

**Department of Legislative Services**  
 Maryland General Assembly  
 2007 Session

**FISCAL AND POLICY NOTE**

Senate Bill 809 (Senator Rosapepe, *et al.*)  
 Budget and Taxation

**Tuition Cap and College Opportunity Act of 2007**

This bill mandates annual State funding levels for constituent institutions of the University System of Maryland (USM) and Morgan State University (MSU) to reach 100% of the funding guidelines by fiscal 2014. In each fiscal year that the State’s general fund appropriations for USM and MSU meet the required funding levels, growth in tuition and mandatory fees for resident undergraduates at USM institutions and MSU is limited to 4%. The bill also states that it is the intent of the General Assembly that USM improve its effectiveness and efficiency. By November 1, 2008 and every two years thereafter, USM must submit a report on its efforts to improve its effectiveness and efficiency.

The bill takes effect July 1, 2007.

**Fiscal Summary**

**State Effect:** Higher education tuition and fee revenues would decrease by an estimated \$2.8 million in FY 2009 due to restrictions on annual tuition growth. General fund expenditures would increase by an estimated \$30.1 million in FY 2009 to enhance funding for USM and MSU. Future year estimates reflect ongoing tuition and fee limits, phased enhancements for USM and MSU, and increases in general fund expenditures for community colleges and independent higher education institutions beginning in FY 2010.

(\$ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Higher Ed Rev.	\$0	(\$2.8)	(\$5.9)	(\$9.5)	(\$13.4)
GF Expenditure	0	30.1	68.7	147.2	208.8
Net Effect	\$0	(\$32.9)	(\$74.6)	(\$156.7)	(\$222.2)

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

**Local Effect:** Local community college revenues from State aid would increase by an estimated \$6.9 million in FY 2010 and \$31.8 million in FY 2012. Local expenditures would not be affected.

**Small Business Effect:** Meaningful impact on private colleges and universities. The institutions would receive additional State support, estimated at \$1.9 million in FY 2010 and increasing to \$8.2 million in FY 2012.

---

## Analysis

**Bill Summary:** The phase-in that will be used to achieve 100% of the funding guidelines for institutions of higher education is shown in the table below.

<u>Fiscal Year</u>	<u>USM Institutions</u>	<u>MSU</u>
Fiscal 2009	82%	95%
Fiscal 2010	86%	96%
Fiscal 2011	90%	97%
Fiscal 2012	93%	98%
Fiscal 2013	97%	99%
Fiscal 2014	100%	100%

The bill states that it is the intent of the General Assembly that the sum of State general fund support and tuition for USM institutions, on a per student basis, be moved to at least the average of their peer institutions. The bill further states an intent to continue supporting Maryland's historically black institutions in accordance with the December 2000 agreement with the U.S. Department of Education, Office of Civil Rights.

**Current Law:** Funding for USM and MSU are as provided in the annual State budget. It is the intent of the General Assembly that, barring unforeseen economic conditions, the Governor include in the annual budget submission an amount of general fund State support for higher education equal to or greater than the amount appropriated in the prior fiscal year. The goal of the State, as noted in statute, is that State support for higher education operating and capital expenditures comprise 15.5% of general fund revenues.

Subject to the authority and policies of the Board of Regents of USM, the president of each USM constituent institution sets tuition and fees for the institution. The Board of Regents of MSU fixes tuition for the university.

**Background:** Tuition for resident undergraduates at USM institutions and MSU grew rapidly from fall 2002 to 2005, due at least in part to reductions in State general fund support for the institutions. In response to growing concerns about the affordability of a college education in Maryland, Chapters 57 and 58 of 2006 froze tuition at fall 2005 prices for in-state undergraduates attending MSU and USM institutions in the 2006-2007 academic year, and excess funds in the budget were used to provide State funding for USM and MSU to cover the revenue loss that would be incurred by the freeze.

