



November 1, 2022

The Honorable Connie Benardy, Chair
Higher Education Finance and Policy
563 Rev. Dr. Martin Luther King Jr. Blvd.
St Paul, Minnesota 55155

Dear Representative Benardy:

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 2022-2023

State Grant spending totaled \$202.135 million for fiscal year 2022. The spending projection for fiscal year 2023 is \$196.242 million for a biennial total of \$398.377 million. This compares to base resources of \$420.074 million for the biennium. The projected difference between base resources and total spending is positive \$21.697 million, or 5% below available resources. Of that total, the legislature increased State Grant base appropriations \$5 million in fiscal years 2022, 2023 and beyond.

Fiscal Years 2024-2025

The spending projection for fiscal year 2024 is \$213.760 million, and the spending projection for fiscal year 2025 is \$151.251 million. Total spending for the biennium is projected to be \$365.011 million. This compares to base resources of \$420.074 million for the biennium. The projected difference between base resources and total spending is positive \$55.063 million, or 13% below available resources.

Projections for fiscal year 2023 take into consideration large enrollment declines in fall 2022. Projections for fiscal year 2025 include the estimated impact of the FAFSA Simplification Act passed by Congress in December 2019. This legislation includes major changes to the federal needs analysis, renames the Expected Family Contribution (EFC) to the Student Aid Index (SAI), and significantly modifies the awarding formula for the federal Pell Grant. These changes are expected to go into effect for fiscal year 2025 (2024-2025 academic year), and are projected to have a significant impact on State Grant spending. Current estimates use reference tables published in law, adjusted for estimated inflation.

The report can be viewed online at <http://www.ohe.state.mn.us/mPg.cfm?pageID=1553>. Feel free to contact myself or the report authors if you have questions or would like more information.

Sincerely,

Dennis Olson
Commissioner

Enclosure

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Minnesota State Grant Projections Fiscal Years 2022-2023 and 2024-2025

November 1, 2022

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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 \$2,563.27 to prepare, including staff time.

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Executive Summary

This report presents projected spending for the Minnesota State Grant program for the 2022-2023 biennium and the 2024-2025 biennium as of November 1, 2022, 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 2023, 2024, and 2025. It uses fiscal year 2022 actual spending data and award parameters in law as of November 1, 2022 along with 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 2022-2023: State Grant spending totaled \$202.135 million for fiscal year 2022. The spending projection for fiscal year 2023 is \$196.242 million for a biennial total of \$398.377 million. This compares to base resources of \$420.074 million for the biennium. The projected difference between base resources and total spending is positive \$21.697 million, or 5% below available resources.
- Fiscal years 2024-2025: The spending projection for fiscal year 2024 is \$213.760 million, and the spending projection for fiscal year 2025 is \$151.251 million. Total spending for the biennium is projected to be \$365.011 million. This compares to base resources of \$420.074 million for the biennium. The projected difference between base resources and total spending is positive \$55.063 million, or 13% below available resources.

Projections for fiscal year 2023 take into consideration large enrollment declines in fall 2022. Projections for fiscal year 2025 include the estimated impact of the FAFSA Simplification Act passed by Congress in December 2019. This legislation includes major changes to the federal needs analysis, renames the Expected Family Contribution (EFC) to the Student Aid Index (SAI), and significantly modifies the awarding formula for the federal Pell Grant. These changes are expected to go into effect for fiscal year 2025 (2024-2025 academic year), and are projected to have a significant impact on State Grant spending. Current estimates use reference tables published in law, adjusted for estimated inflation.

Fiscal Years 2022 and 2023 - Spending Projection

This report presents actual Minnesota State Grant program spending for fiscal year 2022 and spending projections for fiscal years 2023, 2024, and 2025 as of November 1, 2022. State 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 14, 2022.

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 2023, 2024, and 2025 using fiscal year 2022 actual spending data and award parameters in law as of November 1, 2022; 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 \$202.135 million for fiscal year 2022. The spending projection for fiscal year 2023 is \$196.242 million for a biennial total of \$398.377 million. This compares to base resources of \$420.074 million for the biennium. The projected difference between base resources and total spending is positive \$21.697 million or 5% below available resources.

Table 1: Spending versus Resources FY2022-2023 (in millions)

	FY2022	FY2023	Biennium
Base resources	\$210.037	\$210.037	\$420.074
Spending	<u>+(202.135)</u>	<u>+(196.242)</u>	<u>+(398.377)</u>
Difference between resources and spending	\$7.902 ⁱ	\$13.795	\$21.697 5% below appropriations

ⁱ Preliminary

The Living and Miscellaneous Expense allowance (LME) was increased to \$11,418 for fiscal year 2023 under OHE’s statutory authority, per 136A.121 Subd. 7a. This figure is roughly equivalent to 112% of the poverty level in fiscal year 2023, prorated for a nine-month school year.

