

Department of Legislative Services  
Maryland General Assembly  
2008 Session

FISCAL AND POLICY NOTE

House Bill 1388  
Appropriations

(Delegate Mizeur, *et al.*)

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Higher Education - Maryland Truth in Tuition Act

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This bill requires four-year public institutions of higher education to develop long-term tuition plans. Beginning in July 2009, institutions must annually publish the tuition rates that will be charged in the upcoming academic year and the three academic years after the upcoming year. The plans may establish tuition rates that increase each year as necessary to maintain an appropriate level of services, but once a tuition rate has been published, it may not be increased.

The bill takes effect June 1, 2008.

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Fiscal Summary

**State Effect:** Higher education tuition revenues could increase beginning in FY 2011 if out-year tuition rates are intentionally set at high levels to allow institutions to absorb unanticipated cost increases or lower-than-expected State funding levels. Tuition revenues could decrease relative to the current tuition-setting system if cost increases or limitations on State support have a greater impact than had been anticipated when the plans were developed. Institutions could prepare tuition plans with existing personnel and resources.

**Local Effect:** None.

**Small Business Effect:** Minimal.

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## Analysis

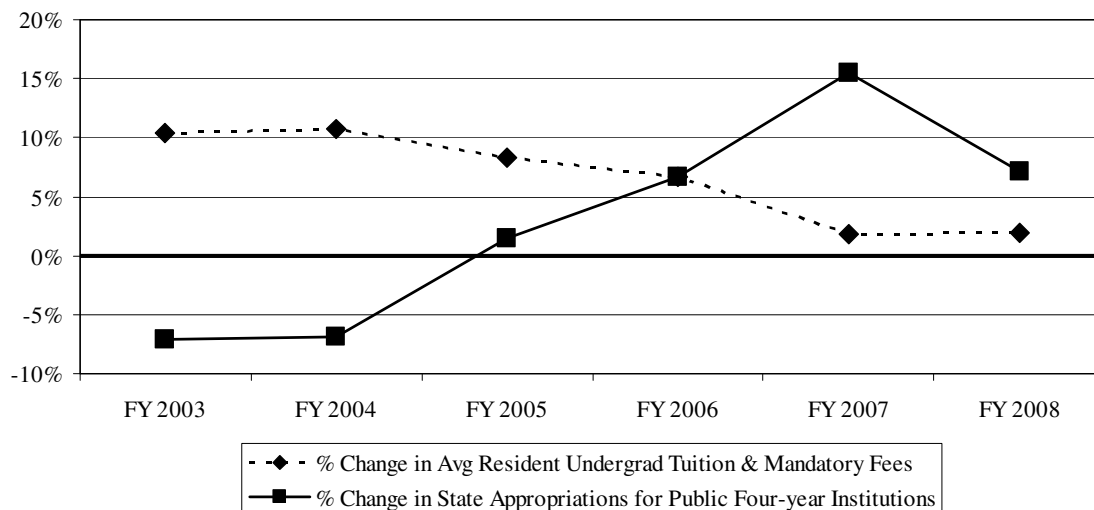
**Current Law:** Subject to the authority and policies of the Board of Regents of the University System of Maryland, the president of each USM constituent institution sets tuition for the institution. The Board of Regents of Morgan State University and the Board of Trustees for St. Mary's College of Maryland fix tuition for the institutions.

**Background:** Tuition for resident undergraduates at Maryland's four-year public institutions of higher education grew rapidly from fall 2001 to 2005, due at least in part to reductions in State general fund support for the institutions. In response to concerns about the affordability of a college education in Maryland, the General Assembly has passed legislation in 2006 and 2007 freezing resident undergraduate tuition at fall 2005 rates for most State institutions in fiscal 2007 and 2008. Additional State funds have been provided to offset the revenue losses resulting from the tuition freezes.

A six-year comparison of annual percentage changes in State funding for four-year public institutions of higher education and the average resident undergraduate tuition and mandatory fee rates is shown in **Exhibit 1**. The exhibit depicts the correlation between State funding and tuition rates. The largest tuition increases occurred in fiscal 2003 and 2004, when State funding was reduced, and fiscal 2005, when State funding grew by just 1.4%. As State general fund appropriations for the institutions increased in subsequent years, the growth in tuition rates declined.

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**Exhibit 1**  
**Annual Percentage Changes in Resident Undergraduate Tuition Rates and State Appropriations for Four-year Public Institutions of Higher Education Fiscal 2003 to 2008**



The proposed fiscal 2009 State budget assumes a third consecutive year of stable resident undergraduate tuition rates at USM institutions and Morgan. Special funds from the Higher Education Investment Fund are included in the proposed budget to replace the revenue that will be lost if tuition rates are held at fall 2005 levels for a third straight year.

Some of USM's current policies suggest that the establishment of multi-year tuition plans may already be happening. The preamble to USM's Policy on Tuition (USM Policy VIII-2.01) states that the tuition policy is designed to "keep tuition increases predictable, enabling students to plan for their educational expenses." The policy requires each institution to update annually a four-year tuition plan and to provide easily accessible four-year projections of costs to attend the institution. The plans and projections must state the assumptions that were used in their development.

**State Revenues:** Tuition rates at public institutions of higher education are generally set in response to State funding levels. When State funding for institutions increases, the growth in tuition rates has been moderate. When State funding levels have declined or have increased more slowly, institutions have responded with greater increases in tuition rates. In effect, the bill could result in a reverse of the current structure, with State appropriations responding to tuition rates set by the institutions, rather than the institutions responding to State support levels.

It is assumed, however, that tuition rates may be set somewhat high, especially when the State's fiscal condition is in question, so institutions will be prepared for potential downturns in State funding levels or unexpected cost increases at the institutions. If State support is less than was anticipated when a tuition plan was prepared, or if unanticipated cost increases have a greater impact than expected, tuition revenues could be less under the bill than they would be under current law. The first tuition plans would be due from institutions in July 2009, meaning the institutions would have time to respond to fiscal 2010 State appropriations that will be approved in April 2009. Thus, there would be no impact on tuition revenues before fiscal 2011.

Fund balances at USM, Morgan, and St. Mary's College could also be used to help maintain more stable tuition rates at public institutions of higher education. The chart below shows the fund balances at the end of fiscal 2009 for each, as projected in the proposed fiscal 2009 State budget, as a percentage of current unrestricted revenues (CUR) projected in the State budget.

	<u>USM</u>	<u>MSU</u>	<u>St. Mary's</u>
Proposed FY 2009 CUR	\$3,103,871,327	\$159,220,113	\$61,249,367
Projected Fund Balance	504,464,506	5,432,725	3,960,402
Fund Balance as a % of CUR	16.3%	3.4%	6.5%

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### Additional Information

**Prior Introductions:** HB 1047 of 2007 a nearly identical bill, received an unfavorable report from the House Appropriations Committee.

**Cross File:** None.

**Information Source(s):** Morgan State University, University System of Maryland, Maryland Higher Education Commission, Department of Legislative Services

**Fiscal Note History:** First Reader - March 3, 2008  
ncs/rhh

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