

AGENDA ITEM 8.

FY2007 MONETARY AWARD PROGRAM (MAP) RECOMPUTE

Submitted for: Action

Summary: In January, the Commission approved a new Monetary Award Program (MAP) allocation formula used to calculate eligibility for students attending college during the FY2007 school year. This “start-up” formula, developed before program demand, college costs, and the FY2007 MAP appropriation are known, enabled financial aid directors to announce awards to their students for the 2006-2007 term. Once the appropriation is known, the Commission reviews the formula and takes action to approve a “recomputed” formula based on the new information.

This year’s start-up formula was based on the assumptions that funding levels from FY2006 would carry over to FY2007 and that application volume would continue to rise. When the start-up formula was approved, application volume for FY2007 was up significantly over FY2006 at the same time. While some of the increase could be attributed to earlier application submission resulting from using on-line applications, an increase of at least three percent over FY2006 was expected. At the time little increase in MAP funding was anticipated. Therefore, the Commission adopted a start-up formula for FY2007 that was identical to the FY2006 recompute formula with the expectation that any additional funds would be used to accommodate a volume increase.

Since the FY2007 start-up formula was adopted, a state budget has been approved, and the MAP volume data have been updated. The funding for MAP increased more than anticipated. Staff, therefore, is recommending a recompute formula that varies significantly in one respect from the start-up formula. The recommended formula strikes a balance between the formula changes the ILASFAA Formula Committee unanimously approved and what is perceived to be the intent of the legislature when it approved the additional funds. The change to the formula is the replacement of the existing 9 percent reduction factor with a 2 percent reduction factor, increasing the maximum award by about \$350.

Staff estimates that if this change is incorporated into the formula the Commission could continue to make award announcements through the end of August. While this increase does help every student receiving a MAP grant this year, it should be noted that the funding for this increase is from a one-time revenue source that may not have a replacement next year. This increase also does not bring back the level of affordability experienced in FY2002 - awards will be based on tuition and fee levels that are three years old during a period when tuition and fees have been rising rapidly. Further, even with an anticipated suspension date in late August, many eligible students will not receive awards.

Action requested: Staff recommends that the Commission approve the formula summarized in Table 4 as the FY2007 MAP recompute formula.

ILLINOIS STUDENT ASSISTANCE COMMISSION

**FY2007 MONETARY AWARD PROGRAM
RECOMPUTE FORMULA**

Background

In January, the Commission approved a Monetary Award Program (MAP) allocation formula used to calculate program eligibility for students attending college during the FY2007 school year. This “start-up” formula, developed before FY2007 program demand and college costs have been determined and before the actual FY2007 appropriation for MAP is known, enables college financial aid directors to begin making award announcements to their students applying for the 2006-2007 term. Once the appropriation is known, the Commission reviews the start-up formula and takes action to approve a “recomputed” formula based on the new information.

The start-up formula approved in January was based on the previous year’s recompute formula without any adjustments for increasing volume, increasing college costs, or expected increases in appropriations. This is a conservative formula that has been used in recent years due to limited increases in funding for MAP. The formula has a reduction factor applied to it to stretch the limited dollars to at least partially cover the increased demand for the program. The reduction factor in FY2006 was 9 percent, decreasing the maximum award from its statutory maximum of \$4,968 to an effective maximum of \$4,521.

Since the start-up formula was approved in January, the MAP appropriation for FY2007 has been determined and changes in application volume are now known. Both of these variables have an impact on the recomputed formula.

Application Volume

MAP application volume is dependent upon demographic variables and economic conditions that vary considerably from year to year. The number of high school graduates in Illinois is increasing as is the percentage of those graduates that will attend some form of postsecondary education. The proportion of high school students who come from low-income families also is increasing. These changes result in an increase in the number of dependent eligible applications for MAP. The combination of fewer jobs for uneducated workers and lower wages for unskilled positions has resulted in larger numbers of older, independent students either beginning postsecondary education or returning for retraining. At the same time, college costs have increased significantly, making more applicants eligible for MAP grants. The combination of more applicants and increased eligibility has resulted in large volume increases in the MAP program over the past four years.

