



February 14, 2020

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

Dear Representative Bernardy:

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.

Fiscal Years 2018-2019

State Grant spending totaled \$195.967 million for fiscal year 2018, and is projected to total \$208.791 million for fiscal year 2019, for a biennial total of \$404.759 million. This compares to base resources of \$404.855 million for the biennium (\$396.562 million base appropriation and transfers of \$8.3 million in unexpended funds from other programs). The difference between base resources and total spending was positive \$0.096 million (0.02% below appropriations).

Fiscal Years 2020-2021

The spending projection for fiscal year 2020 is \$203.760 million and for fiscal year 2021 is \$197.211 million, for a biennial total of \$400.971. This compares to base resources of \$414.874 million for the biennium. Due to increases in funding for the federal Pell Grant and continuing declines in enrollment, the difference between base resources and total projected spending was positive \$13.903 million (3.4% below appropriations).

Statute authorizes the Office to adjust award parameters to increase State Grant awards when resources exceed projected spending. Using the procedures outlined in statute, the Office plans to increase the Living and Miscellaneous Expense allowance (LME) by \$386 from \$10,144 to \$10,530 for fiscal year 2021. This change will increase individual awards to students and will increase projected spending for fiscal year 2021 by an estimated \$11 million. Full-time students will see their grants increase by an estimated \$143.

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 'Dennis Olson'.

Dennis Olson
Commissioner

Enclosure

cc: Rep. Laurie Pryor, Vice Chair

Rep. Mary Franson

Rep. Sandy Layman

Rep. Eric Lucero

Rep. Linda Runbeck

Rep. Tou Xiong

Nathan Hopkins

Legislative Reference Library

Rep. Bud Nornes

Rep. Aisha Gomez

Rep. Ben Lien

Rep. Jeanne Poppe

Rep. Samantha Vang

Rep. Lyndon Carlson Sr.

Ken Savary

Marina Balleria

Rep. Brian Daniels

Rep. Ginny Klevorn

Rep. Leon Lillie

Rep. Duane Quam

Rep. Dan Wolgamott

Sean Herring

Aara Johnson

Minnesota State Grant Projections

Fiscal Years 2018-2019 & 2020-2021

February 15, 2020

Author**Nicole Whelan**

Financial Aid Research Analyst
Tel: 651-259-3967
nicole.whelan@state.mn.us

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 \$207 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.

Minnesota Office of Higher Education

1450 Energy Park Drive, Suite 350

Saint Paul, MN 55108-5227

Tel: 651.642.0567 or 800.657.3866

TTY Relay: 800.627.3529

Fax: 651.642.0675

Email: info.ohe@state.mn.us

Contents

Executive Summary	1
Fiscal Years 2018 and 2019 — Actual Spending	2
Fiscal Years 2020 and 2021 — Spending Projection	3
Assumptions	4
Federal Poverty Guidelines – Living and Miscellaneous Expense Allowance	5
Change in Wages	5
Enrollment Assumptions	6
Pell Grant Changes in Law	7
Tuition and Fee Increases	7
Federal Need Analysis	8
Next Report	8

Executive Summary

This report presents actual spending for the Minnesota State Grant program for the 2018-2019 biennium and projected spending for the 2020-2021 biennium as of February 15, 2020, as required by state law. Projections are the result of a full simulation of the State Grant model. This model projects state grant spending for Fiscal Years 2020-2021 using Fiscal Year 2019 actual spending data and award parameters in law as of February 15, 2020; 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 starts on page four of this report.

The results of the projections are:

- Fiscal Years 2018-2019: State Grant spending totaled \$195.967 million for Fiscal Year 2018, and totaled \$208.791 million for Fiscal Year 2019, for a biennial total of \$404.759 million. This compares to base resources of \$404.855 million for the biennium (\$396.562 base appropriation and transfers of \$8.3 million in unexpended funds from other programs). The difference between base resources and total spending was positive \$0.096 million (0.02% below appropriations).
- Fiscal Years 2020-2021: The spending projection for Fiscal Year 2020 is \$203.760 million and for Fiscal Year 2021 is \$197.211 million, for a biennial total of \$400.971 million. This compares to base resources of \$414.874 million for the biennium. The difference between base resources and total projected spending was positive \$13.903 million (3.4% below appropriations).

Spending projections for Fiscal Years 2020-2021 include a language change adopted by the Minnesota State Legislature in 2019, which raised the Living and Miscellaneous Expense allowance (LME) to 106% of the poverty level guideline¹ and lowered the Assigned Family Responsibility (AFR) for dependent students from 0.84 to 0.82, independent students with dependents from 0.76 to 0.74², and independent students with no dependents from 0.40 to 0.38. The change to LME increased state grants to all students, while the change to AFR reduced the family contribution and increased state grants to those students with an AFR greater than \$0.

