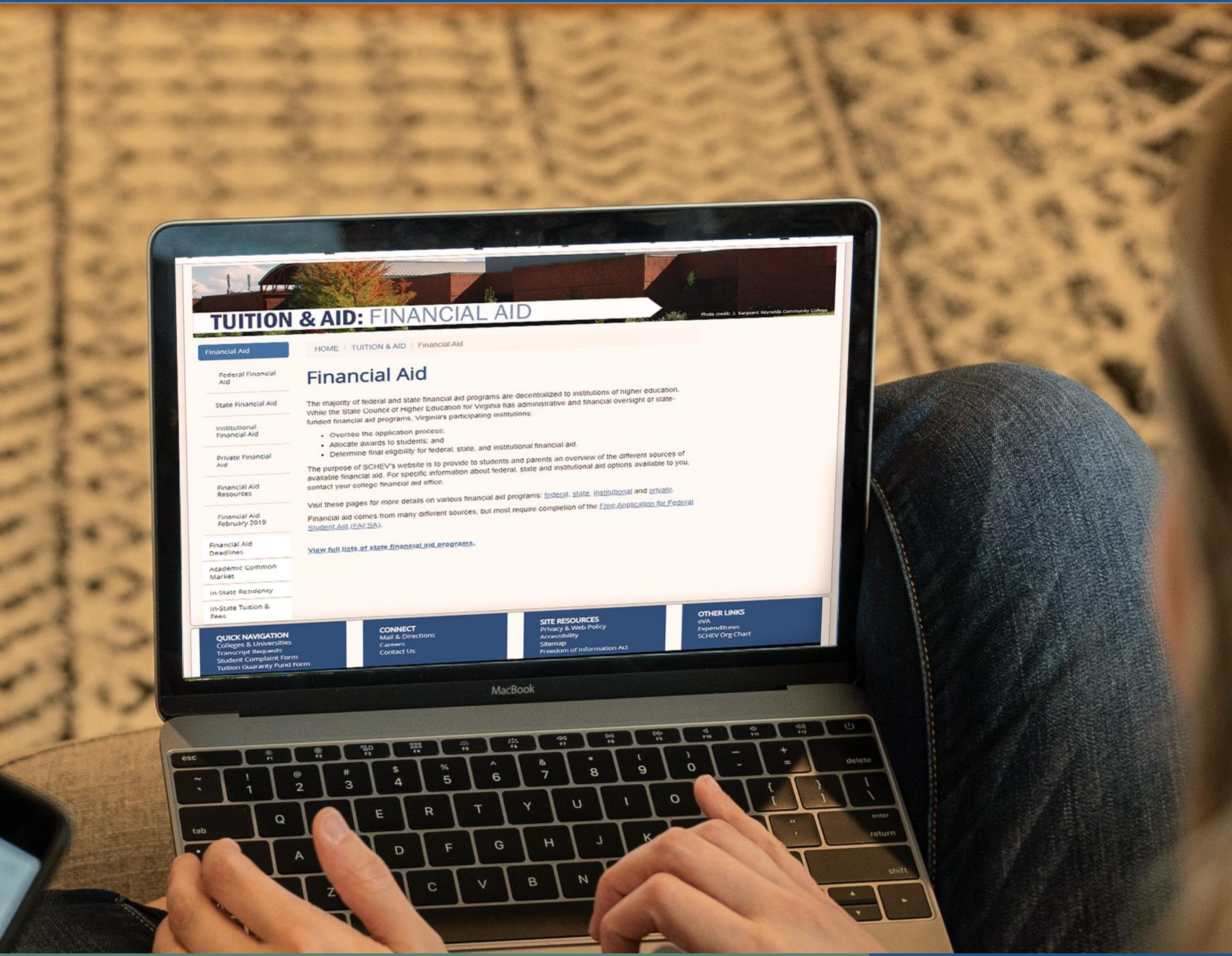
State Council of Higher Education for Virginia



Review of Financial Aid Funding Formulas and Awarding Practices

November 2019

SCHEV

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EXECUTIVE SUMMARY

In 2019, the General Assembly directed SCHEV to review financial aid allocations and award policies including tuition revenue used for aid. This review primarily focuses on the state's need-based financial aid programs: the Virginia Commonwealth Award (Commonwealth Award) and the Virginia Guaranteed Assistance Program (VGAP), which are funded from a single appropriation.

Over the summer of 2019, staff worked with a committee of representatives from various levels of state government and public institutions. Based on this review and input from stakeholders, the Council proposes the following four recommendations:

Recommendation 1: Refine the current Partnership Model and base funding recommendations on a combination of student need and expected family contribution.

Since 2005, the Commonwealth has used the Partnership Model to determine allocations to institutions for the state's need-based financial aid programs. After reviewing the current Partnership Model and developing other options for driving financial aid funding recommendations — including models that focused on the full cost of attendance, tuition and fees, and expected family contribution (EFC) — staff recommends the following steps to refine the Partnership Model and revise the allocation methodology:

1.1 Improve the accuracy of the model by using the individual student's actual EFC.

1.2 Minimize impact of higher tuition costs on driving financial aid allocations.

1.3 Allocate funds based on both cost and enrollment of low- and middle-income students.

These changes improve the direction of funds to institutions whose students demonstrate the most financial need. SCHEV staff will continue to monitor these improvements in the coming biennium to ensure that these changes support an increased focus on low- and middle-income students and families.

Recommendation 2: Continue to review policies to simplify the award process.

Staff reviewed the current institutional award policies and received input on opportunities to significantly improve the administration, communication and impact of the program. While SCHEV plans to continue to review these opportunities through the summer of 2020, staff do not recommend changing the student award process until it receives additional input to ensure soundness and efficacy of the proposal and to guard against unintended negative consequences. In the coming year, staff will explore the following topics:

2.1 Combine the two financial aid programs into a single program.

2.2 Adjust the minimum award requirements.

2.3 Restrict aid to low- and middle-income students.

2.4 Restructure the incentives designed to encourage student progression to graduation.

2.5 Provide institutions with additional award flexibility while maintaining accountability in prioritizing low- and middle-income students and families.

Recommendation 3: Provide additional criteria for use of tuition revenue used for aid and combine similar programs.

Tuition revenue used for aid provides additional financial aid for participating institutions, although at varying levels of efficiency. Both low- and high-cost institutions benefit from redirecting tuition revenue, but for different reasons. In Virginia, where the state has high tuition but provides higher amounts of aid compared to other states, the use of tuition revenue is a natural strategy to increase financial aid.

SCHEV does not recommend a roll back from current practice without replacing the lost financial aid as this would result in a net negative impact on students. Instead, staff recommends the following:

3.1 Continue to monitor tuition revenue used for aid as reported annually in the six-year plan process to allow reviewers to assess and provide feedback regarding an increase in the percentage.

3.2 Implement increased transparency by publicly reporting the amount of tuition revenue being used for financial aid.

3.3 Authorize institutions to use a portion of tuition revenue to fund emergency awards for low-income students facing unique expenses that threaten their continued enrollment.

3.4 Combine the existing Unfunded Scholarships Program (§23.1-612) with the policies pertaining to using tuition revenue for financial aid.

Staff note that the Unfunded Scholarship program, authorized by §23.1-612, is closely related to redirecting tuition revenue as it also represents a loss of tuition revenue that can be used for operating expenses. Merging the two programs would simplify how institutions and the state track the loss of tuition revenue.

Recommendation 4: Continue to expand outreach to improve students' preparation for higher education.

While a financial aid funding policy can have an active role in access, affordability and completion, other higher education policies can provide stronger support for these principles; therefore, staff recommends the following:

4.1 Support current college access programs.

4.2 Create online resources to help students better understand higher education finances.

4.3 Support Free Application for Federal Student Aid (FAFSA) completion programs.

4.4 Connect eligible students with other social services.

Access programs can encourage and provide support as high school students consider their education and career future and help them find the academic, financial and cultural "best fit" college that will enhance each student's ability to succeed. Online resources can help prospective students understand the appropriate role of student debt as they finance their college education. Other programs can encourage students to complete the federal FAFSA to learn how they can reduce the cost of college with student financial aid. There also are proposals to help students find social support programs designed to assist with basic living expenses so students can focus on their education.

PURPOSE OF THIS REVIEW

The Commonwealth provides need-based financial aid to in-state undergraduates attending public institutions primarily through the Commonwealth Award and VGAP. Funding allocations for these programs currently are developed through a model developed more than 15 years ago referred to as the Partnership Model. In more recent years, SCHEV staff, institutions and policy makers raised concerns regarding the model's: (1) complexity, (2) relationship to higher priced institutions, (3) assumptions applied to low-income students and (4) uneven allocations to the institutions based on state funds meeting a percentage of demonstrated need under the funding model.

As a result of these concerns, SCHEV recommended to the Governor and General Assembly that it conduct a review of the funding model and awarding practices at institutions. During the 2019 session, the General Assembly adopted the following language:

> *K. 1. The State Council of Higher Education for Virginia, in consultation from representatives from House Appropriations Committee, Senate Finance Committee, Department of Planning and Budget, Secretary of Finance and Secretary of Education, as well as representatives of public higher education institutions, shall review financial aid funding models and awarding practices.*
>
> *2. The Council shall review current and prospective financial aid funding models including, but not limited to, how the various models determine individual and aggregate student financial need, the recommended state portion of meeting that need, how funding is most efficiently and effectively allocated among the institutions, how financial aid allocations can be aligned with other funding for higher education and how these funds are used to address student affordability and completion of a degree. The review shall also assess how the utilization of tuition and fee revenue for financial aid, pursuant to the Top Jobs Act, prioritizes and addresses affordability for low- and middle-income students.*
>
> *3. By November 1, 2019, the Council shall submit a report and any related recommendations to the Governor and the Chairmen of the House Appropriations and Senate Finance Committees.*

BACKGROUND

Virginia Financial Assistance Program (VSFAP)

Higher Education Student Financial Assistance, program 108 general fund, provides funding for the Commonwealth's primary need-based financial aid programs. This single source of direct appropriation to the institutions funds two separate student aid programs, the Commonwealth Award and VGAP. Funding for the program begins with Council's recommendations to the Governor and General Assembly. The funding model projects future cost estimates onto the most recently available student financial aid database — with actual student resources, enrollment patterns and housing choices — and produces a calculation of student need specifically for purposes of funding recommendations.

