TOPIC: **FINANCIAL AID ALLOCATION DISCUSSION**

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I. SUMMARY

The Commission's financial aid allocation method has been a recurring topic of discussion in the last several years. At its August retreat, the Commission heard from state and national financial aid experts (see Attachment A) about best practices in financial aid. The financial aid discussion, while in depth, was not intended to result in a specific decision or set of decisions. This item seeks further input from the Commission regarding how it prefers to target state funded financial aid and would like to pursue next steps.

II. BACKGROUND

Annually, the Colorado Commission on Higher Education approves state funded financial aid allocations for participating institutions across the state. Since the implementation of the current allocation method, there have been external changes that have had impact on the effectiveness of the method including changes to federal Pell grant eligibility, enrollment growth, and elimination of categorical programs (e.g., Merit, Pre-collegiate, Teach). Although the primary financial aid appropriations for need based aid and work-study have remained relatively unchanged over the past few years, the impact of state-funded financial aid has diminished because of enrollment growth, rising college costs, and changes to federal eligibility criteria.

The presentations at the retreat highlighted specific ways the Commission could target the financial aid allocation method to increase the State's return on investment. While the majority of institutions have financial aid flexibility under SB 10-003, the Commission is charged with determining annual allocations of state funded financial aid. Recommendations from the national experts suggest that financial aid allocation method could be targeted to support statewide goals, such as improved momentum and degree completion.

Due to the external factors listed above the Commission has considered alternatives to the current method over the past few years, and approved temporary departures from the approved standard policy, but has not pursued a new allocation method. If the current allocation method is not the best design to support statewide goals, the Commission may choose to pursue an alternative one.

III. STAFF ANALYSIS

From the presentations, below are options proposed to improve the state's return on investment of financial aid:

Time to Degree

This approach to an allocation model creates an incentive for institutions who serve students in a reasonable timeframe. Options include a lifetime limit of credit hours, a certain number of years to complete a bachelor's degree or a combination of credits/years. In the example presented at the retreat, Tennessee enacted 120 credits lifetime credits over five years.

Completion

This approach views performance as course completion rather than grades. By allocating to students who complete 30 credits per year, it encourages on-time graduation, and makes students responsible for earning their assistance. This approach focuses on full-time enrollments (used in West Virginia—credits earned and semesters enrolled increased).

Targeting Lowest Income

The current CCHE allocation method targets to 150% of Pell eligibility. It may be worth considering a lower target if the goal is providing access to the lowest income families. Table 1 below illustrates the changes to Pell eligibility and the increased enrollment of Level 1 FTE changed from 52,683 in FY2007-2008 to 90,143 in FY2010-2012, an increase of 71 percent. The change to Level 1 EFC alone was nearly 37 percent over the same period. Looking closer at the Pell EFC ranges, the highest concentration of needy students fall within the 0-75 percent of Pell eligibility range; if new revenues are expected, narrowing the eligible EFC range is one way to target the neediest students.

Table 1: Changes in Colorado Aid Program by Enrollment and Eligibility

Level 1 FTE History			
Fiscal Year	Projected L1 FTE	Change From Prior Year	Change from FY2007-2008
2007-2008	52,683		
2008-2009	51,863	-1.56%	-1.56%
2009-2010	54,221	4.55%	2.92%
2010-2011	63,405	16.94%	20.35%
2011-2012	90,143	42.17%	71.10%
2012-2013	87,275	-3.18%	65.66%

Level 1 Expected Family Contribution History			
Fiscal Year	Level 1 EFC	Change From Prior Year	Change from FY2007-2008
2007-2008*	5,775		
2008-2009	6,062	4.97%	4.97%
2009-2010	6,926	14.25%	19.93%
2010-2011	7,910	14.21%	36.97%
2011-2012	7,910	0.00%	36.97%
2012-2013	7,493	-5.27%	29.75%

These data include part-time enrollment converted to full-time equivalents (FTE). If the Commission elects to pursue a limit to full-time enrollments only, different data will be used. Using FTE as a proxy, FY2008-2009 allowed for the largest allocation payment per FTE. Looking at the FTE data from FY2010-2011 (see attachment B) with current financial aid eligibility data, the same FTE target (approximately 55,000 students/FTE) is located at less than 75% of Pell eligibility.

