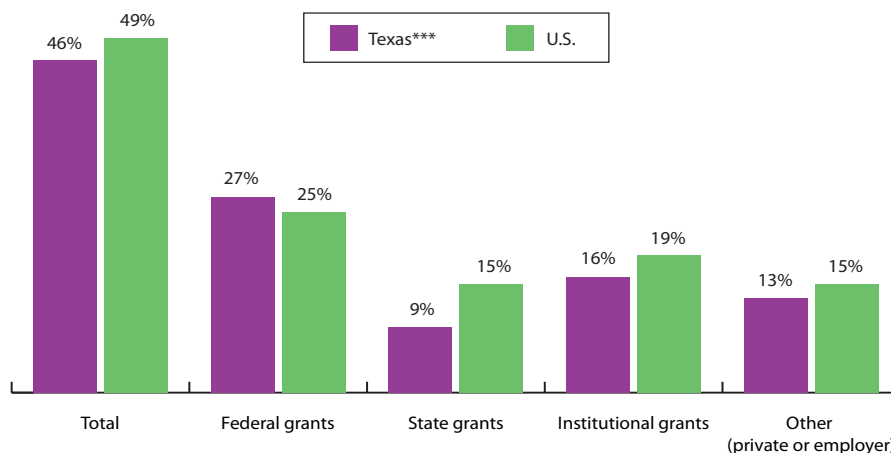


Section 5

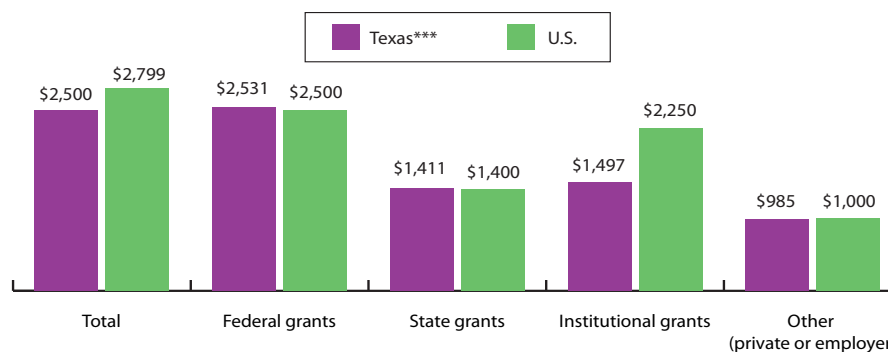
Grant Aid and Net Price in Texas

More Than Half of Undergraduates in Texas Do Not Receive Grant Aid

Percent of Undergraduates in Texas*** and the U.S. Who Received Any Grant Aid (AY 2003-2004)



Median Total Grant Aid for Undergraduates in Texas and the U.S. Who Received Grants: Total and by Source (AY 2003-2004)



Grants (including scholarships) may be awarded to students on the basis of financial need, merit in academics, athletics, or other areas, a combination of need and merit, or other factors. Unlike loans, grants do not have to be repaid, thus, grants lower the cost of attending college for students who receive them. In Award Year (AY) 2003-2004, about 46 percent of undergraduates in Texas* received some form of grant aid, with a median** of \$2,500 in total grants received by those who received them. In the U.S. as a whole, 49 percent of undergraduates received grants with a median of \$2,799 received. The largest source of grant aid is the federal government: 27 percent of undergraduates in Texas received a federal grant, with a median of \$2,531 received. In most cases this was a Pell Grant, which is the largest need-based grant program in the country. The second largest source of grants was from schools themselves: about 16 percent of Texas undergraduates received institutional grants***. The third largest source was from outside entities such as private foundations or employers. The state of Texas represented the smallest source of grant aid: just 9 percent of Texas undergraduates received a state grant*** compared to 15 percent nationwide. For federal, state, and private grants, the median received by Texas students was almost the same as in the U.S. However, for institutional grants, the median in Texas was a good deal smaller.

* Data on students who attended for-profit institutions are not available.

** A median is the point at which 50 percent of students received more and 50 percent received less. A median represents a typical student better than an average because students who received large grants skew the average, making it a less reliable gauge than the median.

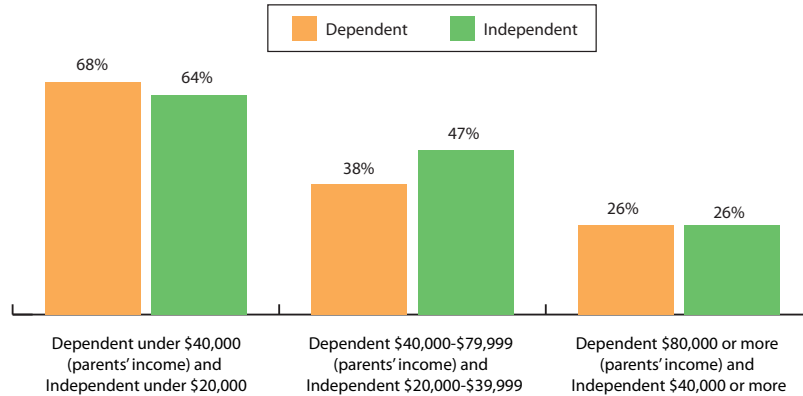
*** The percent of undergraduates in Texas receiving institutional grant aid may actually be higher than shown and the percent receiving state grant aid may be lower. This is due to the fact that the Texas Public Educational Grant (TPEG) was reported in the National Postsecondary Student Aid Study (NPSAS) as a state grant rather than an institutional grant. TPEG comes from a school's own revenue sources, such as tuition, fees, and returns on investments, and is often viewed as a form of tuition discounting.

