

## AGENDA ITEM 6.

### DISCUSSION OF FY2008 SCHOLARSHIP AND GRANT PROGRAMS

**Submitted for:** Information

**Summary:** This agenda item provides the Commission with background material on program and policy issues related to ISAC's scholarship and grant programs. Included are a discussion of some Monetary Award Program (MAP) improvements that would enhance college affordability and an analysis of forecasted demands for the Silas Purnell Illinois Incentive for Access (IIA) program, the Illinois Veteran Grant (IVG) program, and the Illinois National Guard Grant (ING) program.

From FY2002, when funding for the Monetary Award Program peaked at nearly \$372 million, through FY2006, college affordability in Illinois deteriorated due to a combination of level appropriations, higher college costs, and increased application volume. In FY2007, the MAP appropriation increased by \$42 million, for a total of \$392.4 million. This enabled the Commission to address college affordability by eliminating the 9 percent reduction factor applied to all awards, increasing the average award by approximately \$300. However, the MAP formula does not provide students the level of support that it did in FY2002. The FY2002 award covered the average cost of tuition and fees at public universities; today the gap is over \$2,000.

The Monetary Award Program is not the only program where demand increases have outstripped funding. Some IIA applications have been suspended in recent years; in FY2007 applications were suspended in mid-August and as of early November, nearly 5,300 eligible applicants are in suspension. In 2004 the rules for IIA were changed to permit awards to be increased to up to \$1000 for freshmen with expected family contributions (EFCs) of zero and to provide awards up to \$500 to eligible students with EFCs between \$1 and \$500. The IIA program did receive an additional \$1 million in FY2007 to increase the appropriation to \$8.2 million, which went towards a projected increase in demand.

The Illinois Veteran Grant program and Illinois National Guard grant program have also seen increased demand in recent years. Since these are entitlement programs, students do receive their benefits regardless of program funding because schools are required to make up the difference between program funding and actual demand. Funding for the IVG program would need to increase more than 90 percent from FY2007 to meet projected FY2008 demand.

The MAP Plus grant program was enacted into law in 2006 to help middle-income families pay for the increasingly high cost of college. MAP Plus was created for the 2006-2007 school year as a new scholarship program administered by the ISAC, providing a maximum annual grant of \$500 to sophomores, juniors and seniors from families with incomes less than \$200,000, who attend Illinois higher education institutions. Each MAP Plus award is applied toward payment of tuition and mandatory fees. The MAP Plus award is intended for students who do not receive need-based Monetary Award Program (MAP) grants. The General Assembly and Governor provided a FY2007 appropriation of \$34.4 million for MAP Plus awards from the Student Loan Operating Fund (SLOF).

**Action requested:** None

**ILLINOIS STUDENT ASSISTANCE COMMISSION  
DISCUSSION OF FY2008 PROGRAM BUDGET IMPLICATIONS**

**Introduction**

This agenda item provides the Commission with background material on program and policy issues related to the scholarship and grant programs. Included is a discussion of some MAP formula improvements that would enhance college affordability and discussion of forecasted demands for the IIA, IVG, and ING programs.

**Monetary Award Program**

From FY2002, when funding for the Monetary Award Program peaked at nearly \$372 million, through FY2006, college affordability in Illinois deteriorated due to a combination of level appropriations, higher college costs, and increased application volume. In FY2007, the MAP appropriation increased by \$42 million, for a total of \$392.4 million. This enabled the Commission to address college affordability by eliminating the 9 percent reduction factor applied to all awards, increasing the average award by approximately \$300. However, the MAP formula does not provide students the level of support that it did in FY2002. The FY2002 award covered the average cost of tuition and fees at public universities; today the gap is over \$2,000.

**College Affordability**

Average Illinois family income, which had either decreased or remained stagnant in constant dollar terms for most income quintiles from FY2002 to FY2006, is estimated to have increased about seven percent in FY2007. While this increase is welcome news, it is not enough to make up for the rising college costs faced by Illinois students. Tuition and fees for Illinois schools increased by about 6 percent for community colleges, 10 percent for public universities, and about 5 percent for private schools in FY2007. Since FY2002, the average tuition and fees at all Illinois schools has increased about 43 percent.

