

AGENDA ITEM 8.

FY2011 MONETARY AWARD PROGRAM (MAP) RECOMPUTE FORMULA

Submitted for: Action

Summary: In January, the Commission approved a start-up formula to calculate Monetary Award Program (MAP) eligibility for applicants planning to attend college in 2010-11. Establishing a formula early enables financial aid advisors to package awards and helps applicants determine where to enroll. When the appropriation is closer to final and application volume trends emerge, the Commission approves a MAP recompute formula based on the new information.

At this time ISAC's FY2011 scholarship and grant appropriation is expected to remain level and MAP funding may increase slightly. However, application volume skyrocketed early in the year, leading to an earliest-ever suspense date of April 19. When the suspense date was chosen there were 33,700 (25 percent) more announced applicants (Illinois undergraduate residents planning to attend a MAP-approved school) and 31,000 (nearly 37 percent) more eligible applicants than in FY2010. By the end of May the surge in application volume lessened; announced applicants were up 15 percent and eligible applicants were up 23 percent. Although still large, the fact that the increases have decreased so much in a month indicates that people applying earlier may be as much a factor in the early surge as the simple fact that more people are applying.

One by-product of the change in applicant behavior and resulting early suspense date is that the stakes of being wrong by a day or two are much higher. In previous years when application volume was lower and suspense dates were in August, one day's claims typically equaled \$1 million or less. During the week leading up to this year's April 19 suspense date, estimated average daily claims were nearly \$4 million.

The trend towards filing early also affects the accuracy of estimating claims. Claim rates from the same time period of the previous year are used to estimate claims for the current year. For example, in FY2009 the suspense date was at the end of July 2008 so FY2008 claim rates for applicants through July 2007 were used to estimate FY2009 claims. Traditionally students who complete their FAFSAs earlier are more likely to enroll and claim a higher portion of their award; later applicants are more likely to attend part-time or to change their mind about attending. However, with the push to file FAFSAs early it appears that applicants who in the "old days" would have applied later on (or not at all) are applying earlier. So claim rates from previous years are becoming less reliable for estimating current year claims.

As a result of these uncertainties, staff is seeking a new approach to ensure that as much of the MAP appropriation as possible is spent without exceeding it.

Action requested: Staff requests the Commission approve the FY2011 MAP start-up formula as the FY2011 recompute formula. If it is later determined necessary to reduce award amounts to stay within the appropriation, second- and third-term awards would be reduced accordingly. This recommendation is shown in Table 3.

**ILLINOIS STUDENT ASSISTANCE COMMISSION
FY2011 MONETARY AWARD PROGRAM RECOMPUTE FORMULA**

Background

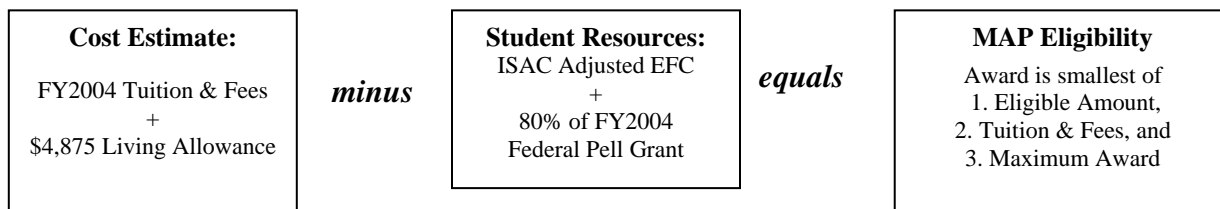
In January the Commission approved a start-up formula to calculate Monetary Award Program (MAP) eligibility for students planning to attend college in academic year 2010-11. The formula is determined early in the program cycle so financial aid advisors can give prospective students an idea of the amount of aid they may receive. When volume trends emerge and the annual appropriation is closer to final the Commission reviews and approves a recompute formula, which may differ from the start-up formula. Although a state budget is not completely final, staff is recommending a recompute formula based on the assumption that ISAC's funding will be level and MAP funding may increase slightly.

This item briefly reviews the start-up formula, discusses current trends in application volume and shows how they are affecting the accuracy of claim estimates. Finally, it recommends an FY2011 recompute formula designed to minimize the affects of these trends and ensure the appropriation is spent but not exceeded.

