

**Department of Legislative Services**  
Maryland General Assembly  
2014 Session

**FISCAL AND POLICY NOTE**

Senate Bill 463

(Senators Ferguson and Madaleno)

Budget and Taxation

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**Community Colleges - Developmental Education Courses - Student Credit Hours**

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This bill requires that local community colleges and Baltimore City Community College (BCCC) receive only half of the State funding through their funding formulas for the contact hours of students who do not achieve a grade of “C” or better in developmental education courses. It is the intent of the General Assembly that any reduction of State aid to the community colleges that results from the bill not be recouped by the community colleges through an increase in tuition or fees charged for developmental education courses.

The bill takes effect July 1, 2014.

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**Fiscal Summary**

**State Effect:** General fund expenditures decrease beginning in FY 2017 due to a reduction in community college formula funding for each three-credit developmental course in which a student fails to get a grade of “C” or better. Data is not available to estimate the impact of the bill. *For illustrative purposes only*, if the number of full-time equivalent students (FTES) at BCCC decreases by 1% due to the bill, general fund expenditures and BCCC revenues decrease by approximately \$397,300. BCCC expenditures are not directly affected. Likewise, general fund expenditures decrease by \$2.3 million if FTES at local community colleges decrease by 1% due to the bill.

**Local Effect:** Beginning in FY 2017, local community college revenues from State aid decrease. Local community college expenditures are not directly affected.

**Small Business Effect:** None.

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## Analysis

**Bill Summary:** “Developmental education course” is defined as a noncredit course that must be completed successfully before or concurrent with a student enrolling in a credit-bearing course.

**Current Law:** 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 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 who 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:** In Maryland, depending on the college, between 45% and 80% of first-time community college students enroll in at least one developmental course as shown in **Exhibit 1**. Students enroll in developmental courses when they are not yet ready for “college-level” work; the courses are intended to prepare these students for college-level courses. Unfortunately, many students never transition from developmental courses to college-level courses. Thus, these students are unable to complete a degree. There are many barriers for a student between being referred to a developmental course, to enrolling in a college-level course. One barrier is believed to be failing to receive a “C” or better in the developmental course. Exhibit 1 also shows the percent of students enrolled in a remedial course who *complete* the course, which ranges from 22% to 74% at the colleges. On average, only 38% of students who enroll in a remedial course complete it. Using course completion as a rough proxy for receiving at least a “C,” 62% of these students did not complete or receive a “C” in a remedial course.

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**Exhibit 1**  
**Students Enrolling in Remedial Courses (of First-time Entry Students) and**  
**Students Completing Remedial Courses**  
**Unduplicated Counts**

<u>College</u>	<u>Percent of</u> <u>Students Enrolling in</u> <u>Remedial Courses</u>	<u>Percent of Enrolled</u> <u>Students Completing</u> <u>Remedial Courses</u>
Allegany	65.5%	23.3%
Anne Arundel	55.5%	34.7%
Baltimore City	80.0%	22.1%
Baltimore County	73.8%	38.0%
Carroll	47.2%	58.8%
Cecil	74.2%	27.0%
Chesapeake	44.7%	32.2%
College of Southern MD	58.4%	47.6%
Frederick	74.0%	73.6%
Garrett	70.5%	53.4%
Hagerstown	65.2%	46.1%
Harford	60.4%	58.7%
Howard	55.0%	40.8%
Montgomery	68.4%	37.0%
Prince George's	71.2%	22.2%
Wor-Wic	79.8%	36.3%
<b>Statewide</b>	<b>63.1%</b>	<b>38.4%</b>

Source: Complete College America

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The Governor's proposed fiscal 2015 budget includes \$228.2 million in Cade formula funding direct grants for local community colleges as shown in **Exhibit 2**.

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**Exhibit 2**  
**Cade Funding Formula Direct Grants for Local Community Colleges**  
**Fiscal 2015**

<u>Local Community Colleges</u>	<u>Audited FTES FY 2013</u>	<u>FY 2015 Direct Grants</u>
Allegany	1,860.71	\$4,974,229
Anne Arundel	14,049.14	29,601,973
Baltimore County	19,009.40	39,800,798
Carroll	3,167.11	7,644,271
Cecil	2,059.96	5,326,189
College of Southern Maryland	6,553.40	13,391,427
Chesapeake	2,364.54	6,206,086
Frederick	4,332.34	9,198,201
Garerrtt	758.37	2,649,475
Hagerstown	3,326.08	7,950,103
Harford	5,361.05	11,140,936
Howard	7,651.16	15,618,320
Montgomery	19,991.87	41,242,346
Prince George's	12,625.71	26,257,083
Wor-Wic	2,903.88	7,264,158
<b>Total</b>	<b>106,014.72</b>	<b>\$228,265,595</b>

Source: Department of Budget and Management, Fiscal 2015 Budget Book

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The Governor's proposed fiscal 2015 budget includes \$41.8 million in State general funds for BCCC. Outside of State funding, the largest source of unrestricted funding for BCCC is student tuition and fees. The proposed fiscal 2015 budget estimates \$13.6 million in tuition and fee revenues for the college, as well as \$13.6 million in auxiliary enterprises and other unrestricted revenues. The proposed fiscal 2015 budget also includes \$22.6 million in restricted revenue.

**State Fiscal Effect:** Although the bill takes effect July 1, 2014, since State aid for community colleges is already set for fiscal 2015 based on audited enrollments in fiscal 2013, it is assumed the bill would impact enrollment counts in fiscal 2015, which would apply to State aid in fiscal 2017.

Beginning in fiscal 2017 general fund expenditures for BCCC decrease by approximately \$651 for each developmental course in which a student fails to get a grade of "C" or better. *For illustrative purposes only*, if the number of FTES at BCCC decreases by 1% due to the bill, general fund expenditures decrease by approximately \$397,348. This

estimate assumes that BCCC is not held harmless for the reduction in FTES, due to that being counter to the intent of the bill.

Likewise, general fund expenditures for local community colleges decrease by approximately \$213 for each developmental course in which a student fails to get a grade of “C” or better. *For illustrative purposes only*, if FTES at local community colleges decrease by 1% due to the bill, general fund expenditures decrease by a total of approximately \$2.3 million. As explained below, the impact on local community colleges will differ. This estimate also assumes that the hold harmless is not applied to the local community colleges.

**Local Fiscal Effect:** Beginning in fiscal 2017, local community college revenues from State aid decrease by approximately \$213 for each developmental course in which a student fails to get a grade of “C” or better. *For illustrative purposes only*, if FTEs at local community colleges decrease by 1% due to the bill, general fund expenditures decrease by a total of approximately \$2.3 million. This illustrative example was calculated using the following information and assumptions.

The total Cade funding is reduced by approximately \$2.3 million, due to the 1% reduction in FTES. Of that \$2.3 million, \$1.4 million is reduced from the marginal-cost component, \$859,649 from the fixed-cost component, and \$45,245 from the size-factor component.

Due to the mechanism of the Cade funding formula, the fiscal impact on each individual local community college depends on both the overall reduction in FTES at local community colleges and the reduction in FTES at that particular community college.

It should be noted that the bill decreases the total amount of funding available to be distributed through the Cade funding formula. The majority of the funding is distributed through the marginal cost formula, which is based on the number of FTES at each local community college. However, a large reduction in FTES due to a high number of students in developmental courses getting less than a “C” could result in less funding for all community colleges, regardless of the success rate of their students in developmental courses.

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## **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Maryland Higher Education Commission, Complete College America, Department of Legislative Services

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