R E P O R T

of the

M I N N E S O T A   F I N A N C I A L   A I D

T A S K   F O R C E

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Minnesota Legislature
and to the Governor**

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EXECUTIVE SUMMARY

The 1993 Minnesota Legislature authorized a twelve person, temporary Financial Aid Task Force "to study and make recommendations on Minnesota's system of financial aid, focusing particularly on the state grant program...The Task Force shall consider current resource constraints among other factors." The Legislature's charge to the Task Force is shown in Appendix I.

The Task Force, a consultant group, and interested volunteers worked from September 14, 1993 until February 1, 1994 to produce this report. The Task Force in many ways is a diverse group. Its members contributed contrasting views about student financial aid and about how best to finance the rising costs of Minnesota postsecondary education. Individual members of the Task Force are listed in Appendix II.

Despite the varied perspectives of its authors, however, the Task Force report carries a clear and unanimously supported message. The Task Force endorses and reaffirms the Minnesota Legislature basic statements of purpose concerning its need-based state grant program, which was first authorized in 1967. At the same time, the Task Force unanimously believes that developments in the federal and state operation of need based grant programs over the last fifteen years have tended persistently to serve less and less well the lowest income (or economically most disadvantaged) students in their efforts to obtain postsecondary education. The single most important statement from the Task Force, therefore, is that changes should be made in the operation of the state grant program which will improve grant stipend treatment for qualified students of very low income. With all members present and voting, the Task Force unanimously approved the report.

To implement this recommendation, a new and more progressive allocation formula is offered for computing grant awards in the state grant program. The Task Force suggests other changes which will benefit Minnesota's needy students and will encourage more rapid completion of regular degree programs, but these changes are of secondary importance compared with the main message.

Since the Task Force could not know how much money might be available in Fiscal Year 1995 for financial aid program improvements, the Task Force considered a variety of program packages, ranging from a medium-cost plan to a no-total-cost-change plan, within the state grant program. The Task Force heeded the original legislative charge concerning resource constraints, and did not seriously consider attractive but high cost plans.

The range of plans for which the Task Force now gives favorable recommendation is illustrated below. Both plans retain Minnesota's "Shared Responsibility" philosophy in the design of the state grant program, and also retain the present degree of linkage with need analysis, federal methodology, and funding of the federal Pell grant program.

Medium-Cost Plan

1.	Add to the number and size of Minnesota state grants for lowest income students; revise stipend calculation formula to accomplish this; establish maximum award size in public and private institutions.	$21 million
2.	In calculating state grant awards for part time students, prorate awards, not budgets.	$11 million
3.	Increase the maximum number of hours of eligibility for state grants, and permit payment of state grants for full-year (11 or 12 months) degree study.	$ 4 million
4.	Adjust awards downward for dependent students with substantial resources of their own that are not accounted for in the current state grant formula.	- $ 1 million
	Total Estimated Cost Increase (vs. $99 million in 1993)	$35 million

This plan enlarges awards for lowest income students, and would not significantly affect the amount of awards for middle income students, nor would it cause significant shifts among public and private systems and sectors. The plan would help attract additional low income students to Minnesota postsecondary education. It is described in Appendix IV.

No-Total-Cost-Increase Plan

The no-total-cost-increase plan, like the medium cost plan, includes a revised and more progressive grant calculation formula. The Task Force used the Fiscal Year 1994 appropriation as the base for calculating a no-total-cost-increase plan. This approach enlarges awards for lowest income students, although less so than in the medium cost plan. The number of new students entering postsecondary education owing to adoption of this plan is likely to be smaller. Funds to finance the improvement for lowest income students would come not from additional appropriations, but from fewer and smaller grants to middle income students. The last three features of the medium cost plan described above are omitted from the no-total-cost increase plan. This plan is described in Appendix V.

While four months proved too short a time to investigate all aspects of financial aid in Minnesota, a section of this report offers observations about the types of study and monitoring which we believe should be accomplished in the future by others, and which are not now assigned to any agency or study group.

The Task Force gives special thanks for the support given its work by the convening authorities: The Minnesota House of Representatives and Senate, their staffs, and the Office of the Governor. The Higher Education Coordinating Board provided excellent administrative support and quantitative analysis to the Task Force. Invaluable policy guidance came from the Minnesota Association of Financial Aid Administrators, as well as from many persons who prepared other testimony for the Task Force hearings. Student testimony was particularly helpful. Appendix III provides a list of persons who offered prepared testimony to the Task Force.

While the Task Force does not expect the major content or direction of this report to change after its initial submission on February 1, 1994, the members appreciate and may wish to exercise the privilege they understand is available to make editorial corrections and offer supplementary material for up to three weeks following the initial submission date.

I. INTRODUCTION

This report concentrates on improved operation of the Minnesota state grant program. That subject is also a matter of clear public concern in Minnesota.

In December, 1993 the Star Tribune/WCCO-TV Minnesota Poll asked a representative panel of 803 Minnesota adults to react to the following statement, within a general questionnaire about the University of Minnesota:

> "The cost of going to the University of Minnesota prevents many qualified students from getting a college education."

Two thirds of the respondents agreed.

Just to make sure, the Poll reversed the question and asked:

> "Do you think qualified students from low-income families have less opportunity, more, or about the same opportunity as other students to get a college education at the University of Minnesota?"

Fifty-five percent of the respondents said "less," nine percent said "more," thirty-one percent said "about the same," and five percent had no opinion.

The companion editorial concluded:

> "Although the poll doesn't explicitly make a connection between those findings (above) it's fair to conclude that Minnesotans want more money spent on financial aid for disadvantaged students."

In November, 1993, the lead article in Minnesota Journal, the Citizens League monthly publication, was more explicit:

> "...The state has failed to help low-income and minority students to attend and graduate successfully from higher-education institutions at the same rate as higher-income and white students. The financing system is partly to blame...
>
> "Minnesota students of color participate in higher education at lower rates than white (39 percent compared to 45 percent), according to the Higher Education Coordinating Board (HECB). And state figures show the percentage of college graduates in Minnesota is still only 17.5 percent of the African-American population, 17.2 percent of Hispanics and 7.7 percent of American Indians, compared to 21.9 percent for whites."

Authors of the Journal article were Yusef Mgeni, President of the Urban Coalition, and Janet Dudrow, Research Associate at the Citizens League.

Three special circumstances in the timing and membership of the Task Force affected how it approached its assignment, and eventually led it to take a relatively narrow view of its charge from the Legislature, rather than a broad or comprehensive view. The first special circumstance is that common agreement does not exist as to how best to broaden educational opportunity. Any committee which represents all the main sectors of postsecondary education is likely also to represent quite different theories about how best to broaden student participation. At the extremes, some believe that low tuition and nearby geographic location represent the open door to opportunity which is the sole increased-access policy one should advocate. Others claim that, during the past thirty years, the low-tuition open door alone has not provided both broad participation and reasonable institutional choice for many low income students. They argue that much greater investment in need based grant aid is crucial for increased access, regardless of the tuition policy followed. The predictable presence of these views and others in the 1993 Minnesota Financial Aid Task Force did not prevent unanimous agreement as to its concern for greater opportunity for low income students, but did indirectly cause sharp differences of opinion about how much more money, if any, the State of Minnesota should be asked to spend in its state grant system.

A second special circumstance is the shortage of new public money for program improvements in higher education. The different traditions described above could be patched over if people thought that enough money would be present to honor both of them: to spend more both on public college budgets and also on need-based state grants which could be carried by low- and middle-income students to whatever type of institution they choose. The 1993 Minnesota Financial Aid Task Force, however, was asked to work at a time when public funds for public colleges and universities in the state have been tight for several years, and also at a time when the original levels of federal and state grants to needy students have in real terms been eroding for more than ten years.

