“Free College” in Minnesota

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What is “free college”?

Most of what is discussed today as “free college” are last dollar scholarship programs covering tuition and mandatory fees for undergraduates after all other grants or scholarships have been applied. Examples of last dollar “free college” plans include the Tennessee Promise, the Oregon Promise, Minnesota’s MnSCU Occupational Grant, as well as the recently proposed New York plan. Although each “free college” program is unique, plans typically include some combination of the following characteristics:

- State residency requirement
- FAFSA completion requirement
- Family income limitation
- Eligibility limited to recent high school graduates
- Limitations by institution type, e.g. public, 2-year
- Grade point average minimum while receiving funding
- Minimum enrollment level & degree-seeking status
- Maximum number of semesters or years during which a student can receive funding
- Additional support services or mentoring for students

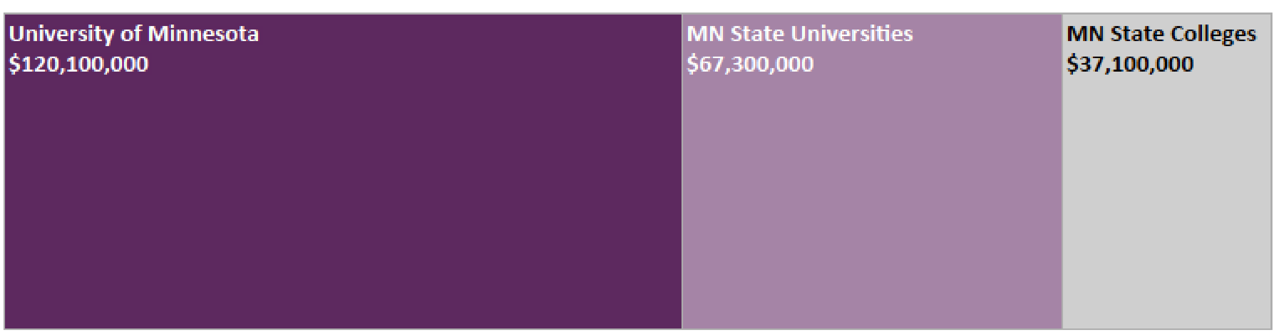
What costs are covered?

Although language around these programs suggest that they make college “free” for undergraduates, typically, these programs, in combination with other aid, cover less than half of the costs students and their families face when pursuing their postsecondary education. These “free college” programs cover student tuition, but do not address the non-tuition costs of attending college, such as books, transportation, and living expenses. These non-tuition expenses are not inconsequential as they can often equal or exceed tuition.

How much would “free college” cost in Minnesota?

Though the original model for “free college” programs in the United States, Tennessee Achieves, was funded entirely with private investments, more recent proposals suggest that these costs should be assumed by state or federal government. For example, New York has proposed offering free tuition to resident undergraduates with a family adjusted gross income below $125,000 attending public institutions full time. If Minnesota replicated New York’s “Free College” proposal $224.5 million in state funding would be needed per year. This would be in addition to maintaining current levels of Minnesota State Grants and federal Pell Grants. Projected additional annual costs per public sector are shown in Figure 1.

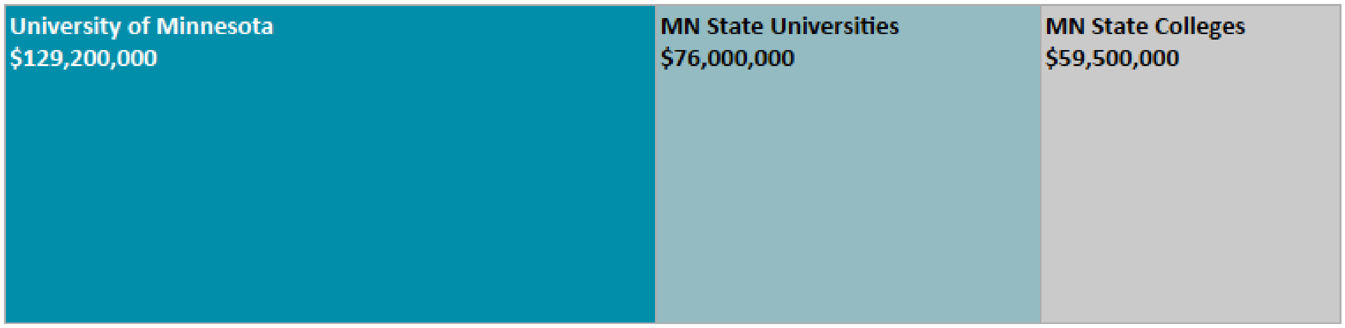
Figure 1: Projected Annual Cost, $224.5M, of New York’s Proposed “Free College” in Minnesota, by Sector



A common criticism of New York’s proposal is that it does not include part-time students. A simpler, more equitable “free college” plan would include undergraduates enrolled at public institutions of any enrollment level. If Minnesota were to enact a “free college” program for resident undergraduates with family incomes under $125,000 inclusive of all enrollment levels, $264.7 million in state funding would be needed per year. This would be in addition to maintaining current levels of

Minnesota State Grants and federal Pell Grants. Projected additional annual costs per public sector under this scenario are shown in Figure 2.

