TOPIC: FINANCIAL AID ALLOCATION DISCUSSION

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I. SUMMARY

This item is continues the ongoing discussion regarding the financial aid allocation method. Since its August retreat, the Commission has reviewed different approaches to target financial aid funds to improve the overall return on investment from state financial aid funds and develop and allocation method that supports the goals of the Master Plan. This item presents the implications of specific modifications to the financial aid allocation method based upon Commission feedback from the October 2012 meeting.

II. BACKGROUND

In October, Department staff developed models using the status quo approach (i.e., three cost tiers). Department staff applied this model to changes in the targeted Expected Family Contribution (EFC) range and by enrollment status (full-time or full–time and part-time). Under these scenarios, there would be clear winners and losers. Generally, access institutions have more part-time students and more low-income students and research institutions have more full-time students with smaller populations of low-income students. Four year institutions are less homogeneous, falling somewhere along the spectrum depending on the region where they are located and the types of programs offered.

At its October meeting, the Commission charged staff with the task of identifying ways to allocate funds that support the values of the Commission, as expressed during the meeting, as well as the goals of the Master Plan. The Commission said that it did not want to dictate how institutions should award funds, but was clear that the allocation method should reinforce the goals found in the statewide plan, specifically improving low-income student access and timely academic progression. Concerned with access, the Commission seemed to prefer approaches that consider both full-time and part-time students. The Commission discussed its preference for an "incentive" based allocation approach, and requested additional guidance from staff about how such a model might look.

III. STAFF ANALYSIS

In prior meetings, the Commission expressed interested in a financial aid model that supports the following values: a) alignment with the goals of the Master Plan (primarily access and completion), b) predictability for institutions, and c) incentives for students and institutions.

The focus of this analysis is limited to undergraduate students eligible for need-based aid and enrolled at public or private non-profit institutions. That is, it does not make suggestions for changes to graduate student support for students enrolled at proprietary institutions.

Narrowing Eligibility In recent years, the population of students eligible for need-based aid has grown dramatically. To provide the same funding rate per FTE that was available in FY2008-2009 in 2010-2011, the state would need to more than double the current financial aid appropriations. With limited resources, the Commission may choose to maintain the allocation target to Level 1 (150% of Pell eligibility) or to limit the allocation to Pell eligible students. If the Commission approves a change to target Pell eligible students instead of Level 1 students, the decision would not require institutions with financial aid flexibility to award only Pell eligible students, but could create an incentive for them to recruit and retain such students.

Figure One (below) shows the Pell eligible FTE from FY2007 to FY2011 by institution type using the actual Pell EFC for each year. This figure demonstrates the effect of substantive changes to Pell eligibility policies in recent years. Over the past five years alone, the population of Pell eligible student nearly doubled, in part due to federal changes in eligibility criteria.

Figure One: Pell Eligible FTE from FY2007 to FY2011, by Institution Type (actual EFC)

