



Minnesota State Grant and North Star Promise Projections Fiscal Years 2024-2025 and 2026-2027

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About the 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 more than \$225 million annually 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.

About This Report

This is a legislative-mandated report. As requested by Minnesota Statutes, section 3.197, this report cost approximately \$5,964.40 to prepare, including staff time.

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Executive Summary

This report presents projected spending for the Minnesota State Grant program for the 2024-2025 biennium and the 2026-2027 biennium as of February 15, 2025, as required by state law. Projections are the result of a full simulation of the State Grant model. This model projects State Grant spending for fiscal years 2025, 2026, and 2027. It uses fiscal year 2024 actual spending data and award parameters in law as of February 15, 2025, along with 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. Discussion of the assumptions used in the spending projections starts on page eight of this report.

The results of the projections are:

- Fiscal years 2024-2025: State Grant spending totaled \$243.930 million for fiscal year 2024. The spending projection for fiscal year 2025 is \$206.415 million for a biennial total of \$450.345 million. This compares to base resources of \$456.100 million for the biennium. The projected difference between base resources and total spending is positive \$5.755 million or 1.3% below available resources.
 - North Star Promise program: Spending for the North Star Promise program is projected to cost \$105.382 million in fiscal year 2025 (the first year of program implementation). This includes North Star Promise Plus spending and compares to base resources of \$112.186 million for the biennium. The projected difference between base resources and total spending is positive \$6.804 million. Unspent funds for this program are available for use in future years.
- Fiscal years 2026-2027: The spending projection for the State Grant for fiscal year 2026 is \$222.482 million, and the spending projection for fiscal year 2027 is \$361.504 million. Total spending for the biennium is projected to be \$583.986 million. This compares to base resources of \$450.132 million for the biennium. The projected difference between base resources and total spending is negative \$133.854 million, or 30% higher than available resources.
 - North Star Promise program: Spending for the North Star Promise program is projected to cost \$63.650 million in fiscal year 2026 and \$37.351 million in fiscal year 2027, for a biennial total of \$101.001 million. This estimate does not include North Star Promise Plus spending because the North Star Promise Plus match has not yet been determined and compares to base resources of an estimated \$105.804 million for the biennium. The projected difference between base resources and total spending is positive \$4.803 million. Unspent funds for this program are available for use in future years.

Fiscal Years 2024 and 2025 - Actual Spending

This report presents actual Minnesota State Grant program spending for fiscal year 2024 and spending projections for fiscal years 2025, 2026, and 2027 as of February 15, 2025. State law requires spending projection updates to occur by November 1 and February 15 of each fiscal year. Information on projected enrollment and tuition and fee changes was provided by institutional representatives to the Minnesota Office of Higher Education on January 31, 2025.

The projections contained in this report are the result of a full simulation of the State Grant model. This model projects State Grant spending for fiscal years 2025, 2026, and 2027 using fiscal year 2024 actual spending data and award parameters in law as of February 15, 2025; 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. Discussion of the assumptions used in the spending projections starts on page eight.

In the November 15, 2024, State Grant Projections Report spending for the 2024-2025 biennium was projected to exceed available resources. The Office of Higher Education implemented changes to the State Grant for fiscal year 2025 to reduce spending for the program. The changes included eliminating funding for those who filed a 2024-2025 Free Application for Federal Student Aid (FAFSA) or Dream Act application on or after December 1, 2024, and eliminating funding for summer 2025 terms. These rationing efforts are reflected in the fiscal year 2025 State Grant spending projection below.

State Grant spending totaled \$243.930 million for fiscal year 2024. The spending projection for fiscal year 2025 is \$206.415 million for a biennial total of \$450.345 million. This compares to base resources of \$456.100 million for the biennium. The projected difference between base resources and total spending is positive \$5.755 million or 1.3% below available resources.

Table 1: Spending Versus Resources FY2024-2025 (in Millions)

	FY2024	FY2025 ⁱⁱ	Biennium
Base resources	\$243.933 ⁱ	\$212.167	\$456.100
Spending	+(243.930)	+(206.415)	+(450.345)
Difference between resources and spending	\$0.003	\$5.752	\$5.755 1.3% below available resources

ⁱ Base resources for fiscal years 2024 and 2025 include transfers of \$2.8M to other financial aid programs and transfers of \$12M from fiscal year 2025 to fiscal year 2024.

