

AGENDA ITEM 7.

FY2004 APPROPRIATED FUNDS BUDGET REQUEST

Submitted for: Action

Summary: The Commission submits a budget request each year to the Illinois Board of Higher Education (IBHE), indicating the amount of state and federal funding necessary to support student aid programs for which ISAC has administrative responsibility.

In FY2004, ISAC budget priorities include: need-based aid to promote affordability and access; student financial aid delivery systems improvements; and, addressing cost allocation issues.

Staff is recommending Commission approval of an FY2004 budget request totaling \$764.2 million, which represents an \$81.7 million, or 12 percent increase compared to FY2003. Of the FY2004 budget request, an increase of \$92.6 million is for need-based aid. The FY2004 General Funds Administrative and Outreach request totals \$6.9 million and includes funding for adult learner outreach activities, a delivery systems improvements initiative and addresses cost allocation issues. The programmatic components of the FY2004 request are summarized below:

- \$434.1 million for need-based aid;
- \$43.5 million for special purpose state and federal scholarship and grant programs; and,
- \$272.3 million in aggregate spending authority from the Federal Student Loan Fund, Student Loan Operating Fund, and Federal Reserve Recall Fund.

In addition, \$6.7 million in spending authority is being sought for the MAP Reserve Fund to address unforeseen, and therefore unbudgeted, increases in MAP claim rates.

The components of this recommended request are expected to position ISAC to respond to recommendations from the Committee on Affordability which was established by the IBHE at its August 2002 meeting.

Action requested: That the Commission approve an FY2004 budget request totaling \$764.2 million as detailed in Table 1.

By source of funds, this request consists of \$478.8 million in State General Funds, \$272.3 million in Federal Student Loan Funds, \$6.7 million from the MAP Reserve Fund, \$5.5 million in federal scholarship and grant funds, \$530,000 in other state funds, and \$400,000 in other federal funds.

ILLINOIS STUDENT ASSISTANCE COMMISSION
FY2004 APPROPRIATED FUNDS BUDGET REQUEST

Introduction

In developing the Fiscal Year 2004 budget request, staff has carefully considered a number of environmental and economic factors which may significantly impact ISAC's programmatic and administrative funding needs. Similar to the last three years, the FY2004 recommended budget request is structured in a manner which supports the Illinois Board of Higher Education's (IBHE's) *Illinois Commitment* and affordability concerns. As described in the IBHE FY2004 Budget Context paper, the Board will target resources in its fiscal year 2004 budget recommendations toward programs and activities that will contribute directly to the achievement of the goals included in *The Illinois Commitment*. In FY2004, ISAC budget priorities include: need-based aid to promote affordability and access; student financial aid delivery systems improvements; and, addressing cost allocation issues.

A number of legislative initiatives, which modify existing ISAC programs and identify new program initiatives, have been examined and are addressed in the recommended request for program and administrative funds. In terms of the federal loan programs, while the new guaranty agency financial structure established by the 1998 Reauthorization of the Higher Education Act has been successfully implemented and no major changes are anticipated during FY2004, Reauthorization of the Higher Education Act scheduled for federal fiscal year 2003-2004 may once again present changes to the student loan programs in state fiscal year 2005.

In examining economic indicators, national economic forecasts have suggested that the recession that began in March 2001 may be moderating. However, the National Association of State Budget Officers points out that states have historically faced a twelve to eighteen month lag before revenues start to improve. The Illinois Economic and Fiscal Commission recently reported projections that the Illinois economy will slowly begin to improve during FY2003 and suggests that real growth in the state economy will approach 3 percent during FY2003. While this is substantially better than FY2002, it is similar to that reported in FY2001 and is well below that reported in Fiscal Years 1998 – 2000. Taking this into consideration, it would appear that FY2004 will be another difficult budget year for the State. In addition, a number of non-education funding issues are expected to require the State's fiscal attention in FY2004. Due to the important role that all these factors play in determining the demand for ISAC's programs and services, the cost of providing those services, and the availability of State General Funds, they will be monitored throughout the budget development process.

This year's recommended request reflects the Commission's high level of commitment to need-based aid programs; in fact, almost 90 percent of ISAC's State General Funds support need-based aid. ISAC also continues to focus on supporting the *Illinois Commitment*, critical agency projects, student financial aid delivery systems improvements and default prevention initiatives -- all of which provide benefits for Illinois students and families.

This recommended request also positions ISAC to respond to any recommendations made by the Committee on Affordability established by the IBHE at its August meeting. This Committee, which will be comprised of members of the IBHE and ISAC, will conduct a comprehensive study of affordability-related policy issues in collaboration with the Illinois higher education community. It is expected that the Committee will identify and make recommendations on actions the State, institutions, students and families can take to enhance the affordability of a postsecondary education in Illinois. It is also expected that the Committee will complete its work in time to be incorporated into the Board's FY2005 budget development process.

The recommended FY2004 budget request also serves one historical purpose of the budget process; it delineates the amount of funding the Commission ideally needs to effectively fulfill its role in the Illinois higher education community. Staff has worked to keep the recommended request moderate in terms of new General Funds being sought, particularly when the \$38 million cut in MAP funding between FY2002 and FY2003 is considered. But, this cut, as well as the low to moderate growth in state revenues currently being projected for FY2004 ensures that the Commission will need to deviate from historical precedence to continue to achieve ISAC's mission in FY2004 and beyond.

As the first step in this deviation, staff readily admits that the probability of the Commission receiving funding for all of the student needs discussed in this document is relatively low. Just as it is important for the Commission to communicate funding needs to Illinois policy makers, it is imperative for the Commission to begin to consider what actions it will take if these policy makers are not able to fully fund the Commission's request.

In the upcoming months, staff will also work to formulate alternative methods for improving affordability for some student cohorts served by MAP, and will likely include these contingencies as part of its recommendations for the MAP formula in FY2004 both at start-up in January and at recompute, after the end of the legislative session. Unfortunately, these alternatives could make the Commission's allocation decisions more difficult because without significant new funding in FY2004, improving affordability for one cohort of students will require a reduction in eligibility for other students currently being served by MAP.

The following agenda item presents the agency's FY2004 Appropriated Funds Budget Request in five separate sections: I) Need-Based Grant Programs; II) Special Purpose Programs; III) Administrative Support and Outreach; IV) Student Loan Funds activities; and, V) Other Federal Funds activities.

The following table -- Table 1 -- provides a summary of the FY2004 recommended budget request compared to both FY2002 and FY2003 appropriations.

