DRAFT: *Prepared by David Longanecker and Sarah Leibrandt, 6/6/16*

Making College Affordable in South Dakota
Using the Concept of Shared Responsibility
To Redesign State-Funded Financial Aid Programs

In June 2016, the South Dakota Financial Aid Task Force (FATF) neared the end in its work in designing a new approach to providing state based financial aid in South Dakota. This proposal has been designed to ensure that South Dakota state policy assures that any citizen of the state who wishes to attend college will be able to afford to do so. That doesn't mean that it will be easy or inexpensive, but that it will be possible. Through the combined efforts of the student, her or his parents (or spouse if she or he is married), the federal government, the public and private institutions in South Dakota, and the State, South Dakota residents will be able to rest assured that college is affordable in their state.

This new design is intended to provide a more contemporary approach to providing state financial aid to students than exists under current policy. This is not intended to denigrate past or current efforts, but simply to reflect shifts in funding, demographics, and attitudes that have occurred in South Dakota and the U.S. over time and to develop a policy framework that provides a stronger nexus between today's federal financial aid policies and South Dakota's current institutional appropriations and tuition policies and its state financial aid policy and practice. To accomplish this, the paper begins with a brief discussion of past financial aid policies in the nation, then describes current financial aid practices, and concludes with a description of the shared responsibility concept that would be imbedded in the new South Dakota Shared Responsibility Design for paying for college, if the FATF's proposal is accepted as South Dakota state policy.

The Past.

Historically, particularly in the Western United States, it was generally perceived that the best way to assure affordable access to higher education was to keep tuition low. This strategy worked well for quite a while. In great part this was because most people who attended college came from middle-class/middle-income families, which meant that they could afford to pay modest tuition and the other costs associated with attending college – room and board, transportation, books, etc... Although this approach to finance worked reasonably well for students attending low-priced public institutions, it clearly never worked for students attending higher priced private colleges and universities, so it was within the private sector of higher education the benevolent concept of need-based financial aid evolved. Students from families that could not afford the higher price of private education, but whom private institutions wished to enroll, were provided financial aid. And to avoid capricious behavior between institutions, the private higher education community, through the College Board (then known as the College Entrance Examination Board) developed a standard way of assessing financial need.

Low-tuition, at least as the primary avenue to affordable access to public higher education, began to erode in the 1960s as more and more Americans, particularly students from low-income families, sought to attend college. It became clear that although low tuition made it appear as though college was affordable to most folks, the other real and substantial costs of attending college – room and board, books, transportation, etc. – often presented an absolute barrier to financial access for many prospective students from low and moderate income families. As the egalitarian spirit rose in America, so too arose the interest in providing need-based financial aid to ensure that all students who wished to attend college could do so. As a result, the philosophy that had guided the concept of assisting needy students in private higher education began to seep into public higher education at both the federal and state level. This spirit led to a major federal thrust in this direction with passage of the original Higher Education Act (HEA) in 1965. The Higher Education Act, through the State Student Incentive Grant (SSIG) program, also enticed many states, including South Dakota, to begin providing state need-based grants to students.

The Present.

The difficult financial circumstances facing most states over the past few years, exacerbated both by the resource constraints resulting from two recessions, including the great recession of 2008, and by the exceptional demands for greater resources for various publicly financed activities such as state provided medical expenses and education (elementary/secondary and higher education), has forced South Dakota, like many other states, to essentially abandon its practice of charging low-tuition in public institutions of higher education. This was not an intentional philosophical shift on the part of the state, but simply a necessary move in order to continue providing the level of resources deemed necessary for the State's institutions to sustain the quality of higher education, resources the State of South Dakota couldn't afford to provide. To help moderate the potential impact of these increases in the price of college, South Dakota increased the amount of financial aid provided to its students. It created a quite substantial state based merit scholarship program known as the Opportunity Grant program, and more recently began a modest Need Based grant program, as well. In addition, the state created the Build Dakota award for students pursing post-secondary vocational programs and the Dakota Corps award for students pursing critical need occupations such as teaching and nursing. The dilemma for South Dakota, however, is that its state programs have been very modest, compared to the increases in costs to students and their families. Furthermore, the state programs have not been designed to intentionally take full advantage of the federal financial aid programs. And so, the net effect is that higher education affordability has eroded substantially in South Dakota, most dramatically for those students from families with low and moderate incomes.