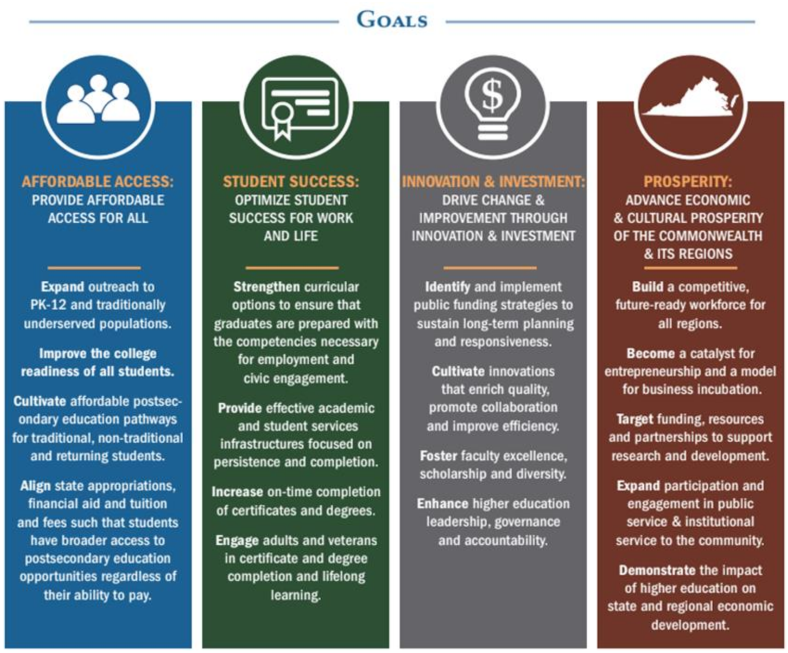
Prior to 2005-06, the funding model was based on a policy to support 50% of student financial need remaining after subtracting the Expected Family Contribution (EFC) and gift aid, aggregated by institution. The model calculated a projected cost of attendance (COA) for each individual student in the data file and then subtracted their respective federally calculated EFC and gift aid. The remaining balance for each student was reduced to no more than tuition and fees (state aid is restricted to tuition and fees) and then aggregated by institution. The funding recommendation was based on meeting 50% of the remaining balance. This 50% "discount" served to recognize that the state did not bear the full responsibility for funding all of the student need, as there are other stakeholders such as the federal government, the institution, the private sector and the student.

In 2005-06, SCHEV adopted a new model, called the Partnership Model, that improved the direction of funding to institutions with the neediest students. This model begins with the COA calculations and then subtracts 30% of the total COA, full EFC and gift aid. Individual student need above tuition is reduced to no more than tuition.

In accordance with the study outline in the budget language, staff met with a committee of institutional representatives as well as staff from the House Appropriations Committee, Senate Finance Committee, Department of Planning and Budget, Secretary of Finance and Secretary of Education. This joint committee met three times: in April to discuss current practice; in June to discuss goals and direction; and in September to discuss possible options for changes to allocation and award policies. In addition, staff met separately with institutional representatives in late August and with each of the government representatives individually in mid-September.

The Virginia Plan

Staff used The Virginia Plan for Higher Education — the statewide strategic plan to help Virginia become the best-educated state by 2030 — to guide the work of the study. The Virginia Plan's goals of providing affordable access for all and optimizing student success serve as a key objective when reviewing the financial aid funding.



Seventy percent of the working-age population will hold a postsecondary degree or workforce credential.

Of the various goals and strategies contained within the plan, financial aid can directly support access, affordability and completion. The following narrative provides a description of the role of financial aid in supporting access, affordability and completion.

1) Access

Financial aid's role in student access typically is measured by how well a program encourages a student to pursue higher education. The most effective example is a predictable award that provides students with assurance of financial support. Financial aid also can influence access by providing institutions an incentive to enroll low-income students. The Commonwealth cannot reach the state attainment goal of becoming the best-educated state or ensure equity in attainment unless all demographics are adequately represented.

2) Affordability

Affordability often is measured by whether the student and family have the financial resources to enroll and complete. Allocation models that recognize all cost of attendance (COA) items are more closely aligned with affordability, as they account for all the financial commitments facing students. Student debt also is a common measure, though problematic as student choice plays a major role in how much is borrowed. The Commonwealth's primary impact on COA is with tuition; however, the state maintains an interest in the overall affordability of higher education.

3) Completion

Completion is measured by the number and rate of students earning a degree, especially when broken down by demographics. While it is difficult to isolate all the contributing factors, financial correlations suggest that reduced need can increase the probability of a student progressing and completing.

Relationship between income, financial aid and completion

A core goal of Virginia's financial aid system is to lift financial barriers to students' progress and completion of a degree. Analysis by SCHEV of the impact of a student's income by graduation rate and the correlation between completion and the amount of unmet need indicate that financial aid is not just an affordability strategy but a completion one as well.

2017 Federal Poverty Guidelines

Persons in Family/Household	Poverty Guideline
1	$12,060
2	$16,240
3	$20,420
4	$24,600
5	$28,780
6	$32,960
7	$37,140
8	$41,320

The analysis based on income groups of low, middle and high that are used in this report use the Higher Education Advisory Committee's (§23.1-309) definitions established in 2014 that used the percent of federal poverty level groups. The analysis of these income groups uses the 2017-18 school year financial aid file, so the 2017 federal poverty guidelines were used. They include the following:

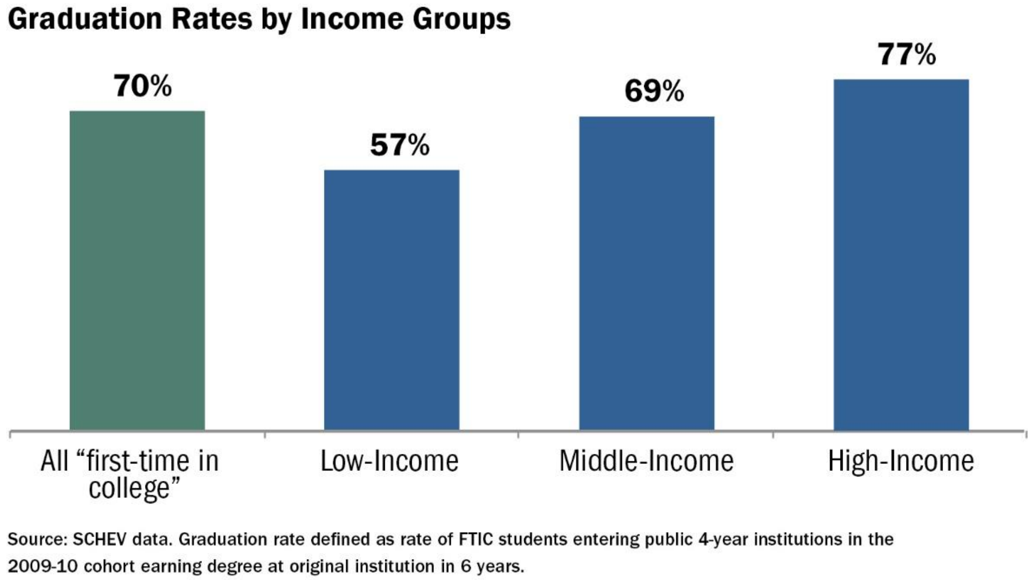
- Low-income: 0-200% of federal poverty level.
- Middle-income: 201-400% of federal poverty level.
- High-income: over 400% of the federal poverty level.

2017 Federal Poverty Guidelines

Persons in Household	Household Income			
	Low-income		Middle-income	
Income as % of poverty level	100%	200%	300%	400%
1	$12,060	$24,120	$36,180	$48,240
2	$16,240	$32,480	$48,720	$64,960
3	$20,240	$40,480	$60,720	$80,960
4	$24,600	$49,200	$73,800	$98,400
5	$28,780	$57,560	$86,340	$115,120

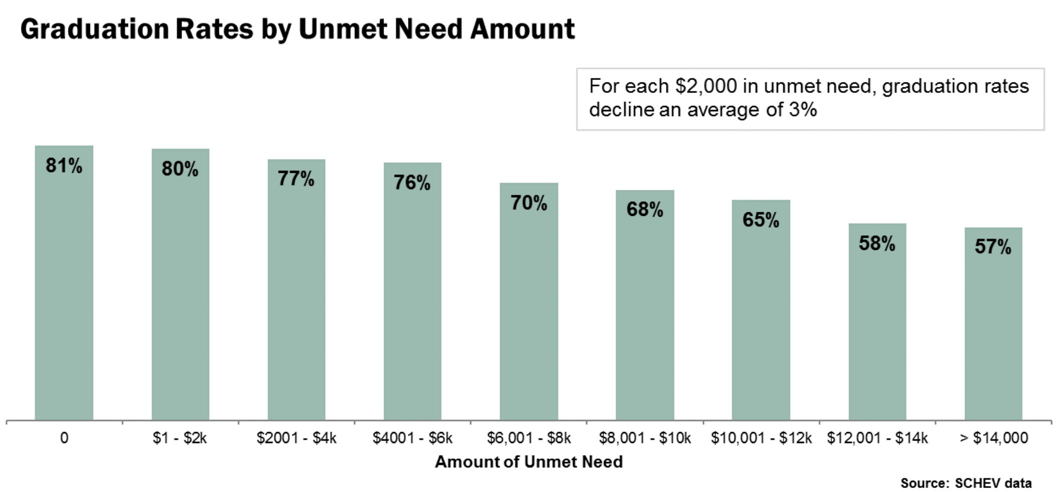
Low-income students graduate at lower rates

As the graph below indicates, only 57% of low-income students who entered a four-year institution for the first time in 2009-10 earned a degree within six years. Middle-income students succeeded at roughly the average for all first-time in college students, at 69%. High-income students graduated at the highest rates, 77%, during this time frame.