Targeting Highest Risk

Identifying which students are least likely to continue without aid could be considered highest risk students. Those students could be identified by student level (returning sophomores), lowest income, gender, ethnicity or other. Targeting these students may be a way to improve financial aid productivity.

Shared Responsibility

This approach is used in Minnesota and Oregon. Students have a "shared responsibility" regarding the cost of their education; they are required to contribute through either work-study or loans. The family also contributes (through EFC). Federal aid is applied and the state share is last dollar applied to remaining balance.

No single state has implemented all of the elements suggested; rather they are a collection of best practices from multiple states. The presenters underscored the importance of financial aid marketing/branding and the value of student support services at institutions. The presenters concluded that any financial aid model should be reevaluated and adjusted to determine the actual return on investment after a certain period of time.

One of the key points made by the financial aid directors was regarding the importance of the state work-study program. Because of the changing economic conditions, simply increasing the amount of the work-study appropriation may not always be the best way to address the changing demands for work-study funds. The panelists requested the consideration of greater flexibility to transfer funds between aid types within their financial aid allocations.

It should also be noted that while DHE collects enrollment, graduation, and financial aid data, each file is unique and the data in them are not perfectly aligned, and moreover, the DHE does not have access to live or "current" data. Changes to the allocation method could require changes to data collection for implementation, or some consideration could be made to smooth the data, such as three year averaging, while still allowing for unanticipated changes.

Current Allocation Method and Changes

The current allocation method was developed to create transparency to families while also creating a program that guaranteed aid to every low-income student. An innovation of this model includes a separate amount of funding designated for graduate students in high need areas (STEM fields). The General Fund appropriation includes line items for need-based aid, work-study, and categorical programs. The bulk of need-based financial aid goes to undergraduates and all institutions participating in the state funded financial aid programs receive an allocation. The Commission allocates funds in each program among the institutions according to an approved allocation policy.

For undergraduate students, the model allocates a flat payment for the projected Level 1 FTE for the upcoming year based upon prior three years data. Payments to institutions are indexed by institution type (tier). The index is based upon the average cost of attendance by tier as reported in SURDS. Tier 3 (community colleges) serve as the base. The average cost of attendance at a Tier 2 (public four-year institutions) is roughly 22 percent greater than the average cost of attendance at Tier 3 institutions. For Tier 1 institutions (research), the average cost of attendance is roughly 36 percent higher than at Tier 3 institutions. So, if Tier 3 institutions receive $850 per Level 1 FTE, Tier 2 receives $1,039 per Level 1 FTE, and Tier 1 receives $1,137 per Level 1 FTE.

Originally, institutions were required to award a minimum grant to every Level 1 student, regardless of the institution a student chose to attend, until the funds ran out. The allocation amount (payment per Level 1 FTE) was intended to be the new minimum grant for the following year. During the first year of the program (FY2007-2008), the minimum grant was $700 but institutions received a minimum of $850/Level 1 FTE. The second year (FY2008-2009), the minimum grant was $850 and institutions received a minimum of $979/Level 1 FTE. The following year (FY2009-2010) institutions kept the minimum grant at $850 because the allocation decreased slightly from $979/Level FTE to $968/Level 1 FTE. The minimum grant remained at $850 though the allocation payment amount continued to decrease. For FY2012-2013, the base allocation rate was $655/Level 1 FTE, a 23 percent decline since FY2007-2008 at a time when tuition has risen at all institutions, in some cases more than 40 percent over the period. In other words, the buying power of the program declined sharply in contrast to changes in college costs.

