TOPIC: **FINANCIAL AID ALLOCATION DISCUSSION**

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I. SUMMARY

At its September meeting, the Commission agreed to revisit the financial allocation method for FY2014 and beyond. The Commission charged Department staff to provide additional information to show the impact of different approaches would have on financial aid allocations and whether the changes align with the overall goals of the Master Plan. Specifically, the Commission requested more information about how the approaches under consideration support student access and completion.

II. BACKGROUND

Since 2008-09, state resources for financial aid have remained largely unchanged while student eligibility and enrollment have increased dramatically. The result has been the gradual diminishment of the buying power (i.e., impact) of the state's need-based grant program. Each year during the economic downturn the Commission approved minor adjustments to the approved allocation model, through these changes had more to do with changes in enrollment than focusing on state performance priorities. The Commission is now considering alternatives that would more closely align with the state's goals of improving completion and closing historic gaps for underrepresented populations. In short, the Commission wishes to maximize the impact of available funds to the extent practicable under current law. To this end, the Commission seeks to better understand how the implementation of various changes in policy would affect the allocation method.

The Commission has received recommendations from national authorities on financial aid policy concerning approaches that are believed to improve student outcomes. In this agenda item, we present information on the impact of targeting aid to a smaller pool of students by either (a) lowering the eligibility threshold or (b) limiting eligibility to students enrolled full-time (using the existing allocation method). This item also presents Colorado specific information on ways in which state financial aid correlates with student retention.

The approaches presented herein describe how modifications to current EFC or full-time enrollment eligibility parameters would affect the current allocation based on prior years' data. (FY 2011-12 data will be available in November 2012). These data are illustrative only, but may inform the direction of future allocation decisions.

III. STAFF ANALYSIS

Below is a brief overview of the effects of different approaches to allocating state need-based grant aid. Each modification is discussed separately. The table in Appendix A provides information on the effects of the proposed changes in a side-by-side format. Staff primarily used the actual FY2012-2013 undergraduate allocations as a basis for determining the effects of changes to policy (though the historical approach of averaging three years' data is presented as well). What follows are summary descriptions of the effects of various changes to the allocation model.

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:

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[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.

- 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)

- 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*)

Modifying EFC Levels Department staff examined how limiting financial aid eligibility at different levels—the current Level 1 EFC ($7,493), the current Pell limit ($4,995), as well as at a lower EFC ($3,800)—would affect financial aid awards and different institutions by type. The $3,800 EFC limit was used as it was determined that this figure most closely represents the total population of students who received state grants before the 2008-09 recession. In other words, it represents the proportion of the population of students who received state financial aid in 2011 that is roughly approximate to the total population of students who received state grants in 2007-08, about 71,000 students.

The impacts of changes to EFC ceilings, as presented in Appendix A, are predictable: the average grant award increases when the eligibility ceiling is reduced. At the current level of 150% of Pell, students, on average, receive $655 of state grant aid. At the Pell limit ($4,995), the award is $746). And at the lowest EFC rate analyzed ($3,800), the grant is $808. Institutions with the largest enrollments of low income students—community colleges and "access" four-year institutions—benefit the most from lowering the eligibility ceiling.

Limiting Aid to Full Time Students (12 or more credit hours each term) Another option discussed at the last CCHE meeting was to allocate state grant aid to full-time students. Some states, including West Virginia, use this approach with their need-based scholarship program. In West Virginia, students are required to complete at least 30 credit hours each year to continue to receive scholarship funding. A study of the West Virginia program suggests that tying state aid to full-time status increased on-time graduation in the state by seven percent (7%)[2].

The effects of limiting the state grant program to full-time students are consistent. Students at research universities and most four-year institutions receive more state-based financial assistance and students at most community colleges and lower cost non-profit private institutions receive less financial assistance.

