

AGENDA ITEM 9.

FY2005 APPROPRIATED FUNDS BUDGET REQUEST

Submitted for: Action

Summary: The Commission submits a budget request each year to the Illinois Board of Higher Education (IBHE), indicating the amount of state and federal funding necessary to support student aid programs for which ISAC has administrative responsibility.

For FY2005, staff is recommending a budget request based on two priorities: need-based aid to promote affordability and access, and teacher incentive programs to recruit and retain teachers for Illinois schools.

Staff recommends that the Commission approve an FY2005 budget request totaling \$721.5 million, a \$14.4 million increase (2.0 percent) compared to FY2004. Staff recommends seeking an increase of \$59.8 million in state General Funds in FY2005; approximately \$55.7 million of this recommended increase is for need-based student aid. The recommended request shifts funding for several administrative activities from state General Funds to the federal Student Loan Operating Fund (SLOF) and from separate appropriations to line items. The recommended General Funds Administrative and Outreach request totals \$4.7 million, which is a reduction of \$1.0 million from the FY2004 appropriation. The recommended SLOF Administrative request totals \$42.0 million, which is \$706,300 or approximately two percent greater than the FY2004 appropriation. Overall, the recommended request for Administration and Outreach is \$293,700 or approximately one percent less than the FY2004 appropriation. The programmatic components of the FY2005 request are summarized below:

- \$406.3 million for need-based aid;
- \$52.8 million for special purpose state and federal scholarship and grant programs; and,
- \$256.0 million in aggregate spending authority from the Federal Student Loan Fund and the Student Loan Operating Fund.

In addition, \$875,000 in spending authority is being sought for the MAP Reserve Fund to address unforeseen, and therefore unbudgeted, increases in MAP claim rates.

The components of this recommended request respond to recommendations from the Final Report and Recommendations of the Committee on Affordability, which was adopted by the IBHE at its August 2003 meeting, and is being considered by the Commission at its September, 2003 meeting, within the context of the State's continued fiscal difficulties.

Action requested: That the Commission approve an FY2005 budget request totaling \$721.5 million as detailed in Table 1.

By source of funds, this request consists of \$458.2 million in state General Funds, \$256.0 million in federal Student Loan Funds, \$875,000 from the MAP Reserve Fund, \$5.5 million in federal scholarship and grant funds, \$520,000 in other state funds, and \$400,000 in other federal funds.

ILLINOIS STUDENT ASSISTANCE COMMISSION
FY2005 APPROPRIATED FUNDS BUDGET REQUEST

Introduction

In developing the Fiscal Year 2005 budget request, staff considered a number of environmental and economic factors, which may significantly affect ISAC's programmatic and administrative funding needs. Several legislative initiatives, which modified existing ISAC programs, have been examined and are addressed in the recommended request for program funds. Also, similar to the last four years, the recommended request is structured in a manner which supports the Illinois Board of Higher Education's (IBHE's) *Illinois Commitment*, as well as the recommendations of the Committee to Study Affordability.

In examining economic indicators, national economic forecasts continue to suggest that the economic recovery remains fragile. The Illinois Economic and Fiscal Commission (IEFC) recently reported projections that the Illinois economy will continue improving slowly during FY2004, and suggests that real growth in the state economy could approach four percent during FY2004. But, the IEFC also indicated that "more than the usual number of uncertainties prevail at the current time." Given these economic uncertainties, it would appear that FY2005 could be another difficult budget year for the State. As outlined in the IBHE's Setting a Context for Fiscal Year 2005 Budget Development: An Overview of Preliminary Issues, a number of non-education funding issues are expected to require the State's fiscal attention in FY2005. Further, given the budgetary cuts imposed on Illinois higher education the past two fiscal years, it is unlikely that growth in state revenue will be sufficient to fully meet the needs of Illinois higher education.

This document delineates the amount of funding the Commission would ideally need to effectively fulfill its role in the Illinois higher education community and maintain the purchasing power of need-based financial aid. The recommended request, however, recognizes the stark realities regarding the likelihood of new funding in FY2005, and suggests reductions from the funding needed to restore and maintain purchasing power. The number one priority in the recommended request remains supporting need-based aid to promote affordability and access; in fact, more than 90 percent of General Funds are allocated to need-based aid in the recommended request. The recommended request also places a high priority on supporting teacher incentive programs to assist in recruiting and retaining teachers for Illinois schools.

In terms of administrative initiatives, the new guaranty agency financial structure established by the 1998 Reauthorization of the federal Higher Education Act has been successfully implemented. On July 29, 2003, ISAC returned the balance of the working capital transfer used to create the Student Loan Operating Fund (SLOF) to the Federal Student Loan Fund (FSLF). The return of the working capital transfer gives ISAC increased flexibility in determining the funding source for portions of its administrative budget, which will allow ISAC to reduce its GRF administrative funding request for FY2005. The next Reauthorization of the Higher Education Act is scheduled to occur in calendar year 2004, which may necessitate changes to the student loan programs in state fiscal year 2005.

The following agenda item presents the FY2005 Appropriated Funds Budget Request in five separate sections: I) Need-Based Grant Programs; II) Special Purpose Programs; III) Administrative Support and Outreach; IV) Student Loan Program Funds; and, V) Other Federal Funds activities.

The following table -- Table 1 -- provides a summary of the FY2005 recommended budget request compared to FY2004 appropriations. It also shows the amount of funding needed to fund all ISAC programs to provide award amounts specified in recent legislative initiatives, as well as return the purchasing power of MAP grants to the level experienced as recently as FY2002.

TABLE 1

**ILLINOIS STUDENT ASSISTANCE COMMISSION
STATE FISCAL YEAR 2005 BUDGET REQUEST**

	FY2004 APPROPRIATION	FY2005 FUNDING TO RESTORE AFFORDABILITY	FY2005 RECOMMENDED COMMISSION REQUEST	FY2004 -- FY2005 CHANGE	
				DOLLARS	PERCENT
NEED-BASED GRANTS	\$350,619,800	\$492,220,000	\$406,270,000	\$55,650,200	15.9%
Monetary Award Program (MAP)	342,399,800	467,900,000	394,300,000	51,900,200	15.2
State General Funds	338,699,800	464,200,000	390,600,000	51,900,200	15.3
Allocated MAP Reserve Funds	0	0	0	0	0.0
Federal LEAP Funds	3,700,000	3,700,000	3,700,000	0	0.0
Silas Purnell Illinois Incentive for Access (IIA) Grants	7,200,000	22,900,000	10,800,000	3,600,000	50.0
Student to Student Grants	950,000	1,350,000	1,100,000	150,000	15.8
Higher Education License Plate (HELP) Grants	70,000	70,000	70,000	0	0.0
SPECIAL PURPOSE GRANT PROGRAMS	\$47,689,300	\$63,079,300	\$52,839,300	\$5,150,000	10.8%
State General Funds	45,789,300	61,179,300	50,939,300	5,150,000	11.2
Illinois Future Teacher Corps Scholarships *	7,050,000	11,625,000	11,625,000	4,575,000	64.9
Minority Teacher Scholarships	3,100,000	3,100,000	3,100,000	0	0.0
Teacher/Child Care Provider Loan Repayment	2,700,000	2,700,000	2,700,000	0	0.0
Illinois Scholars Program	2,914,300	2,914,300	2,914,300	0	0.0
Dependents Grant Programs	275,000	350,000	350,000	75,000	27.3
Illinois Veteran Grants	19,250,000	27,000,000	22,000,000	2,750,000	14.3
National Guard Grants	4,500,000	5,900,000	4,800,000	300,000	6.7
Merit Recognition Scholarships	5,400,000	6,800,000	3,500,000	(1,900,000)	(35.2)
Optometric Education Scholarship Program	50,000	50,000	50,000	0	0.0
Bonus Incentive Grants	650,000	840,000	0	(650,000)	(100.0)
Federal Robert C. Byrd Scholarships	1,800,000	1,800,000	1,800,000	0	0.0
MAP RESERVE FUND (UNALLOCATED)	\$0	\$875,000	\$875,000	\$875,000	100.0%
ADMINISTRATION AND OUTREACH	\$6,075,800	\$5,065,800	\$5,065,800	(\$1,010,000)	(16.6%)
General Revenue Fund	5,715,800	4,715,800	4,715,800	(1,000,000)	(17.5)
Higher-EdNet Fund	10,000	0	0	(10,000)	(100.0)
State Accounts Receivable Fund	300,000	300,000	300,000	0	0.0
Contracts and Grants Fund	50,000	50,000	50,000	0	0.0
FEDERAL STUDENT LOAN PROGRAM	\$302,332,300	\$256,038,600	\$256,038,600	(\$46,293,700)	(15.3%)
Student Loan Fund Operating Expenses	34,619,800	37,038,600	37,038,600	2,418,800	7.0
Federal Loan Systems Development & Maintenance	5,000,000	5,000,000	5,000,000	0	0.0
Reserve Recall Interest (Default Prevention)	1,300,000	NA	NA	(1,300,000)	(100.0)
Initiative to Enhance Outreach and Awareness	162,500	NA	NA	(162,500)	(100.0)
E-Learning Initiative	250,000	NA	NA	(250,000)	(100.0)
Lender Reimbursements	190,000,000	160,000,000	160,000,000	(30,000,000)	(15.8)
Collections Payments to SLOF	25,000,000	25,000,000	25,000,000	0	0.0
Default Aversion Fee	5,000,000	5,000,000	5,000,000	0	0.0
Default Aversion Fee Reversals	2,000,000	2,000,000	2,000,000	0	0.0
SLOF Outside Collection Agency Activities	22,000,000	22,000,000	22,000,000	0	0.0
Working Capital Transfer	13,000,000	NA	NA	(13,000,000)	(100.0)
Return of Federal Reserve Recall Fund to ED	4,000,000	NA	NA	(4,000,000)	(100.0)
OTHER FEDERAL FUNDS					
Return of Paul Douglas Collections to ED	400,000	400,000	400,000	0	0.0
GRAND TOTAL, ALL PROGRAMS	\$707,117,200	\$817,678,700	\$721,488,700	\$14,371,500	2.0%
State General Funds	\$398,354,900	\$554,345,100	\$458,155,100	\$59,800,200	15.0%
General Revenue Fund	295,986,600	451,976,800	355,786,800	59,800,200	20.2
Education Assistance Fund	102,368,300	102,368,300	102,368,300	0	0.0
Other Funds					
Federal S&G Program Funds	5,500,000	5,500,000	5,500,000	0	0.0
Federal Student Loan Funds	302,332,300	256,038,600	256,038,600	(46,293,700)	(15.3)
MAP Reserve Fund	0	875,000	875,000	875,000	100.0
Other Federal Funds	400,000	400,000	400,000	0	0.0
Other State Funds	530,000	520,000	520,000	(10,000)	(1.9)