**TABLE 1
ILLINOIS STUDENT ASSISTANCE COMMISSION
STATE FISCAL YEAR 2004 BUDGET REQUEST**

	FY2002	FY2003	FY2004	FY2003-2004 CHANGE		FY2002 -- FY2004 CHANGE	
	APPROPRIATION*	APPROPRIATION	REQUEST	DOLLARS	PERCENT	DOLLARS	PERCENT
NEED-BASED GRANTS	<u>\$384,698,300</u>	<u>\$341,442,800</u>	<u>\$434,070,000</u>	<u>\$92,627,200</u>	<u>27.1%</u>	<u>\$49,371,700</u>	<u>12.8%</u>
Monetary Award Program (MAP)	<u>375,628,300</u>	<u>333,222,800</u>	<u>425,800,000</u>	<u>92,577,200</u>	<u>27.8</u>	<u>50,171,700</u>	<u>13.4</u>
State General Funds	367,528,300	329,522,800	422,100,000	92,577,200	28.1	54,571,700	14.8
Allocated MAP Reserve Funds	5,000,000	0	0	0	0.0	(5,000,000)	(100.0)
Federal LEAP Funds	3,100,000	3,700,000	3,700,000	0	0.0	600,000	19.4
Illinois Incentive for Access (IIA) Grants	8,000,000	7,200,000	7,200,000	0	0.0	(800,000)	(10.0)
Student to Student Grants	1,000,000	950,000	1,000,000	50,000	5.3	0	0.0
Higher Education License Plate (HELP) Grants	70,000	70,000	70,000	0	0.0	0	0.0
SPECIAL PURPOSE GRANT PROGRAMS	<u>\$41,970,000</u>	<u>\$40,520,000</u>	<u>\$43,450,000</u>	<u>\$2,930,000</u>	<u>7.2%</u>	<u>\$1,480,000</u>	<u>3.5%</u>
State General Funds	<u>40,170,000</u>	<u>38,720,000</u>	<u>41,550,000</u>	<u>2,830,000</u>	<u>7.3</u>	<u>1,380,000</u>	<u>3.4</u>
Illinois Veteran Grants	20,000,000	19,250,000	21,000,000	1,750,000	9.1	1,000,000	5.0
Merit Recognition Scholarships	5,800,000	5,400,000	6,000,000	600,000	11.1	200,000	3.4
National Guard Grants	4,500,000	4,500,000	4,800,000	300,000	6.7	300,000	6.7
Minority Teacher Scholarships	3,100,000	3,100,000	3,100,000	0	0.0	0	0.0
Arthur F. Quern IT Grants	3,000,000	NA	NA	0	0.0	(3,000,000)	(100.0)
ITEACH	2,900,000	2,900,000	2,900,000	0	0.0	0	0.0
Teacher/Child Care Provider Loan Repayment	NA	2,700,000	2,700,000	0	0.0	2,700,000	100.0
Dependents Grant Programs	250,000	250,000	300,000	50,000	20.0	50,000	20.0
Bonus Incentive Grants	620,000	620,000	750,000	130,000	21.0	130,000	21.0
Optometric Education Scholarship Program	NA	NA	50,000	50,000	100.0	50,000	100.0
Illinois Future Teacher Corps Scholarships	NA	NA	50,000	50,000	100.0	50,000	100.0
Federal Robert C. Byrd Scholarships	1,800,000	1,800,000	1,800,000	0	0.0	0	0.0
MAP RESERVE FUND (UNALLOCATED)	<u>\$1,500,000</u>	<u>\$6,670,000</u>	<u>\$6,700,000</u>	<u>\$30,000</u>	<u>0.0%</u>	<u>\$5,200,000</u>	<u>346.7%</u>
ADMINISTRATION AND OUTREACH	<u>\$7,419,000</u>	<u>\$6,699,200</u>	<u>\$7,284,600</u>	<u>\$585,400</u>	<u>8.7%</u>	<u>(\$134,400)</u>	<u>(1.8%)</u>
General Funds Administration	6,504,000	6,184,200	6,424,600	240,400	3.9	(79,400)	(1.2)
S&G System Reengineering Initiative	250,000	NA	NA	NA	NA	(250,000)	100.0
Student Financial Aid Delivery Systems Improvemts	NA	NA	350,000	350,000	100.0	350,000	100.0
Adult Learner Outreach	300,000	150,000	150,000	0	0.0	(150,000)	(50.0)
Higher-EdNet Fund	65,000	65,000	10,000	(55,000)	(84.6)	(55,000)	(84.6)
State Accounts Receivable Fund	300,000	300,000	300,000	0	0.0	0	0.0
Contracts and Grants Fund	NA	NA	50,000	50,000	100.0	50,000	100.0
FEDERAL STUDENT LOAN FUNDS	<u>\$295,325,800</u>	<u>\$287,156,600</u>	<u>\$272,332,300</u>	<u>(\$14,824,300)</u>	<u>(5.2%)</u>	<u>(\$22,993,500)</u>	<u>(7.8%)</u>
Lender Reimbursements	150,000,000	160,000,000	160,000,000	0	0.0	10,000,000	6.7
Collections Payments to ED	71,200,000	NA	NA	0	NA	(71,200,000)	(100.0)
Collections Payments to SLOF	NA	25,000,000	25,000,000	0	0.0	25,000,000	100.0
Default Aversion Fee	5,000,000	5,000,000	5,000,000	0	0.0	0	0.0
Student Loan Fund Operating Expenses	32,125,800	33,656,600	34,619,800	963,200	2.9	2,494,000	7.8
Default Aversion Fee Reversals	NA	2,000,000	2,000,000	0	0.0	2,000,000	100.0
SLOF Outside Collection Agency Activities	5,000,000	22,000,000	22,000,000	0	0.0	17,000,000	340.0
LBS System Construction Costs	7,500,000	NA	NA	0	NA	(7,500,000)	(100.0)
Federal Loan Systems Development & Maintenance	NA	5,000,000	5,000,000	0	100.0	5,000,000	100.0
Initiative to Enhance Outreach and Awareness	NA	NA	162,500	162,500	100.0	162,500	100.0
E-Learning Initiative	NA	NA	250,000	250,000	100.0	250,000	100.0
Working Capital Transfer	13,000,000	13,000,000	13,000,000	0	0.0	0	0.0
Reserve Recall Interest (Default Prevention)	1,500,000	1,500,000	1,300,000	(200,000)	(13.3)	(200,000)	(13.3)
Borrower Refunds	1,600,000	NA	NA	0	NA	(1,600,000)	(100.0)
Transfer to Federal Reserve Recall Fund	8,400,000	NA	NA	0	NA	(8,400,000)	(100.0)
Return of Federal Reserve Recall Fund to ED	NA	20,000,000	4,000,000	(16,000,000)	(80.0)	4,000,000	100.0
OTHER FEDERAL FUNDS							
Return of Paul Douglas Collections to ED	NA	NA	400,000	400,000	100.0	400,000	100.0
GRAND TOTAL, ALL PROGRAMS	<u>\$730,913,100</u>	<u>\$682,488,600</u>	<u>\$764,236,900</u>	<u>\$81,748,300</u>	<u>12.0%</u>	<u>\$32,923,800</u>	<u>4.5%</u>
State General Funds	<u>\$423,752,300</u>	<u>\$382,727,000</u>	<u>\$478,774,600</u>	<u>\$96,047,600</u>	<u>25.1%</u>	<u>\$55,022,300</u>	<u>13.0%</u>
General Revenue Fund	325,273,900	279,324,700	375,372,300	96,047,600	34.4	50,098,400	15.4
Education Assistance Fund	98,478,400	103,402,300	103,402,300	0	0.0	4,923,900	5.0
Federal S&G Program Funds	4,900,000	5,500,000	5,500,000	0	0.0	600,000	12.2
Federal Student Loan Funds	295,325,800	287,156,600	272,332,300	(14,824,300)	(5.2)	(22,993,500)	(7.8)
MAP Reserve Fund	6,500,000	6,670,000	6,700,000	30,000	0.4	200,000	3.1
Other Federal Funds	NA	NA	400,000				
Other State Funds	435,000	435,000	530,000	95,000	21.8	95,000	21.8

* These figures do not reflect the \$1.7 million in program funding and \$400,901 in administrative funding ISAC reserved to help the State meet spending targets in FY2002. These figures do reflect the FY2002 appropriation after \$800,000 was transferred from MRS to IIA.

I. Need-Based Grant Programs

The Commission is responsible for administering four need-based grant programs: the Monetary Award Program (MAP), the Illinois Incentive for Access (IIA) Program, the Student to Student (STS) Program of Matching Grants, and the Higher Education License Plate (HELP) Grant Program. FY2000 through FY2003 appropriation levels, as well as staff's recommendations for the FY2004 budget request, are summarized in Table 2.

**Table 2: Need-Based Scholarship and Grant Programs FY2000 through FY2003
Appropriations and ISAC Staff Recommended FY2004 Budget Request**

NEED-BASED GRANT PROGRAMS	FY2000	FY2001	FY2002	FY2003	RECOMMENDED FY2004 REQUEST
Monetary Award Program (MAP)	\$338,835,800	\$357,160,800	\$375,628,300	\$333,222,800	\$425,800,000
Illinois Incentive for Access (IIA)	\$8,000,000	\$8,000,000	\$7,200,000	\$7,200,000	\$7,200,000
Student to Student (STS)	\$1,000,000	\$1,000,000	\$1,000,000	\$950,000	\$1,000,000
Higher Education License Plate (HELP)	\$70,000	\$70,000	\$70,000	\$70,000	\$70,000
Total	\$347,905,800	\$366,230,800	\$383,898,300	\$341,442,800	\$434,070,000

This table shows that the overall recommended FY2004 budget request for ISAC's need-based scholarship and grant programs is \$434.1 million. While this represents an increase of \$92.6 million, or 27.1 percent over FY2003 funding levels, the percentage increase is only 12.8 percent over FY2002 levels. The remainder of this section discusses each need-based program in descending order according to the amount of the recommended request.

Monetary Award Program

FY2003 presented a difficult legislative session in which the Governor and General Assembly had to resolve a projected \$1.3 billion revenue shortfall. The final FY2003 MAP appropriation totaled \$333.2 million, a reduction of more than \$38 million from the FY2002 appropriation. The reduction left a funding level less than the FY2000 appropriation, and, when adjusted for inflation, comparable to FY1999 levels. Included within this reduction was the elimination of \$20 million for awards to students who have already used MAP to pay for the equivalent of 8 semesters or 12 quarters of full-time enrollment, i.e., fifth-year students. The other \$18 million in cuts was not tied to any particular cohort but left to the Commission's discretion.

The two primary goals of MAP have historically been to facilitate access to and choice among higher educational opportunities available in Illinois. The access target in recent years has been to announce awards through October 1 without suspension. Choice is achieved by covering tuition and fees at all public institutions for the most financially needy students and to enable those who choose to enroll in a private institution to be able to do so, albeit at some greater individual cost. With the cuts imposed on MAP, none of these program goals will be achievable in FY2003.

To address program needs for FY2004, staff has developed a MAP budget request designed to promote three priorities. These priorities are:

- Regain college affordability lost in FY2003;
- Keep pace with current tuition and fees; and,
- Reinstate eligibility for fifth-year students enrolled in five-year programs.

ISAC staff-recommended priorities and related components are discussed in the following sections.