Another factor has contributed to the erosion in support for financial aid, both within South Dakota and throughout the country: the philosophy under-girding support for financial aid since the 1960s has become stale and simply does not fit the public policy environment in the twenty-first century. The original purpose of such aid – to assist "needy" students – remains as germane today as it has ever been. The concept of need itself has become so diffuse and has expanded to include such a large share of the population that it has less clarity in the more financially and politically conservative environment of America today. Perhaps even more importantly, the failure of past approaches to recognize the value and thus responsibility of the student to contribute both financially and in performance does not fit well the current focus on both access and success. As price has increased and aid has not kept pace, affordable access in South Dakota has eroded. As a result, many current students and their families lack the resources to truly "afford" college, and thus are making monumental efforts, through loans and work, to attend college. Yet such efforts often impede these students' likelihood of success in college. And many other South Dakota residents would like to attend college but simply can't afford to do so. To restore affordability and assure access to quality education in South Dakota in the future will require a sounder concept of financial aid than currently exists.

The Future – A Philosophy of Shared Responsibility.

The basic premise of the Shared Responsibility Concept is that assuring affordable higher education, from a public policy perspective, requires many partners to share responsibility for assuring college affordability. In addition to recognizing that there are various legitimate partners in paying for college, the Shared Responsibility Concept also recognizes explicitly that the full ***cost of attendance*** must be taken into consideration, not just tuition costs, when determining whether or not college is affordable. Specifically, the FATF recommends that the model be built on a ***frugal budget***, determined to be the average of the three lowest costs of attendance among the regents institutions ($19,767) and the average of the two lowest costs of attendance among the technical institutes ($15,568) (See Appendix 1). Five partners legitimately *share responsibility* for financing the costs of attending college – the student, the student's parents or spouse, the federal government, the State, and the institution the student is attending. Throughout this proposal, we provide visual representations of what this model would look like for students living at 133% of the federal poverty threshold. We include five categories: dependent students, independent students who are married and have kids, independent students who are married without kids, independent students who are not married and have kids, and independent students who are not married without kids.

The Student Expectation. The first partner in this shared partnership is the student, who, after all, is the principle beneficiary of the education being received. With pecuniary returns on a college education now exceeding, on average, more than $1 million for a baccalaureate degree and about one-third that amount for an associate degree (relative to a high school diploma), it is entirely appropriate to expect that the student will accept responsibility for a reasonable portion of her or his own education. Furthermore, the student's responsibility comes in two forms. First, the student must put forth a serious effort to achieve the education. Second, the student must be willing to help finance the costs of the education.

The South Dakota Financial Aid Task Force recommends that all South Dakota students should be expected to contribute to their education a reasonable amount from ***both working and borrowing***. FATF recommends that the same amount from current earnings be expected from all students enrolled in 12 or more credits hours per semester, regardless of whether they attend a technical institute or university. The amount – $5,814 (in 2016 dollars, to be adjusted by the Consumer Price Index annually – represents 80 percent of the amount a student can earn working 15 hours per week for 30 weeks while in school and full-time for 10 weeks while not in school in a job that pays minimum wage as defined by South Dakota. Research indicates that most students enrolled full-time can handle 15 hours of work per week without jeopardizing their academic pursuits. FATF recommends, however, that students from technical institutes be expected to borrow less, only $2,000 per year, than students attending a university, who would be expected to borrow $4,000. There are two rationales for this differentiation. First, the cost of attendance at the technical institutes is less than at a 4-year institution and FATF felt it was prudent for there to be a cost of choice, albeit an affordable one. Second, the returns on investment for a bachelor's degree are greater, on average, than for an associate degree or certificate, so the graduate can afford somewhat higher student debt. The $4,000 per year expected of university students, accumulating to between $16,000 and $20,000 reflects a debt level that research has shown is a manageable debt load for baccalaureate holders, even those with relatively low wage/high value jobs like teaching and social work. Furthermore, it is a lower debt load expectation than the average student actually experiences today in South Dakota.

