

Department of Legislative Services
 Maryland General Assembly
 2014 Session

FISCAL AND POLICY NOTE

House Bill 531 (Delegate Fisher, *et al.*)
 Ways and Means

Higher Education - Community Colleges - Bachelor's Degree Programs

This bill authorizes community colleges to offer upper level undergraduate courses and degree programs and to award bachelor’s degrees. A bachelor’s degree program offered by a community college must include components of classroom instruction and online courses and services. If a community college chooses to offer bachelor’s degree programs and award bachelor’s degrees, the community college, in coordination with the Secretary of Higher Education, must adopt rules and regulations relating to the implementation of bachelor’s degree programs and the awarding of bachelor’s degrees at the community college.

The bill takes effect July 1, 2014.

Fiscal Summary

State Effect: Using one set of assumptions, general fund expenditures increase beginning in FY 2019 – by \$14.7 million – due to increased enrollment at local community colleges and Baltimore City Community College (BCCC), increasing to approximately \$32.5 million in FY 2020. General fund expenditures also increase for the Maryland Higher Education Commission (MHEC) to hire two positions to implement the bill: one each in FY 2015 and 2016. General obligation bond expenditures also increase for capital costs. BCCC revenues and expenditures also increase. Future year revenues and expenditures increase due to enrollment and inflation. **This bill establishes a mandated appropriation beginning in FY 2019.**

(\$ in millions)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Higher Ed Rev.	\$0	\$0	-	-	-
GF Expenditure	\$.1	\$.1	\$.2	\$.2	\$14.9
PAYGO GF exp	-	-	-	-	-
Net Effect	(\$.1)	(\$.1)	(\$.2)	(\$.2)	(\$14.9)

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

Local Effect: Using one set of assumptions, State funding for local community colleges increases by approximately \$13.2 million in FY 2019 through the Cade funding formula due to the enrollment of the first junior class in academic year 2016-2017. State funding for local community colleges increases by approximately \$29.3 million in FY 2020 due to the enrollment of the first senior class in academic year 2017-2018.

Small Business Effect: None.

Analysis

Current Law: Community colleges are not authorized to offer upper level undergraduate courses or bachelor's degrees.

The State's annual contribution for the Senator John A. Cade Funding Formula, the largest community college aid program, is determined by enrollment at community colleges and the level of funding received by public four-year institutions. The Cade formula bases per-pupil funding on a set statutory percentage of current-year State appropriations per full-time equivalent student (FTES) at selected public four-year institutions of higher education. The resulting community college per-student amount is multiplied by the number of FTES enrolled in the colleges in the second preceding fiscal year to identify a total formula amount.

Specifically, the number of FTES is calculated as the number of student credit hours produced in the fiscal year two years prior to the fiscal year for which the State share is calculated divided by 30. "Student credit hours" are defined as student credit hours or contact hours which are eligible under the regulations issued by the Maryland Higher Education Commission (MHEC).

There are three parts to the Cade formula that together set the level of funding each community college receives under the grant. The three components are fixed costs, marginal costs, and a size factor. The majority (60%) of the Cade funding is distributed to the local community colleges through the marginal cost formula that distributes funds based on the number of FTES at each community college. Of the remaining 40%, 38% is distributed through the fixed-cost component and 2% is distributed through the size-factor component.

According to regulations that are applicable to local community colleges that receive Cade funding but not BCCC, a college may not receive State funding for continuing education courses until MHEC approves the course. MHEC may not approve recreational courses for State funding. When two or more colleges jointly sponsor a noncredit continuing education course, participating students must be enrolled, recorded,

and registered by the college that will ultimately submit the request for the State funding for the course. A college may not receive State funding for students younger than age 16 enrolled in continuing education courses, unless otherwise permitted by State law. A high school student concurrently enrolled in continuing education courses without payment of tuition, either through tuition waiver, tuition payment reimbursement, or by direct finance of the course work by individual college departments, may not be submitted for State funding. A continuing education course that is approved for State funding must be open to the public, except when the course is being offered under contract to meet employee training needs.

Like the local community colleges, annual State funding for BCCC is determined by a formula that bases per-pupil funding for the college on a set statutory percentage of the current-year State appropriations per FTES at selected public four-year institutions of higher education. The resulting BCCC per-student amount is multiplied by the number of FTES enrolled in the college in the second preceding fiscal year to identify a total formula amount. The number of FTES is calculated in the same manner as it is for the local community colleges, and “student credit hours” are defined the same.

