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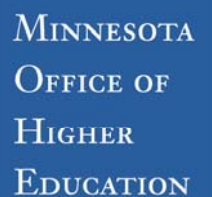
# Tuition and Fee Maximums in the Minnesota State Grant Program

## Minnesota State Grant Review

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### Minnesota Office of Higher Education

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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

In the *Overview of the Design for Shared Responsibility*, tuition and fee maximums were generally described. This report provides additional background information on the maximums. In addition, the paper describes three benchmarks that may serve as potential guides for policymakers when establishing tuition and fee maximums.

The maximums set in statute serve as the first formula for awarding Minnesota State Grants the Minnesota State Grant Program starts with the recognized price of attendance. The recognized price of attendance is the sum of recognized tuition and fees plus a standard living and miscellaneous expense allowance. Minnesota Laws define recognized tuition and fees as the lesser of:

- Average tuition and required fees paid by resident undergraduates registering for full-time loads.<sup>1</sup>
- Tuition and fee maximums set as part of the state's appropriation process.

There are two tuition and fee maximum amounts set in statute; one for students attending four-year programs and one for students attending two-year programs. The tuition and fee maximums act as a budgeting tool by constraining the state's exposure to demands on the general fund. In addition, tuition and fee maximums act as a disincentive to institutions and systems for tuition increases. Second, postsecondary institutions have an incentive to increase prices if they are covered for low-to-moderate-income state residents, and tuition and fee maximums act as a disincentive to tuition and fee increases, (although the degree to which this is true is open to empirical evaluation). Tuition and fee maximums are a reflection of the Legislature's judgment about the appropriate amount of tuition and fees to be recognized as a matter of State Grant Program policy. The test of this judgment is how well they reflect the actual tuition and fees students face.

## Tuition and Fee Maximums Over Time

The original tuition and fee maximum levels were established in 1983 and implemented in 1984. The initial four-year maximum was set using University of Minnesota undergraduate instructional costs as reported in the biennial budget process using a uniform average cost funding methodology.<sup>2</sup> The following table shows how tuition and fee maximums have changed between 1984 and 2008 by action of the Legislature, and compares actual tuition and fee maximums to inflation. The inflation indicator used in the table is the college tuition and fees component of the consumer price index. This is a national figure and may not completely reflect the experience in Minnesota, but is conceptually an appropriate index.<sup>3</sup>

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<sup>1</sup> Actual tuition and fees charged by the institution attended based on the student's course load was used in Fiscal Year 2003 and rescinded starting in Fiscal Year 2004.

<sup>2</sup> Report of the Minnesota Financial Aid Task Force, February, 1994.

<sup>3</sup> See the reference at [www.bls.gov/cpi/cpifacct.htm](http://www.bls.gov/cpi/cpifacct.htm).

**Four-year and Two-year Tuition and Fee Maximums  
Statutory Levels and Adjusted for Inflation  
Fiscal Years 1984 to 2008**

<b>Fiscal Year</b>	<b>Four Year Statutory Tuition and Fee Maximum</b>	<b>Inflation Adjusted Four Year Statutory Tuition and Fee Maximum</b>	<b>Two Year Statutory Tuition and Fee Maximum</b>	<b>Inflation Adjusted Two Year Statutory Tuition and Fee Maximum</b>
1984	\$3,598		\$3,573	
1985	4,063	\$3,925	3,752	\$3,898
1986	4,973	4,243	3,940	4,213
1987	5,271	4,564	4,215	4,532
1988	5,875	4,911	4,568	4,877
1989	6,024	5,300	4,684	5,264
1990	7,095	5,729	4,839	5,689
1991	7,663	6,312	5,146	6,268
1992	7,663	6,990	5,898	6,941
1993	7,663	7,645	5,898	7,591
1994	7,663	8,178	5,898	8,121
1995	7,663	8,669	5,898	8,609
1996	7,665	9,160	5,900	9,097
1997	7,665	9,628	5,900	9,562
1998	7,860	10,034	6,020	9,965
1999	8,055	10,434	6,200	10,361
2000	8,300	10,866	6,390	10,791
2001	8,550	11,419	6,580	11,340
2002	8,764	12,198	6,744	12,114
2003	8,983	13,223	6,913	13,131
2004	8,983	14,474	6,913	14,373
2005	8,983	15,554	6,913	15,446
2006	9,208	16,631	6,567	16,516
2007	9,438	17,689	6,436	17,566
2008	9,838	18,789	6,114	18,658

The table demonstrates that the Legislature has employed its prerogative to increase, decrease or hold nearly constant the tuition and fee maximums for students attending four-year and two-year institutions. The table also illustrates that, using 1984 as a starting point and the CPI index as an inflator, the tuition and fee maximums have not maintained purchasing power over the past 25 years.