The net result of these expectations is that full-time students at technical institutes would be expected to contribute $7,814 (2016 dollars) annually toward the costs of their education compared to an expected student contribution from work and borrowing of $9,814 for full-time students enrolled for 15+ credit hours attending a university. This amount would be increased proportionately for students enrolled less than full time. This combined student expectation represents roughly 50 percent of a frugal budget for students in both the 2 year and 4 year institutions (see Figure 1). Appendix 1 illustrates how student contribution increases as enrollment status decreases.

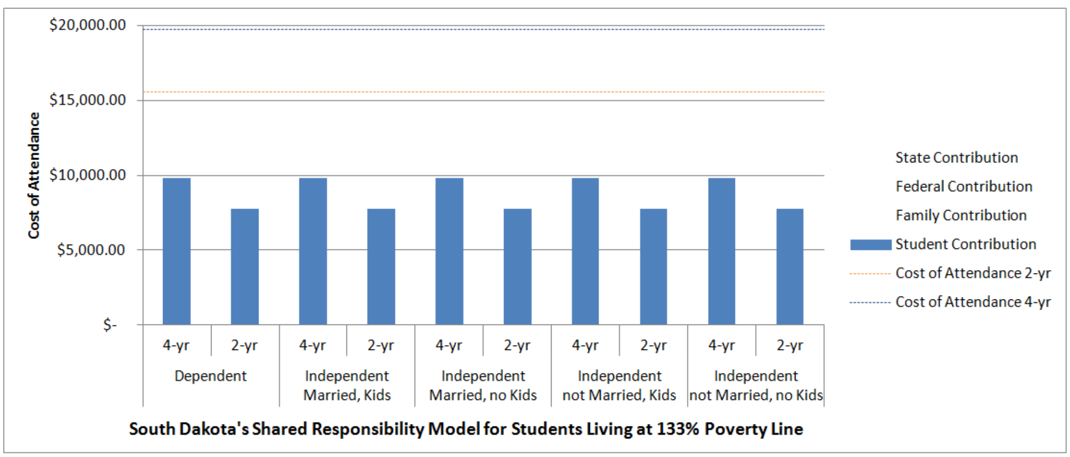

Figure 1. Student Contribution.

It should be emphasized that this concept of shared responsibility is a guiding philosophy, not a mandate. As a philosophy, it will inform and guide the state investment in financial aid as well as provide financial aid officials within the institutions with a valuable philosophy to use in advising students.

As a philosophy and not a mandate, however, it does not require students to work and borrow as expected. For example, they may choose to work more so that they don't need to borrow or vice versa. One particularly attractive element of the concept is that it also allows students to use other assets that they have earned or acquired, like external scholarships, savings, gifts, etc., to offset their student contribution. Treating scholarships and other financial awards as part of the students' contribution, rather than as an offset of the State's responsibility, has two positive effects. First, it rewards students appropriately for accepting their responsibility to prepare and perform well academically. Second, it provides a positive incentive for civic and philanthropic partners to provide student assistance, which they can be assured will benefit the individuals they seek to assist and not simply substitute for public support.

Recognizing the public benefit provided by private colleges and universities to South Dakota, the FATF proposes that a student attending a South Dakota private university would receive the same level of aid as a student attending a public University.

