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February 15, 2011

Minnesota State Grant Projections

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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 also serves as the state's clearinghouse for data, research and analysis on postsecondary enrollment, financial aid, finance and trends.

The Minnesota State Grant Program is the largest financial aid program administered by the Office of Higher Education, awarding up to $150 million in need-based grants to Minnesota residents attending eligible colleges, universities and career schools in Minnesota. The agency oversees other state scholarship programs, tuition reciprocity programs, a student loan program, Minnesota's 529 College Savings Plan, licensing and early college awareness programs for youth.

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Introduction

The purpose of this report is to update spending projections for the State Grant program for the 2012-2013 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 public and private institutions, legislative staff and Minnesota Management and Budget on February 11, 2011. Information on enrollments and tuition and fee changes was provided by institutional representatives.

This report contains two parts. Part I presents spending projections for the Minnesota State Grant program for fiscal year 2011 and through the 2012-2013 biennium. Part II analyzes the impact of economic changes on higher education enrollment and Minnesota State Grant program demand in fiscal year 2010.

Part I

Minnesota State Grant Fiscal Year 2011 Spending Projection

The State Grant spending projection for fiscal year 2011 is now $118.00 million. This compares to base resources of $119.37 million for fiscal year 2011 as of February 14, 2011.

The projections contained in this report are based on both preliminary spending for the fall, winter and spring terms as reported by participating institutions projected forward, and a full simulation of the State Grant model. The spending simulation projects fiscal year 2010 data to fiscal year 2011 using known enrollment and tuition changes. Given economic uncertainty, the Office of Higher Education has analyzed fall and winter term spending and preliminary spring term spending in gauging program demand for the fiscal year.

This report details the specific adjustments to spending based on federal legislation, tuition and fees, enrollment and other variables affecting demand for financial aid. The changes modeled are the agency's best estimates as of February 15, 2011 and thus are subject to changes.

Fiscal Year 2010 Review

In November 2009, the Minnesota Office of Higher Education determined that spending would exceed base appropriations for fiscal year 2010 by approximately $24 million. The State Grant spending for fiscal year 2010 was $168.5 million compared to base resources of $144.14 million.

The higher than anticipated projected demand for program grants by eligible students was due to an increase in financial aid applications and enrollment and a decline in income for students and families. While applications and eligibility were anticipated to increase due to a stressed economy, the actual application volume increase was higher than expected. Enrollment increases occurring at the public two-year colleges and the University of Minnesota were significantly higher than previously estimated by the systems. More students also completed the FAFSA and met eligibility requirements for need-based aid. The agency calculated that FAFSA filing rates for Minnesota resident undergraduates increased by an estimated 4.89 percentage points between fall 2008 and fall 2009.

The following course of action was taken to remediate the spending shortfall for the Minnesota State Grant program for fiscal years 2010 and 2011.

The agency transferred funds from the second-year appropriation of the Minnesota State Grant program to cover the unanticipated deficiency in the program for fiscal year 2010. This action was within the authority of the Office of Higher Education.

> *2009 Sessions Laws, Chapter 95, Sec.3, Subd. 2: If the appropriation in this subdivision for either year is insufficient, the appropriation for the other year is available for it. The legislature intends that the Office of Higher Education make full grant awards in each year of the biennium.*

The Minnesota Legislature enacted changes to reduce State Grant spending for fiscal year 2011. Changes included elimination of the ninth semester of eligibility and a limit on spending for the High School to College Developmental Transition program.

The agency also reduced awards for fiscal year 2011 using the rationing procedure outlined in statute. To achieve a reduction in program spending for fiscal year 2011, a surcharge to the assigned family responsibility of 20 percent was added, and the assigned student responsibility was increased by 2.20 percentage points to 48.20 percent. This reduced the average Minnesota State Grant award by an estimated $290 for fiscal year 2011.

> *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 5
>
> *The reduction under clauses (1) and (2) must be equal dollar amounts.*

Per the statutory authority prescribed in Section 37 of Laws of Minnesota 2010 Chapter 364, the agency reserved $7.9 million (4.87 percent) to address uncertainty in economic variables affecting demand for the Minnesota State Grant program. In November 2010, the State Grant spending projection for fiscal year 2011 was $114.00 million. This compared to base resources of $119.37 million for fiscal year 2011. In compliance with Section 37 of Laws of Minnesota 2010 Chapter 364, the agency allocated additional funds to students by increasing the annual nine-month living and miscellaneous expense allowance by $274, and applying the increase to award calculations for winter, spring and summer terms.

