

R62I0010
Student Financial Assistance
Maryland Higher Education Commission

Operating Budget Data

(\$ in Thousands)

	<u>FY 16</u> <u>Actual</u>	<u>FY 17</u> <u>Working</u>	<u>FY 18</u> <u>Allowance</u>	<u>FY 17-18</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$103,035	\$102,733	\$106,417	\$3,684	3.6%
Adjustments	0	-1,100	0	1,100	
Adjusted General Fund	\$103,035	\$101,633	\$106,417	\$4,784	4.7%
Special Fund	1,570	1,665	1,665	0	
Adjustments	0	3,100	0	-3,100	
Adjusted Special Fund	\$1,570	\$4,765	\$1,665	-\$3,100	-65.1%
Reimbursable Fund	322	400	400	0	
Adjusted Reimbursable Fund	\$322	\$400	\$400	\$0	0.0%
Adjusted Grand Total	\$104,927	\$106,798	\$108,482	\$1,684	1.6%

Note: Includes targeted reversions, deficiencies, and contingent reductions.

- General funds increase \$4.8 million, or 4.7%, in the fiscal 2018 allowance after adjusting for a targeted reversion in fiscal 2017.
- There is no change to reimbursable funds. Special funds decrease by \$3.1 million due to a fund balance transfer in fiscal 2017 to backfill cost containment of \$3.1 million in that fiscal year.
- Total State support for student financial assistance programs increases \$1.7 million, or 1.6%, in fiscal 2018, less than the anticipated 2.0% increase in tuition and public four-year institutions.

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

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Analysis in Brief

Major Trends

Free Application for Federal Student Aid Becomes Easier to File: Due to two recent changes to the federal financial aid application, the number of students applying for aid is likely to increase in the future. The Maryland Higher Education Commission (MHEC) has developed new metrics to track the outcomes of these changes.

Number of Guaranteed Access Grants Awarded Decline Slightly: The number of students receiving Guaranteed Access Grants increased by 27.8% between fiscal 2008 and 2016, although awards fell 10.1% in fiscal 2013 and 1.0% in fiscal 2016. Applications and awards are expected to rebound from these declines and increase again in fiscal 2017 and 2018.

Issues

State Need-based Aid Reaches Only the Neediest Students: Data collected by MHEC on recipients of need-based State financial aid indicates that most aid is awarded to students with the lowest expected family contribution levels. Even with funding growing slightly in recent years, a lengthy waitlist remains.

Some Advisory Committee Recommendations Are Implemented: MHEC has 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.

MHEC Continues Research on Financial Need: During the 2016 interim, MHEC continued its ongoing research into a 2008 cohort of financial aid recipients and how they have fared since their initial enrollment. The new research aligns with previous findings that an effective way to use financial aid resources to improve graduation rates is to meet or overmeet the financial need of low-income students.

Some Net Price Calculators Need Updating: All Maryland institutions have Net Price Calculators on their websites now. MHEC recently submitted a report on the timeliness of the information posted online by institutions and found some schools share very outdated information.

Recommended Actions

	<u>Funds</u>
1. Add language expressing legislative intent on need-based aid.	
2. Add language to restrict funds in the Educational Excellence Program to that purpose.	
3. Reduce general funds for Delegate Scholarships.	\$ 303,620
Total Reductions	\$ 303,620

Updates

Recent Changes to Financial Aid Programs: The 2016 legislative session brought about a few changes and new programs to MHEC – Student Financial Aid. This update will review new and modified programs, as well as other initiatives related to college affordability.

Program Review of Financial Aid Awards: MHEC is currently working with institutions to certify residency status of students receiving State awards. This process is expanding and will ultimately be transferred completely from MHEC to any institution receiving financial aid from MHEC.

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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 recent changes to OSFA programs from the 2015 and 2016 legislative sessions.

This analysis includes MHEC Student Financial Assistance 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 these financial aid programs, as well as other educational grant programs administered by the commission. It also contains the agency's most recent audit findings from the Office of Legislative Audits (OLA).

Exhibit 1
Financial Aid Programs in Fiscal 2017

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 grants 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.
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 grade point average required.

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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 converted 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)

Janet L. Hoffman	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.
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 and physician assistants.
Maryland Dent-Care	Loan repayment assistance designed to increase access to oral health services for Maryland Medical Assistance Program recipients.
Foster Care Recipients	Loan repayment assistance designed to increase higher education access for students who received foster care assistance (new in fiscal 2018).

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 has been provided.
Teaching Fellows of Maryland Scholarship	Scholarship for those pursuing a degree leading to a Maryland professional teacher's certificate. Requires service obligation. No funding has been provided.

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. Free Application for Federal Student Aid Becomes Easier to File

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. To receive many State awards, a student must first apply for federal financial aid, which includes Pell grants and Stafford loans. The Pell grant 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. This strategy is called “last dollar” aid.

To receive federal aid, students must file a Free Application for Federal Student Aid (FAFSA) prior to each year of enrollment in higher education. Students must comply with Selective Service registration and have a high school diploma or equivalent or pass an ability-to-benefit test. A student also must not owe any refund on a federal grant, be in default of a previous federal student loan, or have certain drug convictions. The FAFSA made two significant changes for students applying for aid in academic year 2017-2018 (fiscal 2018). First, it now allows students to submit prior year tax information. MHEC recommends that students use the Data Retrieval Option on the new FAFSA, which allows students to transfer tax information directly from the Internal Revenue Service to the FAFSA application, thus eliminating errors and providing an accurate account of the student and/or parents’ income. Second, because of the first change, the FAFSA form is now available beginning on October 1 prior to the start of the next academic year, rather than January 1. This means that students applying for aid in fiscal 2018 have an additional three months to fill out their FAFSAs. Although the FAFSA application is available beginning in October, the Maryland State deadline for submission of the 2017-2018 FAFSA will remain March 1. FAFSA applications filed after March 1 will only be accepted until April 1, and awards will be made based on the availability of funds.

MHEC has just added two Managing for Results (MFR) metrics related to students filing FAFSAs. Unfortunately, because these are new MFRs, data is only available for fiscal 2014 to 2018 estimates. The ratio of on-time FAFSAs to the number of high school graduates is estimated to increase from 71.2% in fiscal 2014 to 72.8% in fiscal 2018. This level of growth seems low for two reasons. First, given the changes mentioned earlier, the FAFSA should become substantially easier to fill out. Second, submitting a FAFSA does not commit a high school student to enrollment in higher education. Therefore, more students should be encouraged to submit FAFSAs as there is no downside for the student. The second MFR tracks students 25 years old and older who file FAFSAs. This data projects a moderate decline in FAFSAs for adult students from nearly 10,400 in fiscal 2014 to 9,000 in the fiscal 2018 estimate. As more years of data are collected, these measures should become more informative.

For more immediately useful data, MHEC has reported on the number of FAFSAs that it received for State aid programs in the first month of FAFSA availability in fiscal 2016 (*i.e.*, January) and 2017 (*i.e.*, October) and total FAFSAs received. Data remains incomplete for fiscal 2017 as students have until March 1, 2017, to submit FAFSAs. However, the comparisons, shown in **Exhibit 2**, still show some interesting results.

The number of FAFSAs filed in the first month of FAFSA availability declined by 22.4% in fiscal 2017, which is not surprising given that it was likely not every student would be aware of the change in availability. What is more interesting is that the ratio of FAFSAs filed with an expected family contribution (EFC) of \$0 fell only 1.9 percentage points, indicating that students from families with the least ability to pay are about as likely as before to file an early FAFSA. As of January 26, 2017, MHEC had already received about 112,000 FAFSAs, or about 92.0%, of the total FAFSAs that it received through March 1 in the prior year. Students still have two full months to submit FAFSAs in

fiscal 2017. Out of this larger FAFSA sample, the percentage of FAFSAs that came from students whose EFCs fall below \$2,900, meaning that they are likely to qualify for a need-based Educational Assistance (EA) grant actually grew slightly from 49.5% to 51.1%. **The Secretary should comment on the number of FAFSAs received to date in fiscal 2017, and how much FAFSA filing may increase in fiscal 2018 and beyond due to recent federal changes. The Secretary should also comment on whether the secondary and postsecondary education sectors have done an adequate job informing students about the changing dates of FAFSA availability.**

Exhibit 2
FAFSA Filing Information in Maryland
Fiscal 2016-2017

	<u>2016</u>	<u>2017</u>	<u>Change</u>	<u>% Change</u>
FAFSAs filed in first month	47,530	36,898	-10,632	-22.4%
Total \$0 EFCs filed in first month	17,074	12,567	-4,507	-26.4%
Percent filed as \$0 EFCs	35.9%	34.1%	n/a	-9.5%
 Total FAFSAs filed to date	 121,211	 111,974	 -9,237	 -7.6%
Total filed below EFC cutoff of \$2,900	60,024	57,262	-2,762	-4.6%
Percent filed below EFC cutoff	49.5%	51.1%	n/a	3.2%

EFC: expected family contribution

FAFSA: Free Application for Federal Student Aid

Note: In fiscal 2016, the first month of availability was January 1 to 31, 2016, while in fiscal 2017, the first month of availability was October 1 to 31, 2016. Data for fiscal 2017 is only available through January 26, 2017. Students have until March 1, 2017, to file FAFSAs to apply for State aid from the Maryland Higher Education Commission.

Source: Maryland Higher Education Commission

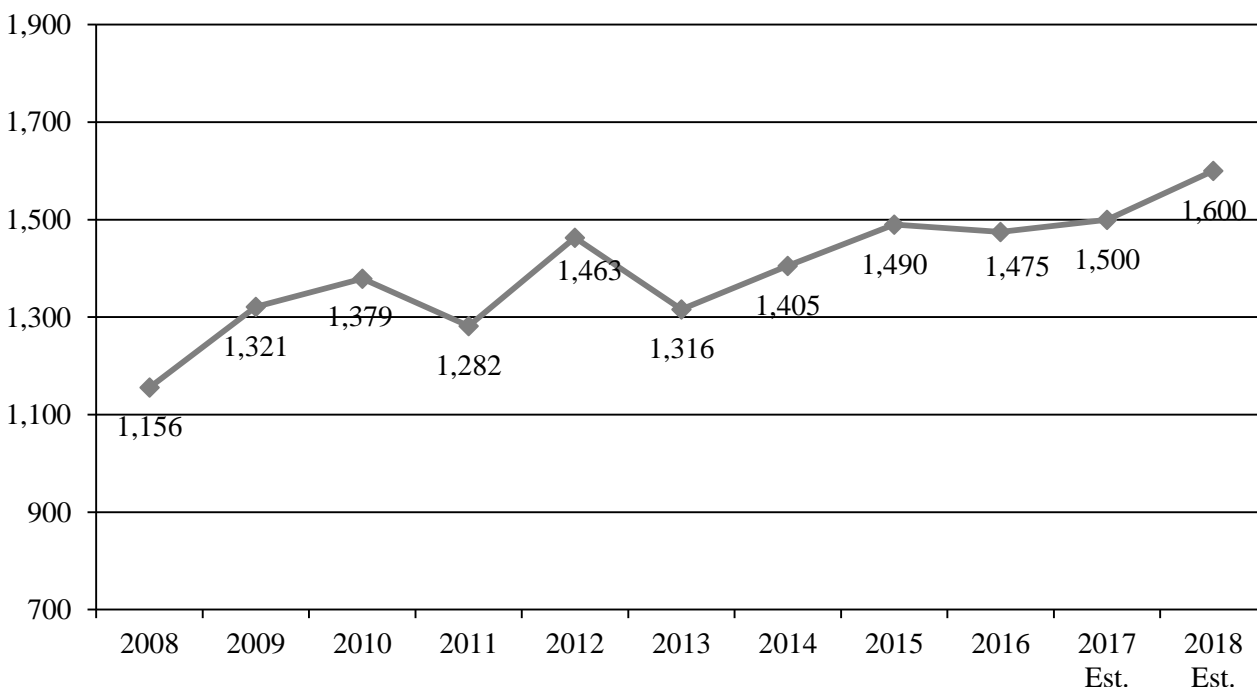
2. Number of Guaranteed Access Grants Awarded Decline Slightly

Alongside EA grants, the Guaranteed Access (GA) Grant is the other component of the Delegate Howard P. Rawlings Educational Excellence Awards (EEA) program. GA grants cover 100% of need when combined with a federal Pell grant for the State's lowest income students. The maximum amount is capped at the total cost of attendance (tuition, fees, and room and board) 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 2016 was \$17,500, and the maximum award in fiscal 2017 is \$17,900. Students that meet all program criteria, such as

enrolling directly from high school and having certain family income limits tied to the federal poverty level (FPL), are guaranteed funding. GA grants provide for very high financial support compared to both other Maryland financial aid programs and also programs across other states.

