SB 676

Department of Legislative Services

Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 676 (Senator Kasemeyer, *et al.*)
Budget and Taxation Ways and Means and Appropriations

College Affordability Act of 2016

This bill establishes a matching State contribution for eligible college savings accounts; creates a refundable tax credit of up to $5,000 for undergraduate student loan debt; alters authorized uses of, and clarifies eligibility criteria for, specified student financial aid; and establishes conditions under which students with unpaid balances may continue to attend public institutions of higher education.

The bill takes effect July 1, 2016. Provisions related to tax credits apply beginning in tax year 2017. Most provisions related to student financial aid apply beginning in the 2018-2019 academic year.

Fiscal Summary

State Effect: General fund revenues decrease by $5.0 million annually beginning in FY 2018 due to the new tax credit, which may be partially offset by fewer subtraction modifications being taken; however, the amount cannot be reliably estimated and is not shown below. General fund expenditures for the Maryland Higher Education Commission (MHEC) to implement the bill increase beginning in FY 2017. General fund expenditures also increase beginning in FY 2018 for mandated State matching contributions. Nonbudgeted expenditures, and corresponding revenues, for the College Savings Plans of Maryland (CSPM) increase by at least $106,000 in FY 2017 and increase annually thereafter to administer the State matching contributions. **This bill establishes a mandated appropriation beginning in FY 2018.**

($ in millions)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
GF Revenue	$0	($5.0)	($5.0)	($5.0)	($5.0)
NonBud Rev.	$0.1	-	-	-	-
GF Expenditure	$0.5	$5.4	$7.3	$10.3	$10.3
NonBud Exp.	$0.1	-	-	-	-
Net Effect	($0.5)	($10.4)	($12.3)	($15.3)	($15.3)

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

Local Effect: Local government revenues increase by 3% of the total amount of foregone subtraction modifications beginning in FY 2018. The amount cannot be reliably estimated.

Small Business Effect: Minimal.

Analysis

Bill Summary: A matching State contribution must be made to accounts of eligible applicants established under the Maryland College Investment Plan after December 31, 2016, under specified conditions. The Governor must appropriate at least $5.0 million in fiscal 2018, $7.0 million in fiscal 2019, and $10.0 million annually thereafter for this purpose. The CSPM Board must also develop and implement specified marketing plans.

Beginning in tax year 2017, individuals who have incurred $20,000 or more in undergraduate student loan debt and have at least $5,000 in outstanding undergraduate debt qualify for a refundable credit of up to $5,000, subject to specified conditions. MHEC may approve up to $5.0 million worth of credits annually. Beginning July 1, 2016, MHEC and the Maryland State Department of Education (MSDE) must work collaboratively together to establish a digital application that provides information about State financial aid programs and other specified information.

A restriction that limits the amount of funds that an institution of higher education may use to provide grants under the Part-Time Grant Program to specified students is repealed. Beginning in a student's third academic year of full-time enrollment, if the student successfully completed at least 24 but less than 30 credits in the prior academic year, then specified financial aid awards are proportional to the number of credits (out of 30) the student successfully completed.

Public institutions of higher education are required to allow individuals with unpaid balances to register for courses under specified circumstances, and they are prohibited from referring delinquent accounts to the Central Collection Unit (CCU) unless specified conditions are met.

MHEC, in consultation with the Department of Legislative Services (DLS), must retain a consultant to conduct a specified financial aid study. MHEC and DLS must report the findings and recommendations to the Governor and specified committees of the General Assembly by October 1, 2017.

Matching State Contributions for College Savings Plan Contributions

Provisions establishing a State matching contribution of $250 per beneficiary are generally integrated into the existing structure of the Maryland College Investment Plan administered by the CSPM Board. For investment accounts established under the plan *after* December 31, 2016, a State contribution may be made to an investment account if:

- the qualified beneficiary of the investment account is a Maryland resident;
- the account holder submits an application to the board or its designee between January 1 and June 1 of each year; and
- the account holder has Maryland taxable income less than or equal to $112,500 for an individual or $175,000 for a married couple filing a joint return in the previous taxable year.

