

R62I0005
Aid to Community Colleges

Operating Budget Data

(\$ in Thousands)

	<u>FY 05</u> <u>Actual</u>	<u>FY 06</u> <u>Working</u>	<u>FY 07</u> <u>Allowance</u>	<u>FY 06-07</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$184,047	\$191,662	\$205,883	\$14,221	7.4%
Total Funds	\$184,047	\$191,662	\$205,883	\$14,221	7.4%

- The Governor's fiscal 2007 allowance increases funding by \$14.2 million, a 7.4% increase over fiscal 2006. The majority of the increase is due to the Cade formula.
- The allowance increases funds for community college retirement programs by \$2.1 million, an 8.4% increase.

Analysis in Brief

Major Trends

Proposed Revision of Performance Measures for Community Colleges: Managing for Results (MFR) performance measures have not given an adequate picture of how community college students move through the higher education system. New performance accountability measures have been developed for community colleges, which are intended to more closely track the progress of students. **The Maryland Higher Education Commission (MHEC) should comment on the proposed revisions to the performance accountability reports prepared by community colleges. In discussing the new performance measures, MHEC should specifically address how the measures improve the quality of data about the goals of community college students, the academic progress of students, the different educational needs of incoming students, and the range of programs offered by colleges.**

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

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Issues

Tuition and Affordability: In the most recent report card issued by the National Center for Public Policy and Higher Education, Maryland received an F in affordability. The affordability grade measures whether students and families can afford to pay for higher education, given income levels, financial aid, and the types and costs of colleges and universities in the state. Although Maryland has shown marginal improvements in some of the categories measured by the grade, high tuitions at community colleges, coupled with limited need-based aid, continue to create affordability problems for Maryland families. Initial efforts to combat the problem include the Maryland Higher Education Commission’s Community College Access Initiative and increased State funding for need-based aid. In an effort to further increase affordability, **the Secretary should comment on initiatives to address affordability and/or the desirability of dedicating need-based aid for community college students. Additionally, representatives of community college presidents should comment on tuition increases anticipated over the next few years and how they will maintain access and affordability for community colleges.**

The Effect of Enrollment Growth on Community College Capital Needs Is Unclear: Enrollment is one of the factors taken into account in the State’s planning guidelines for capital projects. The square footage allowed is related to the weekly student contact hours. However, analysis done by the Department of Legislative Services of academic needs at community colleges has shown that space needs differ depending on the type of space analyzed. **The Secretary should discuss the space planning guidelines and facilities inventory systems used by community colleges, including comment on the review of colleges’ methods of generating student weekly contact data.**

Recommended Actions

1. Concur with Governor’s allowance.

Updates

Community Colleges Revise Their Mission Statements: In January 2006, MHEC reviewed revised mission statements submitted by Maryland’s 16 community colleges. No substantial revisions were requested, and MHEC approved all of the statements.

Office of Legislative Audits Completes Review of Fiscal 2003 and 2004 Community College Audit Reports: In November 2005, the Office of Legislative Audits (OLA) published its report reviewing the community college audit reports that were filed with MHEC in fiscal 2003 and 2004. Community colleges are required to file annual audit reports with MHEC, which are prepared by independent auditors following MHEC guidelines. In reviewing these annual audit reports, OLA found that the community colleges complied with applicable statutes and MHEC guidelines in their 2003 and 2004 financial reports.

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Aid to Community Colleges

Operating Budget Analysis

Program Description

State aid for 15 local community colleges is provided through the Senator John A. Cade funding formula under Section 16-305 of the Education Article. The current formula has been used in determining funding since fiscal 1998. The amount of aid is based on a percentage of the previous year's State aid to selected four-year public higher education institutions and the total number of full time equivalent students (FTES) at community colleges. The total is then distributed to each college based on the previous year's direct grant, enrollment, and a small-size factor. The formula also includes a "hold harmless" provision that ensures that each college receives no less than the previous year's funding.

Additional grants are provided through the following programs:

The Small Community College grants are distributed to the smallest community colleges in order to provide relief from disproportionate costs that they incur. Chapter 584, Acts of 2000 increased the grant amounts distributed by the Maryland Higher Education Commission (MHEC) to seven small community colleges beginning in fiscal 2004. The amounts of the unrestricted grants increase annually by the same percentage increase in funding per FTES at the selected four-year public institutions used in the Cade formula;

The Statewide, Health Manpower, and Regional programs permit some students to attend out-of-county community colleges at in-county tuition rates. The grants reimburse colleges for out-of-county tuition waivers;

The English for Speakers of Other Languages (ESOL) program provides funding for instructional costs and services for ESOL students. Funding is capped at \$800 per eligible FTES and \$2.5 million in total State aid for the program;

The Garrett County/West Virginia Reciprocity program allows West Virginia residents to attend Garrett County College at in-county tuition rates, providing reimbursement to Garrett County community colleges for tuition waivers. The Somerset County Reimbursement program similarly provides tuition waiver reimbursement to colleges permitting students who reside in a county with no community college to attend at in-county tuition rates; and

The Innovative Partnerships for Technology Grant program provides State matching funds to community colleges for donations used specifically to upgrade technology resources. Funding is currently capped at \$700,000 per college over an eight-year period.

State funding for community college retirement programs is distributed through a standard retirement package or an optional retirement package.

R62I0005 – Aid to Community Colleges

The goals that MHEC has set in providing State aid to community colleges are:

- to ensure that Maryland community college students are progressing successfully toward their goals;
- to attain diversity reflecting the racial/ethnic composition of the service areas of the community colleges;
- to support regional economic and workforce development by producing graduates and by supplying training to the current employees of businesses; and
- to achieve a competitive optional retirement program to recruit and retain quality faculty.

Performance Analysis: Managing for Results

New Accountability Measures for Community Colleges

An extensive review has been conducted of the performance measures used by MHEC in its Managing for Results (MFR) report. In March 2004, the Maryland Council of Community College Chief Executive Officers established a work team to evaluate the performance measures used by community colleges in their Performance Accountability Reports submitted to MHEC. These reports are submitted annually and provide the basis for the MFR report submitted by MHEC with its budget request. The revised accountability measures developed by the task force were submitted to MHEC for approval in January 2006. It is expected that, once approved, community colleges will use the new guidelines in their July 2006 Performance Accountability Reports.

