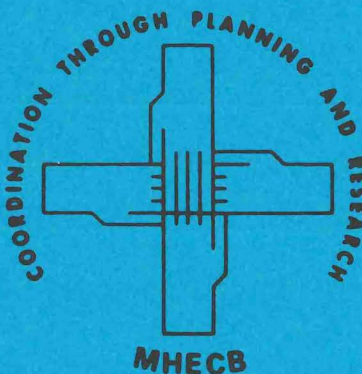


AN OVERVIEW OF THE  
DESIGN FOR SHARED RESPONSIBILITY AND  
THE STATE GRANT PROGRAM



# MINNESOTA HIGHER EDUCATION COORDINATING BOARD

June 11, 1990

Fiscal Year 1987 was \$4,136. Adjusting this for inflation, the Fiscal Year 1990 value would be \$4,738. If the average institution-specified allowance had been used in the State Grant Program and with actual appropriations, the state could be said to have covered 39 percent of the cost of attendance in Fiscal Year 1987. This leads to the conclusion that the state has, in effect, increased the student share above 50 percent.

**THEREFORE, I RECOMMEND THAT:**

1. The state continue to use the Design for Shared Responsibility for all financial aid programs designed to serve undergraduate students.

**Rationale:** The Design for Shared Responsibility begins by assigning a fixed share of the cost of attendance to the student, the primary beneficiary of a post-secondary education. The Design for Shared Responsibility assumes that the remainder will be covered for all students by a combination of family support based on the family's capability and federal and state grants. This results in students and their families sharing in the financing of the cost of attendance based on their abilities to pay.

2. As part of its budget request for Fiscal Year 1992, the Coordinating Board recommend to the governor and legislature that the standard living and miscellaneous expense allowance be increased.

**Rationale:** While the 1989 Legislature invested \$17.4 million to increase the living and miscellaneous expense allowance, it still remains considerably below other measures of living costs. In the past, the living and miscellaneous expense allowance has been used to balance projected State Grant expenditures with available appropriations. This has resulted in an unrealistic standard living and miscellaneous expense allowance. As a result, the State Grant Program has reached the point where the standard allowance barely covers dormitory room and board charges at many institutions.

3. The Coordinating Board, in collaboration with the governor and legislature, establish criteria for adjusting the living and miscellaneous expense allowance to be used for Fiscal Year 1993 and beyond that realistically reflect changes in the general cost of living.

**Rationale:** Inflation adjustments used in state budgeting often do not reflect changes in the cost of living. While this might be appropriate for funding state operations, it quickly can compound into unrealistic allowances for those programs designed to be related to actual costs of living.

4. The Coordinating Board recommend to the governor and legislature that if appropriations are inadequate to fund fully the State Grant Program, the student share be increased. A higher student share would be preferable to controlling spending by not recognizing inflation fully in the living and miscellaneous expense allowance.

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**Rationale:** When available appropriations have not been adequate to fund a requested increase in the living and miscellaneous expense allowance, the proposed increase has been compromised in order to maintain a 50 percent student share. If the student share were adjusted instead of the living and miscellaneous expense allowance to balance available appropriations with projected expenditures, the debate would focus on the ability of students to finance the purchase of a post-secondary education, the personal benefits received by students, and the claims students should make on tax revenues.

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Attachment



AN OVERVIEW OF THE  
DESIGN FOR SHARED RESPONSIBILITY AND  
THE STATE GRANT PROGRAM

Prepared by the Staff of the  
Minnesota Higher Education Coordinating Board

June 11, 1990

SEP 5 1990



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## EXECUTIVE SUMMARY

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The Design for Shared Responsibility defines the roles of students, families and government in financing the costs of obtaining an undergraduate education. The Design for Shared Responsibility is a general statement of how students should be expected to finance an undergraduate education. As such, it applies to all undergraduates and to all financial aid programs. The Design for Shared Responsibility assumes that all eligible undergraduates will have a fixed percentage of the cost of attendance covered.

The Design for Shared Responsibility requires an adequate State Grant Program. The adequacy of the State Grant Program depends on the specification of the cost of attendance and the student share.

The cost of attendance includes tuition and fees and a standard living and miscellaneous expense allowance. If the cost of attendance does not reflect a realistic budget for a frugal student, then the award will not accomplish what the Design for Shared Responsibility intended. The student share specifies what the state believes students reasonably can be expected to cover with past, current and future income.

## BACKGROUND

In 1982, the Minnesota Higher Education Coordinating Board developed the concept of the Design for Shared Responsibility. The Design for Shared Responsibility was accepted by the governor and the 1983 Legislature as part of a comprehensive package of post-secondary financing initiatives. The package included Average Cost Funding, tuition as a percent of the cost of instruction, revised interstate tuition reciprocity agreements and an expansion of the authority of governing boards to make decisions about programs and campuses.

### QUESTIONS ADDRESSED

In 1986, Coordinating Board staff began the process of collecting data used in this study. The data base was constructed to examine the financial aid packages received by students from the various federal, state, institutional, and private financial aid programs. In addition, the data base was created to address several questions. The following questions are addressed in this report:

1. What is the living and miscellaneous expense allowance assigned to students by institutions and how does it compare with the allowance assigned by the State Grant Program?
2. What is the net student share given the institution's cost of attendance allowance?

### COST OF ATTENDANCE

The living and miscellaneous expense allowance used in the State Grant Program is low. This study found that the typical 1987 State Grant Program applicant had an institution-specified living and miscellaneous expense allowance that was \$1,176 higher than the allowance used in calculating a State Grant. Adjusted for inflation, the 1990 value would have been \$1,568.

A standard living and miscellaneous expense allowance was first used in 1981. From 1981 to 1990, the Consumer Price Index increased 55 percent while the living and miscellaneous expense allowance was increased 26 percent. Most of the loss in purchasing power of the living and miscellaneous expense allowance occurred between 1981 and 1985. If the State Grant Program living and miscellaneous expense allowance had increased as fast as the Consumer Price Index, the Fiscal Year 1990 value would have been \$877 higher than it was.



### STUDENT SHARE

Currently, the student share for the State Grant Program is specified as 50 percent of the cost of attendance with the state presumed to cover the remaining 50 percent where needed. In reality, the student share was closer to 61 percent of the cost of attendance in 1987.

