

Department of Legislative Services
 Maryland General Assembly
 2015 Session

FISCAL AND POLICY NOTE

House Bill 788 (Delegate Jalisi, *et al.*)
 Ways and Means

Maryland Loan Assistance Repayment Program for Orphans and Foster Care Recipients

This bill establishes a Maryland Loan Assistance Repayment Program (LARP) for Orphans and Foster Care Recipients. The Office of Student Financial Assistance (OSFA) within the Maryland Higher Education Commission (MHEC) must assist in the repayment of higher education loans owed by an orphan or a foster care recipient, as specified, who (1) is employed on a full-time basis by the State; (2) received a graduate, professional, or undergraduate degree from a college or university in the State; and (3) meets any other requirements established by OSFA. The bill must be construed to apply retroactively and must be applied to and interpreted to affect any individual who meets the eligibility requirements on or after July 1, 2012.

The bill takes effect July 1, 2015.

Fiscal Summary

State Effect: General fund expenditures increase by \$12,000 in FY 2016 for one-time contractual costs associated with updating MHEC’s scholarship system. The actual cost per award depends on the total eligible student loan debt of a recipient; however, *for illustrative purposes only*, based on average borrowing debt and one set of assumptions, one three-year award increases general fund expenditures by \$6,612.

| (in dollars) | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 |
|----------------|------------|---------|---------|---------|---------|
| Revenues | \$0 | \$0 | \$0 | \$0 | \$0 |
| GF Expenditure | 12,000 | - | - | - | - |
| Net Effect | (\$12,000) | \$0 | \$0 | \$0 | \$0 |

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary:

Eligible Individuals

To be eligible, a foster care recipient must have been placed in an out-of-home placement by a state's or a unit of a state government's department of social services for five years or more. An orphan is defined as a child who has been legally determined not to have parents because of the parents' death or disappearance, abandonment or desertion of the child, or separation from the child.

Eligible Debt

"Higher education loan" is defined as any loan for undergraduate, professional, or graduate study that is obtained for tuition, educational expenses, or living expenses from (1) a college or university, government, or commercial source or (2) an organization, an institution, an association, a society, or a corporation that is exempt from taxation under Section 501 (c)(3) or (4) of the Internal Revenue Code of 1986.

An applicant for assistance in the repayment of a commercial loan must demonstrate to OSFA that the commercial loan was used for tuition, educational expenses, or living expenses for graduate, professional, or undergraduate study. Assistance in the repayment of a loan from an organization, an institution, an association, a society, or a corporation that is exempt from taxation requires the approval of OSFA.

Award Amount

The award must be equal to 10% of the eligible individual's total higher education loan debt for each year the individual qualifies for the program. Each recipient of an award may hold the award for three years if the recipient (1) continues to meet the qualifications specified (*e.g.*, be employed on a full-time basis by the State) and (2) signs an agreement at the time of the award to remain employed by the State for at least one year after the expiration of the term of the award. Each award is renewable on the expiration of the term of the award.

An award under the program must be used only for repayment of the higher education loans owed by the recipient.

Office of Student Financial Assistance Requirements

OSFA must adopt regulations to implement the bill.

Current Law:

Foster Care Tuition Waiver

Foster care recipients are eligible for a tuition and mandatory fee exemption to attend a public institution of higher education in Maryland if they resided in an out-of-home placement in Maryland when they graduated from high school or successfully completed a general equivalency development examination. Foster care recipients adopted from an out-of-home placement in Maryland after their thirteenth birthday are also eligible for the exemption. Younger siblings are also eligible for the exemption if also adopted by the same family from the same guardianship or out-of-home placement.

A recipient must be enrolled in an institution as a candidate for a vocational, an associate's, or bachelor's degree before reaching age 25 and must file annually for federal and State financial aid by March 1. If a foster care recipient receives a scholarship or grant, the recipient may not be required to pay the difference between the scholarship or grant and tuition. The exemption continues until five years after initial enrollment as a candidate for an associate's degree or a bachelor's degree or until the recipient receives a bachelor's degree, whichever occurs first.

