

### AGENDA ITEM 3.

#### MONETARY AWARD PROGRAM FY2005 RECOMPUTE FORMULA

**Submitted for:** Action

**Summary:** Each year, the Commission meets to review and update the Monetary Award Program (MAP) start-up formula. These modifications are typically based on the final appropriation, changes in federal programs, increases in college costs, the statutory authority regulating the maximum award, and projected application volume.

The FY2005 start-up formula integrated Commission priorities, IBHE statewide goals, and the Governor's and General Assembly's stated objectives for student financial aid. Given level funding for MAP, these formula changes were designed to direct aid toward low income students, increase the number of students receiving aid, and increase award amounts for all students.

While most institutions supported the FY2005 start-up formula adopted by the Commission, as did the Governor's office, support was not unanimous. Schools that did not support the FY2005 start-up formula conveyed their preference to return to the previous year's formula to members of the legislature. As part of the budget negotiations among legislative leaders and the Governor it has been recommended that ISAC return to a variation of the FY2004 formula. The proposed FY2005 MAP recompute formula would make the following changes to the FY2005 start-up formula:

- Eliminates the Tuition Equalization Factor (TEF) adopted by the Commission at its special meeting February 2, 2004.
- Reinstates the \$9,000 Expected Family Contribution (EFC) cap.
- Increases the reduction factor from 7 percent to 10 or 11 percent. Students with a federal EFC between \$0 and \$3,000 would have a 10 percent reduction factor. Students with a federal EFC between \$3,001 and \$8,999 would have awards reduced by 11 percent. This will allow ISAC to provide awards to about 1,000 additional students over the level served in FY2004.

**Action requested:** Staff recommends that the Commission approve the FY2005 MAP recompute formula summarized in Table 2 on the last page.

## ILLINOIS STUDENT ASSISTANCE COMMISSION FY2005 MAP RECOMPUTE FORMULA

### Introduction

Each year the Commission is responsible for adopting an allocation formula for the Monetary Award Program (MAP). Basically, this formula establishes the *number of awards* the Commission will make as well as the *size of the awards* students will receive. Initially, in January, the Commission acts on a "start-up" formula that is used to begin making award announcements for students applying for the upcoming fall term. The start-up formula decision is made at the onset of the state budget cycle, before the Commission knows how much money will be appropriated to MAP for the next academic year, and before any data are available regarding volume trends and college cost increases.

Typically, once the Governor and General Assembly take final action on the budget, the Commission revisits the formula in June or July and takes action to approve a "recompute" formula. Historically, this recompute formula provides for increased award amounts from start-up due to new funding being appropriated to help cover increases in tuition and fees, application volume, or an increase in the maximum award.

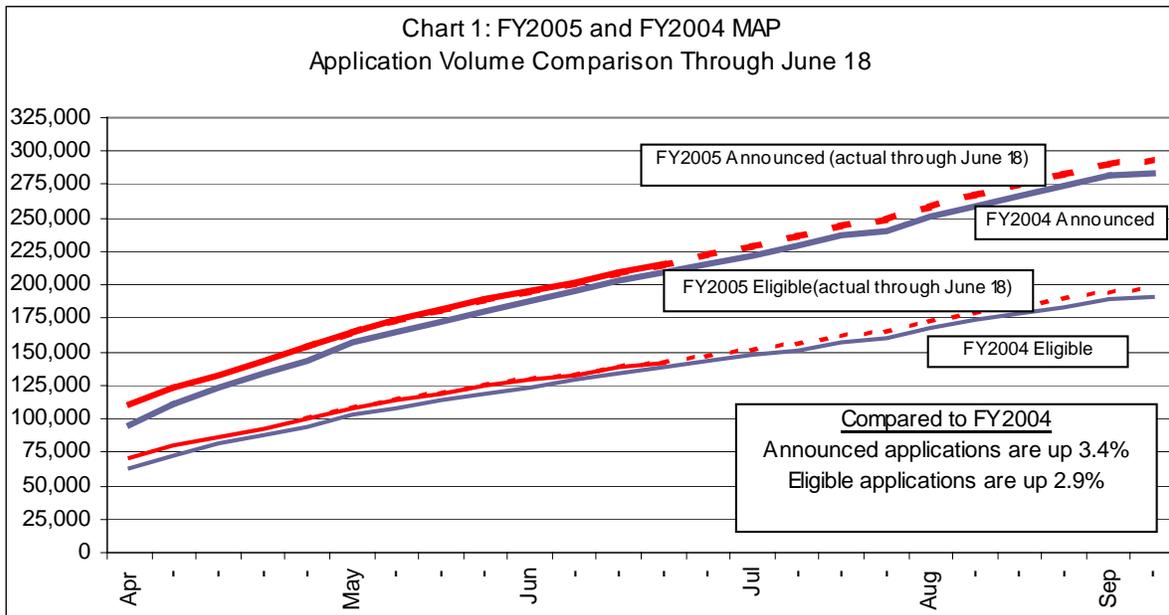
The past several years, however, have presented challenging allocation decisions for the Commission. The FY2003 MAP recompute formula had to address a reduction of more than \$38 million (10 percent) from the FY2002 appropriation. Included within this reduction was the elimination of \$20 million for awards to students who had already used the equivalent of 8 semesters or 12 quarters of MAP payments for full-time enrollment, i.e., fifth-year students. The final FY2004 budget added \$6 million to partially restore grants to students in their fifth year of eligibility.

