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Minnesota State Grant Projections Fiscal Years 2012-2013

Authors

Meredith Fergus

Policy Analyst
Tel: 651-259-3963
meredith.fergus@state.mn.us

Ginny Dodds

Manager, State Financial Aid Programs
Tel: 651-355-0610
ginny.dodds@state.mn.us

About the Minnesota Office of Higher Education

The Minnesota Office of Higher Education is a cabinet-level state agency providing students with financial aid programs and information to help them gain access to postsecondary education. The agency also serves as the state's clearinghouse for data, research and analysis on postsecondary enrollment, financial aid, finance and trends.

The Minnesota State Grant Program is the largest financial aid program administered by the Office of Higher Education, awarding up to $155 million in need-based grants to Minnesota residents attending eligible colleges, universities and career schools in Minnesota. The agency oversees other state scholarship programs, tuition reciprocity programs, a student loan program, Minnesota's 529 College Savings Plan, licensing and early college awareness programs for youth.

Minnesota Office of Higher Education

1450 Energy Park Drive, Suite 350
Saint Paul, MN 55108-5227

Tel: 651.642.0567 or 800.657.3866
TTY Relay: 800.627.3529
Fax: 651.642.0675

E-mail: info.ohe@state.mn.us

www.getreadyforcollege.org
www.ohe.state.mn.us

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Introduction

The purpose of this report is to update spending projections for the State Grant program for the 2012-2013 biennium. The law requires spending projection updates to occur by November 1 and February 15 of each year. This report updates the July 21, 2011 projections following adoption of the 2012-2013 budget for the Minnesota Office of Higher Education. Information on enrollments and tuition and fee changes was provided by institutional representatives.

This report presents spending projections for the Minnesota State Grant program for the 2012-2013 biennium as of February 15, 2012.

Fiscal Years 2012 and 2013 — Spending Projection

The State Grant spending projection is $146.54 million for fiscal year 2012 and $155.47 million for fiscal year 2013. This compares to base resources of $154.625 million per fiscal year.

The projections contained in this report are the result of a full simulation of the State Grant model projecting fiscal year 2011 data to fiscal years 2012 and 2013 using current law award parameters and information on enrollment and tuition changes provided by institutional representatives and the percent change in wages of tax filers estimated by Minnesota Management and Budget. This report details the specific adjustments to spending based on federal legislation, tuition and fees, enrollment and other variables that affect demand for financial aid. The changes modeled are the agency's best estimates as of February 15, 2012 and thus are subject to change. This spending projection is based on the model assumptions starting on page six.

Base resources for the 2012-2013 biennial periods are the sum of state appropriations ($309.25 million). Federal LEAP/SLEAP funds of approximately $1.3 million per fiscal year were included as part of the base appropriations for the program for previous biennia. The U.S. Department of Education eliminated these funds in 2011 and, therefore, they are not included as part of base resources available for the Minnesota State Grant program in fiscal years 2012 and 2013.

Projected spending for each fiscal year is compared against the available resources. Fiscal year 2012 shows a difference between base resources and spending in the amount of $8.08 million. Fiscal year 2013 shows a difference between base resources and spending in the amount of -$0.84 million. For the biennium, the difference between resources and spending equals $7.24 million. The Minnesota Office of Higher Education is authorized to increase State Grant awards for fiscal years 2013 using the procedures outlined in statute should base resources exceed projected spending.

Table 1
Spending Projections versus Available Resources (in millions)

Spending Projections vs. Available Resources	FY2012	FY2013	Biennium
Base resources	$154.625	$154.625	$309.25
Spending projection	+(146.54)	+(155.47)	+(302.01)
Difference between resources and spending	**$ 8.08**	**$ (0.84)**	**$ 7.24**

Limitations of the Projection

There are several caveats to consider. First is student enrollment. In Fall 2009 and Fall 2010, enrollments increased at both public and private colleges in response to the economic uncertainty and hardship.[1] Fall 2011 enrollment declined. A decline in Minnesota resident students enrolling could indicate the beginning of an economic recovery. Under an economic recovery assumption, wage growth would occur and generate modest cost savings for the State Grant program. While Minnesota college enrollments declined, application data shows only modest wage growth for students and families. This lag in wage growth is generating uncertainty about the nature of the economic recovery.

Second is tuition. State appropriations to the University of Minnesota and the Minnesota State Colleges and Universities systems were reduced in response to the state budget deficit. While the assumptions of this report utilize the 2011-2012 academic year (fiscal year 2012) tuition and fee rates approved by their respective governing boards, tuition and fee rates for the 2012-2013 academic year (fiscal year 2013) will not be finalized until summer 2012. If projected tuition increases exceed the tuition assumptions, then projected program spending in the Minnesota State Grant program will increase as well.

