UNIVERSITY FINANCIAL ASSISTANCE
Joint SPAR Report

Program Background

Program Description – Financial assistance for students of the Arizona University System is administered through the individual offices of each university: The Arizona State University (ASU) Student Financial Assistance Office (SFAO); the Northern Arizona University (NAU) Office of Student Financial Aid (OSFA); and the University of Arizona (UA) OSFA. The Arizona Board of Regents (ABOR), the constitutional governing body over the state universities, administers the distributions of certain state financial aid programs. Furthermore, the Commission for Postsecondary Education administers 1 financial aid partnership relevant to the state universities. While the Arizona Community Colleges and private post-secondary institutions also distribute financial assistance, they are outside the scope of this study.

Title IV of the Federal Higher Education Act of 1965, as amended (Title IV), establishes student assistance programs including Federal Pell Grants, Federal Supplemental Educational Opportunity Grants, Federal Work-Study, Federal Perkins Loans, Federal Family Education Loans, Federal Direct Student Loans, and the Leveraging Educational Assistance Partnership. The United States Department of Education, through Title 34 of the Code of Federal Regulations §§ 668.14 to 668.16, requires legally-authorized, accredited, postsecondary educational institutions to meet certain criteria in order to participate in federal financial aid programs, including staffing and funding minimums. Among other requirements, the universities cannot charge students for financial aid services, must comply with civil rights and privacy regulations, must practice sound fiscal policies, and must have good credit and a drug prevention program. Each university signs a Program Participation Agreement with the federal Education Department acceding to these conditions.

On the state level, Article 11, Section 6 of the Arizona Constitution directs ABOR that "instruction furnished shall be as nearly free as possible." In 1935, the Arizona Supreme Court held, as cited by the Office of the Arizona Attorney General, "that a state university does not violate the constitutional requirement when it imposes fees that are neither excessive nor unreasonable." The Attorney General further opined that the nature of this inquiry is factual, not legal, leaving ABOR with broad responsibility for tuition setting.

A.R.S. § 15-1642 authorizes ABOR to collect financial aid tuition surcharges from university students in the Arizona Financial Aid Trust (AFAT). The AFAT fee is 1% of the full-time resident undergraduate tuition rate, or around $42 in FY 2006. All students pay roughly the same fee, except part-time students, who pay half the regular fee. AFAT also receives legislative appropriations. AFAT retains half of all annual receipts as a permanent financial aid endowment. ABOR distributes the remaining monies, in proportion to each university's respective contribution, to provide immediate assistance to students with need or to minority in-state students.

Additionally, A.R.S. § 15-1646 requires the state universities to fairly and equitably distribute merit-based scholarships to qualified state students, regardless of their method of primary or secondary education. A.R.S. § 15-1641 creates the non-appropriated Collegiate Special Plate Fund under ABOR. Pursuant to statute, the board directs donations for special license plates towards academic scholarships. Furthermore, financial aid is one of the tools the universities use in accordance with A.R.S. § 15-1639, to recruit and retain economically disadvantaged, minority, and underrepresented student populations.

At the institutional level, ABOR believes it can use tuition increases to fund additional gift aid for the neediest students. Therefore, ABOR Policy 4-104 A.2, amended in FY 2004, now states:

> Total mandatory undergraduate resident student tuition and fees shall not exceed the amount required to maintain a position at the top of the lower one-third of rates set by all other states for undergraduate resident tuition and mandatory fees at the senior public universities. It is the intention of the Board to reach the top of the lowest one-third (the 34th position) and maintain that position for the foreseeable future.

Meanwhile, ABOR and the universities now annually adjust nonresident tuition. Each university has its own methodology for making this determination.

ABOR Policy 4-300 B.3 requires the universities to award at least 50% of undergraduate resident aid based on need and at least 30% based on merit. These percentages can overlap. ABOR Policy 4-309 sets aside 14% of the full-time resident undergraduate tuition rate from each student for need-based financial assistance.

Under these regulations, the university student financial aid offices administer federal, state, local, and private funds, working to maximize the number of eligible students financially able to matriculate and graduate. These offices focus on economically disadvantaged, minority, and other underrepresented students. The offices provide outreach to potential applicants and advising to existing students for all types of financial aid.

The university student financial aid offices handle receipt, authorize disbursement, and account for most financial aid monies, including some third-party monies. These offices also monitor other student social benefits and financial assistance, including veterans', employee, economic security, and Native American benefits. The university financial aid offices establish consortium agreements when students attend more than 1 school simultaneously, to ensure that students receive the correct amount of aid.

Program Process – The student financial assistance process begins with the student completing an application, usually 6 months or more prior to beginning classes. The state universities require all students who desire consideration for need-based financial assistance to complete the Free Application for Federal Student Aid (FAFSA). The FAFSA collects information on family size, age of family members, likely family college attendees, taxable and nontaxable income, social and veterans' benefits, bank accounts, businesses, and investments. Financial aid offices also check for special circumstances, such as unusual medical expenses or unemployment.
The information a student must include is contingent upon his dependency status. The federal government classifies a student as independent if he is enrolling in a graduate program, is married, is caring for dependents, is an orphan, is a veteran, or is over 23 years old. The

government also permits a university's financial aid administrator to classify a student as independent in special circumstances, with documentation. If none of these conditions applies, the student is a dependent. Dependent students must report information for themselves and their parents. Independent students must report on themselves and their spouses, if applicable.

With the provided data, the U.S. Education Department calculates an Expected Family Contribution (EFC) according to the formulas in Title IV and sends that information to the universities of the student's choice. The EFC measures financial strength and ability to pay. The federal Education Department and universities use EFC to determine each student's eligibility for various aid programs.

Meanwhile, each financial aid office annually determines students' total cost of attendance, including tuition and estimates of room, board, books, travel, and miscellaneous expenses. Since each of these components varies based on student level, residency status, and living arrangements, total cost of attendance differs among students even at the same university.

The federal Education Department defines a student's "demonstrated need" as her total cost of attendance minus her Expected Family Contribution. The university financial aid offices strive to cover this amount with a variety of student assistance. The offices send a proposed financial aid package to each accepted student in the spring preceding the start of classes.

