal Year 1998, this percentage has been generally declining over the past two decades. However, around recessionary periods, there is a slight increase in the percentage of student financial aid based on need. For example, in Fiscal Year 2007, states awarded approximately 73% of aid based on need. This number increased to 75% in Fiscal Year 2008 and held fairly steady for several years. In Fiscal Year 2018, the percentage had decreased to approximately 72%.

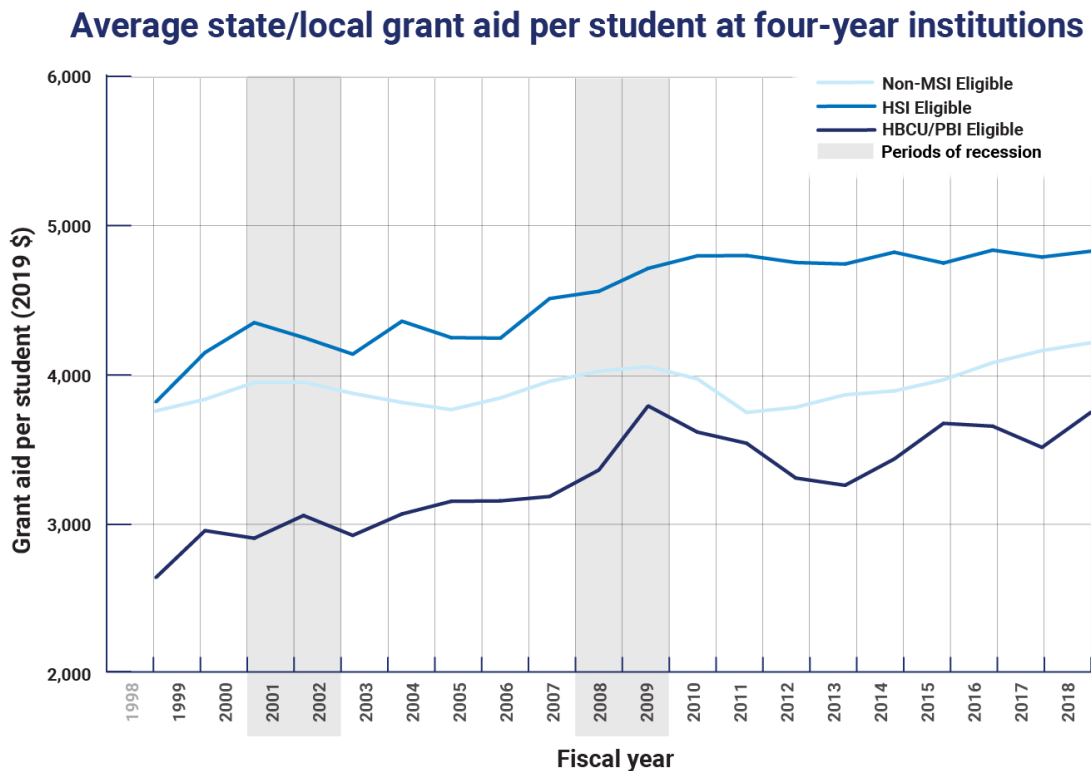
The state-level aid figures are illuminating; however, we also examine the amount of state or local aid that individual students receive. This investigation would allow us to examine how the average aid amount per student has shifted over time as well as how those amounts vary based on institutions' characteristics. To do this, we divided colleges into two-year and four-year institutions as well as by their 2020 eligibility to be a minority serving institution (MSI) by the U.S. Department of Education.⁵ Similar to our prior brief, we combined historically Black colleges and universities (HBCUs) and colleges eligible to be primarily Black institutions (PBIs) into one category and separately examined colleges eligible to be Hispanic Serving

Institutions (HSIs) and all non-MSI-eligible institutions.⁶ Finally, to make comparisons across types of colleges, we limited the sample to colleges that reported state and local grant aid for each year in the sample.

Figure 2 shows the average amount of state/local grant aid per full-time, first-time student at four-year institutions by MSI eligibility status. These data, and the data in Figure 3, come from the U.S. Department of Education’s Integrated Postsecondary Data System and have been inflation-adjusted to 2019 dollars. The measure includes both state and local aid, but the amount of local aid is typically small. Students attending HSI-eligible institutions receive the largest average amount of state financial aid per student, followed by non-MSI-eligible institutions, and institutions eligible to be HBCUs and PBIs.

In general, for all institution types, the average amount of aid per student has increased over time. Students attending HBCU or PBI institutions had an average of \$2,600 of state aid in 1999 which increased to \$3,800 in 2018, an increase of \$1,200 in inflation-adjusted dollars. There were similar increases at HSI-eligible and non-MSI-eligible institutions, approximately \$1,000 and \$400, respectively. While all different institution types face year-to-year increases and decreases, the non-MSI-eligible institutions increase more consistently over time relative to MSI-eligible institutions.