The third special circumstance is limited time. The Task Force members, its consultants, those who provided staff assistance from public bodies, and interested volunteers all devoted time and effort well beyond what one might reasonably expect. But with only four months available, the Task Force decided to concentrate on the few subjects which seemed most important in the charge from Legislature, and particularly on the distribution of funds in the state grant program, and then to admit that while the work ideally should have been more comprehensive, it is not.

II. PURPOSES OF POSTSECONDARY STUDENT AID

"The Legislature has found and hereby declares that the identification of young men and women of the state who are economically disadvantaged and the encouragement of their educational development in eligible institutions of their choosing are in the best interests of the state and of the students."

-- Minnesota Legislature, 1971, stating the purpose of the new grants-in-aid program

"The task force shall consider whether Minnesota's financial aid program, as it operates in conjunction with the federal Pell program, is meeting the state goal of removing barriers to education for economically disadvantaged citizens of the state."

-- Minnesota Legislature, 1993, Charge to the Financial Aid Task Force

Definition

The Minnesota Financial Aid Task Force endorses the student aid definition of purpose (above) which was approved by the 1971 Minnesota Legislature. Only slightly restated, the Task Force believes that the purpose of postsecondary student aid is to provide access for postsecondary education to qualified economically disadvantaged students who, for economic reasons, might not otherwise be able to participate. "Qualified," in this context, is understood to refer to students who have been admitted to an aid-eligible postsecondary institution, and who are in satisfactory academic standing. Encouragement of broad choice among different types of institutions, both public and private, is implied in the history and current intent of this definition, and will be discussed below. "Postsecondary" in this report will refer only to pre- baccalaureate and baccalaureate programs, and not to aid for advanced degree programs.

History

Postsecondary education in the United States is the envy of most other countries, as to the high proportion of the population it serves, as to its quality, and as to its flexibility in allowing persons a second chance in their educational career if they did not happen to follow a conventional sequence or plan. In broad terms, while it is expensive, it is a system which works. It works well in Minnesota.

Access

Compared with what exists in other countries, an unusual aspect of U.S. and Minnesota postsecondary education is the diversity of its institutions, and the presence of a significant sized private sector which contains both non-profit and for-profit institutions. William G. Bowen and other economists maintain that one important reason for the large participation of the U.S. population and for the diversity of institutions in its postsecondary education is that, unlike what occurs in other nations, the "system" of institutions receives significant financial support from many sources: government, families and students, and private gifts.

Our main system of public student aid, based on demonstrated financial need, is a product of relatively recent history. It arises in part from ambitious public goals and in part from practical financial compromise. The goal, generally accepted after World War II and after the nation's favorable experience with the G.I. Bill, is that there should cease to be prohibitive financial barriers to postsecondary education for anyone who is otherwise qualified and motivated. Public policy recognized this first for recent high school graduates, studying full time; and later for older, part-time students.

The practical financial compromise noted above was the realization that the U.S. federal and state governments could not possibly afford a quick, universal, total-cost entitlement program of the kind which is offered in many European countries and which aids only a relatively small part of the population. If the ambitious public goal was to be achieved, some compromise approach towards paying for universal access was needed. Of necessity, such an approach would continue to require participation from all those who previously supported collegiate education: students, families, employers, institutional scholarships and loans. Now federal and state taxpayers would participate also.

These principles were recognized in the federal Higher Education Act of 1965, which established broad federal support for access to postsecondary education, and in the 1967 Minnesota Legislature, which established need-based grants for Minnesota college students.

Shared Responsibility

When the Minnesota Legislature in 1983 reorganized its state scholarship and grant program, it adopted a shared responsibility concept which again endorsed the necessity for the main participants to continue to play their related roles in paying for postsecondary education. Students and their families are the first supporters of a student's education and are expected to cover much of the necessary tuition and living expenses, with the family/student contribution varying according to income and according to other family financial circumstances. Students contribute from their own savings, if they have any, and work and borrow from federal, state and private sources in making their contributions to the cost of attendance.

Minnesota state grants and federal Pell grants are the two major public need-based programs which attempt to make up the difference between the cost of attendance and what Minnesota families and students contribute. If everyone plays the anticipated and appropriate role in this shared responsibility arrangement, students and families do as much as they can, and the state and federal governments spend grant funds only where needed, in approximately the amounts needed. If families refuse to do their part, or if government programs are under-funded, students may work or borrow above expectations, or may decide not to enroll.

Impact of Change in Federal Methodology

In its November 19, 1993 testimony to the Task Force, the Minnesota Association of Financial Aid Administrators (MAFAA) also gave high priority consideration to another technical formula element in the state grant program. Recent changes in federal needs analysis have created an issue of concern in administering the state program. The new federal methodology adversely affects independent students without dependents, effective in the 1993-94 school year. Under the new methodology, the expected student contribution often exceeds these students' ability to pay.

Because the model is the same for both dependent and independent students, the Minnesota Design for Shared Responsibility has significantly greater financial expectations for independent students than for dependent students. Not only is the independent student expected to provide for his or her own share of the recognized cost of attendance, but also the family/ government share of the recognized cost.

The Task Force recommends legislative review of this disparity within the next biennium.

Choice

Another design feature of federal and state student aid programs since the 1960's has been the stated goal that recipient students should have a reasonable choice of the type of institution in which they use the public aid. Low income students should not be forced to choose only lowest-price institutions. Such a requirement would have saved money originally, but would have also helped create a much more divided institutional caste system than now exists. Federal and state student aid programs permit the use of public grant and loan funds at both public and private colleges. Grant awards are calculated in a way that acknowledges and defrays part of the higher cost in high-cost colleges. As the only mechanism which recognizes and addresses both tuition and non-tuition costs that students in all systems face, student financial aid remains a key component to maintaining and expanding educational access to all postsecondary institutions.

Other Factors in Determining Participation

While this report concentrates on the important role of need-based state and federal grants in removing barriers to postsecondary education, no one should infer that student financial aid is the only factor which determines who eventually participates. Availability of places and proximity of schools, colleges and universities play their parts. So does the academic preparation of students, and whether that meshes with the school or college academic prerequisites for admission. Individual motivation also is clearly important, as is individual perception about later job prospects. However, even if all these non-financial aspects are favorable in an individual case, lack of sufficient money still may cast a final veto in the decision about whether or not to seek postsecondary education.

Minnesota state grants and federal Pell grants are not the only sources of student aid assisting Minnesota postsecondary students. Other sources provide grants, some of which also are based on financial need; jobs and loans are also important. The following table, published by the Higher Education Coordinating Board every two years, summarizes student aid from all sources available to Minnesota undergraduate students in 1990-91.

Table I

Postsecondary Aid Available to Minnesota Students in 1990-91 from Grants, Loans, Work-Study and Institution-Provided Jobs

		($000 Omitted)
Grant and Scholarship Programs		
Minnesota State Grant Program	$ 71,275	
Five other special purpose state grant programs	4,249	
Federal Pell Grants	109,139	
SEOG Awards	12,558	
Federal, State and Local Agency Grants	13,501	
Institution-Awarded Grants	66,664	
Private Grants	14,117	
Miscellaneous	9,671	
Total Grants and Scholarships		$301,174
Loan Programs		
Minnesota SELF Loans	$ 33,823	
Stafford Student Loans (GSL)	168,234	
Perkins Loans	17,602	
Six other sources	36,354	
Total Loans		$256,014
Student Earnings from Work-Study and Institution Jobs		
Minnesota state work-study program	$ 7,092	
Federal work-study program	18,061	
Jobs at the Institution	55,692	
Total Earnings		$ 80,844
Total Postsecondary Aid		$638,032

III. MINNESOTA'S PERFORMANCE: AN ASSESSMENT

Most assessments have a good-news and bad-news quality to them. This is no exception.

