Department of Legislative Services

Maryland General Assembly 2016 Session

FISCAL AND POLICY NOTE First Reader

House Bill 18
Appropriations

(Delegate Haynes)

Maryland Education Opportunity Act of 2016

This bill establishes a full *tuition waiver* for State residents who enroll at a community college as a candidate for a vocational certificate or an associate's degree within two years after graduating from a high school in the State or successfully completing a GED. The bill also establishes a 50% community college *tuition discount* for State residents who do not have a high school diploma or GED and have been actively seeking employment but have been unemployed for at least six months. Individuals receiving waivers or discounts must be counted in computing full-time equivalent student (FTES) enrollment for the Senator John A. Cade funding formula for community colleges. In addition, a community college is entitled to reimbursement from the State from the Education Trust Fund (ETF) for foregone tuition revenue resulting from the bill.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: To use gaming proceeds credited to ETF for the expanded uses described in the bill requires general fund expenditures to increase by an equal amount. General fund expenditures increase by *at least* \$64.5 million beginning in FY 2017 to reimburse community colleges for 100% of eligible tuition waivers, including Baltimore City Community College (BCCC). Additional general fund expenditures are likely beginning in FY 2017 and again in FY 2019 as discussed below. BCCC tuition revenues decrease beginning in FY 2017; however, any lost tuition revenue is reimbursed by the State. **This bill establishes a mandated appropriation beginning in FY 2018.**

(\$ in millions)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Higher Ed Rev.	(\$0.4)	(\$0.4)	(\$0.4)	(\$0.4)	(\$0.5)
GF Expenditure	\$64.5	\$66.4	\$68.4	\$70.5	\$74.5
Net Effect	(\$64.9)	(\$66.8)	(\$68.9)	(\$70.9)	(\$75.0)

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

Local Effect: Local community college tuition revenues decrease by *at least* \$64.1 million beginning in FY 2017 due to current students who are eligible for the tuition waiver; however, any lost tuition revenue is reimbursed by the State. As discussed below, additional tuition revenue impacts are likely.

Small Business Effect: None.

Analysis

Bill Summary: For the bill, "tuition" means the basic instructional charge for courses offered at a community college and includes any fees for registration, application, administration, or laboratory work.

An individual must continue to receive the tuition waiver or the tuition discount until the earlier of (1) two years after first enrolling as a candidate for a vocational certificate or an associate's degree at a community college in the State or (2) the date that the individual is awarded a vocational certificate or an associate's degree.

An individual who is eligible for a tuition waiver or discount under the bill must submit a timely application for any State or federal student financial aid, other than a student loan, for which the student may qualify. Any student financial aid, other than a student loan, received by an individual who receives a tuition waiver or discount under the bill must be applied *first* to pay the individual's tuition. The tuition waiver or the tuition discount must apply to the difference, if any, between the charge for tuition and the financial aid award, not including a student loan that the individual receives. On request, the community college must assist any individual required to submit an application for State or federal student financial aid under the bill.

Any funds used to reimburse a community college for foregone tuition revenue must be paid from ETF. The bill also expands the authorized use of video lottery and table game proceeds credited to ETF to provide funds to reimburse community colleges for foregone tuition revenue.

Current Law: Tuition policies at community colleges are set by the Code of Maryland Regulations and the boards of trustees for the colleges. There are three levels of tuition at community colleges: in-county, out-of-county, and out-of-state. However, as a State-operated college, BCCC only has two tuition levels: in-state and out-of-state. In general, there is a three-month residency requirement for community colleges.

Senator John A. Cade Funding Formula

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. In addition, a college is eligible for a hold harmless component if the total amount under the three components is less than the college's total Cade funding in the prior year.

According to regulations applicable to local community colleges that 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 HB 18/ Page 3

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.

Admissions Policies

According to MHEC regulations, an in-state institution's admissions policy must be related to the objectives and resources of the institution and clearly stated. An in-state institution that maintains an open-door policy must make adequate provision for placement testing, counseling, and compensatory services. There must be a demonstrable correlation between admissions policies and educational practices. Because the admissions policy affects all aspects of institutional planning, funding, and staffing, an institution has to carefully plan the admissions policy to determine whether it is serving the needs and interests of its students, or how it could be doing so more effectively. The admissions policy must be nondiscriminatory and comply with all State and federal laws with regard to nondiscrimination.

Individuals to Be Admitted

MHEC regulations specify that a student admitted to an in-state institution must be a graduate of a high school accredited either by its own state department of education or by a regional accrediting association recognized by the U.S. Department of Education or have received a high school equivalency certificate or a high school equivalency diploma.

