

R62I0005
Aid to Community Colleges

Operating Budget Data

	(\$ in Thousands)				
	<u>FY 10</u>	<u>FY 11</u>	<u>FY 12</u>	<u>FY 11-12</u>	<u>% Change</u>
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>	<u>Prior Year</u>
General Fund	\$256,174	\$256,115	\$267,339	\$11,224	4.4%
Contingent & Back of Bill Reductions	0	0	-4,285	-4,285	
Adjusted General Fund	\$256,174	\$256,115	\$263,055	\$6,939	2.7%
Adjusted Grand Total	\$256,174	\$256,115	\$263,055	\$6,939	2.7%

- A \$2.0 million deficiency appropriation is included for fiscal 2011 to address a growing liability in the Statewide and Health Manpower Grant Program.
- Funding increases \$6.9 million, or 2.7%, after accounting for contingent reductions assumed in the Governor's fiscal 2012 budget plan.

Analysis in Brief

Major Trends

Successful Persister Rate Is 71.2%: The statewide successful persister rate declined 1.8 percentage points to 71.2% for the 2005 cohort. Increases are projected for future years to reflect new retention and graduation initiatives at the State's community colleges. **The Secretary and community colleges should comment on these initiatives and how the Maryland Higher Education Commission (MHEC) is working with the community colleges to meet the goal of 74% for the 2008 cohort.**

Achievement Gap Narrowed for 2005 Cohort: The achievement gap in four-year graduation/transfer rates between minority students and all students narrowed by 0.5 percentage points for the 2005 cohort, to 9.6 percentage points. MHEC believes that new retention and graduation programs that are part of Complete College America and the Lumina Productivity Project will have an impact on this rate as well. **The Secretary and community colleges should comment on how they are working to close the achievement gap between minority students and all students.**

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

For further information contact: Richard H. Harris

Phone: (410) 946-5530

Issues

Affordability: Community college tuition and fee rates are significantly lower than rates at public four-year institutions, but above average when compared nationally. The average tuition and fee rate increased 5.2% between fall 2009 and 2010. **The Secretary and community colleges should comment on how the colleges can increase affordability for Maryland students.**

Local Appropriations Decline at Five Colleges: In order for colleges to receive increases in State aid, local governments must maintain their support as well. A number of colleges do not receive increases in State aid in fiscal 2011, however, and the local appropriation is below fiscal 2011 levels at five of those colleges. **The Secretary and community colleges should comment on how local funding impacts community college budgets.**

Unfunded Liabilities Result in Audit Finding: The Statewide and Health Manpower Grant Program and the Optional Retirement Program have both accrued significant liabilities due to insufficient funding year to year. A \$2 million deficiency appropriation is included in the allowance for the Statewide and Health Manpower Grant Program; however, legislation proposes to end the State's requirement to fully fund the program. **The community colleges should comment on how the change will impact their budgets.**

Incentives for Transfer Post-Associate's Degree: The 2010 *Joint Chairmen's Report* requested the State's community colleges to work with the higher education segments to study ways to encourage students to complete an associate's degree prior to transferring to a four-year institution. The Maryland Association of Community Colleges submitted a report with a number of findings related to funding, regulations, institutional changes, and best practices nationwide and in Maryland. **The Secretary should comment on how these incentives and best practices can be implemented statewide.**

Recommended Actions

	<u>Funds</u>
1. Delete funding for the Keeping Maryland Community Colleges Affordable Grant.	\$ 5,000,000
Total Reductions	\$ 5,000,000

R62I0005
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 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, and full funding is currently expected in fiscal 2021.

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 amount of the unrestricted grants increase annually by the same percentage increase in funding per FTES at the selected institutions used in the Cade formula. Additional grants are received by Allegany College and Garrett College. These Appalachian Mountain grants do not increase annually.
- 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 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 a defined benefit retirement plan maintained and operated by the State. Alternately, 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:

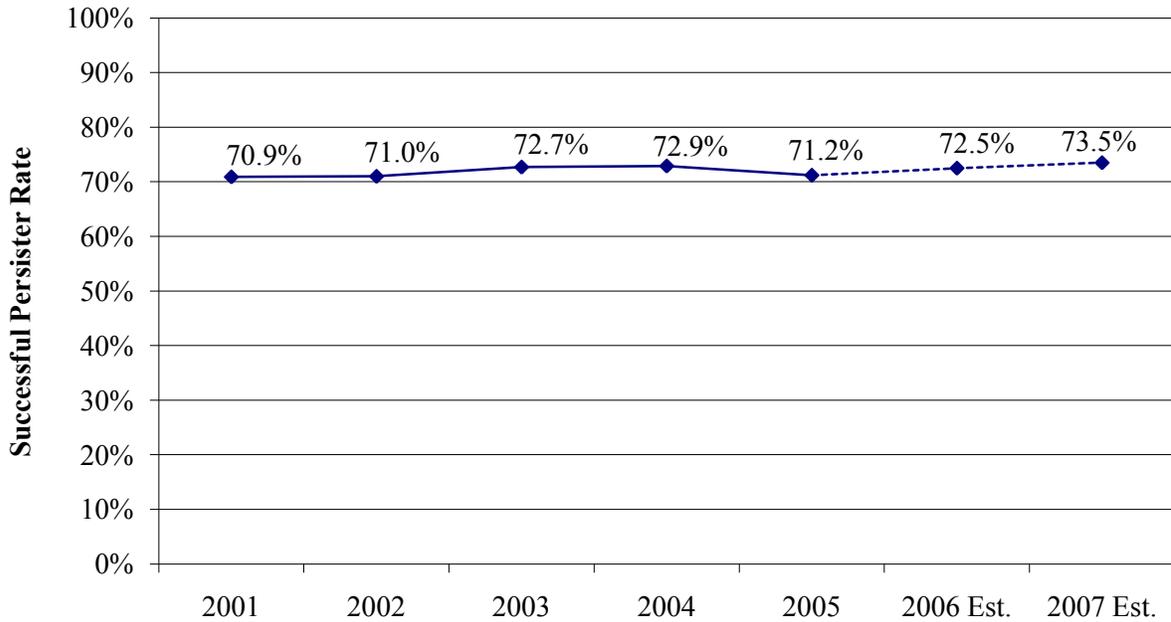
- to ensure that Maryland community college students are progressing successfully toward their goals;
- to attain diversity reflecting the racial/ethnic composition of the service areas of the community colleges;
- to support regional economic and workforce development by producing graduates and by supplying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

Performance Analysis: Managing for Results

Students enrolling at community colleges often have different goals than those at a traditional four-year institution. Community college students tend to have higher developmental education needs and obtaining an associate's degree may not be the top priority. With these differences, it is difficult to directly compare outcomes between the two segments. For community college students, successful persistence rates are used. A successful persister is a student who attempted 18 credits in his or her first two years and who, after four years, is still enrolled, has graduated, or has transferred.

