

February 15, 2013



Minnesota State Grant
Projections
Fiscal Years
2012-2013 & 2014-2015



Authors

Meredith Fergus

Policy Analyst

Tel: 651-259-3963

meredith.fergus@state.mn.us

Ginny Dodds

Manager, State Financial Aid Programs

Tel: 651-355-0610

ginny.dodds@state.mn.us

About the Minnesota Office of Higher Education

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

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

Minnesota Office of Higher Education

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

Tel: 651.642.0567 or 800.657.3866

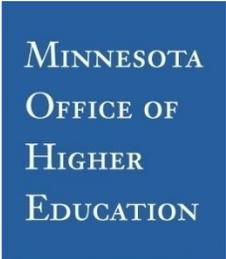
TTY Relay: 800.627.3529

Fax: 651.642.0675

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

www.getreadyforcollege.org

www.ohe.state.mn.us



MINNESOTA
OFFICE OF
HIGHER
EDUCATION

reach higher

Table of Contents

Table of Contents	1
Introduction	3
Fiscal Years 2012 and 2013 — Spending Projection	3
Fiscal Years 2014 and 2015 — Spending Projection	4
Limitations of the Projection	4
Projection Assumptions.....	5
Enrollment Assumptions	6
Change in Wages	6
Pell Grant Changes in Law	7
Federal Need Analysis	8
Tuition and Fee Increases	8
Next Report	8

Introduction

The purpose of this report is to update spending projections for the State Grant program for the 2012-2013 and the 2014-2015 biennia. The law requires spending projection updates to occur by November 1 and February 15 of each year. Information on enrollment and tuition and fee changes was provided by institutional representatives.

This report presents spending projections for the Minnesota State Grant program for the 2012-2013 and 2014-2015 biennia as of February 15, 2013.

Fiscal Years 2012 and 2013 — Spending Projection

The State Grant Program is projected to spend \$161.60 million for fiscal year 2013 compared to a base of \$162.4 million.

The projections contained in this report are the result of a full simulation of the State Grant model projecting fiscal year 2012 actual spending data to fiscal year 2013 using award parameters in current law and information on enrollment and tuition and fee changes provided by institutional representatives and the percent change in wages of tax filers estimated by Minnesota Management and Budget. The changes modeled are the agency’s best estimates as of February 15, 2013 and thus are subject to change. The assumptions used in the spending projections are described starting on page five.

Base resources for the 2012-2013 biennium include state appropriations totaling \$309.25 million. Actual fiscal year 2012 spending totaled approximately \$142.73 million as of October 2012. Statute authorizes the Office to adjust award parameters to increase State Grant awards if base resources exceed projected spending. Additionally, the Office is authorized by law to transfer excess funds to other programs if there is a projected need. Using the procedures outlined in statute and in law, the Office transferred \$3.95 million of the surplus funds to tuition reciprocity and increased the Living and Miscellaneous Expense Allowance from \$7,000 to \$7,326 for FY2013.

Projected spending for each fiscal year is compared against the resources. Fiscal year 2012 shows a difference between base resources and spending in the amount of \$7.94 million. Fiscal year 2013 shows a difference between base resources and spending in the amount of -\$6.98 million. For the biennium, the difference between resources and spending equals \$0.97 million.

**Table 1
Spending Projections versus Available Resources FY2012-2013 (in millions)**

Spending Projections vs. Available Resources (in millions)	FY2012 Rationing	FY2013 LME surplus	Biennium
Base resources	\$154.62	\$154.63	\$309.25
Spending	+(142.73)	+(161.60)	+(304.33)
Reciprocity transfer	+ (3.95)	+ 0.00	+ (3.95)
Difference between resources and spending	\$ 7.94	\$ (6.98)	\$ 0.97

Fiscal Years 2014 and 2015 — Spending Projection

The State Grant spending projection is \$151.78 million for fiscal year 2014 and \$153.24 million for fiscal year 2015. This compares to base resources of \$154.625 million annually.

Base resources for the 2014-2015 biennium include state appropriations totaling \$309.25 million. Projected spending for each fiscal year is compared against the available resources. Fiscal year 2014 shows a difference between base resources and spending in the amount of \$2.85 million. Fiscal year 2015 shows a difference between base resources and spending in the amount of \$1.38 million. For the biennium, the difference between resources and spending equals \$4.23 million or 1.4 percent of the base appropriations.

The changes modeled are the agency’s best estimates as of February 15, 2013 and thus are subject to change.

Table 2
Spending Projections versus Available Resources FY2014-2015 (in millions)

Spending Projections vs. Available Resources (in millions)	FY2014	FY2015	Biennium
Base resources	\$154.62	\$154.63	\$309.25
Spending projection	<u>+(151.78)</u>	<u>+(153.24)</u>	<u>+(305.02)</u>
Difference between resources and spending	\$ 2.85	\$ 1.38	\$ 4.23 1.4% OF BASE

Limitations of the Projection

There are several caveats to consider.

