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FEDERAL FORMULA GRANTS
AND CALIFORNIA

Student Aid and Higher Education

Tim Ransdell
Shervin Boloorian

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About This Series

Federal Formula Grants and California

The federal government uses formula grants to distribute more than $400 billion annually to state and local governments to help them implement federal policies in such areas as health, transportation, and education. How much each government receives is determined by complex formulas that consist of many factors such as state population growth and per capita income. This series of reports provides detailed information on California's current and historical funding under the major federal grants and on the formulas used to determine California's share of funding under various specific grants.

All reports are posted on the PPIC website at www.ppic.org.

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Abbreviations and Acronyms

AAI	Adjusted Available Income
ACE	American Council on Education
AGI	Adjusted Gross Income
BEA	Bureau of Economic Analysis
CAOA	College Access and Opportunity Act
CBA	Campus-Based Aid
CCAMPS	Child Care Access Means Parents in School
CCC	California Community College
CM	Congressional Methodology
COA	Cost of Attendance
CSU	California State University system
DIR	Department of Industrial Relations
DL	Direct Loans
ED	U.S. Department of Education
EDC	Educational Opportunity Center
EFC	Expected Family Contribution
FAFSA	Free Application for Federal Student Aid
FCC	Federal Capital Contribution
FEI	Federal Eligibility Index
FFEL	Federal Family Education Loans
FIPSE	Fund for the Improvement of Postsecondary Education
FM	Federal Methodology
FSA	Federal Student Aid
FWA	Federal Work-Study
GAO	Government Accountability Office
GEAR UP	Gaining Early Awareness and Readiness for Undergraduate Programs
GED	General Education Diploma
GEPA	General Education Provisions Act
HBCU	Strengthening Historically Black Colleges and Universities
HBGI	Strengthening Historically Black Graduate Institutions
HEA	Higher Education Act of 1965

HELP	Health, Education, Labor, and Pensions Committee
HEP-CAMP	High School Equivalency Program and College Assistance Migrant Program
HSI	Hispanic Serving Institutions
ICC	Institutional Capital Contribution
IFAP	Information for Financial Aid Professionals
IPEDS	Integrated Postsecondary Education Data System
IRS	Internal Revenue Service
LAAP	Learning Anytime Anywhere Partnership
LEAP	Leveraging Educational Assistance Partnership
NASFAA	National Association of Student Financial Aid Administrators
NCES	National Center for Education Statistics
NPSAS	National Postsecondary Student Aid Study
NSLP	National School Lunch Program
OPE	Office of Postsecondary Education
PGITP	Partnership Grants for Improving Teacher Preparation
PLUS	Parent Loan for Undergraduate Students
QUAD	Quality, Affordability, and Diversity Improvement Act
SAR	Student Aid Report
SEOG	Supplemental Educational Opportunity Grants
SLEAP	Special Leveraging Educational Assistance Partnership
SSI	Supplemental Security Income
SSIG	State Student Incentive Grant
SSS	Student Support Services
STAR	Student Aid Reward
TANF	Temporary Assistance for Needy Families
TQE	Teacher Quality Enhancement
TRIO	Originally, three programs (Upward Bound, Talent Search, and Student Support Services); now includes eight programs (the original three plus eight others)
UC	University of California
UM	Unified Methodology

Figures

Tables

Web-Only Tables

Web-only tables are available at http://www.ppic.org/main/dataset.asp?i=569.

Student Aid and Higher Education

Tim Ransdell and Shervin Boloorian September 2005

This report refers to two types of tables: text tables and web-only tables. The latter provide greater detail on particular issues and are available at http://www.ppic.org/main/dataset.asp?i=569. There are also two web-only appendices (Appendices D and E). These also are available at http://www.ppic.org/main/dataset.asp?i=569.

Unlike in the K–12 education sector, where state and local spending eclipses national participation, the federal government has become the primary source of postsecondary education support for U.S. college students. In this Washington-centric context, accentuated by recent steep rises in tuition and other education-related costs, this report seeks to illuminate the expanding federal role in supporting postsecondary education, with particular attention to its effects on—and the extent and equitability of financial support for—California's college students and its institutions of higher learning.

Introduction

During the past 25 years, postsecondary assistance has moved from a grant-driven system dominated by state finances to one primarily fueled by student loans, with most of these orchestrated by the federal government.[1] In California, federal funding accounts for about 71 percent of pre-entitled financial aid available to college students.[2] Similarly, long-term trends show that the cost of providing financial aid for students attending more than 6,500 U.S. colleges and universities is now borne increasingly by the federal treasury.[3] As shown in Figure 1, the state of California—as do most states—now provides less than 10 percent of overall aid funds to students enrolled at the more than 600 colleges and universities within its borders.

[1]College Board, *Trends in Student Aid, 2002*, Washington, D.C.

[2]California Student Aid Commission, *Facts at Your Fingertips, 2003–2004*, Sacramento, California, April 2005. Nationwide, loans constitute 78 percent of student aid.

[3]In the 2002–2003 academic year, 6,526 institutions were eligible to participate in federal student aid programs. Certain other institutions were ineligible for various reasons.

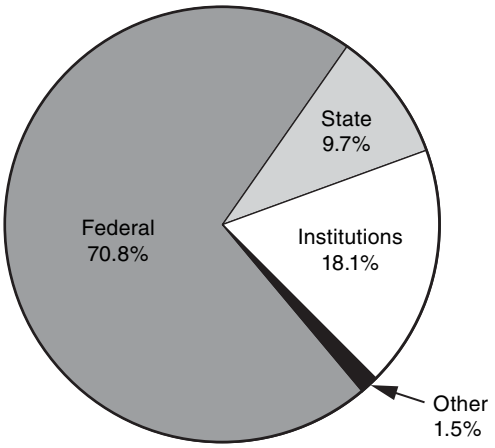

Figure 1—Sources of Financial Aid in California, 2002–2003

The Higher Education Act of 1965 (HEA), last amended in 1998, authorizes a disparate array of programs that span various federal government offices and employ multiple delivery mechanisms.[4] Programs help make college attendance affordable for low-income students, assist targeted institutions, encourage college-bound high school students, or enhance K–12 teacher training programs at U.S. universities.

Congress appropriated more than $25 billion in grants and loan subsidies to support higher education goals in fiscal year 2005. In addition, the federal government also lent or coordinated the lending of more than twice that amount ($52.3 billion) through the nation's two major student loan programs, although for the most part those funds were not technically classified as expenditures. The U.S. Department of Education (ED) administers higher education funds through two offices: Federal Student Aid (FSA) and the Office of Postsecondary Education (OPE).[5]

The HEA authorizes a mix of federal college aid programs, available directly to individual student applicants or indirectly through higher education institutions or states. The vast majority of federal grants are prioritized to assist economically disadvantaged students, with other federal resources focused on

[4]1998 Amendments to the Higher Education Act of 1965, Public Law 105-244. President Clinton signed the reauthorization measure on October 7, 1998.

[5]Administering student loans and larger federal grants, FSA has authority over $23 billion; OPE administers a number of institutional assistance programs with its budget of $2.3 billion.

high-achieving, minority, and other select cohorts of students. Half of federal higher education spending now flows from a single program, Pell Grants, and most of the rest consists of student loans (termed Stafford Loans) and funds provided through three programs under the umbrella term of campus-based aid. For each of these programs, the amount of federal aid to a student or a school depends on a special, federally prescribed needs assessment that compares college costs against an individual student's resources. Figure 2 illustrates how these programs, and the amount appropriated for them in 2005, fall within the overall federal higher education spending universe.[6]

Interestingly, most federal dollars related to postsecondary education flow according to ebbs and flows in a single, federally prescribed formula for determining student need.

From an annual pool of $13 billion, the federal government provides Pell Grants of up to $4,050 per year to students with family incomes and assets below certain thresholds and who are formulaically determined to have insufficient resources to pay for college. Free of any obligation to repay, Pell Grants provided California students $1.5 billion in 2005, which was 11.4 percent of total U.S. spending for the program.

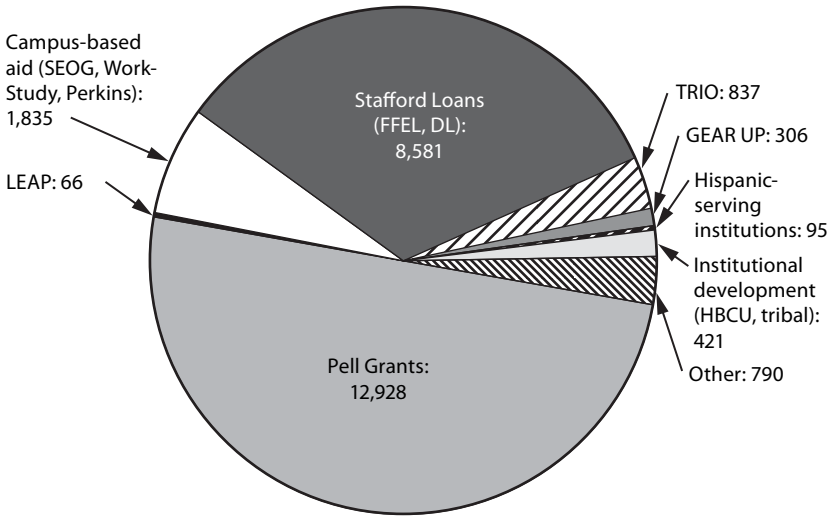

Figure 2—Federal Higher Education Program Expenditures, Fiscal Year 2005

[6]For loan programs, the figure shows federal dollars appropriated for administration and subsidies; as such, it does not illustrate loan volumes, which are much larger.

The same formulaic assessment of student need decides a student's eligibility for subsidized student loans, for which the federal government underwrites interest during his or her college attendance.[7] A smaller proportion of California students receive federal loans than in other states, but the typical loan amount in the state tends to be larger than average. On balance, however, total dollars committed to federal student loans in California is relatively small—the state's $4.8 billion new student loan volume in 2005 was 8.4 percent of the nation's $57 billion total, including both subsidized and unsubsidized lending.

Again, the universal determination of student need again drives funding for campus-based aid (CBA) programs—federal Supplemental Educational Opportunity Grants (SEOG), federal Work-Study, and Perkins Loans—where funds flow to institutions rather than students. Although each CBA program has a separate mechanism, funds are distributed using a parallel formula structure that first guarantees a fixed amount of funding as a "base guarantee" to institutions that have received funding in the past (a "hold-harmless" provision in formula grant parlance).[8] Top priority under the $2 billion CBA programs is given to institutions that have participated in the programs for a longer time, and only then are remaining funds allocated based on an institution's relative need (derived from college cost and student resources data).

Separately, HEA provides $500 million annually for programs to support institutions serving populations that are historically underrepresented at colleges and universities, including African American, Latino, Hawaiian, and Native American and Alaskan college students. Another $1.1 billion flows to a mixture of colleges, school districts, and nonprofit organizations that serve low-income, first-time college students through two programs—known as TRIO and GEAR UP (Gaining Early Awareness and Readiness for Undergraduate Programs)—that are informally acknowledged to be focused on African American and Latino populations, respectively.

Some federal dollars to aid needy students flow as formula or discretionary grants to state agencies. The modestly sized Byrd Scholarship program is driven

[7]As will be discussed in greater detail below, student loans may be subsidized or unsubsidized. For subsidized loans, the federal government underwrites principal and accrued interest costs while the student is enrolled, whereas unsubsidized student loans accrue charges immediately upon issuance. (Although similar to other loans that may be available from the private lending market, unsubsidized loan programs guarantee at least some access to higher education regardless of students' credit history or family finances.)

[8]Hold-harmless provisions require that a state's or other jurisdiction's allocation of funds must not decline at all or by more than a specified percentage from one year to the next, thereby not causing "harm." However, these provisions typically operate to retain funds for slow-growth states and to temporarily inhibit increases in funding for fast-growth states (which often include California). The CBA base guarantee operates in a similar fashion.

by a formula that apportions funds to states, which in turn dispense those funds to high-achieving students based on the state's own eligibility criteria. Two small formula programs help states provide scholarships or stipends in priority sectors within a state's economy. Rounding out the federal funding field are Teacher Quality Enhancement Grants, which seek to reduce the shortage of qualified teachers in high-need areas, and a disparate array of smaller programs.

HEA expired at the conclusion of the 2003 legislative session, but a special federal law provided an automatic one-year continuation of the act.[9] In September 2004, with the passage of H.R. 5185, Congress extended HEA programs for one additional year (through September 2005).

The effort to reauthorize federal higher education programs slowed during the 108th Congress, partly because of partisan disagreements over the appropriate level of and growth in federal postsecondary aid.[10] The authors of the College Access and Opportunity Act (CAOA)—House Education and the Workforce Committee Chairman John Boehner (OH) and Subcommittee Chairman Howard P. "Buck" McKeon (Santa Clarita, CA)—described it as a revenue-neutral bill suitable for a time of fiscal restraint that seeks to limit growth in HEA authorization levels, increase the maximum individual Pell Grant amount, promote funding equity and institutional accountability, widen proprietary school access to student aid, restructure the student loan system, and return the focus of federal student aid to the neediest of students. The majority's comprehensive bill considered in the 108th Congress, CAOA, was reintroduced in February 2005 as H.R. 609.

In the Senate, staff had begun in earnest to draft a reauthorization measure in Spring 2005. Progress was slower in that chamber, where the chairmanship of the Senate Committee on Health, Education, Labor and Pensions (HELP) changed hands—as the 109th Congress commenced, Senator Mike Enzi (WY) became chairman after former Chairman Judd Gregg (NH) took the helm of the Budget Committee. Many observers doubted that a bill could be completed and conferenced before the end of 2005.

This report examines HEA's myriad components—including grants, loans, and other forms of aid—from a California perspective, with an emphasis on California's share of federal resources.[11] Although the report's primary focus is on

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[9]Section 422 of the General Education Provisions Act (GEPA) provides for an automatic extension for one year of education program operations upon expiration of current law. See 20 U.S.C. 1226(a).

[10]The 108th Congress included the sessions of 2003 and 2004.

[11]Few higher education statistical measures apply uniformly across an entire state. It is important to note that much of the analysis in this report depends on generalizations based on aggregate statistics for California and other states. However, results for individual institutions and categories of institutions (e.g., public, private, or proprietary), as well as

federal activities that provide funds to recipient individuals or institutions using statutorily prescribed mathematical constructs, it also discusses other student aid programs with only minor formulaic components and still others that direct funds discretionarily through project grants, such as to support minority-serving institutions.

Although not discussed in this report, a fast-growing form of federal college aid today comes in the form of tax incentives. Increasing sharply in the 1990s, tax relief to students and parents has had a significant affect on the postsecondary education financing landscape.[12]

As in any inquiry that attempts to assess distributional fairness, it is important to consider what constitutes fair. A common benchmark is state population, and, in 2003, California was home to 12.2 percent of the nation's residents.[13] However, the state's population tends to be younger than average, and California has an even larger share of the nation's college students.

As shown in web-only Appendix Table E.1, in 2003 the state was home to 12.4 percent of the nation's population of college-age youth between the ages of 18 and 24, not far above the state's percentage of all persons, and 12.5 percent of the nation's children between the ages of 14 and 17. However, lending a somewhat ominous tone to the examination, a large cohort bubble of students is currently enrolled in the state's elementary and secondary schools and will soon reach college age; in 2003, California was home to 13.1 percent of the nation's children between the ages of 5 and 13.

In addition, California institutions of higher education attract students from across the country, and a larger proportion of Californians as a whole attend college. In the 2003–2004 academic year, 14.8 percent of the nation's undergraduates were enrolled in California institutions—2.6 million out of the nation's 17.4 million total, an increase from 14.6 percent in 1999–2000.[14]

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for types of students (e.g., lower-, middle-, and upper-income), may diverge sharply from the predicted aggregate results for all groups within the state.

[12]There are significant differences in how these federal tax incentives affect states. For example, the Hope Scholarship permits low-income students and their families to claim an annual credit of up to $1,500 per year for student tuition and fees—an amount not reached by a few institutions, including the entire California Community College system. (The situation parallels "tuition sensitivity" rules, discussed below.)

[13]U.S. Census Bureau, *Annual Estimates of the Population for the United States and States, and for Puerto Rico: April 1, 2000 to July 1, 2004* (NST-EST2004-01), Washington, D.C., January 28, 2005.

[14]The state housed 10.6 percent of the nation's graduate and first-time professional students, but such students account for a relatively small portion of total students. A slightly smaller percentage of undergraduate students (14.7%) and graduate and professional students (9.8%) listed California as their state of legal residence in 1999-2000. (All data for

Thus, the state's colleges and universities will soon face accelerated growth in applications, enrollments, and other draws on their resources. Recalling vast enrollment increases associated with children of baby boomers during the 1960s, California college officials are warning that the "Tidal Wave Two" influx of students now under way—and expected to crest at the end of the decade—will be even harder to absorb in an era of state budget contraction.

As such, federal resources are expected to become an even larger proportional component of California's and the nation's higher education support structure in the years to come. In this context, ensuring a functional and equitable system for distributing federal funds will be increasingly important as resources of all kinds strain to respond to these dynamics.[15]

Overview of Programs

The federal government supports higher education through a disparate array of programs. Table 1 shows many of these programs grouped according to where they appear within the language of the HEA. In greater detail, Appendix Table B.1 displays these programs—grouped according to the source office at ED—and the amounts appropriated for each program in fiscal years 2004 and 2005.

This report examines many of these programs, and in particular all of the large ones. But first, it is important to delve into the details of a uniform measure that governs a vast range of federal spending on higher education.

The Financial Aid Threshold: Need Versus Cost

At the core of federal student aid lies one key formula. The primary source of federal financial assistance is HEA's student assistance component (Title IV),

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institutions are parsed among states—the 50 states plus the District of Columbia and Puerto Rico—whereas data for students may show legal residence as a foreign country.)

According to a report by the Lumina Foundation, more high school graduates from other states continue to enroll in California colleges and universities as freshmen (16,251) than Californians enroll in other states (14,355). Nearly 10,696 of these arriving freshmen enroll at California four-year institutions, but 2,687 more of the state's recent high school graduates enroll at four-year institutions in other states than come from other states to enroll in California four-year colleges and universities. Lumina Foundation for Education, *Unequal Opportunity: Disparities in College Access Among the 50 States*, Bloomington, Indiana, January 2002.

[15]As one partial solution, the state could elect to further restrict out-of-state enrollment, at least at public institutions. However, doing so could arguably affect California's reputation as a national and worldwide higher education leader.

Table 1

Higher Education Act Program Authorizations by Act Title

Title	Program	Description
Title I	General	Definitions, general and administrative provisions
Title II	Teacher Quality Enhancement Grants	Teacher quality grants for states and partnerships, grants for preparing teachers to use technology, and new centers of excellence for recruiting and preparing teachers
Title III	Institutional aid	Strengthening institutions grants for tribally controlled colleges and universities, Native Alaskan and Hawaiian-serving institutions, historically black colleges and universities
Title IV	Student aid	Pell Grants, campus-based aid (including SEOG, Work-Study, and Perkins Loans), TRIO, GEAR UP, LEAP,[a] HEP-CAMP,[b] Byrd Scholarships, child care access, Federal Family Education Loans (FFEL), and Direct Loans (DL)
Title V	Developing institutions	Grants for Hispanic-serving institutions
Title VI	International education	Foreign language studies, business and international education, Institute for International Public Policy
Title VII	Graduate and postsecondary improvement	Jacob C. Javits Fellowships, graduate assistance, Thurgood Marshall legal educational opportunity assistance, the Fund for the Improvement of Postsecondary Education, quality higher education for students with disabilities

[a]LEAP stands for Leveraging Education Assistance Partnership.

[b]HEP-CAMP stands for High School Equivalency Program and College Assistance Migrant Program.

with its linchpin—a prescriptive needs-analysis procedure outlined in Title IV, Part F—in considerable detail outlining the method for assessing the capacity of students who seek aid to meet the financial obligations of postsecondary education from their own resources. Whereas only some are formula grants per se, many federal programs rely on the Part F formula's mathematical calculations to determine resource distribution.

To match low-income financial aid applicants with an appropriate package of federal grants, subsidized loans, and Work-Study support, HEA requires calculation of a uniform ability-to-pay indicator for each student to determine how much of a student's own resources he or she may reasonably be expected to commit to attend a particular institution. By measuring student and parental income and assets, and balancing those resources against prospective educational

expenses, ED determines student eligibility for grants and subsidized loans as well as institutional eligibility for campus-based aid program funding.

The Needs Equation: Cost of Attendance and Expected Family Contribution

Until 1988, colleges and universities were largely free to distribute financial aid as desired. Recognizing a value in establishing some level of uniformity, however, financial aid professionals in 1976 agreed on a voluntary general scheme—termed the Unified Methodology (UM)—to assess applicants for student assistance. When it reauthorized HEA in 1986, Congress employed UM elements, altering some, and adopted a new system that would come to be known as the Congressional Methodology (CM). Finally, in 1992, Congress adopted another new approach—consolidating the CM and what had been a parallel yet different approach for determining Pell Grant eligibility—into the Federal Methodology (FM) for needs analysis that remains in use today.

Through various programs, the federal government provides financial assistance to students if the amount that they and their families might reasonably be expected to contribute toward college costs is less than the overall cost of attendance. To determine a student's eligibility for loans and awards for many of these federal programs, the HEA requires that financial aid administrators calculate what portion of education expenses the student should be expected to provide from his or her own or family resources. That amount, termed the expected family contribution (EFC), is then subtracted from the student's expected cost of attendance (COA) at the institution, to arrive at a student's estimated financial need.[16]

Financial need = COA minus EFC

With a variety of exceptions and caveats, the definition of COA includes typical tuition and fees; an allowance for books, supplies, transportation, and personal expenses (such as a personal computer); and an allowance (as determined by the institution) for room and board costs incurred by the student (which varies depending on whether the student resides at home with parents).[17]

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[16]Rhetorically, some analysts suggest replacing the term "need"—most applicants believe they have need of some kind—with more neutral terminology such as "eligibility."

[17]Section 472 of the Higher Education Act of 1965, as amended (20 U.S.C. 1087ll). The rules change for students enrolled less than half-time, in correspondence study, incarcerated in institutions, or studying abroad; and additional costs are allowed for students with dependents, engaged in a cooperative education work experience program, or with a disability.

Federal programs that use the COA-EFC measure include Pell Grants, Direct Loans, Federal Family Education Loans, and the three campus-based aid programs under Title IV. The EFC methodology is determined by statute, and ED publishes computational tables and various worksheets to help implement the law.[18]

The data used to calculate a student's EFC derive from the Free Application for Federal Student Aid (FAFSA)[19]—the uniform application used to develop the financial aid package (both federal and nonfederal) a student should be eligible to receive, presuming sufficient resources are available, to cover his or her education expenses to close the gap between the individual's EFC and an institution's COA.[20]

A multistage formula is used to calculate EFC, and separate calculations determine the amount expected to come from parents and students. ED uses different worksheets depending on whether a student lives with parents, is independent, has legal dependents, or is enrolled less than full-time.[21]

The primary focus of the EFC calculation is to quantify the income and assets of the student and of the student's parents if the student is deemed dependent.[22] The finding of dependence or independence is often determinative of a student's access to financial aid.

For income, the FM uses adjusted gross income (AGI) from federal tax forms, or equivalent information for those who do not file tax forms. Income includes Temporary Assistance for Needy Families (TANF) benefits, but not in-kind assistance such as Food Stamps and housing assistance.

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[18]Some stakeholders have suggested changing the term EFC to something more descriptive of its function in federal formula grant programs, such as the Federal Eligibility Index (FEI). See National Association of Student Financial Aid Administrators (NASFAA), Executive Committee Acts on Additional Reauthorization Recommendations, Washington, D.C., January 29, 2003, available at http://www.nasfaa.org/publications/2003/gecreauthrecs012903.html.

[19]A FAFSA has been required of student aid applicants since the FM was implemented following enactment of the 1992 amendments to the HEA. The FAFSA first became available in 1995.

[20]Once a FAFSA has been processed, ED will provide the student with a determination of findings, termed a Student Aid Report (SAR).

[21]A legal dependent is defined as any child of the student who receives more than half his or her support from the student, whether or not residing with the student, or any person other than a spouse who will receive more than half of his or her support from the student through the end of the school year.

[22]Whereas financial aid administrators do have the authority to determine independence on a case by case basis, students are automatically deemed independent if they are at least 23-1/2 years old, a veteran, or married, have legal dependents, or are or were an orphan or ward of the court.

EFC Mechanics: Income and Asset Exclusions. Whereas the EFC includes a portion related to income and a portion related to assets (with reductions applied if more than one family member is in college), not all income or assets are counted in determining a student's EFC.

To protect income and prevent college costs from interfering with basic living expenses, Congress allows deductions from EFC for taxes paid, employment expenses (only for parents), and a percentage of income.[23] Subtracting these from income yields the contribution from income amount.

To protect core savings and family homes, Congress elected to exclude a home, family farm, and a percentage of overall assets from the net worth calculation of total parental or student assets.[24] Until 1992, home equity was included in the EFC calculation; its subsequent exclusion sharply decreased the EFC for many dependent students. In addition, Congress provided an "education savings and asset protection allowance" for assets of a parent with a dependent student.[25] The law assumes that, after exclusions and allowances, all remaining assets could be liquidated to help pay for college, and a 12 percent annual "asset conversion rate" is assumed. This yields an amount that is known as the contribution from assets.

The contribution from assets and the available income are then summed, resulting in an adjusted available income or AAI. Finally, using a statutory table with another sliding scale, a variable percentage of parents' available income is are deemed to be a parental contribution. Multiplying income by varying percentages—between 22 percent (for an AAI less than $12,200) and 47 percent (for an AAI in excess of $24,700)—the formula yields the parents' expected contribution.

For dependent students, a parallel calculation process determines students expected contribution, using a formula similar to that used to determine the parents' contribution. However, HEA rules require that a dependent student pay a larger share of any resources he or she may have. At least half of a dependent student's prospective income is expected to be spent on education expenses, and a

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[23]For this "income protection allowance," Congress allows two-parent families with one child in college to exclude $17,060, for example, and the amount increases for larger families. Students themselves are also afforded an income protection allowance, but it remains a static dollar amount ($2,420 for 2004–2005).

[24]The FM uses a sliding scale to determine what portion of the net worth of a business or farm should be considered—it excludes 60 percent up to $100,000; 50 percent of the next $195,000; and 40 percent of the ensuing $195,000; any net worth above $490,000 is counted fully.

