AGENDA ITEM 8.

DISCUSSION OF FY2010 GRANT PROGRAM BUDGET ISSUES

Submitted for: Information

Summary:

This item provides background budgetary information on the Monetary Award Program (MAP) and the Silas Purnell Illinois Incentive for Access Program (IIA). Effects of recent changes in federal need analysis are discussed and costs of MAP formula updates are presented. Both MAP and IIA need additional funding to accommodate these changes.

The MAP appropriation has remained fairly constant around $385 million since FY2007. Following a $38 million cut in FY2003, the FY2007 appropriation 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 which, combined with little change in application volume, allowed the Commission to again forego a reduction factor. Level application volume did not hold through FY2009, leading to a suspense date of July 26. Announced application volume is currently 7.6 percent higher than last year, indicating that FY2010 could see a similar increase.

In addition to higher demand for need-based aid, both MAP and IIA face increased costs resulting from changes made through the College Cost Reduction and Access Act to Federal Needs Analysis formulas that calculate the expected family contribution (EFC). Income protection allowances for independent students, both with and without dependents, and for dependent students were increased by much more than the usual inflationary increase. Higher allowances decrease the amount of income that is considered to be available as a resource, thus lowering the EFC. Also, the income threshold for the Automatic Zero EFC was increased from $20,000 to $30,000 causing more applicants to be eligible for IIA. Estimates indicate these changes alone could necessitate $15 million in additional MAP funding.

The Silas Purnell Illinois Incentive for Access Program has also felt the pressure of increased demand and tight budgets. IIA award announcements have been suspended every year since FY2002; in FY2008 awards for over 20,200 IIA-eligible applicants were suspended because they filed on or after the August 7 suspense date. Although IIA rules were changed in 2004 to allow for larger awards, the necessary funding has not been made available. An additional $1 million received in FY2007 helped address rising demand. Since then, funding has been level at $8.2 million and in FY2009 the suspense date was July 12, the earliest ever for IIA. Changes in Federal Need Analysis formulas are expected to increase program costs by at least $3 million.

Action requested: None

Item 8.
11/21/08

ILLINOIS STUDENT ASSISTANCE COMMISSION

DISCUSSION OF FY2010 GRANT PROGRAM BUDGET ISSUES

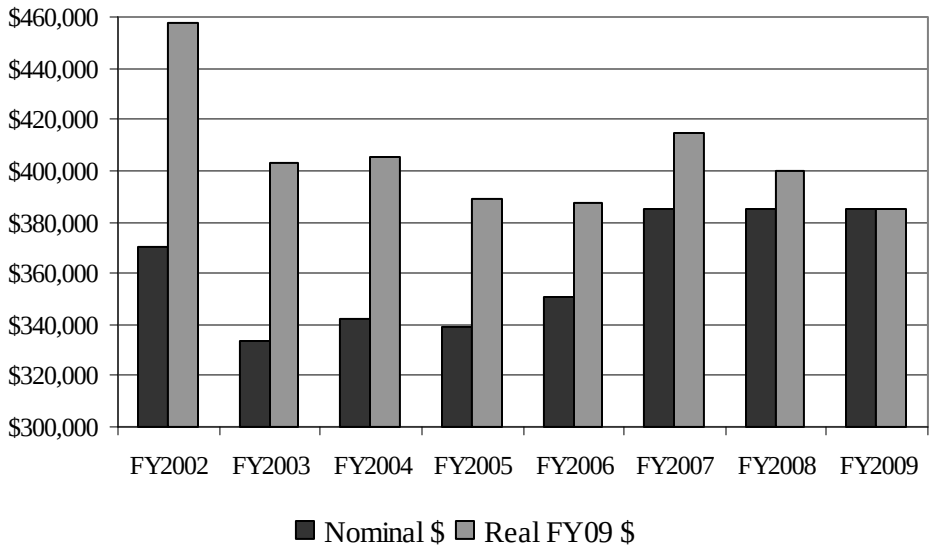
Introduction

This agenda item provides background budgetary information for the Monetary Award Program and the Silas Purnell Illinois Incentive for Access Program. Costs for updating the MAP formula are presented and effects of recent changes in federal need analysis are discussed. Both MAP and IIA need additional funding to accommodate these changes.

