Projection of Minnesota State Grant Spending for Fiscal Years 2004 and 2005

Prepared by:
Staff of the Minnesota Higher Education Services Office

July 15, 2003

Contents

Overview and Results

- Legislation passed in 2003 directs the Minnesota Higher Education Services Office (HESO) to provide updated spending projections for Minnesota State Grants by July 15, December 1, February 15, and April 15," taking into account the most current and projected enrollment and tuition and fee information, economic conditions, and other relevant factors. Before submitting state grant spending projections, the office shall meet and consult with representatives of public and private postsecondary education, the department of finance, governor's office, legislative staff, and financial aid administrators." [*Laws of Minnesota 2003*, Chapter 133, Article 1, Section 2, Subdivision 14]

- The July 15 projection is particularly important because it helps determine whether funds are sufficient to make full grant awards to students or whether rationing will be necessary.

- Besides informal consultations with various interested parties since the end of session, HESO held a meeting on June 26, 2003 for interested parties, as specified in legislation, to provide insight on enrollments, tuition and fees, and other factors potentially affecting Minnesota State Grant spending.

- To produce the projections presented in this report, HESO followed the following steps:

    - Determined an estimate of available funds in Fiscal Years 2004 and 2005 considering state appropriations, as well as potential federal Leveraging Educational Assistance Program (LEAP) and Special Leveraging Educational Assistance Program (SLEAP) grants.

    - Used the parameters specified in the *Laws of Minnesota 2003*, Chapter 133.

    - Used the most recent complete year of data on Minnesota State Grant applicants (Fiscal Year 2002).

    - Assumed that the students will make the same types of choices in Fiscal Years 2004 and 2005 as they made in Fiscal Years 2002 and 2003.

    - Assumed that the projected spending for Fiscal Year 2003 made mid-year (before deadlines were imposed on January 10, 2002) is the appropriate starting point for the projections.

    - Assumed students will not change behavior in response to the changes enacted for Fiscal Years 2004 and 2005.

- Concerns and uncertainties still exist for Fiscal Years 2004 and 2005.

    - The impact of some changes could turn out different than assumed by students changing behavior; for example, establishment of deadlines.

- The federal government could change the Federal Pell Grant Program or change the level of LEAP and SLEAP grants.
- Students could respond to changes in tuition prices or to opportunities in job markets and adjust their attendance and registration load choices.
- Tuition and fee prices currently projected for Fiscal Year 2005 could be altered.

- Projected spending for Fiscal Year 2004 is $126.9 million, almost $15 million below available funds, and for Fiscal Year 2005, $139.5 million, about $2.3 million below available funds, as shown in Tables 1 and 2.
  - Starting with Line 3 in both Tables 1 and 2, all projections and other changes incorporate the assumptions used in the preceding lines.
  - The projections results are cumulative.

Table 1. Projected Spending for Fiscal Year 2004

	Projection	Minnesota State Grants Received (million)	Change from prior line (million)
1	Appropriation + LEAP & SLEAP	$141.79	
2	FY 2003 Projected with a $17 Million Outside the Model Adjustment (Starting Point)	$147.91	$6.13
3	FY 2004 with Federal Pell Maximum = $4,050 (Current Law)	$145.91	$(2.01)
4	FY 2004 with enrollment and tuition and fee changes (June 26, 2003)	$160.33	$12.42
5	FY 2004 with LME = $5,205	$153.97	$(6.36)
6	FY 2004 with elimination of the Minnesota Education Savings Allowance	$152.67	$(1.30)
7	FY 2004 with Tuition and Fee Maximums based on student program choices	$150.29	$(2.38)
8	FY 2004 with partial (instead of full) coverage of Assigned Taxpayer Responsibilities in third semester	$144.59	$(5.70)
9	FY 2004 with application deadlines	$140.80	$(3.79)
10	FY 2004 with eligibility set at 8 semesters of FYE attendance	$134.36	$(6.44)
11	FY 2004 with tuition and fees set at campus average	$126.86	$(7.50)

