

'Free College' in Minnesota

December 1, 2018

What is 'free college'?

"Free-college" programs are generally last-dollar scholarship programs that cover tuition for undergraduates, after all other grants or scholarships have been applied. Examples of "free-college" programs include the Tennessee Promise, the Hawaii College Promise, and the New York Excelsior Scholarship. Although aspects of each "free-college" program may vary, plans typically include some combination of the following program components:

- FAFSA completion requirement
- Family income¹ limit
- Eligibility limited to recent high school graduates
- Limits by institution type (e.g. public 2-year colleges only)
- Full-time enrollment
- Community service requirements
- Mentoring for students
- Students sign pledges in middle or high school
- Grade point average minimum to receiving funding
- Maximum number of semesters or years during which a student can receive funding
- State residency requirement
- Must work in state after leaving college

What costs are covered?

Although program language suggests that college is "free" for undergraduates, often these programs cover less than half of the costs to students and their families. "Free-college" programs cover tuition, but may not cover fees, and typically do not cover other non-tuition costs such as books, transportation, and living expenses. A comparison of the components of "free-college" programs by state and information on costs covered is included at the end of this report (Figure 11).

'Free college': Key considerations

1. 'Free-college' programs target funds to middle-income students, not the lowest-income students.

"Free-college" programs are often marketed as a tool for access and equity, but the majority of the funds provided by last-dollar scholarships do not go to the lowest-income students². Because federal and state need-based grants cover a significant portion of tuition and mandatory fees for low-income students, the additional investment required for "free-college" programs largely pays for tuition and fees for students with family

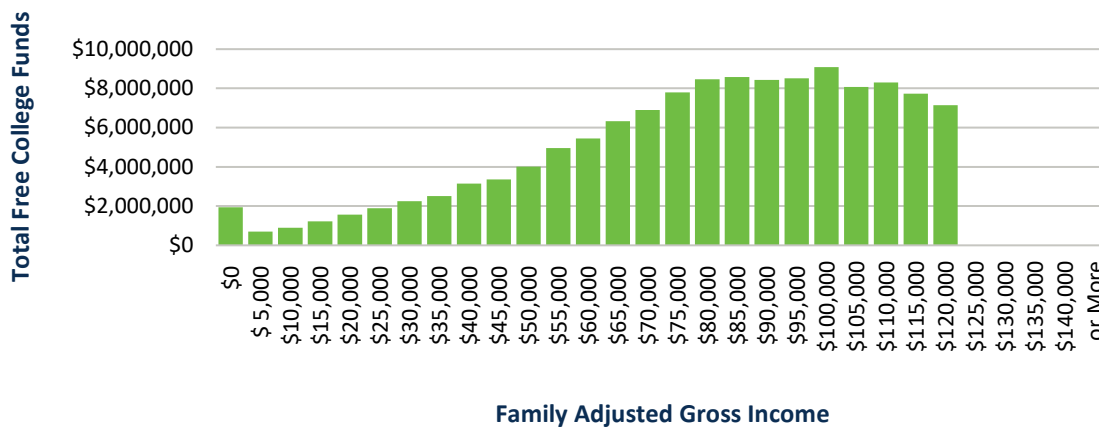
¹ States determine income eligibility in a variety of ways. In this brief, "income" refers to the family's Adjusted Gross Income used in tax filing, and does not account for any items that are taken out of a family's paycheck on a pre-tax basis, such as health care, that may reduce their Adjusted Gross Income.

² Alain Poutré and Mamie Voightt. "Tennessee Promise: Does it help students with limited financial means afford college?" Institute for Higher Education Policy (2018): 3.

incomes between \$50,000 and \$125,000 -families whose income and assets are too high to qualify for existing need-based grants. Figure 1 shows the distribution of which family incomes receive ‘free-college’ aid.

Research supports the conclusion that the best programs for promoting access and equity among low-income students are those that provide disproportionately more financial aid to low-income students than to students at other income levels³. This is the basis for Minnesota’s current financial aid policy under state law. A limited “free-college” program would modify the focus of Minnesota’s current state financial aid policy from targeted financial subsidies for the lowest-income students to broad subsidies for middle-income and upper middle-income families.

Figure 1: Total ‘Free-College’ Funds by Family, Eligibility Limited to Families with Income <\$125,000 and Students Attending Public Institutions



2. ‘Free-college’ programs targeting students only at one type of institution may impact enrollments in other sectors.

Focusing only on two-year public institutions may affect enrollments at four-year colleges, both public and private. The Tennessee Promise Program resulted in enrollment declines of around 5.5% at four-year public institutions in the first year of the program (though enrollment declines moderated in later years)⁴. In the first year following the implementation of Oregon Promise, four-year universities in Oregon experienced slight decreases in enrollment, while community colleges saw modest enrollment increases⁵. The promotion of free-college programs may also increase the percent of students of color and lower-income students enrolling at two-year colleges, which may increase economic and racial gaps in attainment for the state⁶.

3. ‘Free-college’ programs require sustained state financial investments.

