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Overview of the Minnesota State Grant Program

Minnesota State Grant Review

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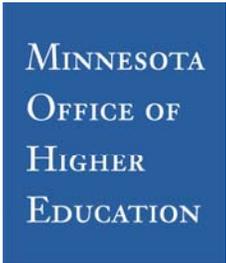
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Dr. Gerald Setter died unexpectedly in 2008 after completing most of the in-depth analysis reflected in this report. The Office of Higher Education is grateful for his thoughtful insight, hard work and nearly 30-year commitment to public service.

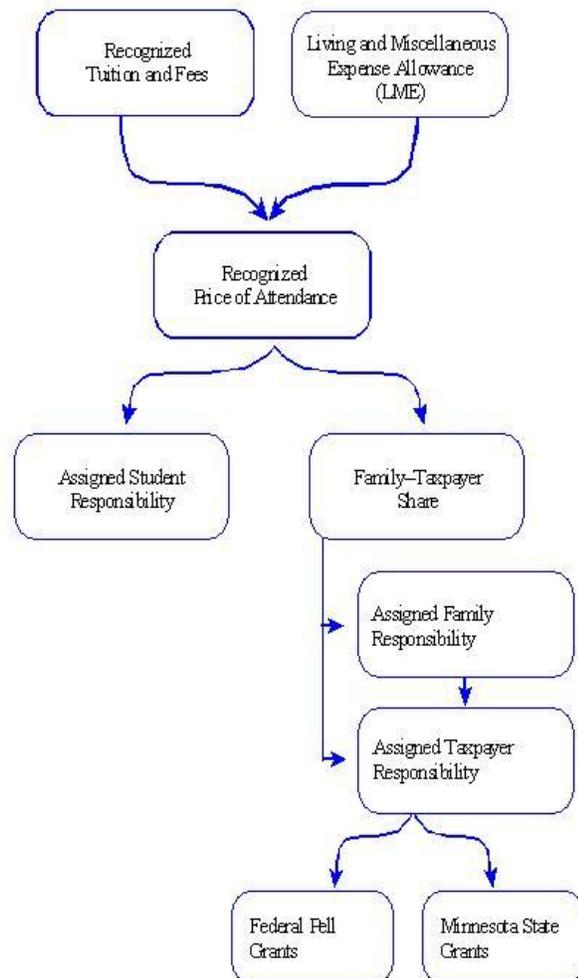
Introduction

Current Minnesota State Grant policy has been based on the Design for Shared Responsibility since 1983.¹ It builds on the work done by the Carnegie Commission on Policy Studies in Higher Education.² The State Grant policy assigns responsibility for paying for college to undergraduate students, to their families and, if necessary, to state and federal taxpayers. The conceptual design of the program provides a policy framework for responding to changes in tuition and fees and living expenses faced by students. Students determine the price of their postsecondary education by their choice of institution and whether to attend full or part time.

Current Minnesota State Grant policy distributes the price of postsecondary education among students, families and taxpayers, as shown on the chart to the right.

- Minnesota expects *students* to make a significant personal investment in their own postsecondary education up front, called Assigned Student Responsibilities.
- Minnesota expects *families* to invest in their students' postsecondary education based on their ability-to-pay, called Assigned Family Responsibilities.
- Minnesota *taxpayers* invest in students by leveraging federal Pell Grants to work with Minnesota State Grants to help cover the price for families whose ability to pay does not provide full coverage of their Family-Taxpayer Share.

Design for Shared Responsibility as Applied to the Minnesota State Grant Program



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

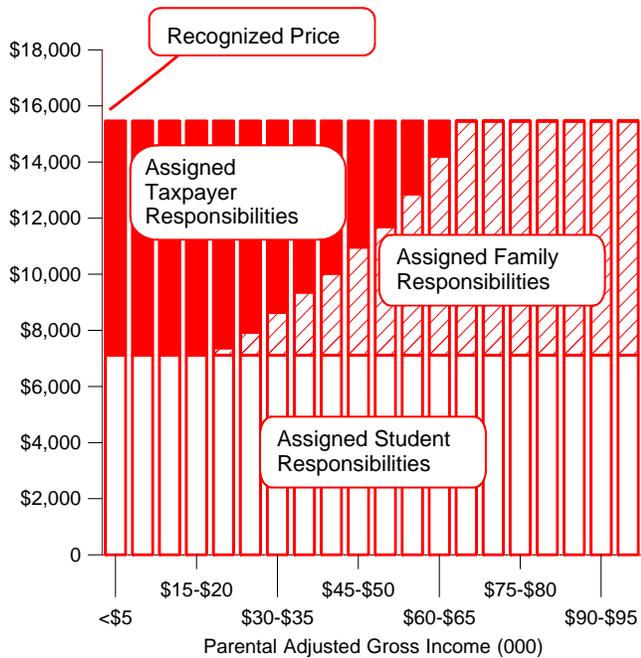
² Carnegie Council on Policy Studies in Higher Education (1979). *Next Steps for the 1980s in Student Financial Aid: A Fourth Alternative* (San Francisco, CA: Jossey-Bass).

The chart to the right shows how the four parts (the recognized price, Assigned Student Responsibilities, Assigned Family Responsibilities, and Assigned Taxpayer Responsibilities) fit together for typical dependent students facing a price of \$15,462, the combination of Recognized Tuition and Fees and the Living and Miscellaneous Expense allowance.

State Grant policy does not describe how students and families pay for postsecondary education. It is a policy model allocating payment assignments among students, families and taxpayers.

This report describes the distribution of Recognized Price of Attendance among students, families and, if necessary, taxpayers. The report also describes the original values embedded in current Minnesota State Grant policy. The practical effect on typical students with different family incomes attending different educational institutions is also presented. Finally, the paper describes how the State Grant program has changed over the past two decades.

Recognized Price; Assigned Student, Family, and Taxpayer Responsibilities
 Typical Dependent Students Attending the University of Minnesota, Fiscal Year 2007



Recognized Prices

Minnesota State Grant policy begins with recognized prices.³ Recognized prices vary by the institution students select and their registration loads. Recognized Prices define the total amount assigned to students, families and taxpayers program. Recognized Prices include two components Recognized Tuition and Fees and Living and Miscellaneous Expenses.

1. Recognized Tuition and Fees

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

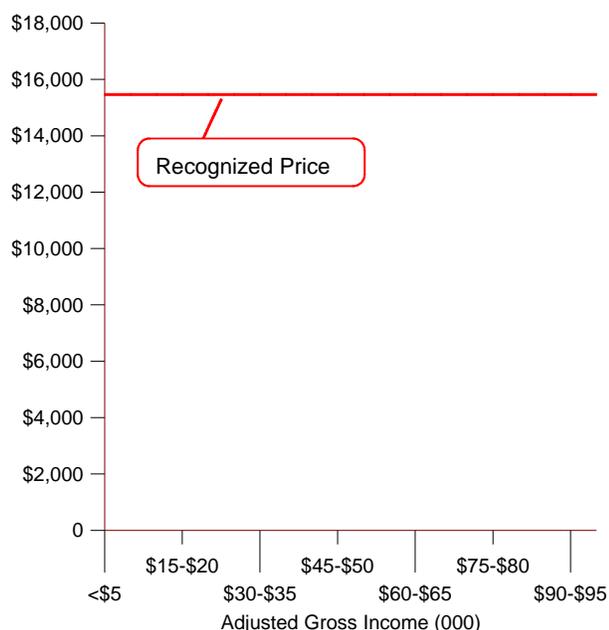
- Average tuition and required fees paid by resident undergraduates registering for full-time loads.⁴
- Tuition and Fee Maximums set as part of the state’s appropriations process.

The average posted tuition and fees and the corresponding average recognized values used to calculate Minnesota State Grants for Fiscal Year 2007 were:

Institutional Grouping	Posted Tuition and Fees	Recognized Tuition and Fees	Difference
MnSCU 2-year Colleges	\$4,252	\$4,252	\$0
MnSCU 4-year Universities	\$5,955	\$5,955	\$0
University of Minnesota	\$9,448	\$9,397	\$51
Minnesota Private 2-year Institutions	\$11,625	\$6,349	\$5,276
Minnesota Private 4-year Institutions	\$19,476	\$8,547	\$10,929

Recognized Price

Typical Students Attending the University of Minnesota, Fiscal Year 2007



³ *Minnesota Statutes 2006* 136a.121 subdivision 6.

⁴ This was changed during Fiscal Year 2003 to be actual tuition and fees charged by the institution attended based on the student’s course load. This change was rescinded starting in Fiscal Year 2004.

The amounts in the table were the average 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 attending each institution. In Fiscal Year 2007, applicants enrolled in programs leading to a baccalaureate degree were subject to a Maximum of \$9,438, called the four-year Tuition and Fee Maximum; all other applicants were subject to a Maximum of \$6,436, called the two-year Tuition and Fee Maximum.

2. Living and Miscellaneous Expenses

The Living and Miscellaneous Expense allowance used in calculating of Minnesota State Grants recognizes goods and services directly associated with attending, such as room, board and books. For students attending any institution, these expenses increase the price of attending. The LME amount, which is set by state lawmakers, 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 state's appropriations process. The LME value used in Fiscal Year 2007 was \$6,065.

