November 2, 2011

The College Affordability Crunch in Kentucky
Meeting the Costs of College in an Era of Eroding State Support

By Jason Bailey and Melissa Fry Konty

Summary

Progress in higher education is essential to building a productive and innovative economy, an informed and empowered citizenry, and a higher quality of life among families and communities. However, affordability of higher education is a growing challenge. Over the last ten years, Kentucky has shifted the primary responsibility of paying for postsecondary education away from the state in the form of appropriations to institutions and over to students in the form of tuition and fees. State need-based financial aid reaches only a portion of those who qualify and has received shrinking priority relative to programs and tax breaks that benefit students with higher incomes. Adult students, among whom higher education needs are substantial, receive limited support. These problems are compounded by trends in federal financial aid and stagnating wages for families. To address these challenges, Kentucky needs a new commitment to college affordability for all its citizens.

Introduction

There is wide agreement that higher education is beneficial to Kentucky’s economic future. Greater educational attainment can increase productivity, attract investment and result in greater innovation and entrepreneurship. It can also help meet growing skills gaps; according to one estimate, by 2018 around half of jobs in Kentucky will require at least some form of postsecondary education. Yet only 28 percent of Kentuckians age 18-64 have an associate’s degree or higher, ranking Kentucky sixth from the bottom.

Higher education is also important to the quality of life for Kentucky’s families and communities. Workers with higher levels of education tend to have higher earnings, giving their families a better chance at a middle-class standard of living. And increases in educational attainment have social benefits. A more educated population is less likely to commit crimes, more likely to be civically involved and more likely to vote.

Since enacting postsecondary education reform in 1997, Kentucky has made important steps forward in higher education attainment. The share of adults ages 25 to 64 with an associate’s degree or higher has climbed from 25 percent in 2000 to 31 percent in 2009. More students are enrolling in college, and graduation rates have improved.

However, huge gaps in higher education remain. Educational attainment levels are still too low. Less than half of those who enroll in four-year universities graduate in six years, while less than a third of those who enroll in community colleges graduate within three years. Thirty-four percent of whites in Kentucky had an associate’s degree or higher in 2009, but only 22 percent of minorities—a gap that has grown since 2000.

College attainment also varies widely by geography—30 percent of Oldham County residents ages 25 and older have a two-year degree or higher compared to only five percent of Knox County residents.
There are many factors associated with success in postsecondary education, including: college readiness; the importance of education to career and personal goals; the accessibility of educational opportunities (due to time constraints and geographic location); the support services that make college attendance possible; and students’ aptitude and capacity to persevere. Another critical factor is the affordability of higher education. On that factor Kentucky has been losing ground.

**State is shifting higher education costs to students**

Over the past ten years, the primary responsibility of paying for higher education in Kentucky has quietly shifted away from the state in the form of appropriations to public universities and community colleges and to students in the form of tuition and fees. Figure 1 shows that in 2000 the state paid two dollars of higher education expenses for every dollar paid by students. But since 2008, students have paid a larger share than state government. 

*Figure 1*

<table>
<thead>
<tr>
<th>Year</th>
<th>Tuition and Fees per Student</th>
<th>Net General Fund Appropriations per Student</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>8,000</td>
<td>8,000</td>
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<tr>
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<td>2005</td>
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<td>2006</td>
<td>22,000</td>
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<td>2007</td>
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<tr>
<td>2008</td>
<td>26,000</td>
<td>26,000</td>
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<tr>
<td>2009</td>
<td>28,000</td>
<td>28,000</td>
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<tr>
<td>2010</td>
<td>30,000</td>
<td>30,000</td>
</tr>
<tr>
<td>2011</td>
<td>32,000</td>
<td>32,000</td>
</tr>
</tbody>
</table>

Sources: Office of the State Budget Director, Kentucky Revenue Department

Making students the primary payers of higher education was not part of the state’s vision for comprehensive postsecondary education reform contained in major legislation passed in 1997. Instead, this shift was the byproduct of budgeting choices in the context of an inadequate state tax system in need of reform. In the face of tight budgets, lawmakers in essence chose to increase taxes on students.
In inflation-adjusted terms, the state’s appropriation for public universities and community colleges was 14 percent lower in 2010 than it was in 2000. Over that same period, enrollment in higher education increased 32 percent in part due to greater recognition of the need for higher education for success in the workforce—and more recently, as people head back to school because of a lack of job opportunities. To keep up with costs in the face of climbing enrollments, higher education institutions dramatically increased tuition after a decade of relatively flat tuition rates.

