

R62I0010
Scholarship Programs
Maryland Higher Education Commission

Operating Budget Data

(\$ in Thousands)

	<u>FY 12</u> <u>Actual</u>	<u>FY 13</u> <u>Working</u>	<u>FY 14</u> <u>Allowance</u>	<u>FY 13-14</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$101,148	\$85,927	\$99,480	\$13,553	15.8%
Adjusted General Fund	\$101,148	\$85,927	\$99,480	\$13,553	15.8%
Special Fund	1,193	16,723	5,390	-11,333	-67.8%
Adjusted Special Fund	\$1,193	\$16,723	\$5,390	-\$11,333	-67.8%
Reimbursable Fund	235	250	250	0	
Adjusted Reimbursable Fund	\$235	\$250	\$250	\$0	0.0%
Adjusted Grand Total	\$102,576	\$102,900	\$105,121	\$2,221	2.2%

- Overall, the budget increases \$2.2 million, or 2.2%.
- The large decrease of \$11.3 million in special funds is due mostly to the replacement of fiscal 2013 Budget Restoration Funds, created by Chapter 1 of the First Special Session of 2012, with general funds in the Delegate and Senatorial Scholarships programs.
- Three special fund deficiencies are proposed in the 2014 allowance from unexpended funds appropriated in prior years:
 - \$6,500,000 – awarding additional Educational Excellence Award scholarships;
 - \$100,000 – awarding all eligible recipients for Edward T. Conroy Memorial scholarships; and
 - \$150,000 – awarding all eligible recipients for the Veterans of the Afghanistan and Iraq Conflicts scholarships.

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

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Analysis in Brief

Major Trends

Percentage of Neediest Students with Unmet Needs Grows: Despite the percentage of students in the lowest 40% of median family incomes with unmet need declining in fiscal 2009, new fiscal 2010 data show an increase of 2 percentage points. The Maryland Higher Education Commission (MHEC) expects the percentage to decline in out-years, despite no increase in the federal Pell grant and growing student financial need.

Number of Guaranteed Access Grant Recipients Continues to Increase: The number of students receiving Guaranteed Access (GA) Grants increased 21.6% between fiscal 2008 and 2011, although growth is expected to slow in out-years. MHEC attributes this increase in GA recipients to additional exposure to higher education among students and to additional staff efforts to encourage students to finish incomplete applications.

Issues

Trends in Aid Distribution: Data collected by MHEC on recipients of State financial aid indicates that while most aid based on need is awarded to students with the lowest Expected Family Contribution (EFC) levels, State career-based financial aid and aid to students from unique populations are directed to students across all EFC levels. Also, fiscal 2012 was the last year in which new merit-based awards were issued.

MHEC Data on Percent of Need Met by State Aid: Data from MHEC's Financial Aid Information System shows that many financially needy students who qualify for federal Pell grants come from middle-income families. Additionally, the percent of need met by State aid varies greatly by higher education segment.

Changes to Loan Assistance Repayment Programs: MHEC's loan assistance repayment programs have been substantially altered by actions from the 2012 session to focus funding on certain physicians and more teachers, although MHEC has yet to award any funding to eligible teachers.

Recommended Actions

1. Concur with Governor's allowance.

R62I0010
Scholarship Programs
Maryland Higher Education Commission

Operating Budget Analysis

Program Description

The Office of Student Financial Assistance, within the Maryland Higher Education Commission (MHEC), is responsible for the administration of State financial assistance programs. These programs are designed to improve access to higher education for needy students; encourage students to major in workforce shortage areas; and encourage Maryland's brightest students to attend college within the State. Maryland students use State financial assistance at community colleges, independent institutions, private career schools, and the State's public four-year campuses.

As shown in **Exhibit 1**, financial aid comes in the form of grants, work study, student loans, parent loans, and scholarships from federal, State, private, and institutional sources. Grants and scholarships are aid that students do not have to pay back. Grants are usually given because a student has financial need, while scholarships are usually given to recognize the student's academic achievement, athletic ability, or other talent. Loans must be repaid, usually with interest.

This analysis includes MHEC Scholarship Programs that provide:

- funds directly to institutions of higher education to cover qualified college expenses;
- funds directly to students as reimbursement for the payment of tuition and mandatory fees; and
- assistance for the repayment of student loans.

A separate budget analysis entitled *Maryland Higher Education Commission* covers the personnel associated with administration of scholarship programs as well as other educational grant programs administered by the commission.

Exhibit 1
Scholarship Programs in Fiscal 2014

Need-based

Delegate Howard P. Rawlings
Educational Excellence Awards
Guaranteed Access Grants

Need-based scholarships 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.

Educational Assistance Grants

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

Campus-based Educational
Assistance Grants

Need-based grant for full-time undergraduates from low-income families who for extenuating circumstances miss the application filing deadline. Funds for the campus-based grant are allocated to eligible institutions that then select recipients. Students must be Pell-eligible.

Part-time Grant Program

Need-based grants provided to institutions to award to qualified part-time undergraduate students.

**Graduate and Professional
Scholarship Program**

Need-based scholarships for those pursuing certain graduate and professional degrees at certain Maryland institutions of higher education.

Merit-based – Both Programs End by Fiscal 2016

Distinguished Scholar Program
(not accepting new applicants)

Talent- or merit-based scholarship awarded to full-time undergraduates. Three hundred and fifty scholarships must be awarded annually. Program terminates July 1, 2015.

**Distinguished Scholar Community
College Transfer Scholarship Program**
(not accepting new applicants)

For Maryland students who are attending Maryland community colleges and continue their education at a Maryland four-year college or university. Program terminated July 1, 2012.

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Career-based

Charles W. Riley Fire and Emergency Medical Services Tuition Reimbursement Program

Tuition reimbursement for fire, ambulance, and rescue squad workers pursuing a degree in fire services or emergency medical technology.

Workforce Shortage Student Assistance Grants

Merit- and need-based scholarships for Maryland students pursuing degrees in teaching, nursing, human services, physical/or occupational therapy, public service; and other areas to address workforce and regional needs.

Loan Assistance Repayment Program

Janet L. Hoffman Awards

Need-based loan repayment assistance for graduates of an institution of higher education in Maryland who work full-time for the government or the nonprofit sector in a priority field as determined by the commission. Includes the Nancy Grasmick Teacher Scholars program.

Primary Care Physicians

Loan repayment assistance for those who currently serve or who pledge to serve as primary care physicians in underserved areas or in health enterprise zones.

Maryland Dent-Care

Loan repayment assistance designed to increase access to oral health services for Maryland Medical Assistance Program recipients.

Assistance for Unique Populations

Jack F. Tolbert Memorial

Provides grants to private career schools to award to full-time students based on financial need.

Edward T. Conroy Memorial

Scholarships for children and spouses of certain veterans or certain public safety personnel.

Veterans of the Afghanistan and Iraq Conflicts Scholarship Program

Scholarships for United States Armed Forces personnel who served in the Afghanistan or Iraq conflicts and their sons, daughters, or spouses attending a Maryland postsecondary institution.

Legislative Scholarships

Senatorial Scholarships

Senators select recipients from within their legislative district. Students may be pursuing undergraduate, graduate, or professional degrees.

Delegate Scholarships

Delegates select recipients pursuing undergraduate, graduate, or professional degrees.

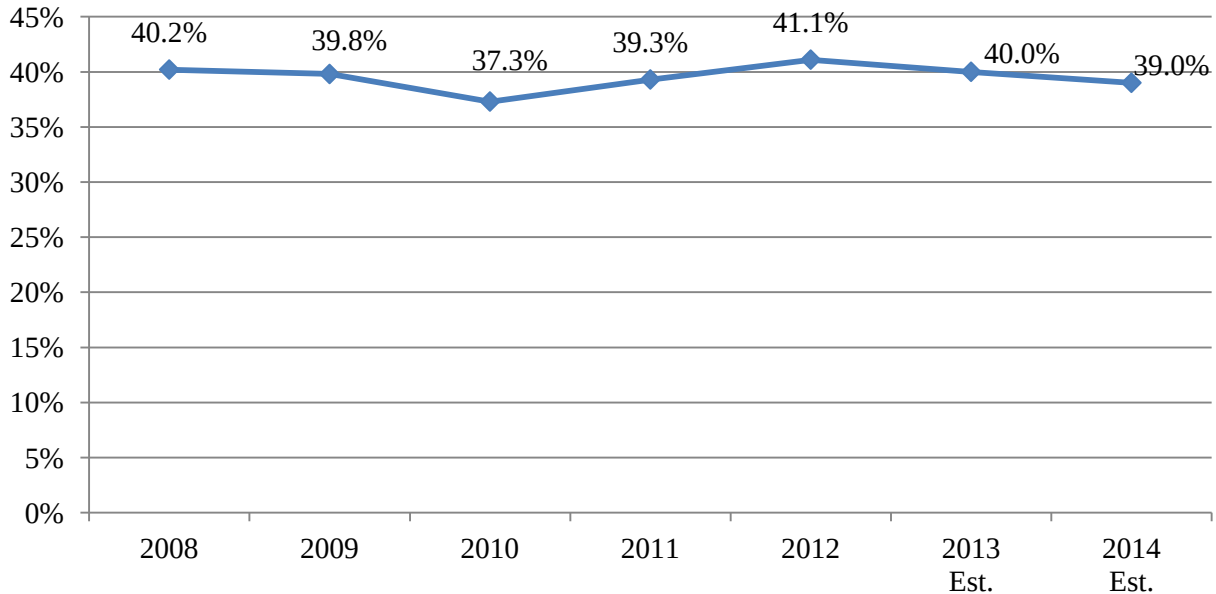
Source: Maryland Higher Education Commission