The EFC formulas are complex, incorporating many variables. Nevertheless, *Table 1* summarizes information provided by the state universities on the general correlation between EFC and relevant family income. According to ASU, the mean household income of resident undergraduates with an EFC of $0 was $11,500 in FY 2004, while that for resident undergraduates with an EFC above $16,000 was $129,800.

Table 1

Expected Family Contribution
FY 2004 Comparison to Mean Taxable Family Income [1/ 2/ 3/]

	Undergraduate		Graduate	
EFC Range ($)	Resident Household Income	Non-Resident Household Income	Resident Household Income	Non-Resident Household Income
0	$ 11,500	$ 12,300	$ 9,100	$ 5,700
1-4000	22,500	26,100	17,200	9,900
4,001-8,000	46,000	57,700	32,600	22,700
8,001-12,000	64,300	79,200	43,700	32,300
12,001-16,000	82,300	93,600	56,700	40,000
> 16,000	129,800	144,400	90,300	70,200

1/ Means derive from statistics of those students who applied for aid.
2/ Taxable family income includes student's income plus father's, mother's, and spouse's income, where applicable.
3/ This table reflects statistics provided by ASU. EFC-to-income comparisons vary somewhat between the universities due to demographic differences.

Program Benefits: Federal –*Table 2* summarizes available federal grants, while *Table 3* lists available federal self-help benefits. All amounts represent FY 2005 levels.

Table 2

Federal Education Grants

Benefit	**Description**
Federal Pell Grant	An entitlement for the most underprivileged undergraduates; eligible students with an EFC less than $3,850 receive awards ranging from $400 to $4,050; students receive the entire amount for which they qualify.
Federal Supplemental Educational Opportunity Grant (FSEOG)	A need-based undergraduate grant, ranging from $100 to $4,000.
Leveraging Educational Assistance Partnership (LEAP)	A federal, state, and institutional partnership, administered by the Commission for Postsecondary Education, that provides need-based grants to students attending on at least a half-time basis.
Robert C. Byrd Honors Scholarship	A federal merit award, available for up to the first 4 years of postsecondary education, averaging $1,500.
Montgomery GI Bill	A monthly benefit of up to $1,000 per month, up to 36 months, of postsecondary education or training tuition assistance, for active duty veterans and up to $300 per month for reserve veterans; in most cases, expires after 10 years following honorable discharge; exact amounts depend upon length of service, military role, and incentives received; GI Bill predecessor benefits still apply to certain older veterans.
Survivors' and Dependents' Educational Assistance Program	A monthly benefit of up to $800 per month, up to 45 months, of postsecondary education or training tuition assistance, for spouses and children of fallen, permanently disabled, missing, or detained servicemembers; various time limits apply.

Table 3

Federal Education Self-Help

Benefit	**Description**
Federal Perkins Loan	University-managed 5% fixed-interest need-based loans; annual cap of $4,000 for undergraduates and $6,000 for graduates; total cap of $20,000 for undergraduates and $40,000 for graduates.
Stafford Loan	Variable rate loans for at-least-half-time students; can be managed either by a third-party (Federal Family Education Loans [FFEL]) or directly by the federal government (Direct); no interest may accrue while the student is in school (subsidized) or interest may constantly accrue (unsubsidized); subsidized loans are need-based and range annually from $2,625 to $8,500; unsubsidized loans can cover remaining need and EFC up to $18,500; total undergraduate cap of $46,000, of which $23,000 can be subsidized, and graduate cap of $138,500, of which no more than $65,500 may be subsidized.
PLUS Loan	Variable rate loans for the parents of at-least-half-time students; can be managed either by a third party (FFEL) or directly by the federal government (Direct); capped by remaining student need and EFC.
Federal Work-Study	Federally sponsored jobs for undergraduate and graduate students; the U.S. Education Department subsidizes around 75% of student salary; unlike other student income, is not included in calculations of future financial aid packages and does not increase EFC.

Program Benefits: Institutional – Each university offers a range of financial benefits, including merit scholarships, tuition waivers for merit or other special achievement, and work-study. Partial funding for these awards derives from the Regents' Financial Aid Set-Aside from ABOR Policy 4-309, briefly described above.

Program Benefits: Tax Incentives – A tax credit is a dollar for dollar reduction in amounts owed to the government. A nonrefundable tax credit can reduce tax liability, but will not be returned to the taxpayer as cash. A deduction reduces the amount of a taxpayer's income subject to taxation. Since all the following tax incentives have income caps, these incentives do not benefit families with higher incomes.

Table 4 lists education-related tax incentives, which are mutually exclusive, except that both deductions can be taken simultaneously. Additionally, because these tax incentives decrease a family's tax payments and increase the family's available income, EFC calculations for the following year of financial aid will partially offset the benefits explained in *Table 4.*

Table 4

Education-Related Tax Incentives

Incentive	Description
Hope Tax Credit	A nonrefundable federal tax credit of up to $1,500 (the first $1,000 of tuition and mandatory fees plus 50% of the next $1,000) per eligible student; only at-least-half-time undergraduate students in their first 2 years of degree pursuit are eligible; households with earnings greater than $42,000 are subject to a lower maximum and households with income higher than $52,000 are not eligible.
Lifetime Learning Tax Credit	A federal tax credit of up to $2,000 (20% of the first $10,000 of tuition and mandatory fees) per return for virtually any postsecondary education or training; households with earnings greater than $42,000 are subject to a lower maximum and households with income higher than $52,000 are not eligible.
Student Loan Interest Deduction	A federal income adjustment of up to $2,500; households with earnings greater than $50,000 are subject to a lower maximum and households with income higher than $65,000 are not eligible; includes capitalized and voluntary interest payments, as well as interest payments on consolidated student loans.
Tuition and Fees Deduction	A federal income adjustment of up to $4,000 for households with earnings less than $65,000 or $2,000 for households with earnings between $65,000 and $80,000; households with earnings greater than $80,000 are not eligible.
State Tax Benefits	State tax calculations begin with Federal Adjusted Gross Income; an individual taking 1 or both of the deductions above would also benefit from those adjustments in state tax calculations.

