



Minnesota State Grant & North Star Promise Projections

Fiscal Years 2022-2023 and 2024-2025

11/01/2024

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About the 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 \$225 million annually 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 projected spending for the Minnesota State Grant program for the 2024-2025 biennium and the 2026-2027 biennium as of November 1, 2024, 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 2025, 2026, and 2027. It uses fiscal year 2024 actual spending data and award parameters in law as of November 1, 2024 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 eight of this report.

The results of the projections are:

- Fiscal years 2024-2025: State Grant spending totaled \$243.930 million for fiscal year 2024. The spending projection for fiscal year 2025 is \$217.540 million for a biennial total of \$461.471 million. This compares to base resources of \$456.111 million for the biennium. The projected difference between base resources and total spending is negative \$5.360 million, or 1.2% above available resources.
 - North Star Promise Program: Spending for the North Star Promise program is projected to cost \$73.644 million in fiscal year 2025 (the first year of program implementation). This includes North Star Promise Plus spending, and compares to base resources of \$112.186 million for the biennium. The projected difference between base resources and total spending is positive \$43.582 million, or 34% below available resources. Unspent funds for this program are available for use in future years.
- Fiscal years 2026-2027: The spending projection for fiscal year 2026 is \$316.430 million, and the spending projection for fiscal year 2027 is \$344.211 million. Total spending for the biennium is projected to be \$660.641 million. This compares to base resources of \$450.132 million for the biennium. The projected difference between base resources and total spending is negative \$210.509 million, or 47% above available resources.
 - North Star Promise Program: Spending for the North Star Promise program is projected to cost \$40.311 million in fiscal year 2026 and \$41.478 million in fiscal year 2027, for a biennial total of \$81.789 million. This estimate does not include North Star Promise Plus spending because the North Star Promise Plus match has not yet been determined, and compares to base resources of an estimated \$142.582 million for the biennium. The projected difference between base resources and total spending is positive \$60.793 million, or 43% below available resources. Unspent funds for this program are available for use in future years.

Fiscal Years 2024 & 2025 — Actual and Projected Spending

This report presents actual Minnesota State Grant program spending for fiscal year 2024 and spending projections for fiscal years 2025, 2026, and 2027 as of November 1, 2024. State law requires spending projection updates to occur by November 1 and February 15 of each fiscal year. Information on projected enrollment and tuition and fee changes was provided by institutional representatives to the Minnesota Office of Higher Education on October 15, 2024.

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 2025, 2026, and 2027 using fiscal year 2024 actual spending data and award parameters in law as of November 1, 2024; 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 eight.

State Grant spending totaled \$243.930 million for fiscal year 2024. The spending projection for fiscal year 2025 is \$217.540 million for a biennial total of \$461.471 million. This compares to base resources of \$456.111 million for the biennium. The projected difference between base resources and total spending is negative \$5.343 million or 1.2% above available resources.

Table 1: Spending versus Resources FY2024-2025 (in millions)

	FY2024	FY2025	Biennium
Base resources	\$243.933 ⁱ	\$212.167	\$456.111
Spending	+(243.930)	+(217.540)	+(461.47)
Difference between resources and spending	\$0.03	\$(5.373)	\$(5.343) 1.2% above available resources

ⁱ Base resources for fiscal years 2024 and 2025 include transfers of \$2.8M to other financial aid programs and transfers of \$12M from fiscal year 2025 to fiscal year 2024.