> *Chapter 364. Sec. 37. REDUCTION IN GRANTS FOR INSUFFICIENT APPROPRIATIONS. In fiscal year 2011, the dollar amount reductions in state grants under Minnesota Statutes, section 136A.121, subdivision 7, may be approximately equal for the surcharge on family responsibility and the percentage increase on the assigned student responsibility. The Minnesota Office of Higher Education may reserve up to five percent of the projected demand for grant awards in fiscal year 2011 to manage uncertainty of demand based on enrollment or income changes of applicants. After reduced grant awards are made for fiscal year 2011, the office must distribute any remaining funds to increase the living and miscellaneous expenses allowance consistent with the office's distribution of surplus appropriations under Minnesota Statutes, section 136A.121, subdivision 7a; provided that if the office determines that the remaining funds are less than $1,500,000 the office may, in lieu of increasing the allowance, transfer all of the remaining funds to the state work-study program.*

Minnesota State Grant Fiscal Years 2012 and 2013 Spending Projection

The State Grant spending projection is $158.83 million for fiscal year 2012 and $163.99 million for fiscal year 2013. This compares to base resources of $144.14 million per fiscal year.

The projections contained in this report are the result of a full simulation of the State Grant model projecting fiscal year 2010 data to fiscal years 2012 and 2013 using current law award parameters and information on enrollment and tuition changes provided by institutional representatives and the percent change in wages of tax filers estimated by Minnesota Management and Budget. This report details the specific adjustments to spending based on federal legislation, tuition and fees, enrollment and other variables that affect demand for financial aid. The changes modeled are the agency's best estimates as of February 15, 2011 and thus are subject to changes. This spending projection is based on the model assumptions starting on page eight.

Base resources for the 2012-2013 biennial periods are the sum of state appropriations ($288.28 million). Federal LEAP and SLEAP funds of approximately $1.3 million per fiscal year were included as part of the base appropriations for the program for previous budgets. These funds have been recommended for reallocation and/or elimination by the U.S. Department of Education and therefore are not included as part of base resources available for the Minnesota State Grant program in fiscal years 2012 and 2013.

Base Resources (in millions)

Base Resources	FY2012	FY2013	Biennium
State appropriations	$144.14	$144.14	$288.28
Federal LEAP program	+$ 0.00	+$ 0.00	+$ 0.00
Federal SLEAP program	+$ 0.00	+$ 0.00	+$ 0.00
Total base resources	**$144.14**	**$144.14**	**$288.28**

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.

Spending Base (in millions)

Spending Base	FY2012	FY2013	Biennium
Base program spending	$ 163.93	$ 167.54	$ 331.47
Changes in income/federal needs analysis	+ (5.84)	+ (2.80)	+ (8.64)
Cost of tuition and fee increases	+ 8.02	+ 6.16	+ 14.18
Cost of enrollment increases	+ 1.44	+ 2.09	+ 3.53
Adjustment for applicant pool	+ (8.71)	+ (9.00)	+ (17.71)
Spending projection	**$ 158.83**	**$ 163.99**	**$ 322.83**

Projected spending for each fiscal year is compared against the available resources. Fiscal year 2012 shows a difference between base resources and spending in the amount of $14.69 million. Fiscal year

2013 shows a difference between base resources and spending in the amount of $19.85 million. For the biennium, the difference between resources and spending equals $34.54 million.

Spending Projections versus Available Resources (in millions)

Spending Projections vs. Available Resources	FY2012	FY2013	Biennium
Base resources	$144.14	$144.14	$288.28
Spending projection	-$158.83	-$163.99	-$322.83
Difference between resources and spending	**$ (14.69)**	**$ (19.85)**	**$ (34.54)**

Limitations of the Projection

There are several caveats to consider. First is student enrollment. Enrollment increased at public two-year colleges in response to the current economic uncertainty and hardship. The program may see a decrease in aid applicants from community colleges in the coming fiscal years as the economy recovers. Economic changes are also seen in the income of parents and students. Economic events such as layoffs, pay cuts and job shifts reduce income for aid applicants making more students eligible for Minnesota State Grants. Wage growth is projected to generate modest cost savings for the program. These cost savings may not be realized if the economy fails to improve as projected.

Second is tuition. Cuts in response to the state budget deficit may be made to the appropriations at both the Minnesota State Colleges and Universities and the University of Minnesota system. Both systems may respond by making internal reallocations in funding and by raising tuition to rates higher than originally estimated. If projected tuition increases exceed the tuition assumptions, then program spending in the Minnesota State Grant program will increase too.

Third, increases or reductions in the currently-legislated federal Pell Grant amounts would affect State Grant spending. Funding to maintain current award levels for the federal Pell Grant expires on March 4, 2011. Should Pell Grant funding expire and the U.S. Congress fail to pass a subsequent appropriations bill, students would see reductions in their federal Pell Grant. Reductions in Pell Grant awards would result in increased spending in the Minnesota State Grant program. Until federal appropriations legislation is signed into law, the final outcomes of federal negotiations regarding the Pell Grant can only be assumed.