In effect, Kentucky has gradually moved to a more market-based approach to higher education in which broad-based subsidies to lower the costs of college have declined. Kentucky did make a commitment to increase investment in financial aid, deciding in 1998 to dedicate almost all of its lottery revenues to aid programs. Most of those funds have gone to a three-pronged system—two programs based on need, the College Access Program (CAP) and the Kentucky Tuition Grant (KTG) program, and one program based primarily on merit, the Kentucky Educational Excellence Scholarship (KEES) program (see appendix for more on state financial aid programs).

While those funding increases were important, state funding for financial aid has grown more slowly than tuition. Figure 2 shows revenue from tuition and fees compared to state spending through the Kentucky Higher Education Assistance Authority, which operates state financial aid programs. Institutional tuition revenues have grown 66 percent since 2004 while state financial aid spending has grown only 15 percent.

**Figure 2**

![Tuition Compared to State Financial Aid (Constant Dollars)](chart)

Sources: Council on Postsecondary Education, Office of the State Budget Director
State financial aid efforts trend away from low-income students

Higher education affordability is especially an issue for lower-income people. Low-income students are far less likely to attend college right out of high school than higher-income students, are more sensitive to the price of attendance and are more likely to drop out for financial reasons.\textsuperscript{12} Academically talented students from lower-income backgrounds have significantly lower levels of enrollment in college and lower educational attainment than similarly-achieving high school students from higher-income backgrounds.\textsuperscript{13}

While state financial aid has increased over the past ten years, the trends in funding have prioritized merit-based aid and programs that tend to benefit those with higher incomes, including subsidies provided through the tax code. Those trends have moved the financial aid system away from the focus on aid for those low-income Kentuckians who most need it.

Those poorer Kentuckians are paying more for higher education. The share of family income needed to pay for two- and four-year colleges in Kentucky has increased substantially since 2000. Even at the lowest-priced college in the state, the poorest families need 31 percent of family income to pay for higher education costs after financial aid—up from 14 percent in 2000.\textsuperscript{14}

In Kentucky the merit-based Kentucky Educational Excellence Scholarship (KEES) program is the state’s largest financial aid program. KEES funding increased rapidly during the first few years of the 2000s, by design, as the program was being phased in. Since 2003 the state has allocated approximately half of the financial aid lottery dollars to KEES (Figure 3).

\textbf{Figure 3}

\textbf{Funding for Main Financial Aid Programs (Constant Dollars)}

\begin{center}
\includegraphics[width=\textwidth]{figure3.png}
\end{center}

\textit{Source: Office of the State Budget Director}
While the legislature has provided the funding for KEES scholarships to all students who qualify for the awards and apply to use them, a huge portion of need-based applicants who are eligible do not receive support. In 2011, 84,422 students—making up 62 percent of eligible applicants for the need-based aid programs—were denied assistance. And while KEES helped over 67,000 students in 2010, CAP and KTG together assisted only 52,000 students.

The number of eligible applicants denied need-based awards has climbed in part because the poor economy has resulted in declining incomes and more students returning to school. Also, denials have increased because the number of eligible applicants has increased due to changes in Pell Grant eligibility. Congress somewhat expanded Pell eligibility over the last few years which affected CAP because the program follows Pell eligibility guidelines. It should be noted that eligible students are still low-income—in 2010, 76 percent of Pell Grant recipients had a family income of less than $30,000. The eligibility expansion was in recognition of the limits of the program and the growing challenges with college affordability.

Across the country state grants based on criteria other than need have grown at triple the rate of need-based programs over the past ten years. While some students with financial need receive merit-based aid—around 87 percent of Kentucky students received some KEES monies in recent years—the largest share of these funds go to students whose college attendance is not dependent upon the receipt of financial aid. Meanwhile, thousands of students who qualify for need-based aid are left without state support.