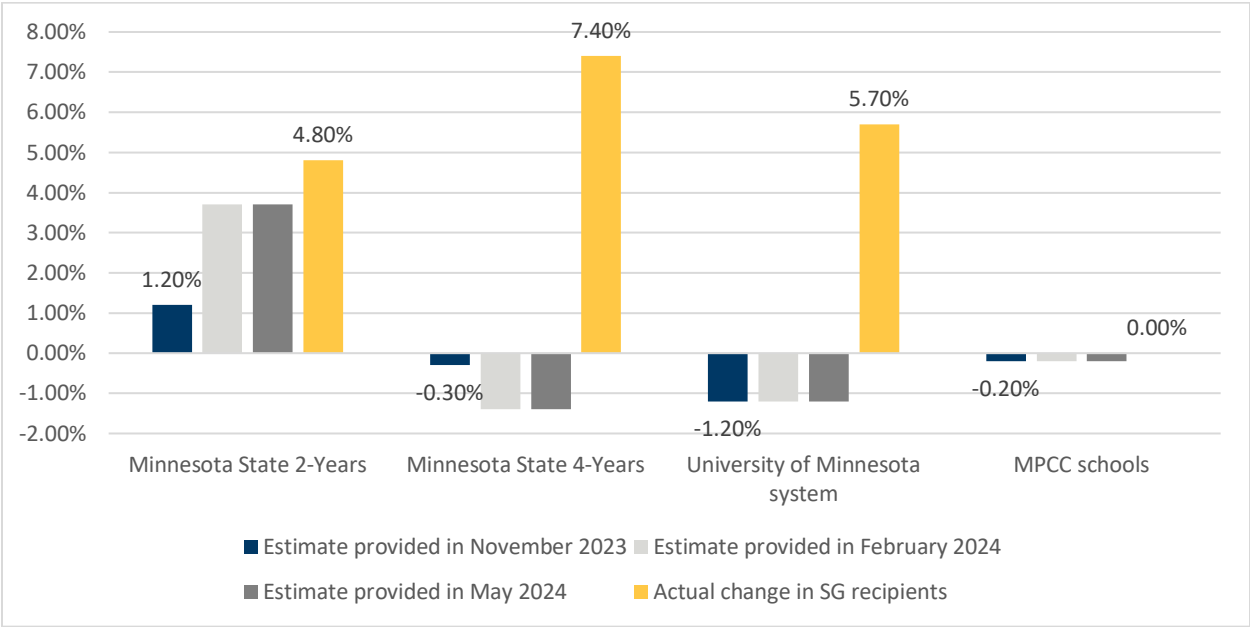
Known and anticipated changes to FY25 spending

Changes to enrollment projections

Changes to enrollment projections have incrementally pushed projected State Grant spending higher and higher. Projected enrollment for FY24 ticked up sharply towards the end of the 2024 fiscal year (see Figure 1). Enrollment increases stem from both increases of newly enrolled students as well as preliminary reports of increased retention of continuing students, both positive trends for Minnesota as the state continues to make strides toward meeting our statewide post-secondary attainment goal. Additionally, beyond the overall enrollment increase, the estimated number of State Grant recipients at institutions increased dramatically from FY23 to FY24. Overall, the state saw a 6% increase in State Grant recipients, the first year to year increase in recipients since 2014. Given that post-secondary degree attainment is positively correlated with increased economic stability for individuals from lower income backgrounds, this is also a development that will likely have

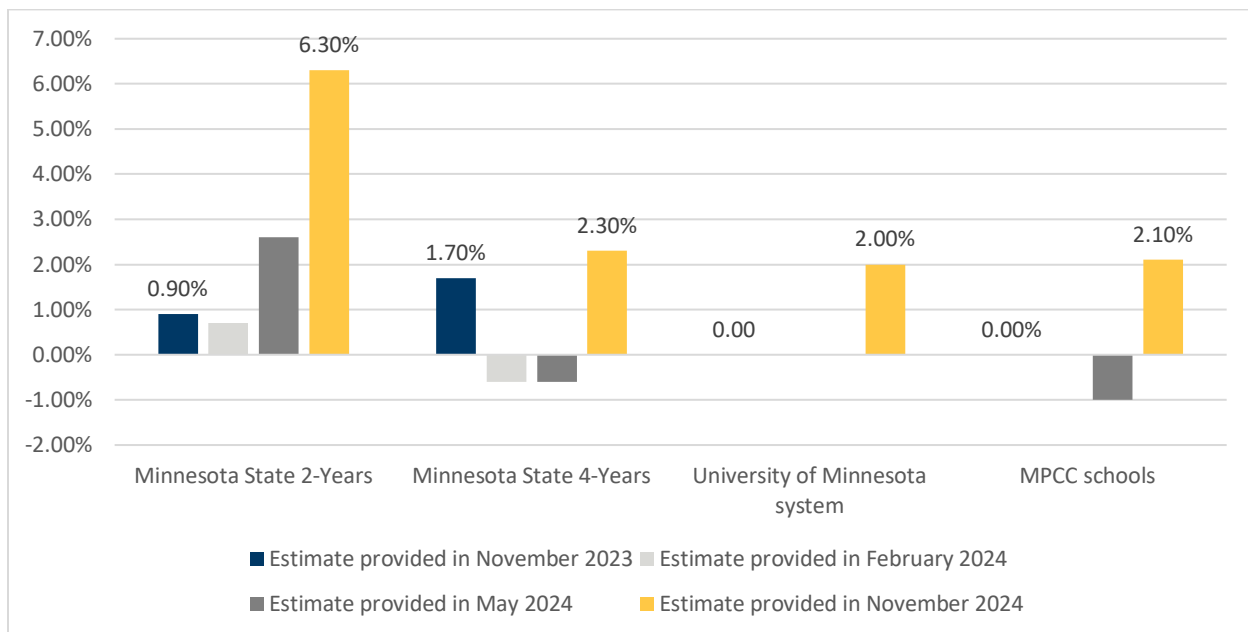
long-term positive outcomes for the state as a whole. Those increases were largely seen at the public systems, which may serve as an early indicator that messaging regarding the North Star Promise program is boosting enrollment for students with incomes below the state median, even in advance of the program’s rollout.

