

**R62I0005**  
**Aid to Community Colleges**

***Operating Budget Data***

(\$ in Thousands)

|                                      | <u>FY 09</u><br><u>Actual</u> | <u>FY 10</u><br><u>Working</u> | <u>FY 11</u><br><u>Allowance</u> | <u>FY 10-11</u><br><u>Change</u> | <u>% Change</u><br><u>Prior Year</u> |
|--------------------------------------|-------------------------------|--------------------------------|----------------------------------|----------------------------------|--------------------------------------|
| General Fund                         | \$254,713                     | \$252,205                      | \$279,200                        | \$26,996                         | 10.7%                                |
| Contingent & Back of Bill Reductions | 0                             | 0                              | -23,085                          | -23,085                          |                                      |
| <b>Adjusted General Fund</b>         | <b>\$254,713</b>              | <b>\$252,205</b>               | <b>\$256,115</b>                 | <b>\$3,911</b>                   | <b>1.6%</b>                          |
| Federal Fund                         | 0                             | 3,969                          | 0                                | -3,969                           | -100.0%                              |
| <b>Adjusted Federal Fund</b>         | <b>\$0</b>                    | <b>\$3,969</b>                 | <b>\$0</b>                       | <b>-\$3,969</b>                  | <b>-100.0%</b>                       |
| <b>Adjusted Grand Total</b>          | <b>\$254,713</b>              | <b>\$256,174</b>               | <b>\$256,115</b>                 | <b>-\$58</b>                     | <b>0.0%</b>                          |

- A deficiency appropriation of \$4 million swaps the federal funds from the working appropriation for an equal amount of general funds currently budgeted in the Department of Public Safety and Correctional Services.
- The general fund appropriation increases by \$27 million in the allowance. However, when accounting for federal funds in fiscal 2010 budgeted as general funds in fiscal 2011 and a contingent reduction in the Budget Reconciliation and Financing Act of 2010, the overall change is a decrease of \$58,458.

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

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## *Analysis in Brief*

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### Major Trends

**Successful Persister Rates:** Successful persister rates for community college students increased over the prior year's cohort. The overall successful persister rate increased slightly for the 2004 cohort, although the rate for developmental completers was up 2.1 percentage points. **The Secretary should comment on efforts to improve successful persister rates at Maryland's community colleges.**

### Issues

**Affordability:** Community colleges offer a less expensive entry into higher education for Maryland residents than do the public four-year institutions, although the average tuition rate increased \$71 between fall 2008 and 2009. Additionally, local support per student declined at all but two community colleges. **The Secretary should comment on efforts to increase affordability at Maryland's community colleges despite the challenges presented by current economic conditions.**

**Local Maintenance of Effort:** Although the fiscal 2010 working appropriation for the Senator John A. Cade Funding Formula is \$2.8 million less than the fiscal 2009 actual, six community colleges are receiving more in fiscal 2010 than in fiscal 2009. The six colleges risk losing that increase in State funding if local support is reduced below fiscal 2009 levels. **The Secretary and community colleges should comment on when decisions regarding maintenance of effort will be finalized and how any required reductions will be implemented.**

**Auditing Enrollments:** In response to a 2009 *Joint Chairmen's Report* request for information regarding auditing community college enrollments, the Maryland Higher Education Commission (MHEC) submitted a report detailing the process of counting full-time equivalent students eligible for State funding. **The Secretary should comment on the confidence MHEC has in the quality of the enrollment data submitted by community colleges. The Secretary and college presidents should also comment on community college revenue structures and their ability to withstand reductions in noncredit enrollments.**

**The Cost of Developmental Education:** More than half of first-time students at Maryland's colleges and universities require developmental education prior to enrolling in credit-bearing coursework with even higher rates at the community colleges. Although a significant amount of resources must be devoted to these students to develop skills that should have been learned earlier in the educational process, little is known about the costs of developmental programs. Further research is needed to better understand how developmental education costs impact higher education in Maryland. **The Secretary and college presidents should comment on the cost of developmental education and how it affects the budgets of Maryland's higher education institutions.**

## Recommended Actions

|  | <u>Funds</u>         |
|--|----------------------|
| 1. Strike contingent reduction language on the Cade formula.                                     |                      |
| 2. Reduce Community College formula grant by \$23,085,062.                                       | \$ 23,085,062        |
| 3. Adopt narrative to require the submission of a report on the cost of developmental education. |                      |
| <b>Total Reductions</b>  | <b>\$ 23,085,062</b> |

## Updates

**Unfunded Liabilities Total \$11.2 Million:** During the fiscal 2009 closeout, the Department of Legislative Services' audit found that MHEC had \$11.2 million in unfunded liabilities in Statewide and Health Manpower grants and the Optional Retirement Program. Additionally, MHEC failed to report \$4.4 million of this liability to the Comptroller as required.

*R62I0005 – Aid to Community Colleges*

**R62I0005**  
**Aid to Community Colleges**

***Operating Budget Analysis***

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**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 current year's State aid to selected four-year public higher education institutions and the total number of full-time equivalent students (FTES) at the community colleges. The total is then distributed to each college based on the previous year's direct grant, enrollment, and a small-size factor. Chapter 333 of 2006 phased in a 5.0 percentage point increase in the formula over five years, ending in fiscal 2013. State fiscal difficulties have delayed the formula enhancement.

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 the disproportionate costs they incur. Chapter 584 of 2000 increased the grants 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 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 \$6.0 million in total State aid for the program.
- The Garrett County/West Virginia Reciprocity program allows West Virginia residents to attend Garrett College at in-county tuition rates, providing reimbursement 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.

Certain community college employees are eligible to participate in one of two defined benefit retirement plans maintained and operated by the State. Alternatively, the employees may participate in the Optional Retirement Program (ORP), a defined contribution plan. The State funds the employer costs associated with the various retirement plans.

### *R62I0005 – Aid to Community Colleges*

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

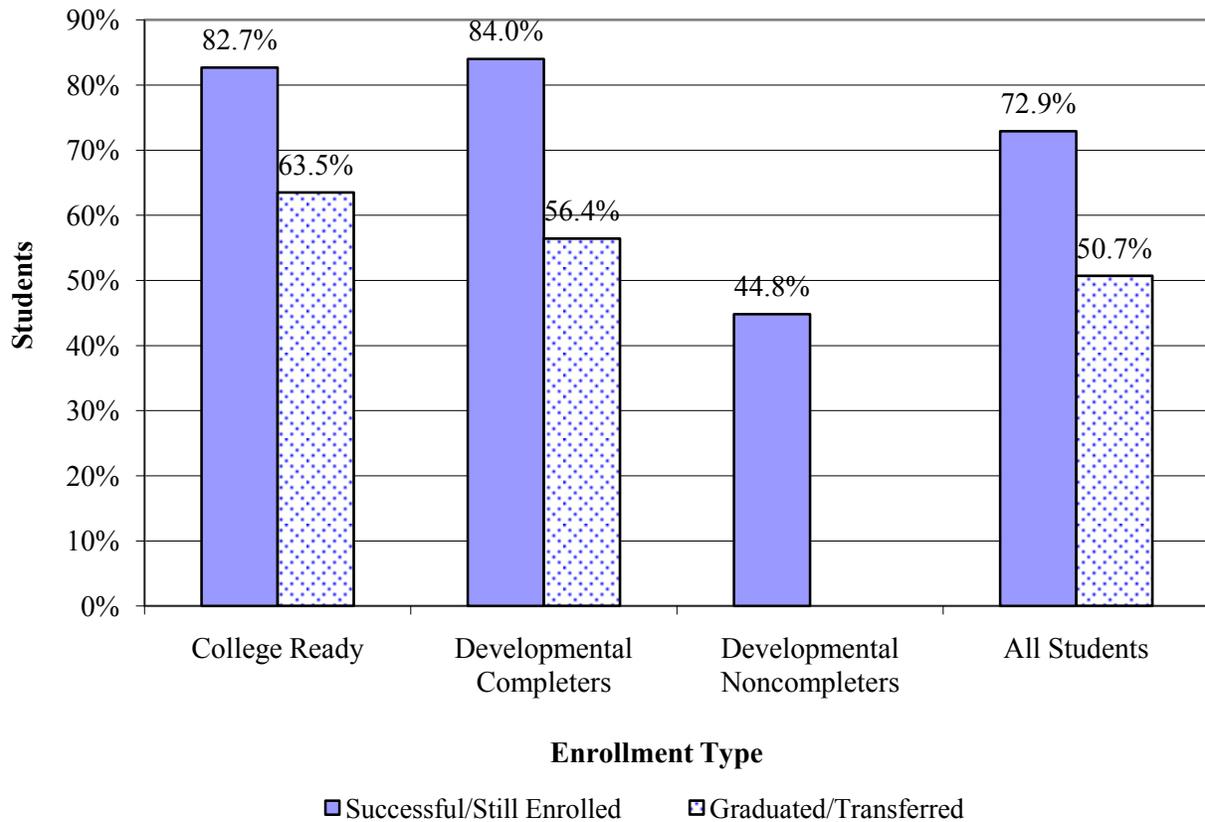
- to ensure that Maryland community college students are progressing successfully toward their goals;
- to attain diversity reflecting the racial/ethnic composition of the service areas of the community colleges;
- to support regional economic and workforce development by producing graduates and by supplying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

### **Performance Analysis: Managing for Results**

Students enrolling at community colleges tend to have different goals in mind than those who enroll at a traditional four-year institution. Community college students often have greater needs for developmental coursework, and obtaining an associate's or bachelor's degree may not be the top priority. As such, it is difficult to directly compare the outcomes of students in both segments. For community college performance, successful persister rates are used. A successful persister is a student who attempted 18 or more credits in the first two years of study and who after four years is still enrolled, has graduated, or has transferred.

