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OFFICE OF
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Minnesota State Grant Projections



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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 serves as the state's clearinghouse for data, research and analysis on postsecondary enrollment, financial aid, finance and trends.

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.

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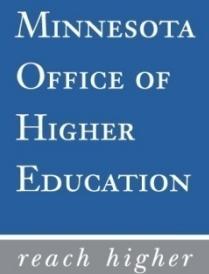


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Introduction

The purpose of this report is to meet the directive of Minnesota Statute 136A.121 requiring the Minnesota Office of Higher Education to update projections for the State Grant program for the 2010-2011 biennium. The law requires these updates to occur by November 1 and February 15 of each year. A meeting was held as required under the statute with interested parties including representatives from public and private institutions, legislative staff and Minnesota Management and Budget on October 26, 2009. Information on enrollments and tuition and fee changes was provided by these representatives.

This report contains two parts. Part I addresses spending projections for the Minnesota State Grant program. Part II part discusses spending projections for the Achieve Scholarship program.

Part I

Minnesota State Grant Fiscal Years 2010 - 2011 Spending Projection

The projections contained in this report are the result of both preliminary spending for the fall term (awards and disbursements to date) as reported by participating institutions projected forward, and a full simulation of the State Grant model with new assumptions regarding enrollment, tuition and income changes. This projection is based on two independent approaches to the analysis. Preliminary spending data was analyzed for the fall term. The spending projection has also been confirmed by a separate simulation that projects fiscal year 2009 data to fiscal year 2010 using known enrollment and tuition changes. While there are five academic terms in which State Grant awards are made each year, the fall data can be used as a predictor of the demand for the entire year.

This report details the specific adjustments to spending based on federal legislation, price, enrollment and the demand for financial aid. The changes modeled below are the agency's best estimates as of November 1, 2009 and thus are subject to changes resulting from modifications in federal policy, the enrollment behavior of students and the tuition policies set by the public higher education systems.

The State Grant spending projection for fiscal year 2010 is now \$158.35 million and for fiscal year 2011 is \$155.09 million. This compares to base resources of \$145.47 million for fiscal year 2010 and \$145.47 million for 2011.

Reasons for the higher than anticipated projected growth in demand for program grants include:

- Increase in financial aid applications, as indicated by preliminary fall data from institutions. While applications and eligibility were anticipated to increase due to a stressed economy, the actual volume increase is higher than expected.
- Enrollment increases projected by the public two-year colleges and the University of Minnesota were significantly higher than previously estimated by the systems.

This spending projection is based on the model assumptions detailed starting on page three. The base program spending projection after incorporating enrollment, tuition and income growth assumptions is \$147.43 million for fiscal year 2010 and \$144.24 million for fiscal year 2011. In addition, program spending projections include an additional \$4.00 million per fiscal year for applicants receiving grants in their 9th semester of eligibility. The projections also include an additional \$2.48 million for fiscal year 2010 and \$2.40 million for fiscal year 2011 for summer transition grants. The final adjustment to the

spending projection is for actual fiscal year 2010 fall term applicant pool growth which is not controlled for enrollment assumptions. The adjustment for spending growth is \$4.45 million per fiscal year to control for the increase in financial aid applications filed by returning students as indicated by preliminary application data from institutions.

Spending Projection <i>in millions</i>	FY2010	FY2011	Biennium
Base program spending	(\$147.43)	(\$144.24)	(\$291.67)
9 th Semester Eligibility	(\$4.00)	(\$4.00)	(\$8.00)
Summer Transition Grants	(\$2.48)	(\$2.40)	(\$4.88)
Adjustments for spending growth FY2010	<u>(\$4.45)</u>	<u>(\$4.45)</u>	<u>(\$8.90)</u>
Spending projection	(\$158.35)	(\$155.09)	(\$313.44)

Base resources for the 2010-2011 biennium are the sum of state appropriations plus federal LEAP and SLEAP funds. Total base resources for the biennium equal \$290.94 million.

