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New Commitment to Need-Based Financial Aid Critical in Context of Rising Tuition

By Ashley Spalding

State support for higher education in Kentucky has been eroding for the past couple of decades, leading to substantial increases in tuition. Those costs are a major factor in the state's lack of adequate progress in closing the gap in postsecondary education attainment between low-income Kentucky students and others. While tuition has risen dramatically, the state's financial aid programs have changed very little since they were created decades ago. As a result, the financial aid system does not fully recognize the importance of need-based aid to helping low-income students (a substantial portion of whom are adults) obtain degrees and credentials at a time of higher cost. Kentucky can strengthen the well-being of many thousands of its families and improve the state's economy through reforms that make a new commitment to need-based financial aid.

Introduction

Since 1998, tuition at the state's public colleges and universities has increased by more than 200 percent, and rising costs are particularly problematic for low-income students.¹ These tuition increases are largely the result of cuts in state funding to Kentucky's public universities and community colleges. The state's appropriation to public postsecondary institutions in 2013 was 22 percent lower (in inflation-adjusted terms) than in 2000.² And tuition and fees surpassed state funding as the largest source of revenue for these institutions in 2010.³

The increases in college tuition are hurting Kentuckians across a broad range of economic situations. However, the greatest impact is being experienced by those with the most economic need. In order for Kentucky's poorest to attend a community college, they must pay close to a quarter of their incomes to cover tuition and fees.⁴ These financial barriers are more likely to prevent low-income students from attending college than higher income students.

In this context, need-based financial aid is an important tool for increasing college degree and credential attainment among low-income Kentuckians. Yet only a relatively small share of state financial aid in Kentucky is truly need-based.⁵

Need-Based Financial Aid – An Important Tool for Promoting Higher Education in Kentucky

In contrast to many other forms of financial aid, need-based aid effectively influences whether or not students go to college and complete postsecondary degrees or credentials. Higher income students are not as price sensitive as low-income students and typically will attend college whether or not they receive scholarships. And the delay in benefiting from education tax credits, which are applied for and received long after students enroll in college, can make it difficult for this form of financial aid to influence the educational decisions of the lower-income adults who qualify for these credits (and most do not qualify as many of these credits are nonrefundable, meaning that those who do not owe taxes cannot benefit).⁶

However, research has shown that need-based scholarships both increase college enrollment among low- and moderate-income students and increase college persistence and the number of credits earned.⁷ As a result, need-based aid is critical to addressing one of Kentucky's largest gaps and shortcomings in higher education: the low rates of low-income students earning degrees and credentials. Low-income

students have lower postsecondary degree attainment rates than other Kentucky students. Compared to the 2011-2012 bachelor's degree graduation rate of 48.2 percent for all Kentucky students at four-year public institutions, the bachelor's degree graduation rate for low-income Kentuckians was just 34.5 percent—down from 46.2 percent in 2008-2009. For associate degrees, the 2011-2012 graduation rate for all Kentucky students at the state's community colleges was 13.1 percent, but the associate graduation rate for low-income students was just 11.7 percent.⁸

Improving higher educational attainment among low-income Kentuckians is one of the most important actions the state can take to strengthen its economy while also helping to improve individuals' quality of life. Increased education is associated with higher wages, and there is expected growth in middle-skills jobs in Kentucky which require education beyond high school but not a four-year degree.⁹ But forty-five percent—or more than 91,000—of the state's poor or low-income families in Kentucky do not have a parent with any postsecondary education.¹⁰ The Center for Postsecondary and Economic Success estimates that nearly 644,000 adult Kentuckians (ages 25-64) are in need of better skills and wages.¹¹ Of those, more than 58,000 are seeking work but have not worked in the last year; more than half worked at least some of the last year but earned poverty-level wages; and just over 254,000 worked at least some of the last year and earned above poverty-level wages but below the state median wage of \$14.60 an hour. Half of this group has a high school diploma or equivalency; 17 percent has no high school diploma; and nearly 33 percent has some college but no degree.

Prioritizing state need-based aid is especially important due to changes in the need-based federal Pell Grant Program. In addition to the decline in the purchasing power of a Pell Grant, recent changes in Pell eligibility have cut the amount of grants for some and made others no longer eligible at all.¹²

Principles for Prioritizing Need-Based Financial Aid

In order for a financial aid system to effectively target low-income students (including adults), who have been hit especially hard by tuition increases, state financial aid must be organized around a set of principles that recognizes the needs and realities of this population. These principles are as follows:

Adequacy

Financial aid needs to be funded adequately by the state so that there are enough resources allocated to need-based aid to assist all who qualify for it. Also, aid needs to be sufficient to make a meaningful difference to low-income adults, for whom the sacrifices associated with enrolling and persisting in higher education, in terms of lost wages, family time and advancement in an existing job—can be a significant barrier to postsecondary education. By covering a considerable portion of the costs (which may be greater than for more traditional age students by including expenses such as daycare and transportation), the state could incentivize more low-income adults to achieve a degree or credential.

Accessibility

The process of applying for and receiving financial aid must be accessible to low-income adult students. Due to financial, familial and other considerations that apply less to traditional age or economically better-off students, many low-income adults do not make educational decisions far in advance. To accommodate the different circumstances of low-income adults, deadlines should fall closer to the beginning of the academic year. Applicants should also be prioritized according to greatest financial need rather than other factors such as date of application.

Eligibility

Eligibility guidelines need to be designed in a way that promotes participation by low-income adults. For instance, financial aid programs should support part-time students as many low-income adults are not able to attend full-time. In addition, eligibility should not be contingent upon prior academic achievement and educational attainment or include time limits that disqualify adults; while reasonable considerations

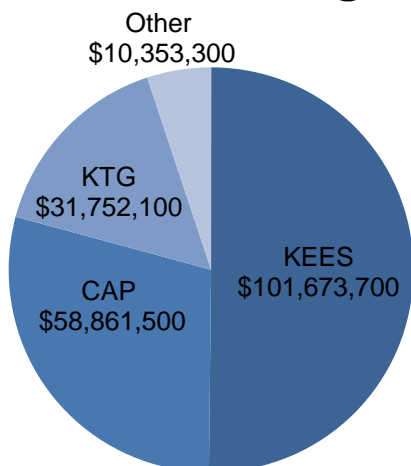
for some scholarships, these conditions prevent many low-income students from postsecondary educational attainment.