3. For Students Registering for Less Than 2 Semesters or Less Than 15 Credits per Term, the Recognized Price Is Prorated

Current Minnesota State Grant policy recognizes differences in prices students pay by:

- Calculating awards each term of attendance ensuring 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.⁵

⁵ *Minnesota Statutes 2006* 136a.121 subdivision 6.

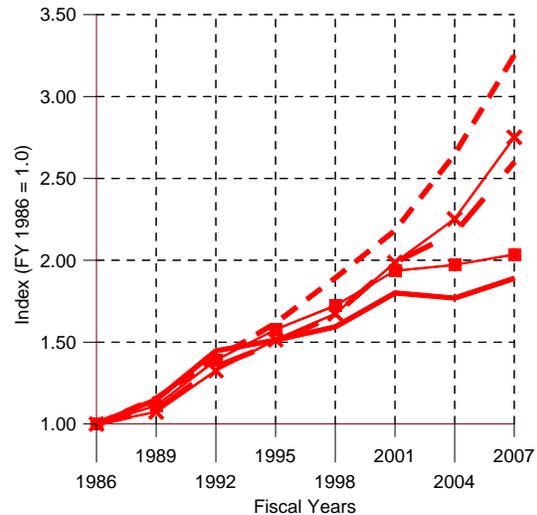
4. Change in Recognized Prices

Recognized prices used in calculating Minnesota State Grants are the sum of the recognized tuition and fees at the institution attended and the LME. Recognized prices increased 90 to 225 percent between Fiscal Years 1986 and 2007, as shown on the upper panel to the right. The growth in recognized prices in for private institutions has been limited by the Tuition and Fee Maximums.

The Recognized Prices shown in the upper panel serve as the starting point for reporting changes in the distribution of prices among students, families and taxpayers from 1986 to 2007 in the remainder of this report. These are based on the prices charged to students registered for 15 credits per term for two semesters. The lower panel disaggregates the changes into recognized tuition and fees and the LME for typical students attending the University of Minnesota. The charts on the next page show the same information for the other four institutional groups.

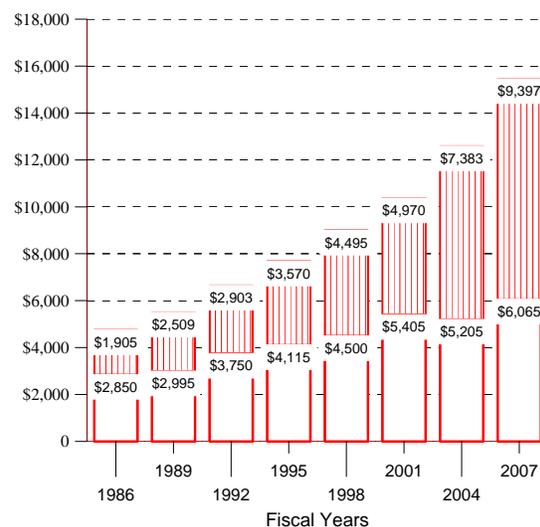
Recognized Prices Increased 90% to 225% Between Fiscal Years 1986 and 2007

- Minnesota Private 4-Year Institutions
- ✖✖ Minnesota Private 2-Year Institutions
- The University of Minnesota
- Minnesota State 4-Year Universities
- Minnesota State 2-Year Colleges



Recognized Prices Increased at the University of Minnesota

- Recognized Tuition and Fees
- Living and Miscellaneous Expense Allowance (LME)



Recognized Prices Increased for All Institution Groups, Fiscal Years 1986-2007

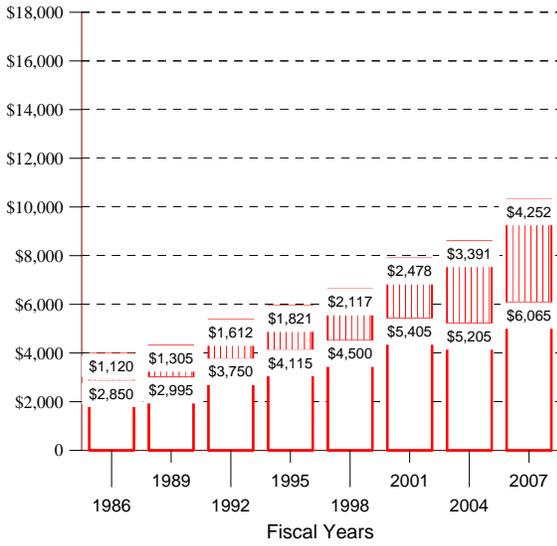


Recognized Tuition and Fees

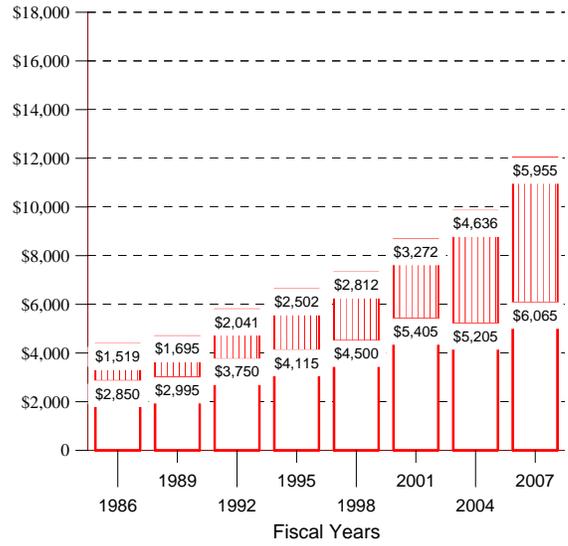


Living and Miscellaneous Expense Allowance (LME)

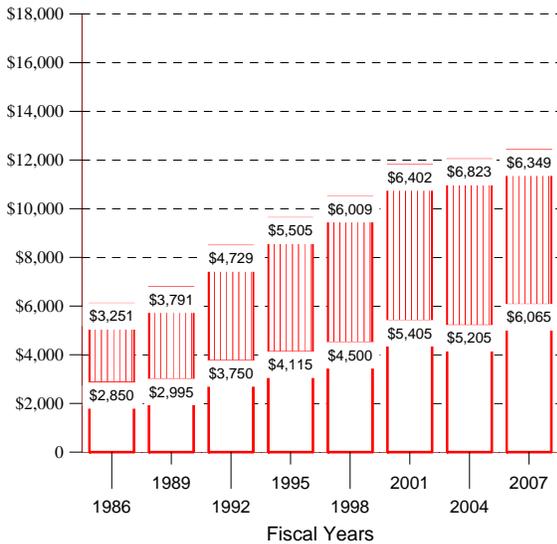
MnSCU 2-year Colleges



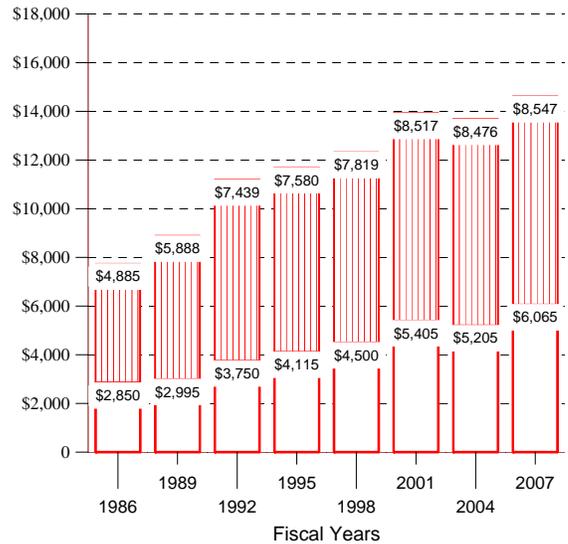
MnSCU 4-year Universities



Minnesota Private 2-year Institutions



Minnesota Private 4-year Institutions



Student Assignments

Current Minnesota State Grant policy assigns students responsibility for paying part of the Recognized Price of attendance first, as shown on the chart to the right.

Currently, Assigned Student Responsibilities are set by the Legislature at 46 percent of the recognized price.⁶

Students are expected to make an investment in their own educations.⁷ Assigning students financial responsibility first recognizes that students are the primary beneficiaries of their education.

Students can make this investment with past, current and future incomes as well as financial contributions from other sources.

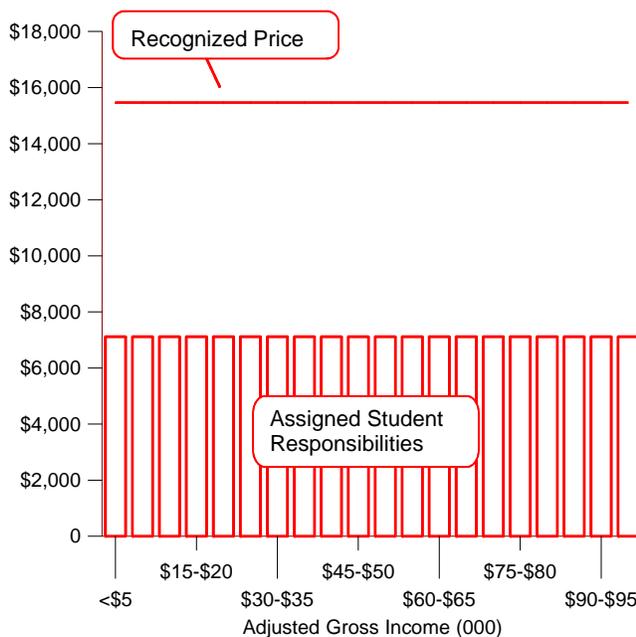
Current Minnesota State Grant policy embodies the following values by assigning a share of the Recognized Price of Attendance to students.⁸

- Students should consider price in making institutional and registration choices; students choosing higher priced institutions are expected to invest more in their own education.
- Students will make better educational choices when they invest their own money.
- Students are in the best position to determine if the benefits and financial returns from postsecondary investments will meet or exceed the price of their investments over the long run.
- Students are expected to decide for themselves if they are ready and able to commit the time and energy required to obtain a postsecondary education.