The State matching contribution is $250 per beneficiary. The minimum contribution necessary to receive a State matching contribution varies with Maryland taxable income, as shown in **Exhibit 1**. An account holder who has been approved by CSPM to receive a State matching contribution must make a contribution between July 1 and November 1 in order to qualify for the State contribution each year. The State matching contribution must be made by the end of the calendar year in which the account holder made the contribution.

Exhibit 1
Minimum Annual Contribution to Receive State Match, per Beneficiary
By Maryland Taxable Income

Filing Status		
Single	**Married Filing Jointly**	**Minimum Contribution**
Less than $50,000	Less than $75,000	$25
$50,000 to $87,499	$75,000 to $124,999	$100
$87,500 to $112,500	$125,000 to $175,000	$250

Source: Department of Legislative Services

An application may be made in person, online, or by mail; however, the CSPM Board may not charge a fee for the application. The board is required to establish a list of necessary documentation and establish other specified procedures.

The Governor must appropriate at least $5.0 million in fiscal 2018, $7.0 million in fiscal 2019, and $10.0 million annually thereafter for State matching contributions. If funding provided in a fiscal year is not sufficient to fully fund all State contributions, the board must provide contributions in the order in which applications are received and give priority to applications of account holders who did not receive a contribution in any prior year.

An investment account holder is not eligible for the existing subtraction modification for contributions to an investment account in any taxable year in which the account holder receives a State contribution. However, the State contribution is excluded from the account holder's taxable income for State income tax purposes.

Marketing Plans for CSPM

By September 1, 2016, the CSPM Board must develop and implement an outreach and marketing plan to provide *notification* to individuals about the availability of a State matching contribution.

The CSPM Board must also develop and implement a marketing plan to *increase participation* in the college savings plans, subject to specified conditions. The board must coordinate with the Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans and local school systems, respectively, to identify methods to increase participation in the college savings plans among (1) State employees that participate in other State tax savings programs and (2) families of students in local school systems with lower rates of participation in the college savings plans than the State population. By December 1, 2016, and every three years thereafter, the board must submit the marketing plan to the Governor and specified committees of the General Assembly.

By December 1, 2017, the CSPM Board must report to the General Assembly on whether the State matching contribution program increases the number of low-income individuals that establish an investment account and actions taken by CSPM to provide outreach and marketing to low-income individuals regarding the Maryland Prepaid College Trust and the Maryland College Investment Plan.

Tax Credit for Undergraduate Student Loan Debt

Beginning in tax year 2017, a "qualified taxpayer" may claim the Student Loan Debt Relief Tax Credit – a fully refundable credit of up to $5,000 – subject to specified conditions. MHEC may approve up to $5.0 million worth of credits annually.

"Qualified taxpayer" means an individual who has incurred at least $20,000 in undergraduate student loan debt and has at least $5,000 in outstanding undergraduate student loan debt when submitting an application to MHEC as required by the bill.

By September 15 of each year, an individual must submit an application to MHEC for the credit. The application must include an assurance that the individual will use any credit approved by MHEC for the repayment of the individual's undergraduate student loan debt as soon as practicable. MHEC must certify the amount of the credit, up to $5,000, by December 15 (within three months).

The total amount of the credit claimed must be recaptured if the individual does not use the credit for the repayment of the individual's undergraduate student loan debt within two years from the close of the taxable year for which the credit is claimed. The individual who claimed the credit must pay the total amount of the credit claimed as taxes payable to the State for the taxable year in which the event requiring recapture of the credit occurs.

MHEC must prioritize tax credit recipients and amounts based on qualified taxpayers who:

- have higher debt burden to income ratios;
- graduated from an institution of higher education located in the State;
- did not receive a tax credit in a prior year; or
- were eligible for in-state tuition.

By September 1, 2016, MHEC must establish and implement an outreach and marketing plan to make eligible taxpayers aware of the availability of the tax credit. MHEC must adopt regulations to carry out these provisions.

