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A WAY OF TESTING THE FAIRNESS OF THE SEOG-IY STATE ALLOTMENT FORMULA

by Benjamin S. Sandler

Introduction

Supplemental Educational Opportunity Grants (SEOGs) are federal student aid funds appropriated annually by Congress and distributed to colleges and universities for needy student support. Current federal law requires the splitting of each annual SEOG appropriation into two sub-appropriations. The first of these is called the Initial Year (IY) appropriation. Ninety per cent of the IY appropriation is distributed according to a "state allotment formula" in the law. This formula distributes funds among states according to each state's relative share of national post-secondary enrollments. Thus, although SEOGs must be awarded to individual students on the basis of need, the current state allotment formula ignores need and instead relies only on relative enrollments.

Many financial aid specialists believe that the SEOG state allotment formula is an antediluvian relic whose sole present justification is crudely political. The common assumption is that legislators from states which benefit from the state allotment formula will not tolerate any change that would reduce SEOG funding levels in their states. Therefore, it is argued, the process of SEOG fund distribution, otherwise rational, must be chronically burdened with the weight of a state allotment formula that has certainly outlived its usefulness by now — if it ever had any use in the first place.

One of the problems with this point of view is that, until recently, there has not been any credible way to test its truth. To do so requires a comparative standard of some sort: a way of measuring aggregate state financial need for SEOG funds, compared with the funds actually delivered by the state allotment formula. Such a comparative standard exists for the first time in 1980-81. This standard is the calculation of aggregate state need as measured by the new Fiscal Operation's Report and Application to participate in the National Direct Student Loan, Supplemental Educational Opportunity Grants and College Work-Study Programs (FISAP) process, for which the first year of full operation is 1980-81.

Comparing SEOG FISAP needs with state allotment formula distributions

SEOG FISAP needs for each school are derived by first calculating the school's total costs for potential SEOG recipients, then subtracting resources available to the school: Basic Grants, state grants, institutional grants, and family contributions. The remainder is the school's SEOG need. All school needs in a state, added together, are the state's aggregate SEOG need.

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It is true that the calculation of FISAP needs is itself a subject of intense controversy. Nevertheless, the FISAP calculation represents at least a crude effort to measure institutional needs uniformly, and its inadequacy is shared in a roughly proportional manner among all schools and states. Therefore, it is reasonable to compare the distribution of total state SEOG needs with the distribution of SEOG-IY funds through the SEOG state allotment formula. For example, if a given state is receiving 5% of the funds distributed by the state allotment formula, but it has 10% of the aggregate national SEOG FISAP need, an argument can be made that the state allotment formula unfairly penalizes the state and its schools. If the percentages were reversed, the state can be said to be receiving an excessive benefit from the state allotment formula.

Table I displays state allotment formula distributions and FISAP needs for each state. All dollar figures are in thousands. Column 1, the 1980-81 SEOG-IY state allotment formula distribution among states, comes from a document prepared on February 4, 1980 by the then-Office of Education. The SEOG-total needs in column 2 come from an Office of Education report entitled "Component Distribution of Allocations, 1980-81 Campus Based Programs", published in February, 1980.

The SEOG-total need has been chosen as a fairer reflection of aggregate state need than the SEOG-IY need. The IY need is an artificial number that is derived, in the FISAP formula, by the way in which institutions split their total SEOG requests into IY and Continuing Year (CY) components. Since institutions are given a good deal of freedom in the methods used to develop their IY and CY requests, it is reasonable to assume that there is not a high degree of consistency among institutions in method. One may therefore assume a similar lack of consistency in result. Utilizing SEOG-total needs avoids these difficulties. Moreover, since the Education Amendments of 1980 permit the random mixing of IY and CY funds at the campus level, the SEOG-total need becomes a more relevant basis for assessing relative institutional eligibility for funds.

In columns 1 and 2, each percentage shows each state's share of the total. For example, Minnesota's share of the 1980-81 SEOG-IY state allotment formula distribution is 2.1% of the total distribution. However, its share of the national SEOG-total FISAP need is 2.7%. It can therefore be argued that the state allotment formula treats Minnesota's institutions unfairly because the state allotment formula does not support them in proportion to their relative FISAP state need.