However, an institution *may* admit to college level courses and programs individuals who present evidence, through testing or other means, of the ability to profit from the instruction. In making decisions about the potential of these individuals to complete a course or courses, or programs, the institution may consider previous formal education, equivalency of other learning by examination, and competencies gained through practical experience, maturity, or other appropriate criteria. In those instances when a student has been admitted under exceptions to existing institutional policies, the in-state institution must retain an explanation of those exceptions and a record of the student's academic success in collegiate credit-bearing courses.

Education Trust Fund

ETF is a nonlapsing, special fund to be used for continued funding of the Bridge to Excellence formulas and programs, including the Geographic Cost of Education Index (GCEI). The fund may also be used to support capital projects for public schools, community colleges, and public four-year institutions as well as to expand public early

childhood education programs in the State. A portion of the proceeds from video lottery terminals (VLTs) and table games is dedicated to ETF.

Background: In 2014, the Tennessee General Assembly passed legislation establishing a program, beginning with the class of 2015, offering two years of tuition-free education at 1 of the state's 13 community colleges or 27 technical schools. The program, known as Tennessee Promise, is a last-dollar scholarship, meaning it covers costs of tuition and mandatory fees not met by federal Pell scholarships, the Tennessee HOPE scholarship, or the Tennessee Student Assistance Award Program. To be eligible, a student must meet a number of requirements, including completing the federal Free Application for Federal Student Aid, enroll in a college full time for up to five consecutive semesters, maintain a 2.0 grade point average, and complete eight hours of community service per semester. To pay for the program, the state created an endowment of \$361.1 million using state lottery reserves; it was estimated to cost about \$34 million the first year.

The full impact of the Tennessee Promise is still unknown. About 58,000 students or 90% of Tennessee's high school graduating class applied for the program in the first year – exceeding expectations by thousands of students. Tennessee Promise estimates that between 16,000 and 18,000 students completed the requirements to enroll in the program during its first semester (fall 2015). An article in *The Atlantic* reported that, even with free tuition, some of the poorest students are still finding attending community college a challenge because they need to work 30 to 40 hours a week to afford books and meet basic living expenses, which can cost between \$5,000 to \$10,000 per year.

The Tennessee Promise program was based on a smaller program at Pellissippi State College, known as Knox Achieves. According to Knox Achieves' program data, matriculation rates at Pellissippi State College increased by 11.5% due to the program. The high matriculation rate is thought to be due, at least in part, to the associated mentoring program.

In 2015, President Obama proposed a similar program to make two years of community college tuition free. Under President Obama's plan, the offer of free tuition would extend to all students if they attend classes at least half time and maintain a grade point average of 2.5 or better. The federal government would cover up to 75% of the costs of the initiative, while states would pick up the remaining quarter. President Obama reiterated his support for such a program during his 2016 State of the Union address.

As shown in **Exhibit 1**, the average statewide in-county tuition and fees for Maryland's community colleges was \$4,094 in fall 2015. However, tuition and fees are only part of the costs associated with attending a community college. For example, students must obtain books and other educational materials in addition to room and board.

Exhibit 1
In-county Tuition and Fees at Community Colleges
Based on 30 Credit Hours per Year
Fall 2015

<u>College</u>	In-county
Allegany	\$3,835
Anne Arundel	3,920
Baltimore City	2,980
Baltimore County	4,252
Carroll	4,524
Cecil	3,390
Chesapeake	4,520
College of Southern Maryland	4,428
Frederick	4,165
Garrett	3,890
Hagerstown	3,930
Harford	4,176
Howard	4,623
Montgomery	4,728
Prince George's	4,550
Wor-Wic	3,600
Statewide	\$4,094

Source: Maryland Association of Community Colleges

For the 2015-2016 academic year, the maximum federal Pell grant for the most financially needy students is \$5,775, and the minimum is \$577. The Pell grant amount depends on the cost of attendance (including tuition and fees, room and board, books, etc.) at the institution and the expected family contribution, which results in a student's financial need. The State also provides financial assistance to students, totaling \$105.1 million in fiscal 2016 and \$105.2 million in the proposed fiscal 2017 budget. Most of the aid is distributed based on financial need through the Educational Excellence Awards program. Students receiving Pell grants are also eligible for State financial aid, such as the Guaranteed Access (GA) grant.

