

## AGENDA ITEM 5A.

### FY2014 MONETARY AWARD PROGRAM (MAP) RECOMPUTE FORMULA

**Submitted for:** Action

**Summary:** At the January 2013 Commission Meeting, the Commission approved a start-up formula to calculate FY2014 MAP eligibility for applicants planning to attend college in the 2013-14 academic year. Announcing a formula early enables financial aid advisors to package awards and helps applicants determine whether and where to enroll. Once the MAP appropriation is determined the Commission approves a recompute formula based on the new information.

The General Assembly recently approved the FY2014 budget, which included a FY2014 MAP appropriation of nearly \$373.2 million, an increase of one-half of one percent and more than was expected earlier this year. The agency has the option of using up to 2 percent of the funds for administration. However, ISAC does not intend to use this authority unless it is necessary due to a significant budget event.

As of mid-June, demand for MAP was less than one percent higher than last year. However, at the beginning of March application volume was up nearly 5 percent, indicating that the trend of filing earlier continues. This trend complicates ISAC's goal of spending but not over-spending the MAP appropriation in two ways. First, the suspense cut-off can only be done in daily increments. Until recent years suspense dates were typically in August, when daily claims were around \$1 million; projected daily claims for the two days prior to this year's March 2nd suspense date exceeded \$22 million. The change in filing pattern also makes projections using previous year claim rates less accurate. In the past early filers were more likely to claim and attend full-time, while later filers were more likely to attend part-time or not at all. Now more applicants are filing earlier and bringing attendance behavior with them.

Projected claims for applications received through March 1<sup>st</sup> total around \$373 million. This figure is calculated by applying FY2012 claim rates to FY2014 applications and using the previous year's percentage increase for application corrections and changes in school choice. Because the change in timing of FAFSA filing over the past several years has changed historic relationships, ISAC intends to wait until after the first-term deadline in early-mid-December before deciding whether or not to release any suspended MAP awards. On the other hand, though unlikely, if the recent trend of declining claim rates reverses in FY2014 it could be necessary to reduce second- and third-term awards. This tactic has been approved by the Commission in recent years to help deal with uncertainties and to administer MAP as efficiently as possible.

**Action requested:** Staff requests the Commission adopt the FY2014 start-up formula as the recompute formula. In addition, while the scenario appears unlikely, staff asks the Commission to approve the reduction of second- and third-term awards if determined necessary following receipt of first-term claims.

**ILLINOIS STUDENT ASSISTANCE COMMISSION**

**FY2014 MONETARY AWARD PROGRAM RECOMPUTE FORMULA**

**Background**

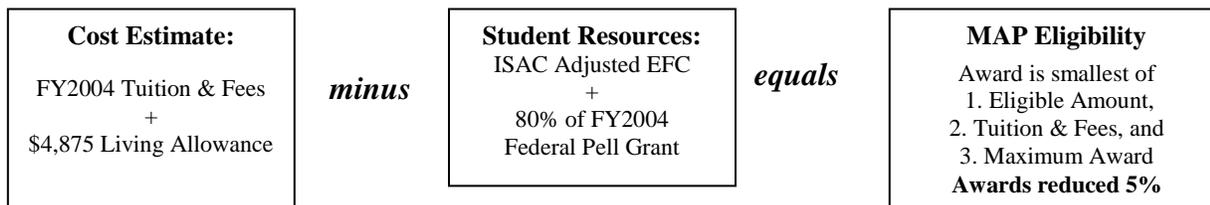
In January, the Commission approved a start-up formula to calculate Monetary Award Program (MAP) eligibility for students planning to attend college in academic year 2013-14. The formula is determined early in the program cycle so financial aid advisors can give prospective students an idea of the amount of aid they may receive. When the appropriation is final, the Commission reviews and approves a recompute formula, which may or may not differ from the start-up formula. The General Assembly recently approved the FY2014 budget, which included a FY2014 MAP appropriation of nearly \$373.2 million, an increase of one-half of one percent and more than was expected earlier this year. Nevertheless staff recommends the FY2014 MAP start-up formula be retained as the recompute formula with the option of reducing second- and third-term awards if determined necessary to keep claims within the appropriation and the option of releasing some awards after first term claims are in if claim rates are lower than expected.

This item briefly reviews the start-up MAP formula, discusses current trends in application volume and recommends a FY2014 recompute formula designed to minimize the effects of these trends and to help ensure the appropriation is spent but not exceeded.

