Department Compliance with Joint Budget Committee Request for Information – Measuring and Ensuring Access and Affordability

INTRODUCTION

The FY09-10 Long Bill included a request for information (RFI) directing the Department of Higher Education (Department) to submit a report by September 15, 2009 presenting options for how to measure and ensure access and affordability at institutions of higher education. The Governor directed the Department to comply with this request to the extent possible and submit the requested report by December 1, 2009. Discussion during the 2009 legislative session concerned tuition policy issues, specifically whether governing boards should be granted more flexibility to set tuition rates. Proponents of greater tuition flexibility insisted that flexibility could actually improve access to higher education because a portion of the additional tuition revenue generated would be applied to institutional need-based financial aid; however, only anecdotal evidence was presented in support of this claim. This RFI anticipates that the debate over tuition flexibility will continue during the 2010 legislative session.

The full language of the RFI follows below:

> **Request for Information 28, page 7: Department of Higher Education, Colorado Commission on Higher Education, Administration** – The Department, in cooperation with the Colorado Commission on Higher Education, the higher education institutions, and the Office of State Planning and Budgeting is requested to submit a report to the Joint Budget Committee by September 15, 2009 presenting options for how to measure and ensure access and affordability if governing boards are granted greater flexibility in setting tuition rates.

In extending the time period for the submission of the report, the Governor also noted that the production of the report is not intended to endorse the concept of greater tuition flexibility. Governor Ritter also asked that these options be used in conjunction with the review and update of the statewide higher education master plan.

In the following pages, we provide brief background information on tuition and fee history and financial aid programs, followed by options that could be used to measure access and affordability.

BACKGROUND

Data from the United States Census shows that postsecondary education attainment correlates directly with increased income and improved measures of health. For example, individuals with a baccalaureate degree earned a median income of $50,376 in 2007 compared to $32,474 for those who only possessed a high school diploma. Further, individuals with BA degrees are more likely to vote, less likely to be incarcerated, and less likely to access social support services. For these and other reasons, maintaining and expanding access to postsecondary education is a necessary state goal and one that likely must be accomplished in the near future without additional state financial resources. In fact, institutions of higher education are likely to face future reductions in state support.

Before examining options for measuring access and affordability it is important to consider major differences in the role and mission of Colorado's institutions of higher education and also to review existing guidance and requirements on federal, state, and institutional financial aid that are presumed to maintain affordability especially for lower income students.

Role and Mission

Colorado's institutions of higher education each have very different roles and missions, all of which are authorized under Title 23 of the Colorado Revised Statutes. The community colleges, for example, are open admission institutions, while the University of Colorado at Boulder is a comprehensive graduate research institution with selective admission standards. While not statutorily mandated or authorized, the more selective institutions tend to have higher tuition charges. These differences partially determine the composition of students at each institution and must be considered when comparing institutions in terms of maintaining access and affordability. Colorado law has established which institutions are to serve as entry points allowing access to higher education. It may be unfair, for example, to hold the Colorado School of Mines to the same standard of access that a community college or Metro State College is held to. Additionally, the Commission and the Department have developed a transfer system from the community college system that allows students to transition from the two year sector to the four year sector with some guarantees on the transferability of the first sixty credit hours.

Admission standards are found in Commission policy at the following link: http://highered.colorado.gov/Publications/Current/i-partf.pdf For the most part, the tuition of open access institutions has been kept lower than that of more selective institutions. In the recent economic downturn, the community colleges that are part of the Colorado Community College System have had unprecedented tuition growth to offset general fund reductions. Please see Attachment I for a five year history of tuition increases and comparison of resident, undergraduate institutional tuition rates.

