

AGENDA ITEM 7.

FY2006 MONETARY AWARD PROGRAM (MAP) START-UP

Submitted for: Action

Summary: Each year the Commission approves a start-up formula to calculate student eligibility for the Monetary Award Program (MAP) for the upcoming academic year. Typically, the Commission takes action in January so awards can be calculated and announced to students starting in February or March. Announcing awards in early spring enables students to make enrollment decisions and helps financial aid administrators advise applicants on available resources. Once final appropriations are known, the Commission approves a recompute formula and awards are usually recalculated.

In preparing the proposed FY2006 start-up formula, staff considered the agency's analysis of college affordability issues, as well as input garnered from college and university presidents and the financial aid community during the Commission's recent public forums on college affordability. College costs, family income, and financial aid all affect college affordability, and in recent years, changes in all three factors have been unfavorable. While the decrease in MAP funding obviously affected college affordability, a significant impact has resulted from increased tuition and fees. In addition to less than adequate MAP funding levels, state-funded schools have been affected by recent state budget shortfalls. With minimal to no new state funding to respond to rising operations costs, institutions have had to increase tuition and fees to help meet the growing costs.

The FY2006 start-up formula presented to the Commission is based on the FY2005 MAP funding level of \$338 million and the FY2005 recompute formula, including the tiered reduction factor concept first introduced last year. Continuing the current MAP formula under level funding, given a 4 percent increase in applications, results in an earlier suspension date and more eligible students being denied MAP grants. Furthermore, the current eligibility formula uses 95 percent of each college and university's FY2003 tuition and fee level, which is now outdated by more than three years and will likely represent, on average, less than 75 percent of the actual FY2006 tuition and fees. To begin to at least partially address either of these affordability issues, if there is no new funding for MAP, staff recommends that the Commission consider a further tiered reduction factor on all awards to reallocate approximately \$4 million in the FY2006 start-up formula.

The proposed FY2006 start-up formula reflects a conservative approach to avoid the need to further reduce MAP awards in the recompute formula after the state budget is finalized. If new state funding is allocated to MAP, the Commission will expend the funds to address its priorities of improving college affordability during adoption of the MAP recompute formula. Those issues will include reverting to the FY2005 reduction factors, accommodating an increase in the number of students applying for MAP prior to the suspension deadline, and incorporating more recent tuition and fees in the MAP formula to begin bringing those levels up to date.

Action requested: Staff recommends that the Commission approve the formula summarized in Table 3 as the FY2006 MAP start-up formula.

**ILLINOIS STUDENT ASSISTANCE COMMISSION
FY2006 MONETARY AWARD PROGRAM (MAP) START-UP**

INTRODUCTION

Each year the Commission approves a start-up formula to calculate student eligibility for the Monetary Award Program (MAP) for the upcoming academic year. Typically, the Commission takes action in January so awards can be calculated and announced to students starting in early spring. This enables students to make enrollment decisions and helps financial aid administrators advise applicants on available resources. Once final appropriations are known, awards are recalculated according to a Commission-approved recompute formula.

The MAP start-up formula usually is based upon the previous year's recompute formula. In recent years the Commission has authorized changes such as using new tuition and fees at start-up even though final funding for the program was unknown. Since FY2003, however, due to concerns about the state's financial condition, the Commission has opted for a more conservative start-up formula; that approach is reflected in this staff recommended start-up formula for FY2006.

This item discusses factors pertaining to the start-up formula. The FY2005 MAP recompute formula is shown in Table 2, and the staff FY2006 start-up recommendation is shown in Table 3, at the end of this item.

ENVIRONMENTAL FACTORS

College affordability, increased application volume, input from the financial aid community, and state budget constraints are some environmental factors that the Commission needs to consider when discussing and determining the FY2006 MAP start-up formula.

