

Department of Legislative Services
 Maryland General Assembly
 2018 Session

FISCAL AND POLICY NOTE
 Enrolled - Revised

House Bill 16

(Delegate Turner, *et al.*)

Ways and Means

Education, Health, and Environmental Affairs
 and Budget and Taxation

Community Colleges - Near Completers and Maryland Community College
 Promise Scholarships

This bill establishes several initiatives intended to reduce the costs of attending community college and increase postsecondary completion rates in the State, including (1) beginning in the 2019-2020 academic year, a Maryland Community College Promise Scholarships Program for eligible applicants; (2) programs for students nearing the completion of a degree; and (3) specified tuition caps for community colleges in academic years 2019-2020 and 2020-2021. The Governor must include an annual appropriation of at least \$15.0 million in the State budget for promise scholarships beginning in fiscal 2020 and, for near completer programs, a total of \$425,000 in fiscal 2020 and a total of \$550,000 in each of fiscal 2021 through 2024. **The bill takes effect July 1, 2018; provisions related to tuition caps terminate June 30, 2021.**

Fiscal Summary

State Effect: General fund expenditures increase by \$60,000 in FY 2019, increasing to *at least* \$15.6 million beginning in FY 2020. Revenues are not materially affected. **This bill establishes mandated appropriations beginning in FY 2020.**

(in dollars)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	60,000	15,564,400	15,683,400	15,688,300	15,693,300
Net Effect	(\$60,000)	(\$15,564,400)	(\$15,683,400)	(\$15,688,300)	(\$15,693,300)

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

Local Effect: Beginning in FY 2020, local community college revenues and expenditures potentially increase due to increased enrollment. Capping local community college tuition

growth for two years has minimal effect on community college revenues, as explained below. Expenditures for local promise scholarship programs potentially decrease.

Small Business Effect: None.

Analysis

Bill Summary:

Maryland Community College Promise Program

The purpose of the program is to provide tuition assistance for students to attend a community college in the State. A student must apply annually to the Maryland Higher Education Commission (MHEC) to receive a promise scholarship.

An applicant is eligible for a scholarship if the applicant:

- is eligible for in-state tuition;
- enrolls as a candidate for a vocational certificate, a certificate, or an associate's degree at a community college in the State within two years after graduating from a high school or successfully completing a GED (diploma by examination) in the State;
- has earned an overall high school grade point average (GPA) of at least 2.3 on a 4.0 scale or its equivalent;
- has an annual adjusted gross income of not more than (1) \$100,000 if the applicant is single or resides in a single-parent household or (2) \$150,000 if the applicant is married or resides in a two-parent household;
- enrolls in at least 12 credits per semester at the community college; and
- timely submits a Free Application for Federal Student Aid (FAFSA) or any other application for any State or federal student financial aid, other than a student loan, for which the applicant may qualify or, if the applicant is ineligible to submit a FAFSA, qualifies for in-state tuition under the Dream Act, and timely submits an application for any State student financial aid, other than a student loan, for which the applicant may qualify.

An applicant who receives any other educational grants or scholarships that cover the applicant's full cost of attendance at the community college is ineligible to receive an award. An applicant who has earned a bachelor's degree or an associate's degree is likewise ineligible to receive an award.

The Office of Student Financial Assistance (OSFA) in MHEC must select eligible applicants and offer a scholarship award to each selected applicant to be used for tuition at a community college of the applicant's choice, including Baltimore City Community College (BCCC). Initial awards must be provided to recipients based on greatest demonstrated financial need. Priority for awards in subsequent years must be given to prior year recipients who remain eligible for the program.

Beginning in the 2019-2020 academic year, the annual scholarship award may not be more than \$5,000 per recipient, or actual tuition, whichever is less. As defined in the bill, "tuition" includes all mandatory fees. Any student financial aid, other than a student loan, received by the recipient must be credited to the recipient's tuition before the calculation of any award amount provided under the program. This is known as a "last dollar" scholarship.