Program Funding – ASU SFAO occupies a main office in Tempe, with supplemental staff residing at the east and west campuses in Mesa and Phoenix, respectively. The main office of NAU OSFA resides on the Flagstaff campus, with satellite offices in Phoenix and Tucson. UA OSFA is located entirely in Tucson.

Table 5 shows the FTE Positions, equipment purchases, and budgets of the financial aid offices themselves during FY 2003 and FY 2004. Collectively, the university financial aid offices staffed 117 FTE Positions. The universities spent $4.9 million on financial aid office operations in FY 2003, including $27,000 for equipment, and $5.3 million on operations in FY 2004, including $57,000 for equipment. The largest source of funding for each financial aid office is General Fund appropriations.

Table 5

Arizona University System
FY 2003 - FY 2004 Financial Aid Office Budgets

	ASU		NAU		UA		Totals	
	FY 2003	**FY 2004**	**FY 2003**	**FY 2004**	**FY 2003**	**FY 2004**	**FY 2003**	**FY 2004**
FTE Positions								
General	36.8	35.8	16.5	20.5	32.9	30.3	86.2	86.6
Other Appropriated	0	0	4.9	5.4	0	0	4.9	5.4
Non-Appropriated	11.1	11.4	0	0	0	0	11.1	11.4
Federal	0	0	2.6	2.9	12.8	11.0	15.4	13.9
Total FTE Positions	47.9	47.2	24.0	28.8	45.7	41.3	117.6	117.3
Equipment	$10,000	$25,100	$7,500	$14,500	$9,900	$16,900	$27,400	$56,500
Funding								
General	$1,297,600	$1,276,000	$ 734,900	$ 931,300	$1,395,700	$1,514,400	$3,428,200	$3,721,700
Other Appropriated	0	0	253,800	266,800	0	0	253,800	266,800
Non-Appropriated	467,500	529,800	0	0	0	0	467,500	529,800
Federal	245,300	246,800	136,700	143,700	355,100	375,700	737,100	766,200
Total Funding	$2,010,400	$2,052,600	$1,125,400	$1,341,800	$1,750,800	$1,890,100	$4,886,600	$5,284,500

Table 6 displays the funding sources for financial aid programs by university during FY 2003 and FY 2004. Overall university financial aid increased from $713.8 million in FY 2003 to $806.7 million in FY 2004. Of this amount, university institutional aid increased $49.8 million, to $284.6 million in FY 2004.

Meanwhile, *Table 7* illustrates the distribution of those same financial aid monies by student type and university during FY 2003 and FY 2004. Grants to resident undergraduate students increased $44.4 million to $175.3 million, while loans to the same group increased $13.0 million to $185.3 million. In the same period, grants to resident graduates increased $5.2 million to $19.7 million, while loans to the same group increased $16.7 million to $87.7 million. The universities themselves provided for most of the growth in grants.

Table 6

Arizona University System
FY 2003 - FY 2004 Financial Aid by Funding Source (thousands)

	ASU		NAU		UA		Totals	
	FY 2003	**FY 2004**	**FY 2003**	**FY 2004**	**FY 2003**	**FY 2004**	**FY 2003**	**FY 2004**
Federal Aid								
Federal Grants	$ 28,942.4	$ 33,406.9	$13,686.0	$14,349.0	$ 22,974.8	$ 19,087.6	$ 65,603.2	$ 66,843.5
Federal Loans	183,348.8	189,422.8	57,324.2	70,388.0	103,535.8	109,536.3	344,208.8	369,347.1
Federal Employment [1/]	2,136.3	2,077.5	1,097.6	897.3	2,911.2	2,409.0	6,145.0	5,383.9
Federal Subtotal	$214,427.5	$224,907.1	$72,107.8	$85,634.3	$129,421.7	$131,032.9	$415,957.0	$441,574.5
State Aid								
State Grants	$441.7	$456.6	$198.3	$193.1	$469.9	$318.9	$1,109.9	$ 968.7
State Loans	0.0	0.0	0.0	0.0	295.3	203.4	295.3	203.4
State Subtotal	$441.7	$456.6	$198.3	$193.1	$765.2	$522.3	$1,405.3	$1,172.1
Institutional Aid								
Institutional Grants	$ 42,619.8	$68,904.3	$19,397.8	$24,300.7	$ 39,295.2	$59,510.8	$101,312.8	$152,715.8
Institutional Loans	0.0	0.0	76.5	0.0	27.7	0.0	104.2	0.0
Institutional Employment [1/]	58,757.7	59,163.4	13,836.4	13,064.5	60,712.5	59,619.7	133,306.5	131,847.6
Institutional Subtotal	$101,377.5	$128,067.7	$33,310.6	$37,365.3	$100,035.4	$119,130.5	$234,723.5	$284,563.4
Private Aid								
Private Grants	$19,430.9	$19,714.7	$5,078.9	$5,442.0	$20,385.1	$31,281.5	$44,895.0	$56,438.1
Private Loans	10,177.2	12,863.0	1,470.0	1,858.7	5,209.2	8,193.3	16,856.3	22,915.0
Private Subtotal	$29,608.1	$32,577.7	$6,548.9	$7,300.7	$25,594.3	$39,474.8	$61,751.3	$79,353.1
Total	**$345,854.9**	**$386,009.2**	**$112,165.6**	**$130,493.4**	**$255,816.7**	**$290,160.5**	**$713,837.1**	**$806,663.1**

1/ The universities included graduate assistantships in their FY 2003 employment statistics, but excluded those positions from their FY 2004 employment statistics. Therefore, JLBC Staff assumed graduate employment amounts remained constant from FY 2003 to FY 2004.