In the past, tuition and fees have typically increased faster than inflation. If this trend continues, the state legislature would need to increase program expenditures at a similar rate, so as to maintain the promise of free college. In addition, program costs rely on continued funding of the Federal Pell Grant Program and the Minnesota State Grant Program. Should expenditures in those programs or eligibility for those programs decrease, appropriations required to fully fund the “free-college” program would increase proportionally. Finally, the state currently provides system funding to subsidize costs at public colleges in the state. Should enrollments increase at state public colleges as a result of any “free-college” program, state appropriations supporting basic educational operations at these colleges may need to increase as well.

³ Mark Colas, Sebastian Fiendeisen, and Dominik Sachs. “Optimal Need-Based Financial Aid.” Opportunity and Inclusive Growth Institute (2018): 3.

⁴ “Tennessee Promise Annual Report.” Tennessee Higher Education Commission & Tennessee Student Assistance Corporation (2018): 19.

⁵ “Senate Bill 81 Legislative Report: The First Term of the Oregon.” Oregon Higher Education and Coordinating Commission (2016): 8-9.

⁶ Alain Poutré and Mamie Voightt. “Tennessee Promise: Does it help students with limited financial means afford college?” Institute for Higher Education Policy (2018): 4.

4. Boosting student success hinges on more than just increased financial aid.

The overall effectiveness of “free-college” programs in increasing college completion is still unclear. For two established programs — Tennessee Promise and Indiana 21st Century Scholars — the overall success of participants is mixed. Only 32% of the first cohort of Tennessee Promise students had received an award or transferred to another institution by the end of their five semesters of program eligibility. An additional 20% of students had not received an award, but were still enrolled at a community college. Success rates for the second cohort of students have not been published yet, but the overall level of retention among students appears to be higher in the second cohort than in the first cohort⁷. Students participating in the Indiana program had an average six-year graduation rate of 35%, which was higher than low-income students in the state who did not participate in the program (24%) but lower than Indiana students overall (44%)⁸. In order to best support student success, mentorship opportunities and increased advising should complement increased financial aid. Increased investments are necessary in these areas as well.

⁷ “Tennessee Promise Annual Report.” Tennessee Higher Education Commission & Tennessee Student Assistance Corporation (2018):

⁸ “21st Century Scholars: 25 years of supporting student success.” Indiana Commission for Higher Education (2015): 31.

How much would ‘free college’ cost in Minnesota?

The cost of any “free-college” program depends on the overall design of the program. Overall, the fewer students eligible, the lower the cost of the program. Programs that have less restrictive eligibility requirements and/or cover a wider range of college costs tend to be more expensive.

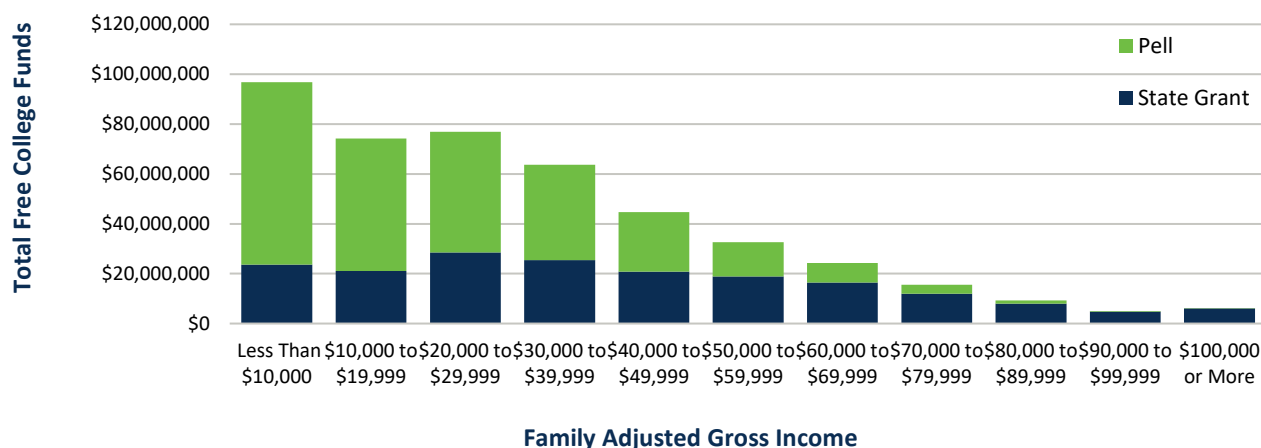
For the purposes of this analysis, three versions of “free-college” programs with different eligibility requirements were chosen to illustrate the costs of a potential “free college” program in Minnesota. The three examples range from highly-restricted eligibility and application processes to more broadly defined/accessible programs. The programs modeled here capture the primary aspects of the original program, while incorporating elements that would allow the program to better fit the higher education needs of Minnesotans. The three examples chosen for this analysis are: Hawai’i Promise (less restrictive), New York’s Excelsior Scholarship (moderately restrictive), and Tennessee Promise (more restrictive).

Minnesota’s current State Grant Program

As context for comparison of the various programs, Minnesota’s existing State Grant Program operates using a model for shared responsibility, where students, families, and the state all share in the responsibility for funding a student’s education. In current law, students are expected to pay half of the full cost of attendance (tuition plus living expenses). The remainder is split between the family and the state. The family’s share is determined by the Expected Family Contribution calculated on the student’s FAFSA. The lowest-income families have an Expected Family Contribution of zero, meaning the remaining half of the student’s education is funded through federal grants (Pell) and the State Grant.

