Projection of Minnesota State Grant Spending for Fiscal Years 2004 and 2005

Prepared by:
Staff of the Minnesota Higher Education Services Office

July 15, 2004

Contents

Introduction

This report is one of the quarterly projections on Minnesota State Grant spending required by the Legislature. The July 15th report is important in that it is the one with the most complete data to make rationing estimates and decisions for the fall term. It includes the following:

- An overview of how the Higher Education Services Office projects spending needed to make State Grant awards.
- A description of the Design for Shared Responsibility, the model used to assign payment responsibilities to students, families, state and federal taxpayers.
- A summary of current projections including the process, data sets, and assumptions used to arrive at current projections.
- A summary of prior projections for Fiscal Years 2004 and 2005 based on Fiscal Year 2002 applicant data.
- A summary of prior projections for Fiscal Years 2004 and 2005 based on Fiscal Year 2003 applicant data.
- A summary of prior projections based on Fiscal Year 2004 spending patterns.

The Legislature's decisions to require regular meetings and communications with the legislature, the post-secondary education community, and other stakeholders has greatly expanded the level of accountability and dialogue. The Services Office has benefitted greatly from this regular exchange of information. Projecting spending is not an exact science, occurring in a dynamic environment. Over a quarter million undergraduate students are making choices involving over 130 institutions that offer a wide range of education programs from liberal arts to technical, traditional to on-line learning, full-time and part-time.

The Services Office is projecting a surplus of up to $32 million in the State Grant Program for the 2004-2005 biennium. This report provides detail about how the Services Office arrived at this estimate, using applicant data from 2002, 2003, and 2004. The projections are not surprising, given the many factors affecting State Grants and the fact that funds were appropriated in excess of what was projected for the biennium (see pages 13 and 14). The Services Office will continue to work closely with the various stakeholders to come up with future quarterly projections.

Overview

The Higher Education Services Office projects spending needed to make State Grant awards. Projections are used in the appropriations process and to determine whether rationing is necessary during the biennium.

1. Timing and Communication of Key Information Affect Projections

Timing and communication are two key factors affecting projections. Timing is important in terms of when key information is available to the Services Office for use in the projections to meet policymakers' deadlines and program decisions. Communication is critical for the timely exchange of information between the Services Office and campus administrators, system/sector officials, and with policymakers and their staff.

For example, Fiscal Years 2004 and 2005 appropriations decisions were made from projections based on Fiscal Year 2002 data with some assumptions based on mid-year Fiscal Year 2003 demand for State Grants. As complete Fiscal Year 2003 State Grant spending data became available, it was incorporated into subsequent quarterly projections during Fiscal Year 2004. Also, the Services Office monitored actual Fiscal Year 2004 spending and has now developed projections based on preliminary Fiscal Year 2004 applicant data.

Each of these projections provides an opportunity for all interested parties to review current projections as well as the information being provided to the Services Office. In addition, each of the reports is used for the following specific purposes:

- The July 15 projection is used internally to make final rationing decisions for fall term.
- The December 1 projection is used internally to make final rationing decisions for spring term and corresponds to the delivery of the state revenue forecast.
- The February 15 projection corresponds to the delivery of the state revenue forecast.
- The April 15 projection corresponds to the end of legislative sessions most years.

Besides informal consultations with various interested parties, the Services Office held meetings two to four weeks before each reporting date for interested parties, as specified in legislation, to provide insight on enrollments, tuition and fees, and other economic factors potentially affecting Minnesota State Grant spending.

2. Legislative Accountability Language Strengthens Projection Process

Legislative language on monitoring spending and preparing quarterly projections reflects the importance of timing and communication and has contributed to strengthening the projection process. The Services Office reports monthly on financial aid spending and updates State Grant spending projections quarterly.

Legislation passed in 2003 directs the Minnesota Higher Education Services Office (HESO) "to provide updated spending projections for Minnesota State Grants by July 15, December 1, February 15, and April 15, taking into account the most current and projected enrollment and tuition and fee information, economic conditions, and other relevant factors. Before submitting state grant spending projections, the office shall meet and consult with representatives of public and private postsecondary education, the department of finance, governor's office, legislative staff, and financial aid administrators." [*Laws of Minnesota 2003*, Chapter 133, Article 1, Section 2, Subdivision 14]

In preparation for the updated projections, the Services Office conducts quarterly meetings with government, education, and financial aid officials to gather the most current enrollment, tuition and fee, and economic information. The Office also monitors federal changes that may affect State Grant spending. Updated information from all sources is incorporated in the new quarterly projections.