Exhibit 3 shows that the number of GA grants awarded from fiscal 2008 to the 2018 estimate. While awards generally increased over time, the growth has been uneven. Between fiscal 2008 and 2009, awards increased by 14.3%, but awards declined in fiscal 2011 and 2013. Awards increased again in fiscal 2014 and 2015 but declined slightly in the 2016 actual; awards are expected to grow in 2017 and 2018. With 1,490 awards, fiscal 2015 remains the year of highest awarding. One year ago, MHEC had projected 1,460 awards in fiscal 2016, so the agency's estimate was off by only 15 awards, or 1.0%. MHEC now projects 1,600 awards in fiscal 2018, which would put total 10-year growth for GA grants at 444 awards, or 38.4%. Because of the FAFSA changes, more GA awards are likely in future years. Additionally, as will be discussed in Issue 2, MHEC eliminated the application for GA awards effective in the 2017-2018 award year.

Exhibit 3
Guaranteed Access Grants Awarded
Fiscal 2008-2018 Est.



Source: Maryland Higher Education Commission

Fiscal 2017 Actions

Cost Containment, Deficiencies, and Targeted Reversions

Funding for the EEA programs, which consist of EA and GA grants, was reduced by \$3.1 million in fiscal 2017. A proposed deficiency appropriation will transfer \$3.1 million in special funds from an MHEC fund balance to backfill the cut, so there will be no net effect in funding across financial aid programs.

The fiscal 2018 budget plan also assumes a targeted reversion of \$1.1 million in general funds in fiscal 2017 due to the Governor choosing not to release funds restricted in the new Maryland Early Graduation Scholarship (MEGS) program to certain purposes specified by the General Assembly. The Governor did release \$1.9 million of the total \$3.0 million restriction, including \$1.6 million that went to the EEA programs. There is no funding provided for MEGS in fiscal 2018, although it is still mentioned on the MHEC website.

Proposed Budget

The Governor's proposed fiscal 2018 budget for State-supported student financial assistance programs is shown in **Exhibit 4**. Overall, reimbursable funds do not change in the allowance. The only change to special funds, as mentioned, is related to the one-time backfilling of cost containment in fiscal 2017. General funds increase \$4.8 million, or 4.7%. This includes \$0.1 million for a new loan assistance repayment program (LARP) for foster care recipients, \$0.4 million for Delegate Scholarships, and \$1.1 million, or 1.4%, for the EEA program. All other financial aid programs are level funded in the allowance, which means they are also not keeping pace with expected tuition increases.

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

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2016 Actual	\$103,035	\$1,570	\$322	\$104,927
Fiscal 2017 Working Appropriation	101,633	4,765	400	106,798
Fiscal 2018 Allowance	<u>106,417</u>	<u>1,665</u>	<u>400</u>	<u>108,482</u>
Fiscal 2017-2018 Amount Change	\$4,784	-\$3,100	\$0	\$1,684
Fiscal 2017-2018 Percent Change	4.7%	-65.1%		1.6%

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Where It Goes:

Other Changes

Need-based aid increase (partially offsets loss of fund balance transfer).....	\$4,263
Delegate Scholarships increase to accommodate undergraduate tuition increase	430
New Maryland foster care recipients aid program.....	100
Hoffman Loan Assistance Repayment Program adjustment	-9
Removal of one-time fund swap to backfill cost containment (special funds)	-3,100
Total	\$1,684

MHEC: Maryland Higher Education Commission

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

Need-based Student Financial Assistance Fund

The Need-based Student Financial Assistance Fund (NBSFAF) was created in 2011 to receive unused scholarship funds at the close of each fiscal year that can be used for future need-based and certain unique population awards. Funds from the NBSFAF can be appropriated in the annual State budget or recognized by budget amendment in the following fiscal year, creating a transparent process for MHEC to encumber unexpended scholarship funds.

In an October 2013 audit report of MHEC, OLA reviewed the NBSFAF for the first time. Finding 1 in that report raised concerns over the amount of funding built up. In academic year 2012-2013, there were over 16,000 applicants on EEA's waiting list and fund reserves of over \$17 million, but little funding was appropriated until deficiencies for fiscal 2013 were included in the fiscal 2014 budget bill. However, MHEC has since spent down much of the fund balance, and the January 2017 OLA audit of MHEC raised no new issues with the NBSFAF.

Exhibit 5 shows the current balance of nonlapsing special funds in the NBSFAF in fiscal 2015 through 2017. NBSFAF began with nearly \$9.9 million in carry forward funds from fiscal 2011 to 2012. While 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 and require a general fund deficiency, as happened in fiscal 2016, MHEC allowed the fund balance to grow significantly in fiscal 2012 through 2014 with transfers totaling \$19.2 million. MHEC has since used the fund to backfill a loss of federal funds in fiscal 2012 through 2015 and to make additional awards to certain programs, mainly EEA, Veterans of Afghanistan and Iraq Conflict, and Conroy awards. Since fiscal 2012, MHEC has redistributed \$24.6 million in financial aid funding through the NBSFAF, with \$21.4 million, or 87.2%, going toward awarding additional EA grants.

Exhibit 5
Need-Based Student Financial Assistance Fund
Fiscal 2015-2017

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Cumulative Transfers¹</u>
Opening Balance	\$5,159,196	\$412,620	\$4,620,853	
Transfers Out				
2 + 2 Transfer		\$160,500	\$200,000	\$360,500
EEA	\$4,159,000		3,100,000	21,420,369
Conroy Memorial	250,000			1,195,426
VAIC Scholarship	634,973			1,600,525
Subtotal	\$5,043,973	\$160,500	\$3,300,000	\$24,576,820
Transfers In	\$297,398	\$4,368,732		\$25,895,173
Closing Balance	\$412,620	\$4,620,853	\$1,320,853	

EEA: Education Excellence Awards

VAIC: Veterans of the Afghanistan and Iraq Conflicts

¹ Cumulative totals include numbers from fiscal 2012 through 2017.

Note: This exhibit includes the working appropriation's assumed future transfer of \$0.2 million to 2+2 Scholarships.

Source: Maryland Higher Education Commission

MHEC had received a general fund deficiency of \$1.7 million in fiscal 2016 due to a concern that the award cancellation rate was going to be lower than anticipated, which would leave MHEC with insufficient funding to cover the financial aid commitments it had made. However, fiscal 2016 ultimately had \$4.4 million transferred to the fund balance. Most of the fiscal 2016 reversion was due to \$3.8 million from EEA program award cancellations, which were unexpectedly high (71%). This meant the NBSFAF opened in fiscal 2017 with \$4.6 million in the fund balance. **The Secretary should comment on when MHEC was first aware it no longer needed the \$1.7 million deficiency in fiscal 2016 to cover all outstanding EEA commitments.**

Out of the opening fund balance, \$3.1 million is a special fund deficiency appropriation to backfill the fiscal 2017 cost containment mentioned earlier. In addition, there remains a fiscal 2017 special fund appropriation for 2+2 Transfer Scholarships for \$0.2 million. This leaves \$1.3 million left in the account, which could carry forward or be used for additional awards in certain eligible financial aid programs, like Conroy and Cryor Memorial Scholarships.

MHEC reports that the appropriation for Conroy awards in fiscal 2016, \$0.6 million, was insufficient to cover reimbursements of Conroy awards made by institutions to all eligible students in that year. Under State law, a Conroy award may not be less than the lesser of \$3,000 or a student's tuition and fees, and the maximum award may not exceed the highest tuition and fees at a public four-year institution in the State with exceptions specified in law. MHEC has reported that institutions are exceeding the minimum award amount in law by awarding students their tuition and fees even when \$3,000 would be less. While this is permissible under law, it is leading to higher reimbursement costs. MHEC has indicated that it would like to reduce the maximum Conroy award to \$3,000 to reduce award reimbursements in future fiscal years. Jean B. Cryor awards are also included under the Conroy budget program funding and are awarded in the same manner as Conroy awards. **The Secretary should discuss how MHEC will make this change, how it will notify students and institutions of any changes, and how MHEC can better project costs for this program in the allowance.**

2+2 Transfer Scholarship Program Awarding

Chapter 340 of 2014 created the 2+2 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 from the NBSFAF to fund it. While the fiscal 2016 legislative appropriation provided no general funds for the 2+2 Program, MHEC accepted applications for the program and transferred a total of \$0.2 million in special funds from the NBSFAF to make awards.

As shown in **Exhibit 6**, initial results for this new program were disappointing, as only 132 awards were offered and 111 accepted in the single round of awarding, resulting in only \$160,500, or 80%, of the appropriation being spent. The Maryland Association of Community Colleges reported in its most recent data book that about 9,800 students were awarded transfer degrees in fiscal 2015 and that over 71,000 community college students were enrolled in transfer degree programs in fall 2015. This suggests the first round of 2+2 awards reached only about 1% of eligible students. The fiscal 2017 legislative appropriation allocates \$0.2 million from the NBSFAF for the program, although, as shown in Exhibit 6, MHEC has indicated it would like to award a total of \$0.4 million in 2+2 Scholarships. MHEC expects awards to more than double to 235 in fiscal 2017 and increase to 270 awards in fiscal 2018. If enrollment numbers do not change, this means 2+2 awards would reach about 3% of eligible students. **The Secretary should comment on why students would decline the transfer scholarship and whether there is projected to be an adequate fund balance to provide for \$0.5 million in awards in fiscal 2018.**

Exhibit 6
2+2 Transfer Scholarship Program
Fiscal 2016-2018

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Applicants	618	1,546	1,700
Awards Accepted	111	235	270
Awards Declined or Canceled	21	40	40
Funding	\$160,500	\$400,000	\$500,000

Source: Maryland Higher Education Commission

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

As shown in **Exhibit 7**, need-based aid was essentially flat from fiscal 2015 to 2016, but has grown by 1.9% and 1.3% in fiscal 2017 and 2018, respectively. This is below the expected 2% tuition increase budgeted for fiscal 2018. 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 2013-2017 State Plan recommends further consideration of the Maryland Model, it puts forth no direct guidance or benchmarks for OSFA's programs. **The Department of Legislative Services (DLS) recommends intent language that MHEC use the NBSFAF fund balance to provide for an increase in initial awarding in need-based aid of at least 2% in fiscal 2018. DLS also recommends language that restricts funding for the EEA program be used only for that program. The Secretary should comment on whether the next State Plan, currently under development, will give guidance for improving State support for student financial assistance.**

Exhibit 7
State Financial Aid Expenditures
Fiscal 2008 and 2015-2018
(\$ in Thousands)

	<u>2008</u>	<u>2015</u>	<u>2016</u>	<u>Working 2017</u>	<u>Allowance 2018</u>	<u>\$ Change 2017-18</u>	<u>% Change 2017-18</u>
Need-based Aid	\$81,892	\$86,094	\$86,432	\$88,064	\$89,227	\$1,163	1.3%
Merit-based Aid	3,931	771	0	0	0	0	
Career-based Aid	6,142	3,503	4,582	4,409	4,500	91	2.1%
Legislative	11,245	12,111	12,392	12,805	13,235	430	3.4%
Unique Populations	1,466	2,405	1,520	1,520	1,520	0	0.0%
Total	\$104,676	\$104,885	\$104,927	\$106,798	\$108,482	\$1,684	1.6%

Note: Includes deficiency and targeted reversion in fiscal 2017.

