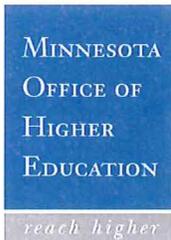


1450 Energy Park Drive, Suite 350
St. Paul, MN 55108-5227

Tel: 651-642-0567
800-657-3866
Fax: 651-642-0675

E-mail: info.ohe@state.mn.us
Web: www.ohe.state.mn.us



November 3, 2014

The Honorable Gene Pelowski Jr., Chair
House Higher Education Policy and Finance Division
471 State Office Building
100 Rev. Dr. Martin Luther King Jr. Boulevard
St. Paul, Minnesota 55155

Dear Representative Pelowski:

Enclosed is the latest projections report for the Minnesota State Grant program as required by *Minnesota Statutes* 136A.12. By law, updates occur on November 1 and February 15 of each fiscal year. Information on enrollments and tuition and fee changes were provided by public and private institutions.

Fiscal Years 2014-2015

The updated spending projection for fiscal year 2014 is \$172.156 million and for fiscal year 2015 is \$182.214 million compared to base resources of \$355.922 million for the biennium. The difference between resources and spending equals \$0.777 million or 0.2%.

This projection includes the increase to the Living and Miscellaneous Expense allowance (LME) made by the Office in May 2014 based on a projected spending surplus at that time. Using the procedures outlined in statute, the Office increased the LME from \$7,900 to \$8,490 for fiscal year 2015. The increase in LME is temporary and will expire on June 30, 2015 unless the legislature takes action to make it permanent.

Fiscal Years 2016-2017

The spending projection for fiscal year 2016 is \$146.587 million and for fiscal year 2017 is \$142.253 million compared to base resources of \$353.562 million for the biennium. The difference between resources and spending equals \$64.722 million.

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

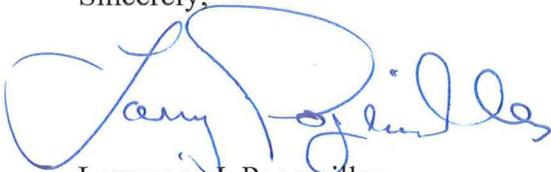
- **Maintaining the Living and Miscellaneous Expense allowance at \$8,490.** If the legislature made permanent the LME of \$8,490, projected spending would increase by \$34.039 million (+\$16.690m FY2016; +\$17.349m FY2017). In order to keep up with a poverty level living standard, the LME would need to increase to \$8,758 and would require an additional \$16.283m (+\$8.258m FY2016; +\$8.026m FY2017).

- **Funding any tuition increase at public institutions.** If tuition were to increase by 3% annually at public institutions, projected spending would increase by \$9.983 million (+\$3.583m FY2016; +\$6.400m FY2017).
- **Continuing the Part-Time Pilot.** If Part-Time Pilot, which was limited to MnSCU institutions, were to be continued, projected spending would increase by \$24.293 million (+\$12.173m FY2016; +\$12.120m FY2017) for students enrolled for fewer than 15 credits per term at only MnSCU institutions or \$34.413 million (+\$17.264m FY2016; +\$17.150m FY2017) for eligible students enrolled at all institutions.

The report can also be viewed online at <http://www.ohe.state.mn.us/mPg.cfm?pageID=1553>.

Feel free to contact me or the report authors if you have questions or would like more information.

