

AGENDA ITEM 6.

FISCAL YEAR 2016 APPROPRIATED FUNDS BUDGET

Submitted for:

Action

Summary:

At the prior Commission meeting, staff presented a draft of recommended FY2016 funding priorities for consideration. This item presents for the Commission's approval that same recommendation for FY2016 appropriated funding.

The Commission's recommendations will be conveyed to the General Assembly and shared with staff at the Illinois Board of Higher Education (IBHE) and Governor's Office of Management and Budget (GOMB) to inform their recommendations, as well. The IBHE board is scheduled to approve its FY2016 Budget Request for Higher Education at its February meeting. The Governor is currently scheduled to present his FY2016 Budget to the General Assembly in mid-February, after which ISAC will submit detailed information to legislative staff regarding the agency's budget request.

As in past years, this budget recommendation includes two types of requests: first, for dollars from the State's General Funds and, second, for authority to spend dollars from other sources. When ISAC requests money from State General Funds (the General Revenue Fund (GRF) and the Education Assistance Fund (EAF)) for a specific fiscal year, it is requesting actual dollars from the State's main revenue accounts.

In the case of federal funds and Special Purpose State Funds, however, ISAC is requesting authority to spend cash that comes from sources other than General Funds (e.g., federal payments for services, fees paid by motorists to receive specialty license plates, or private or federal grant money). In many instances, staff requests (and the legislature authorizes) spending at levels that exceed the cash that the agency actually receives or spends. By extending beyond the levels the agency is most likely to need, this additional spending authority helps to ensure that ISAC has sufficient flexibility to meet contingencies or address unforeseen events.

In summary, the FY2016 appropriated funds budget recommended by staff for approval by the Commission totals \$798.4 million, which represents a \$29.2 million increase (3.8 percent) compared to FY2015. In this budget, State General Funds would increase by \$57.8 million (15.0 percent), spending authority from federal funds would decrease by \$28.6 million (-7.7 percent), and spending authority from other state funds would remain level when compared to FY2015.

Action Requested:

That the Commission approve an FY 2016 budget request totaling \$798.4 million as detailed in Table 1.

By source of funds, this request consists of \$443.2 million in state General Funds, in addition to the authority to spend \$328.7 million in federal Student Loan Funds, \$15.5 million in federal scholarship and grant funds, \$10.6 million in other state funds, and \$400,000 in other federal funds.

ILLINOIS STUDENT ASSISTANCE COMMISSION

FY2016 APPROPRIATED FUNDS BUDGET

Introduction

The IBHE is scheduled to approve a Fiscal Year 2016 Budget Request for Higher Education, which includes ISAC, at its February meeting, and the Governor is scheduled to present his FY2016 Budget to the General Assembly on February 18th. In the days immediately following the Governor's budget address, ISAC staff will complete and file the agency's Illinois State Legislature (ISL) Submission to provide the General Assembly with detailed information about these requests. The legislature is expected to pass a budget before adjourning at the end of May, allowing time for the Governor's consideration before the new State fiscal year begins July 1, 2015.

As the Governor and General Assembly negotiate throughout the coming months, ISAC staff will be asked to react to, develop, and analyze a number of budget scenarios based on different levels of available revenue. The Commission's input on the FY2016 appropriated budget, provided today, will inform those upcoming meetings and discussions with policymakers and their staffs. Although the level of funding being sought here may not ultimately be realized, this item will help staff to ensure that those various recommendations remain consistent with the Commission's expectations and priorities.

Table 1 on the following two pages provides a summary of the FY2016 discussion funding request, which staff believes is needed to help keep pace with demand for ISAC programs. In the context of continued state funding pressures, this request may look ambitious. While this level of funding may be unlikely, the request serves an important purpose by conveying, better than a flat or reduced budget would do, the needs of Illinois students and borrowers to those who appropriate funding. Furthermore, staff believes that a significant investment in student financial aid would bolster Illinois' economic growth.

