

**TOPIC: FINANCIAL AID ALLOCATION DISCUSSION**

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## **I. SUMMARY**

In recent weeks, Department staff, chief financial officers (CFOs) and financial aid directors from institutions have been meeting to discuss priorities and possibilities for the allocation of FY 2012-13 state funded financial aid and work study funds. The recent news of improved state revenues and Governor Hickenlooper's proposal to restore the cuts to financial aid has impacted the conversation of how to best allocate financial aid dollars to institutions. The purpose of this item is to share with the Commission the recent discussions with the institutions regarding financial aid allocations for FY2012-2013. While no action is required by the Commission at this time, this item is intended to inform the Commission of the kinds of ideas that have emerged from recent conversations with campus representatives as well as to solicit feedback from the Commissioners regarding potential modifications to state funded financial aid allocation policies.

## **II. BACKGROUND**

In January 2011, the Commission voted to approve a temporary change to the financial aid allocation method. This change was considered a compromise between (a) access for eligible incoming students and (b) ensuring predictability for eligible returning students. The final model included a reduction to both graduate funding and funding to proprietary institutions as well as a limit on year-over-year reductions to any institution or governing board. Part of the agreement was to revert to the existing allocation model (i.e., "status quo") for the FY2012-2013 financial allocations unless other recommendations were brought to the Commission.

The so-called "status quo" model is intended to account for growth in enrollment of "Level 1" students; this model is predicated upon the availability of additional funding. Because of the continued growth of eligible Level 1 students and lack of additional dollars, the status quo model has the effect of redistributing some funds to institutions with more rapid growth while reducing funds to institutions with slower growth.

Despite the proposed restoration to reductions proposed by the CCHE in November 2011, there is no one model that is favored by the majority of institutions. To assist with the continuing dialogue on potential financial aid allocation models, the institutions have requested that the Department continue to run a variety of allocation models.

### **III. STAFF ANALYSIS**

Increased enrollment of eligible students combined with a flat level of state investment has challenged the institutions' abilities to maintain access and retention at their respective campuses. Financial aid applications have increased most markedly at access institutions, but all institutions experienced a higher demand as a result of the economic downturn.

Non-rural community colleges, Metropolitan State College of Denver and Colorado Mesa University experienced the largest enrollment growth over the past few years and have also received increased financial aid allocations during the same time, albeit at a lower FTE rate. Other research and four-year institutions with slower growth have, in some cases, experienced reductions to their financial aid allocations over prior years.

With an economic recession, enrollments initially climb and then tend to flatten as the economy recovers. With a slow recovery, enrollment growth may remain high for a longer period of time. Nonetheless, it appears that enrollment trends are slowing and the number of students applying for financial aid is beginning to level off. A restoration of proposed cuts and a leveling off of eligible students should allow limited resources to stretch further than initially anticipated.

For allocation purposes, the institutions seem to be in agreement that an institution's actual FY2011 Level 1 FTE, for growing enrollment institutions, or three-year average of Level I FTE, for declining enrollment institutions, should be used for modeling purposes.

In spite of this agreement regarding procedure, the CFOs and financial aid directors continue to raise a variety of important questions regarding financial aid allocation policies. Some of the themes that have emerged from these discussions include the following:

- The importance of predictability of aid for continuing students and avoiding large swings in resources for institutions,
- The need to recognize and account for increases of eligible students,
- Timing and the need for institutions to begin "packaging" financial aid as early as possible,
- The unexpected restoration of funding as an opportunity to change existing parameters such as eliminating tiers or allocating financial aid based upon an expected family contribution (EFC) model,
- Consideration of the proposed reduction to FY 2012-13 general operating revenues,
- Providing a fixed amount of financial aid to eligible students regardless of institution (let funding follow the student, like the Federal Pell program),
- The need for financial aid to consider cost of attendance for the student,
- The importance of aid to graduate students.
- The importance of aid to students enrolled at private institutions.

The financial aid directors and CFOs will continue to meet to discuss models and options for the FY2012-13 financial aid allocations. Recommendations from the institutions will be brought to the Commission at an upcoming meeting.

#### **IV. STAFF RECOMMENDATIONS**

This item is for discussion purposes only. No action is required.

#### **STATUTORY AUTHORITY**

##### **23-3.3-102. Assistance program authorized - procedure - audits.**

- (1) The general assembly hereby authorizes the commission to establish a program of financial assistance, to be operated during any school sessions, including summer sessions for students attending institutions.
- (2) The commission shall determine, by guideline, the institutions eligible for participation in the program and shall annually determine the amount allocated to each institution.
- (3) Each state institution shall administer a financial assistance program according to policies and procedures established by the governing board of the institution. Each private institution of higher education, as defined in section 23-18-102 (9), that participates in the program of financial assistance established pursuant to this section shall administer a financial assistance program according to policies and procedures established by the governing board of the institution. Each participating nonpublic institution that is not a private institution of higher education shall administer a financial assistance program according to policies and procedures established by the commission. Each institution shall fund its assistance program using state moneys allocated to the institution and institutional moneys.
- (3.5) Notwithstanding any provision of this article to the contrary, each participating institution shall adopt policies and procedures to allow a person who meets the following criteria to qualify for financial assistance through the financial assistance programs established pursuant to this article:
  - (a) The person qualifies as an in-state student; and
  - (b) The person is enrolled at an institution that participates in the programs of financial assistance established pursuant to this article; and
  - (c) The person is enrolled in an approved program of preparation, as defined in section 22-60.5-102 (8), C.R.S., for principals.

- (4) Program disbursements shall be handled by the institution subject to audit and review.
- (5) Upon commencement of participation in the program, no participating institution shall decrease the amount of its own funds spent for student aid below the amount so spent prior to participation in the program.
- (6) In determining the amount allocated to each institution that is not a state institution or a nonpublic institution of higher education, the commission shall consider only that portion of financial need which would have existed were the institution's tuition no greater than the highest in-state tuition rate charged by a comparable state institution. In determining the amount allocated to each nonpublic institution of higher education, the commission shall base its determination upon the cost of attendance at a nonpublic institution of higher education.
- (7) Each annual budget request submitted by the commission shall provide information on the proposed distribution of moneys among the programs developed under this article. Subsequent to final appropriation, the commission shall provide to the joint budget committee an allocation proposal specifically identifying the distributions among programs for the coming year. Expenditures in any program shall not exceed the allocation for that program by more than ten percent of such allocation, and the total appropriation for all student aid programs shall not be exceeded. The commission may require such reports from institutions as are necessary to fulfill the reporting requirements of this subsection (7) and to perform other administrative tasks.
- (8) The state auditor or his or her designee shall audit, in accordance with state statute and federal guidelines, the program at any participating institution every other year to review residency determinations, needs analyses, awards, payment procedures, and such other practices as may be necessary to ensure that the program is being properly administered, but the audit shall be limited to the administration of the program at the participating institution. The state auditor may accept an audit of the program from an institution that is not a state institution from such institution's independent auditor. The cost of conducting audits of the program at an institution that is not a state institution shall be borne by such institution.
- (9) Repealed.