

AGENDA ITEM 5.

FY2015 APPROPRIATED FUNDS BUDGET REQUEST

Submitted for:

Action

Summary:

At the November Commission meeting, staff presented a draft FY2015 Budget Request to solicit Commission input and ensure that the request being developed was consistent with the Commission's priorities and expectations.

In the interim, significant changes at the federal level have necessitated revisions to that draft request.

The federal Bipartisan Budget Act (BBA) (Public Law 113-67) approved in late December included a cut in what is known as the rehabilitation retention rate for student loans effective July 1, 2014, the first day of State FY2015. Rehabilitation retention is the agency's largest single source of revenue. Staff currently estimates that the cut could reduce ISAC's FY15 revenues from rehabilitations by as much as \$13 million compared to the current fiscal year.

This significant projected reduction in revenue led staff to revise its request for administrative funding from the State's General Revenue Fund (GRF). ISAC's recommendations will be considered by the Illinois Board of Higher Education (IBHE) when that board approves its FY2015 Budget Request for Higher Education at its February meeting, as well as by GOMB in developing the Governor's FY2015 Budget, which is scheduled to be presented to the General Assembly on February 19th. ISAC staff will also complete its Illinois State Legislature (ISL) Submission the week the Governor presents his budget.

The purpose of this item is to present staff's recommendation for FY2015 appropriated funding to the Commission for its consideration and approval.

Notably, when ISAC requests money from State General Funds (the General Revenue Fund (GRF) and the Education Assistance Fund (EAF)) for a specific fiscal year, it is requesting actual dollars from the State's main accounts. In the case of federal funds and Special Purpose State Funds, however, ISAC is requesting authority to spend cash that comes from sources other than General Funds (e.g., SLOF administration, federal payments for services, or fees paid to receive specialty license plates). In many instances, the legislature authorizes spending at levels that exceed the cash that the agency actually receives or spends. Staff often seeks spending authority beyond what will be needed in the most likely budget scenario in order to have sufficient flexibility to meet most contingencies.

In summary, staff's FY2015 appropriated funds budget recommendation totals \$793.8 million, which represents a \$26.9 million increase (3.5 percent) compared to FY2014.

Action requested:

That the Commission approve an FY2015 budget request totaling \$793.8 million as detailed in Table 1.

By source of funds, this request consists of \$410.0 million in state General Funds, in addition to the authority to spend \$357.3 million in federal Student Loan Funds, \$15.5 million in federal scholarship and grant funds, \$10.6 million in other state funds, and \$400,000 in other federal funds.

**ILLINOIS STUDENT ASSISTANCE COMMISSION
FY2015 APPROPRIATED FUNDS BUDGET REQUEST**

Introduction

The Illinois Board of Higher Education (IBHE) is scheduled to approve a Fiscal Year 2015 Budget Request for Higher Education at its February meeting. The Governor is scheduled to present his FY2015 Budget to the General Assembly in late February. ISAC staff will also complete the agency's Illinois State Legislature (ISL) Submission the week the Governor presents his budget.

In preparation for these events, ISAC staff began meeting with both the IBHE and the Governor's Office of Management and Budget (GOMB) in early November to discuss funding levels for ISAC for FY2015. At the November Commission meeting, staff presented a preliminary recommendation for FY2015 funding priorities to the Commission for its consideration and discussion.

In late December, Congress passed, and the President signed, Public Law PL 113-67, or the Bipartisan Budget Act (BBA). This budget compromise set parameters which would be followed when developing the specific appropriation bills for the federal fiscal year. One of the agreed-upon parameters reduced what is known as the rehabilitation retention rate for student loans. This is the portion of a rehabilitated student loan that a guaranty agency like ISAC is allowed to keep when it successfully helps a borrower to rehabilitate a loan—a process through which a defaulted borrower can clean up his credit report and regain aid eligibility. It is the agency's largest single source of revenue.

Under current FFELP regulations when ISAC as the guaranty agency helps a borrower rehabilitate his/her loan ISAC retains approximately 32% of the par value of the loan. Under the BBA this percentage has been reduced by approximately 60%. In addition, ED has also made changes to the rehabilitation regulations which will make the process more cumbersome for the borrower and the guaranty agency.

