MINNESOTA STATE GRANT FY26-FY27 RECOMMENDED CHANGES

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MINNESOTA STATE GRANT FY26-FY27

System alignment regarding preferred changes to the Minnesota State Grant program in response to the spending deficit.

- MSG has a $239M shortfall for the biennium (FY26-FY27)
- Reductions in awards must be made
- Our recommended changes are based on 3 guiding principles
  - MSG changes should protect the lowest income students
  - It is critical that MSG be stabilized in terms of spending
  - Desire to fully understand the impact of changes before making them permanent

OUR VIEW OF THE IMPACT OF MSG CHANGES

Parameter Change	Impact by Sector	Impact by Income/SAI
Living and Miscellaneous Expenses (LME) Decrease	All Sectors	All Incomes/SAIs
Change in Lifetime Eligibility Credits	Impacts students who are in longer programs or multi-credential students (e.g. AA then transfer to BA)	All Incomes/SAIs
Change in Application Deadline	Impacts late filing students, 2-year college students, Students with complicated financial situations, Spring and summer transfer and new start students	All Incomes/SAIs
Increase in Assigned Student Responsibility (ASR)	All Sectors, Reductions proportional to T&F (higher reductions at higher cost institutions)	All Incomes/SAIs
Increase in Assigned Family Responsibility (AFR) Recoding of a negative AFR (SAI) to zero	All Sectors	Students with SAI of $1+, reductions proportional to SAI (income/assets) Recoding of the negative SAI reduces the lowest income students' awards by up to $1500

TOP CONCERNS OF OUR FIN AID DIRECTORS

- Recoding the negative SAI to zero will negatively impact the lowest income students. They will already see award reductions from LME and ASR changes. Another MSG reduction of up to -$1500 in this way will only impact them more with little to no time to plan for those financial changes.

- Changing the application deadline to a date earlier than 30 days after the start of each term punishes the most vulnerable students.

OUR RECOMMENDATION

Make permanent changes to reduce spending

- LME – reduce from 115% to 110%
- Change eligibility from 180 credits of receipt to 120 credits
- Return the application deadline to 30 days after the start of term

Apply the existing Rationing Statute to make temporary award reductions for the next 2 years

- Increase the ASR from 50% to 52.8%
- Add an AFR Surcharge of 25%

When used as intended, the Rationing Statute is a proven and effective policy tool for implementing MSG reductions in a manner that is fair to students across all sectors and incomes.

THE MSG RATIONING STATUTE

The MSG Rationing Statute (Minn.Stat 136A.121 Subd 7a) aims to protect lower-income students and reduce grants in an equitable manner by:

- Reducing MSG awards across all students (ASR Surcharge), reductions proportional to institutional costs,
- Reducing MSG awards to students with an AFR of $1 or more (AFR Surcharge), reductions proportional to income & assets.
  - The AFR is an index of relative income and assets. When used, the AFR surcharge has two impacts:
    - the maximum AFR eligible for MSG is reduced, and
    - MSG awards to students with an AFR between $1 and the new Max AFR are reduced.

RECOMMEND A MIX OF PERMANENT AND TEMP CHANGES

ACKNOWLEDGES UNCERTAINTY IN FUTURE YEARS AND ADJUSTMENTS THAT WILL BE REQUIRED

MSG Reduction Needed		$239.0M		
Permanent Changes		Savings		
LME decrease	115%→110%	-$35.2M		
Lifetime Eligibility	180Credits→120	-$35.0M	guesstimate	
App Deadline	June 30→ 30 days	-$4.4M		
	subtotal	-$74.6M		
Temporary Changes -- Rationing		Savings		Change equal across family types
ASR Surcharge	50.0%→52.8%	-$84.0M		
AFR Surcharge	+0.25	-$84.1M	Dep	79% +25% =104%
			Ind w/Kids	71% +25% =96%
			Ind w/o Kids	35% +25% =60%
	subtotal	-$168.1M		
	TOTAL	-$242.7M		

This does not take into account new funds for MSG that could be appropriated. Also given the MSG FY2025 cash flow changes OHE has mentioned, it is in the program's best interest to make reductions that include a spending buffer of 2%.

