

**R62I0010**  
**Scholarship Programs**  
Maryland Higher Education Commission

***Operating Budget Data***

(\$ in Thousands)

	<u>FY 11</u> <u>Actual</u>	<u>FY 12</u> <u>Working</u>	<u>FY 13</u> <u>Allowance</u>	<u>FY 12-13</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$101,590	\$100,146	\$97,713	-\$2,432	-2.4%
<b>Adjusted General Fund</b>	<b>\$101,590</b>	<b>\$100,146</b>	<b>\$97,713</b>	<b>-\$2,432</b>	<b>-2.4%</b>
Special Fund	387	520	4,937	4,417	849.3%
<b>Adjusted Special Fund</b>	<b>\$387</b>	<b>\$520</b>	<b>\$4,937</b>	<b>\$4,417</b>	<b>849.3%</b>
Federal Fund	1,212	1,272	0	-1,272	-100.0%
<b>Adjusted Federal Fund</b>	<b>\$1,212</b>	<b>\$1,272</b>	<b>\$0</b>	<b>-\$1,272</b>	<b>-100.0%</b>
Reimbursable Fund	227	250	250	0	
<b>Adjusted Reimbursable Fund</b>	<b>\$227</b>	<b>\$250</b>	<b>\$250</b>	<b>\$0</b>	<b>0.0%</b>
<b>Adjusted Grand Total</b>	<b>\$103,416</b>	<b>\$102,187</b>	<b>\$102,900</b>	<b>\$713</b>	<b>0.7%</b>

- Although general funds decrease about \$2.4 million, or 2.4%, and federal funds decrease nearly \$1.3 million, or 100.0%, the overall budget increases by over \$700,000, or 0.7%.
- The growth in the budget is largely attributed to an increase in special funds of approximately \$4.4 million, or 849.3%, due to a new special fund for unspent financial aid in prior years.
- A proposed special fund deficiency appropriation of \$340,979 provides funds for the Charles W. Riley Fire and Emergency Medical Services Tuition Reimbursement Program. A general fund deficiency appropriation of \$1,002,000 covers costs associated with the last cohort in the Distinguished Scholar Program.

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

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## ***Analysis in Brief***

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### **Major Trends**

***Percentage of Neediest Students with Unmet Needs Grows:*** Despite the percentage of students in the lowest 40% of median family incomes with unmet need declining in fiscal 2009, new fiscal 2010 data show an increase of two percentage points. The Maryland Higher Education Commission (MHEC) expects the percentage to decline in out-years, despite no increase in the federal Pell grant and growing student financial need.

***Number of Guaranteed Access Grant Recipients Continues to Increase:*** The number of students receiving Guaranteed Access (GA) Grants increased 21.6% between fiscal 2008 and 2011, although growth is expected to slow in out-years. MHEC attributes this increase in GA recipients to additional exposure to higher education among students and to additional staff efforts to encourage students to finish incomplete applications.

### **Issues**

***Trends in Aid Distribution:*** Data collected by MHEC on recipients of State financial aid indicates that while most aid based on need is awarded to students with the lowest expected family contribution (EFC) levels, State career-based financial aid and aid to students from unique populations is directed to students across EFC levels. Fiscal 2012 is the last year in which new merit-based awards occurred.

***Distinguished Scholars Extended for One Year:*** MHEC announced 2011-2012 awardees of Distinguished Scholars after the fiscal 2012 budget was enacted that removed funding for the program. A deficiency appropriation is proposed to fund new Distinguished Scholar awardees for one additional year. The program is currently being phased out and will end entirely in 2015, which eliminates all merit-based aid from the programs administered by MHEC.

### **Recommended Actions**

1. Concur with Governor's allowance.

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**Scholarship Programs**  
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## ***Operating Budget Analysis***

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### **Program Description**

The Office of Student Financial Assistance (OSFA), within the Maryland Higher Education Commission (MHEC), is responsible for the administration of State financial assistance programs. These programs are designed to improve access to higher education for needy students; encourage students to major in workforce shortage areas; and encourage Maryland's brightest students to attend college within the State. Maryland students use State financial assistance at community colleges, independent institutions, private career schools, and the State's public four-year campuses.

As shown in **Exhibit 1**, financial aid comes in the form of grants, work study, student loans, parent loans, and scholarships from federal, State, private, and institutional sources. Grants and scholarships are aid that students do not have to pay back. Grants are usually given because a student has financial need, while scholarships are usually given to recognize the student's academic achievement, athletic ability, or other talent. Loans must be repaid, usually with interest.

This analysis includes MHEC Scholarship Programs that provide:

- funds directly to institutions of higher education to cover qualified college expenses;
- funds directly to students as reimbursement for the payment of tuition and mandatory fees; and
- assistance for the repayment of student loans.

A separate analysis titled *Maryland Higher Education Commission* covers the personnel associated with administration of scholarship programs and other grant programs administered by the commission.

**Exhibit 1**  
**Scholarship Programs in Fiscal 2013**

**Need-based**

**Delegate Howard P. Rawlings Educational Excellence Awards**

**Guaranteed Access Grants**

Need-based scholarships intended to meet 100% of financial need for full-time undergraduates from low-income households. Qualified applicants must have a cumulative high school grade point average of at least 2.5 on a 4.0 scale. The commission extends the income limits for renewals to 150% of the federal poverty level to prevent a student who may work in the summertime from exceeding the original 130% income cap.

**Educational Assistance Grants**

Need-based scholarships intended to meet 40% of financial need at four-year institutions and 60% at community colleges for full-time undergraduates from low- to middle-income families. The maximum award amount authorized by statute is \$3,000. The current maximum amount awarded is \$3,000.

**Campus-based**

Need-based grant for full-time undergraduates from low-income families who for extenuating circumstances miss the application filing deadline. Funds for the campus-based grant are allocated to eligible institutions that then select recipients.

**Part-time Grant Program**

Need-based grants provided to institutions to award to qualified part-time undergraduate students.

**Graduate and Professional Scholarship Program**

Need-based scholarships for those pursuing certain graduate and professional degrees at certain Maryland institutions of higher education.

**Merit-based**

**Distinguished Scholar Program**  
*(not accepting new applicants)*

Talent- or merit-based scholarship awarded to full-time undergraduates. Three hundred and fifty scholarships must be awarded annually.

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

For Maryland students who are attending Maryland community colleges and continue their education at a Maryland four-year college or university.

**Career-based**

**Charles W. Riley Fire and Emergency Medical Services Tuition Reimbursement Program**

Tuition reimbursement for fire, ambulance, and rescue squad workers pursuing a degree in fire services or emergency medical technology.

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**Career-based**

**Workforce Shortage Student Assistance Grants**

Merit- and need-based scholarships for Maryland students pursuing degrees in teaching, nursing, human services, physical/or occupational therapy, public service; and other areas to address workforce and regional needs.

**Janet L. Hoffman Loan Assistance Repayment Program**

Employees of Government and Nonprofit Sector

Need-based loan repayment assistance for graduates of an institution of higher education in Maryland who work full-time for the government or the nonprofit sector in a priority field as determined by the commission.

Primary Care Physicians

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

Maryland Dent-Care

Loan repayment assistance designed to increase access to oral health services for Maryland Medical Assistance Program recipients.

**Assistance for Unique Populations**

**Jack F. Tolbert Memorial**

Provides grants to private career schools to award to full-time students based on financial need.

**Edward T. Conroy Memorial**

Scholarships for children of certain veterans or certain public safety personnel.

**Veterans of the Afghanistan and Iraq Conflicts Scholarship Program**

Scholarships for United States Armed Forces personnel who served in the Afghanistan or Iraq conflicts and their sons, daughters, or spouses attending a Maryland postsecondary institution.

**Legislative Scholarships**

**Senatorial Scholarships**

Senators select recipients from within their legislative district. Students may be pursuing undergraduate, graduate, or professional degrees.

**Delegate Scholarships**

Delegates select recipients pursuing undergraduate, graduate, or professional degrees.

