

AGENDA ITEM 8.

DISCUSSION OF FY2009 GRANT PROGRAM BUDGET ISSUES

Submitted for: Information

Summary:

This agenda item provides background information about the Monetary Award Program, the Silas Purnell Illinois Incentive for Access Program, the Illinois Veterans Grant program, and the Illinois National Guard grant program. Included is a discussion of some MAP formula improvements that would enhance college affordability as well as forecasted demands for IIA, IVG, and ING.

The MAP appropriation was cut by \$38 million in FY2003. In FY2007 it finally surpassed the FY2002 peak (in nominal terms) with a total budget of \$384.8 million. The increase enabled the Commission to remove a 9 percent reduction factor from the MAP formula, increasing the maximum award by \$450. In FY2008 MAP received level funding, and that, combined with fairly level application volume, allowed the Commission to again forego a reduction factor.

Even with the recent increase in funding MAP's contribution to college affordability is not nearly as substantial as it was as recently as FY2002. Since FY2002, average tuition and fees have increased 54 percent and nearly 20 percent more students sought aid. In FY2002 students with little means could expect their MAP awards to cover tuition and fees at community colleges and public universities. In FY2008 the highest MAP awards will cover only 74 percent of community college and 58 percent of public university tuition and fees. In addition, MAP award announcements have been suspended every year since FY2001. In FY2007 nearly 35,000 eligible students who applied after August 25 could not claim their awards due to lack of funding.

Other ISAC programs have also felt the pressure of increased demand and tight budgets. IIA award announcements have been suspended every year since FY2002; in FY2007 over 15,000 freshmen with zero expected family contributions (EFCs) who applied after August 18 were unable to claim their awards. In 2004 the rules for IIA were changed to increase awards to up to \$1000 for freshmen with zero EFCs and to provide awards up to \$500 to freshmen with EFCs between \$1 and \$500. In the absence of additional funding the Commission has been unable to incorporate the new award amounts. The additional \$1 million received in FY2007 went towards increased demand. FY2008 funding was level at \$8.2 million.

The Illinois Veterans Grant and Illinois National Guard grant programs have also seen increased demand in recent years. Because schools are required to make up the difference between program funding and actual demand, students receive benefits regardless of program funding. Funding for the IVG program would need to increase 132 percent from FY2008 to meet projected FY2009 demand.

Action requested: None

**ILLINOIS STUDENT ASSISTANCE COMMISSION
DISCUSSION OF FY2009 GRANT PROGRAM BUDGET ISSUES**

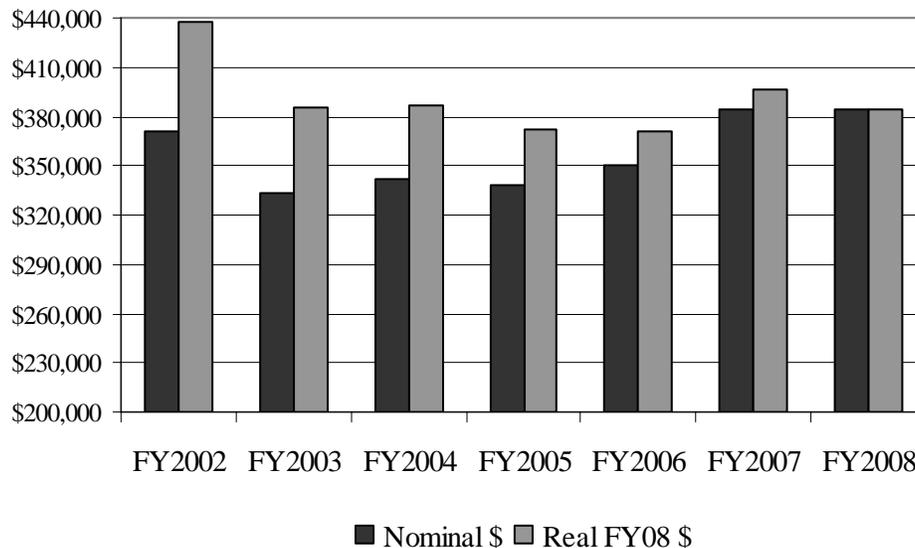
Introduction

This agenda item provides background information about the Monetary Award Program, the Silas Purnell Illinois Incentive for Access Program, the Illinois Veterans Grant program, and the Illinois National Guard grant program. Included is a discussion of some MAP formula improvements that would enhance college affordability as well as forecasted demands for IIA, IVG, and ING.

