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

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Minnesota Higher Education Services Office

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Overview

- 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]

- The December 1 projection is important because it helps determine whether funds are sufficient to make full grant awards to students or whether rationing will be necessary during the remainder of the fiscal year.

- Besides informal consultations with various interested parties, HESO held a meeting on October 24, 2003 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.

- To produce the projections presented in this report, HESO took the following steps:

  - Determined an estimate of available funds in Fiscal Years 2004 and 2005 considering state appropriations, as well as potential 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.

  - Assumed that the students will make the same types of attendance choices in Fiscal Years 2004 and 2005 as they made in Fiscal Years 2002 and 2003.

  - Assumed students will not change behavior in response to the changes enacted for Fiscal Years 2004 and 2005.

- Concerns and uncertainties still exist for Fiscal Years 2004 and 2005.

  - The impact of some changes could turn out differently if students change behavior; for example, newly imposed deadlines cause students to apply in a more timely fashion.

  - The federal government could change the Federal Pell Grant Program or change the level of LEAP and SLEAP grants.

- Students could respond to changes in tuition prices or to job opportunities and adjust their attendance and registration load choices.
- Tuition and fee prices currently projected for Fiscal Year 2005 could be altered.

- Three sets of projections are presented below:

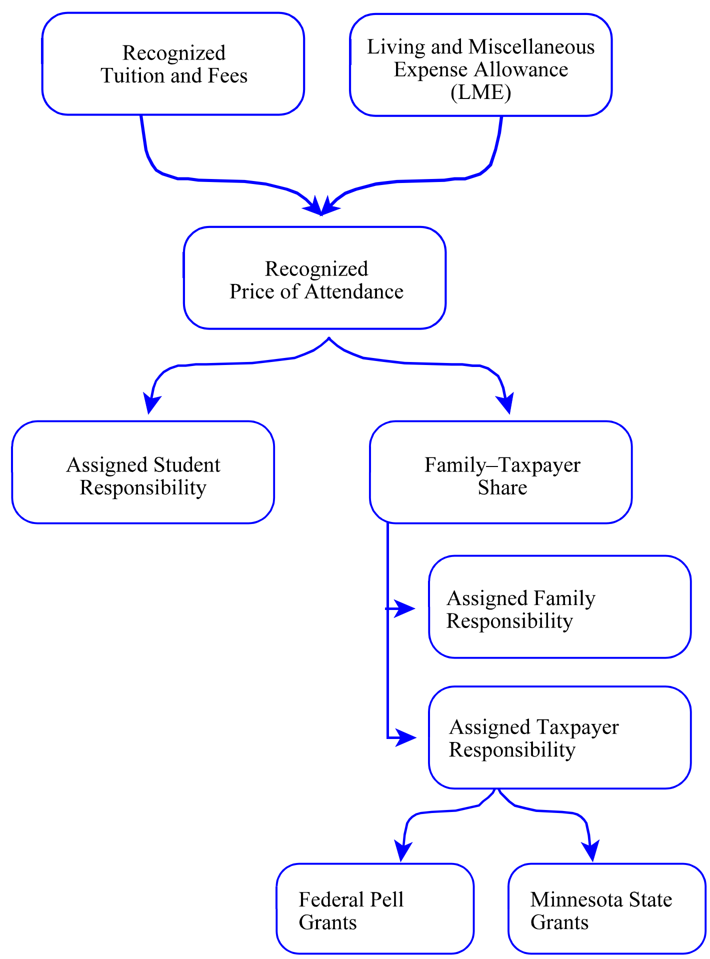
	Fiscal Year 2004 (million)	Fiscal Year 2005 (million)	Biennium (million)
Available Funds (Appropriations + Federal LEAP and SLEAP grants)	$141.79	$141.79	$283.58
Projection based on Fiscal Year 2002 applicant data	$127.63	$143.46	$271.09
Projection based on Fiscal Year 2003 applicant data	$122.87	$138.85	$261.72
Projection based on Fiscal Year 2004 spending to date	$121.00		

Design for Shared Responsibility

- 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.