Kentucky's Financial Aid Programs

As illustrated in Figure 1 below, Kentucky's financial aid system consists primarily of three programs available to Kentucky residents: the Kentucky Educational Excellence Scholarship (KEES), a large merit-based program; the College Access Program (CAP), a need-based program; and the Kentucky Tuition Grant (KTG), a scholarship for students who want to attend a private institution full-time and still have unmet financial need after receiving other grants or scholarships.¹³ A student can qualify for and receive more than one of these awards at a time. In Figure 1, "other" programs include the state's very limited work study program and other small scholarships such as the Kentucky Teacher Scholarship for Kentucky students pursuing initial teacher certification at participating Kentucky colleges. Kentucky has also begun providing financial aid through the tax code with the Postsecondary Tuition Tax Credit created in 2005.

Figure 1

2013 Funding for Kentucky's Financial Aid Programs



Source: 2012-2014 Budget of the Commonwealth, Enacted Fiscal Year 2013.

KEES

Approximately half of the state's financial aid money goes to the merit-based KEES program, which was created by the 1998 Kentucky General Assembly.¹⁴ The average KEES award was \$1,180 a year in 2012-2013, but base awards for full-time students range from \$125 a year to \$2,500 a year; those who are at least half-time—six hours a semester—receive a prorated amount.¹⁵ Students can receive KEES for up to eight semesters. However, eligibility expires five years after a student's high school graduation date.¹⁶ In 2012, 68,745 students received a KEES scholarship, but award amounts vary considerably.¹⁷

KEES base award amounts are determined by a student's yearly (as opposed to cumulative) GPA, with 2.5 being the threshold for eligibility.¹⁸ For instance, a high school freshman with a 2.5 GPA will receive \$125 a year of KEES money during college; if the same student earns a 4.0 GPA her sophomore year, she receives an additional \$500 a year.¹⁹ Students can also earn a supplemental award for their ACT composite score (or converted SAT critical reading and math scores); those who earn a GED rather than a high school diploma are only eligible for the supplemental award.²⁰ In addition, there is now (since academic year 2008-2009) a very small need-based component to KEES: KEES-eligible high school

students whose families were eligible for free or reduced-price lunch for any year during high school can receive a bonus supplemental award for achievement on exams for Advanced Placement (AP) or International Baccalaureate (IB).²¹

CAP

CAP was created in 1994 and is Kentucky's primary need-based financial aid program and the only one targeted to those with the greatest financial need. CAP receives a third of Kentucky's financial aid funding.²² Students who qualify are those who are eligible for the federal Pell Grant. Maximum awards are \$1,900 a year for full-time students and students enrolled at least half-time receive a prorated amount. Students can obtain CAP for a total of five semesters at a two-year college and nine at a four-year college.²³ In 2012, 37,304 Kentucky students received CAP.²⁴

KTG

KTG, which started in 1972, is designed to help fill the gap between the high cost of Kentucky's independent colleges, aid received by other sources (including CAP and KEES) and a student's Expected Family Contribution (EFC) as calculated through the Free Application for Federal Student Aid (FAFSA) based on family income and other factors.²⁵ KTG makes up about 16 percent of state funding for scholarships.²⁶ KTG awards are a maximum of \$2,964 and a minimum of \$200, and students can receive the grant for a total of nine semesters.²⁷ There were 11,820 recipients in 2012.²⁸

OTHER STATE SOURCES OF FINANCIAL AID

Kentucky's Postsecondary Education Tuition Credit—a nonrefundable credit against individual income taxes created in 2005—is part of a national trend to increasingly provide financial aid through the tax code. The credit, which can be claimed for undergraduate tuition and related expenses—for the person submitting his/her income tax return, his/her spouse, or a dependent—can be used at an eligible Kentucky educational institution.²⁹ The credit is 25 percent of the amount recorded on the federal return for the Lifetime Learning Credit (LLC), which provides up to a \$2,000 credit for qualified expenses paid for each eligible student. It can be claimed for any year of higher education.³⁰ This source of financial aid cost Kentucky an estimated \$15.7 million a year, according to the state's most recent reporting.³¹

Other education-related tax expenditures in Kentucky include: an exclusion from taxable income of scholarship and fellowship income; the Metropolitan College Program Tax Credit; exemption of textbooks from sales tax; deductibility of interest on educational loans; and the exclusion from taxable income of employer-provided educational assistance.³² Most forms of financial aid provided through the tax code benefit those with higher incomes more than those with low-incomes; for instance, in many cases those whose incomes are too low to owe income taxes cannot benefit.³³

Kentucky also has a very small need-based scholarship program, Go Higher, which specifically targets adult learners. In order to be eligible, a student must be 24 or older, enrolled at a participating Kentucky college less than half-time and demonstrate financial need.³⁴ For Go Higher, establishing financial need means having an EFC—a calculation based on family income as well as other factors—of no more than 150 percent of the maximum CAP grant EFC.³⁵ To put this in perspective, CAP eligibility is the same as Pell eligibility—and in 2011-2012, 84 percent of those receiving Pell had a family income of \$50,000 or below.³⁶ The Go Higher Grant provides up to \$1,000 for one academic year, to be used for tuition and books (the book allowance is \$50 per credit hour). Students can only receive the grant for one year. In 2012, the number of participants was just 190; this limited number of scholarship recipients is in part due to marketing issues.³⁷

Effectiveness of Kentucky's Financial Aid System in Serving Low-Income Adults

Kentucky could do a much better job supporting low-income adults in attaining postsecondary degrees and credentials in the context of rising college costs. Overall, low-income adults are not adequately

targeted for financial aid in Kentucky, and the state's financial aid system is not organized for those students according to the principles of adequacy, accessibility and eligibility previously introduced.

ADEQUACY

The significant underfunding of Kentucky's financial aid programs—particularly need-based scholarships—prevents many of the state's low-income adults from accessing and completing college. Since 2011 more eligible students have been denied need-based aid than have received it.³⁸ And for those who do receive state financial aid, scholarship amounts are too small given the costs of attendance. For low-income adults whose families typically do not pay for their college, existing scholarship levels are not enough to cover expenses, and many go into significant debt working toward a postsecondary degree or credential.³⁹ Others decide not to enroll in college at all.

Need-Based Funding Particularly Inadequate

More and more eligible students are turned away from Kentucky's need-based aid each year. KEES is fully funded, which means that all who qualify will receive their scholarship. However, CAP and KTG are awarded on a first-come, first-served basis until funds run out. In 2012-2013, over 76,000 eligible students (67 percent of eligible applicants) were denied CAP scholarships for this reason.⁴⁰

In addition, the maximum amounts for KEES and KTG scholarships—which primarily benefit middle- to upper-income students—are larger than for CAP. And KTG—which is based primarily on the cost of the college rather than the financial need of the student—is a larger scholarship than both CAP and KEES.

Also, while Kentucky's scholarship programs are woefully underfunded, the state expends money generously—more than \$36 million a year—for education-related tax expenditures.⁴¹ As mentioned previously, this type of financial aid primarily benefits students from middle- to upper-income families.

