

Fiscal Note

2023-2024 Legislative Session

SF1986 - 1A - Free College Grants

Chief Author: **Omar Fateh**
 Committee: **Higher Education**
 Date Completed: **2/21/2023 3:01:01 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 | - | 202 | 314,873 | 314,873 | 314,873 | 314,873 |
| Total | - | 202 | 314,873 | 314,873 | 314,873 | 314,873 |
| Biennial Total | | | 315,075 | | 629,746 | |

| Full Time Equivalent Positions (FTE) | Biennium | | | Biennium | |
|---|----------|--------|--------|----------|--------|
| | FY2023 | FY2024 | FY2025 | FY2026 | FY2027 |
| General Fund | - | 1 | 1 | 1 | 1 |
| Total | - | 1 | 1 | 1 | 1 |

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:** 2/21/2023 3:01:01 PM
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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 | - | 202 | 314,873 | 314,873 | 314,873 | 314,873 |
| Total | - | 202 | 314,873 | 314,873 | 314,873 | 314,873 |
| | Biennial Total | | 315,075 | | 629,746 | |
| 1 - Expenditures, Absorbed Costs*, Transfers Out* | | | | | | |
| General Fund | - | 202 | 314,873 | 314,873 | 314,873 | 314,873 |
| Total | - | 202 | 314,873 | 314,873 | 314,873 | 314,873 |
| | Biennial Total | | 315,075 | | 629,746 | |
| 2 - Revenues, Transfers In* | | | | | | |
| General Fund | - | - | - | - | - | - |
| Total | - | - | - | - | - | - |
| | Biennial Total | | - | | - | |

Bill Description

SF1986-1A establishes a grant program to fund a student’s remaining financial need provided the student:

- Has completed the FAFSA
- is enrolled at a Minnesota State College, Minnesota State University, the University of Minnesota system, or a tribal college
- has a family adjusted gross income of less than \$120,000
- has not earned a baccalaureate degree

Students meeting those requirements are eligible to receive a grant equal to the student’s allowance for tuition and fees after deducting grants and other scholarships, not including the federal Pell Grant.

Appropriates \$316,893,000 in a special revenue fund for this program for administration and scholarships to students for this program.

Appropriates \$230,000 for this program in fiscal year 2024 and \$130,000 in fiscal year 2025 for program administration and promotion of the program and student outreach efforts.

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 point 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_approvs_21.

Expenditure and/or Revenue Formula

The changes result in 58,485 students receiving grants in FY2025, with an average grant of \$5,382. The estimated total cost for FY25 is \$314.766M.

Staff: Based on the activities required to administer the program discussed above, OHE estimates a 1.0 FTE State Program Administrator Principal salary would be required (\$97,216 salary and fringe x 1.0 = \$97,216).

IT costs: IT development work in addition to current activities would include total one-time cost in FY 2024 of \$100,000(800 hours * \$125/hour) for modifying OHE’s financial aid system to add a new permanent program by our current vendor. OHE anticipates IT maintenance costs of \$5,000 per year.

Communications: Initial cost of \$5,000 for OHE Communications to develop brochures, handouts, and other marketing materials. These materials would then need to be revised, updated, and redistributed on an annual basis with a cost of \$5,000.

Table 4: Total Costs

| | FY24 | FY25 |
|-------------------------|------------------|----------------------|
| - | | |
| Grants to Students | \$0 | \$314,766,270 |
| IT costs | \$100,000 | \$5,000 |
| Staff (Salary & Fringe) | \$97,216 | \$97,216 |
| Communications | \$5,000 | \$5,000 |
| Reporting/Research | \$0 | \$0 |
| Total Costs | \$202,216 | \$314,873,486 |

Based off projected number of students receiving grants and the average grant amount, OHE projects there to be \$2,126,730 in unspent grant appropriations at the end of FY25. Additionally, OHE anticipates unspent administrative appropriations at the end of FY25 totaling \$50,568.

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. Additionally, the introduction of a last-dollar free tuition program targeted to the Minnesota State Colleges may impact increased enrollment in that system, which may lead to an increase in applicants for the Minnesota State Grant program.

Additionally, cost estimates for this program do not subtract institutional aid, or aid from other entities, such as federal and state agencies, tribal nations, or scholarships, tuition waivers, and tuition remissions. The inclusion of any of these items in the aid calculation will reduce awards and overall spending.

Local Fiscal Impact

None

References/Sources

OHE Projections

Agency Contact:

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