Alterations to Student Financial Aid

A restriction that limits the amount of funds an institution of higher education may use to provide grants under the Part-Time Grant Program to students who are enrolled in at least three but less than six semester hours each semester, or to students who are dually enrolled, is repealed effective July 1, 2016.

The following provisions apply beginning in the 2018-2019 academic year. Beginning in a student's third academic year of full-time enrollment, if the student successfully completed at least 24 but less than 30 credits in the prior academic year, then the amount of an Educational Assistance (EA) grant or a Guaranteed Access (GA) grant made to the student under the Delegate Howard P. Rawlings Educational Excellence Award (EEA) Program, is proportional to the number of credits out of 30 the student successfully completed. For example, a student who completed 24 credits in the prior academic year receives 80% (24/30) of the amount that would have been awarded if the student had completed 30 credits instead. "Academic year" is defined to include the fall, spring, and summer semesters as well as shorter semesters, *e.g.*, a winter "mini-mester."

The bill also clarifies the length of time a student is eligible to receive an EEA award (two or four years, depending on the program) and that a student may be eligible for an additional year if the student meets specified requirements, including extenuating circumstances.

Financial Aid Study

MHEC, in consultation with DLS, must retain a consultant to conduct an independent evaluation of the effectiveness of the operation of the Office of Student Financial Assistance (OSFA) in MHEC. The consultant must also make recommendations on how to implement the bill's provisions related to financial aid and how to overcome any impediments OSFA may encounter in implementing the bill. By October 1, 2017, MHEC and DLS must report the findings and recommendations to the Governor and specified committees of the General Assembly.

Financial Aid Digital "App"

Beginning July 1, 2016, MHEC and MSDE must work collaboratively to develop an "app" for use on digital devices (*e.g.*, smart phones and tablets) that provides:

- information about State financial aid programs;
- calendar notifications for dates and deadlines associated with applying for financial aid; and
- any other information MHEC and MSDE determine to be necessary or helpful to parents and students regarding financial aid in the State.

Registration for Courses and Central Collection Unit Referrals

A public institution of higher education must allow an individual with an unpaid balance of $250 or less on a student account to register for courses at the institution if the individual settles the balance on the student account by the end of the late registration period for the *next* semester. For a student with an unpaid balance of more than $250, the institution must allow the individual to register for courses at the institution if the individual enters into an installment payment plan before the end of the late registration period for the *current* semester. The installment plan must require the individual to make payments to settle the unpaid balance on the student account by the agreed-on date.

A public institution of higher education may not refer a delinquent student account or debt to CCU unless, in accordance with the above provisions, (1) the delinquent account or debt has not been settled by the end of the late registration period of the semester *after* the student account became delinquent or (2) the student has not entered into or made timely payments to satisfy an installment payment plan.

Current Law/Background:

College Savings Plans of Maryland

The CSPM Board currently operates two qualified tuition plans: the Maryland Prepaid College Trust and the Maryland College Investment Plan. At the end of fiscal 2015, the plans had a total of 188,900 accounts with assets totaling $5.2 billion, with the Maryland College Investment Plan comprising about 80% of all accounts and assets. Chapter 548 of 2008 authorized the board to establish a third plan, the Maryland Broker-Dealer College Investment Plan, but the board has yet to do so.

An account holder can claim a subtraction modification for the amount of advanced payments made during the tax year under a prepaid contract with the Maryland Prepaid College Trust. The maximum value of the subtraction modification is limited to $2,500 for each prepaid contract. Any unused amount of the subtraction modification can be carried forward to future tax years until the full amount of the excess is used.

An account holder can also claim a subtraction modification for the amount contributed to a Maryland College Investment Plan. For each account holder for all investment accounts maintained in the plan for a qualified beneficiary, the subtraction modification is capped at $2,500 per qualified beneficiary. This limitation is increased to $5,000 for married individuals who file jointly. Any unused amount of the subtraction modification may be carried forward for up to 10 tax years.

