Office of Higher Education

FY 2026-27 Biennial Budget Change Item

Change Item Title: State Grant Expansion

Fiscal Impact ($000s)	FY 2026	FY 2027	FY 2028	FY 2029
General Fund				
Expenditures	7,500	7,500	7,500	7,500
Revenues	0	0	0	0
Other Funds				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	7,500	7,500	7,500	7,500
FTEs	**0**	**0**	**0**	**0**

Recommendation:

Beginning in fiscal year 2026, the governor recommends modifying statute in the following ways:

- Allow the agency to set a minimum parental contribution (PC) or student contribution (SC) of $0 when calculating State Grant awards unless resources are projected to exceed spending;
- decreasing the Living and Miscellaneous Expense allowance to 110% of the federal poverty guideline;
- increasing the Assigned Student Responsibility to 51%, beginning in fiscal year 2027;
- increasing the Assigned Family Responsibility to 100% of the federal need analysis for all families with a positive PC or SC, beginning in fiscal year 2026;
- reverting the deadline for State Grant receipt to the 30th day of the term in which the student applies for aid;
- modifying language that governs how the agency rations awards for the program when a program spending deficit is projected;
- and increasing the appropriation for the Minnesota State Grant program by $7.5M in fiscal year 2026 and subsequent years to ensure the program has enough available resources to meet ongoing demand.

Rationale/Background:

The Minnesota State Grant program is a need-based financial aid program created to assist Minnesota resident undergraduates attending public and private postsecondary institutions in Minnesota. The program was first established in 1969 and in Fiscal Year 2023 awarded approximately $215 million in grants to approximately 67,584 students. The program is designed to complement the Federal Pell Grant program and provide choice and access to undergraduate students to attend the postsecondary institutions that best meet their needs.

Since 1983, Minnesota State Grant policy has been based on the Design for Shared Responsibility model. This model was initially built on the work of the Carnegie Commission on Policy Studies in Higher Education. The goal of the program is established in Minnesota Statute 136A.095:

> *The legislature finds and declares that the identification of men and women of the state who are economically disadvantaged and the encouragement of their educational development in eligible institutions of their choosing are in the best interests of the state and of the students.*

This policy statement guides Minnesota policymakers in responding to changes in tuition and fees and living expenses faced by students. State Grant policy distributes the price of postsecondary education based on family income and attendance choices among students, families, and taxpayers.

Minnesota State Grants primarily assist lower-income students pay educational costs.

- 54% of students receiving a State Grant have family incomes less than $40,000.

Minnesota State Grants primarily assist students at public institutions.

- 59% of students receiving a State Grant are at a Minnesota State College or Minnesota State University
- 17% at the University of Minnesota, and
- 24% at a private college or university.

Without adequate State Grants, students work more hours or borrow more in order to afford basic living needs, which limits their study and classroom time and negatively impacts their probability of completion. Increasing grants to students makes postsecondary education more affordable, reduces the number of hours they need to work and reduces the need for debt.

Minnesota ranks 17th in state grant spending per full-time equivalent undergraduate. Although Minnesota tution and fee rates at public institutions outpace many other states, state grant spending per undergraduate ($1,067 lags leading states such as South Carolina ($2,718) by more than $1,000 according to the National Association of State Scholarship and Grant Aid Programs (2022).

Proposal:

Beginning in fiscal year 2025, the Free Application for Federal Student Aid (FAFSA), federal needs analysis formula, and federal Pell Grant award formula changed dramatically from prior years. These changes modified Pell Grant eligibility for many students, while also introducing a negative value for the federal needs analysis formula (now referred to as the Student Aid Index (SAI)).

Because state statute did not prohibit the use of negative values for the SAI, the result is that students with negative SAIs receive a boost to their State Grant award. For example, if a student who previously had a $0 Expected Family Contribution (EFC) had received a $500 State Grant award, that same student is likely now assigned a $-1,500 SAI and correspondingly receives a $2,000 State Grant award.

The negative SAI recognizes that some of the lowest income students in our state not only can't afford to contribute to the cost of the students' education, but they also aren't able to meet their current basic needs on their current income. By increasing grants to these students, this ensures that they have funding available to meet more of their basic needs while earning a degree, even when family resources fall short. By supporting student basic needs, the state is ensuring these students can thrive while pursuing a postsecondary education.

