

**AGENDA ITEM 8.**

**INVESTIGATING ALTERNATIVE FUNDING SOURCES FOR THE  
MONETARY AWARD PROGRAM (MAP):  
ANALYZING STATE INCOME TAX REVENUE STREAMS FROM COMMUNITY  
COLLEGE MAP RECIPIENTS TO PROVIDE INFORMATION FOR THE  
PROCUREMENT OF BONDS TO FUND NEED-BASED FINANCIAL AID**

**Submitted for:** Information

**Summary:** The Monetary Award Program (MAP) eligible application volume is currently 22 percent higher than last year. The eligible applicant volume increase is even higher at community colleges, at 32 percent. Chronic underfunding of the program coupled with an unprecedented increase in demand for need-based aid forced the Commission to suspend award announcements for applications received on or after May 15, ten weeks earlier than last year. The early May suspense date disproportionately affects community college students, as many are independent students who tend to apply both to school and for financial aid later in the year than do traditional dependent students. We now are on track to suspend a total of 130,000 eligible students this year, almost as many as we will serve. About 90,000 of them were headed to community colleges.

A devastating hit to the program occurred in July when the MAP appropriation was slashed from its \$385 million FY2009 level to \$197 million by the legislature in an attempt to minimize a large state budget deficit. As a result, non-suspended students are eligible for half the amount they were originally awarded. For students attending public universities, about 24 percent of their tuition and fees, on average, are now covered by MAP. For community college students, tuition and fee coverage is about 35 percent. For students attending private institutions, about 10 percent.

The current tough financial times and the prospect of more to come, have forced the Commission to think about different ways to fund need-based aid. Staff has begun to investigate whether revenue bonds might be procured to fund a need-based financial aid program for community college students. The idea is based on the premise that the education acquired by MAP recipients because of the MAP grant leads to better jobs and higher state tax revenues, that could then be used to pay off the bonds. On a smaller scale, several workforce development and training programs in other states are using a similar funding mechanism.

Staff is currently working with the Illinois Department of Revenue (IDR) to calculate tax revenues generated by students who received MAP grants at a community college. IDR expects to be able to generate the data we need to further evaluate the possibility of bond financing by the end of September or early October. This agenda item is intended to inform the Commission about the possibility and mechanics of a bond funding proposal and presents an overview of the issues, an outline of the proposal as currently developed and the steps taken to date.

**Action requested:** None

**ILLINOIS STUDENT ASSISTANCE COMMISSION**

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**Background**

In FY2002 the maximum Monetary Award Program (MAP) award, \$4,968 covered the average cost of tuition and fees at a public university. This year, *before* the 50 percent cut to ISAC's grant appropriation, the maximum MAP grant covered about 48 percent of those costs. With the cut: about 24 percent. Students at community colleges, where the awards are capped by tuition and fees, also had their tuition and fees fully covered in FY2002, but today only receive about 70 percent of tuition and fees, further reduced this year to 35 percent because of the appropriation cut. Students from lower income families, especially those in the first income quintile with average incomes of about \$25,000 (or \$17,000 for independent students), are very price sensitive. Many will chose not to attend, or will cut their course loads. We know the longer it takes students to complete degrees, the fewer will actually complete. Others will take out more loans and be deeply in debt upon graduation.

**Application volume is up – and so are suspensions**

Due in part to a poor economy that increases applications from independent students, MAP eligible application volume is currently 22 percent higher than last year. The eligible applicant volume increase is even higher at community colleges, at 32 percent. Chronic underfunding of the program coupled with an unprecedented increase in demand for need-based aid forced the Commission to suspend award announcements for applications received on or after May 15, ten weeks earlier than last year. The early May suspense date disproportionately affects community college students, as many are independent students who tend to apply both to school and for financial aid later in the year than do traditional dependent students. We now are on track to suspend a total of 130,000 eligible students this year, almost as many as we will serve. About 90,000 of them were headed to community colleges.

Table 1 shows the number of suspended students since FY2000. During the first two years, no students were suspended. The most students that had ever been suspended occurred last year – with nearly 60,000 students suspended. Of those 60,000 suspended students, about 70 percent were planning to attend community colleges. If that fraction holds for this year, we will suspend over 90,000 community college students, more than we have suspended in total before.

