



Minnesota State Grant Overview: Legislative Leaders Meeting

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Agenda: Minnesota State Grant

- How does the State Grant program operate?
- What commitments are made to students when they receive their financial aid offer?
- What caused the gap?
- What is the current gap in actual and projected spending vs. available resources?
 - FY26-FY27
- What are the possible solutions (formula changes, new money etc.)?

- In order to be considered for the State Grant (and other Minnesota financial aid programs), students first complete the FAFSA
 - Create a FSA ID, which requires submitting identify information including address and Social Security Number. Additional verification questions may be required for some applicants.
 - FAFSA application pulls in data from the IRS and additional information provided by the student/family to create a Student Aid Index (SAI). SAI is used to determine eligibility for need based aid programs like Pell Grant and Minnesota State Grant. Lower SAI= higher financial need
 - Some applicants will get selected by the federal Department of Education for additional identity and financial verification. Students may be selected at random or if something about the information provided on the FAFSA triggers a flag.
 - FAFSA must be completed every year for financial aid consideration

- Minnesota's largest financial aid program in terms of both budget and students served
 - 75,742 recipients
 - Nearly 60% of recipients are dependent students
 - Over 75 institutions participate in the State Grant program
 - \$247.3M annual budget
 - Average award of \$2,927
 - 57% of recipients had a family adjusted gross income of less than \$40,000
 - Most recipients attend public institutions:
 - 61% at Minnesota State college or universities
 - 17% at the University of Minnesota

How State Grant Program Operates

- Program philosophy: award as many eligible Minnesota resident students as possible within the constraints of the available budget.
- Program cannot operate on a deficit, so State Grant spending is carefully monitored in real time and through projections for the next fiscal year
 - State grant projections are made at a minimum of twice a year (November and February) and shared with key stakeholders
 - Projections based on internal and external data:
 - Internal:
 - Full simulation model of last year of applicant data
 - Monthly spending comparisons – actual cash flow vs. projections
 - Analysis of FAFSA filers
 - External:
 - Enrollment projections from institutions
 - Tuition and fees projections from public institutions
 - Wage estimates from MMB for state tax filers

State Grant Projections

- Projections can change due to a variety of factors outside of agency control, including:
 - Enrollment changes (changes in head count, changes in levels of student need, changes in credit taking behavior, etc.)
 - Tuition and fee increases
 - FAFSA formula changes
- Based on projections, OHE will determine if changes to State Grant parameters are required to either compensate for underspending or adjust for projected deficits
 - In the event of projected deficits (which have historically been rare), OHE can:
 - Request additional funds from Legislature
 - Make adjustments to current formulas as allowed under statute
 - Request to make parameter changes that require Legislative approval
- Changes to State Grant formulas and/or parameters are communicated to campus financial aid staff as soon as possible

How Students are Notified About Their State Grant Award

- Annually, students complete a financial aid application, either the FAFSA (99.4% of State Grant recipients) or State Financial Aid Application
- Federal Department of Education releases student level FAFSA data to OHE and to the post-secondary institutions that the student proactively selects
- Once a college or university receives the student's FAFSA data they:
 - Verify that the student meets Minnesota residency requirements
 - Determine eligibility for State Grant award, based on current State Grant parameters and formula
 - Note: a student who is applying to multiple Minnesota institutions may not qualify for State Grant at every institution and/or may have award sizes that vary based on institutional factors like tuition and fee costs and availability of institutional aid
 - Notify student of estimated financial aid award, which will include federal, state, and institutional aid
 - Note: depending on when the award is issued, there is likely to be language to indicate that the award is an *estimate*, subject to change if things like tuition and fees haven't been set for the next year

Factors That May Change a Student's State Grant Award

- Things that may change a student's State Grant award:
 - Changes in institutional tuition and fees
 - Changes in Pell Grant awards
 - Changes in State Grant parameters or formulas (by the legislature)
 - Note: When there is a need to ration State Grant to address an anticipated shortfall, OHE attempts to make adjustments as equitably as possible, but because State Grant award sizes can vary based on institutional type, enrollment level, and student's level of financial need, there may be some students who see larger reductions than others
- Changes to State Grant awards (or other financial aid) will be communicated to the student by their institution's financial aid office sending revised financial aid award notifications