Source: U.S. Department of Education, National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS) 2004", <http://www.nces.ed.gov/das/>.

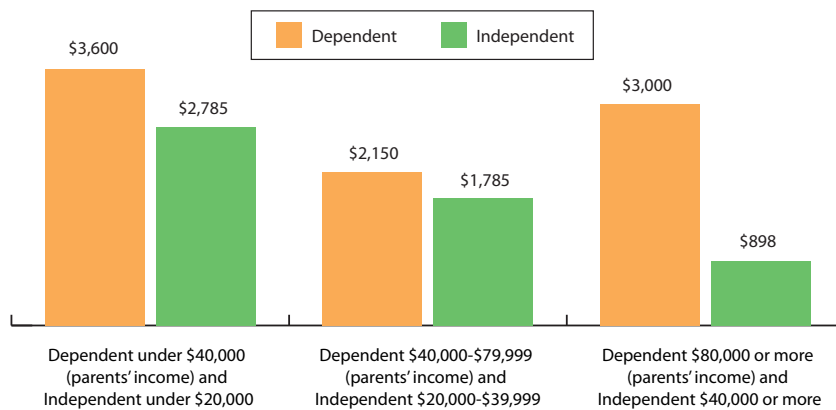


Low-income Independent Undergraduates in Texas Receive Less Median Grant Aid Than High-income Dependent Undergraduates

Percent of Undergraduates in Texas Who Received Grant Aid, by Dependency Status and Income** (AY 2003-2004)



Median Total Grant Aid for Undergraduates in Texas Who Received Grants, by Dependency Status and Income** (AY 2003-2004)



About 49 percent of undergraduates in Texas* are dependent on their parents and 51 percent are independent.** In the 2003-2004 Award Year (AY), just under half of students in both groups received some form of grant aid including scholarships, but the amounts they received varied, with dependent students from high-income families actually receiving larger median grants than independent students with low incomes. Among both dependent and independent undergraduates, about two-thirds of low-income students, two-fifths of middle-income, and one-fourth of high-income, received grants. Median grant aid*** was highest (\$3,600) for dependent students whose parents make under \$40,000. However, the second highest amount was not for low-income independent students, but for high-income dependent: students whose parents make \$80,000 or more received a median of \$3,000 in grants compared to \$2,785 for independent students making less than \$20,000. Independent students, regardless of income, tend to select modestly-priced two-year institutions over four-year by a two-to-one margin, but it is not known whether some students receive less grant aid because they attend less expensive schools, or whether they attend less expensive schools because they receive less grant aid. By lowering their educational expenses, students reduce their eligibility for aid. While grant aid opens access to higher education, it also provides many higher-income students with increased choice in selection from a diverse array of colleges.

* Data on students who attended for-profit institutions are not available.

** The U.S. Department of Education defines an independent undergraduate as age 24 or older, married, with dependents to support, a veteran, or orphan or ward of the court. Students who do not meet these criteria, but who receive no financial support from their parents, may also be considered independent. Independent students' income includes spouse's, if any. About 42 percent of independent undergraduates in Texas are married.

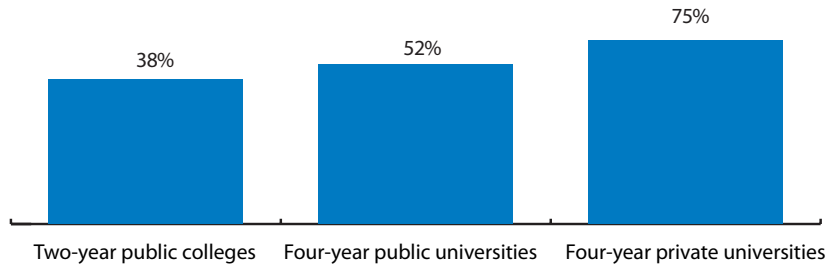
*** A median is the point at which 50 percent of grant recipients received more and 50 percent received less. A median represents a typical student grant better than an average because students who received large grants skew the average, making it a less reliable gauge than the median.

Source: U.S. Department of Education, National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS) 2004", (<http://www.nces.ed.gov/das/>).

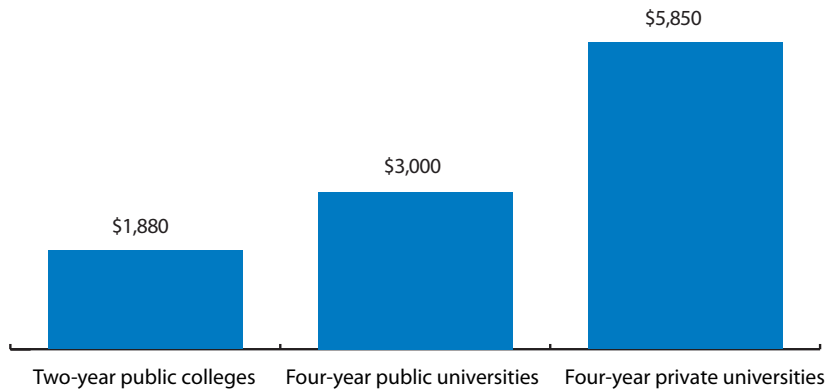


Undergraduates at Private Universities in Texas Are Twice as Likely to Receive Grants as Students at Community Colleges

