

AGENDA ITEM 5.

FY2007 MONETARY AWARD PROGRAM DISCUSSION OF COLLEGE AFFORDABILITY IN ILLINOIS: FY2007 MONETARY AWARD PROGRAM BUDGET IMPLICATIONS

Submitted for: Information

Summary: The affordability of a college education in Illinois continues to decline. While family incomes for low-income and lower middle-income students increased less than 5 percent since FY2002, college attendance costs have increased 17 percent at community colleges and 27 percent at public universities. Need-based financial aid has not kept up with the widening gap between college costs and student resources due to tight state and federal budgets. Since FY2002, the out-of-pocket costs for attending a community college or public university have more than doubled for students from the lowest income families. Students from families with incomes in the low-middle range have seen out-of-pocket costs increase by more than one-third at community colleges and by nearly one-half at public universities.

Since FY2002, tuition and fee coverage by the maximum announced MAP award has declined from 100 percent to 76 percent at community colleges, from 100 percent to 63 percent at public universities, and from 29 percent to 22 percent at private institutions. This decline can be attributed to the \$38 million decrease in MAP funding in FY2003, large increases in application volume, and high increases in tuition and fees. To continue processing to August the Commission has been forced to apply reduction factors to all awards and the MAP formula has not been updated with current tuition and fees. Furthermore, many eligible students have been denied awards because when demand exceeds the appropriation, the Commission is forced to suspend award announcements. In FY2003 over 44,000 eligible students were suspended; in FY2004, nearly 52,000; and in FY2005, 26,500.

In preparation for the FY2007 budget request, staff has estimated the cost for MAP formula improvements that could help improve affordability or at least slow the decline. While implementing all of the changes would cost more than a staggering \$200 million, single improvements such as incorporating 2004-05 tuition and fees, extending application processing to the end of the year, or lowering the reduction factor from 9 percent to 5 percent, could each be made for \$20 million or less.

Action requested: None

**ILLINOIS STUDENT ASSISTANCE COMMISSION
DISCUSSION OF COLLEGE AFFORDABILITY IN ILLINOIS:
FY2007 MAP BUDGET IMPLICATIONS**

Introduction

Affordability of a college education for Illinois students and families has decreased sharply during recent years, as incomes have not kept up with rising education costs and financial aid funding has not increased to make up the difference. MAP suffered a \$38 million funding cut in FY2003 and has not yet regained its previous funding level, due to state budget constraints. As recently as FY2002, the highest announced MAP award completely covered average tuition and fees at community colleges and public universities. By FY2006 that coverage had fallen to 76 percent at community colleges and 63 percent at public universities. Staff has estimated the costs of MAP formula changes that would help improve affordability by increasing the percentage of tuition and fees covered by MAP. The following discussion outlines these possible changes and is offered as background information for the MAP budget request expected to be presented in January.

College Affordability Continues to Decline

College affordability, a concern nationwide and in Illinois for years, continues to worsen. While family incomes for low-income and lower middle-income students increased less than 5 percent between FY2002 and FY2006, college costs have increased 17 percent at community colleges and 27 percent at public universities, mostly due to higher tuition and fees. Tight state and federal budgets have prevented need-based financial aid from closing the widening gap between college costs and student resources.

Change in affordability is commonly defined in two ways: by changes in remaining need and by changes in out-of-pocket cost. Remaining need equals the college costs left after a student's federal and state aid and expected family contribution (EFC) are subtracted from the total cost of attending college. Out-of-pocket cost is the sum of the EFC and remaining need, which equals the total annual amount a family or student must pay. The EFC is basically a rationing mechanism, calculated through federal need analysis formulas, to direct aid to students with the fewest resources. Using out-of-pocket cost may be more appropriate in this context since many low-income and lower middle-income families served by the Monetary Award Program have not actually saved an amount equal to their expected contribution. Table 1 contains these definitions.

Table 1: Affordability Definitions

Expected Family Contribution (EFC): a federally determined measure of a student's or family's ability to pay for college based on income, assets, family size, and number in college.

$$\text{Remaining Need} = \text{Total Cost} - \text{EFC} - \text{Pell} - \text{MAP}$$

$$\text{Out-of-Pocket Cost} = \text{EFC} + \text{Remaining Need}$$

Table 2 shows that affordability for low-income and lower middle-income students has declined at community colleges and public universities since the MAP appropriation peaked in FY2002. Remaining need for the lowest income students more than doubled between FY2002 and FY2006, from \$943 to \$1,975 at community colleges and from \$2,611 to \$5,635 at public universities. Out-of-pocket cost for this group of students is the same as remaining need because their EFC is zero. Note that, even with the maximum Pell and MAP grants, the \$5,635 remaining need still exceeds the increased Stafford student loan limits for freshman (\$3,500) and sophomores (\$4,500) that have been proposed at the federal level, as well as the existing maximum for upperclassmen (\$5,500). Even at a community college, remaining need makes up 13 percent of the \$14,837 average family income for lower-income families; at public universities remaining need is 38 percent of income, or nearly 20 weeks of gross pay.

