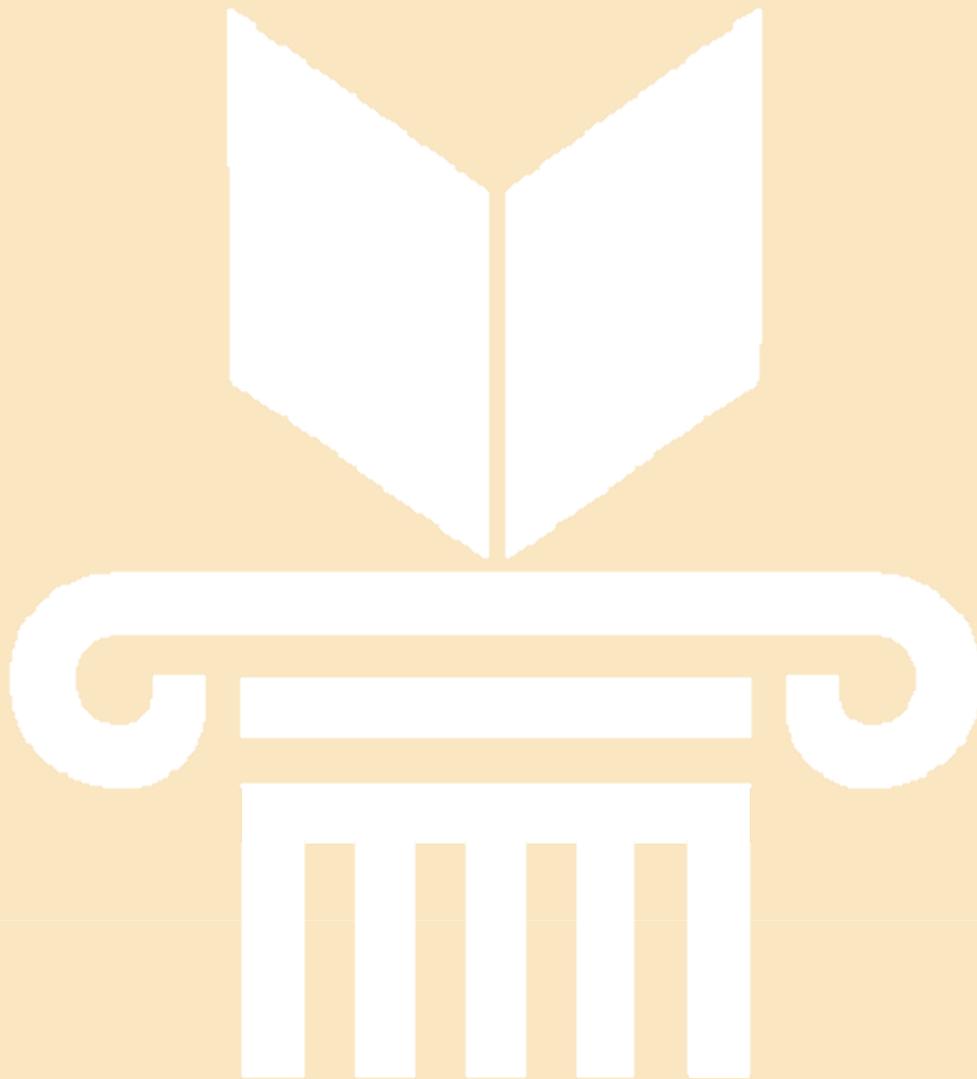


October, 2010

SCHEV Review of the Funding Model for Student Financial Assistance



State Council of Higher Education for Virginia
Advancing Virginia through Higher Education

SCHEV Review of the Funding Model
for
Student Financial Assistance

October 26, 2010

The 2010 Acts of the Assembly, Chapter 874, directs the State Council of Higher Education for Virginia (SCHEV) to conduct a study on state financial aid. Specifically, the directive is as follows:

- M.1. The State Council of Higher Education for Virginia shall review funding requirements for student financial assistance and examine:
- a) The costs of education used to determine student need by category;
 - b) The use of cost allowances and their impact on financial aid;
 - c) Gift aid received by students and expected family contribution and their application in the financial process; and
 - d) The impact on financial aid requirements of alternative financial aid methodologies.

2. The State Council of Higher Education for Virginia shall communicate the results of this study to the Chairmen of the House Appropriations and Senate Finance Committees and the Director, Department of Planning and Budget, by October 1, 2010.

In support of this directive, SCHEV conducted a series of meetings with representatives from each public four-year college or university, Richard Bland College, and representatives from the Virginia Community College System. In addition to SCHEV and institutional staff, the meetings were widely attended by other central agency representatives including staff from the House Appropriations Committee, the Senate Finance Committee, the Secretary of Education's office, and the Department of Planning and Budget. These meetings focused on the administration of state financial aid, especially the creation and use of the Cost of Attendance (COA) budget. SCHEV also contacted seven states to determine how their primary state need-based aid program is funded and awarded to students. These states are Indiana, Kentucky, Maryland, Minnesota, North Carolina, Oregon, and Washington.

SCHEV also reviewed a financial aid funding proposal considered by the Virginia House of Delegates during the 2010 session of the General Assembly.

a) The costs of education used to determine student need by category

The federal government standardized the elements and definitions of COA in order to provide nationwide consistency in the administration of federal student financial assistance programs. Included in these programs are the federal Pell grant, Supplemental Education Opportunity Grant, federal student loans, and federal work study, among others.

The 2009-10 federal student aid handbook – Vol. 3, Chap. 2, “Cost of Attendance (Budget)” (www.ifap.ed.gov/fsahandbook/attachments/0910FSAHbkVol3Ch2Sept30.pdf) - states that these costs are “...the cornerstone of establishing a student’s financial need...” and intended to reflect “...an estimate of that student’s educational expenses for the period of enrollment.” While states and institutions have the prerogative to establish a separate COA or alternative need-based formula for their own programs, most that use a COA vary little from the federal formula when determining state or institutional awards for an individual student.

The federally sanctioned COA elements include:

- The normal Tuition & Fees (includes both instructional and non-instructional) assessed for a given academic workload;
- An allowance for Room and Board (including “on-campus,” “off-campus,” and “living with parents”); and
- Allowances for books, supplies, transportation, and personal expenses.

Allowances for dependent care, obtaining a professional license, study abroad, disabilities, and student loan fees are also permitted, but are generally granted by the institution on a case-by-case basis. The amount used for each COA item is either the actual cost borne by the student or an allowance as determined by the institution using a methodology also determined by the institution.

While some of the elements are readily recognized as an educational expense to the student (Tuition & Fees, books), other elements are included in recognition that life costs do not cease while a student is enrolled. If these costs are not considered, many low-income students would be unable to pursue higher education. These elements take into account the opportunity cost of pursuing a college degree as a student’s ability to find employment is greatly reduced during periods of enrollment. For many low-income families, the student’s employment is a necessity in order to meet monthly household expenses.

Also of note is the allowance for “living with parents.” Federal methodology for determining a family’s ability to pay for college (resulting in the Expected Family Contribution, or EFC) assumes a minimum living allowance depending on the size of the family, but reduces that allowance by approximately \$2,700 for each additional family member enrolled in college. In this way, double counting a student’s living expenses is reduced (the “family living allowance” within the EFC calculation and as a part of Room & Board in the COA) by moving a portion of the student’s living allowance from the household budget to an educational cost.