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



- 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.

- Projections of Minnesota State Grants make assumptions about all the steps shown on the chart.

Assumptions Used

1. Available Funds

- There are two sources of available funds for Minnesota State Grants:
  - Direct appropriations of $140.5 million each year of the biennium.
  - Federal grants to Minnesota, called LEAP and SLEAP, projected to be $1.2 million in Fiscal Year 2004.
    - While these programs have yet to be funded for the state's Fiscal Year 2005, it was assumed that the amount from these two sources would be the same in Fiscal Years 2005 and 2004.

2. Changes in Federal Pell Grants for Fiscal Year 2004

- 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 and is included in the results shown in the next two sections.
- While the Federal Pell Maximum (and other aspects of the Federal Pell Grant Program) can be changed for Fiscal Year 2005, it was assumed that no changes would occur between Fiscal Years 2004 and 2005.

3. 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.
- For applicants attending a third semester (or equivalent) during the fiscal year, only a portion of Assigned Taxpayer Responsibilities will be covered for those who would have received a Federal Pell Grant, if Pell Grants recognized three full semesters of attendance.
- 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.

4. Projected Enrollment Changes

- The Services Office consulted with representatives of all sectors in preparing these projections; a formal meeting of interested parties was held October 24, 2003 to review the material in this section, and follow-up conversations occurred.

- The Office of the Chancellor of MnSCU provided the following projected changes in full-year enrollments for undergraduates:

  - Projected Fiscal Year 2004 enrollments are 2.6 percent above Fiscal Year 2003 enrollments.

  - Projected Fiscal Year 2005 enrollments are 1.7 percent above projected Fiscal Year 2004 enrollments.

  - It was assumed that the number of Minnesota State Grant applicants would increase at the same rate, and the characteristics of the pool of applicants would not change.

- The University of Minnesota projects a 2.0 percent annual increase in undergraduate enrollments and, thus, 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 project a potential growth of 1.5 to 2 percent per year in undergraduate enrollments.

  - It was assumed that this projection applies to all non-profit institutions participating in the Minnesota State Grant Program.

  - As with MnSCU's projections, 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 to 10 percent per year in undergraduate enrollments.

  - It was assumed that this projection applies to all proprietary 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.

- Changes used in the projections:

Grouping	FY 2003 to FY2004	FY 2003 to FY2004
Minnesota State Colleges and Universities	2.6%	1.7%
University of Minnesota	2.0%	2.0%
Non-profit Institutions	2.0%	2.0%
Proprietary Institutions	8.0%	8.0%

5. Projected Tuition and Fee Changes

- The Services Office consulted with representatives of all sectors in preparing these projections; a formal meeting of interested parties was held October 24, 2003 to review the material in this section, and follow-up conversations occurred.

- For Fiscal Year 2004, the tuition and fee amounts recognized for calculating Minnesota State Grants were used.

  - These amounts are collected by HESO as part of administrating the Minnesota State Grant Program.

  - For private institutions, recognized tuition and fees is the lesser of the average reported to HESO or the Tuition and Fee Maximum specified in law.

- The mean recognized tuition and fee values, weighted by the number of applicants, for 5 groups of participating institutions for Fiscal Years 2003 and 2004 were :

Recipients 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	$6,822	-0.2%
MnSCU Four-Year Universities	$4,074	$4,632	13.7%
University of Minnesota	$6,532	$7,385	13.1%
Minnesota Private Four-Year Institutions	$8,933	$8,960	0.3%

- For Fiscal Year 2005, the Office of the Chancellor of MnSCU provided the following projected changes from Fiscal Year 2004:

Sector	Change Between Fiscal Years 2004 and 2005
MnSCU Two-Year Colleges	12.1%
MnSCU Four-Year Universities	13.7%

- For Fiscal Year 2005, University of Minnesota staff provided the following currently planned increases in undergraduate tuition:

Campus	Change Between Fiscal Years 2004 and 2005
Crookston	10.4%
Duluth	10.1%
Morris	9.9%
Twin Cities	12.4%

- Discussions with Private College Council staff and Minnesota Career College Association members suggested that a growth of 5 percent per year in tuition and fees would be a reasonable assumption.