Third is the federal Pell Grant. Increases or reductions in the federal Pell Grant amounts would affect State Grant spending as the State Grant award formula assumes a dollar for dollar relationship with the student's Pell Grant. Federal budget negotiations have considered reductions to the Pell Grant program. While the President and Congress provided for Pell Grant funding in the August 2011 debt ceiling budget negotiations and in the December 2011 appropriations bill, the program still relies heavily on discretionary appropriations from the annual federal budget to fully fund student Pell Grant awards. The next appropriations for fiscal year 2014 Pell Grants is expected to be passed by October 2012. Future reductions in Pell Grant awards would result in increased spending in the Minnesota State Grant program.

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[1] The Business Cycle Dating Committee of the National Bureau of Economic Research notes that the latest U.S. recession began in December 2007 and ended in June 2009. While the recession may have ended in June 2009, "the committee did not conclude that economic conditions since that month have been favorable or that the economy has returned to operating at normal capacity." National Bureau of Economic Research, Business Cycle Dating Committee. *Announcement September 20, 2010*, http://www.nber.org/cycles/sept2010.html

Projection Assumptions

The Minnesota State Grant spending projection for each fiscal year is formulated using a series of adjustments and the following program parameters as shown in Table 2. Based on projected demand for the program as of July 2011, the Office of Higher Education implemented rationing parameters for fiscal year 2012.

Table 2
Minnesota State Grant Award Parameters

Parameter	FY2011	FY2012	FY2013
Living and Miscellaneous Expense Allowance	$7,000	$7,000	$7,000
Assigned Student Responsibility	48.2%[2]	46.3%[3]	46.0%
Tuition and Fee Maximums			
Students in Two-Year Programs	$5,808	$5,808	$5,808
Students in Four-Year Programs	$10,488	$10,488	$10,488
Federal Pell Grant Maximum	$5,550	$5,550	$5,550
Rationing Surcharge on Assigned Family Responsibility	20%[2]	2%[3]	0%
Proration of the Assigned Family Responsibility			
Dependent Students (Parent Contribution)	96%	96%	96%
Independent Students with Dependents (Student Contribution)	86%	86%	86%
Independent Students without Dependents (Student Contribution)	68%	68%	68%
Maximum Semesters of Enrollment for Grant Eligibility	8	8	8

[2] The Office of Higher Education implemented rationing parameters for fiscal year 2011 to resolve a $23 million program shortfall in single year appropriations.

[3] The Office of Higher Education implemented rationing parameters for fiscal year 2012 to resolve a projected $9 million program shortfall in biennial appropriations.

Enrollment Assumptions

Minnesota State Grant spending projections also incorporate estimated enrollment changes in the number of Minnesota resident undergraduates enrolling at each institution type. Information about enrollment changes for fiscal years 2012 and 2013 is gathered from institutional and system representatives in November and February of each year and is shown in Table 3. Overall enrollment is used to estimate changes in the number of Minnesota resident aid applicants. These figures will be reevaluated as new data on enrollments become available.

Table 3
Enrollment Assumptions

Annual Change in Enrollment	FY2010	FY2011	FY2012		FY2013
	Fall 2009	Fall 2010	Fall 2011		Fall 2012
System	Actual	Actual	Projected	Actual	Projected
MnSCU Two-Year Institutions	+10.0%	+1.8%	+0.6%	-3.51%	-0.6%
MnSCU Four-Year Institutions	+2.0%	+1.2%	+0.9%	-1.06%	+0.92%
University of Minnesota	+4.3%	+2.0%	+1.0%	-1.9%	+0.2%
Private Not-for-Profit Institutions	0.0%	+1.0%	0.0%	-0.6%	0.0%
Private For-Profit Institutions	+17.0%	+6.0%	+7.0%	-4.3%	+5.7%

Change in Wages

The projections model incorporates data about change in wages of Minnesota tax filers from Minnesota Management and Budget. The forecast is used in projections of state revenue and spending across multiple agencies and is updated each December and March. For 2012-2013 biennial projections, the model utilizes data from applicable tax years to update student and family wages and adjusted gross incomes. As fiscal year 2011 information (tax year 2009) is used, incomes are updated to reflect projections for subsequent tax years. Data reflecting the annual change in average wages was revised following the March 2011 economic forecast. The wage change calculations used in the projections are detailed below in Table 4.

Following the November 2011 budget forecast, the assumption for changes in average wages of Minnesota tax filers was adjusted. The estimated increase in annual wages for fiscal year 2012 (tax year 2010) was changed from +3.8% to +1.6%. The estimated increase in annual wages for fiscal year 2013 (tax year 2011) was changed from +2.5% to +3.3%.

