



November 1, 2018

The Honorable Rich Draheim, Vice Chair  
Higher Education Policy and Finance Committee  
3227 Minnesota Senate Building  
95 University Avenue West  
St. Paul, Minnesota 55155

Dear Senator Draheim:

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 \$194.019 million for fiscal year 2018 and is projected to total \$208.071 million for fiscal year 2019 for a biennial total of \$402.090 million. This compares to base resources of \$403.192 million for the biennium (\$396.560 base appropriation and transfers of \$5.4 million in unexpended funds from Tuition Reciprocity and \$1.23 million in unexpended funds from the Occupational Grant Program). The difference between base resources and total spending was positive \$1.102 million.

*Fiscal Years 2020-2021*

The spending projection for fiscal year 2020 is \$186.961 million and for fiscal year 2021 is \$187.145 million compared to base resources of \$396.712 million for the biennium.

Under current law, the LME is set to 101% of the poverty level, for a nine-month school year. The LME for fiscal year 2019 is set to \$9,900 (approximately 109% of the poverty level in fiscal year 2019) under OHE's statutory authority, per 136A.121 Subd. 7a. To maintain the current LME flat at \$9,900 for the next biennium would cost \$13.655 million for fiscal year 2020 and \$8.203 million for fiscal year 2021, for a total biennial cost of \$21.858 million. OHE's current spending projection estimates that base resources in the next biennium will be sufficient to cover this additional cost.

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: Sen. Greg Clausen  
Sen. Richard Cohen  
Sen Jerry Newton  
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Sen. Jim Abeler  
Sen. Jason Isaacson  
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Sen. Paul Anderson  
Sen. Scott Jensen  
Andrew Erickson  
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# Minnesota State Grant Projections Fiscal Years 2018-2019 & 2020 -2021

November 1, 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 more than \$198 million in need-based grants to Minnesota residents attending accredited institutions in Minnesota. The agency oversees 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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# Executive Summary

This report presents spending projections for the Minnesota State Grant program for the 2018-2019 and 2020-2021 biennia as of November 1, 2018, 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 2018-2021 using fiscal year 2018 actual spending data and award parameters in law as of November 1, 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 eight of this report.

The results of the projections are:

- **Fiscal Years 2018-2019:** State Grant spending totaled \$194.019 million for fiscal year 2018 and is projected to total \$208.071 million for fiscal year 2019 for a biennial total of \$402.090 million. This compares to base resources of \$403.192 million for the biennium (\$396.560 base appropriation and transfers of \$5.4 million in unexpended funds from Tuition Reciprocity and \$1.23 million in unexpended funds from the Occupational Grant Program). The difference between base resources and total spending was positive \$1.102 million.
- **Fiscal Years 2020-2021:** The spending projection for fiscal year 2020 is \$186.961 million and for fiscal year 2021 is \$187.145 million compared to base resources of \$396.712 million for the biennium.

Under current law, the Living and Miscellaneous Expense allowance (LME) is set to 101% of the poverty level, for a nine-month school year. The LME for fiscal year 2019 is set to \$9,900 (approximately 109% of the poverty level in fiscal year 2019) under OHE's statutory authority, per 136A.121 Subd. 7a. To maintain the current LME flat at \$9,900 for the next biennium would cost \$13.655 million for fiscal year 2020 and \$8.203 million for fiscal year 2021, for a total biennial cost of \$21.858 million. OHE's current spending projection estimates that base resources in the next biennium will be sufficient to cover this additional cost.

The next report on Minnesota State Grant spending is due to the Legislature by February 15, 2019.

# Fiscal Years 2018 and 2019 - Spending Projection

This report presents spending projections for the Minnesota State Grant program for the 2018-2019 biennium as of November 1, 2018. The law requires spending projection updates to occur by November 1 and February 15 of each fiscal year. Institutional representatives provided information on enrollment and tuition and fee changes on October 19, 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 2018 actual spending data and award parameters in law as of November 1, 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 eight.

State Grant spending totaled \$194.019 million for fiscal year 2018 and is projected to be \$208.071 million for fiscal year 2019 for a biennial total of \$402.090 million. This compares to base resources of \$403.192 million for the biennium (\$396.560 base appropriation and transfers of \$5.4 million in unexpended funds from Tuition Reciprocity and \$1.23 million in unexpended funds from the Occupational Grant Program). The difference between base resources and total spending was positive \$1.102 million or 0.3% below all available funds. The changes modeled are the agency’s best estimates as of November 1, 2018 and are subject to change, based on updated information on enrollment, tuition, and family incomes.

