

AGENDA ITEM 10.

FY2006 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 FY2006 school year. This “start-up” formula, developed before program demand, college costs, and the FY2006 MAP appropriation are known, enables financial aid directors to announce awards to their students for the fall 2005 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 FY2005 would carry over to FY2006 and that application volume would continue to rise. When the start-up formula was approved, application volume for FY2005 was up by about 4 percent. To accommodate the expected increased volume in FY2006, the Commission extended the tiered reduction factor for students with EFCs of \$3,000 or more from 11 percent to the schedule shown in Table 1. About 70 percent of MAP recipients have EFCs of \$3,000 or less so this change to the reduction factor affected about 30 percent of MAP recipients, with higher EFC recipients being affected the most. The change reallocated approximately \$4 million, which was to be used to cover the anticipated volume increase.

Since the FY2006 start-up formula was adopted, a state budget has been approved, the MAP volume data have been updated and the forecasting model has been revised to incorporate the impacts of the MAP accounting changes that were implemented in FY2005. In light of these changes, staff is recommending a recompute formula that varies significantly from the start-up formula. The recommended changes have been discussed with the ILASFAA Formula Committee and the formula was unanimously approved. These changes are:

- Incorporate FY2004 tuition and fees at 100 percent.
- Incorporate the FY2004 Pell table with a \$4,050 maximum award.
- Replace the tiered reduction factors with a single reduction factor of 9 percent.

Staff believes these changes could be incorporated into the formula and the Commission could continue to make award announcements through the end of August. While these increases are a welcomed relief, they do not bring back the level of affordability experienced in FY2002. Awards will be based on tuition and fee levels that are two years old and will be reduced by 9 percent. Further, with an anticipated suspension date in late August, awards for a significant number of students will again be placed into suspension.

Action requested: Staff recommends that the Commission approve the formula summarized in Table 4 as the FY2006 MAP recompute formula.

**ILLINOIS STUDENT ASSISTANCE COMMISSION
FY2006 MONETARY AWARD PROGRAM
RECOMPUTE FORMULA**

Background

In January, the Commission approved a new Monetary Award Program (MAP) allocation formula used to calculate program eligibility for students attending college during the FY2006 school year. This “start-up” formula, developed before FY2006 program demand and college costs have been determined and before the actual FY2006 appropriation for MAP is known, enables college financial aid directors to begin making award announcements to their students applying for the fall 2005 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 typically has been based on the previous year’s recompute formula, sometimes with an adjustment to incorporate future college cost increases. However, for the past several years, because of concerns about the state’s financial condition and its potential impact on MAP appropriations, the Commission has chosen a more conservative approach, and assumed funding levels for the new year would be the same as the year before. Application volume increased rapidly during this period, by 6.1 percent in FY2003 and by 6.7 percent in 2004. To avoid early suspension dates, reduction factors were placed on awards to accommodate the increased demand. The Commission placed an overall 5 percent reduction factor in FY2003 followed by a 10 percent reduction factor in FY2004. A tiered reduction factor – 10 percent for students with an EFC of \$3,000 or less, 11 percent for other students – was implemented in FY2005.

This year’s start-up formula was based on the same assumptions: funding levels from FY2005 would carry over to FY2006 and application volume would continue to rise. When the start-up formula was approved, application volume for FY2005 was up by about 4 percent. To accommodate the expected increased application volume in FY2006, the Commission extended the tiered reduction factor for students with EFCs of \$3,000 or more from the FY2005 11 percent to the schedule shown in Table 1. About 70 percent of MAP recipients have EFCs of \$3,000 or less so this change to the reduction factor affected about 30 percent of MAP recipients, with higher EFC recipients being affected the most. The changes reallocated approximately \$4 million, which was to be used to cover the anticipated volume increase.