Additionally, recent changes to the Pell Grant program raised the maximum Pell Grant award by \$150, leading to a decrease in total projected State Grant spending for the 2020-2021 biennium. This spending reduction is captured in the State Grant projections for Fiscal Year 2021.

¹ Minnesota Statute 136A.121 Subd6a

² Minnesota Statute 136A.101 Subd5a

Fiscal Years 2018 and 2019 — Actual Spending

This report presents final spending totals for the Minnesota State Grant program for the 2018-2019 biennium as of November 1, 2019.

State Grant spending totaled \$195.967 million for Fiscal Year 2018 and \$208.791 million for Fiscal Year 2019 for a biennial total of \$404.759 million. This compares to base resources of \$404.855 million for the biennium (\$396.562 base appropriation and transfers of \$8.3 million in unexpended funds other programs). The difference between base resources and total spending was positive \$0.096 million or 0.02% below appropriations.

Table 1: Spending versus Resources FY2018-2019 (in millions)*

	FY2018	FY2019	Biennium
Base resources	\$198.206	\$206.649 ⁱ	\$404.855
Spending	<u>+(195.967)</u>	<u>+(208.791)</u>	<u>+(404.759)</u>
Difference between resources and spending	\$2.239	\$(2.143)*	\$0.096 -0.02% below appropriations

* Figures rounded. ⁱ Base resources for Fiscal Years 2018 and 2019 include unexpended funds transferred from other programs totaling \$8.3 million.

The LME was increased to \$9,900 for Fiscal Year 2019 under OHE’s statutory authority, per 136A.121 Subd. 7a. This figure is roughly equivalent to 109% of the poverty level in Fiscal Year 2019, for a nine-month school year.

Fiscal Years 2020 & 2021 — Spending Projection

This report presents spending projections for the Minnesota State Grant program for the 2020-2021 biennium as of November 1, 2019. The law requires spending projection updates to occur by November 1 and February 15 of each Fiscal Year. Information on enrollment and tuition and fee changes was provided by institutional representatives on October 18, 2019.

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 2020 and 2021 using Fiscal Year 2019 actual spending data and award parameters in law as of November 1, 2019; 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 starts on page four.

In 2019, the Minnesota State Legislature adopted a language change, which raised the Living and Miscellaneous Expense allowance (LME) to 106% of the poverty level guideline³ and lowered the Assigned Family Responsibility (AFR) for dependent students from 0.84 to 0.82⁴, independent students with dependents from 0.76 to 0.74⁴, and independent students with no dependents from 0.40 to 0.38⁴. The change to LME increased state grants to all students, while the change to AFR reduced the family contribution and increased state grants to those students with an AFR greater than \$0.

Results

The Office forecasts State Grant spending to be \$204.147 million for Fiscal Year 2020 and \$197.211 million for Fiscal Year 2021 for a biennial total of \$400.971 million. This compares to base resources of \$414.874 million for the biennium or positive \$13.903 million (3.4% below appropriations), shown in Table 2.

This projection represents an increase in the projected spending balance compared to the November 1, 2019 projections report. This increase is primarily due to recent changes to the Pell Grant, signed into law on December 20, 2019. These changes raised the maximum Pell Grant award by \$150, leading to a decrease in total projected State Grant spending for the 2020-2021 biennium.

³ Minnesota Statute 136A.121 Subd6a

⁴ Minnesota Statute 136A.101 Subd5a

The changes modeled are the Office’s best estimates as of February 13, 2020 and are subject to change, based on updated information on enrollment, tuition, and family incomes. State statute 136A.121 Subd. 7a grants the Office authority to increase the LME in the second year of the biennium to make sure the State Grant program is fully allocated while ensuring sufficient resources to meet the projected demand.

Table 2: Spending Forecast versus Resources FY2020-2021 (in millions)

	FY2020	FY2021	Biennium
Base resources	\$207.437	\$207.437	\$414.874
Spending projection	+(203.760)	+(197.211)	+(400.971)
Difference between resources and spending	\$3.677	\$10.226	\$13.903 -3.4% below appropriations

Assumptions

The Minnesota State Grant spending forecast for each Fiscal Year relies on a series of adjustments and the program parameters shown in Table 3.

