Minnesota Office of Higher Education
reach higher

September 20, 2006

Minnesota State Grant Review 2006

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 post-secondary education. The agency serves as the state's clearinghouse for data, research and analysis on post-secondary enrollment and financial aid.

The Minnesota State Grant Program, which is administered by the agency, is a need-based tuition assistance program for Minnesota students. The agency oversees tuition reciprocity programs, a student loan program, Minnesota's 529 College Savings Program, licensing and an early awareness outreach initiative for youth. Through collaboration with systems and institutions, the agency assists in the development of the state's education technology infrastructure and shared library resources.

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

Executive Summary

The purpose of this report is to examine how Minnesota State Grants have responded to changing marketplace conditions and how the program is addressing the contemporary needs of Minnesota students. This report was created as an informational resource for state policy-makers who are ultimately responsible for the funding and design of the Minnesota State Grant program.

The State Grant program was created in 1967 by the Minnesota Legislature to provide need-based financial aid to Minnesota residents pursuing higher education. It provides low- and some middle-income residents with need-based assistance in paying for their undergraduate education at public and private institutions across the state. The governing state statute for the program outlines its purpose:

> *"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." (Minnesota Statutes 136A.095)*

The program was updated by the Legislature in 1983 to introduce a more income-sensitive price sharing approach that distributes the price of attending college among the student, the family and, when appropriate, the taxpayer. The program awarded $124 million in grants to 73,000 Minnesota students in Fiscal Year 2005. State funding for the program represents 11 percent of the state's appropriation for higher education. Within the state's funding parameters, State Grants have responded to changes in economic conditions as envisioned by the lawmakers who redesigned the program 20 years ago.

College access and affordability are currently popular political and policy issues. As the cost of attending college continues to rise and the need for post-secondary education becomes increasingly essential to successful participation in a world economy, financial aid issues have been the focus of recent initiatives.

- In 2006, two new federal grant programs are being implemented to provide additional merit-based assistance to students who are eligible to receive Pell Grants based on the courses they took in high school and the types of baccalaureate degrees they choose to pursue.

- States across the country are expanding their state aid for students. Total grant aid awarded by states nationwide increased 133 percent from 1995 to 2005. Need-based aid increased 98 percent over the same period.

- Minnesota's new higher education accountability project includes "Providing access, affordability and choice," as one of five state goals. These goals, developed with input from stakeholders across the state, are the basis for an accountability system for Minnesota that is being developed by the Minnesota Office of Higher Education.

- The University of Minnesota's new Founders' Opportunity Scholarship and a new scholarship program called the Power of You offered jointly by three members of the Minnesota State Colleges and Universities promise free tuition to certain low-income Minnesota residents.

- Governor Tim Pawlenty recently proposed an initiative that would provide free tuition at a public institution for two years to students who graduate in the top 25 percent of their high school class. Students in their third and fourth years of a baccalaureate degree who are admitted to a science, technology, engineering or mathematics program would be eligible for two more years of free tuition.

The State Grant program is administered through a partnership between the Minnesota Office of Higher Education and financial aid offices on more than 130 public and private campuses across the state. The agency's costs to administer and audit the program represent less than one-half of one percent (or 0.32 percent) of overall program expenditures.

State Grant awards for students are calculated based on a policy framework called the Design for Shared Responsibility. While modified over the years, the framework has served students and their families effectively by recognizing changes in post-secondary education prices, in student and family income, and in federal grant aid availability. Program parameters for the Minnesota State Grant program are defined in the *Laws of Minnesota*.

The Office of Higher Education periodically analyzes various aspects of the State Grant program. The agency also receives ongoing input from policy makers, financial aid administrators and the agency's Student Advisory Committee. Based on this information, along with formal suggestions gathered, analyzed and reported in Part III of this report, the Office of Higher Education identifies the following questions as worthy of further consideration and study.

- **Are the financial expectations placed on dependent students appropriate?**

  - All eligible students are currently assigned 46 percent of the price of attendance. Questions have been raised about whether this is a reasonable expectation and whether the share of the price currently assigned to the student should be lowered to something less than 46 percent to reduce the financial obligation for all eligible students.

  - The State Grant framework assigns a portion of the price of attendance to the families of dependent students. Current data suggest that families whose incomes are at or just below the mean income for the state are paying the highest percentage of their adjusted gross incomes (about 11 percent) to cover the assigned family responsibility. Families in the lowest income category (below $25,000) are typically assigned no additional share of the price of attendance beyond the 46 percent student share assigned to all students. Families with annual incomes over $100,000 are typically expected to pay an amount equal to six percent of their adjusted gross income toward the cost of education.

  - While dependent students in the lowest income category are typically assigned no additional share of the recognized price beyond the 46 percent student share, concerns have been raised about the capacity of these students to pay the expected 46 percent share. These students often face multiple barriers to enrollment and may benefit from additional support.

- **Are the financial expectations placed on independent and part-time students appropriate?**

  - While the treatment of independent and part-time students is grounded in sound policy, the financial expectations placed on these older, non-traditional students to cover both the student and family share may discourage some from enrolling in college due to financial concerns. The typical full-time independent student earning more than $25,000 to $35,000 receives no Pell or State Grants. (The threshold depends on the institution attended.)

- **Is every aspect of the current State Grant framework responsive to changing economic and market conditions?**

  - In general, the State Grant framework responds effectively to changes in price, student and family income and other conditions. However, two aspects of setting the recognized price are more arbitrary and therefore less responsive to changes in the economy. The State Grant framework begins with establishing a recognized price of attendance, which comprises the recognized tuition and fees (in some cases affected by tuition and fee maximums set in statute) plus the Living and Miscellaneous Expense (consistent for all students and also set in statute). Minnesota State Grants may be more responsive to changing economic conditions if both the tuition and fee maximums and the LME were pegged to established policy benchmarks.

  - Minnesota uses the Federal Need Analysis as the starting point in calculating the family responsibility. Other than minor adjustments to the parameters, such as for inflation, the federal government has revised the Federal Need Analysis little since the 1986 Reauthorization of the Higher Education Act of 1965. Many changes have occurred in the general economy and higher education markets since then. Minnesota could consider reviewing the parameters and determine if a state-specific methodology should be developed.

- **Is the current semester and credit limit and policy on State Grant eligibility appropriate?**

  - The current eight semester (120-credit) limit on State Grant eligibility may discourage some students from pursuing more rigorous degree programs and adversely affect graduation rates. A recent survey of public and private four-year institutions in Minnesota revealed that most baccalaureate degree programs require more than 120 semester credits. While it is important to provide incentives for degree completion, Minnesota is the only state with a four-year limit on financial aid

  - Because the eight-semester limit applies to all prior college credits earned – regardless of where or when the credits were earned or whether the student received a State Grant in conjunction with those prior credits – the limit may be implemented inconsistently across campuses and may discourage some students from returning to school to improve their earning capacity.

As Minnesota continues to identify ways to strengthen its educational and economic position in the country and the world, improvements and new investments in the State Grant program could be considered. Any significant changes to the State Grant program should be considered for their fairness, durability and sound policy foundation. The Office of Higher Education is prepared to provide additional information and analysis on any aspect of the program including cost projections for changes.

Table of Contents

Part I: State Grant Policy Parameters

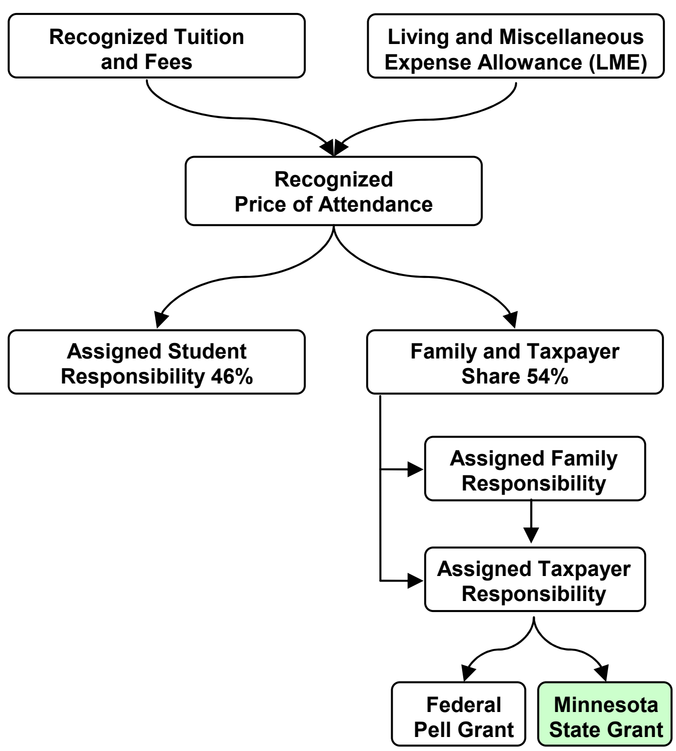
Introduction

In 1983, the Minnesota State Grant program was updated and redesigned to introduce a price sharing model that distributes the price of attending college among the student, the student's family and, when appropriate, state and federal taxpayers. Policymakers adopted this framework, called the Design for Shared Responsibility, to ensure that the State Grant program was responsive to economic factors, including income and changes in tuition and fees.

- The state expects **students** to make a significant personal investment in their own post-secondary educations up front, called the assigned student responsibility.
- The state expects **families** to invest in their students' post-secondary education based on their ability to pay, called the assigned family responsibility.
- 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 does not provide full coverage of their family-taxpayer share.

The framework distributes the price of post-secondary education based on family circumstances and attendance choices among students, families, and taxpayers, as shown on the chart below.

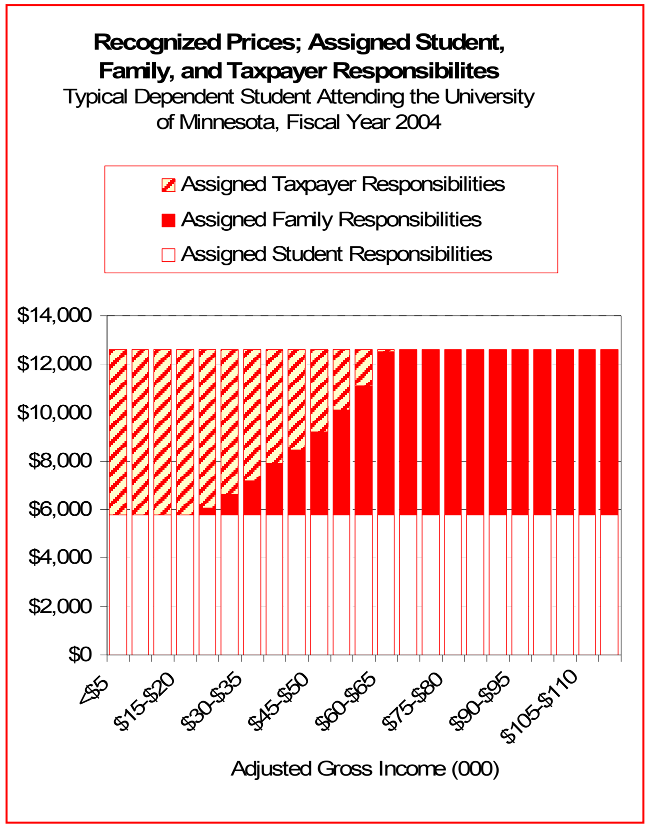
Minnesota State Grant Framework
The Design for Shared Responsibility



The State Grant Framework

This section of the report describes how State Grants are calculated by examining each of the components of the program in the illustration on the previous page. This section also illustrates how State Grants have responded to changing conditions over time.

The chart at right shows how the four parts – the recognized price, the assigned student responsibility, the assigned family responsibility, and the assigned taxpayer responsibility – fit together for typical dependent students facing a given price.



Recognized Price

The process for determining a student's State Grant award begins with the recognized price. Recognized prices vary by institution selected and the number of credits for which a student registers. It represents the total amount that needs to be assigned to students, families and taxpayers. Recognized price include two components:

- Recognized tuition and fees
- Living and miscellaneous expenses.

For students registered for less than two semesters or less than 15 credits per term, the recognized price is pro-rated.

Recognized Tuition and Fees

Recognized tuition and fees used to calculate Minnesota State Grants are defined as the lesser of:

- Average tuition and required fees paid by undergraduates registering for full-time loads.[1]
- Tuition and fee maximums, are set as part of the appropriations process. Also known as "caps," these maximums limit how much of the tuition and fees at certain institution types will be recognized for purposes of calculating financial aid.

Recognized tuition and fees used to calculate Minnesota State Grants.

- Vary by institution attended.
- Are set at the same amount for all students attending the same institution.

Institutional Grouping	Average Posted Tuition and Fees, Fiscal Year 2007	Average Recognized Tuition and Fees, Fiscal Year 2007	Difference
MnSCU 2-Year Colleges	$4,255	$4,255	$0
MnSCU 4-Year Universities	$5,952	$5,952	$0
University of Minnesota	$9,449	$9,395	$54
For-Profit Institutions	$14,538	$6,929	$7,608
Non-Profit Institutions	$20,954	$9,148	$11,806

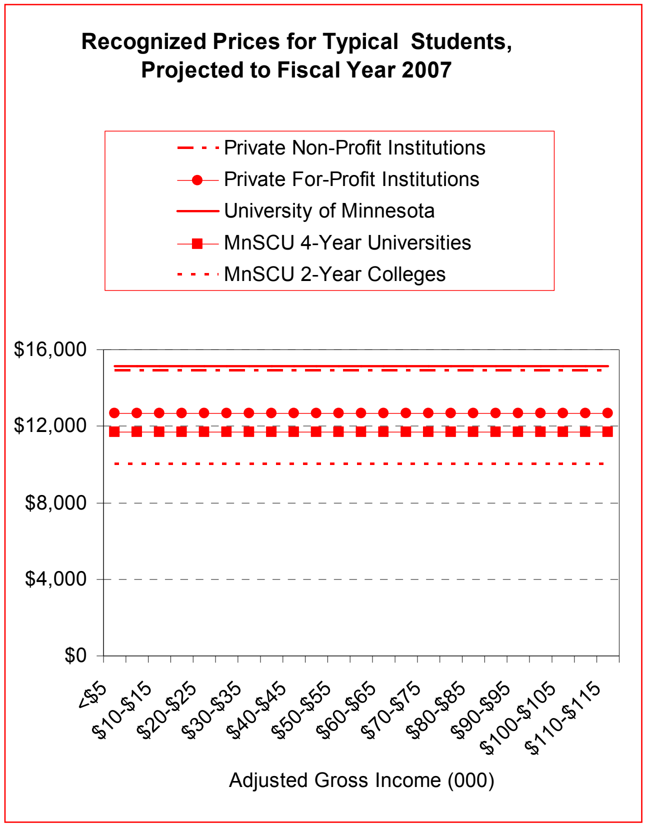
Currently, there are more than 130 Minnesota institutions eligible to participate in the State Grant program. These institutions have been aggregated into five groups to provide examples of prices charged to Minnesota undergraduates, as shown in the table to the right. These are the prices for resident undergraduates registering for 15 credits per semester for two semesters (or equivalent). Posted and recognized tuition and fee values are weighted means based on the number of applicants.

Living and Miscellaneous Expenses (LME)

The Living and Miscellaneous Expense allowance used in the calculation of Minnesota State Grants recognizes the costs associated with attending college, such as room, board, and books. For students attending any institution, LME significantly increase the price of attending; for students attending lower-priced institutions, the LME exceeds tuition and fees.

The recognized LME is the same for all students for purposes of calculating Minnesota State Grants. The LME used in calculating Minnesota State Grants is set for each fiscal year in the appropriations process. The LME value used in Fiscal Year 2007 is $5,750. The LME has been decreased once and increased twice since 2001.

Recognized prices used in calculating Minnesota State Grants are the sums of the recognized tuition and fees at the institution attended and the standard LME allowance. The growth in recognized prices at private institutions has been limited by the tuition and fee maximums set by the legislature.

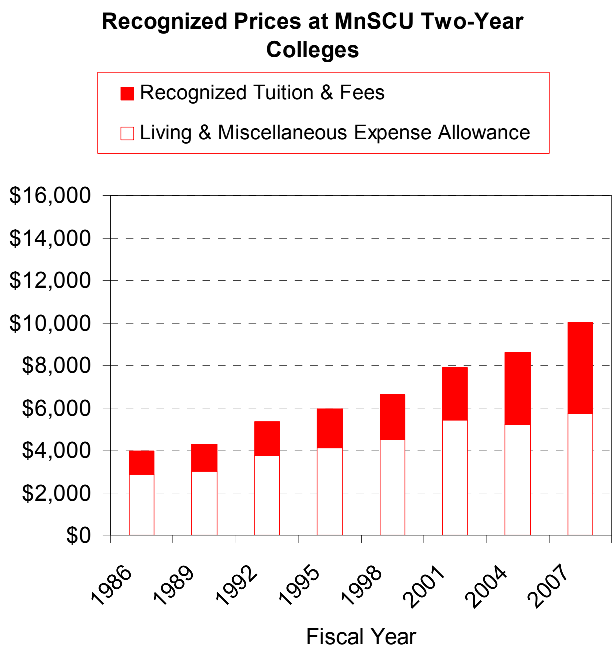


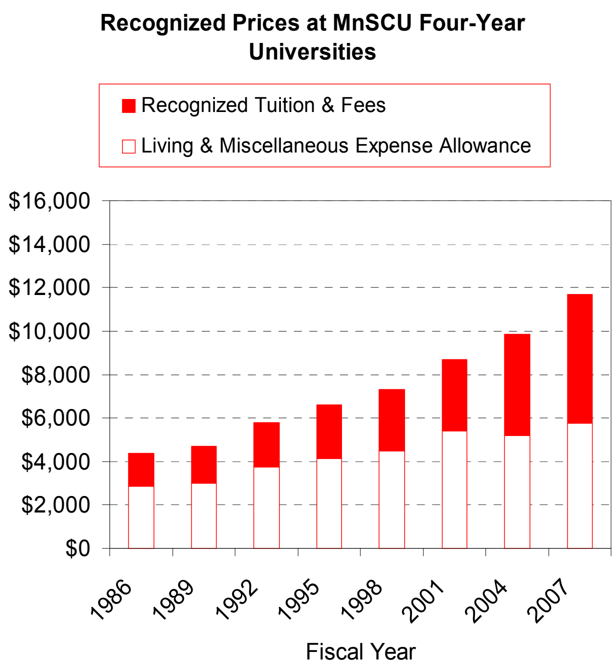
Recognized Price

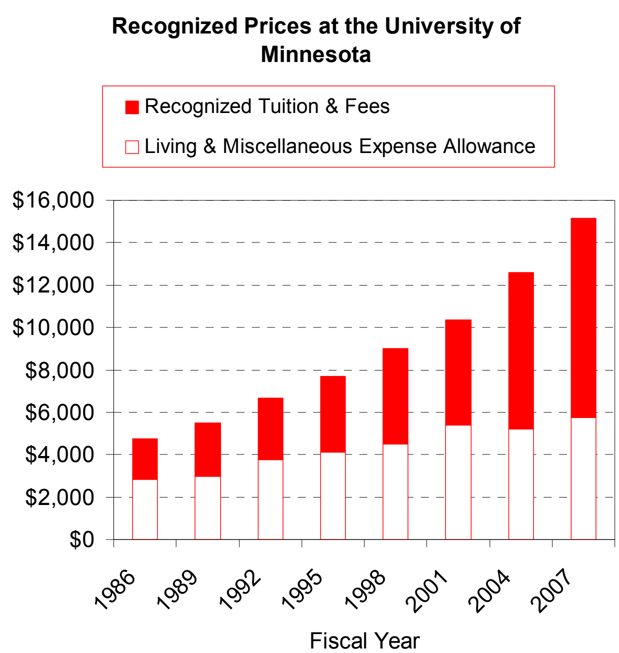
The recognized price is the sum of recognized tuition and fees and the standard living and miscellaneous expense allowance. As shown on the chart to the right, the average recognized price varies across institutions groupings.

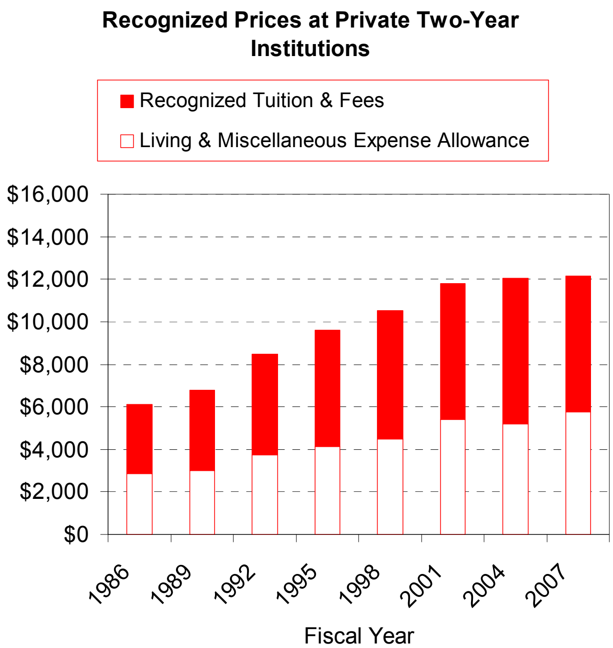
Change in Recognized Prices

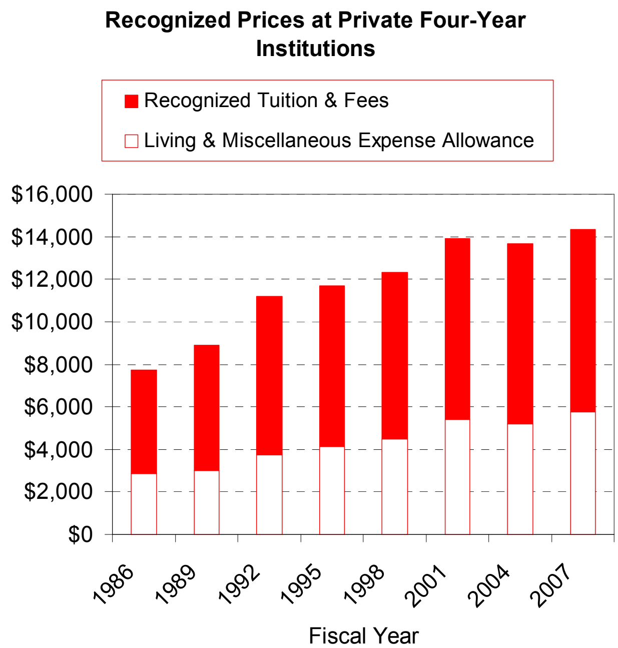
The charts below show the increases in recognized prices (recognized tuition and fees and LME) for typical students for five institution groups. For example, recognized prices for typical students attending MnSCU two-year colleges increased from about $4,000 to $10,000 between Fiscal Years 1986 and 2007. These prices are based on 15 credits per semester for two semesters. The growth in recognized prices in the private sectors has been limited by the tuition and fee maximums set in statute.