For Fiscal Year 2004, the Services Office presented three sets of projections using three data sets to provide a broader picture of what could happen based on experiences of the three different years. Two sets of projections were based on a research database with more than 100,000 student records for Fiscal Years 2002 and 2003. Two projections were provided because Fiscal Year 2003, while more current, was an abnormal year with award processing stopped in January 2003. A third projection was based on a preliminary Fiscal Year 2004 data set.

3. Fiscal Year 2004 State Grant Spending

The Services Office anticipates a surplus of $20 to $25 million in the State Grant Program based on nearly complete Fiscal Year 2004 spending data. The 2003 Legislature appropriated $140.5 million per year for the 2004-2005 biennium, $20 million annually more than the base, to meet projected demand for State Grants based on the enrollment and tuition and fee estimates available at that time.

In November 2002, the Services Office requested a biennial increase of $60 million, primarily to accommodate increased demand. In January 2003, the request was increased to $96 million based on the continued growth in demand during the first half of Fiscal Year 2003. By spring 2003, the Services Office had raised the projected need to $100 million to fund Fiscal Years 2004 and 2005 based on the Services Office's legislative request. The Legislature approved a biennial increase of $40 million to meet demand, and accounted for the remaining $60 million by reducing the Living and Miscellaneous Expense Allowance by $200 each year and eliminating several program features.

Design for Shared Responsibility

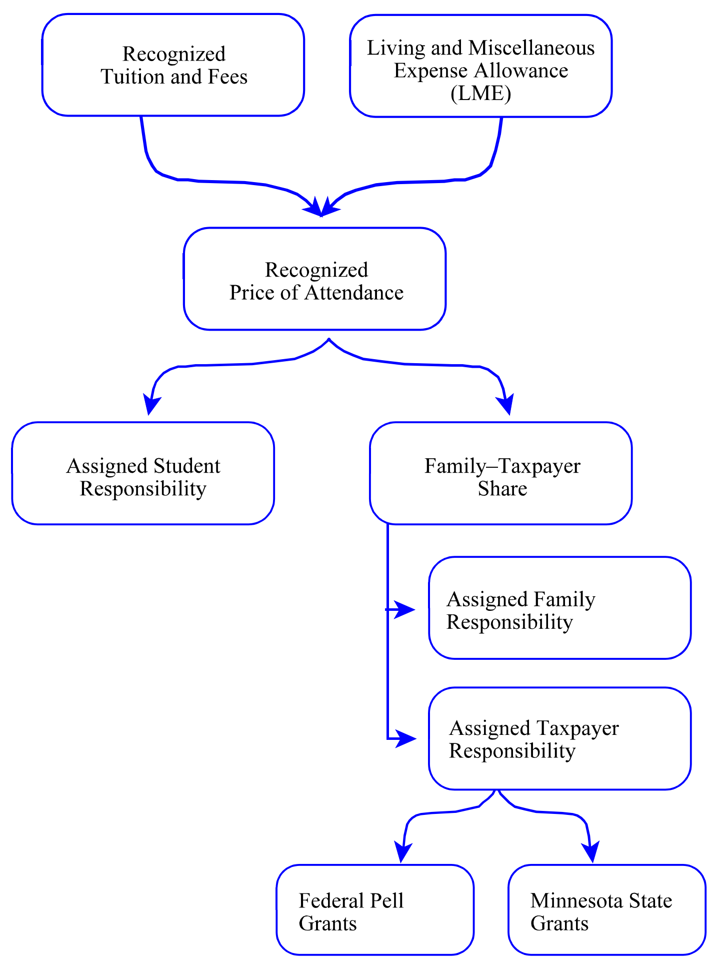
To provide a context for the projections that follow, a quick review of the Design for Shared Responsibility is provided in this section.