The cost of college is still a formidable barrier for Illinois students from families with incomes in the lowest income quintiles. Community college tuition and fees total 15 percent, public university tuition and fees total nearly 48 percent, and private university tuition and fees exceed the income of families in the first income quintile. Even for middle-income families, public university tuition and fees are now about 13 percent of annual income and private university tuition and fees equal roughly one-third of income. Books, living expenses, transportation and other costs put even more strain on family budgets.

For students attending community colleges, the improvements made to the MAP formula in FY2007 increased average awards by nearly \$150, enough to cover the average increase in tuition and fees. Students at public universities are eligible for awards that are more than \$400 higher than last year; however, they are facing tuition and fees that are on average more than \$700 higher.

## **MAP Program Impacts for FY2008**

The Commission should be aware of several changes expected to affect MAP eligibility in FY2008. These eligibility changes result in a net increase in costs to MAP.

### *Replacement of Student Loan Operating Fund (SLOF) funding*

Of the additional \$42 million budgeted for MAP in FY2007, \$26.8 million will come from the SLOF by restructuring or selling part of the Commission's student loan portfolio. This money was used to reduce the reduction factor from 9 percent to 2 percent. An additional \$15.2 million was used to eliminate the reduction factor and to extend application processing to the end of August. Half of these funds could be coming from SLOF. Without a continuation or replacement of the funding from the SLOF, the Commission would need to adjust the allocation formula for FY2008 or have a much earlier suspension than the August 26 date this year.

### *Impact of Federal Changes*

Since ISAC uses the federal expected family contribution (EFC) in determining MAP eligibility, any substantial change in federal need analysis will have an impact on the program. As part of the Higher Education Reconciliation Act of 2005, several changes will occur for the 2007-08 award year. Specifically, higher income protection allowance amounts and lower asset assessment rates will result in lower EFCs for some students. These changes are positive for students and will result in higher eligibility for financial aid including MAP. Staff estimates that these changes will increase the costs of the program by approximately \$5 million.

### *Application Volume*

Announced application volume, or completed applications from Illinois undergraduate residents attending MAP-approved institutions, increased by 18 percent between FY2001 and FY2005. Due to the state's economic condition and the resulting loss of employment opportunities, many individuals pursued education and training as a means to enhance their employability. While the growth in application volume has slowed somewhat since FY2005, it is still increasing. As of the end of October, FY2007 announced application volume is up about two percent over the previous year. A similar increase has been projected for FY2008.

## **MAP Formula Enhancements**

Following is a brief overview of the costs and benefits of implementing MAP formula enhancements to improve college affordability for Illinois students.

### *Application Volume*

As discussed in the previous section, application volume has a significant impact on the MAP formula and resulting application suspension date. FY2001 was the last year that the Commission could announce awards for the entire processing cycle. In FY2002, award announcements were suspended in early December.

In FY2003, all awards were reduced by five percent from their start-up levels to extend announcements to mid-August. Award levels were reduced another five percent in FY2004 to announce awards into August. In FY2005, award announcements were initially suspended in mid-August and were suspended in late August in FY2006 and FY2007. As of early November, nearly 12,000 eligible students were in suspended status for FY2007.

If application volume increases by two percent as projected, an estimated \$8 million would be needed to announce awards to the end of August. To announce awards to October, the program would require an additional \$7 million. Announcing awards to the end of December would require another \$6 million and to

the end of the award year would require yet another \$5 million. This \$26 million would provide awards for about 15,000 new recipients. Many of the students applying in the fall are independent students attending community colleges or urban public universities.

#### *Tuition and Fees*

Since FY2006, the Commission has been using 2003-04 tuition and fee amounts in the MAP formula. Recognizing 2004-05 tuition and fees in the FY2007 formula would cost a projected \$18 million. Incorporating 2005-06 tuition and fees into the formula would cost an additional \$12 million and using 2006-07 tuition and fees would require another \$11 million for a total cost of \$41 million. The increased cost is due to two factors: an increase in the size of the award for those students attending schools where tuition and fees are less than the maximum award and an increase in eligibility resulting from the higher costs incorporated into the formula.