Although Pell Grants and State Grants can be said to have covered 39 percent of the institution-specified cost of attendance, the average applicant had about 50 percent covered by expected family support and some type of grant. Campus-based grants and institutional grants, on average, reduced the student share by 11 percentage points.

This coverage was uneven across students; on average, students attending technical colleges in the Twin Cities had a student share of 58 percent. Students attending private four-year institutions had an average student share of 40 percent. Students attending institutions in the other systems had average student shares in the range between 46 and 55 percent.

### SUMMARY

Most students are spending more than the living and miscellaneous expense allowance used in the State Grant Program. This means that students themselves must finance more than 50 percent of the cost of attendance. The state is not covering 50 percent of the cost of obtaining an undergraduate education as promised. The state can change the living and miscellaneous expense allowance used in the State Grant Program or it can promise coverage of a smaller share of the real cost of attendance.



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## CHAPTER I. INTRODUCTION

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The Design for Shared Responsibility defines the roles of students, families, and government in financing the cost of obtaining an undergraduate education. As state policy, it applies to all undergraduates and to all financial aid programs. For dependent students, it assumes that a fixed percentage of the cost of attendance will be covered by parents and the state and federal governments. For those eligible to apply as independent students, it assumes that a fixed percentage of the cost of attendance will be covered by the student's family and the state and federal governments.

The implementation of the Design for Shared Responsibility depends on the adequacy of the State Grant Program. The adequacy of the State Grant Program depends on the specification of the cost of attendance and the student share of that cost. If the cost of attendance does not reflect a realistic budget for a frugal student, then the award will not accomplish the intent of the Design for Shared Responsibility.

The student share represents what the state believes students reasonably can be expected to cover with past, current and future income. The student share also reflects the state's values regarding the sacrifice students should make relative to the claim they make against tax dollars.

## BACKGROUND

In 1982, the Minnesota Higher Education Coordinating Board developed the concept of the Design for Shared Responsibility.<sup>123</sup> It was accepted by the governor and the 1983 Legislature as part of a comprehensive package of post-secondary financing initiatives. The package also included Average Cost Funding, tuition as a percent of the cost of instruction, revised interstate tuition reciprocity agreements, and expanded authority of governing boards to make decisions about programs and campuses.

The State Grant Program was the first program revised to fit the Design for Shared Responsibility. Since then, the Coordinating Board has reviewed each of the financial aid programs it administers to ensure a fit between the programs and the Design for Shared Responsibility. The Design for Shared Responsibility was used to:

- o Develop the Student Educational Loan Fund (SELF) Program.<sup>4</sup>
- o Extend the benefits of the Design for Shared Responsibility to part-time students.
- o Document the standard of living implied by the living and miscellaneous expense allowance used in the State Grant Program.<sup>6</sup>
- o Document employment patterns of State Grant Program applicants.<sup>7</sup>

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1. Minnesota Higher Education Coordinating Board [HECB], Student Financial Aid in the 1980s: Roles and Responsibilities, St. Paul, MN (January 1982).
  2. Minnesota Higher Education Coordinating Board [HECB], Effects of Implementing an Alternative Design for Shared Responsibility in the Minnesota Student Financial Aid System, St. Paul, MN (April 1982).
  3. Minnesota Higher Education Coordinating Board [HECB], An Overview of the Design for Shared Responsibility in Minnesota's Financial Aid System, St. Paul, MN (December 1982).
  4. Minnesota Higher Education Coordinating Board [HECB], Student Borrowing Needs in Minnesota and Options for Meeting This Need, St. Paul, MN (June 1983).
  5. Minnesota Higher Education Coordinating Board [HECB], Financial Aid for Part-Time Students, St. Paul, MN (September 1984).
  6. Minnesota Higher Education Coordinating Board [HECB], The Cost of Attendance in the State Scholarship and Grant Program, St. Paul, MN (December 1985).
  7. Minnesota Higher Education Coordinating Board [HECB], Work Opportunities for Students, St. Paul, MN (December 1985).



### QUESTIONS ADDRESSED

In 1986, Coordinating Board staff began the process of collecting the data used in this report.<sup>8</sup> The data base was constructed to examine the financial aid packages received by students from the various federal, state, institutional, and private financial aid programs. In addition, the data base was created to address the following questions:

1. How much federal and other financial aid is awarded to undergraduate students attending post-secondary institutions in Minnesota?
2. What is the living and miscellaneous expense allowance assigned to students by institutions and how does it compare with the allowance assigned by the State Grant Program?
3. What is the net student share given the institution's cost of attendance allowance?
4. What are the loan amounts for State Grant applicants and recipients?

This report focuses on three parts of this study. The Design for Shared Responsibility is described in Chapter II. The cost of attendance specified in the State Grant Program is evaluated in Chapter III. The amount students are expected to pay for post-secondary education is examined in Chapter IV. Chapter V presents the conclusions of this report.

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8. Two advisory committees were used during the course of this project. The names of the members are in the Appendix.



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## CHAPTER II. DESIGN FOR SHARED RESPONSIBILITY

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The Design for Shared Responsibility outlines state policy about who is responsible for financing the student's cost of obtaining an undergraduate education. The state adopted the Design for Shared Responsibility in 1983 to provide residents an opportunity to pursue a post-secondary education that best meets their needs, regardless of their economic circumstances. By coordinating with available family resources and the federal Pell Grant Program, the State Grant Program was redesigned to fit this policy.

### WHO IS COVERED?

State financial aid policy focuses on Minnesota residents attending Minnesota post-secondary institutions. The policy provides support for the first four years of attendance at post-secondary institutions. This coverage is limited to students meeting academic progress standards.

### THE CONCEPT OF THE DESIGN FOR SHARED RESPONSIBILITY

Since students are the primary beneficiaries of a post-secondary education, the Design for Shared Responsibility assigns them the primary responsibility for financing the cost of attendance. This assignment is called the student share and is set at 50 percent of the cost of attendance. The remaining 50 percent of the cost of attendance, called the parent-government share, is covered by expected contributions from parents and by the combination of federal Pell Grants and State Grants.

The expected parental contribution is determined by a need analysis formula. The need analysis considers the parents' income and net worth. Deductions and allowances reflecting the family's situation are made to

determine an "available income." A fraction of the "available income" is defined as the expected parental contribution.