*\$50,000 in appropriation authority for this program is from the Future Teacher Corps Scholarship Fund.

I. Need-Based Grant Programs

The Commission is responsible for administering four need-based grant programs, the Monetary Award Program (MAP), the Silas Purnell Illinois Incentive for Access (IIA) Program, the Student to Student (STS) Program of Matching Grants, and the Higher Education License Plate (HELP) Grant Program. FY2001 through FY2004 appropriation levels, as well as staff's recommendations for the FY2005 budget request, are summarized in Table 2.

Table 2: Need-Based Scholarship and Grant Programs FY2001 through FY2004 Appropriations and ISAC Staff Recommended FY2005 Budget Request

NEED-BASED GRANT PROGRAMS	FY2001	FY2002	FY2003	FY2004	RECOMMENDED FY2005 REQUEST
Monetary Award Program (MAP)	\$357,160,800	\$375,628,300	\$333,222,800	\$342,399,800	\$394,300,000
Silas Purnell Illinois Incentive for Access (IIA)	8,000,000	7,200,000	7,200,000	7,200,000	10,800,000
Student to Student (STS)	1,000,000	1,000,000	950,000	950,000	1,100,000
Higher Education License Plate (HELP)	70,000	70,000	70,000	70,000	70,000
Total	\$366,230,800	\$383,898,300	\$341,442,800	\$350,619,800	\$406,270,000

This table shows that the overall recommended FY2005 budget request for ISAC's need-based scholarship and grant programs is \$406.3 million. While this represents an increase of \$55.7 million, or 15.9 percent over FY2004 funding levels, the percentage increase is 5.8 percent over FY2002 levels. The remainder of this section discusses each need-based program.

Monetary Award Program

FY2003 presented a difficult legislative session in which large cuts were made to most state programs. The final FY2003 MAP appropriation totaled \$333.2 million, a reduction of more than \$38.0 million from the FY2002 appropriation. The reduction left a funding level which was less than the FY2000 appropriation, and, when adjusted for inflation, was comparable to FY1999 levels. Included within this reduction was the elimination of \$20.0 million for awards to students who have already used MAP to pay for the equivalent of 8 semesters or 12 quarters of full-time enrollment, i.e., fifth-year recipients.

Again in FY2004, further cuts were made to many state programs; however, Governor Blagojevich made affordability and access to postsecondary education a high budget priority. In his budget, the Governor proposed that funding for MAP in FY2004 be maintained at its FY2003 level. The General Assembly added \$12.0 million to his proposed MAP appropriation, to help restore eligibility for fifth-year students. The Governor amendatorily vetoed ISAC's FY2004 appropriations bill, reducing the \$12.0 million added by the General Assembly for fifth-year MAP eligibility to \$6.0 million. As a result, the FY2004 MAP appropriation totaled \$342.4 million.

The goals of MAP have historically been to facilitate access to and choice among higher educational opportunities available in Illinois. In recent years, access has been determined by how long the Commission can announce awards without suspension and by its ability to cover tuition and fees at public institutions for the most financially needy students. In FY2003, the Commission suspended award announcements on August 13, and as a result nearly 38,000 students who would otherwise have been announced as eligible for a MAP grant were excluded from eligibility. In FY2004, award announcements were suspended at August 1. As of August 29, nearly 11,000 applicants who would have otherwise been announced as eligible for a MAP grant have been excluded from eligibility. Choice is determined by the student's ability to enroll in higher-cost public universities or private institutions, albeit at some greater individual cost. The funding cuts imposed on MAP in FY2003 negatively

affected these program goals. Even with the increase in funding received to partially restore eligibility for fifth year recipients, these goals were adversely affected in FY2004 because MAP received no additional funding to help students pay for substantial increases in tuition and fees that occurred in FY2003 and FY2004, or to address increases in application volume.

Staff has projected the funding needed to restore the purchasing power of MAP to the level it provided to Illinois students as recently as FY2002. Given the continued fiscal difficulties experienced by the State, however, staff has developed a recommended FY2005 MAP budget request designed to promote only one priority:

- Remove the reduction factors placed in the MAP formula in FY2003 and FY2004.

Remove Reduction Factors

The FY2004 MAP formula included three percentage reduction factors. Staff is recommending that the Commission seek funding for FY2005 to eliminate these reduction factors. The estimated cost of removing each of these reduction factors is specified below.

Remove the Five Percent Reduction Factor on 2002-03 Tuition and Fees

In FY2003, the Commission was not able to fund 2002-03 tuition and fees at all, and MAP grants were calculated using 2001-02 tuition and fee figures instead. The weighted-mean increase in tuition and fees ranged from 2 percent at proprietary institutions to almost 11 percent at public universities for an overall average of 6.7 percent. Students at all institutions were affected by this decision; however, students attending colleges with larger tuition increases were more affected. Due mostly to internal reallocations in FY2004, the Commission was able to fund 2002-03 tuition and fees but only at 95 percent of their value. Once again awards were not calculated based upon actual costs faced by students. The cost of removing the five percent reduction factor, and recognizing full 2002-03 tuition and fees in the MAP formula is projected to be \$8.1 million. Thus, staff recommends that the Commission request \$8.1 million in additional funding for FY2005 to recognize full 2002-03 tuition and fees in the MAP formula.

Remove the Ten Percent Reduction Factor

For the FY2003 MAP recompute, the Commission opted to reduce the amount of all MAP grants by five percent in order to announce an additional 8,000 awards though mid-August. This decision meant that no students, no matter how needy, would be eligible for full tuition and fees or the statutory maximum award. In response to an eight percent increase in application volume in FY2004, the Commission increased the reduction factor to ten percent in order to announce awards into August. All students from all types of institutions would benefit from the removal of this reduction factor. The cost to remove the ten percent reduction factor is projected to be \$38.3 million. Thus, staff recommends that the Commission request \$38.3 million in additional funding for FY2005 to remove the ten percent award reduction factor from the MAP formula.

Remove the 50 Percent Reduction on Fifth-Year MAP Eligibility

The \$38.0 million reduction in MAP funding in FY2003 included \$20.0 million used to fund recipients in their fifth year of MAP eligibility. The General Assembly restored \$12.0 million in MAP funding in FY2004 to provide an additional term of eligibility beyond four years to MAP recipients. The FY2004 MAP formula approved at the June 23, 2003 meeting included this additional term of eligibility. Subsequent to the June meeting, however, the Governor amendatorily vetoed the FY2004 MAP appropriation and removed \$6.0 million of the \$12.0 million in new funding designated to provide this additional term of eligibility. As a result, the Commission revised the FY2004 MAP formula and cut the award amounts for this additional term of eligibility by 50 percent. The estimated cost of removing this 50 percent reduction factor is \$5.5 million. Therefore, staff recommends that the Commission seek \$5.5 million in funding for FY2005 to remove this 50 percent reduction factor.

Other Funding Considerations

Staff has also identified two additional priorities, which would restore the purchasing power lost in FY2003 and FY2004. Funding these two priorities would also help maintain this level of purchasing power in FY2005. These two priorities are:

- Recognize FY2004 and projected FY2005 cost increases, and
- Address anticipated application volume increases.

In light of the State's budget constraints, staff is recommending that the Commission not seek funding to address these two priorities in FY2005, but they are discussed in the following sections to give the Commission information on the projected amount of funding needed to restore and maintain MAP purchasing power.