The weighted-mean increase in 2006-07 tuition and fees was 6 percent at community colleges, 5 percent at private and proprietary institutions, and 10 percent at public universities for an overall average of nearly 9 percent. Assuming similar increases in FY2008, the projected cost of incorporating 2007-08 tuition and fees over 2006-07 costs is \$11 million. The total cost of incorporating 2007-08 tuition and fees into the MAP formula in place of the 2003-04 amounts is projected to be \$52 million, the sum of the cost of the increases in FY2005 through FY2008.

#### *Awards for Zero-EFC Students*

Currently, many zero-EFC students do not receive a full MAP grant, meaning they receive less than the maximum award or less than the tuition and fee amounts used in the formula. This could be addressed by increasing the living allowance or by decreasing the Pell assessment rate in the MAP formula. The less costly option would be to assess the Pell award at 75 percent instead of the current 80 percent. The projected cost of lowering the Pell assessment rate to 75 percent is approximately \$6 million.

#### *Statutory Maximum Award*

The statutory maximum award for the Monetary Award Program has been set at \$4,968 since FY2002. One measure of the adequacy of the maximum award is to compare it with the tuition and fee costs at public universities. By FY2006, the weighted mean FY2006 tuition and fees cost for all public universities was \$7,151, more than \$2,000 over the statutory maximum award. In FY2007, tuition and fee costs had risen to \$7,875, adding over \$700 more to the gap. Currently, all FY2007 tuition and fee rates reported to ISAC by public universities and private schools are above the \$4,968 maximum award amount.

The estimated cost to increase the statutory maximum award by approximately \$500 is \$27 million. The estimated cost to increase the statutory maximum award to the FY2006 public university average is \$102 million.

The projected costs of all MAP formula changes are summarized in Table 1.

Table 1: Summary of Changes to the Monetary Award Program (MAP)

**Monetary Award Program Changes\***  
(Dollars in Millions)

<b>Base Appropriation</b>	<b>Additional Program Costs</b>		<b>Funding</b>
	<b>Incremental</b>	<b>Cumulative</b>	<b>Level</b>
FY2007 GRF Appropriation	--	--	\$354.3
Current Federal LEAP/SLEAP			<u>\$3.7</u>
FY2007 Base Appropriation	--	--	\$358.0

**Provide Similar Support as in FY2007\*\***

Replacement for SLOF Funding***	\$34.4	\$34.4	\$392.4
Projected Changes in Federal Need Analysis (HERA)	\$5	\$39.4	\$397.4
Projected 2% Increase in Application Volume	\$8	\$47.4	\$405.4

**Formula Improvements**

Incorporate 2004-05 T&F	\$18	\$18	\$423.4
Incorporate 2005-06 T&F	\$12	\$30	\$435.4
Incorporate 2006-07 T&F	\$11	\$41	\$446.4
Incorporate Projected 2007-08 T&F	\$11	\$52	\$457.4
Raise Maximum Award to \$5466 (approx \$500 increase)	\$27	\$27	\$484.4
Raise Maximum Award to \$5964 (approx \$1000 increase)	\$24	\$51	\$508.4
Raise Maximum Award to \$7152 (avg FY2006 Public Univ. T&F)	\$51	\$102	\$559.4
Extend Award Announcements to 10/1	\$7	\$7	\$566.4
Extend Award Announcements to 12/31	\$6	\$13	\$572.4
Extend Award Announcements to end of year	\$5	\$18	\$577.4
Full MAP for Zero EFCs (75% Pell Assessment)	\$6	\$6	\$583.4

\*Estimated costs are based upon incorporating a single formula improvement. Any combination will increase costs above those listed here.

\*\*Using current allocation formula and a similar late-August suspension date.

\*\*\*Assumes additional \$7.6 million appropriated in fall veto session will come from SLOF.

**Silas Purnell Illinois Incentive for Access (IIA) Program**

In FY1997, the Commission first received funding for the IIA Grant Program, designed to promote access and retention of freshmen applicants who have no financial resources for college, i.e., a zero Federal Expected Family Contribution (EFC). The program is intended to supplement, funding for existing need-based grant programs for this group of students, much like the federal Student Educational Opportunity Grant Program supplements the federal Pell Grant Program.