Strengths

Minnesota can be proud of the education opportunities it makes available. Minnesota is one of the nation's top states in the percentage of youth who graduate from high school, and who, in turn, go on to postsecondary education. Minnesota in 1992 was reported to be 10th in the nation in the proportion of its tax base devoted to higher education. The presence of a strong array of public and private postsecondary institutions often is cited by growing technology based companies as a reason why they decided to start here and to grow here. Minnesota currently has the fastest growing population in the midwest. While some of these observations are more obviously related than others, the record is a strong one.

Minnesota also is one of the few states which since the late 1960s has given consistent and growing support to need-based student financial aid. Minnesota is one of six states in the nation which provides need-based grants to part time students. In 1992-93, Minnesota ranked third in the United States in state grant dollars per college age resident. In 1993, faced with a significant change in the federal needs analysis as well as a sudden and unexpected congressional shortfall in financing the federal Pell grant program, the Minnesota Legislature allocated an extra $50 million into its state grant program partly to strengthen the program, and partly to insulate needy students from the shortfall. By most national standards this is an exemplary record.

Challenges

Unfortunately, the strong national comparisons cited above mask the deteriorating situation as seen from the vantage point of those for whom Minnesota's state grant program was designed principally to benefit: the economically disadvantaged.

Postsecondary attendance costs as a percentage of family income in Minnesota are highest for low income students, even after considering grant aid received from all sources. This holds true for all types of public and private colleges. These findings come from a 1992 study entitled "Ways and Means: How Minnesota Families Pay for College," conducted by the Minnesota Private College Research Foundation under a grant from the Lilly Endowment Inc., Indianapolis, Indiana. Even for the very lowest income students, grants from all sources do not on average meet more than 40 percent of the cost of attendance at four year colleges. According to a similar study conducted by the Technical College System, grants from all sources to the lowest income students do not typically meet more than 45 percent of the cost of attendance at Minnesota's Technical Colleges. Families with the least ability to pay must either contribute a significantly higher percentage of their income for a son's or daughter's education, or incur more debt than either middle or high income families. The "Ways and Means" study notes that, in four-year public and private colleges, students and parents with annual family incomes less than $35,000 borrow about twice as much each year to help pay for this education as do families with incomes of $45,000 or more. Comparable information is not available about borrowing in two-year public and private colleges.

Meanwhile, between 1985 and 1992 the number of Minnesota financial aid applications increased by nearly 5,000, or 80 percent, from families earning $60,000 or more in 1985 (and adjusted upward for inflation in subsequent years), but declined by 7,300 applications, or 27 percent, from families with inflation-adjusted incomes of $30,000 or less. The number of new Minnesota high school graduates dropped slightly during those years, but not enough to explain the drop in financial aid applications.

Despite the decline in the number of grant applications from low income families, total financial need calculated by the federal needs analysis continues to climb. Financial need is the difference between the total price of attendance and the expected financial contribution from families and students. The composite calculated need of financial aid applicants with incomes less than $30,000 was more than $400 million in 1992-93, up from $350 million in 1990-91. In 1991-92, state grant awards and Pell grant awards to students with family incomes under $30,000 totaled an estimated $154 million. The implied gap between calculated need and grants awarded probably is imprecisely stated because the federal method of calculating need has changed and has become more generous in recent years. While this may raise questions about the general precision of such calculations, it probably does not invalidate our estimate that the gap is large and appears to be growing.

Why do these consistent and worrisome signals occur in a decade when Minnesota appropriations for need-based grants to postsecondary students increased fourfold, from $24 million in 1983 to $100 million in 1993? There are several answers. Need-based grants by definition hold a residual position, making up the difference after all other sources have contributed as much as possible. It is a highly leveraged position, vulnerable to unfavorable trends elsewhere. In this particular decade, college tuition costs have risen faster than the general rate of inflation. At the same time, provision of federal grant funds per needy student has not kept up with inflation. Finally, changes in the federal and state need calculations distribute the available money more generously than before to middle income students and less so to the lowest income students.

Future Demand

The cost estimates provided in this Task Force report are near-future estimates, modeled quantitatively upon the 1992 population of Minnesota students applied for state grants. The Task Force did not attempt to construct long term demographic and institutional cost models, nor did it project numbers into the far future. However, if the Legislature is asked to consider a range of recommendations, at least one of which will cost more now and in the future, it is reasonable first to inquire if the underlying cost pressures might not resolve themselves in the long run without requiring new spending for need-based financial aid.

If the only major new economic developments in postsecondary education were reduction of institutional cost increases below the national inflation rate, and if the federal Pell grant program were to be funded at the rate temporarily approved by the Congress in 1993, these happenings could stabilize or even reduce costs in the Minnesota state grant program. While these developments are possible, few today expect they will occur within the next two or three years.

Meanwhile, if Minnesota high school graduation trends persist the state is projected to produce a 35 percent increase in the number of new high school graduates by the year 2008. The population of high school graduates then will be racially more diverse than at present, and, if today's income distribution patterns persist, the population in 2008 will include relatively more low-income students than is true today. Meanwhile, the surge may still be occurring in demand for postsecondary education by adults some years out of high school. In a rapidly changing job market, this probably will continue.

The economic and demographic trends which appear likely to carry the greatest leverage indicate that need-based state grant aid will be increasingly important in Minnesota's future, and that it will be increasingly expensive, even if the general quality of individual benefits is held constant in real terms.

Data Needs

While the Task Force remains confident of its assessment that need-based grant aid should be improved for Minnesota's lowest income students, and while none of the testimony heard by the Task Force contradicted this view -- and much supported it -- the answers to two questions might have improved the Task Force assessment and lent greater quantitative precision to its conclusions.

The two questions are these:

1. As postsecondary students move through and complete their degree programs, what is the level of loan burden they and their families have undertaken for this purpose? Is the burden level increasing or decreasing? Is it excessive?

2. How many persons are qualified for and wish for postsecondary education but fail to participate solely because they lack the money? How much money do they need to enable participation?

These are important questions. At present, however, no person or agency in Minnesota has responsibility to try to answer them in a comprehensive way, even though the answers might affect the design of loan, workstudy and grant programs involving hundreds of millions of dollars.

With respect to loans, it is clear that as public funds at all levels have become tighter, postsecondary student need increasingly has been met by loans. The College Board, New York and Washington, DC., for the last thirty years has produced the most comprehensive and comparable national series of postsecondary student aid estimates, compiling loan, grant and work-study expenditure figures from federal and state programs and from collegiate institutions. Its 1993 survey, compiled by Laura Greene Knapp, compares the proportion of all student aid provided by loans, grants, and work-study in 1977-78 (a year of relatively high provision of federal grant aid) and 1992-93 (estimated). This is shown in Table II below.

Table II

<u>Percentages of Total
Loan, Grant and Work-Study Aid
Awarded to All U.S. Postsecondary
Students from All Sources</u>

	1977-78	1992-93 (est.)
Loans	22%	47%
Grants	74	51
Work-Study	4	2

Anecdotal evidence in Minnesota suggests that loan burdens taken on while in college are large and are growing. Exit questionnaires at the University of Saint Thomas, Saint Paul, yielded an average accumulated student loan amount on graduation of $16,000 in 1993. Graduate admission officers at the University of Minnesota believe that significant numbers of low- and middle- income students fail to go on to graduate school when this might require large new loans because loan burdens carried over from undergraduate study already are worrisome. Anecdotal information is helpful, but comprehensive statewide data about these loan burdens ought to be available. Since financing postsecondary education often is a family matter involving increased borrowing, additional mortgages, and so on, family data periodically ought to be available also.