Scholarships Don't Cover the Costs of College

Even for those students who do receive state financial aid, the scholarship amounts are quite small when compared to the costs of attending college. For instance, the full cost of attending the University of Kentucky full-time for one year (2013-2014) for an in-state student is estimated to be \$23,800—\$10,110 for tuition and fees, \$10,328 for room and board, \$1,000 for books and supplies, \$1,594 for personal expenses, \$700 for travel, and \$68 for loan origination. The cost of in-state full-time attendance at a Kentucky Community and Technical College System (KCTCS) institution for the same year is \$14,282: \$3,456 for tuition; \$1,000 for books and supplies; \$6,976 for housing (not with a parent); \$800 for personal expenses; and \$2,050 for transportation.⁴² In contrast to the cost of attending college in Kentucky, the state's maximum scholarships do not typically exceed \$3,000 a year—and CAP is just \$1,900 a year.⁴³ And even though KEES scholarships can technically exceed \$3,000 a year, typically they are much smaller—some as small as \$36 a year.

The amounts of the CAP and KTG scholarships have been adjusted at various times. In the case of CAP, the maximum award has increased in order to keep up with the cost of community college tuition—although the amount has not increased since 2006-2007 when it went from \$1,700 to \$1,900. In the case of KTG, the maximum award has both increased and decreased in part because of the statutory calculation of the maximum award amount—which cannot exceed 50 percent of the average full-time student amount appropriated by the state to public higher education institutions; since 2006 the KTG award maximum has held between \$2,900 and \$3,000.⁴⁴ However, the base amount (not including supplemental and bonus supplemental awards) of the KEES grant has remained unchanged since 2002; in other words, it has not kept up with the astronomical jumps in tuition or even inflation.⁴⁵ According to a 2009 study, in 2002 the maximum KEES award would have covered between 63 percent to 85 percent of the cost of college at four-year public universities; by 2009 the percentage of tuition and fees covered by the maximum annual award was between 37 and 51 percent.⁴⁶ In contrast, many merit-based programs are automatically indexed for increases in tuition by providing full tuition or a percentage of tuition rather than a fixed dollar amount.⁴⁷

While these scholarships are clearly not adequate, exactly what level of funding is needed to incentivize low-income students to enroll or persist in college still needs to be determined.

ACCESSIBILITY

The process by which Kentucky's state financial aid funding is awarded prevents many low-income adults from receiving aid. Priority is given to the merit-based KEES program, resulting in many qualified low-income adults being denied funds.

For KEES, all students in the state's high schools are automatically screened for eligibility based on their GPAs. As discussed previously, students who qualify for KEES are guaranteed to receive the scholarship. In contrast, because CAP and KTG have such limited budgets, scholarships are awarded on a first-come, first-served basis to eligible students. Students apply for CAP and KTG by filling out the FAFSA as soon as possible on or after January 1.⁴⁸ Each year the date that CAP funding is exhausted is earlier than the previous year. While in 2011 CAP funding was depleted in early March, in 2012 this occurred in mid-February. KTG funds typically run out very soon after CAP funds. Those who wait to submit their FAFSA will likely not receive CAP or KTG, and adult students are often among those denied aid in this process as they may not make educational decisions far in advance.

Prioritizing the awarding of merit-based KEES scholarships over the need-based CAP grant means that a large number of students with significant financial need—more than half of those who apply and qualify for the grant—do not receive scholarships. As discussed in greater depth later in this report, KEES recipients are more likely to be middle- to upper-income students. A process aiming to be more accessible to low-income adults would prioritize those with the greatest financial need, rather than basing aid decisions on earliest completion of the FAFSA.

ELIGIBILITY

The eligibility guidelines for state financial aid in Kentucky prevent many low-income adults from receiving scholarships that could help them access and complete college degrees and credentials. As noted in a report on the KEES program, "Like KEES, a majority of aid programs are available only to those who enter college full time immediately after graduating from high school. Students who start college later in life or return to college after an interruption have few sources of aid."⁴⁹ Unlike most of Kentucky's financial aid programs, eligibility guidelines that are conducive to low-income adults tend to allow for less than half-time enrollment and longer time limits, among other features.

Part-time versus Full-time Enrollment

Financial aid is most accessible to low-income adult students if eligibility guidelines do not disqualify part-time—ideally less than half-time—enrollment. Low-income adult students are more likely to work at least part-time, be financially independent (rather than relying on parents to pay for college) and have families.⁵⁰ As a result they may attend college part-time—often less than half-time. In fall 2012, 60 percent of Kentucky's community college students were enrolled part-time—55 percent in 9 credit hours or less—and 25 percent were enrolled in three or less credit hours.⁵¹ While those who attend college at least half-time do qualify for CAP and KEES, those who are enrolled less than six hours a semester do not. And half-time students receive prorated grant amounts but are not eligible for more semesters than those attending full-time, even though completing college will take them longer.

While part-time students are eligible for most of Kentucky's scholarships, only Go Higher—which specifically targets low-income adult students—is available to less than half-time students.

Time Limits

In order to complete college, low-income adults need financial support throughout the duration of their time in higher education. One of the most frequent reasons for discontinuing work toward a degree or

credential is finances.⁵² However, the time limits for Kentucky's state scholarships are not always conducive to supporting low-income adults.

KEES eligibility expires five years after a student graduates from high school or earns a GED.⁵³ This means that low-income adults, who frequently enroll in postsecondary education a considerable amount of time after completing high school—either for the first time or to make progress toward a degree or credential—would not qualify. In fact, only those who enroll in college a year or less after completing high school would qualify for the maximum eight semesters of support. This eligibility criterion bars most of the state's low-income adults from qualifying for KEES.

For both KEES and CAP, students can qualify for a reduced (prorated) amount if they are enrolled at least half-time, but they are subject to the same time limits as full-time students. Students can receive KEES for eight semesters. For CAP, the time limit is five semesters for a two-year degree and nine for a four-year degree.

Go Higher, Kentucky's only financial aid program that specifically targets low-income adults, is only available for one year. Receiving the scholarship may encourage enrollment in a college or university, but the short duration of the scholarship—not to mention the small amount—cannot support a student's persistence toward and completion of a degree or credential.

Educational Attainment

Many low-income adults have a high school equivalency diploma (i.e., a GED) rather than a high school diploma, and some do not have either. While students without a high school diploma are eligible for CAP and KTG, GED recipients only qualify for a very small supplemental KEES scholarship depending upon their ACT or SAT scores.⁵⁴

Academic Achievement

Rigorous academic requirements can keep many low-income adults from qualifying for scholarships. For instance, merit-based scholarships like KEES typically end up benefitting higher income students.⁵⁵ With CAP and KTG, a student must meet the academic requirements of a higher education institution to qualify for these grants, but there are no other additional academic benchmarks.