Not all students are expected to have parental support. In theory, students who have established a pattern of self-supporting behavior before enrolling do not have their parents' financial resources considered. These students are called independent students. Those meeting the criteria of an independent student are evaluated to determine if they and their spouses can be expected to cover part or all of the parent-government share.

Students attending some private institutions are assigned more than 50 percent of the cost of attendance. The amount of tuition recognized by the State Grant Program is capped at an amount equal to the cost of instruction at public institutions with similar scope and scale.<sup>9</sup> For Fiscal Year 1990, the allowance for tuition and fees was capped at \$7,195 for private four-year institutions. For private two-year institutions, the cap was \$4,903. The State Grant Program treats the portion of tuition and fees over the cap amount as though it were part of the student share.

#### DETERMINING THE COST OF ATTENDANCE

The State Grant Program defines the cost of attendance as the sum of tuition and fees and a standard living and miscellaneous expense allowance. The allowance is intended to cover the out-of-pocket costs directly associated with attending a post-secondary institution, such as room, board, and books. The allowance is the same for all students at all institutions. For Fiscal Year 1990, the State Grant Program living and miscellaneous expense allowance was \$3,170.

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9. Minnesota Statutes 136A.121, Subd. 6.

### SETTING THE STUDENT SHARE

The student share is a cornerstone of the Design for Shared Responsibility. Setting the student share makes assumptions about the student's past, current, and future income potential. These assumptions include the optimum number of hours of work per week while attending, prevailing wage rates, availability of jobs, availability of loan capital, ability to repay educational debt after completion of studies, and the personal benefits a student receives and should pay for directly.

When the Design for Shared Responsibility was being developed in 1982, various percentages, ranging from 40 to 60 percent of the cost of attendance, were considered.<sup>10</sup> The Coordinating Board recommended 50 percent as a reasonable expectation of students.<sup>11</sup> The 1983 Legislature accepted 50 percent as part of the State Grant Program request. This percentage has been a part of the State Grant Program budget in subsequent years.

In Fiscal Year 1990, the share for students attending public institutions ranged from \$2,313 for those attending some technical colleges to \$3,022 for those attending the University of Minnesota-Twin Cities. The maximum recognized share for students attending private two-year institutions was \$4,036. The maximum recognized share for students attending private four-year institutions was \$5,182. This assumed that the student attends full-time for three quarters, two semesters or the equivalent.

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10. Minnesota Higher Education Coordinating Board [HECB], Student Financial Aid in the 1980s: Roles and Responsibilities, St. Paul, MN (January 1982).
  11. Minnesota Higher Education Coordinating Board [HECB], Effects of Implementing an Alternative Design for Shared Responsibility in the Minnesota Student Financial Aid System, St. Paul, MN (April 1982), page 21.

## COVERING THE STUDENT SHARE

Students can use four sources of funds to cover their share. They can use past income (savings), current income (earnings), and future income (loans). In other words, students can sacrifice personal consumption before, during, or after attending in order to finance the costs of their educations. A fourth source is to find someone else to pay some or all of the student share.

### Role of Savings in Student Financing

Savings provide the means for using past income to finance a post-secondary education. Many view this as a preferred method of financing an education. Students with savings can minimize work commitments while attending and debt burdens after completing their post-secondary careers.

Many high school students are employed. They have the opportunity to save money that could be applied toward the cost of attendance. Many students do not continue their post-secondary educations immediately after high school. They, too, have opportunities to save.

### Role of Earnings in Student Financing

Jobs enable students to generate current income. Working one's way through college has a long history as a badge of honor among people in all walks of life.

In a 1985 study, the Coordinating Board found that 63 percent of State Grant Program applicants were employed at the time of the interview.<sup>12</sup> Another 19 percent wanted a job. Only 18 percent were unemployed by choice at the time of the interview.

The typical applicant attending a four-year institution outside the Twin Cities area worked 13 hours during the sample week. The typical applicant

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12. Minnesota Higher Education Coordinating Board [HECB], Work Opportunities for Students, St. Paul, MN (December 1985).

attending a two-year institution in the Twin Cities area worked 20 hours. Typical applicants attending other institutions worked between 16 and 18 hours. The median wage rate by institutional type varied from \$3.55 to \$5.25 per hour. The minimum wage then was \$3.35.

In Fiscal Year 1990, to cover the minimum student share at a technical college, a student making minimum wage would have had to work about 14.6 hours per week for 50 weeks. This assumes that the student's take-home pay is 80 percent of gross income. To cover the student share of \$5,182 defined by the private four-year institution tuition cap solely with current income, a student would have had to work 32.8 hours per week for 50 weeks, assuming minimum wage rates and 80 percent take-home pay.

#### Role of Loans in Student Financing

Loans enable students to use future income to finance the cost of attendance. For many, this is a rational financing method. Their incomes after completion will be high enough so they can enjoy a higher standard of living than they would have had without the education even though they must repay loans.

Using future income to finance a post-secondary education expanded greatly in the past 25 years. Several loan programs targeted to students and their families were established. Now, almost anyone can find loan capital for financing a post-secondary education.

In Fiscal Year 1990, a student could have covered the student share at a technical college with a federal Stafford or a state SELF Loan. A student could have covered the recognized student share of \$5,182 at private four-year institutions with loans by borrowing from multiple programs. While many students facing this student share would use a combination of loans and earnings, loan capital could cover the whole amount.

### Role of Grants in Student Financing

Students also can find other parties to contribute toward the coverage of the student share. Parents and other family members often provide resources beyond what is considered in the expected parental contribution. In addition, students can receive support from other grant and scholarship programs. All grant support except what is received from the Pell and the State Grant Programs is available to help cover the student share.

Grants other than Pell and State Grant Program awards have not been counted toward the parent-government share to enable institutional financial aid administrators to recognize three types of special circumstances. First, students with needs not recognized by the State Grant Program living and miscellaneous expense allowance can be served with these funds. Second, the State Grant Program does not consider the full amount of tuition and fees for many private institutions. Thus, grants other than Pell Grants and State Grants at those institutions are assumed to help cover this difference if the situation warrants. Third, the needs of students whose parents are not able to cover the expected parental contribution as calculated can be considered.