In the midst of a state budget crisis, the Governor has recommended level funding of \$338 million for MAP in FY2005. The discussion that follows assumes level funding; if the final budget contains significantly different funding levels, further adjustments may be necessary.

### FY2005 MAP Application Volume

As of mid-June, FY2005 MAP eligible application volume is nearly 3 percent higher than last year, as shown in Chart 1. Average expected family contributions for both dependent and independent announced applicants and dependent eligible applicants are higher than last year, indicating that families applying for financial aid may have more resources available to contribute to college costs. The number of applicants filing electronically, which was thought to have contributed to early application volume increases, continues to increase; at this point in the FY2004 cycle, 61 percent of eligible applicants had filed electronically while this year, 73 percent have filed electronically.

A similar application volume trend for FY2005 has been found at the federal level. While increases greater than 10 percent were found in February and March, the increase has since declined to less than 3 percent in June.



### **FY2005 MAP Start-Up Formula**

The FY2005 start-up formula integrated Commission priorities, IBHE statewide goals, and the Governor's and General Assembly's stated objectives for student financial aid. Given level funding for MAP, these formula changes were designed to level the playing field when determining award eligibility, increase the number of students receiving aid, and raise award amounts for all students, particularly low-income students.

Since FY2002, application volume has increased over 20 percent and funding levels have decreased by almost 10 percent. The Commission, concerned about college access and affordability, made specific changes at start-up to address these issues. The FY2005 MAP start-up formula, approved by the Commission in February, was based upon the previous year's recompute formula and funding level with the following changes:

- Eliminated the \$9,000 Expected Family Contribution (EFC) cap. The removal of the EFC cap addressed an equity problem that occurred with arbitrary cut off points. For instance, a student with an \$8,999 EFC may be eligible for the maximum MAP grant but a similar student with a \$9,000 EFC would not be eligible for any grant amount. This has been referred to as the "cliff effect." The EFC cap also penalized working students who make significant contributions to family income. By eliminating the EFC cap, approximately 1,500 dependent students became eligible for at least a partial MAP award. The majority of these students have EFC's just over \$9,000 with a significant portion of that amount coming from student resources.
- Lowered the reduction factor from 10 percent to 7 percent. Due to increased application volume and appropriation reductions, the Commission reduced FY2003 awards from their start-up levels by 5 percent in order to announce awards to mid-August. Due to continued increases in application volume in FY2004, the Commission reduced award amounts by 10 percent instead of 5 percent in order to announce awards to the beginning of August. Eliminating the reduction factor was stated as the highest priority of the ILASFSA formula committee.

- Implemented a Tuition Equalization Factor (TEF) in the award eligibility calculation. Tuition and mandatory fees over \$12,796 were capped at this level in the determination of award amounts. The TEF reduced or eliminated awards to students from higher income families who choose to attend higher-cost private universities, allowing those dollars to be redirected toward students from lower income families attending all types of institutions in the form of a lower reduction factor and expanded grant awards, in a fashion wholly consistent with recommendations from the IBHE/ISAC Committee on Affordability.

While most students (97 percent) including 92 percent at private institutions, saw their awards increase at start-up because of the lower reduction factor, eligibility for higher-income students at higher-cost private institutions was reduced or eliminated. An analysis conducted by staff indicated that approximately 480 awards to students with average parental incomes of \$73,000 were eliminated and another 3,000 awards were reduced. Approximately 1,500 students with average parental incomes of \$56,000 gained awards.

