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# STRENGTHENING THE PARTNERSHIP

A Survey of Proposed Higher Education  
Funding Solutions

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## About the Author



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# INTRODUCTION

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Over the last 35 years, state appropriations that provide general support for colleges and universities have failed to keep up with rising enrollment and costs. Even though total contributions have remained the same in some states, on a per-student basis, average funding dropped a whopping 24 percent from 1989 to 2014.<sup>1</sup> In an effort to fill this void and maintain access for low- and middle-income students, the federal government has increased the share it contributes toward the cost of higher education. But these additional funds have only partially made up for eroding local support, and the federal response has done nothing but encourage state disinvestment. Students and families have been left to cover shifting costs by taking on more debt. The numbers are all too familiar: while states have continued to cut funding for higher education, tuition has more than doubled in 25 years, and average student loan debt for college graduates reached an all-time high of \$28,590 in 2014.<sup>2</sup>

In February, we released *Starting from Scratch: A New Federal and State Partnership in Higher Education*,<sup>3</sup> a proposal that suggests a way to reverse these trends. But we are hardly the first to address this challenge. Over the last three years especially, other Washington, D.C. think tanks, higher education thought leaders, President Barack Obama, and 2016 presidential hopefuls have all offered their own proposals to address the rising costs shouldered by students and their families. While these plans agree that any policy

solution must begin by stemming the tide of state disinvestment, they differ widely on how this goal ought to be achieved.

A thorough survey of these ideas, and an analysis of points of convergence and divergence, helps put our proposal into context and also provides a roadmap for future discussion. We reviewed eight plans from the following individuals and organizations: the American Association of State Colleges and Universities (AASCU), the Center for American Progress (CAP), Demos, the Education Trust (Ed Trust), Hillary Clinton, the Obama Administration, Sen. Bernie Sanders, and the State Higher Education Executive Officers Association (SHEEO).

While *Starting from Scratch* [**See: Our Plan for Funding Higher Education**] draws on the important groundwork that these proposals have laid, our plan attempts to go farther. Rather than layering fixes onto a fundamentally flawed framework, we put forth a comprehensive restructuring of the higher education funding system. This choice marks the most significant departure from other proposals, which try to find a solution within the existing structure. While there are many good reasons to work within the current system—foremost among them, political feasibility—we instead sought to find the most thorough solution to the problem of diminishing college affordability even if this means our goal might be difficult to realize. In order for our plan to work, we concede that it must all be implemented at once. Others opt for a more

## Our Plan for Funding Higher Education

### ***Starting from Scratch: A New Federal and State Partnership for Higher Education, New America<sup>4</sup>***

**The Goal:** Eliminate the gap between what families can afford to pay for college as defined by their federally calculated Expected Family Contribution and the net price that they are inevitably asked to pay.

#### **Eligibility Requirements:**

- **For States:** States would be required to match 25 percent of the federal contribution. As an additional safeguard, they must maintain per student funding as an average of the previous five years.
- **For Institutions:** Both public and private colleges and universities would be able to participate at the state's discretion. Institutions must work with the state to cover any unmet need not covered by public dollars, which we anticipate being particularly relevant at high cost institutions. Institutions must eventually work to enroll at least 25 percent of their student population from a low-income background in order to be eligible.
- **For Students:** Students from any economic background are eligible to receive a subsidy. Students and families must contribute what they can according to their EFC.

**The Formula:** A federal formula would be based on the unmet need of full-time equivalent students enrolled with different levels of family income at participating institutions. The formula would thereby operate as a sliding scale in which families with the lowest-income generate the greatest funding, but middle- and higher-income families will still prompt the federal government to contribute some additional funds to each eligible state. Funding would be adjusted annually to account for changes in attendance. For those states that contribute above and beyond the required 25 percent, the federal government would provide a 50 percent bonus match on every additional dollar.

**Outcomes Requirements:** The US Department of Education would work with stakeholders to establish minimum graduation rates and other accountability outcomes, which would gradually be phased in as requirements for continued institutional eligibility.

**Estimated Federal Cost:** \$38.6 billion per year above current spending on higher education. In addition to allocating new funds, the costs of the partnership would be covered by redistributing the Pell Grant program, and eliminating federal student loans and all higher education tax credits.



traditional approach by offering policy change that could be introduced in whole or in part. As such, while we suggest a complete system overhaul, we do agree with many of the discrete recommendations offered by the other plans.

To situate New America's vision for a new federal-state partnership for higher education within the policy landscape, an overview of the proposals that preceded our own will provide insights into how and why we arrived at certain decisions along

the way. We begin with a brief summary of each plan, below, and follow with an evaluation of how each addresses several important questions. These questions include whether a new system ought to be designed around direct institutional support or a voucher model; how to address the burden of student debt; whether to include private institutions in a new funding scheme; how targeted or simple any new plan ought to be; which students should benefit; and what expectations there should be for states, institutions, and students to receive funding.