Federal Financial Grant Aid

The Pell grant is awarded to low-income students from the federal government and is intended to level the playing field for access and affordability. Eligibility for a Pell grant is determined through the Expected Family Contribution (EFC) calculation from the Free Application for Federal Student Aid (FAFSA). In FY08-09, full-time students with EFCs at or below $4,041 were eligible for a Pell grant of up to $4,731. The average Pell grant awarded in Colorado to resident students in FY07-08 (most recent data available)[1] was $2,519 at public institutions. A total of 44,803 students received Pell grants, 9,387 of whom received the maximum award of $4,310 in FY07-08 The charts below show the number and percentage of students by grant range for resident students enrolled at public institutions in FY07-08.

[1] Data for the FY08-09 year will be available in December

Pell Grant Recipients by Award Range

Pell Grant Award Range	Number of Federal Pell Recipients	Percentage of Federal Pell Recipients by Award Range	Cumulative Percentance of Pell Recipients (Ascending)	Cumulative Percentage of Pell Recipients (Descending)
$200-$500	2,708	6%	6%	100%
$501-$1000	4,396	10%	16%	94%
$1001-$1500	5,381	12%	28%	84%
$1501-$2000	4,639	10%	38%	72%
$2001-$2500	6,763	15%	53%	62%
$2501-$3000	3,111	7%	60%	47%
$3001-$3500	3,586	8%	68%	40%
$3501-$4000	3,094	7%	75%	32%
$4001-$4309	1,738	4%	79%	25%
$4,310	9,387	21%	100%	21%
Total Number of students awarded	44,803			

Adjusted Gross Income Range of Pell Recipients

AGI Range	Count	Percentage of Total
0-19,999	27,261	60.85%
20,000-39,999	12,775	28.51%
40,000-59,999	4,291	9.58%
60,000-79,999	425	0.95%
80,000-99,999	32	0.07%
100,000 & above	19	0.04%
Total	**44,803**	

For FY09-10, the maximum federal Pell grant was increased $500 so that tuition increases were largely covered by the increased amount. The Pell grant is projected to increase an additional $200 in FY10-11, and current legislation proposes indexing the maximum award to the poverty level plus increases of 1% annually for inflation. Thus, while recent tuition increases have been largely offset for the most needy students by Pell, in future years, it is expected that if large tuition increases occur, they will likely outpace the Pell increases. Moreover, while Pell grants are expected to take care of the lowest income students, state financial aid policy must also take some responsibility for maintaining affordability for the low to middle income students who are not eligible for Pell. The balancing of affordability for middle and low income students is a policy decision that remains difficult since Department data shows that Level 1 and Level 2 students have more unmet need than higher income groups who are in the financial aid file.

State Need-Based Financial Aid

The General Assembly appropriates state funding each year for the state's need-based financial aid program ($74.1 million in FY09-10). The Colorado Commission on Higher Education then allocates these funds to the public institutions of higher education; private, non-profit institutions; and eligible participating private, for profit institutions. The Commission's current financial aid policy guarantees a minimum grant award to every Level I student (described as a student whose EFC is within 150% of Pell eligibility-- an average income level of $31,060 for dependent students).

The Commission allocates state financial aid to institutions based on their average number of Level I full time equivalent (FTE) students over the prior three years. Institutions are allocated sufficient state aid to provide the minimum grant amount (set at $750 in FY07-08) to each eligible student plus additional funds that can be distributed at each institution's discretion to any student with financial need. In FY07-08, the average grant amount was $1,216 and 42,202 students (headcount) received the grant at public institutions. Of the 42,202 students who received a state need-based grant, 36,626 received Pell grants (87%).

Institutions are required under Commission policy to award a minimum of $750 to every eligible Colorado student. Allocations to institutions are greater than the required base award to students and are calculated on the average Cost of Attendance at each institution within its Tier. Allocations are made at the following levels:

$850 at Tier 3;
$1,039 at Tier 2;
$1,137 at Tier 1

The financial aid packaging philosophies vary by institution. Institutions have the discretion to determine whether or not to award part-time students. We know that some institutions heavily award freshmen, others award flat grants to all eligible students and still others give the minimum grant to freshmen and increased aid to juniors and seniors.

