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Report to the Governor and the General Assembly of Virginia

Higher Education Financial Aid Grant Programs and Awards

2022

COMMISSION DRAFT

JLARC
JOINT LEGISLATIVE AUDIT AND REVIEW COMMISSION

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WHAT WE FOUND

In-state undergraduate students have substantial unmet financial need and debt

Financial aid has not kept pace with rising higher education costs and the declining amount that families are able to pay toward those costs. Average state financial aid grant awards increased 47 percent over the last 10 years, compared with a 33 percent increase in tuition and fees, adjusted for inflation. Even though more financial aid is available, the average family can contribute less funding to higher education, and financial aid grants are spread across a growing number of students with no ability to pay for higher education.

After all federal, state, institutional, and third-party financial aid grants are applied, in academic year 2020–21 over 33,000 in-state undergraduate students attending Virginia's public four-year institutions had $162 million in unmet financial need for tuition and fees. Students with no ability to pay for higher education accounted for nearly half of this amount. Students' unmet financial need was significantly higher ($977 million) when considering the *total* cost of attending higher education (e.g., tuition and fees plus room, board, books, and supplies).

The majority of in-state undergraduate students who graduated from Virginia's public four-year institutions in academic year 2020–21 had debt when they graduated. Debt averaged nearly $30,000 per student and totaled $537 million statewide.

WHY WE DID THIS STUDY

In 2022, JLARC approved a study resolution directing JLARC staff to review the effectiveness and adequacy of Virginia's financial aid policies and practices.

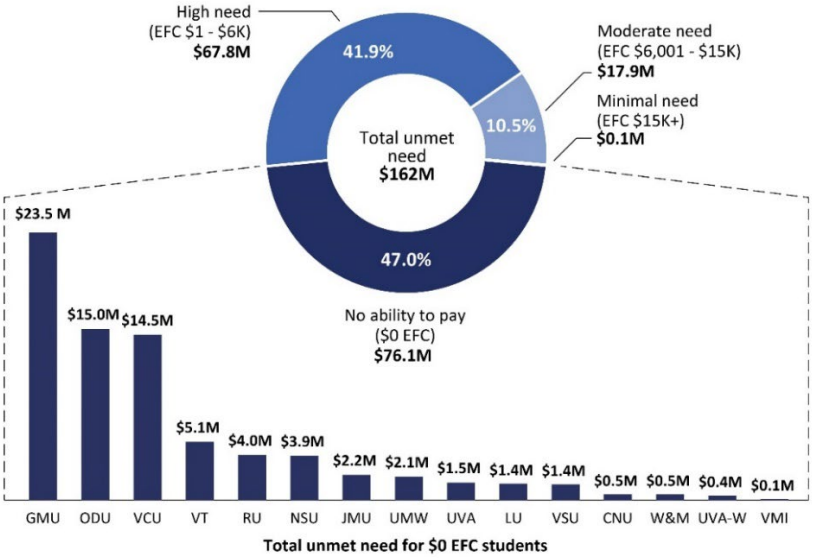
ABOUT VIRGINIA'S STATE STUDENT FINANCIAL AID GRANT PROGRAMS:

Virginia directs financial aid to assist students and their families with covering a portion of the cost of higher education tuition and fees. Under the state's two main programs—VGAP and the Commonwealth Award—over 37,000 students received nearly $172 million in 2020–21. The average award for VGAP was $5,964, while the average Commonwealth Award was $3,679. Virginia has several smaller state financial aid grant programs—not addressed in this report—which aim to aid specific student populations attending public institutions. These grants served over 7,600 in-state undergraduate students in 2020–21.

Students at Virginia's Historically Black Colleges and Universities have more unmet financial need than most other Virginia institutions

Virginia State University (VSU) and Norfolk State University (NSU) charge lower tuition and fees than other Virginia public four-year institutions, yet their students have higher unmet financial needs. VSU and NSU had 13 percent of the state's in-state undergraduate students with no ability to pay for higher education. Students with no ability to pay for college at VSU and NSU had a *combined* unmet need of $5.3 million in academic year 2020–21, more than the total unmet need for students with no ability to pay at all but three other institutions.

In-state undergraduate students had $162 million in unmet need after all aid was applied, 2020-21



SOURCE: JLARC staff analysis of student financial aid data from SCHEV, academic year 2020–21.
NOTE: EFC = expected family contribution toward higher education for an academic year.
Unmet need reflects the amount of financial need that in-state undergraduate students had toward the cost of tuition and fees after their expected family contribution (EFC) and all grants (federal, institutional, other, and state) were applied in academic year 2020–21. JLARC staff created the groupings shown in the graphic.

Students who graduated from VSU and NSU in academic year 2020–21 had a *combined* total student debt of $32 million at the time of their graduation.

Financial challenges affect students' academic success, and along with a greater inability to afford higher education costs and significant levels of student loan debt, VSU and NSU students had especially low six-year graduation rates. Virginia's other "access" institutions (institutions that have less stringent admissions criteria) have similarly low six-year graduation rates, but graduation rates are lowest at VSU and NSU, 43 percent and 32 percent, respectively. Research indicates that financial aid is an important tool for helping students who have financial need complete their education, and the General Assembly has recently appropriated additional financial aid funds to VSU and NSU through the Virginia College Affordability Network program.

State financial aid eligibility criteria are overly stringent, administratively burdensome, and difficult for students to understand

Virginia has two primary financial aid grant programs—the Virginia Guaranteed Assistance Program (VGAP) and the Virginia Commonwealth Award (Commonwealth Award) program. These two programs account for over 95 percent of state financial aid funds spent in academic year 2020–21. The additional requirements that VGAP recipients must meet—maintaining continuous full-time enrollment and progressing a full class level each year, having a minimum high school GPA of 2.5, and maintaining

a minimum college GPA of 2.0—prevent many students from accessing state financial aid. Institutions estimated that, of the nearly 15,000 students receiving VGAP in 2020–21, more than half lost VGAP eligibility because of the full-time enrollment and progression requirements. Furthermore, 2 percent of in-state undergraduate students had a high school GPA below 2.5, making them ineligible for VGAP. These requirements are contrary to subject matter experts' recommendations to minimize financial aid grant eligibility criteria and are administratively burdensome for financial aid staff.

Having two separate grant programs causes confusion among students, because they have to understand two separate sets of eligibility criteria and award amounts. Two grant programs also increase the workload of financial aid staff because they have to switch students between programs as student eligibility changes, instead of using a single set of grant criteria.

Virginia's approach to allocating grant funding to institutions underfunds students' financial need at some institutions

The state has provided insufficient funding for several institutions to award state VGAP or Commonwealth Award grants to their neediest students. The state allocated $174.8 million in grant funding in academic year 2020–21 to Virginia's 15 public four-year institutions, but eight institutions did not receive enough funding to meet the financial needs for their neediest students. For example, George Mason University needed an additional $35.7 million to meet the financial needs of its neediest students.

The amount of state financial aid grant funds institutions receive is based on a formula developed and used by staff at the State Council of Higher Education for Virginia (SCHEV), and elements of this formula lead to an inefficient distribution of state aid dollars. For example, SCHEV's formula does not account for the endowment funds that institutions use for financial aid because of existing state law, which results in institutions with larger endowment resources receiving state aid dollars that could instead be allocated to other institutions.

Institutions' practices for awarding state aid do not consistently prioritize students with the most financial need

Currently, Virginia's public four-year institutions have different policies and practices for awarding VGAP and Commonwealth Award grants. Each institution adopts its own financial aid "schedules" that stipulate: the basis for measuring students' financial need (e.g., based on income level, EFC, or remaining need), student eligibility for state grants, and the maximum state grant awards. Under this model, students with similar financial need at different institutions receive different state grant awards. For example, students with no ability to pay for higher education received a median VGAP award covering 33 percent of tuition at George Mason University, 71 percent of tuition at Virginia State University, and 83 percent of tuition at the University of Virginia.

For this report, students were separated into four financial need groups
- Greatest need (defined as $0 expected family contribution [EFC])
- High need ($1–$6,000 EFC)
- Moderate need ($6,001–$15,000 EFC)
- Minimal need ($15,001 EFC or greater)

With the discretion that institutions are given to develop their own awarding schedules, some have directed state financial aid to students with *moderate* and *minimal* financial need even though students with no ability to pay still had remaining need after all aid sources are applied. Institutions awarded a total of $31.2 million in state grants to students with *moderate* financial need and $5.8 million to those with *minimal* financial need in academic year 2020–21.

WHAT WE RECOMMEND

Legislative action

- Amend the Code of Virginia to allow students enrolled in at least six credit hours to receive prorated VGAP financial aid grants.
- Amend the Code of Virginia to require recipients to meet satisfactory academic progress requirements set by their institution, instead of VGAP's different GPA requirements.
- Amend the Code of Virginia to require public higher education institutions to calculate state financial aid grant awards after subtracting federal Pell grant awards.
- Amend the Code of Virginia to combine VGAP and the Commonwealth Award so that there is one primary state student financial aid grant program.

POLICY OPTIONS FOR CONSIDERATION

- Amend the Code of Virginia to allow past financial aid awards that were funded through endowments at public higher education institutions to be factored into state financial aid grant funding decisions.
- Direct the State Council of Higher Education for Virginia (SCHEV) to either (i) design and implement a financial aid awarding schedule for state grants that would be used uniformly by all institutions or (ii) restrict institutions from awarding state grants to students with higher ability to pay for higher education costs, based on expected family contribution or other similar metric.

The complete list of recommendations and options is available on page v.

Recommendations and Policy Options: Higher Education Financial Aid Grant Programs and Awards

JLARC staff typically make recommendations to address findings during reviews. Staff also sometimes propose policy options rather than recommendations. The three most common reasons staff propose policy options rather than recommendations are: (1) the action proposed is a policy judgment best made by the General Assembly or other elected officials, (2) the evidence indicates that addressing a report finding is not necessarily required, but doing so could be beneficial, or (3) there are multiple ways in which a report finding could be addressed and there is insufficient evidence of a single best way to address the finding.

Recommendations

RECOMMENDATION 1

The General Assembly may wish to consider amending § 23.1-638 of the Code of Virginia to allow in-state undergraduate students who are enrolled in at least six credit hours of academic coursework at public higher education institutions to be eligible to receive pro-rated state financial aid grant awards through the Virginia Guaranteed Assistance Program (VGAP) instead of requiring VGAP recipients to maintain continuous full-time enrollment and progress a class level each year. (Chapter 3)

RECOMMENDATION 2

The General Assembly may wish to consider amending § 23.1-638 of the Code of Virginia to eliminate the requirement that students receiving the Virginia Guaranteed Assistance Program grant have a cumulative high school grade point average of at least 2.5. (Chapter 3)

RECOMMENDATION 3

The General Assembly may wish to consider amending § 23.1-638 of the Code of Virginia to require recipients of Virginia Guaranteed Assistance Program grants to meet the satisfactory academic progress requirements set by their public higher education institution instead of requiring all students to have a cumulative college GPA of 2.0 to continue receiving the grant after their first year. (Chapter 3)

RECOMMENDATION 4

The General Assembly may wish to consider amending § 23.1-638 of the Code of Virginia to no longer require public higher education institutions to increase students' Virginia Guaranteed Assistance Program grant awards as they progress to higher class levels. (Chapter 3)

RECOMMENDATION 5

If the General Assembly wishes to maintain a progression bonus, it may wish to consider amending § 23.1-638 of the Code of Virginia to pilot a new state financial aid progression bonus program that requires public higher education institutions to provide a minimum increase of $1,200 in additional state financial aid grant funding to students who re-enroll for their sophomore, junior, and senior years. (Chapter 3)

RECOMMENDATION 6

The General Assembly may wish to consider amending § 23.1-601 of the Code of Virginia to require public higher education institutions to calculate per-student state financial aid grant awards after subtracting per-student federal Pell grant awards. (Chapter 3)

RECOMMENDATION 7

The General Assembly may wish to consider amending § 23.1-636 of the Code of Virginia to eliminate the Virginia Guaranteed Assistance Program and establish the Virginia Commonwealth Award Program as the state's primary need-based state financial aid grant program. (Chapter 3)

RECOMMENDATION 8

The State Council of Higher Education for Virginia should calculate low-expected family contribution enrollment bonuses for all public institutions as part of state financial aid grant funding formula calculations and include bonuses in all public institutions' grant funding recommendations each fiscal year. (Chapter 4)

RECOMMENDATION 9

The State Council of Higher Education for Virginia should publish on its website a description of the methodology used to calculate the recommended state financial aid grant funding allocations to public higher education institutions and update the description in a timely manner if and when changes to the methodology are made. (Chapter 4)

RECOMMENDATION 10

The General Assembly may wish to consider amending Chapter 2 of § 23.1 of the Code of Virginia to require members of the State Council of Higher Education for Virginia (SCHEV) to approve changes to SCHEV staff's methodology used to determine recommended state financial aid grant funding allocations to public higher education institutions. (Chapter 4)

RECOMMENDATION 11

The General Assembly may wish to consider amending § 23.1-601 of the Code of Virginia to require staff from the State Council of Higher Education for Virginia (SCHEV) to annually review and report to SCHEV council members key financial aid metrics for students, by expected family contribution bracket or the federal metric that replaces it, including: (i) the number of in-state undergraduate students attending public institutions; (ii) the aggregate and average amount of student financial need toward tuition and fees addressed using state financial aid grants; and (iii) the aggregate and average amount of unmet student financial need toward tuition and fees after all financial aid grants are awarded, and use this information as the basis for recommending to SCHEV council members changes to the state's approach to financial aid grant funding or student grant eligibility requirements, as needed. (Chapter 4)

RECOMMENDATION 12

The General Assembly may wish to consider amending § 23.1-601 the Code of Virginia to establish additional parameters for state financial aid grant awards that ensure public higher education institutions are prioritizing state grant funding to students with the most financial need. (Chapter 4)

Policy Option to Consider

POLICY OPTION 1

The General Assembly could amend § 23.1-101 of the Code of Virginia to allow financial aid funded through endowments at public higher education institutions to be factored into state financial aid grant funding decisions. (Chapter 4)

POLICY OPTION 2

The General Assembly could amend § 23.1-601 of the Code of Virginia to direct the State Council of Higher Education for Virginia (SCHEV) to design and implement a uniform financial aid awarding schedule, to be approved by SCHEV council members, for awarding grants through the Virginia Guaranteed Assistance Program and the Virginia Commonwealth Award Program, which would prioritize grant awards to those students with the greatest financial need. (Chapter 4)

POLICY OPTION 3

If the General Assembly implements a statewide financial aid awarding schedule, it could require the State Council of Higher Education for Virginia to allocate to Norfolk State University and Virginia State University at least as much state financial aid funding as was allocated to these institutions in the academic year preceding the implementation of the statewide schedule. (Chapter 4)

POLICY OPTION 4

The General Assembly could amend § 23.1-601 of the Code of Virginia to direct the State Council of Higher Education for Virginia to restrict public higher education institutions from awarding grants through the Virginia Guaranteed Assistance Program and the Virginia Commonwealth Award Program to less needy students, as measured by expected family contribution or another financial metric. (Chapter 4)

POLICY OPTION 5

The General Assembly could include language in the Appropriation Act directing the State Council of Higher Education for Virginia to design and pilot a state emergency financial aid program that provides public higher education institutions with grant funding for students with financial need who are facing a financial emergency that puts them at risk of dropping out. (Chapter 4)

1 Virginia's Financial Aid Grant Programs

The Joint Legislative Audit and Review Commission (JLARC) approved a study resolution that directed JLARC staff to review the effectiveness of the financial aid policies and practices at each of Virginia's public four-year higher education institutions. As part of this review, staff were directed to assess student cost, enrollment, and graduation trends before and during the COVID-19 pandemic; any disproportionate impacts of rising higher education costs or student debt on Virginia's historically Black colleges and universities (HBCUs) and their students; the adequacy and equity of state financial aid funding across institutions given varying student ability to pay and demographics; student financial aid awarding policies, criteria, and processes at each of Virginia's 15 public four-year institutions; and the effectiveness of state financial aid at lowering student costs at each institution. (See Appendix A for the study resolution.)

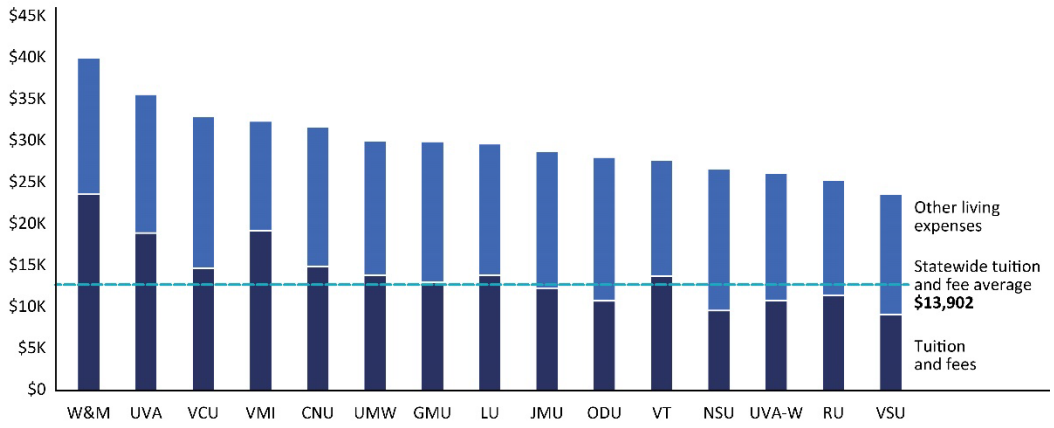
To address the study resolution, JLARC staff interviewed staff from the State Council of Higher Education for Virginia (SCHEV); financial aid and other staff from Virginia's 15 public four-year institutions; students receiving financial aid at public four-year institutions; financial aid subject matter experts from Virginia and national organizations; staff overseeing state financial aid programs in other states; and various stakeholders. JLARC staff reviewed and analyzed data on trends in higher education costs, student ability to pay, enrollment, student debt, and graduation. JLARC staff also analyzed data on student financial aid awards and state financial aid funding allocations. (See Appendix B for a detailed description of research methods.)

Students can receive financial aid to help cover higher education costs

Higher education costs at Virginia's public four-year institutions are substantial. Statewide, students were charged an average of $13,902 in tuition and fees in academic year 2020–21, which was more than the national average among public four-year institutions ($10,740). Tuition and fee costs ranged from $9,154 per year at Virginia State University to $23,628 per year at William & Mary (Figure 1-1). Tuition and fees are a portion of the total cost of attending higher education; students also incur other expenses such as room and board (sidebar). Total higher education costs for in-state, undergraduate students living on campus at Virginia's public four-year institutions ranged from $20,466 per year at Norfolk State University to $36,984 at William & Mary in academic year 2020–21.

Total cost of attendance includes students' tuition, mandatory fees, room and board, books and supplies, travel expenses (for commuters), direct loan fees, and several miscellaneous costs, such as the purchase of one laptop computer (up to $3,000 per student).

FIGURE 1-1
Higher education costs vary across Virginia's public four-year institutions



SOURCE: JLARC staff analysis of Integrated Postsecondary Education Data System data, academic year 2020–21.
NOTE: Total cost of attendance amounts are for in-state undergraduate students living on campus at Virginia's 15 public four-year higher education institutions.

Expected family contribution (EFC) is a widely used metric for measuring student ability to pay and need for financial aid. EFC does not account for all financial assets, but it is the best available measure of need. (The University of Virginia and William & Mary require additional financial information to determine financial aid awards.) The federal government will start using a new metric—student aid index—to measure need in academic year 2024-25, which may determine students' financial aid needs differently than EFC.

The proposed **federal student loan forgiveness program** could provide up to $20,000 in loan forgiveness to student borrowers in Virginia who have loans held by the U.S. Department of Education, depending on the borrower's income and type of loan.

Students' ability to pay for higher education is assessed using financial information that is collected when students complete the U.S. Department of Education's Free Application for Student Financial Aid (FAFSA). Students are assigned an expected family contribution (EFC) amount, based on their FAFSA submission, which is used to measure the amount of need they have for financial aid (sidebar). For example, students with no ability to pay for higher education are assigned a $0 EFC. Students' EFC amounts are used to determine their eligibility for federal financial aid, as well as state and institution-specific financial aid programs.

Students attending Virginia's public four-year institutions can receive several different types of financial aid. Many of the federal, state, and institutional financial aid programs are "need-based" and are awarded to students based on their financial need. Some state and institutional financial aid programs are "merit-based" and are awarded to students based on their skill or academic performance (often measured by grades).

In addition to receiving financial aid, students can also pay for higher education through student loans. Because loans have to be repaid by students, they are not considered financial aid for the purpose of this report. Higher education debt among in-state undergraduate students who attended Virginia's public four-year institutions increased nearly 30 percent over the past decade from an average of $23,086 per student in academic year 2011–12 to an average of $29,985 per student in academic year 2020–21. In-state undergraduate students' debt (measured when the students graduated) totaled $537 million statewide in academic year 2020–21 (sidebar).

Virginia spent $182M in FY21 on financial aid for in-state undergraduates at public four-year institutions

The state's largest financial aid grant programs are the Virginia Guaranteed Assistance Program (VGAP) and the Virginia Commonwealth Award Program (Commonwealth Award). These two programs account for over 95 percent of state financial aid funds spent in academic year 2020–21. The VGAP and Commonwealth Award programs provide state grants to in-state undergraduate students attending public higher education institutions (two-year and four-year institutions) based on students' financial need toward higher education costs. State law specifies that VGAP and Commonwealth Award grants should be applied after all other known financial aid to address students' financial needs and cannot exceed students' tuition and fees (and books and supplies for VGAP). State law also includes several general requirements regarding VGAP and Commonwealth Award grant amounts; for example, VGAP grants have to be larger than Commonwealth Award grants for students with equivalent need, and grants for both programs have to be larger for students with more financial need. In addition, a student cannot receive grants from VGAP and the Commonwealth Award simultaneously.

Virginia's **Tuition Assistance Grant (TAG) program** provides state financial aid grants to in-state students (undergraduate and graduate) who are enrolled full-time at participating private, non-profit, four-year institutions. In total, $66.8M in TAG grants were awarded to 19,682 undergraduate students in academic year 2020–21, with awards averaging $3,395 per student.

Virginia has several smaller state financial aid grant programs to help specific student populations attending public four-year institutions. For example, one program is available for dependents of military survivors, and another is available for students transferring from public two-year colleges to public four-year institutions (Table 1-1). Grants were awarded through programs other than VGAP and the Commonwealth Award to over 7,600 in-state undergraduate students in academic year 2020–21. The state has a separate financial aid grant program for students attending private institutions (sidebar).

The General Assembly appropriates state funds to each institution for awarding VGAP and Commonwealth Award grants to students. This appropriation is based on a recommendation developed by SCHEV staff. The institutions are responsible for determining how to split the total state financial aid grant funding they receive between the VGAP and the Commonwealth Award programs based on the needs and eligibility of their student populations. Institutions have fairly broad discretion to determine which students receive the grants and the size of the grants.