# THE POLICY LANDSCAPE AT A GLANCE

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## *A Proposed Federal Matching Program to Stop the Privatization of Public Higher Education, American Association of State Colleges and Universities<sup>5</sup>*

**The Goal:** Encourage greater state investment in higher education.

### **Eligibility Requirements:**

- **For States:** AASCU frames its proposal around the role of Maintenance of Effort (MOE) provisions. The authors contend that maintenance of effort requirements have been effective at changing state behavior, but as designed, they come with unintended consequences. Traditional maintenance of effort provisions, which simply mandate that a state hold the same level as the previous year, can either reward states with low investment or punish those who have invested a lot. As opposed to previous MOE funding efforts, this federal matching program would be indexed to the maximum Pell grant on a per-full-time equivalent (FTE) student basis. States that provide FTE funding between 50 and 150 percent of the maximum Pell Grant would be eligible for a block grant.
- **For Institutions:** There are no requirements for colleges and universities. While funding only for students attending public colleges and universities would be used when calculating the federal match, states receive block grants that they can spend however they wish.
- **For Students:** There are no additional requirements for students and families.
- **The Formula:** Funding for states would be awarded according to a five-tier formula, where states are sorted into quintiles and compete for higher tiers. The five-tier system would be calculated on a marginal basis so only those dollars that exceed the amount required for the next lower tier would be matched at the higher rate. For example, if a state invests \$4,250 per student, it would receive a 25 percent match from the federal government on the first \$4,249 and a 40 percent match on each extra dollar that it spends above the first tier. The federal block grants would provide an increasing level of funding for the state investment, with the peak federal match at 60 percent for every state dollar. Sample tiers fall out like this:

**Table 1: AASCU’s Formula for the Federal Block Grant**

$$\text{State Per Full-Time Equivalent (FTE) Student Funding for Public College and University Operating Support} \times \text{Marginal Federal Match Rate Based on State Per-FTE Student Funding as a Percentage of the Pell Grant Maximum Award} \times \text{State FTE Student Enrollment} = \text{Federal Block Grant Award}$$

	State Per FTE Student Funding as a Percentage of the Pell Grant Maximum Award (\$5,550)	Federal Match Rate
	Below 50% - No Federal Award	
<b>Tier 1</b>	Between 50 - 76.5% [\$2,775 to \$4,249]	\$ .25
<b>Tier 2</b>	Between 76.6 - 95% [\$4,250 to \$5,269]	\$ .40
<b>Tier 3</b>	Between 95 - 109% [\$5,270 to \$6,063]	\$ .50
<b>Tier 4</b>	Between 109 - 131.7% [\$6,064 to \$7,312]	\$ .60
<b>Tier 5</b>	Between 131.7 - 150% [\$7,313 to \$8,325]	\$ .10
	Above 150% - No Additional Federal Award (Match Rate Capped)	

Source: Adapted from American Association of State Colleges and Universities, *A Proposed Federal Matching Program to Stop the Privatization of Public Higher Education*, January 2014, page 10.

In tier 5, the match would drop to 10 percent in order to be fiscally efficient. Only state funding for direct operating support would be included, so state funding for grant aid, capital outlays, deferred maintenance, research, and development would not count toward the state investment. AASCU believes this plan would correct problems with former MOE formulas since states would be held to a common standard, not one relative to previous spending. The plan does acknowledge that there could be gaming near the margins, where states may decrease enrollment to be eligible for a higher tier.

**Outcomes Requirements:** AASCU’s proposal makes no demands on states or institutions outside of their funding obligation. But any state that reduces per-FTE student funding would lose a full dollar of federal match for every dollar in state reduction.

**Estimated Federal Cost:** The first year, it would cost approximately \$10.6 billion. The cost of the program would be capped at \$15 billion, which is the equivalent of 25 percent of current state funding for higher education. AASCU would pay for the plan through a combination of efforts. Savings would be derived from keeping bad actors from participating in the Title IV program and more generally reducing student aid fraud, as well as changing higher education tax benefits, though the specifics are unclear. These funds would be supplemented with new federal allocations.

## ***A Great Recession, a Great Retreat: A Call for a Public College Quality Compact, Center for American Progress<sup>6</sup>***

**The Goal:** Encourage greater state investment in higher education and prevent families from turning to private loans or Parent Plus loans to finance their education.

### **Eligibility Requirements:**

- **For States:** To participate in the Public College Quality Compact, states must first provide per-student funding equal to the maximum Pell award for any given year. For the 2014–15 school year, this equaled \$5,730. As a second minimum requirement, states must ensure that students do not need to take out more than the annual undergraduate federal student loan limit at public colleges to cover the cost of attendance.
- **For Institutions:** Only public colleges and universities would be eligible for additional funding, and they must meet state-specified performance measures.
- **For Students:** Student responsibility in the partnership goes undiscussed.