Assigned Student Responsibilities

Recognized Price and Assigned Student Responsibilities

Typical Students Attending the University of Minnesota, Fiscal Year 2007



⁶ *Minnesota Statutes 2006* 136a.121 subdivision 5.

⁷ 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 based on the benefits received principle. The more an individual drives (uses highways), the more gasoline purchased and the more taxes paid. Assigned Student Responsibilities conform to the benefits received principle in that the more education students purchase, the more benefits they receive over their lifetime.

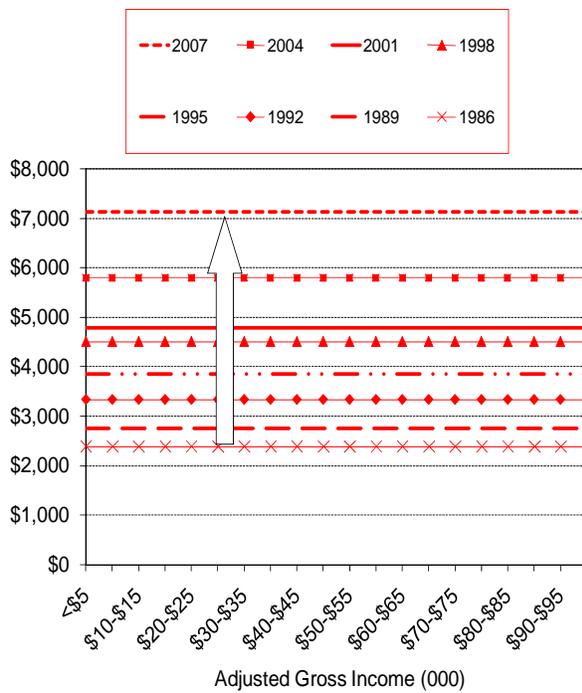
⁸ See Carnegie Council (1979), especially pages 6, 26 and 27.

Research has shown that most students will receive a positive return on their investment in postsecondary education.⁹ What is unknown is the future financial return to an individual at the time of attendance. Assigned Student Responsibilities are set at the same amount for all students facing the same price. Assigned Student Responsibilities vary directly with recognized prices: as prices increase, assigned student responsibilities increase.

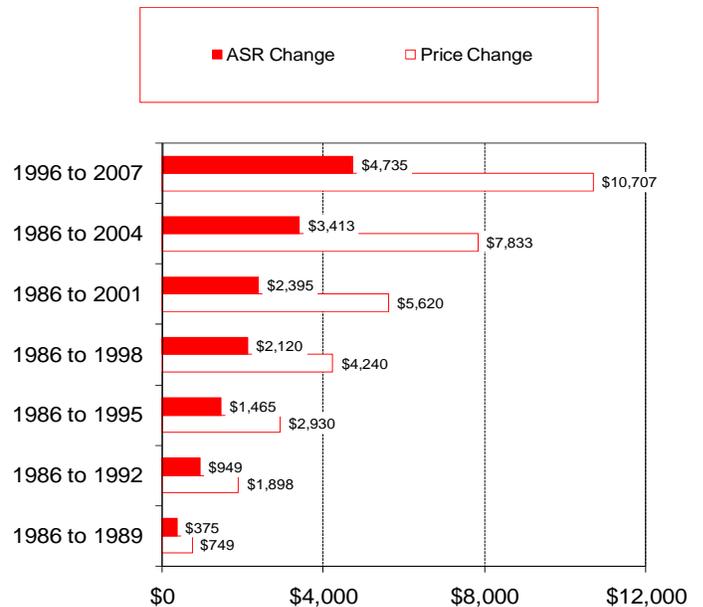
- Assigned Student Responsibilities do not vary based on the income of applicants or their families.
- Assigned Student Responsibilities have been increasing over time in response to increasing prices, as shown for typical students attending the University of Minnesota.

Assigned Student Responsibilities increased less than half as much as recognized prices.

Assigned Student Responsibilities Increased at the University of Minnesota

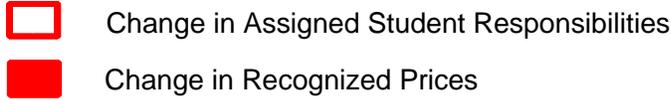


Assigned Student Responsibilities Increased Less Than Half as Fast as Price
Students Attending the University of Minnesota

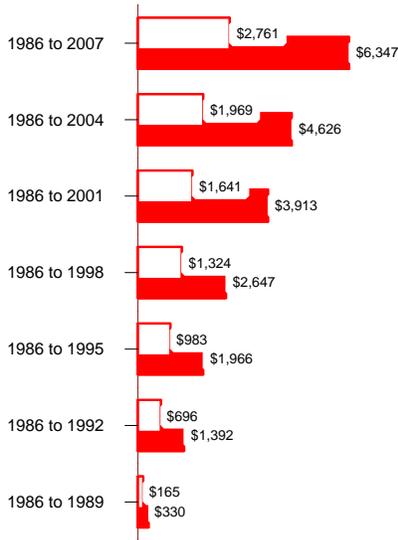


⁹ Source: Pedro Carneiro and James J. Heckman (2003) “Human Capital Policy” in James J. Heckman and Alan B. Krueger, *Inequality in America* (Cambridge, MA and London: MIT Press), p. 151. Also, cited in Pedro Carneiro & James J. Heckman (2003) “Human Capital Policy” IZA Discussion Paper 821, p .42 [Accessed at IZA.org (June 18, 2007)].

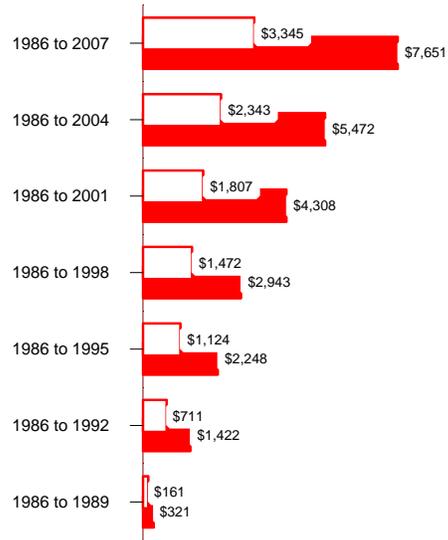
Assigned Student Responsibilities Increased Less Than Half as Fast as Recognized Prices



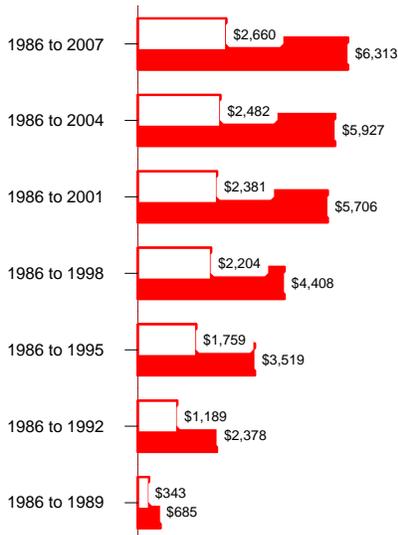
MnSCU 2-year Colleges



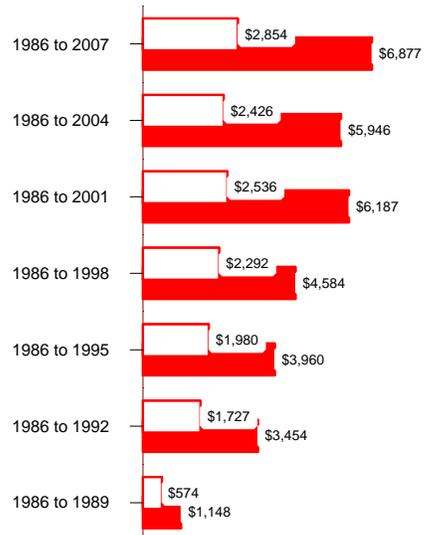
MnSCU 4-year Universities



Minnesota's Private 2-year Institutions



Minnesota's Private 4-year Institutions



Family-Taxpayer Assignments

After students, Minnesota State Grant policy assigns the remaining portion of the recognized price to students' families and, if necessary, to taxpayers.

The size of the Family-Taxpayer Share is derived from the Recognized Price minus Assigned Student Responsibility. Family-Taxpayer Shares are constant across incomes for students facing the same price, as shown in the panel 1 on the next page for typical students attending the University of Minnesota. Family-Taxpayer Shares have been increasing in all institution groups, as shown in panel 2.

Since Fiscal Year 1986, Family-Taxpayer shares grew at rates ranging from 104 to 252 percent, as shown on the panel 3 on the next page. From Fiscal Year 1986 through Fiscal Year 1998, Family-Taxpayer Shares grew about as fast as incomes.