**FY2014 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 FY2014 Start-up MAP Formula**



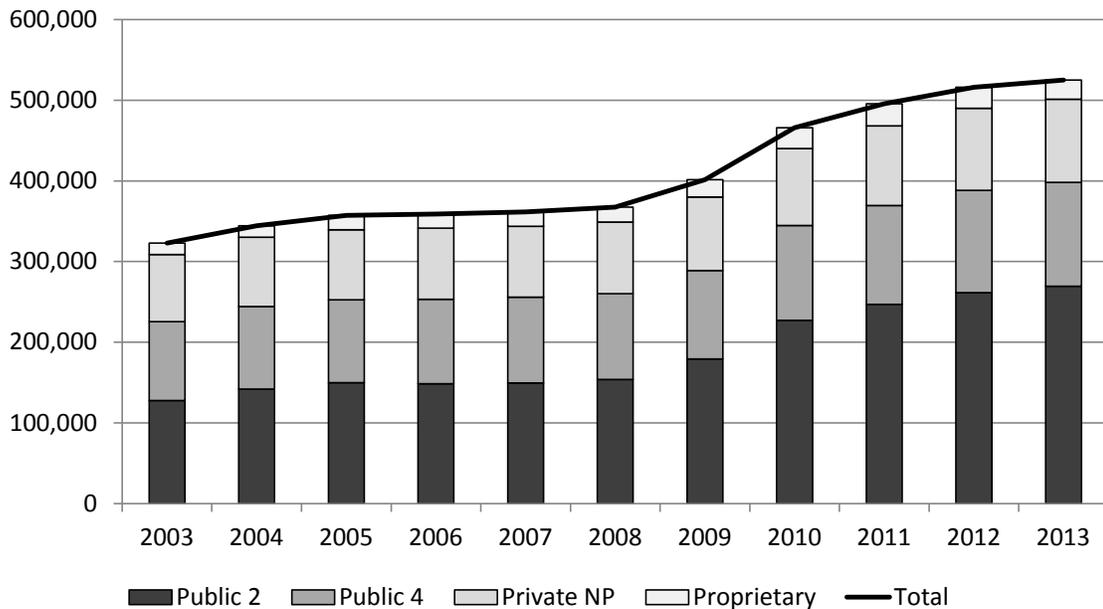
College costs used in the MAP formula include tuition and mandatory fees plus a \$4,875 living allowance. Application volume has increased more than 67 percent in the past decade. MAP funding has not increased accordingly and formula components have fallen behind. For example, FY2004 tuition and fees are used to represent costs in the FY2014 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. A reduction factor is then applied so processing may be extended. MAP grants can only be used for tuition and mandatory fees.

## FY2014 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 that while the number of Illinois high school graduates increased about 13 percent between 2002 and 2012, the number is expected to remain relatively stable for the near future. However, the proportion of Illinois students from low-income families is rising, so more dependent students are qualifying for need-based financial aid. The number of independent students applying for aid typically depends on the economy. Illinois' unemployment rate is still very high at 9.3% as of April 2013, and structural unemployment is pervasive. Many "non-traditional" students are attending college to improve their employment prospects by retraining in new fields. Increased outreach efforts, especially targeting high school students, have also affected the volume and timing of MAP application submissions.

Announced MAP application volume since FY2003 is shown in Figure 2. Annual increases ranged between 4 and 7 percent for the first three years and were below 2 percent for another three years. As the recession got underway application volume rose by more than 9 percent in FY2009 and by 16 percent in FY2010. Increases have been slowing since and volume was less than 2 percent higher in FY2013, but the increase over the decade is nearly 63 percent. In FY2014 the increase in demand peaked at 5 percent in early March but by mid-June had fallen to less than 1 percent. The large increases in demand already experienced coupled with much higher tuition and fees and a lack of adequate program funding has seen the purchasing power and coverage of MAP fall dramatically.

**Figure 2: Monetary Award Program Announced Application Volume, FY2003 – FY2013**



## MAP Appropriation

The General Assembly recently approved the FY2014 budget, which included a FY2014 MAP appropriation of nearly \$373.2 million, an increase of one-half of one percent and more than was expected earlier this year. The agency has the option of using up to 2 percent of the funds for administration. However, ISAC does not intend to use this authority unless it is necessary due to a significant budget event.

## **Uncertainties in Choosing a Suspense Date and Projecting Claims**

While projecting MAP claims months 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” and changes in school choice as well as from projecting the claims that will be made by eligible MAP applicants. Correction rates 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 expected family contribution (EFC) resulting in different eligibility amounts. 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 timing, dependency type, and sector. Each percentage difference can result in a roughly \$4 million change in MAP claims.

Past years’ correction rates are applied to current year data to project what eligible dollars might total at the end of the cycle given current eligible dollars and distribution by dependency type and sector. Then claim rates are applied to the projected eligible dollars to help determine when suspense should occur. With the trend towards earlier FAFSA filings, previous-year 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 or perhaps not at all, to apply earlier. This complicates the projections.

FY2014 MAP awards for applications received March 2<sup>nd</sup> or later are suspended. As March 1<sup>st</sup> is an application deadline for many schools it was desirable to make award announcements through that date. Projected claims for applications received through March 1<sup>st</sup> total around \$373 million. This figure is calculated by applying FY2012 claim rates to FY2014 applications and using the previous year’s percentage increase for application corrections and changes in school choice. Because the change in timing of FAFSA filing over the past several years has changed historic relationships, ISAC intends to wait until after the first-term deadline in early-mid-December before deciding whether or not to release any suspended MAP awards. On the other hand, though unlikely, if the recent trend of declining claim rates reverses in FY2014 it could be necessary to reduce second- and third-term awards.

## **Recommended FY2014 Recompute Formula**

Staff recommends the Commission adopt the FY2014 start-up formula as the recompute formula. Although such a scenario is unlikely, staff requests Commission approval to reduce second- and third-term awards if necessary to stay within the appropriation. The ILASFSA Formula Committee has agreed with this approach in the past. On the other hand, if FY2014 claim rates continue the downward trend it may even be possible to release some suspended applications.

**Table 2: FY2014 Staff- Recommended MAP Recompute Formula**

<b><i>Budget</i></b>	
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.
<b><i>Resources</i></b>	
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' Expected Family Contribution: Adjustment Factor =[Parent Contribution (PC)/11,000 + 1.10] rounded to 2 decimal places Adjusted PC = PC x Adjustment Factor Adjusted EFC = Adjusted PC + highest of Student Contribution or self-help expectation  Adjusted Independent Expected Family Contribution: Adjustment Factor =[EFC/11,000 + 1.10] rounded to 2 decimal places Adjusted EFC = EFC x Adjustment Factor or self-help expectation
3	Use a minimum self-help expectation of \$1,800 for all students.
<b><i>Award Amounts</i></b>	
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	<b>If determined necessary after first-term claims are received, either release some suspended applications to spend as much of the appropriation without exceeding it OR reduce second- and third-term awards to stay within the appropriation.</b>
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.