529 Tax Benefits – Maryland and Surrounding States

According to the National Conference of State Legislatures, most states that imposed an income tax in calendar 2014 provided a State tax benefit for 529 contributions. Twenty-seven states had a deduction with a limit on the maximum amount that can be deducted, four states had a deduction for the full amount of the eligible contribution in the year, and three states had an income tax credit. Only eight states, including Pennsylvania, allowed the tax benefit for contributions made to other state plans.

Of the surrounding states, West Virginia allows the full amount of contributions to be deducted and Pennsylvania, Virginia, and the District of Columbia allow a deduction for contributions up to a specified maximum amount. Delaware does not provide a state tax benefit.

In addition to tax benefits, in calendar 2014, 12 states matched contributions made to a 529 plan. Most of the states limit eligibility to lower-income families as well as limiting the amount of the match in a year and/or throughout the life of the account. Of the surrounding states, West Virginia provides a 100% match up to $500 annually with a lifetime maximum of $2,500. Applicants must meet family income guidelines based on the number of dependents, and the beneficiary must be age 12 or younger.

Exhibit 2 shows the number of resident tax returns that claimed the subtraction modification in tax year 2014 for either the prepaid or investment plans by federal adjusted gross income, the percentage of all returns that claimed the subtraction modification, and the average deduction claimed.

Exhibit 2
College Savings Plans Subtraction Modification
Tax Year 2014

		Claimed Either Benefit		
FAGI	**Total Tax Returns**	**Number**	**% of All Returns**	**Average Claim**
Less than $25,000	1,032,398	598	0.1%	$2,893
$25,001-$100,000	1,400,308	8,376	0.6%	2,780
$100,001-$200,000	500,515	26,124	5.2%	3,743
$200,001-$500,000	157,246	20,064	12.8%	5,636
Over $500,000	34,077	4,277	12.6%	8,053
Total	**3,124,544**	**59,439**	**1.9%**	**$4,499**

FAGI: federal adjusted gross income
Note: Tax returns (total and those claiming the subtraction modification) reflect resident tax returns only.
Source: Comptroller’s Office; Department of Legislative Services

In calendar 2015, Maryland residents established a total of 28,442 investment plan accounts and 1,877 prepaid accounts.

Nationally – Student Loans and Associated Debt

Many students finance higher education through loans from the federal government or private financial institutions, such as banks or credit unions. Federal loans made directly to the student have, compared to privately sourced loans, generous repayment terms. By default, new federal loans enter a 10-year loan repayment plan. If a student can demonstrate a partial financial hardship, using criteria set by the U.S. Department of Education (ED), the student is eligible to enroll in more generous loan repayment plans, with payments based on income and family size.

Federal loans constitute the majority of student loan debt. The Federal Reserve Bank of New York in the second quarter of 2015 reported the federal government had issued about $1.2 trillion in total outstanding student loans. It is important to note that total outstanding student loans includes all active student loans, including currently enrolled students who have deferred payment because they are in school at least half-time (six credits). On the other hand, this figure only accounts for the original loan amount and does not include any capitalized interest, which is not currently tracked by ED or any other agency.

Maryland – Student Loan Debt Continues to Grow

The most recent Maryland data reported for undergraduates at public and private, nonprofit four-year institutions by the Project on Student Debt (PSD), covering 2014 graduates, reports that 58% had student debt with an average debt (of those with loans) of $27,457. This is slightly below the national average of 61% of students with student debt and slightly above the national average of $27,022 for debt. Maryland ranks thirty-fourth in the country for the percent graduating with debt and twentieth for the per capita amount of debt. PSD's 2014 report enabled a look back at changes over the debt data. While PSD noted the steady participation of Maryland institutions in the survey, it summarized Maryland this way:

> The 10-year change for Maryland is not only large in scale but also highly robust. The average reported debt of Maryland's new graduates more than doubled in 10 years, rising a striking 118 percent from the Class of 2004 to the Class of 2014. That is more than twice the national growth rate for the same period, and more than four times the rate of inflation.