ⁱⁱ State grant awards were rationed in FY2025 to offset the projected deficit in the November 15, 2024 State Grant Projections Report.

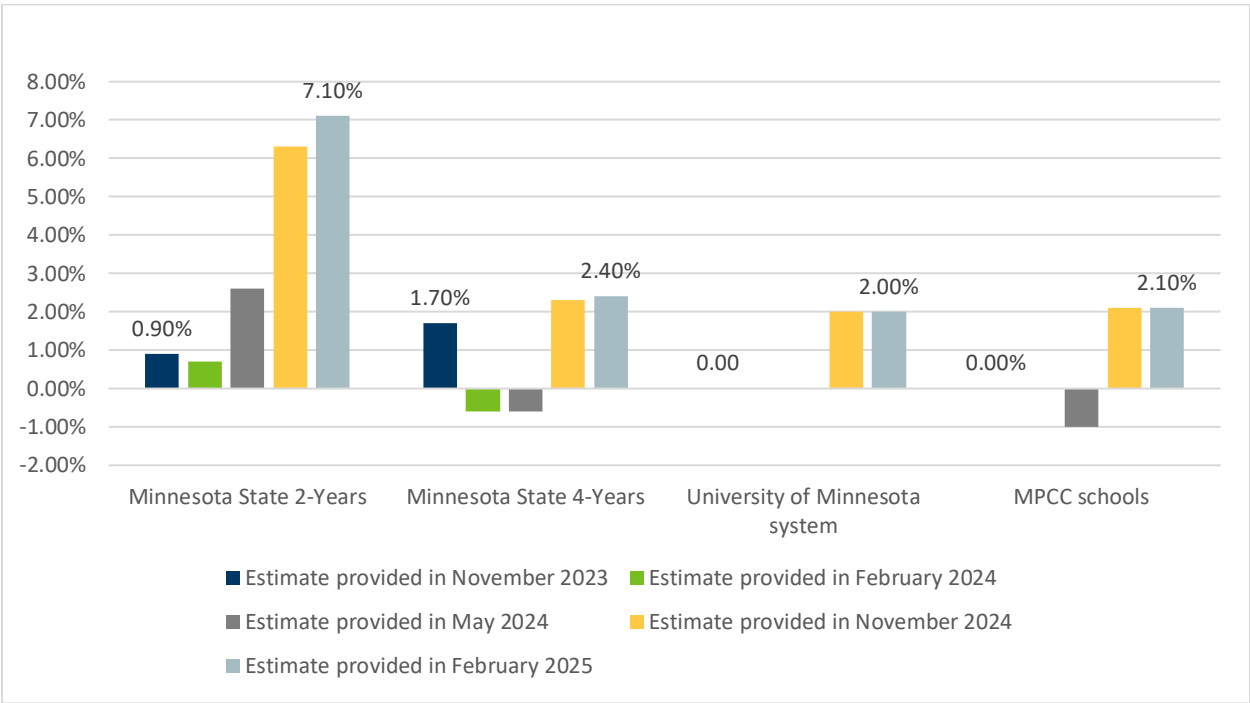
Known And Anticipated Changes to FY25 Spending

Changes to Enrollment Projections

Enrollment estimates for fiscal year 2025 continued to trend upward throughout the year and ended much higher than originally anticipated at all institution types. Increases in the projected change in enrollment reported by systems and institutions results in increased projected State Grant spending. Changes to enrollment projections have incrementally pushed projected State Grant spending higher and higher. Anecdotally, we hear both in Minnesota and nationally that institutions are experiencing higher retention rates among enrolled students from 2024 to 2025.

Additionally, along with an overall enrollment increase, the estimated number of State Grant recipients at institutions increased dramatically from fiscal year 23 to fiscal year 24. Overall, the state saw a 6% increase in State Grant recipients, the first year-to-year increase in recipients since 2014. Those increases were largely seen at the public systems, which may serve as an early indicator that messaging regarding the North Star Promise program is boosting enrollment for students with incomes below the state median, even in advance of the program’s rollout.