Staff from SCHEV use a funding formula to calculate the amount of state financial aid funding public four-year institutions should receive each year for VGAP and Commonwealth Award grants (Figure 1-2). The funding formula involves multiple calculations to identify the amount of funding institutions need to help address their students' financial needs. SCHEV made several changes to improve the effectiveness of the state's financial aid grant funding formula after requesting the legislature approve a review of it in 2019. Three of the 16 potential changes that SCHEV staff identified in their report have been implemented. These changes improved the accuracy of

SCHEV's calculations of student financial need. For example, SCHEV stopped assigning a minimum expected family contribution amount to students with $0 EFCs. This practice had undercounted student need by $27.6 million statewide for the 28 percent of students with $0 EFC in academic year 2017–18, according to SCHEV's analysis.

TABLE 1-1
VGAP and Commonwealth Award grants are the largest state financial aid grant programs for students at public four-year institutions

	# Unique students [a]	Average annual award	Total awards (millions)
Virginia Guaranteed Assistance Program (VGAP)	15,892	$5,964	$94.8
Virginia Commonwealth Award	21,047	3,679	77.4
Two-Year College Transfer Grant Program (CTG) [b]	1,937	1,383	2.7
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) [c]	560	4,725	2.7
Virginia Military Survivors & Dependents Education Program Award (VMSDEP) [d]	1,046	1,591	1.7
Other State Aid [e]	4,110	884	3.6
Total	**38,033**	--	**$182.1**

SOURCE: Student-level financial aid data from SCHEV, academic year 2020–21.
NOTE: Data is for academic year 2020–21, the most recent year of financial aid data available. Students can receive awards from the three smaller programs–VMSDEP, CTG, and GEAR UP–in addition to awards from VGAP or the Commonwealth Award. Awards from VGAP and the Commonwealth Award cannot be combined. [a] Restricted to in-state undergraduate students at Virginia's 15 public four-year institutions. [b] Represents the total unique number of recipients from the Two-Year Transfer Grant Program. Recipients can also receive Incentive or PLUS awards. [c] GEAR UP is federally funded but fully administered by the state. [d] Recipients of the Virginia Military Survivors & Dependents Education Program Award are a subset of the total recipients (1,945) of the Virginia Military Survivors & Dependents Education Program who receive a waiver for tuition and mandatory fees from their institution as required by state law. [e] Other State Aid includes funds awarded from: medical scholarships, Brown v. Board of Education scholarships, foster child scholarships, the soil scientist program, multicultural academic opportunities program, teacher scholarship loan program, and other department-specific programs.

The General Assembly appropriated nearly $175 million for VGAP and Commonwealth Award grants to public four-year institutions in FY21 (Table 1-2). The amount of funding allocated to each of Virginia's 15 public four-year institutions varied widely, which was driven by SCHEV's formula for recommending state financial aid allocations. Virginia Commonwealth University received the largest amount of total grant funding ($31.8 million), and Virginia Military Institute received the smallest amount ($1.1 million). Norfolk State University and Virginia State University received the largest amount of funding on a per-student basis ($3,945 and $3,582 respectively).

FIGURE 1-2
Virginia provides state VGAP and Commonwealth Award grant funding to public four-year institutions to award to students

SCHEV
- Calculates state funding public institutions should receive for state grants
- Recommends funding amount

GENERAL ASSMEBLY
- Appropriates financial aid dollars to each institution based on SCHEV recommendations

INSTITUTIONS
- Award VGAP and Commonwealth Award grants to students
- Monitor students' eligibility for aid and adjust awards

SOURCE: JLARC staff interviews with SCHEV staff.

TABLE 1-2
Virginia appropriated nearly $175M for VGAP and Commonwealth Award grants for in-state undergraduates at public four-year institutions (FY21)

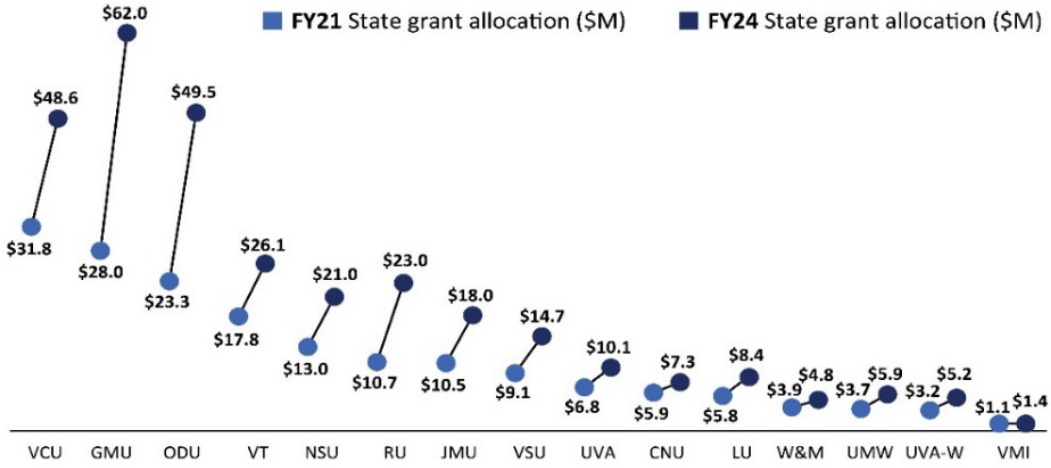
Institution	Total state appropriations	% of total state appropriations	State appropriations per student [a]
VCU	$31,770,902	18%	$1,707
GMU	28,046,653	16	1,289
ODU	23,309,394	13	1,533
VT	17,810,811	10	808
NSU	12,996,045	7	3,945
RU	10,715,455	6	1,693
JMU	10,529,775	6	685
VSU	9,147,820	5	3,582
UVA	6,805,819	4	567
CNU	5,947,167	3	1,368
LU	5,769,115	3	1,741
W&M	3,924,352	2	966
UMW	3,660,129	2	1,077
UVA-W	3,204,335	2	2,284
VMI	1,118,218	1	948
TOTAL	**$174,755,990**	**100%**	**$1,296**

SOURCE: SCHEV data on Virginia State Financial Assistance Program appropriations to public four-year institutions and student enrollment (E05B report), FY21.
[a] Student totals are annualized full-time equivalent in-state undergraduate student enrollment data for academic year 2020-21.

Need-based financial aid can improve student graduation rates, according to academic research. Financial aid is especially effective at improving graduation rates for students with high financial need. (See Chapter 2 for more information.)

State funding for the VGAP and Commonwealth Award grant programs increased significantly in the most recent state budget from approximately $175 million in FY21 to $306 million in FY24 (Figure 1-3). George Mason University will receive the largest amount of grant funding ($62 million) in FY24, while Virginia Military Institute will receive the smallest amount ($1.4 million). SCHEV recommended the large funding increase to provide more funding to institutions with significant unmet student financial need and help improve student graduation rates (sidebar). The increased funding will begin in FY24 after institutions have finished using one-time federal funding awarded during the COVID-19 pandemic. Institutions' base state financial aid funding amounts are expected to remain at this increased funding level in future years, according to SCHEV staff.

FIGURE 1-3
VGAP and Commonwealth Award grant funding levels vary across public four-year institutions and will increase significantly between FY21 and FY24



SOURCE: SCHEV data on Virginia State Financial Assistance Program appropriations to public four-year institutions, FY21 and FY24.
NOTE: State funding increased 40 percent from $219M in FY23 to $306M in FY24. Figure shows FY21 data to be consistent with the academic year 2020-21 financial aid data used throughout the report.

Federal Pell grants are awarded to students who demonstrate significant financial need. Undergraduate students with an annual expected family contribution (EFC) below $6,206 are eligible to receive Pell grants. Grant amounts increase with financial need, up to $6,895.

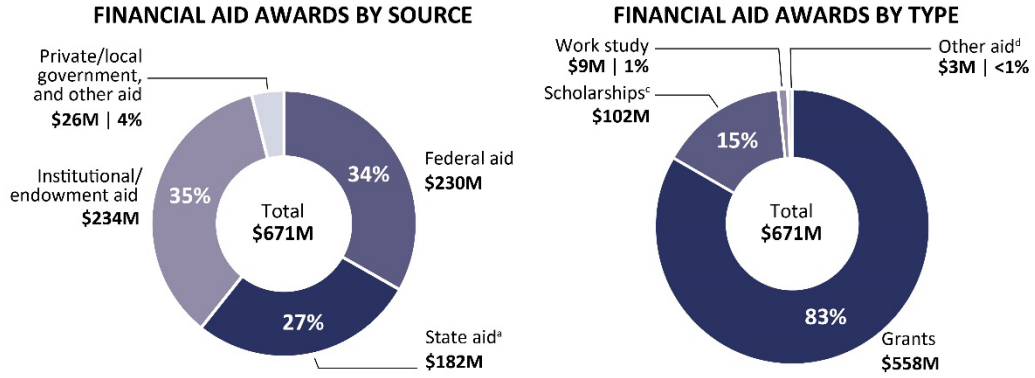
Virginia has appropriated additional funds for other financial aid initiatives. For example, Norfolk State University received $7.3 million and Virginia State University received $7.0 million in FY24 for the Virginia College Affordability Network (VCAN) program, which allows students who are eligible for federal Pell grants (sidebar) and live within 45 or 25 miles of campus to attend Norfolk State University or Virginia State University tuition free. The General Assembly also approved $25 million in FY24 for a new program to help public four-year institutions improve their recruitment and retention of Pell-eligible students.

State financial aid represents just over one-quarter of all financial aid for undergraduate students

State financial aid represented 27 percent of in-state undergraduate students' total financial aid awards in academic year 2020–21 (Figure 1-4). More than a third of students' total financial aid (35 percent) came from Virginia's higher education institutions themselves ("institutional aid"). Institutional aid includes academic scholarships and need-based grants, a large portion of which are funded through tuition revenue or institutions' endowments. (Institutional aid is not funded using state general fund appropriations for higher education operations.) The second-largest portion of students' total financial aid (34 percent) came from federal sources, such as the federal Pell grant and work study programs (sidebar).

This report focuses on institutions' use of state general funds for financial aid. Institutions have long had autonomy for how they use their own funds for financial aid. See Appendix D for more information on the funding sources institutions use for institutional aid, and how institutions use their institutional aid.

FIGURE 1-4
Institutional aid is the largest source of financial aid for in-state undergraduates at public four-year institutions, followed by federal aid



SOURCE: Financial aid data from SCHEV (FA16 and FY17 reports), FY21.
[a] State aid amount ($182M) is higher than the state's VGAP and Commonwealth Award amount ($172M) because there are multiple other smaller programs Virginia uses to award state aid to students from select populations. (See Table 1-1.) [b] Grants are defined as aid students qualify for solely on the basis of need. [c] Scholarships are defined as aid students qualify for solely on the basis of merit. [d] Other aid includes aid from other sources where eligibility criteria are mixed and involve both merit- and need-based components.

The **federal work-study program** provides financial aid to students for part-time employment. In most cases, a higher education institution or an eligible employer pays a portion of the student's wages, and the U.S. Department of Education provides funding for the other portion.

2 Higher Education Financial Aid Trends

Several key metrics—student financial need and debt, student enrollment, and student outcomes—can provide insight into the effectiveness of the state's and individual institutions' current approach to awarding state financial aid grants. When the cost of higher education increases, students require similar increases in financial resources to afford higher education. Increasing amounts of unmet student financial need and debt, as well as low student retention and graduation rates, indicate that the effectiveness of financial aid investments and awarding practices should be examined.

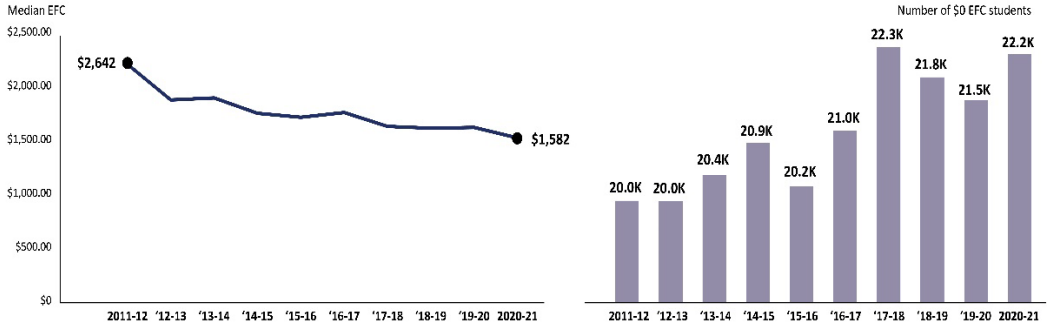
Higher education cost increases have outpaced students' ability to pay for higher education

Higher education costs at Virginia's public four-year institutions have increased at a faster rate than the national average. Tuition and fees grew more than 33 percent in Virginia over the last 10 years, adjusted for inflation, increasing from an average of $10,481 per student per year to $13,902 between academic years 2011–12 and 2020–21. Room and board increased nearly 19 percent, adjusted for inflation, over the same 10-year period. Higher education costs are growing nationally, but the rate of Virginia's tuition and fee increase (33 percent) has slightly outpaced the average increase among public four-year institutions nationwide (30 percent). According to previous cost studies, institutional spending on auxiliary enterprises has been responsible for some of the increase in Virginia's higher education costs (sidebar).

Rising higher education costs have outpaced increases in students' financial resources, and the number of students with no ability to pay for higher education has increased. While the cost of higher education has gone up, the median expected family contribution toward the cost of higher education (EFC) has gone down for in-state undergraduate students eligible for financial aid over the past decade, decreasing 40 percent from $2,642 in academic year 2011–12 to $1,582 in academic year 2020–21 (Figure 2-1). In addition, the number of in-state undergraduate students who have no ability to pay for higher education ($0 EFC) has increased 11 percent over the past decade from nearly 20,000 students in academic year 2011–12 to over 22,100 students in academic year 2020–21. These trends mean that more students need financial aid, and that the amount needed per student has grown.

JLARC's higher education series (2014) found that student costs increased primarily because of (i) higher institutional spending, especially on non-academic activities, and (ii) declining state funding per student. Non-academic spending on auxiliaries (e.g., athletics and recreational facilities) represented 56 percent of Virginia public four-year institutions' increased spending per student FY02–FY12. Institutions raised tuition and fees to collect additional revenue to cover expenses as state funding declined. In-state per-student funding in FY12 was one-third less than it was in the late 1990s.

FIGURE 2-1
Students are less able to pay for higher education than they were a decade ago



SOURCE: JLARC staff analysis of student financial aid data from SCHEV, academic years 2011–12 through 2020–21.
NOTE: EFC = expected family contribution. Median EFC is shown for in-state undergraduate students who are eligible for financial aid (EFC ≤$15,000) and attend Virginia's public four-year higher education institutions.

In-state undergraduate student enrollment at Virginia's public four-year institutions increased 8 percent statewide over the past decade (academic years 2011–12 to 2020–21). The statewide increase was driven by enrollment increases at several large institutions (e.g., George Mason University, James Madison University, and Virginia Tech). Eight institutions (Christopher Newport University, Longwood University, Norfolk State University, Radford University, the University of Mary Washington, the University of Virginia's College at Wise, Virginia Commonwealth University, and Virginia State University) experienced enrollment *decreases* during this period, with decreases ranging between 2 and 27 percent.

An increasing number of institutions have experienced declining enrollment in recent years. Only six institutions experienced annual enrollment *increases* between academic years 2019–20 and 2020–21 (George Mason University, James Madison University, the University of Virginia, the University of Virginia's College at Wise, Virginia Tech, and William & Mary).

Students have substantial unmet financial need and debt despite recent increases in state financial aid

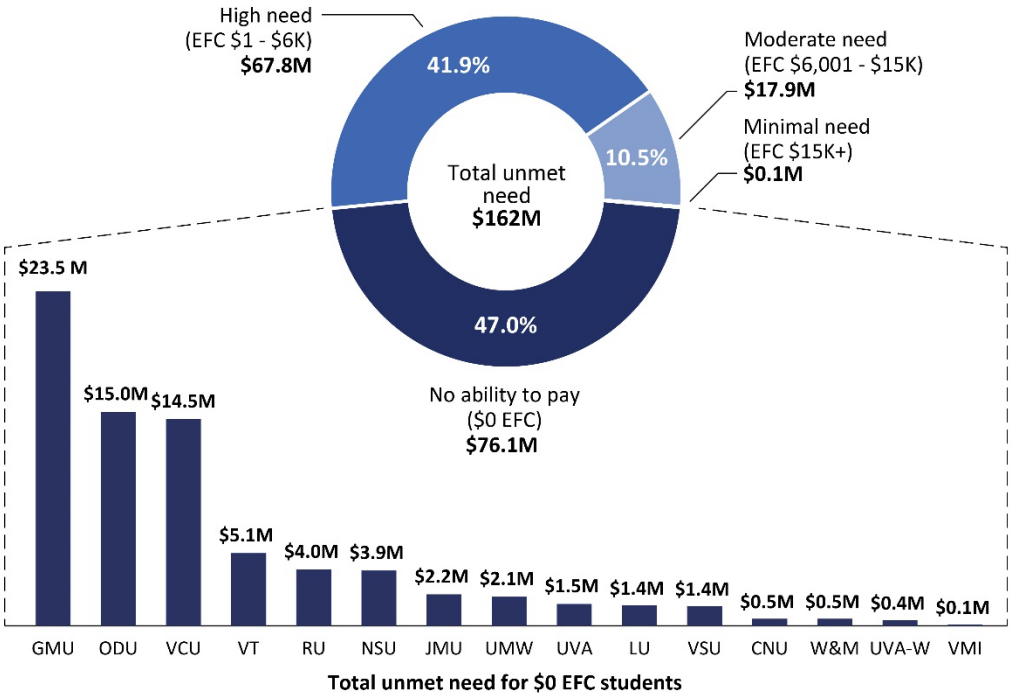
Financial aid has not kept pace with rising higher education costs and the declining amount that families are able to pay toward those costs. Average annual total federal financial aid increased 20 percent, and average annual state financial aid grant awards through the Virginia Guaranteed Assistance Program (VGAP) and the Virginia Commonwealth Award Program (Commonwealth Award) increased 47 percent over the past 10 years. Institutional aid increased nearly 118 percent over the same time period. However, other external sources of financial aid decreased nearly 38 percent. Altogether, financial aid increased 47 percent over the past 10 years, which is less than the combined effect of the increase in tuition and fees and the decrease in student EFCs. As a result, financial aid grants are now spread across a larger number of students with

no ability to pay for higher education, and individual financial aid grants represent a smaller portion of tuition and fee costs.

After all financial aid grants (e.g., federal, state, institutional, and external aid) were applied, over 33,000 in-state undergraduate students attending Virginia's public four-year institutions had $162 million combined in unmet financial need for tuition and fees in academic year 2020–21 (sidebar). Students with no ability to pay for higher education ($0 EFC) made up nearly half (47 percent) of the unmet need (Figure 2-2), and these students' unmet need averaged $5,609 per year. Most $0 EFC students with unmet need attended George Mason University, Old Dominion University, and Virginia Commonwealth University. In-state undergraduate students' unmet financial need is significantly higher ($977 million) if the *total* cost of attending a four-year institution is considered (e.g., room, board, books, and supplies) in academic year 2020–21.

Unmet financial need reflects the amount of financial need that in-state undergraduate students had toward the cost of tuition and fees after their expected family contribution (EFC) and all grants (federal, institutional, other, and state) were applied in academic year 2020-21. Unmet financial need will decrease when state grant funding increases to $306M in FY24 (up from $175M in FY21). For example, if students' expected family contributions and financial aid awards were similar to academic year 2020-21 amounts, $306M could cover unmet tuition and fee costs after all aid is applied for all students with EFCs from $0 - $6,000 (assuming aid is used for tuition and fees).

FIGURE 2-2
In-state undergraduate students have $162 million in unmet need after all aid is applied, with $0 EFC students having nearly half of the need



SOURCE: JLARC staff analysis of student-level financial aid data from SCHEV, academic year 2020–21.
NOTE: EFC = expected family contribution toward higher education for an academic year.
Unmet need reflects the amount of financial need that in-state undergraduate students had toward the cost of tuition and fees after their expected family contribution (EFC) and all grants (federal, institutional, other, and state) were applied in academic year 2020–21. JLARC staff created four EFC brackets: (no ability to pay/greatest need [$0 EFC], high need [$1-$6K EFC], moderate need [$6,001-$15K EFC], and minimal need [$15K+ EFC]) and assessed trends for students in each of these brackets for the purpose of this report. See Appendix B for more information.

Higher education debt among Virginia's in-state undergraduate students at graduation has increased nearly 20 percent over the past decade. The majority (56 percent) of students who graduated from Virginia's public four-year institutions in academic year 2020–21 had student loan debt when they graduated. Debt among these students averaged nearly $30,000 per student, and the combined debt across students who graduated in academic year 2020–21 was $537 million.

JLARC staff categorized institutions that admit a large percentage of undergraduate students who apply, including low academic performers, as "access institutions" for the purposes of this report. Virginia public four-year institutions with the highest admission rates (89 – 96 percent) are: Virginia State University, Old Dominion University, Norfolk State University, Virginia Commonwealth University, and George Mason University.

Students who start but do not graduate with a higher education degree also accumulate debt. More than half of these students who enrolled at one of Virginia's public four-year institutions in academic year 2015–16 had higher education debt. Higher education debt among students who did not graduate averaged $13,000 per student and totaled $241 million. These students can have an especially difficult time repaying their debt because they are unable to secure jobs with higher earnings that can come from a higher education degree.

Students at Virginia's access institutions (sidebar)—including Historically Black Colleges and Universities (HBCUs)—have more unmet financial need and debt than students at Virginia's other public four-year institutions. Students attending access institutions accounted for nearly three-quarters of the total unmet financial need in academic year 2020–21. Students who graduate from access institutions also have high levels of student debt, accounting for over half ($282 million) of the combined statewide debt of $537 million for in-state undergraduate students at the time of their graduation in academic year 2020-2021. Several factors drive these trends, including the large size of several of the access institutions, limitations in state and institutional financial aid resources at several of the access institutions (including endowment-funded institutional aid), and the high financial needs of student populations at access institutions. (See Appendix D for more information on endowments and other funding for institutional aid at Virginia's public four-year institutions.)

Retention rate measures the percentage of first-time, degree-seeking undergraduates who enroll in a higher education institution one fall and return to continue the next fall.

Student retention and graduation rates are low at several institutions including public HBCUs

Research indicates that financial aid is an important tool for helping students with financial need complete a higher education degree. Need-based financial aid grants over $1,000 have been shown to improve student enrollment, retention (sidebar), credit hour attainment, and graduation rates. Need-based financial aid is especially effective at improving retention and graduation rates for students with high financial need, according to subject matter experts. High student retention and graduation rates are an important part of Virginia's *Pathways to Opportunity: the Virginia Plan for Higher Education*, which includes a goal of 70 percent post-secondary educational attainment for working-aged Virginians by 2030.

Students attending access institutions typically face many challenges that drive lower retention and graduation rates. For example, these students typically need more academic assistance to succeed in college and have fewer financial resources to pay for rising tuition and living costs. Access institutions also generally have less institutional resources to fund necessary student support services.