Data from the Kentucky Higher Education Assistance Authority show that 33 percent of KEES funds in 2008-09 (among KEES recipients for which income data are available) were distributed to the top income quintile—the 20 percent of state financial aid recipients with a median income of $106,940 (Figure 4). In contrast, only 11 percent of KEES dollars went to the poorest income quintile, a group with a median income of only $4,616. Another analysis shows that while nearly 100 percent of high school students in the highest-earning 20 percent of family incomes receive KEES, less than 50 percent of students in the lowest-earning 20 percent do. While the CAP program clearly awards more dollars to those with the lowest incomes, KEES distributes more of its money to those with higher incomes.

**Figure 4**

<table>
<thead>
<tr>
<th>Income Quintile</th>
<th>Median Income</th>
<th>Distribution of Funds in Each Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest (Up to $12,767)</td>
<td>$4,616</td>
<td>KEES 11%   CAP 40%   KTG 18%</td>
</tr>
<tr>
<td>Second ($12,768 - $27,275)</td>
<td>$19,301</td>
<td>KEES 11%   CAP 29%   KTG 19%</td>
</tr>
<tr>
<td>Third ($27,276 - $48,494)</td>
<td>$36,654</td>
<td>KEES 17%   CAP 25%   KTG 23%</td>
</tr>
<tr>
<td>Fourth ($48,495 - $82,674)</td>
<td>$64,288</td>
<td>KEES 27%   CAP 6%    KTG 26%</td>
</tr>
<tr>
<td>Highest ($82,675 and above)</td>
<td>$106,940</td>
<td>KEES 33%   CAP 0%    KTG 14%</td>
</tr>
</tbody>
</table>

Source: Kentucky Higher Education Assistance Authority

In light of the underrepresentation of low-income students in merit-based programs like KEES, a number of researchers have questioned whether merit-based aid is the best use of scarce dollars given that higher-income students are more likely to attend college regardless of cost and have less financial need. Harvard economist Bridget Terry Long notes that “increased emphasis on merit in financial aid may exacerbate the trend toward greater income inequality, even among students of equal academic merit.”
Even within the state’s two main need-based programs, the beneficiaries differ greatly. As shown in Figure 4, the KTG program provides the biggest benefit to those in the second-highest income quintile of financial aid recipients, those with incomes between $48,495 and $82,674. Unlike CAP, KTG is not targeted to those with the lowest incomes but is rather designed to help fill the gap between the high cost of independent colleges, aid received from other sources and the expected family contribution calculated in federal aid applications.

CAP is targeted to low-income students more than KTG, but CAP has a bigger funding gap. In 2011, 67 percent of the eligible applicants to CAP did not receive support—or over 76,000 Kentucky students—while 38 percent of those eligible for KTG did not receive support. While KTG is the only program that exclusively helps students attend more-expensive private colleges, students can also receive CAP to attend private schools (as well as KEES). In fact, nearly a quarter of the students receiving CAP attend either private or for-profit Kentucky schools, and nearly a quarter of the dollars expended through the program go to those schools.

The National Center for Public Policy and Higher Education notes that the states that are doing the most to support college affordability for low-income students come as close to matching the federal investment in Pell Grants for their state as possible. Between 2000 and 2008 the top states averaged 89 percent of the federal investment, and some reached 100 percent or more. In contrast, Kentucky’s investment was at 48 percent in 2008.

Funding state financial aid exclusively through lottery dollars has become part of the challenge in Kentucky as revenue growth from the lottery has slowed. Over the past five years, lottery revenue has increased only 1.1 percent a year on average.

