

R62I0010
Student Financial Assistance
Maryland Higher Education Commission

Operating Budget Data

(\$ in Thousands)

	<u>FY 14</u> <u>Actual</u>	<u>FY 15</u> <u>Working</u>	<u>FY 16</u> <u>Allowance</u>	<u>FY 15-16</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$100,930	\$100,421	\$102,932	\$2,511	2.5%
Adjusted General Fund	\$100,930	\$100,421	\$102,932	\$2,511	2.5%
Special Fund	14,830	5,630	1,465	-4,165	-74.0%
Adjusted Special Fund	\$14,830	\$5,630	\$1,465	-\$4,165	-74.0%
Reimbursable Fund	324	400	400	0	
Adjusted Reimbursable Fund	\$324	\$400	\$400	\$0	0.0%
Adjusted Grand Total	\$116,084	\$106,452	\$104,798	-\$1,654	-1.6%

Note: The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

- The overall budget decreases \$1.7 million, or 1.6%, mostly due to a \$4.1 million decline in special funds, as no more carry forward funds are budgeted in need-based programs.
- General funds increase \$2.5 million, or 2.5%.
- Unlike prior years, there are no special fund deficiencies, nor any cost containment.

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

For further information contact: Garret T. Halbach

Phone: (410) 946-5530

Analysis in Brief

Major Trends

Percentage of Neediest Students with Unmet Needs Varies: The percentage of students in the lowest 40% of median family income with unmet need is expected to decline 1.5 percentage points from fiscal 2015 to 2016 to 37.5%, the lowest rate in the past seven years. This slight decline comes in spite of very small increases in the federal Pell grant and growing student financial need.

Number of Guaranteed Access Grant Recipients Increases: The number of students receiving Guaranteed Access Grants increased over 50.0% between fiscal 2008 and 2016, although awards fell 10.2% in 2013. The Maryland Higher Education Commission (MHEC) is not yet sure why applications and awards fell in 2013; applications have rebounded since this unexpected decline.

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.

Proposed Changes to Financial Aid Programs: MHEC recently reconvened the Financial Aid Advisory Committee to help create recommendations to improve the administration and outcomes of State financial aid programs, such as changing the definition of a full-time student and proposing more equitable distributions of financial aid each year.

Report on Unmet Need and Student Success: A recent study from MHEC looked at the effect of Pell eligibility and student loans on the four-year graduation rate. MHEC determined that loans do not have a significant impact on on-time graduation but that family income and the percent of need met do.

Recommended Actions

1. Concur with Governor's allowance.

Updates

Recent Changes to Financial Aid Programs: The 2013 and 2014 legislative sessions brought about a few changes and new programs to MHEC – Student Financial Aid. This update will review modified and new programs.

R62I0010 – MHEC – Student Financial Assistance

Audit Issue Being Resolved: In MHEC's most recent audit, a recommendation arose that MHEC should verify that all students receiving awards are in fact residents of Maryland. This update will cover MHEC's plan to rollout a residency verification process for public and independent institutions.

R62I0010 – MHEC – Student Financial Assistance

R62I0010
Student Financial Assistance
Maryland Higher Education Commission

Operating Budget Analysis

Program Description

The Office of Student Financial Assistance (OSFA), 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 and certain unique populations and encourage students to major in workforce shortage areas. Maryland students use State financial assistance at community colleges, independent institutions, private career schools, and the State's public four-year campuses.

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. **Exhibit 1** shows current financial aid programs offered by OSFA. Update 1 summarizes legislative changes to OSFA programs in 2014.

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, in some cases, other expenses; 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 2015 and 2016

Need-based

Delegate Howard P. Rawlings
Educational Excellence Awards

Guaranteed Access Grants	Need- and merit-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 scholarships 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	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.
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.
Early College Access Grant Program	Need-based grants for students dually enrolled in a Maryland high school and a Maryland institution of higher education.

Merit-based
(Both programs end after fiscal 2015)

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.
---	---

R62I0010 – MHEC – Student Financial Assistance

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

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

Career-based

Charles W. Riley 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. (Chapter 503 of 2013 converts the program to a scholarship effective October 1, 2015, for awards beginning in fiscal 2017.)

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 Programs (LARP)

Employees of Government and
Nonprofit Sector

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. Priority is given to recent graduates who are State residents and employed full-time principally providing legal services to low-income residents, nursing services in nursing shortage areas in the State, or other employment fields where there is a shortage of qualified practitioners for low-income or underserved residents. Recipients must meet income eligibility requirements as determined by the commission.

Janet L. Hoffman

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 specified in statute and determined by the commission.

Nancy Grasmick Teacher Scholars
(Part of Hoffman LARP)

Loan repayment assistance for those who currently serve in specified public schools or teach science, technology, engineering, or math and graduated from a Maryland university.

Primary Care Physicians and
Physician Assistants

Loan repayment assistance for those who currently serve or who pledge to serve as primary care physicians.

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 and Jean B. Cryor Memorial	Scholarships for certain military veterans or certain public safety personnel and for dependents of eligible public and nonpublic school employees.
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.
Maryland First Scholarship	Scholarship for first-generation college students with financial need. No funding provided in fiscal 2015 or 2016.
Teaching Fellows of Maryland Scholarship	Scholarship for those pursuing a degree leading to a Maryland professional teacher's certificate. Requires service obligation.
2+2 Transfer Scholarship	Scholarship to provide an incentive for Maryland students to earn an associate's degree from a community college before enrolling in a four-year institution. Recipient must demonstrate financial need. Minimum GPA required.

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.

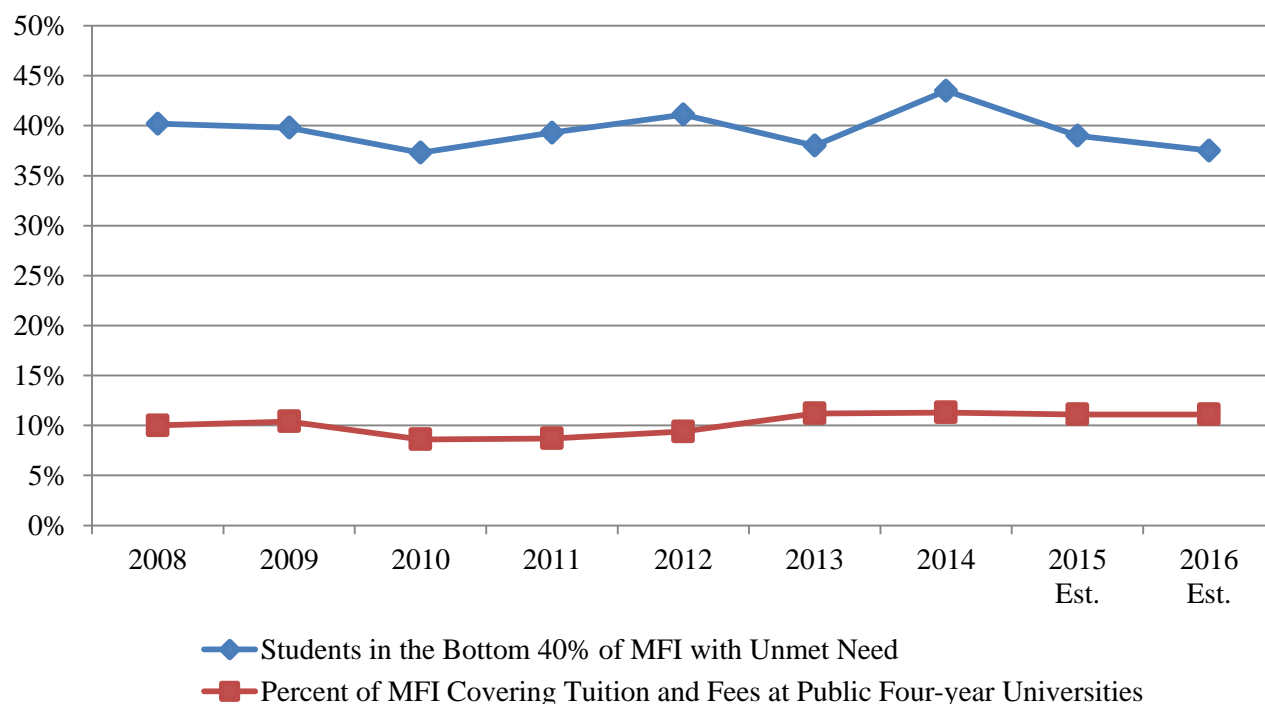
Source: Maryland Higher Education Commission

Performance Analysis: Managing for Results

1. Percentage of Neediest Students with Unmet Needs Varies

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 enrolled in a Maryland higher education

Exhibit 2
Percent of Neediest Students with Unmet Need Remaining
Fiscal 2008-2016 Est.



MFI: median family income

Note: MFI was \$105,348 in fiscal 2014.