The statewide successful persister rates for the 2001 cohort through the estimate for the 2007 cohort are shown in **Exhibit 1**. The most recent actual is the 2005 cohort, and the successful persister rate declined 1.8 percentage points. MHEC is projecting increases for the 2006 and 2007 cohorts, however. The agency explains that these increases are consistent with meeting the State's goals set by the Governor's Completion Agenda and points to the Complete College America and Growing By Degrees initiatives, in which MHEC is playing a key role for statewide coordination and success. The agency's goal is for this rate to be 74% for the 2008 cohort. **The Secretary and the community colleges should comment on these initiatives and how MHEC is working with community colleges to meet the goal for the 2008 cohort.**

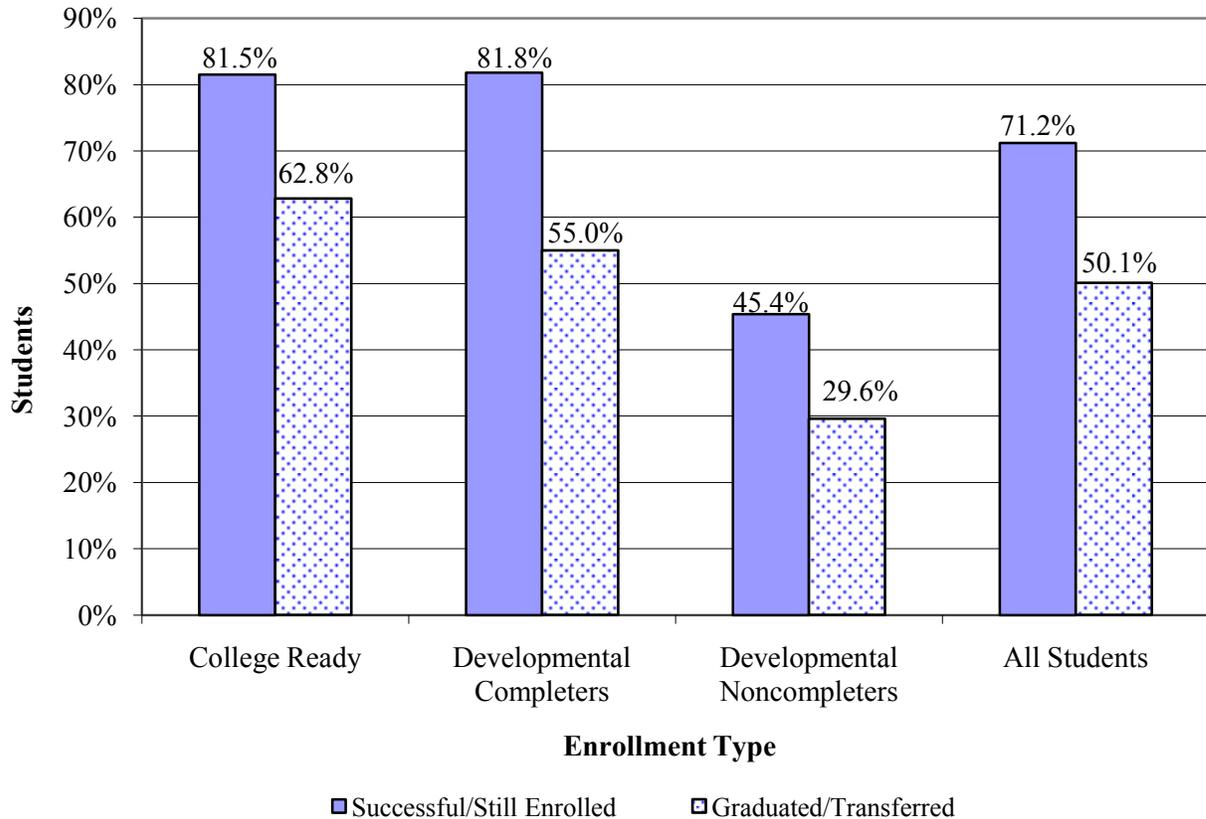
Exhibit 1
Four-year Successful Persister Rates
2001-2007 Cohorts (Estimate)



Source: Governor’s Budget Books, Fiscal 2012; Maryland Association of Community Colleges

The successful persister rates for three separate subgroups of students are tracked by the Maryland Association of Community Colleges (MACC): college-ready students, developmental completers (students who require developmental education and who complete it within four years), and developmental noncompleters (students who require developmental education and have not completed required coursework after four years). **Exhibit 2** shows successful persister rates for those three subgroups and also for all students. The greatest change for the fall 2005 cohort compared to the fall 2004 cohort came in the successful/still enrolled rate for developmental completers, which declined 2.2 percentage points, although the successful/still enrolled figure for developmental noncompleters increased 0.6 percentage points.