Higher unmet need leads to lower graduation rates

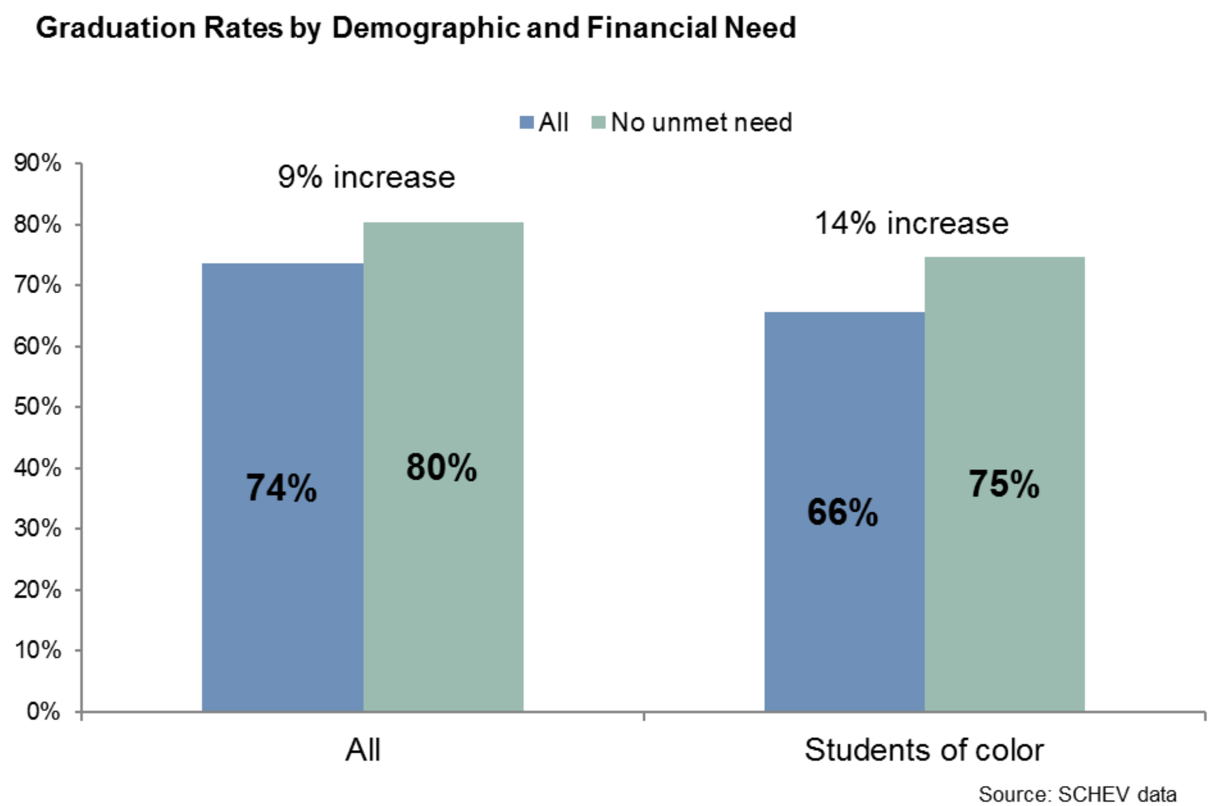
Analysis by SCHEV staff also indicates a correlation between graduation rates and the amount of a students' unmet need (defined as total costs minus gift aid minus EFC). The chart below shows that as Virginia students' unmet need increases, their chance of graduating decreases. For every $2,000 in unmet need, graduation rates decline on average of 3 percentage points.



This trend holds true at the institutional level. At all 15 public four-year institutions and the VCCS system, students with all of their financial need met graduate at higher rates than the average. For institutions with relatively low graduation rates, the impact is even more significant. In the 2011-12 cohort, 44% of Norfolk State University's full-time students earned a degree within six years. For those with 100% of their need met, 52% graduated, an 18% increase.

Financial aid is an equity strategy

Meeting students' financial need also carries advantages for addressing inequities by race and ethnicity. As the chart below shows, meeting all students' financial need corresponds with a 9% increase in graduation rates. For students of color the impact is more significant, increasing graduation rates by 14% compared to the average.



ALLOCATION MODELS

It is important to note that funding models used by the Council serve solely as a methodology for making financial aid funding recommendations to each institution. These models do not affect individual student awarding, which institutions determine. Award policies are discussed later in this report.

Allocation model: how the state provides funds to the institutions.

Awarding policies: how the institutions award funds to the students.

Issues with the current methodology

As a result of the group and individual meetings on financial aid, a number of concerns over the Partnership Model were identified:

- Complexity: Partnership Model is relatively complex with arbitrary discounts.
- Tuition increases: The calculated need under the model reacts strongly to tuition increases.
- Minimum contribution: All students are assumed to be able to contribute a minimum amount towards their education and so are assigned a minimum EFC.
- Low-income students: Stakeholders want to ensure that allocations are weighted in favor of those institutions with the most high-need students.
- "Percent of need met": Provides an inaccurate comparison of institutional funding levels.

Current Partnership Model

Aid currently is distributed using the Partnership Model, which produces an estimate of the total unmet need at each institution. In brief, the current Partnership Model:

- Estimates student need by projecting future costs onto the most recently available student data file.
- Assigns a percentage of COA — 30% for four-year institutions and 20% for two-year institutions — to other resources, thus recognizing a role for other stakeholders.
- Subtracts student EFC and gift aid to determine individual projected need, reduces the need to no more than tuition and fees, then aggregates by institution.

For the four-year institutions, the model can be expressed as the formula below:

$$Unmet\ need = Cost\ of\ attendance * 70\% - Known\ Gift\ Aid - EFC$$

Virginia's colleges and universities charge different prices and so the starting point of the need formula varies. On the high end of the spectrum, William & Mary charged $17,570 and the University of Virginia charged $14,148 in tuition and fees in 2019-20. On the other end, Norfolk State University and University of Virginia-Wise charged $5,752 and $5,694, respectively.

At the same time, the more expensive institutions enroll fewer low-income students. For example, among William & Mary's financial aid students only 28% were low-income; at the University of Virginia the rate is 35%. In contrast, the lower-cost institutions enroll a higher percentage of low-income students: 69% for Norfolk State and 54% for University of Virginia-Wise.

Allocation recommendations

SCHEV recommends multiple adjustments to how financial aid funds are allocated, which will be reflected in the allocation recommendations for the FY 2020-22 biennium. First, SCHEV will use a student's actual EFC versus a minimum adjustment. Second, to address the concern of tuition increases, the unmet-need calculation will not be higher than the sector average cost of attendance. Third, allocations will be based on students' average unmet need, rather than total unmet need or percent of need met. Last, SCHEV will enhance the model by adding a funding mechanism that will recognize low-income enrollments.

1.1 Improve the accuracy of the model by using the individual student's actual EFC

When the funding model was modified to the Partnership Model, a legacy of the previous 50% of remaining need model was carried forward. It assumed that — despite the federally calculated EFC — all students were able to work a minimal amount of hours to earn money for college.

Virginia Institutions by FAFSA Completers' EFC 2017-18

Institutions	EFC = 0	EFC > 0
CNU	12%	88%
GMU	31%	69%
JMU	17%	83%
LU	20%	80%
NSU	56%	44%
ODU	38%	62%
RU	29%	71%
UMW	22%	78%
UVA	15%	85%
UVA-W	41%	59%
VCU	27%	73%
VMI	11%	89%
VSU	51%	49%
VT	18%	82%
W&M	16%	84%
Four-Year Total	**28%**	**72%**
RBC	42%	58%
VCCS	53%	47%
Two-year Total	**58%**	**42%**

Independent students with no other family members in their household were assigned a minimum EFC of $1,200. Dependent freshmen were assigned a minimum of $700, with sophomores, juniors and seniors assigned a minimum of $900. This treatment artificially increased student resources, which in turn reduced student need.

Requiring a minimum level of EFC has a disproportionate negative impact on institutions that enroll the most low-income students. Statewide, 28% of students enrolled in four-year institutions who submitted a FAFSA received a zero EFC. That rate varies among the institutions. Over half of the students attending Virginia's historically black colleges and universities (HBCUs) received a zero EFC from the federal government, compared to 16% at William & Mary, 15% at the University of Virginia and 18% at Virginia Tech.

By overestimating a student's financial strength, the funding models undercount a student's unmet need. In total, adjusting EFC undercounts students' unmet need by nearly $31 million. Larger institutions and those with higher concentrations of low-income students are disproportionately impacted by the policy.

Impact of Adjusting Students' Expected Family Contribution, 2017-18

Institutions	Sum of total need in Partnership Model	Sum of need using unadjusted EFC	Difference
CNU	$12,577,225	$13,339,777	$762,552
GMU	$81,989,988	$86,498,178	$4,508,190
JMU	$31,323,245	$33,431,415	$2,108,170
LU	$15,607,947	$16,532,716	$924,769
NSU	$19,850,778	$20,891,991	$1,041,213
ODU	$63,613,661	$66,885,498	$3,271,837
RU	$30,982,670	$32,890,008	$1,907,338
UMW	$10,257,170	$11,059,303	$802,133
UVA	$12,744,081	$13,808,828	$1,064,747
UVA-W	$6,004,227	$6,373,618	$369,391
VCU	$85,711,039	$91,440,583	$5,729,544
VMI	$1,844,601	$2,058,201	$213,600
VSU	$17,886,320	$18,559,289	$672,969
VT	$47,665,242	$51,597,319	$3,932,076
W&M	$5,239,262	$5,561,116	$321,854
Four-Year Total	**$443,297,456**	**$470,927,839**	**$27,630,383**
RBC	$2,483,732	$2,562,750	$79,018
VCCS	$165,675,935	$168,991,755	$3,315,820
Two-year Total	**$168,159,667**	**$171,554,505**	**$3,394,837**
Grand Total	**$611,457,123**	**$642,482,344**	**$31,025,220**

1.2 Minimize impact of higher tuition costs on driving financial aid allocations

For most institutions, the expense components of the COA do not vary significantly except for the tuition and fees. With high tuition and fees, an institution can demonstrate higher average need per student even if enrolling fewer low-income students.