**Funding Formula:** After meeting these two initial eligibility requirements, states would receive federal grants using a formula that distributes 90 percent of available funding using the number of Pell Grant and GI bill beneficiaries enrolled at public colleges in the state, the number of Pell grant and GI beneficiaries that can afford to meet educational expenses without loans, and the number of Pell grant and GI beneficiaries receiving degrees. The remaining 10 percent would be set aside as bonus funding and would be administered through a competitive grant program intended to allow states to experiment with ways of improving student outcomes.

**Outcomes Requirements:** Once eligible, states would have the choice of increasing per-student funding by 10 percent over three years or working with institutions to lower costs. To protect against runaway spending at colleges, the combined federal-state investment per student would not need to exceed the total cost of attendance at any given institution. If states choose to lower costs and not to invest more, they would need to also demonstrate the ability to maintain quality, although it is unclear exactly how they would be expected to do so. After receiving the federal grant, states would be required to disburse money to public colleges based on performance criteria, but states would be free to determine the specific form that these metrics take.

**Estimated Federal Cost:** CAP offers no cost estimate. The federal-state partnership would be paid with new dollars derived from tax revenue.

## ***The Affordable College Compact, Demos<sup>7</sup>***

**The Goal:** Reduce unmet need for low-income students by ensuring that they pay a share of household income for college that is no more than high-income students pay; also, make higher education debt-free for students from low- and middle-income families.

### **Eligibility Requirements:**

- **For States:** States would be eligible to receive a federal matching grant if the amount they appropriate for their public colleges and universities exceeds the revenue that institutions derive from tuition in a given year. The total contribution from low-income families in a given state cannot exceed the percent of

discretionary income required of a high-income family to attend a public two- or four-year college in the state. Demos notes that this equals 21 percent nationally, but state averages vary. States must maintain funding levels at an average of the previous two years per student FTE. In order to be eligible for a second tier of funding, states must also commit to debt-free college for students from families with annual incomes below 300 percent of the poverty line, and they must create state mechanisms for refinancing or forgiving student debt.

- **For Institutions:** Only public colleges would be eligible, and they must maintain or increase current enrollment levels of Pell-eligible students. States and institutions must both publish better data about student outcomes.
- **For Students:** The plan sets out to address affordability only for low-income families who occupy the bottom quintile of income within a given state, and middle-income students who are within 300 percent of the national poverty line.

**The Formula:** Demos would implement a two-tier, federal matching system. In the first tier, states that halt disinvestment and meet the requirements listed above would be eligible for a 20 percent federal match. In the second tier, states that commit to debt-free college for middle-income students would be eligible for a 60 percent match. Demos also includes a 40 percent bonus match for every dollar spent above the minimum per-student funding levels averaged from the previous two years.

**Outcomes Requirements:** There are no specific requirements for institutions with regard to improving student outcomes. Given the high bar set for state eligibility, there are also no particular expectations aside from the plan's initial eligibility requirements.

**Estimated Federal Cost:** \$29.5 billion if all 26 currently eligible states increased funding by 1.4 percent. If all states became eligible, this figure would presumably rise to an estimated \$60 billion.

### ***Doing Away With Debt: Using Existing Resources to Ensure College Affordability for Low and Middle-Income Families, Education Trust<sup>8</sup>***

**The Goal:** Provide debt-free college for low-income students and interest-free loans for middle-income students at qualifying public or private colleges.

#### **Eligibility Requirements:**

- **For States:** States would be required to place all students into a mandatory college-prep curriculum in high school and spend at least as much on higher education as the average amount they spent over the previous five years. States are expected to work to improve transfer policies between colleges and create a consumer-choice tool for students to compare different colleges.
- **For Institutions:** States and institutions would communicate multi-year tuition levels to students at entry so they are not surprised by changing tuition each year while enrolled. Institutions could receive funds towards the no-loan and no-interest loan guarantees only if they meet performance benchmarks on indicators such as enrollment and graduation of Pell recipients, and overall graduation rates.
- **For Students:** Students must complete a two-year degree within three years and a four-year degree within six years, after which point they lose eligibility for further funding. They must also attend school full time, work or volunteer ten hours per week, complete college- and career-ready course work in high school, and contribute what their families can afford towards college costs.

**The Formula:** For families earning up to \$50,000 per year, the federal-state partnership would reduce the net price for students to an amount equal to or less than their Expected Family Contribution (EFC) calculation. Students from families with an annual income between \$50,000 and \$115,000 would be eligible for no-interest loans. States opting in would receive funding based on the percentage of children living in poverty; state performance on measures of access, outcomes, and affordability for low-income students would also dictate funding levels. States would have to spend at least 80 percent of these funds on higher education but could spend the remainder on secondary education. Students in states that opt out of the plan could attend school in a different state, and those states would be compensated for absorbing low-income, out-of-state students.