Fiscal Years 2024 and 2025 - Spending Projection

The spending projection for fiscal year 2024 is \$213.760 million, and the spending projection for fiscal year 2025 is \$151.251 million. Total spending for the biennium is projected to be \$365.011 million. This compares to base resources of \$420.074 million for the biennium. The projected difference between base resources and total spending is positive \$55.063 million, or 13% below available resources.

Projections for fiscal year 2025 include the estimated impact of the FAFSA Simplification Act passed by Congress in December 2019. This legislation includes major changes to the federal needs analysis, renames the Expected Family Contribution (EFC) to the Student Aid Index (SAI), and significantly modifies the awarding formula for the federal Pell Grant. These changes are expected to go into effect for fiscal year 2025 (the 2024-2025 academic year), and are projected to have a significant impact on State Grant spending. Current estimates use reference tables published in law, adjusted for estimated inflation. These estimates are subject to change, pending further federal guidance, and assumes the current implementation of the 2024-2025 academic year.

The changes modeled are the Office’s best estimates as of November 1, 2022, and are subject to change, based on updated information on enrollment, tuition, family incomes, federal law, federal funding, and changes to the federal need analysis.

Table 2: Spending Forecast versus Resources FY2024-2025 (in millions)

	FY2024	FY2025	Biennium
Base resources	\$210.037	\$210.037	\$420.074
Spending projection	<u>+(213.760)</u>	<u>+(151.251)</u>	<u>+(365.011)</u>
Difference between resources and spending	\$(3.723)	\$58.786	\$55.063 13% below appropriations

Assumptions

The Minnesota State Grant spending projection 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

	FY2022	FY2023	FY2024	FY2025
	ACTUAL	ACTUAL	PROJECTED	PROJECTED
Living and Miscellaneous Expense Allowance	\$10,530	\$11,418 ⁱ	\$11,722 ⁱⁱ	\$12,368 ⁱⁱ
Assigned Student Responsibility	50%	50%	50%	50%
Tuition and Fee Maximums				
Students in Two-Year Programs	\$6,287	\$6,484	\$6,640 ⁱⁱ	\$6,799 ⁱⁱ
Students in Four-Year Programs	\$15,368	\$16,106	\$16,428 ⁱⁱ	\$16,757 ⁱⁱ
Federal Pell Grant Maximum	\$6,495	\$6,895	\$6,895 ⁱⁱ	\$6,895 ⁱⁱ
Rationing Surcharge on Assigned Family Responsibility	0%	0%	0%	0%
Proration for the Assigned Family Responsibility				
Dependent Students (Parent Contribution)	79%	79%	79%	79%
Independent Students with Dependents (Student Contribution)	71%	71%	71%	71%
Independent Students without Dependents (Student Contribution)	35%	35%	35%	35%

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

ⁱⁱ Estimated

Federal Poverty Guidelines - Living and Miscellaneous Expense Allowance

The Living and Miscellaneous Expense allowance (LME) is benchmarked to 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 nine percent. Table 4 displays the annual figures for the Living and Miscellaneous Expense Allowance.

The Office projects the LME to continue to increase by 5.51% annually for fiscal years 2024 and 2025, based on recent changes to the Federal Poverty Guidelines following a period of higher than historical inflation rates. LME estimates will be updated in the February 15, 2023 projections report following updates to the Federal Poverty Guidelines.

Table 4: Federal Poverty Guidelines

	FY2022	FY2023	FY2024	FY2025
Poverty Guidelines Year	2021	2022	2023	2024
	ACTUAL	ACTUAL	PROJECTED	PROJECTED
Federal Poverty Guidelines – 1 person in family/household, 48 contiguous states	\$12,880	\$13,590	\$14,339 ⁱⁱ	\$15,129 ⁱⁱ
Poverty Guideline Increase %	0.94%	5.51%	5.51% ⁱⁱ	5.51% ⁱⁱ
Multiplier for 9-month time period	0.75	0.75	0.75	0.75
Inflator in Minnesota law	0.09	0.09	0.09	0.09
Living and Miscellaneous Expense Allowance	\$10,530	\$11,418 ⁱ	\$11,722 ⁱⁱ	\$12,368 ⁱⁱ

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

ⁱⁱ Estimated

Change in Wages

The state grant spending projection incorporates data about changes in wages of Minnesota tax filers. Estimated changes in wages are derived from year-over-year changes in the Employment Cost Index. Current assumptions appear in Table 5.