### COVERING THE PARENT-GOVERNMENT SHARE

Within the Design for Shared Responsibility, families have the primary responsibility for covering the parent-government share. The state provides grant support only if a family is judged to be unable to meet fully this responsibility. The state coordinates the benefits of the State Grant Program with the federal Pell Grant Program so that the combination of family resources, Pell Grants and State Grants covers the parent-government share. If the student is eligible to apply as an independent student, then the student and his or her spouse have the primary responsibility to cover the parent-government share.



## COMPARISON OF THE DESIGN FOR SHARED RESPONSIBILITY WITH OTHER PACKAGING PHILOSOPHIES

The Design for Shared Responsibility is unique among packaging philosophies in that the student and government expectations vary with the tuition and fees charged by the post-secondary institution attended. More commonly, award formulas either use a maximum award amount or determine a standard amount the student and his or her family should pay. The Pell Grant Program uses the former approach. Many institutions with a policy to cover full need use the latter concept.

### Pell Grant Program

The Pell Grant Program is based on the concept of a maximum award. In Fiscal Year 1990, the maximum Pell award was \$2,300. The award is the difference between the maximum award and the amount the family can be expected to contribute. In this case, the student has a standard award that does not vary by institution attended. Several other states use this format in their state grant programs.

The Pell Grant Program reduces the maximum award for students attending low-cost institutions. Given the tuition and fees charged by all public institutions and all but a few hospital schools, a Minnesota student's Pell Grant award does not depend materially on the institution attended.

### Philosophy: Cover Full Need

A common prototype packaging philosophy assumes that a student (and his or her family) will pay a standard amount irrespective of the tuition and fees charged. This packaging philosophy underlies the principle that students should not select institutions on the basis of price. If this philosophy were followed by all institutions, then students would not need to consider price because the out-of-pocket costs would be the same at all institutions.

In principle, this philosophy begins with the cost of attendance. The amount the family can be expected to contribute is subtracted. The remainder is covered with grants. To make this philosophy work, all post-secondary institutions would need to use a standard need analysis methodology.

This philosophy breaks down in practice. Usually, students are assigned a "self-help expectation" in the form of work-study awards and loans. In reality, unless this amount is the same for everyone, the net cost to students varies. Further, many institutions adjust the results of the standard need analysis. Institutions unable to provide the level of financial aid needed to cover the full difference between the cost of attendance and the amount families are expected to cover leave an "unmet need." So, what in principle looks like a standard amount for each student varies by institution attended.

#### SUMMARY

The Design for Shared Responsibility specifies how the state expects its residents to finance the cost of obtaining an undergraduate education. Within this framework, the state provides all residents attending a Minnesota post-secondary institution coverage of an equivalent portion of the cost of attendance. This coverage is provided by the State Grant Program.

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CHAPTER III. AN EVALUATION OF THE COST OF ATTENDANCE USED  
IN THE STATE GRANT PROGRAM

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The State Grant Program cost of attendance includes tuition and fees and a standard living and miscellaneous expense allowance. The standard living and miscellaneous expense allowance is the focus of this study. If the allowance were set too high, the award received would exceed the amount necessary to accomplish the program's goals. If the allowance were set too low, the awards might not influence students' decisions whether and where to pursue post-secondary educations.

BACKGROUND

The State Grant Program uses a standard living and miscellaneous expense allowance for all students. This is expected to cover the out-of-pocket expenses of a frugal student during the period of attendance. This reflects American attitudes about the appropriate life style of post-secondary students, especially those requesting government assistance. American attitudes fall somewhere between those of the Swedes and French. The Swedes allow post-secondary students to have a standard of living comparable to their peers not attending. The French expect post-secondary students to maintain a near poverty level standard.<sup>13</sup>

DETERMINATION OF THE LIVING AND MISCELLANEOUS EXPENSE ALLOWANCE

In Fiscal Year 1987, financial aid directors used a format called Uniform Methodology to determine the cost of attendance. The State Grant Program used

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13. D. Bruce Johnstone, Sharing the Costs of Higher Education, College Entrance Examination Board, New York (1986).

its own methodology to calculate the cost of attendance. Tuition and fees were treated similarly in both methodologies. For dependent students, there was little philosophical difference in how the living and miscellaneous expense allowance was specified. For students eligible to apply as independent students, there was a major philosophical difference.

Uniform Methodology assumed that for students eligible to apply as independent students, the cost of attendance included costs associated with maintaining both students and their immediate families while the State Grant Program methodology did not assume this. As a result, the cost of attendance and expected student contribution were both lower using the State Grant Program methodology compared to Uniform Methodology.

#### INSTITUTION-SPECIFIED ALLOWANCES DEPEND ON STUDENT CHARACTERISTICS

Because of the differences in the need analysis methodologies, there were differences in the institution-specified and the State Grant Program living and miscellaneous expense allowances. Financial aid administrators indicated that they used the following variables to build individual allowances for students:

- o Number of Dependents
- o Marital Status
- o Age
- o Dependency Status
- o Living Arrangement

Based on data provided by financial aid directors about a sample of State Grant Program applicants, the effect of each of these variables was determined.<sup>14</sup> Marital status and the number of dependents in the student's family were the most important variables in explaining the differences among

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14. Minnesota Higher Education Coordinating Board [HECB], An Examination of the Design for Shared Responsibility and the State Grant Program, St. Paul, MN (1990).

institution-specified living and miscellaneous expense allowances. On average, married students had an institution-specified allowance that was \$1,851 higher than unmarried students. Each dependent resulted in the allowance being increased, on average, \$1,322.

Older students were assigned a higher allowance, generally about \$46 per year of age. In addition, students eligible to apply as independent students typically had an allowance that was \$294 higher than those of dependent students. By themselves, age and dependency status do not justify larger allowances. These variables reflect student and family characteristics that while not quantifiable in this analysis are taken into account by financial aid administrators. While significant in a statistical sense, these two variables did not have a major impact on the size of the institution-specified allowance.

Finally, students living off campus generally had a living and miscellaneous expense allowance that was \$321 more than students living on campus. Students living at home generally had an allowance that was \$491 less than students living on campus.

#### ALLOWANCES VARY BY INSTITUTION ATTENDED

Institutions do not specify the same living and miscellaneous expense allowance even when student characteristics are taken into account. Examples provide a sense of the variation by type of institution attended. The average institution-specified allowance for an 18-year old student living off campus and attending a community college outside the Twin Cities area was \$3,562 in Fiscal Year 1987. The average allowance for a similar student attending the University of Minnesota-Twin Cities was \$4,934 if the student lived on campus and \$5,255 if the student lived off campus.

