

AGENDA ITEM 4.

FY2005 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. Awards are then recalculated in the summer at recompute when final appropriations are known.

The MAP start-up formula is usually based upon the previous year's recompute formula and funding level. In FY2004, MAP funding totaled \$338 million. Because of limited state resources, funding is not expected to increase over this level in FY2005. However, due to an internal reallocation of dollars, several important policy goals can be achieved without requiring an increase in funds. By converting MAP eligibility to a credit hour system and imposing a tuition equalization factor, dollars will be available to increase the number of students who will receive awards, to serve more students with low incomes, and to provide MAP students a greater share of their awards by reducing to 7 percent the 10 percent reduction factor now imposed upon all awards. The extent to which the reduction factor can be eliminated depends on the dollars that become available in the final MAP appropriation.

This item reviews the Commission's priorities as well as likely funding recommendations by the Illinois Board of Higher Education (IBHE), discusses environmental factors pertaining to the start-up formula, enumerates some broad principles defining the formula, and presents staff's recommendation. Recommended changes to the current formula include the following:

- Replace the \$9,000 EFC cap with a \$12,796 tuition equalization factor,
- Lower the reduction factor from 10 percent to 7 percent.

These changes will allow ISAC to increase the number of students receiving aid and raise award amounts given to each eligible student by lowering the reduction factor. Furthermore, the changes will ensure that a student who is ineligible for an award at a public institution should not become eligible for an award at a private institution based solely on the higher costs associated with attending the private institution.

Action requested: Staff recommends that the Commission approve the formula summarized in Table 3 as the FY2005 MAP start-up formula.

**ILLINOIS STUDENT ASSISTANCE COMMISSION
FY2005 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. Awards are then recalculated during the summer at recompute when final appropriations are known. At this time, gubernatorial and legislative decisions have yet to be made regarding funding levels.

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. In FY2003 and FY2004, however, because of concerns about the state's financial condition, the Commission opted for a more conservative start-up formula; that approach is reflected in this staff recommended start-up formula for FY2005. The FY2004 MAP recompute formula and the staff FY2005 start-up recommendation are shown in Table 2 at the end of the item.

This item discusses factors pertaining to the start-up formula; identifies basic principles guiding the adjustments to the formula; and details staff's recommendation for the FY2005 MAP start-up formula.

ENVIRONMENTAL FACTORS SHAPING THE START-UP FORMULA

College affordability issues, increases in application volume combined with an increase in the percentage of students demonstrating financial need, and state budget constraints are some environmental factors that the Commission needs to keep in mind when discussing and determining the FY2005 MAP start-up formula.

College Costs and Affordability

In August 2002, the Illinois Board of Higher Education (IBHE) established a Committee on Affordability comprised of members of the Board of Higher Education and the Illinois Student Assistance Commission (ISAC). The charge to the Committee was to assess the changes that had taken place in the affordability of Illinois higher education over time, determine who those changes affected, and decide what actions were needed at the state and institutional levels, as well as by students and their families, to enhance affordability. The establishment of the Committee came about shortly after the conclusion of the spring legislative session during which appropriations for FY2003 were approved. The session was difficult - the state faced mounting budget problems and by the end of session, higher education funding was reduced by nearly 5 percent for FY2003 and the state's need-based student aid grant program was reduced by 10 percent. As a result of reduced state funding, public universities raised their tuition charges for 2002-2003 by an average of 10 percent. This cost increase was particularly difficult for financially-needy students who also had their state student aid cut by 5 percent, and for needy students classified as "fifth-year" who saw their funding completely eliminated. Both of the cuts in aid further increased concerns about the affordability of higher

education in Illinois. These concerns did not abate when state student aid in FY2004 did not regain the funds lost in FY2003 and ISAC further cut student awards by 10 percent, reducing the effective maximum award from \$4,968 (the statutory maximum) to \$4,471. During this period, public universities on average again raised their tuition by nearly 10 percent. The large increases in tuition and fees led to a discussion about greater accountability in higher education.

In short, since FY2002, college affordability in Illinois has deteriorated significantly. Reduced financial aid and rising college costs, coupled with stagnant family incomes, have contributed to declines in college affordability for all income quintiles, but especially in the lowest three. Students in the first three income quintiles can no longer cover the cost of attendance at a public university even with a maximum Stafford student loan. In FY2002, the maximum MAP award covered the average cost of public university tuition and fees; today the gap is \$1300 and promises to increase in FY2005. For students at some public universities, maximum MAP coverage is now only 64 percent of tuition and fees.