Percent of Undergraduates in Texas Who Received Grant Aid, by School Sector (AY 2003-2004)



Median Total Grant Aid for Undergraduates in Texas Who Received Grants, by School Sector (AY 2003-2004)



Undergraduates at private universities in Texas, which enroll just one-tenth of all higher education students in the state, are twice as likely to receive grants, including scholarships, as students at community colleges. At four-year private universities, 75 percent of undergraduates received some form of grant aid in the 2003-2004 Award Year (AY), with a median* of \$5,850 received by those who received grants. At four-year public universities about half of undergraduates received grant aid with a median of \$3,000 received, and at two-year public colleges 38 percent of students received grants with a median of \$1,880. Public institutions tend to be less expensive than private, and two-year institutions tend to be less expensive than four-year**. In addition, 80 percent of students at two-year public colleges attend less than full-time/full-year***, which reduces costs, versus 45 percent and 41 percent, respectively, at public and private universities. However, it is not known whether some students receive fewer grants because they attend less than full-time or whether they attend less than full-time because they receive fewer grants.

* A median is the point at which 50 percent of recipients received more in grants and 50 percent received less. A median represents a typical student better than an average because students who received large grants skew the average, making it a less reliable gauge than the median.

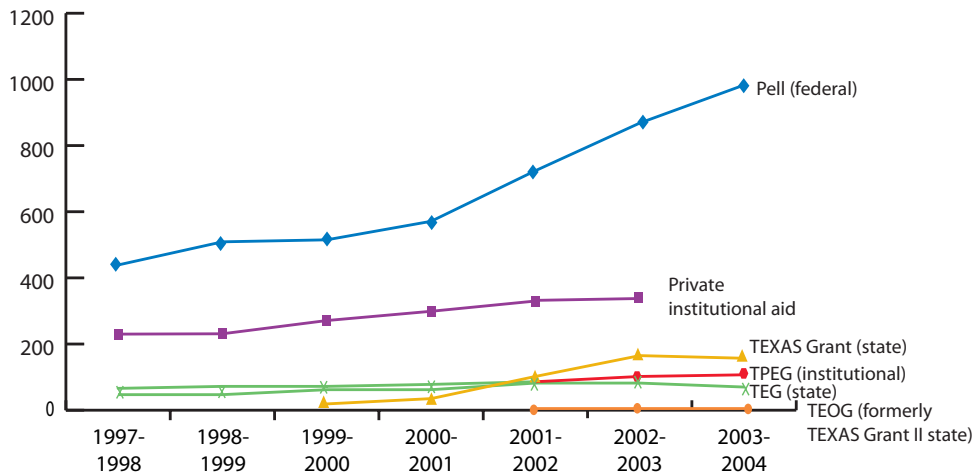
** Weighted for enrollment, the total AY 2003-2004 cost of attendance (tuition and fees, books and supplies, food and housing, transportation, and personal expenses) for a full-time student was \$24,693 at private universities in Texas, \$14,730 at public universities, and \$10,428 at public two-year colleges. Data come from the Texas Higher Education Coordinating Board and are based on 15 credit hours in the fall and spring semesters.

*** Full-time/full-year students are those who took a full course load, usually 12 or more credit hours in the fall and spring semesters, for at least nine months between July 1, 2003 and June 30, 2004. Students who attended less than full-time/full-year either took a full course load but for less than nine months, or did not take a full course load.

Source: Enrollment fall 2003: Texas Higher Education Coordinating Board (THECB), Statistical Report 2004 (<http://www.thecb.state.tx.us/DataAndStatistics/>); Cost of attendance: THECB "2003-2004 College Student Budgets" (costs have been weighted for enrollment) (<http://www.thecb.state.tx.us/reports/pdf/0111.pdf>); All other: U.S. Department of Education, National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS) 2004", (<http://www.nces.ed.gov/das/>).

Three-fourths of Grant Aid in Texas Comes from the Federal Government

Total Amount Awarded per Award Year, in Millions of Dollars



The largest grant program in Texas and the nation is the federal Pell Grant, which is only for undergraduate students who demonstrate financial need. Pell, which provides three-fourths of the grant aid in Texas, has grown significantly since the late 1990s, an indication of the need of Texas students. In Award Year (AY) 2003-2004, \$837 million in Pell grants was distributed at colleges and universities in Texas and \$145 million was distributed at for-profit schools, for a total of \$982 million.

The second largest source of grant aid in Texas is institutional aid. In AY 2002-2003, private colleges and universities gave out \$332 million in institutional aid to undergraduate and graduate students. Data on AY 2003-2004, and the amount awarded to undergraduates only, are not available.

TPEG (Texas Public Educational Grant) is funded through schools' own resources and is also considered an institutional grant. In AY 2003-2004, \$107 million was distributed in TPEG awards to undergraduate and graduate students. Data on total institutional aid given by all public colleges and universities, and the amount given just to undergraduates, are not available.

State grants comprise the smallest source of grant aid in Texas. There are three main state grants, of which the largest is the TEXAS (Towards EXcellence, Access, and Success) Grant. TEXAS Grant recipients must graduate from high school with a Recommended* diploma, enroll in an undergraduate program in a Texas college or university within 16 months, and maintain a Grade Point Average (GPA) of 2.5 on a 4.0 scale to remain eligible for the grant. In AY 2003-2004, \$156.6 million in TEXAS Grants was awarded, a decrease of about \$8 million from the previous year. In AY 2004-2005, more than 31,000 needy students — over one-third of those eligible to receive a TEXAS Grant — did not receive one.