#### AVERAGE LIVING AND MISCELLANEOUS EXPENSE ALLOWANCE

The Fiscal Year 1987 State Grant Program living and miscellaneous expense allowance was \$2,960. To calculate a comparable value using the data provided by the institution financial aid directors, a statistical analysis that removed the differences related to being eligible to apply as an independent student, being married, and having dependents was used.<sup>15</sup> The living arrangement, age, and institution attended were those reported by the financial aid director. The resulting average institution-specified allowance was \$4,136. This is \$1,176 higher than the allowance used in the State Grant Program in Fiscal Year 1987.

#### COMPARISONS OF LIVING AND MISCELLANEOUS EXPENSE ALLOWANCES

A standard living and miscellaneous expense allowance was first used in the State Grant Program in Fiscal Year 1981.<sup>16</sup> The allowance was set at \$2,750 for Fiscal Year 1981, and it remained at \$2,750 through Fiscal Year 1985. In Fiscal Year 1990, it was set at \$3,170, and it is scheduled to be \$3,465 in Fiscal Year 1991. The time trend of the actual living and miscellaneous expense allowance is shown on Figure 1.

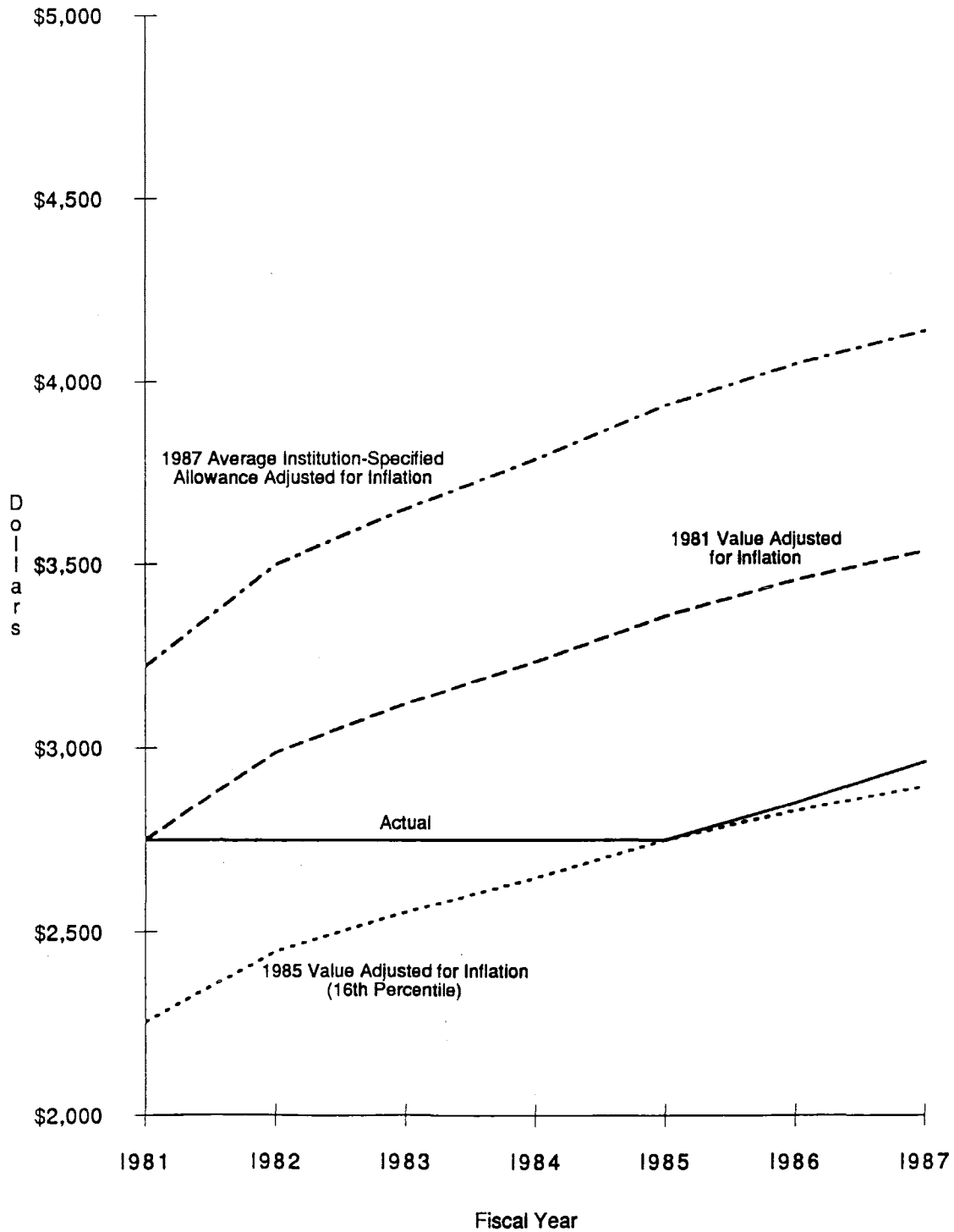
The State Grant Program living and miscellaneous expense allowance can be compared to four benchmarks. The first benchmark is the living and miscellaneous expense allowance set for Fiscal Year 1981. From 1981 to 1990, the Consumer Price Index increased by 55 percent while the living and miscellaneous expense allowance was increased 26 percent. If the State Grant Program living and miscellaneous expense allowance had been increased to keep

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15. Minnesota Higher Education Coordinating Board [HECB], An Examination of the Design for Shared Responsibility and the State Grant Program, St. Paul, MN (1990).

16. Minnesota Higher Education Coordinating Board [HECB], Proposed Revision of the Need Formula for Minnesota State Scholarship and Grant-in-Aid Program, St. Paul, MN (March 1980).

**Figure 1. Comparison of Living and Miscellaneous Expense Allowances  
Fiscal Years 1981 Through 1987**



Source: Higher Education Coordinating Board

pace with the Consumer Price Index since 1981, it would have reached \$4,047 in 1990. This is \$877 more than the Fiscal Year 1990 State Grant Program allowance. The Fiscal Year 1981 value adjusted for inflation is shown in Figure 1.