Fig. 1: Changes in reported enrollment compared to actual change in State Grant recipients, FY23 to FY24



Additionally, projected changes in enrollment for fiscal year 2025 have adjusted upward since first reported for the November 2023 State Grant Projections report. For example, estimated enrollment changes for fiscal year 2025 provided for this report have more than doubled at Minnesota State Colleges since estimates were last provided in May 2024. The increases in enrollment across sectors, including Minnesota's private, non-profit institutions whose students are not eligible for the North Star Promise program, may also reflect the continued expansion and success of the Direct Admissions program, which seeks to encourage students to enroll in Minnesota's public and private, non-profit colleges and universities following high school.

Fig. 2: Changes in reported enrollment from November 2023 to November 2024, FY24 to FY25



Strain on resources

This trend in enrollment appears likely to continue in FY25. Both the number of State Grant applicants and projected number of recipients year-to-date are 8-9% higher than at the same time last year. Though changes to the FAFSA that go into effect for this aid year have increased the amount of Pell Grants students are receiving, which has helped to lower State Grant spending for this fall, the tremendous strain on resources we saw in FY24 has lowered the total pool of base resources available for FY25, further compounding the impacts of increased enrollment this year.

State Grant awards were rationed dramatically in FY25 to offset a projected deficit. Because award parameters revert to statute next biennium, we should expect to see a dramatic increase in projected spending. Additionally, the systems reported ongoing projected increases to enrollment and tuition and fees for FY26 and FY27 (see tables 7 and 9, below). In order to maintain spending within available resources, the State Grant program will require modifications to award parameters or an added investment to program resources for the next biennium.

Changes to the FAFSA

Though our office worked diligently in the past few years to best estimate the impact that the changes to the FAFSA would have on Minnesota's state aid programs, we experienced challenges, due to incorrect or insufficient data provided by the Department of Education, in predicting how many students would have a \$-1,500 SAI. SAI eligibility guides released early this year clarified elements of the federal needs calculation that were not apparent in the original appropriations language. Specifically, the guide directs financial aid administrators to assign a \$-1,500 SAI for many students flagged for maximum Pell Grants.

In Minnesota, we have seen a dramatic increase in students with an SAI of \$0 or less. In FY24, approximately 29% of State Grant applicants had an EFC of \$0. In FY25 to date, 43% of applicants have an SAI of \$0 or less. Because students with a negative SAI or parental contribution receive a comparable increase to their State Grant award, this increases State Grant spending.