FY2004 and Projected FY2005 Cost Increases

FY2005 Tuition and Fees/Truth in Tuition

In FY2004, the weighted-mean increase in tuition and fees ranged from three percent at proprietary institutions to almost nine percent at public universities for an overall average of 5.7 percent. Recent increases in tuition and fees at public universities have, with few exceptions, been hovering in the ten percent range. Universities contend that these increases have been due, at least in part, to decreases in state funding. In response to these substantial tuition increases, the General Assembly passed legislation, which, beginning in 2003-2004, would prohibit public four-year universities from increasing tuition rates for Illinois residents for four continuous academic years. On July 22, 2003, the Governor signed this legislation creating Public Act 93-228. This Act, more commonly known as the "Truth in Tuition" Act could affect the manner in which public universities increase tuition rates for FY2005.

If no further cuts to state funding are made, tuition increases should remain below ten percent. If, however, universities believe that they will have cost increases that will need to be covered by tuition increases during four consecutive years, they may "front-load" those increases into the tuition charged to freshmen. Making a conservative assumption that public universities raise their tuition by five percent in FY 2005 and further assuming a five percent increase will be required to maintain services for FY2006-FY2008, then the front-loaded value of annual 5 percent increases for four years is about 13 percent. Staff has projected a cost for FY2005 tuition and fee increases based on the following assumptions: 1) public universities will use the front-loaded increase for freshmen and a five percent increase for their remaining undergraduates; 2) public universities will increase their fees, which are not limited by the Act, by five percent; and 3) other schools will also raise tuition and fees by five percent. Given these assumptions, it is estimated MAP appropriations would need to be increased by about \$25.5 million to recognize 2003-04 tuition and fee increases, as well as accommodate projected 2004-05 tuition and fee increases. Given the current financial difficulties being experienced by the State, staff is recommending that the Commission not seek this additional \$25.5 million in FY2005.

Increase the Maximum Award

The MAP award that a student receives is the lesser of the student's maximum eligibility, tuition and fees, or the maximum award established by statute. Prior to FY2003, to maintain a consistent level of support for maximum award recipients, the Commission sought funding to increase the maximum award by an amount equivalent to increases in tuition and fees. Between FY2002 and FY2003, weighted-mean tuition and fees increased almost seven percent at all institutions. In FY2003, 4 of the 12 public universities had tuition and fees over the \$4,968 maximum award level. With the cut to MAP funding in FY2003, the statutory maximum award

remained at \$4,968, but with the imposition of the five percent award reduction factor, the paid maximum award was effectively cut to \$4,719. Between FY2003 and FY2004, weighted-mean tuition and fees increased nearly six percent at all institutions. By FY2004, 8 of the 12 public universities had tuition and fees over the \$4,968 maximum award level. Thus, even if the Commission was able to provide MAP grants equal to the statutory maximum, the majority of MAP recipients at public universities would still experience a gap between their MAP grant and their actual tuition and fee costs. With the imposition of the ten percent award reduction factor, the paid maximum award was effectively reduced to \$4,471, which further increased the gap between the paid grant and actual costs faced by students receiving the maximum grant.

To restore the purchasing power of the maximum award in FY2005, in terms of the proportion of mean weighted tuition and fees it covers to the FY2002 level would require funding to increase the maximum award by an estimated \$950 or 19 percent to \$5,918. The estimated cost of increasing the maximum award to this level is approximately \$60 million. Even if the State's economy were growing at the rate similar to that of the late 1990's, staff believes that the Commission seeking this amount of funding to restore MAP purchasing power could be viewed as excessive. Therefore, staff has estimated the cost of increasing the statutory maximum by a more moderate amount of \$432 to \$5,400. This increase of nearly 9 percent, in conjunction with the removal of the 10 percent award reduction factor could increase the effective maximum award by approximately 19 percent and make considerable progress towards closing the gap between the maximum award and actual costs. Even with this increase, however, tuition and fees at 8 of the 12 public universities would still be greater than the maximum award. The projected cost of increasing the maximum award nearly nine percent to \$5,400 is \$26.0 million. Given the current financial difficulties being experienced by the State, staff is recommending that the Commission not seek this additional \$26.0 million in FY2005.

Anticipated Application Volume Increases

FY2004 MAP application volume has increased between seven and eight percent, and the number of applicants eligible for MAP has increased by approximately eight percent. Most of the increase is attributed to the State's current economic condition and the resulting loss of employment opportunities. During economic downturns, many individuals pursue education and training as a means to enhance their employability. The continued increase in applications forced the Commission to further reduce award amounts in FY2004 as well as suspend award announcements in early August. For FY2005, staff projects overall application volume to continue to increase but at a lesser rate, approximately five percent. The projected cost to cover a five percent increase in application volume is \$22.1 million. Given the current financial difficulties being experienced by the State, staff is recommending that the Commission not seek this additional \$22.1 million in FY2005.

Federal Initiatives/Changes

At this time it is unlikely that ISAC will receive approximately \$3.7 million in federal Leveraging Educational Assistance Partnership (LEAP) and Special Leveraging Educational Assistance Partnership (SLEAP) funds for the 2003-04 school year. Increasing matches in state appropriations is the primary requirement for these funds, and Illinois became ineligible due to the \$38.0 million reduction in the MAP appropriation in FY2003. While ISAC is appealing the decision, these funds, which are included in the base appropriation, may not be forthcoming in 2003-04 or 2004-05.

The U.S. Department of Education has also proposed several changes in the Federal need analysis. Some of these updates reflect annual inflationary adjustments. Other changes, such as those concerning the state tax allowance used in the methodology, would have a more significant impact on Illinois students. ISAC staff is currently assessing the changes and will provide the Commission and the financial aid community with an impact analysis. ISAC uses the federal EFC and the federal Pell grant amounts to determine MAP award amounts. At this point, it appears that these changes will not cost MAP additional money for Pell-eligible applicants.

Federal Pell Grant eligibility is considered in determining a student's MAP grant eligibility. Typically, the Commission has incorporated the current Pell grant table, either at start-up or at recompute, in order to have the most accurate information when calculating MAP eligibility. Staff recommended that the Commission continue to use the 2002-03 Pell grant table with the \$4,000 maximum since 2002-03 costs were used to determine MAP eligibility. The maximum grant on the 2003-04 Pell table was increased \$50 to \$4,050. The president's budget proposal allows for a \$100 increase in the maximum Pell grant. Since no new funding is required to incorporate updated Pell tables with higher maximums, staff recommends the Commission postpone addressing this issue.

MAP Reserve Fund

In 1995, legislation was enacted to create a MAP Reserve Fund in the State Treasury. By statute, the amount in the Reserve Fund cannot exceed two percent of the annual state appropriation for MAP. The purpose of the MAP Reserve Fund is to provide ISAC with additional management flexibility in administering the MAP Program by providing a means to address contingencies. At the beginning of FY2003, the balance of the Reserve Fund totaled \$2.4 million. Due to the difficult economic conditions experienced during FY2003, staff anticipated expending the balance during the fiscal year. Thus, spending authority from the Reserve Fund was not sought in FY2004. At the end of FY2003, the balance of the Fund totaled approximately \$875,000. Staff recommends that the Commission seek \$875,000 in spending authority for FY2005.

As part of the FY2005 budget request staff also recommends that the Commission authorize staff to seek authority to transfer up to two percent of the MAP appropriation into the Reserve Fund in FY2005. In the event that economic conditions improve during FY2005 and regular MAP funding remains unexpended at the end of the year, funding could be then transferred to the Reserve Fund to address contingencies in future fiscal years.

Summary of Staff Recommendations for MAP

Table 3 provides a summary of staff's recommendations for the FY2005 MAP budget request. As stated, staff's recommended priority is to remove reduction factors placed in the MAP formula during the past two fiscal years. It is projected that \$51.9 million more than the FY2004 appropriation level is required to fund this priority. Staff, therefore, recommends that the Commission approve the FY2005 MAP budget request of \$394.3 million as itemized in Table 3.

Staff has also projected the funding needed to restore purchasing power lost by MAP recipients in FY2003 and FY2004, and to maintain this affordability in FY2005, as well as address anticipated application volume increases. In total, it is projected that funding these priorities would require an additional \$73.6 million over the recommended \$394.3 million request in FY2005. These figures are shown in Table 4.

Table 3: Staff Recommendations for FY2005 MAP Budget Request (\$ in millions)

FUNDING PRIORITY	COST
FY2004 MAP Appropriation (Funding Base)	\$342.4
Remove Reduction Factors Implemented in MAP Formula in FY2003 and FY2004	
• Remove five percent reduction on 2002-03 tuition and fees	8.1
• Remove ten percent reduction factor	38.3
• Remove 50 percent reduction factor on “fifth-year” recipients	<u>5.5</u>
Recommended FY2005 MAP Budget Request (\$51.9 Increase)	\$394.3

Table 4: Additional Funding Required to Restore MAP Purchasing Power (\$ in millions)

FUNDING PRIORITY	COST
FY2005 Recommended Budget Request	\$394.3
Regain College Affordability Lost in FY2003 & FY2004	
• Recognize 2003-04 and projected 2004-05 tuition and fee increases	25.5
• Increase the maximum award \$432 to \$5,400	26.0
Address Anticipated Application Volume Increases	<u>22.1</u>
Funding Required to Restore MAP Purchasing Power	\$467.9

Other Need-Based Programs

Silas Purnell Illinois Incentive for Access (IIA) Program

In FY1997, the Commission first received funding for a new initiative designed to direct additional grant aid to students classified as freshmen with no family resources to pay for college. The purpose of the Illinois Incentive for Access (IIA) program was to promote access and retention for a targeted group of students. IIA is a need-based grant program, that originally provided a one-time \$500 award to freshmen applicants with no financial resources for college, i.e., a zero Expected Family Contribution (EFC). The program was intended to supplement, rather than supplant funding, for existing need-based grant programs for this group of students much like the federal Supplemental Educational Opportunity Grant Program supplements the federal Pell Grant Program.