Faced with evidence of declining college affordability, the Committee on Affordability offered recommendations designed to mitigate the loss, especially for students in the lowest income quintiles. Three recommendations in particular form the basis for the changes proposed here: Recommendation 2 which suggested funding 135 credit hours of coursework; Recommendation 7 that encourages year round processing; and Recommendation 10 that advocated aid be directed toward the lower three income quintiles. The conversion of MAP eligibility from eligibility units to credit hours addresses Recommendation 2 and puts in place the needed flexibility to implement Recommendation 7 in future years. Replacing the EFC cap with a tuition equalization factor is consistent with the goal of Recommendation 10 because it better targets student grant aid to students in the three lowest income quintiles.

Application Volume

MAP application volume is highly dependent on demographics and economic conditions. The number of high school graduates is increasing in Illinois and, at this time, declining economic conditions are increasing the demand for MAP as the unemployed seek to further their education. Announced applications, or completed applications from Illinois residents attending MAP-approved institutions, increased 6 percent in FY2003 and award announcements were suspended in mid-August. As a result nearly 44,000 students who would otherwise have been announced as eligible for a MAP grant were excluded from eligibility. Currently in FY2004, announced application volume has increased is approximately 7 percent and award announcements were suspended in early August. To date, nearly 42,000 eligible applications have been placed in suspension. Unless economic conditions improve, a similar scenario should be expected in FY2005.

It is important to remember that claim rates, which reflect the proportion of eligible applicants who actually enroll in college and claim their award, also have a profound effect on how long award announcements can be made. Small changes in claim rates, which often accompany significant increases or decreases in eligible applicants, can have a big impact. If actual claim rates differ by as little as 1 percent, expenditures for MAP would differ by almost \$6 million. The conversion to a credit hour system for determining MAP eligibility also may have an impact on claim rates depending upon changes in student enrollment behavior.

State Budget Constraints

While the economy appears to continue recovering from the recession that developed during Fiscal Year 2001, the recovery pace in Illinois has not reached the same levels as seen nationally. In fact, Illinois has historically lagged behind the nation in recovering from economic downturns. Unemployment in Illinois, while improving, is still higher than the national average. Many factors point to expansion in the

manufacturing sector, but the primary indicator in Illinois, increasing state tax receipts, remains at a level well below those seen between 1995 and mid-2000. This leading economic indicator, as published by the Illinois Economic and Fiscal Commission, suggests continued economic growth in Illinois, but no rapid acceleration on a sustained basis anytime soon.

GUIDING PRINCIPLES FOR MAKING FORMULA CHANGES

In developing the FY2005 start-up recommendation, staff has attempted to integrate Commission priorities, IBHE statewide goals and Governor Blagojevich's stated objective that student financial aid is a top priority in higher education. Given level funding for MAP, these formula changes are designed to achieve the following goals:

- Increase the number of students receiving aid and raise award amounts given to each eligible student by lowering the reduction factor;
- Ensure students from the lower income quintiles are not negatively affected, and, in fact, are given additional funding;
- Level the playing field when determining award eligibility. The formula changes should ensure that a student who is ineligible for an award at a public institution should not become eligible for an award at a private institution based solely on the higher costs associated with attending the private institution. The benchmark institution was the highest cost public institution – University of Illinois at Urbana-Champaign (UIUC). Students at all sectors continue to be limited to the maximum award; and
- Provide that low-income students who are currently enrolled at private institutions are insulated from the immediate impact of the formula changes.

STAFF RECOMMENDATIONS FOR FY2005 START-UP FORMULA

To meet the goals outlined by the Affordability Committee and the guiding principles enumerated above without additional funding, ISAC staff recommends two changes to the MAP formula. These changes, coupled with funds reallocated as a result of the MAP paid credit hour conversion rules change described below, will provide sufficient funds to lower the award reduction factor that is applied to every award and expand the number of awards that can be offered.