Part-Time Grant Program

In cooperation with the institutions of higher education in the State, MHEC must establish and administer a grant program for undergraduate part-time students. A part-time student is defined as a student who is enrolled in a degree-granting program at an eligible institution and taking at least 3 but no more than 11 semester hours of courses each semester, or is dually enrolled in a secondary school in the State and an institution of higher education. A recipient must be a resident of the State and have demonstrated a definite financial need according to criteria established by MHEC. Dually enrolled students may not be required to receive credit from a secondary school and an institution of higher education at the same time.

Funds for the program must be allocated by MHEC to each institution of higher education based upon the number of undergraduate part-time students with demonstrated financial need who are enrolled in degree-granting programs at the institution. An institution of higher education may use up to 10% of the part-time grant allocation to provide grants to students who are enrolled in at least three but less than six semester hours of courses each semester. In addition to the funds provided under the Dual Enrollment Grant Program, institutions may use up to 10% of the part-time grant allocation to provide grants to students who are dually enrolled.

The fiscal 2017 State budget includes $5.1 million for the Part-Time Grant Program.

Educational Excellence Awards

The EEA Program consists of two types of awards: (1) GA grants that are awarded to the neediest students to ensure that 100% of educational costs are paid; and (2) EA grants that are awarded to low- and moderate-income students to assist in paying educational costs.

The GA grant is a need-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.

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.

The fiscal 2017 State budget includes $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. MHEC advises that, at the end of fiscal 2015, more than 20,000 students remained on the waiting list for EA grants.

Encouraging Students to Complete "On Time"

At the request of the budget committees, MHEC's Financial Aid Advisory Council (FAAC) examined the definition of full-time enrollment for financial aid purposes. In its December 2014 *Joint Chairmen's Report*, FAAC recommended that the definition be changed from 12 credits per semester to 15 credits per semester, or 30 credits per year. Maryland law and ED currently define "full-time enrollment" as 12 credits per semester for financial aid purposes. Most four-year degree programs require a student to satisfactorily complete at least 120 credits to graduate and earn a bachelor's degree and, similarly, 60 credits are required for most associate's degrees at community colleges. A student enrolling in 12 credits per semester would need five years to complete the 120 credits required to graduate, whereas a student enrolling in 15 credits per semester would need four years. "On-time" graduation for most bachelor's degree programs is considered to be four years; likewise, on-time graduation for most associate's degree programs is two years.

The definition of 12 credits as "full-time" has been cited as a contributing factor to fewer students graduating in four years as compared to a couple decades ago. National research shows that students who take 15 or more credits per semester earn better grades, are more likely to stay enrolled in school, and are more likely to graduate. For example, according to the Lumina Foundation, Indiana changed its major need-based aid programs to complete at least 30 credits per year in 2012. Early results in Indiana are positive, with more aid-eligible, low-income students completing 30 hours per year than before the changes took place.

In addition to changing the definition of full-time enrollment, FAAC also recommended that students enrolled in 15 credits per semester should receive the maximum grant award amount, and students enrolled in 12 credits per semester should receive 80% of the maximum award. FAAC believes that this change is necessary because students often run out of eligibility for need-based grants before completing their degrees. Students who run out of eligibility before completing their degree program will have to pay for their educational expenses either with loans or out of pocket.

The bill encourages students to take 30 credits per year, but it allows them the flexibility to take less than 15 credits in the spring and fall semesters and the remaining credits in the summer semester and/or the winter mini-semester.

Central Collection Unit Referrals

University System of Maryland policy specifies that tuition and fees are due and payable in full on or before the due date stipulated on the billing, except under limited circumstances, including if payment is made according to an installment payment plan as provided in written procedures approved by the president of the institution of higher education. If timely payment is not received by the institution in conformance with procedures implemented pursuant to the policy, then appropriate administrative action must be initiated.

Generally, CCU is responsible for the collection of each delinquent account or other debt that is owed to the State or any of its officials or units. An official or unit of the State government must refer to CCU each debt for which CCU has collection responsibility, and the unit may not settle the debt. For these purposes, a community college or board of trustees for a community college is a unit of the State. CCU is authorized to charge an administrative fee of up to 20% of the outstanding principal and interest on the debt referred to it for collection. Debt payments are credited to the agency that refers the debt. The administrative fees are credited to the Central Collection Fund.

