

Student Financial Aid

House Appropriations
Committee Retreat
November 13-14, 2006

Background



Virginia Financial Aid

- Financial aid programs have long history in the Commonwealth
 - 1930s – War Orphans program established
 - 1950s – Scholarship programs
 - 1970s – TAG established
 - 1980s – Established the current goal to meet at least 50 percent of remaining need
 - 1990s – Virginia College Savings Plan established
 - 2000s – Significant funding increases for undergraduate and graduate aid at both public and private institutions – almost a 50 percent increase since FY 2000

- In FY 2007 the state will allocate almost \$116 million in general fund for financial aid to undergraduate and graduate students at public institutions
 - Another \$50 million is provided for the TAG program

- The most recent data for in-state undergraduates at public institutions from FY 2005 reveals federal, institution and private grants total another \$250 million and loan programs provided about \$345 million

Financial Aid in Other States

- State programs vary considerably
 - Need and merit based
 - Minnesota program is most similar to Virginia
- Most states employ a flat grant amount per student with some differentiation depending upon type of institution (4-year, 2-year), student status (full- or part-time), and income level
 - Amounts vary ranging from \$1,000 to \$6,000
- Georgia – Hope Scholarship
 - Tuition, mandatory fees and books
 - Funded by Lottery
 - More than \$400 million in scholarships funded annually
 - Grade requirements

Financial Aid Terms



What is Financial Aid?

□ Gift Aid

- Can be need-based or merit-based
- Can take the form of direct aid or waivers
- Scholarships
- Grants

