

**TOPIC: FINANCIAL AID ALLOCATION DISUCSSION**

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**I. SUMMARY**

Since August 2012, the Commission has been exploring possible options for improving the state's financial aid allocation method and to align the method with the goals of the CCHE's Master Plan for higher education. At each Commission meeting since, Department staff has introduced different concepts regarding methods to prioritize the allocation of state need-based financial aid.

Our purpose has been to analyze, discuss, and approve changes to the state's financial aid allocation method by January 2013. This item will be the final discussion item prior to introduction of a financial aid allocation method action item at the Commission meeting scheduled for January 10, 2013. This item presents the implications of specific modifications to the financial aid allocation method based upon feedback provided by Commissioners at the November 2012 CCHE meeting.

**II. BACKGROUND**

As a result of historic structural changes in student populations, increases in college costs, and flat financial aid dollars, the financial aid allocation method used by the CCHE during the recent past does not achieve the goals that it was designed to achieve. In 2012, the Commission set out to find an approach that provided predictability from one year to the next and one that aligned with the goals of the master plan.

Since August 2012, the Commission has considered numerous methods to modify the state's financial aid allocation system and has endorsed the following changes:

1. Targeting allocations to Pell eligible FTE
2. Eliminating financial "tiers" among institutions (moving to "flat" or common award levels)
3. Introducing progressive award "steps" to incent and promote retention and momentum
4. Introducing financial "disincentives" for continuing students that do not complete in a timely manner
5. Creating greater year-over-year predictability for financial aid administrators
6. Maintaining institutional flexibility to award state grant aid to students currently receiving awards (i.e., resident students with up to 150% of the Pell EFC)

Although no formal action has been taken by the Commission on the above-mentioned modifications, Department staff has incrementally designed a financial aid allocation method intended to achieve each of the Commission’s priorities. Importantly, all of the features of the financial aid method discussed above are consistent with the Master Plan.

**III. STAFF ANALYSIS**

In this discussion item, Department staff presents the systemwide impacts of implementing a financial aid allocation method that eliminates financial tiers, targets Pell FTE, and uses academic progress “steps.” Before moving to these analyses, and as to remind the Commission of previous discussions on the topic, we again present figures discussed at the November 2012 meeting.

Figure One below shows the impact of changes in student enrollments on “base” financial aid awards under the CCHE’s existing financial aid policy. Figure one also demonstrates the difference in buying power had a flat grant approach had been used over the past six years.

