



February 15, 2018

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.

Fiscal Years 2018-2019

The spending projection for fiscal year 2018 is \$194.465 million and for fiscal year 2019 is \$202.368 million, after the LME increase, compared to base resources of \$396.562 million for the biennium. The difference between resources and spending equals -\$0.27 million or -0.07%. Given this modest shortfall, OHE plans no changes to awarding parameter instructions to institutions, but will monitor spring payments. Should projected spending in June continue to show a shortfall, OHE will adjust awards in June 2018 to ensure the program stays within appropriations.

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 notified institutions in November 2017 that it would increase the Living and Miscellaneous Expense allowance (LME) to \$9,436 for fiscal year 2019. This change was estimated to be a \$100 increase in LME using information available in November but is now a \$240 increase as a result of changes in federal poverty guidelines. As reported in November, projected spending remains at approximately \$202M for FY2019 after the LME increase is taken into account.

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,

Lawrence J. Pogemiller
Commissioner

Enclosure

cc: Rep. Drew Christensen, Vice Chair
Rep. Gene Pelowski Jr.
Rep. Barb Haley
Rep. Ilhan Omar
Rep. Jennifer Schultz
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OFFICE OF
HIGHER EDUCATION

Minnesota State Grant Projections Fiscal Years 2018-2019

February 15, 2018

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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 February 15, 2018.

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>
Difference between resources and spending	\$5.063	\$(4.796)	\$0.267 (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 February 15, 2018. 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 and February 15, 2018.

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 February 2018; 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 appropriated an additional \$18 million annually (\$36M biennial increase) to the program beginning with Fiscal Year 2018. In addition, the 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 February 2018 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 13, 2018 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. One change from the November affect the Living and Miscellaneous Expense

Allowance or LME. Under Minnesota law, OHE is to set LME equal to the 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. In November, OHE utilized an estimate of 2.2% for inflation when projecting the LME parameter for FY2019 (\$9,366) based on the Consumer Price Index from September 2016 to September 2017 (+ 2.2%). On January 13, 2018, the Federal Department of Health and Human Services updated Federal poverty guidelines adjusting for +0.7% inflation. In consequence, the LME based on state law is \$9,196 as compared to OHE’s November estimate of \$9,336.

In November 2017, OHE issued awarding parameters to institutions with an LME of \$9,436 in anticipation of spending down any available spending balance within program under its authority in state law. OHE will maintain the LME at \$9,436 as institutional awarding parameters for Spring 2018 award estimates. OHE may adjust the final LME parameter in June 2018 to ensure the State Grant program spending remains within appropriations for FY2019.

Results

OHE forecasts State Grant spending to be \$194.465 million for fiscal year 2018 and \$202.368 million for fiscal year 2019 for a biennial total of \$396.832 million. This compares to base resources of \$396.562 million for the biennium or negative \$270,000 (0.07% above appropriations), as shown in Table 2. The Fiscal Year 2019 spending projection uses an LME of \$9,436. At this time, OHE plans no changes to awarding parameters. Spring semester and Summer II awards account for 48% of awards, thus OHE will monitor spring payments and will adjust parameters as needed in May-June 2018 when issuing final award parameters.

**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>+(194.465)</u>	<u>+(202.368)</u>	<u>+(396.832)</u>
Difference between resources and spending	\$3.816	\$(4.087)	\$(0.270) 0.07% over 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. OHE may adjust the final LME parameter in June 2018 to ensure the State Grant program spending remains within appropriations for FY2019.

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 ⁱⁱ	\$9,135	\$9,436 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	\$5,790	\$5,790 ⁱ
Students in Four-Year Programs	\$13,840	\$14,186	\$14,488	\$14,778 ⁱ
Federal Pell Grant Maximum	\$5,775	\$5,815	\$5,920	\$5,920
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%

ⁱ Estimated; ⁱⁱ increased under OHE authority in statute

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 period. The Department of Health and Human Services issues Federal Poverty Guidelines each January 31. Under Minnesota law, LME is equal to the federal poverty guidelines plus one percent. Table 4 displays the annual figures for the Living and Miscellaneous Expense Allowance.

The Federal Department of Health and Human Services updates Federal poverty guidelines each January based on changes in inflation as measured by the Consumer Price Index (CPI). For FY2018, the LME is \$9,135. In November, OHE utilized an estimate of 2.2% for inflation when projecting the LME parameter for FY2019 (\$9,366) based on CPI from September 2016 to September 2017 (+ 2.2%).