[25]The excluded amount is greater for two-parent families and moves on a sliding scale, with greater amounts excludable as parental ages rise. For example, in 2004–2005, that allowance is $47,900 for a two-parent family when the older parent is 50 years old, and it is $54,900 when the older parent is 55 years old.

dependent student's assets are expected to be converted at a 35 percent rate (as opposed to 12 percent for that of his or her parents).

With a few exceptions, EFC calculations for an independent student's expected contribution, which exclude parental income and assets from consideration, are similar to the parents' contribution calculation.

In 1992, Congress amended the HEA's definition of and standards of eligibility for independent students. Congress eliminated a provision deeming students independent if they received income of $4,000 for two years, and it deemed all married students and graduate students to be independent. Also, independent students were divided into two categories, depending on whether the student has dependents of his or her own other than a spouse—and expected significantly higher contributions from those that do not, resulting in a sharp reduction in eligibility rates for such students.

Special EFC Thresholds. ED permits a student to fill out a simplified FAFSA when the parents and student (or student only if independent) were not required to file an Internal Revenue Service (IRS) 1040 long form for the preceding tax year and had income of less than $50,000. Ease of document preparation is not the only advantage of qualifying to use simplified worksheets—importantly, those worksheets exclude asset information from both the parents' and student's contributions. For some families with moderate income yet significant assets, the provision may make a large difference in determining financial aid.

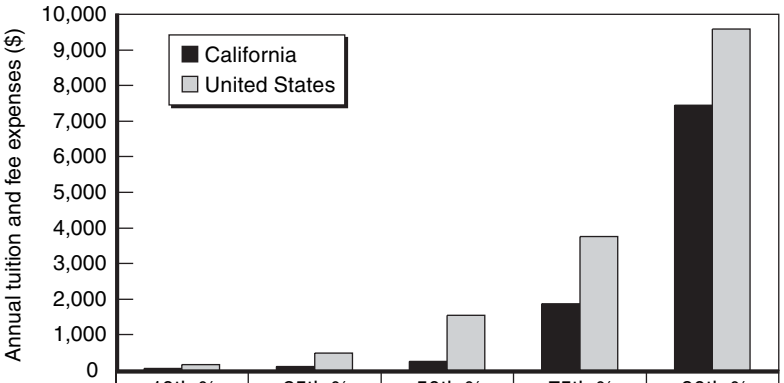
Further, if the parents and student (or student only if independent) had income of less than $15,000 and were not required to file an IRS 1040 long form, the EFC is statutorily deemed to be zero.[26] Such families automatically receive the maximum financial aid available given their institution's circumstances.

The Needs Equation in California: Education Costs

On average, California undergraduates pay far less tuition than do residents of other states, but they pay considerably more for other college expenses.[27] As shown in Figure 3 and web-only Appendix Table E.2, half of California

[26]Families not required to file a 1040 typically have few assets to consider.

[27]To simplify comparisons in this section, we use statistics only for undergraduate students. Results for graduate and first-time professional students follow similar patterns.



	10th %	25th %	50th %	75th %	90th %
California	51	105	256	1,863	7,449
United States	168	486	1,539	3,751	9,579

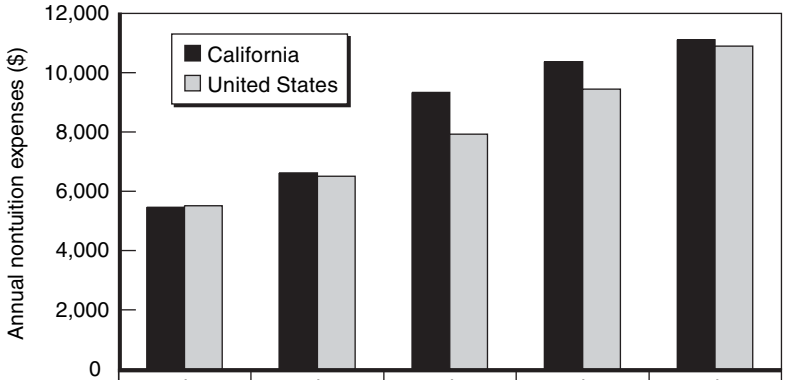
Figure 3—Tuition and Fees, Centile Distribution of Higher Education Institutions, California and the United States, 1999–2000

students (those below the 50th centile) paid only $256 or less in tuition and fees in 1999–2000, whereas the halfway mark for their counterparts in all states was $1,539—a difference of $1,283 per year. For students in the lower half of the tuition range, California had the lowest-cost institutions in the nation; the state ranked lowest in tuition and fees at the 10th, 25th, and 50th centiles. Three-fourths of the state's students paid $1,863 or less to attend college, whereas the 75th centile for students nationwide was twice as much—$3,751 per year.[28]

When nontuition costs such as books, room and board, and other living expenses are compared, however, the groupings at all but the lowest-cost institutions were reversed. A significant portion of these expenses depends on real estate prices, which are far higher in California than in nearly all other states. As shown in Figure 4, half of California undergraduates in 1999–2000 paid as much as $9,355 per year in nontuition costs, whereas the comparable amount for all students nationwide was $7,945—or $1,410 less. At the 75th centile, California students were paying $10,388 per year, and U.S. students were paying $9,462 per year. However, nontuition cost differences were relatively small at the lower-cost 10th and 25th centiles. In fact, at the lowest-cost break point, the 10th centile, California students actually paid slightly less ($5,493) than their national counterparts ($5,533) for nontuition costs.

When tuition and nontuition costs are combined, students at California institutions end up near the middle of the pack. Half of California students in

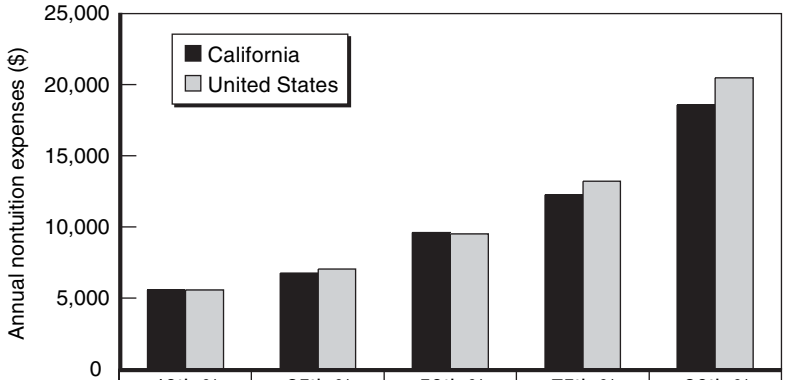
[28]Students at the 3/4 mark in only two other states—Wyoming and Oklahoma—paid less than students in California.



	10th %	25th %	50th %	75th %	90th %
California	5,493	6,636	9,355	10,388	11,133
United States	5,533	6,525	7,945	9,462	10,923

Figure 4—Nontuition Costs, Centile Distribution of Higher Education Institutions, California and the United States, 1999–2000

1999–2000 paid a combined total of $9,611 or less for tuition and nontuition expenses—slightly more than students in all states ($9,484 or less). However, as shown in Figure 5 the higher centile percentages of California students fared marginally better than students in other states. California's low tuition costs thus offset most if not all of the state's high nontuition costs.



	10th %	25th %	50th %	75th %	90th %
California	5,544	6,741	9,611	12,251	18,582
United States	5,563	7,011	9,484	13,213	20,502

Figure 5—Total Tuition and Nontuition Costs, Centile Distribution of Higher Education Institutions, California and the United States, 1999–2000

The Needs Equation in California: Expected Family Contribution

To review financial need in California, this report uses data for postsecondary students from a number of sources—particularly robust databases maintained by the National Center for Education Statistics (NCES), entitled the Integrated Postsecondary Education Data System (IPEDS), and the National Postsecondary Student Aid Study (NPSAS).[29]

According to IPEDS data for 1999–2000, the average EFC for all California undergraduates was nearly identical to the average for all students in all states.[30] As shown in web-only Appendix Table E.3, California's average of $8,960 was nearest of all states to the national EFC average of $8,982.[31]

A larger percentage of undergraduates in California than in other states are not required to make any family contribution whatsoever to educational expenses. According to 1999–2000 IPEDS survey data, 20 percent of California undergraduates, a total of 454,630 students, were considered "zero-EFC" for financial aid purposes—16.8 percent of the nation's 2.7 million total.

As expected given the two previous findings, ED expects California students and their families for whom a contribution of some kind *is* expected—those with an EFC greater than zero—to pay more of their own money for college than their counterparts in other states. The average EFC for California undergraduates with a positive EFC in 1999–2000 was $11,188, whereas the average EFC nationwide was $10,741, ranking California 19th highest among states.

When Congress eliminated the value of a family's home from the measurement to determine EFC in 1992, Californians won a significant victory. The state's home values exceed national medians by nearly two to one, and retaining home value in asset calculations would have continued to reduce or eliminate eligibility for many more Californians than for residents of other states.[32] In 2000, California's median home value of $211,500 was 177 percent

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[29]U.S. Department of Education, Fall 2000. There were 6,716 Title IV postsecondary institutions and offices located in the 50 states, District of Columbia, and outlying areas of the United States that were active in the 2000–2001 academic year. In addition, the IPEDS database includes data for 2,727 institutions that did not participate in federal financial aid programs.

[30]EFC statistics vary depending on the type of financial aid a student receives, if any. For this comparison, the EFC statistic is a composite estimate relying on information from several data sources (and using the lowest figure when more than one exists). As such, the results should be viewed with some caution. (Data were imputed when unavailable, as was generally the case for students receiving no financial aid.)

[31]The standard error—a statistical estimate of how far a substantial majority of typical results will stray from the final result shown—was $450 for the California sample and $83 for the national total.

[32]U.S. Census Bureau, *Median Home Values for the United States, Regions, and States, and for Puerto Rico: 1990 and 2000*, Washington, D.C., May 2003, available at http://www.census.gov/prod/2003pubs/c2kbr-20.pdf.

of the national median, $119,000.[33] As shown in web-only Appendix Table E.4, home values in only one state, Hawaii, exceeded the national median by more than those in California. The exclusion of home value significantly benefits California students.

However, other aspects of EFC mathematics are less beneficial to many California residents. The primary component of contributions for most applicants is income—a higher income yields a higher EFC, a lower estimated need, and, ultimately, less financial aid. Although not by as much as in past decades, Californians' incomes continue to exceed the national average. As shown in web-only Appendix Table E.5, statistics from the U.S. Department of Commerce indicate that Californians' median household income in 2003 was 12.5 percent higher than the nation's median.[34] A smaller gap is evident when using a different measure—per capita personal income statistics from the Bureau of Economic Analysis (BEA). The state's per capita income in 2003 exceeded the national rate by 6.2 percent, and California accounted for approximately 13 percent of the nation's total personal income in 2003.[35]

A natural conclusion to be drawn from the state's above-average incomes is that Californians can better afford to pay for college on their own. However, this conclusion ignores the other half of the cost-of-living equation. As in other high-cost states, a dollar of income purchases considerably less in California than in the average state. Even though home value is excluded, most Californians' incomes must be considerably higher than average simply to afford the higher rental and mortgage payments needed to pay for homes that are more expensive than comparable dwellings in lower-cost states. Furthermore, although federal

[33]High as they may be today, California's home prices are less out of comparison with national norms than they were in past years. The state's median home value in 1990 of $195,500 was more than twice the national median value of $79,100.

[34]The total represented a three-year average of incomes for 2001–2003, which may exaggerate income for the current year. California's income levels in the later years of the date range may moderate somewhat relative to the national norm, reflecting a recession-related waning of the state's unusually profitable technology sector. U.S. Census Bureau, *Current Population Survey*, *2002, 2003,* and *2004 Annual Social and Economic Supplements*, Washington, D.C., 2004.

[35]Bureau of Economic Analysis, Regional Economic Information System, *Per Capita Personal Income, Table SA1-3*, Washington, D.C., September 2004, available at http://www.bea.doc.gov/bea/regional/spi/. California's median household income exceeds the state's per capita income in part because the state's households tend to be larger than the national average. In 2000, the average California household included 2.87 persons, whereas the average size in all states was 2.59 persons. Results are similar for family size. U.S. Census Bureau, *Households and Families: 2000*, Census 2000 Summary File 1, Washington, D.C., September 2001.

cost-of-living data are not collected by state, data for major metropolitan areas in California indicate that living costs exceed the national average.[36]

The state's residents also own more nonhome assets, which increase expected contributions. In 2003, Californians received 13.1 percent of the nation's dividend, interest, and rent payments; the state's share of such payments may serve as an approximate indicator of the ownership of assets other than a family home that would be applied in deriving EFC.

In addition, California is home to an above-average share of the nation's wealthy residents. According to 1998 Internal Revenue Service data, 6.5 million Californians (13.8% of the total population) held gross assets in excess of $625,000. Those California individuals held 14.4 percent ($1.3 trillion) of the nation's total net worth in 1998.[37] However, many of these assets were held in the form of real estate. The state's residents accounted for 22 percent ($540 billion) of U.S. real estate assets in 1998, yet only 11.7 percent ($366 billion) of the nation's corporate stock holdings, 12.7 percent ($114 billion) of cash, and 14.2 percent ($132 billion) in bondholdings.[38] In a 1998 study, researchers determined the mean personal net worth of California households to be $131,913—an amount that was 17.5 percent above the $112,291 median for all states—and ranked California 11th highest among the states.[39] However, many of the assessments of wealth and asset holdings predate the financial crash in the economy's technology sector, which hit California harder than other states.

Furthermore, California students are more likely than the national average to be deemed independent, as shown in Figure 6 and web-only Appendix Table

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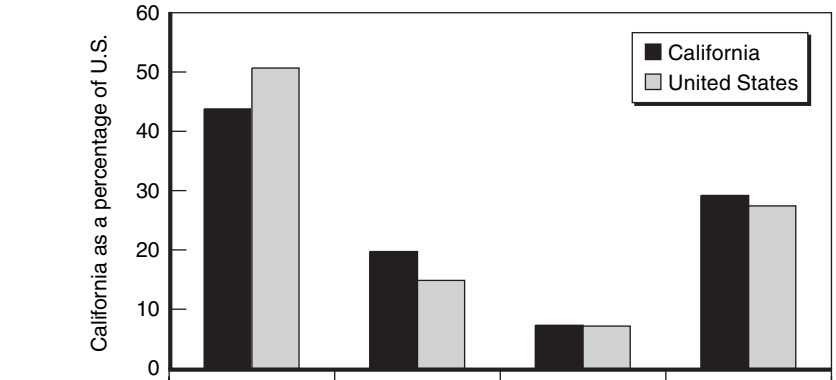
[36]The California Department of Industrial Relations estimates that the April 2005 cost of living for the state's urban consumers exceeded the nation's cost by 3.8 percent. The California statistic was a weighted average of indexes for the Los Angeles–Anaheim–Riverside and San Francisco–Oakland–San Jose metropolitan areas. In April 2005, the Los Angeles area cost of living was 3.3 percent greater than the cost of living in all U.S. metropolitan areas surveyed, the San Francisco Bay Area's cost was 4.1 percent greater, and the San Diego area was 11.3 percent greater. California Department of Industrial Relations (DIR), Division of Labor Statistics and Research, *Consumer Price Index—California*, Sacramento, California, May 18, 2005, available at http://www.dir.ca.gov/. The DIR information used data from the U.S. Department of Labor, Bureau of Labor Statistics, Washington, D.C.

[37]Internal Revenue Service, *Statistics of Income Bulletin, Winter 2002–2003*, Publication 1136, Washington, D.C., revised April 2003.

[38]In 1998, the state was home to 15 percent (412,000) of the nation's top wealthholders (those with incomes in excess of $1 million), and they accounted for 14.6 percent of the net worth of all wealthy individuals. Internal Revenue Service, *Statistics of Income Bulletin, Winter 2002–2003*, Publication 1136, Washington, D.C., revised April 2003.

[39]Corporation for Enterprise Development, *State Asset Development Report Card*, calculations by Robert Haveman and Jon Haveman based on data from U.S. Department of Commerce, Bureau of the Census, survey of income program population [electronic data tape] (1995 and 1996), Washington, D.C., available at http://sadrc.cfed.org.



	Dependent	Independent, no dependents, unmarried	Independent, no dependents, married	Independent, with dependents
California	43.9	19.7	7.3	29.1
United States	50.7	14.8	7.1	27.4

Figure 6—Percentage of Undergraduates by Dependency Status, California and the United States, 1999–2000

E.6. In 1999–2000, more than half (50.7%) of the nation's undergraduates were deemed dependent, whereas dependent students constituted only 43.9 percent of enrollment at California institutions.[40] The state was above the national average for the percentage of students in every category of independent students.

California and Income Thresholds

As noted above, Congress allows use of a simplified worksheet for families with adjusted gross incomes below $50,000, and that worksheet examines family income information only—no asset information is required or examined. Some analysts criticize this aspect of the EFC for creating a "cliff effect" relative to the simplified worksheet, whereby a few hundred dollars (pushing income above or below the $50,000 threshold) can significantly affect some student's eligibility for aid.

According to IPEDS data, the number of California students reporting incomes at or above key thresholds was lower than similar thresholds for all students surveyed.[41] As shown in Table 2, 22.2 percent of independent

[40]That year, eight states had smaller percentages of their students deemed independent, whereas 43 states had larger shares.

[41]An important caveat regarding such data is that the most current state-level income statistics available for college students reflects the economy of 1998, and they thus may not be accurately representative of today's realities. In addition, students are identified by the state of the institution attended rather than of residence.

Table 2

Income of Dependent and Independent Undergraduates, Mean and Percentage Above Selected Thresholds, California, the United States, and California Share and Rank, 1998

		California	United States	Percentage Ratio, California to U.S.	California Rank
Income of parents of dependent children					
Mean		$64,576	$64,749	99.73	25
Percentage greater than:	$15,000	88.9	91.5	97.1	42
	$35,000	67.6	71.7	94.2	38
	$50,000	53.1	56.0	94.8	33
Income of independent students					
Mean		$36,274	$35,501	102.18	22
Percentage greater than:	$15,000	67.3	70.4	95.7	37
	$35,000	35.9	37.8	94.9	29
	$50,000	22.2	23.6	94.0	28
Total income, parents and independent (combined)					
Mean		$48,626	$50,307	96.66	32
Percentage greater than:	$15,000	76.8	81.1	94.7	47
	$35,000	49.8	55.0	90.5	41
	$50,000	35.7	40.0	89.3	35

California students reported incomes above the $50,000 annual income threshold variable in 1999–2000; the comparable nationwide figure was 23.6 percent.[42] For parents of dependent students, 53.1 percent of those in California reported exceeding the threshold, whereas 55.9 percent nationwide reported exceeding the threshold. A merged, continuous variable—including income data normalized for both dependent and independent students—identified 35.7 percent of California students and 40 percent of students (and their families) nationwide at or above the $50,000 mark. Similar data for all states are detailed in web-only Appendix Table E.7. Thus, these data initially indicate that California students were more likely to be able to take advantage of the simplified worksheet (and thereby avoid any consideration of nonhome assets in the EFC) than the average student nationwide. The rules also require that to qualify neither the parents nor student had filed (or should have filed) an IRS 1040 long form for the prior year's taxes.

[42]U.S. Department of Education, National Center for Education Statistics, *Integrated Postsecondary Education Data System (IPEDS),* Fall 2000.

However, more current data from the IRS tell a somewhat different story. California accounted for 11.9 percent of the total number of federal tax returns in 2003, including 11.5 percent of individual tax returns, 13.9 percent of individual estimated tax forms, and 8.5 percent of estate and trust income tax returns.[43] The state accounted for 11.7 percent of total tax collections that year, including 11.8 percent of income and employment taxes.

More striking, however, is the distribution of income levels for California taxpayer payments in 2003. According to IRS data for AGI (the income number that is subsequently transferred to parents' and students' FAFSA forms), California accounted for 9.9 percent of total taxes paid on returns showing an AGI of less than $20,000. In 2003, California's percentage of the nation's total taxes paid increased with nearly every AGI bracket: 11.2 percent of taxes paid by taxpayers with an income of $20,000 to $30,000, 11.5 percent of the $30,000 to $50,000 taxpayer bracket, 11.4 percent of the $50,000 to $75,000 bracket, 12.3 percent of $75,000 to $100,000 taxpayer bracket, and 15.1 percent of taxpayers earning in excess of $100,000.[44]

In 1998–1999, the distributional pattern showed some similarities, but it was not as dramatic and did not evidence similar unevenness at income levels below $75,000 per year. California accounted for approximately 11 percent of tax collections from each income bracket up to $75,000, 12.3 percent of taxes from the $75,000 to $100,000 bracket, and 15.5 percent from those with incomes above $100,000.[45] As shown in Figure 7, the income inequality among earnings levels is paralleled for capital gains income, a key measure of asset ownership—only among taxpayers with total income exceeding $100,000 per year does Californians' capital gains income exceed the national average.

In sum, a relatively large proportion of Californians are in high-income brackets, and another relatively large proportion are in low-income brackets. However, as will be discussed in the sections below, the size of the state's low-income group of college students is not as prominently reflected in the state's

[43]It should be noted that IRS data pertain to all taxpayers, not just those who are in college or have dependents in college.

[44]Internal Revenue Service, Information Services, Martinsburg Computing Center, Master File Service Support Branch, "Tax Year 2002, United States Selected Income and Tax Items for Individual Income Tax Returns: Forms 1040, 1040A & 1040EZ, By State and Size of Adjusted Gross Income, Filing/Processing Period: January 1, 2003 to December 31, 2003," unpublished data, October 2004.

[45]Internal Revenue Service, Information Services, Martinsburg Computing Center, Master File Service Support Branch, "Tax Year 1999, United States Selected Income and Tax Items for Individual Income Tax Returns: Forms 1040, 1040A & 1040EZ, By State and Size of Adjusted Gross Income, Filing/Processing Period: January 1, 2000 to December 31," 2000, unpublished data.

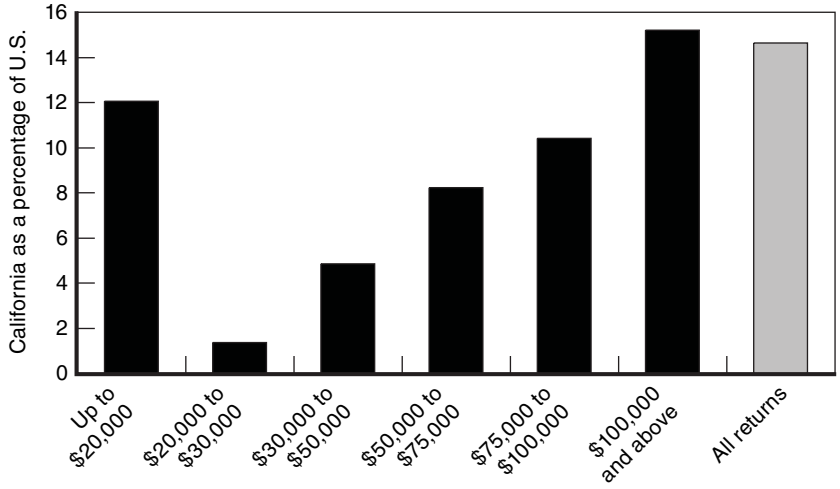


Figure 7—California Share of U.S. Net Capital Gains by Income Threshold, as Reported on Individual Income Tax Returns Filed During 2003

proportion of federal needs-based higher education spending as it is in demographics.

Student Aid—Higher Education Act, Title IV

As noted above, Title IV of HEA provides the bulk of federal aid to low-income college students, granting assistance based on estimated financial need as determined by the COA-EFC equation. In this section and those below, we discuss some of the major programs that use this calculation—the largest student aid and higher education programs administered by the federal government.

Title IV's largest components are the Pell Grant (providing $12.4 billion in 2005) and two major loan programs—the Direct Loan and Federal Family Education Loan programs. Three smaller yet significant Title IV programs—the federal SEOG, federal Work-Study (FWS), and Perkins Loans—are deemed to be CBA programs because funding flows to institutions rather than to students. The three CBA programs account for nearly $2 billion in federal aid annually. Federal expenditures from 1991–2004 for Pell Grants and campus-based aid programs in California and in all states, as well as the state's percentage of all funds, are shown in Figure 8 and Table 3.

Each year, more college students apply for the federal aid available under HEA's Title IV. In the 2002–2003 award year, 12 million students who were enrolled in higher education applied for Title IV aid, a 9.7 percent increase over the number of applicants in 2001–2002 and a 68.4 percent increase since 1990–1991.

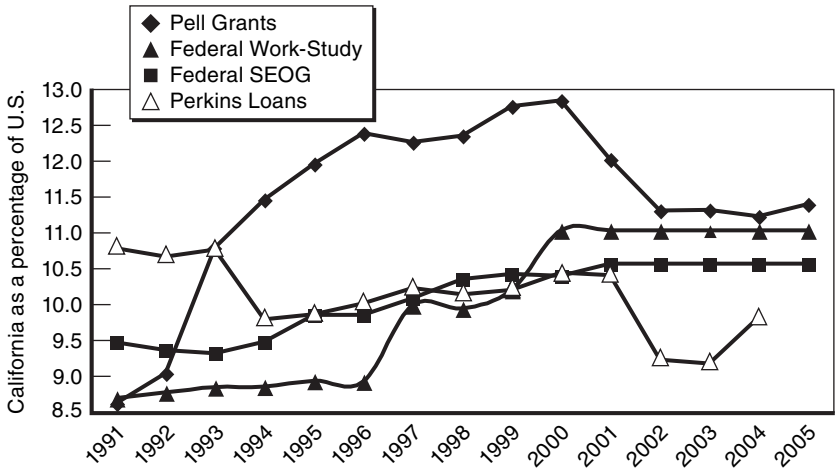


Figure 8—California Share of Federal Pell Grant and Campus-Based Aid Program Expenditures, Fiscal Years 1991–2005

According to the National Center for Education Statistics, more than one-third (34.5%) of U.S. undergraduate students enrolled during the 1999–2000 academic year received financial aid from one of the federal needs-based programs.[46] A substantially smaller proportion (26.1%) of California undergraduates received subsidized federal aid that year, ranking the state 47th among the 50 states (plus Puerto Rico and the District of Columbia). Those California students who did receive aid were given a typical amount—the average California undergraduate received $3,933 in 1999–2000, whereas the average student nationwide received $3,874.