Unless there are significant changes in revenues in the coming months, it will be difficult for the State to find the funding that staff believes is needed to fund ISAC-administered programs at their optimal levels. In March of 2014, the State's Commission on Government Forecasting and Accountability (COGFA) published a Three-Year Budget Forecast for FY2015 – FY2017. That forecast identified three significant factors which could result in even fewer dollars being available for meeting State priorities in FY2016. First, the temporary tax increase enacted in January 2011 in Public Act (PA) 96-1496 is set to drop in 2015. COGFA estimates that State revenue could decline by \$2.6 billion in FY2016 compared to estimated FY2015 revenues, following a projected \$1.2 billion decline between FY2014 and FY2015. Second, distributions to the Fund for the Advancement for Education and to the Commitment to Human Services Fund are scheduled to increase by about \$510 million in FY2016 compared to FY2015. Finally, although pension reforms were enacted during the last legislative session, the amount of savings ultimately realized from these reforms in FY2016 remains indeterminate for a number of reasons. The pension contribution in FY2015 was \$6.9 billion, which is nearly 22 percent of the Total Base Revenues projected by COGFA in FY2016.

The following agenda item presents a FY2016 Appropriated Funds Budget for Commission consideration in four separate sections: I) Scholarship and Grant Programs; II) Administrative Support and Outreach; III) Federal Student Loan Fund Program Funds; and IV) Special Purpose State Funds.

Table 1:
ILLINOIS STUDENT ASSISTANCE COMMISSION
STATE FISCAL YEAR 2016 BUDGET REQUEST - STAFF RECOMMENDATION

Line Item <u>STATE GENERAL FUNDS</u>	FY14 Budget	FY15	FY15 Budget	FY16 Budget	Difference	
	Approved	Commission Request	Approved	Staff Recommendation	Amount	Percent
Monetary Award Program *	\$373,198,100	\$392,231,300	\$373,254,500	\$423,254,500	\$50,000,000	13.4%
Personal Services	\$0	\$0	\$0	\$0	\$0	NA
Social Security	\$0	\$0	\$0	\$0	\$0	NA
Contractual Services	\$0	\$0	\$0	\$0	\$0	NA
Agency State Administration	\$0	\$3,000,000	\$0	\$3,000,000	\$3,000,000	NA
Statewide Outreach, Training, & Research Activities	\$0	\$2,300,000	\$1,020,700	\$4,000,000	\$2,979,300	291.9%
College Illinois! Marketing	\$0	\$1,000,000	\$0	\$1,000,000	\$1,000,000	NA
TOTAL GENERAL REVENUE FUND	\$373,198,100	\$398,531,300	\$374,275,200	\$431,254,500	\$56,979,300	15.2%
Dependents Grants	\$1,050,000	\$1,103,600	\$1,050,000	\$1,200,000	\$150,000	14.3%
Minority Teacher Scholarships	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000	\$0	0.0%
Teacher Loan Forgiveness Program	\$500,000	\$750,000	\$500,000	\$1,000,000	\$500,000	100.0%
Golden Apple Scholars Of Illinois (Beginning FY13)	\$6,647,600	\$6,647,600	\$6,647,600	\$6,647,600	\$0	0.0%
Illinois Future Teachers Corps Scholarships	\$0	\$0	\$0	\$0	\$0	NA
Nurse Educator Loan Repayment Program	\$300,000	\$450,000	\$300,000	\$500,000	\$200,000	66.7%
Veterans' Home Nurse Loan Repayment Program	\$30,000	\$40,000	\$30,000	\$50,000	\$20,000	66.7%
Illinois Scholars Program	\$40,000	\$0	\$40,000	\$0	-\$40,000	-100.0%
National Guard Grants	\$0	\$0	\$0	\$0	\$0	NA
Illinois Veteran Grants	\$0	\$0	\$0	\$0	\$0	NA
Governors Discretionary Appropriation	\$0	\$0	\$0	\$0	\$0	NA
Illinois Incentive for Access Grants	\$0	\$0	\$0	\$0	\$0	NA
Student to Student Grants	\$0	\$0	\$0	\$0	\$0	NA
Merit Recognition Scholarship	\$0	\$0	\$0	\$0	\$0	NA
Illinois State Scholars	\$0	\$0	\$0	\$0	\$0	NA
Nurse Educator Scholarships	\$0	\$0	\$0	\$0	\$0	NA
Bonus Incentive Grants	\$0	\$0	\$0	\$0	\$0	NA
Public Interest Attorney Loan Repayment Program	\$0	\$0	\$0	\$0	\$0	NA
Child Welfare Student Loan Forgiveness Program	\$0	\$0	\$0	\$0	\$0	NA
Community College Transfer Grant Program	\$0	\$0	\$0	\$0	\$0	NA
Grant for a Person Raised by a Grandparent	\$0	\$0	\$0	\$0	\$0	NA
TOTAL EDUCATIONAL ASSISTANCE FUND	\$11,067,600	\$11,491,200	\$11,067,600	\$11,897,600	\$830,000	7.5%
TOTAL STATE GENERAL FUNDS	\$384,265,700	\$410,022,500	\$385,342,800	\$443,152,100	\$57,809,300	15.0%

