

**TOPIC:                   FY 2015-16 NEED-BASED FINANCIAL AID MODEL  
ADJUSTMENTS**

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**I.       SUMMARY**

The Commission is charged with allocating state financial aid funds appropriated in the Long Bill, including need-based aid, merit aid, and work study. This item is part of an ongoing discussion related to annual adjustments to the state funded, need-based financial aid allocation model (referred to as the Completion Incentive Grant model) and the resulting allocation of funds among eligible institutions of higher education.

At the February CCHE meeting, Department staff brought forward several scenarios for the FY 2015-16 allocation based on the assumption of flat state funding. At the March CCHE meeting, Department staff brought forward additional scenarios based on the Joint Budget Committee's (JBC) figure setting discussion. Following the March CCHE meeting, the JBC voted to increase overall financial aid by 11 percent or approximately \$15 million and to target the increase to need-based financial aid.

In light of the JBC recommended increase and based on feedback from Commissioners and institutions, staff recommends the model be adjusted to provide a minimum increase of 5% and a maximum increase of 30%. This item seeks approval of the recommended adjustments to the Completion Incentive Grant model for the FY2015-16 allocation. After the Long Bill is approved, the final allocations of the increase in need based aid along with the continuing allocations of other financial aid programs will be brought to the Commission for final action in June.

**II.       BACKGROUND**

The Commission approved the Completion Incentive Grant model in January, 2013 for implementation in FY2013-14. The current year is the second year of implementation. The goal of the undergraduate need-based model is to help create incentives for institutions to achieve the goals of the Master Plan. The principles of the new method include supporting timely completion, targeting aid to the neediest students, treating Pell eligible students similarly regardless of institution type (flattening of the tiers), ensuring predictability for financial aid administrators from one year to the next, and encouraging student progress incentives.

The need-based financial aid is targeted to provide support to the students least likely to succeed. The model provides a set amount for each Pell eligible FTE and increases the set amount by grade level to create incentives for institutions to provide supports that improve the retention and progress of Pell eligible students.

The first year allocation included a hold harmless provision at the rate of inflation. The second year provided a minimum increase of 20 percent to each institution and an increase cap of 50 percent. With the significant increase in state financial aid funding for FY2014-15, the Commission approved increasing the set funding amount between grade levels by the rate of the overall increase in funding. This amount was roughly 38 percent.

To encourage timely completion, the model also includes an upper limit for advanced seniors. The original concept considered a maximum credit hour limit. After an analysis of the credit hours in the State Unit Record Data System (SURDS), staff from the institutions and the Department agreed that credit hour data was not the best way to capture timely completion. As a substitute, the commission approved using the Pell Lifetime Eligibility Unit (LEU) data included on federal financial aid processing documents. As a result, the advanced senior provision was delayed by one year to allow the Department to collect the Pell LEU data. The advanced senior adjustment is broken out in the proposed FY2015-16 scenario.

### **III. STAFF ANALYSIS**

The Department has been actively engaged in soliciting feedback from the institutions specifically through the Financial Aid Advisory Committee and the Chief Financial Officers. Through that process institutions have offered feedback on options for allocation methods for the funding that will be appropriated.

The new Pell eligible EFC increased from \$5,157 to \$5,198. The change in the number of Pell eligible FTE over the prior year is a decrease of just under six percent statewide, (a reduction of 4,694.5 FTE from the previous year). This change reflects the normal attrition that occurs following the influx of enrollments during a recession as the economy recovers. While the majority of institutions have fewer Pell eligible FTE than in FY2013-14, the most significant reductions in FTE were at non-profit private schools and community colleges.

The anticipated percent increase to state financial aid funding combined with a reduction in the projected Pell eligible FTE statewide results in a significant increase in funding per FTE at each institution.

The FY2015-16 staff recommended model includes the following assumptions:

- increase in state need-based aid of 13.7 percent;
- increases in the grade level increment at the rate of increase (increase of \$313);
- use of FY2013-14 Pell-eligible FTE data;
- advanced senior limit counted at freshman rate (240.5 FTE, statewide); and
- application of a predictability band providing for a minimum increase of 5% and a maximum increase of 30%.

Throughout this process Department staff has actively engaged feedback from the institutions to

inform model options. The staff recommended model adjustment which incorporates a predictability band of a minimum increase of 5% and a maximum increase of 30% was brought to the Commission for discussion in March and shared with stakeholders. Predictability is a foundational value in financial aid and this approach provides predictability while recognizing changes to Pell eligible populations.

The state's investment in need-based aid since the start of the Completion Incentive grant is unprecedented. The first year of the program, the total funding was roughly \$71 million. In year two, it was nearly \$99 million. In year three, the available funding is estimated to be \$112 million. State funded need-based aid has increased by more than 57 percent under the model. As a result of the increase in aid and the reduced number of Pell eligible FTE in the system, the freshmen rate per FTE has increased from \$609 year one (FY2013-14) to \$1,083 for year three (FY2015-16), nearly 78 percent. With such a large increase in available funding, all allocations have increased by a minimum of 26 percent since the start of the program, with five institutions nearly doubling their allocations over the period; and ten institutions have grown at the rate of change or greater.

Final allocations will be brought to the Commission in June to reflect the final appropriations after the end of the legislative session.

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

**Staff recommends the approval of Model A of the Completion Incentive Grant model, including the application of a predictability band which provides eligible institutions with a minimum increase of 5% and a maximum increase of 30%.**

#### ATTACHMENTS:

Model A—Predictability Band (minimum increase 5% maximum growth 30%)