Students determine the price of investing in their post-secondary educations by the choices they make, such as decisions of where to attend and size of their registration loads.

The Design for Shared Responsibility, as applied to Minnesota State Grants, distributes the price of post-secondary education based on family circumstances and attendance choices among students, families, and taxpayers, as shown on the chart to the right. Projections of Minnesota State Grants make assumptions about all the steps shown on the chart.

- The state expects *students* to make a significant personal investment in their own post-secondary educations up front, called Assigned Student Responsibilities.
- The state expects *families* to invest in their students' post-secondary educations based on their ability to pay, called Assigned Family Responsibilities.
- The state leverages *taxpayers'* federal tax dollars (Federal Pell Grants) to work with state tax dollars (Minnesota State Grants) to meet the state policy of helping to cover the price for families whose ability to pay (Assigned Family Responsibility) does not provide full coverage of their Family-Taxpayer Share.

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



Current Projections

Minnesota State Grant spending occurs in a market of over a quarter million undergraduate students making choices about attendance from more than 130 institutions offering a vast array of program options. Attendance is voluntary; the state does not obligate individuals to attend a post-secondary institution. Students can choose from a wide range of prices and make different size (credit levels) purchases at various point throughout the year. These choices create considerable uncertainty. Each student brings a unique set of financial and family conditions to his or her post-secondary education decisions.

Within this context, spending projections for Minnesota State Grants are made. These market conditions create three types of external economic factors potentially affecting State Grant spending: decisions to enroll, tuition and fee prices paid, and general ability to pay. As described in this section, the Services Office has been working with institutional representatives to obtain data on enrollment and pricing forecasts and using this information in the spending projections.

1. Process

To produce the projections presented in this report, The Services Office took the following steps:

- Determined available funds in Fiscal Years 2004 and 2005 considering state appropriations, as well as federal Leveraging Educational Assistance Program (LEAP) and Special Leveraging Educational Assistance Program (SLEAP) grants.
- Used the parameters specified in the *Laws of Minnesota 2003*, Chapter 133.
- Used end-of-year data on Fiscal Year 2002 and Fiscal Year 2003 Minnesota State Grant applicants and a June 30, 2004 file of Fiscal Year 2004 applicants.
- Assumed that the students will make the same types of attendance choices in Fiscal Years 2004 and 2005 as they made in the year for which the data were collected.
- Assumed students will not change behavior in response to the State Grant changes enacted for Fiscal Years 2004 and 2005.
- Updated Fiscal Year 2005 estimates of the numbers of students who will apply for State Grants based on enrollment estimates provided by post-secondary sector representatives.
- Incorporated posted tuition and fee levels for Fiscal Years 2004 and 2005.

While some of the unknowns for Fiscal Year 2005 have been resolved, uncertainties still exist:

- Student choices drive spending in the State Grant Program. The Services Office has utilized institutional estimates of enrollments in Fiscal Year 2005 and assumed those students will behave similarly to students in the base year.

- The enrollment forecasts provided to the Services Office may not be accurate if students respond to tuition increases, job opportunities or personal goals by changing their attendance and credit load decisions in ways that have not been anticipated by institution officials.

- Enrollment changes, furthermore, do not necessarily translate into State Grant spending changes if the attendance patterns and family incomes do not match undergraduates as a whole. In past years, the relationship between enrollments and State Grant spending has not been consistent.

- Finally, some program changes could change student behavior. In particular, experience with newly imposed application deadlines could lead to more students to apply in time to meet the deadline.

2. Data Sets

A. Fiscal Year 2002

This data base was the most recent complete year at the time the final budget decisions were being made for Fiscal Years 2004 and 2005. Projections used in that process were adjusted to reflect the observed spending demands experienced in Fiscal Year 2003. In January 2003, HESO estimated that Fiscal Year 2003 spending would range between $141 million and $149 million without application cutoffs and limits on summer awards. Subsequent projections for Fiscal Years 2004 and 2005 used a high estimate of $148 million.

Projection results based on this data set, with adjustments for Fiscal Year 2003 mid-year experience, are presented as one of three projections to provide decision makers with a range of possible outcomes.