Base Resources <i>in millions</i>	FY2010	FY2011	Biennium
State appropriations	\$144.14	\$144.14	\$288.28
Federal LEAP program	\$0.60	\$0.60	\$1.20
Federal SLEAP program	<u>\$0.73</u>	<u>\$0.73</u>	<u>\$1.46</u>
Total base resources	\$145.47	\$145.47	\$290.94

The spending projection exceeds the available annual appropriation and federal LEAP/SLEAP funding of \$145.47 million. This suggests a deficiency for fiscal year 2010 of \$12.88 million and for fiscal year 2011 of \$9.62 million. For the biennium, the difference between resources and spending equals \$22.50 million.

Spending Projections vs. Available Resources <i>in millions</i>	FY2010	FY2011	Biennium
Base resources	\$145.47	\$145.47	\$290.94
Spending projection	<u>(\$158.35)</u>	<u>(\$155.09)</u>	<u>(\$313.44)</u>
Difference between resources and spending	(\$12.88)	(\$9.62)	(\$22.50)

Note: These spending projections reflect spending and resources prior to adjustments for the Achieve program as discussed in Part II.

Projection Assumptions

Minnesota State Grant spending projections for fiscal years 2010-2011 are formulated using a series of adjustments and the following program parameters.

Minnesota State Grant Program Parameters	FY2009	FY2010	FY2011
Living and Miscellaneous Expense Allowance	\$6,200	\$7,000	\$7,000
Assigned Student Responsibility Percentage	46%	46%	46%
Tuition Maximum, Students in Two-Year Programs	\$5,808	\$5,808	\$5,808
Tuition Maximum, Students in Four-Year Programs	\$9,838	\$10,488	\$10,488
Federal Pell Grant Award Maximum	\$4,731	\$5,350	\$5,550
Federal Pell Grant Award Minimum	\$890	\$963	\$1,163
Surcharge on Assigned Family Responsibility	0%	0%	0%
Proration of the Assigned Family Responsibility			
Dependent Students	96%	96%	96%
Independent Students with Dependents	86%	86%	86%
Independent Students without Dependents	68%	68%	68%
Maximum Semesters of Attendance for Grant Eligibility	8	9	9

Enrollment Weighting

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 2010 and 2011 is gathered from representatives by November and February of each year. Overall enrollment is used to approximate changes in the number of Minnesota resident aid applicants. For the purposes of this projection enrollment assumptions higher than those presented by institutional representatives were used for fiscal year 2011. For this report, the spending projection utilizes an enrollment assumption that is equal to half the actual enrollment increase in fiscal year 2010. These figures will be reevaluated as new data on enrollments and the economy become available.

Enrollment Assumptions	FY2009	FY2010		FY2011	FY2011
	Fall 2008	Fall 2009		Fall 2010	Fall 2010
System	Actual	Institutional Projection	Actual	Institutional Projection	OHE Projection
MnSCU 2-Year Institutions	+1.8%	+1.6%	+8.0%	+1.2%	+4.0%
MnSCU 4-Year Institutions	+0.7%	+0.4%	+2.0%	+0.9%	+1.0%
University of Minnesota	-0.4%	+0.0%	+4.3%	+0.0%	+2.1%
Private Not-for-profit Institutions	+0.0%	+0.0%	+0.0%	+0.0%	+0.0%
Private For-profit Institutions	+9.8%	+8.0%	+7.2%	+7.6%	+7.6%

Income Inflation

The projections model incorporates data about growth in income and wages from Minnesota Management and Budget. The department's forecast is used in projections of state revenue and spending across multiple agencies and is updated each November and February. For 2010-2011 biennial projections, the model utilizes data from applicable tax years to inflate student and family incomes. As fiscal year 2009 information (tax year 2007) is used, incomes are inflated to reflect growth in subsequent tax years. Data reflecting the annual change in average wages was revised following the March 2009 economic forecast. The income inflator calculations used in the projections are detailed below. These figures will be revised following the November 2009 economic forecast.