Staff proposes that the funding model consider the aggregate need using both the institution's projected individual tuition and fees as well as the four-year sector average. By using the smaller of the two results, the model can minimize the effect of having higher tuition costs but also ensure that lower-cost institutions are not overfunded relative to their costs.

1.3 Allocate funds based on both cost and enrollment of low- and middle-income students.

Issue with using percent of need met

A staple of most funding models that determine a level of aggregate institutional need is the percent of the need met by state general fund. Under the 50% of remaining need model, the goal was to fund 50% of the remaining need as determined by the model. Though there is not a specific funding goal, the Partnership Model also uses percent of need met when comparing institutional funding levels. For example, institutions having 40% of need met through state funding are deemed to be better funded than an institution having only 35% of need met under the model.

As a measure, the percent-of-need-met calculation is problematic as it can mask actual funding discrepancies and provide an inaccurate comparison between institutions. Referring to the example mentioned above, if institution A with 40% of need met started with $6,000 average need as calculated by the Partnership Model, while institution B with 35% of need met started with an average need of just $4,000, institution A would appear to be overfunded compared to institution B. However, after state aid is accounted for, institution A would still have an average need of $3,600, which is a full $1,000 more than the net average need of $2,600 at institution B.

Percent of need met remains a valid measure but should not be used as the sole indicator of funding levels between institutions or of need at an institution. Greater attention to the average aggregate need at an institution and between institutions provides a finer review of where limited state dollars are best allocated.

Using average unmet need and low-income enrollment

After reviewing alternative models (Appendix B) with the committee, staff found that a refined Partnership Model as described above retained strong support but many also expressed interest in the “access” emphasis found in an EFC-based model.

To address the perceived encouragement of raising tuition, staff calculated the need under the Partnership Model using a weighted average cost for all cost of attendance items including tuition and fees. This method dramatically deemphasizes tuition increases by a single institution and removes the funding advantages experienced by the higher cost institutions.

This methodology, however, would tend to overfund the low-cost institutions by funding above tuition and fee restrictions. To achieve the desired result, staff ran calculations using both actual tuition and weighted average tuition and assigned the lower of the two numbers for each institution. As a result, the model reduces the funding advantages of increasing cost, recognizes costs by focusing on system averages and ensures that low-cost institutions are not overfunded by the model. These numbers were then used to determine the average need for each institution under the funding model.

To address the difficulties found in using the percent of need met, staff determined that basing funding levels on the average need directed funds to those institutions enrolling students having the highest levels of need. Under this methodology, staff created a threshold of $5,000 in average unmet need under the model. Any institution whose average need was greater than $5,000 is targeted for funding increases based on the gap between the threshold and the institution's average need under the model. An institution with an average need of $6,000 would be $1,000 over the threshold and would qualify for a funding increase based on a percentage of the gap. This funding provides the base for making financial aid recommendations.

To address low-income enrollments and to support access, staff uses a funding bonus that emphasizes low-income enrollments. Each institution qualifies for this funding based on the numbers of such students enrolled. This strategy uses the EFC-based methodology by assigning a predetermined maximum allocation for students with a zero EFC. As the EFC increases, the funding level decreases dollar-for-dollar. Since every institution qualifies for this bonus, every new low-income enrollment is recognized by the model and every institution is incentivized by the funding model to increase enrollment of these students.

The combination of using average need drives funding toward those institutions having larger levels of need, and the bonus drives additional funds to the institutions enrolling low-income students. This approach accomplishes a number of goals.

The funding model:

- No longer encourages or rewards increased cost.
- Still addresses affordability by employing full cost of attendance within the formula, though in some cases only the average weighted costs.
- Includes an incentive or reward to enroll low-income students.
- Provides increased funding for those institutions with lower completion rates.
- Enables low-cost institutions to use the additional funds to either reduce unmet need, increase completion rates or increase enrollments.

This proposed funding strategy addresses many of the concerns. Staff will continue to explore refinements. The results and recommendations for the FY 2020-2022 biennium are in the table below.

Financial Aid Funding Recommendations for FY 2020-22

Institutions	Average unmet need under the funding model	FY 2019-20 allocations	FY 2020-21		FY 2021-22	
			Increase	Total funding	Increase	Total funding
CNU	$5,368	$5,947,167	$124,800	$6,071,967	$249,600	$6,196,772
GMU	$7,628	$28,046,653	$3,472,500	$31,519,153	$6,944,900	$34,991,616
JMU	$5,756	$10,529,775	$639,700	$11,169,475	$1,279,400	$11,809,192
LU	$6,542	$5,769,115	$393,700	$6,162,815	$787,400	$6,556,542
NSU	$6,662	$12,655,318	$816,100	$13,471,418	$1,632,200	$14,287,559
ODU	$6,966	$23,309,394	$2,668,500	$25,977,894	$5,337,000	$28,646,379
RU	$7,478	$10,715,455	$1,269,200	$11,984,655	$2,538,400	$13,253,821
UMW	$5,953	$3,660,129	$235,200	$3,895,329	$470,300	$4,130,368
UVA	$2,298	$6,805,819	$160,200	$6,966,019	$320,300	$7,126,131
UVA-W	$6,578	$3,204,335	$201,400	$3,405,735	$402,700	$3,607,042
VCU	$6,511	$31,770,902	$2,319,200	$34,090,102	$4,638,400	$36,409,337
VMI	$1,516	$1,118,218	$13,400	$1,131,618	$26,700	$1,144,925
VSU	$6,977	$9,147,820	$738,500	$9,886,320	$1,477,000	$10,624,838
VT	$5,706	$17,810,811	$811,600	$18,622,411	$1,623,200	$19,434,009
W&M	$1,548	$3,924,352	$66,500	$3,990,852	$133,000	$4,057,321
Four-year Total	**$6,601**	**$174,415,263**	**$13,930,500**	**$188,345,763**	**$27,860,500**	**$202,275,853**
RBC	$4,856	$1,306,180	$77,200	$1,383,380	$154,300	$1,460,491
VCCS	$2,862	$47,591,355	$1,135,500	$48,726,855	$2,271,000	$49,862,315
Two-year Total	**$2,883**	**$48,897,535**	**$1,212,700**	**$50,110,235**	**$2,425,300**	**$51,322,807**
Grand Total	**$4,920**	**$223,312,798**	**$15,143,200**	**$238,455,998**	**$30,285,800**	**$253,598,660**

AWARDING POLICIES

Current structure

The current awarding structure uses two separate state financial aid programs. The Commonwealth Award, formerly known as discretionary aid, was created in the 1970s as the state's sole need-based program. The Virginia Guaranteed Assistance Program (VGAP) was created in 1992 with the intention of providing substantial financial assistance to students demonstrating behaviors best associated with successful degree completion. Students are required to demonstrate basic levels of success and preparation in high school, maintain continuous enrollment and minimal grade point average (GPA) during college enrollment and progress toward graduation on a timely basis.

The process for awarding state need-based aid begins with the completion of the federal Free Application for Federal Student Aid (FAFSA). There is no required state application; however, the institutions are able to set the FAFSA application deadline. The FAFSA produces a determination of the student's family financial strength through calculation of the Expected Family Contribution (EFC). The EFC is calculated using data provided on the FAFSA, including the family income, family size, assets, age of the oldest parent, state of residence and number of members of the family enrolled into higher education.

To determine eligibility for state aid, the institution must use a need analysis methodology approved by SCHEV, which is calculated by cost of attendance less the EFC less any gift aid known at the time of the award determination. Institutions award students with the highest amount of need first, with the neediest students receiving an award of at least tuition. Students meeting the requirements for VGAP receive an award before Commonwealth Award students with equivalent need.

Finally, the institutions determine the specific award amounts for varying levels of demonstrated need; however, no combination of gift aid can exceed the student's cost of attendance. Institutions determine whether to provide smaller awards in order to assist more students or larger awards to provide a greater impact for those awarded. The specific requirements for each program are as follows:

- Virginia Commonwealth Award
    - Virginia domicile.
    - Demonstrate financial need.
    - Enroll at least half-time (6 credit hours per term).
- Virginia Guaranteed Assistance Program
    - Individual eligibility criteria
        - Virginia domicile.
        - Have 2.5 high school grade point average.
        - Demonstrate financial need.
        - Enroll at least full-time (12 credit hours per term).
        - Maintain continuous enrollment.
        - Maintain 2.0 college grade point average.
    - Institutional awarding requirements
        - The neediest student must receive an award of at least tuition.
        - Relation to Commonwealth Award: VGAP-eligible students must be awarded before Commonwealth award students and VGAP awards must be higher than Commonwealth Awards for students with equivalent need.
        - Progression incentives: In 2018, VGAP was amended to include the additional requirements of one year of award per class level and larger awards for students advancing class level.
        - Lost eligibility: Students failing to maintain the 2.0 college GPA or continuous enrollment lose eligibility for VGAP indefinitely. Those who fail to advance class levels after one year lose VGAP eligibility until the student advances a class level. These students can be considered for a Commonwealth Award.

Feedback from financial aid officers

In various meetings over the course of this review, institutional financial aid officers reported the following concerns with the current state financial aid program:

- The availability of two separate state aid programs causes confusion for students.