Figure 1: Projected FY2025 Enrollment Changes November 2023 vs. February 2025



Strain on Resources

The number of State Grant applicants is up 14% year-to-date, and the number of projected recipients is up 10% year-to-date, when compared to the same time last year. Though changes to the FAFSA that go into effect for this aid year have increased the amount of Pell Grants students are receiving, which has helped to lower State Grant spending for this fall, the tremendous strain on resources we saw in fiscal year 24 has lowered the total

pool of base resources available for fiscal year 25, further compounding the impacts of increased enrollment this year.

State Grant awards were rationed in fiscal year 25 to offset a projected deficit. This included adding a surcharge to the Assigned Family Responsibility (AFR) and the Assigned Student Responsibility (ASR), establishing an annual application date for the 2024-2025 aid year to November 30, 2024, for the Free Application for Federal Student Aid and Dream Act application, and eliminating State Grant awards for summer session two.

After the November 1, 2024, State Grant Projections report showed a program shortfall for fiscal year 26 and fiscal year 27, OHE announced estimated State Grant rationing procedures for fiscal year 26 on December 16, 2024. Changes to the mandatory estimated State Grant parameters for fiscal year 26 included adding a surcharge to the Assigned Family Responsibility (AFR) and the Assigned Student Responsibility (ASR). Additionally, OHE must award State Grants on a funds-available basis, and the agency projected that for 2025-2026 State Grant funds would be available through an original application date of July 31, 2025. Therefore, OHE set the annual application date for the 2025-2026 aid year to July 31, 2025, for the Free Application for Federal Student Aid and Dream Act application.

Additionally, the systems reported ongoing projected increases to enrollment and tuition and fees for fiscal year 26 and fiscal year 27 (see tables 7 and 12, below). In order to maintain spending within available resources, the State Grant program will require modifications to award parameters or an added investment to program resources for the next biennium.

While not reflected in the projections for fiscal year 26 and fiscal year 27, the Governor's recommended change items for the next biennium include the following recommended changes for the State Grant, subject to action by the state Legislature. It is anticipated that these recommended changes will decrease the projected deficit in the State Grant Program for fiscal year 26 and fiscal year 27 and will be less disruptive to institutions and students than rationing.

- Allow the agency to set a minimum parental contribution (PC) or student contribution (SC) of \$0 when calculating State Grant awards unless resources are projected to exceed spending;
- Decrease the Living and Miscellaneous Expense allowance to 110% of the federal poverty guideline;
- Increase the Assigned Student Responsibility to 51%, beginning in fiscal year 2027;
- Increase the Assigned Family Responsibility to 100% of the federal need analysis for all families with a positive PC or SC, beginning in fiscal year 2026;
- Revert the deadline for State Grant receipt to the 30th day of the term in which the student applies for aid;
- Modify language that governs how the agency rations awards for the program when a program spending deficit is projected; and
- Increase the appropriation for the Minnesota State Grant program by \$7.5M in fiscal year 2026 and subsequent years.