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

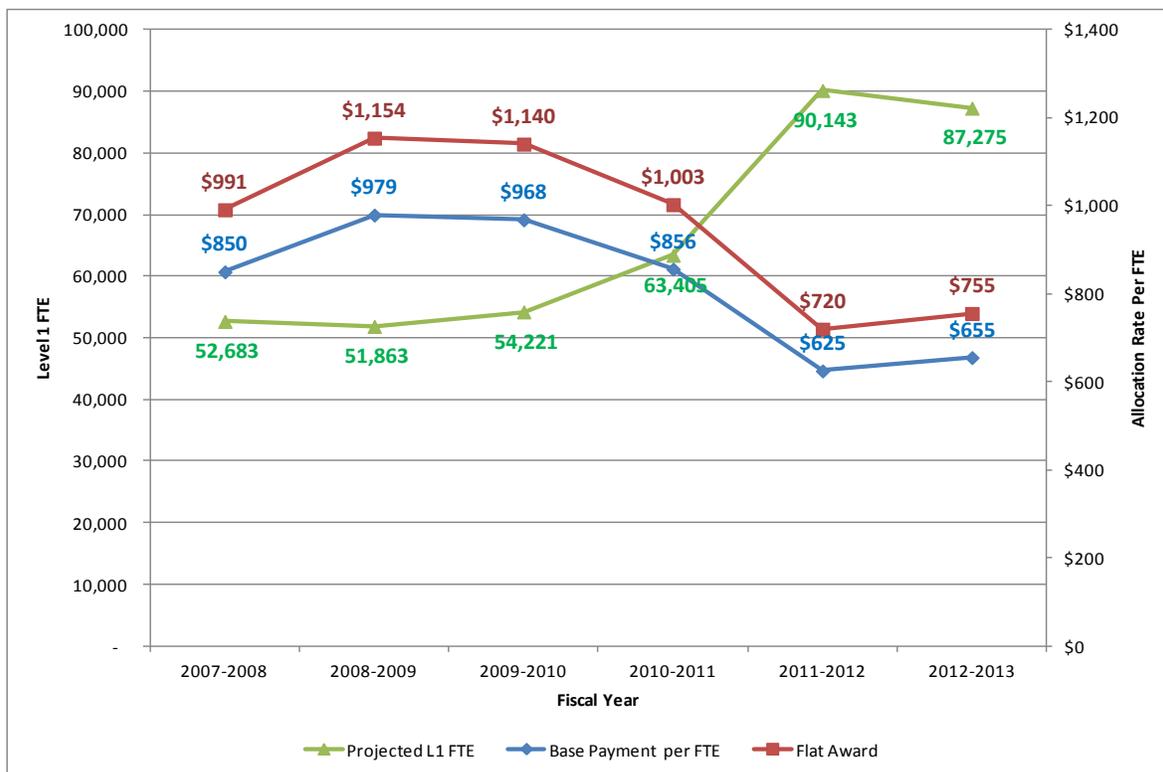
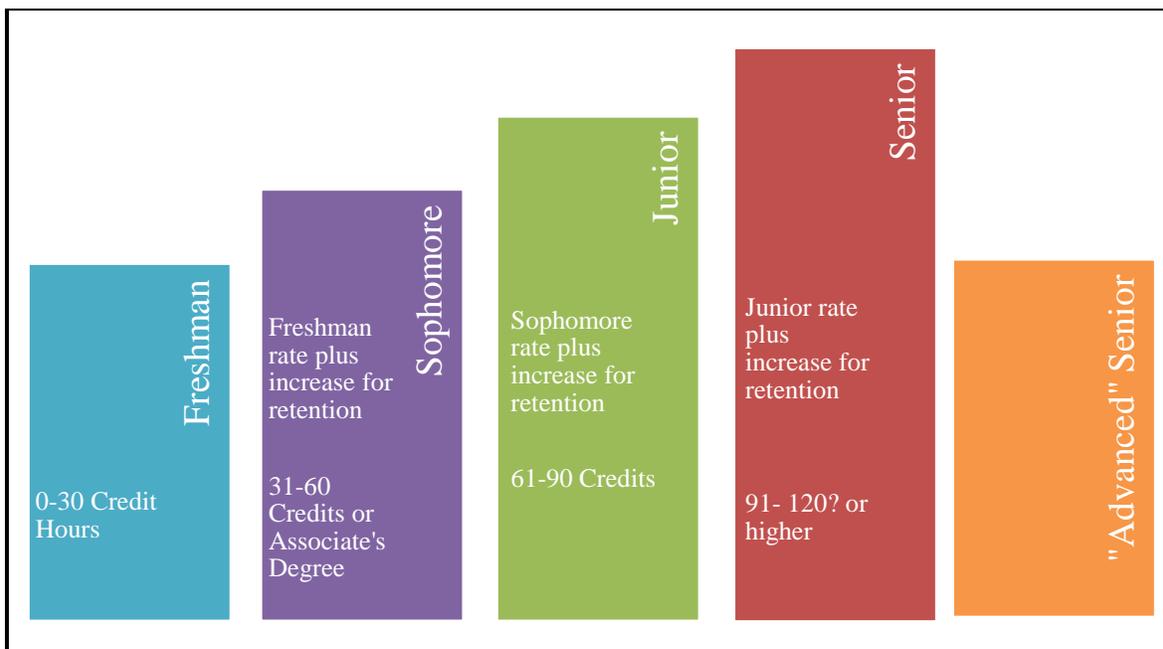


Figure Two illustrates the concept of a “progressive” financial aid allocation method. Under this method, the Commission would award a “base” financial award to Pell eligible FTE at an institution. Additional increments would be awarded based upon the student progress (i.e., earning 30, 60, or 90 credits). And, at some yet undetermined level above 120 credit hours, award levels would be reduced back to the “freshman” or first-time student level, resulting in the removal of progression incentives.