In addition, Title IV also includes some aid that is not needs-based.[47] When data on unsubsidized loans are included along with needs-based aid, the state's divergence from the national norm widens slightly. Whereas 39 percent of U.S. undergraduates received some kind of Title IV aid in 1999–2000, California's 28

[46]In this report, data comparing states largely derive from the NPSAS—a nationwide survey that seeks to determine how undergraduate and graduate students nationwide pay for postsecondary education—and we use these data to describe some of the demographic and other characteristics of those enrolled. The most recent available data were for the 2003–2004 academic year. For more information, see the overview at National Center for Education Statistics, *National Postsecondary Student Aid Study (NPSAS)*, Washington, D.C., available at http://nces.ed.gov/surveys/npsas/overview.asp.

[47]It is important to note that the term "aid" is used herein to describe federal payments, whether needs-based or not, and that it may include unsubsidized loan funds.

percent rate ranked the state above only Alaska, Delaware, and Wyoming in the percentage of students receiving Title IV aid.[48]

Unlike for needs-based aid, however, where California grant and loan amounts mirrored the national mean, the average *amount* each individual California grantee received from all Title IV programs (subsidized and unsubsidized) was above average. In 1999–2000, the state's average aid amount of $5,659 ranked California 15th among all states and was 8 percent above the average U.S. amount of $5,236.[49]

To review, the state educates fewer recipients of federal Title IV aid, but the dollar amounts attributed to those recipients are at the national average for subsidized (needs-based) aid and above average for unsubsidized federal loan aid. This is true despite the fact that California is home to an above-average proportion of the nation's low-income students—the target population for most federal student aid. It may be inferred that, finding themselves unable to take more advantage of needs-based assistance, low-income Californians find themselves taking out more and larger loans to pay for college.

In the sections below, this report reviews the programs that deliver federal student aid to assess their effect on California and other states, largely from the standpoint of fiscal equity, and to review options that may be considered as the programs undergo reauthorization.

Pell Grants

Of the 12 million students applying for student aid in 2002–2003, more than half (52.4%) were eligible for federal Pell Grants, the nation's primary grant program focused on low-income students. In 2003–2004, 55 percent of Pell Grant recipients had family income of less than $20,000. Higher education advocates argue that Pell Grants cover a shrinking proportion of college costs—the College Board estimates that the average Pell Grant covered 35 percent of the cost of the average four-year public college in the 1980–1981 school year and only 23 percent of the cost in 2003–2004.[50]

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[48]At the other end of the spectrum were South Dakota and Puerto Rico, 74 percent of whose students received Title IV aid.

[49]The number of responses from Alaska and Wyoming was too small to include in the total, so California ranks 15th out of 50 jurisdictions (48 states plus the District of Columbia and Puerto Rico).

[50]College Board, *Trends in College Pricing*, Washington, D.C., October 2004, available at http://www.collegeboard.com/press/article/0,,38993,00.html.

Table 3

Student Financial Assistance Program Expenditures, California and the United States, Fiscal Years 1991–2005

	1991	1992	1993	1994	1995	1996	1997	1998
California								
Pell Grants	498,782,603	557,703,540	609,222,495	631,660,901	653,814,590	715,071,075	775,291,674	891,932,126
Federal SEOG	49,154,681	53,917,643	54,254,562	55,145,699	57,336,955	57,401,543	58,734,138	63,484,865
Federal Work-Study	51,591,274	53,859,595	54,437,405	54,415,161	54,875,838	54,804,356	81,217,268	81,012,861
Perkins Loans	16,800,807	16,599,542	17,814,246	15,377,501	15,536,318	9,263,911	15,893,601	13,360,479
LEAP	9,754,780	11,055,285	11,195,924	11,165,302	9,762,862	4,902,642	7,835,538	3,924,138
Total, student financial assistance	626,084,145	693,135,605	746,924,632	767,764,564	791,326,563	841,443,527	938,972,219	1,053,714,469
United States								
Pell Grants	5,792,702,829	6,175,902,364	5,654,453,265	5,519,474,492	5,471,707,710	5,780,032,888	6,331,067,648	7,228,786,299
Federal SEOG	519,645,017	576,561,694	583,287,266	582,565,348	582,980,643	583,165,343	583,200,208	613,783,247
Federal Work-Study	594,499,592	614,797,710	616,506,501	615,787,299	614,920,624	614,963,193	814,638,850	815,618,033
Perkins Loans	155,998,224	155,798,361	165,746,785	157,221,554	157,686,707	92,602,761	155,575,823	131,908,455
LEAP	63,529,469	71,999,201	70,806,197	72,211,613	63,356,161	32,138,907	49,455,743	25,675,432
Total, student financial assistance	7,126,375,131	7,595,059,330	7,090,800,014	6,947,260,306	6,890,651,845	7,102,903,092	7,933,938,272	8,815,771,466
California as a Percentage of U.S.								
Pell Grants	8.6	9.0	10.8	11.4	11.9	12.4	12.2	12.3
Federal SEOG	9.5	9.4	9.3	9.5	9.8	9.8	10.1	10.3
Federal Work-Study	8.7	8.8	8.8	8.8	8.9	8.9	10.0	9.9
Perkins Loans	10.8	10.7	10.7	9.8	9.9	10.0	10.2	10.1
LEAP	15.4	15.4	15.8	15.5	15.4	15.3	15.8	15.3
Total, student financial assistance	8.8	9.1	10.5	11.1	11.5	11.8	11.8	12.0

Table 3 (continued)

	1999	2000	2001	2002	2003	2004	2005	15-Year Total
California								
Pell Grants	920,400,000	980,400,000	1,200,100,000	1,318,200,000	1,436,700,000	1,471,400,000	1,471,600,000	14,132,279,004
Federal SEOG	64,501,445	65,535,584	72,922,843	76,510,940	80,207,474	81,307,911	82,180,136	972,596,419
Federal Work-Study	86,586,872	102,875,177	111,356,320	111,356,320	110,632,504	109,979,730	109,071,590	1,228,072,271
Perkins Loans	10,164,295	10,348,903	10,377,600	9,201,965	9,092,327	9,677,070	—	179,508,565
LEAP	3,924,149	6,452,450	8,445,098	10,298,903	10,220,874	10,160,526	10,079,301	129,177,772
Total, student financial assistance	1,085,576,761	1,165,612,114	1,403,201,861	1,525,568,128	1,646,853,179	1,682,525,237	1,672,931,027	16,641,634,031
United States								
Pell Grants	7,217,000,000	7,639,717,000	9,996,000,000	11,667,000,000	12,706,000,000	13,117,000,000	12,928,000,000	123,224,844,495
Federal SEOG	619,537,736	631,000,000	691,000,000	725,000,000	760,027,500	770,455,000	778,720,000	9,600,929,002
Federal Work-Study	850,122,810	934,000,000	1,011,000,000	1,011,000,000	1,004,428,500	998,502,000	990,257,000	12,101,042,112
Perkins Loans	99,769,046	99,211,707	99,849,902	99,848,900	99,297,889	98,672,169	—	1,769,188,283
LEAP	24,978,511	40,000,000	55,000,000	67,000,000	66,564,997	66,172,000	65,643,000	834,531,231
Total, student financial assistance	8,811,408,103	9,343,928,707	11,852,849,902	13,569,848,900	14,636,318,886	15,050,801,169	14,762,620,000	147,530,535,123
California as a Percentage of U.S.								
Pell Grants	12.8	12.8	12.0	11.3	11.3	11.2	11.4	11.5
Federal SEOG	10.4	10.4	10.6	10.6	10.6	10.6	10.6	10.1
Federal Work-Study	10.2	11.0	11.0	11.0	11.0	11.0	11.0	10.1
Perkins Loans	10.2	10.4	10.4	9.2	9.2	9.8	—	10.1
LEAP	15.7	16.1	15.4	15.4	15.4	15.4	15.4	15.5
Total, student financial assistance	12.3	12.5	11.8	11.2	11.3	11.2	11.3	11.3

SOURCES: U.S. Department of Education, State Funding History Table, Washington, D.C., prepared by Budget Service, available at http://www.ed.gov/about/overview/budget/history/index.html; internal calculations.

A student with an EFC of no more than $3,850 and whose COA at a given institution exceeds EFC by $200 or more is deemed eligible to receive a federal Pell Grant. Although not technically a formula grant, the federal Pell Grant program makes use of formulaic elements such as the COA-EFC needs calculation and the proportional reduction of grant amounts for students enrolled less than full-time.[51]

The maximum federal Pell Grant award for the 2004–2005 school year was $4,050, and the minimum award was $400.[52] As amended in 1998, HEA allowed Congress to set a maximum award as high as $4,500 in 1999–2000 and $5,800 in 2003–2004. However, annual appropriations bills, which determine annual maximum award amounts, have set the maximum at considerably lower levels. In 2004–2005, the maximum grant was $4,050, and—absent further legislation to the contrary—the $4,050 amount will remain unchanged in 2005–2006.[53] The maximum grant is sharply higher than the 1998–1999 amount of $3,000.

In 2004–2005, the program had been expected to provide a total of $12 billion to benefit approximately 5 million low- and moderate-income recipients nationwide. However, the actual cost turned out to be approximately $1 billion more. In its annual appropriations bill for the Departments of Labor, Health and Human Services, and Education, Congress states a spending amount for Pell Grants. However, because the grant amounts are predetermined but the number of eligible recipients varies from year to year, the federal government's expenditures for the Pell Grant program for a given year vary as well. By the end of a fiscal year, Congress sometimes must appropriate additional funds to restore a Pell Grant shortfall, as was the case in 2004. Insofar as all students who meet specified criteria are eligible to receive funds, the program displays the characteristics of a mandatory or entitlement program. However, because annual funding is not unlimited, and because grant amounts and beneficiary thresholds may be reduced to comport with funding limitations, the program retains its discretionary character.

Were it to be classified as a formula grant (it is actually classified as a Direct Payment for budgetary and accounting purposes), Pell Grants would rank

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[51]Recipients are initially assigned a scheduled award, which is the amount a student would be expected to receive during a full academic year for a given COA and EFC. Students enrolled less than full-time receive an annual award based on their enrollment status according to a disbursement schedule.

[52]No payment may be made to a student for whom the formula calculates an annual award of less than $200, but any student who would be eligible for an award of $200 or more yet less than $400 is automatically awarded a Pell Grant of $400.

[53]The Consolidated Appropriations Act, 2004 (Public Law 108-199), January 23, 2004.

approximately fifth largest among all such federal programs, joining two K–12 education grant program siblings—Title I (Education for the Disadvantaged) and Special Education Grants to States—at similar spending levels.

Pell Grants and California

As shown in Figure 9 and Appendix Table B.3, of the $13 billion expended on Pell Grants nationwide in fiscal year 2004, California grantees received $1.48 billion, 11.9 percent of funds distributed to the 50 states and the District of Columbia, and 11.3 percent of all distributed funds. The state's percentage has remained unchanged since 2002; in 2001, California's $1.2 billion in grants represented a slightly higher share, 12.7 percent, of the nation's $10 billion Pell Grant expenditure total.

NCES data indicate that 19.6 percent of California undergraduates received a Pell Grant in 1999–2000, and that those recipients' average grant was $2,042.[54] See web-only Appendix Table E.8. Thus, a smaller percentage of the state's students received Pell Grants than in the nation as a whole (22.6%), but California students' average grant amounts were somewhat above the national average grant amount of $1,910. California ranked 32nd among all states in the number of recipients, and eighth (among 47 jurisdictions counted) in average grant amount.

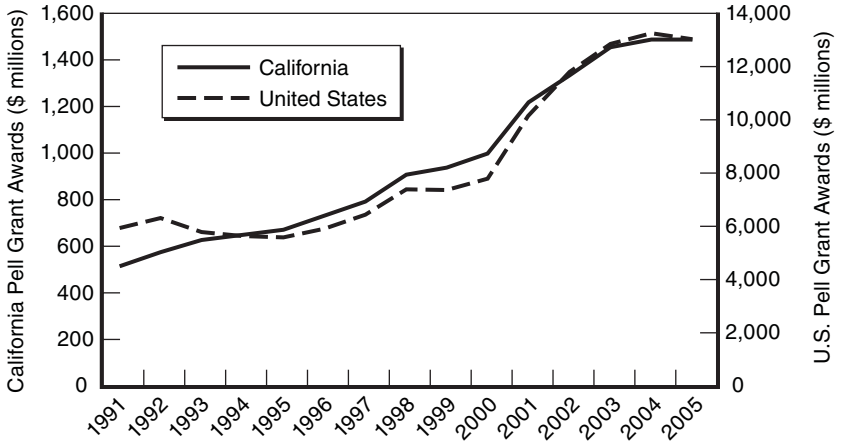

Figure 9—Federal Pell Grant Expenditures, California and the United States, Fiscal Years 1991–2005

[54]National Center for Education Statistics, *NPSAS:2000 Undergraduate Students*, Washington, D.C., August 3, 2004; computation by DAS-T Online Version 4.0 on November 20, 2004.

An above-average proportion of California's Pell Grant recipients have especially low incomes. In 2003–2004, 63 percent of the state's Pell Grant recipients had student and family income of less than $20,000, compared to 55 percent nationwide. California's percentage below that threshold was larger than in every state except Alabama, Arkansas, and Puerto Rico.

Some observers and stakeholders have proposed altering Pell Grant rules to increase the minimum grant from the current $400 level. (For example, NASFAA recommends a $750 minimum grant.[55]) Minimum grants typically go to middle-income recipients, and an increase would free up funds for needier students. Because California students typically have lower incomes and receive larger grants, the change would likely increase available resources for the state's applicants.

The Controversy Surrounding Updating EFC State Tax Tables

In May 2003, ED announced plans to update a set of state-by-state tables it uses to determine how much to deduct from students and parents incomes for EFC calculations to account for varying rates of state taxation. Congress requires an allowance to compensate applicants—particularly those living in high-tax states—for their state tax payments, and ED publishes a table specifying what percentage of income should be deducted for each state. In accordance with ED's action, the allowance for most states would have been reduced, and EFCs thus correspondingly increased.

The proposed move fueled strong opposition within Congress and in the education advocacy community.[56] Critics assailed the proposed $250 million to $300 million reduction in Pell Grants, and the Senate version of the 2004 spending bill for the Departments of Labor, Health and Human Services, and Education included an amendment sponsored by Senator Jon Corzine (NJ) blocking the change. In December 2003, House and Senate negotiators drafting the omnibus appropriations conference report for fiscal year 2004 decided to accept the Senate language and suspend implementation for one year.

One year later, however, in November 2004, the 2005 omnibus appropriations bill omitted similar suspension language, paving the way for

[55]National Association of Student Financial Aid Administrators, *Higher Education Act Reauthorization Recommendations 12/31/02*, Washington, D.C.

[56]See, e.g., American Council on Education, *ED to Revise State Tax Tables Used to Calculate Pell Grants and Other Aid Program Awards*, Washington, D.C., November 23, 2004.

changes to take effect in Fall 2005.[57] In 2004, ED further revised the tax tables, lessening somewhat the extent of the changes.

According to its critics, the tax formula change would entirely eliminate Pell Grants for between 80,000 and 100,000 recipients—those with incomes at higher levels of Pell eligibility, perhaps $35,000 to $40,000—and would reduce grant amounts somewhat for between 1 million and 1.5 million additional students.

Defenders of the ED action point out that the HEA requires that the Secretary of Education post annual revisions to EFC tables, including the state tax table.[58] However, that table has been left unchanged since 1994–1995—a year in which the Treasury Department's most current state tax data were still based on the 1988 tax year. Since state tax rates have declined since then, they argue, families have benefited excessively from tax tables that overestimate the amount of state taxes deducted, in turn leading ED to make some inappropriate or excessive grants. Critics of the change counter that, because of fiscal crises facing states, many have recently increased taxes or are likely to do so soon.

Although rarely cited in a debate that has focused on the tax table change's effect on Pell Grants, the adjustment would also alter eligibility for subsidized loans and other forms of student financial assistance that rely on the EFC calculation.

EFC State Tax Table Revision and California Pell Grants

As noted, many low- and moderate-income families will be expected to pay more for college because of the updated tax deduction table. However, California families will be affected less than their counterparts in other states.

The table in use from 1994 through 2003 set California residents' state tax allowance at 5 percent for married students without dependents, and between 7 and 8 percent for independent students and for parents of dependent students. The revised state tax table it proposed in 2003 would have reduced California residents' allowable deduction from income to between 5 and 6 percent for independent students with children and for parents of dependent students, leaving unchanged at 5 percent the allowance for childless independent California students.[59]

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[57]Conference report to accompany H.R. 4818, *Consolidated Appropriations Act, 2005*, 108th Congress, 2nd Session, approved by House and Senate on November 20, 2004.

[58]20 U.S.C. 478.

[59]U.S. Department of Education, *EFC Formula 2003–2004*, Washington, D.C., as printed in the *Federal Register* on May 30, 2003.

If implemented as initially published, California's state tax allowance for independent students and parents would have been reduced slightly less than the national median, and the state is one of only 12 states where the table's adjustment in tax rates for married childless students would remain unchanged.[60] In the end, however, ED further polished its revisions in 2004, and the relative affect on California was further reduced. From California's perspective, ED in essence split the difference between prior law and the 2003 table revision. Rather than reducing the current allowances for the state, which were between 7 and 8 percent, to between 5 and 6 percent, the updated revision instead sets the range at between 6 and 7 percent—midway between the approaches.

An analysis by the Government Accountability Office (GAO) predicted that the newly updated allowance will increase EFCs by an average of $443 per student nationwide (for the 61% of students whose EFC would increase), reduce Pell Grants for 35 percent of recipients, and eliminate Pell Grants for 81,000 students who would otherwise have been eligible.[61] For California, however, the results appear less stark. According to GAO, 46 percent of California recipients would be affected, and, of those, the average EFC increase would be $209, less than half the $443 national average increase.

Not all EFC increases would necessarily yield reduced receipts, however. GAO estimates that 36 percent of U.S. Pell Grant recipients would have their grants reduced, and by an average reduction amount of $131. In contrast, only 21 percent of California recipients would see a lessened Pell Grant, and the reduction amount would average $86 in the state.

As shown in Appendix Table B.2, ED predicted that, between fiscal years 2004 and 2005, total federal Pell Grant spending for California students would decrease relatively little compared to spending for other states following implementation of the tax table revision. Of the nation's $239 million in total Pell Grant reduction, ED predicted California would shoulder just $2.7 million, or 1.1 percent. Further, if the tax tables had been implemented but total federal spending for Pell Grants maintained in 2005 at 2004 levels (which was not the case), California would have been one of only four states receiving increases (the

[60]The ED revision would actually increase state tax allowances for Connecticut and Nevada.

[61]U.S. Government Accountability Office, *Department of Education's Update of the State and Other Tax Allowance for Student Aid Award Year 2005–2006,* GAO-05-408R, Washington, D.C., March 22, 2005, available at http://www.gao.gov/new.items/d05408r.pdf.

others being Florida, Texas, and Georgia) and California's $24.8 million increase would be the largest among states.[62]

Pell Grant Tuition Sensitivity Rules and California's Community Colleges

The Pell Grant program includes "tuition sensitivity" rules that reduce the maximum grant available to Pell-eligible students of only one higher education branch nationwide, the California Community College (CCC) system. Affordable public higher education has been among California's core value for many years, and the state and local governments continue to underwrite most of the costs of attending the state's community colleges and have made them the nation's lowest priced public higher education institutions.

The tuition sensitivity rule applies only when a student's tuition and any dependent care or disability-related expenses included in his or her COA are less than $675, the student's EFC is $700 or less, and the student's total COA is $3,400 or higher.[63]

If these conditions are met, the student's maximum scheduled Pell Grant is:

$2,700; plus

one-half of the difference between $2,700 and the maximum award; plus

the lesser of:

> The remaining one-half of the difference; or
>
> The amount of the student's tuition plus an allowance determined by the institution as described in sections 472(8) and 472(9) of the HEA if the student has dependent care or disability-related expenses.[64]

The $675 cutoff represents one-half the difference between the 2004–2005 maximum Pell Grant award of $4,050 and $2,700. Awards for students whose COA tuition component plus appropriate expenses is less than the $675 threshold are reduced by the difference between that threshold and the amount of his or her expenses. In other words, eligible CCC students receive a maximum of $3,375, plus the amount of tuition.

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[62] In this scenario, Pell Grants for Puerto Rico would increase by $26.2 million, slightly more than for California.

[63] U.S. Department of Education, Information for Financial Aid Professionals, 2004-2005 Federal Pell Grant Payment and Disbursement Schedules (DCL ID: P-04-01), January 30, 2004.

[64] The rules require calculating costs based on a full-year, full-time student.

As an illustrative example, suppose a CCC student without dependents would qualify for the maximum Pell Grant of $4,050, except for the fact that her tuition cost is only $425. Regardless of any other nontuition costs she might face, the maximum Pell Grant would then be reduced from $4,050 to $3,800, which is the $3,375 base and the cost of tuition.

In 2001–2002, CCC estimated that California students would receive $12.5 million less in Pell Grant aid because of the tuition sensitivity threshold and that the difference between CCC students' maximum grants and all others' grants was $131 per recipient. In effect, the provision penalizes California for keeping CCC tuition rates low. It is somewhat ironic that tuition sensitivity provisions shortchange low-income community college students in California, given that the state is not below average in terms of nontuition costs such as room and board, books, and transportation.

For additional information regarding the CCC and its efforts to serve its 1.6 million students with dwindling resources, see Patrick J. Murphy, *Financing California's Community Colleges*.[65] According to the report, CCC fees were so low in 2000–2001 that they represented less than half the cost of community college tuition in the next least expensive state and less than one-quarter of the national average. The 2003–2004 budget raised CCC full-time annual enrollment fees to $594, or $18 per unit, still less than half the national average. The author recommended that California raise community college tuition and fees while maintaining broad access to the system through the increased use of grants, tax credits, and financial aid programs.

Critics of the tuition sensitivity threshold have called for its repeal, arguing that the provisions penalize institutions that provide opportunities to their students by charging affordable tuition rates and giving schools incentives to artificially inflate tuitions to avoid triggering the rule. Repeal supporters point out that the gap between the maximum Pell Grant for CCC students and all other students will further widen as the Pell Grant maximum is increased, and that community college students in states other than California are likely to be affected as well by a larger grant maximum.

[65]Patrick J. Murphy, *Financing California's Community Colleges*, Public Policy Institute of California, San Francisco, California, January 2004, available at http://www.ppic.org/main/publication.asp?I=324.

Stafford Loans (Federal Direct Loans and Federal Family Education Loans)

Every year, the Department of Education distributes tens of billions of dollars in loans to eligible students to help cover the cost of college tuition, and a large majority of private student loan dollars are lent with a federal guarantee or subsidy. Many families at first visualize financial aid in the form of grants, which do not require repayment, only to find that their financial circumstances do not yield an adequate finding of need, as measured by the COA-EFC calculation. Loans are a logical next step. Considered student financial aid despite their repayment requirement, loans now constitute far more than half of the external financial resources students draw upon to attend college, and the needs calculation introduces formulaic elements into what otherwise is simply a loan program.

DLs and FFELs are the two largest student loan programs, lending a combined total of $52.3 billion in fiscal year 2004. Known collectively as Stafford Loans, the two programs are nearly identical from a recipient's point of view.[66] However, DLs are made by and repaid to the Department of Education, whereas FFELs are made by and repaid to private lenders.[67] For DLs, which were first lent during the 1994–1995 school year, ED contracts with participating institutions and other entities to originate loans on the federal government's behalf. To stabilize FFELs, the federal government insures the private lenders for certain levels of liability. Just as with normal loans, student loans accrue interest on the principal from the date of issuance at a set rate (discussed below). The advantage of student loans for the recipient is that the student is not required to pay any of the loan's principal or interest until six months after the end of enrollment. Consequently, student loans often enable students who otherwise would not be able to afford college tuition to attend postsecondary and graduate institutions.

To be eligible for DLs and FFELs, a student must be attending an approved postsecondary or graduate institution at least half-time and demonstrate financial need. For the purposes of federal loans, as for Title IV grants, need is defined as the cost of attendance for a student minus the student's expected family contribution (EFC) minus the student's estimated financial assistance—discussed elsewhere in this report. Estimated financial assistance includes most grants,

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[66]This section of the report discusses DLs and FFELs separately rather than as a unified structure under the Federal Robert T. Stafford Loan Program or, colloquially, Stafford Loans. The DL program is also known as the William D. Ford Federal Direct Loans program.

[67]The value of the federal DL portfolio on September 30, 2004, was $84.8 billion. U.S. Department of Education, *Federal Student Aid: Reports and Resources*, Washington, D.C., available at http://www.ed.gov/about/offices/list/fsa/resources.html.

loans, and needs-based assistance received by a student or by a student's parents on behalf of the student.[68]

Both the DL and FFEL programs offer four types of loans: subsidized, unsubsidized, PLUS (Parent Loan for Undergraduate Students), and consolidated loans. Only subsidized loans require the permanent expenditure of federal dollars for more than administering of the program itself.

Subsidized loans provide the greatest financial relief for students and are awarded to the neediest. In addition to relieving the recipient of the requirement to pay off any of the loan's principal or interest until six months after the completion of enrollment, ED subsidizes the loan by paying for all of the interest that accrues on the loan during the student's time in school. As a result, when the student leaves school, he or she is liable only for the principal balance of the loan.

Unsubsidized loans operate like subsidized loans except that ED does not pay the interest during the period of enrollment. Additionally, once the student ends enrollment at a postsecondary institution, the interest capitalizes, meaning that the unpaid interest accrued during school enrollment is added to the principal amount of the loan. PLUS loans are issued to parents on behalf of dependent children in postsecondary or graduate school and operate like unsubsidized loans, with interest accruing once the loan is issued.[69] Finally, consolidation loans enable a recipient to consolidate several DLs and FFELs (as well as certain other types of loans) into a single payment. Depending on the nature of the loans being consolidated, the consolidated loan will generally be treated either like a subsidized, unsubsidized, or PLUS loan. Consolidation loan volume leapt from $12 billion in 2000 to $44 billion in fiscal year 2004, in part because of aggressive marketing and low national interest rates.

For any of the loan types, students—under special circumstances, such as unemployment, hardship, or graduate/fellowship opportunities—may defer repaying the loan for up to three years.[70]

Federal loans have variable interest rates set each year.[71] Both subsidized and unsubsidized loans are also subject to annual loan limits that differ depending on

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[68] As in the case of grant aid, DLs and FFELs rely on information provided in the FAFSA, on which students submit financial information for their parents and themselves, as the main means for determining EFC.

