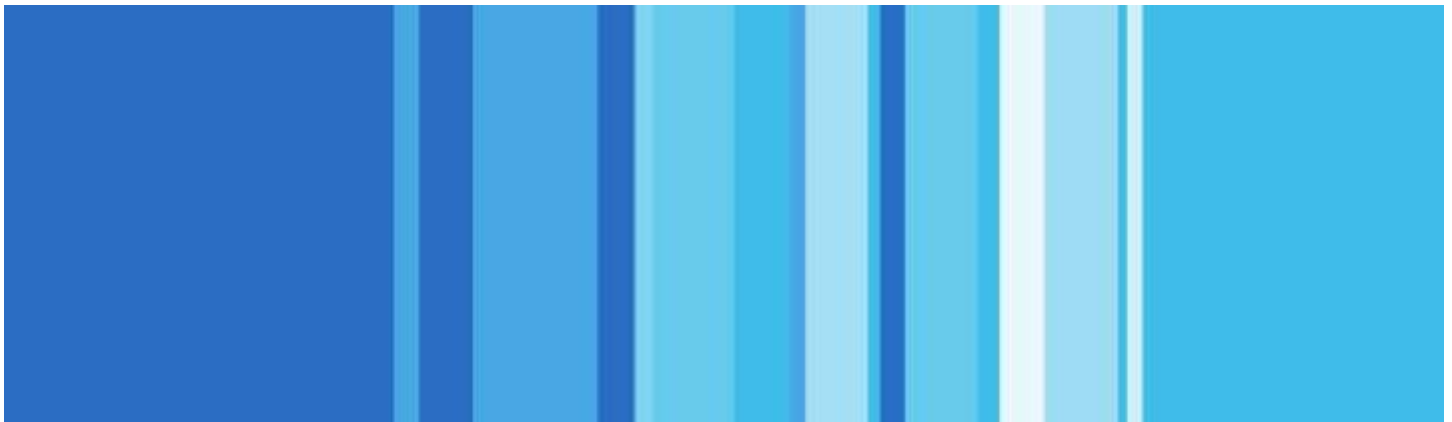




November 1, 2013



Minnesota State Grant Projections Fiscal Years 2014-2015



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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 \$180 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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Table of Contents

Table of Contents	1
Introduction	3
Fiscal Years 2012 and 2013 — Spending	3
Fiscal Years 2014 and 2015 — Spending Projection	4
Limitations of the Projection	4
Projection Assumptions	6
Pell Grant Changes in Law	6
Federal Need Analysis	7
Enrollment Assumptions	7
Change in Wages	7
Tuition and Fee Increases	8
Next Report	8

Introduction

The purpose of this report is to update spending projections for the State Grant program for the 2014-2015 biennium. The law requires spending projection updates to occur by November 1 and February 15 of each year. Information on enrollment and tuition and fee changes was provided by institutional representatives on October 22, 2013.

This report presents spending projections for the Minnesota State Grant program for the 2014-2015 biennium as of November 1, 2013.

Fiscal Years 2012 and 2013 — Spending

The State Grant Program spent \$142.73 million for fiscal year 2012 and \$161.45 million for fiscal year 2013.

Base resources for the 2012-2013 biennium include state appropriations totaling \$309.25 million. Actual fiscal year 2012 spending totaled approximately \$142.73 million and fiscal year 2013 spending totaled \$161.45 million as of October 2013. Statute authorizes the Office to adjust award parameters to increase State Grant awards if base resources exceed projected spending. The Office increased the Living and Miscellaneous Expense Allowance from \$7,000 to \$7,326 for fiscal year 2013. Additionally, the Office is authorized by law to transfer excess funds to other programs if there is a projected need. Using the procedures outlined in statute and in law, the Office transferred \$4.95 million of the surplus funds to tuition reciprocity for FY2013.

Spending for each fiscal year was within base resources. Fiscal year 2012 shows a difference between base resources and spending in the amount of \$7.94 million. Fiscal year 2013 shows a difference between base resources and spending in the amount of -\$5.83 million. For the biennium, the difference between resources and spending equals \$0.12 million.