Table 7

Arizona University System
FY 2003 - FY 2004 Financial Aid Distribution by Student Type (thousands)

	ASU		NAU		UA		Totals	
	FY 2003	FY 2004	FY 2003	FY 2004	FY 2003	FY 2004	FY 2003	FY 2004
Grants								
Resident Undergrad	$58,544.2	$ 81,993.3	$27,655.6	$33,557.1	$44,689.5	$ 59,719.1	$130,889.3	$175,269.6
Resident Grad	5,043.3	6,118.7	2,172.9	2,377.5	7,289.5	11,229.1	14,505.7	19,725.4
Nonresident Undergrad	21,415.4	28,943.5	7,354.1	6,946.5	16,250.8	19,785.9	45,020.4	55,676.0
Nonresident Grad	6,432.0	5,426.9	1,178.3	1,403.6	14,895.2	19,464.6	22,505.5	26,295.1
Grants Subtotal	$91,434.9	$122,482.5	$38,361.0	$44,284.8	$83,125.0	$110,198.8	$212,920.9	$276,966.1
Loans								
Resident Undergrad	$ 92,793.4	$101,908.6	$30,897.4	$35,399.6	$ 48,668.7	$ 48,016.6	$172,359.5	$185,324.8
Resident Grad	32,231.6	38,028.3	17,852.6	24,619.6	20,865.3	25,017.1	70,949.5	87,665.0
Nonresident Undergrad	55,751.9	47,818.4	7,054.3	8,435.5	28,811.4	32,060.0	91,617.6	88,313.9
Nonresident Grad	12,749.2	14,530.5	3,066.4	3,792.0	10,722.6	12,839.3	26,538.1	31,161.8
Loans Subtotal	$193,526.0	$202,285.8	$58,870.7	$72,246.7	$109,068.0	$117,933.0	$361,464.6	$392,465.5
Employment								
Resident Undergrad	$11,649.3	$11,996.7	$ 7,769.2	$7,070.5	$13,833.8	$12,527.8	$ 33,252.2	$31,595.1
Resident Grad 1/	12,819.5	12,819.5	3,135.1	3,135.1	11,607.8	11,607.8	27,562.4	27,562.4
Nonresident Undergrad	4,411.6	4,411.2	1,538.8	1,265.4	3,661.1	3,372.0	9,611.5	9,048.5
Nonresident Grad 1/	32,013.5	32,013.5	2,490.9	2,490.9	34,521.0	34,521.0	69,025.4	69,025.4
Employment Subtotal	$60,893.9	$61,240.9	$14,934.0	$13,961.9	$63,623.7	$62,028.7	$139,451.6	$137,231.5
Total	**$345,854.9**	**$386,009.2**	**$112,165.6**	**$130,493.4**	**$255,816.7**	**$290,160.5**	**$713,837.1**	**$806,663.1**

1/ The universities included graduate assistantships in their FY 2003 employment statistics, but excluded those positions from their FY 2004 employment statistics. Therefore, JLBC Staff assumed graduate employment amounts remained constant from FY 2003 to FY 2004.

Findings and Recommendations - JLBC Staff

JLBC Staff makes the following findings regarding the Student Financial Assistance program:

While the total cost of Arizona University System attendance increased by around $1,200 between FY 2003 and FY 2004 and growth in gift aid mostly covered that amount for low-income students, middle income students received an added $800 in gift-aid. Nearly 2,000 more low-income students and 3,000 middle-income students had additional net costs above their financial aid packages in FY 2004 compared to FY 2003. Due to changing data collection methodologies between the 2 years, JLBC Staff cannot offer accurate comparisons on how loans reduced student need. Furthermore, the lag of data compilation prevents JLBC Staff from yet conducting the same analysis for FY 2005 or FY 2006.

For FY 2004, ABOR began significant tuition increases. *Table 8* displays tuition and cost of attendance changes between FY 2003 and FY 2004. Although current tuition information for FY 2005 and FY 2006 exists, detailed financial aid information is not yet available. To allow for a more meaningful evaluation of financial aid changes in light of tuition adjustments, JLBC Staff chose to focus this study on the FY 2003 to FY 2004 period.

Between FY 2003 and FY 2004, tuition alone increased by at least $1,000 for every student, a nearly 40% increase for resident undergraduate students. Tuition rate growth accounted for the majority of cost of attendance increases at NAU and UA. However, tuition changes constituted less than half of cost of attendance increases at ASU, where room, board, and book prices inflated 10% between FY 2003 and FY 2004.

Table 8

Arizona University System
Cost of Attendance (COA) and Tuition by Student Type
FY 2003 to FY 2004

	FY 2004			FY 2003			FY 2004 - FY 2003 Change		
Student Type [1]	**ASU**	**NAU**	**UA**	**ASU**	**NAU**	**UA**	**ASU**	**NAU**	**UA**
Undergraduate									
Resident Tuition	*$ 3,595*	*$ 3,593*	*$ 3,604*	*$ 2,585*	*$ 2,585*	*$ 2,594*	*$1,010*	*$1,008*	*$1,010*
Off-Campus COA [2]	14,703	13,481	14,494	12,524	12,337	13,264	2,179	1,144	1,230
Commuter COA [2]	10,528	9,551	9,464	8,729	8,465	8,326	1,799	1,086	1,138
Non-Resident Tuition	*12,115*	*12,113*	*12,374*	*11,028*	*11,105*	*11,114*	*1,087*	*1,008*	*1,260*
Non-Resident COA	23,223	22,001	23,264	20,967	20,857	21,784	2,256	1,144	1,480
Graduate									
Resident Tuition	*3,795*	*3,793*	*3,854*	*2,585*	*2,785*	*2,594*	*1,210*	*1,008*	*1,260*
Resident COA	17,621	16,381	17,184	14,744	15,197	15,372	2,877	1,184	1,812
Non-Resident Tuition	*12,315*	*12,313*	*12,624*	*11,028*	*11,105*	*11,114*	*1,287*	*1,208*	*1,510*
Non-Resident COA	26,141	24,901	25,954	23,187	23,517	23,892	2,954	1,384	2,062

1/ Assumes undergraduate students are dependent and graduate students are independent. Also assumes students are more likely to live off-campus.
2/ Off-campus students are those who live in private housing separate from their legal guardians. Commuter students are those who live with their parents or relatives and travel to campus for their classes.