Successful persister rates of three subgroups of students are measured: college ready, developmental completers (those who need developmental coursework and complete needed courses within four years), and developmental noncompleters (those who need developmental work and have not completed recommended coursework in four years). **Exhibit 1** shows the successful persister rate for all three subgroups and also that for all students in the 2004 cohort. For developmental completers, rates are higher than a year ago. The 2003 cohort's developmental completer successful persistence rate was 81.9%, compared with 84.0% for the 2004 cohort, an increase of 2.1 percentage points. Growth is greater for the 2004 cohort's graduation/transfer rate, which increased 2.8 percentage points over a year ago. **The Secretary should comment on efforts to improve successful persister rates at Maryland's community colleges.**

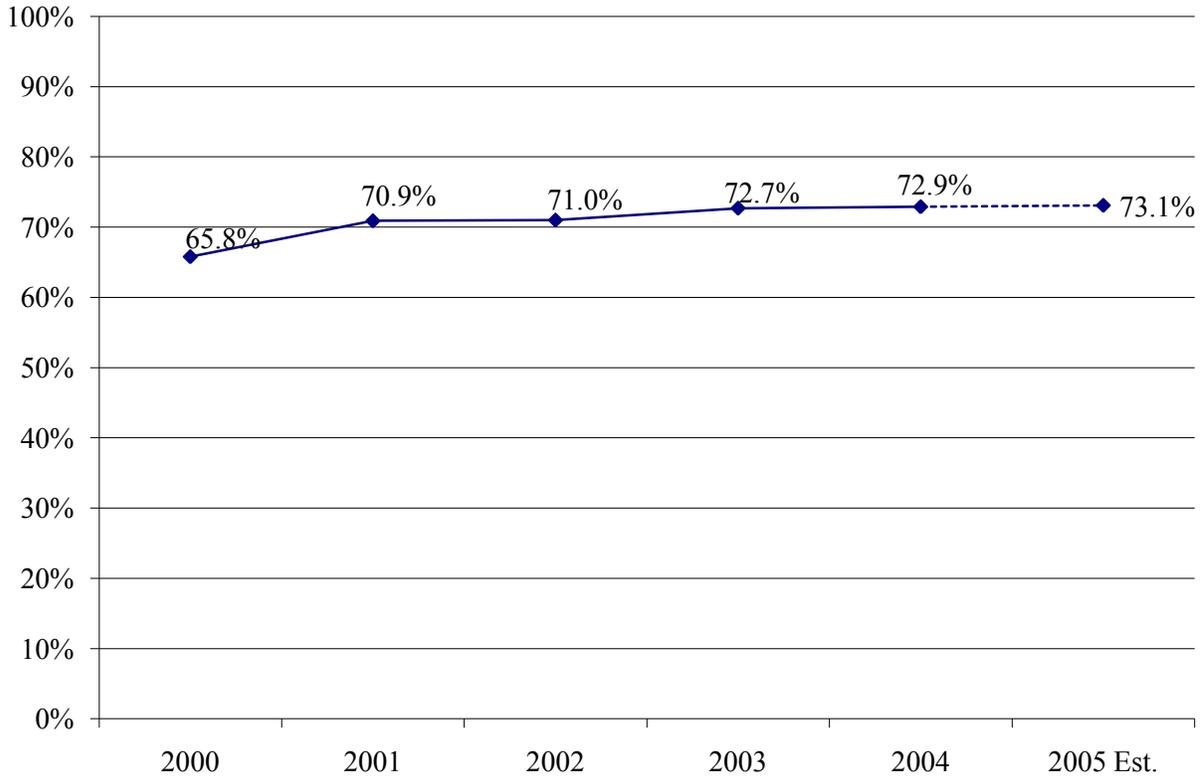
**Exhibit 1  
Degree Progress Four Years after Initial Enrollment  
Fall 2004 Cohort**



Source: Maryland Association of Community Colleges

The overall change in the successful persister rate for all students can be found in **Exhibit 2**. The MHEC goal for the 2005 cohort is for the State’s successful persister rate to be 73%, and it appears that will be met. MHEC’s new goal is for a successful persister rate of 74% for the 2007 cohort.

**Exhibit 2**  
**Four-year Successful Persister Rates**  
**2000-2005 Cohort Estimate**



Source: Governor’s Budget Books, Fiscal 2011; Maryland Association of Community Colleges

Another goal is to increase diversity and minority enrollment at the State’s community colleges. A Managing for Results objective states that the student body should ideally reflect the racial/ethnic composition of the service area. **Exhibit 3** shows the enrollment of all minorities and selected minority subgroups at each of Maryland’s community colleges. Prince George’s Community College and Baltimore City Community College have the highest rates of minority enrollment, with 89.3 and 84.5%, respectively. Montgomery College also has a minority enrollment rate of over 50.0%.

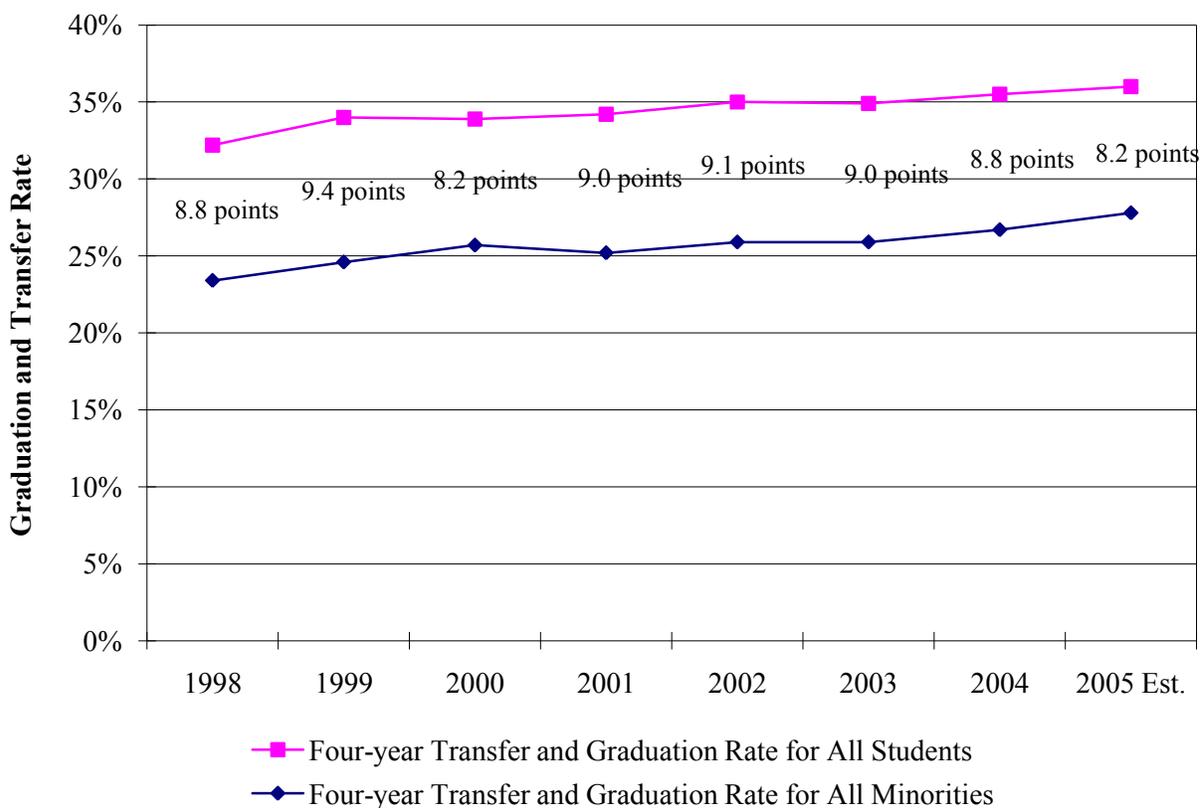
**Exhibit 3**  
**Minority Enrollment at Maryland Community Colleges**  
**Fall 2008**

