Minnesota Office of Higher Education
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Minnesota State Grant Projections Fiscal Years 2012-2013

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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 spending projection updates to occur by November 1 and February 15 of each year. This report updates the July 21, 2011 projections following adoption of the 2012-2013 budget for the Minnesota Office of Higher Education. Information on enrollments and tuition and fee changes was provided by institutional representatives.

This report presents spending projections for the Minnesota State Grant program for fiscal year 2011 and through the fiscal year 2012-2013 biennium as of November 1, 2011.

Fiscal Years 2010 and 2011 — Actual Spending

The State Grant spending totaled $288.86 million ($168.91 million for fiscal year 2010; $119.95 million for fiscal year 2011). This compared to base resources of $289.41 million.

Base resources for fiscal years 2010-2011 included $288.28 in state appropriations and $1.13 million in federal Leveraging Educational Assistance Partnership (LEAP) and Special Leveraging Educational Assistance Partnership (SLEAP).

The State Grant spending for fiscal year 2010 was $168.9 million compared to base resources of $144.14 million. The higher than anticipated growth in demand for program grants was due to an increase in financial aid applications and enrollment. While applications and eligibility were anticipated to increase due to a stressed economy, the actual application volume increase was higher than expected.

To achieve a reduction in program spending for fiscal year 2011, a surcharge to the assigned family responsibility of 20% was added, and the assigned student responsibility was increased by 2.20% (or Assigned Student Responsibility of 48.20%). This reduced the total Minnesota State Grant FY2011 spending to approximately $114 million as compared to base resources of $120 million. As projected spending for the year did not exceed available funds, the reserve amount was distributed to students via an increase to the Living and Miscellaneous Expense allowance (LME). The agency authorized a $274 increase in the LME for winter, spring and summer II terms in November 2010. The agency authorized a second LME increase of $2,600 for summer II terms in May 2011. Final State Grant spending for fiscal year 2011 was $119.95 million.

Table 1
Actual Spending versus Available Resources (in millions)

Actual Spending vs. Available Resources	FY2010	FY2011	Biennium
Base resources			
State Appropriations	$144.14	$144.14	$288.28
Federal LEAP/SLEAP funds	+ 0.00	+ 1.13	+ 1.13
Funds transferred between fiscal years	+ 24.77	+ (24.77)	+ 0.00
Spending	+(168.91)	+(119.95)	+(288.86)
Difference between resources and spending	**$ 0.00**	**$ 0.55**	**$ 0.55**

Fiscal Years 2012 and 2013 — Spending Projection

The State Grant spending projection is $148.00 million for fiscal year 2012 and $154.83 million for fiscal year 2013. This compares to base resources of $154.625 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 2011 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 October 18, 2011 and thus are subject to changes. This spending projection is based on the model assumptions starting on page six.

Base resources for the 2012-2013 biennial periods are the sum of state appropriations ($309.25 million). Federal LEAP/SLEAP funds of approximately $1.3 million per fiscal year were included as part of the base appropriations for the program for previous biennia. These U.S. Department of Education eliminated these funds in 2011 and therefore they are not included as part of base resources available for the Minnesota State Grant program in fiscal years 2012 and 2013.

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 $6.62 million. Fiscal year 2013 shows a difference between base resources and spending in the amount of -$0.20 million. For the biennium, the difference between resources and spending equals $6.42 million. The Minnesota Office of Higher Education is authorized to increase State Grant awards for fiscal years 2013 using the procedures outlined in statute should base resources exceed projected spending.

Table 2
Spending Projections versus Available Resources (in millions)

Spending Projections vs. Available Resources	FY2012	FY2013	Biennium
Base resources	$154.62	$154.62	$309.25
Spending projection	+(148.00)	+(154.83)	+(302.89)
Difference between resources and spending	**$ 6.62**	**$ (0.20)**	**$ 6.42**

Current Statutory Guidance

In the absence of legislative action, the Minnesota Office of Higher Education is authorized to reduce or increase State Grant awards for fiscal years 2012 and 2013 using the two procedures outlined in statute to bring projected spending within state appropriations. Both procedures are outlined below.

Rationing

> *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 Fiscal Year 2012 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 year 2012 are listed below in Table 3.

Table 3
Rationing Parameters

Minnesota State Grant Rationing Parameters	Current Law	FY2012	FY2013
Assigned Student Responsibility	46%	+0.3% or 46.3%	46.0%
Assigned Family Responsibility Surcharge	0%	+2%	0%
Projected Spending after Rationing		**$148.00 million**	**$154.83 million**
Program Balance		$6.42 million (2.08% of the biennial appropriation)	

Surplus

> *136A.121 Subd. 7a. Surplus appropriation.*
>
> *If the amount appropriated is determined by the office to be more than sufficient to fund projected grant demand in the second year of the biennium, the office may increase the living and miscellaneous expense allowance in the second year of the biennium by up to an amount that retains sufficient appropriations to fund the projected grant demand. The adjustment may be made one or more times. In making the determination that there are more than sufficient funds, the office shall balance the need for sufficient resources to meet the projected demand for grants with the goal of fully allocating the appropriation for state grants. An increase in the living and miscellaneous expense allowance under this subdivision does not carry forward into a subsequent biennium.*

Should the projected $6.42 million program balance carry forward into Fiscal Year 2013, the Office has the authority to increase the program's living and miscellaneous expense (LME) allowance to fully spend the appropriation.

