Policy Brief: Keeping Minnesota’s Promise

Why the Deficit?

The Minnesota State Grant program’s budget shortfall stems from both federal policy changes and increased demand for financial aid. Key factors include:

- **FAFSA and Federal Aid Overhaul** Recent changes to the Free Application for Federal Student Aid (FAFSA) and the introduction of the Student Aid Index (SAI) have significantly altered the financial aid landscape. These changes were meant to help make accessing aid easier for students and families and better identify those with real financial need. The SAI reduced students’ expected contributions, increasing the need for state grant funding. While this change increased college enrollment in Minnesota, it also meant the state had more students to support. Expanding funding will help these students stay in college and earn a degree, which will in turn help the state train its workforce more effectively.
- **Federal and State Alignment** Minnesota lawmakers’ decision to align the State Grant with federal Pell Grant policies by extending eligibility from four years to six years of full-time enrollment has made college more affordable for many students. However, as the Pell Grant eligibility guideline changed (with the new SAI formula), this well-intentioned decision now requires funding beyond what was originally projected. More students are enrolling in college and staying in college. This is a good problem–but one that requires investment to maintain this promise.
- **Tuition Increases**Because state grant aid is capped to the University of Minnesota's tuition, increases at the University result in higher grant disbursements to both its students and those attending private institutions. Consequently, the program's overall cost has risen over the past several years. There is currently no cap on that tuition growth.

- **Enrollment Growth** Investments in other programs like the North Star Promise free college initiative and Direct Admissions Minnesota have successfully spiked enrollment, reversing years of decline. Minnesota State institutions saw an 8% enrollment increase, with the University of Minnesota system alone experiencing a 3% rise. While excellent for accessibility and workforce development, this progress has placed additional strain on state financial aid resources. Again, more students in college is a good thing for the state and its population–but we must also ensure those students have the resources necessary to stay in college and earn a degree.

If unaddressed, the deficit could result in reduced grant sizes and fewer grants awarded, disproportionately impacting low- and middle-income students at both public and private institutions. Many would face financial hurdles, potentially delaying or derailing their education entirely.

Why Higher Education Funding Matters

Minnesota stands at a crossroads. We can either cut our way out of this challenge, or we can honor the promise we've made to students—to make college more affordable and accessible. The choice isn't just about students; it's about the future of our state. Minnesota's higher education system isn't merely a pathway to a degree—it's the backbone of our economy and a solution to the workforce shortages plaguing key industries. Expanding access to higher education isn't just the right thing to do; it's a strategic investment in Minnesota's competitiveness.

- **The Economic and Social Returns of Higher Education**

When we invest in education, the benefits extend far beyond the classroom. The numbers speak for themselves: A college graduate in Minnesota earns, on average, $1.18 million more over 30 years than someone with just a high school diploma. That means stronger consumer spending, increased homeownership, and greater contributions to our state's tax base.

And the return on investment? It's undeniable. Minnesota's $225 million annual investment in the State Grant program helps more students graduate, securing higher-paying careers. Over three decades, these graduates will generate an estimated $4.4 billion in additional tax revenue *per graduating class*—far outweighing the initial investment.

- **Higher Education: The Key to Workforce Development**

At a time when Minnesota faces workforce shortages across critical industries, higher education is the engine that will drive our economy forward. By making college more affordable, we're not just helping students—we're ensuring a steady pipeline of skilled workers who can fuel innovation, support local businesses, and keep our economy strong. Cutting investment now would only deepen the crisis. Strengthening our commitment, on the other hand, guarantees a Minnesota that remains competitive, prosperous, and prepared for the future.

The choice is clear: We must keep our promise to students and to Minnesota's future.

Minnesota's Financial Aid Standing

Minnesota is in the bottom half of the nation in public appropriations for higher education, where we spend $9,746 per student compared to a national average of $11,040. We also spend less on financial aid; approximately $878 per student on scholarships, compared to a national average of $1,050. This reality means our students already carry a larger burden of the costs of college. Cutting the State Grant will only exacerbate this problem. A majority (52%) of all revenue for public colleges and universities in Minnesota already comes from students and families through tuition. This is compared to a national average of just 40%, leading the Institute for Research on Higher Education to rank Minnesota 32nd for higher education affordability.

Despite these challenges, the Office of Higher Education highlights that Minnesota ranks 13th nationally in financial aid spending per full-time undergraduate. However, this ranking, based on data from the National Association of State Student Grant Aid Programs (NASSGAP), includes scholarships awarded to both public and private institution students. When looking solely at financial aid directed to public institutions—a more relevant measure given that most Minnesota students attend public colleges—the state ranks 24th.