The GA grant is a component of the Delegate Howard P. Rawlings Educational Excellence Awards program that covers 100% of need when combined with a federal Pell grant for the State's lowest income students. The maximum award in fiscal 2014 was \$16,100, and the maximum award in fiscal 2015 was \$16,500. Students that meet all program criteria, HB 18/ Page 6

such as enrolling full time directly from high school and family income limits, are guaranteed funding. Students who do not qualify for the GA grant may be eligible to receive an Educational Access grant, which provides up to \$3,000 per year to students attending a Maryland higher education institution full time.

Education Trust Fund

ETF was established during the 2007 special session as part of the VLT legislation, to receive approximately half of the gross VLT proceeds, after payouts to bettors. Chapter 1 of the 2012 second special session made numerous changes to the State's gaming program including authorizing a sixth license in Prince George's County, table games at VLT facilities, and 24-hour per day gaming, which were approved by voters in November 2012. A portion of table game revenues is also distributed to ETF. The legislation also altered the distribution of VLT proceeds and broadened the authorized uses of ETF to encompass funding that expands public early childhood education programs in Maryland. The estimated ETF revenues for fiscal 2017 through 2021 are shown in **Exhibit 2**. The exhibit shows that the projected ETF revenues are less than the approximately \$3 billion in annual Bridge to Excellence foundation program expenditures.

Exhibit 2
Estimated Education Trust Fund Revenues
Fiscal 2017-2021
(\$ in Millions)

<u>ETF</u>	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
VLT	\$382.8	\$453.9	\$460.1	\$467.0	\$474.0
Table Games	76	79.7	80.7	81.9	83.1
Total ETF	\$458.8	\$533.6	\$540.8	\$548.9	\$557.1

Source: Board of Revenue Estimates, Department of Legislative Services

State Fiscal Effect: To use gaming proceeds credited to ETF for the expanded uses described in the bill requires general fund expenditures to increase by an equal amount. Currently, all proceeds credited to ETF are budgeted for the Bridge to Excellence foundation formula and programs, including GCEI. The Governor's proposed fiscal 2017 budget includes \$458.8 million in ETF revenues, all of which are directed toward the \$3.2 billion in Bridge to Excellence foundation formulas, including GCEI. The remaining \$2.7 billion in Bridge to Excellence formula funding is general funds (excluding retirement). Thus, using any gaming proceeds credited to ETF for tuition reimbursements necessitates an equal increase in general fund expenditures.

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The fiscal impact of the bill due to current community college students, current public four-year students, and other students is discussed below. This is followed by a discussion of the impact on BCCC revenues.

Current Community College Students

General fund expenditures increase by *at least* \$64.5 million in fiscal 2017, increasing to \$66.4 million in fiscal 2018 as a mandated appropriation due to *current* community college students who are eligible for the tuition waiver. The following information and assumptions were used in calculating this estimate.

- According to data collected by the Maryland Higher Education Commission, 24,000 students enroll in credit courses or programs within one year of graduating high school. The Maryland Association of Community Colleges reports that 45,000 students enroll within two years of graduating high school. For the purposes of this estimate, it is assumed that 24,000 FTES (approximately half of the eligible students) attending their local community college each year are seeking a degree or certificate and, thus, are eligible for the waiver.
- According to the Department of Labor, Licensing, and Regulation, approximately 5,000 students per year earn a GED. For the purposes of this estimate, it is assumed that 10% or 500 FTES per year enroll in a community college in the State or 1,000 FTES enroll within two years of earning their GED.
- Thus, 25,000 current students are eligible for the tuition waiver beginning in fiscal 2017 (one-half of them in their second year of eligibility because they are already students, and the other half in their first year of eligibility as new students). It is assumed that this number remains constant in the out years.
- Annual tuition at community colleges was \$4,094 in fall 2015 (fiscal 2016). For the purposes of this estimate, it is assumed that community college tuition increases 3% per year. Thus, it is assumed that the average full-time tuition at community colleges will be \$4,217 in fall 2016 (fiscal 2017) and \$4,344 in fall 2017 (fiscal 2018).
- In fiscal 2014, between 32% and 90% of students at community colleges received nonloan financial aid. For those students, the average nonloan student financial aid award ranged between \$2,784 and \$7,019 per student. At some community colleges this average nonloan student financial aid completely covers tuition; at others it does not. The bill requires any student financial aid, other than a student loan received

by an individual, to be applied *first* to pay the individual's tuition. Thus, for students that receive nonloan financial aid, the waiver only needs to cover the portion of tuition *not covered* by financial aid. In addition, for the purposes of this estimate, it is assumed that nonloan student financial aid increases by 3% per year. Thus, it is assumed that the average nonloan student financial aid at community colleges will be an average of \$4,199 in fall 2016 (fiscal 2017) and \$4,325 in fall 2017 (fiscal 2018).