Flat Award Level Another option discussed by the Commission at its last meeting was the implementation of a "flat" or fixed award rate. Under the current allocation method, which

[2] HCM Strategists (2012). "Student Incentives in the West Virginia Promise Scholarship Program." Available on-line at: http://www.collegeproductivity.org/sites/default/files/wv_promise_scholarship_one_pager_-final-1_0.pdf

makes students at or below 150% of the Pell limit eligible for an award, moving the state grant program to a flat or fixed amount would increase the base allocation rate by 15% to $755 per student. Under this scenario, community colleges would gain financial aid resources and research universities would lose resources, as this policy would “flatten” the current cost tiers. If the EFC limit were reduced to $3,800, the flat allocation rate would nearly double from its current level to $1,132. Under this scenario, community colleges would gain financial resources and nearly all four-year institutions would lose resources.

Research on Financial Aid’s Relationship to Student Retention

In 2011, the Colorado Department of Higher Education issued a request for proposal to study indicators of student retention and transfer in Colorado. The National Center for Higher Education Management Systems was retained to conduct this study. The final report from NCHEMS will be available in mid-October. However, several of the study’s preliminary findings related to student retention (first to second year retention) are presented below.

Figure One below describes the general relationship between student retention and financial aid among community college students. Information in this suggests that students who received state grant aid were retained at higher rates compared to students without state grant aid. Moreover, students who received state grant aid were more likely to be retained into the second year than were students who received Pell Grants. Students who receive institutional grant aid were the most likely to be retained into the second year, likely because this group of students not only had demonstrated financial need, but also had attributes considered important to the institution, such as academic merit.

Importantly, the relationships presented in this figure are not necessarily causal. That is, from the data in this figure, we cannot construe a direct or causal relationship. Causal relationships are presented in Figures Three and Four, presented later in this agenda item.

Figure One: Relationship Between Financial Aid, by Type, and Retention into the Second Year at Colorado Two-year Institutions of Higher Education.

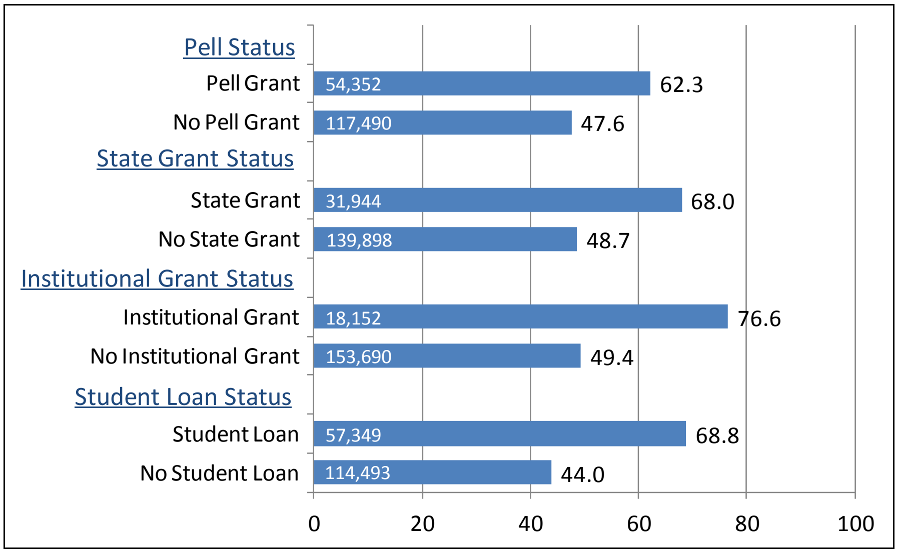


Figure Two (below) describes the same relationship among students enrolled at four-year institutions. Importantly, among students enrolled at four-year institutions there was a nominal difference in student retention among state grant recipients and non-recipients; both groups of students were generally retained at high levels.

Figure Two: Relationship Between Financial Aid, by Type, and Retention into the Second Year at Colorado Four-year Institutions of Higher Education.