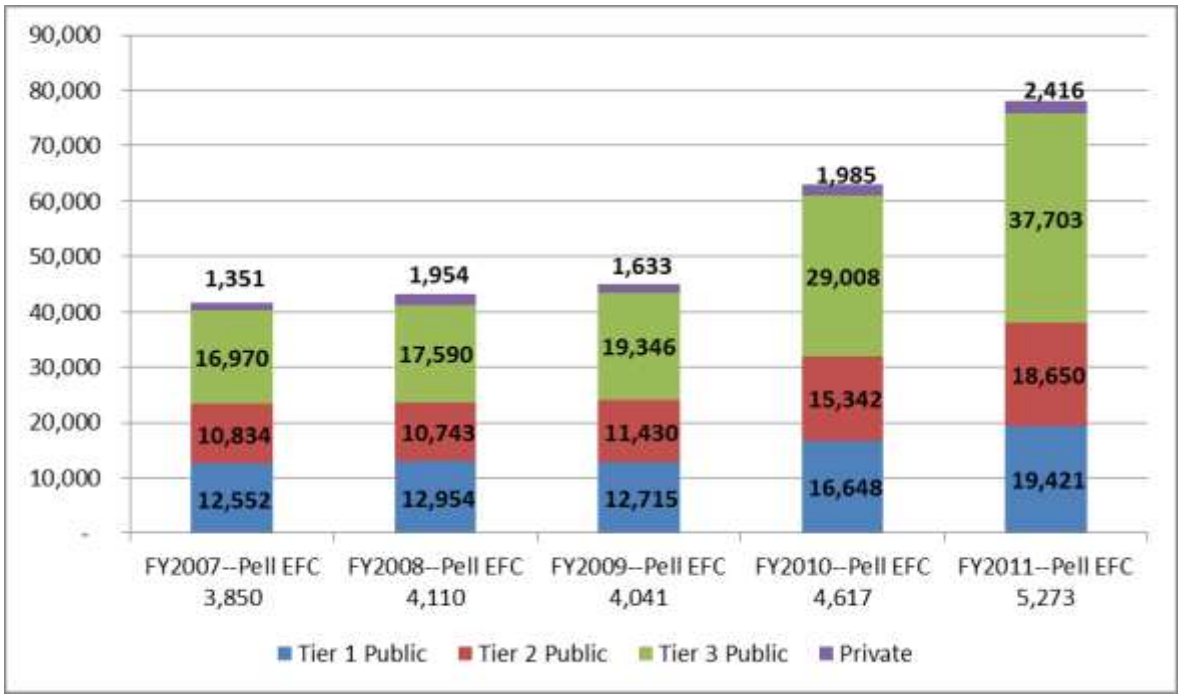
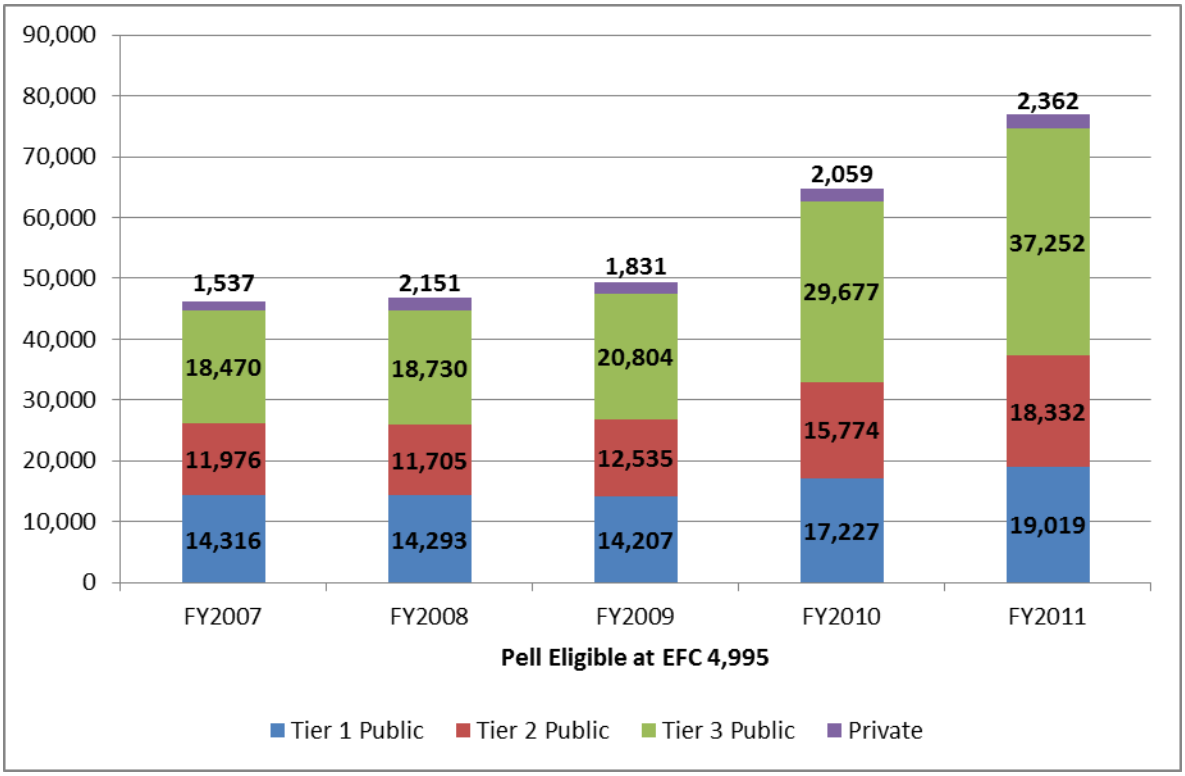


Figure Two (below) uses the same data sources, but, unlike Figure One, which uses the federal Pell limit and therefore changes periodically based upon changes in federal eligibility policies, uses a fixed EFC over the same five years. Using a fixed EFC provides a somewhat more

consistent picture of the actual change in enrollments among high need student absent changes in federal financial aid policies. Moving forward, if the Commission decides to narrow the eligibility limit for allocation purposes, it may want to consider a fixed EFC in order to diminish the effect of federal actions to modify the eligibility criteria for Pell grants.