For example, a family of four with one in college has a living allowance of \$24,970 for FY11. But if two are enrolled into college, the living allowance for the family is reduced to \$22,190. The living costs are picked back up in the COA budget line under Room & Board. If this budget cost were set to zero, those students would be at a disadvantage in relation to other students who also have their housing cost reduced within their EFC calculation but have on-campus or off-campus Room & Board cost assumptions built into their COA budget.

Virginia institutions utilize a variety of methods for determining the amounts used in the COA. Tuition & Fees and on-campus Room & Board are determined by the respective Boards of Visitors, while the indirect costs (off-campus Room & Board, transportation and personal expenses) are based on allowances determined by using one or more of the following:

- average regional indirect cost reported by the College Board,
- average indirect cost reported by the College Scholarship Service,
- college cost guides,
- periodic survey of institution bookstore averages,
- periodic survey/review of local living and transportation costs,
- periodic survey of students, or
- the Consumer Price Index from the Bureau of Labor and Statistics, which is commonly used to determine indirect cost increases during years when a survey is not conducted.

Variances among the institutions' COA items are primarily due to differences in:

- 1) location of the institutions (cost of living, urban vs. rural, etc.),
- 2) methodology in determining allowances (regional vs. student-specific surveys, source of information, frequency of updates, etc.), and
- 3) typical program costs (differences in number of classes in the hard sciences, computer requirements, etc.).

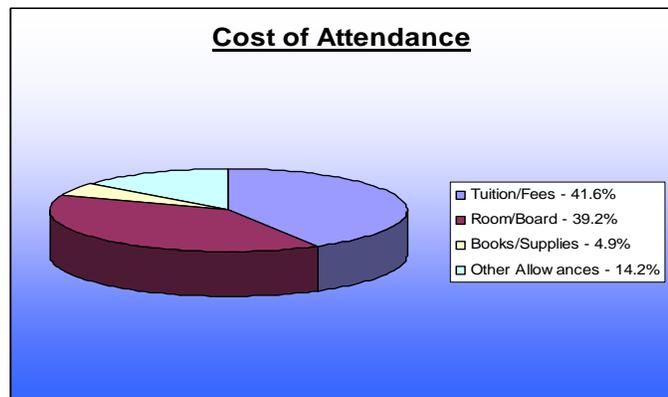
A spreadsheet listing the actual COA used by each public institution to determine need-based awards for 2010-11 can be found in Addendum A. Note that the spreadsheet lists a maximum of three COA calculations per institution, but each college could maintain a unique COA for each degree program, which can result in several dozen student COAs in actual use.

b) The use of cost allowances and their impact on financial aid

Virginia's colleges and universities use the institutionally calculated COA for determining student need and making individual student awards. For making financial aid (undergraduate funds appropriated under program 108, also known as Virginia Student Financial Assistance Programs - VSFAP) funding recommendations, SCHEV averages the institutions' COA for indirect costs by sector (four-year and two-year) so that the differences in aggregate need among the institutions directly correlate to each institution's direct costs and the unique individual characteristics – economics and enrollment patterns – of its student body.

With this state calculation, SCHEV attempts to standardize the COA while representing the educational costs incurred by the average student attending a Virginia public institution. SCHEV uses only three COA calculations per institution based on student housing. The average COA costs for students "living on campus" at the four-year institutions are as follows:

Tuition & Fees:	\$8,782
Room & Board:	\$8,284
Books/Supplies:	\$1,043
Other Allowances:	<u>\$3,375</u>
Total:	\$21,484



After building the COA for each individual student, SCHEV's current funding model, known as the Partnership Model, reduces the COA by 30 percent. This reduction acknowledges that there is an amount of the COA that is "not the state's responsibility" and recognizes that there are many partners with an interest in supporting higher education, including federal and state governments, business, private organizations, and the student's family.

<p>Cost of Attendance</p> <ul style="list-style-type: none"> - 30% of COA - EFC - Gift Aid = Student Need <ul style="list-style-type: none"> • Restrict to Tuition and Fees • Aggregate for institution
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Note that the size of the discount is arbitrary. This will be addressed later when reviewing the appropriation methodology utilized by other states, but the principle used across the country is consistent in that there is some sort of "offset" or "set aside" to any student-need calculation for purposes of determining state funding.

Note that under the Partnership Model, the principal driver of student need is the COA (used twice in the formula), while the EFC and gift aid are only slightly less important. The greater the COA, the more "need" a student is likely to demonstrate and vice versa.

c) Gift aid received by students and expected family contribution and their application in the financial process

Financial aid can be broken into two distinct types: self-help and gift aid. Self help, as the name denotes, includes programs that create opportunities for the student to do more to help themselves. Work-study and student loans are typical examples.

Gift aid can be need-based, merit-based, residency-based, or some combination of these and other criteria. Though these grants and scholarships often require a student to meet certain criteria at the time an award is made (demonstrating financial need or meeting a specific grade point average) or require specific activities during the term (participation on an athletic team or in the arts), they do not place a requirement or responsibility upon the student after the term is completed. They are often referred to as “free money.”

When an institution determines individual student awards, gift aid is typically processed first and self help is awarded only if a student still demonstrates financial need. Federal rules, which most programs (including state aid from Virginia) also adopt, restrict a combination of self help and gift aid to no more than a student’s COA. Though need-based grants can also be impacted, any additional gift aid received after the initial award process typically results in a reduction in a student’s loan or work-study eligibility.

The EFC is federally calculated based on information provided annually by the student on their Free Application for Federal Student Aid (FAFSA). The EFC is based on family income and assets, allowances based on parental age and the number of people in the family or in college, and other factors. The resulting EFC is a theoretical amount that a family should have available for educational costs. A full explanation of the methodology can be found on the federal website: www.ifap.ed.gov/efcformulaguide/attachments/111609EFCFormulaGuide20102011.pdf.

After the initial 30 percent reduction of the COA mentioned in the preceding section, Virginia’s Partnership Model further reduces student costs by subtracting the full EFC and gift aid; including most grants and scholarships regardless of the source, but not loans, work study, or assistance from institutional endowments (per state law). Below is an example of how the model works for fictional ABC University. A more detailed summary of how the VSFAP funding formula, the Partnership Model, is designed can be found in Addendum B.

ABC University has a total COA of \$21,000 and just two students enrolled; one is Pell eligible, while the other is not.

Base Data:

<u>ABC University</u>
\$8,600 Tuition & Fees
\$1,000 Books/Supplies
\$8,200 Room & Board
<u>\$3,200</u> Other Allowance
\$21,000 COA

<u>Student A</u>	<u>Student B</u>
\$7,000 EFC	\$2,000 EFC
\$3,000 Gift Aid	\$2,000 Pell
	\$1,000 Gift Aid

Under the Partnership Model, the calculation begins with the full COA reduced by 30 percent for four-year institutions along with each student's full EFC and all gift aid. The remaining balance cannot exceed the original cost of Tuition & Fees.