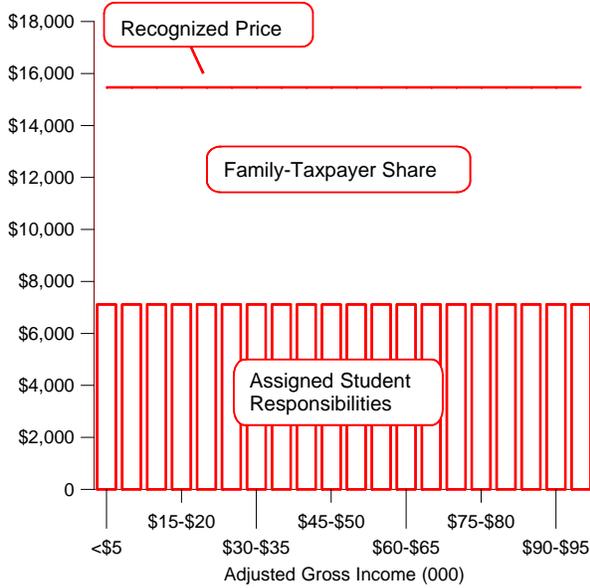
Since Fiscal Year 1998, Family-Taxpayer Shares for students attending public institutions have grown faster than family income. Family-Taxpayer shares for students attending private institutions grew more slowly than family income, due the tuition and fee maximums, which cap the price. Median income for four-person families in Minnesota was used as the measure of family income. It increased from about \$37,000 to about \$80,000, an increase of roughly 119 percent between 1986 and 2007.¹⁰

If all families were expected to finance the entire Family-Taxpayer Share, lower income families would have to exert greater financial efforts, as shown on the panel 4 on the next page. At \$5,000 adjusted gross income, Family-Taxpayer Shares based on the typical University of Minnesota price in Fiscal Year 2007 would have been about 167 percent of income. At \$100,000 adjusted gross incomes, Family-Taxpayer Shares would have been about eight percent of income.

¹⁰ This is the measure used by the U.S. Department of Health and Human Services to determine housing affordability.

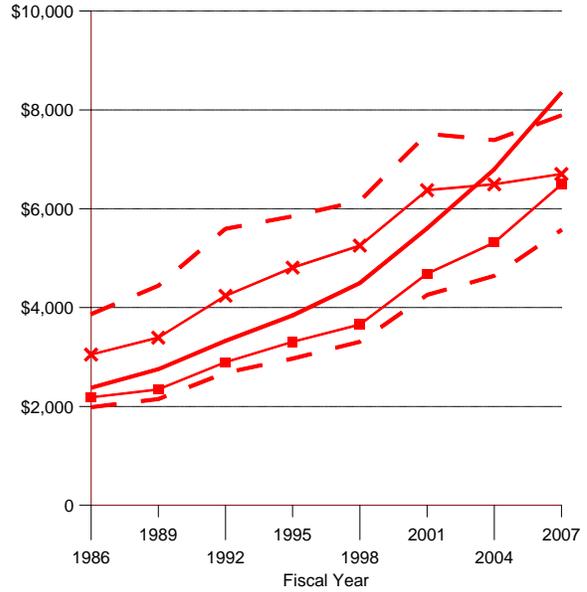
1. Recognized Price, Assigned Student Responsibilities, and Family-Taxpayer Share

Typical Students Attending the University of Minnesota, Fiscal Year 2007



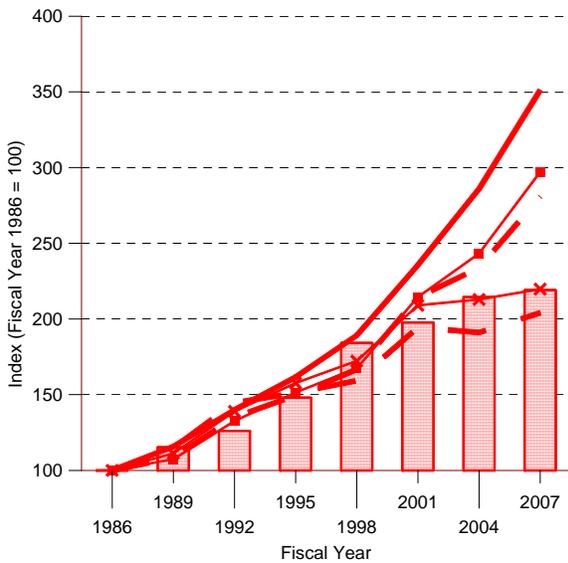
2. Family-Taxpayer Shares

- Minnesota Private 4-Year Institutions
- ✕✕ Minnesota Private 2-Year Institutions
- The University of Minnesota
- Minnesota State 4-Year Universities
- Minnesota State 2-Year Colleges



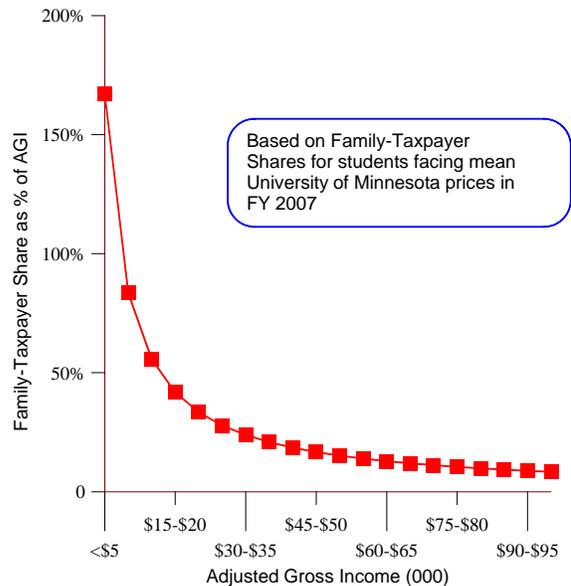
3. Family-Taxpayer Shares Relative to Income

- Minnesota's Private 4-Year Institutions
- ✕✕ Minnesota's Private 2-Year Institutions
- The University of Minnesota
- MnSCU 4-Year Institutions
- MnSCU 2-Year Institutions
- Median Family Income for Family of Four



4. Family-Taxpayer Share as a Percent of Income

Typical Dependent Students Attending Minnesota State Colleges, Fiscal Year 2007



Assigned Family Responsibilities

Minnesota State Grant policy is built on the principle that families are assigned a share of the price based on their ability to pay. Assigned Family Responsibilities are designed to reflect the financial and household situations of applicants' families. As family incomes and net worth increase, Assigned Family Responsibilities increase.

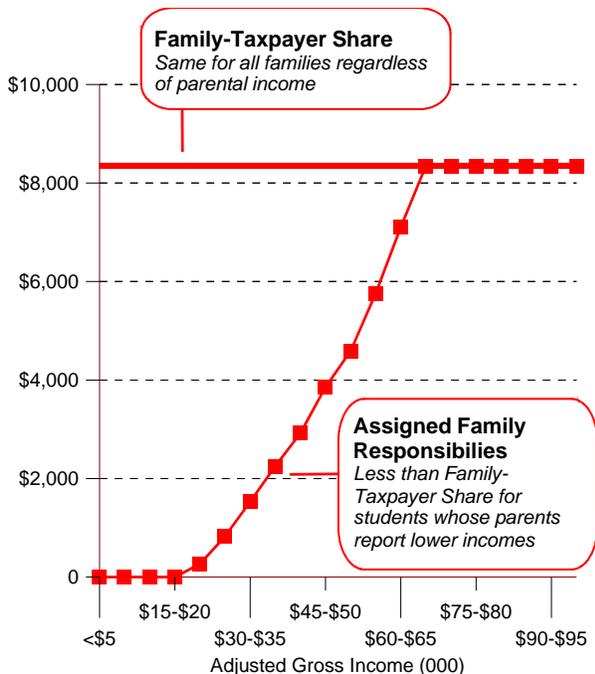
State Grant policy embodies the following principles by assigning a share of the recognized price of attendance to families:¹¹

- Family income and net worth are appropriate measures of ability-to-pay for the postsecondary education of family members.
- Families benefit from educated family members.
- Families will accept their financial responsibilities, and if they do not, the responsibility falls to the student and not to taxpayers, colleges or anyone else.

In order to determine the ability to pay, Minnesota coordinates with the federal student aid application process. Minnesota applicants and their families fill out the same form for federal and state grants, the Free Application for Federal Student Aid.¹² The federal government, using the Federal Need Analysis, assesses family incomes and net worth reported on the FAFSA.¹³ The results of the Federal Need Analysis are what the federal government expects families to pay for postsecondary education, known as the Expected Family Contributions. The federal government uses these results to determine federal Pell Grants, federal Stafford Loan subsidies and other federal financial aid amounts.

Assigned Family Responsibilities and Family-Taxpayer Share

Typical Dependent Students Attending the University of Minnesota, Fiscal Year 2007



¹¹ See Carnegie Council (1979), especially pages 160-163.