Retention rates at Virginia's access institutions were lower than rates at non-access institutions (sidebar). Seventy-six percent of full-time in-state undergraduate students

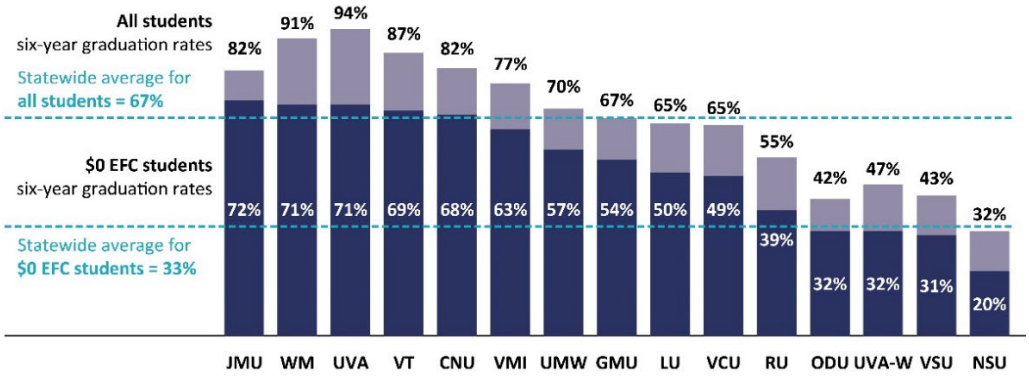
at access institutions continued their higher education in academic year 2020–21, compared with 82 percent at non-access institutions.

The graduation rate gap is even larger between access and non-access institutions. The average six-year graduation rate for full-time in-state undergraduate students at Virginia's access institutions was 50 percent in academic year 2020–21, compared with 75 percent at non-access institutions. Virginia's HBCUs had especially low graduation rates; Virginia State University's and Norfolk State University's six-year graduation rates were 43 percent and 32 percent, respectively (Figure 2-3).

Average retention and graduation rates for students with no ability to pay ($0 EFC) were lower than statewide averages for all students. The statewide average retention rate for $0 EFC students in academic year 2020–21 was 79 percent, with rates ranging from 62 percent at Virginia State University to 97 percent at the University of Virginia. The statewide average retention rate for *all* students was 87 percent. The statewide average graduation rate for $0 EFC students was 33 percent, with rates ranging from 20 percent at Norfolk State University to 72 percent at James Madison University (Figure 2-3). The statewide average graduation rate for all students was 67 percent—more than double the graduation rate for $0 EFC students.

FIGURE 2-3

Graduation rates for in-state students with no ability to pay ($0 EFC) ranged from 72 percent to 20 percent across Virginia public four-year institutions



SOURCE: JLARC staff analysis of student graduation rate data from SCHEV, 2015–16 student cohort.
NOTE: EFC = expected family contribution. Figure represents six-year graduation rates for in-state undergraduate students who began school in the 2015–16 academic year (fall or spring), were enrolled full-time, were degree-seeking, and who completed the FAFSA. Graduation rates may vary from rates reported by institutions for different student groups (e.g. in-state undergraduates vs. all undergraduates).

Trends in higher education affordability demonstrate that state financial aid is essential to meeting student financial need, reducing student debt, and improving student retention and graduation outcomes. Virginia's investment in state financial aid has grown, but not enough to fully cover the financial need that remains for students after all other sources of aid are applied. Without unlimited resources to invest in student

financial aid, the state must ensure that its financial aid dollars are being used effectively and by students with the greatest need. Ensuring that state-provided aid is allocated to the students most in need is difficult under the current system, because the institutions have discretion in how they allocate the financial aid they receive. Chapters 3 and 4 describe ways that the state could better ensure that limited financial aid dollars are used most effectively.

3 State Financial Aid Program Requirements

State financial aid is awarded to students primarily through two need-based grant programs—the Virginia Guaranteed Assistance Program (VGAP) and the Commonwealth Award Program (Commonwealth Award). VGAP is the larger of the two, averaging $5,964 per student compared with $3,679 per student for Commonwealth Award grants (2020–21). VGAP grants totaled $95 million and accounted for just under half (49 percent) of all state grant awards in academic year 2020–21, while Commonwealth Award grants totaled $77 million.

States should minimize eligibility requirements for need-based financial aid, according to experts

Subject matter experts contend that if a state wants to make college accessible and affordable, need-based programs are most effective at achieving these objectives (sidebar). When designing these programs, experts consistently recommend directing as much aid as possible to the neediest students. As one researcher summarized: "Efforts to reform financial aid at all levels—institutional, state, and federal—should be focused on those students who would not go to college without additional funding. This is the most efficient use of scarce resources."

> *"Although affordability… is a concern of all students, it is substantial for low-income students. If the goal of limited financial aid resources is to influence [student academic] decisions, then there is a strong case to focus on need-based awards."*
>
> **– Subject matter expert**

Need-based programs that award funds strictly on the basis of student financial need are most effective at making college accessible and affordable, according to subject matter experts. In several states, *need-based* programs have been designed with *merit-based* eligibility requirements, often to maximize limited state dollars to needy students with the highest likelihood of graduating. Virginia's VGAP grant, which includes full-time enrollment, progression, and GPA requirements, has some merit-based eligibility requirements. While researchers acknowledge the worthy intent behind these requirements, they emphasize that merit-based eligibility requirements prevent financial aid funding from being directed to the neediest students. Research has shown that, because needier students are more likely to struggle academically in high school and college, merit-based eligibility requirements tend to result in financial aid funds being directed to students with less financial need. Therefore, subject matter experts consistently recommend structuring financial aid programs to be strictly need-based so that financially needy students can qualify for aid.

In Virginia, institutional aid is often merit-based so that institutions can fulfill their student enrollment objectives. For example, institutions award merit-based scholarships with GPA and other academic requirements to attract high-performing students. Using merit-based institutional aid to achieve student enrollment objectives is a com-

mon practice among higher education institutions nationwide, including among Virginia institutions. (See Appendix D for more information on merit-based institutional aid at Virginia's public four-year institutions.)

VGAP eligibility requirements prevent many students with financial need from receiving aid

Students must meet several eligibility requirements to receive VGAP and Commonwealth Award grants. For both grants, recipients must be in-state undergraduate students at one of Virginia's public institutions and demonstrate financial need (Figure 3-1). VGAP recipients must meet several additional eligibility requirements, including: (1) maintaining full-time enrollment and progressing a full class level each year, (2) having a minimum high school GPA of 2.5 before starting college, and (3) maintaining a minimum college GPA of 2.0.

FIGURE 3-1
Students must meet several state eligibility requirements to receive grants through state VGAP or Commonwealth Award programs

REQUIREMENTS FOR STATE AWARDS

VGAP Award

- Demonstrate **need**
- Maintain **continuous full-time enrollment** (24 credit hours)
- Progress **one "class level"** during each year of enrollment (typically 30 credit hours)[b]
- Enter with at least a **2.5** high school GPA
- Maintain college GPA of **2.0**

Commonwealth Award

- Demonstrate **need**
- Maintain **satisfactory academic progress** (SAP)[a]
- Enroll in a **minimum of 6 credit hours per semester**

SOURCE: JLARC review of the Code of Virginia and SCHEV program requirements.
[a] Satisfactory Academic Progress (SAP) standards are used to measure whether students have successfully completed coursework toward a degree. [b] Some institutions have lower thresholds for progressing one class level (e.g., 27 credit hours).

Students ineligible for VGAP may receive Commonwealth Award grants, but Commonwealth Award grants are smaller than VGAP grants, and institutions are not always able to switch VGAP recipients to Commonwealth Award grants because of limited funding.

VGAP's full-time and progression requirements make some of Virginia's neediest students ineligible for program

The state's requirements that VGAP recipients be enrolled full-time and progress to the next class level each year prevent many students with financial need from receiving VGAP grants (sidebar). Approximately one-quarter of in-state undergraduate students attending Virginia's public four-year institutions (24,260 students) were enrolled in classes part-time in academic year 2020–21 and were ineligible for VGAP grants. Over

30 percent of these students had an expected family contribution (EFC) of $0, meaning they had no ability to pay for higher education. Part-time students with EFCs of $0 were largely concentrated at George Mason University, Old Dominion University, Virginia Commonwealth University, and Norfolk State University. Full-time students taking lower course loads are also ineligible for VGAP. This includes students enrolled in programs with less than 12 credit hours of courses some semesters because of the challenging nature of the material, such as Virginia Tech's engineering and architecture programs.

Many students who initially qualify for VGAP lose eligibility because of VGAPs' full-time enrollment and progression requirements. Financial aid staff do not track the reasons that students lose VGAP eligibility (sidebar), but all institutions who were able to provide information about VGAP eligibility (14 institutions) estimated that more than half of the nearly 15,000 students receiving VGAP in 2020–21 lost VGAP eligibility. Of those 7,700 students who lost eligibility, 52 percent did so because they did not meet the full-time enrollment and progression requirements. (The remaining students lost VGAP eligibility for several reasons, including changes in their GPA or EFC, or not meeting their institutions' satisfactory academic progress requirements.) If students lose VGAP because they do not maintain continuous full-time enrollment, they cannot regain it and must cover the lost grant amount with other sources. Students who cannot cover the lost VGAP funding and have a balance on their account cannot register for classes.

Virginia's public four-year **institutions do not track the reason students lose VGAP eligibility.** JLARC staff developed a data request that asked institutions to report data and information on how many students lost VGAP in academic year 2020–21 and the reasons. All 15 institutions completed the data collection request. (See Appendix B for more information.)

VGAP's full-time enrollment and progression requirements also significantly increase financial aid staffs' administrative burden (sidebar). Financial aid staff at each institution check credit-hour enrollment and completion for each student receiving VGAP at least twice per semester, because students can add and drop classes multiple times during a semester. When issues are identified, financial aid staff have to *manually* adjust students' VGAP awards. For example, students who are no longer eligible for VGAP are dropped from the program, and their grant awards must be redistributed to other students. Across institutions, financial aid staff make several thousand manual adjustments to students' financial aid amounts each semester because of the full-time and progression requirements.

> *"We see significant numbers of our students dropped from the program in a given year or semester due to [VGAP] requirements. It causes a lot of hardship for students, and it is difficult to administer."*
>
> **– Financial aid staff**

The state could allow part-time students to receive *prorated* VGAP awards rather than requiring students to maintain full-time enrollment and progress a class level each year. This change would help the state meet a key goal from its higher education strategic plan to remove barriers that prevent economically disadvantaged students from accessing higher education. Several other states take similar approaches with their state financial aid grant programs. For example, students taking at least six credit hours of coursework can receive pro-rated grants through Tennessee's Student Assistance Grant program and Pennsylvania's State Grant Program. To ensure VGAP recipients are actively seeking a degree, the state should establish a minimum credit-hour threshold—one option would be a minimum of six credit hours, which is the threshold used for federal Pell grants and Commonwealth Award grants.

If part-time students are allowed to receive VGAP grants, but no additional state funding is provided, full-time students may receive smaller VGAP awards than they currently receive. The magnitude of this impact would depend on the number of part-time students who become eligible for VGAP grants and did not previously receive Virginia Commonwealth grants. For example, the full-time students' awards would not undergo large reductions if many of the part-time students who begin receiving VGAP were already receiving Commonwealth Award grants, because both programs are funded out of the same state funding allocation. The extent to which full-time students' VGAP awards would be reduced if part-time students become eligible for VGAP would also depend on the minimum credit-hour requirement that is established and the size of the pro-rated VGAP grants awarded to the part-time students.

RECOMMENDATION 1

The General Assembly may wish to consider amending § 23.1-638 of the Code of Virginia to allow in-state undergraduate students who are enrolled in at least six credit hours of academic coursework at public higher education institutions to be eligible to receive pro-rated state financial aid grant awards through the Virginia Guaranteed Assistance Program (VGAP) instead of requiring VGAP recipients to maintain continuous full-time enrollment and progress a class level each year.

JLARC staff categorized institutions that admit a large percentage of undergraduate students who apply, including low academic performers, as "access institutions" for the purposes of this report. Virginia public four-year institutions with the highest admission rates (89 – 96 percent) are: Virginia State University, Old Dominion University, Norfolk State University, Virginia Commonwealth University, and George Mason University.

VGAP's GPA requirements prevent some students from accessing state aid and are administratively burdensome for financial aid staff

Students are required to have at least a 2.5 high school GPA to *initially qualify* for VGAP, which inhibits some students' ability to initially access the program. Across Virginia's public four-year institutions, 2 percent of students (over 2,600 students) had a high school GPA below 2.5, making them ineligible for VGAP. Some institutions admit students with lower GPAs, especially Virginia's access institutions (sidebar). VGAP's 2.5 high school GPA requirement is contrary to guidance from subject matter experts that state financial aid grant programs should have limited eligibility requirements that are only need-based. VGAP's 2.5 high school GPA requirement also adds to the administrative burden on financial aid staff, because they must review transcripts already considered by admissions offices when students are admitted.

Instead of requiring students to have at least a 2.5 high school GPA to initially qualify for VGAP, the state should rely on the existing academic standards universities use to determine whether to admit students. This would ensure that all students with financial need who have been admitted to the institution can receive assistance from the state's largest need-based aid program. Institutions could still establish merit-based eligibility requirements for their institutional scholarship programs.

RECOMMENDATION 2
The General Assembly may wish to consider amending § 23.1-638 of the Code of Virginia to eliminate the requirement that students receiving the Virginia Guaranteed Assistance Program grant have a cumulative high school grade point average of at least 2.5.

VGAP's cumulative college 2.0 GPA requirement also prevents some students from accessing state financial aid. Across Virginia's public four-year institutions, 5 percent of students (6,700 students) had a college GPA below 2.0 and were ineligible for VGAP in academic year 2020–21. Many of the students with GPAs below the minimum VGAP requirements had $0 EFC, and most of these students attended Old Dominion University, Virginia Commonwealth University, Norfolk State University, and Virginia State University. Of the over 7,700 students that institutions estimated lost VGAP eligibility in academic year 2020–21, 11 percent did so because of the 2.0 GPA requirement. Similar to VGAP's full-time enrollment requirement, students who lose VGAP because of the 2.0 GPA requirement cannot regain their VGAP award, even if they improve their college GPA in later semesters.

Staff at institutions already check whether students are successfully completing coursework toward a degree using their institutions' satisfactory academic progress (SAP) requirements. SAP requirements are used as the minimum academic performance threshold for many large financial aid programs, including the federal Pell grant, Virginia's Commonwealth Award grants, and need-based grant programs in multiple other states (e.g., North Carolina, Pennsylvania, Washington, and Maryland). SAP requirements are also used by financial aid staff to determine students' eligibility for institutional financial aid programs. To meet SAP requirements, students must meet a minimum GPA requirement, as well as other requirements that show they are progressing toward their degree.

VGAP's 2.0 GPA requirement is more stringent than some institutions' minimum SAP requirements. Nine of Virginia's 15 public four-year institutions have SAP minimum GPA requirements between 1.0 and 1.9 for freshmen, sophomores, and juniors (Figure 3-2). These institutions have lower SAP minimum GPA requirements for these grades to allow students to improve their academic performance during college. However, all public four-year institutions have SAP minimum GPA requirements of 2.0 for students to receive financial aid in their senior year. Six public four-year institutions have a SAP minimum 2.0 GPA threshold for all students—George Mason University, Old Dominion University, the University of Virginia, the University of Virginia's College at Wise, Virginia Commonwealth University, and Virginia Tech.

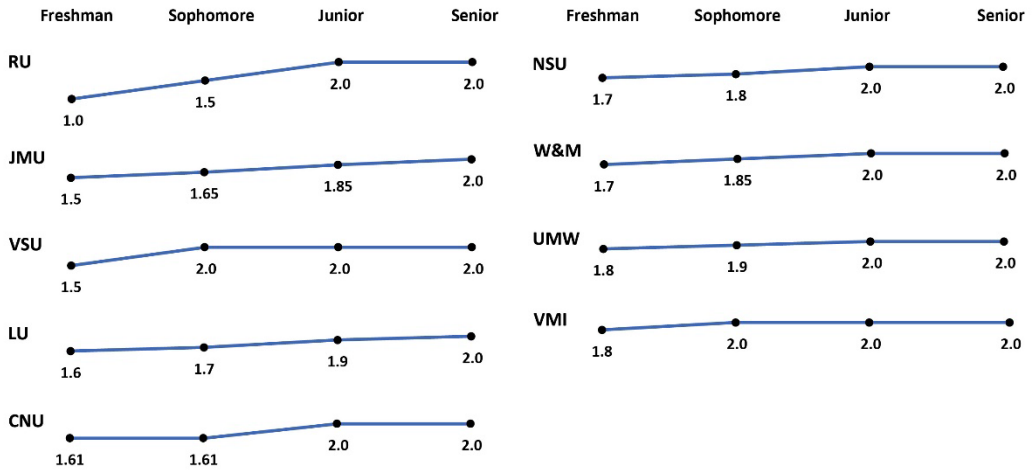
The state could use institutions' SAP requirements instead of VGAP's 2.0 GPA requirements to determine VGAP eligibility. Implementing this change would help (1) improve students' ability to receive VGAP grants at some institutions and (2) reduce financial aid staffs' workload.

RECOMMENDATION 3

The General Assembly may wish to consider amending § 23.1-638 of the Code of Virginia to require recipients of Virginia Guaranteed Assistance Program grants to meet the satisfactory academic progress requirements set by their public higher education institution instead of requiring all students to have a cumulative college GPA of 2.0 to continue receiving the grant after their first year.

FIGURE 3-2

SAP minimum GPA requirements are at or slightly below 2.0 for students at public four-year institutions



SOURCE: JLARC review of the institutional academic handbooks and satisfactory academic progress requirements.
NOTE: Satisfactory academic progress (SAP) requirements have multiple requirements, including a minimum GPA, an overall course passage rate, and maximum timeframes that specify how long a student may pursue a degree (usually six years) and how long they may receive financial aid. Six public four-year institutions have a SAP minimum GPA threshold of 2.0 for freshman, sophomores, juniors and seniors, including: George Mason University, Old Dominion University, the University of Virginia, the University of Virginia's College at Wise, Virginia Commonwealth University, and Virginia Tech.

Progression bonuses can be effective if amounts are high enough to incentivize behavior, and students are aware of them. Researchers found that bonuses between $1,200 and $2,800 can strengthen graduation rates, retention rates, and the number of credit hours students take.

JLARC staff interviewed 14 students at GMU, ODU, NSU, UMW, and VSU from March to June 2022 to hear student perspectives on accessing and receiving state financial aid. (See Appendix B for more information.)

VGAP progression bonus does not incentivize improved student success outcomes as intended

The VGAP "progression bonus" does not effectively incentivize students to graduate in a timely manner because most institutions' bonuses are too small to influence student behavior, and students are not aware of them. Aside from William & Mary's annual bonus of up to $1,000, the range of progression bonuses at Virginia's institutions is between $2 and $200 per year. The Code of Virginia does not specify an amount for progression bonuses, so institutions have discretion to set them. Current bonuses are far below what researchers indicate would be effective to incentivize students to continue pursuit of their degree and to graduate (sidebar). Students interviewed at five institutions were unaware of the VGAP progression bonus (sidebar). Financial aid

directors at all 15 institutions believe the bonus does not impact student behavior because of its size and students' lack of awareness.

In addition to being ineffective at most institutions, the VGAP progression bonus is administratively burdensome for financial aid staff. For example, institutions reported having to program as many as 15 additional "buckets" of potential VGAP awards in their systems every year to accommodate the various VGAP progression bonus amounts (sidebar). Some institutions are better positioned than others to apply VGAP progression bonuses because of their financial aid systems and staffing levels. However, financial aid staff at all institutions—including those with large, customized financial aid IT systems—have to manually enter VGAP bonus amounts. At James Madison University, for example, one full-time staff member adjusts nearly 1,100 students' VGAP awards each year to administer the progression bonus. At the University of Virginia's College at Wise, the financial aid director manually adjusts roughly 975 students' VGAP awards each year to administer the bonus.

> *"VGAP is definitely our most difficult program to administer. At the start of each year, I have to build in assumptions about how many students are going to fall into each of 15 potential funding "buckets" and estimate the total amount and average award for each bucket."*
>
> **– Financial aid staff**

A progression bonus program could be more effective if bonus amounts were larger, as recommended by subject matter experts, and institutions made students aware of them. The state could award a flat $1,200 bonus to students each year they advance a grade level, which would cost an estimated $84 million in additional state general funds per year. Conversely, bonuses could increase from $1,200 to $1,500 to $1,800 when students progress to their sophomore, junior, and senior years respectively, which would cost an estimated $104 million in additional state general funds per year. Larger bonuses would result in higher amounts of state aid for students who qualify and would cause students' total aid to exceed tuition and fees in some cases. In these cases, progression bonuses would have to be limited because state grant funding cannot exceed tuition and fees (see discussion below).

A separate progression bonus program would be administratively easier for financial aid staff because they would not be required to adjust students' VGAP awards as they progressed. Creating a new program would also allow students to view progression bonuses as funding they can receive *in addition* to their state grant. Under VGAP, failure to progress results in a financial penalty for students because it causes them to temporarily lose their VGAP grant until they progress to the next class level. To evaluate the effectiveness of a new progression bonus program and to manage program costs, the state could first pilot a progression bonus program that is targeted to institutions that request to participate or to a category of students the State Council for Higher Education in Virginia (SCHEV) identifies as being at risk of not progressing.

Alternatively, given the number of in-state undergraduate students with unmet need after all sources of financial aid are applied, the General Assembly could instead spend additional state funding to increase its investment in the existing state aid programs. Regardless, a progression bonus should no longer be required for VGAP awards because it currently is not effective at improving student outcomes and is administratively burdensome for institutions. General funds or surplus funding from the Virginia529

prepaid plan could be used if the state decides to increase the value of the progression bonus (sidebar).

The **Virginia529 prepaid plan has a surplus** of $1.6 billion based on the 2021 valuation, a significant portion of which could be used to support higher education access and affordability through financial aid grants. See JLARC's 2022 *Defined Benefit 529 Surplus Funds* for more information.

RECOMMENDATION 4

The General Assembly may wish to consider amending § 23.1-638 of the Code of Virginia to no longer require public higher education institutions to increase students' Virginia Guaranteed Assistance Program grant awards as they progress to higher class levels.

RECOMMENDATION 5

If the General Assembly wishes to maintain a progression bonus, it may wish to consider amending § 23.1-638 of the Code of Virginia to pilot a new state financial aid progression bonus program that requires public higher education institutions to provide a minimum increase of $1,200 in additional state financial aid grant funding to students who re-enroll for their sophomore, junior, and senior years.

"Last dollar" policy for state aid is impractical to administer and can reduce student aid in some cases

State law and SCHEV regulations require that both VGAP and Commonwealth Award grants be awarded as "last dollar" *after* other sources of aid known at the time state awards are made (sidebar). This last dollar policy is intended to reserve limited state financial aid funding for students whose needs are not addressed through other financial aid sources. For example, a student who receives financial aid from the institution may not need state aid as much as a student who does not. Despite its worthwhile goal, Virginia's last dollar policy is difficult for financial aid staff to administer consistently across students, and it can negatively affect the amount of aid that some students receive to cover higher education costs.