Source: Minnesota Higher Education Services Office

Table 2. Projected Spending for Fiscal Year 2005

	Projection	Minnesota State Grants Received (million)	Change from prior line (million)
1	Appropriation + LEAP & SLEAP	$141.79	
2	FY 2003 Projected with a $17 Million Outside the Model Adjustment (Starting Point)	$147.91	$6.13
3	FY 2005 with Federal Pell Maximum = $4,050	$145.91	$(2.01)
4	FY 2005 with enrollment and tuition and fee changes (June 26, 2003)	$173.67	$25.75
5	FY 2005 with LME = $5,205	$167.08	$(6.59)
6	FY 2005 with elimination of the Minnesota Education Savings Allowance	$165.69	$(1.39)
7	FY 2005 with Tuition and Fee Maximums based on student program choices	$163.31	$(2.38)
8	FY 2005 with partial (instead of full) coverage of Assigned Taxpayer Responsibilities in third semester	$157.50	$(5.80)
9	FY 2005 with application deadlines	$153.41	$(4.09)
10	FY 2005 with eligibility set at 8 semesters of FYE attendance	$146.97	$(6.44)
11	FY 2005 with tuition and fees set at campus average	$139.47	$(7.50)

Source: Minnesota Higher Education Services Office

Design for Shared Responsibility

- Students determine the price of investing in their post-secondary educations by the choices they make, such as decisions of where to attend and size of their registration loads.

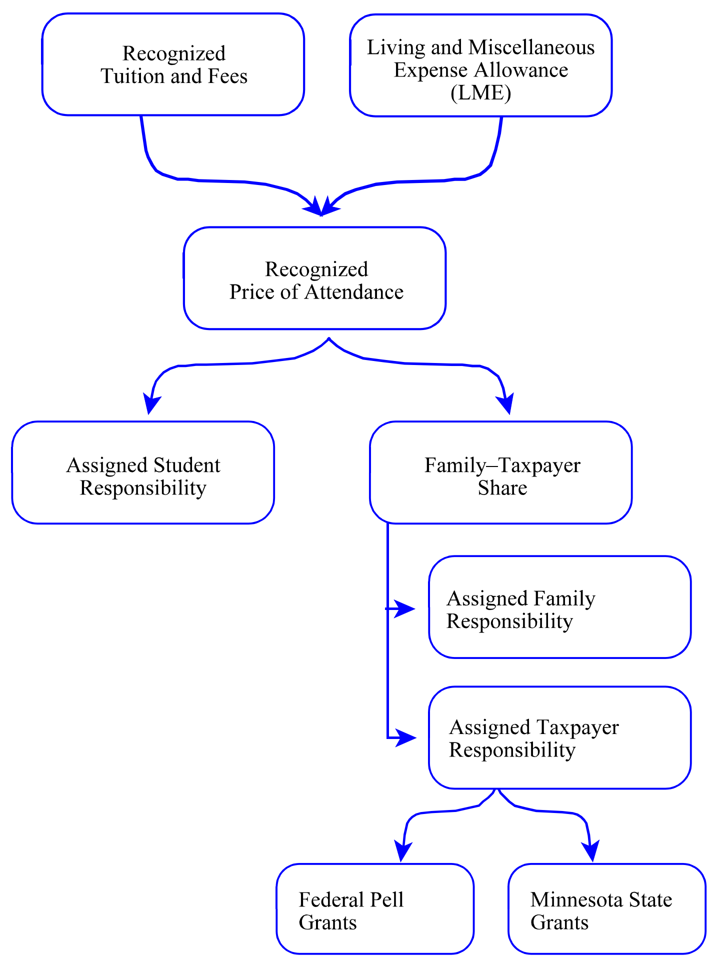
- The Design for Shared Responsibility, as applied to Minnesota State Grants, distributes the price of post-secondary education based on family circumstances and attendance choices among students, families, and taxpayers, as shown on the chart to the right.