Effective July 1, 2004, the Illinois Incentive for Access Grant Program was renamed the Silas Purnell Illinois Incentive for Access Grant Program and the rules were changed to permit larger awards. Contingent upon adequate funding, freshman college students who have an EFC of zero can receive a one-time award up to \$1,000 and freshmen with an EFC between \$1 and \$500 can receive a one-time award up to \$500. Appropriation levels have not increased enough to incorporate these changes and meet increased demand, so the Commission has only been able to provide a one-time \$500 award to freshmen applicants who have a \$0 EFC. In FY2006, the program was appropriated level funding of \$7.2 million and the Commission was forced to suspend applicants in early August, one month before the MAP suspension date.

In FY2007, the appropriation was increased to \$8.2 million, which was used towards projected increased demand. Due to a 5 percent increase in application volume by zero-EFC students, award announcements were suspended on August 19, one week before MAP. Based on application volume projections, staff expects up to a two percent increase for FY2008. This would require an additional \$500,000 to announce awards to mid-August. Another \$500,000 would be required to announce awards for IIA through the end of August. Announcing awards for IIA through the end of the processing cycle is estimated to cost just under \$4 million.

To fully fund the program at the statutory levels and announce awards without suspension, it is projected that approximately \$23 million would be needed. Table 2 summarizes the changes.

Table 2: Silas Purnell IIA Grant Program Changes

**Silas Purnell IIA Grant Program Changes\***  
(Dollars in Millions)

<b>Base Appropriation</b>	<b>Additional Program Costs</b>		<b>Funding Level</b>
	<b>Incremental</b>	<b>Cumulative</b>	
FY2007 Base Appropriation	--	--	\$8.2
<b>Provide Similar Support as in FY2007**</b>			
Projected 2% Increase in Application Volume	\$0.5	\$0.5	\$8.7
<b>Formula Improvements</b>			
\$1000 awards for Zero EFCs	\$8.2	\$8.2	\$16.9
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\$500 awards for 1 - 500 EFCs	\$2.0	\$2.0	\$18.9
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Provide \$500 for Sophomore Year	\$3.7	\$3.7	\$22.6
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Extend Award Announcements to 9/1	\$0.5	\$0.5	\$23.1
Extend Award Announcements to 10/1	\$0.8	\$1.3	\$23.9
Extend Award Announcements to 12/31	\$1.0	\$2.3	\$24.9
Extend Award Announcements to end of year	\$1.5	\$3.8	\$26.4

\*Estimated costs are based upon incorporating a single formula improvement. Any combination will increase costs above those listed here.

\*\*Using current allocation formula and a similar mid-August suspension date.