Some institutions have committed to covering unmet need for in-state students. The institutions that do this—the University of Virginia, the Virginia Military Institute, and William & Mary—have been granted additional flexibility from SCHEV to award state aid earlier in the process (usually after federal aid), because institutional aid is used to cover all remaining unmet need.

Financial aid staff at Virginia's public four-year institutions are unable to administer the state's last dollar policy consistently because students receive financial aid from different sources (e.g., institutional and other external sources) and notify their institutions of the aid they have received at different times throughout the year. In many cases, these other awards come after state financial aid grant awards have already been decided. Depending on the institution's financial aid packaging practices, some students receive state grant awards along with the other financial aid they have received, while other students' state grant awards are revoked or reduced when they receive other financial aid. The second scenario happens when a student receives financial aid from an external source *after* the state grant award has been made, which causes the student's total unmet need to decrease. This can make them no longer eligible to receive as much in state grant dollars and may make them ineligible altogether.

Virginia's last dollar policy is administratively burdensome for financial aid staff, because staff have to continuously collect information on financial aid awards from students and adjust students' financial aid packages based on the aid information they receive, including removing or reducing aid that a student is no longer eligible to receive. The need to collect financial information and continuously adjust students' financial aid packages would not be necessary if state grants were awarded directly after federal Pell grants instead and not after all known financial aid.

Virginia should eliminate the last dollar state aid requirement and direct institutions to award VGAP and Commonwealth Award grants directly after federal Pell grants. This would allow institutions to administer state aid more consistently and with less administrative burden. Institutions would not have to reduce or revoke state grants based on the amount of institutional aid that students receive in most cases (sidebar). Institutions would still be able to use institutional aid to help address students' remaining higher education costs after state aid is awarded, including costs that are not part of tuition and fees. This change would increase per-student state financial aid grant awards because students' state grants would no longer be reduced or withdrawn because of the last dollar requirement. However, this change could mean state financial grants would be awarded to fewer students because there would be less redistribution of funds from those students who initially received the award to other students.

If the state allows state grants to be awarded after Pell, **state grant amounts would still be reduced or revoked** when a student is awarded state aid grants (which are restricted to tuition and fees) and institutional aid that is restricted to tuition and fees, and the student's total restricted aid awards exceeded their tuition and fee costs.

There are some cases where students are eligible to receive specialized, restricted financial aid awards, such as aid from the state's Virginia Military Survivors & Dependents Education Program. In these cases, SCHEV could retain the flexibility to direct institutions to meet students' financial need with the specialized financial aid rather than VGAP or Commonwealth Award grants.

RECOMMENDATION 6

The General Assembly may wish to consider amending § 23.1-601 of the Code of Virginia to require public higher education institutions to calculate per-student state financial aid grant awards after subtracting per-student federal Pell grant awards.

VGAP and Commonwealth Award should be combined to make state grants more accessible to students

The state should combine the VGAP and Commonwealth Award grant programs into a single need-based state grant program to simplify state financial aid grants for students and financial aid staff. Having two separate grant programs causes confusion among students because they have to understand two separate sets of eligibility criteria and award amounts. Having two grant programs also increases the workload of financial aid staff because they have to switch students between programs as student eligibility changes, instead of using a single set of grant criteria. Combining VGAP and

Commonwealth Award programs would enable students and financial aid staff to interact with one state grant program.

North Carolina is currently consolidating multiple state financial aid grant programs into a single program based on recommendations from a review of its state grants. The review, conducted by state leaders and financial aid practitioners in consultation with state and national financial aid experts, concluded that "the complexity of applying for aid can lead to [student] inaction," therefore, states should simplify their grant programs in part by "limiting the number of separate programs so that students receive a clear, coherent message about aid availability…"

If the General Assembly combines the grant programs, the eligibility criteria of the combined program should reflect the Commonwealth Award's less stringent eligibility requirements (e.g., lower credit-hour requirement, use of satisfactory academic progress instead of a prescribed GPA, and elimination of the VGAP progression bonus). This would improve the accessibility and effectiveness these grants and reflect Recommendations 1, 2, 3, and 4 and/or 5 from this report. However, a combined program could include one beneficial element of the VGAP program, which allows grants to cover the cost of books and supplies in addition to tuition and fees. This program element could be preserved in a new, combined state program to support the state's goal of making education-related expenses affordable for students. Currently, Commonwealth Award grants cannot be used for books and supplies.

RECOMMENDATION 7

The General Assembly may wish to consider amending § 23.1-636 of the Code of Virginia to eliminate the Virginia Guaranteed Assistance Program and establish the Virginia Commonwealth Award Program as the state's primary need-based state financial aid grant program.

4 Financial Aid Program Awards and Funding

State financial aid can be highly effective for helping students access higher education. To award state aid as effectively as possible, subject matter experts generally agree that aid awards should be made to students with the greatest financial need (sidebar). This awarding principle helps ensure that students with the greatest financial need receive state financial aid before other students, which is important given that there is not enough financial aid to meet all need.

Staff from the State Council of Higher Education for Virginia (SCHEV) develop and use a funding formula to determine the amount of funding public four-year institutions should receive each year for Virginia Guaranteed Assistance Program (VGAP) and Virginia Commonwealth Award (Commonwealth Award) grants. SCHEV staff use the formula to calculate the amount each institution's funding should *increase* each year and then add it to what the institutions received the previous year. SCHEV staff recommend state financial aid funding amounts to the General Assembly each biennium, and the legislature appropriates state grant funding to each institution. (Actual appropriations sometimes differ from SCHEV's recommendations.)

> *"If financial aid programs set out to ensure that disadvantaged students have equitable access to higher education, funds ought to be steered toward students who would not have enrolled in higher education but for the grant or scholarship..."*
>
> **– Subject matter expert, Journal of Public Economics**

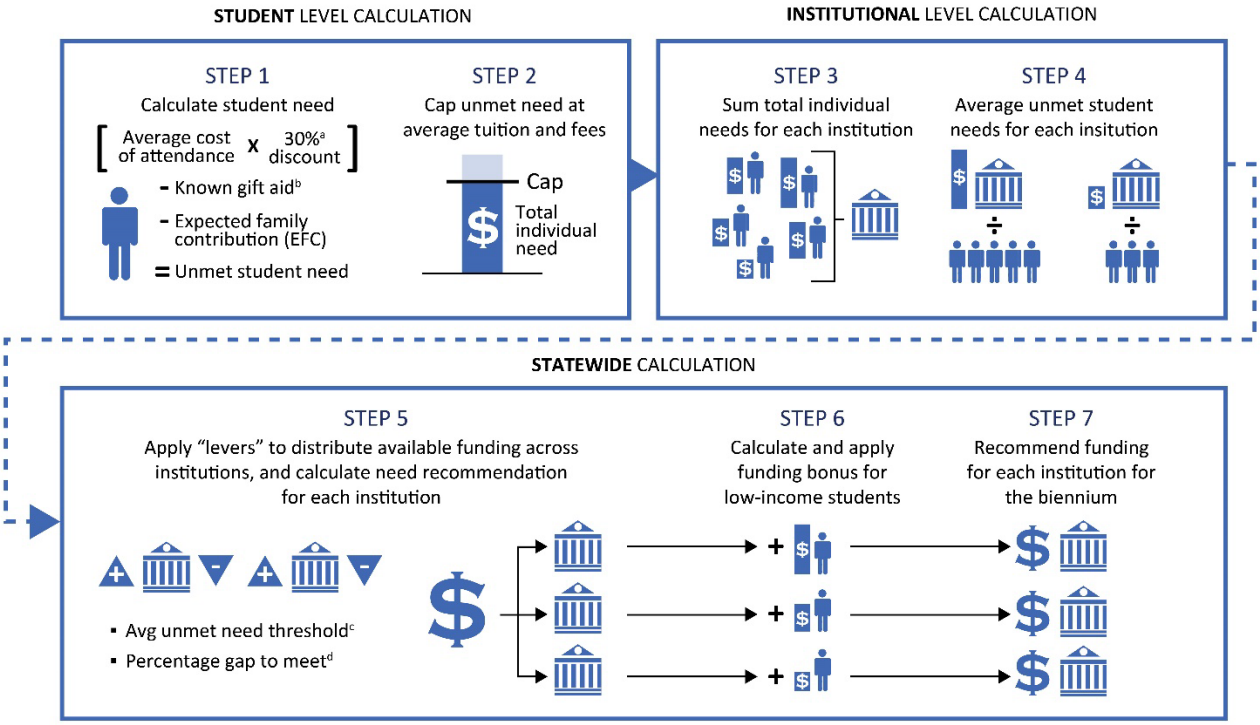
Students' unmet financial need reflects the amount of financial need that students had toward the cost of tuition and fees after their expected family contribution (EFC) and all grants (federal, institutional, other, and state) were applied in academic year 2020–21.

For this report, students were separated into four financial need groups
- Greatest need (defined as $0 expected family contribution [EFC])
- High need ($1-$6,000 EFC)
- Moderate need ($6,001-$15,000 EFC)
- Minimal need ($15,001 EFC or greater)

Virginia's approach to allocating financial aid grant funding underfunds need at some institutions

The state's current approach to allocating state financial aid dollars has left several institutions with insufficient funds to award state grants to their neediest students. For example, the state allocated $174.8 million in grant funding in academic year 2020–21 to Virginia's 15 public four-year institutions, based on SCHEV's recommendations, but eight institutions did not receive enough funding for students in the two highest tiers of student financial need: those with *greatest need* and those with *high need* (sidebars). George Mason University was the most underfunded, receiving less than half of the state grant funding needed to fully cover these students' unmet need toward tuition and fees. George Mason University needed an additional $35.7 million to fully meet the financial aid needs of its *greatest need* and *high need* students. Underfunding largely results from limited state appropriations but also a few elements of SCHEV's formula that affect the distribution of state dollars.

FIGURE 4-1
SCHEV staff complete seven steps to calculate recommended VGAP and Commonwealth Award grant funding allocations for institutions



SOURCE: JLARC staff interviews with SCHEV staff.
NOTE: Figure reflects formula SCHEV uses to calculate state financial aid grant funding allocations for public four-year institutions and public two-year institutions. Funding for other state grant programs for public and private institutions is calculated separately.
[a] 30% discount is the portion of need SCHEV staff have assumed students will cover through loans or other means. [b] Known gift aid includes federal Pell grants, and state, institutional, and external financial aid. It does not include endowment-based institutional aid. [c] Average unmet need threshold is an amount set by SCHEV to determine which institutions receive state grant funding increases (e.g., $2,750 for public four-year institutions in FY23 and FY24). Institutions with average unmet need amounts below the threshold are not recommended by SCHEV to receive an increase in their allocation of state financial aid grant funds for the fiscal year. [d] Percentage gap to meet is a fraction SCHEV uses to calculate the portion of institutions' student need that funding increases should address (e.g., 55% in FY23 and FY24). The fraction is selected based on the total amount of state funding available for state grant funding increases.

SCHEV calculates institutions' state financial aid grant funding using an **average unmet need threshold (e.g., $2,750)**. SCHEV uses the threshold to determine which institutions should receive state grant funding. Institutions with average unmet need below the threshold are not recommended to receive increased funding for the fiscal year unless they receive a low-EFC enrollment bonus.

SCHEV's funding formula awards institutions a bonus for students with low expected family contributions (EFC) to help ensure institutions receive the amount of state aid needed to meet students' needs (step 7, Figure 4-1). Institutions receive a low-EFC enrollment bonus of $400 for each of their $0 EFC students. They can also receive smaller bonuses for students with EFCs above $0. (The bonus amount decreases $0.20 for every $1 increase in EFC.)

SCHEV staff have not applied the bonus for low-EFC students consistently. All 15 of Virginia's public four-year institutions received bonuses in FY21 and FY22, with amounts ranging from $26,707 at Virginia Military Institute to $1.9 million at Old Dominion University. For FY23 and FY24, however, only those institutions whose average unmet financial need falls below a threshold established by SCHEV (sidebar) will

receive the bonus. SCHEV staff applied the bonus only for these institutions (University of Virginia, College of William & Mary, Christopher Newport University, and Virginia Military Institute) because they otherwise would not have received an increase in student financial aid funding over the previous year. However, the other 11 institutions had students with even greater need, including institutions with the largest low-EFC student populations like George Mason University and Old Dominion University. Bonuses for the 11 institutions would have totaled $71.2 million each year. Unmet student need is large enough at all 15 institutions to warrant an allocation of low-EFC enrollment bonus funds to each one.

SCHEV staff should consistently include low-EFC enrollment bonuses for *all* public four-year institutions in its funding formula calculations to help institutions serve their neediest students. This funding should not be limited to a subset of institutions. EFC bonuses are funded through the same state grant funding allocation as institutions' primary state grant funding allocation. To prevent EFC bonuses from becoming too large a portion of available state funds, the state would need to provide additional state grant funding, or SCHEV would need to decrease the bonus amounts that institutions receive for students.

RECOMMENDATION 8

The State Council of Higher Education for Virginia should calculate low-expected family contribution enrollment bonuses for all public institutions as part of state financial aid grant funding formula calculations and include bonuses in all public institutions' grant funding recommendations each fiscal year.

Recommendations 8, 9, and 10 should only be implemented if SCHEV continues recommending financial aid grant fund allocations for institutions. This chapter includes a policy option to design and implement a statewide financial aid grant award schedule (Policy Option 2), which would make the changes in these recommendations unnecessary. For example, an EFC bonus (Recommendation 8) would no longer be needed if a statewide schedule that prioritizes aid for low EFC students is implemented.

SCHEV's funding formula also does not consider institutions' available endowment funds, which contributes to some institutions receiving less state aid than they need. SCHEV accounts for institutional aid funded through other sources (e.g., tuition revenue or auxiliaries) in funding formula calculations (step 1, Figure 4-1), but endowment-based institutional aid is not included in students' "known gift aid" amounts. Therefore, the formula does not account for a significant amount of institutional financial aid—endowment aid made up about $65 million, or one-third of students' financial aid, in academic year 2020–21. This means that state financial aid is not fully targeted to the neediest students, because schools with less endowment aid have fewer total resources to help meet students' financial aid needs, which is not reflected in their state financial aid funding.

State law currently prohibits endowment-based institutional aid from being considered in state financial aid grant funding formula calculations (or higher education funding decisions more broadly):

> *…the availability of the endowment funds and unrestricted gifts from private sources received by public institutions of higher education…shall neither be taken into consideration in nor used to reduce state appropriations or payments. (§ 23.1-101)*

Public four-year institutions' use of **endowment-based institutional aid** varies widely, with Virginia Tech awarding the most ($12.5 million), and Norfolk State University awarding the least ($823,000) in academic year 2020-21. See Appendix D for information on each institution's use of endowment-based institutional aid.

State law could be amended to allow endowment-based institutional aid that institutions previously awarded to students to be included in the state's financial aid grant funding calculations. Institutional staff already report to SCHEV annually the amount of endowment-based aid they awarded, so this would not add an administrative burden for staff. Incorporating endowment-based aid into state grant funding calculations would improve SCHEV's ability to allocate state grant funding to institutions that have the most unmet student need, because institutions with limited endowment-based institutional aid (sidebar) would receive more state funding. For example, if the amount of state appropriations remained the same, but endowment-based institutional aid had been factored into institutions' FY24 funding calculations, six institutions would likely have received *more* in state grant funding and five institutions would likely have received *less* in state grant funding (Table 4-1). Compared with the state's actual FY24 funding allocations, funding would increase the most at George Mason University ($1.5 million) and decrease the most at Virginia Tech ($1.4 million). The vast majority of institutions would experience modest impacts on their total state grant funding allocations; however, total state grant funding for the University of Virginia's College at Wise would decrease 20 percent (approximately $1 million). Still, considering endowment-based institutional aid in state grant funding allocations would better direct state funds to institutions with less endowment funding to meet students' financial needs. For example, at George Mason, if state grant awards averaged $5,000 per student, $1.5 million in additional state grant funding could fund state grant awards to 300 additional students.

Policy options for consideration. Staff typically propose policy options rather than make recommendations when (i) the action is a policy judgment best made by elected officials—especially the General Assembly, (ii) evidence suggests action could potentially be beneficial, or (iii) a report finding could be addressed in multiple ways.

Allowing endowment-based institutional aid to be included in the state's financial aid grant funding calculations would only affect institutions' state financial aid grant funding and not general state funding, which may be a concern for donors.

This change would be applicable if the state implements a statewide awarding schedule (as discussed later in this chapter) that considers students' non-state financial aid awards and unmet need after all sources of aid are applied.

POLICY OPTION 1

The General Assembly could amend § 23.1-101 of the Code of Virginia to allow financial aid funded through endowments at public higher education institutions to be factored into state financial aid grant funding decisions.

TABLE 4-1
Including endowment-based institutional financial aid in state grant funding calculations would have varying effects on institutions' funding levels

Institution	Actual FY24 state grant funding allocation	Possible FY24 allocation factoring in endowment funds	Difference ($)	Percent change in total state grant funding allocation
GMU	$61,971,338	$63,450,108	$1,478,770	2.4%
NSU	$21,040,450	$21,490,507	$450,057	2.1%
ODU	$49,525,518	$50,134,263	$608,745	1.2%
VCU	$48,631,080	$49,113,362	$482,282	1.0%
VSU	$14,722,494	$14,781,494	$59,000	0.4%
RU	$23,026,708	$23,114,060	$87,352	0.4%
CNU	$7,287,497	$7,287,497	$0	0.0%
W&M	$4,832,091	$4,832,091	$0	0.0%
UVA	$10,055,967	$10,055,967	$0	0.0%
VMI	$1,418,302	$1,418,302	$0	0.0%
JMU	$17,991,531	$17,817,398	($174,132)	-1.0%
UMW	$5,928,824	$5,725,107	($203,717)	-3.4%
LU	$8,358,858	$8,059,068	($299,790)	-3.6%
VT	$26,050,706	$24,605,119	($1,445,588)	-5.5%
UVA-W	$5,168,526	$4,124,899	($1,043,627)	-20.2%

SOURCE: JLARC analysis of data provided by SCHEV on FY24 state financial aid grant funding allocations.
NOTE: The possible funding amounts cited for individual institutions are hypothetical; actual funding amounts would depend on the parameters SCHEV staff use in the state grant funding formula. State grant funding allocations for UVA, W&M, CNU, and VMI would not have been affected by the inclusion of endowment-based aid in FY24 because they were not recommended by SCHEV to receive increases in their state grant funds since their students' average unmet need was below the average unmet need threshold in SCHEV's funding formula.

Financial aid funding formula is not well understood by institutions

The complexity of the state's financial aid grant funding formula makes it difficult for institutions to understand how funding allocations are calculated. SCHEV staff perform multiple calculations and manipulate institution-level data in several ways to arrive at a recommended funding allocation that (i) awards more state funding to institutions with the greatest student need and (ii) attempts to lower the average student need at those institutions. Financial aid staff at more than half of Virginia's public four-year institutions reported not understanding the funding formula's calculations. For example, one higher education staff member reported, "I don't understand [the formula]. We can't replicate it. We want to see some sort of simplification. It is incomprehensible." In addition, most financial aid directors were not aware of the low-EFC enrollment bonus. The funding formula's complexity is not a new issue; stakeholders identified complexity as a top concern when the funding formula was reviewed in 2019.

To improve institutions' understanding of the funding formula, SCHEV staff should draft and publish a comprehensive description of the methodology staff use to calculate state financial aid grant funding allocations. The description should include information about the metrics that influence institutions' funding allocations, as well as an example of how each step of the formula is calculated for an individual institution. The description should be posted on SCHEV's website, and SCHEV staff should update the description in a timely manner if and when changes are made to the formula.

RECOMMENDATION 9
The State Council of Higher Education for Virginia should publish on its website a description of the methodology used to calculate the recommended state financial aid grant funding allocations to public higher education institutions and update the description in a timely manner if and when changes to the methodology are made.

SCHEV council members should be more informed about financial aid allocation decisions

SCHEV's council has many responsibilities, including leading Virginia's higher education policy development and strategic planning efforts. The council has 13 voting members, 12 of whom are appointed by the governor. The council meets six times each year and has two standing committees. The academic affairs committee implements academic policies and approves new programs. The resources and planning committee helps develop annual budget recommendations to the governor and General Assembly. The council also has multiple advisory committees, including a finance advisory committee that meets monthly and includes the chief financial officers at Virginia's 15 public four-year institutions, the Virginia community college system, and several public two-year institutions. SCHEV staff regularly communicate with members of the financial advisory committee to discuss institutions' funding needs.

Staff changes to financial aid grant funding calculations should be subject to review and approval by the council

SCHEV staff regularly adjust elements of the state financial aid grant funding formula, and neither the formula nor changes to it are subject to approval by SCHEV council members or any other state entity. SCHEV staff currently discuss large formula reforms with council members, institutions, and other stakeholders. SCHEV staff also periodically share the results of funding formula calculations with SCHEV council members before they submit funding recommendations to the General Assembly. However, SCHEV staff do not regularly discuss or obtain formal approval from council members on the methodological decisions they make each year, such as the average unmet need threshold they use to determine which institutions receive funding increases, or whether they recommend low-EFC enrollment bonuses for all institutions.

This prevents the formula from being fully evaluated, approved, and understood by state officials other than SCHEV staff.

Changes to the formula affect the amount of aid that institutions—and therefore students—receive. For example, when SCHEV changed the average unmet need threshold for public four-year institutions from $5,750 in FY22 to $2,750 in FY23, the change meant that institutions with less student financial need had a greater chance of receiving state grant funding in FY23 than in FY22. In addition, as described previously, SCHEV staff also inconsistently apply the low-EFC enrollment bonus.

SCHEV council members should be responsible for approving any changes to the funding formula. Pennsylvania takes this approach and requires an oversight entity to approve the state's financial aid awarding schedule (sidebar).

Pennsylvania's State Grant Advisory Committee provides feedback on the state's grant awarding formula and parameters. The committee has financial aid administrators from higher education and other stakeholders. The committee reports to a subcommittee of the Pennsylvania Higher Education Assistance Agency (PHEAA) Board of Directors and meets with PHEAA staff multiple times per year.

RECOMMENDATION 10

The General Assembly may wish to consider amending Chapter 2 of § 23.1 of the Code of Virginia to require members of the State Council of Higher Education for Virginia (SCHEV) to approve changes to SCHEV staff's methodology used to determine recommended state financial aid grant funding allocations to public higher education institutions.

Routine evaluations of state financial aid grants could improve their effectiveness at helping students access higher education

Additional data would help SCHEV staff, council members, legislative staff, and institutions' financial aid staff better understand the extent to which state financial aid grants are helping the neediest students access higher education. SCHEV staff currently publish a biennial report with information on financial aid awards and student financial need before and after state aid is awarded; however, the report does not provide information on the number of students with different EFCs at each institution or students' unmet financial need toward tuition and fees before and after each type of financial aid grants (federal, institutional, other, and state) are awarded. Better understanding how state aid addresses students' tuition and fee needs—based on students' ability to pay and the institution they attend—would help policymakers assess state grants' effectiveness in meeting student financial need each year and determine when to change student eligibility requirements or grant program funding levels.