|                              | <u>%<br/>African<br/>American</u> | <u>%<br/>Native<br/>American</u> | <u>%<br/>Asian</u> | <u>%<br/>Hispanic</u> | <u>%<br/>Other</u> | <u>%<br/>Minority</u> |
|------------------------------|-----------------------------------|----------------------------------|--------------------|-----------------------|--------------------|-----------------------|
| Allegany                     | 7.4%                              | 0.2%                             | 0.6%               | 0.6%                  | 1.4%               | 10.2%                 |
| Anne Arundel                 | 14.4%                             | 0.5%                             | 3.7%               | 3.3%                  | 14.2%              | 36.2%                 |
| Baltimore City               | 77.2%                             | 0.2%                             | 1.5%               | 1.3%                  | 4.3%               | 84.5%                 |
| Baltimore County             | 30.6%                             | 0.4%                             | 4.3%               | 2.4%                  | 5.3%               | 43.0%                 |
| Carroll                      | 2.7%                              | 0.3%                             | 1.2%               | 1.6%                  | 1.2%               | 7.0%                  |
| Cecil                        | 6.8%                              | 0.4%                             | 1.4%               | 1.8%                  | 1.4%               | 11.8%                 |
| Chesapeake                   | 14.8%                             | 0.5%                             | 1.3%               | 1.8%                  | 0.2%               | 18.5%                 |
| College of Southern Maryland | 21.3%                             | 0.9%                             | 3.9%               | 3.2%                  | 7.8%               | 37.0%                 |
| Frederick                    | 11.2%                             | 0.6%                             | 4.5%               | 5.7%                  | 2.7%               | 24.6%                 |
| Garrett                      | 11.3%                             | 0.4%                             | 0.5%               | 2.2%                  | 0.7%               | 15.1%                 |
| Hagerstown                   | 8.8%                              | 0.5%                             | 1.7%               | 3.2%                  | 3.5%               | 17.7%                 |
| Harford                      | 12.6%                             | 0.5%                             | 2.6%               | 2.7%                  | 3.8%               | 22.1%                 |
| Howard                       | 22.1%                             | 0.5%                             | 10.1%              | 4.4%                  | 6.7%               | 43.8%                 |
| Montgomery                   | 26.7%                             | 0.3%                             | 13.3%              | 12.5%                 | 3.6%               | 56.5%                 |
| Prince George's              | 79.0%                             | 0.6%                             | 4.0%               | 4.6%                  | 1.1%               | 89.3%                 |
| Wor-Wic                      | 24.2%                             | 0.7%                             | 1.4%               | 1.4%                  | 2.8%               | 30.4%                 |
| <b>Statewide Average</b>     | <b>29.0%</b>                      | <b>0.4%</b>                      | <b>5.5%</b>        | <b>4.8%</b>           | <b>5.1%</b>        | <b>44.9%</b>          |

Source: Maryland Higher Education Commission, *Trends in Enrollment by Race and Gender*, July 2009

Although rates of minority enrollment are higher at community colleges than four-year institutions, achievement gaps between all students and minority students remain. The MHEC goal is to reduce the four-year transfer/graduation rate gap to 7.5 percentage points by the 2007 cohort. As shown in **Exhibit 4**, although the success rates of both cohorts have trended upward, they moved together. This achievement gap has been at least above 8.8 percentage points for cohorts since fall 1998. MHEC projects it to close to 8.2 percentage points for the 2005 cohort.

**Exhibit 4**  
**Four-year Graduation and Transfer Gap**  
**Fall 1998-2005 Cohorts Estimate**



Source: Governor’s Budget Books, Fiscal 2011

**Fiscal 2010 Actions**

**Proposed Deficiency**

The fiscal 2011 allowance includes a deficiency appropriation to community colleges totaling \$3,969,128 in general funds transferred from the Department of Public Safety and Correctional Services (DPSCS). An equal amount of federal funds from the American Recovery and Reinvestment Act of 2009 is transferred out of the community college budget to DPSCS. As a result, the action has no impact on the level of funding community colleges receive.

## Impact of Cost Containment

Like most State agencies, community colleges were affected by mid-year budget reductions from the Board of Public Works (BPW). There was a 5% across-the-board reduction to the Cade formula for a total reduction of \$10,515,919. **Exhibit 5** shows that, as a result, nine colleges are receiving less in fiscal 2010 than in fiscal 2009. Based on advice from the Attorney General in 1991, BPW is not restricted by the hold harmless provision in the Cade formula. The Statewide and Health Manpower grants also decreased \$600,000.

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### Exhibit 5 Community College Cost Containment Fiscal 2009-2010

|                   | <u>Actual<br/>2009</u> | <u>Legislative<br/>Appropriation<br/>2010</u> | <u>5.0% BPW<br/>Reductions</u> | <u>Working<br/>2010</u> | <u>\$<br/>Change<br/>2009-10</u> | <u>%<br/>Change<br/>2009-10</u> |
|-------------------|------------------------|---|--------------------------------|-------------------------|----------------------------------|---------------------------------|
| Allegany          | \$4,778,234            | \$4,984,113                                   | -\$249,206                     | \$4,734,907             | -\$43,327                        | -0.9%                           |
| Anne Arundel      | 27,864,566             | 28,951,263                                    | -1,447,563                     | 27,503,700              | -360,866                         | -1.3%                           |
| Baltimore County  | 35,977,760             | 36,341,154                                    | -1,817,058                     | 34,524,096              | -1,453,664                       | -4.0%                           |
| Carroll           | 6,676,582              | 7,259,081                                     | -362,954                       | 6,896,127               | 219,545                          | 3.3%                            |
| Cecil             | 4,509,143              | 4,772,899                                     | -238,645                       | 4,534,254               | 25,111                           | 0.6%                            |
| Southern Maryland | 10,788,472             | 11,138,084                                    | -556,904                       | 10,581,180              | -207,292                         | -1.9%                           |
| Chesapeake        | 5,469,379              | 5,736,907                                     | -286,846                       | 5,450,061               | -19,318                          | -0.4%                           |
| Frederick         | 7,989,671              | 8,318,806                                     | -415,940                       | 7,902,866               | -86,805                          | -1.1%                           |
| Garrett           | 2,308,469              | 2,433,878                                     | -121,694                       | 2,312,184               | 3,715                            | 0.2%                            |
| Hagerstown        | 6,815,742              | 7,212,915                                     | -360,646                       | 6,852,269               | 36,527                           | 0.5%                            |
| Harford           | 10,131,139             | 10,567,881                                    | -528,394                       | 10,039,487              | -91,652                          | -0.9%                           |
| Howard            | 12,369,962             | 13,063,472                                    | -653,174                       | 12,410,298              | 40,336                           | 0.3%                            |
| Montgomery        | 37,576,343             | 38,595,188                                    | -1,929,759                     | 36,665,429              | -910,914                         | -2.4%                           |
| Prince George's   | 22,764,575             | 23,998,329                                    | -1,199,916                     | 22,798,413              | 33,838                           | 0.1%                            |
| Wor-Wic           | 6,617,784              | 6,944,398                                     | -347,220                       | 6,597,178               | -20,606                          | -0.3%                           |
| <b>Total</b>      | <b>\$202,637,821</b>   | <b>\$210,318,368</b>                          | <b>-\$10,515,919</b>           | <b>\$199,802,449</b>    | <b>-\$2,835,372</b>              | <b>-1.4%</b>                    |

Source: Department of Legislative Services; Department of Budget and Management.

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## Proposed Budget

As shown in **Exhibit 6**, the Governor’s proposed budget reduces aid to community colleges by \$0.1 million after accounting for contingent reductions in the Budget Reconciliation and Financing Act (BRFA) of 2010. The largest increase is in the Senator John A. Cade Funding Formula, \$17.7 million, although a reduction contingent on the BRFA of 2010 results in a decrease of \$5.4 million. The other large increase is in the faculty and staff retirement programs, growing \$5.4 million. Overall, the BRFA action results in level funding aid to community colleges at 0% change, a decrease of \$0.1 million.