**Education tax subsidies bypass low-income students**

At the same time that need-based financial aid has been limited, there are less visible but important ways in which the state tax code subsidizes higher education, many of which are of little to no benefit to lower-income Kentuckians. Most notably, in 2005 the state created a Postsecondary Education Tuition Tax Credit, a program to subsidize undergraduate studies that in 2011 costs Kentucky an estimated $15.7 million. The credit reduces individual income taxes and is equal to 25 percent of the federal Hope Scholarship and Lifetime Learning Credit, a two-part program that subsidizes student higher education costs through reduced federal income taxes. According to the College Board, only five percent of the federal benefit of the Hope Scholarship and Lifetime Learning Credit goes to those with incomes of less than $25,000 while 26 percent goes to those with incomes over $75,000. This program phases out for those with higher incomes, but the income ceiling is currently $60,652 for single filers and $111,303 for those filing a joint return—still high incomes in Kentucky.

In addition, changes made to the state income tax in Kentucky mean people living below the poverty line cannot benefit from the Postsecondary Education Tuition Tax Credit. In 2005 the state passed legislation that eliminated income taxes for families in poverty (or with incomes below $18,530 for a family of three in 2011) and significantly reduced income taxes for families earning up to 33 percent above poverty (or up to $24,645 for a family of three). Since the Postsecondary Education Tuition Tax Credit is not refundable (meaning one must have a tax liability to receive it), the credit does not benefit those below the poverty line.

Also, those who don’t claim the Hope Scholarship or Lifetime Learning Credit at the federal level have been eligible in recent years for a tuition and fees deduction that reduces taxable income by up to $4,000 (up to $2,000 for higher incomes) for joint filers who earn up to $160,000 a year. Because Kentucky relies primarily on the federal definition of adjusted gross income as a starting point for calculating state income taxes (which includes this deduction), the tuition and fees deduction has reduced Kentucky income taxes as well—although the deduction expires in 2011. Current estimates suggest that, nationwide, two-thirds of the benefit of the tuition and fees deduction has gone to those with incomes over $100,000.
There are other subsidies in the tax code that are part of how the state subsidizes the cost of higher education. Student loan interest is deductible, which again only benefits those with a tax liability and provides the greatest benefit for those with higher incomes. The state also excludes employer-provided educational assistance from employee income, excludes scholarship and fellowship income from taxes, and provides tax credits to employers who pay for tuition and other educational expenses at Metropolitan College in Louisville (which is affiliated with UPS). All of these provide education-related tax benefits, but it is unclear what impact these programs have in increasing educational attainment relative to alternative uses of these funds. The state exempts the cost of textbooks from the sales tax, but it is uncertain whether this exemption in effect lowers the price of books or is captured by bookstores or textbook companies since students must purchase books regardless of price. Kentucky has also put in place the Kentucky Educational Savings Plan Trust, a 529 program that promotes savings for college by allowing investment earnings and distributions from a savings account to be shielded from state (and federal) income taxes. As above, the state tax savings from these programs do not benefit those without an income tax liability and are larger for higher-income people.

The state estimates lost revenue from some of these higher education-related tax expenditures in a report issued every two years. Those costs are listed in Figure 5.

Researchers have repeatedly questioned the effectiveness of education tax benefits in increasing the probability of college attendance. Tax benefits provide subsidies long after college expenses are incurred—when taxes are filed. By often benefitting middle- and upper-income people, they primarily help a group that faces fewer financial barriers to attending college. According to the U. S. Government Accountability Office, around 20 percent of those who are eligible for federal education tax credits and deductions do not even claim them.

**Figure 5**

<table>
<thead>
<tr>
<th>Education-Related Tax Expenditures</th>
<th>Lost Revenue in 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Postsecondary Education Tuition Tax Credit</td>
<td>$15.7 million</td>
</tr>
<tr>
<td>Exclusion from taxable income of scholarship and fellowship income</td>
<td>$6.1 million</td>
</tr>
<tr>
<td>Metropolitan College Program Tax Credit</td>
<td>$4.2 million</td>
</tr>
<tr>
<td>Exemption of textbooks from sales tax</td>
<td>$4.1 million</td>
</tr>
<tr>
<td>Deductibility of interest on educational loans</td>
<td>$3.9 million</td>
</tr>
<tr>
<td>Exclusion from taxable income of employer-provided educational assistance</td>
<td>$2.5 million</td>
</tr>
</tbody>
</table>