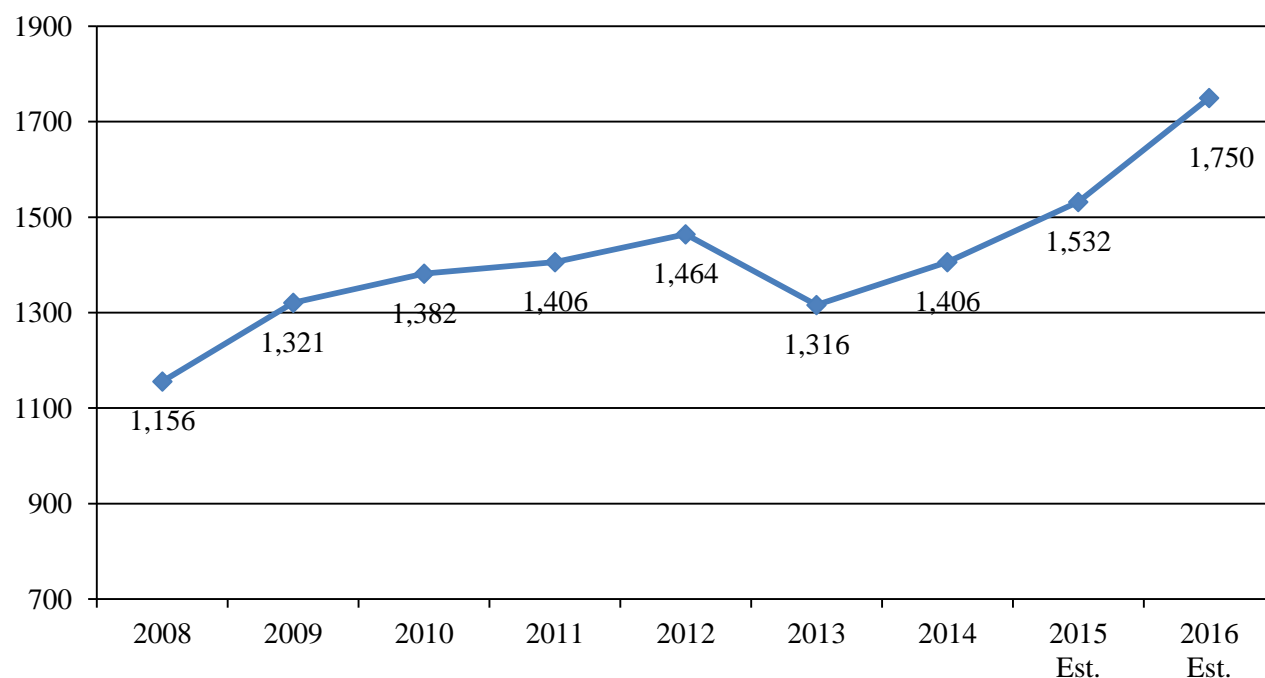
Source: Governor's Budget Books, Fiscal 2011-2016

institution 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 6.2 percentage points by fiscal 2014. MHEC expects the percentage to decline in fiscal 2015 and 2016 to 37%, despite growing student need and an increase of only \$45 in the maximum Pell grant in the 2014-2015 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 deferring enrollment in higher education entirely among the neediest students. On the other hand, an ongoing research question is how students with unmet need meet that need and enroll. The exhibit also shows the percentage of the median family income necessary to pay for tuition and fees at a Maryland public four-year institution. Due to the tuition freezes and buy downs and the flat median income growth in Maryland, the rate is very close to 10% in all years.

2. Number of Guaranteed Access Grant Recipients Increases

The Guaranteed Access (GA) Grant is a component of the Delegate Howard P. Rawlings Educational Excellence Awards (EEA) 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 (USM) institution, excluding the University of Maryland, Baltimore and the University of Maryland University College. The maximum award in fiscal 2014 was \$16,100, and the maximum award in fiscal 2015 is \$16,500. Students that meet all program criteria, such as enrolling directly from high school and having certain family income limits, are guaranteed funding. **Exhibit 3** shows that the number of GA grants awarded between fiscal 2008 and 2009 increased by 165, 14.3%, although growth slowed from fiscal 2009 to 2012, before dropping by 148, or 10.2%, in fiscal 2013 for a total of only 1,316 awards. GA Grants grew by 90 awards, or 6.8%, in fiscal 2014, with estimates showing over 1,700 awards expected in fiscal 2016. While the drop in 2013 is related to an unforeseen decline in applications, the total expected growth from fiscal 2008 to the 2016 estimate is just over 50%.

Exhibit 3
Guaranteed Access Grants Awarded
Fiscal 2008-2016 Est.



Source: Governor's Budget Books, Fiscal 2011 to 2016

Fiscal 2015 Actions

One notable feature of the fiscal 2015 cost containment undertaken by the State is that while MHEC's administration and community college aid were decreased, there was no reduction made specifically to financial assistance programs. However, a \$2.1 million general fund reduction to MHEC's administration budget is a serious issue for the agency, and it could be solved through reductions to any of the programs within OSFA. Fiscal 2015 was the first year since fiscal 2012 in which no special funds were budgeted in a deficiency to make additional aid awards. One year ago, MHEC had budgeted \$10.8 million in deficiencies for additional awards in fiscal 2014, while in fiscal 2015 there is no funding.

Proposed Budget

General funds increase \$2.5 million, 2.5%, in the Governor's proposed fiscal 2016 budget, as shown in **Exhibit 4**. General fund changes include \$0.3 million for Legislative Scholarships to accommodate a 3.0% in-state undergraduate increase at public four-year institutions in Maryland, although a 5.0% tuition increase is budgeted for most institutions, which will diminish the impact of the Delegate scholarships. Other general fund increases include \$3.0 million for need-based aid programs to completely offset an equal decline in special funds whereas the statutory requirement is to provide at least 80% of the prior year's funding. There is a decline of \$0.8 million, representing the removal of funding for the final cohort of the Distinguished Scholars (DS) program, which ends in fiscal 2015. Special funds decrease \$4.2 million, or 74.0%, due to a decline in the budgeted transfer of special funds in EEA (\$3.0 million), Conroy Memorial Scholarships (Conroy) (\$0.3 million), and Veterans of the Iraq and Afghanistan Conflict (VAIC) Scholarships (\$0.8 million). The remaining decline in special funds of \$0.2 million is due to a realignment of expenditures with revenues in a loan assistance repayment program.

Exhibit 4
Proposed Budget
MHEC – Student Financial Assistance
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Reimb. Fund	Total
Fiscal 2014 Actual	\$100,930	\$14,830	\$324	\$116,084
Fiscal 2015 Working Appropriation	100,421	5,630	400	106,452
Fiscal 2016 Allowance	<u>102,932</u>	<u>1,465</u>	<u>400</u>	<u>104,798</u>
Fiscal 2015-2016 Amt. Change	\$2,511	-\$4,165	\$0	-\$1,654
Fiscal 2015-2016 Percent Change	2.5%	-74.0%		-1.6%

R62I0010 – MHEC – Student Financial Assistance

Where It Goes:

Other Changes

Growth in general fund support to need-based aid	\$3,001
Delegate Scholarships increase to accommodate 3% undergraduate tuition increase...	281
Alignment of Loan Assistance Repayment Program awards to revenue.....	-165
Loss of special funds for Conroy Awards	-250
Loss of special funds for Veterans of Afghanistan and Iraq Conflicts Scholarships.....	-750
Abolition of Distinguished Scholars program	-771
Loss of special funds for need-based aid	-3,000

Total **-\$1,654**

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

Cost Containment

MHEC's administration budget is again subject to a roughly \$2.1 million cost containment action in the fiscal 2016 allowance that again will be problematic for the personnel side of MHEC's budget to fully absorb. This means MHEC will again be searching for cost savings, which could be met through financial aid programs. At this point in time, MHEC has not commented on how it will distribute this reduction. There are no cost containment actions specific to OSFA programs, and proposed reductions to OSFA's personnel are included within the general budget analysis for MHEC.

Need-based Student Financial Assistance Fund

A 2010 legislative audit from the Office of Legislative Audits (OLA) reported on nonstandard accounting practices that MHEC used to transfer unexpended scholarship funds into future fiscal years and recommended a special fund instead. The Budget Reconciliation and Financing Act of 2011 created a new fund for unspent scholarship aid. Through the new Need-based Student Financial Assistance Fund (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 greatly improving administrative transparency.

Exhibit 5 shows the current status of the NBSFAF, a special nonlapsing fund. It began with nearly \$9.9 million in carry forward funds from fiscal 2011 to 2012. While MHEC would like to keep

Exhibit 5
Need-based Student Financial Assistance Fund
Fiscal 2012-2016
(\$ in Thousands)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
Opening Balance	\$9,868	\$17,662	\$17,221	\$5,159	\$1,159	
Transfers Out						
EEA		\$10,561	\$14,000	\$3,000		\$27,561
Conroy Memorial Scholarships	\$300	100	550	250		1,200
VAIC Scholarship Program	203	150	750	750	\$0	1,853
Subtotal	\$503	\$10,811	\$15,300	\$4,000	\$0	\$30,613
Transfers In	\$8,296	\$10,370	\$3,238			\$31,772*
Closing Balance	\$17,662	\$17,221	\$5,159	\$1,159	\$1,159	

EEA: Educational Excellence Awards

VAIC: Veterans of the Afghanistan and Iraq Conflicts

* Includes \$9.9 million in carry forward funds from fiscal 2011 shown in the opening balance of fiscal 2012.

Source: Maryland Higher Education Commission

a fund balance at the end of the fiscal year to ensure that it does not over award financial aid in any given year and require a general fund deficiency, MHEC allowed the fund balance to grow significantly in fiscal 2012 through 2014 with transfers in totaling \$31.8 million. MHEC has since used the fund to backfill a loss of federal funds in fiscal 2012 and to make additional awards to certain programs, mainly EEA, VAIC, and Conroy awards.

In an October 2013 audit report for MHEC, OLA had its first opportunity to review use of the NBSFAF following OLA's call for its creation in the 2010 audit. Finding 1 in the new report raised concerns over the amount of funding building up in the NBSFAF. In academic year 2012-2013, there were over 16,000 applicants on the waiting list and fund reserves of over \$17 million, as shown in Exhibit 5, but little funding was appropriated until deficiencies for fiscal 2013 were included in the fiscal 2014 budget bill. Concerns over funds building up in the NBSFAF were also raised by the Department of Legislative Services (DLS) in operating budget analyses for fiscal 2013 through 2015.

Fund Balance Spent Down Per Audit Recommendation

While \$8.3 million and \$10.4 million were transferred into the fund by the close of fiscal 2012 and 2013, respectively, this declined to only \$3.3 million at the close of fiscal 2014. This represents the conclusion of MHEC rapidly overawarding to spend down the fund balance due to the concerns raised by OLA.

