

HF1517 - 0 - Higher Education State Grant Parameters Adjusted

Chief Author: **Michael Howard**
 Committee: **Higher Education Finance and Policy**
 Date Completed: **3/8/2021 6:09:23 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 | FY2021 | FY2022 | FY2023 | FY2024 | FY2025 |
| General Fund | - | 17,131 | 26,548 | 26,548 | 26,548 | 26,548 |
| Total | - | 17,131 | 26,548 | 26,548 | 26,548 | 26,548 |
| Biennial Total | | | 43,679 | | | 53,096 |

| Full Time Equivalent Positions (FTE) | Biennium | | | Biennium | |
|--------------------------------------|----------|--------|--------|----------|--------|
| | FY2021 | FY2022 | FY2023 | FY2024 | FY2025 |
| 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.

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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 | - | 17,131 | 26,548 | 26,548 | 26,548 | 26,548 |
| Total | - | 17,131 | 26,548 | 26,548 | 26,548 | 26,548 |
| | Biennial Total | | 43,679 | | | 53,096 |
| 1 - Expenditures, Absorbed Costs*, Transfers Out* | | | | | | |
| General Fund | | | | | | |
| Expenditures | - | 32,479 | 33,411 | 33,411 | 33,411 | 33,411 |
| Absorbed Costs | - | (15,348) | (6,863) | (6,863) | (6,863) | (6,863) |
| Total | - | 17,131 | 26,548 | 26,548 | 26,548 | 26,548 |
| | Biennial Total | | 43,679 | | | 53,096 |
| 2 - Revenues, Transfers In* | | | | | | |
| General Fund | | | | | | |
| | - | - | - | - | - | - |
| Total | - | - | - | - | - | - |
| | Biennial Total | | - | | | - |

Bill Description

HF 1517 amends State 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 47% of the total cost of attendance.

Assumptions

NOTE: The total additional cost of the amendment is \$32.479M in FY22 and \$33.411M in FY23-25. Current base appropriations exceed current spending projections and can absorb \$15.348M of the \$32,479M additional cost in FY22 and \$6.863M of the additional \$33.411M additional cost in FY23-25.

The amendment will increase the number of students eligible for State Grant. Eligibility for State Grant is determined by comparing the students Assigned Family Responsibility to the Maximum Pell plus State Grant. The following two tables highlight the Assigned Family Responsibility assuming maximum Pell plus State Grant at the University of MN Twin Cities for FY2021

| |
|--|
| Current |
| Max = (T&F plus LME) x (1-ASR) = (\$15,142+\$10,530) x (1-0.50) = \$12,836 |
| Eligible students will have an AFR less than \$12,836 |
| Proposed HF1517 |
| Max = (TF plus LME) x (1-ASR) = (\$15,142+\$10,530) x (1-0.47) = \$13,606 |
| Eligible students will have an AFR less than \$13,606 |

The estimates provided are the result of a cost simulation of State Grant data projecting fiscal year 2020 actual spending to fiscal year 2022, using: award parameters in law as of February 15, 2021, 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 |
|--|-----------------------|-----------------------|
| | Projected | Projected |
| Living and Miscellaneous Expense Allowance | \$10,240 | \$10,418 ⁱ |
| Assigned Student Responsibility | 50% | 50% |
| Tuition and Fee Maximums | | |
| Students in Two-Year Programs | \$6,297 ⁱ | \$6,486 ⁱ |
| Students in Four-Year Programs | \$15,369 ⁱ | \$15,600 ⁱ |
| Federal Pell Grant Maximum | \$6,495 ⁱ | \$6,495 ⁱ |
| Rationing Surcharge on Assigned Family Responsibility | 0% | 0% |
| Proration for the Assigned Family Responsibility | | |
| Dependent Students (Parent Contribution) | 82% | 82% |
| Independent Students with Dependents (Student Contribution) | 74% | 74% |
| Independent Students without Dependents (Student Contribution) | 38% | 38% |

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. The Office projections the LME parameter to increase by 1.74% annually for fiscal years 2023, based on 10-year average changes to the Consumer Price Index.

For FY2022, the LME is estimated to be \$10,240. For FY2023, the LME is estimated to be \$10,418.

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, 2021, the wage increase for FY2022 is estimated to be +2.9% and the wage increase for FY2023 is estimated to be +2.3%.