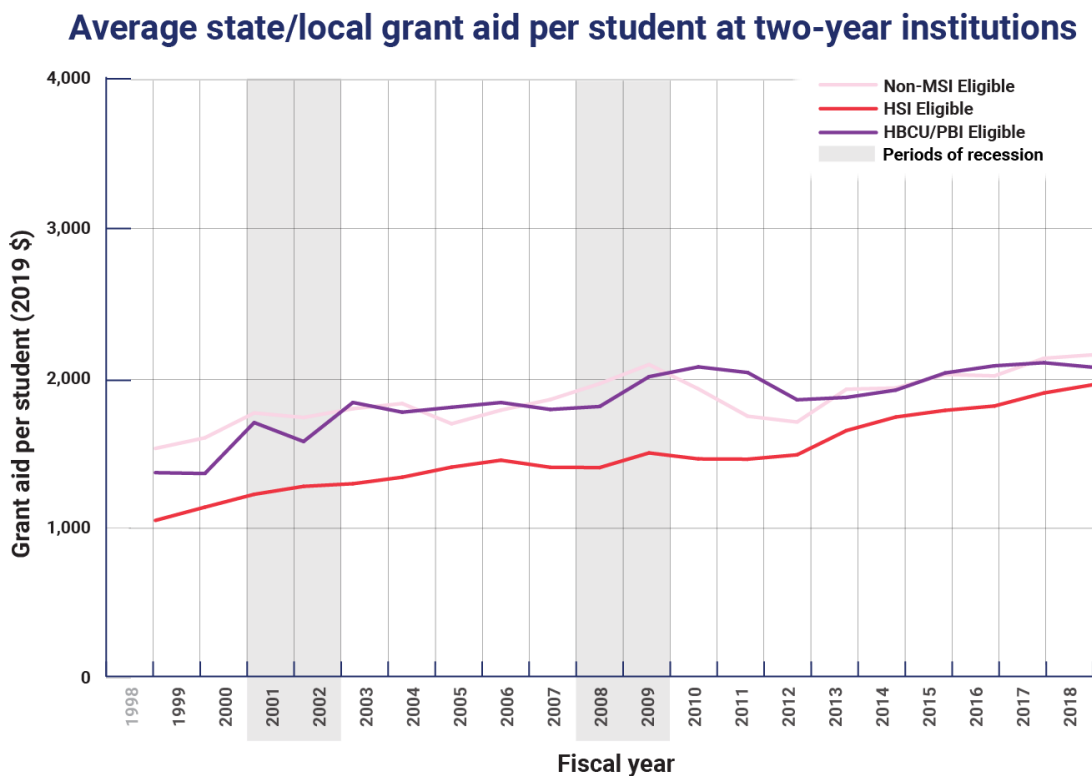
Figure 2



Note: IPEDS data. Figures shown are per FTF undergraduate student in 2019 dollars for institutions in every year of the panel data.

Figure 3 shows the same measure of aid for two-year institutions. Focusing now on this sector of higher education, non-MSI-eligible institutions have the largest average aid, followed by HBCU/PBI-eligible and HSI-eligible institutions. Over time, students attending all institution types have seen increases in their average state and local grant aid. HSI-eligible institutions had the largest increase (\$900), followed by HBCU/PBI-eligible (\$700) and non-MSI-eligible institutions (\$600). Generally, within a few years of a recessionary event, the average amount of aid per student dips across all institution types. Notably, the state/local aid given to students attending institutions eligible to be HBCUs or PBIs shows the most volatility over time.

Figure 3



Note: IPEDS data. Figures shown are per FTFT undergraduate student in 2019 dollars for institutions in every year of the panel data.

Student financial aid has comprised a rising share of states' funding for higher education over the past two decades. States appear to respond to recessions by slightly increasing the amount of aid disbursed based on financial need, though that has not changed the overall trend of states prioritizing merit-based aid. Regardless of two- or four-year status, institutions face volatility in the average amount of state or local grant aid students receive in ways that may make it difficult for institutions to plan for the amount of aid that will be provided to individual students.

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¹ Authors' calculations using data from the National Center for Education Statistics' Integrated Postsecondary Education Data System and the National Association of State Student Grant and Aid Programs.

² McLendon, M. K., Tandberg, D. A., & Hillman, N. W. (2014). Financing college opportunity: Factors influencing state spending on student financial aid and campus appropriations, 1990 through 2010. *The ANNALS of the American Academy of Political and Social Science*, 655(1), 143-162.

³ Kim, J. (2012). Exploring the relationship between state financial aid policy and postsecondary enrollment choices: A focus on income and race differences. *Research in Higher Education*, 53(2), 123-151.

⁴ National Bureau of Economic Research (2020). US business cycle expansions and contractions. Retrieved from <https://www.nber.org/cycles.html>.

⁵ U.S. Department of Education (2020). 2020 eligibility matrix. Retrieved from <https://www2.ed.gov/about/offices/list/ope/idades/2020eligibilitymatrix.xlsx>.

⁶ We combined HBCUs and PBIs because most four-year colleges in our sample were HBCUs and most two-year colleges were PBIs. HBCUs and PBIs qualify for different levels of federal support, but we combined them for sample size purposes.