B. Fiscal Year 2003

This data base reflects enrollment and other factors affecting the larger than expected spending demand that required the Services Office to cut off awards to students applying after January 10, 2003. Although some funds were subsequently released to provide awards to those who applied after that date, fewer awards were made during spring and summer terms than otherwise would have been the case. Although an outside the model adjustment is made to account for the impact of a deadline, projections using this data set, while more contemporary than the projections based on Fiscal Year 2002 data, include these limitations.

C. Fiscal Year 2004

While a final award data set will not be available until after students complete registration for summer term, a third set of projections based on preliminary (June 30, 2004) Fiscal Year 2004 data is provided for additional information. These results incorporate all the changes in eligibility and other factors described in the next section. No allowance is made in the projections for current applicants who have indicated that they will attend but later decide not to enroll for the summer term. In addition, no allowance is made for the possibility of additional applicants appearing within 14 days of the start of the summer term who had not been processed at the time the preliminary file was created.

3. Assumptions

A. Available Funds

There are two sources of available funds for Minnesota State Grants: (1) direct appropriations of $140.5 million each year of the biennium, and (2) federal grants to Minnesota, called LEAP and SLEAP, projected to be $1.3 million in Fiscal Year 2004 and about $1.6 million in Fiscal Year 2005.

B. Changes in Federal Pell Grants

The appropriation for Federal Pell Grants to be awarded during the state's Fiscal Year 2004 included a $50 increase in the Federal Pell Maximum to $4,050. While the entire increase will go directly to students, since Minnesota State Grants leverage Federal Pell Grant awards, the resulting projected reduction in Minnesota State Grant spending is about $2 million per year and is included in the results shown below. The Federal Pell Maximum for Fiscal Year 2005 has been set at $4,050 as well.

C. State Policy and Program Changes Implemented for Fiscal Years 2004 and 2005

- The Living and Miscellaneous Expense Allowance was reduced from $5,405 to $5,205.

- The Minnesota Education Savings Allowance was repealed.

- Tuition and fee maximums are now based on the type of program an applicant is pursuing instead of the status of the institution. The Two-Year Tuition and Fee Maximum applies to students attending four-year institutions who are not registered in a program leading to a baccalaureate degree.

- For some applicants attending a third semester (or equivalent) during the fiscal year, only a portion of Assigned Taxpayer Responsibilities will be covered in the third semester.
- Application deadlines of two weeks after the start of each term were implemented.
- The period of eligibility for Minnesota State Grants was reduced from five full-year equivalents of attendance to four.
- Average tuition and fees instead of actual tuition and fees were used in the calculation of the Grant amount.

D. Enrollment Changes

Economic, program, and personal factors affect student decisions to enroll. To accommodate these decisions in the projections, campus and system projected enrollment changes were incorporated into the spending projections.

The Services Office consulted with representatives of all sectors in preparing these projections; a formal meeting of interested parties was held June 24, 2004 to review the material in this section, and follow-up conversations occurred. Many factors affect enrollment levels. The Services Office uses the informed judgments of sector representatives in preparing the projections contained in this report.

The Office of the Chancellor of the Minnesota State Colleges and Universities provided the projected changes in enrollments of undergraduates shown in the table below. It was assumed that the number of State Grant applicants would change similarly.

The University of Minnesota projects a 2.0 percent annual increase in undergraduate enrollments. It was assumed that the number of applicants for Minnesota State Grants would change similarly.

Discussions with Private College Council staff found that Council members projected a 2.0 percent increase for Fiscal Year 2004 and a potential growth of 3.0 percent per year in undergraduate enrollments based on past experience and “paid deposits” of accepted applicants scheduled to enter in Fall 2004. It was assumed that this projection applies to all non-profit institutions participating in the Minnesota State Grant Program. Again, it was assumed that the number of applicants would increase at the same rate, and the characteristics of the pool of applicants would not change.

Discussions with members of the Minnesota Career College Association found that member schools project a growth of 8 percent in Fiscal Year 2004 and 18 to 20 percent in undergraduate enrollments for Fiscal Year 2005. It was assumed that this projection applies to all for-profit institutions participating in the Minnesota State Grant Program. It was assumed that the number of applicants would increase at the same rate, and the characteristics of the pool of applicants would not change.

