



November 1, 2021

The Honorable Connie Bernardy, Chair  
Higher Education and Career Readiness Policy and Finance  
563 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 2020-2021*

State Grant spending totaled \$207.937 million for fiscal year 2020 and \$200.739 million for fiscal year 2021 for a biennial total of \$408.676 million. This compares to base resources of \$416.194 million for the biennium (\$414.874 million base appropriation and transfers of \$1.320 million in unexpended funds other programs). The difference between base resources and total spending was positive \$7.518 million or 1.8% below available resources.

*Fiscal Years 2022-2023*

Due to continued volatility resulting from the COVID-19 pandemic, the Office of Higher Education has prepared two possible spending estimates for the biennium. The spending projection for fiscal year 2022 ranges from \$185-.079 million to \$200.598 million, and the spending projection for fiscal year 2023 ranges from \$189.102 million to \$206.289 million. Total spending for the biennium is projected to range from \$374.182 million and \$406.888 million. This compares to base resources of \$414.874 million for the biennium. The difference between base resources and total spending ranges from positive \$13.186 million to \$45.892 million (3.1%-10.9% below appropriations).

Additionally, The Office of Higher Education is currently working on determining the impact of federal changes to state financial aid programs as well as identifying technical and other statutory changes resulting from the passage of the FAFSA Simplification Act. Changes that may have an impact on your constituents and their families include changes to the federal needs analysis and the federal Pell Grant.

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,

Dennis Olson  
Commissioner

Enclosure

cc: Rep. Michelle Christensen, Vice Chair  
Rep. Sondra Erickson  
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Rep. Jon Koznick  
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Ken Savary

# **Minnesota State Grant Projections**

**Fiscal Years 2020-2021 & 2022-2023**

November 1, 2021

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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 \$210 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.

**About This Report**

This is a legislative-mandated report. As requested by Minnesota Statutes, section 3.197, this report cost approximately \$\_\_\_\_\_ to prepare, including staff time.

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# Executive Summary

This report presents actual spending for the Minnesota State Grant program for the 2020-2021 biennium and projected spending for the 2022-2023 biennium as of November 1, 2021, 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 2022 and 2023 using fiscal year 2021 actual spending data and award parameters in law as of November 1, 2021 as well as 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 five of this report.

## The results of the projections are:

- Fiscal years 2020-2021: State Grant spending totaled \$207.937 million for fiscal year 2020 and \$200.739 million for fiscal year 2021 for a biennial total of \$408.676 million. This compares to base resources of \$416.194 million for the biennium (\$414.874 million base appropriation and transfers of \$1.320 million in unexpended funds other programs). The difference between base resources and total spending was positive \$7.518 million or 1.8% below available resources.
- Fiscal years 2022-2023: Due to continued volatility resulting from the COVID-19 pandemic, the Office of Higher Education has prepared two possible spending estimates for the biennium. The spending projection for fiscal year 2022 ranges from \$185.079 million to \$200.598 million, and the spending projection for fiscal year 2023 ranges from \$189.102 million to \$206.289 million. Total spending for the biennium is projected to range from \$374.182 million and \$406.888 million. This compares to base resources of \$414.874 million for the biennium. The difference between base resources and total spending ranges from positive \$13.186 million to \$45.892 million (3.1%-10.9% below appropriations).

Projections for fiscal years 2022 and 2023 take into account an analysis of FAFSAs completed, which notes that the lower-income students experienced larger enrollment declines and more moderate increases to Expected Family Contributions relative to middle- and higher-income students. Projections are moderated to control for this shift.

## COVID-19 impacts on State Grant spending projections

- Following the onset of the COVID-19 pandemic, fall 2020 enrollment declined across most sectors. This trend continued in fall 2021, with an average statewide enrollment decline of -4.2% and continues to impact State Grant spending projections for fiscal years 2022-2023.

# Fiscal Years 2020 & 2021 — Actual Spending

This report presents actual Minnesota State Grant program spending for fiscal years 2020 and 2021 and spending projections for the State Grant program for fiscal years 2022 and 2023 as of November 1, 2021. 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 8, 2021.

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 2022, and 2023 using fiscal year 2021 actual spending data and award parameters in law as of November 1, 2021; 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 five.

State Grant spending totaled \$207.937 million for fiscal year 2020 and \$200.739 million for fiscal year 2021 for a biennial total of \$408.676 million. This compares to base resources of \$416.194 million for the biennium (\$414.874 base appropriation and transfers of \$1.32 million in unexpended funds other programs). The difference between base resources and total spending was positive \$7.518 million or 1.8% below available resources.