Recognized Prices at Private Two-Year Institutions
Recognized Tuition & Fees
Living & Miscellaneous Expense Allowance
$16,000
$14,000
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$0
1986
1989
1992
1995
1998
2001
2004
2007
Fiscal Year


Recognized Prices at Private Four-Year Institutions
Recognized Tuition & Fees
Living & Miscellaneous Expense Allowance
$16,000
$14,000
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$0
1986
1989
1992
1995
1998
2001
2004
2007
Fiscal Year

Student Assignments Made First

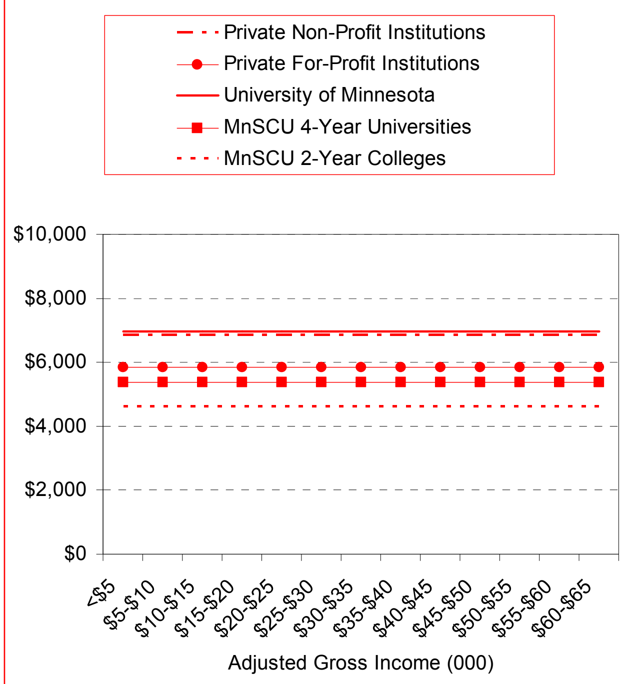
The State Grant framework starts with assigning students responsibility for part of the recognized price of attendance. Currently, the assigned student responsibility is set at 46 percent of the recognized price for all students.

The framework assumes that because students are the primary beneficiary of post-secondary education, they are expected to make a significant investment in themselves regardless of their financial circumstances.[2] Students can make this investment with past income (through savings and investments), current income, and future income (by borrowing).

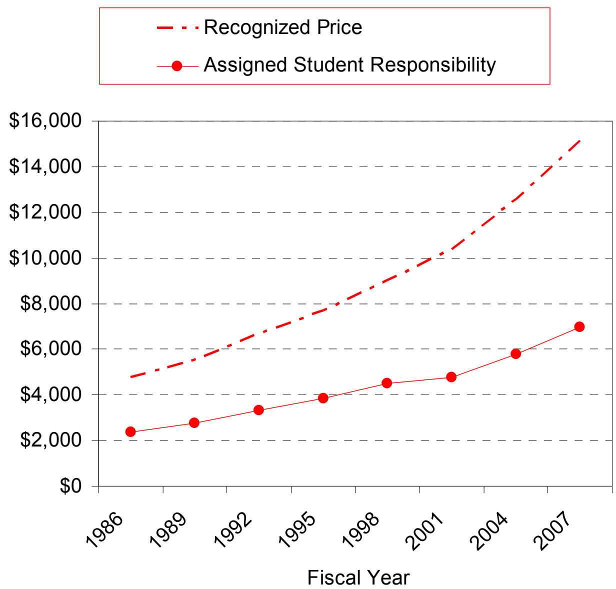
The assigned student responsibility varies with recognized prices; as prices increase, the assigned student responsibility increases, as shown on the chart to the right. Further, the assigned student responsibility does not vary with the income of applicants or their families.

As tuition and fees increase, assigned student responsibility increases. Because the assigned student responsibility has been a percentage of recognized price, assigned student responsibilities have not grown as much as recognized prices, as shown on the five charts below. The recognized price is based on a weighted average of recognized tuition and fees plus the LME for each of the years shown. The values for Fiscal Year 2007 are based on the current posted prices and program parameters.

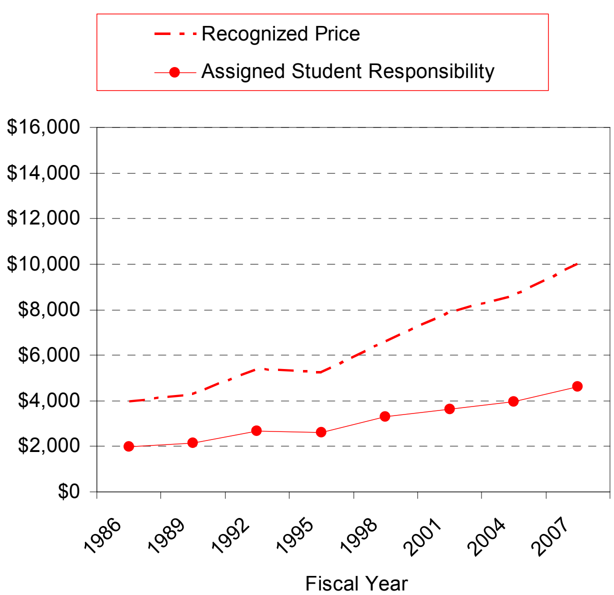
Assigned Student Responsibilities for Typical Students, Projected to Fiscal Year 2007



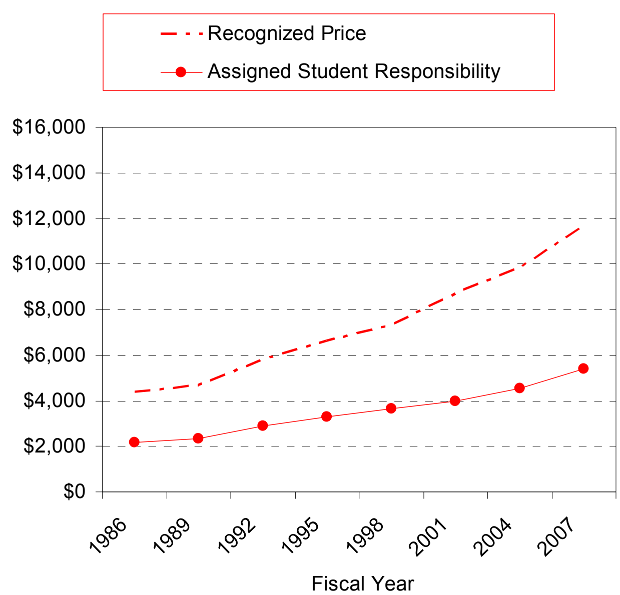
Recognized Prices and Assigned Student Responsibilities for Students Attending the University of Minnesota

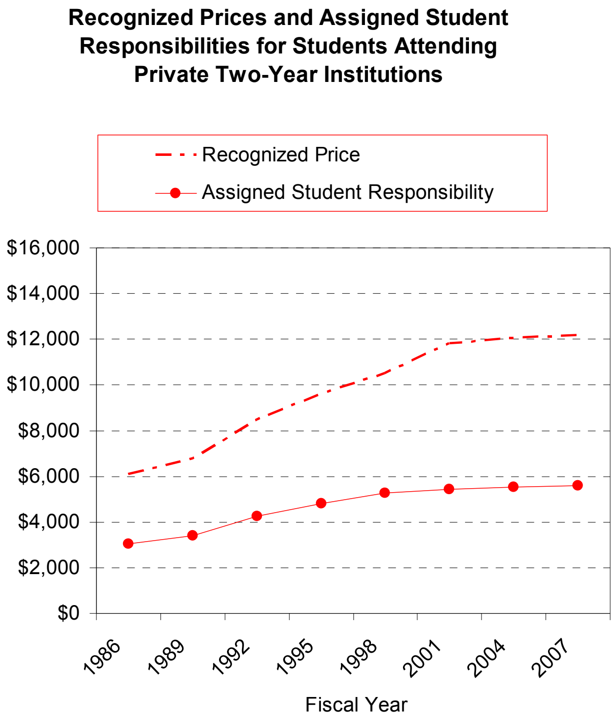


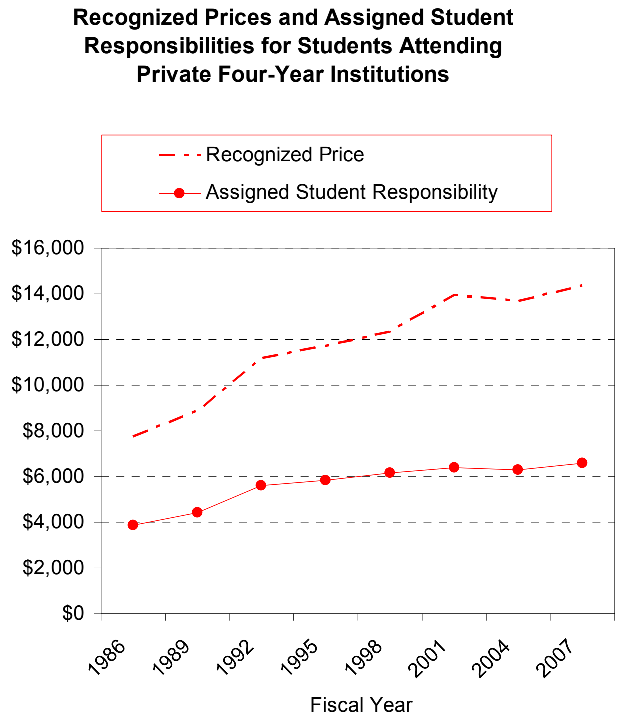
Recognized Prices and Assigned Student Responsibilities for Students Attending MnSCU Two-Year Colleges



Recognized Prices and Assigned Student Responsibilities for Students Attending MnSCU Four-Year Universities




Recognized Prices and Assigned Student Responsibilities for Students Attending Private Two-Year Institutions
Recognized Price
Assigned Student Responsibility
$16,000
$14,000
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$0
1986
1989
1992
1995
1998
2001
2004
2007
Fiscal Year


Recognized Prices and Assigned Student Responsibilities for Students Attending Private Four-Year Institutions
Recognized Price
Assigned Student Responsibility
$16,000
$14,000
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$0
1986
1989
1992
1995
1998
2001
2004
2007
Fiscal Year

Family Assignments Made Second

In this section, the next partner, the family, is considered. The remainder of the recognized price, called the family-taxpayer share, is divided between families and taxpayers. Some families are assigned the entire family-taxpayer share, others families are assigned some and still other families none, depending on their economic ability to pay. As income and net worth increase, assigned family responsibility increases, reflecting a greater ability to pay.[3]

All Minnesota State Grant applicants face two assignments before taxpayers make investments through Federal Pell and Minnesota State Grants. The first is the assigned student responsibility of 46 percent of the recognized price; and the second is the assigned family responsibility, which is all or part of the remaining 54 percent. The assigned family responsibility is based on the principle that the household to which the student belongs has a responsibility based on ability to pay.

Minnesota coordinates with the federal student aid application process so Minnesota applicants and their families fill out the same form for federal and state grants. Minnesota generally conforms with the Federal Need Analysis definitions and rates as the starting point in determining the assigned family responsibilities.[4] The Federal Need Analysis sorts families into groups based on characteristics of the family. Families with dependents are treated differently than families without dependents. Two groups are analyzed further in the remainder of this section: dependent students and unmarried independent students with no dependents. Independent students with dependents are treated similar to parents of dependent students while married independent students without other dependents are treated similar to unmarried independent students without dependents.

Because Minnesota deviates from the Federal Need Analysis in some areas, the assigned family responsibility used to derive State Grant eligibility is usually different from the expected family contribution calculated by the Federal Need Analysis used to determine eligibility for a Pell grant. (For example, the personal income and assets of dependent students are counted in the Federal Need Analysis, while in Minnesota, those assets are largely ignored for purposes of calculating the assigned family responsibility.)

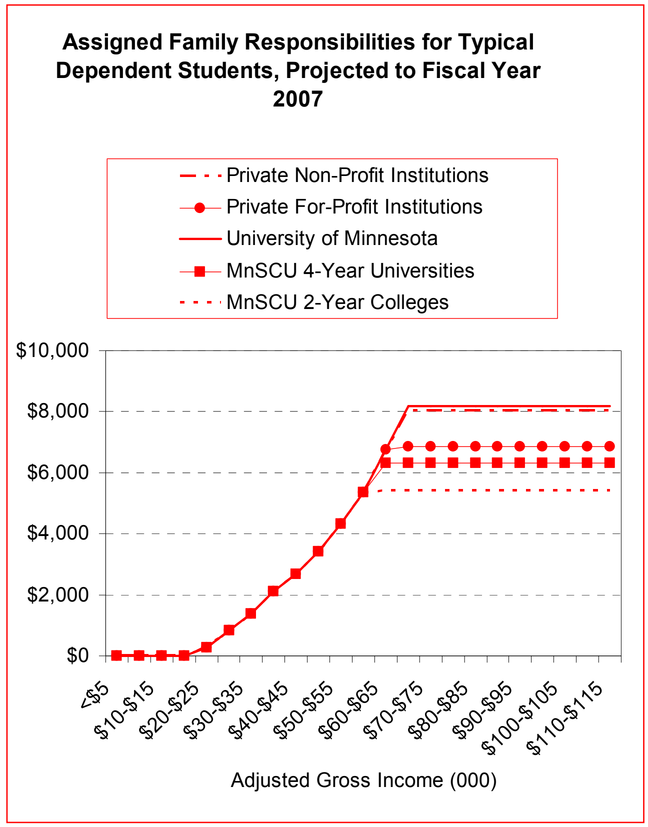
Families of Dependent Students

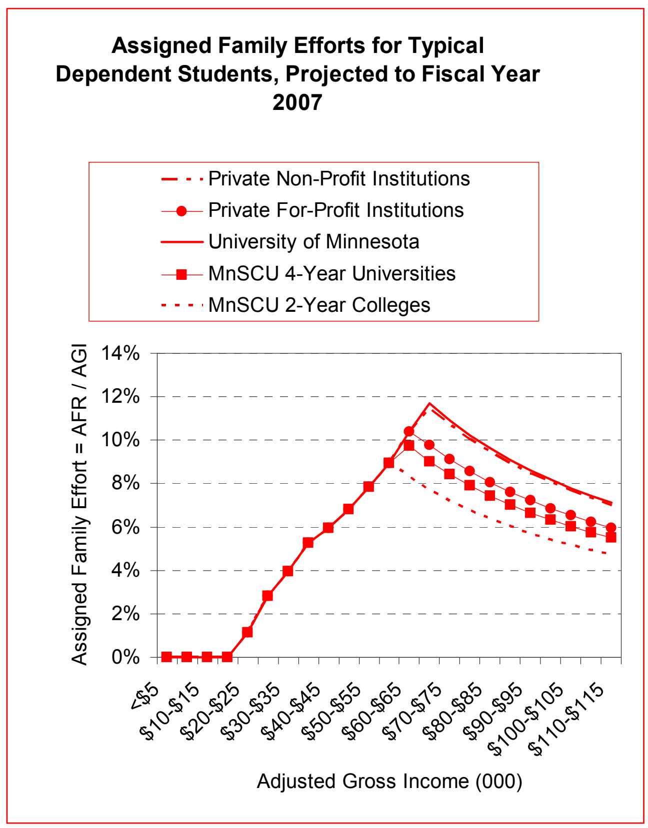
Parents of dependent students have their financial situation assessed in determining their ability to pay for their dependents recognized price of attendance.[5] Families with the lowest incomes are not assigned any of the family-taxpayer share as shown on the chart on this page. As incomes increase, assigned family responsibilities increase as well. Families with additional financial resources (untaxed income, for example) have an assigned family responsibility that is greater. Applicants from households with more dependents have assigned family responsibilities that are lower.

In 2007, it is projected that typical families with incomes of $65,000 or less will not pay the full family-taxpayer share. Typical families earning more than $65,000, the assigned family responsibility, will be the full 56 percent of the recognized price of attendance. For those families, as price increases, the assigned family responsibility increases.

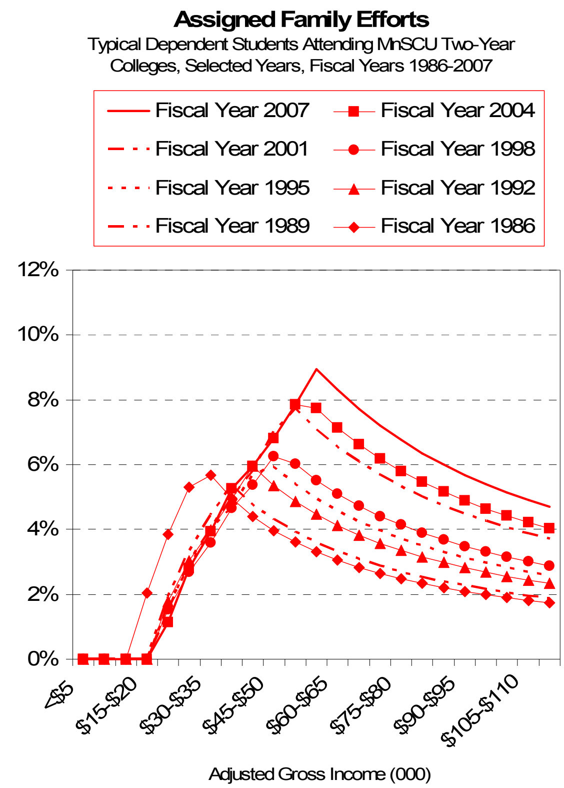
Assigned family responsibility measured as a percentage of adjusted gross income provides an indicator of family financial effort. This relationship called, assigned family efforts, is shown on the bottom panel to the right. The peak (high point) in the distribution of assigned family efforts identifies those families who are assigned the most relative to their incomes.

Families in different income categories are expected to pay different percentages of their adjusted gross income for higher education. Currently families in the $65,000 to $75,000 groups pay the highest percentage, ranging from 9 to about 12 percent, depending on the recognized price of the college chosen, as shown on the chart to the right. This is the group of families expected to pay the largest share of their income to finance the education of their children. This is also the group most likely to benefit from federal education tax credits, however the net effect of these credits would not materially alter the assigned family effort patterns.

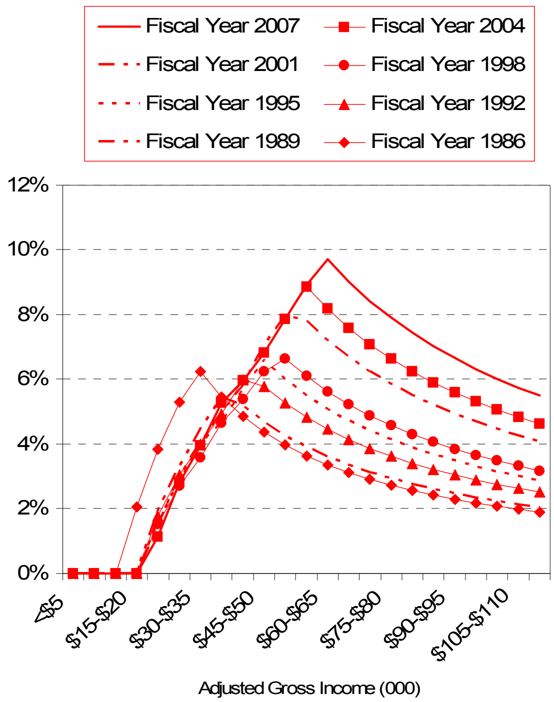




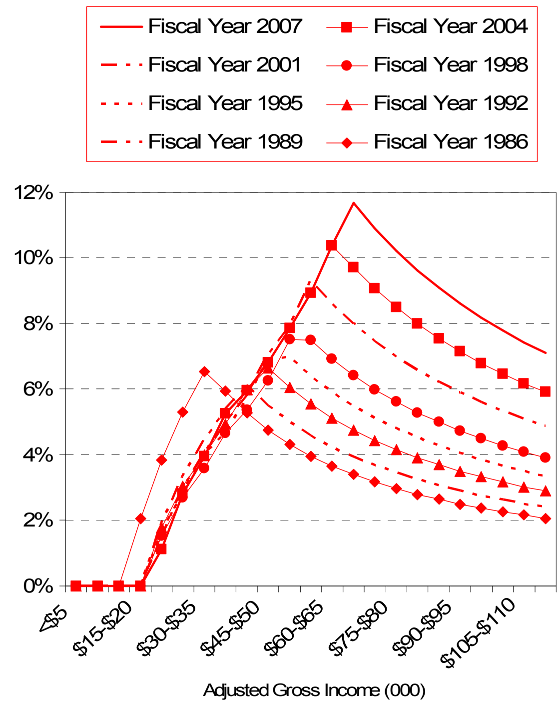
Between 1986 and 2007, as prices increased, lower income families have been assigned about the same percentage of their incomes, as shown on the series of charts below. In fact, there was a reduction in the percentage assigned to parents between 1986 and 1989. Since then, the assignments have held relatively constant. For families on the right hand side of the income distribution shown in the charts, the situation is quite different, assigned family efforts have been increasing. As shown for typical dependent students attending MnSCU Two-Year Colleges, the peak value has increased from less than 6 percent in Fiscal Year 1986 to a projected 9 percent in Fiscal Year 2007.



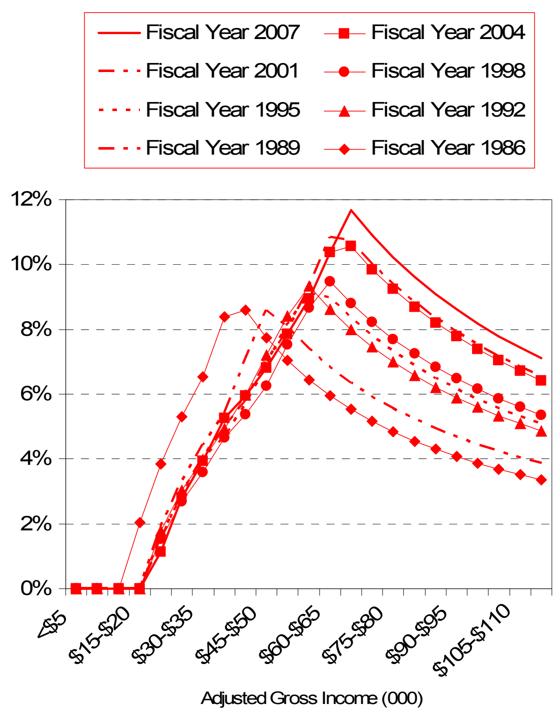
Assigned Family Efforts
Typical Dependent Students Attending MnSCU Four-Year Universities, Selected Years, Fiscal Years 1986-2007



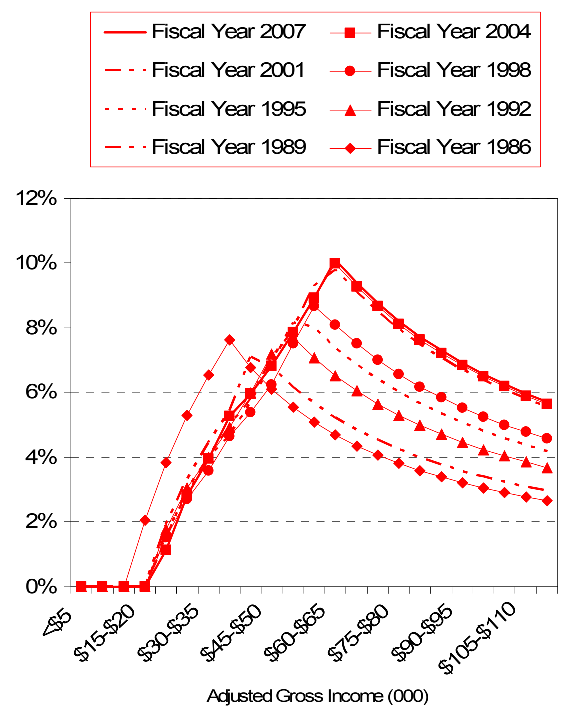
Assigned Family Efforts
Typical Dependent Students Attending the University of Minnesota, Selected Years, Fiscal Years 1986-2007



Assigned Family Efforts
Typical Dependent Students Attending Private Four-Year Institutions, Selected Years, Fiscal Years 1986-2007



Assigned Family Efforts
Typical Dependent Students Attending Private Two-Year Institutions, Selected Years, Fiscal Years 1986-2007



Unmarried Independent Students with No Dependents

Independent students do not have their parents' financial resources considered in determining Minnesota State Grants. The income and family characteristics of independent students (and their spouses), are evaluated in setting the assigned family responsibility. The State Grant framework recognizes that independent students have assumed the financial obligations of the family. As with parents, this obligation varies according to a measure of ability to pay. In 2005, 28,500 students, or 38 percent of all grant recipients, were independent students.

Students who meet one or more of the following before enrolling are eligible to apply as independent students; otherwise, they must apply as dependent students.

- Age 24 or older
- Married
- Responsible for dependents based on a definition similar to that used to define dependents for purposes of claiming an exemption for federal personal income taxes, usually children but could be disabled parents, for example
- Member of or veteran of military service
- Family relationship no longer exists due to death, estrangement, or other criteria established by the campus financial aid office[6]

Different types of independent students are treated differently.