Public Act (P.A.) 93-455, which was signed by the Governor on August 8, 2003, renamed the Illinois Incentive for Access Grant Program the Silas Purnell Illinois Incentive for Access Grant Program. Effective July 1, 2004, for FY2005, the Act increases the award amount from \$500 to \$1,000 for freshmen college students who have a zero EFC. It also expands eligibility for the program to allow \$500 grants to be given to freshmen with an EFC between \$1 and \$500. To fully fund the program, staff projects the cost of funding zero EFC freshmen applicants to be \$17.8 million, and the cost to fully fund those applicants with EFCs up to \$500 to be

\$5.1 million. Since fully funding the program would require \$22.9 million, staff recommends the Commission request \$10.8 million for FY2005 to fund \$750 awards for zero EFC applicants. Funding for applicants with EFCs between \$1 and \$500 could be phased in over future years.

Student to Student (STS) Program of Matching Grants

The Student to Student (STS) Program of Matching Grants provides matching funds for need-based grant assistance to students who attend participating public universities and community colleges. Students at participating institutions pay a voluntary fee and the total of the collected funds is matched by the State. Grants of up to \$1,000 are then provided to financially needy students. The \$1,000 maximum grant is limited by statute, and the maximum fee which institutions can charge is limited by ISAC Rules. Public institutions are also required to receive approval via a student referendum before increasing mandatory fees.

Effective July 1, 2001, ISAC Rules increased the maximum allowable fee for STS from \$9 to \$12. Student referenda were passed at several participating institutions during that academic year which became effective for FY2003. As a result, the matching funds at several institutions increased in FY2003. In FY2003, ISAC fully utilized its appropriation and provided matching funds for awards to about 3,000 students; in fact, STS claims by institutions were prorated and could not be fully paid. Based on FY2003 claim levels, ISAC expects to fully utilize the FY2004 appropriation. The recommended request for FY2005 of \$1.1 million would allow payment of grants at the level of full claims in FY2003.

The recommended request for STS would not provide funding needed to match revenue generated by increases in fees at participating institutions in FY2004 or projected for FY2005. The projected cost of matching funds generated by these additional increases is \$250,000.

Higher Education License Plate Grant Program

Working through the Secretary of State, participating public universities, community colleges, and not-for-profit private colleges and universities in Illinois can have specialized collegiate license plates issued for their schools. ISAC annually seeks spending authority to disburse funds collected from the sales of these plates to the participating private schools. According to the Secretary of State's Office, calendar year 2002 sales generated \$53,100 in scholarship funds for distribution in academic year FY2004. The recommended FY2005 budget request of \$70,000 in spending authority should cover any increase in license plate sales.

II. Special Purpose Scholarship and Grant Programs

For FY2005, the Commission will administer funds for eleven special purpose scholarship and grant programs. This section of the budget request presents the recommended FY2005 budget request for each of the current programs. In recognition of the need to identify and prioritize ISAC program funding and spending authority requirements, staff recommends the FY2005 budget request for special purpose scholarship and grant programs include funding in the following priority order:

- 1) **Teacher Assistance.** Teacher assistance programs include the Illinois Future Teacher Corps (IFTC) Scholarship Program, the Minority Teachers of Illinois (MTI) Scholarship Program, the Illinois Scholars Program administered by the Golden Apple Foundation, and the Teacher/Child Care Provider Loan Repayment Program. Because the Special Education Teacher Tuition Waiver Program, administered by ISAC, waives tuition incurred by recipients at public universities, no appropriation is needed for this program.

- 2) **Entitlement Programs and State Obligations.** Entitlement programs include the Dependents Grant Programs, the Illinois Veteran Grant (IVG) Program, and the Illinois National Guard (ING) Grant Program. For FY2005, staff is not considering the College Savings Bond Bonus Incentive Grant (BIG) Program as a state obligation because the Baccalaureate Savings Act (110 ILCS 920/8) indicates that the awarding of the supplemental grants are subject to appropriations from the General Assembly.
- 3) **Merit and Achievement Programs.** Merit and achievement programs include the Merit Recognition Scholarship (MRS) Program and the federal Robert C. Byrd Honors Scholarship Program.
- 4) **Other Programs.** Other programs include the Optometric Education Scholarship Program, which is funded from the Optometric Licensing and Disciplinary Board Fund and the BIG Program.

As shown in Table 5, the overall recommended FY2005 budget request for ISAC's special purpose scholarship and grant programs is \$52.8 million, which represents an increase of \$5.2 million, or 10.8 percent, over the FY2004 appropriation. The largest recommended increase in funds is \$4.6 million to allow for phased-in implementation of the Illinois Future Teacher Corps Scholarship Program. Following Table 5, a discussion of each program is provided. The program discussions are presented and grouped according to recommended funding priority.

**Table 5: ISAC Special Purpose Scholarship and Grant Programs
FY2003 and FY2004 Appropriations, Recommended FY2005 Request**

Special Purpose Scholarship and Grant Programs	FY2003 Appropriation	FY2004 Appropriation	FY2005 Recommended Request
Teacher Assistance Programs			
Illinois Future Teacher Corps Scholarship	--	\$7,050,000	\$11,625,000
Minority Teachers of Illinois Scholarship*	3,100,000	3,100,000	3,100,000
Illinois Scholars	--	2,914,300	2,914,300
Teacher/Child Care Provider Loan Repayment **	2,700,000	2,700,000	2,700,000
ITEACH Teacher Shortage Scholarship***	2,900,000	--	--
Entitlement Programs and Obligations			
Dependents Grant Programs	275,000	275,000	350,000
Illinois Veteran Grant	\$19,250,000	\$19,250,000	\$22,000,000
National Guard Grant	4,500,000	4,500,000	4,800,000
Merit and Achievement Programs			
Merit Recognition Scholarship	5,400,000	5,400,000	3,500,000
Robert C. Byrd Honors Scholarship †	1,800,000	1,800,000	1,800,000
Other Programs			
Optometric Education Scholarship	--	50,000	50,000
Bonus Incentive Grant	650,000	650,000	0
TOTAL ‡	\$40,575,000	\$47,689,300	\$52,839,300

* In FY2003, \$685,000 of the appropriation was held in reserve.

** In FY2003, \$2,015,000 of the appropriation was held in reserve.

*** In FY2003, \$300,000 of the appropriation was held in reserve.

† Federally-funded, spending authority only.

‡ FY2005 total for state General Funds is \$50,939,300.

Teacher Assistance Programs

Illinois Future Teacher Corps (IFTC) Scholarship Program

Public Act (P.A.) 93-21, which was signed by the Governor on June 20, 2003, created The Illinois Future Teacher Corps (IFTC) Scholarship Program. IFTC replaces the ITEACH Teacher Shortage Scholarship Program, which in turn replaced the DeBolt Teacher Shortage Scholarship Program. Like ITEACH, IFTC encourages academically-talented, financially needy students to pursue preschool, elementary, and secondary school teaching in Illinois and to teach in disciplines which have been designated as teacher shortage areas. IFTC, however, unlike ITEACH, also encourages students to teach in schools that have been designated as hard-to-staff and limits eligibility to students at or above the junior level. IFTC requires that recipients pledge to teach at an Illinois school for five years or be required to repay any assistance received.

The IFTC statute allows a student to receive a scholarship in varying amounts, depending on the teaching eligibility criterion to which he or she agrees. The recipient may receive \$5,000 if he or she agrees to pursue a teaching degree and teach in Illinois for five years. The recipient may receive \$10,000 if he or she agrees to pursue a teaching degree and teach in a subject shortage discipline OR teach in a hard-to-staff school for five years. Finally, the recipient may receive \$15,000 if he or she agrees to pursue a teaching degree and teach in a subject shortage discipline AND at a hard-to-staff school for five years.

As per guidance from the Governor's office regarding first-year implementation of this Act, ISAC limited the amount of scholarships awarded to students. Given a \$7,050,000 state funds appropriation, ISAC will award 900 \$5,000 scholarships to students pursuing degrees in a subject shortage discipline and will award 250 \$10,000 scholarships to students pursuing degrees in a subject shortage discipline who also agree to teach for five years in a hard-to-staff school. In total, approximately 1,150 students will be awarded \$7.0 million in IFTC funding in FY2004.

For FY2005, staff anticipates providing renewal awards to approximately one-half of these recipients. Further, staff expects to award an additional \$5,000 to each of these renewal recipients. Thus, staff expects to award approximately \$6.4 million in IFTC funding to 575 renewal applicants in FY2005. Staff also expects to award an additional 575 new awards at varying amounts depending on the number of teaching eligibility criterion each applicant meets. The projected cost of these 575 new awards is approximately \$5.2 million. In total, staff recommends that the Commission request \$11.625 million for IFTC in FY2005, which would allow for about 1,150 awards.