Institutional Aid

To varying degrees, institutions have dedicated their own internal resources to financial aid. This aid may be need-based or based on other criteria such as merit or athletics. There is little state regulation on institutional aid and it can be awarded to resident or nonresident students. C.R.S. 23-18-202 (3) (c) requires institutions of higher education that are designated as TABOR enterprises to "annually allocate at least twenty percent of any increase in undergraduate resident tuition revenues above inflation to need-based financial assistance. " Fiscal year 2005-06 was the first year governing boards were designated as TABOR enterprises and this section was added to the statutes. Each year the Department verifies that the governing boards complied with this requirement for years in which they are designated TABOR enterprises (See Attachment 2 for FY07-08 compliance).
Sources of institutional aid vary by type of institution (tier). Attachment 3 lists Colorado's institutions of higher education by tier. The table below breaks out the total amount of institutional aid reported in the Department's Student Unit Record Data System (SURDS) in FY07-08. The total institutional aid paid to undergraduate, resident students with any financial need by tier is shown in the table below. This table

does not include other aid that may have been provided to residents with no need, graduate students, or non-resident students.

Total Institutional Aid by Tier FY07-08

TIER	Total Inst Aid	Inst Aid to Students with Need	% of Inst Aid to Students with Need	Inst Aid to Level 1 Students	% of Inst Aid to Level 1 Students
Tier 1	143,508,980	47,365,562	33.01%	30,945,325	21.56%
Tier 2	15,724,319	7,178,825	45.65%	4,179,868	26.58%
Tier 3	6,245,089	2,960,098	47.40%	1,871,996	29.98%

The following table shows the total expenditures for student financial aid from FY02-03 through FY07-08. It is clear from the data that student loans are growing more quickly and are higher in real dollars than other forms of aid, indicating a greater reliance on this type of aid to cover the costs of postsecondary education. Further, the table shows the significant increase (93%) in institutional aid over the time period, from $148.4 million in FY02-03 to $285.9 million in FY07-08. The Department is currently compiling financial aid data for FY08-09. This data will be included in the Financial Aid report submitted to the JBC at the request of the Governor's office.

Total Expenditures on Student Financial Aid FY07-08

Fiscal Year	Federal Pell Grant	Federal Loans	Federal Other	State	Institutional	Other	Total
2003	126,585,894	634,957,192	33,108,532	92,750,785	148,408,762	75,402,858	1,111,214,023
2004	143,906,521	735,276,655	32,178,873	80,968,637	137,255,420	65,928,279	1,195,514,385
2005	151,545,541	817,466,069	32,658,968	78,152,438	194,265,627	42,430,273	1,316,518,916
2006	141,403,386	834,562,469	33,571,583	79,890,039	250,881,750	67,636,141	1,407,945,368
2007	141,156,387	901,930,663	50,413,660	88,741,013	243,682,242	44,754,431	1,470,678,396
2008	154,590,127	980,667,407	55,647,723	96,806,055	285,899,867	53,530,406	1,627,141,585
% Change 03-08	22.12%	54.45%	68.08%	4.37%	92.64%	-29.01%	46.43%

*This table includes data from private non-profit and proprietary schools.

While some financial aid is provided from private sources, these awards are not significant and normally targeted to specific students; therefore, private grant aid probably cannot be used strategically to ensure access and affordability.

OPTIONS ON METRICS FOR ACCESS AND AFFORDABILITY

Following are three options of metrics to measure access and affordability. The options each have limitations and the best approach may be to develop a hybrid approach based upon the ultimate goals and definitions of access and affordability.