SCHEV staff should annually review and publish several financial aid-related metrics by EFC bracket (or the federal metric that replaces EFC) including the:

- number of in-state undergraduate students attending public institutions;
- aggregate and average amount of student financial need toward tuition and fees addressed using state financial aid grants, by public higher education institution; and

- aggregate and average amount of unmet student financial need toward tuition and fees after *all* financial aid (federal, state, institutional, and other) grants are awarded, by public higher education institution.

As an example, SCHEV's peer agency in Pennsylvania regularly reports on the level of unmet need state grants address, as well as whether students with different income levels have comparable levels of financial need after receiving state grants.

RECOMMENDATION 11

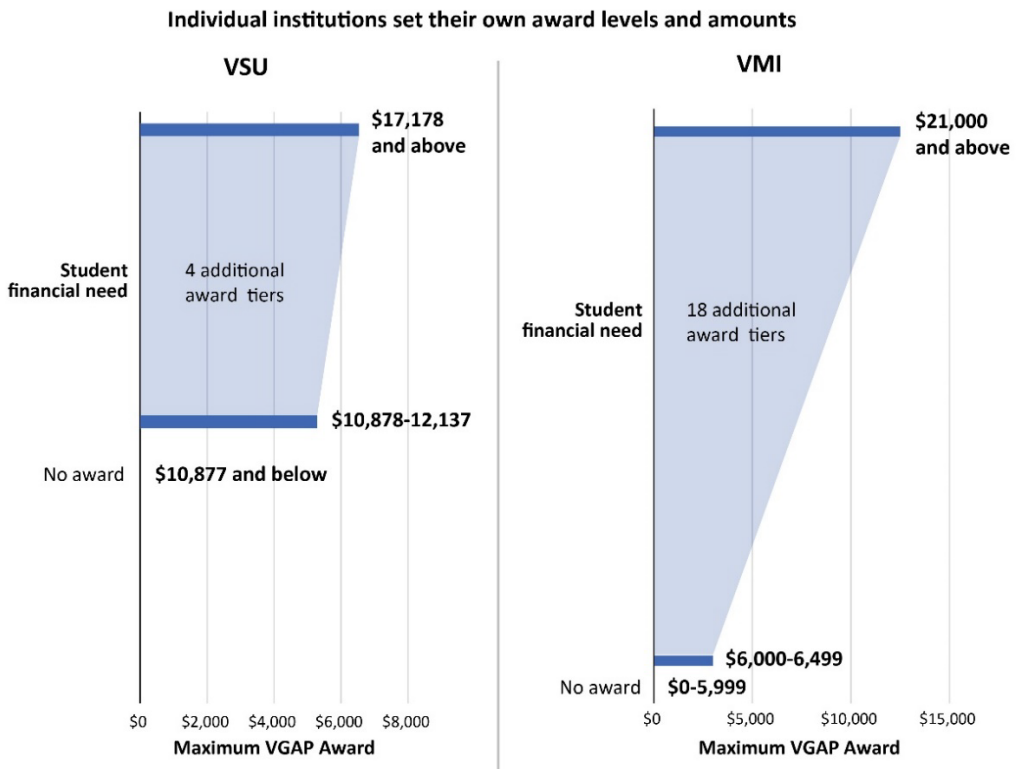
The General Assembly may wish to consider amending § 23.1-601 of the Code of Virginia to require staff from the State Council of Higher Education for Virginia (SCHEV) to annually review and report to SCHEV council members key financial aid metrics for students, by expected family contribution bracket or the federal metric that replaces it, including: (i) the number of in-state undergraduate students attending public institutions; (ii) the aggregate and average amount of student financial need toward tuition and fees addressed using state financial aid grants; and (iii) the aggregate and average amount of unmet student financial need toward tuition and fees after all financial aid grants are awarded, and use this information as the basis for recommending to SCHEV council members changes to the state's approach to financial aid grant funding or student grant eligibility requirements, as needed.

Institutions' practices for awarding state aid do not consistently prioritize students with greatest need

Virginia's public four-year institutions have different policies and practices for awarding VGAP and Commonwealth Award grants, which is allowed under state law. Each institution adopts its own financial aid "schedules" that stipulate: the basis for measuring students' financial need (e.g., based on income level, EFC, or remaining need), student eligibility for state grants, and the maximum state grant awards (Figure 4-2). State law currently allows institutions to design their own financial aid schedules and award state grants differently as long as state grant awards are larger for students with more need.

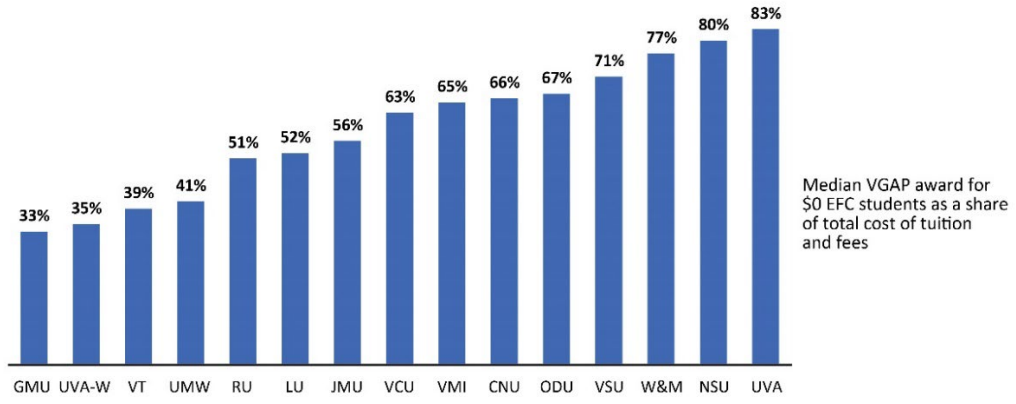
Students with similar financial need receive different state grant awards depending on the institution they attend because each institution has a unique financial award schedule. For example, students with no ability to pay for higher education ($0 EFC students) received a median VGAP award of $3,785 at the University of Virginia's College at Wise, $6,540 at Virginia State University, $12,500 at Virginia Military Institute, and $17,957 at William & Mary (Figure 4-3). These differences occur because institutions' award schedules distribute state aid differently across their students. Some institutions' schedules award smaller state grants to many students, while others provide large state aid awards to a few students. Therefore, although state grant awards are all funded through the state's general fund, students can receive extremely varied amounts of state aid even if they have similar financial need.

FIGURE 4-2
Public four-year institutions' awarding "schedules" have different parameters for state awards



SOURCE: JLARC staff analysis of state financial aid awarding policies from Virginia's public four-year higher education institutions.
NOTE: Examples shown are for VGAP awards at Virginia State University and Virginia Military Institute. VSU and VMI use "remaining financial need" instead of EFC as their metric to determine state financial aid awards. Institutions have separate schedules for Virginia Commonwealth Award grants.

FIGURE 4-3
Median VGAP awards cover a different percentage of tuition and fees for $0 EFC students depending on the institution they attend

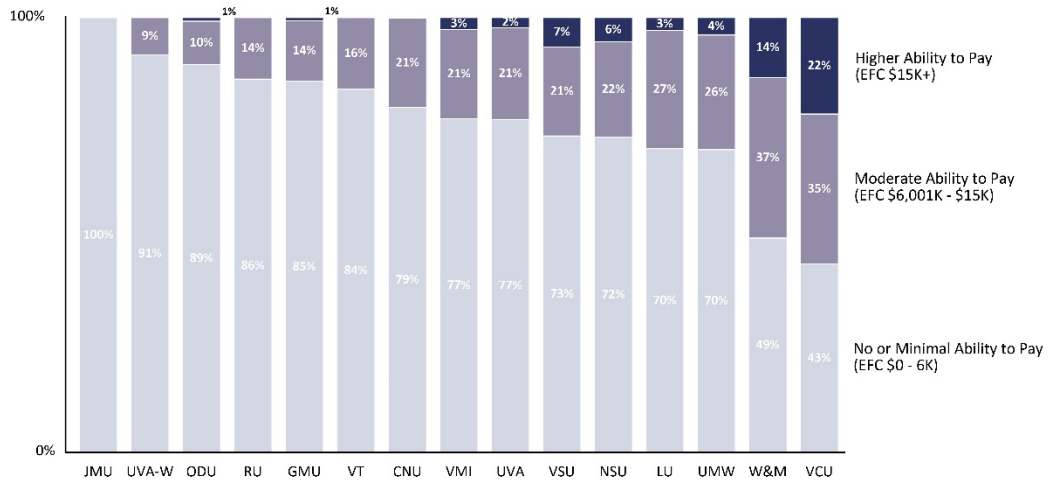


SOURCE: JLARC review of student-level data from SCHEV for academic year 2020–21.

With the discretion that institutions have to develop their own awarding schedules, some have directed state financial aid to students with *moderate* and *minimal* financial need even though students with no ability to pay ($0 EFC) had unmet need after all sources of aid were applied. Institutions awarded a total of $31.2 million in state grants to students with *moderate* financial need and $5.8 million to those with *minimal* financial need in academic year 2020–21. The proportion of aid awarded to students with *moderate* and *minimal* financial need varied widely across institutions (Figure 4-4). Students with *moderate* financial need—referred to as the "missing middle"—are awarded state grants because they have significant unmet financial need ($17.9 million in academic year 2020–21) and are not eligible for federal Pell grants. Although awarding state grants to these students addresses legitimate financial need, it does not use limited state funds as prudently as possible to assist the students who are most reliant on financial aid. Institutions' practices of awarding state grants to students with lower financial need are not new; JLARC found that institutions awarded an average of 8 percent of state grant funds to high-income students statewide in academic year 2012–13 as part of a 2014 study of higher education costs.

Institutions also award institutional financial aid to help meet students' financial needs, but most institutions do not fully address the neediest students' tuition and fee needs before awarding aid to other students. For example, students with the *greatest need* ($0 EFC) and *high need* ($1–$6,000 EFC) attending Virginia Commonwealth University in academic year 2020–21 received $9.5 million in state grants and $13 million in institutional grants, but these students still had a combined unmet need of over $30 million. That year, over 41 percent of VCU's institutional aid was awarded to students with *moderate* and *minimal* financial need, a large portion of which was merit-based aid. Three exceptions are the University of Virginia, the Virginia Military Institute, and William and Mary, which have committed to covering in-state students' unmet need after other aid (and sometimes loans) are applied. These institutions have a significant amount of endowment resources to address students' unmet need through institutional aid.

FIGURE 4-4
Some institutions award large portions of their state VGAP and Commonwealth Award grants to students with high or moderate ability to pay



SOURCE: JLARC review of student-level data from SCHEV for academic year 2020–21.

Additional parameters for state financial aid awards would help direct aid to neediest students

To more effectively target limited state grant funding to students with the greatest financial need, the state should be more prescriptive about student eligibility for state financial aid dollars. This could be achieved through two different approaches: (1) implementing a single state financial aid grant awarding schedule or (2) restricting institutions' ability to provide state grants to less needy students. Both approaches have advantages and disadvantages. Implementing a statewide awarding schedule would redistribute state grant funds across institutions and direct state funds to students with the most unmet need, and it would make state grant awards more predictable and easier to understand for students. However, it would remove institutions' discretion in awarding state financial aid grants and decrease state grant funding for some institutions compared to what they have historically received.

The other option—restricting institutions' ability to provide state grants to less needy students—would improve the distribution of state grant funds *within* each institution, but it would not change the distribution of state grant funds *across* institutions, or make state grant awards more predictable and easier to understand for students. Regardless of which approach the state takes, changes are needed to prevent limited state funding from being awarded to students with less financial need when comparatively needier students could benefit more from state grant funding.

Student Aid Index will replace expected family contribution (EFC) as the metric used by the federal government to assess need for financial aid in the Free Application for Federal Student Aid beginning in academic year 2024–25. A statewide awarding schedule (Policy Option 2) or cap on EFC that qualifies students for state grants (Policy Option 4) should use the federal metric.

Virginia's public community colleges participate in the state's Virginia Guaranteed Assistance and Virginia Commonwealth Award financial aid grant programs. Changes to awarding requirements for these programs would also apply to community colleges.

JLARC staff categorized institutions that admit a large percentage of undergraduate students who apply, including low academic performers, as "access institutions" for the purposes of this report. Virginia public four-year institutions with the highest admission rates (89 – 96 percent) are: Virginia State University, Old Dominion University, Norfolk State University, Virginia Commonwealth University, and George Mason University.

RECOMMENDATION 12

The General Assembly may wish to consider amending § 23.1-601 the Code of Virginia to establish additional parameters for state financial aid grant awards that ensure public higher education institutions are prioritizing state grant funding to students with the most financial need.

Statewide financial aid schedule would better serve neediest students with minimal administrative impact on institutions and SCHEV

A state financial aid award schedule would be used to determine (1) the level of financial need that qualifies students for state aid, regardless of the institution they attend, and (2) individual student aid awards, regardless of institution. This would discontinue the state's reliance on institutions to make these decisions. A state schedule should prioritize state aid dollars for students with low EFCs (or another comparable measure of need, such as the student aid index [sidebar]). All public institutions could be required to use the statewide awarding schedule (sidebar). A statewide awarding schedule would effectively remove institutions' discretion for awarding state aid funds, but they would continue to have discretion when awarding *institutional* aid.

Requiring all public four-year institutions to use the same statewide awarding schedule for state grants would ensure that limited state resources are directed to the neediest students. For example, students with the *greatest need* ($0 EFC) and *high need* ($1–$6,000 EFC) would be able to receive larger state grants, because funds would no longer be awarded to students with higher EFCs and lower financial need. Better targeting of state grants would be especially beneficial to students at Virginia's access institutions (sidebar), because they have larger populations of students with low EFCs.

Implementing a statewide awarding schedule would help students and their families understand their eligibility for state financial aid grants. The way students' state grant amounts are calculated would no longer vary depending on the institution they attend. This would significantly reduce the complexity of the state's current approach to financial aid, according to financial aid staff at Virginia's public four-year institutions. Under a statewide awarding schedule, students could more accurately predict the amount of state aid they are eligible for using the state's online financial aid calculator, which would enable them to better plan financially for higher education.

At least 10 other states use a single financial aid awarding schedule to distribute state financial aid grants to the neediest students. States design awarding schedules differently, but some structure award amounts as tiered percentages of students' need (Figure 4-5). For example, Pennsylvania uses an awarding schedule for its Pennsylvania State Grant Program that meets a percentage of students' financial need (e.g., 50 percent, 40 percent). Based on these percentages, grant amounts range from a minimum of $500 for students with an EFC above $12,000, to $5,750 for students with EFCs

between $0 and $4,000. Using percentages to determine financial aid levels helps ensure that award amounts keep pace with higher education cost increases over time and accounts for cost variations at different institutions.

Other states use flat dollar amounts in their awarding schedules. For example, Tennessee's Student Assistance Award is designed to provide $2,000 grant awards to students with EFCs below $5,846 (the federal Pell grant cut off for academic year 2021–22). Designing state grant awards with flat dollar amounts is predictable and understandable for students, but award amounts cover a decreasing portion of students' need over time if they are not increased. (See Appendix E for more information on the statewide financial aid grant awarding schedules used in other states.)

FIGURE 4-5
Statewide awarding schedule could be designed in several different ways but should target state financial aid grants to neediest students

EXAMPLE

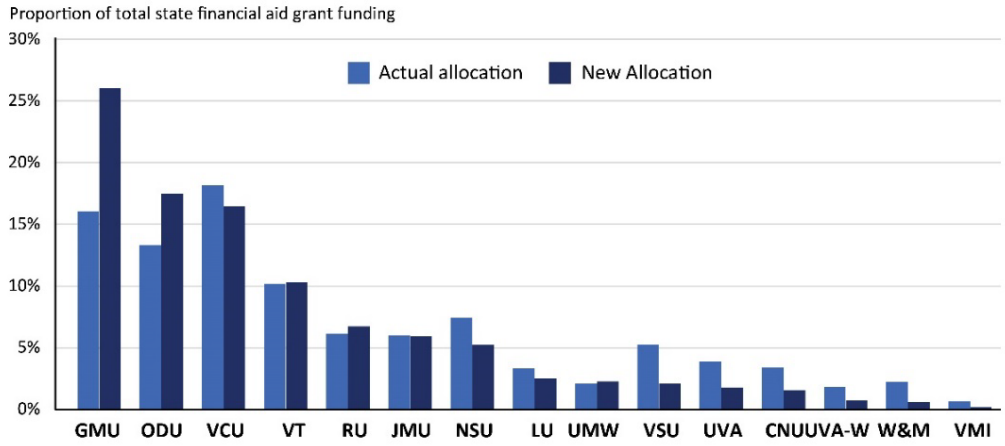
Student ability to pay (eligibility based on finanial need)	**Percentage of need met** (award amounts are tiered)
$0 EFC	(e.g. 50%)
$1 - 6K EFC	(e.g. 40%)
$6K - 15K EFC	(e.g. 30%)

SOURCE: JLARC staff analysis of statewide awarding schedule for financial aid grants in other states.
NOTE: Grant award amounts are shown for illustrative purposes. Actual grant amounts and tiers for student need should be determined by SCHEV staff using financial aid data.

State grant funding would be allocated differently among Virginia's public four-year institutions if state grants were awarded using a statewide financial aid schedule. Instead of awarding state grant funding to students with *moderate* and *minimal* financial need, it would be redistributed so that students with the most unmet financial need receive larger awards. If state grants were awarded to the neediest students first (and several other assumptions were made [sidebar]), then George Mason University, Old Dominion University and Virginia Commonwealth University would receive the most state grant funding (Figure 4-6). These institutions have the largest populations of the *greatest need* ($0 EFC) and *high need* ($1–6K EFCs) students (Figure 4-7), who should be prioritized for state funding under a statewide schedule.

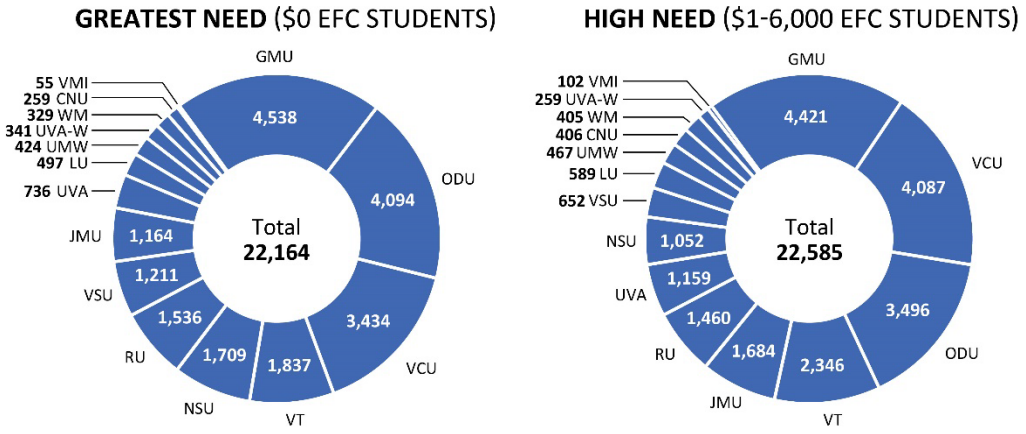
JLARC staff made **several assumptions to calculate the distribution of state grant funds** under a statewide financial aid schedule. These include: (1) all degree-seeking in-state undergraduates attending public four-year institutions who completed the FAFSA in academic year 2020–21 were eligible for grants; (2) the state allocated ~$175M in grant funding (the FY21 appropriation); (3) state aid was applied after federal, institutional, and other aid; and (4) students received up to $5,000 (the average state grant award) toward their tuition and fees. (See Appendix B for more information on this analysis.)

FIGURE 4-6
Distribution of state financial aid grant funding across institutions would change if funding formula directed funding to neediest students



SOURCE: JLARC staff analysis of student-level financial data and state appropriations data, academic year 2020–21.
NOTE: JLARC's state grant funding reallocation analysis includes several assumptions about the design of a statewide awarding schedule. See Appendix B for more information.
The state's FY24 financial aid grant funding allocations more closely align with the funding scenario JLARC staff modeled for a statewide awarding schedule than the FY21 funding allocations. For example, George Mason University, Old Dominion University, and Virginia Commonwealth University will receive the largest funding allocations in FY24. The FY24 state grant funding allocation will also meet a larger portion of students' financial need because it is a 75 percent increase from FY21 funding levels.

FIGURE 4-7
$0 EFC and low EFC students are concentrated at several of Virginia's public four-year institutions



SOURCE: JLARC staff analysis of student-level financial data and state appropriations data, academic year 2020–21.

A statewide awarding schedule would have minimal additional administrative impact on SCHEV and financial aid staff at Virginia's public institutions because their responsibilities would not change significantly. To design the award schedule, SCHEV staff

would be responsible for determining the amount of state funding that institutions need for their eligible students, and SCHEV council members would approve the statewide schedule. Financial aid staff at public four-year institutions would verify students' eligibility for state grants using the information they receive each year when students complete the Free Application for Federal Student Aid (FAFSA) and then apply state grant funding to eligible students' accounts.

While a statewide awarding schedule would not add significantly to SCHEV's workload, it would require SCHEV to alter its current approach to distributing state grant funding. SCHEV would need to estimate projected student need for each institution based on the statewide schedule and recommend institutions receive sufficient funding to award state grants as prescribed in the statewide schedule. SCHEV's funding projections would need to account for the likelihood that students' actual needs could differ from projections. For example, SCHEV could hold a portion of state grant funding in reserve to make adjustments to institutions' allocations based on the needs of the students who enroll.

If institutions receive less funding than needed to fund all awards under the statewide schedule, SCHEV would need to determine which students would not receive funding and how institutions should distribute the grants with available funding. The state could guarantee that all eligible students receive state grants, which some other states do (sidebar). This would require an increase in state appropriations compared with what has historically been appropriated but would meet a larger proportion of student financial need than in the past. Surplus funding from the Virginia529 prepaid plan could be used to increase state appropriations in this case (sidebar).

A statewide awarding schedule could be implemented regardless of whether the state implements the changes to the state's financial aid grant programs recommended in Chapter 3; however, it would work best if the state combined the VGAP and Commonwealth Award grant programs into a single grant program (Recommendation 7). This would make the schedule easier to understand for students and their families and more straightforward to administer for financial aid staff. If the state implements a statewide awarding schedule but does not combine VGAP and the Commonwealth Award programs, each program would need a separate statewide awarding schedule.

SCHEV staff should design a statewide award schedule that, to the extent possible, does not cause institutions' neediest students to receive less aid than they do under the current approach. Any decreases in state grant awards should not affect grant amounts for existing students and should only be applied to new students. SCHEV staff should regularly assess whether the statewide schedule is providing state financial aid grants to students with the greatest financial need. SCHEV staff and council members could use data on students' financial need after state grants are awarded to determine whether changes to the schedule are needed. (See Recommendation 11, which would require SCHEV staff to annually review and publish key financial aid metrics.)