Monetary Award Program

The MAP appropriation was cut by \$38 million in FY2003 due to a state budget crisis. In FY2007 it finally surpassed the FY2002 peak with a total budget of \$384.8 million, although as shown in Figure 1 below, the FY2007 appropriation was smaller than FY2002 in inflation-adjusted terms. Nevertheless, the increase enabled the Commission to remove the 9 percent reduction factor from the MAP formula, increasing the maximum award by \$450. In FY2008 MAP received level funding, and that, combined with fairly level application volume, allowed the Commission to again forego a reduction factor. However, the MAP formula does not provide students the level of support that it did in FY2002. The FY2002 maximum award covered average tuition and fees at public universities; today awards for students at public universities are constrained by the \$4,968 maximum award, which is nearly \$3,600 less than average tuition and fees and \$6,000 less than tuition and fees at some public universities.

Figure 1: MAP Appropriations in Nominal and Real (inflation-adjusted) Dollars

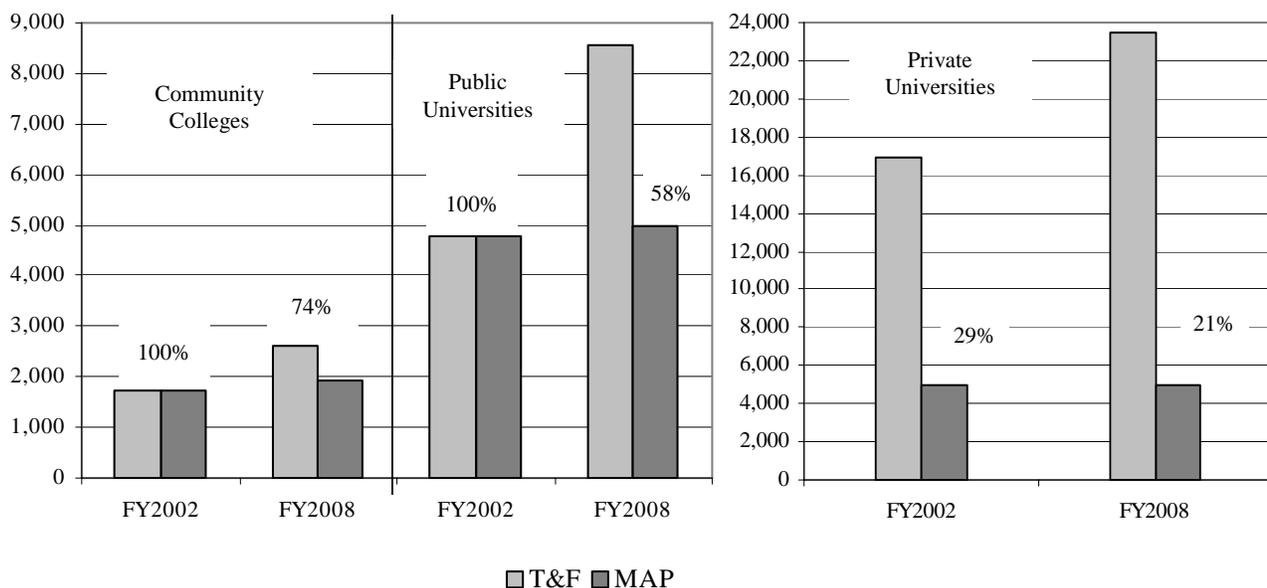


College Affordability

Family income for middle-class Illinois residents increased about 8 percent between 2000 and 2006, the years of incomes reported on the FY2002 and FY2008 FAFSAs. This increase did not keep pace with inflation much less the increases in college costs that occurred during that time. For families with incomes in the first quintile, Community college tuition and fees alone total 15 percent of their incomes, public university tuition and fees total nearly half, and private university tuition and fees exceed their incomes. Living expenses, books, supplies and other costs put even more strain on student and family budgets.