MHEC reports that about 40% of need-based awards were not accepted in the first awarding round in fiscal 2015, which is similar to prior years, despite strong evidence of student need in Maryland, as shown in Exhibit 2. While extra special funds were spent on awards in fiscal 2014, MHEC did not revert nearly as much funding as it had in fiscal 2013. With total funds for fiscal 2015 awards below 2014, it is likely that there will be an even smaller amount of fund balance transferred into NBSFAF at the end of fiscal 2015. Before accounting for any fiscal 2015 transfer, the NBSFAF opening fund balance would be only \$1.2 million, and no funding from the balance is budgeted directly in the allowance.

In the past, MHEC has struggled to get institutions that receive the State awards as payment for the cost of attendance to certify the enrollment of the student awardee. With schools not certifying enrollment rosters or delaying such action, MHEC has financial aid awards backing up unclaimed that could be recycled for more awards. One ongoing effort of MHEC is solving this roster certification issue, as it will be critical for improving the outcomes of State financial aid. That so little funding was reverted to the NBSFAF in fiscal 2014 despite a \$10 million deficiency is surprising given how late in the academic year the additional funding was made available for new awards. This is because the timing of MHEC's awarding cycle and the State's budgeting cycle can create difficulties in ensuring that funding is available at the right times of the year to make awards to students. If a student were to receive an award late into a semester, it is of significantly less use because the student has already decided whether to enroll and, if the student did enroll, that financial need was already covered through other means, such as student loans. Receiving a State award after a loan has already been drawn creates burdens for the student to figure out how to align the State award with other educational finances.

Another problem for MHEC has been that the waitlist for Educational Assistance Grant (EAG) awards has surpassed 10,000 students during the last four fiscal years, making the likelihood of a waitlisted student receiving an EAG award very unrealistic. At the end of fiscal 2014, 10,180 students remained on the waitlist after making awards to expected family contributions (EFC) up to \$10,709 with extra special funds. Students on the waitlist have EFCs from \$10,710 to well over \$100,000. To streamline the waitlist in the future, MHEC has proposed a formula to establish an EFC cap for the waitlist using the cost of attendance of the University of Maryland Baltimore County, the most expensive public four-year institution in the State. Using this method, the fiscal 2015 waitlist of roughly 27,600 students declines to about 22,000 students, a decrease of over 5,000 students. The disqualified students would be notified that their EFCs are too high to be eligible for the EAG. Other financial aid program changes suggested by MHEC are discussed further in Issue 2.

Conroy and Cryor Memorial Scholarships

This program was decentralized from MHEC to institutions in fiscal 2009 because of a growing waitlist of eligible students. Under the current system, students apply at 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. As a result of decentralization, MHEC cannot limit the number of applicants awarded by the institutions, so expenditures have not been aligned with appropriations.

MHEC allocates funding on a pro-rata basis to institutions when 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. As an eligible unique population program, MHEC also has the ability to transfer NBSFAF monies to cover shortfalls. As shown in **Exhibit 6**, the fiscal 2016 allowance and fiscal 2015 working appropriation for the Conroy (recently renamed to include Jean B. Cryor) program are both about half as much as the fiscal 2014 actual. In the past four years, the legislative appropriation was kept flat at \$570,474, and in each year, MHEC transferred unexpended prior year funds to fully fund the program. In fiscal 2013, \$100,000 was needed to supplement the appropriation, and in fiscal 2014, \$550,000 was transferred. Currently, no additional funds are expected to be transferred into the program in fiscal 2016, despite the expectation of a similar number of applications.

Exhibit 6
Conroy and Cryor Memorial Scholarship Award Funding
Fiscal 2013-2016 Est.

	2013 Actual		2014 Actual		2015 Working		2016 Est.	
	<u>Approp.</u>	<u>Rec.</u>	<u>Approp.</u>	<u>Rec.</u>	<u>Approp.</u>	<u>Proj. Rec.</u>	<u>Approp.</u>	<u>Proj. Rec.</u>
Appropriation	\$570,474	75	\$570,474	80	\$570,474	80	\$570,474	75
Actual/Working Appropriation	670,474	97	1,120,474	161	820,474	150	570,474	140
Difference	100,000	22	550,000	81	250,000	70	\$0	65

Rec.: recipients

Source: Maryland Higher Education Commission

In fiscal 2015, MHEC spent down all but about \$10,000 of the total appropriation just for fall 2014 awards. This means MHEC may not be able to make many spring 2015 reimbursements to institutions for Conroy awards, as there is not much funding remaining in the NBSFAF. The number of recipients is estimated to remain the same in fiscal 2016; however, the budget only allows for 75 recipients, so it seems likely this situation will repeat itself again next fiscal year if MHEC does not spread more of the appropriation out between the two semesters.

New 2+2 Transfer Scholarship Program

Finally, Chapter 340 of 2014 created the 2+2 Transfer Scholarship Program, which rewards students for completing an associate's degree before transferring to a four-year institution to pursue a bachelor's degree. If the Governor does not provide at least \$2.0 million for this program, MHEC is required to transfer up to \$2.0 million to fund it. The fiscal 2016 allowance provided no funding for the 2+2 Transfer Scholarship Program, and there is only \$1.1 million in the NBSFAF at this time (although, more will likely revert at the end of fiscal 2015).

The Secretary should comment on the appropriate amount of fund balance to carry in the NBSFAF and how MHEC will use the NBSFAF in fiscal 2016 for the 2+2 Transfer Scholarship Program and any other programs.

Federal Financial Aid Changes

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 2014-2015 academic year, the maximum Pell grant increased \$75, or less than 1%, following three years of adjustments totaling only \$45 and rising tuition and fees at Maryland's higher education institutions. While the Pell grant was excluded from federal government sequestration, other forms of federal aid, such as the TRIO program, have been affected.

As mentioned in prior DLS budget analyses, federal actions have significantly restricted eligibility retroactively by reducing the number of full-time semesters that a student may receive a Pell grant from 18 to 12 and dropping the automatic zero 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 in July 2012. Additional restrictions on federal Parent PLUS loans, which were greatly increased, then slightly relaxed, have also reduced the options available to families financing higher education. At a time when the federal financial aid programs are largely flat, many students will increasingly turn to State and institutional resources.

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

For need-based aid in the 2016 allowance, general fund support increases about \$2.5 million, and support from the NBSFAF is reduced from \$3 million in the 2015 working appropriation to \$0 in the 2016 allowance. As shown in **Exhibit 7**, need-based aid is essentially flat between fiscal 2015 and 2016, well behind the expected 5.0% increase in in-state undergraduate tuition at public four-year institutions in fiscal 2016. The Commission to Develop the Maryland Model for Funding Higher Education had recommended that need-based financial aid appropriations and average awards at least keep pace with tuition and fee increases. While the new 2013 State Plan recommends further consideration of the Maryland Model, it puts forth no direct guidance or benchmarks for OSFA's programs.

Exhibit 7
State Financial Aid Expenditures
Fiscal 2003 and Fiscal 2014-2016
(\$ in Thousands)

	<u>2003</u>	<u>2014</u>	<u>Working 2015</u>	<u>Allowance 2016</u>	<u>\$ Change 2015-16</u>	<u>% Change 2015-16</u>
Need-based Aid	\$43,267	\$90,963	\$80,008	\$80,009	\$1	0.0%
Merit-based Aid	4,222	1,387	771	0	-771	-100.0%
Career-based Aid	22,701	3,104	11,040	10,875	-165	-1.5%
Legislative	8,610	11,945	12,111	12,392	281	2.3%
Unique Populations	549	2,820	2,520	1,520	-1,000	-39.7%
Total	\$79,349	\$110,219	\$106,450	\$104,796	-\$1,654	-1.6%

Source: Financial Management Information System; Maryland Higher Education Commission

The State has shifted the focus to need-based aid over merit-based aid over the years. As also shown in Exhibit 7, need-based aid accounts for 81.6% of all aid in fiscal 2016 compared to only 54.5% in fiscal 2003. This is due to some increases in need-based aid but also the conclusion of the State's sole merit program. All of Maryland's 10 competitor states offer merit scholarships of some kind at the state level.

After accounting for approximately \$5.5 million in legislative carry forward funds, legislative awards increase about \$0.3 million, or 2.3%, as the Delegate Scholarship Program accommodates a 3.0% increase in undergraduate resident tuition at public four-year institutions despite a budgeted increase of 5.0% at USM institutions and Morgan State University. Maryland is the only state to fund

R62I0010 – MHEC – Student Financial Assistance

and operate a legislative scholarships program following the end of a similar program in Illinois in 2012.

Career-based aid declines 1.5% in fiscal 2015, whereas it had increased in some prior years due to more revenue available from the State Board of Physicians for the LARP for physicians and physician assistants. This revenue source is also discussed in the budget analysis of MHEC administration. As shown in Exhibit 7, funding for unique populations decreases by nearly 40% as a result of no special funds being budgeted from the NBSFAF in fiscal 2016. If there had been no special funds in the prior year, it would be nearly flat funded at \$1.5 million.

Overall, MHEC expects to award aid to over 61,000 recipients in fiscal 2016, an increase of more than 10% since fiscal 2012, as shown in **Exhibit 8**, mostly due to an increase in the EAG program. This reflects the additional awards made in recent fall semesters for the following spring semester using funds from declined or cancelled awards. However, while the number of awards grows almost 3,000 over the prior year, 5.0%, the average need-based award is expected to decrease slightly in fiscal 2016, down \$75, or 3.3%, on average. Merit-based programs drop to 0 awards in fiscal 2016 to reflect the phasing out of the DS program. The number of awards made through career programs grows 27.0%, while award sizes also decline about 25%. In fiscal 2016, unique population awards grow over 50%, but the awards decline by only about 10%.

