

SF2075 - 18A - Higher Education Omnibus; Select Portions

Chief Author: **Omar Fateh**  
 Committee: **Finance**  
 Date Completed: **4/13/2023 10:16:59 PM**  
 Agency: **Office of Higher Education**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology		X
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2023	FY2024	FY2025	FY2026	FY2027
General Fund	-	230	135	135	135	135
Other Misc. Special Revenue	-	-	85,472	85,472	85,472	85,472
<b>Total</b>	-	<b>230</b>	<b>85,607</b>	<b>85,607</b>	<b>85,607</b>	<b>85,607</b>
<b>Biennial Total</b>			<b>85,837</b>			<b>171,214</b>

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2023	FY2024	FY2025	FY2026	FY2027
General Fund	-	1	1	1	1
Other Misc. Special Revenue	-	-	-	-	-
<b>Total</b>	-	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>

**LBO Analyst's Comment**

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

**LBO Signature:** Xunxuan Weerts    **Date:** 4/13/2023 10:16:59 PM  
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**State Cost (Savings) Calculation Details**

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

\*Transfers In/Out and Absorbed Costs are only displayed when reported.

<b>State Cost (Savings) = 1-2</b>		<b>Biennium</b>			<b>Biennium</b>	
<b>Dollars in Thousands</b>		<b>FY2023</b>	<b>FY2024</b>	<b>FY2025</b>	<b>FY2026</b>	<b>FY2027</b>
General Fund	-	230	135	135	135	135
Other Misc. Special Revenue	-	-	85,472	85,472	85,472	85,472
<b>Total</b>	<b>-</b>	<b>230</b>	<b>85,607</b>	<b>85,607</b>	<b>85,607</b>	<b>85,607</b>
<b>Biennial Total</b>			<b>85,837</b>		<b>171,214</b>	
<b>1 - Expenditures, Absorbed Costs*, Transfers Out*</b>						
General Fund	-	230	135	135	135	135
Other Misc. Special Revenue	-	-	85,472	85,472	85,472	85,472
<b>Total</b>	<b>-</b>	<b>230</b>	<b>85,607</b>	<b>85,607</b>	<b>85,607</b>	<b>85,607</b>
<b>Biennial Total</b>			<b>85,837</b>		<b>171,214</b>	
<b>2 - Revenues, Transfers In*</b>						
General Fund	-	-	-	-	-	-
Other Misc. Special Revenue	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Biennial Total</b>			<b>-</b>		<b>-</b>	<b>-</b>

**Bill Description**

SF2075-18 establishes a grant program to fund a student's remaining financial need provided the student:

- Has completed the FAFSA
- is enrolled at a Minnesota State College, Minnesota State University, the University of Minnesota system, or a tribal college
- has a family adjusted gross income of less than \$80,000
- has not earned a baccalaureate degree
- is enrolled in at least one credit per term
- is not participating in the University of Minnesota Promise Plus Free Tuition program
- is meeting satisfactory academic progress as defined in section 136A.101, subdivision 10.

Students meeting those requirements are eligible to receive a grant equal to the student's allowance for tuition and fees after deducting grants and other scholarships.

If funds remain after scholarships are awarded, grants shall be awarded to Pell grant eligible students in an amount equal to 100 percent of tuition and fees plus 50 percent of the student's Pell grant after grants and other scholarships are deducted.

Institutions are directed not to reduce institutional gift aid offered or awarded to a student who is eligible to receive funds under this program unless the student's gift aid exceeds the student's annual cost of attendance.

Appropriates \$176.903M in FY2025 and \$49.306M in FY2026 and ongoing years transferred to a special revenue fund. Appropriates \$496,000 in FY2024 and \$202,000 in FY2025 from the general fund to the commissioner of the Office of Higher Education for administrative and promotion expenses to implement and direct the scholarship awards

**Assumptions**

The estimates provided are the result of a cost simulation of State Grant data projecting fiscal year 2022 actual spending to fiscal years 2023-2025, using: award parameters in law as of February 15, 2023, changes specified in the proposed legislation, and tuition and fee changes provided by institutional representatives.

Spending estimates use the following the program parameters to calculate Federal Pell and Minnesota State Grants as shown in the table below.

Table 1: Minnesota State Grant Award Parameters

	FY2024	FY2025
	Projected	Projected
Living and Miscellaneous Expense Allowance	\$12,575 <sup>ii</sup>	\$13,268 <sup>ii</sup>
Assigned Student Responsibility	50%	50%
Tuition and Fee Maximums		
Students in Two-Year Programs	\$6,640 <sup>i</sup>	\$6,799 <sup>i</sup>
Students in Four-Year Programs	\$16,468 <sup>i</sup>	\$16,839 <sup>i</sup>
Federal Pell Grant Maximum	\$7,395	\$7,395 <sup>i</sup>
Rationing Surcharge on Assigned Family Responsibility	0%	0%
Proration for the Assigned Family Responsibility		
Dependent Students (Parent Contribution)	79%	79%
Independent Students with Dependents (Student Contribution)	71%	71%
Independent Students without Dependents (Student Contribution)	35%	35%

<sup>i</sup> Estimated <sup>ii</sup> Estimated, per assumptions outlined in the bill

Federal Poverty Guidelines: Living and Miscellaneous Expense Allowance

The Living and Miscellaneous Expense Allowance is set at an amount equal to the Federal Poverty Guidelines for a single person household living in Minnesota for a nine-month period. The Department of Health and Human Services issues Federal Poverty Guidelines annually on January 31. Under Minnesota law, the LME is equal to the federal poverty guidelines plus nine percent.

