

# POLICY BRIEF

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## Assessing the Texas State Grant Aid Program

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### Executive Summary

Texas has a need-based student aid system that provides significant support to selected low- and moderate-income residents pursuing higher education. Unlike many other states, Texas considers students' financial circumstances in the distribution of all state grant aid, rather than allocating some or all aid based on academic achievement only. The state has also made considerable progress developing a rich data system that documents finances and outcomes for individual students, providing evidence that can strengthen the effectiveness of the state grant system. But only a small share of eligible students receives state grants, and complex rules and procedures make it difficult for students to predict whether they will receive aid and, if so, how much.

Because the state grant programs are decentralized, with the state allocating funds to institutions and sectors rather than to individual students, some of the tensions in the system involve concerns about the equitable distribution of funds across institutions. Colleges and universities in Texas are strikingly diverse, with six state university systems, 50 community college districts, and a robust private sector. Because institutions have considerable discretion over the distribution of aid to individual students, institutional resources and packaging practices as well as state rules and regulations affect how well the state supports low-income students.

We encourage the state to clearly articulate the goals of its financial aid programs, defining the populations or students it hopes to support. Some of the recommendations we make could be incor-

### KEY FINDINGS

**Texas awards only need-based state grants**, avoiding the problem many other states face of distributing scarce state funds to students who, on their own, could afford to enroll and succeed in college.

**The Texas state grant programs** fund only a fraction of students meeting the requirements for financial need and academic requirements for enrolling in state institutions. The Texas Educational Opportunity Grant (TEOG) program for students at public two-year institutions reaches a particularly small share of eligible students—less than 10%.

**A set of sector-specific state grant programs** with different eligibility criteria, combined with a decentralized structure that allows institutions considerable discretion in making awards to individual students, makes the system complicated and unpredictable.

**Variation in prices and aid packaging practices** across institutions creates significant differences in net prices for students with similar need at different institutions, even within the same postsecondary system.

**Eligible students who miss out on state grants** do get some assistance from other sources of grant aid, but students receiving Toward EXcellence, Access, and Success (TEXAS) and TEOG awards pay significantly lower net prices than students with similar expected family contributions who do not receive state grants.

**Most state grant aid in Texas goes** to recent high school graduates. Older students, independent students, and those who transfer from two-year to four-year institutions are less likely to receive it.

porated into the current system without significant disruption. Other recommendations would involve more fundamental changes and could be implemented only over an extended time frame. Our goal is to support the state in its efforts to increase educational opportunity and attainment for Texas residents, with a focus on the success of low-income and underrepresented students. Our recommendations are grounded in the economic principles of equitable and efficient public policy, Texas demographics, and political reality.

## Research Question and Literature Review

The design of grant programs, in addition to funding levels, can substantially affect enrollment and persistence in higher education. Receiving grant aid increases the probability that students—particularly low-income students—will enroll in college and affects the choice between two-year and four-year or public and private institutions (Cornwell et al., 2006; Dynarski, 1999; Goodman, 2008; van der Klaauw, 2002). Additional grant aid increases the likelihood of degree completion and boosts later earnings (Alon, 2011; Bettinger, 2004; Denning et al., 2018). In this study, we look at how the structure of Texas’s state grant programs affects who gets aid and how much they receive.

## Study Methods

Information about the distribution of funds among demographic groups of students, sectors of higher education, and individual institutions within sectors can provide insight into the equity and effectiveness of the Texas grant programs. To investigate how Texas grant aid design affects students, we use student-level data on those enrolled in Texas institutions to examine the distribution of student aid in the 2018 fiscal year. We look at both the overall distribution of aid and at variation across institutions. Our data analysis supplements valuable analyses from the Texas Higher Education Coordinating Board (THECB). In addition, we held conversations with state officials, financial aid officers and other institution representatives, and advocates. Our data, combined with insights from these conversations, shed light on how these grant programs work in practice and point to potential areas for improvement.