Figure 2: Projected Annual Cost, $264.7M, of "Free College" for Family Income <$125k in Minnesota, by Sector



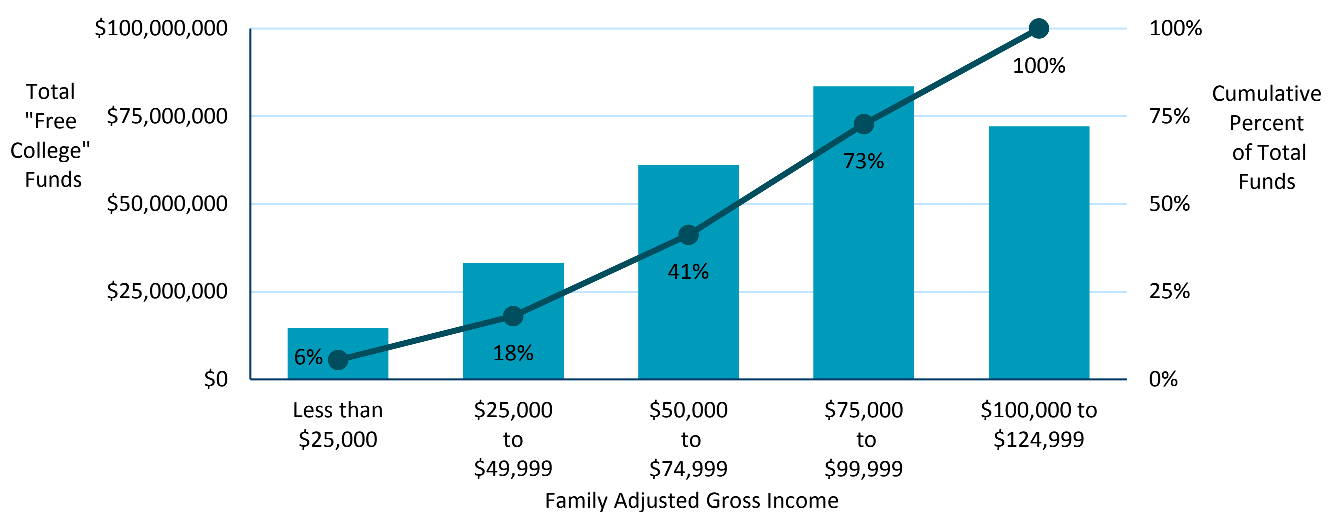
By comparison, the Minnesota State Grant program received an annual appropriation of $182.3 million in Fiscal Year 2016-2017.

All projections forward are reflective of these "free college" assumptions (Minnesota resident undergraduates with family income under $125,000).

Who does this program serve?

Though "free college" programs are often marketed as a tool for access and equity, the majority of the funds provided by last dollar scholarships funded by states do not go to the lowest-income students. Because federal and state need-based aid covers a significant portion of tuition and mandatory fee costs for lower-income students, the additional investment required for "free college" programs largely pays for tuition and fees for students with family income between $75,000 and $125,000 whose income and assets are too high to qualify for need-based aid. Figure 3 shows that only 41 percent of the additional state investment in the above Minnesota "Free College" program, or $109 million, would go to students with family income of $75,000 or less.

Figure 3: "Free College" for Family Income <$125k in Minnesota, Costs by Family Income Level



Unintended consequences of "Free College"

Many proponents also see "free college" as a way for lower- and middle-income income families to afford undergraduate education. However, "free college" programs may result in unintended consequences for states enacting them.

First, the program may change enrollment patterns and destabilize higher education systems. The Georgetown University Center on Education and the Workforce studied the "free college" plan offered by Hillary Clinton during her presidential campaign.[1] The plan would have resulted in increased enrollment at public colleges and universities of 9 to 22 percent, with a median estimate of 16 percent and decreased enrollment at private colleges by 7 to 15 percent, with a median estimate of 11 percent.[2]

In addition, free college programs limited to two-year public colleges could result in declining enrollments at public four-year universities. Tennessee's community and technical colleges experienced an increase of 25 and 20 percent respectively in first-time freshmen enrollment after the Tennessee Promise was implemented.[3] Similar changing enrollment patterns would cause disruption in Minnesota's higher education market and may put considerable capacity strain on the institutions covered by a "free college" plan.