- The requirement that the neediest student receive an award of "at least tuition" can result in funds being expended quickly unless the "neediest student" is defined very narrowly.
- Students have a difficult time keeping track of the varying eligibility and retention requirements associated with federal, state, institutional and private assistance. This serves to diminish the ability of these programs to influence student behavior.
- The requirement that awards be based on all known gift aid can make awards difficult to finalize when new awards are reported and can cause the student to feel penalized for receiving other awards.
- Award amounts are difficult or impossible to predict, leaving prospective students with uncertainty that higher education can be affordable.
- Awards differ across institutions, causing confusion for students applying to multiple institutions or with siblings attending other public institutions.
- The requirement that awards be larger for higher class levels of equivalent need has created a great deal of manual administration, especially for students that cross class levels mid-year.

Review of practices in other states

As part of this review, SCHEV reviewed other state programs and best practices. Award methodologies vary greatly among the states; examples of need, merit, EFC and other criteria being used individually or in combination can be found.

The review suggested the following best practices for assisting and incentivizing students:

- **Single primary state award program**: A single state award program reduces the possibility of confusion for students. Additional programs can focus on a specific goal; however, the state would benefit from having a single program designed to promote access and affordability. While there are examples of other states having multiple programs, most have one primary state program.
- **Early awareness programs**: Many low-income students assume that college is not for them and are unaware of the available opportunities. Trained counselors available at the school, especially within low-income areas where more students are likely to be first-generation college students, would help students make informed choices on the direction for their career. Early awareness programs are a relatively new but growing concept among the states, often paired with a "promise" of financial assistance.

- **Predictable awards**: College affordability is a growing concern, and "sticker shock" from the listed tuition charges can make students question whether they should apply. Assurance that financial aid is available will encourage these students to consider pursuing a college degree. Approximately half of the states have a state award based on the student's EFC, which provides some assurance of the award, but most high-tuition states base their awards on some measure of student need.
- **Set threshold restrictions on eligibility**: As education costs continue to increase, it follows that students in increasingly higher-income levels will demonstrate financial need; however, for most of these students the level of need is modest compared to low- and middle-income students. SCHEV noted that for those who complete the FAFSA, the unmet need for most high-income students can be half that of low-and middle-income students. For this reason, an upper threshold can be established to restrict access to state need-based aid. Many of the states that rely primarily on the student's EFC for award determinations have an upper threshold restriction on receiving state aid. This threshold varies based on the individual state's average tuition charges.
- **Progression incentive**: Financial aid's primary role is to provide a level of affordability that enables students to enroll and persist; however, it also can serve as an incentive for students to progress steadily towards their degree. Some states have experienced success by providing a bonus for completion, requiring minimum enrollment levels, or providing an incentive bonus. Progression incentives are relatively new but increasingly popular as state policymakers look for ways to enable financial aid to influence student behavior.

Award recommendations

SCHEV received several recommendations from the work group to improve the award process that could simplify state need-based aid, strengthen the progression incentive, increase aid for low- and middle-income students, and ensure a minimum level of financial aid for more of the neediest students. Due to the significance of the changes being considered, staff does not recommend altering the student award process until it receives additional input to ensure soundness and efficacy of the changes and to guard against unintended negative consequences. These recommendations would require significant language changes in both the Code of Virginia and the Act of Appropriation.

2.1 Combine the two financial aid programs into a single program.

The Commonwealth Award can be modified to retain the progression incentives associated with the VGAP award. By treating state aid as a single program, the narrative changes as students would no longer "lose VGAP eligibility" but instead would "earn a bonus" for meeting the completion or progression standard.

The proposal includes a suggestion to list the bonus as a separate line item so students can readily identify the additional funds they have earned. The bonus would be available for no more than one year after which the student would again need to demonstrate progression in order to secure the bonus for the following year. Currently, the institutions would determine the bonus amount, just as they currently determine the difference between the Commonwealth Award and VGAP and the difference in awards between class levels.

2.2 Adjust the minimum award requirement

Current policies require that the neediest students receive an award that is at least equal to tuition. This serves to ensure a minimum level of affordability for those with the fewest resources, but it can also place a substantial burden on available funds, with the institutions expending their financial aid appropriations too quickly. To avoid this, many institutions have defined the neediest student very narrowly, with few students meeting the definition. This practice increases the awarding flexibility but it can also defeat the purpose of providing a minimum guaranty for those students.

Current proposals suggest that if the required award for the neediest student was redefined to permit a combination of awards to cover full tuition and fees, institutions could be more liberal with the definition and better serve their neediest students.

2.3 Restrict aid to low- and middle-income students

In FY 2018, approximately $12 million of state need-based aid was awarded to students meeting the definition of high-income according to existing definitions. Among these students are those who are just above the reporting threshold for middle-income and those who have multiple members of the family enrolled into college. State policy consistently focuses on low- and middle-income students; while some high-income families may be able to demonstrate need, their financial need is considerably less than that of low- and middle-income students.

Most institutions have other resources that can replace these relatively small awards and, consistent with state policy, there is a valid argument that state need-based awards should be so restricted. To account for the impact of multiple members of the family attending college and to ease administration, the restriction, if one is adopted, should be

EFC-based and set at a level that significantly reduces awarding a high-income student as defined by federal poverty benchmarks.

2.4 Restructure the incentives designed to encourage student progression to graduation.

Financial aid can serve to encourage students to progress by providing financial incentives; however, under the current system there are three levels of incentive. VGAP itself is an incentive as VGAP awards must be larger than Commonwealth Awards for students with equivalent need and specific criteria must be met in order to qualify for this larger award. Second, VGAP is restricted to no more than one year of award for each class level, which means students can lose eligibility even if all other criteria continue to be met. Finally, students must receive a larger award as they advance class level than those in lower class levels with equivalent need.

Moving to one award program provides an opportunity to simplify and enhance the progression incentive. Students meeting the progression requirements would earn a bonus the following year; the bonus should be listed as a separate line item so students can immediately identify what they have earned.

2.5 Provide institutions with additional award flexibility while maintaining accountability in prioritizing low- and middle-income students and families.

Greater flexibility could simplify the institutional administration and student comprehension of state awarding policies.

- While some flexibility is built into the state award policy, multiple restrictions must be accounted for with every award decision. When a student receives additional scholarships, an adjustment is required and manual adjustments are common.
- Award predictability is all but nonexistent since many of the need-analysis components are not known until just before the award packaging. Some institutions have offered that if the option of setting awards based on EFC were available it would ease administration of the program. They believe that some degree of award predictability could be achieved and students would no longer feel penalized for earning additional scholarships.
- Because of the extreme differences among institutions in student demographics and available resources, this strategy has not been endorsed by all institutions, but under the proposal each could opt to retain the current methodology. The state could permit institutions to base awards on EFC or a calculation of need

that involves COA, EFC and/or gift aid and then input specific goals or measures to gauge the effectiveness of each institution's award policies.

In exchange for implementing less proscriptive language on the individual award, the state could develop institutional accountability based on macro goals. Staff will explore appropriate institutional level goals that will provide boundaries for the institutional award policy. Examples include statements on overall unmet need for low-income students and number and percent of low-income student enrollment.

The committee also discussed an alternative suggestion to simplify the award process by increasing the state direction of individual awards. Under this proposal, the state would determine the specific award amount based on student's EFC. This would serve to make awards more predictable for high school students considering college as well as provide consistent awards for those that apply to multiple Virginia public institutions. To avoid making the program an entitlement, institutions would award students with the lowest need first and continue until all allocated funds are exhausted. If the award amount is carefully determined, low-income students would be ensured an award with funds most likely exhausted well into the awarding of middle-income students.

This proposal was not endorsed by all institutions as there are extreme variations in the enrollment demographics, costs and resources across all senior institutions. In addition, state-determined awards are contrary to an otherwise decentralized system of higher education. Due to the decentralized structure and extreme variances in enrollment demographics within Virginia's higher education system, staff believes that state-directed awards are not the best option at this time; however, staff will continue to review the proposal.

TUITION REVENUE USED FOR AID

To supplement available financial aid dollars, institutions have, to varying degrees, increased their tuition charges for the purpose of using those revenues for financial aid programs. These funds are tracked in the Acts of Appropriation within each institution's program 108 listing for non-general funds. The program was largely unregulated until 2015 when basic parameters were put into place.

Due to the common practice of mixing these funds with other institutional dollars, use of these funds is largely self-reported on the institutional six-year plan (expected use) and then on the annual financial aid summary reports (actual usage). For FY 2018, the four-year institutions reported that an excess of $72.4 million of in-state undergraduate tuition revenue would be redirected to financial aid.

Virginia Institutions' Use of Tuition Revenue for Financial Aid

Institution	Tuition revenue to aid	Estimated impact on in-state tuition	Revenue generated from in-state tuition
CNU	6%	$467	$2,093,414
GMU	0%	$0	$0
JMU	3%	$194	$3,077,868
LU	5%	$448	$1,755,459
NSU	10%	$650	$2,009,967
ODU	5%	$285	$5,824,941
RU	3%	$198	$1,526,046
UMW	15%	$1,274	$4,625,000
UVA	16%	$2,290	$23,711,000
UVA-W	1%	$35	$50,000
VCU	7%	$767	$15,217,423
VMI	0%	$0	$0
VSU	14%	$744	$2,343,342
VT	0%	$10	$457,500
W&M	16%	$2,717	$9,734,600
Four-year Total	**6%**	**NA**	**$72,426,560**

As usage of tuition revenue for aid has increased, policymakers have expressed concern about higher tuition costs for all students and that these charges could be reduced overall if the practice were moderated. SCHEV has reviewed the practice and observed the following:

- Four institutions report redirection of over 10% of in-state tuition, with a fifth institution at just under 10%.
- Two of the five institutions with the largest percent of funds being redirected are low-cost institutions. As a result, the average per student increase for these institutions is less than a third of that of the three institutions with the highest reported percent usage.
- Four institutions report less than 1% of in-state tuition redirection.