Exhibit 2
Degree Progress Four Years After Initial Enrollment
Fall 2005 Cohort

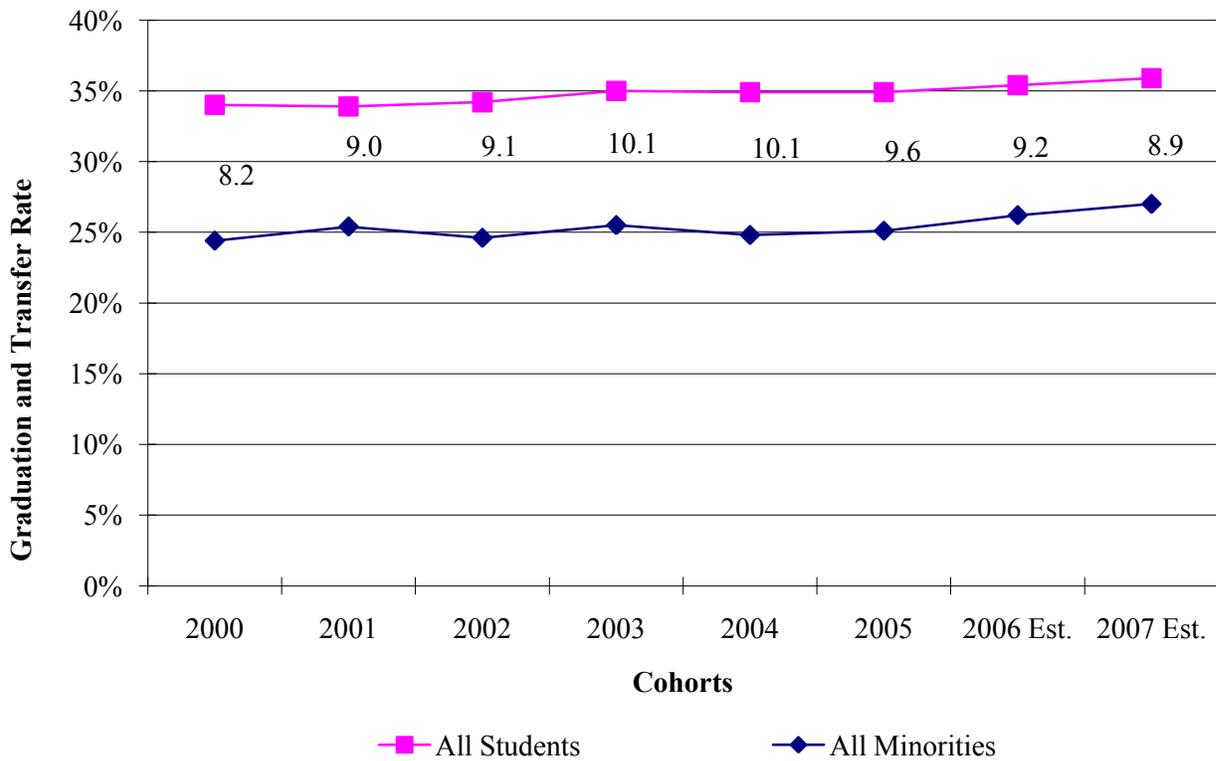


Note: Figures include Baltimore City Community College.

Source: Maryland Association of Community Colleges

Another goal for MHEC is to narrow the achievement gap in the four-year graduation/transfer of minority students compared to all students. MHEC’s goal is to have this gap close to 7.5 percentage points for the 2008 cohort. **Exhibit 3** shows that this rate narrowed 0.5 percentage points for the 2005 cohort due to increases in minority performance. The rates are expected to close further for the 2007 cohort, but greater gains are needed for the agency to meet the 2008 cohort goal. MHEC again explains that a narrower achievement gap is part of the State’s Completion Agenda goals and that as the colleges work on increasing their own rates, the achievement gap should also narrow. **The Secretary and community college should comment on how they are working to close the achievement gap between minority students and all students.**

Exhibit 3
Four-year Graduation and Transfer Achievement Gap
Fall 2000-2007 Cohorts (Estimate)



Note: Figures in the exhibit represent the percentage point gap between rates for all students and minorities.

Source: Governor’s Budget Books, Fiscal 2008-2012

Fiscal 2011 Actions

Proposed Deficiency

The fiscal 2012 allowance includes a \$2.0 million deficiency appropriation to the miscellaneous community college grant programs. The funds will address the growing liability in the Statewide and Health Manpower Grants program, which has been cited as an issue in recent Office of Legislative Audits (OLA) closeout audit reports. The liability has grown to over \$5.9 million, just under the amount included in the fiscal 2012 allowance, \$6.0 million. The third Issue of this analysis provides additional detail regarding this liability, the deficiency appropriation, and the OLA audit reports.

Proposed Budget

State support to community colleges contains three main programs. First is the Senator John A. Cade Funding Formula, which is normally calculated using actual enrollments, proposed funding at selected public four-year institutions, and a formula percentage set in statute. The Budget Reconciliation and Financing Act (BRFA) of 2010 set the appropriation at \$194.4 million in fiscal 2012, however, level funding the formula. The second program is the miscellaneous grants received by the colleges, such as the Statewide and Health Manpower and Small Community College Grants. The last program funds the retirement plans of community college employees. **Exhibit 4** shows the amount of money in each program in the fiscal 2011 working appropriation and 2012 allowance. Overall, funding grows \$6.9 million after accounting for contingent reductions in the Governor’s fiscal 2012 budget plan.

Exhibit 4
Community College Funding
Fiscal 2011-2012 Change

	<u>Working Appropriation</u>	<u>Allowance</u>	<u>Change</u>
Senator John A. Cade Funding Formula	\$194,407,432	\$194,407,432	\$0
Miscellaneous Grants	14,171,270	19,862,109	5,690,839
Retirement	47,536,536	48,785,033	1,248,497
Total	\$256,115,238	\$263,054,574	\$6,939,336

Note: The allowance figure for retirement reflects a contingent reduction of \$4,284,708 proposed in the Governor’s fiscal 2012 budget plan.

Source: Governor’s Budget Books, Fiscal 2011 and 2012

Further detail on changes within aid to community colleges can be found in **Exhibit 5**. The largest increase is for the new Keeping Maryland Community Colleges Affordable grant. This \$5.0 million grant will go to colleges that hold tuition rate increases to 3.0% or less for the 2011-2012 academic year and will be distributed among participating colleges based on State-eligible for-credit enrollments. The next largest increase is in ORP, which grows \$1.6 million. Finally, the ESOL grant, which previously had grown by no more than \$0.1 million a year, grows by \$0.6 million in the allowance after an error in calculating ESOL enrollments was discovered at one college. The only reduction in the budget is for Teachers’ Retirement, which declines \$0.3 million.