Performance Analysis: Managing for Results

1. Percentage of Neediest Students with Unmet Needs Grows

The State's financial aid programs play a critical role in facilitating access and reducing financial barriers to postsecondary education, especially for students from low- and moderate-income backgrounds. **Exhibit 2** shows the percent of students in the lowest 40% of median family income that have unmet need after all financial aid sources (including loans) are considered. Although the percentage of such students with unmet need declined 2.5 percentage points in fiscal 2010, it grew 2.0 percentage points in fiscal 2011 and another 1.8 points in fiscal 2012. MHEC expects the percentage to decline in fiscal 2013 and 2014 despite growing student need and an increase of \$95 in the maximum Pell grant expected in 2013-2014 academic year. Possible contributors to the expected decline in unmet need among low-income students are an increasing reliance on student loans to finance higher education and the deferral of enrollment in higher education entirely among the neediest students.

Exhibit 2
Percent of Neediest Students with Unmet Need Remaining
Fiscal 2008-2014

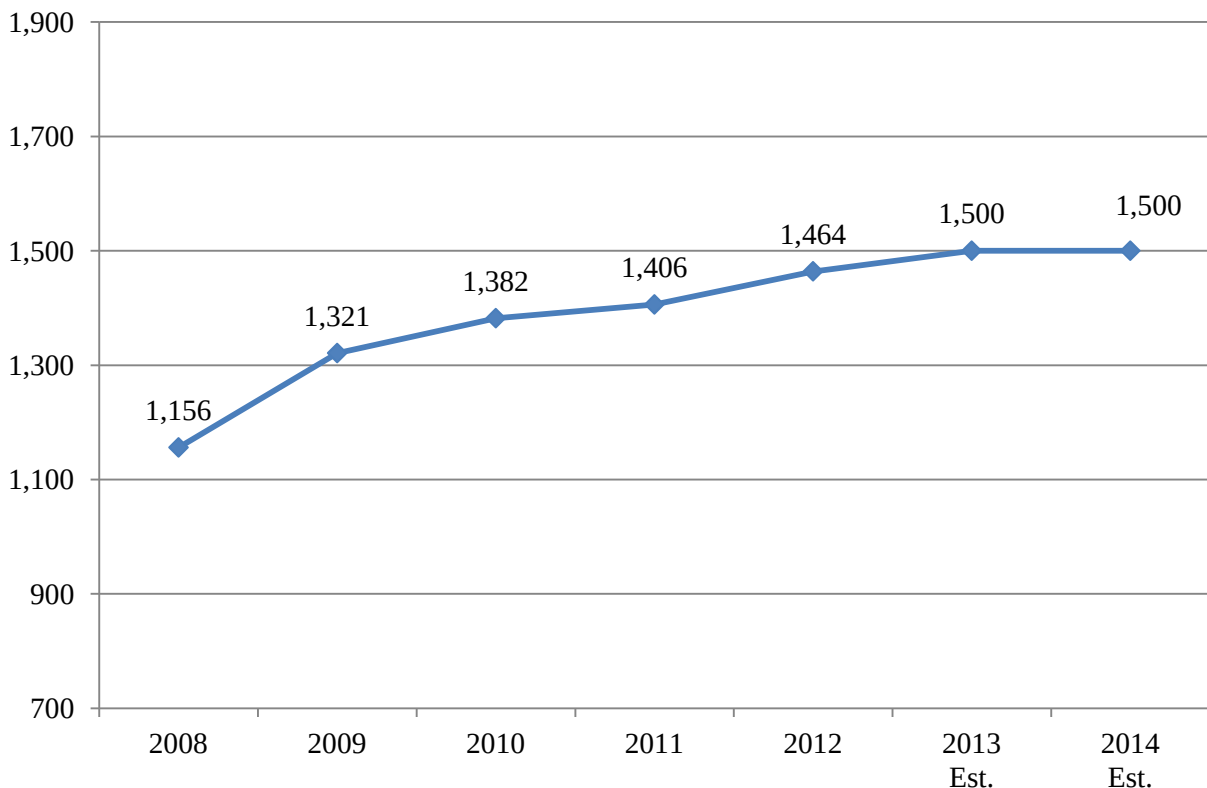


Source: Governor's Budget Books, Fiscal 2011 to 2014

2. Number of Guaranteed Access Grant Recipients Continues to Increase

The Guaranteed Access (GA) Grant is a component of the Delegate Howard P. Rawlings Educational Excellence Awards program that covers 100.0% of need when combined with a federal Pell grant for the State's lowest income students. The maximum amount is capped at the cost of education at the highest cost four-year University System of Maryland institution, excluding the University of Maryland, Baltimore and the University of Maryland University College. The maximum award in fiscal 2012 was \$15,500, and the maximum award in fiscal 2013 is \$15,900. Students that meet all program criteria, such as enrolling directly from high school and family income limits, are guaranteed funding. **Exhibit 3** shows that the number of GA grants awarded increased 14.3% between fiscal 2008 and 2009, although growth slowed from fiscal 2010 to 2012, and MHEC estimates that it will slow further going out to fiscal 2014. MHEC attributes some of the increase to additional exposure to higher education among students in high school and increased staff effort to encourage students to finish incomplete online applications.

Exhibit 3
Guaranteed Access Grants Awarded
Fiscal 2008-2014



Source: Governor's Budget Books, Fiscal 2011 to 2014

Fiscal 2013 Actions

Proposed Deficiency

Three special fund deficiencies appropriate \$6,500,000 into the Educational Excellence Awards; \$100,000 into the Edward T. Conroy Memorial scholarship program; and \$150,000 into the Veterans of the Afghanistan and Iraq Conflicts (VAIC) scholarship program. Each program will use special funds carried forward in the Need Based Student Financial Assistance Fund (NBSFAF) to make additional awards in the 2012-2013 academic year. This would fully meet all needs in the Conroy and VAIC programs but would still leave a substantial number of students remaining on the Educational Assistance (EA) waitlist.

Proposed Budget

General funds increase \$13.6 million, or 15.8%, in the Governor's proposed fiscal 2014 budget, as shown in **Exhibit 4**. General fund changes include the two legislative scholarship programs switching from Budget Restoration Funds from the First Special Session of 2012 back to general funds in fiscal 2014; Delegate Scholarships increasing to accommodate the planned 3.0% in-state undergraduate increase at public four-year institutions in Maryland, as required by statute; a decrease in the Distinguished Scholarships program as it phases out; and finally an increase of \$2.6 million in Educational Excellence Awards for more need-based aid. Special funds decrease about \$11.3 million, or 67.8%, to reflect the legislative scholarships switching to general funds; additional special fund revenue in the physicians' loan assistance repayment program; and a slight decline in the use of special funds in Educational Excellence Awards.

Exhibit 4
Proposed Budget
MHEC – Scholarship Programs
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Reimb. Fund	Total
2013 Working Appropriation	\$85,927	\$16,723	\$250	\$102,900
2014 Allowance	<u>99,480</u>	<u>5,390</u>	<u>250</u>	<u>105,121</u>
Amount Change	\$13,553	-\$11,333	\$0	\$2,221
Percent Change	15.8%	-67.8%		2.2%
Contingent Reductions	\$0	\$0	\$0	\$0
Adjusted Change	\$13,553	-\$11,333	\$0	\$2,221
Adjusted Percent Change	15.8%	-67.8%	0.0%	2.2%

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Where It Goes:

Educational Excellence Awards increased to make more 2014 awards	\$2,567
Loan Assistance Repayment Program for Physicians spending additional special fund revenue	512
Delegate Scholarships increased to accommodate 3% undergraduate resident tuition increase.....	159
Distinguished Scholar program phasing out.....	-1,020
Miscellaneous actions	2
Total	\$2,221

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

Need-based Student Financial Assistance Fund

A 2010 legislative audit reported on nonstandard accounting practices that MHEC used to transfer unexpended scholarship funds into future fiscal years. The Budget Reconciliation and Financing Act (BRFA) of 2011 required MHEC to work with the Department of Budget and Management and the Comptroller of Maryland to create a new fund for unspent scholarship aid. Through the new NBSFAF, unused scholarship funds are now deposited into the fund at the close of each fiscal year to be used for future need-based and certain unique population awards. Special funds can be appropriated in the annual State budget or recognized by budget amendment in the following fiscal year, creating a process for MHEC to encumber unexpended scholarship funds while improving administrative transparency.