Need-based aid such as the federal Pell grant and MAP are critical to offsetting college costs for low and middle-income families. Unfortunately, MAP coverage of tuition and fees, the fastest-rising component of college costs, is not nearly as substantial as it was as recently as FY2002. Average tuition and fees are now 54 percent higher and MAP application volume has increased nearly 20 percent, putting a tremendous strain on the MAP budget which is less than 4 percent higher in FY2008 than it was in FY2002. As shown in Figure 2 below, the highest announced MAP awards covered tuition and fees at community colleges and public universities in FY2002. By FY2008 only 74 percent of community college and 58 percent of public university tuition and fees is covered for students receiving the largest awards. In addition, MAP award announcements have been suspended every year since FY2001; this means eligible students could not claim their award if they applied after the suspension date. In FY2007 awards for nearly 35,000 eligible students who applied after August 25 were suspended.

Figure 2: Percent of Average Tuition and Fees Covered by the Maximum Announced MAP Award



The MAP formula did receive a boost in FY2007 when increased funding enabled the Commission to remove the reduction factor, which had decreased awards since FY2003 and had been set at 9 percent in FY2006. This improvement increased the highest community college award by \$175, enough to cover the average increase in tuition and fees. The highest award for public university students increased \$450; however, average tuition and fees increased more than \$700. In FY2008 award amounts remained constant while community college tuition and fees increased nearly \$140 and public university tuition and fees increased nearly \$680, leaving students worse off than ever before.

MAP Formula Improvements

MAP is affected by outside factors including changes in the federal need analysis formulas, which calculate the EFC, and the economy. For FY2009, changes to need analysis are minimal. Although the College Cost Reduction and Access Act will effect income protection allowances and increase the income threshold for the Automatic Zero EFC, these changes are not effective until FY2010. The Act also increases the maximum Pell award \$490 for FY2009. Projected costs for MAP formula changes are summarized in Table 1.

Application Volume

The number of completed applications from Illinois undergraduate residents attending MAP-approved institutions increased nearly 20 percent between FY2002 and FY2007. Rising unemployment rates at the beginning of the time period encouraged people to pursue an education as a way to another job. Unemployment rates peaked in 2003 and declined through 2006; however, the current 2007 rate indicates an increase over 2006. This trend may already be affecting MAP applications; in May announced applications were down 0.5 percent but by the end of October, FY2008 announced application volume was up 1.2 percent.

FY2001 was the last year that the Commission announced awards through the processing cycle. In FY2002, award announcements were suspended in early December. From FY2003 to FY2006 a reduction factor ranging from 5 percent to 11 percent was added to the MAP formula to extend award announcements to at least some August applicants. The reduction factor was removed for FY2007 and FY2008 and award announcements were made into August. At the end of October 2007, 17,000 eligible FY2008 students who applied after August 15th were in suspended status.

An application volume increase between two and four percent has been projected for FY2009. If this materializes, an additional \$8 to \$16 million could be needed to announce awards to mid- or late August. Although the lack of recent claim rates for post-August applicants complicates estimation, announcing awards through September could cost the program \$11 million. Announcing awards to the end of December would require another \$11 million and announcing awards to the end of the processing cycle could require yet another \$8 million. This additional processing could provide awards for about 20,000 new recipients. Many students who apply later are independent students at community colleges or urban public universities.

Tuition and Fees

Tuition and fees in the MAP formula have been set at 2003-04 rates since FY2006. Incorporating 2004-05 tuition and fees in the formula is projected to cost \$18 million. Incorporating 2005-06 tuition and fees into the formula would cost \$30 million, 2006-07 tuition and fees would cost \$40 million. The cost of more current tuition and fees comes from higher awards for students at schools where tuition and fees are less than the maximum award as well as increased eligibility amounts resulting from the higher costs incorporated into the formula. In FY2008 the maximum Pell award was increased from \$4,050 to \$4,310. As a result, using FY2008 tuition and fees as well as the updated Pell table would cost \$44 million instead of \$49 million for incorporating FY2008 tuition and fees alone.

