Executive Summary

Minnesota State Grant Review

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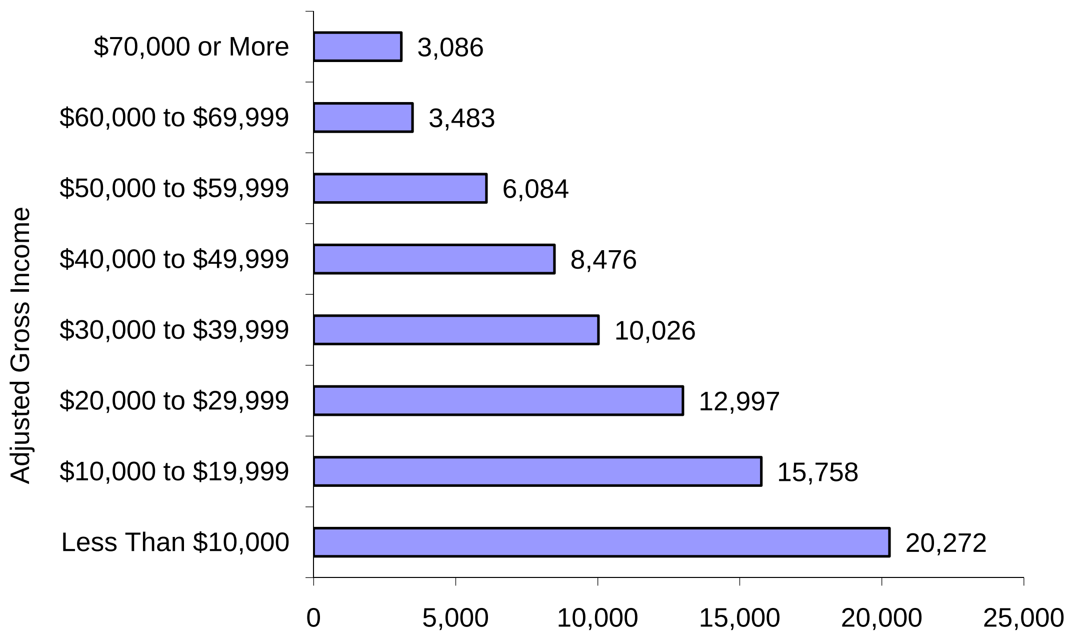
Introduction

The Minnesota State Grant program is a need-based financial aid program created to assist Minnesota resident undergraduates attending public and private postsecondary institutions in Minnesota. The program, first established in 1969, has grown and changed over the years and currently awards approximately $140 million in gift aid to 70,000 students each year. The program is designed to complement the federal Pell grant program and provide choice and access to undergraduate students to attend the postsecondary institutions that best meet their needs. While many states offer larger state financial aid programs, Minnesota's State Grant program ranks among the top ten states in the nation in need-based grant dollars awarded per full-time undergraduate student, according to the National Association of State Student Grant and Aid Programs.

Overview of State Grant Program

The Minnesota State Grant program targets grant aid to students based on the price of attendance and the income and financial resources of the students and their families. The program has been credited with helping hundreds of thousands of students attend and complete postsecondary degrees since its inception.

Number of Minnesota State Grant Recipients, FY 2007



Source: Minnesota Office of Higher Education

Minnesota State Grant policy has been based on a model called the Design for Shared Responsibility since 1983.[1] This model was initially built on the work done by the Carnegie Commission on Policy Studies in Higher Education.[2] State Grant policy assigns responsibility for paying for college to undergraduates, their families and, if necessary, state and federal taxpayers. The goal of the program is established in Minnesota Statute 136A. 095:

> *The legislature finds and declares that the identification of men and women of the state who are economically disadvantaged and the encouragement of their educational development in eligible institutions of their choosing are in the best interests of the state and of the students.*

This policy statement guides Minnesota policy makers in responding to changes in tuition and fees and living expenses faced by students. State Grant policy distributes the price of postsecondary education based on family income and attendance choices among students, families, and taxpayers. The principles underlying this policy are described more fully in the overview chapter.

About this Report

The higher education funding bill enacted in the 2007 session contained a provision that required the Minnesota Office of Higher Education to undertake a thorough analysis of the State Grant program. A preliminary report was due to the Legislature by February 15, 2008 with a final report to follow by October 1, 2008. This report is submitted to fulfill the second requirement.