The proposed fiscal 2008 State budget includes additional State general funds for USM and MSU that are intended to replace the revenues that would be lost if resident undergraduate tuition is held at fiscal 2006 levels for a second straight year, as proposed by the Administration. **Exhibit 1** shows that in-state undergraduate tuition at MSU and many USM institutions grew rapidly from fall 2002 to fall 2005 and that the average annual growth from fall 2002 to fall 2007 would be moderated with a second consecutive year of level tuition.

---

**Exhibit 1**  
**Tuition for Full-time Resident Undergraduates**  
**Fall 2002-2007**

<u><b>Institution</b></u>	<u><b>Fall 2002</b></u>	<u><b>Fall 2005</b></u>	<u><b>Fall 02-05 Average Annual % Change</b></u>	<u><b>With Freeze Fall 2007</b></u>	<u><b>Fall 02-07 Average Annual % Change</b></u>
Coppin State University	\$2,877	\$3,527	7.0%	\$3,527	4.2%
UM Eastern Shore	3,029	4,112	10.7%	4,112	6.3%
Bowie State University	3,103	4,286	11.4%	4,286	6.7%
Salisbury University	3,394	4,814	12.4%	4,814	7.2%
Frostburg State University	3,632	5,000	11.2%	5,000	6.6%
Towson University	3,804	5,180	10.8%	5,180	6.4%
University of Baltimore	3,888	5,325	11.1%	5,325	6.5%
UM College Park	4,572	6,566	12.8%	6,566	7.5%
UMBC	4,614	6,484	12.0%	6,484	7.0%
UM University College*	4,944	5,520	3.7%	5,520	2.2%
Morgan State University	3,150	4,000	8.3%	4,000	4.9%

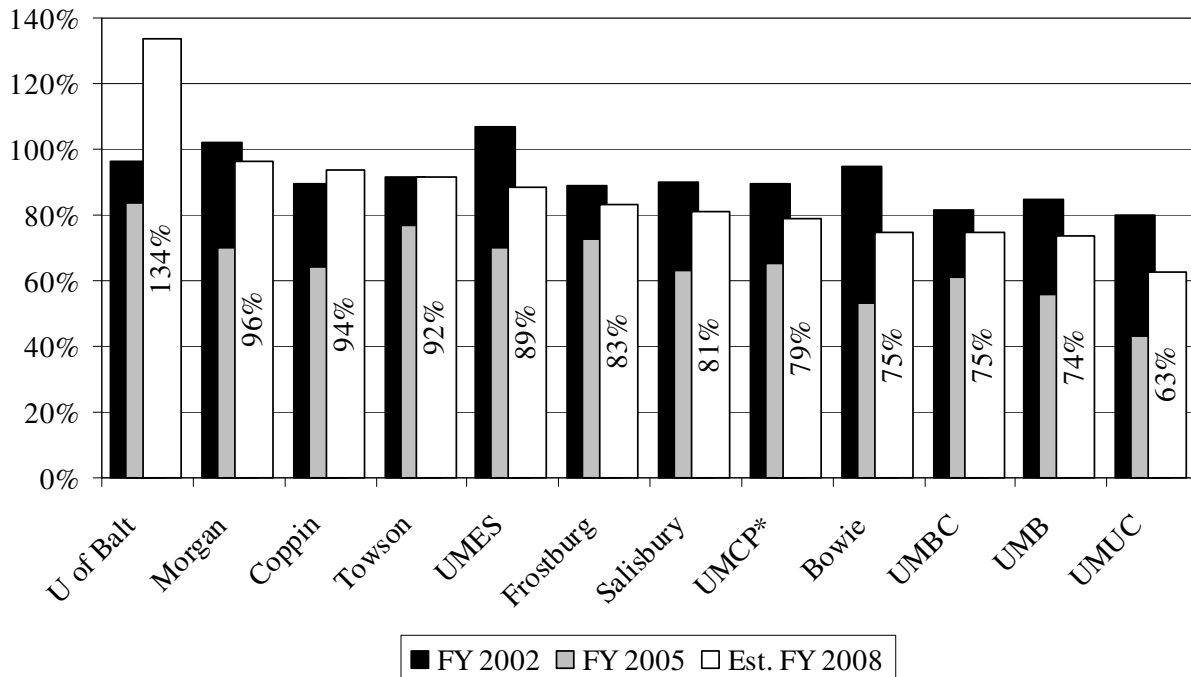
\*Based on 24 credit hours.