Exhibit 5 shows the current status of the NBSFAF. It began with nearly \$10.0 million in carry-forward funds from fiscal 2011. MHEC would like to keep a fund balance at the end of the fiscal year to ensure that it does not over award financial aid in any given year. Due to a loss of \$1.2 million in federal funds in fiscal 2013, MHEC began using the NBSFAF to maintain the same level of need-based awards and make more awards if NBSFAF allowed. In fiscal 2013, MHEC budgeted \$4.06 million to cover the loss of federal grants and to make more awards. MHEC would also like to transfer additional funds to Conroy and VAIC as well as \$6.5 million to Educational Excellence Awards through a fiscal 2013 deficiency appropriation (discussed above).

After using \$4.0 million in the fiscal 2014 allowance for Educational Excellence Awards, there would be about \$2.8 million in the NBSFAF before returned scholarships are deposited into the fund from the 2012-2013 academic year. MHEC reports that about 29% of need-based awards were not accepted in fiscal 2013, despite evidence of student need. Given that the past two years added \$9.9 million and \$8.3 million, respectively, a significant amount of scholarship aid is likely to be transferred to the NBSFAF at the end of fiscal 2013.

Exhibit 5
Need-based Student Financial Assistance Fund
Fiscal 2011-2014

	<u>2011</u>	<u>2012</u>	<u>Est.</u> <u>2013*</u>	<u>Est.</u> <u>2014</u>
Opening Balance	\$0	\$9,868,420	\$17,662,275	
Deposits	\$9,868,420	\$8,296,361		
Withdrawals				
Educational Excellence Awards			\$10,560,567	\$4,000,000
Edward T. Conroy		\$300,000	100,000	
Veterans of the Afghanistan and Iraq Conflicts Scholarship Program		202,506	150,000	
Withdrawal Subtotal	\$0	\$502,506	\$10,810,567	
Ending Balance	\$9,868,420	\$17,662,275	\$6,851,708	

* Include deficiencies proposed in the fiscal 2014 budget.

Source: Maryland Higher Education Commission

The Secretary should comment on how much fund balance the NBSFAF should carry from year to year, as well as why so much financial aid is declined by Maryland students resulting in significant carry forward funds and what plans MHEC has to increase award acceptance levels.

Conroy Awards

Conroy awards were decentralized from MHEC to institutions in fiscal 2009 because of a growing waitlist of eligible students. Under the new system, students apply for Conroy aid from a particular institution and, if eligible, the institution immediately covers the cost of the award. Institutions submit the number of awards made to MHEC in October and February of each fiscal year to receive reimbursement.

MHEC allocates funding on a pro-rata basis to institutions if the appropriation is not sufficient to cover all of the eligible reimbursements. In that case, MHEC is to allocate the next year's funding to institutions with an outstanding prior year obligation before funding new awards. MHEC also has the ability to transfer NBSFAF monies to cover shortfalls. As shown in **Exhibit 6**, the fiscal 2014 allowance for the Conroy program is below the fiscal 2012 actual and fiscal 2013 working appropriations. In the past three years, the legislative appropriation was \$570,474, and MHEC

Exhibit 6
Conroy Award Funding
Fiscal 2012-2014

	2012 Actuals		2013* Working		2014 Governor's Allowance	
	<u>Expenditures</u>	<u>Recipients</u>	<u>Appropriation</u>	<u>Proj. Rec.</u>	<u>Appropriation</u>	<u>Proj. Rec.</u>
Appropriation	\$570,474	95	\$570,474	75	\$570,474	80
Actual/Working Appropriation	850,929	127	670,474	97		
Difference	280,455	32	100,000	22		

*Includes proposed deficiency of \$100,000.

Source: Maryland Higher Education Commission

transferred unexpended prior year funds to fully fund the program. In fiscal 2012, \$300,000 was needed to supplement the appropriation, and in fiscal 2013, MHEC plans to transfer \$100,000 from the NBSFAF to serve an additional 22 recipients. The number of recipients is estimated to remain about same in fiscal 2014; however, the budget only allows for 80 projected recipients, meaning that funds from the NBSFAF will likely be needed again.

Federal Budget Impacts

The Pell grant, a federal program, is an extremely important source of need-based aid for many Maryland students. Because State need-based programs are applied to student need after the federal Pell grant is considered, federal funding for the Pell grant program has a significant impact on how far State need-based financial aid will stretch each year. For the 2012-2013 academic year, the maximum Pell grant is a flat \$5,550, the third year of no adjustment. Recent federal actions significantly restricted eligibility retroactively by reducing the number of full-time semesters that a student may receive a Pell grant from 18 to 12 semesters and dropped the Automatic Zero Expected Family Contribution (EFC) threshold from \$30,000 to \$23,000 adjusted family income. Additionally, Congress eliminated the “double Pell grant” wherein students could receive a second Pell award within a single year to pursue summer coursework to expedite graduation. All three rule changes went into effect on July 1, 2012. No further changes to the Pell grant have been proposed affecting the 2013-2014 academic year. The Pell grant has been excluded from most federal government sequestration proposals, although other forms of federal aid, such as loan programs, may be affected.

Need-based Financial Aid Appropriations Are Not Growing Alongside Tuition Increases at Public Four-year Institutions

In fiscal 2012, two large federal programs, the Leveraging Educational Assistance Partnership (LEAP) and the Special Leveraging Educational Assistance Partnership (SLEAP), concluded. State contributions matched these programs for funding to very needy students in the Educational Excellence Awards program. In fiscal 2013, MHEC covered this loss of \$1.2 million in federal funds by using special funds from the NBSFAF.

For need-based aid in the 2014 allowance, general fund support increases \$2.6 million, and support from NBSFAF is level funded at \$4.0 million. However, as shown in **Exhibit 7**, when accounting for the 2013 deficiencies, need-based aid overall decreases 4.4% in fiscal 2014, so that need-based aid does not keep pace with an expected 3.0% increase in in-state undergraduate tuition at public four-year institutions in fiscal 2014. The Commission to Develop the Maryland Model for Funding Higher Education recommended that need-based financial aid appropriations and average awards at least keep pace with tuition and fee increases. Overall, need-based aid accounts for 82% of all aid in fiscal 2014 compared to 54.5% in fiscal 2003.

The Secretary should comment on whether MHEC can improve its prediction of how much it will need from the NBSFAF with the development of each budget or early enough in the fiscal year so that it can request those funds through a budget amendment. Using a deficiency request significantly delays when later rounds of awarding may be dispersed to students.

After accounting for approximately \$6.3 million in legislative carry-forward funds, legislative awards increase \$159,015, or 1.3%, as the Delegate scholarships accommodate the projected 3.0% increase in undergraduate resident tuition at public four-year institutions. Maryland is the only state to fund and operate a legislative scholarships program following the end of the program in Illinois in fiscal 2012.

Career-based aid is increasing about \$514,000 in fiscal 2014 due to more revenue available from the State Board of Physicians for the loan assistance repayment program for physicians. As shown in Exhibit 7, funding for unique populations decreases by \$250,000 due to deficiency funds from the NBSFAF counted in fiscal 2013 toward the Conroy and VAIC programs.

Overall, MHEC expects to award aid to over 60,000 recipients in fiscal 2013, or 9.4% more than in fiscal 2012, as shown in **Exhibit 8**, mostly due to an increase in EA grants. In the fiscal 2014 allowance the number of recipients declines to about 57,000, again mostly due to EA grants. Average need-based awards are expected to increase in fiscal 2014 based on projections developed by MHEC using three-year averages. Merit-based programs show a small decrease in fiscal 2013 to reflect the phasing out of the Distinguished Scholar program. The number of awards made through career programs is level and unique population awards decrease about 9.5%. In fiscal 2014, the average award size for most programs changes by less than \$60; however, unique population awards decline \$206, or 8.0%, while career-based awards go up \$792, or 16.0%.