Current Statutory Guidance

In the absence of legislative action, the Minnesota Office of Higher Education is authorized to reduce State Grant awards for fiscal years 2012 and 2013 using the rationing procedure outlined in statute to bring projected spending within state appropriations.

> *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.*

To achieve the reduction in program spending required under current statute, a surcharge to the assigned family responsibility would be added, and the assigned student responsibility would be increased. The rationing parameters for fiscal years 2012 and 2013 are listed below. Also suggested is a reserve of approximately two percent of program demand for fiscal years 2012 and 2013 to manage uncertainty based on enrollment or income changes of applicants.

Rationing Parameters

Minnesota State Grant Rationing Parameters	Current Law	FY2012	FY2013
Assigned Student Responsibility	46%	+0.9% or 46.9%	+1.2% or 47.2%
Assigned Family Responsibility Surcharge	0%	+8%	+9%
Projected Spending after Rationing		**$140.12 million**	**$140.55 million**
Program Reserve		$4.02 million (2.4%)	$3.59 million (2.1%)

Projection Assumptions

The Minnesota State Grant spending projection for each fiscal year is formulated using a series of adjustments and the following program parameters. Given that demand on the program was projected to exceed available resources, the Office of Higher Education implemented rationing parameters for fiscal year 2011.

Minnesota State Grant Award Parameters	FY2011	FY2012	FY2013
		Current Law	
Living and Miscellaneous Expense Allowance	$7,000	$7,000	$7,000
Assigned Student Responsibility	48.2%	46%	46%
Tuition and Fee Maximums			
Students in Two-Year Programs	$5,808	$5,808	$5,808
Students in Four-Year Programs	$10,488	$10,488	$10,488
Federal Pell Grant Maximum	$5,550	$5,550	$5,550
Rationing Surcharge on Assigned Family Responsibility	20%	0%	0%
Proration of the Assigned Family Responsibility			
Dependent Students (Parent Contribution)	96%	96%	96%
Independent Students with Dependents (Student Contribution)	86%	86%	86%
Independent Students without Dependents (Student Contribution)	68%	68%	68%
Maximum Semesters of Enrollment for Grant Eligibility	8	8	8

Enrollment Assumptions

Minnesota State Grant spending projections also incorporate estimated enrollment changes in the number of Minnesota resident undergraduates enrolling at each institution type. Information about enrollment changes for fiscal years 2012 and 2013 is gathered from representatives by November and February of each year. Overall enrollment is used to estimate changes in the number of Minnesota resident aid applicants. These figures will be reevaluated as new data on enrollments become available.

Enrollment Assumptions	FY2010	FY2011	FY2012	FY2013
	Fall 2009	Fall 2010	Fall 2011	Fall 2012
System	Actual	Actual	Projected	Projected
MnSCU Two-Year Institutions	+10.0%	+1.8%	+0.6%	+0.7%
MnSCU Four-Year Institutions	+2.0%	+1.2%	+0.9%	+1.0%
University of Minnesota	+4.3%	+2.0%	+1.0%	+1.0%
Private Not-for-Profit Institutions	+0.0%	+1.0%	+0.0%	+0.0%
Private For-Profit Institutions	+17.0%	+6.0%	+7.0%	+7.0%

Change in Wages

The projections model incorporates data about change in wages of Minnesota tax filers from Minnesota Management and Budget. The forecast is used in projections of state revenue and spending across multiple agencies and is updated each November and February. For 2012-2013 biennial projections, the model utilizes data from applicable tax years to update student and family wages and adjusted gross incomes. As fiscal year 2010 information (tax year 2008) is used, incomes are updated to reflect projections for subsequent tax years. Data reflecting the annual change in average wages was revised following the November 2010 economic forecast. The wage change calculations used in the projections are detailed below. These figures will be revised following the March 2011 economic forecast.

Change in Annual Wages, Minnesota

Fiscal Year	FY2010	FY2011	FY2012	FY2013
	Tax Year 2008	Tax Year 2009	Tax Year 2010	Tax Year 2011
One-Year Change	+3.2%	-2.7%	+3.0%	+2.5%

Federal Need Analysis

The projections model for the Minnesota State Grant incorporates all changes made by the U.S. Department of Education to the federal need analysis as of February 15, 2011. Recent Congressional action mandated an increase in the income threshold for an automatic zero EFC from $30,000 to $31,000 for the 2011-2012 award year. Annual updates to the tables used in the statutory "Federal Methodology Need Analysis" to determine a student's expected family contribution (EFC) for the 2011-2012 Award Year (May 27, 2010 [75 FR 29744]) were released by the U.S. Department of Education in May of 2010 and can be accessed on the web at:
http://ifap.ed.gov/fregisters/FR052710NeedAnalysis.html

Pell Grant Changes in Law

The Health Care and Education Reconciliation Act of 2010, Public Law 111-152 passed by Congress in March 2010 changed the award formula for the federal Pell Grant. While the formula changed, the maximum Pell Grant did not change. The table below lists the current federal Pell Grant parameters. These changes are incorporated into projections of fiscal years 2012 and 2013 State Grant spending. The Federal Pell Grant will not increase in fiscal years 2012 and 2013. Beginning in fiscal year 2014 the maximum Pell Grant award is scheduled to increase annually at the rate of inflation.

