



November 8, 2017

The Honorable Bud Nornes, Chair  
Higher Education and Career Readiness Policy and Finance  
471 State Office Building  
100 Rev. Dr. Martin Luther King Jr. Boulevard  
St. Paul, Minnesota 55155

Dear Representative Nornes:

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.

My apology for the slight delay in reporting. Our Office is in the middle of migrating research databases and a possible data error was discovered late Monday (October 30). In an abundance of caution, and in order to ensure the November 1<sup>st</sup> projection is as accurate as possible, the Office delayed the release of the State Grant projection report until the error was isolated and corrected and the projection re-estimated.

*Fiscal Years 2016-2017*

State Grant spending totaled \$175.218 million for fiscal year 2016 and \$187.077 million for fiscal year 2017 for a biennial total of \$362.295 million. This compares to base resources of \$362.562 million for the biennium. The difference between base resources and total spending was \$0.267 million or 0.007%.

*Fiscal Years 2018-2019*

The spending projection for fiscal year 2018 is \$194.626 million and for fiscal year 2019 is \$198.886 million compared to base resources of \$396.562 million for the biennium. The difference between resources and spending equals \$3.050 million.

Statute authorizes the Office to adjust award parameters to increase State Grant awards if base resources exceed projected spending. Using the procedures outlined in statute, the Office plans to increase the Living and Miscellaneous Expense allowance (LME) by \$100 from \$9,336 to \$9,436 for fiscal year 2019. This change will increase individual awards to students and will increase projected spending for fiscal year 2019 by an estimated \$2.9 million.

The report can 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,

A handwritten signature in blue ink, appearing to read 'Larry Pogemiller', written over a blue circular stamp.

Lawrence J. Pogemiller  
Commissioner

Enclosure

cc: Rep. Drew Christensen, Vice Chair  
Rep. Gene Pelowski Jr.  
Rep. Barb Haley  
Rep. Ilhan Omar  
Rep. Jennifer Schultz  
Rep. Nick Zerwas  
Kaley Taffe  
Legislative Reference Library

Rep. Tony Albright  
Rep. Connie Bernardy  
Rep. Randy Jessup  
Rep. Laurie Pryor  
Rep. Abigail Whelan  
Rep. Josh Heintzeman  
Nathan Hopkins  
Melissa Lam Young

Rep. Dario Anselmo  
Rep. Brian Daniels  
Rep. Ben Lien  
Matt Gehring  
Ken Savary  
Shannon Patrick  
Sean Williams

November 8, 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:

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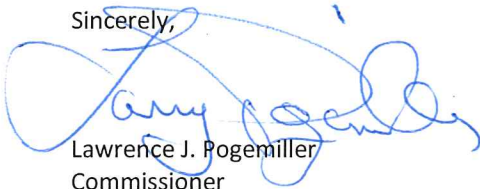
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Sincerely,



Lawrence J. Pogemiller  
Commissioner

Enclosure

cc: Senator Rich Draheim, Vice Chair  
Senator Paul Anderson  
Senator Scott Jensen  
Shannon Patrick  
Senator Julie Rosen  
Legislative Reference Library

Senator Greg Clausen  
Senator Richard Cohen  
Senator Jerry Newton  
Melissa Lam Young  
Chris Stang

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



OFFICE OF  
HIGHER EDUCATION

# Minnesota State Grant Projections Fiscal Years 2018-2019

November 8, 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 \$198 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 — Actual Spending

This report presents final spending totals for the Minnesota State Grant program for the 2016-2017 biennium as of November 8, 2017.

State Grant spending totaled \$175.218 million for fiscal year 2016 and \$187.077 million for fiscal year 2017 for a biennial total of \$362.295 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 total spending was \$0.267 million or 0.007%.

**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>+(187.077)</u>	<u>+(362.295)</u>
<b>Difference between resources and spending</b>	\$5.063	\$(4.796)	<b>\$0.267</b> (0.07% of base resources)

## Fiscal Years 2018 and 2019 — Forecast

This report presents projected spending for the Minnesota State Grant program for the 2018-2019 biennium as of November 8, 2017. The law requires spending projection updates to occur by November 1 and February 15 of each year. Institutional representatives provided information on enrollment, and tuition and fees on October 30, 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 2018 and 2019 using fiscal year 2017 actual spending data and award parameters in law as of November 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. Discussion of the assumptions used in the spending projections start on page seven.

In 2017, the Minnesota Legislature adopted a language change that further reduced the modifiers for Assigned Family Responsibility (AFR) for dependent students from 0.94 to 0.84, independent students with dependents from 0.86 to 0.76, and independent students with no dependents from 0.50 to 0.40. This change reduced family contribution and increased state grants to those students with an AFR greater than \$0.

The changes modeled are the agency's best estimates as of November 2017 and are subject to change, based on updated information on enrollment, tuition and family incomes. The projection also includes updated estimates of the Living and Miscellaneous Expense allowance using federal poverty guidelines released January 31, 2017 as shown in Table 5. In addition, the Legislature adopted a language change that increased the Living and Miscellaneous Expense (LME) allowance by one percent. This change increased state grant awards to all recipients. The Living and Miscellaneous Expense Allowance equals federal poverty guidelines plus one percent. For FY2018, the LME is \$9,135. The Federal Department of Health and Human Services updates Federal poverty guidelines each January based on changes in the Consumer Price Index. The

Consumer Price Index increased from September 2016 to September 2017 by 2.2%. OHE utilized an estimate of 2.2% when estimating the LME for FY2019 (\$9,366).