To determine the overall impact of diverting tuition revenue to financial aid at the student level, SCHEV conducted an analysis of the amount of additional need created from the increase. This analysis looked at the percent of tuition revenue used for aid and estimated the impact on in-state tuition. Staff then estimated the amount of additional need created based on the number of students who receive aid. The difference between the additional need and revenue generated creates a net revenue for aid that is available to the institution. However, in each case the institutions raised more financial aid dollars than financial need was increased.

Efficiency of Tuition Revenue for Financial Aid

Institutions	Tuition revenue to aid	Estimated impact on in-state tuition	Revenue generated from in-state tuition	Additional need created	Net revenue over need	Net available
CNU	6%	$467	$2,093,414	$866,809	$1,226,605	59%
GMU	0%	$0	$0	$0	$0	-
JMU	3%	$194	$3,077,868	$1,109,514	$1,968,354	64%
LU	5%	$448	$1,755,459	$847,512	$907,947	52%
NSU	10%	$650	$2,009,967	$1,414,139	$595,828	30%
ODU	5%	$285	$5,824,941	$3,068,717	$2,756,224	47%
RU	3%	$198	$1,526,046	$875,074	$650,972	43%
UMW	15%	$1,274	$4,625,000	$1,913,574	$2,711,426	59%
UVA	16%	$2,290	$23,711,000	$7,608,336	$16,102,665	68%
UVA-W	1%	$35	$50,000	$32,668	$17,332	35%
VCU	7%	$767	$15,217,423	$8,828,288	$6,389,135	42%
VMI	0%	$0	$0	$0	$0	-
VSU	14%	$744	$2,343,342	$1,986,157	$357,185	15%
VT	0%	$10	$457,500	$180,570	$276,930	61%
W&M	16%	$2,717	$9,734,600	$3,804,642	$5,929,958	61%
Four-year Total	**6%**	**NA**	**$72,426,560**	**$32,536,000**	**$39,890,560**	**55%**

Since the enrollment levels of high-income students vary greatly across institutions, the efficiency of the practice also varies. For example, CNU raised $2.1 million in financial aid dollars and in doing so increased need by $860,000. This created a net of $1.2 million in increased aid above the increase in need. By dividing the net back into the $2.1 million increase in aid, CNU's strategy is calculated to be 58.6% efficient. The greater the efficiency, the more the institutions — and their students — gain from the practice.

These funds often are commingled with other institutionally controlled funds to create grants and scholarships for students. While some institutions may reflect a low efficiency level in redirecting tuition revenue for aid, studies suggest that many students are highly responsive to grant awards. The bulk of the private institution business model is built on this strategy, and it remains effective even with the lower cost of public institutions. Because the strategy does create a net gain in financial aid dollars, any elimination or reduction of the program would result in a net decrease in overall affordability, especially for the low-income students that most benefit.

Finally, staff notes that institutions redirecting the most tuition revenue have vastly different financial models. Some have among the highest tuition costs and highest-income student enrollments; others have among the lowest tuition costs and lowest-income enrollments. The practice works for each type of institution but for different reasons. Higher-cost institutions tend to be more selective, so financial aid may be a necessary tool to be competitive in attracting highly sought-after low-income applicants. These institutions also see a greater need overall to provide substantial financial aid for their low- and middle-income students. For these institutions, the initial sticker shock (reported tuition and fees) is moderated by the ability to reduce the cost to students through aid; meanwhile, high-income students are able to pay the higher tuition rates and may be committed to enroll regardless of the price.

The low-cost institutions have a different landscape. These institutions tend to enroll a larger percentage of low-income students, so financial aid is imperative; also, their low cost does not create a sticker-shock problem as they continue to charge among the lowest tuition rates, even with the increases to create additional financial aid.

Practices in other states

Staff reviewed other state policies and found diverse approaches to the use of tuition revenue for financial aid. Some states have required minimums while others have mandatory maximums. None of the states treated institutions differently based on their enrollment demographics. The following is a list of current practices:

Arkansas: Institutions shall not exceed 20% of unrestricted educational and general tuition and mandatory fee income. Institutions that exceed this will have state funded aid reduced.

California: Each public four-year institution is expected to devote one-third of revenue from all tuition and fee increase as "return to aid" to their institutional aid programs.

Oklahoma: Restricts tuition waivers to no more than 3.5% of the institution's education & general budget.

Texas: Each institution shall set aside not less than 15% of any amount of tuition charged to a resident undergraduate student in excess of $46 per semester credit hour. These funds shall be used to provide financial assistance for residential undergraduate students.

Utah: Public institutions may redirect an amount not exceeding 10% of the total amount of tuition collected from all Utah resident students.

Washington: Public institutions are required to return 3.5% of tuition revenue to needy students. This amount may be exceeded by the offering of merit scholarships.

Unfunded Scholarships

Institutions also create financial aid awards through unfunded scholarships, authorized by the Code of Virginia. The program restricts usage to no more than 20% of total tuition revenue and requires that recipients demonstrate financial need. This program technically — as the name states — has no funding source for the awards. Instead, the scholarships reduce the students' cost, resulting in forgone tuition revenue.

Tuition Revenue Used for Aid and Unfunded Scholarships

Institutions	Revenue generated from in-state tuition	Unfunded scholarships for in-state students	Total assistance generated (forgone tuition revenue)
CNU	$2,093,414	$0	$2,093,414
GMU	$0	$0	$0
JMU	$3,077,868	$0	$3,077,868
LU	$1,755,459	$85,408	$1,840,867
NSU	$2,009,967	$32,747	$2,042,714
ODU	$5,824,941	$149,755	$5,974,696
RU	$1,526,046	$323,656	$1,849,702
UMW	$4,625,000	$0	$4,625,000
UVA	$23,711,000	$0	$23,711,000
UVA-W	$50,000	$176,974	$226,974
VCU	$15,217,423	$13,399,591	$28,617,014
VMI	$0	$0	$0
VSU	$2,343,342	$287,835	$2,631,177
VT	$457,500	$11,283,965	$11,741,465
W&M	$9,734,600	$634,190	$10,368,790
Four-Year Total	**$72,426,560**	**$26,374,121**	**$98,800,681**

Since the program represents forgone tuition, it closely resembles the tuition revenue used for aid in that each reduces the amount of tuition revenue available for operating costs; therefore, the differences between the two programs is minimal other than the authorization source and usage restrictions. Combining these two programs may simplify administration and tracking as well as provide a better accounting of the burden placed on tuition revenue in creating financial aid opportunities for students.

Tuition revenue recommendations

Staff recommends the following:

3.1 <u>Continue to monitor tuition revenue used for aid as reported annually in the six-year plan process to allow reviewers to assess and provide feedback regarding an increase in the percentage.</u>

These programs should continue to be monitored to assess appropriate levels of usage. The Governor and the General Assembly may wish to consider minimum or maximum requirements of using tuition revenue for aid as a supplement to existing need-based financial aid programs. Institutions might also consider using non-E&G fees for aid as well. If policymakers prefer to have use of this practice reduced from current levels, SCHEV recommends that an additional financial aid allocation be provided to any institution that stands to lose aid.

3.2 Implement increased transparency by publicly reporting the amount of tuition revenue being used for financial aid.

The institutions should report to students the estimated portion of their tuition revenue being redirected to financial aid. This reporting should be placed on institutions' student consumer information website.

3.3 Authorize institutions to use a portion of tuition revenue to fund emergency awards for low-income students facing unique expenses that threaten their continued enrollment.

Funding for students with a short-term financial emergency is a common and increasingly recurring concern. The Governor and the General Assembly should authorize institutions to use some of their tuition revenue to create emergency funds.

3.4 Combine the existing Unfunded Scholarships Program (§23.1-612) with the policies pertaining to using tuition revenue for financial aid.

Since tuition revenue for aid and unfunded scholarships each reflects a loss of or forgone revenue for operating, the programs should be subject to similar policy considerations.

OTHER POLICY RECOMMENDATIONS

Financial aid plays a strong role in access, affordability and completion; however, other strategies are critical to support and enhance these overall goals. The Commonwealth needs to support the education pipeline through increased collaboration between higher and secondary education to help close postsecondary enrollment and success gaps. To accomplish this, Virginians should be provided equitable access to the necessary information, resources and experiences to help ensure enrollment and completion of a valued credential to become engaged citizens with sustainable wages.

To better prepare students to identify the best college fit and to aid in preparation for their college experience, staff recommends the following:

4.1 Support current college access programs.

Establish and maintain a sustainable infrastructure that supports and coordinates pre-college advising programs, provides needed professional development and increases direct advising services in the most vulnerable communities.

4.2 Create online resources to help students better understand higher education finances.

Create resources to help students better understand career earnings expectations, how to be more intentional with student debt and how to compare financial aid award offers.

4.3 Support Free Application for Federal Student Aid (FAFSA) completion programs.

Studies show a high number of students completing the FAFSA go on to enroll into college. While the relationship has a high probability for self-selection (students don't normally complete the FAFSA unless they have an active interest in pursuing college), the benefit of knowing how much federal aid, and possibly state aid, is available can make a difference in whether a student continues the admission application process.

4.4 Connect eligible students with other social services.

Many students cannot afford college not just because of the cost of education but because of the cost of living. Many students are eligible for public benefits such as the Supplemental Nutritional Assistance Program (SNAP) but do not receive benefits. These additional resources could reduce student debt, increase completion rates or be the difference between enrollment and no enrollment.

APPENDIX A

Glossary

Cost of attendance (COA): Tuition + fees + room & board + books & supplies + allowances for personal and travel expenses.

Expected Family Contribution (EFC): Federal measure of financial strength, incorporating income, assets, size of family and family members in college.

Federal Poverty Level (FPL): Percent of household income, adjusted by household size to federal poverty level.

Income groupings:

Low-income: Household income 0% to 200% FPL

Middle-income: Household income 201%-400% FPL

High-income: Household income greater than 400% federal poverty level

Net Price: Cost of attendance – grant aid.

Unmet need: Net Price – EFC.