Table 1: FY2006 Start-Up Formula Tiered Reduction Factor

EFC Range	Reduction	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

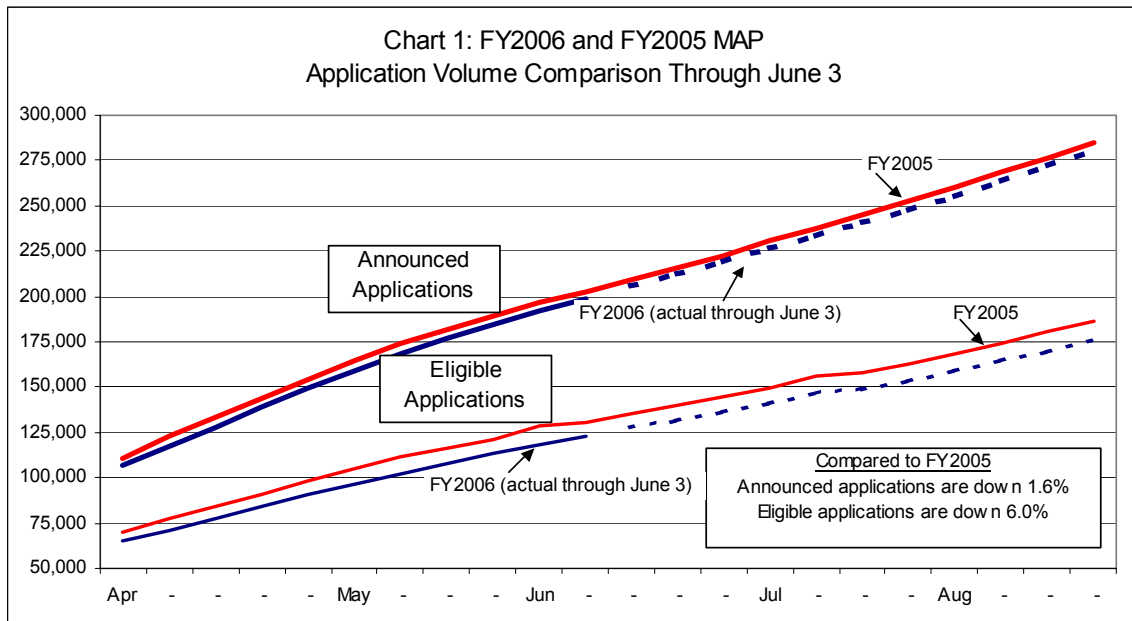
Since the FY2006 start-up formula was adopted, a state budget has been approved, the MAP volume data have been updated and the forecasting model revised, incorporating the impacts of the MAP accounting changes. In light of these changes, a recomputed formula is being recommended by staff that varies significantly from the start-up formula. The changes to the formula have been discussed with the ILASFAA Formula Committee and the Committee has unanimously approved the changes.

Appropriation

Although it has been another difficult year for state finances, the state budget approved by the legislature on May 31 and signed into law by the Governor on June 10, increased appropriations for MAP by \$8 million over the FY2005 appropriation. Increasing the MAP appropriation by \$8 million has enabled ISAC to apply for matching federal Leveraging Educational Assistance Partnership (LEAP/SLEAP) funds lost in FY2004 and FY2005 because of the FY2003 \$38 million cut to the MAP appropriation. The federal government may cut funding for LEAP/SLEAP; however, if the program survives intact, Illinois should receive approximately \$3.7 million for FY2006. Without LEAP/SLEAP funds, the total appropriation for MAP will be \$346 million; if the LEAP/SLEAP funds are awarded, the total will be close to \$350 million, or about \$12 million more than the appropriation assumed when determining the start-up formula.

Application Volume

As was discussed in the start-up item in January, MAP application volume is dependent on demographics and economic conditions. More high school graduates and a relatively poor economy that sent unemployed and under-employed workers back to school for retraining effected large volume increases over the past three years.



As shown in Chart 1, in FY2006, application volume is reversing the trend from the previous years. To date, announced application volume is down 1.6 percent. Announced applications are completed applications from Illinois residents planning to attend a MAP-approved school. Eligible

application volume is also down overall, by 6 percent from this time in FY2005. The decrease in eligibility crosses all dependency types: dependents are down by 7.1 percent, independents without dependents are down by 3.3 percent and independents with dependents are down by 5.6 percent. While the decrease in eligible independent applicants can be at least partially explained by an improving economy that will draw independent students out of school and back into the workforce, it is hard to explain the large decrease in dependent eligibility. Income levels have not increased substantially and high school graduates are expected to have larger percentages of poor students than ever before. College participation rates nationally have been rising as students realize the importance of some post-secondary education. Given these conditions, there should be greater application volume and a higher percentage of dependent applicants who are eligible for MAP awards. One reason why this increase is not occurring for FY2006 may be the effect of reduced college affordability in Illinois over the past several years.

Affordability and the Impact on Volume

During this recent period of level appropriations for MAP, no attempt was made to address increasing college costs in the MAP formula. Between FY2002 and FY2005, average tuition and fees increased nearly 37 percent at public universities, 24 percent at community colleges, and 18 percent at private institutions. The coverage of the average public university tuition and fees by the maximum MAP award has declined from 100 percent to about 65 percent over the past three years. New tuition and fees have not been incorporated into the formula since FY2003; the formula is currently using only 95 percent of FY2003 tuition and fees. Understating the actual cost faced by students reduces student eligibility and is particularly detrimental to students attending colleges where tuition and fees in FY2003 were under the maximum award – community colleges and some public universities.

Beginning with the fall term of FY2005, changes in the number of eligible students and in the number of awards claimed may be indicating that problems with college affordability are also affecting college attendance patterns. If applicants are divided by their expected family contributions (EFC) into \$1,000 increments, the percent of eligible students in all but the lowest EFC ranges *decreased* in FY2005. MAP eligibility is a function not only of income but also of college costs. By grouping applicants into EFC ranges, we are holding incomes relatively constant; therefore the variation in eligibility must be the result of changing college costs. This seems counter-intuitive because college costs are rising and rising college costs should *increase* eligibility. Because the formula uses FY2003 tuition and fees, the increased costs also are not reflected in the formula. However, if we are controlling for income, and holding costs constant, then eligibility percentages should remain about the same; certainly they should not decrease.