- The state expects *students* to make a significant personal investment in their own post-secondary educations up front, called Assigned Student Responsibilities.

- The state expects *families* to invest in their students' post-secondary educations based on their ability to pay, called Assigned Family Responsibilities.

- The state leverages *taxpayers'* federal tax dollars (Federal Pell Grants) to work with state tax dollars (Minnesota State Grants) to meet the state policy of helping to cover the price for families whose ability to pay (Assigned Family Responsibility) does not provide full coverage of their Family-Taxpayer Share.

Design for Shared Responsibility as Applied to the Minnesota State Grant Program



- Projections of Minnesota State Grants make assumptions about all the steps shown on the chart.

Explanation of Assumptions Used

1. Available Funds

- There are two sources of available funds for Minnesota State Grants:
  - Direct appropriations of $140.5 million each year of the biennium.
  - Federal grants to Minnesota, called LEAP and SLEAP, projected to be $1.2 million in Fiscal Year 2004.
    - While these programs have yet to be funded for the state's Fiscal Year 2005, it was assumed that the amount from these two sources would be the same in Fiscal Years 2005 and 2004.
- These amounts are shown on Line 1 in Tables 1 and 2.

2. Starting Point Projection

- The estimated spending for Fiscal Year 2003 before HESO limited Spring and Summer Term awards ranged from $142 to $149 million.
- The "starting point" spending proposal, Line 2 in Tables 1 and 2, sets the spending at approximately $148 million based on:.
  - End of Fiscal Year 2002 data on applicants with Fiscal Year 2003 parameters—tuition and fees, living and miscellaneous expense allowance (LME), Federal Pell Maximum.
  - A $17 million outside the model adjustment to bring the Fiscal Year 2003 projection up to $148 million.

3. Changes in Federal Pell Grants for Fiscal Year 2004

- The appropriation for Federal Pell Grants to be awarded during the state's Fiscal Year 2004 included a $50 increase in the Federal Pell Maximum to $4,050.
- While the entire increase will go directly to students, since Minnesota State Grants leverage Federal Pell Grant awards, the resulting projected reduction in Minnesota State Grant spending is about $2 million, as shown on Line 3 in Tables 1 and 2.

- While the Federal Pell Maximum (and other aspects of the Federal Pell Grant Program) can be changed for Fiscal Year 2005, it was assumed that no changes would occur between Fiscal Years 2004 and 2005.

- This was called the "Current Law" projection since this is what would have existed if no other variables were changed in Fiscal Years 2004 and 2005.

4. Enrollment and Tuition and Fee Projections (June 26, 2003)

- The Services Office consulted with representatives of all sectors in preparing these projections; a formal meeting of interested parties was held June 26, 2003 to review the material in this section, and follow-up conversations occurred.

- The results of incorporating the enrollment, and tuition and fee projections provided are shown on Line 4 of Tables 1 and 2.

A. Projected Enrollment Changes

- The Office of the Chancellor of MnSCU provided the following projected changes in full-year enrollments for undergraduates:

Sector	Change Between Fiscal Years 2003 and 2004	Change Between Fiscal Years 2004 and 2005
MnSCU Two-Year Colleges	2.2%	4.0%
MnSCU Four-Year Universities	1.5%	2.4%

  - It was assumed that the number of applicants would increase at the same rate, and the characteristics of the pool of applicants would not change.

- The University of Minnesota projects no change in undergraduate enrollments and, thus, it was assumed that there would be no change in the number of applicants for Minnesota State Grants.

- Discussions with Private College Council staff found that Council members project a potential growth of 2 percent per year in undergraduate enrollments.

  - It was assumed that this projection applies to all non-profit institutions participating in the Minnesota State Grant Program.