Sincerely,



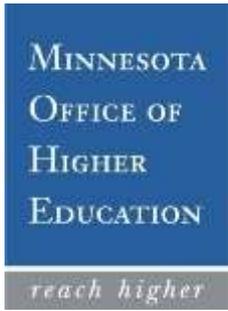
Lawrence J. Pogemiller
Commissioner

Enclosure

cc: Rep. Zachary Dorholt, Vice Chair
Rep. Bud Nornes
Rep. Kathy Brynaert
Rep. David FitzSimmons
Rep. Mary Franson
Rep. Glenn Gruenhagen
Rep. Sheldon Johnson
Rep. Ben Lien

Rep. Kim Norton
Rep. Jeanne Poppe
Rep. Paul Rosenthal
Rep. Chris Swedzinski
Rep. Tama Theis
Rep. Ryan Winkler
Rep. Lyndon Carlson Sr., Ex. Officio
Legislative Reference Library

Kathy Anderson
Andy Pomroy
Matt Gehring
Ken Savary
Amelia Cruver
Hue Nguyen
Mark Mallander



November 1, 2014



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



Authors

Meredith Fergus

Manager Financial Aid Research

Tel: 651-259-3963

meredith.fergus@state.mn.us

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.

Minnesota Office of Higher Education

1450 Energy Park Drive, Suite 350
Saint Paul, MN 55108-5227

Tel: 651.642.0567 or 800.657.3866

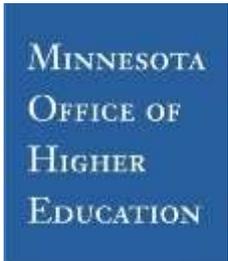
TTY Relay: 800.627.3529

Fax: 651.642.0675

E-mail: info.ohe@state.mn.us

www.getreadyforcollege.org

www.ohe.state.mn.us



MINNESOTA
OFFICE OF
HIGHER
EDUCATION

reach higher

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 October 27, 2014.

This report presents spending projections for the Minnesota State Grant program for the 2014-2015 biennia as of November 1, 2014.

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	+(172.156)	+ (182.214)	+(355.145)
Difference between resources and spending	\$6.985	(\$5.433)	\$0.777

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 \$146.587 million and for fiscal year 2017 is \$142.253 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 \$30.194 million. Fiscal year 2017 shows a difference between base resources and projected spending in the amount of \$24.528 million. For the biennium, the difference between resources and spending equals \$64.722 million. The changes modeled are the agency’s best estimates as of November 1, 2014 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>+(146.587)</u>	<u>+(142.253)</u>	<u>+(288.840)</u>
Difference between resources and spending	\$30.194	\$34.528	\$64.722

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 \$34.039 million (+\$16.690m FY2016; +\$17.349m FY2017).
- **Increasing LME to the poverty level** for a single person (9 month; \$8,758) would require an additional \$16.283m (+\$8.258m FY2016; +\$8.026m FY2017).

- **Funding any tuition increases at public institutions-** If tuition were to increase by 3% annually at public institutions, projected spending would increase by \$9.983 million (+\$3.583m FY2016; +\$6.400m FY2017).
- **Continuing the PT Pilot-** If PT Pilot were to be continued, projected spending would increase by \$24.293 million (+\$12.173m FY2016; +\$12.120m FY2017) for students enrolled for fewer than 15 credits per term at only MnSCU institutions or \$34.413 million (+\$17.264m FY2016; +\$17.150m 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.

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 January 2014, Congress approved increasing the maximum Pell Grant for the 2014-2015 academic year from \$5,645 to \$5,730 – an \$85 increase.

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	\$5,730	\$5,730
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	\$602	\$602
Pell Grant Maximum Award	\$5,645	\$5,730	\$5,730	\$5,730
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 - \$5,157	\$0 - \$5,157

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%	-4.5%	+0.2%	+0.0%
MnSCU Four-Year Institutions	+0.4%	-1.8%	-0.9%	-2.4%	+0.4%	-0.9%
University of Minnesota	0.0%	-1.2%	-1.2%	-1.2%	0.0%	-1.2%
Private Not-for-Profit Institutions	0.0%	-0.2%	0.0%	-1.6%	0.0%	0.0%
Private For-Profit Institutions	0.0%	-2.8%	+0.7%	-12.0%	0.0%	+0.7%

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
March 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%	+4.0%	+4.0%

*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 February 15, 2015. The report will contain actual spending for fiscal year 2014, and updated projection figures for fiscal year 2015, 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.