**Table 1. MAP Suspense History**

Award Year	Original Suspension Date	Suspension Release to Date	Final Suspension Date	# Eligible Left in Suspension
1999 - 00	None	None	None	0
2000 - 01	None	None	None	0
		Release through		
2001 - 02	10/27/2001	12/7/01	12/8/2001	16,544
2002 - 03	8/13/2002	None	8/13/2002	44,144
2003 - 04	8/2/2003	None	8/2/2003	51,832
		Release through		
2004 - 05	8/16/2004	10/15/04	10/16/2004	26,453
2005 - 06	9/1/2005	None		26,375
2006 - 07	8/25/2006	None		34,798
2007-08	8/16/2007	None		43,361
2008-09	7/26/2008	8/1/2008	8/2/2008	59,846
2009-2010	5/15/2009		<i>estimate</i>	130,000

**Borrowing is up for students in all sectors**

For students who still manage to attend college despite shrinking aid, borrowing is often the solution to make ends meet. Borrowing includes not only Federal Stafford loans but also private loans and, increasingly, credit card debt. This increase in borrowing is not showing up in the cumulative borrowing statistics yet, because many of these students are not out of school, and haven't started to repay student loans. For example, in 2004, the most a dependent freshman could borrow in Stafford loans was \$2,625; today it is \$5,500. For independent freshmen students, the limits increased from \$6,625 to \$9,500. Sophomores, juniors and seniors have seen similar increases in their limits. We know that as soon as a limit is raised, the average loan size quickly rises to approach the new limit. The U.S. Department of Education calculates that students borrowed over \$75 billion in Stafford loans last year, up 25% from 2008 and it estimates an additional 12% increase for FY2010. Even community college students are borrowing more than ever. The Project on Student Debt estimates that 30 percent of full-time students with financial need attending community colleges now have Stafford loans and another 8 percent use private loans.

**Costs are up, but financial aid is down**

Illinois has adopted, without any public discussion, what is usually a private school pricing policy – “high tuition, high aid.” In FY2009, according to the College Board, the average tuition and fees at public universities was \$6,585. Illinois average tuition and fees was \$9,452 and it increased by 10.5% to \$10,442 for FY2010. For community colleges, the difference isn't as large but Illinois is still above average, \$2,402 vs. \$2,762, with a 6.4% increase to \$2,939 for FY2010. A high tuition/high aid policy can provide more aid to students from lower income families and reduce the state subsidy paid to students from higher income families. To accomplish this, however, the high tuition part of the equation *must* be balanced with high state aid. For years, Illinois offered one of the largest need-based programs in the country and was rewarded with one of the highest state percentages of college graduate in its workforce.

But, no more. This year we will deny any need-based aid at all to about 130,000 students who qualify. For the rest we will barely cover the cost of a few classes which are offered at rates that are up to 150 percent of the cost of public schools in other states. At a time when we need the best educated workforce possible, we are putting extra hurdles in the path of low income students who are trying to

## **Filling the gap – a new way to fund MAP grants for community college students**

The appropriation for all ISAC-administered grant programs was cut by \$220 million this year resulting in a \$185 million decrease in MAP. *Before* the cut, MAP was already underfunded by at least \$200 million (the cost of updating tuition and fees and the living allowance, raising the maximum award by \$500, raising the EFC cap and processing until the end of August.) Even if funds were available to produce these significant changes, the state still would not provide the same level of affordability it had in 2002. Funding at least part of MAP through another revenue source may be the only way to restore the buying power of the grant.

### **The concept of workforce development bonds**

If funding exclusively from GRF cannot support the demand for the MAP program what other options are there? One proposal for alternative funding for need-based education grants comes from the Joyce Foundation. The program is an variation of the real estate Tax Increment Financing (TIF) programs and is being used in Michigan, Missouri, Kansas, and Iowa for workforce retraining programs. Instead of funding new construction by issuing bonds, as with a TIF, Illinois would fund human capital investments by funding MAP grants with revenue bonds.

### **How funding grant programs with bonds works**

The idea is straightforward; but as with many ideas, the complexities lie in the details. The program would be restricted to funding community college MAP grants. Community college students have different needs than students who attend four-year schools. Many community college students are independents who cannot decide in February to attend school the following September. These students apply later out of necessity and need a later application deadline. The average size of the award for these students is only 40 percent of the average award for a four-year student, so fewer dollars are needed to serve the same number of students. Most community college students return to the workforce within a few years whereas students at “four-year” schools routinely take five or six years to complete.