Need Calculations:

<u>Student A</u>	<u>Student B</u>
\$21,000 COA	\$21,000 COA
- \$6,300 30% COA reduction	- \$6,300 30% COA reduction
- \$7,000 EFC	- \$2,000 EFC
- \$3,000 Gift Aid	- \$2,000 Pell
<u>= \$4,700 Student Need</u>	<u>- \$1,000 Gift Aid</u>
Already less than Tuition & Fees, no adjustment necessary	= \$9,700 Student Need
	\$8,600 Adjust down to Tuition & Fees

In the example above, Student A is calculated to have \$4,700 of student need, while Student B has \$9,700. However, since the VSFAP award can typically only award up to Tuition & Fees, all student need is reduced to no more than that amount for each institution. As a result, only \$8,600 of need is recognized for Student B and the aggregate need for this institution of two students is \$13,300. For 2009-10, the state met approximately 60 percent of the total need identified under the Partnership Model, which would equate to \$7,980 for this fictional institution.

<u>ABC University</u>	
Student A =	\$4,700
Student B =	\$8,600
Total Need =	\$13,300

The 30 percent reduction of COA accounts for much of the reduction of student need. Due to the way the formula is designed, most of the student's resources are counted against the student's remaining books and supplies, Room & Board, and other allowances before they are counted against a student's Tuition & Fees. As a result, the amount of need recognized under the state funding recommendations may equal full Tuition & Fees for high-need students, such as Student B.

Looking again at Student B, there is a great deal of need not recognized by the formula: \$6,300 due to the 30 percent reduction and \$1,100 due to reducing need to no more than Tuition & Fees. These costs can be met in a variety of ways:

1. **Self-help** – Students utilize loans from the federal government and private lenders or obtain work-study or other forms of employment.
2. **Increases from current sources** – It is anticipated that resources, including family contributions, federal, institutional, and other gift aid, will also increase in the future.
3. **Lifestyle choices** – Students find cost savings by cutting back in non-education related areas.
4. **Reduced cost of attendance** – Students enroll part-time or otherwise might not incur the full estimated allowance for indirect costs.
5. **Hidden gift aid** - Students may receive assistance from other resources not reported to the college. A gift from a relative or church may be simply recorded by the institution as a student payment. Student and parent payments in excess of the EFC are not included in the student need calculations.

6. **Endowments** – Some students receive support from institutional endowments (private donations administered by the institution). By law, these are not included in institutional funding calculations.

As commonly understood, the purpose of the federal EFC calculation is to determine the student's and parent's ability to pay for educational costs; however, the formula is used primarily to support federal education funding goals (e.g. the policy to grant an automatic zero EFC to students meeting specific criteria) and is not always current (e.g. just recently the state income tax table was updated for the first time in approximately 20 years). Future decisions regarding the simplification of the FAFSA could further erode the reliability of the EFC calculation to accurately estimate a family's ability to pay for their child's education.

Finally, although the EFC is treated equally with gift aid in the funding and need calculations, it is theoretical in that some families may choose not to contribute financially to their student's education and strong anecdotal evidence suggests that many families are unable to pay out-of-pocket in the amount of their EFC, relying on unsubsidized student loans instead. For these reasons, grants and scholarships are more reliable funding for the student. An alternative treatment within a funding model might include only a percentage of the EFC in the calculation. Further analysis would be needed to determine the viability of this change and the correct percentage to use.

d) The impact on financial aid requirements of alternative financial aid methodologies

As part of this study, SCHEV reviewed state undergraduate grant aid as reported in the "38th Annual Survey Report on State-Sponsored Student Financial Aid" produced by the National Association of State Student Grant & Aid Programs (NASSGAP). This report on 2008-09 state financial aid can be obtained at <http://www.nassgap.org/>.

According to the report, need-based grant aid is universally available with 52 out of 52 "states" (the 50 states, Puerto Rico, and Washington DC, henceforth collectively referred to simply as the "states") maintaining a program that is referred to as primarily "need based." The term "need-based" aid is defined by the NASSGAP survey as "the recipient must meet some standard of need using such measures as EFC, remaining costs, or maximum income to be eligible for an award."

The category "non need-based aid" is available in 41 states and includes any program where financial need is not a requirement. These include merit-based programs (such as Georgia's Helping Outstanding Pupils Educationally Scholarship, commonly referred to as the Georgia HOPE Scholarship) as well as residency-based programs (such as the Virginia Tuition Assistance Grant Program). Of the 41 states, 30 have programs based solely on merit.

Just 12 states have non need-based programs whose total funding exceeds the total funding of their need-based programs. In the 10 year period between FY1999 and FY2009, non need-based aid grew at twice the rate of need-based grant aid (105.4% vs. 230.4%), but need-based grant aid still represents well over twice the dollars as non need-based grant aid (\$6.1 billion vs. \$2.4 billion). A number of states have programs that combine both need-based and merit criteria.

Not specifically identified in the NASSGAP report is another growing type of financial aid program commonly referred to as an "Early Commitment Program." These programs identify students while they are still in middle or high school and provide a specific financial aid or college admission guarantee in exchange for the student making a commitment to pursue higher education, maintain a minimum grade point average, take specific academic programs, and/or maintain overall good behavior.

SCHEV identified seven states to review for examples of state need-based grant funding methods. Selected based on regional affiliation and national diversity, those states are Indiana, Kentucky, Maryland, Minnesota, North Carolina, Oregon, and Washington.

Virginia employs a standard student-need calculation using COA (based primarily on the institutional calculations), the federally calculated EFC, and actual student gift aid. When calculating program funding goals the sample states calculate student need as follows:

- Indiana – a percentage of Tuition & Fees less the EFC
- Kentucky – Pell eligibility
- Maryland – standard student-need calculation based on COA
- Minnesota – state modified student-need calculation based on COA
- North Carolina – state modified student-need calculation based on COA

- Oregon - state modified student-need calculation based on COA
- Washington – income based

Because of the variety of methods used to identify a student with need, there is no strong correlation between the recipients of one state compared to another. Most of the programs would include Pell-eligible students, while some identify students with family incomes up to \$100,000 or more; large families or those that have multiple children in college.

Once eligible students are identified, the selected states each have a unique approach and calculation for determining the state award. Each formula also adds an arbitrary “set aside” that minimizes or reduces the resulting state award or funding goal. By comparison, Virginia’s 30 percent reduction of the COA (resulting in approximately a \$6,300 reduction from a sample \$21,000 COA) is in the lower end of the amount of need set aside or discounted and so, by extension, its resulting funding recommendations will tend to be higher on a per student basis.

Each state has its own methodology for determining program funding levels or individual student awards:

- Indiana bases its plan on family contribution and the state award meeting a percentage of Tuition & Fees (based on the student’s high school academic record). All other costs and student resources are ignored.
- Kentucky makes no determination of student need or of meeting a percentage of COA or Tuition & Fees. They provide a flat award to all eligible students, which is reduced based on enrollment level only.
- Maryland uses a standardized formula to determine student need, but has a goal of only meeting a percentage of the calculated need: 40 percent for most institutions and only 60 percent for public two-year colleges.
- In Minnesota, the availability of state funds plays heavily in how the state adjusts its grant formula. Depending upon funding, the state can adjust the student share (currently at 46 percent), the family contribution (various percentages assigned), the Tuition & Fee target, and the standard living & miscellaneous expense number.
- North Carolina adjusts the family EFC based upon an internal formula, resulting in a higher EFC than the federally calculated number. In addition, the state takes into consideration the estimated federal tax credit (about \$950) and a self-help allowance of \$4,500 (assumed to be covered by work or loans).
- Oregon assigns a student share based on the expectation of work during the fiscal year (about \$4,698), \$3,000 in student loans, federal tax credit, and an additional reduction based on a percentage of EFC.
- Washington does not compute student financial need and so ignores cost of attendance. Instead, its goal is to assist students from specific income brackets with a percentage of Tuition & Fees; however, total state assistance cannot exceed 75 percent of the student’s COA.