Option A:

In response to the JBC's request for information, the Department requested the National Center for Higher Education Management Systems (NCHEMS) develop a model measuring access and affordability at each institution of higher education. Their model (Option A.1.) makes the primary assumption that each institution of higher education is currently affordable; it then establishes a benchmark for each based on the socio economic status of its student body. Each Institution would be required to maintain the benchmark, at a minimum, in future years. The bases for the model are the median income distribution by county in Colorado and the county of origin distribution for each institution's student body. NCHEMS research shows that across institutions nationwide, typically more than 80% of each institution's student body comes from no more than four to five counties. The NCHEMS model looks at the percentage of each institution's resident undergraduate population that receives Pell grants compared to the state average and the estimated median income for the institution's student body based on county of origin compared to the state average. In short, institutions with poorer student bodies calculated as the median income distribution by county compared to the state average should have more Pell recipients than the state average.

As an example of what the model shows for an institution, most Arapahoe Community College (ACC) students come from counties that overall *are slightly above* the Colorado median income. It would therefore be expected that ACC *should be slightly below* the statewide average for percent of first time entering students receiving Pell grants. In fact, ACC is exceeding this benchmark as shown below:

Percent of First Time Entering Students Receiving Pell Grants

- Colorado = 24.6%
- ACC Actual = 24.8%
- ACC Expected = 21.5%
- Difference = 3.3%

There are two primary concerns with this approach, both of which represent possible flaws in the model. First, the model assumes that each student's family income is the median from the county of that student's origin, when in fact students at CU-Boulder from Denver County may come from families with incomes above the median, while Denver County students at Metro State College may be from families at or below the median income. The second concern is the model's reliance on Pell recipients as a proxy for students of need, arguing that doing so leaves out a significant population of students with need – those that are just above the income requirements for Pell eligibility. NCHEMS has adjusted its model to account for Pell recipients and students below median income as a more complete proxy for students with documented need, thus addressing one of these concerns. A further concern with the NCHEMS model is that it does not account for transfer students in the analysis, focusing entirely on first time entering students.

Another version of this option (Option A.2.) is to measure the proportion of the student population at each institution that is Pell eligible. This approach would settle on a base year and watch for variations due to tuition or other changes in policies. However, a problem with this approach is that the

proportion will change with the economy and may take dips that are not meaningful in any given year. While those issues can be accommodated in a mathematical model, the option still only looks at the lowest income students and loses sight of any financial squeeze on the middle class student. The chart below shows the percent of students at each institution that are Pell eligible:

Pell Grant Recipients (FTE) as a Percentage of Resident Undergraduate FTE

Institutions	Pell Recipient FTE 07-08	Undergrad Res FTE 07-08	Res Pell per FTE
Adams State College	1,107	1,440	76.87%
Aims Community College	1,016	2,856	35.57%
Arapahoe Community College	944	4,022	23.48%
Colorado Mountain College	282	2,113	13.35%
Colorado Northwestern Community College	143	663	21.64%
Colorado School of Mines	431	2,683	16.05%
Colorado State University	3,107	15,966	19.46%
Colorado State University - Pueblo	1,485	2,994	49.62%
Community College of Aurora	1,057	3,077	34.36%
Community College of Denver	1,923	4,655	41.31%
Fort Lewis College	602	2,621	22.97%
Front Range Community College	2,504	9,313	26.88%
Lamar Community College	310	662	46.77%
Mesa State College	1,650	4,390	37.60%
Metropolitan State College of Denver	4,998	15,135	33.02%
Morgan Community College	364	974	37.41%
Northeastern Junior College	396	1,196	33.15%
Otero Junior College	675	1,139	59.30%
Pikes Peak Community College	2,600	7,102	36.61%
Pueblo Community College	2,217	3,405	65.10%
Red Rocks Community College	1,020	4,466	22.84%
Trinidad State Junior College	631	1,255	50.25%
University of Colorado - Boulder	3,069	16,034	19.14%
University of Colorado - Colorado Springs	1,546	5,186	29.81%
University of Colorado at Denver and Health Sciences Center	2,106	6,862	30.69%
University of Northern Colorado	1,751	8,629	20.29%
Western State College	399	1,428	27.93%
Colorado Community College System TOTALS	14,785	41,928	35.26%
Colorado Community College System AVERAGE	1137.29	3225.23	35.26%