An award may be made only if a recipient signs an agreement at the time of the initial award to (1) use an address in the State on the recipient's State income tax return and commence full-time employment in the State within one year after completion of the certificate (vocational or other) or associate's degree; (2) continue to use an address in the State on the recipient's State income tax return and maintain employment in the State for at least one year for each year that the scholarship was awarded; and (3) have the scholarship award converted into a student loan payable to the State if the recipient fails to fulfill the service obligation required by the first two requirements.

Each recipient may hold the award until the earlier of (1) three years after first enrolling as a candidate for a vocational certificate, a certificate, or an associate's degree at a community college in the State or (2) the date that the individual is awarded an associate's degree. OSFA may extend the duration of an award for an allowable interruption of study if the recipient provides to the office satisfactory evidence of extenuating circumstances that prevent the recipient from continuous enrollment.

Each recipient may hold the award only if the recipient:

- continues to be eligible for in-state tuition;
- continues to enroll in and complete at least 12 credits per semester or its equivalent as determined by OSFA;
- maintains a cumulative GPA of at least 2.5 on a 4.0 scale or its equivalent for the remainder of the award or, failing to do so, provides to the office satisfactory evidence of extenuating circumstances;
- makes satisfactory progress toward a vocational certificate, a certificate, or an associate's degree;

- continues to meet the income limitations for the award; and
- continues to timely submit a FAFSA application or an application for State student financial aid.

If the recipient does not perform the required service obligation, the scholarship award must be converted into a student loan. OSFA may waive or defer repayment of the student loan if the recipient provides satisfactory evidence of extenuating circumstances that prevent the recipient from fulfilling the service obligation.

MHEC has additional duties under the bill; specifically, MHEC must adopt regulations necessary to implement the promise scholarship, including the terms and conditions for repayment of any award amount that is converted to a loan. Finally, by December 1, 2020, and each December 1 thereafter, MHEC must report to the General Assembly on specified topics related to program implementation.

Near Completers Match and Grant Programs

MHEC must implement a statewide communication campaign for near completers, who are individuals who have completed some college credits but have not received a degree and are no longer enrolled. The Governor must include \$125,000 in the State budget in each year from fiscal 2020 through 2024 for the communication campaign. MHEC must also develop and implement a centralized web-based match program for near completers that facilitates the matching of a near completer with any institution of higher education at which the near completer would be able to complete the degree. MHEC must encourage each institution of higher education in the State to participate in the match program at no cost to the institution. For fiscal 2020 through 2024, the Governor must include \$50,000 in the State budget for the match program.

An institution that participates in the match program must provide MHEC with information regarding near completers who attended the institution, as requested by MHEC and in the format identified by MHEC. On receipt of this information, MHEC must (1) determine any matches between a near completer and institutions and (2) send information to the near completer regarding the matches, any incentives offered for near completers by the State or by the institutions, and any other financial aid available to the near completer.

Individuals must meet specified eligibility criteria to receive a near completer grant, including credit hours completed and a minimum GPA of 2.0. Grants are on a first-come, first-served basis. Maximum grant amounts are specified.

The Governor must include \$250,000 for fiscal 2020 and \$375,000 for fiscal 2021 through 2024 in the State budget for near completer grants. A near completer grant may be used only for tuition and may not be used for fees or other charges or expenses related to

attending an institution of higher education. All nonloan aid received by near completers must be credited to their tuition before the calculation of the grant amount provided.

By December 1, 2019, and every December 1 thereafter through 2025, MHEC must submit a report to the General Assembly on the details of the statewide communication campaign and the match program, including implementation of the campaign and match program and a detailed account of the expenditures under the grant program established in the bill.

Finally, the bill repeals the existing near completers program.

Community College Tuition Increase Cap

For academic years 2019-2020 and 2020-2021 (fiscal 2020 and 2021), a local community college in the State or BCCC may not increase the in-county tuition rate over the prior year by more than the higher of the increase in the three-year rolling average of the State's median family income or 4% over the prior year tuition rate.

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 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.

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.

Baltimore City Community College

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 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.

Near Completers Program

“Near completer” is defined as an individual who has completed some college credits but does not have a college degree and is no longer attending an institution of higher education. MHEC, in collaboration with institutions of higher education, must create a statewide communication campaign to identify near completers in the State and to encourage near completers to re-enroll in an institution of higher education to earn a degree.

