

HF3252 - 0 - Higher Education; Miscellaneous Modifications

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 Committee: **Higher Education Finance and Policy**
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 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) Dollars in Thousands	Biennium			Biennium	
	FY2021	FY2022	FY2023	FY2024	FY2025
General Fund	-	-	82,528	91,272	91,272
Total	-	-	82,528	91,272	91,272
Biennial Total			82,528	182,544	

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2021	FY2022	FY2023	FY2024	FY2025
General Fund	-	-	.25	.25	.25
Total	-	-	.25	.25	.25

LBO Analyst's Comment

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

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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	FY2021	FY2022	FY2023	FY2024	FY2025	
General Fund	-	-	82,528	91,272	91,272	
Total	-	-	82,528	91,272	91,272	
Biennial Total			82,528		182,544	
1 - Expenditures, Absorbed Costs*, Transfers Out*						
General Fund						
Expenditures	-	-	87,570	91,272	91,272	
Absorbed Costs	-	-	(5,042)	-	-	
Total	-	-	82,528	91,272	91,272	
Biennial Total			82,528		182,544	
2 - Revenues, Transfers In*						
General Fund						
Total	-	-	-	-	-	
Biennial Total			-		-	

Bill Description

This bill makes modifications to existing Office of Higher Education programs, establishes a new competitive grant program to be administered by OHE, and mandates reporting by OHE on identified topics.

HF 3252.0 does the following:

Section 1. State Grant ASR. Section 1 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 46% of the total cost of attendance

Section 2. State Grant LME. Section 2 amends Minnesota Statute section 136A.121, subdivision 6, increasing the living and miscellaneous expense allowance used in calculating a State Grant to 115% of the federal poverty guideline for a one-person household in Minnesota for nine months.

Section 3. State Grant Eligibility. Section 3 amends Minnesota Statute section 136A.121, subdivision 9 changing student eligibility for state grants from 8 semesters to 10 semesters or the equivalent of enrollment.

Section 4. Assessment into developmental education. Section 4 requires Minnesota state to review ACT, SAT, or Minnesota Comprehensive Assessment scores prior to enrolling a student in developmental education. Minnesota State must also inform students if the course is required for their program of study.

Section 5. Multiple measures for placement into developmental education. Section 5 changes the process by which Minnesota State reviews student academic information for placement into developmental education courses.

Section 6. Work Study Program Evaluation. Section 6 requires the Office of Higher Education evaluate the State Work Study program and report its findings by January 15, 2023.

Section 7. Challenge Grants. Section 7 establishes a competitive grant program to be administered by the Office of Higher Education. The grants would be limited to Minnesota State Colleges and Universities system campuses to pursue innovations in student transfer aimed at shortening the time to degree completion and minimizing excess credits. The Office of Higher Education is required to report on the grants awarded by January 1, 2024. The Office of Higher Education may use up to five percent of the appropriation for administration.

Section 8. Revisor changes. Section 8 directs the Revisor's Office to substitute the term "developmental" for "remedial"

wherever the term refers to remedial education courses at a postsecondary institution.

Assumptions

Assumptions related to Modifications to the Minnesota State Grant Program (Sections 1,2,3)

The estimates provided are the result of a cost simulation of State Grant data projecting fiscal year 2021 actual spending to fiscal years 2022-2023, using: award parameters in law as of February 15, 2022, 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

	FY2022	FY2023
	Actual	Projected
Living and Miscellaneous Expense Allowance	\$10,530	\$11,110
Assigned Student Responsibility	50%	50%
Tuition and Fee Maximums		
Students in Two-Year Programs	\$6,287	\$6,507 ⁱⁱ
Students in Four-Year Programs	\$15,368	\$15,599 ⁱⁱ
Federal Pell Grant Maximum	\$6,495	\$6,495 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 FY2022, the LME is to be \$10,530. For FY2023, the LME is estimated to be \$11,110.

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 2021-2022 projections, the model utilizes data from applicable tax years to update student and family wages and adjusted gross incomes. For fiscal year 2023 projections, estimated changes in wages are derived from estimates provided by MMB following the onset of the COVID-19 pandemic derived from the Employment Cost Index. As of February 15, 2022, the wage increase for FY2022 is estimated to be +2.7% and the wage increase for FY2023 is estimated to be +2.6%.

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 2022-2023. 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

	FY2022	FY2023
	Fall 2021	Fall 2022
System	Actual	Projected
Minnesota State Colleges	-7.3%	-0.7%
Minnesota State Universities	-6.2%	-0.6%
University of Minnesota Twin Cities	1.30%	-0.5%
Morris, Crookston, Duluth	-4.05%	1.8%
Private Not-for-Profit Institutions	-3.6%	0.0%
Private For-Profit Institutions	-6.0%	-2.0%

Pell Grant Changes in Law

A federal appropriations bill passed late in calendar year 2020 raised the Pell Grant maximum to \$6,495 for fiscal year 2022, following raises to the Pell Grant maximum in the two prior years. Currently federal appropriations for the Pell Grant program for fiscal year 2023 has not been approved by Congress. 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.