As seen above, each state has a formula or practice that sets aside a portion of the student’s COA when determining awards or funding goals. In some cases student resources are also ignored. The amounts set aside are mostly arbitrary based on the goals of each state and availability of funds; for example Minnesota can adjust

the student share and the Tuition & Fee target according to the availability of state funds so that the final student need can be fully funded.

The financial aid strategies among the seven states essentially boil down to three different types:

1. A flat state grant mirroring the federal Pell grant.
2. A tuition-centric program that considers only Tuition & Fees (E&G and non-E&G), while ignoring other educational costs. This model also ignores most forms of financial assistance and student resources.
3. A full-cost model that starts with a calculation that includes recognition of costs other than just Tuition & Fees and most forms of gift assistance.

It is not within the time or scope of this paper to conduct an accurate comparison of the methodologies amongst the states because of the number of factors involved. Differences in the states' economies and average family income, percentage of jobs requiring a college degree, state funding of higher education, goals for financial aid, etc., would each have to be factored into the equation along with financial aid support.

Below is a table showing basic requirements and statistics for each state's primary need-based grant program so that their respective differences and some of the possible options available to Virginia can be better understood.

 <p style="text-align: center;"><u>Indiana</u></p> <p>Eligibility criteria:</p> <ul style="list-style-type: none"> • State resident • Public or private institution • Full-time enrollment • High school academics (see below) <p>Award formula:</p> <p>Prior year tuition or a designated tuition cap (based on available funds)</p> <p>x by a percentage based on academics (detailed below)</p> <p>– <u>Ability to Pay</u></p> <p>= State Award</p> <p>Percentage multiplied is:</p> <ul style="list-style-type: none"> • 100% for Academic Honors graduates (minimum 3.0 GPA) • 90% for Core 40 graduates (minimum 2.0 GPA) standard diploma • 80% for all other students <p>Ability to Pay is:</p> <ul style="list-style-type: none"> • Parent contribution for dependent students • EFC for independent students <p>2006-07 Statistics:</p> <ul style="list-style-type: none"> • 48,408 recipients • 2008-09 average Tuition & Fees for comprehensive university = \$7,334 • Average award = \$3,375 	 <p style="text-align: center;"><u>Kentucky</u></p> <p>Eligibility criteria:</p> <ul style="list-style-type: none"> • State resident • Public or private institution • At least half-time enrollment • Pell eligible • First baccalaureate degree <p>Award formula:</p> <p>Pell eligible students enrolled full-time receive \$1,900; which is pro-rated based on the enrollment level.</p> <p>2006-07 Statistics:</p> <ul style="list-style-type: none"> • 38,970 recipients • Average 2008-09 Tuition & Fees = \$6,316 • Average award = \$1,530
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Maryland

Eligibility criteria:

- State resident
- Public or private institution
- Full-time enrollment

Award formula:

- COA (institution determined)
- EFC
- +/- COL adjustment by zip code
- Pell grant and other known awards
- = Adjusted Need

Multiplied by:

- 40% for 4-year institutions
- 60% for 2-year institutions

2006-07 Statistics:

- 26,992 recipients
- 2008-09 average Tuition & Fees = \$7,598
- Average award = \$2,243

FY2009:

\$62,010,901 for 28,194 recipients
 Average = \$2,199;
 Range = \$400 to \$3,000



Minnesota

Eligibility criteria:

- State resident
- Public or private institution
- Enrolled in as little as 3 credit hours

Award formula:

- Average Tuition & Fees (uniform number per institution)
- + standard living & miscellaneous expense allowance: about \$7,000 for 9-month year
- = State Grant Budget

State grant budget

- X 46% (student share)
- family contribution (96% of parent contribution for dependent students; 86% EFC for independent students w/ dependents; 68% of EFC for independent students w/no dependents)
- Pell grant
- = State Award.

2006-07 Statistics:

- 80,182 recipients
- 2008-09 average Tuition & Fees = 6,083
- Average award = \$1,947



North Carolina

Eligibility criteria:

- State resident
- 4-year public institutions only
- Half time or more enrollment
- Financial need

Award formula:

- Tuition & Fees
- + standard living allowance
- state calculated EFC (tends to be higher than the federal calculation; parent contribution for dependent students and EFC for independent students)
- est. tax credit (\$950 min.)
- \$4,500 self help
- = State Award

2006-07 Statistics:

- \$133 million for 61,500 recipients
- 2008-09 average Tuition & Fees = \$3,967
- Average award = \$2,156



Oregon

Eligibility criteria:

- Public and private non-profit institutions
- Max income of \$70,000 (current formula drops this to \$40,000)

Award formula:

- COA
- student share (based on 90% of 15hrs/wk @ Oregon minimum wage for 48 weeks - \$4,698)
- \$3,000 in loans (for 4-year only)
- EFC
- Federal Share (Pell and assumed tax credit)
- Additional EFC reduction: 19% of EFC
- = State Share

State share can be capped: \$3,200 for students at 4-year institutions in FY10; Will be capped at \$1,950 FY11.

2006-07 Statistics:

- FY10: \$76.7 million for 43,100 recipients
- 2008-09 average Tuition & Fees = \$6,106
- Average award = \$1,779



Washington

Eligibility criteria:

- State resident
- Public or private institutions
- Enrolled in at least 3 credit hours
- Financial need
- Student is classified as at least one of the following:
 - Meets income cutoff
 - Considered a disadvantaged student
 - Participant in foster care system
- Income cutoff: percentage of Median Family Income (the percent can vary, but is currently at 70% or \$54,500 for family of four in Washington). Those at 50% or lower get full award; those at more than 50% receive a percentage.

Award formula:

Find family of four income

- \$39,000 and below: multiply Tuition & Fees by 100%
- \$39,001 to 42,500: multiply Tuition & Fees by 70%
- \$42,501 to 46,500: multiply Tuition & Fees by 65%
- \$46,501 to 50,500: multiply Tuition & Fees by 60%
- \$50,501 to 54,500: multiply Tuition & Fees by 50%

EFC, loans, work study, veteran's benefits, grants, scholarships, federal, unmet need, etc., must total at least 25% of all assistance

2006-07 Statistics:

- 66,364 recipients
- 2008-09 average Tuition & Fees = \$4,819
- Average award = \$2,518

Notes:

- The term "private institutions" includes for-profit unless otherwise noted.
- 2008-09 Tuition & Fee numbers from "2008-09 Tuition and Fee Rates: A National Comparison" by the Washington Higher Education Coordinating Board, March 2009 (<http://www.hecb.wa.gov/research/issues/documents/TAB6.TuitionandFees2008-09Report-FINAL.pdf>)
- All other information obtained by SCHEV state survey in August 2010.