In FY2011-2012, institutions were granted financial aid flexibility under SB 10-003 and were able to develop financial aid eligibility guidelines in accordance with their Financial Accountability Plans or institutional goals. We know from the SURDS data, that under the CCHE policy, the average award decreased each year although the number of recipients grew and not all eligible students were awarded. The data for FY2011-2012 is not yet available, so the impact of flexibility on student awards is not yet known.

For graduate students, the model targets aid to Level 1 students enrolled in high need programs. Based on the number of Level 1 FTE students enrolled in high need programs, institutions receive a graduate allocation that is indexed according to the cost of attendance. Before financial aid flexibility, no minimum was imposed; maximum awards were capped at $5,000. Not all institutions that offer graduate programs receive a graduate allocation. The graduate need-based funding was reduced by ten percent beginning in FY2011-2012.

Work-Study aid is allocated based on a prior allocation and increased proportionally as new funds become available; work-study is now essentially block-funded.

Proprietary institutions and technical colleges have been block funded and their allocations have increased proportionally in years when there were increases to General Fund appropriations. Because the increase to eligible students grew so much in FY2011-2012, the allocations to proprietary institutions were reduced by 30 percent. The reasoning behind the reduction was the fact that public institutions had experienced cuts in the prior year of about 30 percent was an equal reduction.

In FY2011-2012, a fifteen percent reduction limit was imposed for undergraduate need-based allocations to prevent large swings. For FY2012-2013, there was a small reduction to both need-base aid and work-study funding. The reductions were applied proportionally. There was no need for a reduction limit because there was no dramatic change in the number of eligible students. The biggest deviation from the core method was the use of only one year of Level 1 data rather than three years. The Level 1 eligibility grew dramatically over the prior three years, but enrollment data indicated that the trend was not continuing. The CFO and financial aid representatives agreed to compromise and use FY2011 Level 1 data for the allocation.

Buying Power of Undergraduate State Aid

Resident undergraduate tuition increases have generally been capped between five and nine percent annually, depending on the institution type prior to tuition flexibility. Under SB 10-003, institutions have tuition setting authority through FY2015-2016. Beginning in FY2011-2012, tuition increases were greater than nine percent at most institutions, with increases as high as 20 percent to offset reductions in General Fund appropriations for operating costs.

General Fund appropriations for financial aid increased by more than ten percent from FY2007-2008 to FY2008-2009, but remained relatively unchanged since. In FY2009-2010, the amount per Level 1 FTE begins to reduce and subsequently the buying power of state aid is not able to keep pace with tuition increases as shown in Table 2 below.

Table 2: Financial Aid Allocation Payments, per FTE and Appropriations by Year

Base UG Allocation Amounts			
Fiscal Year	Base Payment per FTE	Change From Prior Year	Change from FY2007-2008
2007-2008	850		
2008-2009	979	15.18%	15.18%
2009-2010	968	-1.11%	13.90%
2010-2011	856	-11.56%	0.73%
2011-2012	625	-27.00%	-26.47%
2012-2013	655	4.85%	-22.91%