Table 5: Change in Annual Wages, Minnesota

	FY2022 tax year 2019	FY2023 tax year 2020	FY2024 tax year 2021	FY2025 tax year 2022
One-Year Change in Average Wages	2.8%	3.1%	2.4%	5.8%

Enrollment Assumptions

The State Grant spending projection 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 2022 to 2025. 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 2022.

Table 6: Enrollment Assumptions

System	FY2022	FY2023	FY2023	FY2024	FY2025
	Fall 2021	Fall 2022	Fall 2022	Fall 2023	Fall 2024
	ACTUAL	PROJECTED	ACTUAL	PROJECTED	PROJECTED
Minnesota State Colleges	-6.4%	-0.7%	-3.0%	0.3%	1.5%
Minnesota State Universities	-5.5%	-0.6%	-5.0%	-0.7%	0.0%
University of Minnesota Twin Cities	1.30%	-0.5%	0.2%	1.0% ⁱ	1.0% ⁱ
University of Minnesota Crookston, Duluth & Morris	-4.05%	1.8%	-5.7%	1.0% ⁱ	1.0% ⁱ
Private Not-for-Profit Institutions	-3.6%	0.0%	-3.4%	0.0%	0.0%
Private For-Profit Institutions	-6.0%	-2.0%	-20.0%	-2.0%	6.5%

ⁱSystem-wide estimate

Pell Grant Changes in Law

The FAFSA Simplification Act passed by Congress in December 2019 raised the Pell Grant maximum to \$6,895 for fiscal year 2023 and authorized significant changes to the Pell Grant award formula, which has a direct impact on State Grant spending. 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

	FY2022	FY2023	FY2024	FY2025
	ACTUAL	ACTUAL	PROJECTED	PROJECTED
Pell Grant Minimum Award	\$650	\$690	\$690	\$690
Pell Grant Maximum Award	\$6,495	\$6,895	\$6,895	\$6,895
Award Formula: Expected Family Contribution (EFC)	Maximum Pell - EFC	Maximum Pell - EFC	Maximum Pell - EFC	See Table 7A
Qualifying EFC	\$0-\$5,846	\$0-\$6,206	\$0-\$6,206	Varies

Table 7a. FY 2025 Pell Grant Thresholds for Award Amounts Under the FAFSA Simplification Act

Dependency Status	Single Parent Status	Receives Maximum Pell Grant	Receives Greater of Minimum Pell Grant or Maximum Pell Grant-SAI	IF SAI<=90% of Maximum Pell Grant, Receives Maximum Pell Grant - SAI
Dependent	Single Parent	AGI Less than 225% of FPG ⁱ	226%-325%	326%+
Dependent	Not a Single Parent	Less than 175%	176%-275%	276%+
Independent	No Dependents	Less than 175%	176%-275%	276%+
Independent	With Dependents, Single Parent	Less than 225%	226%-400%	400%+
Independent	With Dependents, Not a Single Parent	Less than 175%	176%-350%	350%+

ⁱPell funding level eligibility is determined using Adjusted Gross Income (AGI) as a Percentage of Federal Poverty Guidelines (FPG)

Tuition and Fee Increases

The Office gathered information about tuition and fee increases for fiscal years 2022 to 2025 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. For fiscal year 2022, some Minnesota State institutions implemented a tuition reset as authorized in state law, resulting in tuition and fee increases that exceed the cap set in law.

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

	FY2022	FY2023	FY2024	FY2025
System	Actual	Actual	Projected	Projected
Minnesota State Colleges	3.9%	3.0%	2.4% ⁱ	2.4% ⁱ
Minnesota State Universities	7.1% ⁱⁱ	4.5% ⁱⁱ	3.4% ⁱ	3.4% ⁱ
University of Minnesota	1.7%	4.1%	1% to 3%	1% to 3%
Private Not-for-Profit Institutions ^{iv}	1.8%	4.0%	3.0%	3.0%
Private For-Profit Institutions ^{iv}	1.5%	4.3%	1.0%	8.0%

ⁱ Unadjusted for tuition reset authorized in state law.

ⁱⁱ Actual percent change in average tuition and fees charged for all terms of the 2021-2022 academic year. May differ from published rate changes.

ⁱⁱⁱ 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.

^{iv} 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 2022. 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, 2023.



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2022