Exhibit 8
Recipients of Student Financial Assistance
Fiscal 2014-2016

Program	2014 Actual		2015 Working		2016 Governor's Allowance	
	<u>Proj. Rec.</u>	<u>Proj. Avg. Award</u>	<u>Proj. Rec.</u>	<u>Proj. Avg. Award</u>	<u>Proj. Rec.</u>	<u>Proj. Avg. Award</u>
Need-based Aid						
Educational Assistance Grant	33,864	\$2,130	26,017	\$2,297	28,250	\$2,222
Campus-based Educational Assistance Grant	1,145	1,622	1,800	1,111	1,765	1,133
Guaranteed Access Grant	1,406	11,618	1,389	13,122	1,500	12,151
Part-time Grant Program	9,214	552	9,250	550	9,250	550
Graduate and Professional Scholarship	568	2,068	490	2,397	490	2,397
Subtotal	46,197	\$3,598	38,946	\$3,895	\$41,255	\$3,691
Legislative Programs	17,499	\$1,441	17,777	\$1,377	18,250	\$1,343
Merit-based Programs	500	2,940	267	2,900	0	0
Career and Occupational Programs	373	3,026	403	4,098	512	3,020
Unique Population Programs	716	5,199	451	3,167	717	2,800
Loan Assistance Repayment Programs	271	21,815	230	32,748	230	32,748
Total	65,556	\$1,681	58,074	\$1,833	60,964	\$1,719

Rec.: recipients

Source: Maryland Higher Education Commission

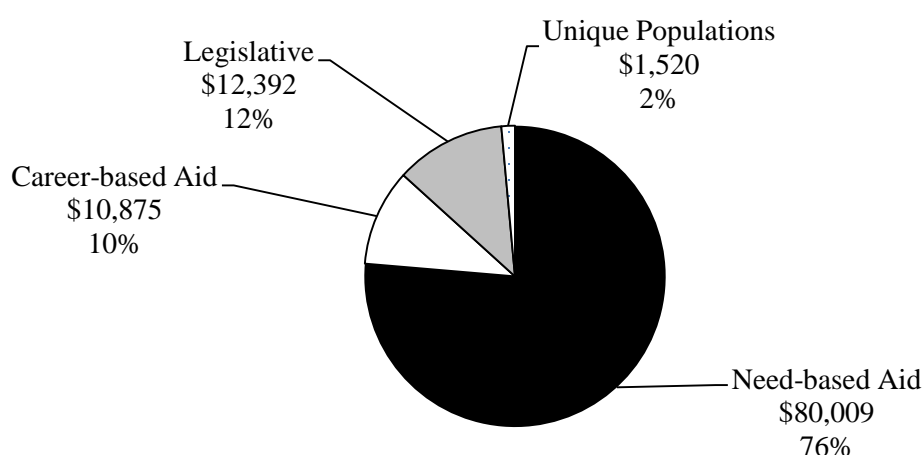
Issues

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 2014. This is due, in part, to the multi-year tuition freeze and a 3% increase cap at most public four-year institutions. However, beginning with some schools in fiscal 2015, and all public four-year institutions except St. Mary's College of Maryland, in fiscal 2016, this tuition freeze and buydown period has ended. At the same time, as noted in Exhibit 4, State financial aid programs decline 1.6%.

Financial aid is important in helping many students achieve 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 2016. Need-based aid represents the largest proportion of State financial aid, at 76%, followed by legislative aid, at 12%, career-based aid, at 10%, and aid to unique populations, at 2%.

Exhibit 9
State Financial Aid by Type
Fiscal 2016 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 OFSA 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 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 the EAG appropriations and applicants from fiscal 2010 to 2015. EAGs account for about 70% of all EEA funding. While appropriations for EAGs remained fairly constant from fiscal 2007 through 2013, the NBSFAF increased the appropriation significantly in fiscal 2014. At the same time, student need grew significantly over the past decade given increases in tuition and other costs as well as flat or declining family incomes during the Great Recession. The number of EAG applicants increased nearly 40% between fiscal 2010 and 2013, and those applying demonstrated greater financial need due to the economic recession. Total applications have declined substantially since fiscal 2013.

Currently, over 30,000 students have applied in fiscal 2015 with \$0 EFC, which is down from a high of over 38,000 in fiscal 2012. As a result of growing student need, EAG aid has become more concentrated in lower EFCs each year. In fiscal 2015, to date, MHEC has awarded EAGs to students with EFCs up to \$2,610, which is similar to levels reached in fiscal 2012 and 2013, but well below what the extra special fund money allowed fiscal 2014 to reach because of the \$10 million EEA deficiency. From fiscal 2010 through 2013, the EFC maximum for which awards were made had dropped to as low as \$1,500, with the waitlist growing to over 30,000 in some years. As of fiscal 2014, the waitlist declined to about 10,000 due to more aggressive awarding and low cancellation rates, although some students that dropped off the list ceased to qualify for aid because they did not enroll full-time at Maryland institutions. The current waitlist in fiscal 2015 is about 22,000 but will likely decline as MHEC removes ineligible students. Potential changes to the EAG program will be discussed in Issue 2 of this analysis.

Exhibit 10
Educational Assistance Grants
Fiscal 2010-2015

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	% Increase	
							<u>2010-15</u>	<u>2014-15</u>
Appropriation (\$ in Millions)	\$76.5	\$77.3	\$75.1	\$76.4	\$91.0	\$80.0	4.6%	-12.0%
EEA Applicants (on-time FAFSAs)	129,300	145,944	170,489	178,603	134,669	131,683	1.8%	-2.2%
EEA Initial Applicants with \$0 EFC	24,672	26,112	38,282	35,795	32,565	30,359	23.1%	-6.8%
EEA Renewal Applicants with \$0 EFC					17,683	19,070		7.8%
EFC Awarded ¹	\$8,764	\$5,516	\$1,500	\$3,750	\$10,709	\$2,610	-70.2%	-75.6%
Waitlist ²	11,333	18,504	31,000	30,865	10,180	21,982	94.0%	115.9%

EEA: Educational Excellence Award

EFC: Expected Family Contribution

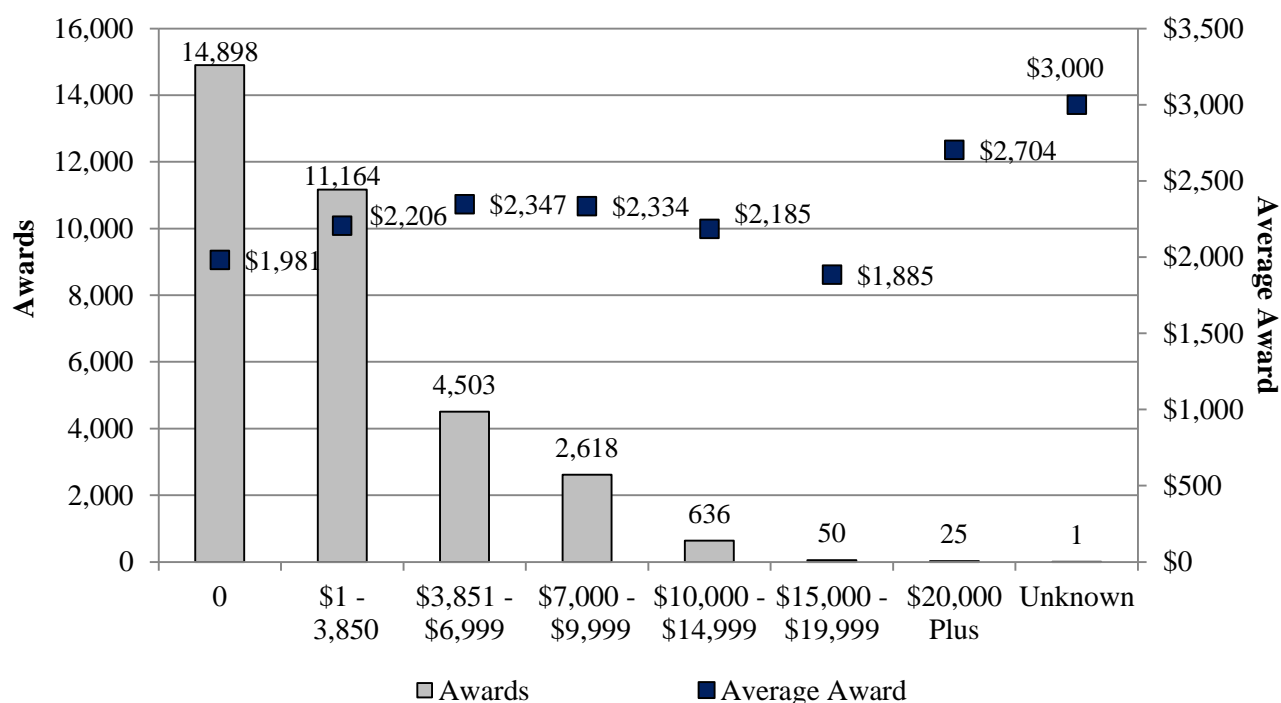
FAFSA: Free Application for Federal Student Aid

¹The numbers are maximum for which awards are made and as of the last round of aid awards in December of each year.²As of May 1, students who are eligible for the EEA and are placed on the waitlist for receiving an award 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.