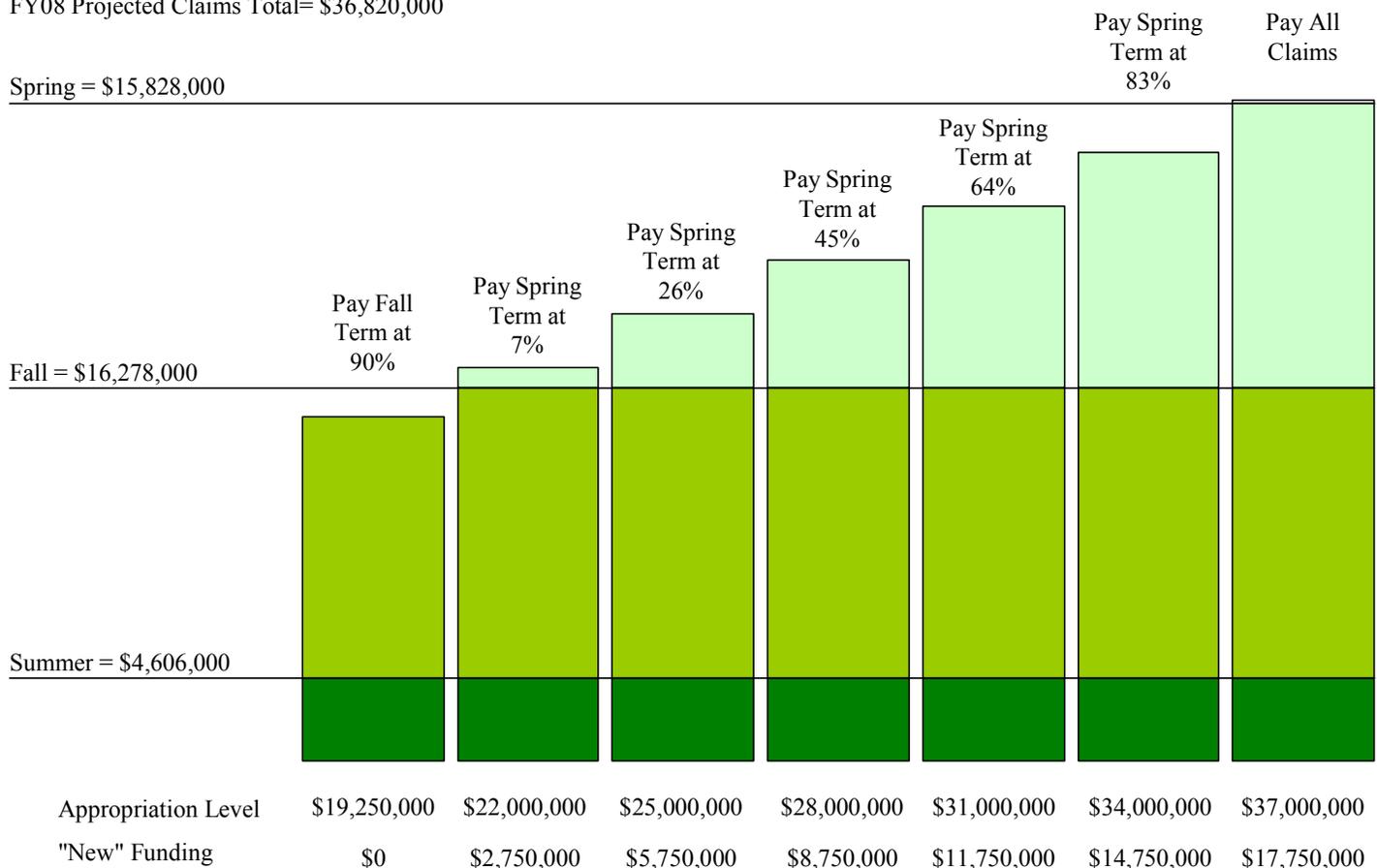
## Illinois Veteran Grant (IVG) Program

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 that occur at their campuses by waiving the portion of a student's tuition and fees not paid by the grant. In FY2006, 12,030 veterans received \$19.2 million in assistance; however, claims by institutions were prorated and could not be paid fully. Full claims for FY2006 were estimated at \$31.6 million. For FY2007, ISAC expects to receive approximately \$34 million in claims. With an appropriation of \$19.25 million, the funding shortfall is expected to be almost \$15 million, resulting in the likelihood of prorating fall claims. Allowing for expected increases in tuition and fees, full funding for FY2008 is estimated at \$36.8 million. Level funding of \$19.25 million would again result in prorating fall claims. Figure 1 illustrates the FY2008 anticipated claim coverage achieved by different increases in funding.