### **Proposed FY2005 MAP Recompute Formula**

While most institutions supported the FY2005 start-up formula adopted by the Commission, as did the Governor's office, support was not unanimous. Schools that did not support the FY2005 start-up formula conveyed their preference to return to the previous year's formula to members of the legislature. As part of the budget negotiations among legislative leaders and the Governor it has been recommended that ISAC return to a variation of the FY2004 formula. The proposed FY2005 MAP recompute formula would make the following changes to the FY2005 start-up formula:

- Eliminates the Tuition Equalization Factor (TEF) adopted by the Commission February 2. FY2003 tuition and mandatory fees will be used in the determination of MAP awards allowing students from higher-income families attending higher-cost private institutions to be eligible for awards.
- Reinstates the \$9,000 Expected Family Contribution (EFC) cap. Students with an EFC of \$9,000 or more will not be eligible for a MAP grant. This would eliminate awards for approximately 1,500 dependent working students, mostly at private institutions, who were determined eligible under the start-up formula.
- Increases the reduction factor from 7 percent to 10 or 11 percent. Students with a federal EFC between \$0 and \$3,000 would have a 10 percent reduction factor. Students with a federal EFC between \$3,001 and \$8,999 would have awards reduced by 11 percent. This will allow ISAC to provide awards to about 1,000 additional students over the level served in FY2004. In FY2004, over 50,000 eligible students did not receive awards due to lack of funding. ISAC estimates a similar level of suspended students for FY2005.

### **Staff Recommendation**

Based upon recommendations of the Governor's office and legislative leaders, staff recommends that the Commission approve the FY2005 MAP recompute formula summarized in Table 2 on the next page. Historically, ISAC has never made a change to the recompute formula that eliminates student awards previously announced under the startup formula. Since these changes will completely eliminate eligibility for about 1,500 dependent working students, and will reduce awards for all other recipients, some of whom have already been notified that they are receiving a MAP award, ISAC encourages both private and public institutions to hold these students harmless to the extent possible by redistributing institutional aid.

**Table 1: FY2005 MAP Start-Up Formula adopted February 2, 2004**

<b>Budget</b>	
1.	Use 2002-2003 reported tuition and fees. If the tuition and fees are greater than the \$12,796 tuition equalization factor, use \$12,796. Assess the tuition and fee amounts, or the capped amount, at 95 percent.
2.	Use one living allowance for all applicants, set to \$4,875.
<b>Resources</b>	
1.	Use 80 percent of Pell Grant eligibility as determined by the 2002-2003 Pell Grant Payment Schedule, which contains a \$4,000 maximum.
2.	Calculate the ISAC adjusted EFC by inflating the Federal EFC.  <div style="text-align: center;"> <p>Adjusted Dependent Students' Parent Contribution:                      Adjustment Factor = <math>[PC/11,000 + 1.10]</math> rounded to 2 decimal places                      Adjusted PC = PC x Adjustment Factor</p> <p>Adjusted Independent Student Contribution:                      Adjustment Factor = <math>[EFC/11,000 + 1.10]</math> rounded to 2 decimal places                      Adjusted EFC = EFC x Adjustment Factor</p> </div>
3.	Use a minimum self-help expectation of \$1,800 for all students.
<b>Award Amounts</b>	
1.	Set the maximum award equal to the lesser of \$4,968 or the tuition and fees specified in the budget.
2.	Set the minimum award to \$300, and round maximum eligibility in \$150 increments to calculate partial awards.
3.	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.
4.	Reduce all awards by seven percent.

**Table 2: Recommended FY2005 MAP Recompute Formula**

<b>Budget</b>	
1.	Use 2002-2003 reported tuition and fees assessed at 95 percent at all institutions. <b>The tuition equalization factor will not be used.</b>
2.	Use one living allowance for all applicants, set to \$4,875.
<b>Resources</b>	
1.	Use 80 percent of Pell Grant eligibility as determined by the 2002-2003 Pell Grant Payment Schedule, which contains a \$4,000 maximum.
2.	Calculate the ISAC adjusted EFC by inflating the Federal EFC.  <div style="text-align: center;"> <p>Adjusted Dependent Students' Parent Contribution:                      Adjustment Factor = <math>[PC/11,000 + 1.10]</math> rounded to 2 decimal places                      Adjusted PC = PC x Adjustment Factor</p> <p>Adjusted Independent Student Contribution:                      Adjustment Factor = <math>[EFC/11,000 + 1.10]</math> rounded to 2 decimal places                      Adjusted EFC = EFC x Adjustment Factor</p> </div>
3.	Use a minimum self-help expectation of \$1,800 for all students.
<b>Award Amounts</b>	
1.	Set the maximum award equal to the lesser of \$4,968 or the tuition and fees specified in the budget.
2.	Set the minimum award to \$300, and round maximum eligibility in \$150 increments to calculate partial awards.
3.	<b>For students with an EFC from \$0 through \$3,000, reduce awards by 10 percent. For students with an EFC from \$3,001 to \$8,999, reduce awards by 11 percent.</b>
4.	<b>Provide no award for applicants who have an EFC of \$9,000 or greater.</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.

**Note: Formula changes shown in bold.**