Exhibit 5
Proposed Budget
Aid to Community Colleges
(\$ in Thousands)

How Much It Grows:	General Fund	Total
2011 Working Appropriation	\$256,115	\$256,115
2012 Allowance	<u>267,339</u>	<u>267,339</u>
Amount Change	\$11,224	\$11,224
Percent Change	4.4%	4.4%
Contingent Reductions	-\$4,285	-\$4,285
Adjusted Change	\$6,939	\$6,939
Adjusted Percent Change	2.7%	2.7%

Where It Goes:

Keeping Maryland Community Colleges Affordable Grant	\$5,000
Optional Retirement Program	1,585
English for Speakers of Other Languages.....	569
Statewide and Regional Programs	102
Small Community College and Appalachian Grants	20
Teachers' Retirement (net of contingent reductions).....	-337
Total	\$6,939

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

Impact of Cost Containment

The fiscal 2012 budget reflects reductions contingent upon statutory changes. For aid to community colleges, funding is reduced by \$4.3 million to reflect statutory changes to retirement benefits proposed in the BRFA of 2011 (HB 72).

R62I0005 – Aid to Community Colleges

Exhibit 6 shows the college-by-college distribution of Cade formula funding in fiscal 2012. This amount was set in statute as \$194.4 million in Chapter 484 of 2010 (BRFA), the same amount as provided in the fiscal 2011 budget and estimated during the 2010 session to equal 20% of per FTES funding at the selected public four-year institutions. The exhibit shows that every college is level funded between fiscal 2011 and 2012. Enrollments continue to increase, however, at a rate of 9.7% statewide. As a result, average State funding per FTES declines 8.9%, with the greatest impact at the colleges growing the fastest. Prince George’s Community College, for example, has enrollment growth of 16.6%, resulting in a State funding decrease of 14.2% per FTES.

The Cade formula includes a “hold-harmless” provision for community college appropriations. In the event a college receives less than the prior year’s appropriation, additional funding should be included for the college to be level funded. Although budget constraints prevented the State from funding this in fiscal 2010 and 2011, it is the hold harmless provision that results in the level funding by college shown in Exhibit 6. The amount specified in the BRFA of 2010, \$194.4 million, limited the appropriation to that dollar figure. The Cade formula allocations result in some colleges receiving less than they did in fiscal 2011, however, and the only money available to raise them up to the fiscal 2011 level within the overall \$194.4 million appropriation is from the colleges that receive an increase. The end result is that every college is funded at the fiscal 2011 level in fiscal 2012.

Exhibit 6
Analysis of Fiscal 2012 Allowance
Community College Formula

<u>College</u>	<u>Working Appropriation FY 2011</u>	<u>Allowance FY 2012</u>	<u>% Change FY 11-12</u>	<u>% Change Enrollment FY 11-12</u>	<u>% Change \$/FTES FY 11-12</u>
Allegany	\$4,702,063	\$4,702,063	0.0%	-3.9%	4.1%
Anne Arundel	26,648,864	26,648,864	0.0%	7.2%	-6.7%
Baltimore County	33,670,348	33,670,348	0.0%	13.6%	-12.0%
Carroll	6,697,291	6,697,291	0.0%	7.4%	-6.9%
Cecil	4,554,005	4,554,005	0.0%	8.2%	-7.6%
College of Southern Maryland	10,581,813	10,581,813	0.0%	5.9%	-5.5%
Chesapeake	5,564,701	5,564,701	0.0%	5.9%	-5.6%
Frederick	7,892,197	7,892,197	0.0%	8.5%	-7.9%
Garrett	2,217,255	2,217,255	0.0%	7.9%	-7.3%
Hagerstown	6,812,015	6,812,015	0.0%	3.3%	-3.2%
Harford	9,719,168	9,719,168	0.0%	11.4%	-10.2%
Howard	12,290,083	12,290,083	0.0%	10.1%	-9.2%
Montgomery	34,982,472	34,982,472	0.0%	8.8%	-8.1%
Prince George's	21,484,279	21,484,279	0.0%	16.6%	-14.2%
Wor-Wic	6,590,878	6,590,878	0.0%	7.4%	-6.9%
Total	\$194,407,432	\$194,407,432	0.0%	9.7%	-8.9%

FTES: full-time equivalent student

Source: Governor's Budget Books, Fiscal 2012

The fiscal 2012 funding level was set in statute as a way to reduce the State's long-term structural deficit. The formulas for Baltimore City Community College and private, nonprofit colleges (The Joseph A. Sellinger Formula) were also adjusted in the BRFA of 2010 to set fiscal 2012 funding at the fiscal 2011 level. Increases in the percent of State support per FTES at the selected four-year institutions for all three formulas are set to begin in fiscal 2013, so that each formula reaches its maximum statutory level in fiscal 2021. **Exhibit 7** shows out-year estimates for the Cade formula through fiscal 2019. Despite formula adjustments to reduce the long-term structural deficit, mandated funding is expected to increase \$176.6 million, or 90.8%, by fiscal 2019.

Exhibit 7
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>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>\$ Change</u> <u>2012-2019</u>	<u>% Change</u> <u>2012-2019</u>
Current Statute															
Funding Level	–	–	21.0%	22.0%	23.0%	24.0%	25.0%	26.0%	27.0%	28.0%	29.0%	29.0%	29.0%		
Funding per FTES	\$2,050	\$1,867	\$1,999	\$2,127	\$2,258	\$2,395	\$2,535	\$2,682	\$2,832					\$965	51.7%
Projected Appropriation*	194,407	194,407	227,708	256,415	276,395	297,844	319,824	344,224	371,002					176,594	90.8%
DLS Recommendation															
Funding Level	–	–	18.5%	18.5%	19.5%	20.5%	21.5%	22.5%	23.5%	25.0%	26.5%	28.0%	29.0%		
Funding per FTES	\$2,050	\$1,867	\$1,761	\$1,788	\$1,915	\$2,045	\$2,180	\$2,321	\$2,465					\$598	32.0%
Projected Appropriation*	194,407	194,407	201,707	215,623	234,335	254,408	275,049	297,887	322,910					128,502	66.1%
Difference*	\$0	\$0	-\$26,001	-\$40,793	-\$42,061	-\$43,436	-\$44,775	-\$46,337	-\$48,092						

DLS: Department of Legislative Services
 FTES: full-time equivalent students

* Dollars in thousands

** Though the fiscal 2011 and 2012 formula appropriation level is specified by the Budget Reconciliation and Financing Act of 2010, 21.7% and 19.9% are the effective fiscal 2011 and 2012 formula funding levels, respectively.