   - As with MnSCU’s projections, it was assumed that the number of applicants would increase at the same rate, and the characteristics of the pool of applicants would not change.

- Discussions with members of the Minnesota Career College Association found that member schools project a growth of 8 percent per year in undergraduate enrollments.

   - It was assumed that this projection applies to all proprietary institutions participating in the Minnesota State Grant Program.

   - It was assumed that the number of applicants would increase at the same rate, and the characteristics of the pool of applicants would not change.

B. Projected Tuition and Fee Changes

- For Fiscal Year 2004, the reported tuition and fee amounts to be used for calculating Minnesota State Grants were used.

   - These amounts are collected by HESO as part of operating the Minnesota State Grant Program.

   - For MnSCU campuses, the values suggested for the Board of Trustees action on July 16, 2003 were used.

   - The changes, based on the preliminary rates for Fiscal Year 2004, from the comparable rates for Fiscal Year 2003 were:

Recipients Attending:	Recognized Tuition and Fees Fiscal Year 2003	Recognized Tuition and Fees Fiscal Year 2004	Percentage Change
MnSCU Two-Year Colleges	$3,037	$3,396	12%
Minnesota's Private Two-Year Institutions	$6,832	$6,813	-0%
MnSCU Four-Year Universities	$4,074	$4,627	14%
University of Minnesota	$6,532	$7,382	13%
Minnesota's Private Four-Year Institutions	$8,933	$8,957	0%

- For Fiscal Year 2005, the Office of the Chancellor of MnSCU provided the following projected changes from Fiscal Year 2004:

Sector	Change Between Fiscal Years 2004 and 2005
MnSCU Two-Year Colleges	12.1%
MnSCU Four-Year Universities	13.7%

- For Fiscal Year 2005, University of Minnesota staff provided the following currently planned increases in undergraduate tuition:

Campus	Change Between Fiscal Years 2004 and 2005
Crookston	10.4%
Duluth	10.1%
Morris	9.9%
Twin Cities	12.4%

- Discussions with Private College Council staff and Minnesota Career College Association members suggested that a growth of 5 percent per year in tuition and fees would be a reasonable assumption.
    - Because of the Tuition and Fee Maximums, increases in the posted tuition and fees at private institutions have little impact on future Minnesota State Grant spending.
- It was assumed that this projection applies to all private institutions participating in the Minnesota State Grant Program.

5. The Living and Miscellaneous Expense Allowance (LME)

- "This appropriation contains money to set the living and miscellaneous expense allowance at $5,205 in each year." [*Laws of Minnesota 2003*, Chapter 133, Article 1, Section 2, Subd. 3]
- The results of incorporating this change are shown on Line 5 of Tables 1 and 2.

6. Minnesota Education Savings Allowance

- "Minnesota Statutes 2002, section 136A.121, subdivision 5a, is amended to read: ... 'Assigned family responsibility' means the amount of a family contribution to a student's cost of attendance~~, except that, beginning for the 1998-1999 academic year, up to $25,000 in savings and other assets shall be subtracted from the federal calculation of net worth before determining the contribution~~." [[Chapter 133, Article 2, Section 8]
    - The portion of this statute repealed was called the Minnesota Education Savings Allowance.
- The Federal Need Analysis, used as the first step in determining Assigned Family Responsibilities, includes an Asset Protection Allowance.
    - The net worth of selected investments and financial holdings is used in assessing applicants' abilities to pay.
    - The Asset Protection Allowance is intended to shelter an amount that would purchase an annuity that at retirement would support, in combination with Social Security benefits, a "moderate" life style.
    - The size of the Asset Protection Allowance for parents varies with the age of the oldest parent and for independent students, the student's age.
    - Each year, a new schedule is produced taking into account projected Social Security benefits and rate of return on selected investments deemed to be reasonable for retirement savings.
    - The result is an "adjusted net worth" which is assessed along with an "adjusted available income" amount in determining an Expected Family Contribution.
- The Minnesota Education Savings Allowance sheltered up to $25,000 of the "adjusted net worth" calculated by the Federal Need Analysis in determining Assigned Family Responsibilities.
- The results of the projection incorporating this change are shown on Line 6 of Tables 1 and 2 .