FY2011 Start-Up Formula

The MAP formula determines whether a student is eligible and calculates the amount of students' awards. Figure 1 shows the basic formula, which uses the difference between a cost of attendance figure and student resources to calculate maximum eligibility.

Figure 1: Basic FY2011 Start-up MAP Formula



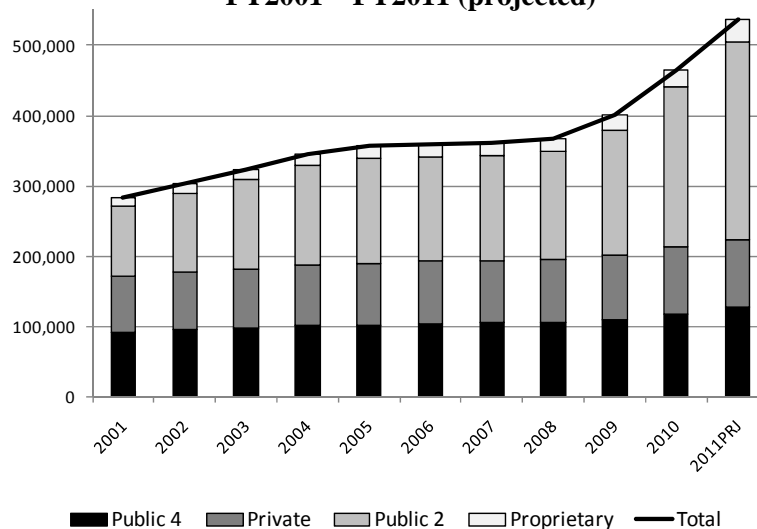
College costs used in the MAP formula include tuition and mandatory fees plus a \$4,875 living allowance. Between FY2001 and FY2010 announced application volume increased 64 percent and FY2011 announced volume is currently 15 percent higher than last year. MAP funding has not increased accordingly and formula components have fallen behind. Current tuition and fees have not been used in the formula since FY2002; the FY2011 formula still uses FY2004 tuition and fees. Resources used in the formula are based on an inflated federal expected family contribution (EFC) plus a portion of Pell grant eligibility. MAP eligibility is determined by subtracting resources from the cost figure. If costs exceed resources by \$300 or more and other criteria are met, the student is eligible for a MAP grant. Eligibility is capped at the lesser of the eligible amount, the tuition and fees used in the cost portion of the formula, or the statutory maximum award of \$4,968. MAP grants can only be applied to tuition and mandatory fees.

FY2011 Application Volume

MAP application volume is affected by demographic variables and economic conditions that vary over time. Illinois State Board of Education and National Center for Education Statistics data indicate the number of Illinois high school graduates increased about 21 percent between 2001 and 2010. At the same time, the proportion of Illinois students from low-income families is rising, so more students are qualifying for need-based financial aid. The number of independent students applying for aid typically depends on the economy. The unemployment rate in Illinois has risen from 4.5 percent in April 2007 to 11.2 percent in April 2010, sending “non-traditional” students back to school in droves. High school graduates are also more likely to attend college in the absence of a healthy job market. Increased outreach efforts have also affected the volume and timing of MAP application submissions.

Announced MAP application volume since FY2001 is shown in Figure 2. Annual increases through FY2004 were around 6 or 7 percent then the increase slowed to 4 percent in FY2005. End of year numbers for FY2006 and FY2007 were within 1 percent of the previous year. FY2008 application volume started out lower than FY2007 but by June was even, and at the end of the year was 1.6 percent higher. FY2009 saw an increase of more than 9 percent over FY2008 and FY2010 finished 16 percent higher than FY2009. Although the FY2011 processing cycle is less than six months old nearly 42,000 more applications have been submitted for an increase of 15 percent. Projected FY2011 volume is based on current application rates which may change before the program cycle is completed in June 2011.

**Figure 2: Monetary Award Program Announced Application Volume
FY2001 – FY2011 (projected)**



Eligible applicants are announced applicants who qualify for an award. In late May, FY2011 eligible application volume was 23 percent higher than last year. Independent students account for over half the increase in announced and eligible applicants. Application volume is higher in every sector but 57 percent of the increase is at community colleges, where volume is up 32 percent. Eligible applicants are up by 9 percent at private schools, 17 percent at public universities, and 32 percent at proprietary schools.