**Outcomes Requirements:** There are no explicit outcomes measures outside of the eligibility requirements.

**Estimated Federal Cost:** \$24 billion using existing funds, derived from eliminating the Supplemental Educational Opportunity Grant (SEOG) program, subsidized federal loans, the American Opportunity Tax Credit (AOTC) and Lifetime Learning tax credits, the student loan deduction, and tax-free facility bonds. Savings would also come from introducing income limits for 529 plans, education IRAs, and parental tax exemptions for college students above the age of 19.

## ***New College Compact, Hillary Clinton<sup>9</sup>***

**The Goal:** Improve college affordability for all students regardless of income by reducing or eliminating what families must pay for tuition.

### **Eligibility Requirements:**

- **For States:** States must ensure that students can attend public four-year colleges without taking on debt to pay tuition, and public two-year colleges without paying any tuition at all. States would need to halt disinvestment and increase funding by an undisclosed percentage over a period of time. States that reduced costs for living expenses would be eligible for bonus funding.
- **For Institutions:** Both public and private colleges would be eligible for additional funding under separate parts of the plan.
- **For Students:** Families would need to contribute an amount equal to their EFC calculation, and students would need to work at least ten hours per week.

**The Formula:** Funds would be distributed based on the number of low- and middle-income students enrolled in public colleges and universities within the state. While only public institutions would be eligible under the primary plan, private institutions with small endowments, including minority serving institutions, would be eligible for a separate pot of money. The plan would address growing student debt by reducing interest rates and making Income Based Repayment universal. The New College Compact would also permanently extend the American Opportunity Tax Credit, which is set to expire in 2017, in an attempt to help families who are paying for college.

**Outcomes Requirements:** There are no explicit outcomes measures outside of the eligibility requirements, although the proposal does broadly mention efforts to raise graduation rates for students and ensure that schools are preparing students to pay their student loans.

**Estimated Federal Cost:** Additional \$35 billion per year in new appropriations.

## ***America's College Promise, President Obama***<sup>10</sup>

**The Goal:** Eliminate tuition at community college for students who meet certain criteria, regardless of income.

### **Eligibility Requirements:**

- **For States:** States must align requirements in high schools, community colleges, and four-year institutions to reduce the need for remediation.
- **For Institutions:** The promise of tuition-free community college applies only to programs that directly transfer to four-year colleges or to training programs with high graduation rates and in fields that are in high demand. Schools would be required to implement evidence-based reforms to improve student completion.
- **For students:** To be eligible, students must attend school at least half time, maintain a 2.5 GPA while in college, and make satisfactory academic progress (SAP).

**The Formula:** Federal funding would cover no more than 75 percent of costs, with states contributing the remaining 25 percent. All participating states would be required to contribute matching funds, but those that already invest more and charge students less can contribute smaller amounts. The proposal does not explicitly state exactly how much more a state must invest in order to provide less than a 25 percent match or what this amount would be held relative to. States must at least maintain current levels of investment in higher education, and must allocate a significant portion of funding based on performance and not just enrollment. States will have some flexibility to use resources to expand programs of study, improve affordability at four-year public universities, and improve college readiness.

**Outcomes Requirements:** Institutions must maintain unspecified, high graduation rates, and students must continue to meet SAP requirements in order to receive funding.

**Estimated Federal Cost:** \$6 billion per year, paid with new revenue.

## ***College for All, Senator Bernie Sanders***<sup>11</sup>

**The Goal:** Eliminate college tuition for all students at public universities and reduce interest rates on federal student loans.

### **Eligibility Requirements:**

- **For States:** States must commit to providing tuition-free college for all students at public colleges and universities. They must also maintain funding for instruction costs on a per-FTE basis at the same level as the prior fiscal year. States must maintain or increase need-based financial aid allocations.
- **For Institutions:** Only public universities would qualify for additional funding under the plan.
- **For Students:** Students must contribute the amount they are able toward college costs. Only in-state students are eligible for free tuition.

**The Formula:** The federal government would provide 67 percent of the necessary funding, and states would have to provide the remaining 33 percent. Student loan interest rates would be prohibited from ever rising

above 8.25 percent. Current borrowers could refinance existing loans to take advantage of more favorable interest rates. The plan would also increase funding for the federal work study program.

**Outcomes Requirements:** Funding for this program may not be spent on administrator salaries, merit-based financial aid, or the construction of non-academic buildings, including student centers. Seventy-five percent of faculty must be tenure track within five years of states receiving funding.

**Estimated Federal Cost:** \$47 billion per year, paid for through a “Robin Hood tax” on Wall Street, which would specifically introduce a 0.5 percent tax on stock trades, 0.1 percent tax on bonds, and 0.005 percent tax on derivatives.