TEG (Tuition Equalization Grant) is a state grant for students attending private colleges and universities in Texas. In AY 2003-2004, \$70.5 million in TEG was awarded to undergraduate and graduate students, a decrease of \$12 million over the previous year.

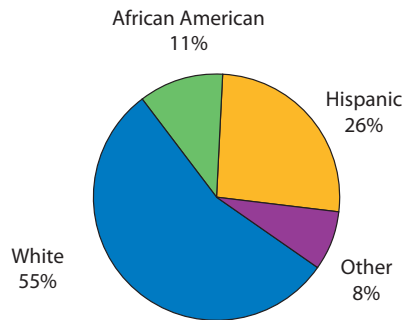
TEOG (Texas Educational Opportunity Grant, formerly TEXAS Grant II) is also a state grant and was begun in 2001. It assists undergraduates attending public two-year schools. In AY 2003-2004, \$5 million was awarded for TEOG.

*The Recommended diploma requires an additional credit each of science and social studies and two of foreign language. In 2003, 64 percent of Texas high school graduates graduated with a Recommended diploma or higher, up from 15 percent in 1999.

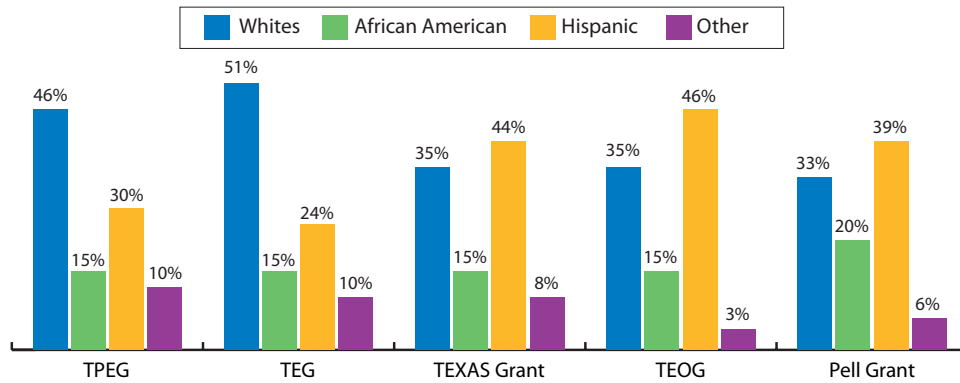
Source: Private institutional aid: Independent Colleges and Universities of Texas (ICUT) "Annual Statistical Report", December 2004 (<http://www.icut.org/Publications/publications.html>); Pell data: U.S. Department of Education, "Federal Pell Grant Program End of Year Reports," (<http://www.ed.gov/finaid/prof/resources/data/ope.html?exp=0>); All other grants: Texas Higher Education Coordinating Board (THECB) "Bentson Report," Austin, Texas (Unpublished tables); TEXAS Grant shortfall: THECB, "TEXAS Grant Program Projections as of May 2004" (internal memo); Grant qualifications and grant availability: THECB "College for Texans" website (<http://www.collegefortexans.com/paying/finaidtypes.cfm>); Recommended diploma: Texas Education Agency "Academic Excellence Indicator System" (<http://www.tea.state.tx.us/perfreport/aeis/2003/index.html>).

Grant Recipients in Texas are Ethnically Diverse

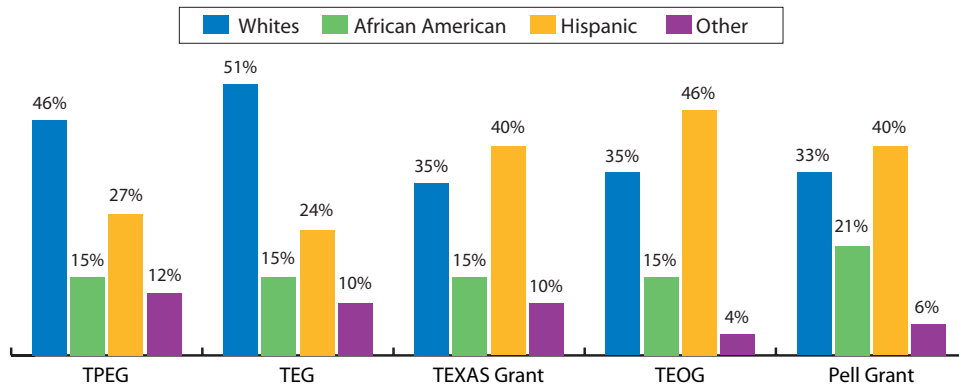
Enrollment by Ethnicity (Fall 2003)



Grant Recipients by Ethnicity (Award Year 2003-2004)



Award Amount by Ethnicity (Award Year 2003-2004)



Allocation of grant aid in Texas reflects the ethnic diversity of the state. Fifty-nine percent of Pell Grant and TEXAS Grant recipients, and 62 percent of TEOG (formerly TEXAS Grant II) recipients, are either Hispanic or African American. Percentages for the Tuition Equalization Grant (TEG) and Texas Public Educational Grant (TPEG) are somewhat less — 39 percent and 45 percent, respectively. There appears to be little difference in ethnic breakdown of recipients in comparison to the amount awarded.