The language in the bill was specific in the scope of analysis required in the study. The analysis and evaluation must include:

(1) evaluation of the assigned student share compared to the current and future income of a student, and analysis of the number of hours a student must work to meet the assigned student share without borrowing;

(2) evaluation of the assigned family contribution, how it is determined under the federal needs analysis, and how it compares to expectations of families in other public programs;

(3) analysis of the ways that students and families pay the assigned student share and the assigned family contribution;

(4) analysis of the recognized cost of attendance compared to actual attendance costs and the ability of individuals and families at various income levels in Minnesota to pay the cost of attendance;

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[1] Created by the *Laws of Minnesota for 1983*, Chapter 258, Sections 41 and 42. Codified in *Minnesota Statutes 2006* 136a.121 subdivision 5.

[2] Carnegie Council on Policy Studies in Higher Education (1979). *Next Steps for the 1980s in Student Financial Aid: A Fourth Alternative* (San Francisco, CA: Jossey-Bass).

(5) analysis of the actual living and miscellaneous expenses of students, with particular attention to differences between traditional and nontraditional students, and comparison to the amount currently used in the state grant formula; and

(6) analysis of other parameters of the program considered relevant by the office, including prorating the state grant amount instead of the budget for the cost of attendance and changing the definition of full-time enrollment. Whenever possible, the analysis must include:

(i) cost estimates and information on how recommended changes affect students at various income levels and at different higher education institutions in Minnesota; and

(ii) the distributional effects, by income quintile, of state grant program parameters on students and families.

The office also shall assess the feasibility of expanding the eligibility for state grants to include graduate and first professional students pursuing degree programs deemed to be important to the workforce needs of the state. By February 15, 2008, the Minnesota Office of Higher Education must report its preliminary findings and recommendations to the committees in the house of representatives and senate with primary jurisdiction over higher education policy and finance and workforce development on options to enhance the targeting of financial aid to state grant recipients, with the final report submitted by October 1, 2008.

The results of this analysis are contained in a series of reports, which accompany this executive summary.

Following the delivery of the preliminary report to the Legislature in February 2008, the agency held a series of topic-specific sessions to allow for input from interested stakeholders in the development of this final report. During the months of May, June, July and August, nine meetings were held to discuss and gather input from attendees on each chapter of the study. Participants included representatives from the state’s two public systems, the for-profit and non-profit private institutions, students, staff from the Legislature, representatives of businesses groups and other interested parties. Invitations also went out to groups such as Growth and Justice and the Center for the American Experiment. The final report reflects these discussions.

Findings

General

The findings below attempt to summarize the considerable discussion and input received regarding the Minnesota State Grant program since the 2007 Legislative session. There are two central ideas that result from this work.

1. The design of the State Grant program as established conceptually in the Design for Shared Responsibility model is fundamentally sound. The model allocates the price of higher education to three parties, the student, family and taxpayer and does so across many different situations faced by students.

2. There was extensive discussion in the meetings about price of attendance. Participants generally agreed that the price set by policy makers, whether reflected in Tuition and Fee Maximums or the Living and Miscellaneous Expense allowance, must reflect the market realities faced by students. Without this, it is difficult if not impossible to evaluate if the general parameters in the model, such as the student share or the expectations of families, are working to meet the policy goals of the program. There is some evidence that the failure to set the price at market levels burdens students from the lowest income families the most. That is, their burden is higher than the net price for middle- and higher- income families.

Program-Specific Findings

This section provides findings from the individual reports on particular aspects of the program. They follow the more detailed analysis in each report.

Tuition and Fee Maximums: Tuition and Fee Maximums are the limits on the amount of tuition and required fees that may be recognized when calculating State Grant awards. The maximums are established in state law each biennium. The Tuition and Fee Maximums have traditionally been pegged to the maximum tuition and fees charged at public institutions. In recent years, the Tuition and Fee maximums for four-year institutions have been slightly lower than the maximum tuition and fees charged by the University of Minnesota.

- Over the years the Minnesota Legislature has increased, decreased and sometimes held constant the Tuition and Tee Maximums used in the State Grant award calculation.

- Using the Tuition and Fee Maximums from the introduction of the Design for Shared Responsibility in 1984 as the base year and inflating the base year amount by the consumer price index, the Tuition and Fee Maximums have not maintained purchasing power over the last 25 years.

- Benchmarking the Tuition and Fee Maximums to taxpayer spending on students attending public institutions would increase the Tuition and Fee Maximums and result in similar taxpayer spending for low- to moderate-income students attending public and private institutions. Students attending public institutions are supported in part by a public subsidy from the state to institutions, in addition to the State Grant they may receive.