How FAFSA Interacts with State Grant

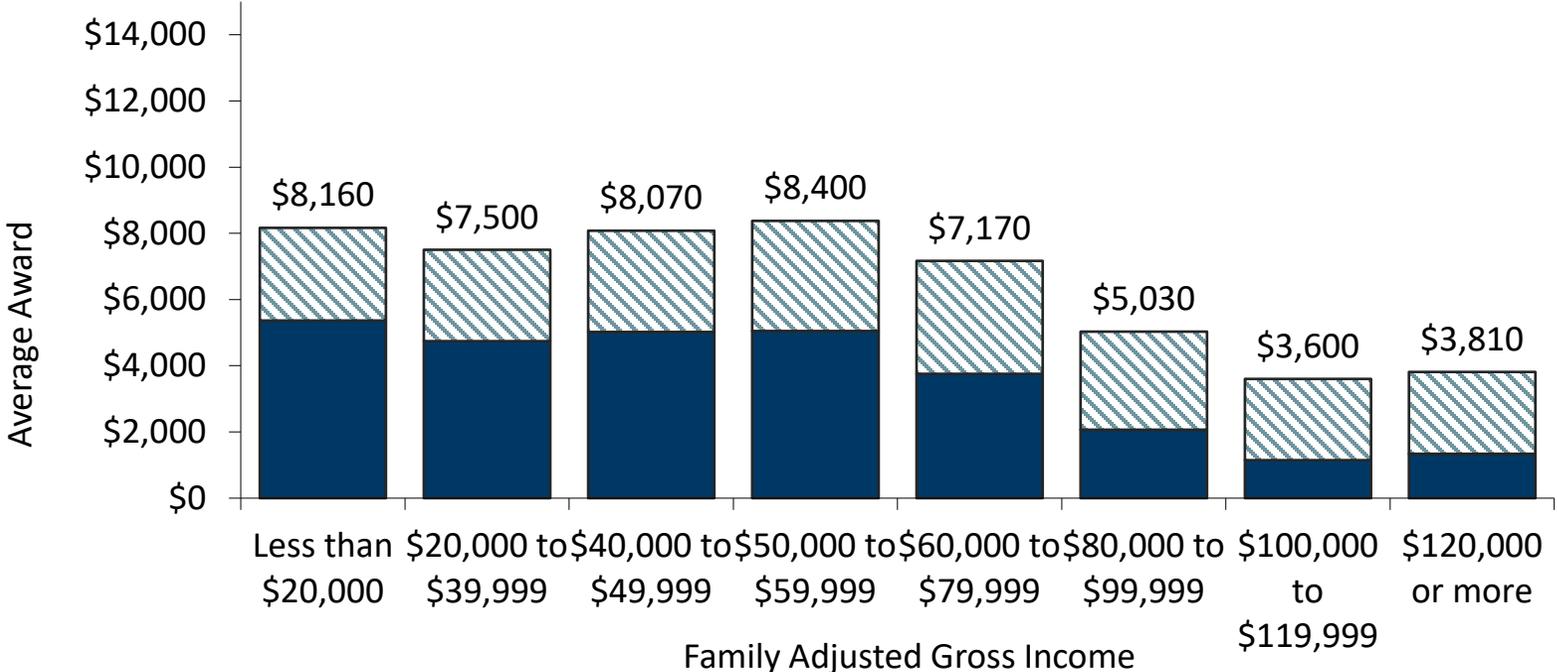
- The FAFSA and Federal Pell Grant play a critical role in the Minnesota State Grant
- Delays in FAFSA processing (as in the 2023-2024 academic year) result in delays in estimated financial aid notices being processed and impact the accuracy of State Grant projections
- Changes in SAI (Student Aid Index) can result in impacts to the Minnesota State Grant
 - An increase in the number of students with negative SAIs results in an increase in students eligible for State Grant and/or the average award size of a State Grant
- Changes in Pell Grant formulas or parameters have a significant impact on the Minnesota State Grant
 - A reduction in Pell Grant awards will result in an increase in State Grant award amounts for eligible students because the State Grant formula is designed to build upon Pell Grant awards

2025 State Grant Modifications

- Changes approved by the Legislature:
 - Lowered the Living and Miscellaneous Expense allowance from 115% of the federal poverty guideline to 106%
 - Increased the Assigned Family Responsibility for dependent students from 79% of the federal needs analysis to 95%
 - Capped increases to the four-year tuition and fee maximum to 2% in fiscal years 2026 and 2027
 - Moved the State Grant deadline from the end of the fiscal year to the 30th day of the term in which the student is applying for aid
 - Limited lifetime eligibility for State Grant to 8 semesters of grant receipt or the equivalent

State Grant Fills in For Pell Above \$50k AGI

Average Combined Federal Pell and Minnesota State Grant Award Received, by Family Adjusted Gross Income, Fiscal Year 2025