Background: Obtaining a bachelor’s degree increases the economic well-being of those with a degree. In Maryland, those with an associate’s degree, on average, earn \$12,000 more annually than if they only had a high school diploma, and those with a bachelor’s degree earn about \$10,000 more than if they had an associate’s degree. For many students, the path to a four-year degree begins at a two-year institution.

In fiscal 2012, 10,685 Maryland community college students transferred from a community college to a public four-year institution. This represents more than 10% of all undergraduates at public four-year institutions in Maryland. Students transferring to a University System of Maryland (USM) institution are considered qualified for admission if they have a minimum grade point average of 2.0 on college level courses and either met the admission criteria of the USM institution as a high school senior *or* have an associate’s degree or completed 56 or more credits at a Maryland public higher education institution. According to USM policy, if the number of transfer applicants exceeds the number that can be accommodated, admission will be based on the same criteria as native students.

According to one news article, at least 21 states allow at least some of their community colleges to offer at least one bachelor’s degree. Most recently, California has been considering letting its community colleges offer four-year degrees.

State Revenues: Under the assumptions described below, BCCC revenues increase by \$1.5 million in fiscal 2019 due to an increase in State aid from the first class of juniors in academic year 2016-2017 and by \$3.2 million in fiscal 2020 due to the first class of seniors in academic year 2017-2018.

Under the assumptions described below, BCCC tuition revenues also increase beginning in academic year 2016-2017 (fiscal 2017). It is unknown how much BCCC will charge students for upper level courses or what BCCC tuition will be for that year.

Future year revenues increase due to enrollment, State aid, and tuition.

State Expenditures:

Community College Formula Aid

The bill does not specify how community colleges will be funded for upper level students. Thus, for the purposes of this estimate, the Department of Legislative Services assumes that upper level enrollments will be included in the FTES calculation for the Cade and BCCC formulas under the current law percentage of State per-FTES funding of selected four-year institutions, which reflects the two-year student population that community colleges currently serve. If community colleges were to begin offering bachelor's degrees, it is likely they would request an increase in the statutory percentage to reflect their expanded student population.

Using one set of assumptions, general fund expenditures increase by \$14.7 million in fiscal 2019 from increased enrollment due to the first junior class at local community colleges and BCCC beginning in academic year 2016-2017. State general fund expenditures increase to approximately \$32.5 million in fiscal 2020 due to the enrollment of the first senior class in academic year 2017-2018. This estimate was calculated using the following information and assumptions.

- It is assumed that, if authorized to do so, most community colleges in the State will offer bachelor's degree programs and upper level undergraduate courses. It is further assumed that community colleges will want to begin offering bachelor's degrees and upper level courses as soon as possible; thus, it is assumed the programs can be developed and approved in two years, with the first upper level enrollments beginning in academic year 2016-2017 (fiscal 2017). In that case, enrollment at the community colleges will increase at that time, and State funding through the enrollment-based Cade and BCCC formulas will increase beginning in fiscal 2019.
- For the purposes of this estimate, it is assumed that 50% of students who currently transfer from Maryland community colleges to public four-year institutions will remain at a community college each year to earn their bachelor's degree. In the most recent year for which data is available, 10,685 Maryland community college students transferred from a community college to a public four-year institution. Thus, as shown in **Exhibit 1**, it is assumed that community colleges will have an

additional 5,347 students in academic year 2016-2017. However, this estimate represents only the first junior class. It is assumed that the total number of students in upper division courses (both juniors and seniors) will be approximately 10,685 in academic year 2017-2018.

- Due to the increased enrollment at local community colleges and BCCC in academic year 2016-2017, mandated State aid through the Cade and BCCC funding formulas will increase by a total of \$14.7 million in fiscal 2019; the break down by college is shown in Exhibit 1. This amount increases to \$32.5 million in fiscal 2020.

