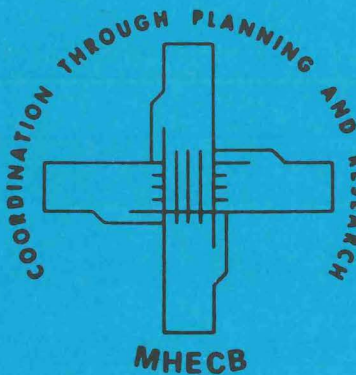


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SUITE 400
CAPITOL SQUARE
550 CEDAR STREET
SAINT PAUL 55101

820361

(612) 296-9665

OFFICE OF THE EXECUTIVE DIRECTOR

MEMORANDUM

January 21, 1982

TO : HIGHER EDUCATION COORDINATING BOARD
FROM : CLYDE R. ENGLE, EXECUTIVE DIRECTOR
IN RE : THE FINANCIAL AID SYSTEM IN MINNESOTA

The attached policy paper is the result of several months of intensive staff review of the Minnesota financial assistance system. It addresses concerns expressed over a long period by Coordinating Board members, legislators, students and educators about how Minnesota's arrangement of financial aid programs will be able to respond to drastic financial aid funding reductions at both the state and federal levels and substantial tuition increases at the state level.

The policy paper reviews the background of financial assistance available to Minnesotans, assesses problems that are developing in the systems, proposes a redefinition of government's role in promoting equal opportunity for students, and identifies related policy issues that should be addressed.

The major findings are:

- (1) The primary goal of promoting equal opportunity needs to be reaffirmed.
- (2) The uncertainty of the federal role in financial assistance requires that the state's primacy in this policy area be asserted.
- (3) The state must more clearly define how the responsibility for paying for a post-secondary education is to be shared between institution, student, family and government.
- (4) Programs should be modified or designed to ensure that the student and family shares in the responsibilities for paying for a post-secondary education can be met equitably.

HIGHER EDUCATION COORDINATING BOARD - 2
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(5) The state should establish a clear policy toward the independent sector of post-secondary education.

(6) The critical and growing role of credit in the state's financial aid system must be acknowledged and coordinated with the total system.

The policy paper is designed to set in process a general deliberation by the Coordinating Board, the Governor, the Legislature, post-secondary education and others of how Minnesotans may ensure a reasonable opportunity for all to pursue a post-secondary education that best meets their needs in the future.

It may be necessary for the Board to hold some special meetings or hearings on this policy paper, related technical papers, and emerging recommendations. The pace of this deliberation will be set to a considerable degree by the ultimate impact of the state's current fiscal crisis on the financial aid system and intentions of the legislature. In order to begin this process, the policy paper will be presented to the Board at its January 28 meeting and circulated broadly to interested parties.

To focus discussion, I recommend

(1) THAT the Coordinating Board recommend that the Governor and the legislature reaffirm that the primary goal of Minnesota's financial aid system is to promote equal opportunity for a citizen to pursue an education beyond the high school level in institutions and programs that best serve their needs, regardless of economic circumstances.

Rationale: The current Minnesota system of financial aid does not promote equality of educational opportunity as effectively as possible because funds are not targeted to the students with the greatest need. These inequities have been highlighted in a time of limited resources. In this context, the state needs to reassert its fundamental goal of promoting equal opportunity and to recognize that the role of the financial aid system is critical in ensuring equal opportunity for students with the highest need.

(2) THAT the Coordinating Board urge the Governor and the Legislature to adopt, by statute or other actions, the policy principle that the state's role in the financial assistance system must be established as independent of the federal role.

Rationale: Because the federal role in financial aid has begun to diminish and its future role is uncertain, the state needs to ensure that its efforts in assisting students are sufficiently independent of federal policies. This independence will enable the state to achieve its goal of promoting equal opportunity with the least disruption possible from federal policy changes.

"PLAN FOR DELIBERATION AND ACTION ON THE FUTURE OF
MINNESOTA'S FINANCIAL AID SYSTEM"

January 20, 1982

HECB Management Plan calls for policy paper on Minnesota's
financial assistance system.

January 29, 1982 - Coordinating Board received policy paper and is
asked to:

- (1) urge reaffirmation of goals of promoting
equal opportunity;
- (2) urge state policy role as independent of
federal role.

Mid-February - Special hearings on policy paper and technical paper.

February 25 - Board deliberation and action on policy paper on state
policy toward independent sector of post-secondary
education.

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January 21, 1982

(3) THAT the Coordinating Board accept the "Plan for Deliberation and Action on the Future of Minnesota's Financial Aid System," dated January 20, 1982 (attached).

This plan would include

A. A staff technical paper that will propose a definition of shared responsibilities for financing post-secondary education between student, family and government (scheduled for Board deliberation mid or late February).

B. A Coordinating Board policy paper on state policy toward the independent sector of post-secondary education with recommendations to follow.

C. A staff technical paper on the role of credit in Minnesota's financial assistance system to be presented in the spring of 1982.

Rationale: The staff technical paper would outline in more detail a proposal to define the relative roles of the student, the family and government in financing the costs of post-secondary education. It also would address programs that must be designed, modified or terminated to ensure that the student and family responsibilities for paying for the post-secondary education can be met.

A strong private sector is a key part of the healthy state system of post-secondary education. The status of the private sector is directly affected by the financial aid system that is being addressed and by other programs. Thus, a clear state policy is needed to make clear how students attending these institutions should be treated in the financial aid system. A separate policy paper would address this issue.

Finally, the role of credit in Minnesota's financial aid system has become critical to meeting students' needs and its importance is likely to increase as the federal government's role in the student loan area changes. A separate paper would address the feasibility of a state loan program.

These recommendations are made to focus Board deliberation on the important policy issue. The pace of Board deliberation and action will be determined, in part, by legislative plans for the 1982 Session. I hope to be able to comment further on these plans at the January 28 meeting.

CRI:jm
Attachments

Student Financial Aid in the 1980s:

Roles and Responsibilities

Prepared by the staff of the
Minnesota Higher Education Coordinating Board

January 1982

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EXECUTIVE SUMMARY

Minnesota's current system of student financial aid was created during the 1960s and 1970s to promote equality of educational opportunity. The effort has served the state well by assisting tens of thousands of students with financial need to attend the institution that will best meet their needs.