SF2075 increases the LME to 115% of the poverty guideline. Based on this assumption, for FY2024, the LME is to be \$12,575. For FY2025, LME is estimated to be \$13,268.

Change in Wages

The state grant spending projection incorporates data about changes in wages of Minnesota tax filers. Estimated changes in wages are derived from year-over-year changes in the Employment Cost Index. As of February 15, 2023, the wage increase for FY2024 is estimated to be +2.4% and the wage increase for FY2025 is estimated to be +5%.

Enrollment Assumptions

The State Grant spending forecast also incorporated estimated enrollment changes in the number of Minnesota resident undergraduates enrolling at each institution. Table 2 shows information about enrollment changes for fiscal years 2024-2025. Overall enrollment changes serve to estimate changes in the number of Minnesota resident aid applicants. The agency revises enrollment assumptions as new enrollment data becomes available. A change in total enrollment of plus or minus one percentage point annually changes projected state grant spending by an estimated \$2.0 million.

Table 2: Enrollment Assumptions

	FY2024	FY2025
	Fall 2023	Fall 2024
System	Projected	Projected
Minnesota State Colleges	-0.9%	0.5%

Minnesota State Universities	-1.1%	0.8%
University of Minnesota Twin Cities	0% to 2% <sup>ii</sup>	0% to 2% <sup>ii</sup>
Morris, Crookston, Duluth	0% to 2% <sup>ii</sup>	0% to 2% <sup>ii</sup>
Private Not-for-Profit Institutions	0.0%	0.0%
Private For-Profit Institutions	-2.0%	6.5%

### Pell Grant Changes in Law

The FAFSA Simplification Act passed by Congress in December 2019 raised the Pell Grant maximum to \$6,895 for fiscal year 2023 and authorized significant changes to the Pell Grant award formula, which has a direct impact on State Grant spending. The Consolidated Appropriations Act of 2023 further increased the Pell Grant maximum to \$7,395. The Office will continue to monitor Congressional activity regarding funding of the federal Pell Grant program, and future projections will include updated Pell Grant amounts.

The State Grant award formula maintains a dollar for dollar relationship with the student's Pell Grant, and increases or reductions in the federal Pell Grant amounts will impact State Grant spending.

### Tuition and Fee Increases

OHE gathered information about tuition and fee increases for fiscal years 2024-2025 from institutional and system representatives. Table 3 below details actual and estimated tuition and fee increases for State Grant calculations as reported by institutions for projections of spending.

Table 3: Annual Changes in Minnesota Resident Undergraduate Tuition and Fee Rates

	FY2022	FY2023	FY2024	FY2025
System	Actual	Actual	Projected	Projected
Minnesota State Colleges	3.9%	3.0%	2.4% <sup>ii</sup>	2.4% <sup>ii</sup>
Minnesota State Universities	7.1% <sup>i</sup>	4.5% <sup>i</sup>	3.4% <sup>ii</sup>	3.4% <sup>ii</sup>
University of Minnesota	1.7%	4.1%	1% to 3.5%	1% to 3.5%
Private Not-for-Profit Institutions <sup>iii</sup>	1.8%	4.0%	3.0%	3.0%
Private For-Profit Institutions <sup>iii</sup>	1.5%	4.3%	1.0%	8.0%

<sup>i</sup> Unadjusted for tuition reset authorized in state law. Actual percent change in average tuition and fees charged for all terms of the 2021-2022 academic year. May differ from published rate changes. <sup>ii</sup> Tuition estimates for Minnesota State Colleges and Universities reflect estimates made by OHE for use in cost projections for State Grant and other financial aid programs. <sup>iii</sup> Tuition and fees exceed the annual tuition and fees maximums currently established in law for determining State Grant awards.

### Federal Need Analysis

The forecasted spending model for the Minnesota State Grant incorporates all changes passed by Congress or made by the U.S. Department of Education to the federal need analysis as of August 2022. The U.S. Department of Education releases annual updates to the tables in the statutory "Federal Methodology Need Analysis" used to determine a student's EFC.

Significant changes to federal student aid policy, including simplifying the Free Application for Federal Student Aid (FAFSA), expanding Pell Grant eligibility to incarcerated students, and the repeal of limitations on subsidized loan eligibility for undergraduate Direct Loans were attached to the Consolidated Appropriations Act, 2021 which was signed into law on December 27, 2020. The changes include, but are not limited to:

- Reduction in the number of questions on the FAFSA,
- Decrease in the number of students required to report asset information,
- Determines Pell Grant award amount using a federal poverty level model, and
- Changes the calculation of the Expected Family Contribution and renames it the Student Aid Index.

