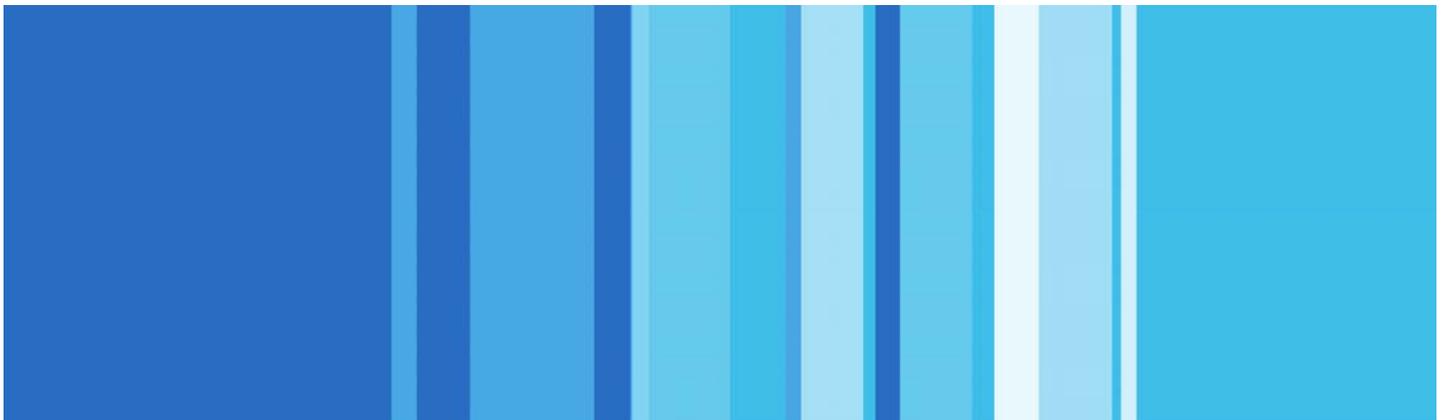


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February 17, 2009



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 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 grant program for Minnesota students. The agency also oversees tuition reciprocity programs, a student loan program, Minnesota's 529 College Savings Program, licensing and an early awareness outreach initiative for youth.

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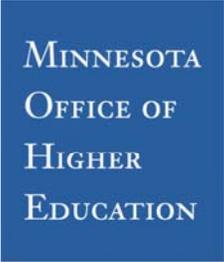
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Introduction

This report meets the directive of Minnesota Statute 136A.121 requiring 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 representatives from public and private institutions, legislative staff and Minnesota Management and Budget on February 11, 2009. Information on enrollments and tuition and fee changes were provided by these representatives.

State Grant Activity Fiscal Year 2008

In May 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>

Fiscal Year 2009 Spending Projection

The Fiscal Year 2009 projections 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 spending for the fall term and preliminary spending for spring term (awards and disbursements to date) as reported by participating institutions projected forward per historical spending patterns.

Using data reported through January 31, 2009, projected spending for Fiscal Year 2009 is \$144.9 million.

End of January spending is projected through the end of the Fiscal Year 2009 on an institution-by-institution basis using historical award patterns. **As of January 31, 2009, the preliminary spending data for Fiscal Year 2009 is \$1.4 million (+1 percent) higher than projected for the year.**

The spending projection is within available resources of \$145.2 million.

Appropriations for Fiscal Year 2009			
Base	\$	144.1	
LEAP/SLEAP	+ \$	1.2	
Carry Back to FY2008	- \$	0.2	
<hr/>			
Total	\$	145.2	<i>in millions</i>
Appropriation	\$	145.2	
Projection	- \$	144.9	
<hr/>			
Funds remaining	\$	0.3	<i>in millions</i>

The Office of Higher Education previously examined whether this methodology would 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 increased 16 percent in the first two quarters of 2008 compared to the same period during 2007. Third- and fourth-quarter data made available since the November projections report revealed that FAFSA filing rates returned to expected levels (+8.6 percent) indicating that students filed aid applications earlier rather than later for the 2008-09 academic year.

This earlier application trend may be the result of many news reports in spring of 2008 noting some banks had stopped offering federal student loans and encouraging students and families to apply early. The Office of Higher Education gathered information from institutional financial aid representatives about the increase in FAFSA applications in the fall of 2008. Representatives indicated that institutions are seeing a much larger increase in FAFSA applications than enrollments.

Fiscal Years 2010 - 2011 Spending Projection

The projections for Fiscal Years 2010 and 2011 are the result of a full simulation of the State Grant model with new assumptions regarding enrollments, tuitions and income changes.

Projection Assumptions

Minnesota State Grant spending projections for Fiscal Years 2010- 2011 are formulated using a series of adjustments.

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 three tax years to inflate student and family incomes. As Fiscal Year 2008 information (tax year 2006) is used, incomes are inflated to reflect growth in subsequent tax years. Data reflecting the annual change in average wages will be revised following the March 3, 2009 economic forecast. The income inflator calculations used in this report are detailed below.