Column 3 shows what the SEOG-IY distribution would have been if, hypothetically, FISAP needs had been used to govern the distribution, instead of the state allotment formula. For example, Minnesota's IY distribution would have been \$4,853,000 instead of \$3,814,000. Column 4 measures the magnitude of each change from column 1 to column 3, in both dollars and percentages. For example, Minnesota's IY allocation based on its relative FISAP need would have been \$1,039,000 (27.2%) greater than it now is, through the state allotment formula.

It could be argued that, even if the IY state allotment formula distribution is unfair in many cases, the unfairness is rectified by other parts of the FISAP

Table 1: A comparison of 1980-81 SEOG-IY state allotment formula distributions with 1980-81 SEOG total FISAP need distributions (dollars in thousands)

state	(1)		(2)		(3)	(4)
	actual SEOG-IV state allotment formula distribution	% of total	SEOG-total index	% of total	hypothetical distribution of IY state allotment formula funds by SEOG index percentages in column 2	dollar and percentage difference between state allotment formula distrib. (col. 1) and SEOG index distrib. (col. 1)
Alabama	3,088	1.7	54,137	2.1	3,774	+ 736/+22.2%
Alaska	247	.1	1,085	.0	0	- 247 / n. a.
Arizona	2,602	1.4	41,196	1.6	2,876	+ 274/+10.5%
Arkansas	1,400	.8	22,744	.9	1,618	+ 218/+15.6%
California	22,195	12.3	195,300	7.7	13,839	-8,356/-37.7%
Colorado	2,549	1.4	32,146	1.3	2,336	- 213/- 8.4%
Connecticut	2,508	1.4	36,188	1.4	2,516	+ 8/+ .3%
Delaware	497	.3	7,574	.3	539	+ 42/+ 8.5%
Florida	5,769	3.2	92,661	3.6	6,470	+ 701/+12.2%
Georgia	3,427	1.9	53,686	2.1	3,774	+ 347/+10.1%
Hawaii	753	.4	4,991	.2	359	- 394/-52.3%
Idaho	1,116	.6	5,189	.2	359	- 757/-67.8%
Illinois	8,681	4.8	74,150	2.9	5,212	-3,469/-40.0%
Indiana	3,729	2.1	42,033	1.7	3,055	- 674/-18.1%
Iowa	2,318	1.3	35,135	1.4	2,516	+ 198/+ 8.5%
Kansas	2,057	1.1	24,271	1.0	1,797	- 260/-12.6%
Kentucky	2,366	1.3	32,575	1.3	2,336	- 30/- 1.3%
Louisiana	2,743	1.5	40,438	1.6	2,876	+ 133/+ 4.8%
Maine	697	.4	19,041	.7	1,258	+ 561/+80.5%
Maryland	2,915	1.6	34,374	1.4	2,516	- 399/-13.7%
Massachusetts	6,244	3.5	135,021	5.3	9,526	+3,282/+52.6%
Michigan	7,154	4.0	72,550	2.9	5,212	-1,942/-27.2%
Minnesota	3,814	2.1	69,267	2.7	4,853	+1,039/+27.2%
Mississippi	1,683	.9	42,771	1.7	3,055	+1,372/+81.5%
Missouri	3,564	2.0	48,966	1.9	3,415	- 149/- 4.2%
Montana	581	.3	9,436	.4	719	+ 138/+23.8%
Nebraska	1,395	.8	20,271	.8	1,438	+ 43/+ 3.1%
Nevada	395	.2	2,539	.1	180	- 215/-54.4%
New Hampshire	744	.4	19,728	.8	1,438	+ 694/+93.3%
New Jersey	4,564	2.5	66,790	2.6	4,673	+ 109/+ 2.4%
New Mexico	948	.5	15,027	.6	1,078	+ 130/+13.7%
New York	15,301	8.5	237,317	9.3	16,715	+1,414/+ 9.2%
North Carolina	4,526	2.5	64,111	2.5	4,493	- 33/- .7%
North Dakota	609	.3	13,055	.5	899	+ 290/+47.6%
Ohio	7,209	4.0	98,336	3.9	7,009	- 200/- 3.8%
Oklahoma	2,532	1.4	48,468	1.9	3,415	+ 883/+34.9%
Oregon	2,178	1.2	39,928	1.6	2,876	+ 698/+32.0%
Pennsylvania	8,260	4.6	163,724	6.4	11,503	+3,243/+39.3%
Rhode Island	1,008	.6	24,557	1.0	1,797	+ 789/+78.3%
South Carolina	2,208	1.2	30,657	1.2	2,157	- 51/- 2.3%
South Dakota	605	.3	15,312	.6	1,078	+ 473/+78.2%
Tennessee	3,498	1.9	48,573	1.9	3,415	- 83/- 2.4%
Texas	10,172	5.7	109,019	4.3	7,728	-2,444/-24.0%
Utah	1,480	.8	11,479	.5	899	- 581/-39.3%
Vermont	520	.3	15,544	.6	1,078	+ 558/+107.3%
Virginia	3,777	2.1	45,898	1.8	3,235	- 542/-14.4%
Washington	3,833	2.1	73,437	2.9	5,212	+1,479/+36.0%
West Virginia	1,274	.7	13,704	.5	899	- 375/-29.4%
Wisconsin	3,967	2.2	52,350	2.1	3,774	- 193/- 4.9%
Wyoming	291	.2	2,841	.1	180	- 111/-38.2%
DC	1,427	.8	22,435	.9	1,618	+ 191/+13.4%
Puerto Rico	2,233	1.2	59,201	2.3	4,134	+1,901/+85.1%
Am. Samoa	11	.0				
North Mar.	0					
Guam	43	.0	0			
Virgin Isl.	21	.0	0			
Trust Terr.	6	.0	0			
Total	179,730		2,541,256	100.0	179,727	

