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Minnesota State Grant
Projections
Fiscal Years
2014-2015 & 2016-2017



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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 \$180 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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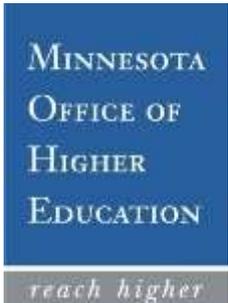
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Table of Contents

Table of Contents	1
Introduction	3
Fiscal Years 2014 and 2015 — Spending Projection	3
Increase to Living and Miscellaneous Expense Allowance.....	3
Fiscal Years 2016 and 2017 — Spending Projection	4
Limitations of the Projection	5
Projection Assumptions	6
Pell Grant Changes in Law.....	6
Federal Need Analysis	7
Enrollment Assumptions.....	7
Change in Wages.....	7
Tuition and Fee Increases.....	8
Next Report	8

Introduction

The purpose of this report is to update spending projections for the State Grant program for the 2014-2015 and 2016-2017 biennia. The law requires spending projection updates to occur by November 1 and February 15 of each year. Information on enrollment and tuition and fee changes was provided by institutional representatives on February 13, 2015.

This report presents spending projections for the Minnesota State Grant program for the 2014-2015 biennia as of February 15, 2015.

Fiscal Years 2014 and 2015 — Spending Projection

The projections contained in this report are the result of a full simulation of the State Grant model projecting fiscal year 2014 actual spending data to fiscal year 2015 using award parameters in law as of July 1, 2014 and 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. The assumptions used in the spending projections are described starting on page six.

The State Grant spending projection for fiscal year 2014 is \$172.156 million and for fiscal year 2015 \$182.214 million. This compares to base resources of \$355.922 million for the biennium.

Base resources for the 2014-2015 biennium from state appropriations total \$355.922 million. Fiscal year 2014 shows a difference between base resources and projected spending in the amount of \$6.985 million. Fiscal year 2015 shows a difference between base resources and projected spending in the amount of -\$5.433 million. For the biennium, the difference between resources and spending equals \$0.777 million or 0.2%. The changes modeled are the agency's best estimates as of November 1, 2014 and thus are subject to change.

Table 1
Spending Projections versus Available Resources FY2014-2015 (in millions)

11/1/2014	FY2014	FY2015	Biennium
Base resources	\$179.141	\$176.781	\$355.922
Spending projection	+(172.931)	+ (181.011)	+(353.942)
Difference between resources and spending	\$6.210	(\$4.230)	\$1.980

Increase to Living and Miscellaneous Expense Allowance

In May of 2014, the Office directed institutions to utilize a Living and Miscellaneous Expense Allowance (LME) value of \$8,490 in packaging Minnesota State Grants for fiscal year 2015.

Statute authorized the Office to adjust award parameters to increase State Grant awards if base resources exceeded projected spending based on Spring 2014 spending projections. Using the procedures outlined in statute, the Office increased the LME from \$7,900 to \$8,490 for fiscal year 2015. The change in LME increased projected spending for fiscal year 2015 by an estimated \$20 million. The increase in LME is temporary and will expire on June 30, 2015 unless the legislature takes action to make it permanent.

Minnesota Statutes 2013, section 136A.121, Subd. 7a. Surplus appropriation.

If the amount appropriated is determined by the office to be more than sufficient to fund projected grant demand in the second year of the biennium, the office may increase the living and miscellaneous expense allowance in the second year of the biennium by up to an amount that retains sufficient appropriations to fund the projected grant demand. The adjustment may be made one or more times. In making the determination that there are more than sufficient funds, the office shall balance the need for sufficient resources to meet the projected demand for grants with the goal of fully allocating the appropriation for state grants. An increase in the living and miscellaneous expense allowance under this subdivision does not carry forward into a subsequent biennium.

Fiscal Years 2016 and 2017 — Spending Projection

The projections contained in this report are the result of a full simulation of the State Grant model projecting fiscal year 2014 actual spending data to fiscal years 2016 and 2017 using award parameters in law as of July 1, 2014 and 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. The assumptions used in the spending projections are described starting on page six.

The State Grant spending projection for fiscal year 2016 is \$142.100 million and for fiscal year 2017 is \$137.480 million. This compares to base resources of \$353.562 million for the biennium.

Base resources for the 2016-2017 biennium from state appropriations total \$353.562 million. Fiscal year 2016 shows a difference between base resources and projected spending in the amount of \$34.681 million. Fiscal year 2017 shows a difference between base resources and projected spending in the amount of \$39.301 million. For the biennium, the difference between resources and spending equals \$73.982 million. The changes modeled are the agency’s best estimates as of February 13, 2015 and thus are subject to change.