Background: In addition to associate’s degree programs, community colleges offer courses related to vocational programs in such things as plumbing, heating, air conditioning, and electrical, as well as certificates in areas such as building maintenance, forklift operation, casino table games dealing, and child care. The courses in these programs are generally noncredit bearing. These noncredit course programs are often called workforce development sequences or certificate programs. Additionally, community colleges offer certificate programs for job skill enhancement that consist of a few credit courses in areas such as accounting, bookkeeping, and project management.

Certificate Programs

Most certificate programs (both credit and noncredit) take less than a year to complete, and the majority are designed to be completed in less than two years. According to a 2012 report by the Center on Education and the Workforce (CEW) as reported by the U.S. Bureau of Labor Statistics, people who have a certificate as their highest level of education earned, on average, 20% more than those whose highest education level is a high school diploma. However, to reap that benefit, individuals must work in the same field as their certificate. The CEW report says that individuals working in the same field as their certificate earn 37% more than workers with a high school diploma and almost as much as workers with an associate’s degree. Certificate holders who are not working in the same field as their certificate earn about the same amount as those whose highest level of schooling is a high school degree.

The financial reward of certificate programs also varies by program of study. Individuals who hold a certificate in computer information services and work in that field earned an average of \$70,400 based on the combined 2004 and 2008 Survey of Income and Program Participation data, while individuals with a certificate in food service and working in that field only earned an average of \$17,600.

Financial Aid

The State's largest financial aid program, the Delegate Howard P. Rawlings Educational Excellence Awards (EEA) Program, is available to students with financial need who are enrolled in community college full time in credit courses. Students may receive up to \$3,000 in awards. However, there is a waiting list for the EEA Program. Federal financial aid, like Pell grants, is generally *not* available to undocumented students or to students who take noncredit courses except in limited circumstances. Most State scholarships are limited to programs that lead to a degree, although a few (including the senatorial and delegate scholarships) may be used to earn a certificate from a private career school, and the new Workforce Development Sequence Scholarships (discussed below) can be used at community colleges. Without access to financial aid, even relatively inexpensive certificate programs can remain out of reach to low-income individuals.

Workforce Development Sequence Scholarships

Chapter 149 of 2017 established Workforce Development Sequence Scholarships for eligible students who are enrolled in a program at a community college composed of courses that are related to job preparation or an apprenticeship, licensure or certification, or job skills enhancement. The Governor must annually include an appropriation of \$1.0 million in the State budget to MHEC for the scholarships; the fiscal 2019 budget does so.

To be eligible for a scholarship, a student must be a Maryland resident or have graduated from a Maryland high school and be enrolled at a community college in the State in a Workforce Development Sequence. An eligible individual may apply to OSFA for a scholarship. An award may be used for tuition, mandatory fees, and other associated costs of attendance. The annual amount of a scholarship awarded to an eligible student may not exceed \$2,000.

Promise Programs

The Mayor of Baltimore City recently announced a promise scholarship program for students who graduate from Baltimore City Public Schools to attend BCCC tuition free as the Mayor's Scholars Program. Four counties in Maryland also have promise programs.

For more information on those programs in Maryland and similar programs nationwide, please see the **Appendix – Promise Programs**.

Community College Tuition and Fees

As shown in **Exhibit 1**, the average statewide in-county tuition and fees for Maryland’s community colleges was \$4,324 in fall 2017. 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 2017

<u>College</u>	<u>In-county</u>
Allegany	\$3,940
Anne Arundel	4,100
Baltimore City*	3,196
Baltimore County	4,606
Carroll	4,884
Cecil	3,660
Chesapeake	4,760
College of Southern Maryland	4,613
Frederick	4,385
Garrett	4,230
Hagerstown	3,990
Harford	4,553
Howard	4,848
Montgomery	4,974
Prince George’s	4,700
Wor-Wic	3,750
Statewide	\$4,324

*Baltimore City Community College has one rate for in-state students.

