TOPIC: **FY 2014-15 FINANCIAL AID ALLOCATION METHODOLOGY**

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I. SUMMARY

The Governor's November 1st budget request for FY 2014-15 includes an increase to state funded financial aid totaling $40 million. The majority of the financial aid request, $30 million, is aimed at need-based aid. Additionally, the budget request includes a $5 million increase to state funded work-study aid and the restoration of state-based, merit aid program in the amount of $5 million. The Commission is charged with allocating state financial aid funds appropriated in the Long Bill. This agenda item provides recommendations to the Commission for the financial aid allocation methodology for the annual adjustments to the Completion Incentive model for FY 2014-15, new work-study aid, and new merit aid.

II. BACKGROUND

Department staff has been working with the institutions for the past few months 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. At the February Commission meeting, Department Staff presented draft allocation models for need, work-study and merit based aid to the Commission for discussion and stakeholders had the opportunity to address the Commission directly about concerns with or support for the proposed allocation methods.

After the February CCHE meeting, Department Staff asked for additional comments and recommendations from the institutions and requested feedback to be returned to the Department by February 28, 2014. The Department discussed the various allocation methodologies with many stakeholder groups including the institution CEOs, CFOs and financial aid advisory group. The institutions provided feedback through the group meetings as well as through individual conversations, letters and emails.

III. STAFF ANALYSIS

This analysis is separated into three distinct sections: need-based aid, work-study aid and merit aid. Additionally, the need-based aid analysis is broken into two decision items: a) the size of the increment between each grade level, and b) the model that will be used to allocate funds. At the end of the section on need-based aid we include technical information about the data issues we are facing with the "Advanced Senior" grade level and how that will affect the allocation this year.

Need Based Aid

- **Grade Level Increment Decision Item:** CCHE needs to determine the size of the increment between each grade level for FY 2014-15.

  CCHE policy states that the Commission will annually evaluate funding for the Completion Incentive model and determine the rate of the increment between each grade level. The preliminary Completion Incentive models that staff presented at the February meeting used a $300 grade level increment. In the current year, FY 2013-14, the model uses a $200 grade level increment. Department staff chose to use a $300 grade level increment for the FY 2014-15 preliminary models because the funding increase was so great this year and a $300 grade level increment created outcomes that were more consistent across all sectors (two year, four year, private, and vocational) when compared to the $200 increment.

  During the February CCHE meeting and thereafter, we have had a great deal of discussion with stakeholders about the pros and cons of the size of the grade level increment. From that discussion, we propose a potential third grade level increment called the "rate of change" increment that would increase or decrease with the amount of new (or cut) funding made available through the Long Bill process. This is consistent with the principle of predictability, in that the amount of funding through the grade level increment should adjust with the funding available. If you apply the rate of change of the FY 2014-15 need-based aid funding to the $200 increment, a 38 percent increase, the grade level increment would increase to $276 (rounded).

  Pro: This principle could be applied in the case of a reduction of funds if needed in the future.
  Con: Only controls for funding. Large enrollments may require additional adjustments.

  There are three options presented to the Commission regarding the size of the increment between each grade level: $200 increment, $300 increment, or the "rate of change" increment.

  Staff recommends that CCHE adopt the "rate of change" increment.

- **Completion Incentive Model Decision Item:** CCHE needs to determine the Completion Incentive Model details for FY 2014-15.

  The intent of the Completion Incentive Model is to provide incentives to institutions to provide support to low-income students to improve their retention and completion rates. The Completion Incentive allocation model was implemented in FY 2013-14 with a hold harmless provision at the rate of inflation (2.2 percent). Given the change in allocation method, the decision to narrow eligible students to Pell-eligible FTE, and the hold harmless provision for FY2013-14, the institutions received at least the prior year's allocation plus inflation. In FY 2013-14, the General Assembly increased the financial aid appropriation by roughly $5 million which afforded this hold harmless provision.