**Exhibit 6**  
**Proposed Budget**  
**Aid to Community Colleges**  
**(\$ in Thousands)**

| <b>How Much It Grows:</b>                    | <b>General<br/>Fund</b> | <b>Federal<br/>Fund</b> | <b>Total</b>   |
|--|-------------------------|-------------------------|----------------|
| 2010 Working Appropriation                   | \$252,205               | \$3,969                 | \$256,174      |
| 2011 Allowance                               | <u>279,200</u>          | <u>0</u>                | <u>279,200</u> |
| Amount Change                                | \$26,996                | -\$3,969                | \$23,027       |
| Percent Change                               | 10.7%                   | -100.0%                 | 9.0%           |
| Contingent Reductions                        | -\$23,085               | \$0                     | -\$23,085      |
| Adjusted Change                              | \$3,911                 | -\$3,969                | -\$58          |
| Adjusted Percent Change                      | 1.6%                    | -100.0%                 | -0.0%          |
| <b>Where It Goes:</b>                        |                         |                         |                |
| <b>Personnel Expenses</b>                    |                         |                         |                |
| <b>Other Changes</b>                         |                         |                         |                |
| Senator John A. Cade Funding Formula .....   |                         |                         | \$17,690       |
| Faculty and staff retirement .....           |                         |                         | 4,473          |
| Optional retirement program.....             |                         |                         | 904            |
| English for Speakers of Other Languages..... |                         |                         | 71             |
| Aid to Small Community Colleges .....        |                         |                         | -15            |
| Statewide and regional programs .....        |                         |                         | -96            |
| <b>Other Changes</b>                         |                         |                         |                |
| Contingent reductions to Cade Formula .....  |                         |                         | -23,085        |
| <b>Total</b>                                 |                         |                         | <b>-\$58</b>   |

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

The BRFA of 2009 set the Cade formula at 24% of current year State funding per FTES provided to select four-year public institutions in fiscal 2011. Of the \$17.7 growth in the statutory Cade formula, \$11.9 million is due to enrollment growth and \$6.7 million is due to the per FTES percentage formula increasing from 23.6 to 24.0%. Because funding per FTES at the selected public four-year institutions decreased in the allowance, funding to community colleges was \$0.9 million less than it would have been if support were maintained on a per FTES basis.

### **Impact of Cost Containment**

Although the fiscal 2011 general fund allowance increases by 10.7%, or \$27.0 million, State support declines by \$0.1 million after the Governor’s BRFA of 2010. There are three parts to the State’s support to community colleges, as shown in **Exhibit 7** – the Cade formula, the miscellaneous grant programs, and retirement.

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**Exhibit 7**  
**Community College Funding**  
**Fiscal 2010-2011 Change**

|                                      | <u>Working<br/>Appropriation</u> | <u>Allowance</u>     | <u>Change</u>       |
|--------------------------------------|----------------------------------|----------------------|---------------------|
| Senator John A. Cade Funding Formula | \$199,802,449                    | \$217,492,494        | \$17,690,045        |
| Miscellaneous Grants                 | 14,211,428                       | 14,171,270           | -40,158             |
| Retirement                           | 42,159,819                       | 47,536,536           | 5,376,717           |
| <b>Total</b>                         | <b>\$256,173,696</b>             | <b>\$279,200,300</b> | <b>\$23,026,604</b> |

Source: Governor’s Budget Books, Fiscal 2010 and 2011

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The BRFA does not reduce the miscellaneous grants or the faculty and staff retirement programs, which increases by a net of \$5.3 million. In order to level fund community colleges overall, therefore, the Cade formula is reduced by \$23.1 million through the BRFA.

**Exhibit 8** provides further detail on the fiscal 2011 allowance attributable to the Cade funding formula. Although under statute the grant receives \$217.5 million, the BRFA reduces funding to \$194.4 million, a reduction of 2.7% compared to the working appropriation. As enrollment increases 5.8%, the overall funding per FTES decreases 8.0%. The BRFA proposes the same level of funding, \$194.4 million, in fiscal 2012. For both years, the BRFA specifies the funding amount for each college rather than using a percentage of per FTES funding in the formula.

**Exhibit 8**  
**Analysis of Fiscal 2011 Allowance and Adjusted Allowance**  
**Community College Formula**

| <u>College</u>    | <u>Working</u><br><u>Appropriation</u><br><u>2010</u> | <u>Allowance</u><br><u>2011</u> | <u>Adjusted</u><br><u>Allowance</u><br><u>2011</u> | <u>%</u><br><u>Dollar</u><br><u>Change</u><br><u>(Adj.)</u><br><u>2010-11</u> | <u>%</u><br><u>Change</u><br><u>FTES</u><br><u>2010-11</u> | <u>%</u><br><u>Change</u><br><u>\$/FTES</u><br><u>(Adj.)</u><br><u>2010-11</u> |
|-------------------|---|---------------------------------|--|---|--|--|
| Allegany          | \$4,734,907   | \$5,260,413                     | \$4,535,850  | -4.2%   | 9.4%   | -12.5%   |
| Anne Arundel      | 27,503,700  | 29,813,304                      | 26,902,364   | -2.2%   | 4.8%   | -6.6%  |
| Baltimore County  | 34,524,096  | 37,668,559                      | 33,649,935   | -2.5%   | 9.2%   | -10.7%   |
| Carroll           | 6,896,127   | 7,492,566                       | 6,770,354  | -1.8%   | 1.9%   | -3.6%  |
| Cecil             | 4,534,254   | 5,094,775                       | 4,448,540  | -1.9%   | 10.7%  | -11.3%   |
| Southern Maryland | 10,581,180  | 11,838,358                      | 10,299,112   | -2.7%   | 10.6%  | -12.0%   |
| Chesapeake        | 5,450,061   | 6,225,486                       | 5,268,995  | -3.3%   | 14.8%  | -15.7%   |
| Frederick         | 7,902,866   | 8,829,362                       | 7,649,753  | -3.2%   | 9.8%   | -11.9%   |
| Garrett           | 2,312,184   | 2,480,545                       | 2,307,428  | -0.2%   | -0.3%  | 0.1%   |
| Hagerstown        | 6,852,269   | 7,620,913                       | 6,701,294  | -2.2%   | 8.3%   | -9.7%  |
| Harford           | 10,039,487  | 10,873,279                      | 9,781,228  | -2.6%   | 4.4%   | -6.6%  |
| Howard            | 12,410,298  | 13,749,479                      | 12,057,748   | -2.8%   | 7.4%   | -9.6%  |
| Montgomery        | 36,665,429  | 39,136,493                      | 35,379,914   | -3.5%   | 2.9%   | -6.2%  |
| Prince George's   | 22,798,413  | 24,035,446                      | 22,200,826   | -2.6%   | -0.8%  | -1.9%  |
| Wor-Wic           | 6,597,178   | 7,373,516                       | 6,454,091  | -2.2%   | 9.9%   | -11.0%   |
| <b>Total</b>      | <b>\$199,802,449</b>                                  | <b>\$217,492,494</b>            | <b>\$194,407,432</b>                               | <b>-2.7%</b>  | <b>5.8%</b>  | <b>-8.0%</b>   |

FTES: full-time equivalent student

Source: Governor's Budget Books, Fiscal 2011; Budget Reconciliation and Financing Act of 2010

The funding level proposed for fiscal 2011 is equal to a 21.8% of the selected four-year State funding per FTES, and fiscal 2012 is estimated to equal 20.0%. The BRFA also resets the Cade formula percentage through fiscal 2016. As shown in **Exhibit 9**, the formula restarts in fiscal 2013 at 22% and phases up to the current maximum rate of 29% in fiscal 2016, two years later than in current statute. The changes proposed in the BRFA save an estimated \$203.1 million over the six-year period.

**Exhibit 9**  
**Senator John A. Cade Funding Levels and Projected Appropriations**

|   | <u>2011</u>   | <u>2012</u>   | <u>2013</u>   | <u>2014</u>   | <u>2015</u>    | <u>2016</u>    |
|---|---------------|---------------|---------------|---------------|----------------|----------------|
| <b><u>Current Statute</u></b>                 |               |               |               |               |                |                |
| Funding Level                                 | 24.0%         | 25.0%         | 27.0%         | 29.0%         | 29.0%          | 29.0%          |
| Funding per FTES                              | \$2,293       | \$2,455       | \$2,730       | \$3,024       | \$3,121        | \$3,220        |
| Projected Appropriation                       | 217,492,494   | 242,719,183   | 273,477,228   | 308,723,624   | 323,097,004    | 341,250,959    |
| \$ Change                                     |               | 25,226,689    | 30,758,045    | 35,246,396    | 14,373,380     | 18,153,955     |
| <b><u>Proposed in BRFA</u></b>                |               |               |               |               |                |                |
| Funding Level in BRFA                         | –             | –             | 22.0%         | 24.0%         | 26.5%          | 29.0%          |
| Funding per FTES                              | \$2,050       | \$1,966       | \$2,224       | \$2,502       | \$2,852        | \$3,220        |
| Projected Appropriation                       | 194,407,432   | 194,407,432   | 222,833,037   | 255,494,815   | 295,244,117    | 341,250,959    |
| \$ Change                                     |               | 0             | 28,425,605    | 32,661,778    | 39,749,302     | 46,006,842     |
| <b><u>Difference from Current Statute</u></b> |               |               |               |               |                |                |
|   | -\$23,085,062 | -\$48,311,751 | -\$50,644,191 | -\$53,228,809 | -\$27,852,887  | \$0            |
| <b><u>DLS Recommendation</u></b>              |               |               |               |               |                |                |
| Funding Level                                 | –             | –             | 20.0%         | 20.0%         | 20.0%          | 20.0%          |
| Funding per FTES                              | \$2,050       | \$1,966       | \$2,022       | \$2,085       | \$2,152        | \$2,221        |
| Projected Appropriation                       | 194,407,432   | 194,407,432   | 202,575,761   | 212,912,175   | 222,826,198    | 235,345,416    |
| \$ Change                                     |               | 0             | 8,168,329     | 10,336,414    | 9,914,023      | 12,519,218     |
| <b><u>Difference from Current Statute</u></b> |               |               |               |               |                |                |
|   | -\$23,085,062 | -\$48,311,751 | -\$70,901,467 | -\$95,811,449 | -\$100,270,806 | -\$105,905,543 |