The explanation may lie in school choice. Students who would, in the past, have selected a private college as their first choice school may now be selecting a public university because of cost. The lower costs at the public university could eliminate them from MAP eligibility, particularly applicants in the upper EFC ranges. Similarly, students with lower EFCs who would have selected a public university, may instead be selecting a community college, where lower tuition and fees preclude them from qualifying for a MAP grant.

Both a decrease in the percent of eligible students and a decrease in the percentage of students claiming awards were found in most EFC ranges in FY2005. This pattern first seen in FY2005 may be repeated in FY2006. While total application volume is down a little, 1.9 percent, eligible students are down 6 percent during a year where family incomes are increased modestly and college costs continue to rise.

Changing to MAP Paid Credit Hours

In addition to the uncertainties already mentioned for FY2006 – the MAP appropriation level and application volume and the anticipated increases in college tuition and fees – another unknown variable was the full impact of some changes that were made in FY2005 to the way MAP awards are paid and counted. In FY2005, for the first time, all students were paid their MAP awards based on semester credit hours, with a full award (15 MAP paid credit hours) going to students attempting at least 15 semester credit hours. This was a significant departure from the past, when students at public universities and private institutions could claim a full award when they attempted 12 semester credit hours or more. Also for the first time, only MAP recipients who were upperclassmen could claim a MAP award if they had already received 75 MAP paid credit hours.

When the start-up formula was approved in January, there was insufficient data to determine the impact on the program from the change to MAP paid credit hours. It was expected that the change would result in a savings to the program because students who were attempting 12 credit hours of work during a semester would receive 12/15 of a full-semester award instead of the full semester award they would have received in the past. What was difficult to anticipate before it happened was the “snap back” effect, if any, that might occur when students were faced with the prospect of a smaller award when they chose to attempt less than 15 credit hours per semester. Staff believed that the prospect of a smaller award might induce some students to attempt the full 15 credit hours.

While some behavior change was noted, most students did not increase the number of hours attempted and the total impact on MAP was significant – about \$16 million – due primarily to the smaller awards given to students attempting less than 15 semester credit hours.

Proposed FY2006 MAP Recompute Formula

Last fall, ISAC held two public hearings 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. These actions include: 1) Increase the amount of tuition and fees used in calculating MAP eligibility from the current level to 100 percent of the FY2005 tuition and fee levels; 2) Eliminate or reduce across-the-board cuts on all awards; 3) Extend processing beyond mid-August; and, 4) Increase the maximum award to cover a larger portion of tuition and fees.

For the first time in four years, the Commission will be able to address college affordability concerns, in some small way. Since FY2002, when funding for the Monetary Award Program peaked at nearly \$372 million, college affordability in Illinois has deteriorated significantly as a result of decreased or level appropriations, much higher college costs, and increased application volume.

Based on the expected savings from the environmental changes described in the previous section, staff is recommending the Commission make the following changes to the FY2006 MAP start-up formula:

- Incorporate FY2004 tuition and fees at 100 percent.
- Incorporate the FY2004 Pell table with a \$4,050 maximum award.

- Replace the tiered reduction factors with a single reduction factor of 9 percent.

Staff believes that the above changes could be incorporated into the recomputed formula and the Commission could continue to make award announcements through the end of August. While these increases are a welcomed relief, they do not bring back the level of affordability experienced in FY2002. Awards will be based on tuition and fee levels that are two years old and will be reduced by 9 percent. Further, with an anticipated suspension date in late August, awards for a significant number of students will again be placed into suspension.

Table 2 compares the average announced award for applications received through August in FY2005 to the average announced award for FY2006 under the start-up and proposed recomputed formulas. Overall, the average announced award would increase \$161 over FY2005 levels and would increase \$235 over the average award under the start-up formula. The effective maximum award would increase \$50 to \$4,521 when compared to FY2005 and would increase between \$50 and \$696 when compared to the start-up formula.

Table 2: Average Announced MAP Award

School Type	FY2005 (through August)	FY2006		Difference FY2005/FY06 startup
		Start-Up Formula	Proposed Recompute Formula	
Public Universities	\$3,533	\$3,521	\$3,964	\$431 / \$443
Private Institutions	\$4,391	\$4,308	\$4,486	\$95 / \$178
Community Colleges	\$1,367	\$1,360	\$1,506	\$139 / \$146
Proprietary Institutions	\$4,312	\$4,290	\$4,409	\$97 / \$119
All Sectors	\$2,863	\$2,789	\$3,024	\$161 / \$235

These changes to the recomputed formula will allow award announcements to be made until the end of August, given current volume assumptions. If SLEAP/LEAP funding is forthcoming, the funds would be used for additional award announcements.

ACTION REQUESTED

Staff is recommending the Commission use the formula summarized in Table 4 on the following page as the FY2006 MAP recompute formula.

Table 3: 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	Reduce awards 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.

Table 4: Staff Recommendation for FY2006 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 = $[PC/11,000 + 1.10]$ 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	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.

Note: Formula changes shown in bold.