Exhibit 7
State Financial Aid Appropriations
Fiscal 2003-2014
(\$ in Thousands)

	<u>2003</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	Working 2013	Allowance 2014	\$ Change 2013-14	% Change 2013-14
Need-based Aid	\$43,267	\$81,892	\$83,986	\$83,022	\$77,350	\$76,422	\$89,158	\$85,226	-\$3,932	-4.4%
Merit-based Aid	4,222	3,931	3,989	3,696	3,536	3,386	3,061	2,041	-1,020	-33.3%
Career-based Aid	22,701	6,142	9,535	5,538	3,630	3,874	3,874	4,538	664	17.1%
Legislative	8,610	11,245	11,120	11,268	11,145	11,532	11,786	11,946	160	1.4%
Unique Populations	549	1,466	1,701	1,457	1,740	1,740	1,770	1,520	-250	-14.1%
Total	\$79,349	\$104,676	\$110,331	\$104,981	\$97,401	\$96,954	\$109,649	\$105,271	-4,378	-4.0%

Note: Fiscal 2013 working appropriation does not include \$6.3 million in legislative carry-forward funds. All other fiscal 2013 working appropriations include planned budget amendments and carry-forward funds from proposed deficiency appropriations.

Source: Financial Management Information System; Maryland Higher Education Commission

Exhibit 8
Recipients of Student Financial Assistance
Fiscal 2012-2014

<u>Program</u>	2012 Actuals		2013 Working Proj. Avg.		2014 Governor's Allowance Proj. Avg.	
	<u>Recipients</u>	<u>Avg. Award</u>	<u>Proj. Rec.</u>	<u>Award</u>	<u>Proj. Rec.</u>	<u>Award</u>
Need-based Aid						
Educational Assistance Grant	25,747	\$2,231	30,650	\$2,117	27,954	\$2,181
Campus-based Educational Assistance Grant	1,072	1,939	1,041	1,922	1,010	1,979
Guaranteed Access Grant	1,464	10,244	1,493	10,715	1,450	11,036
Part-time Grant Program	9,546	531	9,268	549	8,998	565
Graduate and Professional Scholarship	539	2,364	522	2,252	506	2,319
Subtotal	38,368	\$2,077	42,974	\$2,075	39,918	\$2,135
Legislative Programs	14,110	817	14,608	807	14,662	815
Merit-based Programs	1,150	2,944	1,038	2,950	692	2,948
Career and Occupational Programs	664	4,982	788	4,916	795	5,708
Unique Population Programs	577	3,016	649	2,728	603	2,522
Total	54,869	\$1,757	60,057	\$1,825	56,670	\$1,858

Source: Maryland Higher Education Commission

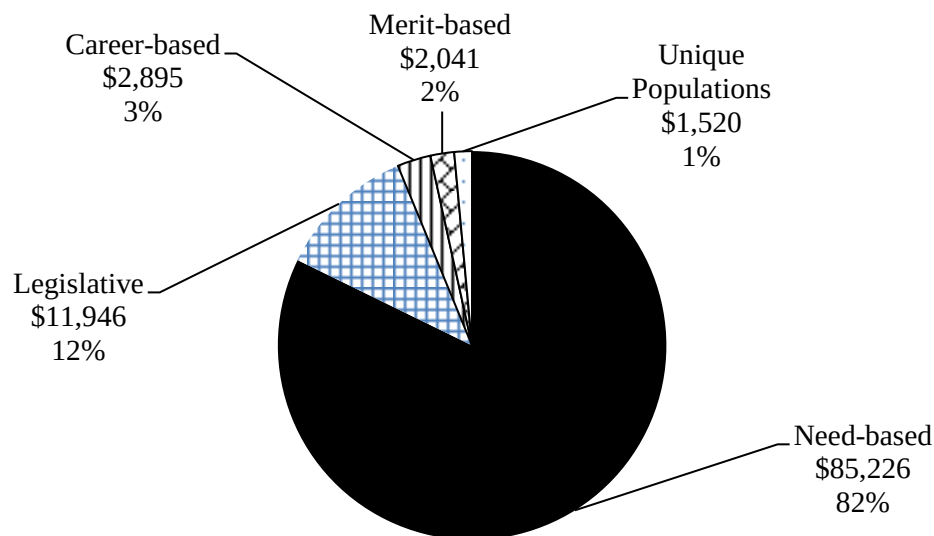
Issues

1. Trends in Aid Distribution

The State is committed to ensuring that more Marylanders have access to postsecondary institutions, and financial aid programs play a critical role in facilitating access and reducing financial barriers to higher education, especially for low- and moderate-income students. Maryland has moved from having the seventh highest average tuition and fees for public colleges and universities in the country in fiscal 2006 to the twenty-seventh most expensive in fiscal 2013. This is due, in part, to the multi-year tuition freeze and a 3% increase cap at most public four-year institutions.

Financial aid is important in helping many students achieving their educational goals. A lack of financial support often contributes to a student's decision to stop out or drop out of school. To increase degree attainment among Maryland residents and ensure affordability in higher education, most of the State's financial aid is provided to students who demonstrate need. **Exhibit 9** shows the amount of State funds awarded by aid type in fiscal 2012. Need-based aid represents the largest proportion of State financial aid at 82% followed by legislative aid at 12%, career-based aid at 3%, merit-based aid at 2%, and aid to unique populations at 1%.

Exhibit 9
State Financial Aid by Type
Fiscal 2012 Actual
(\$ in Thousands)



Source: Maryland Higher Education Commission

Need is determined by a student's EFC, which is the amount of money that a family is expected to contribute toward a student's college costs. EFC is determined when a student files a Free Application for Federal Student Aid (FAFSA) and is based on a number of indicators including the family's taxable income, family size, and the number of family members who will attend college during the year. To determine the amount of financial need a student has, the State subtracts the student's EFC and certain financial aid the student may have already received (such as the federal Pell grant) from the cost of attendance (including room, board, and tuition and fees) at the institution the student plans to attend. The gap between the cost of attendance and the EFC plus other financial aid sources is considered a student's unmet need. In general, the lower a student's EFC, the greater their financial need.

State Need-based Aid Reaches Far Fewer Students

Exhibit 10 shows trends in EA appropriations and applicants from fiscal 2009 to 2013. EA grants account for about 95.0% of all Educational Excellence Award funding. While appropriations for EA remained fairly constant, student need grew significantly over this period given increases in tuition and other costs. The number of EA applicants increased 63.4% between fiscal 2009 and 2013, and those applying demonstrated greater financial need due to the economic recession. Between fiscal 2009 and 2013, the number of EA applicants with \$0 EFC increased 181.2%. As a result of growing need, EA aid becomes more concentrated in lower EFCs each year. In fiscal 2013, to date, MHEC has awarded EA grants to students with EFCs up to \$2,000, while nearly the same funding in fiscal 2009 reached students with EFCs up to \$10,300. As a result of growing demand, the EA waitlist grew to over 35,000 students in fiscal 2013, an increase of 640.0% over fiscal 2009. As of December 2012, the waitlist declined to about 31,000, although many students who dropped off the list ceased to qualify for aid because they did not enroll.

The Secretary should comment on whether students on the waitlist generally end up enrolling after not receiving State support or whether they decline or defer enrollment.

Exhibit 10
Educational Assistance Awards
Fiscal 2009-2013

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Working 2013</u>	<u>% Change 2009-2013</u>	<u>% Change 2012-2013</u>
Appropriation	\$76,742,322	\$76,458,474	\$77,328,411	\$75,124,624	\$76,396,170	-0.5%	1.7%
EEA Applicants	109,300	129,300	145,944	170,489	178,603	63.4%	4.8%
EEA Applicants with \$0 EFC	15,942	24,672	26,112	38,282	44,829	181.2%	17.1%
EFC Awarded ²	\$10,030	\$8,764	\$5,516	\$1,500	\$2,000	-80.1%	33.3%
Waitlist ¹	4,846	11,333	18,504	31,000	30,865	536.9%	-0.4%