Source: Office of the State Budget Director

**Adult students face a special challenge**

Kentucky cannot achieve its educational and economic goals by focusing exclusively on traditional-age college students. Increasing adult skills is critical to strengthening the Kentucky economy and providing adults and their families with an opportunity for a higher standard of living. Of the Kentucky adults ages 25-54, only 32 percent have an associate’s degree or higher ranking Kentucky 44th among the states in adult degree attainment. Of the remainder, more than half have either some postsecondary education but no degree (22 percent) or a high school degree or GED but no postsecondary education (33 percent). But only six percent of adults age 24-54 are currently enrolled in postsecondary institutions, putting Kentucky 41st among the states in the share of adults pursuing higher education.

Adult students face many challenges and barriers in attending college. In the area of affordability, financial aid programs typically are not designed for adults. For instance, many adults enroll in school less than half-time because they are working jobs and caring for children, but that makes them ineligible for Kentucky’s major need-based programs—CAP requires at least half-time enrollment while KTG requires...
full-time enrollment. The federal Hope Scholarship, on which the Kentucky Postsecondary Education Tuition Tax Credit mentioned above is partially based, also requires half-time enrollment.

Many adults are ineligible for the KEES program because they attended high school in Kentucky before the program was put in place. Also, because KEES monies typically must be used within five years of high school completion, they are not beneficial to those who may delay college attendance. That leads to lower KEES participation among independent students (meaning students not still dependent on parents). In 2004 only 12 percent of independent students from the lowest income quartile attending the state’s public universities utilized KEES compared to 68 percent of dependent students from the same income group.37

Adult students face other challenges. They are likely to apply for financial aid late in the process as they may make the decision to go to school only after a lost employment opportunity and/or because they lack the counseling support encouraging early application that high school students can access. Because funds for CAP are limited and awarded on a first-come, first-serve basis, many adults may miss out. Additionally, adults needing postsecondary education often have low incomes—high school graduates from middle- and upper-income families are much more likely to enroll in college right after high school than low-income families.38 That makes them less likely to be eligible for tax credits and more likely to be deterred by high costs.

Problem compounded by economic reality facing Kentucky families and federal budget cuts

Trends in the economic status of Kentucky families and in federal financial aid policy only heighten the affordability challenge. Wages for many Kentucky families have been stagnating or even declining in recent years, making rising education costs even harder to afford. Real median wages in Kentucky (meaning half of workers make more and half make less) were 3.5 percent lower in 2010 than in 2001. Real median wages for low-wage workers (those at the 10th percentile) were 4.8 percent less.39 Over that same period, real resident tuition rates at state universities and community colleges rose between 130 and 184 percent.40 Not only are wages stagnating, they are also low. Nearly a third of Kentucky workers earn incomes less than the poverty line for a family of four.41

Federal financial assistance plays a major role in overall college affordability—in particular the Pell Grant program. In the 2010-2011 school year, 51 percent of students attending a Kentucky postsecondary institution received a Pell Grant. Those 131,991 students received $486 million in support.42

However, the purchasing power of the Pell Grant has declined considerably over time. At its peak in the 1970s, the maximum Pell Grant was expected to cover nearly 80 percent of the cost of undergraduate tuition, fees, and room and board at four-year public institutions. Currently, it covers only 34 percent of those costs.43 Although there have been recent increases in funding, future Pell Grant monies are uncertain given the debate over reducing the federal budget deficit. Many lawmakers want to restrain Pell Grant growth.

The federal government has shifted more of its support into loans and tax breaks. While Congress capped Pell Grant spending at $33 billion in FY 2010, tuition tax credits and deductions totaled $19.4 billion that same year, the majority of which went to middle- and upper-income families.44 In 2005-2006, 8.5 million students nationwide took advantage of tax-based financial aid programs compared to 5.1 million that received Pell Grants.45

In this context, more Kentucky students are turning to loans. In 2008, undergraduate students in Kentucky borrowed an average of $4,841 in federal loans per year, an increase from $3,210 in 2006.46 Kentucky students took out $1.1 billion in federally guaranteed student loans in 2010 (Figure 6). Loans increased 238 percent at the state’s four-year public universities and community colleges between 2001 and 2010 compared to 35 percent growth in enrollment.47 The extraordinary increase in student loans above and beyond the growing student population raises important concerns for Kentucky about the long-term
implications of excessive student debt. According to the Project on Student Debt, the average student loan debt of graduates of Kentucky four-year institutions in 2009 was $19,112.48