Minnesota currently provides 100% coverage of tuition and fees for dependent students at two-year public colleges whose family income is \$0 to \$40,000 and incomes \$0 to \$30,000 at four-year state universities (not including the University of Minnesota). Compared to many “free-college” programs shown in Figure 11, Minnesota’s existing State Grant Program provides financial assistance beyond simply tuition and fees to students in lower income brackets and allows the student the flexibility to choose the program and enrollment level that is the best fit for themselves without sacrificing financial aid opportunities. In 2018, the state awarded \$194 million in grants to roughly 80,600 students.

Figure 2: Total State Grant and Pell Funds Received by Family Income, FY 2020 Estimates



Source: Minnesota Office of Higher Education, State Grant Applicant Database. Analyses by staff.

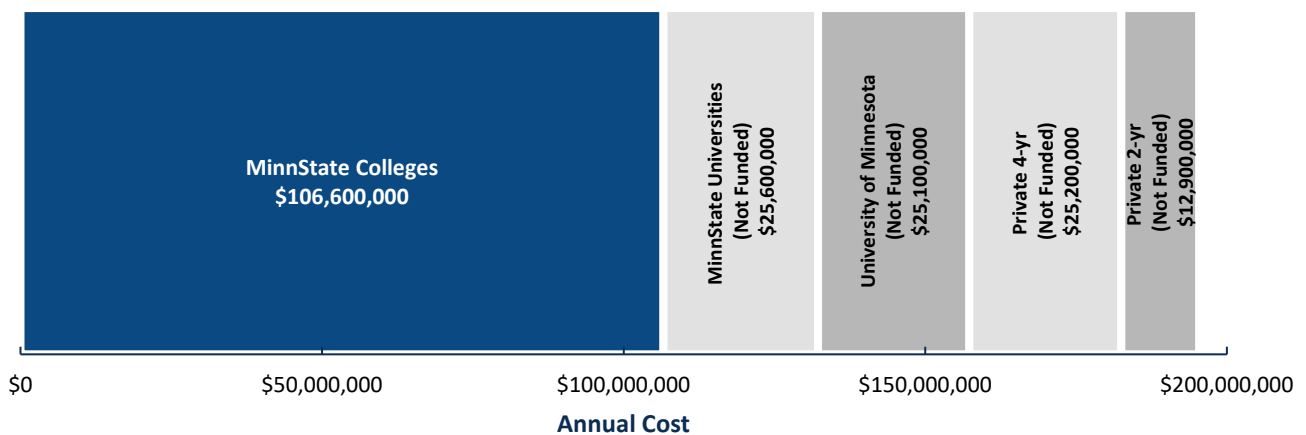
Hawai'i Promise: Limited Eligibility but Covers a Portion of Costs Beyond Tuition and Fees

The Hawai'i Promise model attempts to fill in gaps in unmet direct costs (tuition, fees, books, and transportation) for students attending community colleges. The program components are

Grant covers tuition and fees	Yes	Minimum enrollment level / FT enrollment not required	3 credits
Grant covers books, transportation, room and board or other expenses	Yes (not room and board)	Community service required	No
FAFSA completion requirement	Yes	Mentoring meeting required	No
Family income limit	\$125,000	Students sign pledges in middle school	No
Eligibility limited to recent high school graduates (no grants to current students or new adult learner students)	No	Maximum number of semesters or years or credits during which a student can receive funding	60 credits
Grant can only be used at	Public 2-year colleges	Grade point average minimum in college required to receiving funding	Yes, 2.0
		State residency required after college	No

Creating a similar program in Minnesota would cost approximately \$107 million per year in addition to current funding for State Grants. This is the annual cost of a fully implemented program for scholarships only. Costs by sector are shown in Figure 3. Additional costs related to supplemental services and program administration are not included. The program would provide additional funds for an estimated 43,000 students at two-year colleges up to family incomes of \$125,000 for the first 60 credits of enrollment (two full-time academic years). The average annual award would be \$2,500 in addition to other aid (\$600 State Grant, \$2,500 Pell Grant). This cost assumes that 78% of public two-year students would have completed fewer than the 60-credit maximum and that eligible colleges would see a 10% increase in enrollment from the program (similar to Tennessee's enrollment increase).

Figure 3: Projected Annual Cost of Hawaii Model for 'Free College' Limited to Students at Public 2-year Colleges with Family Incomes <\$125,000, by Sector