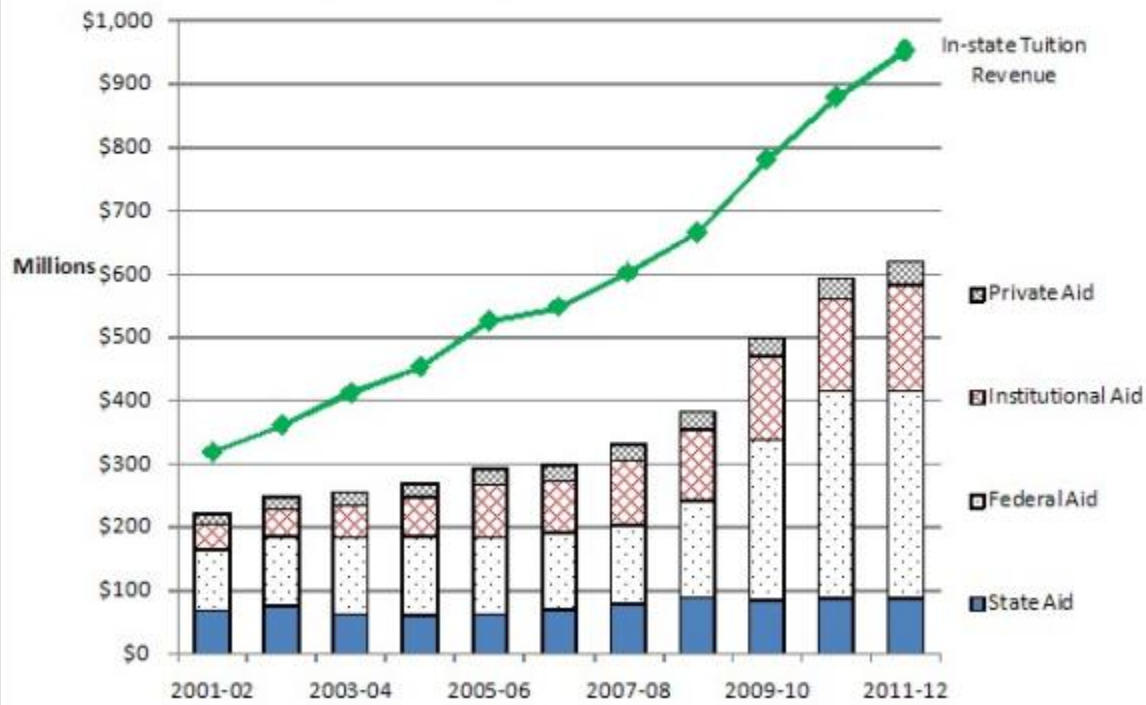
General Fund Appropriations			
Fiscal Year	Long Bill Appropriations	Change From Prior Year	Change from FY2007-2008
2007-2008	67,023,546		
2008-2009	74,294,146	10.85%	10.85%
2009-2010	74,294,146	0.00%	10.85%
2010-2011	74,144,146	-0.20%	10.62%
2011-2012	74,607,417	0.62%	11.32%
2012-2013	73,798,891	-1.08%	10.11%

Table three below provides an aggregate view of the impact of all financial aid sources relative to tuition revenues (from the JBC briefing).

> The following table shows financial aid grants from various sources awarded to students attending state-operated higher education institutions. As an indication

of the buying power of financial aid grants, the chart also provides information on total resident tuition revenues collected. However, it should be noted that financial aid is used for more than paying tuition. It also helps pay for expenses related to room, board, transportation, student fees, and learning materials. Depending on the institution, these other costs of attendance can dwarf the price of tuition. Also, the table does not take into account changes in the economic circumstances of the overall student population, including the number of students with financial need and the amount of need for those students.

Table 3: Financial Aid Grants and In-state Tuition Revenue at State-operated Higher Education Institutions



Prior Discussions

The recommendations discussed at the retreat are similar to those presented to the Commission in the past. Recurring discussions about financial aid may also inform the Commission's approach to a new financial aid method. The themes of prior concerns raised by the Commission and or stakeholders have been around how to protect the interests of different groups, such as:

- Undergraduate/Graduate
- Students/Institutions
- Public/Private

- Access/Retention
- Full-time/Part-time
- Cost (Tiers)/Flat grant
- Other considerations—general fund appropriations for operating budgets, institutional investment, other

Questions for the Commission

A. Should the Commission modify its allocation method in FY2013-2014 and beyond?

B. If yes, which of the following recommendations should be given additional consideration?
   - Lifetime limit
   - Completion
   - Targeting lowest income (low-income intensity)
   - Targeting highest risk (for non-completion without aid)
   - Shared responsibility
   - Narrowing the eligibility criteria (increasing the average allocation payment)
   - Flat award or adjusted?
   - Full-time only or full-time and part-time?

C. What other considerations would the Commission like to include?

IV. STAFF RECOMMENDATIONS

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

STATUTORY AUTHORITY

C.R.S. 23-3.3-102 (2) (2012)

23-3.3-102. Assistance program authorized - procedure - audits

(1) The general assembly hereby authorizes the commission to establish a program of financial assistance, to be operated during any school sessions, including summer sessions for students attending institutions.