**Table 1: Spending versus Resources FY2020-2021 (in millions)**

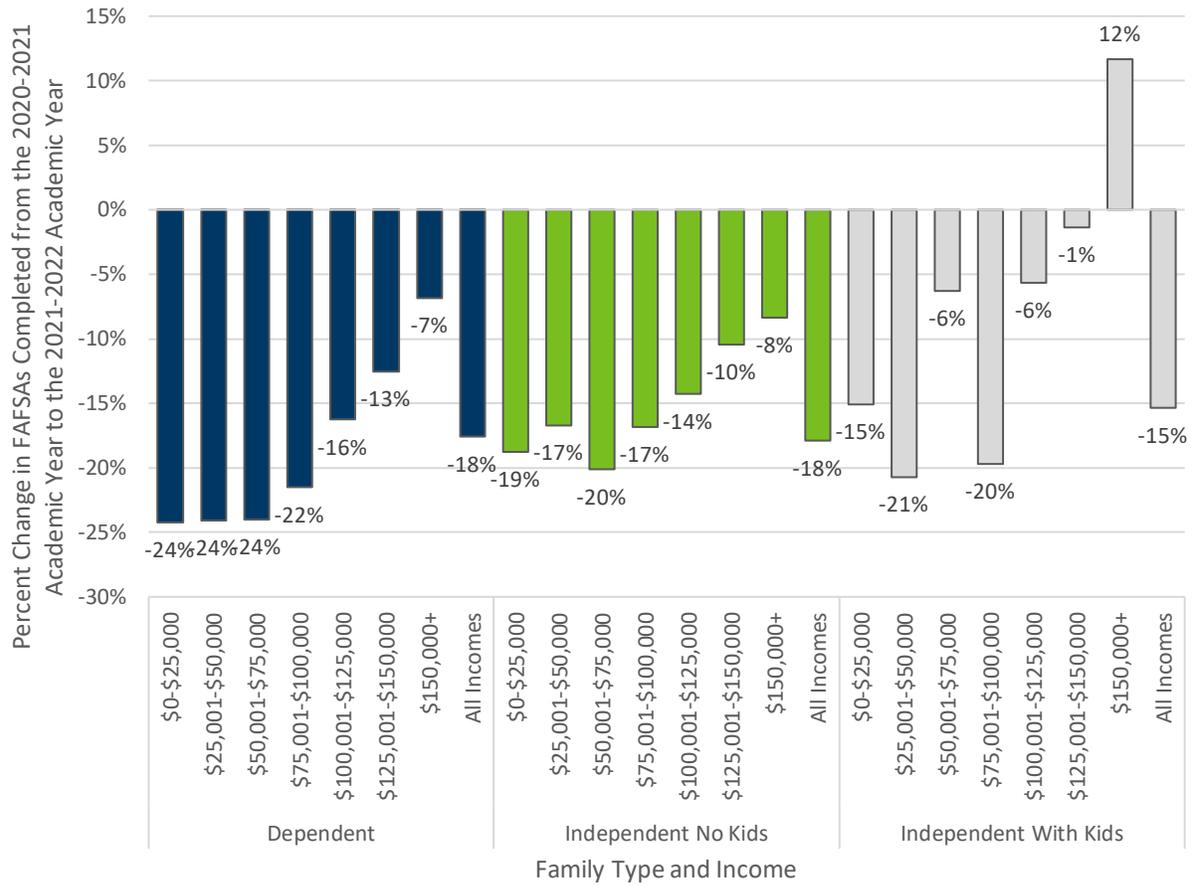
|   | <b>FY2020</b>          | <b>FY2021</b>     | <b>Biennium</b>                           |
|---|------------------------|-------------------|---|
| Base resources                            | \$208.757 <sup>i</sup> | \$207.437         | \$416.194                                 |
| Spending                                  | <u>+\$207.937</u>      | <u>+\$200.739</u> | <u>+\$408.676</u>                         |
| Difference between resources and spending | \$0.820                | \$6.698           | \$7.518<br>1.8% below available resources |

<sup>i</sup> Base resources for fiscal year 2020 include unexpended funds from other programs (\$1.32 million).

The Living and Miscellaneous Expense Allowance (LME) was increased to \$10,530 for fiscal year 2021 under OHE’s statutory authority, per 136A.121 Subd. 7a. This figure is roughly equivalent to 110% of the poverty level in fiscal year 2021, prorated for a nine-month school year.

Projections for fiscal years 2022 and 2023 take into account an analysis of FAFSAs completed, which notes that the lower-income students experienced larger enrollment declines relative to middle- and higher-income students. Across most family types, the number of students completing a FAFSA declined at a higher rate at incomes \$0-\$75,000 as shown in Figure 1.