Pennsylvania and Washington guarantee state financial aid grants to eligible students each year. Both states project the number of students eligible to receive the grant each year to estimate the state's fiscal responsibility. Both states also use a statewide awarding schedule. See Appendix E for more information on other states' grant models.

The **Virginia529 prepaid plan has a surplus** of $1.6 billion based on the 2021 valuation, a significant portion of which could be used to support higher education access and affordability through financial aid grants. See JLARC's 2022 *Defined Benefit 529 Surplus Funds* for more information.

POLICY OPTION 2

The General Assembly could amend § 23.1-601 of the Code of Virginia to direct the State Council of Higher Education for Virginia (SCHEV) to design and implement a uniform financial aid awarding schedule, to be approved by SCHEV council members, for awarding grants through the Virginia Guaranteed Assistance Program and the Virginia Commonwealth Award Program, which would prioritize grant awards to those students with the greatest financial need.

Virginia State University (VSU) and Norfolk State University (NSU) both received additional state funding each fiscal year since FY21 for the Virginia College Affordability Network program, which provides financial aid and support services to needy students. Funding amounts have grown from $3.6 million for VSU and $3.3 million for NSU annually in FY21 to $7.0 million for VSU and $7.3 million for NSU in FY24.

Virginia's public Historically Black Colleges and Universities—Virginia State University and Norfolk State University—have student populations with high financial need. The neediest *students* at Virginia State University and Norfolk State University would likely receive *more* funding under a statewide financial aid schedule than they do under the current funding approach. However, the *institutions* would likely receive less total state grant funding than they do currently because these institutions have fewer total low EFC students than other larger institutions (Figure 4-7). The General Assembly has undertaken several initiatives in recent years to provide additional financial support to the state's HBCUs (sidebar) in recognition of their contributions to ensuring equal access to higher education for Black Virginians. Reducing state financial aid allocations to these institutions would be inconsistent with these efforts. If the General Assembly wishes to implement a statewide financial aid schedule, it could incorporate a provision into the statewide schedule that ensures Norfolk State University and Virginia State University do not experience funding decreases. This would ensure that eligible students with slightly higher EFCs who currently receive state aid at these institutions would continue receiving it.

POLICY OPTION 3

If the General Assembly implements a statewide financial aid awarding schedule, it could require the State Council of Higher Education for Virginia to allocate to Norfolk State University and Virginia State University at least as much state financial aid funding as was allocated to these institutions in the academic year preceding the implementation of the statewide schedule.

SCHEV referenced the possibility of restricting state aid to low- and middle-income students in its 2019 review of the state's financial aid grant funding formula. The report proposed the restriction be based on EFC and set to significantly reduce awards to high-income students.

Restricting institutions' ability to provide state grants to less needy students would better target funding to neediest students

If the General Assembly does not wish to pursue a statewide awarding schedule, another option for improving the way institutions award state financial aid could be for SCHEV to restrict less needy students from receiving state grant awards (sidebar). This would prevent institutions from awarding VGAP and Commonwealth Award grants to students with less financial need (e.g., EFC of $15K or more), and instead, redirect funds to provide larger grants to the neediest students (e.g., EFC of $0–$6K). Compared to the statewide awarding schedule, this approach would not redistribute state funding across institutions and would mostly preserve institutions' discretion in making state grant awards. To ensure that existing students do not have their state awards

reduced, this change should only affect future students. To implement this change, SCHEV could impose a cap based on student EFC or another financial metric (e.g., student aid index, income level).

JLARC previously reviewed financial aid in 2014 as part of the study *Addressing the Cost of Public Higher Education in Virginia*. One of the study recommendations was to restrict state grant funding to lower- and middle-income students when funds are demonstrated to be insufficient to cover need for all students (Recommendation 16).

POLICY OPTION 4

The General Assembly could amend § 23.1-601 of the Code of Virginia to direct the State Council of Higher Education for Virginia to restrict public higher education institutions from awarding grants through the Virginia Guaranteed Assistance Program and the Virginia Commonwealth Award Program to less needy students, as measured by expected family contribution or another financial metric.

State could pilot an emergency grant program to help students at risk of dropping out or not graduating because of financial circumstances

Graduation is the ultimate goal of higher education, but finances prevent some students from staying in school and completing a degree. Inability to meet financial need is one of the top three reasons that students chose not to enroll at most of Virginia's public four-year institutions, and it is also a common reason students drop out, according to financial aid directors. Over 39,000 in-state undergraduate students who enrolled at one of Virginia's public year four-year institutions in academic-year 2015–16 dropped out before graduating. One-fifth of these students had completed at least 75 percent of their degree.

Programs aimed at helping students with financial emergencies can improve student retention and graduation outcomes. For example, Georgia State University has a retention grant program that provides students grants for $1,400, on average, if they are close to completing a degree and have an unpaid financial balance under $2,500. (Students also have to agree to meet with a financial counselor and complete a plan for funding the rest of their education.) Most of Georgia State's retention grant recipients graduated after receiving the grant—65 percent within one semester and 80 percent within three semesters. Virginia's public four-year institutions have similar programs and use institutional funds to help students with small financial emergencies (e.g., a flat tire or high energy bill). These programs are successful, according to institutional staff, but program funding is typically limited. Multiple financial aid directors indicated that providing state funding for this purpose could help more students continue pursuing their higher education during financial emergencies.

The **Emergency Grant Aid for College Students Act** (S.3794) was proposed by U.S. Senators Tina Smith and Tim Kaine in March 2022 to provide emergency grants to college students at risk of dropping out. If the bill passes, a state emergency program in Virginia could be redundant.

Virginia could pilot a new state emergency financial aid program and assess its impact on student retention and graduation rates (sidebar). Public institutions could receive an allocation of state funding based on the size of their low-EFC student population to award to students facing financial emergencies that put them at risk of dropping out. SCHEV could establish broad program requirements, such as maximum student EFC and grant amounts, to ensure that state funds are effectively targeted to students

with financial need. This program could be piloted for several years at institutions with high proportions of $0 EFC students in their student populations and low graduation rates, such as Norfolk State University, Virginia State University, and the University of Virginia's College at Wise. SCHEV could assess and report the program's effect on student retention and graduation rates. The program's cost would depend on the parameters set for student eligibility and the maximum award amount, but $1 million would help over 1,100 students if grants were $900, on average. Virginia529 surplus funds could be considered as a potential funding source for the program. (See JLARC's 2022 *Defined Benefit 529 Surplus Funds* for more information.)

POLICY OPTION 5

The General Assembly could include language in the Appropriation Act directing the State Council of Higher Education for Virginia to design and pilot a state emergency financial aid program that provides public higher education institutions with grant funding for students with financial need who are facing a financial emergency that puts them at risk of dropping out.

Appendix A: Study resolution

Virginia's higher education student financial aid award policies and processes

Authorized by the Commission on January 10, 2022

WHEREAS, state funding for student financial aid has increased in recent years, totaling more than $200 million across Virginia's 15 public four year institutions in FY 22, and the state allocated $60 million in FY 21 and $73.5 million in FY 22 to maintain affordable access during the COVID-19 pandemic; and

WHEREAS, student debt levels are in part determined by a student's ability to pay (e.g. household income and savings) and the cost of attendance, and students who need to assume debt to attend-school have access to a variety of federal, state, and private loan and grant programs; and

WHEREAS, Virginia has numerous student financial assistance programs, and state funding for student aid at Virginia's public four year institutions ranged from 11 percent to 41 percent of total, non-loan aid (federal, state, institutional, and private or local aid); and

WHEREAS, state financial aid funding is allocated to institutions based on a formula, then each institution uses a variety of policies, criteria, and processes to make individual financial aid award decisions among students; and

WHEREAS, the average state financial aid award was $2,336 per student but ranged from $1,746 to $3,904 per student at each institution, and each institution allocated these awards to varying degrees based on student ability to pay, other demographic factors, and other considerations; and

WHEREAS, 40 percent of recent graduates from Virginia's public four year higher education institutions had no student financial aid debt at graduation, yet 20 percent had $10,000 to $25,000 in debt and 25 percent had $25,000 to $50,000 in debt; and

WHEREAS, the State Council for Higher Education in Virginia's strategic plan sets a goal to lower student costs and it will be releasing a review of funding, efficiency, and effectiveness in mid-2022; and

WHEREAS, JLARC has not reviewed financial aid at Virginia's 15 public four year institutions since 2014; now, therefore be it

RESOLVED by the Joint Legislative Audit and Review Commission that staff be directed to review student financial aid at Virginia's 15 public four year institutions. In conducting its study, staff shall (i) assess student cost, enrollment, and graduation trends before and during the pandemic; (ii) assess the adequacy and equity of state financial aid funding across institutions given varying student ability to

pay and demographics; (iii) identify, compare, and evaluate student aid award policies, criteria, and processes at each of Virginia's 15 public four year institutions; (iv) evaluate how, if at all, HBCUs and their students are being affected differently by rising higher education costs and student debt; (v) determine costs to provide dual enrollment courses and how well institutions share data about st dents who complete dual enrollment courses or transfer across institutions; and (vi) evaluate the effectiveness of state student financial aid at lowering student costs considering funding levels, student demographics, and graduation rates at each institution.

JLARC shall make recommendations as necessary and review other issues as warranted.

All agencies of the Commonwealth, including the State Council for Higher Education in Virginia and all public higher education institutions and local school divisions, shall provide assistance, information, and data to JLARC for this study, upon request. JLARC staff shall have access to all information in the possession of agencies pursuant to § 30-59 and § 30-69 of the Code of Virginia. No provision of the Code of Virginia shall be interpreted as limiting or restricting the access of JLARC staff to information pursuant to its statutory authority.

Appendix B: Research activities and methods

Key research activities performed by JLARC staff for this study included:

- interviews with SCHEV staff, financial aid and leadership staff at Virginia's 15 public four-year higher education institutions, staff at national and state financial aid associations, and financial aid subject-matter experts from Virginia and other states;
- small group interviews with students at Old Dominion University, Virginia State University, Norfolk State University, the University of Mary Washington, and George Mason University;
- analysis of SCHEV student-level data on financial aid awards, course enrollment and performance, and degree completion;
- analysis of SCHEV data on state financial aid grant funding formula calculations and appropriations for public four-year institutions;
- a review of previous SCHEV reports on state financial aid grant funding and higher education costs;
- a review of public four-year institutions' six-year plans, financial aid information submitted to SCHEV (e.g., S1s, S2s, and S5s), and information submitted to JLARC on changes in VGAP eligibility and endowment resources available for financial aid;
- analysis of financial aid and student outcomes data for higher education institutions nationwide from the Integrated Postsecondary Education System (IPEDS) compiled by the National Center for Education Statistics (NCES); and
- a review of documents and research literature on effective financial aid grant program design and awarding practices.

Structured interviews

Structured interviews were a key research method for this report. JLARC staff conducted over 65 interviews with individuals from a variety of agencies and organizations. Key interviewees included:

- SCHEV staff;
- financial aid and leadership staff at Virginia's 15 public four-year institutions;
- students at five public four-year institutions; and
- subject matter experts in Virginia, from national organizations, and from other states.

SCHEV staff

JLARC staff conducted interviews with SCHEV leadership and staff to better understand trends in student enrollment, higher education costs, financial aid awards, and student need at Virginia's public four-year institutions. JLARC staff also conducted multiple detailed interviews with SCHEV staff to understand the state's VGAP and Commonwealth Award financial aid grant programs, including their statutory requirements, student eligibility criteria, and the funding formula SCHEV uses to calculate institutions' recommended state funding allocations.

Staff and students at Virginia's public four-year higher education institutions

JLARC staff conducted over 20 interviews with staff and students at Virginia's 15 public four-year higher education institutions. Staff interviews were conducted for a range of purposes, including to:

- identify and report on the key differences in how each institution administers *state* financial aid grant programs, including how state grant recipients are selected, the awarding schedule used to determine grant amounts, and when state grants are awarded relative to other types of financial aid;
- identify program design issues or challenges institutions face administering the state's VGAP and Commonwealth Award grant programs;
- understand how the state's financial aid funding levels have changed in recent years and assess the sufficiency of current funding levels, especially at Historically Black Colleges and Universities (HBCUs);
- identify and report on the key differences in how each institution administers *other* types of financial aid grant programs, including federal aid, institutional aid, and aid from other external entities (e.g., non-profit organizations);
- identify the sources of funding institutions use for institutional aid programs, including endowment funds, auxiliary revenues, and other miscellaneous funding sources; and
- understand the relationships between student enrollment, financial aid, graduation and retention, and student indebtedness.

Students at select institutions

JLARC staff interviewed small groups of students at five public four-year institutions in Virginia: George Mason University, Old Dominion University, Norfolk State University, the University of Mary Washington, and Virginia State University. The primary objective of these interviews was to better understand students' awareness of state financial aid programs and their eligibility criteria, as well as the challenges students face in applying for, receiving, and maintaining eligibility for these programs. Student groups ranged from one to four students at each institution.

Subject-matter experts in Virginia and nationally

JLARC staff conducted interviews with seven subject-matter experts, including individuals from the New America Foundation's Higher Education Initiative, the National Association of State Student Grant and Aid Programs (NASSGAP), and the National Association of Student Financial Aid Administrators (NASFAA). These interviews covered a variety of topics, but most interviews addressed trends in higher education costs and financial aid at public universities, or best practices in grant program design and administration.

JLARC staff also interviewed staff from several stakeholder groups that support students' ability to afford and access higher education, including the Virginia College Advising Corps, GRASP, and the Virginia College Affordability Network (VCAN). Staff at these organizations were asked about the barriers that prevent students from attending Virginia's public four-year institutions, students' awareness about state financial aid programs, and opportunities to improve financial aid in Virginia.

Other states

JLARC staff conducted interviews with staff from the state agencies that administer state financial aid grant programs in Maryland, North Carolina, Pennsylvania, Tennessee, and Washington. Staff in each state were asked about the design and administration of their state financial aid grant programs, including: the eligibility criteria students must meet to receive grant awards, the size of awards, when state grants are awarded relative to other types of financial aid, how state grants are funded, how the grants are administered and overseen by state entities, and practices that have been effective at improving student outcomes and awareness of financial aid.

Data collection and analysis

Several types of data analyses were performed for this study, including analyses of:

- student-level higher education data from SCHEV,
- summary-level higher education data from SCHEV and the U.S. Department of Education;
- data from SCHEV on state financial aid grant funding formula allocations;
- data submitted by public four-year institutions on student VGAP eligibility, endowment resources, and several other financial-aid related metrics; and
- data from the Integrated Postsecondary Education System (IPEDS) for national peer comparisons.

SCHEV student-level data

SCHEV staff provided JLARC with four large student-level data files covering financial aid awards, course enrollment, degrees awarded, and information on the entering fall cohort for a 20-year period, from the 1992–93 academic year through the 2020–-21 academic year (the most recent year of data available when JLARC staff conducted research). The files included all students who had attended Virginia's public four-year institutions. JLARC staff filtered the data to in-state, undergraduate, degree-seeking students who filed the FAFSA. JLARC staff also filtered the data to exclude non-degree-seeking students, out-of-state students, students who did not file the FAFSA, or students with EFCs higher than $100,000.

Student-level data was used for several key analyses.

<u>Student EFC brackets</u>

JLARC staff used student-level data to create different expected family contribution (EFC) brackets that reflected students' varying levels of need:

- greatest need (or "students with no ability to pay") – students with $0 EFC
- high need - students with $1–$6,000 EFC
- moderate need - students with $6,001–$15,000 EFC
- minimal need - students with $15,000 or higher EFC

These brackets were used by JLARC staff to assess how students with different levels of financial need were prioritized for financial aid, how they progressed in higher education, and how their student

success outcomes varied. EFC brackets were used instead of income level because some $0 EFC students were reported to have high income even though they were not considered by the federal government to be able to help pay for higher education.

Student financial aid awards and unmet financial need

JLARC staff used student-level data to calculate and compare the aggregate, median, average, and weighted average financial aid awards for students' federal, state, institutional, and external financial aid programs. These calculations were performed for students statewide and at each of Virginia's 15 public four-year institutions.

JLARC staff also used student-level data to calculate and compare students' aggregate, median, and average unmet need statewide and at each of Virginia's 15 public four-year institutions. Unmet need was calculated before and after every source of financial aid toward students' cost of *tuition and fees* and toward students' *total cost of attendance*. For example, students' total unmet need toward the cost of tuition and fees *before* any financial aid awards was calculated as students' tuition and fee cost minus their EFC. Similarly, students' total unmet need toward the cost of tuition and fees *after* all financial aid awards was calculated as students' tuition and fee costs minus their EFC, federal financial aid, state financial aid, institutional financial aid, and other financial aid from external sources. For all calculations of unmet need toward the cost of tuition and fees, the average tuition and fee amount for each institution was used because each student's tuition and fee amount was not included in SCHEV's data.

Student academic progress and outcomes

Student-level data was used by JLARC staff to learn about various other aspects of students' higher education experiences, including their course enrollment each semester, GPA, higher education loans (through federal or other sources), persistence in courses each year (retention), time to graduation, and employment and earnings outcomes. JLARC staff calculated these items for students statewide and at the 15 public four-year institutions. Students' outcomes were compared across institutions and several other subgroups (e.g., different EFC brackets, grade levels, cohorts).

One key pair of groups created and used for comparisons were groups of public four-year access institutions and non-access institutions. JLARC staff categorized institutions that admit a large percentage of undergraduate students who apply, including low academic performers, as "access institutions." Virginia's public four-year institutions with the highest undergraduate admission rates (89 – 96 percent) in academic year 2020–21 were: Virginia State University, Old Dominion University, Norfolk State University, Virginia Commonwealth University, and George Mason University. Several additional institutions had high admissions rates that were slightly below JLARC staff's thresholds but still high relative to other institutions. These institutions were Longwood University, the University of Virginia's College at Wise, and Radford University.

Modeling for state financial aid grants to be awarded after federal aid

Student-level data was used by JLARC to develop a model for estimating the impacts on outcomes and potential costs of changes to awarding state grants. The model was used to assess the potential impact of awarding state aid after federal aid (i.e., the Pell grant), by comparing existing award amounts and analyzing the impact on unmet need if those same amounts were awarded to students after federal aid. The model used inputs from SCHEV's tuition and fee information reported for the 15 public

higher education institutions to detect instances where the combination of state and federal aid would exceed tuition and fees and state aid would have to be reduced, comparing this to the number of times state aid would have to be reduced under current law and policy with the requirement that state aid be awarded after all other known sources of aid.

Modeling for statewide financial aid awarding schedule

Another model developed by JLARC staff assessed how state VGAP and Commonwealth Award funds would be distributed if students received financial aid based on the level of their unmet financial need. Under this model, students who have $0 EFC and unmet financial need toward the cost of tuition and fees would receive state grant awards until all state funding was used.

This model required JLARC staff to make several assumptions, including: (1) all degree-seeking in-state undergraduates attending public four-year institutions were eligible for grants; (2) the state allocated ~$175 million in grant funding (the FY21 appropriation); (3) state aid was applied after federal, institutional, and other aid; and (4) students received up to $5,000 (the average state grant award) toward their tuition and fees.

JLARC staff used this model to understand which students would receive state grants if funds were prioritized to students based on need and compare those students to the students who currently receive state grants. This model was also used to understand how state funds would be allocated to each of Virginia's 15 public four-year institutions under a statewide awarding schedule, compared to the current funding formula.

There were two key limitations to the model. First, it used data from FY21/AY2020–21 because that was the most recent data available when JLARC conducted its research. Students' EFCs and financial needs have changed in recent years, and the state increased state grant funding in FY23 and FY24 to meet a larger portion of students' needs. Second, the model assumes that state funding would be applied to address students' remaining unmet need after other aid sources have been awarded, but state aid is sometimes applied second, and students receive additional financial aid toward other higher education costs such as room and board.

Definitions of need

For this report, JLARC staff developed calculations of unmet need and categorized students by EFC brackets differently from standard reports issued by SCHEV and the institutions. Traditionally, unmet need is defined as the need remaining once a student's EFC is determined by the FAFSA, as well as any sources of financial aid are subtracted from the student's total cost of attendance. Measures of unmet need can differ, such as whether or not to include work study and student loans (from any or all sources) as part of a student's financial package for these calculations.

JLARC made several adjustments to these traditional approaches to define unmet need. Since state aid can be used only to cover tuition and fees, JLARC staff reported unmet need as the amount of tuition and fee costs remaining after a student's EFC and other gift aid is accounted for. The most accurate estimate of unmet need to determine what additional *state* funds are needed is based on tuition and fees. In addition, since funding for state aid in Virginia is limited, and both SCHEV and institutions must determine how to effectively meet student need within the state's existing resource constraints, JLARC staff decided measuring unmet need as only for the cost of tuition and fees, and not the full

cost of attendance, was most accurate. While staff still calculated and produced analyses of unmet need for the full cost of attendance, most references to unmet need in the report reflect unmet need limited to the cost of tuition and fees. To calculate this, JLARC staff used the standard tuition and fee figures for in-state students for academic year 2020–21 reported on SCHEV's website (report TF02). This represents the standard tuition and fee costs an in-state undergraduate student would pay at each Virginia institution but does not reflect any differential tuition costs imposed on students in certain programs of study.

From either the total cost of attendance or the tuition and fee costs (used most often by JLARC), JLARC staff subtracted first each students' expected family contributions as determined by the FAFSA, as well as all gift aid reported in SCHEV's student level file. This included all federal awards, all need-based and merit-based institutional awards from all sources (including tuition waivers), all third-party awards reported by students and included in SCHEV's student-level file, and all state awards (including awards and tuition waivers from the state's smaller programs, in addition to the Commonwealth Award and VGAP).

Reflecting this, the calculation JLARC used in determining unmet need toward the cost of tuition and fees was:

Unmet Need = Tuition and Fee Costs – (EFC + All Reported Gift Aid and Tuition Waivers)

Unfunded scholarships (to the extent they are not included in reporting for SCHEV's student-level data file), loans, and work study aid are not included in the financial aid components subtracted from the students' tuition and fee costs. Because of the way JLARC staff developed this calculation, it was possible to measure *remaining* unmet need before and after each source (i.e., federal, state, institutional, and external) was applied. Occasionally, references to remaining unmet need refer to unmet need remaining *before* state aid is applied, but *after* all other sources of aid are applied. When these distinct calculations are used they are clarified and noted.

Use of EFC as a proxy measure for students' ability to pay

JLARC staff also developed a methodology for categorizing students according to ability to pay, relying on the EFC derived from the FAFSA. JLARC staff are aware that there are criticisms of the EFC and its accuracy in assessing actual student need or ability to pay, as well as the fact that the EFC will be replaced with the Student Aid Index beginning in 2024–25. Nevertheless, as it is the standard and most commonly used measure of students' financial strength, JLARC staff decided EFC was the best proxy measure for students' ability to pay.

Typically, researchers will group students by income level and the student-level files SCHEV supplied contained measures JLARC staff used initially to categorize students. However, staff identified trends in which higher-income students could have low EFCs and low-income students could have high EFCs. (This can occur when other documentation students submit, either through the FAFSA itself or additional requested supplemental information, can affect their EFCs and cause them to rise or fall above what is typical or expected of students with similar income levels.) Because of these deviations between family income and ability to pay, JLARC staff determined that using EFC to categorize students would be more reliable at capturing actual ability to pay than income levels.