**Figure 1: Coverage of FY08 Projected IVG Claims at Different Funding Levels**

FY08 Projected Claims Total= \$36,820,000

Spring = \$15,828,000

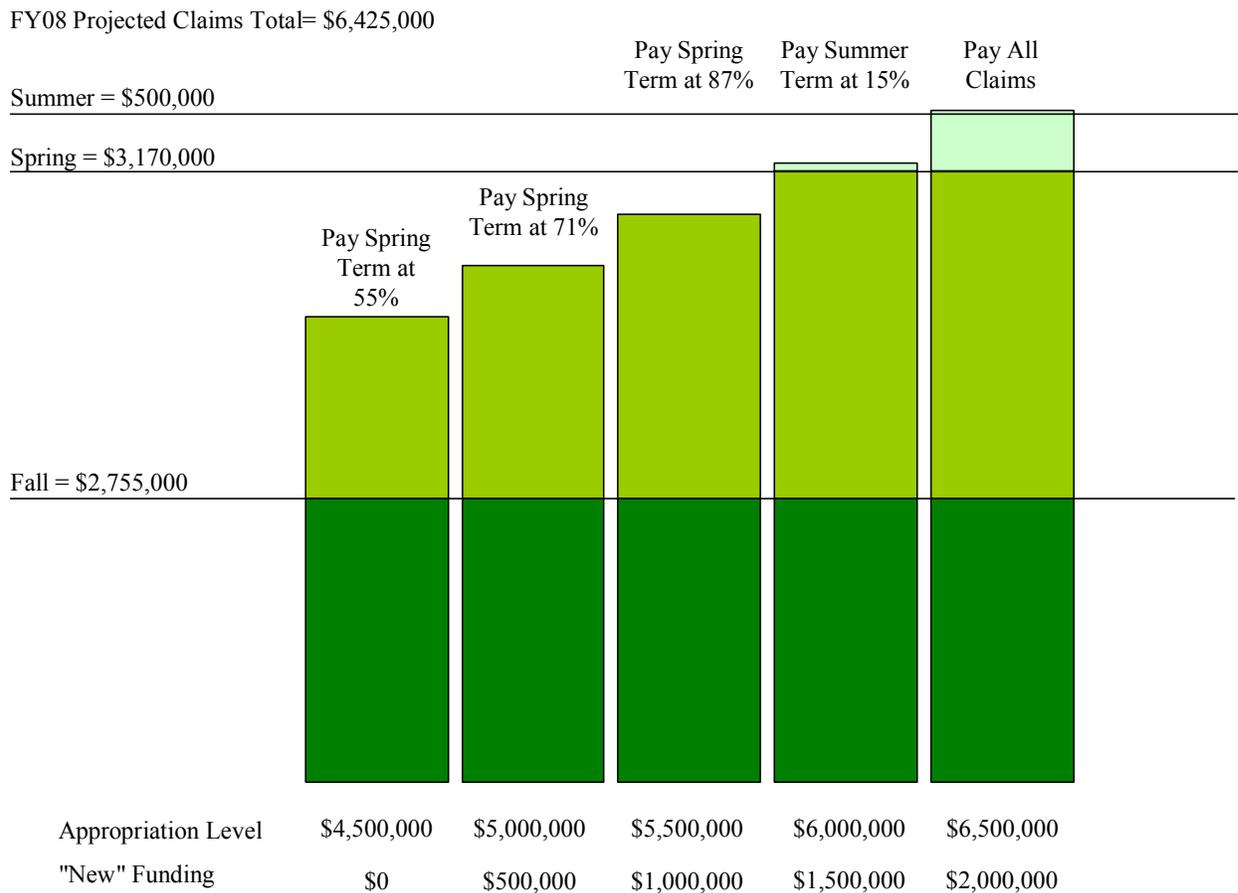


Assumes an 8 percent increase in FY08 claims over FY07. FY07 assumes an 8% increase over FY06. Increases based on anticipated increases in tuition and fees. FY06 total claims were \$31.6 million with a funding shortfall of \$12.3 million. FY07 claims projected at \$34 million with a \$14.8 million shortfall.

**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. Like IVG, the ING Grant Program is an entitlement program, and public institutions are required to cover any funding shortfalls that occur at their campuses by waiving the portion of a student's tuition and fees not paid by the grant. For FY2006, ING provided 1,962 students with assistance totaling approximately \$4.4 million. The funding which would have been required to fully pay all claims for FY2006 totaled \$5.6 million. For FY2007, ISAC expects to receive approximately \$6 million in claims. With an appropriation of \$4.5 million, the funding shortfall of about \$1.5 million is anticipated, resulting in the continued need to prorate spring claims. Allowing for expected increases in tuition and fees, full funding for FY2008 is estimated at \$6.4 million. Level funding would result in continued proration of claims. Figure 2 illustrates the FY2008 anticipated claim coverage achieved by different increases in funding.

