



February 15, 2017

The Honorable Michelle Fischbach, Chair
Higher Education Finance and Policy Committee
2113 Minnesota Senate Building
95 University Avenue W
St. Paul, Minnesota 55155

Dear Senator Fischbach:

Enclosed is the latest projections report for the Minnesota State Grant program as required by *Minnesota Statute* 136A.121. By law, updates occur on November 1 and February 15 of each fiscal year. Information on enrollments and tuition and fee changes were provided by public and private institutions. This report includes the information tables released on Monday, February 13th.

Fiscal Years 2016-2017

The updated spending projection for fiscal year 2016 is \$175.218 million and for fiscal year 2017 is \$182.281 million compared to base resources of \$362.562 million for the biennium. The difference between resources and spending equals \$1.942 million.

Fiscal Years 2018-2019

OHE has seen an increase in fall term spending for FY 2017 that indicates more students may be applying for state grants than anticipated. OHE has not determined if the fall term spending increase is limited to one term or may be carry forward through spring and summer terms. While the increase in spending is within appropriations for FY 2017, it may impact forecasted spending in FY 2018 and 2019. To accommodate this uncertainty, OHE modeled two forecasted spending scenarios based on the Fiscal Year 2017 spending – a HIGH spending scenario and a LOW spending scenario. The HIGH spending scenario assumes that the increase in state grant spending seen among students at public 4-year institutions continues into spring 2017 and the subsequent two fiscal years. The LOW spending scenario assumes that the increase in state grant spending seen ebbs in spring 2017 and does not carryforward into fiscal years 2018 and 2019.

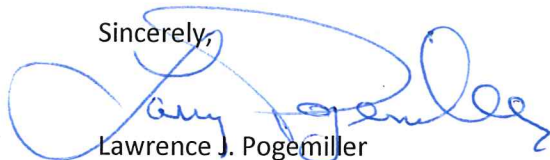
As a result of the two spending scenarios, State Grant spending is forecasted to range between \$172.960 to \$175.231 million for fiscal year 2018 and \$176.991 to \$179.345 million for fiscal year 2019 for a biennial total between \$349.951 to \$354.576 million. This compares to base resources of \$360.562 million for the biennium.

Based on the two spending scenarios, the difference between base resources and forecasted spending ranges from \$5.986 to \$10.611 million. Neither spending scenario includes maintaining the Fiscal Year 2017 LME of \$9,320 - to do so would increase the spending forecast by approximately \$12.7 million under both scenarios, resulting in deficit situations (FY2018-\$5.714 million, FY2019 -\$2.089 million). OHE will adjust the forecast once spring term payments to students have been reported and new wage data from Minnesota Management and Budget in early March.

The report can also be viewed online at <http://www.ohe.state.mn.us/mPg.cfm?pageID=1553>.

Feel free to contact me or the report authors if you have questions or would like more information.

Sincerely,



Lawrence J. Pogemiller

Commissioner

Enclosure

cc: Senator Rich Draheim, Vice Chair
Senator Paul Anderson
Senator Scott Jensen
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Legislative Reference Library

Senator Greg Clausen
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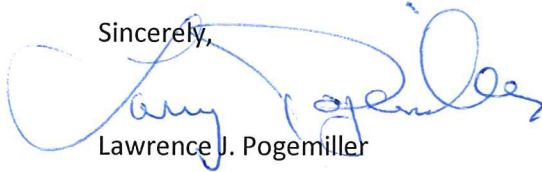
Senator Jim Abeler
Senator Jason Isaacson
Andrew Erickson
Jason Fossum
Danna Elling

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Sincerely,



Lawrence J. Pogemiller

Commissioner

Enclosure

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OFFICE OF
HIGHER EDUCATION

Minnesota State Grant Projections Fiscal Years 2016-2017 & 2018-2019

February 15, 2017

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About the Minnesota Office of Higher Education

The Minnesota Office of Higher Education is a cabinet-level state agency providing students with financial aid programs and information to help them gain access to postsecondary education. The agency also serves as the state's clearinghouse for data, research and analysis on postsecondary enrollment, financial aid, finance and trends.

The Minnesota State Grant Program is the largest financial aid program administered by the Office of Higher Education, awarding up to \$180 million in need-based grants to Minnesota residents attending eligible colleges, universities and career schools in Minnesota. The agency oversees other state scholarship programs, tuition reciprocity programs, a student loan program, Minnesota's 529 College Savings Plan, licensing and early college awareness programs for youth.