Although this study focuses on the changes between FY 2003 and FY 2004, subsequent tuition increases deserve mention. In FY 2005, although ABOR allowed different tuition rates for each university and each campus, resident student rates overall grew by around $480, or over 13% of resident undergraduate tuition. In FY 2006, resident undergraduate rates grew around an additional $350, or 8.5% of resident undergraduate tuition. In FY 2005 and FY 2006, nonresident tuition rates increased by greater amounts than those for residents.

Although total gift aid (grants, scholarships, and waivers) also increased between FY 2003 and FY 2004, the rate of growth was not sufficient to match tuition increases. *Table 9* displays information on resident undergraduate students with additional net costs for those years, including the average gift award they received.

Students have additional net costs, what the federal Education Department terms "unmet need," when their total financial aid package does not equal the difference between their cost of attendance and the expected family contribution (EFC). Generally, in the Arizona University

System, the EFC of resident families with household incomes up to around $82,000 may not reach the level of their students' cost of attendance. *(Please see Table 1 for a more thorough discussion of EFC.)*

Table 9

Arizona University System
Resident Undergraduate Additional Net Costs
FY 2003 to FY 2004 1/

	FY 2004				FY 2003				FY 2004 - FY 2003 Change			
	ASU	NAU	UA	All	ASU	NAU	UA	All	ASU	NAU	UA	All
Pell Recipients w/ Need Unmet by Gift Aid	8,528	3,405	5,358	17,291	7,436	3,429	4,475	15,340	1,092	-24	883	1,951
Average Gift Award ($) to Pell Students Above	5,868	6,078	5,676	5,850	4,512	5,068	4,419	4,609	1,356	1,010	1,256	1,241
Students with Unmet Need 2/	14,977	5,598	7,594	28,169	12,635	4,567	6,022	23,224	2,342	1,031	1,572	4,945
Average Gift Award ($) to Students Above	4,262	5,239	4,816	4,606	3,431	4,639	3,798	3,764	831	599	1,018	842

1/ The format and methodology of the ABOR Student Financial Aid Report changed between FY 2003 and FY 2004. JLBC Staff has made reasonable efforts to assure the comparability of data.
2/ "Unmet need" here means cost of attendance remaining after applying EFC, gift aid, subsidized loans, and federal work-study awards, but excluding unsubsidized loans, parent loans, other work, and other funding sources.

However, as an estimate, a student's cost of attendance does not necessarily reflect his actual expenses. The calculation may include costs borne by a household under any circumstance. For example, when a student lives at his parents' home, cost of attendance includes an adjustment for his share of living expenses, although his parents previously bore those costs unaided.

Nearly 2,000 additional Pell recipients' costs could not be covered by gift aid and nearly 5,000 additional students (including Pell recipients) had unmet need in FY 2004. Among resident undergraduates, Pell recipients are generally those students whose annual family household income is $23,000 or less. Average gift awards for Pell recipients grew by $1,240, roughly equaling the FY 2004 tuition rate changes. Therefore, the number of Pell recipients with additional net costs may have increased due to inflation in other costs of attendance. Average gift awards for all recipients (including Pell recipients) grew by $840.

To meet the over $1,000 tuition increase illustrated by *Table 8*, students had to use more loans and more work than in FY 2003. Unfortunately, due to changing data collection methodologies between the 2 years, JLBC Staff cannot offer accurate comparisons on how loans reduced student need.

Table 9 also suggests that the higher a student's family income, the more fully she must bear the cost of tuition increases. In FY 2004, the average gift award to all university system students with unmet need was $4,600, while the average award to Pell recipients with unmet need was $5,900. However, it is possible, as explained above, for resident families with household incomes up to $82,000 to incur additional net costs.

The universities do not collect information by income level nor EFC. However, the National Center for Education Statistics (NCES) did calculate nationwide average aid packages for FY 2004. For dependent undergraduates, although total aid amounts are similar for all income groups, higher income groups rely further on loans, work-study, and other means of financing, while more gift aid is available to lower income groups.

The universities do not collect information on graduate students with the same detail as on undergraduates. Therefore, JLBC Staff was unable to determine how recent tuition increases have affected affordability for that group. However, NCES reports, on a national level, that graduate students with higher incomes receive smaller aid packages overall than those with lower incomes.

The limited information currently available for FY 2005 suggests the trend of increasing unmet need has continued, although that result varies by campus. Considering the university system as a whole, total unmet need increased $164, or 3%, in response to 13% tuition rate growth. These increases occurred at NAU and UA, while ASU was able to decrease unmet need for its students by $195. The average gift award rose $380, compared to the $480 tuition increase.

While additional net costs and student debt levels appear to be rising due to tuition rate growth and other increases, under 50% of undergraduate students graduate with debt.

An examination of student indebtedness can also contribute to an understanding of the effectiveness of university financial aid policies. *Table 10* illustrates changes in student debt between FY 2003 and FY 2004. These statistics vary widely among the universities. Additionally, the information below does not consider students who planned to enroll, but could not gather the financial means to do so.

Regarding the university system as a whole, the percentage of undergraduate students with debt increased 2.3% as the average amount of debt increased almost $120. Meanwhile, the debt effect of tuition increases on graduate students was mixed. The percentage of students in debt decreased 3.3%, but the average amount increased by more than $3,000.

Table 10

Arizona University System
FY 2003 to FY 2004 Student Indebtedness [1/]

	FY 2004				FY 2003				FY 2004 - FY 2003 Change			
	ASU	NAU	UA	All	ASU	NAU	UA	All	ASU	NAU	UA	All
Undergraduate Students [2/]												
% with debt	45.2%	49.5%	46.8%	47.2%	44.4%	53.9%	40.9%	44.9%	0.8%	-4.4%	5.9%	2.3%
Average Debt ($)	17,270	17,901	16,012	17,061	16,954	16,334	17,340	16,943	316	1,567	-1,328	118
Graduate Students [2/]												
% with debt	35.3%	30.0%	43.4%	36.2%	35.7%	45.1%	40.2%	39.5%	-0.4%	-15.1%	3.2%	-3.3%
Average Debt ($)	33,150	31,904	32,961	32,672	29,858	23,330	36,314	29,638	3,292	8,574	-3,353	3,034

1/ Indebtedness here means amounts borrowed through any student loan programs, including federal, state, subsidized, unsubsidized, and private programs, but excluding parent loans.
2/ This table considers resident and non-resident students together.