- Married students with children are treated like parents of dependent students.
- Students responsible for only themselves, and those married but without other dependents have their incomes and net worth assessed more rigorously than families supporting others.

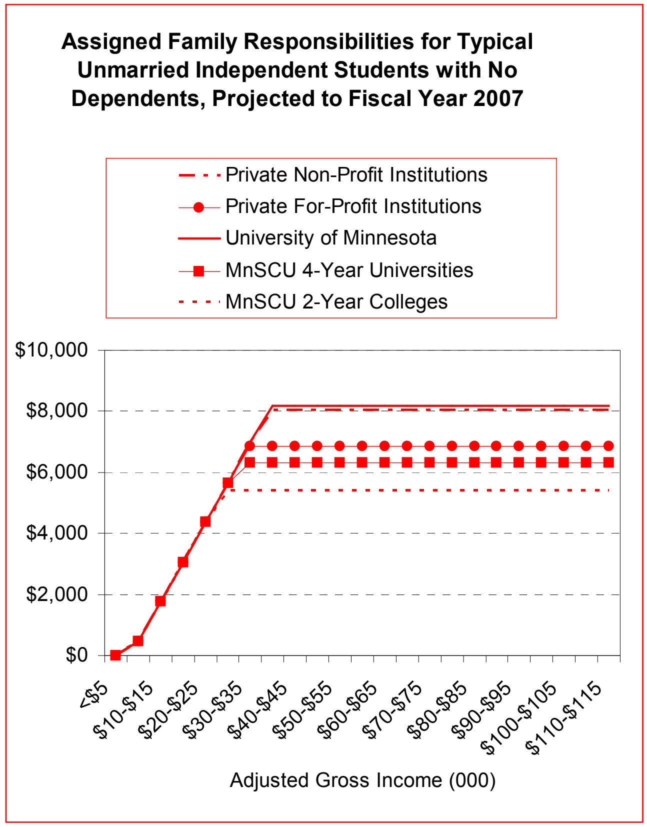
In this section, the treatment of one group of independent students: unmarried students with no dependents, is examined in detail.

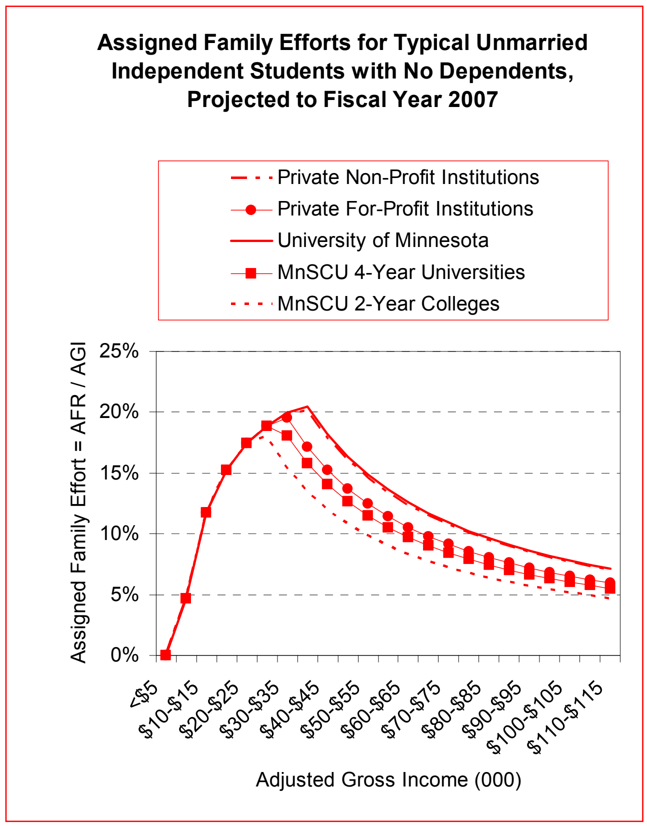
Unmarried independent students with no dependents who have the lowest incomes are assigned very little of the family-taxpayer share as shown on the chart to the right. As incomes increase, assigned family responsibilities increase as well. Students with additional financial resources (untaxed income, for example) have an assigned family responsibility that is greater.

In 2007, it is projected that independent students with incomes of $25,000 or less will not pay the full family-taxpayer share. For typical independent students with incomes greater then $25,000, the assigned family responsibility will be the full 56 percent of the recognized price of attendance. For these families, as price increases, assigned family responsibility increases.

Assigned family responsibility measured as a percentage of adjusted gross income provides an indicator of the student's financial effort. This relationship called, assigned family efforts, is shown on the bottom panel to the right. The peak (high point) in the distribution of assigned family efforts identifies those students who are assigned the most relative to their incomes.

Students in different income categories are expected to pay different percentages of their adjusted gross income for higher education. Currently students in the $25,000 to $45,000 groups pay the highest percentage, ranging from 18 to about 20 percent, depending on the recognized price of the college chosen, as shown on the chart to the right.

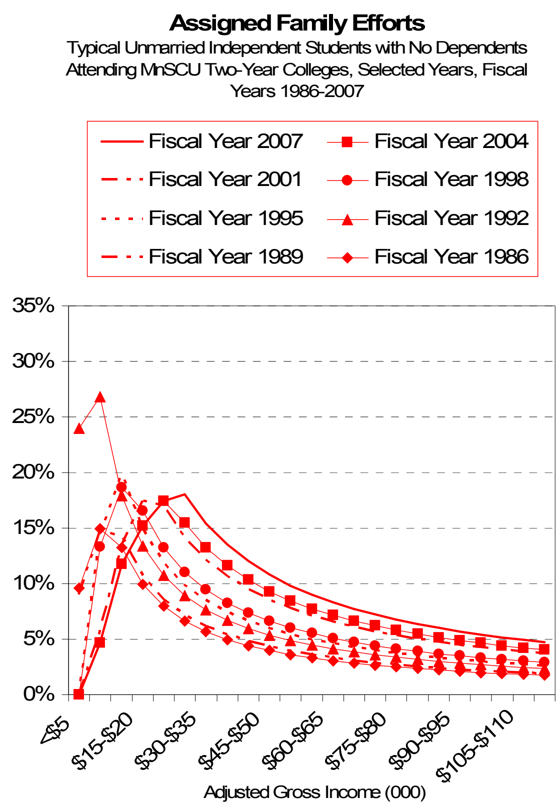


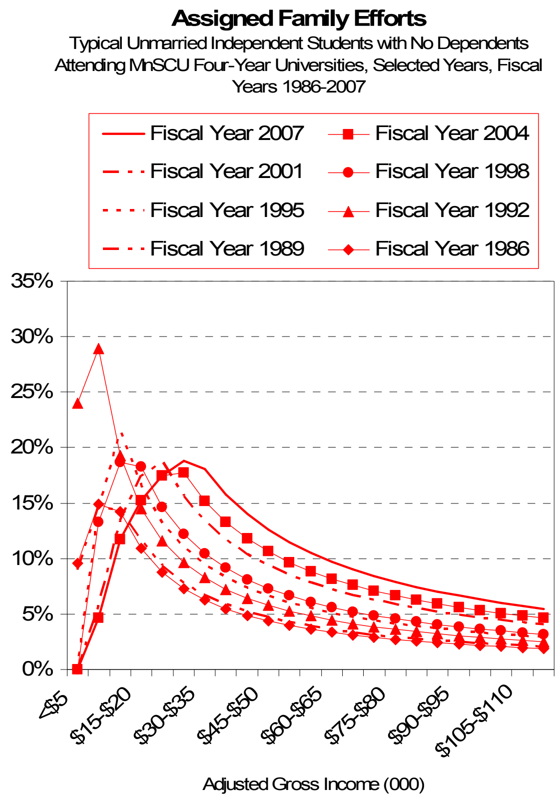


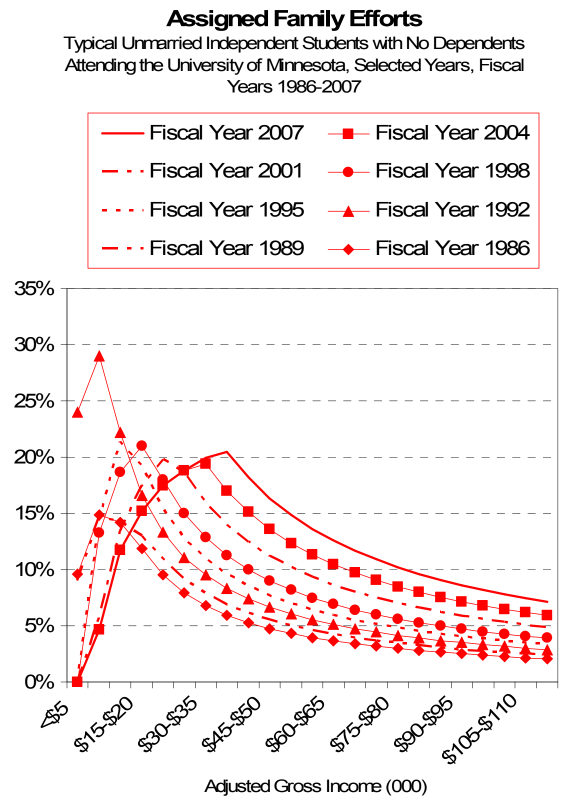
Between 1986 and 2007, as prices increased, the treatment of lower income unmarried independent students with no dependents has fluctuated, as shown on the series of charts below. For typical independent students attending MnSCU two-year colleges, the peak value has been as high as 28 percent in Fiscal Year 1992. It is a projected 18 percent in Fiscal Year 2007.

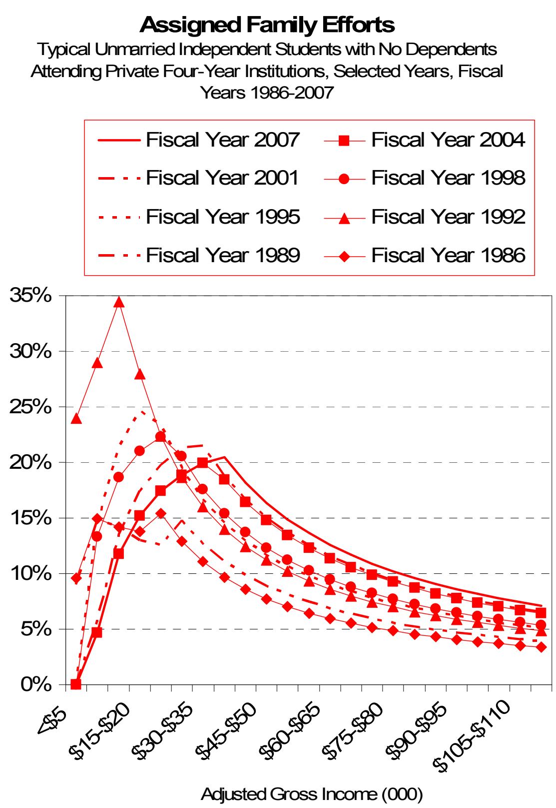
The charts below show the following changes for unmarried independent students with no dependents:

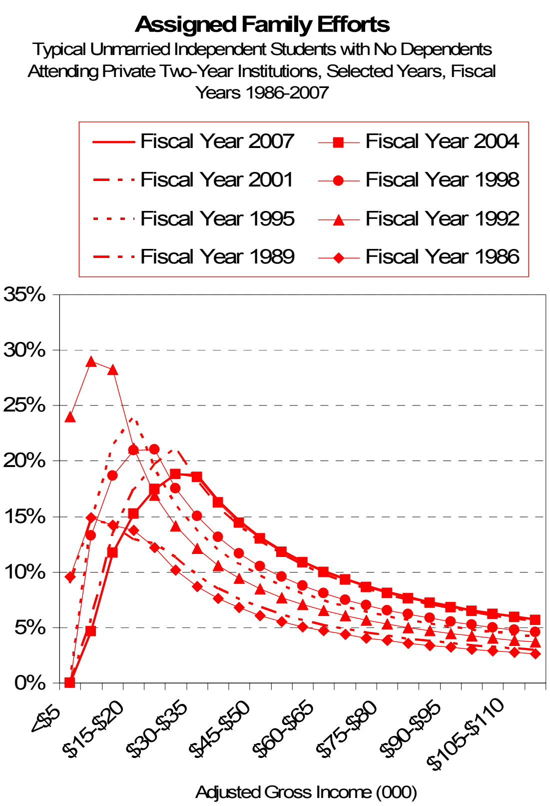
- For students on the left side of the income distribution, assigned family efforts have fluctuated, as shown on the charts below.
- Assigned family efforts for students with the lowest income are currently zero.
- Assigned family efforts have been increasing with price increases for students on the right side of the income distribution.




Assigned Family Efforts
Typical Unmarried Independent Students with No Dependents Attending MnSCU Four-Year Universities, Selected Years, Fiscal Years 1986-2007
Fiscal Year 2007
Fiscal Year 2004
Fiscal Year 2001
Fiscal Year 1998
Fiscal Year 1995
Fiscal Year 1992
Fiscal Year 1989
Fiscal Year 1986
35%
30%
25%
20%
15%
10%
5%
0%
<$5
$15-$20
$30-$35
$45-$50
$60-$65
$75-$80
$90-$95
$105-$110
Adjusted Gross Income (000)


Assigned Family Efforts
Typical Unmarried Independent Students with No Dependents Attending the University of Minnesota, Selected Years, Fiscal Years 1986-2007
Fiscal Year 2007
Fiscal Year 2004
Fiscal Year 2001
Fiscal Year 1998
Fiscal Year 1995
Fiscal Year 1992
Fiscal Year 1989
Fiscal Year 1986
35%
30%
25%
20%
15%
10%
5%
0%
<$5
$15-$20
$30-$35
$45-$50
$60-$65
$75-$80
$90-$95
$105-$110
Adjusted Gross Income (000)


Assigned Family Efforts
Typical Unmarried Independent Students with No Dependents Attending Private Four-Year Institutions, Selected Years, Fiscal Years 1986-2007
Fiscal Year 2007
Fiscal Year 2004
Fiscal Year 2001
Fiscal Year 1998
Fiscal Year 1995
Fiscal Year 1992
Fiscal Year 1989
Fiscal Year 1986
35%
30%
25%
20%
15%
10%
5%
0%
<$5
$15-$20
$30-$35
$45-$50
$60-$65
$75-$80
$90-$95
$105-$110
Adjusted Gross Income (000)


Assigned Family Efforts
Typical Unmarried Independent Students with No Dependents Attending Private Two-Year Institutions, Selected Years, Fiscal Years 1986-2007
Fiscal Year 2007
Fiscal Year 2004
Fiscal Year 2001
Fiscal Year 1998
Fiscal Year 1995
Fiscal Year 1992
Fiscal Year 1989
Fiscal Year 1986
35%
30%
25%
20%
15%
10%
5%
0%
<$5
$15-$20
$30-$35
$45-$50
$60-$65
$75-$80
$90-$95
$105-$110
Adjusted Gross Income (000)

Minnesota Taxpayers Are the Final Partner

In this section, the third partner, the taxpayer, is considered. Since taxpayers are the final partner in this process, their assignment is the amount remaining after subtracting the assigned student and family responsibility. This is called the assigned taxpayer responsibility.

Assigning the residual to taxpayers has important implications for Minnesota State Grants:

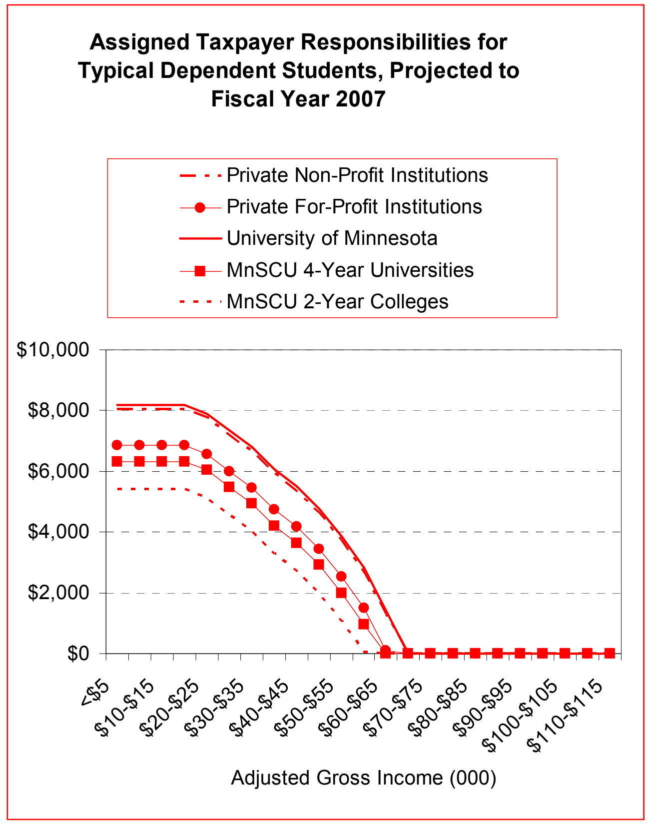
- First, all the recognized price is shared among three parties.
- Second, if one party is considered to be carrying a disproportionate share of the price, then assignments to one or both of the other parties may be adjusted.

The assigned taxpayer responsibility is the amount state taxpayers are willing to invest in students by coordinating Minnesota State and Federal Pell Grants.

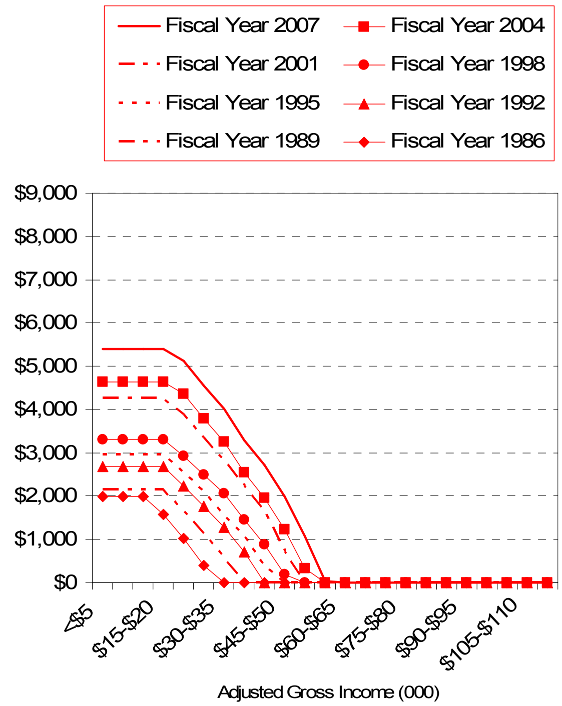
Dependent Students

The differences in recognized prices, assigned student responsibilities, and assigned family responsibilities were accompanied by differences in assigned taxpayer responsibilities, as shown on the chart to the right.

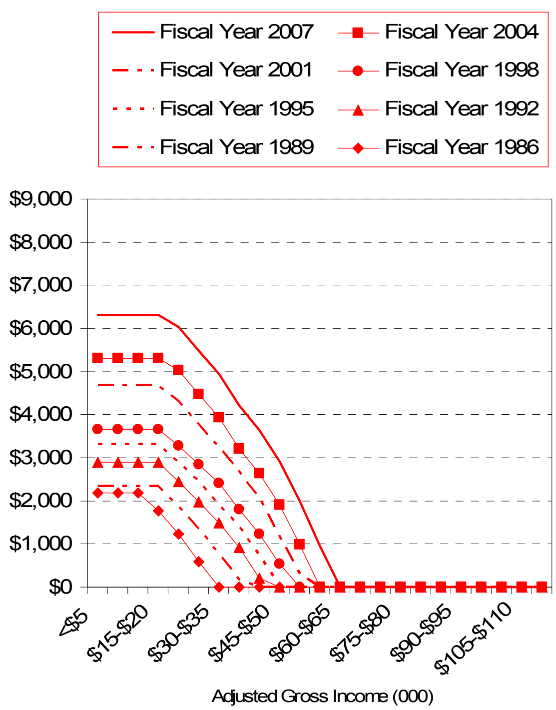
For families in the $20–$25,000 income group, the assigned taxpayer responsibility for typical dependent students attending the University of Minnesota increased from $1,417 to a projected $7,896 over the period, Fiscal Years 1986 to 2007, as shown on the following chart. Similar increases have occurred for students making other college choices, as shown on the charts below.