Summary of the changes used in the projections:

Grouping	FY 2003 to FY2004	FY 2004 to FY2005
Minnesota State Colleges and Universities	2.2%	1.6%
State Colleges	3.0%	1.7%
State Universities	0.9%	1.4%
University of Minnesota	2.0%	2.0%
Non-profit Institutions	2.0%	3.0%
For-Profit Institutions	8.0%	18.0%

The projections using the preliminary Fiscal Year 2004 data set used applicants reported to date for Fiscal Year 2004 rather than the projections shown in the table above.

E. Tuition and Fees

Tuition and fee levels reflect many factors, including student demand for educational services. For the projections reported in this section, the tuition and fees for both years used to calculate Minnesota State Grants were known and used. The mean recognized tuition and fee values, weighted by the number of applicants, for five groups of participating institutions for Fiscal Years 2003 and 2004 were:

Applicants Attending:	Recognized Tuition and Fees, Fiscal Year 2003	Recognized Tuition and Fees, Fiscal Year 2004	Percentage Change
MnSCU Two-Year Colleges	$3,037	$3,391	11.6%
Minnesota Private Two-Year Institutions	$6,832	$6,868	0.5%
MnSCU Four-Year Universities	$4,074	$4,636	13.8%
University of Minnesota	$6,532	$7,384	13.0%
Minnesota Private Four-Year Institutions	$8,933	$8,474	-5.1%

Since the Tuition and Fee Maximums did not change between Fiscal Years 2003 and 2004, changes shown above for the applicants attending private institutions reflect changes in the distribution of applicants across institutions. Also, beginning in Fiscal Year 2004, students attending four-year institutions enrolled in programs not leading to a baccalaureate degree were subject to the Two-Year Tuition and Fee Maximum, thereby lowering the average recognized tuition and fees for the cohort of students attending these institutions.

The mean recognized tuition and fee values, weighted by the number of applicants, for five groups of participating institutions for Fiscal Years 2004 and 2005 were:

Applicants Attending:	Recognized Tuition and Fees, Fiscal Year 2004	Recognized Tuition and Fees, Fiscal Year 2005	Percentage Change
MnSCU Two-Year Colleges	$3,391	$3,739	10.3%
Minnesota Private Two-Year Institutions	$6,868	$6,868	0.0%
MnSCU Four-Year Universities	$4,636	$5,244	13.1%
University of Minnesota	$7,384	$8,289	12.3%
Minnesota Private Four-Year Institutions	$8,474	$8,409	-0.8%

4. Results

Using the above parameters with each of the three data bases results in the following projections:

	Fiscal Year 2004 (million)	Fiscal Year 2005 (million)	Biennium (million)	Difference from Available Funds (million)
Available Funds (Appropriations + Federal LEAP and SLEAP grants)	$141.79	$142.08	$283.87	
Projection based on Fiscal Year 2002 applicant data	$127.44	$145.26	$272.69	$11.18
Projection based on Fiscal Year 2003 applicant data	$122.69	$140.52	$263.21	$20.66
Projection based on preliminary Fiscal Year 2004 applicant data	$117.16	$134.55	$251.71	$32.17

Based on nearly complete Fiscal Year 2004 data, a surplus of $24.6 million is projected for Fiscal Year 2004 and a surplus of $7.5 million for Fiscal Year 2005. This is a surplus of $32.2 million for the biennium as shown in the prior table.

Projections based on Fiscal Year 2002 data result in a spending surplus of $11.2 million for the biennium but a shortfall of $3.2 million in Fiscal Year 2005 although carry forward funds from Fiscal Year 2004 will more than cover this amount.

Because a higher education omnibus bill did not pass during the 2004 Legislative Session, no action was taken affecting State Grant funding, including using part of the surplus for covering overall state shortfalls as proposed by the Governor, or shifting part of the projected surplus for other purposes.

Based on these three projections, and assuming no other legislative or executive actions, the Minnesota State Grant program will have a surplus of up to $32 million at the end of the biennium.

Prior Projections Based on Fiscal Year 2002 Applicant Data

1. July 15, 2003 Report

In the July 15, 2003 report, *Projection of Minnesota State Grant Spending for Fiscal Years 2004 and 2005*, the projected spending was as follows:[1]

- For Fiscal Year 2004: $126.86 million.
- For Fiscal Year 2005: $139.47 million.