According to the terms of the BBA, the rehab rate cut will take effect July 1, 2014, the first day of State FY2015. Staff currently estimates that the cut could reduce ISAC's FY15 revenues from rehabilitations by as much as \$13 million compared to the current fiscal year.

Given this significant projected reduction in revenue, staff has revised its request for administrative funding from the State's General Revenue Fund (GRF) since the Discussion Budget was presented at the November meeting.

In the Discussion Budget, staff recommended that the Commission seek to continue the authority to spend up to two percent of the MAP appropriation on administration, seek \$2.0 million in state funding to help fund ISAC outreach activities, and seek \$1.0 million for College Illinois! marketing.

Staff is still recommending that the Commission seek to continue the authority to spend up to two percent of the MAP appropriation on administration, and seek \$1.0 million for College Illinois! marketing in FY2015. Based on the expected decline of \$13 million to revenue for ISAC's Student Loan Operating Fund (SLOF) in FY2015, however, staff is recommending that the Commission seek more State funding for administration than was the case in November when the Discussion Budget was presented.

More specifically, staff recommends that the Commission request the full \$2.3 million required for the non-federal match for the federal College Access and Challenge Grant (CACG) from state GRF rather than

only the \$2.0 million recommended in the November Discussion Budget. Staff also recommends that the Commission request an additional \$3.0 million from state GRF to fund agency administration for state functions. This additional \$3.0 million would fund administration of state scholarship & grant programs other than MAP. It also could be used to help pay administrative costs for outreach activities beyond those allowed to be counted for the non-federal match, or it could pay MAP administrative costs in the event that a greater percentage of the MAP appropriation needed to be allocated to grants for students than originally projected.

Given the magnitude of the expected revenue reduction caused by the rehabilitation rate cut, in addition to the uncertainty regarding the impact of the regulatory changes on SLOF revenue, and the further uncertainty regarding the pace and costs of the wind-down of FFEL, staff believes it is important to allocate SLOF revenue only to support FFELP functions in FY2015 and not assume that surplus SLOF funding will be available to subsidize any other cost centers.

At this time, in addition to the \$5.3 million for the GRF-funded Outreach and state administration, it is estimated that approximately \$3.7 million of the MAP appropriation will be needed for administration, for a total request for operations funding of \$9.0 million. It is estimated that moving staff to payrolls funded with GRF will save an additional \$4.0 million in SLOF expenditures because the fund would no longer be responsible for payment of group insurance and retirement for these employees.

Staff's recommendation for program funding is essentially the same as presented in the November Discussion Budget. Staff is recommending that the Commission seek a 5.1 percent increase in MAP and Dependents Grants to meet projected increases in tuition and fees. Staff is also recommending increases for loan repayment programs to meet demand, and for authority to disburse increased contributions to HELP. Staff is, however, recommending a change in program funding from the November Discussion Budget. Specifically staff recommends that the \$40,000 appropriation for Illinois Scholars be eliminated. It is almost certain that the Governor's FY2015 Budget will include billions of dollars in reductions from FY2014 funding, as the temporary tax increases enacted in January 2011 in Public Act (PA) 96-1496 are set to expire in 2015. Staff believes this funding, though relatively small, would be better spent by being diverted to other more pressing funding priorities, and that the potential elimination of the program's funding should be identified clearly and early in the budget process.

One final change between the November Discussion Budget and the recommended FY2015 budget presented here should also be noted even though it does not have a specific monetary impact. In November, staff recommended that the Commission approve seeking authority in FY2015 to disburse unclaimed MAP funding available at the end of the fiscal year to public institutions to pay a portion of un-funded claims for the Illinois Veterans Grant (IVG) and Illinois National Guard (ING) Grant Programs. Given the need to use some of the MAP appropriation to actually run the Program, and the potential for significant funding cuts, staff is recommending that this proposal be tabled at this time.

The General Assembly will deliberate and hold hearings throughout the spring on a number of issues, including the State budget. It is expected that the legislature will pass a budget before it adjourns at the end of May, allowing time for the Governor's consideration before the new State fiscal year begins July 1, 2014.

Table 1 on the last two pages of this Item provides a summary of staff's preliminary recommendation for the FY2015 budget presented at the November meeting, as well as the funding level for FY2015 that staff now recommends that the Commission approve. This table also compares the staff recommendation for FY 2015 to the FY2014 appropriation. Changes from the preliminary discussion presented in November are shaded.