Priority One: Regain College Affordability Lost in FY2003

FY2003 budget constraints presented challenging allocation decisions for the Commission related to the 2002-03 MAP recompute formula. The final recompute formula used FY2002 tuition and fee figures, the FY2002 maximum award amount, and reduced all MAP grants by 5 percent. It was also necessary for award announcements to be suspended in mid-August. Using FY2002 costs instead of FY2003 figures meant that MAP grants did not cover full tuition amounts for any student at any institution. Further, 50 percent of public university MAP recipients are enrolled at institutions where the tuition and fees exceed the Commission's statutory maximum award and 97 percent of recipients at private institutions are at the maximum amount. Staff has provided more detailed information to the Commission concerning the loss of college affordability and the effects on students.

Staff recommends that the Commission include funding in the FY2004 MAP budget request to regain affordability lost in FY2003, specifically for the following components.

Five Percent Reduction Factor

For the FY2003 MAP recompute, the Commission opted to reduce the amount of all MAP grants by 5 percent in order to announce an additional 8,000 awards through mid-August. This decision meant that no students, no matter how needy, would be eligible for full tuition and fees or the statutory maximum award. Students from all types of institutions would benefit from the removal of this reduction factor. The cost to remove the 5 percent reduction factor is projected to be \$17.2 million.

2002-03 Tuition and Fees

In FY2003, the Commission was not able to incorporate 2002-03 tuition and fees, and MAP awards were calculated using 2001-02 tuition and fee figures instead. The weighted-mean increase in tuition and fees ranged from 2 percent at proprietary institutions to almost 11 percent at public universities for an overall average of nearly 7 percent. While students at all institutions were affected by this decision, students attending colleges with larger tuition increases were more adversely affected. For FY2004, staff recommends that the Commission seek funding to cover the costs of incorporating 2002-03 tuition and fees. The cost to do so is projected at \$14.8 million.

\$5,316 Maximum Award Level

The MAP award that a student receives is the lesser of the student's maximum eligibility, tuition and fees, or the maximum award established by statute. In the past, to maintain a consistent level of support for maximum award recipients, the Commission has sought funding to increase the maximum award by an amount equivalent to increases in tuition and fees. From FY2002 to FY2003, weighted-mean tuition and fees increased almost 7 percent. Currently, four of the twelve public universities have tuition and fees over the \$4,968 maximum award level. The projected cost of increasing the maximum award 7 percent to \$5,316 to keep pace with FY2003 tuition and fee increases is \$16.0 million.

Announce Awards through the End of August

To date, FY2003 MAP application volume has increased almost 10 percent and MAP-eligible applicant volume has increased by 9 percent. Most of the increase is attributed to the state's current economic condition and the resulting loss of employment opportunities. During economic downturns, many individuals pursue education and training as a means to enhance their employability. The sharp increase in applications forced the Commission to suspend award announcements in mid-August. For FY2004, staff projects overall application volume to continue to increase but at a lesser rate, approximately 5 percent. To cover these expected increases and extend award announcements to at least the end of August, staff recommends that the Commission seek an additional \$29.0 million in funding to address application volume. This would allow the Commission to announce awards to approximately 10,000 additional eligible applicants.

Priority Two: Keep Pace with Current Tuition and Fees

In past budget requests, receiving funding to cover the costs of tuition and fee increases has been one of the Commission's highest priorities. From FY1999 to FY2002, the weighted-mean tuition and fee figure for all sectors has increased by an annual average of 6 percent. In FY2003, the weighted-mean tuition and fee figure increased 7 percent over FY2002. For FY2004, staff, however, believes that tuition and fees will increase at a lesser rate and recommends that the Commission seek funding to provide for an anticipated 5 percent increase. The cost to cover this estimated increase is projected to be \$9.7 million.

Priority Three: Reinstate Eligibility for Fifth-Year Students Enrolled in Five-Year Programs

In FY2003, funding for awards to students who have already received payment for the equivalent of 8 semesters or 12 quarters of full-time enrollment i.e., fifth-year MAP students, was eliminated. Because the loss of funding was specifically tied to language eliminating eligibility for fifth-year students and was the intent of the Governor and General Assembly, the Commission felt it had no other option but to eliminate award eligibility for these students. By law, however, the Commission retains the authority to provide MAP grants to students for the equivalent of five years of full-time study consistent with recommendations of the 1993-94 IBHE Committee to Study Affordability.

There are many reasons why some students require more than four years of study to complete a Baccalaureate degree. Of immediate concern are those students who pursue programs which require more than four years to complete, such as pharmacy, teacher certification, and engineering. Of the top nine state grant programs in the country, all but one provide awards to students for the equivalent of five years of full-time study. Some – California and Pennsylvania – limit fifth-year eligibility to students in a five-year program. New York limits fifth-year eligibility to those who are in five-year programs or needed remedial coursework. Therefore, staff recommends that the Commission seek funding to provide awards for students attending four-year institutions in programs which require more than four years to complete. The funding requirement of reinstating eligibility for this cohort is projected to be \$12.0 million.

Federal Pell Grant

Federal Pell Grant eligibility is considered in determining a student's MAP grant eligibility. Typically, the Commission has incorporated the current Pell Grant Table, either at start-up or at recompute, in order to have the most accurate information when calculating MAP eligibility. Staff recommended the Commission continue to use the 2001-02 Pell Grant Table in FY2003 since 2001-02 costs were used to determine MAP eligibility. Staff now recommends the Commission incorporate the 2002-03 Pell table into the FY2004 budget request. The 2003-04 Pell table, when issued, can be incorporated at either the FY2004 start-up or recompute. No additional funding is required to make this change.

MAP Reserve Fund

In 1995, legislation was enacted to create a MAP Reserve Fund in the State Treasury. By statute, the amount in the Reserve Fund cannot exceed 2 percent of the annual State appropriation for MAP. The purpose of the MAP Reserve Fund is to provide ISAC with additional management flexibility in administering MAP by providing a means to address contingencies. Due to the difficult economic conditions experienced in FY2002, approximately \$3.4 million was used from the MAP Reserve Fund to support MAP application volume during the fiscal year. At the end of FY2002, the Reserve Fund contained a total of \$3.3 million. While staff expects to use these remaining MAP Reserve funds in FY2003 based upon expected claim rates, staff recommends that the Commission seek \$6.7 million in spending authority for FY2004, which is the maximum amount of funds that potentially could be available in the MAP Reserve Fund should FY2003 claim rates be less than anticipated.

Summary of Staff Recommendations for MAP

Table 3 provides a summary of staff's recommendations for the FY2004 MAP budget request. As stated, staff-recommends that the Commission regain college affordability lost in FY2003, keep pace with current tuition and fees, and reinstate fifth year eligibility for students in five-year programs. To fund these priorities, \$92.6 million is required above the FY2003 appropriation level. Staff, therefore, recommends that the Commission approve the FY2004 MAP budget request of \$425.8 million as itemized in Table 3.

Table 3: Staff Recommendations for FY2004 MAP Budget Request (\$ in millions)

	COST
FY2003 MAP Appropriation (Funding Base)	\$333.2
Regain College Affordability Lost in FY2003	
• Remove 5 percent reduction factor	\$17.2
• Recognize 2002-03 tuition and fees	\$14.8
• Increase maximum award from \$4,968 to \$5,316	\$16.0
• Announce Awards through the end of August	\$29.0
• Incorporate 2002-03 Pell Grant Table	<u>-\$6.1</u>
	\$70.9
Keep Pace with 2003-04 Tuition and Fees	\$9.7
Reinstate Student Eligibility for Qualified Fifth-Year Awards	\$12.0
FY2004 MAP Budget Request (\$92.6 Increase)	\$425.8

Other Need-Based Programs

Illinois Incentive for Access (IIA) Program

The Illinois Incentive for Access (IIA) Program was designed to promote access and retention for a targeted group of students. IIA is a need-based grant program that provides a one-time \$500 award to freshmen applicants who have no financial resources for college as determined by the federal needs analysis. This program is intended to supplement, rather than supplant, funding for existing need-based grant programs for this group of students.

The original FY2002 appropriation was \$7.2 million but was increased to \$8 million after an \$800,000 transfer from the Merit Recognition Scholarship Program. This extra funding allowed the Commission to make awards throughout the academic year and serve almost 21,000 students. The FY2003 appropriation totals \$7.2 million and based on current volume figures, appears to be adequate to pay awards for all applications received through the end of September. Suspension of FY2003 IIA award announcements will most likely occur in early October, 2002. For FY2004, staff recommends the Commission continue to request \$7.2 million. Based on current volume trends, this amount should be sufficient to provide awards through August, consistent with the timeframe in the MAP budget request.

Student to Student (STS) Program of Matching Grants

The Student to Student (STS) Program of Matching Grants provides matching funds for need-based grant assistance to students attending participating public universities and community colleges. In FY2002, ISAC fully utilized its appropriation providing matching funds for awards to more than 3,300 students. In FY2003, Oakton Community College began participation in the program bringing the total number of participating institutions to 12. ISAC expects to fully utilize the FY2003 appropriation. The recommended request for FY2004 of \$1.0 million should meet the anticipated match amount and provide awards to approximately 3,300 students.