The revisions impact one of MHEC's key performance measures, the four-year graduation and transfer rate of students. This measure has been the subject of scrutiny over the last few years. MHEC has set a 35% target rate for student graduation and transfer rates for the last three years, which has not been met. In fiscal 2005, 34% of students graduated or transferred after four years, up from 32.2% in fiscal 2004. MHEC has expressed concern that graduation and transfer rates do not adequately measure the progress of community college students, suggesting the need for a different performance measure. For example, some students enter community college with goals other than graduation or transfer to a four-year institution. Another issue is the increasing number of students entering community colleges in need of remediation in one or more subjects, making graduation or transfer in four years difficult. Finally, until recently, community colleges had not been able to track students who move on to institutions outside of Maryland's public four-year colleges and universities, creating an artificially low graduation and transfer rate. This in turn created an artificially high "dropout" rate, i.e. students no longer enrolled who did not graduate or transfer to a four-year institution. The dropout rate has exceeded 50% since at least the 1989 cohort.

The proposed accountability measures attempt to align performance measures more closely with the different educational goals of community college students, which reflect in turn their

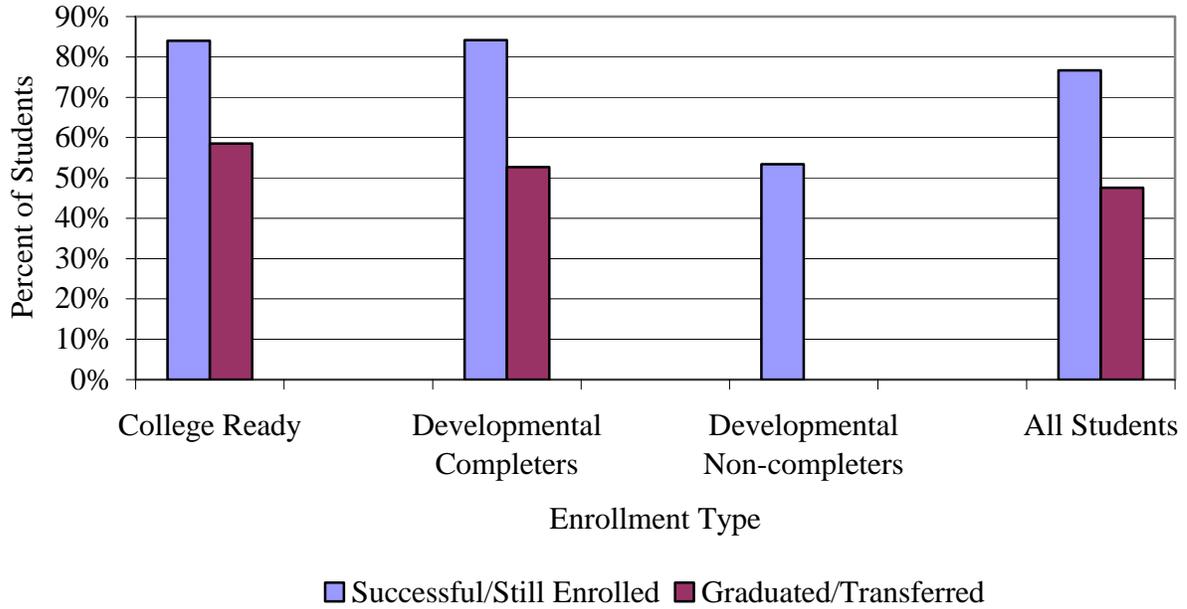
different educational needs upon entering. A new “degree progress analysis” model is proposed in place of the graduation/transfer rate performance measure that has been used in the past. Rather than focusing on educational goals, which are difficult to track reliably, the new model focuses on student enrollment behavior. The model tracks the progress of students who attempt at least eighteen credits. The major changes are:

- In addition to four-year graduation/transfer rates, “successful or still enrolled” rates are measured. “Successful or still enrolled” is defined as students who have transferred, have completed at least 30 credit hours with a grade point average of 2.0 or better, or are still enrolled at the institution;
- Three subgroups of students are measured separately: “college-ready;” “developmental completers” (those who need remediation and complete recommended coursework in four years); and “developmental non-completers” (those who need remediation and do not complete recommended coursework in four years); and
- Transfers to out-of-state and private institutions are counted, in addition to transfers to the University System of Maryland, with the aid of National Student Clearinghouse data.

Exhibit 1 highlights some of the new information contained in the model. One of the most striking results is the percentage of developmental non-completers who are in the successful/still enrolled group. Only 53.4% of students who have not completed required remedial courses are in the successful/still enrolled group. This is in sharp contrast to 84% of college-ready students and 84.2% of developmental completers who are in the successful/still enrolled group.

The new performance measures that have been proposed to MHEC embody a new model for measuring student success in achieving educational goals. **MHEC should comment on the proposed revisions to the performance accountability process for community colleges. In discussing the new performance measures, MHEC should describe how the new measures would improve the quality of data about community college students’ goals, the academic progress of students, the different educational needs of incoming students, and the range of programs offered by colleges.**

Exhibit 1
Degree Progress Four Years After Initial Enrollment
Fall 2000 Cohort



Note: Does not include data from Baltimore County or Garrett colleges. Graduated/Transferred data is not available for developmental non-completers.

Source: Maryland Association of Community Colleges Data Book, December 2005

Governor's Proposed Budget

As shown in **Exhibit 2**, the Governor's allowance increases funding to community colleges by \$14,221,340, a 7.4% increase over the fiscal 2006 working appropriation.

Exhibit 3 gives further detail on the fiscal 2007 allowance attributable to the Cade funding formula. Together with the Aid to Small Community Colleges grant, the Cade funding accounts for \$10,787,105 of the funding increase. As shown in the exhibit, total funding for these grants increases by 6.9% over the fiscal 2006 working appropriation. At the same time, community college enrollment increases by 2.8%. These changes result in a 3.9% increase in spending per student on average. The increased funding per student reflects the 4.0% increase in per student funding at selected public four-year institutions in fiscal 2006, which serves as the basis of Cade funding. Because the formula is based on the prior year's funding level, community colleges catch up to increases at public four-year institutions one year later.

