

AGENDA ITEM 7.

FY2005 MONETARY AWARD PROGRAM (MAP) START-UP

Submitted for: Action

Summary: Each year the Commission approves a start-up formula to calculate student eligibility for the Monetary Award Program (MAP) for the upcoming academic year. Typically, the Commission takes action in January so awards can be calculated and announced to students beginning in February or March. Announcing awards in early spring enables students to make enrollment decisions and helps financial aid administrators advise applicants on available resources. Awards are then recalculated in the summer at MAP recompute when final appropriations are known.

The MAP start-up formula is usually based upon the previous year's recompute formula and funding level. In FY2004, MAP funding totaled \$338 million. Because of state budget problems, funding is not expected to increase significantly over this level. However, due to some internal reallocation of dollars resulting from converting MAP eligibility to a credit hour system and the imposition of a tuition and fee cap, some dollars will be available to reduce the 10 percent reduction factor now imposed upon all awards. The extent to which the reduction factor can be eliminated depends on the dollars that become available through the internal reallocation and the final budget. Without any additional funds, a small decrease in the reduction factor is possible using "reallocated" dollars.

This item reviews the Commission's FY2005 MAP budget request priorities, discusses environmental factors pertaining to the MAP start-up formula, and presents staff's recommendation for MAP start-up for FY2005 (school year 2004-2005). Recommended changes to the current year MAP formula include the following:

- Replace the \$9,000 MAP Expected Family Contribution (EFC) cap with a cap of \$12,845 on the tuition and fees that will be recognized by ISAC for MAP,
- Lower the MAP award reduction factor from 10 percent to 7 percent,
- Provide for the equivalent of full half-year (one term) awards for "fifth year" students.

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

**ILLINOIS STUDENT ASSISTANCE COMMISSION
FY2005 MONETARY AWARD PROGRAM (MAP) START-UP**

INTRODUCTION

Each year the Commission approves a start-up formula to calculate student eligibility for the Monetary Award Program (MAP) for the upcoming academic year. Typically, the Commission takes action in January so awards can be calculated and announced to students starting in early spring. This enables students to make enrollment decisions and helps financial aid administrators advise applicants on available resources. Awards are then recalculated during the summer at recompute when final appropriations are known. Currently, legislative decisions have yet to be made regarding funding levels. Depending on the final budget recommendations, the Commission may be required to take additional action concerning the FY2005 MAP allocation formula prior to Commission action on MAP recompute next summer.

The MAP start-up formula usually is based upon the previous year's recompute formula. In recent years the Commission has authorized changes such as using new tuition and fees at start-up even though final funding for the program was unknown. In FY2003 and FY2004, however, because of concerns about the state's financial condition, the Commission opted for a more conservative start-up formula; that approach is reflected in this staff-recommended start-up formula for FY2005. The FY2004 MAP recompute formula and the staff FY2005 start-up recommendation are shown in Table 2 and Table 3, respectively, at the end of the item.

This item reviews the Commission's FY2005 MAP budget request as discussed in Item 6; discusses factors pertaining to the start-up formula, and details staff's recommendation for the FY2005 MAP start-up formula.

ENVIRONMENTAL FACTORS SHAPING THE START-UP FORMULA

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

College Costs and Affordability

In August 2002, the Illinois Board of Higher Education (IBHE) established a Committee on Affordability comprised of members of the Board of Higher Education and the Illinois Student Assistance Commission (ISAC). The charge to the Committee was to assess the changes that had taken place in the affordability of Illinois higher education over time, determine who those changes affected, and decide what actions were needed at the state and institutional levels, as well as by students and their families, to enhance affordability. The establishment of the Committee came about shortly after the conclusion of the spring legislative session during which appropriations for FY2003 were approved. The session was difficult - the state faced mounting budget problems and by the end of session, higher education funding was reduced by nearly 5 percent for FY2003, and MAP funding was reduced by 10 percent. As a result of reduced state

funding, public universities raised their tuition charges for 2002-2003 by an average of 10 percent. These cost increases were particularly difficult for financially needy students who also had their state student aid cut by 5 percent, and for needy students classified as “fifth-year” who saw their funding completely eliminated. Both of the cuts in aid further increased concerns about the affordability of higher education in Illinois. These concerns did not abate when state student aid in FY2004 failed to regain the funds lost in FY2003 and ISAC was forced to further cut student awards by 10 percent, effectively reducing the statutory maximum award of \$4,968 to \$4,471. During this period, public universities again raised their tuition by nearly 10 percent. The large increases in tuition and fees led to a legislative call for greater accountability in higher education.