Students from lower middle-income families did not fare much better. Remaining need for those attending community colleges increased 51 percent from \$2,067 to \$3,116, while out-of-pocket costs increased 34 percent from \$4,124 to \$5,517. For lower middle-income students attending public universities, remaining need increased 65 percent from \$3,790 to \$6,246 while out-of-pocket costs increased 48 percent from \$5,847 to \$8,647. Even if the student had the \$2,401 expected family contribution on hand, they would still need to borrow to attend a community college and borrow more than the proposed underclass maximums to attend a public university. The out-of-pocket cost for students in this income group increased from 12 percent to 15 percent of their \$36,495 family income at community colleges and from 17 percent to 24 percent of income at public universities.

Table 2: Changes in College Affordability for Dependent Students				
	Community College		Public University	
	<i>Students from the Lowest Income Families</i>			
	FY2002	FY2006	FY2002	FY2006
College Cost	\$6,424	\$7,527	\$11,147	\$14,206
- EFC	\$0	\$0	\$0	\$0
NEED	\$6,424	\$7,527	\$11,147	\$14,206
- Pell	\$3,750	\$4,050	\$3,750	\$4,050
- MAP	\$1,731	\$1,502	\$4,786	\$4,521
Remaining Need	\$943	\$1,975	\$2,611	\$5,635
Out-of-Pocket Cost	\$943	\$1,975	\$2,611	\$5,635
Family Income	\$14,145	\$14,837	\$14,145	\$14,837
%OoPC/Income	7%	13%	18%	38%
	<i>Students from Lower Middle-Income Families</i>			
	FY2002	FY2006	FY2002	FY2006
College Cost	\$6,424	\$7,527	\$11,147	\$14,206
- EFC	\$2,057	\$2,401	\$2,057	\$2,401
NEED	\$4,367	\$5,126	\$9,090	\$11,805
- Pell	\$1,700	\$1,600	\$1,700	\$1,600
- MAP	\$600	\$410	\$3,600	\$3,959
Remaining Need	\$2,067	\$3,116	\$3,790	\$6,246
Out-of-Pocket Cost	\$4,124	\$5,517	\$5,847	\$8,647
Family Income	\$34,824	\$36,495	\$34,824	\$36,495
% RN/Income	6%	9%	11%	17%
%OoPC/Income	12%	15%	17%	24%

In the absence of significant increases in financial aid or family income, affordability will continue to worsen in FY2007. At this time, it appears that the maximum Pell award will remain at \$4,050 where it has been since FY2004 and, with the current economic condition of the state, no large increases are expected in MAP funding. In recent years, annual tuition and fee increases have averaged 8 percent at community colleges and just over 10 percent at public universities. If FY2007 tuition and fees follow this pattern, remaining need will be nearly \$200 higher for community college students and more than \$700 higher for public university students unless MAP funding increases significantly.

Private university tuition and fee increases have averaged less than 6 percent per year, however, with average tuition and fees of nearly \$21,000, they are already nearly three times as expensive as public universities. Low-income and middle-income students generally borrow heavily to attend private schools. Remaining need for students attending these institutions is difficult to measure because many private universities provide significant institutional aid.

Since FY2002, average tuition and fee coverage of the maximum announced MAP award has declined from 100 percent to 76 percent at community colleges, from 100 percent to 63 percent at public universities, and from 29 percent to 22 percent at private institutions. Tuition and fees at all public universities now exceed the FY2006 maximum MAP award of \$4,521 as well as the \$4,968 statutory maximum. This decline in coverage can be attributed to the \$38 million decrease in MAP funding in FY2003, heavy increases in application volume, and tuition and fee increases. To continue processing at least to August the Commission has been forced to apply reduction factors to all awards. Current tuition and fees have not been used in the formula since FY2002; FY2004 tuition and fee figures were used in FY2006.

Complicating the affordability issue is the fact that many eligible students are unable to receive MAP. When demand exceeds the appropriation, the Commission is forced to suspend award announcements. In the past few years, unprecedented numbers of eligible applicants have been suspended; over 44,000 in FY2003; nearly 52,000 in FY2004; and 26,500 in FY2005.