To date, announced application volume is up by 4.5 percent. Announced applications are completed applications from Illinois residents planning to attend a MAP-approved school. Eligible application volume is also up overall, by 5.3 percent from this time in FY2006, an increase of about 6,500 students. The increase in eligibility crosses all dependency types: dependents are up by 6.5 percent, independents without dependents are up by 4.7 percent and independents with dependents are up by 3.9 percent. Many of these students are applying to public universities where eligible application volume is

up by 9.6 percent. About 3,600 more eligible students, or about 55 percent of the total volume increase to date, have applied to four-year schools this year. Private four-year schools are seeing a 3.7 percent increase in eligible application volume; community college eligible volume is up 2.6 percent. Proprietary schools' eligible application volume is up 11.3 percent from last year.

An increase in MAP-eligible students applying to public universities is an “expensive” increase. Most of these students will attend full-time and be eligible for full awards. This contrasts with students who attend community colleges, often part-time, where the awards are generally less than half that given to students at public universities

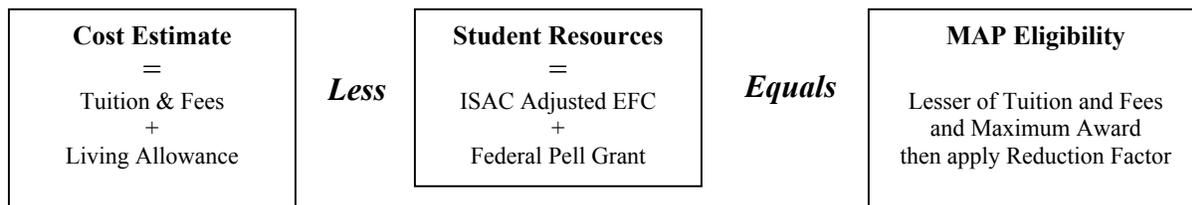
MAP Appropriation

The state budget developed by the legislature and the Governor, and approved by the legislature on May 31, increased appropriations for MAP by \$34.4 million over the FY2006 appropriation bringing the total appropriation to \$384.8 million. About \$354.3 million comes from GRF, \$26.8 million from ISAC's Student Loan Operating Fund (SLOF), and \$3.7 million from the Federal government in LEAP/SLEAP funds. The funds provided by SLOF will come from the one-time sale or restructuring of ISAC assets. That these additional funds may be for one year only has implications for MAP formula changes.

FY2007 Start-Up Formula Review

The MAP formula serves two purposes. First, the formula determines which students are eligible for a MAP grant, and, second, it determines the amount of each grant. The basic formula, shown in Diagram 1, estimates the costs of attendance and assesses the student's resources to pay these costs. Need is determined from the difference between the estimated costs and the available resources.

Diagram 1: Basic MAP Formula



In terms of the MAP eligibility formula, the costs incurred by students (also known as the MAP budgets) are calculated by adding tuition and mandatory fee amounts to a standard living allowance of \$4,875, which reflects an estimate of the college costs students will face. Since tuition and fees vary from school to school, this cost estimate will vary as well among student applicants. On the resource side, ISAC bases a student's ability to pay for college using an inflated federal expected family contribution (EFC) figure. The inflated, or adjusted EFC is added to any federal Pell grant eligibility to complete the picture of student resources. MAP eligibility is determined by subtracting the student resources from the cost estimate. If the costs are greater than the resources, the student is eligible for a MAP grant. The eligible amount is capped at the lesser of tuition and mandatory fees or the statutory maximum award of \$4,968 and then a reduction factor is applied. MAP grants can only be used toward tuition and mandatory fee costs.