Federal Pell Grant Award Parameters	FY2010	FY2011	FY2012	FY2013
Pell Grant Minimum Award	$976	$555	$555	$555
Pell Grant Maximum Award				
Base	$4,860	$4,860	$4,860	$4,860
Supplement (College Cost Reduction Act 2007)	+$490			
Supplement (March 2010)		+$690	+$690	+$690
Pell Grant Maximum Award	**$5,350**	**$5,550**	**$5,550**	**$5,550**
Award Formula: Expected Family Contribution (EFC)	$4,860 - EFC if greater than $0 add $490	Maximum Pell - EFC	Maximum Pell - EFC	Maximum Pell - EFC

Tuition and Fee Increases

Minnesota State Grant spending also relies upon estimated tuition and fee increases for each institution type. Information about tuition and fee increases for fiscal years 2012 and 2013 is gathered from representatives by November and February of each year. It is important to remember that tuition increases have a compounding effect. The table below details actual tuition and fee increases for State Grant calculations as reported by institutions as of February of 2011 and tuition and fee increase estimates utilized by the agency in projections of spending.

The column marked "ARRA portion of Tuition Rate" reflects the percent of tuition increase at public institutions offset by federal funds from the American Recovery and Reinvestment Act for fiscal years 2009 and 2010.

Annual Changes in Minnesota Resident Undergraduate Tuition and Fee Rates

Tuition and Fee Rate Increases	FY2010	FY2011	FY2012		FY2013
System	Actual	Actual	ARRA portion of Tuition Rate	Projected	Projected
MnSCU Two-Year Institutions	+2.9%	+4.5%	+1.5%	+5.0%	+5.0%
MnSCU Four-Year Institutions	+3.0%	+4.7%	+1.7%	+5.0%	+5.0%
University of Minnesota	+7.5%	+7.0%	Included in base	+5.0%	+5.0%
Private Not-for-Profit Institutions	+4.8%	+5.0%	Not applicable	+5.0%	+5.0%
Private For-Profit Institutions	+5.0%	+2.8%	Not applicable	+2.0%	+2.0%

Next Report

The next report on Minnesota State Grant projections is due to the Legislature by November 1, 2011. This report will contain preliminary spending estimates for fiscal year 2012 and projection figures for fiscal year 2013. The report will also incorporate an updated wage forecast from Minnesota Management and Budget.

Part II

What happened in Fiscal Year 2010?

An analysis of the impact of economic changes and higher education enrollment on program demand

Throughout the spring of 2009, Minnesota State Grant spending for Fiscal Year 2010 was projected to be within available appropriations for the biennium. By February of 2010 projected State Grant spending for fiscal year 2010 had risen to $168 million creating a budget shortfall of $24 million.

Theories for the higher than anticipated projected growth in demand for program grants included:

- An increase in financial aid applications, as indicated by preliminary fall data from institutions. While applications and eligibility were anticipated to increase due to a stressed economy, the actual volume increase exceeded even conservative projections.
- Enrollment increases projected by the public two-year colleges and the University of Minnesota were significantly higher than previously estimated by the systems.
- While no increase in wages and income of Minnesota students and families was anticipated, financial aid directors reported a significant increase in students reporting family job losses and other factors resulting in a decline in income.

This report analyzes fiscal year 2010 applicant data and economic indicators to determine if the above theories were correct.

The increase in financial aid applicants

Students can apply for financial aid beginning January 1 prior to the start of the academic year in which they enroll (January 1, 2009 for the 2009-2010 academic year/ fiscal year 2010). Analysis of application data for fiscal year 2010 as of August 15, 2009 indicated that the increase in number of financial aid applications was 14.39 percent higher as compared to fiscal year 2009 (August 15, 2008).

Minnesota FAFSA Applications by Month (January – August 15)

Fiscal Year	2009	2010	% Change
January	7,204	8,462	+17.5%
February	33,302	38,590	+15.9%
March	42,251	48,054	+13.7%
April	36,109	39,635	+9.8%
May	23,909	26,879	+12.4%
June	23,738	28,615	+20.5%
July	28,287	32,967	+16.5%
August	15,728	17,623	+12.0%
Total as of August 15	210,528	240,825	+14.4%

More enrolled students applied for financial aid

Initially the agency theorized that students were applying earlier for financial aid. The reality was that significantly more students were applying. Data comparing FAFSA filing rates of Minnesota resident undergraduates enrolled in the fall term found that the percent of students completing the FAFSA increased 4.88 percentage points between fiscal years 2009 and 2010. This increase was seen among both new entering undergraduates and continuing students.

