

AGENDA ITEM 7.

FY2012 MONETARY AWARD PROGRAM (MAP) RECOMPUTE FORMULA

Submitted for: Action

Summary: In January, the Commission approved a start-up formula to calculate Monetary Award Program (MAP) eligibility for applicants planning to attend college in the 2011-12 academic year. Establishing a formula early enables financial aid advisors to package awards and helps applicants determine where to enroll. When the appropriation is closer to final and application volume trends emerge, the Commission approves a MAP recompute formula based on the new information.

At this time the FY2012 MAP appropriation is somewhat unclear. The Federal LEAP/SLEAP programs, which have provided about \$4 million per year to MAP, have been discontinued. Currently MAP has been appropriated \$386.7 million from GRF which is \$17.2 million less than the FY2011 GRF appropriation. However, there is a possibility that MAP could receive more money. When the suspense date was set in March, ISAC was directed by the Governor's office to extend processing for six more days with the understanding that more money would be forthcoming. Also, the \$17.2 million cut was associated with the elimination of proprietary schools from MAP, but legislators did not approve this proposal.

FY2012 early application volume increased again this year, resulting in the earliest-ever suspense date of March 26. When the suspense date was chosen there were nearly 61,000 (30 percent) more announced applicants (Illinois undergraduate residents planning to attend a MAP-approved school) and 47,300 (34 percent) more eligible applicants than in FY2011. By mid-June the increases had declined to 10% for announced and 13% for eligible applicants. More people *are* seeking aid and more are eligible, but the huge increases seen in March are largely the result of people applying earlier.

The trend toward earlier filing complicates the goal of spending the entire MAP appropriation without exceeding it. The suspense cut-off can only be done in daily increments. When application volume was lower and more spread out suspense dates were typically in August, when claims for one day were around \$1 million. During the week prior to this year's March 26 suspense, projected daily claims were over \$8 million. In addition, past claim rates are now less accurate for projecting current claims. Traditionally students who completed their FAFSAs earlier were more likely to claim more of their award; later applicants were more likely to attend part-time or to change their mind entirely. Now applicants who previously applied later or not at all apply early and past rates are less reliable for estimating current year claims.

To help handle these uncertainties the Commission in FY2011 approved a new approach to ensure spending as much of the appropriation as possible without exceeding it. Staff recommends this approach for FY2012 as well.

Action requested: Staff requests the Commission approve the FY2012 MAP start-up formula as the FY2012 recompute formula. When the appropriation is finalized second- and third-term awards will be reduced to stay within the appropriation as described in Table 2.

**ILLINOIS STUDENT ASSISTANCE COMMISSION
FY2012 MONETARY AWARD PROGRAM RECOMPUTE FORMULA**

Background

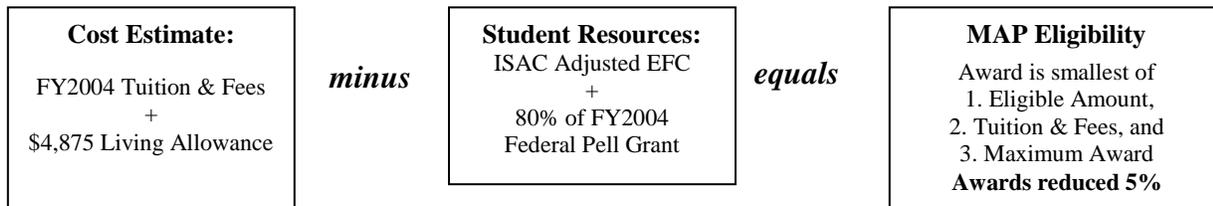
In January the Commission approved a start-up formula to calculate Monetary Award Program (MAP) eligibility for students planning to attend college in academic year 2011-12. The formula is determined early in the program cycle so financial aid advisors can give prospective students an idea of the amount of aid they may receive. When volume trends emerge and the appropriation is closer to final the Commission reviews and approves a recompute formula, which may differ from the start-up formula. As the final FY2012 MAP appropriation is not yet certain, staff recommends a recompute formula that keeps first-term awards the same as their start-up amount and reduces term 2 and term 3 awards only by the amount needed to stay within the appropriation.