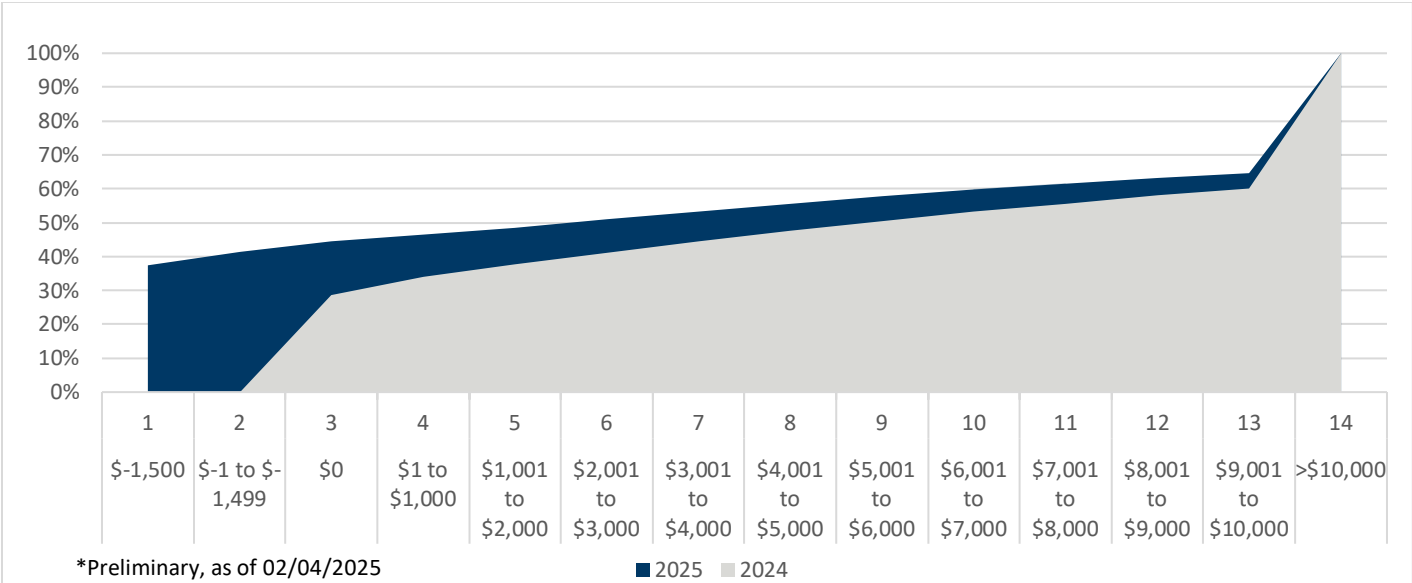
Changes to the FAFSA

Though our office worked diligently in the past few years to best estimate the impact that the changes to the FAFSA would have on Minnesota's state aid programs, we experienced challenges in predicting how many students would have a \$-1,500 SAI. SAI eligibility guides released early this year clarified elements of the federal

needs calculation that were not apparent in the original appropriations language. Specifically, the guide directs financial aid administrators to assign a \$-1,500 SAI for many students flagged for maximum Pell Grants.

In Minnesota, we saw a dramatic increase in students with an SAI of \$0 or less. In fiscal year 24, approximately 29% of State Grant applicants had an EFC of \$0. In FY25 to date, 45% of applicants have an SAI of \$0 or less. This represents a slight increase in this population when compared to the November 2024 projections report. Because students with a negative SAI or parental contribution receive a comparable increase to their State Grant award, this increases State Grant spending.

Figure 2: Distribution of SAI/EFC FY24 to FY25*



This impact is seen primarily at 4-year institutions.

Figure 3: Percent change in State Grant applicants with a \$0 or less family contribution, by system, FY24 to FY25*