The FTE-weighted average increase in 2007-08 tuition and fees was 6 percent at community colleges, nearly 7 percent at private institutions, and 9 percent at public universities for an overall average of about 8 percent. Assuming similar increases in FY2009, the projected cost of incorporating 2008-09 tuition and fees is \$58 million. However, the College Cost Reduction and Access Act raised the 2008-09 Pell maximum to \$4,800. Assuming this amount is final, using this Pell table along with 2008-09 tuition and fees would cost MAP only \$40 million.

Maximum Award

The statutory maximum award for the Monetary Award Program has been set at \$4,968 since FY2002. At one time the goal was to increase the maximum award at the same rate as tuition and fees at public universities. The FTE-weighted mean of 2007-08 public university tuition and fees was \$8,553, nearly \$3,600 over the statutory maximum award. All current tuition and fees reported to ISAC by public universities and private schools are above the \$4,968 maximum award amount. Increasing the maximum award about 5 percent to \$5,214 would cost about \$14 million. A 10 percent increase to \$5,466 would cost \$27 million. Bringing the maximum award to the 2007-08 public university tuition and fee level of \$8,550 would cost over \$150 million.

Cost of Living Allowance

Costs accounted for in the MAP formula include a cost of living allowance, which has been set at \$4,875 since FY2002. Increasing this figure for inflation would result in a living allowance of about \$6,000. Raising this component would help students by increasing their maximum eligibility and would cost MAP around \$20 million.

EFC Cap

The EFC Cap was added to the MAP formula in FY1994 to shift scarce MAP dollars towards students with fewer resources to pay for college. The cap has been set at \$9,000 since FY2001. Raising the cap to \$10,000 would cost MAP around \$5 million; raising it to \$12,000 would cost about \$10 million.

Awards for Zero-EFC Students

Currently, zero-EFC students at schools where tuition and fees are below the \$4,968 maximum award may not receive a full MAP grant, meaning they receive less than the tuition and fee amounts used in the formula. This could be addressed either by increasing the living allowance or by decreasing the Pell assessment rate in the MAP formula, which is currently set at 80 percent. The less costly option would be to assess the Pell award at 75 percent. If the Pell table with the \$4,050 maximum is used in the formula, the projected cost of lowering the Pell assessment rate to 75 percent is approximately \$7 million. With each increase in Pell the assessment rate would need to be lowered to provide full awards to zero-EFC students unless a higher Living Allowance was incorporated into the formula as well. Increasing the living allowance, which has been set at \$4,875 since FY2002, to \$6,000 would cost about \$20 million.

Extending Award Announcements

Due to application volume increases and tight state budgets the Commission has not been able to announce awards through the entire MAP processing cycle since FY2001. In FY2007 eligible students who applied after August 25, 2006 were unable to receive awards. Extending award announcements through the end of September would cost MAP an estimated \$11 million; announcing to the end of December would cost another \$11 million; announcing to the end of the processing cycle could cost an additional \$8 million.

Combinations of Improvements

Making multiple improvements could cost more than the sum of the each improvement because of synergies involved among components in the MAP formula. Table 1 includes some combinations of improvements to illustrate this effect.

Table 1: FY2009 Monetary Award Program Formula Improvement Costs

<u>Base Appropriation</u>	<u>Dollars in Millions</u>	
FY08 GRF Appropriation		\$381.1
Federal LEAP/SLEAP		\$3.7
		<u>\$384.8</u>
<u>Provide Similar Support as in FY2008</u>		
Projected Application Volume increase of 2-4%	\$8 to \$16	\$393 to \$401
	<u>Cost per</u>	
<u>Formula Improvements (over FY2008 Recompute Formula)</u>	<u>Improvement</u>	<u>Total Cost</u>
Incorporate 2004-05 T&F	\$18	\$403
Incorporate 2005-06 T&F	\$30	\$414
Incorporate 2006-07 T&F	\$40	\$425
Incorporate 2007-08 T&F	\$49	\$434
Incorporate 2007-08 T&F and 2007-08 Pell Table with \$4310 max	\$44	\$428
Incorporate Projected 2008-09 T&F	\$58	\$442
Incorporate Projected 2008-09 T&F and 2008-09 Pell Table with \$4800 max	\$40	\$425