Minority Teachers of Illinois (MTI) Scholarship Program

The Minority Teachers of Illinois (MTI) Scholarship Program annually awards scholarships of up to \$5,000 to minority students who agree to teach at least one year for each year of scholarship assistance at a preschool, elementary, or secondary school where at least 30 percent of the students are minority. In FY2003, about 460 students received assistance totaling \$2.3 million. As the need for qualified teachers increases, funding teacher scholarship programs will remain a high priority for the State. ISAC expects to fully utilize the FY2004 appropriation. The recommended FY2005 request of \$3.1 million would provide for 620 scholarships.

Illinois Scholars Program

The Illinois Scholars Program is administered by the Golden Apple Foundation and is funded by a pass-through appropriation to ISAC. Prior to FY2004, the Illinois Scholars Program was funded through an appropriation to the Illinois State Board of Education, (ISBE), but responsibility was transferred to ISAC effective for FY2004. The Illinois Scholars Program recruits minorities into teaching careers, particularly in urban areas, and provides scholarships as well as mentoring and support services and the opportunity to attend summer institutes on teaching. Students are nominated in their junior year of high school or their sophomore year of

college. One hundred new students are selected each year for an award from 1,200 nominees. Awards are for \$5,000 per year for up to four years and must be repaid if a teaching commitment is not fulfilled. The recommended FY2005 request of \$2.9 million represents level funding from the FY2004 appropriation.

Teacher/Child Care Provider Loan Repayment (TCCLR) Program

In January 2003, ISAC began providing matching grants of up to \$5,000 to teachers who have fulfilled the teaching obligations of the federal Teacher Loan Forgiveness Program and to child care providers who have fulfilled the obligations of the federal Child Care Provider Loan Forgiveness Program in Illinois. To be eligible for the federal programs, teachers must teach full time in a low-income school for five consecutive years and early child care professionals must work full time in a child care facility that serves a low-income community for two consecutive years. Recipients of loan forgiveness under these federal programs may be eligible to receive a matching grant from the State. The FY2005 request of \$2.7 million would allow for up to 540 awards, although statute permits ISAC to utilize up to five percent (\$135,000) of an appropriation to help fund administrative costs and outreach activities for teacher incentive programs. The recommended FY2005 request of \$2.7 million should be sufficient to meet expected program demand.

Entitlement Programs and Obligations

Dependents Grant Programs

The Dependents Grant Programs include the Grant Program for Dependents of Police or Fire Officers and the Grant Program for Dependents of Correctional Officers. The programs provide grant assistance to the spouse and children of Illinois police officers, fire officers, or correctional officers killed or permanently disabled in the line of duty. In FY2003, ISAC made awards to more than 50 students totaling approximately \$245,000. The FY2004 appropriation represents level funding from FY2003. The recommended FY2005 request of \$350,000 allows for tuition and fee increases for FY2005 and potential variability in program demand.

Illinois Veteran Grant (IVG) Program

The Illinois Veteran Grant (IVG) Program provides grants for qualified veterans at Illinois public universities and community colleges. Because the IVG Program is an entitlement program, public institutions are required to cover any funding shortfalls which may occur at their campuses by waiving the portion of a student's tuition and fees not paid by the grant. In FY2003, an estimated 11,300 veterans received more than \$19.2 million in assistance. In FY2003, IVG claims by institutions were prorated and could not be paid fully. Based on FY2003 claim levels, ISAC expects to fully utilize the FY2004 appropriation. The recommended FY2005 IVG request of \$22.0 million is based on the amount that was claimed and could have been paid had funds been available in FY2003 and does not allow for tuition and fee increases for FY2004 and FY2005.

Illinois National Guard (ING) Grant Program

The Illinois National Guard (ING) Grant Program provides grants for qualified members of the Illinois National Guard at Illinois public universities and community colleges. Because the ING Grant Program is an entitlement program, public institutions are required to cover any funding shortfalls which may occur at their campuses by waiving the portion of a student's tuition and fees not paid by the grant. For FY2003, ING provided an estimated 2,500 students with assistance totaling approximately \$4.4 million. The FY2004 appropriation represents level funding from FY2003 and should be fully expended. The recommended FY2005 request of \$4.8 million is based on the amount that was claimed and could have been paid had funds been available in FY2003 and does not allow for tuition and fee increases for FY2004 and FY2005.

Merit and Achievement Programs

Merit Recognition Scholarship (MRS) Program

The Merit Recognition Scholarship (MRS) Program rewards the academic achievement of Illinois high school graduates by providing monetary awards to students who, at the end of their sixth semester in high school, are in the top five percent of their high school class or have a score on the ACT Assessment or the SAT I: Reasoning Test at or above the 95th percentile. In FY2003, approximately 5,370 students received scholarships totaling \$5.4 million. Based on the FY2004 appropriation of \$5.4 million, ISAC announced MRS awards for the top 3.5 percent of the high school graduating class of 2003. Using past year claim rates and future high school graduation estimates, the recommended FY2005 request of \$3.5 million should allow for awards to about 3,500 students, representing the top 2.5 percent of the high school class of 2004.

Federal Robert C. Byrd Honors Scholarship Program

The federally-funded Robert C. Byrd Honors Scholarship Program provides scholarships to academically-exceptional Illinois high school graduates for undergraduate study at approved U.S. colleges and universities. Scholarships are allocated by geographic district to students who graduate in the top two percent of their high school class, based on academic performance and test scores. In FY2003, ISAC made about 1,100 awards totaling \$1.6 million. ISAC expects to receive a federal allocation of about \$1.7 million for the program in FY2004 and again anticipates making awards to approximately 1,100 students. The recommended FY2005 budget request of \$1.8 million assumes a continued full federal allocation and allows sufficient authority to handle funds carried over between federal fiscal years.

Other Programs

Optometric Education Scholarship Program

Created by Public Act 92-0569, the Optometric Education Scholarship Program provides up to ten scholarships annually for students pursuing a graduate optometry degree at a qualified Illinois institution. The scholarship is funded from Optometric Licensing and Disciplinary Board fees that are deposited into a special state fund. ISAC annually seeks spending authority to disburse these funds to qualified students. Scholarship recipients are required to practice optometry in Illinois one year for each year of assistance received. The recommended FY2005 request of \$50,000 in spending authority would allow for ten scholarships.

College Savings Bond Bonus Incentive Grant (BIG) Program

Holders of College Savings Bonds may be eligible to receive a Bonus Incentive Grant (BIG) if they use their bond proceeds to pay for educational expenses at an Illinois college or university. Claims for FY2003 represented approximately 7.7 percent of the total amount that could have been claimed if all bond holders had used their bond proceeds to pay for educational expenses. The FY2004 appropriation represents level funding from FY2003 and will likely be insufficient for all expected claims. For FY2005, it is estimated that a total of \$10.8 million could potentially be claimed if all bond holders claimed a Bonus Incentive Grant. Using a 7.7 percent claim rate assumption, it is estimated that BIG claims would approximate \$835,000.

The Baccalaureate Savings Act (110 ILCS 920/8), however, indicates that the awarding of the supplemental grants are subject to annual appropriation by the General Assembly. Because BIG grants can only be paid to meet postsecondary expenses, it can be presumed BIG recipients were able to attend a postsecondary institution in FY2003. Staff matched FY2003 BIG recipients against the MAP database, and only 35 percent of these BIG recipients completed a Free Application for Federal Student Aid (FAFSA). The average family income

for the 35 percent of BIG recipients matched to the database exceeded \$110,000. It is also notable that FAFSA data are used to not only determine eligibility for grant programs, but also for eligibility for Subsidized Stafford Loans. Therefore, it could be inferred that the 65 percent of BIG recipients who did not complete a FAFSA had no expectation of receiving financial aid because they had even higher incomes, and were probably able to attend a postsecondary institution without financial aid. Given the State's financial difficulties, and important needs in other ISAC programs that will not be funded in FY2005, the recommended FY2005 budget request for the College Savings Bond Bonus Incentive Grant (BIG) Program is \$0.

III. Administrative Support and Outreach

Introduction

Each year, ISAC receives a state General Funds appropriation to help pay operating expenses associated with the programs the agency administers. ISAC also derives funding for its student loan operations from non-state funding sources. Expenditures of such non-state funds are authorized by the General Assembly through the annual appropriations process in the same manner as state-funded operations and programs. All revenues and expenditures associated with the administration of the Federal Family Education Loan (FFEL) Program are accounted for in the Federal Student Loan Fund (FSLF), the Student Loan Operating Fund (SLOF) and the Federal Reserve Recall Fund (FRRF).

To administer the FFEL Program, ISAC requires an appropriation, or state spending authority, from each of the funds (FSLF, SLOF and FRRF) to pay programmatic and operating expenses, as well as make interfund transfers and payments to the U.S. Department of Education. This section of the agenda item itemizes staff's recommendation for the FY2005 budget request related to administrative expenses paid using either state funds or federal funds. The programmatic request for federal programs is discussed in sections IV and V.