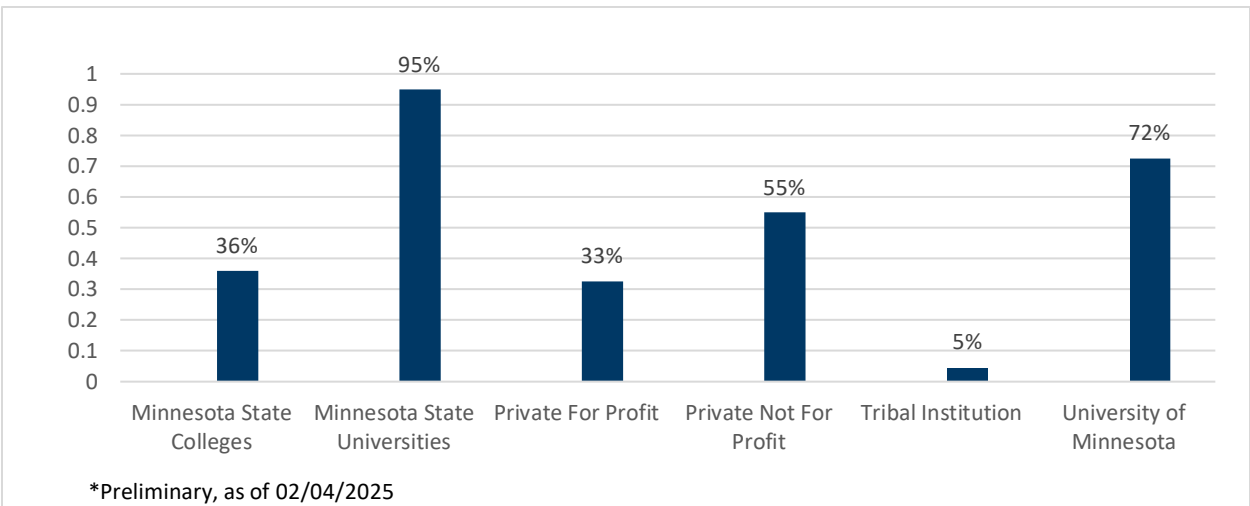


Table 2: Change in count of State Grant applicants with a \$0 or less family contribution, by system, FY24 to FY25*

Institution Type	2024	2025	Change
Minnesota State Colleges	18,529	25,173	6,644
Minnesota State Universities	4,501	8,768	4,267
Private For-Profit	1,567	2,077	510
Private Not-For-Profit	4,887	7,568	2,681
Tribal Institutions	396	414	18
University of Minnesota	3,956	6,821	2,865
Grand Total	33,836	50,821	16,985

*Preliminary, as of 2/4/2025

Fiscal Years 2026 and 2027 - Spending Projection

The spending projection for fiscal year 2026 is \$222.482 million, and the spending projection for fiscal year 2027 is \$361.504 million. Total spending for the biennium is projected to be \$583.986 million. This compares to base resources of \$450.132 million for the biennium. The projected difference between base resources and total spending is negative \$133.854 million, or 30% higher than available resources.

On December 16, 2024, OHE announced changes to the mandatory estimated State Grant parameters for FY2026 which included changing the ASR to 52.7%, increasing the AFR to 100% of the Federal Need Analysis, and implementing a FAFSA deadline of July 31, 2025, for the 2025-2026 aid year (FY2026).

The changes modeled are the Office’s best estimates as of February 15, 2025, and are subject to change, based on updated information on enrollment, tuition, family incomes, federal law, federal funding, and changes to the federal need analysis.

Table 3: Projected Versus Resources FY2026-2027 (in Millions)

	FY2026ⁱ	FY2027ⁱⁱ	Biennium
Base resources	\$225.066	\$225.066	\$450.132
Spending projection	<u>+(222.482)</u>	<u>+(361.504)</u>	<u>+(583.986)</u>
Difference between resources and spending	\$2.584	\$(136.438)	\$(133.854) 30% above available resources

ⁱ Estimates for FY2026 reflect State Grant estimated parameters for FY2026 released December 16, 2024.

ⁱⁱ Estimates for FY2027 revert back to State Grant parameters in statute.

Assumptions

The Minnesota State Grant spending projection for each fiscal year relies on a series of adjustments and the program parameters shown in Table 4.

Table 4: Minnesota State Grant Award Parameters

	FY2024	FY2025	FY2026	FY2027
	ACTUAL	ACTUAL	PROJECTED	PROJECTED
Living and Miscellaneous Expense Allowance	\$12,576	\$12,990	\$13,498	\$13,920 ⁱⁱ
Assigned Student Responsibility	50%	52.8%	52.7%	50%
Tuition and Fee Maximums				
Students in Two-Year Programs	\$6,580	\$6,679	\$7,147 ⁱⁱ	\$7,647 ⁱⁱ
Students in Four-Year Programs	\$16,654	\$17,370	\$18,152 ⁱⁱ	\$18,878 ⁱⁱ
Federal Pell Grant Maximum	\$7,395	\$7,395	\$7,395 ⁱⁱ	\$7,395 ⁱⁱ
Rationing Surcharge on Assigned Family Responsibility	0%	Varies	Varies	0%
Proration for the Assigned Family Responsibility				
Dependent Students (Parent Contribution)	79%	100% ⁱ	100% ⁱ	79%
Independent Students with Dependents (Student Contribution)	71%	100%	100%	71%
Independent Students without Dependents (Student Contribution)	35%	100%	100%	35%