Living and Miscellaneous Expense Allowance: The Living and Miscellaneous Expense allowance is an allowance for books, supplies, housing, food, and other expenses of attendance. In the State Grant program there is one allowance amount recognized for all students, which is set in statute, at $6,025 for Fiscal Year 2007.

- The Living and Miscellaneous Expense allowance used in Minnesota has not kept pace with inflation, as measured by the consumer price index. Using 1981 as the starting point, the actual Living and Miscellaneous Expense allowance has lagged behind its inflationary value almost every year. For the most recent year measured, Fiscal Year 2007, the actual LME of $6,065 was less than the $6,324 it would have been if it had increased at the rate of inflation.

- The LME has been set below the federal poverty threshold for a family size of one, with the LME value of $6,065 for Fiscal Year 2007 representing 56 percent of the poverty threshold.

- The LME is significantly less than the living cost components used in budgets set by campuses across the country and used to package financial aid. Based on data collected by the College Board for Fiscal Year 2007, the "other expenses" portion of undergraduate financial aid budgets ranged from $10,022 to $11,131, while the LME in Minnesota was set at $6,065.

- Based on data from the Consumer Expenditure Survey for the 2001 to 2005 period, average total expenses for books, equipment and supplies, housing, food, transportation and other expenses for 18 to 22 year old students enrolled on a full-time basis were $9,561 a nine-month academic year. The $9,561 amount exceeds the Fiscal Year 2007 LME of $6,065 by $3,496.

Assigned Student Responsibility: The Assigned Student Responsibility is the amount Minnesota expects students to pay toward their education. The Assigned Student Responsibility is currently set at 46 percent of the recognized Price of Attendance, and is set in state statute. It is separate from the amount Minnesota expects families to pay.

- The hours of weekly employment at minimum wage required to fund the Assigned Student Responsibility for students were manageable for students attending most institution types, but exceeded 20 hours per week in some cases. Evidence from research studies shows 20 hours per week is generally the maximum number of hours per week full-time students should work to avoid negative effects on academic performance.

- The hours of weekly employment at state Work-Study program wages required to fund the Assigned Student Responsibility for students were manageable for students at most types of institutions.

- When students borrow subsidized federal Stafford Loans to cover the Assigned Student Responsibility for one academic year, monthly loan payments are generally within a range of two percent of monthly income (public two-year institutions) to 3.2 percent of monthly income (University of Minnesota). However, when loan debt is increased to the amount needed to cover the Assigned Student Responsibility for two or four academic years, the monthly loan payments as a percent of income increased to 4.2 percent (public two-year institutions), 5.1 percent (private two-year institutions), 9.8 percent (state universities), 12 percent (private four-year institutions) and 12.7 percent (University of Minnesota).

- When students use a combination of borrowing and employment to cover the Assigned Student Responsibility, the hours of weekly employment needed to cover the remaining responsibility after the loan is applied are minimal, with a maximum of six hours per week required at the minimum wage (University of Minnesota) and eight hours per week at State Work-Study average wages (University of Minnesota). The analysis assumed students would borrow an amount equal to the Assigned Student Responsibility at Minnesota public two-year institutions.

Assigned Family Responsibility: The Assigned Family Responsibility is the portion of the Recognized Price of Attendance that families are expected to contribute to their child's education. It is similar to the "expected family contribution" used in calculating federal financial aid. (In the case of independent students, the student is responsible for both the Assigned Student Responsibilities and the Assigned Family Responsibilities.)

- The amount assigned to families was analyzed as a percentage of the family's income, called Assigned Family Effort. Assigned Family Effort for a family of four with a median income and a dependent student attending Minnesota's private four-year institutions increased from 6.5 percent to 10 percent from Fiscal Year 1986 and 2001 before decreasing to 9.3 percent in Fiscal Year 2007. The decrease between Fiscal Years 2001 and 2007 is due to small increases in the state-mandated Tuition and Fee Maximums during this period.

- Since 1986, the maximum Assigned Family Effort for students attending other types of institutions has increased and affected more families in the middle of the income spectrum. The peak Assigned Family Efforts for families with students attending the University of Minnesota, for example, increased from about seven percent for incomes of about $30,000 in 1986, to roughly 12 percent for incomes of about $70,000 in 2007. In both cases, the maximum financial effort assigned to families occurred at incomes slightly less than the median incomes of families of four in Minnesota as well as slightly less than the 60th percentile of incomes reported for all families in the United States.