**Figure Two: Conceptual Illustration of a Progressive Financial Aid Allocation Method**



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<sup>1</sup>:

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

<sup>1</sup> 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>.

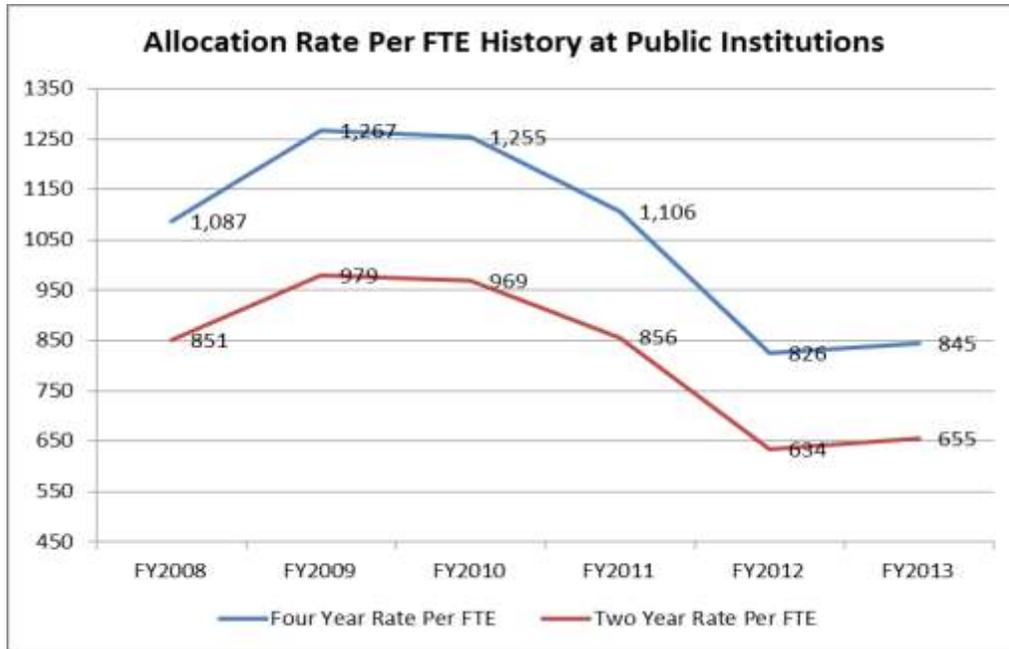
- Academic requirements embodied in state grant programs should provide meaningful incentives for success in college; they should not be focused exclusively on past achievement or be so high as to exclude students on the margin of college access and success.
- States should provide second chances for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

Before turning to the analyses of a progressive allocation model, it is worthwhile to see how the dramatic growth in student enrollment coupled with flat financial aid appropriations have affected financial aid at public four-year and two-year institutions.

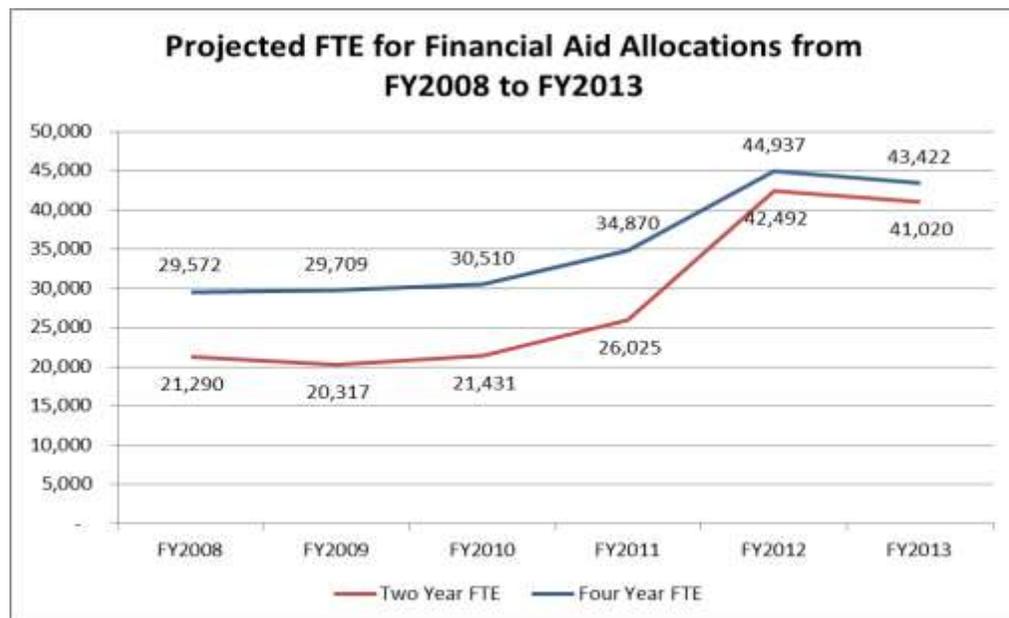
Figure Three compares the allocated rate per FTE for undergraduate need based aid at public two- and four-year institutions. In 2009 and 2010, public institutions received relatively consistent awards. In part, this was a result of increased financial aid appropriations that kept pace with student enrollment. In 2011, 2012 and 2013, however, increases in the number of eligible students were not matched with funding and the rate per FTE fell at both two-year and four-year institutions. In 2011 and beyond, the explosive enrollment growth at community colleges was not matched at four year institutions, although both sectors experienced increases in the number of eligible students.