CCU regulations allow State agencies to deviate from prescribed standards for debt referral only if the deviation has been requested in writing from and approved by the Secretary of Budget and Management. The written request must specify the precise nature of the deviation or deviations, the types of account or accounts or claim or claims to be governed by the deviation or deviations, and the justification for the deviation from standards.

State Fiscal Effect:

Matching State Contributions for College Savings Plan Contributions

For college savings investment accounts (not prepaid accounts) established after December 31, 2016, a State matching contribution of $250 per beneficiary must be made to an investment account if specified residency, income, and application criteria are met and sufficient funding is available. The State matching contribution is made in the same calendar year as the contribution of the account holder.

Under these conditions, the earliest that an account eligible to receive a matching State contribution can be established is January 1, 2017. Contributions eligible for a matching contribution to the account can begin July 1, 2017, requiring a State matching contribution by the end of 2017. Therefore, general fund expenditures for State matching contributions increase significantly beginning in fiscal 2018, as discussed below.

This analysis assumes that the Governor provides the minimum required funding each year and that demand is more than sufficient for that level of funding. The Governor must appropriate at least $5.0 million in fiscal 2018, $7.0 million in fiscal 2019, and $10.0 million annually thereafter for State matching contributions. This analysis also assumes, as required by the bill, that if funding provided in a fiscal year is not sufficient to fully fund all State contributions, CSPM must provide contributions in the order in which applications are received and give priority to applications of account holders who did not receive a contribution in any prior year. Therefore, general fund expenditures increase by $5.0 million in fiscal 2018, $7.0 million in fiscal 2019, and $10.0 million annually beginning in fiscal 2020.

The bill's minimum required funding can provide matching grants for 20,000 beneficiaries in fiscal 2018, 28,000 in fiscal 2019, and 40,000 in fiscal 2020 and subsequent years. Assuming that some individuals that receive a matching grant would otherwise have taken the subtraction modification for the same tax year, future general fund revenue losses associated with subtraction modifications decrease beginning in fiscal 2018. The amount cannot be reliably estimated but may be significant.

Individuals with taxable incomes of more than $112,500 and married couples with taxable incomes of more than $175,000 are not eligible for the match, so they continue to take the subtraction modification. Individuals with incomes up to those amounts are eligible for either the match or the subtraction modification. Assuming a 5% State tax rate and a 3% local tax rate, the maximum value of the subtraction modification is $200 per individual or $400 per married couple, per beneficiary. The State matching contribution is $250 per beneficiary. Thus, depending on the number of beneficiaries and the marital status of the account holder, the subtraction modification or the State matching contribution will be more valuable.

CSPM is a nonbudgeted State entity and receives no operating or capital funds in the State budget. Instead, it is funded through fees assessed on the plans that it manages. CSPM is prohibited from assessing a fee for applications for matching State contributions under the bill but is not otherwise prohibited from assessing fees. CSPM advises that expenditures necessary to implement the bill are approximately $106,000 in fiscal 2017, which consists of program, technology, marketing, and minimal contractual staff expenses. CSPM is unable to provide an estimate of the ongoing costs to facilitate the matching contributions after fiscal 2017 but advises that overall costs should be minimal and recoverable through fees assessed on investment plans. Therefore, nonbudgeted revenues and expenditures increase as necessary to cover CSPM's annual costs to implement the bill.

Tax Credit for Undergraduate Student Loan Debt

As noted above, the most recent data reported for Maryland undergraduates at public and private, nonprofit four-year institutions by PSD, covering 2014 graduates, reports that 58% had student debt with an average debt (of those with loans) of $27,457. The data was based on 33,250 bachelor's degree recipients.