EEA: Educational Excellence Award

EFC: Expected Family Contribution

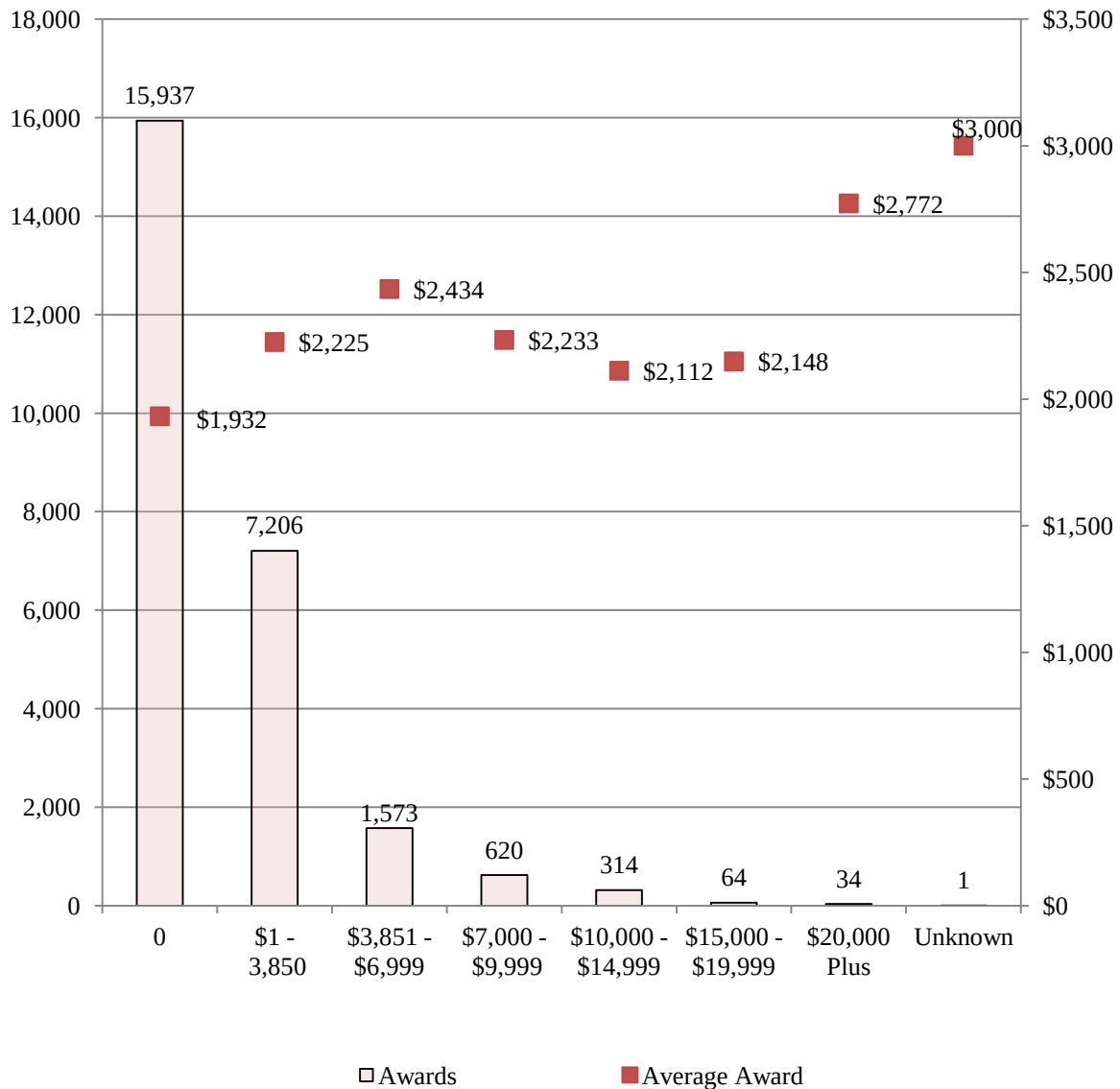
¹ As of May 1. Students are eligible for EEA and are placed on the waitlist if they are full-time students, submit a completed application by the March 1 deadline, and have financial need remaining after their EFC and federal Pell Grant award are considered.

² The numbers above are as of the last round of aid awards in December 2012. The initial EFC awarded for fiscal 2013 was \$1,000, and the initial waitlist was 35,795.

Source: Maryland Higher Education Commission

The EA grant is designed to meet 40% of financial need at four-year institutions and 60% at community colleges for full-time undergraduate students from low- to middle-income families. The maximum award amount is \$3,000. **Exhibit 11** shows the number of recipients and average award in fiscal 2012 by EFC category. The EFC maximum for federal Pell grant eligibility increases periodically, with the maximum EFC in fiscal 2013 of \$4,995. Students with EFCs below this level have the greatest need. The greatest number of EA awards was made to students in the \$0 EFC category. As EFC increases, the number of EAs decreases. As shown in Exhibit 10, MHEC was only able to award students with EFCs up to \$1,500 in fiscal 2012, although Exhibit 11 shows a small number of awards made to students with higher EFCs due to renewal awards from prior years. The average EA award is somewhat level across EFC categories, though students with \$0 EFC on average receive \$840 less than students with EFCs of \$20,000 or more. MHEC attributes this to the federal Pell grant, which students with EFCs below \$4,995 are likely to receive. Because the EA is based on student need after federal Pell grants are accounted for, those with low EFCs often only qualify for smaller EA grants.

Exhibit 11
Educational Assistance Awards by EFC
Fiscal 2012

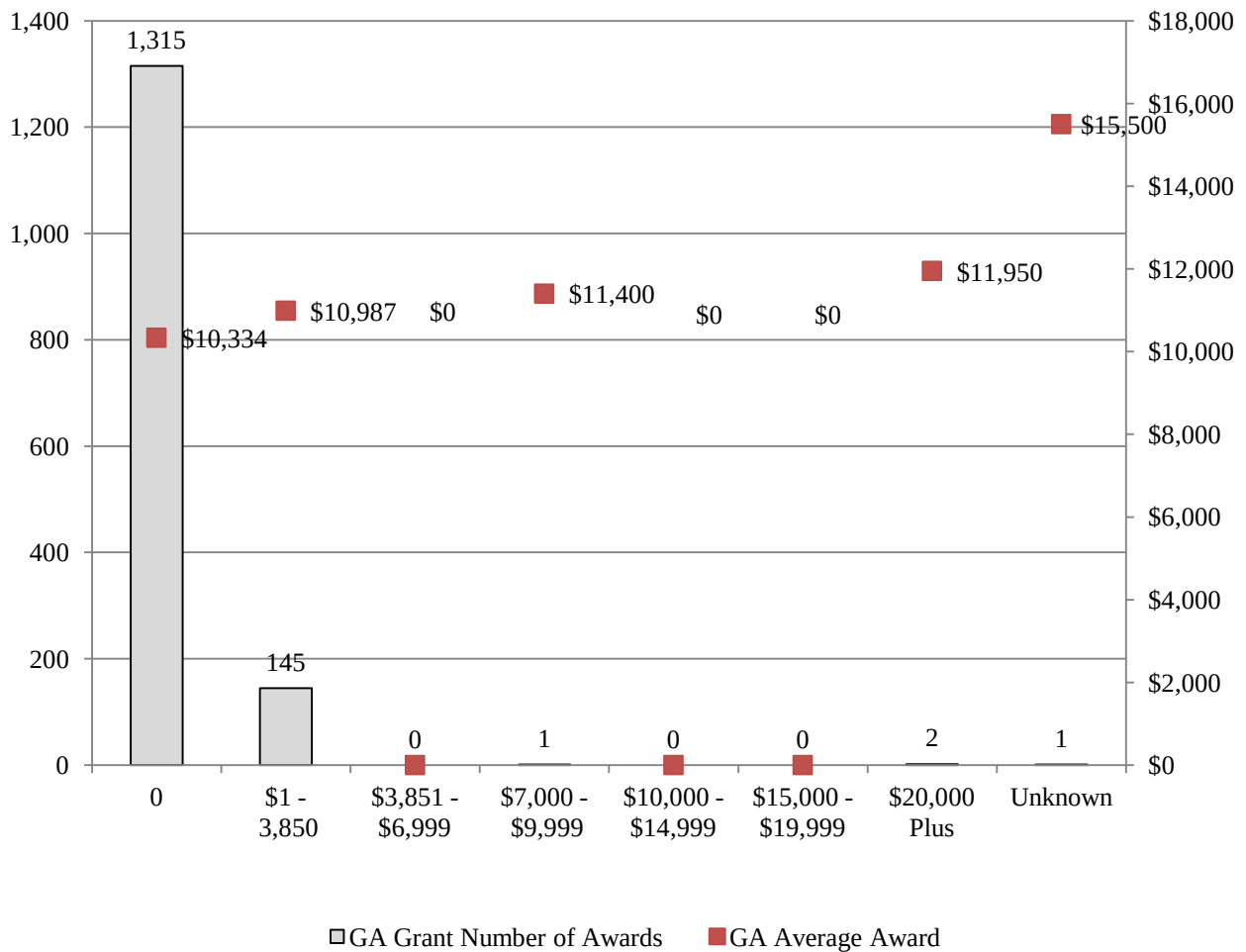


Note: Does not include campus-based Educational Excellence Awards and Guaranteed Access Grants awards.