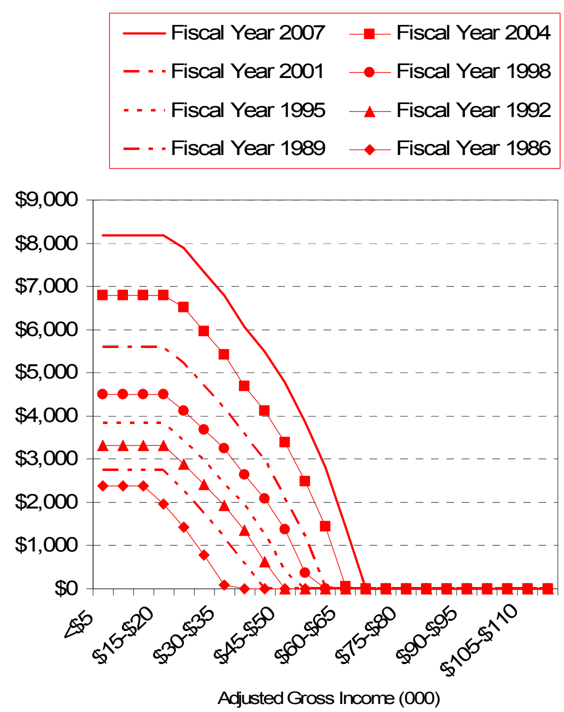
Assigned Taxpayer Responsibility
Typical Dependent Students Attending MnSCU Two-Year Colleges, Selected Years, Fiscal Years 1986-2007

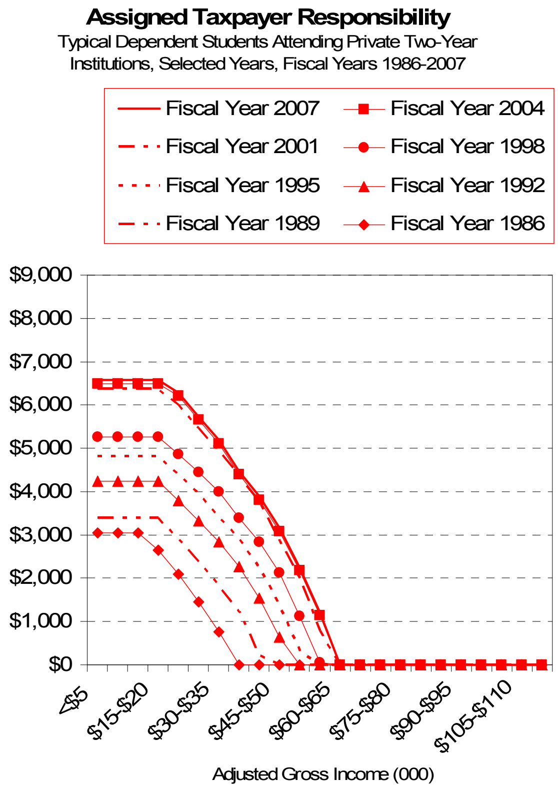


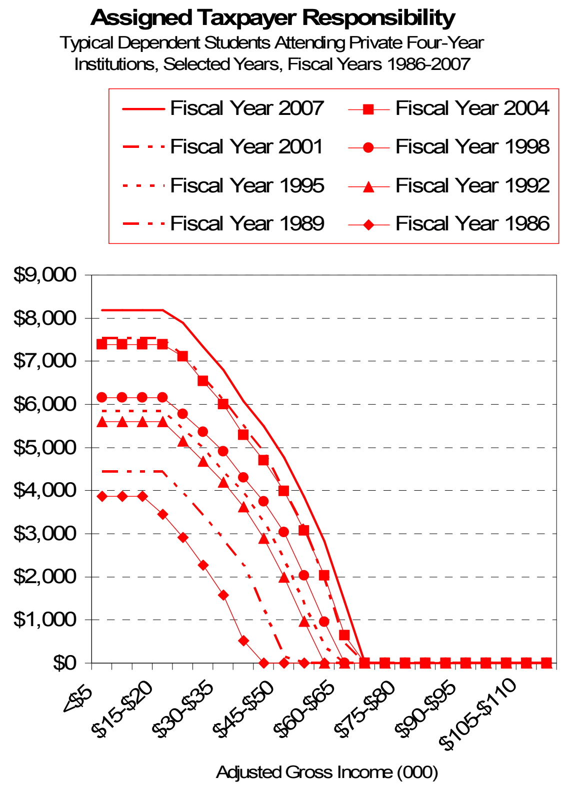
Assigned Taxpayer Responsibility
Typical Dependent Students Attending MnSCU Four-Year Universities, Selected Years, Fiscal Years 1986-2007



Assigned Taxpayer Responsibility
Typical Dependent Students Attending the University of Minnesota, Selected Years, Fiscal Years 1986-2007



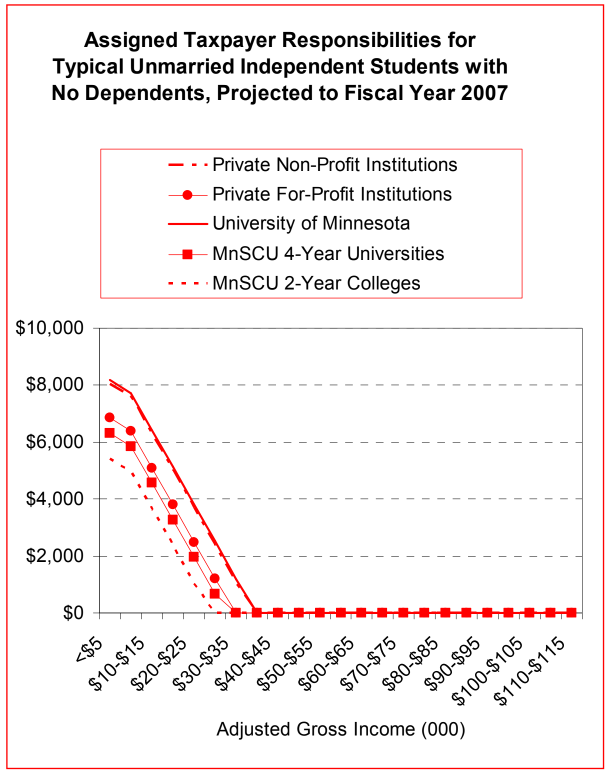

Assigned Taxpayer Responsibility
Typical Dependent Students Attending Private Two-Year Institutions, Selected Years, Fiscal Years 1986-2007
Fiscal Year 2007
Fiscal Year 2004
Fiscal Year 2001
Fiscal Year 1998
Fiscal Year 1995
Fiscal Year 1992
Fiscal Year 1989
Fiscal Year 1986
$9,000
$8,000
$7,000
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
$0
<$5
$15-$20
$30-$35
$45-$50
$60-$65
$75-$80
$90-$95
$105-$110
Adjusted Gross Income (000)

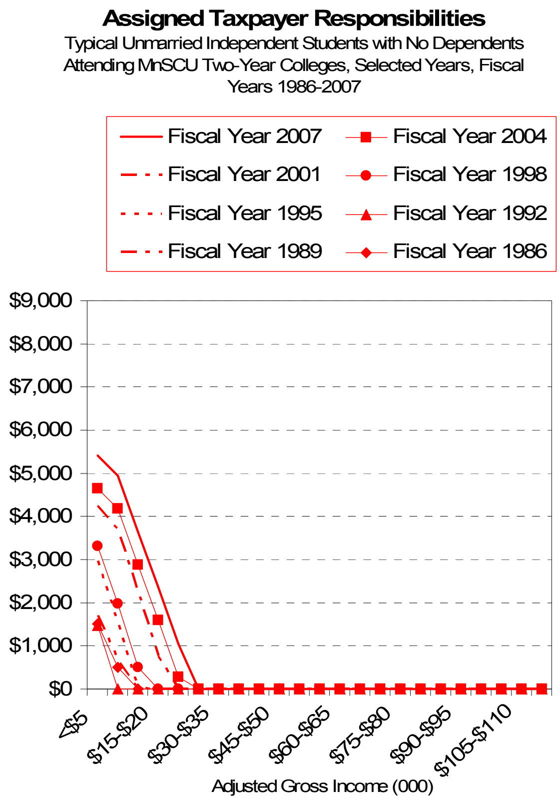

Assigned Taxpayer Responsibility
Typical Dependent Students Attending Private Four-Year Institutions, Selected Years, Fiscal Years 1986-2007
Fiscal Year 2007
Fiscal Year 2004
Fiscal Year 2001
Fiscal Year 1998
Fiscal Year 1995
Fiscal Year 1992
Fiscal Year 1989
Fiscal Year 1986
$9,000
$8,000
$7,000
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
$0
<$5
$15-$20
$30-$35
$45-$50
$60-$65
$75-$80
$90-$95
$105-$110
Adjusted Gross Income (000)

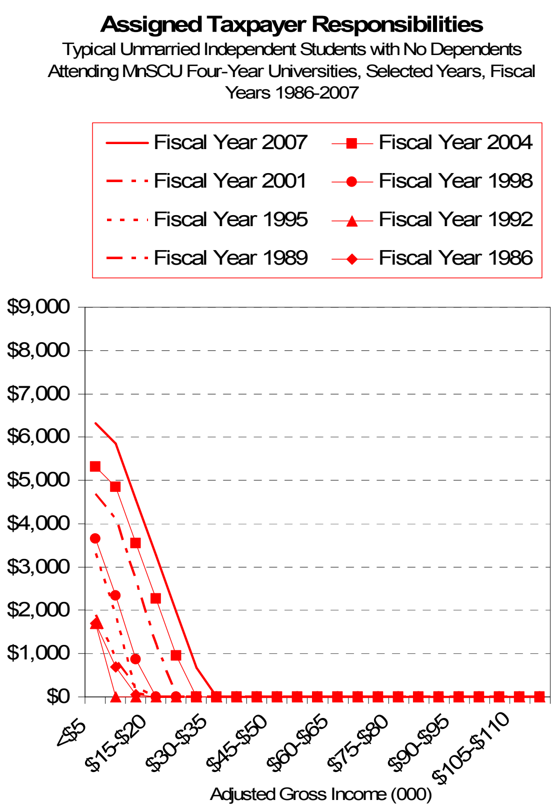
Unmarried Independent Students with No Dependents

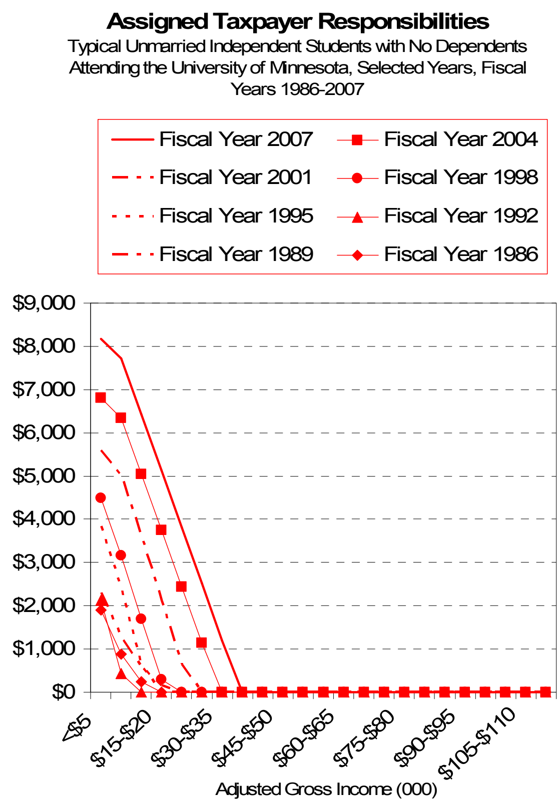
The differences in recognized prices, assigned student responsibilities, and assigned family responsibilities were accompanied by differences in assigned taxpayer responsibilities, as shown on the chart to the right.

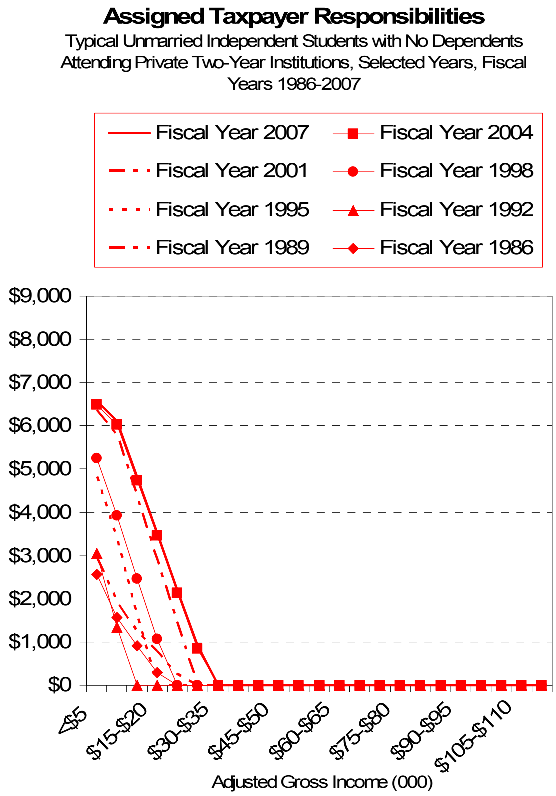
For typical unmarried independent students with no dependents attending the University of Minnesota earning less than $5,000, the assigned taxpayer responsibility increased from $1,897 to a projected $8,178 over the period, Fiscal Years 1986 to 2007, as shown below. Similar increases have occurred for typical students attending other types of institutions, as shown on the charts below.

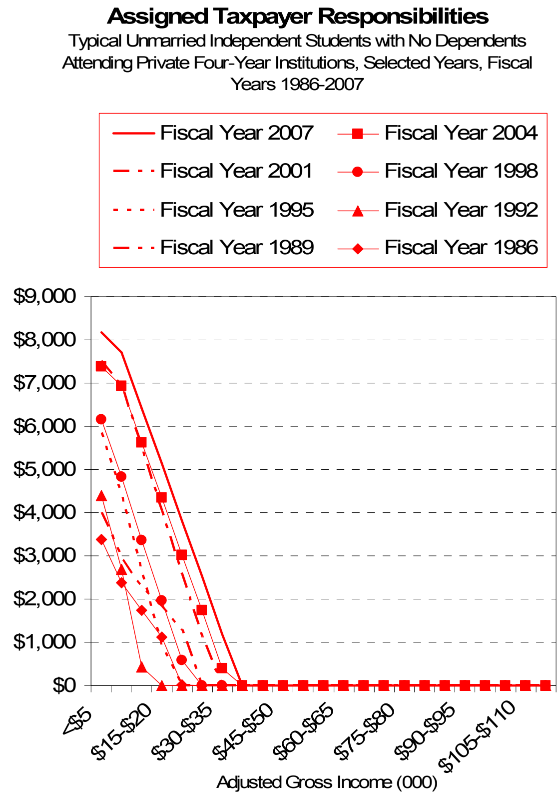



Assigned Taxpayer Responsibilities
Typical Unmarried Independent Students with No Dependents Attending MnSCU Two-Year Colleges, Selected Years, Fiscal Years 1986-2007
Fiscal Year 2007
Fiscal Year 2004
Fiscal Year 2001
Fiscal Year 1998
Fiscal Year 1995
Fiscal Year 1992
Fiscal Year 1989
Fiscal Year 1986
$9,000
$8,000
$7,000
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
$0
<$5
$15-$20
$30-$35
$45-$50
$60-$65
$75-$80
$90-$95
$105-$110
Adjusted Gross Income (000)


Assigned Taxpayer Responsibilities
Typical Unmarried Independent Students with No Dependents Attending MnSCU Four-Year Universities, Selected Years, Fiscal Years 1986-2007
Fiscal Year 2007
Fiscal Year 2004
Fiscal Year 2001
Fiscal Year 1998
Fiscal Year 1995
Fiscal Year 1992
Fiscal Year 1989
Fiscal Year 1986
$9,000
$8,000
$7,000
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
$0
<$5
$15-$20
$30-$35
$45-$50
$60-$65
$75-$80
$90-$95
$105-$110
Adjusted Gross Income (000)


Assigned Taxpayer Responsibilities
Typical Unmarried Independent Students with No Dependents Attending the University of Minnesota, Selected Years, Fiscal Years 1986-2007
Fiscal Year 2007
Fiscal Year 2004
Fiscal Year 2001
Fiscal Year 1998
Fiscal Year 1995
Fiscal Year 1992
Fiscal Year 1989
Fiscal Year 1986
$9,000
$8,000
$7,000
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
$0
<$5
$15-$20
$30-$35
$45-$50
$60-$65
$75-$80
$90-$95
$105-$110
Adjusted Gross Income (000)


Assigned Taxpayer Responsibilities
Typical Unmarried Independent Students with No Dependents Attending Private Two-Year Institutions, Selected Years, Fiscal Years 1986-2007
Fiscal Year 2007
Fiscal Year 2004
Fiscal Year 2001
Fiscal Year 1998
Fiscal Year 1995
Fiscal Year 1992
Fiscal Year 1989
Fiscal Year 1986
$9,000
$8,000
$7,000
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
$0
<$5
$15-$20
$30-$35
$45-$50
$60-$65
$75-$80
$90-$95
$105-$110
Adjusted Gross Income (000)


Assigned Taxpayer Responsibilities
Typical Unmarried Independent Students with No Dependents Attending Private Four-Year Institutions, Selected Years, Fiscal Years 1986-2007
Fiscal Year 2007
Fiscal Year 2004
Fiscal Year 2001
Fiscal Year 1998
Fiscal Year 1995
Fiscal Year 1992
Fiscal Year 1989
Fiscal Year 1986
$9,000
$8,000
$7,000
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
$0
<$5
$15-$20
$30-$35
$45-$50
$60-$65
$75-$80
$90-$95
$105-$110
Adjusted Gross Income (000)

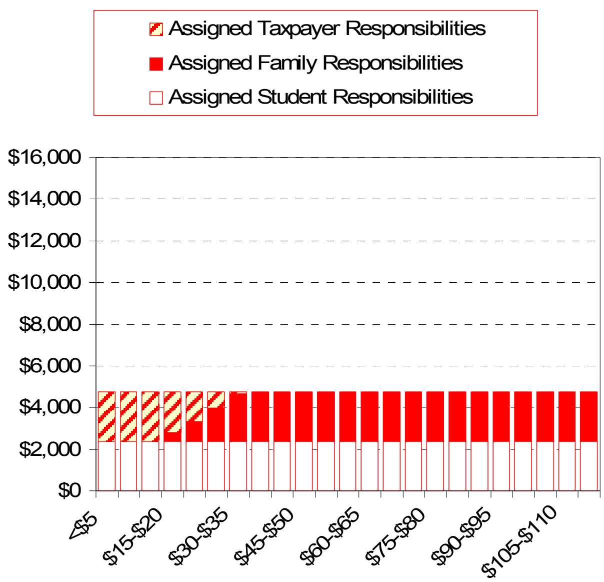
The State Grant Framework Has Adjusted to Price Increases

Since 1986, tuition and fees have increased significantly along with most other prices associated with attending a post-secondary institution. In the example shown below, typical University of Minnesota students were assigned $4,589 of the $10,390 price increase that occurred between 1986 and 2007.

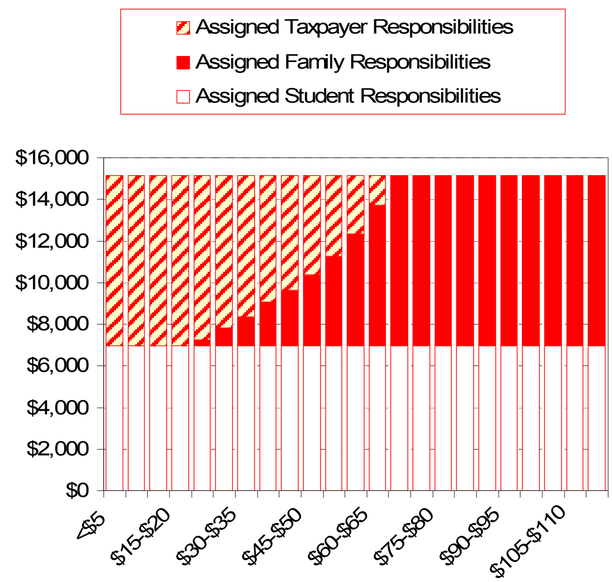
Families, in general, were assigned more as well. On the left side of the income distribution shown on the two charts, families were sheltered from the increase. On the right side, families were assigned the portion of the increased not covered by the assignment to students. In the middle area, families were assigned more, but not the total difference. Taxpayers were assigned more for students whose families were on the left side of the income distribution but not more for all students. This continued the policy of targeting taxpayer investments to students demonstrating the greatest need. Tuition and fee increases were generally recognized at public institutions only, as the increases in tuition and fees at private institutions were restricted by the maximum (or caps) in overall recognized prices that are set in state statute.

The Assignments of Payment Responsibilities for Typical Dependent Students Attending the University of Minnesota, Fiscal Years 1986 and 2007

Recognized Prices; Assigned Student, Family, and Taxpayer Responsibilites
Typical Dependent Student Attending the University of Minnesota, Fiscal Year 1986

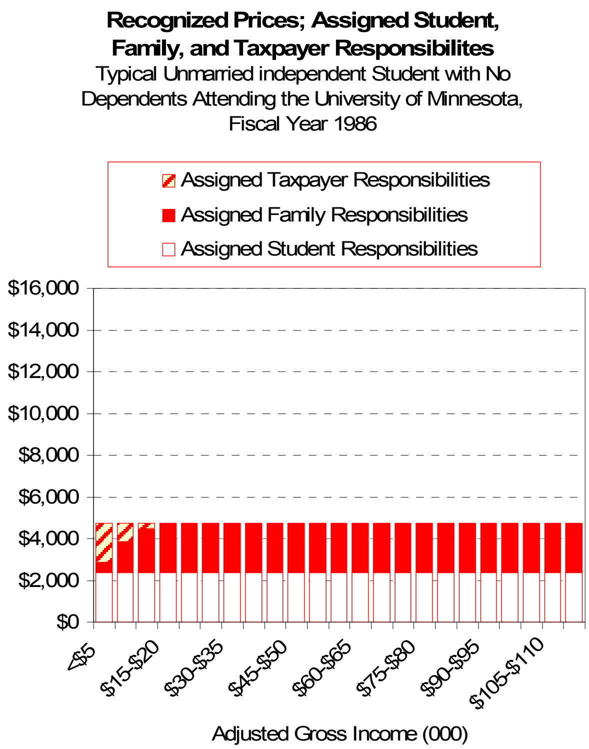


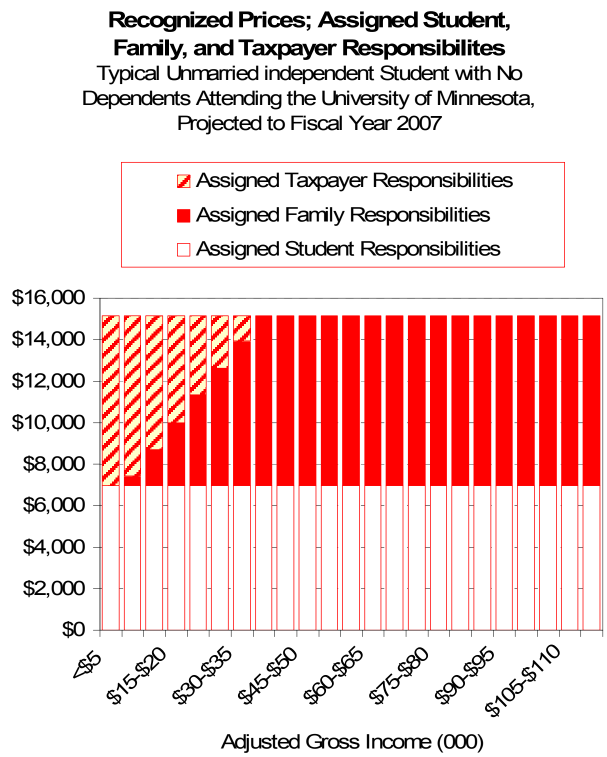
Recognized Prices; Assigned Student, Family, and Taxpayer Responsibilites
Typical Dependent Student Attending the University of Minnesota, Projected to Fiscal Year 2007



- The assigned student responsibility increased from $2,378 to $6,967, less than half as much as prices.
- The assigned family responsibility increased on the right side of the income distribution in response to price increases.
- The assigned taxpayer responsibility increased and included a wider range of incomes.

The Assignments of Payment Responsibilities for Typical Unmarried Independent Students with No Dependents Attending the University of Minnesota, Fiscal Years 1986 and 2007





- Recognized prices increased from $4,755 to $15,145.
- The assigned student responsibility increased from $2,378 to $6,967, less than half as much as prices.
- The assigned family responsibility increased on the right side of the income distribution in response to price increases.
- The assigned taxpayer responsibility increased and included a wider range of incomes.

Part II: State Grant Overview

How State Grants Are Awarded: From Application to Disbursement

A student applies for a State Grant by completing the Free Application for Federal Student Aid, or FAFSA. The student must apply within 30 days of the start date of a term to receive a State Grant for that term. The information supplied on the FAFSA is processed by the U.S. Department of Education's central processing system, which determines the amount of money the family is expected to pay for post-secondary education using the Federal Methodology need analysis formula. The department also conducts several interfaces with other federal databases, such as the Social Security Administration and Department of Homeland Security, to determine if the student meets certain program eligibility requirements for federal financial aid programs.

Once the FAFSA is processed at the federal level, the results are sent electronically to all of the colleges the student listed on the application. The student also receives the results and is instructed to make any necessary corrections. Certain applications are flagged for verification, using selection criteria developed by the U.S. Department of Education. In these cases, the campus financial aid administrator must collect additional information from the student, such as tax forms and worksheets, to verify the information supplied on the FAFSA. The State Grant program requires schools to follow federal verification procedures, even if they do not participate in federal financial aid programs.

Eligible Students

Once verification is completed, the financial aid administrator then screens the application to make sure the student meets the following program eligibility requirements in place for the State Grant program:

- U.S. citizen or eligible non-citizen (permanent residents, refugees, non-citizens with asylum status)
- Minnesota resident as defined in Minnesota Statutes 136A.101, Subd. 8.
- Undergraduate student who has not received a baccalaureate degree;
- Not have completed the equivalent of four academic years of full-time post-secondary attendance;
- Graduate of a secondary school/GED recipient or be 17 years of age or older by June 30 of the academic year (high school students taking a college course under the Post-Secondary Enrollment Options Program are not eligible for a State Grant);
- No unresolved previous State Grant overpayments;
- Not in default on a student educational loan;
- Not more than 30 days in arrears for child support payments owed to a public child support enforcement agency unless the student is complying with a written repayment plan;
- Enrolled at an eligible Minnesota post-secondary institution for at least 3 credits (or the equivalent) while pursuing a program or course of study that applies to a degree, diploma or certificate at any eligible Minnesota post-secondary institution;
- Not receiving tuition reciprocity benefits from another state while attending a Minnesota post-secondary institution.
- Making satisfactory academic progress and in good standing for the term covered by the award payment;
  - by the end of a student's second academic year of attendance at an institution, the student has at least a cumulative grade point average of C or its equivalent, or academic standing consistent with the institution's graduation requirements;
  - by the end of the first term of the third and fourth academic year of attendance, the student has a cumulative grade point average of at least a C or its equivalent;

- The state also adopts the satisfactory academic progress requirements used for federal financial aid programs, which require a student to complete a program within 150 percent of the published program length.