Fig. 3: Cumulative distribution of SAI/EFC FY24 to FY25*

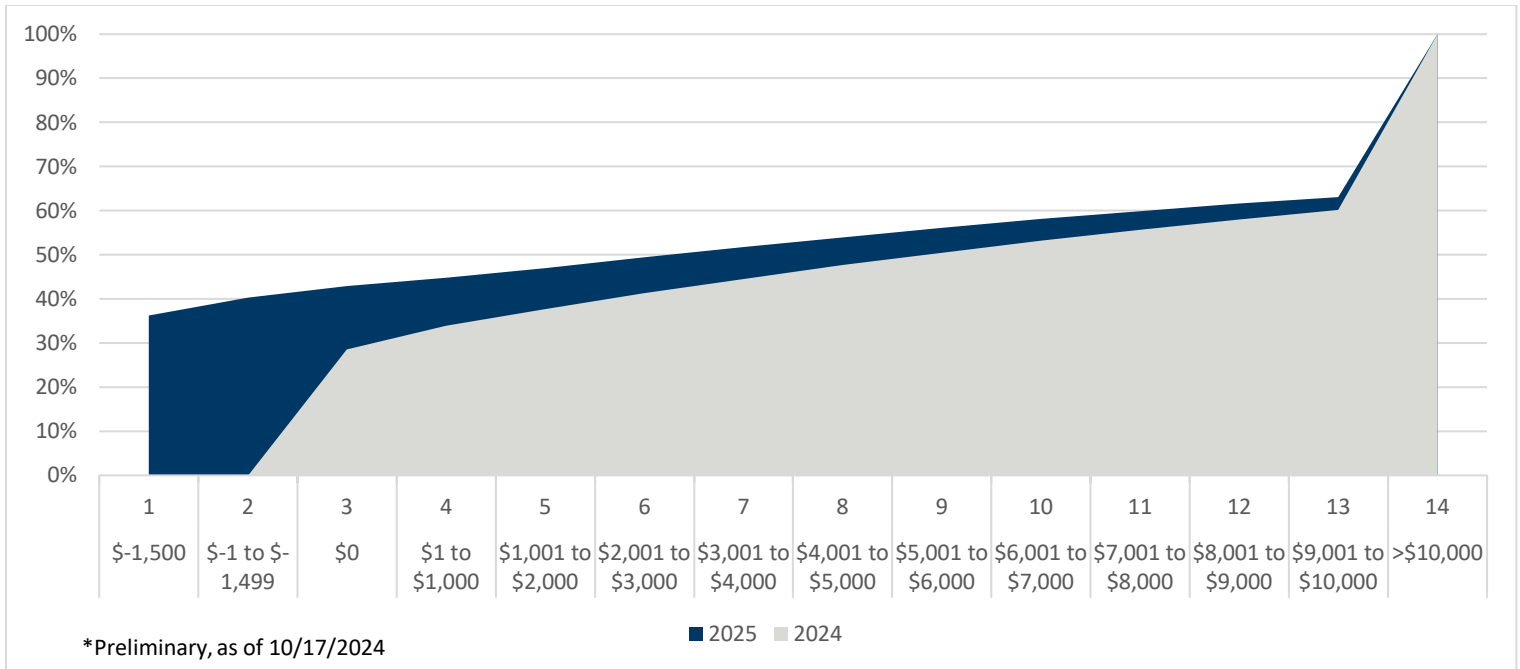


Fig. 4: Percent change in State Grant applicants with a \$0 or less family contribution, by system, FY24 to FY25*