Source: Enrollment by ethnicity: Texas Higher Education Coordinating Board (THECB) "2003 Fall Headcount Enrollment." Austin, Texas; (Unpublished tables); All other: THECB "Financial Aid Database for AY 2003-2004." Austin, Texas, 2005. (Unpublished tables).

The Value of the Federal Pell Grant Continues to Decline

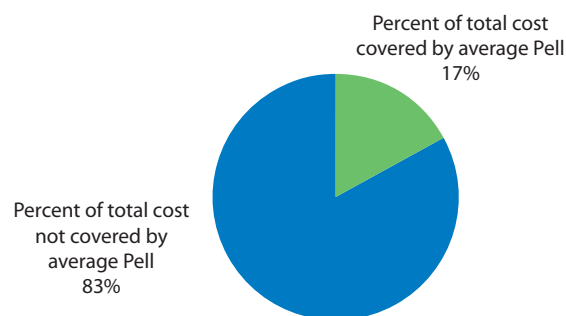
The buying power of the largest grant program in the U.S. as well as in Texas, the federal Pell Grant, has declined over the last three decades. Originally designed as the foundation for student aid packaging, the Pell Grant is only allocated to undergraduates and only to the neediest of undergraduates. But in Award Year (AY) 2003-2004, the average Pell Grant in the U.S., at \$2,466, covered just 23 percent of the average “fixed cost” (defined as tuition and fees plus food and housing for off-campus students) for undergraduates at public four-year universities, down from a little under 50 percent in the mid-1970s. Overall Pell funding has been increasing in recent years, but the number of recipients is also increasing due to, among other things, an increase in the percent of people in poverty (from 11.9 percent in 2001-2002 to 12.6 percent in 2003-2004*) and an increase in the cost of attending college. The average Pell Grant per student has not kept pace with rising costs: in AY 2003-2004, the average Pell in the U.S. rose by \$30, but total costs at four-year public universities rose by \$713 in the U.S. and \$1,209 in Texas.

The buying power of the Pell Grant is lower in Texas than in the rest of the nation. In AY 2003-2004, the average Pell Grant covered 17.4 percent of the average total cost (defined as tuition and fees, food and housing, books and supplies, transportation, and personal expenses) of one year of attendance at a public university in the U.S., and 16.7 percent of the cost in Texas.

Increase in Average Pell Grant Over Previous Award Year and Increase in the Average Total Cost of One Year of Attendance at a Public Four-year University in Texas and the U.S.

Award Year	Increase in Average Pell Grant	Increase in Cost in Texas	Increase in Cost in U.S.
2001-2002	\$258	\$395	\$1,020
2002-2003	\$123	\$831	\$755
2003-2004	\$30	\$1,209	\$713
2004-2005	not available	\$1,036	\$1,004

Percent of Average Total Cost of One Year of Attendance at a Public Four-year University in Texas Which is Covered by the Average Pell Grant (AY 2003-2004)

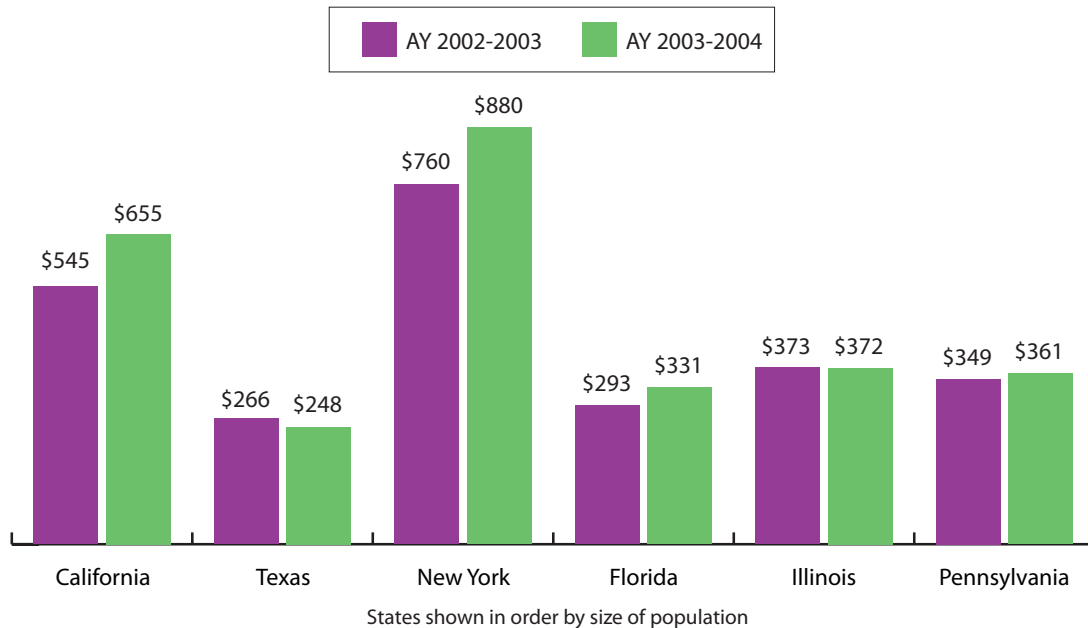


* Two-year average.