APPENDIX B

Purpose and function of the funding formula

Council employs a funding model to determine recommendations for state financial aid. The model is created for a specific purpose and is not intended to make a statement on overall affordability of higher education or the amount of aid needed by students. To clarify the purpose and function of any variation of the funding model, staff notes the following:

Purpose:

The purpose of the Virginia Student Financial Assistance Program (VSFAP) funding formula is to serve as a basis for recommending state undergraduate need-based financial aid funding levels and for allocating those funds among the senior public colleges and universities, Richard Bland College and the Virginia Community College System (VCCS). The institutions use this single appropriation to make awards under the VSFAP's companion subprograms, the Virginia Commonwealth Award Program (Commonwealth) and Virginia Guaranteed Assistance Program (VGAP).

Function:

What the model does.

1. Provides a basis for recommending state financial aid funds to public institutions.

   Council determines how the funding formula is designed, which is then used to recommend state financial aid funding for each institution.

2. Provides a basis to allocate limited state funds.

   This may be the formula's most significant function. When funding is limited, the formula is designed to equitably divide available funds among the institutions.

What the model does not do.

1. Does not determine the actual total "financial need" on an individual student basis or in the institutional aggregate.

   - By law, VSFAP awards to students are capped at "tuition & fees" (except that VGAP also permits a book allowance); therefore, the funding formula similarly caps the calculated individual student need and ignores any need in excess of "tuition & fees."

- Consistent with federal cost of attendance (COA) protocol, the institutionally calculated COA allowances for "off-campus room and board," "books and supplies," "transportation" and "personal expenses" will vary due to differences in methodologies and geography. To determine the relative impact tuition & fee increases have on students, SCHEV computes COA based on standardized indirect cost allowances using institutional sector averages.
- All calculations use actual student data and behaviors (e.g., enrollment level and Expected Family Contribution) from the latest available year and then project increases in costs; however, future student data and actual cost increases invariably will be different than those used in the formula.
- State funding formulas incorporate an assumption on the amount of cost or student need that is not considered the responsibility of the state because other stake holders also provide assistance. For example, a 50% of Remaining Need model sets aside 50% of the final student need calculation while the Partnership Model sets aside a percent of cost at the beginning of the calculation. These "set asides" are arbitrary.

For the above reasons, the "actual" need, individual or aggregate, for each institution may be greater or less than the calculations demonstrate.

2. Does not determine individual student awards.

    - Virginia's decentralized financial aid system enables institutions to take into account individual student circumstances and campus demographics when determining student awards. This enables the institution to use information important to the awarding process but not available at the system level, and allows for the use of individual award schedules among the colleges and universities.

3. Does not provide a student affordability index.

    - The VSFAP program supports affordability but does not directly address affordability. An affordability index requires an in-depth analysis of student resources compared to educational cost including a study of the role of student borrowing/indebtedness and lifestyle choices.
    - State financial aid is not structured to address affordability because the maximum award is "tuition & fees" regardless of the student's calculated

need in excess of that amount. Further, funding models do not determine whether the recommended allocation is sufficient to ensure affordability for the individual students enrolled at the institution or what additional amount of state funding is necessary (for example, is funding half of an average need of $4,000 enough, or is additional state funding necessary if the individual student need is $500?).

- Current funding models use data for students who have enrolled into college. The models do not address those students unable to enroll due to lack of finances. If fewer low-income students enroll as costs continue to climb, then the "percent of need met" calculations may actually show improvement while masking the decreasing affordability of an institution. The reverse may also be true.
- Finally, state aid recommendations are based upon projected increases in educational costs months or years in advance. The actual change in direct and indirect costs will vary by institution and may be greater or less than projected.

Alternative allocation models considered

Throughout the review process, SCHEV staff considered alternative models to drive financial aid allocations. Staff has observed that all individual financial aid policy decisions, including allocation models, tend to be strong in one area at the expense of another. A model addressing cost tends to be strong on affordability but not as strong on access, since the primary driver is cost. The reverse tends to be true for a student-centered model that addresses access more than it does cost.

In the end, SCHEV focused on three different models and presented them to the working group. This section summarizes those models.

Cost of Attendance-based

Like the 50%-of-remaining-need model, the Partnership Model is an example of a cost of attendance (COA)-based funding model as it starts with the entirety of each student's potential expenses. Though both models reduce the expenses by incorporating a state "discount," no single expense is isolated or set aside.

Staff refined the current Partnership Model by using the students' real EFC, not adjusted to a minimum amount, and implementing federal methodology for the living with parents housing expense. With these revisions, the model is still complex and is very reactive to tuition increases, which rewards and perhaps encourages tuition increases. The model does not encourage enrollment of low-income students but it is best positioned to address overall affordability.

Tuition-based

The Commonwealth has a strong interest in overall affordability; however, its primary role is in tuition costs. Conversely, the state has minimal opportunity to control the other cost of attendance items. A funding model that recognized this role would best describe the state's responsibility and provide an opportunity to combine financial aid policy with tuition policy.

Under this model, each institution's tuition and mandatory fees are calculated as a percentage of the institution's average total cost of attendance. This rate ranges from 39% at Norfolk State University and Old Dominion University to 56% at William & Mary. That rate is then applied to the students' EFC and gift aid. The discounted EFC and gift aid are then subtracted from the tuition and fees that student faces at the institution.

As an example, if the institution's COA is $26,000 and tuition and mandatory fees are $11,500, then the tuition ratio is 44%. If the EFC is $6,000 and gift aid totals $4,000, then 44% of those totals ($2,640 and $1,760 respectively) is applied to tuition and fees to determine need under the model: $11,500 – ($2,640 + $1,760) = $7,100. The resulting $7,100 "tuition-need" becomes the funding recommendation.

This model is somewhat less complex than the Partnership Model but it introduces new concepts that prove challenging to understand. The model is slightly less reactive to tuition increases because any rise in tuition that increases the tuition's ratio to COA results in larger portions of EFC and gift aid being assigned to cover tuition and mandatory fees. While the model is somewhat friendly to low-income students, it does not encourage or reward the enrollment of low-income students and is designed to ensure that tuition and mandatory fees are affordable.

EFC-based

The two previous models are cost-based models. A completely different direction would be a student-centered model that recognizes and rewards the enrollment of low-income students. Rather than determining need based on the costs students face at the institution, similar to the federal Pell grant, this model assigns values to students based on their EFC. Under this model, institutions' financial aid allocations would increase as low-income enrollment increases.

Students with a zero EFC are assigned a maximum value, in this case $8,614 for the four-year institutions and $2,460 for the two-year institutions (the average tuition paid by students in the 2017-18 file). As the students' EFC increases, their assigned value decreases dollar-for-dollar. The sum of all students' values are then assigned to the institution.

This model is not reactive to increases in cost of attendance, including increases in tuition, but is very reactive to enrollments of low-income students. Other than possible confusion with the federal Pell grant as an awarding policy, this model is relatively simple to explain. The model does not attempt to address affordability directly; however, the maximum allocation can be adjusted in order to meet overall affordability goals.

APPENDIX C

System snapshot of low- and middle-income students

As part of the financial aid review, SCHEV staff sought to gain a better understanding Virginia's public undergraduate students participating in VSFAP financial aid programs. The following pages explore the prevalence of low-income students, the incomes and Expected Family Contributions they bring to the table, and how state aid is distributed.

Low-income students compose a *plurality* at four-year institutions

For those students whose income is available (SCHEV is only able to identify students' family income if they complete the Free Application for Federal Student Aid (FAFSA)) low-income students, defined as coming from families earning 200% below the poverty level, make up the largest portion (44%) of students in our four-year institutions who have completed the federal FAFSA.

Financial aid completion & eligibility percentages by institution, 2017-18

Institution	Applied, eligible for need-based aid	Applied, not eligible for need-based Aid	Applied for need-based aid	Did not file FAFSA
CNU	45%	20%	65%	35%
GMU	56%	10%	66%	34%
JMU	43%	18%	61%	39%
LU	58%	12%	71%	29%
NSU	86%	3%	89%	11%
ODU	63%	7%	70%	30%
RU	62%	15%	77%	23%
UMW	46%	19%	66%	34%
UVA	36%	19%	54%	46%
UVA-W	81%	11%	92%	8%
VCU	61%	10%	71%	29%
VMI	46%	16%	63%	37%
VSU	89%	5%	94%	6%
VT	42%	18%	60%	40%
W&M	42%	8%	49%	51%
Four-year total	**54%**	**13%**	**67%**	**33%**
RBC	69%	9%	78%	22%
VCCS	51%	6%	57%	43%
Two-year total	**51%**	**6%**	**57%**	**43%**
Grand total	**52%**	**10%**	**62%**	**38%**

These students' average family income is roughly $20,000; they have a very low average EFC of just under $600. Middle-income students, coming from families making between 200% to 400% of poverty, make up roughly a third of students attending four-year institutions who have completed the FAFSA and have an average family income of $69,152.

FAFSA completers attending public four-year institutions by income group, (2017-18)

Income	FPL	% of FAFSA Applicants	Average Income	Average EFC
Low	Under 200%	44%	$20,196	$599
Middle	201% - 400%	33%	$69,152	$7,042
High	Higher than 400%	24%	$127,800	$17,312
All	**All**	**100%**	**$ 61,543**	**$6,643**

Low-income students compose a *majority* at two-year institutions

Virginia's community college students are more likely to be from low-income households. For students whose income can be identified, low-income students make up 69% of financial aid students in the two-year system; these students carry lower average incomes and EFCs compared to low-income students in four-year institutions. Roughly a quarter of students attending two-year institutions are middle-income, with only 4% considered high-income.

FAFSA completers attending public two-year institutions by income group, (2017-18)

Income	FPL	% of FAFSA Applicants	Average Income	Average EFC
Low	Under 200%	69%	$18,698	$351
Middle	201% - 400%	26%	$60,423	$5,053
High	Higher than 400%	4%	$100,766	$10,302
All	**All**	100**%**	**$33,077**	**$2,000**

Distribution of low-income students

Not all of Virginia's institutions enroll low-income students at the same rate. Nearly 70% of the student bodies of Virginia's two public historically black colleges and universities (HBCUs), Norfolk State and Virginia State, are low-income students.[1] Over half of the students at George Mason, Radford and UVA-Wise are low-income. This contrasts with William & Mary and Christopher Newport University, where roughly a quarter of their students are low-income. Middle-income students are more evenly distributed throughout the state.