While this sounds like a hefty student expectation, and in fact is, it is both reasonable and defensible. The proof of this is that it would provide a substantial increase in financial aid to students with assessed need and the borrowing expectations would be far less than students, on average, borrow today.

The Family's Expectation. After the student, the parents of a dependent student, or the spouse if a student is married, should clearly accept responsibility, to the extent that they can, for educating their child or mate before they expect others to do so from tax-supported public funds. Clearly, families differ greatly in wealth, so their capacity to help varies greatly. But to the extent possible they should be expected to contribute. Recent changes in federal law increase the incentive for parents to save for their children's college education through state savings and tuition prepayment plans, further reinforcing the ability of parents to meet this responsibility. The Shared Responsibility model recommended by the FTAF assumes that the expected parental/ spousal contribution will be the same as the amount determined from the federal financial aid needs assessment (see Figure 2).

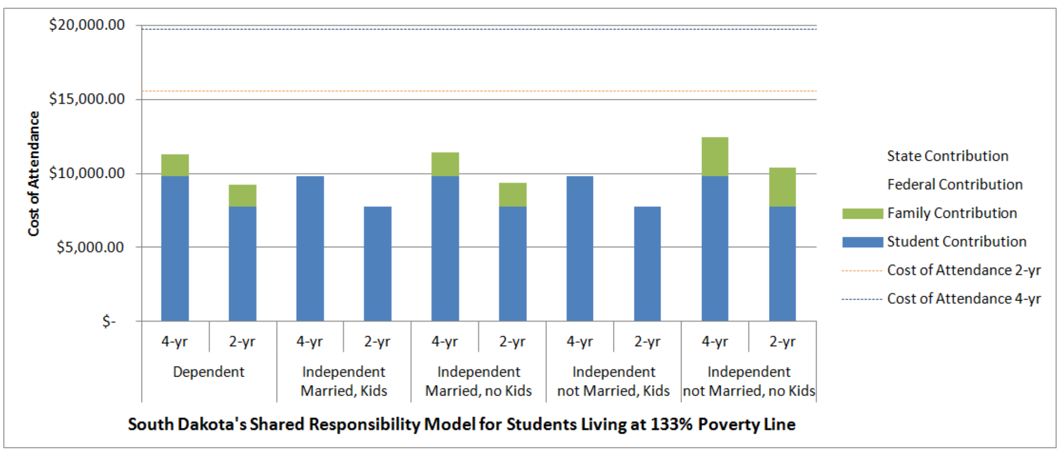

Figure 2. Student and Family Contributions.

Unfortunately, some parents refuse to accept their responsibility, which impedes the educational opportunity of their children. It would be neither prudent nor practical, however, for public policy to step in to replace the expected parental contribution in such cases. In a resource constrained environment, there simply aren't sufficient public funds to fill in where irresponsible parents don't step up.

Maximizing the Federal Partnership. The third responsible partner is the federal government, which through the federal Pell grant program assists virtually any student from a low and moderate income family, and through tax credits and deductions assists most students from middle-income backgrounds. While the state cannot *count on* the federal government to provide sustained predictable support, it would be imprudent not to take full advantage of whatever federal aid is available; thus, both the actual federal Pell award and anticipated federal tax credit are considered as resources available for paying toward the full costs of attendance (Figure 3).