The July 15, 2003 projections were the first formal set of projections based on the set of changes included in the appropriations passed by the 2003 Legislature and signed by the Governor. At that point, based on tuition and fee assumptions for Fiscal Year 2005 and enrollment projections for both Fiscal Years 2004 and 2005, projected spending for Fiscal Year 2004 was $126.9 million, almost $15 million below available funds, and for Fiscal Year 2005, $139.5 million, about $2.3 million below available funds, as shown in Tables 1 and 2.

Starting with Line 3 in both Tables 1 and 2, all projections and other changes incorporate the assumptions used in the preceding lines. The projection results are cumulative.

Table 1. Projected Spending for Fiscal Year 2004

	Projection	Minnesota State Grants Received (million)	Change from prior line (million)
1	Appropriation + LEAP & SLEAP	$141.79	
2	FY 2003 Projected with a $17 Million Outside the Model Adjustment (Starting Point)	$147.91	$6.13
3	FY 2004 with Federal Pell Maximum = $4,050 (Current Law)	$145.91	$(2.01)
4	FY 2004 with enrollment and tuition and fee changes (June 26, 2003)	$160.33	$12.42
5	FY 2004 with LME = $5,205	$153.97	$(6.36)
6	FY 2004 with elimination of the Minnesota Education Savings Allowance	$152.67	$(1.30)
7	FY 2004 with Tuition and Fee Maximums based on student program choices	$150.29	$(2.38)
8	FY 2004 with partial (instead of full) coverage of Assigned Taxpayer Responsibilities in third semester	$144.59	$(5.70)
9	FY 2004 with application deadlines	$140.80	$(3.79)

1 For a complete copy of the report, see http://www.mheso.state.mn.us/pdf/StateGrantProj07-15-03.pdf.

	Projection	Minnesota State Grants Received (million)	Change from prior line (million)
10	FY 2004 with eligibility set at 8 semesters of FYE attendance	$134.36	$(6.44)
11	FY 2004 with tuition and fees set at campus average	$126.86	$(7.50)

Source: Minnesota Higher Education Services Office

Projected Fiscal Year 2004 spending based on this data set was $126.9 million (as shown on line 11), about $14.9 million less than the amount available from appropriations and federal program grants (line 1).

Table 2. Projected Spending for Fiscal Year 2005

	Projection	Minnesota State Grants Received (million)	Change from prior line (million)
1	Appropriation + LEAP & SLEAP	$141.79	
2	FY 2003 Projected with a $17 Million Outside the Model Adjustment (Starting Point)	$147.91	$6.13
3	FY 2005 with Federal Pell Maximum = $4,050	$145.91	$(2.01)
4	FY 2005 with enrollment and tuition and fee changes (June 26, 2003)	$173.67	$25.75
5	FY 2005 with LME = $5,205	$167.08	$(6.59)
6	FY 2005 with elimination of the Minnesota Education Savings Allowance	$165.69	$(1.39)
7	FY 2005 with Tuition and Fee Maximums based on student program choices	$163.31	$(2.38)
8	FY 2005 with partial (instead of full) coverage of Assigned Taxpayer Responsibilities in third semester	$157.50	$(5.80)
9	FY 2005 with application deadlines	$153.41	$(4.09)
10	FY 2005 with eligibility set at 8 semesters of FYE attendance	$146.97	$(6.44)
11	FY 2005 with tuition and fees set at campus average	$139.47	$(7.50)

Source: Minnesota Higher Education Services Office

Projected Fiscal Year 2005 spending based on this data set was $139.5 million (as shown on line 11), about $2.3 million less than the amount available from appropriations and federal program grants (line 1).

2. December 1, 2003 Report

The December 1, 2003 report, *Projection of Minnesota State Grant Spending for Fiscal Years 2004 and 2005*, incorporated new enrollment projections provided by the Office of the Chancellor of MnSCU and the University of Minnesota, and a technical enhancement to account more accurately for projected enrollment changes in Fiscal Year 2005 resulting in the following:[2]

- For Fiscal Year 2004: $127.63 million.
- For Fiscal Year 2005: $143.46 million.