# Benchmarks for Setting Tuition and Fee Maximums

There are no policy guidelines in state statute for setting tuition and fee maximums. Currently they are established as part of the state's appropriations process without reference to benchmarks. The following benchmarks have either been used or suggested for use in determining the tuition and fee maximums.

1. Instructional spending per student at public institutions
2. Posted tuition and fees at public institutions
3. Taxpayer spending per student at public institutions

## 1. Instructional Spending per Student at Public Institutions

Tuition and fee maximums were part of the Design for Shared Responsibility as adopted by the 1983 Minnesota Legislature and Governor. Between 1984 and 1987, the tuition and fee maximums were benchmarked to University of Minnesota undergraduate instructional costs at two campuses as reported in the University's cost study.<sup>4</sup> A motivation for this benchmark appears to have been the desire to limit state support for a student attending a private institution to the level of support for a similar student attending a comparable public institution. From 1988-1991, tuition and fee maximums were benchmarked to undergraduate per student instructional spending as reported by Minnesota's public postsecondary education systems in the Governor's biennial budget recommendations using an average cost funding methodology. Instructional spending per student, by level of instruction, was the sum of instructional spending from state appropriations and student tuition.

There does not appear to have been a policy rationale for using instructional spending as a benchmark other than to limit public spending on students attending private institutions. With the advent of average cost funding, instructional spending was a conveniently available number derived from an established methodology. Instructional spending data by level of instruction is no longer reported in the Governor's biennial budget recommendations, and therefore, are not currently available. A provision was added to the higher education bill in 2007 that requires instructional cost data to be reported in future biennial budget documents. It is not clear if the instructional cost data to be reported by Minnesota's two public systems will be helpful as a tuition and fee maximum guideline.

## 2. Posted Tuition and Fees at Public Institutions

Since the discontinuation of average cost funding and instructional cost reporting by Minnesota's public postsecondary systems, the Minnesota Legislature has set tuition and fee maximums in statute. Legislative staff have suggested benchmarking the tuition and fee maximums to posted tuition and fees at public two- and four-year institutions; however, this approach has not been discussed broadly.

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<sup>4</sup> The two institutions were the University of Minnesota, Duluth and the University of Minnesota, Morris. Preliminary cell values were used since the final values were typically not available until after the Governor submitted the budget.

There does not appear to be a strong policy rationale for using posted tuition and fees at public institutions to benchmark the tuition and fee maximums. Similar to instructional spending during the period of average cost funding policy, posted tuition and fees at public institutions are convenient and available.

### 3. Taxpayer Spending per Student at Public Institutions

Taxpayer spending per undergraduate student at public institutions is an alternative approach to benchmarking the tuition and fee maximums. As with posted tuition and fees at public institutions, this approach has not been discussed publicly. Taxpayer spending per undergraduate student is the sum of state appropriations spent on instruction, the federal Pell Grant and the Minnesota State Grant. The data necessary to benchmark the tuition and fees maximums to taxpayer spending per student are conveniently available.

The taxpayer spending benchmark assumes taxpayers are indifferent where Minnesota undergraduate students obtain undergraduate education in Minnesota, as long as the cost to the taxpayer is the same. If taxpayers are buying enhanced human capital by investing in undergraduate education, then taxpayers may be indifferent as to where undergraduate students obtain human capital. This taxpayer indifference would not hold if there were demonstrated differences among institutions in enhancing human capital.

For example, the four-year tuition and fee maximum could be set with the following formula with reference to information from the University of Minnesota:

$$Pell Grant_4 + State Grant_4 \leq Pell_{um} + State Grant_{um} + Appropriations per Student_{um}$$

Where  $Pell Grants_4$  represents grants at four-year institutions currently limited by the tuition and fee maximums and  $Pell Grant_{um}$  is the largest grant available for a recipient at the University of Minnesota.