- Due to the distribution of eligible students (and tuition and financial aid at the community colleges those students attend), community college revenues decrease by at least \$64.5 million in fiscal 2017, increasing to \$66.4 million in fiscal 2018 when it becomes a mandated appropriation, and escalating to \$74.5 million by fiscal 2021. Under the bill, all tuition revenue lost due to the bill is reimbursed with State funds; thus, State general fund expenditures increase by an equal amount.
- This estimate does not include one-time registration, application, or laboratory work fees, but it includes other mandatory fees.
- This estimate assumes that State expenditures for public four-year institutions of higher education are not affected by the bill, as it is assumed that total enrollment at the public four-year institutions remains constant.

Future year expenditures depend on the number of FTES eligible for the tuition waiver. It is assumed that at least the same number of students who were eligible in fiscal 2017 are eligible in each subsequent year.

Current Public Four-year Students

Exhibit 3), if 25% of the first-time full-time students currently attending a public four-year institution of higher education decide to instead attend a community college within two years of graduating from high school or receiving a GED, then general fund expenditures increase by another \$9.0 million in fiscal 2017, escalating to \$19.2 million in fiscal 2019, to reimburse community colleges for lost tuition, and by another \$10.4 million beginning in fiscal 2019 due to the increased State funding through the BCCC and Cade funding formulas.

Exhibit 3 Additional General Fund Expenditures If 25% of First-time Full-time Students Shift from Attending A Public Four-year Institution to a Community College (\$ in Thousands)

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Reimbursed CC Tuition Revenue	\$9,036	\$18,595	\$19,153	\$19,727	\$20,320
Cade Funding Formula			9,018	19,428	21,749
BCCC Funding Formula			1,372	2,896	3,078
Total GF Expenditures	\$9,036	\$18,595	\$29,542	\$42,051	\$45,147

GF = general fund

CC = community college

BCCC = Baltimore City Community College

Note: Numbers may not sum to total due to rounding.

Source: Department of Legislative Services

- In fall 2015, there were approximately 14,000 first-time full-time students at the public four-year institutions of higher education in the State. *For illustrative purposes*, it is assumed that 25% of these students (approximately 3,500 students) choose to attend a community college rather than a public four-year institution of higher education due to the tuition waiver at community colleges under the bill.
- Thus, approximately 3,500 additional students will attend community college in fiscal 2017. Since the tuition waiver is only valid for two years, it is assumed that all of these students will attend on a full-time basis. In addition, because the waiver is valid for two years, 7,000 students will be eligible in fiscal 2018. For the purposes of this estimate, it is assumed that this number remains constant in the out years.
- As explained above, some students receive nonloan student financial aid; thus, for the purposes of this illustrative example, it is assumed that the same proportion of students will receive nonloan student financial aid and that the average aid amounts will be the same. However, this may overestimate the number and amount of awards due to the population of students being different.
- Using the same tuition assumptions as discussed above, due to these additional students, community college tuition revenues decrease by an additional \$9.0 million

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in fiscal 2017, escalating to \$20.3 million in fiscal 2021. Since, under the bill, the foregone tuition must be reimbursed by the State, general fund expenditures increase by an equal amount as shown in Exhibit 3.

- In addition, since it is assumed that these students would not have attended a community college without the tuition waiver, community college funding through the Cade and BCCC funding formulas increases. Cade and BCCC formula funding is based on the actual FTES in the second prior fiscal year; thus community college formula funding increases beginning in fiscal 2019 due to the additional students enrolling in fiscal 2017.
- BCCC funding per FTES for fiscal 2019 is estimated to be \$7,536; thus, BCCC funding increases by another estimated \$1.4 million in fiscal 2019 (after hold harmless and rounding) due to the additional 182 FTES in fiscal 2017. Likewise, BCCC funding per FTES for fiscal 2020 is estimated to be \$7,956; thus, BCCC funding increases by an estimated \$2.9 million in fiscal 2020 due to the additional 364 FTES in fiscal 2018.
- Cade funding per FTES for fiscal 2019 is estimated to be \$2,718; thus, Cade funding increases by another estimated \$9.0 million in fiscal 2019 (after hold harmless and rounding as shown in Exhibit 3) due to the approximately 3,318 additional FTES in fiscal 2017. Likewise, Cade funding per FTES for fiscal 2020 is estimated to be \$2,928; thus, Cade funding increases by an estimated \$19.4 million in fiscal 2020 due to the additional 6,636 FTES in fiscal 2018.
- This estimate does not include one-time registration, application, or laboratory work fees, but it includes other mandatory fees.