BRFA: Budget Reconciliation and Financing Act  
FTES: full-time equivalent student

Source: Governor's Budget Books, Fiscal 2011; Budget Reconciliation and Financing Act of 2010; Department of Legislative Services

Exhibit 9 also shows how, after the formula enhancement to 29% is complete, community colleges receive the same funding level as in current law. The BRFA includes no long-term structural changes. In addition, Cade funding increases annually by amounts that the State may not be able to fully fund, up to \$46.0 million in fiscal 2016 on top of the retirement payments the State makes on behalf of community colleges. Based on current projections, State-paid retirement costs will increase

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by \$27.5 million from fiscal 2011 to 2016, reaching \$75.0 million in fiscal 2016. **The Department of Legislative Services (DLS) recommends using the estimated fiscal 2012 statutory formula percentage of 20% in fiscal 2013 and thereafter. This action will slow the mandated growth in the State budget to help bring general fund spending and revenues into balance. The Governor and General Assembly will always have the option of enhancing funding through the budget or subsequent legislation when economic and budget conditions improve.**

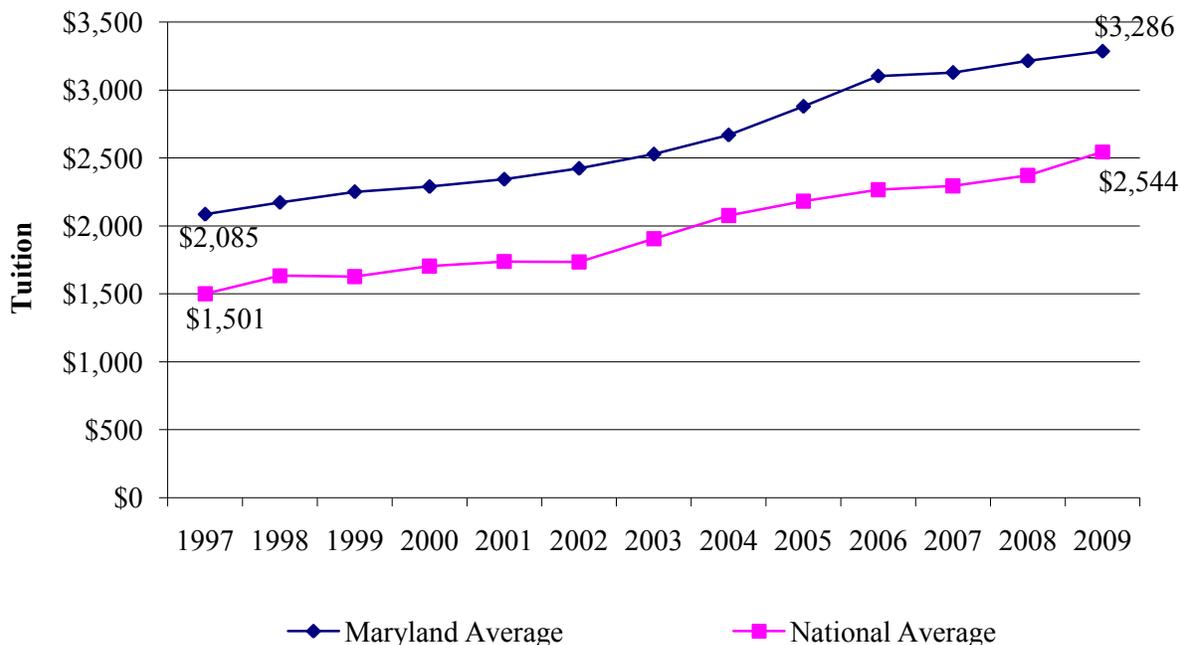
Savings from the DLS recommendation reach \$105.9 million in fiscal 2016 and total \$444.3 million over the entire period. Yearly increases moderate between \$8.2 million and \$12.5 million annually, and per student funding increases 1.6% annually on average under the DLS recommendation.

## Issues

### 1. Affordability

Community colleges offer a more affordable entry into higher education than do the public four-year institutions, where the average tuition and fee rate was \$7,314 in fall 2009. However, just as the State’s four-year institutions are among the most expensive in the country, so too are the community colleges. In fiscal 2009, Maryland’s average community college tuition, at \$3,286, increased from seventeenth to sixteenth most expensive in the country. However, the 2.2% average rate of increase is well under the national average of 7.3%, as shown in **Exhibit 10**, which compares the national average community college tuition and fee rate with the State’s from fall 1997-2009. Maryland’s average tuition has been higher throughout the entire period, although it narrows by \$110 between fall 2008 and 2009 to a difference of \$735.

**Exhibit 10**  
**Community College Annual Tuition and Mandatory Fees**  
**Maryland Community Colleges Compared to the National Average**  
**Fall 1997-2009**



Source: Maryland Association of Community Colleges, College Board *Annual Survey of Colleges – Trends on College Pricing*

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Tuition and fee rates from fall 2008 and 2009 by college are shown in **Exhibit 11**. The average increase was \$71, or 2.2%. Although budgets are tight throughout the State, five colleges chose not to increase rates. Fall 2010 tuition rates have not been set yet. **The Secretary and community colleges should comment on efforts to increase affordability at Maryland's community colleges despite the challenges presented by current economic conditions.**

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**Exhibit 11**  
**Community College Tuition and Fee Rates for Full-time, In-county Students**  
**Fall 2008-2009**

|                          | <u>Fall 2008</u> | <u>Fall 2009</u> | <u>\$ Change</u><br><u>2008-09</u> | <u>% Change</u><br><u>2008-09</u> |
|--------------------------|------------------|------------------|------------------------------------|-----------------------------------|
| Montgomery               | \$3,984          | \$4,092          | \$108                              | 2.7%                              |
| Howard                   | 3,993            | 3,993            | 0                                  | 0.0%                              |
| Prince George's          | 3,905            | 3,905            | 0                                  | 0.0%                              |
| Southern Maryland        | 3,616            | 3,690            | 74                                 | 2.0%                              |
| Carroll                  | 3,407            | 3,565            | 158                                | 4.6%                              |
| Chesapeake               | 3,304            | 3,304            | 0                                  | 0.0%                              |
| <b>Maryland Average*</b> | <b>3,215</b>     | <b>3,286</b>     | <b>71</b>                          | <b>2.2%</b>                       |
| Frederick                | 3,069            | 3,267            | 198                                | 6.5%                              |
| Hagerstown               | 3,180            | 3,220            | 40                                 | 1.3%                              |
| Garrett                  | 2,970            | 3,210            | 240                                | 8.1%                              |
| Allegany                 | 3,164            | 3,164            | 0                                  | 0.0%                              |
| Baltimore City           | 3,062            | 3,112            | 50                                 | 1.6%                              |
| Baltimore                | 3,080            | 3,102            | 22                                 | 0.7%                              |
| Anne Arundel             | 2,860            | 2,920            | 60                                 | 2.1%                              |
| Cecil                    | 2,820            | 2,820            | 0                                  | 0.0%                              |
| Wor-Wic                  | 2,474            | 2,624            | 150                                | 6.1%                              |
| Harford                  | 2,550            | 2,587            | 37                                 | 1.5%                              |

\*Unweighted Average

Source: Maryland Association of Community Colleges

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## **2. Local Maintenance of Effort**

Each year, the General Assembly approves a level of funding for community colleges. Although there are several grant programs, the majority of State funding is provided through the Senator John A. Cade Funding Formula. Generally, the State's support increases year over year. For a community college to receive an increase in State funding, local support must be maintained, a concept known as maintenance of effort (MOE). If the local appropriation is reduced, the college will receive the same amount of money from the State it received in the previous year. For regional colleges, with more than one supporting county, local support in the aggregate must be greater than it was in the previous year. While State funding in total declines by \$2.8 million in fiscal 2010 due to BPW cost containment, the MOE applies to six counties that receive an increase in the working appropriation (See Exhibit 5). The MOE does not apply when State funding does not increase or declines, as proposed by the Governor for fiscal 2011 and 2012.

**Exhibit 12** shows increases in local support from fiscal 2009-2010. Overall, funding increases \$3.1 million, or 0.9%. The largest increase is at Carroll Community College, growing 12.1%. However, due to the current economic climate, several counties are appropriating the minimum amount of support required in fiscal 2010 to stay in compliance with maintenance of effort requirements. Six counties are level funded at the fiscal 2009 level, and one is increasing support by only \$2. Although appropriations can be adjusted mid-year, at this time a decline in local support is expected at two colleges, Frederick by \$61,778 and Wor-Wic by \$777,221. In this instance, however, neither Frederick nor Wor-Wic are at risk of losing an increase in State funding since State support is lower in fiscal 2010 than in fiscal 2009 for both colleges.