MAP Paid Credit Hour Conversion Rules Change

For FY2005, ISAC will be converting to a credit hour system to make hours actually paid by MAP consistent with MAP eligibility used. The catalysts for this change came in the forms of a budget cut and a recommendation from the Commission on Affordability. The State's budget crisis resulted in cuts to the MAP program in FY2003, specifically the elimination of MAP eligibility beyond the equivalent of four years of full-time study. While the governor and the legislators restored a portion of these budget cuts in FY2004 – \$6 million to reinstate half MAP awards for fifth-year students – the initial cut to MAP funding emphasized some allocation and assessment problems within MAP. Approaching the shortfall in funding a different way, the Committee on Affordability recommended that MAP awards be provided to cover 135 semester hours, or 4½ years of full-time study. Most public universities require a minimum of 120 semester hours for graduation; the 15 additional hours allows students to take remedial courses, enroll in programs requiring more than 120 semester hours change majors or schools and still be eligible for MAP awards.

Currently ISAC uses an eligibility unit methodology to assess MAP usage that results in some unintended and perhaps undesirable outcomes. The most problematic outcome concerns the way students who enroll in 12 credit hours (at a semester school) are assessed MAP eligibility. Under the eligibility unit system,

students who receive MAP benefits for 12 credit hours are assessed 6 eligibility units – full-time assessment. After four years (eight semesters, 48 eligibility units) of full-time assessment, a student can have completed only 96 semester hours, 24 hours short of the normally required 120 credit hours for graduation. A “fifth year” of MAP then becomes necessary to fund these students through the completion of their programs.

Converting MAP eligibility units to a MAP paid credit hour system will address this issue. A student who is taking 12 semester hours will receive 12 MAP paid credit hours. Instead of receiving a full semester award, the student will receive 12/15 or 80 percent of the award, preserving eligibility for future coursework actually undertaken. Under the new system of tracking MAP eligibility, a student will not longer be charged a full semester’s eligibility for less than a full-time course load.

A further concern with the current allocation system is the lack of constraints on the amount of MAP eligibility that may be used to pay for lower division courses, course failures or withdrawals, or remedial courses. A fairly common problem occurs at public and private four-year institutions where students, generally transfers from community colleges, run out of eligibility because they used so much of it at the previous institution. Since tuition and fees at a community college are generally much less than at a four-year institution, the student ultimately pays for the more expensive credit hours himself when his MAP eligibility expires. Under the credit hour approach, the number of credit hours paid by MAP will be capped for freshmen and sophomores at 75 and will apply to students enrolled in both two-year and four-year schools.

Eliminate the EFC Cap

A cap on the Expected Family Contribution (EFC) was implemented in FY1994 to help defray the increased costs associated with the implementation of Federal Methodology (FM), the federal need analysis methodology. Initially, the EFC cutoff was set at \$5,500 but only applied to first-time applicants. In FY1995, the cap was raised to \$8,500 and was applied to all MAP applicants. The cap remained at \$8,500 until FY2001 when it was raised to \$9,000. As described in the previous section, while a \$9,000 EFC cap does exclude many students from higher income families from claiming a MAP award, higher income families with multiple children in higher cost private schools can still qualify for an award. The imposition of a tuition equalization factor draws MAP dollars away from students from higher income families allowing those dollars to be redistributed to more needy students from lower income families.

Removing the EFC cap addresses an equity problem that can occur 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 wouldn't be eligible for any grant amount. The cap may also cause a student to be eligible in one year and not in the next. This has been referred to as the "cliff effect." In FY2004, approximately 1,000 students who were paid MAP in FY2003 were not MAP eligible because their EFC went over \$9,000.

By eliminating the EFC cap, approximately 1,500 dependent students would become eligible for at least a partial MAP award. The majority of these students have EFCs just over \$9,000 with a significant portion of that amount coming from student resources. Student income is assessed at a higher rate than parents’ income when determining the EFC. This has traditionally penalized hard-working students who make significant contributions to family income.

Apply a Tuition Equalization Factor

Currently, the MAP formula uses tuition and fee charges plus a living or expense allowance of \$4,875 to calculate a student's financial need or cost. Resources to meet this financial need include an assessment of the family's ability to pay as well as any federal Pell eligibility. The remaining need, calculated as cost less resources, effectively determines the student's eligibility for a MAP grant. Tuition and fee charges range from

\$1,500 per year at lowest-cost schools to upward of \$30,000 per year at higher-cost private institutions. Using total costs of attendance approaching \$35,000 in the MAP formula has resulted in awards to students from higher income families, especially those with more than one child in school. The newly proposed tuition equalization factor (TEF) in FY2005 start-up will reduce or eliminate awards to students from higher income families who choose to attend private universities, allowing those dollars to be redirected toward students from lower income families in the form of a lower reduction factor and expanded grant awards, in a fashion wholly consistent with the intent of Recommendation 10 from the Committee on Affordability.