Sources: Texas costs: Texas Higher Education Coordinating Board (THECB) "2004-2005 College Student Budgets (costs have been weighted for enrollment) (<http://www.thecb.state.tx.us/reports/pdf/0111.pdf>); U.S. costs: The College Board, Trends in College Pricing 2004 (http://www.collegeboard.com/prod_downloads/press/cost04/041264TrendsPricing2004_FINAL.pdf); Pell: The College Board, Trends in Student Aid, 2004 (http://www.collegeboard.com/prod_downloads/press/cost04/TrendsInStudentAid2004.pdf); Poverty rate 2001-2002: U.S. Census Bureau, Income, Poverty, and Health Insurance Coverage in the United States: 2003 (August 2004); Table 8, p. 23 (<http://www.census.gov/prod/2004pubs/p60-226.pdf>); 2003-2004: U.S. Census Bureau, Income, Poverty, and Health Insurance Coverage in the United States: 2004 (August 2005); Table 10, p. 25; (<http://www.census.gov/prod/2005pubs/p60-229.pdf>).

Texas State Grant Aid Decreases

Total State Grant Aid, in Millions of Dollars



In Award Year (AY) 1996-1997, Texas spent only \$48 million in state grant aid. Among the six largest states, Texas ranked last, spending less than half what was spent by the next lowest state, Florida. Then, with the establishment of the TEXAS (Toward EXcellence Access, & Success) Grant* program in 1999, state grant aid began to increase. By AY 2002-2003, the amount that Texas allocated in grants had risen to \$266 million, but the following year total state grant aid decreased to \$248 million**, which means that Texas still ranks last. In AY 2003-2004 Texas spent only a little more than a third of what was spent by California, and a little over a fourth of what was spent by New York. For AY 2004-2005, funding for the largest state grant program, the TEXAS Grant, was \$166 million, essentially the same as two years earlier. The Texas Higher Education Coordinating Board (THECB) estimates that in AY 2004-2005 more than 31,000 students — over one-third of those eligible for the TEXAS Grant — did not receive one. Meanwhile, both enrollments and financial need in the state continue to increase: for Texas students who received aid only to meet costs and not to replace family income, average unmet need for AY 2003-2004 — the costs not covered by family income or aid including both grants and loans — was \$5,189, up from \$4,972 a year earlier.

Student grant aid may be based on financial need, academic merit, a combination of need and merit, or other factors. In Texas, almost all (98 percent) of state grant aid is based on student need.

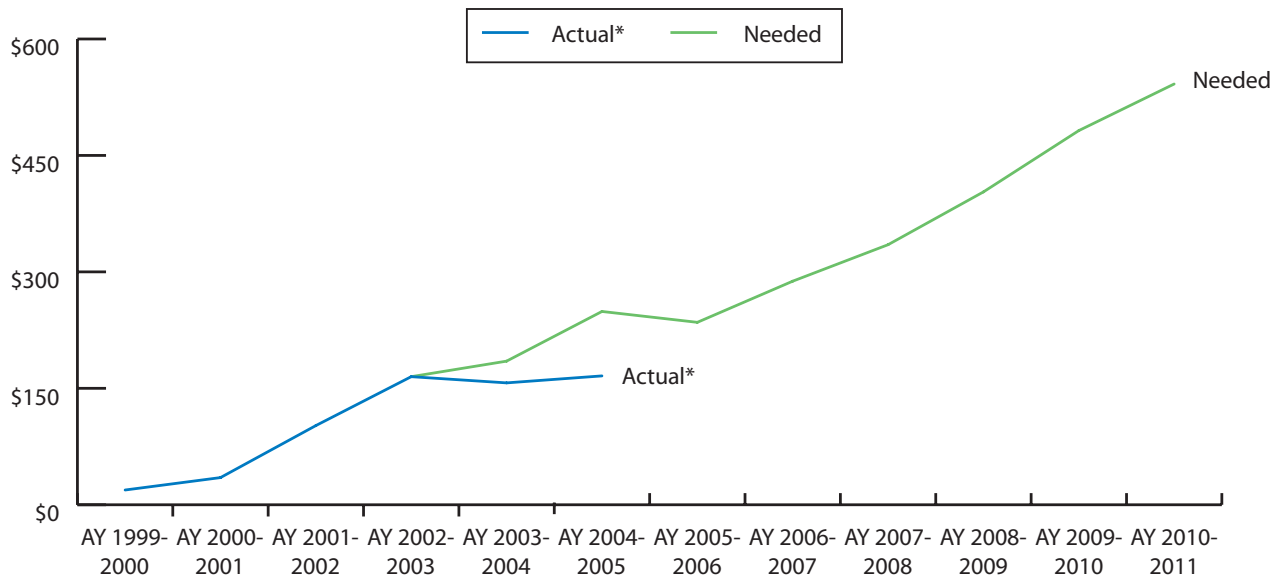
* To receive a TEXAS Grant a student must graduate from a Texas public or private high school with a Recommended or Distinguished diploma rather than the minimum, enroll in higher education in Texas within 16 months, and maintain a Grade Point Average (GPA) of 2.5 on a 4.0 scale to maintain eligibility.

**State grant aid does not include institutional aid, such as the Texas Public Educational Grant (TPEG). Institutional grant aid comes from the school's own revenue sources, such as tuition, fees, and returns on investments, and is often viewed as a form of tuition discounting. TPEG reported to the National Association of State Student Grant and Aid Programs (NASSGAP) for AY 2003-2004 has been subtracted from NASSGAP's state grant aid data for Texas.