With respect to the number of potential postsecondary students who do not now participate because they lack money, this is a group, presumably, for whom need-based state grant legislation was designed in the first place. While it is inherently more difficult to count potential students than enrolled students, one still can make worthwhile estimates. The College Board published a national study in 1978 which estimated that about five percent of high school graduating classes in the mid-1970s would fit that description, or approximately 12 percent of those who at that time did not go on to postsecondary education soon after completing high school. The basic estimates were made by a national panel of 2,689 guidance counselors in public, parochial and independent high schools, concerning the number of students in their two most recent graduating classes who the counselors believed should have gone on to postsecondary education, but failed to do so solely because they lacked the money. The average amount of money that counselors in 1976 thought would have made the difference was $1,700 per year per student. Most frequently, they thought a two year college was the appropriate choice for these high school graduates.

Despite the careful survey methods, the initial counselor judgments were subjective and also may have become quickly outdated. Also, as noted above, financial ability to pay is not the only factor affecting how many persons seek postsecondary education. That said, it seems odd to operate a program to lower the barriers to postsecondary education without occasionally assessing who is on the other side of the barriers.

So far as the Minnesota Task Force on Financial aid is aware, no careful national or state estimates of this kind have been made since 1978. Also, so far as the Task Force is aware, estimates do not exist as to the size of the comparable potential student group among persons 24 and older. Adult students now comprise about 40 percent of Minnesota's postsecondary enrollment, a percentage which is still growing.

Tasks Not Completed

The Financial Aid Task Force did not attempt to deal with three assignments in the Legislature charge. After completing the requested primary consideration of the Minnesota state grant program, insufficient time was available for other serious reviews. The Task Force therefore did not review state loan programs, the state work study program, and small special-purpose state grant programs. The Task Force also did not attempt to consider new ways to integrate grants, loans and work-study packages for different types of students. Finally, the Task

Force did not study the possible further decentralization of student aid administration to the campus level.

IV. PROCEEDINGS OF THE TASK FORCE AND RECOMMENDATIONS

Contributors

The Minnesota Financial Aid Task Force first assembled on September 14, 1993, to consider its assignment from the Minnesota Legislature and to start to organize its work. The Task Force elected a Chair and Vice Chair on September 28, 1993, and began a national search for a major consultant to assist in gathering data, drafting reports, and advising the Task Force. The search concluded on October 19, 1993 by selecting The McAdam Group, Inc., Washington, D.C. as primary consultant.

Eventually, the Task Force held thirteen half day public meetings at the State Capitol to hear testimony and discuss scheduled topics. All members of the Task Force participated actively, often completing reading and writing assignments between meetings. The attendance rate of the twelve Task Force members for all meetings was 84 percent; only one meeting took place where more than two members of the Task Force were not present.

Major portions of three meetings were devoted to testimony about Minnesota financial aid, and in particular about the state grant program. Principal contributors were representatives from the major public and private postsecondary systems, from student associations representing those systems, and from the Minnesota Association of Financial Aid Administrators (MAFAA).

Staff members of the Higher Education Coordinating Board provided administrative support to the Task Force. Gerald L. Setter, Manager of Financial Aid Research, briefed the members as to how the state grant program currently operates, made the administrative arrangements for holding meetings, and provided quantitative modeling studies as to how various proposals for change would affect the cost and distribution of grant funds. Jack Rayburn, Policy Analyst, drafted and distributed minutes of each meeting. These minutes are available on request from the Higher Education Coordinating Board.

General Work Pattern

The Task Force worked through four main phases of its assignment in the following order:

1. Assess the general performance of financial aid systems in Minnesota, with particular emphasis on the state grant program.

2. Consider specific operational changes in the state grant program which might be recommended to the Legislature.

3. Write a tentative report and create quantitative cost analyses and grant distribution patterns for the major policy choices.

4. Reconsider preliminary conclusions in the light of final modeling and discussions.

The following paragraphs summarize key issues which the Task Force considered. The recommendations to the Legislature which the Task Force makes as a result of those discussions are also presented, and are underlined. The same recommendations are also listed together, without further comment, in Chapter V of the Task Force report.

Assessment of Purposes and Performance

The preceding two chapters in this report summarize the history and data which helped form the Task Force perspective on the purposes and performance of public financial aid in Minnesota. During the last weeks of October, 1993, Task Force members were invited to submit for group discussion their individual understanding as to the purpose of the state grant program, and as to the salient successes and remaining challenges in Minnesota student aid today. Four papers were submitted, whose principal judgments were quite similar. After discussion of the papers on November 2, 1993, it became apparent that the whole Task Force was in clear agreement about whom need-based student aid should serve first, and about key aspects of the present state grant program which should be improved. The Task Force took its first vote that day. The first four recommendations of the Task Force arise from that first general consensus.

1. <u>The Minnesota Financial Aid Task Force reaffirms the legislative purposes initially approved for the Minnesota state grant program: that the program should encourage access to postsecondary education in Minnesota for economically disadvantaged students in eligible institutions of their choosing</u>.

2. <u>Although changes are recommended in its allocation formula, the Task Force endorses the basic framework of the 1983 "Shared Responsibility" concept and recommends its retention</u>.

3. <u>The Task Force recommends that students receiving Minnesota state grants continue to be able to choose whether the grants help finance their postsecondary education at a public or private institution -- and at a low cost or a relatively expensive one</u>.

4. As a first priority, the Task Force recommends that changes be made in the distribution of funds in the Minnesota state grant program which will increase the number and dollar amount of awards for the lowest income students.

Focused Scope

While the Task Force discovered important areas of agreement, such as the four recommendations above, the group also located related areas about which its members disagreed and about which there appeared to be little time for detailed further study and discussion. The introductory chapter of the report notes that the two most difficult of these issues were: the kind of tuition policy which the Task Force might think should accompany its student aid policy -- high tuition in public colleges or low tuition; and where additional money should come from if the Task Force recommended that more money be appropriated in the Minnesota state grant program. Insofar as possible, the report avoids taking positions on these questions.

Regardless of one's view about high tuition/high aid or low tuition/low aid, however, there is a clear arithmetic which usually works to erode access to education for low income students unless CHANGES in tuition are related to CHANGES in financial aid in some disciplined way. Unfortunately, a majority of the states which raised tuition in public colleges and universities during the past two years either held constant or reduced need-based grant aid. Near the end of its work, the Task Force commented on this policy question.

5. The Task Force does not recommend any particular tuition policy for public colleges and universities. However, in order to maintain proper access for low income students, the Task Force urges strongly that student financial aid appropriations be closely linked with any CHANGE in tuition rate. For example, every $100 of tuition increase at an institution probably requires $30 or $40 of student aid increase, other things equal, to retain an access-neutral environment.

Tuition Cap vs. Maximum Award

The Minnesota Statute for the state grant program has required that the tuition and fees component of "cost of attendance" in the grant stipend formula for students attending private institutions be "an allowance for tuition and fees equal to the lesser of the actual tuition and fees charged by the institution, or the instructional costs per full year equivalent student in comparable public institutions." The latter calculation, which came to be called the private college tuition cap, insured that state support for a student attending a private institution does not exceed state support for that student attending a comparable public institution.

Tuition caps serve a simple purpose. They are devices which limit the amount of financial aid that a student attending a private institution may receive. For students at private institutions, the tuition cap, combined with a specified allowance for living and maintenance expenses, determines the combined total of Minnesota state grant and federal Pell grant which a student may receive. For students attending public institutions, the price of tuition and fees in combination with the specified allowance for living and maintenance expenses determines the maximum award students may receive. All states that allow students to use state financial aid grants at private institutions limit the amount of aid such students may receive. Most states do this by establishing a maximum grant level. The federal government uses this approach also. No other state, however, uses a tuition cap as an intermediate step in determining a maximum award amount for students attending private institutions.