## ***Moving the Needle, State Higher Education Executive Officers (SHEEO)***<sup>12</sup>

**The Goal:** Reduce the price at public colleges for those who fall within 200 percent of the poverty line [\$48,000] by a flat \$4,000 per student.

### **Eligibility Requirements:**

- **For States:** The proposal does not offer any traditional maintenance of effort requirements, but would limit tuition growth for all income groups at public colleges by prohibiting it from rising faster than inflation.
- **For Institutions:** Only public colleges and universities would be eligible.
- **For Students:** To shift the conversation towards college completion and not just college access, SHEEO would require that low-income students be enrolled full time in order to be eligible for a subsidy.

**The Formula:** The federal government would provide a dollar-for-dollar match to states up to \$2,000 per student for families with annual incomes less than \$48,000. These additional funds are intended to supplement the Pell program. Once a college’s net price reaches an affordability threshold for students who fall below the 200 percent poverty line in any given institutional sector (public two- or four-year), the federal government would eliminate the state matching requirement and would instead provide a federal block grant for the total combined amount of up to \$4,000 per student. SHEEO defines this affordability benchmark by using the current terms of Income Based Repayment. An affordable net price for low-income students would therefore be equal to or less than 15 percent of the median discretionary income for a family in that state multiplied over ten years.

**Outcomes Requirements:** States receiving block grants that have met the affordability threshold in a given sector would need to demonstrate progress toward completion goals for low-income students.

**Estimated Federal Cost:** \$5.4 billion, to reduce costs by \$4,000 per low-income student.

**Table 2: Policy Landscape at a Glance**

	New America	AASCU	CAP	Clinton	Demos	Ed Trust	Obama	Sanders	SHEEO
<b>Goals</b>									
Encourage additional state funding for higher education	✓	✓	✓	✓	✓	✓	✓	✓	✓
Debt free tuition or debt free college for certain students	✓			✓	✓	✓			
Reduce interest rates on federal loans for certain students				✓		✓		✓	
Free tuition at public 4 year colleges								✓	
Free tuition at public community colleges				✓			✓	✓	
Reduce net price for low-income students									✓
Reduce net price for all students			✓						
<b>Formula Design</b>									
Federal matching grant based on state contribution		✓			✓		✓		✓
Federal formula funding tied to number of low-income families in the state				✓		✓			
Federal formula funding tied to low-income student enrollment			✓	✓					
Federal formula funding dependent on amount required to meet net price goals for students	✓							✓	
<b>State Eligibility and Outcomes Requirements</b>									
Maintenance of effort requirements relative to previous years' state funding	✓		✓		✓		✓	✓	
Affordability indexed to percentage of family incomes within the state					✓				✓
Minimum state funding indexed to maximum Pell Grant		✓	✓						
Maximum net price students pay indexed to federal student loans			✓						
States must align K-12 and/or college curriculum requirements						✓	✓		
States must continue to either increase funding or lower costs after becoming eligible			✓						

	New America	AASCU	CAP	Clinton	Demos	Ed Trust	Obama	Sanders	SHEEO
<b>Institutional Eligibility and Outcomes Requirements</b>									
Must enroll a certain percentage of low-income students	✓					✓			
Must meet some student outcomes and completion goals	✓		✓	✓		✓	✓		✓
Only public institutions are allowed to participate			✓		✓		✓	✓	✓
<b>Student Eligibility</b>									
Must be enrolled full-time						✓			✓
Must be enrolled at least half-time							✓		
Must work at least part-time				✓		✓			
Need to complete degree within 150 percent time						✓			
Only low-income students are eligible for new subsidy									✓
Students must make Satisfactory Academic Progress (SAP)							✓		
Minimum GPA requirement							✓		
<b>Paying for the Program</b>									
New appropriation	✓	✓	✓	✓	✓		✓	✓	✓
Reform Title IV to eliminate fraud and abuse		✓		✓		✓			
Eliminate or reduce tax credits	✓	✓				✓			
Eliminate subsidized federal student loans	✓					✓			
Eliminate unsubsidized federal student loans	✓								
Redistribute Pell grants	✓								

# IMPLICATIONS

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## **Provide direct support to institutions or maintain a voucher system for students?**

Each of these plans begins by first acknowledging that the current federal financial aid system has not done enough to ensure that college is accessible and affordable for all students. Many of these plans recognize that states and institutions often supplant their own funding, rather than supplement it, with the federal student aid dollars they receive, leaving low-income students heavily indebted. Our proposal is similar to most of the plans, as it would strengthen the federal and state partnership with the aim of halting state disinvestment and making it easier for students to afford college.

Unlike our plan, however, these proposals would erect their solutions on top of the existing federal student aid system. Understandably, many of the groups and policymakers offering these plans are reluctant to eliminate the Pell Grant program, which is the primary source of federal aid for low-income students. And while most proposals seek to limit or eliminate the need for federal borrowing, none actually suggests getting rid of the federal student loan program altogether.