This item briefly reviews the start-up MAP formula, discusses current trends in application volume and recommends a FY2012 recompute formula designed to minimize the effects of these trends and ensure the appropriation is spent but not exceeded.

FY2012 Start-Up Formula

The MAP formula determines whether a student is eligible and calculates the amount of students' awards. Figure 1 shows the basic formula, which uses the difference between a cost of attendance figure and student resources to calculate maximum eligibility.

Figure 1: Basic FY2012 Start-up MAP Formula



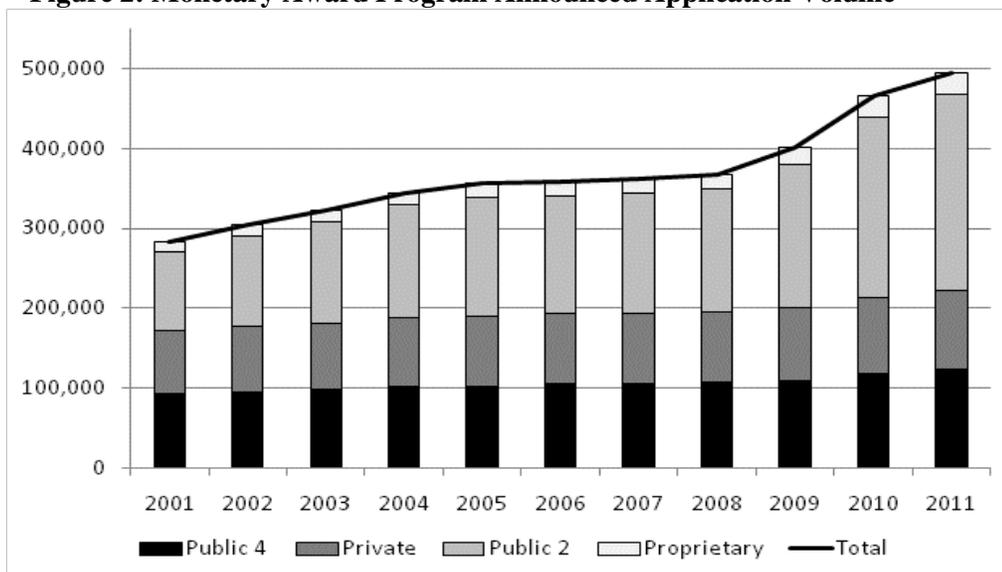
College costs used in the MAP formula include tuition and mandatory fees plus a \$4,875 living allowance. Between FY2001 and FY2011 announced application volume increased 75 percent and FY2012 announced volume is currently up 10 percent over FY2011. MAP funding has not increased accordingly and formula components have fallen behind. Current tuition and fees have not been used in the formula since FY2002; the FY2012 formula still uses FY2004 tuition and fees. Formula resources are based on an inflated federal expected family contribution (EFC) plus a portion of Pell grant eligibility. MAP eligibility is determined by subtracting resources from the cost figure. If costs exceed resources by \$300 or more and other criteria are met, the student is eligible for a MAP grant. Eligibility is capped at the lesser of the eligible amount, the tuition and fees used in the cost portion of the formula, or the statutory maximum award of \$4,968. MAP grants can only be applied to tuition and mandatory fees.

FY2012 Application Volume

MAP application volume is affected by demographic variables and economic conditions that vary over time. Illinois State Board of Education and National Center for Education Statistics data indicate the number of Illinois high school graduates increased about 21 percent between 2001 and 2010. At the same time, the proportion of Illinois students from low-income families is rising, so more students are qualifying for need-based financial aid. The number of independent students applying for aid typically depends on the economy. The unemployment rate in Illinois has risen from 4.5 percent in April 2007 to 8.9 percent in May 2011, sending many “non-traditional” students back to school. High school graduates are also more likely to attend college when finding a job is difficult. In addition, increased outreach efforts have affected the volume and timing of MAP application submissions.