Table 4
Change in Annual Wages, Minnesota

Fiscal Year	FY2010	FY2011	FY2012	FY2013
	Tax Year 2008	Tax Year 2009	Tax Year 2010	Tax Year 2011
One-Year Change	+3.2%	-2.8%	+1.6%	+3.3%

Pell Grant Changes in Law

The Consolidated Appropriations Act, 2012 (Public Law 112-74) passed by Congress in December 2011 funded the federal Pell Grant for the 2012-13 award year. The bill maintains the maximum Pell Grant at $5,550 for the 2012-13 award year by reducing spending on other student aid programs and restricting eligibility for Pell Grants. The changes passed in December 2012 include:

- The maximum Pell Grant award remains $5,550 for 2012-13 by setting the maximum award from discretionary appropriations at $4,860, and setting the award add-on from mandatory appropriations at $690, which combined equal $5,550.
- The Pell Grant minimum award remains at 10% of maximum award. However, eligibility is reduced to students with an Expected Family Contribution of less than $4,995 from the current level ($5,273).
- Student eligibility for a Pell Grant is reduced from the equivalent of 18 full-time semesters to the equivalent of 12 full-time semesters. This reduction will affect all students beginning with the 2012-13 award year.

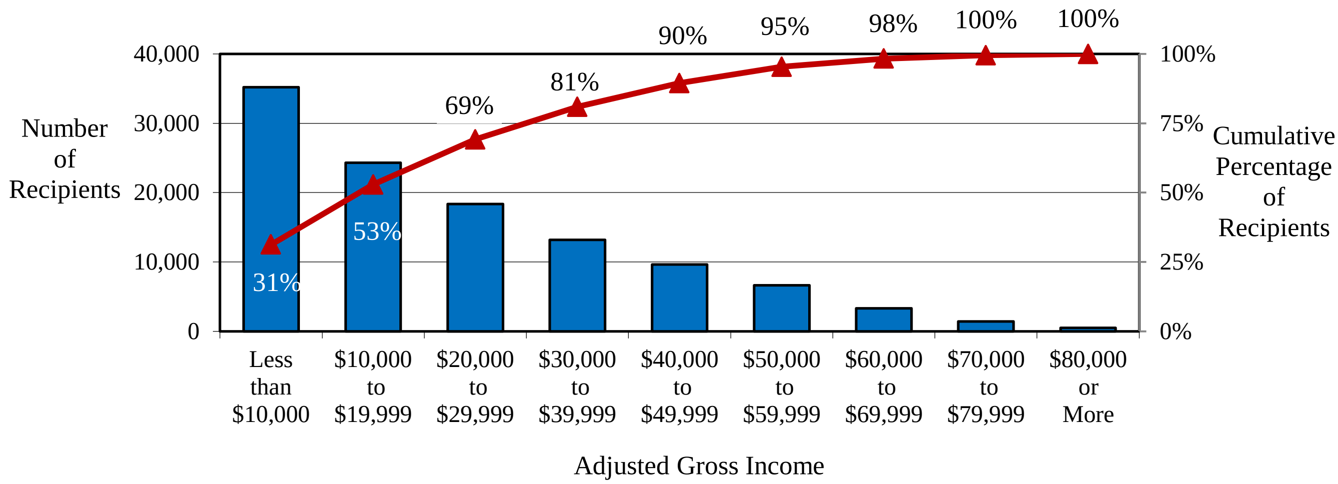
In addition, the Consolidated Appropriations Act eliminated federal student aid eligibility for students without a "certificate of graduation from a school providing secondary education or the recognized equivalent of such a certificate." The law makes an exception for home school students. Therefore, students who do not have a high school diploma or a recognized equivalent (e.g., GED), or do not meet the home school requirements, and who first enroll in a program of study on or after July 1, 2012, will not be eligible to receive Title IV student aid (including Pell Grants). Students will qualify for Title IV student aid under one of the ability-to-benefit (ATB) alternatives if the student was enrolled in a Title IV eligible program prior to July 1, 2012. Those alternatives include the student passing an independently administered, approved ATB test or successfully completing at least six credit hours or 225 clock hours of postsecondary education. This may impact students enrolled concurrently in Adult Basic Education and postsecondary courses (e.g., FastTRAC).

Table 5 below lists the current federal Pell Grant parameters. These changes are incorporated into projections of fiscal years 2012 and 2013 Minnesota State Grant spending. The Federal Pell Grant will not increase in fiscal years 2012 and 2013. Beginning in fiscal year 2014 the maximum Pell Grant award is scheduled to increase annually at the rate of inflation.

