

AGENDA ITEM 5.

APPROVAL OF THE FY2015 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 2014 -15 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 recently passed a FY15 budget that included \$373,254,500 for MAP, a \$56,400 increase over FY14. The agency is permitted to use up to 2 percent of the funds for administration.

At the end of May MAP application volume was down nearly three percent from last year, a sharp contrast to the ten percent increase when awards were suspended in late February. This continuing trend towards early filing complicates ISAC's goal of spending, but not exceeding, the appropriation. The award-announcing suspense can only be done in daily increments. Prior to FY10 suspense dates were typically in August, when daily claims were around \$1 million. This year when the February 27 suspense date was announced, filing quadrupled and the projected daily claims for the last two days of awarding exceeded \$22 million.

Changing filing patterns have also affected the accuracy of claim projections. Since the FY14 cycle is not yet final, FY15 claims are projected by applying FY13 claim rates to the current application distribution and adjusting for corrections and changes in school choice. In the past, later applicants were less likely to attend and more likely to go part-time if they did. Now that group of applicants is applying earlier and bringing their attendance patterns along, causing projected claims to drop once the prior-year claim rates are available.

To help ameliorate the effects of these trends, staff has used conservative suspense dates coupled with a limited release of suspended awards after the first-term claim deadline has passed in December. Staff has also requested authority to reduce second- and third-term claims following the first-term deadline if necessary to stay within the appropriation. While reducing awards from start-up amounts is far from ideal, waiting until first-term claims are due provides the ability to project annual claims more accurately and can lower or even prevent a reduction at recompute. The Commission has previously approved this strategy to help deal with uncertainties and administer MAP as efficiently as possible.

Action requested: Staff requests Commission approval to continue using the FY15 MAP eligibility formula approved in January. Although the scenario is unlikely this year, 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
APPROVAL OF THE FY2015 MONETARY AWARD PROGRAM
RECOMPUTE FORMULA

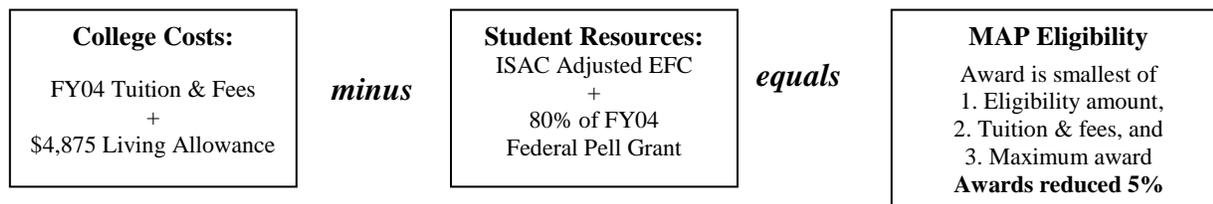
Background

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 2014-15. The formula is determined early so financial aid advisors can give prospective students an idea of the 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, depending on changes in circumstances. The FY15 budget recently approved by the General Assembly included a nearly-level MAP appropriation of \$373.2 million, so staff recommends continued use of the start-up formula to determine FY15 MAP eligibility. This item also reviews the MAP formula, discusses current trends in application volume, and describes some challenges faced in managing the program.

FY2015 Start-Up Formula

The MAP formula determines whether a student is eligible 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 processing can be extended. Applicants with an EFC of \$9,000 or more are ineligible. MAP grants can only be used for tuition and mandatory fees.