Second, these programs require sustained state financial investments. In Minnesota, current general fund higher education expenditures would increase by approximately $264.7 million annually ($529.4 million over the biennium). To keep pace with rising tuition and fee rates, which typically have been increasing faster than inflation, program expenses will continue to increase. This will require state legislatures to increase program expenditures by the same rate as tuition and fees or to limit increases in tuition and fees at institutions. Programs in both Tennessee and Oregon have exceeded available appropriations which required legislators to identify cuts in other areas.[4] [5] The size of on-going and increasing investment could constrain the amount of funds available to invest in other higher education initiatives or state-funded programs. Responsibility to fund inflation adjustments, faculty and staff salary increases, new programs, infrastructure investments, etc. may fall to institutions or legislatures which may be unsustainable.

Third, a "free college" program would change the focus of Minnesota's current financial aid policies from targeted financial subsidies for students from lower-income families to broad subsidies for students from middle- and upper-middle-income families. From a policy perspective, such a move would end Minnesota's Design for Shared Responsibility model by having the state assume a larger financial responsibility to fund higher education currently shared among students, families, and institutions. Without shared responsibility, the student and family may presume to have no "skin in the game" and thus no incentive to complete their program of study in a timely manner. Ending Minnesota's Design for Shared Responsibility model in favor of "free college" may encourage institutions or even the federal government to do the same, abandoning shared responsibility models and need-based aid for lower-income students.

Does Minnesota already have free tuition and fees?

The Office of Higher Education analyzed data on tuition and fees, Pell Grants, and Minnesota State Grants for Minnesota resident undergraduates enrolled at a public institution who applied for aid in the 2015-2016 academic year.

Yes, for the lowest-income students

Of the 118,000 undergraduates enrolled at Minnesota public institutions, approximately 38,000 dependent students (32 percent) received a combined federal Pell Grant and Minnesota State Grant that was equal to or greater than (100 percent) the average tuition and fees charged.[6] This group included students enrolled at Minnesota State Colleges with income

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[1] Clinton's grant would have made public institutions tuition-free with a phased-in family income maximum starting at $85,000 increasing to $125,000

[2] https://www.insidehighered.com/sites/default/server_files/files/memopercent20Clintonpercent20plan.pdf

[3] http://www.tennessean.com/story/news/education/2016/08/19/tennessee-tops-nation-fafsa-completion-again/88863910/

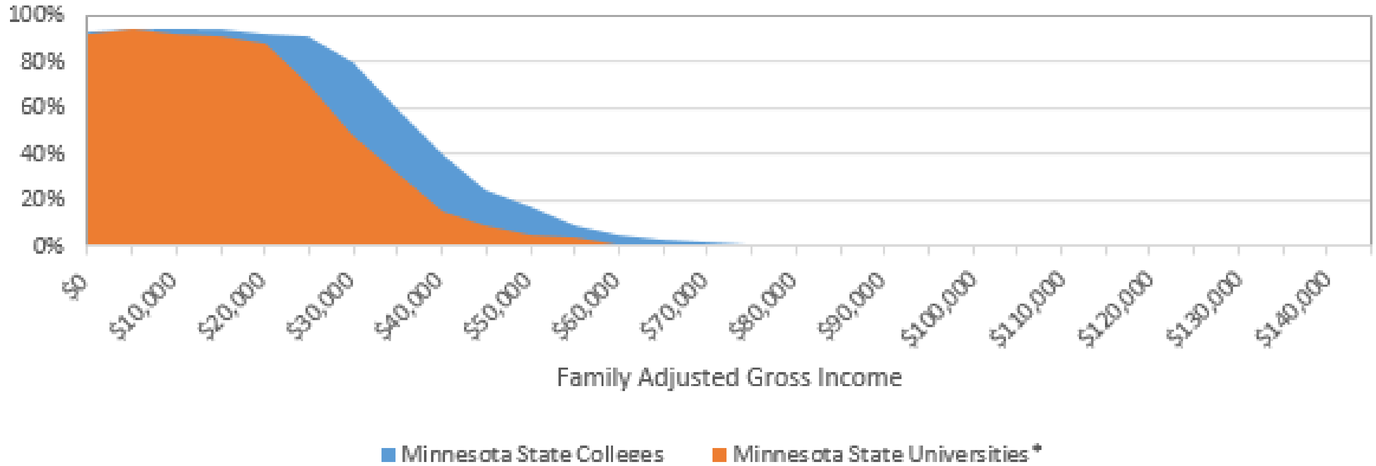
[4] https://www.oregon.gov/highered/research/Documents/Legislative/SB-81-Report-Oregon-Promise-1st-term-2016.pdf