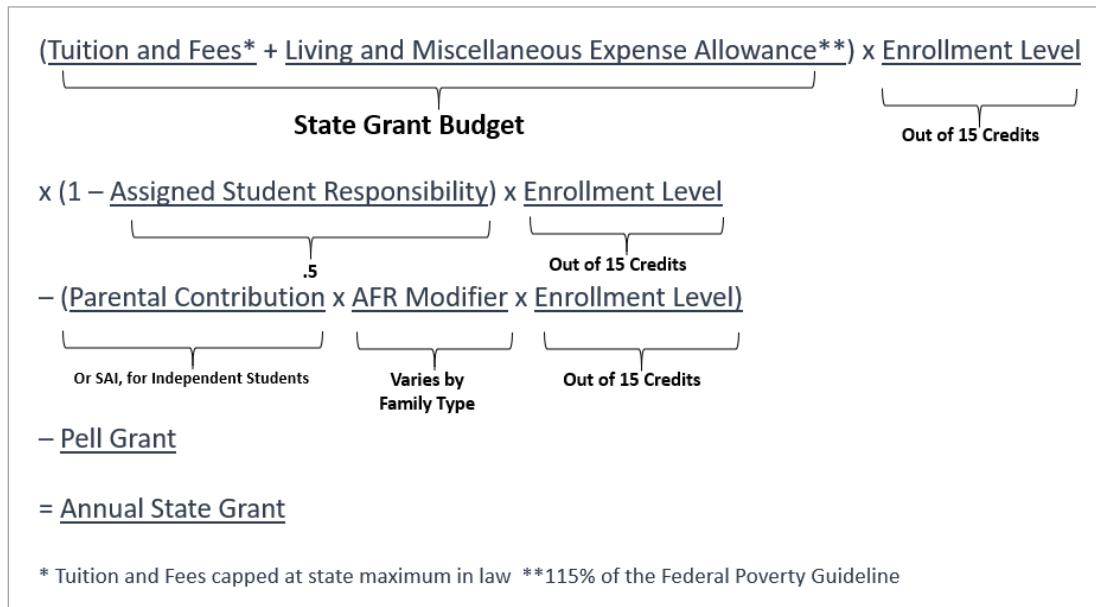
ⁱ increased under OHE authority in statute; ⁱⁱ Estimated

To calculate a student's State Grant award, the financial aid administrator must first define the student's State Grant budget, which is defined as recognized tuition and fees plus the living and miscellaneous expense allowance (LME). The LME is set to 115% of the federal poverty guideline, and tuition and fees are capped at the highest-cost two- and four-year public institutions. This budget is then prorated by the student's enrollment level out of 15 credits.

Of the remaining expenses, a portion is assigned to the student as the Assigned Student Responsibility (currently set to 50% of the total budget). The remainder is paid by either the student's family or taxpayers. The family contribution is calculated by taking the Student Aid Index (for independent students) or the Parental Contribution (for dependent students) obtained from the student's FAFSA and moderating downward by a percentage set in state law. The family contribution is then prorated by the student's enrollment level out of 15 credits.

Any remaining expenses left over after subtracting the student and family responsibilities is covered by a combination of Federal Pell Grants and the Minnesota State Grant.

Figure 5: Minnesota State Grant Budget in State Statute



Federal Poverty Guidelines – Living and Miscellaneous Expense Allowance

The Living and Miscellaneous Expense allowance (LME) is benchmarked to an amount equal to the Federal Poverty Guidelines for a single person household living in the contiguous 48 states for a nine-month period. The U.S. 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 nine percent. Table 5 displays the annual figures for the Living and Miscellaneous Expense Allowance.

In its November 2024 State Grant Projections report, the Office had previously projected the LME parameter for fiscal year 2026 to be \$13,420, based on the prior-year increase to the Federal Poverty Guidelines. The actual poverty guidelines released January 31, 2025, represented a 3.92% increase from fiscal year 2025. As a result, the LME based on state law is \$13,498 for fiscal year 2026.

Table 5: Federal Poverty Guidelines

	FY2024	FY2025	FY2026	FY2027
Poverty Guidelines Year	2023	2024	2025	2026
	ACTUAL	ACTUAL	ACTUAL	PROJECTED
Federal Poverty Guidelines – 1 person in family/household, 48 contiguous states	\$14,580	\$15,060	\$15,650	\$16,145 ⁱ
Poverty Guideline Increase %	7.28%	3.29%	3.92%	3.16% ⁱ
Multiplier for 9-month time period	0.75	0.75	0.75	0.75
Inflator in Minnesota law	0.15	0.15	0.15	0.15
Living and Miscellaneous Expense Allowance	\$12,576	\$12,990	\$13,498	\$13,920

ⁱ Estimated

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. Current assumptions appear in Table 6.