Students did not apply earlier for financial aid

The percentage increase in financial aid applications was fairly consistent across months for the period studied (January to August). This indicates that the increase in applications early in the year was not the result of students applying earlier for financial aid. Rather more students applied in all months of the year.

Students did not apply to more institutions

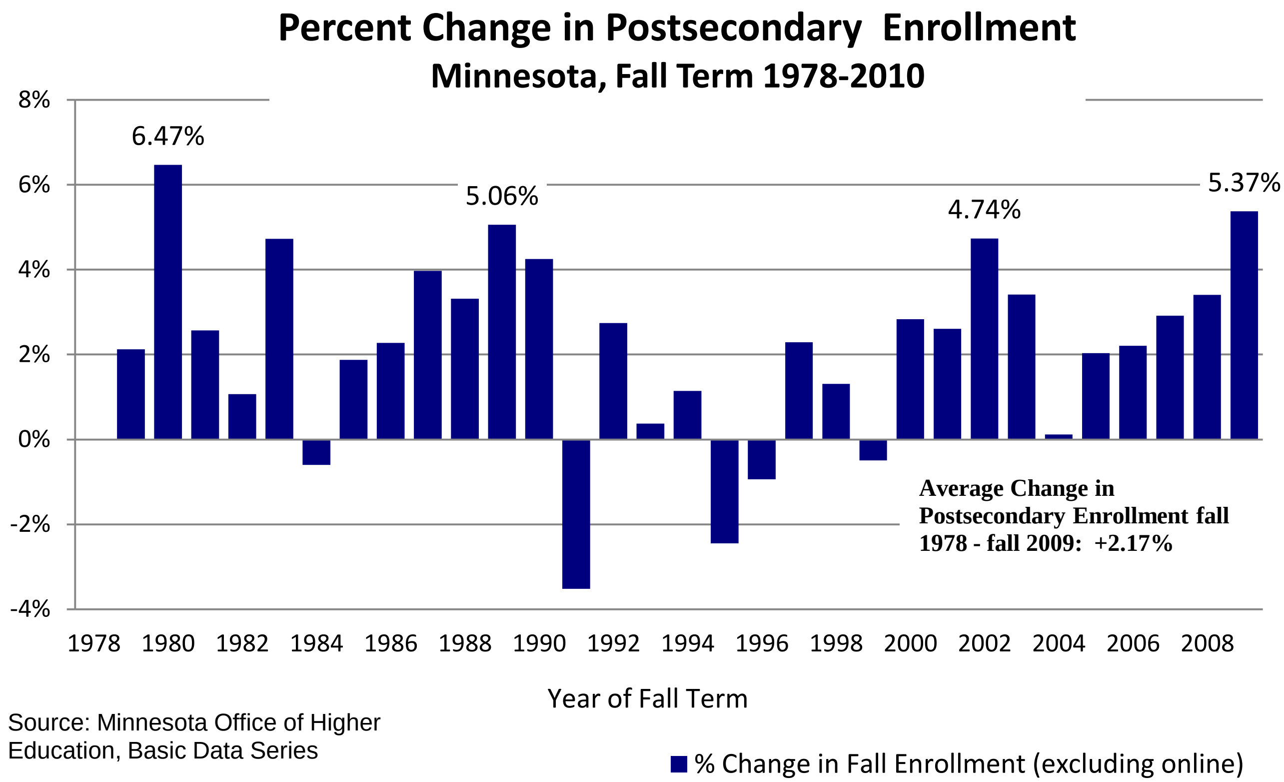
Students can send their financial aid application information to up to ten institutions. This is helpful for students who have not yet chosen an institution of enrollment. The mean number of institutions listed on the FAFSA application was 1.33 for both fiscal years 2009 and 2010 indicating that on average, students sent their aid application data to the same number of institutions as students in the prior year.

The increase in financial aid applications did exceed expectations and was partially responsible for the increased demand on program resources. However, many students who apply for financial aid do not enroll in college. For program spending to exceed available resources, students must apply for financial aid, be eligible for aid and enroll in a Minnesota institutions of their choosing.

The increase in enrollment in higher education

Enrollment increases projected at Minnesota institutions exceeded estimates. Information about actual enrollment changes for the current fiscal year and estimates of enrollment increases for future fiscal years are obtained from institutional and system representatives in November and February of each fiscal year. Change in undergraduate enrollment is used as a proxy for changes in the number of Minnesota resident aid applicants. For fiscal year 2010 initial enrollment estimates significantly underestimated the actual rate of increased enrollment.