Figure 6

Kentucky Federally-Guaranteed Student Loans by Type of Institution

What Kentucky has done to address this challenge

The challenges identified in this report are deep and longstanding, and Kentucky has begun the conversation about how to address them. In 2008, Governor Beshear convened a Higher Education Work Group to examine progress in postsecondary education with a special focus on college access and affordability. The Work Group released a report that includes solid recommendations related to financial aid, improving transfer between two- and four-year schools, increasing operating efficiency and cost containment at institutions, and improving college readiness.

The state has followed up with action on some of these issues. Although not directly related to financial aid, the legislature passed transfer legislation in the 2010 General Assembly that will ease the process of advancing between two and four-year institutions. The state has taken steps to make college costs more transparent. And Kentucky is working to simplify the Free Application for Federal Student Aid (FAFSA) and other financial aid applications in order to increase the number of people who apply for aid. The complexity of the application process is an important barrier to greater financial aid utilization.

Kentucky is one of five pilot states in a national project examining FAFSA simplification in cooperation with the College Board.

The Kentucky Adult Learner Initiative, funded by the Lumina Foundation, was a state effort to look at the challenges facing adult learners. The final report identified recommendations on a range of issues
including offering credit for prior learning obtained through experience; providing more flexible academic programming; and addressing the need for financial aid.\textsuperscript{51}

As it relates to access to financial aid for adults, Kentucky took an important step forward in creating the Go Higher Grant Program. The program provides up to $1,000 for one academic year for adults 24 and older who enroll less than half-time. However, in 2010 the program provided support to only 240 adults.\textsuperscript{52}

**Recommendations**

Despite these steps in the right direction, Kentucky must take significant action in order to make higher education more affordable for its citizens and reap the economic and societal benefits of greater educational attainment. Key recommendations for moving forward are as follows:\textsuperscript{53}

**Limit tuition increases by providing more adequate state funding for postsecondary institutions.**

Ensuring that all Kentuckians are able to afford higher education ultimately requires the state to do a better job funding these institutions than it has over the last ten years. General Fund appropriations should do more to keep up with rising costs and growing enrollment while at the same time ensuring efficient and accountable use of the dollars. Given the state’s other considerable funding needs and priorities, this requires discussion of long-needed reforms to the state’s tax system.

**Increase financial aid support for low-income Kentuckians.**

Given the tendency for costs to be a greater barrier to higher education for low-income people, as well as the huge challenges Kentucky faces in the area of college completion, Kentucky should make aid based on financial need its top priority. While other forms of aid are appropriate based on available resources, Kentucky simply cannot achieve its educational goals unless more lower-income residents obtain postsecondary education. To make progress Kentucky should:

- Fully fund the CAP program so that all students who are eligible receive funding.
- Re-direct funds from the Postsecondary Tuition Tax Credit to need-based aid, as recommended by the Governor’s Higher Education Work Group.
- Examine the relative priority of CAP, KTG and KEES funding in the budget process in order to prioritize aid to those least able to afford higher education.
- Look beyond lottery funding for sources of financial aid dollars.

**Increase financial aid access for part-time, adult students.**

Adult students have huge financial aid needs and are often not well-served by the major programs, in part because they commonly attend college less than half-time. Kentucky should increase access for these students by changing eligibility in existing programs to remove barriers for adults, expanding funding for the Go Higher Grant or creating a new program tailored to the needs of adult students. Part of this process should include further analysis of the causes of low participation in the Go Higher program. In addition to more funding, new strategies might include further simplification and coordination of the application process with other applications for benefits as well as targeting institutions (like the workforce development system) with which adults interact so that more adult students can receive support.