Calculating the MAP Award With the MAP Formula

MAP awards are determined by calculating a student's maximum eligibility (budget minus resources) for a specific school, then setting the award to maximum eligibility, the statutory maximum award, or tuition and fees, whichever is least. Maximum eligibility must be at least \$300 for the student to be eligible and if the award is based on eligibility it is rounded to the nearest \$150 increment.

The student's maximum eligibility is determined by subtracting resources from a college budget. The budget includes tuition and fees plus a living allowance; resources include an inflated federal EFC figure plus 80 percent of the student's estimated Pell award, with a minimum student contribution of \$1,800. Table 3 contains formula components and describes the FY2006 MAP formula.

For example, if a student with a maximum eligibility of \$3,200 were attending a public university with tuition and fees of \$6,000, his award would be set to \$3,200, rounded to \$3,150, then (for FY2006) reduced by 9 percent to \$2,867. A student with a maximum eligibility of \$2,500 attending a community college with tuition and fees of \$2,200 would have an award of \$2,200 reduced by 9 percent to \$2,002. Finally, a student with a maximum eligibility of \$8,400 attending a private university with \$20,000 tuition and fees will be awarded the maximum eligible amount, \$4,968, reduced by 9 percent to \$4,521.

Table 3: The MAP Formula		
Formula Component	FY2006 Formula	Notes
BUDGET = Tuition and Fees + Living Allowance		
Tuition and Fees	2003-04 amounts	Current T&F not used since FY02
Living Allowance	\$4,875 since FY02	Ideally would adjust for inflation
RESOURCES = Adjusted EFC + Pell Award		
Adjusted EFC		EFC has always been inflated to enable more students to receive MAP
Parent Contribution	PC*[(PC/11,000) +1.1]	
Student Contribution	Max of SC or \$1,800	
Pell award	80% of 2003-04 Pell	Match to year of tuition and fees
MAXIMUM ELIGIBILITY = Budget - Resources		
AWARD is the least of Maximum Eligibility, Tuition and Fees, and Maximum Award		
Minimum Award	\$300	
Maximum Award	\$4,968 since FY02	Ideally would adjust with tuition and fees
EFC Cap	\$9,000 since FY01	Started in 1994 as rationing mechanism
Reduction Factor	Reduce all awards 9%	Started at 5% in FY03, down from 10% and 11% in FY05

The Cost of Regaining Affordability

To extend award announcements into August, components of the MAP formula have remained constant and a reduction factor was added in FY2003. Eliminating the reduction factor and updating components such as tuition and fees would help restore affordability. As shown in Table 3, the FY2006 formula used tuition and fees that were two years old and a five-year-old living allowance and maximum award, then all awards were reduced by 9 percent. With this formula, the highest MAP award would cover only 91 percent of two-year-old tuition and fees, unless those tuition and fees exceeded the maximum award. While 91 percent might seem to be fairly good coverage, remember that average tuition and fees increased 20 percent at community colleges and 24 percent at public universities between FY2004 and FY2006.

As an example, a community college student with an FY2006 tuition and fee bill of \$2,318 would at most receive \$1,761 in MAP, only 76 percent of their bill. A public university student facing \$7,150 in tuition and fees would receive at most \$4,521, or 63 percent, because the two-year-old tuition and fees exceeded the maximum MAP award. Although the FY2006 formula was an improvement over the past two years, the highest award paid, \$4,521, was similar to the highest award paid in FY2000. Affordability can be improved by modifying various components of the formula. With additional funding affordability could be improved in the following ways.

Incorporating More Recent Tuition and Fees

Tuition and fee increases have not been addressed with new funding since FY2002, the last year that current tuition and fees were used in the formula. FY2002 figures were used in FY2003, and FY2003 tuition and fees were used in FY2004 and FY2005 but at only 95 percent of their value. The full amount of FY2004 tuition and fees were used in FY2006, a slight improvement but still two years behind.

Using more recent tuition and fees would be most helpful to students at schools where high tuition and fee increases occurred after FY2004, particularly if the FY2004 tuition and fees were lower than the maximum award. Students at public universities and private institutions with awards determined by their maximum eligibility would benefit if incorporating more recent tuition and fees increased their maximum eligibility amount, causing them to gain eligibility or to be eligible for a larger award.

Staff estimates that using FY2005 tuition and fees in the FY2007 formula would cost about \$16.3 million and incorporating FY2006 tuition and fees would cost \$27.5 million. Assuming tuition and fee increases for FY2007 are similar to recent years, completely updating tuition and fees would cost an estimated \$37.8 million.

