

Department of Legislative Services
 Maryland General Assembly
 2017 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 1608 (Delegate Otto, *et al.*)
 Rules and Executive Nominations

Somerset County - Community College - Eligibility of Students to Pay No Tuition or Fees

This bill allows any eligible student who resides in Somerset County to enroll full time at a community college in the State in the fall semester immediately after graduating from high school and pay no tuition or fees for up to three years or until completion of an associate’s degree, whichever comes first. To be eligible, an individual must (1) annually complete the Free Application for Federal Student Aid (FAFSA); (2) complete an application for an eligible institution; (3) maintain at least a 2.0 grade point average (GPA); (4) maintain full-time attendance during each fall and spring semester; and (5) have not been convicted of a felony. The Maryland Higher Education Commission (MHEC) must pay 100% of the in-county tuition and fees for eligible students.

The bill take effect July 1, 2017.

Fiscal Summary

State Effect: General fund expenditures increase by at least \$154,300 in FY 2018 to reimburse Wor-Wic College for 100% of eligible tuition waivers. Additional general fund expenditures (not shown below) are likely beginning in FY 2018 and again in FY 2020 as discussed below. **This bill establishes a mandated appropriation beginning in FY 2019.**

(in dollars)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	154,300	157,400	160,600	163,800	167,000
Net Effect	(\$154,300)	(\$157,400)	(\$160,600)	(\$163,800)	(\$167,000)

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

Local Effect: Overall, no net effect on Wor-Wic College revenues; State aid increases by *at least* \$154,300 beginning in FY 2018 to reimburse Wor-Wic College for lost tuition revenue due to current students who are eligible for the tuition waiver. However, as discussed below, additional State aid revenue is likely in the out-years.

Small Business Effect: None.

Analysis

Bill Summary: If a student fails to report a felony conviction when applying to an eligible institution, the student must repay any funds spent by MHEC and Somerset County on the student's behalf.

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, Baltimore City Community College 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 full-time equivalent student (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 MHEC.

Background:

Promise Programs

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 GPA, 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. Because community college is relatively affordable, and the Tennessee program is a "last dollar" program, meaning existing financial aid grants are applied first before the Promise award is received, the average Tennessee Promise award in the first year was only \$1,020. The total cost to the state was \$10.6 million in fiscal 2016, but this is expected to scale up to about \$36.0 million when fully implemented. To date, community college enrollment in Tennessee has increased about 10%. In January 2017, Tennessee's governor announced a plan to expand the program to all adults in the state.

In 2015, Oregon became the second state to enact legislation to provide free community college. Among other requirements, to be eligible, students must have at least a 2.5 GPA. Under the program, all eligible students will receive a minimum grant of \$1,000, even if their tuition and fees are covered by other financial aid. Any money remaining after tuition and fees can be used for transportation, books, and other expenses. A [report](#) on the first year of the program revealed that it reached approximately 1,000 more students than projected and fewer students are eligible for a Pell grant than projected, which has increased the cost of the program for the first year from a projected \$10.0 million to \$13.5 million. The cost of the program is projected to double in the second year. Enrollment of Oregon's high school graduates in the state's public universities has declined slightly (by less than one percentage point) in 2016.

In January 2017, New York's governor announced a plan called the Excelsior Scholarship, which ensures free tuition at New York's public two- and four-year institutions to students whose families make up to \$125,000 per year once the program is fully phased in in 2019. Nearly a million families in the state will qualify for the scholarship. According to *The New York Times*, which first reported the plan, initial cost estimates of the Excelsior Scholarship are anticipated at \$163.0 million a year when fully funded.

Three counties in Maryland already offer Promise-like programs (Allegany, Garrett, and Wicomico) and a fourth county, Somerset, is considering doing so. The program in Allegany County is unique in that it provides a scholarship to residents to attend the community college or Frostburg State University, the public four-year institution located in the county. Additionally, Chapter 647 of 2016 created a task force to study establishing a program in Prince George's County.

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 and \$10,000 per year.

Community Colleges and Financial Aid

Tuition and fees at Wor-Wic College were \$3,690 in fall 2016. 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.

For the 2016-2017 academic year, the maximum federal Pell grant for the most financially needy students is \$5,815, and the minimum is \$590. 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 \$103.0 million in fiscal 2016 and \$106.4 million in the proposed fiscal 2018 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 2015 was \$16,500, and the maximum award in fiscal 2016 was \$17,500. Students that meet all program criteria, 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.