Given the size of this year's increase in new need-based financial aid funding from the State and the decision to not continue the hold harmless provision, the magnitude of the funding increases varies significantly by institution. This is a result of the expected outcomes from the new Completion Incentive model as well as the change in Pell-eligible enrollment at the institutions. Of course, the changes that come as a result of the change in model and enrollment are magnified by the additional funding available this year. Finally, many access institutions are experiencing a decline in enrollment because of the change in the economy meaning that fewer students are in college because they have opted to enter the workforce.

In this agenda item, we list three distinct variations of the Completion Incentive Model. With each variation, we provide a snapshot of the effect of the three grade level increment options discussed above.

Completion Incentive Model Variation A:

This model (Attachment 2) preserves the Completion Incentive Model as it was envisioned when approved by the CCHE in January 2013 and is very similar to the current year hold harmless approach. The rate, ($300 per student) increases by an equal increment from freshman year through senior year. In the allocation of the new $30 million in need-based aid, it establishes a floor at the rate of inflation (2.6%), and a ceiling (an upper growth limit) of a 50 percent increase from the prior year's allocation rate. The intent is to acknowledge overall enrollment growth while still acknowledging retention. ***This model serves as a baseline for this discussion*.**

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.

In Chart 1 below, we demonstrate the results of this model by each grade level increment discussed above. To reduce the complexity, we have just summarized the output of the allocation model by institution grouping. You can find the detailed information by individual college in the appendix of this agenda item. The three increments under consideration are as follows:

- $200 grade level increment (shaded in blue)
- $300 grade level increment (shaded in green)
- Rate of change increment (shaded in peach)

Chart 1: Completion Incentive Model Variation A Summary

Completion Incentive Model Variation A				
50% Change/Inflation 200				
200 Increment (PellEFC5157)	**FY2014**	**FY2015 Projection**	**%Change from FY2014**	**New Money**
Four Year Public	40,556,600	54,066,603	33.31%	13,510,003
Two Year Public	27,850,616	40,127,589	44.08%	12,276,973
NonProfit Private	2,572,878	3,541,091	37.63%	968,213
AVS	496,665	741,476	49.29%	244,811
98,476,759	**Freshman**	**Sophomore**	**Junior**	**Senior**
200	990	1,190	1,390	1,590
50% Change/Inflation 300				
300 Increment (PellEFC5157)	**FY2014**	**Projection**	**from**	**New Money**
Four Year Public	40,556,600	55,956,710	37.97%	15,400,110
Two Year Public	27,850,616	38,257,736	37.37%	10,407,120
NonProfit Private	2,572,878	3,572,478	38.85%	999,600
AVS	496,665	689,834	38.89%	193,169
98,476,759	**Freshman**	**Sophomore**	**Junior**	**Senior**
300	866	1,166	1,466	1,766
50% Change/Inflation 276				
276 Increment (PellEFC5157)	**FY2014**	**Projection**	**from**	**New Money**
Four Year Public	40,556,600	55,431,664	36.68%	14,875,064
Two Year Public	27,850,616	38,777,701	39.23%	10,927,085
NonProfit Private	2,572,878	3,562,473	38.46%	989,595
AVS	496,665	704,920	41.93%	208,255
98,476,759	**Freshman**	**Sophomore**	**Junior**	**Senior**
276	893	1,169	1,444	1,720

Completion Incentive Model Variation B:

This model (Attachment 5) also preserves the Completion Incentive Model as it was envisioned when approved by CCHE in January 2013. The increment rate per student increases by an equal increment from freshman year through senior year as approved by the Commission in January 2013. Completion Incentive Model Variation B includes the fifty (50) percent ceiling (as used in Completion Incentive Model Variation A). However, the difference here is that in the allocation of the new $30 million in need-based aid, ***it establishes a floor of twenty (20) percent rather than the rate of inflation.*** This recommendation comes from feedback that Department Staff received from the institution CFOs following the February CCHE meeting. With the new funding, the stakeholder groups are in agreement that everyone should receive an increase. We found consensus that (20) twenty percent should be the floor. This model provides a softer landing for institutions that have experienced recent declines in Pell-eligible enrollment, thus stabilizing the current student population. At some point, institutions who continue to lose Pell-eligible enrollment, will see State need-based aid decline. This model simply delays the decline this year by creating a floor of 20 percent growth. Note that this increases the possibility of a future “cliff effect” for some institutions.