Source: Maryland Association of Community Colleges

Near Completers

According to the U.S. Census Bureau, approximately 19.4% of Marylanders have completed some college, but they do not have an associate’s or bachelor’s degree. Not all of those who have begun college will qualify as a near completer but many will. Many community college students transfer to a four-year institution prior to completing their associate’s degree. However, for various reasons, many of those students never complete their bachelor’s degree and are, thus, left without any degree for their effort. These students are then only able to present an accumulated number of college credits to a potential employer rather than being able to state on their resume that they have earned an associate’s degree, despite generally having acquired the credits and knowledge required for an associate’s degree. In addition, sometimes credits without a degree may be deemed obsolete when presented later in life, either to employers or when returning to school to obtain a bachelor’s degree.

In 2017, MHEC advised that, in fiscal 2016 under the current near completers program, staff from the 16 participating institutions identified a total of 8,140 near completers, successfully contacted 5,864 near completers, and re-enrolled 1,012 of them.

State Fiscal Effect: As shown in **Exhibit 2**, general fund expenditures increase by \$60,000 in fiscal 2019, increasing to \$15.6 million in fiscal 2020 primarily due to mandated appropriations to implement the bill. In addition, general fund expenditures may increase further beginning in fiscal 2022 for community college funding formulas, as discussed below. Some mandated funding ends after fiscal 2024.

Exhibit 2
Total Estimated General Fund Expenditures to Implement the Bill
Fiscal 2019-2023
(\$ in Thousands)

	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
New Positions		2			
Communication Campaign*	-	\$125	\$125	\$125	\$125
Near Completers Match Program*	-	50	50	50	50
Near Completers Grants*	-	250	375	375	375
Promise Program	-	15,000	15,000	15,000	15,000
Programming/Administrative Costs	\$60	139	133	138	143
Total Expenditures	\$60	\$15,564	\$15,683	\$15,688	\$15,693

Notes: Does not reflect likely additional general fund impacts on community college funding formulas from new students. *Mandated funding ends after fiscal 2024.

Source: Department of Legislative Services

The assumptions and information discussed below were used in this estimate of expenditures under the bill.

Maryland Higher Education Commission

General fund expenditures increase by \$60,000 in fiscal 2019 for one-time programming costs to program the Maryland College Aid Processing System (MDCAPS) scholarship system for the promise grants. Beginning in fiscal 2020, the estimate reflects the cost of hiring one full-time staff specialist and one full-time program specialist to implement the bill. The full-time staff specialist will implement the near completers programs, including overseeing the development of the near completers web-based match program and outreach to near completers. This position may not be necessary after fiscal 2024 when funding for near completers programs is no longer mandated. The full-time program specialist will implement the promise grant and assist with reporting requirements.

	<u>FY 2019</u>	<u>FY 2020</u>
Positions	0	2.0
Salaries and Fringe Benefits	\$0	\$128,380
Programming for MDCAPS	60,000	0
One-time Start-up and Other Operating Expenses	<u>0</u>	<u>11,030</u>
Total General Fund Administrative Expenditures	\$60,000	\$139,410

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

Promise Scholarships

The bill mandates that the Governor include an annual appropriation of at least \$15.0 million for MHEC to disburse Maryland Community College Promise Scholarships; thus, general fund expenditures increase by at least \$15.0 million beginning in fiscal 2020.

Baltimore City Community College

The bill is assumed to have negligible impact on the revenues and expenditures of BCCC due to the existing Mayor’s Scholars Program, meaning that students who are motivated to enroll in community college by a promise program would already have decided to enroll as a result of the Mayor’s program. However, if the Mayor’s Scholars Program is discontinued, then State expenditures for the BCCC formula and BCCC revenues and expenditures increase, potentially significantly.

Due to the BCCC funding formula, general fund expenditures *potentially* increase for each FTES who attends BCCC due to the promise scholarship established by the bill.

For illustrative purposes only, for each FTES who attends BCCC due to the bill in the 2019-2020 academic year (fiscal 2020), general fund expenditures increase by an estimated \$8,952 in fiscal 2022.