Higher Education License Plate Grant Program

Working through the Secretary of State, participating public universities, community colleges, and not-for-profit private colleges and universities in Illinois can have specialized collegiate license plates issued for their schools. ISAC annually seeks appropriation authority to disburse funds collected from the sales of these plates to the participating private schools. According to the Secretary of State's Office, calendar year 2001 sales generated \$53,325 in scholarship funds for distribution in academic year 2002-2003 (FY2003). The recommended FY2004 budget request of \$70,000 in spending authority should cover any increase in sales.

II. Special Purpose Scholarship and Grant Programs

The Commission currently administers eleven special purpose scholarship and grant programs that require state funding or spending authority. This section of the budget request presents the recommended FY2004 budget request for each of the current programs. In recognition of the need to identify and prioritize ISAC program funding requirements, staff recommends the FY2004 budget request for special purpose scholarship and grant programs include funding in the following priority order:

- 1) **Entitlement Programs and State Obligations.** Entitlement programs include the Illinois Veteran Grant (IVG) Program, the Illinois National Guard (ING) Grant Program, and the Dependents Grant Programs. The College Savings Bond Bonus Incentive Grant (BIG) Program is considered a state obligation as described in the official statements of the Illinois College Savings Bonds.

- 2) **Teacher and Workforce Assistance.** Teacher and worker shortage programs include the Minority Teachers of Illinois (MTI) Scholarship Program, the ITEACH Teacher Shortage Scholarship Program, Teacher/Child Care Provider Loan Repayment Program, the Optometric Education Scholarship Program, and the Illinois Future Teacher Corps Scholarship Program.
- 3) **Merit and Achievement Programs.** Merit and achievement programs include the Merit Recognition Scholarship (MRS) Program and the Robert C. Byrd Honors Scholarship Program.

As shown in Table 4, the overall recommended FY2004 budget request for ISAC's special purpose scholarship and grant programs is \$43.5 million, which represents an increase of \$2.9 million, or 7.2 percent, over the FY2003 appropriation. The largest recommended increase in funds is \$1.8 million to allow for tuition and fee increases and increased volume in the Illinois Veteran Grant Program. Following Table 4, a discussion of each program is provided. The program discussions are presented and grouped according to recommended funding priority.

**Table 4: ISAC Special Purpose Scholarship and Grant Programs
FY2002 and FY2003 Appropriations, Recommended FY2004 Request**

Special Purpose Scholarship and Grant Programs	FY2002 Appropriation	FY2003 Appropriation	FY2004 Recommended Request
Entitlement Programs and Obligations			
Illinois Veteran Grant	\$19,250,000	\$19,250,000	\$21,000,000
National Guard Grant	4,500,000	4,500,000	4,800,000
Dependents Grant Programs	250,000	250,000	300,000
Bonus Incentive Grant	620,000	620,000	750,000
Teacher and Workforce Assistance			
Minority Teachers Scholarship	2,850,000	3,100,000	3,100,000
ITEACH Teacher Shortage Scholarship	2,750,000	2,900,000	2,900,000
Teacher/Child Care Provider Loan Repayment Program	--	2,700,000	2,700,000
Optometric Education Scholarship*	--	--	50,000
Illinois Future Teacher Corps Scholarships*	--	--	50,000
Arthur F. Quern IT Grants	3,000,000	--	--
Merit and Achievement Programs			
Merit Recognition Scholarship	5,300,000	5,400,000	6,000,000
Robert C. Byrd Honors Scholarship**	1,800,000	1,800,000	1,800,000
TOTAL***	\$40,320,000	\$40,520,000	\$43,450,000

* Newly-created programs requiring spending authority from special state funds.

** Federally-funded, spending authority only.

*** FY2004 total for State General Funds is \$41,550,000.

Entitlement Programs and Obligations

Illinois Veteran Grant (IVG) Program

The Illinois Veteran Grant (IVG) Program provides grants for qualified veterans at Illinois public universities and community colleges. Because the IVG Program is an entitlement program, public institutions are required to cover any funding shortfalls which may occur at their campuses by waiving the portion of a student's tuition and fees not paid by the grant. In FY2002, more than 11,600 veterans received over \$18.6 million in assistance. In FY2003, ISAC expects to fully utilize the \$19.3 million appropriation. The recommended FY2004 IVG request of \$21.0 million would allow for an increase in demand and recognize tuition and fee increases.

Illinois National Guard (ING) Grant Program

The Illinois National Guard (ING) Grant Program provides grants for qualified members of the Illinois National Guard at Illinois public universities and community colleges. Because the ING Grant Program is an entitlement program, public institutions are required to cover any funding shortfalls which may occur at their campuses by waiving the portion of a student's tuition and fees not paid by the grant. For FY2002, ING provided 2,200 students with assistance totaling approximately \$3.6 million. The FY2003 appropriation represents level funding from FY2002 and should be sufficient for all expected claims. The recommended FY2004 request of \$4.8 million would provide awards for approximately 2,400 students while addressing expected tuition and fee increases.

Dependents Grant Programs

The Dependents Grant Programs include the Grant Program for Dependents of Police or Fire Officers and the Grant Program for Dependents of Correctional Officers. The programs provide grant assistance to the spouse and children of Illinois police officers, fire officers, or correctional officers killed or permanently disabled in the line of duty. In FY2002, ISAC made awards to 55 students totaling approximately \$200,000. The FY2003 appropriation represents level funding from FY2002 and should be sufficient for all expected claims. The recommended FY2004 request of \$300,000 allows for tuition and fee increases and potential variability in program demand.

College Savings Bond Bonus Incentive Grant (BIG) Program

Holders of College Savings Bonds may be eligible to receive a Bonus Incentive Grant (BIG) if they use their bond proceeds to pay for educational expenses at an Illinois college or university. Claims for FY2002 are expected to represent approximately 7.6 percent of the state's outstanding obligation for BIG. The FY2003 appropriation represents level funding from FY2002 and should be sufficient for all expected claims. The state's estimated accrued liability for BIG in FY2004 is approximately \$9.8 million, which would result in BIG claims of approximately \$745,000, using a 7.6 percent claim rate assumption. The recommended FY2004 budget request for the College Savings Bond Bonus Incentive Grant (BIG) Program is \$750,000.

Teacher and Workforce Assistance

Minority Teachers of Illinois (MTI) Scholarship Program

The Minority Teachers of Illinois (MTI) Scholarship Program annually awards scholarships of up to \$5,000 to minority students who agree to teach at least one year for each year of scholarship assistance at a preschool, elementary, or secondary school where at least 30 percent of the students are minority. In FY2002, more than 550 students received assistance totaling \$2.6 million. As the need for qualified teachers accelerates, funding teacher scholarship programs will remain a high priority for the State. ISAC expects to fully utilize the FY2003 appropriation. The recommended FY2004 request of \$3.1 million would provide for 620 scholarships.

ITEACH Scholarship Program

The ITEACH Teacher Shortage Scholarship Program (formerly the David A. DeBolt Teacher Shortage Scholarship Program) encourages academically-talented students to pursue preschool, elementary, and secondary school teaching in disciplines that have been designated as teacher shortage areas. In FY2002, nearly 560 students received awards totaling more than \$2.6 million. Program demand increased dramatically in FY2002 as a result of an increased number of teacher shortage disciplines identified by the Illinois State Board of Education. ISAC expects to fully utilize the FY2003 appropriation. The recommended FY2004 request of \$2.9 million would provide for 580 awards.

Teacher/Child Care Provider Loan Repayment Program

Beginning January 1, 2003, ISAC will administer matching grants of up to \$5,000 to teachers who have fulfilled the teaching obligations of the federal Teacher Loan Forgiveness Program and to child care providers who have fulfilled the obligations of the federal Child Care Provider Loan Forgiveness Program in Illinois. To be eligible, teachers must teach full time in a low-income school for five consecutive years. Early child care professionals must work full time in a child care facility that serves a low-income community for two consecutive years. Recipients of loan forgiveness under these federal programs may be eligible to receive a matching grant from the State. The FY2003 appropriation of \$2.7 million will allow for approximately 520 awards, though statute also allows ISAC to use up to 5 percent (\$135,000) of the appropriation to help fund administrative costs for teacher incentive programs. Staff estimates that about \$100,000 of the administrative allowance will be used in FY2003. The recommended FY2004 request of \$2.7 million maintains level funding compared to FY2003.

Optometric Education Scholarship Program

Created by Public Act 92-0569, the Optometric Education Scholarship Program provides up to 10 scholarships annually for students pursuing a graduate optometry degree at a qualified Illinois institution. The scholarship is funded from Optometric Licensing and Disciplinary Board fees which are deposited into a special State fund. As a result, the Commission is only seeking spending authority for these funds and not an appropriation of State General Funds. Scholarship recipients are required to practice optometry in Illinois for one year for each year of assistance received. The recommended FY2004 request of \$50,000 in spending authority would allow for 10 scholarships.