Of the other plans, ours comes closest to Ed Trust's in design. That plan would create a new federal and state matching grant program that would provide enough funding to make college debt-free for low-income students. Middle-income students would remain eligible for federal loans

but would not have to pay any interest on this debt. In addition to restructuring and shrinking the federal loan program, Ed Trust would eliminate the Supplemental Educational Opportunity Grant (SEOG) program, which provides additional aid to Pell Grant recipients and other students with "exceptional" financial need. The rest of the federal student aid programs, including Pell Grants, would remain in place.

Our plan takes a slightly different approach. We start from the premise that the federal student aid system is broken, forcing low-income students to take on unmanageable levels of debt. The current programs do not make any demands on states and colleges, and instead allow them to undermine the federal government's efforts by redirecting their aid dollars to wealthier students. To truly make college affordable and accessible, we decided to start from scratch. We contend that the current higher education system built on direct student aid is incompatible with a new federal-state partnership. Maintaining a voucher-based funding system would absolve states of their funding responsibility and undermine the important role that they must play in holding institutions accountable.

The bifurcated higher education funding stream put forth by other plans may not be enough to rebalance the amount states, the federal government, and families contribute. Many universities may be inclined to reject new direct institutional funding if it also comes with tighter regulations around the way their students fare on campus and beyond. And

given that the flow of federal student aid vouchers would remain largely intact, colleges would be in a financial position to act on this threat by opting out of the partnership. Instead of adding more complexity onto a fundamentally flawed system rife with perverse incentives, our plan would absorb all existing sources of federal student aid and redirect them into state support for higher education. By controlling the flow of dollars directly and streamlining support to colleges, federal and state governments would be better able to keep costs down for students and hold schools accountable for how well they serve their students, especially those from low-income families.

### **Limit debt or eliminate loans altogether?**

Every proposal for a new federal-state partnership focuses on limiting student borrowing, and many offer different ways to stem the growth of student debt. Still, none of the other plans would completely eliminate the federal loan system. Under the current framework, increasing access to student loans and implementing greater protections around them makes a lot of sense. Student loans provide many students with much-needed capital to pursue the first step on the path to and through college. In our plan, however, loans of any kind would be largely unnecessary. A few of our peers propose only debt-free tuition in their plans, while others eliminate borrowing just for low- and middle-income students. Several proposals try to ease the burden on students, who would still need to take out loans with promises of interest-free debt. These efforts may do something to ease the load on today's borrowers. But merely tinkering with the amount borrowers must eventually repay does too little to correct the fundamental problem of students being expected to take on large sums to pay for college.

Maintaining federal student loans even as an option would provide a further incentive for states to opt out of the partnership. Offering federal student loans on top of the federal vouchers, which all of the plans preserve, may release states from the political pressure necessary for them to hold up their end of the bargain. Under many of these plans, the

maintenance of effort provisions and the percentage by which states would be expected to increase spending would be significant. In light of these hefty funding prescriptions, states would have every incentive to opt out and carry on business as usual, cutting higher education budgets and shifting the financial burden to families.

Loans, like vouchers, would also erode any new accountability measures tied to the new funding. Since colleges could circumvent the partnership with revenue from loans, students who want to attend a school that opts out may have even less of a guarantee that their investment will pay off. Furthermore, institutions would have little reason to carefully weigh costs and operate more efficiently, given that their access to student credit would remain virtually untouched.

Sanders' plan would try to mitigate the negative incentives that federal loans introduce by explicitly dictating how institutions can spend any new aid awarded under his proposed federal and state partnership. Since Sanders would require that new funding only be used on core academic expenses, his plan sets out to curb wasteful institutional spending. But we believe that the only effective way to prevent schools from frivolously raising the price students pay, to ensure better outcomes for students, and to guarantee active participation in the partnership, is to cut their reliance on easy credit completely. Most students under our plan will not have to take out loans because we would eliminate unmet need for everyone regardless of whether they are low-, middle-, or high-income.

We anticipate that eliminating the federal student loan market will require some students to take out private loans to attend institutions that opt out of the partnership or for families whose EFC misrepresents their actual capacity to pay. To safeguard these students, we would add a number of consumer protections to private loans, such as making this debt dischargeable in bankruptcy. We would also implement a system under which students could appeal the amount the government says they can afford to pay by submitting documentation of unevaluated hardship.

## **Include all colleges in the plan or only public colleges and universities?**

Each proposal here grapples with which institutions should be able to participate in the federal-state partnership that it creates. Most of the plans, like the ones offered by CAP, Demos, and SHEEO, would provide additional subsidies only to public colleges and universities. Since these proposals preserve the existing student aid system, they would not threaten the existence of private nonprofit and for-profit colleges, although they would disadvantage them.