Overall, a majority of students have not incurred academic debt. Systemwide, 47.2% of all undergraduates owe for their educations. This percentage does not vary substantially among the different universities. Those undergraduates with debt have an average of $16,000 to $18,000 in outstanding loans.

Again, these trends continue in the limited available FY 2005 data. Among resident undergraduates, 244 additional students took on debt. The average amount of debt increased by $181, or 4.6%.

Two other statistics often used to assess the effectiveness of student financial aid packages are debt upon graduation and the alumni default rate for student loans. However, the effect of recent Arizona University System tuition changes will take many years to impact these measures.

Financial aid packages for undergraduate resident students met 65% of average costs after EFC in FY 2004, while packages for undergraduate nonresident students met 53% of average costs after EFC. The average aid package for nonresident students is larger, due to the higher cost of nonresident tuition.

Table 11 compares the FY 2004 financial aid situation for resident and non-resident undergraduates. There are fewer non-residents overall (19,100 compared to 52,400 residents) and a smaller percentage of those students (32% compared to 50% of residents) with demonstrated need. However, the percentages of non-residents awarded any aid and whose needs are fully met are very similar to those for residents. The universities awarded some aid to 98% of resident undergraduates with need and 96% of non-residents with need. Additionally, for 13% of all residents with need and 10% of all non-residents with need, the universities provided sufficient financial aid packages, when combined with EFC, to meet students' total costs of attendance.

Table 11

Arizona University System
FY 2004 Undergraduate Resident versus Non-Resident Financial Aid

	Resident				Non-Resident			
	ASU	NAU	UA	All	ASU	NAU	UA	All
Students w/ Need Awarded Aid	12,959	5,058	7,512	25,529	3,220	740	1,931	5,891
as % of students w/ need	100.0%	98.6%	95.5%	98.4%	100.0%	98.9%	89.9%	96.3%
as % of undergraduate enrollment	48.5%	55.9%	45.1%	48.7%	33.9%	37.3%	25.5%	30.9%
Students w/ Need Fully Met As % of Students w/ Need	7.6%	24.6%	12.9%	12.6%	8.0%	21.4%	10.1%	10.4%
Average Need ($)	12,561	10,695	10,629	11,607	16,109	13,546	14,776	15,327
Average Aid Package to Students w/ Need	7,741	7,822	7,038	7,534	7,960	8,770	7,757	8,162
as % of average need	61.6%	73.1%	66.2%	64.9%	49.4%	64.7%	52.5%	53.3%

The average need of non-resident undergraduate students, at $15,300, was higher than the need of resident undergraduates, at $11,600. However, the average aid package to non-residents, at $8,200, was also higher than the average package for residents, at $7,500. These award amounts represent 53% of non-resident need and 65% of resident need.

The universities did not provide information allowing a specific comparison of gift aid between the 2 groups. However, in FY 2003, the average debt burden for resident undergraduate students was $17,200, while the load for non-resident undergraduates was $15,500. In FY 2004, NAU and UA reported average debt amounts of roughly $17,000 for both resident and non-resident undergraduate students. At ASU, the average FY 2004 debt burden for resident undergraduates was $20,000, while the load for non-resident undergraduates was $16,900.

At over $7,500, the average FY 2004 Arizona University System aid package finances more than double the amount of resident undergraduate tuition. Whether a particular package meets a certain student's need depends on a wide variety of possible living arrangements and financial circumstances. Thus far, a lack of university information on aid by income level prevents further analysis.

For comparison, *Table 8* above displays tuition information, while *Table 11* above shows the average aid package to students with need. However, these broad averages obscure a distribution by income level that provides more total aid, and specifically more gift aid, to lower-income students. *(Please see Table 9.)* Without data at this level of detail, true determinations of unmet need are not possible.

Federal and state tax incentives partially reduce student need. Future financial aid reports should acknowledge the different incentives available to defray educational costs.

While federal tax incentives provide families some additional resources to meet higher education expenses, the state universities cannot provide any information on how families use such benefits in practice. Since students with unmet need in the statistics above did continue their university educations, it is likely their families utilized tax incentives to some extent to close this gap. However, JLBC Staff does not have any data on how actual tax benefits compare to unmet needs.

For example, the Hope Tax Credit can provide up to $1,500 (the first $1,000 plus 50% of the next $1,000) per eligible student during the first 2 years of degree pursuit. Meanwhile, the Lifetime Learning Tax Credit offers up to $2,000 (20% of the first $10,000) for virtually any postsecondary education or training. These credits apply to households with incomes below $52,000. Please see *Table 4* above for a more thorough discussion of education-related tax incentives.

The use of tax incentives in a particular year factors into EFC calculations in the subsequent year. While these situations do not result in a dollar-for-dollar increase to EFC, and a corresponding decrease in demonstrated need, JLBC Staff has no specific information on the magnitude of these effects.

Financial aid data compiled by ABOR and its universities are insufficient for state policy purposes. Especially lacking is information on aid by income level and on graduate students. JLBC Staff recommends that its office and OSPB work with ABOR to expand the current Student Financial Aid Report and to ensure more timely reporting.

For its FY 2004 Student Financial Aid Report, ABOR adopted the use of the Common Data Set, a nationwide initiative spearheaded by national college ranking organizations to standardize financial aid comparisons among the nation's institutions of higher learning. While this effort is commendable, the resulting report remains inefficient for state policy purposes, especially in its lack of information for graduate students and by income level. Additionally, JLBC Staff believes that financial aid details for the past fiscal year should become available before November of the current year.

JLBC Staff recommends expanding the annual financial aid report. This report should examine students grouped by education level, residency, and income level, addressing average cost of attendance and delineating average aid package components together in order to provide a complete financial picture for defined "sample" students.