As a merit-based scholarship, KEES is designed to award high academic achievement; as described previously, the higher a student's GPA and test scores the greater the grant amount. KEES actually has lower qualification thresholds than many states' merit-based programs, allowing almost 90 percent of Kentucky's high school students to earn scholarships.⁵⁶ However, the KEES scholarships that are available to students with lower academic achievement are quite small. And due to other KEES requirements—such as eligibility expiring five years after high school graduation, as discussed below—a large share of adult students cannot qualify for KEES despite these lower qualification thresholds.

A 2009 study of KEES found that Kentucky high schools with fewer low-income students and greater shares of white and also female students had larger percentages of students earning KEES scholarships and larger award amounts. According to the study, the scholarship's definition of merit as a combination of standardized test scores as well as GPA leads to this regressivity in its distribution.⁵⁷

Financial Need

Need-based financial aid programs help low-income adult students access college and complete postsecondary degrees and credentials. Two of the state's main financial aid programs have financial need requirements, although only one is truly a need-based program.

To be eligible for CAP, a student must demonstrate financial need by having an EFC that qualifies him/her for Pell. To be eligible for KTG, there must be a gap between a student's EFC and the cost of tuition at the private college of his/her choice after other scholarships have been taken into consideration.

In addition, KEES now has a need-based component—bonus awards for those who have qualified for free or reduced-price lunch who score well on AP and IB exams—but most low-income adults do not qualify for KEES at all. So these need-based bonus awards do little to support the state’s low-income adults.

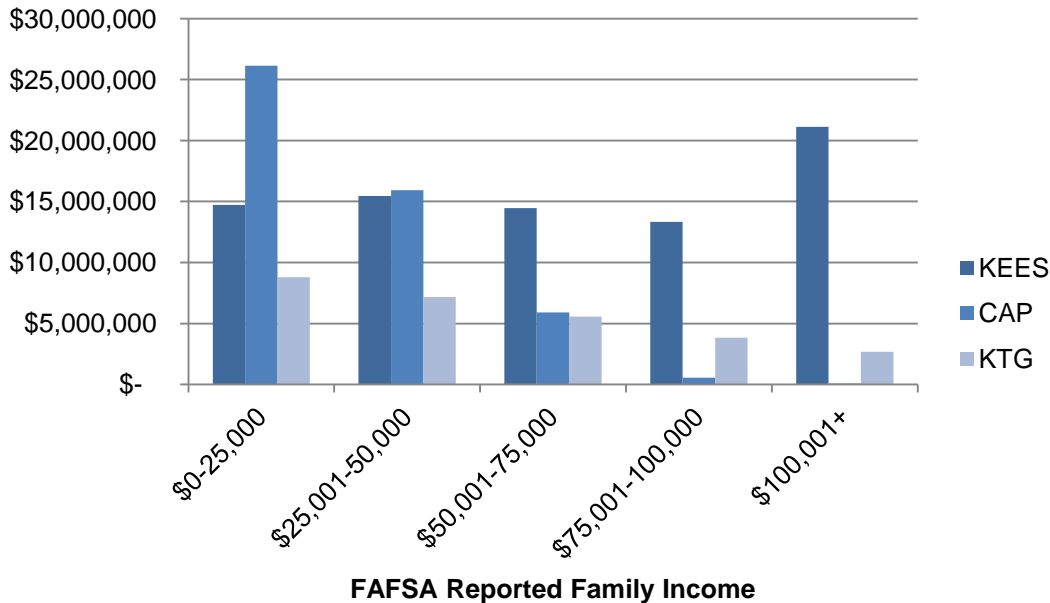
In practice, the Postsecondary Education Tuition Tax Credit has an income requirement that excludes many low-income adults. Because it is nonrefundable (meaning one must have a tax liability to receive it), those with very low incomes cannot benefit from this form of financial aid.

Due to such a minimal focus on financial need eligibility in Kentucky’s financial aid system, many who receive scholarships have relatively high family incomes. In 2013, approximately \$23.9 million in state financial aid went to families with incomes over \$100,000 a year (and that’s just for those for which income information is available).

As shown in Figure 2 below, while most CAP funding goes to those with relatively low incomes, nearly 44 percent of KEES funds are disbursed to those with family incomes of more than \$75,000 a year.⁵⁸ And although KTG is billed as a need-based program, more than 23 percent of KTG funds went to those in this income category. In contrast, less than 2 percent of CAP funds were disbursed to those with incomes over \$75,000.⁵⁹

Figure 2

Disbursement of KEES, CAP and KTG by Income 2013



Source: Kentucky Higher Education Assistance Authority. This analysis is based on KEES, CAP and KTG recipients for whom income information is available.⁶⁰

In addition, based on 2009 data, only about 7 percent of federal Lifetime Learning Credit benefits—upon which Kentucky’s Postsecondary Education Tuition Credit is based—go to households with adjusted gross incomes of less than \$20,000, and 40 percent go to households with incomes of \$60,000 or more.⁶¹

Eligible Institutions

It is important for low-income adults that state grants can be used at a range of postsecondary institutions—including vocational schools—and that the institutions provide a quality education. Kentucky's scholarship programs largely follow the same guidelines for eligible institutions that federal financial aid programs follow, which include vocational institutions.⁶² In order to qualify for federal financial aid—and Kentucky's state aid—a college or university must be designated as an institution of higher education pursuant to section 102 of the federal act, 20 U.S.C. sec. 1002.⁶³ Among these criteria are that the higher education institutions must be established (proprietary institutions must be at least two years old), accredited and not have a history of mismanagement.⁶⁴ There are also a variety of institutional disclosure requirements; among the most recent additions are graduation rates for Pell recipients.⁶⁵

The eligibility guidelines for postsecondary institutions receiving Kentucky's state-based financial aid do not require that a college or university meet additional performance standards such as a minimum graduation rate. Several of Kentucky's for-profit postsecondary institutions are currently under investigation for consumer fraud—institutions that have received millions of dollars in state financial aid over the years. And more than seven percent of the state's need-based aid goes to for-profit institutions; the national average is 5.5 percent.⁶⁶ However, a recent Center for Law and Social Policy (CLASP) report concluded that performance-based funding allocation models intended to protect students and state/federal funds can lead to colleges restricting admission for less-prepared students, which has a negative effect on low-income adults.⁶⁷ This report recommended that efforts be made instead to improve the performance data that are collected and made publicly available so that students and their families can make more informed decisions.⁶⁸

Maintaining Eligibility

Very rigorous academic requirements to maintain eligibility for scholarships can prevent many low-income adults from retaining state financial aid. However, the requirements for Kentucky's grants are relatively reasonable by this measure.