Tuition and Fee Increases

OHE gathered information about tuition and fee increases for fiscal years 2020-2023 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

	FY2020	FY2021	FY2022	FY2023
System	Actual	Actual	Actual	Projected
Minnesota State Colleges	2.9%	1.8%	3.9%	3.5% ⁱⁱⁱ
Minnesota State Universities	3.4%	1.4%	7.1% ⁱ	3.5% ⁱⁱⁱ
University of Minnesota	2.3%	0%	1.7%	0% to 3%
Private Not-for-Profit Institutions ⁱⁱ	3.3%	3.4%	1.8%	3.0%
Private For-Profit Institutions ⁱⁱ	0.9%	1.0%	1.5%	-3.0%

ⁱ Unadjusted for tuition reset authorized in state law. ⁱⁱ Actual percent change in average tuition and fees charged for all terms of the 2020-2021 academic year. May differ from published rate changes, which calculate percent change from spring semester 2021 (see table 8b). ⁱⁱⁱ Reflects maximum increase allowed in law. ^{iv} 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 July 2021. 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.

Assumptions related to Required Reporting and Research: Section 6. Work Study Program Evaluation.

To meet the requirements of 3252, Section 6, OHE would need to:

Conduct an evaluation of federal, state, and institutional work study programs. This study would need to include:

Data provided by colleges to OHE that include data on participants of federal and institutional work study participants for the most recent 5 years.

OHE Research Staff time to collect data on state, federal, and institutional work study participants for the most recent 5 years.

OHE Research staff time to collect information on laws, policies, and practices covering administration of work study; current minimum wages laws; research related to the impact of student employment on enrollment, persistence and completion; and potential policy options for legislative consideration.

OHE Research staff time to facilitate institutional staff and student focus groups to understand the needs of college students and barriers to more students working on campus.

Hiring of external research consultant to conduct the research study.

OHE assumes that evaluation and assessment deliverables would incorporate feedback from higher education institutions, students, and stakeholders.

Staffing Requirements

At this time, OHE staff are involved in upgrading of state financial aid information technology systems and assessing federal conformity requirements for all state financial aid programs following the passage of the Consolidated Appropriations Act, 2021 which was signed into law on December 27, 2020. As of February 2022, OHE does not have internal staff capacity to perform the work beyond supportive functions (data collection, deliverable feedback and review).

OHE estimates that the project will require 620 hours of staff time to complete the evaluation as outlined in the bill language.

100 hours for data specification and collection,

80 hours for conducting focus groups with institutional staff and students and summarizing findings,

120 hours for conducting literature reviews,

120 hours for analyzing available data,

120 hours for examining policy options,

40 hours for meetings with stakeholders throughout the process, and

40 hours to draft, edit, and incorporate stakeholder feedback into the final report.

OHE would be required to hire external research consultants to conduct the study within the timeline specified. OHE assumes that an additional 80 hours of staff time will be required to complete the supportive functions (data collection, deliverable feedback and review) for the evaluation.

Assumptions related to establishing a new Competitive Grant Program, “Challenge Grants” (section 7):

HF 3252 Section 7 requires OHE to establish a new grant program to distribute funds to Minnesota State Colleges and Universities for the purpose of innovations in student transfer aimed at shortening the time to degree completion and minimizing excess credits.

OHE assumes this is a competitive grant program with a maximum set annual appropriation. OHE assumes appropriations are recurring and there would require the competitive grant process to be completed on an annual or biennial basis.

OHE assumes the following activities are required to initially develop and set up the administration of the new competitive grant program:

- Develop relationships with representatives from relevant community organizations, professional organizations, institutional staff, professional governing boards, and others to establish the appropriate scope, audience, and requirements for the program. Leverage developed relationships to market the program to potential applicants.
- Develop awarding criteria for the grant. Create Request for Applications (RFA) notice and grant review documentation. Initiate new RFA application and awarding process annually. Create and manage the grant review committee, which could include the solicitation of external reviewers. Provide technical assistance to grant applicants.

OHE assumes the following activities are required to administer a program on an annual basis:

- Review, update, and publish awarding criteria for the grant. Review, update, and publish RFA application and grant review documentation. Initiate new RFA application and awarding process annually. Create and manage the grant review committee, which could include the solicitation of external reviewers. Provide technical assistance to grant applicants.
- Develop internal administrative tools to be used in the annual administration of the program. Write and process grant contracts. Review and approve grant payments, including finance reconciliation. Provide grant monitoring and oversight.
- Collect, analyze, and disseminate data on the program in a program report.
- Other operating costs each year for financial services, communications, MN.IT, and supplies that are necessary for the staff to conduct their work.