Source: Maryland Higher Education Commission

The EAG 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 fixed at \$3,000. From fiscal 2010 to 2014, after GA awards, about \$55 million to \$60 million remained in the EEA appropriation for EAGs. **Exhibit 11** shows the number of recipients and average award in fiscal 2014 by EFC category. The maximum EFC for federal Pell grant eligibility increases periodically, with the maximum EFC in fiscal 2014 being \$5,085. Students with EFCs below this level have the greatest need. The greatest number of EAGs were made to students in the \$0 EFC category. As EFC increases, the number of EAGs decreases. As shown in Exhibit 10, MHEC was only able make *new* awards to students with EFCs up to \$10,709 in fiscal 2014, although Exhibit 11 shows a small number of awards made to students with higher EFCs due to renewal awards from prior years. Students with \$0 EFC, on average, receive \$700 less than students with EFCs of

Exhibit 11
Educational Assistance Awards by Expected Family Contribution
Fiscal 2014



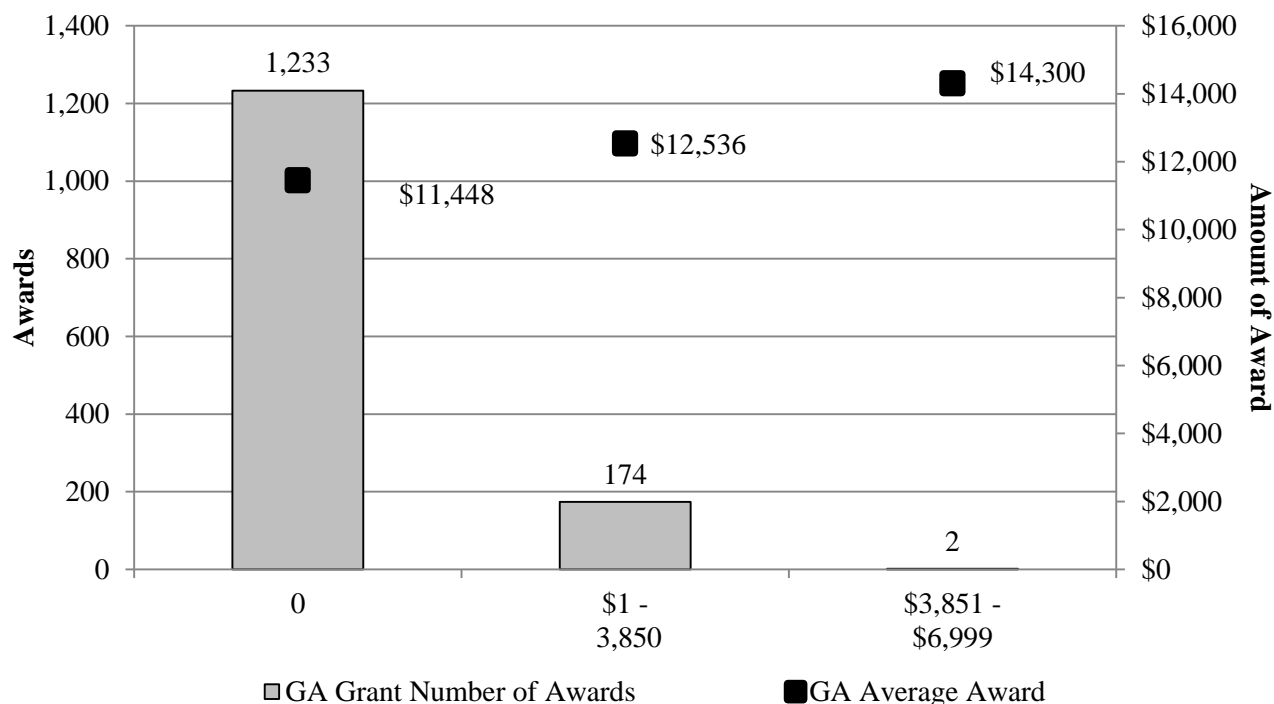
Note: Does not include campus-based Educational Excellence Awards and Guaranteed Access Grants awards.

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

\$20,000 or more. MHEC attributes this to the federal Pell grant, which students with EFCs below \$5,085 are likely to receive. Because the EAG is based on student need after federal Pell grants are accounted for, those with low EFCs often qualify for smaller EAG awards. However, it is not clear why the highest EFC category shows an increase over the preceding EFC category.

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 level (FPL) for initial awardees and 150% of the FPL 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 grants with \$0 EFC are \$11,448, compared to \$1,981 from EAGs to students with the same EFC. About 55% of EAG recipients had a \$0 EFC versus about 90% for GA recipients. The two GA awards made to higher EFCs are likely older awards passing through the system that have seen EFC changes occur.

Exhibit 12
Guaranteed Access Grant Awards by Expected Family Contribution
Fiscal 2014



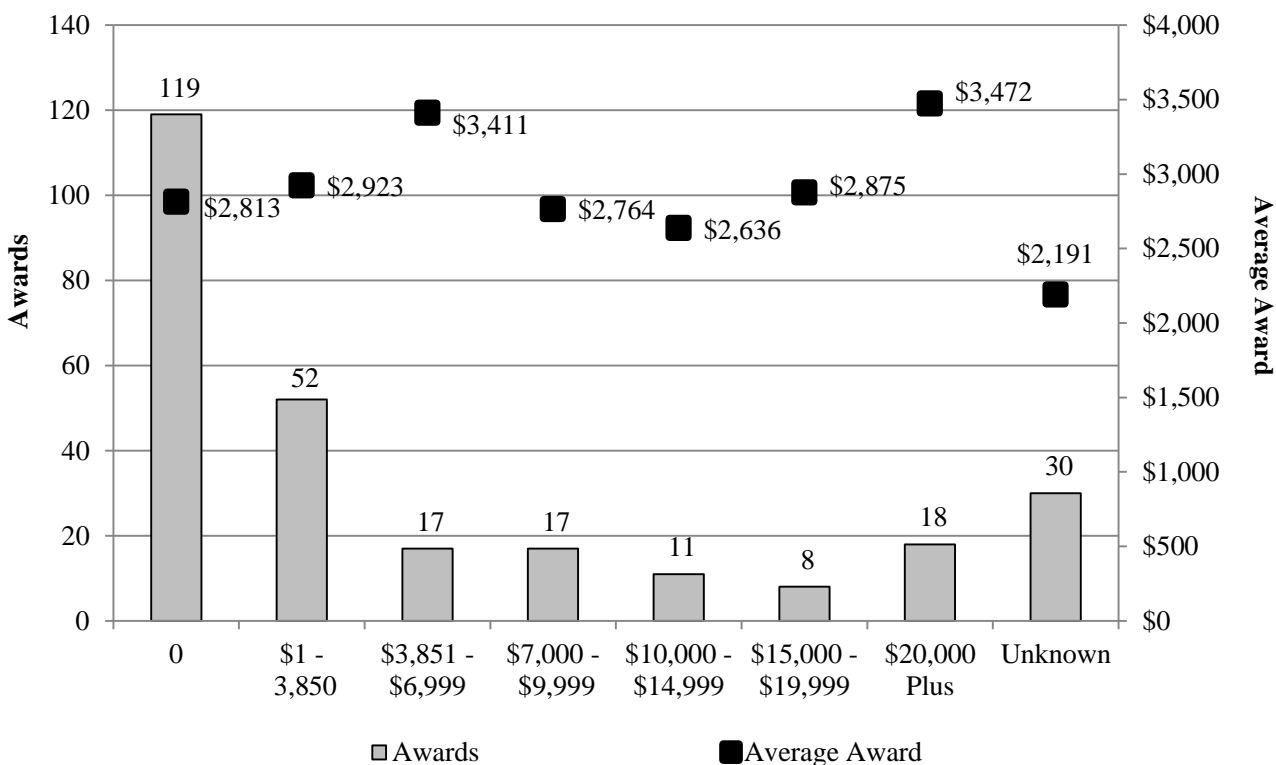
GA: Guaranteed Access

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 Grants in fiscal 2014 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 that 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; 63% have EFCs of \$3,850 or lower, while 18% have EFCs of \$10,000 or more, or did not file a FAFSA (*i.e.*, unknown). Average Workforce Shortage Student Assistance Grant awards are generally around \$2,800 across EFC categories. MHEC attributes the difference to the type of institution that the student attends, which determines the student's actual award amount.