On October 1, 1998, ISAC was required by the 1998 Reauthorization of the Higher Education Act of 1965 (HEA) to implement a new guaranty agency financing structure. This new structure required ISAC to separate and account for its FFELP-related revenues and payments in an operating fund and a federally owned account or fund. To implement this new financing mechanism, ISAC established an operating fund on October 1, 1998. As a new fund, there was no beginning balance. To allow ISAC to pay ordinary and contingent operating expenses from the new operating fund, the HEA permitted guaranty agencies to make a working capital transfer for start-up funds from the original Federal Student Loan Fund (FSLF) to the Student Loan Operating Fund (SLOF). The HEA also stipulated that the amount of the transfer could not exceed 180 days worth of operating expenses, and repayment of the transferred amount had to begin within four years after the date of the transfer and be fully repaid within five years. On October 1, 1998, ISAC transferred \$13.0 million from the original Federal Student Loan Fund to the newly created SLOF. As long as the working capital transfer resided in SLOF, ISAC was required by federal regulation to restrict expenditures from SLOF to activities supporting the FFEL Program. On July 29, 2003, ISAC returned the balance of the working capital transfer used to create SLOF to FSLF. The return of the working capital transfer gives ISAC increased flexibility in determining the funding source for portions of its administrative budget, which will allow ISAC to reduce its GRF administrative funding request for FY2005.

Staff's recommendation for the FY2005 administrative budget shifts \$1.0 million in funding from the General Revenue Fund (GRF) to SLOF. Specifically, staff is recommending that \$750,000 in GRF line-item budgets -- primarily the personal services line items -- as well as the \$100,000 separate appropriation to meet cost allocation requirements and the \$150,000 separate appropriation for Adult Learner Outreach be shifted to line items within the SLOF appropriation. Staff is also recommending that several FY2004 separate appropriations from SLOF be shifted to specific line items within SLOF.

In conjunction with the new financing structure established for guaranty agencies, the 1998 Reauthorization of the Higher Education Act also required the U.S. Department of Education to recall federal reserve funds from guaranty agencies under two separate actions. The first recall required ISAC to return approximately \$19.7 million to the U.S. Treasury during FY2003. The first installment of the second recall required ISAC to return approximately \$3.3 million to the U. S. Treasury during FY2004.

Legislation governing the first recall of guaranty agency reserves required agencies to establish a separate fund or account to house the first recall give-back monies. Interest earned on this Federal Reserve Recall Fund may be used by the agency to support new default reduction activities. For FY2004, spending authority of \$1.3 million was appropriated for the transfer of FRRF interest earnings to SLOF so that the Federal Reserve Recall Fund could be closed, as the first recall has been fully paid. With the transfer of the FRRF earned interest to SLOF, however, default prevention activities will be funded through line items within the FY2005 recommended request for SLOF rather than through a request for a separate appropriation from FRRF. Expanded default prevention activities for FY2005 include additional default prevention information being added to the agency's College Zone web site, increased support for the Default Prevention call center, support for the proposed Mentor-type system, and increased marketing communications to ensure program awareness.

The proposed changes from the FY2004 appropriation to the FY2005 recommended request are summarized by funding source in Table 6. Table 7 shows the total administrative funding in the recommended request irrespective of funding source, and clarifies that even with the changes being proposed, staff is recommending a decrease to the overall appropriated funds administrative budget in FY2005. A more detailed description of the proposed changes is provided following these two tables.

It should be noted that the development of internal operating budgets and unforeseen federal requirements may result in slight adjustments to the line item configuration shown for GRF and SLOF in Table 6. The total bottom-line request, as approved by the Commission, however, will not change.

Table 6: Administration and Outreach - Summary by Fund

<i>Line Item Budgets</i>	FY2004 Appropriation		FY2005 Request		Dollar Change FY2004 – FY2005		Percent Change FY2004 – FY2005	
	GRF	SLOF	GRF	SLOF	GRF	SLOF	GRF	SLOF
Personal Services	\$2,602,800	\$13,887,700	\$1,988,000	\$15,200,200	-\$614,800	\$1,312,500	-23.6%	9.5%
Employee Retirement	104,100	555,600	79,500	608,200	-24,600	52,600	-23.6%	9.5%
State Retirement	261,600	1,456,400	198,900	1,591,900	-62,700	135,500	-24.0%	9.3%
Social Security	199,100	1,062,500	152,000	1,163,000	-47,100	100,500	-23.7%	9.5%
Group Insurance	-	2,626,000	-	3,723,800	-	1,097,800	-	41.8%
Contractual Services	2,013,000	11,742,000	2,009,200	11,285,900	-3,800	-456,100	-0.2%	-3.9%
Travel	26,400	191,000	26,400	199,400	0	8,400	0.0%	4.4%
Commodities	32,800	234,700	32,800	243,300	0	8,600	0.0%	3.7%
Printing	100,000	558,000	100,000	657,000	0	99,000	0.0%	17.7%
Equipment	10,000	540,000	10,000	540,000	0	0	0.0%	0.0%
Telecommunications	110,500	1,733,500	113,500	1,793,500	3,000	60,000	2.7%	3.5%
Operation of Auto	5,500	32,400	5,500	32,400	0	0	0.0%	0.0%
Sub-Total Line Item Budgets	\$5,465,800	\$34,619,800	\$4,715,800	\$37,038,600	-\$750,000	\$2,418,800	-15.9%	7.0%
<i>Other Administrative Appropriations</i>								
Adult Learner Outreach	150,000	-	0	-	-150,000	-	-100.0%	-
Cost Allocation Adjustment	100,000	-	0	-	-100,000	-	-100.0%	-
Reserve Recall Interest (Default Prevention)	-	1,300,000	-	0	-	-1,300,000	-	-100.0%
Federal Systems Maintenance & Development	-	5,000,000	-	5,000,000	-	0	-	0.0%
Initiative to Enhance Outreach & Awareness	-	162,500	-	0	-	-162,500	-	-100.0%
E-Learning Initiative	-	250,000	-	0	-	-250,000	-	-100.0%
Sub-Total Other Administrative Appropriations	\$250,000	\$6,712,500	-	\$5,000,000	-\$250,000	-\$1,712,500	-	-25.5%
							100.0%	
<i>Other Funds</i>								
State Higher-EdNet Fee Fund	10,000	-	0	-	-10,000	-	-100.0%	-
State Accounts Receivable Fund	300,000	-	300,000	-	0	-	0.0%	-
State Contracts and Grants Fund	50,000	-	50,000	-	0	-	0.0%	-
Sub-Total Other Funds	\$360,000	-	\$350,000	-	-\$10,000	0	-2.8%	0.0%
TOTAL	\$6,075,800	\$41,332,300	\$5,065,800	\$42,038,600	-\$1,010,000	\$706,300	-16.6%	1.7%

Table 7: Total Administration and Outreach

	FY2004 Appropriation	FY2005 Request	CHANGE FY2004 – FY2005	
			DOLLAR	PERCENT
<i>Line Item Budgets</i>				
Personal Services	\$16,490,500	\$17,188,200	\$697,700	4.2%
Employee Retirement	659,700	687,700	28,000	4.2%
State Retirement	1,718,000	1,790,800	72,800	4.2%
Social Security	1,261,600	1,315,000	53,400	4.2%
Group Insurance	2,626,000	3,723,800	1,097,800	41.8%
Contractual Services	13,755,000	13,295,100	-459,900	-3.3%
Travel	217,400	225,800	8,400	3.9%
Commodities	267,500	276,100	8,600	3.2%
Printing	658,000	757,000	99,000	15.0%
Equipment	550,000	550,000	0	0.0%
Telecommunications	1,844,000	1,907,000	63,000	3.4%
Operation of Auto	37,900	37,900	0	0.0%
Sub-Total Line Item Budgets	\$40,085,600	\$41,754,400	\$1,668,800	4.2%
<i>Other Administrative Appropriations</i>				
Adult Learner Outreach	150,000	0	-150,000	-100.0%
Cost Allocation Adjustment	100,000	0	-100,000	-100.0%
Reserve Recall Interest (Default Prevention)	1,300,000	0	-1,300,000	-100.0%
Federal Systems Maintenance & Development	5,000,000	5,000,000	0	0.0%
Initiative to Enhance Outreach & Awareness	162,500	0	-162,500	-100.0%
E-Learning Initiative	250,000	0	-250,000	-100.0%
Sub-Total Other Administrative Appropriations	\$6,962,500	\$5,000,000	-\$1,962,500	-28.2%
<i>Other Funds</i>				
State Higher-EdNet Fee Fund	10,000	0	-10,000	-100.0%
State Accounts Receivable Fund	300,000	300,000	0	0.0%
State Contracts and Grants Fund	50,000	50,000	0	0.0%
Sub-Total Other State Funds	\$760,000	\$750,000	-\$10,000	-1.3%
TOTAL	\$47,048,100	\$46,754,400	-\$293,700	-0.6%

Recommended Line Item Requests

Personal Services

Changes between the FY2004 appropriation for personal services and the FY2005 request being recommended by staff can be divided into four major categories. The first two categories are those mentioned previously: a proposed shift in funding from GRF to SLOF, and moving the funding request for several initiatives from separate appropriations to line item budgets. The recommended FY2005 budget request for personal services also proposes shifting some support for agency information systems from contractual services to personal services. Finally, the recommended request for personal services provides for additional funding in the group insurance line item to account for increases beyond those budgeted in FY2004 as well as projected increases for FY2005.