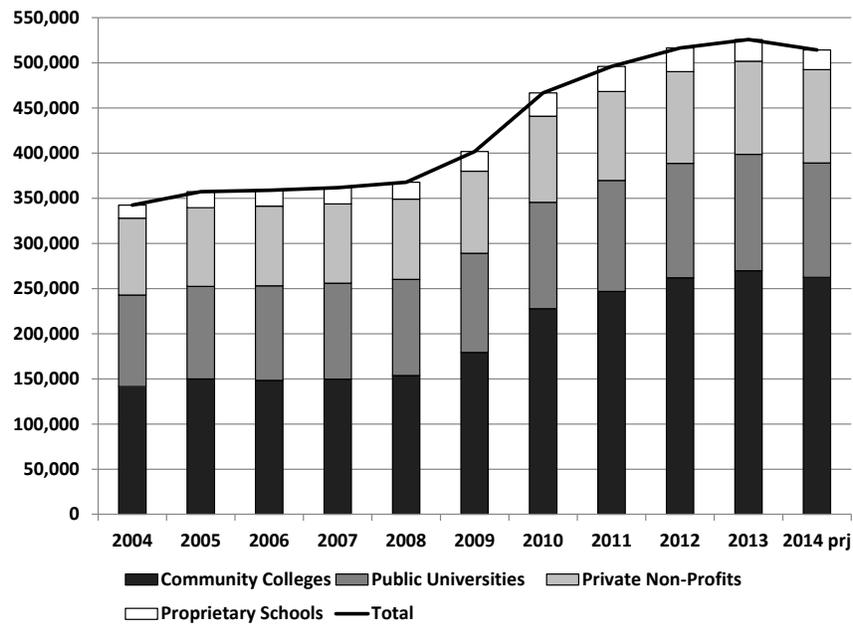
While application volume increased more than 50 percent in the past decade, MAP funding has not increased accordingly and formula components have fallen behind. The \$4,875 living allowance and the \$4,968 maximum award have not changed since FY02. The EFC cap has been \$9,000 since FY01. FY04 tuition and fees are still used to represent costs in the FY15 formula. Updating these components would be expensive; for example, incorporating current tuition, fees, and Pell amounts would require an additional \$43 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. 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. Though still higher than the national average, Illinois' April unemployment rate has declined from 9.3 to 7.9 percent in the past year. As a result, nearly 6 percent fewer independent students applied for MAP in FY14 and independent applications for FY15 are nearly 7 percent lower than last year.

Total announced MAP application volume by sector is shown in Figure 2. There was a 9 percent increase in FY05, then smaller increases through FY08. As the recession got underway, application volume rose more than 9 percent in FY09 and 16 percent in FY10. Percentage increases have slowed since and although not quite final, it appears FY14 application volume will be about 2 percent *lower* than FY13. This would be the first year since FY98 that application volume decreased. Nevertheless, application volume is more than 50 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, FY2004 – FY2014



MAP Appropriation

The General Assembly recently approved a FY15 budget, which included \$373,254,500 for MAP, an increase of \$56,400 over the FY14 appropriation. The agency has the option of using up to 2 percent of the funds for administration and expects to utilize this option.

Challenges in Determining 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 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 overall 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 application distribution by dependency type and sector. Claim rates are applied to the projected eligible dollars to 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, thus complicating projections. This is an area where success on the college access and outreach front has made it more difficult for another part of ISAC.

FY15 MAP awards for applications received February 28 or later are suspended, as it is possible that the appropriation will be spent. Projected claims total is calculated by applying FY13 claim rates to FY15 applications and using previous years’ percentage increases for application corrections and changes in school choice. Once the FY14 MAP processing cycle is complete at the end of July, FY14 claim rates will be used and the projected claim amount will likely decrease. The trend towards earlier filing has affected the accuracy with which previous-year claim rates project future claims. Due to this uncertainty, staff recommends waiting until after the first-term 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 in FY15 it could be necessary to reduce second- and third-term awards.

Recommended FY2015 Recompute Formula

Staff recommends the Commission continue to calculate MAP eligibility using the FY15 MAP start-up formula approved in January. Although such a scenario is unlikely, staff requests Commission approval to reduce second- and third-term awards if necessary to stay within the appropriation. On the other hand, if FY15 claim rates continue trending downward, it may be possible to release some suspended applications. The ILASFAA Formula Committee has been consulted and agrees with this approach.

Table 2: Staff Recommends Continued Use of FY2015 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.