**Table 1. Spending Projections Versus Resources FY2018-2019 (in millions)**

	<b>FY2018</b>	<b>FY2019</b>	<b>Biennium</b>
Base resources	\$198.206	\$204.986 i	\$403.192
Spending projection	+\$194.019)	+\$208.071)	+\$402.090)
Difference between resources and spending	\$4.187	\$(3.085)	\$1.102

Base resources for fiscal years 2018 and 2019 include unexpended funds from Tuition Reciprocity (\$5.4 million) and Occupational Grant Program (\$1.23 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 and 2021 - Spending Projection

Based on statutory parameters, OHE forecasts State Grant spending to be \$186.961 million for fiscal year 2020 and \$187.145 million for fiscal year 2021 for a biennial total of \$374.106 million. This compares to base resources of \$396.712 million for the biennium or positive \$22.606 million (5.7% below appropriations), as shown in Table 2.

Under current law, the LME is set to 101% of the poverty level, for a nine-month school year. The LME for fiscal year 2019 is set to \$9,900 (approximately 109% of the poverty level in fiscal year 2019) under OHE's statutory authority, per 136A.121 Subd. 7a. Future increases to the LME based on the poverty level are shown in Table 4. The fiscal year 2020 spending projection uses an LME of \$9,422, and the fiscal year 2021 projection uses an LME of \$9,611, equal to 101% of the assumed poverty levels in those years for a nine-month school year. To maintain the current LME flat at \$9,900 for the next biennium would cost \$13.655 million for fiscal year 2020 and \$8.203 million for fiscal year 2021, for a total biennial cost of \$21.858 million. OHE's current spending projection estimates that base resources in the next biennium will be sufficient to cover this additional cost.

**Table 2. Spending Projections Versus Resources FY2020-2021 (in millions)**

	FY2020	FY2021	Biennium
Base resources	\$198.356	\$198.356	\$396.712
Spending projection, Current Law	<u>+\$186.961</u>	<u>+\$187.145</u>	<u>+\$374.106</u>
<b>Difference between resources and spending</b>	\$11.395	\$11.211	\$22.606 5.7% below appropriations
Base resources	\$198.356	\$198.356	\$396.712
Spending projections, maintaining current LME level (\$9,900)	<u>+\$200.616</u>	<u>+\$195.348</u>	<u>+\$395.964</u>
<b>Difference between resources and spending</b>	(\$2.26)	\$3.008	\$.748 1.9% 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**

	FY2018	FY2019	FY2020	FY2021
	ACTUAL	ACTUAL	PROJECTED	PROJECTED
Living and Miscellaneous Expense Allowance	\$9,135	\$9,900 ii	\$9,422	\$9,611
Assigned Student Responsibility	50.0%	50.0%	50.0%	50.0%
<b>Tuition and Fee Maximums</b>				
Students in Two-Year Programs	\$5,790	\$5,790	\$5,905 i	\$6,023 i
Students in Four-Year Programs	\$14,488	\$14,790	\$15,129 i	\$15,507 i
Federal Pell Grant Maximum	\$5,920	\$6,095	\$6,195	\$6,195 i
Rationing Surcharge on Assigned Family Responsibility	0%	0%	0%	0%
<b>Proration for the Assigned Family Responsibility</b>				
Dependent Students (Parent Contribution)	84%	84%	84%	84%
Independent Students with Dependents (Student Contribution)	76%	76%	76%	76%
Independent Students without Dependents (Student Contribution)	40%	40%	40%	40%

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 Minnesota for a nine-month period. The 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 one percent. Table 4 displays the annual figures for the Living and Miscellaneous Expense Allowance.

OHE uses the current CPI of about +2% to project federal poverty guidelines for FY2020 and FY2021.