## ACRONYMS

expected family contribution (EFC)  
satisfactory academic progress (SAP)  
Texas Educational Opportunity Grant (TEOG)  
Texas Higher Education Coordinating Board (THECB)  
Texas Public Educational Grant (TPEG)  
Toward EXcellence, Access, and Success (TEXAS)  
Tuition Equalization Grant (TEG)

Targeting low- and moderate-income students is a necessary but not sufficient characteristic of a well-designed and effective state grant system. It is important to ask how many eligible students receive funding, whether any groups are systematically excluded, and how the distribution of aid to students in similar circumstances differs across and within institutions. The decentralized character of the Texas state grant system gives considerable discretion to institutions, which have different priorities and different resources available to assist students.

We use student-level data on enrollment and student aid from the THECB to examine how state grant aid varies by institution, receipt of other financial aid (e.g., Pell Grants), and expected family contribution. Our goal is to estimate how the rules and requirements of these programs affect the distribution of grant aid and how program changes might modify the profiles of those who receive aid.

## Key Findings

For students, the total amount of grant aid matters more than the sources of that aid. The significance of eligible students being excluded from the state grant aid programs depends on whether these students get enough aid from other sources to compensate.

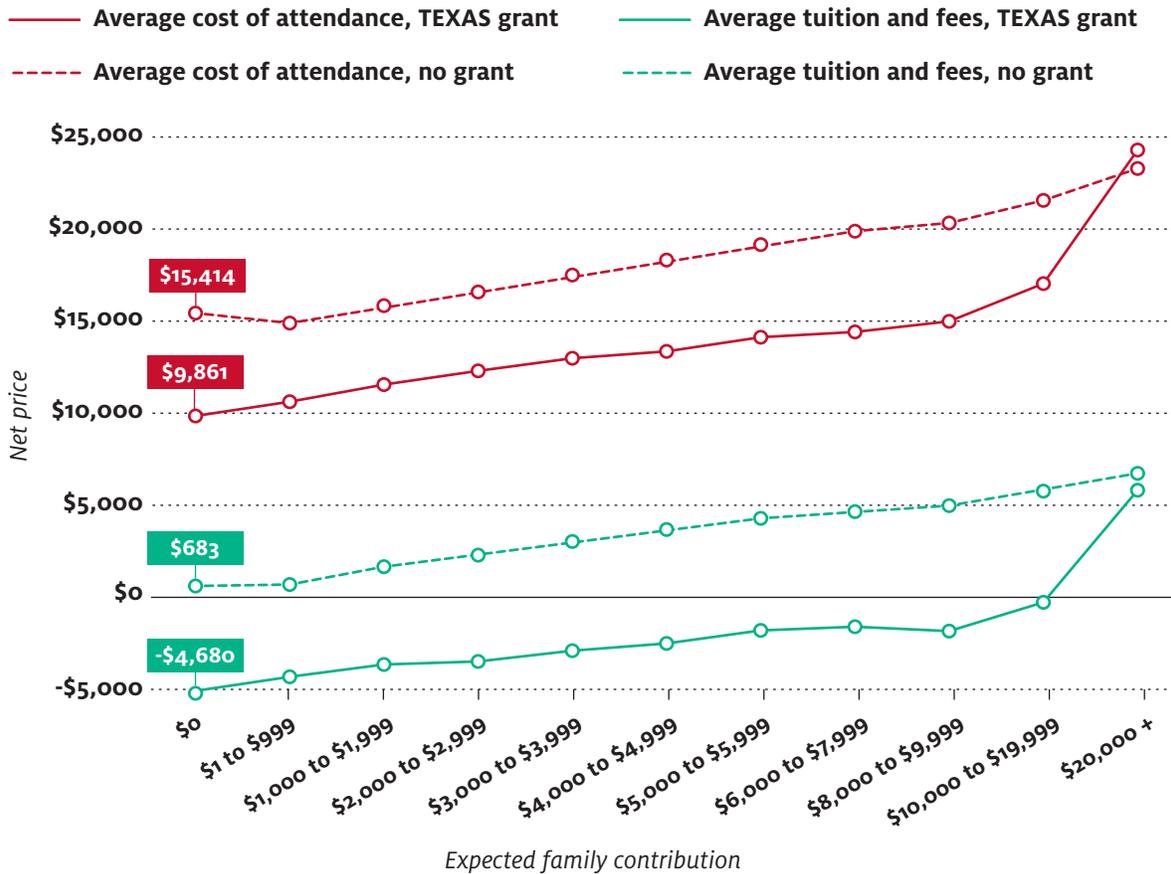
## Distribution of TEXAS Grant Aid

For this analysis of average net prices, we look at all Texas students who are enrolled at least three-quarter time at four-year public institutions and meet basic state grant eligibility criteria—without screening for other restrictions such as the