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Fiscal Years 2016 and 2017 — Spending Projection

This report presents spending projections for the Minnesota State Grant program for the 2016-2017 biennium as of February 15, 2017. The law requires spending projection updates to occur by November 1 and February 15 of each year. Information on tuition and fee changes was provided by institutional representatives on February 13, 2017.

The projections contained in this report are the result of a full simulation of the State Grant model. This model projects state grant spending for fiscal years 2016 and 2017 using fiscal year 2016 actual spending data and award parameters in law as of February 15, 2017; information on enrollment and tuition and fee changes provided by institutional representatives; and the percent change in wages of tax filers estimated by Minnesota Management and Budget. The assumptions used in the spending projections are described starting on page seven.

State Grant spending totaled \$175.218 million for fiscal year 2016. State Grant spending is projected to be \$185.402 million for fiscal year 2017 for a biennial total of \$360.620 million. This compares to base resources of \$362.562 million for the biennium (\$360.562 base appropriation and \$2 million in one-time funds appropriated in the 2016 Legislative Session).

The difference between base resources and projected spending is \$5.063 million for fiscal year 2016 and negative \$3.121 million for fiscal year 2017. For the biennium, the difference between resources and estimated spending equals \$1.942 million. The changes modeled are the agency's best estimates as of February 15, 2017 and are subject to change, based on updated information on enrollment, tuition, and family incomes.

Table 1
Spending Projections versus Resources FY2016-2017 (in millions)

Spending Projections versus Resources	FY2016	FY2017	Biennium
Base resources	\$180.281	\$182.281	\$362.562
Spending projection	<u>+(175.218)</u>	<u>+ (185.402)</u>	<u>+(360.620)</u>
Difference between resources and spending	\$5.063	\$(3.121)	\$1.942 (0.5% of base resources)

In the 2016 the Minnesota Legislature adopted a language change that reduced the modifier for Assigned Family Responsibility (AFR) for dependent students from 0.96 to 0.94. This reduced family contribution and increased state grants to those dependent students with an AFR greater than \$0. The Legislature provided a one-time appropriation of \$2 million to cover the reduction in AFR.

End of fall term spending for Fiscal Year 2017 is above levels projected in February 2016 by \$1.2M (estimated to be \$2.5M by end of the fiscal year). The increase in spending is largely limited to public 4-year institutions and may be the result of income shifts (fewer Pell recipients or increase in middle income students) or student behavior (increase full-time enrollment or FAFSA filing). OHE is monitoring spending to determine if the spending increase has been sustained as measured by increases in spring term spending. The increase is relatively modest in comparison to biennial spending (0.6% of base resources) but will impact spending in Fiscal Years 2018 and 2019 as detailed in the next section.

Fiscal Years 2018 and 2019 — Forecast

Increases in fall term spending during Fiscal Year 2017, if sustained, will have an impact on projected spending in Fiscal Years 2018 and 2019. OHE modeled two forecasted spending scenarios based on the Fiscal Year 2017 cash flow – a HIGH spending scenario and a LOW spending scenario. The HIGH spending scenario assumes that the increase in state grant spending seen among students at public 4-year institutions continues into spring 2017 and the subsequent two fiscal years. The LOW spending scenario assumes that the increase in state grant spending seen ebbs in spring 2017 and does not carryforward into fiscal years 2018 and 2019.

For both scenarios, the changes modeled are the agency's best estimates as of February 15, 2017 and are subject to change, based on updated information on enrollment, tuition and family incomes. Both scenarios also include updated estimates of the Living and Miscellaneous Expense allowance using federal poverty guidelines released January 31, 2017 as shown in Table 5. For FY2018, the estimated LME is \$9,045. For FY2019, the estimated LME is \$9,135. Maintaining the Fiscal Year 2017 LME of \$9,320 would increase the spending forecast by approximately \$12.7 million under both scenarios, resulting in deficit situations (FY2018 -\$5.714 million, FY2019 -\$2.089 million).

Results

State Grant spending is forecasted to range between \$172.960 to \$175.231 million for fiscal year 2018 and \$176.991 to \$179.345 million for fiscal year 2019 for a biennial total between \$349.951 to \$354.576 million. This compares to base resources of \$360.562 million for the biennium as shown in Table 2.

Based on the two spending scenarios, the difference between base resources and forecasted spending ranges from \$5.986 to \$10.611 million. Depending on whether the sustained increase is seen in spring term 2017 payments at the end of February, OHE will adjust its spending forecast accordingly.

