House Research
Act Summary

CHAPTER: 1 **SESSION:** 2001 First Special Session

TOPIC: Higher Education Finance

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Analyst: Kathy Novak, 651-296-9253

Overview

This bill makes appropriations for public post-secondary systems and for the higher education services office for state financial aid and other programs. It also provides for the implementation of the Minnesota college savings plan.

Section

Article 1: Appropriations

1 **Higher education appropriations.** Summarizes the appropriations for higher education by fund and for the higher education services offices (HESO), the Minnesota state colleges and universities (MnSCU), the university of Minnesota and the Mayo Medical foundation. See spreadsheet.

2 **Higher education services office (HESO).**

Subd. 1. Total appropriation. Appropriates $148.7 million in the first year and $157.6 million in the second year. Provides that savings over the biennium in the state financial aid program from specified increases in the federal Pell grant are distributed in this section.

Subd. 2. State grants. Appropriates $113.7 million and $122.6 million for the state financial aid program and permits the money to be moved from either year if annual appropriations are insufficient.

Specifies the intent of the legislature to make full awards in each year;

Sets the cap on grant awards for private institutions for each year;

Sets the living and miscellaneous allowance for the biennium;

Provides state match for a $500 president's student service scholarship for each school district; and

Authorizes program savings due to an increase in the federal Pell grant over $3,750 to be used to decrease the family responsibility for independent students up to a maximum 20 percent reduction and for the work study program.

Subd. 3. Interstate tuition reciprocity. Appropriates $5.25 million each year for the state obligation under the tuition reciprocity agreements and permits the money from either year to be used to meet the obligation.

Requires HESO to negotiate the tuition reciprocity agreements to reduce and minimize state obligations and with consideration of new methods of collaboration to improve access and reduce costs. The higher education systems must participate in negotiations, and HESO must present a progress report to the 2002 legislature.

Subd. 4. State work study. Appropriates $12.4 million each year.

Subd. 5. Minitex library program. Appropriates $5.98 million each year.

Subd. 6. Learning network of Minnesota. Appropriates $6.1 million each year.

Subd. 7. Income contingent loans (GRIP). Authorizes HESO to continue to administer a loan repayment program for certain health education graduates but prohibits accepting new applicants.

Subd. 8. Minnesota college savings plan. Appropriates $1.5 million each year for matching grants for a post-secondary savings program.

Subd. 9. Agency administration. Appropriates $3.9 each year.

Base funding for post-secondary outreach programs to historically under served elementary and secondary students is included.

An increase in funding for campus-community collaboration and service learning is provided for matching grants at $1 state to $2 nonstate and a five percent set aside for a performance-based accountability system.

An increase in the dues for the Midwest higher education compact is included;

Money remaining after final benefits to the Youthworks grantees are paid are directed to post-secondary outreach programs.

Subd. 10. Balances forward. Authorizes the transfer of unencumbered balances between programs.

Subd. 11. Transfers. Authorizes HESO to transfer unencumbered balances to named programs.

Subd. 12. Reporting. Requires HESO to collect monthly data from institutions participating in the state grant program. HESO must report three times a year on specified dates to the legislature and the department of finance on the financial aid expenditures.

3 **Board of trustees of Minnesota colleges and universities.**

Subd. 1. Total appropriation. Appropriates $601.6 million and $640.0 million.

Provides that funding is intended to strengthen and support student education and, except for direct support of the system office, should be allocated to institutions. Institutions are intended to have discretion in making expenditures to meet needs.

Subd. 2. Estimated expenditures and appropriations. Estimates instructional expenditures of $795.9 million and $847.9 million and noninstructional expenditures of $71.0 million and $74.7 million.

The Northeast Higher Education District is the designated fiscal agent for the Arrowhead University Center.

Money is included for the talented youth mathematics program at Minnesota state university Mankato and for its expansion.

Prohibits planning or developing doctoral programs or degrees without prior legislative approval.

Requires the Minnesota transfer curriculum to be implemented at all MnSCU campuses by January 1, 2002. Courses that meet the criteria must be accepted for full credit in the area of emphasis. The board must publish an electronic transfer manual, available on the internet, by July 1, 2002.

Requires an annual increase in the percentage of total general fund expenditures for direct instruction with an annual report to the legislature by institution and system.

Requires technical and consolidated colleges to continue to use instructional advisory committees that are consulted on program changes or discontinuation.

Authorizes a tuition waiver for Southwest Asia veterans.