In our proposal, we recognize that the difference between private and public institutions has largely begun to dissolve. Virtually all institutions are public, given the subsidies that already flow through their doors. We propose not only reversing the trend in which public colleges and universities have become more privatized by restoring states' general operating commitments, but we also suggest that private institutions should be held more publicly accountable for the subsidies that they receive. Given private institutions' dependence on federal student aid, eliminating this system would have serious implications for their viability. Therefore, we decided that private institutions should be able to participate as long as they meet the same requirements as public colleges and cover all students' need that is not met with federal and state dollars. We anticipate that some high-cost institutions will have a difficult time meeting these requirements. These institutions will need to find a way to reduce costs or raise private funds to cover students' need if they wish to remain eligible.

## **Keep the plan simple and universal or less simple and more targeted?**

All of the plans agree that something needs to be done to rein in the cost of college for students and families, but from there two distinct approaches emerge. There are those proposals that favor a universal, simple solution, even if this means that financial aid would not necessarily be well targeted to those who need it the most. There are others that take the slightly more complex approach of directing limited funding specifically toward low-

income students. In general, the universal plans have originated from political campaigns that promise tuition-free college like the plan offered by Sanders. Similarly, Obama and Clinton have both offered plans that would provide matching grants to states that commit to eliminating tuition and fees for students at community colleges, regardless of their income.

While free tuition proposals make good sound bites, they are poorly targeted and address only part of what students have to pay. Most proposals from the policy community, including the one we offer, would instead require states and institutions to work with the federal government to lower the total net price that students pay. Since net price is the amount students contribute for all related out-of-pocket expenses after any grant aid is subtracted—not just tuition but also room, board, books, child care, and other living expenses—these proposals more accurately address the financial barriers to pursuing a degree. But they also tend to be more targeted and have a sharper focus on helping low- and middle-income students, given the relatively lower emphasis placed on political appeal. While these proposals as a group are somewhat more complex compared to free tuition proposals, some are simpler and better-targeted than others.

The plan offered by SHEEO may be the simplest proposal from the policy community in design and objective. Its goal to reduce costs by a maximum of \$4,000, provided through a dollar-for-dollar federal-state match, would be targeted to low-income students. At the opposite end of the spectrum, AASCU offers a complex, five-tier system indexed to the Pell Grant. But this plan would not be as well targeted as some others, given that the group sets no requirements on how (and on whom) states spend the additional funding.

## **Who should the plans help?**

As part of a broader discussion around how targeted any new system of federal student aid ought to be, each proposal sets forth different aims for which students should be eligible for a new subsidy. As previously mentioned, many focus on stemming the amount that low-income families pay. But some

plans also include provisions to help middle-income families, primarily by lowering the cost of federal student loans. Only a few of the proposals focus on the amount of money that all students should be expected to contribute toward the cost of college. Given that limiting aid to low-income students may have unforeseen consequences for other families in the state, and recognizing that college has become unaffordable for students from even middle-income backgrounds, we opt to include every student's need in the way any new aid would be distributed.

**Leaving middle-income families to pick up shifting costs may not only have adverse policy implications, but it may make plans focused solely on low-income families less politically viable.**

A few proposals offer very specific definitions for who should be eligible for an additional subsidy, defined as a percentage relative to the poverty line, typically no more than 200 percent, or \$50,000 in annual income. While limiting additional aid to only low-income students ensures that those with the greatest financial need are covered, these plans do not offer any help to middle-income students who are struggling. The income thresholds proposed by those plans impose a sharp funding cliff that would deny aid to students with family incomes just a few hundred dollars over the limit. This already happens with the current way financial aid is allocated, with unfortunate consequences. Including an income eligibility cliff in these plans would not only continue to disadvantage these students, but it may worsen their plight. If states and institutions are required to provide higher subsidies to low-income students, they may shift costs to middle-income students, making college even more expensive for them.

Leaving middle-income families to pick up shifting costs may not only have adverse policy implications, but it may make plans focused solely on low-income

families less politically viable. Even though our plan sets out ambitious goals that will be tough to realize in today's gridlocked political environment, our inclusive vision of affordability could make the plan more enticing for politicians, who care a great deal about the interests of middle-income voters.

## **What is affordable?**

In design, many of the plans begin by setting out affordability benchmarks to determine what students should eventually be expected to pay out of pocket. In all these proposals, federal student loan debt naturally constitutes a major focus in the discussion. As a result, some proposals build their vision of affordability around current student debt policies. But suggestions like the one offered by the Center for American Progress to limit the net price for all students at the annual federal borrowing limit, and other plans' promises of debt-free college for low-income students, or interest-free debt and debt-free tuition for all students, could be insufficient. Loan limits, which have been somewhat arbitrarily set and have risen at the behest of powerful institutional interests, could prove to be an ineffective ceiling on net price.