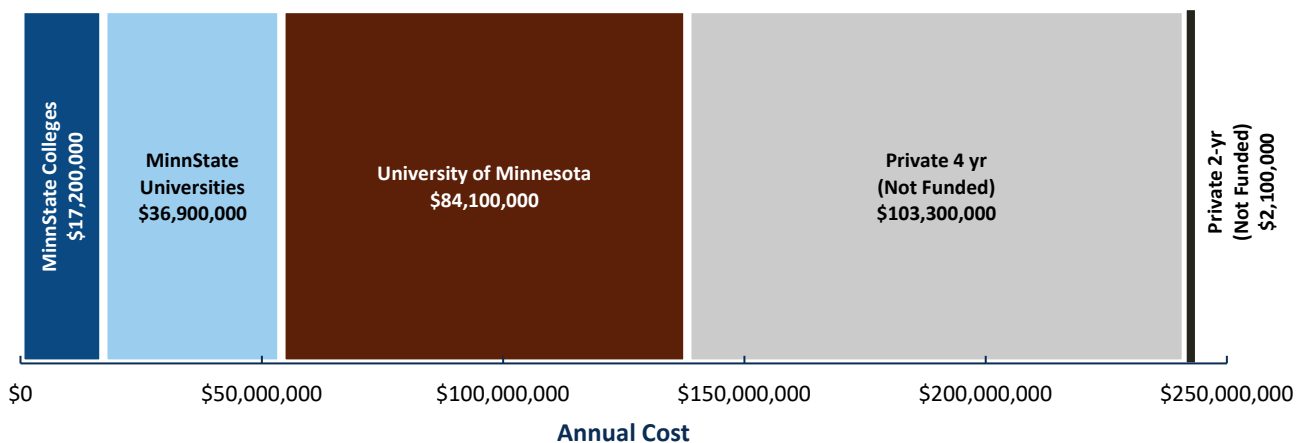
New York Excelsior: Moderate Eligibility for Full-Time Students with Post-College Residency Required

New York’s Excelsior Program is an example of a “free-college” program that is moderately restrictive. Although the program does have an income cap and residency requirement, the income cap is relatively high, and if residency requirements are not fulfilled, the grant is converted to a 10-year no-interest loan. The program is limited to students enrolling full-time at an institution within the City University of New York or State University of New York systems and does not cover additional costs of living. Students are free to choose the program (major and certificate/degree) that offers the best fit for them.

Grant covers tuition and fees	Yes	Minimum enrollment level / FT enrollment not required	15+ credits, 30 credits per year
Grant covers books, transportation, room and board or other expenses	No	Community service required	No
FAFSA completion requirement	Yes	Mentoring meeting required	No
Family income limit	\$125,000	Students sign pledges in middle school	No
Eligibility limited to recent high school graduates (no grants to current students or new adult learner students)	No	Maximum number of semesters or years or credits during which a student can receive funding	120 credits
Grant can only be used at	Public 2- and 4-year schools	Grade point average minimum in college required to receiving funding	Yes, 2.0
		State residency required after college	Yes

Crafting a similar model in Minnesota would cost approximately \$138 million per year in addition to current funding for state grants. This is the annual cost of a fully-implemented program for scholarships only. Costs by sector are shown in Figure 4. Additional costs related to supplemental services and program administration are not included. The program would provide funds for an estimated 29,000 students at public institutions up to family incomes of \$125,000. The average annual award would be \$4,700 in addition to other aid (\$3,100 State Grant, \$1,800 Pell Grant).

Figure 4: Projected Annual Cost of New York Model for ‘Free College’ Limited to Full-Time Students at Public Institutions with Family Incomes <\$125,000, by Sector



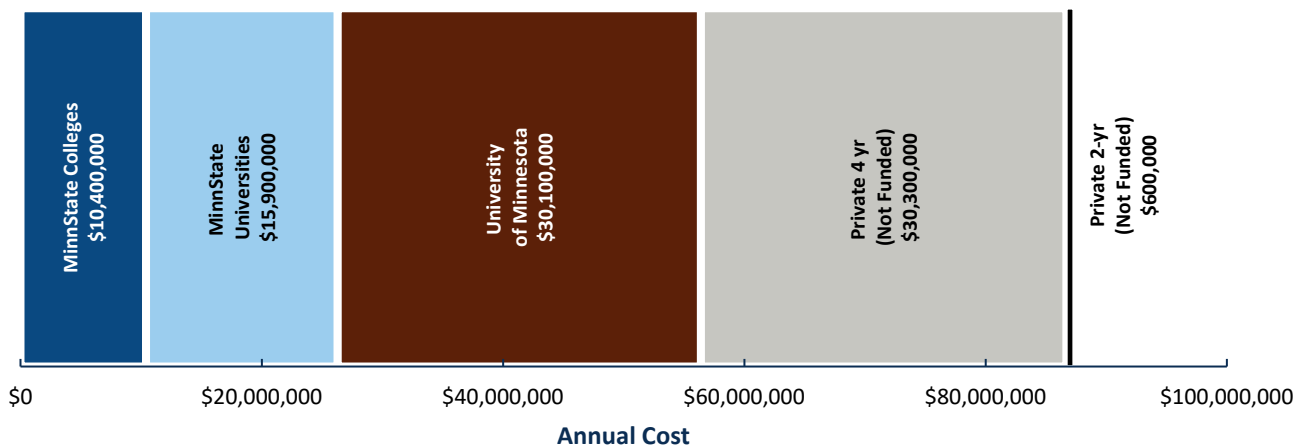
Tennessee Promise: Restricted Eligibility with Multi-Step Application Process

Following Tennessee’s model, a “free-college” program like the one described above could also include a multi-step application and qualification process. This model includes community service and mentor meeting requirements for students. About 40% of applicants are predicted to complete all program requirements and receive the scholarship based on results from the Tennessee Promise program. The program components are:

Grant covers tuition and fees	Yes	Minimum enrollment level / FT enrollment not required	12+ credits
Grant covers books, transportation, room and board or other expenses	No	Community service required	Yes
FAFSA completion requirement	Yes	Mentoring meeting required	Yes
Family income limit	\$125,000	Students sign pledges/apply in middle school	Yes
Eligibility limited to recent high school graduates (no grants to current students or new adult learner students)	Yes	Maximum number of semesters or years or credits during which a student can receive funding	60 credits (2 years)
Grant can only be used at any	Public college for up to 2 years	Grade point average minimum in college required to receiving funding	Yes, 2.0
		State residency required after college	No

Administering a similar model in Minnesota would cost approximately \$56 million per year depending on the level of program participation among applicants, in addition to current State Grant awards. This is the annual cost of a fully-implemented program for scholarships only. Costs by sector are shown in Figure 5. Additional costs related to mentoring, supplemental services and program administration are not included. The program would provide funds for an estimated 10,000 students at public colleges up to family incomes of \$125,000. The average annual award would be \$5,400 in addition to other aid (\$2,600 State Grant, \$1,700 Pell Grant).