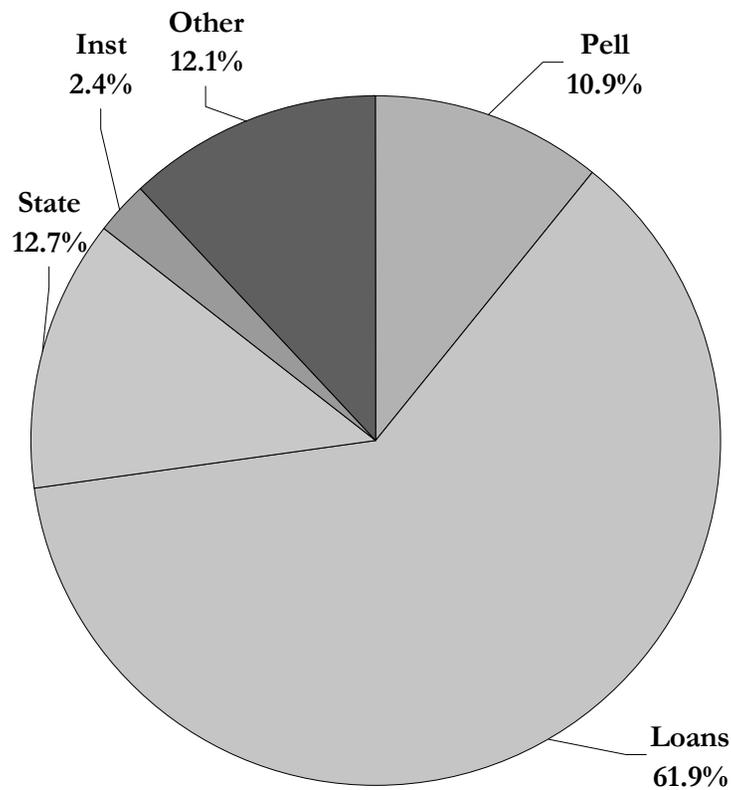
□ Self-help

- Loans
- Work Study

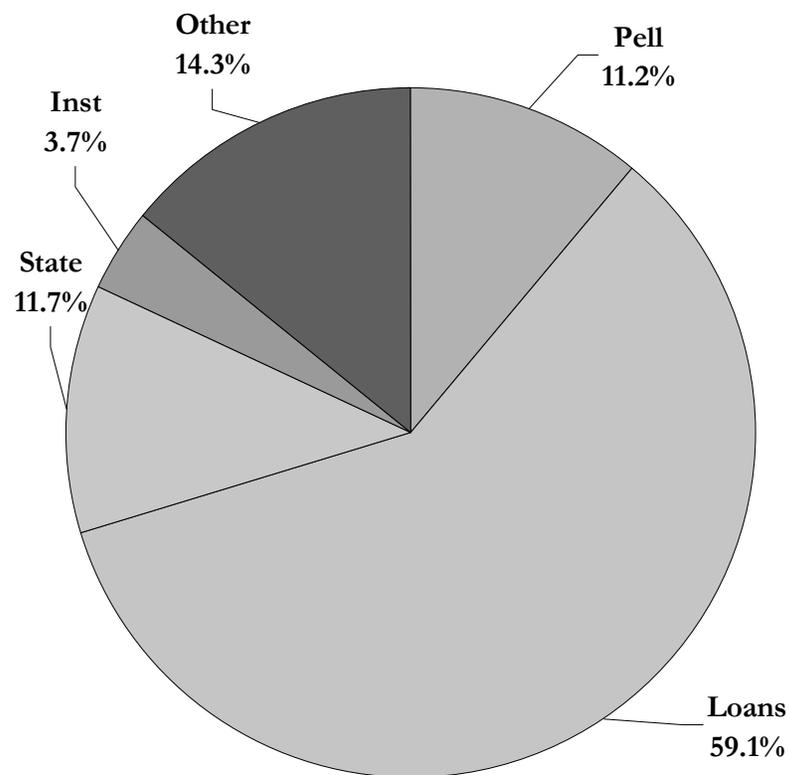
Who provides aid?

- Federal
 - Pell grants
 - Supplemental Educational Opportunity Grant (SEOG)
 - Federal Work Study
 - Perkins Loans
 - Stafford and PLUS Loans
- State
 - Commonwealth Awards
 - Virginia Guaranteed Assistance Program
 - College Scholarship Assistance Program
 - Tuition Assistance Program (TAG)
 - Various scholarship programs
- Institution
 - Scholarship programs
 - Access UVA, Gateway William and Mary, VT Funds for the Future
 - Part of Management Agreements
- Other
 - Civic
 - Business
 - Not-for-profit / Foundations

Distribution of In-State Undergraduate Financial Aid at 4-Year Institutions *1995-95 vs. 2004-05*