Change in Minnesota Resident Undergraduate Enrollment	FY2009	FY2010	
	Fall 2008	Fall 2009	
System	Actual	Projected	Actual
MnSCU Two-Year Institutions	+1.8%	+1.6%	+10.0%
MnSCU Four-Year Institutions	+0.7%	+0.4%	+2.0%
University of Minnesota	-0.4%	+0.0%	+4.3%
Private Not-for-Profit Institutions	+0.0%	+0.0%	+0.0%
Private For-Profit Institutions	+9.8%	+8.0%	+17.0%



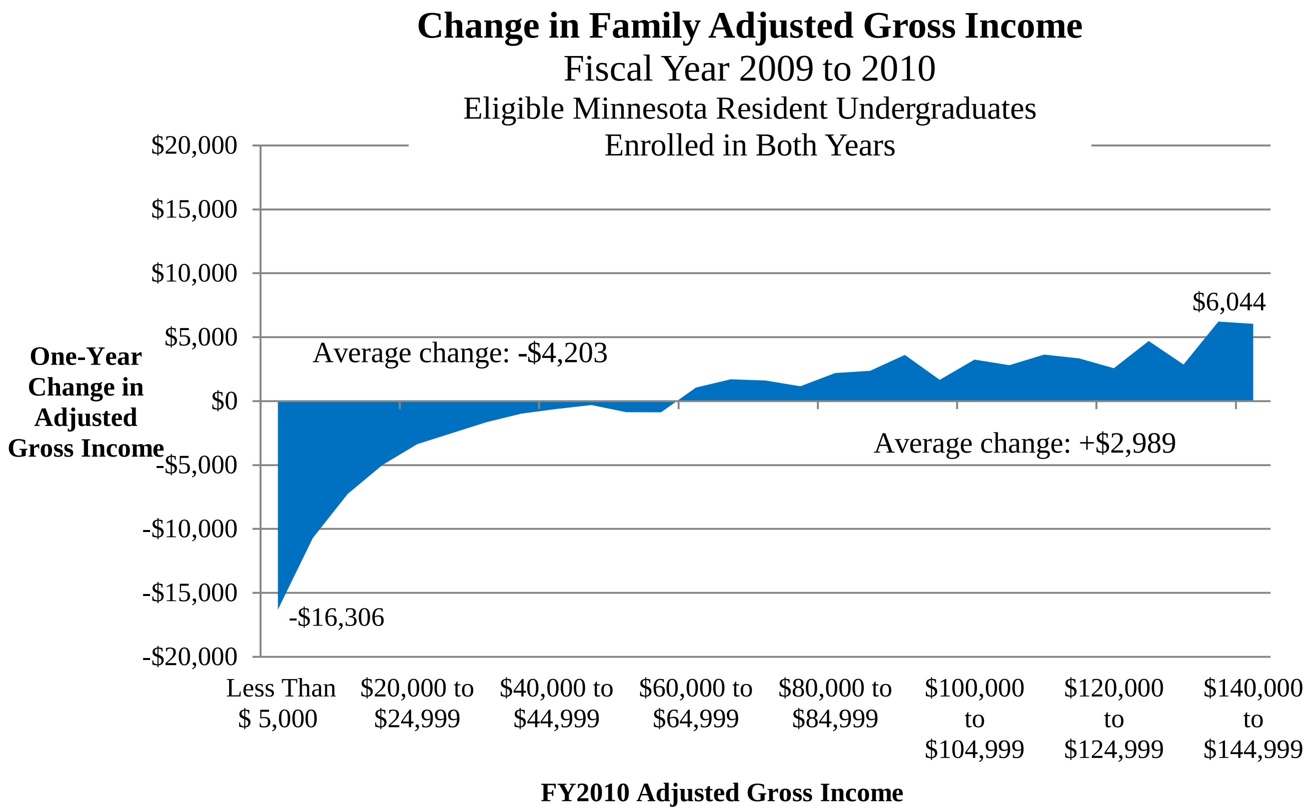
While enrollment increases do not appear to be as dramatic as the increase in financial aid applications, the enrollment increase beginning in fall 2009 created a spending surge in the Minnesota State Grant program. Excluding enrollments at Walden and Capella Universities (both online only institutions), enrollment at Minnesota institutions in fall 2009 increased by 5.37 percent – the highest overall increase recorded since fall 1980.

As more students enrolled, more students were eligible for financial aid

Students are eligible for a Minnesota State Grant if they are Minnesota residents who:

- Are graduates of a secondary school or its equivalent or are 17 years of age.
- Will be enrolled as undergraduates for at least three credits at one of more than 130 eligible schools in Minnesota.
- Are not in default on a student loan or are not more than 30 days behind for child support owed to a public agency, unless they have established payment plans with the appropriate agency.
- Have not yet completed eight full-time semesters of postsecondary education or the equivalent; this limit was increased to nine semesters for fiscal year 2010.
- Have not received a baccalaureate degree.