Subd. 3. Accountability. Requires two reports:

By February 1 of even-numbered years the board must report to the legislature on allocation of state appropriations, tuition rates and fees, and leverage of nonstate money; and

By February 15 of 2002 and odd-numbered years, the board must report to the legislature and the commissioner of finance on the five priority undergraduate degree programs, reallocations to advance the priorities, baseline data and methods to measure first generation students and a plan to increase recruitment and retention, progress in increasing graduations and transfers to four-year institutions by race, ethnicity, and gender, and progress on increasing revenues from customized training.

Subd. 4. Base Appropriations. Provides for a one-time base reduction of $13.5 million.

Subd. 5. Reserves. Distributes $5 million of central office reserves to campuses through a leveraged equipment purchase program that requires an equal nonstate match. The board must adopt a policy on the purpose and use of central reserves by December 1, 2002.

Subd. 6. Central Office Services. Requires the board with the council of presidents to develop a plan for centrally provided services that considers fee-based services, contracting, streamlined delivery and elimination of duplication, impact of service delivery methods on various types of campuses, and market sensitive service delivery. The board must present a plan to the legislature by February 15, 2003.

4 **Board of Regents of the University of Minnesota.**

Subd. 1. Total Appropriations. Appropriates $630.7 million and $667.4 million.

Subd. 2. Operations and maintenance estimated expenditures and appropriations. Appropriates $554.2 million and $590.9 million. Estimates instructional expenditures of $486.0 million and $522.2 million and noninstructional expenditures of $230.3 million and $242.8 million.

Subd. 3. Health care access fund. Appropriates $2.5 million each year for primary care education initiatives.

Subd. 6. Special appropriations. Appropriates $73.9 million each year. Requires these categories of appropriations to be separately identified in the budget document.

Agriculture and extension service. Appropriates $58.3 million each year.

The university must continue support for the rapid agricultural response fund and alternative agriculture initiatives.

Salary increases must not displace county salary obligations.

Each station must maintain an advisory council.

The board of regents is requested to review the mission, scope and cost-effectiveness of extension and report to the governor and the legislature on priorities by February 15, 2002.

Health Sciences. Appropriates $5.8 million in each year for veterinary diagnostic laboratory, research and other named programs.

Institute of Technology. Appropriates $1.6 million each year for the geological survey and talented youth mathematics.

System specials. Appropriates $7.6 million each year for general research, matching student loan money, and other named programs and includes an annual increase for the natural resources research institute.

Subd. 5. Accountability. Requires two reports and establishes outcomes for the academic health center:

By February 1 of even-numbered years the board must report to the legislature on allocation of state appropriations, tuition rates and fees, and leverage of nonstate money; and

By February 15 of 2002 and odd-numbered years, the board must report to the legislature and the commissioner of finance on the five priority undergraduate degree programs, reallocations to advance the priorities, baseline data and methods to measure first generation students and a plan to increase recruitment and retention, progress in increasing graduations and transfers to four-year institutions by race, ethnicity, and gender, progress on increasing revenues from customized training, and progress of the academic health center in meeting the goals and outcomes including the use of money from the medical endowment to meet workforce training and health education goals.

The academic health center in cooperation with the Minnesota department of health must:

- develop strategies for health care delivery that consider the changing racial and ethnic composition of the state;

- develop strategies to meet Minnesota's health care workforce needs; and

- base strategies on an analysis of health status and opportunities for improvement.

5 **Mayo medical foundation.**

Subd. 1. Total appropriation. Appropriates $1.6 million each year.

Subd. 2. Medical school. Appropriates $605,000 each year for a capitation of $14,405 for resident Minnesota students to increase the number of rural doctors.

Subd. 3. Family practice and graduate residency programs. Appropriates $625,000 each year for a capitation of $22,313 for 26 residents and $44,627 for one resident.

Subd. 4. St. Cloud hospital-Mayo family practice residency program. Appropriates $407,000 each year to support 12 resident physicians each year to prepare doctors for primary care medicine in rural areas.

6 **Post-secondary systems.**

Subd. 1. Post-secondary planning report. Requires and requests a report by the governing boards to the legislature on progress the two public post-secondary systems are making under the metropolitan academic plan, including coordination, developmental and remedial education, and credit transfers.

Article 2: Related Provisions

1 **Minnesota state colleges and universities enterprise account**. Establishes an account in the state enterprise fund and requires the commissioner of finance to report on the account. Money in this account earns investment income.