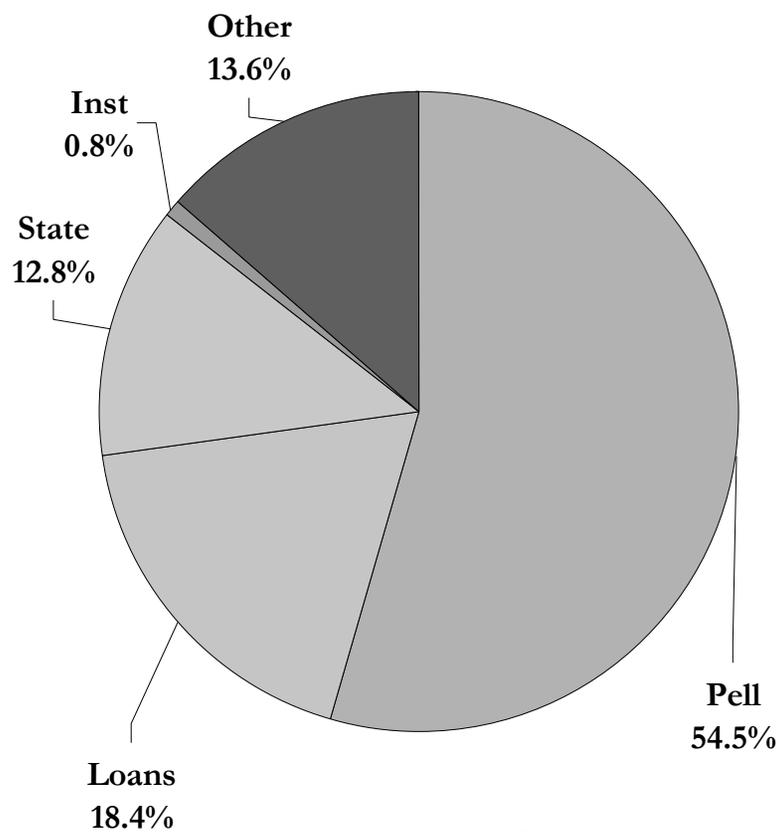


Fiscal Year 1994-95
Total = \$290.6 million

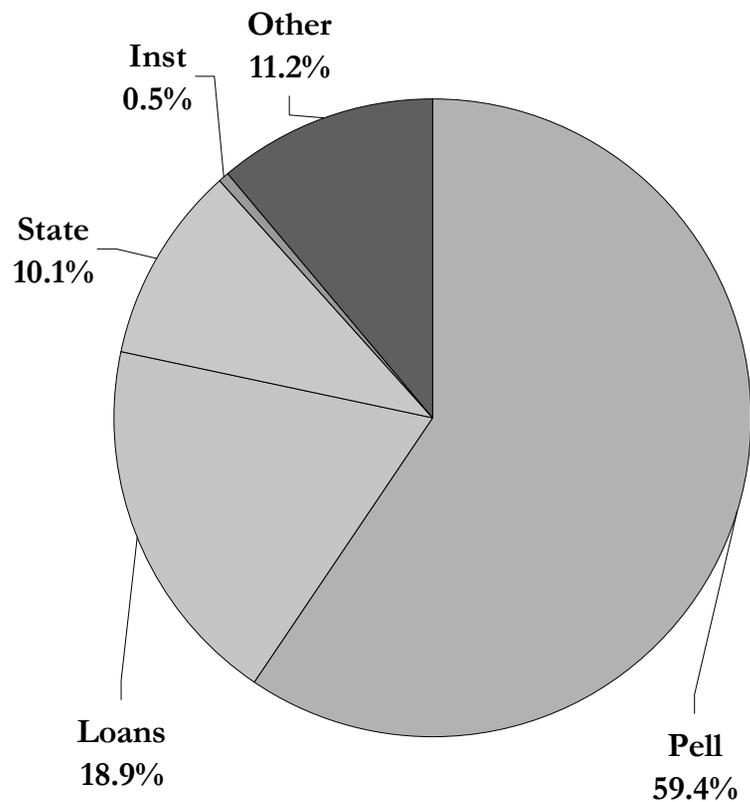


Fiscal Year 2004-05
Total = \$537.9 million

Distribution of Financial Aid at 2-Year Institutions *1995-95 vs. 2004-05*



Fiscal Year 1994-95
Total = \$64.2 million



Fiscal Year 2004-05
Total = \$132.3 million

Financial Aid Process

Key Components

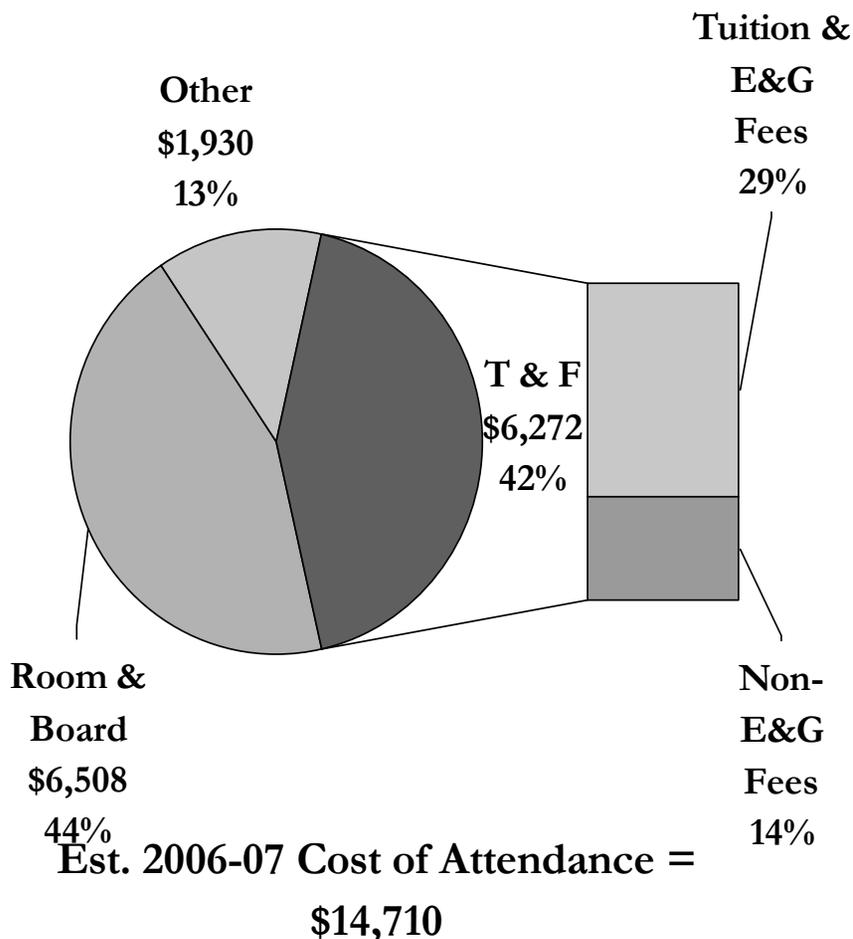
- ❑ Cost of Attendance (COA)
- ❑ Expected Family Contribution (EFC)
- ❑ SCHEV Role
- ❑ Institution Role