A review of current and projected conditions affecting post-secondary education and a re-examination of the current financial aid approach, however, have suggested that it will be difficult for the state to fulfill its equal opportunity goal to the fullest extent possible in a period of limited resources.

Federal and state funding for student financial aid is being reduced while the costs of education exceed the rate of inflation and personal family income lags behind the rate of inflation. The diminishing federal role has critical implications for Minnesota. Federal student assistance is the largest source of aid in Minnesota, and the state's programs were developed to complement the federal programs.

The emerging fiscal constraints have accentuated problems and inequities that developed during the evolution of the current state system. Under the current approach, poorer students are expected to contribute more to financing their education than students from more affluent families who are attending the same institution.

In response to the current conditions and problems, the state has three options: increase spending dramatically to meet the demands of the current system; adjust the current aid system to accommodate appropriation levels, thus exacerbating the inequities among students from varying family economic backgrounds; or design a system of shared responsibility for financing post-secondary education that spells out the relative roles of students, parents, institutions and government.

An alternative design to the current system could address the inequities and would reorder priorities among those involved in financing the education. In general, the student, as principal beneficiary of the education, would bear significantly more responsibility, although in no case would the amount expected create an unmanageable burden as now sometimes occurs. Next, the family would contribute a reasonable amount. And finally, government would attempt to ensure that funds are available to cover whatever costs remain. Now, most costs borne by the student are not planned but are left to the student as a result of the insufficiency of parental and governmental contributions.

Determining the proportion that students contribute through work or borrowing would be the single most significant decision required of government in assigning responsibilities for paying the cost of attendance. Government would then try to ensure that funds are available to cover whatever costs remain after the students and family fulfill their contribution. While every effort would be made to maximize the use of federal funds, this design assumes that the state must accept primary responsibility for promoting equal educational opportunity.

I. INTRODUCTION

The successful development and support of programs to help students pay for their education beyond high school is one of the major governmental policy achievements of the past two decades. Both the federal and state governments have established a mix of grant, work and loan programs that attempt to make it possible for students, regardless of their economic background, to attend the institution that can best meet their educational needs. This effort to promote equality of educational opportunity reflects a strong commitment to an educated citizenry.

During the 1981-82 school year, federal and state grant and work programs provided approximately \$120 million to about 75,000 students in Minnesota, an average of \$1,666 per student. An additional \$200 million in guaranteed student loans was provided. Also, students received significant assistance from Veterans' and Social Security benefits.

Minnesota's Scholarship and Grant Program is ranked among the top programs in the nation according to national surveys. The State Student Loan Program is a national model. The state's efforts have enabled tens of thousands of students, who otherwise might have been denied the opportunity, to attend the post-secondary education of their choice. The challenge for the future is how to continue this effort with limited resources.

A review of current and projected conditions and a re-examination of the existing financial aid approach suggests the following:

- o Changing economic, political and demographic conditions are affecting and will continue to critically affect the future of student financial aid.
- o Federal and state funding for student financial aid is being reduced and may threaten equality of opportunity for students from the lowest income families as costs rise more rapidly than anticipated.
- o The current system, which was created under different fiscal and enrollment conditions to meet needs of the late 1960s and 1970s, has developed

several inequities. These problems need to be addressed to insure that the current system meets its goal in the most effective manner possible.

- o The incremental development of state and federal programs has led to an imbalanced assignment of responsibilities among those involved in financing an education. As a result, there is a fundamental need to readdress the relative roles of the student, the family, the institution and the government to determine how much responsibility each should bear in paying for the education.

In view of these conclusions, Minnesota's system of post-secondary education is faced with three major alternatives for effectively promoting equal educational opportunity in the future. The state can continue to meet needs of students under the current system, which will require major increases in funding. The state can maintain the current system but be less effective in promoting equal opportunity as money is limited. Or the state can modify the present system to adjust to changed conditions in the 1980s.

This policy paper reviews the current effort to provide student financial assistance, identifies and analyzes the problems that have developed in the current system, presents an alternative design for students, parents, institutions and government to share responsibility for paying for post-secondary education, and identifies related policy issues which need to be addressed.

II. THE CURRENT EFFORT

BACKGROUND: DEVELOPMENT OF FEDERAL AND STATE ROLES

Federal and state support for post-secondary education has expanded significantly during the past two decades. The federal role has focused on promoting equal opportunity through direct assistance to students rather than to institutions. In contrast, approximately 95 percent of the state appropriation for post-secondary education funds the operation of institutions, and about 5 percent of the total investment assists students directly.

The Federal Role. Although federal aid to students was provided before the 1960s, the major thrust toward equalizing educational opportunity did not appear until passage of the Higher Education Act in 1965. This act provided for grants to students of exceptional financial need through the Education Opportunity Grant Program (now the Supplemental Educational Opportunity Grant Program). It also expanded the 1964 College Work Study Program, which provided for part-time employment opportunities for students with insufficient resources, and it established the Federally Insured Student Loan Program to supplement the National Defense Student Loan Program (now called National Direct Student Loan Program).

The federal commitment to equalizing educational opportunity was further reinforced in 1972 with the creation of the Basic Educational Opportunity Grant Program (now called the Pell Grant Program). This program provides a base amount of grant assistance to every student who demonstrates financial need according to specified criteria. Eligibility for federal loans and grants was expanded with passage of the Middle Income Student Assistance Act in 1978. The Higher Education Amendments of 1980 extended the major federal financial aid programs for five years and further expanded eligibility to them.

By Fiscal Year 1980 federal funding for need-based grants and work-study totaled approximately \$3.5 billion. These federal funds represent the largest source of financial assistance in Minnesota. In Fiscal Year 1980, about \$83 million in federal funds was available to help Minnesota students pay their post-secondary education expenses. An additional \$200 million was made available through the Guaranteed Loan Program. Veterans' and Social Security benefits also provided substantial assistance to students. The most recent figures available showing the federal involvement in Minnesota are presented in Table 1.

Federal student assistance, however, has begun to diminish and program eligibility requirements have become more restrictive. Further reductions are anticipated. As they occur, increased attention will be focused on the state's role in assisting students.

Table 1

Federal Assistance to Students in Minnesota Institutions, Fiscal Year 1980

	Number of Awards*	Dollars (in thousands)	Percentage of Federal Dollars to Minnesota
Pell Grant	58,477	\$53,993	2.2%
College Work Study	22,822	12,669	2.3%
Supplemental Educational Opportunity Grant	15,425	9,165	2.7%
National Direct Student Loan	24,000	6,832	2.2%
	120,724	\$82,659	2.3%

* Duplicated count--many students receive awards from more than one program.