Illinois Future Teacher Corps Scholarship Fund

Public Act 92-0845 established the Illinois Future Teacher Corps Scholarship Fund as a repository for receipts from sales of special Illinois Future Teacher Corps license plates. It also designated that these

funds could be used to supplement General Funds appropriations for ITEACH or to provide scholarships under a new program entitled the Illinois Future Teacher Scholarships. At this time, the amount of sales is difficult to project. Given the possibility that sales could be minimal, staff presently intends to use the funding to supplement ITEACH appropriations. Staff recommends that the Commission seek \$50,000 in spending authority from this fund for FY2004.

Merit and Achievement Programs

Merit Recognition Scholarship (MRS) Program

The Merit Recognition Scholarship (MRS) Program rewards the academic achievement of Illinois high school graduates by providing monetary awards to students who, at the end of their sixth semester in high school, are in the top 5 percent of their high school class or have a score on the ACT Assessment or the SAT I: Reasoning Test at or above the 95th percentile. In FY2002, 5,300 students received scholarships totaling \$5.2 million. It is anticipated the FY2003 appropriation of \$5.4 million will only allow for awards to the top 4 percent of the high school graduating class of 2002. Based on claim rates and high school graduation estimates, the recommended FY2004 request of \$6.0 million should allow for awards to about 6,000 students, representing the top 5 percent of the high school class of 2003.

Robert C. Byrd Honors Scholarship Program

The federally-funded Robert C. Byrd Honors Scholarship Program provides scholarships to academically-exceptional Illinois high school graduates for undergraduate study at approved U.S. colleges and universities. Scholarships are allocated by geographic district to students who graduate in the top 2 percent of their high school class, based on academic performance and test scores. In FY2002, ISAC made 1,140 awards totaling \$1.7 million. ISAC expects to receive a federal allocation of about \$1.75 million for the program in FY2003 and again anticipates making awards to more than 1,100 students. The recommended FY2004 budget request of \$1.8 million assumes a continued full federal allocation and allows sufficient authority to handle funds carried over between federal fiscal years.

III. State-Funded Administration and Outreach

General Funds Administration

Last year, the Commission approved an FY2003 administrative budget request for operating line items which included an increase of \$460,500 or 7.1 percent over FY2002 levels. After final action by the General Assembly and the Governor, this amount was reduced to \$6.2 million, a decrease of \$800,000 from the requested level and a decrease of \$300,000 compared to the FY2002 level.

Through cost cutting measures and efficiency improvements, the agency worked to reallocate funds within the FY2003 administrative budget to protect the personal services line and to provide administrative support necessary for the agency's scholarship, grant and outreach priorities. This reallocation was accomplished by holding open a number of vacant positions, and deferring other costs such as building maintenance and the printing of certain publications. The FY2004 General Funds Administration and Outreach budget request of \$6.9 million, which represents an increase of \$590,400 or 9.3 percent, builds on this work and reflects a continued targeted reallocation of funds with modest increases in some line items.

The recommended FY2004 Administration and Outreach budget request for General Funds includes personal services funding for a 5 percent average salary increase for staff, a cost allocation adjustment, and funding in the auto operation line for a general cost increase of 4.6 percent. It also includes \$150,000 for

continued funding of Adult Learner Outreach and \$350,000 for a new Delivery Systems Improvements Initiative. When the Higher-EdNet Fund, the State Accounts Receivable Fund, and the Contracts and Grants Fund are included, the FY2004 recommended request for Administration and Outreach is \$7.3 million, an increase of \$585,400 or 8.7 percent. Table 5 summarizes the FY2004 Administration and Outreach request by major function.

**Table 5: State Funded Administration and Outreach
Summary by Function**

	FY2002 Appropriation	FY2003 Appropriation	FY2004 Request	Change FY2003 – FY2004
General Funds Administration				
Personal Services	\$3,421,400	\$3,496,400	\$3,736,500	6.9%
Non-Personal Services	3,082,600	2,687,800	2,688,100	< 0.1%
Sub-total: General Funds Line Items	\$6,504,000	\$6,184,200	\$6,424,600	3.9%
Adult Learner Outreach	\$300,000	\$150,000	\$150,000	0.0%
S&G Re-engineering	250,000	0	0	0.0%
Delivery Systems Improvements	0	0	350,000	100.0%
Sub-total: Outreach & System Improvements	\$550,000	\$150,000	\$500,000	33.3%
Total: General Funds Administration	\$7,054,000	\$6,334,200	\$6,924,600	9.3%
Other State Funds				
Higher-EdNet Fee Fund	\$65,000	\$65,000	\$10,000	-85.0%
State Accounts Receivable Fund	300,000	300,000	300,000	0.0%
Contracts and Grants Fund	0	0	50,000	100.0%
Total: Other State Funds	\$365,000	\$365,000	\$360,000	-1.4%

State Funded Line Item Administration Increases

As seen in Table 6, the recommended increase in State General Funds for FY2004 administration by line item is \$240,400 or 3.9 percent.

In the Personal Services line, an increase of \$140,600 is recommended to cover the cost of a 5 percent average salary increase for ISAC staff. This represents a 3.5 percent increase for FY2004 merit increases and provides a 1.5 percent cost of living adjustment (as no raises were provided for in the FY2003 budget). The cost of living adjustment is in line with the most recent 12-month Consumer Price Index increase. An additional \$30,000 is recommended in the Personal Services line as a reallocation of funds from the Contractual Services line, and a \$25,000 increase is recommended to address cost allocation issues for FY2004.

As an agency which administers both state and federal programs, federal law requires ISAC to comply with the cost allocation principles of the federal Office of Management and Budget (OMB) Circular A-87. Expenses directly attributable to either the federal loan programs or the state scholarship and grant programs are easily accounted for, however, shared or indirect overhead costs must be defined and attributed to the federal and state programs in a manner prescribed in the OMB circular. A large portion of the agency's indirect or shared expenses can be attributed to staff who perform tasks related to both federal and state financial aid programs.

Prior to FY2003, compliance with cost allocation requirements became increasingly difficult for the agency as it received administrative responsibility for new programs such as the Illinois Incentive for Access (IIA) Grant without receiving corresponding administrative funding. In FY2003, however, the agency sought \$150,000 to assist in remaining compliant with federal cost allocation requirements, and received \$75,000 to assist with this effort. Although this adjustment helps ensure compliance with the requirements in FY2003, the state overhead margin remains extremely narrow.

The primary factor resulting in the need for an additional adjustment in the Personal Services line item in FY2004 is the continued reliance of the agency on outdated “stovepipe” technology to administer the state scholarship and grant programs. Many employees who use both the federal and state systems to execute similar administrative functions find that many of these functions that are automated and systemic on the federal loan side of ISAC’s business require more manual intervention on the state-funded scholarship and grant side. This lack of efficiency in the state systems causes employees to spend a disproportionate amount of their time on state-related responsibilities. As the state systems continue to age without sufficient updates, this problem becomes more extensive. Also note that ISAC received administrative responsibility for the newly created Optometric Education Scholarship Program during the past legislative session, but did not receive any funding to administer the program. As a result of these two factors, an adjustment of \$100,000 in FY2004 is needed to ensure continued compliance with federal cost allocation requirements.

In the Personal Services-related line items, the following increases are requested: \$5,600 to cover ISAC’s retirement contributions on behalf of employees (5 percent); \$28,200 for the agency’s share of retirement contributions (10 percent); and \$10,700 for Social Security contributions (5 percent).

In summary, the recommended FY2004 increase in the Personal Services line totals \$240,100.

In the Contractual Services line, \$2,290,800, a decrease of \$60,000 or 2.6 percent, is requested. This decrease represents contractual cost savings resulting from bringing all systems development, maintenance and administration functions for the Monetary Award Program (MAP) in-house. These functions were previously performed by an outside contractor. By providing all services and systems work in-house for MAP, the agency has greater control and flexibility over the program’s administration and thus is able to respond more quickly to necessary changes throughout the fiscal year. A portion of the funds resulting from the contractual cost savings are being reallocated to the Personal Services line in order to support additional staff time spent on these activities. In addition, a portion of the contractual cost savings are being reallocated to Printing to fund the increased printing costs of producing all MAP correspondence in-house.

In the Printing line, \$130,600, an increase of \$20,000 or 18.1 percent, is requested. This increase is necessary to cover increased printing costs associated with the agency’s decision to move all MAP processing functions in-house, including award announcements.

In the Equipment line item, \$60,000, an increase of \$40,000 or 200.0 percent, is requested. During FY2003 budget negotiations ISAC requested a large reduction in the equipment line in order to protect other agency priorities (i.e., staff administering programs, postage for client services, etc.) in the FY2003 budget. For FY2004, an increase of \$40,000 is requested to address delayed equipment purchases resulting from the FY2003 shortfall, as well as to support the General Funds allocation needed to replace the agency’s Interactive Voice Response (IVR) telephone system.

In the Auto Operation line item, \$6,800, an increase of \$300 or 4.6 percent, is requested. This increase is necessary as a result of increased maintenance costs due to the agency’s plan to lengthen the years of service for each vehicle before replacement.