Table 5
Federal Pell Grant Award Parameters

Federal Pell Grant	FY2010	FY2011	FY2012	FY2013
Pell Grant Minimum Award	$976	$555	$555	$555
Pell Grant Maximum Award	$5,350	$5,550	$5,550	$5,550
Award Formula: Expected Family Contribution (EFC)	$4,860 - EFC if greater than $0 add $490	Maximum Pell - EFC	Maximum Pell - EFC	Maximum Pell - EFC
Qualifying EFC	$0 - $4,617	$0 - $5,273	$0 - $5,273	$0 - $4,995

Figure 1
Number and Cumulative Percentage of Federal Pell Grant Recipients, Minnesota 2010-2011*



The Federal Pell Grant program in 2010-2011 awarded $606.6 million in grants to 181,614 students at Minnesota institutions. This includes students at non-Minnesota campuses of institutions whose corporate headquarters or main campuses are located in Minnesota. Of the $606.6 million in Pell Grants awarded in 2010-2011, $228 million or 38% was awarded to students at MnSCU two-year colleges. An additional $189 million or 31% was awarded to students at private for-profit institutions. The remaining 31% was awarded to students at MnSCU four-year colleges ($77 million), private not-for-profit institutions ($63 million) and the University of Minnesota ($49 million). The majority of Pell Grant recipients at Minnesota institutions are eligible for a Minnesota State Grant (65%). Figure 1 illustrates the income distribution of the State Grant applicants receiving a Pell Grant. Of the Pell Grants received by State Grant applicants, 31% of Pell Grants were awarded to students from families earning less than $10,000 annually. Students from families earning less than $10,000 annually received the highest average Pell Grant award ($5,493) as shown in Table 6.

Table 6
Minnesota State Grant Statistics, Fiscal Year 2011
Average Award for Pell Grant Recipients* by Income

Family Adjusted Gross Income	Number of Pell Grant Recipients	Average Award
Less Than $10,000	35,191	$5,493
$10,000 to $19,999	24,320	$4,758
$20,000 to $29,999	18,355	$4,990
$30,000 to $39,999	13,199	$4,193
$40,000 to $49,999	9,650	$3,262
$50,000 to $59,999	6,629	$2,503
$60,000 to $69,999	3,291	$2,034
$70,000 to $79,999	1,401	$1,648
$80,000 or More	492	$1,599
Total	112,528	$4,566

*Includes only Pell Grants awarded to Minnesota State Grant applicants; an estimated 35 percent of Pell Grant recipients attributed to Minnesota by the U.S. Department of Education are not Minnesota State Grant eligible.

Federal Need Analysis

The projections model for the Minnesota State Grant incorporates all changes passed by Congress or made by the U.S. Department of Education to the federal need analysis as of January 31, 2012. Annual updates to the tables used in the statutory "Federal Methodology Need Analysis" to determine a student's EFC are released annually by the U.S. Department of Education.

The December 2011 appropriations bill passed by Congress reduced the qualifying income for the automatic zero EFC from $31,000 to $23,000, beginning with award year 2012-13. The law currently sets that threshold at $30,000, but directs the U.S. Department of Education to adjust it annually based on the Consumer Price Index. For 2012-13, the threshold was scheduled to increase to $32,000. Automatic zero applies only to EFC calculations for dependent students (based on parent income) and independent students with dependents other than a spouse (based on the combined income of the student and spouse).

Tuition and Fee Increases

Minnesota State Grant spending also relies on estimated tuition and fee increases for each institution type. Information about tuition and fee increases for fiscal years 2012 and 2013 is gathered from institutional and system representatives by November and February of each year. It is important to remember that tuition increases have a compounding effect. Table 7 below details actual tuition and fee increases for State Grant calculations as reported by institutions and tuition and fee increase estimates utilized by the agency in projections of spending.

Table 7
Annual Changes in Minnesota Resident Undergraduate Tuition and Fee Rates

Tuition and Fee Rate Increases	FY2010	FY2011	FY2012*	FY2013
System	Actual	Actual	Estimated	Estimated
MnSCU Two-Year Institutions	+2.9%	+4.5%	+5.3%	+4.0%
MnSCU Four-Year Institutions	+3.0%	+4.7%	+6.3%	+5.0%
University of Minnesota	+7.5%	+7.0%	+6.3%	+3.5%
Private Not-for-Profit Institutions	+4.8%	+5.0%	+4.9%	+5.0%
Private For-Profit Institutions	+5.0%	+2.8%	-1.3%	+2.0%

The fiscal year 2012 column reflects the percent of tuition increase at public institutions and includes the offset by federal funds from the American Recovery and Reinvestment Act for fiscal years 2009 and 2010.

Next Report

The next report on Minnesota State Grant projections is due to the Legislature by November 1, 2012. The report will contain new projection figures for fiscal year 2013 and preliminary projection figures for fiscal years 2014 and 2015. The report will also incorporate updated information on fiscal years 2012 and 2013 spending and an updated wage forecast from Minnesota Management and Budget.