Staff is recommending the Commission implement a tuition equalization factor of \$12,796 in the FY2005 MAP start-up formula. This number reflects an ISAC projected value of FY2007 University of Illinois' tuition and fees and would equalize the assessment of the cost of tuition and fees across all college sectors. This projection was made using the FY2004 16-hour budget submitted by UIUC, inflated by 16 percent to reflect its assessment of the impact of truth-in-tuition in FY2005 and further inflated by 10 percent for two more years, again to capture the impact of the phase-in of truth-in-tuition and other increased costs. Using this ISAC projected FY2007 value of University of Illinois tuition and fees allows the formula to "grandfather in" many currently eligible students so that they can complete their degree with at least partial MAP funding. Given the current economic environment and funding levels, we would not increase this cap before the FY2008 award year.

While the majority of private institution students would be unaffected by this formula change, eligibility for high-income students at those institutions would be reduced or eliminated. An analysis conducted by staff indicates that fewer than 650 awards would be eliminated and another 3,300 would be reduced. This is consistent with the number of student who annually lost eligibility under the prior EFC cutoff.

While the students who are losing eligibility or receiving partial awards are students from higher income families, the total number of students significantly affected is relatively small, and ISAC encourages private institutions to hold these students harmless to the extent possible by redistributing their institutional aid.

Lower the Reduction Factor

In FY2003, the final MAP appropriation was reduced by \$38 million over the previous year. As a result, the Commission was forced to take action in late June to revise student awards downward from the start-up amounts. Specifically, awards were reduced from their start-up levels by 5 percent, and award announcements were suspended mid-August. Due to continued increases in application volume in FY2004, the Commission decided to reduce award amounts by 10 percent instead of five percent in order to announce awards to the beginning of August.

Staff believes that it is important in terms of affordability to lower and eventually eliminate the reduction factor. Net savings from the proposed tuition and fee cap combined with expected savings from the credit hour conversion would allow the Commission to lower the current 10 percent reduction factor to 7 percent. This change would benefit all students, particularly lower-income students. If funding levels change, the Commission could adjust the reduction factor at recompute.

Net Impact on MAP Recipients

The changes to the MAP start-up formula coupled with a seven percent reduction factor and the resource reallocation resulting from the conversion to credit hours will:

- Allow ISAC to serve more students in FY2005 than it did in FY2004;
- Ensure comparable formula treatment for students so that a student who is eligible for an award at a private institution would also receive an award at a public institution (by calibrating the tuition equalization factor to University of Illinois tuition and fees) and that students will not qualify for an award at a private institution solely based on the overall higher cost of attendance;
- Have a positive impact on students attending public universities and community colleges and low-income students attending private universities; these students will benefit by the lower reduction factor; and
- Have a minimal effect on students attending private universities through the phasing in of the tuition equalizer, effectively “grandfathering in” students who are currently eligible. (The only students who will lose eligibility or receive reduced awards are the highest income students currently served by MAP.)

ACTION REQUESTED

In summary, staff is recommending the Commission use the FY2004 MAP recompute formula with the following changes:

- Replace the \$9,000 EFC cap with a \$12,796 tuition equalization factor,
- Lower the reduction factor from 10 percent to 7 percent.

The formula summarized in Table 3 on the following page as the FY2005 MAP start-up formula.

Table 2: FY2004 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. |
| 2. | Set the minimum award to \$300, and round maximum eligibility in \$150 increments to calculate partial awards. |
| 3. | Provide no award for applicants who have an EFC equal to or greater than \$9,000 or have used 54 or more eligibility units. |
| 4. | Reduce all awards by ten percent. |

Table 3: Staff Recommendation for FY2005 MAP Start-Up Formula

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|----------------------|---|
| Budget | |
| 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 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. |
| 2. | Set the minimum award to \$300, and round maximum eligibility in \$150 increments to calculate partial awards. |
| 3. | Eliminate the \$9,000 EFC cap. |
| 4. | Reduce all awards by seven percent. |

Note: Formula changes shown in bold.