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 2020-2023. 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

| | FY2020 | FY2021 | FY2021 | FY2022 |
|-------------------------------------|-----------|-----------|--------------------|-----------------|
| | Fall 2019 | Fall 2020 | Fall 2020 | Fall 2021 |
| System | Actual | Projected | actual | Projected |
| Minnesota State Colleges | -2.1% | 0.5% | -7.1% | 0.4% |
| Minnesota State Universities | -3.0% | -0.4% | -3.7% | -2.6% |
| University of Minnesota Twin Cities | 5.6% | 0.08% | 1.53% ⁱ | 0% ⁱ |
| Morris, Crookston, Duluth | -0.6% | 0.03% | -6.74% | 0% |

| | | | | |
|-------------------------------------|-------|------|-------|------|
| Private Not-for-Profit Institutions | -0.5% | 0.0% | -2.4% | 2.0% |
| Private For-Profit Institutions | -6.0% | 4.0% | -0.6% | 2.0% |

Pell Grant Changes in Law

For academic year 2019-2020 (fiscal year 2020), the Pell Grant maximum increased to \$6,195. The 2019 federal appropriations bill included an increase to the Pell Grant, further raising the maximum award to \$6,345 for fiscal year 2021, and a subsequent federal appropriations bill passed late in calendar year 2020 further raised the Pell Grant maximum to \$6,495 for fiscal year 2022. 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. At this time, the Office is still awaiting further guidance from the U.S. Department of Education in order to assess the impact of these changes for Minnesota. Until such guidance is issued, we are using current conditions for purposes of this fiscal note.

Logically, the changes enacted are not meant to dramatically change who receives Pell Grants but rather simplify the process, therefore one could assume that the net change will yield a distribution of students by financial need and Pell Grant award levels similar to current conditions. But we can't know that for sure until US DOE guidance is issue in May 2021.

Tuition and Fee Increases

OHE gathered information about tuition and fee increases for fiscal years 2018-2021 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 | Projected | Projected |
| Minnesota State Colleges | 2.9% | 1.8% | 3% ⁱ | 3% ⁱ |
| Minnesota State Universities | 3.4% | 1.4% | 3% ⁱ | 3% ⁱ |
| University of Minnesota | 2.3% | 0% | 0% to 3% | 0% to 3% |
| Private Not-for-Profit Institutions ⁱⁱ | 3.3% | 3.4% | 2.0% | 3.0% |
| Private For-Profit Institutions ⁱⁱ | 0.9% | 1.0% | 4.0% | 2.0% |

ⁱ 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.

ⁱⁱ 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 2020. 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. Until such guidance is issued, we are using current conditions for purposes of this fiscal note.

Expenditure and/or Revenue Formula

FY22

The estimated total cost for FY22 is \$17.131M over base appropriations of \$207.437M. Fiscal cost is derived from projected spending for FY2022 after changes are adopted less current base general fund appropriations for FY2022. Projected spending after changes totaled \$224.568M. This includes an estimated \$15.348M in costs absorbed by existing program funds.

The changes result in 5,239 new students receiving state grants in FY2022 as compared to base awards. The average state grant increases by \$243 in FY2022 as compared to base awards.

| Fiscal Year 2022 | State Grant Spending (in thousands) | Number of Recipients (estimated) | Average State Grant Award (estimated) |
|--|-------------------------------------|----------------------------------|---------------------------------------|
| February Spending Projection Current Law | \$192,089 | 68,092 | \$2,800 |
| HF1517 | \$224,568 | 73,331 | \$3,043 |
| Difference in spending=HF1517 cost | = \$(32,479) | 5,239 | \$243 |
| Base Appropriations | \$207,437 | | |
| HF1517 cost | \$224,568 | | |
| Difference (Net Costs/Expenditures by Source) | = \$(17,131) | | |
| Costs/Expenditures Absorbed | \$(15,348) | | |

FY23

The estimated total cost for FY23 is \$26.548M over base appropriations of \$207.437M. Fiscal cost is derived from projected spending for FY2023 after changes are adopted less current base general fund appropriations for FY2023. Projected spending after changes totaled \$233.985M. This includes an estimated \$6.863M in costs absorbed by existing program funds.

The changes result in 3,914 new students receiving state grants in FY2023 as compared to base awards. The average state grant increases by \$301 in FY2023 as compared to base awards.

| Fiscal Year 2023 | State Grant Spending (in thousands) | Number of Recipients (estimated) | Average State Grant Award (estimated) |
|--|-------------------------------------|----------------------------------|---------------------------------------|
| February Spending Projection Current Law | \$200,574 | 69,908 | \$2,849 |
| HF1517 Estimated Spending | \$233,985 | 73,822 | \$3,150 |
| Difference in spending=HF1517 cost | = \$(33,411) | 3,914 | \$301 |
| Base Appropriations | \$207,437 | | |
| HF1517 cost | \$233,985 | | |
| Difference (Net Costs/Expenditures by Source) | = \$(26,548) | | |
| Costs/Expenditures Absorbed | \$(6,863) | | |

Long-Term Fiscal Considerations

The cost estimate is based on several assumptions which 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 2020 in estimating costs for this fiscal note.

Agency Contact:

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