**Figure 1. Comparison of FAFSAs Completed as of October 8<sup>th</sup> by Family Type and Income**



# Fiscal Years 2022 & 2023 — Spending Projection

Due to continued volatility resulting from the COVID-19 pandemic, the Office has prepared two possible spending estimates for fiscal years 2022 and 2023. The spending projection for fiscal year 2022 is \$185.079 million to \$200.598 million, and the spending projection for fiscal year 2023 is \$189.102 million to \$206.289 million. Total spending for the biennium is projected to be between \$374.182 million and \$406.888 million. This compares to base resources of \$420.074 million for the biennium. The difference between base resources and total spending is positive \$13.186 million to \$45.892 million (3.1%-10.9% below appropriations). See table 2a for detail on the high estimate of spending for the biennium and table 2b for the low estimate of spending for the biennium.

The changes modeled are the Office’s best estimates as of November 1, 2021, and are subject to change, based on updated information on enrollment, tuition, and family incomes.

**Table 2a: HIGH Spending Forecast versus Resources FY2022-2023 (in millions)**

|   | <b>FY2022</b>     | <b>FY2023</b>     | <b>Biennium</b>                       |
|---|-------------------|-------------------|---------------------------------------|
| Base resources                            | \$210.037         | \$210.037         | \$420.074                             |
| Spending projection                       | <u>+\$200.598</u> | <u>+\$206.289</u> | <u>+\$406.888</u>                     |
| Difference between resources and spending | \$9.439           | \$3.748           | \$13.186<br>3.1% below appropriations |

**Table 2b: LOW Spending Forecast versus Resources FY2022-2023 (in millions)**

|   | <b>FY2022</b>     | <b>FY2023</b>     | <b>Biennium</b>                        |
|---|-------------------|-------------------|--|
| Base resources                            | \$210.037         | \$210.037         | \$420.074                              |
| Spending projection                       | <u>+\$185.079</u> | <u>+\$189.102</u> | <u>+\$374.182</u>                      |
| Difference between resources and spending | \$24.958          | \$20.935          | \$45.892<br>10.9% 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**

|  | <b>FY2020</b> | <b>FY2021</b>         | <b>FY2022</b> | <b>FY2023</b>          |
|--|---------------|-----------------------|---------------|------------------------|
|  | ACTUAL        | ACTUAL                | ACTUAL        | PROJECTED              |
| Living and Miscellaneous Expense Allowance                     | \$9,930       | \$10,530 <sup>i</sup> | \$10,530      | \$10,733 <sup>ii</sup> |
| Assigned Student Responsibility                                | 50%           | 50%                   | 50%           | 50%                    |
| <b>Tuition and Fee Maximums</b>                                |               |                       |               |                        |
| Students in Two-Year Programs                                  | \$5,963       | \$6,113               | \$6,287       | \$6,507                |
| Students in Four-Year Programs                                 | \$15,142      | \$15,142              | \$15,368      | \$15,599               |
| Federal Pell Grant Maximum                                     | \$6,195       | \$6,345               | \$6,495       | \$6,495 <sup>ii</sup>  |
| Rationing Surcharge on Assigned Family Responsibility          | 0%            | 0%                    | 0%            | 0%                     |
| <b>Proration for the Assigned Family Responsibility</b>        |               |                       |               |                        |
| Dependent Students (Parent Contribution)                       | 82%           | 82%                   | 79%           | 79%                    |
| Independent Students with Dependents (Student Contribution)    | 74%           | 74%                   | 71%           | 71%                    |
| Independent Students without Dependents (Student Contribution) | 38%           | 38%                   | 35%           | 35%                    |

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

## Federal Poverty Guidelines – Living and Miscellaneous Expense Allowance

The LME 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.

The Office projects the LME parameter to increase by 1.93% annually for fiscal year 2023, based on 10-year average changes to the Consumer Price Index. LME projections will be updated in the February 15, 2022 projections report following updates to the Federal Poverty Guidelines.

**Table 4: Federal Poverty Guidelines**

|   | FY2020   | FY2021                | FY2022   | FY2023                 |
|---|----------|-----------------------|----------|------------------------|
| <b>Poverty Guidelines Year</b>  | 2019     | 2020                  | 2021     | 2022                   |
|   | ACTUAL   | ACTUAL                | ACTUAL   | PROJECTED              |
| Federal Poverty Guidelines – 1 person in family/household, 48 contiguous states | \$12,490 | \$12,760              | \$12,880 | \$13,129 <sup>ii</sup> |
| Increase %  | 2.90%    | 2.16%                 | 0.94%    | 1.93%                  |
| Multiplier for 9-month time period  | 0.75     | 0.75                  | 0.75     | 0.75                   |
| Inflator in Minnesota law   | 106%     | 106%                  | 109%     | 109%                   |
| Living and Miscellaneous Expense Allowance                                      | \$9,930  | \$10,530 <sup>i</sup> | \$10,530 | \$10,733 <sup>ii</sup> |

<sup>i</sup> Increased under OHE authority in statute (Minnesota Statutes 136A.121 Subd7a); <sup>ii</sup> Estimated

## 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. Following the March 2021 budget forecast, the Office adjusted the assumption for changes in average wages of Minnesota tax filers. For fiscal year 2020-2021 projections, the model utilizes data from applicable tax years to update student and family wages and adjusted gross incomes. For fiscal year 2022 and 2023 projections, estimated changes in wages are derived from estimates provided by MMB derived from the Employment Cost Index. Current assumptions appear in Table 5.