Future year expenditures depend on the number of FTES eligible for the tuition waiver. It is assumed that at least the same number of students who were eligible for a waiver in fiscal 2017 are eligible in each subsequent year.

Tuition Discount for Unemployed Individuals

If an individual who does not have a high school diploma or GED presents evidence, through testing or other means, of the ability to profit from the instruction, a community college *may* admit the individual to college level courses and programs. However, a community college does not have to admit the individual. Any such individual who has been actively seeking employment for at least six months and enrolls as a candidate for a vocational certificate or an associate's degree must be granted a 50% tuition discount under the bill. Since there is no data on the number of individuals who may qualify for the tuition

discount, the fiscal impact cannot be reliably estimated. However, as explained above, any additional individuals who receive a tuition discount increase general fund expenditures due to the requirement that the State reimburse the community colleges for any difference in tuition revenue and due to the BCCC and Cade funding formulas due to extra FTES.

Other Students

In addition, to the extent the bill encourages students who would otherwise not attend college to enroll at a community college full time, general fund expenditures increase (and BCCC tuition revenues decrease) due to the increased number of FTES. However, these impacts cannot be reliably estimated. It is unknown how many students who currently do not attend college will choose to attend a community college due to the bill.

Baltimore City Community College Revenues

BCCC revenues decrease by *at least* \$411,246 in fiscal 2017, escalating to \$476,906 in fiscal 2021, due to current BCCC FTES who are eligible for the tuition waiver under the bill; however, any tuition revenue loss due to eligible waivers is reimbursed by the State. This is based on the assumption that each year approximately 1,300 students from Baltimore City attend BCCC within two years of graduating from high school, and the assumptions that tuition at BCCC will be \$3,069 in fall 2016 (fiscal 2017), \$3,161 in fall 2017 (fiscal 2018), and increase by 3% annually. However, 90% of BCCC students receive nonloan financial aid, and at BCCC the average amount of nonloan financial aid exceeds tuition.

Future year revenue losses will depend on the number of FTES eligible for a waiver each year. It is assumed that at least the same number as are eligible in fiscal 2017 are eligible in each subsequent year. Additional tuition revenue impacts are likely due to students choosing to attend BCCC rather than a four-year institution and students who were not attending college at all before the bill, but these impacts cannot be reliably estimated.

In addition, BCCC revenues increase due to additional FTES counting in the funding formula beginning in fiscal 2019 as shown in Exhibit 3.

Local Revenues: Local community college tuition revenues decrease by *at least* \$64.1 million in fiscal 2017, increasing to \$74.0 million in fiscal 2021, due to current students who are eligible for the tuition waiver; however, any lost tuition revenue is reimbursed by the State.

• Of the estimated 25,000 current FTES eligible for the waiver, it is assumed that 23,700 attend a local community college beginning in fiscal 2017. For purposes of this estimate, it is assumed this number is constant in the out years.

- As explained above, it is assumed that local community college tuition revenues decrease by at least \$64.1 million in fiscal 2017 escalating to \$74.0 million in fiscal 2021. However, under the bill all tuition revenue lost due to the bill is reimbursed with State funds.
- This estimate does not include one-time registration, application, or laboratory work fees, but it includes other mandatory fees.

Future year revenue losses at local community colleges (which will be reimbursed by the State) depend on the number of FTES who receive a waiver. It is assumed that at least the same number of students who were eligible for a waiver in fiscal 2017 are eligible in each subsequent year.

Additional tuition revenue impacts are likely. *For illustrative purposes only*, if 25% of the first-time full-time students currently attending a public four-year institution of higher education decide to instead attend a community college within two years of graduating from high school or receiving a GED, local community college reimbursed tuition revenues increase by another estimated \$9.0 million in fiscal 2017, escalating to \$20.3 million in fiscal 2021, due to increased FTES. In addition, as explained above, funding through the Cade funding formula increases by an additional \$9.0 million in fiscal 2019 and \$19.4 million in fiscal 2020.

Finally, reimbursed tuition revenues for local community colleges increase due to the increased number of FTES from students eligible for the tuition waiver or the 50% tuition discount who currently do not attend any college; however, these impacts cannot be reliably estimated.

Additional Information

Prior Introductions: HB 696 of 2015 and HB 1504 of 2014 each received a hearing in the House Appropriations Committee, but no further action was taken on either bill.

Cross File: None.

Information Source(s): Maryland Association of Community Colleges; Maryland Higher Education Commission; Baltimore City Community College; Department of Labor, Licensing, and Regulation; *The Atlantic*; tennessean.com; Department of Legislative Services

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