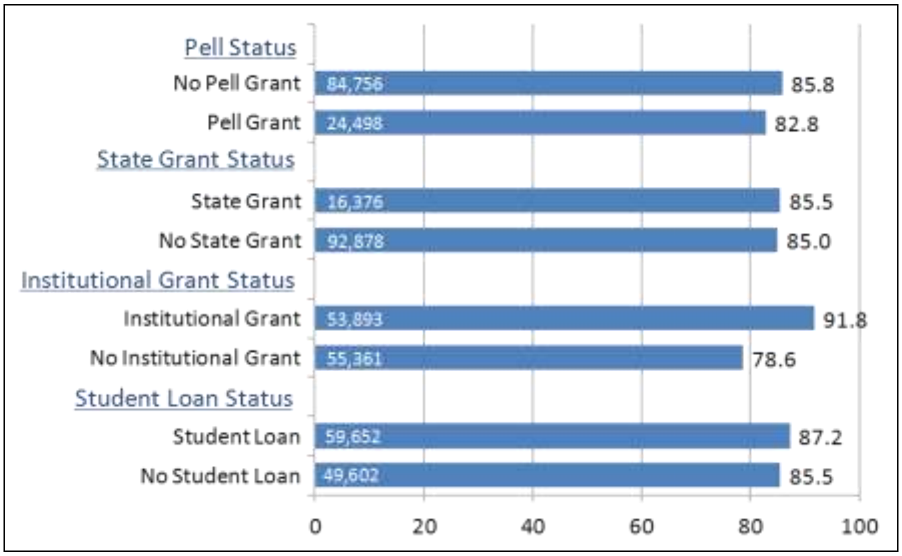


Figure Three (below) is a causal model of student retention. It presents the results of a logistic regression test on student retention. This model considered background characteristics, such as gender, financial aid inputs, academic preparation (for students at four-year institutions), and academic progress indicators. Logisitic regression coefficients are considered “odds ratios” and reflect changes in probabilities based on an increase of one unit of an particular explanatory variable. These changes in probabilities are expressed as proportional values above (positive change) or below (negative change) a static value of 1.00. So a coefficient of 1.02 is interpreted as a positive change in probability of 2%, a coefficient of .90 is interpreted as a negative change of 10%, and so on.

Figure Three: Logistic Regression Model for First-to-Second Year Retention at Public Two-Year Colleges