Table 1
Spending Projections versus Available Resources FY2012-2013 (in millions)

Spending Projections vs. Available Resources (in millions)	FY2012 Rationing	FY2013 LME surplus	Biennium
Base resources	\$154.62	\$154.63	\$309.25
Spending	+(142.73)	+(161.45)	+(304.18)
Reciprocity transfer	+ (3.95)	+ (1.00)	+ (4.95)
Difference between resources and spending	\$ 7.94	\$ (5.83)	\$ 0.12

Fiscal Years 2014 and 2015 — Spending Projection

The projections contained in this report are the result of a full simulation of the State Grant model projecting fiscal year 2013 actual spending data to fiscal years 2014 and 2015 using award parameters in law as of July 1, 2013 and information on enrollment and tuition and fee changes provided by institutional representatives and the percent change in wages of tax filers estimated by Minnesota Management and Budget. The assumptions used in the spending projections are described starting on page six.

The State Grant spending projection is \$173.953 million for fiscal year 2014 and \$172.844 million for fiscal year 2015. This compares to base resources of \$355.922 million for the biennium.

Base resources for the 2014-2015 biennium include state appropriations totaling \$355.922 million. Fiscal year 2014 shows a difference between base resources and projected spending in the amount of \$5.188 million. Fiscal year 2015 shows a difference between base resources and projected spending in the amount of \$3.937 million. For the biennium, the difference between resources and spending equals \$9.125 million or 2.6 percent of the base appropriations. The changes modeled are the agency’s best estimates as of November 1, 2013 and thus are subject to change.

**Table 2
Spending Projections versus Available Resources FY2014-2015 (in millions)**

Spending Projections vs. Available Resources (in millions)	FY2014	FY2015	Biennium
Base resources	\$179.141	\$176.781	\$355.922
Spending projection	<u>+(173.953)</u>	<u>+(172.844)</u>	<u>+(346.797)</u>
Difference between resources and spending	\$ 5.188	\$ 3.937	\$ 9.125 2.6% OF BASE

The 2013 Minnesota Legislature increased funding for the Minnesota State Grant program to \$355.922 million for the biennium (+\$46.7million) and enacted several changes to State Grant Award parameters.

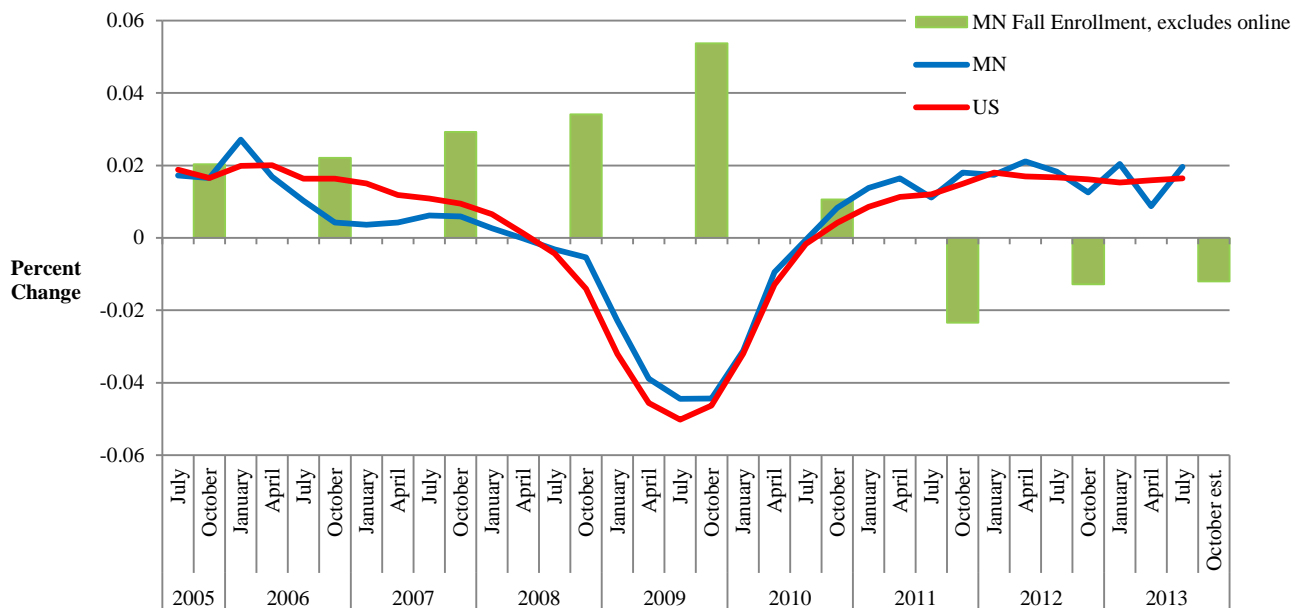
Those changes, effective July 1, 2013, include:

- Increasing the Tuition and Fee Maximum for students in four-year programs from \$10,488 to \$13,000,
- Increasing the Living and Miscellaneous Expense allowance from \$7,000 to \$7,900,
- Increasing the Assigned Student Responsibility from 46% to 50%,
- Changing the proration factor for the Assigned Family Responsibility for independent students with no dependents other than a spouse from 0.68 to 0.50,
- For institutions part of the Minnesota State College and University system, prorating the Assigned Family Responsibility for those students enrolled in fewer than 15 credits per term and
- Making undocumented students meeting the criteria in the Prosperity Act eligible for state financial aid.

Limitations of the Projection

Student enrollment: The pattern of enrollments between Fall 2009 and Fall 2013 at both public and private colleges are following the expected patterns of increases and decreases in response to the economic recession and recovery.¹ Fall 2013 enrollments declined. Under an economic recovery assumption, wage growth would occur and generate modest cost savings for the State Grant program in fiscal years 2014 and 2015.

Figure 1
Change in Non-Farm Employment and Fall Post-Secondary Enrollment
2004-2013



Source: Department of Employment and Economic Development², Minnesota Office of Higher Education

Tuition: While the projection uses the assumptions of this report utilize the 2013-2014 academic year (fiscal year 2014) tuition and fee rates approved by the governing boards, tuition and fee rates for the 2014-2015 academic year (fiscal year 2015) will not be finalized until summer 2014. If projected tuition increases exceed the tuition assumptions, then projected program spending in the Minnesota State Grant program will increase as well.

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 has proposed increasing the maximum Pell Grant for the 2014-2015 academic year from \$5,645 to \$5,785, the increase must be approved by Congress.

¹ National Bureau of Economic Research, Business Cycle Dating Committee. *Announcement September 20, 2010*, <http://www.nber.org/cycles/sept2010.html>

² Department of Employment and Economic Development, State and National Employment and Unemployment, http://www.positivelyminnesota.com/Data_Publications/Data/Current_Economic_Highlights/State_National_Employment_Unemployment.aspx, retrieved November 1, 2013.

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 3.

Table 3
Minnesota State Grant Award Parameters

Minnesota State Grant Award Parameters	FY2012	FY2013	FY2014	FY2015
	RATIONING	SURPLUS		
Living and Miscellaneous Expense Allowance	\$7,000	\$7,326	\$7,900	\$7,900
Assigned Student Responsibility	46.3%	46.0%	50.0%	50.0%
Tuition and Fee Maximums				
Students in Two-Year Programs	\$5,808	\$5,808	\$5,808	\$5,808
Students in Four-Year Programs	\$10,488	\$10,488	\$13,000	\$13,000
Federal Pell Grant Maximum	\$5,550	\$5,550	\$5,645	\$5,645
Rationing Surcharge on Assigned Family Responsibility	2%	0%	0%	0%
Proration for the Assigned Family Responsibility				
Dependent Students (Parent Contribution)	96%	96%	96%	96%
Independent Students with Dependents (Student Contribution)	86%	86%	86%	86%
Independent Students without Dependents (Student Contribution)	68%	68%	50%	50%
AFR Proration for students enrolling for less than 15 credits	n/a	n/a	MnSCU only	MnSCU only
Maximum Semesters of Enrollment for Grant Eligibility	8	8	8	8

Pell Grant Changes in Law

For academic year 2013-2014 (fiscal year 2014), the Pell Grant maximum is \$5,645. President Obama has proposed increasing the Pell Grant maximum³ from the current level to \$5,785. Congress must approve funding for the increase prior to its implementation (July 1, 2014). On October 17, 2013 Congress ended the federal government shutdown by passing legislation to extend current funding levels through January 15, 2014. A budget conference committee is developing a long-term spending plan which will address funding available for discretionary spending, including federal Pell Grants. The Office will continue to monitor Congressional activity regarding funding of the federal Pell Grant program. Projected spending for the Minnesota State Grant program does not assume an increase in the Pell Grant maximum for FY2015. Table 5 below lists the current federal Pell Grant parameters.