**Table 6: State Funded Administration
FY2004 Appropriation Request By Line Item**

Line Item	FY2003 Appropriation	FY2004 Request	CHANGE	
			\$	%
Personal Services	\$2,811,900	\$2,982,500	\$170,600	6.1%
Retirement-Employee	112,400	118,000	5,600	5.0%
Retirement-Agency	282,300	310,500	28,200	10.0%
Social Security	214,800	225,500	10,700	5.0%
Cost Allocation Increment	75,000	100,000	25,000	33.3%
Sub-total: Personal Services	\$3,496,400	\$3,736,500	\$240,100	6.9%
Contractual Services	2,350,800	2,290,800	-60,000	-2.6%
Travel	31,300	31,300	0	0.0%
Commodities	38,600	38,600	0	0.0%
Printing	110,600	130,600	20,000	18.1%
Equipment	20,000	60,000	40,000	200.0%
Telecommunications	130,000	130,000	0	0.0%
Auto Operation	6,500	6,800	300	4.6%
Sub-total: Non-Personal Services	\$2,687,800	\$2,688,100	\$300	< 0.1%
Total General Funds	\$6,184,200	\$6,424,600	\$240,400	3.9%
Higher-EdNet Fee Fund	65,000	10,000	-55,000	-85.0%
Accounts Receivable Fund	300,000	300,000	0	0.0%
Grants and Contracts Fund	0	50,000	50,000	100.0%
Total	\$6,549,200	\$6,784,600	\$235,400	3.6%

**Table 7: General Revenue Funded Administration by Line Item
Components of the FY2004 Request for Additional Funding**

Line Item	General Cost Increases	Adjustment for MAP Administration	Cost Allocation Increment	Total: Additional Funds By Line Item
Personal Services	\$140,600	\$30,000	\$25,000	\$195,600
SERS-Employee	5,600	0	0	5,600
SERS-Agency	28,200	0	0	28,200
Social Security	10,700	0	0	10,700
Contractual Services	0	-60,000	0	-60,000
Travel	0	0	0	0
Commodities	0	0	0	0
Printing	0	20,000	0	20,000
Equipment	40,000	0	0	40,000
Telecommunications	0	0	0	0
Auto Operation	300	0	0	300
Total	\$225,400	-\$10,000	\$25,000	\$240,400

Adult Learner Outreach Activities

In FY2003, ISAC requested \$300,000 to continue expanded outreach activities to non-traditional student populations, first funded in FY2002. This amount was reduced to \$150,000 in the Governor's FY2003 Budget and received legislative support at that level throughout the FY2003 appropriation process.

With the funding received in FY2003, and taking into account IBHE, gubernatorial and legislative priorities, staff developed a plan which expands on the efforts undertaken in this area in FY2002. During FY2002, first-year funding for the adult learner outreach project was used to contract with the Council for Adult and Experiential Learning (CAEL) to promote ISAC's financial aid programs to adults in the Chicago metropolitan area. On behalf of ISAC, CAEL worked with business organizations, trade associations, labor unions, social service agencies, training centers and financial aid offices to promote financial aid availability specifically to potential adult learners. With CAEL's help, ISAC created and printed specialized brochures focused on reaching adults. During FY2002, ISAC also had plans to hire a Client Relations staff person devoted full time to outreach services for adult learners. This position was not filled due to the requirements of the Governor's Administrative Order #1 which precluded hiring new GRF-funded staff. During FY2003, the agency plans to fill this position and build on the outreach efforts with the organizations contacted by the CAEL group in FY2002 and also expand the outreach efforts to similar organizations downstate.

For FY2004, the recommended budget request for continuing this expanded outreach effort to adult learners is \$150,000, the same level of funding as FY2003. ISAC would continue funding the Client Relations position with the focus of the position being on conducting workshops and presentations for adults interested in attending college. Publications focused on reaching adults would also continue, and staff would also work with ISAC's Advisory Committee on Adult Learners to implement ideas developed in conjunction with this committee.

Student Financial Aid Delivery Systems Improvements

For FY2001 through FY2003 ISAC sought funding for a major restructuring of the agency's scholarship and grant systems. This multi-year project (initially projected at three years based on a budget request of \$550,000) was recommended in order to update the agency's scholarship and grant systems which are currently between sixteen to twenty years old and designed as separate or "stovepipe" systems, rather than integrated systems. The goals of the original project were to: 1) benefit students and families, as well as campus staff through faster flow of information, enhanced accuracy and more efficient customer service; 2) reduce the agency's cost of, and reliance on, outside vendor processing services; 3) create a flexible system in which processes could be modified to meet changing requirements; and 4) realize significant future savings in software development and maintenance costs.

Although the funding initially sought for this multi-year project was \$550,000 for a minimum of three years, funding received for this initiative in FY2001 amounted to \$192,500 (which was further reduced by a 2 percent reserve requirement imposed by the Governor). The agency found it necessary to use this funding to develop the new Quern IT Grant Program delivery system as ISAC did not receive separate administrative funding for the Program. In FY2002, funding of \$250,000 was received for this initiative, however, due to the budget constraints faced by the State, ISAC was unable to spend these funds as a result of Administrative Order #1. In FY2003, ISAC requested funding at this same level, but did not receive any funds for this purpose. It should be noted that at a funding level of \$250,000, it was projected that this project would take approximately six years to complete.

It is apparent that a multi-year project of this magnitude is not currently viable, given the State's current and likely future budget constraints. For FY2004, staff is recommending a different approach to improving the state scholarship and grant systems. Rather than concentrating on a comprehensive integrated redesign of all scholarship and grant delivery systems, staff is recommending a targeted approach to improving individual scholarship and grant delivery systems. Although not all of the original goals of the re-engineering project can be accomplished using this approach, the primary goals of improved customer service for students and institutions, improved processing efficiencies, and ultimately a reduction in the agency's cost of, and reliance on, outside vendor processing services can be attained.

For FY2004, staff is recommending a budget request of \$350,000 for targeted student financial aid delivery systems improvements.

The FY2004 budget request of \$350,000 will be used to retain one new Information Services systems database administrator, with the remaining funds designated for consulting services to assist with the process improvements. It is projected that a similar request will be required for FY2005. With the resulting cost savings estimated to occur from the targeted delivery systems improvements, it is planned that this initiative will be self-sufficient in out years as funds resulting from the efficiency improvements can be reallocated internally to support future scholarship and grant systems improvements. This reallocation approach is similar to the one currently being taken by the agency in FY2003 with the MAP delivery system.

Higher-EdNet

The Higher-EdNet scholarship search service has been in existence since 1995. The service provides students with the opportunity to search a national database of available scholarships and grants from federal, state, college and private sources. Until FY2003, this service has been provided via the Internet free-of-charge or via paper application for a \$10 processing fee. The Higher-EdNet Fund is the repository of fee revenues generated by the \$10 per-search fee.

The increased use of the free-of-charge Internet application continued in FY2002 for this program, while the use of paper applications continued to decline. During FY2002, 92 percent of applications received were processed via the Internet. In addition, over 80 percent of the paper profile users reported having Internet access. Given the dramatic decline in the number of paper profiles processed and the continued increased Internet access statewide, it is no longer cost effective to continue the paper application process. Beginning in FY2003, all students are being referred to the Internet process.

In addition, ISAC will be redesigning its agency Web site during FY2003 and will highlight various scholarship and grant database searches on the Web site. This will provide students with greater flexibility and more direct contact with scholarship and grant providers. Closeout steps for the paper process are currently being taken as publications and training materials are being revised to eliminate reference to the paper profile and to continue promotion of the Internet search service.

As paper applications will no longer be processed, no additional revenue will be generated for deposit to the Higher-EdNet fee account. A \$10,000 request, however, for FY2004 is recommended in order to provide sufficient spending authority needed to support costs associated with phasing out the paper application process. This represents a \$55,000 decrease from the FY2003 appropriation. FY2004 is the last year for which a Higher-EdNet budget request is anticipated.

State Accounts Receivable Fund

Staff recommends an FY2004 State Accounts Receivable Fund request of \$300,000, which represents no change from the current year appropriation. In FY2004, the agency plans to continue the aggressive approach to collection activities first undertaken in FY2002 (with the assistance of an outside collection agency) for the teacher scholarship programs covered by this appropriation. These programs include 12 teacher education scholarship programs formerly managed by the Illinois State Board of Education. Although these programs are no longer in existence, collection activities are still required for those students who did not fulfill the teaching obligation of the scholarship. This level of spending authority will allow for the full utilization of monies in this fund, (which are generated through the repayment of teacher scholarships from students who do not fulfill their teaching requirements) for administrative expenses and related collection agency charges.

Contracts and Grants Fund

Staff recommends an FY2004 spending authority request of \$50,000 for the Contracts and Grants Fund. ISAC received legislative approval in FY2003 for creation of this fund. This fund is intended as a repository for monies received from not-for-profit professional associations interested in assisting ISAC with joint outreach, training and research activities. These associations include, but are not limited to, the Illinois Association of Student Financial Aid Administrators (ILASFAA) and the Illinois Association of College Admission Counseling (IACAC).