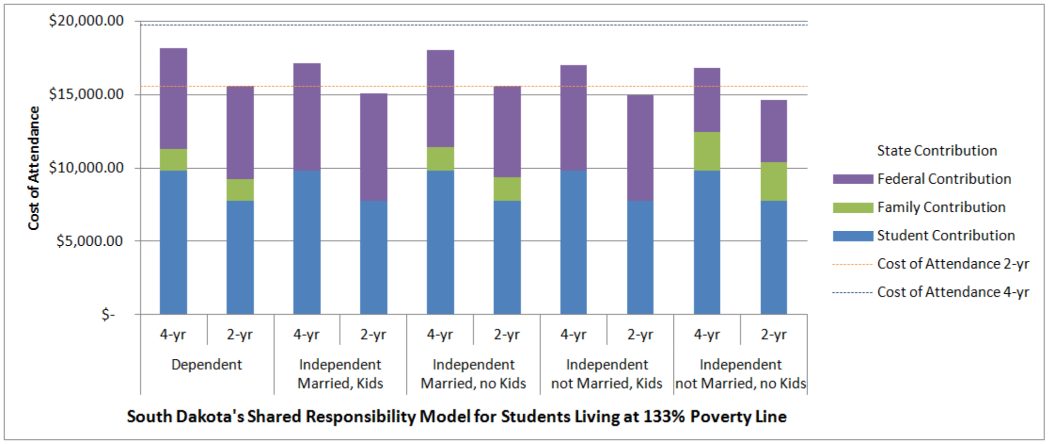

Figure 3. Student, Family, and Federal Contributions.

South Dakota's Share – Filling the Gap. The fourth shared responsibility partner is the State. If the student and her or his parents have contributed all they reasonably can contribute, and federal resources have been taken full advantage of, then the state must do whatever it can to fill the gap or accept the reality the college won't be truly affordable (See Figure 4).

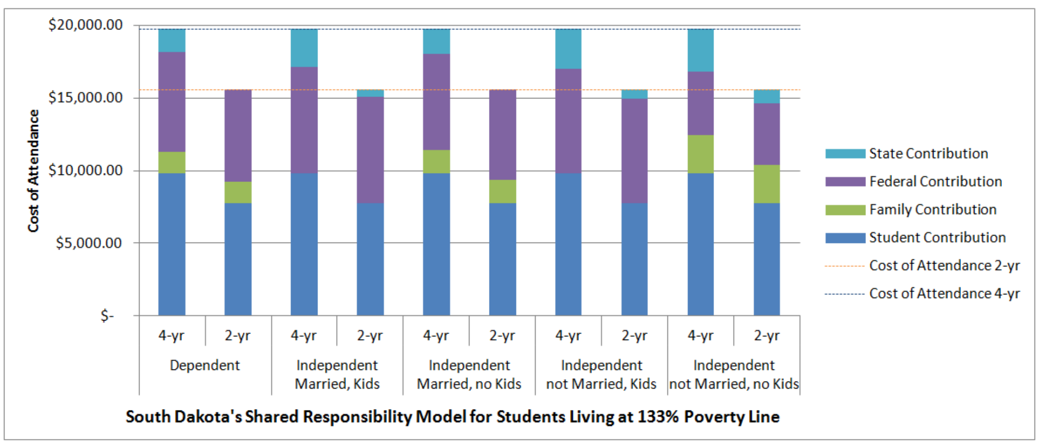

Figure 4. Student, Family, Federal, and State Contributions.

The Institutions Share –Tuition & Fees Restraint & Filling the Gap. The final partner in the Shared Responsibility concept is the institution that the student is attending. This concept assumes two roles for the institutions of higher education. The first role is to restrain to the extent possible increases in those portions of the cost of attendance that they control – tuition, fees, room and board, books, etc. This is the reason the FATF recommended building the model on a frugal cost of attendance. The second role is for those institutions with costs of attendance that exceed the recognized frugal budget to use institutional aid to fill in the gap that their higher prices cause for students with unmet need.

It is recognized that this second role of institutions is an implied and not a mandatory requirement, because different institutions have quite different capacity to provide institutional aid.