Exhibit 2
Governor's Proposed Budget
Aid to Community Colleges
(\$ in Thousands)

How Much It Grows:	General Fund	Total
2006 Working Appropriation	\$191,662	\$191,662
2007 Governor's Allowance	<u>205,883</u>	<u>205,883</u>
Amount Change	\$14,221	\$14,221
Percent Change	7.4%	7.4%

Where It Goes:

Other Changes

Senator John A. Cade Funding Formula	\$10,687
Aid to Small Community Colleges	100
Innovative Partnership.....	1,296
Optional Retirement System	292
Teachers' Retirement System.....	1,846
Total	\$14,221

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

Exhibit 3
Per Student Funding Analysis of Fiscal 2007 Allowance
Community College Formula

<u>College</u>	<u>Working Appropriation FY 2006</u>	<u>Allowance FY 2007</u>	<u>% Change FY 06-07</u>	<u>% Change Enrollment FY 06-07</u>	<u>% Change \$/FTES FY 06-07</u>	<u>% Change \$/FTES FY 05-06</u>
Allegany	\$4,627,574	\$4,903,265	6.0%	1.6%	4.3%	2.6%
Anne Arundel	21,567,819	22,845,904	5.9%	1.3%	4.6%	4.8%
Baltimore County	30,160,310	31,761,156	5.3%	1.5%	3.7%	-0.5%
Carroll	5,234,598	5,720,713	9.3%	5.5%	3.6%	4.0%
Cecil	3,491,115	3,833,806	9.8%	6.3%	3.3%	2.4%
College of Southern Maryland	7,988,312	8,692,574	8.8%	4.9%	3.7%	3.4%
Chesapeake	4,691,676	4,824,685	2.8%	-6.7%	10.2%	1.3%
Frederick	5,605,906	6,070,178	8.3%	3.2%	4.9%	2.6%
Garrett	2,404,700	2,533,748	5.4%	3.5%	1.8%	0.6%
Hagerstown	5,337,006	5,818,840	9.0%	5.5%	3.3%	1.8%
Harford	7,701,612	8,121,634	5.5%	1.2%	4.2%	6.0%
Howard	8,813,182	9,640,798	9.4%	5.3%	3.8%	4.1%
Montgomery	26,118,764	28,746,256	10.1%	8.5%	1.5%	4.0%
Prince George's	18,126,404	18,821,057	3.8%	-2.0%	6.0%	3.9%
Wor-Wic	5,373,730	5,695,197	6.0%	0.2%	5.8%	5.1%
Total	\$157,242,707	\$168,029,811	6.9%	2.8%	3.9%	3.1%

Note: Includes Cade formula and Aid to Small Community Colleges grants

Source: Maryland Higher Education Commission; Department of Legislative Services

Tuition and fees provide additional revenue to community colleges. A comparison of fiscal 2005 and 2006 tuition and fees is shown in **Exhibit 4**. The average statewide increase was \$117, or 4.1%. Fourteen colleges increased tuition and fees, 11 with increases of \$100 or more. Cecil Community College held tuition and fees constant, while Harford reduced them by \$15.

Exhibit 4
Community College Tuition and Fee Rates for Full-time Students

<u>Community College</u>	<u>Fiscal 2005</u>	<u>Fiscal 2006</u>	<u>Increase</u>	<u>% Increase</u>
Allegany	\$2,734	\$2,894	\$160	5.8%
Anne Arundel	2,660	2,770	110	4.1%
Baltimore City	2,260	2,530	270	11.9%
Baltimore County	2,926	3,016	90	3.1%
Carroll	3,096	3,234	138	4.5%
Cecil	2,730	2,730	0	0.0%
Chesapeake	2,730	2,944	214	7.8%
College of So. Md.	3,210	3,312	100	3.1%
Frederick	2,820	2,889	69	2.4%
Garrett	2,790	2,910	120	4.3%
Hagerstown	2,900	3,000	100	3.4%
Harford	2,490	2,475	-15	-0.6%
Howard	3,420	3,578	158	4.6%
Montgomery	3,564	3,708	144	4.0%
Prince George's	3,590	3,710	120	3.3%
Wor-Wic	2,156	2,246	90	4.2%
Statewide Average*	\$2,879	\$2,998	\$117	4.1%

*Unweighted Average

Source: Maryland Higher Education Trend Book, May 2005; Department of Legislative Services

The allowance contains a \$1,296,317 increase in grants under the Innovative Partnerships for Technology program resulting in total fiscal 2007 funding of \$2,929,699. In this program the State matches each dollar of technology donations up to \$150,000. The payments are due in the third fiscal year following eligible donations and are scheduled to end in fiscal 2009. The Governor's allowance includes the portion of the State's fiscal 2006 obligation that was deferred in fiscal 2006 reconciliation legislation (\$1,816,301) and the obligations that are due under the program in fiscal 2007 (\$1,112,398).

In addition to the funds budgeted in Aid to Community Colleges, \$500,000 is budgeted in MHEC for a Community College Initiative for Students with Disabilities. Chapter 423, Acts of 2005 established a Community College Students with Disabilities Task Force, which examined the needs of students with disabilities attending community colleges. The task force issued its report in November 2005. The funding in the allowance supports grants that MHEC will allocate to individual colleges for distribution. Students with disabilities will receive funds to cover supplemental services.

Issues

1. Tuition and Affordability

Maryland Receives Failing Grade in Affordability

Maryland, like many other states, has experienced declining grades in affordability on the Measuring Up report card issued by the National Center for Public Policy and Higher Education. In the 2000 report card, Maryland received a “D” and that grade declined to a “D-” in 2002. In 2004, Maryland, along with 35 other states, received an F in affordability. (The grading system changed in 2004 from a benchmarking system, whereby grades were based on a comparison to the best performing states, to a comparison to the state’s own performance a decade ago. Maryland would have received a “D” in 2004 under the original methodology.)