State Expenditures:

Current Community College Students

General fund expenditures increase by *at least* \$154,316 in fiscal 2018, increasing to \$157,402 in fiscal 2019 as a mandated appropriation due to *current* community college students from Somerset County who are eligible for the tuition waiver. The following information and assumptions were used in calculating this estimate.

- For the purposes of this estimate, it is assumed that all eligible students enroll and attend Wor-Wic College. According to MHEC, during the 2014-2015 academic year all first-time full-time students from Somerset County who attended community college attended Wor-Wic College. To the extent that eligible students attend other community colleges, general fund expenditures will be greater or less depending on tuition and fees at the community colleges eligible students decide to attend.
- According to data collected by MHEC, an estimated 19 students from Somerset County enroll and attend Wor-Wic College on a full-time basis within the fall semester immediately after graduation from high school. An additional estimated 12 students enroll part time. For the purposes of this estimate, it is assumed that 75%, or 9 students, of the part-time students enroll full time due to the bill. Thus, an estimated 28 eligible students enroll and attend in the fall directly following high school graduation.
- It is assumed that second-year retention rates for Wor-Wic remain constant. It is also assumed that all students that currently transfer to a public four-year institution for their second year instead remain at the community college due to free tuition. Based on those assumptions, the second-year retention rate at Wor-Wic is estimated to be 47.1%. Thus, approximately 13 student return for a second year of free community college.
- Thus, approximately 41 current associate's degree students are eligible for the tuition waiver beginning in fiscal 2018 (13 of them in their second year of eligibility because they are already students, and 28 in their first year of eligibility as new students). It is assumed that this number remains constant in the out-years.
- The bill allows full-time students to receive a tuition waiver for up to three years. Full-time enrollment requires students to take 24 to 30 credits each academic year; thus, most students will receive an associate's degree after two years. To the extent that students do not successfully complete 30 credits each year or enroll in a degree

program that requires more than 60 credits, additional students may receive a tuition waiver for a third year of eligibility. The number of such students cannot be reliably estimated.

- Annual tuition and fees at Wor-Wic were \$3,690 in fall 2016 (fiscal 2017). For the purposes of this estimate, it is assumed that community college tuition increases 2% per year. Thus, it is assumed that the average full-time tuition at community colleges will be \$3,764 in fall 2017 (fiscal 2018) and \$3,839 in fall 2018 (fiscal 2019).
- Thus, general fund expenditures increase by at least \$154,316 in fiscal 2018, increasing to \$157,402 in fiscal 2019 when it becomes a mandated appropriation, and escalating to \$167,036 fiscal 2022.
- The bill requires recipients to file a FAFSA; thus, students may receive other financial aid. In fiscal 2015, 69% of students at Wor-Wic received nonloan financial aid (the State average is 48%). For those students, the average nonloan student financial aid award \$3,191 per student. It is assumed that financial aid up to the cost of attendance, as allowed by federal law, will be distributed to students to be used for living expenses. To the extent that this grant plus other financial aid is greater than the cost of attendance, it is assumed that financial aid will decrease to meet federal requirements. To the extent that the tuition waiver established by the bill is decreased due to an over award of financial aid, general fund expenditures are less.
- 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 students eligible for the tuition waiver. It is assumed that at least the same number of students who were eligible in fiscal 2018 are eligible in each subsequent year.

Current Public Four-year Students

Additional costs are likely. *For illustrative purposes only* (and as shown in **Exhibit 1**), if 20% of the first-time full-time students currently attending a public four-year institution of higher education from Somerset County decide to instead attend Wor-Wic College due to

the tuition waiver, then general fund expenditures increase by another \$45,166 in fiscal 2018, escalating to \$92,138 in fiscal 2019, for MHEC to pay 100% of the in-county tuition and fees for eligible students, and by another \$34,633 beginning in fiscal 2020 due to the increased State funding per FTES through the Cade funding formula. The additional State aid for reimbursed tuition revenue and formula funding would be *new* revenues due to additional FTES attending Wor-Wic College.