Monetary Award Program

The MAP appropriation has remained fairly constant around $385 million since FY2007. As shown in Figure 1 below, following a $38 million cut in FY2003, the FY2007 appropriation 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 which, combined with little change in application volume, allowed the Commission to again forego a reduction factor. In FY2009, application volume increases returned, leading to an earliest-ever suspense date of July 26. Due to the current state of the economy, application volume is currently 7.6 percent higher than last year; FY2010 application volume will likely follow a similar trend.

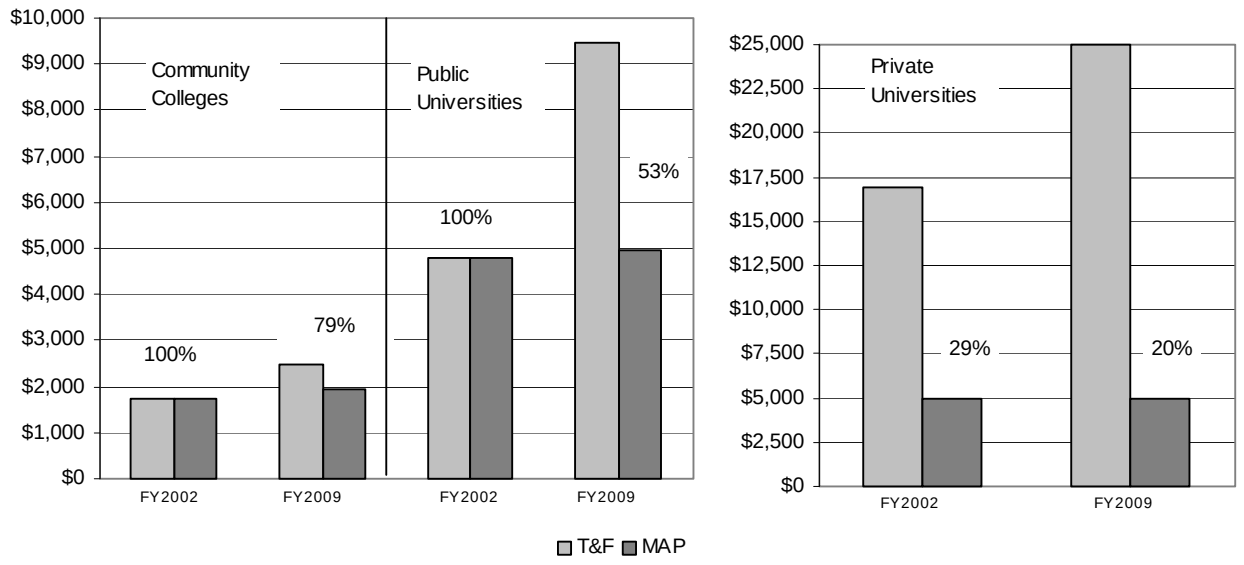
Figure 1: MAP Appropriations in Nominal and Real (Inflation-Adjusted) Dollars



While the removal of the reduction factor in FY2007 was a welcome change, MAP awards still fall far short of the level of support provided as recently as FY2002. Then, the maximum award covered 100 percent of the average enrollment-weighted public university tuition and fees. In FY2009 the maximum MAP award covers less than 53 percent, leaving the poorest students with nearly $4,500 in uncovered tuition and fees. Coverage of average community college tuition and fees has declined from 100 percent in FY2002 to 70

percent in FY2009. Seventy percent coverage leaves the average MAP recipient with no family resources with over $800 in tuition and fees left over after MAP. Coverage at private schools has fallen from 29 percent to 20 percent of average tuition and fees. MAP coverage of tuition and fees is shown in Figure 2.

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



Not only has the purchasing power of the MAP award declined, but more eligible students have also been unable to claim an award because the appropriation was fully committed before they completed an application. The Commission has had to suspend MAP awards every year since FY2001. Given the inevitable increase in demand for need-based aid and the unlikely chances for a sufficient increase in appropriation, MAP coverage of tuition and fees and the number of suspended applicants will only worsen.