In 1983 the first private college tuition cap was set using instructional cost funding cells averaged for the University of Minnesota, Duluth and the University of Minnesota, Morris. The private four-year college tuition cap increased from $3,598 in 1984 to $7,663 in 1991, at which level it remains through Fiscal Year 1994. If further action is not voted by the Legislature, it will decrease to $6,814 for Fiscal Year 1995.

The history of what statistical and logical arguments produced this unusual trajectory of annual values of the private college tuition cap is not well documented. The array of statistics one reasonably might use if one were inventing a new tuition cap which still follows the Minnesota Statute turns out to be an extremely wide choice.

The Task Force tried to find a predictable, statistically stable (not erratic) public instructional cost data set for which there was general acceptance. This effort was unproductive.

Instead, the Task Force agreed upon the concept used in other states of establishing a maximum award size which would hold for both public and private students. As a policy guide, the maximum grant should not exceed the state's total investment in the lowest ability-to-pay students attending public colleges. When the maximum award concept is combined with the formula changes in the plans described in Appendices IV and V the combined formula operates so as to continue to shift more money than before to low income students.

If one compares the proposed maximum award approach with the current tuition cap numbers, the use of a maximum award of $6,500 and an assigned 40 percent share of student responsibility at four-year colleges, would replace a four-year tuition cap of $6,718 and an assigned 50 percent share of student responsibility. At two year institutions, a maximum award of $5,500 would replace a tuition cap of $5,063. These award levels, in combination with the reduction in the assigned student shared responsibility to 40 percent, provide an increase in maximum awards for neediest students that is approximately 20 percent higher than the Fiscal Year 1995 maximum levels set by the Legislature in 1993.

To avoid the instability associated with the private college tuition cap, the Task Force discussed methods of annually adjusting the maximum award. The Task Force discussed using price indices, such as the Consumer Price Index and the Higher Education Price Index, and changes in certain components of higher education spending.

During the same discussions, the Task Force considered a plan for the state grant program whose funding level would be less closely linked than at present to funding levels in the federal Pell grant program. The Task Force, acknowledging the unusual kind of difficulty faced by the Minnesota Legislature in this matter in 1993, still believed that the present relationship of Pell and Minnesota state grant financing best serves low income students in the state.

6. <u>The Task Force acknowledges the uncertainties in state budgeting occasioned by close linkage between financing of the federal Pell grant program and the Minnesota state grant program. However, the Task Force believes the advantage to Minnesota low income students inherent in the present relationship between the two programs outweighs the disadvantage. The Task Force recommends that this relationship not change</u>.

7. <u>The Task Force recommends that the Minnesota state grant program abandon the use of tuition caps as the devices that limit the amount of aid available to students attending private institutions and that it instead use maximum awards as the limiting device. The Task Force recommends adoption of a maximum award of $6,500 for students attending four-year institutions and a maximum award of $5,500 for students attending two-year institutions, effective for the 1994-95 academic year. These award levels approximate the cost of attendance for students attending four-year and two-year public institutions. The maximum award amounts should be adjusted annually. The Task Force recommends that maximum award levels be indexed to and adjusted in accordance with the Consumer Price Index.</u>

<u>A Revised Distribution Formula</u>

While the Task Force quickly agreed in its unanimous concern for improving the way the Minnesota state grant program affects the lowest income students, the Task Force still needed to find practical ways to implement this concern without unnecessary added expense, and without causing significant problems elsewhere in the state grant program.

Three decisive contributions, occurring in sequence, provided the core solution: policy recommendations derived from six months of independent discussions within MAFAA as to desirable next directions for the state grant program; a statistical simplification of the MAFAA recommendations provided by Gerald L. Setter at HECB; and provision of an improved substitute for the private college tuition cap. The substitute was designed and put forward by Task Force member Peter Zetterberg and by Jon McGee, Vice President for Research and Policy Development at the Minnesota Private College Council.

The Minnesota Association of Financial Aid Administrators, after considering other possible choices, recommended retaining important basic elements in the Minnesota state grant program: the continued use of the Federal Needs Analysis methodology, and most of the basic concepts of Minnesota's Shared Responsibility design. In assessing the changing environment, however, MAFAA testified as follows:

> We believe that many (if not most) low-income students can no longer afford to meet 50 percent of their recognized costs of education (even at the lowest cost institution) without working a number of hours and/or borrowing amounts of student loans that are so large that they prohibit the students from attending, not only the institution of their choice, but any institution at all.

MAFAA proposed a sliding scale student-share model which would add new money to the state grant program and target it towards the lowest income students. MAFAA also proposed several changes in the operating rules of the state grant program to improve treatment accorded independent and part-time students, simplify program administration, and add incentives for quicker completion of degree study.

Equally significant from the viewpoint of the Task Force, the MAFAA recommendations were the product of cooperative effort among knowledgeable financial aid professionals who represented all sectors of Minnesota postsecondary education. This cooperative example reminded the Task Force that, even in a controversial field, significant agreement is possible if all participants adhere to a sense of common purpose.

While the Task Force agreed in general with the purpose and probable effect of the MAFAA sliding scale student-share model, its allocation formula, when represented graphically, showed a stair-step picture. For students whose family financial circumstances placed them close to one of the step boundaries, a small difference in family financial circumstance might lead to a large difference in the calculated amount of their state grant. The Setter modification to the stair step formula preserved the altered distribution of funds by income level, but smoothed out the curve. The Setter formula simply applied a multiplier constant to expected family contribution at every level of contribution. The Task Force and MAFAA representatives both agreed that this accomplished the original intended purpose of the stair-step model but in a simpler and preferable way.

Both Peter Zetterberg and Jon McGee, initially investigating how to recommend resetting the private college tuition cap, eventually concluded that the now-proposed maximum award approach would be preferable to the tuition cap. This was described in the preceding section of this chapter. The maximum award rule proposed for 1994 is that for all public and private full time postsecondary students, the maximum grant at four-year institutions be $6,500, or 60 percent of the cost of attending (tuition plus an allowance for living and miscellaneous expenses), whichever is less, and that the maximum award be $5,500 at two-year institutions.

8. <u>Serious consideration should be given to a $35 million "medium cost" plan, which lowers barriers to postsecondary education for low income dependent and independent students, does not reduce awards for most middle income students, and provides selected incentives for more rapid completion of degree study. This plan is described in Appendix IV.</u>

9. <u>Serious consideration also should be given to a "no-total-cost-increase" plan, which lowers barriers to postsecondary education for lowest income dependent and independent students, and finances this change by reducing awards available to middle income students. It omits the other incentives which are part of the "medium cost" plan (above). The "no-total-cost-increase" plan is described in Appendix V.</u>

<u>Dependent Students With Substantial Resources</u>

Minnesota's shared responsibility currently requires all students in all institutions to pay 50 percent of the recognized costs of attendance. For dependent students, responsibility for the remaining 50 percent is assigned to parents, state government, and the federal government. The student is expected to meet his or her share with summer earnings, savings, loans, or other campus-based or private aid. While the student expected contribution in this arrangement is often greater than actual available funds, in some cases dependent students have substantial resources of their own that remain unrecognized in the shared responsibility formula.

10. <u>The Task Force recommends that the student contribution (in the design for shared responsibility) in excess of the share assigned to students be included as a resource toward meeting the parent/government share -- thereby reducing the state grant award</u>.

Prorate Awards, not Budgets

In its November 19, 1993 testimony to the Task Force, the Minnesota Association of Financial Aid Administrators (MAFAA) gave high priority consideration to one technical formula element in the state grant program which it felt gave inappropriate disadvantage to part-time students. The MAFAA presentation made the following argument.