For the six colleges expecting a State increase, they risk losing it if local support falls below fiscal 2009 levels. Final certification of maintenance of effort is performed in March. **The Secretary and community colleges should comment on when the decisions regarding maintenance of effort will be finalized and how any required reductions will be implemented.**

Overall, State funding currently represents approximately 25.0% of community college funding, with local governments contributing 31.0% and tuition and fees covering 35.0%. The remaining amount is provided by other sources, such as auxiliary enterprises and contracts and grants. The community college maintenance of effort requirement applies to college funding levels but does not adjust for enrollment changes. **Exhibit 13** shows local support per FTES at each community college in fiscal 2003, 2009, and 2010. On average, local spending per FTES increased by 25.2% between fiscal 2003 and 2009 but declines by 4.0% in fiscal 2010. This is because local support overall increased by 0.9% as enrollment grew 4.2%. Currently, only one county is spending more per FTES in fiscal 2010 than in fiscal 2009 – Carroll Community College by 9.1%.

**Exhibit 12**  
**Local Support to Community Colleges**  
**Fiscal 2009-2010**

| <u>College</u>    | <u>2009</u>          | <u>Working<br/>2010*</u> | <u>\$ Change<br/>2009-2010</u> | <u>% Change<br/>2009-2010</u> |
|-------------------|----------------------|--------------------------|--------------------------------|-------------------------------|
| Allegany          | \$7,425,000          | \$7,425,000              | \$0                            | 0.0%                          |
| Anne Arundel      | 33,822,700           | 33,822,700               | 0                              | 0.0%                          |
| Baltimore         | 38,332,055           | 38,532,055               | 200,000                        | 0.5%                          |
| Carroll*          | 7,900,903            | 8,855,000                | 954,097                        | 12.1%                         |
| Cecil*            | 8,101,100            | 8,125,027                | 23,927                         | 0.3%                          |
| Southern Maryland | 14,498,891           | 14,965,275               | 466,384                        | 3.2%                          |
| Chesapeake        | 5,885,589            | 5,885,591                | 2                              | 0.0%                          |
| Frederick         | 14,599,933           | 14,538,155               | -61,778                        | -0.4%                         |
| Garrett*          | 4,273,000            | 4,273,000                | 0                              | 0.0%                          |
| Hagerstown*       | 8,697,128            | 9,045,010                | 347,882                        | 4.0%                          |
| Harford           | 15,939,806           | 15,939,806               | 0                              | 0.0%                          |
| Howard*           | 25,195,470           | 25,195,470               | 0                              | 0.0%                          |
| Montgomery        | 105,054,553          | 106,956,295              | 1,901,742                      | 1.8%                          |
| Prince George's*  | 30,484,600           | 30,484,600               | 0                              | 0.0%                          |
| Wor-Wic           | 6,075,641            | 5,298,420                | -777,221                       | -12.8%                        |
| <b>Total</b>      | <b>\$326,286,369</b> | <b>\$329,341,404</b>     | <b>\$3,055,035</b>             | <b>0.9%</b>                   |

\*Indicates college is receiving an increase in State support in fiscal 2010 and is under the maintenance of effort provision.

Source: Maryland Higher Education Commission

**Exhibit 13**  
**Local Support per Full-time Equivalent Student**  
**Fiscal 2003, 2009 and 2010**

|                   | <u>2003</u>    | <u>2009</u>    | <u>2010</u>    | <u>%<br/>Dollar<br/>Growth<br/>2003-09</u> | <u>%<br/>FTES<br/>Growth<br/>2003-09</u> | <u>%<br/>Dollar<br/>Growth<br/>2009-10</u> | <u>%<br/>FTES<br/>Growth<br/>2009-10</u> |
|-------------------|----------------|----------------|----------------|--|--|--|--|
| Allegany          | \$3,378        | \$3,812        | \$3,717        | 12.8%                                      | 20.2%                                    | -2.5%                                      | 2.6%                                     |
| Anne Arundel      | 1,882          | 2,524          | 2,490          | 34.1%                                      | 15.8%                                    | -1.3%                                      | 1.4%                                     |
| Baltimore         | 2,050          | 2,255          | 2,136          | 10.0%                                      | 5.9%                                     | -5.3%                                      | 6.1%                                     |
| Carroll           | 1,814          | 2,705          | 2,952          | 49.1%                                      | 28.9%                                    | 9.1%                                       | 2.7%                                     |
| Cecil             | 4,150          | 4,291          | 3,947          | 3.4%                                       | 42.7%                                    | -8.0%                                      | 9.0%                                     |
| Chesapeake        | 2,389          | 2,417          | 2,336          | 1.2%                                       | 28.9%                                    | -3.4%                                      | 3.5%                                     |
| Southern Maryland | 2,575          | 2,673          | 2,549          | 3.8%                                       | 26.3%                                    | -4.6%                                      | 8.2%                                     |
| Frederick         | 3,296          | 3,612          | 3,176          | 9.6%                                       | 38.9%                                    | -12.1%                                     | 13.3%                                    |
| Garrett           | 4,819          | 6,514          | 6,201          | 35.2%                                      | 28.6%                                    | -4.8%                                      | 5.0%                                     |
| Hagerstown        | 2,204          | 2,872          | 2,846          | 30.3%                                      | 40.9%                                    | -0.9%                                      | 5.0%                                     |
| Harford           | 2,742          | 3,263          | 3,153          | 19.0%                                      | 16.5%                                    | -3.4%                                      | 3.5%                                     |
| Howard            | 2,967          | 4,023          | 3,852          | 35.6%                                      | 34.5%                                    | -4.3%                                      | 4.4%                                     |
| Montgomery        | 4,420          | 6,030          | 6,017          | 36.4%                                      | 24.8%                                    | -0.2%                                      | 2.0%                                     |
| Prince George's   | 1,367          | 2,872          | 2,825          | 110.1%                                     | 10.2%                                    | -1.6%                                      | 1.6%                                     |
| Wor-Wic           | 1,442          | 2,078          | 1,655          | 44.1%                                      | 23.4%                                    | -20.3%                                     | 9.5%                                     |
| <b>Average</b>    | <b>\$2,766</b> | <b>\$3,463</b> | <b>\$3,323</b> | <b>25.2%</b>                               | <b>19.5%</b>                             | <b>-4.0%</b>                               | <b>4.2%</b>                              |

FTES: full-time equivalent student

Source: Maryland Higher Education Commission; Maryland Association of Community Colleges; Governor's Budget Books, fiscal 2005-2009

### **3. Auditing Enrollments**

In response to a 2009 *Joint Chairman's Report* information request, MHEC, in conjunction with the Maryland Association of Community Colleges, submitted a report on the process of auditing community college enrollments. These enrollments are used to calculate the State's community college appropriation in the Cade funding formula and are the most recent actual, two years prior to the budget year. As such, the fiscal 2011 budget uses audited enrollment figures from fiscal 2009.

#### **Reporting and Auditing Enrollments**

In a report submitted September 21, 2009, MHEC details the process of auditing FTES and certifying their accuracy. The report also defines what kinds of enrollments are eligible for State funding. Community college figures are self-reported by the colleges and equal the quotient of total eligible student credit hours divided by 30. The number 30 is used to convert enrollment hours into a figure equivalent to full-time enrollment, as many community college students enroll part-time. Enrollment figures for credit and noncredit courses are measured at the end of the third week of each semester and reported separately.

To ensure the accuracy and consistency of reported data, MHEC employs a number of policies. Colleges receive detailed instructions for completing the enrollment data forms, and MHEC also meets regularly with community college business officers to address reporting problems or concerns. Original signatures of the preparer and college president are required on all submitted data reports, and all data must be maintained for at least five years for auditing purposes.

Most importantly, the financial and enrollment reports sent to MHEC must be audited by an independent certified public accountant. The *Code of Maryland Regulations* (COMAR) instructs auditors to look at enrollment reports as closely as financial statements. After submission, MHEC checks for completeness and content and follows up on any issues raised by the auditor. Finally, the Office of Legislative Audits reviews all of the colleges' enrollment reports each year as a final check.

#### **Eligibility**

In terms of what makes an enrollment eligible for State funding, MHEC's submission summarizes eligibility as outlined by COMAR. Students enrolled in credit-bearing courses are counted for State funding unless credits are awarded that do not require direct supervision or are in a class MHEC deems to be "recreational." Noncredit enrollments such as continuing education courses, developmental education courses, and students in regular, credit-bearing courses choosing not to earn credit are also eligible for State funding. However, non-Maryland residents, college employees, or family members of an employee are not eligible.