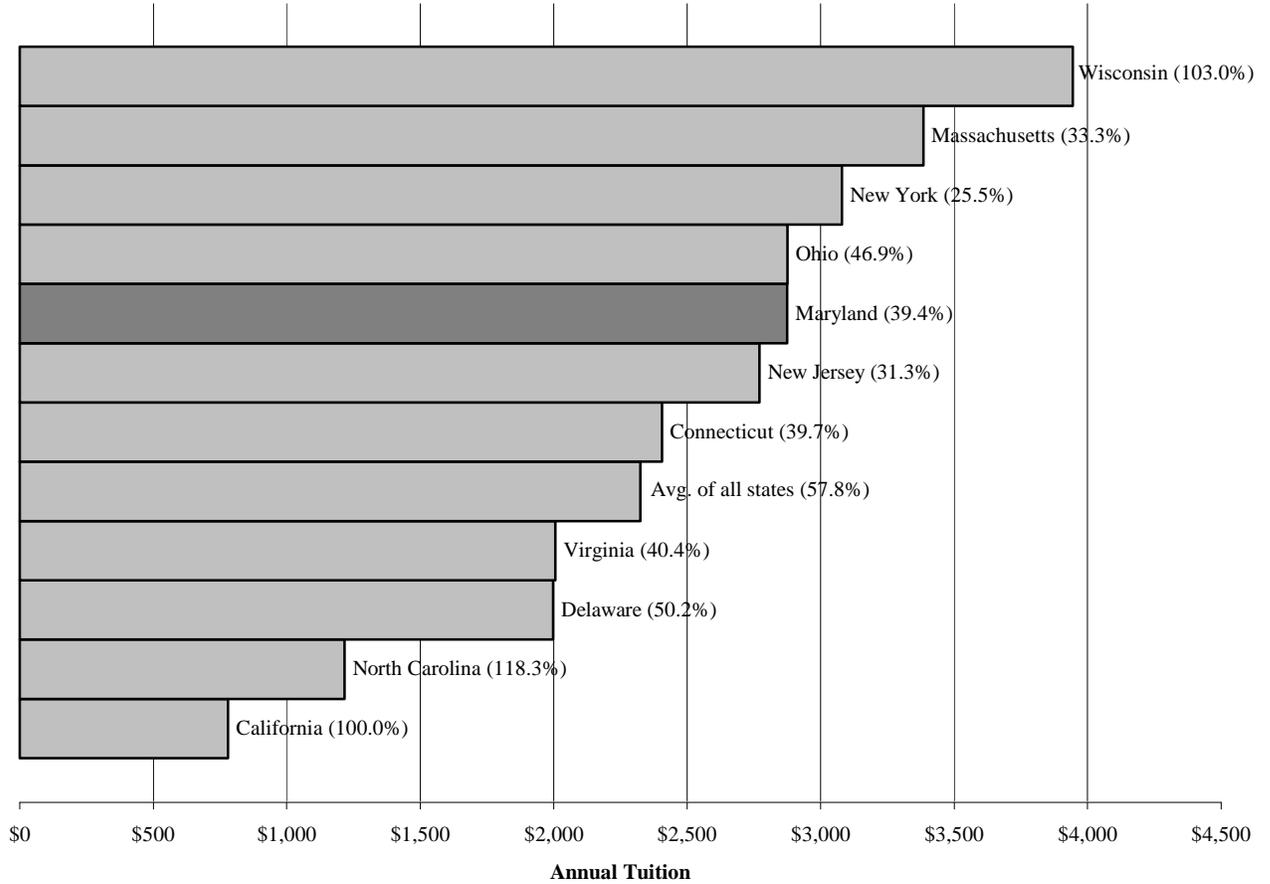
The affordability grade measures whether students and families can afford to pay for higher education, given income levels, financial aid, and the types and costs of colleges and universities in the State. In an attempt to adequately evaluate affordability, several different measures are considered in the grade. Community college tuition is a factor in two of the measures that make up the affordability grade, so it plays a significant role in the affordability grade. A third measure looks at State need-based aid, an area in which community college students in Maryland are falling behind. Although not discussed in this analysis, Maryland also does poorly on the final measure in the grade, average student loan amount, ranking seventh highest in the country.

Maryland Community College Tuition Is High Relative to Other States

Two measures of the affordability grade include tuition. The largest part of the grade (50%) is based on family ability to pay, which is the percentage of income necessary to pay for the net cost of college (tuition, room, and board minus financial aid) across all income groups. This measure is weighted based upon the percentage of enrollment at each type of institution. For example, in Maryland, family ability to pay at community colleges would be weighted by 47%, since 47% of higher education students in Maryland attend community colleges.

From 1994 to 2004, Maryland improved in this category, dropping from 24% to 22%. Although this measure does show marginal improvement over the past decade, it is still no match for the best performing state in 2004, Utah, which required only 17% of a family’s income to pay for community colleges. Since Maryland is a higher income State, it may seem counterintuitive that families must pay such a large proportion of their incomes for tuition at community colleges. This is largely due to the high tuitions charged at Maryland community colleges relative to other states, as shown in **Exhibit 5** below. (Marylanders also pay a larger proportion of their incomes for tuition at public and private colleges and universities than residents in other states.)

Exhibit 5
Average Annual Community College Tuition, Selected States
(% Increase Fiscal 1997-2005)



Source: Washington State Higher Education Coordinating Board, *2004-05 Tuition and Fee Rates: A National Comparison*.

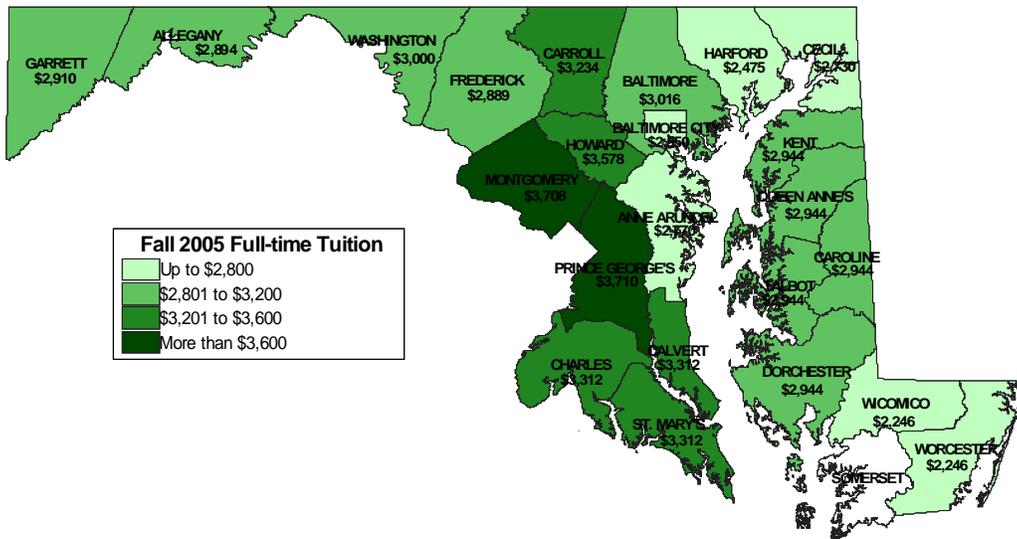
The other affordability measure that looks at tuition is the share of income that the poorest families need to pay for tuition at the lowest priced colleges (20% of the grade). This measure is different from family ability to pay in that it looks only at the ability of the 40% of the population with the lowest incomes to pay for the lowest priced colleges, traditionally the community colleges. This highlights the important role for community colleges to be a lower priced alternative for those who cannot afford four-year schools. This role is reinforced by the increasing proportion of students that are attending community colleges full-time (from 34% in fiscal 1996 to an estimated 38% in fiscal 2015) compared to the decreasing proportion of students attending four-year schools full-time in Maryland (from 66% in fiscal 1996 to an estimated 62% in fiscal 2015). This trend suggests that as tuition at four-year schools continues to rise, students are increasingly looking at community colleges as a more affordable place to start their postsecondary education. The struggle is to make sure that community colleges remain affordable for a growing number of students.