*Includes only federal Pell Grants received by Minnesota State Grant recipients

Pending Pell Shortfall

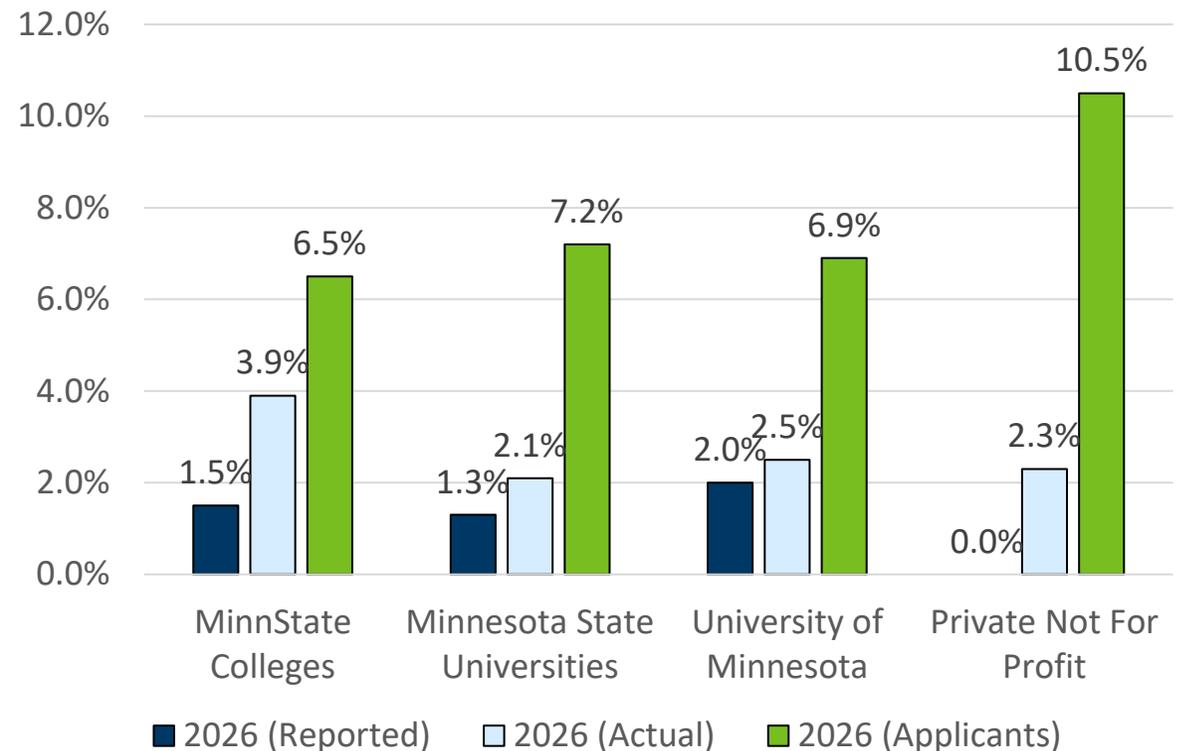
- Area of current concern:
 - The Federal Pell Grant is currently projected to have a \$11.5 billion shortfall by the end of FY27.
 - Current projections indicate a \$104 to \$132 billion shortfall over the next decade
- The projected Pell shortfall is caused by the same factors impacting State Grant:
 - increased enrollment
 - sharp increase in students at the lowest end of SAI band

Overview of Current State Grant Challenge

Currently facing a projected deficit caused by:

- Increased enrollment (a good thing!) and the number of eligible recipients
 - Overall, the number of students applying for aid increased by 3% in FY24, 16% in FY25, and is currently up 8% in FY26 over the same date last year
 - The number of recipients has also increased annually since FY24.
- Higher need (as assessed by the FAFSA)
 - 43% of students had an SAI of \$0 or less in FY25, compared with 29% in FY24, and that trend is holding steady this year.

Estimated Year-to-Year Increases in Enrollment Compared to Increases in SG Applicants, FY2026 (YTD)



State Grant Deficit: FY26-27

- FY26 and FY27 both projected deficits in November 2025
- \$60M was transferred from FY27 appropriation to FY26 to cover the estimated shortfall in FY26
- OHE issued estimated mandatory awarding parameters for State Grant to address this shortfall, reducing awards to students in FY27 to maintain spending within appropriations
- Although OHE does not have projections for the next biennium, it is likely that this deficit will persist into the 2028-2029 biennium and beyond

State Grant Deficit Solution: FY26-27

OHE engaged in rationing for FY27 to offset the projected deficit

Spending versus Resources FY2026-2027 (in millions)

Base resources for fiscal years 2026 and 2027 include transfers of \$60M from fiscal year 2027 to fiscal year 2026. Estimated spending in FY27 rations awards for all students.

	FY2026	FY2027	Biennium
Base resources	\$307.300	\$187.300	\$494.600
Spending	<u>+(292.475)</u>	<u>+(193.988)</u>	<u>+(486.463)</u>
Difference between resources and spending	\$14.825	\$(6.688)	\$8.137 1.6% below available resources