The bill allows individuals who have incurred $20,000 or more in undergraduate student loan debt and have at least $5,000 in outstanding undergraduate debt to qualify for a refundable credit of up to $5,000, subject to specified conditions. MHEC may approve up to $5.0 million worth of credits annually. Assuming the maximum credit of $5,000 per individual, MHEC may approve 1,000 credits annually. However, MHEC may approve lesser amounts, which increases the available number of credits. Regardless, given recent student loan debt levels, the credit is likely to be fully subscribed each year. The credit applies beginning in tax year 2017. Therefore, general fund revenues decrease by $5.0 million annually beginning in fiscal 2018 from credits taken for student loan debt under the bill.

MHEC requires additional staff to process and approve the tax credit applications each year. Therefore, general fund expenditures increase by $326,865 in fiscal 2018, which accounts for the delayed effective date of the tax credit provisions. This estimate reflects the cost of hiring four staff to certify tax credits and perform related tasks beginning July 1, 2017. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	4
Salaries and Fringe Benefits	$307,567
Other Operating Expenses	19,298
FY 2018 MHEC Staff Expenditures to Certify the Tax Credit	**$326,865**

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

MHEC is required to establish and implement an outreach and marketing plan to make eligible taxpayers aware of the availability of the tax credit by September 1, 2016. This analysis assumes MHEC can do so with existing resources.

General fund expenditures for the Comptroller may increase minimally in fiscal 2018 for programming expenses and may further increase beginning in fiscal 2020 for expenses related to the repayment requirement for individuals who do not apply the credit to their student loan debt within two years. The Comptroller advises that the method through which it will ensure compliance with the repayment provision is unclear.

Alteration of Student Financial Aid

The alterations to the Part-Time Grant Program and the EEA Program do not affect the revenues or expenditures of either program; however, distributions of aid may be reallocated under the bill. More students taking 30 credits each year (to receive maximum EEA awards under the bill) may increase the number of students completing a degree program and graduating on time from higher education institutions. As a result of this increased completion rate, institutions may enroll additional students using existing resources, due to the increased student "through-put." General fund expenditures increase by $40,000 in fiscal 2018 for MHEC programming expenses associated with the eligibility changes.

Financial Aid Digital "App"

Beginning July 1, 2016, MHEC and MSDE must develop an "app" for use on digital devices that provides specified information about financial aid programs and related information. MHEC advises that the cost to develop the application is approximately $250,000. It is assumed that costs are split equally between MHEC and MSDE. Therefore, general fund expenditures increase by $125,000 for MHEC and by $125,000 for MSDE in fiscal 2017 for contractual expenses to develop the application for use in the 2017-2018 academic year. General fund expenditures may increase minimally after fiscal 2017 for ongoing upkeep costs associated with the application.

Financial Aid Study

General fund expenditures increase by $250,000 in fiscal 2017 for MHEC to retain an independent consultant to conduct the required study and make recommendations. The General Assembly has restricted $250,000 in the fiscal 2017 State budget for this purpose, contingent on passage of this bill (and subject to the Governor releasing the funds for this purpose).

Registration for Courses and Central Collection Unit Referrals

Allowing a student to register for courses in the current semester if the student owes a minimal amount to the institution may increase higher education revenues if the student otherwise would not enroll under current law or current practice. Allowing students who have entered into payment plans to register for courses may likewise increase higher education revenues. Prohibiting a public institution of higher education from referring a delinquent student account or debt to CCU unless specified conditions are met may slow the rate of debt referral to CCU. Generally, delinquent debts must be referred to CCU within 90 days (*i.e.*, the next semester), subject to specified conditions. Under the bill, some debts may be referred slightly later than 90 days. The amount and timing of these effects cannot be reliably estimated; regardless, there should be a minimal impact on higher education finances.

Additional Information

Prior Introductions: None.

Cross File: HB 1014 (Delegate Jones, *et al.*) - Ways and Means and Appropriations.

Information Source(s): Maryland Higher Education Commission, College Savings Plans of Maryland, Department of Budget and Management, Maryland State Department of Education, Comptroller's Office, Project on Student Debt, Federal Reserve Bank of New York, National Conference of State Legislatures, Department of Legislative Services

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