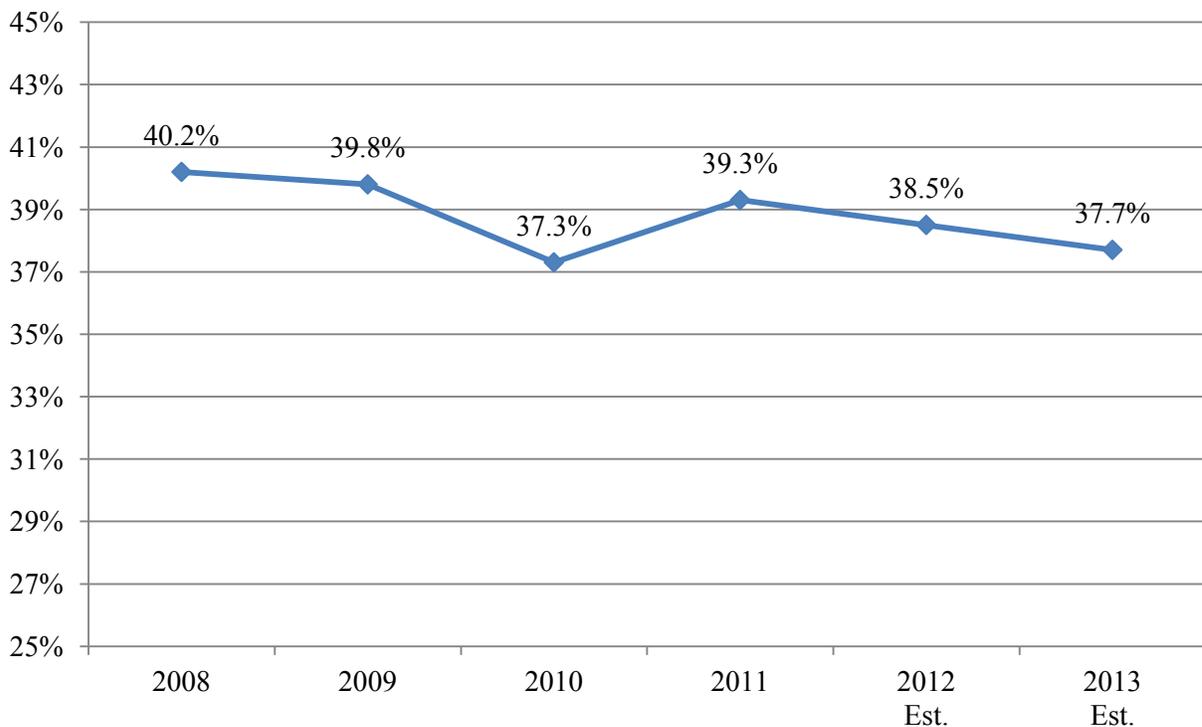
Source: Maryland Higher Education Commission

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## Performance Analysis: Managing for Results

The State’s financial aid programs play a critical role in facilitating access and reducing financial barriers to postsecondary education, especially for students from low- and moderate-income backgrounds. **Exhibit 2** shows the percent of students in the lowest 40% of median family income that have unmet need after all financial aid sources (including loans) are considered. Although the percentage of such students with unmet need declined 2.5 percentage points in fiscal 2009, it grew 2.5 percentage points in fiscal 2010. MHEC expects the percentage to decline in fiscal 2011 and 2012 despite growing student need and no increase in the maximum Pell grant in academic year 2012-2013. Other possible contributors to the decline in unmet need among low-income students are an increasing reliance on student loans and work-study to finance higher education, and the deferral of enrollment in higher education among the neediest students.

**Exhibit 2**  
**Percent of Neediest Students with Unmet Need Remaining**  
**Fiscal 2008-2013**

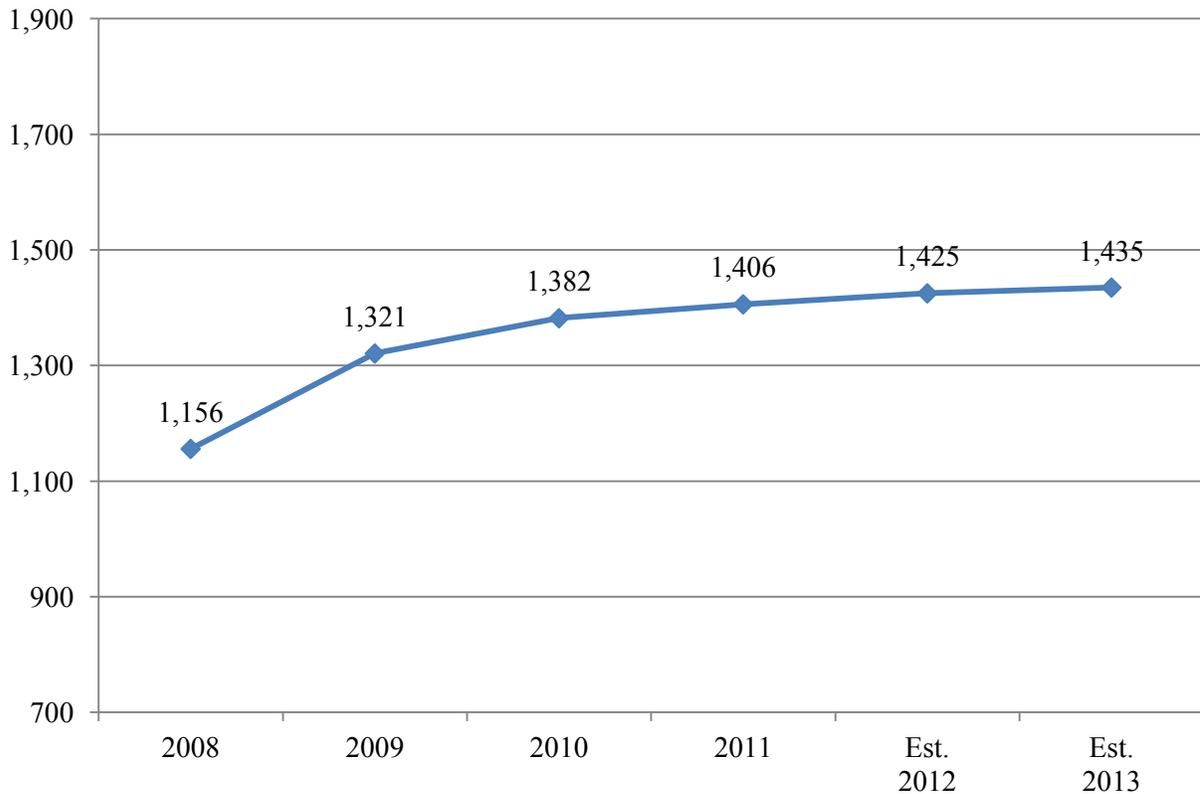


Source: Governor’s Budget Books, Fiscal 2011 to 2013

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The Guaranteed Access (GA) Grant is a component of the Delegate Howard P. Rawlings Educational Excellence Awards (EEA) program that covers 100.0% of need when combined with a federal Pell grant for the State’s lowest income students. The maximum amount is capped at the cost of education at the highest cost four-year University System of Maryland institution, excluding the University of Maryland, Baltimore and the University of Maryland University College. Students that meet all program criteria are guaranteed funding. **Exhibit 3** shows that the number of GA grants awarded increased 21.6% between fiscal 2008 and 2011, although growth is expected to slow between fiscal 2011 and 2013. MHEC attributes the increase to additional exposure to higher education among students and redoubled staff effort to encourage students to complete their incomplete applications.

