

**TOPIC: FY 2014-2015 FINANCIAL AID DISCUSSION**

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## **I. SUMMARY & BACKGROUND**

At the January CCHE meeting Department staff presented preliminary recommendations from the institutions to determine financial aid allocation methods for the new work-study and merit funding for FY2014-2015. Department staff is now seeking Commission input to move forward with financial aid allocations for need, work-study and merit aid. Throughout February, Department staff is working with institutions to compile feedback on potential options for allocating the new work-study and merit dollars. At the same time, we have been revisiting the principles of the need based allocation. The U.S. Department of Education released the FY 2014-2015 Pell EFC on January 31<sup>st</sup> which will influence the need based allocations. Department staff will bring an Action Item to CCHE in the March CCHE meeting so that the Commissioners can act on an allocation methodology for need, work-study and merit aid for FY2014-2015.

## **II. BACKGROUND**

The Commission is charged with allocating state financial aid funds appropriated in the Long Bill. The November 1<sup>st</sup> budget request for FY2014-2015 includes increases to need based aid and work-study aid as well as a restoration of a state funded merit program. This agenda item provides the most up-to-date feedback from the institutions regarding the various aid allocation methodologies so the Commission can further discuss and provide input regarding options for state-funded financial aid allocations later this spring.

To remind the Commission of the discussions that took place during the financial aid review, it has been just over a year since the Commission approved a new financial aid allocation method for need based aid. The goal of the new Completion Incentive Model is to help create incentives for institutions to achieve the goals of the Master Plan. The principles supporting the new method include supporting timely completion, targeting aid to neediest students, like treatment of Pell eligible students regardless of institution type (flattening of the tiers), predictability for financial aid administrators from one year to the next, and progress incentives. The allocations in the first year (FY2013-2014) of implementation for the Completion Incentive Model included a hold harmless provision set to the rate of inflation.

The model does not dictate how institutions must award aid, but rather creates incentives to provide support to the students least likely to succeed. 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.

### **III. STAFF ANALYSIS**

The Department has been actively engaged in soliciting feedback from the institutions specifically through the Financial Aid Advisory Committee and the CFO's. And, through that process institutions have offered feedback on options for allocation methods for the new funding for work-study and merit aid. One institution has suggested that the Commission consider all types of aid holistically to support the goals of the Master Plan.

While each of the types of financial aid ultimately serve a unique purpose and would be allocated with consideration of the intended use of the aid and compliance with law and policy, the allocations should be considered together to allow institutions the opportunity to help meet the goals that the Commission has included in the Master Plan. That is not to say that all aid should be considered equally, but that under financial aid flexibility there is an opportunity for institutions to be creative in the way that financial aid is packaged to meet their performance goals.

In addition to the holistic approach mentioned above, the institutions offered feedback on the allocation methodology of each type of aid. The department synthesized these ideas into allocation methodology options for each type of aid and we present them below:

#### *Need Based Aid*

The state's largest investment in state funded financial aid is for students with financial need. While the need based allocation method was approved in January, 2013, there are moving parts in the model that deserve discussion including the principles of predictability and fairness. The funding for the undergraduate need based aid amounts to roughly \$68 million in the current year. Using the FY2012-2013 financial aid data the attached models illustrate how the undergraduate allocation is distributed with the additional \$30 million in funding and changes to enrollment.

Need Model A: distributes the aid with no protections built into it. Under this approach, the swings are large at a few institutions and one institution would receive less funding than in the current year in spite of new resources. *Pro: This approach acknowledges student enrollments. Con: This approach does not support predictability for out years if funding/enrollment changes because of large swings in allocations from one year to the next*

Need Model B: distributes the aid with a 50 percent growth limit and a hold harmless rate at inflation (2.6 percent) for institutions that would otherwise receive less than inflation. At the last financial aid advisory group meeting the group agreed that as a general principle the institutions support predictability and that no institution should lose funding when such a large amount of new money is coming into the system. The upper growth limit is imposed in the spirit of predictability while still acknowledging the growth of Pell eligible populations at certain institutions. *Pro: This approach acknowledges growth in*

*enrollments with a cap to promote predictability. Con: This approach tempers a more free-market approach to the allocation.*

### *Work-Study*

The approach under consideration is a base-plus model. This model assumes that the existing allocation for the \$16.4 million is allocated correctly and that the existing funds are considered base funds. The new \$5 million dollars presents an opportunity to address changes in campus demographics or to provide additional jobs where institutions have opportunities. The Commission can consider a couple of ways to look at allocating the new funding:

Work-Study Option A: Consider the total financial need by campus (total Cost of Attendance minus total Expected Family Contribution). This approach looks at the need for each campus and distributes that percentage of the new funding to each of the institutions. *Pro: Mirrors historic allocation methods. Con: Does not acknowledge the students without financial need.*

Work-Study Option B: Consider the total number of resident, undergraduate enrollments (converted to FTE) and allocate the proportional share to each institution. This recommendation was initially supported by financial aid directors; the calculation based on need was not discussed. *Pro: Applies new money to reflect enrollment changes since base allocation. Con: Does not address financial need of students.*

Both options for work-study allocations attempt to true up funding with the new resources by acknowledging either the changes in financial need on campus or by acknowledging the changes in FTE since the base allocation.

### Merit Based Aid:

The budget request includes a new \$5 million dollar restoration to a state funded merit program. The General Assembly eliminated the previous merit program for FY2009-2010. It is fair to acknowledge that all institutions have meritorious students. Since the January CCHE meeting, institutions have made recommendations about ways to allocate the merit funds. A few options for consideration are explained below:

Merit Option A: The first option is to consider the number of undergraduate FTE at each campus and distribute funds accordingly. *Pro: Acknowledges that all campuses have meritorious students. Con: Does not target funds.*

Merit Option B: The second option is to include some alignment with the Master Plan and allocate the funds based upon demonstrated need for students who are attending full-time, full-year. This model looks at students at the upper end of Pell eligibility and extends to students with any documented need. *Pro: Acknowledges timely completion as meritorious. Con: Excludes part-time students in allocation.*

Merit Option C: The third option is similar to Merit Option B, except there is an upper limit to eligibility. A more narrowed target that looks at students with demonstrated need who are not fully Pell eligible while still reaching into the lower middle income group, or up to 300% of Pell eligibility. This population includes students with documented need, enrolled full-time for a full-year. *Pro: Narrows target to students who tend to fall into the attainment gap. Con: Narrowing to this population does not align with traditional definitions of meritorious students.*

These options are not exhaustive; they merely provide options for consideration by the Commission for additional discussion. After discussion and input from the Commissioners in the February CCHE meeting, Department Staff will synthesize the input and bring an Action Item recommending an allocation methodology for each type of aid to the Commission at the March CCHE meeting.

#### **IV. STAFF RECOMMENDATION**

There is no recommendation at this time; this item is for discussion only.