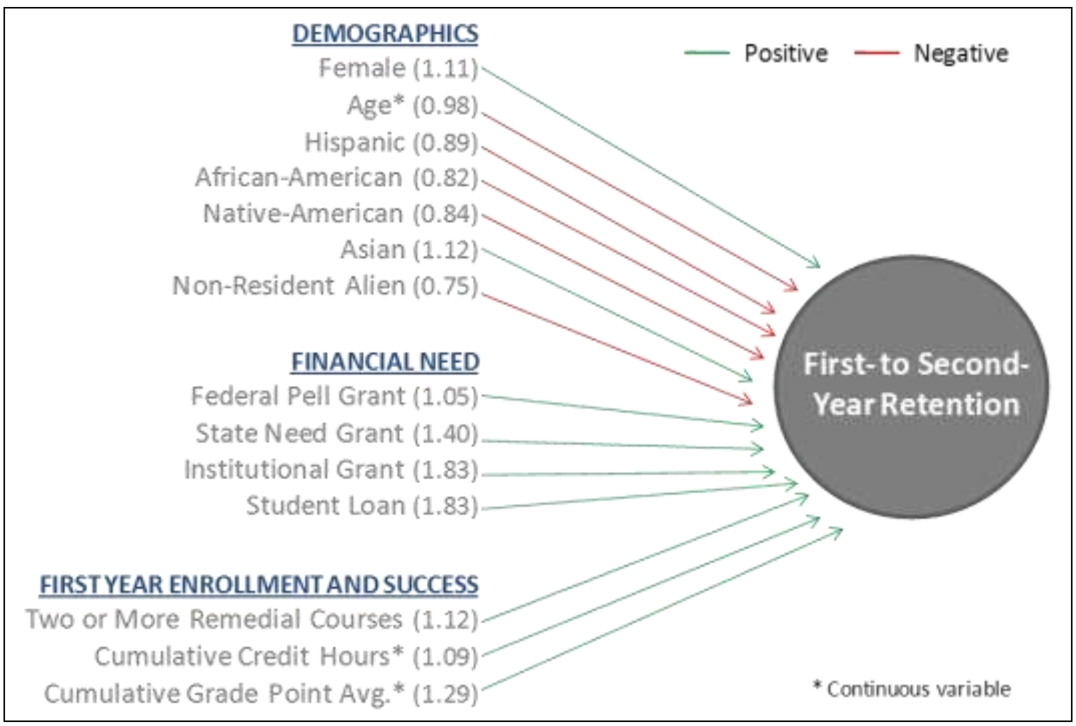
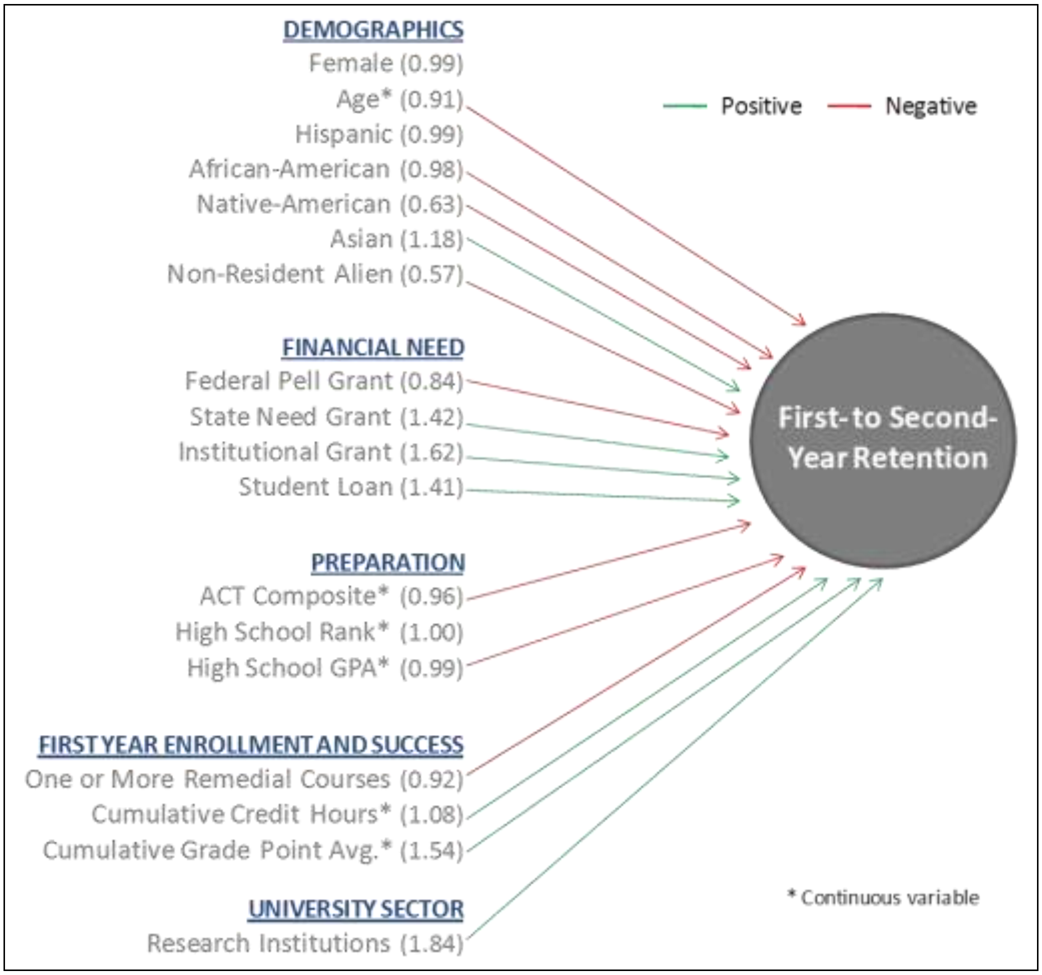