---

Funding guidelines are based on 75% of the average per student spending at a group of identified peer institutions for MSU and each USM constituent institution. The Maryland Higher Education Commission calculates the guidelines and, accounting for different tuition rates at the peer institutions, calculates a State general fund appropriation for each

institution that represents the funding guideline (100%). **Exhibit 2** shows that estimated funding guideline attainment for fiscal 2008 is below fiscal 2002 attainment for MSU and for 8 of the 11 USM institutions; however, guideline attainment has increased for all institutions since fiscal 2005.

**Exhibit 2**  
**Funding Guideline Attainment**  
**Selected Fiscal Years**



\*Unlike other institutions, the calculation of funding guidelines for the University of Maryland, College Park is based on aspirational peer institutions.

**State Revenues:** Assuming the required State appropriations are provided to USM and MSU, resident undergraduate tuition and fee rates for USM institutions and MSU would be limited to 4% annual growth beginning in fiscal 2009. Based on growth in tuition rates initially proposed for fall 2007, it is assumed that tuition rates would increase by 4.5% annually at USM and 5% annually at MSU without this cap. Thus, tuition and fee revenues collected from resident undergraduate students would decrease beginning in fiscal 2009. Revenue losses are estimated at \$2.8 million in fiscal 2009 and \$13.4 million in fiscal 2012, as illustrated in **Exhibit 3**.

---

**Exhibit 3**  
**Projected Tuition and Fee Revenue Decreases Due to Cap on Rate Increases**  
**(\$ in Millions)**

	<u><b>FY 2009</b></u>	<u><b>FY 2010</b></u>	<u><b>FY 2011</b></u>	<u><b>FY 2012</b></u>
USM	(\$2.4)	(\$5.1)	(\$8.1)	(\$11.4)
MSU	<u>(0.4)</u>	<u>(0.9)</u>	<u>(1.4)</u>	<u>(2.0)</u>
<b>Total</b>	<b>(\$2.8)</b>	<b>(\$5.9)</b>	<b>(\$9.5)</b>	<b>(\$13.4)</b>

---

**State Expenditures:** General fund expenditures would increase by an estimated \$30.1 million in fiscal 2009 to provide the levels of State support required for USM and MSU under the bill. Although some USM institutions have already exceeded the 82% fiscal 2009 guideline attainment goal, the bill requires State funding for USM to meet the goal in total, not necessarily for individual institutions. It is assumed that funding for some institutions would continue to exceed the funding guideline goals established in the bill, while others could be below the goal. Total State funding for USM, however, would reflect the attainment of the annual goals.

By fiscal 2012, when USM must be at 93% of the guideline funding level and MSU must be at 98% of its guideline funding level, the increase in State appropriations would total an estimated \$162.8 million. The annual increases over projected current law funding levels are shown in **Exhibit 4**.

Three State formulas – the Senator John A. Cade Funding Formula for local community colleges, the Baltimore City Community College (BCCC) formula, and the Sellinger formula for independent colleges and universities – are based on State funding for public four-year institutions of higher education in the preceding fiscal year. If State funding for USM and MSU increase in fiscal 2009, general fund expenditures for these three formulas would increase beginning in fiscal 2010. The increases for each formula are estimated in **Exhibit 5**.

