

Department of Legislative Services
 Maryland General Assembly
 2016 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 834 (Delegates Rosenberg and Lierman)
 Ways and Means

Higher Education - Last Dollar Scholarship - Established

This bill establishes the Last Dollar Scholarship for specified students to be applied only to the cost of tuition, fees, and books at any public in-state institution of higher education after all other available sources of federal and State financial aid, including institutional aid, have been applied. Specifically, to be eligible an individual must be (1) a graduate of a public high school located in Maryland; (2) eligible for the federal Pell Grant; and (3) a child of parents who have not earned a degree from an institution of higher education.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: General fund expenditures increase by \$50,000 in FY 2017 for one-time contractual costs associated with adding an additional scholarship to the Maryland Higher Education Commission (MHEC) scholarship system and by an estimated \$19,400 for MHEC to hire a half-time administrative specialist to administer the program. Beginning in FY 2018, general fund expenditures also increase by at least \$1.0 million annually to provide scholarships. Future year expenditures for administrative costs reflect annualization, inflation, and elimination of one-time costs in FY 2018. **This bill establishes a mandated appropriation beginning in FY 2018.**

(in dollars)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	69,400	1,030,300	1,031,500	1,032,800	1,034,200
Net Effect	(\$69,400)	(\$1,030,300)	(\$1,031,500)	(\$1,032,800)	(\$1,034,200)

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

Local Effect: Local community college revenues and expenditures may increase minimally due to the scholarship, to the extent students would not have enrolled without the scholarship.

Small Business Effect: None.

Analysis

Bill Summary: The scholarship may not be more than \$3,000 per academic year. A scholarship may be renewed for up to four years if the student remains in good academic standing, remains eligible for the federal Pell Grant, and participated in community service in the prior year.

Current Law: The State provides student financial assistance through 20 statutory grant and scholarship programs. The majority of State funding is provided based on students' financial need.

Delegate Howard P. Rawlings Education Excellence Award Program

The Delegate Howard P. Rawlings Educational Excellence Award (EEA) program consists of two types of awards: (1) Guaranteed Access (GA) grants that are awarded to the neediest students to ensure that 100% of educational costs are paid; and (2) Educational Assistance (EA) grants that are awarded to low- and moderate-income students to assist in paying educational costs.

The GA grant is a need- and merit-based scholarship intended to meet 100% of financial need for full-time undergraduates from low-income households. Qualified applicants must have a cumulative high school grade point average of at least 2.5 on a 4.0 scale. The commission extended the income limits for renewals to 150% of the federal poverty level to prevent a student who may work in the summertime from exceeding the original 130% income cap.

The EA grant is a need-based scholarship intended to meet 40% of financial need at four year institutions and 60% at community colleges for full-time undergraduates from low- to moderate-income families. The maximum award amount authorized by statute is \$3,000. The current maximum amount awarded is \$3,000.

An EEA award may be used at a degree-granting institution of higher education, an eligible institution with an associate's degree program that provides transfer credit for an accredited baccalaureate program, or a hospital diploma school for training registered nurses if the curriculum is approved by MHEC.

The award may be used for educational expenses as defined by MHEC, including tuition and fees and room and board.

An EEA award may be used at a school in another state if (1) there is a specified reciprocal agreement and (2) the school meets the same requirements that an in-state school must meet. The Office of Student Financial Aid (OSFA) may not award more than 10% of the funds available for either the GA grant or the EA grant for use by students attending schools in another state.

Pell Grant

The Pell Grant, a federal program, is an extremely important source of need-based aid for many Maryland students. Because State need-based programs are applied to student need after the federal Pell Grant is considered, federal funding for the Pell Grant program has a significant impact on how far State need-based financial aid will stretch each year. This strategy is called “last dollar” aid. The maximum expected family contribution (EFC) of a student for federal Pell Grant eligibility increases periodically, with the maximum EFC for the 2015-2016 academic year (fiscal 2016) being \$5,775. The EFC is calculated using the Free Application for Federal Student Aid (better known as the FAFSA).