Source: Maryland Higher Education Commission, Maryland College Aid Processing System

Exhibit 12 shows GA Grants, which cover 100% of need when combined with a federal Pell grant for the State’s lowest income students. Program eligibility is determined in part by a student’s total annual family income, which may not exceed 130% of the federal poverty line for initial awardees and 150% of the federal poverty line for renewals. Almost all students receiving aid through this program have EFCs of \$3,850 or less. Because the program covers the full cost of education, GA awards with \$0 EFC are \$10,334 compared to the EA’s \$1,932 to students with the same EFC.

Exhibit 12
Guaranteed Access Grant Awards by EFC
Fiscal 2012



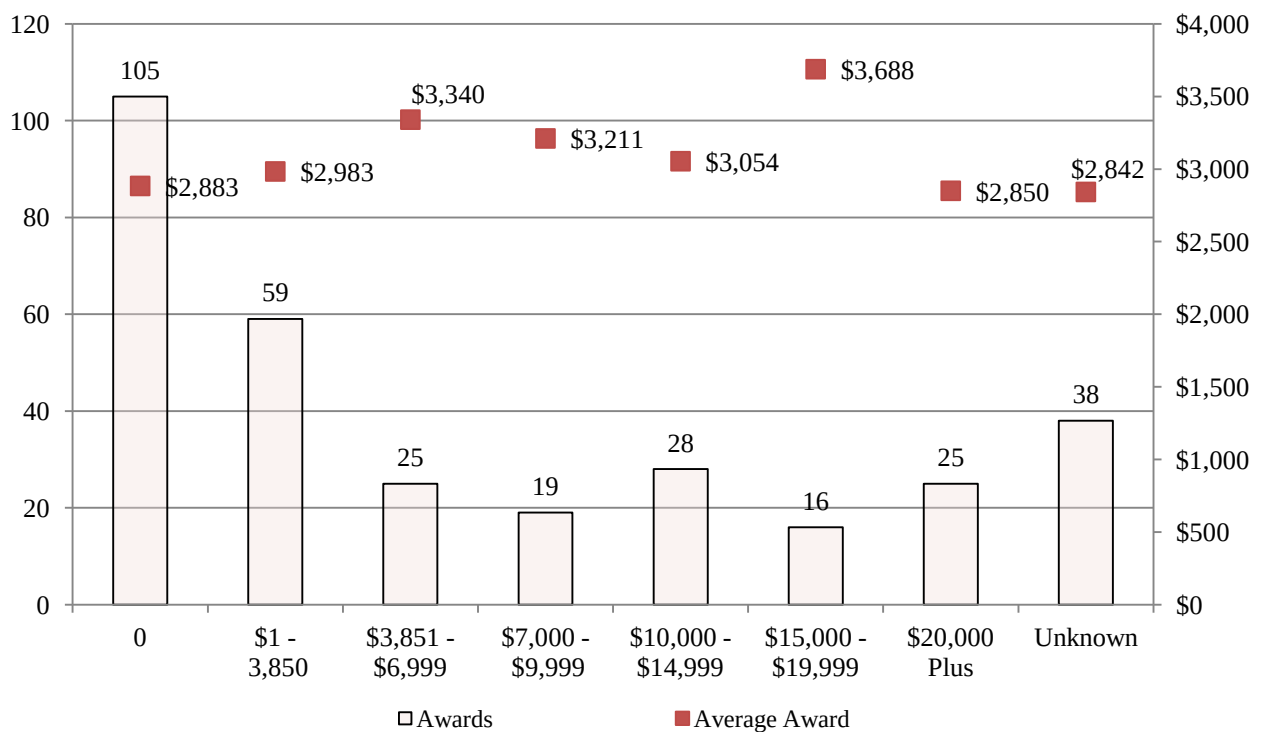
GA: Guaranteed Access

Source: Maryland Higher Education Commission, Maryland College Aid Processing System

Career-based Awards Serve Students at All Levels of Need

Exhibit 13 shows the number of recipients and average award for the Workforce Shortage Student Assistance Grant in fiscal 2012 by EFC. Workforce Shortage Student Assistance Grants are merit- and need-based scholarships for Maryland students pursuing degrees in teaching, nursing, human services, physical or occupational therapy, public service, and other areas to address workforce and regional needs. The Workforce Shortage Student Assistance Grant provides the most awards of the State's career-based financial aid programs. Recipients are concentrated on the low end of the EFC range; 52.1% have EFCs of \$3,850 or lower, while 20.0% have EFCs of \$20,000 or more, or did not file a FAFSA (*i.e.*, unknown). Average Workforce Shortage Student Assistance Grant awards are fairly even across EFC categories, though awards to those with EFCs of \$20,000 or more are lower on average than those to students with EFCs of \$3,851 to \$19,999. MHEC attributes the difference to the type of institution that the student attends, which determines the student's award amount.

Exhibit 13
Workforce Shortage Awards by EFC
Fiscal 2012



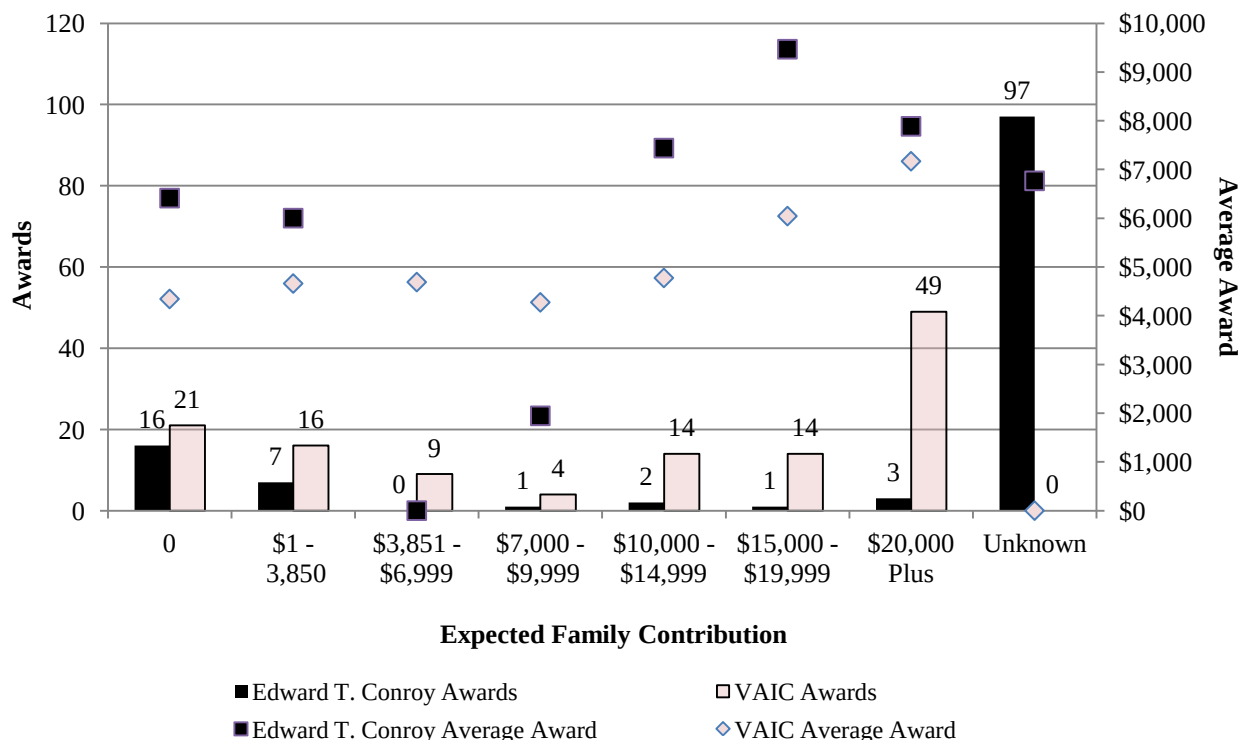
EFC: Expected Family Contribution

Source: Maryland Higher Education Commission, Maryland College Aid Processing System

Awards to Students from Unique Populations Made Largely to Students with Low EFC

Exhibit 14 shows the number of recipients and average awards for the Conroy Memorial Scholarship and the VAIC programs. The Conroy Program provides scholarships to children of certain veterans and public safety personnel and victims of the attacks of 9/11, while VAIC provides scholarships to U.S. Armed Forces personnel who served in the Afghanistan or Iraq conflicts and their children or spouses attending a Maryland postsecondary institution. These two programs are, by number of awardees, the smallest programs at MHEC. Nearly 30% of VAIC awards were made to recipients with EFCs lower than \$3,850, and all recipients submitted a FAFSA. In contrast, 12.6% of Conroy awards were made to those with EFCs of less than \$3,850, and 76.4% of recipients did not file a FAFSA. MHEC attributes the difference in the number of students missing EFC data between the programs to the support systems and campus resources available to VAIC recipients, which ensure that student veterans exhaust all financial aid resources, including those that require filing a FAFSA.