## Results

OHE forecasts State Grant spending to be \$194.626 million for fiscal year 2018 and \$198.886 million for fiscal year 2019 for a biennial total of \$393.512 million. This compares to base resources of \$396.562 million for the biennium as shown in Table 2.

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

Spending Forecast versus Resources	FY2018	FY2019	Biennium
Base resources	\$198.206	\$198.356	\$396.562
Spending forecast, Current Law	<u>+(194.626)</u>	<u>+(198.886)</u>	<u>+(393.512)</u>
<b>Difference between resources and spending</b>	\$3.580	\$(0.530)	\$3.050

## 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 <sup>i</sup>	\$9,135	\$9,336 <sup>i</sup>
Assigned Student Responsibility	50.0%	50.0%	50.0%	50.0%
Tuition and Fee Maximums				
Students in Two-Year Programs	\$5,736	\$5,736	\$5,790	\$5,790 <sup>i</sup>
Students in Four-Year Programs	\$13,840	\$14,186	\$14,488	\$14,778 <sup>i</sup>
Federal Pell Grant Maximum	\$5,775	\$5,815	\$5,920	\$5,920 <sup>i</sup>
Rationing Surcharge on Assigned Family Responsibility	0%	0%	0%	0%
Proration for the Assigned Family Responsibility				
Dependent Students (Parent Contribution)	96%	94%	84%	84%
Independent Students with Dependents (Student Contribution)	86%	86%	76%	76%
Independent Students without Dependents (Student Contribution)	50%	50%	40%	40%

<sup>i</sup> Estimated



## 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 2017 information (tax year 2015) is used, OHE updates wage information to reflect projections for subsequent tax years. Following the March 2017 budget forecast, OHE adjusted the assumption for changes in average wages of Minnesota tax filers. Current assumptions are shown below in Table 4. In 2017-2018, the U.S. Department of Education switched 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 <sup>ii</sup>	+2.7%

<sup>ii</sup> Note: FY2018 reflects the 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 Department of Health and Human Services issues Federal Poverty Guidelines each January 31. Table 5 displays the annual figures for the Living and Miscellaneous Expense Allowance.

**Table 5**  
**Federal Poverty Guidelines**

<b>Table 4</b> <b>Federal Poverty Guidelines</b>	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019</b>
<b>Poverty Guidelines Year</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	ACTUAL	ACTUAL	ACTUAL	PROJECTED
Federal Poverty Guideline – 1 person in family/household, 48 contiguous states	\$11,770	\$11,880	\$12,060	\$12,325
Increase %	+1.0%	+0.9%	+1.5%	+2.2%
Multiplier for 9-month time period	0.75	0.75	0.75	0.75
Inflator in Minnesota law	n/a	n/a	+1%	+1%
Living and Miscellaneous Expense Allowance	\$8,828	\$9,320 <sup>iii</sup>	\$9,135	\$9,336 <sup>iv</sup>

<sup>iii</sup> OHE increased LME for FY17 under its spending authority. <sup>iv</sup> Estimated

## Enrollment Assumptions

The Minnesota State Grant spending forecast also incorporated estimated enrollment changes in the number of Minnesota resident undergraduates enrolling at each institution type. Table 6 shows information about enrollment changes for fiscal years 2016-2019. Overall enrollment changes serves to estimate changes in the number of Minnesota resident aid applicants. OHE 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. Fall 2017 enrollments declined for the sixth straight year.

**Table 6**  
**Enrollment Assumptions**

Table 6 Enrollment Assumptions	FY2016	FY2017	FY2018		FY2019
	Fall 2015	Fall 2016	Fall 2017		Fall 2018
System	ACTUAL	ACTUAL	PROJECTED	ACTUAL	PROJECTED
Minnesota State Colleges	-4.1%	-4.1%	-1.7%	-2.5%	+0.1%
Minnesota State Universities	-1.5%	-1.1%	-0.8%	-1.7%	-0.5%
University of Minnesota Twin Cities	-0.4%	+0.8%	+1.0%	+1.0%	+0.4%
Morris, Crookston, Duluth	combined	combined	combined	+0.7%	+1.0%
Private Not-for-Profit Institutions	-1.6%	-1.2%	0%	+0.6%	+0.0%
Private For-Profit Institutions	-3.2%	-15.6%	-10.0%	-2.0% <sup>v</sup>	-2.0%

<sup>v</sup> Includes only institutions participating in the state grant program.

### 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. As of October 30, 2017, the U.S. Department of Education had not issued the Pell Grant table for the 2018-2019 academic year. Federal law allows for inflationary adjustments to the maximum Pell Grant award each year, but those increases depend on funding approved as part of the federal budget process each October.

**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 <sup>vi</sup>
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

<sup>vi</sup> 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	ACTUAL	PROJECTED
Minnesota State Colleges	0.0%	-1.0%	+1%	0%
Minnesota State Universities	+3.4%	0%	+3.7%	0%
University of Minnesota	+1.5%	+2.5%	+1%	0% to +2%
Private Not-for-Profit Institutions <sup>vii</sup>	+3.0%	+3.5%	+3%	+0%
Private For-Profit Institutions <sup>vii</sup>	+2.5%	-2.0%	+1%	+1%

<sup>vii</sup> 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 2017. 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

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The next report on Minnesota State Grant spending is due to the Legislature by February 15, 2018.