Table 1 (continued):
ILLINOIS STUDENT ASSISTANCE COMMISSION
STATE FISCAL YEAR 2016 BUDGET REQUEST - STAFF RECOMMENDATION

Line Item	FY15		FY16 Budget		Difference	
	FY14 Budget Approved	Commission Request	FY15 Budget Approved	Staff Recommendation	Amount	Percent
FEDERAL FUNDS						
STUDENT LOAN OPERATING FUND						
Personal Services	\$17,208,900	\$17,208,900	\$17,208,900	\$17,208,900	\$0	0.0%
Retirement	\$6,937,300	\$7,059,100	\$7,059,100	\$7,765,100	\$706,000	10.0%
Social Security	\$1,316,600	\$1,316,600	\$1,316,600	\$1,316,600	\$0	0.0%
Group Insurance	\$6,000,000	\$7,000,000	\$7,000,000	\$7,700,000	\$700,000	10.0%
Contractual Services	\$12,630,700	\$12,630,700	\$12,630,700	\$12,630,700	\$0	0.0%
Contractual - Collection Agency Fees	\$15,000,000	\$15,000,000	\$15,000,000	\$15,000,000	\$0	0.0%
Travel	\$311,000	\$311,000	\$311,000	\$311,000	\$0	0.0%
Commodities	\$282,200	\$282,200	\$282,200	\$282,200	\$0	0.0%
Printing	\$501,000	\$501,000	\$501,000	\$501,000	\$0	0.0%
Equipment	\$540,000	\$540,000	\$540,000	\$540,000	\$0	0.0%
Telecommunications	\$1,897,900	\$1,897,900	\$1,897,900	\$1,897,900	\$0	0.0%
Operation of Auto Equipment	\$38,400	\$38,400	\$38,400	\$38,400	\$0	0.0%
Federal Loan System Development & Maintenance	\$3,500,000	\$3,500,000	\$3,500,000	\$2,500,000	-\$1,000,000	-28.6%
Default Fees	\$0	\$0	\$0	\$0	\$0	NA
Operational Expenses, MAP & Permanent Improvements	\$0	\$0	\$0	\$0	\$0	NA
TOTAL	\$66,164,000	\$67,285,800	\$67,285,800	\$67,691,800	\$406,000	0.6%
FEDERAL STUDENT LOAN FUND						
Loan Guarantee Program	\$290,000,000	\$290,000,000	\$290,000,000	\$261,000,000	-\$29,000,000	-10.0%
TOTAL	\$290,000,000	\$290,000,000	\$290,000,000	\$261,000,000	-\$29,000,000	-10.0%
FEDERAL SCHOLARSHIPS AND GRANTS						
Federal College Access Challenge Grant Program	\$15,000,000	\$15,000,000	\$15,000,000	\$15,000,000	\$0	0.0%
John R. Justice Student Loan Repayment Program	\$500,000	\$500,000	\$500,000	\$500,000	\$0	0.0%
Federal LEAP/SLEAP - Monetary Award Program	\$0	\$0	\$0	\$0	\$0	NA
Transfer to ED -Paul Douglas Funds Collected	\$400,000	\$400,000	\$400,000	\$400,000	\$0	0.0%
Federal Robert C. Byrd Fellowships	\$0	\$0	\$0	\$0	\$0	NA
TOTAL	\$15,900,000	\$15,900,000	\$15,900,000	\$15,900,000	\$0	0.0%
TOTAL FEDERAL FUNDS	\$372,064,000	\$373,185,800	\$373,185,800	\$344,591,800	-\$28,594,000	-7.7%
OTHER STATE FUNDS						
ISAC Accounts Receivables	\$300,000	\$300,000	\$300,000	\$300,000	\$0	0.0%
Higher Education License Plate Program	\$90,000	\$110,000	\$110,000	\$110,000	\$0	0.0%
Optometric Education Scholarship Program	\$50,000	\$50,000	\$50,000	\$50,000	\$0	0.0%