Figure 5: Projected Annual Cost of Tennessee Model for Free College Limited to Recent High School Graduates Enrolled up to 60 Credits Meeting All Application Requirements with Family Incomes <\$125,000 by Sector



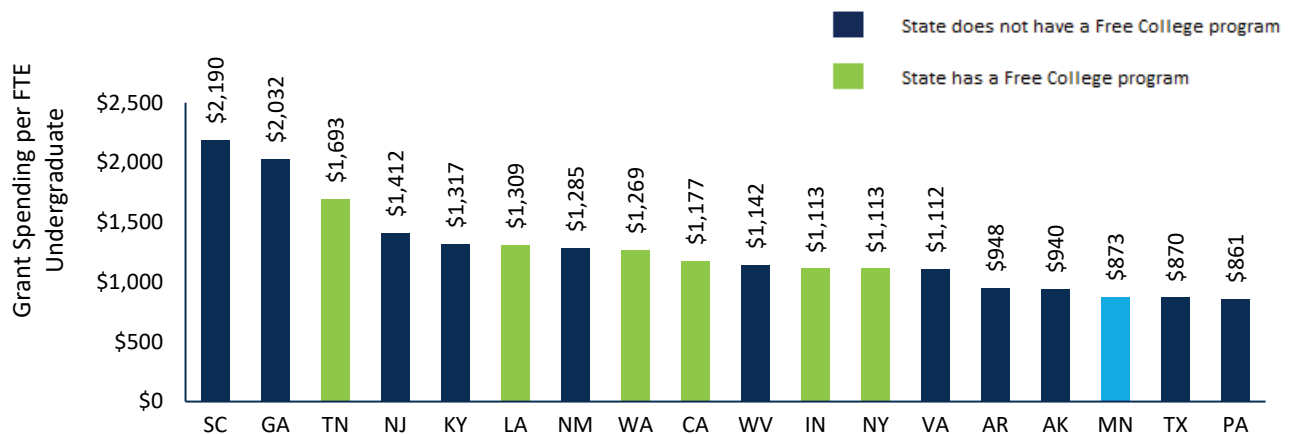
Why does ‘free college’ cost so much in Minnesota?

“Free college” costs more in Minnesota than other states for three reasons: relatively lower levels of current state financial aid, higher tuition costs at public institutions, especially among two-year programs, and high levels of college participation. In combination, implementing a new “free-college” program in Minnesota will require a higher level of investment by the state.

Minnesota funding for financial aid lags other states

Minnesota funds need-based financial aid at a lower level than other states with free-college programs (e.g. New York, Washington, and Tennessee) (see Figure 6). For example, compared to funding levels in New York prior to the Excelsior Scholarship, Minnesota funded state grants at \$240 less per undergraduate full-time equivalent. To reach New York’s level of state grant funding, Minnesota would need to increase appropriations for the State Grant program by \$54 million dollars per year or $\$240 \times 223,680$ full-time equivalent undergraduates. Without that investment, any free-college program in Minnesota is going to cost more than its New York counterpart.

Figure 6: Minnesota Spends Less on Financial Aid per Full-time Equivalent Undergraduate Relative to Other States with ‘Free College’ Programs, 2016-2017



Source: National Association of State Student Grant and Aid Programs, Annual Survey Report, 2016-2017

Minnesota has higher tuition costs than many other states

Minnesota has the eighth-highest tuition for public two-year colleges in the United States. As shown in Figure 7, among states with free-college programs, only New York has higher tuition and fee rates. Higher tuition costs mean the level of state appropriations needed to cover 100% of tuition and fees for any group of students will be greater in Minnesota than in states with lower tuition costs.