**Exhibit 3**  
**Guaranteed Access Grants Awarded**  
**Fiscal 2008-2013**



Source: Governor’s Budget Books, Fiscal 2011 to 2013

## Fiscal 2012 Actions

### Proposed Deficiency

A proposed special fund deficiency appropriation of \$340,979 provides funds for the Charles W. Riley Fire and Emergency Medical Services Tuition Reimbursement Program to replace general funds. The Budget Reconciliation and Financing Act (BRFA) of 2011 (Chapter 397) altered the program’s funding source to special funds, and the program was not appropriated funding in fiscal 2012. A general fund deficiency appropriation of \$1,002,000 covers costs associated with the last cohort in the Distinguished Scholar Program, which was not appropriated sufficient funding in fiscal 2012. This merit-aid program will entirely phase out in fiscal 2015 and is discussed further in Issue 2.

### Proposed Budget

General funds decrease \$2.4 million, or 2.4%, in the Governor’s proposed fiscal 2013 budget, as shown in **Exhibit 4**. General fund changes include an increase in Delegate Scholarships to accommodate the planned 3.0% in-state undergraduate increase at public four-year institutions in Maryland, as required by statute, as well as a decrease in matching funds for the Leveraging Educational Assistance Partnership (LEAP) and Special LEAP (SLEAP) programs. Special funds increase about \$4.4 million, or 849.3%, to reflect the use of the new special fund for unspent aid, Need Based Student Financial Assistance Fund (NBSFAF), created by the BRFA of 2011. These funds are being used to cover the loss of federal funds and matching general funds used for the EEA.

**Exhibit 4**  
**Proposed Budget**  
**MHEC – Scholarship Programs**  
**(\$ in Thousands)**

<b>How Much It Grows:</b>	<b>General Fund</b>	<b>Special Fund</b>	<b>Federal Fund</b>	<b>Reimb. Fund</b>	<b>Total</b>
2012 Working Appropriation	\$100,146	\$520	\$1,272	\$250	\$102,187
2013 Allowance	<u>97,713</u>	<u>4,937</u>	<u>0</u>	<u>250</u>	<u>102,900</u>
Amount Change	-\$2,432	\$4,417	-\$1,272	\$0	\$713
Percent Change	-2.4%	849.3%	-100.0%		0.7%
Contingent Reduction	\$0	\$0	\$0	\$0	\$0
Adjusted Change	-\$2,432	\$4,417	-\$1,272	\$0	\$713
Adjusted Percent Change	-2.4%	849.3%	-100.0%	0.0%	0.7%

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**Where It Goes:**

**Other Changes**

Delegate Scholarships raised to accommodate 3% undergraduate resident tuition increase .....	\$154
Veterans of Afghanistan and Iraq Scholarship returns to normal allocation; fiscal 2012 included the use of carry-forward funds .....	203
Riley Fire and EMS Tuition Reimbursements increase \$15,000 after fiscal 2012 deficiency appropriation .....	356
Need Based Student Financial Assistance Fund used to cover loss of LEAP and SLEAP funding for Educational Excellence Awards .....	4,061
State general fund match to LEAP and SLEAP ending.....	-2,789
Federal LEAP and SLEAP grants ending.....	-1,272
Miscellaneous savings .....	-1
<b>Total</b>	<b>\$713</b>

EMS: emergency medical services

LEAP: Leveraging Educational Assistance Partnership

SLEAP: Special Leveraging Educational Assistance Partnership

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

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**Need Based Student Financial Assistance Fund**

A 2010 legislative audit reported on nonstandard accounting practices used by MHEC to transfer unexpended scholarship funds into future fiscal years. The BRFA of 2011 required MHEC to work with DBM and the Comptroller of Maryland to create a new fund for unspent scholarship aid. Through the new NBSFAF, unused scholarship funds are now deposited into the fund at the close of each fiscal year to be used for future need-based and certain unique population awards. Special funds will be appropriated in the annual State budget or recognized by budget amendment in the following fiscal year, creating a process for MHEC to encumber unexpended scholarship funds while improving administrative transparency.

**Exhibit 5** shows the new NBSFAF program in its first two years of operations. It begins with nearly \$10.0 million in carry forward funds from fiscal 2011. MHEC would like to keep a balance of \$1.0 million in the fund at the end of the year, which leaves \$8.86 million to be allocated. Some of this money will be saved for fiscal 2013 to address a forecasted shortfall in EEA of \$4.06 million, as noted in Exhibit 4. Out of the remaining funds in NBSFAF, MHEC plans to submit budget amendments in fiscal 2012 to move \$300,000 to the Edward T. Conroy Memorial Scholarship to fully reimburse institutions for awards incurred in fiscal 2012. In addition, \$202,506 will be moved to the Veterans of the Iraq and Afghanistan Conflicts (VAIC) awards to accommodate a planned reduction that was made in the fiscal 2012 budget and maintain full funding of the program at \$750,000. The

**Exhibit 5  
Need Based Student Financial Assistance Fund  
Fiscal 2012-2013**

		<u>Notes</u>
<b>Fiscal 2012</b>		First year of fund
Carry Forward from Fiscal 2011	\$9,868,000	Carry-forward funds transferred to NBSFAF from fiscal 2011
<b>Planned Budget Amendments</b>		
Conroy Awards	\$300,000	Paying for all eligible recipients
VAIC Awards	202,506	Maintaining level VAIC funding in fiscal 2012
EEA	4,304,927	Estimated award money to alleviate waiting list through budget amendments
Estimated Closing Balance	\$5,060,567	Balance of \$1 million plus money to cover shortfall in fiscal 2013 EEA funding
<b>Fiscal 2013</b>		
Carry Forward from Fiscal 2012	\$5,060,567	Would also contain an unknown amount of unspent scholarship money from fiscal 2012
<b>Governor’s Allowance</b>		
EEA	\$4,060,567	Replacement of LEAP/SLEAP and general funds to keep funding level from fiscal 2012
Estimated Closing Balance	\$1,000,000	Matching goal of fiscal 2012 to have \$1 million in fund

EEA: Educational Excellence Award  
 LEAP: Leveraging Educational Assistance Partnership  
 NBSFAF: Need Based Student Financial Assistance Fund  
 SLEAP: Special Leveraging Educational Assistance Partnership  
 VAIC: Veterans of the Afghanistan and Iraq Conflicts

Source: Maryland Higher Education Commission

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remainder will be used to award scholarships to students on the EEA waitlist in fiscal 2012. The amount that will be carried forward from fiscal 2012 to 2013 cannot be reliably estimated at this time, although MHEC has stated that it will be managing awards within the eligible programs so that only a maximum of \$1 million will be carried forward into 2013.

**The Secretary should comment on how MHEC plans to use NBSFAF in fiscal 2012 and how a \$4.3 million increase in EEA funding can be maintained in the out-years if NBSFAF is used to make more awards in fiscal 2012.**

**The Secretary should comment on whether NBSFAF has resolved accounting discrepancies revealed in the legislative audit; how much NBSFAF will be expected to carry as a balance year to year, specifically in fiscal 2012 and 2013; and if it will be entirely used up to cover ongoing shortfalls or cost overruns.**

### **Conroy Awards**

Conroy awards were decentralized from MHEC to institutions by Chapters 607 and 608 of 2009 because of a growing wait list of eligible students. Under the new system, students apply to the institutions and, if eligible, the institutions immediately cover the cost of the Conroy award. Institutions submit the number of awards made to eligible students to MHEC in October and February each year in order to receive reimbursement. MHEC allocates funding on a pro-rata basis to institutions if the appropriation is not sufficient to cover all of the eligible reimbursements. In that case, MHEC is to allocate the next year's funding to institutions with an outstanding prior year obligation before funding new awards. MHEC also has the ability to transfer funds between scholarships by budget amendment and can use NBSFAF to cover shortfalls. As shown in **Exhibit 6**, the fiscal 2013 allowance for the Conroy program is well below the fiscal 2011 actual and fiscal 2012 working appropriation. In both years, the legislative appropriation was \$570,474, and MHEC transferred unexpended prior year funds to fully fund the program. In fiscal 2011, \$400,000 was transferred, and in fiscal 2012, MHEC plans to transfer \$300,000 from NBSFAF by budget amendment. The number of recipients is estimated to remain the same in fiscal 2013; however, the budget only allows for 75 recipients.