College Costs and Affordability

Since FY2002, when funding for the Monetary Award Program peaked at nearly \$372 million, college affordability in Illinois has deteriorated. In FY2003 MAP funding was reduced 10 percent and although \$6 million was restored in FY2004, FY2005 funding remained level at \$338 million. As a result of lower state funding, \$3.7 million in federal LEAP and SLEAP funding for MAP was also lost. Throughout this time period, Illinois' grade for college affordability dropped from an "A" in FY2000, to a "D" according to *Measuring Up 2004: The State by State Report Card for Higher Education* issued by The National Center for Public Policy and Higher Education.

Affordability is affected by college costs, family income, and financial aid. In recent years, changes in all three factors have been unfavorable. While the decrease in MAP funding obviously affected college affordability, a significant impact has resulted from increased tuition and fees. In addition to less than adequate MAP funding levels, state-funded schools have been affected by recent state budget shortfalls. With minimal to no new state funding to respond to rising operations costs, institutions have had to increase tuition and fees to help meet the growing costs. Between FY2002 and FY2005, average tuition and fees have increased nearly 37 percent at public universities, 24 percent at community colleges, and 18 percent at private institutions.

At the same time, incomes for very poor Illinois families increased less than 9 percent, and average income for lower middle and middle income families increased less than 5 percent, rates that do not keep up with inflation. Thirty percent of MAP-eligible students come from families unable to contribute any money toward their college education; seventy percent can contribute less than \$3,000 per year.

Finally, need-based financial aid has not kept pace with rising college costs. The maximum Pell grant is now 8 percent higher than in FY2002, but has remained at \$4,050 since FY2004. The statutory maximum MAP award has remained at \$4,968 since FY2002. However, reduced funding and higher application volumes have forced the Commission to implement a reduction factor on MAP awards, lowering the effective maximum to \$4,471 for the past two years. In FY2002, the maximum MAP award more than covered average public university tuition and fees; in FY2005 it covered only 68 percent. In addition, tuition and fees used in the MAP formula have not been current since FY2002. In FY2005, 95 percent of FY2003 tuition and fees were used to represent that portion of costs. Fully incorporating current tuition and fees into the FY2006 start-up formula would cost over \$50 million.

Application Volume

MAP application volume is highly dependent on demographics and economic conditions. The number of high school graduates is increasing in Illinois, while at the same time, declining economic conditions are increasing the demand for MAP as the unemployed seek to further their education. In FY2002, announced applications, or completed applications from Illinois residents attending MAP-approved institutions, increased 7.2 percent. Year-end MAP application volume rose by 6.1 percent in FY2003 and 6.7 percent in FY2004. To date in FY2005, application volume increases have been hovering between 3 and 4 percent. Unless economic conditions improve significantly, a similar scenario should be expected in FY2006.

Increased application volume and level appropriations have forced the Commission to suspend the announcements of awards prior to the end of the normal processing cycle. In FY2002, award announcements were initially suspended in late October. Approximately 16,000 MAP-eligible applicants were affected. In FY2003 award announcements were suspended in mid-August, affecting 44,000 MAP-eligible students. In FY2004, announcements were suspended in early August. As a result, over 50,000 MAP-eligible applicants had their awards placed in suspension, the highest number in program history.

In FY2005, in response to continuing budget constraints, which included eliminating funding in FY2003 for MAP recipients during their fifth year of study, and a recommendation from the IBHE/ISAC Committee on Affordability, MAP eligibility units were converted to a credit hour system to make hours actually paid by MAP consistent with MAP eligibility used. Eligible applicants may receive MAP to pay for up to 135 credit hours of study. Further, the number of credit hours paid by MAP is capped at 75 for freshmen and sophomores to preserve MAP eligibility for later years, and full paid MAP awards are now based on fifteen credit hours, with payments prorated for less than fifteen credit hours of enrollment. One-time savings from these changes, combined with increased reduction factors, enabled the Commission to announce awards to mid-August, two weeks further than in FY2004. Processing later into the cycle is critical to increasing awards provided to lower income students at community colleges and urban institutions, who tend to apply for aid just as school is starting. Nevertheless, thus far in FY2005, over 31,000 eligible applications have been placed in suspension.