IV. Student Loan Funds

ISAC derives its funding for student loan operations from non-state funding sources. Expenditures of such non-state funds, however, are authorized by the General Assembly through the annual appropriations process in the same manner as state-funded operations and programs. All revenues and expenditures associated with the administration of the Federal Family Education Loan (FFEL) Program are accounted for in the Federal Student Loan Fund (FSLF), the Student Loan Operating Fund (SLOF) and the Federal Reserve Recall Fund (FRRF).

To administer the FFEL Program, ISAC requires an appropriation, or state spending authority, from each of the funds (FSLF, SLOF and FRRF) to pay lender reimbursements, support operating expenses and make interfund transfers and payments to the U.S. Department of Education. These expenditure types, and the amounts recommended for FY2004, are summarized by fund in Table 8.

**Table 8: FY2004 Student Loan Funds
Budget Request by Fund Type (\$ in millions)**

STUDENT LOAN FUND TYPE	FY2004 BUDGET REQUEST
Federal Student Loan Fund	
Lender Reimbursements	\$160.0
Collections Payments to SLOF	25.0
Default Aversion Fee	5.0
Subtotal: Federal Student Loan Fund	\$190.0
Student Loan Operating Fund	
Student Loan Operating Fund Expenses	\$34.6
Default Aversion Fee Reversals	2.0
Outside Collection Agency Activities	22.0
Initiative to Enhance Outreach and Awareness	.2
E-Learning Initiative	.2
Federal Loan Systems Development and Maintenance	5.0
Working Capital Transfer	13.0
Subtotal: Student Loan Operating Fund	\$77.0
Federal Reserve Recall Fund	
Reserve Recall Interest Expenditures for Default Prevention	\$1.3
Federal Reserve Recall Transfer to U.S. Dept. of Education	4.0
Subtotal: Federal Reserve Recall Fund	\$5.3
Total: FY2004 Student Loan Funds Request	\$272.3

Federal Student Loan Fund (FSLF)

Lender Reimbursements

Payments are made from the Federal Student Loan Fund to reimburse lenders for defaulted loans, as well as loans which are discharged as a result of the death, disability or bankruptcy of the borrower. In addition, payments are also made for refunds to students or lenders from closed school or false certification accounts, and for refunds to students who have been erroneously subject to Internal Revenue Service offset procedures. To partially offset the cost of lender reimbursements, ISAC receives payments, in the form of federal reinsurance, from the U.S. Department of Education.

The level of spending for lender reimbursements generally corresponds to economic conditions, the volume of loan guarantees made in previous years, and successful default prevention activities. At a time of relatively low unemployment and stable personal income, students are less likely to default on their loan obligations and, as a result, reimbursements to lenders for defaulted loans generally decline. For FY2003, the lender reimbursement appropriation is \$160.0 million, although expenditures are expected to be less than \$120.0 million. With the continued uncertainty regarding the overall state of the economy, however, lender claims could continue to increase this year. Should economic conditions change significantly, lender reimbursements could return to levels experienced during the mid-1990's. The recommended request for spending authority for FY2004 is \$160.0 million.

Transfer ISAC's Share of Collections from the FSLF to the SLOF

ISAC is permitted to retain approximately 24 percent of all collection revenues according to federal law. This rate varies by loan type, with consolidation rates being lower and the retention level for rehabilitated loans being higher. ISAC is required to deposit all collection revenues in the FSLF, and transfer ISAC's retention amount to the SLOF.

The level of spending authority required in FY2004 in order to make such transfers is \$25.0 million, which represents no change from FY2003.

Transfer Default Aversion Fee Revenues from the FSLF to the SLOF

This fee is intended to encourage guaranty agencies to increase their default prevention efforts. This fee is actually paid from ISAC's Federal Student Loan Fund to ISAC's Student Loan Operating Fund. Transferring revenues from one fund to another requires spending authorization. The recommended request for spending authority for FY2004 is \$5.0 million, which is the same as FY2003.

Student Loan Operating Fund (SLOF)

Operating Expenses

During the past several years, ISAC's student loan-related operating expenditures have been maintained well below the appropriation or spending authority amount. Unlike lapsed State General Funds which are returned to the State Treasury, lapsed SLOF spending authority merely reflects expenditures not made. Any unspent or lapsed operating funds remain in the SLOF.

The SLOF operating expenses appropriation for FY2003 is \$33.7 million with expenditures expected to be less than the appropriation cap. The FY2004 recommended budget request provides ISAC with the spending authority needed to maintain its commitment to key projects and to fulfill its FFELP-related activities and responsibilities.

As seen in Table 9, the recommended request for the SLOF appropriation for operating expenses in FY2004 is \$34.6 million, a \$1.0 million (2.9 percent) increase over the FY2003 appropriation. This increase consists of the following components:

- \$661,300 for the Personal Services line to cover the cost of a 5 percent average salary increase for ISAC staff. This represents a 3.5 percent increase for FY2004 merit increases and provides a 1.5 percent cost of living adjustment (as no raises were provided for in the FY2003 budget). The cost of living adjustment is in line with the most recent 12-month Consumer Price Index increase.
- \$286,000 for Personal Services-related line items to cover the cost of ISAC's retirement contributions on behalf of employees (5 percent), the agency's share of retirement contributions (10 percent), Social Security contributions (5 percent), and the continued rising cost of group health insurance (3 percent);
- \$15,000 for Equipment to assist in supporting the replacement of the agency's Interactive Voice Response (IVR) telephone system in FY2004; and
- \$900 for auto operations, which is necessary to support maintenance of the agency's automobiles due to the agency's plan to lengthen the years of service for each vehicle before replacement.

**Table 9: Student Loan Operating Fund (SLOF) Expenses
Appropriation By Line Item FY2003-FY2004 Request**

Line Item	FY2003 Appropriation	FY2004 Request	CHANGE	
			\$	%
Personal Services	\$13,226,400	\$13,887,700	\$661,300	5.0%
Retirement-Employee	529,100	555,600	26,500	5.0%
Retirement-Agency	1,324,000	1,456,400	132,400	10.0%
Social Security	1,011,900	1,062,500	50,600	5.0%
Group Insurance	2,549,500	2,626,000	76,500	3.0%
Contractual Services	11,742,000	11,742,000	0	0.0%
Travel	191,000	191,000	0	0.0%
Commodities	234,700	234,700	0	0.0%
Printing	558,000	558,000	0	0.0%
Equipment	525,000	540,000	15,000	2.9%
Telecommunications	1,733,500	1,733,500	0	0.0%
Auto Operation	31,500	32,400	900	2.9%
Total	\$33,656,600	\$34,619,800	\$963,200	2.9%

It should be noted that the development of internal operating budgets and unforeseen federal requirements may result in slight adjustments to the line item configuration shown in Table 9. The total bottom-line request, as approved by the Commission, however, will not change.

Transfer Default Aversion Fee Reversals from the SLOF to the FSLF

While guaranty agencies are encouraged to increase their default prevention efforts through the payment of default aversion fees to their operating funds, these fees are refundable in the event the default prevention activities subsequently fail to avert the loans from default. If a loan on which the default aversion fee was previously collected goes into default, the fee must be returned to the Federal Student Loan Fund from the Student Loan Operating Fund. As with the Default Aversion Fee, Default Aversion Fee reversals require transferring revenues from one fund to another which requires spending authorization. The recommended request for spending authority for FY2004 is \$2.0 million.

Outside Collection Agency Activities

As part of ISAC’s collection strategy, ISAC contracts with outside collection agencies to assist in collections on the agency’s defaulted student loan portfolio. ISAC currently has entered into agreements with

three collection agencies to service a portion of its defaulted loan portfolio. Collection agencies typically are assigned borrowers with accounts for which a voluntary payment has not been received for at least 180 days despite intensive in-house collection efforts. Collection agencies retain a contractually-stated portion (generally 14 to 18 percent) of payments which they receive from borrowers on such accounts.

Appropriations authority is required to enable ISAC to remit commission fees back to the collection agencies following their transmittal of the total payment amount. The recommended spending authority for this purpose for FY2004 is \$22.0 million, which is equivalent to the level of fees anticipated to be retained by collection agencies in FY2004.

Federal Student Loan Systems Development and Maintenance

The FY2004 budget request recommendation contains an appropriation of \$5.0 million to meet the requirements of federal loan systems development and maintenance. These needs fall into three specific areas. Phase I (default prevention) of the Odyssey System, implemented in June of 2000, has ongoing maintenance and software support requirements which must be met in the coming fiscal year. Phase II of the System (collections, claims, accounting and federal reporting) which is scheduled to be implemented on October 1, 2002, has a range of maintenance and enhancement requirements which will require support in FY2004. Finally, ISAC intends to embark upon a development effort in FY2004 which would result in improvements to its loan guarantee information system. Costs associated with the guarantee system enhancement effort, along with other ongoing technology upgrades and the continuing maintenance and development costs associated with Phases I and II of the Odyssey System, necessitate the \$5.0 million request for spending authority being made for FY2004.