After screening for eligibility requirements, the school calculates the State Grant award on campus, along with awards for other financial aid programs, and includes the amount of the State Grant in the student's financial aid award notice. Once State Grant awards have been packaged for a number of students, the school submits a batch of student records to the Office of Higher Education to support its request to draw down State Grant funds.

The Office of Higher Education processes the batch submitted by the school, running the data through various edit checks to verify accuracy of awards and payments and update its State Grant database to track spending for the year. The school receives batch output reports identifying cases where awards or payments were rejected and is expected to resolve those errors. The agency then transfers a lump-sum State Grant disbursement to the school via electronic fund transfers to cover all the unpaid accepted awards contained in the school's most recent batch.

The batch reporting process takes place at least once a month until the school is expected to submit its final batch and return any unexpended funds to the agency in August. The school is expected to maintain records for three years after the completion of the academic year for auditing purposes. All state financial aid programs administered on campuses are audited periodically by external CPA auditors or the Office of Higher Education auditing staff.

Eligible Institutions

At least annually, the Director of the Minnesota Office of Higher Education adopts a list of schools at which a State Grant may be used. To be eligible, a post-secondary institution must:

1. be physically located in Minnesota
2. offer at least one program that:
   a) is vocational or academic in nature;
   b) leads to a certificate or degree;
   c) is at least eight weeks long; and
   d) involves at least 12 academic credits or 300 clock hours.
3. be one of the following:
   a) accredited by a federally recognized accrediting agency or association,
   b) approved to offer degrees or use the terms "academy," "institute," "university" or "college" in its name according to Minnesota Statutes 136A.65, or
   c) licensed by an appropriate state agency; and
4. have the necessary administrative computing capability to administer the program on campus and electronically report student data records to the Agency; and
5. provide to the agency data on student enrollment and federal and state financial aid.

To be approved, the post-secondary institution must also:

1 complete the on-line 'State Grant Budget Questionnaire';
2. receive an on-site administrative overview from the supervisor of the agency's auditing staff;
3. sign an Institutional Participation Agreement
4. attend a training session offered by the Manager of the State Grant Program; and
5. purchase or create the software necessary to calculate the federal need analysis and Minnesota State Grant awards on campus and electronically report student data records to the agency.

A Note about State Appropriations and Projections

The flexible design of the State Grant program provides the Office of Higher Education with the ongoing responsibility and challenge of projecting the demand on the program for two and three years into the future for purposes of legislative appropriations. Though projections are never an exact science, the agency continues to learn more about how to refine its State Grant projections. Variables such as price, family income, enrollment and other consumer choice variables add to the complexity of the projections process.

Minnesota State Grant Statistics

The following tables and charts provide an overview of Minnesota State Grants awarded in Fiscal Year 2005. These tables and charts are included to give policymakers an understanding of the program's scope and impact and include the number of recipients, the amount awarded and the combined Federal Pell and State Grant awards for the most current year data is available.

Number of State Grant Recipients and Amount Awarded, by Income, FY 2005

Adjusted Gross Income	Number of Minnesota State Grant Recipients	Combined Federal Pell and Minnesota State Grant Awards	Minnesota State Grant Awards
Less than $10,000	16,628	$66,199,777	$19,412,379
$10,000 to $19,999	13,852	$50,050,163	$20,359,046
$20,000 to $29,999	12,264	$45,062,488	$23,718,782
$30,000 to $39,999	9,730	$33,140,920	$21,206,258
$40,000 to $49,999	8,948	$24,450,406	$18,569,564
$50,000 to $59,999	6,165	$13,867,770	$11,803,074
$60,000 to $69,000	3,319	$6,368,257	$5,830,278
$70,000 and over	2,504	$3,727,266	$3,538,478
Total	73,410	$242,867,047	$124,437,859

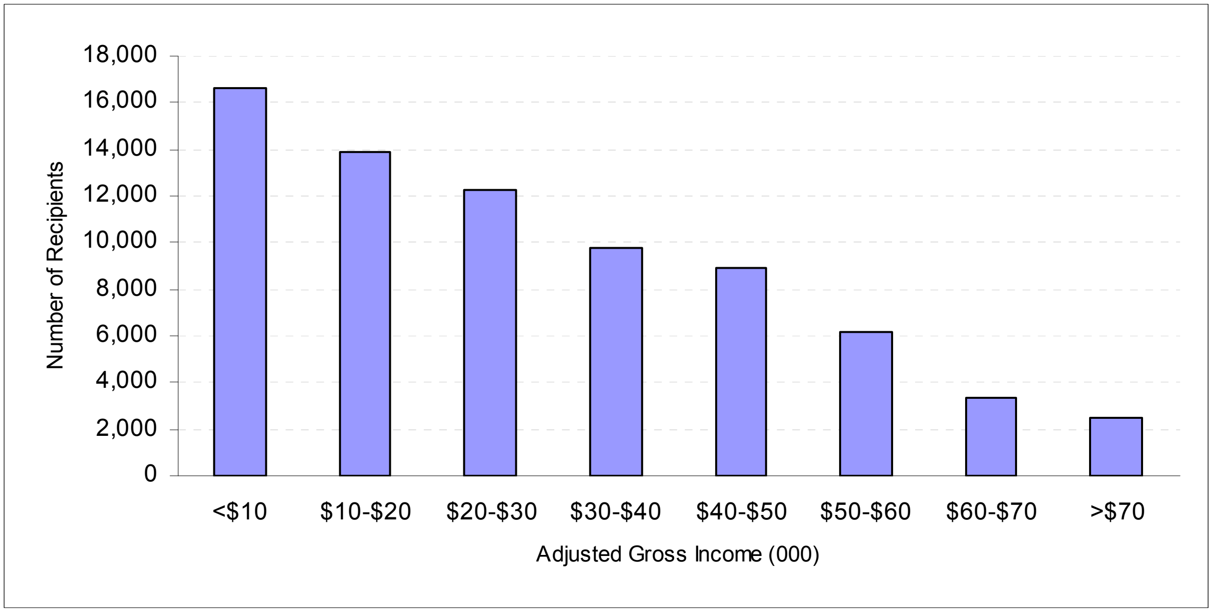
Adjusted gross income is parental income for dependent students and student and spouse income for others.

Number of State Grant Recipients and Amount Awarded, by Family Circumstances, FY 2005

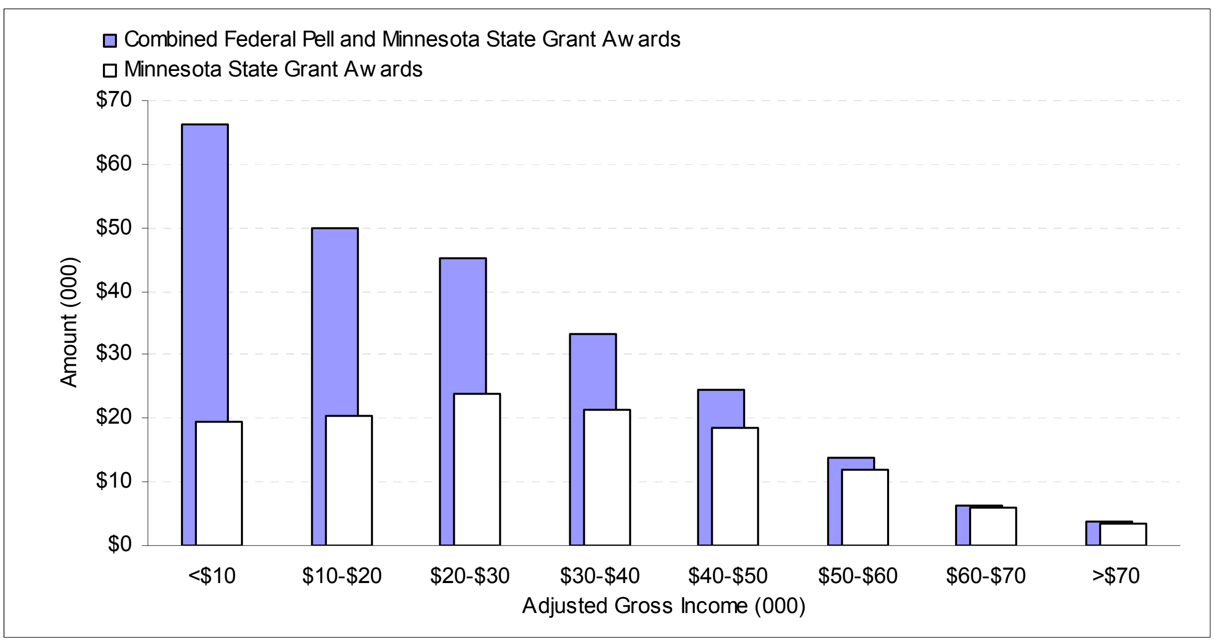
Family Circumstances	Number of Minnesota State Grant Recipients	Combined Federal Pell and Minnesota State Grant Awards (Million)	Minnesota State Grant Awards (Million)
Dependent Students	44,944	155,416,241	96,215,743
Independent Students			
Married students with children	5,830	16,772,360	5,089,206
Unmarried students with children	11,182	37,789,066	9,177,116
Married students with no children	1,954	5,334,026	2,571,526
Single independent students	9,500	27,555,353	11,384,268
Total	73,410	$242,867,046	$124,437,859

Source: Minnesota Office of Higher Education

Number of Minnesota State Grant Recipients, by Income, FY 2005

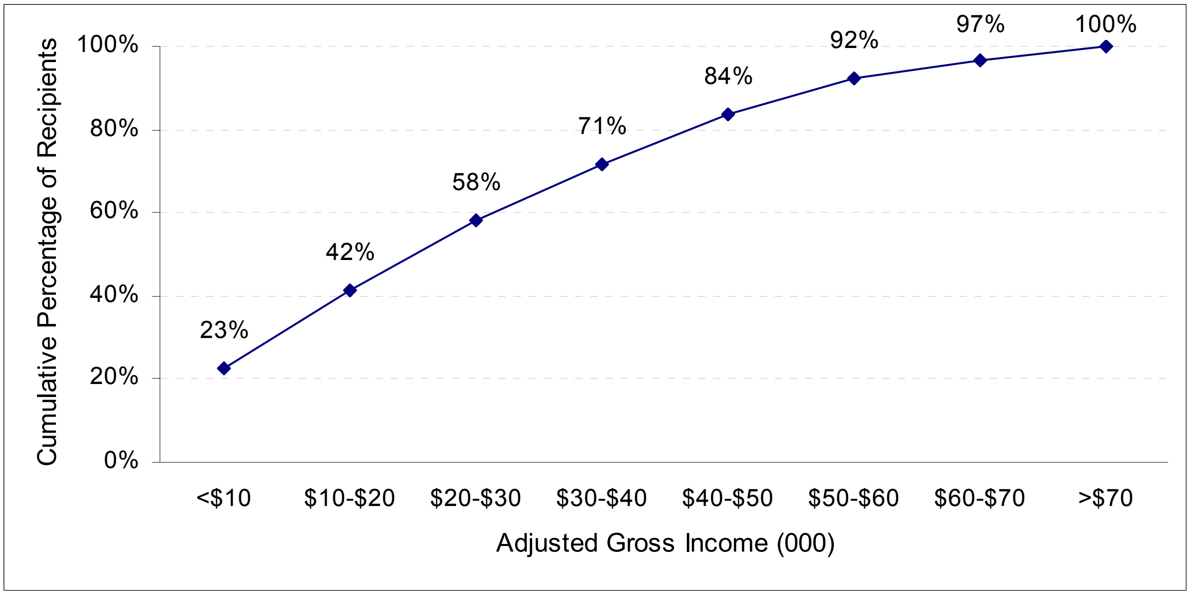


Combined Federal Pell and Minnesota State Grant Awards, by Income, FY 05

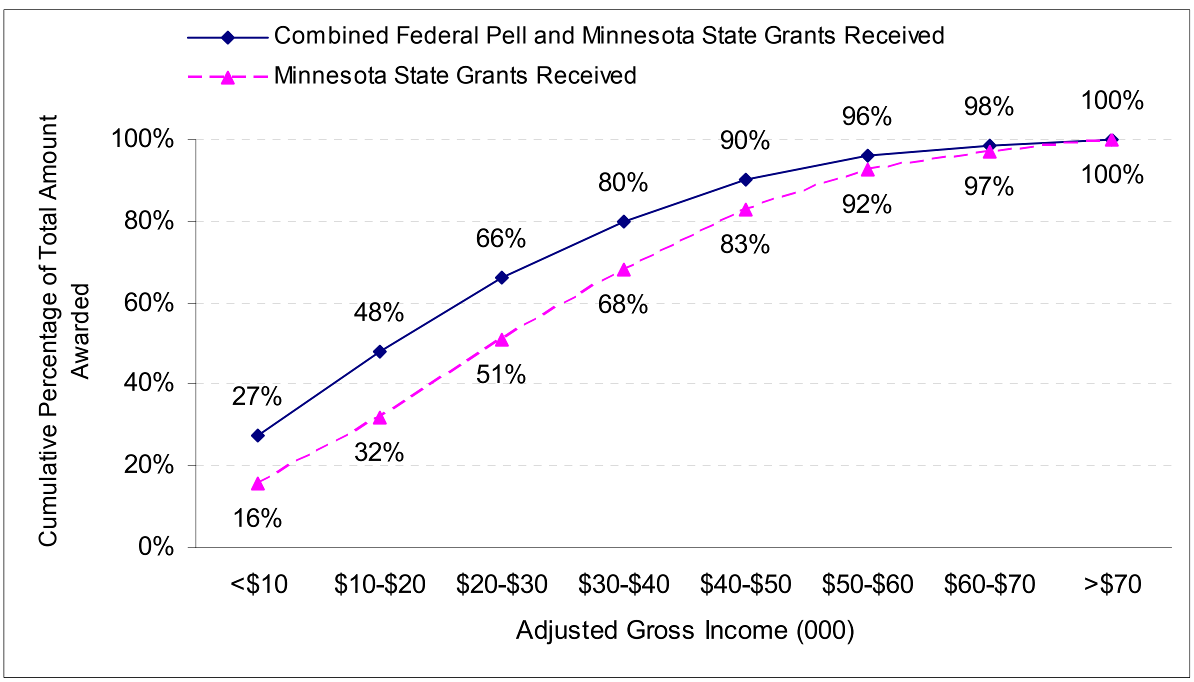


Source: Minnesota Office of Higher Education

Cumulative Percentage of State Grant Recipients, by Income, FY 2005



Cumulative Percentage of Combined Federal Pell and Minnesota State Grants, by Income, FY 2005



Source: Minnesota Office of Higher Education

Minnesota State Grant Number of Recipients and Amount Awarded by Institution, Fiscal Year 2005

Participating Post-Secondary Institutions	Number of Minnesota State Grant Recipients	Minnesota State Grants, Amount Awarded
Minnesota State Colleges and Universities Colleges (Two-Year)		
Alexandria Technical College	879	$1,013,000
Anoka Technical College	516	$402,000
Anoka-Ramsey Community College	1,047	$750,000
Central Lakes College	1,215	$1,031,000
Century College	1,510	$966,000
Dakota County Technical College	637	$589,000
Fond du Lac Tribal and Community College	384	$215,000
Hennepin Technical College	998	$639,000
Hibbing Community College	555	$428,000
Inver Hills Community College	803	$636,000
Itasca Community College	460	$418,000
Lake Superior College	914	$680,000
Mesabi Range Community and Technical College	420	$345,000
Minneapolis Community and Technical College	2,352	$1,303,000
Minnesota State College-Southeast	485	$385,000
Minnesota State Community and Technical College	1,508	$1,517,000
Minnesota West Community and Technical College	878	$844,000
Normandale Community College	1,670	$1,202,000
North Hennepin Community College	1,419	$994,000
Northland Community and Technical College	873	$780,000
Northwest Technical College	415	$371,000
Pine Technical College	151	$88,000
Rainy River Community College	102	$90,000
Ridgewater College	1,652	$1,695,000
Riverland Community College	917	$743,000
Rochester Community and Technical College	1,392	$1,172,000
Saint Cloud Technical College	1,199	$1,226,000
Saint Paul College	1,123	$572,000
South Central Technical College	846	$742,000
Vermilion Community College	167	$178,000
Sub-Total	**27,487**	**$22,014,000**
Minnesota State Colleges and Universities (Four-Year)		
Bemidji State University	1,291	$2,241,000
Metropolitan State University	858	$664,000
Minnesota State University Moorhead	1,443	$2,189,000
Minnesota State University, Mankato	3,126	$5,146,000
Saint Cloud State University	3,436	$5,256,000
Southwest Minnesota State University	884	$1,455,000

Participating Post-Secondary Institutions	Number of Minnesota State Grant Recipients	Minnesota State Grants, Amount Awarded
Winona State University	1,343	$2,749,000
Sub-Total	**12,381**	**$19,700,000**
University of Minnesota		
University of Minnesota Crookston	342	$851,000
University of Minnesota Morris	613	$1,872,000
University of Minnesota Duluth	2,377	$6,440,000
University of Minnesota Twin Cities	6,360	$17,984,000
Sub-Total	**9,692**	**$27,147,000**
Not-for-Profit Post-secondary Institutions		
American Indian OIC School of Business and Office Technology	54	$22,000
Augsburg College	739	$2,026,000
Bethany Lutheran College	211	$720,000
Bethel University	812	$2,551,000
Cardinal Stritch University	46	$63,000
Carleton College	120	$413,000
College of Saint Benedict	586	$1,938,000
College of Saint Catherine	1,174	$2,694,000
College of Saint Scholastica	925	$2,855,000
College of Visual Arts	50	$141,000
Concordia College Moorhead	774	$2,555,000
Concordia University Saint Paul	457	$1,276,000
Crossroads College	75	$208,000
Crown College	339	$828,000
Dunwoody College of Technology	755	$1,410,000
East Metro Opportunities Industrialization Center	80	$76,000
Gustavus Adolphus College	674	$2,222,000
Hamline University	744	$2,436,000
Macalester College	131	$435,000
Martin Luther College	78	$266,000
Minneapolis College of Art and Design	152	$463,000
Minneapolis School of Massage and Body Works	26	$29,000
North Central University	277	$817,000
Northwestern College	809	$2,386,000
Northwestern Health Sciences University	23	$36,000
Oak Hills Christian College	93	$280,000
Pillsbury Baptist Bible College	77	$203,000
Presentation College	46	$70,000
Saint John's University	490	$1,577,000
Saint Mary's University of Minnesota	273	$857,000
Saint Olaf College	502	$1,677,000

Participating Post-Secondary Institutions	Number of Minnesota State Grant Recipients	Minnesota State Grants, Amount Awarded
Summit Academy Opportunity Industrialization Center	73	$94,000
University of Saint Thomas	1,119	$3,627,000
Sub-Total	**12,784**	**$37,251,000**
For-Profit Post-secondary Institutions		
Academy College	121	$152,000
Argosy University Twin Cities	356	$513,000
Art Institute International Minnesota	675	$1,564,000
Aveda Institute Minneapolis	189	$358,000
Brown College	1,425	$3,322,000
Bryman Institute	245	$255,000
Central Beauty School	19	$27,000
Central Beauty School Cambridge	28	$38,000
Cosmetology Training Center Mankato	42	$71,000
DeVry University Edina Center	3	$1,000
Duluth Business University	294	$375,000
Globe College	743	$948,000
Hastings Beauty School	18	$43,000
Herzing College	309	$480,000
Hi-Class Beauty and Massage School Richfield	21	$30,000
Hi-Class Beauty and Massage School Saint Paul	43	$49,000
High Tech Institute Saint Louis Park	658	$1,342,000
Ingénue Beauty School	9	$13,000
Institute of Production and Recording	115	$221,000
ITT Technical Institute	102	$130,000
Le Cordon School of Culinary Arts Minneapolis St. Paul	41	$42,000
McNally Smith College of Music	137	$301,000
Midwest Career Institute	29	$22,000
Minneapolis Business College	217	$452,000
Minnesota School of Barbering	24	$39,000
Minnesota School of Beauty	39	$106,000
Minnesota School of Business	2,071	$2,507,000
Minnesota School of Cosmetology	47	$36,000
Model College of Hair Design	91	$188,000
Moler Barber School of Hairstyling	37	$66,000
Nail Tech & Beauty School	2	$2,000
National American University	533	$830,000
Northern Cosmetology Institute	23	$34,000
NTI School of CAD Technology	46	$103,000
Professional Salon Academy	11	$13,000
Pro-Image Beauty School	19	$20,000
Rasmussen College Eagan	350	$454,000
Rasmussen College Mankato	382	$473,000

Participating Post-Secondary Institutions	Number of Minnesota State Grant Recipients	Minnesota State Grants, Amount Awarded
Rasmussen College Minnetonka	335	$498,000
Rasmussen College Saint Cloud	469	$673,000
Regency Beauty Institute Burnsville	83	$177,000
Regency Beauty Institute Maplewood	51	$110,000
Regency Beauty Institute Saint Cloud	99	$239,000
Regency Beauty Institute Blaine	123	$222,000
Rochester School of Cosmetology	41	$70,000
Scot Lewis School of Cosmetology Bloomington	113	$234,000
Scot Lewis School of Cosmetology Plymouth	112	$243,000
Scot Lewis School of Cosmetology Saint Paul	95	$211,000
Transportation Center for Excellence	31	$27,000
Sub-Total	**11,066**	**$18,324,000**
Total	**73,410**	**$124,438,000**

Source: Minnesota Office of Higher Education

Part III: Public Suggestions for Modifying the State Grant Program

The Office of Higher Education invited public comments and suggestions for changing the State Grant program in preparation for this report. This section is a summary of those suggestions, including background and detail on each. The impact of most suggested changes would increase the costs of the program or shift grant money away from one group of students to another. The most frequently offered suggestions for changing the State Grant program centered on proposed modifications to the eligibility criteria and various components of the State Grant program's existing framework.

Public Suggestions for Changing Student Eligibility Requirements

One of the more obvious ways to modify the State Grant program is to change program eligibility requirements. Several suggestions were offered.

Public suggestion 1A: Change Eligibility to 9 or 10 Semesters

Background: Currently, students are eligible to receive Minnesota State Grants until they earn a baccalaureate degree or attend college for the equivalent of eight semesters of full-time attendance. The 2001 Legislature modified the statute to extend this limitation to 10 semesters of full-time attendance for Fiscal Years 2002 and 2003, but this extension was one of the program features scaled back beginning in Fiscal Year 2004.

It was suggested that the state should extend the period of eligibility for Minnesota State Grants to the equivalent of nine or 10 full-time semesters, as was the practice in 2002 and 2003. Those offering testimony asserted there were baccalaureate degree programs requiring more than 120 semester credits (the equivalent of eight 15-credit semesters). In addition, others suggested some students take longer than eight full-time semesters to complete their post-secondary education because they change majors or career paths. Minnesota is one of a very few states in the country that place a four-year time limit on financial aid.

In early 2006, the agency requested data from degree granting colleges in Minnesota. A summary of the information supplied indicates:

- Out of a total of 631 baccalaureate degree programs offered at MnSCU institutions, 145 (23%) require 120 semester credits, 481 (76.2%) require 128 semester credits, and five require more than 128 semester credits. St. Cloud State University offered the most programs requiring 120 semester credits.

- Of the 14 four-year non-profit colleges responding to the agency's email request, 12 generally require more than 120 credits or the equivalent. Examples:

  - Augsburg College – All programs require 128 semester credits.
  - College of St. Benedict – All programs require 124 semester credits.
  - College of St. Catherine – All programs require 130 semester credits.
  - College of St. Scholastica – All programs require 128 semester credits.
  - Concordia University – All programs require 128 semester credits.
  - Hamline University – All programs require 120 semester credits.
  - Northwestern College – 26 programs at 125 semester credits and 17 programs requiring more than 125 semester credits (education, music education).
  - Oak Hills College – Nine programs require 124-126 semester credits.
  - St. John's University – All programs require 124 semester credits.
  - St. Mary's University – 57 B.A. and 8 B.S. programs all require 122 semester credits.