Table 6: Change in Annual Wages, Minnesota

	FY2024 tax year 2021	FY2025 tax year 2022	FY2026 tax year 2023	FY2027 tax year 2024
One-Year Change in Average Wages	3.4%	5.9%	3.6%	4.2%

Enrollment Assumptions

The State Grant spending projection also incorporates estimated changes in the number of Minnesota resident undergraduates enrolling at each institution. Table 7 shows information about year-to-year percent change in undergraduate students for fiscal years 2024 to 2027. Overall enrollment changes serve to estimate changes in the number of Minnesota-resident aid applicants. The Office revises enrollment assumptions as new enrollment data provided by the institutions 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. Enrollment increased significantly at most institutions in fall 2024 and is expected to continue to increase in subsequent years.

Table 7: Enrollment Assumptions

	FY2024	FY2025	FY2025	FY2026	FY2027
	AY2023-24	AY2024-25	AY2024-25	AY2025-26	AY2026-27
System	Actual	Projected	Actual	Projected	Projected
Minnesota State Colleges	3.7%	0.7%	7.1%	1.7%	1.7%
Minnesota State Universities	-1.4%	-0.6%	2.4%	1.1%	1.1%
University of Minnesota Twin Cities ⁱ	-0.5%	0% to 2%	3.1%	0% to 2%	0% to 2%
University of Minnesota Crookston, Duluth and Morris	-2.6%	0% to 2%	-1.2%	0% to 2%	0% to 2%
Private Not-for-Profit Institutions	-0.2%	0.0%	1.9%	0.0%	0.0%
Private For-Profit Institutions	-27.4%	3.0%	1.0%	4.0%	4.0%

ⁱ Includes data for UMN Rochester.

Pell Grant Changes in Law

The FAFSA Simplification Act enacted in December 2021 authorized significant changes to the Pell Grant award formula, which has a direct impact on State Grant spending. These changes go into effect in fiscal year 2025. 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. Table 8A lists the current federal Pell Grant parameters.

Table 8: Federal Pell Grant Award Parameters

	FY2024	FY2025	FY2026	FY2027
	ACTUAL	ACTUAL	ACTUAL	PROJECTED
Pell Grant Minimum Award	\$740	\$740	\$740	\$740
Pell Grant Maximum Award	\$7,395	\$7,395	\$7,395	\$7,395
Award Formula: Expected Family Contribution (EFC)	Maximum Pell - EFC	See Table 8A	See Table 8A	See Table 8A
Qualifying EFC	\$0-\$6,206	Varies	Varies	Varies

Table 8a. FY2025 Pell Grant Thresholds for Award Amounts Under the FAFSA Simplification Act

Dependency Status	Single Parent Status	Receives Maximum Pell Grant	Receives Greater of Minimum Pell Grant or Maximum Pell Grant-SAI	IF SAI<=90% of Maximum Pell Grant, Receives Maximum Pell Grant - SAI
Dependent	Single Parent	AGI Less than 225% of FPG ⁱ	226%-325%	326%+
Dependent	Not a Single Parent	Less than 175%	176%-275%	276%+
Independent	No Dependents	Less than 175%	176%-275%	276%+
Independent	With Dependents, Single Parent	Less than 225%	226%-400%	400%+
Independent	With Dependents, Not a Single Parent	Less than 175%	176%-350%	350%+

ⁱPell funding level eligibility is determined using Adjusted Gross Income (AGI) as a Percentage of Federal Poverty Guidelines (FPG).

Tuition and Fee Increases

The Office gathered information about tuition and fee increases for fiscal years 2026 and 2027 from institutional and system representatives. Table 9 details actual and estimated tuition and fee increases for State Grant calculations as reported by institutions for use in spending projections.