Like other proposals, we emphasize a "pay what you can" definition, using a percentage of families' incomes to arrive at a measure of affordability. For Demos, this involves limiting what a low-income student must pay for college to the percentage of income required of families in the top quintile within a given state. For SHEEO, this percentage would be derived from the terms of Income Based Repayment, 15 percent of discretionary income over 10 years, to dictate how much a family should be expected to pay. Both these approaches make certain assumptions about college affordability that may have limitations. First, states with large low-income populations would be helped less by a policy that caps their contribution at the percentage required of the top quintile if the highest earners in that state are relatively less wealthy than the national average. This could lead to a regressive policy where residents of poor states are asked to contribute a larger share of their income. Simply making the percentage of income that a student must pay equal to his neighbors may promote

equality, but it does not necessarily mean that the price is equitable or affordable. Secondly, using the terms of Income Based Repayment to define affordability would largely maintain the status quo. Given that IBR was meant to provide relief to struggling borrowers in the current system (and some do not feel that it achieves this objective), a benchmark that relies on this measure may not go far enough in evaluating the appropriate share that families should pay under a new partnership.

To keep it simple and to avoid these issues, we chose an existing measure that demonstrates a family's financial capacity to cover the cost of college. We believe that an affordable net price should be equal to the amount a family can contribute according to its federally-calculated EFC. In this way, our plan resembles those offered by Ed Trust and Clinton. But where Ed Trust only uses EFC as a measure for families in the lowest-income bracket, and Clinton only uses EFC to limit the amount families contribute toward tuition, we believe that EFC should be the amount students at any income level pay toward the net price of college.

### **How should states and institutions be held accountable?**

Some, but not all, proposals include new accountability standards as a requirement for more funding. The eligibility and outcomes requirements on which states, institutions, and students would be evaluated differ significantly. Almost all of the plans would require institutions to enroll a certain percentage of low-income students and maintain reasonably high graduation rates. Several also require students to attend full time to help raise completion rates. In general, measuring the return on the additional federal investment does not constitute a major focus of these plans. But that omission is not surprising, given that the core goal of the proposals is to lower costs for students.

Some proposals, like AASCU's, make no demands on states or institutions. The association's plan would offer block grants to states based solely on FTE funding, and states could then spend that money however they wish. On the other end of

the spectrum, Ed Trust and Sanders offer specific instructions for how the additional funding ought to be spent. Some of the things that Ed Trust would mandate include a requirement for states to formulate a "return on investment" consumer tool for students to compare various college-level courses of study and to improve course transfer policies. Ed Trust would require states to create a college- and career-ready course, which students would need to complete in order to be eligible for a subsidy under the plan.

Our proposal would provide a balanced approach to measuring outcomes. We would give states a fair amount of flexibility to enforce outcomes measures as long as their institutions meet a few shared goals around access and completion.

### **How much would it cost?**

Given the sustained attention that college costs have received in the 2016 presidential election and the large sums that have been proposed by Clinton and Sanders to address the problem, the cost and benefit of each plan must be considered seriously. The estimated total cost of these plans to the federal government ranges from \$1 billion to \$75 billion per year. The estimated federal cost of our proposal, \$38.6 billion above current spending levels, makes it one of the most expensive. But in return for our large investment, the plan would achieve a great deal by increasing institutional accountability and ensuring that all Americans can afford the cost of college. Many other plans attempt to keep costs marginally lower than our proposal. In doing so, they sacrifice any guarantee of achieving their aims, despite proposing large allocations. Spending billions of dollars should buy something lasting, not a quick fix that may only create other issues.

To pay for the new federal-state partnership, the plans are divided between their reliance on existing funding streams and new funds derived from taxes. Some propose streamlining existing funding, and better targeting it to low-income students and the institutions that serve them. Others would appropriate new funding. We propose a combination of both approaches.

# CONCLUSION

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Each of these plans takes a different route to the shared goal of reconfiguring the way that states, families, and the federal government pay for higher education. Subtle decisions around what should be done about the current system of grants and loans, who should benefit under a new federal-state partnership, and whether to make a plan simple or targeted come with important implications for the success of this effort. More important than what separates these plans is what unites them. Aside from any disparities in design, all plans, including our own, converge around the common notion that states must be reinstated as a primary partner in financing higher education. If the federal government wants to make college more affordable

for families, these plans agree that it cannot continue backfilling states' fiscal retreat solely with direct student aid.

The federal student aid programs were designed in a different era. The Pell Grant Program, created in 1972, has helped millions of low-income students pursue a higher education. But the federal financial aid programs are no longer working. Grants, loans, and tax credits are insufficient for ensuring college access, affordability, and completion. While all the plans may not agree on a single solution, they all acknowledge that the federal government can no longer do this job alone. States and colleges must do their part too.

**The federal financial aid programs are no longer working. Grants, loans, and tax credits are insufficient for ensuring college access, affordability, and completion.**

## Notes

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