HB 230

Department of Legislative Services

Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 230 (Delegate Ebersole, *et al.*)
Appropriations

Institutions of Higher Education - Reduction in Financial Aid - Notification

This bill requires an institution of higher education that reduces the amount of *institutional* aid awarded to a student because the student received additional financial aid from the State or a nonprofit organization to notify the provider of financial aid that the student's award was reduced within 30 days of the reduction.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: None. Higher education expenditures at University System of Maryland (USM) institutions, Morgan State University (MSU), St. Mary's College of Maryland (SMCM), and Baltimore City Community College (BCCC) may increase minimally due to postage for notification; however, the amount is assumed to be minimal and absorbable. Alternatively public four-year institutions and BCCC may choose to notify the State or nonprofit organizations using email at no additional cost. Students may need to provide institutions with contact information for nonprofit organizations.

Local Effect: None. Local community college expenditures may increase minimally due to postage for notifications; however, the amount is assumed to be minimal and absorbable. Alternatively local community colleges may choose to notify the State or nonprofit organizations using email at no additional cost. Students may need to provide institutions with contact information for nonprofit organizations.

Small Business Effect: None.

Analysis

Current Law/Background: Often when a student who is receiving financial aid through an institution of higher education receives a scholarship from another entity, the amount of financial aid the student receives from the institution is reduced. This practice is known as scholarship displacement. In some cases, depending on the type of aid being offered, the displacement is required by U.S. Department of Education regulations to avoid what the department considers "over awarding" based on an individual's financial need as calculated by the free application for federal student aid (better known as FAFSA). The federal regulations regarding over awarding are 34 CFR 673.5.

According to the U.S. Department of Education, an over award exists whenever:

- a school awards aid either to a student who is ineligible for a specific program or to a student who is ineligible for any federal student aid program assistance;
- a student's award in an individual program exceeds the regulatory maximum, *e.g.*, the annual or aggregate loan limits, the annual limit on Federal Supplementary Educational Opportunity Grant awards, or a Pell Grant award based on the wrong payment schedule/enrollment status;
- a student's aid package exceeds his or her need (including when the student's Expected Family Contribution (EFC) is revised upward after initial packaging);
- a student's award exceeds his or her cost of attendance; or
- a student is receiving a Pell Grant or Iraq and Afghanistan Service Grant at multiple schools for the same period.

In general, unless a school is liable, a student is liable for any overpayment made to him or her.

There are exceptions to when an institution must recalculate financial aid, such as if a student's Pell Grant award exceeds the cost of attendance by $300 or less.

An institution that regularly over awards students and does not remedy the situation as required by the U.S. Department of Education may lose access to federal financial aid funds related to Title IV.

The U.S. Department of Education grants institutions latitude in deciding how to remedy an over award situation. According to a survey conducted by the National Scholarship Providers Association, 80% of the institutions surveyed reduce the loans and work requirements in a student's financial aid package, while 20% reduce their own institutional grants or scholarships.

Award displacement can also happen when there is not an over award under U.S. Department of Education regulations. Some institutions have policies that leave all students with unmet need, for example, requiring every student to have a "minimum student contribution expectation" – regardless of the amount of financial aid, EFC, or income. Many of these institutions do not allow private scholarships to satisfy the student contribution expectation even though the student is not over awarded. Typically the "minimum student contribution expectation" is between $1,500 and $3,500, according to a 2013 report by the National Scholarship Providers Association. In such cases, institutions reduce total financial aid until the student has an unmet need that matches their minimum student contribution.

Institutions that do so usually have a minimum student contribution for one of the following reasons:

- a way of rationing limited institutional financial aid funds;
- an assumption that all students are capable of contributing something to their education;
- a method for a for-profit institution to comply with the 90/10 rule, which limits the percentage of the institution's revenues that can come from Title IV federal student aid;
- a belief by the institution that a student contribution is necessary for the student to appreciate the education; or
- a belief by the institution that a student contribution improves academic performance.

Institutions are not required to inform financial aid providers when they decrease a student's institutional aid due to award displacement.

According to the National Collegiate Athletic Association Manual Bylaw 15, "A student-athlete shall not be eligible to participate in intercollegiate athletics if he or she receives financial aid that exceeds the value of the cost of attendance as defined in Bylaw 15.02.2. A student-athlete may receive institutional financial aid based on athletics ability (per Bylaw 15.02.4.2) and any other financial aid up to the value of his or her cost of attendance."

During the 2013-2014 academic year, 225,807 undergraduate students attending an institution of postsecondary education in Maryland received financial aid. Since 593,331 financial aid awards were made during that period, many students received more than one type of financial aid. These numbers include awards made at private career schools, which are not covered by the bill.

The number of financial aid awards made by institutions is shown in **Exhibit 1;** the final column shows the maximum number of notifications each type of institution may need to make. In total, institutions made 103,722 awards. However, it is anticipated that only a small percentage of institutional financial aid will be reduced due to a student receiving additional financial aid from the State or a nonprofit organization after the initial award letter.

Exhibit 1
Undergraduate Institutional Aid by Type of Institution and Type of Aid
2013-2014 Academic Year

	Grant	Loan	Athletic Scholarship	Other Scholarship	Work Study	Total Institutional Aid Numbers (Duplicated)
USM	22,704	-	1,482	20,749	902	45,837
MSU	1,375	-	306	955	133	2,769
SMCM	627	-	-	606	-	1,233
BCCC	613	-	54	323	-	990
Community Colleges	5,215	-	638	9,471	387	15,711
Private Four-year	19,312	515	757	15,831	767	37,182

USM=University System of Maryland
MSU=Morgan State University
SMCM=St. Mary's College of Maryland
BCCC=Baltimore City Community College

Source: Maryland Higher Education Commission; Maryland Student Financial Aid Support 2013-2014.

USM advises that it does not maintain records of outside donors. It simply confirms that the student is meeting the criteria for distribution of the award, and the award is applied directly to the student's billing account.

State Fiscal Effect: Expenditures by USM institutions, MSU, SMCM, and BCCC may increase minimally due to postage for notification; however, the amount is assumed to be minimal and absorbable. Alternatively public four-year institutions and BCCC may choose to notify the State or nonprofit organizations using email at no additional cost.

USM advises that it needs three additional full-time financial aid counselors. The Department of Legislative Services advises that the institutions can simply require students to provide institutions with contact information for nonprofit organizations that provide them with financial aid.

Additional Comments: Private four-year institutions of higher education that reduce the amount of *institutional* aid awarded to a student because the student received additional financial aid from the State or a nonprofit organization must notify the provider of financial aid that the student's award was reduced within 30 days of the reduction. Any expenditures related to notification are anticipated to be minimal and absorbable. Students may need to provide institutions with contact information for nonprofit organizations.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): National Scholarship Providers Association, U.S. Department of Education, National Collegiate Athletic Association, Baltimore City Community College, University System of Maryland, Morgan State University, Maryland Higher Education Commission, Department of Legislative Services

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