Announced MAP application volume since FY2001 is shown in Figure 2. Annual increases through FY2004 were around 6 or 7 percent then the increase slowed to 4 percent in FY2005. End of year numbers for FY2006 and FY2007 were within 1 percent of the previous year. FY2008 application volume started out lower than FY2007 but by June was even, and at the end of the year was 1.6 percent higher. Annual increases since then were 9% in FY2009, 16% in FY2010, and more than 6% in FY2011. The FY2012 processing cycle is only six months old and currently over 34,000 more applications have been submitted for an increase of 10 percent. However, given the latest trends, that percentage will likely decline by the end of the MAP year.

Figure 2: Monetary Award Program Announced Application Volume



Eligible applicants are announced applicants who qualify for MAP. As of mid-June FY2012 eligible application volume was 13 percent higher than last year. Dependent applicants account for about 60 percent of this increase and independent students account for 40 percent. Application volume is higher in every sector (based on first-choice school) but 68 percent of the increase is at community colleges, where volume is up 16 percent. Eligible applicants are up 9 percent at private schools, 10 percent at public universities, and 14 percent at proprietary schools.

When determining the suspense date that will keep program commitments within the appropriation, staff considers the distribution of applicants by dependency type and sector in addition to overall application volume. Dependent students are generally more likely to attend full-time at public and private universities. Independent students, particularly those with dependents, are more likely to attend part-time at community colleges where awards are less than half of the maximum award.

MAP Appropriation

The final FY2012 MAP appropriation is still uncertain. The Federal LEAP/SLEAP programs, which have provided about \$4 million per year to MAP, have been discontinued. Currently MAP has been appropriated \$386.7 million from GRF which is \$17.2 million less than the FY2011 GRF appropriation. However, there is a possibility that MAP could receive more money. When the suspense date was set in March, ISAC was directed by the Governor's office to extend processing for six more days with the understanding that more money would be forthcoming. Also, the \$17.2 million cut was associated with a proposal to eliminate proprietary schools from MAP. Legislators did not ultimately approve this proposal, however, and several policymakers have urged that a supplemental appropriation be approved to restore these funds in the fall or spring.

Uncertainties in Choosing a Suspense Date and Projecting Claims

As indicated earlier, MAP is now operating in uncharted territory. While projecting MAP claims before the academic year starts has never been easy, effects of the poor economy and increased outreach efforts have added to the uncertainty. Uncertainty comes from projecting how much eligible MAP dollars will increase as a result of "corrections" as well as from projecting the claims that will be made by eligible MAP applicants. Correction and claim rates from previous years are used to project current year claims.

"Corrections" for the purpose of estimating MAP claims result from students filing subsequent FAFSAs that change their EFCs resulting in different eligibility amounts. Students can make corrections on their own or the school can make them through the verification process. For MAP projection purposes corrections are also caused by students claiming MAP at schools that were not listed as first-choice on their FAFSAs. Percentage changes vary by dependency type and sector but overall the number of eligible applicants increased more than 11 percent and eligible dollars increased 9 percent between March 25, 2010 and the end of FY2011. These rates vary from year to year and each 1 percent difference can result in more than a \$4 million change in MAP claims.

Once past correction rates are applied to current year data to project what eligible dollars might be at the end of the cycle given current eligible dollars and distribution by dependency type and sector, claim rates are then applied to the projected eligible dollars to help determine when suspense should occur. With the trend towards earlier FAFSA filings, previous years' corrections and claim rates are becoming less effective for projecting current year claims. It is likely that intense outreach efforts both at the high school level and in general are encouraging people who would have filed a FAFSA later in the year (or perhaps not at all) to apply earlier. While this increased volume is good, it does add to forecasting uncertainty. This combination of forecast and appropriation uncertainties leads staff to recommend the recompute formula shown in Table 2.

Recommended FY2012 Recompute Formula

Using traditional methods of estimating claims and the current FY2012 start-up formula, projected FY2012 claims could be as high as \$442 million; this is \$55 million more than the current \$387 million appropriation. Claims may exceed the appropriation even if MAP were to receive additional money. With the recommended recompute action the FY2012 start-up formula would be kept as the recompute formula. Once the final appropriation is known and staff is able to determine whether first-term claims are accurately projected, second- and third-term claims would be adjusted to keep claims from exceeding the appropriation. Keeping first-term awards at their start-up level and reducing later term awards also gives students more time to find the money needed to make up for lower second- and third-

term awards. This approach was used in FY2011 and worked fairly well. By waiting until after first-term awards were submitted, later-term awards were reduced by less than they would have been had the reduction been made at recompute.