In short, since FY2002, college affordability in Illinois has deteriorated significantly. Reduced financial aid and rising college costs, coupled with stagnant family incomes, have contributed to declines in college affordability for all income quintiles, but especially in the lowest three quintiles. Students in the first three income quintiles can no longer cover the cost of attendance at a public university even with a maximum Stafford student loan. In FY2002, the maximum MAP award covered the average cost of public university tuition and fees; today the affordability gap is \$1,300 and promises to increase in FY2005. For students at some public universities, maximum MAP coverage is now only 64 percent of tuition and fees.

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

Application Volume

MAP application volume is highly dependent on demographics and economic conditions. The number of high school graduates is increasing in Illinois and, at this time, uncertain economic conditions are increasing the demand for MAP as the unemployed seek to further their education. Announced applications, or completed applications from students attending MAP-approved institutions, increased 6 percent in FY2003 and award announcements were suspended in mid-August. As a result, nearly 44,000 students who would otherwise have been announced as eligible for a MAP grant were excluded from eligibility. Currently in FY2004, announced application volume has increased by approximately 7 percent and award announcements were suspended in early August. To date, over 34,000 eligible applications have been placed in suspension. Unless economic conditions improve, a similar scenario should be expected in FY2005.

It is important to remember that claim rates, which reflect the proportion of eligible applicants who actually enroll in college and claim their award, also have a profound effect on how long award announcements can be made. For example, by the time the FY2004 processing cycle is over, the Commission is expected to announce around \$550 million in MAP awards – significantly more than the \$338 million appropriation. The projections for MAP in the FY2005 start-up model use FY2003 claim rates to estimate FY2005 claims. Small changes in claim rates, which often accompany significant increases or decreases in eligible applicants, can have a big impact. If actual claim rates differ by as little as 1 percent, expenditures for MAP would differ by almost \$6 million. The conversion to a credit hour system for determining MAP eligibility may have an impact on claim rates depending upon possible changes in student enrollment behavior.

State Budget Constraints

While the economy appears to continue recovering from the recession that developed during Fiscal Year 2001, the recovery pace in Illinois has not yet reached the same levels as seen nationally. In fact, Illinois has historically lagged behind the nation in recovering from economic downturns. Unemployment in Illinois, while improving, is still higher than the national average. Many factors point to expansion in the manufacturing sector, but the primary indicator in Illinois, increasing state tax receipts, remains at a level well below those seen between 1995 and mid-2000. This leading economic indicator, as published by the Illinois Economic and Fiscal Commission, suggests continued economic growth in Illinois, but no rapid acceleration on a sustained basis anytime soon. Therefore, chances for large increases in funding for MAP remain slim.

MAP Paid Credit Hour Conversion Rules Change

For FY2005, in connection with proposed changes to MAP rules (see Agenda Item #X), ISAC will be converting to a credit hour system to make hours actually paid by MAP consistent with MAP eligibility used. The catalysts for this change came in the form of a budget cut and a recommendation from the Committee on Affordability. The state's budget crisis resulted in cuts to the MAP program in FY2003, specifically the elimination of MAP eligibility beyond the equivalent of four years of full-time study. While the Governor and the state legislators restored a portion of these budget cuts in FY2004 – \$6 million to fund half of a one-term MAP award for fifth-year students – the initial cut to MAP funding emphasized some allocation and assessment problems within MAP. Approaching the shortfall in funding a different way, the Committee on Affordability recommended that MAP awards be provided to cover 135 semester hours, or 4 ½ years of full-time study. Most public universities require a minimum of 120 semester hours for graduation; the 15 additional hours allowed students to take remedial courses, enroll in programs requiring more than 120 semester hours or change majors or schools and still be eligible for MAP awards.

Currently ISAC uses an eligibility unit methodology to assess MAP usage that results in some unintended and perhaps undesirable outcomes. The most problematic outcome concerns the way students who enroll in 12 credit hours (at a semester school) are assessed MAP eligibility. Under the eligibility unit system, students who receive MAP benefits for 12 credit hours are assessed 6 eligibility units – full-time assessment. After four years (8 semesters, 48 eligibility units) of full-time assessment, a student may have completed only 96 semester hours, 24 hours short of the normally required 120 credit hours for graduation. A “fifth year” of MAP then becomes necessary to fund these students through the completion of their programs.