**Conclusion**

Higher education is increasingly unaffordable for Kentuckians due to the combination of factors outlined in this report—declining real state appropriations for higher education, rising tuition, inadequate need-based financial aid at the state and federal levels, and stagnant or declining wages. Low-income and adult students, in particular, are in need of greater skills and have limited access to financial support. Kentucky’s economic future and the quality of life of its residents depend on greater educational attainment. The state should take steps to help make higher education financially feasible for a broader range of Kentuckians.
The Kentucky Center for Economic Policy is a non-profit, non-partisan initiative that conducts research, analysis and education on important policy issues facing the Commonwealth. Launched in 2011, the Center is a project of the Mountain Association for Community Economic Development (MACED). Support for this report comes from the Working Poor Families Project. For more information, please visit KCEP’s website at www.kypolicy.org.
Appendix: Kentucky’s Main Financial Aid Programs

Kentucky Educational Excellence Scholarship (KEES)
Established in 1998, KEES provides merit-based scholarships to high school students for attendance at public, private or for-profit universities or colleges in Kentucky (KEES can be applied to out of state schools only if that institution offers a degree program in a field of study not offered in Kentucky). KEES awards scholarship funds each year to high school students based on end-of-year grade point average, and awards bonus funds based on the highest ACT score attained before graduation. The maximum amount available based on grades and ACT scores is $2,500 for each year of college. The state has added an award of up to $300 per year of college based on performance on Advanced Placement or International Baccalaureate exams exclusively for low-income students who are eligible for free or reduced-price lunch for any year during high school enrollment. The KEES award must be used within five years of high school completion, with some exceptions in place for military service and those who may study abroad. KEES recipients must be enrolled for a minimum of six credit hours.

College Access Program (CAP)
Created in 1994, CAP grants are awarded based on available funds to those students whose Expected Family Contribution (EFC), an amount calculated from family financial information provided on the Free Application for Federal Student Aid (FAFSA), is less than $5,273 (the same level as eligibility for Pell Grants). Awards can be used for undergraduate studies in Kentucky at public universities and community colleges or at private, including for-profit, schools. A CAP scholarship is $1,900 per year, prorated for those enrolled less than 12 credit hours. Students enrolled half-time or more are eligible.

Kentucky Tuition Grant (KTG)
Originally established in 1972, KTG extends aid to students enrolled in an accredited independent institution in the Commonwealth (institutions must not be solely comprised of religious instruction). KTG is intended to help students pay the higher tuition charges at these colleges. KTG need eligibility is based on the total cost of education at the school minus a student's Pell Grant, CAP grant and Expected Family Contribution. For the 2011-2012 school year, KTG awards range from $200 to $2,964. Students must be enrolled full-time.

Other Programs
The state, through the Kentucky Higher Education Assistance Authority (KHEAA), also funds the Go Higher Grant Program to support adult students (those age 24 or older), enrolled less than half-time in postsecondary programs. The Go Higher Grant is based on financial need with priority given to those who earned a General Education Development (GED) Certificate. The award is limited to one academic year and has a maximum award amount of $1,000. The program includes tuition support as well as a $50 per credit hour book allowance. 240 students benefited from this program in 2010, and the state expenditure was $223,000.

In the past, KHEAA and the Kentucky Higher Education Student Loan Corporation (KHESLC) have played the role of administering and guaranteeing federal student loans through the Federal Family Education Loan Program. However, that program ended in 2010, and the federal government is now the direct originator of federal student loans.

Kentucky offers the Kentucky Education Savings Plan Trust, a tax-free savings account for future college costs. In the past, the state also offered the Kentucky Affordable Prepaid Tuition (KAPT) program which allows families to pay for tuition associated with future attendance at today’s prices. However, that program was closed to new enrollees in 2004.

The state also administers a number of smaller aid programs including: the Kentucky National Guard Tuition Award for active guard members; scholarships for aspiring teachers and early childhood educators; a loan forgiveness program for teachers; small targeted scholarship programs for achievement and for AP and dual credit courses for disadvantaged high school students; scholarships for students attending the medical school at Pikeville College; pharmacy scholarships for those in coal counties; and a work study program.54

2 2009 American Community Survey, analysis by the Population Reference Bureau for the Working Poor Families Project.