Staff discussed this idea with the ILASFAA Formula Committee and they agreed this approach to recompute was the better option. Another option would be to incorporate a reduction factor at recompute then either increase later-term awards or release applications if the MAP appropriation increased and/or claims were lower than projected.

Table 1 shows what term awards could be for students receiving the maximum MAP award under the worst-case scenario of a \$387 million appropriation and a scenario with \$404 million. Under the worst-case scenario, second-term awards would decrease nearly \$600 from the \$2360 start-up amount to \$1762 at semester schools and second- and third-term awards at quarter schools would decrease about \$300 each, from \$1573 to \$1274. In the \$404 million worst-case scenario, the reductions would be less drastic; \$448 at semester schools and \$224 (times two) at quarter schools. However, please keep in mind *these are only examples*. The necessary reductions will likely be lower depending on the final MAP appropriation and the accuracy of current claims projections.

Table 1: FY2012 Two Possible Scenarios for FY2012 MAP Award Levels				
** EXAMPLES OF POSSIBLE TERM 2 AND TERM 3 REDUCTIONS **				
Start-up Annual Award: \$4720	Term 1	Term 2	Term 3	Total
Semester schools:	\$2360	\$2360		\$4720
Quarter schools:	\$1574	\$1573	\$1573	\$4720
Scenario 1 (worst case): \$387 million appropriation				
Annual Award: \$4122 terms 2&3 reduced				
Semester schools:	\$2360	\$1762		\$4122
Quarter schools:	\$1574	\$1274	\$1274	\$4122
Scenario 2: \$404 million appropriation				
Annual Award: \$4272 terms 2&3 reduced				
Semester schools:	\$2360	\$1912		\$4272
Quarter schools:	\$1574	\$1349	\$1349	\$4272

Staff recommends that the Commission adopt the formula described in Table 2 below as the FY2012 MAP recompute formula. While somewhat unconventional, staff believes keeping the formula the same as the start-up formula and reducing second- and third-term awards as necessary is a prudent approach to maximizing the amount of MAP awards while keeping MAP claims within the appropriation.

Table 2: FY2012 Staff- Recommended MAP Recompute Formula

<i>Budget</i>	
1	Use 2003-2004 reported tuition and fees at all institutions, assessed at 100 percent at all institutions.
2	Use one living allowance for all applicants, set to \$4,875.
<i>Resources</i>	
1	Use 80 percent of Pell Grant eligibility as determined by the 2003-2004 Pell Grant Payment Schedule, which contains a \$4,050 maximum.
2	Calculate the ISAC adjusted EFC by inflating the Federal EFC. Adjusted Dependent Students' Parent Contribution: Adjustment Factor = $[(PC/11,000 + 1.10)]$ rounded to 2 decimal places Adjusted PC = PC x Adjustment Factor Adjusted Independent Student Contribution: Adjustment Factor = $[(EFC/11,000 + 1.10)]$ rounded to 2 decimal places Adjusted EFC = EFC x Adjustment Factor
3	Use a minimum self-help expectation of \$1,800 for all students.
<i>Award Amounts</i>	
1	Set the maximum award equal to the lesser of \$4,968 or the tuition and mandatory fees specified in the budget. Set the minimum award to \$300; round maximum eligibility in \$150 increments to calculate partial awards.
2	Applicants with an EFC of \$9,000 or above are not eligible.
3	Reduce awards by 5%.
4	Reduce second- and third-term awards by the amount required to stay within the appropriation given expected MAP claims for applications received prior to the May 26 suspense date. Reduction factors will differ slightly for semester schools and quarter schools to keep the percentage award reduction equal whether applied to the second-term award for semester school students or second- and third-term awards for quarter school students.
5	Students who have used 75 or more MAP paid credit hours must be a junior or senior to be eligible for MAP. Students who have used 135 or more MAP paid credit hours are not eligible for MAP.