Cost of Attendance (COA)

- ❑ Cost of Attendance is institution-specific
- ❑ Includes allowances for:
 - Tuition and mandatory E & G fees
 - Mandatory non-E& G fees
 - Room
 - Board
 - Books & supplies
 - Transportation
 - Misc. personal expenses
- ❑ May also include allowances for PC, loan fees, study abroad costs, dependent care expenses, disability-related expenses

Cost of Attendance Breakdown

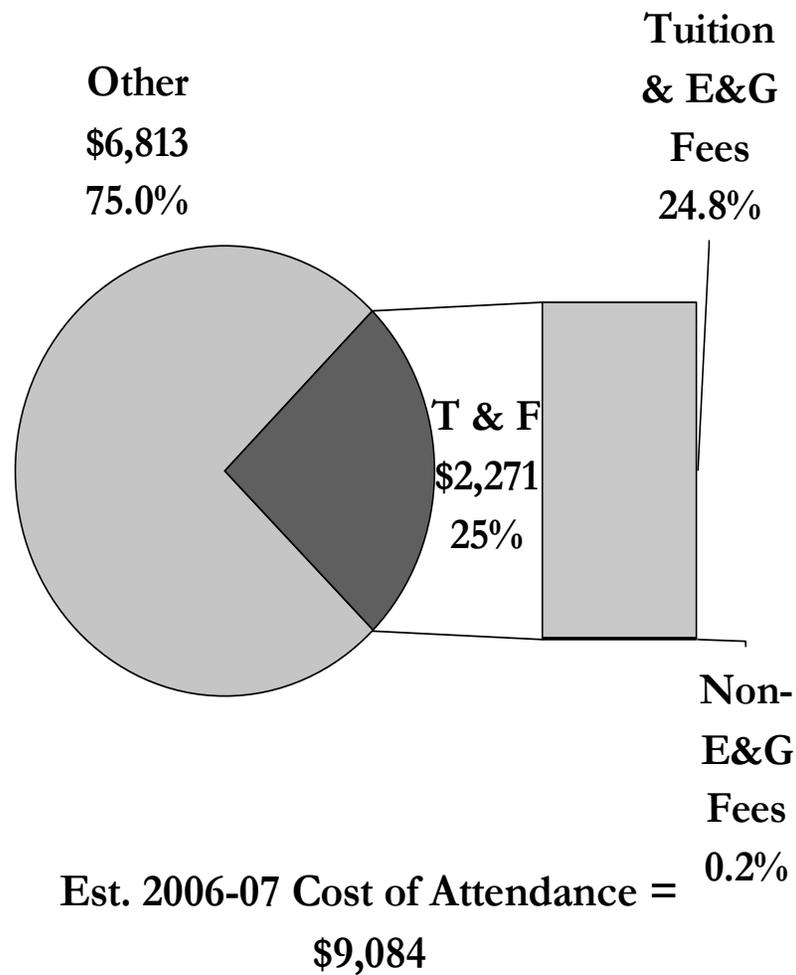
Four-Year Institutions



- ❑ Tuition and mandatory fees make up less than half of total cost of education
- ❑ Not all students pay room and board
- ❑ Other costs include allowances for books, personal expenses, transportation, and PCs if required

Cost of Attendance Breakdown

Two-Year Institutions



- ❑ Tuition and mandatory fees make up one-quarter of total cost of education
- ❑ Based on the federal formula room and board allowances are provided even though there is no official institutional charge
- ❑ Other costs include allowances for room and board, books, personal expenses, transportation, and PCs if required

Expected Family Contribution (EFC)

- ❑ Based on information reported on the Free Application for Federal Student Aid (FAFSA)
- ❑ Reported to each institution by the federal government using a methodology determined by Congress
- ❑ Key factors:
 - Family income and assets
 - Age and size of family
 - Number in college
 - Recent federal change reclassifies prepaid tuition contracts as a parental asset as opposed to gift aid

Calculation of Financial Need

Cost of Attendance (COA)

- Expected Family Contribution (EFC)
- Gift Aid (Excl. State Aid & Endowments)

= Financial Need

- Need is capped at tuition and mandatory fees
- Sometimes referred to as Remaining Need
- Endowments excluded per Code