To maintain eligibility for CAP and KTG, a student must simply maintain satisfactory progress in an eligible program of study as defined by the educational institution (i.e., in terms of GPA and credits earned). Currently at Kentucky's public 4-year universities, "on track to graduate" means: 48 hours earned by the end of the second year; 72 hours earned by the end of the third year; and 120 hours earned by the end of the fourth year (this includes transfer hours accepted at the institution).⁶⁹

The renewal requirements for KEES are more stringent, but they are much less stringent now than they were previously. This change in the renewal requirements may help more students retain KEES: originally, students were required to maintain a 3.0 cumulative GPA to receive KEES. However, with the passage of Senate Bill 75 in 2008, students can continue to receive a full KEES award with a cumulative GPA of 2.5 to 2.99 as long as they are considered to be "on track to graduate" by their institutions.⁷⁰ Those who meet the GPA requirement but are not "on track to graduate" can still receive a reduced (50 percent) award if they are enrolled full-time. Students lose their KEES award if their GPA is less than 3.0, they are not enrolled full-time *and* are not "on track to graduate."⁷¹ Students who lose their KEES award can have it reinstated by meeting renewal criteria by the end of the following academic year; however, the eligibility time limit of no more than five years after high school discussed above still applies.⁷² While the changes in renewal requirements are significant, it is important to note that most of the state's low-income adults do not qualify for KEES anyway.⁷³

Recommendations

The context for Kentucky's financial aid programs has changed dramatically over the last few decades—with tuition rising rapidly at the state's universities and community colleges—but these programs have changed little. Despite these rising costs and the large number of adult and part-time students enrolled in college in Kentucky, particularly in community colleges, low-income adults are generally not prioritized for Kentucky's state financial aid.⁷⁴ As discussed previously, a significant portion of Kentucky's state financial aid programs benefit traditional-age college students who are from better off families.

It is time for a conversation about how to reform our financial aid system for the current context. The following are some general recommendations related to the effective principles for a financial aid system that prioritizes need-based aid, with examples of what reform might entail. Further public discussion is needed to identify the best specific changes to make to meet these principles.

ADEQUACY

Providing adequate funding for need-based aid should be the top priority in allocating state dollars to financial aid. In addition, need-based financial aid needs to be funded to the point that it can make a difference in college-going decisions. Ideally, that means additional appropriations of General Fund dollars to the CAP program. Here are some other examples of how greater adequacy could be achieved:

- Provide full statutory funding for CAP.⁷⁵
- Allocate growth dollars in lottery funds and KENO lottery funds to the CAP program.
- Direct all surplus net lottery revenues (when receipts exceed lottery estimates) to the CAP program.⁷⁶
- Address the inequity in maximum grant amounts between CAP and KTG.
- Scale the size of CAP and KTG awards based on need.
- Eliminate the Postsecondary Education Tuition Tax Credit and divert its resources to CAP.⁷⁷
- Study specifically what level of funding is needed to incentivize low-income students to attend and persist in college given the increased cost of attendance.

ACCESSIBILITY

Kentucky's financial aid programs would be more accessible to low-income adults if the application processes and deadlines were better aligned with the realities of low-income adult students. Resources should also be prioritized based on need rather than other criteria. The following are some possible ways these goals could be accomplished:

- Move forward the award date for CAP and KTG.
- Take extent of financial need into account when awarding CAP and KTG.

ELIGIBILITY

To target low-income adults, the eligibility requirements for Kentucky's financial aid programs need to be revised so that those with the greatest financial need are not inadvertently disqualified. For instance, part-time students and those who attend college as adults should be fully eligible. Enrollment in reputable institutions should also be encouraged. Here are some examples of specific changes that could be made:

- Eliminate KEES expiration five years after high school graduation.
- Extend time limits for part-time CAP and KEES students.
- Extend Go Higher eligibility beyond one year and expand marketing.
- Require participating postsecondary institutions to collect performance data and make data publicly available beyond current requirements for Pell.⁷⁸

Conclusion

Kentucky has a critical need for increasing educational attainment rates for low-income adults, and finances are a key barrier to enrolling in postsecondary education and completing a degree or credential. Unfortunately, most of the state financial aid programs are designed for traditional-age college students and some disproportionately benefit largely middle- to upper-income students. However, by prioritizing need-based financial aid according to principles that recognize the needs and realities of low-income adults, important changes can be made to Kentucky's scholarship programs that support these students and improve the state's economy.

Updated March 3, 2015 so that data on page eight reflects all participating students for whom there is data—not just data for dependent students.

The Kentucky Center for Economic Policy is a non-partisan initiative that conducts research, analysis and education on important policy issues facing the Commonwealth. Launched in 2011, the Center is a project of the Mountain Association for Community Economic Development (MACED) and is a member of the Working Poor Families Project, a national initiative funded by the Annie E. Casey, Ford, Joyce and Kresge foundations that advances state policies in the areas of education and skills training for adults; economic development; and income and work supports. Visit KCEP's website at www.kypolicy.org.

¹ Jerry Abramson and Mary Lassiter, "Governor Beshear's Blue Ribbon Commission on Tax Reform," Joint Committee on Appropriations and Revenue, February 5, 2013, http://www.osbd.ky.gov/NR/rdonlyres/810338E6-7B75-4A75-A94B-5AE381AD9C77/0/130205_ARPresentation_BlueRibbonTaxCommission.pdf%20-%20page=1&zoom=auto,0,0.

² The author's calculation using 2000 actual and 2013 enacted data from the state's operating budget.

³ Lora Littleton, Tasha Fraley, Jessica Sapp and Mike Clark, "Cost and Funding of Higher Education in Kentucky" (Draft), Legislative Research Commission, December 11, 2013.

⁴ Working Poor Families Project, NCES IPEDS as reported by NCHEMS, 2009. The "poorest families" are those with a median family income in the lowest quintile.

⁵ According to the Brookings Institution, 73 percent of all state grant aid in the United States is based on need, while in Kentucky no more than 49 percent is. This calculation counts the Kentucky Tuition Grant as need-based aid in addition to the College Access Program. Brookings Institution State Grant Aid Study Group, "Beyond Need and Merit," May 2012, http://www.brookings.edu/~media/research/files/reports/2012/5/08%20grants%20chingos%20whitehurst/0508_state_grant_chingos_whitehurst.pdf. Unlike the Brookings report, this report does not treat the Kentucky Tuition Grant as a true need-based program because—as discussed later in the report—many recipients of this scholarship have high family incomes because "need" is defined not by income but by the gap between a family's Expected Family Contribution and the cost of attending a private college. The College Access Program, Kentucky's true need-based scholarship program, receives only about a third of Kentucky's financial aid funding.