Source: TEXAS Grant availability for AY 2004-2005: Texas Higher Education Coordinating Board (THECB) "College for Texans" website (<http://www.collegefortexans.com/TEXASGrant/TEXASGrant.cfm>); TEXAS Grant shortfall: THECB, "TEXAS Grant Program Projections as of May 2004" (internal memo); Unmet need: THECB, Financial Aid Database AY 2003-2004 (unpublished tables); All other: National Association of State Student Grant and Aid Programs. 35th Annual Survey Report on State-Sponsored Student Financial Aid. May 2005 (www.nassgap.org).

Many Eligible Students Are Not Receiving the TEXAS Grant

Actual TEXAS Grant Allocations and Amount Needed to Cover All Eligible Needy Students, in Millions of Dollars



*Actual amounts for the future will be determined by the Legislature

The Texas Legislature created the TEXAS (Toward EXcellence, Access, and Success) Grant in 1999 to help needy undergraduates pay tuition and fees comparable to what one would spend at a typical public four-year or two-year institution in Texas. To qualify, students must graduate from high school with a Recommended* diploma rather than the minimum and enroll in a college or university in Texas within 16 months. Initially, only 15 percent of Texas high school graduates had taken the courses to qualify for the TEXAS grant. With greater public awareness, and a 2001 law mandating the Recommended diploma as the default for entering high school freshmen beginning in 2004, the percentage of students graduating with a Recommended diploma increased to 64 percent in 2003.

The program seemed to work: more needy students were taking the tougher courses and money became available to help them pay for college. However, state funding has remained flat, while the average grant amount has risen since (1) it is pegged to average tuition and fees for undergraduates at Texas public institutions, which have risen sharply since the program was created, and (2) the number of eligible students has exceeded expectations. Over 68,000 new and returning** needy students received a TEXAS Grant in Award Year (AY) 2002-2003, but only 64,000 students got a grant in AY 2003-2004 and about 56,000 in AY 2004-2005. The Texas Higher Education Coordinating Board (THECB) reports that 31,000 needy students—over one-third of those eligible—did not receive a TEXAS Grant in AY 2004-2005. As tuition and fees increase and more students graduate with the college prep curriculum, the amount needed to fully fund TEXAS Grants will increase to \$542 million by AY 2010-2011 according to the THECB.

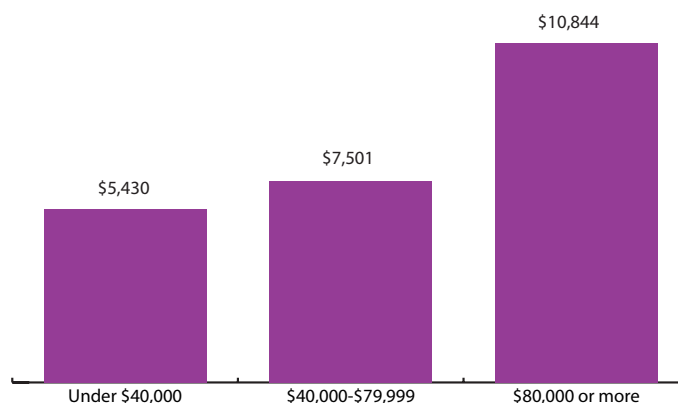
* The Recommended curriculum better prepares students for college than the minimum curriculum by requiring one additional credit each in science and social studies, and two in foreign language (three for Distinguished diploma).

** TEXAS Grant recipients are eligible to continue to receive the grant if they maintain an overall Grade Point Average (GPA) of 2.5 on a 4.0 scale.

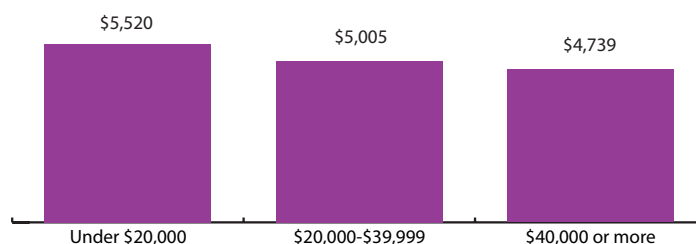
Sources: TEXAS Grant requirements: Texas House Bill 713, 76th Legislature (1999); Percent of students graduating with a Recommended diploma: Texas Education Agency, Academic Excellence Indicator System (<http://www.tea.state.tx.us/perfreport/aeis/index.html>); TEXAS Grant shortfall and projections: Texas Higher Education Coordinating Board, THECB, "TEXAS Grant Program Projections as of May 2004" (internal memo); Recommended diploma mandate: Texas House Bill 1144, 77th Legislature (2001) (<http://www.capitol.state.tx.us/tlo/77r/billtext/HB01144F.HTM>); TEXAS Grant amount: THECB, "Bentson Report" (unpublished tables).

Net Price of Attendance for Low-income Undergraduates in Texas is More Than \$5,400

Median Net Price for Dependent Undergraduates in Texas by Parents' Income: Total Cost of Attendance* Minus All Grants (AY 2003-2004)



Median Net Price for Independent Undergraduates in Texas by Income: Total Cost of Attendance* Minus All Grants (AY 2003-2004)



The net price of attendance for a student at an institution of higher education is defined as the student's total cost of attendance* minus the total grants and scholarships he or she receives. In the 2003-2004 Award Year (AY), the median** net price*** of attendance for low-income students was \$5,430 for dependent students whose parents make under \$40,000, and \$5,520 for independent students making under \$20,000****. This was the amount that students or their families had to cover through work, loans, or savings. The amount that dependent students had to cover rose with parental income, perhaps reflecting the fact that students from higher-income families are more likely to attend higher-cost institutions than students whose parents make less money. For independent undergraduates, however, net price was actually higher for low-income students than for high-income. The median net price of \$5,520 for those making less than \$20,000, who represent 38 percent of all independent undergraduates, represented more than one-fourth of the income of someone making \$20,000.