SCHEV Role in the Process

- Use state formula to get funds to the institution
- Use Financial Need calculation to determine:
 - total undergraduate state financial aid required to meet 50 percent of Remaining Need
 - allocation of state aid by institution
- Does not determine individual student awards
- Excludes loans and foundations

Institutions Role in the Process

- ❑ Use institution formula to get funds to the student
- ❑ Determines individual student awards
 - Uses FAFSA and EFC to put together student-specific financial aid packages
- ❑ Packages include use of federal aid, loans, work study, foundation funds, and state aid
- ❑ Institutional decisions are independent of state allocation process

Policy Issues and Questions



What is an Appropriate Cost of Attendance for Allocation Purposes?

- Education-related costs
 - Tuition and E & G fees
 - Books & Supplies
 - PCs
- Student Life Costs
 - Comprehensive Fee – this is a mandatory expense
 - Room
 - Board
 - Personal Expenses
 - Transportation Allowance
- For example, are room and board costs always applicable?
 - Two-year institutions have neither but are provided an allowance that may inflate COA
 - Stay-at-home students
 - Working students

Should Virginia Modify the Federal Expected Family Contribution Definition?

- Reclassification of pre-paid tuition contracts to parental asset in the EFC calculation as opposed to gift aid
 - This may result in students generating state financial aid need even though they have a tuition and fee contract covering those same costs
 - We limit financial need to tuition and fees
- How should pre-paid contracts be treated for state allocation purposes?

How should EFC and Gift Aid be Distributed when Calculating Financial Need?

- While state policy limits remaining need to tuition and mandatory fees, by virtue of the process, each dollar of EFC and gift aid is applied to all other costs before being applied against tuition and fee costs
 - This results in the calculated financial need often exceeding tuition and fees

- Should EFC and gift aid be applied proportionally to all COA cost categories?

Example of EFC / Gift Aid Allocation

Student "A" Current Model

| Category | Cost | Pct |
|--|----------|-----|
| Tuition & Fees | \$4,200 | 29% |
| Mandatory Non-E & G Fees | \$2,100 | 14% |
| Room & Board | \$6,500 | 44% |
| Other | \$1,900 | 13% |
| Total COA | \$14,700 | |
| Less: EFC + Gift Aid | \$8,100 | |
| Financial Need | \$6,600 | |
| Remaining Need Capped at Tuition and Mandatory Fees | \$6,300 | |

Example of EFC / Gift Aid Allocation

Student "B" Current Model

| Category | Cost | Pct |
|--|----------|-----|
| Tuition & Fees | \$4,200 | 29% |
| Mandatory Non-E & G Fees | \$2,100 | 14% |
| Room & Board | \$6,500 | 44% |
| Other | \$1,900 | 13% |
| Total COA | \$14,700 | |
| Less: EFC + Gift Aid | \$4,000 | |
| Financial Need | \$10,700 | |
| Remaining Need Capped at Tuition and Mandatory Fees | \$6,300 | |

Example of EFC / Gift Aid Allocation

Student "A" Alternative Model

| Category | Cost | Pct | Alloc. Aid |
|---|----------|-----|------------|
| Tuition & Fees | \$4,200 | 29% | \$2,350 |
| Mandatory Non-E & G Fees | \$2,100 | 14% | \$1,130 |
| Room & Board | \$6,500 | 44% | \$3,570 |
| Other | \$1,900 | 13% | \$1,050 |
| Total COA | \$14,700 | | |
| Less: EFC + Gift Aid | | | \$8,100 |
| Financial Need (Tuition & Mandatory Fees less Alloc. Aid or \$6,300 less \$3,480) | \$2,820 | | |

Example of EFC / Gift Aid Allocation

Student "B" Alternative Model

| Category | Cost | Pct | Alloc. Aid |
|---|----------|-----|------------|
| Tuition & Fees | \$4,200 | 29% | \$1,160 |
| Mandatory Non-E & G Fees | \$2,100 | 14% | \$560 |
| Room & Board | \$6,500 | 44% | \$1,760 |
| Other | \$1,900 | 13% | \$520 |
| Total COA | \$14,700 | | |
| Less: EFC + Gift Aid | | | \$4,000 |
| Financial Need (Tuition & Mandatory Fees less Alloc. Aid or \$6,300 less \$1,720) | \$4,580 | | |

Summary of Two Models

- ❑ Under the current model, students with a lower EFC and gift aid generate the same financial need as those with a higher EFC and gift aid
- ❑ The alternative model appears to recognize needier students which would result in a more equitable allocation of financial aid dollars

Should we assume some level of student loans?