Table 3: Minnesota State Grant Award Parameters

	FY2018	FY2019	FY2020	FY2021
	ACTUAL	ACTUAL	ACTUAL	PROJECTED
Living and Miscellaneous Expense Allowance	\$9,135	\$9,900 ⁱⁱ	\$9,930	\$10,144 ⁱ
Assigned Student Responsibility	50.0%	50.0%	50.0%	50.0%
Tuition and Fee Maximums				
Students in Two-Year Programs	\$5,790	\$5,790	\$5,963	\$6,142 ⁱ
Students in Four-Year Programs	\$14,488	\$14,790	\$15,142	\$15,445 ⁱ
Federal Pell Grant Maximum	\$5,920	\$6,095	\$6,195	\$6,345 ⁱ
Rationing Surcharge on Assigned Family Responsibility	0%	0%	0%	0%
Proration for the Assigned Family Responsibility				
Dependent Students (Parent Contribution)	84%	84%	82%	82%
Independent Students with Dependents (Student Contribution)	76%	76%	74%	74%
Independent Students without Dependents (Student Contribution)	40%	40%	38%	38%

ⁱ Estimated; ⁱⁱ Increased under OHE authority in statute (Minnesota Statute 136A.121 Subd7a).

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 the contiguous 48 states for a nine-month period. The U.S. Department of Health and Human Services issues Federal Poverty Guidelines annually on January 31. Under Minnesota law, the LME is equal to the Federal Poverty Guidelines plus six percent. Table 4 displays the annual figures for the Living and Miscellaneous Expense Allowance.

In its November 2019 State Grant projections report, the office had previously projected the LME parameter for 2021 to be \$10,098, based on 10-year average changes to the Consumer Price Index (+1.7%). The actual poverty guidelines released January 31, 2020 represented a 2.2% increase from 2019. As a result, the LME based on state law is \$10,144 for Fiscal Year 2021.

Table 4: Federal Poverty Guidelines

	FY2018	FY2019	FY2020	FY2021
Poverty Guidelines Year	2017	2018	2019	2020
	ACTUAL	ACTUAL	ACTUAL	ACTUAL
Federal Poverty Guidelines – 1 person in family/household, 48 contiguous states	\$12,060	\$12,140	\$12,490	\$12,760
Increase %	+1.5%	+0.7%	+2.9%	+2.2%
Multiplier for 9-month time period	0.75	0.75	0.75	0.75
Inflator in Minnesota law	101%	101%	106%	106%
Living and Miscellaneous Expense Allowance	\$9,135	\$9,900 ⁱ	\$9,930	\$10,144

ⁱ Increased under OHE authority in statute (Minnesota Statutes 136A.121 Subd7a).

Change in Wages

The state grant spending projection incorporates data about changes in wages of Minnesota tax filers from Minnesota Management and Budget (MMB). MMB uses the tax filer data in projections of state revenue and spending across multiple agencies and updates the information each March. For Fiscal Year 2021 projections, the model utilizes data from applicable tax years to update student and family wages and adjusted gross incomes. Following the March 2019 budget forecast, the Office adjusted the assumption for changes in average wages of Minnesota tax filers. Current assumptions appear in Table 5. 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 occurred for Fiscal Year 2018.

Table 5: Change in Annual Wages, Minnesota

	FY2018 tax year 2015	FY2019 tax year 2016	FY2020 tax year 2017	FY2021 tax year 2018
One-Year Change in Average Wages	n/a ⁱ	+1.9%	+3.5%	+3.7%

Enrollment Assumptions

The State Grant spending forecast also incorporates estimated changes in the number of Minnesota resident undergraduates enrolling at each institution. Table 6 shows information about enrollment changes for Fiscal Years 2018-2021. Overall enrollment changes serve to estimate changes in the number of Minnesota resident aid applicants. The Office revises enrollment assumptions 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 \$2.0 million. Overall, fall 2019 enrollments declined for the eighth-straight year.