Over the past decade, Maryland improved marginally, as the percentage of income to pay for tuition at the lowest priced colleges dropped from 17% to 16%. There is still plenty of room left for improvement in comparison to the national average of 14% or the best performing state, California, at 4%.

Tuition Levels and Increases Vary Across Maryland

Just as variance in community college tuitions is seen across states, it is also seen within Maryland. As **Exhibit 6** shows, some regional trends in tuition can be seen across the State. The Washington suburbs generally have higher tuitions, and rural areas, including Western Maryland and the Eastern Shore, generally have lower tuitions. The average annual tuition in Maryland is \$2,998, 37% higher than the national average in fiscal 2006.

Exhibit 6
Maryland Community College Tuition
Fiscal 2006



Source: Department of Legislative Services

Another important factor to consider in regard to tuition is not only the tuition level but also how quickly it is increasing. As shown in **Exhibit 7**, over the last decade, community college tuitions in Maryland have increased anywhere from 31.8% to 96.0%. Although this is less than the 106.1% increase witnessed at the University of Maryland, College Park over this same time frame, it is still a large increase for community colleges, which are intended to be a lower priced alternative for higher education. The Maryland average percentage increase from fiscal 1996 through 2006 is 52.5%. Increases have occurred much more rapidly over the past five years than over the previous five years.

After increasing 3.8% annually from fiscal 1996 through 2001, average tuition increased 5.6% annually from fiscal 2001 to 2006. This time of higher tuition increases ran concurrently with a period of time when State funding increased less than expected (fiscal 2003 to 2005) as a result of the John A. Cade Community College Funding Formula not being fully funded. Community colleges received not only smaller increases in State funding, but in fiscal 2004, State funding actually decreased 5.7%.

Exhibit 7
Fiscal 1996 – 2006 Tuition and Mandatory Fees Increases

	<u>FY 2006</u>	<u>Average Annual Increase FY 96-01</u>	<u>Avg. Annual Increase FY 01-06</u>	<u>% Change FY 96-06</u>
Wor-Wic	\$2,246	2.00%	5.40%	39.5%
Harford	2,475	1.10%	5.00%	31.8%
Baltimore City	2,530	4.00%	5.52%	53.3%
Cecil	2,730	1.60%	7.20%	46.8%
Anne Arundel	2,770	0.50%	8.70%	47.2%
Frederick	2,889	2.80%	3.70%	35.1%
Allegany	2,894	5.10%	1.30%	33.7%
Garrett	2,910	6.10%	3.60%	54.0%
Chesapeake	2,944	4.90%	6.20%	63.1%
MD Average	\$2,998	3.80%	5.60%	52.5%
Hagerstown	3,000	2.40%	6.30%	47.1%
Baltimore County	3,016	3.40%	8.50%	66.8%
Carroll	3,234	10.80%	5.40%	96.0%
Southern Maryland	3,312	6.40%	5.20%	66.4%
Howard	3,578	2.20%	6.80%	48.5%
Prince George's	3,710	3.00%	4.90%	43.2%
Montgomery	3,708	5.90%	7.30%	76.7%
<i>UMD-College Park</i>	<i>\$7,821</i>	<i>7.10%</i>	<i>10.50%</i>	<i>106.1%</i>

Source: Department of Legislative Services, Maryland Higher Education Commission

Community College Students Receive Smaller Proportion of Need-based Aid

The third component of the affordability grade is the State investment in need-based aid. This measure is based on the total dollar amount of State need-based aid as a percentage of federal Pell grant funds coming into the State. The assumption here is that State need-based aid will be targeted to the same lower income students eligible for Pell grants, making higher education more affordable. In regard to all higher education, Maryland only invests about 33% of the amount of federal Pell grant money in need-based financial aid. Compare this to the best performing state in 2004, New York, at 90%. This implies that those most in need of help to afford college may not be getting the help they need. As shown in **Exhibit 8**, this problem is exacerbated for community college students,

who, although they are the largest component of higher education enrollment in Maryland, receive a smaller percentage of all State aid dollars and also comprise a smaller percentage of recipients.

Exhibit 8
Distribution of State Financial Aid Funds
Compared to Total Maryland Enrollments
Fiscal 2004

<u>Segment</u>	<u>% of State Aid Funds</u>	<u>% of State Aid Recipients</u>	<u>% of Maryland Enrollments</u>
Community Colleges	9%	25%	46%
2-Year Independent Institutions	1%	1%	1%
4-Year Public Institutions	70%	60%	41%
4-Year Independent Institutions	20%	14%	12%

Note: Does not include private career schools.

Source: Maryland Higher Education Commission

Efforts to Address Affordability for Community College Students

As the affordability of higher education has declined over the past few years, certain actions have been taken to address the issue. From fiscal 2000 through 2006, financial aid appropriations for need-based aid for all higher education institutions increased from \$35.3 million to \$66.7 million, an increase of 89%. Funding for the Educational Excellence Awards, the State's largest need-based aid program, increases by \$17.4 million in the Governor's fiscal 2007 allowance. (This will be discussed further in the MHEC Scholarships budget analysis.) To address community colleges specifically, the Maryland Higher Education Commission (MHEC) began implementing the Community College Access Initiative in fiscal 2006. This initiative increases the percent of need used to calculate Educational Assistance grant awards for community college students. The increase will be phased in and will ultimately raise the percentage of need supported from 35% to 60%. From fiscal 2005 to 2006 alone, this initiative is estimated to increase funds awarded to community college students by 114%.

Although both of these actions are steps in the right direction, further improvements in the affordability of community colleges may be achieved. MHEC has adopted administrative changes to implement the Community College Access Initiative. To ensure that these changes continue to be implemented as funding for need-based aid continues to increase, one option would be to adopt budget language or narrative stating legislative intent that MHEC should continue its Community College Access Initiative. Alternatively, a similar goal could be achieved by codifying the initiative.