This distinction matters. Data from the State Higher Education Executive Officers Association (SHEEO) shows that approximately 60% of Minnesota students are enrolled in public institutions, and that number rises to 77% when excluding online-only for-profit colleges. The fact that Minnesota's financial aid ranking is significantly higher when private institutions are included suggests that the State Grant program is disproportionately benefiting private colleges, rather than prioritizing the majority of students who attend public institutions—especially lower-income students. Given these realities, the SHEEO data provides a more accurate reflection of Minnesota's financial aid landscape and underscores the need for a stronger investment in public higher education.

Improving Affordability with Financial Aid

Increasing access to college involves (1) controlling the price of college and (2) increasing aid to help students pay that price. Increased state spending to "buy" a tuition freeze is one strategy. Increasing financial aid is another. State grants are among the most effective tools to increase outcomes: With every additional $1,000 in aid, students are significantly more likely to enroll and complete a degree. Research on California's Cal Grant shows the program already pays for itself by increasing graduation rates and later earnings (taxes)–without even considering the other benefits of college like health, civic engagement, social mobility, and more.

The Minnesota State Grant

The state's hallmark program—the Minnesota State Grant—is in peril and facing an unprecedented budget deficit. This has already negatively affected students by sending out fewer grants and reducing the size of others. If this continues, Minnesota will lose out on even more talent and widen equity gaps. Restoring the purchasing power and reach of the State Grant is essential to our shared goals.

Policy Recommendations

Minnesota's State Grant program is at a crossroads, facing a projected $211 million shortfall for the 2026–27 biennium. Without decisive action, students—especially those from low-income backgrounds—could see their financial aid reduced, making higher education less accessible. This will not only lead to fewer enrollments in Minnesota colleges going forward, but, even worse, will result in students who are already enrolled dropping out because their financial aid is reduced or does not keep pace with tuition increases. To ensure the best outcomes for students and the state, we must prioritize directing limited resources where they will have the greatest impact.

1. **Fully Fund the State Grant Program**

Policymakers must act immediately to close the $211 million funding gap and prevent devastating cuts to financial aid. Without this investment, thousands of students will struggle to afford college, putting their educational aspirations—and Minnesota's workforce pipeline—at risk. Minnesota has made a promise to these students, and it must keep that promise. While the state faces fiscal challenges, ensuring that more students can afford college remains one of the best investments for Minnesota's future.

2. **Prioritize Resources for Public Institutions and Tribal Colleges**

If cuts become unavoidable, funding must be directed to the place where the greatest return on investment will be. Public colleges and universities enroll 77% of State Grant recipients and provide the strongest ROI for Minnesota's workforce and economy. Yet public college and tribal college students only receive 64.5% of the state grant resources. Prioritizing aid for low-income students attending these public and tribal institutions ensures financial assistance reaches those who need it most, maximizing its impact.

At the same time, Minnesota must reassess funding for institutions that yield poor outcomes. For-profit colleges, which have low graduation rates and questionable student success metrics, receive millions in state aid each year. Eliminating these grants could save approximately $5.67 million annually, redirecting funds to students at institutions with proven success. Similarly, limiting aid to private colleges with fewer than 20% Pell-eligible students ensures that public dollars benefit students with the greatest financial need.

Savings - $17.3 million according to the Office of Higher Education spreadsheet

Minnesota spends more on financial aid for students attending private colleges than it does on all two-year colleges and Minnesota State universities *combined*. The average State Grant for a student attending a private college in Minnesota is over four times larger than the average State Grant for a student attending a public two-year college and nearly twice as large as a student attending a public four-year college.

	Minnesota 2 year College	Minnesota State 4 year University	University of Minnesota	Private College
Average State Grant Award	$1,415	$3,226	$6,131	$5,837
Total State Grant Amount	$43 million	$37 million	$76 million	$81 million

Profile - Minnesota's State Grant Program Favors Wealthier Private Colleges, Leaving Low-Income Students Behind

Minnesota's State Grant Program is meant to make college more affordable, yet it disproportionately benefits students at private institutions over those attending public community and technical colleges. For example, the average first-year student at Carleton College, a private institution where only 16% of students qualify for Pell Grants, receives $6,164 in state grant aid. Meanwhile, a student at Saint Paul College—where 69% of students are Pell-eligible—receives just $1,250. Despite attending a lower-cost institution, the average Saint Paul College student is awarded $5,284 in student loans, compared to $4,654 at Carleton.

While Carleton has a higher graduation rate, directing more financial aid to institutions with already well-resourced students does not address the core issue: many low-income students at public colleges are forced to take on greater financial risk just to attend. Research shows that increased financial aid improves student persistence and completion rates, meaning that if Minnesota invested more equitably in students at community and technical colleges, their outcomes could improve. Instead of reinforcing disparities by prioritizing wealthier institutions, the state should ensure that financial aid helps all students—especially those for whom a degree remains just out of reach due to cost.

3. Tie State Grant Caps at Private Institutions to Tuition-Controlled Institutions for

Current policies incentivize a high-tuition, high-aid model at institutions that lack state tuition controls. While tuition at Minnesota State Colleges and Universities has remained stable due to legislative oversight, the University of Minnesota has seen tuition and fees rise more than 68% since 2010.