    - Because of the Tuition and Fee Maximums, increases in the posted tuition and fees at private institutions have little impact on future Minnesota State Grant spending.

- It was assumed that this projection applies to all private institutions participating in the Minnesota State Grant Program.

Projections Based on Fiscal Year 2002 Applicant Data

- In the July 15 report, *Projection of Minnesota State Grant Spending for Fiscal Years 2004 and 2005*, the projected spending was as follows:
  - For Fiscal Year 2004: $126.86 million.
  - For Fiscal Year 2005: $139.47 million.
- Subsequent to those projections, new enrollment projections were provided by the Office of the Chancellor of MnSCU and the University of Minnesota and a technical enhancement was made to the Fiscal Year 2005 methodology resulting in the following:
  - For Fiscal Year 2004: $127.63 million.
  - For Fiscal Year 2005: $143.46 million.

Projections Based on Fiscal Year 2003 Applicant Data

- Fiscal Year 2003 applicant data have two advantages over the 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 data used in the prior section:
  - Starting on January 10, 2003, processing of awards was stopped to ration funds available for grants.
  - This 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.
- Incorporating the enrollment and tuition and fee projections, the projected Minnesota State Grant spending amounts are as follows:
  - For Fiscal Year 2004: $122.87 million.
  - For Fiscal Year 2005: $138.85 million.
- These projections include outside the model adjustments of:
  - $6.44 million reduction for the impact of shifting from five years to four years of eligibility.
  - $4.00 million increase to account for the relatively few applicants for the second summer session included in the Fiscal Year 2003 applicant file.

Projections Based on Fiscal Year 2004 Spending to Date

- This projection is based on Fiscal Year 2004 State Grant spending through October 31, 2003, as reported by participating campuses.
- Reported spending for the first summer term and fall term was adjusted to project final summer and fall term spending as of the end of Fiscal Year 2004.
    - The adjustment was based on each campus's increase in first summer term and fall term spending from October 31, 2002, to the end of Fiscal Year 2003.
- Projections for winter, spring and the second summer terms were based on their historical percentage of fall term volume during the four preceding years.
- Based on spending through October 31, 2003, this methodology results in projected spending for Fiscal Year 2004 of about $121 million.

Possible Changes in Fiscal Year 2005

1. State and Other Taxes Allowance

- Calculations of Assigned Family Responsibilities build on the results of the Federal Need Analysis.
- Inside the Federal Need Analysis there is an allowance for State and Other Taxes paid.
- A percentage rate based on application status and state of residence is used in conjunction with adjusted gross income to determine the allowance used in the calculation.
- Periodically, the U.S. Department of Education updates these tables.
- The update for Fiscal Year 2005 will reduce the amount of State and Other Taxes that can be deducted from Adjusted Gross Income beginning in Fiscal Year 2005. This will affect the calculation of both Federal Pell and Minnesota State Grants.
- Legislation is pending in the current session of Congress to delay implementation of the new rates.
- Assuming that the new rates would have been in place in Fiscal Year 2003, projected Minnesota State Grant spending would have been $5.9 million less than observed.
- If the proposed rates for Fiscal Year 2005 are implemented, projected Minnesota State Grant spending for Fiscal Year 2005 will need to be adjusted down.

2. Deadlines

- In the projection for Fiscal Year 2005, the imposition of deadlines reduced projected spending by $4.1 million.
- If applicants were to change their behavior and apply before the deadline, some or all of this change would be negated.