Source: Financial Aid Information System; Maryland Higher Education Commission

Over the past decade, overall State aid has increased by \$3.8 million, or 3.6%. This was driven by need-based aid increasing by 9.0%, or \$7.3 million, and legislative awards growing about 18.0%, or \$2.0 million. This was offset by the elimination of merit-based awards, declining by \$3.9 million and career-based awards declining by \$1.6 million, or 26.7%. Discounting the brief appearance of MEGS in fiscal 2017, the State has been shifting its focus to need-based aid from merit-based aid. Also shown in Exhibit 7 is that need-based aid accounts for 82.2% of all aid in fiscal 2018 compared to 78.2% in fiscal 2008. This is due to occasional increases in need-based aid but also the conclusion of the State's last merit program in fiscal 2015. All of Maryland's 10 competitor states still offer merit scholarships of some kind at the state level.

Maryland is the only state to fund and operate a legislative scholarships program following the end of a similar program in Illinois in 2012. Maryland legislators collectively have approximately \$3.8 million in legislative carry-forward funds in fiscal 2017. The Senatorial program is fixed in the law at \$6.5 million per year, while per statute, the Delegate Scholarships program is intended to keep pace with tuition increases at public four-year institutions. Delegate Scholarships grew by \$0.4 million, or 6.8%, to \$6.7 million in fiscal 2018. **DLS recommends reducing Delegate Scholarships by \$303,620 so that this program increases to reflect no more than the projected 2.0% tuition increase from fall 2016 to fall 2017.**

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Overall, MHEC expects to award aid to over 55,000 recipients in fiscal 2017, an increase of about 1,700 students, or 3.2%, from fiscal 2016, as shown in **Exhibit 8**. This is mostly due to an expected increase in need-based grants as LARPs are flat, and the other three categories decline by small amounts. Fiscal 2018 numbers are projections based off of the allowance and generally illustrate trends MHEC expects to see in the coming year. Overall, MHEC projects awards to increase by about 900 students, or 1.6%, in fiscal 2018, again due to need-based grants.

Exhibit 8
Recipients of State Aid Programs
Fiscal 2016-2018

<u>Program</u>	2016		2017		2018	
	Actuals		Working		Governor's Allowance	
	<u>Rec.</u>	<u>Avg. Award</u>	<u>Rec.</u>	<u>Proj. Avg. Award</u>	<u>Proj. Rec.</u>	<u>Proj. Avg. Award</u>
Need-based Aid						
Educational Assistance Grant	24,377	\$2,213	26,254	\$2,160	27,250	\$1,917
Campus-based Educational Assistance Grant	1,024	1,929	1,011	1,879	1,024	1,929
Guaranteed Access Grant	1,477	13,016	1,570	13,816	1,520	13,816
2+2 Transfer Scholarship	111	1,446	175	1,650	250	800
Part-time Grant Program	6,935	734	7,112	715	6,935	734
Graduate and Professional Scholarship	481	2,320	512	2,273	481	2,442
Subtotal	34,405	\$2,369	36,634	\$2,370	37,460	\$2,180
Legislative Programs	17,652	\$1,493	17,165	\$1,512	17,165	\$1,512
Career and Occupational Programs	604	\$5,371	576	\$6,068	564	\$6,293
Unique Population Programs	641	\$2,212	617	\$3,864	664	\$2,272
Loan Assistance Repayment Programs	209	\$12,458	210	\$12,657	215	\$12,156
Total	53,511	\$1,659	55,202	\$1,728	56,068	\$1,594

Proj.: projected
Rec.: recipients

Source: Maryland Higher Education Commission

Issues

1. State Need-based Aid Reaches Only the Neediest Students

Financial 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 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, OSFA 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. More information on how students can determine the price of attendance is provided in the fourth Issue to this analysis.

Exhibit 9 shows trends in the EA grant appropriations and applicants from fiscal 2012 to 2017. After GA awards are made, about 70% of EEA funding remains for EA grants. While appropriations for EA grants remained fairly constant from fiscal 2007 through 2013, the NBSFAF increased EA grant funding by \$7.2 million in fiscal 2014 to \$62.6 million. This enabled OSFA to award up to a much higher EFC, \$10,709, although this is also partly due to later rounds of awarding in the same academic year. It is worth noting that the initial EA acceptance rate in fiscal 2017 is 65%, the highest rate in at least 15 years. Recent acceptance rates have averaged 32%, and fiscal 2016 was 29%. **The Secretary should comment on whether MHEC has been able to determine why the initial EA grant acceptance rate doubled in fiscal 2017. The Secretary should also update the committees on the cancellation rate for EA awards in fiscal 2017 to date.**

Total applications have declined substantially since fiscal 2013, from over 178,000 to about 131,000 in both fiscal 2015 and 2016. From fiscal 2012 to 2017, EA funding has declined by 2.1%, but the number of EA applicants has fallen 28.9%. However, the number of \$0 EFC applicants fell only half as much, 14.2%, so a greater proportion of the remaining applicants have greater need than before. This has contributed to the \$0 EFC renewal students increasing as well.

Exhibit 9
Educational Assistance Grants
Fiscal 2012-2017

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>% Increase</u>	
							<u>2012-2017</u>	<u>2016-2017</u>
EA Appropriation (\$ in Millions)	\$57.9	\$55.4	\$62.6	\$59.6	\$58.5	\$56.7	-2.1%	-3.1%
EA Applicants (on-time FAFSAs)	170,489	178,603	134,670	131,695	131,232	121,213	-28.9%	-7.6%
EA Initial Applicants with \$0 EFC	30,739	30,644	30,321	28,391	29,559	26,377	-14.2%	-10.8%
EA Renewal Applicants with \$0 EFC	13,681	16,006	15,469	16,199	18,722	15,631	14.3%	-16.5%
EFC Cutoff ¹	\$1,500	\$3,750	\$10,709	\$2,610	\$2,860	\$2,900	93.3%	1.4%
EA Awards Made	25,747	25,698	33,864	28,456	24,377	26,254	2.0%	7.7%
Waitlist ²	31,000	30,865	10,196	22,097	19,064	18,759	-39.5%	-1.6%

EA: Educational Assistance

EFC: expected family contribution

FAFSA: Free Application for Federal Student Aid

¹ The EFC cutoffs are actuals after all rounds of awarding except fiscal 2017, which reflects the most recent round of aid awarded in December 2016.

² As of May 1 for prior years. Students are eligible for Educational Excellence Awards 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 up to a certain amount based on the maximum Guaranteed Access Grant award for that award year (*e.g.*, \$17,900 in fiscal 2017).

Note: Figures here do not include the Guaranteed Access Grant.

Source: Maryland Higher Education Commission

Currently, over 26,000 students have applied in fiscal 2017 with \$0 EFC, which is down from a high of over 30,000 students in fiscal 2012 through 2014. As a result of growing student need, EA grant aid has become concentrated in lower EFCs. In fiscal 2017, to date, MHEC has awarded new EA grants to students with EFCs up to \$2,900, which is similar to the level reached in fiscal 2015 and 2016, but well below what the extra special fund money allowed fiscal 2014 to reach.

While EFC and family income are related, they are not interchangeable concepts. Depending on a family's circumstances, the FAFSA's aid formula may award aid to a student from a family with a moderate or even high income. Most aid, however, still goes to students from low-income families. MHEC reports that in fiscal 2015 the average income of a student receiving an EA grant was \$32,000. For students on the waitlist in fiscal 2016 and 2017, family incomes averaged between \$77,000 and \$80,000. Community college students receiving a Pell grant and EA award covered on average 37% of financial need in fiscal 2015, far below the State's target of 60%. At the four-year level, the same sources of aid cover only 30% of need, below the target of 40%.

Certification of Awards Creates Annual Bottleneck for Reawarding Funds

Every year from June to September, institutions review and process student rosters to certify, and, if necessary, cancel EEA awards in the upcoming academic year. Then, in October, OSFA can determine if there is sufficient funding remaining to warrant additional awarding off of the EA waitlist. However, historically, MHEC has struggled to get institutions that receive State awards as payment for the cost of attendance to certify the enrollment of the student awardee.

With schools not verifying enrollment rosters in a timely manner, MHEC has unclaimed financial aid awards backing up that could be recycled for more awards, potentially in the same academic year. One ongoing effort of MHEC is solving this roster certification issue, as it will be critical for improving the outcomes of State financial aid. 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 in 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 upon creates burdens for the student to figure out how to align the State award with other educational finances.

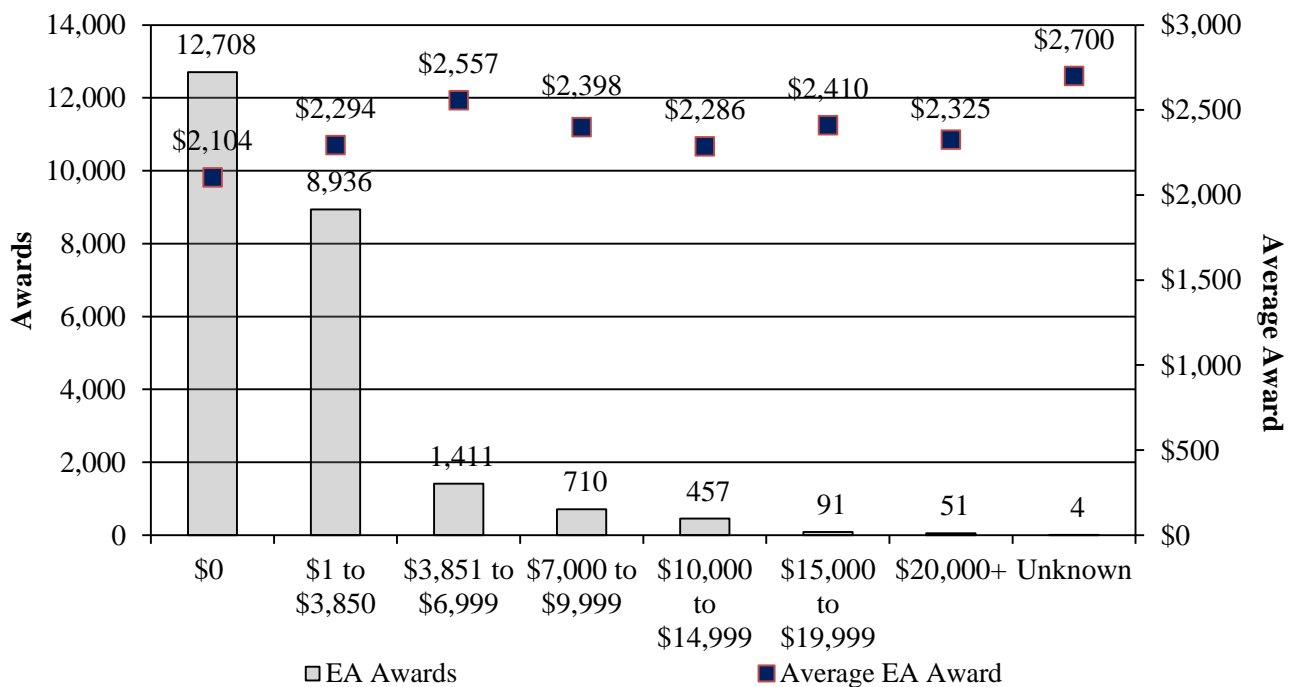
In fall 2016, MHEC contacted senior leadership at each institution to certify enrollments early in the fall semester. This is the first time OSFA has done certification reminders this way. Previously, some institutions often did not touch their certification roster until December. Institutions made significant progress on their student rosters and MHEC had about \$8.0 million to do another round of awarding in December, reaching over 3,900 students. This pushed the EFC cutoff for EA grants from an initial \$2,000 to \$2,900, as is shown in Exhibit 9.

