



October 29, 2010



Minnesota State Grant Projections



Authors

Meredith Fergus

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

Ginny Dodds

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

Mark Misukanis

Director of Finance & Research
Tel: 651-259-3960
mark.misukanis@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 \$150 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
St. 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

MINNESOTA
OFFICE OF
HIGHER
EDUCATION

reach higher

Table of Contents

Table of Contents	1
Introduction	3
Part I	3
Minnesota State Grant Fiscal Year 2011 Spending Projection	3
Spending Update	3
Base Resources	4
Projection Assumptions	5
Enrollment Assumptions	5
Change in Wages	6
Federal Need Analysis	6
Pell Grant Changes in Law	6
Tuition and Fee Increases	7
Course of Action	7
Part II	8
Achieve Scholarship	8
Next Report	9

Introduction

The purpose of this report is to meet the directive of Minnesota Statute 136A.121 requiring the Minnesota Office of Higher Education to update projections for the State Grant program for the 2010-2011 biennium. The law requires these updates to occur by November 1 and February 15 of each year. A meeting was held as required under the statute with interested parties including representatives from public and private institutions, legislative staff and Minnesota Management and Budget on October 20, 2010. Information on enrollments and tuition and fee changes was provided by these representatives.

This report contains two parts. Part I addresses spending projections for the Minnesota State Grant program. Part II discusses spending projections for the Achieve Scholarship program.

Part I

Minnesota State Grant Fiscal Year 2011 Spending Projection

The State Grant spending projection for fiscal year 2011 is now \$114.00 million. This compares to base resources of \$119.37 million for fiscal year 2011 as of October 18, 2010.

The projections contained in this report are the result of both preliminary spending for the fall term (awards and disbursements to date) as reported by participating institutions projected forward, and a full simulation of the State Grant model with new assumptions for enrollment, tuition and changes in wages of applicants and their families. This projection is based on two independent approaches to the analysis. Preliminary spending data was analyzed for the fall term. The spending projection has also been confirmed by a separate simulation that projects fiscal year 2010 data to fiscal year 2011 using known enrollment and tuition changes. While there are five academic terms in which State Grant awards are made each year, the fall data and preliminary spring term spending was used in gauging program demand for both fiscal years.

This report details the specific adjustments to spending based on federal legislation, price, enrollment and other variables that affect demand for financial aid. The changes modeled are the agency's best estimates as of October 18, 2010 and thus are subject to changes. This spending projection is based on the model assumptions starting on page five.

Spending Update

In November 2009, the Minnesota Office of Higher Education determined that a spending shortfall of approximately \$24 million would occur in the Minnesota State Grant program. State Grant spending for fiscal year 2010 was \$168.9 million compared to base resources of \$144.14 million as of October 18, 2010.

The higher than anticipated projected growth in demand for program grants was due to an increase in financial aid applications and enrollment. While applications and eligibility were anticipated to increase due to a stressed economy, the actual application volume increase was higher than expected. Enrollment increases projected by the public two-year colleges and the University of Minnesota were significantly higher than previously estimated by the systems for Fall 2009.

The following course of action was taken to remediate the spending shortfall for the Minnesota State Grant program for fiscal year 2010 and 2011.

- The agency transferred funds from the second-year appropriation of the Minnesota State Grant program to cover the unanticipated deficiency in the program for fiscal year 2010. This action was within the authority of the Office of Higher Education.

2009 Sessions Laws, Chapter 95, Sec.3, Subd. 2: If the appropriation in this subdivision for either year is insufficient, the appropriation for the other year is available for it. The legislature intends that the Office of Higher Education make full grant awards in each year of the biennium.

- The Minnesota Legislature enacted changes to the Minnesota State Grant parameters to reduce spending for fiscal year 2011. Changes included elimination of the ninth semester of eligibility and a limitation on spending for the Summer Transition Grant program.
- The agency reduced awards for fiscal year 2011 using the rationing procedure outlined in statute.

136A.121 Subd. 7. Insufficient appropriation. If the amount appropriated is determined by the office to be insufficient to make full awards to applicants under subdivision 5, awards must be reduced by:

- 1. adding a surcharge to the applicant's assigned family responsibility, as defined in section 136A.101, subdivision 5a; and*
- 2. a percentage increase in the applicant's assigned student responsibility, as defined in subdivision 5*

The reduction under clauses (1) and (2) must be equal dollar amounts.

To achieve a reduction in program spending for fiscal year 2011, a surcharge to the assigned family responsibility of 20 percent was added, and the assigned student responsibility was increased by 2.20 percent (or Assigned Student Responsibility of 48.20percent). This reduced the average Minnesota State Grant FY2011 award by an estimated \$290.

- Per the statutory authority prescribed in Section 37 of Senate File 184 (Chapter 364), the agency reserved \$7.9 million (4.87 percent) to address uncertainty in economic variables that affect the Minnesota State Grant program.