Exhibit 1
Estimated Additional Full-time Equivalent Students and Increased State Aid to
Community Colleges
Fiscal 2019

<u>College</u>	<u>Additional FTES 2016-2017</u>	<u>Increased State Aid</u>
Allegany	71	\$253,641
Anne Arundel	652	1,632,669
Baltimore County	733	1,967,628
Carroll	253	600,286
Cecil	45	226,306
CSM	380	884,430
Chesapeake	89	301,461
Frederick	222	540,013
Garrett	48	168,339
Hagerstown	104	376,525
Harford	330	756,639
Howard	417	999,253
Montgomery	1,183	2,760,333
Prince George's	507	1,335,797
Wor-Wic	107	351,522
Total Local Colleges	5,141	\$13,154,844
Baltimore City	206	1,531,144
Total	5,347	\$14,685,988

Note: This table represents only the first junior class. It is assumed that the total number of students in upper division courses (both juniors and seniors) will be approximately 10,685 in academic year 2017-2018.

Source: Department of Legislative Services

- There will be costs for BCCC and local community colleges to offer bachelor's degree programs and upper level undergraduate courses. For example, colleges will need to increase faculty with the credentials, such as a doctorate degree, needed to teach upper division course work and receive accreditation. In addition, there will likely be capital costs to accommodate additional students and to upgrade libraries and laboratories. The State funds 100% of BCCC capital projects and 50% to 75% of eligible capital costs for local community colleges. These costs will depend on the institution and cannot be reliably estimated at this time but will likely be significant.
- Future year expenditures increase due to enrollment, funding formulas, and tuition.

Maryland Higher Education Commission

Following the assumptions about community colleges, MHEC will need to hire two additional education policy analysts, one in fiscal 2015 and one in fiscal 2016, in order for MHEC to fulfill its statutory responsibilities with respect to the coordination, statewide planning, and regulation of postsecondary education. The specific areas of responsibility of the analysts will be conducting reviews of new bachelor's program proposals from community colleges and developing, interpreting, applying, and clarifying MHEC policies and Maryland regulations as they pertain to these programs. The new staff will review new degree and certificate program proposals in accordance with Maryland statute and regulations and then issue recommendations based on qualitative and quantitative data analysis. They will also review new and renewal academic program proposals for consistency with the institution's approved mission, ability to meet regional and statewide workforce need, and congruence with the goals of the Maryland State Plan, as well as ensure against program duplication and for adherence with federal and State equal opportunity obligations.

Thus, general fund expenditures increase by \$62,114 in fiscal 2015 to hire one additional full-time education policy analyst, which reflects a 90-day start-up delay following the bill's July 1, 2014 effective date. In fiscal 2016, general fund expenditures increase to \$142,996 to hire a second full-time education policy analyst on October 1, 2015. This estimate includes two full-time salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
New Position	1	1	0
Salaries and Fringe Benefits	\$57,309	\$137,601	\$164,636
Operating Expenses	435	1,025	1,183
Start-up Costs	<u>4,370</u>	<u>4,370</u>	<u>0</u>
Total State Expenditures	\$62,114	\$142,996	\$165,819

Future year expenditures reflect full salaries with annual increases as well as annual increases in ongoing operating expenses.

Total State Expenditures

The total estimated State expenditures under the bill from fiscal 2015 through 2020 are shown in the table below.

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
MHEC New Positions	1	1				
MHEC Funding	\$62,114	\$142,996	\$165,819	\$173,559	\$181,670	\$190,754
BCCC	-	-	-	-	1,531,144	3,249,230
Cade Funding	-	-	-	-	13,154,844	29,257,577
Total State Expenditures	\$62,114	\$142,996	\$165,819	\$173,559	\$14,867,658	\$32,697,561

Local Revenues: Under the assumptions described above, local community college revenues increase by \$13.2 million in fiscal 2019 from State aid due to the first class of juniors in academic year 2016-2017 and by \$32.5 million in fiscal 2020 due to the first class of seniors in academic year 2017-2018.

Under the assumptions described above, local community college tuition revenues also increase beginning in academic year 2016-2017 (fiscal 2017). It is unknown how much local community colleges will charge students for upper level courses or what local community college tuition will be for academic year 2016-2017 (fiscal 2017).

Future year revenues increase due to enrollment, funding formulas, and tuition.

Local Expenditures: There will be costs for local community colleges to offer bachelor's degree programs and upper level undergraduate courses. For example, colleges will need to increase faculty with the credentials, such as a doctorate degree, needed to teach upper division course work and receive accreditation. In addition, there will likely be capital costs to accommodate additional students and to upgrade libraries and laboratories. The State funds 50% to 75% of eligible capital costs for local

community colleges. These costs will depend on the institution and cannot be reliably estimated at this time but will likely be significant.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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