

NOTE: This is an earlier version of the fiscal note for SF2393-0.

The most current version is available on the Fiscal Note Search Site: <https://www.mn.gov/mmbapps/fnsearchlbo/>

Fiscal Note

2023-2024 Legislative Session

SF2393 - 0 - Assigned Student Responsibility Decreased; Grants

Chief Author: **Erin Murphy**
 Committee: **Higher Education**
 Date Completed: **3/20/2023 2:41:53 PM**
 Agency: **Office of Higher Education**

| State Fiscal Impact | Yes | No |
|----------------------------|-----|----|
| Expenditures | X | |
| Fee/Departmental Earnings | | X |
| Tax Revenue | | X |
| Information Technology | | X |
| Local Fiscal Impact | | |
| | | X |

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

| State Cost (Savings) | Biennium | | | Biennium | | |
|-----------------------------|----------------------|----------------|----------------|----------------|----------------|----------------|
| | Dollars in Thousands | FY2023 | FY2024 | FY2025 | FY2026 | FY2027 |
| General Fund | - | 135,709 | 125,370 | 125,370 | 125,370 | 125,370 |
| Total | - | 135,709 | 125,370 | 125,370 | 125,370 | 125,370 |
| Biennial Total | | | 261,079 | | | 250,740 |

| Full Time Equivalent Positions (FTE) | Biennium | | | Biennium | |
|---|----------|--------|--------|----------|--------|
| | FY2023 | FY2024 | FY2025 | FY2026 | FY2027 |
| General Fund | - | - | - | - | - |
| Total | - | - | - | - | - |

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature: Xunxuan Weerts **Date:** 3/20/2023 2:41:51 PM
Phone: 651-284-6438 **Email:** xunxuan.weerts@lbo.mn.gov

State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

| State Cost (Savings) = 1-2 | | Biennium | | Biennium | |
|--|-----------------------|-----------------|----------------|-----------------|----------------|
| Dollars in Thousands | FY2023 | FY2024 | FY2025 | FY2026 | FY2027 |
| General Fund | - | 135,709 | 125,370 | 125,370 | 125,370 |
| Total | - | 135,709 | 125,370 | 125,370 | 125,370 |
| | Biennial Total | | 261,079 | | 250,740 |
| 1 - Expenditures, Absorbed Costs*, Transfers Out* | | | | | |
| General Fund | | | | | |
| Expenditures | - | 148,283 | 141,629 | 141,629 | 141,629 |
| Absorbed Costs | - | (12,574) | (16,259) | (16,259) | (16,259) |
| Total | - | 135,709 | 125,370 | 125,370 | 125,370 |
| | Biennial Total | | 261,079 | | 250,740 |
| 2 - Revenues, Transfers In* | | | | | |
| General Fund | | | | | |
| | - | - | - | - | - |
| Total | - | - | - | - | - |
| | Biennial Total | | - | | - |

Bill Description

This bill amends Minnesota Statute section 136A.121, subdivision 5, reducing the Assigned Student Responsibility used in calculation of a Minnesota State Grant from 50% of total cost of attendance to 36% of the total cost of attendance

Assumptions

The estimates provided are the result of a cost simulation of State Grant data projecting fiscal year 2022 actual spending to fiscal years 2023-2025, using: award parameters in law as of February 15, 2023, changes specified in the proposed legislation, and tuition and fee changes provided by institutional representatives.

Spending estimates use the following the program parameters to calculate Federal Pell and Minnesota State Grants as shown in the table below.

Table 1: Minnesota State Grant Award Parameters

| | FY2024 | FY2025 |
|--|------------------------|------------------------|
| | Projected | Projected |
| Living and Miscellaneous Expense Allowance | \$11,922 | \$12,576 ⁱⁱ |
| Assigned Student Responsibility | 50% | 50% |
| Tuition and Fee Maximums | | |
| Students in Two-Year Programs | \$6,640 ⁱⁱ | \$6,799 ⁱⁱ |
| Students in Four-Year Programs | \$16,468 ⁱⁱ | \$16,839 ⁱⁱ |
| Federal Pell Grant Maximum | \$7,395 | \$7,395 ⁱⁱ |
| Rationing Surcharge on Assigned Family Responsibility | 0% | 0% |
| Proration for the Assigned Family Responsibility | | |
| Dependent Students (Parent Contribution) | 79% | 79% |
| Independent Students with Dependents (Student Contribution) | 71% | 71% |
| Independent Students without Dependents (Student Contribution) | 35% | 35% |

ⁱ Estimated

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.

