

Breakthrough Solution #6:

Put State Funding Directly in the Hands of Students

The Goal

Breakthrough Solution #6 creates student-directed scholarships for undergraduate and graduate education, funded by current Texas state government's direct appropriations to colleges and universities.

This reform has two major benefits. First, it will increase college access, particularly among low-income and disadvantaged students. Why? All too often, students (and their parents) greatly over-estimate the cost of college and just assume they cannot afford it. Research consistently shows that this mystification about how much college costs and how to pay for it is as big a barrier to aspiring to, preparing for and applying to college as the actual lack of means to pay. Student-directed scholarships demystify college costs for students and parents by making explicit current state subsidies for college and providing a greater understanding that college may be affordable and attainable.

Second, by fundamentally changing the allocation of higher education funding, and directing money to students – not to institutions – students would become the real customers of higher education institutions. By refocusing colleges and universities on the real customers and allowing students to drive the dollars to the school, colleges and universities will have a new incentive to compete for students.

Notes

Carrying Out the Reform

This reform creates student-directed scholarships to subsidize the cost for in-state students attending a college or university in Texas. Scholarships will be funded by current direct appropriations to universities from the state's general fund.

1. *Provide each in-state student with a scholarship for undergraduate and graduate education.*

Students would be able to use their scholarship at any Texas public college or university of their choice, private institutions that currently receive state tuition equalization grants, and

possibly other private universities and colleges within Texas.

2. *Fund scholarships with current direct appropriations.*

A significant portion of current funds that go directly from the state's general appropriations fund to colleges and universities would be used to fund the student-directed scholarships. Monies currently used to subsidize undergraduate and graduate education would fund the scholarships. Other monies going from the state to higher education for research, health science, economic development, etc., would not be impacted.

3. *Increase college access by marketing the scholarships starting in middle school.*

Increasing college access is vital for Texas, where the overall per capita college enrollment is below the national average. If Texas' college enrollment were merely the national average, an additional 143,000 Texas students would be in college today and every year. If Texas reached California's enrollment percentage, an additional 308,000 Texans would be in college! Student-directed scholarships can be a cornerstone of the effort to improve college access and ensure an educated workforce for decades to come.

Starting in the 8th grade, resident Texas children would be encouraged to sign up for these new student-directed college scholarships – i.e., “sign up for your college opportunity account now, so the state knows to have scholarship dollars available for you to go to college.” Each year, students and parents would know that the people of Texas are providing scholarships to help pay for the cost of college and can be reminded that it is a “use it or lose it” scholarship. Having your own account creates a sense of ownership and awareness that there is financial support to attend college, which is critical among low-income and disadvantaged children (and their parents) to get them to aspire to attend college.

4. *The scholarship is not financial aid.*

All students qualifying for in-state tuition would receive a scholarship for exactly the same amount, regardless of family income. Reason: One of the benefits of your family living and paying taxes in Texas is financial support to attend an in-state college or university.

Need-based aid such as TEXAS grants and Pell grants would be additional funding on top of the scholarship. Additionally, financial aid could be streamlined and made easier to understand by rolling existing state need-based aid into one additional need-based award on top of the new scholarship.

Texas could mesh the new student-directed scholarships with federal and state pre-collegiate activities and, for example, increase the scholarship amount (using federal dollars) for those disadvantaged students who complete a rigorous college prep curriculum in high school.

5. *Encourage timely degree completion.*

By capping the number of credit hours for which a scholarship may be used (say at 130 credit hours if a four-year degree requires 120 credit hours), the new scholarships encourage institutions to focus on graduating their students in a timely manner. Taxpayers should not be asked to subsidize students for more than four years of undergraduate education and institutions should not be rewarded with continuous state subsidies for not providing timely degree completion opportunities for students.

Translating the student-directed scholarships into a per-credit-hour amount will not penalize part-time students, transfer students, or students who attend a community college and later a four-year university.

Possible Objections

1. *Isn't this just a shell game?*

Some may ask why bother taking current appropriations that go to colleges and universities, convert them into scholarships and then have the students direct that money to the university – the net result is the same: state tax dollars go to higher education. The reason is that student-directed scholarships provide the biggest bang for the taxpayers' buck because they encourage and promote college access in a way that direct appropriations do not. Additionally, student-directed scholarships change the incentives for universities from lobbying the legislature to favor one institution over another to competing for students as the way to increase revenue.

2. *Why aren't these scholarships need-based?*

Middle-class families rely greatly on “in-state tuition” to be able to afford a college education for their children. That is one of the benefits of being residents of Texas and paying taxes here. Student-directed scholarships make this benefit explicit and easy to understand.

Student-direct scholarships can be used, however, to greatly simplify financial aid and remove much of the mystery that confounds low-income families. By adding a specific amount of aid on top of each scholarship, low-income families will be able to understand much more easily how they will be able to afford college.

3. *Why are private colleges and universities included?*

Through tuition equalization grants, Texas policymakers long ago decided that in-state students attending private colleges and universities in Texas would still receive some aid. Converting tuition equalization grants into student-directed scholarships makes these subsidies explicit and says to Texas children: If you work hard, prepare for college and get accepted by one of Texas' great colleges or universities, we are going to support you and help pay for it. Why should a low-income student accepted to Baylor not be supported?

Allowing students to use their student-directed scholarships at more private colleges and universities will also increase competition among higher education institutions. This competition will generate a greater focus among public universities to serve students and deliver a valuable and timely education.

4. *What about adding new funding for higher education?*

Initially, the student-directed scholarships are funded using existing higher-education funding. However, future funding increases for higher education could be applied to the scholarships, to increase their amount.

Student-directed scholarships actually create a much larger constituency for higher education funding. It is much easier for the legislature to cut the higher education budget in slow economic times when the only folks who really understand it are university presidents and CFOs. But when hundreds of

thousands of students see their scholarship amounts reduced by the state legislature, it makes the impact much more clear and immediate and more difficult to sustain.

5. *Where has this been done before?*

In 2004, Colorado passed a law directing all state funding for undergraduate education be converted into student-directed scholarships (“stipends” is the term used by Colorado). Implemented in 2005, hundreds of thousands of Colorado students have now used and continue to use their stipends. Other states are exploring similar efforts.