Decisions about graduation requirements are made by governing boards, including the Board of Trustees for the Minnesota State Colleges and Universities and the Board of Regents for the University of Minnesota. Minnesota State Grants are intended to assist students in fulfilling those requirements. Achieving consistency between typical graduation requirements and Minnesota State Grant parameters argues for a relaxation of the time limit on Minnesota State Grant eligibility.

Some suggest that prior education becomes obsolete over time. Course work completed 10 or more years ago is often offered as evidence that the current limit needs revising. Responding to this suggestion could include only counting recent course work. Finding a universal definition for "recent" creates a challenge. For example, learning to write coherently never becomes obsolete while knowledge of the latest building materials might become obsolete in a year or two.

Others suggest that imposing time limits on students receiving financial aid is inconsistent with the expectations placed on other students who are benefiting from public higher education subsidies at public higher education institutions. There are no similar restrictions placed on these students.

It is possible that time limits could encourage students to pursue "safe" courses of study rather than explore their potential in more challenging majors, such as science, technology, engineering, and mathematics. Time limits currently in place could be discouraging students from completing degree requirements. Current eligibility requirements, on the other hand, may encourage students to take more than 15 credits per semester and complete their degree programs in a timely manner.

Potential impact: Any relaxation of the time period of eligibility would have benefit those that have already made a significant investment in themselves; time limits have no impact on those who drop-out before the time limit is reached. By extending the time or credit limit on State Grant eligibility, slightly more students may be encouraged to pursue more challenging programs.

Public suggestion 1B: Redefine Prior Attendance in Defining Limits on Eligibility

Background: Currently, students are eligible to receive Minnesota State Grants until they earn a baccalaureate degree or attend college for the equivalent of eight semesters of full-time attendance. Minnesota institutions are required to account for all post-secondary education in determining the eight-semester eligibility limit for State Grants, regardless of whether or not the student received a State Grant during all or part of the attendance period.

Students are required to provide their current institution with records of prior post-secondary attendance at other institutions. Because State Grant eligibility is based on all prior post-secondary attendance, the financial aid office must develop a second tracking system independent of the registrar's office. Financial aid administrators must interpret and process the information within the eight-semester State Grant eligibility limit requiring them to review the transcripts on a term-by-term basis to determine the exact amount of post-secondary education the student has completed. Administrators cannot rely solely upon the transcript from the current institution, since not all of the post-secondary course work previously attended may have transferred to the current institution. Further, course work that did transfer to the current institution is typically noted as a cluster of courses and credits that does not indicate the student's enrollment level during the previous term(s) of attendance.

Some transcripts come from foreign countries and must be translated by the current institution. Other transcripts come from schools that do not break down course work by term, which makes it difficult to assess the correct level of previous attendance. Another common problem is the inability of students to obtain transcripts from schools that have closed or placed holds on students' records due to unpaid charges. Errors in deciphering transcripts are among the most common reasons for audit findings by the Office of Higher Education auditors in their routine audits of campus financial aid programs.

Possible solutions that might decrease the effort needed to review transcripts include, but are not limited to:

- **Divide total credits on each transcript by 15 to determine the amount of full-time terms attended**, rather than a term-by-term assessment. However, this would penalize students who took more than 15 credits per term (under the current system, 15 or more credits is considered one full-time term) and would not eliminate the need to gather transcripts from all institutions previously attended.

- **Set the limit as a number of credits (120 semester or the equivalent)** as opposed to determining enrollment status on a term by term basis. This might also result in penalizing students who took more than 15 credits a term and would also require the collection of transcripts.

- **Count only course work taken at and transferred to the current institution.** This would result in the exclusion of previous course work that didn't transfer to the current institution, such as vocational training that might not transfer to a baccalaureate degree program. This would allow most institutions to automate the process of determining the amount of post-secondary education the student has attended. This might also encourage students to evade the limit by transferring as they approach the eight-semester limit, taking advantage of another institution's policies to not accept all prior coursework for transfer. It may also provide an incentive for institutions not to accept credits for transfer.

- **Develop a database to track post-secondary attendance**. Because all post-secondary attendance must be counted without regard to country or state of attendance, the cost, effort and legalities associated with developing a national or international database would likely outweigh the benefits received. The development of a state database would be less costly, but would result in inequitable treatment of students based on whether or not the post-secondary attendance took place within Minnesota.

Potential impact: More students with prior college attendance would qualify for State Grants. Tracking prior credits would be simplified.

Public Suggestion 1C: Create a Two-Year Eligibility Limit

Background: The eight-semester eligibility limit applies to all students including those pursuing two-year degrees. While the satisfactory academic progress policy requires students in two-year programs to complete their degrees within 150 percent of the published program length (six semesters in most cases), a school has the option of extending that period if the student changes campuses or programs. Thus, it is possible for students meeting all the standards of academic progress to spend eight semesters completing an associate degree. If these students were to transfer to a four-year program, they would no longer be eligible for Minnesota State Grants.

This suggestion would create a clearly defined point within the eight semester limit to limit State Grant eligibility for students pursuing associate degrees, certificates and diplomas. Students on a clearly defined path to baccalaureate degrees who start at community and technical colleges would not be affected by the suggested change.

There are multiple reasons students do not progress on a well-defined eight-semester track to a baccalaureate degree. Many of these reasons are not unique to students attending two-year institutions. Until clear criteria can be developed, any intermediate eligibility limit may be more arbitrary than the eight semester limit.

Many students start their post-secondary education at two-year colleges with plans of transferring to a four-year degree program and are not interested in obtaining a two-year degree.

Currently, students who have already completed a two-year degree are allowed to receive additional Minnesota State Grants at a two-year college if they are taking coursework that will be applied toward a four-year degree at another institution. Imposing a two-year limit on post-secondary education at two-year colleges may work against this recent policy change.

There is already a satisfactory academic progress requirement for Minnesota State Grants that limits eligibility to no more than 150 percent of the published program length. In other words, a student pursuing a two-year degree would have three years to complete the program before losing eligibility.

Potential impact: State Grant eligibility would be restricted to something less than eight semesters for students pursuing degrees intended to be completed in two-years or less. Such a policy may encourage more students in two-year programs to complete their educations and get into the workforce more quickly. The change may also serve to discourage students from continuing their education. Such a limit may have a disproportionately high impact on low-income, first-generation college students, most of whom choose two-year public institutions.

Public Suggestions for Changing the Recognized Price of Attendance

The State Grant framework begins with recognized price. Recognized prices vary by institution selected, and registration load. The recognized price defines the total amount that needs to be assigned to students, families and taxpayers.

Recognized prices include two components:

- **Recognized tuition and fees**

  Recognized tuition and fees used to calculate Minnesota State Grants are defined as the lesser of:
  - Average tuition and required fees paid by undergraduates registering for full-time loads.[7]
  - Tuition and fee maximums set as part of the appropriations process.

  Recognized tuition and fees used to calculate Minnesota State Grants.
  - Vary by institution attended.
  - Are set at the same amount for all students attending the same institution.

- **Living and Miscellaneous Expenses (LME)**.

During Fiscal Year 2007, more than 130 different institutions will participate in awarding Minnesota State Grants. The recognized tuition and fees used to calculate Minnesota State Grants consists of average tuition and general fees for 30 semester or 45 quarter credits (or equivalent). Annual full-time tuition and fees are subject to tuition and fee maximums set by the state for students enrolled in either a four-year program ($9,438) or a two-year program ($6,436).

These are the prices for resident undergraduates registering for 15 credits per semester for two semesters (or equivalent). Posted and recognized tuition and fee values are weighted means based on the number of applicants in each institutional grouping. This table shows the values of recognized tuition and fees used to calculate Minnesota State Grants in five institutional groupings to show examples of the recognized price.

Institutional Grouping	Posted Tuition and Fees	Recognized Tuition and Fees	Difference
MnSCU 2-Year Colleges	$4,255	$4,255	$0
MnSCU 4-Year Universities	$5,952	$5,952	$0
University of Minnesota	$9,449	$9,395	$54
For-Profit Institutions	$14,538	$6,929	$7,608
Non-Profit Institutions	$20,954	$9,148	$11,806

The Living and Miscellaneous Expense allowance used in the calculation of Minnesota State Grants recognizes goods and services directly associated with attending, such as room, board and books. For students attending any institution, living and miscellaneous expenses significantly increase the price of attending. For students attending lower-priced institutions, living and miscellaneous expenses exceed tuition and fees.

The LME is the same for all students for purposes of calculating Minnesota State Grants. It is used in calculating Minnesota State Grants and is set for each fiscal year in the appropriations process. The LME value used in Fiscal Year 2007 was $5,750.

The State Grant framework recognizes differences in prices students pay by:

- Calculating awards each term of attendance ensuring that students attending part-year are treated differently than students attending for longer periods.

- Prorating recognized prices for registration loads less than 15 credits per term.

The policy upon which Minnesota State Grants is based assumes the recognition of prices students face in the marketplace of educational choices. These are the amounts someone must pay in order for students to make the educational investments for their futures and the future of the state. The unrecognized portion of the price of attendance becomes an implicit assignment to the student.

Public Suggestion 2A: Use Actual Tuition and Fees Rather than Average

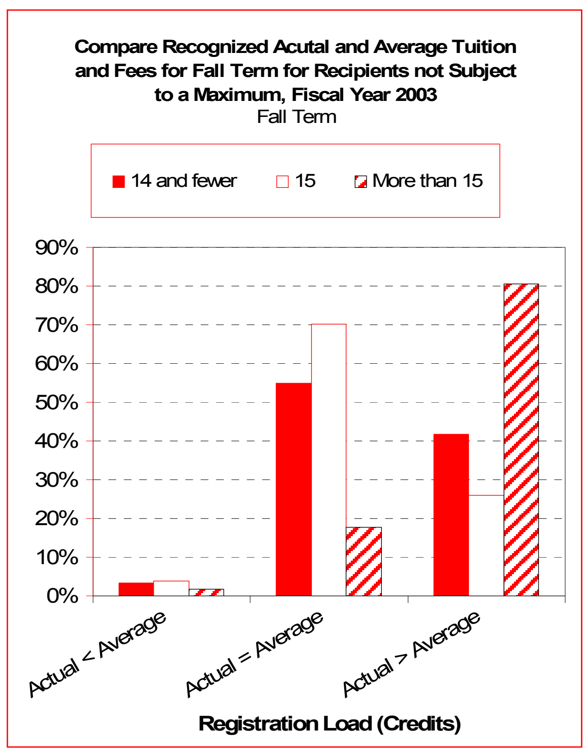
Background: Currently, an average tuition and fee value for each campus is used to determine Minnesota State Grant awards for all eligible students attending that institution. The value is a weighted average of the tuition and required fees charged Minnesota residents registering for 15 credits per term for two semesters (or equivalent) subject to the tuition and fee maximums. The fees included in the calculation are restricted to those charged to all "full-time" students. For students registering for 14 or fewer credits, a prorated amount of tuition and fees is calculated as part of the award determination process. Tuition and fee maximums are prorated as well for those registering for 14 or fewer credits. For students registering for 16 or more credits, the 15-credit value is used.

For one year only, Fiscal Year 2003, the State Legislature changed this policy so that State Grants were based on the actual tuition and fees charged to each student by the institution. In that year, each applicant, potentially, had a unique value used in the award calculation.[8] In addition to general fees charged to all students, actual tuition and fees included the class and program-specific fees charged by the institution as well as the purchase of required equipment. Tuition and fee maximums applied as well in this case. Fiscal Year 2003 data provided a means of examining the potential impact of the proposed changes.

While some recipients paid less than the average, a disproportionate number were paying more than average reflecting, in part, fees not included in the calculation of the average. So changing to actual verses average would result in increased State Grant awards for many students.

Because students attending private institutions affected by the tuition and fee maximums would generally not be affected by a change to using actual verses average tuition and fees, they were not included in the chart.

About 80 percent of the Minnesota State Grant recipients in this analysis registering for more than 15 credits and more than 40 percent of those registering for 14 or fewer credits paid more than the average price as shown on the table on the previous page. For recipients in this analysis registering for 15 credits for the term, about one-quarter paid more than the average price. (The average was considered equal to the actual tuition and fees if the actual were within $50 either side of the average.)



Recognizing actual tuition and fees is consistent with the policy embodied in the current framework. Only if a "real" price is recognized will the other aspects of the framework have policy relevance. In addition, the failure to recognize actual prices could be affecting students' educational choices, including choices of academic majors. To the extent that the state wishes to encourage students to choose majors that typically have higher prices because of additional course fees or required equipment purchases, then the policy of using average tuition and fees could be working against state priorities.

For students attending institutions that use a per-credit rate, using actual tuition and fees (as implemented in 2003) would recognize the additional charges associated with registration loads of 16 or more credits per term. For students able to take these loads, this allows them to finish their educational programs more quickly or enroll in more courses to improve their return on investment.

A change in the program to recognize actual verses average tuition would have a significant cost impact on the program and would add to the administrative complexity of adjusting the prices for each student.

Potential Impact: Full-time students taking more than the average number of credits, or who are enrolled in higher cost programs would have the additional costs recognized for purposes of their State Grant calculation. Based on a review of Fiscal Year 2003 applicants, using actual tuition and fees was projected to increase Minnesota State Grant spending by $5.0 million, a 4.3 percent increase over using average tuition and fees. Almost 31,000 of the 69,000 recipients received smaller awards because average tuition and fees were used instead of actual tuition and fees. Half the affected recipients experienced reductions of about $100 or less due to this change. A few students received around $2,000 less. The administrative complexity of the program would intensify, both in terms of campus administration and auditing, as adjusting awards when students change to courses with different fees would be required.

Public Suggestion 2B: Change Tuition and Fee Maximums

Background: Tuition and fee maximums are applied to students based on the length of the program in which they are enrolled. If the program leads to a baccalaureate degree, then the four-year maximum applies. If the program leads to an associate degree, a diploma or a certificate, the two-year maximum applies.

Tuition and fee maximums (or "caps) provide a means for limiting the state's investment in students through tuition and fee maximums used to calculate Minnesota State Grants. The average annual tuition and fees are currently greater than the tuition and fee maximums in both types of private institutions. In both types, however, there is considerable variation across institutions with a few institutions charging less than the tuition and fee maximums. The limits initially were intended to affect only students attending private institutions. They now affect some students attending certain University of Minnesota campuses. None of the rates at the Minnesota State Colleges and Universities system campuses exceed the tuition and fee maximums.

Recognized Tuition and Fees, Selected Years, Fiscal Years 1986-2007

Type of Institution Attended:	Fiscal Year 1986	Fiscal Year 1989	Fiscal Year 1992	Fiscal Year 1995	Fiscal Year 1998	Fiscal Year 2001	Fiscal Year 2004	Fiscal Year 2007
MnSCU 2-Year Colleges	$1,120	$1,305	$1,612	$1,121	$2,112	$2,478	$3,391	$4,255
MnSCU 4-Year Universities	$1,519	$1,695	$2,041	$2,502	$2,812	$3,272	$4,636	$5,952
University of Minnesota	$1,905	$2,509	$2,903	$3,570	$4,495	$4,970	$7,383	$9,395
Minnesota Private 2-Year Institutions	$3,251	$3,791	$4,729	$5,505	$6,009	$6,402	$6,823	$6,417
Minnesota Private 4-Year Institutions	$4,885	$5,888	$7,439	$7,580	$7,819	$8,517	$8,476	$8,605

Initially, the maximums were tied to instructional spending per student at comparable University of Minnesota campuses. Spending included revenue from all sources, including tuition and fees paid by students. Thus, tuition and fee maximums were based on the sum of the state appropriations per undergraduate student and student-paid tuition and fees. Using instructional spending as the reference point requires detailed spending reports from the governing boards on a contemporary basis. After the elimination of average cost funding, there has been no state requirement for governing boards to regularly report detailed instructional spending data. Currently, no anchor or reference points are used in setting tuition and fee maximums. They are set as part of the legislative appropriations process. Some suggest that contemporary instructional costs be used again as a reference point for setting tuition and fee maximums.

Testimony offered by private colleges showed that the maximum combined Federal Pell and Minnesota State Grant award at public colleges increased by 68 percent for MnSCU students, 98 percent for University of Minnesota students, and just 30 percent for private college students from 1995 to 2005. Some indicated that fewer low-income students were enrolling at private colleges because Federal Pell Grants and Minnesota State Grants were not keeping pace with tuition and fee increases and some institutions no longer have adequate institutional scholarship resources to fill the gap.

The number of Pell Grant recipients attending Minnesota's private four-year colleges declined by 6.2 percent and the number of Pell Grant recipients attending Minnesota's public colleges declined 5.3 percent from 1992 to 2003.[9]

The taxpayer investment in students attending Minnesota public institutions is dependent on family incomes and state appropriations, as shown in the following table. For students from families with lower incomes, the state invests in students attending private institutions less than it invests in similar students attending public institutions. For other students, the state's investment in students attending Minnesota private institutions drops to zero while the state invests in all students attending public institutions.

Taxpayer investment in the table is based on the assigned taxpayer responsibility as covered by Federal Pell and Minnesota State Grants plus a measure of taxpayer appropriations for instruction per student (based on FYE). These data are based on the latest reported instructional spending reports (Fiscal Year 2004). Tuition and fee payments are not included in this measure of taxpayer investment. Further, capital costs covered by the state through the bonding process are not included as part of the taxpayer investment in this table nor are any other taxpayer investments. While capital subsidies are not included, the state capital investment per full-year equivalent is estimated to be approximately $300 per year for students attending public institutions, based on information from the Minnesota Department of Finance. While the inclusion of additional taxpayer investments would make the analysis more complete, the overall conclusion would not change.

Taxpayer Investment in Typical Dependent Students by Type of Institution Attended, Fiscal Year 2004

Adjusted Gross Income	Minnesota Private 4	Minnesota Private 2	University of Minnesota	MnSCU 4	MnSCU 2
<$5	$7,388	$6,495	$10,489	$9,054	$8,381
$5-$10	$7,388	$6,495	$10,489	$9,054	$8,381
$10-$15	$7,388	$6,495	$10,489	$9,054	$8,381
$15-$20	$7,388	$6,495	$10,489	$9,054	$8,381
$20-$25	$7,106	$6,213	$10,207	$8,772	$8,099
$25-$30	$6,545	$5,652	$9,646	$8,211	$7,538
$30-$35	$6,007	$5,114	$9,108	$7,673	$7,000
$35-$40	$5,282	$4,389	$8,383	$6,948	$6,275
$40-$45	$4,708	$3,815	$7,809	$6,374	$5,701
$45-$50	$3,981	$3,088	$7,082	$5,647	$4,974
$50-$55	$3,067	$2,174	$6,168	$4,733	$4,060
$55-$60	$2,028	$1,135	$5,129	$3,739	$3,739
$60-$65	$638	$0	$3,740	$3,739	$3,739
$65-$70	$0	$0	$3,692	$3,739	$3,739
$70-$75	$0	$0	$3,692	$3,739	$3,739
$75-$80	$0	$0	$3,692	$3,739	$3,739
$80-$85	$0	$0	$3,692	$3,739	$3,739
$85-$90	$0	$0	$3,692	$3,739	$3,739
$90-$95	$0	$0	$3,692	$3,739	$3,739
$95-$100	$0	$0	$3,692	$3,739	$3,739
$100-$105	$0	$0	$3,692	$3,739	$3,739
$105-$110	$0	$0	$3,692	$3,739	$3,739
$110-$115	$0	$0	$3,692	$3,739	$3,739

- For Minnesota State Colleges and Universities, $3,739.[10]
- For the University of Minnesota, one-half of the average tuition and fees was used.[11]

Potential Impact: Regardless of how the maximums are set, the actual values have important implications for the level of investment in students attending many private institutions and some campuses of the University of Minnesota. Any increase in the maximums results in larger state investments for affected students. Similarly, any reduction results in smaller state investments. If the tuition and fee maximums had been increased by 2.5 percent each in Fiscal Year 2007, spending would have been about $2.3 million higher for the fiscal year.

Public Suggestion 2C: Revise Application of Tuition and Fee Maximums

Background: Currently, tuition and fee maximums are prorated for applicants registering for fewer than 15 credits (full-time) during a term. It has been suggested that the maximums should recognize pricing policies of institutions such that if tuition is the same for some part-time loads as it is for full-time loads, the maximums should not be prorated. At several colleges, the same amount is charged to students taking 12 to 18 credits per term, for example. Therefore, it was suggested, that for these colleges, the proration of the maximums should start at 12 credits.

The definition of a full-time student for Minnesota State Grants was changed from 12 credits to 15 credits during the 1992 legislative session. The change was viewed as an incentive for timely completion. Another consideration was that students were losing eligibility for Minnesota State Grants prior to completing a four-year degree because eligibility was cut off after students attended college for the equivalent of four full-time academic years, which, at that time, consisted of eight semesters or 96 credits. Therefore, if students were encouraged to enroll for 15 or more credits per term, this would reduce the number of students hitting the limit on Minnesota State Grant post-secondary attendance prior to degree completion.

Minnesota State Grants recognize average tuition and fees subject to the applicable tuition and fee maximum. Currently, all students registering for less than full-time loads have a prorated tuition and fees regardless of the pricing policies at the institution attended. To maintain equity across all students, tuition and fee maximums are prorated as well.

Potential Impact: Some eligible students taking fewer than 15 credits may qualify for a full-time rate to more accurately reflect the recognized price. The disadvantage is that students may receive more State Grant initially, but complete their four years of eligibility long before they complete their degree.

Public Suggestion 2D: Increase Living and Miscellaneous Expense Allowance

Background: The issue is the extent to which the current Living and Miscellaneous Expense allowance provides an adequate measure of the cost of maintaining a frugal but reasonable living standard while attending. During Fiscal Year 2006, the LME allowance used to calculate the recognized price of attendance was $5,350. As a one-time adjustment, the LME was increased to $5,750 for Fiscal Year 2007, as shown.

Opinions differ regarding the extent to which taxpayers should recognize living expenses as legitimate purchases related to investments in post-secondary education. The following four points describe a range of views concerning student living and related expenses.

- **Opportunity costs.** Focuses on the loss of income to students because of their inability to participate in the labor market fully (or at all) while attending a post-secondary institution.
- **Not relevant.** Presumes that attendance is a marginal activity in the sense that it does not interfere with students' normal means of paying the price of supporting themselves.
- **Legitimate price components.** Explicitly recognizes a student's price of purchasing the items necessary to maintain a frugal to modest life style.
- **Offset to income.** Recognizes living and miscellaneous expenses as a deduction from income in calculating assigned family responsibilities.

Minnesota's approach has more in common with the legitimate price components approach than the other three. Even though a frugal standard of living limits the scope of possible LME values, there still exists a wide span of opinion of what value is appropriate. The material presented in the remainder of this section provides some background for understanding the current value as a measure of a frugal standard of living.

One measure of changes in the prices consumers face is the Consumer Price Index. While there is no evidence that the 1981 LME value of $2,750 met any test of reasonableness relative to students' spending at that time, this value was used as the starting point in this analysis.

The Living and Miscellaneous Expense allowance, LME, Used in the Minnesota State Grant Program

Fiscal Year	LME
1981	$2,750
1982	$2,750
1983	$2,750
1984	$2,750
1985	$2,750
1986	$2,850
1987	$2,960
1988	$2,985
1989	$2,995
1990	$3,170
1991	$3,465
1992	$3,750
1993	$4,033
1994	$4,115
1995	$4,115
1996	$4,115
1997	$4,200
1998	$4,500
1999	$4,885
2000	$5,075
2001	$5,405
2002	$5,405
2003	$5,405
2004	$5,205
2005	$5,205
2006	$5,350
2007	$5,750

Adjusting the Fiscal Year 1981 value each year by the Consumer Price Index results in the values shown in the next table. Beginning in Fiscal Year 2002, the LME slipped below the 1981 value adjusted for inflation.