	Tax Year 2007	Tax Year 2008	Tax Year 2009
Annual Change in Average Wages	+5.1%	+3.1%	+1.2%

Federal Need Analysis

The College Cost Reduction and Access Act outlined several changes to the Federal Need Analysis beginning with the 2009-2010 State Grant award year (fiscal year 2010). These changes are explained fully in the February 15, 2009 Minnesota State Grant Projections report and were included in the current projections model. Additional changes as made by the U.S. Department of Education to the Federal Needs Analysis such as changes to the income protection allowance are included in the projections model.

Pell Grant Changes in Law

There are two changes to the calculation of the federal Pell Grant incorporated into the spending projections for fiscal years 2010-2011. For fiscal year 2010, the minimum Pell Grant increased to \$923 from the current \$890 level. Secondly, the College Cost Reduction and Access Act grant supplement to the federal Pell Grant is \$490 for fiscal years 2009 and 2010. The grant supplement increases to \$690 in fiscal year 2011.

Federal Pell Grant Award Parameters	FY2009	FY2010	FY2011
Pell Grant Minimum – current law	\$890	\$923	\$1,123
Base maximum – current law	\$4,241	\$4,241	\$4,241
Pell Grant base increase – ARRA		\$519	\$519
Pell Grant supplement	<u>\$490</u>	<u>\$490</u>	<u>\$690</u>
Pell Grant maximum – current law	\$4,731	\$5,350	\$5,550

Tuition and Fee Increases

Minnesota State Grant spending also relies upon estimated tuition and fee increases for each sector. Information about tuition and fee increases for sectors and institutions for fiscal years 2010 and 2011 is gathered from representatives by November and February of each year. It is important to remember that tuition increases have a compounding effect.

The table below details actual and projected tuition increases utilized in the spending projection as reported by institutions in October of 2009 for fiscal years 2010 and 2011. These projected tuition increases for fiscal year 2011 for the Minnesota State Colleges and Universities system are higher than those utilized in the projection during the 2009 legislative session.

Annual Changes in Minnesota Resident Undergraduate Tuition Rates

System	FY2009	FY2010	FY2011
	Actual	Actual	Projected
MnSCU 2-Year	+2.6%	+2.9%	+5.0%
MnSCU 4-Year	+3.3%	+3.0%	+5.0%
University of Minnesota	+6.8%	+7.5%	+7.5%
Private Not-for-profit	+5.9%	+4.8%	+5.0%
Private For-profit	+5.8%	+5.0%	+5.1%

Course of Action

The Minnesota Office of Higher Education has determined the following course of action to remediate the spending shortfall for the Minnesota State Grant program for fiscal year 2010.

- The Office will transfer funds from the second-year appropriation of the Minnesota State Grant program to cover the unanticipated deficiency in the program for fiscal year 2010. This action is within the authority of the Office.

2009 Sessions Laws, Chapter 95, Sec.3, Subd. 2: If the appropriation in this subdivision for either year is insufficient, the appropriation for the other year is available for it. The legislature intends that the Office of Higher Education make full grant awards in each year of the biennium.

- The Office will recommend to the Governor changes to the Minnesota State Grant parameters to reduce spending within available appropriations for fiscal year 2011.
- In the absence of changes in program parameters enacted during the 2010 Legislative Session, the Office will reduce awards for fiscal year 2011 using the rationing procedure outlined in statute.

136A.121 Subd. 7. Insufficient appropriation. If the amount appropriated is determined by the office to be insufficient to make full awards to applicants under subdivision 5, awards must be reduced by:

- (1) *adding a surcharge to the applicant's assigned family responsibility, as defined in section 136A.101, subdivision 5a; and*
- (2) *a percentage increase in the applicant's assigned student responsibility, as defined in subdivision*

The reduction under clauses (1) and (2) must be equal dollar amounts.

To achieve a reduction in program spending of approximately \$20 million in fiscal year 2011, the surcharge to the assigned family responsibility would be +10% (or AFR multiplied by 1.10) and the corresponding increase in the assigned student responsibility would be 1% (or ASR = 47%). This would reduce average Minnesota State Grant award per recipient by \$161.