These changes will impact Minnesota State Grant eligibility and awards. At this time, the Office is still awaiting further guidance from the U.S. Department of Education in order to assess the impact for Minnesota. A summary of changes is available from the National Association of Student Financial Aid Administrators (NASFAA) [https://www.nasfaa.org/consolidated\\_approps\\_21](https://www.nasfaa.org/consolidated_approps_21).

Institutional Aid

Estimates use data provided by the University of Minnesota on average awards to students by income for students participating in the University Promise and University Promise Plus scholarship programs. These programs cover tuition for new entering freshmen attending any University of Minnesota system campus full time if qualifying under income eligibility guidelines.

Table 4: U Promise and U Promise Plus, Average Awards by Income

Family Income	Number of Recipients	Promise Total Dollars Awarded	Promise Plus Total Dollars Awarded	Promise Average Dollars Awarded per Recipient	Promise and Promise Plus Average Dollars Awarded per Recipient
\$0	298	\$835,477	\$2,377	\$2,804	\$2,812
\$1-\$10,000	588	\$1,775,303	\$23,744	\$3,019	\$3,060
\$10,001-\$20,000	717	\$2,102,591	\$4,222	\$2,932	\$2,938
\$20,001-\$30,000	907	\$2,799,117	\$14,439	\$3,086	\$3,102
\$30,001-\$40,000	1062	\$3,280,539	\$37,092	\$3,089	\$3,124
\$40,001-\$50,000	1163	\$3,567,845	\$35,084	\$3,068	\$3,098
\$50,001-\$60,000	1095	\$3,022,653		\$2,760	\$2,760
\$60,001-\$70,000	1072	\$2,539,962		\$2,369	\$2,369
\$70,001-\$80,000	984	\$1,960,755		\$1,993	\$1,993

**Expenditure and/or Revenue Formula**

The changes result in 33,070 students receiving grants in FY2025, with an average grant of \$2,585. The estimated total cost for FY25 through FY27 is \$85.472M. This assumes that all eligible students will receive a 50% Pell match grant.

Staff: Based on the activities required to administer the program discussed above, OHE estimates a 1.0 FTE State Program Administrator Principal salary would be required (\$124,733 salary and fringe x 1.0 = \$124,733).

IT costs: IT development work in addition to current activities would include total one-time cost in FY 2024 of \$100,000(800 hours \* \$125/hour) for modifying OHE’s financial aid system to add a new permanent program by our current vendor. OHE anticipates IT maintenance costs of \$5,000 per year.

Communications: Initial cost of \$5,000 for OHE Communications to develop brochures, handouts, and other marketing materials. These materials would then need to be revised, updated, and redistributed on an annual basis with a cost of \$5,000.

Table 5a: Total Costs including 50% Pell match in FY25-FY27

	FY24	FY25	FY26	FY27
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Grants to Students	\$-	\$85,472,187	\$85,472,187	\$85,472,187
IT costs	\$100,000	\$5,000	\$5,000	\$5,000
Staff (Salary & Fringe)	\$124,733	\$124,733	\$124,733	\$124,733
Communications	\$5,000	\$5,000	\$5,000	\$5,000
Reporting/Research	\$0	\$0	\$0	\$0
<b>Total Costs</b>	<b>\$229,733</b>	<b>\$85,606,920</b>	<b>\$85,606,920</b>	<b>\$85,606,920</b>

Note 1: Funding of \$176,903,000 in FY25 and \$49,306,000 in subsequent years is sufficient to provide scholarships that include cost of tuition and fees and a 50% Pell Grant match through FY2027. However in years after the scholarship would need to be reduced, fewer students may receive the scholarship and a Pell match would not be possible.

Note 2: Funding of \$496,000 in FY24 and \$202,000 in FY25 to the general fund would not be sufficient to cover administration for this ongoing program. This would over fund FY24 and FY25 and would not provide any administrative funds in FY26 and beyond. Administration funds of \$230,000 in FY24 and \$135,000 in FY25 and beyond would be sufficient.

**Long-Term Fiscal Considerations**

The cost estimate is based on several assumptions that may change, including tuition and fee increases adopted by the public governing boards, and enrollment changes. Additionally, the introduction of a last-dollar free tuition program targeted to the Minnesota State Colleges may impact increased enrollment in that system, which may lead to an increase in applicants for the Minnesota State Grant program.

Additionally, cost estimates for this program do not subtract institutional aid, or aid from other entities, such as federal and state agencies, tribal nations, or scholarships, tuition waivers, and tuition remissions. The inclusion of any of these items in the aid calculation will reduce awards and overall spending.

**Local Fiscal Impact**

None

**References/Sources**

The Office of Higher Education utilized financial aid application and enrollment data for fiscal year 2022 in estimating costs for this fiscal note.

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