Another option would be to allocate a certain proportion of need-based aid to community college students. Currently, need-based financial aid is awarded based on a ranking of students' financial need (up to 35% of the need), regardless of the type of college attended. Since the cost of attendance at community colleges is the lowest option in the State, community college students' needs in terms of dollars are less than four-year public and private institutions, resulting in community college students' receiving a smaller share of the dollars available. Thus, as shown above in Exhibit 8, community college students receive 9% of State need-based aid although they make up 46% of enrollment. Implementing the access initiative should improve these proportions over time. In the short-term, earmarking a portion of need-based funds for community college students would ensure that community college students receive a larger share of the funding available. However, it would be a departure from the current financial aid methodology.

The Secretary should comment on plans to implement the Community College Access Initiative, any other initiatives to address affordability at community colleges, and the feasibility and/or desirability of dedicating need-based aid for community college students. Representatives of community college presidents should comment on tuition increases anticipated over the next few years and how they will maintain access and affordability for community colleges.

2. The Effect of Enrollment Growth on Community College Capital Needs Is Unclear

Community college enrollment is expected to increase in the coming years, but with current information it is unclear how this translates into building needs to accommodate the additional students. During the summer and fall of 2005, MHEC hosted meetings to discuss the space planning guidelines and facilities inventory systems at community colleges. These discussions were prompted by MHEC's 2004 *State Plan for Postsecondary Education*, which called for identifying issues and factors that will affect the ability of higher education to accommodate enrollment growth.

The discussions highlighted some of the difficulties in projecting enrollment growth for community colleges. One problem is that individual colleges may use different methods to compile their weekly student contact hour data. MHEC is reviewing these calculation methods, including the computer software used to generate the data. Another issue is that distance education students, specifically those in online courses, may not be included in space planning calculations because they are not captured by room scheduling software. MHEC indicates that these students may affect space needs if additional student services or support staff is needed for the courses or if students use on-campus computer labs to access the courses.

The official enrollment projections for higher education are provided by MHEC. As shown in **Exhibit 9**, overall enrollment at community colleges will grow only .21% from fiscal 2005 to 2006. Since fiscal 2000, the rate of growth has slowed from a high of 6.19% in fiscal 2002 to .21% in fiscal 2006. Overall, the increase in enrollment from fiscal 2000 to 2006 has been 20.4%.

Exhibit 9
Full-time Equivalent Enrollments
Maryland Community Colleges
Fiscal 2000 – 2006

	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006*</u>	<u>% Change</u> <u>FY 00-06</u>
Allegany	1,397	1,392	1,517	1,621	1,673	1,700	1,723	23.3%
Anne Arundel	9,852	10,096	11,078	11,571	11,692	11,843	12,045	22.3%
Baltimore City	5,104	5,627	6,013	6,517	6,586	6,115	6,380	25.0%
Baltimore County	14,662	15,953	16,061	16,054	16,157	16,405	16,645	13.5%
Carroll	1,698	1,941	2,045	2,266	2,363	2,493	2,435	43.4%
Cecil	1,076	1,096	1,171	1,323	1,413	1,501	1,455	35.2%
Chesapeake	1,692	1,720	1,864	1,927	2,063	1,925	2,125	25.6%
Frederick	2,675	2,661	2,760	2,910	3,091	3,189	3,184	19.0%
Garrett	490	521	503	510	509	526	524	6.9%
Hagerstown	1,738	1,832	2,045	2,149	2,281	2,407	2,350	35.2%
Harford	3,471	3,534	3,988	4,194	4,149	4,198	4,275	23.2%
Howard	3,792	4,059	4,393	4,658	4,838	5,096	4,984	31.4%
Montgomery	12,773	13,101	13,677	13,966	14,058	15,250	14,483	13.4%
Prince George's	8,656	8,622	9,323	9,631	9,831	9,634	10,129	17.0%
Southern Maryland	3,490	3,783	4,087	4,207	4,365	4,580	4,497	28.9%
Wor-Wic	1,737	1,932	2,206	2,370	2,420	2,424	2,493	43.5%
Total	74,303	77,870	82,731	85,874	87,489	89,286	89,727	20.8%
Net Totals for Cade Funding (Total Minus BCCC)	69,199	72,243	76,718	79,357	80,903	83,171	83,347	20.4%
Annual % Increase	-0.43%	4.40%	6.19%	3.44%	1.95%	2.80%	0.21%	

*Indicates projected enrollments

Note: Includes full-time equivalent credit and non-credit enrollment for State aid.

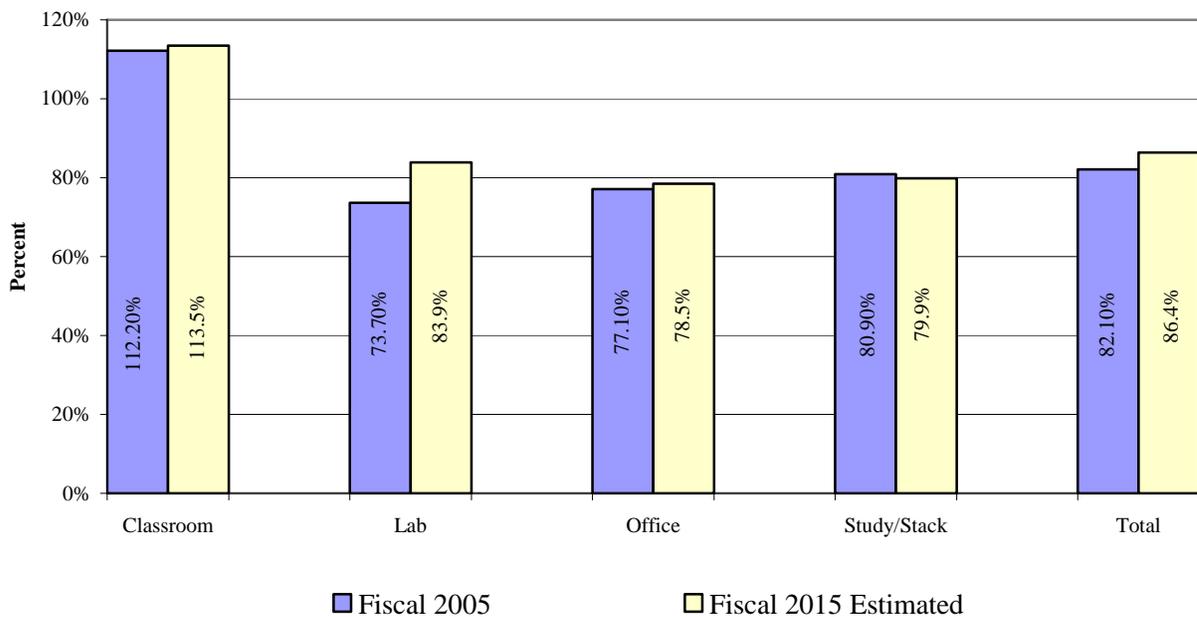
Source: Maryland Higher Education Trend Book, May 2005; Governor's Fiscal 2007 Budget Books

Academic Space Needs for Community Colleges

The extent to which enrollment growth drives capital project needs for community colleges is unclear. In the State's space planning guidelines, enrollment is one of the factors considered in allowing square footage for each type of space in capital requests. The square footage allowed is multiplied by the college's weekly student contact hours for each type of space. In analyzing academic space needs at community colleges last year and again this year, the Department of Legislative Services found that needs on campuses vary depending on the type of space analyzed. For example, there is little to no shortage of classroom space on most campuses, both in the present and projected in 2015. A much different picture exists for lab space, for which there is a shortage.