2 **Tobacco settlement fund.** Deposits the final one-time payments, on January 2, 2002 and January 2, 2003, from the settlement of the tobacco lawsuit for transfer into a new account in medical education endowment fund. Changes to the sunset date for the tobacco settlement fund to June 30, 2004 from June 30, 2015.

3 **Creation; academic health center account.** Establishes the academic health center account as a separate account in the medical education endowment fund to be invested by the state board of investment.

4 **Expenditures.** Excludes the value of the academic health center account from the statutory distribution formula of the medical education endowment fund. Provides the appropriation of 42 percent of the fund, under current law, is exclusively for the University of Minnesota board of regents for the academic health center.

5 **Expenditure; academic health center.** Beginning in January 2002, up to five percent of the value of the academic health center account is appropriated and transferred quarterly to the board of regents for the academic health center. The money can only be used for health professional programs and for interdisciplinary academic initiatives of the academic health center. The account value is equal to the amount of the tobacco settlement payments under section 2 plus investment earnings.

6 **Appropriations for certain enrollments; public post-secondary.** Expands the definition of resident for the purposes of state aid to public post-secondary institutions by including certain full-time employees who move to the state. Eliminates the prohibition against the state paying aid for any of the estimated expenditures for nonresident, non reciprocity students or students who have completed the equivalent of 48 quarter credits without receiving a baccalaureate degree. Nonresident, non reciprocity students are excluded from the state aid formula for public post-secondary systems under current law.

7 **Expiration.** Extends the expiration date for the higher education advisory council and the student advisory council to June 30, 2003.

8 **Assigned family responsibility; state grant program.** Decreases by ten percent the family share for calculating the amount of a state grant award for independent students.

9 **Resident student; state grant program.** Makes a change in eligibility for the state grant program that would permit certain dependent students who have lived in Minnesota for 12 months or more to be eligible.

10 **Cost of attendance; state grant program.** Changes the state grant program to a credit based financial aid program that considers the actual tuition and fees paid by a student. The living and miscellaneous expense allowance is prorated for part-time students. This section is effective beginning July 1, 2002.

11 **Awards; state grant program**. Increases the length of time a student is eligible for a state grant from a maximum of eight semesters to ten semesters.

12 **Advanced placement (AP) and international baccalaureate (IB) grant.** Authorizes the higher education services office (HESO) to provide grants to encourage eligible AP and IB students to attend Minnesota post-secondary institutions. Annual grant awards are based on a student's score on the AP and IB examinations and on the amount of money available. The grants are renewable for up to two years. An AP or IB grant does not affect a student's eligibility for the state grant program. HESO must consult with the department of children,

families and learning and representatives of the AP and IB programs in allocating the funds between the AP and IB programs.

To be eligible a student must:

apply for the grant;

attend an eligible college or university in Minnesota following graduation; and

achieve a score of three or higher on five or more AP exams for full-year courses; or

achieve a score of four or higher on five or more IB exams for full-year courses.

Eligible institutions are public two or four year colleges or universities and private four-year degree granting colleges or universities located in Minnesota with a credit and placement policy for recipients of AP/IB grants.

13 **Eligible students; child care grant.** Increases the length of time a student is eligible for a child care grant from a maximum of eight semesters to ten semesters.

14 **Amount and length of child care grant.** Increases the maximum child care grant from $2,000 to $2,600.

15 **Metropolitan state university.** Technical change to the name of the governing board.

16 **Methods of acquisition.** Expands the authority of the MnSCU board of trustees to acquire or convey facilities under the control of the Minnesota state colleges and universities. The board may accept a gift:

for remodeling if it does not increase the size of a facility;

for acquisition, construction or remodeling if the state has provided capital appropriations that have not expired;

for other capital projects not authorized or funded by the state if the board certifies that money is available for all costs of the project, excluding federal or state appropriations and tuition revenue.

The board is authorized to enter into lease agreements for the primary benefit of a college or university if it certifies that funds, excluding tuition and state or federal appropriations, are available for the project. The facility must be consistent with the campus master plan and building standards. Leases, by direct negotiations or request for proposal, are limited to 30 years. Conveyances are by quitclaim deed. Land must revert to the state if it no longer provides a primary benefit for MnSCU or its students. Facilities are defined to include student unions, recreational centers, athletic centers, facilities that have received a state appropriation if the use does not change and self-supporting student housing.