In January, the Commission approved a “start-up” allocation formula used to calculate program eligibility for students attending college during the 2006-07 school year. This formula was developed before knowing the FY2007 appropriation, college costs, and program demand. As in past years, the start-up formula was based on the previous year's recompute formula. The FY2007 start-up formula used

2003-04 tuition and fee figures with an overall nine percent reduction factor. Under this formula and the base FY06 appropriation, the Commission would be able to process over 302,000 announced applications without suspension. Last year, the Commission was able to announce awards through the end of August but due to application volume increases, staff estimates the Commission would have to suspend around mid-August. Under the Start-Up formula, using last year’s appropriation, about 141,500 students would receive awards. The average award would be about \$3,069.

In May, the legislature passed, and the Governor signed, the FY2007 Illinois budget that included a \$34.4 million increase in the MAP appropriation. Now that the appropriation is known, the Commission can take action to approve a “recompute” formula based on the new information.

FY2007 Recompute Options

The additional funding can be used to further two goals - increasing award levels or serving more eligible students. Two methods for increasing the award levels are lowering the reduction factor and using more current tuition and fee amounts in the formula. Table 1 below summarizes the projected costs of these formula improvements as well as the costs of addressing application volume and suspension issues.

Removing the reduction factor would help all students and would cost an estimated \$34 million. Using current tuition and fees would primarily help students in community college and public universities at an estimated cost of almost \$37 million. Extending award announcements to those who apply later in the processing cycle would largely help students at community colleges, as well as students at urban public and private four-year schools at an estimated cost of \$24 million.

Table 1: Summary of MAP Formula Improvements

| Parameter | Projected Costs | Principal Beneficiaries |
|-----------------------------------|-----------------------|--|
| Tuition and Fees | | |
| Incorporate 2004-05 | \$15.8 million | Students attending schools with high tuition and fee increases since FY2004 but with tuition and fees still under the maximum award – lower cost public universities and community college students. |
| Incorporate 2005-06 | \$10.6 million | |
| Incorporate est 2006-07 | <u>\$10.1 million</u> | |
| | \$36.5 million | |
| Reduction Factor | | |
| Lower to 5% | \$15.2 million | All benefit, but those with higher awards would benefit most – public and private university students. Costs about \$3.8 million per 1 percent. |
| Lower to 0% | <u>\$19.2 million</u> | |
| | \$34.4 million | |
| Extend Award Announcements | | |
| Announce to end of August | \$6.9 million | Students who apply later in the processing cycle – typically lower income, urban, and community college students. |
| Announce to end of year | <u>\$16.7 million</u> | |
| | \$23.6 million | |

Tuition and Fees: Incorporate more recent tuition and fees into the college cost calculation in the MAP formula

Since FY2003, the Commission has not been using current year tuition and fee figures to calculate MAP awards. Replacing 2003-04 tuition and fee figures with 2005-06 tuition and fee amounts would cost about \$26.4 million. While this change would allow the Commission to serve more students through increased eligibility, suspension would still occur in mid-August. Using 2006-07 tuition and fee amounts would be optimal but also would require a larger increase than the Commission received for the program.

Reduction Factor: Reducing or eliminating the 9 percent reduction factor

In 2002-03, a five percent reduction factor was implemented in order to announce more awards. Due to stagnant appropriation levels and significant volume increases, the reduction factor grew to as much as 11 percent. The Commission was able to lower the reduction factor to 9 percent for the first time last year. Eliminating the reduction factor benefits all students attending all institutions. The average announced award would increase from \$149 for students attending community colleges to over \$400 for students attending private institutions. This change would not, however, allow the Commission to serve more students and announce awards further into the processing cycle. Staff estimates that the Commission would have to suspend award announcements around the middle of August, at least two weeks earlier than the FY2006 suspension date. Reducing but not eliminating the reduction factor would leave some funds for additional processing.

Application Volume: Extending award announcements through the end of the processing cycle

FY2001 was the last year that the Commission was able to announce awards through the end of the processing cycle without suspension. In each of the last four years, the Commission has been forced to suspend award announcements at some point in August. Last year, the Commission was able to announce awards through the end of August. Extending processing through the entire cycle would cost \$23.6 million. The remaining funds could be used to lower the reduction factor. Nearly 24,000 additional students would be served and the average award would increase by about \$100.