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 students in two years. In fiscal 2014, the waitlist declined to about 10,000 students 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 2017 is about 18,800 students, which reflects an EFC cutoff of \$17,900, the equivalent of the maximum GA award, which is the cost of attendance at the most expensive public four-year institution. MHEC implemented the EFC cutoff for the first time in 2016 in order to provide a more realistic waitlist of students who may be likely to receive aid. Changes to the EA grant program and the waitlist cutoff will be discussed in Issue 2 of this analysis.

Awards by EFC Distribution

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 has been fixed at \$3,000 since fiscal 1996. With the exception of fiscal 2014, there has been between \$55 million and \$60 million remaining for EA grants from 2011 to 2017, after GA awards have been made. **Exhibit 10** shows the number of recipients and average award in fiscal 2016 by EFC category. The greatest number of EA grants were made to students in the \$0 EFC category. As EFC increases, the number of EA grants awarded decreases. As shown in Exhibit 9, MHEC was only able make *new* awards to students with EFCs up to \$2,860 in fiscal 2016, although Exhibit 10 shows a small number of awards made to students with higher EFCs due to renewal awards from prior years, especially fiscal 2014, which had an EFC cutoff of \$10,709.

Exhibit 10
Educational Assistance Grants by Expected Family Contribution
Fiscal 2016



EA: Educational Assistance

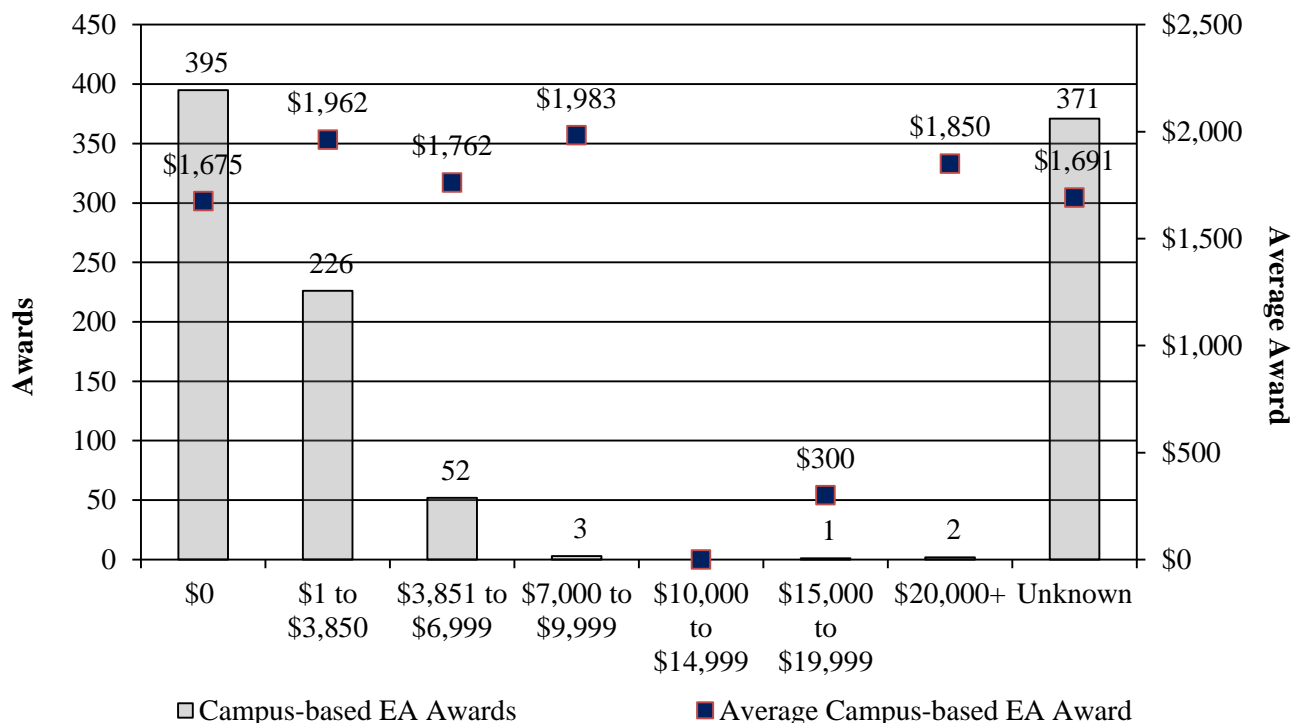
Note: Does not include campus-based Educational Assistance Grants, which are shown in the next exhibit.

Source: Maryland Higher Education Commission

EA grant students with \$0 EFC, on average, receive \$453 less than their peers with EFCs of \$3,851 to \$6,999. MHEC attributes this to the federal Pell grant, which students with lower EFCs are likely to receive. Because the EA grant is based on student need after federal Pell grants are accounted for, those with low EFCs often qualify for smaller EA grant awards. The maximum EFC for federal Pell grant eligibility increases periodically, with the maximum EFC in fiscal 2016 being \$5,815. While students with EFCs below this level have the greatest need, some will qualify for a Pell grant but receive no State aid. EA grants are renewed automatically, so if student's EFC increases for any reason in later years of study, the student still receives the EA grant. This bumps some new Pell grant students every year to the EA waitlist.

Exhibit 11 shows campus-based EA grants, which are provided with \$2.0 million per year out of the total EEA program. This funding is given to campuses for students who apply later than March 1 for financial assistance. Overall, most campus EA grants go to the two lowest EFCs, but there is a large portion of students in the unknown EFC category. This is likely due to institutions awarding aid to students whose families have low enough incomes that they do not need to file State or federal tax forms, so while the student technically has an unknown EFC, it is most likely effectively \$0. This would make such students Pell-eligible, which would explain why the average award to an unknown EFC student is almost identical to a \$0 EFC student. Because this funding is awarded later in the financial aid cycle, that is, closer to the start of the academic year, it greatly benefits students who make later decisions about enrolling, who are often first-generation and community college students. **The Secretary should comment on the need to make State and institutional financial aid more flexible, given the expected growth in enrollment of more first generation students who may not be aware of, or be able to meet, the March 1 deadline for most State aid programs.**

Exhibit 11
Campus-based Educational Assistance Grants by Expected Family Contribution
Fiscal 2016



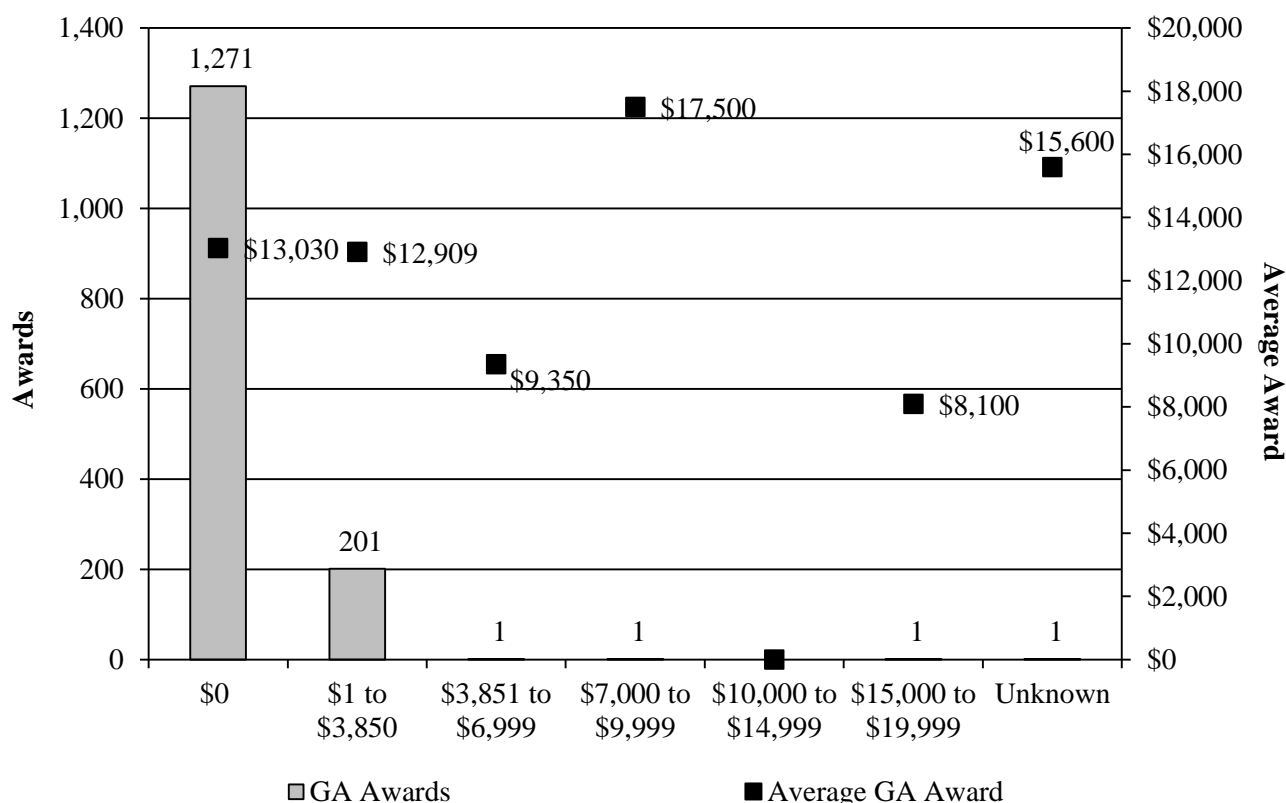
EA: Educational Assistance

Note: Does not include regular Educational Assistance Grants, which are shown in the preceding exhibit.

Source: Maryland Higher Education Commission

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 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 attendance, GA grants with \$0 EFC are \$13,030, compared to \$2,104 from EA grants to students with the same EFC. This creates a very large difference in State support for students who otherwise may not have very different EFCs. About 52% of EA grant recipients had a \$0 EFC versus about 86% for GA recipients. The four GA awards made to higher EFCs are likely older awards passing through the system that have seen EFC changes occur and may be related to the two that were reported in the fiscal 2015 data.