Figure Three demonstrates that, after controlling for student demographics, financial need (and aid type), and enrollment and success, all sources of financial aid resulted in positive correlations with retention. Importantly, no type of student financial aid resulted in statistically significant (i.e., non-random) changes in behaviors. Statistically significant correlations were found among the following variables: age (-), cumulative credit hours (+), and cumulative grade point average (+).

Figure Four presents the results of the logistic regression analysis on retention among students at four-year institutions. This figure demonstrates that, after controlling for student demographics, financial need (and aid type), and enrollment and success, all sources of financial aid except Pell

Grants resulted in positive correlations with retention. Importantly, as was observed among the analysis among two-year students, no one type of student financial aid resulted in statistically significant changes in behaviors.

Figure Four: Logistic Regression Model for First-to-Second Year Retention at Public Four-Year Colleges



Though a full explanation of the results presented above is beyond the scope of this agenda item, the following is a summary of the study's implications, as described by NCHEMS:

> The [statistics] indicate that the most influential predictors of retention at public four-year colleges - i.e. students who are most likely to return their second year (in order): had more cumulative credit hours and higher GPAs during the first year of college, were enrolled in a research university, received an institutional grant award and a state grant award to pay for college. For universities as well as community colleges, enrollment intensity, academic success, and financial aid make a difference in student's ability to

persist in college. (*Excerpted from draft report from the National Center for Higher Education Management Systems on 8/1/12*.)

Additional Considerations

Graduate Aid Allocations for graduate aid have been based upon the FTE of Level 1 enrollments in the critical careers list. The critical careers list was created by using the CIP codes for the National Science and Mathematics Access to Retain Talent (SMART) along with all medical careers. The federal SMART program has been discontinued, and the Commission may want to re-evaluate utility of the current list of eligible programs to ensure that it continues to meet the Commission's intentions.

At the current EFC level, restricting aid to full-time students would not result in dramatic changes in graduate aid allocations. Students are non-profit private institutions and tier two public institutions would experience modest reductions. If the EFC level were reduced to $3,800 and the current allocation method was continued, students at the Anschutz Medical Campus would experience increases in aid while students at most other institutions would experience decreases in aid. This may be explained by the fact that medical students are nearly universally enrolled full-time and do not work while in school. By contrast, students in other kinds of graduate programs are more often enrolled on a less than full time basis, and many of these students work albeit often on a less than full time basis. Similar though more pronounced changes in award levels were observed when the EFC limit was lowered and aid was restricted to full-time students only.

Feedback from Financial Aid Administrators At the September financial aid advisory meeting, some of the institutions expressed concern that any changes to the allocation method were not supportive of the concept of financial aid flexibility. Generally, institutions try to take advantage of Pell grant funds and allocate state and institutional funds to lower income students. If the Pell grants awarded to students are enough to cover the cost of tuition and fees, institutions will spread state and institutional aid into higher incomes. With the limited funds available, the majority of students receiving financial aid are low income.

By and large, financial aid administrators do not believe that there is enough aid available to focus on completion, but acknowledge that if there were new funds available, completion should be a consideration. Because funds are limited and the demand is high, the institutions are most focused on access.

Each year when the discussion is revisited with the financial advisory group, the main theme of discussion is a request for predictability. For years with flat funding, options the Commission may wish to consider may be to set limits on growth and reductions (e.g. no more than +/- 10% in a given year) or to maintain investments in returning students within the same institutions by "grandfathering" allocations to these students. This latter option could be accomplished by separating the allocation formula into three pots—first time students, returning students, and graduate students. Finally, institutions have supported proportional reductions in the past when there were cuts to the appropriations.

IV. STAFF RECOMMENDATIONS

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

STATUTORY AUTHORITY

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