Per student taxpayer appropriations for instruction reported by Minnesota State Colleges and Universities and the University of Minnesota were as follows:

- For Minnesota State Colleges and Universities, 102 percent of Recognized Tuition and Fees.<sup>5</sup>
- For the University of Minnesota, \$4,277.<sup>6</sup>

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<sup>5</sup> Each year, the Minnesota State Colleges and Universities reports the taxpayer subsidy provided for instruction. For Fiscal Year 2007, MnSCU reported this information on its Web site as: “For every dollar you pay in tuition, the state of Minnesota pays \$1.02 to support your education.” [Accessed at [www.mnscu.edu/students/tuition.html](http://www.mnscu.edu/students/tuition.html) (March 23, 2007)].

<sup>6</sup> Each year, the University of Minnesota reports the taxpayer subsidy provided for instruction. For Fiscal Year 2007, the University of Minnesota reported this information on its Web site as: “Tuition pays for approximately 67 percent of the cost of instruction at the University of Minnesota. The state of Minnesota pays approximately \$4,277 of the average cost for full-time students.” [Accessed at [www.onestop.umn.edu/onestop/Tuition\\_Billing/Tuition\\_Rates.html](http://www.onestop.umn.edu/onestop/Tuition_Billing/Tuition_Rates.html) (March 23, 2007)].

These figures can be used to determine an implied tuition and fee maximum for students attending four-year institutions. The University of Minnesota number was used in the calculation below. Taxpayer appropriations per student do not include student paid tuition and fees, capital costs covered by the state through the bonding process or any other taxpayer investments.<sup>7</sup>

**U of M Recognized Price of Attendance and Design for Shared Responsibility Distribution**

Tuition & Fee Maximum*	\$9,838
+ LME**	\$6,200
= Recognized Price of Attendance	\$16,038
ASR = 46%	\$7,377
AFR/ATR= 54%	\$8,661

**Private Four Year Recognized Price of Attendance and Design for Shared Responsibility Distribution**

Recognized Price of Attendance***	\$23,958
ASR = 46%	\$11,021
AFR/ATR= 54%	\$12,938

**Maximum calculation under Taxpayer Investment Approach**

State Grant U of M Student =	
Current RPA*	\$16,038
x AFR/ATR %****	54%
= State Grant U of M student	\$8,661
+ General Appropriation U of M for all students	\$4,277
= Taxpayer Investment	\$12,938
Divided by 54% of Price	54%
= Total Recognized Price of Attendance	\$23,959
Less LME Amount	\$6,200
<b>Implied four year tuition and fee maximum</b>	<b>\$17,758</b>

- \* Assumes U of M Recognized Price of Attendance (RPA) is 15 credit tuition and fees average + LME
- \*\* Assumes LME set at \$6,200 for U of M undergraduates, but it could be set at any reasonable amount.
- \*\*\* Recognized Price of Attendance for Private Four Year students = formula from above
- \*\*\*\* This assumes a zero Expected Family Contribution