Exhibit 12
Guaranteed Access Grants by Expected Family Contribution
Fiscal 2016



GA: Guaranteed Access

Source: Maryland Higher Education Commission

EFC and award outcomes for selected other OSFA programs are shown in **Appendices 1, 2, 3, and 4** of this analysis. These programs generally provide more assistance to students with higher EFCs. MHEC also reports that it is working with its software vendor to provide for different EFC brackets next year to allow for more nuanced breakdowns of students by EFC and to adjust for changes to the maximum Pell grant over time.

2. Some Advisory Committee Recommendations Are Implemented

By statute, the Financial Assistance Advisory Council (FAAC) advises MHEC on policy and administrative issues affecting financial aid in the State. FAAC is comprised of financial aid directors

and other representatives from across the segments of higher education as well as high schools. Reviewing and improving financial aid programs is imperative because current outcomes from OSFA funding are either unsatisfactory or uncertain. For example, of the 542 GA Grant recipients in fall 2008, only 30% graduated in four years and 49% in five years, despite the State meeting the full cost of attendance for these students.

Changes to Need-based Grants

To improve GA outcomes, in the 2015 interim, FAAC recommended 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.

Other changes to GA grants include that in February 2016, independent institutions made a new commitment to fully fund the remaining cost of attendance for GA recipients with the Guaranteed Access Partnership Program and to provide academic support for these students. In the 2016 interim, FAAC and MHEC agreed on eliminating the GA application entirely beginning with the 2017-2018 award year, meaning any student who filed a FAFSA, shown in Exhibit 2, will be considered for a GA award. OSFA will identify students that potentially meet the eligibility criteria for the GA Grant based on the information obtained on the student's FAFSA.

OSFA is encouraging students and parents to complete the FAFSA using the Internal Revenue Service Data Retrieval Tool (DRT) to ensure that the FAFSA is being completed accurately and more expeditiously. The DRT will also be utilized by OSFA when verifying eligibility for GA Grant recipients for students and parents that utilized the tool on the 2017-2018 FAFSA application. The tax transcript will only be required by OSFA if the student or parent did not utilize DRT. Once OSFA has identified students that are potentially eligible for the GA Grant, these students will be notified of the required documentation for them to submit to determine official award eligibility. The required documents may include student and parent tax information, a Dependent/Independent Verification Worksheet, a High School Counselor Certification Form, and a high school transcript. Students who complete the FAFSA will have up until July 1 to submit all required documentation for consideration of the GA Grant. This should simplify the GA process for students but may greatly increase the number of GA awards going forward. As shown in Exhibit 3, MHEC does not currently project this outcome. However, this should be a concern because GA awards are an entitlement, so GA awards use up the funding of the EEA program first. If GA awards do increase significantly, they will crowd out funding that would otherwise go toward EA grants and increase the EA grant waitlist.

GA awards may increase further if the Next Generation Scholars Act of 2016 is implemented, which provides college and career counseling and mentoring to eligible students who prequalify for the GA Grant. The Budget Reconciliation and Financing Act (BRFA) of 2017 eliminates the \$5 million mandated funding for the program. **MHEC should discuss whether it thinks eligible students are aware of the GA program and how it will implement a prequalification system.**

To partially address the possibility of a growing waitlist, in the 2016 interim, in addition to eliminating the GA application, FAAC discussed and recommended changes to the current formula used to determine the EFC cutoff for the EA program. Moving forward, twice the annual maximum Pell limit, or \$10,658, will be used to create a more realistic waitlist and will be used beginning with the 2017-2018 award year. This is about \$7,000 lower than the current waitlist cutoff of \$17,900 in the 2016-2017 award year. **The Secretary should comment on the potential for significant growth in GA awards in fiscal 2018 and beyond and what that means for EA grant funding.**

In a report requested in the 2014 *Joint Chairmen's Report* (JCR), one big recommendation from FAAC was that 15 credits should be the minimum for achieving full-time enrollment, rather than the 12-credit standard that the federal government and MHEC currently use. The problem with the 12 credits per semester standard is that what is generally considered full-time equals only 96 credits over four years, whereas 120 are required for a bachelor's degree. This should provide an incentive for 15-credit enrollment and improve completion rates. While FAAC was initially supportive of this measure, during the 2015 interim no progress was made as FAAC could not find a firm consensus across all sectors on changing the full-time definition.

The recommendation that students should pursue 30 credits per academic year was put into practice by the College Affordability Act of 2016 (Chapters 689 and 690) beginning in the 2018-2019 academic year. Beginning in a student's third academic year of full-time enrollment, if the student successfully completed at least 24 but less than 30 credits in the prior academic year, then the amount of an EA grant or GA Grant made to the student is proportional to the number of credits out of 30 the student successfully completed. For example, a student who completed 24 credits in the prior academic year receives 80% (24/30 credits) of the amount that would have been awarded if the student had completed 30 credits instead. An academic year includes the fall, spring, and summer semesters as well as shorter semesters. The legislation also clarifies the length of time a student is eligible to receive an EEA award (two or four years, depending on the program) and that a student may be eligible for an additional year if the student meets specified requirements, including extenuating circumstances. MHEC has indicated it will begin notifying institutions of this change in February 2017 and students in April 2017. In order to receive a full EA or GA grant under the law, students must complete 30 credits in the upcoming 2017-2018 academic year.

The College Affordability Act also required MHEC to retain a consultant to review the operations of OSFA to improve the operations, processes, and information technology behind State aid programs. The General Assembly restricted \$250,000 for this purpose, but it was not released (becoming part of the targeted reversion mentioned earlier). FAAC supports the need for a consultant study to assess the needs of OSFA and has expressed disappointment that the funding was not released. **The Secretary should comment on the preparation for the shift toward the full-time change without the benefit of the consultant's study, how MHEC is informing students they will need to enroll in 30 credits to receive the maximum award and whether MHEC will be prepared to implement the required changes to its awarding process for the 2018-2019 academic year.**

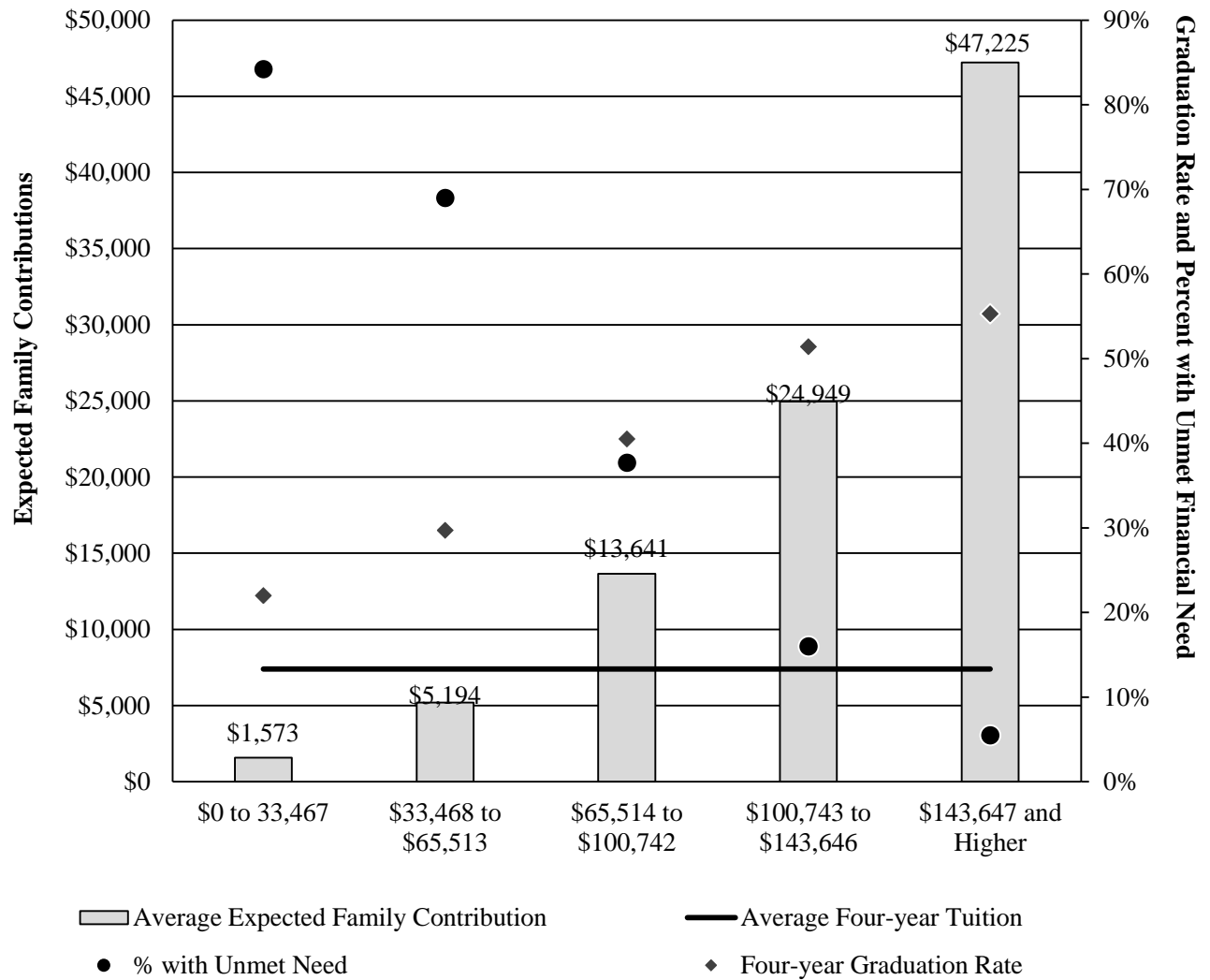
3. MHEC Continues Research on Financial Need

The 2013 through 2015 JCRs requested MHEC to examine aspects of financial aid awarding in Maryland, such as the application process, eligibility, number of recipients, award amounts, program expenditures, the waitlist, and due dates. The 2013 and 2014 JCRs, in particular, asked MHEC to consider how it could improve the management and outcomes of aid programs and MHEC consulted with FAAC in formulating its responses.

During the 2016 interim, recent research from MHEC on Maryland students receiving financial aid has studied a group of first-time, full-time students enrolling at Maryland's public four-year institutions in the fall of 2008. This aid includes federal, State, and institutional aid. **Exhibit 13** shows that the families of these students from the lowest income quintile can, on average, contribute only \$1,573 toward educational expenses. Even the second lowest quintile still falls below the average cost of tuition and fees at a Maryland four-year institution in fall 2008. Over 80% of the first quintile and nearly 70% of the second quintile have unmet need remaining after all financial aid sources are exhausted compared to only about 5% in the highest quintile.

The lowest income group is also the group that would primarily take advantage of the GA Grant. As mentioned earlier, in prior reports MHEC noted there were 542 GA recipients in 2008 and only 30% graduated in four years and 49% in five years, despite need being fully met. Academic and social engagement is a critical factor on college campuses for the success of low-income students. This is why the new Next Generation Scholars program provides for such services, as well as expansive financial aid initiatives in other states like Indiana and Washington.