For the purposes of analyzing need and aid levels and the impacts of proposed policy changes on different sub-groups of students, JLARC staff grouped students into four EFC-based brackets and classified these as groups of students with increasing ability to pay:

- *Greatest need (or "no ability to pay"):* Students with $0 EFCs
- *High need (or "minimal ability to pay"):* Students with EFCs $6,000 or lower
- *Moderate need (or "moderate ability to pay"):* Students with EFCs $15,000 or lower
- *Minimal need (or "higher ability to pay"):* Students with EFCs greater than $15,000

Summary-level data

Summary-level data that SCHEV publicly reports on its website was also used for some calculations. For example, JLARC staff collected detailed information on higher education costs from SCHEV's TF02 report and used this to calculate weighted average costs for each public four-year institution. In addition, JLARC staff used SCHEV's FA16, FA17, and FA22 reports to obtain data on financial aid programs in Virginia by source and type, and the number of student participants, average awards, and aggregate awards for different state financial aid grant programs.

JLARC staff also used several student indebtedness metrics from SCHEV's online budgeting tool, which helps students estimate higher education costs and their ability to take on debt. JLARC staff used this tool to estimate and compare the share of students able to successfully cover student loan payments given their earnings levels with the share likely to default.

In addition to using SCHEV data, JLARC staff analyzed two sets of data from the Office of Federal Student Aid at the U.S. Department of Education. Student debt reports by state were used to identify outstanding aggregate student debt levels and default rates. In addition, information on FAFSA completion rates was collected and used to compare Virginia to other states.

Virginia's state financial aid grant funding allocation formula

JLARC staff reviewed data provided by SCHEV on SCHEV staff's state financial aid grant funding allocation calculations for FY20 through FY24. JLARC staff worked with SCHEV staff to understand each step of the funding formula calculations, including the data inputs used for the calculations, and any adjustments made to the calculations to produce public four-year institutions' recommended funding allocations.

JLARC staff compared SCHEV's funding formula methodology for FY23 and FY24 with earlier years to identify how the formula has been implemented over time. At the request of the legislature, SCHEV conducted a review of Virginia's state financial aid grant funding allocation formula in 2019. Several changes were made to the formula's methodology following the review. JLARC staff assessed the extent to which SCHEV's FY23 and FY24 calculations more effectively directed state aid to institutions with the highest levels of student financial need.

Information from public four-year institutions

In July 2022, JLARC staff collected summary-level information from Virginia's 15 public four-year institutions using a JLARC data collection instrument. The instruments requested data and information on:

- when state financial aid grants are awarded relative to other types of financial aid;
- institutions' various institutional financial aid programs, including how they are funded and whether they are merit- or need-based aid programs;
- institutions' level of endowment funding, the portion of endowment funding dedicated to financial aid, and the annual rate of endowment spending;
- the number of students who lost state VGAP grants and the eligibility criteria that caused them to lose VGAP; and
- the extent to which financial need presents a barrier to student enrollment in college.

Institutions do not currently track changes in students' VGAP eligibility; therefore, most had to estimate the number of students who lost VGAP grants using a sample of students. For example, JMU staff manually looked through student files to detect when students had award amounts adjusted up or down or when they were temporarily or permanently removed as a VGAP recipient. JMU staff were unable to use these files to identify the *reason why* students would have lost VGAP eligibility. Other institutions did report the results of their analyses showing how many students temporarily or permanently lost VGAP eligibility by reason, however, all of these institutions reported having to go through student files manually and rely on the institutional knowledge and expertise of individual financial aid staff.

National peer comparisons using IPEDS data

JLARC staff used data from the National Center for Education Statistics' Integrated Postsecondary Education System (IPEDS) to create peer groups and benchmark Virginia's public four-year institutions on the following metrics:

- higher education costs, including specific components, such as tuition, fees, room and board, and books and supplies;
- student financial need;
- financial aid awards and remaining student unmet need;
- student indebtedness; and
- student success measures, such as graduation and retention rates, employment and earnings outcomes, and course enrollment load (in terms of credit hours).

JLARC staff used two separate peer groups to benchmark Virginia's 15 public four-year institutions, including Virginia's two public HBCUs—Virginia State University and Norfolk State University. The two peer groups were defined using the following methodologies.

(a) Peer institutions selected for each Virginia institution as a part of the cost study project funded by SCHEV and conducted by contractors with the National Center for Higher Education Management Systems (NCHEMS). These groups were the most customized

and were developed with heavy stakeholder and institutional input. These peer groups are reported in SCEHV's *Virginia Cost and Funding Need Study Report* (July 2022).

(b) Peer institutions developed using a mix of institutions' Carnegie classifications and undergraduate enrollment size. JLARC staff filtered IPEDS data to include only public four-year degree-granting U.S. institutions, and then grouped each Virginia institution with a set of institutions within its Carnegie classification and in the same size category.

To benchmark Virginia's two public HBCUs—Virginia State University and Norfolk State University—JLARC staff also created a HBCU peer group. The group consisted of all degree granting, public four-year HBCUs nationwide.

Document & Literature Reviews

JLARC staff reviewed multiple types of documents with information about financial aid programs, requirements, and best practices, including:

- relevant sections of the Virginia statute, regulations, and the Appropriations Act;
- SCHEV documents describing agency policies and procedures and program guidelines for financial aid;
- financial aid reports (S1, S2, and S5) public four-year institutions submit annually to SCHEV describing their financial aid awarding practices;
- public four-year institutions' six-year financial plans, which include goals and planning related to financial aid;
- past SCHEV reviews of the state's financial aid programs and policies, funding allocations, and program design; and
- descriptions of other states' financial aid grant programs and requirements.

JLARC also conducted a review of financial aid research literature and articles by national and Virginia subject matter experts on topics including higher education costs, student financial need, aid awards, grant program design, and awarding policies and practices.

Student financial need and the cost of higher education

JLARC staff reviewed existing literature published by academic, peer-reviewed articles in public policy, higher education, and economics journals to understand the types of metrics that should be used to measure student financial need and the key factors driving higher education cost increases nationwide. Expected family contribution (EFC) was acknowledged to be as the best available measure of student financial need and student (and family) ability to pay for higher education, despite the limitations of the measure. Five meta-analyses of higher education cost increases concluded that higher education costs have increased nationwide because of information technology, heavy reliance on college-educated staff (and the fact that these workers tend to demand higher wages than workers in other industries), deferred maintenance on buildings and other infrastructure, and declining state support for higher education operating expenses.

Financial aid awarding practices and aid program design and administration

JLARC staff also reviewed literature that described best practices in financial aid program design, administration, and awarding. Seven articles were reviewed from practitioner associations (e.g., the National Association of State Student Grant and Aid Programs [NASSGAP] and National Association of Student Financial Aid Administrators [NASFAA]), as well as reports published by financial aid scholars. These publications highlight the importance of designing aid programs to be simple and streamlined to improve student and family awareness and understanding, as well as program effectiveness. In addition, much of the literature reviewed highlights the need for program eligibility criteria to conform as much as possible to federally established financial aid requirements to minimize administrative burdens on students and financial aid staff.

Merit- and need-based financial aid programs and eligibility criteria

JLARC staff reviewed 11 academic, peer-reviewed articles in public policy, higher education, and economics journals to understand the circumstances under which states and institutions should use merit- and need-based financial aid program. While the incorporation of merit-based requirements purports to help maximize limited funds, experts find that these requirements often have the effect of shifting aid on average to students with less need, because needier students tend to be less academically prepared and struggle more academically during their time in college. Because of this, experts generally conclude that need-based programs with strictly need-based criteria are most effective at prioritizing limited funds to students with the greatest financial need.

Effect of financial aid awards on student outcomes and success measures

JLARC staff also reviewed seven articles published in academic, peer-reviewed articles in public policy, higher education, and economics journals that evaluated the effect of financial aid on student success outcomes, including enrollment, persistence, graduation, and credit hour enrollment. Multiple studies—including several meta-analyses—found that increased levels of financial aid (in the range of $1,200 to $2,800) have been found to drive positive, statistically significant effects on student success measures, provided that students are aware of the awards. This evidence has been used to demonstrate that progression bonuses, if robust enough, could drive improved student persistence and higher graduation rates as long as students are aware of the bonus and what is required for them to be eligible.

Appendix C: Agency responses

As part of an extensive validation process, the state agencies and other entities that are subject to a JLARC assessment are given the opportunity to comment on an exposure draft of the report. JLARC staff sent an exposure draft of the full report to the State Council of Higher Education for Virginia and the secretary of education. JLARC staff also sent relevant sections of the report to Virginia's 15 public four-year higher education institutions.

Appropriate corrections resulting from technical and substantive comments are incorporated in this version of the report. This appendix includes response letters from the State Council of Higher Education for Virginia and the secretary of education.

Peter Blake
Director

COMMONWEALTH of VIRGINIA

STATE COUNCIL OF HIGHER EDUCATION FOR VIRGINIA

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October 31, 2022

Harold E. Greer, Director
Joint Legislative Audit and Review Commission
919 East Main Street Suite 2101
Richmond, VA 23219

Dear Mr. Greer,

On behalf of SCHEV, thank you for the opportunity to review the draft of the JLARC report, *Higher Education Financial Aid Grant Program and Awards*. We appreciate the attention and dedication of your staff throughout the review of this important and complex subject.

Synergies

A number of findings and recommendations align with SCHEV's previously published reports and conclusions, and we support their inclusion in the JLARC report. For example, in our November 2020 report, Review of Financial Aid Formulas and Awarding Practices, we recommended "merging the two primary state programs to include implementing a bonus award for students meeting progression requirements." We see this recommendation as directly aligned with Recommendations 1, 2, 3, 4, 5 and 7 in JLARC's report. In addition to simplifying program administration, these changes would improve "branding" of state aid and publicizing it across Virginia.

Recommendations 9, 10 and 11 relate to providing more transparency in how financial aid is allocated to institutions. SCHEV has published descriptions of the model in Council agenda books, presentations, conferences, news media and on our *Insights* blog. As you have noted, we also have published a variety of metrics in our November 2021 report, Financial Aid at Public Institutions of Higher Education, including average and aggregate state aid and its impact on unmet need.

We agree with JLARC, however, that we can do a better job communicating our work, particularly on topics concerning the allocation and award of financial aid and the finances of Virginia's students and families. At your recommendation, we are drafting a description of the methodology to post on our website. We also will continue to bring financial aid issues and our recommendations to the Council for member discussion, feedback and approval.

We also agree that we should do a better job serving low-income students. Low-income students do receive the majority of aid in aggregate and receive a higher average state award. But we also have seen that in many situations, low-income students have a higher unmet need than

middle-income students. While SCHEV's and JLARC's methodologies differ slightly, we have come to the same conclusion that state aid dollars could better serve low-income students.

Considerations for Implementation

The draft report introduces new definitions of financial need by brackets of "Expected Family Contribution," an artifact of federal calculations of need. Expected Family Contribution (EFC) is only one component of affordability and need. Using only EFC as a measure of financial need loses the variation in "Cost of Attendance," another factor in calculating need. Just as important are the various sources of aid packages a student brings to the equation. A student with a $0 EFC might benefit from more federal, local, private and institutional aid and end up with a lower remaining unmet need of another student. Defining need in terms of EFC partially drives the conclusion that state aid is inefficiently serving the neediest students but ignores that many low-income students also receive other forms of aid. We look forward to further discussion of the purposes and uses of state aid, particularly as they relate to the goal of meeting the financial need of low- and middle-income students.

In Recommendation 6, JLARC suggests placing state aid second (after Pell) when creating a student's total financial aid package. This approach has some advantages, as it enables state aid to be more predictable and does not require it to be adjusted based on receipt of other financial aid. The report anticipates that as a result of this change the student will receive a larger financial aid package. Moving state aid to second in order of packaging, however, would not necessarily result in a larger total award package. In fact, it could result in reducing the efficiency of state aid as the institution addresses overall student need.

Many students are eligible for narrowly tailored financial aid programs that, like state aid, are limited to tuition and fees. Awarding state aid to these students prior to these specialized sources of aid removes the flexibility institutions have to use state aid for other students. Any savings created for these other programs cannot be passed along to other students as these programs often have more stringent eligibility requirements.

Similarly, awarding state aid immediately after Pell should not be construed to mean that the combination of these awards should be restricted to tuition and fees. The federal Pell grant is among the most flexible financial aid programs as it can be used against any educational cost. There are many examples where a student with sufficient need could receive tuition and fees fully or nearly covered by a state grant, which would allow all or portions of the Pell grant to be used towards room and board or other expenses. This treatment occurs regularly among community colleges (the Pell grant can be refunded directly to the student to address off-campus housing) and often among higher need students at four-year institutions.

The recommendation to move state aid to "second dollar" potentially supports Policy Option 2, which seeks to adopt a uniform state-wide award schedule. SCHEV has participated in many conversations over the years regarding setting a standardized award schedule for state aid. We believe we can work with stakeholders to develop such a schedule, provided it is flexible enough to recognize differences in Cost of Attendance and student financial need. We request further guidance on the criteria on which to evaluate policy options. Possible criteria include changes in unmet need for low- and middle-income students, institutional distribution and impact on student success.

Finally, while the mandate for the report was limited to Virginia's four-year public institutions, 40% of Virginia's students receiving financial aid attend community colleges. These students often carry more challenges than those attending four-year institutions. We hope readers of the report recognize the importance of continuing to study and improve how state aid serves students pursuing certificates and associate degrees as well.

Once again, we are grateful for the professionalism and dedication of your staff during this review. Thank you as well for including our staff throughout the process.

Sincerely,

Peter Blake

COMMONWEALTH of VIRGINIA

Office of the Governor

Aimee Rogstad Guidera
Secretary of Education

October 31, 2022

Hal E. Greer, Director
Joint Legislative Audit and Review Commission
919 East Main Street Suite 2101
Richmond, VA 23219

Dear Director Greer:

Thank you for the opportunity to review and provide comments on the JLARC report on the *Higher Education Financial Aid Grant Programs and Awards*. We appreciate the great attention and dedication your staff invested throughout the review of this important and complex subject. Every Virginian should have the opportunity to benefit from a best-in-class postsecondary education, and financial aid is an important aspect to access and affordability.

This Administration prioritizes bringing more transparency and accountability into higher education in the Commonwealth. The Commonwealth is incredibly generous in their support of our institutions of public higher education through the education and general funds, state-supported financial aid, and capital investments. As responsible stewards of precious resources, we need to ensure there is transparency around how these allocated resources are used throughout higher education. We are laser focused on better understanding the cost drivers of higher education as it impacts the price tag of education and resulting impact on access.

Given the breadth and size of the Virginia Community College System, we are concerned that this report focuses inordinately on our four-year institutions. Forty percent of Virginia's students who receive financial aid attend community colleges. The Commonwealth relies on financial aid programs like G3 and FastForward to respond to the business community's needs and build and maintain our workforce pipeline in high-need industries. We will prioritize these programs which support Virginians pursuing credentials for the skill and knowledge requirements in our labor market.

JLARC's recommendations are aligned with the Governor's goals to make college more affordable and provide students and parents better information to help them choose the financial aid package and institution that fit their needs. Accomplishing these objectives will require coordination across the Governor's Office, General Assembly, education and training

institutions, SCHEV, and the Virginia Community College System. We plan to ask the State Council of Higher Education and our state institutions to closely review and consider adopting your recommendation of creating a schedule of award amounts and simplifying the Virginia Guaranteed Assistance Program and the Virginia Commonwealth Award Program. In addition, we will ask SCHEV to adopt your recommendation of publishing on its website a transparent description of the methodology used to calculate the recommended state financial aid grant funding allocations to public higher education institutions.

This Administration intends to bring together a workgroup of key stakeholders to study the future of higher education in Virginia. This group will consider many of the recommendations and policy options in your report in the context of our goal of providing access to best-in-class education that prepares Virginians for success in life.

We believe this is the first of many conversations in bringing transparency and accountability to how we fund and support higher education. We appreciate your work on this report to provide analysis and recommendations on methods in which government can serve the people of the Commonwealth more effectively and efficiently.

With appreciation,

Aimee Rogstad Guidera
Secretary of Education

Appendix D: Institutional financial aid funding sources and awarding practices

Institutional financial aid is one of the types of financial aid that higher education institutions can award to students. All 15 of Virginia's public four-year institutions currently provide institutional aid to students, most through multiple programs. Unlike state financial aid programs, institutions have *full* discretion to decide how to structure and award institutional aid, including the student eligibility criteria and award amounts.

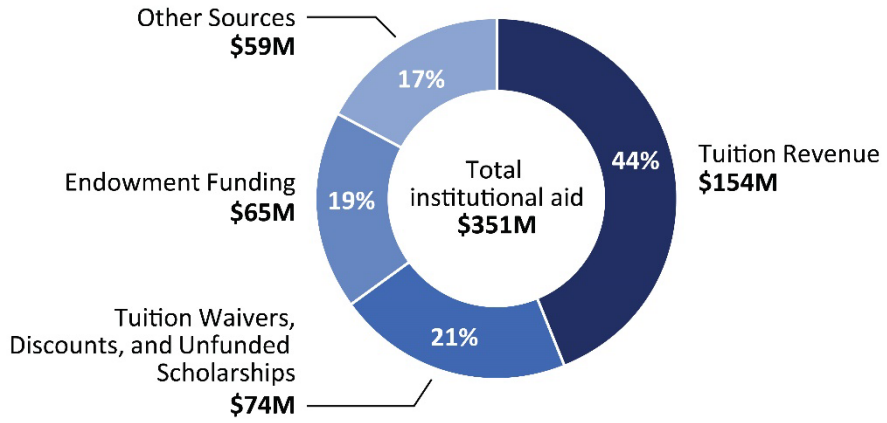
Institutional aid makes up almost half (44 percent) of all financial aid grants awarded to students. In total, Virginia's 15 public four-year higher education institutions awarded over $350 million in institutional aid to in-state undergraduate students in academic year 2020–21. The amount of institutional aid awarded varies significantly by institution; for example, Virginia State University and the Virginia Military Institute awarded under $6 million in institutional aid to in-state undergraduate students, while Virginia Commonwealth University awarded nearly $93 million, in academic year 2020–21. On a per student basis, institutional aid awarded to in-state undergraduate students ranged from an average of $541 per student at George Mason University to $7,702 per student at William & Mary during the same year.

Total institutional aid awards have grown nearly 118 percent over the last decade at Virginia's public four-year institutions, which is considerably more than total state financial aid grants (47 percent). Institutions have had to increase the amount of institutional aid they award to meet students' growing financial needs when state and other governmental financial aid funding sources are insufficient, according to subject matter experts.

Institutional aid is primarily funded through tuition revenue and endowment funds at public four-year institutions

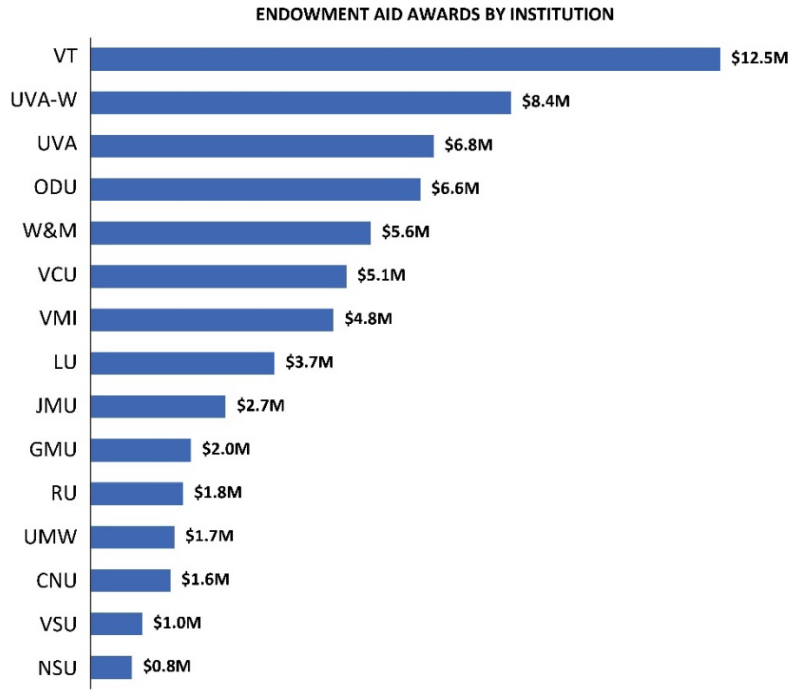
Institutional aid can be funded through various sources (e.g., university endowments or foundations, tuition revenue, auxiliary funding, etc.). Tuition revenue is the largest funding source, comprising 44 percent ($154 million) of all institutional aid awarded by Virginia's 15 public four-year institutions to in-state undergraduate students in academic year 2020–21 (Figure D-1). Tuition waivers, discounts, and unfunded scholarships are the second-largest source of funding for institutional aid (21 percent at $74 million), while endowment funding is the third largest (19 percent at $65 million). The amount of institutional aid from endowments awarded each year by institutions varies significantly (Figure D-2). For example, Virginia Tech had the largest level of endowment-based financial aid awards ($12.5 million), representing nearly 44 percent of its total institutional aid. In contrast, Norfolk State University awarded only $823,000 (just over 5 percent of its institutional aid) from endowment or foundation sources.

FIGURE D-1
Tuition revenue represents the largest source of institutional aid funding at public four-year institutions



SOURCE: JLARC analysis of submissions from each higher education institution, academic year 2020–21.
NOTE: Other sources of aid include funds from auxiliary revenues, gifted funds from private donors or non-profits, and additional state general funds appropriated for specific university initiatives. Athletic aid represents nearly 12 percent of the $351 million in institutional aid awards.

FIGURE D-2
Institutional aid awards funded through endowments vary across public four-year institutions



SOURCE: JLARC analysis of submissions from each higher education institution, academic year 2020–21.
NOTE: Institutions' amount of endowment-funded institutional aid awards vary in part because institutions have different strategies for funding student aid and operations. For example, some institutions may use endowment funding to fund most of their financial aid, while others may rely heavily on tuition revenue or unfunded scholarships to provide financial aid to students.

Tuition revenue used for institutional aid

Language in the Appropriation Act permits public four-year institutions to use tuition revenue to fund need-based financial aid (§ 4-5.01(b)(1)(a)). There is no cap on the maximum amount of tuition revenue that institutions can use. Institutions are required to annually report the extent to which they use tuition revenue for financial aid to SCHEV as part of their six-year plans and student financial aid data submissions. None of Virginia's 15 public four-year institutions notify parents or students that a portion of the tuition revenue they pay will be used for institutional financial aid.

Institutions' reliance on tuition revenue to fund institutional aid varies considerably (Table D-1). For example, the University of Virginia's College at Wise funded less than 1 percent of its institutional aid through tuition revenue ($50,000) in academic year 2020–21. In contrast, Virginia State University funded about 85 percent of its institutional aid through tuition revenue (nearly $4 million) in the same year. Institutions may use large amounts of tuition revenue for institutional aid because they have limited resources available for financial aid through endowments and other funding sources.