The second benchmark was established in 1985 when the Coordinating Board surveyed a sample of State Grant Program applicants. The living and miscellaneous expense allowance remained unchanged at \$2,750 through Fiscal Year 1985. Of those with a household size of one, 16 percent reported spending \$2,750 or less for the 9 month academic year, as shown in Table 1. This is the 16th percentile value that has become part of the language of State Grants in Minnesota. Adjusting the Fiscal Year 1985 value of \$2,750 for inflation, the 16th percentile would have been \$3,314 in Fiscal Year 1990, as shown in Figure 1.

A third benchmark is the institution-specified living and miscellaneous expense allowances reported in this study. The value for Fiscal Year 1987 was \$4,136. In Fiscal Year 1990, the inflation adjusted value is \$4,738, \$1,568 more than the Fiscal Year 1990 State Grant Program allowance shown in Figure 1.

A fourth benchmark is a comparison of the State Grant Program living and miscellaneous expense allowance to room and board charges for students who live in dormitories. The State Grant Program living and miscellaneous expense allowance for Fiscal Year 1990 was \$3,170. The average room and board charge at 16 private four-year institutions in 1989-90 was \$2,995. This left \$174, or \$19 a month for 9 months, to pay for books and supplies, laundry and dry cleaning, participation in social and cultural events, haircuts, and other personal and educational requirements. At five of Minnesota's private four-year institutions, \$3,170 was not enough to pay for room and board in a dormitory.



**Table 1. Applicant-Reported Living Expenses Plus Median Book and Supply Expenses, Household Size Equal One, Actual for Fiscal Year 1985 and Adjusted for Fiscal Years 1990 and 1991 Based on the Consumer Price Index**

<u>Percentile</u>	<u>FY 1985 Actual</u>	<u>FY 1990 Adjusted</u>	<u>FY 1991 Adjusted</u>
10th	\$2,373	\$2,860	\$3,006
15th	2,650	3,194	3,357
16th	2,750*	3,314	3,483
20th	2,973	3,583	3,766
25th	3,284	3,958	4,160
30th	3,542	4,269	4,486
35th	3,743	4,511	4,741
40th	3,884	4,681	4,920
50th	4,324	5,211	5,477
60th	4,959	5,977	6,281
70th	5,600	6,749	7,093
80th	6,779	8,170	8,587
90th	8,256	9,950	10,457

\* The living and miscellaneous expense allowance used for the State Grant Program in Fiscal Year 1985.

SOURCE: Higher Education Coordinating Board.

A similar situation existed in the public sector. For example, at Mankato State University, room and board for a student with a double occupancy room was \$2,275. Subtracting \$2,275 from the \$3,170 living and miscellaneous expense allowance leaves \$875, or \$99 a month for all other expenses. At the University of Minnesota-Twin Cities, room and board in a dormitory was \$3,000, leaving \$170, or \$19 a month for other expenses.

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#### CHAPTER IV. HOW MUCH ARE STUDENTS EXPECTED TO PAY?

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The student share specified in the State Grant Program is 50 percent. As reported in Chapter III, the average institution-specified living and miscellaneous expense allowance used in Fiscal Year 1987 was \$1,176 higher than the allowance used in the State Grant Program. In this chapter, the data about a sample of State Grant Program applicants are used to determine how much of the institution-specified cost of attendance was not covered by grants and expected family contributions. This amount is, in effect, what students were expected to finance personally in Fiscal Year 1987.

##### DEFINITION OF NET STUDENT SHARE

While the concept of a student share is used in calculating a State Grant, the actual amount students are expected to pay after all grants, scholarships, tuition discounts and available family resources are considered can differ.

The net student share was defined as the amount the student is expected to finance as a percentage of the cost of attendance. The amount dependent students were expected to finance was the cost of attendance less the combination of grant (gift) aid and the expected parental contribution. The amount those eligible to apply as independent students were expected to finance was the cost of attendance less the combination of grant (gift) aid and the expected student contribution.

The student share used in the State Grant Program was expressed as a percentage. To be consistent, the net student share was expressed as a percentage as well. Using percentages does not necessarily reflect differences

in the actual prices paid by students. Students facing 40 percent of a \$10,000 cost of attendance pay more than students facing 50 percent of a \$5,000 cost of attendance.

#### DEFINITION OF THE COST OF ATTENDANCE

The cost of attendance included the actual tuition and fees paid, the institution's living and miscellaneous expense allowance, and the institution's allowance for the cost of supporting students' dependents for those eligible to apply as independent students.

#### DEFINITION OF EXPECTED CONTRIBUTIONS

For dependent students, the expected parental contribution calculated according to Uniform Methodology was used. For students eligible to apply as independent students, the expected student contribution calculated according to Uniform Methodology was used. The support of family members dependent on a student was included in the cost of attendance because it was included in the Uniform Methodology calculations. Grant amounts, including tuition discounts and other awards that resulted in the student having to pay less than the stated cost of attendance, were subtracted.

#### CHARACTERISTICS OF THE NET STUDENT SHARE

The net student share would equal the State Grant Program student share if the living and miscellaneous expense allowance were equal to the State Grant Program allowance and the student received no grant aid except a Pell Grant and a State Grant. This is highly unlikely. A net student share of 50 percent also would occur if the institution used a higher living and miscellaneous expense allowance, and the student received enough other grant aid to cover 50 percent of the higher allowance.

The net student share reflects:

- o Tuition charged.
- o The standard of living assumed in the living and miscellaneous expense allowance.
- o The financial status of the student and his or her family.
- o Financial aid policies at the institution attended.
- o Grant aid received from other agencies and private sources.