Pro: This approach acknowledges growth in enrollments with a cap to promote predictability and provides a soft landing for institutions that have lost FTE.

Con: This approach potentially creates a future “cliff” for institutions protected by the funding floor.

In Chart 2 below, we demonstrate the results of this model by each grade level increment discussed above. To reduce the complexity, we have just summarized the output of the allocation model by institution grouping. You can find the detailed information by individual college in the appendix of this agenda item. The three increments under consideration are as follows:

- $200 grade level increment (shaded in blue)
- $300 grade level increment (shaded in green)
- Rate of change increment (shaded in peach)

Chart 2: Completion Incentive Model B Variation Summary

Completion Incentive Model Variation B				
20/50 Predictability 200				
200 Increment (PellEFC5157)	FY2014	FY2015 Projection	%Change from FY2014	New Money
Four Year Public	40,556,600	54,126,163	33.46%	13,569,563
Two Year Public	27,850,616	40,036,450	43.75%	12,185,834
NonProfit Private	2,572,878	3,573,263	38.88%	1,000,385
AVS	496,665	740,883	49.17%	244,218
98,476,759	Freshman	Sophomore	Junior	Senior
200	983	1,183	1,383	1,583
20/50 Predictability 300				
300 Increment (PellEFC5157)	FY2014	FY2015 Projection	%Change from FY2014	New Money
Four Year Public	40,556,600	55,983,338	38.04%	15,426,738
Two Year Public	27,850,616	38,197,317	37.15%	10,346,701
NonProfit Private	2,572,878	3,607,794	40.22%	1,034,916
AVS	496,665	688,309	38.59%	191,644
98,476,759	Freshman	Sophomore	Junior	Senior
300	864	1,164	1,464	1,764
20/50 Predictability 276				
Rate of Change Increment (PellEFC5157)	FY2014	FY2015 Projection	%Change from FY2014	New Money
Four Year Public	40,556,600	55,466,506	36.76%	14,909,906
Two Year Public	27,850,616	38,708,425	38.99%	10,857,809
NonProfit Private	2,572,878	3,597,759	39.83%	1,024,881
AVS	496,665	704,069	41.76%	207,404
98,476,759	Freshman	Sophomore	Junior	Senior
276	891	1,167	1,442	1,718

Completion Incentive Model Variation C:

This model (Attachment 8) was proposed by the Colorado Community College System (CCCS) and emphasizes the sophomore year as a critical year to retain students. It maintains the base aid for freshman, increases the base aid for sophomores and reduces the base aid senior FTE. It includes a 50 percent growth limit and a floor of inflation at 2.6 percent.

The Community College System proposal acknowledges the historical drop in enrollment from the freshman to sophomore year. This issue was raised by both Adams State University and Colorado Mesa University at the February CCHE meeting. The financial aid data supports that over time, there is a smaller sophomore class system wide; the decline in enrollment at two-year institutions reflect the number of part-time students (they don't make it to the sophomore year as quickly since they are only taking classes part-time); whereas, the decline in enrollment at four year institutions, reflect a decline in full-time students and thus the drop is sharper at 4-year institutions. As we know, financial aid is not the only factor in student retention, so an incremental increase to funding sophomore student FTE may not have the intended impact. This is an area that requires more study.

Specifically, the CCCS approach adds $50 to the sophomore base aid and reduces the senior base aid by $100. This approach reduces the weight of the allocation from a four year completion incentive to a two year retention incentive. The impact of reducing the senior allocation by rate per FTE in the out years will impact four year institutions when the advanced senior component of the model is implemented. This might be an appealing option in a year with increased funding, but it may not be as compelling in a year if financial aid levels are held flat. If the goal of the allocation method is to create incentives to institutions for completion, consistency is needed. Throughout this process stakeholders have requested that the Department remain consistent for financial aid planning.