**FIGURE 1**

## Estimated Net Cost of Attendance and Tuition and Fees, 2017–18

*TEXAS grant recipients pay lower net prices than non-grant recipients with similar expected family contributions*



**Source.** Urban Institute analysis of Texas Higher Education Coordinating Board data  
**Note.** TEXAS = Toward EXcellence, Access, and Success

TEXAS (Toward EXcellence, Access, and Success) grant pathway requirements. At public four-year institutions, TEXAS grant recipients must have their tuition and fees fully covered by grant aid, but students with need who do not receive the TEXAS grant still receive substantial assistance with their college expenses from other sources (Figure 1).

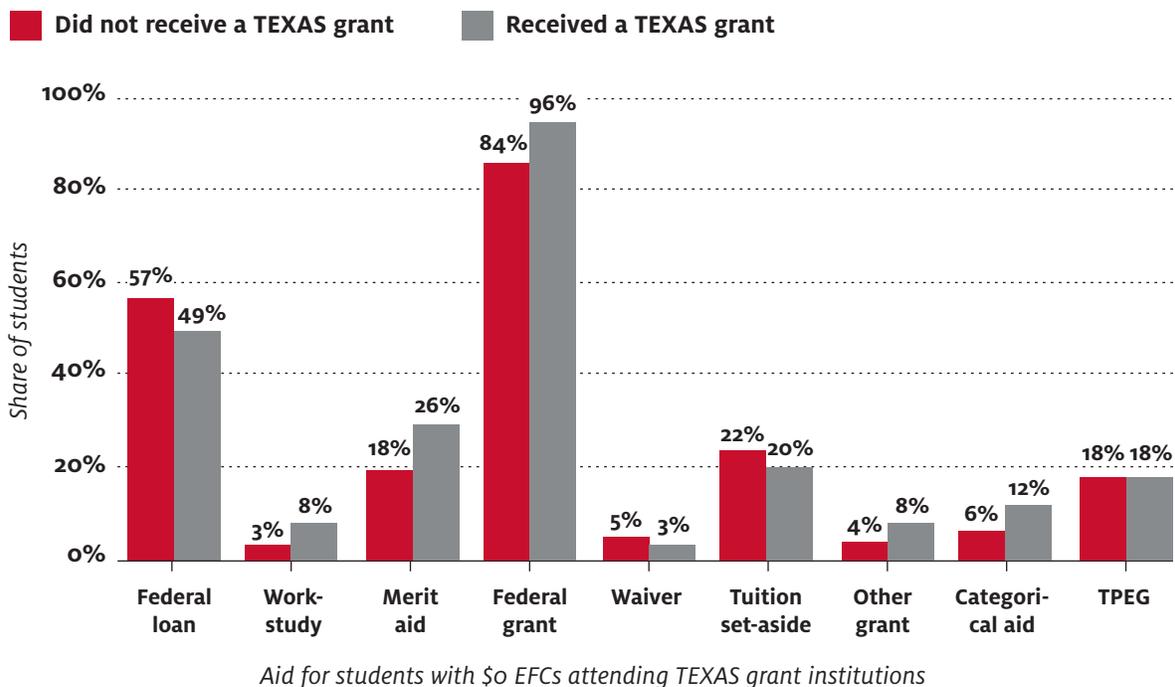
The average \$0 expected family contribution (EFC) TEXAS grant recipient had \$4,680 in grant funds

to put toward living expenses while in school (as indicated by the negative amount paid for tuition and fees), indicating that at least some institutions package grant aid exceeding the minimum required by the state grant program. In contrast, the average \$0 EFC TEXAS grant nonrecipient paid \$683 toward their tuition and fees, with the rest covered by grant aid from other programs; the student had to cover all living expenses with loans, earnings, or other funding sources.