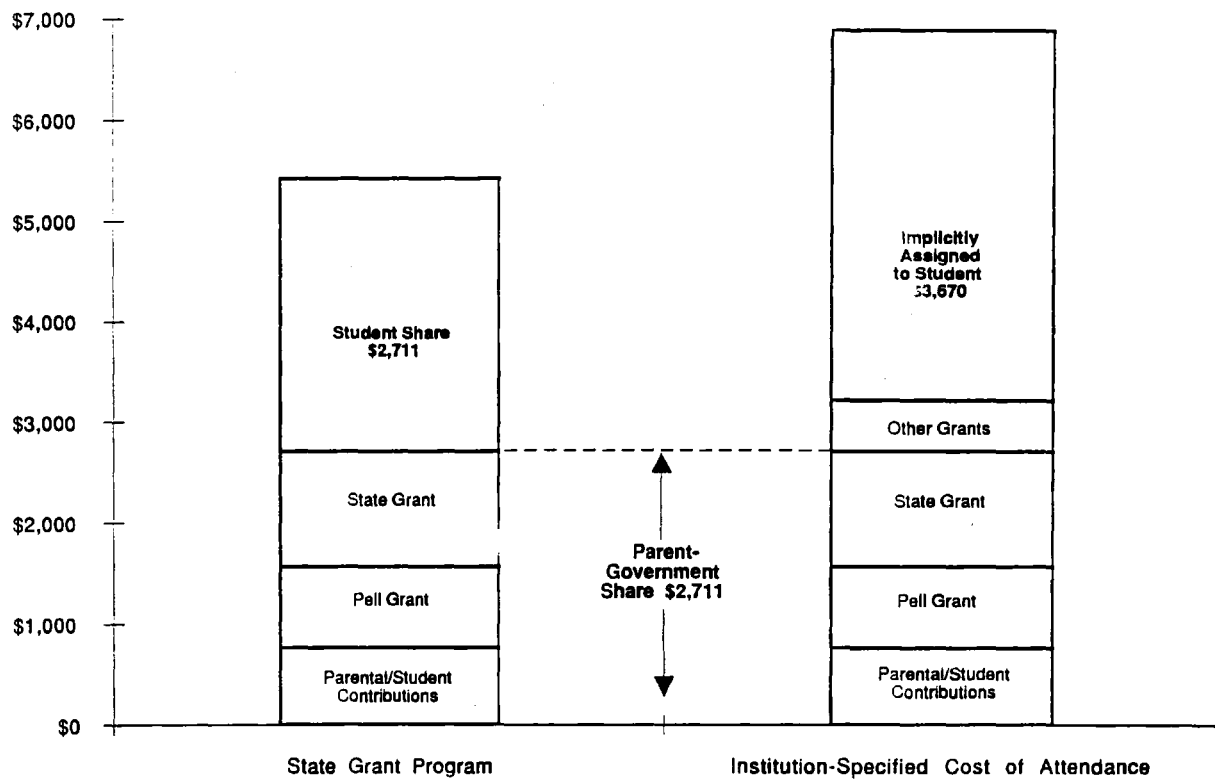
### RESULTS

The student share used in Fiscal Year 1987 for the State Grant Program was specified as 50 percent, and the state assumed coverage of the remaining 50 percent where needed. The state did not really cover 50 percent of the cost of attendance. If the average institution-specified allowance had been used and State Grants were unchanged, then the state could be said to have been using a student share of 61 percent, as shown in Figure 2. Thus, the state covered only 39 percent of the cost of attendance.

Pell Grants, State Grants, and expected family support can be said to have covered 39 percent of the institution-specified cost of attendance. Campus-based grants and institutional grants, on average, reduced the student share by about 11 percentage points.

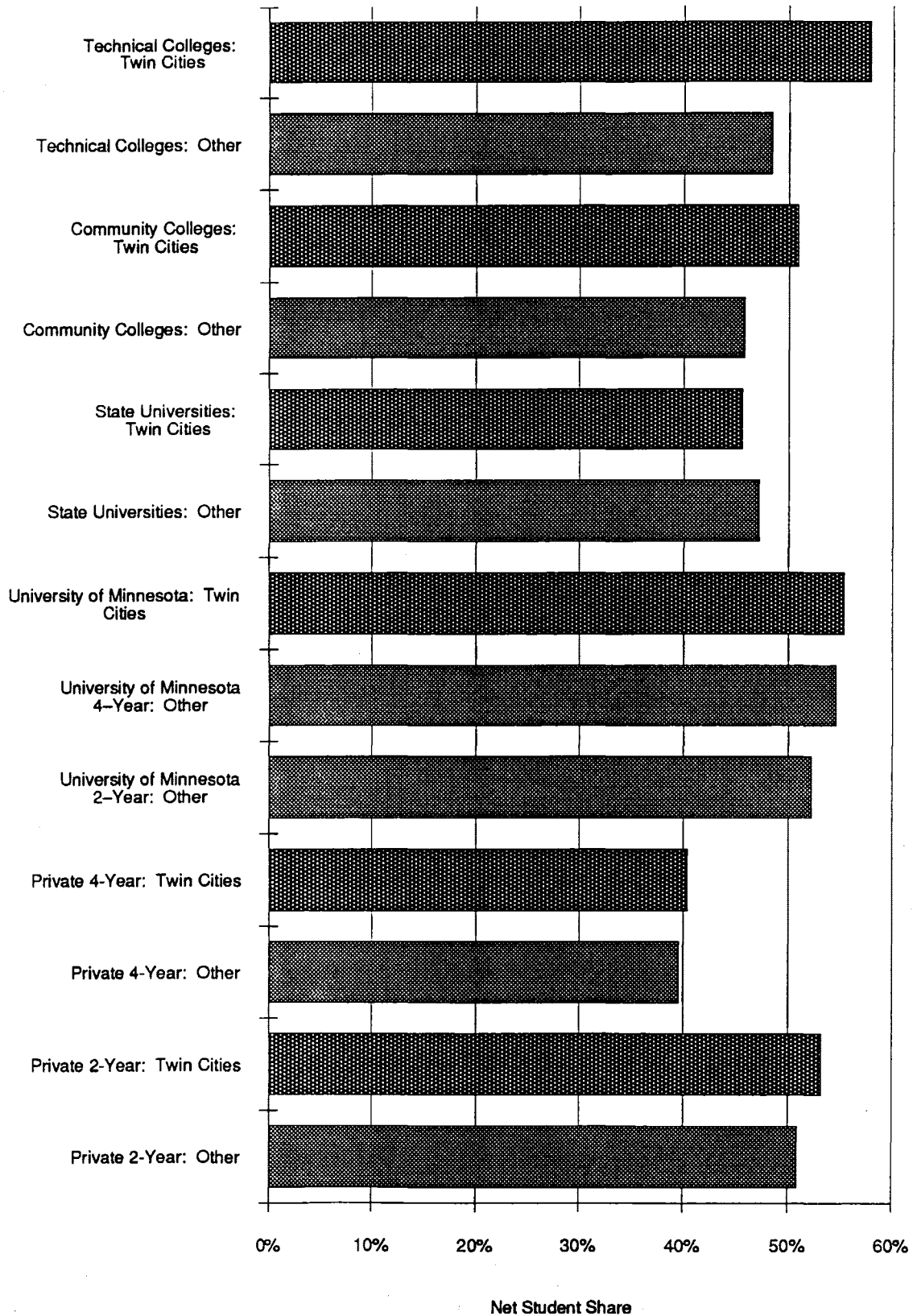
This coverage was uneven across students; on average, students attending technical colleges in the Twin Cities had a student share of 58 percent, as shown in Figure 3. Students attending private four-year institutions had average student shares of about 40 percent. This was considerably less than the level presumed in state policy.