Figure Four compares the projected eligible FTE for undergraduate need based aid at public two- and four-year institutions. While both sectors appear to be in decline, trends from the prior recession suggest that enrollments at four-year institutions will likely remain fairly consistent while enrollments at two-year institutions are expected to taper off as students either matriculate to four-year institutions or complete and seek employment.

**Figure Three: Changes in Financial Aid Allocations per FTE at Colorado Public Colleges and Universities, by Sector, FY2008-FY2013**



**Figure Four: Actual and Projected Resident Financial Aid FTE at Colorado Public Colleges and Universities, by Sector, FY2008-FY2013**



### **Assumptions in the Model**

**One Year “Lookback”** The current CCHE financial aid allocation method considers annual enrollment changes in two ways. For growing institutions, using three years of data, the percentage increase from one year to the next is averaged and that percentage is added to the actual FTE for the most current year and is used in the model. For institutions with declining enrollment, the previous three years’ enrollments are averaged. In a zero-sum fiscal environment, the policy of adding a growth metric and using a three year average for declining enrollment has the unintended effect of diminishing awards for students with demonstrated need enrolled at higher growth institutions. Importantly, federal Pell grant policies do not operate this way. Only actual eligible FTE are funded by Pell grants. This is because the Pell grant is considered a direct benefit to need-eligible students, not a subsidy to institutions.

While it is not currently possible to administer state grant aid in real time like the U.S. Department of Education does, the state can modify its policies to more closely fit with those of the U.S. Department of Education’s by employing a one-year lookback for all institutions and removing the FTE calculation policy as it currently exists. This would allow the Commission to model its allocation on the most recent enrollment information available. This change would also provide institutions with much greater predictability regarding their uses of state grant funds, as they will know the enrollment levels upon which their allocations are based.

In this agenda item, Department staff modeled allocations based upon data from a one-year lookback, those from the 2011-12 academic year.

**Class Level Data Without a Ceiling** Data used herein present Pell FTE organized by institution and class level. Staff attempted to limit the data to those students with 145 or fewer credit hours, but this was not possible due to limitations in the state’s current data collection standards. Specifically, enrollment data includes remedial courses as credits earned and transfer credits are inconsistently reported in the student’s first term on campus. Also, when the enrollment and financial aid reports are “matched” approximately four percent of the FTE are missing. This may be attributable to the inclusion of summer courses in one of the two reports, but this is unclear and will require additional analysis. Consequently, at this time, we cannot yet present a reliable way to report student financial aid by credit hours earned. If a progressive allocation method is adopted by the Commission, it is likely that such a method will need to be developed and refined over time in order to address necessary improvements in data collection standards.