Annual Change in Average Wages

	Tax Year 2007	Tax Year 2008	Tax Year 2009	Income Inflator for Fiscal Year 2010	Income Inflator for Fiscal Year 2010
Annual Change in Average Wages	+5.1%	+3.0%	+3.1%	1.051*1.030=1.083	1.051*1.030*1.031=1.116

The impact of the current recessionary environment is uncertain. While the Minnesota Management and Budget's forecast for income growth includes any projections of economic downturns, they too can only estimate the impact of any future economic slowdown.

Federal Need Analysis

The College Cost Reduction and Access Act outlines several changes to the Federal Need Analysis beginning with the 2009-2010 award year (Fiscal Year 2010).

Income Protection Allowance: The new law provides for scheduled increases in the income protection allowance (IPA) for dependent students, independent students without dependents other than a spouse, and independent students with dependents other than a spouse. The law also includes an updating method for parent income protection allowances using the Consumer Price Index.

Simplified Needs Test: Eligibility criteria for the simplified needs test were expanded to include dependent students if one of the student's parents is a dislocated worker, independent students if the student or spouse is a dislocated worker, and individuals receiving means-tested federal benefits within the past 24 months.

Automatic Zero Calculation: The new eligibility criteria for the simplified needs test also apply to the automatic zero calculation. The maximum qualifying income level for the auto zero Expected Family Contribution formula is increased from \$20,000 to \$30,000. The maximum qualifying income level will also be updated annually according to the Consumer Price Index.

Definition changes: The Act makes changes to the definition of total income, untaxed income and benefits, independent student, excludable income, includable assets, and other financial assistance beginning with the 2009-2010 award year.

- "Total Income" is to exclude distributions from qualified education benefits that are not subject to federal income tax.
- Untaxed income and benefits remove from consideration welfare benefits, the earned income tax credit, federal tax credit on special fuels, foreign income excluded from federal income taxes, and untaxed social security benefits. The amount of additional child tax credit claimed for federal income tax purposes is specifically excluded.
- The definition of independent students is expanded to include students in foster care, emancipated minors or those in legal guardianship and homeless youth.
- "Excludable income" is expanded to include special combat pay.
- The definition of assets states that a qualified education benefit is an asset of the parent if the student is a dependent student or the student is independent.
- "Other financial assistance" is clarified to exclude distributions (that are not included in gross income) from 529 plans, other state prepaid tuition plans, or Coverdell education savings accounts.

- Special combat pay is excluded from estimated financial assistance for purposes of determining financial need.

Mandatory Pell Grant Changes in Law

There are two changes to the calculation of the federal Pell Grant to be incorporated into the spending projections for Fiscal Years 2010-2011. Beginning on July 1, 2009 the calculation of the minimum Pell Grant will be equal to ten percent of the maximum basic grant level as specified in the relevant appropriations legislation. For Fiscal Year 2010, the minimum Pell Grant will increase to \$424 from the current \$400 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

Federal Pell Grant	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011
Minimum – current law	\$400	\$424	\$424
Base maximum – current law	\$4,241	\$4,241	\$4,241
Pell Grant supplement – current law	<u>+\$490</u>	<u>+\$490</u>	<u>+\$690</u>
Pell Grant maximum – current law	\$4,731	\$4,731	\$4,931

Tuition 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.

Given the uncertainty about appropriations to the two public higher education systems, there is a chance that these preliminary tuition increase estimates will change by the end of the 2009 legislative session. In order to best anticipate program cost increases arising from tuition increases being higher than the November estimates, the Office of Higher Education adjusted the tuition increase assumptions. The tuition increase assumptions utilized in the February spending projection are listed in the table below.

Tuition Assumptions

Institution Type	Tuition Increases reported by Institutional/Sector Representatives (Nov 2008)			Tuition Increases with adjustments by Office of Higher Education (Feb 2009)		
	2008-09	2009-10	2010-11	2008-09	2009-10	2010-11
Public two-year institutions	+2.6%	+3%	+3%	+2.6%	+5%	+5%
State universities	+3.3%	+4%	+4%	+3.3%	+6%	+6%
University of Minnesota	+6.8%	+4.5%	+4.5%	+6.8%	+7.5%	+7.5%
Private not-for-profit institutions	+5.9%	+5%	+5%	+5.9%	+5%	+5%
Private for-profit institutions	+5.8%	+5.1%	+5.0%	+5.8%	+5.0%	+5.0%

Enrollment Weighting

Minnesota State Grant spending also incorporates estimated enrollment changes in the number of Minnesota resident undergraduates enrolling at institutions in each sector. Information about enrollment changes for sectors and institutions 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.

Enrollment Assumptions

Institution Type	Enrollment Changes		
	2008-09	2009-10	2010-11
Public two-year institutions	+1.1%	+1.2%	+1.1%
State universities	+1.1%	+1.2%	+1.1%
University of Minnesota	-0.4%	0.0%	0.0%
Private not-for-profit institutions	0.0%	0.0%	0.0%
Private for-profit institutions	+9.8%	+8.0%	+8.2%

Other Adjustments

New projections are vetted against actual spending and the prior projections. The goal of comparing projections to actual spending and prior projections is to identify systemic changes that may be occurring in the student population that cannot be controlled within the projections methodology. Based on actual fall term spending through December 31, 2008, Minnesota State Grant spending for Fiscal Year 2009 is estimated to be 0.7 percent higher than projected. In order to accommodate this growth in spending in the Fiscal Years 2010-2011 projections, the spending projections were increased by a factor of 1.0071 for each year of the biennium.