5 Kelly, “Realizing Kentucky’s Goal.”

6 Kelly, “Realizing Kentucky’s Goal.”


8 The Kentucky Council on Postsecondary Education has put in place tighter tuition and fee ceilings in the last three years.

9 Other revenue sources for Kentucky public colleges and universities besides tuition and state General Fund appropriations include: federal funds; agency funds including local appropriations, government grants and contracts, private gifts and grants, indirect cost reimbursement, investment income, endowment income, and sales and services of educational activities; hospital revenues; and other auxiliary revenues including for intercollegiate athletics. See Council on Postsecondary Education, “Kentucky Public Institutions Actual Revenues by Source 1989-2008,” http://cpe.ky.gov/NR/rdonlyres/7CCB71FB-C546-4ACB-9EB7-F2BC92C6369B/0/Revenue_by_Source_1989_2008_REV_2_09.pdf; Retrieved October 1, 2011.


11 Institution-based financial aid programs are not examined in this brief.


16 In a few cases, unclaimed lottery prize money has been used to supplement regular lottery revenues for KEES scholarships.


22 Office was data available for 74 percent of the students receiving KEES and nearly 100 percent of those receiving CAP and KTG.

23 Office of Education Accountability, “Study of KEES.”

24 Long, “What is Known About Impact.”

25 Kentucky Higher Education Assistance Authority, “Student Financial Aid in Kentucky.”


29 Kentucky Center for Economic Policy calculation using revenue data from the Office of the State Budget Director.


32 Those are the normal income limits for the program as set by law. In fact, the income limits for the Hope Scholarship portion of the program were that high for 2009-2012 because of a temporary increase that was part of the American Recovery and Reinvestment Act. 26 U. S. C. § 25A, http://www.law.cornell.edu/uscode/html/uscode26/sec_26.00000025—A000.html.

33 College Board, “Trends in Student Aid 2010.”
For example, compare two individuals with $2,000 of student loan interest costs in a single year. An individual with $30,000 of otherwise taxable income can reduce that income to $28,000 because of the deduction, lowering their overall tax bill by $16. An individual with $300,000 of otherwise taxable income can reduce it to $298,000 because of the deduction, lowering their overall tax bill by $120. The higher income individual, for whom the deduction is less likely to have made a difference in the choice of whether to attend college, receives a slightly larger tax reduction.

See Long, "What is Known About Impact."


2009 American Community Survey, analysis by the Population Reference Bureau for the Working Poor Families Project.

2009 American Community Survey, analysis by the Population Reference Bureau for the Working Poor Families Project.


Baum and McPherson, “Fulfilling the Commitment.”


32.5% of Kentucky workers earned less than the poverty threshold of a family of four in 2009 ($21,947). Current Population Survey, analysis by the Economic Policy Institute.


Baum and McPherson, “Fulfilling the Commitment.”


Efforts to increase the affordability of higher education—particularly for low-income, adult, and/or first generation college students—work most effectively in tandem with other strategies to improve college access and success. Such efforts are underway throughout the nation—including in Kentucky. Among the strategies particularly complementary to increased affordability are:

- Improve college readiness for traditional students and adults to help avoid the need for remedial classes;
- Provide credit for prior learning;
- Reduce time-to-degree to lessen overall costs;
- Increase the use of accelerated and flexible academic programming;
- Look at strategies to reduce the rising cost of textbooks;
- Improve data systems to better understand how students fare in the system, including adult and non-traditional students;
- Continue progress addressing reforms of the FAFSA and otherwise reducing barriers to accessing financial aid;
- Better coordinate application for financial aid with the receipt of other benefits such as unemployment insurance or free/reduced-price lunches for children;
- Continue work on making costs transparent and on improving transfer between institutions;
- Make college more beneficial by improving alignment of education programs to long-term career pathways that provide good quality jobs;
- Improve support services for people in college including academic supports as well as family supports like child care and transportation;
- Adjust the calendar for financial aid applications to avoid limiting access for adults.

For more information, see the Kentucky Higher Education Assistance Authority annual report at http://www.kheaa.com/pdf/annual_2010.pdf.