Initiative to Enhance Outreach and Awareness

One important part of ISAC's public service mission is to provide college awareness, admission, student financial aid and career information to Illinois citizens. Staff recommends that the Commission seek spending authority in FY2004 to fund a new initiative which will utilize the latest web-based technology to complement and extend ISAC's ability to fulfill this objective. In particular, this initiative will supplement ISAC's current outreach and awareness efforts with target populations who need specialized assistance, including underserved students and adult learners. The initiative will provide a much-needed technological solution that will facilitate collaborative efforts between all levels of education (elementary through postsecondary) as well as other state education agencies in providing information to future higher education students and their families. By providing this service to Illinois families, high schools, and colleges and universities, the State would be implementing a technology solution focused on the major strategy of increasing college awareness, with ISAC providing the leadership in achieving this objective. The provision of early interaction between students and colleges will further the agency's objectives of opportunity and access and could potentially influence more Illinois students to attend Illinois colleges and universities.

Under the proposed initiative, ISAC would contract with an outside vendor to build an integrated information management system that establishes and maintains an Internet-based database of grade school, high school and college students. One provider of such a service is Mentor™. Currently, approximately 20 other states are utilizing, or are in the process of implementing, state-specific versions of the Mentor™ system. In this system, students populate a database by opening their own unique informational "accounts" and by entering information about themselves such as what careers interest them and the high school classes that they have taken thus far. Colleges, universities and other eligible postsecondary institutions also provide information about their respective schools as well as appropriate links to their respective school's Web sites. Likewise state agencies, including the Illinois Board of Higher Education, Illinois Community College Board,

Illinois State Board of Education, the Governor's Office and other related state agencies could provide relevant consumer information regarding postsecondary education and career guidance information.

Students will remain actively involved in the academic preparation and higher education planning process by utilizing the system to: (1) find out what classes they should take to prepare for college and/or a specific career; (2) find information on Illinois colleges and universities, take virtual campus tours and compare colleges, etc.; (3) apply online for admission to Illinois colleges; (4) plan for various careers throughout their educational levels; (5) maintain their student databases and records and send electronic transcripts to colleges; (6) gain direct communication with Illinois colleges and universities; and, (7) utilize their personalized data contained within the system to simplify the financial aid process.

Should ISAC implement an Illinois Mentor-type system, one unique feature would be a transcript "warehousing" system which would provide a process for the electronic exchange of high school transcripts between high schools and colleges, eliminating the need for manual data entry. For ISAC, this transcript system will also provide an effective method for collecting data for its high school and specialized grant programs in the future.

Table 10 shows the projected cost of this initiative in FY2004 is \$650,000. For appropriated funds, staff recommends that the Commission seek \$325,000 in spending authority from student loan funds in FY2004. Specifically, staff recommends that \$162,500 of this requested spending authority be appropriated from the Student Loan Operating Fund (SLOF). Staff is recommending that the remaining \$162,500 be funded from the \$1.3 million spending authority from the Federal Reserve Recall Fund (FRRF) for Reserve Recall Interest Expenditures for Default Prevention. This is recommended because students' active participation in a process such as this will provide them with information on financial aid opportunities that may lessen their reliance on student loans. Also, it is expected that students' participation will improve their chances of completing their degree and will reduce the probability that they will subsequently default on their educational loans. It is anticipated that IDAPP will also seek \$325,000 as part of its FY2004 budget request to assist in funding this initiative.

It is expected that spending authority would be required in subsequent fiscal years to maintain the system. The projected costs for subsequent years, and the recommended sources of funding are also shown in Table 10.

Table 10: Projected Costs and Funding Sources for the Proposed Initiative to Enhance Outreach and Awareness

		<u>FY2004</u>	<u>FY2005</u>	<u>FY2006 & Out Years</u>
<i>COSTS</i>				
System Start Up		\$650,000		
Transcript Start Up			\$850,000	
Annual Maintenance			\$500,000	\$500,000
Annual Maintenance – Transcript				\$400,000
Total Costs		\$650,000	\$1,350,000	\$900,000
<i>SOURCES of FUNDS</i>				
SLOF	25%	\$162,500	\$337,500	\$225,000
FRRF	25%	\$162,500	\$337,500	\$225,000
IDAPP	50%	\$325,000	\$675,000	\$450,000
Total Sources		\$650,000	\$1,350,000	\$900,000

E-Learning Initiative

With the goal of better serving both Illinois students and families as well as the agency’s financial aid partners, staff is proposing an e-learning initiative for FY2004 in the amount of \$250,000 which would build upon ISAC’s existing training and outreach activities and would create a series of electronic learning components. This initiative would be broken down into two primary areas – Consumer Information and Training Activities.

The consumer information component would connect students and parents to information provided by ISAC as well as experts in different aspects of education and financial planning. User-friendly modules would be created for a variety of consumer-focused activities and links to professional experts would be established to capitalize on information readily available, but not easily found. The training activities component would provide financial aid officers and high school guidance counselors, as well as parents and students, with the opportunity to train and update themselves on state and federal financial aid programs and current issues in the financial aid field. This coursework would be self-paced and initially would be available via a Web cast or Web page instruction. Future plans are to develop this training into on-line coursework, providing more in-depth and extensive information.

These proposed e-learning activities will supplement the agency’s current training and outreach activities, allowing the agency to reach even more clients than now reached through traditional methods. Continually moving towards technology-driven delivery systems will enhance the agency’s abilities to fulfill the mission of helping clients gain access to the financial aid information they need.

Staff recommends FY2004 spending authority of \$250,000 to begin developing these e-learning initiatives. Approximately \$175,000 will be spent on developing a series of self-paced tutorial courses and approximately \$75,000 will be used to develop a series of Web cast client training events.

Repayment of Working Capital Transfer

On October 1, 1998, ISAC was required by the 1998 Reauthorization of the Higher Education Act of 1965 (HEA) to implement a new guaranty agency financing structure. This new structure required ISAC to separate and account for its FFELP-related revenues and payments in an operating account and a federally-owned account or fund. To implement this new financing mechanism, ISAC established an operating fund on October 1, 1998. As a new fund, there was no beginning balance. To allow ISAC to pay ordinary and contingent operating expenses from the new operating fund, the HEA permitted guaranty agencies to make a working capital transfer for start-up funds from the Federal Student Loan Fund to the Student Loan Operating Fund. The HEA also stipulated that the amount of the transfer could not exceed 180 days worth of operating expenses, and repayment of the transferred amount had to begin within four years after the date of the transfer and be fully repaid within five years. On October 1, 1998, ISAC transferred \$13.0 million from the FSLF to the newly created SLOF. As of May 31, 2002, the cash balance in the SLOF totaled \$32.6 million. Although ISAC is in a position to begin paying back the working capital transfer in advance of the scheduled due date and may do so, the recommended request for spending authority of \$13.0 million for FY2004 would provide ISAC with the flexibility to pay back all or a portion of the \$13.0 million working capital transfer during FY2004.

Federal Reserve Recall Fund (FRRF)

Federal Reserve Recall Transfer to U.S. Department of Education

The 1998 Reauthorization of the Higher Education Act required the U.S. Department of Education to recall federal reserve funds from guaranty agencies under two separate actions. These recalls were passed by Congress in conjunction with the new financing structure established for guaranty agencies at that time. The first recall requires ISAC to return approximately \$19.7 million to the U.S. Treasury during FY2003. The first installment of the second recall requires ISAC to return approximately \$3.3 million to the U.S. Treasury during FY2004. The final two recall installments required by the 1998 Reauthorization will occur in FY2007 and FY2008.

For FY2004, appropriation authority of \$4 million is being sought for the transfer of the recalled funds and associated interest to the U.S. Treasury.

Federal Reserve Recall Interest Expenditures for Default Prevention

Legislation governing the first recall of guaranty agency reserves required agencies to establish a separate fund or account to house the first recall give-back monies. Interest earned on this Federal Reserve Recall Fund may be used by the agency to support new default reduction activities. For FY2004, spending authority of \$1.3 million is recommended for the transfer of FRRF interest earnings to the SLOF so that default reduction-related operating expenses can be paid. Expanded default prevention activities for FY2004 include additional default prevention information being added to the agency's Web site, increased support for the Default Prevention call center, support for the proposed Mentor-type system and increased marketing communications to ensure program awareness.

V. Other Federal Funds

Paul Douglas Teacher Scholarship Program

Spending authority of \$400,000 for FY2004 is requested to transfer repayment funds collected under the Paul Douglas Teacher Scholarship Program to the U.S. Treasury.

The Paul Douglas Teacher Scholarship Program was a federally-funded program administered by ISAC which provided undergraduate scholarships to encourage outstanding high school graduates to pursue teaching careers. Similar to the state teacher scholarship programs, the Paul Douglas Scholarship required a teaching commitment. Failure to fulfill the teaching obligation required the student to repay the scholarship with interest. Although federal funding for this program was discontinued after FY1995, repayments on the converted scholarships continue. The spending authority requested would allow ISAC to transfer payments on these federal scholarships to the federal government.