Figure Two: Pell Eligible FTE from FY2007 to FY2011 by Institution Type (fixed EFC)



Tiered or Flat Grants The Commission's current allocation method adjusts award amounts based upon institutional cost tiers. The difference in cost at each tier is based upon the average cost of attendance at each tier. At a four year public institution, the average cost of attendance is roughly 22 percent greater than at a community college and at a public research institution the average cost of attendance is roughly 36 percent greater than at a community college. In FY 2013, the allocation rates were as follows:

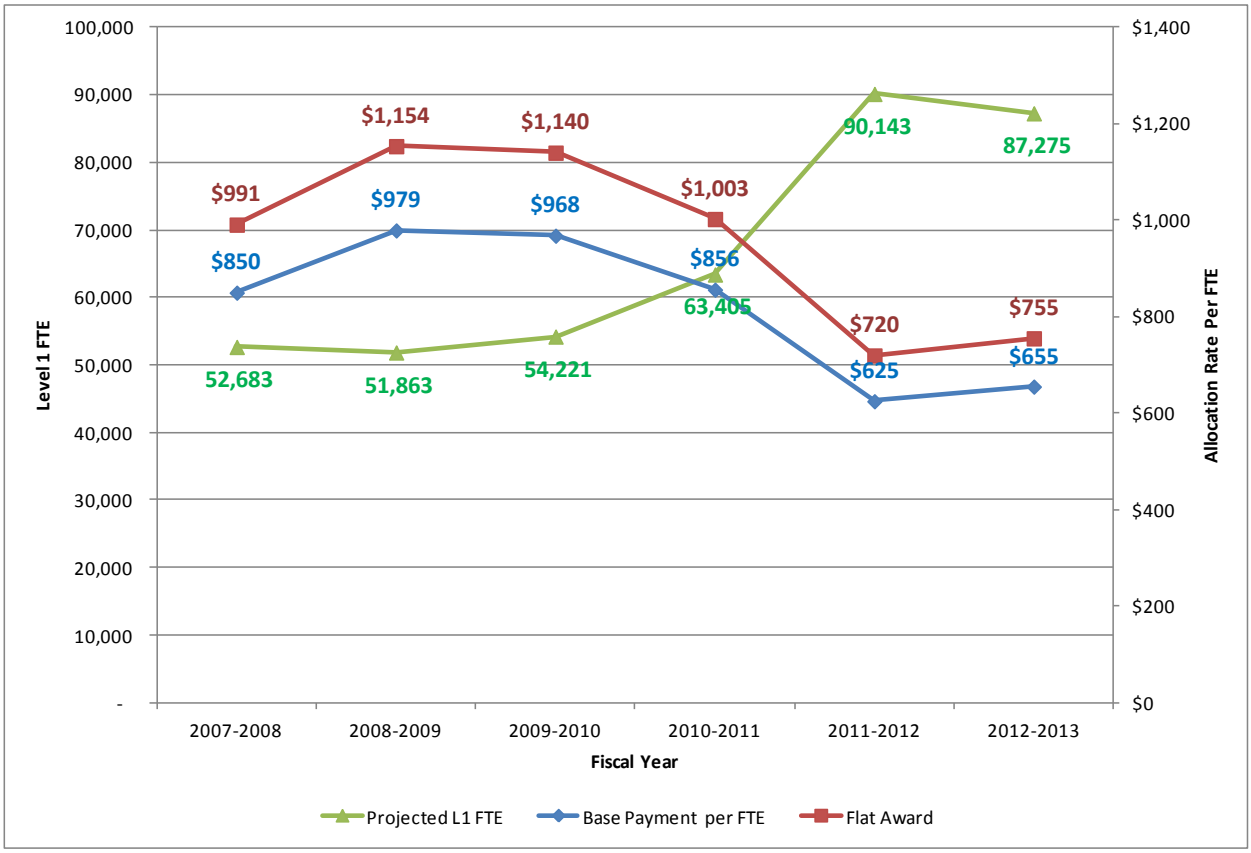
Tier 1	$889
Tier 2	$799
Tier 3	$655

Though costs across institutions differ dramatically across the tiers, the actual difference in award levels was less than $250. In FY12-13, the difference (range) among tuition levels at public colleges and universities was approximately $10,126 (the highest tuition was $13,590 at

the Colorado School of Mines; the lowest was $3,383 at the Colorado Community College System colleges). In other words, the difference in the base award for students in the highest and the lowest tier represented approximately 2.5% of the actual difference in tuition costs at the highest and lowest costs institutions. For students with very high demonstrated financial need, this difference in buying power is relatively negligible.