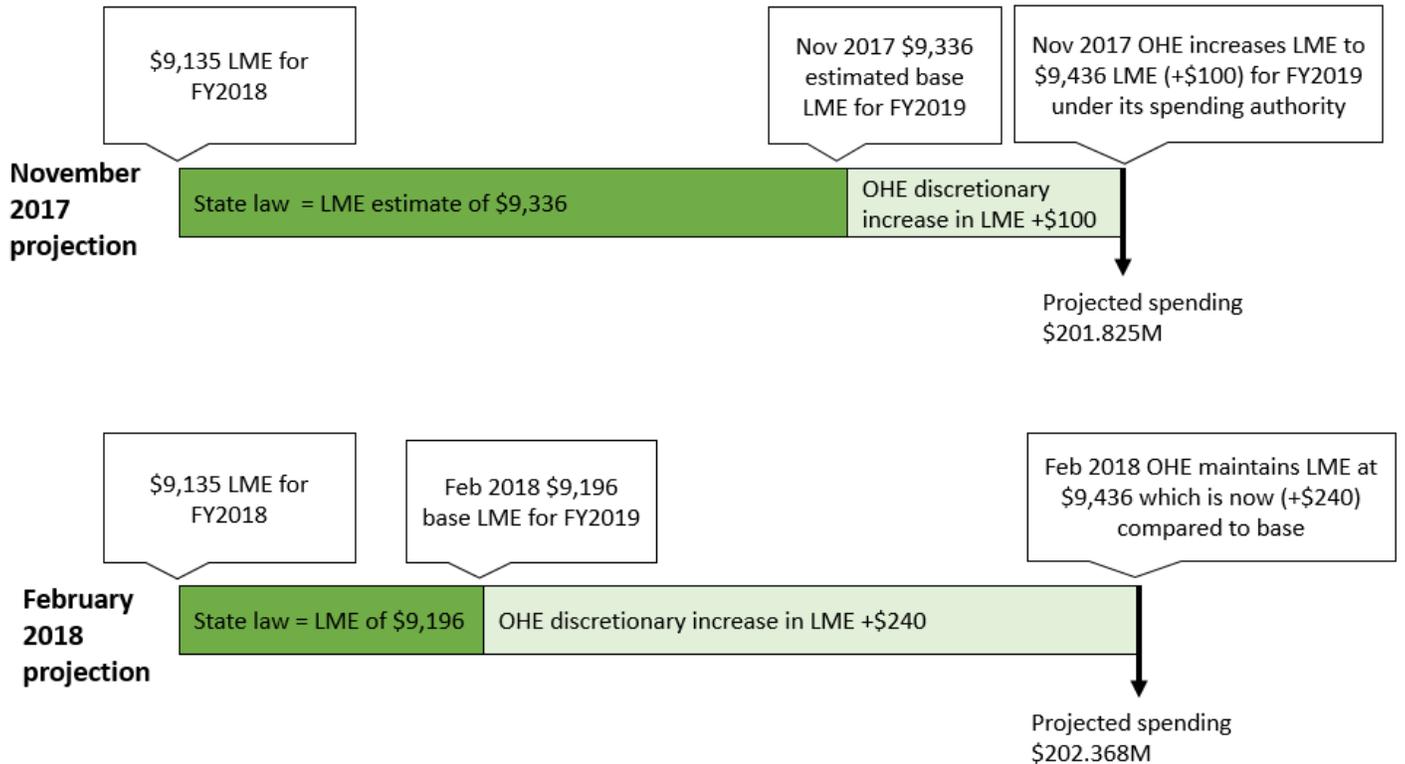
On January 13, 2018, the Federal Department of Health and Human Services updated Federal poverty guidelines adjusted for +0.7% inflation. In consequence, the LME based on state law is \$9,196 as compared to the LME estimate in OHE’s November projection report (\$9,336). On November 9, 2017, OHE issued awarding parameters to institutions increasing the LME to \$9,436 to spend down the projected spending balance in the program in FY2019, as shown in Figure 1.

**Table 4
Federal Poverty Guidelines**

	FY2016	FY2017	FY2018	FY2019	
Poverty Guidelines Year	2015	2016	2017	2018	
	ACTUAL	ACTUAL	ACTUAL	PROJECTED NOV 2017	ACTUAL FEB 2018
Federal Poverty Guideline – 1 person in family/household, 48 contiguous states	\$11,770	\$11,880	\$12,060	\$12,325	\$12,140
Increase %	+1.0%	+0.9%	+1.5%	+2.2% ^{iv}	+0.7%
Multiplier for 9-month time period	0.75	0.75	0.75	0.75	0.75
Inflator in Minnesota law	n/a	n/a	+1%	+1%	+1%
Living and Miscellaneous Expense Allowance	\$8,828	\$9,320 ⁱⁱⁱ	\$9,135	\$9,336	\$9,196

ⁱⁱⁱ OHE increased LME under its spending authority. ^{iv} Estimated

Figure 1. LME Parameters November 2017 compared to February 2018



Change in Wages

The state grant spending forecast model incorporates data about change 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 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 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

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 ^v	+2.7%

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

Enrollment Assumptions

The State Grant spending forecast also incorporated estimated enrollment changes in the number of Minnesota resident undergraduates enrolling at each institution. 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%	-0.4%
Minnesota State Universities	-1.5%	-1.1%	-0.8%	-2.4%	-1.1%
University of Minnesota Twin Cities Morris, Crookston, Duluth	-0.4%	+0.8%	+1.0%	+1.0%	+0.4%
	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% ^{vi}	-2.0%

^{vi} 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. 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.

The U.S. Department of Education published the 2018-2019 Federal Pell Grant Payment and Disbursement Schedules on January 31, 2018. Under Public Law 115-123 continuing appropriations, the maximum Pell Grant award will remain at \$5,920 for the 2018-2019 academic year. However, P.L. 115-123 expires on March 23, 2018. Congress must extend that law’s Pell Grant appropriation, or a similar measure, through September 30, 2018 in order to fund the award levels described above in 2018-2019. If subsequent 2018 appropriations legislation modifies the current maximum award for 2018-2019, the U.S. Department of Education will publish revised schedules. 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.

**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 ^{vii}
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

^{vii} As of January 31, 2018

Tuition and Fee Increases

OHE gathered information about tuition and fee increases for fiscal years 2016-2019 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. Public institutions do not finalize tuition and fee rates until June. 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 ^{viii}	+3.0%	+3.5%	+3%	+0%
Private For-Profit Institutions ^{viii}	+2.5%	-2.0%	+1%	+1%

^{viii} 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 January 2018. 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, 2018 for Fiscal Years 2018, 2019, 2020 and 2021.

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