Enrollment by income group, 2017-18

Institution	Low-Income	Middle-Income	High-Income
NSU	69%	24%	7%
VSU	67%	26%	8%
UVA-W	54%	34%	12%
ODU	54%	31%	15%
GMU	50%	31%	19%
RU	44%	36%	20%
VCU	41%	32%	27%
UMW	37%	35%	29%
VT	35%	35%	30%
UVA	35%	33%	32%
LU	33%	37%	30%
JMU	30%	38%	33%
W&M	28%	34%	39%
CNU	23%	35%	42%
VMI	20%	39%	40%
Four-year total	**44%**	**33%**	**24%**
VCCS + RBC	**69%**	**26%**	**4%**

In addition to variation in *intensity* of enrollment, there is also wide variation in the *magnitude* of low-income students. George Mason University, Old Dominion University and Virginia Commonwealth University enroll more than half of the state's low-income students.

[1] As noted above, the rates of students are among those for which SCHEV can identify.

Enrollment by income group, 2017-18

Institution	Low-Income	Middle-Income	High-Income	Total
GMU	6,447	3,932	2,437	12,816
ODU	6,188	3,619	1,754	11,561
VCU	5,397	4,148	3,475	13,020
VT	2,838	2,831	2,485	8,154
NSU	2,368	821	251	3,440
RU	2,188	1,780	1,017	4,985
VSU	1,936	745	222	2,903
JMU	1,915	2,422	2,109	6,446
UVA	1,419	1,374	1,315	4,108
LU	796	873	722	2,391
UMW	706	672	556	1,934
UVA-W	530	332	115	977
CNU	491	741	877	2,109
W&M	482	586	675	1,743
VMI	103	200	205	508
Four-year total	**33,804**	**25,076**	**18,215**	**77,095**
VCCS + RBC	**44,053**	**16,765**	**2,585**	**63,403**

Low-income students: aid, net prices and unmet need

Low-income students receive the most state financial aid

In both the two-year and four-year sectors, low-income students receive the majority of state financial aid funds, which in part contributes to lower net prices for these students. In the four-year institutions, low-income students receive average awards nearly $700 higher than middle-income students that, when combined with federal grants and other factors, contributes to average net prices of $5,000 less than middle-income students, and $8,000 less than high-income students.

High-income students also receive state financial aid dollars, roughly $12 million in the four-year sector and less than $1 million in the two-year sector. These students receive relatively small average awards.

Students attending public four-year institutions (2017-18)

Income Group	Sum of State Gift Aid	Average Award	Average Net Price	Average Unmet Need
Low	$90,880,693	$2,688	$12,965	$12,378
Middle	$48,017,339	$1,915	$17,987	$11,118
High	$11,781,752	$647	$22,490	$6,158
All	**$150,679,784**	**$1,954**	**$16,849**	**$10,498**

In the two-year system, low-income students receive the majority of state financial aid funds but have slightly lower average awards due to considerations of the federal Pell grant.[2] However, low-income students still face a lower net price on average.

Students attending public two-year institutions (2017-18)

Income Group	Sum of State Gift Aid	Average Award	Average Net Price	Average Unmet Need
Low	$26,518,003	$602	$7,669	$7,318
Middle	$12,881,602	$768	$9,998	$4,944
High	$940,653	$364	$11,688	$1,386
All	**$40,340,259**	**$636**	**$8,449**	**$6,449**

Low-income students have higher unmet need

Despite receiving the majority of state aid dollars, low-income students still face slightly higher unmet need than middle-income students. As unmet need accounts for all grant aid dollars and the students' ability to pay (EFC[3]), these two values should be essentially the same; instead low-income students face unmet need more than $1,000 greater than middle-income students in the four-year system, and more than $2,000 greater in the two-year system. This can be partly explained by the fact that the EFC increases faster as income rises than financial aid is able to match.

Low-income students have higher unmet need than middle-income students in all but three institutions: William & Mary, University of Virginia and Virginia Commonwealth

[2] Language within the Act of Appropriation - § 4-5.01 b.1.b) - permits two-year colleges to account for federal grants when making state awards.

[3] While there are issues with the federal formula defining a families' EFC, it nevertheless is the best measure currently available for financial strength.

University.[4] There is also a broad variation in average unmet need for low-income students at the institutional level, ranging from more than $14,000 for Christopher Newport University and George Mason University to less than $6,000 for William & Mary and University of Virginia.

Average unmet need by income group, 2017-18

Institution	Low-Income	Middle-Income	High-Income
CNU	$14,810	$12,826	$6,971
W&M	$4,985	$5,392	$4,800
GMU	$14,020	$11,630	$5,303
JMU	$12,435	$11,803	$6,966
LU	$13,701	$12,346	$6,686
NSU	$10,653	$8,129	$3,784
ODU	$12,056	$10,387	$4,938
RU	$12,852	$11,916	$7,041
UMW	$12,636	$10,218	$5,487
UVA	$6,126	$6,210	$4,905
UVA-W	$10,021	$6,824	$3,757
VCU	$13,498	$13,639	$7,125
VMI	$8,733	$6,338	$4,217
VSU	$11,802	$9,397	$5,560
VT	$12,744	$11,672	$6,765
Four-year	**$12,378**	**$11,118**	**$6,158**
Two-year	**$7,318**	**$4,944**	**$1,386**

Multiple factors affect students' unmet needs including the cost of the institution they attend, federal aid and family contribution as measured by the EFC. However, Virginia grants flexibility to institutions in determining individual awards, with some institutions providing larger awards to fewer students in order to lower unmet need or providing smaller awards to a larger number of students in order to provide some assistance to more students. In addition, some institutions will fully award institutional aid before awarding state aid, while others may prioritize state aid before awarding institutional assistance. Therefore, it should be noted that state aid is not awarded in a

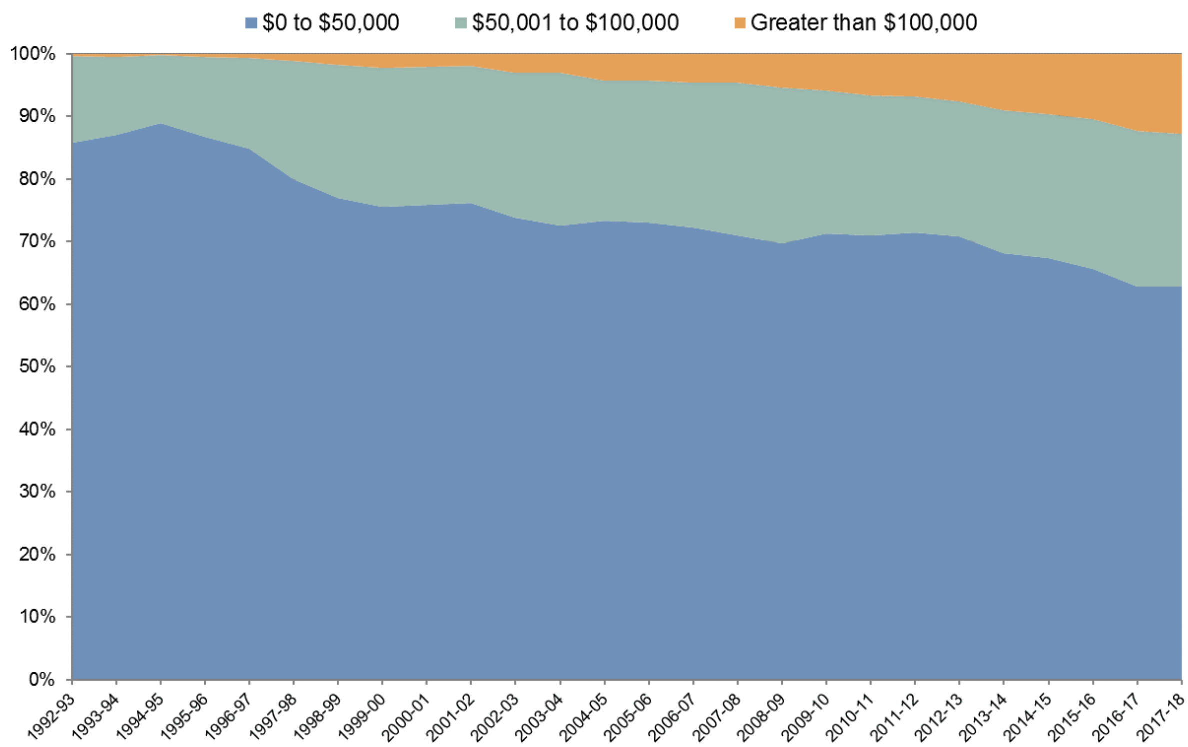
[4] These three institutions also spend more on institutional aid than the other institutions combined. See table of total financial aid spending by institution in the appendix.

vacuum but is one piece of a more complex puzzle serving to maximize the individual financial aid packages.

Growth in middle- and high-income students

The number of student groups demonstrating financial need has increased over the past 25 years. As the cost of college has risen, the proportion of middle- and high-income students demonstrating need also has increased. In 1992-93, students coming from families earning more than $100,000 made up only 0.4% of all students demonstrating financial need.[5] By 2017-18, the proportion of high-income students grew to 12.8%. In the same time period, middle-income students grew from 13.8% to 24.5%. Not surprisingly, the share of state aid received by middle- and high-income students also increased, eroding the share received by low-income students. In 1992-93, low-income students received 94% of total state aid. In 2017-18 that rate dropped to 66%.

Virginia Students with Need by Family Income (four-year institutions)



[5] Note: This SCHEV Research report started before the Higher Education Advisory Council designated the low-, middle- and high-income groups. Instead the report uses income brackets.