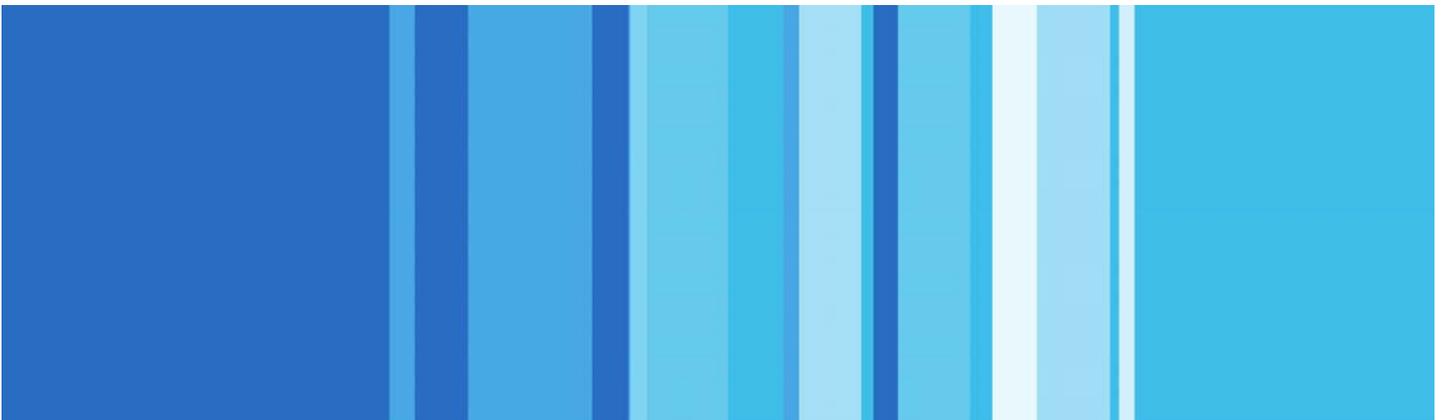


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November 1, 2008



Minnesota State Grant Projections Report



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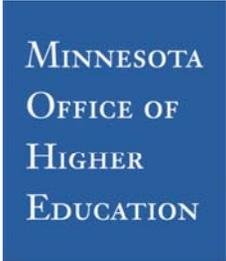
About the Minnesota Office of Higher Education

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 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.

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Introduction

The purpose of this report is to meet the directive of Minnesota Statute 136A.121 that requires the Minnesota Office of Higher Education to update projections for the State Grant program for the 2008-2009 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 various public and private institutions, legislative staff and Minnesota Management and Budget on October 27, 2008. Information on enrollments and tuition and fee changes were provided by these representatives.

State Grant Activity

In May of 2007 the Legislature established appropriations for the State Grant program of \$147.4 million for fiscal year 2008 and \$144.1 million for fiscal year 2009. The agency receives additional resources for the program through the federal LEAP and SLEAP programs of approximately \$1.2 million each year. Minnesota Management and Budget closed 2008 spending in the State Grant program at \$148.8 million. A net amount of approximately \$200,000 was carried back from the fiscal year 2009 appropriation to fiscal year 2008 to cover spending demands.

| Fiscal Year 2008 | | | Appropriations for Fiscal Year 2009 | | |
|------------------|------------------------|----------|-------------------------------------|----------------------|--------------------|
| | Base | \$ 147.4 | | Base | \$ 144.1 |
| | LEAP/SLEAP | + \$ 1.2 | | LEAP/SLEAP | + \$ 1.2 |
| | Carry Back from FY2009 | + \$ 0.2 | | Carry Back to FY2008 | - \$ 0.2 |
| <hr/> | | | <hr/> | | |
| | Total | \$ 148.8 | <i>in millions</i> | Total | \$ 145.2 |
| | | | | | <i>in millions</i> |

November 1, 2008 Spending Projection

The projections contained in this report are not the result of a full simulation of the State Grant model with new assumptions regarding enrollments, tuitions and income changes. Instead, the figures are based on preliminary spending for the fall term (awards and disbursements to date) as reported by participating institutions projected forward per historical spending patterns.

Using data reported through the end of September 2008, the preliminary fall spending projection for fiscal year 2009 is \$1.3 million higher than what was previously projected for fall term during the past legislative session.