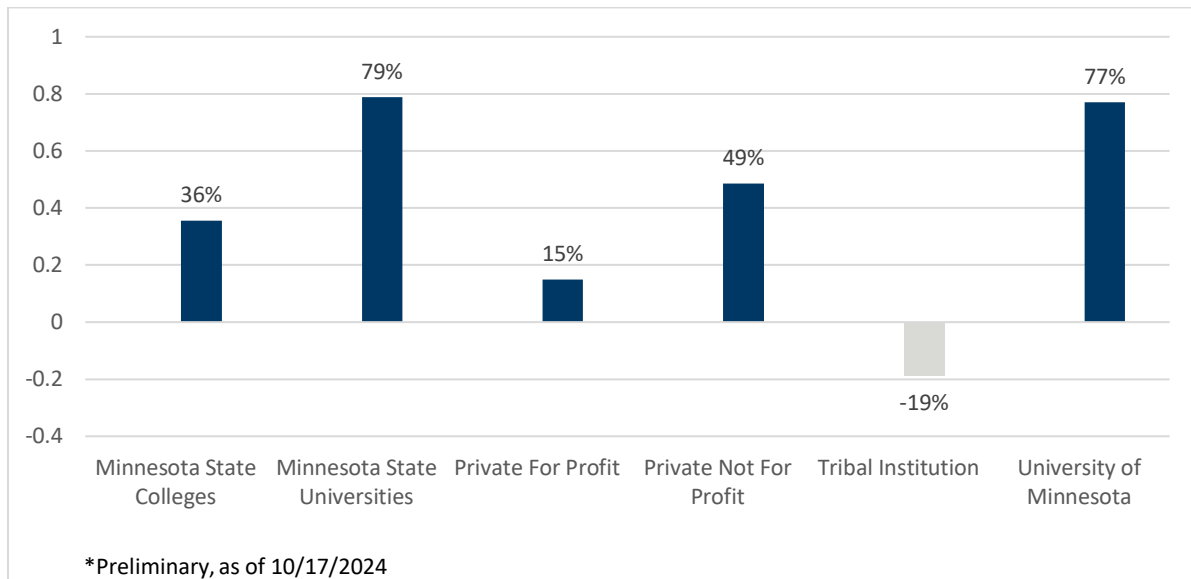


Table 2: Change in count of State Grant applicants with a \$0 or less family contribution, by system, FY24 to FY25*

Institution Type	2024	2025	Change
Minnesota State Colleges	16,463	22,335	5,872
Minnesota State Universities	4,318	7,727	3,409
Private For-Profit	1,359	1,562	203
Private Not-For-Profit	4,679	6,950	2,271
Tribal Institutions	355	289 ⁱ	(66)
University of Minnesota	3,861	6,838	2,977
Grand Total	31,035	45,701	14,666

*Preliminary, as of 10/17/2024 ⁱTotal State Grant applicants also decreased at this system.

Fiscal Years 2026 & 2027 — Spending Projection

The spending projection for fiscal year 2026 is \$316.430 million, and the spending projection for fiscal year 2027 is \$344.211 million. Total spending for the biennium is projected to be \$660.641 million. This compares to base resources of \$450.132 million for the biennium. The projected difference between base resources and total spending is negative \$210.509 million, or 47% higher than available resources.

The changes modeled are the Office’s best estimates as of November 1, 2024, 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 3: Projected versus Resources FY2026-2027 (in millions)

	FY2026	FY2027	Biennium
Base resources	\$225.066	\$225.066	\$450.132
Spending projection	<u>+(316.430)</u>	<u>+(344.211)</u>	<u>+(660.641)</u>
Difference between resources and spending	\$(91.364)	\$(119.145)	\$(210.509) 47% above available resources

Assumptions

The Minnesota State Grant spending projection for each fiscal year relies on a series of adjustments and the program parameters shown in Table 4.

Table 4: Minnesota State Grant Award Parameters

	FY2024	FY2025	FY2026	FY2027
	ACTUAL	ACTUAL	PROJECTED	PROJECTED
Living and Miscellaneous Expense Allowance	\$12,576	\$12,990	\$13,420	\$13,860
Assigned Student Responsibility	50%	52.8%	50%	50%
Tuition and Fee Maximums				
Students in Two-Year Programs	\$6,580	\$6,679	\$6,913 ⁱⁱ	\$7,155 ⁱⁱ
Students in Four-Year Programs	\$16,654	\$17,370	\$18,065 ⁱⁱ	\$18,787 ⁱⁱ
Federal Pell Grant Maximum	\$7,395	\$7,395	\$7,395 ⁱⁱ	\$7,395 ⁱⁱ
Rationing Surcharge on Assigned Family Responsibility	0%	Varies	0%	0%
Proration for the Assigned Family Responsibility				
Dependent Students (Parent Contribution)	79%	100% ⁱ	79%	79%
Independent Students with Dependents (Student Contribution)	71%	100%	71%	71%
Independent Students without Dependents (Student Contribution)	35%	100%	35%	35%

ⁱ increased under OHE authority in statute; ⁱⁱ Estimated

Fig. 5: Minnesota State Grant Budget in State Statute

$$\begin{aligned}
 & \underbrace{(\text{Tuition and Fees}^* + \text{Living and Miscellaneous Expense Allowance}^{**})}_{\text{State Grant Budget}} \times \underbrace{\text{Enrollment Level}}_{\text{Out of 15 Credits}} \\
 & \times \underbrace{(1 - \text{Assigned Student Responsibility})}_{.5} \times \underbrace{\text{Enrollment Level}}_{\text{Out of 15 Credits}} \\
 & - \underbrace{(\text{Parental Contribution})}_{\text{Or SAI, for Independent Students}} \times \underbrace{\text{AFR Modifier}}_{\text{Varies by Family Type}} \times \underbrace{\text{Enrollment Level}}_{\text{Out of 15 Credits}} \\
 & - \text{Pell Grant} \\
 & = \text{Annual State Grant}
 \end{aligned}$$