Converting MAP eligibility units to a MAP paid credit hour system will address this issue. A student who is taking 12 semester hours will receive 12 MAP paid credit hours. Instead of receiving a full semester award, the student will receive 12/15 or 80 percent of the award, preserving eligibility for future coursework actually undertaken. Under the new system of tracking MAP eligibility, a student will no longer be charged a full semester's eligibility for less than a full-time course load.

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

will be capped for freshmen and sophomores at 75 and will apply to students enrolled in both two-year and four-year schools.

The conversion from eligibility units to credit hours combined with the cap on MAP payments on lower division courses will provide the program with some funds that can be reallocated to pay for students with 121 to 135 hours of eligibility (formerly “fifth year” students) and help lower the 10 percent reduction factor now applied to all MAP awards.

STAFF RECOMMENDATIONS FOR FY2005 START-UP FORMULA

Given the continued fiscal difficulties experienced by the state, staff developed a recommended FY2005 MAP budget request designed to promote only one priority - lower the 10 percent reduction factor now placed on every award. To accomplish this, staff recommends a combination of formula changes and requests for additional funds. The additional MAP funding needed to lower the reduction factor to 3 percent is projected to be \$18.2 million.

Tuition & Fee Cap

Currently, the MAP formula uses tuition and fee charges plus a living expense allowance of \$4,875 to calculate a student's financial need or cost. Resources to meet this financial need include an assessment of the family's ability to pay as well as any federal Pell eligibility. The remaining need, calculated as cost minus resources, effectively determines the student's eligibility for a MAP grant. Tuition and fee charges range from \$1,500 per year at lowest-cost schools to upward of \$30,000 per year at higher-cost institutions. Using total costs of attendance approaching \$35,000 in the MAP formula has resulted in awards to students from higher income families. A cap on tuition and fees used in the formula will reduce or eliminate awards to students from higher income families, allowing those dollars to be redirected toward students from lower income families in the form of a reduced MAP award reduction factor, in a fashion wholly consistent with the intent of Recommendation 10 from the Committee on Affordability.

Staff is recommending the Commission implement an agency tuition and fee cap of \$12,845 in the FY2005 MAP start up formula. The \$12,845 MAP tuition and fee cap figure is based on the projected FY2005 FTE weighted-mean public university tuition and fee amount plus the Illinois Board of Higher Education-determined state subsidy amount of \$5,525. Implementing the \$12,845 MAP tuition and fee cap would put private cost figures in line with public amounts in the calculation of MAP eligibility. While the majority of private institution students would be unaffected by this formula change, eligibility for high-income students would be reduced or eliminated. An analysis conducted by staff indicates that approximately 620 awards would be eliminated and another 3,300 would be reduced. Table 1 shows the average income of these students as well as the average amount lost from this change. The average family income of dependent students who would lose all eligibility is just under \$78,000 (near the average of the fourth income quintile), and the average income for independent students is \$40,000. However, many students who lose eligibility come from families with incomes in the upper fourth and fifth income quintiles. About 10 percent of the dependent students who will lose aid when the MAP tuition and fee cap replaces the EFC cap come from families with incomes of more than \$100,000 and another 20 percent come from families with incomes in the \$90,000 to \$100,000 range. Family incomes of students who would experience reduced eligibility were slightly lower at \$73,000 (fourth income quintile) and \$39,000, respectively. There are students from very high income families in this group as well. About 15 percent of dependent students receiving reduced awards come from families with incomes over \$90,000.

EFC Cap

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

Removing the EFC cap addresses an equity problem that can occur with arbitrary cut-off points. For instance, a student with an \$8,999 EFC may be eligible for the maximum MAP grant, but a similar student with a \$9,000 EFC would not be eligible for any grant amount. The cap may also cause a student to be eligible in one year and not in the next. This has been referred to as the "cliff effect." In FY2004, approximately 1,000 students who were paid MAP in FY2003 were not MAP eligible because their EFC grew over \$9,000. By eliminating the EFC cap, approximately 1,500 dependent students would become eligible for partial MAP awards. The majority of these students have EFC's just over \$9,000 with a significant portion of that amount coming from student resources versus the parents' resources. Table 1 shows an average family income of \$71,000 for these students and partial awards averaging a little over \$2,400.