Formula Advisory Committee Recommendation

Staff met and discussed formula changes with the Illinois Association of Financial Aid Administrators (ILASFAA) Formula Advisory Committee. The committee recommended that the formula should increase award levels, through a combination of incorporating more recent tuition and fees in the formula and reducing the reduction factor, and further recommended that some funds be used to address increased application volume. The Committee felt it was important to continue to announce awards through the end of August particularly helping students attending community colleges and urban institutions. The Committee also felt that it was important to increase award levels by incorporating 2004-05 tuition and fee figures with the balance of funding used to lower the reduction factor to 7 percent. The Committee believed that the incorporation of more recent tuition and fees helped address some inequity issues at public universities where students who face similar tuition and fees at different schools could see significant differences in awards. Under this scenario, the average announced award would increase by about \$150 for students attending private and proprietary schools and by about \$275 for students attending community colleges and public universities. About 5,600 more students would receive awards.

A final recommendation made by the Committee would raise the annual minimum MAP award from \$300 to \$500. Aside from helping lower partial award recipients with college affordability, the committee felt this would help administratively with the first year of the MAP Plus program. Students eligible for less than \$500 in MAP can receive the balance under MAP Plus. This could cause some administrative complexity based on when schools can certify eligibility and when ISAC can complete payment for each program. Raising the minimum MAP award to \$500 eliminates eligibility for MAP Plus. Staff estimates the costs to the MAP program to be about \$800,000.

Discussion

The additional MAP appropriation approved by the legislature is \$34.4 million, which is the amount needed to eliminate the reduction factor completely. In discussions with legislative staff, lowering the reduction factor appeared to be a priority along with extending awards to more students,

particularly those with the greatest need who often apply late in the year. Removing the reduction factor completely would increase the maximum award significantly and give more money to every MAP recipient. However, we are facing an eligible applicant volume increase, which, if left unaddressed, will result in a processing cut-off in mid-August, at least two weeks earlier than last year. Early cut-offs disproportionately affect new low-income freshmen, independent students, and students attending urban public universities and community colleges – some of the most needy group MAP serves. Continuing to provide aid to these students would require continuing to apply some reduction factor to the awards. The size of the reduction factor depends on how long processing continues.

While there are many components in the MAP formula, staff believes the reduction factor and application volume are the highest priorities to improve affordability for the neediest students. The reduction factor, added in FY2003, is the last rationing device incorporated into the formula. It was implemented to stretch MAP dollars to more students during a period of increasing demand and a relatively flat MAP appropriation. The extension of processing is always a concern because the poorest students often apply the latest and early cut-off dates disproportionately suspend students who need the grants the most. The increase in the MAP appropriation can be used to remove the reduction factor entirely or some combination of a smaller reduction factor and extended processing could be achieved. Award announcements could be extended through the end of August and the balance of the fund used to increase to lower the reduction factor to 2 percent. The Commission would announce awards to the same point as last year especially helping urban and community college students. All students would benefit from the lower reduction factor. The average announced award would increase from \$116 for students attending community colleges to almost \$350 for students attending private four-year institutions. Over 3,900 additional students would receive awards.

Table 2 summarizes the impacts of using the increase in the MAP appropriation in different ways. The additional \$34.4 million appropriation for MAP can be used to increase the size the MAP award or extend the award to more students, or a combination of both. Extending processing through the end of the award cycle would allow about 24,000 more students to receive awards. Reducing the reduction factor, currently at 9 percent, benefits all students but favors students who are receiving awards at or close to the maximum – those students who attend higher cost public universities and private institutions. A student receiving a maximum MAP award at a private institution would see an increase of about \$440 while a community college student, who incurs tuition and fee costs about \$2,000, would see an average increase of about \$150. The ILASFAA Formula Committee, citing issues of fairness, recommended that more recent tuition and fees be incorporated into the model. Using FY2005 tuition and fees would still leave us two years behind current levels, which disproportionately impacts students attending schools where tuition and fees are below the maximum award. The Committee also stated a preference for dividing the remaining new dollars between volume and reducing the reduction factor. The Committee was concerned that since the additional MAP funds were guaranteed for only one year, that a large increase in the size of the award this year from elimination of the reduction factor could be followed by a big decrease next year.