[5] http://www.governing.com/topics/education/gov-tennessee-free-community-college-promise.html

[6] Summer term awards were excluded from this analysis as many students are not eligible for Pell Grants in summer term having met the annual award limit during fall and spring terms. Thus for summer terms, "free college" program funds are filling in for missing Pell Grant dollars.

levels less than $35,000 ($40,000 if enrolled full time) and those enrolled at Minnesota State Universities[7] with incomes less than $25,000 ($30,000 if enrolled full time), as shown in Figure 4.[8]

Figure 4: Percent of Minnesota Dependent Students by Income Receiving Pell + State Grants Covering 100 Percent of Tuition & Fees, FY 2018 Estimates



Source: Minnesota Office of Higher Education, State Grant Applicant Database. Analyses by staff.

No, for other groups of students

Undergraduates whose Pell Grant and Minnesota State Grant awards did not exceed 100 percent of tuition and fees included:

- Lower-income students whose available assets (cash, savings, investments) resulted in an Expected Family Contribution above the eligibility threshold for a Pell Grant or Minnesota State Grant (35 percent of applicants)
- Students whose family income exceeded the income ranges listed above
- Students enrolled at the University of Minnesota (all campuses) or Winona State University as tuition and fees exceeded the maximum combined Pell Grants and Minnesota State Grants.

Alternative investment in need based aid

Building on Minnesota's shared responsibility model, an alternative higher education investment could be made to the Minnesota State Grant program which would:

- Enhance access to postsecondary education for underserved populations
- Maintain affordability of postsecondary education for lower- and middle-income students
- Reduce the need for targeted populations to take out student loans.

Expanding "free college" only to undergraduates with incomes less than $50,000

Providing "free college" to those with family income less than $50,000 via the Minnesota State Grant program can be achieved by changing the Assigned Family Responsibility (AFR), the Assigned Student Responsibility (ASR), or the Living and Miscellaneous Expense allowance (LME). In order to achieve "free college" for students from these families[9], any of the following changes could be made:

[7] excluding Winona State University

[8] Independent students whose Pell and State Grants exceeded 100 percent of tuition and fees at MN State Colleges included those with incomes $0-$15,000 ($20,000 if full-time enrolled) and at MN State Universities excluding Winona State University included those with incomes $0-$10,000 ($15,000 if full-time enrolled).

[9] Students from families with an Assigned Family Responsibility of $2,700 or less includes dependent students from families with income less than $50,000; independent students married with children with incomes less than $70,000; independent students single with children with incomes less than $60,000; independent students married without children with incomes less than $35,000; independent students single without children with incomes less than $25,000.

- Reduce the ASR to 39 percent – cost $125M annually, or
- Increase LME to $14,300 – cost $170M annually, or
- Reduce the AFR by $2,700 – cost $90M annually, or
- Reduce the AFR as follows:
    - Dependent students set to 50 percent – cost $80M annually,
    - Independent students with children set to 56 percent – cost $3M annually, and
    - Independent students without children set to 26 percent – cost $11M annually.

Providing "free college" to lower-income students enrolled at the University of Minnesota or Winona State University

The Minnesota State Grant award formula as currently structured would not cover 100 percent of tuition and fees to any student enrolled at the University of Minnesota (all campuses) or Winona State University. Students are expected to assume 50 percent of educational costs. As current tuition and fees exceeds 50 percent of educational costs, the State Grant can only cover 100 percent of tuition and fees at the University of Minnesota (all campuses) if the ASR were reduced or the LME increased.

In order to achieve "free college" for Minnesota students enrolled at Winona State University, the State Grant could:

- Reduce ASR to 49.8 percent – cost $2M annually, or
- Increase LME to $9,050 – cost $3M annually.

The Minnesota State Grant program ensures that limited state funds are targeted efficiently and effectively towards economically disadvantaged Minnesota students to meet state goals. But by doing so, it cannot ensure "free college" for all students without fundamentally altering Minnesota's commitment to the Design for Shared Responsibility model.

However, an additional investment in the Minnesota State Grant would maintain and expand Minnesota's commitment to ensuring college access and affordability for lower- and middle-income students who are in most need of the support.

In order to achieve "free college" for Minnesota students enrolled at the University of Minnesota Twin Cities, the State Grant could:

- Reduce ASR to 38.2 percent – cost $134M annually, or
- Increase LME to $14,508 – cost $177M annually.

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