**Table 5: Change in Annual Wages, Minnesota**

|                                  | FY2020<br>tax year 2017 | FY2021<br>tax year 2018 | FY2022<br>tax year 2019 | FY2023<br>tax year 2020 |
|----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| One-Year Change in Average Wages | +2.2%                   | +3.5%                   | +3.0%                   | +2.8%                   |

## 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 2020-2023. 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. Following the onset of the COVID-19 pandemic, fall 2020 enrollment declined across most sectors. This trend continues in fall 2021.

**Table 6: Enrollment Assumptions**

|   | FY2020    | FY2021    | FY2022    | FY2022    | FY2023    |
|---|-----------|-----------|-----------|-----------|-----------|
|   | Fall 2019 | Fall 2020 | Fall 2021 | Fall 2021 | Fall 2022 |
| System  | ACTUAL    | ACTUAL    | PROJECTED | ACTUAL    | PROJECTED |
| Minnesota State Colleges                              | -2.1%     | -7.4%     | 0.4%      | -6.8%     | 1.3%      |
| Minnesota State Universities                          | -3.0%     | -4.3%     | -2.6%     | -6.0%     | 0.1%      |
| University of Minnesota<br>Twin Cities                | 5.6%      | 1.53%     | 0.00%     | 1.30%     | -0.5%     |
| University of Minnesota<br>Crookston, Duluth & Morris | -0.6%     | -6.74%    | 0.00%     | -4.05%    | 1.8%      |
| Private Not-for-Profit<br>Institutions                | -0.5%     | -2.4%     | 2.0%      | -3.6%     | 0.0%      |
| Private For-Profit Institutions                       | -6.0%     | -0.6%     | 2.0%      | -6.0%     | -2.0%     |

## Pell Grant Changes in Law

A federal appropriations bill passed late in calendar year 2020 raised the Pell Grant maximum to \$6,495 for fiscal year 2022, following raises to the Pell Grant maximum in the two prior years. Currently federal appropriations for the Pell Grant program for fiscal year 2023 has not been approved by Congress. 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**

|  | FY2020                | FY2021                | FY2022                | FY2023                |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | ACTUAL                | ACTUAL                | ACTUAL                | PROJECTED             |
| Pell Grant Minimum Award                             | \$650                 | \$639                 | \$650                 | \$650                 |
| Pell Grant Maximum Award                             | \$6,195               | \$6,345               | \$6,495               | \$6,495               |
| Award Formula:<br>Expected Family Contribution (EFC) | Maximum<br>Pell - EFC | Maximum<br>Pell - EFC | Maximum<br>Pell - EFC | Maximum<br>Pell - EFC |
| Qualifying EFC                                       | \$0 - \$5,576         | \$0 - \$5,711         | \$0 - \$5,846         | \$0 - \$5,846         |

## Tuition and Fee Increases

The Office gathered information about tuition and fee increases for fiscal years 2020-2023 from institutional and system representatives. Table 8 details actual and estimated tuition and fee increases for State Grant calculations as reported by institutions for use in spending projections.

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

|  | FY2020 | FY2021 | FY2022            | FY2023             |
|--|--------|--------|-------------------|--------------------|
| System   | Actual | Actual | Actual            | Projected          |
| Minnesota State Colleges                           | 2.9%   | 1.8%   | 3.9% <sup>i</sup> | 3.5% <sup>ii</sup> |
| Minnesota State Universities                       | 3.4%   | 1.4%   | 7.1% <sup>i</sup> | 3.5% <sup>ii</sup> |
| University of Minnesota                            | 2.3%   | 0%     | 1.7%              | 0% to 3%           |
| Private Not-for-Profit Institutions <sup>iii</sup> | 3.3%   | 3.4%   | 1.8%              | 3.0%               |
| Private For-Profit Institutions <sup>iii</sup>     | 0.9%   | 1.0%   | 1.5%              | -3.0%              |

<sup>i</sup> Unadjusted for tuition reset authorized in state law. <sup>ii</sup> 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. <sup>iii</sup> 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 July 2021. 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 February 15, 2022.