[69] Typically, parents begin paying the interest and principal on a PLUS loan while their child is still in school.

[70] The government will continue to subsidize interest on subsidized loans during deferment; for unsubsidized loans, students are responsible for interest that accrues during deferment.

[71] The rate, as well as the formula for determining the rate, has changed frequently over the years. Currently, for subsidized, unsubsidized, PLUS, and consolidated loans, the rate is set every July 1 by taking the bond equivalent rate of a

whether the student is dependent or independent.[72] Additionally, there are maximums that govern a student's entire postsecondary career for these loans.[73] PLUS Loans have no similar yearly or postsecondary aggregate maximum.[74]

Once a loan has been issued, both DLs and FFELs to accommodate a wide range of students offer four different repayment plans: standard, extended, graduated, and income-contingent.[75] The time frames in these plans start after a six-month grace period.[76]

Subsidized loans represent a shrinking proportion of federal student loan volumes, because unsubsidized lending has grown at a faster pace. In 1994, 64 percent of the nation's Stafford Loans were subsidized; by 2005, that proportion had fallen to 44 percent.[77]

91-day Treasury bill (determined at the bill's final auction before the previous June 1) and adding 2.3 percent. The rate may not exceed 8.25 percent. As of this writing, the rate for interest on these loans is 4.17 percent.

[72]A first-year student is eligible to receive a combination of subsidized and unsubsidized loans totaling $2,625 (dependent) or $6,625 (independent); a second-year student is eligible to receive $3,500 (dependent) or $7,500 (independent); a third-, fourth-, or fifth-year student is eligible to receive $5,500 (dependent) or $10,500 (independent) per year; and, finally, a graduate student, regardless of year, is eligible to receive $18,500 per year (dependent or independent, the maximum subsidized amount is $8,500). U.S. Department of Education, William D. Ford Federal Direct Loan Program, *Direct Loans: School Guide*, table on p. 2-2, "Direct Subsidized Loans and Direct Unsubsidized Loans: Combined Annual Loan Limits," Washington, D.C., 1999.

[73]A dependent undergraduate can receive only $23,000 in combined subsidized and unsubsidized loans (of which $23,000 can be subsidized), an independent undergraduate can receive only $46,000 in combined subsidized and unsubsidized loans (of which $23,000 can be subsidized), and a graduate student can receive up to $138,000 in subsidized and unsubsidized loans (of which $65,500 can be subsidized).

[74]The maximum amount for a PLUS loan is equal to a student's cost of attendance minus a student's estimated financial assistance from other sources. U.S. Department of Education, William D. Ford Federal Direct Loan Program, *Direct Loans: School Guide*, table on p. 2-9, "Direct Subsidized Loans and Direct Unsubsidized Loans: Combined Aggregate Loan Limits," Washington, D.C., 1999.

[75]For the standard repayment plan, recipients make fixed monthly payments (a minimum of $50) for a maximum of ten years (not including deferments). In the extended repayment plan, payees again make fixed monthly payments (a minimum of $50), but they have 12 to 30 years to repay the loan. The graduated repayment plan allows recipients to have smaller monthly payments at the start of the repayment period, when income is typically lower, and larger payments later during the life of the loan. Just as with the extended plan, the recipient has 12 to 30 years to pay off the loan. The income-contingent repayment plan is quite complicated. Generally, the higher the income, the higher the monthly payment; if income is at or below the poverty line, no monthly payment is required. The recipient has 25 years to pay off the loan in the income-contingent plan. Certain conditions, including bankruptcy and death, discharge the obligation to repay the loan.

[76]A student may continue to defer loan repayment so long as he or she is enrolled at least half-time, which is defined as six units for undergraduate programs and four units for graduate programs.

[77]In 1994, subsidized loans represented $14 billion of the nation's $21 billion total net loan volume; by 2005, subsidized loans had grown to $25 billion of the nation's $57 billion total. U.S. Department of Education, *Student Loan Volume Tables,* Washington, D.C., February 2005, available at http://www.ed.gov/about/overview/budget/studentloantables/index.html.

Stafford Loan Expenditures in California and the United States

In 2005, as shown in Table 4, the federal government underwrote $43 billion for the FFEL program, $3.5 billion (8.1%) of which was spent in California. FFEL spending increased steadily from 2001 to 2005, but California's percentage of the U.S. total declined—from 9.4 percent to 8.1 percent—because the growth rate was faster in other states. Web-only Appendix Table B.4 provides details regarding all states' funding from and percentage share of FFELs.

In contrast, the percentage of DL spending in California has remained steady. The state accounted for 9.3 percent of spending in 2001 ($963 million of the nation's $10.3 billion), as also shown in Table 4, and 9.4 percent in 2005 ($1.3 billion of the nation's $13.9 billion). Web-only Appendix Table B.5 provides details regarding all states' funding from and share of DLs.

According to NCES data from the NPSAS for 1999–2000, California undergraduate students are considerably less likely to receive federally subsidized Stafford Loans than their counterparts in other states. Whereas 23.1 percent of the nation's undergraduates received a subsidized loan that year, 16.3 percent of California students did so.[78] As such, the state ranked 46th among the states for subsidized loan recipients.

Table 4

New Student Loan Volume, California and the United States, 2001–2005

	2001	2002	2003	2004	2005
California					
Federal DLs	963,316,745	1,025,071,217	1,143,192,002	1,212,778,592	1,309,114,287
FFELs	2,334,991,696	2,571,612,543	2,739,726,228	3,190,422,446	3,490,008,150
Total	3,298,308,441	3,596,683,760	3,882,918,230	4,403,201,038	4,799,122,437
United States					
Federal DLs	10,323,000,000	11,150,000,000	11,968,765,296	12,840,130,270	13,860,071,570
FFELs	24,818,129,607	28,630,462,692	33,790,824,139	39,265,744,482	42,952,859,878
Total	35,141,129,607	39,780,462,692	45,759,589,435	52,105,874,752	56,812,931,448
California % of U.S.					
Federal DLs	9.3	9.2	9.6	9.4	9.4
FFELs	9.4	9.0	8.1	8.1	8.1
Total	9.4	9.0	8.5	8.5	8.4

SOURCE: U.S. Department of Education, Budget Service, Washington, D.C., March 2005; internal calculations.

[78]National Center for Education Statistics, *NPSAS:2000 Undergraduate Students*, Washington, D.C., August 3, 2004, computation by DAS-T Online Version 4.0 on November 20, 2004.

The state also ranked near the bottom among states in terms of the proportion of students taking out unsubsidized federal student loans in 1999–2000, with 11.1 percent of California students receiving such loans and 14.8 percent of all U.S. students doing so. At an average of $3,696, the unsubsidized loan amount per California recipients was 10 percent larger than the average for students in all states.

As expected, a similar pattern appears when examining receipts from all federal loans, both subsidized and unsubsidized. Ranking 48th among the 50 states plus the District of Columbia and Puerto Rico counted for the percentage of students receiving a federal loan of any kind, 18.5 percent of California undergraduates received a federal loan in 1999–2000, compared to 28.1 percent of all students nationwide. In California, the average recipient's loan was $6,076, again above the national average loan amount that year of $5,367.

Data on cumulative loan balances indicate that—relative to the national average—fewer undergraduates at California institutions had outstanding Stafford Loan balances, but the average Californian had a typical amount to pay back. In 1999–2000, 30 percent of California undergraduates had a Stafford Loan balance greater than zero, compared to 40 percent nationwide, but California borrower balances averaged $8,631, slightly below the national average of $8,790.

Campus-Based Aid Programs

CBA is the name given to three separate formula programs that provide needs-based assistance to eligible college campuses for distribution to eligible students: SEOG, FWS, and Perkins Loans. In the 2004–2005 school year, 3,837 institutions nationwide received SEOG funds, 3,400 received FWS funds, and 1,789 received Perkins Loans. Each program is governed by a separate and somewhat complicated set of guidelines, although all three are driven by a common two-step formula procedure using individual students' finances and relevant higher education inputs such as EFC, COA, and student enrollment status, to parse out funds to institutions—and all three contain a hold-harmless guarantee that favors older institutions over new ones.

Unlike Pell Grants and loans, campus-based aid programs require some form of state, local, or institutional matching assistance, and funds are distributed to students indirectly. As such, financial aid administrators at each campus are

authorized to exercise flexibility in tailoring federal fund packages from these programs to students as they see fit, using institution-specific criteria.[79]

Below we discuss the all-important base guarantee provisions common to all three campus-based aid programs, and then we briefly examine nuances unique to each of the programs and the funding that emanates from them.

The Base Guarantee

Since the passage of the Higher Education Act Amendments of 1972, campus-based aid has have been apportioned using a base minimum guarantee derived from an institution's historical share of funds. Although recipient institutions are awarded separate allocations for each formula program that vary based on formula distinctions (discussed below) and the availability of funds, generally a CBA formula's first stage apportions those institutions participating since before 1999 a base guarantee or hold-harmless share that matches their historical allotments. The current base year hold-harmless language, updated in the HEA Amendments of 1998, guarantees each institution 100 percent of the amount it received from total SEOG or FWS appropriations in 1999–2000.

Newer institutions that had not participated until after the program's fixed base year receive a base guarantee that varies according to the length of participation in each program. Generally, a first- or second-year participating institution is eligible to receive a base guarantee of the greatest of $5,000, or 90 percent of an amount received by a comparable institution, or 90 percent of what the institution received in its first year of participation. Eligible post-1999 institutions participating in their third year or beyond may receive the greatest of 90 percent of what they received in their first year of participation, 90 percent of what they received in the second year, or $5,000. If total program funds available fall below required base guarantee totals, then each institution's base guarantee is reduced pro rata.[80]

Schools' base guarantee awards are calculated first using historic allocations and then a fair share formula. For schools that participated during or before the 1999–2000 school year, the base guarantees are generally equal to the fixed

[79]In addition, all three programs permit institutions to pay for program-related overhead by taking an administrative cost allowance of between 3 and 5 percent of the school's total expenditures for all three CBA programs (including Perkins Loan cancellations but not Perkins Loan balances). To calculate the allowance, a school takes 5 percent of the first $2,750,000 spent under CBA programs, plus 4 percent of expenditures between $2,750,000 and $5,500,000, plus 3 percent of expenditures greater than $5,500,000.

[80]This final figure is known as the adjusted base guarantee.

minimum plus the pro rata share the school received in the 1999–2000 award.[81] These 1999–2000 base guarantees are equal to the expenditures a school received in the 1985–1986 academic year or else to the base guarantees calculated later for those schools that started participating after 1985–1986. The newest participating schools that entered after 1999–2000 have their base guarantees calculated using a formula for the first three years of participation, after which the base guarantees become fixed. These new base guarantees are calculated by multiplying a school's enrollment by the average campus-based aid expenditures at other comparable institutions.

After the base guarantee is calculated, adjusted by rate (if appropriated funding is inadequate), and allocated, any remaining funds are apportioned to campuses according to their individual level of need in excess of their base guarantee. Using separate "fair share" formula language governing each program, "unmet need" is calculated differently for each program. (The unmet need and fair share concepts are further discussed below in the descriptions of each CBA program.)

The second part of the formula involves a fair share calculation. A need figure is calculated for every school, representing the amount of funds students need to attend the school that exceeds those students' EFCs. For SEOG only, HEA requires that ED reduce a school's calculated need by that year's amount of the school's Pell Grants and funds from the LEAP program. A fair share amount is calculated that represents the amount the school would receive if the funds were distributed by using a school's need figure compared to the need of all the schools. The shortfall figure represents the amount of the school's fair share that has not been addressed through the base guarantee. After base guarantees are funded, the remaining appropriation is used for the fair share calculation. Whatever appropriated monies remain after base guarantee payments have been funded are then distributed in proportion to each school's relative shortfall ratio—the institution's shortfall compared to the shortfall of all schools.

Criticism of the Base Guarantee

The base guarantee has been criticized for disproportionately and unjustifiably aiding older institutions at the expense of newer ones. The base guarantee has been updated with every HEA reauthorization measure since the concept was introduced in 1972, and one base guarantee builds on the next. Although the current law's base year appears not unreasonable at first glance, it is important to remember that 1999–2000 appropriations themselves already

[81]Whereas this base guarantee procedure is identical for SEOG and FWS (as long as recipient institutions have participated in both programs for the appropriate length of time), the Perkins Loan program's base guarantee differs somewhat, as discussed below.

guaranteed most institutions the funding level they had received in 1985–1986.[82] In turn, an institution's funding in 1985–1986 depended on any funding amounts it received in a prior year. Thus, any institution that received funding 20 years ago receives no less than then—or in many cases earlier—regardless of whether its students' needs increased, decreased, or remained stable. As a result, the amount of aid available for new institutions is very meager.

A 2003 *New York Times* story criticized the current campus-based aid scheme because it "typically gives the wealthiest private universities, which often serve the smallest percentage of low-income students, significantly more financial aid money than their struggling counterparts with much greater shares of poor students."[83]

Additional criticism focuses on the process for establishing a new institution's base guarantee, which depends on campus enrollment in the first or second year of operation. Few new institutions are able to "hit the ground running" with a full student population, so this provision often artificially limits future CBA funding for new schools, whose student body is likely to grow sharply after the second year of operation.

Critics also argue that newer schools are further shortchanged by their tendency to be established in high growth areas with higher than average levels of student need. Finally, formula language affords older schools first priority in the allocation of funding over new schools, thereby leaving newer schools more vulnerable to program cuts than older ones in years when available funds are scarce.

Like most states, California houses a mixture of older institutions and newer institutions, so support or opposition to CBA base guarantees may vary somewhat within the state. Nevertheless, California is considerably more likely than the average state to house recently opened and new college campuses. Responding to increased enrollment and population growth, the California State University (CSU) system established three new campuses after 1990, the University of California's Merced campus has just come on line, and private and proprietary institutions continue to open within the state.

CSU made eliminating the base guarantee a reauthorization priority, and allied support has come from unexpected places. Typically avoiding disputes that

[82]Schools that entered the program after 1985–1986 but before 1999–2000 are guaranteed their base guarantee during the interim period.

[83]Greg Winter, "Rich Colleges Receiving Richest Share of U.S. Aid," *New York Times*, November 9, 2003.

pit one region against another, the National Association of Student Financial Aid Administrators nevertheless is urging Congress to end the base guarantee, reducing it by 20 percent a year until 2009. Community college advocates generally agree; the American Association of Community Colleges estimates that community colleges enroll about 44 percent of students but receive between 3 and 15 percent of federal campus-based aid.

A 2004 study by the American Council on Education (ACE) predicts that elimination of the base guarantee would result in an overall increase in funding for California institutions, and that the state's gaining institutions would outnumber losing institutions by at least two to one.[84] The analysis assumes that the base guarantee would be fully eliminated and applied to 2003–2004 appropriated funds. In such a scenario—unlikely because institutions now benefiting from the guarantee would undoubtedly fight hard for a phase-in period—ACE found that funds would shift substantially from Northeastern states, with high concentrations of older universities, to the South and West. California would have benefited from a revised formula, the analysis predicts, gaining $5 million in SEOG awards, $7 million in FWS funds, and a $1.3 million supplement to the Perkins Loan program. ACE predicted that SEOG would increase at 256 California institutions and decrease at 85 institutions and that the state would see similar results in funding for FWS (232 gainers, 52 losers) and Perkins Loans (80 gainers, 46 losers). It also found that the base guarantee elimination would advantage public two-year institutions and proprietary schools over public four-year institutions.[85]

Relative to its share of the nation's students, low-income and otherwise, California receives a low share of funding from all three campus-based aid programs. Table 5 shows federal expenditures in the United States and California, as well as California's percentage share of each program and the number of participating institutions. As shown, the state received 10.4 percent of the nation's total spending in 2004–2005. As Figure 10 shows, total federal spending in both California and all states increased from 1991 to 2005, and California's increase slightly exceeded U.S. growth on a percentage basis.

[84]American Council on Education, Center for Policy Analysis, *Analysis of Campus-based Program Allocation Changes Proposed in H.R. 4283*, Washington, D.C., June 15, 2004.

[85]The immediate elimination of the base guarantee does not factor in shifts in tuition, enrollment, and appropriations levels which would all have a bearing on the final apportionment outcome.

Table 5

Campus-Based Aid Allocations, 2004–2005

	No. of Awards	Amount ($)	No of Institutions
California			
Perkins	103,150	9,609,684	176
SEOG	114,202	80,604,279	402
FWS	81,719	103,706,817	346
Total	299,071	193,920,780	
United States			
Perkins	1,048,716	98,556,395	1,782
SEOG	1,090,156	769,496,377	3,808
FWS	782,272	992,821,514	3,363
Total	2,921,144	1,860,874,286	
California % of U.S.			
Perkins	9.8	9.8	9.9
SEOG	10.5	10.5	10.6
FWS	10.4	10.4	10.3
Total	10.2	10.4	

SOURCES: U.S. Department of Education, Federal Student Aid Programs, Notification of Campus-Based Awards, Washington, D.C., April 1, 2004; authors' calculations.

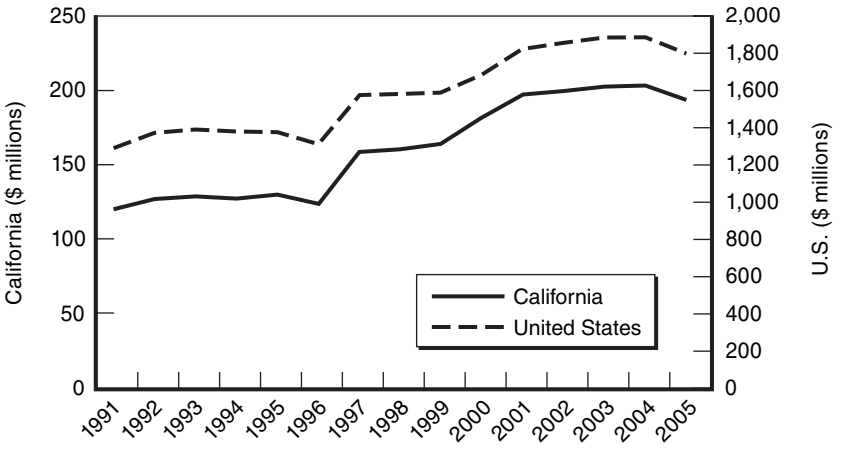

Figure 10—Federal Campus-Based Aid Expenditures, California and the United States, Fiscal Years 1991–2005

Federal Supplemental Educational Opportunity Grants

The most popular CBA funding source, as measured by the number of participating institutions, is the federal Supplemental Educational Opportunity Grants program. SEOG is used to provide grants for eligible students, ranging

from $100 to $4,000 per year, in proportion to student need.[86] Institutions are required to target these grants first to students with exceptional financial needs, based on federal needs analysis data, then to enrolled Pell Grant recipients.

HEA authorized $675 million for SEOG in 1999, and such sums as may be necessary for every year thereafter, with a 25 percent institutional match requirement.[87] Congress appropriated $770 million in fiscal year 2004 to support SEOGs, as shown in web-only Appendix Table B.6.

SEOG formula grants to California campuses reached $81 million that year, 10.6 percent of the U.S. total. The state's percentage share of total grants has remained unchanged, holding at that percentage level for several years.

In 1999–2000, California institutions received SEOG funding for 5 percent of the state's total number of undergraduates, whereas the recipient rate for all U.S. undergraduates was 6 percent.[88] The average amount received per eligible California student ($543) was less than for all students nationwide ($682).

As discussed above, the SEOG base guarantee ensures that schools operating programs since 1985 receive at least their funding amount for that year. SEOG's fair share increase above the base guarantee represents an institution's unmet need in relation to total unmet need among all institutions. Unmet need is essentially the gap (if one exists) between the supply of aid already available and demand for additional aid for those students deemed as needy. It is calculated for each campus by taking an institution's total sum of aid received from all other federal grant aid programs, including the base guarantee combined with Pell Grant and LEAP grants, subtracted from the institution's aggregate financial need of undergraduates. Using data from the second preceding fiscal year for a number of income bands, the formula multiplies 75 percent of the number of dependent undergraduates at a campus by 75 percent of the average cost of attendance for all students, reduced by the EFC of a representative sample of students within each income band.[89] A parallel procedure is applied for

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[86]Students studying abroad may have their allotments increased to $4,400. A student's SEOG share is contingent on having full-time status and may be reduced proportionately to match the number of enrolled units.

[87]The Secretary of Education is authorized to increase the federal share of program funds above the 75 percent threshold if it is deemed necessary.

[88]National Center for Education Statistics, *NPSAS:2000 Undergraduate Students*, Washington, D.C., August 3, 2004, computation by DAS-T Online Version 4.0 on November 20, 2004.

[89]The average cost of attendance is defined in statute as tuition and fees (total revenue from undergraduates in the second preceding year), standard living expenses (150% of the difference between the income protection allowance amount for a family of five with one member in college and the income protection allowance for a family of six with one member in college), and books and supplies (equal to $450).

independent undergraduates, and the two amounts are summed to develop a final unmet need amount.

The statute gives institutions the authority to carry over up to 10 percent of their SEOG share for use in the succeeding fiscal year and not more than 10 percent of apportionments may be carried back for prior year expenditures. However, institutions returning more than 10 percent of their allotments to ED are required to reduce their apportionment in the following year by the amount returned. Another provision gives the Secretary of Education authorization to shift up to 10 percent of SEOG funds appropriated in excess of $700 million to other Title IV (A) programs, so long as they go to institutions with a Pell Grant recipient graduation or transfer rate of 50 percent or more.

Unused or recaptured SEOG funds are redistributed by ED to schools that have a fair share funding shortfall for the fiscal year.

Federal Work Study

The Federal Work Study program, first established under the Economic Opportunity Act of 1964, was incorporated into HEA's Title IV in 1968. This program provides subsidies to needy undergraduates, graduates, and professional students who work in certain part-time jobs. No maximum award limit is prescribed; however, awards are contingent on a student's demonstrated financial need, the availability of alternative financial aid sources, a student's willingness to work, and available FWS funding.[90] The statute authorizes the use of FWS grants for government sector, private nonprofit, and for-profit types of employment activities and generally requires a 25 percent employer match. HEA language allows for 25 percent of a campus' FWS grants to be transferred to SEOG and mandates that 7 percent of an institution's program funds be used to support community service jobs.[91]

As noted above, the FWS formula largely resembles the SEOG formula. First, it allots a base guarantee to qualifying institutions according to their historic levels of funding. The base guarantee may be adjusted proportionately to accommodate

[90]According to HEA, FWS students must not displace those already employed or impair existing contracts or services, will be subject to appropriate and reasonable employment conditions, and will not be involved in sectarian or religious facility construction, operation, or maintenance work. Furthermore, student grants must be consistent with federal minimum wage standards.

[91]Certain on-campus employment activities may count toward this requirement. Certain recipient campuses or types of employment services alter the maximum federal share of compensation beyond the 75 percent general requirement. For example, jobs offered by the government sector or private nonprofits (other than the institution) or administered by schools serving ethnic populations may qualify for as much as a 100 percent match, whereas private sector jobs and grants administered by work college campuses are limited to a 50 percent federal match.

fluctuations in the amount of available funding, should appropriated levels dip below base guarantee national totals. Remaining funds, after the hold-harmless provision is calculated, are parsed to an eligible institution based on its excess eligible need or, more accurately, its level of self-help need in relation to the self-help need demonstrated among all institutions. Although FWS employs similar inputs to SEOG to calculate an institution's share of any remaining funds (i.e., the formula takes into account cost of attendance and student EFC levels across several income bands), its formula is configured slightly differently to reflect program goals.

An institution's self-help need is defined as the combined need demonstrated by undergraduate, graduate, and professional students. It is calculated by comparing an institution's COA to the institution's EFC, which is calculated separately for sample populations of dependent and independent undergraduates, graduates, and professional students.[92]

The average cost of attendance is determined by multiplying a campus's number of eligible students by either 25 percent of the cost of attendance of that student population or the average cost of attendance for those students reduced by the average EFC for that student population (dependent and independent students are calculated separately) in each income category (whichever is the lesser).[93] Like other CBA programs, an institution's cost of attendance is governed by a standard definition that covers tuition and fees, standard living expenses, and books and instructional supplies.

HEA authorized $1 billion for the FWS program in 1999, although actual appropriations for that year did not exceed $870 million and such sums as necessary for every year thereafter. As shown in web-only Appendix Table B.7, appropriations in 2004 totaled $998.5 million, and California's 2002 FWS grants amounted to $111 million or 11.1 percent of the national total.[94] A total of 346 California institutions received some FWS funding, out of 3,363 nationwide.

In 1999–2000, 2 percent of California undergraduates were eligible for FWS funding for the institution they attended, less than half the 4.2 percent rate for all

[92]CBA programs use data from the second preceding year from the award year.

[93]The same computation is used for each subset of students. Higher education law states that the product of these calculations shall not be less than zero.

[94]U.S. Department of Education, Federal Student Aid Programs, *Notification of Campus-Based Awards*, Washington, D.C., April 1, 2004.

U.S. undergraduates, ranking California 44th among states for that measure.[95] However, FWS funding associated with each eligible California recipient averaged $1,681, well above the national average of $1,524 and fifth highest among the 23 jurisdictions for which reliable data were available.

Legislative guidelines extend some discretionary flexibility to the Department of Education, authorizing the Secretary to target up to 10 percent of funds appropriated in excess of $700 million to institutions graduating or transferring 50 percent or more of Pell Grant recipients. An institution is also allowed up to 10 percent of FWS funds for use in the year following allocation.

Unused FWS funds returned for reallocation are to be awarded to eligible institutions with excess need (i.e., where funding has not reached the institution's fair share level) and that devoted at least 5 percent of their prior allotment to support tutoring in reading or family literacy projects. The statute requires that schools use all supplemental FWS funds to compensate students employed in community service jobs. The Secretary also has the power to reduce an institution's allotment by the percentage it returned for reallocation in the prior year, if the share returned exceeded 10 percent of the institution's allotment.

Some states have established a work-study program of their own (California, Colorado, and others).

Federal Perkins Loans

The Perkins Loan program provides federal funds to higher education institutions to support the issuance of low interest loans to needy undergraduate, graduate, and professional students. Initially a feature of the National Defense Act of 1958, the National Direct Student Loan Program was transferred to HEA after the law's 1972 amendments. After the 1984 death of former House Education and Labor Committee Chairman Carl D. Perkins of Kentucky, the program was renamed the Perkins Loan program.