7. Tuition and Fee Maximums

- "Minnesota Statutes 2002, section 136A.121, subdivision 9, is amended to read: ...
A student enrolled in a two-year program at a four-year institution is only eligible for the private institution tuition and fee maximum established by law for two-year institutions."
[*Laws of Minnesota 2003*, Chapter 133, Article 2, Section 11]

- Since Fiscal Year 1984, for purposes of calculating Minnesota State Grants, applicants were assigned a Tuition and Fee Maximum according to the institution they attended.

- Beginning in Fiscal Year 2004, applicants are assigned a Tuition and Fee Maximum based on their program choice.

- To project the impact of the change, random assignments of Tuition and Fee Maximums were made to applicants at selected institutions as shown in the following table.

    - For institutions reporting the appropriate data for use in the Office's Student Enrollment Record Data Base, the reported percentage of students enrolled in two-year programs was used.

        - This assumes that applicants make the same program choices as all students enrolled in the Fall Term.

        - This also assumes that the reported data sorted out those enrolled in both two-year and four- year programs in the same way as they will be sorted out for calculating Minnesota State Grants.

    - For other institutions, an assumption of 50 percent was used.

Proportion of Minnesota State Grant Applicants Attending Private Four-Year Institutions Assigned the Two-Year Tuition and Fee Maximum

Institution	Proportion Assigned to Two-Year Tuition and Fee Maximum	
Academy College	50%	**
Argosy University	50%	**
Art Institutes International-Minnesota	50%	**
Bethany Lutheran College	57%	*
Brown College	50%	**
Colege of St. Catherine's	24%	*
Crown College	15%	*
Globe College	50%	**
Martin Luther College	1%	*
Minneapolis College of Art and Design	1%	*
Minnesota Bible College	59%	*
Minnesota School of Business	50%	**
National American University	50%	**
North Central University	1%	*
Northwestern College	6%	*
Oak Hills Christian College	1%	*
Pillsbury Baptist College	1%	*

*: Based on Fall Enrollment Data Reported to MHESO

**: Assumed a 50%-50% Split

- The results of incorporating this change into the projections are shown on Line 7 of Tables 1 and 2.

8. Partial Coverage of Assigned Taxpayer Responsibilities in Third Semester

- "Minnesota Statutes 2002, section 136A.121, subdivision 9a, is amended to read: ... Students may receive state grants for four consecutive quarters or three consecutive semesters during the course of a single fiscal year. In calculating a state grant for the fourth quarter or third semester, the office must use the same calculation as it would for any other term, except that the calculation must subtract any federal Pell grant for which a student would be eligible even if the student has exhausted the Pell grant for that fiscal year." [*Laws of Minnesota 2003*, Chapter 133, Article 2, Section 12]

- State policy defines a student's Assigned Taxpayer Responsibility for a term as the remainder given a recognized price of attendance, an Assigned Student Responsibility, and an Assigned Family Responsibility.

- State policy coordinates payments of Minnesota State Grants with Federal Pell Grants to ensure coverage of Assigned Taxpayer Responsibilities.

- The federal government defines an annual Federal Pell Grant amount for each applicant.

  - A student attending full time can receive one-half of this amount each semester.

  - Students attending less than full time qualify for a lower amount.

  - Students attending full time for two semesters will draw down the total amount so if they were to attend a third semester they would not qualify for Federal Pell Grants in the third semester.

  - Students attending less than full time in one or both of the first two semesters can qualify for the remainder of the annual Federal Pell Grant amounts in the third semester.

- The policy contained in this amendment requires the state to presume that students would receive the same Federal Pell Grant in the third semester as they would have qualified for either of the first two semesters.

