

TOPIC: FY 2020-21 UNDERGRADUATE NEED BASED FINANCIAL AID
ALLOCATION MODELS

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I. SUMMARY

This is a discussion item submitted to generate conversation and feedback on the undergraduate need-based financial aid allocation models for Fiscal Year (FY) 2020-21 and to seek input from Commission members on the allocation scenarios provided.

The Colorado Commission on Higher Education (CCHE) and the Department do not award state financial aid directly to students. Instead, CCHE is tasked with allocating state financial aid resources as appropriate in the Long Bill to institutions who then package the aid for students. The FY 2021 Governor's Executive Budget Request seeks to increase financial aid by roughly \$4.4 million in need-based aid. This funding would be in addition to approximately \$150 million currently being directed through the undergraduate need-based grant allocation.

In 2013, the CCHE approved a new allocation approach for undergraduate need-based aid referred to as the Completion Incentive Grant model. To support timely completion and target aid to the neediest students, this model increases funding based on the retention and completion of Pell-eligible FTE. It took effect for FY 2013-14, and the allocations for FY 2018-19 will be the sixth year of this methodology. The goal of the model is to incentivize institutions to work toward the postsecondary attainment goals of the CCHE Master Plan.

In April, an action item will be brought to the Commission reflecting any requested adjustments to the model or changes in the appropriation amount as indicated during the Joint Budget Committee's Figure Setting process. Final allocations for all state-funded financial aid programs will be brought forth in June.

II. BACKGROUND

Colorado's financial aid support is part of the larger financial aid system that includes federal support, institutional aid, and other sources.

The Commission plays an important role in directing policy through the allocation of Colorado's state-funded need-based grant. Annually, the Commission is tasked with allocating new state-funded financial aid funds to the institutions. The Completion Incentives Model gives the Commission the ability to direct new need-based financial aid funding in a way that aligns with policy goals. The need-based grant is targeted toward low-income students with a focus on retention and timely completion. The model provides a set amount for each Pell-eligible FTE and increases the set amount for each progressive level (Freshman, Sophomore, Junior, Senior) to

incentivize institutions to provide supports that improve retention and progress of Pell-eligible students.

To encourage timely completion, the model includes an upper limit for advanced seniors by utilizing Pell Lifetime Eligibility Unit (LEU) data included on federal financial aid processing documents. As in past years, the advanced senior adjustment is broken out into a separate column for the proposed FY 2020-21 funding scenarios.

The Completion Incentive Grant model is in its eighth year of implementation in FY 2020-21. The Department uses guardrails to prevent large swings in institutional allocations year over year. Pell enrollment can be volatile but the inclusion of guardrails allows for a degree of institutional predictability while still acknowledging changes in Pell enrollment. The following table demonstrates the historical guardrail provisions that have been adopted by the Commission.

| History of Completion Incentive Grant Guardrails, FY 2013-14 through FY 2019-20 | |
|---|-----------------|
| FY 13-14 | Inflation |
| FY 14-15 | Min 20% Max 50% |
| FY 15-16 | Min 5% Max 30% |
| FY 16-17 | Max 10% |
| FY 17-18 | Min -7% Max 13% |
| FY 18-19 | -1% +19% |
| FY 19-20 | -2 % +18% |

The first-year allocation included a guardrail provision at the rate of inflation. The second-year allocation provided a minimum increase of 20% to each institution and an increase cap of 50%. For FY 2015-16, the overall state support for financial aid increased by 11%, and the CCHE-adopted model had a minimum increase of 5% and a maximum increase of 30%. For FY 2016-17, funding for financial aid was held flat during the figure setting process, so need-based aid was allocated using a model with a 10% guardrail for stability. In FY 2017-18, need-based aid increased by approximately 3% and was allocated using a model that capped increases at 13% and decreases at 7%. In FY 2018-19, need-based aid increased at approximately 10%, and work-study increased by approximately 5%. The need-based aid increase and was allocated using a model that capped increases at 19% and decreases at -1% work-study was allocated by resident student full-time equivalents (FTE). In FY 2019-20, need-based aid increased at approximately 17% and was allocated using a model that capped increases at 18% and decreases at -2%.

III. STAFF ANALYSIS

Department staff actively engaged the Financial Aid Advisory Committee in discussions regarding the proposed models. In developing guardrails to compliment the Completion Incentives Model, the Committee generally supports stability with rewards for those increasing enrollment. Background information and a brief synopsis of the models were discussed with the Fiscal Affairs and Audit Standing Committee at its February 2020 meeting.

Summary Description of FY 2020-21 Draft Models

As noted above, the Department proposed a November 1 budget request package that included an overall 2% increase to higher education. C.R.S. 23-3.3-103 requires that the state's student financial assistance program increase by at least the same percentage as the aggregate percentage increase to higher education. Given that legislative budgeting deliberations are still occurring, it is not yet clear what percentage increase higher education will receive, nor what the percentage increase for financial aid will be. The November 1 budget request did indicate that any increase to financial aid should be applied exclusively to need-based aid, staff does not anticipate this recommendation changing, regardless of the final percentage increase. Therefore, staff has provided three likely increase scenarios. Each scenario includes three separate guardrail options.

These models are not exhaustive; they merely provide options for consideration by the Commission and are intended to spur additional discussion. After discussion and input from the Commission during the March meeting, the Department staff will synthesize the input, gather additional feedback from the Financial Aid Advisory Group and the CFOs, and bring an action item to the April CCHE meeting with a recommended allocation model. Given that the increase to higher education will still be unknown by the April CCHE meeting, staff will likely propose multiple scenarios depending on the percentage increase that is decided for higher education.

Keep in mind while reviewing these models that the Pell-eligible EFC increased to \$5,576 for FY 20-21. This results in marginal adjustments to eligible FTE at each institution as individual EFC calculations fluctuate annually. Over the past several years, post-recession attrition has resulted in decreased Pell-eligible student enrollment. These enrollment shifts, paired with a modest increase to need-based financial aid in the November 1 budget request impact the student-level dollar amount, so while some institutions are receiving less overall funding, the amount institutions receive per-FTE varies based on the model parameters.

IV. STAFF RECOMMENDATION

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

V. 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:

Change in total pell-eligible FTE

Model Scenarios 1,2, & 3 for a 2%, 5% and 7% increase in funding

(Detailed Spreadsheet also available to download)