At its October meeting, the Commission questioned this approach and discussed allocating funds as a flat grant, an approach that is used by the U.S. Department of Education for awarding Pell grants. If the allocation was flat, the grant allocation for all eligible students at all institutions would have been $755. Figure Three (below) shows the number of Level 1 FTE (in green) with the base rate allocated to two year institutions (in blue); the redline what the per FTE funding would have been had a "flat grant" allocation was used.

Figure Three: Level 1 FTE Projections (used for allocations) and Allocation Rates per FTE (flat and tiered) from FY2008 to FY2013



Flat Grants and Narrower Eligibility Ranges. Table One (below) generically illustrates the effect of joining the two just mentioned policy changes, i.e., narrowing the eligibility range and offering funds as a flat award. Under this scenario, in 2013, the flat grant for a student who is

Pell Grant eligible would be approximately $400 more compared to a "level one" student (under existing eligibility criteria). The same general pattern appears in the other years (2012 and 2011). Importantly, under this scenario, state grant awards would increase by 65% above the current base level, a significant change in buying power for many needy students. Of course, we cannot assume that all students would in fact receive this increased amount in their financial aid award, as institutions would continue to maintain flexibility in awarding decisions. Nonetheless, Table One effectively illustrates the impacts of rapidly growing student enrollments combined with changes to Pell grant eligibility criteria and the effect that concentrating state need-based grant aid would have on students with the least amount of personal financial resources.

Table One: Allocation Rates Per FTE by Year and Policy Options

		Rate/FTE	Percentage Change from Tiered Base Rate
For FY2011	Tiered Base Level 1 (Current)	$ 979	
	If Flat for Level 1	$ 1,154	17.85%
	Flat Pell Eligible	$ 1,435	46.55%
For FY2012	Tiered Base Level 1	$ 968	
	If Flat for Level 1	$ 1,140	17.78%
	Flat Pell Eligible	$ 1,248	28.91%
For FY2013	Tiered Base Level 1	$ 856	
	If Flat for Level 1	$ 1,003	17.11%
	Flat Pell Eligible	$ 1,409	64.55%

Retention and Progress Incentives Finally, at its October meeting, the Commission stated its preference for incorporating retention and progress incentives into the state's financial aid program. Figure Four (below) provides a graphical representation of this kind of strategy. The figure assumes that each freshman level FT—full-time or part-time—would receive a "base award."

The potential policy implications of this approach would reinforce several of the primary goals found in the Commission's master plan, particularly increasing low income student enrollments, improving credit hour accumulation, and increasing successful transfers. This would eliminate the current tiered approach, but would provide understandable incentives to institutions (and students) to retain low-income students and encourage them to make timely progress to degree. This approach allows aid to follow students, recognizes changes in instructional costs at higher academic levels, and acknowledges the additional effort (time and expenditures) necessary to

advance students. Importantly, aside from an assumption that, eventually, students' eligibility will reach a ceiling and expire, the method illustrated below provides incentives and not penalties. If students successfully progress and accumulate additional credit hours, they will receive additional dollars in state support. If students fail to make progress, they miss receiving an incentive, but do not lose their award the next year. Also, if a student's eligibility is based on credit hour accumulation, the policy would have an equal effect on part-time and full-time students. In other words, regardless of a student's enrollment status, he or she would receive a comparable benefit.

Figure Four: Progress Incentives

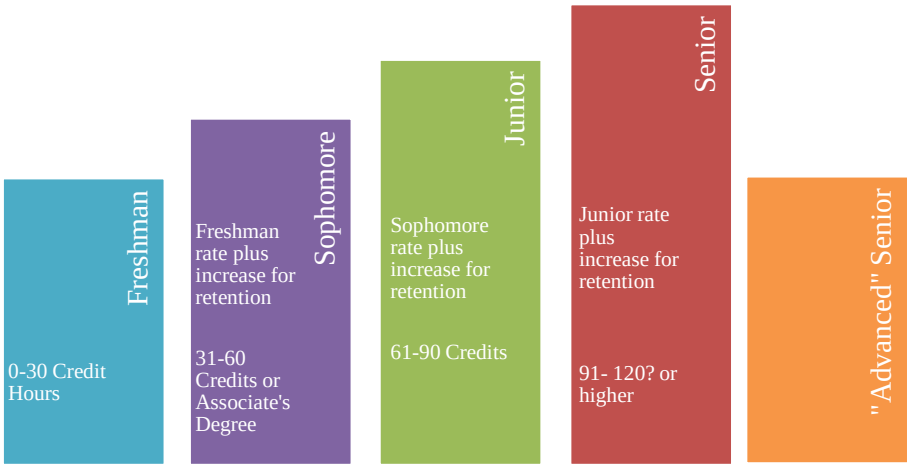
Credit Hour Ceiling Table Two below shows the total credit hours accumulated for completers of baccalaureate programs in Colorado public colleges and universities. Data in the table show that approximately 1/3 of all completers have earned more than 140 credit hours. And, approximately 21% of all completers had more than 150 credit hours.

