

Department of Legislative Services
 Maryland General Assembly
 2005 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1304
 Ways and Means

(Delegate Kaiser, *et al.*)

Education, Health, and Environmental Affairs and
 Budget and Taxation

Student Financial Assistance Reform Act of 2005

This bill establishes a Distinguished Scholar Program for community college transfer students and expands eligibility for the Maryland State Nursing Scholarship Program by allowing qualified students enrolling in out-of-state institutions of higher education to receive the scholarships. The bill also adds new ways to fulfill the service obligation associated with a nursing scholarship and requires the Maryland Higher Education Commission (MHEC) to establish a workgroup to study the consolidation of economic development and workforce shortage grants.

The bill takes effect July 1, 2005.

Fiscal Summary

State Effect: General fund expenditures would increase by an estimated \$197,800 in FY 2006 to provide the required appropriation for the new community college transfer scholarship program and support additional administrative costs at MHEC. Future year expenditure estimates reflect ongoing scholarship expenses and regular salary increases and inflation in the administrative costs. In addition to these costs, general fund expenditures could increase by an estimated \$1.4 million in FY 2006 to fully fund the expansion of the nursing scholarship program. Revenues would not be affected.

(in dollars)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	197,800	300,300	303,200	306,300	309,700
Net Effect	(\$197,800)	(\$300,300)	(\$303,200)	(\$306,300)	(\$309,700)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary:

Distinguished Scholar Program for Community College Transfer Students

The bill requires the Office of Student Financial Assistance (OSFA) within MHEC to annually select the community college students from across the State who have the greatest potential for success in higher education and offer them scholarships to be used at four-year institutions of higher education. To qualify, a student must: (1) have a grade point average of at least 3.0 at the community college; (2) have completed at least 60 credit hours or an associates degree program at a Maryland community college; (3) qualify as a Maryland resident; (4) use the scholarship within one year of completing the required credit hours or associate degree program; and (5) attend the four-year institution as a full-time student. An award may be renewed one time if the recipient remains eligible and maintains a 3.0 grade point average.

An award under the program is for \$3,000 and may be used to pay for tuition and mandatory fees, room and board, and books and supplies. The award is in addition to any other State scholarships available to the student.

Maryland State Nursing Scholarships

The bill expands eligibility for the Maryland State Nursing Scholarship Program to allow students at out-of-state institutions to receive the scholarships. To qualify for a nursing scholarship to be used at an out-of-state institution, an applicant must provide MHEC with a letter from an in-State institution indicating that the applicant's acceptance was deferred due to a lack of capacity. MHEC must verify the institution's lack of capacity based on information provided by the institution. In addition, the out-of-state institution that an applicant attends must be recognized by MHEC as a regionally accredited institution offering an equivalent and nationally accredited nursing program. In making nursing scholarship awards, MHEC must give priority to students enrolling at institutions in Maryland.

The bill also allows the recipient of a nursing scholarship to perform the service obligation by working full-time for one year for each year that the scholarship is received

or by working part-time for two years for each year that the scholarship is received. The obligation can be fulfilled by working as a nurse in a shortage area or by working as a faculty member in a nursing program at a Maryland institution of higher education.

Workgroup to Study the Consolidation of Higher Education Grants

The bill requires MHEC to establish a workgroup to study the possibility of consolidating economic development student assistance grants and work-based shortage grants into a single grant program. The grant program should, to the extent practicable, establish uniform criteria for grant eligibility, award amounts, and service obligation requirements. The program should also include a methodology for prioritizing the grants.

The workgroup must include representatives from the General Assembly, the Department of Legislative Services, public four-year institutions of higher education, the Maryland Independent College and University Association, community colleges, and the Governor's Workforce Investment Board. MHEC must report the workgroup's findings and recommendations by November 15, 2005.

Current Law: The Distinguished Scholar Program requires OSFA to annually select 350 secondary school students who have the greatest potential for academic success in higher education. Funding for the program is as provided in the annual State budget.

The recipient of a Maryland State Nursing Scholarship must work as a full-time nurse in a nursing shortage area for one year for each year that a scholarship was received, or repay the award amount plus interest.

Background: Funding for scholarships in the fiscal 2006 State budget increases by \$8.3 million, or almost 10%, over the fiscal 2005 level. The majority of the increase is the result of enhancements for the need-based aid programs, which increase by \$12.9 million. The HOPE scholarship programs, which address workforce needs, are being phased out and are scheduled to end after fiscal 2007. Most of the HOPE scholarship funding has been redirected to need-based aid in fiscal 2004 and 2005.

The proposed fiscal 2006 State budget includes \$979,294 for nursing scholarships and \$4.2 million for the existing Distinguished Scholar Program.

State Expenditures: General fund expenditures would increase by an estimated \$197,785 in fiscal 2006 to implement the new community college transfer scholarship program and fund awards under the program. In addition, fiscal 2006 general fund expenditures could increase by as much as another \$1.4 million to provide for additional

nursing scholarships under the expanded eligibility guidelines. The required workgroup could be formed and could produce a report with existing budgeted resources.