Chapter 364. Sec. 37. REDUCTION IN GRANTS FOR INSUFFICIENT APPROPRIATIONS. In fiscal year 2011, the dollar amount reductions in state grants under Minnesota Statutes, section 136A.121, subdivision 7, may be approximately equal for the surcharge on family responsibility and the percentage increase on the assigned student responsibility. The Minnesota Office of Higher Education may reserve up to five percent of the projected demand for grant awards in fiscal year 2011 to manage uncertainty of demand based on enrollment or income changes of applicants. After reduced grant awards are made for fiscal year 2011, the office must distribute any remaining funds to increase the living and miscellaneous expenses allowance consistent with the office's distribution of surplus appropriations under Minnesota Statutes, section 136A.121, subdivision 7a; provided that if the office determines that the remaining funds are less than \$1,500,000 the office may, in lieu of increasing the allowance, transfer all of the remaining funds to the state work-study program.

Base Resources

Base resources for the 2010-2011 biennium are the sum of state appropriations plus federal LEAP and SLEAP funds. In fiscal year 2010, the Office transferred funds from the federal LEAP and SLEAP programs to the Achieve Scholarship program. Total base resources for the biennium as of February 2010 equal \$288.28 million.

Base Resources <i>in millions, October 18, 2010</i>	FY2010	FY2011	Biennium
State appropriations	\$144.14	\$144.14	\$288.28
Federal LEAP program	\$0.00	\$0.00	\$0.00
Federal SLEAP program	+ \$0.00	+ \$0.00	+ \$0.00
Total base resources	\$144.14	\$144.14	\$288.28

The spending projection is within the available resources of \$144.14 million for fiscal year 2011.

Spending Projections vs. Available Resources <i>in millions, as of October 18, 2010</i>	FY2010	FY2011	Biennium
Base resources	\$144.14	\$144.14	\$288.28
Spending projection	+ (\$168.91)	+ (\$114.00)	+ (\$282.91)
Difference between resources and spending	(\$24.77)	\$30.14	\$5.37

Projection Assumptions

The Minnesota State Grant spending projection for fiscal year 2011 is formulated using a series of adjustments and the following program parameters. Given that demand on the program was projected to exceed available resources, the Office implemented rationing parameters for the 2011 Fiscal Year.

Minnesota State Grant Program Parameters	FY2009	FY2010	FY2011
Living and Miscellaneous Expense Allowance	\$6,200	\$7,000	\$7,000
Assigned Student Responsibility Percentage	46%	46%	48.2%
Tuition Maximum, Students in Two-Year Programs	\$5,808	\$5,808	\$5,808
Tuition Maximum, Students in Four-Year Programs	\$9,838	\$10,488	\$10,488
Federal Pell Grant Award Maximum	\$4,731	\$5,350	\$5,550
Federal Pell Grant Award Minimum	\$890	\$963	\$555
Surcharge on Assigned Family Responsibility	0%	0%	20%
Proration of the Assigned Family Responsibility			
Dependent Students	96%	96%	96%
Independent Students with Dependents	86%	86%	86%
Independent Students without Dependents	68%	68%	68%
Maximum Semesters of Attendance for Grant Eligibility	8	9	8

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 year 2011 is gathered from representatives by November and February of each year. 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 and the economy become available.

Enrollment Assumptions	FY2009	FY2010	FY2011		
	Fall 2008	Fall 2009	Fall 2010		
System	Actual	Actual	Institutional Projection February 2010	OHE Projection	Actual
MnSCU 2-Year Institutions	+1.8%	+10.0%	+0.9%	+4.0%	+1.8%
MnSCU 4-Year Institutions	+0.7%	+2.0%	+0.7%	+1.0%	+1.2%
University of Minnesota	-0.4%	+4.3%	+1.0%	+2.1%	+2.0%
Private Not-for-profit Institutions	+0.0%	+0.0%	+0.0%	+0.0%	+1.0%
Private For-profit Institutions	+9.8%	+17.0%	+19.0%	+7.6%	+6.0%

Change in Wages

The projections model incorporates state data about growth in wages from Minnesota Management and Budget. The department’s forecast is used in projections of state revenue and spending across multiple agencies and is updated each November and February. For 2010-2011 biennial projections, the model utilizes data from applicable tax years to inflate student and family wages and adjusted gross incomes. Data reflecting the annual change in average wages was revised following the March 2010 economic forecast. The wage change calculations used in the projections are detailed below. These figures will be revised following the November 2010 economic forecast.

Annual Minnesota Wages	FY2011	FY2012	FY2013
	Tax Year 2009	Tax Year 2010	Tax Year 2011
Forecast Date	March 2010		
1-Year Change	-2.1%	+1.8%	+2.6%

Federal Need Analysis

The federal College Cost Reduction and Access Act outlined several changes to the Federal Need Analysis beginning with fiscal year 2010. These changes are explained fully in the February 15, 2009 *Minnesota State Grant Projections* and were included in the current projections model. Additional changes as made by the U.S. Department of Education to the Federal Need Analysis such as changes to the income protection allowance are included in the projections model.