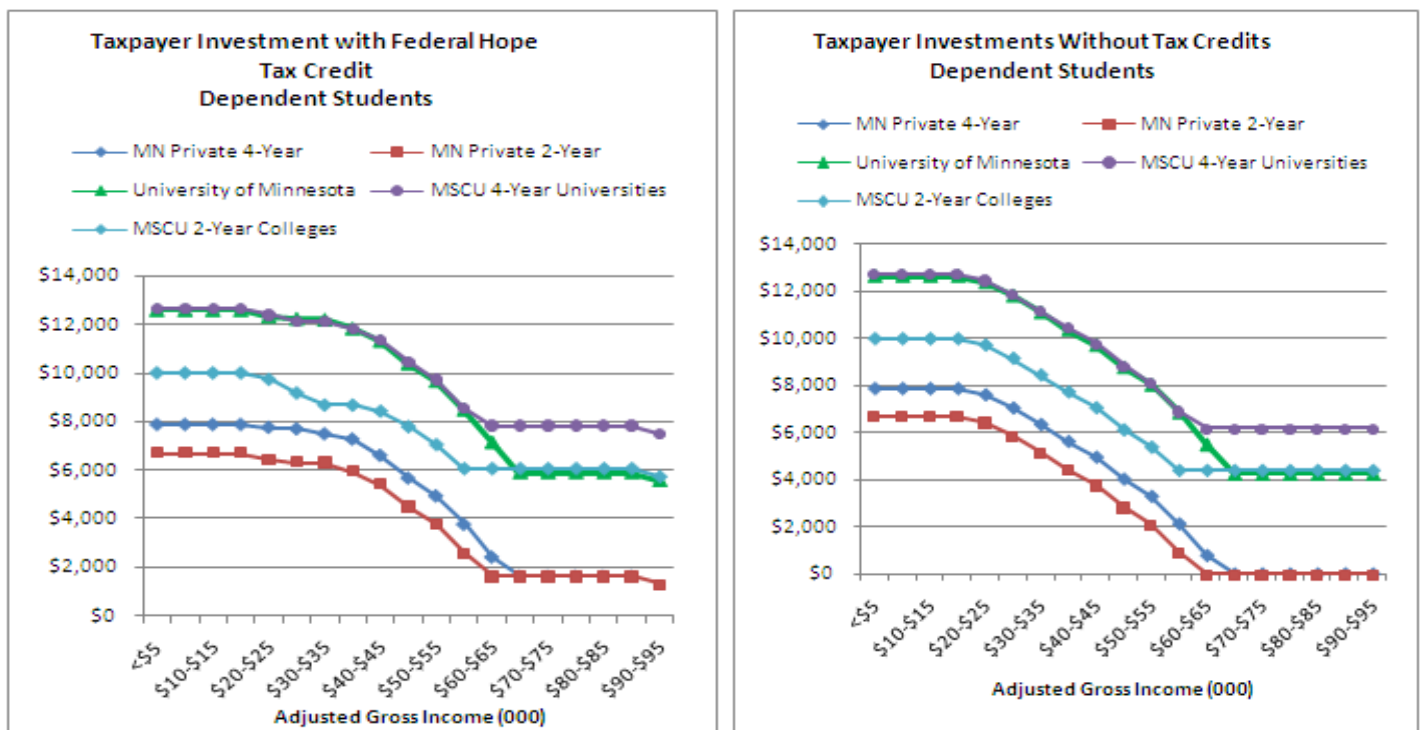
Using taxpayer spending per student at public institutions as a Tuition and Fee Maximum guideline, the Tuition and Fee Maximums would have been \$17,758 in Fiscal Year 2007. Coincidentally, this amount is similar to the inflation adjusted Tuition and Fee Maximum for Fiscal Year 2007 in the table on page I-4.

<sup>7</sup> Information from the Department of Finance indicates that in 2006 this subsidy for capital costs debt service amounted to almost \$57 million, or over \$200 per student.

The following charts demonstrate that taxpayers currently differentiate among students and prefer to invest in students attending public institutions. Specifically, the panels are the sum of the federal Pell and Minnesota State Grants plus a measure of taxpayer appropriations per student for instruction as reported by MnSCU and the University of Minnesota for Fiscal Year 2007. Federal Pell and Minnesota State Grant data shown on the charts were from the Minnesota Office of Higher Education for Fiscal Year 2007.<sup>8</sup>

The charts include taxpayer investments in students through the federal Hope Tax Credits based on Fiscal Year 2006 Internal Revenue Service rules.<sup>9</sup>