Review of Virginia House of Delegates Proposal

In 2010, the Virginia House of Delegates proposed an alternative formula for determining state VSFAP funding that is based upon funding instructional costs (tuition, E&G fees, and a book allowance). The specific language is as follows:

- M.1. The State Council of Higher Education for Virginia shall determine funding requirements for student financial assistance using the following methodology:
- a. The instructional cost of education for a student will be based on tuition, mandatory educational and general enrollment and course fees, and a book allowance. The student life cost of education for a student will be based on mandatory non-E & G fees, actual on-campus room and board or an allowance not to exceed actual on-campus room and board for students living off campus except for those students living with parents, and other actual expenses, not allowances, associated with their education.
 - b. All gift aid received by the student shall be allocated proportionally between the instructional cost and the student life cost of education determined in paragraph M.1.a.
 - c. Expected Family Contribution (EFC) shall be allocated proportionally between the instructional cost and the student life cost of education determined in paragraph M.1.a.
 - d. State financial aid shall not exceed tuition, mandatory educational and general enrollment and course fees, plus a book allowance less the proportional allocation of gift aid and EFC.

Under this format, a percentage of the student's EFC and gift aid is applied to the calculated instructional costs. The balance of the remaining aggregate instructional cost then becomes the state appropriation to the institution. This proposal resembles a tuition-centric model as opposed to the full-cost model Virginia currently employs.

Taking the earlier examples of the funding model on page 5, this proposal would result in the following calculations for instructional costs and student life costs:

Base Data:

ABC University Data	Instructional Costs	Student Life Costs
\$6,800 Tuition, E&G Fees	\$6,800 Tuition, E&G Fees	\$0 Tuition, E&G Fees
\$1,800 Non E&G Fees	\$0 Non E&G Fees	\$1,800 Non E&G Fees
\$1,000 Books / Supplies	\$1,000 Books / Supplies	\$0 Books / Supplies
\$8,200 Room & Board	\$0 Room & Board	\$8,200 Room & Board
\$3,200 Other Allowance	\$0 Other Allowances	\$0 Other Allowances
\$21,000 COA	\$7,800 Instructional Costs	\$10,000 Student Life Costs

Note that fees are separated under this model with E&G fees considered to be an instructional cost while non-E&G fees (athletic fees, student center, etc.) are considered a student life cost. Other allowances – personal, travel, etc. - are excluded from the formula for purposes of determining funding for institutions.

The formula calls for a calculation to determine what percentage of the total costs recognized within the calculation come from instructional costs (reminder: other allowances are set aside).

For ABC University, the \$7,800 in Instructional Costs makes up about 43.8 percent of the \$17,800 in total costs recognized by the formula. This percentage is important for the next step of the process where a portion of resources – EFC and gift aid – are then assigned to instructional costs. Under this example, each student’s total EFC and gift aid is multiplied by 43.8 percent (note the calculation and percentage will be different for each institution and even vary by student) and the resulting number is subtracted from the instructional costs to determine the adjusted student need as follows:

\$7,800 Instructional Costs
<u>\$10,000 Student Life Costs</u>
\$17,800 Total

Student Data:

Student A
\$7,000 EFC
\$3,000 Gift Aid
Student B
\$2,000 EFC
\$2,000 Pell
\$1,000 Gift Aid

Need Calculations:

Student A	Student B
\$7,800 Instructional Costs	\$7,800 Instructional Costs
- \$3,067 43.8% of EFC	- \$876 43.8% of EFC
- <u>\$1,315 43.8% of Gift Aid</u>	- \$876 43.8% of Pell
= \$3,418 Adjusted Student	- <u>\$439 43.8% of Gift Aid</u>
Need	= \$5,609 Adjusted Student
	Need

Under the House Proposal, the aggregate student need for the institution drops from \$13,300 in the earlier example to just \$9,027. Since state financial aid is funded under the Partnership Model at 60 percent for FY10, the equivalent current funding for ABC University is \$7,980. So, if adopted, the state would be funding a higher percentage of need under the House Proposal and be closer to meeting full funding.

ABC University
Student A = \$3,418
<u>Student B = \$5,609</u>
Total Need = \$9,027

The difference in funding between the two formulas is primarily the result of three components within the House Proposal:

1. Substitution of the typically lower cost of books and supplies in place of non-E&G fees produces a lower maximum award. While that might not affect students with moderate amounts of need, it does reduce the amount of need the neediest student can demonstrate and; therefore, will lower the aggregate amount of need for an institution.
2. Assigning a percentage of all gift aid and EFC to the instructional costs ensures that a portion of these resources are always covering the maximum award. This further reduces the maximum need calculated per student as none of the individual calculations (all students in the formula have, at minimum, either a positive EFC or Pell grant award) would produce a need amount equal to the full instructional costs.
3. Removal of Room & Board expenses for students “living with parents” significantly changes the distribution of student resources with a far greater share assigned to instructional costs. This will drive more student resources to instructional costs and reduce the final calculated need.

Preliminary analysis indicates the following but it should be emphasized here that the formula is intended only to determine institutional funding and is not intended to be used to determine actual awards to individual students.

1. The proposal would least affect institutions having low non-E&G fees. Under the proposal, the maximum award is adjusted by subtracting non-E&G fees and adding a book allowance. For some institutions, that substitution of costs is minimal and so the maximum award is not significantly impacted.
2. Institutions most affected are those having low tuition and E&G fees coupled with relatively high non-E&G fees. Once non-E&G fees are removed in favor of a book allowance, the maximum award for these institutions is reduced more so than other institutions. If that institution also has a relatively low tuition and E&G fee, the reduction, as a percentage, is even greater.
3. As described above, the exclusion of the Room & Board costs for students "living with parents" drives down need under the formula. Those institutions having a higher percentage of their enrollment "living with parents" would be most impacted.
4. Increases in any of the cost components within the formula increases the final aggregate need calculations with instructional costs having a larger impact than student life costs. An increase in non-E&G fees or Room & Board costs would raise the percentage of resources assigned to student life costs. This will cause fewer resources to be counted against instructional costs and raise the calculated need; meanwhile, increases in tuition or E&G fees raise the maximum award.

Further analysis is needed in order to determine the actual impact of the proposal on each institution. If the proposal retained non-E&G fees within the maximum award and "living with parents" Room & Board within the student life costs, many of the institutional differences identified above are likely to be minimized or eliminated.

Summary findings:

Cost of Attendance

Virginia's current VSFAP funding formula, the Partnership Model, is a full cost formula that uses projected institutional Tuition & Fees for a given year and standardizes the indirect costs estimated by the institution. The indirect costs - off-campus Room & Board, transportation and personal expenses - are averaged by sector using actual institutional budgets. Indirect expenses are an important consideration since these expenses continue while a student is enrolled and has reduced opportunity for employment.

The formula is applied to actual data from the most recently available award year to take into account student enrollment patterns (full-time vs. half-time) and subtract resources (Expected Family Contribution, grants, scholarships, etc.). The formula also sets aside 30 percent of the Cost of Attendance with the expectation that there are other partners helping students. The resulting student need is then reduced to no more than Tuition & Fees. The results are aggregated by institution to arrive at the recommended funding levels for each institution.