The State Role. The state's commitment to promoting equality of educational opportunity through financial aid to students also has grown dramatically over the past 15 years. In 1967 a state scholarship program was introduced to provide financial assistance for students with demonstrated academic achievement and financial need. Two years later the State Grant Program, with financial need as the primary determinant, was authorized to encourage students to attend the insti-

tution of their choice. By the end of Fiscal Year 1980 the state had created 10 student financial aid programs. In addition, a small capitation program (Private College Contract Program), which is tied to student financial need, has been provided to private colleges.

Funding for these programs also increased rapidly. From an initial appropriation of \$250,000 for state scholarships in Fiscal Year 1969, state appropriations for state grant and work programs have grown to over \$36 million in Fiscal Year 1982 as shown in Table 2. In addition, the State Student Loan Program provides more than \$100 million annually to students unable to secure loans from private lenders in the state. The capital for these loans is generated from the sale of tax exempt bonds, and payments from the federal government make it possible to operate the program at no direct cost to the state. Funding for the Private College Contract Program totaled \$3.4 million in Fiscal Year 1982.

Table 2

State Appropriations for Student Financial Aid in FY 1982

<u>Program</u>	<u>Estimated Number of Awards*</u>	<u>Appropriation</u>
Scholarship and Grant	47,000	\$30,483,800
Work-Study	5,000	3,892,000
AVTI Tuition Subsidy	7,500	1,400,000
Part-time Grant	1,500	300,000
	<u>61,000</u>	<u>\$36,075,800</u>

*Duplicated count--many students receive both grant and work-study assistance.

While student assistance remains a small portion of the state's total effort in post-secondary education, it has become a significant investment in helping students finance their post-secondary education.

THE GOAL: PROMOTING EQUAL EDUCATIONAL OPPORTUNITY

The primary goal of federal and state financial aid policy has been to promote equal opportunity for students with need to pursue their education at the institutions which best suits their needs.

Which students? The principal target of financial aid has been undergraduate students. Neither recent federal nor Minnesota grant programs have included post-baccalaureate students. It is presumed that financing graduate and professional study is the responsibility of the student, that all students already have the same basic increased earning power as a result of their undergraduate degree, and that ample work opportunities associated with the advanced degree curriculum exist to help students pay as they go. Educational loans are available to graduate students, however, allowing them to defer some of their educational costs.

Financial aid programs have focused on full-time students. It has been assumed that they have a more extensive commitment to their educational goals as well as more limited time for part-time work. Both state and federal programs, however, recently have become more flexible in addressing the needs of a growing part-time student population.

Which institutions? Minnesota and the federal government have recognized the importance of both the public and private sectors in maintaining a strong post-secondary system. An objective of the financial aid programs has been to enhance the student's choice of attending the institution--public or private--that can best suit his or her needs. Minnesota grants, which can help a student meet non-instructional education costs, as well as tuition, are not portable to other states. Minnesota residents, however, can receive loans from the State Student Loan Program to help finance attendance at an out-of-state institution.

Which costs? Financial aid programs address a full range of costs associated with attendance. Instructional costs include tuition and required student fees. Non-instructional costs include books, supplies, transportation and the student's basic living expenses.

How much assistance? Although the objective of removing financial barriers to attendance entails balancing the student's educational budget, two points

should be kept in mind. First, each family is expected to contribute what it can from current income, assets and savings. Second, the awarding of grant assistance is always coupled with a "self-help expectation" of the student - to be covered with either work or borrowing. Governmental student financial aid policy has never operated on the assumption that ensuring equality of opportunity requires grant aid to cover the student's full financial need.

In confronting financial barriers to attendance, students and families are expected to rely on their own resources in conjunction with governmental assistance.

CURRENT EFFORTS TO REMOVE FINANCIAL BARRIERS

Minnesota's student financial aid effort consists of a mix of grant, loan and subsidized work programs, which complement federal programs. These programs are not the only - or even the primary - contribution of the state toward the removal of financial barriers to post-secondary education. State appropriations have their most significant impact on educational costs through the subsidy of public institution's operating costs. The role and required funding level of student aid programs cannot be understood without reference to the impact of the institutional subsidy on tuition levels.

Institutional subsidy. The Minnesota Legislature appropriates to each public post-secondary education institution sufficient funds to cover much of its operating expense. This appropriation results in a reduced tuition charge to the student, who otherwise would pay a larger share of the total cost of instruction. The institutional subsidy thus makes the education more affordable. Tuition charges represent 12 to 26 percent of instructional costs, depending on the educational system. Nevertheless, when the unsubsidized portion of instructional costs (tuition) is added to the non-instructional costs (living expenses, books etc.), the total cost to the student can create a barrier to attendance.

The impact of these institutional subsidies on the need for student financial aid funding cannot be overstated. Were this \$450 million subsidy lacking, significant increases in public institution tuition would confront students. Some students would be able to use personal or family resources, but many could not afford the increased costs.

The absence of a significant institutional subsidy in private post-secondary institutions means that the majority of the operating expenses of these institutions must be covered by tuition revenues. Without significant amounts of direct financial assistance, many students could not consider attending a Minnesota private college.

Varying levels of institutional subsidy cause the need for financial aid dollars to vary by system and sector. Lower institutional subsidies mean that students must pay substantially higher tuition. Tuition in private institutions is higher than that charged by public institutions. Considerable variance also exists within the public sector. For example, varying costs of instruction coupled with varying percentages of subsidy resulted in a tuition difference amounting to \$441 per year in 1980-81 between the higher-cost University of Minnesota and the less expensive State University System. Financial consideration could, therefore, cause a student to rule out the higher-cost public option. If the goal of equalizing educational opportunity is to encompass the full range of options, differing levels of institutional subsidy will have to be offset by differing levels of direct student aid.

Need-based grant. The need-based grant is a central concept in the current federal and state financial aid effort. This approach is distinguished by three characteristics. First, it gives financial assistance to the student rather than the institution. Second, it does not have to be repaid. Third, it targets financial assistance to those who lack the necessary resources as determined by a means test, commonly referred to as "need analysis."