For the 2003-2004 academic year (Fiscal Year 2004), the price of on-campus room and board in Minnesota varied from $2,290 to $6,874. These data were derived from institution reported values posted on the COOL website at the U.S. Department of Education. Only those campuses reporting on-campus room and board rates were included. No attempt was made to separate imbedded services that vary across campuses, such as Internet access.

Twenty-six of the 32 Minnesota campuses listed had room and board rates for students living in campus residence halls that were higher than the recognized Fiscal Year 2004 LME allowance of $5,205. Adding the average book expenditure of $813 reported by the College Board to room and board rates increases the price above $5,205 at all but six of the 32 institutions.

The Federal Poverty Guidelines for a single person during 2006 was $8,980 for a 12-month period, which would be $7,350 when prorated to equal a nine-month period, which is the period of time covered by the LME. As with tuition and fees, the policy embodied in the State Grant framework depends upon a reasonable LME value. Only if a "real" price is recognized will the other aspects of the model have policy relevance.

Potential Impact: Any increase in LME would increase award size for all current recipients and create conditions for others to receive awards. The size of the increased awards would depend on the size of the LME increase and the registration loads of recipients; students registering for full-time loads would receive larger increases than others. Besides the impact on award size, increases in LME would increase the recognized price of attendance and correspondingly the assigned student responsibility and family-taxpayer share. If the LME had been increased by 2.5 percent in Fiscal Year 2007, spending would have been about $4.7 million higher.

The Living and Miscellaneous Expense Allowance, LME, Compared to Inflation and Federal Poverty Guidelines

Fiscal Year	LME	LME Adjusted to FY 1981 Value	75% of Federal Poverty Guidelines
1981	$2,750	$2,750	
1982	$2,750	$2,944	$3,510
1983	$2,750	$3,020	$3,645
1984	$2,750	$3,148	$3,735
1985	$2,750	$3,266	$3,938
1986	$2,850	$3,324	$4,020
1987	$2,960	$3,445	$4,125
1988	$2,985	$3,582	$4,328
1989	$2,995	$3,767	$4,485
1990	$3,170	$3,943	$4,710
1991	$3,465	$4,128	$4,965
1992	$3,750	$4,256	$5,108
1993	$4,033	$4,383	$5,228
1994	$4,115	$4,492	$5,520
1995	$4,115	$4,629	$5,603
1996	$4,115	$4,756	$5,805
1997	$4,200	$4,866	$5,918
1998	$4,500	$4,948	$6,038
1999	$4,885	$5,045	$6,180
2000	$5,075	$5,233	$6,263
2001	$5,405	$5,403	$6,443
2002	$5,405	$5,461	$6,645
2003	$5,405	$5,576	$6,735
2004	$5,205	$5,758	$6,983
2005	$5,205	$5,904	$7,178
2006	$5,350	$6,081	$7,350
2007	$5,750	$6,263	

Public Suggestion 2E: Eliminate Prorating of the Living and Miscellaneous Expense Allowance

Background: The LME is intended to provide a measure of the price students are required to pay while attending college. While attending less than full time does not reduce a student's living costs, it does lower the proportion of those expenses associated with investing in education. In other words, should state taxpayers be expected to support full-time living expenses when the student is enrolled only part-time? The policy has been to match part-time enrollment with a prorated price, including LME.

This proposal reflects two more basic questions about the operation of the Minnesota State Grant program. The first is the frugal nature of the LME value currently in use, as described above. The second is the calculation of assigned family responsibilities for these students.

Potential Impact: If this suggestion were implemented, part-time students who are State Grant recipients would generally receive a larger State Grant, since their LME would not be reduced in proportion to their credit load. This change would not encourage students to take additional credits to finish their academic goal.

Public Suggestion 2F: Adjust Living and Miscellaneous Expense Allowance for Household Circumstances

Background: The LME is based on the principle that attending higher education requires an investment of time and the state recognizes legitimate price components associated with attending. The time spent attending, could be available to produce income to cover these expenses if the student were not attending.

It was suggested that the LME reflect the number of dependents in the household of the student. This could be in place of the allowances included in the calculation of assigned family responsibilities or in addition to those allowances. The rationale provided was that students with spouses and children incur additional household costs that are not reflected in a uniform LME allowance. The LME has never been intended to support households. It exists to support the student.

Using a minimal LME value based on a frugal lifestyle for younger students living with parents or roommates might be resulting in award sizes too small to encourage older students to attend. These students often have established life styles requiring more than the current LME to maintain. Current policy may require older students to either drastically change their lifestyles or forego higher education.

Potential impact: Adjusting the LME to reflect household circumstances may provide additional resources particularly for independent students who have additional financial burdens. It would require more judgment and effort on the part of the financial aid administrator and program auditors.

Public Suggestion 2G: Recognize Price of Program, Not Term

Background: The tuition and fees in addition to the LME used to calculate Minnesota State Grant are intended to cover an academic year. At credit-hour schools, the academic year is defined as a certain number of weeks, with a minimum length of 30 weeks. Typically, an academic year consists of 30 to 32 weeks containing two semesters or three quarters. At clock-hour schools, the academic year is defined as a number of clock hours, with a minimum academic year of 900 clock hours.

Some institutions charge tuition by the program and not by the term or academic year. This suggestion would use the program tuition as the base for the State Grant award and disregard periods of attendance. The length of a student’s program at a clock-hour school normally differs from the length of the academic year. However, this discrepancy is addressed in the current policy guidelines for the program. If the student’s program is shorter than the academic year, the award for the academic year is prorated accordingly. Further, if the student’s program length exceeds the length of the academic year, the student is eligible to receive Minnesota State Grants for each year.

Potential Impact: In cases where a program exceeds the length of the academic year, it may actually decrease the amount of the student’s Minnesota State Grant if the tuition and fees for the program exceed the tuition and fee maximum. There would also be problems with extending the costs used to calculate a student’s Minnesota State Grant beyond those charged for an academic year, in that several parameters used for calculating the grant change each fiscal year.

Public Suggestions for Modifying the Assigned Student Responsibility

The State Grant framework starts with assigning students responsibility for paying part of the recognized price of attendance. Currently, the assigned student responsibility is set at 46 percent of the recognized price as shown on the table to the right. The percentage was reduced incrementally between Fiscal Year 1998 and 2001.

Because students are the primary beneficiary of post-secondary education, they are expected to make a significant investment in themselves regardless of their financial circumstances. Students can make this investment with savings, earnings and loans. The assigned student responsibility used to calculate Minnesota State Grants is shown for selected years in the table below.

Assigned Student responsibility as a Percent of Recognized Price, Selected Years, Fiscal Years 1989 to 2007

	Student Responsibility Percentage
Fiscal Year 1986	50%
Fiscal Year 1989	50%
Fiscal Year 1992	50%
Fiscal Year 1995	50%
Fiscal Year 1998	50%
Fiscal Year 2001	46%
Fiscal Year 2004	46%
Fiscal Year 2007	46%

Assigned Student Responsibilities, Selected Years, Fiscal Years 1986-2007

Type of Institution Attended:	Fiscal Year 1986	Fiscal Year 1989	Fiscal Year 1992	Fiscal Year 1995	Fiscal Year 1998	Fiscal Year 2001	Fiscal Year 2004	Fiscal Year 2007
MnSCU 2-Year Colleges	$560	$653	$806	$561	$1,056	$1,140	$1,560	$1,957
MnSCU 4-Year Universities	$760	$848	$1,021	$1,251	$1,406	$1,505	$2,133	$2,738
University of Minnesota	$952	$1,255	$1,452	$1,785	$2,248	$2,286	$3,396	$4,322
Minnesota Private 2-Year Institutions	$1,625	$1,896	$2,365	$2,752	$3,005	$2,945	$3,138	$2,952
Minnesota Private 4-Yr. Institutions	$2,443	$2,944	$3,720	$3,790	$3,910	$3,918	$3,899	$3,958

Assigned student responsibilities vary directly with recognized prices; as prices increase, assigned student responsibilities increase. The assigned student responsibility does not vary based on the income of applicants or their families. The assigned student responsibility has been increasing over time in response to increasing prices, as shown on the table to the right. While increasing over time, assigned student responsibilities have not increased as much as recognized prices.

	Change in Recognized Prices	Change in Assigned Student Responsibilities
MnSCU 2-Year Colleges		
1986 to 1989	$330	$165
1986 to 1992	$1,392	$696
1986 to 1995	$1,966	$983
1986 to 1998	$2,647	$1,324
1986 to 2001	$3,913	$1,641
1986 to 2004	$4,626	$1,969
MnSCU 4-Year Universities		
1986 to 1989	$321	$161
1986 to 1992	$1,422	$711
1986 to 1995	$2,248	$1,124
1986 to 1998	$2,943	$1,472
1986 to 2001	$4,308	$1,807
1986 to 2004	$5,472	$2,343
University of Minnesota		
1986 to 1989	$749	$375
1986 to 1992	$1,898	$949
1986 to 1995	$2,930	$1,465
1986 to 1998	$4,240	$2,120
1986 to 2001	$5,620	$2,395
1986 to 2004	$7,833	$3,413
Private Two-Year Institutions		
1986 to 1989	$685	$343
1986 to 1992	$2,378	$1,189
1986 to 1995	$3,519	$1,759
1986 to 1998	$4,408	$2,204
1986 to 2001	$5,706	$2,381
1986 to 2004	$5,927	$2,482
Private Four-Year Institutions		
1986 to 1989	$1,148	$574
1986 to 1992	$3,454	$1,727
1986 to 1995	$3,960	$1,980
1986 to 1998	$4,584	$2,292
1986 to 2001	$6,187	$2,536
1986 to 2004	$5,946	$2,426

Public Suggestion 3A: Reduce the Assigned Student Responsibility as a Percentage of Recognized Price

Background: The assigned student responsibility is based on the principle of benefits received. Because students are expected to financially benefit from a post-secondary education, they are expected to make a reasonable investment in themselves.

It has been suggested that the assigned student responsibility percentage be reduced for all students to something less than 46 percent of the recognized price of attendance.

Potential Impact: All State Grant recipients would benefit in direct proportion to the overall price of attendance. Any reduction in the assigned student responsibility will shift payment assignments to taxpayers for current recipients. It would also increase the number of applicants receiving Minnesota State Grants, most notably, among those currently near the cut-off point and among those currently receiving Federal Pell Grants but no Minnesota State Grants. If the assigned student responsibility had been reduced by one percentage point in Fiscal Year 2007, spending would have been about $7.5 million higher.

Public Suggestion 3B: Establish Sliding Assigned Student Responsibility

Background: The 1993 Legislature created the Financial Aid Task Force to study financial aid policy. The Financial Aid Task Force had 12 members named by the Governor, the House and the Senate. A report was delivered by the Task Force in February 1994.

During the deliberations of the Task Force, a sliding assigned student responsibility concept was introduced. Proponents of sliding assigned student responsibilities were trying to shift payment responsibilities from students to taxpayers for only the lowest income applicants. To prevent other applicants from benefiting from a reduction of assigned student responsibilities, they essentially proposed a surcharge on assigned student responsibilities based on family income. The Task Force reviewed this proposal and decided that a more direct approach accomplishing the same objective was to lower the assigned student responsibility as a percent of recognized prices for all applicants and add the surcharge to assigned family responsibilities (parent or student contributions) since the latter was already a function of family income.

Subsequent to the 1994 Financial Aid Task Force report, the assigned student responsibility as a percent of recognized prices has been reduced from 50 percent to 46 percent. Surcharges on assigned family responsibilities were considered by the Legislature at the same time that assigned student responsibility percentages were decreased but were never included in legislation.

Proponents of sliding assigned student responsibility percentages may be trying to target a more fixed amount of Minnesota State Grant spending to students with lower incomes. The 1994 Financial Aid Task Force accepted this goal and proposed a different means of accomplishing the goal: reducing the student share from 50 percent to 46 percent.

Potential Impact: Establishing a sliding scale for a student's financial responsibility would likely aid students in the lowest income categories. Depending upon whether the measure was funded with additional dollars, or was to be "budget neutral" by placing a surcharge on the family responsibility for some families, it may or may not reduce grants for some middle income students.

Public Suggestions for Modifying the Assigned Family Responsibility

All applicants face two assignments before taxpayers make investments through Federal Pell and Minnesota State Grants. The first, discussed in the prior section, is based on the principle that students receive a personal benefit from the investment. The second, discussed in this section, is based on the principle that the household to which the student belongs has a responsibility based on the family's ability to pay.

Families with the lowest incomes are not assigned any of the family-taxpayer share, the difference between the student's recognized price and his or her assigned student responsibility. As incomes increase, the assigned family responsibility increases as well. At some point on the income spectrum, assigned family responsibility equals the family-taxpayer share. That point varies with prices since family-taxpayer shares directly relate to prices.

State and federal policy is premised on families having a greater obligation than others for financially supporting students. In calculating Minnesota State Grants, the family includes students' immediate family members who could be claimed as exemptions for federal and state income tax purposes.

Students who meet one or more of the following before enrolling are eligible to apply as independent students; otherwise, they must apply as dependent students.

- Age 24 or older.
- Married.
- Responsible for dependents based on a definition similar to that used to define dependents for purposes of claiming an exemption for federal personal income taxes.
- Active duty member or veteran of military service.
- Family relationship no longer exists due to death, estrangement, or other criteria established by the campus financial aid office.

Independent students do not have their parents' financial resources considered in determining Minnesota State Grants. The income and family characteristics of independent students (and their spouses), are evaluated in setting their assigned family responsibilities. This recognizes that independent students have assumed the social obligations of the family. As with parents, this obligation varies according to a measure of ability to pay. Different types of independent students are treated differently. Students with children are treated like parents of dependent students. This follows a tradition in tax and other social policies that recognizes the financial burden of raising a child. Students with no children have their incomes and net worth assessed more rigorously than families supporting children.

Currently, Minnesota coordinates with the federal student aid application process so Minnesota applicants and their families fill out the same form for federal and state grants, known as the FAFSA. Minnesota conforms to the Federal Need Analysis definitions and rates as the starting point in determining the assigned family responsibility.[12]

For independent students, the assigned family responsibility is reduced to 72 percent of the expected family contribution for those without children and to 90 percent for other independent students.

For applicants defined as dependent students, the amount families are expected to cover is based on the parents' financial and family situations. The assignment across family incomes increases as family income increases. Typical families earning about $65,000 are currently assigned the entire family-taxpayer share of the recognized price of attendance. For the parents of a typical family of four with one child attending, the first $20,000 of income and the first $40,000 to $75,000 of net worth are sheltered, depending on the age of the oldest parent.

For single independent students with no children, the amount the student is expected to cover is based on his or her financial situation. Typical independent students with no children earning more than $25,000-$35,000 are currently assigned the entire family-taxpayer share of the recognized price of attendance. For typical single independent students with no children, the first $6,000 of income is sheltered.

The assigned family responsibility determines the distribution of Minnesota State Grants across incomes. Thus, it is the focus of much attention among policy makers and advocates. Often, advocates for change focus on a proxy for the assigned family responsibilities; for example, most of the suggestions to change the "treatment" of part-time and independent students by prorating awards are suggestions to change the assigned family responsibility.

Public Suggestion 4A: Change the Assessment Rates Used in Calculating the Assigned Family Responsibility

Background: The formula for calculating the assigned family responsibility includes a number of assessment rates based on factors such as income and net worth. The setting of these rates determines the conversion of financial and family information into the assigned family responsibility. Reducing the rates would lower the assigned family responsibility while increasing the rates would increase it.

Suggestions for changing the assigned family responsibility are not entirely consistent.

- Some financial aid administrators have indicated that assigned family responsibilities for dependent students are too rigorous because many families are not able to pay the calculated amount. In a 2005 telephone survey of students attending Minnesota State Colleges and Universities, 54 percent of students under age 25 said their parents were not contributing to college costs.[13]
- Financial aid administrators have also indicated some families should pay more. They suggest that that current calculations of assigned family responsibility should be made more rigorous given the fact that the Federal Need Analysis ignores certain types of financial resources, such as home equity, farm equity, small business equity, and the income of a non-custodial parent. A surcharge on the assigned family responsibilities was suggested.
- Some suggest that the current policy of assigning independent students the assigned family responsibilities in addition to assigned student responsibilities is too rigorous.
- A suggestion was made to look at the current distribution of assigned family responsibility across the income spectrum and consider applying a multiplier or surcharge to the Federal Need Analysis. Other than minor adjustments of the parameters, such as for inflation, the federal government has not revised the Federal Need Analysis much since the 1986 Reauthorization of the Higher Education Act of 1965. Many changes have occurred in the general economy and higher education markets since then.

Changing the assessment rates used in calculating the assigned family responsibility raises other issues. There is concern about the similar treatment of families with very low incomes compared to those earning in the $20,000 range. This concern is often expressed by proponents of imposing a sliding assigned student responsibility. Further, there is a concern about families being assigned the entire family-taxpayer share at incomes in the $60,000 range. At the same time, federal policy, as incorporated in the Federal Hope and Lifetime Tax Credits, includes government education financial support for families earning up to $110,000.

Potential Impact: The potential impact of changes to the assigned family responsibility would differ depending upon the policy implemented. Finding an alternative set of rates, schedules, and deductions would require public discussion even if the discussion were limited to adding a step to the Federal Need Analysis to establish a Minnesota methodology. Changing the assessment of independent students to recognize that they are personally assigned both the student responsibility and the family responsibility would benefit non-traditional students.

Public Suggestion 4B: Prorate the Assigned Family Responsibility for Less than Full-Time Students

Background: The assigned family responsibility is not prorated or reduced for students enrolling for fewer than 15 credits per term. As such, students can qualify for Minnesota State Grants at full-time registration loads, but not qualify at less than full-time registration loads. This occurs because the recognized price used in the award calculation is prorated for less than full-time enrollment (e.g., 12/15ths for 12 credits), while assigned family responsibilities are held constant.

Prorating the assigned family responsibility for students registering for fewer than 15 credits in a term has been a common suggestion presented. However, the counter case has been made that the assigned family responsibility is intended to provide a measure of the family's ability to pay. Reducing a student's registration load does not reduce the family's ability to pay. Some also suggested prorating full-time awards as the means of prorating the assigned family responsibility.

A related issue is the income protection allowance used for independent students. This allowance shelters some of the student's earnings from consideration in the calculation of the assigned family responsibility. Given the realities of supporting families and maintaining households, it has been suggested that this value be increased to more accurately reflect current conditions. Increasing the income protection allowance rather than prorating would recognize these are realities for all applicants, not just those registering for part-time loads, and thus, remove a disincentive to register for smaller loads. The income offsets used at the federal level for independent students are $9,260 for students who are not married and whose spouse is not enrolled, and $5,790 for independent students whose spouse is enrolled.

Potential Impact: Students who attend less than full-time may be eligible for additional State Grant dollars.

Public Suggestion 4C: Add Excess Student Contributions to the Assigned Family Responsibility for Dependent Students

Background: Currently, a dependent student's own income and net worth are not factored into the calculation of assigned family responsibilities. It has been suggested that dependent students with significant financial resources should have those resources added to assigned family responsibilities. This suggestion reflects a concern that, in the name of fairness, these funds should be assessed as part of the ability to pay measure.

One caution against implementing such a proposal is the disincentive it could have on students to seek employment before or during college to save money to pay for college. Further, this proposal could have an impact on the form of savings used by students since the FAFSA does not collect data on all forms of assets.

Potential Impact: If implemented, this suggestion could result in less financial aid received by dependent students who have earned and saved for college.

Public Suggestions for Modifying the Assigned Taxpayer Responsibility

In this section, the third partner, taxpayers, is considered. Since taxpayers are the final partner in this process, their assignment is the residual. This is called the assigned taxpayer responsibility.

Assigning the residual to taxpayers has important implications for Minnesota State Grants:

- First, all the recognized price is assigned to students, families and, when necessary, the taxpayer.
- Second, if one party is considered to be carrying a disproportionate share of the price, then assignments to one or both of the other parties must be adjusted.

Public Suggestion 5A: Cover Full Assigned Taxpayer Responsibilities in Third Semester of Academic Year

Background: Currently, in the student's third semester of the academic year, a Federal Pell Grant is subtracted from the assigned taxpayer responsibility to arrive at the Minnesota State Grant award amount, even though the student may have already used up his/her annual Federal Pell Grant award during the two previous semesters. The Federal Pell Grant is only available for the equivalent of two full-time semesters per academic year.

Beginning in Fiscal Year 1998, the full assigned taxpayer responsibility was covered by Minnesota State Grants, if necessary, in the third semester. This was changed, starting in Fiscal Year 2004, to the current system.

For some students, registering full time in three semesters during the year is a benefit. It allows them to complete their higher education investment more quickly and return full-time to the labor force. Also, full-year attendance is required by some colleges and some programs. The federal government has not made it a priority to respond to this group of students.

Potential Impact: Students who attend a third semester full time in an academic year would receive a State Grant in an amount equal to their Federal Pell and State Grant combined. The state of Minnesota would cover the federal portion, rather than subtract it for purposes of calculating the State Grant. The change would likely encourage some Pell-eligible students to attend for a third semester (often summer school) and complete their degrees earlier.

Based on a review of Fiscal Year 2003 applicants, providing full coverage of assigned taxpayer responsibilities in the third semester was projected to increase Minnesota State Grant spending by $4.25 million. This was a 3.7 percent increase over the projected spending based on current parameters. About 6,500 students were projected to received smaller Minnesota State Grants as a result of the partial coverage of the assigned taxpayer responsibility in the third semester. The median decrease was about $750. This change affected only those students who attended in two prior semesters (or equivalent) during the fiscal year and received a Federal Pell Grant.

Public Suggestion 5B: Recognize Federal Education Tax Credits in Calculation of State Grants

Background: This suggestion recommends that the State Grant framework recognize federal education tax credits for which students and their families are eligible in determining State Grant awards. Similar to how federal Pell grants are counted, State Grants would be reduced for families expected to receive an education tax credit.

Federal Lifetime Tax Credits are a result of a long running push to make tuition payments an allowable federal personal income tax deduction. The concept of providing two years of grants equivalent to the tuition and fees charged by community colleges has been around for a long time but was first introduced as a possible tax break by the Clinton administration in December 1994 as part of the "Middle Class Bill of Rights." Along the way, the concept acquired the title of Federal Hope Scholarship Tax Credits to take advantage of the momentum developed by Georgia Governor Zell Miller for Georgia's Helping Outstanding Pupils Educationally (HOPE) grants. The concept can be traced back to proposals to extend the concept of public education from K-12 to K-14.

A number of changes in the tax code were made during 1996 and 1997 that affected students and families purchasing post-secondary education. Most of the changes provided incentives for families to improve their abilities to pay by encouraging savings and do not directly relate to the assignment of payment responsibilities. The Federal Hope and the Lifetime Tax Credits are different. They increase the taxpayers' investments in students by reimbursing students or their parents for out-of-pocket payments of tuition and fees.

Taxpayers, beginning with the filing of their 1998 federal income taxes, have been claiming Federal Hope and Lifetime Tax Credits. These credits were part of the Tax Relief Act of 1997. In effect, these credits reduce the tax burdens on families that had the largest efforts assigned to them by the Federal Need Analysis (typically middle-income families). With the advent of the Hope and Lifetime Tax Credits, the federal government added tax benefits as a policy alternative to student financial aid in assisting families in paying for post-secondary education.

Calculation of personal income taxes is too idiosyncratic to expect the state or institution to predict a family's tax credit eligibility at the time of application for Minnesota State Grants. Considering federal tax credits or deductions would require a "reimbursement model" as an enhancement or replacement for the current method of calculating Minnesota State Grants. A complete reimbursement model would require students (or their parents) to apply for Minnesota State Grants after completion of the academic year.

Potential Impact: Students and families eligible for federal education tax credits would receive smaller State Grant awards. Middle-income families would be most affected. This approach has the advantage of coordinating Minnesota taxpayer investments with significant federal taxpayer investments in students. The primary disadvantage is the cash flow burden it would put on some students, especially low-income applicants. Another disadvantage is the separation from the processing of most other financial aid. This separation would make coordination of programs more difficult on campus and require a different application process. This is one of the only few public suggestions that would not have a cost impact, since State Grant dollars for many families would be reduced.