Exhibit 13
Workforce Shortage Awards by Expected Family Contribution
Fiscal 2014

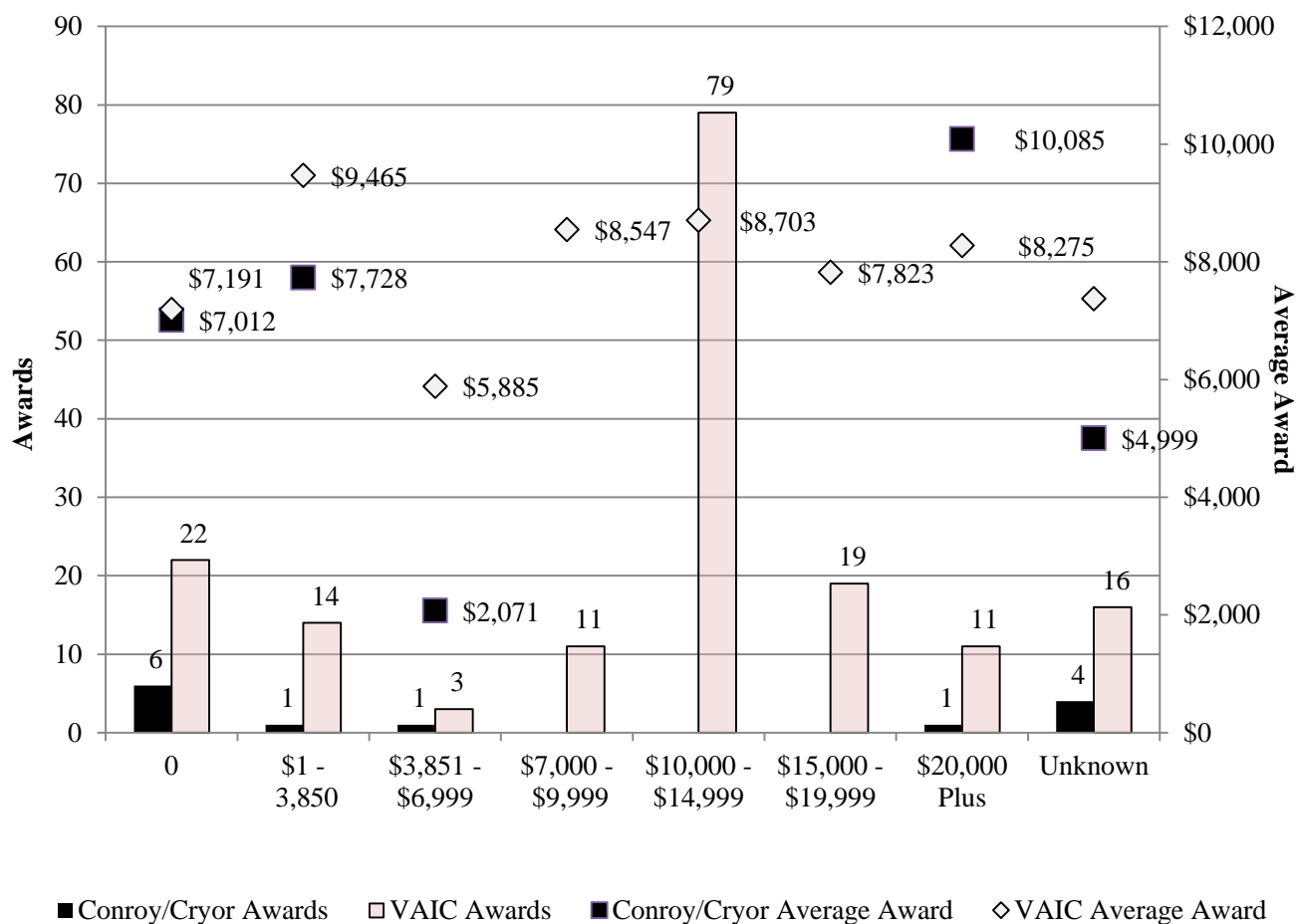


Source: Maryland Higher Education Commission, Maryland College Aid Processing System

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

Exhibit 14 shows the number of recipients and average awards for Conroy and Cryor and the VAIC Scholarship programs. These two programs are, by number of awardees, the smallest programs at MHEC. Over 60% of VAIC scholarships were made to recipients with EFCs of \$10,000 or more. While in prior years, the number of non-FAFSA filers for VAIC scholarships had been in the single digits, it appears to have grown slightly in fiscal 2014, but this may be due to the many additional awards MHEC made in this fiscal year. Most of these additional awards appear to have gone to students in the middle of the EFC spectrum for VAIC scholarships, while Conroy/Cryor is more spread out.

Exhibit 14
Unique Population Awards by Expected Family Contribution
Fiscal 2014



VAIC: Veterans of the Afghanistan and Iraq Conflicts Scholarship Program

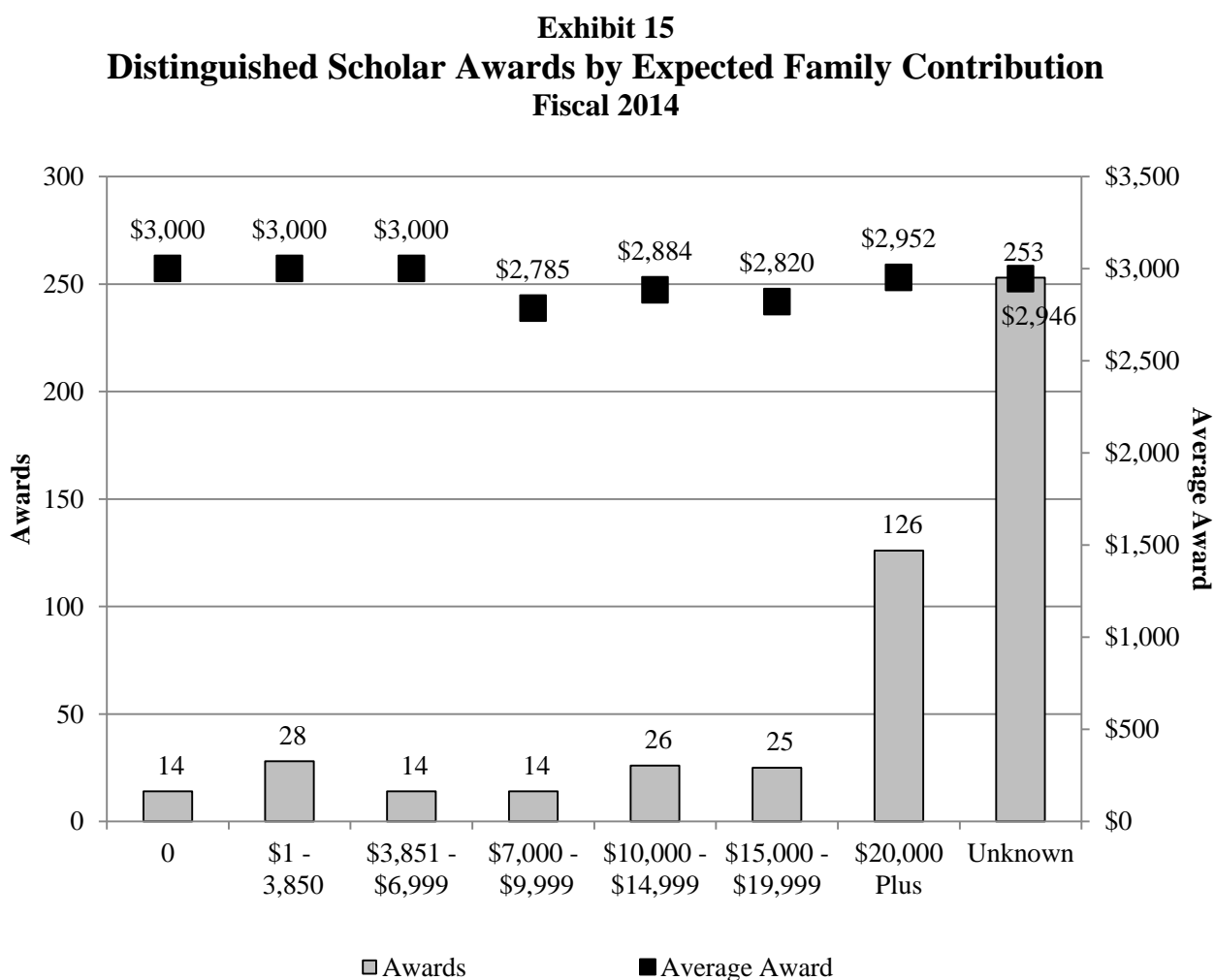
Source: Maryland Higher Education Commission, Maryland College Aid Processing System

Distinguished Scholars Winding Down

The DS 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. Due to cost containment actions, new applications were not accepted

beginning in spring 2011, and the program will phase out entirely at the end of fiscal 2015. A related program, the Distinguished Scholars Community College Transfer Program, has not received funding since 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 still award merit aid.

Exhibit 15 shows the number of recipients and average award for the DS program in fiscal 2014 by EFC. About 86.0% of the DS awards were made to students that did not file a FAFSA or have EFCs of \$10,000 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. Only 2.8% of awards went to students with a \$0 EFC.

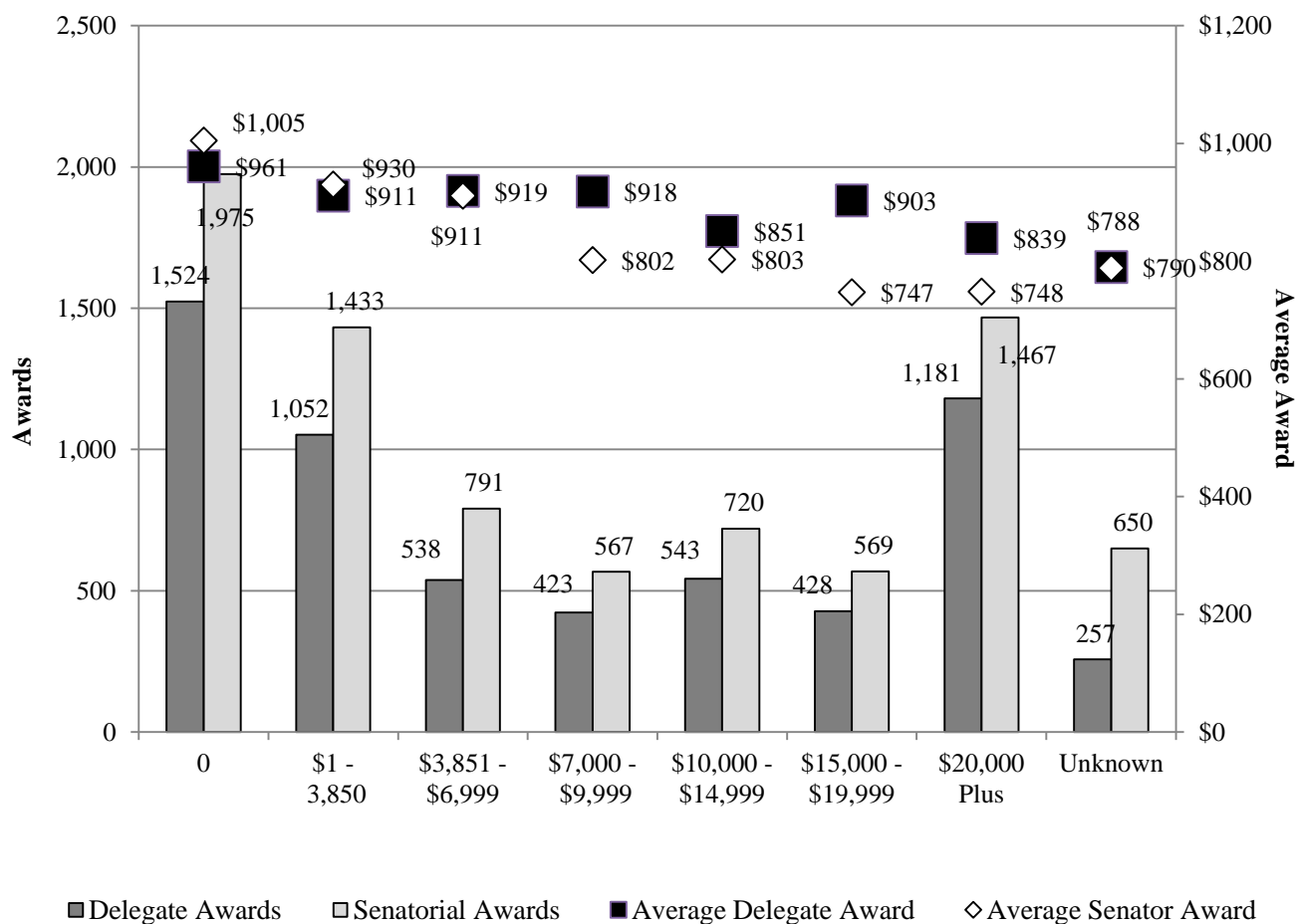


Source: Maryland Higher Education Commission, Maryland College Aid Processing System

Legislative Scholarship Program

Exhibit 16 shows the number of recipients and average award for the Legislative Scholarship Program in fiscal 2014 by EFC. The exhibit is U-shaped, suggesting most awards go to students with low or high EFCs. About 40% of awards are made to students in the two lowest EFC categories where awards are also highest. Differences between Delegate and Senatorial awards are likely due to different limits in statute on the amount and number of awards that delegates and senators may make, although both appear to make overall awards in a similar pattern.