> The state grant program currently pro-rates the student's recognized cost of attendance prior to awarding the grant if the student is enrolled for fewer than 15 credits per academic term. The pro-ration has the effect of recognizing a decreasing proportion of living expenses as the number of credits taken falls. While tuition costs are lower if students enroll for fewer credits, living costs are most often a fixed expense. Pro-rating awards rather than grants would continue to meet reasonable educational and living costs associated with postsecondary enrollment.

The estimated cost of changing the present practice and prorating awards, not budgets, is $11 million, with the benefit to students probably occurring relatively evenly among all income levels of students. The Task Force judged this argument to be straightforward (without hidden side effects) and relatively inexpensive. The Task Force endorses this MAFAA recommendation.

11. The Task Force recommends a change in the award calculation process for Minnesota state grant awards to part time students. The Task Force recommends that awards, not budgets, be pro-rated in calculating the amount of these part time study grants.

Incentives to Rapid Completion

Two other administrative rules for administering Minnesota state grants are seen by several financial aid officers in public institutions and by public system representatives as unintentionally acting to inhibit the rate at which postsecondary students complete their degree work. Reed Carpenter, Executive Assistant in the Financial Aid Office at the University of Minnesota and Daniel C. Nelson, Director of College Financial Planning at Bethel College and past President of MAFAA, proposed to the Task Force that the maximum number of hours of eligibility for state grants be raised to coincide with actual bachelors degree requirements in demanding fields such as engineering, and that summer degree study become eligible for state grant support. Their arguments, which follow, make sense to the Task Force.

Maximum hours of eligibility

The current legislative policy allows students to be eligible for state grants during their first 180 quarter hours (120 semester hours) of attendance. Many students in Minnesota enroll in degree programs which exceed those numbers. To be more consistent with degree requirements, we recommend that this maximum eligibility attendance period be increased to 198 quarter hours or 132 semester hours.

Summer Study

Currently, students who receive state grants based on full time attendance during the first nine months of the year are not eligible for state grants if they attend during the summer. In fact, summer attendance results in loss of eligibility for state grants during subsequent terms of attendance because summer attendance counts against the 180 quarter hour limit (or 120 semester hour limit). Our proposed change would enable students to use their state grants eligibility in a manner consistent with their education plans. For instance, this would allow students to accelerate their programs during the summer and maintain their state grant eligibility for each term of attendance in a calendar year. This change would not decrease a student's aggregate eligibility for state grant funds but would eliminate their current loss of eligibility for accelerating their academic program.

The estimated cost of approving these recommendations is $4 million, based on statewide projections from 1993 student data at Saint Cloud State University and at the University of Minnesota Twin Cities campus.

12. The Legislature should increase the maximum hours of eligibility for state grants (from 180 quarter hours to 198 quarter hours, or from 120 semester hours to 132 semester hours).

13. The Legislature should allow students attending throughout the academic year to receive accelerated grant payments; this includes permitting a full year (11 or 12 months) of degree study to be eligible for state grant payments.

Data Needs

The concluding section of the prior chapter discussed two types of data which, while not generally available in most states, nonetheless could be gathered periodically at reasonable cost and which might be more than worth the cost in assessing the scope and direction of the Minnesota state grant program in future years. Such data need not be collected and analyzed each year, but certainly would be useful at least every four or five years.

14. The Task Force recommends that an appropriate agency or contractor make a thorough study of indebtedness assumed by postsecondary students and their families. The study at minimum should determine loan amounts assumed, whether the terms of indebtedness seem appropriate, whether total loan burdens are changing, and whether they seem excessive. This implies the desirability of periodic and comparable monitoring.

15. The Legislature should also arrange that estimates be made of how many recent high school graduates wish postsecondary education, are qualified, but fail to participate solely because they lack the money. If this kind of estimate proves useful in assessing the adequacy of federal and state grant and loan programs, it should be repeated periodically. A similar inquiry, if it can be designed, would be useful concerning older potential students.

Desirability of Periodic Review

At the end of its work, the members of the Financial Aid Task Force concluded that even during the relatively short period available, the Task Force, consultants, financial aid officers, Legislature and agency staff together were able to consider aspects of the Minnesota state grant program which would have been difficult to review as carefully during a regular Legislative session. While the educational and financial environments ordinarily do not change fast enough to make annual or biennial review of this kind worthwhile, the Task Force also thinks that ten years is too long an interval in the present environment. The Task Force thinks that another independent review would be worthwhile either at the time of the next federal reauthorization of higher education legislation (in four or five years) or sooner if sharp unexpected changes occur in the key trends affecting the cost and operation of the Minnesota state grant program.

The Task Force is grateful for the provision of a budget which permitted travel reimbursement for members and for hiring a consultant to assist throughout its proceedings. The Task Force also is grateful for the consistent helpfulness which characterized the way legislators, their staffs, and the related state agencies conducted all their dealings with our group. Without this support, the Task Force could have accomplished little.

16. The Task Force recommends that the Legislature commission another independent review of Minnesota student financial aid programs at the time of the next reauthorization of major federal higher education legislation, or earlier if major unexpected changes occur in the student aid environment.

V. SUMMARY OF RECOMMENDATIONS

1. The Minnesota Financial Aid Task Force reaffirms the legislative purposes initially approved for the Minnesota state grant program: that the program should encourage access to postsecondary education in Minnesota for economically disadvantaged students in eligible institutions of their choosing.

2. Although changes are recommended in its allocation formula, the Task Force endorses the basic framework of the 1983 "Shared Responsibility" concept and recommends its retention.

3. The Task Force recommends that students receiving Minnesota state grants continue to be able to choose whether the grants help finance postsecondary education at a public or private institution -- and at a low cost or a relatively expensive one.

4. As a first priority, the Task Force recommends that changes be made in the distribution of funds in the Minnesota state grant program which will increase the number and dollar amount of awards for the lowest income students.

5. The Task Force does not recommend any particular tuition policy for public colleges and universities. However, in order to maintain proper access for low income students the Task Force urges strongly that student financial aid appropriations be closely linked with any CHANGE in tuition rates. For example, every $100 of tuition increase at any institution probably requires $30 or $40 of student aid increase, other things equal, to retain an access-neutral environment.

6. The Task Force acknowledges the uncertainties in state budgeting occasioned by close linkage between the financing of the federal Pell grant program and the Minnesota state grant program. However, the Task Force believes the advantage to Minnesota low income students inherent in the present relationship between the two programs outweigh the disadvantage. The Task Force recommends this relationship should not change.

7. The Task Force recommends that the Minnesota state grant program abandon the use of tuition caps as the devices that limit the amount of aid available to students attending private institutions and that it instead use maximum awards as the limiting device. The Task Force recommends adoption of a maximum award of $6,500 for students attending four-year institutions and a maximum award of $5,500 for students attending two-year institutions, effective for the 1994-95 academic year. These award levels approximate the cost of attendance for students attending four-year and two-year public institutions. The maximum award amounts should be adjusted annually. The Task Force recommends that maximum award levels be indexed to and adjusted in accordance with the Consumer Price Index.

8. Serious consideration should be given to a $35 million "medium cost" plan, which lowers barriers to postsecondary education for low income dependent and independent students, does not reduce awards for most middle income students, and provides selected incentives for more rapid completion of degree study. This plan is described in Appendix IV.

9. Serious consideration also should be given to a "no-total-cost-increase" plan, which lowers barriers to postsecondary education for lowest income dependent and independent students, and finances this change by reducing awards available to middle income students. It omits the other incentives which are part of the "medium cost" plan (above). The "no-total-cost-increase plan is described in Appendix V.

10. The Task Force recommends that student contribution (in the design for shared responsibility) in excess of the share assigned to students be included as a resource toward meeting the parent/ government share--thereby reducing the state grant award.