The amount of aid to be received by each student varies with the family resources and the cost of the educational option chosen by the student; in effect, this tailors the financial assistance to each student's financial circumstances. It also capitalizes on contributions from other sources. To the extent that governmental or private subsidy of the instructional cost lowers the tuition charged to the student, the level of grant assistance is lowered. Conversely, where lack of subsidy forces full-cost tuition to be charged to the student, the level of grant is raised.

The effectiveness of need-based grants depends on three factors. First, a realistic estimate of the educational costs the student will have to pay is needed. By including non-instructional costs as well as unsubsidized instructional costs, the need for assistance can be determined on the basis of the full range of education-related costs facing the student. The second factor is a realistic estimate of the expected family contribution determined by the need analysis. The third factor is a realistic estimate of the student's ability to help himself or herself. This self-help obligation is the total amount of the student's financial need which is left unfilled by the grant, to be picked up by student work or loans. If the self-help expectation exceeds reasonable limits, the grant will become a mere token of assistance and not effectively remove the financial barrier.

Educational credit. Educational loans make it possible for the student to bear some or all of his or her self-help expectation by borrowing against the prospect of earnings advantages upon completion of the education. Government's role in this approach to educational financing has been primarily to provide incentives to private lenders to meet the demand of student borrowers, or to enter the financial market with tax-exempt bonds through which capital is raised for direct loans to students.

Minnesota operates a loan program which provides credit to those students who are unable to secure a loan from private sources. A secondary role for government--though no less costly than the first--has been to assist the student in carrying the debt while in school as well as in repayment through an interest subsidy. The federal government now assumes this role in the Guaranteed Student Loan Program.

Borrowing has limits to its use in removing financial barriers. Encouraging students to borrow an amount that would result in unreasonable monthly payments in the years following graduation would be unfair to the student as well as poor banking practice. A lending program which invites defaults is bound to collapse eventually. There are also practical limits to the amount of capital that can be raised in the credit markets. The adverse effects on the future state economy of a heavily indebted young adult population must also be considered.

Subsidized work. Work-study programs create part-time work opportunities--where they otherwise would not exist--to give the student the option to earn money and pay for the education as he goes. Financially, these programs offer no greater benefits to participating students than comparable work in the private job market.

The investment of the government is typically matched by the employers, so this approach does succeed in attracting additional investment - although most employment is generated by the educational institutions themselves.

The limits on the role of a subsidized work program are stringent. While working has value to students, even beyond the financial returns, it cannot be expected to cover a substantial percentage of the cost of attendance at most institutions because the amount of work needed to generate such large earnings would detract from the student's ability to profit from the education that he or she would be attempting to finance.

An additional limitation on this strategy is the capacity of a local economy to generate meaningful work opportunities for students without jeopardizing the jobs of full-time wage earners especially in a period of high unemployment. This is particularly true of institutions located in small towns or those with another institution in the same locality.

Summary. The current approach combining institutional subsidies and direct financial assistance has served Minnesota students well in combination with other types and sources of financial aid. Nevertheless, in view of new conditions in the 1980s, a re-examination of the current approach is desirable in order to ensure that the goal of promoting equal educational opportunity is achieved to the fullest extent possible.

III. THE PROBLEM

Changed conditions in the 1980s will make it difficult for the current student financial aid system to continue to meet student needs at a cost that the federal and state governments can afford. Moreover, as the current system has developed, and students have placed increased demands on it, some problems and inequities within the system have become evident.

CHANGING CONDITIONS

Changing economic, political and demographic conditions already are shaping and will continue to shape the future of student financial aid.

Economic factors. Current and projected economic problems will continue to constrain the state's ability to generate tax revenue needed to maintain or improve services. The period of state treasury surpluses is over. Nationally, inflation and recession are plaguing the economy. Inflation will continue to increase the costs of operating institutions and impair the ability of some students and families to pay the higher costs that are passed on to them. Economic conditions will also affect enrollment rates.

Political factors. As the federal and state governments try to control their budgets, they will be forced to debate program priorities. Student financial aid programs will be in competition with other programs which have constituencies and demonstrated needs. A significant reduction in federal involvement in all areas of education can be anticipated in the coming decade; student financial aid programs already have been identified as a prime target for federal funding reductions. Also, greater levels of accountability and cost effectiveness will be demanded from public officials and the programs that they fund.

Demographic factors. Enrollments in Minnesota public post-secondary institutions are projected to decline by 21 to 23 percent between the mid-1980s and

1995. These enrollment trends, however, are not expected to immediately result in reduced application rates for financial aid because many families are expected to have a greater need. Further, if efforts to increase the participation and retention of a growing minority population are successful, increased demands for student assistance from this sector may be expected.

RISING EDUCATIONAL COSTS, DECLINING STATE AND FEDERAL FINANCIAL AID

As the federal and state governments attempt to balance their budgets by reducing appropriations, educational costs are increasing and funding for student assistance is decreasing. The 1981-82 school year, in fact, represented a time of transition, moving from a decade of funding increases to one of reductions in available financial aid. Students and families will face a greater burden in future years because government funds are not likely to be available to meet spending targets authorized during the years of program expansion.

Rising educational costs. Increases in tuition and non-educational costs will make it difficult for some students to attend the institution that best meets their needs. Tuition at public institutions in 1981-82 increased by about \$100 (more than 10 percent) over 1980-81. Tuition at private institutions increased by more than \$400 (about 14 percent). As a result of Minnesota's fiscal crisis, tuition in public post-secondary systems is expected to increase by more than 20 percent in 1982-83 over the previous year. Tuition at private institutions is expected to increase by a minimum of 10 percent. Over two years public tuition on the average will have risen by about a third, an increase of about 10 percent after adjusting for inflation. Tuition at private institutions will have grown by about a fourth, or slightly above the rate of inflation.

The total cost of attendance for a student attending a Minnesota institution in 1981-82 ranged from \$3,500 at a community college to \$8,500 at the high-

est cost private college.* It was \$4,100 for a student enrolled in the College of Liberal Arts at the University of Minnesota.

While these educational costs have been increasing at a rate comparable to--or in excess of--the rate of inflation, the growth of personal income in Minnesota has lagged behind the rate of inflation since 1979.

Declining federal financial aid. Federal funding for students with financial need peaked in federal Fiscal Year 1979 and has since started to decline. Funding for need-based grants and work-study, for example, declined from \$3.43 billion in Fiscal Year 1979 to \$3.16 billion in Fiscal Year 1982, a reduction of 8 percent. After adjusting the inflation, this represented a decline of 33 percent over the past three years.