IVG- National Guard Grant Fund	\$20,000	\$20,000	\$20,000	\$20,000	\$0	0.0%
Illinois Future Teachers Corps Scholarship Fund	\$140,000	\$140,000	\$140,000	\$140,000	\$0	0.0%
Contracts and Grants Fund	\$10,000,000	\$10,000,000	\$10,000,000	\$10,000,000	\$0	0.0%
TOTAL OTHER STATE FUNDS	\$10,600,000	\$10,620,000	\$10,620,000	\$10,620,000	\$0	0.0%
TOTAL - APPROPRIATED FUNDS	\$766,929,700	\$793,828,300	\$769,148,600	\$798,363,900	\$29,215,300	3.8%
NON APPROPRIATED FUNDS						
College Illinois! Administration	\$11,410,800	NA	\$11,225,600	TBD	TBD	TBD
IDAPP Administration	\$2,753,000	NA	\$1,547,000	TBD	TBD	TBD

* Allows for up to two percent of MAP appropriation to be used for agency administration.

I. Scholarship and Grant Programs

As shown in Table 1, the number of scholarship and grant programs funded by Congress and the Illinois General Assembly has continued to diminish. Both the federally-funded Robert C. Byrd Scholarship and the Leveraging Educational Assistance Program (LEAP) have been discontinued, and staff is therefore not recommending seeking spending authority for these programs for FY2016. The remaining federal program for which staff is recommending seeking authority is the John R. Justice Loan Repayment program for public interest attorneys.

The budget recommended in this item provides \$423.3 million for MAP in FY2016, an increase of \$50 million. In FY2015, the average MAP grant is covering about one half of tuition and fee costs at community colleges and about one-third of tuition and fee costs at public universities. Nearly one-half (45 percent) of eligible FY2015 MAP applicants had their applications held in suspended status due to lack of funding. These trends simply cannot continue if Illinois is truly committed to the goal of having 60 percent of its adult population earning a high-quality postsecondary certificate or degree by 2025.

The recommended budget also provides a \$150,000 (14.3 percent) increase in funding for the Grant Programs for Dependents of Fire, Police, or Correctional Officers. An increase is necessary in these programs to meet anticipated increases in tuition and fee costs, with which the program was not able to keep pace in FY2014. As a result of that shortfall, for the summer term, just 62% of the costs were covered and the remainder was left for recipients to pay. Level funding for FY2015 practically guarantees that grants will be prorated again this year. Given increases in college costs, spring awards may be prorated and summer awards eliminated entirely for this fiscal year.