* Schools with positive numbers are penalized by the state allotment formula.
 Schools with negative numbers are benefited by the state allotment formula.
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process. In other words, perhaps states like Minnesota, which do not receive a just portion of IY funds, receive as compensation a more generous treatment in the FISAP distribution of the remaining IY and all the CY funds.

Does this compensation in fact occur? One way to answer this question is to compare current funding with FISAP fair shares. In the FISAP formula, each school's "fair share" of SEOG funds is the share of the national appropriation that the school would receive if the distribution were based solely on relative FISAP needs. Below are the 1980-81 total SEOG funding levels and total SEOG fair share levels for Minnesota, plus five states that are conspicuous winners and losers in Table 1.

	total 80-1 funding	total 80-1 fair share (in thousands)	funding as a percentage of fair share
Minnesota	9,247	9,871	93.7%
California	35,847	27,724	129.3%
Illinois	15,550	10,550	147.4%
New York	29,579	33,871	87.3%
Pennsylvania	20,998	23,537	89.2%
Texas	17,503	15,482	113.1%

Table 1 suggests that California, Illinois, and Texas are greatly favored by the state allotment formula. In each case their total SEOG funding considerably exceeds their FISAP fair shares. In the case of New York and Pennsylvania, the Table 1 analysis suggests that they are penalized by the state allotment formula. In both cases, their total SEOG funding falls short of their fair shares.

The consistency of this pattern makes clear that the state allotment formula is a dominant factor in total SEOG distributions. Other elements in the SEOG distribution process do not adequately compensate for the influence of the state allotment formula.

Conclusions and caveats

These comments suggest that, at least in the SEOG Program in the 1980-81 Award Period, the state allotment formula produces a distribution of funds that undermines, rather than supports, the SEOG Program's statutory purpose of delivering funds to needy students. Nevertheless, several qualifications must be stated. First, this analysis ignores the changes made by the Education Amendments of 1980 in both the state allotment formula (graduate students are no longer counted) and the SEOG FISAP formula (institutional and state grants are treated differently). Second, the analysis implicitly ascribes a credibility to the logic and values of the FISAP formula that is by no means universally accepted — that is, in fact, soundly condemned in some quarters. Third, the analysis should not be viewed as necessarily applicable to the College Work-Study and National Direct Student Loan Programs.

Despite these limitations, however, these comments may still be useful because they attempt to test the fairness of the state allotment formula mechanism more objectively than has been the case in the past.