Table 9: Annual Changes in Minnesota Resident Undergraduate Tuition and Fee Rates

	FY2024	FY2025	FY2026	FY2027
System	Actual	Actual	Projected	Projected
Minnesota State Colleges	0.8%	0.3%	7.0%	7.0%
Minnesota State Universities	0.5%	0.9%	7.0%	7.0%
University of Minnesota	3.4%	3.7%	1.5% - 4.5%	4.0%
Private Not-for-Profit Institutions	3.7%	4.3%	3.2%	3.2%
Private For-Profit Institutions	4.2%	-0.7%	4.0%	4.0%

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 February 15, 2025. 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 SAI (previously EFC).

North Star Promise Program

The 2023 Minnesota State Legislature passed legislation that included the creation of the North Star Promise program. This tuition- and fee-free pathway to higher education for eligible Minnesota residents at eligible institutions as a “last-dollar” program designed to cover the balance of tuition and fees remaining after other scholarships, grants, stipends and tuition waivers have been applied.

To be eligible to participate in the program, the student must:

- Be a Minnesota resident
- Have a family Adjusted Gross Income* (AGI) as reported on the Free Application for Federal Student Aid (FAFSA) or Minnesota Dream Act Application below \$80,000
- Attend a Minnesota public higher education institution or Tribal College
- Not be in default on a state or federal student loan
- Be enrolled taking at least one credit
- Meet Satisfactory Academic Progress (SAP) standards
- Have not already earned a baccalaureate degree
- Be enrolled in a program or course of study that applies to a degree, diploma, or certificate

This program debuted in fiscal year 2025. In addition to the last-dollar grant, students receiving federal Pell Grants are eligible to receive a North Star Promise Plus award equivalent to 15% of the Pell Grant they are calculated to receive, based on household size, family AGI, and/or Student Aid Index. At this time, the Office has not determined what the % Pell Grant match level will be for fiscal years 2026 and 2027. Table 10 shows projected spending for the program for fiscal year 2025. Table 11 shows projected spending for the program for fiscal years 2026 and 2027.

Table 10: Spending Forecast Versus Resources FY2024-2025 (in Millions)

	FY2024	FY2025	Biennium
Base resources	\$0	\$112.186 ⁱ	\$112.186 ⁱ
Actual and projected spending North Star Promise	<u>+(0)</u>	<u>+(63.567)</u>	<u>+(63.567)</u>
<i>North Star Promise+ Match</i>	N/A	15%	
Actual and projected spending North Star Promise+	<u>+(0)</u>	<u>+(41.815)</u>	<u>+(41.815)</u>
Total Program Spending	<u>+(0)</u>	<u>+(105.382)</u>	<u>+(105.382)</u>
Difference between resources and spending	\$0.00	\$6.804	\$6.804

ⁱ Balance for 2024-2025 biennium is available in subsequent years.

Table 11: Spending Forecast Versus Resources FY2026-FY2027 (in Millions)

	FY2026ⁱⁱⁱ	FY2027	Biennium
Balance in special revenue account	\$6.804		
Ongoing base resources	\$49.500	\$49.500	
Total Resources	\$56.304 ⁱ	\$49.500	\$105.804
Actual and projected spending North Star Promise	<u>+(63.650)</u>	<u>+(37.351)</u>	<u>+(101.001)</u>
<i>North Star Promise+ Match</i>	0% ⁱⁱ	0% ⁱⁱ	
Actual and projected spending North Star Promise+	N/A	N/A	N/A
Total Program Spending	<u>+(63.650)</u>	<u>+(37.351)</u>	<u>+(101.001)</u>
Difference between resources and spending	\$(7.346)	\$12.149	\$4.803

ⁱ Base resources for Fiscal Year 2026 include balance carried forward from Fiscal Year 2024 and Fiscal Year 2025 in addition to base funding of \$49.5M per year.

ⁱⁱ North Star Promise+ match amount not yet determined for Fiscal Year 2026 and Fiscal Year 2027. Will be determined based on available resources.

ⁱⁱⁱ Estimates for Fiscal Year 2026 reflect State Grant estimated parameters for Fiscal Year 2026 released December 16, 2024.

Next Report

The next report on Minnesota State Grant spending is due to the Legislature by November 1, 2025.



2025