* Tuition and Fees capped at state maximum in law **115% of the Federal Poverty Guideline

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 5 displays the annual figures for the Living and Miscellaneous Expense Allowance.

The Office projects the LME to continue to increase by 3.3% annually for fiscal years 2026 and 2027, based on recent changes to the Federal Poverty Guidelines. LME estimates will be updated in the February 15, 2025 projections report following updates to the Federal Poverty Guidelines.

Table 5: Federal Poverty Guidelines

	FY2024	FY2025	FY2026	FY2027
Poverty Guidelines Year	2023	2024	2025	2026
	ACTUAL	ACTUAL	PROJECTED	PROJECTED
Federal Poverty Guidelines – 1 person in family/household, 48 contiguous states	\$14,580	\$15,060	\$15,557 ⁱ	\$16,070 ⁱ
Poverty Guideline Increase %	7.28%	3.29%	3.30% ⁱ	3.30% ⁱ
Multiplier for 9-month time period	0.75	0.75	0.75	0.75
Inflator in Minnesota law	0.15	0.15	0.15	0.15
Living and Miscellaneous Expense Allowance	\$12,576	\$12,990	\$13,420	\$13,860

ⁱ 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 6.

Table 6: Change in Annual Wages, Minnesota

	FY2024	FY2025	FY2026	FY2027
	tax year 2021	tax year 2022	tax year 2023	tax year 2024
One-Year Change in Average Wages	2.4%	5.8%	4.1%	4.3%

Enrollment Assumptions

The State Grant spending projection also incorporates estimated changes in the number of Minnesota resident undergraduates enrolling at each institution. Table 7 shows information about year to year percent change in undergraduate students for fiscal years 2024 to 2027. Overall enrollment changes serve to estimate changes in the number of Minnesota-resident aid applicants. The Office revises enrollment assumptions as new enrollment data provided by the institutions 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. Enrollment increased significantly at most institutions in fall 2024 and is expected to continue to increase in subsequent years.

Table 7: Enrollment Assumptions

	FY2024	FY2025	FY2025	FY2026	FY2027
	Fall 2023	Fall 2024	Fall 2024	Fall 2025	Fall 2026
System	Actual	Projected	Actual	Projected	Projected
Minnesota State Colleges	3.7%	0.7%	6.3%	1.5%	1.4%
Minnesota State Universities	-1.4%	-0.6%	2.3%	1.3%	1.3%
University of Minnesota Twin Cities ⁱ	-0.5%	0% to 2%	3.1%	0% to 2%	0% to 2%
University of Minnesota Crookston, Duluth & Morris	-2.6%	0% to 2%	-1.2%	0% to 2%	0% to 2%
Private Not-for-Profit Institutions	-0.2%	0.0%	1.9%	0.0%	0.0%
Private For-Profit Institutions	-27.4%	3.0%	1.0%	4.0%	4.0%

ⁱ Includes data for UMN Rochester.

Pell Grant Changes in Law

The FAFSA Simplification Act enacted in December 2021 authorized significant changes to the Pell Grant award formula, which has a direct impact on State Grant spending. These changes go into effect in fiscal year 2025. 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 8A lists the current federal Pell Grant parameters.

Table 8: Federal Pell Grant Award Parameters

	FY2024	FY2025	FY2026	FY2027
	ACTUAL	ACTUAL	PROJECTED	PROJECTED
Pell Grant Minimum Award	\$740	\$740	\$740	\$740
Pell Grant Maximum Award	\$7,395	\$7,395	\$7,395	\$7,395
Award Formula: Expected Family Contribution (EFC)	Maximum Pell - EFC	See Table 8A	See Table 8A	See Table 8A
Qualifying EFC	\$0-\$6,206	Varies	Varies	Varies

Table 8a. FY2025 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 2026 and 2027 from institutional and system representatives. Table 9 details actual and estimated tuition and fee increases for State Grant calculations as reported by institutions for use in spending projections.