From fiscal year 2000 to fiscal year 2009, the number of eligible students applying for a Minnesota State Grant increased on average 4.89 percent per year. For fiscal year 2010, the number of students eligible for the Minnesota State Grant increased 18.33 percent. This increase was due in part to changes in the program awarding. Students could apply for a State Grant for their ninth semester of enrollment and eligibility parameters allowed more middle income students to qualify for a State Grant.



Sharp decline in wages and income

For fiscal year 2010 wages of Minnesota tax filers were anticipated to grow (+3.2 percent as of February 2009) and family adjusted gross income was expected to decline by 0.5 percent according to estimates from Minnesota Management and Budget. However, initial reports from institutional financial aid directors indicated a significant increase in students reporting family job losses and other events resulting in a sharp decline in income.

Analysis of income data for grant-eligible students in fiscal year 2009 and 2010 determined that average family adjusted gross income declined by approximately 1 percent. Median family adjusted gross income declined by 4 percent. The pattern of decline indicates that losses in family income were concentrated among lower income families. The average change in family AGI was a decline of $4,200 for students with 2010 family incomes of $60,000 or less and an increase of $3,000 for students with 2010 family incomes of $60,000 or more. This income pattern was found for all sectors of higher education and for both dependent and independent students and correlated with the income profile of the population analyzed.

Professional judgment activity increased.

For students and families who experienced changes in their financial status due to special circumstances, such as the loss of a job, serious illness, disability, separation or divorce, or death in the family, the campus financial aid administrator can adjust the information used to calculate the student's expected family contribution which may result in increased financial aid eligibility. This adjustment is called a "professional judgment". Campus financial aid administrators reported to the agency that professional judgments for Minnesota students increased dramatically in fiscal year 2010. While the agency does not track the number of professional judgments, the aggregate change in financial need would impact program spending totals.

Parent and Student Contributions declined.

While changes in income and wages are key in understanding student and family financial circumstances in the current economy, the Minnesota State Grant award formula utilizes financial measures determined by the FAFSA: the expected family contribution (EFC), the parent contribution (PC) and the student contribution (SC).

For dependent students, the Minnesota State Grant program requires a contribution from the parents as determined by the federal need analysis (FAFSA) in the form of a Parent Contribution. As income declines due to job loss, the amount of the parent contribution would also decline. This was the trend occurring in fiscal year 2010. As the parent contribution declined, the student may have become eligible for greater amounts of need-based aid through the federal Pell Grant program or the Minnesota State Grant. Both programs saw spending increases during fiscal year 2010.

For students enrolled in both fiscal year 2009 and 2010, the average Parent Contribution declined by $485 or 4.1 percent compared to the prior year. Median Parent Contributions declined by 5.5 percent. Changes in parent contributions were negative for lower income families and positive for higher income families. The pattern of decline indicates that changes in parent contributions were also concentrated among lower income families.

A similar contribution is required from independent students and similar declines occurred for independent students enrolled in both years. For independent students the average Student Contribution declined by $1,374 or 28.9 percent. Median student contributions declined from $1,374 to $0. Changes in student contributions were negative for lower income families and positive for higher income families. The pattern of decline indicates that changes in SC were more equal across incomes for independent students.

Quantifying enrollment and the economy: A spending gap analysis

Moving beyond the spending theories, the agency estimated what portion of the $24 million spending gap for the Minnesota State Grant program in fiscal year 2010 was the result of enrollment increases, more financial aid applications and family financial changes.

The enrollment surge and the increase in financial aid applications were estimated as a single change in the model. Of the $24 million spending gap approximately 81 percent or $19.4 million was the result of more students enrolling, applying for financial aid and qualifying for a Minnesota State Grant. The remaining 19 percent or $4.6 million was the result of change in family financial circumstances. These figures are only estimates based on projected Minnesota State Grant spending for fiscal year 2010 as of May 2009 and actual Minnesota State Grant spending for fiscal year 2010 as of December 15, 2010.