3. February 15, 2004 Report

The February 15, 2004 report, *Projection of Minnesota State Grant Spending for Fiscal Years 2004 and 2005*, incorporated new enrollment projections for Fiscal Year 2005 provided by the Minnesota Career College Association which resulted in the following:[3]

- For Fiscal Year 2004: $127.63 million.
- For Fiscal Year 2005: $144.44 million.

4. April 15, 2004 Report

The April 15, 2004 report, *Projection of Minnesota State Grant Spending for Fiscal Years 2004 and 2005*, incorporated new enrollment projections for Fiscal Year 2005 provided by the Minnesota Career College Association, new enrollment projections for Fiscal Years 2004 and 2005 provided by Minnesota State Colleges and Universities, and new tuition and fee levels provided by the University of Minnesota which resulted in the following:[4]

- For Fiscal Year 2004: $127.44 million.
- For Fiscal Year 2005: $145.07 million.

---

2 For a complete copy of the report, see http://www.mheso.state.mn.us/pdf/StateGrantProj12-1-03.pdf.

3 For a complete copy of the report, see http://www.mheso.state.mn.us/pdf/StateGrantProj02-15-04.pdf.

4 For a complete copy of the report, see www.mheso.state.mn.us/pdf/StateGrantProj04-05.pdf.

5. Summary of Projections Based on Fiscal Year 2002 Data

Report	Projection, Fiscal Year 2004 (million)	Projection, Fiscal Year 2005 (million)
July 15, 2003	$126.86	$139.47
December 1, 2003	$127.63	$143.46
February 15, 2004	$127.63	$144.44
April 15, 2004	$127.44	$145.07
July 15, 2004 as shown in prior section	$127.44	$145.26

Prior Projections Based on Fiscal Year 2003 Applicant Data

Fiscal Year 2003 applicant data became available after the July 15, 2003 report was submitted. Fiscal Year 2003 applicant data have two advantages over the Fiscal Year 2002 applicant data used in the prior section:

- These applicant data incorporate the changes in enrollment patterns observed in Fiscal Year 2003.

- The income and asset data embodied in the calculations of Assigned Family Responsibilities capture the early part (calendar year 2000) of the latest recession and adjustments in stock prices.

Fiscal Year 2003 applicant data have major disadvantages over the Fiscal Year 2002 applicant data used in the prior section:

- Starting on January 10, 2003, processing of awards was stopped to ration funds available for grants.

- This interruption undoubtedly affected enrollment, application, and processing patterns, resulting in fewer reported applicants than otherwise would have been the case.

Thus, both the projections shown in this section and those in the prior section are presented to assist in answering questions about the adequacy of the current appropriation relative to projected spending for this biennium.

1. December 1, 2003 Report

The December 1, 2003 report, *Projection of Minnesota State Grant Spending for Fiscal Years 2004 and 2005*, presented the following projections based on this data set:

- For Fiscal Year 2004: $122.87 million.

- For Fiscal Year 2005: $138.85 million.

2. February 15, 2004 Report

Between December 1, 2003 and February 15, 2004, an updated data set of Fiscal Year 2003 State Grant applicants and recipients was produced, resulting in slightly higher projections for both Fiscal Years 2004 and 2005. In addition, between December 1, 2003 and February 15, 2004, updated enrollment forecasts were provided, as documented above, resulting in an increase in the Fiscal Year 2005 projection.

The February 15, 2004 report, *Projection of Minnesota State Grant Spending for Fiscal Years 2004 and 2005*, incorporated the enrollment and tuition and fee projections as of January 30, 2004 resulting in projected Minnesota State Grant spending amounts as follows:

- For Fiscal Year 2004: $122.91 million.
- For Fiscal Year 2005: $139.88 million.

3. April 15, 2004 Report

The April 15, 2004 report, *Projection of Minnesota State Grant Spending for Fiscal Years 2004 and 2005*, incorporated new enrollment projections for Fiscal Year 2005 provided by the Minnesota Career College Association, new enrollment projections for Fiscal Years 2004 and 2005 provided by Minnesota State Colleges and Universities, and new tuition and fee levels provided by the University of Minnesota which resulted in the following:

- For Fiscal Year 2004: $122.69 million.
- For Fiscal Year 2005: $140.52 million.