Findings and Recommendations - OSPB

College affordability can be severely impacted by the lack of investment of State funded financial aid despite rising tuition costs and increased student enrollment. According to a 2004 report published by the National Association of State Student Grant and Aid Programs (NASSGAP), Arizona is ranked in the bottom five of all of the states in state aid. At the high end, New York provides $959 million and in the low end, Wyoming allots $163,000. In Arizona, when the college costs of a 4-year public university could represent up to 46% of a poor family's income (average of $26,000), and 56% of all student aid is made up of loans; the issue of affordability is crucial. Affordability extends beyond whether there are sufficient monies available, but to the question of whether college costs in relation to income are a psychological barrier, and whether the benefits of one's college education exceed the long-term debt of student loans. For low-income families, total college costs, including room and board, in Arizona (even though tuition in Arizona is one of the lowest in the country) can still be obstacle. Sufficient financial aid acts as a numbing factor, in that, while the total dollar amount is high, the net cost to the family can be managed. When financial aid (non-loans) is insufficient, students of all income levels must rely on debt (either individual or parental debt.) According to a report from the Committee for Economic Development, in 2000, 65% of students earning a bachelor's degree borrowed an average of $19,300. For students who choose careers that do not have huge future income potential (teaching, social work, etc), the debt associated with their advance degree can be burdensome. Oftentimes, parents themselves do not have sufficient resources or the credit worthiness to enter into debt for their student's college education (they may still be paying their own student loans back).

Arizona students attending the three public universities are eligible for a variety of federal, state, institutional, and private financial aid programs. These programs provide financial aid in the form of grants, loans, and work-study (see table 2 – 3). In addition, there are a number of educational tax incentives (see table 4). These programs are generally prioritized based on financial need; however, some funding is reserved for donor-specific or academically meritorious students. State funding for financial aid is limited to:

- Arizona Financial Aid Trust (AFAT) – monies collected from tuition surcharges representing 1% of full-time resident student tuition and 0.5% of part-time resident student tuition. Fifty percent of these monies are invested in a permanent financial aid endowment, with the remaining fifty percent to be distributed to needy or minorities. In FY 2006, the State appropriation was equal to $2.2 million with an estimated program distribution total of $6.2 million.

- Leveraging Educational Assistance Program (LEAP) – a partnership between the federal and state government and state institutions. LEAP is administered through the Arizona Commission for Postsecondary Education and provides grants to low income students so that they may attend any accredited Arizona postsecondary institution. In FY 2006, the total amount of LEAP monies available in Arizona is estimated at $3.4 million, with $1.2 million from the State General Fund.

- Board of Medical Student Loans – provides loans to medical students based on need. These students agree to practice in state's medically underserved areas one year for each year of support in return for loan forgiveness. Loan funding in FY 2006 is equal to $296,600 from fees collected from Arizona Medical Board. In addition, beginning in FY 2006, scholarships will be available to students attending either public or private medical schools in their first and second years. These students are then obligated to serve in the State's medically underserved areas one year for each year of support. In FY 2006, the total appropriation for the scholarship program is equal to $1.5 million.

- Private Postsecondary Education Student Financial Assistance Program (PFAP) – state monies that provide tuition vouchers for qualified community college graduates who enter private postsecondary educational institutions within Arizona. In FY 2006, the state appropriation is equal to $170,900.

These three state funding sources represent less than 1% of the financial aid distributions from federal, state, institutional, and private sources. This contribution amounts to approximately $2 dollars were student as compared to states such as Indiana, where the amount is closer to $600.

The issue of affordability is impacted by a State's failure to invest; federal and institutional monies are allocated generally in the same fashion annually. These monies by themselves can sustain only moderately the needs of students (many students have unmet needs). State dollars "fill in the gap" and allow more opportunities for students to attend college at very little present or future cost.

Arizona's lack of state funding shows a limited commitment to financial aid for Arizona's universities' students, particularly those with insufficient financial means. In addition, it puts pressure on institutions to generate aid through tuition set-asides and loans, which are clearly less attractive options. This perspective is shortsighted since the economic benefits to the State are immense; increased tax collections, decreased unemployment, less dependence on public assistance programs, and more active civic participation. The cost of reaping these benefits should be shared equally among all entities that benefit, including the State.

Recommendation - OSPB Staff recommends that the Financial Aid program be retained, with the following provisions:

- Increase financial aid contributions for needy students through existing State programs. In her FY 2006 Executive Budget Recommendation, Governor Napolitano recommended $2.2 million additional monies for the AFAT program. This proposal would have doubled the State's current investment and brought the total state contribution closer to a $1 for $1 match with student contributions.

- Expanded scholarship opportunities through portable financial aid, or monies that follow the student. This allows the student the highest level of accessibility to higher education (not limited to affordability but to academic program and geographical concerns). This extends to any postsecondary institution, whether it is public or private university or community college.

- Create new programs using a workforce development model based on the premise of providing aid as a means of targeting students to enter high demand professions, such as teaching or nursing, using the Board of Medical Schools model of loan forgiveness or scholarships in return for time spent practicing in Arizona's underserved areas. This serves to fill the gap in a broad manner not only in geographic distribution (rural or urban centers), but also to the needs of the overall employment market.

- Evaluate the value of a state sponsored work-study program in collaboration with the business community. The private sector has its difficulties in managing a lagging labor force and can benefit from a partnership with public universities, to recruit students to attain the necessary technical skills to address the needs of the 21st century workforce. This partnership can be accomplished through summer employment, corporate sponsorships, loan forgiveness, and or guarantee of a job post graduation.

- Expand on-campus employment opportunities. This benefits universities who have a guaranteed workforce, but provides the student added funds to support the cost of their education (living costs), beyond incurring debt through student loans. Given that transportation is also often an issue for needy students, on-campus employment provides significant incentive. An intangible benefit is the attainment of personal responsibility that can be gained through financial self-sufficiency, and a debt-free post-graduation experience.

- Target new funds to the low to middle income students who fall within the gap where they do not qualify for need based aid, nor are they eligible for merit aid. These students depend in large part on debt, since the pool of donor specific scholarships is modest.