Table 2
Spending Forecast versus Resources FY2018-2019 (in millions)

Spending Forecast versus Resources	FY2018	FY2019	Biennium
Base resources	\$180.28	\$180.28	\$360.56
Increase in cash flow forecasted forward	HIGH	HIGH	HIGH
Spending forecast, Current Law	<u>+(175.231)</u>	<u>+(179.345)</u>	<u>+(354.576)</u>
Difference between resources and spending	\$5.050	\$0.936	\$5.986
Spending forecast, Maintain LME at \$9,320	<u>+(7.600)</u>	<u>+(5.121)</u>	<u>+(12.721)</u>
Difference between resources and spending	\$(2.550)	\$(4.185)	\$(6.735)
Spring term cash flow returns to historical patterns	LOW	LOW	LOW
Spending forecast, Current Law	<u>+(172.960)</u>	<u>+(176.991)</u>	<u>+(349.951)</u>
Difference between resources and spending	\$7.321	\$3.290	\$10.611
Spending forecast, Maintain LME at \$9,320	<u>+(7.600)</u>	<u>+(5.121)</u>	<u>+(12.721)</u>
Difference between resources and spending	\$(0.279)	\$(1.831)	\$(2.110)

Assumptions

The Minnesota State Grant spending forecast for each fiscal year is formulated using a series of adjustments and the following program parameters as shown in Table 3.

Table 3
Minnesota State Grant Award Parameters

Minnesota State Grant Award Parameters	FY2016	FY2017	FY2018	FY2019
	ACTUAL	ACTUAL	ACTUAL	PROJECTED
Living and Miscellaneous Expense Allowance	\$8,828	\$9,320 ⁱ	\$9,045 ⁱⁱ	\$9,135 ⁱⁱ
Assigned Student Responsibility	50.0%	50.0%	50.0%	50.0%
Tuition and Fee Maximums				
Students in Two-Year Programs	\$5,736	\$5,736	\$5,714 ⁱⁱⁱ	\$5,714 ⁱⁱⁱ
Students in Four-Year Programs	\$13,840	\$14,186	\$14,508 ⁱⁱⁱ	\$14,800 ⁱⁱⁱ
Federal Pell Grant Maximum	\$5,775	\$5,815	\$5,920	\$5,920 ⁱⁱⁱ
Rationing Surcharge on Assigned Family Responsibility	0%	0%	0%	0%
Proration for the Assigned Family Responsibility				
Dependent Students (Parent Contribution)	96%	94%	94%	94%
Independent Students with Dependents (Student Contribution)	86%	86%	86%	86%
Independent Students without Dependents (Student Contribution)	50%	50%	50%	50%

ⁱ temporary increase; ⁱⁱ estimated; maintaining the LME of \$9,320 for FY18-19 would increase spending by \$12.7 million

Change in Wages

The state grant spending forecast model incorporates data about change in wages of Minnesota tax filers from Minnesota Management and Budget. The tax filer data is used in projections of state revenue and spending across multiple agencies and is updated each March. For fiscal year 2016 -2019 projections, the model utilizes data from applicable tax years to update student and family wages and adjusted gross incomes. As fiscal year 2016 information (tax year 2014) is used, incomes are updated to reflect projections for subsequent tax years. Following the March 2016 budget forecast, the assumption for changes in average wages of Minnesota tax filers was adjusted. Current assumptions are shown below in Table 4. In FY2018, the U.S. Department of Education will switch to using the prior-prior year FAFSA to calculate the student's Pell Grant. Thus no income change is shown for Fiscal Year 2018.

Table 4
Change in Annual Wages, Minnesota

Change in Annual Wages, March 2016	FY2016 tax year 2014	FY2017 tax year 2015	FY2018 tax year 2015	FY2019 tax year 2016
One-Year Change in Average Wages	+3.0%	+3.6%	n/a ⁱⁱⁱ	+2.8%

ⁱⁱⁱ Note: FY2018 reflects change by the U.S. Department of Education to the prior-prior year FAFSA.

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 time period. The Poverty Guidelines are issued each January 31 by the Department of Health and Human Services. Table 5 displays the annual figures for the Living and Miscellaneous Expense Allowance.