**Hold Harmless in FY 2013-14** Any changes to the state’s financial aid policy will always lead to variability in allocation levels at the institution level. As a result, Department staff recommend implementing an initial “hold harmless” provision in the first year of the new program. Estimates herein include the additional \$5.3M in state funded need-based financial aid proposed by the Governor in his FY13-14 budget. Using this larger budget staff prepared a model that does the following:

- Institutions that would receive smaller state financial aid allocations as a result of the policy changes proposed in this agenda item would be trued up compared to their FY13 allocation. In addition, these institutions would an additional 2.2%, the estimated inflation rate for the current year;
- Institutions experiencing enrollment growth would receive full funding.

We recommend this process for the FY 2013-14 academic year only, as it is the intention of this policy to have need-based funds follow and support eligible students, not to treat financial aid as a supplementary source of operating revenue. .

**\$200 Dollar Increments** Though the dollar value of increments between class levels could be fitted to a variety of fiscal and enrollment conditions, Department staff build the enclosed model with a “base” award of approximately \$600 with \$200 progressive increments for each class level. This approach has intuitive logic, as is presents easily understandable steps and has the added benefit of gradually increasing financial aid awards to approximately \$1,200 in the senior year, or double the freshman award. As was mentioned numerous times by the national experts invited to provide counsel to the Commission last August, one of the most important attributes of a successful financial aid program is the ease of its interpretation. Though no formal action on the value of progressive steps is being sought at this time, Department staff thinks it is important consider a model that is easy to understand and follows an uncomplicated logic.

### Proposed Models

Allocation models A and B (see appendices) both employ a progressive allocation method using data from the FY 2012 SURDS financial aid file. To provide predictability, the first model (Model A) allocates by class level with a \$200 increase for each year and implements a hold harmless provision on the FY2013 allocation plus adds an additional 2.2% for inflation. This “hold harmless” provision requires approximately \$663,000 in supplementary revenues; this additional amount decreases the “base” award by approximately \$20 per student. The second model (Model B) allocates by class level, but does not include a hold harmless provision.

Both approaches match allocations to Pell Eligible enrollments at the institutions. Both models also use a nine-month Expected Family Contribution (EFC) of \$4,995 or less, the current Pell EFC. Importantly, the Pell EFC for FY 2013-2014 has not yet been determined. Once it has been decided—a federal determination that requires Congressional action—Department staff will rerun the models. To help illustrate this point, Congress reduced the Pell EFC in FY2012-2013 from \$5,273 to \$4,995 (-5.5%) and lowered the income eligibility limit at the same time.

Two-year institutions have the largest population of Pell eligible freshmen and sophomore students in the state system, though, overall, four-year institutions enroll slightly more Pell eligible students; this latter difference is influenced by transfer patterns from two-year to four-year institutions. For example, Metropolitan State University of Denver receives approximately 31% of all students who transfer from two-year institutions and 21% of all transfer students in

the state. The University of Colorado Denver receives approximately 11% of all transfers, followed by Colorado State University, which receives approximately 9% of all transfers. Importantly, Regis University receives approximately 15% of all incoming transfer students in Colorado, a function of the institution's large School of Professional Studies, a division of the institution designed to support working adults.

The FTE in the model are calculated by converting part-time enrollments (students enrolled at least half time) to FTE. There are some inconsistencies in the data. For example, some of the part-time students are enrolled for 11 credit hours/semester year round and are counted in the same way as students that are only enrolled for six credits for one semester. On the other hand, there are students enrolled for 18 credit hours/semester year round and others enrolled for 12 credit hours and both are reported with the same status (i.e., "full-time").

Though staff does not recommend using the financial aid allocation model employed by the Commission in recent years, for comparative purposes, Model C presents these FY14 projections using this model. Though certain institutions would receive additional revenue under Model C, it is important to recall that this is the result of either (a) averaging three-year enrollment levels or using a growth multiplier rather than considering actual enrollments, or (b) counting students with EFCs up to 150% above the Pell eligibility ceiling, or both. The Commission has previously stated its preference to consider narrowing the EFC allocation to Pell Eligible students only; Models A and B follow this practice, but it is not used in Model C, though it assumed that institutions, in practice, will continue to have the flexibility to award state aid for students up to 150% of the Pell EFC.

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

This item is for discussion only; there are no recommendations at this time.

#### **STATUTORY AUTHORITY**

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