In 2004–2005, 176 institutions in California received $9.6 million in Perkins Loan funds to assist 103,150 students. California thus represented 9.8 percent of the nation's $993 million in awards benefiting 782,272 students at 3,363 institutions.[96]

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[95]National Center for Education Statistics, *NPSAS:2000 Undergraduate Students*, Washington, D.C., August 3, 2004, computation by DAS-T Online Version 4.0 on November 20, 2004.

[96]U.S. Department of Education, Federal Student Aid Programs, *Notification of Campus-Based Awards*, Washington, D.C., April 1, 2004.

Under the Perkins Loan program, institutions are required to establish revolving loan accounts to capitalize the loans, made up of both Federal Capital Contributions (FCCs) and Institutional Capital Contributions (ICCs). The former flow to institutions via formula and must be matched by one-third of the latter. Students repaying principal and interest on their loans have their repayments collected in the revolving loan fund, along with other charges or earnings associated with the program. Interest accrues at a rate of 5 percent per year on Perkins Loans as soon as the student is ready to start repayments. Borrowers are required to pay off their loans within ten years from commencement of repayment and may be granted a deferment for no more than three years on condition of unemployment or economic hardship. Unlike most federal loan programs, Perkins Loans exclude borrower fees and suspend loan interest while students are enrolled in school and during a nine-month grace period.

The loan limit per academic year for each eligible undergraduate is set at $4,000, whereas qualifying graduates and professional students may borrow up to $6,000. Maximum aggregate loan amounts may not exceed $20,000 for undergraduates completing two years of study without having earned a bachelor's degree, $40,000 for graduate or professional students, and $8,000 for other students.

Like its CBA counterparts, the formula governing an institution's FCC allocation uses a two-step process whereby funds are first apportioned based on historical allocations and then based on excess eligible student need.

The base minimum guarantee for Perkins FCCs is 100 percent awarded to institutions participating in fiscal year 1999 (or before), and statutory language gives these institutions first priority.[97] Participants in the Perkins program after fiscal year 1999 that are first- or second-time participants are eligible to receive 90 percent of their previous year allocation or 90 percent of the per capita amount awarded to comparable institutions. If a new institution received a higher allocation in its second year of participation, it is eligible to receive 90 percent of that amount. Institutions participating after fiscal year 1999 that are not first- or second-year recipients may receive 90 percent of the amount received in the first year of participation. The minimum grant for new participants is $5,000.

To add another twist to the two-step allocation process, Perkins formula language includes a default penalty multiplier that can limit or freeze an institution's FCC contributions if that institution's cohort default rates rise above a specified maximum threshold. All participating institutions are required to

[97]Federal guidelines direct these institutions to receive an amount equal to their 1999 conditional guarantee, multiplied by their cohort default penalty rate, multiplied by a 60.77% reduction factor.

adjust their base guarantee and self-help supplement by this default penalty figure that ranges from zero to one.

A borrower is considered in default for failing to make a loan payment for 240 days for a monthly repayment schedule, or for 270 days if the borrower is under a quarterly repayment agreement. The cohort default rate is statutorily defined as the percentage of current or former students entering repayment in the award year who default before the end of the award year. An institution with a cohort of less than 30 students entering repayment is required to use the percentage of current and former students who defaulted in any of the three most recent years and who default before the end of the award year.[98] The actual cohort default rate penalty is a graduated multiplier based on the frequency of loan defaults at a given institution and ranges from one (no penalty) for institutions with default rates of less than 20 percent before fiscal year 2000 to zero (no funding) for campuses exceeding a 30 percent default threshold for any fiscal year preceding 2000 or exceeding 25 percent in any year after fiscal year 2000.[99]

The program specifies redistributional procedures. With any excess Perkins Loan funding for a given fiscal year, ED is required to award 80 percent of the funds to schools that

- Advanced Perkins Loan funds to students in the 1999–2000 award year,
- Requested an FCC for the current award year,
- Did not receive a current award year conditional guarantee, and
- Had a previous year's cohort default rate below 25 percent;

and it must award the remaining 20 percent of the funds to schools with a current year fair share shortfall that

- Requested an FCC for the current award year, and
- Had a previous year's cohort default rate below 25 percent.

The Perkins Loan formula, like that of the other campus-based programs, involves a second stage of computations to allocate remaining funds after base minimums are drawn down from total program appropriations. The Perkins'

[98]Students avoiding default are defined as those who have voluntarily made six consecutive payments, made all payments due, repaid the full amount of the loan, or have received a deferment or forebearance. The secretary must exclude loans that have been rehabilitated or canceled from the cohort default rate and has discretion to grant other exclusions.

[99]Institutions are penalized at a cohort penalty of 0.9 percent for cohort default rates of between 20 percent and 25 percent, and 0.7 percent for default rates of between 25 percent and 30 percent.

method of calculating excess need for eligible institutions uses the same steps outlined in the FWS institutional self-help need formula to produce a starting figure. From that amount is deducted an institution's anticipated collections, multiplied by the institution's cohort default penalty.[100]

Perkins Loans were authorized at $250 million in 1999 and such sums as may be necessary for following years. However, Congress appropriated no more than $100 million per year throughout HEA's latest authorization span. The fiscal year 2004 enacted amount equaled $98.8 million with $67 million directed to cover loan forgiveness expenses. Moreover, in November 2004, Congress approved an omnibus spending measure for fiscal year 2005 that provided no new FCC funding—Perkins Loan funds included only $67 million for loan forgiveness.[101]

As shown in web-only Appendix Table B.8, Perkins Loans capital contributions in 2004 in California amounted to $11.2 million, or 11.3 percent of the national total of $98.8 million. In 1999–2000, 1.9 percent of California undergraduates were eligible for Perkins Loan funding, compared to 3.3 percent of all students nationwide.[102] The average loan amount per California recipient was $1,505, whereas the amount per undergraduate nationwide was $1,716. Among the 21 states for which reliable data were available, California's average Perkins Loan amount per student was third to last, exceeding only the averages in Iowa and Pennsylvania.

Whereas the effect on individual institutions varies, the Perkins Loan default rate limitation may result in redistribution of program funds from other states to California's benefit, thanks to the state's better-than-average loan default performance. As of June 30, 2003, a total of 2,338 California borrowers were in default in their Perkins Loans, a default rate of 7 percent. The state's default rate was better than the 8.9 percent rate for the nation as a whole, where 32,718 out of 369,492 total borrowers were in default, and California's Perkins Loan default rate ranked eighth lowest among states.[103]

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[100]An institution's anticipated collections are equal to the loan amounts institutions collected in the second year preceding the award year, multiplied by a factor of 1.21.

[101]H. R. 108-792, the *Conference Report to Accompany H.R. 4818—Consolidated Appropriations Act, 2005*, 108th Congress, 2nd Session, approved November 21, 2004.

[102]National Center for Education Statistics, *NPSAS:2000 Undergraduate Students*, Washington, D.C., August 3, 2004, computation by DAS-T Online Version 4.0 on November 20, 2004.

[103]U.S. Department of Education, *Federal Perkins Loan Program Status of Default as of June 30, 2003,* Perkins Cohort Default Rate Booklet (the Orange Book), Washington, D.C., April 16, 2004.

Leveraging Educational Assistance Partnership and Special Leveraging Educational Assistance Partnership

A formula grant initially authorized under HEA's Title IV and known as the State Student Incentive Grant (SSIG) before 1998, the LEAP program provides matching grants to states for the administration of financial scholarships to needy undergraduate and graduate college students.[104] Funded at $66.2 million in 2004, a state administers federal LEAP funds through needs-based grants or community-service work study assistance.[105]

Each participating state receives an annual LEAP formula allotment based on the state's eligible postsecondary education enrollment. States must match the federal money, and those state funds must represent an increase in the state's total grant and work-study spending over that of a set base year (two years before the state began participating in the LEAP program). A state is required to fulfill a one-to-one maintenance-of-effort match from its own resources to be eligible for LEAP grants, and no allotment to a state may be reduced below the allotment received by that state in 1979.[106] LEAP grants, statutorily limited to $5,000 per student, are available to students demonstrating substantial financial need based on state-developed eligibility criteria (provided ED approves those criteria).[107] Funds not used are returned to states pro rata in proportion to original distributions.

The 1998 HEA amendments increased LEAP authorizations and established a sister matching-grant branch of LEAP known as the Special Leveraging Educational Assistance Partnership (SLEAP).[108] SLEAP essentially broadens the scope of authorized LEAP eligibility to include students entering targeted programs determined to be critical to the state's workforce and provides

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[104]Higher Education Act of 1965, as amended, Title IV, Part A, Subpart 4, 20 U.S.C. 1070c-1070c-4.

[105]Program guidelines specify a 20 percent state allotment limit for campus-based work learning study grants.

[106]Eligibility is also contingent on a state's LEAP expenditures not dropping below average annual expenditures devoted to the program over the three-year period preceding the award year or the average amount spent per full-time student for the same period.

[107]Student recipients are selected annually on the basis of substantial financial need, according to criteria established by the state and approved by ED. A state may define need in terms of income, EFC, or relative need, as measured by cost of attendance minus available resources. Regardless of which need analysis system the state selects, the designated state agency is responsible for final approval of individual student recipients. A "reasonable amount" of a state's allocation must be made available to assist independent or part-time students. U.S. Department of Education, Federal Student Aid, Information for Financial Aid Professionals (IFAP) Library, *Student Financial Aid Handbooks, Volume 9—State Grant Programs*, Washington, D.C., 2003.

[108]Federal LEAP appropriations were cut in half to $25 million in fiscal year 1998 and level-funded in 1999. Appropriations levels peaked in FY 2002, dipping to $38 million since then.

scholarships to students demonstrating merit or academic achievement. Financially needy students pursuing careers in information technology, science, math, engineering, or teaching are identified in statute as qualified SLEAP recipients; however, the ED secretary is granted discretion to permit other critical fields of study as eligible for SLEAP program grants. Any LEAP appropriated funds in excess of $30 million are to be made available for states to use for SLEAP; however, states wishing to draw down SLEAP funds are subject to different financing guidelines. Separate SLEAP maintenance-of-effort provisions reduce the federal matching rate to no more than one-third and delineate a different set of state maintenance-of-effort protocols to that of LEAP.[109]

Web-only Appendix Table B.9 shows that, in fiscal year 2004, combined federal grants to all U.S. recipients under the LEAP and SLEAP programs amounted to $66.2 million, of which California grantees received $10.2 million, or 15.4 percent of the total.[110] That percentage has remained essentially unchanged for more than a decade. The state's large share may be attributed to its high enrollment and fiscal generosity a generation ago—California's state aid expenditures were well above the national norm in 1979, the LEAP program's base year. Thus, LEAP and SLEAP represent the rare example of the program where a base guarantee actually benefits California, the exception that proves the rule evident in the much larger campus-based aid program account.

Support Services for Disadvantaged Students

Along with direct forms of federal financial aid to college students, the federal government has created grant programs that provide support services to disadvantaged secondary school students to help them graduate, matriculate to a postsecondary institution, and receive a college or graduate degree. The largest of these support programs are GEAR UP and TRIO. The GEAR UP program aids entire cohorts (i.e., grade levels) of children by providing information, counseling, academic support, and grants for college tuition to low-income students. TRIO, a now peculiarly named collection of eight programs, provides many of the same services as GEAR UP but targets its services, which include mentoring, counseling, instruction, and aid, at individual secondary and postsecondary students, as well as service providers. [111]

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[109]States eligible for SLEAP grants in an award year must demonstrate that state-dedicated resources in the preceding fiscal year do not drop below amounts expended in the second preceding fiscal year.

[110]As HEA requires, $30 million is provided for LEAP and $36.2 million for SLEAP.

[111]The name TRIO originated in the late 1960s when there were only three (hence TRIO) programs (Upward Bound, Talent Search, and Student Support Services).

Whereas TRIO was created 40 years ago and is often perceived as addressing the needs of the African American community, GEAR UP is relatively new and considered to be focused on the nation's Latino community. Neither GEAR UP nor TRIO operates as a federal formula grant—both are allocated competitively—yet some aspects of their distribution include formulaic elements. The programs, along with their funding mechanisms and effects on California, are discussed below.

Gaining Early Awareness and Readiness for Undergraduate Programs

Created following passage of the 1998 HEA reauthorization, GEAR UP is intended to increase the rate of matriculation of low-income students to postsecondary institutions by providing a variety of support services and scholarship aid to entire grade levels of children. The program's emphasis is on ensuring that participants not only graduate from high school but graduate with the opportunity and ambition to attend college. As such, all GEAR UP programs have two main components: early intervention and scholarship. The program begins its involvement with students before the seventh grade and follows that same group until they graduate from twelfth grade. During elementary, middle, and secondary school, GEAR UP programs, which are administered either by states or local partnerships, provide student participants with counseling, mentoring, academic support, outreach, supportive services, and college preparation. Once a GEAR UP participant has received a secondary school diploma (or its equivalent), he or she is granted a federal scholarship to help finance the cost of postsecondary tuition. The amount of the scholarship depends on the particular program but may not be less than the lesser of "75 percent of the average cost of attendance for an in-state student in a 4-year program of instruction at a public institution of higher education" or the maximum Federal Pell Grant.[112] The cohort approach to student support and the combination of early intervention and scholarships make GEAR UP unique as a federal program.[113]

GEAR UP funds are distributed through discretionary grants and have a statutory nonfederal matching requirement of not less than 50 percent of the program costs. Either states, or partnerships consisting of a local education agency, its middle and secondary schools, a degree-granting institution, and two community organizations may apply for program funds. Additionally, only schools in which 50 percent of enrolled students qualify for free or reduced-price

[112]Higher Education Act Amendments of 1998, secs. 404E(b)(1) and 404E(b)(2).

[113]GEAR UP Success Stories are available at http://www.ed.gov/programs/gearup/performance.html#success.

lunch under the National School Lunch Program (NSLP) are eligible to participate in GEAR UP. Applications for grants are accepted every four years, with the next application period in 2005, and grants can be, and typically are, awarded for up to five years.

In fiscal year 2004, GEAR UP distributed $298 million in grants through 317 awards that served 1,236,606 students throughout the country.[114] Partnership awards (those not sponsored by a state) averaged $450,000 per year, and state awards averaged $2,600,000 per year.

In fiscal year 2004, California received 44 partnership awards and two State awards totaling $42,282,382, or 14.9 percent of the national total. (ED's 2004 GEAR UP partnership awards to California school districts, colleges, college districts, and nonprofit agencies are presented in web-only Appendix Table D.1.) California's relatively large share is in part attributable to the school lunch program eligibility requirement—the state includes a large proportion of the nation's NSLP participants.[115]

TRIO Programs

TRIO is a collection of eight programs: Upward Bound, Talent Search, Student Support Services, Educational Opportunity Centers, Training Program for Federal TRIO Programs, Ronald E. McNair Postbaccalaureate Achievement Program, Upward Bound Math-Science, and TRIO Dissemination Partnership Program. The first TRIO program, Upward Bound, appeared in President Lyndon Johnson's Economic Opportunity Act of 1964, with subsequent programs added over the years. Although each program has a different mission and organizational structure, all eight programs are designed to increase educational opportunities for disadvantaged students.

TRIO programs that provide aid to students have minimum requirements (usually two-thirds) for the percentage of participants who must be both low-income individuals and potential or current first-generation college students. The HEA defines low-income as an individual from a family whose taxable income for the preceding year did not exceed 150 percent of poverty.[116] First-generation college student is defined as "an individual both of whose parents did not complete a baccalaureate degree or in the case of any individual who regularly

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[114]U.S. Department of Education, *GEAR UP Funding Status*, November, 19, 2004, available at http://www.ed.gov/programs/gearup/funding.html.

[115]Email correspondence, Marie Buker, Program Officer, GEAR UP, Department of Education, November 17, 2004.

[116]Higher Education Act of 1965, as amended, sec. 402A(f)(1).

resided with and received support from only one parent, an individual whose only such parent did not complete a baccalaureate degree."[117]

For fiscal year 2004, the TRIO programs had a collective budget of $833 million. In the same fiscal year, California received $67.4 million in combined TRIO awards, 8.1 percent of the U.S. total.[118]

The state's low share does not naturally derive from the programs' minimum requirements. In 1999–2000, a larger proportion (62.6%) of California's students reported being first-generation college students than did students nationwide (59.9%).[119]

Brief descriptions of each of the eight TRIO programs, followed by California's total receipts (if any) for fiscal year 2003, are provided in Appendix C. A listing of TRIO grantees and grant amounts for fiscal year 2004 is provided in web-only Appendix Table D.2.

The Robert C. Byrd Honors Scholarship Program

Instituted in 1987 and begun with an $8 million appropriation, the merit-based Byrd Scholarship program is a Title IV formula grant program that provides a stipend to college-bound high school graduates demonstrating outstanding academic achievement and the promise of future student excellence.[120] Awards are apportioned among states according to their population share of residents ages 5 through 17 and may be awarded for up to four years at any Title IV-eligible institution. Each state is entitled to receive a minimum of ten scholarships and is required to develop its own criteria for selecting recipients.[121] The law specifies that the scholarship amount is to be $1,500 per year, but in some years that amount is reduced to broaden program access.

As shown in web-only Appendix Table B.10, California received $5.1 million in 2004 allotments out of a total of $40.8 million distributed nationwide, 12.7 percent of the U.S. total. Because of increases in the state's school age population

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[117]Higher Education Act of 1965, as amended, sec. 402A(f)(2).

[118]Authors' calculations from data of the U.S. Department of Education, Budget Service, Washington, D.C., available at http://www.ed.gov.

[119]U.S. Department of Education, National Center for Education Statistics, *Integrated Postsecondary Education Data System (IPEDS),* Fall 2000, extracted November 2004.

[120]Higher Education Act of 1965, Title IV, Part A, Subpart 6, as amended (20 U.S.C. 1070d-31-1070d-41).

[121]Freely Associated States are granted an aggregate allocation of ten scholarships per year. Puerto Rico, Washington, D.C., and the U.S. territories all qualify for these awards.

relative to the nation's total, California's share of Byrd Scholarship spending has increased since 1991, when the state's $1 million allotment represented 10.7 percent of the nation's $9.3 million total.

Child Care Access Means Parents in School

CCAMPS program awards project grants to higher education institutions to increase the availability of child care services for low-income student-parents. This discretionary awards program received an appropriation of $16.2 million in 2003, considerably less than the $45 million authorization level delineated in HEA's first year of enactment. Institutions applying for CCAMPS grants are required to complete an application containing information on college demographics, existing child care capacity, and additional child care demands. Other details required include a description of how requested funds will support and strengthen child care activities.

Approved projects may last for up to four years. Any institution that receives a CCAMP award must receive not less than $10,000, but its award must not exceed 1 percent of its total Pell Grant award in any single fiscal year. An institution is eligible for funding if the total amount of all Pell Grant awards to its students is at least $350,000. Priority is given to proposals that capture financial support from nonfederal sources and that use a sliding-fee scale that benefits high numbers of low-income parents attending college who are in need of child care services.[122] An eligible parent is defined as an enrolled Pell Grant student.

In 2003, California received $3.1 million, 19.7 percent of the $16.1 million nationwide total CCAMP award.[123]

Learning Anytime Anywhere Partnership

Now functionally discontinued, the LAAP program provided grants to institutions entering into contracts or cooperative arrangements with public or private organizations to facilitate technological innovation and advancement in the delivery of postsecondary education.[124]

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[122]A wide range of activities may be eligible to receive funds under this section, including before- and after-school services for older children, cost subsidies for eligible parents, parent collaborations, faculty and staff and curriculum development, professional travel expenses, supplies and equipment, personnel, and minor renovations and repairs to school property.

[123]U.S. Census Bureau, Governments Division, Federal Programs Branch, *Consolidated Federal Funds Report for Fiscal Year 2003*, Washington D.C., web extraction performed on November 18, 2004.

[124]Generally, LAAP grants could be used to enhance distance-learning opportunities, develop tools to measure skill competency, and examine and develop student support activities. Applicants were to demonstrate that their projects were national or regional in scope and identify at least two partner agencies, organizations, or institutions from the business, academic, or nonprofit community. A cost-sharing provision in the law required a one-to-one match from nonfederal sources for institutions to accept LAAP funds.

LAAP last received an appropriation of $30 million in fiscal year 2001. California received no funding in that year or in any other year that LAAP existed. The Bush administration had recommended LAAP's elimination, arguing that its mission overlapped with that of the Fund for the Improvement of Postsecondary Education (FIPSE).

Title III and Title V—Minority-Serving Institutions

One goal of HEA was to strengthen educational facilities serving underrepresented minority populations and reverse the discriminatory education policies of the past. Title III of the act provides continuation, planning, and development grants to strengthen and enhance the viability of colleges serving the African American and Native American, Alaskan, and Hawaiian populations and to help low-income and educationally disadvantaged students attending these colleges complete their postsecondary education. In addition, Title V includes aid to institutions serving large Latino student populations.

Institutions eligible for financial assistance under these programs are required to enroll large numbers of minority students who are economically disadvantaged. To obtain funding, they must provide detailed action plans demonstrating how federal grants will improve an institution's administrative conditions and academic opportunity for the underrepresented group of students being served.

Aid for Institutional Development—Title III

The two largest grant programs in this title, representing a combined appropriation level of $275.9 million in 2004, are the Strengthening Historically Black Colleges and Universities (HBCU) grant program and the Strengthening Historically Black Graduate Institutions (HBGI) grant program. Whereas HBCU promotes financial independence and academic quality improvements through a broad number of activities at formally recognized institutions, HBGI directs funds to an exclusive handful of institutions and targets support for academic disciplines and professional careers in which African Americans are underrepresented. Each grant program is governed by separate rules, outlined in Part B of HEA's Title III, and resource allocation for each includes both formula and discretionary elements.

HBCU grants are available to any nationally recognized historical black college, established before 1964, with a funding application and plan approved

by the Secretary of Education.[125] The HBCU allotment is determined by a formula that measures an institution's overall shares (among HBCUs only) of three types of student populations.[126] ED apportions an institution's annual award, awarding one-half according to the number of Pell Grant recipients, one-quarter according to its relative share of targeted undergraduate students, and one-quarter according to its share of targeted graduate and professional students. No recipient institution may receive less than $500,000 in HBCU support unless appropriations levels are low enough to trigger a reduction of allocations in proportion to available dollars, and the Secretary of Education may reallocate funds pro rata for projects deemed unnecessary.

Equal opportunity in the attainment of graduate education for black students is the expressed aim of the HBGI program, funded at $53.1 million in 2004.[127] ED makes HBGI grants to institutions, using a loose mixture of discretionary and formula funding. To an exclusive, prescribed list of 19 graduate institutions or programs serving African Americans, the first $28.6 million is reserved for distribution at the Secretary of Education's discretion.[128] Remaining funds are apportioned to this same group of 19 institutions or programs according to an administratively developed formula.[129] Unless available funds fall below commitments, a hold-harmless provision in the HBGI statute prohibits any

[125]Funds may be used for a variety of activities and services including procurement of lab equipment; classroom, library and lab facilities costs; telecommunications; faculty support; academic instruction; purchase of educational materials; academic improvement programs; finance and administration; joint use of facilities; college development and endowments; teacher education programs; and community outreach. Other ED-approved activities may also be included in an institution's grant application as long as they comport with a submitted plan for how HBCU funding awards will achieve an institution's financial management and academic goals. The institution's grant application must also contain a set of unspecified measurable indicators to track those goals.

[126]Undergraduates are defined as those students attending for at least three semesters, and not more than five consecutive years, who have fulfilled their academic requirements. Graduate and professional students must be enrolled in a degree program in which African Americans are underrepresented and must have graduated with a bachelor's degree in not more than five years before the award year.

[127]HBGI is accordingly narrower in focus than HBCU, although it too requires ED approval of a comprehensive development plan before grants may be awarded.

[128]These eligible institutions are identified in statute: Higher Education Act of 1965, Title III, Part B, Section 326, part (e)(1), as amended. The law permits discretionary allocation of approved HBGI project grants of up to $1 million, for the support of qualified institutions serving African American students pursuing degrees in the fields of law, medicine, dentistry, or veterinary medicine, or education opportunities in math, engineering, or the physical and natural sciences. A funding request for any HBGI project costing more than $1 million requires one-to-one matching funds from nonfederal sources.

[129]The formula is required to account for an institution's ability to match federal funds, the frequency of students enrolled in applicable programs, the average cost of education for fulltime graduates, the number of students receiving their first doctoral or professional degrees from the institution, and an institution's contribution to producing African American graduate and professional degrees in relation to its share of eligible HBGI funding.

institution's allotted share from shrinking to an amount less than it received in 1998.[130]

Most historically black institutions are in the southern and eastern United States, and no HBCU or HBGI grantees are in California. However, the state is not entirely without institutions that might be eligible absent the 1964 cutoff date. California houses three of the nation's 254 institutions with African American student populations exceeding 75 percent of total enrollment and one of the 87 institutions with more than 95 percent black enrollment.

Developing Hispanic-Serving Institutions—Title V

The Hispanic Serving Institutions (HSI) program's policy goals and functions closely resemble those of other Title III programs; and, although HSI appears in Title V of HEA, it is typically categorized with Title III minority strengthening initiatives. Grants are provided on a discretionary basis to expand and enhance Hispanic students' educational opportunities and strengthen the academic and administrative capabilities of the institutions they attend.[131]

Under HSI, nationally recognized two- and four-year colleges or universities with high concentrations of low-income Hispanic populations qualify for federal planning and development assistance. Specifically, an eligible grantee is required to serve a minimum 25 percent Hispanic, full-time-equivalent enrolled student population, at least half of which must be from poor families.[132]

Eligible institutions requesting project grants must submit a detailed application setting forth the goals and benefits of a comprehensive campus development plan and describing how the plan, once implemented, will affect

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[130]The list of allowable HBGI activities outlined in HEA had originally matched that of HBCU. However, the 1998 amendments revised the list of eligible activities limiting institutional activities while making student aid available for those enrolled in certain doctoral degree programs. Among others, allowable institutional expenses under current HEA language exclude faculty support, tutoring, academic instruction, community outreach, and teacher preparation. Presumably to make more direct aid available to the program's target population, the 1998 revisions added direct assistance for needy graduate and professional students as an authorized action-plan expense.