BACKGROUND SLIDES

FOR REFERENCE ONLY

THE MSG RATIONING STATUTE – EXAMPLES

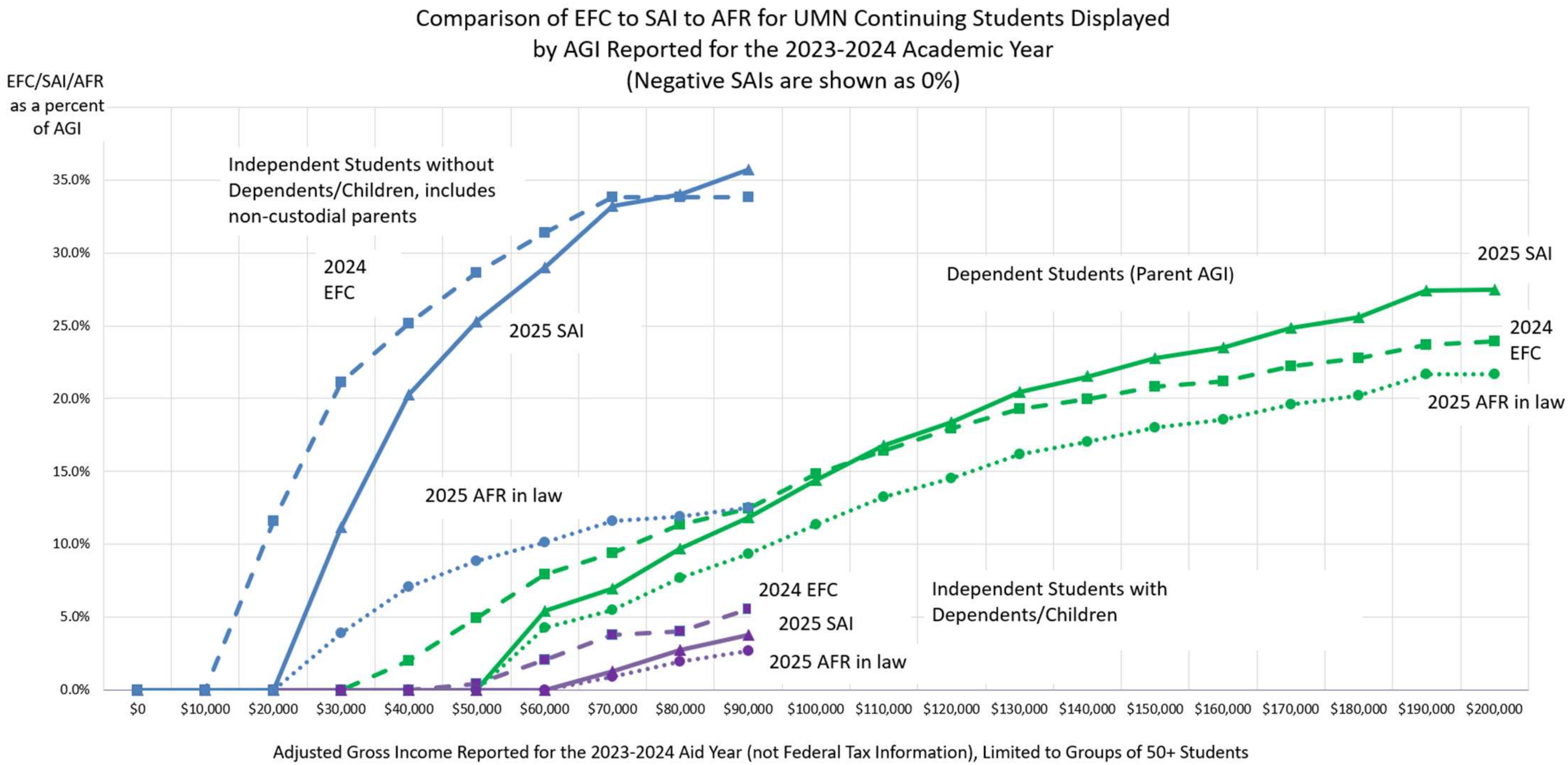
Examples – ASR Surcharge

- Institution A T&F $5,000 + LME $13,000 - applying a surcharge of 1% equals a $180 decrease ($5,000+$13,000=$18,000 *.01) in every State Grant recipient's award
- Inst B T&F $10,000 + LME $13,000 - applying a surcharge of 1% equals a $230 decrease
- Inst C T&F $15,000 + LME $13000 - applying a surcharge of 1% equals a $280 decrease

Examples – AFR Surcharge

- Student A- AFR of $0 - adding a surcharge of 0.01 equals a $0 decrease in their award
- Student B - AFR of $100 - adding a surcharge of 0.01 equals a $1 decrease ($100*0.01)
- Student C - AFR of $1,000 - adding a surcharge of 0.01 equals a $10 decrease
- Student D - AFR of $10,000 - adding a surcharge of 0.01 equals a $100 decrease

EFC VS SAI VS AFR – WHAT'S THE DIFFERENCE?



BACKGROUND ON THE AFR, AFR MODIFIERS, AND AFR SURCHARGE

- Minnesota has always had concerns about how students are treated within the Federal Needs Analysis; the modifiers have been changed by the Legislature to address income equity concerns or to increase affordability.
- AFR = Assigned Family Responsibility
  - AFR is a modified version of the Parent Contribution (PC, dependent students) or Student Contribution (SC, independent students) from the Federal Needs Analysis; PC+SC=SAI (formerly EFC)
  - AFR is calculated by taking the PC or SC multiplied by the AFR modifier in statute
    - AFR dependent students = PC x 79% (AFR modifier)
    - AFR independent students with dependents/children = SC x 71% (AFR modifier)
    - AFR independent students without deps/children = SC x 35% (AFR modifier)
  - AFR modifiers vary because the contribution rates from the Federal Needs Analysis by family type
- These concerns were not resolved with the move to from EFC to SAI; income equity and middle-income affordability concerns persist.

USE OF THE AFR MODIFIERS

- Congress passed the Federal Needs Analysis (aka EFC Calculation) in 1994
    - The Minnesota Legislature modified the use of the EFC for State Grant purposes because of concerns raised about fairness in required contributions resulting in Minn. Stat. 136A.101 Subd 5a:
        - 1997 Lowered the modifier for Independent Students without Children/Dependents from 100% to 80% which allowed more students to be eligible for MSG and increased MSG for these students
        - 2002: Lowered the modifier for Independent Students with Children from 100% to 90% which allowed more students to be eligible for MSG and increased MSG for students in this group
        - 2010: Lowered the modifier for Dependent Students from 100% to 96% to address affordability concerns for middle-income students
- We do not agree with the current OHE interpretation that the result of the AFR plus AFR Surcharge should not exceed 100%. The AFR plus surcharge exceeded 100% in FY2011 and FY2012 when OHE implemented rationing during the 2010-2012 deficit period.
- The AFR Surcharge is NOT telling a student that MN thinks they should contribute more than what the Federal Needs Analysis determines; Rather it is a tool created by the Legislature to allow OHE to make needed reductions in alignment with legislative intent and available state resources.