(2) The commission shall determine, by guideline, the institutions eligible for participation in the program and shall annually determine the amount allocated to each institution.

(3) Each state institution shall administer a financial assistance program according to policies and procedures established by the governing board of the institution. Each private institution of higher education, as defined in section 23-18-102 (9), that participates in the program of financial assistance established pursuant to this section shall administer a financial assistance program according to policies and procedures established by the governing board of the institution. Each participating nonpublic institution that is not a private institution of higher education shall administer a financial assistance program according to policies and procedures established by the commission. Each institution shall fund its assistance program using state moneys allocated to the institution and institutional moneys.

(3.5) Notwithstanding any provision of this article to the contrary, each participating institution shall adopt policies and procedures to allow a person who meets the following criteria to qualify for financial assistance through the financial assistance programs established pursuant to this article:

(a) The person qualifies as an in-state student; and

(b) The person is enrolled at an institution that participates in the programs of financial assistance established pursuant to this article; and

(c) The person is enrolled in an approved program of preparation, as defined in section 22-60.5-102 (8), C.R.S., for principals.

(4) Program disbursements shall be handled by the institution subject to audit and review.

(5) Upon commencement of participation in the program, no participating institution shall decrease the amount of its own funds spent for student aid below the amount so spent prior to participation in the program.

(6) In determining the amount allocated to each institution that is not a state institution or a nonpublic institution of higher education, the commission shall consider only that portion of financial need which would have existed were the institution's tuition no greater than the highest in-state tuition rate charged by a comparable state institution. In determining the amount allocated to each nonpublic institution of higher education, the commission shall base its determination upon the cost of attendance at a nonpublic institution of higher education.

(7) Each annual budget request submitted by the commission shall provide information on the proposed distribution of moneys among the programs developed under this article. Subsequent to final appropriation, the commission shall provide to the joint budget committee an allocation proposal specifically identifying the distributions among programs for the coming year. Expenditures in any program shall not exceed the allocation for that program by more than ten percent of such allocation, and the total appropriation for all student aid programs shall not be exceeded. The commission may require such reports from institutions as are necessary to fulfill the reporting requirements of this subsection (7) and to perform other administrative tasks.

(8) The state auditor or his or her designee shall audit, in accordance with state statute and federal guidelines, the program at any participating institution every other year to review residency determinations, needs analyses, awards, payment procedures, and such other practices as may be necessary to ensure that the program is being properly administered, but the audit shall be limited to the administration of the program at the participating institution. The state auditor may accept an audit of the program from an institution that is not a state institution from such institution's independent auditor. The cost of conducting audits of the program at an institution that is not a state institution shall be borne by such institution.

(9) Repealed.

HISTORY: Source:. L. 79: Entire article added, p. 825, § 1, effective June 19.L. 81: (4) amended, p. 341, § 6, effective March 27.L. 83: Entire section R&RE, p. 788, § 2, effective July 1.L. 90: (4), (6), and (8) amended and (9) added, p. 1146, § 3, effective May 17.L. 96: (9) repealed, p. 1238, § 84, effective August 7.L. 99: (7) amended, p. 850, § 4, effective May 24.L. 2003: (6) amended, p. 913, § 17, effective August 6.L. 2006: (3.5) added, p. 1245, § 9, effective May 26; (8) amended, p. 1495, § 29, effective June 1.L. 2010: (2), (3), IP(3.5), (4), and (8) amended, (SB 10-003), ch. 391, p. 1845, § 19, effective June 9.

Cross references: For the legislative declaration contained in the 1990 act amending this section, see section 1 of chapter 154, Session Laws of Colorado 1990. For the legislative declaration contained in the 1996 act amending this section, see section 1 of chapter 237, Session Laws of Colorado 1996. For the legislative declaration in the 2010 act amending subsections (2), (3), IP(3.5), (4), and (8), see section 1 of chapter 391, Session Laws of Colorado 2010.