**Figure 2: Coverage of FY08 Projected ING Claims at Different Funding Levels**



Assumes an 8 percent increase in FY08 claims over FY07. FY07 assumes an 8% increase over FY06. Increases based on anticipated increases in tuition and fees. FY06 total claims were \$5.5 million with a funding shortfall of \$1 million. FY07 claims projected at \$5.9 million with a \$1.4 million shortfall.

## **MAP Plus**

The MAP Plus grant program was enacted into law in 2006 to help middle-income families pay for the increasingly high cost of college. MAP Plus was created for the 2006-2007 school year as a new scholarship program administered by the Illinois Student Assistance Commission (ISAC), providing a maximum annual grant of \$500 to sophomores, juniors and seniors from families with incomes less than \$200,000, who attend (MAP-eligible) Illinois higher education institutions. Each MAP Plus award shall be applied toward payment of tuition and mandatory fees. The MAP Plus award is intended for students who do not receive need-based Monetary Award Program (MAP) grants.

The General Assembly and Governor provided a FY2007 appropriation of \$34.4 million for MAP Plus awards from the Student Loan Operating Fund (SLOF), which are from revenues to be generated by a partial sale or restructuring of ISAC's \$3.5 billion student loan portfolio. MAP Plus awards are contingent upon funds being available in SLOF during FY2007. At this time (November 2007), the Commission has not yet acted upon a partial sale or restructuring of the agency's student loan portfolio, so funding for the program has not been generated.

Since the MAP Plus program was initially approved as a one-year pilot grant program, in effect for the 2006-2007 school year only, the enabling statute required ISAC to evaluate MAP Plus and produce a report for the 2007 spring session of the General Assembly, indicating whether the program merits continuation for Fiscal Year 2008 and thereafter.

## **MAP Plus Implementation**

A complete and comprehensive evaluation of MAP Plus will not be possible until after the conclusion of FY2007, but a partial evaluation of the program is nonetheless possible. Clearly, with the cost of tuition and fees at Illinois public universities increasing on average by 50 percent over the past five years (compared with an average 35 percent increase nationwide, according to the most recent College Board data), those middle-income students who do not qualify for need-based financial aid are facing an increasingly large "affordability gap" when paying for college. MAP Plus was designed to at least partially address this widening gap in college funding for Illinois middle-income college students who attend public universities, private colleges or community colleges in-state. Tuition and fees at Illinois public universities now average more than \$7,800 per year, with an increase of over \$800 occurring last year alone.

Tuition and fees increased by over \$1,000 at some schools, and on average over \$800 at Illinois public universities for the 2006-2007 school year. In contrast, tuition and fees at Illinois community colleges increased by roughly \$200. By this metric, the value of the MAP Plus award varies considerably among recipients, covering 100 percent of the affordability gap in some cases and less than 50 percent of the gap in others.

There is considerable overlap between the MAP and MAP Plus grant recipients in terms of family incomes. MAP Plus awards go to students who do not qualify for MAP grants. Since MAP grants are based on both a student's family income and the cost of college attended, two students coming from families with the same income may receive different MAP grants or one may receive none at all. This is especially true for students coming from middle-income families who receive about 30 percent of MAP awards. For example, a student with a \$50,000 family income will most likely not get a MAP award if he attends a community college but would get one if he attends a private institution. The student who did not get the MAP award would be eligible for MAP Plus. Of the 42,000 students who filled out a FAFSA last year coming from families with incomes between \$40,000 and \$60,000, 65% were eligible for MAP (at their first choice school) and the remainder, 35% were eligible for MAP Plus. For students from families under \$40,000, 93% were eligible for MAP and 7% for MAP Plus. For students from families

with incomes from \$60,000 to \$80,000, 25% qualified for MAP; and 75% for MAP Plus. About 30,000 students who come from families with incomes over \$100,000 qualified for MAP Plus.

The distribution of the MAP and MAP Plus awards varies by sector. Students attending community colleges comprise 44 percent of MAP eligible students but only about 22 percent of the MAP Plus eligible students. Students attending private institutions and public universities make up about 24 percent and 27 percent, respectively, of the MAP eligible students but are 32 and 45 percent of the MAP Plus eligible students.