Source: Governor's Budget Books, Fiscal 2012; Department of Legislative Services

R62I0005 – Aid to Community Colleges

During the 2010 session, level funding of the Cade formula was estimated to equal 20% of per FTES funding at the selected public four-year institutions. However, level funding the Cade formula in the fiscal 2012 allowance resulted in a per FTES funding level of 19.9%. Any further reductions made to public four-year institutions in fiscal 2012 would reduce State funding per FTES at this percentage, and the General Assembly could consider reducing the community college appropriation to be consistent with this percentage.

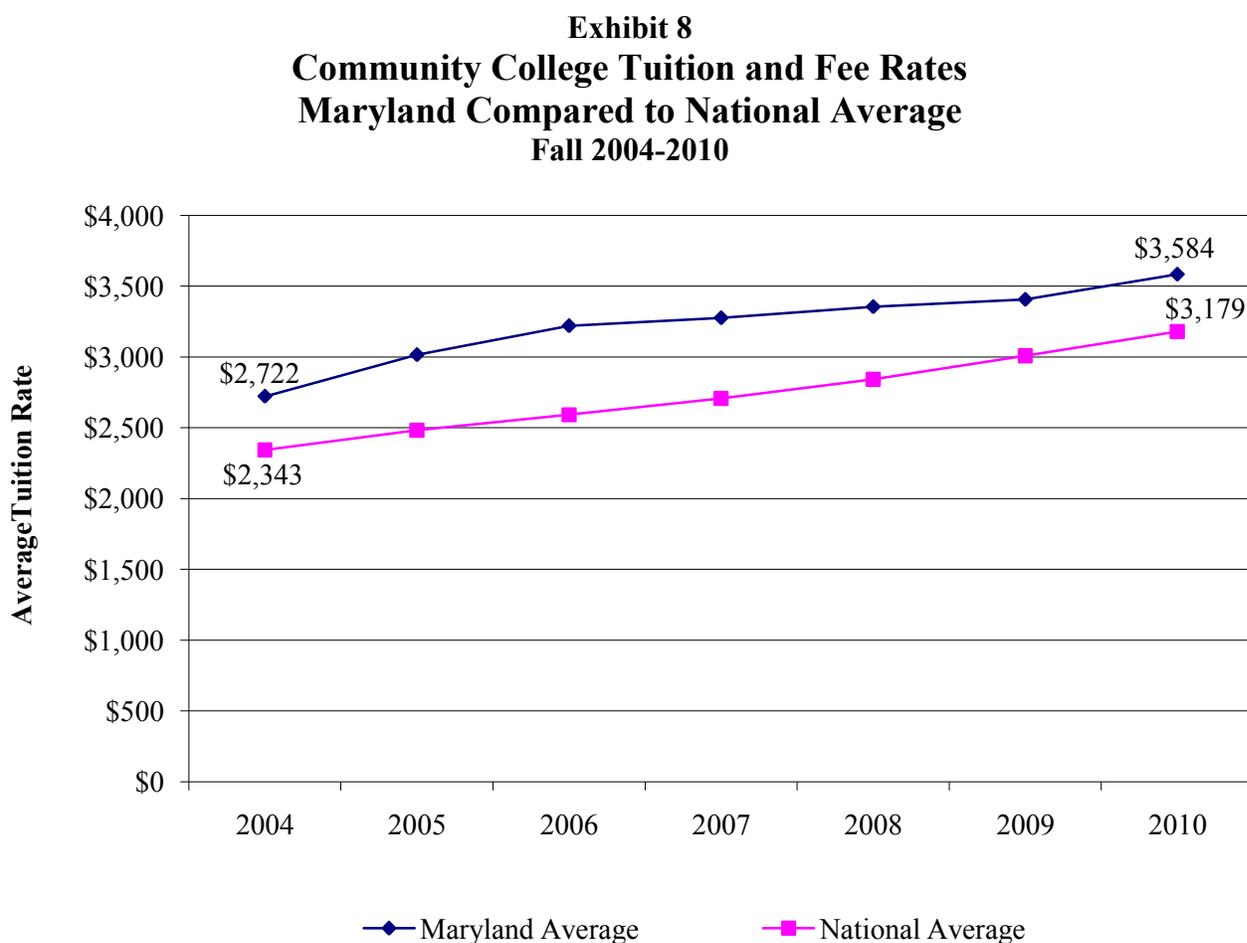
Although the Governor's budget proposal constrains budget growth, there remains a \$1.2 billion gap between ongoing general fund revenues and spending. **DLS recommends deleting the new Keeping Maryland Community Colleges Affordable Grant. While moderating tuition increases at community colleges is a goal of the State, the current financial conditions make starting new grant programs unaffordable.**

To maintain out-year affordability as the State continues to recover from the economic crisis, the Department of Legislative Services (DLS) additionally recommends that the Cade formula be set at 18.5% in fiscal 2013 and 2014 and increase to 29% in 2023 when the formula phase in will be complete. Projected funding under this plan is shown in Exhibit 7. The action reduces year-over-year growth by \$26.0 million in fiscal 2013. Under this recommendation, funding is estimated to grow \$7.3 million in fiscal 2013 and \$13.9 million in fiscal 2014.

Issues

1. Affordability

College is known for being a high-cost endeavor, and community colleges offer a more affordable entry into the higher education market. In Maryland, the average public four-year institution's tuition and fee rate was \$7,554 in fall 2010, compared to \$3,584 at the State's community colleges, less than half as much. When compared nationally, however, Maryland's community colleges are more expensive than average. **Exhibit 8** shows the difference from fall 2004 and 2010. The gap had narrowed somewhat since fall 2006 but grew in fall 2010 to \$405.