Table 1: Replacing the \$9,000 EFC Cap with a \$12,845 Tuition and Fee Cap

	Dependent Students				Independent Students		
	Number	Average Family Income	Average Parents' Income	Average Award Change	Number	Average Family Income	Average Award Change
Lose Eligibility	524	\$77,718	\$72,794	-\$3,261	92	\$40,374	-\$2,827
Lower Eligibility	2,323	\$73,160	\$67,523	-\$1,680	1,031	\$38,760	-\$1,667
Gain Eligibility	1,536	\$70,902	\$56,522	\$2,422	0	--	--

Reduction Factor

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

Staff believes that it is important in terms of affordability to lower and eventually eliminate the award reduction factor. Net savings from the proposed tuition and fee cap combined with expected savings from the credit hour conversion would allow the Commission to lower the current 10 percent reduction factor to 7 percent. This change would benefit all students, particularly lower-income students. If additional funds were to become available, either from new funding or from behavior changes resulting from the conversion to credit hours, the Commission could further lower the reduction factor at recompute.

ACTION REQUESTED

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

- Replace the \$9,000 MAP EFC cap with a \$12,845 MAP tuition and fee cap,
- Lower the award reduction factor from 10 percent to 7 percent,
- Provide for the equivalent of full half-year (one term) awards for “fifth year” students.

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

Table 2: FY2004 MAP Recompute Formula

Budget	
1.	Use 2002-2003 reported tuition and fees. Assess the tuition and fee amounts at 95 percent at all institutions.
2.	Use one living allowance for all applicants, set to \$4,875.
Resources	
1.	Use 80 percent of Pell Grant eligibility as determined by the 2002-2003 Pell Grant Payment Schedule, which contains a \$4,000 maximum.
2.	Calculate the ISAC adjusted EFC by inflating the Federal EFC. Adjusted Dependent Students' Parent Contribution: Adjustment Factor = $[PC/11,000 + 1.10]$ rounded to 2 decimal places Adjusted PC = PC x Adjustment Factor Adjusted Independent Student Contribution: Adjustment Factor = $[EFC/11,000 + 1.10]$ rounded to 2 decimal places Adjusted EFC = EFC x Adjustment Factor
3.	Use a minimum self-help expectation of \$1,800 for all students.
Award Amounts	
1.	Set the maximum award equal to the lesser of \$4,968 or the tuition and fees specified in the budget.
2.	Set the minimum award to \$300, and round maximum eligibility in \$150 increments to calculate partial awards.
3.	Provide no award for applicants who have an EFC of \$9,000 or greater or have used 54 or more eligibility units. Eligible applicants who have used 48 to 53 are only entitled to half of their award.
4.	Reduce all awards by ten percent.

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

Budget	
1.	Use 2002-2003 reported tuition and fees. If the tuition and fees are greater than the \$12,845 cap, use \$12,845. Assess the tuition and fee amounts, or the capped amount, at 95 percent at all institutions.
2.	Use one living allowance for all applicants, set to \$4,875.
Resources	
1.	Use 80 percent of Pell Grant eligibility as determined by the 2002-2003 Pell Grant Payment Schedule, which contains a \$4,000 maximum.
2.	Calculate the ISAC adjusted EFC by inflating the Federal EFC. Adjusted Dependent Students' Parent Contribution: Adjustment Factor = $[PC/11,000 + 1.10]$ rounded to 2 decimal places Adjusted PC = PC x Adjustment Factor Adjusted Independent Student Contribution: Adjustment Factor = $[EFC/11,000 + 1.10]$ rounded to 2 decimal places Adjusted EFC = EFC x Adjustment Factor
3.	Use a minimum self-help expectation of \$1,800 for all students.
Award Amounts	
1.	Set the maximum award equal to the lesser of \$4,968 or the tuition and fees specified in the budget.
2.	Set the minimum award to \$300, and round maximum eligibility in \$150 increments to calculate partial awards.
3.	Eliminate the \$9,000 EFC cap.
4.	Provide no award for applicants who have used 135 or more paid MAP credit hours (54 or more eligibility units.) Provide no award to applicants who have used 75 or more paid MAP credit hours (30 or more eligibility units) and have not yet achieved junior status.
5.	Reduce all awards by seven percent.

Note: Formula changes shown in bold.