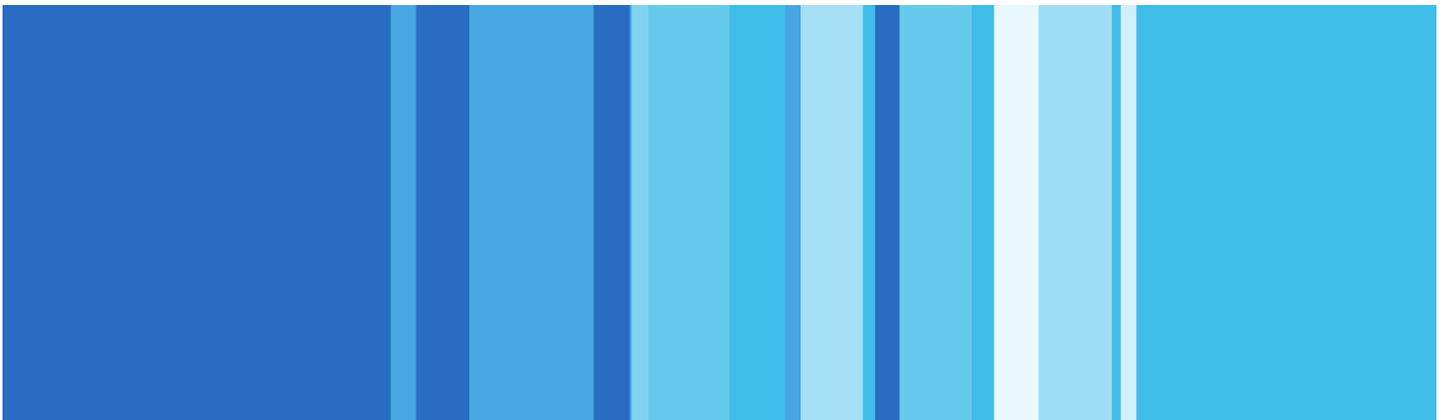


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Projected Minnesota State Grant Spending

Fiscal Years 2006-2007



Authors

Mark Misukanis

Director of Fiscal Policy and Research
Tel: 651-642-0581
mark.misukanis@state.mn.us

Gerald Setter

Research and Policy Analyst
Tel: 651-642-0590
jerry.setter@state.mn.us

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 post-secondary education. The agency serves as the state's clearinghouse for data, research and analysis on post-secondary 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.

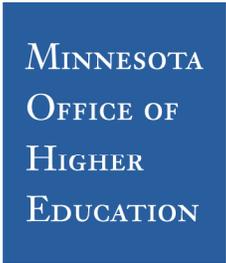
Minnesota Office of Higher Education

1450 Energy Park Drive, Suite 350
St. Paul, MN 55108-5227

Tel: 651.642.0567 or 800.657.3866
TTY Relay: 800.627.3529
Fax: 651.642.0675

E-mail: info@ohe.state.mn.us

www.getreadyforcollege.org
www.ohe.state.mn.us



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Background

For the last three years the Minnesota Office of Higher Education has been required by the Minnesota Legislature to provide updated State Grant spending projections during the course of the year. During Fiscal Years 2004 and 2005, this update occurred four times annually. In the 2005 session this requirement was reduced to twice each year on November 1 and February 15. The purpose of this report is to satisfy the second reporting requirement for Fiscal Year 2006. As also required under the statute, a meeting was held with interested parties including representatives from various public and private sectors and schools and legislative staff on February 1. Information on projected enrollments and tuition and fee changes were provided by these representatives and are included in the projections contained in this report.

At the end of the 2005 session the Office of Higher Education had projected state grant needs of \$133.8 million for 2006 and \$145.36 million for 2007.¹ The base data for these projections was FY 2004. Those projections also include the assumptions used in November 2004 regarding enrollment and tuition and fee changes reported by the various sectors, changes in the federal needs analysis that had been promulgated by the U.S. Department of Education, and several policy changes enacted by the Legislature during the session. Those figures also reflect a \$7 million dollar out-of-the-model reduction each year that reflected a rebasing of the state grant model results with actual experience of FY 2005.

Under the tuition and enrollment assumptions provided by institutional representatives, using actual data for FY 2005, and making an outside-of-the-model adjustment, the projections for FY 2006 and FY 2007 are \$126.2 million and \$134.75 million respectively². These suggest spending of \$7.60 million less in FY 2006 and \$10.61 million less in FY 2007 compared to the levels estimated at the end of the 2005 session. Prior to the outside-of-the-model adjustment, the spending projected for FY 2007 is \$0.74 million more than reported in the November 1, 2005 report.

These differences are the net effect of changes in both economic variables like enrollment, tuition and income and new estimates of the impact of policy changes. Estimates for both fiscal years are shown. To more clearly demonstrate the reasons for the changes, details of the more significant variables are shown in Table 1 below.

¹ This information was contained in an internal staff report and was also shared with legislative staff for appropriation purposes.

² Since 2005 actual data is now the base used for the projections the \$7 million adjustment is no longer needed. It is embedded in the 2005 data. This is the first set of projections for Fiscal Years 2006 and 2007 that include actual data for the 2004-05 school year.

Column one of the table indicates the assumption or policy lever that is being measured. Column two indicated the estimated need for the program based on that assumption or lever that was made at the end of session. Reading down the column, the cumulative impact of each change can be measured. The third column shows the current projection based on the information described above. The fourth column is the difference between the two projections. The fifth column shows the change between each assumption or program change. This allows the reader to see the impact on the total of the new information by change type.