Exhibit 14
Unique Population Awards by EFC
Fiscal 2012



VAIC: Veterans of the Afghanistan and Iraq Conflicts Scholarship Program

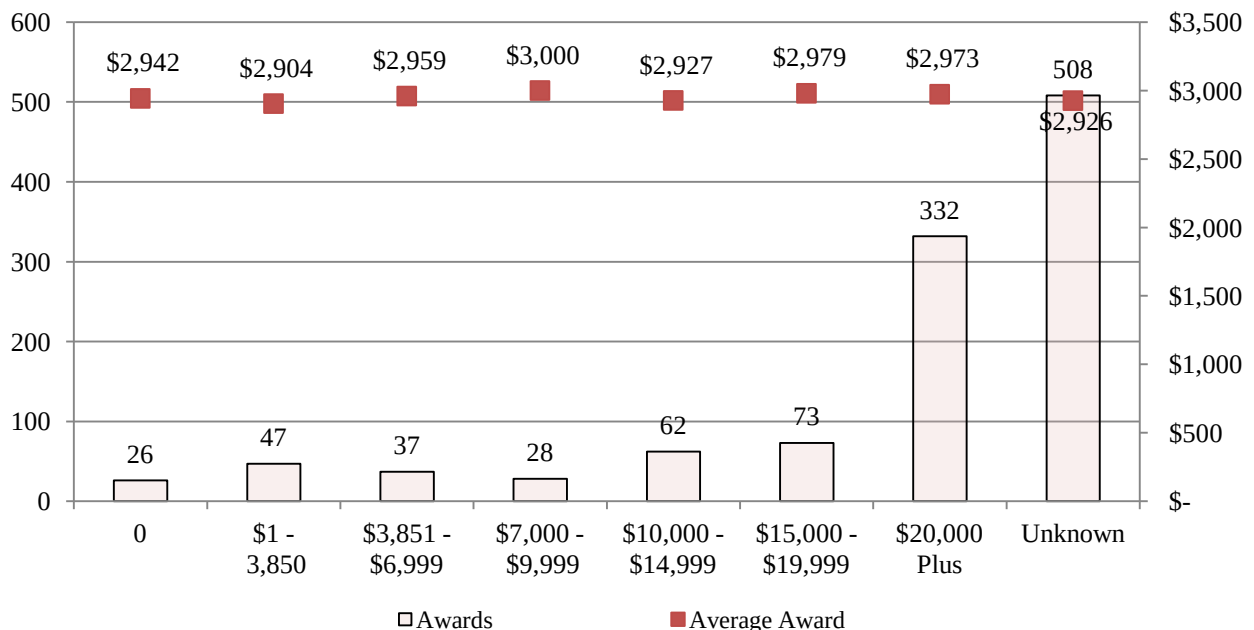
Source: Maryland Higher Education Commission, Maryland College Aid Processing System

Distinguished Scholars Down to Three Cohorts

The Distinguished Scholars Program awarded merit-based scholarships of up to \$3,000 for Maryland residents to attend in-state institutions full-time. The scholarship was renewable for three additional years if the student maintained a 3.0 grade point average for each academic year and remained a full-time student. Three hundred-fifty new scholarships were awarded annually to Maryland residents out of a competitive applicant pool. No new applications were accepted beginning in spring 2011, and the program will phase out entirely by fiscal 2016. A related program, the Distinguished Scholars Community College Transfer Program, ended in the 2011-2012 school year. With these two programs gone, Maryland will no longer offer any merit-based financial aid for higher education, although higher education institutions may still award merit aid.

Exhibit 15 shows the number of recipients and average award for the Distinguished Scholar program in fiscal 2012 by EFC. About 75.5% of Distinguished Scholar awards were made to students that did not file a FAFSA or have EFCs of \$20,000 or more. Because a FAFSA is required to receive both federal and State need-based aid, students that do not file one are less likely to have financial need than those that do.

Exhibit 15
Distinguished Scholar Awards by Expected Family Contribution
Fiscal 2012



Note: Includes Distinguished Scholar Community College Transfer Awards.

Source: Maryland Higher Education Commission, Maryland College Aid Processing System

2. MHEC Data on Percent of Need Met by State Aid

MHEC's Financial Aid Information System tracks data on student aid for all students at Maryland's public institutions and Maryland residents at independent institutions that receive State financial aid. The extensive information available allows for analysis of how much financial need is being met by State financial aid based on where students are enrolling.

Exhibit 16 shows the average amount of need met by State need-based aid, legislative scholarships, and merit scholarships by segment. Unique population aid and career-based aid were excluded from this graph due to the very small number of awardees and the small percent of need met. This data shows the average need met for all students by segment, so that while a \$3,000 educational excellence award, for example, would meet more than a few percentage points of need for an individual student, when aggregated, each aid source does not meet a great percentage of financial need.

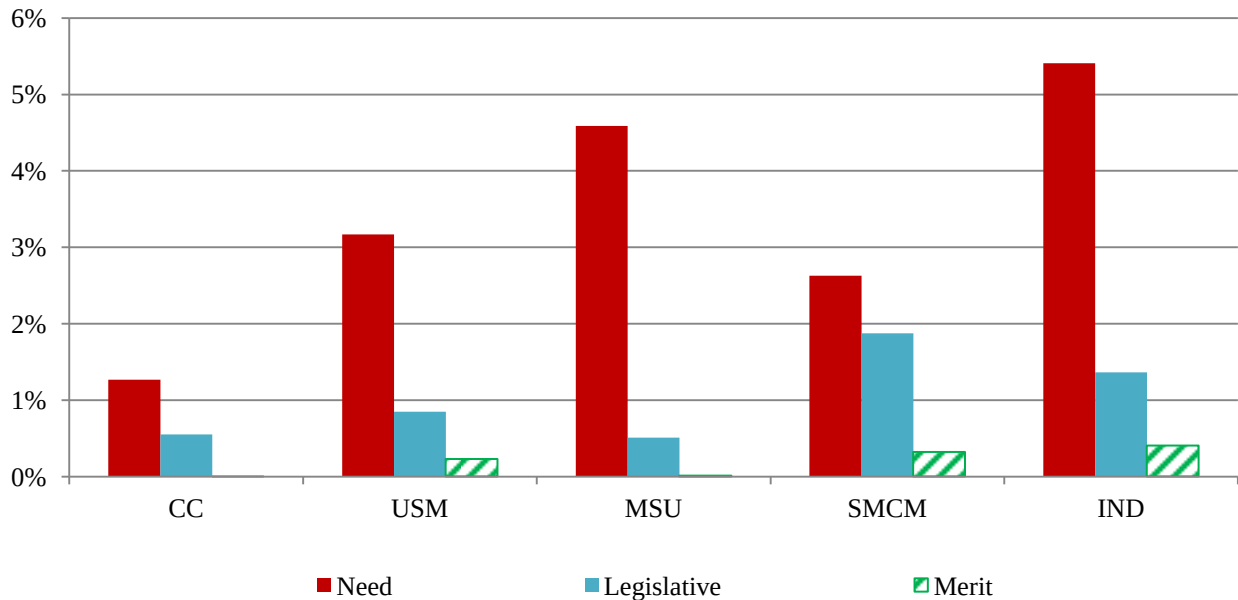
Overall, need-based aid meets far more need than other aid types, which reflects aid award amounts in Exhibits 12 to 15. As merit awards are phased out, legislative scholarships are now the second most need-fulfilling aid type in Maryland. It is interesting that State need-based aid appears to meet a higher percent of need for students enrolled in independent institutions, despite those institutions generally having a higher cost of attendance. This is because the State award is calculated to meet 40% of need (\$3,000 maximum award), and the amount of need is in part based on the cost of attendance, which tends to be high at most independent institutions. Community college students, who generally choose such institutions for their affordability, have the least amount of their need met by State aid.

Given that Maryland will increasingly focus on nontraditional students to meet State higher education goals, the Secretary should comment on how MHEC can direct more aid to financially needy community college students.

3. Changes to Loan Assistance Repayment Programs

As shown in Exhibit 1, MHEC funds several loan assistance repayment programs (LARPs). LARPs provide loan repayment assistance in exchange for certain service commitments to help ensure that underserved areas of the State have sufficient numbers of primary care physicians, dentists, and professionals serving underserved areas of the State or low-income families. Programs include the Janet L. Hoffman program, the Maryland Dent-Care Loan Assistance Repayment Program (MDC-LARP), and the Maryland Loan Assistance Repayment Program for Physicians (MLARP). Individuals must be employed full time in State or local government or in a nonprofit organization that assists low-income, underserved residents or underserved areas in the State.