In addition, limiting the increase in tuition at BCCC for academic years 2019-2020 and 2020-2021 (fiscal 2020 and 2021) to the greater of the increase in the three-year rolling median family income or 4% over the prior year tuition rate is not anticipated to significantly decrease BCCC tuition revenues because community colleges are generally price sensitive and have limited the increases in tuition during periods when salaries stagnate. However, anomalous periods do occur. BCCC tuition increased 7% from fall 2015 to fall 2017. The increase in the three-year rolling median family income was 2.1% for the period between 2014 through 2016. Thus, BCCC is limited to increasing tuition by 4% for fall 2019 and fall 2020 (fiscal 2020 and 2021).

Senator John A. Cade Funding Formula

Due to the Senator John A. Cade Funding Formula for community colleges, general fund expenditures increase for each FTES who attends a local community college due to the promise scholarship established by the bill. This impact cannot be reliably estimated. *For illustrative purposes*, for each FTES who attends a local community college due to the bill in the 2019-2020 academic year (fiscal 2020), general fund expenditures increase by an estimated \$3,635 in fiscal 2022.

Student Loan Revenues

Scholarship recipients who fail to fulfill the service obligation required by the bill have their scholarships converted to student loans. Thus, to the extent that recipients fail to fulfill these obligations, State revenues increase. However, since it is assumed for the purposes of this estimate that this will happen infrequently, revenues are not materially affected.

Near Completers Programs

General fund expenditures increase by an estimated \$425,000 in fiscal 2020 increasing to \$550,000 in fiscal 2021 through 2024 due to the mandated appropriations in the bill for the statewide communication campaign, the match program, and grants, as shown in Exhibit 2. MHEC staffing for the programs is accounted for in the positions above.

Local Fiscal Effect: The impact of the bill on local community colleges is described below. The most significant impact will be due to new students enrolling in community colleges; however, as explained below, this impact cannot be reliably estimated.

Maryland Community College Promise Grant

There is no impact on local community college revenues and expenditures due to promise grants going to current community college students, as discussed above. However, to the extent *new* students attend community college, tuition revenues and expenditures increase as described above due to tuition and revenues from the Cade funding formula.

To the extent that students receive promise scholarships under this bill rather than existing local promise programs, expenditures for local promise scholarship programs potentially decrease – including the Mayor’s Scholars Program, which is funded by the Baltimore City government, and existing programs in Allegany, Garrett, Somerset, and Wicomico counties. However, this impact cannot be reliably estimated.

Capping Community College Tuition Growth

Limiting the increase in tuition at local community colleges for academic years 2019-2020 and 2020-2021 (fiscal 2020 and 2021) to the greater of the increase in the three-year rolling median family income or 4% over the prior year tuition rate is not anticipated to significantly decrease local community college tuition revenues because community colleges are generally price sensitive and have limited the increases in tuition during periods when salaries stagnate. *For informational purposes*, the increase in the three-year rolling median family income was 2.1% for the period between 2014 through 2016.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Higher Education Commission; Baltimore City Community College; *The New York Times*; *The Atlantic*; www.tennessean.com; *Baltimore Business Journal*; Department of Legislative Services

Fiscal Note History:
mm/rhh

First Reader - January 24, 2018
Third Reader - April 9, 2018
Revised - Amendment(s) - April 9, 2018
Enrolled - May 2, 2018
Revised - Amendment(s) - May 2, 2018
Revised - Budget Information - May 2, 2018
Revised - Correction - May 2, 2018

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Appendix – 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 grade point average (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. In the first couple years, community college enrollment in Tennessee 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 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.

Five jurisdictions in Maryland already offer Promise-like programs (Baltimore City and Allegany, Garrett, Somerset, and Wicomico counties). 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. In fall 2017, the Mayor of Baltimore City announced a promise scholarship program for students who graduate from Baltimore City Public Schools to attend Baltimore City Community College (BCCC) tuition free as the Mayor's Scholars Program. There is also a two-year pilot program for Mayor's Scholars Program recipients who graduate from BCCC; they will be eligible for four semesters of tuition waivers to attend Coppin State University. 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.