Base projection

End of September spending is projected out through the end of the fall term on an institution by institution basis using historical awarding patterns. Additional adjustments are made for private vocational colleges that have fall quarters starting in October. The fall spending projection is divided by average fall term's historic percentage of total year spending for the past nine fiscal years (47.12 percent) to arrive at total annual projected spending. **Using data reported through the end of September 2008, projected spending for fiscal year 2009 is \$147.2 million.**

This methodology may not adequately compensate for the increase in the number of students applying for financial aid using the Free Application for Federal Student Aid. FAFSA applications for Minnesota residents have increased 16 percent in the first two quarters of 2008 compared to the

same period during 2007. This increase may be the result of a weaker economic outlook in terms of employment or from constraint of other financial resources or lines of credit previously utilized by families to pay for college. This increase may also be the result of students filing their aid applications at an earlier date than in previous years. The Office of Higher Education gathered information from institutional financial aid representatives about the increase in FAFSA applications. Representatives indicated that institutions are seeing a much smaller increase in enrollments than FAFSA applications. Nonetheless, the increase in aid applications may be an early indication that fiscal year 2009 spending may deviate from historical spending patterns.

Alternative projection

In response, the Office of Higher Education has created an alternative spending projection based on historical spending patterns for fiscal year 2002. Under this alternative scenario, the fall spending projection is divided by fall 2001 (fiscal year 2002) percentage of total year spending (46.00 percent) to arrive at total annual projected spending. **Using data reported through the end of September 2008, the alternative projected spending for fiscal year 2009 is \$150.8 million.**

The Office of Higher Education used the spending patterns from fiscal year 2002 for several reasons. First, Minnesota State Grant spending in fiscal year 2002 was higher than usual during spring and summer terms compared to historical patterns of spending. Secondly, fiscal year 2002 saw similar trends in economic weakening for the state including slowing economic activity and increases in the state’s unemployment rate. Employment and student enrollment are countercyclical effects – when employment falls (unemployment rates rise), higher education enrollments tend to increase. A weaker state economy will also be reflected in lower reported incomes of aid applicants – some students and parents are working fewer hours and others are laid off. Both of these economic impacts would increase the number of aid applicants qualifying for Minnesota State Grants.

Both the primary spending projection and the alternative spending projection exceed the available appropriation and Federal LEAP/SLEAP funding of \$145.2 million. This suggests a deficiency for fiscal year 2009 in the range of \$2.0 to \$5.6 million.

| | | | |
|-------------------------------------|-----------------------|-----------|---------------------------------|
| Appropriations for Fiscal Year 2009 | | | |
| | Base | \$ | 144.1 |
| | LEAP/SLEAP | + | \$ 1.2 |
| | Carry Back to FY 2008 | - | \$ 0.2 |
| | <u>Total</u> | <u>\$</u> | <u>145.2</u> <i>in millions</i> |

| | | | | | | | |
|-------------------------|----|-----------------|--------------------|--------------------------|----|-----------------|--------------------|
| Appropriation | \$ | 145.2 | | Appropriation | \$ | 145.2 | |
| <u>Projection (low)</u> | - | <u>\$ 147.2</u> | | <u>Projection (high)</u> | - | <u>\$ 150.8</u> | |
| Deficiency (low) | | -\$2.0 | <i>in millions</i> | Deficiency (high) | | -\$5.6 | <i>in millions</i> |

Deficiency Options

Options to address any projected shortfall vary.

The Office of Higher Education has authority to transfer unencumbered balances from appropriations in other agency accounts to the State Grant program.

| OHE Unencumbered balances | |
|---------------------------|------------------------|
| | range |
| ACHIEVE | \$3.0 to \$3.5 million |
| College Savings Plan | Up to \$0.5 million |

- The Legislature could approve deficiency funding.
- The Office of Higher Education could reduce awards for the current fiscal year 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.

- The Office of Higher Education could implement other alternatives as authorized by the Minnesota Legislature in the upcoming 2009 legislative session, such as cancelling awards for summer term 2009.

Next Report

The next report on State Grant projections is due to the Legislature by February 15, 2009. This report will contain new projection figures for both fiscal years of the biennium. The report will also incorporate updated information on fiscal 2009 spending, a new base year data file and an updated income forecast from Minnesota Management and Budget.