- ❑ Loans are currently excluded from state allocation process
- ❑ Institutions utilize loans in developing their financial aid package
- ❑ Students and their families borrowed almost \$350 million in 2004-05
- ❑ College education has often been cited as increasing earning power
 - College degree is estimated as being worth \$20,000 or more in annual earning potential

Student Borrowing

- Virginia compares favorably in terms of cost of education when compared to other both peer institutions and other states
 - In 2005-06 the average cost of tuition and fees is about \$6,100 at Virginia's four-year institutions compared to about \$6,000 at public peer institutions
 - Total student cost (tuition, fees and room and board) is about \$12,250 at Virginia public institutions compared to a national average of about \$12,100

- Virginia students borrow on average about \$3,836 annually which represents about 65% of the cost of tuition and fees
 - Students in several comparable states borrow a higher proportion relative to tuition and fees
 - The amounts borrowed are in a fairly narrow range from \$3,100 to \$4,300
 - Federal loan programs have caps

Student Borrowing At Selected States

| STATE NAME | Student Borrowing | Average Tuition Public 4-year institutions | Loan as a Percent of T & F |
|-----------------------|-------------------|--|----------------------------|
| Florida (2006) | \$3,291 | \$2,935 | 112% |
| North Carolina (2006) | \$3,752 | \$3,645 | 103% |
| Georgia (2006) | \$3,648 | \$3,652 | 100% |
| California (2006) | \$4,089 | \$4,447 | 92% |
| Utah (2006) | \$3,100 | \$3,442 | 90% |
| West Virginia (2006) | \$3,317 | \$3,807 | 87% |
| Oklahoma (2006) | \$3,295 | \$3,814 | 86% |
| Arizona (2006) | \$3,762 | \$4,428 | 85% |
| Colorado (2006) | \$3,654 | \$4,468 | 82% |
| New York (2006) | \$3,901 | \$4,995 | 78% |
| Texas (2006) | \$3,541 | \$4,694 | 75% |
| Tennessee (2006) | \$3,463 | \$4,763 | 73% |
| Washington (2006) | \$3,801 | \$5,254 | 72% |
| Virginia (2006) | \$3,836 | \$5,930 | 65% |

| STATE NAME | Student Borrowing | Average Tuition Public 4-year institutions | Loan as a Percent of T & F |
|-----------------------|-------------------|--|----------------------------|
| Connecticut (2006) | \$4,332 | \$6,710 | 65% |
| Kentucky (2006) | \$3,210 | \$5,132 | 63% |
| Indiana (2006) | \$3,549 | \$5,911 | 60% |
| Massachusetts (2006) | \$4,342 | \$7,307 | 59% |
| Missouri (2006) | \$3,407 | \$5,835 | 58% |
| Wisconsin (2006) | \$3,277 | \$5,665 | 58% |
| Maryland (2006) | \$4,037 | \$7,058 | 57% |
| Illinois (2006) | \$3,770 | \$7,166 | 53% |
| South Carolina (2006) | \$3,614 | \$7,350 | 49% |
| Minnesota (2006) | \$3,234 | \$6,921 | 47% |
| Michigan (2006) | \$3,120 | \$6,943 | 45% |
| Pennsylvania (2006) | \$3,827 | \$8,729 | 44% |
| New Jersey (2006) | \$3,639 | \$8,664 | 42% |
| Ohio (2006) | \$3,552 | \$8,489 | 42% |

Use of Loans in the Financial Aid Process

- ❑ Should a reasonable student loan level be assumed in SCHEV's calculations?
- ❑ Should the State consider developing a subsidized loan program through private financial institutions as part of its student aid?
 - With limited dollars to apply to both base adequacy and student financial aid, would this allow the state to direct dollars to keeping tuition low while allowing providing access to greater resources to finance education especially for students who do not qualify for grant aid

Other Options for State Financial Aid Programs

- ❑ Should the State develop a **merit-based scholarship program** for students with **demonstrated financial need**?
 - Potential partnership with the Virginia College Savings Plan
- ❑ Should Virginia move to a flat grant amount program similar to other states
 - Would need to resolve several items such as:
 - ❑ Grant amount
 - ❑ 4-year vs. 2-year
 - ❑ Full-time vs. part-time
 - ❑ Academic progress
 - ❑ Length of time for eligibility