Limitations of the Projection

There are several caveats to consider. First is student enrollment. In prior years, enrollments increased at both public and private colleges in response to the economic uncertainty and hardship.[1] Now colleges are experiencing a decline in Minnesota resident students enrolling which would seem to indicate the beginning of an economic recovery. Economic changes should also be 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. Under an economic recovery assumption, wage growth would occur and generate modest cost savings for the State Grant program. While colleges are experiencing a decline in enrollment, little to no projected wage growth for students and families is being seen, this effect is generating uncertainty about the nature of economic recovery.

Second is tuition. Cuts in response to the state budget deficit were made to the appropriations at both the Minnesota State Colleges and Universities and the University of Minnesota system. While the assumptions of this report utilize the 2011-2012 academic year (fiscal year 2012) tuition and fee rates approved by their respective governing boards, tuition and fee rates for the 2012-2013 academic year (fiscal year 2013) will not be finalized until summer 2012. If projected tuition increases exceed the tuition assumptions, then projected program spending in the Minnesota State Grant program will increase as well.

Third is the federal Pell Grant. Increases or reductions in the federal Pell Grant amounts would affect State Grant spending as the State Grant award formula assumes a dollar for dollar relationship with the student's Pell Grant. Federal budget negotiations have considered reductions to the Pell Grant program. While the President and Congress provided for Pell Grant funding in the August 2011 debt ceiling budget negotiations, the program still relies heavily on discretionary appropriations from the annual federal budget to fully fund student awards. Future reductions in Pell Grant awards would result in increased spending in the Minnesota State Grant program.

[1] The Business Cycle Dating Committee of the National Bureau of Economic Research notes that the latest U.S. recession began in December 2007 and ended in June 2009. While the recession may have ended in June 2009, "the committee did not conclude that economic conditions since that month have been favorable or that the economy has returned to operating at normal capacity." National Bureau of Economic Research, Business Cycle Dating Committee. *Announcement September 20, 2010*, http://www.nber.org/cycles/sept2010.html

Projection Assumptions

The Minnesota State Grant spending projection for each fiscal year is formulated using a series of adjustments and the following program parameters as shown in Table 4. Given that demand on the program is projected to exceed available resources, the Office of Higher Education implemented rationing parameters for fiscal years 2012 and 2013.

Table 4
Minnesota State Grant Award Parameters

Parameter	FY2011	FY2012	FY2013
Living and Miscellaneous Expense Allowance	$7,000	$7,000	$7,000
Assigned Student Responsibility	48.2%[2]	46.3%[3]	46.0%
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%[2]	2%[3]	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 institutional and system representatives in November and February of each year and is shown in Table 5. 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.

Table 5
Enrollment Assumptions

Annual Change in Enrollment	FY2010	FY2011	FY2012		FY2013
	Fall 2009	Fall 2010	Fall 2011		Fall 2012
System	Actual	Actual	Projected	Actual	Projected
MnSCU Two-Year Institutions	+10.0%	+1.8%	+0.6%	-3.4%	-0.3%
MnSCU Four-Year Institutions	+2.0%	+1.2%	+0.9%	-0.9%	+0.2%
University of Minnesota	+4.3%	+2.0%	+1.0%	-1.9%	+0.2%
Private Not-for-Profit Institutions	+0.0%	+1.0%	+0.0%	-0.6%	+0.0%
Private For-Profit Institutions	+17.0%	+6.0%	+7.0%	-4.3%	+5.7%

[2] The Office of Higher Education implemented rationing parameters for fiscal year 2011 to resolve a $23 million program shortfall in single year appropriations.

[3] The Office of Higher Education implemented rationing parameters for fiscal year 2012 to resolve a projected $9 million program shortfall in biennial appropriations.

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 December and March. 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 2011 information (tax year 2009) is used, incomes are updated to reflect projections for subsequent tax years. Data reflecting the annual change in average wages was revised following the March 2011 economic forecast. The wage change calculations used in the projections are detailed below in Table 6. These figures will be revised following the November 2011 budget forecast.

Table 6
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%	-2.8%	+3.8%	+2.5%

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. Table 7 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.

Table 7
Federal Pell Grant Award Parameters

Federal Pell Grant	FY2010	FY2011	FY2012	FY2013
Pell Grant Minimum Award	$976	$555	$555	$555
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

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 July 21, 2011. 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[4]. 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.

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 institutional and system representatives by November and February of each year. It is important to remember that tuition increases have a compounding effect. Table 8 below details actual tuition and fee increases for State Grant calculations as reported by institutions 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.

Table 8
Annual Changes in Minnesota Resident Undergraduate Tuition and Fee Rates

Tuition and Fee Rate Increases	FY2010	FY2011	FY2012 (includes increase due to ARRA for MnSCU)	FY2013
System	Actual	Actual	Projected	Projected
MnSCU Two-Year Institutions	+2.9%	+4.5%	+5.3%	+4.0%
MnSCU Four-Year Institutions	+3.0%	+4.7%	+6.3%	+5.0%
University of Minnesota	+7.5%	+7.0%	+6.3%	+5.0%
Private Not-for-Profit Institutions	+4.8%	+5.0%	+4.9%	+5.0%
Private For-Profit Institutions	+5.0%	+2.8%	-1.3%	+2.0%

Next Report

The next report on Minnesota State Grant projections is due to the Legislature by February 15, 2012. This report will contain updated spending estimates for fiscal year 2012 and projection figures for fiscal year 2013. The report will also incorporate any updated enrollment and tuition data from institutional and system representatives and an updated wage forecast from Minnesota Management and Budget.

[4] http://ifap.ed.gov/fregisters/FR052710NeedAnalysis.html