⁶ Patrick Reimherr, Tim Harmon, Julie Strawn and Vickie Choitz, "Reforming Student Aid: How to Simplify Tax Aid and Use Performance Metrics to Improve College Choices and Completion," Center for Postsecondary and Economic Success, Center for Law and Social Policy (CLASP), February 2013, <http://www.clasp.org/documents/Final-RADD-WhitePaper-Feb-2013.pdf>.

⁷ Benjamin L. Castleman and Bridget Terry Long, "Looking Beyond Enrollment: The Causal Effect of Need-Based Grants on College Access, Persistence and Graduation," Graduate School of Education, Harvard University, October 2012. Sara Goldrick-Rab, Douglas N. Harris, Robert Kelchen and James Benson, "Need-Based Financial Aid and College Persistence: Experimental Evidence from Wisconsin," Institute for Research on Poverty, University of Wisconsin, 2012, <http://www.finaidstudy.org/documents/Goldrick-Rab%20Harris%20Kelchen%20Benson%202012%20FULL.pdf>.

⁸ Kentucky Council on Postsecondary Education, "Stronger By Degrees: A Strategic Agenda for Kentucky Postsecondary and Adult Education, 2011-2015," December 2013, <http://www.cpe.ky.gov/NR/rdonlyres/35DCCD330-7FD9-4F55-AC70-69277DB851DB/0/AccountabilityReport201112.pdf%20-%20page=2&zoom=auto,0,605>.

⁹ Examples of middle-skills jobs in Kentucky are registered nurse and automotive mechanic. National Skills Coalition, "Growing Kentucky's Economy by Investing in the Forgotten Middle," http://www.nationalskillscoalition.org/resources/fact-sheets/state-fact-sheets/middle-skill/nsc_middleskills_kentucky.pdf. In Kentucky in 2011, the hourly wage gap between those with a high school degree and those with a bachelor's degree or higher was nearly \$10.00. Economic Policy Institute, Current Population Survey, analysis of 2011 data.

¹⁰ There are 201,265 poor (below the federal poverty level) or low-income (below 200 percent of the federal poverty level) families in KY. 91,315 of these families have no parent with postsecondary education. Working Poor Families Project, 2011 American Community Survey microdata.

¹¹ Center for Law and Social Policy (CLASP), "Kentucky: Building the Middle Class with Better Skills and Wages: Who Would be Helped by Stronger Pathways?," http://www.clasp.org/admin/site/documents/files/BSW_KY.pdf.

¹² In the 1970s, Pell covered nearly 80 percent of tuition, fees, and room and board at four-year public postsecondary institutions. Today it covers only about 34 percent of these costs. Shannon M. Mahan, "Federal Pell Grant Program of the Higher Education Act: Background, Recent Changes, and Current Legislative Issues," Congressional Research Service, April 13, 2011, www.nasfaa.org/WorkArea/DownloadAsset.aspx?id=4985. As a result of The Consolidated Appropriations Act of 2012, the eligibility requirements for the Pell Grant Program have undergone important changes that affect Kentucky's low-income students. Included in these changes are: the income threshold for an automatic zero Expected Family Contribution (EFC) was lowered from \$32,000 to \$23,000 a year; eligibility was eliminated for students who would have received less than 10 percent of the maximum award; and the maximum number of semesters a student could receive Pell was reduced from 18 (or its equivalent) to 12 (or its equivalent). These changes mean that beginning last year: many Kentucky students who received the maximum Pell amount in 2011-2012 received a reduced amount; some no longer qualified for Pell at all based on their EFC; and those who had already received Pell for 12 or more semesters were abruptly cut off. Another change resulting from the 2012 legislation is the elimination of the "Ability to Benefit" (AtB) option through which students who did not have high school degrees or equivalency credentials could qualify for Pell—and other federal student aid—by demonstrating their capacity to succeed in a higher education program by passing a federally approved exam or earning six credit hours toward a postsecondary degree or credential. It is estimated that about one percent of community college students are AtB. J. Cody Davidson, "Changes to Federal Pell Grant Eligibility: The Effect of Policy and Program Changes on College Students at Public Institutions in Kentucky," *Journal of Student Financial Aid*, January 17, 2014, <http://publications.nasfaa.org/cgi/viewcontent.cgi?article=1206&context=jsfa>. The AtB elimination will only apply to students who enroll in college for the first time after July 1, 2012, so those who previously received Pell through the AtB option as well as anyone

who was ever enrolled in college before that date will still qualify for Pell through AtB. Vickie Choitz, Julie Strawn and Marcie Foster, "FAQs on How the Ability to Benefit Options in Federal Student Aid Affect Those without a High School Diploma," Center for Postsecondary and Economic Success, Center for Law and Social Policy (CLASP), March 2012, <http://www.clasp.org/admin/site/publications/files/Ability-to-Benefit-FAQs.pdf>.

¹³ Nearly 100 percent of net lottery proceeds are designated for these programs.

¹⁴ It was originally called the Commonwealth Merit Scholarship. Kentucky Higher Education Assistance Authority, personal communication.

¹⁵ Grants can actually be as low as \$36 a year for students who earn a GED instead of a high school diploma but qualify for KEES based on either their ACT or SAT score. Robin Morley and Becky Gilpatrick, "Lottery Funded Student Aid Programs," Presented to the House Budget Review Subcommittee on Postsecondary Education, February 7, 2013.

¹⁶ There are several specific circumstances in which a student's eligibility can be extended—for instance, in the case of serious and extended illness or injury of the student, the death or serious and extended illness or injury of an immediate family member, natural disasters, and military service. KRS 164.7881, <http://www.lrc.ky.gov/Statutes/statute.aspx?id=4447>.

¹⁷ Kentucky Higher Education Assistance Authority, personal communication.

¹⁸ This means that each school year students have a "clean slate," even if their performance was low in previous years. Beginning this year (2013-2014 school year), students completing high school in three years will receive a KEES scholarship award equivalent to completing high school in four years.

¹⁹ KRS 164.7879, <http://www.lrc.ky.gov/Statutes/statute.aspx?id=42374>.

²⁰ For a score of 15, \$36; for 18, \$143; for 21, \$250; for 24, \$357; and for 28 and above, \$500. Becky Gilpatrick, "KHEAA," Presentation at KASFAA Fall Conference, October 13, 2011, <http://www.kasfaa.com/conf/2011fall/Presentations/KHEAA-Student-Aid.pdf>.