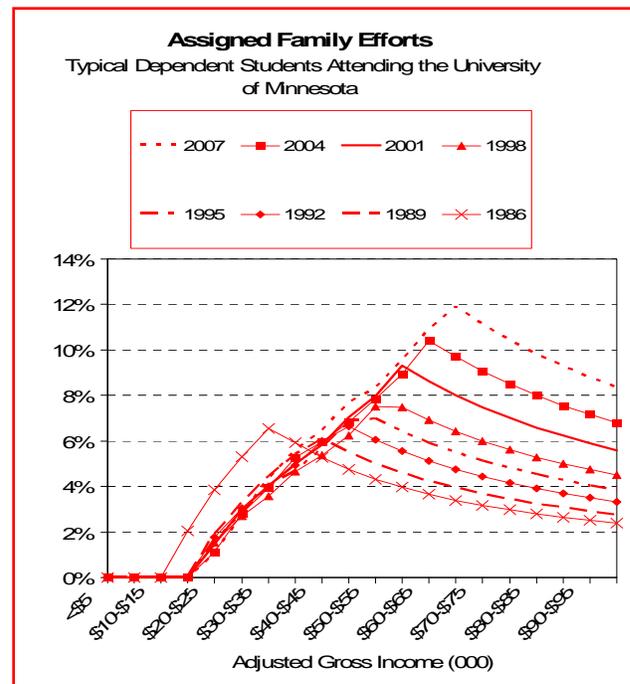
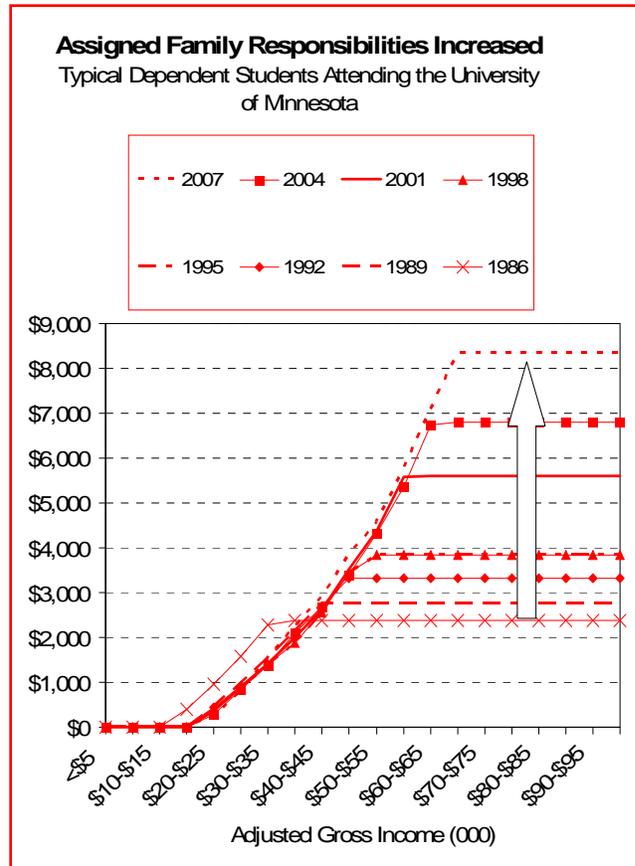
¹² *Minnesota Statutes 2006* 136a.101 subdivision 5a.

¹³ The Federal Need Analysis is defined by the federal government in Title IV of the Higher Education Act of 1965, as amended.

Minnesota uses the definitions and rates in the Federal Need Analysis. Current Minnesota State Grant policy makes downward adjustments to the results of the Federal Need Analysis. Specifically, Minnesota's Assigned Family Responsibilities do not include any assessments for students' income and net worth for families with dependent students. Further, beginning in Fiscal Year 2008, Minnesota will assign 96 percent of the federal results for parents of dependent students. For independent students with dependents, Minnesota assigns 86 percent of the federal results and for independent students with no dependents other than a spouse, Minnesota assigns 68 percent of the federal results.

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. At some point on the income spectrum, Assigned Family Responsibilities equal the Family-Taxpayer Share. That point varies with prices since the Family-Taxpayer Share varies with prices. The higher the price, the higher the point at which the Assigned Family Responsibility equals the Family-Taxpayer Share.

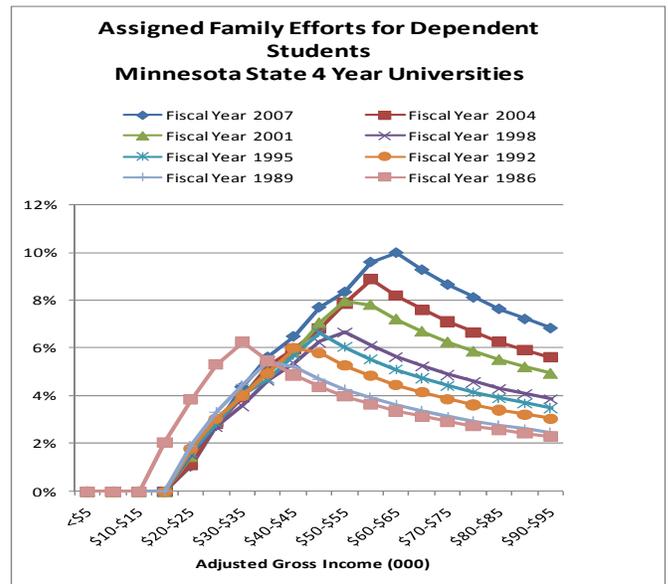
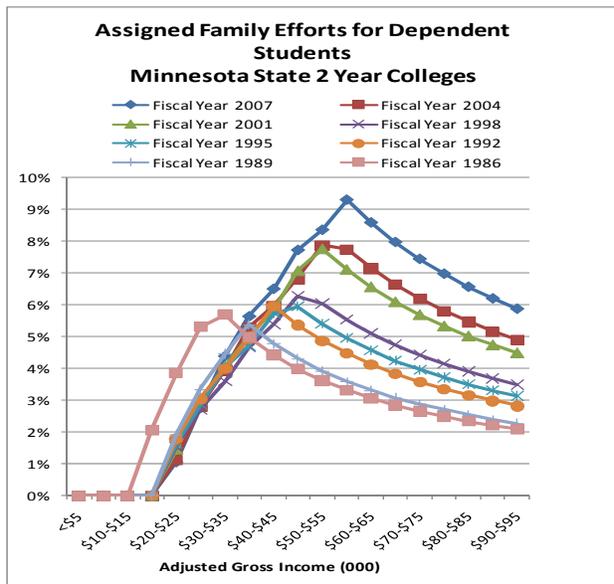
Compared to the typical families shown on the chart, families with additional financial resources (untaxed income, for example) are assigned greater financial responsibilities (the Assigned Family Responsibilities line shifts up).



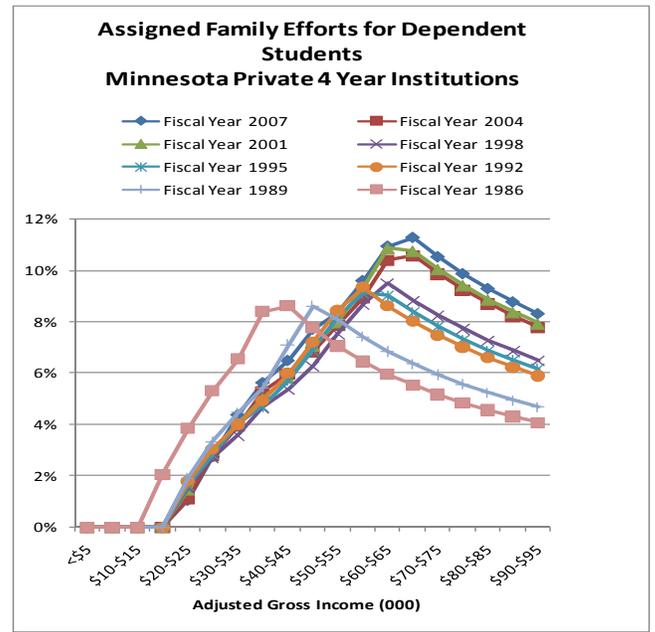
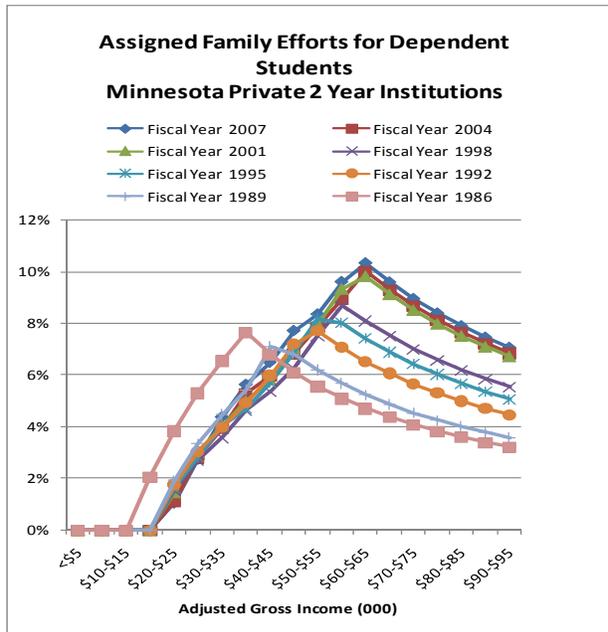
A. Change in Assigned Family Responsibilities of Parents of Dependent Students

For families on the high end of the income distribution, Assigned Family Responsibilities have been increasing with price increases as shown on the first chart on the previous page. For this University of Minnesota example, the family pays 100 percent of the Family Taxpayer Share at and above an income of about \$60,000 adjusted gross income at a Recognized Price of \$15,462 used in the chart.

