TOPIC: **FY2015-2016 FINANCIAL AID MODEL**

PREPARED BY: **CELINA DURAN, LEAD FINANCE ANALYST**

I. SUMMARY

The Commission is charged with allocating state financial aid funds appropriated in the Long Bill. The Commission approved a new allocation model for undergraduate, need-based aid referred to as the Completion Incentive Grant model in January of 2013 for implementation in FY2013-14. 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.

At the February CCHE meeting, Department Staff brought forward several scenarios for the 2015-16 allocation, assuming the Department's request of flat state funding, in order to solicit preliminary feedback from the Commission. At that time, it was anticipated that staff could bring final recommendations to the March CCHE meeting. However, at the March 3, figure setting meeting of the Joint Budget Committee (JBC), the Committee voted to increase state funded need-based aid at the same rate of increase as the operating increase to the Governing Boards (approximately a 12.5% increase). This would increase need-based financial aid by approximately $17m. Barring any changes between the writing of this issue paper and the March 13 CCHE meeting, the purpose of this agenda item will be to provide updated information based on the assumption of increased state aid and to provide options for Commission discussion. An action item will be brought forward in April for model adjustments for the need-based allocation. Final allocations will be brought forward in June for approval.

II. BACKGROUND

Annually, the Commission is charged with allocating state funded financial aid funds to the institutions. 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 Completion Incentive Grant model is in its second year of implementation in FY2014-15. 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 FY2015-2016 scenarios.

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 which results in marginal adjustments to the number of eligible FTE at each institution. The change in the number of Pell eligible FTE over the prior year is 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 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. After the March 3 JBC meeting, staff re-engaged the stakeholder teams. Below is a summary of the various allocation models discussed with the Financial Aid Advisory Committee. Each model includes a description of the model and pros and cons.

The financial aid advisory group supports a model that excludes losses in the year of an increase and no upper limits if the funding is following the students. They support either flat funding or an increase to all institutions with such a large increase.

FY2015-16 DRAFT MODELS

For all models we assumed the following:

- increased state funding;
- increases to the grade level increment at the rate of increase 15.7 percent (319);
- FY2013-14 Pell-eligible FTE data;
- the advanced senior limit counted at freshman rate. (240.5 FTE, statewide)

Model 1 was shared with the financial aid advisory group and the Chief Financial Officers. Using feedback, internal discussion, and history models 2 and 3 were developed by staff to demonstrate how the new funding will be disbursed.

Model 1: Assumes the JBC increased level of state funding, without a hold harmless provision. With a large increase, all but two institutions receive an increase without any adjustments to the model. The two institutions that received the 20 percent minimum increase in FY2014-15 would have reduced allocation projections in FY2015-16. At the top end of the spectrum, two institutions are projected to receive increases close to or above the prior year growth caps at 50 percent in FY2014-2015. *Pro: This approach acknowledges and recognizes changes in Pell eligible enrollment and retention. Con: This approach can challenge predictability for out years in the absence of additional funding because of such high increases.*

Models 2 and 3: Assumes the JBC increased level of state funding, but includes predictability bands at the upper and lower limit. These models approach the FY2015-16 allocation with principles that were applied for the 2014-15 allocation model .Both models include both minimum increases and maximum gains. *Pro: This approach provides increases for every institution while limiting rapid growth to provide predictability for institutions in future years. Con: From a policy standpoint, if the goal is to increase the attainment of Pell eligible populations, imposing growth caps on institutions meeting that goal does not seem to support the policy goal.*

These models are not exhaustive; they merely provide options for consideration by the Commission and to spur additional discussion. After discussion and input from the Commission during the March meeting, Department staff will synthesize the input and bring an action item to the April CCHE meeting recommending an allocation methodology.

IV. STAFF RECOMMENDATION

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

ATTACHMENTS:

Model 1—Baseline
Model 2—Predictability Band 5% (lower limit)-30% (upper limit)
Model 3—Predictability Band 10% (lower limit)-40% (upper limit)