Anticipated Policy Parameters

Parameter	Fiscal Year 2009	Fiscal Year 2010 base	Fiscal Year 2011 base
Living and Miscellaneous Expense Allowance	\$6,200	\$6,200	\$6,200
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	\$9,838	\$9,838
Federal Pell Grant Award Maximum	\$4,731	\$4,731	\$4,931
Federal Pell Grant Award Minimum	\$400	\$424	\$424
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%

Results

Base resources for the 2010-2011 biennial periods are the sum of state appropriations plus federal LEAP and SLEAP funds. Total base resources for the biennium equal \$290.74 million.

Base Resources (in millions)

Base Resources	FY2010	FY2011	Biennium
State appropriations	\$144.14	\$144.14	\$288.28
Federal LEAP program	+\$ 0.58	+\$ 0.58	+\$ 1.06
Federal SLEAP program	<u>+\$ 0.65</u>	<u>+\$ 0.65</u>	<u>+\$ 1.30</u>
Total base resources	\$145.37	\$145.37	\$290.74

Projected spending for each fiscal year varies. The table below details the specific adjustments to spending based on federal legislation and the demand for higher education. The changes modeled below are the agency's best estimates as of February 15, 2009 and thus are subject to changes resulting from modifications in federal appropriations as well as changes in the enrollment behavior of students and the tuition policies set by the public higher education systems.

Spending Base (in millions)

Spending Base	FY2010	FY2011	Biennium
Base program spending	\$ 132.44	\$ 137.61	\$ 270.05
Changes in income/federal needs analysis	Included in base	- \$4.69	- \$4.69
Enacted changes in Federal Pell Grant	Included in base	- \$8.19	- \$8.19
Cost of tuition increase	+ \$4.67	+ \$4.69	+ \$9.36
Cost of enrollment increases	<u>+ \$4.18</u>	<u>+ \$5.92</u>	<u>+ \$10.09</u>
Net total for base spending	\$ 141.29	\$ 135.35	\$ 276.63
Other changes			
Adjustments for spending growth FY2009	<u>+ \$1.00</u>	<u>+ \$0.96</u>	<u>+ \$1.96</u>
Spending projection	\$ 142.29	\$ 136.31	\$ 278.60

Projected spending for each fiscal year is compared against the available resources. Fiscal Year 2010 shows a difference between base resources and spending in the amount of \$2.99 million. Fiscal Year 2011 shows a difference between base resources and spending in the amount of \$9.03 million. For the biennium, the difference between resources and spending equals \$12.02 million.

Spending Projections versus Available Resources (in millions)

Spending Projections vs. Available Resources	FY2010	FY2011	Biennium
Base resources	\$145.37	\$145.37	\$290.74
Spending projection	<u>-\$142.29</u>	<u>-\$136.31</u>	<u>-\$278.60</u>
Difference between resources and spending	\$ 3.08	\$ 9.06	\$ 12.15

Limitations of the Projection

There are several caveats to consider when weighing possible uses of the program's projected surplus resources. First, the program relies on a funding buffer of sufficient size to handle any possible variance in aid applicants' eligibility and enrollment. The economic downturn may be visible in two possible ways. Of primary importance is student enrollment. Student enrollment tends to increase at public two-year colleges in times of economic uncertainty and hardship. The program may see an increase in aid applicants from community colleges at levels higher than projected in the coming fiscal years. Community and technical college students represent 41 percent of total State Grant recipients. Next, economic changes may also be seen in the income of parents and students. Economic events such as layoffs, pay cuts and job shifts may adversely impact projected income growth among aid applicants. Income growth typically generates cost savings for the program. These cost savings may not be realized.

Second, the program resources should anticipate the impact of the state's budget forecast and subsequent gubernatorial and legislative actions on higher education budgets. In previous budgets, cuts in response to declines in state revenues were made to the appropriations at both the Minnesota State Colleges and Universities and the University of Minnesota system. Both systems responded by making internal reallocations in funding and by raising tuition to rates higher than originally anticipated. If projected tuition increases exceed the tuition assumptions discussed above, then program spending in the Minnesota State Grant program will increase too.

Third, increases or reductions in the currently legislated Pell Grant amounts would affect State Grant spending. Until federal legislation is signed into law, the final outcomes of federal negotiations regarding the Pell Grant can only be assumed.

Next Report

The State Grant spending projections for Fiscal Years 2010 and 2011 will be modified to reflect the outcome of federal and state legislative action during the spring of 2009 and the economic forecast to be released March 3, 2009. The next legislatively mandated report on State Grant projections is due to the Legislature by November 1, 2009. This report will contain new projection figures for both fiscal years of the biennium. The report will also incorporate updated information on Fiscal Year 2010 spending, a new base year data file and an updated income forecast from Minnesota Management and Budget.