Table 9: Annual Changes in Minnesota Resident Undergraduate Tuition and Fee Ratesⁱⁱ

	FY2024	FY2025	FY2026	FY2027
System	Actual	Actual	Projected	Projected
Minnesota State Colleges	0.8%	0.3%	3.50%	3.50%
Minnesota State Universities	0.5%	0.9%	3.50%	3.50%
University of Minnesota	3.4%	3.7%	4.0%	4.0%
Private Not-for-Profit Institutions	3.7%	4.3%	3.2%	3.2%
Private For-Profit Institutions	4.2%	-0.7%	4.0%	4.0%

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 November 1, 2024. 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 SAI (previously EFC).

North Star Promise Program

The 2023 Minnesota State Legislature passed legislation that included the creation of the North Star Promise program. This tuition- and fee-free pathway to higher education for eligible Minnesota residents at eligible institutions as a “last-dollar” program designed to cover the balance of tuition and fees remaining after other scholarships, grants, stipends and tuition waivers have been applied.

To be eligible to participate in the program, the student must:

- Be a Minnesota resident
- Have a family Adjusted Gross Income* (AGI) as reported on the Free Application for Federal Student Aid (FAFSA) or Minnesota Dream Act Application below \$80,000
- Attend a Minnesota public higher education institution or Tribal College
- Not be in default on a state or federal student loan
- Be enrolled taking at least one credit
- Meet Satisfactory Academic Progress (SAP) standards
- Have not already earned a baccalaureate degree
- Be enrolled in a program or course of study that applies to a degree, diploma, or certificate

This program debuted in fiscal year 2025. In addition to the last-dollar grant, students receiving federal Pell Grants are eligible to receive a North Star Promise Plus award equivalent to 15% of the Pell Grant they are calculated to receive, based on household size, family AGI, and/or Student Aid Index. At this time, the Office has not determined what the % Pell Grant match level will be for fiscal years 2026 and 2027. Table 10 shows projected spending for the program for fiscal year 2025. Table 11 shows projected spending for the program for fiscal years 2026 and 2027.

Table 10: Spending Forecast versus Resources FY2024-2025 (in millions)

	FY2024	FY2025	Biennium
Base resources	\$0	\$112.186	\$112.186 ⁱ
Actual and projected spending North Star Promise	<u>+(0)</u>	<u>+(62.527)</u>	<u>+(62.527)</u>
<i>North Star Promise+ Match</i>	N/A	15%	Varies
Actual and projected spending North Star Promise+	<u>+(0)</u>	<u>+(11.117)</u>	<u>+(11.117)</u>

	FY2024	FY2025	Biennium
Total Program Spending	<u>+(0)</u>	(+73.644)	(+73.644)
Difference between resources and spending	\$0.00	\$43.582	\$43.582

ⁱ Balance for 2024-2025 biennium is available in subsequent years.

Table 11: Spending Forecast versus Resources FY2026-FY2027 (in millions)

	FY2026	FY2027	Biennium
Balance in special revenue account	\$43.582 ⁱ	<u>+(0)</u>	\$43.582
Ongoing base resources	\$49.500	\$49.500	\$99.000
Total Resources	\$93.082	\$49.500	\$142.582
Actual and projected spending North Star Promise	<u>+(40.311)</u>	<u>+(41.478)</u>	<u>+(81.790)</u>
<i>North Star Promise+ Match</i>	0% ⁱⁱ	0% ⁱⁱ	Varies
Actual and projected spending North Star Promise+	<u>+(0)</u>	<u>+(0)</u>	<u>+(0)</u>
Total Program Spending	<u>+(40.311)</u>	<u>+(41.478)</u>	<u>+(81.790)</u>
Difference between resources and spending	\$52.771	\$8.022	\$60.733

ⁱ Base resources for FY2026 include balance carried forward from FY2024 and FY2025 in addition to base funding of \$49.5M per year.

ⁱⁱ North Star Promise+ match amount not yet determined for FY2026 and FY2027. Will be determined based on available resources.

Next Report

The next report on Minnesota State Grant spending is due to the Legislature by February 15, 2025.