As MHEC does not perform an audit of community college enrollments, it has to rely on the report of each college's independent auditor. Although COMAR specifies what is and is not eligible for State funding, MHEC does not perform its own detailed check. **The Secretary should comment**

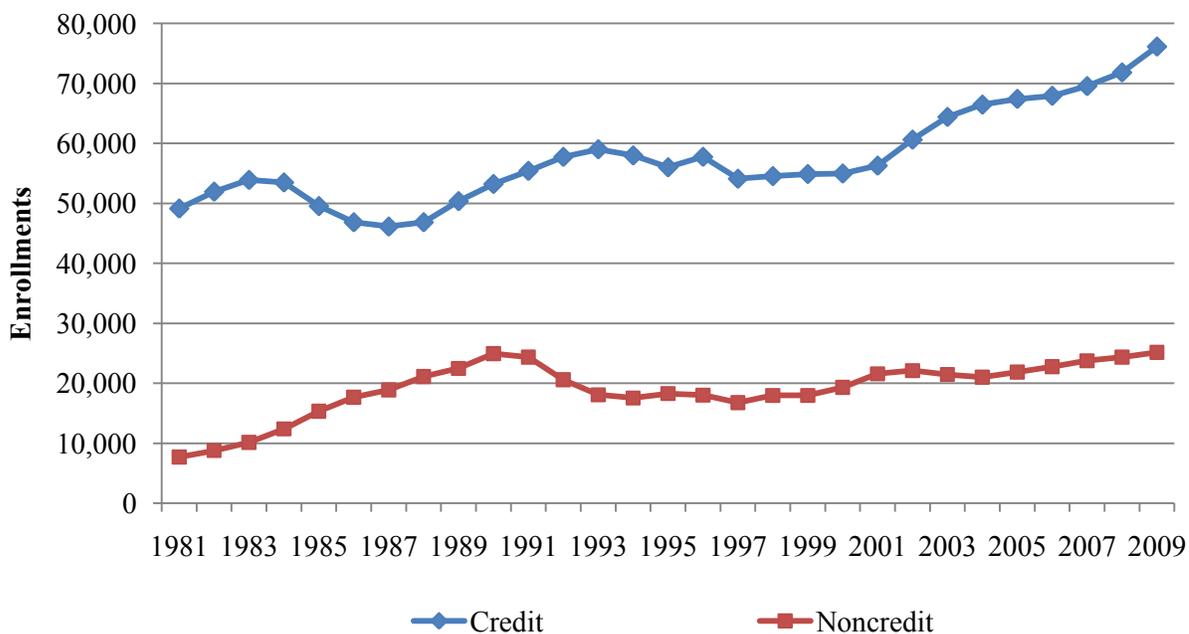
on the confidence MHEC has in the quality of the enrollment data submitted by community colleges.

### Noncredit Enrollments

Economic conditions impact community college enrollments. During economic downturns like the one currently affecting Maryland, community college enrollments tend to increase significantly, as undergraduates choose community college as a low-cost option for higher education or as unemployed workers seek to update or learn new skills. These enrollment gains will result in higher FTES figures when used in the Cade formula two years from now, but for the current fiscal year the more immediate concern is the type of enrollments seen at the community colleges.

Although colleges across the country are experiencing rapid growth in credit enrollments, noncredit enrollments are those on which community colleges generate the most income per student. **Exhibit 14** shows how State-eligible credit and noncredit enrollments have changed from fiscal 1981 through 2009.

**Exhibit 14**  
**State Eligible Enrollments**  
**Fiscal 1981-2009**



Source: Maryland Association of Community Colleges *Data Book*

During economic downturns, noncredit enrollments typically fall. During the most severe downturns, such as the early 1990s, they fell almost 30%. In recent years, noncredit enrollment growth has slowed, but it has not yet declined. If history repeats itself during the current recession, it could severely impact community college budgets. **The Secretary and college Presidents should comment on community college revenue structures and their ability to withstand reductions in noncredit enrollments.**

#### **4. The Cost of Developmental Education**

Developmental education, also known as basic skills or remedial training, is provided to students who enter college without the necessary reading, writing, or math skills to enroll in entry-level credit-bearing courses. Developmental programs can take several forms – from testing to determine where the gaps are, to modifying curriculum, to providing tutoring and other support services, and evaluating success upon completion of developmental work. Developmental education at the college level is considered an inefficient use of college and student resources since the skills being developed should have been learned earlier in the educational process.

More than half of all first-time college students need developmental work in at least one subject area. At community colleges, over 70% of first-time students require developmental work. At public four-year institutions, there is wide variation. Although few students at the University of Maryland, College Park (UMCP) require developmental work before beginning credit-bearing courses, more than 80% of first-time students do at Bowie State University (BSU) and Coppin State University.

The success rates of students who complete developmental courses are on par or better than the average for all students. This data has been reported regularly by community colleges for several years but not by public four-year institutions. For comparison purposes, DLS requested data from the University System of Maryland and received comparable data for two representative universities. As shown in **Exhibit 15**, 71.8% of students who complete developmental courses at Towson University (TU) graduate within six years, compared with an overall six-year graduation rate of 70.4%. At BSU, the six-year graduation rate of developmental completers is 43.4%, compared to 45.0% overall.

The differences are greater at community colleges. Success rates for four-year developmental completers are higher than for all students at every community college except the College of Southern Maryland. The largest differences are at Baltimore City Community College and Cecil College, where success rates of developmental completers outpace the average for all students by 32.8 and 29.0 percentage points, respectively. Although the successful persister and six-year graduation rates are not directly comparable, the data shows the achievement of developmental completers compared to their peers.

**Exhibit 15**  
**Success Rates of Students Completing Developmental Coursework**  
**Community Colleges and Four-year Institutions**  
**2004 Cohort**

| <u>Institution</u>     | <u>Developmental Completers</u> | <u>All Students</u> | <u>Percentage Point Difference</u> |
|------------------------|---------------------------------|---------------------|------------------------------------|
| Allegany               | 80.0%                           | 68.4%               | 11.6                               |
| Anne Arundel           | 87.4%                           | 71.1%               | 16.4                               |
| Baltimore City         | 81.8%                           | 49.0%               | 32.8                               |
| Baltimore County       | 81.6%                           | 71.5%               | 10.1                               |
| Carroll                | 87.8%                           | 74.5%               | 13.3                               |
| Cecil                  | 83.0%                           | 54.0%               | 29.0                               |
| Chesapeake             | 83.4%                           | 70.2%               | 13.3                               |
| College of S. MD       | 78.1%                           | 82.1%               | -4.1                               |
| Frederick              | 83.4%                           | 80.3%               | 3.1                                |
| Garrett                | 91.2%                           | 91.2%               | 0.1                                |
| Hagerstown             | 87.2%                           | 76.6%               | 10.6                               |
| Harford                | 84.2%                           | 72.5%               | 11.6                               |
| Howard                 | 91.3%                           | 76.4%               | 14.9                               |
| Montgomery             | 79.3%                           | 76.7%               | 2.6                                |
| Prince George's        | 87.2%                           | 81.1%               | 6.1                                |
| Wor-Wic                | 85.4%                           | 60.9%               | 24.5                               |
| Towson University      | 71.8%                           | 70.4%               | 1.4                                |
| Bowie State University | 43.4%                           | 45.0%               | -1.6                               |

Note: For community college students, success is defined as successful persistence. For students at four-year institutions, success is defined as the six-year graduation rate.

Source: University System of Maryland, Maryland Association of Community Colleges

## The Costs

Developmental programs can take up significant resources, especially when over half of first-time students need developmental work before beginning credit-bearing courses. The State directly supports the cost at community colleges through the Cade formula, which includes noncredit enrollments in the calculation. At four-year institutions, developmental courses are generally supported by tuition and fees and unrestricted State appropriations. At all institutions, however, resources devoted to developmental education take away from college-ready students and other

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instructional activities. Students incur costs through tuition and fees for noncredit courses and by requiring additional time to earn college credits.

In an attempt to learn more about the costs of developmental education incurred by the institutions, three community colleges and three universities were asked to provide cost estimates to DLS. When put on a per-hour basis, instruction costs ranged from \$70 to \$280. The numbers could not be compared directly, however, because enrollment counts and costs were not uniformly defined. Other mitigating factors, such as course size, were not uniformly reported across all segments. Colleges with larger course sizes are likely to have lower costs per hour. The college with an average cost of \$70 per hour may enroll more students per course on average than colleges with higher per-hour costs.