A revenue bond or bonds would be issued to fund MAP grants for all eligible community college students in a given academic year. The bonds would be paid down with a specific legislative diversion of state income taxes paid by those specific MAP recipients until those bonds were paid off. For example, students attending community colleges and receiving bond-funded MAP grants in FY2011 would have their future tax revenues dedicated to paying off that bond until it is retired. While this program would obligate future tax receipts, it has advantages. The single biggest failure of state and municipal funding strategies for many projects is the nature of linking pro-cyclical needs with pro-cyclical revenue sources. The demand for social services and programs such as MAP increases substantially during precisely the times when the state ability to fund them is at its lowest. During recession, tax receipts are down yet the demand for services rises, creating even greater hardship. With MAP funding, the demand for services had increased dramatically over the past decade, leaving us with a \$200 million gap in funding; falling tax receipts from the recession quickly added another \$185 million to the problem this year.

Creating an ongoing bonding structure would allow the state to increase human capital investment when the demand is greatest and then pay the bonds faster (with increased tax revenue) when the business cycle is stronger. Investment bankers have indicated that this type of bond is highly fundable at attractive rates. Separating out community college students by funding source would also allow for program changes to make the program work better for community college students.

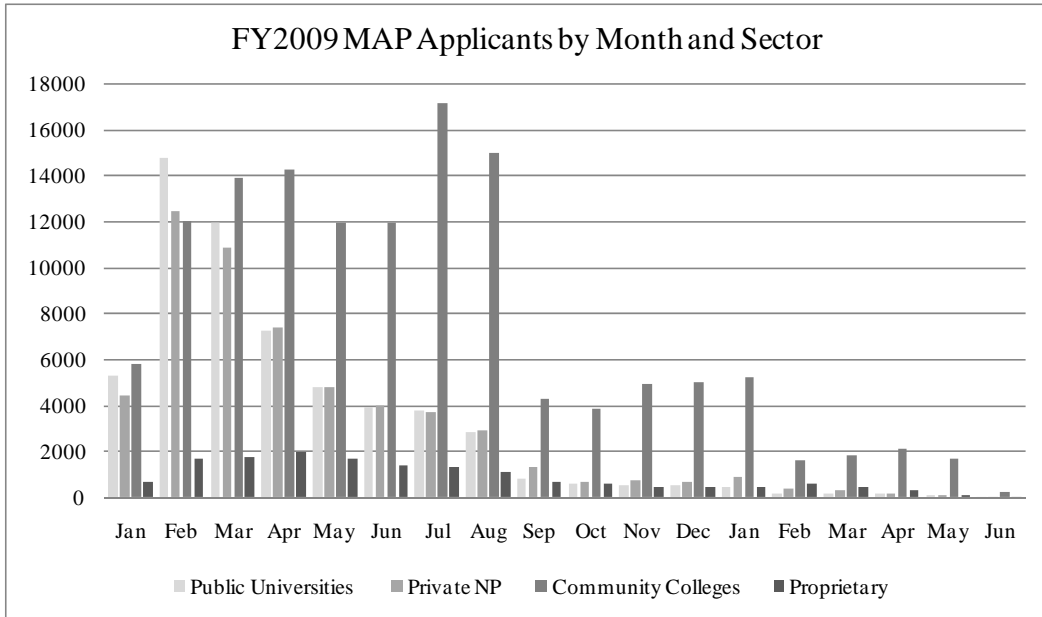
Staff is currently working closely with Illinois Department of Revenue (IDR) to understand the change in the level of income tax receipts as a function of the year of school matriculation. Staff created files of community college MAP recipients from FY2002 through FY2006. These files were matched with Shared Enrollment and Graduation Consortia (SEGC) data to determine which of the students had graduated with a certificate, Associate Degree, Bachelors Degree, or higher as of FY2008. Of the 174,563 (unduplicated) students who received MAP while attending an Illinois community college in that time period 58,296 (33 percent) had since graduated with some type of credential; 54 percent with an Associate degree, 34 percent with a certificate, and the remaining 12 percent with a Bachelor's degree or higher. Not all students who graduated are accounted for. Students who may have transferred to a private institution or to an out of state institution are not included in the analysis because only two private schools in Illinois submit data to the SEGC database. Staff can, if it is necessary, obtain graduation rates for students who continue at private institutions by sending records to the Clearinghouse database. We use this database sparingly because of the cost, 54 cents per record.