  - Students who have drawn down the annual Federal Pell Grant amount for which they qualified will have only partial coverage of Assigned Taxpayer Responsibilities in the third semester.

- The results of incorporating this change into the projections are shown on Line 8 of Tables 1 and 2.

9. Deadlines

- "Minnesota Statutes 2002, section 136A.121, subdivision 13 is amended to read: ... The ~~office shall accept applications for state grants until February 15 and may establish a deadline for the acceptance of applications that is later than February 15~~ deadline for the office to accept applications for state grants for a term, is 14 days after the start of that term." [*Laws of Minnesota 2003*, Chapter 133, Article 2, Section 13]

- The following table shows the breakout of the projected impact of these deadlines shown on Line 9 of Table 1 and 2 by term and sector attended of Minnesota State Grant applicants for Fiscal Year 2004:

Sector	Term					Total (million)
	Summer 1 (million)	Fall (million)	Winter (million)	Spring (million)	Summer 2 (million)	
MnSCU Two-Year Colleges	$0.02	$0.53	$0.00	$0.12	$0.00	$0.67
Minnesota's Private Two-Year Institutions	$0.39	$0.42	$0.12	$0.18	$0.01	$1.14
MnSCU Four-Year Universities	$0.00	$0.36	$0.00	$0.06	$0.00	$0.43
University of Minnesota	$0.00	$0.44	$0.00	$0.05	$0.00	$0.49
Minnesota's Private Four-Year Institutions	$0.31	$0.64	$0.02	$0.09	$0.01	$1.07
Total	$0.73	$2.39	$0.14	$0.51	$0.03	$3.79

- The following table shows the breakout of the projected impact of these deadlines by term and sector attended of Minnesota State Grant applicants for Fiscal Year 2005:

Sector	Term					Total (million)
	Summer 1 (million)	Fall (million)	Winter (million)	Spring (million)	Summer 2 (million)	
MnSCU Two-Year Colleges	$0.02	$0.64	$0.00	$0.15	$0.00	$0.82
Minnesota's Private Two-Year Institutions	$0.40	$0.43	$0.13	$0.19	$0.01	$1.15
MnSCU Four-Year Universities	$0.00	$0.44	$0.00	$0.08	$0.00	$0.52
University of Minnesota	$0.00	$0.51	$0.00	$0.06	$0.00	$0.57
Minnesota's Private Four-Year Institutions	$0.31	$0.64	$0.02	$0.09	$0.01	$1.07
Total	$0.73	$2.66	$0.14	$0.57	$0.03	$4.13

- These results assume that no applicant changes his or her behavior regarding the timely filing of the Free Application for Federal Student Aid (FAFSA), the federal form used to apply for most federal financial aid and Minnesota State Grants.

10. Period of Eligibility

- "Minnesota Statutes 2002, section 136A.29, subdivision 9, is amended to read: ... An undergraduate who meets the office's requirements is eligible to apply for and receive a grant in any year of undergraduate study unless the student has obtained a baccalaureate degree or previously has been enrolled full time or the equivalent for ~~ten~~ eight semesters or the equivalent...." [*Laws of Minnesota 2003*, Chapter 133, Article 2, Section 11]

- A student would have had to have attended eight semesters to be affected, so a student entering after high school graduation would be at least 22 years of age to be affected.

- To determine the impact of this change, a survey of Fiscal Year 2002 recipients reported as being more than 21 years of age at the start of the fiscal year (birthday before July 1, 1979) was conducted after all files for the year were complete.

- At each four-year institution, a sample of 20 recipients over 21 years of age was drawn and sent to the financial aid director.
    - If there were fewer than 20 recipients in the population at a given institution, all the qualified recipients were selected.

- At each two-year institution a sample of 10 recipients over 21 years of age was drawn and sent to the financial aid director.
    - If there were fewer than 10 recipients in the population at a given institution, all the qualified recipients were selected.