Table 5
Federal Pell Grant Award Parameters

Federal Pell Grant Award Parameters	FY2012	FY2013	FY2014	FY2015**
Pell Grant Minimum Award	\$555	\$602	\$605	\$605
Pell Grant Maximum Award	\$5,550	\$5,550	\$5,645	\$5,645
Award Formula: Expected Family Contribution (EFC)	Maximum Pell - EFC	Maximum Pell - EFC	Maximum Pell - EFC	Maximum Pell - EFC
Qualifying EFC	\$0 - \$5,273	\$0 - \$4,995	\$0 - \$5,081	\$0 - \$5,081

³ http://chronicle.com/article/Presidents-Plan-Would/138473/?cid=at&utm_source=at&utm_medium=en

Federal Need Analysis

The projections model for the Minnesota State Grant incorporates all changes passed by Congress or made by the U.S. Department of Education to the federal need analysis as of September 19, 2013. Annual updates to the tables in the statutory “Federal Methodology Need Analysis” used to determine a student’s EFC are released annually by the U.S. Department of Education.

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 2014 and 2015 is shown in Table 4. 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. A change in total enrollment of plus or minus one percentage point annually changes projected state grant spending by an estimated \$1.8 million.

Table 4
Enrollment Assumptions

Enrollment Assumptions	FY2010	FY2011	FY2012	FY2013	FY2014		FY2015
	Fall 2009	Fall 2010	Fall 2011	Fall 2012	Fall 2013		Fall 2014
System	Actual	Actual	Actual	Actual	Projected	Actual	Projected
MnSCU Two-Year Institutions	+10.0%	+1.8%	-3.51%	-1.5%	+0.2%	-3.3%	+0.0%
MnSCU Four-Year Institutions	+2.0%	+1.2%	-1.06%	-2.4%	+0.4%	-1.8%	-0.9%
University of Minnesota	+4.3%	+2.0%	-1.9%	-2.2%	0.0%	-1.2%	-1.2%
Private Not-for-Profit Institutions	0.0%	+1.0%	-0.6%	-0.4%	0.0%	0.0%	0.0%
Private For-Profit Institutions	+17.0%	+6.0%	-7.8%	-14.7%	0.0%	-2.7%	+0.7%

Change in Wages

The projection model incorporates forecasted 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 fiscal year 2014 and 2015 projections, the model utilizes data from applicable tax years to update student and family wages and adjusted gross incomes. As fiscal year 2013 information (tax year 2011) is used, incomes are updated to reflect projections for subsequent tax years. Following the March 2013 budget forecast, the assumption for changes in average wages of Minnesota tax filers was adjusted. Current assumptions are shown below in Table 6.

Table 6
Change in Annual Wages, Minnesota

Change in Annual Wages	FY2013	FY2014	FY2015
	Tax Year 2011	Tax Year 2012	Tax Year 2013
One-Year Change	+3.6%	+0.9%	+4.0%

Tuition and Fee Increases

Minnesota State Grant spending also relies on estimated tuition and fee increases for each institution type. Information about tuition and fee increases for fiscal years 2014 and 2015 was gathered from institutional and system representatives in October 2013. It is important to remember tuition increases have a compounding effect. Table 7 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.

Table 7
Annual Changes in Minnesota Resident Undergraduate Tuition and Fee Rates

Tuition and Fee Increases	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
System	Actual	Actual	Actual	Actual	Actual	Projected
MnSCU Two-Year Institutions	+2.9%	+4.5%	+5.3%	+3.6%	0.0%	0.0%
MnSCU Four-Year Institutions	+3.0%	+4.7%	+6.3%	+4.6%	0.0%	0.0%
University of Minnesota*	+7.5%	+7.0%	+6.3%	+3.5%	0.0%	0.0%
Private Not-for-Profit Institutions*	+4.8%	+5.0%	+4.9%	+4.4%	+4.00%	+4.5%
Private For-Profit Institutions*	+5.0%	+2.8%	-1.3%	+2.6%	-4.75%	+4.3%

*Note: Tuition and fees exceed the annual tuition and fees maximums currently established in law.

Next Report

The next report on Minnesota State Grant projections is due to the Legislature by February 15, 2014. The report will contain updated projection figures for fiscal year 2014 and 2015. The report will also incorporate updated wage forecasts from Minnesota Management and Budget.