Public Suggestion 5C: Decoupling Federal Pell and Minnesota State Grants

Background: A few years ago, it was suggested that Minnesota State Grants not be coordinated with Federal Pell Grants to cover students' assigned taxpayer responsibility. This suggestion became known as "decoupling." In some cases, the decoupling term was applied to recognizing a Federal Pell maximum that was less than its actual value, for example, "freezing" at some prior level, the amount of the Federal Pell maximum used to calculate the federal share of assigned taxpayer responsibility. It has been suggested that this concept be reconsidered because increases in the Federal Pell maximum have the effect of reducing students' Minnesota State Grants, if all other components used in the framework are held constant.

If the goal is to change the distribution of payment responsibilities away from certain families and students, it may make more sense to identify the students and families currently being assigned too much and work directly to reduce those assignments. This would continue to focus the policies on students and families and have taxpayer investments be the residual.

Potential Impact: Decoupling is one way of increasing taxpayer investment in targeted students. If taxpayers increase their investments, then the assignments to students and families would be reduced for those affected. Without a significant increase in the state appropriation for the State Grant program, the program would award fewer grants overall, and target its resources to students in the lowest income categories.

Public Suggestion 5D: Limit Combined Federal Pell and Minnesota State Grant Awards to Tuition and Fees

Background: Minnesota State Grants are tied to the recognized price of attendance which includes the LME as well as recognized tuition and fees. It has been suggested that the combined amount of the student's Federal Pell Grant and Minnesota State Grant be limited to the price of tuition and fees charged by the institution. To the extent that a maximum award reduces spending within current parameters, other parameters, such as LME or tuition and fee maximums, could be increased. A maximum award, however determined, is inconsistent with assigned taxpayer responsibilities covering the residual after assigned student and family responsibilities are subtracted from the recognized price.

Potential Impact: This proposal would have its greatest impact on students choosing the lowest priced alternatives and whose families had the least ability to pay. State Grants would be capped at tuition and fees.

Miscellaneous Public Suggestions

Public Suggestion 6A: Send State Grant Appropriations Directly to Systems.

Background: In the past, the Minnesota State Colleges and Universities and the University of Minnesota have suggested the Minnesota Legislature make lump sum State Grant appropriations directly to Minnesota's public system governing boards. Appropriations would be based on previous state grant spending for each system. In addition, representatives of Minnesota's two public systems indicated that the Legislature could also appropriate State Grant funds to the Minnesota Private College Council.

The criticism was that the State Grant program was a "one-size-fits-all" program that could not meet the needs of a diverse student body. To address this issue, proponents suggested each higher education system could modify the State Grant award formula and eligibility criteria to more effectively serve its student body.

Administratively, the Minnesota State Grant program is largely decentralized. Institutions currently determine if students meet eligibility criteria and determine their State Grant award amounts based on state policy. State Grant policy is set at the state level through deliberations and the appropriations process by Minnesota's Legislature and Governor. State Grant appropriations are made to the Minnesota Office of Higher Education, which is responsible for ongoing state operations and implementation.

Delegating State Grant policy directly to Minnesota's post-secondary education systems raises several issues.

- **Equity:** Current State Grant practice results in two students with the same family economic situation, enrolled in the same program at the same type of institution, receiving the same State Grant award. Decentralizing the program would likely result in similar students being treated very differently. In a competitive market, many institutions use their institutional grants to influence the attendance decisions of the best-prepared and highest achieving students. In contrast, the State Grant program differentiates among students based on economic circumstances.

- **State Policy Role:** Block granting Minnesota State Grant appropriations to systems removes the state's policy role in determining the policy basis for awarding grants. Currently State Grants are awarded based on a policy framework that was developed by the Legislature and designed to meet state objectives. If State Grant funds are sent directly to systems with the expectation that systems and institutions will design programs to best meet the needs of students, funds may be used to supplement institution-controlled financial aid, they may be spent in ways that further the institution or system's goals rather than the state's policy and strategic goals. Lump sum appropriations would diminish or remove the policy dynamics currently in place that empower students to make choices. Most state and federal financial aid programs that are appropriated as block grants are less responsive to changing marketplace conditions. Appropriations for programs such as Federal LEAP, Federal SEOG, Federal and State Work Study and State Child Care tend to follow an incremental plus or minus appropriations pattern, changing at rates slower than either Federal Pell Grant or Minnesota State Grant spending. The current Minnesota State Grant framework is designed to be more responsive to changing prices and student demographics. Providing consistent information about the State Grant program to policy-makers would become more complex.

- **Student Choice:** The State of Minnesota makes direct instructional and non-instructional appropriations to Minnesota's two public post-secondary education systems. The State Grant program is designed to provide a range of choices and opportunities to students. The Minnesota State Grant program is the state's means of assisting students in purchasing the post-secondary education that best meets their needs. State Grant appropriations made directly to systems likely will lead to the uneven distribution of opportunities for students as systems may take widely different approaches to awarding grants.

- **State Grant Operations:** Delivering State Grant appropriations directly to the Minnesota Private College Council raises operational questions. Whereas non-public post-secondary institutions are subject to state regulation and oversight, the Private College Council is not. Making a state appropriation directly to the equivalent of a private association would require new models of regulation and oversight.

- **Communication:** Block granting Minnesota State Grant appropriations would present communication challenges as well, since state financial aid would likely be fundamentally different at each type of institution. This makes an already complex aid system more complex for students and their families. Students would have to consult each system to find out what their chances for state aid are. Communication with students and parents would be more complex. The lack of clarity would be particularly difficult for first-generation college students. There would be inconsistency across systems with no centralized source for information.

There are advantages to having one independent state program that aims to create and provide educational choices for students. Such a program can be used to advance state goals and provide students with educational choices. As a single state program available to all eligible students, the impact and benefits can be measured more directly and consistently.

Potential Impact: State Grant appropriations made directly to post-secondary systems would bring an end to a single State Grant policy framework that treats all students equally, and replaces it with system-specific financial aid programs designed by each system or institution type. Over time, as systems customize their programs, state financial aid may be used to promote institutional and competitive admissions goals over state goals and choice. The need-based, merit-blind aspect of the program could be lost.

Public Suggestion 6B: Revise the Method of Awarding Grants to Part-Time Students Attending Clock-Hour Institutions

Background: Some institutions are referred to as "clock-hour" institutions because they disburse financial aid based on the actual number of clock hours completed by each student rather than the student's credit load for the term. Clock-hour institutions define an academic year as a number of clock hours and divide the total number of hours in an academic year into two or three equal periods called payment periods. Payment periods are comparable to semesters or quarters at a term-based school, but do not have uniform start and end dates because they are based on how quickly or slowly each student progresses through the program.

A student's enrollment level at a clock-hour institution is based on the average number of hours the student is attending on a weekly basis, as opposed to using term credit load at a term-based school. The equivalent of 15 credits (full time) per term at a term-based institution is averaging 30 or more clock hours per week at a clock-hour institution. If the student is averaging fewer than 30 hours per week, the student is considered less than full time and the enrollment level, number of hours in a payment period and award are adjusted accordingly.

Financial aid administrators at clock-hour institutions dislike the administrative complexity of adjusting payment periods and awards for Minnesota State Grant recipients and prefer the system used for the Federal Pell Grant program, which uses the full-time award and payment period for all recipients, regardless of the student's actual enrollment level. Such a system makes it possible for students to be notified of their awards at the beginning of the program without the uncertainty of award adjustments based on enrollment level. The state statute governing the Minnesota State Grant program states that "for a student registering for less than full time, the agency shall prorate the cost of attendance to the actual number of credits for which the student is enrolled."[14] Additionally, the system of disbursing full-time Federal Pell Grants to part-time students works because a student receiving one full-time Federal Pell Grant would receive the same amount as two half-time awards. This is not the case for Minnesota State Grants since the recognized price, not the award, is prorated for part-time students. Thus, two half-time State Grant awards do not usually equal one full-time award.

Potential Impact: The proposal to allow disbursement of full-time State Grant awards to part-time students attending clock-hour schools may ease the administrative process, but would result in inequitable treatment of students based on the type of institution attended. Awards would continue to be reduced for less than full-time students at credit-hour schools, but not at clock-hour institutions.

Public Suggestion 6C: Change Refund Calculations for Students who Withdraw before the End of Term

Background: If a student withdraws after receiving a Minnesota State Grant disbursement for the term, a portion of the Minnesota State Grant disbursement may have to be refunded, depending on the institution's refund policy and when the student withdrew. Some question the fairness of requiring students to refund all or part of their State Grant when the term will still be counted to determine whether the student has reached the eight-semester limit on post-secondary attendance. It has been proposed that the agency either waive the requirement for a refund when the student withdraws after disbursement, or not count the term towards the eight semesters.

In requiring a refund, and counting the semester toward the eight-semester limit, the Office of Higher Education is following what it interprets as legislative intent. The state statute limiting a student's eligibility to eight semesters states that a student is eligible until the student has been "previously enrolled full-time or the equivalent for eight semesters or the equivalent." If a student withdraws after the Minnesota State Grant is disbursed, the student is considered to have been enrolled. In fact, the applicable statute has special language excluding coursework from which the student withdrew due to active military service.

Agency Rules 4830.0700 Subp. 2, require a refund be calculated if the student fails to enroll or reduces enrollment after the disbursement of the award. This particular refund calculation is also required for the other state financial aid programs administered by the Office of Higher Education, with the exception of funds earned by the student under the State Work-Study program. The rationale for requiring a refund calculation upon withdrawal is that the student has not incurred the full costs for the term used to calculate the Minnesota State Grant award. As such, all or a proportional share of any remaining refund of institutional charges made by the institution, less any required institutional refund to federal aid programs, must be refunded to the Minnesota State Grant program. If the student withdraws after the point in time the institution is required to refund a portion of institutional charges, then no refund is required for the Minnesota State Grant program.

Potential Impact: Students who withdraw after receiving a State Grant would not need to reimburse the program, or students who are required to "return" all or part of their State Grant after withdrawing would not have that particular term count toward the eight-semester limit.

Public Suggestion 6D: Revise Definition of Independent Students

Background: It has been proposed that the state explore the possibility of creating its own definition of independent students to allow students under 24 years old to apply as independent students if they do not reside with or receive financial support from parents.

The definition of independent student evolved over the years. In 1984, the Office of Higher Education (then the Higher Education Coordinating Board) adopted a definition of independent student into state rules.[15] The Board included language requiring a student to be 22 years old, not claimed as a tax exemption by a parent, not receiving financial support from parents and not residing with parents in addition to meeting the other criteria for independent status already in place for federal and state financial aid programs. The Board also specified situations when a student under age 22 would be considered involuntarily separated from parental support and eligible to be considered independent (a court document or an affidavit from a clergy member, social worker, lawyer or physician was required to verify these situations):

- The applicant is an orphan or ward of the state; or
- The applicant's parents cannot be located; or
- The applicant has suffered physical or mental abuse necessitating such separation.

The Board added an age requirement of 22 years old based on input from members of the Legislature, the financial aid community, high school counselors and other citizens who expressed concerns "that families were abrogating their responsibility to help pay for their child's education by arranging their affairs to become exempt from the current definition of dependency and thus qualify for a larger financial aid award than they are entitled to receive." Among the other reasons cited were the 300.6 percent growth in independent recipients between aid years 1979-80 through 1982-83, the inability to adequately document whether students resided with or received financial support from parents and the willingness of parents to give up a tax deduction in order for their child to receive a substantially greater increase in financial aid as an independent student. The Board noted that "students from families that abdicate their responsibility benefit at the direct expense of students who legitimately have no resources to draw upon because scarce resources [Minnesota State Grant dollars] must be spread more broadly."

During the 1986 reauthorization of the federal Higher Education Act of 1965, the definition of independent applicant was changed to its current version along with two additional means of qualifying as independent under age 24:

- Student was not claimed as an income tax exemption by parents for the two tax years prior to the academic year for which the student was applying; and
- Student demonstrated self-sufficiency (earned at least $4,000) for the two tax years prior to the first year the student received federal financial aid.

The Minnesota State Grant program then adopted this federal definition in 1986. However, the two additional provisions from the 1986 reauthorization were eliminated during the 1992 reauthorization process based on one of the main issues raised when the Minnesota State Grant program added an age requirement in 1984: the willingness of families to forego an income tax exemption in order to qualify for more financial aid. It was also difficult to determine which year the student first received federal financial aid. State Grants are based upon an assumption that parents will financially support their adult children as they pursue higher education. Making it easier to fulfill the definition of independent students provides an incentive for parents to arrange their affairs to avoid the obligation.

Potential Impact: More students would qualify as independent students, causing families to pay less for the education of their children.

Public Suggestion 6E: Create a Supplemental State Grant Program to Address Exceptional Need

Background: The state of Minnesota sets Minnesota State Grant recipient criteria. Students are free to select the Minnesota institution that best meets their needs.

Title IV of the U.S. Higher Education Act allows financial aid offices to award Federal Supplemental Educational Opportunity Grants using an exceptional need criteria defined by the campus to give some students priority for funds regardless of their calculated eligibility. Such a program enables financial aid offices to allocate funds across a large pool of potential recipients. Allowing campuses to reorder the applicants based on alternative criteria does not change the federal government's financial obligation.

It has been suggested that Minnesota provide campuses with the same capability to award Minnesota State Grants or to create a separate grant program at the state level to fund students as selected by the campus.

Potential Impact: Exceptional need could be addressed. Establishing a supplemental State Grant program that is block-granted to institutions results in loss of state control over financial aid policy. Students could be treated inconsistently both within an institution and across all Minnesota institutions.

Public Suggestion 6F: Drop the Design for Shared Responsibility and Use the Federal Pell Grant Method to Calculate Minnesota State Grants

Background: Federal Pell Grants are based on a family's ability to pay and a student's registration load. As a result, Federal Pell Grant amounts do not depend on the prices, either tuition and fees or allowances for living and miscellaneous expenses.

The recognition of price differences has been the key design factor in providing choice for students attending colleges and universities in Minnesota. Changing to the Pell methodology, or similar strategy, would eliminate this design factor.

Potential Impact: By moving to the Pell Grant award method, price would no longer be recognized in determining awards, meaning that students would receive the same amount regardless of their school choice. Fewer moderate-income families would receive a State Grant, and students who earn and save money for college would receive smaller State Grants. Institutions with lower prices would be more attractive, all else being equal. Students would be deterred from choosing higher priced institutions.

Public Suggestion 6G: Prepare for New Populations

Background: It was suggested that the Office of Higher Education think strategically about serving new populations. Groups traditionally under-represented in higher education are projected to have the highest population growth in future years. Statistics were presented illustrating a lack of improvement in the participation rates of low-income students and students of color. The purpose of the State Grant program, as stated in the Laws of Minnesota, identifies the program as one tool to encourage economically disadvantaged men and women to pursue higher education.

> *"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." Laws of Minnesota 136A.095*

Recognizing that there are often many barriers to college enrollment for low-income, first-generation students, it would be in the best interest of the state to further analyze the enrollment patterns of academically-prepared Minnesota high school graduates from all socio-economic groups. In the absence of a more complete analysis, other information may provide limited insight into enrollment patterns.

The state's college participation rates for students of color are not increasing. Participation rates are defined as the number of high school graduates who enroll in a post-secondary institution the fall after high school graduation. Minnesota's participation rate provides a glimpse of student behavior in the months following high school graduation. The rate provides one indicator, among many, of whether post-secondary education is accessible to a broad socio-economic range of college-ready high school graduates.

Participation Rates of Minnesota High School Graduates Enrolled in Minnesota Post-Secondary Institutions by Racial/Ethnic Background

	Black	American Indian	Asian	Hispanic	White	Total
1995	39.5%	40.2%	51.4%	35.3%	42.3%	42.4%
1996	33.8%	40.5%	45.5%	37.5%	41.5%	41.3%
1997	38.6%	28.7%	49.3%	38.3%	44.5%	44.2%
1998	37.0%	32.1%	48.7%	40.7%	42.4%	42.3%
1999	38.8%	38.7%	52.6%	40.0%	45.9%	45.8%
2000	43.9%	31.3%	52.9%	41.5%	47.6%	47.5%
2001	40.1%	35.2%	55.9%	41.0%	50.5%	50.1%
2002	44.3%	39.5%	57.2%	40.4%	48.9%	48.8%
2003	51.5%	42.3%	58.6%	40.0%	50.7%	50.8%
2004	41.3%	34.6%	54.0%	33.7%	48.1%	47.6%

About Participation Rates
Participation rates are calculated by dividing the number of Minnesota high school graduates by the number who attended a Minnesota post-secondary institution the fall following their year of high school graduation. The numbers of high school graduates are obtained from the Minnesota Department of Education. The Office of Higher Education's student enrollment record database contains data on students' year of high school graduation, state of residence, and high school attended. New entering students, defined as not having previously attended a post-secondary institution, except while a secondary student, are used in calculating participation rates.

(Participation estimates for enrollment out of state are not available by race and ethnicity.)

Source: Minnesota Office of Higher Education

It is not clear what precise structural changes to the Minnesota State Grant program should be made to accommodate potentially "new" populations except to be prepared for increases in the number of recipients and size of awards. The Office of Higher Education is engaged in outreach efforts with middle and high school students to provide information and support to encourage them to prepare for college attendance. The agency sponsors programs and events to encourage awareness of financial aid generally, and completion of the FAFSA specifically. At the federal level, efforts are underway to simplify the financial aid process by designing a shorter application form for low-income families.

Estimated College Participation of Low-Income High School Graduates

Year of HS Graduation	# of HS Graduates Receiving Free/Reduced Lunch*	College Academic Year	# of Low-Income MN Recent HS Graduates Enrolled as College Freshmen**	Estimated Enrollment Rate***
1999	7,156	1999-2000	----	----
2000	7,019	2000-2001	1,334	19.01%
2001	7,360	2001-2002	1,302	17.69%
2002	8,185	2002-2003	1,363	16.65%
2003	9,166	2003-2004	1,522	16.60%
2004	9,617	2004-2005	1,476	15.35%
2005	9,978	2005-2006	NA	NA

*Represents the number of Minnesota high school graduates eligible for free and reduced-price lunch. Source: Minnesota Dept. of Education.
**Represents the number of 17- or 18 year-old Minnesota residents enrolled at Minnesota institutions who had parent contribution of less than $1,500. (An estimated proxy roughly equivalent to the federal eligibility criteria for K-12 free and reduced-price lunch program. Source: Office of Higher Education database.
***Represents the approximate share of low-income Minnesota high school graduates enrolling in a Minnesota institution in the year following their graduation. These percentages represent one perspective on the college enrollment of low-income high school graduates.

Another suggestion was to provide early notification of estimated Federal Pell and Minnesota State Grants to all juniors attending Minnesota high schools. Currently, early information is available using a number of estimators, including a Web-based financial aid estimator maintained by the agency.[16] These tools can be used by individuals, their families and counselors. The agency has been continually improving its early outreach materials and approaches and is investigating whether State Grant eligibility criteria should be modified to include short-term employment training programs targeted to low-income individuals.

Potential Impact: Removing financial access barriers to college attendance for students from groups traditionally underrepresented in higher education could encourage more students to aspire to attend college. With the knowledge that college is well within their financial reach, low-income students may be more likely to focus on the important academic preparation needed to be successful in college.

Public Suggestion 6H: Consider Additional Eligibility Criteria

Background: A suggestion was made to use the State Grant program to create incentives for students to do well academically in high school or select specific programs in fields where high wage jobs are available. Currently, students granted admission by a participating institution are eligible for Minnesota State Grants. The two primary exemptions are students who are not Minnesota residents and students who have baccalaureate degrees or have completed eight full-time semesters of attendance.

It has been suggested that additional restrictions should be placed on students receiving Minnesota State Grants that are not imposed on students generally. The most frequently suggested criteria are prior academic performance in high school and the students' selected program of study.

Institutions have admission standards and many admit only a selected group of students. Since admission is not automatic for every citizen of the state, eligibility for Minnesota State Grants is not automatic. Institutions participating in federal Title IV programs can only award aid to students who have a high school diploma or pass a federally approved "ability to benefit" test. Eligible students can pursue any program of study of eight weeks or more resulting in a credential.

Two new merit-based programs have been introduced at the federal level for any Pell-eligible student. Academic Competitiveness grants provide Pell-eligible students with grants of $750 in each of their first two years of college if they demonstrate successful completion of a rigorous high school curriculum. Students in their third and fourth years of college may be eligible for $1,400 in additional grants if they are admitted to an upper division program in science, technology, mathematics, engineering or a language program that is determined to be important to national security.

Higher education is based on students choosing from available programs the one that best meets their needs. Among the factors students are encouraged to consider are their own abilities and interests and the market potential of their investments. As tuition and fees increase, the market potential of personal investments are becoming a greater factor in students' (and their families') decisions. In this regard, higher education responds to market signals about work force needs.

Potential Impact: State Grant awards would be based upon academic performance and/or selected program of study. Limiting grants to only high performers in high school could have a negative impact on low-income families. Some students do not apply themselves in high school, but perform well in college.

Endnotes

[1] This was changed during Fiscal Year 2003 to be actual tuition and fees charged by the institution. This change was rescinded starting in Fiscal Year 2004.

[2] “Benefits received” is one of two principles commonly used to evaluate tax policies. The other is “ability to pay”. The gasoline tax is an example of a tax that is based on the benefits received principle. The more an individual drives (uses highways) the more gasoline purchased and the more taxes paid. The assigned student responsibility conforms to the benefits received principle in that the more education students purchase, the more benefits they receive over their lifetimes.

[3] “Benefits received” is one of two principles commonly used to evaluate tax policies. The other is “ability to pay”. The income tax is an example of a tax that is based on the ability to pay. The more an individual earns, the more taxes paid.

[4] The Federal Need Analysis is the set of deductions, exemptions, and rates used to convert the data submitted on the FAFSA into expected family contributions as defined in the Higher Education Act of 1965, as amended.

[5] Technically, it is the persons who claim the student as an exemption for federal income tax purposes.

[6] In unusual cases, applicants may be classified as independent students based on their household status. These cases are determined by campus financial aid offices and are quite rare.

[7] This was changed during Fiscal Year 2003 to be actual tuition and fees charged by the institution attended. This change was rescinded starting in Fiscal Year 2004.

[8] This was changed during Fiscal Year 2003 to be actual tuition and fees charged by the institution attended. This change was rescinded starting in Fiscal Year 2004.

[9] Postsecondary Education Opportunity newsletter, August 2005

[10] Based on allocations for Fiscal Year 2004 and projected FYE enrollment as reported at 1) www.budget.mnscu.edu/institution/finallocatreports/financialallocations/GeneralOperatingBudgets/FY2004-2005/Mn%20West%20thru_Winona_SU_Budget_Worksheets-Gap_solutions.xls, and 2) www.budget.mnscu.edu/institution/finallocatreports/financialallocations/generalOperatingBudgets/FY2004-2005/Alex_TC_TC_thru_MSU_Mankato_Budget_worksheets-Gap_Solutions.xls. [Accessed April 22, 2005]

[11] Each year the University of Minnesota reports the taxpayer subsidy provided for instruction. For Fiscal Year 2004, the University of Minnesota reported this information on its Web site as: “Tuition pays for approximately 67% of the cost of instruction at the University of Minnesota.” [Accessed August 17, 2004 at onestop.umn.edu/finances/tuitionrates/]

[12] The Federal Need Analysis is the set of deductions, exemptions and rates used to convert the data submitted on the FAFSA into the expected family contribution as defined in the Higher Education Act of 1965, as amended.

[13] Minnesota State Colleges and Universities. *Education Financing Survey March 2005*, by Scott Bodfish and Ruth Sims

[14] Minnesota Statute 136A.121, Subdivision 9a.

[15] Minnesota Higher Education Coordinating Board, September 1983, Student Dependency for the State Scholarship and Grant Programs.

[16] Minnesota Office of Higher Education Web site: www.getreadyforcollege.org, click on financial aid estimator.