²¹ For AP exams, the supplemental award is: \$200 for each score of three; \$250 for each score of four; and \$300 for each score of five. For IB exams, the supplemental award is: \$200 for each score of five; \$250 for each score of six; and \$300 for each score of seven. KRS 164.7879. In 2009, the first year of AP and IB bonuses, 909 students received such a bonus supplemental award, and the number of recipients has increased since then. In 2013, 2,287 students earned bonus supplemental awards. Kentucky Higher Education Assistance Authority, personal communication.

²² Kentucky Higher Education Assistance Authority, personal communication.

²³ Kentucky Higher Education Assistance Authority, personal communication.

²⁴ Kentucky Higher Education Assistance Authority, personal communication.

²⁵ Bailey, "The College Affordability Crunch." The Expected Family Contribution (EFC) for each student is calculated through the FAFSA taking into account the family income of a student (or the income of the student in the case of independent students) as well as other factors such as assets, number of children in college and the cost of attendance at the colleges the student is interested in attending. According to one analysis, family income explains about 70 percent of variation in the EFC, and 30 percent is dependent on these other factors. Office of Educational Accountability staff analysis of Kentucky's financial aid data. Marcia Ford Seiler, Brenda Landy, Ken Chilton, Al Alexander, Deborah Nelson, Sabrina Olds, Keith White and Pam Young, "A Study of the Kentucky Educational Excellence Scholarship," Legislative Research Commission, 2011, <http://www.lrc.ky.gov/lrcpubs/RR386.pdf>.

²⁶ Kentucky Higher Education Assistance Authority, personal communication.

²⁷ Kentucky Higher Education Assistance Authority, personal communication.

²⁸ Kentucky Higher Education Assistance Authority, personal communication.

²⁹ As defined by Section 25A of the Internal Revenue Code located within the Commonwealth of Kentucky.

³⁰ KRS 141.069, <http://www.lrc.ky.gov/Statutes/statute.aspx?id=29060>.

³¹ Office of the State Budget Director, Governor's Office for Economic Analysis, "Commonwealth of Kentucky Tax Expenditure Analysis 2010-2012," October 15, 2009, http://www.osbd.ky.gov/NR/rdoonlyres/DBC47EB8-FE21-4429-A283-7357388BF39B/0/1012TEA_TaxExpenditureDoc.pdf.

³² Bailey, "The College Affordability Crunch."

³³ Reimherr, Harmon, Strawn and Choitz, "Reforming Student Aid."

³⁴ 11 KAR 5:200 specifies that in order to be eligible, a student must be less than half-time the first semester in which the grant is awarded. KAR 5:200, "Go Higher Grant Program," <http://www.lrc.state.ky.us/kar/011/005/200.htm>.

³⁵ KAR 5:200, "Go Higher Grant Program." U.S. Department of Education, Federal Student Aid, "2013-2014 Federal Pell Grant Payment and Disbursement Schedules," Dear Colleague Letter, January 30, 2013, <http://ifap.ed.gov/dpccletters/GEN1306.html>. The maximum EFC for CAP is also the maximum EFC for Pell, so to qualify for CAP in 2013-2014, a student's EFC must be \$5,081 or below. Therefore, in order to qualify for Go Higher, a student's EFC would need to be no greater than \$7,622. This calculation of the maximum EFC for Go Higher is the author's.

³⁶ U.S. Department of Education Office of Postsecondary Education, "Distribution of Verified Federal Pell Grant Recipients by Family Income and Grant Level: All Verified Recipients – Award Year 2011-2012," 2011-2012 Federal Pell Grant Program End-of-Year Report, <http://www2.ed.gov/finaid/prof/resources/data/pell-2011-12/pell-eoy-2011-12.html>. Author's calculation.

³⁷ Kentucky Higher Education Assistance Authority, personal communication. In 2009-2010 there were just 229 participants, and in 2010-2011 just 141. Kentucky Higher Education Authority has recently started a new direct mailing marketing effort to those who have earned a GED. Brookings Institution State Grant Aid Study Group, "Beyond Need and Merit."

³⁸ Ashley Spalding, "Lottery Funds Not Adequately Supporting State Financial Aid Programs," Kentucky Center for Economic Policy, February 27, 2013, <http://kypolicy.org/lottery-funds-adequately-supporting-state-financial-aid-programs/>.

³⁹ The average debt for a student graduating from public four-year and private non-profit four-year institutions is estimated to be \$22,287. Matthew Reed and Debbie Cochrane, "Student Debt and the Class of 2011," Project on Student Debt, October 2012, <http://projectonstudentdebt.org/files/pub/classof2011.pdf>.

⁴⁰ 10,072 KTG students were denied aid. These numbers reflect students who were denied aid who were likely to enroll, but do not take into consideration the fact that some students who receive the grants do not end up attending college. Kentucky Higher Education Assistance Authority, personal communication.

⁴¹ Bailey, "The College Affordability Crunch in Kentucky."