The board must report to the legislature on any capital project under this section with a cost of $3 million or more.

Note: The acquisition, construction and leasing of property funded with state general obligation bonds is controlled by the state constitution and state law.

17-18 **Refund of tuition.** Recodifies a section of current law authorizing MnSCU to make a full refund of tuition paid by a student who enters military service. Section 18 eliminates MnSCU from the current law.

19 **Technical changes.** Replaces obsolete references to the state university or community college governing board or the state university or community college systems.

20-21 **Peace officer survivor grant; eligibility.** Increases the length of time a student is eligible for a grant from a maximum of eight semesters to 10 semesters.

22-24 **Technical changes.** Replaces obsolete references to the state university or community college governing board or the state university or community college systems.

25 **Farmer lender mediation.** Delays the repeal of the provision until June 30, 2005.

26 **Developmental education demonstration project.** Authorizes a pilot project to reduce the need for post-secondary developmental education to be cooperatively developed between the chancellor of MnSCU, the department of children, families and learning, a MnSCU institution and four or more school districts. Students in the district must take college readiness exams in their junior year and be informed of areas in which additional preparation is needed for college readiness

The designated MnSCU institution must monitor participating students and report on the effectiveness and cost of the project to the board, the commissioner, and the legislature by December 15, 2003.

27 **St. Cloud State University.** Authorizes the use of any nonstate funding to remodel the top floor of Lawrence Hall for student housing.

28 **Commission on University of Minnesota excellence.** Establishes a 15 member commission to:

- review the university's national rankings;
- review major investment efforts in interdisciplinary initiatives identified by the university;
- evaluate and make recommendations on how the university can develop centers of excellence that can achieve a national rank in the top ten within ten years; and
- examine the mission, scope, and financing of the university and propose ways to refocus or refine the mission and offerings.

Commission members are appointed by the governor, senate, house of representatives, and board of regents. Two members of each the house and senate may be appointed. Other members are selected to represent leadership in business, industry, and higher education. The university has one ex officio, nonvoting member. All members serve without compensation. Staff support is provided by the university.

The commission must identify five or more potential centers of excellence from programs and departments in which the university is currently a leader and from interdisciplinary initiatives and report to the legislature by July 1, 2002, on the mission focus and areas of excellence. The commission expires on December 31, 2002.

29 **Repealer.** Repeals the requirement for a system plan (§ 135A.06); and planning requirements for post-secondary capital requests in Laws 1994.

30 **Effective date.** Provides an immediate effective date for the farmer lender mediation repeal extension and a delayed effective date to July 1, 2001 for payment of state grants on the actual tuition and fees.

Article 3: Minnesota College Savings Plan

1 **Higher education services office.** Classifies account data.

2 **Minnesota college savings program established.** Changes the name of the education savings program in current law.

3 **Definitions.** Adds definitions for *account, account owner, contingent account owner, contribution, distribution, dormant account, earnings, eligible educational institution, inactive account with a matching grant account, investment in the account, matching grant, matching grant account, maximum account balance limit, member of the family, participation agreement, penalty, person, plan, plan administrator, qualified distribution, qualified higher education expenses, rollover distribution, scholarship, state, and total account balance.* Also corrects citation.

4-5 **Responsibilities.** Technical changes to correct citation and name.

6, 8, 11 **Consultation with state board of investment; annual administrative fee.** Authorizes an annual fee, paid by participants, to recover administrative costs of the college savings plan. .

7 **Plan to comply with federal law.** Technical change in federal citation.

9 **Data.** Classifies account data of the savings plan as private data on individuals, except for names and addresses of beneficiaries of accounts that receive a matching grant.

10 **State board to invest.** Requires the state board of investment to make and direct the investments of the savings plan accounts. Prohibits any other person from directing the investments.

12 **Minnesota college savings plan accounts; generally.** Establishes the *Minnesota college savings program account* in the state treasury for receipt of program assets Program assets must not be mingled with other funds or accounts and are not subject to appropriations. This section also creates new statutory provisions on account ownership, beneficiaries and distributions:

Subd. 1. Contributions to an account. Authorizes non owners to contribute to an account for a beneficiary which become the property of the account owner. All contributions must be by check, money order or other means authorized by the IRS.

Subd. 2. Authority of account owner.

Provides that only an account owner can name or change a beneficiary, request a distribution, or transfer ownership.

Subd. 3. Security for loans.

Prohibits the account from being used as security.