* Tuition and fees, books and supplies, food and housing, transportation, and other expenses, for a full-time student for 9 months. Full-time students in the National Postsecondary Student Aid Study (NPSAS) are those who took 12 or more credit hours in the fall and spring semesters. For students who took fewer hours, costs have been adjusted to reflect what they would have been if they had taken 12 hours.

** A median is the point at which 50 percent of students had a higher net price and 50 percent had lower. A median represents a typical student better than an average because students who had a high net price skew the average, making it a less reliable gauge than the median.

*** The median net price (i.e. cost of attendance minus grants and scholarships) is not equivalent to the Texas Higher Education Coordinating Board's (THECB's) weighted cost of attendance minus grants and scholarships because THECB costs have been weighted for enrollment and are based on 15 credit hours per semester, whereas costs in the National Postsecondary Student Aid Study (NPSAS), from which median net price is derived, have not been weighted for enrollment and are based on 12 credit hours per semester.

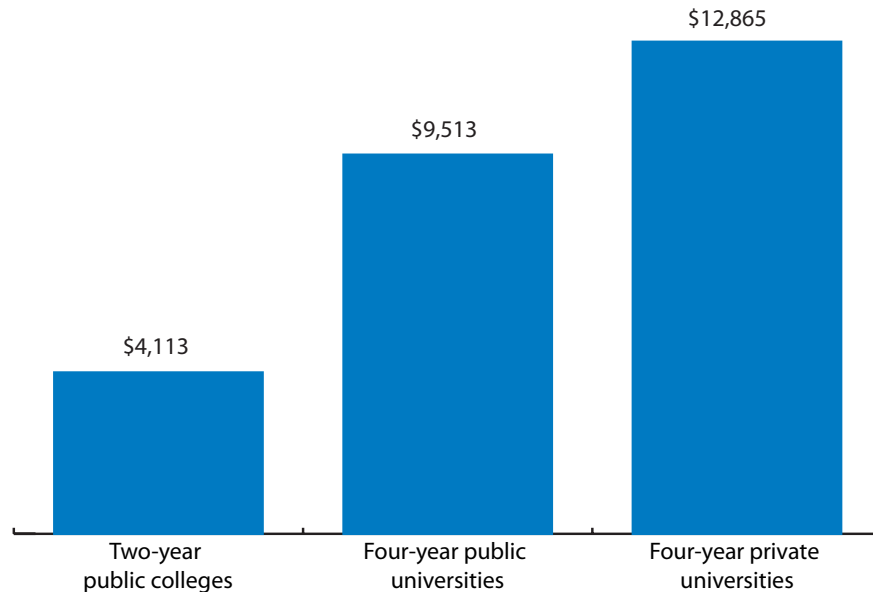
**** The U.S. Department of Education defines an independent undergraduate as age 24 or older, married, with dependents to support, a veteran, or orphan or ward of the court. Students who do not meet these criteria, but who receive no financial support from their parents, may also be considered independent. In Texas, 49 percent of undergraduates are dependent and 51 percent are independent. Independent students' income includes spouse's, if any. About 42 percent of independent undergraduates in Texas are married.

Source: U.S. Department of Education, National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS) 2004", (<http://www.nces.ed.gov/das/>).



Net Price of Attendance at Public Institutions in Texas is More Than \$4,100 at Two-year Schools and \$9,500 at Four-year Schools

**Median Net Price for Undergraduates in Texas by School Sector:
Total Cost of Attendance* Minus All Grants and Scholarships (AY 2003-2004)**



The net price of attendance for a student at an institution of higher education is defined as the student's total cost of attendance* minus the total grants and scholarships he or she receives. At public institutions, which enroll 90 percent of all students in Texas, the median** net price of attendance*** for the 2003-2004 Award Year (AY) was \$4,113 at two-year institutions and \$9,513 at four-year institutions. For private four-year universities, net price was \$12,865. These are the amounts that students (or, for dependent students, their parents) had to cover through work, loans, or savings.

* Tuition and fees, books and supplies, food and housing, transportation, and other expenses, for a full-time student for 9 months. Full-time students in the National Postsecondary Student Aid Study (NPSAS) are those who took 12 or more credit hours in the fall and spring semesters. For students who took fewer hours, costs have been adjusted to reflect what they would have been if they had taken 12 hours.

** A median is the point at which 50 percent of students had a higher net price and 50 percent had lower. A median represents a typical student better than an average because students who had a high net price skew the average, making it a less reliable gauge than the median.

*** The median net price (i.e. cost of attendance minus grants and scholarships) is not equivalent to the Texas Higher Education Coordinating Board's (THECB's) weighted cost of attendance minus grants and scholarships because THECB costs have been weighted for enrollment and are based on 15 credit hours per semester, whereas costs in the National Postsecondary Student Aid Study (NPSAS), from which median net price is derived, have not been weighted for enrollment and are based on 12 credit hours per semester.