11. The Task Force recommends a change in the award calculation process for Minnesota state grant awards to part time students. The Task Force recommends that awards, not budgets, be prorated in calculating the amount of these part time study grants.

12. The Legislature should increase the maximum number of hours of eligibility for state grants (from 180 quarter hours to 198 quarter hours, or from 120 semester hours to 132 semester hours).

13. The Legislature should allow students attending throughout the year to receive accelerated grant payments; this includes permitting a full year (11 or 12 months) of degree study to be eligible for state grant payments.

14. The Task Force recommends that an appropriate agency or contractor make a thorough study of indebtedness assumed by postsecondary students and their families. The study at minimum should determine loan amounts assumed, whether the terms of indebtedness seem appropriate, whether total loan burdens are changing, and whether they seem excessive. This implies the desirability of periodic and comparable monitoring.

15. The Legislature should also arrange that estimates be made of how many recent high school graduates wish postsecondary education, are qualified, but fail to participate solely because they lack the money. If this kind of estimate proves useful in assessing the adequacy of state grant and loan programs, it should be repeated periodically. A similar inquiry, if it can be designed, would be useful concerning older potential students.

16. The Task Force recommends that the Legislature commission another independent review of Minnesota student financial aid programs at the time of the next reauthorization of major federal higher education legislation, or earlier if major unexpected changes occur in the student aid environment.

APPENDIX I

Minnesota 1993 Legislature Charge to the Financial Aid Task Force*

PURPOSE. A task force is established to study and make recommendations on Minnesota's system of financial aid, focusing particularly on the state grant program. The purpose of the task force is to evaluate state financial aid policy, examine alternative policies, and recommend changes to the legislature. The task force shall consider current resource constraints among other factors.

MEMBERSHIP. The Speaker of the house and the subcommittee on committees of the committee on rules and administration of the senate shall each appoint four members, including representatives of public and private post-secondary systems and campuses. The governor shall appoint two public members and two students, at least one of whom must be a public college student.

SUPPORT. The higher education coordinating board shall provide technical and clerical support to the task force as determined by the task force. The task force, through the board, may contract for consulting services, but is not subject to the provisions of Minnesota Statutes, chapter 16B.

CONTENT OF STUDY. The task force shall consider whether Minnesota's financial aid program, as it operates in conjunction with the federal Pell grant program, is meeting the state goal of removing economic barriers to education for economically disadvantaged citizens of the state. The task force shall further consider whether the state program needs to be made more progressive and, if so, whether this should be accomplished through adjustments to the shared responsibility policy or adoption of a new policy. The study additionally shall consider the advantages and disadvantages of linking the state grant program to federal policies and programs. The task force also shall consider effective ways to integrate grants, loans, work-study, and other aid to create aid packages for students and to deliver different types of aid to students with different needs. Finally, the task force shall consider efficient ways to deliver aid to students, including more rapid decentralization to the campus level.

REPORT. The task force shall report its findings and recommendations to the education committees of the legislature by February 1, 1994. The task force shall expire on June 30, 1994.

* Source: Laws of Minnesota, 1993 First Special Session. Chapter 2, Article 2, Section 24.

APPENDIX II

List of Members of the Financial Aid Task Force and of Its Primary Consultants

Task Force Members

Larry Aitken	President, Leech Lake Tribal College, Cass Lake
John Brandl	Professor, Hubert H. Humphrey Institute of Public Affairs, University of Minnesota, Minneapolis
Rodney Burwell	Chairman, Xerxes Corporation, Minneapolis
Humphrey Doermann	President, The Bush Foundation, Saint Paul, and Task Force Chair
Reatha Clark King	President and Executive Director, General Mills Foundation, Minneapolis
John McCune	Administrative Vice President, Moorhead State University, Moorhead
Phil Miller	President, Medical Institute of Minnesota, Bloomington
Jim Schmidt	Financial Aid Director, Minnesota Riverland Technical College, and Task Force Vice Chair
R. Joseph Trauger	Student, Mankato State University, Mankato
Kathy Tunheim	President, Tunheim Santrizos Company, Bloomington
Jona M. Turner*	Manager of Government Relations, Ceridian Corporation, Minneapolis

* Resigned October 25, 1994 to become Deputy Director for Cabinet Affairs, Office of the Governor, Saint Paul

Juli Willeck	Student and Financial Aid Assistant, University of Saint Thomas, Saint Paul
J. Peter Zetterberg	Associate Vice President for Arts, Sciences and Engineering, University of Minnesota, Minneapolis

Primary Consultants

Maryln McAdam	President, The McAdam Group, Inc. Washington, D.C.
Jacob Fraire	Consultant, The McAdam Group, Inc.
J. Matthew Short	Consultant, The McAdam Group, Inc.

APPENDIX III

List of Persons Giving Prepared Testimony To The Task Force

Andrew, Maureen	Minnesota Association of Private Postsecondary Schools (MAPPS)
Carpenter, Reed	University of Minnesota
DeRaad, Carole	Minnesota Technical College Student Assocation
Fraire, Jacob	The McAdam Group
Gelle, Mark	St. Olaf College
Graba, Joe	Minnesota Higher Education Coordinating Board
Halling, Chris	Minnesota Association of Financial Aid Administrators
Hopkins, Ann	University of Minnesota
Horstmann, Carrie	Student Advisory Council
Hyllested, Jan	Minnesota Technical College System
Kline, Lynette	NEI College of Technology (MAPPS student)
Laird, David	Minnesota Private College Council
Loncorich, Frank	St. Cloud State University
Lopez, Mike	Minnesota State University System
Lord, Bryan	Minnesota Association of Private College Students
McAdam, Maryln	The McAdam Group
McClelland, Leroy	Minnesota State University Student Association
McGee, Jon	Minnesota Private College Council
Mortenson, Thomas	Postsecondary Education OPPORTUNITY
Nelson, Dan	Minnesota Association of Financial Aid Administrators
Setter, Jerry	Minnesota Higher Education Coordinating Board
Short, J. Matthew	The McAdam Group
Sidoti, Ann	Minnesota Community College System
Smith, Cecil	University of Minnesota Students
Viggiano, Frank X.	Minnesota State University Student Association
Williams, Christine	Minnesota Community College Student Association
Zucker, Brian	Human Capital Resources

APPENDIX IV

DESCRIPTION OF MEDIUM COST PLAN

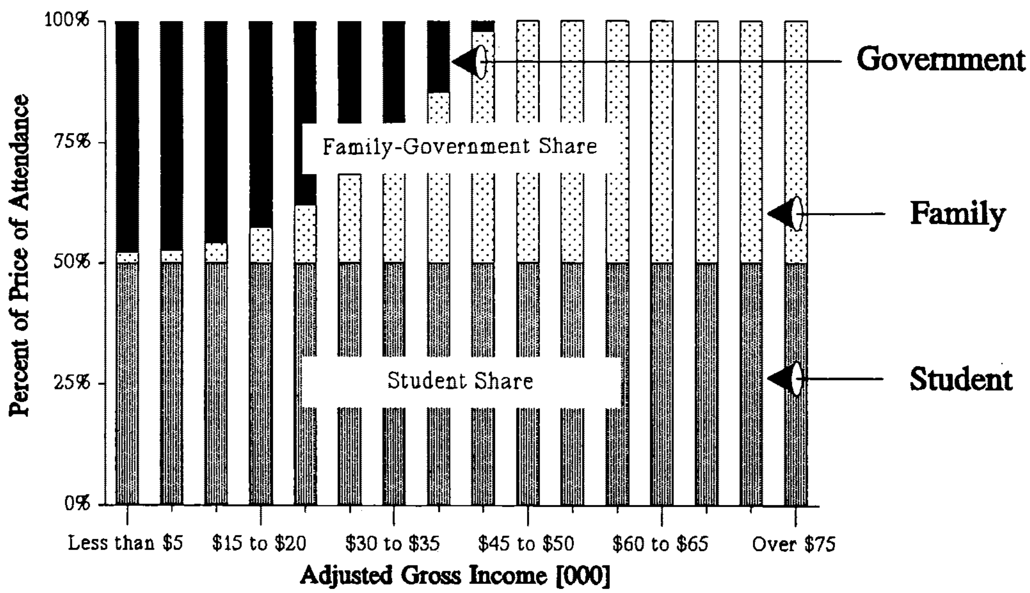
The basic Minnesota Design for Shared Responsibility was adopted in 1983. For the purposes of calculating the amount of a Minnesota state grant for a dependent student, responsibility for paying the cost or price of attendance at a postsecondary institution is divided evenly between a 50 percent student share and a 50 percent family/government share. The student share is the amount students are expected to invest in themselves. The family/government share is divided between the student's family and the government in amounts which depend on a family's expected ability to pay for college expenses. For high income families, the family is expected to pay the full family/government share, and no Minnesota state grant is awarded. For the lowest income families, government sources provide almost all of the 50 percent family/government share. The first source of government grant funds is the federal Pell grant program. If a Pell grant, whose maximum size is $2,300 in 1993, is insufficient to fill the amount of calculated unmet financial need, a Minnesota state grant makes up the difference. These basic relationships are illustrated in Figure 1, which shows both the order of responsibilities for paying the price of attendance, and how the various responsibilities change as family adjusted gross income changes.