The 1998 Act permitted institutions to provide doctoral scholarships, fellowships, and other financial assistance to students working toward degrees in medicine, dentistry, pharmacy, veterinary medicine, law, or the physical and natural sciences, engineering, mathematics, or other scientific fields with a shortage of African Americans.

[131]For purposes of the program, a Hispanic student is defined as "a person of Mexican, Puerto Rican, Cuban, Central or South American, or of other Spanish culture or origin, regardless of race."

[132]Full-time-equivalent equals the sum of full-time students in addition to the full-time-equivalent total of part-time students in attendance at an institution. A low-income individual is defined in statute as a member of a family with a taxable income of no more than 150 percent of the poverty level determined by the Census Bureau.

academic quality, institutional management, and self-sufficiency objectives.[133] In addition to illustrating the tangible institutional benefits of the project grant, an institution's application is required to note how Hispanic students and other low-income groups gain from improving institutional assistance over a five-year time span. Other application points include assurances to evaluators that federal funds would supplement and not supplant institutional funds, a method of evaluation to test the project's effectiveness, financing protocols to ensure proper management of funds, a description of the project and its components, and annual progress report details. Plans may be multiyear; however, they are limited to five years in duration. Projects attempting to curb Hispanic dropout rates, improve academic achievement among Hispanics, or boost Hispanic college enrollment figures receive highest priority in consideration of project requests.

The list of authorized HSI expenditures almost matches that contained in HBCU and HBGI program language.[134] Specifically, HSI funding may be used to finance facilities construction and renovation, lab equipment procurement, learning facilities expenses, faculty development and fellowships, purchase of literature and instructional support materials, academic tutoring, community outreach, K–12 teacher education training, student support services, administrative and budget management, technological tools, and endowment support, among other activities.[135] HSI qualified activities not listed in the aforementioned African American institutional aid programs include Internet facilities creation or improvement and academic course and institutional resource expansion to serve larger quantities of Hispanic and other underrepresented graduate and professional students.

In fiscal year 2003, $92.4 million in HSI funds was awarded in two forms of institutional grants: Individual Development grants in support of an approved HSI campus development plan, and Cooperative Arrangement grants to facilitate intercampus partnerships between HSIs and other postsecondary institutions.[136] In 2003, $70 million of the HSI total was awarded to sustain some 157 existing plans in continuation phases. Of the remaining $14.6 million, $6.4 million was made available to 15 new Individual Development grant beneficiaries and

[133]The plan is required to include appropriate measurement indicators to help ED track an institution's advancements.

[134]Unlike HBGI, no HSI projects may provide individual scholarships or other direct financial aid to students.

[135]If an HSI institution wishes to use its grant to support an endowment, it may not apply more than 20 percent of its total HSI allocation for such an expense and must supplement this amount with a one-to-one match from nonfederal sources.

[136]Institutions may receive one grant from each program at a time.

$8.2 million was provided to support 14 new Cooperative Arrangement awards.[137]

Of the $92.4 million in HSI nationwide expenditures in 2003, $29.3 million (32% of the total) was spent in California. The eight California campuses that qualified for new Individual Development grants in 2003 received a combined total of $3.5 million, 56 percent of the national total.[138] Of the $8.2 million in new Cooperative Arrangement grant appropriations in 2003, four California institutions received $2.5 million (30% of the total).[139] (ED's 2004 HSI awards to California institutions are shown in web-only Appendix Table D.3.)

California, a hub for Hispanic Americans (and on its way to becoming a majority Latino state), not surprisingly receives a robust share of HSI grants. The state's changing demographics have various implications for California's future higher education enrollment.[140] The program's largesse in favor of California may also be attributed to the use of poverty data as a factor in deciding grantee eligibility—California has a higher-than-average population of poor. A handful of other states and territories also gain from the HSI program, with new 2003 beneficiaries hailing from Arizona, Colorado, New Mexico, Texas, and Puerto Rico.

Other Federal Discretionary Programs

HEA authorizes a number of other programs that provide federal assistance to students and institutions across the country. Among these are the High School Equivalency Program, the College Assistance Migrant Program, and several Teacher Quality Enhancement Grants.

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[137]For all grant subcategories, the maximum award varies depending on available appropriations.

[138]California State University Bakersfield, Cypress College, Mt. San Jacinto College, Porterville College, and Riverside Community College campuses at Moreno, Norco, and Riverside each qualified for new Individual Development grants in 2003.

[139]Bakersfield and Stanislaus California State University campuses as well as Rio Hondo College and Santa Ana College were recipients of new Cooperative Arrangement grants.

[140]See, for example, Deborah Reed, *Educational Resources and Outcomes in California, by Race and Ethnicity*, Public Policy Institute of California, San Francisco, California, February 2005, available at http://www.ppic.org/main/publication.asp?i=586. Also see Jennifer Y. Cheng, *At Home and in School: Racial and Ethnic Gaps in Educational Preparedness*, Public Policy Institute of California, San Francisco, California, November 2001, available at http://www.ppic.org/main/publication.asp?i=137.

High School Equivalency Program and College Assistance Migrant Program

Congress focuses $15 million in discretionary grant resources to assist students from farmworker families through two Title IV-A programs known as HEP-CAMP. At $5 million per year, CAMP seeks to help students from migrant and seasonal farmworker families to complete their first year of college and to continue postsecondary education. Partnered with this program is HEP, which provides $10 million to help migrant and seasonal farmworkers obtain a general education diploma (GED), to facilitate their transition into postsecondary education or training, the military, or other jobs.

Whereas HEP-CAMP funds are authorized by the HEA, funding is provided through the Office of Elementary and Secondary Education, which is charged with managing the Migrant Education Program, as well as other K–12-focused programs such as Title I, School Improvement, and Impact Aid.

California received the largest share, $3.8 million or 25.1 percent, of the grant distributions in fiscal year 2003.[141] Reflecting the geographic concentration of target families, ED made 2003 grants in only 18 states.

Teacher Quality Enhancement Grants

Added in 1998 as Title II of the HEA, Teacher Quality Enhancement Grants (TQE) seek to increase the national quantity and quality of K–12 teachers. The program consists of three component discretionary grant programs: Partnership Grants for Improving Teacher Preparation, State Grants, and Teacher Recruitment Grants. Teacher Quality Enhancement Grants specifically target high-need local educational agencies. For the purposes of the grant program, high need is defined as an area containing "1) A high percentage of individuals or families with incomes below the poverty line, 2) a high percentage of secondary teachers not teaching in the content area that they were trained to teach, or 3) a high teacher turnover rate." State Grants can be for up to three years; grants to partnerships may be for up to five years. The program has a matching requirement depending on the type of TQE grant. State applicants must match 50 percent of the grant, and partnership applicants are required to match 25 percent the first year of the grant, 35 percent in the second year, and 50 percent in the third through fifth years of the grant.

In fiscal year 2003, the three TQE programs distributed 76 awards totaling $89.4 million. (Nationwide, funds for TQE decreased by more than $9 million, or 9.3 percent, between fiscal years 2000 and 2004.) Of that amount, California

[141]U.S. Census Bureau, Governments Division, Federal Programs Branch, *Consolidated Federal Funds Report for Fiscal Year 2003*, Washington D.C., web extraction performed on November 18, 2004.

received $1.9 million, or 2.1 percent, a remarkably small percentage given the state's well-known difficulty recruiting qualified teachers.

Partnership Grants for Improving Teacher Preparation. PGITP programs consist of partnerships between teacher preparation institutions, colleges of arts and science, and local, high-need school districts. The partners work in concert to help strengthen teacher training by making teacher education programs accountable for their curriculum, improving teachers' understanding of subject matters, ensuring that teachers are prepared for the reality of the classroom, and preparing teachers to effectively use technology.[142]

State Grants. State Grants help state educational agencies to improve the quality of their teaching force. Grants have been used to implement strict certification standards, create more aggressive teacher recruitment programs for attracting teachers to high-need areas, and establish "alternative pathways" into teaching as a profession. Only state educational agencies are eligible to receive this type of grant, and California was an awardee in 2001.

Teacher Recruitment Grants. Finally, the TQE program's Teacher Recruitment Grants are specifically used to recruit highly qualified teachers for high-need areas. Grants have been used for scholarships for prospective teachers, high quality preparation, and support services for teachers who agree to work in high-need areas. Institutes of higher education, local educational agencies, and partnerships between the two are eligible for grant funds.[143]

Nonfederal Sources of Financial Assistance

In addition to various forms of federal assistance (many of which are totaled in web-only Appendix Table B.11), state and local governments also provide financial assistance to help students attend college, and substantial additional funds are provided by academic institutions themselves. Table 6 shows the mixture of financial aid available to California students in 2002–2003.

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[142]In 1999–2000, ED awarded TQE Partnership Grants to the Northridge and Sacramento campuses of the California State University. U.S. Department of Education, Office of Postsecondary Education, Washington, D.C., available at http://www.ed.gov/programs/heatqp/grantees.doc.

[143]In 1999–2000, ED awarded TQE Recruitment Grants to California State University Monterey Bay, Los Angeles Unified School District, Oakland Unified School District, San Diego State University Foundation, San Jose State University Foundation, the National Hispanic University, Tulare County Office of Education, and University of California. U.S. Department of Education, Office of Postsecondary Education, Washington, D.C., available at http://www.ed.gov/programs/heatqp/grantees.doc.

Table 6

Total Financial Aid in California from Federal, State, Institutional, and Other Sources, 2002–2003

	Funding ($ millions)	%
FFEL and DL programs	4,099,623,000	50.5
Federal Pell Grants	1,312,312,000	16.2
Other federal aid	139,005,000	1.7
Federal Work-Study	115,629,000	1.4
Federal Perkins Loans	77,396,000	1.0
Cal Grants	544,900,000	6.7
State Work-Study	4,662,000	0.1
Other state aid	234,343,000	2.9
Institutional aid	1,464,804,000	18.1
Other aid	120,995,000	1.5
Total financial aid	8,113,669,000	100.0

SOURCE: California Student Aid Commission, *Facts at Your Fingertips: Grant & Loan Programs 2002–2003*, Sacramento, California, March 2004, available at http://www.csac.ca.gov/doc.asp?ID=20.

Cal Grants

The State of California provides tuition and fee assistance to low- and moderate-income students through the Cal Grants program. In 2002–2003, Cal Grants provided a total of $545 million.[144] Other state grant programs provided an additional $239 million to California students.

Cal Grants are divided into four parts dubbed A, B, C, and T, with the largest and fastest-growing program being Cal Grant B, which provides assistance—most of which is entitled—to disadvantaged and low-income students.

In 2002–2003, Cal Grant A provided 19,426 California students new grants of between $1,500 and $9,708 depending on financial need and academic achievement.

In that year, Cal Grant B provided an "access allowance" of $1,551 and tuition and fee assistance (ranging again from $1,500 to $9,708) to a total of 42,993 disadvantaged and low-income California students via an entitlement, and to an additional 21,447 students in a competitive grant.

The two other programs provide a smaller amount of aid for targeted purposes. Cal Grant C provides assistance with tuition and fees, as well as books and supplies, to low- and middle-income students seeking vocational training.

[144]California Student Aid Commission, *Facts at Your Fingertips: Grant & Loan Programs 2002–2003*, Sacramento, California, March 2004, available at http://www.csac.ca.gov/doc.asp?ID=20.

Cal Grant T assists students enrolled in an accredited teacher preparation program who agree to teach for one year at a low-performing school for each $2,000 of award money received.

Aid from Institutions

A substantial portion of financial assistance to college students also derives from academic institutions themselves. According to the California Student Aid Commission, institutions provided grants, loans, scholarships, and other assistance to California students in 2002–2003 totaling nearly $1.5 billion and constituting 18 percent of total financial aid.

Reauthorization of the Higher Education Act

HEA programs expired on September 30, 2003. However, under the General Education Provision Act, federal law provides an automatic one-year extension of all expiring education programs, effectively moving the practical expiration date to the end of fiscal year 2004. In September 2004, Congress approved and the president signed H.R. 5185, which extended HEA as authorized in 1998 for one additional year, through September 30, 2005.

During the 108th Congress, spanning 2003 and 2004, concrete action on HEA reauthorization was limited to work in the House of Representatives, although members of the Senate introduced legislation and weighed in on House reauthorization plans.[145] The 108th Congress adjourned without bicameral action on any reauthorization measure, leaving the HEA's future to be decided by the 109th Congress. As this report went to print, the House leadership had reintroduced its legislation from the prior year and reported it out of committee, whereas the Senate leadership was preparing to draft a bill.

Recent debate over reauthorization options has stretched across myriad subjects, portending a more complicated and potentially more political process than in past renewal cycles. A key issue has been how many additional federal dollars to commit to higher education at a time when large and growing deficits are straining budgets at all levels of government. Some legislators hope to hold the line on spending growth and find ways to make programs more efficient and

[145]Whereas the principal programs due to be reauthorized fall under HEA (last authorized under the Higher Education Amendments of 1998), some minor expiring programs received authority from the Education of the Deaf Act of 1986, Education Amendments of 1992, Tribally Controlled College or University Assistance Act of 1978, and Navajo Community College Act.

less wasteful, for example, by eliminating subsidies to student loan providers. Other legislators seek to expand the federal commitment to colleges and college students, especially low-income students, by sharply increasing (perhaps doubling) the maximum Pell Grant, or by converting the discretionary grant program to a mandatory federal entitlement.

Following the 2004 elections, which solidified somewhat the Republican majority in the House and Senate, some observers have speculated that Congressional leadership may chart a more fiscally conservative course for higher education policy and financing during the 109th Congress. In addition, some have proposed further broadening the scope of HEA renewal legislation by combining it in a single bill that would also reauthorize the Workforce Investment Act and the Vocational Education Act.[146]

House Action—Initial Activity During the 108th Congress

Significant legislative progress on HEA reauthorization during the 108th Congress took place in the House of Representatives.

Beginning in July 2003, House Education and the Workforce Committee Chair John Boehner (OH) and 21st Century Competitiveness Subcommittee Chair Howard P. "Buck" McKeon (Santa Clarita, CA) submitted four guiding principles for HEA renewal: (1) greater fairness in structuring student aid for the neediest applicants; (2) enhancing quality through innovation and consumer empowerment; (3) expanding access for non-traditional students; and (4) greater institutional accountability for tuition cost increases.

To streamline the reauthorization process, House Republican leaders opted to break HEA renewal into a series of separate measures, setting the tempo early in the 108th Congress by introducing and gaining the approval of three relatively modest components of the Act. The Ready to Teach Act, H.R. 2211, by Representative Phil Gingrey (GA), which passed the House on July 9, 2003, sought to bring teacher quality preparation and recruitment of HEA Title II in line with the principles of the No Child Left Behind Act. On October 21, 2003, the House approved two more small HEA reauthorization bills, both sponsored by Representative Peter Hoekstra (MI), to make minor changes to graduate and international programs under HEA Titles VI and VII. H.R. 3076, the Graduate Opportunities in Higher Education Act of 2003, would reauthorize five programs through 2009—the Javits Fellowship, Graduate Assistance in Areas of National Need, Thurgood Marshall Legal Educational Opportunity, Fund for

[146]For example, see testimony by former Representative Steve Gunderson before a Senate Health, Education, Labor, and Pensions Committee hearing entitled *Lifelong Educational Opportunities,* held on April 14, 2005. The testimony is available at http://help.senate.gov/testimony/t245_tes.html.

the Improvement of Postsecondary Education, and disabilities demonstration projects. The International Studies in Higher Education Act of 2003 (H.R. 3077) would amend the International Foreign Language Studies, Business and International Education, and Institute for International Public Policy programs and extend them with little change through 2009.

House Action—The College Access and Opportunity Act

With teacher preparation and graduate and international education reported out of the full House, Chairmen Boehner and McKeon cobbled together the outstanding aspects of higher education reauthorization and introduced H.R. 4283, CAOA, in May 2004.

When the House bill was developed in the 108th Congress, the federal treasury was no longer as flush with cash to support domestic programs as it was in 1998. Consequently, CAOA's $70 billion student aid and loan authorization levels made it revenue-neutral to not drain new dollars from the federal treasury or add to the federal deficit. The authors noted that the legislation would free up billions in existing funding for higher education financing by restructuring federal loans programs and limiting wasteful spending and that those funds would be partially recycled to students through Pell Grant increases and other aid opportunities.

The bill died with the adjournment of the 108th Congress, and it was reintroduced in the 109th Congress as H.R. 609.[147]

In keeping with the 1998 amendments, the catalogue of higher education issues addressed in CAOA is far-reaching but its main focus is college affordability. Upon CAOA's reintroduction, Chairman Boehner commented, "We need to reform federal higher education aid programs to put incoming low- and middle-income students back at the front of the line."[148] Chairman McKeon called the House bill a "major leap in addressing the college tuition crisis."

Increasingly, Republican education leaders question the equitability of the needs-based student aid distribution system. There is also concern about steep tuition and other college cost increases in recent years that have limited higher education access and opportunity. Critics argue that strengthening federal

[147]The bill was initially introduced in the 109th Congress as H.R. 507; the authors made minor adjustments and reintroduced it as H.R. 609.

[148]Boehner added, "The Higher Education Act's first mission is to improve college access for low- and middle-income students. It has drifted away from that focus over the years, at the expense of the very students it was written to serve. We've got to change that."

student aid spending actually drives up college tuitions by lessening supply-demand pressures to keep costs down.

House Democratic leaders assert that expanding higher education access and opportunity can be best achieved by hiking HEA authorizations to keep pace with college cost increases. Improved federal support for student aid programs would counter the declining real value of Pell Grants, state government cuts produced by budget shortfall challenges, and growth in student loan default rates, according to minority party lawmakers.

Elimination of the CBA Base Guarantee. CAOA contains a number of changes to student aid financing practices. The House bill's most significant formula-related adjustment involves the proposed elimination of the base guarantee minimum allocation from the three CBA programs. Over a period of 11 years, CAOA would phase out the hold-harmless guarantee that disproportionately advantages institutions of higher learning that have the longest CBA participation rates, replacing it with a full, fair-share apportionment method. Bill language calls for a 20 percent phase-out in 2007, followed by additional reductions of 20 percent every two years thereafter, eventually reducing the base guarantee to zero in 2015.

The base minimum elimination phase-out period is spread out over a lengthy span of time to assist institutions that complained they would be threatened by sudden reductions in CBA program funds. Advocates for a 100 percent, fair-share needs-driven CBA apportionment system, including President Bush, stress that the current hold-harmless feature prohibits the equitable distribution of program funds. According to the administration's 2005 budget document, a program that benefits schools with lengthier program participation durations over those with higher proportions of needy students shortchanges intended target populations and conflicts with CBA's policy goals.[149] CAOA background information from the House Education and the Workforce Committee states, "An unfair share of federal campus-based aid currently goes to some older, higher-cost institutions because of an outdated federal formula used to distribute the money. To provide fairness for students, the bill will phase out the current formula to ensure fairness for lower-cost institutions and the students who attend such schools."[150]

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[149]U.S. Office of Management and Budget, *Budget of the United States, Fiscal Year 2005*, Washington, D.C., February 2004.

[150]House Committee on Education and the Workforce, news release, "Education Committee Republicans Introduce College Access Legislation," Washington, D.C., February 2, 2005, available at http://edworkforce.house.gov/press/press109/first/02feb/hea020205.htm.

The base guarantee formula change proposed in HR 4283 would shift funds geographically and by institution. As noted above, in the discussion of the CBA base guarantee, a 2004 study by the ACE predicts that elimination of the base guarantee would result in an overall increase in funding for California postsecondary institutions and that the number of California institutions gaining funds would be considerably larger than those losing funds.[151] As such, the proposed ten-year phase-out through 2015 would be less helpful than a more rapid phase-out for those California schools that would benefit from the base guarantee's elimination. Nevertheless, the state's overall portion of CBA funds would increase.

Other Proposed CBA Revisions. To encourage more rapid graduation, CAOA contains a performance reward provision that offers more aid to students at institutions that have demonstrated timely student graduation success. House bill language pertaining to CBAs expands the Secretary of Education's discretionary authority to reprogram up to 10 percent of appropriations in excess of $700 million (for each program) to be allocated to four- and two-year public institutions serving a population of students the majority of whom are Pell Grant recipients and who graduate within four and two years of enrollment, respectively.[152]

The House bill also proposes to expand the percentage of an institution's FWS students working in community service jobs from 7 percent to 20 percent. Such an increase would not prove problematic for some institutions—the CSU system, for example, is presently at the 20 percent mark—but for others it would be more challenging.[153]

Although the FWS program would be renewed, no new authorization amounts are specified in CAOA language. Perkins Loan FCC recoveries would be extended through 2019, and maximum annual aggregate Perkins Loan levels would be increased under the House bill.[154]

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[151]American Council on Education, Center for Policy Analysis, *Analysis of Campus-based Program Allocation Changes Proposed in H.R. 4283*, Washington, D.C., June 15, 2004.

[152]The value of books and supplies computed as a factor in determining SEOG, FWS, and Perkins Loans cost of attendance averages would be increased from $450 to $600 under the House bill.

[153]Some speculate that private institutions may have more difficulty meeting such a requirement. Other legislators have suggested an even higher threshold, perhaps as much as 50 percent of FWS students.

[154]Under Perkins, undergraduate loan limits would grow to $5,500 per year; graduate and professional students may now borrow up to $8,000 per year and $60,000 on aggregate. Aggregate limits for undergraduates in their junior year of college (and beyond) would grow to $27,500. Freshman and sophomore undergraduates and all other students would qualify for $11,000, up from $8,000.

Pell Grant Program Changes. The portion of the House bill pertaining to Pell Grants fulfills a White House reauthorization goal of expanding and restructuring the Pell Grant award. President Bush's 2005 budget request provided the first description of the administration's HEA reauthorization goals, including a proposal to increase the maximum Pell Grant award and institute an "Enhanced Pell Grant program" that would direct larger Pell Grant sums to high-achievers completing rigorous high school education courses.

The House bill proposes to increase the maximum Pell Grant award ceiling to $5,800 per eligible student and make Pell Grants available to students year-round. CAOA also parallels the president's proposal to institute a merit-based component known as "Pell Grants Plus" that would supply an additional $1,000 for prospective eligible full-time undergraduate students in their first and second years of study.[155]

Importantly for California, CAOA would eliminate the tuition sensitivity rules currently governing Pell Grants that have been accused of drawing student aid away from needy California community college students.

In addition, the bill mandates more aggressive federal outreach to notify parents and students enrolled in low-income assistance programs of their possible eligibility for Pell Grant funding.

EFC Adjustments. The EFC formula used to calculate student aid would be adjusted by the House proposal. CAOA would expand eligibility for the "simplified needs test" to determine aid eligibility. The House bill would add a provision allowing use of the simplified FAFSA worksheet—wherein asset information is not counted for determining EFC—for families that receive benefits under a mandatory means-tested federal benefit program such as Food Stamps, Supplemental Security Income (SSI), or the National School Lunch Program (NSLP). In 2001, California had 16.5 percent of the nation's SSI recipients, 12.4 percent of NSLP free and reduced-price lunch program participants, and 9.6 percent of Food Stamps recipients.[156] Although California includes nearly 22 percent of the nation's welfare beneficiaries under TANF, the state would not meet the standards defined in the House bill since Congress converted welfare to a fixed (nonmandatory) block grant in 1997.

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[155]To be eligible for a second-year installment of Pell Grant Plus, students must maintain a 3.0 grade point average in their first year of instruction. House language would also require an IRS match to verify Pell Grant eligibility, which proponents expect would free up as much as $340 million in fraudulent allocations that could then be reinvested in the program.

[156]U.S. Social Security Administration, *Annual Statistical Supplement to the Social Security Bulletin*; U.S. Department of Agriculture, Food and Nutrition Service, unpublished data from National Data Bank, October 13, 2003; U.S. Department of Agriculture, Food and Nutrition Service, *Food and Nutrition Service, Program Data*, Washington, D.C., updated monthly.

The House bill would raise a student's income protection allowance to $3,000.[157] It would also exclude from income any distribution received from a qualified tuition program, a tax-free savings program otherwise known as a 529 plan.[158] CAOA would treat all active duty members of the armed forces (other than those in training) as independent students for purposes of determining student aid eligibility. In 2002, California was home to 123,948 active duty military personnel, 11.9 percent of the nation's stateside total.[159]

Other CAOA Provisions. TRIO authorizations would grow to $835 million for fiscal year 2005, and maximum individual stipends augmented from $60 to $100 under the House bill, whereas GEAR UP's authorization levels would improve to $300 million, and eligibility for the program would be expanded to include freshman college students. The bill authorizes the setaside of 10 percent of TRIO funds for a reserve account dedicated to novice, quality applicants—seeking to rectify a longstanding criticism that "prior experience" rules unfairly favor institutions with an existing TRIO program.[160]

One of the House bill's more controversial proposals involves the introduction of a variable lending rate for loans under FFEL and DL. The variable rate of 3.42 percent in current law is subject to the dictates of market shifts, whereas the bill would ensure that no annual interest rate would exceed 8.25 percent for those programs. The bill would expand the variable interest rate's purview to include graduate students wishing to consolidate loans. Graduate student rates are fixed, according to current law. According to the GAO, this alteration will save the federal treasury billions in recaptured federal subsidy commitments.[161]

Subsidized loan limits would increase under the House bill from $2,625 in current law to $3,500, and loan origination fees incurred by the borrower would be phased downward from 3 percent to 1 percent between 2006 and 2010. In addition, administrative setasides for DLs would grow from $807 million in 2005 to $878 million in 2010.

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[157]Whereas the statute currently sets the allowance at $2,200, ED increased the 2004–2005 amount to $2,420, compensating for inflation. 20 U.S.C. 108700(g)(2)(D).

[158]Authorized under section 529 of the Internal Revenue Code, as added in 1996 (26 U.S.C. 529).

[159]U.S. Department of Defense, *Selected Manpower Statistics*, Washington, D.C., annual.

[160]The House bill also ensures access to GEAR UP grants over six years.

[161]GAO was recently renamed; an arm of Congress, it was previously called the General Accounting Office.

Unsubsidized Stafford Loan limits would also grow, from $10,000 to $12,000, according to the House bill. Advocacy groups have urged increasing both annual and aggregate caps, as loans have lost purchasing power over the years.