Distinguished Scholar Community College Transfer Program

General fund expenditures would increase by an estimated \$197,785 in fiscal 2006, \$150,000 to fund the community college transfer scholarships and \$47,785 to fund new OSFA administrative costs. This estimate is based on the following assumptions.

- Fifty community college students would be chosen to participate in the new distinguished scholar community college transfer program in the 2005-2006 academic year. At \$3,000 per award, the cost for the scholarships would be \$150,000.
- Assuming a 90-day start-up delay following the bill’s July 1, 2005 effective date, OSFA administrative expenditures would increase by an estimated \$45,785 to hire an administrative specialist in MHEC to oversee implementation of the new program and help with the administration of the program. A salary, fringe benefits, contractual services to upgrade the existing MHEC financial assistance database, other one-time start-up costs, and ongoing operating expenses are included in the estimate.

	<u>FY 2006</u>	<u>FY 2007</u>
Community College Transfer Scholarships	\$150,000	\$255,000
Salaries and Fringe Benefits	32,648	44,887
One-time Database Upgrade – Contractual Services	10,000	0
Other Start-up and Operating Expenses	<u>5,137</u>	<u>440</u>
Total State Expenditures	\$197,785	\$300,327

Future year expenditures reflect: (1) 50 new transfer scholarships awarded annually to students coming out of community colleges; (2) a 70% second-year renewal rate for the scholarships; (3) full OSFA salaries with 4.6% annual increases and 3% employee turnover; and (4) 1% annual increases in ongoing OSFA operating expenses.

Maryland State Nursing Scholarships

Funding for nursing scholarships is as provided in the State budget, and the scholarships are not entitlements. Therefore, any additional expenditures resulting from the expansion

of eligibility for the scholarships would only be incurred if the annual State budget includes additional funding for the initiative. To provide nursing scholarships to an expanded group of eligible candidates, general fund expenditures could increase by an estimated \$1.4 million annually. This would fund awards for approximately 628 additional nursing students per year, including 495 who are currently on the waiting list for nursing scholarships and an estimated 133 who could receive awards if eligibility is expanded to students attending out-of-state institutions. In addition, general fund administrative expenditures at OSFA would increase to provide for an additional half-time position to track the expanded nursing scholarship program. The following information and assumptions were used in calculating this estimate.

- The fiscal 2005 appropriation for nursing scholarships was \$979,294, the same as the fiscal 2006 appropriation. In fiscal 2005, awards that average \$2,226 are being made to 440 nursing students. It is assumed that a similar number of applicants will receive awards in fiscal 2006 with funding that has been appropriated.
- There are 495 eligible nursing scholarship applicants on the waiting list for awards, meaning a total of 935 applicants qualified for nursing scholarships this year under the existing eligibility rules. As required in the bill, all of these individuals would have to receive awards before scholarships are awarded to nursing students enrolling at out-of-state institutions. Assuming an average award amount of \$2,226, the cost to eliminate the waiting list would be approximately \$1.1 million.
- According to the Commission to Study the Crisis in Nursing, expanding eligibility for nursing scholarships to students who attend out-of-state institutions could increase the number of students eligible for the scholarships by up to 400. If one-third of these individuals apply for and receive the scholarships, costs would increase by an additional \$296,000.
- If sufficient funding is included in the budget to be able to award nursing scholarships to students enrolled in out-of-state institutions, one half-time administrative specialist would be needed at OSFA to track additional scholarship applicants and awards. The estimated fiscal 2006 cost for the half-time salary, fringe benefits, one-time start-up costs, and ongoing operating expenses is \$21,297. The estimate assumes a 90-day start-up delay following the bill's July 1, 2005 effective date.

	<u>FY 2006</u>	<u>FY 2007</u>
Additional Nursing Scholarships		
Eliminate Wait List	\$1,101,870	\$1,101,870
Provide Out-of-state Scholarships	296,058	296,058
Half-time Salary and Fringe Benefits	16,324	22,443
Start-up and Operating Expenses	<u>4,973</u>	<u>220</u>
Total State Expenditures	\$1,419,225	1,420,591

Future year expenditures reflect: (1) a stable number of additional scholarships; (2) 4.6% annual salary increases and 3% employee turnover; and (3) 1% annual increases in ongoing operating expenses.

If eligibility for the nursing scholarship program is expanded without additional funding, the waiting list for the program could grow longer. The change in the service obligation for Maryland State Nursing Scholarships would not materially impact scholarship awards or repayments for unfulfilled obligations.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Higher Education Commission, Department of Legislative Services

Fiscal Note History: First Reader - March 6, 2005
ncs/rhh Revised - House Third Reader - April 1, 2005
Revised - Enrolled Bill - May 5, 2005

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