For FY2024, the LME is to be \$11,922. For FY2025, the LME is estimated to be \$12,576.

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. As of February 15, 2023, the wage increase for FY2024 is estimated to be +2.4% and the wage increase for FY2025 is estimated to be +5%.

Enrollment Assumptions

The State Grant spending forecast also incorporated estimated enrollment changes in the number of Minnesota resident undergraduates enrolling at each institution. Table 2 shows information about enrollment changes for fiscal years 2024-2025. Overall enrollment changes serve to estimate changes in the number of Minnesota resident aid applicants. The agency 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.

Table 2: Enrollment Assumptions

| | FY2024 | FY2025 |
|-------------------------------------|------------------------|------------------------|
| | Fall 2023 | Fall 2024 |
| System | Projected | Projected |
| Minnesota State Colleges | -0.9% | 0.5% |
| Minnesota State Universities | -1.1% | 0.8% |
| University of Minnesota Twin Cities | 0% to 2% ⁱⁱ | 0% to 2% ⁱⁱ |
| Morris, Crookston, Duluth | 0% to 2% ⁱⁱ | 0% to 2% ⁱⁱ |
| Private Not-for-Profit Institutions | 0.0% | 0.0% |
| Private For-Profit Institutions | -2.0% | 6.5% |

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 Consolidated Appropriations Act of 2023 further increased the Pell Grant maximum to \$7,395. 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.

Tuition and Fee Increases

OHE gathered information about tuition and fee increases for fiscal years 2024-2025 from institutional and system representatives. Table 3 below details actual and estimated tuition and fee increases for State Grant calculations as reported by institutions for projections of spending.

Table 3: Annual Changes in Minnesota Resident Undergraduate Tuition and Fee Rates

| | FY2022 | FY2023 | FY2024 | FY2025 |
|--------------------------|--------|--------|--------------------|--------------------|
| System | Actual | Actual | Projected | Projected |
| Minnesota State Colleges | 3.9% | 3.0% | 2.4% ⁱⁱ | 2.4% ⁱⁱ |

| | | | | |
|--|-------------------|-------------------|--------------------|--------------------|
| Minnesota State Universities | 7.1% ⁱ | 4.5% ⁱ | 3.4% ⁱⁱ | 3.4% ⁱⁱ |
| University of Minnesota | 1.7% | 4.1% | 1% to 3.5% | 1% to 3.5% |
| Private Not-for-Profit Institutions ⁱⁱⁱ | 1.8% | 4.0% | 3.0% | 3.0% |
| Private For-Profit Institutions ⁱⁱⁱ | 1.5% | 4.3% | 1.0% | 8.0% |

ⁱ Unadjusted for tuition reset authorized in state law. Actual percent change in average tuition and fees charged for all terms of the 2021-2022 academic year. May differ from published rate changes. ⁱⁱ 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. ⁱⁱⁱ 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.

Significant changes to federal student aid policy, including simplifying the Free Application for Federal Student Aid (FAFSA), expanding Pell Grant eligibility to incarcerated students, and the repeal of limitations on subsidized loan eligibility for undergraduate Direct Loans were attached to the Consolidated Appropriations Act, 2021 which was signed into law on December 27, 2020. The changes include, but are not limited to:

- Reduction in the number of questions on the FAFSA,
- Decrease in the number of students required to report asset information,
- Determines Pell Grant award amount using a federal poverty level model, and
- Changes the calculation of the Expected Family Contribution and renames it the Student Aid Index.

These changes will impact Minnesota State Grant eligibility and awards. At this time, the Office is still awaiting further guidance from the U.S. Department of Education in order to assess the impact for Minnesota. A summary of changes is available from the National Association of Student Financial Aid Administrators (NASFAA) https://www.nasfaa.org/consolidated_approps_21.