**Exhibit 6  
Conroy Award Funding  
Fiscal 2011-2013**

	2011		2012	Proj.	2013 Allowance	Proj.
	<u>Expenditures</u>	<u>Recipients</u>	<u>Appropriation</u>	<u>Rec.</u>	<u>Appropriation</u>	<u>Rec.</u>
Legislative Appropriation	\$570,474	95	\$570,474	95	\$570,474	75
Actual/Working Appropriation	\$970,474	138	\$870,474*	119		119

\*Includes \$300,000 in funding from Need Based Student Financial Assistance Fund

Source: Maryland Higher Education Commission

**The Secretary should comment on how MHEC can continue to meet greater-than-budgeted demand for Conroy awards.**

**Federal Budget Impacts**

The Pell grant, a federal program, is an extremely important sources of need-based aid for many Maryland students. Because State need-based programs such as the GA and the Educational Assistance grants (EA) are applied to student need after the federal Pell grant is considered, federal funding for the Pell grant program has a significant impact on how far State need-based financial aid will stretch. For academic year 2011-2012, the maximum Pell grant is a flat \$5,550. The federal fiscal 2012 budget significantly restricts eligibility retroactively by reducing the number of full-time semesters a student may receive a Pell grant from 18 to 12 semesters and drops the Automatic Zero EFC threshold from \$30,000 to \$23,000. Additionally, Congress eliminated the “double Pell grant” wherein students could receive a second Pell award within a year to pursue summer coursework to expedite graduation. All three rule changes go into effect on July 1, 2012. **MHEC should comment on the effects of Pell changes on needy Maryland students and how MHEC is working to inform students of these changes.**

## **Need-based Financial Aid Appropriations Remain Below Fiscal 2009 Level Despite Tuition Increases at Public Four-year Institutions**

The State's largest need-based financial aid program, the EEA, decreases \$4.97 million, or 7.7%, in fiscal 2013, despite a 3.0% increase in in-state undergraduate tuition at public four-year institutions in fiscal 2012 and an expected increase of 3.0% in fiscal 2013. As shown in **Exhibit 7**, need-based aid overall decreases 4.7% in fiscal 2013 due to decreases in the EEA. Need-based aid accounts for 80.1% of all aid in fiscal 2013 compared to 54.5% in fiscal 2003. The Commission to Develop the Maryland Model for Funding Higher Education recommended that need-based financial aid appropriations and average awards at least keep pace with tuition and fee increases. Instead, EEA funding has decreased \$2.6 million, or 3.1%, since fiscal 2009.

In fiscal 2012, federal LEAP/SLEAP funding concluded. State contributions matched LEAP and SLEAP funding to very needy students in the EEA program. In fiscal 2013, MHEC will cover this loss of federal funds by using special funds from the NBSFAF.

As discussed previously and further in Issue 2, merit aid declines by 26.5% as the Distinguished Scholar Program is phased out in accordance with the BRFA of 2011.

After accounting for approximately \$6.4 million in legislative carry-forward funds, legislative awards increase \$154,353, or 2.9%, to accommodate the projected 3.0% increase in undergraduate resident tuition at public four-year institutions. Maryland is one of only five states (Illinois, New Mexico, New York, and Vermont) to award legislative scholarships, although Illinois has recently considered ending its program.

**Exhibit 7**  
**State Financial Aid Appropriations**  
**Fiscal 2003-2013**  
**(\$ in Thousands)**

	<u>2003</u>	<u>2009</u>	<u>2010</u>	<u>Actual 2011</u>	<u>Working 2012</u>	<u>Allowance 2013</u>	<u>\$ Change 2012-2013</u>	<u>% Change 2012-2013</u>	<u>% Change 2003-2013</u>
Need-based Aid	\$43,267	\$83,986	\$83,022	\$77,350	\$85,387	\$81,387	-\$4,000	-4.7%	88.1%
Merit-based Aid	4,222	3,989	3,696	3,536	4,163	3,061	-1,102	-26.5%	-27.5%
Career-based Aid	22,701	9,535	5,538	3,630	3,859	3,874	15	0.4%	-82.9%
Legislative	8,610	11,120	11,268	11,145	11,632	11,786	154	1.3%	36.9%
Unique Populations	549	1,701	1,457	1,740	1,820	1,520	-300	-16.5%	176.9%
<b>Total</b>	<b>\$79,349</b>	<b>\$110,331</b>	<b>\$104,981</b>	<b>\$97,401</b>	<b>\$106,861</b>	<b>\$101,628</b>	<b>-\$5,233</b>	<b>-4.9%</b>	<b>28.1%</b>

Note: Fiscal 2012 working appropriation does not include approximately \$6.4 million in legislative carry-forward funds. All other fiscal 2012 working appropriations include planned budget amendments and carry-forward funds.

Source: Maryland Higher Education Commission

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Career-based aid is level funded in fiscal 2013. As shown in Exhibit 7, funding for unique populations decreases by \$300,000 due to the transfer of \$300,000 from NBSFAF in fiscal 2012 to the Conroy program. However, this transfer is not reflected in the fiscal 2012 working appropriation in the Governor's budget data as shown in Exhibit 4. VAIC is level funded in fiscal 2013, with approximately \$200,000 in general funds replacing the planned use of the NBSFAF to fully fund the program in fiscal 2012.

Overall, MHEC expects to award aid to 54,979 recipients in fiscal 2013, 16.7% fewer than fiscal 2012, as shown in **Exhibit 8**, mostly due to a decline in EA grants and legislative scholarships. Excluding legislative scholarships, the number of recipients declines 8.3%. Merit-based programs show a small decrease in fiscal 2013 to reflect the phasing out of the Distinguished Scholar program. This is discussed in Issue 2. The largest decrease is expected in legislative scholarships due to carry-forward funds used to make awards in fiscal 2012 that are not accounted for in fiscal 2013; this is related in part to funds retained to make renewal awards. While the number of need-based awards is expected to decrease 3,223, average awards are expected to increase based on projections developed by MHEC using three-year averages. The number of awards made through career programs is level and unique population awards decrease about 7.5%. The average award size for most programs changes by less than \$75; however, unique population awards decline \$294, or 11.9%.

**Exhibit 8  
Recipients of Student Financial Assistance  
Fiscal 2011-2013**

<u>Program</u>	2011 Actual		2012 Working Appropriations		2013 Governor's Allowance	
	<u>Recipients</u>	<u>Avg. Award</u>	<u>Proj. Rec.</u>	<u>Proj. Avg. Award</u>	<u>Proj. Rec.</u>	<u>Proj. Avg. Award</u>
<b>Need-based Aid</b>						
Educational Assistance Grant	25,734	\$2,146	28,727	\$2,231	25,496	\$2,319
Campus-based Educational Assistance Grant	1,072	1,866	1,031	1,939	992	2,016
Guaranteed Access Grant	1,407	9,851	1,272	10,244	1,314	10,653
Part-time Grant Program	9,546	533	9,582	531	9,600	530
Graduate and Professional Scholarship	539	\$2,186	497	2,364	485	2,422
<b>Subtotal</b>	<b>38,298</b>	<b>\$2,020</b>	<b>41,109</b>	<b>\$2,077</b>	<b>37,886</b>	<b>\$2,148</b>
<b>Legislative Programs</b>	<b>13,530</b>	<b>\$824</b>	<b>22,001</b>	<b>\$820</b>	<b>14,608</b>	<b>\$807</b>
<b>Merit-based Programs</b>	<b>1,201</b>	<b>\$2,944</b>	<b>1,412</b>	<b>\$2,948</b>	<b>1,038</b>	<b>\$2,950</b>
<b>Career and Occupational Programs</b>	<b>795</b>	<b>\$4,566</b>	<b>837</b>	<b>\$4,612</b>	<b>839</b>	<b>\$4,615</b>
<b>Unique Population Programs</b>	<b>578</b>	<b>\$2,730</b>	<b>657</b>	<b>\$2,468</b>	<b>607</b>	<b>\$2,174</b>
<b>Total</b>	<b>54,402</b>	<b>\$1,787</b>	<b>66,016</b>	<b>\$1,713</b>	<b>54,979</b>	<b>\$1,845</b>