- The financial aid director was asked to indicate if the recipient was a fifth year student and which term the fifth year began.

- All surveys were returned and used in this analysis.

- For each institution and each term, the ratio of grant amounts for fifth year students relative to the total grant amounts for the sample was determined.

- It was assumed that the ratio observed in the sample applied to the population of recipients over age 21 at each institution for each term.

- The calculated estimates of Minnesota State Grants were summed across institutions for each term.

- Actual amounts for MnSCU University students, and estimates of the award amounts for others by term are shown in the following table.

Estimated Minnesota State Grant Awards to Fifth Year Students by Term, Fiscal Year 2002

Sector	Summer 1 (000)	Fall (000)	Winter (000)	Spring (000)	Summer 2 (000)	Total (000)
MnSCU Two-Year Colleges	$0	$132	$0	$255	$38	$425
Minnesota's Private Two-Year Institutions	$1	$0	$11	$22	$0	$35
MnSCU Four-Year Universities	$0	$830	$0	$996	$487	$2,313
University of Minnesota	$0	$469	$0	$569	$152	$1,191
Minnesota Private Four-Year Institutions	$11	$1,062	$110	$1,170	$111	$2,465
Total	$12	$2,493	$121	$3,013	$789	$6,429

- For projecting spending, this change was incorporated in Line 10 of Table 1 and 2.

11. Average Tuition and Fees

- "Minnesota Statutes 2002, section 136A.121, subdivision 6, is amended to read: ... The recognized cost of attendance consists of allowances specified in law for living and miscellaneous expenses, and an allowance for tuition and fees equal to the lesser of the ~~actual~~ average tuition and fees charged by the institution, of the ~~private institution~~ tuition and fees maximums established in law. ... For the purposes of this subdivision, "fees" include only those fees that are mandatory and charged to full-time resident students attending the institution." [*Laws of Minnesota 2003*, Chapter 133, Article 2, Section 9]

- The use of actual tuition and fees began in Fiscal Year 2003 so the only basis for estimating the impact of this change is preliminary results.

- It was estimated that this amendment will reduce spending by about $7.5 million.

- The results of incorporating this change into the projections are shown on Line 11 of Tables 1 and 2.

Additional Considerations

- While representatives worked within their sectors to project enrollments for the next two years, taking into account economic conditions and other factors, there are still individuals who have not decided whether to attend in Fall 2003.
  - The combination of all these decisions might result in a larger influx of students than projected or a shortfall in projected enrollments.
  - Decisions about subsequent periods of enrollment over the two fiscal years are even more uncertain.
- There are on-going pressures on colleges and universities to improve the persistence and graduation rates of students.
  - This could result in students registering for larger loads so that the existing student body would qualify for larger Minnesota State Grants.
  - This could result in more returning students to attend.
  - Alternatively, these efforts might discourage students from enrolling.
- As shown above, the imposition of deadlines has its major impact on the earlier terms during the year.
  - The final impact of the deadlines can be mitigated by students applying for financial aid earlier in the process.
  - The assumptions used in the projections above made no allowances for any changes in students' application behavior.
- The tuition and fees used to project Fiscal Year 2004 spending, barring any mid-year adjustments, are close to final, however, Fiscal Year 2005 levels could be changed more easily.
- There can be (and usually are) changes to the Federal Pell Grant Program on an annual basis.
  - There has been a change in the Allowances for State and Other Taxes used in the Federal Need Analysis announced that will affect students in Fiscal Year 2005.
  - Bills have been introduced in Congress to rescind the announced changes in the Allowances for State and Other Taxes.
  - The Federal Pell Grant Maximum has not been set for Fiscal Year 2005 yet.

- Other changes in the calculation of Federal Pell Grants for Fiscal Year 2005 can still be implemented at the federal level as part of the appropriation process or in separate legislative action.