Student enrollment: In Fall 2009 and Fall 2010, enrollments increased at both public and private colleges in response to the economic uncertainty and hardship.¹ Fall 2011 and Fall 2012 enrollments declined. The decline in Minnesota resident students enrolling could indicate the beginning of an economic recovery. Under an economic recovery assumption, wage growth would occur and generate modest cost savings for the State Grant program. While Minnesota college enrollments declined, application data shows only modest wage growth for students and families. This lag in wage growth is generating uncertainty about the nature of the economic recovery.

Tuition: While the assumptions of this report utilize the 2012-2013 academic year (fiscal year 2013) tuition and fee rates approved by the public governing boards, tuition and fee rates for the 2013-2014 and 2014-2015 academic years (fiscal years 2014 and 2015) will not be finalized until summer 2013 and

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

2014 respectively. If projected tuition increases exceed the tuition assumptions, then projected program spending in the Minnesota State Grant program will increase as well.

Federal Pell Grant: Increases or reductions in the federal Pell Grant amounts would affect State Grant spending as the State Grant award formula assumes a dollar for dollar relationship with the student’s Pell Grant. Federal budget negotiations have considered reductions to the Pell Grant program. While the President and Congress provided for Pell Grant funding in the August 2011 debt ceiling budget negotiations and in the December 2011 appropriations bill, the program still relies heavily on discretionary appropriations from the annual federal budget to fully fund student Pell Grant awards.

Projection Assumptions

The Minnesota State Grant spending projection for each fiscal year is formulated using a series of adjustments and the following program parameters as shown in Table 3. Based on projected demand for the program as of July 2011, the Office of Higher Education implemented rationing parameters for fiscal year 2012. As enrollments actually declined in FY2012, the program showed a surplus as of May 2012. Thus the Office of Higher Education increased State Grant awards for FY2013 by adjusting the Living and Miscellaneous Expense Allowance from \$7,000 to \$7,326.

**Table 3
Minnesota State Grant Award Parameters**

Minnesota State Grant Award Parameters	FY2012	FY2013	FY2014	FY2015
	RATIONING	SURPLUS	Current Law	Current Law
Living and Miscellaneous Expense Allowance	\$7,000	\$7,326	\$7,000	\$7,000
Assigned Student Responsibility	46.3%	46.0%	46.0%	46.0%
Tuition and Fee Maximums				
Students in Two-Year Programs	\$5,808	\$5,808	\$5,808	\$5,808
Students in Four-Year Programs	\$10,488	\$10,488	\$10,488	\$10,488
Federal Pell Grant Maximum	\$5,550	\$5,550	\$5,550	\$5,550
Rationing Surcharge on Assigned Family Responsibility	2%	0%	0%	0%
Proration of the Assigned Family Responsibility				
Dependent Students (Parent Contribution)	96%	96%	96%	96%
Independent Students with Dependents (Student Contribution)	86%	86%	86%	86%
Independent Students without Dependents (Student Contribution)	68%	68%	68%	68%
Maximum Semesters of Enrollment for Grant Eligibility	8	8	8	8

Enrollment Assumptions

Minnesota State Grant spending projections also incorporate estimated enrollment changes in the number of Minnesota resident undergraduates enrolling at each institution type. Information about enrollment changes for fiscal years 2013, 2014 and 2015 is gathered from institutional and system representatives in November and February of each year and is shown in Table 4. Overall enrollment is used to estimate changes in the number of Minnesota resident aid applicants. These figures will be reevaluated as new data on enrollments become available. A change in total enrollment of plus or minus one percentage point annually changes projected state grant spending by an estimated \$1.5 million.

Table 4
Enrollment Assumptions

Enrollment Assumptions	FY2010	FY2011	FY2012	FY2013		FY2014	FY2015
	Fall 2009	Fall 2010	Fall 2011	Fall 2012		Fall 2013	Fall 2014
System	Actual	Actual	Actual	Projected	Actual	Projected	Projected
MnSCU Two-Year Institutions	+10.0%	+1.8%	-3.51%	-0.6%	-1.5%	+0.2%	+0.5%
MnSCU Four-Year Institutions	+2.0%	+1.2%	-1.06%	0.0%	-2.4%	+0.4%	+0.9%
University of Minnesota	+4.3%	+2.0%	-1.9%	+0.2%	-2.2%	0.0%	0.0%
Private Not-for-Profit Institutions	0.0%	+1.0%	-0.6%	0.0%	-0.4%	0.0%	0.0%
Private For-Profit Institutions	+17.0%	+6.0%	-7.8%	+5.7%	-14.7%	+3.8%	+4.1%

Change in Wages

The projection model incorporates forecasted data about change in wages of Minnesota tax filers from Minnesota Management and Budget. The forecast is used in projections of state revenue and spending across multiple agencies and is updated each December and March. For 2012-2013 biennial projections, the model utilizes data from applicable tax years to update student and family wages and adjusted gross incomes. As fiscal year 2012 information (tax year 2010) is used, incomes are updated to reflect projections for subsequent tax years. The wage change calculations used in the projections are detailed below in Table 5.