Minnesota has a high college-going rate

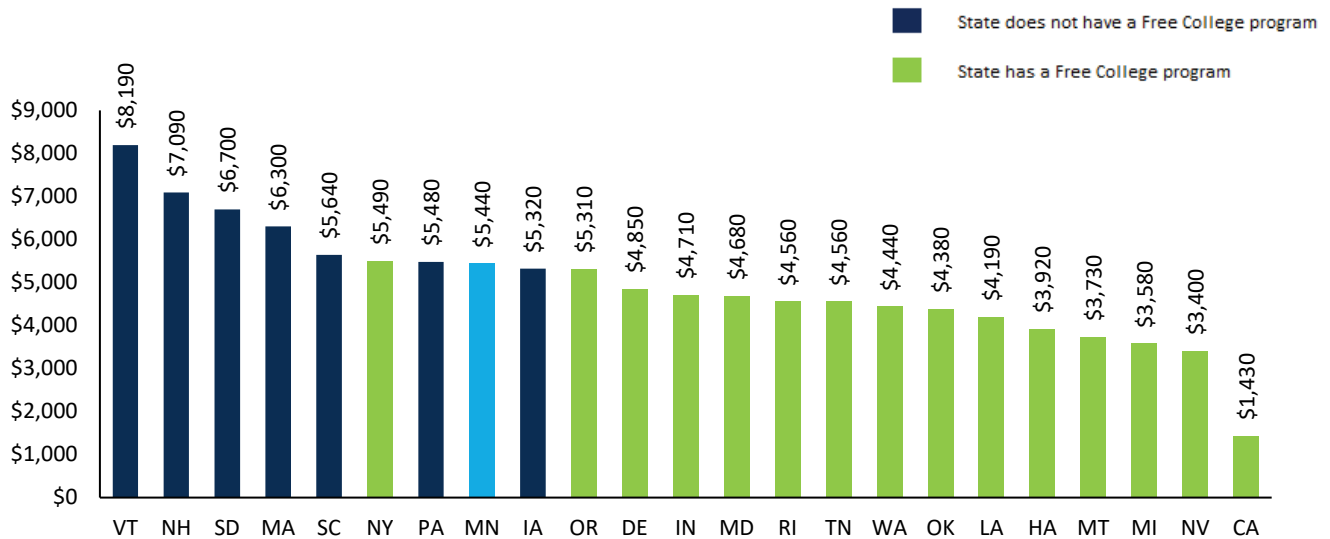
Every year, roughly 69% of Minnesota high school students enroll directly in a college program following high school graduation⁹. By comparison, only about 55% of Hawaii students¹⁰ and roughly 63% of Tennessee

⁹ Minnesota Statewide Longitudinal Education Data System. sleds.mn.gov.

¹⁰ “College and Career Readiness Indicators: Class of 2017.” Hawai’i P-20. <http://www.p20hawaii.org/wp-content/uploads/2018/03/Statewide1.pdf>

students¹¹, for example, enroll directly in college in the fall after high school graduation. A higher college-going rate means more high school graduates enter college annually, increasing the number of students eligible for aid under a “free-college” program in Minnesota relative to other states. More eligible students in turn increases the annual program cost for Minnesota.

Figure 7: Minnesota Tuition and Fees at 2-Year Colleges Ranked 8th-Highest in the Nation, Higher than Most Other States with Free College Programs, 2018-2019



Source: College Board, Trends in College Pricing, 2018

Does Minnesota already have free tuition and fees?

One final point of analysis is understanding the current percent of students who receive Pell and State grants equal to tuition and fee costs incurred. The Minnesota Office of Higher Education analyzed data on tuition and fees, Pell grants, and Minnesota State grants for Minnesota resident undergraduates enrolled at a public institution who applied for aid in the 2017-2018 academic year and projected results forward to the 2019-2020 academic year.

Of the 137,000 undergraduates enrolled at Minnesota public institutions, approximately 38,000 students (28%) received combined federal Pell Grant and Minnesota State Grant aid that was equal to or greater than the average tuition and fees charged¹².

Dependent students whose Pell and State Grant awards met or exceeded 100% of tuition and fees included those with incomes \$0-\$45,000 at Minnesota State Colleges and incomes \$0-\$30,000 at Minnesota State Universities as shown in Figure 8.

¹¹ “Tennessee’s College Going Rate Fall 2015.” Tennessee Higher Education Commission and Student Assistance Corporation. <https://www.tn.gov/thec/bureaus/planning-and-research/planning-analysis/thec-and-tsac-infographics0/college-going-rate.html>

¹² Analysis based on costs incurred during fall and spring terms.

Independent students with children whose Pell and State grants exceeded 100% of tuition and fees at Minnesota State Colleges included those with incomes \$0-\$60,000, and at Minnesota State Universities included those with incomes \$0-\$45,000, as shown in Figure 9.

Independent students without children whose Pell and State grants exceeded 100% of tuition and fees at Minnesota State Colleges included those with incomes \$0-\$30,000, and at Minnesota State Universities included those with incomes \$0-\$10,000, as shown in Figure 10.

The lowest-income students receive grants in excess of tuition and fees to offset cost of living expenses.

No, for other groups of students

Undergraduates whose Pell and State Grant awards did not exceed 100 % of tuition and fees included:

Lower-income students whose available assets (cash, savings, investments) resulted in an Expected Family Contribution above the eligibility threshold for a Pell Grant or Minnesota State Grant (35% of applicants)

Students whose family income exceeded the income ranges listed above

Students enrolling at the University of Minnesota (all campuses), Winona State University, or private colleges, as tuition and fees exceeded the maximum combined Pell and State grants.