Option B:

The Department conducted its own very preliminary analysis of how institutions could be held to a requirement that they maintain access and affordability for Colorado resident students and how such a requirement could be measured. The Department's model proposes to measure the base income range distribution at an institution and require that the institution maintain the same percentage of students in the bottom two or three income levels. For example, an institution's income distribution based on a three year average income of resident undergraduates could be as follows:

- Low Income < $35k 10%
- Low-Mid Income $35 – 50k 25%
- Middle Income $50 – 75k 30%
- High-Mid Income $75-90k 10%
- Above $90k 25%

Under this approach, the above institution would then be required in subsequent years to maintain 10%, 25% and potentially 30% of students in the corresponding three income ranges.

In most respects the Department's idea is similar to the NCHEMS model of measuring base performance with a goal of maintaining the status quo without losing ground with enrollment of the current proportion of low and middle income students. It does, however, account for students in the low and middle income levels and thus may be a better measure for maintaining access and affordability for all students with documented need.

The Department notes that performing this analysis would require collecting additional data from the institutions. The current data file does not have income on every student; income level is collected only if a student applies for financial aid, which currently is approximately 65.45% of resident undergraduate students. The Department believes that for the most part those students who do not apply for financial aid are in the higher income groups.

Attachment 4 shows the numbers of resident undergraduates by income range who received financial aid in FY07-08. Over half the students or their families in Colorado applying for financial aid, including loans only, earn under $40,000 per year. That of course varies by type of institution, with over 70% of students or their families in the Community College system earning under $40,000 per year. This chart illustrates where many of Colorado's lowest income students are attending post secondary institutions.

Option C

Options A and B both establish a benchmark measure for each institution based on the students it currently serves. The underlying assumption is that all institutions are currently operating at an affordable level and meeting the state's access goals. A third option for measuring access and affordability could be created using national research on student loan debt. According to FinAid.org, student loan payments should not exceed 15% of a person's post-graduation discretionary income without incurring a partial economic hardship. Partial economic hardship is defined as having annual education loan payments in excess of 15 percent of discretionary income, where discretionary income is

the amount by which one's adjusted gross income (AGI) exceeds 150 percent of the Federal Poverty Threshold.

A student's major will be a factor in his or her earning potential upon graduation, for example an electrical engineering degree holder will can be expected to command a higher salary than a liberal arts degree holder immediately upon graduation. Consequently, the engineering major could afford to have a higher student loan debt load upon graduation because of his/her increased earning potential.

Under this model, institutions would be directed to ensure that students do not incur loans that they are unable to reasonably pay back within ten years without incurring a partial economic hardship (as described above). Loan repayment calculators are readily available and in use by institution financial aid advisors. Reasonable assumptions could be made to estimate adjusted gross income after graduation for various degrees. This standard could be applied to students at or below a certain income threshold (e.g., an EFC within 250% of Pell-eligibility requirements) only as a means to ensure access and affordability for students with documented need.

This approach does not take into consideration students who transfer into an institution with preexisting debt, change majors, or require loans to complete remediation prior to beginning a degree program. Further, student borrowing habits vary. By limiting loans by major, students may turn to private loans or credit cards to make the payments.

The debt load approach to measuring access and affordability for higher education can be an annual or a time-of-graduation measurement or both. Time of graduation allows the use of the measurements talked about above while annual debt review provides a real-time look at how student loan patterns may be changing.

Attachment 5a reviews cumulative debt load of resident undergraduates by type of school over time and Attachment 5b shows annual debt load over time. This Attachment shows annual debt over time as well as debt at graduation. The numbers will be updated in December.

CONCLUSION

The above described models do not look at retention and success of students. The options presented address metrics that can be used to measure access and affordability as outlined in the Request for Information. These metrics could be used as stand-alone measurements or as part of a systemic review of Colorado's goals for access and affordability.