

TOPIC: FINANCIAL AID ALLOCATIONS DISCUSSION

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I. SUMMARY

At the August Commission meeting department staff presented an information item regarding issues related to the financial aid allocation methodology. The Commission requested additional information to further explore financial aid allocations for FY2011-2012. Since then, the financial aid advisory group has convened to discuss the allocations. This agenda item outlines key discussion points from institutional representatives during the most recent meeting. The group will continue to meet and set forth recommendations, including if determined, a recommendation to maintain the status quo as the desired outcome.

II. BACKGROUND & STAFF ANALYSIS

At the most recent meeting with the Financial Aid Advisory Committee, the task was to revisit the financial aid allocation methodology in light of the criticism that was raised during the FY2010-2011 allocations as well as how the changes to SB 10-003 will impact the allocations methodology. The group began with the list of major issues identified and moved to discuss the key points. As the largest component of the Long Bill appropriations need based financial aid is the focus of the discussion. The key discussion points from the discussion are in Appendix A.

Does financial aid support students or institutions?

When the Commission was considering the elimination of financial aid to proprietary schools, the question of whether financial aid supports institutions or individuals came up repeatedly. Representatives from the public institutions agree that financial aid funds students rather than institutions. Naturally, institutions would prefer to have as much funding as possible, but the priority is to have funds follow needy students and to have an allocation methodology that acknowledges enrollment trends.

Should the financial aid policy be tied to the economy?

As we discussed priorities for financial aid further, the discussion led us to economic factors. During an economic downturn when undergraduate enrollment is up and financial aid is not, the priorities may shift. As noted in the FY2010-2011 financial aid allocation cycle, the lack of additional resources resulted in reduced aid per FTE at institutions. Which begs the question, should the financial aid allocations include provisions for lean economic times? Using the example of aid to students at proprietary schools, maybe a provision to suspend aid during lean times could be considered. The priorities could be ranked which might focus first on undergraduate students and then determine the next set of priorities, which could be graduate students or students attending proprietary institutions.

Should the cost of attendance be a factor in financial aid allocations?

How to weight cost at institutions in the allocation is another discussion point. The current model uses the difference in the cost of attendance at each tier as a weight to the base rate per FTE to factor in the cost of attendance. There are a number of ways to reflect costs in the allocation. For example, one way could be to develop a standardized cost of attendance using a base tuition rate and a standard living budget to set index for the rate per FTE. Under this approach, differentiated tuition costs and the costs of on-campus student housing are not included. This method also assumes that living costs are equal in all areas of the state. Another way that costs could be factored in is by using the actual reported cost of attendance as reported in SURDS to determine the index. A potential downside of this option is that it could serve as an incentive for institutions to artificially inflate student budgets. On the other side of that, institutions that have kept student budgets low are penalized. A third option is to use the need calculation by tier. In prior financial aid methodologies the allocations were driven by the total need. Need is calculated by taking the total cost of attendance minus the Expected Family Contribution (EFC) for Level 1 students. This has been done in the past using a standardized cost of attendance; the same concerns apply and this method does not look at changes to enrollment in the same way.

How should the financial aid policy weight access or retention?

The current allocation model is weighted for access. The Colorado's College Responsibility Program (CCRP) was designed to include a factor for retention but it has not been implemented. The conversation this far has been around access but there is more to discuss.

Do institutions fall into three tiers?

The tiers have been defined using peer comparisons from NCHEMS gap analysis study and the Carnegie Classification system. Whether or not three tiers are adequate to reflect the differences between institutions is a discussion point. Tier 1 includes research institutions, Tier 2 includes the state colleges and Tier 3 includes community colleges. If we look at Tier 1, not all institutions in Tier 1 are equal. There has been some discussion as to whether Tier 1 is really two tiers. At the same time, the area vocation schools have argued that they would like to be included in the model which could be an additional tier. Increasing the number of tiers would expand the index and will result in a greater variance in the rate per FTE.

How financial aid policy aligns with General Fund appropriations and Flex plans

General Fund appropriations include Need, Work-Study and Categorical programs. In regard to need based aid, the Commission currently reserves a portion of the need based appropriation for graduate student financial aid and allocates the remaining funds to undergraduates. The allocation methodology could continue to allocate aid to undergraduates and graduates separately. How to allocate aid to graduate students it is still up for discussion. The current model limits graduate aid to Level 1 students enrolled in specific programs. Alternatively,

institutions could receive a lump need allocation and have the flexibility to award it to undergraduate or graduate students, in line with institutional policy.

With the tuition flexibility under SB 10-003, the costs at some institutions could increase significantly and thus result in increased financial aid per FTE. Institutions will develop financial aid guidelines according to institutional priorities and include which provisions will be used to protect low and middle income students if an institution seeks to raise tuition above nine percent. There are questions of how to factor in the cost of attendance without rewarding tuition increases.

Concerns Addressed from FY2010-2011 Allocations

The remainder of the discussion with the financial aid advisory committee was around specific issues raised with the current model. The group agrees that three years of data seems like a reasonable amount of data to make projections. Though it is not perfect, there should be some acknowledgement of changes in enrollment. To use a lesser or greater span of time does not reflect enrollment changes in the same way. There was some disagreement on whether using the three years of data was adequate to include a hold harmless provision because enrollment growth is not limited to how each institutions enrollment grows or shrinks but how enrollment grows at one institution relative to its peers.

The financial aid group is willing to meet as needed to continue the conversation. Updates will be brought to the Commission as they are available.

III. STAFF RECOMMENDATIONS

This item is meant to be for discussion only; no formal action is required.

STATUTORY AUTHORITY