Table 5
Federal Poverty Guidelines

Federal Poverty Guidelines	FY2016	FY2017	FY2018	FY2019
Poverty Guidelines Year	2015	2016	2017	2018
	ACTUAL	ACTUAL	ACTUAL	PROJECTED
Federal Poverty Guideline – 1 person in family/household, 48 contiguous states	\$11,770	\$11,880	\$12,060	\$12,180
Increase %	+1.0%	+0.9%	+1.5%	+1.0% ^v
Multiplier for 9-month time period	0.75	0.75	0.75	0.75
Living and Miscellaneous Expense Allowance	\$8,828	\$8,910 ^{iv}	\$9,045	\$9,135

^{iv} This is the amount under current law. OHE increased LME for FY17 under its spending authority, ^v estimated

Enrollment Assumptions

Minnesota State Grant spending forecasts also incorporate estimated enrollment changes in the number of Minnesota resident undergraduates enrolling at each institution type. Information about enrollment changes for fiscal years 2016-2019 is shown in Table 6. Overall enrollment is used to estimate changes in the number of Minnesota resident aid applicants. These figures will be revised as new enrollment data become available. A change in total enrollment of plus or minus one percentage point annually changes projected state grant spending by an estimated \$1.8 million. Fall 2016 enrollments declined for the fifth straight year.

Table 6
Enrollment Assumptions

Enrollment Assumptions	FY2016	FY2017		FY2018	FY2019
	Fall 2015	Fall 2016		Fall 2017	Fall 2018
System	ACTUAL	PROJECTED	ACTUAL	PROJECTED	PROJECTED
Minnesota State Colleges	-4.1%	-1.0%	-3.9%	-0.4%	+0.3%
Minnesota State Universities	-1.5%	0.0%	-1.0%	+0.3%	0%
University of Minnesota	-0.4%	-1.3%	+0.8%	+1.0%	+1.0%
Private Not-for-Profit Institutions	-1.6%	0.0%	-1.2%	0%	0%
Private For-Profit Institutions	-3.2%	+5.0%	-15.6%	-10.0%	+1.0%

Pell Grant Changes in Law

For academic year 2016-2017 (fiscal year 2017), the Pell Grant maximum is \$5,815. For academic year 2017-2018 (fiscal year 2018), the Pell Grant maximum is \$5,920. The Office will continue to monitor Congressional activity regarding funding of the federal Pell Grant program. Table 7 below lists the current federal Pell Grant parameters.

Increases or reductions in the federal Pell Grant amounts affect State Grant spending as the State Grant award formula maintains a dollar for dollar relationship with the student's Pell Grant. On January 30, 2016, the U.S. Department of Education issued the Pell Grant table with a maximum Pell Grant of \$5,920 for the 2017-2018 academic year – a \$105 increase. Federal law allows for inflationary adjustments to the maximum Pell Grant award each year, but those increases are dependent on funding being approved as part of the federal budget process each October. The automatic inflationary adjustments are set to expire in 2017.

Table 7
Federal Pell Grant Award Parameters

Federal Pell Grant Award Parameters	FY2016	FY2017	FY2018	FY2019
	ACTUAL	ACTUAL	ACTUAL	PROJECTED
Pell Grant Minimum Award	\$626	\$598	\$606	\$606
Pell Grant Maximum Award	\$5,775	\$5,815	\$5,920	\$5,920 ^{vi}
Award Formula: Expected Family Contribution (EFC)	Maximum Pell - EFC	Maximum Pell - EFC	Maximum Pell - EFC	Maximum Pell - EFC
Qualifying EFC	\$0 - \$5,198	\$0 - \$5,234	\$0 - \$5,328	\$0 - \$5,328

^{vi} estimated

Tuition and Fee Increases

Information about tuition and fee increases for fiscal years 2016-2019 was gathered from institutional and system representatives. Table 8 below details actual and estimated tuition and fee increases for State Grant calculations as reported by institutions for projections of spending. Tuition and fee rates are not finalized until summer. If actual tuition increases exceed the tuition increase assumptions, then forecasted program spending in the Minnesota State Grant program will increase as well.

Table 8
Annual Changes in Minnesota Resident Undergraduate Tuition and Fee Rates

Tuition and Fee Increases	FY2016	FY2017	FY2018	FY2019
System	ACTUAL	ACTUAL	PROJECTED	PROJECTED
Minnesota State Colleges	0.0%	-1.0%	0%	0%
Minnesota State Universities	+3.4%	0%	0%	0%
University of Minnesota	+1.5%	+2.5%	+2.0%	+2.0%
Private Not-for-Profit Institutions ^{vii}	+3.0%	+3.5%	+3.5%	+3.5%
Private For-Profit Institutions ^{vii}	+2.5%	-2.0%	-2.0%	+1.0%

^{vii} Note: 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 May 2016. Annual updates to the tables in the statutory “Federal Methodology Need Analysis” used to determine a student’s EFC are released annually by the U.S. Department of Education.

Next Report

The next report on Minnesota State Grant spending is due to the Legislature by November 1, 2017.