Federal Need Analysis Changes

MAP is affected by changes to the federal need analysis formulas that calculate expected family contributions because the EFC is used as a starting point to calculate MAP eligibility. The College Cost Reduction and Access Act resulted in two major changes to need analysis that become effective in FY2010 and have significant impacts on MAP. The first change involves large increases in income protection allowances for dependent students and for independent students both with and without dependents. Larger allowances result in less income being counted as a resource and lower expected family contributions. The second change resulting in higher costs for MAP is an increase in the income threshold for the Automatic Zero EFC from $20,000 to $30,000. These changes result in nearly 9,700 more eligible MAP applicants, an estimated 6,500 additional recipients, and will require $15 million in additional funding.

Application Volume

The number of Illinois students seeking need-based financial aid increased 21percent between FY2002 and FY2008. Rising unemployment rates at the beginning of the time period encouraged people to pursue an education to update their job skills. Unemployment rates peaked in 2003 and declined through 2006. As 2008 comes to a close, Illinois unemployment levels are exceeding the 2003 peak and by all accounts the economy will not recover soon. Effects of the economy have already shown up in the current MAP cycle. In August application volume was 6.9 percent higher than last year. By the end of October the

increase was 7.6 percent. Assuming the current 7 to 8 percent increase in applications holds for FY2010, an additional $30 million could be needed just to announce awards through July.

The absence of sufficient resources to keep pace with increased demand for need-based aid has resulted in earlier suspense dates and larger numbers of eligible students unable to claim an award. FY2001 was the last year that awards were announced through out the processing cycle. In FY2002, awards were suspended in early December and over 16,500 eligible applicants were unable to claim. By FY2008 nearly 43,400 eligible applicants were denied their awards because of the mid-August suspense date. Suspended FY2009 applicants totaled almost 39,000 at the end of October; that number could easily double by the end of the processing cycle.

Tuition and Fees

The MAP formula includes tuition and fees plus a living allowance to represent costs. Due to a lack of funding, 2003-04 tuition and fees have been used for the past four years. Updating to 2004-05 tuition and fees would require at least $18 million. Using 2004-05 tuition and fees would help students at the four public universities where 2003-04 tuition and fees were lower than the $4,968 MAP maximum award as well as community college students. Awards for students at private institutions and the remaining public universities would still be capped by the maximum; however, students currently eligible for partial awards at these schools could see their eligibility increase as a result of higher costs being recognized in the formula. Incorporating projected 2009-10 tuition and fees along with a Pell table with a $4,731 maximum award would cost about $50 million. The College Cost Reduction and Access Act raised the 2008-09 and the 2009-10 Pell maximum to $4,800, but a rescission reduced the FY2009 Pell maximum to $4,731. The effective level of the FY2010 maximum Pell award has not yet been established.

Maximum Award

The statutory maximum award for the Monetary Award Program was $4,968 from FY2002 through FY2009. A bill passed recently in the General Assembly increased the statutory maximum $500 to $5,468 contingent upon funding and required a similar percentage increase for awards not capped by the maximum. While the goal was once to increase the maximum award at the same rate as tuition and fees at public universities, the maximum has fallen far behind. Increasing the effective maximum award to $5,466 (an amount evenly divisible by both 2 and 3 terms) would cost $28 million. Bringing the maximum award to projected 2009-10 public university tuition and fees would cost an estimated $219 million.

Other Formula Components

The MAP formula includes 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 $6,130. Raising this component would help students by increasing their eligibility amounts and would cost MAP around $23 million.

The EFC Cap was added to the formula in FY1994 to allocate scarce MAP dollars towards more financially challenged students. 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.