**Table 4. Federal Poverty Guidelines**

	<b>FY2018</b>	<b>FY2019</b>	<b>FY2020</b>	<b>FY2021</b>
<b>Poverty Guidelines Year</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
	ACTUAL	ACTUAL	PROJECTED	PROJECTED
Federal Poverty Guideline – 1 person in family/household, 48 contiguous states	\$12,060	\$12,140	\$12,439 ii	\$12,688 ii
Increase %	+1.5%	+0.7%	+2.46% ii	+2.0% ii
Multiplier for 9-month time period	0.75	0.75	0.75	0.75
Inflator in Minnesota law	+1%	+1%	n/a	n/a
Living and Miscellaneous Expense Allowance	\$9,135	\$9,900 i	\$9,422 ii	\$9,611 ii

## 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 2019 -2021 projections, the model utilizes data from applicable tax years to update student and family wages and adjusted gross incomes. As fiscal year 2018 information (tax year 2015) is used, OHE updates wage information to reflect projections for subsequent tax years. Following the March 2018 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**

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

<sup>i</sup> Note: FY2018 reflects 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 2018-2021. 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. Overall, fall 2017 enrollments declined for the sixth straight year.

**Table 6. Enrollment Assumptions**

FISCAL YEAR	2018	2019	2019	2020	2021
	Fall 2017	Fall 2018	Fall 2018	Fall 2019	Fall 2020
SYSTEM	ACTUAL	PROJECTED	ACTUAL	PROJECTED	PROJECTED
Minnesota State Colleges	-2.5%	-0.4%	-1.8%	-1.6%	-3.3%
Minnesota State Universities	-2.4%	-1.1%	-2.7%	-2.7%	-3.1%
University of Minnesota Twin Cities	+1.0%	+0.4%	+0.04%	+0.5%	+0.5%
Morris, Crookston, Duluth	+0.7%	+1.0%	Combined	Combined	Combined
Private Not-for-Profit Institutions	-0.6%	+0.0%	+0.5%	+0.0%	+0.0%
Private For-Profit Institutions	-2.0%	-2.0%	0% to +4.0%	0% to +5.0%	0% to +5.0%

## Pell Grant Changes in Law

For academic year 2018-2019 (fiscal year 2019), the Pell Grant maximum is \$6,095. For academic year 2019-2020 (fiscal year 2020), the Pell Grant maximum will increase to \$6,195. OHE State Grant projections assume the Pell Grant maximum will stay flat at \$6,195 for academic year 2020-2021 (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.

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. On March 23, 2018, the federal government enacted Public Law 115-141, increasing the maximum Pell award to \$6,095 for fiscal year 2019. Earlier this fall, Congress also passed a federal appropriations funding bill, approving an additional \$100 increase in the Pell Grant. This measure raised the Pell maximum award to \$6,195 for academic year 2019-2020 (fiscal year 2020). 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 and assumes a flat Pell Grant award for fiscal year 2021.

**Table 7. Federal Pell Grant Award Parameters**

	FY2018	FY2019	FY2020	FY2021
	ACTUAL	PROJECTED	PROJECTED	PROJECTED
Pell Grant Minimum Award	\$606	\$652	\$657 i	\$657 i
Pell Grant Maximum Award	\$5,920	\$6,095	\$6,195 i	\$6,195 i

	<b>FY2018</b>	<b>FY2019</b>	<b>FY2020</b>	<b>FY2021</b>
	<b>ACTUAL</b>	<b>PROJECTED</b>	<b>PROJECTED</b>	<b>PROJECTED</b>
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 - \$5,576

i As of October 1, 2018

## Tuition and Fee Increases

OHE 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**

	<b>FY2018</b>	<b>FY2019</b>	<b>FY2020</b>	<b>FY2021</b>
<b>System</b>	<b>ACTUAL</b>	<b>ACTUAL</b>	<b>PROJECTED</b>	<b>PROJECTED</b>
Minnesota State Colleges	+1%	+0.2%	+2% <sup>i</sup>	+2% <sup>i</sup>
Minnesota State Universities	+3.7%	+0.4%	+2% <sup>i</sup>	+2% <sup>i</sup>
University of Minnesota	+1%	+1.4%	+2% to 3%	+2% to 3%
Private Not-for-Profit Institutions <sup>ii</sup>	+3%	+3.8%	+3.5%	+3.5%
Private For-Profit Institutions <sup>ii</sup>	+1%	0% to +4%	0% to +3%	0% to +3%

<sup>i</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>ii</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 October 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 February 15, 2019.



2019