Source: Maryland Association of Community Colleges; Department of Legislative Services; College Board *Annual Survey of Colleges – Trends in College Pricing*

R62I0005 – Aid to Community Colleges

Although the average student in Maryland paid \$3,584 in fall 2010, **Exhibit 9** shows that by college, prices ranged from \$2,755 at Harford Community College to \$4,272 at Montgomery College. The exhibit also shows fall 2010 rates changed compared to fall 2009 – tuition increased by an average of 5.1%. This is nearly double the rate of increase of the past few years, which was 2.2% in fall 2009 and 2.7% in fall 2008. At that time, many colleges were choosing not to increase rates at all. The increases, which are just over 10% at Frederick College and Wor-Wic College, are the result of tight State and local operating budgets. In general, both levels of government have constrained support to the colleges, placing a greater burden of the cost on students.

Exhibit 9
Community College Tuition and Fee Rates for Full-time, In-county Students
Fall 2009-2010

	<u>Fall 2009</u>	<u>Fall 2010</u>	<u>\$ Change</u> <u>09-10</u>	<u>% Change</u> <u>09-10</u>
Montgomery	\$4,092	\$4,272	\$180	4.4%
Howard	3,993	4,063	70	1.8%
Prince George's	3,905	4,045	140	3.6%
Southern Maryland	3,690	3,874	184	5.0%
Carroll	3,565	3,624	59	1.7%
Frederick	3,267	3,621	354	10.8%
Chesapeake	3,304	3,544	240	7.3%
Allegany	3,164	3,414	250	7.9%
Baltimore	3,102	3,402	300	9.7%
Hagerstown	3,220	3,320	100	3.1%
Garrett	3,210	3,315	105	3.3%
Baltimore City	3,112	3,150	38	1.2%
Anne Arundel	2,920	3,010	90	3.1%
Cecil	2,820	2,940	120	4.3%
Wor-Wic	2,624	2,898	274	10.4%
Harford	2,587	2,755	168	6.5%
Simple Average	\$3,286	\$3,453	\$167	5.1%

Source: Maryland Association of Community Colleges

2. Local Appropriations Decline at Five Colleges

State funding makes up roughly 25% of a community college's budget in Maryland, excluding auxiliary revenue. Tuition and fee revenue makes up 40% and other funding, such as gifts and auxiliary income, make up 2%. The remaining amount, 33%, comes from local support. Statute requires that in order to receive an annual increase in State funding, local support must be maintained or increased, a concept known as maintenance of effort. However, the State reduced total funding to community colleges in fiscal 2010 and 2011. Some county governments have done the same. In fiscal 2010, only six colleges received an increase in funding from the State, which is distributed under the Cade formula and accounts for prior year funding, size, and enrollment growth.

Exhibit 10 shows the change in State funding between fiscal 2010 and 2011. Despite a decrease of \$5.4 million, three colleges received an increase in State support under the formula – Cecil College, College of Southern Maryland, and Chesapeake College. The exhibit also shows local funding. Five counties are appropriating less in fiscal 2011 than in fiscal 2010, with an overall decline of \$9.0 million. As the colleges are already receiving less in State support, they are not at risk of losing State funding. The three colleges that are currently receiving an increase from the State will lose that increase in the event the local appropriation is reduced below the fiscal 2010 level.

The State appropriates funding to community colleges on a per-student basis; it is useful to examine local appropriations in this manner as well. **Exhibit 11** shows local per FTES funding in fiscal 2008, 2010, and 2011. The exhibit shows that between fiscal 2008 and 2011, per-student funding declined 14.4% as enrollments increased 19.7%. Between fiscal 2010 and 2011 alone, enrollments grew by 9.7% as funding declined \$394 per FTES. Maintenance of effort is on an aggregate basis, meaning the counties do not have to maintain support on a per-student basis. **The Secretary and community colleges should comment on how local funding impacts community college budgets.**

Exhibit 10
Local and State Support of Community Colleges
Fiscal 2010 and 2011

<u>College</u>	<u>State Funding</u>			<u>Local Funding</u>		
	<u>2010</u>	<u>(Working)</u> <u>2011</u>	<u>Change</u> <u>2010-2011</u>	<u>2010</u>	<u>(Working)</u> <u>2011</u>	<u>Change</u> <u>2010-2011</u>
Allegany	\$4,734,907	\$4,702,063	-\$32,844	\$7,425,000	\$7,425,000	\$0
Anne Arundel	27,503,700	26,648,864	-854,836	33,822,700	33,822,700	0
Baltimore	34,524,096	33,670,348	-853,748	36,855,145	38,462,795	1,607,650
Carroll	6,896,127	6,697,291	-198,836	8,473,274	8,553,260	79,986
Cecil	4,534,254	4,554,005	19,751	8,124,924	8,125,027	103
CSM	10,581,180	10,581,813	633	14,965,275	15,740,796	775,521
Chesapeake	5,450,061	5,564,701	114,640	5,885,590	5,885,590	0
Frederick	7,902,866	7,892,197	-10,669	14,579,999	13,568,387	-1,011,612
Garrett	2,312,184	2,217,255	-94,929	4,273,000	4,318,000	45,000
Hagerstown	6,852,269	6,812,015	-40,254	9,045,010	9,045,010	0
Harford	10,039,487	9,719,168	-320,319	15,939,806	14,961,612	-978,194
Howard	12,410,298	12,290,083	-120,215	25,195,470	25,195,470	0
Montgomery	36,665,429	34,982,472	-1,682,957	107,999,261	99,589,930	-8,409,331
Prince George's	22,798,413	21,484,279	-1,314,134	30,484,600	30,245,200	-239,400
Wor-Wic	6,597,178	6,590,878	-6,300	5,298,980	4,441,762	-857,218
Total	\$199,802,449	\$194,407,432	-\$5,395,017	\$328,368,034	\$319,380,539	-\$8,987,495