Funding for the Pell Grant Program declined from \$2.65 billion in Fiscal Year 1981 to \$2.28 billion in Fiscal Year 1982. The maximum grant in 1981-82 was reduced from \$1,750 to \$1,670, and each award was reduced by \$80. The administration's Fiscal Year 1983 budget is expected to propose cutting the program another 40 to 50 percent. This would eliminate hundreds of thousands of students from eligibility entirely and reduce grant size for all remaining recipients.

A reduction in federal grant money will force more students to apply for loans in larger amounts. Under the Omnibus Budget Reconciliation Act signed by President Reagan in August 1981, a \$30,000 income threshold for eligibility was instituted and the cost of borrowing was increased by the addition of a 5 percent origination fee charged on the principal of each loan. Proposals to further restrict eligibility to the Guaranteed Student Loan Program are anticipated as well as recommendations to cut, consolidate or eliminate other federal

* Figures based on Minnesota State Scholarship and Grant Program non-tuition expense standards and full-time tuition charges.

aid programs. Reductions in federal support are critical to Minnesota because the federal programs are the largest source of assistance for students in the state, and the state programs were developed to complement and make the maximum use of federal assistance.

Declining state financial aid. Reductions in federal assistance will leave a void in the available pool of public money available to help Minnesota students. And the state may not be able to offset all the federal reductions because it, too, is trying to solve unprecedented fiscal problems. Reductions in the State Scholarship and Grant Program were made in 1981-82, and they are expected to continue in 1982-83. In addition, the legislature has begun to phase down or eliminate some of the smaller, special purpose state programs that were created in the 1970s.

During the 1981-82 school year, the maximum state grant was reduced by \$200, from \$1,250 in 1980-81 to \$1,050, instead of rising to the authorized \$1,400. Because of funding constraints the average award was reduced from \$740 to approximately \$675 and the percentage of the cost of attendance recognized in determining awards was cut from 85 percent to 81 percent. As a result of tuition increases above those originally expected and further cuts in the Scholarship and Grant Program due to the state budget crisis, the student burden will be even greater in 1982-83. The maximum award in 1982-83 is expected to fall from \$1,050 to \$950, the average award is likely to drop from \$675 to \$625 and the percentage of the cost of attendance recognized is likely to decline from 81 percent to 75 percent--if the current system is maintained.

Loan money is expected to be available next fall as a result of the Coordinating Board's ability to raise funds through bond sales. Nevertheless, students would be affected by any changes which Congress makes in eligibility requirements or future difficulties in the bond market.

THE INEQUITY OF THE CURRENT SYSTEM

As governmental funds available to post-secondary education have declined, a major inequity in the current system has been highlighted. For students attending the same institution, those students from very low income families must contribute more to finance their education than must students from middle-income families. Table 3 illustrates this inequity.

TABLE 3

Amount Remaining for Student to Contribute After
Deducting Parents' Contribution, Federal Pell Grant,
and State Grant from Student Budget (in 1980-81)

	<u>Community College</u>	<u>Moderately Priced Private Institution</u>
Very Low-Income Student (No Parental Resources)	\$1,800	\$4,800
Lower-Middle Income Student (\$1,000 Parental Contribution)	\$1,500	\$4,800
Middle-Income Student (\$2,500 Parental Contribution)	\$850	\$3,500

Note: All amounts rounded to nearest \$50.

Assumes community college student budget of \$3,350 and
moderately priced private institution budget of \$7,050.

Under the current financial aid system, the amount that the parent must contribute and the amount to be provided by federal and state grants are deducted from the total cost of attending the institution; the student essentially must accept responsibility for whatever gap in resources remains. Thus, for example, a very low income community college student facing an educational budget of approximately \$3,350 in 1980-81 would have received nothing from his or her parents but would have received state and federal grants totaling approximately \$1,550; the student, therefore, would have had to contribute the remaining \$1,800

in order to meet the total cost of attending the institution. In contrast, although a lower middle-income student whose family could have contributed \$1,000 would have received less in grant aid, \$850, the combined parent contribution and grants would have left only \$1,500 to be filled by the student.

This disparity between self-help expectations of students from different economic backgrounds is accentuated in institutions of varying costs. It has meant that in some cases students from the lowest income families have had to contribute more than they can reasonably be expected to provide through work and borrowing. The inequity occurs as a result of limits placed on the maximum grant size and limits on the percentage of need that can be filled with combined state and federal grant aid.

First, the arbitrary limits placed on maximum awards in order to restrain spending affect only those students who could qualify for large awards. These are high need students attending moderate to high tuition institutions.

Thus, if the maximum award is reduced, these students would have to pay an increased share of their costs through work or borrowing. On the other hand, low need students are unaffected.

The second factor contributing to the inequities relates to the limit of state and federal grant assistance to meeting 75 percent of need. This implies that the remaining 25 percent of need is the responsibility of the student. Twenty-five percent of a high need figure amounts to a larger dollar amount than 25 percent of a lower need figure. Therefore, more is expected of students who have the most need.

This problem has evolved because the state and federal student assistance systems have developed without an explicit concept of how the responsibility of paying for post-secondary education was to be shared by the student, government, institutions, and parents. As governmental resources available to post-

secondary education have declined, arbitrary constraints on grant expenditures have reduced grant sizes but have still allowed the number of grant recipients to grow. As a result, the limited resources have been spread more thinly and the amount of costs remaining for students to cover has continued to increase. Due to the incremental development of the current system over more than a decade, the state is now using a design for the division of financing responsibility which is not totally effective in promoting the goal of equal educational opportunity.

OPTIONS FOR THE FUTURE

Faced with these problems, the state has three options for addressing the goal of equal educational opportunity in the future.

First, the appropriation demands of the current system could be met, which would require substantially higher levels of state spending--hardly a realistic option in light of the state's current economic condition. To accomplish this option would require either major restructuring of spending priorities in the state to shift more money into post-secondary education, or further increases in taxes. Both are unlikely.

Second, the existing financial assistance system could be adjusted to accommodate lower appropriation levels, as was done in the state during the fiscal crisis of 1981-82. This would result in more extreme inequities among students from varying family economic backgrounds and among students attending different priced institutions. The goal of promoting equal opportunity would not be well served by this option.