Each institution's Cost of Attendance allowances for indirect costs can vary considerably due to differing methodologies and frequency of updates; however, they are consistent with federal regulations and many differences can be explained by each institution's unique regional, academic, and economic circumstances. By averaging the numbers for use in the funding formula, these differences are eliminated and the resulting aggregate institutional need is based primarily upon the Tuition & Fees and unique student characteristics at each institution. Because of the averaging already taking place, creation of a state-calculated indirect cost based on standardized methodology would prove to have limited value.

One factor receiving considerable attention is the indirect cost of Room & Board for students living with their parents. Some question whether this was a valid expense since students live with their parents before enrolling and so no real additional expense is incurred; however, federal methodology for calculating the Expected Family Contribution sets aside about \$2,700 in living expenses for each additional family member in college, including those living at home. If the Room & Board for "living with parents" were set to zero, these students would be at a disadvantage when calculating need.

One final consideration for change in the funding formula is the treatment of the EFC. Since this is a theoretical source of funding as opposed to the guaranteed dollars presented by a grant or scholarship, the state could consider a change in how the EFC is treated in funding calculations by not assigning it as much weight (i.e. use only a percentage of the EFC) as a grant or scholarship.

Funding Models & Other Financial Aid Options

There are a number of different models and strategies that can be employed when determining the appropriate award levels for students or funding allocations to institutions. Virginia employs a full-cost model while some states are more tuition-centric. Each of these models, full-cost or tuition-only, projects student need using

a combination of the educational costs and available resources to provide an equitable allocation of funds; with institutions having needier students receiving more funding than those with less need. These models are also responsive to changes in education costs; however, they make it difficult to predict state budgetary needs or an individual student award in advance.

A simpler model is the flat award system where all eligible students receive the same award. Costs can be contained by creating eligibility restrictions based on family income, student grade point average, and/or student behavior/activities. The model has some appeal in that budgeting for the state, as well as the specific award a student can expect to receive, is easier to predict than under other models. On the negative side, a flat award typically does not address overall access or affordability, the varying costs of attending one college over another, or attempt equitable distribution of resources.

If Virginia were to employ one of the other state aid funding models reviewed, or even a different variation of a full-cost model, the formula would likely result in a smaller budgetary recommendation than currently produced. However, the result is unlikely to mean a reduction in actual funding; rather the state would meet a higher percentage of a new funding goal.

Other financial aid models to consider include Early Commitment Programs where student eligibility criteria reach back into middle and high school. These programs are growing in popularity as they encourage the student to better prepare to enter college and complete their degree. This provides the state a better return on its investment and supports state enrollment and graduation goals. It also provides the student some assurance of an award in advance of enrollment.

These programs do not address "late bloomers" or students under-achieving in high school due to unusual circumstances so a separate state program would serve as a safety net for those who need a chance to qualify themselves, perhaps via a two-year college program. Since a commitment is made by the state, budgeting can become an issue. In order to control costs, many states with similar programs have resorted to increasing eligibility criteria or have reduced their financial assurance to the student.

Lastly, the state could consider a program of "shared risk" where the state plays the role of an investor in a student's education. A conditional grant or loan is provided to eligible students to assist with higher education. In return, the student repays all or a portion of the award based on a reasonable percentage of their actual income following graduation. While there are no current examples of a state program used in this manner as a grant, conceptually it would be similar to the federal government's new Income Based Repayment provision for student loan borrowers and would also work as a state loan program.

Virginia's current financial aid model provides a great deal of flexibility for the state and assistance to tens of thousands of low-income students. As other models are considered, there are varying degrees of choices to be made between a model that has budgetary flexibility or one that proactively supports specific state goals but as a result is more rigid in its funding requirements in order to be successful.

Addendum A

2010-11 Cost of Attendance Information (source: SCHEV S5 Report)

		Tuition	Fees	R/B	B/S	Personal	Trans.	Other 1	Other 2	Total
Four-Year Public Institutions										
Christopher Newport University	On-Campus	5,280	3,970	9,660	1,000	1,875	1,350	97	0	23,232
	With Parents	5,280	3,970	4,977	1,000	2,201	2,152	97	0	19,677
	Off Campus	5,280	3,970	9,660	1,000	1,875	1,350	97	0	23,232
College of William and Mary	On-Campus	7,523	4,665	8,684	1,100	1,250	500	0	0	23,722
	With Parents	7,523	4,665	2,050	1,100	1,250	1,000	0	0	17,588
	Off Campus	7,523	4,665	8,684	1,100	1,250	500	0	0	23,722
George Mason University	On-Campus	8,520	163	8,990	900	1,440	1,300	0	0	21,313
	With Parents	8,520	163	4,000	900	1,440	1,660	0	0	16,683
	Off Campus	8,520	127	12,030	900	1,440	1,660	0	0	24,677
James Madison University	On-Campus	4,182	3,678	7,700	900	1,984	1,924	34	0	20,402
	With Parents	4,182	3,678	3,672	900	1,984	1,924	34	0	16,374
	Off Campus	4,182	3,678	7,700	900	1,984	1,924	34	0	20,402
Longwood University	On-Campus	5,370	4,485	8,114	1,000	1,500	1,000	1,400	0	22,869
	With Parents	5,370	4,485	2,854	1,000	1,500	1,500	1,400	0	18,109
	Off Campus	5,370	4,485	8,114	1,000	1,500	1,500	1,400	0	23,369
University of Mary Washington	On-Campus	3,984	3,878	8,116	1,000	1,600	1,152	0	0	19,730
	With Parents	3,984	3,878	3,000	1,000	1,500	1,538	0	0	14,900
	Off Campus	3,984	3,878	7,730	1,000	1,600	1,538	0	0	19,730
Norfolk State University	On-Campus	2,859	3,468	8,296	1,600	1,790	1,547	0	0	19,560
	With Parents	2,859	3,468	3,095	1,600	1,790	1,547	0	0	14,359
	Off Campus	2,859	3,468	8,296	1,600	1,790	1,547	0	0	19,560
Old Dominion University	On-Campus	4,390	2,582	8,759	1,000	1,875	1,000	84	350	20,040
	With Parents	4,390	2,582	8,759	1,000	1,875	1,000	84	350	20,040
	Off Campus	4,390	2,582	8,759	1,000	1,875	1,000	84	350	20,040
Radford University	On-Campus	5,012	2,682	7,098	1,100	1,900	1,000	275	0	19,067
	With Parents	5,012	2,682	3,000	1,100	1,900	1,400	275	0	15,369
	Off Campus	5,012	2,682	7,098	1,100	1,900	1,400	275	0	19,467
University of Virginia	On-Campus	8,156	2,480	8,590	1,167	1,950	350	200	0	22,893
	With Parents	8,156	2,480	2,230	1,167	1,950	350	0	0	16,333
	Off Campus	8,156	2,480	9,000	1,167	2,270	350	0	0	23,423
UVA-Wise	On-Campus	3,910	3,284	8,300	802	1,254	832	0	0	18,382
	With Parents	3,910	3,284	1,964	802	1,254	1,384	0	0	12,598
	Off Campus	3,910	3,284	8,128	802	1,298	1,384	0	0	18,806
Virginia Commonwealth University	On-Campus	6,885	1,932	9,670	1,000	1,200	1,465	1,224	36	23,412
	With Parents	6,885	1,932	4,055	1,000	1,200	1,465	1,224	36	17,797
	Off Campus	6,885	1,932	9,670	1,000	1,200	1,465	1,224	36	23,412
Virginia Military Institute	On-Campus	6,024	6,304	7,132	775	1,750	400	0	0	22,385
Virginia State University	On-Campus	3,886	2,684	8,152	1,200	675	750	150	0	17,497
	With Parents	3,886	2,684	4,890	1,200	675	1,000	150	0	14,485
	Off Campus	3,886	2,684	8,152	1,200	675	750	150	0	17,497
Virginia Tech	On-Campus	7,400	2,100	7,000	1,100	1,000	1,300	2,500	100	22,500
	With Parents	7,400	2,100	7,000	1,100	1,000	1,300	2,500	100	22,500
	Off Campus	7,400	2,100	7,000	1,100	1,000	1,300	2,500	100	22,500
Four-Year Averages	On-Campus	5,559	3,224	8,284	1,043	1,536	1,058	653	45	21,484
	With Parents	5,526	3,004	3,968	1,062	1,537	1,373	710	45	16,915
	Off Campus	5,526	3,001	8,573	1,062	1,547	1,262	710	45	21,417