Figure 1: Count of Minnesota Resident Undergraduates in Fall Term, 2010-2019

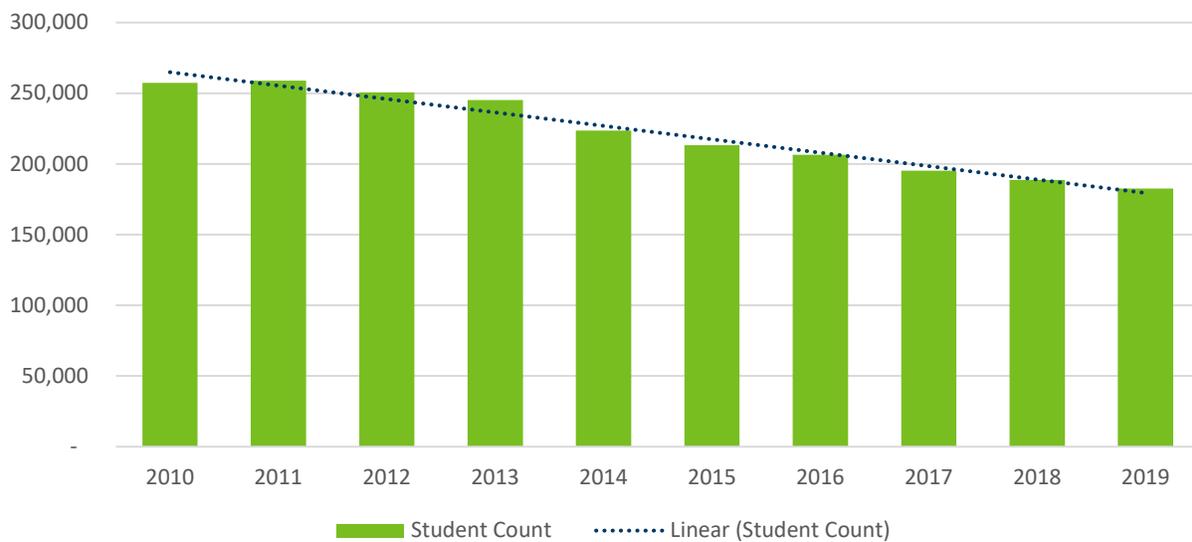


Table 6: Enrollment Assumptions

Fiscal Year	2018	2019	2020	2020	2021
	Fall 2017	Fall 2018	Fall 2019	Fall 2019	Fall 2020
System	ACTUAL	ACTUAL	PROJECTED	ACTUAL	PROJECTED
Minnesota State Colleges	-2.1%	-1.8%	-0.3%	-2.8%	+0.9%
Minnesota State Universities	-2.2%	-2.6%	-1.9%	-3.5%	-1.9%
University of Minnesota Twin Cities	+1.0%	+0.04%	+0.5%	+0.6%	+0.08%
University of Minnesota System Total	+0.7%	+0.04%	+0.5%	-0.6%	+0.03%
Private Not-for-Profit Institutions	-0.6%	+0.5%	0.0%	-0.5%	0.0%
Private For-Profit Institutions	-2.0%	0% to +4.0%	0% to +5.0%	-6.0%	+4.0%

Pell Grant Changes in Law

For academic year 2019-2020 (Fiscal Year 2020), the Pell Grant maximum increased to \$6,195. The 2019 appropriations bill included an increase to the Pell Grant, further raising the maximum award to \$6,345 for Fiscal Year 2021. The Office will continue to monitor Congressional activity regarding funding of the federal Pell Grant program, and future projections will include updated Pell Grant amounts.

The State Grant award formula maintains a dollar for dollar relationship with the student's Pell Grant, and increases or reductions in the federal Pell Grant amounts will impact State Grant spending. Table 7 lists the current federal Pell Grant parameters.

Table 7: Federal Pell Grant Award Parameters

	FY2018	FY2019	FY2020	FY2021
	ACTUAL	PROJECTED	PROJECTED	PROJECTED
Pell Grant Minimum Award	\$596	\$650	\$650	\$639
Pell Grant Maximum Award	\$5,920	\$6,095	\$6,195	\$6,345
Award Formula: Expected Family Contribution (EFC)	Maximum Pell – EFC	Maximum Pell - EFC	Maximum Pell - EFC	Maximum Pell - EFC
Qualifying EFC	\$0 - \$5,328	\$0 - \$5,486	\$0 - \$5,576	\$0 - \$5,711

Tuition and Fee Increases

The Office gathered information about tuition and fee increases for Fiscal Years 2018-2021 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.

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

	FY2018	FY2019	FY2020	FY2021
System	ACTUAL	ACTUAL	ACTUAL	PROJECTED
Minnesota State Colleges	+1.0%	+0.2%	+2.9%	+3.0% ⁱ
Minnesota State Universities	+3.7%	+0.4%	+3.4%	+3.0% ⁱ
University of Minnesota	+1.0%	+1.4%	+2.3%	+1% to +3%
Private Not-for-Profit Institutions ⁱⁱ	+3.0%	+3.8%	+3.3%	+3.5%
Private For-Profit Institutions ⁱⁱ	+1.0%	0% to +4%	+0.9%	-0.50%

ⁱ Tuition estimates for Minnesota State Colleges and Universities reflect estimates made by OHE for use in cost projections for State Grant and other financial aid programs.

ⁱⁱ 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 August 2019. The U.S. Department of Education releases annual updates to the tables in the statutory “Federal Methodology Need Analysis” used to determine a student’s EFC.

Next Report

The next report on Minnesota State Grant spending is due to the Legislature by November 1, 2020.