Notably, when ISAC requests money from State General Funds (the General Revenue Fund (GRF) and the Education Assistance Fund (EAF)) for a specific fiscal year, it is requesting actual dollars from the State's main accounts. In the case of federal funds and Special Purpose State Funds, however, ISAC is requesting authority to spend cash that comes from sources other than General Funds (e.g., SLOF administration, federal

payments for services, or fees paid to receive specialty license plates). In many instances, the legislature authorizes spending at levels that exceed the cash that the agency actually receives or spends. Staff often seeks spending authority beyond what will be needed in the most likely budget scenario in order to have sufficient flexibility to meet most contingencies.

Non-Appropriated Funds

ISAC is also responsible for two non-appropriated functions, the Illinois Designated Account Purchase Program (IDAPP) and the College Illinois! Prepaid Tuition Program (CI!). By statute, specific annual spending authority from the General Assembly is not required for these two ventures, allowing for additional flexibility in potentially volatile markets. Customarily, detailed budget requests for these programs are provided at the Commission's June meeting.

**TABLE 1:
ILLINOIS STUDENT ASSISTANCE COMMISSION
FY2015 BUDGET REQUEST – STAFF RECOMMENDATION**

Line Item	FY14 Budget Approved	FY15 November Discussion	FY15 Staff Recommendation	Difference	
				Amount	Percent
STATE GENERAL FUNDS					
Monetary Award Program	\$373,198,100	\$392,231,300	\$392,231,300	\$19,033,200	5.1%
Personal Services	\$0	\$0	\$0	\$0	NA
Social Security	\$0	\$0	\$0	\$0	NA
Contractual Services	\$0	\$0	\$0	\$0	NA
Agency State Administration	\$0	NA	\$3,000,000	\$3,000,000	NA
Outreach -Federal Grant Matching Fund	\$0	\$2,000,000	\$2,300,000	\$2,300,000	NA
College Illinois! Marketing	\$0	\$1,000,000	\$1,000,000	\$1,000,000	NA
TOTAL GENERAL REVENUE FUND	\$373,198,100	\$395,231,300	\$398,531,300	\$25,333,200	6.8%
Illinois Incentive for Access Grants	\$0	\$0	\$0	\$0	NA
Teacher Loan Forgiveness Program	\$500,000	\$750,000	\$750,000	\$250,000	50.0%
Minority Teacher Scholarships	\$2,500,000	\$2,500,000	\$2,500,000	\$0	0.0%
Illinois Future Teachers Corps Scholarships	\$0	\$0	\$0	\$0	NA
Golden Apple Scholars Of Illinois (Beginning FY13)	\$6,647,600	\$6,647,600	\$6,647,600	\$0	0.0%
Student to Student Grants	\$0	\$0	\$0	\$0	NA
Dependents Grants	\$1,050,000	\$1,103,600	\$1,103,600	\$53,600	5.1%
National Guard Grants	\$0	\$0	\$0	\$0	NA
Illinois Veteran Grants	\$0	\$0	\$0	\$0	NA
Nurse Educator Scholarships	\$0	\$0	\$0	\$0	NA
Nurse Educator Loan Repayment Program	\$300,000	\$450,000	\$450,000	\$150,000	50.0%
Veterans' Home Nurse Loan Repayment Program	\$30,000	\$40,000	\$40,000	\$10,000	33.3%
Bonus Incentive Grants	\$0	\$0	\$0	\$0	NA
Illinois Scholars Program	\$40,000	\$40,000	\$0	-\$40,000	-100.0%
Public Interest Attorney Loan Repayment Program	\$0	\$0	\$0	\$0	NA
Child Welfare Student Loan Forgiveness Program	\$0	\$0	\$0	\$0	NA
Community College Transfer Grant Program	\$0	\$0	\$0	\$0	NA
Grant for a Person Raised by a Grandparent	\$0	\$0	\$0	\$0	NA
Governors Discretionary Appropriation	\$0	\$0	\$0	\$0	NA
TOTAL EDUCATIONAL ASSISTANCE FUND	\$11,067,600	\$11,531,200	\$11,491,200	\$423,600	3.8%
TOTAL STATE GENERAL FUNDS	\$384,265,700	\$406,762,500	\$410,022,500	\$25,756,800	6.7%