When determining the suspense date that will keep program commitments within the appropriation, staff considers several factors including the distribution of applicants by dependency type and sector. Dependent students are generally more likely than independent students to claim their award and a higher proportion of dependents attend full-time at public and private universities. Independent students, particularly those with dependents, are more likely to attend community colleges where awards are less than half of the maximum award. They are also more likely to attend part-time.

MAP Appropriation

ISAC expects to receive the same funding for scholarships and grants in FY2011 as in FY2010. Rearranging some money between programs would allow for a MAP appropriation of nearly \$408 million, including federal LEAP/SLEAP funding. While this is nearly \$23 million more than MAP received in FY2009, that amount would not even cover estimated claims for applications received during the week prior to the April 19 suspense date.

Uncertainties in Choosing a Suspense Date and Keeping MAP Claims within the Appropriation

As indicated earlier, MAP is operating in somewhat uncharted territory. While projecting MAP claims before the academic year starts has never been easy, effects of the poor economy and increased outreach efforts have added to the uncertainty. Uncertainty comes from projecting how much eligible MAP dollars will increase as a result of “corrections” as well as from projecting the claims that will be made by eligible MAP applicants. Previous years’ correction rates and claim rates are used to project claims for the current year.

“Corrections” for the purpose of estimating MAP claims can result from students filing subsequent FAFSAs that change their EFCs or corrected FAFSAs that otherwise result in new or higher eligibility amounts, whether through the verification process or on their own. Table 1 shows how MAP eligibility changed between May 2009 and May 2010 for FY2010 applications received through May 14, 2009. Percentage changes varied by dependency and sector but overall, the number of eligible applicants increased 7 percent and eligible dollars increased 5 percent between the time of suspension and the end (almost) of the processing cycle.

Table 1: Change in FY2010 Eligible Numbers and Dollars for Applications Received by May 14 From Suspense Date to Near End of Processing Cycle

	May 14 2009		May 28 2010		% change	
	#	\$	#	\$	#	\$
dependents	80,888	\$311,959,513	90,827	\$338,834,357	12.3%	8.6%
independents	28,507	\$101,013,474	31,157	\$108,415,749	9.3%	7.3%
ind with deps	55,881	\$162,812,578	54,806	\$157,513,604	-1.9%	-3.3%
	165,276	\$575,785,565	176,790	\$604,763,710	7.0%	5.0%
public universities	47,331	\$209,255,911	47,958	\$209,782,858	1.3%	0.3%
private universities	40,330	\$199,296,216	41,388	\$203,888,441	2.6%	2.3%
community colleges	65,376	\$107,605,822	73,440	\$123,504,200	12.3%	14.8%
private two-year schools	2,274	\$11,075,484	2,401	\$11,600,038	5.6%	4.7%
hospital schools	953	\$4,570,500	1,010	\$4,734,811	6.0%	3.6%
proprietary schools	9,012	\$43,981,632	10,593	\$51,253,363	17.5%	16.5%
	165,276	\$575,785,565	176,790	\$604,763,711	7.0%	5.0%

Past correction rates are used to project what eligible dollars might be at the end of the cycle given current eligible dollars and distribution by dependency type and sector. Claim rates are then applied to the projected eligible dollars to help determine when suspense should occur. One way to keep claims within the appropriation is to cut-off corrections that increase MAP eligibility. However it is highly undesirable to do this early on, especially before the academic year starts.

With the trend towards earlier FAFSA filings, previous years' rates are becoming less effective for projecting current year claims. For example, when applying past correction and claim rates to FY2010 applications received through mid-May 2009, claims were originally projected to be close to \$385.0 million. That was the expected FY2010 appropriation when the FY2010 suspense date was determined in early May 2009. However, now that the FY2010 processing cycle is nearing completion, analysis shows that claims for applications received through May 14, 2009 currently total \$372.5 million and that could decrease slightly due to refunds.