- Families at the 40th and the 60th income percentiles experienced the largest increases in their Assigned Family Efforts between 1986 and 2007. For families with students attending the University of Minnesota, for example, Assigned Family Efforts increased by roughly four percentage points at the 40th percentile and nearly five points at the 60th percentile. Similar, although smaller, increases were observed for families with students choosing other institutions.

Measuring Ability to Pay: The Minnesota State Grant Program's Assigned Family Responsibilities are intended to reflect a family's ability to pay for postsecondary education. Minnesota relies on the Federal Need Analysis in determining Assigned Family Responsibilities. Federal and state individual income tax systems, Minnesota's Property Tax Refund program and Minnesota programs to assist families with disabled children and childcare all incorporate ability to pay measures. These other government programs were used as benchmarks to analyze the reasonableness of Assigned Family Responsibilities.

- Federal and Minnesota individual income tax burdens increased as income increased. As income increased, tax liabilities were a larger percent of income. Minnesota's Property Tax Refund program tempered property tax "regressivity," but property taxes remained overall regressive.

- The Minnesota State Grant program's Assigned Family Efforts in comparison to federal and Minnesota individual income taxes and Minnesota's Property Tax Refund program were zero for families on the left hand side of the income spectrum, steeply progressive for moderate income families and regressive for families on the right hand side of the income spectrum.

- The Minnesota State Grant program's Assigned Family Efforts, starting at about $20,000 adjusted gross income, were higher when compared to the state's reimbursement program for care of disabled children. Minnesota State Grant Program Assigned Family Responsibilities were higher and Assigned Taxpayer Responsibilities were lower when compared to the dollar amount results using the state's reimbursement formula for care of disabled children.

- The Minnesota State Grant Program's Assigned Family Efforts were similar to the expectations of families in the Child Care Sliding Scale Program up to about $45,000 and again above $65,000 adjusted gross income, but between $45,000 and $65,000 adjusted gross income, Assigned Family Efforts for the State Grant program were higher than the Child Care Sliding Scale program parameters.

Affordability of Higher Education in Minnesota

- When net prices are calculated by taking the Price of Attendance and subtracting grants and scholarships from federal, state, institution and private sources, students from families with lower incomes have lower net prices than students from families with higher incomes.

- While net prices are lower for students from families with lower incomes, the net prices still represent a substantial percentage of family income – more than 30 percent of family income for students from families with incomes of $30,000 or less.

- While dependent students in the lowest income category are typically assigned no additional share of the recognized amount beyond the 46 percent student share, questions have been raised about the capacity of these low-income students to pay the student share.

- While the State Grant program in general is grounded in sound policy, financial expectations placed on older, non-traditional students who are working full time and attending college may discourage some from enrolling due to financial concerns. For part-time, independent students with incomes below $50,000 (the majority of part-time, independent students), attendance at a public university would require 20 percent to 60 percent of their income, were they to attend full time.

How Families Pay for College

- Preparing to meet postsecondary costs remains a high priority in family financial planning, but other priorities, such as the need to save for retirement, are dominating financial concerns.

- Family income has a role in a student's postsecondary attendance and financing of college costs. Many studies indicate a relationship between the type of institution a student attends and what strategies students and families use to fund those institutional costs with family income.

- Families use a variety and combination of strategies to finance postsecondary costs. Income and savings play a key role in college attendance. On average, the largest share of college costs was funded by parents' current income and savings, but many parents indicated they had worked additional hours or additional jobs to meet those costs. Student loans accounted for the next largest share of college costs.

- Saving and borrowing patterns are highly influenced by changes in the overall economy as well as changes in the costs to attend college. Many studies indicated strong changes in saving and borrowing behavior over time, suggesting a need for information on an ongoing basis to assess the impacts of these changes.

- Parents' and students' perceived costs of college influence college attendance. Many studies indicated that the perceived costs of college influence not only a student's enrollment but whether a student considers applying to an institution, thereby removing potential financial aid as a factor in college choice.

- Students may not be realistic in estimating their loan repayments. College students often underestimated their loan repayment amounts.

- Rising educational costs have had a disproportionate effect on different groups of students, from families at different income levels, attending different types of institutions. Certain groups of borrowers, both students and parents, are taking out increasing amounts of debt and may be putting themselves at increased risk.

- Across income levels, many families do not fill out the Free Application for Federal Student Aid. Some studies indicate that 25 percent of families overall did not fill out the FAFSA, including 23 percent of families with annual incomes between $35,000 and $50,000.

- Although parents feel the costs of education have been rising too fast, they also feel they will be able to meet those costs. They consistently place a high value on having their children participate in higher education.