Table Two: Credit Hours Earned at Graduation (Baccalaureate), 2010 & 2011.

Level	# Credits at Degree	2010	%	2011	%
Bachelor	101 - 120	2,845	**13.0%**	3,259	**14.2%**
Bachelor	121 - 130	7,437	**33.9%**	7,944	**34.6%**
Bachelor	131 - 140	4,236	**19.3%**	4,261	**18.6%**
Bachelor	141 - 150	2,654	**12.1%**	2,536	**11.1%**
Bachelor	151+	4,624	**21.1%**	4,700	**20.5%**

To encourage timely completion, the Commission could consider one of several options. One option would be to eliminate eligibility at a certain ceiling, perhaps 130 or 140 credit hours. This policy would certainly encourage timely completion, but would have a negative impact on as much as 1/3 of all enrolled students (assuming that these students are representative of the overall financial aid eligible population and that all enrolled students graduate at approximately equal rates). Another option would be to lower the grant award level at credit hours above a certain threshold. Under this "curvilinear" scenario (see Figure Five below), a student would be eligible for increasing amounts of state assistance up to and through 120 or 130 credits (or some other level), but would begin to lose eligibility for "completion incentives" thereafter. This policy would have the advantage of ensuring that no students lose funding, but would also make clear the state's interest in timely completion.

Figure Five: Progress Incentives (and Disincentives)



Recommendations from National Experts Importantly, and to remind the Commission of the discussions that took place during its August 2012 meeting, research suggests that need-based financial aid alone does not necessarily change student performance and outcomes. The concept of connecting "merit" and "need" financial aid, or "performance-based financial aid," as well as targeting financial aid to students with the fewest resources has been proven to yield positive results. In fact, in a major national report entitled *Beyond Merit and Need: Strengthening State Grant Programs*, Dr. Sandy Baum, an economist and one of the nation's foremost authorities on financial aid policy, and many other national policy leaders and academics suggested the following to states[1]:

- To encourage on-time degree attainment, state grant programs should reward concrete accomplishments such as the completion of credit hours.

- Academic requirements embodied in state grant programs should provide meaningful incentives for success in college; they should not be focused exclusively on past achievement or be so high as to exclude students on the margin of college access and success.

- States should provide second chances for students who lose funding because they do not meet targets the first time around.

- Rationing funds is unavoidable and there may be no good options under these circumstances, but some choices are worse than others. Providing assistance to those who apply early and denying aid to those who apply after the money has run out is quite arbitrary, particularly if an application deadline cannot be specified in advance.

- States under pressure to reduce their budgets quickly could lower income limits; cut grants for all recipients, with the neediest students losing the least; or build more incentives for college completion into their programs.

These recommendations complement those made to the Commission by Dr. Nate Johnson during his presentation on August 2, 2012, specifically that:

- Money can help by enabling students to do something they otherwise couldn't (like go to college, or attend full-time instead of part-time)

[1] Baum, S. et al. (2012). Beyond merit and need: Strengthening state grant programs. Brookings Institute: Washington D.C. Available online at: http://www.brookings.edu/research/reports/2012/05/08-grants-chingos-whitehurst.

- It can also encourage students to do something they wouldn't (like seek tutoring, or attend full-time instead of part-time)

- Money that both encourages and enables has two pathways to change outcomes (*excerpted from Dr. Johnson's 8/2/12 presentation to the Commission*)

In conclusion, it is evident that changes in federal policies, generally flat state funding for need based aid, and dramatic increases in student enrollments have fundamentally altered the effectiveness of the Commission's current financial aid allocation method. The buying power of the current program has diminished greatly over the past several years, and the current financial aid policy does not expressly align with the goals identified in the Commission's master plan. As Dr. Baum suggests, in the absence of dramatic increases in new revenues for financial aid, "rationing is unavoidable." The Commission can and should consider policy alternatives that better align with the goals of the master plan and attempt to incent improved retention and progress for students with financial need, but such changes in the status quo will require hard choices, all of which will have non-trivial tradeoffs. One thing is certain: without intentional redirection, the effectiveness of the current financial aid allocation method will continue to diminish as a result of changes to inputs outside of the influence of the Commission or the institutions operating in the state.

IV. STAFF RECOMMENDATIONS

No recommendation at this time; this item is for discussion only.

STATUTORY AUTHORITY

C.R.S. 23-3.3-102.