Notes: Averages for Other1 and Other2 do not include zeros

Other1 and Other2 include allowances for computers, loan fees, etc.

Fees = E&G and non E&G fees; R/B = Room and Board; B/S = Books and Supplies; Trans. = Transportation

Source: Reported by each institutional financial aid office as used for packaging 2010-11 financial aid during the initial spring award cycle. Because these numbers represent the tuition and fees actually used for determining financial aid awards, they are not updated with the final Tuition & Fees approved by the respective Board of Visitors.

2010-11 Cost of Attendance Information (source: SCHEV S5 Report)

		Tuition	Fees	R/B	B/S	Personal	Trans.	Other 1	Other 2	Totals
Two-Year Public/Community Colleges										
Richard Bland College	On-Campus	2,770	1,138	10,650	1,200	1,996	1,041	0	0	18,795
	With Parents	2,770	514	8,300	1,200	1,996	1,445	0	0	16,225
	Off Campus	2,770	514	9,300	1,200	1,996	1,445	0	0	17,225
Blue Ridge	With Parents	3,000	300	3,300	1,000	1,900	2,800	0	0	12,300
	Off Campus	3,000	300	6,500	1,000	1,900	2,800	0	0	15,500
Central Virginia	With Parents	3,038	126	2,324	1,200	2,138	2,578	0	0	11,404
	Off Campus	3,038	126	4,624	1,200	2,794	2,578	0	0	14,360
Dabney S. Lancaster	With Parents	2,897	203	3,602	1,098	1,816	1,444	0	0	11,060
	Off Campus	2,897	203	7,204	1,098	1,996	1,444	0	0	14,842
Danville	With Parents	2,815	185	3,000	900	1,900	2,800	0	0	11,600
	Off Campus	2,815	185	6,000	900	1,900	2,800	0	0	14,600
Eastern Shore	With Parents	2,646	210	1,500	950	1,568	2,560	0	0	9,434
	Off Campus	2,646	210	4,882	950	1,568	2,560	0	0	12,816
Germanna	With Parents	2,424	210	3,400	900	3,000	2,146	0	0	12,080
	Off Campus	2,424	210	6,750	900	3,000	2,146	0	0	15,430
J. Sargeant Reynolds	With Parents	2,300	310	3,500	1,200	1,900	1,380	0	0	10,590
	Off Campus	2,300	310	7,340	1,200	1,900	1,380	0	0	14,430
John Tyler	With Parents	2,626	219	4,500	1,098	1,996	1,445	0	0	11,884
	Off Campus	2,626	219	7,202	1,098	1,996	1,445	0	0	14,586
Lord Fairfax	With Parents	2,740	460	5,800	1,600	1,388	3,072	0	0	15,060
	Off Campus	2,740	460	5,800	1,600	1,388	3,072	0	0	15,060
Mountain Empire	With Parents	2,818	238	2,600	1,000	1,300	3,500	3,000	0	14,456
	Off Campus	2,818	238	2,600	1,000	1,300	3,500	3,000	0	14,456
New River	With Parents	2,850	250	4,000	1,300	1,600	2,700	0	0	12,700
	Off Campus	2,850	250	4,000	1,300	1,600	2,700	0	0	12,700
Northern Virginia	With Parents	3,285	185	3,430	1,600	4,166	2,548	26	0	15,240
	Off Campus	3,285	185	6,796	1,600	4,814	2,548	26	0	19,254
Patrick Henry	With Parents	3,005	220	2,864	972	2,292	1,426	0	0	10,779
	Off Campus	3,005	220	6,970	972	2,542	1,426	0	0	15,135
Paul D. Camp	With Parents	2,828	210	8,129	1,489	1,002	2,400	0	0	16,058
	Off Campus	2,828	210	8,129	1,489	1,002	2,400	0	0	16,058
Piedmont Virginia	With Parents	2,847	285	3,000	1,077	1,908	2,300	0	0	11,417
	Off Campus	2,847	285	6,920	1,077	1,908	2,300	0	0	15,337
Rappahannock	With Parents	3,118	216	5,200	1,098	2,168	3,200	0	0	15,000
	Off Campus	3,118	216	5,200	1,098	2,168	3,200	0	0	15,000
Southside Virginia	With Parents	3,030	270	2,100	1,215	2,469	3,027	0	0	12,111
	Off Campus	3,030	270	5,247	1,215	2,469	3,027	0	0	15,258
Southwest Virginia	With Parents	2,894	196	2,800	1,000	950	3,140	750	0	11,730
	Off Campus	2,894	196	2,800	1,000	950	3,140	750	0	11,730
Thomas Nelson	With Parents	2,424	193	5,874	1,300	1,996	1,446	0	0	13,233
	Off Campus	2,424	193	7,874	1,300	1,996	1,446	0	0	15,233
Tidewater	With Parents	2,626	854	3,578	1,500	772	1,260	0	0	10,590
	Off Campus	2,626	854	6,728	1,500	882	1,260	0	0	13,850
Virginia Highlands	With Parents	2,768	202	3,200	1,000	1,730	3,200	0	0	12,100
	Off Campus	2,768	202	3,200	1,000	1,730	3,200	0	0	12,100
Virginia Western	With Parents	2,884	448	2,700	1,500	1,500	2,500	0	0	11,532
	Off Campus	2,884	448	6,588	1,500	1,500	2,500	0	0	15,420
Wytheville	With Parents	3,112	40	3,000	1,200	1,000	3,200	0	0	11,552
	Off Campus	3,112	40	3,000	1,200	1,000	3,200	0	0	11,552
VCCS Averages	With Parents	2,825	262	3,626	1,182	1,846	2,438	1,259	0	12,344
	Off Campus	2,825	262	5,755	1,182	1,926	2,438	1,259	0	14,552
Two-Year Averages	With Parents	2,823	273	3,821	1,183	1,852	2,397	1,259	0	12,506
	Off Campus	2,823	273	5,902	1,183	1,929	2,397	1,259	0	14,664

Note: Averages for Other1 and Other2 do not include zeros

Other1 and Other2 include allowances for computers, loan fees, etc.