Loan Assistance Repayment Program

LARP provides loan repayment assistance in exchange for certain service commitments to help ensure that underserved areas of the State have sufficient numbers of primary care physicians, physician assistants, dentists, lawyers, and other professionals serving underserved areas of the State or low-income families. The program is subdivided into the Janet L. Hoffman LARP, the Maryland Dent Care LARP, and the Maryland LARP for Physicians and Physician Assistants. Individuals must be employed full time in State or local government or in a nonprofit organization that assists low-income, underserved residents or underserved areas in the State.

Janet L. Hoffman LARP

Eligible employment fields include lawyers, degree- or diploma-holding registered nurses, licensed clinical therapists, physical and occupational therapists, social workers, speech pathologists, and teachers who have received a resident teacher certificate from the Maryland State Department of Education (MSDE) after completing an approved alternative teaching preparation program.

Chapter 496 of 2012 established the Nancy Grasmick Teacher Award within Janet L. Hoffman LARP for Maryland public school teachers who have taught in Maryland for at least two years in (1) science, technology, engineering, or math subjects or (2) a school in which at least 75% of the students are enrolled in the free and reduced-price meal program. A teacher must also have received the highest performance evaluation rating for the most recent year available.

According to statute, OSFA may adopt regulations to establish the maximum starting income for eligibility, the maximum total income for eligibility, and the limit on the total amount of assistance provided.

Priority is given to individuals who have graduated from an institution of higher education in the last three years. Priority employment fields established by law are legal services and nursing. Priority for awards is also given to applicants who are employed as nurse faculty members or applicants who teach in schools designated as federal Title I, schools identified for improvement by MSDE, or designated critical shortage subject fields; and teachers who qualify for a Nancy Grasmick Teacher Award. Awards are capped at \$10,000 per year.

The Governor's proposed fiscal 2016 budget includes \$1.5 million in general funds and \$75,000 in special funds for Janet L. Hoffman LARP. MHEC reports that, in fiscal 2014, 234 awards were made, and the average award amount was \$5,753. In fiscal 2014, 62 applicants were placed on the waiting list due to lack of funds.

Background: According to the Project on Student Debt, about 7 in 10 (69%) of college seniors who graduated from public and private nonprofit colleges in 2013 had student loan debt. These borrowers owed an average of \$28,400 nationwide. Maryland graduates from the same class owed an average of \$26,349. About one-fifth (19%) of the Class of 2013's debt comprised private loans, which are more costly and provide fewer consumer protections and repayment options than federal loans.

State Expenditures: General fund expenditures increase by \$12,000 in fiscal 2016 for one-time contractual costs associated with updating MHEC's scholarship system. The actual cost per award depends on the total eligible student loan debt of a recipient; however, *for illustrative purposes only*, based on average borrowing debt, and one set of assumptions, one three-year award increases general fund expenditures by \$6,612. MHEC can handle process applications related to the award using existing resources.

- MHEC reports modifying and testing the scholarship web portal (known as the Maryland College Aid Processing System) to add a new loan repayment grant costs approximately \$12,000.

- According to the Project on Student Debt, the average debt for a class of 2013 Maryland graduate with debt was \$26,349. Based on a loan with a 10-year repayment period, a 5% interest rate, and the recipient receiving an award after one year of consistent on-time payments, an eligible individual who had borrowed an average amount would receive \$6,612 over three years. However, keeping all other assumptions the same, an individual who had borrowed significantly more (e.g., \$100,000) would receive significantly more (e.g., \$25,091). It is possible that an individual without family support could borrow more than the average amount while obtaining an advanced degree.
- Data on the number of foster care recipients and orphans with student loan debt or their amount of student loan debt is not readily available. Nor is there information on how many such individuals are employed by the State. Thus, it is unknown how many individuals would be eligible for the award.
- Finally, actual awards depend on the funds appropriated to the program.

Additional Information

Prior Introductions: None.

Cross File: SB 669 (Senator Young, *et al.*) - Education, Health, and Environmental Affairs.

Information Source(s): Maryland Higher Education Commission, Project on Student Debt, Department of Legislative Services

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md/rhh

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