- ⁴² University of Kentucky, "FAQ: How Much Does It Cost to Attend the University of Kentucky," <http://www.uky.edu/financialaid/financial-aid-faq>. The calculation for total costs per semester at KCTCS (\$7,141) is slightly different from that published on the ECTC website (\$7,174) as the separate costs actually add up to \$7,141. Elizabethtown Community & Technical College, "Consumer Information," http://www.elizabethtown.kctcs.edu/en/Costs_and_Aid/Additional_Consumer_Information.aspx#Cost%20of%20Attendance. For Western Kentucky University, the estimated costs for 2013-2014 were \$15,898-\$17,286: \$8,722 for tuition and fees; \$3,970-\$4,320 for room; \$2,206-\$3,244 for meals; \$1,000 for books. Western Kentucky University, "2013-2014 Estimated Cost of Attendance," <http://www.wku.edu/financialaid/coa.php>.
- ⁴³ It is technically possible for a KEES scholarship to be greater than \$3,000 if the maximum GPA award is earned each year as well as the supplemental and bonus supplemental awards for test scores and AP/IB exams. There are cases of students receiving over \$6,000 dollars a year through KEES. Kentucky Higher Education Assistance Authority, personal communication.
- ⁴⁴ Governor's Higher Education Work Group, "Information Requested on Lottery Funding and the KEES/CAP/KTG Programs," August 13, 2009, <http://cpe.ky.gov/NR/rdonlyres/BA58BE61-B621-4FB2-8984-D3361380CCAF/0/LotteryfundingandKEESCAPKTGprogram.pdf>. For instance, the maximum KTG award was \$2,800 in 2005-2006, \$2,900 in 2006-2007, \$3,000 in 2007-2008 but then \$2,964 in 2009-2010. Kentucky Higher Education Assistance Authority, personal communication.
- ⁴⁵ It is also notable that KEES grant amounts are considered to be smaller when compared to other merit-based state scholarship programs. Ford Seiler, Landy, Chilton, Alexander, Nelson, Olds, White and Young, "A Study of the Kentucky Educational Excellence Scholarship."
- ⁴⁶ Jeffrey P. Kash and Scott Lansley, "Defining Merit: The Impact of Award Structure on the Distribution of Merit Aid," *Journal of Student Financial Aid*, (2009), pp. 30-40.
- ⁴⁷ Kash and Lasley, "Defining Merit."
- ⁴⁸ In order to have the best chance of receiving the scholarship, the FAFSA should be submitted as soon after January 1st as possible.
- ⁴⁹ Ford Seiler, Landy, Chilton, Alexander, Nelson, Olds, White and Young, "A Study of the Kentucky Educational Excellence Scholarship."
- ⁵⁰ Spalding, "Crossing the Finish Line."
- ⁵¹ Kentucky Community & Technical College System, Office of Research and Policy Analysis, "2012-2013 Fact Book," http://www.kctcs.edu/About_KCTCS/KCTCS_Factbook/2012-13_Fact_Book.aspx.
- ⁵² Spalding, "Crossing the Finish Line."
- ⁵³ A student's eligibility can be extended (beyond eight academic terms and five years after graduating high school) in certain circumstances—for instance, military service or a serious and extended illness or injury.
- ⁵⁴ With Go Higher, those with a GED rather than a high school diploma are actually given priority for grants. 11 KAR 5:200.
- ⁵⁵ Kash and Lasley, "Defining Merit."
- ⁵⁶ Ford Seiler, Landy, Chilton, Alexander, Nelson, Olds, White and Young, "A Study of the Kentucky Educational Excellence Scholarship."
- ⁵⁷ Kash and Lasley, "Defining Merit."
- ⁵⁸ 28 percent of KEES recipients have a family income over \$100,000.
- ⁵⁹ Just over half of KEES recipients for whom financial information is available were Pell eligible. In contrast, all CAP recipients are Pell eligible. Kentucky Higher Education Assistance Authority, personal communication.
- ⁶⁰ Income is not reported for many participants in the state's financial aid programs—most frequently due either to the absence of a FAFSA record (for instance, KEES does not require recipients to submit a FAFSA) or, in some cases, the Department of Education assigning an automatic zero EFC and the data field is blank instead of being filled with an actual zero. Financial information is not available for 29 percent of KEES recipients, 9 percent of KTG recipients, and 20 percent of CAP recipients. Kentucky Higher Education Assistance Authority, personal communication.
- ⁶¹ Reimherr, Harmon, Strawn and Choitz, "Reforming Student Aid."
- ⁶² KEES can be used at an out-of-state institution only if a student is enrolled in a degree program in a field of study that is not available at any participating institution. KTG can be used out-of-state at a program or campus that is licensed by the Council on Postsecondary Education (CPE), does not provide entirely sectarian instruction and is accredited by SACS if possible—although the CPE can use SACS-like criteria to qualify an institution if SACS accreditation is not an option. CAP can only be used at institutions located within the Commonwealth.
- ⁶³ Because KTG is specifically for students attending private colleges, in order to qualify, institutions must be private, not composed solely of sectarian instruction and be accredited by the Southern Association of Colleges and Schools (SACS).
- ⁶⁴ For-profit institutions are eligible for aid under this definition.
- ⁶⁵ Reimherr, Harmon, Strawn and Choitz, "Reforming Student Aid."
- ⁶⁶ "National Association of State Student Grant and Aid Programs, "43rd Annual Survey Report on State-Sponsored Student Financial Aid: 2011-2012 Academic Year," <http://www.nassgap.org/viewrepository.aspx?categoryID=351#>.
- ⁶⁷ Reimherr, Harmon, Strawn and Choitz, "Reforming Student Aid."
- ⁶⁸ In the future, the data could enable policymakers to explore tying program or institutional eligibility to performance. Reimherr, Harmon, Strawn and Choitz, "Reforming Student Aid."
- ⁶⁹ The universities' definition of "year" is: second year, student enrolled at the institution for four terms; third year, student enrolled at the institution for six terms; fourth year, student enrolled at the institution for eight terms. Ford Seiler, Landy, Chilton, Alexander, Nelson, Olds, White and Young, "A Study of the Kentucky Educational Excellence Scholarship."
- ⁷⁰ The new rule applies to students who started college during or after academic year 2010.
- ⁷¹ Gilpatrick, "KHEAA Student Aid."
- ⁷² Ford Seiler, Landy, Chilton, Alexander, Nelson, Olds, White and Young, "A Study of the Kentucky Educational Excellence Scholarship." 40 percent of merit-based scholarship recipients in Kentucky lose their scholarships after the first year because they do not meet the GPA requirements. Brookings Institution State Grant Aid Study Group, "Beyond Need and Merit."

⁷³ Ford Seiler, Landy, Chilton, Alexander, Nelson, Olds, White and Young, "A Study of the Kentucky Educational Excellence Scholarship."

⁷⁴ Kentucky Community & Technical College System, Office of Research and Policy Analysis, "2012-2013 Fact Book."

⁷⁵ Per KRS 154A.130, minus \$3 million for literacy initiatives, CAP and KTG are to receive 55 percent of net lottery proceeds; KEES is to receive 45 percent. The state has not provided full statutory funding for CAP and KTG since 2008. Carl Rollins, "Student Financial Aid Funding Challenges," Kentucky Higher Education Assistance Authority, Presentation to Council on Postsecondary Education, June 20, 2013, https://www.kheaa.com/pdf/directorsCorner/CPE_June_20_Meeting.pdf.

⁷⁶ This idea was raised in Legislative Research Commission, "Issues Confronting The 2014 Kentucky General Assembly," November 2013, <http://www.lrc.ky.gov/lrcpubs/ib242.pdf>. "Student aid appropriations are determined by lottery estimates, and when receipts have exceeded estimates in the last several bienniums, the surplus revenue has been redirected to the General Fund."

⁷⁷ This recommendation has also been made by Kentucky's Higher Education Work Group., "The Final Report of the Higher Education Work Group," November 3, 2009, <http://cpe.ky.gov/NR/rdonlyres/CFCC3CB9-29B6-4A4F-9EB6-F32992CDF054/0/FINALHEWGNovemberReport.pdf>.

⁷⁸ By requiring improved performance data collection and reporting by colleges and universities that want to receive state financial aid funds, this measure would help promote the state's limited financial aid funding going to quality schools and degree programs rather than those that take advantage of students. Examples of possible data to be collected and reported are: a measure of debt burden per student or graduate; developmental education course completion and progression in a program of study; and aggregate student employment and earnings for all programs of study. Reimherr, Harmon, Strawn and Choitz, "Reforming Student Aid."