Figure 2. Financing the Cost of Attendance, Fiscal Year 1987



Source: Higher Education Coordinating Board

**Figure 3: Student Share by Institutional Category,  
Fiscal Year 1987**



SOURCE: Higher Education Coordinating Board.

These results are consistent with those presented to the University of Minnesota Board of Regents. In a 1989 memo, Vice President Donhowe estimated that the cost of attendance for a typical University of Minnesota-Twin Cities undergraduate was \$9,120.<sup>17</sup> The State Grant Program recognized a cost of attendance of \$5,645. For students attending the University of Minnesota-Twin Cities, the State Grant Program covered 50 percent or \$2,818. Using the University of Minnesota-Twin Cities' estimated cost of attendance, the calculated student share would have been \$6,293 (\$2,818 + \$3,475 not recognized by the State Grant Program) or 69 percent of the University of Minnesota's estimated cost of attendance.

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17. Gordon M. Donhowe, "Tuition Paper," attachment to a memo presented to the University of Minnesota Board of Regents, 1989).



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## CHAPTER V. CONCLUSIONS

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The Design for Shared Responsibility defines the roles of students, families, and government in financing the cost of obtaining an undergraduate education. The Design for Shared Responsibility depends on the adequacy of the State Grant Program. The State Grant Program depends on the specification of the cost of attendance and the student share.

### COST OF ATTENDANCE

The living and miscellaneous expense allowance used in the State Grant Program is low. This study found that the typical 1987 State Grant Program applicant had an institution-specified living and miscellaneous expense allowance that was \$1,176 higher than the allowance used in calculating a State Grant. In 1990 dollars, the difference is \$1,568.

Ideally, the elements within the State Grant Program, such as the living and miscellaneous expense allowance would be set and appropriations would follow. In reality, there is a limit to the appropriation. There are two places the State Grant Program can be adjusted to meet a spending objective, (1) increase the student share or (2) hold down inflationary increases in the living and miscellaneous expense allowance.

The state has been doing the latter. As a result, students increasingly must maintain the living standard of very frugal single students if they are to limit the cost of attendance to that presumed in the State Grant Program. It might be reasonable to ask single students to live on such a budget while attending because, for example, they can double or triple up in dormitory rooms;

and they often receive implicit support from a larger family unit. Students without such options will need to finance the added "required" expenses as though they were part of the student share.

#### STUDENT SHARE

The cost of attendance is divided into a student share and a parent-government share. The Design for Shared Responsibility assumes that the student share is specified, and the state covers the amount of the parent-government share left after the expected contributions of students' immediate families and federal Pell Grants are considered.

If the average institution-specified living and miscellaneous expense allowance reported in Chapter III were used in the State Grant Program, the student share would be about 61 percent. Other grant aid, tuition discounts and scholarships reduce the overall average to about 50 percent. There are two ways of interpreting these results.

One interpretation is that the State Grant Program effectively had a student share of 61 percent in Fiscal Year 1987. This assumes that the calculated institution-specified living and miscellaneous expense allowance would be used as the State Grant Program allowance. This interpretation does not change the underlying principles in the Design for Shared Responsibility. The question of the appropriate student share remains, however.

A second interpretation is that student share was 50 percent. This assumes that all grants, no matter the source, were counted as covering the parent-government share. This interpretation means that the student share will not be even across students. Rather, the student share will depend on the award

decisions of those providing the other grants. This conflicts with the Design for Shared Responsibility's underlying principle of treating all eligible students equally.

Considering institutional, other government agency, and private grants as covering the parent-government share changes another principle underlying the Design for Shared Responsibility. These grants were to be available to serve three kinds of students: students with needs not recognized by the State Grant Program, students with tuition in excess of the amount recognized by the State Grant Program, and students whose families were not able to cover the expected parental contribution. These decisions are best made at the campus level; therefore, the Design for Shared Responsibility leaves some grant resources for financial aid administrators to use.

#### SUMMARY

Most students are spending more than the living and miscellaneous expense allowance used in the State Grant Program. This means that students themselves must finance more than 50 percent of the cost of attendance. The state is not covering 50 percent of the cost of obtaining an undergraduate education as promised. The state can change the living and miscellaneous expense allowance used in the State Grant Program or it can promise coverage of a smaller share of the real cost of attendance.



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## APPENDIX. ADVISORY COMMITTEES

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Two advisory committees were used as part of this project. The first advisory committee assisted in the development of the initial project design.<sup>18</sup> The second advisory committee assisted in the development of the survey instruments, tested the data collection process and provided advice and comments on the research results used in this report.

### FIRST ADVISORY COMMITTEE

#### Representing the Financial Aid Community:

Robert Matuska  
Director of Financial Aid  
Mankato State University

Robert Misenko, Director  
Office of Student Financial Aid  
University of Minnesota-Twin Cities

Michael White  
Director of Financial Aid  
St. John's University

#### Representing the Systems:

Lorraine Evenson  
Director of Financial Aid  
Lowthian College

Banning Hanscom  
Vice Chancellor for Student Services  
Minnesota Community College System

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18. Minnesota Higher Education Coordinating Board [HECB], Project Design for Development of a Data Base to Evaluate the Design for Shared Responsibility, St. Paul, MN (August 1987).

Jan Hyllested  
Manager of Financial Aid  
Minnesota Technical College System

SECOND ADVISORY COMMITTEE

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Del Finch  
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Mankato Technical College

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Barbara Wiles  
Financial Aid Administrator  
Control Data Institute