Raise Maximum Award to \$5214 (from \$4968)	\$14	\$399
Raise Maximum Award to \$5466	\$27	\$412
Raise Maximum Award to \$5964	\$50	\$435
Raise Maximum Award to \$8550 (avg FY2008 Public University T&F)	\$153	\$538

Raise Living Allowance to \$6000 (from \$4875)	\$20	\$405

Raise EFC Cap to \$10,000 (from \$9,000)	\$5	\$390
Raise EFC Cap to \$12,000	\$10	\$395

Full MAP for Zero EFCs (75% Pell with \$4050 Pell and 04 T&F)	\$7	\$391
Lower Pell Assessment (75% with \$4310 Pell and 08 T&F)	\$48	\$433
Lower Pell Assessment (75% with \$4800 Pell and proj 09 T&F)	\$47	\$432

Extend Award Announcements through September	\$11	\$396
Extend Award Announcements through December	\$22	\$407
Extend Award Announcements through end of the processing cycle	\$30	\$415
<u>Some Combinations</u>		
FY2009 T&F, 4800 Pell and 6000 LA	\$71	\$456
FY2009 T&F, 4800 Pell and \$5466 Max Award	\$75	\$460
FY2009 T&F, 4800 Pell, 6000 LA, process through September	\$85	\$470
FY2009 T&F, 4800 Pell, 6000 LA, 12000 EFC Cap, \$5466 Max Award	\$130	\$515

Silas Purnell Illinois Incentive for Access (IIA) Program

The Commission first received funding for the IIA Grant Program in FY1997. The program was designed to promote access and retention of freshmen applicants with no financial resources for college, also known as zero-EFC students. IIA is intended to supplement funding for existing need-based grant programs for this group of students, much like the federal Student Educational Opportunity Grant Program supplements the federal Pell Grant Program.

The Illinois Incentive for Access Grant Program was renamed the Silas Purnell Illinois Incentive for Access Grant Program in FY2005 and the rules were changed to permit larger awards. Contingent upon adequate funding, freshman college students who have an EFC of zero can receive a one-time award up to \$1,000 and freshmen with an EFC between \$1 and \$500 can receive a one-time award up to \$500. Appropriation levels have not increased enough to incorporate these changes and meet increased demand, so the Commission has only been able to provide a one-time \$500 award to freshmen applicants who have a zero EFC. In FY2006, the program was appropriated level funding of \$7.2 million and the Commission was forced to suspend applicants in early August, one month before the MAP suspension date.

In FY2007, the appropriation increased to \$8.2 million, which was applied to increased demand. Due to a 5 percent increase in application volume by zero-EFC students, award announcements were suspended on August 19, one week before MAP. In FY2008 IIA received level funding and, due to a 7 percent increase in application volume partly due to need analysis changes, award announcements were suspended on August 7. Based on application volume projections, staff expects up to a four percent increase for FY2009, which would require an additional \$500,000 to announce awards to mid-August. Another \$1 million would be needed to announce through the end of August. Announcing awards for IIA through the end of the processing cycle is estimated to cost more than \$4 million. Fully funding the program at the statutory levels and announcing awards without suspension is projected to cost \$28 million. Table 2 summarizes these changes.