In the medium cost plan proposed by the Task Force, three major types of change are recommended in the operation of the Minnesota state grant program:

		Estimated Cost
1.	Adjust the distribution formula so that lowest income students receive improved treatment; provide sufficient new money so that middle income students are little affected by the change. Establish maximum award size in public and private institutions.	$21 million
2.	In calculating state grant awards for part time students, prorate awards, not budgets.	$11 million
3.	Increase the maximum number of hours of eligibility for state grants, and permit payment of state grants for full-year (11 or 12 months) degree study.	$ 4 million
4.	Adjust awards downward for those dependent students with substantial resources of their own which are not recognized in the current state grant formula.	- $ 1 million
	Total estimated cost increase:	$35 million

Figure 1

Design for Shared Responsibility



Order of Responsibilities:

1. **Students using:**
   - **Past Income (savings)**
   - **Current Income (earnings)**
   - **Future Income (loans)**
   - **Gifts, Scholarships, Grants**

2. **Families using:**
   - **Past Income**
   - **Current Income**
   - **Future Income**

3. **Federal Government using:**
   - **Federal Pell Grants**

4. **State Government using:**
   - **State Grants**

Source: Minnesota Higher Education Coordinating Board

Revised Distribution Formula

In adjusting the distribution formula to create this plan, several changes were made in order to improve the quantity and size of grants for lowest income students:

1. Reduce the assigned student responsibility share from 50 percent to 40 percent.

2. Increase the progressivity of the calculation of assigned family responsibility. Multiply any current base value of assigned family responsibility for dependent students by a factor of 1.25.

3. In establishing the maximum possible grant size, eliminate the private college tuition cap and establish a maximum award size for all public and private institution attendees. A maximum award size of $6,500 is recommended for four-year colleges for 1994, or 60 percent of the cost of attendance whichever is less. A maximum award of $5,500 is recommended for two year colleges in 1994.

While other figures than $6,500 and $5,500 could have been chosen for the maximum grant sizes, these amounts meet two practical tests: they approximate total current state investment in the lowest income student, and when modeled quantitatively across all systems do not appear to cause major intersectoral shifts of Minnesota state grant funds -- as much higher and much lower figures do.

If one attempts to benefit low income students merely by putting $21 million more into the present distribution pattern for the Minnesota state grant program, one can achieve some of the desired effect for low income students, but may also achieve unintended effects elsewhere, such as increasing the number of families with relatively high ability to pay which become eligible for state grants. The sum of adjustments in the medium cost plan does not produce these extra effects. Meanwhile, however, all of the lowest income students in the medium cost plan are much better off, and more than 5,000 additional postsecondary students probably would receive awards than if no funds were added to the program.

Under the new distribution pattern recommended for the medium cost plan, it is difficult to define precisely the income level at which families and dependent students receive improved or less generous treatment. Part of the uncertainty is because families at the same adjusted gross income level may have quite different calculated ability to pay for postsecondary education because of differing numbers of dependent children or different financial obligations. Broadly speaking, however, the family income range which would receive added benefit for dependent students in the medium cost plan runs from $0 to $35,000 in the lowest priced institutions, and approximately from $0 to about $50,000 in the highest priced ones. Above those approximate breakeven levels of family income for dependent students ($35,000 to $50,000, depending on the price of attendance), but below levels where any state grant is unlikely (roughly $50,000 in low price institutions and $55,000 in high price ones) there would be a slight loss of benefit.

Prorate Awards Not Budgets

As noted in Chapter IV, MAFAA recommended in November, 1993 that the treatment of awards for part time students should be improved, and that in the state grant formula, awards, not student budgets should be prorated. The Task Force agrees. This is estimated to cost $11 million, with the benefits occurring relatively evenly among students at all income levels.

Increase Incentives for Rapid Completion

The final two Task Force recommendations (Numbers 12 and 13) in the medium cost plan also were described in Chapter IV. The first of these recommendations would increase the maximum hours of eligibility for state grants, from 180 quarter hours to 198 quarter hours, or from 120 semester hours to 132 semester hours. The second recommendation would permit a full year of degree study (11 or 12 months) to be eligible for state grant payments. Based on estimates at the University of Minnesota Twin Cities campus and at Saint Cloud State University, the statewide cost of these two incentives towards more rapid completion of degree study is projected to be about $4 million.

The Effect of Financing This Plan Through Increased Tuition

If the Legislature were to fund the medium cost plan by reducing appropriations to public postsecondary institutions, presumably those institutions would raise tuition more than usual to make up for that loss of revenue. However, any such increase in tuition would translate automatically into an increased need for student aid and would require an additional appropriation. If the funding for the medium cost plan came entirely from increased tuition in this manner, the total appropriation for the plan would not be $135 million but $153 million (or a cost increase of $53 million, not $35 million).

APPENDIX V

DESCRIPTION OF NO-TOTAL-COST-INCREASE PLAN

The no-total-cost-increase plan eliminates the medium cost plan features of improving Minnesota state grants for part time students, and eliminates the two incentives for more rapid completion of degree study. The no-total-cost-increase plan, like the medium cost plan, tries to achieve a larger distribution of funds to low income students, but without adding total dollars to the Minnesota state grant program.

Compared with the current distribution method in the state grant program, the no-total-cost-increase plan would reduce the assigned student responsibility share from 50 percent to 43 percent. It would also increase the progressivity of the calculation of assigned family responsibility, multiplying the currently-calculated assigned family responsibility by a factor of 1.55. A maximum award size of $6,176 is recommended for four-year colleges for 1994-95, or 57 percent of the cost of attendance, whichever is less. A $5,225 maximum award is recommended for two-year colleges in 1994.

As in the medium cost plan, some savings would accrue from adjusting downward awards to dependent students with substantial resources of their own, which are not recognized in the current state grant formula.

Under the no-total-cost-increase plan, money to improve grants for low income students comes from awards to middle income students. Students from families with incomes of about $30,000 or less would benefit, with greatest benefit to lowest income students. Students from families with incomes of about $30,000 or more would receive fewer and smaller awards. The maximum award was reduced by $324. This equals the dollar increase in the student share compared with the medium cost plan (from 40 percent to 43 percent).

No large shifts of students or state grant funds among the various sectors of postsecondary education is projected as a result of adopting this no-total-cost-increase plan.