In FY2004, ISAC was appropriated \$3,167,600 from GRF and \$19,588,200 from SLOF, or a total of \$22,755,800, for personal services and related expenses. For FY2005, staff is proposing that the funding source for \$750,000 in personal services related expenses be shifted from GRF to SLOF. Staff is also recommending that the funding source of the \$150,000 FY2004 GRF appropriation for Adult Learner Outreach and the \$100,000 FY2004 GRF appropriation for Cost Allocation be shifted to SLOF in FY2005. In FY2004, staff allocated \$50,200 from the Adult Learner Outreach and \$100,000 from the Cost Allocation appropriations to personal services and related expenses. Thus, shifting the funding source for these two functions from GRF to SLOF also increases the recommended FY2005 SLOF personal services request by these amounts. Similarly, staff is proposing shifting the \$1.3 million appropriation from the interest earned on the Reserve Recall Fund to the SLOF line item budget. This shift increases the recommended request for personal services and related expenses in SLOF by \$243,300.

During the last several years, like numerous state agencies, ISAC has relied upon independent contractors to provide a portion of support to its information systems infrastructure. The primary reason driving this decision was the extreme difficulty in recruiting and retaining qualified personnel with the required specific skills in the Chicago market with the salaries allowable under the State University Civil Service Code. With the decline of technology stocks, however, many companies are downsizing information services personnel. As a result, staff and Central Management Services (CMS) are optimistic that qualified IS personnel can be recruited using salaries permissible under civil service. CMS has indicated support to agencies that propose shifting funding for IS support from contractual services to personal services. Thus, staff is recommending shifting \$750,000 from the SLOF contractual services line to personal services and related expenses to recruit five new information services staff members. The average salary for these five positions is approximately \$103,000 with the remaining funding allocated to the benefit line items. Requesting funding for these five positions would increase ISAC's approved headcount paid by appropriated funds.

One of the benefit lines ISAC must pay for SLOF-funded personnel is Group Insurance. In FY2003, Group Insurance averaged 19.5 percent of employees' salaries. In its FY2005 Budget Context paper, IBHE projected that Group Insurance expenditures will increase an additional 14.2 percent to 22.3 percent of employees' salaries in FY2004. Staff recommends that an additional increase of ten percent be requested for FY2005. Overall, the recommended increase for Group Insurance exceeds the FY2004 appropriation by nearly \$1.1 million, or 41.8 percent.

More than 13 percent of ISAC's current approved positions paid by appropriated funds are vacant at this time. About one-half of these positions became vacant during FY2003 as a result of the State's Early Retirement Initiative (ERI). As a part of the FY2005 appropriated funds request, staff is recommending that a number of these vacant positions be eliminated to fund a four percent salary increase. Funding for the proposed salary increase could also be realized through offering lower salary rates than those earned by ERI participants. Staff would identify positions targeted for elimination by evaluating the severity of the detrimental effect each vacancy has on client services.

Contractual Services

Similar to personal services, staff's recommendation for the FY2005 contractual services request is affected by proposing a shift in funding sources for some activities from GRF to SLOF, proposing a shift in requesting separate appropriations to requesting funding within specific line items, and reallocating requested funding within line items.

In FY2004, ISAC was appropriated \$2,013,000 from GRF and \$11,742,000 from SLOF, or a total of \$13,755,000, for contractual services. In FY2004, staff allocated \$49,900 from the Adult Learner Outreach GRF appropriation to contractual services. Thus, shifting the funding source for this function from GRF to SLOF increases the recommended FY2005 SLOF contractual services request by this amount. The shift in the separate

appropriation from the interest earned on the Reserve Recall Fund to the SLOF line item budget will also increase the recommended FY2005 request for contractual services by \$118,100.

In FY2004, the Commission sought and received separate spending authority to fund two initiatives. The first initiative provided \$162,500 from FRRF and \$162,500 from SLOF for ISAC to contract with an outside vendor to build an integrated information management system that establishes and maintains an Internet-based database of grade school, high school and college students. The second initiative provided \$250,000 in SLOF for creating a series of electronic learning components for ISAC's financial aid delivery partners. Staff is recommending that the Commission seek funding to continue both of these initiatives in FY2005, but that the funding be designated within SLOF line items.

Regarding the initiative to construct an integrated information management system for students, staff is projecting that costs in FY2005 attributable to SLOF, including FRRF funds transferred to SLOF, will total \$367,700. Staff is also recommending, however, that the Commission request an additional \$25,000 in spending authority to address any unforeseen contingencies that may occur with this initiative. Therefore, staff is recommending that the SLOF contractual services line item be increased by \$392,700 in order to fund this initiative in FY2005.

Regarding the electronic training initiative, staff is proposing that the learning initiative focus on developing web cast technology to deliver information to financial aid professionals. It is expected that using this technology will reduce the need for ISAC staff to travel to remote sites to provide training or specific technical support to its partners in delivering financial aid. At this time, web cast technology is quickly evolving, and as a result, any software or equipment purchased to take advantage of this technology could be obsolete within a relatively short time frame. Therefore, staff is recommending that \$200,000 of the funding appropriated in FY2004 be requested in the SLOF contractual services line item for FY2005 to allow ISAC to contract with entities to provide this service.

As mentioned previously, staff is recommending to the Commission that the FY2005 request for contractual services be reduced by \$750,000 to fund five new positions in its Information Services division. Staff is also proposing several other reductions in contractual services for reallocation to other line items. First, staff anticipates seeking authority to transfer funding from the FY2004 contractual services line item in both SLOF and GRF to other line items. These transfers, if approved by the Governor's office, will reduce the FY2004 contractual services base by this amount, and is carried forward into staff's FY2005 recommendation for contractual services. Most notably, authority will be sought to transfer nearly \$467,000 from the FY2004 SLOF contractual services line item to meet projected cost increases in Group Insurance for FY2004.

In summary, staff's recommended FY2005 GRF contractual services request of \$2,009,200 is \$3,800, or 0.2 percent less than the FY2004 GRF contractual services appropriation, and staff's recommended FY2005 SLOF contractual services request of \$11,285,900 is \$456,100, or 3.9 percent less than the FY2004 SLOF contractual services appropriation. Overall, staff is recommending that the Commission request \$13,295,100 for contractual services in FY2005, which is \$459,900, or 3.3 percent less than the FY2004 appropriation.

Travel

In FY2004, ISAC was appropriated \$26,400 from GRF and \$191,000 from SLOF, for a total of \$217,400 for travel. Staff also allocated \$8,400 from the FRRF Default Prevention appropriation to travel in FY2004. For FY2005, staff is recommending that the FY2005 SLOF request for travel be increased by this \$8,400 to accommodate shifting this appropriation into SLOF line items.

Thus, staff's recommended FY2005 GRF travel request is equal to the FY2004 appropriation of \$26,400, and staff's recommended FY2005 SLOF travel request of \$199,400 is \$8,400, or 4.4 percent greater than the FY2004 SLOF travel appropriation. Overall, staff is recommending that the Commission request \$217,400 for travel in FY2005, which is \$8,400, or 3.9 percent greater than the FY2004 appropriation.

Printing

In FY2004, ISAC was appropriated \$100,000 from GRF and \$558,000 from SLOF, or a total of \$658,000 for printing. Staff allocated \$49,100 from the FRRF Default Prevention appropriation and \$49,900 from the GRF Adult Learner Outreach appropriation to printing in FY2004. For FY2005, staff is recommending that the FY2005 SLOF request for printing be increased by \$99,000 to accommodate shifting these appropriations into SLOF line items.

Thus, staff's recommended FY2005 GRF printing request is equal to the FY2004 appropriation of \$100,000, and staff's recommended FY2005 SLOF printing request of \$657,000 is \$99,000, or 17.7 percent greater than the FY2004 SLOF printing appropriation. Overall, staff is recommending that the Commission request \$757,000 for printing in FY2005, which is \$99,000, or 15.0 percent greater than the FY2004 appropriation.

Equipment

In FY2004, ISAC was appropriated \$10,000 from GRF and \$550,000 from SLOF, or a total of \$560,000 for equipment. Staff is recommending that the Commission request no increase to this line item from either GRF or SLOF for FY2005.

Telecommunications

In FY2004, ISAC was appropriated \$110,500 from GRF and \$1,733,500 from SLOF, or a total of \$1,844,000 for telecommunications. Staff allocated \$10,000 from the FRRF Default Prevention appropriation to telecommunications in FY2004. For FY2005, staff is recommending that the FY2005 SLOF request for telecommunications be increased by \$10,000 to accommodate shifting the FRRF appropriation into the SLOF line item. As mentioned in the Contractual Services section, staff is anticipating using web cast technology to deliver training to partners in financial aid delivery during FY2004 and FY2005. Staff currently anticipates that increased usage of leased lines attributable to this initiative can be accommodated within the current telecommunications infrastructure. Staff is recommending, however, that the Commission request an additional \$50,000 in spending authority for telecommunications in FY2005 to address potential contingencies. This additional \$50,000 in spending authority can be accomplished by shifting a portion of the \$250,000 appropriated in FY2004 for the electronic training initiative to the SLOF telecommunications line item.