**FIGURE 2**

## Share of \$0 EFC Students Receiving Financial Aid: TEXAS Grant Recipients and Nonrecipients, 2017–18

Among students with \$0 EFCs, TEXAS grant recipients are less likely than nonrecipients to use loans and are more likely to have federal grant aid



**Source.** Urban Institute analysis of Texas Higher Education Coordinating Board data

**Note.** EFC = expected family contribution; TEXAS = Toward EXcellence, Access, and Success; TPEG = Texas Public Educational Grant

Students with lower EFCs generally have lower average net tuition and fee prices and lower net costs of attendance than those with higher EFCs. But these averages conceal variation within and across institutions. Several institutions appear to cover tuition and fees with grant aid for the average \$0 EFC student not receiving a state grant. At others, the average \$0 EFC student not receiving state grant aid appears to pay more than \$5,000 in net tuition and fees after grant aid. At some institutions, a student with a \$0 EFC has a 74% to 96% chance of obtaining enough grant aid to cover

tuition and fees, while at others, the same student may have a 10% to 21% chance. The difference in the average net tuition paid by \$0 EFC state grant recipients and nonrecipients ranges from a few hundred dollars to more than \$10,000 (when state grant recipients receive enough grant aid to cover both tuition and fees and a portion of living expenses).

The components of the aid packages of TEXAS grant recipients are different from those of nonrecipients (Figure 2). Among \$0 EFC students,

nonrecipients are more likely to use federal loans, waivers, and tuition set-asides; TEXAS grant recipients are more likely to have work-study, federal grant aid, institutional aid, and other or categorical grant aid (typically, grant aid from outside organizations). Further analysis could provide insight into the differences in receipt of federal grant aid.

### ***Distribution of Texas Educational Opportunity Grant Aid***

Like low-EFC students who miss out on TEXAS grants at public four-year institutions, low-EFC students at two-year colleges in Texas who do not receive Texas Educational Opportunity Grant (TEOG) awards pay higher net prices, on average, than similar students who benefit from the state grant program. Patterns in average net tuition prices and average net cost of attendance for TEOG recipients and eligible nonrecipients are similar to those in the TEXAS grant institutions, although the dollar differences are smaller because TEOG awards are smaller than TEXAS grant awards. In 2017–18, the average TEXAS grant award was \$4,984, and the average TEOG award was \$2,267 (Office of Student Financial Aid Programs, 2019). On average, potentially eligible students with \$0 EFCs at a TEOG-granting institution receive grant aid that covers their tuition and fees, whether or not they receive TEOG funding. But average total grant aid for TEOG recipients is substantially higher than that for nonrecipients. For example, on average, TEOG recipients with \$0 EFCs received about \$5,000 in grant aid exceeding tuition and fees that could be put toward living expenses, compared with \$2,000 for non-TEOG recipients.

Only 7% of eligible \$0 EFC students who were Texas residents and enrolled at least half of the time at Texas community colleges received TEOG in 2017–18. At individual institutions, the share receiving grants ranged from 1% to 14%, with a quarter of institutions awarding state grant aid to 6% or fewer eligible \$0 EFC students and a quarter awarding grants to 8% or more. In contrast, an estimated 14% of eligible \$0 EFC students at Texas State Technical College received TEOG.

### ***Distribution of Tuition Equalization Grant and Texas Public Educational Grant Aid***

Comparisons between Tuition Equalization Grant (TEG) recipients and nonrecipients are more difficult because of the wide range of sticker prices in the private nonprofit sector. In addition, state guidelines for grant allocation under TEG are less prescriptive than those for the TEXAS and TEOG programs. On average, \$0 EFC students at private nonprofit colleges receiving TEG aid in 2017–18 paid about \$1,500 less in tuition than \$0 EFC non-TEG recipients. No consistent pattern in the gaps between TEG recipients and non-TEG recipients is evident across EFC levels.

Tuition set-aside programs work differently from the three basic state grant programs. Institutions use these funds to fill in the gaps for state grant recipients whose full tuition and fees must be covered by grant aid, as well as to assist other students who have financial need. Those who receive Texas Public Educational Grant (TPEG) funds consistently pay less, on average, in net tuition and fees than students with similar EFCs who do not receive these funds. The typical TPEG recipient pays about \$1,000 less for tuition and fees, on average, than a non-TPEG student with a similar EFC.