To explain this further, observe the first change listed the change in enrollment. Enrollments are lower under this projection than they were assumed at the end of session. This results in a re-estimate that is \$1.47 million lower in FY 2006 today than was expected last spring. The impact of the change in the federal needs analysis is the next policy adjustment shown. At the end of session the estimate for this change was \$6.23 million. The current estimate is \$5.80 million, or a difference of \$.43 million. One can see the changes in the estimates for the various parameters by looking down the column. From the table one can observe that the enrollment and tuition assumptions have lead to the two largest changes from the model produced results in the total estimates from the end of session.

**Table 1
Comparison of Current Projection with End of Session for
The State Grant Program**

**Fiscal Year 2006 Differences
(All figures in millions)**

Assumption or Program Change	End of 2005 Session Projections	Current Projection	Difference in Cumulative Spending Projections	Difference in Projections for Change Item
Change in Enrollment Projections	\$127.80	\$126.33	(\$1.47)	(\$1.47)
Impact of State & Other Tax Tables changes	\$121.57	\$120.53	(\$1.04)	\$0.43
Change in Tuition and Fees	\$128.78	\$126.26	(\$2.52)	(\$1.48)
Adopt 30-day Deadlines	\$129.31	\$126.78	(\$2.53)	(\$0.01)
Increase in 4-Year Tuition and Fee Maximums	\$130.78	\$128.16	(\$2.62)	(\$0.09)
Decrease in 2-Year Tuition and Fee Maximums	\$129.19	\$126.86	(\$2.33)	\$0.29
Increase in LME	\$133.80	\$131.20	(\$2.60)	(\$0.27)
Outside the Model Adjustment		\$126.20		(\$5.00)

Fiscal Year 2007 Differences

Assumption or Program Change	End of 2005 Session Projections	Current Projection	Difference in Cumulative Spending Projections	Difference in Projections for Change Item
Change in Enrollment Projections	\$131.14	\$128.83	(\$2.31)	(\$2.31)
Impact of State & Other Tax Tables changes	\$124.81	\$122.95	(\$1.86)	\$0.45
Change in Tuition and Fees	\$137.44	\$134.28	(\$3.16)	(\$1.30)
Adopt 30-day Deadlines	\$138.03	\$134.86	(\$3.17)	(\$0.01)
Increase in 4-Year Tuition and Fee Maximums	\$142.90	\$139.58	(\$3.32)	(\$0.15)
Decrease in 2-Year Tuition and Fee Maximums	\$140.46	\$137.62	(\$2.84)	\$0.48
Increase in LME	\$145.36	\$142.25	(\$3.11)	(\$0.27)
Outside-the-Model Adjustment		\$134.75		(\$7.50)

Fall 2005 Information and Income Distribution Changes

Results from the model used for the State Grant program are typically presented on an annual basis. However, since there are important differences between the various educational terms when students enroll (fall, winter, spring, and two summer terms) the model is actually run on a term-by-term basis. Expenditure data for the fall term has been submitted to the agency by each institution eligible for the State Grant program. While this data is more firm than reported in the November report, it is still subject to adjustment throughout the year as student awards are amended for credit load changes or other related reasons.³ For instance, between September 2004 fall reports and the end of year for fall 2004, total spending for the term was adjusted upwards by \$6.5 million. Although most of this adjustment is due to schools that begin a quarter after the reporting date, many schools report adjustments of one kind or another.

Fall 2005 spending information has been reported by the participating institutions. This data contains information that may be used to improve the projections and to better understand the program dynamics. If one assumes that the historical share of the annual total reflected in the fall data from prior years holds up for FY 2006, spending for FY 2006 would be about \$126 million. This is very close to the final amount reported in Table 1 and helps confirm the out-of-model adjustment shown at the bottom of the chart.

³ This is different than the deadline date. A student may meet that date to be eligible and still have changes at a later time.

As mentioned in earlier reports and at public meetings, the agency continues to undertake analysis to improve the projections process. This includes an analysis of shifts in income that have a direct bearing on the number of students eligible and the amount of grant paid. The adjustment reflects the results of this analysis regarding the shift in the income distribution of Minnesota State Grant applicants.

If it is assumed that there will be continued shifts in the incomes of applicants, then similar adjustments should be made to the FY 2007 projection. Data on FY 2005 Minnesota State Grant applicants were used to make the current projection of \$142.25 million for FY 2007. These applicants reported income for 2003. The applicants in Fiscal Year 2007 will be reporting income data for FY 2005. The growth in wage rates used by the Department of Finance for the overall state revenue projections are 4.9 percent between 2003 and 2004 and preliminary estimates suggest the value between 2004 and 2005 will be about half of the 4.9 percent rate observed between 2003 and 2004.

Again, if it is assumed that the same pattern in actual spending relative to projections will be observed in FY 2007, the projection for FY 2007 should be reduced \$7.5 million. This suggests that the projection for FY 2007 should be about \$135 million instead of the \$142.25 million produced from the model.

Total Biennial Changes

Using the projections adjusted for income growth reported in this section would result in biennial spending of \$261 million, about \$18 million less than projected during the 2005 Session. If 75 percent (\$12 million) of this difference were allocated to increasing the Living and Miscellaneous Expense allowance (LME), thereby reallocating the dollars back to needy students, then the LME could be increased about \$300 for Fiscal Year 2007. On or before August 1, 2006, the Office of Higher Education will run another projection to verify the estimate so that LME for FY 2007 can be adjusted accordingly. The LME currently in *Laws of Minnesota, 2005*, Chapter 107, Article 1, Section 2, Subdivision 2 is \$5,350. If the agency increases the LME by \$300, the resulting LME for 2007 will be \$5,650.