CSM: College of Southern Maryland

Source: Department of Legislative Services; Maryland Higher Education Commission

Exhibit 11
Local Support Per Full-time Equivalent Student
Fiscal 2008, 2010, 2011

	<u>2008</u>	<u>2010</u>	<u>2011</u>	<u>% Dollar Growth 2008-11</u>	<u>% FTES Growth 2008-11</u>	<u>% Dollar Growth 2010-11</u>	<u>% FTES Growth 2010-11</u>
Allegany	\$4,263	\$3,812	\$3,966	-7.0%	11.2%	4.1%	-3.9%
Anne Arundel	2,638	2,524	2,355	-10.7%	16.5%	-6.7%	7.2%
Baltimore	2,482	2,168	1,991	-19.8%	25.1%	-8.2%	13.6%
Carroll	2,996	2,901	2,725	-9.0%	24.7%	-6.1%	7.4%
Cecil	4,776	4,303	3,977	-16.7%	28.3%	-7.6%	8.2%
Chesapeake	2,895	2,417	2,282	-21.2%	29.4%	-5.6%	5.9%
College of Southern Maryland	2,943	2,759	2,741	-6.8%	19.9%	-0.6%	5.9%
Frederick	3,779	3,607	3,093	-18.2%	22.0%	-14.3%	8.5%
Garrett	6,148	6,514	6,100	-0.8%	9.2%	-6.4%	7.9%
Hagerstown	3,004	2,987	2,891	-3.8%	18.3%	-3.2%	3.3%
Harford	3,477	3,263	2,750	-20.9%	19.9%	-15.7%	11.4%
Howard	4,227	4,023	3,653	-13.6%	23.4%	-9.2%	10.1%
Montgomery	5,907	6,199	5,254	-11.0%	11.9%	-15.2%	8.8%
Prince George's	2,740	2,872	2,444	-10.8%	22.0%	-14.9%	16.6%
Wor-Wic	2,295	1,812	1,414	-38.4%	24.5%	-22.0%	7.4%
Average	\$3,583	\$3,462	\$3,068	-14.4%	19.7%	-11.4%	9.7%

FTES: Full-time equivalent student

Source: Maryland Higher Education Commission; Governor's Budget Books, Fiscal 2012; Department of Legislative Services

3. Unfunded Liabilities Result in Audit Finding

Over the past several years, MHEC has carried unfunded liabilities in the ORP and the Statewide and Health Manpower Grant program. The deficits totaled \$12.8 million at the end of fiscal 2010, \$6.9 million in ORP, and \$5.9 million in Statewide and Health Manpower Grants. **Exhibit 12** shows the year-end liabilities associated with each program.

Exhibit 12
Maryland Higher Education Commission Liabilities
June 30, 2009 (Fiscal 2009 Closeout) and June 30, 2010 (Fiscal 2010 Closeout)

<u>Program</u>	<u>Unfunded Liability</u>		<u>Growth</u>
	<u>June 30, 2009</u>	<u>June 30, 2010</u>	
Optional Retirement	\$6,812,158	\$6,862,445	\$50,287
Statewide Programs	2,349,266	3,313,484	964,218
Health Manpower Grants	1,846,697	2,633,566	786,869
Total	\$11,008,121	\$12,809,495	\$1,801,374

Source: Department of Legislative Services; Maryland Higher Education Commission

MHEC has been able to carry these liabilities because at the beginning of the fiscal year, a portion of the legislative appropriation is used to cover the prior year's expenses. As such, although the fiscal 2011 legislative appropriation included \$19.8 million for the two programs, \$12.8 million was spent to pay off fiscal 2010 expenses. The deficits have accrued over many years, and MHEC has been unable to identify exactly when they began. For both programs, community colleges bill the State monthly, bi-monthly, or in some cases, every six months, for costs paid by the college.

Two recent audits released by OLA have cited this deficit. The most recent audit was issued in August 2010 and found that the deficiency in Statewide and Health Manpower Grants was not reported to the Comptroller at the close of fiscal 2009. In addition, a \$1.8 million portion of the total ORP liability was not reported at the close of fiscal 2008. Law requires deficiencies in the two programs be reported to the Comptroller and for the Governor to include a deficiency appropriation the following year to cover the costs. Although deficits have been reported in prior years, no deficiency appropriation appeared in the following year's allowance.

Fiscal 2011 Deficiency and Proposed Changes

The fiscal 2012 allowance includes a \$2.0 million deficiency appropriation for the Statewide and Health Manpower Grant Program to address its growing liability (no funding is included for the ORP shortfall). The hope is that the allowance of \$13.8 million will cover fiscal 2012 costs and the deficit will not grow. Fiscal 2012 includes \$6.0 million for Statewide and Health Manpower Grants, enough to meet projected demand for the program. **The Secretary should comment on the growing liabilities in ORP and Statewide and Health Manpower Grants and on plans to reduce deficiencies in ORP.**

The BRFA of 2011 includes two changes affecting the Statewide and Health Manpower Grant Program. The first changes the requirement that the Governor include a deficiency appropriation if a shortfall exists in the current budget. Beginning July 1, 2011, that action would no longer be required of the Governor.

The second action addresses potential shortfalls in future years and stipulates that when insufficient funds exist to fully fund the program, MHEC will prorate the reimbursement to the colleges. This change will relieve the State of the Statewide and Health Manpower Grant Program liability. **The community colleges should comment on how the change will impact their budgets.**

4. Incentives for Transfer Post-Associate's Degree

The General Assembly has been interested in students transferring from community colleges to four-year institutions and finding ways to encourage students to postpone transferring until after they have completed an associate's degree. The concern was for students who transfer prior to completing their associate's degree, do not finish their bachelor's degree, and drop out of college with a significant amount of debt but no credential to show for the work.

MACC was tasked with identifying incentives that could increase the rates of students who transfer after completing the associate's degree and also with identifying best practices nationwide. MHEC, the University System of Maryland, St. Mary's College of Maryland, and the Maryland Independent College and University Association contributed to the report. Morgan State University submitted a separate response, which was included with MACC's report.