Source: Maryland Higher Education Commission

## Issues

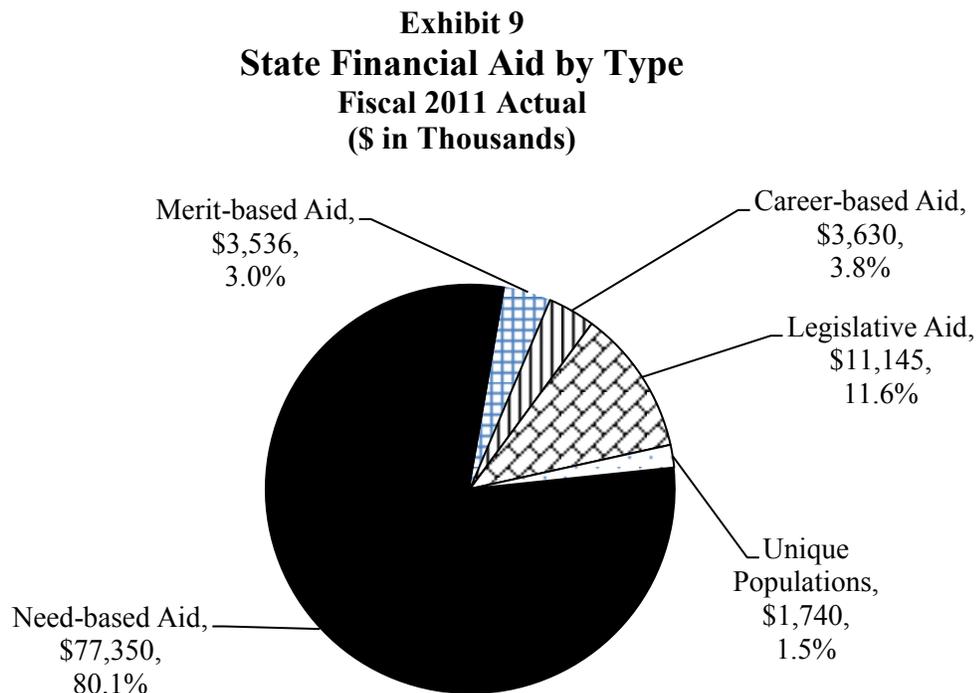
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### 1. Trends in Aid Distribution

The State is committed to ensuring that more Marylanders have access to postsecondary institutions, and financial aid programs play a critical role in facilitating access and reducing financial barriers to higher education, especially for low- and moderate-income students. Maryland has moved from having the seventh highest average tuition and fees for public colleges and universities in the country in fiscal 2006 to the twenty-third most expensive in fiscal 2012. This is due, in part, to the multi-year tuition freeze and a 3% increase cap at most public four-year institutions.

Financial aid is important in helping many students achieve their educational goals. A lack of financial support often contributes to a student's decision to stop out, or drop out of school. To increase degree attainment among Maryland residents and ensure affordability in higher education, most of the State's financial aid is provided to students who demonstrate need. **Exhibit 9** shows the amount of State funds awarded by aid type in fiscal 2011. Need-based aid represents the largest proportion of State financial aid at 80.1% followed by legislative aid at 11.6%, career-based aid at 3.81%, merit-based aid at 3.01%, and aid to unique populations at 1.5%.

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Source: Maryland Higher Education Commission

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### *R62I0010 – MHEC – Scholarship Programs*

Need is determined by a student's expected family contribution (EFC), which is the amount of money a family is expected to contribute towards a student's college costs. EFC is determined when a student files a Free Application for Federal Student Aid (FAFSA) and is based on a number of indicators including the family's taxable and untaxed income, family size, and the number of family members who will attend college during the year. To determine the amount of financial need a student has, the State subtracts the student's EFC and certain financial aid the student may have already received (such as the federal Pell grant) from the cost of attendance (including room, board, and tuition and fees) at the institution the student plans to attend. The gap between the cost of attendance and the EFC plus other financial aid sources is considered a student's unmet need. In general, the lower a student's EFC, the greater their financial need.

### **State Need-based Aid Reaches Far Fewer Students**

**Exhibit 10** shows trends in EEA appropriations and applicants from fiscal 2009 to 2012. EEA grants account for about 80.0% of all State scholarship funding. While appropriations for State need-based aid declined \$1.6 million, student need grew significantly over this period given increases in tuition and other costs. The number of EEA applicants increased 56.0% between fiscal 2009 and 2012, and those applying demonstrated greater financial need due to the economic recession. Between fiscal 2009 and 2012, the number of EEA applicants with \$0 EFC increased 140.1%. As a result of growing need, EEA aid becomes more concentrated on lower EFCs each year. To date, in fiscal 2012, MHEC has awarded EEA grants to students with EFCs up to \$1,125, while nearly the same funding in fiscal 2009 reached students with EFCs up to \$10,300. As a result of growing demand and decreasing funding, the EEA waitlist has grown to 31,000 students in fiscal 2012, an increase of 67.5% over fiscal 2011. **The Secretary should comment on the impact of level funding need-based financial aid in fiscal 2013 given increasing student need. The Secretary should comment on where students on the growing waitlist can turn for financial assistance and how many of the students on the waitlist are eventually assisted.**

**Exhibit 10**  
**Educational Excellence Awards**  
**Fiscal 2009-2012**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2009- 2012</u>	<u>2011- 2012</u>
Appropriation	\$76,702,978	\$76,113,374	\$71,084,264	\$75,124,624	-2.1%	-2.8%
EEA Applicants	109,300	129,300	145,944	170,489	56.0%	16.8%
EEA Applicants with \$0 EFC	15,942	24,672	26,112	38,282	140.1%	46.6%
EFC Awarded	10,300	8,764	3,731	1,125	-89.1%	-69.8%
Waitlist <sup>1</sup>	4,846	11,333	18,504	31,000	539.7%	67.5%