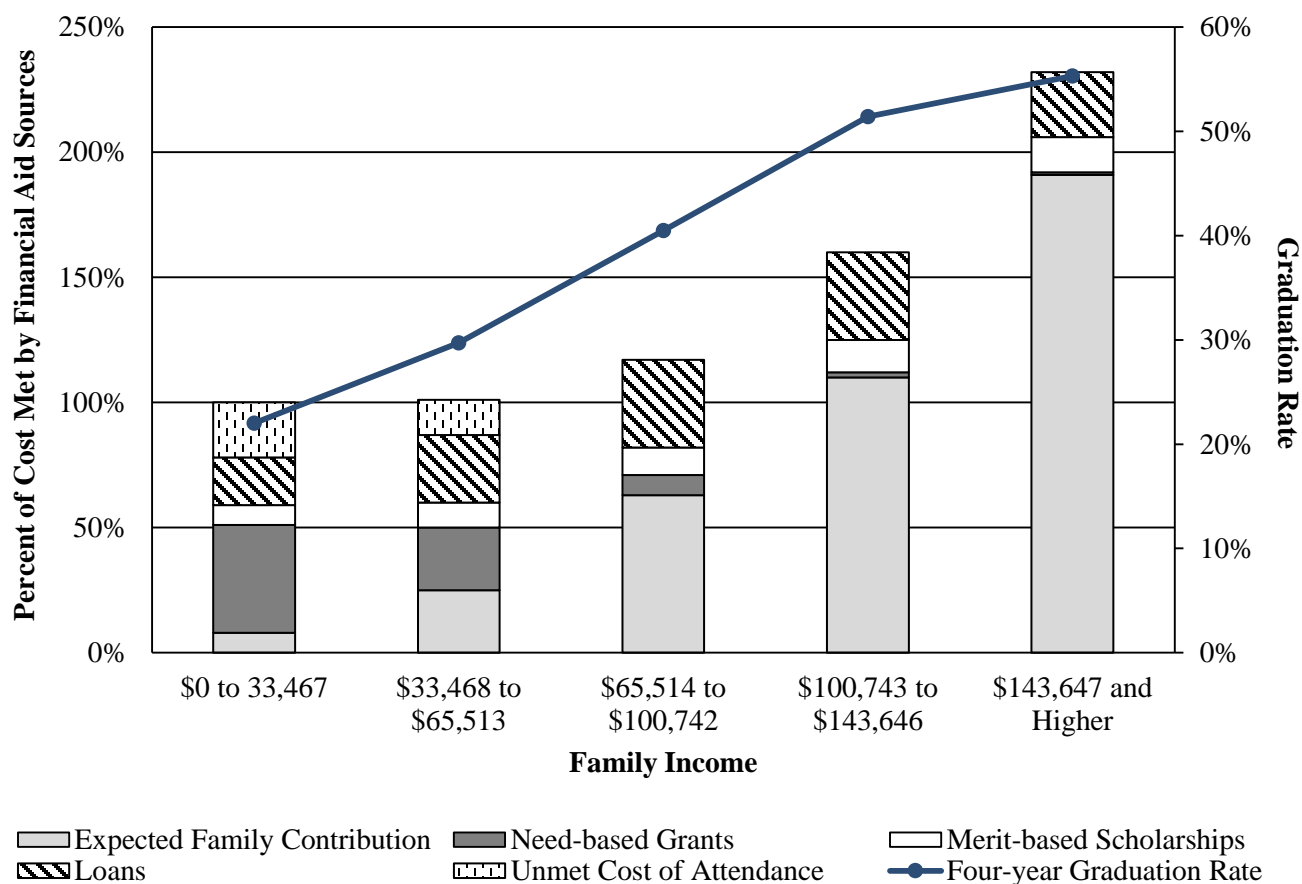
Exhibit 13
Expected Family Contribution by Income and Percent of Students from
Those Families with Unmet Need Remaining
Fall 2008 Cohort



Source: *Report on Unmet Need and Student Success*, September 2016, Maryland Higher Education Commission

Exhibit 14 shows how the same family income quintiles are meeting the cost of attendance. The EFC in the two highest quintiles meets more than 100% of the cost of attendance and, in addition, students from those families still receive scholarships and take out student loans, although they do not receive work study or grants. They also have no unmet need remaining.

Exhibit 14
Percent of Cost of Attendance Met by Different Financial Aid Sources and
Graduation Rates
Fall 2008



Note: Work study opportunities are available only to students in the lowest income group and meet 1% of need. For simplicity, work study is merged with need-based grants in this exhibit. Merit-based scholarships include athletic scholarships.

Source: *Report on Unmet Need and Student Success*, September 2016, Maryland Higher Education Commission

In the two lower income quintiles, students are much more dependent on grants to cover a large percentage of the cost of attendance while family contributions cover a quarter or less of educational expenses. There is also significant unmet financial need amounting to 22% of cost for the lowest income students and 14% for the second lowest quintile. How students manage to cover these expenses and still enroll is not something that MHEC's data system can presently answer. The exhibit also confirms observations in national data, that there is a strong correlation between family income and a student's graduation rate. The MHEC report found that four-, five-, and six-year graduation rates are affected by both students' family income and unmet financial need. Students from the lowest income quintiles also see the largest gains in graduation rates when their financial need is wholly met. This aligns with previous MHEC research that found that an effective way to use financial aid resources to improve graduation rates is to meet or overmeet the financial need of low-income students. However, MHEC data from a prior research report also shows that the GA Grant recipients' five-year graduation rate is 50%, while the same rate for students in the lowest income bracket shown in Exhibit 14 is 49%, and students in the four higher income brackets graduate at rates of 60% to 80%. This suggests that any initial bump in the GA graduation rate effectively falls away in the fifth year. Comparable data is unavailable for the six-year graduate rate.

MHEC concludes by recommending additional funding to EEA programs and policies such as enabling students to receive need-based awards in the fifth year of full-time study could better assist more Maryland students. MHEC anticipates producing longitudinal studies on students at two- and four-year institutions later in fiscal 2017 to provide more insights on possible changes to financial aid policy in Maryland. As noted earlier, funding for statewide financial aid programs that enable the lowest-income students to enroll in higher education has not kept pace with tuition growth and there is strong evidence from MHEC that low-income students are having difficulty affording higher education. However, while meeting financial need does have a positive effect on graduation according to MHEC research, preparation for college-level coursework is another strong measure of success. There must also be adequate student support services to ensure that students complete their programs of study. **The Secretary should comment on what policy discussions should occur across the P-20 continuum in the 2017 interim to determine how best to allocate State support to ensure that Maryland students find both access and success in postsecondary education. The Secretary should also comment on MHEC's financial aid research agenda in the 2017 interim.**

4. Some Net Price Calculators Need Updating

Since October 2011, each postsecondary institution that participates in the Title IV federal student aid programs (*e.g.*, Pell grants) is required to post a net price calculator (NPC) on its website that uses institutional data to provide estimated net price information to current and prospective students and their families based on a student's individual circumstances. This calculator allows students to estimate the net price of attendance at an institution (defined as cost of attendance minus grant and scholarship aid) based on what similar students paid in a previous year. The NPC is required for all Title IV institutions that enroll full-time, first-time degree- or certificate-seeking undergraduate students.

All Maryland institutions have the NPCs on their websites but implement them in different ways. Previously, it was cumbersome for an individual student to compare all calculators across all Maryland institutions. A 2015 JCR charge instructed MHEC to look at whether it could manage a centralized listing of all NPCs for public and independent institutions in Maryland. MHEC's *Consolidated Maryland Net Price Calculator Information* notes that as of December 2015, all NPCs are shown on the MHEC and MDGo4It websites. Both websites were also recently redesigned, so the NPCs are part of updated content meant to provide faster, more accurate information to prospective students and families. While MHEC can link to these resources, it is up to the institutions to provide timely and accurate information for their respective NPCs.

A 2016 JCR charge instructed MHEC to determine how timely the NPC information was at each institution. MHEC noted the most recent NPC template issued by the U.S. Department of Education (ED) as of February 2017 is meant for academic year 2015-2016 data. MHEC found that some institutions are showing extremely outdated information on their websites. For example, Coppin State University shows academic year 2009-2010 information, and Morgan State University shows academic year 2010-2011 information. MHEC has notified these institutions of the old information posted online. Other public institutions have information using the most recent ED templates, while some private institutions, like the Johns Hopkins University, have posted information for academic year 2017-2018 by using third-party NPCs. The University of Maryland, Baltimore Campus is the only school that does not have an institutional NPC as it has specific ones for each of its graduate programs. Posting recent and accurate information is important as it helps students make more informed decisions regarding enrollment in postsecondary education. **The Secretary should comment on how MHEC can ensure Maryland institutions make available timely and accurate information concerning their costs of enrollment.**

Recommended Actions

1. Add the following language:

It is the intent of the General Assembly that the Maryland Higher Education Commission use its Need-Based Financial Assistance Fund's fund balance to provide for an increase of at least 2.0% in initial awarding of State support for total need-based student financial assistance in fiscal 2018 so that State support matches the expected increase in tuition at public four-year institutions.

Explanation: It is the intent of the General Assembly that State support for need-based student financial assistance should grow commensurate with the expected increase in tuition at public four-year institutions. The Maryland Higher Education Commission can use the fund balance from the Need-Based Student Financial Assistance Fund to augment the fiscal 2018 allowance to achieve this goal. This would require a transfer of approximately \$0.6 million.

2. Add the following language to the general fund appropriation:

. provided that funds appropriated for Educational Excellence Awards may not be transferred to any other program or purpose.

Explanation: The language restricts funds for Educational Excellence Awards to that purpose. The annual program carries a waiting list in excess of 10,000 students. By statute, unspent funds will be deposited in the Need-Based Student Financial Assistance Fund.

	<u>Amount Reduction</u>	
3. Reduce general funds for Delegate Scholarships so that funding grows no more than the expected increase in tuition, 2%.	\$ 303,620	GF
Total General Fund Reductions	\$ 303,620	

Updates

1. Recent Changes to Financial Aid Programs

The 2016 legislative session brought about changes to existing programs and brand new programs to MHEC – Student Financial Aid, as well as other initiatives related to college affordability in Maryland.

- Chapter 33 of 2016 reestablished the College Readiness Outreach Program as the Next Generation Scholars of Maryland. It allows grade 7 and 8 students to pre-qualify for GA grants and requires support services be provided to those students. Funding for this program in fiscal 2018 is removed by the BRFA of 2017.
- Chapter 290 of 2016 requires MHEC and the Maryland Health and Higher Educational Facilities Authority, in consultation with DLS and any other appropriate agencies, to study the expansion or creation of an appropriate bonding authority for the refinancing of student loans in Maryland. The report is due by September 30, 2017. The fiscal note estimated this study would require \$50,000 to complete; however, no funding is provided in the fiscal 2018 budget.
- Chapters 689 and 690 created the College Affordability Act that established several programs to benefit Maryland students. These include a matching State contribution for eligible college 529 savings accounts; a refundable tax credit of up to \$5,000 for undergraduate student loan debt; altering authorized uses of, and clarifying eligibility criteria for, specified student financial aid; an external review of OSFA's operations to improve program effectiveness; and establishing conditions under which students with unpaid balances may continue to attend public institutions of higher education. Provisions related to tax credits apply beginning in tax year 2017. Most provisions related to student financial aid apply beginning in the 2018-2019 academic year.
- Chapter 719 of 2016 created the Maryland Loan Assistance Repayment Program for Foster Care Recipients. Foster care recipients qualify if the recipient is (1) employed for a minimum of 20 hours per week by the State or a county or municipality of the State and (2) received an undergraduate or graduate degree from an institution of higher education in the State. This new program is funded for the first time in fiscal 2018.