Exhibit 16
Legislative Awards by Expected Family Contribution
Fiscal 2014



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

2. Proposed Changes to Financial Aid Programs

The 2013 *Joint Chairmen's Report* (JCR) requested MHEC to examine aspects of the GA and EAG programs, such as the application process, eligibility, number of recipients, award amounts, program expenditures, and the waitlist. MHEC submitted a report in November 2013, but it did not sufficiently address how MHEC would improve OSFA programs. The 2014 JCR requested a similar, but more focused, report and also restricted \$100,000 until the report was submitted.

To respond to the new JCR charge, MHEC reconvened the Financial Aid Advisory Committee (FAAC) in spring 2014. FAAC had not met in about five years although it is statutorily required. FAAC membership included representatives from two- and four-year institutions, as well as independent institutions. Although high school representatives were appointed to FAAC, none were able to make the regularly scheduled meetings. Following suggestions in the JCR, FAAC consulted with several other states' higher education agencies to better understand the diversity in state-level student aid initiatives. For example, Minnesota uses an extremely well-developed computer simulation to predict aid and award levels for future years but which is beyond the means of MHEC's current resources to implement.

Reviewing and improving financial aid programs is imperative because at the moment outcomes from OSFA funding are either uncertain or definitely lower than what would be satisfactory. For example, of the 542 GA Grant recipients in 2008, only 30% graduated in four years and 49% in five years, despite the State meeting the full cost of attendance for these students. While lowering the award amount to make more awards was discussed, FAAC did not pursue this option. Rather, FAAC recommends mandatory advising each semester the GA Grant is received and to have MHEC work with campuses to ensure that GA Grant recipients get connected to work study opportunities, which have a positive correlation to on-time graduation rates.

Two major changes are proposed by FAAC that would have a significant impact for OSFA and the State. First, MHEC and FAAC have embraced the idea that 15 credits should be the minimum for achieving full-time enrollment, rather than the 12 credit standard that the federal government and MHEC now use. The problem with the 12 credits per semester standard, what is generally considered full-time equals only 96 credits over four years, whereas 120 are required for a bachelor's degree. Complete College America and some states like Hawaii have pushed a "15 to Finish" campaign to encourage students to stay on time by enrolling in 15 credits per semester. It is a very simple change but requires students to commit to more work. Going forward, students enrolling in 12 credits in Maryland would receive a prorated amount of the State award, just not the maximum amount. This should provide an incentive for 15-credit enrollment and improve completion rates.

The Secretary should comment on whether the 15 credit as full-time standard should be extended into other State policies to improve on-time completion rates in Maryland and whether the 15-credit rule now applies to all State aid programs.

The second big change concerns award renewals. Historically, need-based award renewals have used up 60% of the total appropriation, which does not leave much funding for new entering cohorts of students. Currently, EAG renewals are automatic, regardless of the student's EFC after the initial award. FAAC has proposed that a fairer distribution of limited State funds would consider EFCs in

each year. This would mean a student could lose an EAG if that student's EFC was above the annual final EFC cutoff as determined by MHEC. If MHEC adopted this policy, MHEC could make awards to students on the waitlist no later than July of each year, thus creating an opportunity to have more students from the waitlist awarded and accepted prior to the start of the fall semester. This is a methodology used in West Virginia, one of the states FAAC consulted during the interim. By eliminating automatic renewals, MHEC will create greater consistency within its need-based programs because all students meeting the March 1 deadline for State aid would have an equal opportunity to receive an EAG award, based on the EFC cutoff set by MHEC. The higher amount of EAG awards made in fiscal 2014 created more demand for renewals in fiscal 2015 and later fiscal years. How MHEC grandfathered in the higher number of current EAG students eligible for renewals, and when, if ever, they may be cut off from automatic renewals has not been determined.

FAAC and MHEC provided several other broad recommendations, including how to reduce the waitlist, setting aside funding for summer grants for part-time students, managing the NBSFAF, developing an EAG application process, and improving acceptance and cancellation rates. While no significant changes were put in place to change the processes for the fall 2015 application cycle, there is time to improve the certification process at institutions for fall 2016 awards.

The Secretary should comment on progress toward implementing the recommendations of FAAC, specifically the 15-credit hour rule and the non-automatic renewal rule and when these will be fully implemented. The Secretary should also comment on any other changes MHEC may be able to put in place for the next awarding cycle and whether any regulatory or statutory changes will be forthcoming.

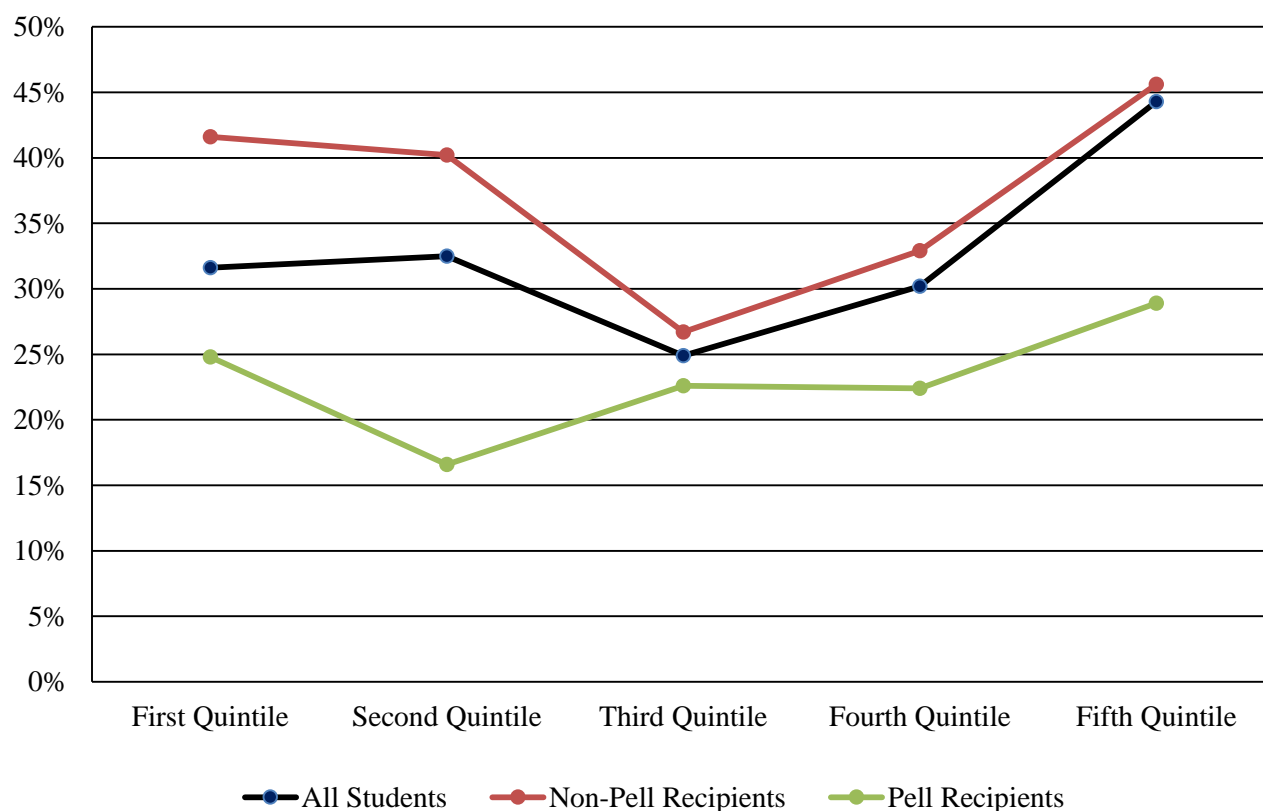
The Secretary should comment on what FAAC will consider during the next interim.

3. Report on Unmet Need and Student Success

MHEC recently submitted a third report in response to a series of JCR requests that MHEC examine the effects of unmet financial need on student performance at public four-year institutions. In the latest report, MHEC analyzed whether loans had an impact on the graduation rate of first-time, full-time students in fall 2010, after dividing this cohort into five brackets by student loan size, or loan quintiles.

As shown in **Exhibit 17**, the overall graduation rate across loan quintiles for all students is U-shaped – the highest and lowest quintiles had the highest graduation rates, 44.3% and 36.1%, respectively, and the middle quintile had the lowest, 24.9%. However, when Pell-eligible students alone are considered, all graduation rates were lower, and the bottom of the U-shape was much flatter so the difference between the upper and lower quintile and the middle quintile was only 4 to 6 percentage points. This suggests that students with small loans graduate, as well as students who take out large loans to cover all costs, whereas students in the middle may not be taking enough loans out, may be ineligible for more loans, or are reluctant to add debt and so do not graduate on time. It is not clear why only 30.0% of Pell-eligible students, even when taking out the highest amount of loans (the fifth quintile), graduate on time.