**Table 2
Spending Projections versus Available Resources FY2016-2017 (in millions)**

11/1/2014	FY2016	FY2017	Biennium
Base resources	\$176.781	\$176.781	\$353.562
Spending projection	<u>+(142.100)</u>	<u>+(137.480)</u>	<u>+(279.580)</u>
Difference between resources and spending	\$34.681	\$39.301	\$73.982

Projected spending for Fiscal year 2016 and 2017 does not include funding for the following items:

- **Maintaining the Living and Miscellaneous Expense allowance at \$8,490-** If the legislature makes permanent the LME of \$8,490, projected spending would increase by \$34.298 million (+\$17.410 million FY2016; +\$16.887 million FY2017).
- **Increasing LME to the poverty level** for a single person (9 month; \$8,828 in FY2016, \$8,904 in FY2017) would require an additional \$22.453 million (+\$10.225 million FY2016; +\$12.228 million FY2017).

- **Funding any tuition increases at public institutions-** If tuition were to increase by 3% annually at public institutions, projected spending would increase by \$9.496 million (+\$3.375 million FY2016; +\$6.121 million FY2017).
- **Continuing the PT Pilot-** If PT Pilot were to be continued, projected spending would increase by \$21.331 million (+\$10.698 million FY2016; +\$10.633 million FY2017) for students enrolled for fewer than 15 credits per term at only MnSCU institutions or \$30.640 million (+\$15.417 million FY2016; +\$15.224 million FY2017) for eligible students enrolled at all institutions.

Limitations of the Projection

Student enrollment: The pattern of enrollments between Fall 2009 and Fall 2013 at both public and private colleges are following the expected patterns of increases and decreases in response to the economic recession and recovery.¹ Fall 2014 enrollments declined for the fourth straight year. Most institutions surveyed project a continued decline in enrollments through June 2016.

Wages: As the economy continues to recover, wage related income of students and families is expected to rise and generate modest cost savings for the State Grant program. Minnesota Management and Budget indicated that wage related income of Minnesota workers has increased by 4.1 percent during calendar year 2012 and 2.1 percent during calendar year 2013. Projections for tax years 2014 are +3.7% and +3.6% respectively.

Tuition: While the projection estimate presented utilizes the 2014-2015 academic year (fiscal year 2014) tuition and fee rates approved by the governing boards, tuition and fee rates for private institutions for the 2015-2016 academic year (fiscal year 2016) will not be finalized until summer 2015. Tuition and fees rates of public institutions were frozen as part of the 2013 Minnesota Legislature's approved budget. Both the University of Minnesota and the MnSCU system have proposed tuition freezes as part of their legislative agendas. Thus the state grant projection utilizes a tuition increase assumption of zero percent. If actual tuition increases exceed the tuition increase assumptions, then projected program spending in the Minnesota State Grant program will increase as well.

Federal Pell Grant: Increases or reductions in the federal Pell Grant amounts affect State Grant spending as the State Grant award formula assumes a dollar for dollar relationship with the student's Pell Grant. In December 2015, Congress approved increasing the maximum Pell Grant for the 2014-2015 academic year. On January 29, 2015 the U.S. Department of Education issued the Pell Grant table with a maximum Pell Grant of \$5,775 for the 2015-2016 academic year – a \$45 increase. Federal law allows for inflationary adjustments to the maximum Pell Grant award each year, but those increases are dependent on funding being approved as part of the federal budget process each October.

¹ National Bureau of Economic Research, Business Cycle Dating Committee. *Announcement September 20, 2010*, <http://www.nber.org/cycles/sept2010.html>

Projection Assumptions

The Minnesota State Grant spending projection for each fiscal year is formulated using a series of adjustments and the following program parameters as shown in Table 3.

**Table 3
Minnesota State Grant Award Parameters**

Minnesota State Grant Award Parameters	FY2014	FY2015	FY2016	FY2017
		SURPLUS	CURRENT LAW	
Living and Miscellaneous Expense Allowance	\$7,900	\$8,490	\$7,900	\$7,900
Assigned Student Responsibility	50.0%	50.0%	50.0%	50.0%
Tuition and Fee Maximums				
Students in Two-Year Programs	\$5,808	\$5,808	\$5,808	\$5,808
Students in Four-Year Programs	\$13,000	\$13,000	\$13,000	\$13,000
Federal Pell Grant Maximum	\$5,645	\$5,730	\$5,775	\$5,775
Rationing Surcharge on Assigned Family Responsibility	0%	0%	0%	0%
Proration for the Assigned Family Responsibility				
Dependent Students (Parent Contribution)	96%	96%	96%	96%
Independent Students with Dependents (Student Contribution)	86%	86%	86%	86%
Independent Students without Dependents (Student Contribution)	50%	50%	50%	50%
AFR Proration for students enrolling for less than 15 credits	MnSCU only	MnSCU only	n/a	n/a
Maximum Semesters of Enrollment for Grant Eligibility	8	8	8	8

Pell Grant Changes in Law

For academic year 2013-2014 (fiscal year 2014), the Pell Grant maximum was \$5,645. For academic year 2014-2015 (fiscal year 2015), the Pell Grant maximum is \$5,730. The Office will continue to monitor Congressional activity regarding funding of the federal Pell Grant program. Table 4 below lists the current federal Pell Grant parameters.