Table 2: Silas Purnell IIA Grant Program Changes

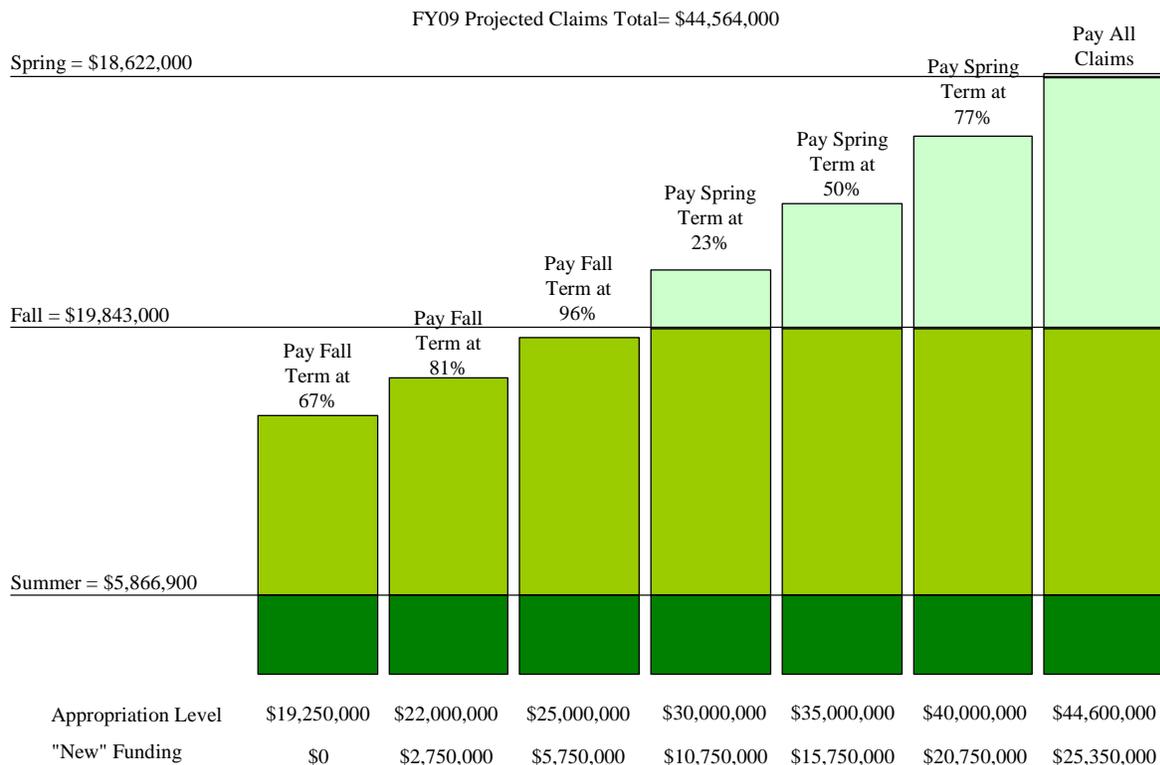
<u>Base Appropriation</u>	<u>Dollars in Millions</u>	
FY08 Base Appropriation	--	\$8.2
<u>Provide Similar Support as in FY2008</u>		
Projected 4% Increase in Application Volume	\$0.5	\$8.7
<u>Formula Improvements</u>	<u>Cost per Improvement</u>	<u>Total Cost</u>
Use Parent Contribution instead of EFC for dependents (rule change?)	\$1.0	\$9.2
\$1000 awards for Zero EFCs	\$8.2	\$16.4
\$500 awards for 1 - 500 EFCs	\$2.0	\$10.2
Extend Award Announcements through August	\$1.0	\$9.2
Extend Award Announcements through September	\$1.8	\$10.0
Extend Award Announcements through December	\$2.8	\$11.0
Extend Award Announcements through end of the processing cycle	\$4.3	\$12.5
<u>Some Combinations</u>		
\$1000 for Zero EFCs, Announce Awards through September	\$11.8	\$20.0
\$1000 for Zero EFCs, \$500 for 1-500 EFCs, Announce through September	\$14.2	\$22.4
\$1000 for Zero EFCs, \$500 for 1-500 EFCs, Announce through end of cycle	\$19.8	\$28.0

Illinois Veteran Grant (IVG) Program

The Illinois Veteran Grant (IVG) Program provides grants for qualified veterans at Illinois public universities and community colleges. Because the IVG Program is an entitlement program, public institutions are required to cover any funding shortfalls that occur at their campuses by waiving the portion of a student's tuition and fees not paid by the grant. In FY2007, 11,781 veterans received \$19.2 million in assistance; however, claims by institutions were prorated and could not be paid fully. The funding which would have been required to fully pay all claims for FY2007 totaled \$36.2 million. For FY2008, ISAC expects to receive approximately \$41.5 million in claims. With an appropriation of \$19.2 million, the funding shortfall is expected to be about \$22 million. Allowing for expected increases in tuition and fees, full funding for FY2009 is estimated at \$44.6 million, assuming no further increase in volume.