4. Summary of Projections Based on Fiscal Year 2003 Data

Report	Projection, Fiscal Year 2004 (million)	Projection, Fiscal Year 2005 (million)
December 1, 2003	$122.87	$138.85
February 15, 2004	$122.91	$139.88
April 15, 2004	$122.69	$140.53
July 15, 2004 as shown in prior section	$122.69	$140.52

All of these projections include outside the model adjustments of: (1) $6.44 million reduction for the impact of shifting from five years to four years of eligibility, and (2) $4.00 million increase to account for the relatively few applicants for the second summer session included in the Fiscal Year 2003 applicant file.

Prior Projections Based on Fiscal Year 2004 Spending

This projection is based on Fiscal Year 2004 State Grant spending, as reported by participating campuses, rather than applicant records. Reported spending for the completed terms was adjusted to the end of Fiscal Year 2004 based on historical spending patterns within the year.

1. December 1, 2003 Report

- Based on spending through October 31, 2003, this methodology results in projected spending for Fiscal Year 2004 of about $121 million.

2. February 15, 2004 Report

- Based on spending through December 31, 2003, this methodology results in projected spending for Fiscal Year 2004 of about $120 million.

3. April 15, 2004 Report

- Based on spending through March 31, 2004, this methodology results in projected spending for Fiscal Year 2004 of about $118.5 million.

4. Summary of Projections Based on Fiscal Year 2004 Data

Report	Projection, Fiscal Year 2004 (million)	Projection, Fiscal Year 2005 (million)
December 1, 2003	$121.00	
February 15, 2004	$120.00	
April 15, 2004	$118.50	
July 15, 2004 Projection based on Fiscal Year 2004 applicant data shown in prior section	$117.16	$134.55

Conclusion

Projecting State Grant spending is challenging because many uncertainties exist. Legislative language requiring regular reports on spending and quarterly projections has strengthened the projection process. The resulting regular communication and dialogue with the post-secondary education community has also aided the process. However, in a market of more than a quarter million undergraduate students, decisions about their post-secondary choices create uncertainties. Also, other external economic factors could affect spending.

To fund the projected growth in demand, the 2003 Legislature sought to achieve cost savings by enacting several major program changes, adding to the uncertainties. The individual and interactive effects of program changes on spending were estimated but since many of the changes were new, there was no program experience available to test the estimates.

Three different sets of projections using 2002, 2003, and 2004 data provide a range of possible scenarios for future spending. The three scenarios indicate a projected biennial surplus of up to $32 million for the 2004-2005 biennium.

Some policy makers indicated a strong preference for avoiding rationing. To help avoid the possibility of supplemental State Grant budget requests in the second year of the biennium, the Legislature eliminated the statutory provision allowing the Services Office to carry back funds from the second year of the biennium to the first year if funding appeared to be insufficient to make full awards in the first year. With the loss of carry back language, there was increased risk that rationing might become necessary if the estimates proved to be low. This might have put pressure on some policy makers to provide a cushion to avoid rationing in Fiscal Year 2004. Unused Fiscal Year 2004 funds, however, will carry over to Fiscal Year 2005.

Because of State Grant spending constraints imposed by the Services Office in January 2003 in response to record demand for grants, spending for Fiscal Year 2003 was less than it would have been. In January 2003, the Services Office estimated that Fiscal Year 2003 spending would range between $141 million and $149 million without application cutoffs and limits on summer awards. Subsequent projections for Fiscal Years 2004 and 2005 used a high estimate of $148 million. The range of spending estimates was based on different assumptions about what would have happened without suspending new awards during mid-year of Fiscal Year 2003. This unusual circumstance added more uncertainty into the projections that affected appropriation decisions regarding policy and program changes.

Given the many factors affecting the State Grant Program, the projection results are not surprising, although their magnitude and nature require further analysis. As it prepares future quarterly projections, the Services Office will analyze the Fiscal Year 2004 spending, including the impacts of program changes, differences between projected and actual prices and enrollments, and credit load distribution.