Next Report

The next report on Minnesota State Grant projections is due to the Legislature by February 15, 2010. This report will contain new projection figures for both fiscal years of the biennium. The report will also incorporate updated information on fiscal years 2010 and 2011 spending and an updated income forecast from Minnesota Management and Budget.

Part II

Achieve Scholarship

Projected spending for the Minnesota Achieve Scholarship program for fiscal year 2010 is \$10 million, which is approximately \$5.65 million more than the fiscal year appropriation of \$4.35 million.

The primary reason for the increase in projected spending from the end of the 2009 legislative session is a change in the administrative process for scholarship applications. The University of Minnesota requested and received approval to apply for the program on behalf of all eligible students. The University of Minnesota and other institutions also included the Achieve Scholarship in their financial aid packages delivered to students for the 2009-2010 academic year and proactively assisted students in applying for the scholarship including submission of required documentation.

This change in processing by the state's largest institution and its branch campuses has dramatically affected the number of qualified residents receiving scholarships, as shown in the table below.

Achieve Scholarship Awards as of October 27, 2009

	2008-2009 Awards	2009-2010 Awards	Difference
University of Minnesota	462 recipients	1,686 recipients	Recipients +274%
Minnesota State Colleges and Universities	559 recipients	477 recipients	Recipients -15%
Private Colleges and Universities	916 recipients	842 recipients	Recipients -8%
Total	1,937 recipients \$1,070 average award	3019 recipients \$2,753 average award	Recipients +56%

*These numbers do not include pending applications as of October 27, 2009

While growth in the Achieve Scholarship award was factored into spending estimates, the substantial impact of an increase in overall financial aid applications, more intense marketing of the program, and the 274 percent increase in recipients at the University of Minnesota's four campuses was not anticipated.

Course of Action

The Minnesota Office of Higher Education does not have the option of transfer funds between fiscal years within the Achieve Scholarship program. The Office has determined the following course of action to remediate the spending shortfall for the Achieve program for fiscal year 2010.

- The Office will transfer funds in the amount of \$4.35 million from the second-year appropriation of the Minnesota State Grant program to the Achieve Scholarship program to cover the unanticipated deficiency in the program for fiscal year 2010.
- The Office will also allocate resources from the federal LEAP and SLEAP programs of \$1.30 million for both fiscal years 2010 and 2011 to the Achieve program. These funds are currently used for the Minnesota State Grant program.
- The Office will recommend that the fiscal year 2011 appropriation of \$4.35 million for the Achieve program be transferred back to the Minnesota State Grant program.
- The Office will recommend to the Governor changes to the Achieve award parameters to reduce spending to \$1.3 million for fiscal year 2011.

Achieve Scholarship Program

<i>in millions</i>	FY2010	FY2011	Biennium
Base resources	\$4.35	\$4.35	\$8.70
<u>transfer of LEAP/SLEAP funds to Achieve</u>	<u>\$1.30</u>	<u>\$1.30</u>	<u>\$2.60</u>
Total base resources	\$5.65	\$5.65	\$11.30
Spending projection	(\$10.00)	(\$1.30)	(\$11.30)
<u>transfer between Minnesota State Grant and Achieve</u>	<u>\$4.35</u>	<u>(\$4.35)</u>	<u>\$0.00</u>
Difference between resources and spending	\$0.00	\$0.00	\$0.00

The transfer of funds between the Minnesota State Grant program and the Achieve Scholarship program will impact the projected spending shortfall for the Minnesota State Grant, as detailed in the table below.

Minnesota State Grant

<i>in millions</i>	FY2010	FY2011	Biennium
Base resources	\$145.47	\$145.47	\$290.94
Spending projection	(\$158.35)	(\$155.09)	(\$313.44)
Difference between resources and spending	(\$12.88)	(\$9.62)	(\$22.50)
Transfer of LEAP/SLEAP funds to Achieve	(\$1.30)	(\$1.30)	(\$2.60)
Transfer between Minnesota State Grant and Achieve	<u>(\$4.35)</u>	<u>\$4.35</u>	<u>\$0.00</u>
Difference between resources and spending	(\$18.53)	(\$6.57)	(\$25.10)