### Taxpayer Spending per Student for Dependent Students Fiscal Year 2007

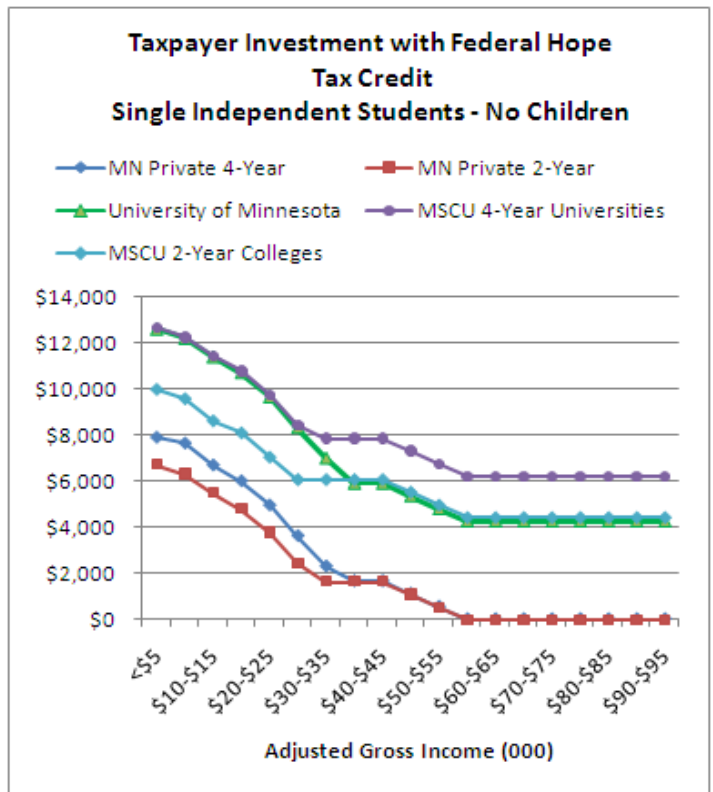
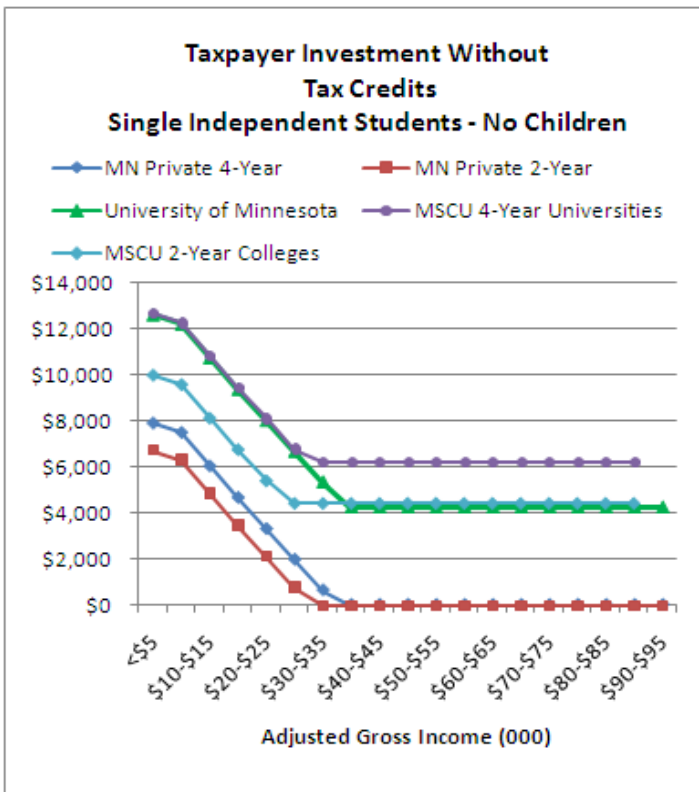


<sup>8</sup> For dependent students, it was assumed that the parents filed jointly, claimed four exemptions and used the standard deduction. For unmarried independent students, it was assumed that they had household size = 1 and used the standard deduction

<sup>9</sup> Federal Hope Tax Credits provide the most postsecondary education tax dollar benefits to filers. Federal Lifetime Tax Credits are claimed by filers unable to claim Federal Hope Tax Credits. The Federal Tuition and Fee Deduction extends postsecondary education tax benefits further up the income spectrum than either the Federal Hope Tax Credit or the Federal Lifetime Tax Credit.



## Taxpayer Spending per Student for Independent Students Fiscal Year 2007



### Findings

- Over the years, the Minnesota Legislature has employed its prerogative to increase, decrease and sometimes hold nearly constant tuition and fee maximums for students attending four-year and two-year institutions.
- Using the tuition and fee maximums from 1984 as the base year and inflating the base year amount by the CPI index, the tuition and fee maximums have not maintained purchasing power over the last 25 years.
- Benchmarking the tuition and fee maximums to taxpayer spending on students attending public institutions would increase the tuition and fee maximums and result in similar taxpayer spending for low-to moderate-income students attending similar public and private institutions. This would result in taxpayer spending on students attending private institutions at the same levels as taxpayer spending on students attending public institutions.