Following the December 2012 budget forecast, the assumption for changes in average wages of Minnesota tax filers was adjusted. Current assumptions are shown below.

Table 5
Change in Annual Wages, Minnesota

Change in Annual Wages	FY2012	FY2013	FY2014	FY2015
	Tax Year 2010	Tax Year 2011	Tax Year 2012	Tax Year 2013
One-Year Change	+2.8%	+2.2%	+2.5%	+1.8%

Pell Grant Changes in Law

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

- The maximum Pell Grant award remains at \$5,550 for 2013-2014 and 2014-2015 unless Congressional action is taken.
- The Pell Grant minimum award remains at 10% of maximum award. However, eligibility is reduced for students with an Expected Family Contribution of less than \$4,995 from the previous level (\$5,273).
- Student eligibility for a Pell Grant was reduced from the equivalent of 18 full-time semesters to the equivalent of 12 full-time semesters.

In addition, students who do not have a high school diploma or a recognized equivalent (e.g., GED), or do not meet the home school requirements, and who first enroll in a program of study on or after July 1, 2012, are no longer eligible to receive Title IV student aid (including Pell Grants).

On January 30, 2013, the U.S. Department of Education released award year 2013-14 Pell Grant Program Payment & Disbursement Schedules². The schedule uses a \$5,645 maximum Pell Grant. The 2013-14 Pell Grant program, including the increase in the maximum Pell Grant, is unfunded as of February 15, 2013. The Fiscal Year 2013 Continuing Resolution funds the federal government at levels just above FY 2012 and includes a provision that all programs operate under the same terms and conditions as FY 2012. The FY13 Continuing Resolution is set to expire March 27th, 2013. The Office will continue to monitor Congressional funding of the federal Pell Grant program. Projected spending for the Minnesota State Grant program does not assume an increase in the Pell Grant maximum for FY2014 and FY2015. If the published increase in the maximum Pell Grant is funded, projected spending in the Minnesota State Grant program would decline by approximately \$5.29 million in FY2014 and \$5.26 million in FY2015.

Table 6 below lists the current federal Pell Grant parameters.

Table 6
Federal Pell Grant Award Parameters

Federal Pell Grant Award Parameters	FY2013	FY2014		FY2015
	Actual	Published, Unfunded	SG Projection	SG Projection
Pell Grant Minimum Award	\$602	\$605	\$602	\$602
Pell Grant Maximum Award	\$5,550	\$5,645	\$5,550	\$5,550
Award Formula: Expected Family Contribution (EFC)	Maximum Pell - EFC	Maximum Pell - EFC	Maximum Pell - EFC	Maximum Pell - EFC
Qualifying EFC	\$0 - \$4,995	\$0 - \$5,081	\$0 - \$4,995	\$0 - \$4,995

² U.S. Department of Education, *Dear Colleague Letter*, DCL GEN-13-06, January 30, 2013. Retrieved from <http://ifap.ed.gov/dpccletters/GEN1306.html>.

Federal Need Analysis

The projections model for the Minnesota State Grant incorporates all changes passed by Congress or made by the U.S. Department of Education to the federal need analysis as of September 13, 2012. Annual updates to the tables in the statutory “Federal Methodology Need Analysis” used to determine a student’s EFC are released annually by the U.S. Department of Education.

Tuition and Fee Increases

Minnesota State Grant spending also relies on estimated tuition and fee increases for each institution type. Information about tuition and fee increases for fiscal years 2014 and 2015 is gathered from institutional and system representatives by November and February of each year. It is important to remember tuition increases have a compounding effect. Table 7 below details actual tuition and fee increases for State Grant calculations as reported by institutions and tuition and fee increase estimates utilized by the agency in projections of spending.

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

Tuition and Fee Increases	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
System	Actual	Actual	Actual	Actual	Projected	Projected
MnSCU Two-Year Institutions	+2.9%	+4.5%	+5.3%	+3.6%	+3.0%	+3.0%
MnSCU Four-Year Institutions	+3.0%	+4.7%	+6.3%	+4.6%	+3.0%	+3.0%
University of Minnesota*	+7.5%	+7.0%	+6.3%	+3.5%	0.0% (3.0%)	0.0% (3.0%)
Private Not-for-Profit Institutions*	+4.8%	+5.0%	+4.9%	+4.4%	+4.75%	+4.75%
Private For-Profit Institutions*	+5.0%	+2.8%	-1.3%	+2.6%	+1.25%	+1.0%

*Note: Tuition and fees exceed the annual tuition and fees maximums currently established in law.

Next Report

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