All but two institutions use tuition revenue from both *in-state* and *out-of-state* students to fund institutional aid. Radford University and the Virginia Military Institute are the exceptions and only use tuition revenue from *out-of-state* students for this purpose. Six institutions rely more heavily on tuition revenue from *out-of-state students* to fund institutional aid.

TABLE D-1
Most public four-year institutions use tuition revenue to fund institutional financial aid

Institution	Tuition revenue used for institutional aid (Millions)	Total institutional aid awarded (Millions)	Percentage of institutional aid funded with tuition revenue	Type of student tuition used for institutional aid
UVA	$39.8	$48.1	83%	Both
VCU	29.6	93.0	32	Both
W&M	23.4	31.3	75	Both
JMU	12.6	21.6	59	Both
UMW	9.0	10.7	85	Both*
GMU	8.6	11.8	73	Both*
ODU	7.9	30.6	26	Both
LU	5.7	17.7	32	Both*
NSU	4.9	16.0	31	Both*
VSU	4.0	4.7	85	Both*
CNU	2.9	6.9	42	Both
RU	2.6	13.5	19	Out-of-state
VT	2.3	28.7	8	Both*
VMI	0.7	5.5	13	Out-of-state
UVA-W	0.05	10.1	1	Both*

SOURCE: JLARC analysis of submissions from each higher education institution, academic year 2020-21.
NOTE: Institutions that use tuition revenue from in-state students to fund institutional financial aid may only use it for aid awarded to in-state students. Data reported includes unfunded scholarships awarded by institutions, but does not include waivers awarded as a result of the state-mandated Virginia Military Survivors and Dependents Education Program (VMSDEP).
*While both in-state and out-of-state pay tuition revenue that is used for financial aid, out-of-state students pay a larger share of their tuition for this purpose than in-state students.

Endowment funding used for institutional aid

Endowment funding is an important funding source for institutional aid, but the amount of endowment funding available for this purpose is small relative to the total size of institutions' endowments. The total market value of public four-year institutions' endowments ranged from $7.6 billion at the University of Virginia to $43 million at Christopher Newport University as of July 1, 2021 (Table D-2). However, less than 20 percent of total endowment funds across institutions can be used for institutional aid, although this varies at each institution based on donor restrictions. Christopher Newport University can use the highest proportion of its endowment funding for institutional aid (74 percent), while the University of Virginia can use the lowest (10 percent). Institutions also have unrestricted endowment funds that can be used for financial aid, but institutional staff report that these funds typically fund institutional operations or strategic initiatives (e.g., establishment of a new school or degree program).

TABLE D-2
Endowment resources available for institutional financial aid vary widely across public four-year institutions

Institution	Total market value of institutional endowment(s) (Millions)	Unrestricted endowment funds[1] (Millions)	Restricted endowment funds that can be used for institutional aid[2] (Millions)	Percentage of total endowment that can be used for institutional aid	Spend rate[3]
UVA	$7,550	$2,294	$785	10%	4.8%
W&M	1,278	91	345	27	4.7
VT	1,177	--	520	44	4.0
VMI	660	140	173	26	4.5
ODU	298	4	84	28	4.0
GMU	189	--	51	27	4.1
UVA-W	164	0.5	118	72	3.6
JMU	155	16	88	57	5.0
VCU	152	49	40	26	4.5
VSU	103	64	31	30	4.7
LU	101	4	64	64	4.0
NSU	80	24	44	56	4.0
RU	69	--	49	70	4.0
UMW	69	--	50	72	4.0
CNU	43	--	32	75	5.0

SOURCE: JLARC analysis of information from Virginia's 15 public higher education institutions as of July 1, 2021.
[1] Institutions' unrestricted endowment funds *can* be used for financial aid, but institutional staff report that these funds typically fund institutional operations or strategic initiatives (e.g., establishment of a new school or degree program).
[2] Institutions reported to JLARC the portion of their total endowment that *could* be used for financial aid (i.e., is not restricted to purposes *other* than financial aid), but this portion of the endowment is not necessarily dedicated to financial aid.
[3] Spend rate is the share of endowment earnings that could be spent in fiscal year 2021. Foundation boards and staff typically set target spend rates; some targets are for multiple years or are differentiated for different portions of the endowed funds. The spend rates shown here reflect the rates foundations set for the 2020–21 fiscal year for the entire endowment.

Importantly, spend rate limitations restrict the amount of institutional aid that can be used for financial aid in any given year. For example, Virginia Tech has a spend rate of 4 percent, which means the institution only receives up to $47 million of the $1.2 billion held in endowed funds each year to spend

for all approved purposes, including financial aid. Typically, the boards of the foundations that govern the investment and use of the endowed funds approve the spend rate each year.

Institutions' ability to use endowment funds for institutional aid is also restricted by donor requirements. Donors may require institutional aid recipients to meet certain criteria, such as having graduated from a particular high school, following a particular religion, pursuing a certain academic major, or having a specific financial need. Financial aid staff must award this restricted aid to students who meet donor requirements, which can make it difficult to award all available aid. For example, staff at one institution had to find a student from a specific high school who majored in engineering to receive an aid award. Staff at another institution reported being unable to award several scholarships that required recipients to have certain religious affiliations and have attended high school in specific localities.

Other funds used for institutional aid

In addition to tuition revenue and endowment funds, public four-year institutions can use other revenue sources to fund institutional aid, including auxiliary revenues (e.g., funds from campus vending machines or bookstores), gifted funds from private donors or non-profits, and additional state general funds appropriated for specific university initiatives [e.g., Christopher Newport University's community captains program or the Virginia College Affordability Network (VCAN) program at Virginia State University and Norfolk State University]. Some institutions rely heavily on these sources to provide institutional aid to students (Table D-3). For example, Radford University funds 57 percent of its institutional aid with these sources. Four institutions receive no financial aid funding (or a negligible amount) from these sources.

TABLE D-3
Public four-year institutions' use of miscellaneous other revenue sources for institutional financial aid varies

Institution	Other sources[1] (Millions)
VCU	$16.3
ODU	15.7
RU	7.7
NSU	5.8
JMU	4.3
LU	3.1
CNU	2.4
W&M	1.9
GMU	1.2
VT	0.04
UVA	0.04
UMW	--
UVA-W	--
VMI	--
VSU	--

SOURCE: JLARC analysis of information from Virginia's 15 public higher education institutions, as of July 1, 2021.
[1] Other revenue sources institutions reported using for institutional financial aid include auxiliary revenues, gifted funds form private donors or non-profits, and additional state general funds appropriated for specific university initiatives.

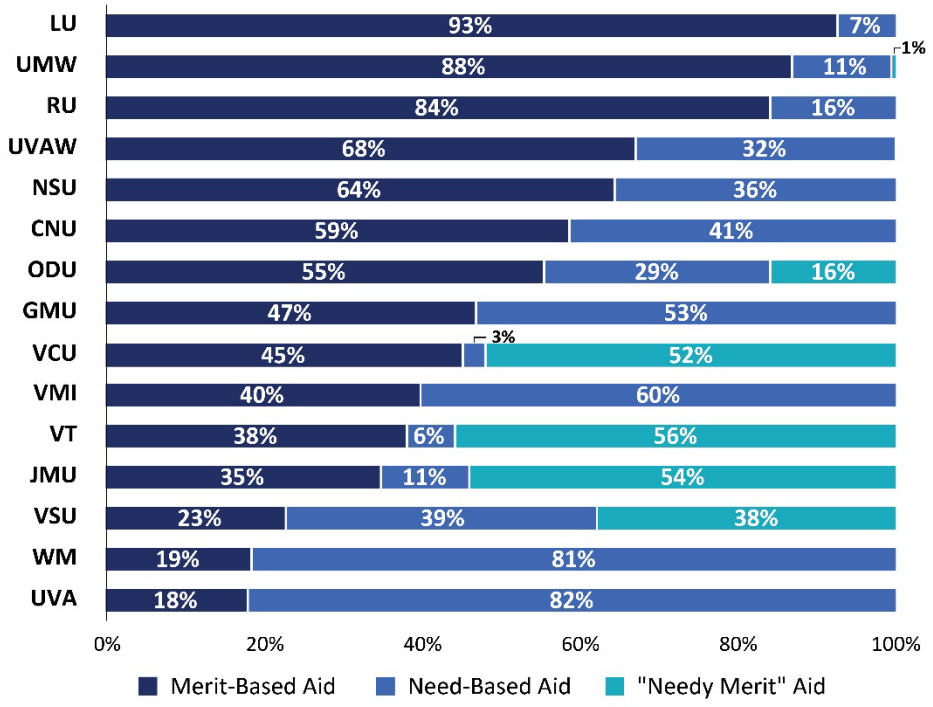
Instead of using revenue to fund institutional aid, some institutions use *tuition waivers*, *tuition discounts*, or *unfunded scholarships* to provide students with institutional aid. These tools allow institutions to reduce the net cost of attendance for students without actually awarding funds to students. In total, Virginia's public four-year institutions waived, discounted, or awarded unfunded scholarships worth nearly $74 million in academic year 2020–21, making up 21 percent of institutional aid statewide. Virginia Tech awards nearly half (48 percent) of its institutional aid to students using these tools, while three institutions (Christopher Newport University, George Mason University, and the Virginia Military Institute) do not use waivers, discounts, or unfunded scholarships.

Majority of institutional aid is awarded based on merit at public four-year institutions

Institutions can design institutional financial to be awarded based on students' financial need ("need-based" aid), skills or performance ("merit-based" aid), or both. Need-based aid helps students with limited financial resources access higher education. Merit-based aid helps institutions recruit students with certain academic qualifications (e.g., high school GPAs above 3.0). Using merit-based aid requirements can prevent students with financial need from accessing aid because eligibility requirements are more stringent, even when aid programs have both need- and merit-based requirements.

Virginia's 15 public four-year institutions award the majority of their institutional aid either solely or partially on the basis of merit. In academic year 2020–21, seven institutions awarded 50 percent or more of their institutional aid solely based on merit (Figure D-3). Longwood University had the highest share of institutional aid programs with merit requirements (93 percent), and the University of Virginia had the lowest share of institutional aid programs with merit requirements (18 percent). Some institutions' merit-based aid requirements are more stringent than others. For example, the minimum GPA threshold required to access merit-based institutional aid at Longwood University is 3.0, meaning only 7 percent of institutional aid is available to students with lower academic performance. Virginia Commonwealth University and George Mason University both offer merit-based aid with less strict requirements, offering scholarships to students with at least a 2.0 GPA, similar to many need-based grant programs. Institutions with stringent merit-based aid requirements may be unnecessarily limiting students with financial need from accessing financial aid.

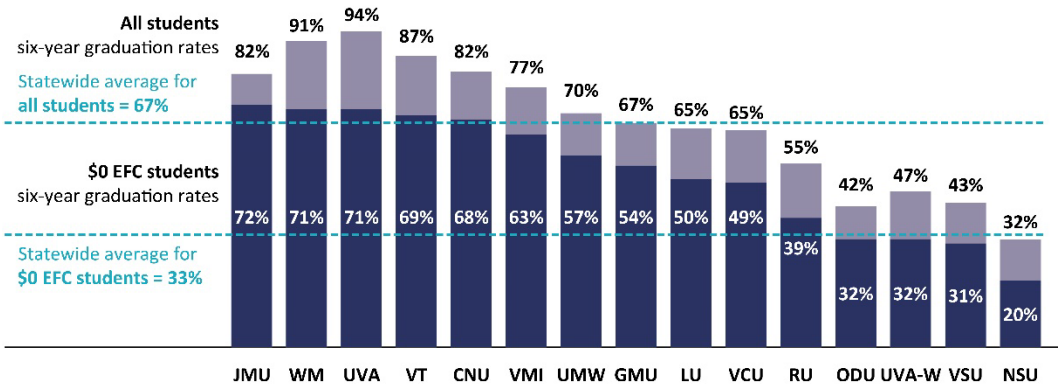
FIGURE D-3
Several public four-year institutions award more than half of institutional financial aid as merit-based aid



SOURCE: JLARC analysis of submissions from each higher education institution.
NOTE: "Needy merit" institutional financial aid has both need-based and merit based eligibility criteria.

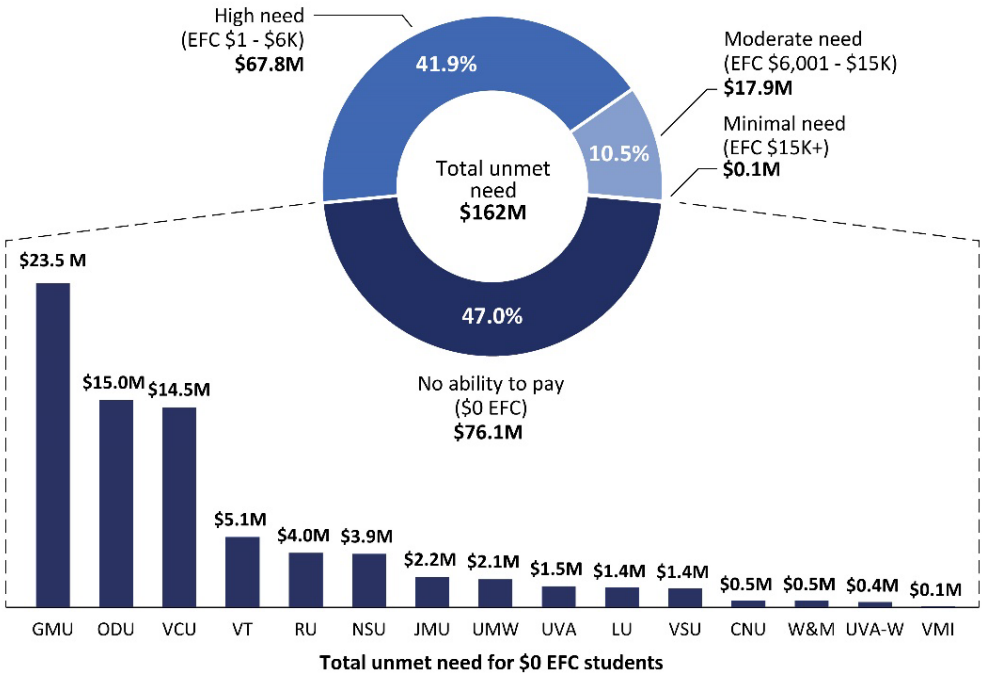
Institutions use institutional aid to complement student aid packages and achieve strategic institutional objectives by attracting more underrepresented or low-income students to enroll at the institution. Institutions' decisions to award large portions of institutional aid on the basis of merit make it difficult to adequately address students' financial needs. For example, institutions like Norfolk State University have relatively low graduation rates (32 percent for all students and 20 percent for $0 EFC students) (Figure D-4), but the institution awards 64 percent of its aid on the basis of merit. Students at several institutions have millions of dollars in remaining unmet need, including Old Dominion University ($15 million), Radford University ($4 million), and Norfolk State University ($4 million) (Figure D-5), but these institutions award the majority of institutional funds as merit-based aid instead of using these funds to offset remaining need through need-based grants. Institutions with stringent merit-based requirements should examine opportunities to (1) reduce merit-based requirements that prevent students with financial need from accessing institutional aid and (2) make a larger portion of institutional aid need-based. This is especially important at institutions with large portions of unmet financial need.

FIGURE D-4
Graduation rates for students with no ability to pay ($0 EFC) ranged from 72 percent to 20 percent across Virginia public four-year institutions



SOURCE: JLARC staff analysis of student graduation rate data from SCHEV, 2015–2016 student cohort.
NOTE: EFC = expected family contribution. Figure represents six-year graduation rates for in-state undergraduate students who began school in the 2015–16 academic year (fall or spring), were enrolled full-time, were degree-seeking, and who completed the FAFSA. Graduation rates may vary from rates reported by institutions for different student groups (e.g. in-state undergraduates vs. all undergraduates).

FIGURE D-5
In-state undergraduate students have $162 million in unmet need after all aid is applied, with $0 EFC students comprising nearly half of the need



SOURCE: JLARC staff analysis of student-level financial aid data from SCHEV, academic year 2020–21.
NOTE: EFC = expected family contribution toward higher education for an academic year. Unmet need reflects the amount of financial need that in-state undergraduate students had toward the cost of tuition and fees after their expected family contribution (EFC) and all grants (federal, institutional, other, and state) were applied in academic year 2020–21.

Appendix E: Financial aid practices in other states

JLARC staff reviewed several other states' primary need-based state financial aid grant programs to identify effective aspects of their structure or administration that Virginia could consider implementing. Specifically, JLARC staff reviewed other state grant programs' (1) student eligibility criteria, (2) approved uses (e.g., tuition and fees or other higher education costs), (3) award sequence relative to other types of aid, (4) structural elements designed to incentivize student behavior (e.g., use of a progression bonus), and (5) maximum grant amounts. JLARC staff also reviewed whether other states' grant programs use a single, statewide awarding schedule.

At least 10 other states have state financial aid grants that use a statewide awarding schedule. These states include: Illinois, Indiana, Kentucky, Maryland, North Carolina, Oregon, Pennsylvania, Tennessee, Texas, and Washington. This approach is called a "centralized" financial aid model, though there are varying degrees of centralization. Some states with centralized models have state agency staff handle all of the state grant administration, while other states with centralized models require higher education institutions to help administer state grants.

Several states that use statewide awarding schedules have elements of their grant program design or administration that align with industry best practices, such as having a single state grant program or allowing part-time students to receive grant awards (Table E-1). Information about these states' grant programs is described below.

TABLE E-1
Several other states have financial aid grant programs that reflect industry best practices

State	Single primary need-based grant	Grants guaranteed for eligible students	Pro-rated grants for part-time students	Satisfactory academic progress requirements for eligibility	Grant amounts increase as students progress	External oversight of grant amount/ schedule
Maryland			✓	✓		✓
Pennsylvania	✓	✓	✓	✓		✓
Tennessee			✓	✓	✓	✓
Washington	✓	✓		✓		✓

SOURCE: Interviews from staff in other states and reviews of information on other states' websites.
[a] Maryland and Tennessee have more than one large state financial aid grant program for students attending public four-year institutions. At least one of their programs has the design element or administration practice reflected in the table.

Maryland

Maryland provides a number of state grants for eligible students, several of which are large need-based state grant programs. Maryland has a need-based Educational Assistance Grant that provides financial aid funds to full-time, degree-seeking, in-state students attending public institutions. Students must meet satisfactory academic progress requirements to receive the grant. Grant amounts are subject to appropriations, but funding is directed to students with the greatest need and students that have

received the grant in earlier years. Students can receive a maximum grant amount of $3,000 per year, which is applied directly after federal Pell grants.

Maryland also has a need-based Guaranteed Access Grant (formally known as the Howard P. Rawlings Guaranteed Access Grant) that covers 100 percent of financial need (up to the maximum grant amount of $20,000) toward the total cost of attending higher education. Grants are directed to students with the greatest financial need, as measured by income level. Full-time, degree-seeking, in-state students can receive the grant.

Maryland has a separate Part Time Grant program for students taking a minimum of six credit-hours per semester. Through the program, students are eligible to receive a pro-rated amount of state financial aid grants that is based on the number of academic credit hours they take.

These grant programs are administered by the Maryland Higher Education Commission (MHEC). The commission is responsible for setting the income levels required for state grant eligibility. Higher education institutions verify student eligibility for the grants and request grant funds from MHEC. MHEC has a centralized information system, the Maryland College Aid Processing System (MDCAPS), through which students can view their financial aid awards.

Pennsylvania

Pennsylvania has one large need-based state grant program called the Pennsylvania State Grant Program for students attending public and private institutions. Full-time students can receive the grant, and students taking classes part-time (a minimum of six credit-hours per semester) can also receive the grant at a pro-rated amount. Students must meet satisfactory academic progress requirements to be eligible for the grant. Grants are awarded to *all* eligible students who submit applications by the program deadlines. Funding is guaranteed instead of being subject to appropriations, though the size of awards is influenced by funding and student demand each year. Grant amounts are awarded using a single, statewide awarding schedule. The schedule meets a certain percentage of a student's financial need (e.g., 50%) based on their expected family contribution (EFC) toward the cost of higher education. Grant amounts range from a minimum of $500 per year for students with an EFC above $12,000, to $5,750 per year for students with EFCs between $0 and $4,000. Grant awards can be used for tuition and fee costs, as well as the cost of books and other educational expenses. Grants are applied second—after federal Pell grants but before institutional financial aid.

Pennsylvania's grant is administered by the Pennsylvania Higher Education Assistance Agency (PHEAA). PHEAA's Board of Directors has a subcommittee on need analysis and aid coordination that advises the board on the state grant program's awarding schedule every year. A state grant advisory committee, comprising financial aid administrators and stakeholders, meets several times per year to review the awarding schedule and provide feedback to the subcommittee on how well the grant awarding schedule meets students' needs.

Tennessee

Tennessee has a large need-based state financial aid grant program called the Tennessee Student Assistance Award. In-state students attending public or private institutions full-time can receive the grant. Students taking classes part-time (a minimum of six credit-hours per semester) can also receive the

grant at a pro-rated amount. Grant amounts are subject to appropriations, but Tennessee is currently able to provide grants to all applicants. Grant amounts are provided to students based on financial need measured by their EFC. Students with EFCs below $5,846 (the federal Pell grant cut off for academic year 2021–22) who attend public four-year institutions receive a flat grant award amount of $2,000. Grant awards can be used to cover any educational expenses, up to students' total cost of attendance.

Tennessee also has a Hope Scholarship for students attending public four-year institutions. Students can receive up to $4,500 per year as freshmen and sophomores and up to $5,700 per year as juniors and seniors. The increasing grant amount is a progression incentive that has had modest positive impact on students' academic progress, according to Tennessee staff.

The Tennessee Student Assistance Award is administered by the Tennessee Student Assistance Corporation (TSAC). Higher education institutions determine student eligibility for state grants based on requirements set forth in statute and rule, request funds, and issues grant awards to students. The TSAC board is responsible for approving the state grant award amounts.

Washington

Washington's primary need-based state grant program is called the Washington College Grant. Students must meet satisfactory academic progress requirements to receive the grant. Similar to Pennsylvania, Washington's state grants are awarded to all eligible students who submit applications; funding is guaranteed instead of being subject to appropriations. A single, statewide awarding schedule is used to award the grant. The schedule sets a maximum grant award based on the colleges the students attend. Students receive a set percentage of the maximum award (e.g., 60 percent) based on their median family income. Grant amounts cannot exceed students' tuition and fees, but state grants can be used toward students' total cost of attendance if students receive other sources of financial aid that cover their tuition and fees. The maximum grant amounts that students can receive vary depending on the college they attend and tuition rates, ranging between $2,823 and $11,705 per year. State grants are applied second after federal aid.

Washington's grant is administered by the Washington Student Achievement Council (WSAC). WSAC staff issue guidance about state grant awards, monitor state grant payments, and conduct reporting. A separate forecasting council conducts forecasting analyses to estimate for the legislature the cost of the state grant program each year. Higher education institutions administer the grants to students.

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