Table 4: Comparison of CCCS student Increment to DHE

Student Level	Control	CCCS	Difference
Freshman	866	866	-
Sophomore	1,166	1,216	50
Junior	1,466	1,466	0
Senior	1,766	1,666	(100)

Pro: Provides increased incentive to retain from the freshman to sophomore level.
Con: Reduces incentive for senior FTE which may have unintended consequences in out years with the advanced senior allocation.

In Chart 3 below, we demonstrate the results of this model by each grade level increment discussed above. To reduce the complexity, we have just summarized the output of the allocation model by institution grouping. You can find the detailed information by individual college in the appendix of this agenda item. The three increments under consideration are as follows:

- $200 grade level increment (shaded in blue)
- $300 grade level increment (shaded in green)
- Rate of change increment (shaded in peach)

Chart 3: Completion Incentive Model Variation C Summary

Completion Incentive Model Variation C				
200 Increment CCCS				
Sophomore Retention Model (PellEFC5157)	**FY2014**	**FY2015 Projection**	**%Change from FY2014**	**New Money**
Four Year Public	40,556,600	53,677,566	32.35%	13,120,966
Two Year Public	27,850,616	40,518,593	45.49%	12,667,977
NonProfit Private	2,572,878	3,538,246	37.52%	965,368
AVS	496,665	742,353	49.47%	245,688
98,476,759	Freshman	Sophomore	Junior	Senior
200	999	1,232	1,399	1,532
233	sophomore			
167	junior			
133	senior			
300 Increment CCCS				
Sophomore Retention Model (PellEFC5157)	**FY2014**	**FY2015 Projection**	**%Change from FY2014**	**New Money**
Four Year Public	40,556,600	55,028,829	35.68%	14,472,229
Two Year Public	27,850,616	39,200,078	40.75%	11,349,462
NonProfit Private	2,572,878	3,558,083	38.29%	985,205
AVS	496,665	689,769	38.88%	193,104
98,476,759	Freshman	Sophomore	Junior	Senior
300	866	1,216	1,466	1,666
350	sophomore			
250	junior			
200	senior			
Rate of Change CCCS				
Sophomore Retention Model (PellEFC5157)	**FY2014**	**FY2015 Projection**	**%Change from FY2014**	**New Money**
Four Year Public	40,556,600	54,608,455	34.65%	14,051,855
Two Year Public	27,850,616	39,611,068	42.23%	11,760,452
NonProfit Private	2,572,878	3,551,189	38.02%	978,311
AVS	496,665	706,047	42.16%	209,382
98,476,759	Freshman	Sophomore	Junior	Senior
276	896	1,217	1,447	1,631
322				
230				
184				

Department Staff recommends Completion Incentive Model Variation B because it retains the completion incentive philosophy, places a high value on predictability and dampens the funding swings among the institutions. Keep in mind that this creates some potential for a future "cliff effect" for a few institutions depending on future financial aid funding levels.

Technical issue regarding Data: Advanced Senior Limit

The intent of the Completion Incentive Model was to include an incentive for timely completion. In order to achieve this, the CCHE directed department staff to reduce the base aid allocation for seniors who had earned more than 145 credits to the freshman aid level and thus, reduce funds at the "advanced senior" aid level. As you will recall, in the development of the Completion Incentive Model, we observed the system-wide theme that the freshman and senior classes have the largest enrollment and the sophomore and junior classes have the smallest enrollment. The large senior level group is because many seniors do not complete on time and thus are categorized as seniors while they finish the needed course work to graduate. This is one of the factors that led to the concept of an advanced senior allocation.