Assigned Family Responsibilities measured as a percentage of adjusted gross incomes provide an indicator of family financial effort. This relationship, called assigned family efforts, is shown on the bottom panel to the right on the previous page. The peak (high point) in the distribution of Assigned Family Efforts identifies those families who were assigned the most financial responsibility relative to their incomes. For typical dependent students attending the University of Minnesota in Fiscal Year 2007, the peak was about 12 percent for families earning about \$70,000. This is up from the 1986 peak of about seven percent at incomes of about \$30,000. Similar results occurred for the other price examples.¹⁴



¹⁴ Assigned Family Efforts for families of dependent students is covered more fully in another paper, *Assigned Family Efforts of Families of Dependent Students*



B. Change in Assigned Family Responsibilities for Independent Unmarried Students with No Dependents

Students who meet one or more of the following criteria 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;
- Veteran of military service; or
- 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 the Federal Need Analysis and in determining their Assigned Family Responsibilities. The income and family characteristics of independent students (and their spouses) are evaluated instead. This practice recognizes that independent students have assumed the financial obligations of the family. As with parents of dependent students, this obligation varies according to a measure of ability to pay.

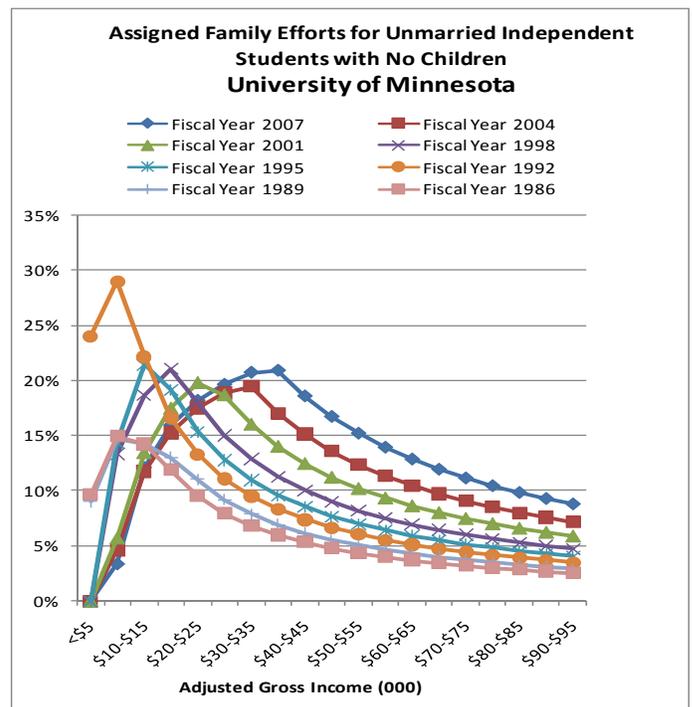
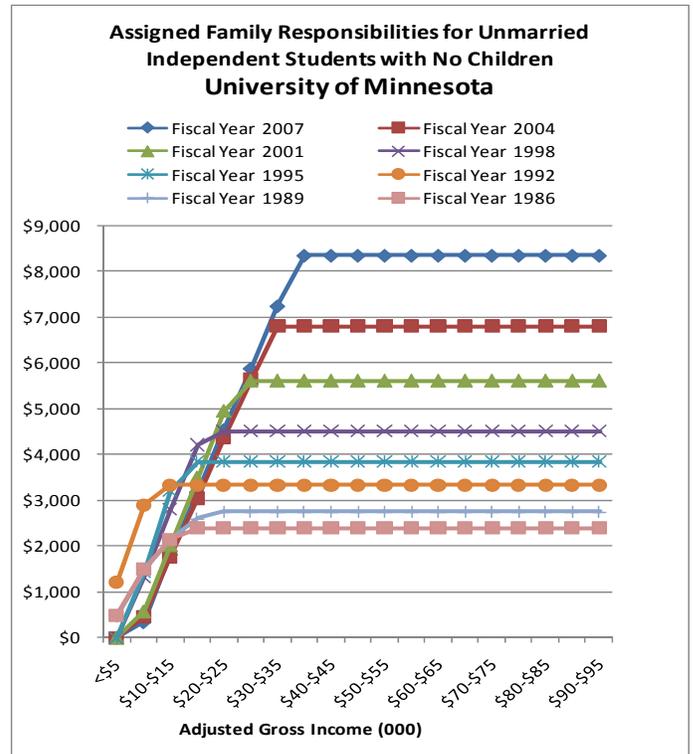
The chart on the right shows the following for unmarried independent students with no dependents:

- Assigned Family Responsibilities have fluctuated for students on the lower end of the income distribution.
- Assigned family responsibilities have been increasing with price increases for students on the higher end of the income distribution.

Typical unmarried students with no dependents earning more than \$45,000 attending the University of Minnesota in Fiscal Year 2007 were assigned the entire Family-Taxpayer Share of the recognized price of attendance, as shown on the top panel.

Assigned Family Responsibilities measured as a percentage of adjusted gross incomes provide an indicator of financial effort. This relationship is shown on the bottom panel to the right. The peak (high point) in the distribution of assigned family efforts identifies those who were assigned the most relative to their incomes.

For typical unmarried students with no dependents attending the University of Minnesota in Fiscal Year 2007, the peak was about 21 percent for those earning about \$35,000. This compares with the 1986 peak of about 15 percent at incomes of about \$10,000. The peak was as high as 29 percent in 1992.



Assigned Taxpayer Responsibilities

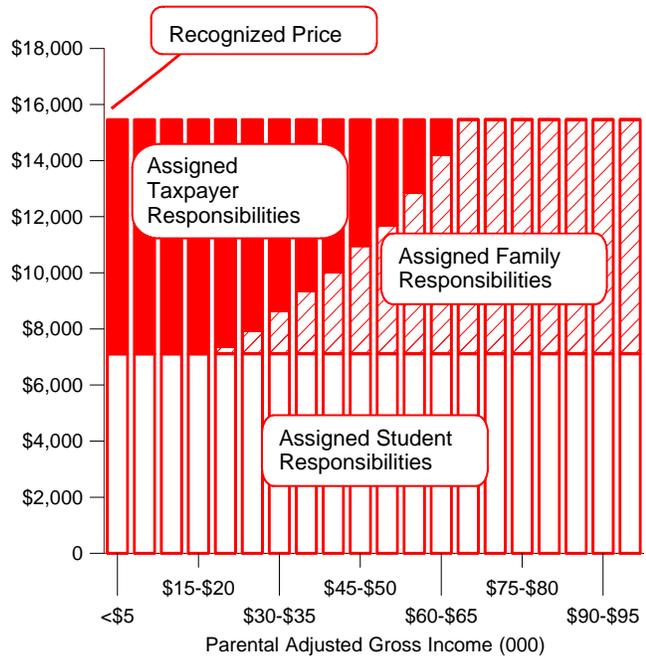
Taxpayers are the final partners in the Minnesota State Grant policy and are responsible for any recognized price not covered by students and their families. Assigned Taxpayer Responsibilities cover any residual remaining price as shown on the chart to the right.

Federal Pell Grants, if any, are counted first in covering assigned taxpayer responsibility. Minnesota State Grants cover any remaining difference. If appropriations are insufficient to fully cover grants for all students, the Assigned Student and Family Responsibilities are increased to account for the full Recognized Price of Attendance.¹⁵

Current Minnesota State Grant policy embodies the following values in assigning a share of the recognized price of attendance to taxpayers in order to assist some, but not all, families:

- Minnesota taxpayers have a societal interest in helping finance the education of individuals from Minnesota families who lack the resources to pay all of the family-taxpayer share.
- State taxpayers are also federal taxpayers and a well constructed policy coordinates investments in students to effectively meet the program's goals.

Recognized Price; Assigned Student, Family, and Taxpayer Responsibilities Typical Dependent Student Attending the University