EEA: Educational Excellence Award  
EFC: Expected Family Contribution

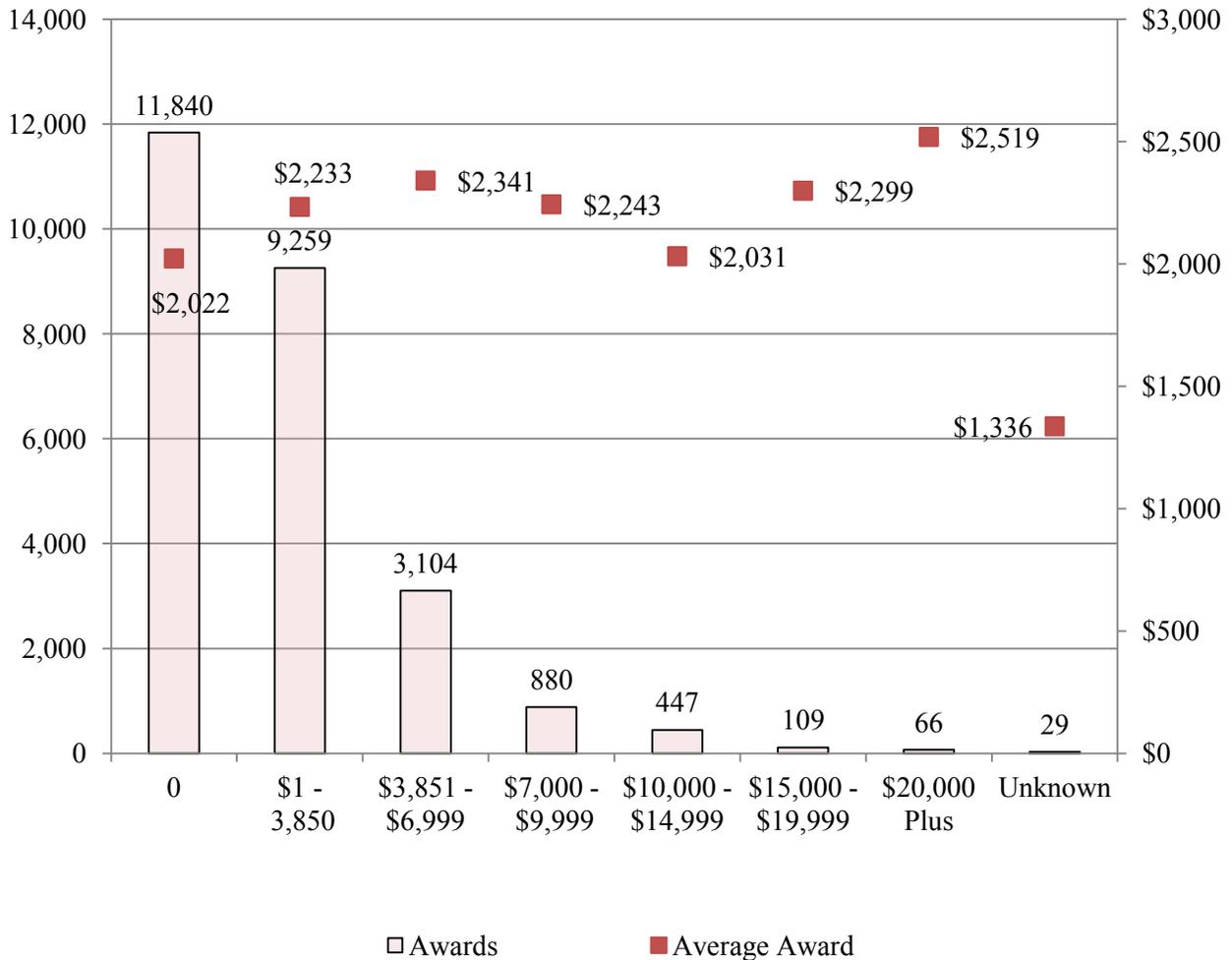
<sup>1</sup> Fiscal 2012 waitlist as of February 10, 2012. Students are eligible for EEA and are placed on the waitlist if they are full-time students, submit a completed application by the March 1 deadline, and have financial need remaining after their EFC and federal Pell grant award are considered.

Note: EFC awarded is the maximum EFC reached during awarding.

Source: Maryland Higher Education Commission

The EEA is designed to meet 40% of financial need at four-year institutions and 60% at community colleges for full-time undergraduate students from low- to middle-income families. The maximum award amount is \$3,000. **Exhibit 11** shows the number of recipients and average award in fiscal 2011 by EFC category. The EFC maximum for federal Pell grant eligibility increases periodically, with the maximum EFC in fiscal 2011 of \$5,273. Students with EFCs below this level have the greatest need. The greatest number of EEA awards was made to students in the \$0 EFC category. As EFC increases, the number of EEAs decreases. As shown in Exhibit 10, MHEC was only able to award students with EFCs up to \$3,731 in fiscal 2011, though Exhibit 11 shows a small number of awards made to students with higher EFCs due to renewal awards from prior years. The average EEA award is fairly level across EFC categories, though students with \$0 EFC on average receive \$497 less than students with EFCs of \$20,000 or more. MHEC attributes this to the federal Pell grant, which students with EFCs below \$5,273 are likely to receive. Because the EEA is based on student need after federal Pell grants are accounted for, those with low EFCs often qualify for smaller EEA grants than they otherwise might.

**Exhibit 11**  
**Educational Excellence Awards by Expected Family Contribution**  
**Fiscal 2011**



Note: Excludes campus-based Educational Excellence Awards and Guaranteed Access Grant awards.

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

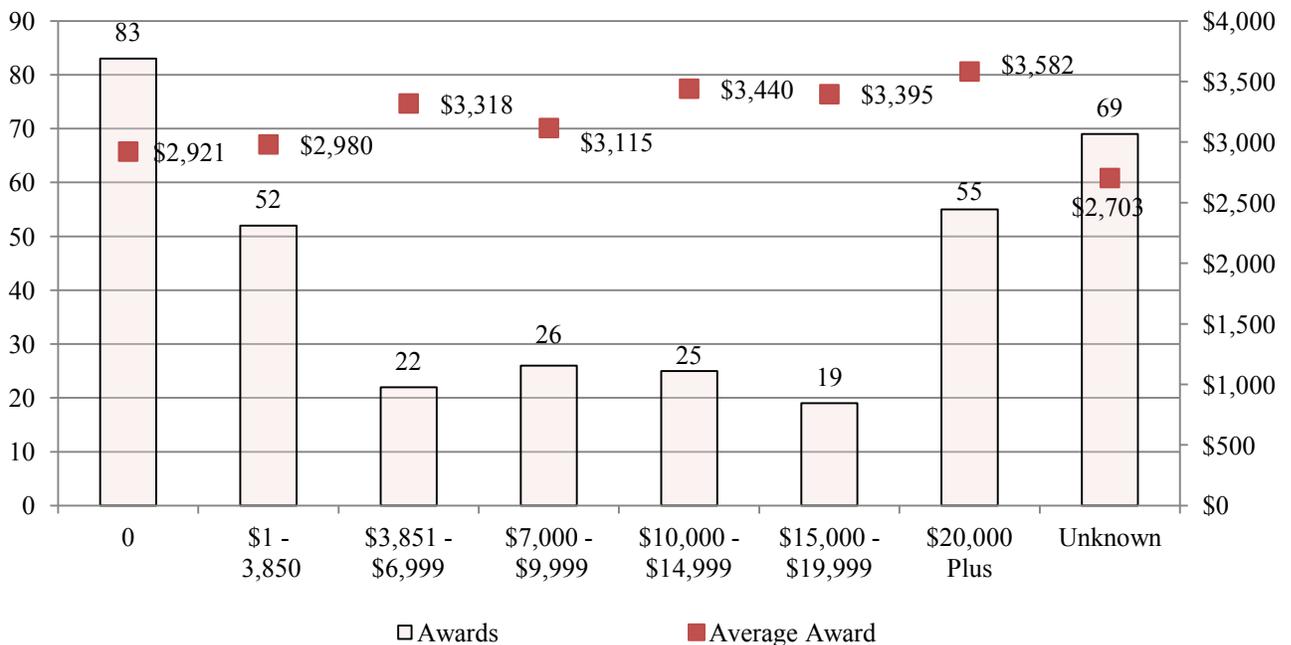
Exhibit 11 excludes GA Grants and campus-based EAs, both components of the EEA program. GA Grants cover 100% of need when combined with a federal Pell grant for the State’s lowest income students. Program eligibility is determined in part by a student’s total annual family income, which may not exceed 130% of the federal poverty line for initial awardees and 150% of the federal poverty line for renewals. Almost all students receiving aid through this program have EFCs of \$3,850 or less. Because the program covers the full cost of education, GA awards are

significantly higher than EAs which may not exceed \$3,000. Average GA awards to students with \$0 EFC are \$9,799 compared to the EA's \$2,022 to students with the same EFC.

### Career-based Awards Serve Students at All Levels of Need

**Exhibit 12** shows the number of recipients and average award for the Workforce Shortage Student Assistance Grant in fiscal 2011 by EFC. Workforce Shortage Student Assistance Grants are merit- and need-based scholarships for Maryland students pursuing degrees in teaching, nursing, human services, physical or occupational therapy, public service, and other areas to address workforce and regional needs. The Workforce Shortage Student Assistance Grant provides the most awards of the State's career-based financial aid programs. Recipients are concentrated on the low and high ends of the EFC range; 38.5% have EFCs of \$3,850 or lower, while 35.3% have EFCs of \$20,000 or more, or did not file a FAFSA (*i.e.*, unknown). Average Workforce Shortage Student Assistance Grant awards are fairly even across EFC categories, though awards to those with EFCs of \$20,000 or more are \$661 higher on average than those to students with \$0 EFC. MHEC attributes the difference to the type of institution that the student attends, which determines the student's award amount.