Therefore, staff's recommended FY2005 GRF telecommunications request of \$113,500 is \$3,000, or 2.7 percent greater than the FY2004 GRF telecommunications appropriation, and staff's recommended FY2005 SLOF telecommunications request of \$1,793,500 is \$60,000, or 3.5 percent greater than the FY2004 SLOF telecommunications appropriation. Overall, staff is recommending that the Commission request \$1,907,000 for telecommunications in FY2005, which is \$63,000, or 3.4 percent greater than the FY2004 appropriation.

Operation of Auto

In FY2004, ISAC was appropriated \$5,500 from GRF and \$32,400 from SLOF, or a total of \$37,900 for operation of auto. Staff is recommending that the Commission request no increase to this line item from GRF or SLOF for FY2005.

Other Recommended Student Loan Operating Fund Administrative Request

Federal Student Loan Systems Development and Maintenance

The FY2005 budget request recommendation contains \$5.0 million in spending authority to meet the requirements of federal loan systems development and maintenance. These requirements fall into three specific areas. First, Phase I (default prevention) of the Odyssey System, which was implemented in June of 2000, and Phase II (collections, claims, accounting and federal reporting) of the System, which was implemented in October, 2002 have ongoing maintenance and software support requirements which must be met in the coming fiscal year. Second, in FY2004, staff intends to make several enhancements to its federal systems which include becoming a Meteor Access Provider and fully implementing the Total Enrollment Reporting Process (TERP) via the Clearinghouse. Staff also intends to embark on an incremental development effort to improve its loan guarantee information system. These activities are scheduled to continue through FY2005, and will require expenditures from this recommended request for spending authority. Finally, the Reauthorization of the Higher Education Act is scheduled for completion during calendar year 2004. Securing this recommended spending authority will help ensure that ISAC has the flexibility required to respond to potential initiatives proposed by ISAC's competitors in the student loan industry or by the federal government during this important time.

Recommended Requests from Other Administrative Funds

State Accounts Receivable Fund

Staff recommends an FY2005 State Accounts Receivable Fund request of \$300,000, which represents no change from the current year appropriation. In FY2005, the agency plans to continue the aggressive approach to collection activities first undertaken in FY2002 (with the assistance of an outside collection agency) for the teacher scholarship programs covered by this appropriation. These programs include 12 teacher education scholarship programs formerly managed by the Illinois State Board of Education. Although these programs are no longer in existence, collection activities are still required for those students who did not fulfill the teaching obligation of the scholarship. This level of spending authority will allow for the utilization of monies in this fund, (which are generated through the repayment of teacher scholarships from students who do not fulfill their teaching requirements) for administrative expenses and related collection agency charges.

State Contracts and Grants Fund

In FY2003, ISAC received legislative approval for creation of this Fund. This Fund is intended as a repository for monies received from not-for-profit professional associations interested in assisting ISAC with joint outreach, training and research activities. These associations include, but are not limited to, the Illinois Association of Student Financial Aid Administrators (ILASFAA), the Illinois Association of College Admission Counseling (IACAC), the National Association of State Scholarship and Grant Programs (NASSGAP), and United Student Aid Fund's Lumina Foundation. In FY2004, ISAC received an appropriation of \$50,000 in spending authority from this Fund. Staff recommends an FY2005 spending authority request of \$50,000 for the Contracts and Grants Fund.

IV. Federal Student Loan Program Funds

To administer the FFEL Program, ISAC requires state spending authority, from each of the funds (FSLF and SLOF) to pay programmatic expenses, as well as make interfund transfers and payments to the U.S. Department of Education. This section of the agenda item itemizes staff's recommendation for the FY2005 budget request related to programmatic expenses paid using these two Funds. The recommended request for all expenditures from these two funds – the operating costs discussed previously, as well as the programmatic expenses explained in this section are summarized in Table 8.

**Table 8: FY2005 Student Loan Funds
Budget Request by Fund Type (\$ in millions)**

STUDENT LOAN FUND TYPE	FY2005 BUDGET REQUEST
Student Loan Operating Fund	
Student Loan Operating Fund Expenses	\$37.0
Default Aversion Fee Reversals	2.0
Outside Collection Agency Activities	22.0
Federal Loan Systems Development and Maintenance	5.0
Subtotal: Student Loan Operating Fund	\$66.0
Federal Student Loan Fund	
Lender Reimbursements	\$160.0
Collections Payments to SLOF	25.0
Default Aversion Fee	5.0
Subtotal: Federal Student Loan Fund	\$190.0
Total: FY2005 Student Loan Funds Request	\$256.0

Student Loan Operating Fund

Transfer Default Aversion Fee Reversals from SLOF to FSLF

While guaranty agencies are encouraged to increase their default prevention efforts through the payment of default aversion fees to their operating funds, these fees are refundable in the event the default prevention activities subsequently fail to avert the loans from default. If a loan on which the default aversion fee was previously collected goes into default, the fee must be returned to the Federal Student Loan Fund from the Student Loan Operating Fund. As with the Default Aversion Fee, Default Aversion Fee Reversals require transferring revenues from one fund to another which requires spending authorization. The recommended request for spending authority for FY2005 is \$2.0 million.

Outside Collection Agency Activities

As part of ISAC's collection strategy, ISAC contracts with outside collection agencies to assist in collections on the agency's defaulted student loan portfolio. ISAC currently has entered into agreements with three collection agencies to service a portion of its defaulted loan portfolio. Collection agencies typically are assigned borrowers with accounts for which a voluntary payment has not been received for at least 180 days despite intensive in-house collection efforts. Collection agencies retain a contractually-stated portion (generally 14 to 18 percent) of payments which they receive from borrowers on such accounts.

Appropriations authority is required to enable ISAC to remit commission fees back to the collection agencies following their transmittal of the total payment amount. The recommended spending authority for this purpose for FY2005 is \$22.0 million, which is equivalent to the level of fees anticipated to be retained by collection agencies in FY2005.

Federal Student Loan Fund (FSLF)

Lender Reimbursements

Payments are made from the Federal Student Loan Fund to reimburse lenders for defaulted loans, as well as loans which are discharged as a result of the death, disability or bankruptcy of the borrower. In addition, payments are also made for refunds to students or lenders from closed school or false certification accounts, and for refunds to students who have been erroneously subject to Internal Revenue Service offset procedures. To partially offset the cost of lender reimbursements, ISAC receives payments, in the form of federal reinsurance, from the U.S. Department of Education.

The level of spending for lender reimbursements generally corresponds to economic conditions, the volume of loan guarantees made in previous years, and successful default prevention activities. At a time of relatively low unemployment and stable personal income, students are less likely to default on their loan obligations and, as a result, reimbursements to lenders for defaulted loans generally decline. For FY2004, the lender reimbursement appropriation is \$190.0 million, although expenditures are expected to be less than \$120.0 million. Even with the continued uncertainty regarding the overall state of the economy, it is unlikely that lender claims will reach this level in FY2005. Therefore, staff recommends that the Commission reduce its request for spending authority for lender reimbursements in FY2005. The recommended request for spending authority for FY2005 is \$160.0 million.

Transfer ISAC's Share of Collections from FSLF to SLOF

ISAC is permitted to retain approximately 23 percent of all collection revenues according to federal law. This rate varies by loan type, with consolidation rates being lower and the retention level for rehabilitated loans being higher. ISAC is required to deposit all collection revenues in the FSLF, and transfer ISAC's retention amount to the SLOF.

The level of spending authority required in FY2005 in order to make such transfers is \$25.0 million, which represents no change from FY2004.

Transfer Default Aversion Fee Revenues from FSLF to SLOF

This fee is intended to encourage guaranty agencies to increase their default prevention efforts. This fee is actually paid from ISAC's Federal Student Loan Fund to ISAC's Student Loan Operating Fund. Transferring

revenues from one fund to another requires spending authorization. The recommended request for spending authority for FY2005 is \$5.0 million, which is the same as FY2004.

V. Other Federal Funds

Federal Student Assistance Scholarship Fund

In addition to the FFEL Program, ISAC will also require an appropriation from the Federal Student Assistance Scholarship Fund to fulfill its administrative responsibilities related to the Paul Douglas Teacher Scholarship Program. The Paul Douglas Teacher Scholarship Program was a federally funded program administered by ISAC which provided undergraduate scholarships to encourage outstanding high school graduates to pursue teaching careers. Similar to the state teacher scholarship programs, the Paul Douglas Scholarship required a teaching commitment. Failure to fulfill the teaching obligation required the student to repay the scholarship with interest. Although federal funding for this program was discontinued after FY1995, repayments on the converted scholarships continue.

In FY2004, ISAC received spending authority of \$400,000 to transfer repayment funds collected under the Paul Douglas Teacher Scholarship Program to the U.S. Treasury. Staff recommends that the Commission request \$400,000 in spending authority for FY2005 to continue the return of these payments to the federal government.