Lowering or Removing the Nine Percent Reduction Factor

A 5 percent reduction factor was added to the MAP formula in FY2003 so that students who applied in August could receive awards. In FY2004 the reduction was increased to 10 percent and in FY2005 the reduction was 10 percent for students with EFCs less than \$3000 and 11 percent for students with higher EFCs. By FY2006 the reduction factor was lowered to 9 percent. Since the reduction factor affects all MAP recipients, lowering it would improve affordability for everyone, although students with larger awards would benefit more.

Lowering the reduction factor is estimated to cost \$3.8 million for each percent reduction; it would take about \$15.2 million to reduce it to 5 percent. Eliminating the reduction factor altogether would require \$34.4 million in funding.

Application Volume

In spite of the rising costs, college attendance in Illinois was nearly 7 percent higher in Fall 2004 than in Fall 2001. Applications for student aid increased even more. Announced applications, or those from Illinois undergraduate residents attending MAP-approved institutions, saw annual increases of 7.2 percent in FY2002, 6.1 percent in FY2003, 6.7 percent in FY2004, and 3.5 percent in FY2005. These increases may be slowing down. As of the end of October, FY2006 announced application volume was within a half percent of the previous year's volume and applications for students eligible for an award (a subset of announced applicants) were actually down 1.5 percent.

Much of the increase seen in recent years, particularly with independent students, was due to the economic downturn experienced by Illinois and the nation as a whole. High unemployment rates encouraged individuals to pursue an education and upgrade their job skills. Independent students often turn to retraining when unemployed; if jobs become available they are less likely to attend school. Unemployment rates have been slowly declining in Illinois since peaking at 6.8 percent during the last half of 2003 – unemployment for the first half of 2005 was 5.8 percent. At the end of October, eligible independent student application volume was about 1.6 percent lower than the previous year.

Application volume and suspension dates are closely tied; higher application volume necessitates an earlier suspension date, a formula adjustment, or both. The Commission has had to suspend award announcements for each of the past five years because of application increases and insufficient funding. These suspensions have occurred as early as August 2 in FY2004, and as late as December 7 when application volume began rising in FY2002. For FY2006, announcements for students who applied on September 1 or later have been suspended.

Although announced application volume is steady for now, what started as a 4 percent decrease after three months of processing declined to less than a half percent difference by the end of October. It is

difficult to predict what the difference will be by the end of the FY2006 processing cycle. However, staff feels it would be prudent to plan for up to a 3 percent announced application volume increase for FY2007, as dependent applicants should increase due to projected increases in high school graduates and college participation rates. Extending processing to the end of the year with constant application volume would cost \$12 million; allowing for a 3 percent increase would require around \$20 million.

Increasing the Statutory Maximum Award

The current statutory maximum award is \$4,968 and has been so since FY2002. Between FY1994 and FY2002, the maximum award increased by at least \$100 per year in an attempt to keep up with tuition and fees. With the reduction factor that has been in place since FY2003 the actual maximum awards have been even lower than the statutory one and without funding to eliminate the reduction factor this will continue to be the case. As discussed above, it would take over \$34 million just to eliminate the reduction factor and bring the effective maximum award back up to the statutory level.

Increasing the statutory maximum award would help students at private institutions and also at all public universities, where the FY2006 average tuition and fees of \$7,151 are over 30 percent higher than the current statutory maximum and almost 37 percent higher than the effective maximum in FY2006, a gap of \$2,630. Staff estimates it would cost \$33 million to increase the statutory maximum award by \$500. Increasing the statutory maximum to \$6,960, which would exceed FY2006 tuition and fees at only half of the public universities, would cost an estimated \$125 million.

A summary of the costs and benefits of these formula improvements is provided in the table below. Cost figures represent the funding required to implement each improvement individually; when implemented together the costs would increase. The estimated cost of incorporating all of these improvements is more than \$200 million.

Table 4: Summary of MAP Formula Improvements		
Formula Improvement	Cost	Who Benefits Most
Extend processing to the end of the year allowing for a 3% increase in applications.	\$20 million	Students who apply later than August – typically lower income and community college students
Incorporate more current T&F: 2004-05 2005-06 Projected 2006-07	\$16.3 million \$27.5 million \$37.8 million	Students at schools implementing tuition and fee increases since FY2004 but that still have tuition and fees under the maximum award – community college students. Also helpful to students receiving partial awards at schools where tuition and fees exceed the maximum award.
Lower reduction factor to 5% Eliminate reduction factor	\$15.2 million \$34.4 million	Benefits all students, though those with higher awards would benefit more than those with lower awards.
Increase maximum award by \$500 Increase maximum to \$6,960	\$33 million \$125 million	Students at schools where the tuition and fees used in the formula exceed \$4,968 – private and public universities