Figure 8: Minnesota Dependent Students Percent Receiving Pell + State Grants Covering 100 Percent of Tuition & Fees by Income, FY 2020 Estimates

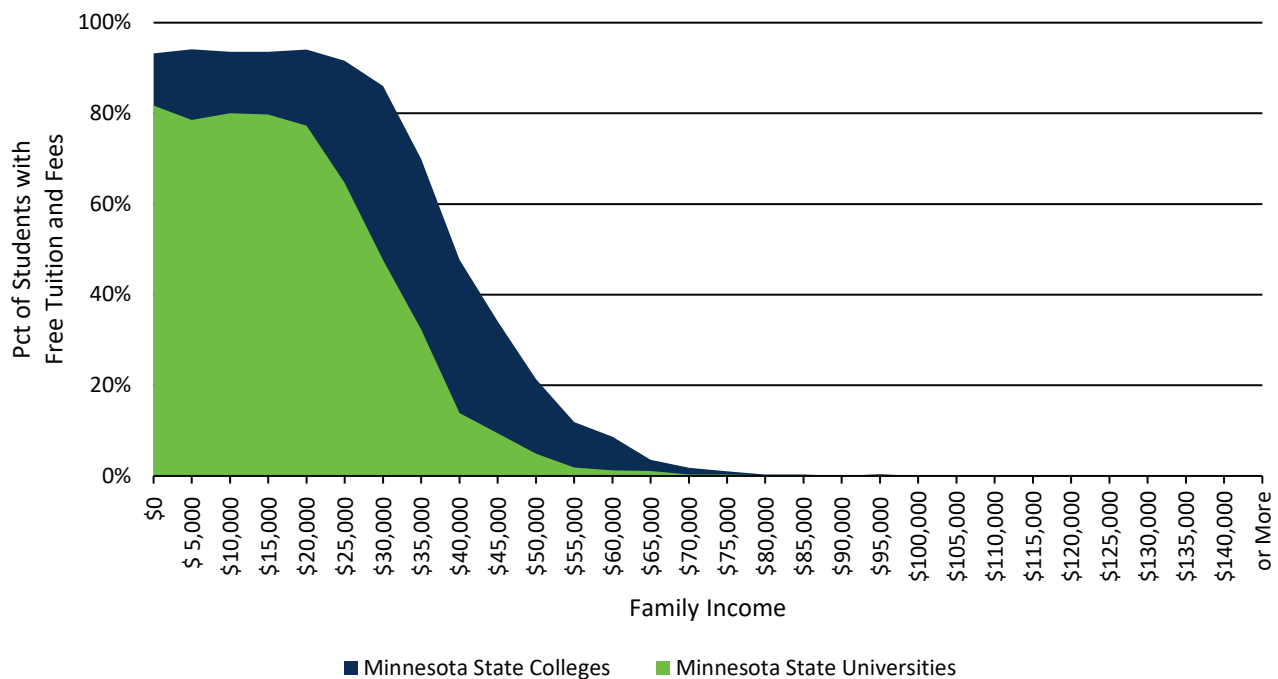


Figure 9: Minnesota Independent Students with Children Percent Receiving Pell + State Grants Covering 100 Percent of Tuition & Fees by Income, FY 2020 Estimates