Third, a final option would be to design a system of shared responsibility for financing post-secondary education that spells out the conditions and the capacity of students and parents to finance education costs. The role of state government could then be reassessed to bring its role into line with the fiscal conditions of the 1980s and the dramatic reductions in federal financial assistance that are inevitable.

IV. AN ALTERNATIVE DESIGN FOR SHARED RESPONSIBILITY

An alternative to the current system would be to create a design that would develop all elements of the student assistance system--grants, loans, and work opportunities--around explicit assumptions about the relative responsibility of the student, the family, the institution, and government in financing each student's education. Initially, it must be recognized that differences in tuition charges, resulting from different levels of subsidy create quite different educational budgets for students attending different institutions. Given these tuition differences, the major premise of the design for shared responsibility presented here is that the student, as the principal beneficiary of the education being received, should bear significant responsibility for paying for the education. Next, the family should contribute a reasonable amount. And finally, government should attempt to ensure that funds are available to cover whatever costs remain. While every effort should be made to maximize the use of federal funds, this design assumes that the state must accept primary responsibility for promoting the goal of equal educational opportunity.

This design would allow for an equitable distribution of limited resources, if state funds ever needed to be rationed. It recognizes that the financial conditions of the 1980s may make it impossible for the state to provide enough aid to cover the full cost of each student's education, even after exhausting all other sources.

Each area of responsibility is discussed in greater detail below.

WHO SHARES THE COSTS?

The impact of the institutional subsidy. The institution's responsibility is to manage available resources in such a manner as to provide the highest quality education to students at the lowest possible cost. Because public

institutions receive a large annual investment of state funds (\$450 million in 1981-82), these institutions can charge students much less than can private institutions that have only modest resources. The differences in student charges between public and private institutions, therefore, are principally due to the state subsidy to public institutions, and not due to differences in the actual costs incurred by schools in providing educational services.

The student's responsibility. As the principal beneficiary of the education being received, the student can reasonably be expected to contribute significantly toward his or her education, and this design for shared responsibility would expect such a commitment from the student before determining the share from either parents or government. The amount expected from the student would be set so that a rigorous, yet manageable, commitment would be expected of all students, based both upon expected current earnings and borrowing against expected future earnings.

Furthermore, it may be reasonable to assume that students choosing to attend higher cost institutions should contribute greater amounts toward their education than should students attending lower cost institutions. To preserve the goal of equal opportunity, no student who wishes to attend any institution should be expected to contribute more than is reasonable from current and future earnings. The design presented here would set the expected student contribution as a fixed proportion of all costs charged for the education (the cost of attendance). Now, the proportion varies from 40-60 percent depending on the level of family resources and cost at the institution attended. As a result, the higher cost of attending a private institution would translate into a higher self-help expectation than would the lower cost of attending a public institution. The specific proportion of costs established as the student's share would be constrained by the minimum and maximum amounts that policymakers

believe students can reasonably contribute.. Where this proportion is set would be a key factor in determining the required level of grant assistance as well as the size of the appropriation required for the grant program.

This major reliance on all students in financing a portion of their education would represent a significant reordering from current policy. Now, most costs borne by the student are not planned as the student's responsibility, but are left to the student as a result of the insufficiency of parental and governmental contributions to cover the total cost of attendance.

Parents. The parents' responsibility is to contribute toward the cost not filled by the institution or the student in reasonable proportion to their level of savings, assets and current income. The shift from the current design is that the parent role follows rather than precedes the student role; this results in a student expectation regardless of the parents' ability to pay. The amount expected from parents, however, would not necessarily differ from the relative amount they currently are expected to contribute. The expected parental contribution would continue to result from a standardized analysis of the family's wealth, which would produce a progressively larger contribution as family resources expand.

Government. In recent years the federal government has assumed the primary responsibility for promoting equality of educational opportunity through direct student assistance. In light of projections of continued decline of the federal role, it is imperative that the state assert its primacy in advancing the goal if it is to be achieved in the future. The state would continue to make use of available federal dollars and coordinate state Programs with federal programs; however, the state system would operate independently from the federal programs. The state's financing responsibility would be embodied in two program roles. First,

the state would commit itself to covering costs not assigned to institutions, students or parents with a combination of state and federal grant dollars. The objective would be to leave no remaining gaps in individual student budgets. Second, the state would ensure that the necessary credit opportunities are available to students to meet the financing expectations assigned to them. This could require establishing an independent state loan program (either subsidized or unsubsidized) if changes to the current Guaranteed Student Loan Program significantly reduce the availability of loan capital.

IMPACT OF THE DESIGN

Under this design, the determination of student self-help as a fixed proportion of the cost of attendance would work in tandem with the standardized analysis of parental resources to control the expected contributions from students and parents as well as the combined grant expectation of state and federal government. Determining the self-help proportion would be the single most significant decision required of state government in assigning responsibility for financing the cost of attendance. Different proportions would have dramatically different consequences in terms of level of financial burden placed on students and the size and distribution of government grant assistance. Certain shifts from the current alignment of financing responsibility would occur, however, regardless of the value of the proportion.

General impact. Three general effects can be identified. First, the self-help expectation of all students pursuing their education at institutions which charge the same cost to the student would be identical; currently students from the lowest income families are expected to contribute more than their classmates from more affluent families. Second, the gap in self-help expectation between a student who chooses a high-tuition institution and a student who

chooses a low-tuition institution, when the family resources of the two students are identical, would narrow. Third, the amount of governmental grant assistance awarded to students from the lowest income families attending different priced schools would be more proportional to the costs charged than is currently the case. The discussion and figure in Appendix A illustrate each of these points.

Specific impacts. The public discussion of this design would hopefully produce a consensus as to what a reasonable range of students' capability to contribute to their own education might be. Under this design the low end of the range would apply to students attending low-tuition institutions, and the high end of the range would apply to students attending high tuition institutions. Ideally the lowest contribution would represent a reasonably stringent expectation of student work or borrowing and the highest contribution would represent no more than a manageable amount of work and borrowing. Examples of three different values of the self-help proportion are translated into dollar amounts in the following table.

Table 4

Student Contributions Resulting from
Three Values of the Self-Help Expectation (in 1980-81)

<u>Self-Help Expectation</u>	<u>Community College</u>	<u>Moderate-Priced Private Institution</u>
40 Percent of Cost	\$1,340	\$2,820
50 Percent of Cost	\$1,675	\$3,525
60 Percent of Cost	\$2,010	\$4,230

Note: The self-help expectation is identical for all students with same cost of attendance.