Department staff reviewed credit hour data and determined that there is not consistency in the way these credit hours are reported by the institutions in SURDS. Rather than alter longitudinal data, we established a subcommittee of institutional financial aid directors and institutional research directors to try to find a way to merge fields from the financial aid and enrollment files. This subcommittee met in May, 2013 and ultimately determined that the field merger was not possible. After a great deal of brainstorming, the subcommittee determined that we should use the Pell LEU data provided by the US Department of Education to serve as a cutoff for advanced seniors. All institutions have consistent data for the Pell LEU. In June, 2013, the subcommittee brought this idea to the financial aid advisory group and all the institutions agreed that this is a reasonable proxy.

Because of the timing of the availability of Pell LEU data to use as a proxy for the "advanced senior" group we are unable to include this group in the models we are reviewing for the FY 2014-15 allocation. The department will be collecting the Pell LEU data as part of the financial aid file beginning this year so that we can include it in the allocation model for FY 2015-16 and beyond.

It is important to note that the addition of the "advanced senior" group will change the allocation results of the Completion Incentive Model beginning in FY 2015-16. In FY 2015-16, the institutions with seniors will begin to get a freshman rate for seniors that have been in the pipeline for more than 600% of Pell eligibility. Thus, the total amount given to 4-year institutions will decline for their senior group since that group will be divided into seniors in their 4th year (90 – 144 credit hours) and seniors who are beyond the 145 credit hour amount.

Work-Study Aid

As discussed in the February CCHE meeting, the allocation approach under consideration is a base-plus model. This model assumes that the existing allocation for the $16.4 million of work-study aid 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 is considering two ways to allocate the new funding:

> **Work-Study Option A (Attachment 10):** 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 variances in Cost of Attendance reporting.*
>
> **Work-Study Option B (Attachment 11):** 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 provide the opportunity 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.

Department Staff recommends Work-study Option B

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 in FY2009-10. It is fair to acknowledge that all institutions have meritorious students but it is difficult to find a common, equally applied method of ascertaining merit and targeting for merit aid. The need-based allocation model and work-study allocation models both account for full-time and part-time enrollment. For the merit options, all but one of the models narrows the allocation to full-time enrollment. The reason behind this approach is that with limited resources, merit aid should be targeted. In the absence of GPA data or better information about the best practices to retain and complete part-time students, this approach supports the idea that completion is meritorious.

The Commission is considering four ways to allocate the funding:

Merit Option A (Attachment 12): The first option is to consider the number of undergraduate student FTE at each campus and distribute funds accordingly.
Pro: Acknowledges that all campuses have meritorious students.
Con: Does not target funds.

Merit Option B (Attachment 13): 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 (Attachment 14): The third option is similar to Merit Option B, except there is an upper limit to eligibility. This option provides 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 an EFC up to 300% of Pell eligibility. This population includes students with documented need and who are 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.

Merit Option D (Attachment 15): The fourth option acknowledges enrollment changes since the original distribution without a need component but narrows the group to only full-time students.
Pro: Acknowledges full-time enrollment as meritorious.
Con: Allocation policy could influence who receives awards.

Department Staff recommends Merit Option D.

IV. STAFF RECOMMENDATIONS

Department Staff recommends that CCHE adopt the following for the FY 2014-15 Financial Aid Allocation Methodologies:

Need:	Rate of change increment
	Completion Incentive Model Variation B
Work-Study:	Option B: allocate new funds using FTE
Merit:	Option D: Allocate FT headcount

STATUTORY AUTHORITY

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

Attachments:
1. Completion Incentive Model Variation A ($200)
2. Completion Incentive Model Variation A ($300)
3. Completion Incentive Model Variation A (rate of growth)
4. Completion Incentive Model Variation B ($200)
5. Completion Incentive Model Variation B ($300)
6. Completion Incentive Model Variation B (rate of growth)
7. Completion Incentive Model Variation C ($200)
8. Completion Incentive Model Variation C ($300)
9. Completion Incentive Model Variation C (rate of growth)
10. Work Study Option A
11. Work Study Option B
12. Merit Option A
13. Merit Option B
14. Merit Option C
15. Merit Option D