Exhibit 1
Additional General Fund Expenditures
If 20% of First-time Full-time Students from Somerset Shift from Attending
A Public Four-year Institution to Wor-Wic College

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
100% Tuition and Fees	\$45,166	\$92,138	\$93,981	\$95,860	\$97,777
Cade Funding Formula			34,633	77,956	86,915
Total GF Expenditures	\$45,166	\$92,138	\$128,614	\$173,816	\$184,692

GF: general fund

Note: For the purposes of this estimate, it is assumed that all additional eligible students attend Wor-Wic College. Under the bill, eligible students may attend any community college in the State. Numbers may not sum to total due to rounding.

Source: Department of Legislative Services

This estimate is based on the following assumptions:

- In fall 2016, there were approximately 58 first-time full-time students from Somerset County that attended the public four-year institutions of higher education in the State. *For illustrative purposes*, it is assumed that 20% of these students (approximately 12 students) choose to attend Wor-Wic College rather than a public four-year institution of higher education due to the tuition waiver.
- Thus, approximately 12 additional students will attend community college in fiscal 2018. For the purposes of this estimate, it is assumed that all of these students attend full time for two years (although the waiver is available for up to three years, as discussed above). In addition, because it is assumed that students will attend for two years, 24 students will be eligible in fiscal 2019. For the purposes of this estimate, it is assumed that this number remains constant in the out-years.

- Using the same tuition assumptions as discussed above, due to these additional students, general fund expenditures increase by \$45,166 in fiscal 2018, escalating to \$97,777 in fiscal 2022, as shown in Exhibit 1.
- 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 formula increases. Cade formula funding is based on the actual FTES in the second prior fiscal year; thus, community college formula funding increases beginning in fiscal 2020 due to the additional students enrolling in fiscal 2018.
- Cade funding per FTES for fiscal 2020 is estimated to be \$2,886; thus, Cade funding increases by another estimated \$34,633 in fiscal 2020 (after rounding as shown in Exhibit 1) due to the approximately 12 additional FTES in fiscal 2018. Likewise, Cade funding per FTES for fiscal 2021 is estimated to be \$3,248; thus, Cade funding increases by an estimated \$77,956 in fiscal 2021 due to the additional 24 FTES in fiscal 2019.
- As explained above, some students receive nonloan student financial aid. Thus, to the extent that the waiver established by the bill is decreased due to an over award, general fund expenditures are less.
- 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 tuition waiver in fiscal 2019 are eligible in each subsequent year.

Other Students

In addition, to the extent the bill encourages students from Somerset County who would otherwise not attend college to enroll at Wor-Wic College (or another community college), general fund expenditures increase due to the increased number of FTES. These impacts cannot be reliably estimated. Maryland's college-going rate has been fairly steady at approximately 65% for a number of years. It is unknown how many students who currently do not attend college will choose to attend a community college due to the bill. Approximately 160 students graduated from a public high school in Somerset County in the class of 2015. After accounting for approximately 100 students who were already attending Wor-Wic College or a public four-year institution, approximately 60 additional high school graduates may attend Wor-Wic College and receive a waiver for two years at a cost of about \$1.0 million annually.

Local Revenues: There is no net impact on local community college revenues due to current community college students receiving a tuition waiver, as discussed above. Any lost tuition revenue is reimbursed by the State; thus, State aid to replace lost tuition revenue increases by *at least* \$154,316 in fiscal 2018, increasing to \$167,036 in fiscal 2022, due to current students who are eligible for the tuition waiver.

Future year revenue impacts depend on the number of eligible students who receive a waiver. It is assumed that at least the same number of students who were eligible for a tuition waiver in fiscal 2018 are eligible in each subsequent year.

Additional *new* revenue impacts are likely. *For illustrative purposes only*, if 12 additional students, which is approximately 20% of students from Somerset County who currently attend public four-year institutions, attend Wor-Wic College instead, Wor-Wic College may receive *new* revenues of \$45,166 in fiscal 2018, escalating to \$97,777 in fiscal 2022, due to increased FTES. To the extent eligible students attend other community colleges, revenues at those community colleges increase. In addition, as explained above, State aid through the Cade funding formula increases by an additional \$34,633 in fiscal 2020 and \$86,915 in fiscal 2022.

Additional Information

Prior Introductions: None.

Cross File: SB 1131 (Senator Mathias) - Education, Health, and Environmental Affairs.

Information Source(s): Maryland Association of Community Colleges; Somerset County; Maryland Higher Education Commission; *The New York Times*; *The Atlantic*; tennessean.com; Department of Legislative Services

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