Exhibit 10 illustrates the academic net square foot inventory at all community colleges for different types of academic space in fiscal 2005 and compares those figures with projected inventories in 2015. Data on individual community colleges is shown in **Appendix 5**. Overall, in fiscal 2005, 82.1% of community college academic space needs were met. While the need for classroom space was exceeded, at 112.2%, a shortage of space existed in all other categories. The most pressing shortage in inventory was in teaching lab space, which was at 73.7% of need met. Shortages also existed for office space and study/stack space, at 77.1% and 80.9%, respectively.

Exhibit 10
Academic Net Square Foot Inventory – Percent of Need Covered



Note: Based on buildings funded for design or construction as of the fiscal 2005 Capital Improvement Program.

Source: Maryland Higher Education Commission, Department of Legislative Services

The projected academic space inventory for 2015 shows an overall improvement in need met, at 86.4%. The biggest change is in lab space, which shows an improved 83.9% of space needs covered, up from 73.7% in fiscal 2005. In contrast, virtually no change occurs in the covered needs of the other categories of space. Classrooms exceed need at 113.5%, and office and study/stack space needs continue to be deficient, at 78.5% and 79.9%, respectively. The projections are based on MHEC enrollment projections and projects proposed for funding as of the fiscal 2005 five-year Capital Improvement Program.

The Secretary should comment on the outcome of the meetings during the summer discussing the space planning guidelines and facilities inventory systems at community colleges. The use of enrollment data in space planning and capital needs also should be discussed.

Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Community Colleges Revise Their Mission Statements

Sections 11-302 and 303 of the Education Article require that community colleges develop mission statements, which must be updated every four years. The statements are developed by each college president, adopted by the college's governing board, and submitted to MHEC for review. MHEC evaluates the submissions to ensure consistency with the State Plan for Higher Education and the efficient use of State resources. Each statement must describe the college's ability to meet the State's post-secondary education needs, objectives for post-secondary education, and guidelines for achieving the objectives.

In January 2006, MHEC's Education Policy Committee met and reviewed the mission statements prepared by Maryland's 16 community colleges. The committee recommended that MHEC approve the statements as submitted. No substantial mission revisions were requested. Instead, the changes envisioned by the colleges involve the development of programs within their existing approved missions. For example, several colleges intend to increase partnership programs with other colleges and universities to provide more opportunities for completion of baccalaureate degrees and a greater variety of course selection. Another example of new initiatives is a proposed increase in distance learning programs in response to a large credit hour increase in existing programs. The revisions reflect the broad range of educational services offered by community colleges.

2. Office of Legislative Audits Completes Review of Fiscal 2003 and 2004 Community College Audit Reports

In November 2005, the Office of Legislative Audits (OLA) completed its review of the fiscal 2003 and 2004 audit reports that had been submitted to MHEC by 15 community colleges (does not include Baltimore City Community College). MHEC guidelines require that in the annual audits of community colleges, independent auditors evaluate the fairness of the presentation of the colleges' financial statements and issue management letters containing all material weaknesses in internal control systems. OLA examined adherence to MHEC guidelines, as well as the existence of deficit net asset balances or uninsured or uncollateralized bank deposits.

The two major findings of the OLA audit were:

- community college audit reports were filed timely, and all of the opinions expressed by the auditors were unqualified; and
- management letters included a total of 38 recommendations for improvement, including two recommendations considered to be material weaknesses in one college's system of internal controls.

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All 15 community colleges filed their audit reports in a timely manner, within 90 days of the fiscal year end. The auditors issued an unqualified opinion, indicating that they found the statements fairly presented, in all material respects, and in conformity with generally accepted accounting principles. In addition, the review found no colleges with deficit net asset balances or uninsured or uncollateralized bank deposits.

In examining the management letters issued by independent auditors to community colleges in fiscal 2003 and 2004, OLA found only two material recommendations. Both material weaknesses were found in 2004 at Frederick Community College and were related to inadequate segregation of duties and closing procedures at the end of the accounting year. MHEC evaluated the adequacy of the college's responses and determined that appropriate follow-up actions had been taken. For fiscal 2004, six colleges received no recommendations, while nine received a total of 22 recommendations, including the two regarding Frederick Community College. None of the other recommendations were considered to be material.

Current and Prior Year Budgets

Current and Prior Year Budgets Aid to Community Colleges (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2005					
Legislative Appropriation	\$184,047	\$0	\$0	\$0	\$184,047
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	0	0	0	0	0
Actual Expenditures	\$184,047	\$0	\$0	\$0	\$184,047
Fiscal 2006					
Legislative Appropriation	\$191,662	\$0	\$0	\$0	\$191,662
Budget Amendments	0	0	0	0	0
Working Appropriation	\$191,662	\$0	\$0	\$0	\$191,662

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

Audit Findings

Audit Period for Last Audit:	July 1, 2000 – January 31, 2003
Issue Date:	October 2003
Number of Findings:	5
Number of Repeat Findings:	3
% of Repeat Findings:	60%
Rating: (if applicable)	n/a

****Finding 1:*** MHEC did not independently verify income information of students who received need-based scholarships

Finding 2: Independent verifications were not performed to ensure the propriety of changes made to automated financial aid records

Finding 3: MHEC did not ensure student financial aid payments made to institutions of higher education were proper

****Finding 4:*** Cash receipts were not adequately controlled

****Finding 5:*** MHEC did not verify the propriety of certain retirement payments

* Bold denotes item repeated in full or part from preceding audit report.