**Table 4
Federal Pell Grant Award Parameters**

Federal Pell Grant Award Parameters	FY2014	FY2015	FY2016	FY2017
Pell Grant Minimum Award	\$605	\$602	\$626	\$626
Pell Grant Maximum Award	\$5,645	\$5,730	\$5,775	\$5,775
Award Formula: Expected Family Contribution (EFC)	Maximum Pell - EFC	Maximum Pell - EFC	Maximum Pell - EFC	Maximum Pell - EFC
Qualifying EFC	\$0 - \$5,081	\$0 - \$5,157	\$0 - \$5,198	\$0 - \$5,198

Federal Need Analysis

The projections 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 May 2014. Annual updates to the tables in the statutory “Federal Methodology Need Analysis” used to determine a student’s EFC are released annually by the U.S. Department of Education.

Enrollment Assumptions

Minnesota State Grant spending projections also incorporate estimated enrollment changes in the number of Minnesota resident undergraduates enrolling at each institution type. Information about enrollment changes for fiscal years 2014 -2017 is shown in Table 5. Overall enrollment is used to estimate changes in the number of Minnesota resident aid applicants. These figures will be reevaluated as new data on enrollments become available. A change in total enrollment of plus or minus one percentage point annually changes projected state grant spending by an estimated \$1.8 million.

**Table 5
Enrollment Assumptions**

Enrollment Assumptions	FY2014		FY2015		FY2016	FY2017
	Fall 2013		Fall 2014		Fall 2015	Fall 2016
System	PROJECTED	ACTUAL	PROJECTED	ACTUAL	PROJECTED	PROJECTED
MnSCU Two-Year Institutions	+0.2%	-3.3%	+0.0%	-4.9%	-1.3%	0.0%
MnSCU Four-Year Institutions	+0.4%	-1.8%	-0.9%	-2.6%	-1.2%	+0.2%
University of Minnesota	0.0%	-1.2%	-1.2%	-1.2%	-1.2%	-1.2%
Private Not-for-Profit Institutions	0.0%	-0.2%	0.0%	-1.6%	-0.8%	0.0%
Private For-Profit Institutions	0.0%	-2.8%	+0.7%	-4.8%	0.0%	0.0%

Change in Wages

The projection model incorporates forecasted data about change in wages of Minnesota tax filers from Minnesota Management and Budget. The forecast is used in projections of state revenue and spending across multiple agencies and is updated each December and March. For fiscal year 2014 -2017 projections, the model utilizes data from applicable tax years to update student and family wages and adjusted gross incomes. As fiscal year 2014 information (tax year 2012) is used, incomes are updated to reflect projections for subsequent tax years. Following the March 2014 budget forecast, the assumption for changes in average wages of Minnesota tax filers was adjusted. Current assumptions are shown below in Table 6.

**Table 6
Change in Annual Wages, Minnesota**

Change in Annual Wages	FY2014	FY2015	FY2016	FY2017
One-Year Change	Tax year 2012	Tax year 2013	Tax year 2014	Tax year 2015
December 2014	+4.1%	+2.1%	+3.7%	+3.6%

Tuition and Fee Increases

Minnesota State Grant spending also relies on estimated tuition and fee increases for each institution type. Information about tuition and fee increases for fiscal years 2014-2015 and 2016-2017 was gathered from institutional and system representatives in October 2014. It is important to remember tuition increases have a compounding effect. Table 7 below details actual tuition and fee increases for State Grant calculations as reported by institutions and tuition and fee increase estimates utilized by the agency in projections of spending.

Table 7
Annual Changes in Minnesota Resident Undergraduate Tuition and Fee Rates

Tuition and Fee Increases	FY2014	FY2015	FY2016	FY2017
System	ACTUAL	ACTUAL	PROJECTED	PROJECTED
MnSCU Two-Year Institutions	0.0%	0.0%	0.0%	0.0%
MnSCU Four-Year Institutions	0.0%	0.0%	0.0%	0.0%
University of Minnesota*	0.0%	0.0%	0.0%	0.0%
Private Not-for-Profit Institutions*	+4.00%	+4.5%	+3.5%	+3.5%
Private For-Profit Institutions*	-4.75%	-4.10%	+3.5%	+3.5%

*Note: Tuition and fees exceed the annual tuition and fees maximums currently established in law.

Next Report

The next report on Minnesota State Grant projections is due to the Legislature by November 1, 2015. The report will contain actual spending for fiscal year 2015, and updated projection figures for fiscal year 2016 and 2017. The Office of Higher Education (the Office) expects to revise the estimate in response to additional spring enrollment information, December wage estimates and Pell Grant award parameters.