Staff has sent these files to IDR asking it to match to its revenue data base for years 2006-2009. For independent students, staff has also requested a match for the year prior to the independent students' enrollment. IDR expects to complete the matching and produce tax revenue numbers by the end of September. When staff receives the data from IDR, we should be able to determine the total tax revenues generated by each class of community college MAP recipients and the difference between their pre-college and post-college tax revenues. We will be able to separate out the graduates from those who do not complete and determine the differences in tax revenues. At that point staff will have a better idea of the length of time a particular tax revenue stream would have to be diverted to retire the bonds.

#### **How much funding would be needed?**

Community college students often make up their minds to attend college later than students attending four-year schools. These students are often independent, must juggle jobs and families. Some are returning to school for retraining because they have been laid off. Figure 1 shows the application patterns for students attend public universities, private nonprofit institutions, community colleges and proprietary schools. Community college applications are fairly small until April and then peak in July, two months after we have stopped making award announcements. It is a very different pattern from the applications submitted by students attending four-year schools. Applications from students who plan to attend public or private four-year institutions peak in February, well before the May 15<sup>th</sup> deadline.

**Figure 1: MAP applicants by Month and Sector**



Community college students need more MAP enrollment flexibility than traditional students. A two-deadline calendar with a cut off at the end of August for fall term and the end of December for spring term would better serve their needs. The MAP cost for community college students currently is about \$57 million, or about 15 percent of the FY2009 appropriation. However, that \$57 million serves about 57,000 students or about 39 percent of the students who receive MAP. This is only about half of the community college students who are eligible for MAP – the rest are suspended. Extending processing to August 31<sup>st</sup> would cost about \$32 million; until December 31, would be about \$48 million.

Many community college students attend part-time. If a student takes two classes per semester and does not attend during the summer (MAP currently does not pay for summer school) it will take the student a minimum of 10 semesters or five years to graduate with a “two-year” degree. Paying for students to attend summer school could reduce that time to a little over three years. The longer it takes students to complete, the fewer will do so. Adding payment for summer school (only for students who attend community colleges during the fall and spring terms) would cost approximately \$20 million.

The variable in the current MAP formula that is most important to community college students is the year of tuition and fees included in the cost analysis. Currently it is FY2004. Raising it to FY2010 levels would increase the maximum award available to these students by over \$1,000, eliminating the need to find additional funds to cover tuition and fees. To incorporate FY2010 tuition and fees would cost \$28 million (with an August 31 suspension.)

Formula Improvement at Community Colleges	Marginal Cost for Improvements at Community Colleges
Current funding	\$57 million
Extend processing until 8/31	\$32 million
Extend processing until 12/31	\$16 million
All year processing	\$3 million
FY2010 tuition and fees	\$28 million (w/Aug 31 suspension)
FY2010 T&F/10% reduction	\$25.2 million (w/Aug 31 suspension)

The current cost of serving community college MAP recipients is about \$57 million. To expand the processing deadline to August and include current tuition and fees would be an additional \$60 million, bringing the cost of the program to about \$117 million; to move to year round MAP processing would cost an additional \$87 million for a total cost of \$144 million. Combinations could be scaled back with a reduction factor: processing until August and using FY2010 tuition and fees at 70 percent would cost about \$108 million. Obviously, there are many other variations that would be possible; all would be an improvement over current conditions.

## **Conclusion**

MAP funding was insufficient to meet demand prior to the July cut. If MAP continues to be funded exclusively with GRF, and the state budget problems continue as they are projected to do, MAP is unlikely to see funding increases in the near future. This agenda item outlines an alternative funding source for MAP grants given to community college students. MAP could be funded with state revenue bonds that are paid back from the taxes paid by the MAP recipients funded through the bonds. At a minimum, this would free up \$57 million of MAP funds funded through GRF that are now being used for community college students and may allow for the expansion of the existing community college MAP program to extend processing deadlines and perhaps increase the size of the award.