Staff is also recommending increases to better meet demand for three Loan Forgiveness Programs. Postsecondary graduates, on the whole, are experiencing unprecedented levels of student loan debt. An increasing number of economists are expressing concern that this debt is postponing graduates' investment in home and auto purchases, which is, in turn, inhibiting economic recovery. For a relatively small investment, the State can fund nearly every qualified applicant for three ISAC-run loan repayment programs. Because these applicants have already graduated, investments in loan repayment do not immediately move Illinois closer to its goal of "60 percent by 2025." However, by working in hard-to-staff schools, recipients of the Teacher Loan Forgiveness Program contribute to increasing the number of high school graduates and reducing disparities in educational attainment. Likewise, Nurse Educator Loan Repayment Program recipients are fulfilling what the Illinois Center for Nursing attests is an on-going shortage of nursing faculty, and they are thereby directly increasing the number of Illinois citizens receiving training as nurses.

Because of the significant on-going needs for funding in State programs, particularly MAP, staff is **not** recommending restoration of funding for any program that has been eliminated or unfunded during recent years.

Two of these programs of the greatest popular interest are the Illinois National Guard (ING) Grant Program and the Illinois Veteran Grant (IVG) Program. Eligible applicants remain entitled to waivers of tuition and mandatory fees under both programs, but the General Assembly has not provided funds for ISAC to reimburse schools for ING or IVG in the last three fiscal years and has not covered all claims since FY2001. (The General Assembly did appropriate nearly \$1.3 million to the Illinois Community College Board in FY2015 to partially reimburse nineteen specific community colleges.) Any IVG or ING costs that are not reimbursed by the State are absorbed or offset by the public institutions. Officials at public institutions often cite inadequate IVG and ING reimbursement as one factor among many driving tuition and fee increases, although the impact varies significantly from school to school. Regardless of funding levels, ISAC retains

administrative responsibility for processing applications, determining eligibility, and tracking entitlement units for both IVG and ING.

II. Administrative Support and Outreach

In FY2015, ISAC received \$1.0 million in state funding for outreach, training and research activities. In addition, ISAC has authority to use up to two percent of the MAP appropriation (nearly \$7.5 million) for agency administration.

ISAC last received a specific administrative appropriation from General Funds of \$4.5 million in FY2005. Since FY2006, ISAC has administered state and federal grant, loan, and student recognition programs entirely without State General Funds support. ISAC's administration, management and oversight of appropriated funds, including administration of MAP, have been paid for by revenues earned through the Federal Family Education Loan Program (FFELP) and deposited into the agency's Student Loan Operating Fund (SLOF).

The passage of the Student Aid and Fiscal Responsibility Act in March 2010 ended the FFEL Program and, effective July 2010, moved all new federal student loan disbursements into the Direct Loan Program, setting the agency on course for a reduction in future FFELP revenues and a need to obtain increasing levels of General Funds support. ISAC has highlighted this situation in its budget submissions and related appropriation hearings for the past several years. While the timing of needing General Funds support was unclear, the eventual need was inevitable.

The need for state administrative funding became critical when the federal Bipartisan Budget Act (BBA) (Public Law 113-67) was approved in late December 2013 and included a cut in what is known as the rehabilitation retention rate for student loans effective July 1, 2014, the first day of State FY2015. Rehabilitation retention was the agency's largest single source of revenue. Staff estimates that the cut could reduce ISAC's FY2015 revenues from rehabilitations by as much as \$13 million compared to FY2014. We expect that revenues from the program will continue to decrease in future years as the portfolios continue to reduce in size.