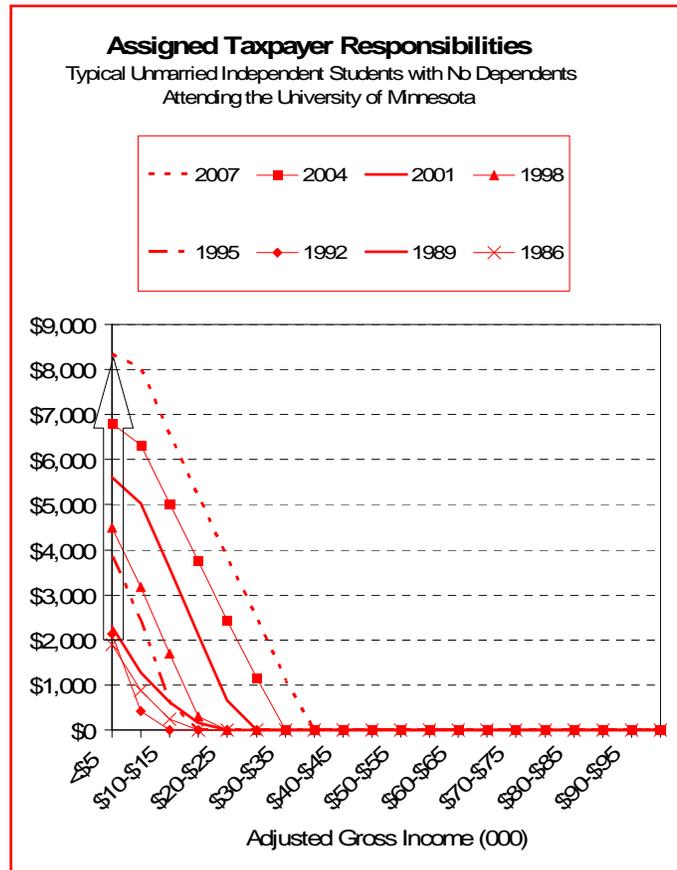
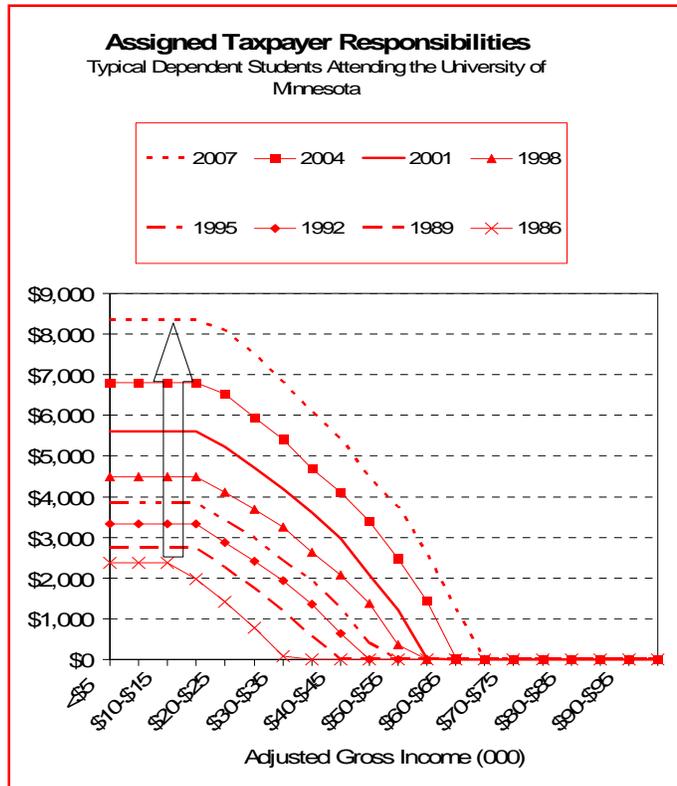


¹⁵ *Minnesota Statutes 2006 136a.121 subdivision 7.*

Changes in Assigned Taxpayer Responsibilities are shown on the charts to the right and on the next two pages.

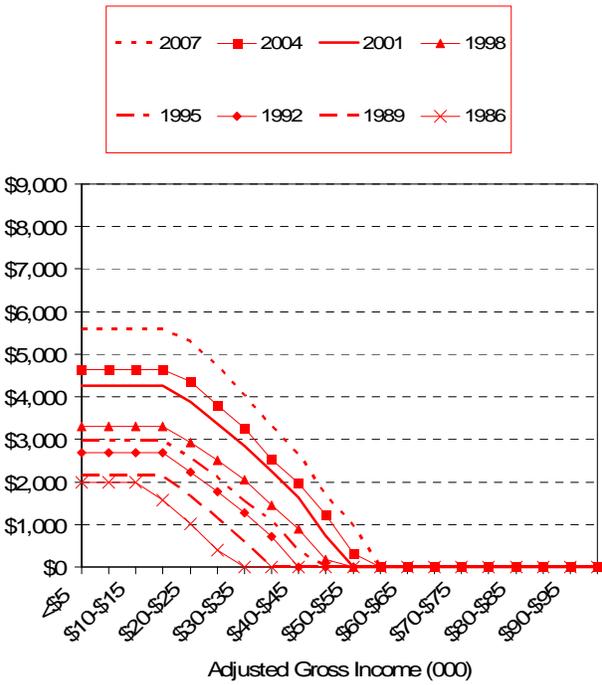
For families in the \$20,000 to \$25,000 income group, Assigned Taxpayer Responsibilities for typical dependent students attending the University of Minnesota increased from \$2,000 to \$8,085 from Fiscal Years 1986 to 2007, as shown on the top panel to the right.

For students earning less than \$5,000, Assigned Taxpayer Responsibilities for typical unmarried students with no dependents applying as independent students attending the University of Minnesota increased from \$1,897 to \$8,350 from Fiscal Years 1986 to 2007, as shown on the bottom panel. Similar increases have occurred for typical students attending all types of institutions, as shown on the next two pages of charts.

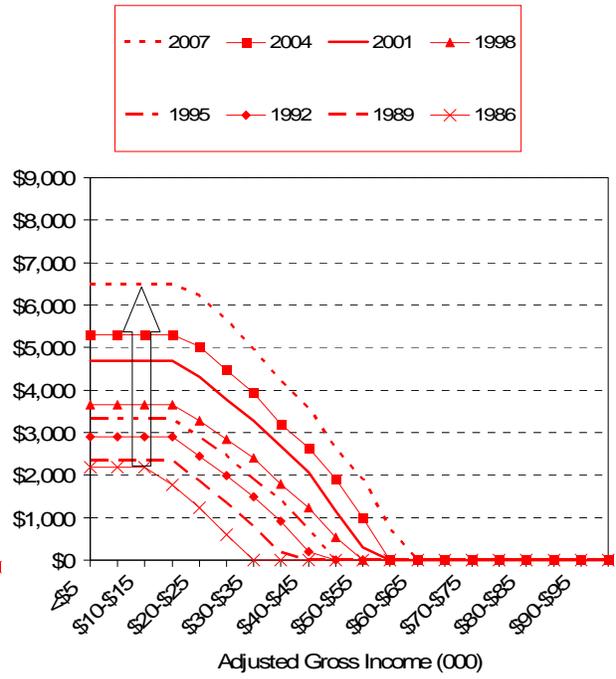


Assigned Taxpayer Responsibilities Increased for Dependent Students

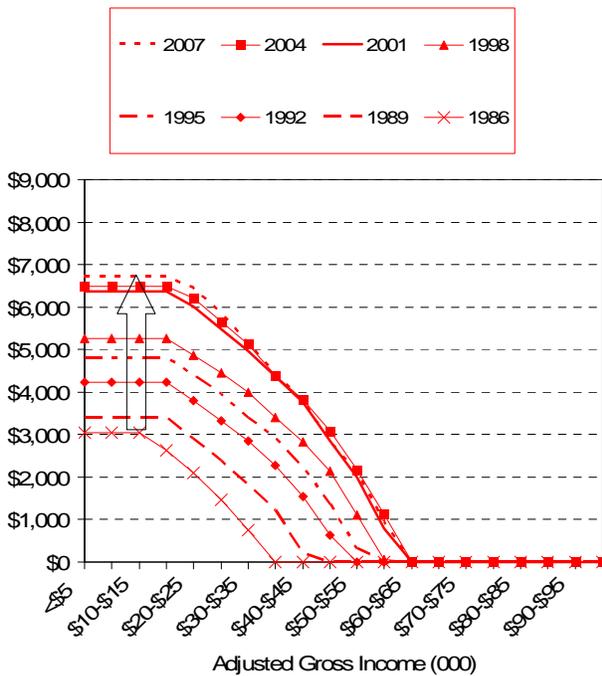
Assigned Taxpayer Responsibilities
Typical Dependent Students Attending MnSCU Two-Year Colleges



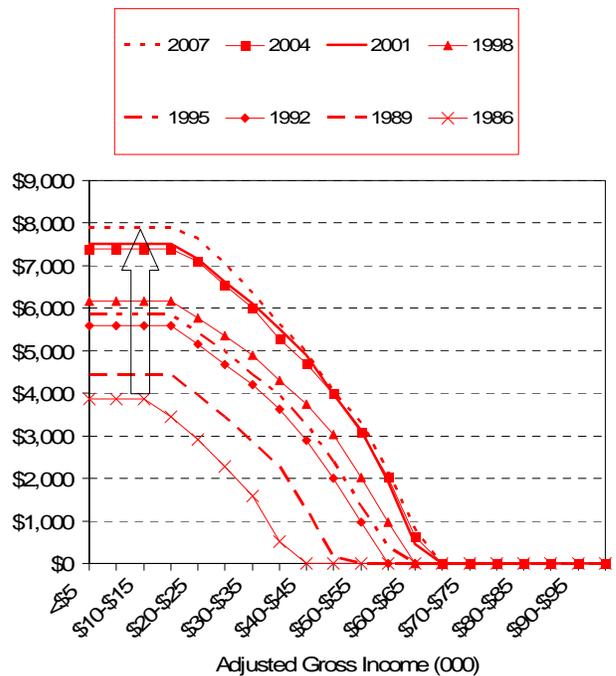
Assigned Taxpayer Responsibilities
Typical Dependent Students Attending MnSCU Four-Year Universities



Assigned Taxpayer Responsibilities
Typical Dependent Students Attending Private Two-Year Institutions