The foremost responsibility of the institution is and should be the delivery of quality educational services. Particularly in periods of financial constrain, this responsibility to assure sufficient resources to quality, can result in limited institutional funds for financial aid. Second, the availability of institutional aid is not readily *apparent* to prospective students, thus contributes little to the public policy goal of *transparency*. Because institutions have limited funds for financial aid, they withhold their decisions on who receives this aid until students indicate an interest in the institution, which means that young people thinking about whether college is in their future or not, have little information from institutions about the likelihood of receiving aid. Third, institutional financial aid officers are the only people who can logically put all the pieces together, and thus are best used to fill the gaps that real life presents, with the limited resources available from the institution. Private institutions of higher education must bear an additional burden, if they chose to provide broad access to financially needy students.

Through this shared combination of reasonable contributions from responsible partners – the student, her or his parents, the federal government, and the state government, combined with the partnership of institutions and other concerned partners – South Dakota can restore affordability. On the surface, *shared responsibility* may not seem to be as benevolent as past policy. Recognizing the student as the principal beneficiary of the education being received, the concept explicitly expects much more from these students. It expects no less from parents. In fact, however, it is more benevolent because it recognizes reality by recognizing the substantial efforts and sacrifices being made by students and families to come up with the resources needed to pay for college expenses that past policy largely ignored. By being more intentional and intelligent, the shared responsibility concept takes full advantage of what is available from the federal government. And, it encourages institutions and civic and philanthropic organizations to partner as well. In the end, however, the Shared Responsibility Concept presumes that to assure affordable higher education, the state of South Dakota will accept responsibility to fill the gap remaining after these other partners have been tapped out.

This will require a substantial increase in South Dakota's financial commitment for financial aid. While currently, about 222 students receive about $195,848 in financial aid through the State's need based financial aid program, the proposed Shared Responsibility program, fully funded, will provide almost 6,000 students with $10.3 million annually (See Appendix 2). That's what it takes to assure access and affordability in South Dakota.

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South Dakota's Shared Responsibility Concept: Appendix.

Appendix 1. Proposed Model: Annual Cost of Attendance and Student Contribution by Enrollment Status per Year.

	Full Time (15+ credits)	(.8) Full time (12-14 credits)	(.6) full time (9-11 credits)	(.4) full time (6-8 credits)	(.2) full time (less than 6 credits)
Cost of Attendance					
4 year COA	$ 19,767.00	$ 18,176.00	$ 16,585.00	$ 14,994.00	$ 13,403.00
2 year COA	$ 15,568.00	$ 14,474.40	$ 13,380.80	$ 12,287.20	$ 11,193.60
Student Contribution					
borrowing	$ 4,000.00	$ 4,000.00	$ 4,000.00	$ 4,000.00	$ 4,000.00
earnings	$ 5,814.00	$ 5,814.00	$ 6,840.00	$ 7,866.00	$ 8,892.00
Student Contrib. 4 yr	$ 9,814.00	$ 9,814.00	$ 10,840.00	$ 11,866.00	$ 12,892.00
Student Contrib. 2 yr	$ 7,814.00	$ 7,814.00	$ 8,840.00	$ 9,866.00	$ 10,892.00
COA-Student Contribution					
4 year COA-Student Contrib.	$ 9,953.00	$ 8,362.00	$ 5,745.00	$ 3,128.00	$ 511.00
2 year COA-Student Contrib.	$ 7,754.00	$ 6,660.40	$ 4,540.80	$ 2,421.20	$ 301.60

Appendix 2. Options for Implementation.

			Count of Awards	Average Award	Dollar Amount
1.	**Phase-in Approach**				
	1st Year	**(34%)**	**2022**	**$ 1,754**	**$ 3,504,243**
	1st + 2nd Years	*(57%)*	3414	$ 1,740	$ 5,943,081
	1st + 2nd + 3rd Years	*(78%)*	4653	$ 1,751	$ 8,149,545
	1st + 2nd + 3rd + 4th Yrs	*(92%)*	5497	$ 1,759	$ 9,672,055
	1st + 2nd + 3rd + 4th + 5th Yrs	*(100%)*	5928	$ 1,738	$ 10,307,752
2.	**Incorporate current funding for South Dakota Opportunity Grant**				
Minus	SD Opportunity Grant		3044	$ 1,079	$ 3,285,948
	Adjusted Cost to State		**5946**	**$ 1,425**	**$ 8,473,659**

All three of these proposed reductions have already incorporated the dollars SD spends on need-based awards.