An additional change that began in the 2024-2025 aid year is the introduction of the North Star Promise program. Though the program is just getting started, early reports indicate strong enrollment for this academic year, implying that promotion of the tuition-free program may serve to boost enrollment throughout the state. Any time enrollment increases, there is a corresponding increase in awards made within the State Grant program.

The federal change to the award formula, along with increases in enrollment that were seen in fiscal year 2024, has increased spending for the State Grant program faster than anticipated. As a result, the Office of Higher Education introduced rationing mechanisms for the 2024-2025 aid year to lower student awards and keep program spending within the biennial appropriation. If the appropriation for the State Grant program is not increased in ongoing years, similar rationing measures will need to be considered to ensure State Grant spending stays within the biennial appropriation. Rationing measures reduce awards to students and increase the level of uncertainty a student may face when planning how to finance their education. It is also important to note that the North Star Promise program may encourage increasingly higher levels of enrollment.

In order to accommodate this increased spending, the Office of Higher Education is requesting multiple changes in statute that will ensure State Grant spending is maintained within existing biennial resources while minimizing the impact to students:

- Allow the agency to set a minimum SAI of $0 when calculating State Grant awards, unless resources are projected to exceed spending. This change is in line with federal guidance for awarding aid;
- Decrease the Living and Miscellaneous Expense allowance to 110% of the federal poverty guideline;
- Increase the Assigned Student Responsibility to 51% of the student's calculated State Grant budget, beginning in fiscal year 2027;
- Increase the Assigned Family Responsibility to 100% of the federal need analysis for all families with a positive PC or SC;
- and revert the State Grant deadline to the 30th day of the term in which the student applies for aid.

In addition to this change, the program will require an additional investment to meet ongoing demand.

Cost: $7.5M in FY2026; $7.5M in FY2027, and $7.5M per year in ongoing years.

This change would decrease grants to all students by $900, on average, in fiscal year 2026 and $960 in fiscal year 2027 and would reduce the estimated number of State Grant recipients by 8,700 in fiscal year 2026 and 7,000 in 2027 and subsequent years. However, this change would ensure State Grant spending does not exceed biennial appropriations while eliminating the need to ration awards, a process which introduces instability for students receiving grants.

If the increased flexibility to modify student and parent contributions less than $0 is not added to the program, spending will likely exceed appropriations even if the program is rationed to the full extent of the law.

In addition to these changes, the agency is recommending changes to 136A.121 Subd. 7. Governing the agency's authority to reduce grant awards in the event of a projected program deficit. There is no fiscal impact to this change.

Impact on Children and Families:

This proposal will continue to leverage the State Grant to support student parents by providing additional State Grant eligibility that may be utilized by adult learners re-engaging in postsecondary.

This proposal will address inequity in postsecondary access and completion by providing additional State Grant dollars to students underrepresented in higher education.

Tribal Consultation:

Does this proposal have a substantial direct effect on one or more of the Minnesota Tribal governments?

☐Yes
☒No

IT Costs:

No additional IT needs

Results:

The purpose of this change is to ensure State Grant spending is maintained within existing biennial resources while minimizing the impact to students.

Type of Measure	*Name of Measure*	*Previous*	*Previous*	*Previous*	*Current*
Quantity		**FY2020**	**FY2021**	**FY2022**	**FY2023**
	Students Served – Applications Received	130,070	122,171	117,667	110,199
	Students Served – Number of Recipients	77,544	71,889	69,495	67,584
Quantity	Percent of recipients who are students of color and indigenous students	40.6%	42%	45%	49%
Quality	Net Price (Tuition & Fees plus other expenses less grants) – First-time, full-time undergraduate receiving Title IV Financial Aid	2018-2019 Entering Students	2019-2020 Entering Students	2020-2021 Entering Students	2021-2022 Entering Students
	Incomes $0-$30,000	$12,690	$13,033	$13,328	13,628
	Incomes $30,001-$48,000	$13,057	$13,359	$13,730	$13,805
	Incomes $48,001-$75,000	$15,249	$15,206	$15,526	$15,396
Results		2018-2019 Graduates	2019-2020 Graduates	2020-2021 Graduates	2021-2022 Graduates
	Cumulative Debt - Certificates	$10,286	$10,112	$9,912	$10,022
	Cumulative Debt – Associate Degrees	$15,562	$15,175	$15,215	$16,107
	Cumulative Debt – Bachelor's Degrees	$24,641	$24,793	$23,858	$24,062

Statutory Change(s):

MS 136A.121