While that explanation of the use of past rates to project future claims is oversimplified – in reality claim rates are determined for each class level within each school – it does show how previous corrections and claim rates are not always good predictors for the current year. It is likely that intense outreach efforts both at the high school level and in general are encouraging people who would have filed a FAFSA later in the year or perhaps not at all to apply earlier. That is largely the intention of outreach. But it is affecting the accuracy with which MAP claims can be predicted using traditional methods.

Recommended FY2011 Recompute Formula

Using traditional methods of estimating claims and the current FY2011 start-up formula, it appears that FY2011 claims could eventually be as high as \$420 million; this is \$12 million more than the expected appropriation. An unexpected 30 percent increase in applications during the week between when the suspense date was announced and the suspense date itself accounts for much of the difference. However, FY2010 claims for applications through mid-May were overestimated using the same methodology. If FY2011 claims are also being overestimated it may be possible to use the FY2011 start-up formula (without a reduction factor) for the recompute formula and stay within the appropriation. If, as first-term claims are made, it appears that claims are being predicted accurately, second- and third-term claims could be adjusted to keep claims from exceeding the appropriation.

Staff discussed this idea with the ILASFAA Formula Committee and they agreed this approach to recompute was more desirable than other options. Two other options were to cut off corrections some time in June or July; or to incorporate a reduction factor, then release applications in January if claims were lower than projected. Table 2 illustrates what term awards would be for students receiving the maximum MAP award under the worst-case scenario of the recommended recompute formula, which would require about a 6 percent reduction factor on second- and third-term awards. Second-term awards would decrease \$150 from \$2484 to \$2334 at semester schools and second- and third-term awards at quarter schools would decrease from \$1656 to \$1581. Of course, the reduction could likely be lower or may be unnecessary depending on how accurately claims are being projected. If a very small adjustment to claims is needed to stay within the appropriation cutting off corrections later in the processing cycle is still an option as well.

FY2011 Start-up Annual Award: \$4968	Term 1	Term 2	Term 3	Total
Semester schools:	\$2484	\$2484		\$4968
Quarter schools:	\$1656	\$1656	\$1656	\$4968
FY2011 Recompute: \$4968; terms 2&3 reduced				
Semester schools:	\$2484	\$2334		\$4818
Quarter schools:	\$1656	\$1581	\$1581	\$4818

Staff recommends that the Commission adopt the formula described in Table 3 as the FY2011 MAP recompute formula. While somewhat unconventional, staff believes keeping the formula the same as the start-up formula and reducing second- and third-term awards only if necessary is a prudent approach to maximizing the amount of MAP awards while keeping MAP claims within the appropriation.

Table 3: FY2011 Staff- Recommended MAP Recompute Formula

<i>Budget</i>	
1	Use 2003-2004 reported tuition and fees at all institutions, assessed at 100 percent at all institutions.
2	Use one living allowance for all applicants, set to \$4,875.
<i>Resources</i>	
1	Use 80 percent of Pell Grant eligibility as determined by the 2003-2004 Pell Grant Payment Schedule, which contains a \$4,050 maximum.
2	Calculate the ISAC adjusted EFC by inflating the Federal EFC. Adjusted Dependent Students' Parent Contribution: Adjustment Factor = $[(PC/11,000 + 1.10)]$ rounded to 2 decimal places Adjusted PC = PC x Adjustment Factor Adjusted Independent Student Contribution: Adjustment Factor = $[(EFC/11,000 + 1.10)]$ rounded to 2 decimal places Adjusted EFC = EFC x Adjustment Factor
3	Use a minimum self-help expectation of \$1,800 for all students.
<i>Award Amounts</i>	
1	Set the maximum award equal to the lesser of \$4,968 or the tuition and mandatory fees specified in the budget. Set the minimum award to \$300; round maximum eligibility in \$150 increments to calculate partial awards.
2	Applicants with an EFC of \$9,000 or above are not eligible.
3	Reduce second- and third-term awards, IF determined necessary, by the amount required to remain within the appropriation given expected MAP claims for applications received prior to the April 19 suspense date. Reduction factors may be different for semester schools and quarter schools to keep the percentage award reduction equal whether applied to a second-term award for semester school students or both the second- and third-term awards for students at quarter schools.
4	Students who have used 75 or more MAP paid credit hours must be a junior or senior to be eligible for MAP. Students who have used 135 or more MAP paid credit hours are not eligible for MAP.