Notes about Phase-In Approach: According to the data provided by South Dakota institutions, 34% of the students in 2015-16 were first-year students up to 30 credit hours; 57% of students were first and second year students up to 60 credit hours; 78% of the students were first, second, and third year students up to 90 credit hours; 92% of the students were first, second, third, and fourth year students up to 120 credit hours; 100% were first, second, third, fourth, and fifth year students.

Appendix 3. South Dakota Financial Aid Task Force Decision-Making Process.

	January 29	**April 25**	**June 6**
Cost of Attendance	Cost of attendance: • Average of 4-yrs • Average of 2-yrs • Both private and public universities and colleges are included in 4-yr COA.	Cost of Attendance: • Define even more frugal COA by taking the average of the bottom three SDBOR tuition and fees (and their corresponding cost of living) and the average bottom two TI.	No change to model.
Student Contribution	Student population: Enrolled South Dakota residents who are degree seeking from the 2015-16 school year. Include those who did and did not complete the FAFSA. Student Contribution: • Working minimum 10 hours per 30 weeks plus 40 hours x 10 weeks (around 5900*.8); increase in increments of 2.5 hours/week • Borrowing $4000 per year just for students attending 4-yr universities (=$20,000 over 5 years and =8,000 at 2 years)	Student Contribution (A): • Working minimum 10 hours during school year; increase in increments of 5 hours/week • Borrowing--stay at just 4-yr students $4000/yr Student Contribution (B): • Working minimum 15 hours during school year for students with 12+ credits; increase in increments of 5 hours/week • Borrowing--stay at just 4-yr students $4000/yr Student Contribution (C): • Working same as (B) • Borrowing-- $4000/yr/4-yr student AND $2000/yr/2-yr student	Student Contribution: • Working minimum 15 hours during school year • borrowing minimum $2000/year
Family Contribution	• Use Parent's EFC	No change to model	No change to model
Federal Contribution	Federal Contribution (A): • Include: Pell, Federal Tax Credits, and Military Awards Federal Contribution (B):	Federal contribution includes: Pell Grants, Federal Tax Credits. Military Awards can be put towards Student Contribution.	No change to model

	• Include: Pell and Military Awards Would be nice to include in the future but SD does not collect at this time: other variables such as TANF/Food Stamps/Housing		
Cost to State	Cost to State (A) • Build Dakota and Dakota Corps awards should fall under Student Contribution rather than Cost to State.	Cost to State (A) • Dollar amount doesn't include any dollars SD currently puts towards financial aid. Cost to State (B) • Dollar amount includes South Dakota's Financial Aid Program. Cost to State (C) • Dollar amount includes South Dakota's Financial Aid Program and Opportunity Scholarship. Cost to State (D) • Account for price elasticity outside of model.	Cost to State • Dollar amount includes South Dakota's Financial Aid Program. • Price of Elasticity is included in the model (roughly $582,000, 288 additional awards)
Cost Reduction	FATF discussed various ways to reduce costs of SRM: • Deadline, • Phase-in starting with first-year students, • Percentage reduction, • Fixed cost reduction Determined Deadline and Percentage reductions could hurt the neediest students.	FATF asked to see two new models: Run two models—one with default settings including the latest Task Force suggestions regarding COA and Student Contribution and one with default settings plus fixed cost reduction (10% of the highest state awards). Run both of these models for all students and for just first time students.	FATF presents three Cost Reduction Measures: • A) Phase In starting with first-year; first+ second year etc) • B) Fixed-dollar amount reduction (10% of greatest 2-yr and 4-yr awards) • C) Subtract out SD Opportunity Grant dollars from Cost to State amounts