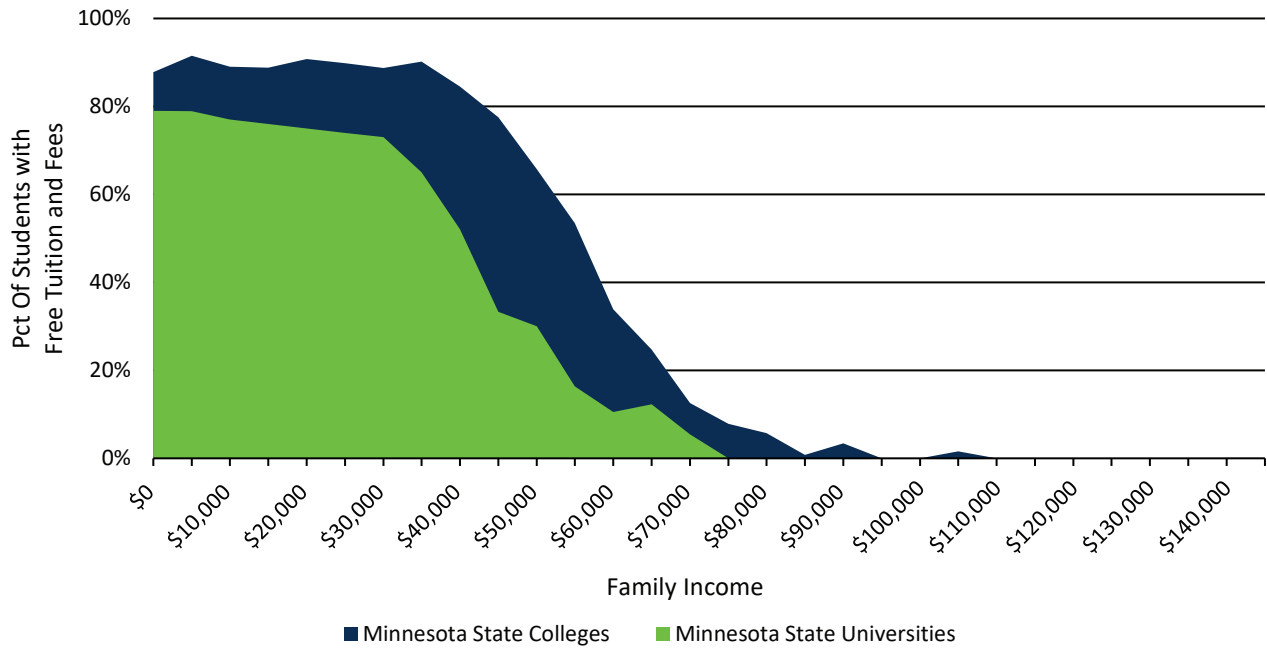
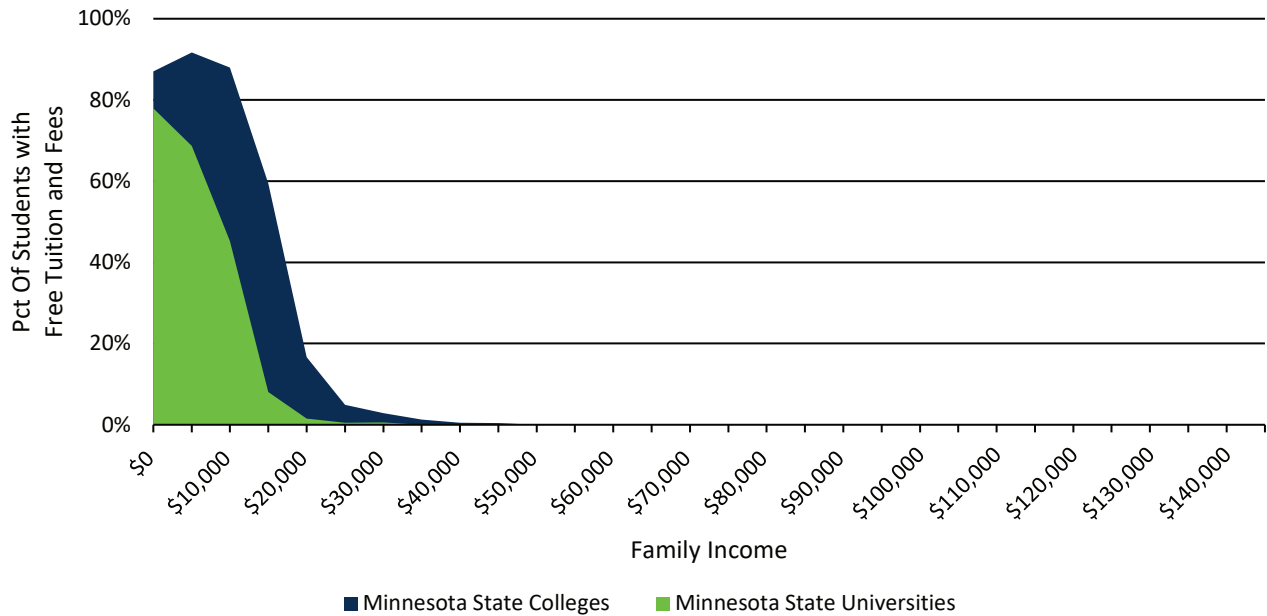


Figure 10: Minnesota Independent Students without Children Percent Receiving Pell + State Grants Covering 100 Percent of Tuition & Fees by Income FY 2020 Estimates



Source: Minnesota Office of Higher Education, State Grant Applicant Database. Analyses by staff.

Figure 11: Summary of 'Free College' Program Components by State

State Programs	Covers cost of living	Covers fees	Covers at least 4 years of college	Cover tuition at 4-year colleges	Adult & returning students are eligible	Students with a 2.0 GPA are eligible	Students enrolling part-time are eligible	Stays a grant forever	Has additional requirements	Includes an income cap
California College Promise Grant*	Yes	No	No	No	No	Yes	No	Yes	No	146% of poverty level
Delaware SEED Scholarship	No	No	No	No	No	No	No	Yes	No	No
Hawaii Promise Scholarship	Books and transportation	Yes	Yes	No	Yes	Yes	Yes	Yes	No	No
Indiana: 21 st Century Scholars	Yes	Yes	Yes	Yes	No	Yes	No	Yes	Yes	185% of poverty level
Louisiana: TOPS Opportunity Award	Yes	No	Yes	Yes	No	No	No	Yes	Yes	No
Maryland: Guaranteed Access Grant	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	No	130% of poverty level
Missouri: A+Scholarship	No	Yes	No	No	No	No	No	Yes	Yes	No
Montana Promise Scholarship	No	No	No	No	Yes	No	Yes	Yes	No	No**
Nevada Promise Scholarship	No	Yes	No	No	No	Yes	No	Yes	Yes	No
New York: Excelsior Scholarship	No	No	Yes	Yes	No	Yes	No	No	No	\$110,000 2018-19
Oklahoma's Promise	Yes	No	Yes	Yes	No	Yes	Yes	Yes	Yes	\$55,000 in high school
Oregon Promise Grant	No	No	No	No	No	Yes	Yes	Yes	No	No (reviewed annually)
Rhode Island Promise Scholarship	No	Yes	No	No	No	No	No	Yes	No	No
Tennessee Promise Scholarship, Tennessee Reconnect Program	No	Yes	No	No	Yes	Yes	No	Yes	Yes	No
Washington: College Bound Scholarship	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	185% of poverty level
Minnesota Stae Grant Program (not a free-college program)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes, State defined

Note: Chart adapted from Tiffany Jones and Katie Berger. "A Promise Fulfilled: A Framework for Equitable Free College Programs." The Education Trust (2018): 5.

*Program not yet active

**Financial need may be included as a requirement if available state dollars are insufficient to cover demands

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