---

**Exhibit 4**  
**Additional State General Fund Support for USM and MSU**  
(\$ in Millions)

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
USM				
Guideline Attainment Goal	82%	86%	90%	93%
Additional State Funding	\$29.8	\$56.0	\$118.6	\$150.6
MSU				
Guideline Attainment Goal	95%	96%	97%	98%
Additional State Funding	\$0.3	\$2.5	\$8.1	\$12.2
<b>Total Additional Funding</b>	<b>\$30.1</b>	<b>\$58.5</b>	<b>\$126.7</b>	<b>\$162.8</b>

---

**Exhibit 5**  
**Estimated Increases for Higher Education Formulas**  
(\$ in Millions)

<u>Formula</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
Senator Cade Formula	\$6.9	\$14.0	\$31.8
BCCC Formula	1.4	2.7	6.1
Sellinger Formula	<u>1.9</u>	<u>3.8</u>	<u>8.2</u>
<b>Total GF Expenditure Increase</b>	<b>\$10.2</b>	<b>\$20.5</b>	<b>\$46.0</b>

---

Summing the additional State appropriations for USM and MSU and increased funding for the State's higher education formulas, general fund expenditures would increase by an estimated \$208.8 million in fiscal 2012, which would be two years before State funding for USM and MSU would be required to reach 100% of the funding guidelines. The estimated annual impact on general fund expenditures for fiscal 2009 to 2012 is shown in **Exhibit 6**.

---

**Exhibit 6**  
**Total General Fund Impact**  
(\$ in Millions)

<u>Formula</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
USM Appropriation	\$29.8	\$56.0	\$118.6	\$150.6
MSU Appropriation	0.3	2.5	8.1	12.2
Senator Cade Formula	0.0	6.9	14.0	31.8
BCCC Formula	0.0	1.4	2.7	6.1
Sellinger Formula	<u>0.0</u>	<u>1.9</u>	<u>3.8</u>	<u>8.2</u>
<b>Total GF Expenditure Increase</b>	<b>\$30.1</b>	<b>\$68.7</b>	<b>\$147.2</b>	<b>\$208.8</b>

---

**Aggregate Fiscal Effect on USM and MSU:** Overall revenues for USM, including the tuition and fee revenue reduction and the State funding enhancement, would increase by an estimated \$27.4 million in fiscal 2009 and an estimated \$139.2 million in fiscal 2012. For MSU, overall fiscal 2009 revenues could decrease by an estimated \$69,545 because the tuition and fee cap is projected to have a greater fiscal impact than the added State funds. (MSU is at 96% of its funding guideline in the fiscal 2008 allowance.) However, from fiscal 2010 to 2012 the bill would have a positive effect on MSU revenues, adding \$10.2 million in revenues for the institution by fiscal 2012. The estimated net affects on USM and MSU revenues are shown in **Exhibit 7**.

---

**Exhibit 7**  
**Net Impact on the Current Unrestricted Revenues of USM and MSU**  
**(\$ in Millions)**

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
USM				
Additional State Appropriation	\$29.8	\$56.0	\$118.6	\$150.6
Reduced Tuition and Fee Revenues	<u>(2.4)</u>	<u>(5.1)</u>	<u>(8.1)</u>	<u>(11.4)</u>
Net Impact	\$27.4	\$50.9	\$110.5	\$139.2
MSU				
Additional State Appropriation	\$0.3	\$2.5	\$8.1	\$12.2
Reduced Tuition and Fee Revenues	<u>(0.4)</u>	<u>(0.9)</u>	<u>(1.4)</u>	<u>(2.0)</u>
Net Impact	(\$0.1)	\$1.6	\$6.7	\$10.2

---

**Local Revenues:** Local community college revenues from State aid would increase by an estimated \$6.9 million in fiscal 2010 due to increased appropriations for USM and MSU in fiscal 2009. By fiscal 2012, the additional funding for locally-operated community colleges is estimated at \$31.8 million. The added funding would be shared by all 15 local community colleges.

---

**Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 1431 (Delegates Griffith and Frush) – Rules and Executive Nominations.

**Information Source(s):** St. Mary's College of Maryland, Morgan State University, University System of Maryland, Maryland Higher Education Commission, Baltimore City Community College, Department of Legislative Services

**Fiscal Note History:** First Reader - March 21, 2007  
ncs/rhh

---

Analysis by: Mark W. Collins

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510