**Exhibit 12**  
**Workforce Shortage Awards by Expected Family Contribution**  
**Fiscal 2011**

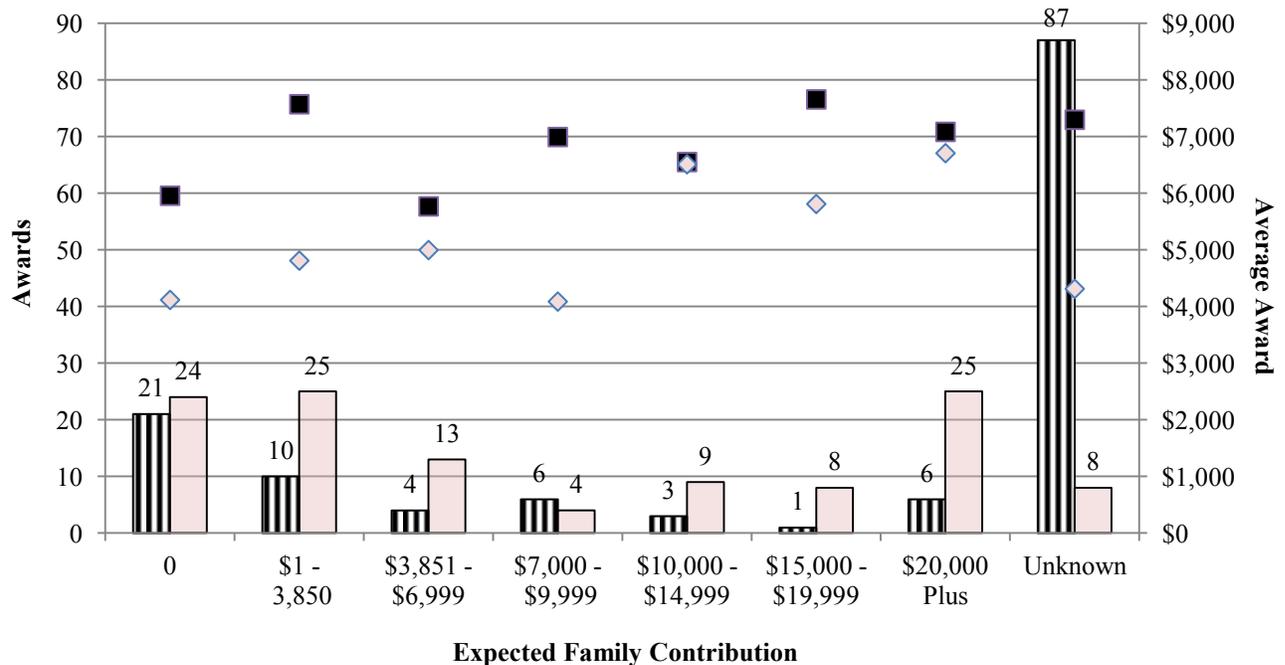


Source: Maryland Higher Education Commission, Maryland College Aid Processing System

## Awards to Students from Unique Populations Made Largely to Students with Low EFC

Exhibit 13 shows the number of recipients and average awards for the Edward T. Conroy Memorial Scholarship and the VAIC programs. The Conroy Program provides scholarships to children of certain veterans and public safety personnel and victims of the attacks of 9/11, while VAIC provides scholarships to U.S. Armed Forces personnel who served in the Afghanistan or Iraq conflicts and their children or spouses attending a Maryland postsecondary institution. Nearly 42.2% of VAIC awards were made to recipients with EFCs lower than \$3,850, and only eight recipients did not submit a FAFSA. In contrast, 15.2% of Conroy awards were made to those with EFCs of less than \$3,850, and 63.0% of recipients did not file a FAFSA. MHEC attributes the difference in the number of students missing EFC data between the programs to the support systems and campus resources available to VAIC recipients, which ensure that student veterans exhaust all financial aid resources, including those that require filing a FAFSA.

**Exhibit 13**  
**Unique Population Awards by Expected Family Contribution**  
**Fiscal 2011**



■ Edward T. Conroy Awards   □ VAIC Awards   ■ Edward T. Conroy Average Award   ◆ VAIC Average Award

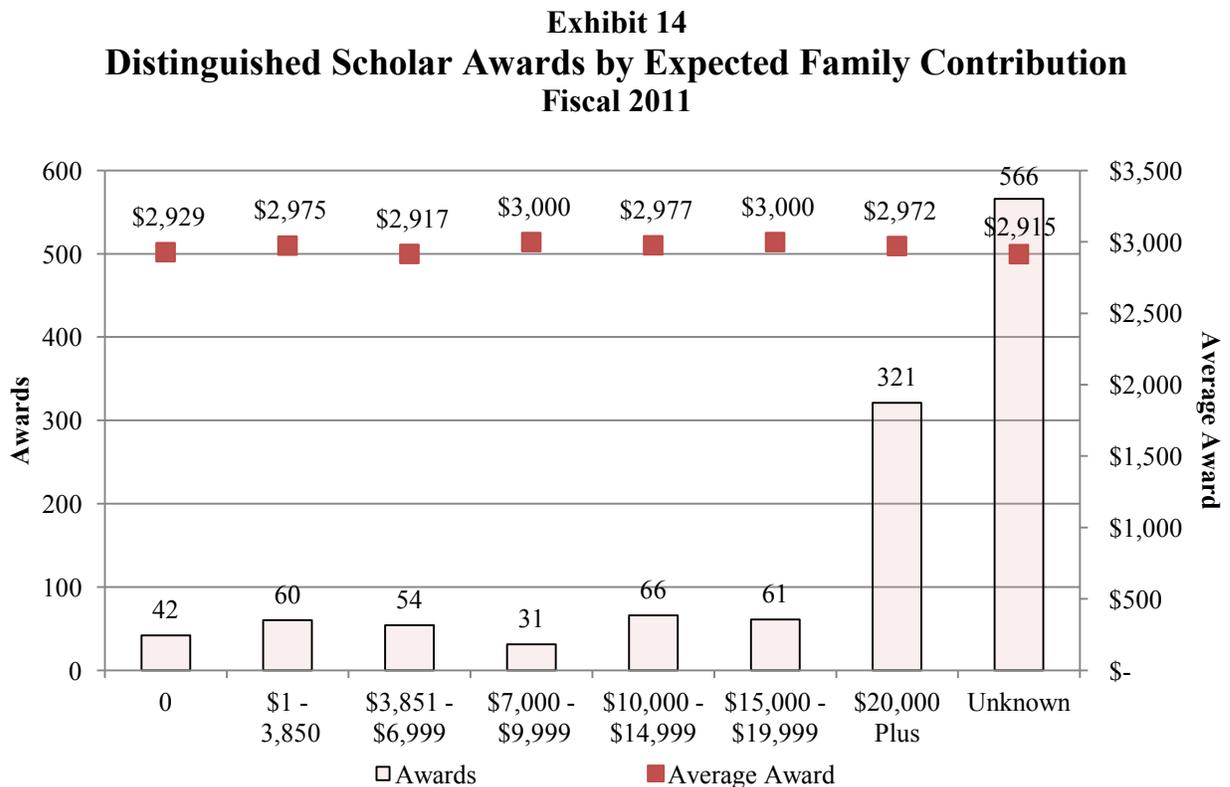
VAIC: Veterans of the Afghanistan and Iraq Conflicts Scholarship Program

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

## 2. Distinguished Scholars Extended for One Year

The Distinguished Scholars Program awarded merit-based scholarships of up to \$3,000 for Maryland residents to attend in-state institutions full-time. The scholarship was renewable for three additional years if the student maintained a 3.0 grade point average for each academic year and remained a full-time student. Three hundred-fifty new scholarships were required to be awarded annually to Maryland residents out of a competitive applicant pool. High school guidance offices distributed applications/nomination forms and completed documentation was sent to MHEC’s OSFA in March of each year. For the 2011-2012 academic year, more than 6,000 students applied. Three hundred and fifty students were selected as finalists, 450 as semifinalists and approximately 4,500 as honorable mention recipients.