2. Program Review of Financial Aid Awards

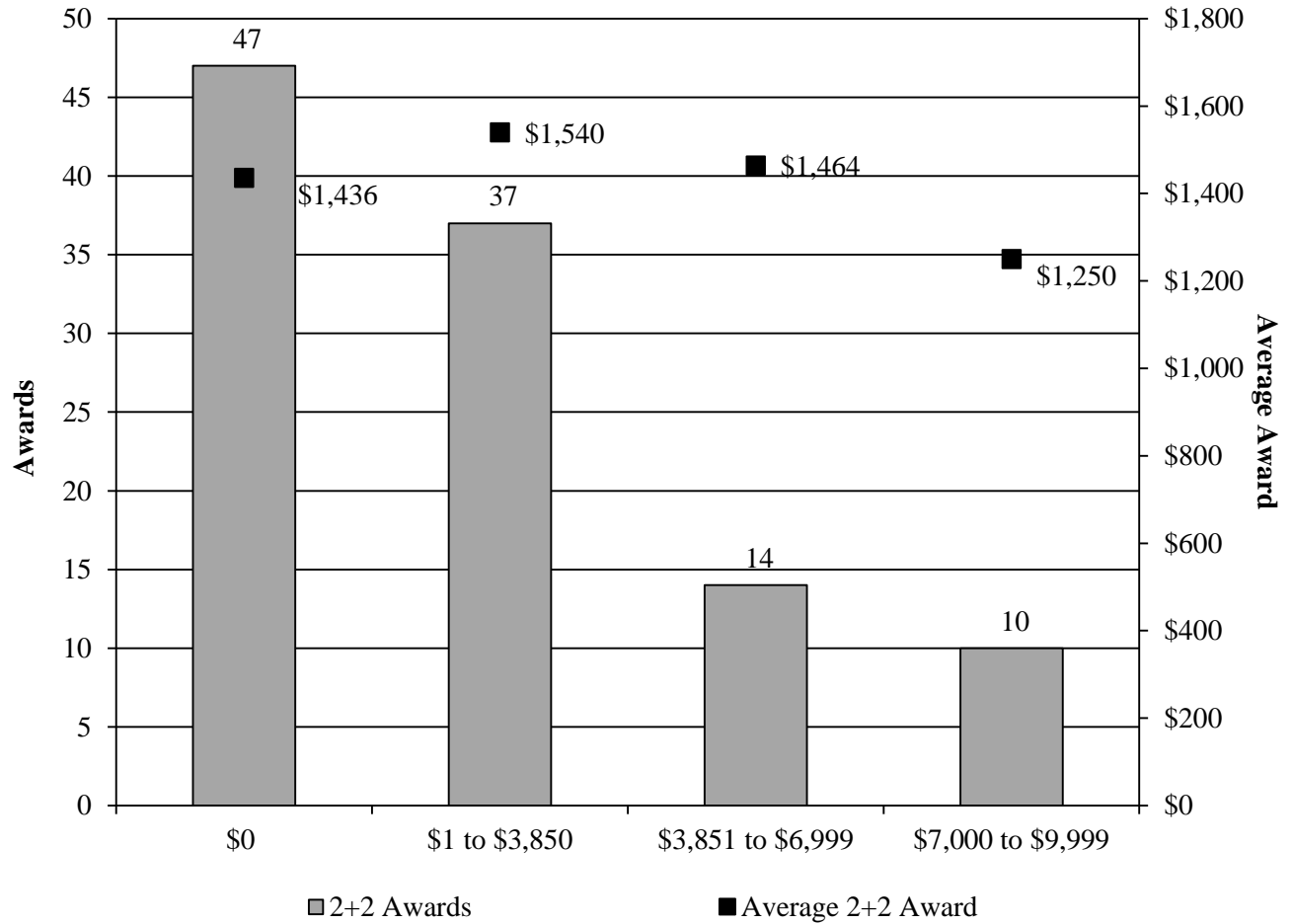
One other issue FAAC continues to review is certifying the residency of awardees. A concern raised in the 2013 OLA audit was that schools must certify enrollment and residency of awardees in September for the student to receive the award. In this process, MHEC had not been verifying the residency status of awards made.

R62I0010 – MHEC – Student Financial Assistance

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. In the fall of 2015, MHEC verified the residency status of 5% of all EEAs and will ramp up to 100% verification by fall 2017. Ultimately, the federal Institutional Student Information Record at each school must match the student's financial aid information in MHEC's Maryland College Aid Processing System. If a review determines an institution needs to remit funds, it is considered a "return of funds" and not a penalty. After the first year, MHEC had reviewed 16 institutions and over 800 student awards. In total, \$113,000 was returned to MHEC and no students lost any financial aid through this process. The second year of review began in September 2016 and uses new software to reduce the duration of site visits conducted by MHEC and new sampling size methods approved by OLA. MHEC must review all 53 institutions that receive State aid by fiscal 2018. The Segmental Advisory Council, another permanent MHEC committee, is also being informed of this auditing process.

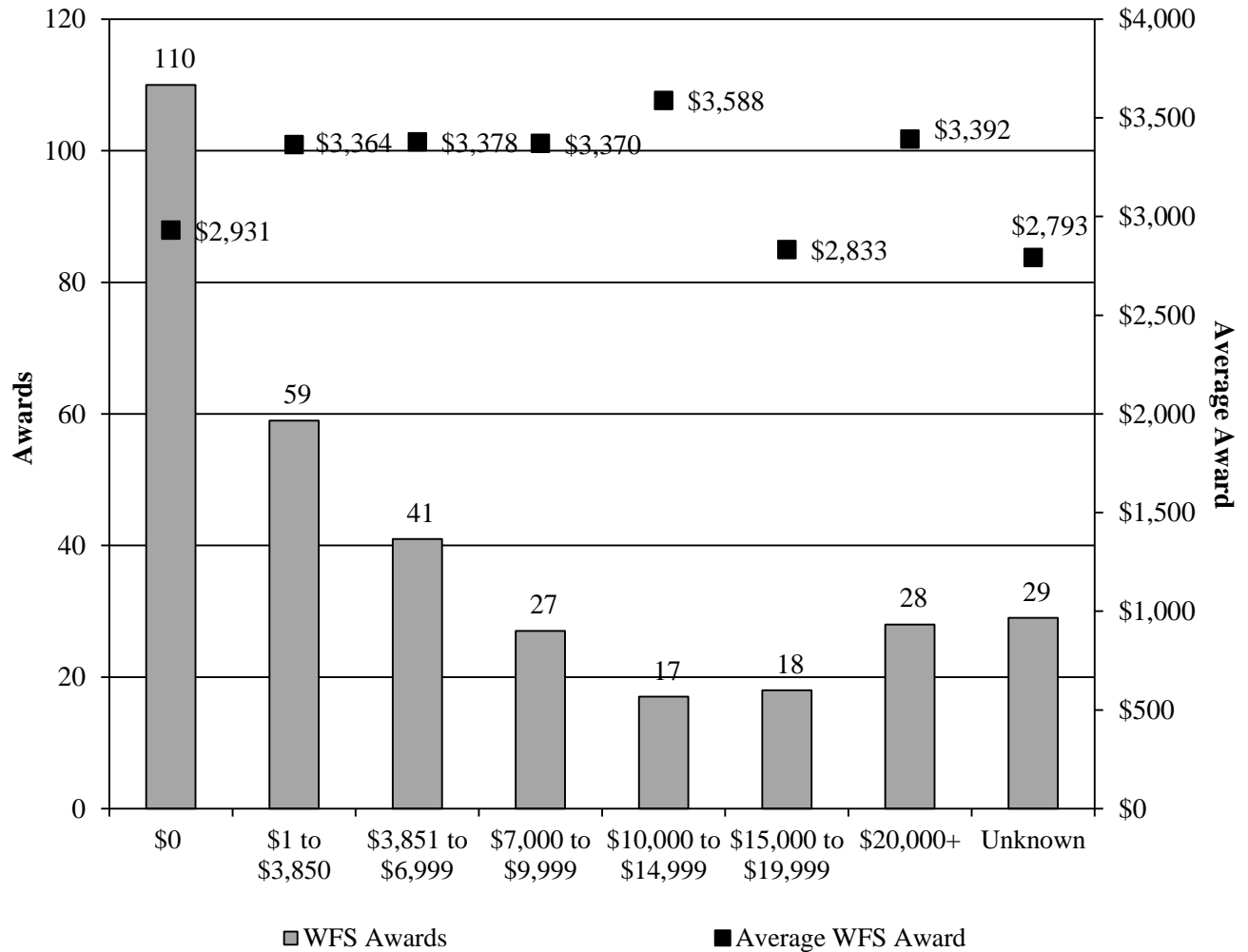
In order to receive awards, current statute dictates that institutions must verify 100% of awards. FAAC worked out new residency guidelines for students in the 2015 interim and will work with MHEC to identify the best process to transition the auditing entirely to institutions beginning in fall 2018.

Appendix 1
2+2 Scholarship Awards by Expected Family Contribution
Fiscal 2016



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

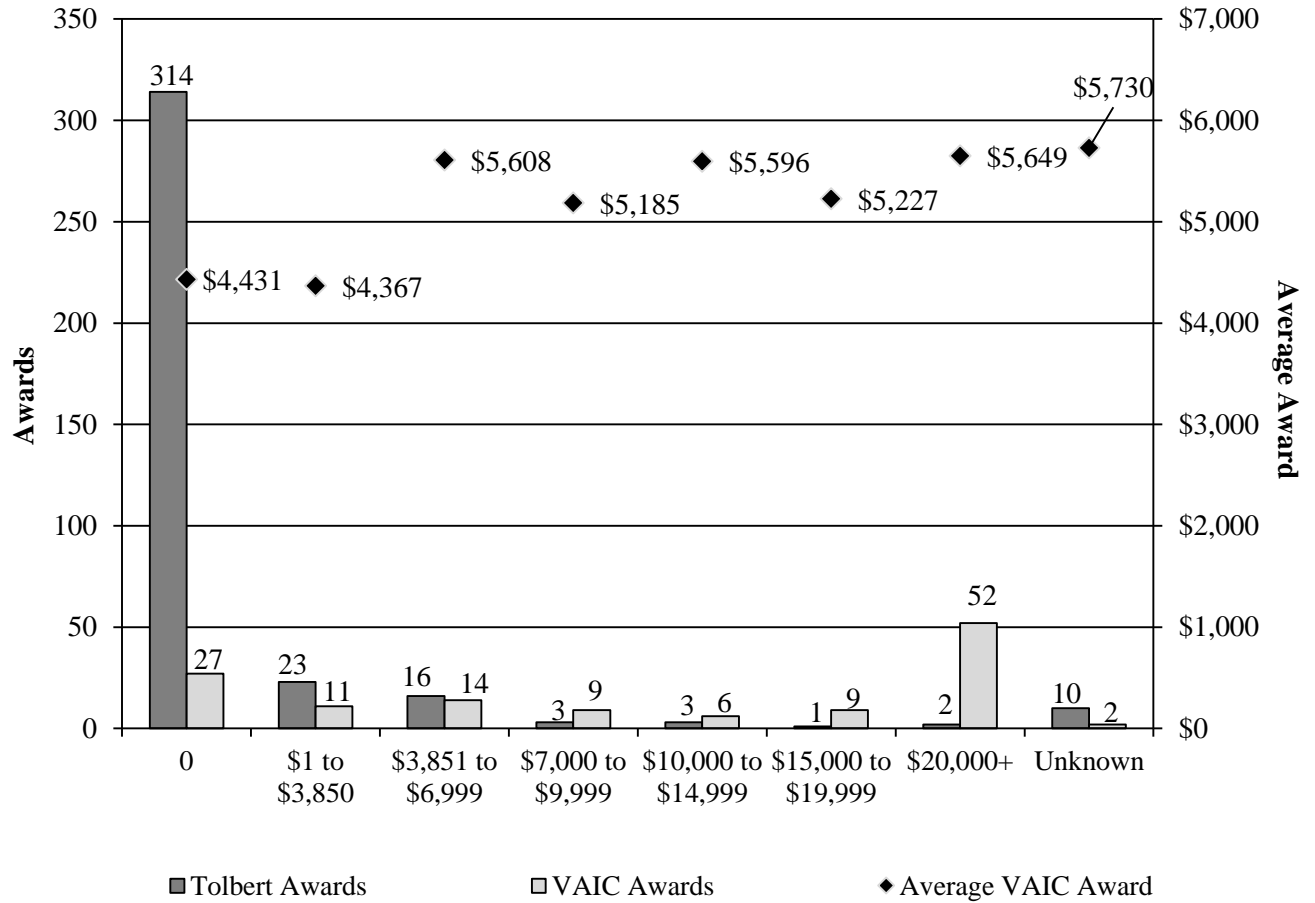
Appendix 2
Workforce Shortage Awards by Expected Family Contribution
Fiscal 2016



