

AGENDA ITEM 7.

FY2016 MONETARY AWARD PROGRAM 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 2015-16 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 final the Commission revisits and approves a formula based on the new information. Continuation of the start-up formula is typically approved when the final appropriation is similar to what was expected.

The General Assembly has not yet passed a budget for FY2016, so staff is operating under the assumption of level funding of \$373.2 million. This includes about \$4 million set aside for the displaced worker pilot program required by recent legislation. The agency is also permitted to use up to 2 percent of the MAP appropriation for administration.

At the end of May, FY2016 MAP application volume was down nearly six percent from last year, compared to a five percent increase when awards were suspended in late February. This continuing trend towards early filing complicates ISAC's goal of spending as much as possible without exceeding the appropriation, by forcing the suspense of award announcements during a time when projected daily claims can exceed \$10 million. The change in filing patterns has also reduced the accuracy of using claim rates from two years prior, which is the most recently completed year, to project claims for the upcoming year.

To combat uncertainties caused by these effects, staff has used conservative suspense dates coupled with a limited release of suspended awards after the first-term claim deadline in December. The Commission has also previously granted Staff authority to reduce second- and third-term claim amounts following the first-term deadline if necessary to stay within the appropriation. While reducing awards after they have been announced is undesirable, revisiting total claim projections after first-term claims have been submitted facilitates a more accurate projection and can lower or prevent award reduction at recompute.

Action requested: Staff requests Commission approval to continue using the FY2016 MAP eligibility formula approved in January. Although the scenario is unlikely, staff also requests that the Commission approve the reduction of second- and third-term claims if determined necessary to keep claims within the appropriation.

**ILLINOIS STUDENT ASSISTANCE COMMISSION
FY2016 MONETARY AWARD PROGRAM RECOMPUTE FORMULA**

Background

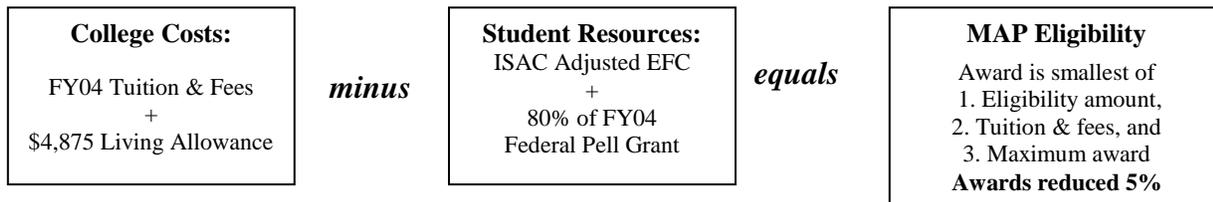
In January, the Commission approved a start-up formula to calculate Monetary Award Program (MAP) eligibility for students planning to attend college in academic year 2015-16. The formula is determined early so financial aid advisors can give prospective students an idea of the aid they may receive and students can better decide whether and where to attend. Prior to the start of the first semester – ideally, when the appropriation is final -- the Commission approves a recompute formula, which may or may not differ from the start-up formula depending on circumstances.

The General Assembly has not yet passed a budget for FY2016, so staff is operating under the assumption of level funding of \$373.3 million. MAP expenses include a set-aside of about \$4 million for the dislocated worker pilot program, and the agency may use up to 2 percent of the appropriation for administration. Staff currently recommends continued use of the start-up formula to determine FY2016 MAP eligibility. This item also reviews the MAP formula, discusses trends in application volume, and describes some challenges faced in managing the program.

The MAP Formula

The MAP formula determines whether a student is eligible for an award and calculates award amounts. Figure 1 shows the basic formula, which uses the difference between a cost of attendance figure and student resources to calculate maximum eligibility. College costs include tuition and mandatory fees plus a \$4,875 living allowance.

Figure 1: Basic MAP Formula



Student 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 costs. 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 may then be applied so more awards can be made. Applicants with an EFC of \$9,000 or more are ineligible. MAP grants can only be used for tuition and mandatory fees.