Figure 3:

Coverage of FY09 Projected IVG Claims at Different Funding Levels



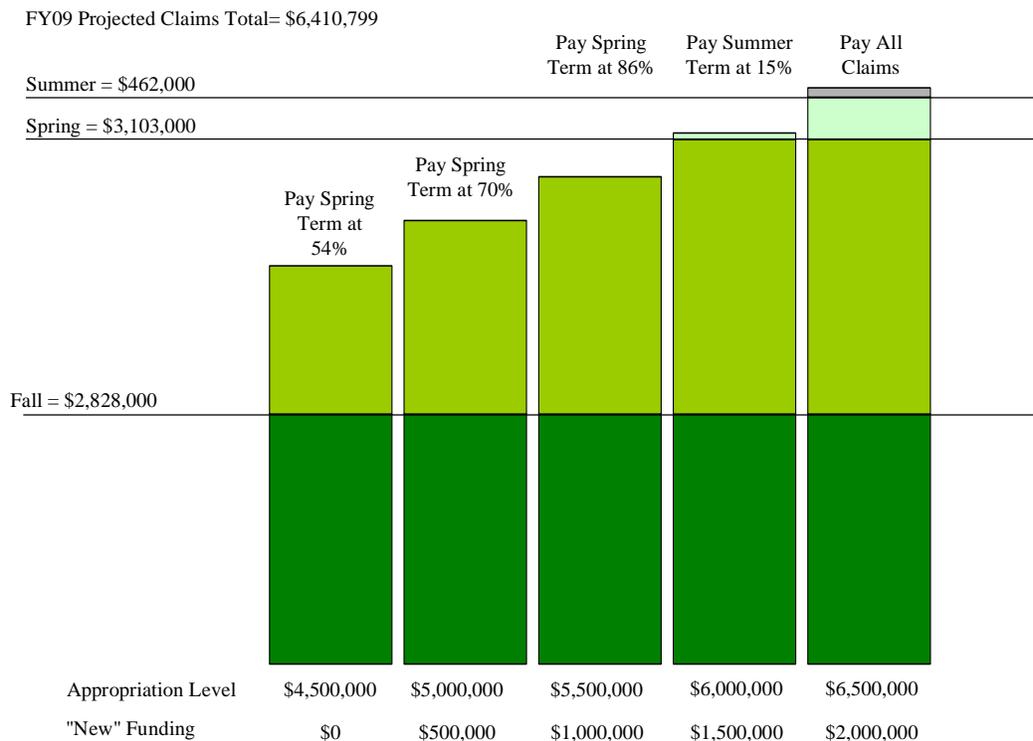
Assumes a 12 percent increase in FY09 claims over FY08. FY08 assumes a 12% increase over FY07. FY07 total claims were \$36.2 million with a funding shortfall of \$16.9 million. FY08 claims projected at \$41.6 million with a \$22.3 million shortfall.

Illinois National Guard (ING) Grant Program

The Illinois National Guard (ING) Grant Program provides grants for qualified members of the Illinois National Guard at Illinois public universities and community colleges. Because the ING Grant Program is an entitlement program, public institutions are required to cover any funding shortfalls that occur at their campuses by waiving the portion of a student's tuition and fees not paid by the grant. For FY2006, ING provided 1,962 students with assistance totaling approximately \$4.4 million. The FY2007 appropriation represents level funding from FY2006 and should be fully expended. The recommended FY2007 request of \$4.9 million allows for tuition and fee increases for FY2006 and FY2007 and would be expected to fully fund the program.

Figure 4:

Coverage of FY2009 Projected ING Claims at Different Funding Levels



Assumes an 8 percent increase in FY08 claims over FY07. FY07 assumes an 8% increase over FY06. FY07 total claims were \$5.5 million with a funding shortfall of \$1 million. FY08 claims projected at \$5.9 million with a \$1.4 million shortfall.