For FY2006, staff expects up to a 4 percent increase in application volume. If funding is not secured to cover this increase, award announcements would have to be suspended in late July or early August, approximately two weeks earlier than in FY2005. If this occurs, awards for more than 50,000 MAP-eligible applicants would be placed into suspension.

Input from the Financial Aid Community

In addition to adopting the Report of the IBHE/ISAC Committee on Affordability last year, ISAC held two public hearings this fall to hear testimony from partners in higher education on how to address the widening affordability gap, given the lack of significant additional funding for need-based student aid. Several members of the financial aid community and college and university presidents, representing all sectors of higher education, provided their recommendations to the Commission. Based on these hearings, four key actions were identified as necessary to bring the purchasing power of MAP grants to the FY2002 level (prior to drastic funding cuts made in FY2003).

Those four key actions include:

1. Increase the amount of tuition and fees used in calculating MAP eligibility from the current level (95 percent of FY2003 tuition and fees for each school) to 100 percent of the FY2005 tuition and fee levels;
2. Eliminate or reduce across-the-board cuts on all awards (currently 10-11 percent);
3. Extend processing beyond mid-August (currently August 15); and
4. Increase the maximum award to cover a larger portion of tuition and fees.

The amount of new funding needed to implement these affordability improvements in FY2006, bringing MAP up to the FY2002 level, totals more than \$100 million, even without increasing the maximum award.

State Budget Constraints

Most economic factors, such as consumer confidence, unemployment rates, and state tax receipts, point to a modestly improving Illinois economy. However, there are several pressures on any new revenues available to the State, including pension funding and required increases for the Medicaid program. Therefore, the amount of new funding available to student aid will likely be minimal, if at all existent.

STAFF RECOMMENDATION

The past several years have presented challenging allocation decisions for the Commission. A \$38 million reduction in FY2003 and relatively stable funding since, combined with large increases in application volume, forced the Commission to apply a reduction factor on awards to avoid suspending awards in July. All awards were reduced by five percent in FY2003. The reduction factor was increased to 10 percent in FY2004. In FY2005, the Commission incorporated a tiered reduction based on the federal EFC. Students with an EFC of \$3,000 or less continued to have their MAP award reduced by 10 percent and awards for students with an EFC greater than \$3000 were reduced by 11 percent. These reductions enabled the Commission to address increased application volume to some degree.

At this time, FY2006 is expected to be another difficult year for MAP. Without significant additional funding, little headway toward regaining college affordability can be made by reallocating existing dollars. Continuing the current MAP formula under level funding, given a 4 percent increase in applications, results in an earlier suspension date and more eligible students being denied MAP grants. Furthermore, the current eligibility formula uses 95 percent of each college and university's FY2003

tuition and fee level, which is now outdated by more than three years and will likely represent, on average, less than 75 percent of the actual FY2006 tuition and fees. To begin at least partially addressing either of these affordability issues, if there is no new funding for MAP, staff recommends that the Commission consider a further tiered reduction factor on all awards, as outlined in Table 1, to reallocate approximately \$4 million in the FY2006 start-up formula.

While staff appreciates the Commission’s reluctance to further decrease any MAP awards during a period of a worsening affordability gap, based on the expectation that there will be little if any new funding for higher education in the coming fiscal year, staff recommends that the Commission reallocate a small amount of funding to provide very limited resources for preventing college affordability in Illinois from deteriorating even more, especially for the state’s poorest students, via an increase in the reduction factors for EFC ranges, as follows:

Table 1: FY2006 Proposed Tiered Reductions by EFC Range

EFC Range	Reduction Factor	Maximum Award	Change from FY2005
\$0 to \$3,000	10%	\$4,471	\$0
\$3,001 to \$4,000	12%	\$4,372	-\$50
\$4,001 to \$5,000	13%	\$4,322	-\$100
\$5,001 to \$6,000	14%	\$4,272	-\$150
\$6,001 to \$7,000	16%	\$4,173	-\$249
\$7,001 to \$8,000	20%	\$3,974	-\$448
\$8,001 to \$8,999	23%	\$3,825	-\$597
\$9,000 & up	Not Eligible	Not Eligible	Not Eligible

One benefit of applying a tiered reduction factor is that no awards are completely eliminated. Award amounts do not decrease in the lowest EFC range (where 70 percent of MAP recipients are found) and decrease by no more than \$600 in the highest EFC range. For an eligible student with an EFC between \$8,001 and \$8,999, the maximum award decreases from \$4,422 to \$3,825.