Financial Incentives

With the cost of tuition and fees averaging \$7,554 at Maryland's public colleges in fall 2010, incentives that reduce the amount of money a student pays can have a great impact on associate's degree completion. Incentives identified include:

R6210005 – Aid to Community Colleges

- increase funding for the Distinguished Scholar (DS) Community College Transfer Program and separate the program from the DS Program (It should be noted that the BRFA of 2011 proposes to begin phasing out the DS Program in fiscal 2012. As the DS Community College Transfer Program is funded from DS award cancellations, the program will be de-funded when DS is eliminated.);
- fund a tuition discount for students who complete an associate's degree prior to transfer; and
- give priority to transfer students with associate's degrees when awarding scholarships, or create a two-tiered system awarding less funding to transfer students with no associate's degree.

Regulations

MACC's submission also identified regulations within Maryland that could change to help encourage students to transfer only after completing their associate's degree:

- change the regulation guaranteeing transfer with 56 credits or an associate's degree to be only for students with an associate's degree; and
- encourage the creation of additional statewide transfer degrees like the Associate of Arts in Teaching (AAT) and Associate of Science in Engineering (ASE) degree.

Institutional Changes

Finally, MACC identified changes that could be implemented at the institution level, or between segments. These are things colleges could do on their own without encouragement or funding from the State:

- separate the diploma fee from the ceremony fee to reduce the cost of obtaining a degree;
- create a universal transfer application for all Maryland colleges. Additionally, require only a one-time fee, which may encourage students to apply to more than one college; and
- expand dual enrollment programs that encourage students to complete an associate's degree prior to transferring.

Best Practices

... In Maryland

Upon review of best practices nationwide, a number were identified that were already in use in Maryland. The report encouraged expansion of these programs:

R6210005 – Aid to Community Colleges

- use of statewide articulation agreements and transfer degrees, such as the AAT and ASE;
- expansion and regular updating of ARTSYS, the State’s centralized information system for students on college-to-college articulation agreements;
- regular meetings between segments and institutions to discuss removing obstacles to transfer. The Student Transfer Advisory Council is an example of this; and
- dual admissions between community colleges and four-year institutions.

... Nationwide

MACC also identified best practices that have shown success nationwide. These are things that could be implemented in Maryland to increase the number of students transferring after earning an associate’s degree.

- The University of Dayton allows dual enrollment students to use the university’s library and athletic facilities. After completing the associate’s degree, students receive a 33% discount on tuition.
- Performance based funding is used in Florida, which accounts for the number of students completing associate’s degrees and the time in which the degrees were completed.
- Require an amount of new students admitted at the four-year institutions to be transfer students. Washington State, for example, requires 30%.

If adopted, these incentives could increase the number of students who transfer from a community college to a four-year institution after earning an associate’s degree. **The Secretary should comment on how these incentives and best practices can be implemented statewide.**

Recommended Actions

	<u>Amount Reduction</u>	
1. Delete funding for the Keeping Maryland Community Colleges Affordable Grant, a new miscellaneous grant program.	\$ 5,000,000	GF
Total General Fund Reductions	\$ 5,000,000	

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 2010					
Legislative Appropriation	\$252,805	\$0	\$14,485	\$0	\$267,290
Deficiency Appropriation	3,969	0	-3,969	0	0
Budget Amendments	0	0	0	0	0
Cost Containment	-600	0	-10,516	0	-11,116
Reversions and Cancellations	0	0	0	0	0
Actual Expenditures	\$256,174	\$0	\$0	\$0	\$256,174
Fiscal 2011					
Legislative Appropriation	\$256,115	\$0	\$0	\$0	\$256,115
Budget Amendments	0	0	0	0	0
Working Appropriation	\$256,115	\$0	\$0	\$0	\$256,115

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

Fiscal 2010

The fiscal 2010 legislative appropriation included \$252,804,568 million in general funds and \$14,485,047 million in federal funds. Cost containment action reduced Cade formula funding by \$10,515,919 million in federal funds and Statewide and Regional Programs by \$600,000. A deficiency appropriation swapped the remaining \$3,969,128 million in federal funds for an equal amount of general funds from the Department of Public Safety and Correctional Services.

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

<u>Object/Fund</u>	<u>FY 10 Actual</u>	<u>FY 11 Working Appropriation</u>	<u>FY 12 Allowance</u>	<u>FY 11 - FY 12 Amount Change</u>	<u>Percent Change</u>
Objects					
12 Grants, Subsidies, and Contributions	\$ 256,173,693	\$ 256,115,238	\$ 267,339,282	\$ 11,224,044	4.4%
Total Objects	\$ 256,173,693	\$ 256,115,238	\$ 267,339,282	\$ 11,224,044	4.4%
Funds					
01 General Fund	\$ 256,173,693	\$ 256,115,238	\$ 267,339,282	\$ 11,224,044	4.4%
Total Funds	\$ 256,173,693	\$ 256,115,238	\$ 267,339,282	\$ 11,224,044	4.4%

Note: The fiscal 2011 appropriation does not include deficiencies. The fiscal 2012 allowance does not include contingent reductions.

**Fiscal Summary
Aid to Community Colleges**

<u>Program/Unit</u>	<u>FY 10 Actual</u>	<u>FY 11 Wrk Approp</u>	<u>FY 12 Allowance</u>	<u>Change</u>	<u>FY 11 - FY 12 % Change</u>
05 Senator John A. Cade Funding Formula for Comm. Colleges	\$ 214,013,874	\$ 208,578,702	\$ 214,269,541	\$ 5,690,839	2.7%
06 Aid to Community Colleges - Fringe Benefits	42,159,819	47,536,536	53,069,741	5,533,205	11.6%
Total Expenditures	\$ 256,173,693	\$ 256,115,238	\$ 267,339,282	\$ 11,224,044	4.4%
General Fund	\$ 256,173,693	\$ 256,115,238	\$ 267,339,282	\$ 11,224,044	4.4%
Total Appropriations	\$ 256,173,693	\$ 256,115,238	\$ 267,339,282	\$ 11,224,044	4.4%

Note: The fiscal 2011 appropriation does not include deficiencies. The fiscal 2012 allowance does not include contingent reductions.