Financial Aid opportunities can be more effectively used as marketing tools to provide access for underserved, low-income minority populations. For many of our low-income minority youth, access to higher education seems to be an insurmountable goal. Beyond the financial and academic considerations, many of our minority youth are first generation immigrants and the first in their families to attend college. For many students, the act of applying to college and completing the Free Application for Student Aid (FASFA) form for financial aid is daunting enough to deter them from the pursuit of a postsecondary education. In the case of public universities, improving access takes form in student outreach programs in partnership with the K-12 system to encourage students to pursue higher education. The act of validation that occurs when information is brought to the student (versus requiring the student to inquire) can provide the introduction necessary for a prospective student to feel connected and remain interested in a postsecondary career track. In many cases, outreach replaces the lack of peer or parental guidance, community resources and inequalities in the K-12 schools (such as qualified teachers or guidance/career counselors).

In general, there are many types of outreach programs: community based; university based; K-12 partnerships, private non-profits; and state sponsored. However, experts agree that students are best reached if the intervention occurs early in their educational career. That is mostly discussed as it related to early education and providing students opportunities to learn. However, the model of early intervention in reaching younger students can be an invaluable tool for ensuring at risk populations access to higher education. The types of activities associated with outreach usually involve academic enrichment, college and career counseling, parental involvement, and orientations to financial resources available to cover higher education costs.

Recommendation - OSPB Staff recommends that the Financial Aid program be retained, with the following provisions:

- Encourage postsecondary institutions to allocate resources to promote the availability of financial aid starting in middle school for disadvantaged low socio-economic students who are likely to dropout.

- Create a statewide collaborative outreach program that align through the P-20 Council, Board of Regents, Community College Boards, the K-12 community, the State Board of Education, and the Arizona Department of Education that ensures that access to financial aid reaches all geographical areas of State, especially rural and isolated areas through partnerships with community colleges, tribal colleges, K-12 schools, and the business community. Other outreach activities within the program can be to build a clearinghouse of all financial aid data, organize one shop family assistance, expand College Goal Sunday sites, create mentor programs that bring college students into at risk K-12 classroom to expose students to benefits of higher learning, organized training seminars for guidance counselors, provide financial training to low middle income students and families regarding educational debt.

- Concentrated expansion of Arizona’s 529 savings plan through tax incentives to promote saving for college costs.

Postsecondary educational institutions struggle to maintain a fair and equitable balance in using limited financial aid resources to attract meritorious students to maintain quality

educational standings and making the investments to motivate at risk student populations into higher education. Promoting access and affordability in higher education continues to be a priority of policymakers across the country. The benefit of a more educated and informed citizenry is priceless; not only from an economic perspective and international competitiveness, but for the overall betterment of the individual as it relates to his/her role in the society. The major concern regarding access centers around perceived gaps in participation and the linkage to socioeconomic status. This apprehension is based on the belief that the contributors to the decision to attend college are linked to "academic preparation, family, peer influences, and socio-cultural factors." All of which are generally understood to be adversely affected by low socioeconomic status.

As a result, the goal of financial aid in higher education institutions has historically been focused on providing opportunity to those students with the greatest financial need. The reasoning is that college attendance is negatively impacted by cost, or the "financial barrier", and those students with more economic need are at greater risk of non-participation. Studies have shown that enrollment by low-income students and the cost of tuition have an inverse relationship. Through need-based aid, the "playing field" is equalized to allow for greater affordability for students from less privileged socioeconomic backgrounds. Most federal financial aid programs continue to favor needy students, such as the Pell and the SEOG. It is important to note, however, that despite this focus, many student with low means have unmet financial need and must either borrow and/or work to support the cost of attaining their education.

However, over the last ten years, there has been a shift in attention placed on the use of merit scholarships by public college and universities. Merit based aid is generally awarded for unique talents and achievements in academics, athletics, and the arts. However, there are many bright students who would not have thought to plan for college until they receive notice of possible scholarship opportunities. There are many cited reasons why schools are motivated to increase merit aid opportunities. The first reason is to encourage more high school students to attend higher education institutions. Financial assistance of any type promotes access and merit aid can overlap with need based aid to compensate the "best and the brightest" students with more economic need. Second, the promise of attending college tuition free serves as dramatic incentive to students to strive for academic excellence. Third, merit aid, in large part, can address the issue of "brain drain", and encourage the most academically proficient students to attend in state. The effect of retaining the State's most talented individuals preserves potential future research and development opportunities, as well as retention beyond their degree attainment and into the State's workforce. While studies have not proved conclusively that merit aid serves the overall good since most students who would be eligible for this type of aid are likely to go to college, it is still politically attractive. In addition, when merit aid is attached with some responsibility of service, it is generally well received by the taxpayers.

Recommendation - OSPB Staff recommends that the Financial Aid program be retained, with the following provisions:

- Statewide funding strategy adopted by Board of Regents for prioritization of need based and merit based financial assistance.

According to the 2002-2003 Student Financial Aid Report:

- 72% of all aid dollars distributed to financially needy students
- 48.2% of scholarship dollars awarded to needy students
- 38.6% of waiver dollars awarded to needy students
- 38.3% of on-campus employment dollars earned to needy students

In FY 2004, as part of the Changing Directions initiative, tuition was increased by $500 per semester, and the Regents set-aside was increased to fourteen percent (14%). In FY 2004, the Arizona University System awarded $152.7 million in institutional grants (includes Regents Set Aside, Grants, Scholarships, and Waivers). Arizona Board of Regents policy dictate that at least fifty percent (50%) of undergraduate aid be distributed based on financial need, thirty percent (30%) on merit, and the remaining is discretionary. Additionally, $132 million was allocated to on campus employment (does not include federal work-study).

Several states have state merit scholarship programs, with a majority funded through state lottery revenues. In Georgia, the Helping Outstanding Pupils Educationally (HOPE) scholarship is the largest merit aid program in the country. Eligible students with “B” averages attending public and private colleges in Georgia receive a fixed scholarship amount to be used for tuition, fees, and books. In addition, grants are provided to students who attend non-degree or technical/vocational schools, without consideration of a minimum high school grade point average. Since its inception in 1993, the HOPE scholarship has distributed over $2.0 billion dollars to Georgia students. Other states such as Kentucky, and New Mexico have implemented similar programs driven by minimum grade point average and ACT/SAT score criteria.