TABLE 1 (Continued):
ILLINOIS STUDENT ASSISTANCE COMMISSION
FY2015 BUDGET REQUEST – STAFF RECOMMENDATION

Line Item	FY14 Budget Approved	FY15 November Discussion	FY15 Staff Recommendation	Difference	
				Amount	Percent
FEDERAL FUNDS					
STUDENT LOAN OPERATING FUND *					
Personal Services	\$17,208,900	\$17,208,900	\$17,208,900	\$0	0.0%
Retirement	\$6,937,300	\$7,059,100	\$7,059,100	\$121,800	1.8%
Social Security	\$1,316,600	\$1,316,600	\$1,316,600	\$0	0.0%
Group Insurance	\$6,000,000	\$7,000,000	\$7,000,000	\$1,000,000	16.7%
Contractual Services	\$12,630,700	\$12,630,700	\$12,630,700	\$0	0.0%
Contractual - Collection Agency Fees	\$15,000,000	\$15,000,000	\$15,000,000	\$0	0.0%
Travel	\$311,000	\$311,000	\$311,000	\$0	0.0%
Commodities	\$282,200	\$282,200	\$282,200	\$0	0.0%
Printing	\$501,000	\$501,000	\$501,000	\$0	0.0%
Equipment	\$540,000	\$540,000	\$540,000	\$0	0.0%
Telecommunications	\$1,897,900	\$1,897,900	\$1,897,900	\$0	0.0%
Operation of Auto Equipment	\$38,400	\$38,400	\$38,400	\$0	0.0%
Federal Loan System Development & Maintenance	\$3,500,000	\$3,500,000	\$3,500,000	\$0	0.0%
Default Fees	\$0	\$0	\$0	\$0	NA
Operational Expenses, MAP & Permanent Improvements	\$0	\$0	\$0	\$0	NA
TOTAL	\$66,164,000	\$67,285,800	\$67,285,800	\$1,121,800	1.7%
FEDERAL STUDENT LOAN FUND					
Loan Guarantee Program	\$290,000,000	\$290,000,000	\$290,000,000	\$0	0.0%
TOTAL	\$290,000,000	\$290,000,000	\$290,000,000	\$0	0.0%
FEDERAL SCHOLARSHIPS AND GRANTS					
Federal College Access Challenge Grant Program	\$15,000,000	\$15,000,000	\$15,000,000	\$0	0.0%
John R. Justice Student Loan Repayment Program	\$500,000	\$500,000	\$500,000	\$0	0.0%
Federal LEAP/SLEAP - Monetary Award Program	\$0	\$0	\$0	\$0	NA
Transfer to ED -Paul Douglas Funds Collected	\$400,000	\$400,000	\$400,000	\$0	0.0%
Federal Robert C. Byrd Fellowships	\$0	\$0	\$0	\$0	NA
TOTAL	\$15,900,000	\$15,900,000	\$15,900,000	\$0	0.0%
TOTAL FEDERAL FUNDS	\$372,064,000	\$373,185,800	\$373,185,800	\$1,121,800	0.3%
OTHER STATE FUNDS					
ISAC Accounts Receivables	\$300,000	\$300,000	\$300,000	\$0	0.0%
Higher Education License Plate Program	\$90,000	\$110,000	\$110,000	\$20,000	22.2%
Optometric Education Scholarship Program	\$50,000	\$50,000	\$50,000	\$0	0.0%
IVG- National Guard Grant Fund	\$20,000	\$20,000	\$20,000	\$0	0.0%
Illinois Future Teachers Corps Scholarship Fund	\$140,000	\$140,000	\$140,000	\$0	0.0%
Contracts and Grants Fund	\$10,000,000	\$10,000,000	\$10,000,000	\$0	0.0%
TOTAL OTHER STATE FUNDS	\$10,600,000	\$10,620,000	\$10,620,000	\$20,000	0.2%
TOTAL - APPROPRIATED FUNDS	\$766,929,700	\$790,568,300	\$793,828,300	\$26,898,600	3.5%
NON APPROPRIATED FUNDS					
College Illinois! Administration	\$5,410,600	TBD	TBD	TBD	TBD
IDAPP Administration	\$2,753,000	TBD	TBD	TBD	TBD
* After 2% Appropriation transfer in SLOF					