Fees = E&G and non E&G fees; R/B = Room and Board; B/S = Books and Supplies; Trans. = Transportation

Addendum B

Virginia Student Financial Assistance Program

~ Funding Model Detail ~

PURPOSE:

The function of the Virginia Student Financial Assistance Program (VSFAP) funding formula is to serve as a basis for recommending state 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).

What it does.

- **Provides a basis for recommending state financial aid funds for public institutions**
Council goals for financial aid determine how the funding formula is designed. The formula then determines the appropriate state funding level for each institution.
- **Provides a basis to allocate limited state funds**
This may be the formula's most significant function as funds have rarely been sufficient to provide full funding for any variation of the funding formula. When funding is limited, the formula is designed to determine how to equitably divide the funds among the institutions.

What it does not do.

- **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 generally capped at "Tuition & Fees" (the Virginia Guaranteed Assistance Program permits a book allowance), so the funding formula similarly caps the calculated individual student need and ignores any need in excess of "Tuition & Fees."
 - Varying methodologies in determining allowances and differences due to geography result in significant differences among the institutions when calculating indirect student cost allowances such as Books, Supplies, Transportation, and Personal Expenses. In order to determine the relative impact Tuition & Fee increases have on students, SCHEV computes Cost of Attendance based on standardized indirect cost allowances based on institutional averages.
 - All calculations use actual student data and behaviors (i.e. enrollment level and Expected Family Contribution) from the latest available year and then project increases in costs; however, student data and cost increases will change. For the above reasons, the "actual" need, individual or aggregate, for each institution may be greater or less than the calculations demonstrate.
- **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 individual 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.
- **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. Further, no policy has been developed to describe the state definition of affordability or state affordability goals (i.e. all students should be able to afford *any* state institution or should all students be able to afford at least *one* state institution).
 - In addition, 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, current funding models do not determine whether the recommended allocation would be sufficient to ensure affordability for all students enrolled at the institution or whether any additional state funding is even necessary (i.e. Is funding half of an average need of \$4,000 enough? or Is additional state funding necessary if the average student need is only \$500?).
 - Current funding models use data for students enrolled in college. The models do not address those students who were not able 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 in advance and without knowledge of the level of state general fund support. The actual change in costs will vary by institution and may be greater or less than projections.

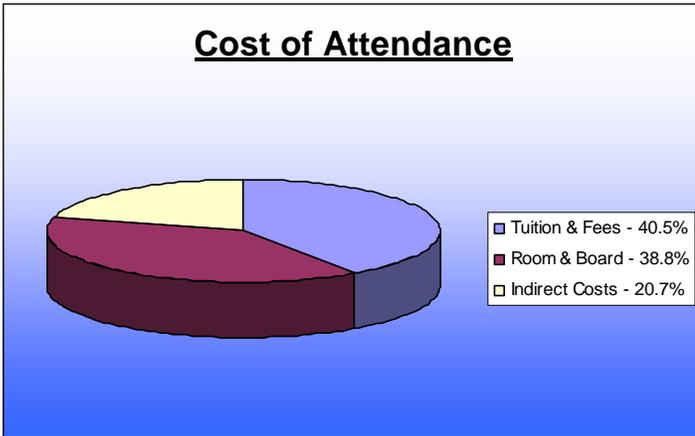
BASIC PROCESS:

State allocation formulas use institutional data to obtain the federal Expected Family Contributions, grants, and enrollment levels from the most recent available year (normally a three-year lag as FY08 data is used to project FY11 need). Projections are made for increases in direct costs at each institution and for increases of standardized indirect costs. As a result, behavior and circumstances of actual students from a recent year are compared against anticipated costs in order to determine future state funding levels for each institution. Since the VSFAP awards are primarily limited to Tuition & Fees, student need for state funding calculations is capped at this amount for each institution.

Step 1: Build the Cost of Attendance

(Percentages displayed are approximate and may vary by institution and year.)

Cost of Attendance Components:



- Tuition & Fees: Take the most current actual charges and multiply by the estimated percentage increase for tuition & E&G fees and non-E&G fees.
- Room & Board: Estimate percentage increase. *The formula uses actual on-campus and estimated off-campus and w/family cost of Room & Board.*
- Indirect Costs: Use Books, Supplies, Transportation, and Personal Expense allowances. *These cost items are estimated and standardized separately for two-year and four-year institutions.*

(Chart based on average four-year institution, on-campus student as reported for FY10)

Step 2: Calculate Estimated Student Need

- The student’s resources are subtracted from the SCHEV calculated Cost of Attendance (COA) on a student-by-student basis.

Cost of Attendance (COA)

- **30% of COA** State set-aside under the current Partnership Model (explained further below).
- **EFC** Expected Family Contribution (adjusted to state minimum).
- **Gift Aid** Federal, institution, and other sources (does not consider institutional endowments).
- = **Student Need** If Student Need exceeds Tuition & Fees, then reduce to Tuition & Fees.

- Total the need calculated for each student and aggregate for **Institutional Total Student Need**.

Note: The basic need formula does not take into consideration student loans or work-study.

Partnership Model This model recommends that the state fund 100% of calculated student need after setting aside a portion of Cost of Attendance (COA).

- *Assigns a percentage of Cost of Attendance to other resources thus recognizing the partnership needed to meet student need.*
- *Adjusts well to changes in Cost of Attendance.*
 - *By setting aside a portion of the Cost of Attendance on the front end of the formula rather than after restricting to Tuition & Fees, this methodology directs more funds toward institutions with the neediest students.*

Cost of Attendance
- 30% of COA
- EFC
- <u>Gift Aid</u>
= Student Need
* Restrict to Tuition and Fees
* Aggregate for institution

The Partnership Model out performs the 50% of Remaining Need model by providing the highest “average funds per student” to institutions with the highest “average need per student.”

Reminder: The state funding formula does not determine the individual student award. Each institution has its own Award Schedule that includes awards of full Tuition & Fees for the neediest students and a methodology for determining the VSFAP award for students with varying levels of financial need.

NOTE: Since significant need remains after EFC and gift aid, it would appear that the average student is unable to attend college. However, *all* of the students in the calculations were enrolled during the academic year. Students meet their “remaining need” in a variety of ways:

1. **State Assistance** – VSFAP funding is not included in Gift Aid calculations.
2. **Self-help** – Students utilize loans from federal government and private lenders or obtain work-study or other forms of employment.
3. **Increases from current sources** – Just as cost increases, it is anticipated that resources, including family contributions, federal, institutional, and other gift aid, will also increase in the future.
4. **Lifestyle Choices** – Students will find cost savings by cutting back in other non-education related areas.
5. **Reduced Cost of Attendance** – Students who enroll part-time or otherwise may not incur the full estimated allowance for indirect costs.
6. **Hidden gift aid** - Students may receive assistance from other resources not reported to the college. A gift from a relative or church may be simply recorded by the institution as a student payment. Student and parent payments are not included in the student need calculations.
7. **Endowments** – Some students receive support from institutional endowments (private donations administered by the institution). By law, these are not included in state funding calculations.