**Object/Fund Difference Report
Aid to Community Colleges**

<u>Object/Fund</u>	<u>FY05 Actual</u>	<u>FY06 Working Appropriation</u>	<u>FY07 Allowance</u>	<u>FY06 - FY07 Amount Change</u>	<u>Percent Change</u>
Objects					
12 Grants, Subsidies, and Contributions	\$ 184,047,114	\$ 191,661,872	\$ 205,883,212	\$ 14,221,340	7.4%
Total Objects	\$ 184,047,114	\$ 191,661,872	\$ 205,883,212	\$ 14,221,340	7.4%
Funds					
01 General Fund	\$ 184,047,114	\$ 191,661,872	\$ 205,883,212	\$ 14,221,340	7.4%
Total Funds	\$ 184,047,114	\$ 191,661,872	\$ 205,883,212	\$ 14,221,340	7.4%

**Fiscal Summary
Aid to Community Colleges**

<u>Program/Unit</u>	<u>FY05 Actual</u>	<u>FY06 Wrk Approp</u>	<u>FY07 Allowance</u>	<u>Change</u>	<u>FY06 - FY07 % Change</u>
05 The Senator John A. Cade Funding Formula	\$ 158,757,661	\$ 166,198,308	\$ 178,281,731	\$ 12,083,423	7.3%
06 Aid to Community Colleges - Fringe Benefits	25,289,453	25,463,564	27,601,481	2,137,917	8.4%
Total Expenditures	\$ 184,047,114	\$ 191,661,872	\$ 205,883,212	\$ 14,221,340	7.4%
General Fund	\$ 184,047,114	\$ 191,661,872	\$ 205,883,212	\$ 14,221,340	7.4%
Total Appropriations	\$ 184,047,114	\$ 191,661,872	\$ 205,883,212	\$ 14,221,340	7.4%

**Community Colleges Academic Space Inventory
Net Assignable Square Feet**

<u>Community College</u>	<u>Classroom</u>	<u>Laboratory</u>	<u>Office</u>	<u>Study/Stack</u>	<u>Total</u>
Allegany					
Surplus/Deficiency 2005	856	6,082	-7,658	-1,376	-2,096
2005 % Need Covered	102.47%	112.22%	86.43%	90.96%	98.66%
2015 % Need Covered	84.16%	90.52%	70.17%	102.53%	82.92%
Anne Arundel					
Surplus/Deficiency	36,957	-8,988	-76,434	-29,243	-77,708
2005 % Need Covered	151.43%	94.44%	63.49%	42.15%	84.25%
2015 % Need Covered	148.38%	89.30%	68.79%	38.14%	83.79%
BCCC					
Surplus/Deficiency	4,140	37,159	-20,818	9,182	29,663
2005 % Need Covered	107.98%	223.46%	83.06%	147.93%	113.24%
2015 % Need Covered	89.12%	150.54%	65.01%	136.55%	87.19%
Baltimore County					
Surplus/Deficiency	-40,875	-126,295	-39,184	-26,192	-232,546
2005 % Need Covered	77.53%	72.67%	85.57%	74.96%	75.38%
2015 % Need Covered	73.14%	64.43%	79.49%	76.45%	69.73%
Carroll					
Surplus/Deficiency	4,505	-46,736	-10,581	-2,359	-55,171
2005 % Need Covered	126.53%	44.07%	75.03%	81.79%	64.61%
2015 % Need Covered	102.00%	35.53%	61.09%	67.33%	52.31%
Cecil					
Surplus/Deficiency	5,625	-13,262	-6,847	-2,056	-16,540
2005 % Need Covered	159.95%	63.94%	79.87%	73.75%	81.21%
2015 % Need Covered	135.37%	54.11%	68.25%	65.21%	69.25%
Chesapeake					
Surplus/Deficiency	8,150	15,642	-3,565	8,212	28,439
2005 % Need Covered	158.31%	228.35%	91.38%	195.08%	137.35%
2015 % Need Covered	129.16%	204.19%	83.79%	174.62%	122.02%
College of Southern Md.					
Surplus/Deficiency	19,785	-38,789	-7,388	-3,092	-29,484
2005 % Need Covered	148.15%	54.33%	90.95%	85.89%	87.16%
2015 % Need Covered	132.07%	66.00%	85.16%	76.41%	85.64%
Frederick					
Surplus/Deficiency	3,249	-24,147	-15,344	-4,020	-40,262
2005 % Need Covered	117.27%	67.03%	75.45%	72.89%	76.23%
2015 % Need Covered	81.64%	37.42%	56.42%	57.56%	51.06%

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Garrett					
Surplus/Deficiency	5,556	230	-5,586	166	364
2005 % Need Covered	186.61%	101.88%	73.03%	102.80%	100.80%
2015 % Need Covered	188.74%	113.80%	103.20%	110.90%	120.40%
Hagerstown					
Surplus/Deficiency	20,720	31,641	-6,562	2,378	48,177
2005 % Need Covered	208.24%	241.75%	87.03%	117.14%	145.47%
2015 % Need Covered	131.56%	150.91%	62.27%	78.80%	95.90%
Harford					
Surplus/Deficiency	12,807	-11,896	-1,742	1,999	1,168
2005 % Need Covered	128.42%	82.50%	97.01%	110.53%	100.61%
2015 % Need Covered	97.61%	71.04%	77.87%	84.61%	80.79%
Howard					
Surplus/Deficiency	5,654	-131,989	-27,069	4,289	-149,115
2005 % Need Covered	116.21%	38.10%	71.04%	118.04%	59.19%
2015 % Need Covered	107.45%	64.64%	70.36%	81.15%	70.93%
Montgomery					
Surplus/Deficiency	-6,541	-99,038	-90,093	-35,272	-230,944
2005 % Need Covered	95.65%	71.05%	71.05%	68.15%	74.74%
2015 % Need Covered	92.39%	85.22%	68.92%	59.59%	77.76%
Prince George's					
Surplus/Deficiency	13,128	-15,415	-37,717	-1,457	-41,461
2005 % Need Covered	122.04%	88.20%	73.68%	96.21%	88.85%
2015 % Need Covered	112.68%	90.43%	78.19%	83.92%	88.61%
Wor-Wic					
Surplus/Deficiency	-1,602	-10,626	-11,903	-8,273	-32,404
2005 % Need Covered	92.80%	68.58%	65.49%	30.26%	68.36%
2015 % Need Covered	113.07%	67.71%	68.44%	36.27%	74.34%
Total					
Surplus/Deficiency	92,112	-436,427	-368,491	-87,114	-799,920
2005 % Need Covered	112.24%	73.73%	77.05%	80.95%	82.13%
2015 % Need Covered	113.48%	83.89%	78.54%	79.93%	86.39%