Instead of allowing state aid to fuel rising costs, Minnesota should cap awards based on Minnesota State University tuition levels, creating a stronger incentive for institutions to keep tuition in check. This would encourage the University of Minnesota and private colleges across the state to limit increases in tuition and fees.

Savings - $139 million according to the Office of Higher Education spreadsheet

We recommend that state grant caps be tied to Minnesota State institutions, as they serve as peer institutions to nonprofit colleges in their mission and student populations. In contrast, the state's primary research institution has significantly higher costs, making it less suitable for setting equitable grant limits. This change would also help address funding inequities between private and public institutions in Minnesota.

Type of Institution	Average amount of institutional grant aid awarded	Average State Grant Award	Average amount of student loans awarded
Private Non-profit College	$22,115	$5,848	$6,807
Public 4-year University	$4,195	$3,978	$7,774
Public 2 year University	$1,473	$1,497	$7,082
Tribal College	$4,191	$851	$9,923

The data highlights significant inequities in state support for public college students compared to those attending private nonprofit institutions. Private college students receive the highest average institutional grant aid at $22,115—more than five times the amount awarded to public four-year university students and fifteen times that of community college students. Additionally, private college students receive the largest average state grant award ($5,848), surpassing what students at public four-year universities ($3,978), community colleges ($1,497), and tribal colleges ($851) receive. Despite attending lower-cost institutions, public and tribal college students are forced to take on significantly more debt. Public four-year university students borrow, on average, $7,774—nearly $1,000 more than their private college counterparts—while community college and tribal college students take on $7,082 and a staggering $9,923 in loans, respectively. This funding imbalance disproportionately burdens students from lower-income backgrounds, particularly those at two-year and tribal colleges, reinforcing structural inequities rather than alleviating financial barriers to higher education.

4. **Remove institutions that have a low number of Pell-eligible students**

To ensure state resources are effectively advancing educational equity, Minnesota should prioritize State Grant funding for institutions that enroll at least 20% Pell Grant recipients. This approach would prevent public funds from subsidizing institutions that do not meaningfully serve low- and middle-income students while reinforcing the state's commitment to higher education as a pathway to economic opportunity. Performance-based funding models have not successfully improved degree completion and have even resulted in declining Pell Grant enrollment. Instead, funding should be allocated based on an institution's demonstrated commitment to enrolling and graduating low-income students. By aligning the Minnesota State Grant with this principle, the state can ensure that taxpayer dollars are invested in institutions that truly support economic mobility and college affordability.

Savings - $29 million

5. **Improve Program Efficiency**

Policymakers should adopt sensible modifications to enhance the State Grant program's efficiency without compromising student support. These could include: limiting eligibility to four years, providing a cost savings while also encouraging timely degree completion; adjusting the maximum timeframe for aid to 150% of a program's expected length; and limiting small-dollar awards under $500 at four-year institutions to ensure funds are directed where they make a meaningful difference.

6. **Identify Sustainable Revenue Sources**

Minnesota should explore new revenue streams to secure long-term funding for the State Grant program. Many states have successfully used education lotteries to generate hundreds of millions of dollars annually for higher education. Additionally, a modest tax on large private college endowments could ensure that well-funded institutions contribute to broader educational equity in the state.

7. **Maintain Tuition Controls**

Increasing financial aid alone is not enough—Minnesota must also prevent tuition from rising unchecked. Any increase in state aid should be paired with tuition freezes or price caps at public colleges and universities, ensuring affordability remains a top priority for students and families.

Minnesota's colleges and universities are the backbone of the state's economy and are essential for building a skilled workforce. By securing the future of the Minnesota State Grant program and ensuring that public funds are allocated effectively, efficiently, and equitably, we can expand college access and strengthen Minnesota's economic future. The time to act is now.

Investing in Higher Education Secures Minnesota's Economic Future

Minnesota's colleges and universities are the backbone of the state's economy and a critical resource in building a skilled workforce. A fully funded State Grant program is not just about individual students—it's about Minnesota's long-term prosperity. Without decisive action, we risk higher education becoming less accessible, exacerbating racial and economic disparities, and weakening the talent pipeline that drives our economy forward.

The cost of inaction is steep. If the State Grant deficit remains unaddressed, college enrollment and completion rates will decline, leaving Minnesota with a smaller, less competitive workforce. Programs like the North Star Promise and Direct Admissions Minnesota, which are designed to expand educational opportunity, will be undermined, leaving thousands of students without the support they need to succeed.

Higher education is not an expense—it's an investment with clear returns. Increased funding for the State Grant program means higher graduation rates, a stronger economy, and a more equitable future for all Minnesotans. Every additional college graduate contributes to the state's tax base and innovation economy, ensuring that Minnesota remains a leader in economic growth and opportunity.