Assumes community college student budget of \$3,350 and moderately priced private institution budget of \$7,050.

The impact of self-help proportions set at 40, 50 and 60 are discussed below, illustrating the probable low, moderate and high of the reasonable student contribution range.

40 percent option. If the student self-help expectation were set at 40 percent of the cost of attendance, the minimum contribution would be reduced to the level now required of a moderate income student attending a low tuition institution. This may be viewed as something less than a stringent expectation. Grant demand would increase dramatically as a result of larger awards to current recipients and the influx of newly eligible students into the grant recipient pool. An estimated additional \$20 million would have been required to fund the state grant program in 1980-81 and the proportion of those funds going to students in public and private institutions would have remained about the same (now roughly 50-50).

50 percent option. If the student self-help expectation were set at 50 percent of the cost of attendance, the middle income student would be required to contribute more than at present, and the high student contribution levels now required of the lowest income student would be diminished to a more reasonable level. Appendix A illustrates these shifts. Grant funds would shift away from middle income students and grant assistance to the poorest of students would increase. A moderate increase in funding from what was available to the state grant program in 1980-81 (approximately \$32 million) would have been required, and the proportion of funds going to students attending private institutions would have increased slightly. The shift in grant funds from middle to lower income students would occur in all systems.

60 percent option. If the student self-help expectation were set at 60 percent of the cost of attendance, the maximum contribution would be increased to a level now required only of the lowest income student attend-

ing a high tuition institution. This amount is so large that it is questionable whether the burden can be managed reasonably and the equal educational opportunity goal achieved. Grant demand would decrease dramatically as a result of the elimination of many current recipients and smaller awards to those who remain. An estimated \$10 million fewer dollars would have been needed to fund the state grant program in 1980-81, and the proportion of those funds going to students attending public institutions would have decreased dramatically.

ADVANTAGES OF THE DESIGN

The present financial aid system's inequities and inefficiencies in promoting the equal opportunity goal during a period of fiscal restraint have been documented.

The proposed design described above would offer a number of advantages as a framework for organizing a state's financial assistance system.

- (1) The design would require that policymakers clearly define the relative shares of responsibility for paying for a post-secondary education among institutions, students, parents, and government.
- (2) The design would provide a framework for program decisions to equitably distribute available funds, no matter what the annual funding levels.
 - o If funding is insufficient to meet the full amount required to ensure elimination of financial impediments, then the design is flexible enough to ration limited funds in a way that either protects the most needy students and their families from any decrease in aid or that proportionately distributes the added burden to all students. In no case would the lowest income students shoulder the major brunt of budget shortfalls, as occurs within the current system.
 - o Conversely, during periods of strong economic growth in the state, this design would reduce the demand for state resources. As family financial conditions improve, thus increasing the capacity to finance dependents' educations increase, the state role would automatically decline.
- (3) The design would provide a framework for coordination of all student assistance programs so that maximum efficiency could be achieved.

- (4) The design would provide a simple way of defining the state's role in a financial assistance system.
- (5) The design would increase the accountability of the system of financial assistance to public officials by more clearly identifying the ramifications of various funding levels and related policy decisions.

V. CHALLENGE FOR THE 1980s

This review of Minnesota's financial aid system has traced the origin of the state's efforts to ensure that no citizen making a reasonable effort to pursue a post-secondary education is denied the opportunity because of financial circumstances. It has assessed the current array of programs and activities. From this analysis, six aspects of Minnesota's role in student assistance require further attention, modification, or reaffirmation.

- o The primary goal of promoting equal opportunity needs to be reaffirmed.
- o The state must redefine the sharing of responsibility for paying for post-secondary education.
- o The uncertainty of federal policy requires that the state financial aid system consist of programs that take maximum advantage of available federal funds, but that can function independently from the federal programs.
- o Programs must be designed or modified to ensure that the student and family financial responsibilities can be met.
- o The state needs to establish a clear policy toward the independent (private) sector of post-secondary education.
- o The critical and growing role of credit in the state's financial aid system must be acknowledged.

Each of these points is discussed below.

THE PRIMARY GOAL OF PROMOTING EQUAL OPPORTUNITY NEEDS TO BE REAFFIRMED

The analysis of the Minnesota system of financial assistance reveals that the goal of equal opportunity is not being promoted as effectively as possible. Simply stated, the available dollars are not being directed effectively to those students who have the greatest financial need. This is a result of three critical factors: a piecemeal and incremental development of state programs, a laudable effort to coordinate state efforts with an increasingly unstable federal effort, and a significant change in the cost of ensuring post-secondary educational opportunities. These insufficiencies in the system have been accentuated in the current

fiscal climate. Thus, the state needs to reassert its fundamental goal of promoting equal opportunity and to recognize that in the context of sharp increases in tuitions and clear limits in resources, the central role of the financial aid system becomes even more critical than previously.

THE STATE MUST DEFINE THE SHARING OF RESPONSIBILITY FOR PAYING FOR POST-SECONDARY EDUCATION

A review of the Minnesota financial aid system reveals a lack of clarity as to how the responsibility for financing a post-secondary education is shared between the government - the taxpayer at both the federal and state levels - the student consumer, and the student's family. The future effectiveness of Minnesota's financial aid system requires that all major parties involved in financing post-secondary education be identified and that a reasonably clear and fair distribution of this burden be assigned. In this way, public policy-makers can explicitly establish the proportion of the burden of financing expected to be borne by the government, either state or federal, by the students, who are the principal beneficiary of the services and by their families. Currently, the state's portion is divided between the direct institutional subsidy and the support of the individual student whose family financial means are assessed to be inadequate. A stable and reasonable commitment of public resources to a financial aid system requires a consensus about who is responsible for paying for a post-secondary education. This redefinition of shared responsibility is essential for the future effectiveness of the Minnesota financial aid system.

THE UNCERTAINTY OF FEDERAL POLICY REQUIRES THAT THE STATE SYSTEM OF FINANCIAL AID CONSISTS OF PROGRAMS THAT TAKE MAXIMUM ADVANTAGE OF AVAILABLE FEDERAL FUNDS BUT CAN FUNCTION INDEPENDENTLY FROM THE FEDERAL PROGRAMS.