WFS: Workforce Shortage

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

Appendix 3
Unique Population Awards by Expected Family Contribution
Fiscal 2016

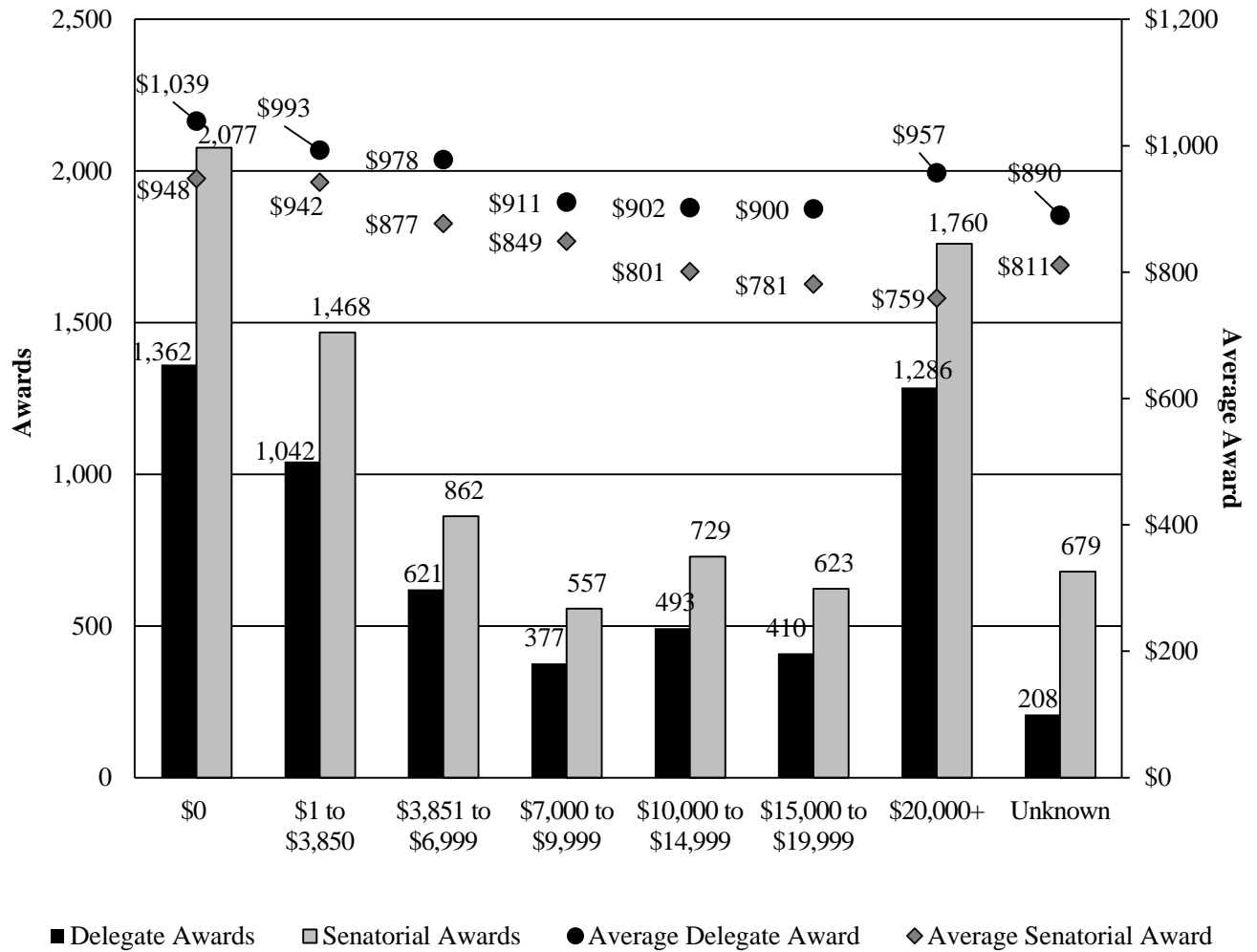


VAIC: Veterans of Afghanistan and Iraq Conflict

Note: The average Tolbert Award, not shown, is \$500 for every expected family contribution.

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

Appendix 4 Legislative Awards by Expected Family Contribution Fiscal 2016



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

Appendix 5
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 2016					
Legislative Appropriation	\$100,864	\$1,465	\$0	\$400	\$102,730
Deficiency Appropriation	1,971	0	0	0	1,971
Budget Amendments	200	200	0	0	400
Reversions and Cancellations	0	-95	0	-78	-174
Actual Expenditures	\$103,035	\$1,570	\$0	\$322	\$104,927
Fiscal 2017					
Legislative Appropriation	\$106,143	\$1,665	\$0	\$400	\$108,208
Cost Containment	-3,100	0	0	0	-3,100
Budget Amendments	-310	0	0	0	-310
Working Appropriation	\$102,733	\$1,665	\$0	\$400	\$104,798

MHEC: Maryland Higher Education Commission

Note: Does not include targeted reversions, deficiencies, and contingent reductions. Numbers may not sum to total due to rounding.

Fiscal 2016

The general fund appropriation increased \$2.2 million due to three actions: a \$0.3 million deficiency appropriation to resolve prior year unfunded liabilities in the Janet L. Hoffman Loan Assistance Repayment Program; a \$1.7 million deficiency appropriation to offset cost containment made to Education Excellence Awards (EEA); and an increase of \$0.2 million through budget amendment to redistribute cost containment originally made to need-based financial aid programs to the administrative budget program of the Maryland Higher Education Commission (MHEC).

The special fund appropriation increased by \$0.2 million as carry forward funds were transferred to the current fiscal year to make 2+2 Scholarship awards. Special funds cancellations amount to \$0.1 million as the appropriation was larger than the amount of financial aid awards made and accepted.

Reimbursable funds from the Department of Health and Mental Hygiene totaling \$78,000 were canceled as the appropriation was also larger than the amount of financial aid awards made and accepted.

Fiscal 2017

To date, the general fund appropriation has decreased by \$3.4 million due to \$3.1 million in cost containment in EEA and due to the release of \$0.3 million in the Maryland Early Graduation Scholarship program that were restricted to programs outside of MHEC.

Appendix 6
Object/Fund Difference Report
MHEC – Student Financial Assistance

<u>Object/Fund</u>	<u>FY 16 Actual</u>	<u>FY 17 Working Appropriation</u>	<u>FY 18 Allowance</u>	<u>FY 17 - FY 18 Amount Change</u>	<u>Percent Change</u>
Objects					
12 Grants, Subsidies, and Contributions	\$ 104,926,809	\$ 104,798,282	\$ 108,482,282	\$ 3,684,000	3.5%
Total Objects	\$ 104,926,809	\$ 104,798,282	\$ 108,482,282	\$ 3,684,000	3.5%
Funds					
01 General Fund	\$ 103,035,151	\$ 102,733,000	\$ 106,417,000	\$ 3,684,000	3.6%
03 Special Fund	1,569,798	1,665,282	1,665,282	0	0%
09 Reimbursable Fund	321,860	400,000	400,000	0	0%
Total Funds	\$ 104,926,809	\$ 104,798,282	\$ 108,482,282	\$ 3,684,000	3.5%

MHEC: Maryland Higher Education Commission

Note: Does not include targeted reversions, deficiencies, and contingent reductions.

Appendix 7
Fiscal Summary
MHEC – Student Financial Assistance

<u>Program/Unit</u>	<u>FY 16 Actual</u>	<u>FY 17 Wrk Approp</u>	<u>FY 18 Allowance</u>	<u>Change</u>	<u>FY 17 - FY 18 % Change</u>
09 2+2 Transfer Scholarship Program	\$ 160,500	\$ 200,000	\$ 200,000	\$ 0	0%
10 Educational Excellence Awards	80,009,603	78,501,525	82,764,420	4,262,895	5.4%
12 Senatorial Scholarships	6,486,000	6,486,000	6,486,000	0	0%
14 Edward T. and Mary A. Conroy Memorial Scholarship Program	570,474	570,474	570,474	0	0%
15 Delegate Scholarships	5,906,250	6,319,000	6,749,000	430,000	6.8%
16 Charles W. Riley Firefighter and Ambulance and Rescue Squad Member Scholarship	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%
21 Jack F. Tolbert Memorial Student Grant Program	200,000	200,000	200,000	0	0%
26 Janet L. Hoffman Loan Assistance Repayment Program	1,695,718	1,388,895	1,380,000	-8,895	-0.6%
27 Maryland Loan Assistance Repayment Program for Foster Care Recipients	0	0	100,000	100,000	0%
28 Maryland Loan Assistance Repayment Program for Physicians and Physicians Assistants	1,298,158	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	1,229,853	1,229,853	1,229,853	0	0%
37 Veterans of the Afghanistan and Iraq Conflicts Scholarship	750,000	750,000	750,000	0	0%
40 Maryland Early Graduation Scholarship Program	0	1,100,000	0	-1,100,000	-100.0%
Total Expenditures	\$ 104,926,809	\$ 104,798,282	\$ 108,482,282	\$ 3,684,000	3.5%
General Fund	\$ 103,035,151	\$ 102,733,000	\$ 106,417,000	\$ 3,684,000	3.6%
Special Fund	1,569,798	1,665,282	1,665,282	0	0%
Total Appropriations	\$ 104,604,949	\$ 104,398,282	\$ 108,082,282	\$ 3,684,000	3.5%
Reimbursable Fund	\$ 321,860	\$ 400,000	\$ 400,000	\$ 0	0%
Total Funds	\$ 104,926,809	\$ 104,798,282	\$ 108,482,282	\$ 3,684,000	3.5%

MHEC: Maryland Higher Education Commission

Note: Does not include targeted reversions, deficiencies, and contingent reductions.

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