In addition, due to a decrease in MAP spending between FY2012 and FY2013, Illinois did not meet Maintenance of Effort (MOE) requirements for the College Access Challenge Grant (CACG), and \$4.6 million in federal funding was withheld for FY2015. With the \$1.0 million state appropriation for Outreach, Research, and Training and an additional \$3.5 million of funding from SLOF reserves, ISAC has been able to fund the ISACCorps in FY2015. Given the anticipated diminished capacity for SLOF to fund outreach activities in future years, however, staff believes additional state funding must be secured to maintain a strong statewide outreach presence in FY2016.

The U.S. Department of Education has indicated that if Illinois is able to make an additional \$10.7 million available in support for student financial aid by September 1, 2015, the Department will view this as significant effort to correct the lapse in MOE and make the CACG funding available to Illinois. Even if ISAC is able to use this CACG funding, staff believes that state outreach funding will likely be needed to meet the required match for CACG. The recommendation includes a request for an increase in the outreach appropriation, bringing it to \$4.0 million in FY2016.

Diminishing SLOF revenues will seriously imperil ISAC's ability to administer state-funded programs, and without the ability to use up to two percent of the MAP appropriation for agency administration, it is unclear if this ability could have been fully preserved for FY2015. Beyond this authority in the MAP budget line, staff recommends requesting an additional \$3 million in General Funds administrative support as a separate line item in FY 2016 to reflect the expected continuing decline in FFELP revenue. Having this separate appropriation for administration would help to ensure that the agency is able to continue appropriately meeting its mission.

Finally, the recommendation includes \$1.0 million from General Funds in FY2014 for College Illinois! marketing. The actuarial report for College Illinois! as of June 30, 2014, indicates improvements in the unfunded liability for the program. The gain was attributable primarily to better investment performance and lower college tuition increases than assumed. A solid marketing plan and substantial media buys would further help the program to sell the number of contracts needed to effectively bolster the Fund. We continue to seek this funding for marketing to create additional sales without putting additional pressure on the Fund for administrative costs.

III. Federal Family Education Loan Program Funds – Federal Student Loan Fund (FSLF) and Student Loan Operating Fund (SLOF)

In addition to needing spending authority from SLOF for administrative expenses, ISAC needs authority to spend dollars from the FSLF and SLOF to pay programmatic expenses, as well as to make inter-fund transfers and payments to the U.S. Department of Education.

Spending authority is needed from the FSLF for three primary purposes: Lender Reimbursements, Transfer of ISAC's Share of Collections from FSLF to SLOF, and Transfer of Default Aversion Fee Revenues from FSLF to SLOF.

The Commission needs programmatic spending authority from SLOF for reversals of Default Aversion Fees and payments to Outside Collection Agencies.

In addition to the \$67.7 million being requested in spending authority from SLOF for administration, ISAC will need additional spending authority for programmatic expenses related to FFELP in FY2016. The spending authority presented in the Discussion Budget for programmatic purposes from SLOF and FSLF for FY2016 totals \$261 million, which represents a \$29 million (10 percent) decrease from the spending level sought and provided in FY2015.

Despite this decrease, it is unlikely that ISAC will use the full spending authority being recommended for these funds. The recommended levels are, most likely, greater than what will be needed, while still allowing sufficient authority to meet most contingencies. The requested decrease does show ISAC's diminishing opportunities related to FFELP, though more rigid regulations have caused administrative obligations to grow.

IV. Other State Funds

ISAC also requires spending authority from several Special Purpose State Funds created by the General Assembly. The cash that will be spent from them is received from sources other than General Funds, and in some instances, the actual cash disbursed will be less than the spending authority sought and provided through the legislative process.

Non-Appropriated Funds

ISAC is also responsible for two non-appropriated functions, the Illinois Designated Account Purchase Program (IDAPP) and the College Illinois! Prepaid Tuition Program (CI!). By statute, specific spending authority is not required annually for these two ventures. This flexibility was intended to allow these two programs additional flexibility to react to potentially volatile markets. Staff will be providing specific FY2016 budget requests to the Commission for IDAPP and CI! at the June 2015 Commission Meeting, for consideration prior to the beginning of FY2016.