Observers and stakeholders have made a variety of other suggestions—in some cases competing with one another—regarding HEA loans. Some have proposed removing subsidies from Stafford Loans and using the savings to provide more Pell Grants and Perkins Loans, which are targeted to a greater extent on the lowest-income students. The House proposal declines to take up the Bush administration on its suggestion, proposed in its fiscal year 2005 budget, to eliminate the Perkins Loan program.

The Single Definition. An HEA reauthorization priority for Republican education leaders is to expand federal student aid to those enrolled at for-profit proprietary institutions that are not state funded. To fulfill the goal of instating a "single definition" to encompass all institutions of higher learning, the House bill would broaden the definition of a higher education institution to include two-year degree-granting proprietary schools, giving such schools access to federal student aid previously available only to public four- and two-year colleges. Currently, proprietary schools must conform to certain guidelines to qualify for Title IV grants, guidelines that were instituted in response to fraudulent practices in prior years. The "90/10 rule" prohibits a proprietary campus from receiving Title IV funds if student loans at the institution are used to pay for student tuition at a rate that is greater than 10 percent.[162] Private proprietary schools are also the only institutions required to offer online distance learning components in no more than half of all available courses, according to what is known as the "50 percent rule" or "50/50 rule." The Republican-written plan would level the playing field by striking down the extra requirements thereby granting equal consideration to for-profit and nonprofit schools. Proponents of the single definition argue that because large numbers of low-income persons enroll in proprietary schools, the added rules serve as an unreasonable stumbling block that limits education choices for the needy. Detractors from some public sector institutions strongly oppose any change to the status quo, fearing that the qualification of for-profit schools for federal aid would unfairly dilute the amount of already scarce Title IV resources to support higher education programs.[163]

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[162]The law requires that students at proprietary schools pay 90 percent of tuition costs from "other than student loan" resources for the campus to remain eligible for grants.

[163]At a June 15th House Education and Workforce Committee hearing on the single definition provisions of CAOA, administrators representing public schools also warned that the elimination of 90/10 and 50/50 and subsequent authorization of federal funds for private enterprises could lift protections against the proliferation of dubious education providers.

College Affordability and Transparency. As has been previously noted, many members of Congress have denounced the recent increase in college attendance costs across the nation as a "crisis" and have made it a central reauthorization goal to ensure greater access and affordability for low-income college-bound students struggling to attend higher education institutions. Spokespersons for institutions and colleges suggest that the topic of college affordability, however, has been compounded by recent economic downturns and shrinking support from state agencies—variables beyond the institutions' control.

The House bill addresses the tuition growth crisis by asserting more rigorous accountability and transparency standards and reporting requirements from higher education institutions.

Inserting a new "sunshine" section of HEA entitled Consumer Information and Public Accountability in Higher Education, CAOA authors would require that all institutions of higher learning participating in student aid programs compile relevant expenditures of enrolled students and financial aid data in a "College Consumer Profile" form, easily accessible to the public.

ED then would be required to use those data to develop a "college affordability index," weighing percentage increases in tuition and fees for undergraduates in year one and year three of instruction, against consumer price index inflation rates for those years. Stopping shy of Democratic proposals to sanction institutions that raise tuition at a rate faster than inflation, the House bill would require that those institutions whose tuition costs exceed the rate of inflation by double or more (over a two-year period) explain the irregularity and propose a rectification plan. (An original plan to impose penalties on institutions not complying with inflation controls was scrubbed in favor of one with less prescriptive consequences.) As the House bill currently reads, if disproportionate growth in tuition continues over a consecutive four-year period, the institution may be placed on an affordability alert watch list, required to make a public detailed report on its financing practices, and reported to the applicable accrediting agency. Proponents say that standardizing transparency as outlined in the House reauthorization bill would help parents and students make better choices and make institutions more accountable for driving up the cost of attendance at arguably unreasonable rates.[164]

[164]Accrediting agencies also would be required under CAOA to step up their own transparency efforts by being made responsible for providing direct public access to accreditation information and procedures.

House Action in the 109th Congress Reauthorization: H.R. 609

Initial leadership rhetoric in 2005 demonstrated a redoubled commitment to reform the higher education system. At an April 2005 House Education and the Workforce Committee hearing, bluntly titled *College Access: Is Government Part of the Solution or Part of the Problem?*, Committee Chairman Boehner commented that, "We are surrounded by evidence that the Higher Education Act is not getting the job done for today's students and parents," and he said that there "cannot be a routine reauthorization of the Higher Education Act. It won't be an easy process or a comfortable one. Assumptions will be challenged. Myths will be confronted. And china may have to be broken along the way. But that's the job we were sent here to do."[165] After a number of hearings on this and other college education topics, Representatives Boehner and McKeon pressed ahead with committee action on CAOA 2005 or H.R. 609, in July of this year. Democratic disagreement was strong, but most Republican priorities remained intact during subcommittee and committee markups. As this report went to print, the Education and the Workforce Committee had reported the bill to the House floor by a party-line vote of 27 to 20 on July 22, 2005.

Throughout committee debate, Democrats protested various aspects of H.R. 609, suggesting that its passage would lead to the loss of student competitiveness in the global marketplace and threaten national security, and that budget reconciliation was unfairly being borne by students and graduates.[166] Republicans stressed fiscal responsibility and proposed that their bill would successfully expand college access for low- and moderate-income students without burdening taxpayers. Attempts to amend the bill to reflect Democrats' priorities by and large failed, but a number of adjustments were made before H.R. 609 advanced from the committee stages.

Maximum Pell Grant authorization levels—as distinct from actual maximum grant amounts that are set in annual appropriations bills—would climb to $6,000 by 2012 under a Republican-written amendment to H.R. 609 instead of $5,800 under H.R. 4283.[167] During full committee consideration, an effort by Representative George Miller (Martinez, CA) to increase the maximum Pell

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[165]Representative John Boehner, Opening Statement, Hearing of the House Education and the Workforce Committee, 109th Congress, 1st Session, Washington, D.C., April 19, 2005.

[166]Democrats assert that $11 billion of $12.6 billion in savings contained in the bill would be used to finance the national debt.

[167]An amendment introduced by Dale Kildee (MI) during subcommittee markup that would have increased Pell Grant maximums to $8,200 by 2011 failed by a vote of 14 to 18.

Grant by $500 over the next five years and cap student loan interest rates at 6.8 percent was voted down.[168]

The committee slightly modified H.R. 609's proposal to institute variable interest rates in the student loan programs. Members instead voted to give students the choice between a fixed or a variable rate for loans, after a failed attempt by Representative Miller to reduce the difference between the two rates to 0.5 percentage points. Some committee members were concerned that changes to the formula that determines the rate of student loan interest could force banks and lenders to disengage from participation. Representative Miller argued that active competition already exists at the current fixed rate of 2.3 percent plus the 90-day Treasury bill rate and that his amendment would have saved on fixed rate loans.

A bipartisan amendment coauthored by Miller and Representative Thomas Petri (WI) that would have established a competitive program to encourage students to enroll in the most efficient student loan program failed by a vote of 20 to 26. The Student Aid Reward (STAR) Act amendment indirectly sought to induce students to participate in DL as opposed to FFEL, which is more expensive to administer. Speaking in support of the amendment, Representative Miller argued that STAR would free up $17 billion in college scholarship aid over ten years. The extra money would have been used to supplement Pell Grants for eligible students at campuses that select the most efficient grant program. Chairman Boehner compared the amendment to "legalized bribery" and proclaimed that the amounts in savings gained from the DL program's expansion were overstated.

Because of bipartisan opposition to H.R. 609's institution of a single definition insofar as the treatment of public versus private colleges, the committee approved by voice vote an amendment offered by Representative Michael Castle (DE) that would limit for-profit institutions' participation to HEA's CBA participation and bar their eligibility for research or other grants administered by other federal agencies. The amendment allows other authorization committees with jurisdiction to alter the scope of the single definition.

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[168]The Miller amendment mirrored the Bush administration's fiscal year 2006 budget proposal. The actual appropriated maximum is currently $4,050. Senate appropriators voted to retain this figure in the fiscal year 2006 Labor-HHS-Education appropriations bill on July 14, 2005. House appropriations legislation reflects the president's budget request, which proposed to raise Pell Grant maximums by $100.

Finally, an amendment by Representative John Tierney (MA) that sought to eliminate the phase-out of CBA base guarantees gained the support of three Republican members before narrowly failing, by a 24 to 24 vote.

Senate Action

Although several proposals were floated in the Senate, none gained sufficient momentum to be considered for markup. During the 108th Congress, a coordinated effort to produce a comprehensive reauthorization package was overshadowed by the predominance of other legislative priorities in the Senate. No legislative action was undertaken by the Senate's authorizing body, the HELP Committee.

Led by the HELP Committee's ranking minority member, Senator Edward M. Kennedy (MA), Senate Democrats were first to propose major HEA renewal legislation in that body, unveiling a 200-page bill (S. 1793) in October 2003. Their bill, the Quality, Affordability, and Diversity Improvement Act (QUAD Act), sent ripples through part of the higher education community, because of its more prescriptive approach to college affordability. Unlike the House reauthorization effort, the Senate Democrats' bill proposed to penalize schools raising tuition faster than the Consumer Price Index by slashing their Title IV aid. On the other hand, states making year-to-year higher education spending cuts in excess of 10 percent would be vulnerable to student aid and tax credit freezes under the Kennedy bill. Other key proposals in the bill focus on affording college-going students added relief through increased student aid limits and tax refunds. Specifically, S.1793 would more than double Pell Grants over five years (beginning with a $1,000 increase, the maximum Pell Grant in the first year), increase the Hope Scholarship tax credit to $3,000 for middle-income families and convert it to a tax refund for low-income families, eliminate student loan origination fees, and induce more widespread institutional participation in the DL program via financial incentives. Following the convening of the 109th Congress, Senator Kennedy on February 15, 2005, reintroduced the QUAD Act, which was numbered S. 371.

A bipartisan addition to the reauthorization debate in 2004 was S. 2795 by Senator Michael B. Enzi (WY). The limited bill concentrated on publicizing more college campus and student data than are currently available and adding an employment training section to Title III to help students pursue careers in high-growth industries.

In April 2005, senior Republican and Democrat committee staff in the Senate indicated to stakeholder organizations that Chairman Enzi and Ranking Member Kennedy intend to develop a bipartisan HEA reauthorization bill for markup, although no language has been introduced to this date. According to

staff sources, Senate drafters would use existing law rather than the House proposal as the base upon which to build their legislation.

Bush Administration Reauthorization Proposals

The White House has also weighed in on HEA reauthorization at various points, with some proposals adopted by Congressional drafters and others not.

As in previous years, the fiscal year 2006 budget President Bush submitted to Congress on February 7, 2005, proposed eliminating the Perkins Loan program and recalling the federal portion of the program's revolving funds, with freed resources to be transferred for use in Pell Grants.[169] Congress already concurred with the proposal when it wrote the 2005 omnibus appropriations bill, which provided no new Perkins Loan capital funding.

For Pell Grants, the administration proposes incrementally increasing the maximum grant to $4,550 per year and raising the minimum award to $800 over time, allowing year-round grants, conferring independent student status for EFC calculations for all active duty military personnel, and eliminating the tuition sensitivity rule that plagues California Community College students.

Other administration proposals include eliminating rollover of tax-exempt special allowances for student loans, reducing lender insurance and reinsurance percentages, applying variable interest rates to new consolidation loans, standardizing extended repayment plans, increasing lender fees on consolidation loans, and expanding student loan forgiveness for teachers who work in mathematics, science, or special education. The president would also increase limits on both subsidized and unsubsidized federal loans, pointing out that such limits have remained essentially unchanged for 30 years, whereas college costs have tripled.[170]

Conclusion

The federal commitment to higher education provides grants and loans to students and institutional aid to colleges and universities, and the federal

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[169]The proposal called for an end to new capital contributions from the Federal Perkins Loans account but would allow for ongoing cancellations of existing loans. U.S. Department of Education, *FY 2006 Education Budget Summary—Student Financial Assistance*, Washington, D.C., February 7, 2005.

[170]The administration suggests increasing annual subsidized loan limits to $3,500 for first-year students, $4,500 for second-year students, and annual unsubsidized loan limits to $12,000 for graduate and professional students, with corresponding increases in aggregate loan limits.

government underwrites a growing portion of education support. In general, *grant funds* are focused on the most economically disadvantaged students, whereas *loans* assist students at all income levels.

However, needs-based aid to California has not proportionally matched the state's share of students with need. Whereas the average individual aid *amount* received by a California student is above the national average, a smaller *percentage* of California students receive aid in the first place than students in the rest of the nation.

Federal higher education support is important for California not only because the state budget crisis has strained resources but also because demographers predict growing enrollments in the near future. Currently, a smaller proportion of California students (26%) receive federal needs-based aid than all students nationwide (34.5%).

Grant and loan appropriations for programs authorized under the Higher Education Act exceeded $25 billion in 2004, and the federal government lent more than twice as much to college students through its primary loan programs. The Act expired in September 2004, but was extended for an additional year, and debate in the 108th and 109th Congresses have centered on levels of spending, streamlining loan programs, targeting low-income students, and improving equity in grant funding.

The critical determinant of student eligibility for federal needs-based aid, the EFC compares resources—student and parental income and assets—to the cost of attending a selected institution. The method determines the amount of Pell Grants and subsidized federal loans a student may receive, as well as the level of campus-based aid available to an educational institution.

Californians' incomes and asset holdings exceed national averages, but the state's income inequality yields disparate results. An above-average proportion of California students have so little income and so few assets that they are not expected to contribute any resources to their education. Likewise, California students are more likely than their counterparts in other states to have incomes below key income thresholds for determining grant eligibility.

However, despite the state's large low-income student population—the group targeted by most federal student aid programs—California houses a relatively small proportion of the nation's recipients of Title IV needs-based aid. Presumably, low-income Californians find themselves forced to take out more and larger loans to finance their education.

On the positive side, the exclusion of a family's home in valuing assets helps students from California, which has the nation's highest real estate costs. In

addition, more California students are independent of their parents than the national average, which improves their chances of receiving aid.

California institutions are the least expensive in the nation, although the high cost of housing and other nontuition costs wipe out most of that comparative advantage. In addition, the low tuition and fee rates charged by California community colleges make it the only institution in the nation to be penalized by the Pell Grant program's special tuition sensitivity rules. A smaller percentage of California students receive Pell Grants than the national average, but each California grant is larger than average.

The three CBA programs employ a parallel formula structure that first guarantees a fixed base amount of funding to institutions using a hold-harmless provision, with remaining funds allocated based on relative need. As such, CBA significantly favors older institutions over younger ones. California institutions receive a smaller percentage of federal CBA funding than their enrollment and costs would yield absent the law's base guarantee provision.

The Bush administration proposed updating state tax tables, which have remained unchanged for a decade. The change will result in higher expected contributions from most students, although California students will be affected less significantly.

The House leadership bill would maintain funding at levels comparable to current law, require additional accountability, raise proprietary school access to student aid, and change the structure of student loan programs. In addition, it would alter and largely eliminate the base guarantee hold-harmless provision in the campus-based aid programs, increasing funding for a number of California institutions.

Congress and the administration have recently moved toward eliminating the Perkins Loan program and shifting funds for it to Pell Grants, which may benefit California slightly. Historically, the state's share of Pell Grant funding has been larger than that of Perkins Loans, although the gap has closed recently.

From the perspective of formula grant fairness, timely elimination of the base guarantee on campus-based aid program funding and terminating the Pell Grant tuition sensitivity provisions constitute two of the most significant potential improvements being considered during this reauthorization cycle.

Appendix A

Methodology

For much of its analysis, this report relies on two databases from the National Center for Education Statistics: IPEDS and NPSAS. The most recent available data from these databases were from the 1999–2000 school year. Population data are from the U.S. Census Bureau.

Some funding attributed to one fiscal year may be spent in another. Most expenditures by the Department of Education are "forward funded," meaning that appropriations from one year are used for the following school year. For example, appropriations for 2005 (which began October 1, 2004) underwrite school spending for the 2005–2006 school year (which spans from July 1, 2005, to June 30, 2006).

Freely associated states include the Marshall Islands, the Federated States of Micronesia, and Palau.

Appendix B

Federal Expenditures for Major Student Aid and Higher Education Programs

In addition to Appendix Tables B.1 through B.3, this report includes web-only tables, which provide greater detail on particular issues. They are available at http://www.ppic.org/main/dataset.asp?i=569.

Some of these tables pertain to this appendix and provide state-by-state breakouts of federal spending for a number of programs.

Table B.1

Total Federal Appropriations for Programs Administered by Federal Student Aid and Office of Postsecondary Education, Fiscal Years 2004 and 2005

	$ Millions	
	2004	2005
Federal student aid		
Federal Pell Grants (HEA IV-A-1) *[appropriated amount]*	13,117	12,928
Campus-Based Aid Programs		
Federal SEOG (HEA IV-A-3)	770	779
Federal Work-Study (HEA IV-C)	999	990
Federal Perkins Loans (HEA IV-E)—capital contributions	99	0
Federal Perkins Loans (HEA IV-E)—loan cancellations	67	66
Subtotal, Campus-Based Aid Programs	*1,934*	*1,835*
LEAP (HEA IV-A-4)	66	66
Student Aid Administration (HEA I-D and IV-D, section 458)—administrative costs	117	119
Federal Direct Student Loan Program (HEA IV-B)	3,263	423
Federal Family Education Loan Program Account (HEA IV-B)	5,532	8,158
Total, FSA programs	24,030	23,529
Office of Postsecondary Education		
Federal TRIO programs (HEA IV-A-2, Chapter 1)	833	837
GEAR UP (HEA IV-A-2)	298	306
Aid for institutional development (HEA III), including: strengthening institutions, strengthening tribally controlled colleges and universities, strengthening HBCUs, strengthening HBGIs, and minority science and engineering improvement	400	421
Developing Hispanic Serving Institutions (HEA V)	94	95
Other aid for institutions: International education and foreign language studies, Fund for the Improvement of Postsecondary Education, demonstration projects to ensure quality higher education for students with disabilities, interest subsidy grants, and tribally controlled postsecondary vocational and technical institutions	277	286
Byrd honors scholarships (HEA IV-A-6)	41	41
Other scholarships and fellowships: Javits fellowships, graduate assistance in areas of national need, Thurgood Marshall legal educational opportunity, and B. J. Stupak Olympic scholarships	41	44
CCAMPS (HEA IV-A-7)	16	16
Teacher quality enhancement (HEA II-A)	89	68
Other OPE programs, including support for Howard University, the College Housing and Academic Facilities Loans Program, administration of HBCU Capital Financing, Higher Education Facilities Loans, and College Housing Loans	215	215
Total, OPE programs	2,303	2,300
Total, FSA + OPE	26,333	25,860
Grand total, all ED appropriations, including K–12	66,963	67,719
FSA and OPE appropriations as a % of total ED appropriations	39.3	38.2

SOURCES: U.S. Department of Education, Budget Service, *Budget of the United States, Fiscal Year 2005* (Department of Education supporting documents, as adjusted), Washington, D.C., posted November 1, 2004, and updated December 9, 2005, available at http://www.ed.gov/about/overview/budget/tables.html; internal calculations.

NOTES: Fiscal year 2004 appropriations are actual amounts. Fiscal year 2005 appropriations are as provided for by the conference report to accompany H.R. 4818, *Consolidated Appropriations Act, 2005*, 108th Congress, 2nd Session, approved by House and Senate on November 20, 2004; however, some administrative spending reductions were undetermined. Loan balances are not shown.

Table B.2

Effect of Proposed Tax Table Revisions on Expected Pell Grant Expenditures, by State, Fiscal Year 2005

	Grants 2004, Actual			Grants 2005, as Shown in ED 2005 Budget Request			Predicted Reduction in Grants, 2004–2005			Predicted Grants 2005, If Grants Were Normalized to Equal 2004 Expenditure Total			
	Expenditures ($)	% States	% All Areas	Expenditures ($)	% States	% All Areas	Change from 2004 ($)	% States	% All Areas	Expenditures ($)	% States	% All Areas	Change from 2004 ($)
U.S. total, all areas	13,069,000,000		100.0	12,830,000,000		100.0	–239,000,000		100.0	13,069,000,000		100.0	+0
U.S. total, states	12,392,100,000	100.0	94.8	12,139,800,000	100.0	94.6	–252,300,000	100.0	105.6	12,365,942,806	100.0	94.6	–26,157,194
Alabama	278,900,000	2.3	2.1	271,900,000	2.2	2.1	–7,000,000	2.8	2.9	276,965,012	2.2	2.1	–1,934,988
Alaska	11,500,000	0.1	0.1	11,200,000	0.1	0.1	–300,000	0.1	0.1	11,408,636	0.1	0.1	–91,364
Arizona	297,200,000	2.4	2.3	289,800,000	2.4	2.3	–7,400,000	2.9	3.1	295,198,457	2.4	2.3	–2,001,543
Arkansas	154,000,000	1.2	1.2	150,200,000	1.2	1.2	–3,800,000	1.5	1.6	152,997,958	1.2	1.2	–1,002,042
California	1,479,200,000	11.9	11.3	1,476,500,000	12.2	11.5	–2,700,000	1.1	1.1	1,504,004,560	12.2	11.5	+24,804,560
Colorado	161,800,000	1.3	1.2	157,700,000	1.3	1.2	–4,100,000	1.6	1.7	160,637,670	1.3	1.2	–1,162,330
Connecticut	77,300,000	0.6	0.6	75,400,000	0.6	0.6	–1,900,000	0.8	0.8	76,804,567	0.6	0.6	–495,433
Delaware	22,000,000	0.2	0.2	21,500,000	0.2	0.2	–500,000	0.2	0.2	21,900,507	0.2	0.2	–99,493
Dist. of Columbia	39,500,000	0.3	0.3	38,500,000	0.3	0.3	–1,000,000	0.4	0.4	39,217,186	0.3	0.3	–282,814
Florida	756,500,000	6.1	5.8	748,000,000	6.2	5.8	–8,500,000	3.4	3.6	761,933,905	6.2	5.8	+5,433,905
Georgia	349,600,000	2.8	2.7	343,600,000	2.8	2.7	–6,000,000	2.4	2.5	350,000,655	2.8	2.7	+400,655
Hawaii	36,600,000	0.3	0.3	35,600,000	0.3	0.3	–1,000,000	0.4	0.4	36,263,164	0.3	0.3	–336,836
Idaho	77,200,000	0.6	0.6	75,300,000	0.6	0.6	–1,900,000	0.8	0.8	76,702,705	0.6	0.6	–497,295
Illinois	503,900,000	4.1	3.9	493,800,000	4.1	3.8	–10,100,000	4.0	4.2	502,998,613	4.1	3.8	–901,387
Indiana	240,100,000	1.9	1.8	234,100,000	1.9	1.8	–6,000,000	2.4	2.5	238,460,865	1.9	1.8	–1,639,135
Iowa	146,500,000	1.2	1.1	142,900,000	1.2	1.1	–3,600,000	1.4	1.5	145,561,972	1.2	1.1	–938,028
Kansas	123,000,000	1.0	0.9	119,900,000	1.0	0.9	–3,100,000	1.2	1.3	122,133,523	1.0	0.9	–866,477
Kentucky	205,200,000	1.7	1.6	200,100,000	1.6	1.6	–5,100,000	2.0	2.1	203,827,506	1.6	1.6	–1,372,494

Table B.2 (continued)

	Grants 2004, Actual			Grants 2005, as Shown in ED 2005 Budget Request			Predicted Reduction in Grants, 2004–2005			Predicted Grants 2005, If Grants Were Normalized to Equal 2004 Expenditure Total			
	Expenditures ($)	% States	% All Areas	Expenditures ($)	% States	% All Areas	Change from 2004 ($)	% States	% All Areas	Expenditures ($)	% States	% All Areas	Change from 2004 ($)
Louisiana	271,000,000	2.2	2.1	264,200,000	2.2	2.1	–6,800,000	2.7	2.8	269,121,574	2.2	2.1	–1,878,426
Maine	47,200,000	0.4	0.4	46,000,000	0.4	0.4	–1,200,000	0.5	0.5	46,856,898	0.4	0.4	–343,102
Maryland	170,000,000	1.4	1.3	165,700,000	1.4	1.3	–4,300,000	1.7	1.8	168,786,695	1.4	1.3	–1,213,305
Massachusetts	197,300,000	1.6	1.5	192,400,000	1.6	1.5	–4,900,000	1.9	2.1	195,984,069	1.6	1.5	–1,315,931
Michigan	383,400,000	3.1	2.9	368,500,000	3.0	2.9	–14,900,000	5.9	6.2	375,364,497	3.0	2.9	–8,035,503
Minnesota	181,600,000	1.5	1.4	177,100,000	1.5	1.4	–4,500,000	1.8	1.9	180,399,057	1.5	1.4	–1,200,943
Mississippi	218,100,000	1.8	1.7	212,600,000	1.8	1.7	–5,500,000	2.2	2.3	216,560,359	1.8	1.7	–1,539,641
Missouri	240,500,000	1.9	1.8	234,500,000	1.9	1.8	–6,000,000	2.4	2.5	238,868,316	1.9	1.8	–1,631,684
Montana	52,200,000	0.4	0.4	50,900,000	0.4	0.4	–1,300,000	0.5	0.5	51,848,176	0.4	0.4	–351,824
Nebraska	73,500,000	0.6	0.6	71,600,000	0.6	0.6	–1,900,000	0.8	0.8	72,933,780	0.6	0.6	–566,220
Nevada	46,800,000	0.4	0.4	45,600,000	0.4	0.4	–1,200,000	0.5	0.5	46,449,447	0.4	0.4	–350,553
New Hampshire	32,800,000	0.3	0.3	32,000,000	0.3	0.2	–800,000	0.3	0.3	32,596,103	0.3	0.2	–203,897
New Jersey	266,700,000	2.2	2.0	260,000,000	2.1	2.0	–6,700,000	2.7	2.8	264,843,336	2.1	2.0	–1,856,664
New Mexico	107,400,000	0.9	0.8	104,700,000	0.9	0.8	–2,700,000	1.1	1.1	106,650,374	0.9	0.8	–749,626
New York	1,053,700,000	8.5	8.1	1,029,100,000	8.5	8.0	–24,600,000	9.8	10.3	1,048,270,296	8.5	8.0	–5,429,704
North Carolina	353,100,000	2.8	2.7	343,100,000	2.8	2.7	–10,000,000	4.0	4.2	349,491,341	2.8	2.7	–3,608,659
North Dakota	41,500,000	0.3	0.3	40,500,000	0.3	0.3	–1,000,000	0.4	0.4	41,254,443	0.3	0.3	–245,557
Ohio	455,800,000	3.7	3.5	442,100,000	3.6	3.4	–13,700,000	5.4	5.7	450,335,534	3.6	3.4	–5,464,466
Oklahoma	197,000,000	1.6	1.5	192,100,000	1.6	1.5	–4,900,000	1.9	2.1	195,678,480	1.6	1.5	–1,321,520
Oregon	152,600,000	1.2	1.2	148,700,000	1.2	1.2	–3,900,000	1.5	1.6	151,470,016	1.2	1.2	–1,129,984
Pennsylvania	448,200,000	3.6	3.4	429,700,000	3.5	3.3	–18,500,000	7.3	7.7	437,704,544	3.5	3.3	–10,495,456