Exhibit 16
Percent Need Met by Financial Aid Type and Segment
Fiscal 2011



CC: Community Colleges
 IND: Independents
 MSU: Morgan State University
 SMCM: St. Mary's College of Maryland
 USM: University System of Maryland

Source: Maryland Higher Education Commission

MLARP and Health Enterprise Zones

Chapter 575 of 2009 established the MLARP for primary care physicians. This program assists in repaying loans owed by a physician who practices primary care for a nonprofit organization or government entity in an area of the State that has been federally designated as having a shortage of primary care or mental health providers. Awards are capped at \$30,000 per year. Likewise, awards assist in repaying loans owed by a medical resident specializing in primary care who agrees to practice for at least two years as a primary care physician for a nonprofit organization or government agency in a geographic area of the State that has been federally designated. Chapter 575 also created an MLARP Fund, consisting of revenue generated through an increase to the rate structure of all hospitals in the State and any other money – including \$250,000 in federal State Loan Repayment Program funds to administer the program.

R62I0010 – MHEC – Scholarship Programs

Chapter 3 of 2012 established five Health Enterprise Zones (HEZs) in Maryland to receive tax credits for health improvement activities. The Department of Health and Mental Hygiene has committed MHEC to \$2.08 million in total MLARP assistance to be spent from calendar 2013 to 2016 to physicians practicing within HEZs. MHEC must fund this through the existing MLARP. Eligible practitioners must be in the following primary care-related fields:

- Primary care;
- Family medicine;
- Internal medicine;
- Obstetrics;
- Pediatrics; and
- Psychiatry.

To be eligible for special funds from HSCRC fees in the general MLARP, medical professionals may also be in geriatrics or emergency medicine. HEZ applicants will be prioritized over non-HEZ applicants.

Four of the five HEZs (all but the Anne Arundel Medical Center project) are in areas already eligible for MLARP by being in designated Health Professional Shortage Areas (HPSA). DHMH is negotiating with the U.S. Health Resources and Services Administration to get HPSA designation for the fifth HEZ. With these changes physicians who practice one of the remaining MLARP-eligible specialties, geriatrics, or emergency medicine, or who do not practice in a currently designated HEZ will be at a significant disadvantage in receiving MLARP support. Currently, MHEC is not able to predict how many physicians may be affected, but MHEC would like to make 25 to 29 total awards to physicians in the next fiscal year.

Grasmick Scholars

Chapter 496 of the 2012 regular session created the Nancy Grasmick Teacher Award within the Hoffman LARP program for Maryland public school teachers who have taught in Maryland for at least two years in science, technology, engineering, or math (STEM) subjects or at a school in which at least 75% of the students are enrolled in the free and reduced price meal program. The fiscal note for the legislation estimated about 450 teachers met all the qualifications to be eligible for this new LARP. Under the new program, MHEC Scholarships was to award LARP funds in fiscal 2013. No new funding was added specifically for the program.

R62I0010 – MHEC – Scholarship Programs

Due to staff turnover, MHEC has not yet made any Grasmick Scholars awards in fiscal 2013, although it has made other LARP awards.

The Secretary should comment on the delay and on the plan to implement the Grasmick Scholarship program in fiscal 2014.

Recommended Actions

1. Concur with Governor's allowance.

Current and Prior Year Budgets

Current and Prior Year Budgets MHEC – Scholarship Programs (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2012					
Legislative Appropriation	\$100,146	\$520	\$1,272	\$250	\$102,187
Deficiency Appropriation	1,002	341	0	0	1,343
Budget Amendments	0	503	0	0	503
Reversions and Cancellations	0	-170	-1,272	-15	-1,457
Actual Expenditures	\$101,148	\$1,193	\$0	\$235	\$102,576
Fiscal 2013					
Legislative Appropriation	\$97,713	\$4,937	\$0	\$250	\$102,900
Budget Amendments	0	0	0	0	0
Working Appropriation	\$97,713	\$4,937	\$0	\$250	\$102,900

Fiscal 2012

A deficiency appropriation increased general funds \$1,002,000 to account for the final Distinguished Scholars cohort which was originally not budgeted.

Special funds increased \$673,485 overall. VAIC Scholarships and Edward T. Conroy Memorial Scholarships increased \$202,506 and \$300,000, respectively. A deficiency appropriation of \$340,979 spends carry-forward funds on the Charles W. Riley Fire and Emergency Medical Services Tuition Reimbursement Program. A decrease of \$170,000 represents fund balance in the Loan Assistance Repayment Program that will be spent in the next fiscal year.

Federal funds decreased \$1,271,546 from federal funds that were not received in fiscal 2012 as the LEAP/SLEAP funding expired the previous year.

Reimbursable funds decreased \$15,304 from a cancellation to account for unspent DHMH award revenue.

**Object/Fund Difference Report
MHEC – Scholarship Programs**

<u>Object/Fund</u>	<u>FY 12 Actual</u>	<u>FY 13 Working Appropriation</u>	<u>FY 14 Allowance</u>	<u>FY 13 - FY 14 Amount Change</u>	<u>Percent Change</u>
Objects					
12 Grants, Subsidies, and Contributions	\$ 102,575,828	\$ 102,900,037	\$ 105,120,773	\$ 2,220,736	2.2%
Total Objects	\$ 102,575,828	\$ 102,900,037	\$ 105,120,773	\$ 2,220,736	2.2%
Funds					
01 General Fund	\$ 101,147,647	\$ 85,927,000	\$ 99,480,491	\$ 13,553,491	15.8%
03 Special Fund	1,193,485	16,723,037	5,390,282	-11,332,755	-67.8%
09 Reimbursable Fund	234,696	250,000	250,000	0	0%
Total Funds	\$ 102,575,828	\$ 102,900,037	\$ 105,120,773	\$ 2,220,736	2.2%

Note: The fiscal 2013 appropriation does not include deficiencies. The fiscal 2014 allowance does not include contingent reductions.

Fiscal Summary
MHEC – Scholarship Programs

<u>Program/Unit</u>	<u>FY 12 Actual</u>	<u>FY 13 Wrk Approp</u>	<u>FY 14 Allowance</u>	<u>Change</u>	<u>FY 13 - FY 14 % Change</u>
10 Educational Excellence Awards	\$ 75,124,624	\$ 76,396,170	\$ 78,963,593	\$ 2,567,423	3.4%
12 Senatorial Scholarships	6,486,000	6,486,000	6,486,000	0	0%
14 Edward T. Conroy Memorial Scholarship Program	870,474	570,474	570,474	0	0%
15 Delegate Scholarships	5,146,132	5,300,486	5,459,501	159,015	3.0%
16 Riley Fire and EMS Tuition Reimbursement Program	340,979	355,984	358,000	2,016	0.6%
17 Graduate and Professional Scholarship Program	1,174,473	1,174,473	1,174,473	0	0%
20 Distinguished Scholar Program	4,063,000	3,061,000	2,041,000	-1,020,000	-33.3%
21 Jack F. Tolbert Memorial Student Grant Program	200,000	200,000	200,000	0	0%
26 Hoffman Loan Assistance Repayment Program	1,492,895	1,492,895	1,492,895	0	0%
28 Maryland Loan Assistance Repayment Program for Physicians	584,696	770,000	1,282,282	512,282	66.5%
33 Part-time Grant Program	5,087,780	5,087,780	5,087,780	0	0%
36 Workforce Shortage Student Assistance Grants	1,254,775	1,254,775	1,254,775	0	0%
37 Veterans of the Afghanistan and Iraq Conflicts Scholarships	750,000	750,000	750,000	0	0%
Total Expenditures	\$ 102,575,828	\$ 102,900,037	\$ 105,120,773	\$ 2,220,736	2.2%
General Fund	\$ 101,147,647	\$ 85,927,000	\$ 99,480,491	\$ 13,553,491	15.8%
Special Fund	1,193,485	16,723,037	5,390,282	-11,332,755	-67.8%
Total Appropriations	\$ 102,341,132	\$ 102,650,037	\$ 104,870,773	\$ 2,220,736	2.2%
Reimbursable Fund	\$ 234,696	\$ 250,000	\$ 250,000	\$ 0	0%
Total Funds	\$ 102,575,828	\$ 102,900,037	\$ 105,120,773	\$ 2,220,736	2.2%

Note: The fiscal 2013 appropriation does not include deficiencies. The fiscal 2014 allowance does not include contingent reductions.