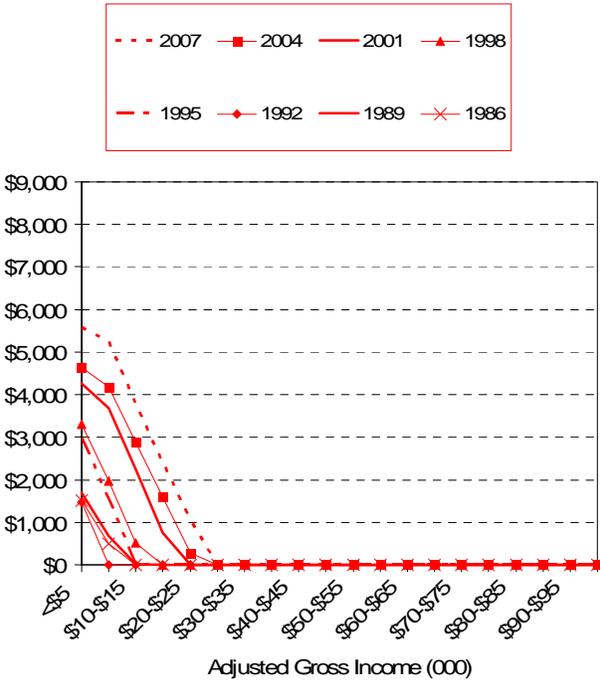


Assigned Taxpayer Responsibilities
Typical Dependent Students Attending Private Four-Year Institutions

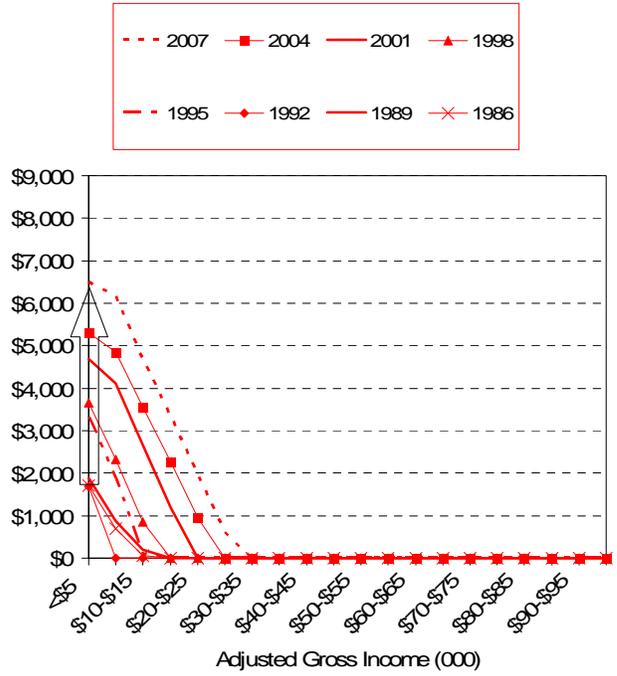


Assigned Taxpayer Responsibilities Increased for Unmarried Students with No Dependents Applying as Independent

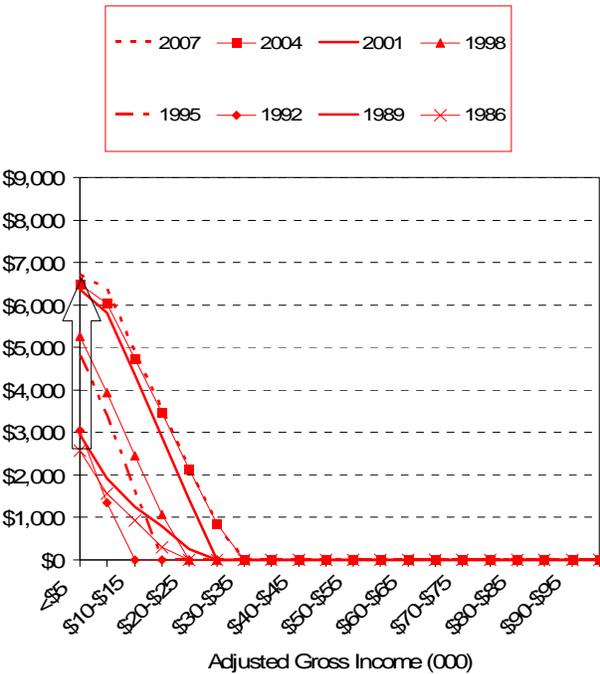
Assigned Taxpayer Responsibilities
Typical Unmarried Independent Students with No Dependents
Attending MnSCU 2-Year Colleges



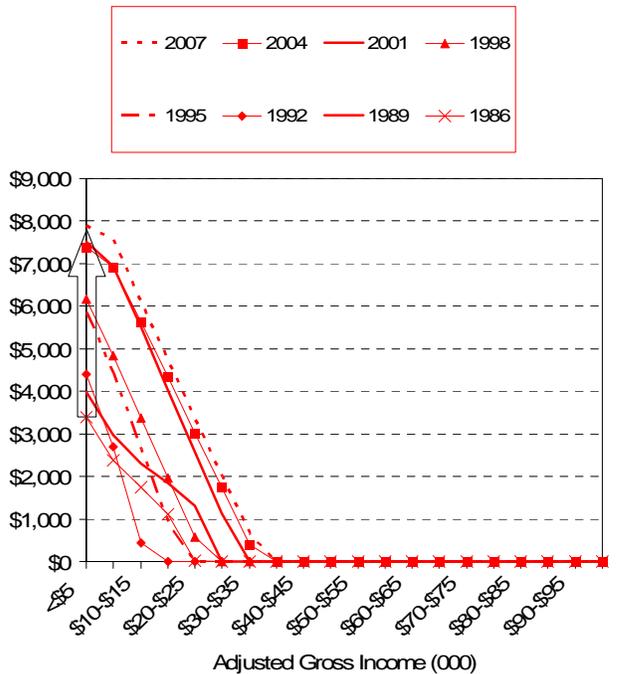
Assigned Taxpayer Responsibilities
Typical Unmarried Independent Students with No Dependents
Attending MnSCU 4-Year Institutions



Assigned Taxpayer Responsibilities
Typical Unmarried Independent Students with No Dependents
Attending Private 2-Year Institutions



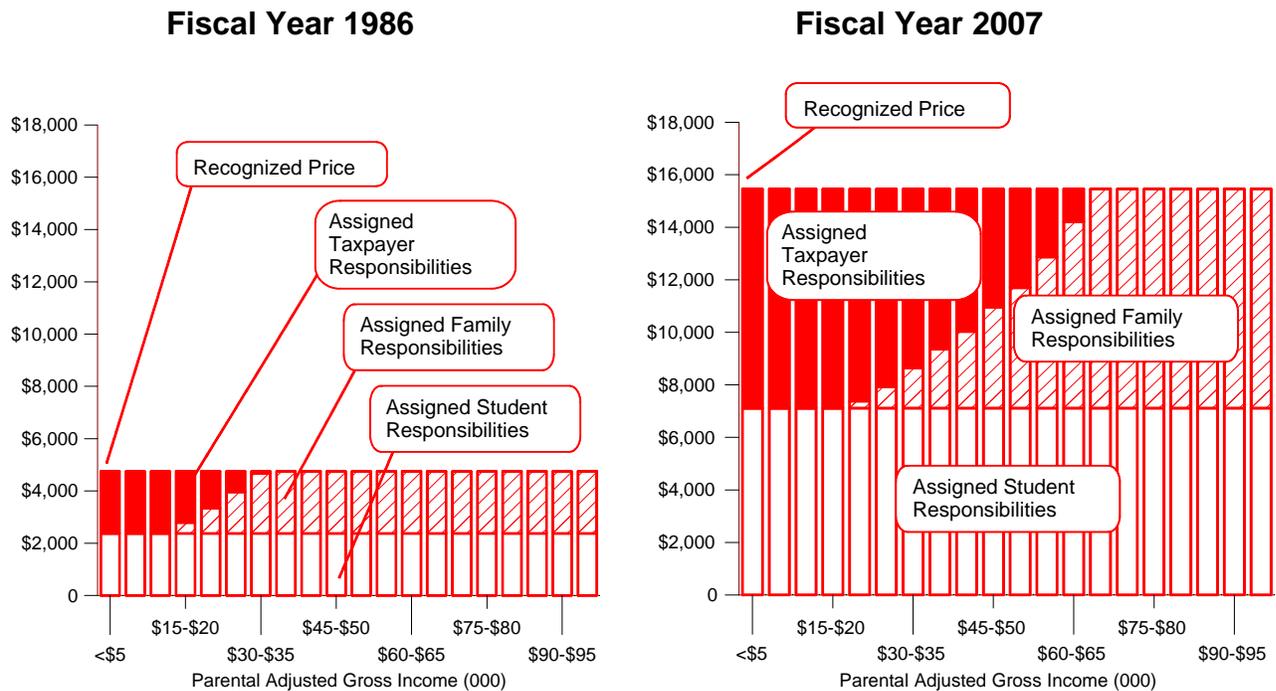
Assigned Taxpayer Responsibilities
Typical Unmarried Independent Students with No Dependents
Attending Private 4-Year Institutions



Responsiveness Over Time

In practice, the Minnesota Legislature and Governor consciously establish the responsibilities for students, families and taxpayers in the Minnesota State Grant policy. Current Minnesota State Grant policy assigns all of the recognized price of attendance to students, families and, if necessary, to taxpayers. The model is designed to respond to changes in prices, as shown below.

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



- Prices increased from \$4,755 to \$15,462.
- Assigned Student Responsibilities increased from \$2,378 to \$7,113, less than half as much as prices.
- Assigned family responsibilities increased on the right side of the income distribution in response to price increases.
- Assigned Taxpayer Responsibilities increased and included a wider range of incomes.