Subd. 4. Separate accounting. Each beneficiary must have a separate account with a single owner and beneficiary.

Subd. 5. Naming of beneficiary. Requires an account owner to specify a beneficiary when the account is opened if required by the IRS.

Subd. 6. Change of beneficiary. A beneficiary can be changed to another member of the beneficiary's family without penalty within maximum account limits. Other beneficiary changes are treated as nonqualified distributions.

Subd. 7. Change of account ownership. Authorizes the irrevocable transfers of ownership between eligible account owners.

Subd. 8. Maximum account balance limit.

Sets a maximum for contributions and matching grants for a single beneficiary:

The maximum is reduced and cannot be replenished for qualified distributions, distributions for the death or disability of a beneficiary or for a beneficiary who receives a scholarship.

The maximum is not reduced and accounts may be replenished for nonqualified distributions or rollover distributions

HESO must establish and adjust the maximum at a level equal to four times the annual cost at the most expensive Minnesota post-secondary school consistent with IRS requirements.

A beneficiary may receive a matching grant if the total of all accounts reaches the maximum before the end of the calendar year.

Subd. 9. Excess contributions and balances. Contributions that exceed the maximum allowed must be rejected or returned if accepted in error. A return is a nonqualified distribution.

Subd. 10. Dormant accounts. Requires attempts to be made to locate the owner or beneficiary of a dormant account and specifies that funds in dormant accounts are treated as unclaimed property under state law.

Subd. 11. Effect of plan changes on participation agreement. Incorporates any statutory changes into the participation agreement.

Subd. 12. Special account to hold plan assets in trust. Specifies that assets are held in trust in a separate account that is not subject to appropriation, for the benefit of account owners and beneficiaries.

13 **Family income.** Amends current law to clarify family income for a beneficiary with divorced parents. Also specifies which tax documents are used to establish income for the matching grant.

14 **Residency requirement.** Establishes residency requirements for beneficiaries to be eligible for a matching grant. Beneficiaries over age 25 must be Minnesota residents. The parents or legal guardian of an account beneficiary who is under age 25 must be Minnesota residents, who claimed the beneficiary as a dependent for Minnesota taxes for two years before the matching grant award. A Minnesota driver's license or identification card establishes residency for parents or beneficiaries without two years of residency or who are over the age of 25.

15 **Age and date of birth determination of beneficiary.** In making a matching grant, the age of the beneficiary is determined on December 31 of the year the request.

16 **Budget limit.** Specifies that HESO must proportionately reduce matching grants when state appropriations are insufficient to make the full matching grant.

17 **Annual application.** Requires account owners to apply each year for a matching grant.

18 **Single beneficiaries with multiple accounts.** Establishes the order and proportional distribution of matching grants among accounts for a single beneficiary.

19 **Ownership of matching grant funds.** Provides that the state owns all matching grants and earnings until distributed to a beneficiary or an eligible educational institution.

20 **Inactive accounts with matching grants.** Requires the program administrator to attempt to locate owners or beneficiaries of inactive accounts without a charge. Deferments on distributions can be granted for up to two years for specified purposes.

21 **Forfeiture of matching grants.** Establishes the basis for totally or proportionately forfeiting grants, including:

transfer by the owner to another qualified account;

receipt of a full scholarship to a military academy or partial post-secondary scholarship;

death or disability of beneficiary;

account ownership changes; or

nonqualified withdrawal of funds by the owner; and

misrepresentation for a matching grant results in forfeiture of the grant.

22 **Account distributions.** Provides for qualified and nonqualified distributions:

Qualified distributions for post-secondary expenses can be made to the education institution, payable to both the beneficiary and institution for substantiated, qualified expenses and to the account owner as reimbursement for payment of qualified expenses.

Qualified distributions are withdrawn proportionately from accounts based on the balance.

Nonqualified distributions are made proportionately from contributions and earnings at the request of the owner. Nonqualified withdrawals are subject to a penalty and other requirements of the internal revenue code. Matching grants are reduced proportionate to the nonqualified distribution.

Distributions are authorized for the death or disability of a beneficiary or for a

beneficiary who receives a scholarship. These distributions are made upon request and certification of the reason, with third party confirmation.

23 **Revisor's instruction.** Directs the revisor to recode enabling statutes in a separate statutory chapter, correct cross-references and to change the name "Edvest" to "Minnesota college savings plan" in Minnesota statutes.

24 **Effective date.** Provides an immediate effective date.