Table B.2 (continued)

	Grants 2004, Actual			Grants 2005, as Shown in ED 2005 Budget Request			Predicted Reduction in Grants, 2004–2005			Predicted Grants 2005, If Grants Were Normalized to Equal 2004 Expenditure Total			
	Expenditures ($)	% States	% All Areas	Expenditures ($)	% States	% All Areas	Change from 2004 ($)	% States	% All Areas	Expenditures ($)	% States	% All Areas	Change from 2004 ($)
Rhode Island	53,300,000	0.4	0.4	52,000,000	0.4	0.4	–1,300,000	0.5	0.5	52,968,667	0.4	0.4	–331,333
South Carolina	185,700,000	1.5	1.4	181,000,000	1.5	1.4	–4,700,000	1.9	2.0	184,371,707	1.5	1.4	–1,328,293
South Dakota	44,600,000	0.4	0.3	43,500,000	0.4	0.3	–1,100,000	0.4	0.5	44,310,327	0.4	0.3	–289,673
Tennessee	250,700,000	2.0	1.9	244,400,000	2.0	1.9	–6,300,000	2.5	2.6	248,952,736	2.0	1.9	–1,747,264
Texas	987,600,000	8.0	7.6	985,200,000	8.1	7.7	–2,400,000	1.0	1.0	1,003,552,518	8.1	7.7	+15,952,518
Utah	144,300,000	1.2	1.1	140,700,000	1.2	1.1	–3,600,000	1.4	1.5	143,320,990	1.2	1.1	–979,010
Vermont	23,100,000	0.2	0.2	22,500,000	0.2	0.2	–600,000	0.2	0.3	22,919,135	0.2	0.2	–180,865
Virginia	247,100,000	2.0	1.9	240,900,000	2.0	1.9	–6,200,000	2.5	2.6	245,387,537	2.0	1.9	–1,712,463
Washington	216,800,000	1.7	1.7	211,300,000	1.7	1.6	–5,500,000	2.2	2.3	215,236,142	1.7	1.6	–1,563,858
West Virginia	101,400,000	0.8	0.8	98,900,000	0.8	0.8	–2,500,000	1.0	1.0	100,742,330	0.8	0.8	–657,670
Wisconsin	164,600,000	1.3	1.3	160,400,000	1.3	1.3	–4,200,000	1.7	1.8	163,387,966	1.3	1.3	–1,212,034
Wyoming	22,500,000	0.2	0.2	21,900,000	0.2	0.2	–600,000	0.2	0.3	22,307,958	0.2	0.2	–192,042
American Samoa	2,900,000		0.0	2,800,000		0.0	–100,000		0.0	2,852,159		0.0	–47,841
Guam	7,200,000		0.1	7,100,000		0.1	–100,000		0.0	7,232,260		0.1	+32,260
N. Mariana Islands	1,900,000		0.0	1,900,000		0.0	+0		0.0	1,935,394		0.0	+35,394
Puerto Rico	647,900,000		5.0	661,800,000		5.2	+13,900,000		–5.8	674,128,153		5.2	+26,228,153
Virgin Islands	3,200,000		0.0	3,100,000		0.0	–100,000		0.0	3,157,747		0.0	–42,253
Freely assoc. states	13,800,000		0.1	13,500,000		0.1	–300,000		0.1	13,751,481		0.1	–48,519

SOURCES: U.S. Department of Education, Budget Service, *Fiscal Year 2001–2005 State Tables*, Washington, D.C., posted November 1, 2004, available at http://www.ed.gov/about/overview/budget/tables.html; internal calculations.

NOTES: The 2005 budget request assumed use of the revised State and Other Tax Allowance Tables published in the *Federal Register* in May 2003, as well as an estimated savings of $50 million from a proposed IRS verification match in award year 2005–2006.

Table B.3
Pell Grant Expenditures, by State, Fiscal Years 2001– 2005

	Expenditures ($)	% States	% All Areas	Expenditures ($)	% States	% All Areas	Expenditures ($)	% States	% All Areas	Expenditures ($)	% States	% All Areas	Expenditures ($)	% States	% All Areas
U.S. total, all areas	9,996,000,000		100.0	11,667,000,000		100.0	12,706,000,000		100.0	13,117,000,000		100.0	12,928,000,000		100.0
U.S. total, states	9,446,700,000	100.0	94.5	11,061,900,000	100.0	94.8	12,046,900,000	100.0	94.8	12,474,700,000	100.0	95.1	12,275,000,000	100.0	94.9
Alabama	213,100,000	2.3	2.1	249,200,000	2.3	2.1	271,200,000	2.3	2.1	281,200,000	2.3	2.1	275,400,000	2.2	2.1
Alaska	8,800,000	0.1	0.1	10,200,000	0.1	0.1	11,200,000	0.1	0.1	11,600,000	0.1	0.1	11,400,000	0.1	0.1
Arizona	227,100,000	2.4	2.3	265,600,000	2.4	2.3	289,000,000	2.4	2.3	371,100,000	3.0	2.8	366,800,000	3.0	2.8
Arkansas	117,700,000	1.2	1.2	137,600,000	1.2	1.2	149,800,000	1.2	1.2	157,800,000	1.3	1.2	154,500,000	1.3	1.2
California	1,200,100,000	12.7	12.0	1,318,200,000	11.9	11.3	1,436,700,000	11.9	11.3	1,471,400,000	11.8	11.2	1,471,600,000	12.0	11.4
Colorado	123,400,000	1.3	1.2	144,500,000	1.3	1.2	157,300,000	1.3	1.2	170,600,000	1.4	1.3	167,000,000	1.4	1.3
Connecticut	59,100,000	0.6	0.6	69,100,000	0.6	0.6	75,200,000	0.6	0.6	79,800,000	0.6	0.6	78,100,000	0.6	0.6
Delaware	16,900,000	0.2	0.2	19,700,000	0.2	0.2	21,400,000	0.2	0.2	23,100,000	0.2	0.2	22,600,000	0.2	0.2
Dist. of Columbia	30,200,000	0.3	0.3	35,300,000	0.3	0.3	38,400,000	0.3	0.3	38,700,000	0.3	0.3	37,900,000	0.3	0.3
Florida	556,900,000	5.9	5.6	670,900,000	6.1	5.8	732,600,000	6.1	5.8	752,700,000	6.0	5.7	743,900,000	6.1	5.8
Georgia	258,200,000	2.7	2.6	310,900,000	2.8	2.7	338,700,000	2.8	2.7	358,600,000	2.9	2.7	353,700,000	2.9	2.7
Hawaii	27,900,000	0.3	0.3	32,700,000	0.3	0.3	35,600,000	0.3	0.3	34,700,000	0.3	0.3	34,000,000	0.3	0.3
Idaho	59,000,000	0.6	0.6	69,000,000	0.6	0.6	75,100,000	0.6	0.6	81,800,000	0.7	0.6	80,100,000	0.7	0.6
Illinois	342,700,000	3.6	3.4	450,800,000	4.1	3.9	491,100,000	4.1	3.9	496,000,000	4.0	3.8	491,400,000	4.0	3.8
Indiana	183,500,000	1.9	1.8	214,500,000	1.9	1.8	233,500,000	1.9	1.8	247,800,000	2.0	1.9	242,700,000	2.0	1.9
Iowa	112,000,000	1.2	1.1	130,900,000	1.2	1.1	142,500,000	1.2	1.1	151,300,000	1.2	1.2	148,200,000	1.2	1.1
Kansas	94,000,000	1.0	0.9	109,900,000	1.0	0.9	119,600,000	1.0	0.9	124,600,000	1.0	0.9	122,000,000	1.0	0.9

Table B.3 (continued)

	Expenditures ($)	% States	% All Areas	Expenditures ($)	% States	% All Areas	Expenditures ($)	% States	% All Areas	Expenditures ($)	% States	% All Areas	Expenditures ($)	% States	% All Areas
Kentucky	156,800,000	1.7	1.6	183,400,000	1.7	1.6	199,500,000	1.7	1.6	208,500,000	1.7	1.6	204,200,000	1.7	1.6
Louisiana	207,100,000	2.2	2.1	242,200,000	2.2	2.1	263,500,000	2.2	2.1	262,200,000	2.1	2.0	256,800,000	2.1	2.0
Maine	36,100,000	0.4	0.4	42,200,000	0.4	0.4	45,900,000	0.4	0.4	46,900,000	0.4	0.4	45,900,000	0.4	0.4
Maryland	129,900,000	1.4	1.3	151,900,000	1.4	1.3	165,300,000	1.4	1.3	161,700,000	1.3	1.2	158,300,000	1.3	1.2
Massachusetts	150,800,000	1.6	1.5	176,300,000	1.6	1.5	191,800,000	1.6	1.5	192,000,000	1.5	1.5	188,000,000	1.5	1.5
Michigan	279,100,000	3.0	2.8	342,400,000	3.1	2.9	372,500,000	3.1	2.9	391,100,000	3.1	3.0	378,200,000	3.1	2.9
Minnesota	138,800,000	1.5	1.4	162,300,000	1.5	1.4	176,600,000	1.5	1.4	183,800,000	1.5	1.4	180,000,000	1.5	1.4
Mississippi	166,700,000	1.8	1.7	194,900,000	1.8	1.7	212,100,000	1.8	1.7	217,700,000	1.7	1.7	213,200,000	1.7	1.6
Missouri	183,800,000	1.9	1.8	214,900,000	1.9	1.8	233,800,000	1.9	1.8	239,800,000	1.9	1.8	234,800,000	1.9	1.8
Montana	39,900,000	0.4	0.4	46,700,000	0.4	0.4	50,800,000	0.4	0.4	50,600,000	0.4	0.4	49,500,000	0.4	0.4
Nebraska	56,100,000	0.6	0.6	65,600,000	0.6	0.6	71,400,000	0.6	0.6	72,300,000	0.6	0.6	70,800,000	0.6	0.5
Nevada	35,700,000	0.4	0.4	41,800,000	0.4	0.4	45,500,000	0.4	0.4	42,900,000	0.3	0.3	42,000,000	0.3	0.3
New Hampshire	25,100,000	0.3	0.3	29,300,000	0.3	0.3	31,900,000	0.3	0.3	31,700,000	0.3	0.2	31,100,000	0.3	0.2
New Jersey	203,800,000	2.2	2.0	238,300,000	2.2	2.0	259,300,000	2.2	2.0	266,200,000	2.1	2.0	260,700,000	2.1	2.0
New Mexico	82,100,000	0.9	0.8	96,000,000	0.9	0.8	104,400,000	0.9	0.8	106,800,000	0.9	0.8	104,600,000	0.9	0.8
New York	830,900,000	8.8	8.3	941,500,000	8.5	8.1	1,025,300,000	8.5	8.1	1,018,300,000	8.2	7.8	992,000,000	8.1	7.7
North Carolina	258,100,000	2.7	2.6	314,000,000	2.8	2.7	342,800,000	2.8	2.7	359,400,000	2.9	2.7	354,100,000	2.9	2.7
North Dakota	31,700,000	0.3	0.3	37,100,000	0.3	0.3	40,400,000	0.3	0.3	40,900,000	0.3	0.3	40,000,000	0.3	0.3
Ohio	341,300,000	3.6	3.4	406,100,000	3.7	3.5	443,400,000	3.7	3.5	462,300,000	3.7	3.5	455,200,000	3.7	3.5
Oklahoma	150,600,000	1.6	1.5	176,000,000	1.6	1.5	191,600,000	1.6	1.5	198,900,000	1.6	1.5	194,800,000	1.6	1.5
Oregon	116,600,000	1.2	1.2	136,300,000	1.2	1.2	148,300,000	1.2	1.2	154,900,000	1.2	1.2	151,700,000	1.2	1.2
Pennsylvania	358,100,000	3.8	3.6	405,900,000	3.7	3.5	440,300,000	3.7	3.5	437,300,000	3.5	3.3	424,200,000	3.5	3.3

Table B.3 (continued)

	Expenditures ($)	% States	% All Areas	Expenditures ($)	% States	% All Areas	Expenditures ($)	% States	% All Areas	Expenditures ($)	% States	% All Areas	Expenditures ($)	% States	% All Areas
Rhode Island	40,800,000	0.4	0.4	47,700,000	0.4	0.4	51,900,000	0.4	0.4	52,900,000	0.4	0.4	51,900,000	0.4	0.4
South Carolina	141,900,000	1.5	1.4	165,900,000	1.5	1.4	180,500,000	1.5	1.4	193,600,000	1.6	1.5	189,600,000	1.5	1.5
South Dakota	34,100,000	0.4	0.3	39,900,000	0.4	0.3	43,400,000	0.4	0.3	44,800,000	0.4	0.3	43,900,000	0.4	0.3
Tennessee	191,600,000	2.0	1.9	224,000,000	2.0	1.9	243,800,000	2.0	1.9	252,800,000	2.0	1.9	247,600,000	2.0	1.9
Texas	725,600,000	7.7	7.3	878,500,000	7.9	7.5	957,700,000	7.9	7.5	1,008,200,000	8.1	7.7	1,006,300,000	8.2	7.8
Utah	110,300,000	1.2	1.1	129,000,000	1.2	1.1	140,400,000	1.2	1.1	152,800,000	1.2	1.2	149,600,000	1.2	1.2
Vermont	17,600,000	0.2	0.2	20,600,000	0.2	0.2	22,400,000	0.2	0.2	21,900,000	0.2	0.2	21,400,000	0.2	0.2
Virginia	188,900,000	2.0	1.9	220,800,000	2.0	1.9	240,300,000	2.0	1.9	243,000,000	1.9	1.9	237,900,000	1.9	1.8
Washington	165,700,000	1.8	1.7	193,700,000	1.8	1.7	210,800,000	1.7	1.7	219,300,000	1.8	1.7	214,800,000	1.7	1.7
West Virginia	77,500,000	0.8	0.8	90,600,000	0.8	0.8	98,600,000	0.8	0.8	100,500,000	0.8	0.8	98,400,000	0.8	0.8
Wisconsin	125,800,000	1.3	1.3	147,000,000	1.3	1.3	160,000,000	1.3	1.3	163,900,000	1.3	1.2	160,600,000	1.3	1.2
Wyoming	17,200,000	0.2	0.2	20,100,000	0.2	0.2	21,800,000	0.2	0.2	22,000,000	0.2	0.2	21,600,000	0.2	0.2
American Samoa	2,200,000		0.0	2,600,000		0.0	2,800,000		0.0	2,600,000		0.0	2,500,000		0.0
Guam	5,500,000		0.1	6,500,000		0.1	7,000,000		0.1	7,500,000		0.1	7,400,000		0.1
N. Mariana Islands	1,500,000		0.0	1,700,000		0.0	1,900,000		0.0	2,200,000		0.0	2,200,000		0.0
Puerto Rico	527,200,000		5.3	579,200,000		5.0	630,800,000		5.0	614,100,000		4.7	625,200,000		4.8
Virgin Islands	2,400,000		0.0	2,800,000		0.0	3,100,000		0.0	2,800,000		0.0	2,800,000		0.0
Freely assoc. states	10,500,000		0.1	12,300,000		0.1	13,500,000		0.1	13,100,000		0.1	12,900,000		0.1

SOURCES: U.S. Department of Education, Budget Service, *Fiscal Year 2001–2006 State Tables*, Washington, D.C., posted March 7, 2005, available at http://www.ed.gov/about/overview/budget/statetables/06stbyprogram.xls; internal calculations.

Appendix C

Federal TRIO Programs: Subprogram Detail

The following provides additional information regarding federal TRIO programs.

The application process for TRIO awards operates on a four-year cycle, meaning that each program distributes new awards only every four years. The application dates are staggered so that only two or three programs have application periods during the same fiscal year. Most of the TRIO programs award five-year project funding. However, payments are made annually.

Upward Bound

The goal of Upward Bound is to increase the rate at which students from low-income families, students from families in which neither parent holds a bachelor's degree, and low-income first-generation military veterans enroll in and graduate from institutions of postsecondary education. Upward Bound programs, which are administered by institutions of higher education or other local agencies, provide qualified students with instruction in math, science, foreign language, composition, and literature. Additionally, Upward Bound works to expose participants to educational and career opportunities by providing tutoring in other subjects; exposing them to cultural events; and providing college preparation, mentoring, work-study positions, and other activities. Two-thirds of the participants must be low-income individuals between the ages of 13 and 19 who are also potential first-generation college students; the remaining one-third must be either low-income or potential first-generation college students.[171] Awards are distributed annually through renewable project grants of up to five years that have no statutory formula or matching requirements.

In fiscal year 2003, Upward Bound distributed 819 awards totaling $278,598,820 to 62,151 participants.[172] In fiscal year 2003, California institutions received 77 (9.4%) of these awards totaling $24,677,323 (8.8%) and affecting 5,734 (9.2%) of these students.[173]

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[171]Veterans can be served regardless of age.

[172]U.S. Department of Education, *Outward Bound Funding Status*, Washington, D.C., November 19, 2004, available at http://www.ed.gov/programs/trioupbound/funding.html.

[173]U.S. Department of Education, *Outward Bound Awards*, Washington, D.C., November 19, 2004, available at http://www.ed.gov/programs/trioupbound/awards.html.

Talent Search

Talent Search is similar to Upward Bound in that its stated objective is to increase the number of disadvantaged youths who graduate from high school and attend institutions of higher education. Whereas Upward Bound focuses primarily on reinforcing subjects taught in secondary schools, Talent Search emphasizes supplementary assistance—advice, tutoring, guidance, and counseling—specifically designed to provide students with the academic and financial aid information to make attending college a reality. Additionally, Talent Search programs are directed to actively seek out qualified participants. Two-thirds of the participants must be low-income, potential first generation college students between the ages of 11 and 27. Awards are distributed annually through renewable project grants of up to five years that have no statutory formula or matching requirements.

In fiscal year 2003, Talent Search distributed 471 awards totaling $144,810,906 to 386,241 students.[174] In fiscal year 2003, California institutions received 46 (9.7%) of these awards totaling $13,728,701 (9.4%), affecting 40,667 (10.5%) students.[175]

Student Support Services

Student Support Services (SSS) programs, which are administered by institutions of higher education, work to increase the retention and graduation rates of disadvantaged students who attend postsecondary institutions. The programs are two-pronged. First, SSS provides its participants with a range of services including, but not limited to, tutoring; instruction in basic study skills; academic, personal, career, and financial counseling; and assistance in procuring financial aid. Second, SSS makes grant aid available to participating students who already receive federal Pell Grants. Two-thirds of the participants must be disabled or low-income, first-generation college students; the remaining participants must be disabled, low-income individuals, or first-generation college students. Awards are distributed annually through renewable project grants of up to five years that have no statutory formula or matching requirements.

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[174]U.S. Department of Education, Talent Search Funding Status, Washington, D.C., November 19, 2004, available at http://www.ed.gov/programs/triotalent/funding.html.

[175]U.S. Department of Education, Talent Search Awards, Washington, D.C., November 19, 2004, available at http://www.ed.gov/programs/triotalent/awards.html.

In fiscal year 2003, SSS distributed 936 awards totaling $263,650,147 to 196,387 college students.[176] In fiscal year 2003, California institutions received 70 (7.4%) awards, totaling $19,593,593 (7.4%) and affecting 16,756 (8.5%) of the nation's students.[177]

Educational Opportunity Centers

The Educational Opportunity Centers (EOC) program aims to increase the enrollment of first-generation, low-income adults (age 19 or older) at postsecondary institutions. EOCs generally operate as sources of information, providing eligible adults with advice, mentoring, and counseling on financial aid options and the application process. EOCs can be administered by individual institutions of higher education, public and private nonprofits, or local agencies and organizations, as well as through organizational partnerships. Two-thirds of the participants must be low-income, potential first generation college students who are at least age 19. Awards are distributed annually through renewable project grants of up to five years that have no statutory formula or matching requirements.

In fiscal year 2003, EOCs distributed 138 awards totaling $47,694,915 to 210,065 adults.[178] In fiscal year 2003, California institutions received five (3.6%) of the nation's awards, totaling $1,252,574 (2.6%), affecting 5,000 (2.4%) participants.[179]

Training Program for Federal TRIO Programs Staff

The Training Program for Federal TRIO Programs Staff is exclusively designed to improve the ability of TRIO project directors and staff to more effectively accomplish a program's goals. Training options include conferences, seminars, internships, workshops, or publication of manuals. Chief among the areas identified for training are increased participant involvement and retention, legislative and regulatory requirements, and funding and program evaluation. Only individuals who are employed by a TRIO program are eligible to apply for these grants. Awards are distributed annually through renewable project grants of one or two years that have no statutory formula or matching requirement.

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[176]U.S. Department of Education, Student Support Services Funding Status, Washington, D.C., November 19, 2004, available at http://www.ed.gov/programs/triostudsupp/funding.html.

[177]U.S. Department of Education, Student Support Services Awards, Washington, D.C., November 19, 2004, available at http://www.ed.gov/programs/triostudsupp/awards.html.

[178]U.S. Department of Education, *Educational Opportunity Centers Funding Status,* Washington, D.C., November 19, 2004, available at http://www.ed.gov/programs/trioeoc/funding.html.

[179]U.S. Department of Education, *Educational Opportunity Centers Awards,* Washington, D.C., November 19, 2004, available at http://www.ed.gov/programs/trioeoc/awards.html.

In fiscal year 2003, the Training Program for Federal TRIO Programs Staff distributed 29 awards totaling $7,500,188 to 4,416 TRIO employees.[180] In fiscal year 2003, California institutions received none of these awards.[181]

Ronald E. McNair Postbaccalaureate Achievement

The Ronald E. McNair Postbaccalaureate Achievement program seeks to increase the number of low-income, first-generation college students and underrepresented minorities who pursue doctoral degrees. Awards are made to institutions of higher education, which use the funds to counsel and track the progress of participating students. In particular, the program provides participants with research opportunities, mentoring, topical seminars, tutoring, counseling, and assistance in gaining admittance to and financial aid for graduate school. After students receive their bachelor's degree, the program continues to track and aid the students until the completion of graduate studies. Students must be enrolled at a degree-granting institution; two-thirds of the participants must be low-income, first-generation college students; and the remaining one-third may be from groups underrepresented in graduate education. Awards are distributed annually through renewable project grants of up to five years that have no statutory formula or matching requirements.

In fiscal year 2003, the McNair Postbaccalaureate Achievement program distributed 179 awards totaling $41,885,612 to 4,118 participants.[182] In fiscal year 2003, California institutions received 17 (9.4%) of the national awards, totaling $4,090,595 (9.7%) and affecting 416 (10.1%) of the nation's students.[183]

Upward Bound Math-Science

The Upward Bound Math-Science program is identical to the normal Upward Bound Program except that it specializes in helping students with math and science skills. As such there is greater emphasis on teaching scientific research skills and computer training. Students must have completed the eighth grade. Otherwise, its organization, eligibility requirements, and funding mechanisms are identical to the normal Upward Bound program.

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[180]U.S. Department of Education, *Training Program for Federal TRIO Programs Staff Funding Status*, Washington, D.C., November 19, 2004, available at http://www.ed.gov/programs/triotrain/funding.html.

[181]U.S. Department of Education, *Training Program for Federal TRIO Programs Staff Awards,* Washington, D.C., November 19, 2004, available at http://www.ed.gov/programs/triotrain/awards.html.

[182]U.S. Department of Education, *Ronald E. McNair Postbaccalaureate Achievement Funding Status*, Washington, D.C., November 19, 2004, available at http://www.ed.gov/programs/triomcnair/funding.html.

[183]U.S. Department of Education, *Ronald E. McNair Postbaccalaureate Achievement Awards,* Washington, D.C., November 19, 2004, available at http://www.ed.gov/programs/triomcnair/awards.html.

In fiscal year 2003, Upward Bound Math-Science distributed 131 awards totaling $33,868,868 affecting 7,037 participants.[184] In fiscal year 2003, California institutions received 17 (12.9%) of the national awards, totaling $4,057,323 (11.9%) and affecting 838 (11.9%) of all students.[185]

TRIO Dissemination Partnership Program

The TRIO Dissemination Partnership Program provides a means for replicating successful TRIO program components, practices, strategies, and activities in organizations not receiving TRIO grants. In this manner, the program hopes to disseminate successful ideas so that an even larger number of low-income, first-generation college students can receive services. Funds are used to create partnerships, evaluate programs, effectively use technology, increase program participation and retention, and advance awareness to underserved groups of potential TRIO program benefits. Only recipients of TRIO grants who received those grants before 1998 are eligible for the dissemination grants. The TRIO recipient must partner with a non-TRIO program. The renewable project grants are awarded for a duration of three years with annual awards and have no formula or matching requirements.

In fiscal year 2003, TRIO Dissemination Partnership distributed 23 awards totaling $4.4 million to work with 68 partners.[186] In fiscal year 2003, California institutions received four (17.3%) of the awards totaling $795,809 (18.2%) to work with 13 (19.1%) partners.[187]

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[184]U.S. Department of Education, *Upward Bound Math-Science Funding Status,* Washington, D.C., November 19, 2004, available at http://www.ed.gov/programs/triomathsci/funding.html.

[185]U.S. Department of Education, *Upward Bound Math-Science Awards,* Washington, D.C., November 19, 2004, available at http://www.ed.gov/programs/triomathsci/awards.html.

[186]U.S. Department of Education, *TRIO Dissemination Partnership Program Funding Status,* Washington, D.C., November 19, 2004, available at http://www.ed.gov/programs/triodissem/funding.html.

[187]U.S. Department of Education, *TRIO Dissemination Partnership Program Awards,* Washington, D.C., November 19, 2004, available at http://www.ed.gov/programs/triodissem/awards.html.

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