NASFAA ISSUE BRIEF

CAMPUS-BASED AID ALLOCATION FORMULA

JANUARY 2019

KEY TAKEAWAYS

1. **DUE TO THE ANTIQUATED DESIGN OF THE CAMPUS-BASED AID ALLOCATION FORMULA, TODAY'S ALLOCATION OF CAMPUS-BASED AID MAY NOT REFLECT THE GROWTH AND SHIFTS OF STUDENT ENROLLMENT AND FINANCIAL NEED AMONG INSTITUTIONS OVER THE PAST FEW DECADES.**
2. **CONGRESS CAN IMPROVE THE ALLOCATION OF CAMPUS-BASED AID FUNDS BY REVISING THE FORMULA, AND SHOULD INCLUDE PHASE-OUT PROVISIONS TO ENSURE INSTITUTIONS CAN PLAN FOR INCREASES OR DECREASES IN FUNDING.**

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THE CAMPUS-BASED AID PROGRAMS

The campus-based aid programs include the Federal Supplemental Educational Opportunity Grant (FSEOG) program, the Federal Work-Study (FWS) program, and the Federal Perkins Loan Program. FSEOG provides grants to undergraduate students with need, FWS allows undergraduate and graduate students with need to earn wages through on- or off-campus employment, and the Federal Perkins Loan program, which expired in 2017, provided low-interest loans to needy undergraduate and graduate students. These programs are called "campus-based" because funds are allocated directly to participating institutions based on an institutional need formula; institutions then determine which of their students receive the funds as well as their award amounts, within parameters established by Congress and the Department of Education (ED).

THE CAMPUS-BASED AID ALLOCATION FORMULA

Congress designed the current campus-based aid allocation formula with two components: a "base guarantee" and a "fair share" formula. The base guarantee ensures that participating institutions receive at least as much as was received in fiscal year (FY) 1999. The fair share formula calculates an institution's allocation relative to other institutions based on the amount of funds students at each institution need, which is based on institutional cost and student and family income. ED allocates the base guarantee first; any remaining appropriated funds are then allocated based on the fair share formula, making it more difficult for newer or growing institutions to meet need on campus. While the fair share formulas for FSEOG and FWS have slight variations, the two formula components remain the same. The Federal Perkins Loan Program is no longer authorized.

THE BASE GUARANTEE

Originally intended as a temporary provision, the "conditional guarantee," later renamed the "base guarantee," was designed to ensure stability while the equity-based fair share formula was first implemented.[1] A part of the 1980 reauthorization of the Higher Education Act (HEA), the conditional guarantee ensured institutions would receive an allocation of at least the same level as FY 1979. However, the base guarantee was never phased out, and the guarantee year shifted over time from FY 1979 to 1981 to 1985 to 1999, the most recent adjustment as part of the Higher Education Amendments of 1998. The HEA provides procedures for allocations for institutions that began participation in a campus-based program after FY 1999.

NASFAA estimates the size of the base guarantee pool for FSEOG at approximately $463 million and at approximately $665 million for FWS.[2] Should the appropriation level for FSEOG or FWS fall below the base guarantee, no fair share funds would be allocated and the base guarantee allocations would be ratably reduced uniformly across all institutions.

FSEOG AND FWS FY 2019 APPROPRIATIONS AND PROGRAM BASE GUARANTEES

Program	Approximate Base Guarantee	FY 2019 Appropriation	% of FY 2019 Appropriation
FSEOG	$463 million	$840 million	59%
FWS	$665 million	$1.130 billion	55%

...phasing out the base guarantee would more accurately and equitably reflect the comparative need of the student populations of all institutions applying for campus-based aid allocations.

THE FAIR SHARE FORMULA

Once the base guarantee is set aside from amounts appropriated, remaining funds are allocated based on a "fair share" formula. The fair share formula allocates funds to institutions proportionately based on the amount of institutional need in excess of the base guarantee after accounting for the national total institutional need. The formula calculates institutional need using data from institutional submissions on the Fiscal Operations Report and Application to Participate (FISAP). Under the formula, ED establishes income categories, or income bands, that institutions use to group students and report an average expected family contribution (EFC) based on those categories. The income bands used by institutions to report this information have changed very little over the years. The last revision to the income bands occurred in 1994 for award year 1995-96.[3] As a result, the income bands are largely insensitive to both lower and higher income levels.[4]

NASFAA ALLOCATION FORMULA WORK

NASFAA suggested phasing out the base guarantee and modernizing the fair share formula in 2002, and again in 2013; however, in 2014 a NASFAA task force of financial aid administrators fully examined the formula and developed several recommendations, including supporting a 10-year phase out of the base guarantee and reconstructing the income bands to determine institutional need.[5] The task force agreed that phasing out the base guarantee would more accurately and equitably reflect the comparative need of the student populations of all institutions applying for campus-based aid allocations. As part of the task force's work, the members utilized ED data to simulate the estimated effects of the base guarantee phase-out. The simulation shows that some institutions see much larger swings in funding than others, emphasizing the importance of a 10-year phase out.[6]

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WHAT CONGRESS CAN DO

1. Revise the campus-based aid allocation formula to eliminate the base guarantee component.
2. Ensure adequate time for institutions to adapt to new funding parameters by ensuring phase-out protection so that no institution has a decrease or increase of more than 10 percent per year.
3. Encourage ED to update the income bands used to determine institutional need for campus-based programs on a regular basis, such as every 10 years, to report student need more accurately.

[1] Huff, Robert P., "The Evolution of the Process of Allocating Federal Campus-based Student Financial Aid to Postsecondary Education Institutions," 2004, Journal of Student Financial Aid: Vol. 34: Iss. 2, Article 3.

[2] Based on NASFAA analysis of 2013 Department of Education data

[3] Congressional Research Service, "The Campus-Based Financial Aid Programs: Background and Issues," 2017. https://crsreports.congress.gov/product/pdf/R/R45024

[4] NASFAA, "The Campus-Based Formula," NASFAA Task Force Report, 2014. https://www.nasfaa.org/The_Campus_Based_Aid_Allocation_Formula_Task_Force_Report

[5] NASFAA, "The Campus-Based Formula," NASFAA Task Force Report, 2014. https://www.nasfaa.org/The_Campus_Based_Aid_Allocation_Formula_Task_Force_Report

[6] NASFAA, "Estimated Effects of NASFAA's Campus-Based Proposals on Institutional Allocations," 2014. https://www.nasfaa.org/campus_based_estimated_effects

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