Pell Grant Changes in Law

While the Health Care and Education Reconciliation Act of 2010, Public Law 111-152 passed by Congress changed the award formula for the federal Pell Grant, the the maximum Pell Grant did not change. The table below lists the current federal Pell Grant parameters. These parameters were incorporated into projections of fiscal year 2011 spending. The Federal Pell Grant will not increase in fiscal years 2012-2013. Beginning in fiscal year 2014 the maximum Pell Grant award is scheduled to increase annually at the rate of inflation.

Federal Pell Grant Award Parameters	FY2010	FY2011	FY2012	FY2013
Pell Grant Minimum – current law	\$976	\$555	\$555	\$555
Base maximum – current law	\$4,241	\$4,860	\$4,860	\$4,860
Pell Grant base increase – ARRA	\$619			
Pell Grant supplement	<u>+\$490</u>	<u>+\$690</u>	<u>+\$690</u>	<u>+\$690</u>
Pell Grant maximum – current law	\$5,350	\$5,550	\$5,550	\$5,550

Tuition and Fee Increases

Minnesota State Grant spending projections are also based upon estimated tuition and fee increases for each institution type. Information about tuition and fee increases for fiscal years 2010 and 2011 is gathered from representatives by November and February of each year. It is important to remember that tuition increases have a compounding effect. The table below details actual tuition and fee increases for state grant calculation as reported by institutions as of October of 2010.

Annual Changes in Minnesota Resident Undergraduate Tuition Rates

System	FY2010	FY2011
	Actual	Actual
MnSCU 2-Year	+2.9%	+4.5%
MnSCU 4-Year	+3.0%	+4.7%
University of Minnesota	+7.5%	+7.0%
Private Not-for-profit	+4.8%	+5.0%
Private For-profit	+5.0%	+2.8%

Course of Action

The Minnesota Office of Higher Education tried to anticipate all factors impacting program spending and planned conservatively to minimize the impact on students. institutions were asked to plan for Minnesota State Grant award parameter changes effective November 2010.

- **As projected spending for the year will not exceed available funds, the reserve will be distributed to students via an increase to the Living and Miscellaneous Expense allowance (LME).** The agency has the authority to transfer to State Work Study any remaining reserve amount if less than \$1,500,000.

Part II

Achieve Scholarship

Projected spending for the Achieve Scholarship program for fiscal year 2011 is \$1.2 million.

Achieve Scholarship Fiscal Year 2011 Projected Spending as of October 18, 2010

System	2010 High School Graduates	2008 High School Graduates	Total Achieve Awards	Percent of Total Awards
MnSCU 2-Year Institutions	\$85,000	\$13,000	\$98,000	8.4%
MnSCU 4-Year Institutions	\$152,000	\$23,000	\$175,000	14.9%
University of Minnesota	\$377,000	\$32,000	\$409,000	34.9%
Private Institutions	\$426,000	\$65,000	\$491,000	41.9%
Total	\$1,040,000	\$133,000	\$1,173,000	100%

Projected spending for the Minnesota Achieve Scholarship program is within available resources. For fiscal year 2010, spending for the program was \$10 million, which exceeded the fiscal year appropriation of \$4.35 million. The Minnesota Office of Higher Education did not have the option of transferring funds between fiscal years within the Achieve Scholarship program. The agency took the following course of action to remediate the spending shortfall for the Achieve program for fiscal year 2010.

- The agency transferred funds in the amount of \$4.35 million from the fiscal year 2011 appropriation for the Minnesota State Grant program to the Achieve Scholarship program to cover the deficiency in the program for fiscal year 2010. The agency then transferred the fiscal year 2011 appropriation of \$4.35 million for the Achieve program to the Minnesota State Grant program. The agency allocated funds for fiscal years 2010 and 2011 from the federal LEAP and SLEAP programs to the Achieve program.
- The Minnesota Legislature enacted changes to the Achieve award parameters to reduce spending to the available resources for fiscal year 2011.

Chapter 215. Sec. 20. ACHIEVE SCHOLARSHIP PROGRAM FISCAL YEAR 2011 MODIFICATIONS.

(a) Notwithstanding Minnesota Statutes, section 136A.127, for achieve scholarship awards in fiscal year 2011, the achieve scholarship program shall be modified as provided in this section.

(b) Awards shall only be made to students who have an assigned family responsibility of zero.

(c) An award shall be for \$1,200 per academic year for all recipients unless reduced under this section.

(d) A first round of awards shall be made to students for which the Office of Higher Education has received a complete application by August 31, 2010. If there are insufficient appropriations to make full awards to each student, all awards under this paragraph shall be reduced by an equal amount sufficient to meet the insufficiency.

(e) If appropriations remain after the first round, awards shall be made on a first-come, first-served basis.

(f) Except as modified by this section, the remaining unmodified provisions of Minnesota Statutes, section 136A.127, shall govern achieve scholarship awards made in fiscal year 2011.

For fiscal years 2012 and 2013, the Minnesota Legislature set the base for the Achieve Scholarship Program at \$2,350,000 each year.

Next Report

The next report on Minnesota State Grant projections is due to the Legislature by February 15, 2011. This report will contain preliminary projection figures for fiscal years 2012 and 2013. The report will also incorporate updated information on fiscal year 2011 spending and an updated wage forecast from Minnesota Management and Budget.