**Exhibit 14** shows the number of recipients and average award for the Distinguished Scholar program in fiscal 2011 by EFC. More than 73.9% of Distinguished Scholar awards were made to students that did not file a FAFSA or have EFCs of \$20,000 or more. Because a FAFSA is required to receive both federal and State need-based aid, students that do not file one are less likely to have financial need than those that do.



Note: Includes Distinguished Scholar Community College Transfer Awards.

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

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The Governor’s fiscal 2012 budget included a \$1.1 million reduction contingent on the BRFA of 2011 provision that prohibits the awarding of new Distinguished Scholar scholarships in fiscal 2012 and in every year thereafter, and repeals the program effective July 1, 2015. The reduction left \$3.1 million to award only Distinguished Scholar renewals in fiscal 2012. This BRFA provision results in a \$1.1 million reduction to the program each year associated with the loss of one additional new class of Distinguished Scholar recipients.

However, MHEC had already held its Distinguished Scholar Recognition Day Ceremony for recipients in the next academic year (2011-2012) when the fiscal 2012 budget was enacted, so the Governor’s budget includes a deficiency appropriation of \$1,002,000 to cover the new awards in fiscal 2012. No new applications were accepted in spring 2011, and the program will phase out entirely by fiscal 2016. A related program, the Distinguished Scholars Community College Transfer Program, aided students who had accumulated 60 credits or an Associate’s Degree and good grades to transfer to a four-year institution. It was funded out of the same Distinguished Scholar budget but was only available to a student for a total of two years. Under the BRFA of 2011, it will also phase out, and because it was only awarded to students transferring into four-year institutions, it will end with the 2011-2012 school year. With these two programs gone, Maryland will no longer offer any merit-based financial aid for higher education, although higher education institutions may still award merit aid.

**MHEC should comment on whether the end of the program will result in a “brain drain” of high-achieving Maryland high school graduates being drawn to out-of-state schools and, if so, whether there are ways to alleviate this issue. MHEC should also comment on whether other states in the region have ended merit-based aid during the current economic recession.**

## ***Recommended Actions***

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1. Concur with Governor's allowance.

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

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### **Current and Prior Year Budgets MHEC – Scholarship Programs (\$ in Thousands)**

	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Reimb. Fund</u></b>	<b><u>Total</u></b>
<b>Fiscal 2011</b>					
Legislative Appropriation	\$101,590	\$400	\$1,272	\$250	\$103,512
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	0	-13	-60	-23	-95
<b>Actual Expenditures</b>	<b>\$101,590</b>	<b>\$387</b>	<b>\$1,212</b>	<b>\$227</b>	<b>\$103,416</b>
<b>Fiscal 2012</b>					
Legislative Appropriation	\$100,146	\$520	\$1,272	\$0	\$101,937
Budget Amendments	0	0	0	0	0
<b>Working Appropriation</b>	<b>\$100,146</b>	<b>\$520</b>	<b>\$1,272</b>	<b>\$0</b>	<b>\$101,938</b>

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

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*R62I0010 – MHEC – Scholarship Programs*

**Fiscal 2011**

Special funds decreased \$12,742 from a cancellation to account for unspent funds for the Health Care Professional License Fee funding.

Federal funds decreased \$59,624 from a cancellation to account for unspent LEAP/SLEAP funding.

Reimbursable funds decreased \$23,092 from a cancellation to account for unspent Department of Health and Mental Hygiene revenue for the Loan Assistance Repayment Program.

**Object/Fund Difference Report  
MHEC – Scholarship Programs**

<u>Object/Fund</u>	<u>FY 11 Actual</u>	<u>FY 12 Working Appropriation</u>	<u>FY 13 Allowance</u>	<u>FY 12 - FY 13 Amount Change</u>	<u>Percent Change</u>
<b>Objects</b>					
03 Communication	\$ 6,306	\$ 0	\$ 0	\$ 0	0.0%
04 Travel	136	0	0	0	0.0%
08 Contractual Services	-40,132	0	0	0	0.0%
09 Supplies and Materials	101	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	103,450,037	102,187,193	102,900,037	712,844	0.7%
<b>Total Objects</b>	<b>\$ 103,416,448</b>	<b>\$ 102,187,193</b>	<b>\$ 102,900,037</b>	<b>\$ 712,844</b>	<b>0.7%</b>
<b>Funds</b>					
01 General Fund	\$ 101,590,360	\$ 100,145,647	\$ 97,713,486	-\$ 2,432,161	-2.4%
03 Special Fund	387,258	520,000	4,936,551	4,416,551	849.3%
05 Federal Fund	1,211,922	1,271,546	0	-1,271,546	-100.0%
09 Reimbursable Fund	226,908	250,000	250,000	0	0%
<b>Total Funds</b>	<b>\$ 103,416,448</b>	<b>\$ 102,187,193</b>	<b>\$ 102,900,037</b>	<b>\$ 712,844</b>	<b>0.7%</b>

Note: The fiscal 2012 appropriation does not include deficiencies.

**Fiscal Summary  
MHEC – Scholarship Programs**

<u>Program/Unit</u>	<u>FY 11 Actual</u>	<u>FY 12 Wrk Approp</u>	<u>FY 13 Allowance</u>	<u>Change</u>	<u>FY 12 - FY 13 % Change</u>
10 Educational Excellence Awards	\$ 75,933,546	\$ 76,396,170	\$ 76,396,170	\$ 0	0%
12 Senatorial Scholarships	6,486,000	6,486,000	6,486,000	0	0%
14 Edward T. Conroy Memorial Scholarship Program	970,474	570,474	570,474	0	0%
15 Delegate Scholarships	4,958,094	5,146,132	5,300,486	154,354	3.0%
16 Riley Fire and EMS Tuition Reimbursement Program.	340,979	0	355,984	355,984	0%
17 Graduate and Professional Scholarship Program	1,178,303	1,174,473	1,174,473	0	0%
20 Distinguished Scholar Program	4,111,000	3,061,000	3,061,000	0	0%
21 Jack F. Tolbert Memorial Student Grant Program	200,000	200,000	200,000	0	0%
26 Hoffman Loan Assistance Repayment Program	1,528,331	1,492,895	1,492,895	0	0%
28 Maryland Loan Assistance Repayment Program for Physicians	614,166	770,000	770,000	0	0%
33 Part-time Grant Program	5,087,780	5,087,780	5,087,780	0	0%
36 Workforce Shortage Student Assistance Grants	1,254,775	1,254,775	1,254,775	0	0%
37 Veterans of the Afghanistan and Iraq Conflicts School	753,000	547,494	750,000	202,506	37.0%
<b>Total Expenditures</b>	<b>\$ 103,416,448</b>	<b>\$ 102,187,193</b>	<b>\$ 102,900,037</b>	<b>\$ 712,844</b>	<b>0.7%</b>
General Fund	\$ 101,590,360	\$ 100,145,647	\$ 97,713,486	-\$ 2,432,161	-2.4%
Special Fund	387,258	520,000	4,936,551	4,416,551	849.3%
Federal Fund	1,211,922	1,271,546	0	-1,271,546	-100.0%
<b>Total Appropriations</b>	<b>\$ 103,189,540</b>	<b>\$ 101,937,193</b>	<b>\$ 102,650,037</b>	<b>\$ 712,844</b>	<b>0.7%</b>
Reimbursable Fund	\$ 226,908	\$ 250,000	\$ 250,000	\$ 0	0%
<b>Total Funds</b>	<b>\$ 103,416,448</b>	<b>\$ 102,187,193</b>	<b>\$ 102,900,037</b>	<b>\$ 712,844</b>	<b>0.7%</b>

Note: The fiscal 2012 appropriation does not include deficiencies.