Higher education enrollment, particularly enrollment at public two-year colleges, increases as the economy declines[1] [2]. The unemployment rate is correlated with increases in college enrollment during a

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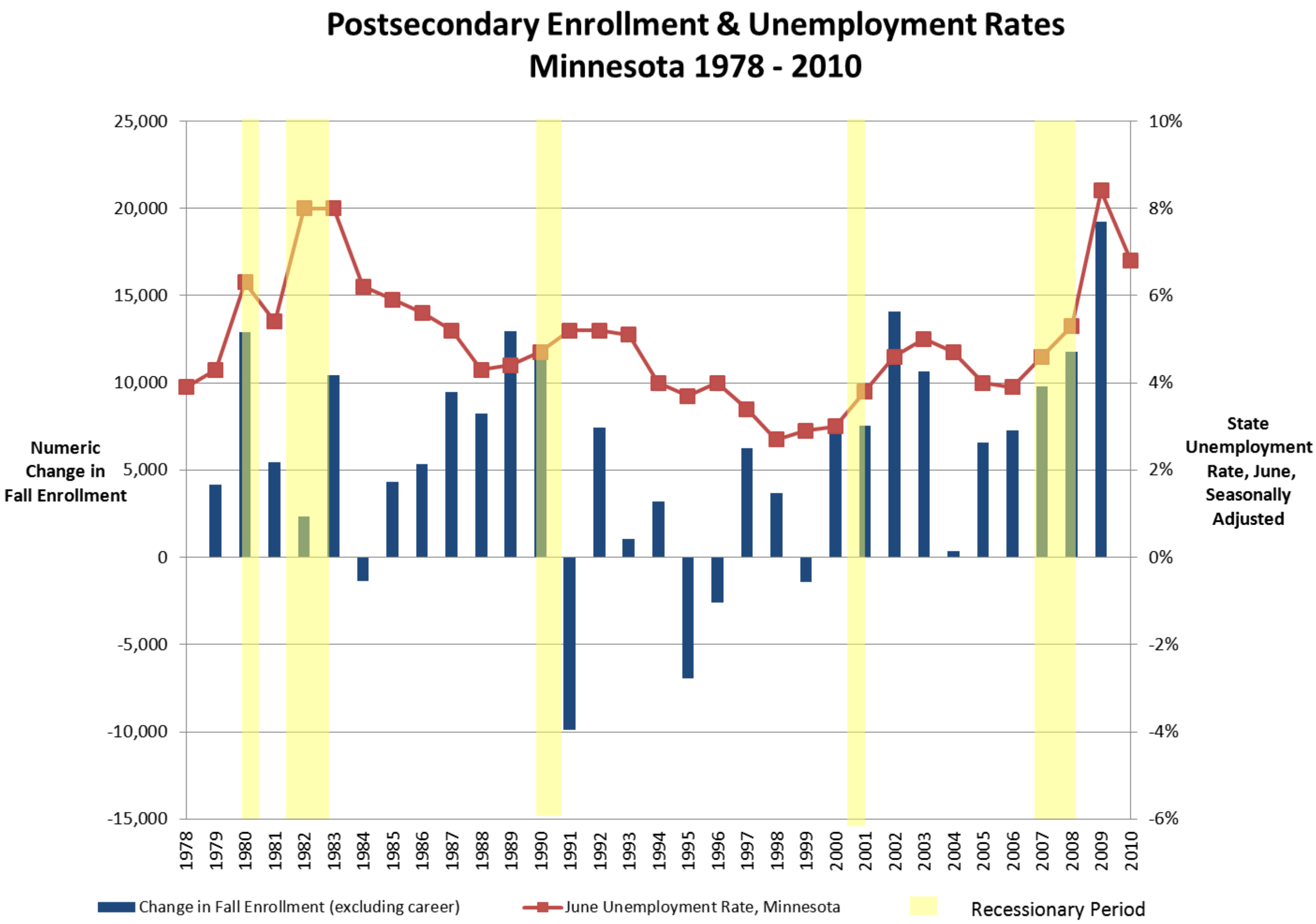
[1] Betts, Julian R., and Laurel L. McFarland. 1995. "Safe Port in a Storm: The Impact of Labor Market Conditions on Community College Enrollments." *Journal of Human Resources* 30(4):741-765.

[2] Kantrowitz, Mark. 2010. *Countercyclicality of College Enrollment Trends.* Retrieved from: http://www.finaid.org/educators/studentaidpolicy.phtml on January 13, 2011.



Source: Minnesota Office of Higher Education, Basic Data Series; U.S. Department of Labor, Bureau of Labor Statistics

recession. There are several reasons hypothesized for the correlation including retraining due to layoffs, job stability or mobility; and college bound or college graduates who have limited job opportunities and thus remain enrolled in higher education. Higher education in essence acts as a sponge for excess labor.

For Minnesota, the overall changes in both unemployment and higher education enrollment present similar patterns. If prior recessionary activity repeats, then higher education enrollment will remain strong for the next several years to come. Preliminary analysis of fiscal year 2011 data indicates that enrollment will continue to increase at Minnesota institutions and family income will continue to decline for students pursing higher education. Should enrollment remain high and incomes continue to be uncertain into fiscal years 2012 and 2013, then projected spending for need-based financial aid programs such as the Minnesota State Grant will likely continue.