Currently, zero-EFC students at schools with relatively low tuition and fees may not receive a full 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 $4,050 Pell table were used in the formula, this would cost approximately $7 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. Other than FY2002, when awards were suspended in late October then released through early December, suspensions have typically fallen in August. At July 26, the FY2009 suspension date was the earliest in program history. In the absence of additional funding, changes to need analysis will likely move the suspension date up by at least two weeks; an application volume increase would move the suspense date up even further, perhaps to mid or late June. Factoring in a 7 percent application volume increase *and* processing to the end of August could easily require $60 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. Some combinations are shown at the end of Table 1 below. Fulfilling the requirements of the recently passed bill that increased the statutory maximum by $500 and supported a similar increase for awards not set by the max would cost $40 million. With $40 million the Commission could also accommodate the need analysis changes, incorporate a $5,220 maximum award, and provide a 5% boost for recipients not subject to the maximum award. Any remaining funds could be applied toward the inevitable application volume increase.

Table 1: FY2010 Monetary Award Program Formula Improvement Costs

Base Appropriation		**Dollars in Millions**
FY09 GRF Appropriation		$381.1
Federal LEAP/SLEAP		$4.2
		$385.3
Provide similar support as in FY2009		
Accommodate Federal Need Analysis Changes	$15	$399
Formula Improvements (based on $399 scenario)	**Cost per Improvement**	**Total Cost**
Incorporate 2004-05 T&F*	$18	$418
Incorporate Projected 2008-09 T&F and Pell Table with $4731 max	$41	$441
Incorporate Projected 2009-10 T&F and Pell Table with $4731 max	$50	$450
Raise Maximum Award about $500 to $5466	$28	$427
Raise Maximum Award to $10,398 (proj avg FY2010 Public4 T&F)	$219	$618
Raise Living Allowance to $6130 (from $4875)	$23	$423
Raise EFC Cap to $10,000 (from $9,000)	$5	$404
Raise EFC Cap to $12,000 (from $9,000)	$10	$409
Full MAP for Zero EFCs (75% Pell with $4050 Pell and 04 T&F)	$7	$406
Some Combinations		
$5220 Max Award and 5% Boost for Others	$20	$419
$5466 Max Award and 10% Boost for Others	$40	$439
$5466 Max Award and FY2005 T&F	$49	$448
Proj FY2010 T&F, 4731 Pell and 6130 LA	$85	$484
Proj FY2010 T&F, 4731 Pell, 6130 LA, 12000 EFC Cap, $5466 Max Award	$147	$546

Silas Purnell Illinois Incentive for Access (IIA) Program

The IIA Program began in FY1997 to promote access and retention of freshmen applicants with no financial resources for college, also known as zero-EFC students. 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 zero-EFC students 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. The IIA appropriation has remained at $8.2 million for the past three years. This funding level is insufficient to incorporate the higher IIA awards, so the Commission has continued providing a one-time $500 award to zero-EFC freshmen.

The IIA appropriation has not been sufficient to cover demand for the program, even at the $500 award level. FY2002 was the last year that IIA awards were processed through the entire cycle. In FY2003 awards were announced through early October. Since then the suspense date has been in early or mid-August until FY2009 when an influx of zero-EFC students necessitated a July 12 suspension date. The situation will only worsen in FY2010, when changes to need analysis could result in one-third more zero-EFC students. This change will likely require an additional $3 million in funding. The increase in zero-EFC students resulting from need analysis changes, coupled with expected overall application volume increase, could result in a FY2010 suspense date as early as late May or early June unless the program receives additional funding.

Table 2: Silas Purnell IIA Grant Program Changes

Base Appropriation	**Dollars in Millions**	
FY2009 Base Appropriation	--	$8.2
Provide Similar Support as in FY2009		
Change in Application Volume Due to Federal Need Analysis Changes	$3.0	$11.2
* Auto Zero EFC Threshhold changed to $30,000 (from $20,000)		
* Income Protection Allowances much higher for both dependent and independent students.		
Formula Improvements	**Cost per Item**	**Total Cost**
$1000 awards for Zero EFCs	$11.2	$22.4
$500 awards for 1 - 500 EFCs	$4.0	$15.2
Extend Award Announcements through August	$2.9	$14.1
$1000 for Zero EFCs, $500 for 1-500 EFCs, Announce through August	$18.1	$29.3