Exhibit 17
Four-year Graduation Rates of First-time, Full-time Students with Loans
Fall 2010



Note: Each quintile is one-fifth of the total range of loan amounts taken out by students in this study. The higher the quintile, the higher the amount of loans that were taken out.

Source: Maryland Higher Education Commission

MHEC also looked at quintiles of unmet need versus quintiles of family income for students loans. The results were not surprising. Over 70% of students with the highest level of unmet need (\$4,700 or more) were in the bottom two quintiles of income, while over 85% of students with overmet need (\$12,900 or more) were in the highest two quintiles of income. Overmet need means the student is receiving more financial aid, generally merit based, than is necessary to cover costs of attendance as calculated by the FAFSA. MHEC's work also highlights some unusual outcomes. For example, no more than 45% of students with overmet graduate on time at any quintile of family income, and none graduated from the lowest quintile, suggesting financial aid leading to overmet need is ineffective for increasing on-time graduation.

MHEC did the same analysis for students who did not take out loans. This time, overmet students graduated in four years at least 60% of time, but the on-time rate for students graduating in the lowest quintile of need met (highest unmet need) did not change significantly. This led MHEC to conclude that, for the vast majority of students with unmet need, family income and total unmet need have a stronger effect on completion than loans. Furthermore, loans appear to have a positive effect on graduation rates for low-income students who can use loans to move from having unmet need to slightly overmet need.

The Secretary should comment on whether MHEC can use this study to reduce awards that generate significant overmet need for students, especially with high EFCs. The Secretary should also comment on what studies MHEC can do to continue this research with the Maryland Longitudinal Data System.

Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Recent Changes to Financial Aid Programs

The 2013 and 2014 legislative sessions brought about a few changes and new programs to MHEC – Student Financial Aid.

- Chapter 374 of 2013 established the Maryland First Scholarship. Students must have met certain requirements, such as a 3.0 grade point average, have conducted 40 hours of community service in the year prior to application, demonstrate financial need, and be the first student in a family to attend college. No funding was provided for this program in the fiscal 2015 allowance.
- Chapter 395 of 2013 created the Jean Cryor Memorial Scholarship, which creates a new designation within the Edward T. Conroy Memorial Scholarship Program to include spouses or dependents of those who have been killed in the line of duty while serving as public or nonpublic school employees.
- Chapter 503 of 2013 restructured the Charles W. Riley Tuition Reimbursement Program so that it will transition to the Charles W. Riley Scholarship Fund. This means students get paid up front like other financial aid awards, rather than reimbursed after graduation. The first awards are to be made in the 2016-2017 academic year.
- Chapter 340 of 2014 renamed the defunct Community College Transfer Scholarship to be the 2+2 Transfer Scholarship. It requires the award be available to a student transferring to a four-year institution with an associate's degree and that, if the Governor does not provide funding, it will draw resources from the NBSFAF.
- Chapter 543 of 2014 renamed the Maryland Teacher Scholarship to be the Teaching Fellows of Maryland Scholarship and requires institutions to provide matching funds for this program. The maximum award is the full cost of attendance – tuition, fees, room, and board.
- Chapter 647 of 2014 created the Ruth M. Kirk Public Social Work Scholarship, which exists within the Workforce Shortage Student Assistance grant. This makes social workers eligible for such an award.

2. Audit Issue Being Resolved

One of the biggest hurdles for MHEC as noted in the latest OLA audit is that schools must certify enrollment and residency of awardees in September for the student to receive the award. In this process, MHEC has not been verifying the residency status of awards made, raising the possibility of improper financial aid awards being awarded. However, OLA emphasized that this is a best practice

and not an indication of any malfeasance. In order to meet the residency requirement, MHEC worked with FAAC to better understand why it takes a long time for institutions to certify rosters of awardees and how MHEC can then verify the results that are submitted.

Beginning in October 2015, MHEC will verify the residency states of 5% of all EEA awards and ramp up to 100% verification within two years using internal audit procedures. In order to receive awards, current statute dictates that institutions must do 100% verification. Originally, MHEC proposed shifting this burden to annual external audits that all public and independent institutions pay for; however, there was significant pushback from institutions as this would raise the cost of such audit reviews. For the next three years, institutions will internally audit results but then transfer this responsibility to external, private auditors. MHEC and FAAC will form a dedicated workgroup to iron out the details for this to work, including a questionnaire for institutions to fill out for verification to MHEC. This additional layer of auditing will go beyond what is on the student's FAFSA.

MHEC proposed some of these changes at the Segmental Advisory Council in January 2015 and will move forward with this plan. To begin, in March 2015, MHEC will randomly select one two-year, one four-year, and one independent institution, as well as one private career school, to begin auditing awards to figure out the best process before extending this to all schools receiving State financial aid.

Current and Prior Year Budgets

Current and Prior Year Budgets MHEC – Student Financial Assistance (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2014					
Legislative Appropriation	\$101,480	\$5,390	\$0	\$250	\$107,121
Deficiency Appropriation	-550	11,300	0	75	10,825
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	0	-1,860	0	-1	-1,862
Actual Expenditures	\$100,930	\$14,830	\$0	\$324	\$116,084
Fiscal 2015					
Legislative Appropriation	\$100,421	\$1,390	\$0	\$250	\$102,062
Cost Containment	0	0	0	0	0
Budget Amendments	0	4,240	0	150	4,390
Working Appropriation	\$100,421	\$5,630	\$0	\$400	\$106,452

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies.

Fiscal 2014

Deficiency appropriations increased the legislative appropriation for MHEC – Student Financial Assistance by \$11.3 million in special funds. Of this amount, \$10.0 million went toward issuing additional need-based awards, and \$1.3 million went toward additional awards in the Conroy and VAIC scholarship programs. Reimbursable funds were increased by \$75,000 to align expenditures with awards made. General funds decreased \$0.6 million to correct a budgeting error in the DS program.

At the close of the fiscal year, special funds totaling about \$1.9 million were reverted to special MHEC funds for later use. Of that amount, \$1.2 million came from declined financial aid awards, which revert to a special NBSFAF, and \$0.7 million represents fund balance in the LARP that will be spent in the next fiscal year. Reimbursable funds decreased \$1,442 from a cancellation to account for unspent Department of Health and Mental Hygiene award revenue.

Fiscal 2015

To date in fiscal 2015, the special fund appropriation has increased by \$4.2 million as carry forward funds were transferred to the current fiscal year: EEA (\$3.0 million); VAIC Scholarship Program (\$0.8 million); Conroy (\$0.3 million); and the Hoffman LARP (\$0.2 million).

Object/Fund Difference Report
MHEC – Student Financial Assistance

<u>Object/Fund</u>	<u>FY 14 Actual</u>	<u>FY 15 Working Appropriation</u>	<u>FY 16 Allowance</u>	<u>FY 15 - FY 16 Amount Change</u>	<u>Percent Change</u>
Objects					
12 Grants, Subsidies, and Contributions	\$ 116,084,127	\$ 106,451,547	\$ 104,797,532	-\$ 1,654,015	-1.6%
Total Objects	\$ 116,084,127	\$ 106,451,547	\$ 104,797,532	-\$ 1,654,015	-1.6%
Funds					
01 General Fund	\$ 100,930,491	\$ 100,421,265	\$ 102,932,250	\$ 2,510,985	2.5%
03 Special Fund	14,830,078	5,630,282	1,465,282	-4,165,000	-74.0%
09 Reimbursable Fund	323,558	400,000	400,000	0	0%
Total Funds	\$ 116,084,127	\$ 106,451,547	\$ 104,797,532	-\$ 1,654,015	-1.6%

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.

Fiscal Summary
MHEC – Student Financial Assistance

<u>Program/Unit</u>	<u>FY 14 Actual</u>	<u>FY 15 Wrk Approp</u>	<u>FY 16 Allowance</u>	<u>Change</u>	<u>FY 15 - FY 16 % Change</u>
10 Educational Excellence Awards	\$ 89,876,936	\$ 80,008,868	\$ 80,009,603	\$ 735	0%
12 Senatorial Scholarships	6,486,000	6,486,000	6,486,000	0	0%
14 Edward T. Conroy Memorial Scholarship Program	1,120,474	820,474	570,474	-250,000	-30.5%
15 Legislative Scholarships	5,459,501	5,625,000	5,906,250	281,250	5.0%
16 Riley Fire and EMS Tuition Reimbursement Program	358,000	358,000	358,000	0	0%
17 Graduate and Professional Scholarship Program	1,174,473	1,174,473	1,174,473	0	0%
20 Distinguished Scholar Program	1,491,000	771,000	0	-771,000	-100.0%
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	1,732,895	1,567,895	-165,000	-9.5%
28 Maryland Loan Assistance Repayment Program for Physicians	672,116	1,432,282	1,432,282	0	0%
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 Scholarship	1,410,177	1,500,000	750,000	-750,000	-50.0%
Total Expenditures	\$ 116,084,127	\$ 106,451,547	\$ 104,797,532	-\$ 1,654,015	-1.6%
General Fund	\$ 100,930,491	\$ 100,421,265	\$ 102,932,250	\$ 2,510,985	2.5%
Special Fund	14,830,078	5,630,282	1,465,282	-4,165,000	-74.0%
Total Appropriations	\$ 115,760,569	\$ 106,051,547	\$ 104,397,532	-\$ 1,654,015	-1.6%
Reimbursable Fund	\$ 323,558	\$ 400,000	\$ 400,000	\$ 0	0%
Total Funds	\$ 116,084,127	\$ 106,451,547	\$ 104,797,532	-\$ 1,654,015	-1.6%

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.