OHE assumes that related expenses including e-signature software, supplies, communication material design and printing will be minimal. These costs will be absorbed by OHE.

Expenditure and/or Revenue Formula

Table X. Cost Table

Cost	Initial	Year - 2023	Year 24/25	
NEW FUNDS				
State Grant Modifications Direct Funds to Students		\$87,473,000	\$91,237,000	
Professional Technical Contract - Work Study Evaluation		\$62,000	\$0	
Staff - new Grant Program		\$34,500	\$34,500	
Total Costs - new general funds		\$87,569,500	\$91,271,500	
COSTS ABSORBED				
State Grant Modifications Direct Funds to Students		\$5,038,000	\$0	
Staff - Work Study Evaluation		\$3,767	\$0	

Total costs absorbed		\$5,041,767	\$0
Total		\$82,527,733	\$91,271,500

Expenditures for the Minnesota State Grant Modifications

The estimated total cost for FY23 is \$82.435M over estimated base resources of \$218.839M. Fiscal cost is derived from projected spending for FY2023 after changes are adopted less current base general fund appropriations for FY2023, plus an additional \$8.802M in funding projected to carry forward from FY22, resulting in an estimated \$5.04M in costs absorbed by existing program funds. Projected spending after changes totaled \$301.274M. 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 (\$1.3M).

The changes result in 7,638 new students receiving state grants in FY2023 as compared to base awards, but this change also increases grants to all recipients. The average state grant increases by \$875 in FY2023 as compared to base awards.

Fiscal Year 2023	State Grant Spending (in millions)	State Grant excluding Dream Act applicants	Number of Recipients (estimated)	Average State Grant Award (estimated)
February Spending Projection Current Law	\$213,801	\$212,501	Current Law: 66,127	Current Law: \$3,214
HF3252.0 (Lower ASR to 46%)	•\$255,822	\$254,522	With Change: 73,370	With Change: \$4,089
HF3252.0 (Increase LME to 115% and Lower ASR to 46%)	- \$271,730	- \$270,430	New Recipients (parameter changes only): 17	Grant Increase: \$875
HF3252.0 (Change grant eligibility limits to 10 terms of enrollment and Increase LME to 115% and Lower ASR to 46%)	- \$301,274	- \$299,974	New Recipients (eligibility changes only): 7,226	Grant Increase: \$4,089 (assumes students would not have been eligible for a state grant prior to this policy change)
Difference in spending=HF3252.0 cost	= \$(87,473)	= \$(87,473)		
	FY23	FY24/25		
Base Appropriations	\$210,037	\$210,037		
Estimated carryforward from FY22	+ \$8,802			
HF3252.0 (Lower ASR to 46%)	•\$254,522	\$254,522		
HF3252.0 (Increase LME to 115%)	•\$270,430	\$270,430		
HF3252.0 (Change grant eligibility limits to 10 terms of enrollment)	•\$299,974	\$299,974		
Manual Adjustment for State Grants Awarded to MN Dream Act Applicants	•\$301,274	\$301,274		
Difference (Net Costs/Expenditures by	= \$(82,435)	= \$(91,237)		

Source)				
Costs/Expenditures Absorbed		\$5,04		

Expenditures related to Work Study Evaluation (section 6):

OHE assumes an external consultant would conduct the activities required for the project. The hourly rate for this project is estimated to be \$100.00. Based on the total estimated project hours (620) and the hourly rate (\$100), the total cost of the project is estimated to be **\$62,000** for fiscal year 2022 (one-time cost).

OHE assumes a Senior Research Analyst would provide support to the external consultant for the project, including communication with institutions, data collection, and identification of resources, subject matter assistance, and other support. Support hours are anticipated to equal to approximately 80 hours total. The annual salary and fringe costs for this position is \$98,309. Based on the total estimated project support hours, the total cost of the project is estimated to be **\$3,767** (\$98,309/2088 x80)for fiscal year 2022 (one-time cost), which will be absorbed by OHE as it is an extension of OHE's research function supporting state financial aid programs administered by OHE.

Expenditures related to establishing a new Grant Program (section 7):

OHE assumes this a competitive grant, to up to an estimated 37 institutions. Development of the program, including the application, review, monitoring, and reporting I believe would be 0.25 FTE. Grant Administrator position. The annual salary and fringe costs for this position is \$138,053. Based on the estimated FTE (0.25), the administrative cost of the project is estimated to be **\$34,513** per year.

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 2021 in estimating costs for this fiscal note.

Agency Contact:

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