- Parents may not be realistic in their estimates of the costs of college, nor in their preparation to meet those costs.

- There is a scarcity of current family financial decision-making data at the state level. The extent to which family finances played a role in student decisions about whether or not to enroll or drop out of college has not been adequately studied.

- Much still is unknown about how students and families meet the often sizable gap between costs of attendance and the expected family contribution.

Comparisons of the Minnesota State Grant Program with Other State Grant Programs

- Unlike most states, Minnesota tries to assign all the costs of college up to the Recognized Price of Attendance.

- Many states don't fully fund their state grant program. They simply run out of funds and cut off awards at some time each year. This makes the programs unpredictable and thus unreliable for students and families.

- Minnesota had a generous application deadline compared to other states.

Impact of Federal Tax Credits and Deductions for Higher Education

- The federal Hope tax credit, the Lifetime Learning credit and the federal tuition and fee deduction assist students and families in paying for postsecondary education. Unlike student financial aid programs and practices, federal tax benefits are reimbursed though the filing of federal individual income taxes several months later than students and families have paid qualifying out-of-pocket postsecondary education expenses.

- Federal tax benefits generally provide postsecondary education benefits to students and families further up the income spectrum than student financial aid. Nevertheless, many taxpayers receive both federal postsecondary education tax benefits and student financial aid. Some students and families receive federal tax benefits, federal Pell Grants and Minnesota State Grants. Most importantly, federal tax benefits reduce financial burdens the most for students and families who are expected to pay the most, as determined by the federal need analysis used in student financial aid programs.

Extending the State Grant Program to Graduate Students

- Mechanically, the existing structure of the Minnesota State Grant program could be applied to graduate and first professional students. A recognized amount of tuition and fees could be established. A Living and Miscellaneous Expense allowance could be set as well. These could be the same as used currently for undergraduates or set at different levels for graduate students. The FAFSA and Federal Need Analysis is designed to accommodate all students. Adjustments to the results could be made as done currently for applicants for Minnesota State Grants.

- The loan forgiveness and loan repayment program is the most common form of financial aid program designed to address a workforce need. Loan repayment programs may be preferable to loan forgiveness programs, given their lower administrative overhead. Nationally, there is little data providing evidence either for or against the effectiveness of loan forgiveness and repayment programs.

- Minnesota's loan forgiveness programs are designed to provide health care professionals for rural areas, and administered by the Minnesota Department of Health, and these programs were recently evaluated as effective. These programs should be reviewed periodically to determine the effectiveness of (and need for) such programs.

- Financial aid program designed to address a workforce concerns are sometimes established as ad hoc solutions to perceived labor shortages, without consideration of the larger context of state financial aid, education and workforce policy. These kinds of programs should be created cautiously and with sunset provisions so that they do not continue beyond their useful life.

- Often a labor-market problem can be most effectively addressed through a labor-market solution, such as higher wages, improved benefits or improved working conditions.

Recommendations

There are four general recommendations that emerged from the discussions with stakeholders over the last two years. These are:

1. The State Grant model distributes the price of higher education for a student to three different parties, the student, the family and, when needed, the taxpayers. This implies that it is very important to 'get the price right'. If the two components of price – tuition plus fees and an allowance for living and miscellaneous expenses – are artificially low, the program cannot meet the goal of providing choice and opportunity for students. Policymakers should consider ways better align the price components of the State Grant framework and prices in the marketplace.

2. The Legislature expressed the overarching policy goal of the State Grant program directly in statute.

    > *"The legislature finds and declares that the identification of men and women of the state who are economically disadvantaged and the encouragement of their educational development in eligible institutions of their choosing are in the best interests of the state and of the students."*

    Student choice is a clear goal of the program. As such, the details of the program should be constructed to enhance this outcome in the future and should not favor attendance at one institution over another.

3. If a goal is the distribution of the price of higher education, then the price should be based on external and acceptable measures. The financial expectations placed on students should not be so great as to overburden them with debt repayment or work expectations that inhibit academic success. Policymakers should consider whether the burden on families (comprised of the student share and family share) is reasonable for all students with respect to their income.

4. The State Grant program should contain incentives for students to finish a college experience in a timely fashion, while recognizing the unique challenges of non-traditional students.

More specific recommendations could be provided to reflect some of the findings in this report. These would have cost implications for the General Fund. While cost estimates for specific changes are relatively easy and straightforward to produce, the options are endless, and thus policy guidance is needed.

With completion of this extensive analysis, the Office of Higher Education will continue to assess the responsiveness of the State Grant program to the needs of all students in a changing economy.