### ***Eligibility Restrictions Limit Access for Students Who May Need the Aid Most***

Nearly all Texas state grant programs are based on ability to pay, but these programs, particularly the TEXAS grant, introduce additional eligibility and prioritization criteria that may exclude students who have a high need for financial assistance. In fiscal year 2018, 91% of new TEXAS grant recipients enrolled within 16 months of high school graduation and obtained the aid through the high school graduation pathway, and 9% of new recipients followed the associate degree pathway. In fiscal year 2019, these shares were 97% and 3%, respectively (Office of Student Financial Aid Programs, 2020). Less than 1% followed the TEOG or military pathway. In our conversations with aid officers and officials in Texas, some pointed to the priority criteria, which dictate that awards go first to students whose high school records meet specified high academic standards, as the reason most

TEXAS grant students are admitted through the high school graduation pathway.

Available data confirm that state grant funds in Texas are well targeted to students from relatively low-income households. But almost all TEXAS grant recipients (95%) are dependent students (typically, younger than 24, unmarried, and without dependents), as are most students served by the other state aid programs—including 73% of TEOG recipients. In contrast, 46% of TPEG recipients are independent.<sup>1</sup> The focus on dependent students raises questions about how well the state financial aid programs serve students other than recent high school graduates—such as those who are returning to school to improve their opportunities for success in the labor market.

According to our analysis, dependent students are more likely than independent students with similar EFCs to receive TEXAS grant and TEOG aid. Almost half of eligible \$0 EFC dependent students at TEXAS grant institutions received a grant in 2017–18; only about 7% of \$0 EFC eligible independent students received a TEXAS grant.

More than 40% of eligible dependent students with EFCs between \$1 and \$2,000 received TEXAS grant aid in 2017–18, compared with less than 5% of eligible independent students. This difference is likely caused more by program eligibility restrictions than by institution-level allocation procedures. TEXAS grant recipients entering the program through the high school pathway and meeting specified high school academic criteria are first in line after returning grant recipients, so we would expect that dependent students would be more likely to receive this aid. Other eligibility factors could also indirectly affect TEXAS grant receipt by dependency status. For example, dependent students coming directly from high school might have an advantage in submitting application

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<sup>1</sup> See Table 83 in the U.S. Department of Education's 2019 *Pell Grant End-of-Year Report 2017-18*, available at "Federal Pell Grant Program Annual Data Reports," U.S. Department of Education, accessed February 27, 2021, <https://www2.ed.gov/finaid/prof/resources/data/pell-data.html>.

## POLICY RECOMMENDATIONS

**The Texas state grant programs** fund only a fraction of students meeting the requirements for financial need and academic requirements for enrolling in state institutions. A better-funded program serving more students would contribute more to the state's goals for increasing educational attainment.

**The state should ensure that the allocation of grant funds to individual institutions is predictable and based on students' financial circumstances, diminishing the tensions administrators face in funding their students.**

**Texas should allocate more state grant aid for older students and those who transfer from two-year to four-year institutions.**

**The academic requirements for continuing eligibility for state grant aid should be consistent with federal aid requirements, requiring the same GPA.**

**The state should reconsider** the requirement that all TEXAS and TEOG recipients have their full tuition and fees covered by grant aid. This requirement makes it more difficult for institutions to maintain practices that ensure that students with a lower ability to pay will receive more grant aid and pay lower net prices than those with higher EFCs who also qualify for state aid.

**The TEXAS grant academic priority criteria** prevent many students from receiving aid if their high school records do not meet these high standards, even if they have significant need and are academically qualified to enroll in college. The state should rethink these priorities, recognizing that funding students with higher probability of success may not make the program more effective.

**The tuition set-aside programs** are critical to the success of the state's student aid system and should be maintained.

materials before the eligibility deadline.

Students with state grant aid are required to meet satisfactory academic progress (SAP) criteria to retain their aid. Institutions set the SAP policy for students' first year. Generally, students must maintain a 2.0 GPA to retain their Pell funding; state criteria are more stringent. After the second year, students are required to maintain a minimum 2.5 GPA to continue receiving state grant aid. Many students fail to meet SAP, putting their aid at risk. We find that 24% of TEXAS grant recipients, 20% of TEOG recipients, and 13% of TEG recipients did not meet the state SAP requirement in the 2018 fiscal year. These SAP results should be interpreted in context with other program rules and policies.

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