Expenditure and/or Revenue Formula

Total Expenditures (in thousands):

| Cost | FY2024 | FY2025 | |
|--|-----------|-----------|--|
| NEW FUNDS | | | |
| State Grant Modifications Direct Funds to Students | \$148,283 | \$141,629 | |
| Total Costs - new general funds | \$148,283 | \$141,629 | |
| | | | |
| COSTS ABSORBED | | | |
| State Grant Modifications Direct Funds to Students | \$12,574 | \$16,259 | |
| Total costs absorbed | \$12,574 | \$16,259 | |
| | | | |
| Total | \$135,709 | \$125,370 | |

Expenditures for the Minnesota State Grant Modifications

The estimated total cost for FY24 is \$135.709M over base resources. Fiscal cost is derived from projected spending for FY2024 after changes are adopted less current base general fund appropriations for FY2024. Projected spending after changes totaled \$345.746M. This total includes estimated spending for State Grant awards made to students who qualify for a State Grant by completing a state aid application and meeting eligibility requirements under the Minnesota Dream Act (\$3M).

The changes to the State Grant award formula result in 3,316 new students receiving state grants in FY2024 as compared to base awards, but this change also increases grants to all recipients. The average state grant increases by \$2,153 in FY2024 as compared to base awards for these changes.

The estimated total cost for FY25 is \$125.370M over base resources. Fiscal cost is derived from projected spending for FY2025 after changes are adopted less current base general fund appropriations for FY2025. Projected spending after changes totaled \$335.407M. This total includes estimated spending for State Grant awards made to students who qualify for a State Grant by completing a state aid application and meeting eligibility requirements under the Minnesota Dream Act (\$3M).

The changes to the State Grant award formula result in 5,350 new students receiving state grants in FY2025 as compared to base awards, but this change also increases grants to all recipients. The average state grant increases by \$2,027 in FY2025 as compared to base awards for these changes.

| Fiscal Year 2024 | State Grant Spending (in thousands) | Number of Recipients (estimated) | Average State Grant Award (estimated) |
|--|-------------------------------------|----------------------------------|---------------------------------------|
| February Spending Projection Current Law | \$194,463 | 60,610 | \$3,208 |
| SF2393-0 Lower ASR to 36% | \$342,746 | 63,926 | \$5,362 |
| Difference in spending (SF2393-0 cost) | =\$ (148,283) | | |
| Total spending including estimated cost of grants to students eligible under Minnesota Dream Act | \$345,746 | | |
| | | | |
| Base Appropriations | \$210,037 | | |
| Total State Grant Spending with Changes | - \$345,746 | | |
| Difference (Net Costs/Expenditures by Source) | = \$(135,709) | | |
| | | | |
| Costs/Expenditures Absorbed | \$(12,574) | | |
| Total FY2024 Cost | | | |

| Fiscal Year 2025 | State Grant Spending (in thousands) | Number of Recipients (estimated) | Average State Grant Award (estimated) |
|--|-------------------------------------|----------------------------------|---------------------------------------|
| February Spending Projection Current Law | \$190,778 | 55,440 | \$3,441 |
| SF2393-0 Lower ASR to 36% | \$332,407 | 60,789 | \$5,468 |
| Difference in spending (SF2393-0 cost) | =\$ (141,629) | | |

NOTE: This is an earlier version of the fiscal note for SF2393-0.

The most current version is available on the Fiscal Note Search Site: <https://www.mn.gov/mmbapps/fnsearchlbo/>

| | | | |
|--|----------------------|--|--|
| Total spending including estimated cost of grants to students eligible under Minnesota Dream Act | \$335,407 | | |
| | | | |
| Base Appropriations | \$210,037 | | |
| Total State Grant Spending with Changes | - \$335,407 | | |
| Difference (Net Costs/Expenditures by Source) | = \$(125,370) | | |
| | | | |
| Costs/Expenditures Absorbed | \$(16,259) | | |

Long-Term Fiscal Considerations

The cost estimate is based on several assumptions that may change, including tuition and fee increases adopted by the public governing boards, and enrollment changes.

Local Fiscal Impact

None

References/Sources

The Office of Higher Education utilized financial aid application and enrollment data for fiscal year 2022 in estimating costs for this fiscal note.

Agency Contact: Nicole Whelan

Agency Fiscal Note Coordinator Signature: Poawit Yang

Date: 3/20/2023 2:40:48 PM

Phone: 651-259-3951

Email: poawit.yang@state.mn.us