Background:

State Financial Aid Funding

The Governor’s fiscal 2017 proposed budget includes \$108.2 million for student financial assistance, including \$80.0 million for the EEA program. According to the *Managing for Results* document, in fiscal 2015, OSFA awarded 1,492 GA grants, totaling \$18.2 million. There were 3,329 applicants for GA grants, and 294 awards were declined or canceled. In fiscal 2015, OSFA awarded 28,525 EA grants, totaling \$61.1 million. There were 131,695 applicants for EA grants, and 32,487 awards were declined or canceled. According to MHEC data, in fiscal 2015, 88% of GA recipients had an EFC of \$0 and students with EFCs of up to \$2,610 received EA grants. At the end of fiscal 2015, more than 20,000 students remained on the waiting list for the EA grant program.

Last Dollar Scholarships

The CollegeBound Foundation has a Last Dollar Grant for Baltimore City public high school graduates whose EFC and financial aid package total less than the cost to attend college. Students who are awarded a CollegeBound Foundation Last Dollar Grant are eligible to receive a grant of up to \$3,000 per year, renewable for up to five years of college. This award is gift money, which does not have to be repaid.

To be eligible for the 2016 grant, a student must meet the following criteria:

- be a 2016 graduate of a Baltimore City public high school;
- demonstrate financial need;
- be eligible to receive a Pell Grant;
- have a family income of \$75,000 or less;
- contribute at least 15% of college cost of attendance through ‘self-help’ (student loans and/or work study); and
- be accepted to and attend a four-year college/university.

In addition, if unmet need is greater than \$6,000, a student must provide documentation detailing how the gap will be financed.

Last Dollar Grants are a core component of the CollegeBound program. Since 1988, CollegeBound has awarded more than \$6 million in Last Dollar Grants to over 1,880 students. In many cases, Last Dollar Grants literally provide the last dollars a student needs to pay for college. Each grantee is eligible for up to five years of CollegeBound assistance.

State Expenditures: General fund expenditures increase by \$50,000 in fiscal 2017 for one-time contractual costs associated with adding an additional scholarship to the MHEC scholarship system. General fund expenditures also increase by an estimated \$19,359 in fiscal 2017 for MHEC to hire a half-time administrative specialist beginning in January 2017 to administer the program. Beginning in fiscal 2018, general fund expenditures for the Last Dollar Scholarship increase by at least \$1.0 million annually. The following information and assumptions were used in this estimate.

- MHEC advises that system development costs to add an additional scholarship to MHEC’s scholarship system (known as MD CAPS) is estimated to be \$50,000; thus, general fund expenditures increase by \$50,000 to in fiscal 2017 for one-time contractual costs associated with updating the system.
- The bill mandates that the Governor appropriate at least \$1.0 million to provide scholarships; thus, beginning in fiscal 2018, general fund expenditures for the scholarship increase by at least \$1.0 million. Although not specified, it is assumed that the mandate applies to the annual State budget.
- MHEC advises that an additional full-time administrative specialist is required to administer the scholarship program. MHEC advises that documenting that a student is eligible, particularly that the student’s parents have not earned a degree from an institution of higher education, will require verification from OSFA staff. MHEC

advises that, while the FAFSA has a standard question that asks whether a candidate's parents attended college, the question is not a requirement and the student can opt to respond or skip the question. There is no standard documentation that a student can submit to confirm that the parent did not attend college. Furthermore, MHEC anticipates that, due to the creation of a new scholarship program, there will be an increase in the number of phone calls, emails, and general correspondence regarding the scholarship from parents, students, and schools.

- The Department of Legislative Services advises that only a half-time administrative specialist is needed to meet the requirements of the bill. Due to the scholarship award cycle, it is assumed that the half-time administrative specialist will be hired in January 2017.

	<u>FY 2017</u>	<u>FY 2018</u>
Position	0.5	
Salary and Fringe Benefits	\$14,845	\$29,994
Scholarship system update	50,000	0
Mandated Scholarship Amount	0	1,000,000
Operating Expenses	<u>4,514</u>	<u>305</u>
Total State Expenditures	\$69,359	\$1,030,299

Future year expenditures reflect a half-time salary with annual increases and employee turnover as well as annual increases in ongoing operating expenses and \$1.0 million for the scholarship annually.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Higher Education Commission, Department of Budget and Management, CollegeBound Foundation, Department of Legislative Services

Fiscal Note History: First Reader - March 6, 2016
md/rhh

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