In the early 1970s, prudent state policy required a close coordination of state and federal policy and programs. The uncertainty of the federal role in

the 1980s, however, requires an assertion of the state primacy in financial aid policy. Such a policy should maximize the use of available federal resources but should ensure that state efforts are sufficiently independent of federal policy so that state goals can be most effectively pursued with minimal disruption from changes in federal policy.

PROGRAMS MUST BE DESIGNED OR MODIFIED TO ENSURE THAT THE STUDENT AND FAMILY RESPONSIBILITIES FOR PAYING FOR POST-SECONDARY EDUCATION CAN BE MET

Once a consensus is reached on the proportions of financing to be shared by the student, the family and government, specific programs are necessary if the state's role of promoting equal opportunity is to be accomplished. State and federal programs were developed to promote the goal of equal opportunity and have been modified over the years. Radically changing conditions, however, may require the further modification and termination of existing programs. New programs may be necessary. All program developments should follow a clear re-assertion of the state's commitment to the goal of promoting equal opportunity and a consensus on the sharing of responsibility in financing post-secondary education. In summary, programs are the means for achieving the state's goal in financial assistance.

THE STATE NEEDS TO CLEARLY ESTABLISH A POLICY TOWARD THE INDEPENDENT SECTOR OF POST-SECONDARY EDUCATION

The analysis of Minnesota's financial aid system has shown vividly the contrast between the cost facing a student wishing to attend one of Minnesota's private institutions and the cost of attending a public institution. Because of the large direct subsidy to public institutions, the actual cost to the state of providing education in public institutions is much greater than the cost to the state for students in private institutions. As a result, students attending private institutions must pay a substantially larger share of the cost of the instruction than their counterparts in public schools. The goal of promoting

equal opportunity must include opportunity to attend the program or institution, which best serves the student's needs. Thus, the substantially higher cost borne by the student and family attending a private institution must be taken into account in an effective financial aid system. Currently, government grant programs accomplish this objective by acknowledging the higher cost of attendance in determining the size of a grant for which a poor student is eligible.

Aside from meeting the goal of equal opportunity, the broad interests of the state and post-secondary education are served by a healthy private sector in Minnesota. The financial aid system and other programs have a direct impact upon the cost differentials and the competitive advantages of the private institutions, and must be considered. The absence of a clear state policy toward the independent sector leaves unclear how students choosing to attend those institutions should be treated in a financial aid system. This issue should be addressed in a separate paper.

THE CRITICAL AND GROWING ROLE OF CREDIT IN THE STATE'S FINANCIAL AID SYSTEM MUST BE ACKNOWLEDGED

One of the most significant developments of the last decade has been the emergence of credit as part of the financial aid system. This role is likely to grow and should be stated explicitly and assessed. The likely retreat of the federal government in the area makes it all the more essential to review carefully state's role in making loans available to finance post-secondary education. This issue should also be addressed in a separate paper in the feasibility of a state loan program.

APPENDIX A: EFFECTS OF THE CURRENT AND ALTERNATIVE STUDENT ASSISTANCE DESIGNS
ON THE RELATIVE LEVELS OF RESPONSIBILITY FOR MEETING EDUCATIONAL
COSTS

As illustrated in Figure 1, a student from the very lowest income family currently must contribute significantly more than a middle-income student attending the same institution. Under the alternative design, all students attending a specific institution would be expected to contribute the same amounts to their education.

The figure also demonstrates that, although students attending higher cost institutions would continue to be expected to contribute more than students attending less costly institutions, the alternative design would narrow this gap in the self-help expectations.

Finally, the figure shows that state and federal grants for the most needy students would be more proportionally related to the cost of education under the alternative design than under the current system. This would occur because the alternative design would not constrain grants to a predetermined maximum amount, as is currently done.

These three relationships would remain under the alternative design no matter what proportion of costs were established as the appropriate self-help level. The specific distribution of responsibility reflected in Figure 1, however, most closely resembles what would occur under an alternative that assumes students should contribute about 50 percent of the educational costs remaining after deducting the institutional subsidy.

APPENDIX A

FIGURE 1

EFFECTS OF CURRENT AND ALTERNATIVE STUDENT ASSISTANCE DESIGNS ON
RELATIVE LEVELS OF RESPONSIBILITY FOR MEETING EDUCATIONAL COSTS
BY INCOME AND TYPE OF INSTITUTION

Public		Private	
Current	Alternative	Current	Alternative
Student From Very Low-Income Family (Also Includes Independent Students)			
<div> <div>*</div> <div>State Grant</div> <div>Federal Grant</div> <div>**</div> <div>Institutional Subsidy</div> </div>	<div> <div>State Grant</div> <div>Federal Grant</div> <div>Explicit Student Contribution</div> <div>Institutional Subsidy</div> </div>	<div> <div>Implicit Student Contribution</div> <div>State Grant</div> <div>Federal Grant</div> <div>**</div> <div>Institutional Subsidy</div> </div>	<div> <div>State Grant</div> <div>Federal Grant</div> <div>Explicit Student Contribution</div> <div>Institutional Subsidy</div> </div>
Student From Lower Middle-Income Family			
<div> <div>*</div> <div>State Grant</div> <div>Federal Grant</div> <div>Parent Contribution</div> <div>**</div> <div>Institutional Subsidy</div> </div>	<div> <div>State Grant</div> <div>Federal Grant</div> <div>Parent Contribution</div> <div>Explicit Student Contribution</div> <div>Institutional Subsidy</div> </div>	<div> <div>Implicit Student Contribution</div> <div>State Grant</div> <div>Federal Grant</div> <div>Parent Contribution</div> <div>**</div> <div>Institutional Subsidy</div> </div>	<div> <div>State Grant</div> <div>Federal Grant</div> <div>Parent Contribution</div> <div>Explicit Student Contribution</div> <div>Institutional Subsidy</div> </div>
Student From Middle-Income Family			
<div> <div>*</div> <div>Parent Contribution</div> <div>**</div> <div>Institutional Subsidy</div> </div>	<div> <div>Parent Contribution</div> <div>Explicit Student Contribution</div> <div>Institutional Subsidy</div> </div>	<div> <div>Implicit Student Contribution</div> <div>State Grant</div> <div>Parent Contribution</div> <div>**</div> <div>Institutional Subsidy</div> </div>	<div> <div>Parent Contribution</div> <div>Explicit Student Contribution</div> <div>Institutional Subsidy</div> </div>

*Implicit Student Contribution
**Explicit Student Contribution