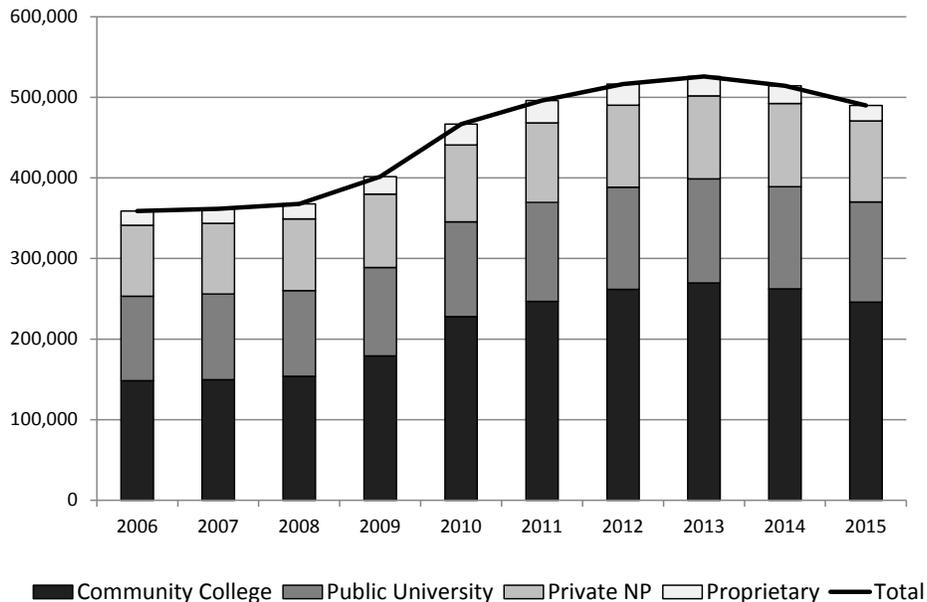
While application volume is 37 percent higher than ten years ago, MAP funding has not increased accordingly and formula components have fallen behind. Many have not been changed since FY2002 because updates would be expensive. For example, incorporating current tuition and fees would require nearly \$50 million. Given the early suspense dates, the preference has been to keep formula components constant to enable more students to receive grants.

Application Volume

MAP application volume is affected by demographics and economic conditions that vary over time. Projections from the National Center for Education Statistics indicate that, while the number of Illinois high school graduates increased 10 percent between 2004 and 2012, the number is expected to decrease before rising slightly at the end of this decade. Even though the proportion of Illinois students from low-income families is rising, application volume for dependent students is currently 3 percent lower than last year. The number of independent students applying for aid typically depends on the economy. Though higher than the national average, the April unemployment rate for Illinois declined from 7.4 to 6.0 percent in the past year, and independent student application volume is down 10 percent.

Total announced MAP application volume by sector is shown in Figure 2. Increases in application volume started in FY2008 and took off in earnest with a 9% increase in FY2009 and a 16 percent increase in FY2010. Annual increases slowed and then actually decreased in FY2014 and FY2015. Nevertheless, application volume is more than 37 percent higher than a decade ago. This trend, combined with much higher tuition and fees and a lack of adequate program funding, has resulted in a dramatic decrease in the purchasing power of MAP grants.

Figure 2: Monetary Award Program Announced Application Volume, FY2006 – FY2015



Challenges in Choosing a Suspense Date and Projecting Claims

While projecting MAP claims months before the academic year even starts has always been a challenge, the recent trend towards earlier filing has 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 claims that will be made by eligible MAP applicants. Correction rates and claim rates from previous years are used to project current 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 overall percentage difference can result in a roughly \$4 million change in MAP claims.

Past year correction rates are applied to current year data to project final eligible dollars based on eligible dollars and application distribution by dependency type and sector. Claim rates are applied to the projected eligible dollars to determine when award announcements should be suspended. With the trend towards earlier FAFSA filings, previous-year rates are becoming less effective for projecting 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.

Announcements of FY2016 MAP awards for applications received February 22 or later have been suspended, as it is possible that the anticipated appropriation will be spent. Projected claims are calculated by applying FY2014 claim rates to FY2016 applications and using previous years’ percentage increases for application corrections and changes in school choice. Once the FY2015 MAP processing cycle is complete at the end of July, FY2015 claim rates will be used. The trend towards earlier filing has reduced the accuracy of this methodology, so staff recommends waiting until after the first-term claim deadline in early December before deciding whether to release any suspended MAP awards. On the other hand, though considered unlikely, if the recent trend of declining claim rates reverses it could be necessary to reduce second- and third-term awards.

Recommended FY2016 Recompute Formula

Staff recommends that the FY2016 MAP start-up formula approved in January continue to be used to calculate MAP awards. Staff also requests Commission approval to reduce second- and third-term awards, in the unlikely event that it would be necessary to stay within the appropriation. On the other hand, if claims are lower than projected it may be possible to release some suspended applications.

Table 2: Staff Recommends Continued Use of FY2016 MAP Start-up 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' Expected Family Contribution: Adjustment Factor = $[(\text{Parent Contribution (PC)} / 11,000) + 1.10]$ 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 = $[(\text{EFC} / 11,000) + 1.10]$ 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.
<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	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.
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.