In addition, the community colleges receive State formula funding for developmental students, which may alter how resources are allocated across academic programs. Further research is needed for a better understanding of the costs of developmental education. **The Secretary and college presidents should comment on the cost of developmental education and how it affects the budgets of Maryland’s higher education institutions.**

## ***Recommended Actions***

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1. Strike the following language on the general fund appropriation:

~~; provided that this appropriation shall be reduced by \$23,085,062 contingent upon the enactment of legislation to reduce the required appropriation for the support of community colleges.~~

**Explanation:** The language is not necessary for the General Assembly to reduce the appropriation.

- |   | <b><u>Amount<br/>Reduction</u></b> |    |
|---|------------------------------------|----|
| 2. Reduce the formula grant by \$23,085,062. This is consistent with the Administration’s proposed reduction to the community college formula in the Budget Reconciliation and Financing Act. | \$ 23,085,062                      | GF |

3. Adopt the following narrative:

**The Costs of Developmental Education:** The budget committees are concerned about how much Maryland’s colleges and universities and students are spending on developmental education. The Maryland Higher Education Commission (MHEC), in conjunction with the Maryland Association of Community Colleges (MACC), the University System of Maryland (USM), and Morgan State University (MSU) should submit a report detailing the instruction costs of developmental education at each of the State’s colleges and universities. The report should include comparable developmental education costs on a per-section, per full-time equivalent student, and per-hour basis and an explanation of what the costs pay for and how the courses are delivered.

| <b>Information Request</b>   | <b>Authors</b>             | <b>Due Date</b>      |
|--|----------------------------|----------------------|
| The cost of developmental education at Maryland’s colleges and universities. | MHEC<br>MACC<br>USM<br>MSU | November 1, 2010     |
| <b>Total General Fund Reductions</b>   |                            | <b>\$ 23,085,062</b> |

## ***Updates***

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### **1. Unfunded Liabilities Total \$11.2 Million**

A January 2010 DLS audit found that MHEC has unfunded liabilities totaling \$11.2 million in the community college ORP and Statewide and Health Manpower grants. Every fiscal year, MHEC spends a part of the general fund appropriation to cover the unfunded portion from the previous fiscal year. In fiscal 2010, \$11.2 million was paid toward fiscal 2009 costs. MHEC was unable to determine precisely when the practice began, but the current liabilities have accrued over several years. For both programs, community colleges bill the State monthly, bi-monthly, or in several cases every six months, for costs that were paid by the colleges.

**Exhibit 16** shows the breakdown of MHEC’s \$11.2 liability. The ORP obligation totals \$7.0 million, representing 50.6% of the program’s fiscal 2011 allowance. Statewide programs have an accrued liability of \$2.3 million while the health manpower grants liability totals \$1.8 million, 70.6% of the fiscal 2011 allowance.

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**Exhibit 16**  
**Maryland Higher Education Commission Liabilities**  
**June 30, 2009 (Fiscal 2009 Closeout)**

| <u>Program</u>              | <u>Unfunded Liability</u> |
|-----------------------------|---------------------------|
| Optional Retirement Program | \$6,999,269               |
| Statewide programs          | 2,349,266                 |
| Health Manpower grants      | 1,846,697                 |
| <b>Total</b>                | <b>\$11,195,232</b>       |

Source: Department of Legislative Services

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In prior years, MHEC has reported a strategy to pay down these liabilities. In terms of the ORP, a deficiency appropriation is needed to clear the obligations. For Statewide and Health Manpower grants, MHEC was receiving about \$1.0 million more than was needed each fiscal year to pay down the liability over several years. However, a fiscal 2010 cost containment action withdrew \$0.6 million of this funding, and it does not appear in the allowance due to budget constraints.

### **Some Liabilities Unreported**

The DLS audit from January 2010 also found that MHEC had not reported \$4.4 million of the \$11.2 million accrued liabilities to the Comptroller as required by law. The entire liability in Statewide and Health Manpower grants was unreported, and \$0.2 million of the \$7.0 million ORP liability was also not reported. Doing so resulted in a less accurate picture of the State’s financial standing, understating the amount of liabilities on the State’s financial statements.

## ***Current and Prior Year Budgets***

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

|                                  | <b><u>General<br/>Fund</u></b> | <b><u>Special<br/>Fund</u></b> | <b><u>Federal<br/>Fund</u></b> | <b><u>Reimb.<br/>Fund</u></b> | <b><u>Total</u></b> |
|----------------------------------|--------------------------------|--------------------------------|--------------------------------|-------------------------------|---------------------|
| <b>Fiscal 2009</b>               |                                |                                |                                |                               |                     |
| Legislative<br>Appropriation     | \$262,896                      | \$0                            | \$0                            | \$0                           | \$262,896           |
| Deficiency<br>Appropriation      | 0                              | 0                              | 0                              | 0                             | 0                   |
| Budget<br>Amendments             | 0                              | 0                              | 0                              | 0                             | 0                   |
| Cost<br>Containment              | -8,183                         | 0                              | 0                              | 0                             | -8,183              |
| Reversions and<br>Cancellations  | 0                              | 0                              | 0                              | 0                             | 0                   |
| <b>Actual<br/>Expenditures</b>   | <b>\$254,713</b>               | <b>\$0</b>                     | <b>\$0</b>                     | <b>\$0</b>                    | <b>\$254,713</b>    |
| <b>Fiscal 2010</b>               |                                |                                |                                |                               |                     |
| Legislative<br>Appropriation     | \$252,805                      | \$0                            | \$14,485                       | \$0                           | \$267,290           |
| Cost<br>Containment              | -600                           | 0                              | -10,516                        | 0                             | -11,116             |
| Budget<br>Amendments             | 0                              | 0                              | 0                              | 0                             | 0                   |
| <b>Working<br/>Appropriation</b> | <b>\$252,205</b>               | <b>\$0</b>                     | <b>\$3,969</b>                 | <b>\$0</b>                    | <b>\$256,174</b>    |

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

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## **Fiscal 2009**

The legislative appropriation to the State's locally operated community colleges was \$262,896,249 in general funds. This includes funding for the Senator John A. Cade Funding Formula, as well as the other miscellaneous grants and retirement programs. Midyear, a BPW cost containment action reduced funding for the Cade formula by \$8,182,970.

## **Fiscal 2010**

The legislative appropriation for fiscal 2010 included \$252,804,568 in general funds and \$14,485,047 in federal stimulus funds, although two BPW actions reduced the community college appropriations. The first reduction was \$600,000 in general funds for the Statewide and Health Manpower grants and the second reduction was \$10,515,919 in federal funds for the Cade formula.

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

| <u>Object/Fund</u>                      | <u>FY09<br/>Actual</u> | <u>FY10<br/>Working<br/>Appropriation</u> | <u>FY11<br/>Allowance</u> | <u>FY10 - FY11<br/>Amount Change</u> | <u>Percent<br/>Change</u> |
|---|------------------------|---|---------------------------|--------------------------------------|---------------------------|
| <b>Objects</b>                          |                        |   |                           |                                      |                           |
| 12 Grants, Subsidies, and Contributions | \$ 254,713,278         | \$ 256,173,696                            | \$ 279,200,300            | \$ 23,026,604                        | 9.0%                      |
| <b>Total Objects</b>                    | <b>\$ 254,713,278</b>  | <b>\$ 256,173,696</b>                     | <b>\$ 279,200,300</b>     | <b>\$ 23,026,604</b>                 | <b>9.0%</b>               |
| <b>Funds</b>                            |                        |   |                           |                                      |                           |
| 01 General Fund                         | \$ 254,713,278         | \$ 252,204,568                            | \$ 279,200,300            | \$ 26,995,732                        | 10.7%                     |
| 05 Federal Fund                         | 0                      | 3,969,128                                 | 0                         | -3,969,128                           | -100.0%                   |
| <b>Total Funds</b>                      | <b>\$ 254,713,278</b>  | <b>\$ 256,173,696</b>                     | <b>\$ 279,200,300</b>     | <b>\$ 23,026,604</b>                 | <b>9.0%</b>               |

Note: The fiscal 2010 appropriation does not include deficiencies.

**Fiscal Summary  
Aid to Community Colleges**

| <u>Program/Unit</u>                                      | <u>FY09<br/>Actual</u> | <u>FY10<br/>Wrk Approp</u> | <u>FY11<br/>Allowance</u> | <u>Change</u>        | <u>FY10 - FY11<br/>% Change</u> |
|--|------------------------|----------------------------|---------------------------|----------------------|---------------------------------|
| 05 Senator John A. Cade Funding Formula for<br>Comm. Col | \$ 218,550,111         | \$ 214,013,877             | \$ 231,663,764            | \$ 17,649,887        | 8.2%                            |
| 06 Aid to Community Colleges – Fringe Benefits           | 36,163,167             | 42,159,819                 | 47,536,536                | 5,376,717            | 12.8%                           |
| <b>Total Expenditures</b>                                | <b>\$ 254,713,278</b>  | <b>\$ 256,173,696</b>      | <b>\$ 279,200,300</b>     | <b>\$ 23,026,604</b> | <b>9.0%</b>                     |
| General Fund   | \$ 254,713,278         | \$ 252,204,568             | \$ 279,200,300            | \$ 26,995,732        | 10.7%                           |
| Federal Fund   | 0                      | 3,969,128                  | 0                         | -3,969,128           | -100.0%                         |
| <b>Total Appropriations</b>                              | <b>\$ 254,713,278</b>  | <b>\$ 256,173,696</b>      | <b>\$ 279,200,300</b>     | <b>\$ 23,026,604</b> | <b>9.0%</b>                     |

Note: The fiscal 2010 appropriation does not include deficiencies.