While staff agrees with the Formula Committee that addressing the tuition and fee issue is important, we feel that the legislature did have the removal of the reduction factor in mind when it granted the additional appropriation. Staff also believes that it is important to address volume concerns. Staff therefore recommends using the additional funding to reduce the reduction factor to 2 percent and extend processing to the end of August, a cut-off point similar to this year. All students will receive higher awards and more students will receive awards than last year. Since the increase in MAP funding for FY2007 is coming from a one-time sale of ISAC assets, funding for subsequent years is uncertain. The formula committee and staff are both concerned that if all the new funds are spent to remove the reduction factor and those funds disappear next year, this year's big increase will become next year's big cut. Avoiding big, negative changes to the award is a concern for financial aid directors. Using some of

the money for extending processing will modify the increase in the award somewhat this year but will also mitigate any decrease that might have to occur next year.

Table 2: Comparison of Formula Changes

| Formula Changes | Formula Change Details | Avg Increase in Announced Award | Range of Sector Award Increases | Additional Recipients |
|----------------------------------|--|--|---|------------------------------|
| More Current Tuition and Fees | 2005-06 tuition and fees | \$282 | \$115 (Privates) to \$350 (Public 4-yr) | 2,900 |
| Eliminate the Reduction Factor | 9% reduction factor removed | \$304 | \$149 (CC) to \$444 (Private 4-yr) | None |
| Process until end of cycle | No suspended applicants; 6% reduction factor | \$101 | \$50 (CC) to \$148 (Private 4-yr) | 23,700 |
| Formula Committee Recommendation | Incorporate FY2005 tuition and fees; extend processing to end of August; reduce reduction factor from 9% to 7% | \$235 | \$137 (Hospital schools) to \$336 (Public 4-yr) | 5,600 |
| Staff Recommended combination | 9% reduction factor reduced to 2%; extend processing to end of August | \$236 | \$116 (CC) to \$346 (Private 4-yr) | 3,900 |

Staff Recommendation and Action Requested

Staff recommends lowering the reduction factor from 9 percent to 2 percent at a cost of \$26.6 million. The remaining funds would be used to extend processing to the end of August. Staff also recommends implementing the Formula Committee’s recommendation of raising the annual minimum MAP award from \$300 to \$500. Staff, therefore, requests the Commission approve the formula summarized in Table 4 on the following page as the FY2007 MAP recompute formula.

Table 3: FY2007 MAP Start-Up Formula

| Budget | |
|----------------------|---|
| 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. |
| Resources | |
| 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' Parent Contribution: Adjustment Factor = $[\text{PC}/11,000 + 1.10]$ rounded to 2 decimal places Adjusted PC = PC x Adjustment Factor Adjusted Independent Student Contribution: Adjustment Factor = $[\text{EFC}/11,000 + 1.10]$ 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 mandatory 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 | Reduce all awards by 9 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. |

Table 4: Staff Recommendation for FY2007 MAP Recompute Formula

| Budget | |
|----------------------|---|
| 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. |
| Resources | |
| 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' Parent Contribution: Adjustment Factor = $[\text{PC}/11,000 + 1.10]$ rounded to 2 decimal places Adjusted PC = PC x Adjustment Factor Adjusted Independent Student Contribution: Adjustment Factor = $[\text{EFC}/11,000 + 1.10]$ 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 mandatory 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 | Reduce all awards by 2 percent. If the amount is greater than \$0 but less than \$500, set to \$500. |
| 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 are shown in **bold**.