The proposed FY2006 start-up formula reflects a conservative approach to avoid the need to further reduce MAP awards in the recompute formula after the state budget is finalized. If new state funding is allocated to MAP, the Commission will expend those funds to address its priority of improving college affordability during its adoption of the MAP recompute formula. Affordability improvements to be considered include reverting to the FY2005 reduction factors, incorporating more recent tuition and fees in the formula, and accommodating an increase in the number of students applying for MAP prior to the suspension date.

Staff has discussed the recommendation with the ILASFAA Formula Advisory Committee. With the exception of representatives from the community colleges who would support further increasing the reduction factors to accommodate award announcements through August, the majority of the committee agreed that changes in the proposed FY2006 start-up formula unfortunately does not improve affordability but are necessary in light of anticipated application volume increases and expected level funding for MAP.

ACTION REQUESTED

Staff is recommending the Commission use the formula summarized in Table 3 on the following page as the FY2006 MAP start-up formula. This formula is based on the FY2005 recompute formula with the inclusion of the tiered reduction factors shown in Table 1.

Table 2: FY2005 MAP Recompute Formula

Budget	
1	Use 2002-2003 reported tuition and fees at all institutions, assessed at 95 percent at all institutions.
2	Use one living allowance for all applicants, set to \$4,875.
Resources	
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. Adjusted Dependent Students' Parent Contribution: Adjustment Factor = $[(PC/11,000 + 1.10)]$ rounded to 2 decimal places Adjusted PC = PC x Adjustment Factor Adjusted Independent Student Contribution: Adjustment Factor = $[(EFC/11,000 + 1.10)]$ rounded to 2 decimal places Adjusted EFC = EFC x Adjustment Factor
3	Use a minimum self-help expectation of \$1,800 for all students.
Award Amounts	
1	Set the maximum award equal to the lesser of \$4,968 or the tuition and fees specified in the budget. Set the minimum award to \$300, and round maximum eligibility in \$150 increments to calculate partial awards.
2	Provide no award for applicants who have an EFC equal to or greater than \$9,000.
3	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.
4	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.

Table 3: Staff Recommendation for FY2006 MAP Start-Up Formula

Budget	
1	Use 2002-2003 reported tuition and fees at all institutions, assessed at 95 percent at all institutions.
2	Use one living allowance for all applicants, set to \$4,875.
Resources	
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. Adjusted Dependent Students' Parent Contribution: Adjustment Factor = $[(PC/11,000 + 1.10)]$ rounded to 2 decimal places Adjusted PC = PC x Adjustment Factor Adjusted Independent Student Contribution: Adjustment Factor = $[(EFC/11,000 + 1.10)]$ rounded to 2 decimal places Adjusted EFC = EFC x Adjustment Factor
3	Use a minimum self-help expectation of \$1,800 for all students.
Award Amounts	
1	Set the maximum award equal to the lesser of \$4,968 or the tuition and fees specified in the budget. Set the minimum award to \$300, and round maximum eligibility in \$150 increments to calculate partial awards.
2	Provide no award for applicants who have an EFC equal to or greater than \$9,000.
3	Tiered Reduction by EFC: \$0 - \$3000, 10%; \$3001-\$4000, 12%; \$4001-\$5000, 13%; \$5001-\$6000, 14%; \$6001-\$7000, 16%; \$7001-\$8000, 20%; \$8001-\$8999, 23%.
4	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.