

**R62I0010**  
**Student Financial Assistance**  
Maryland Higher Education Commission

***Operating Budget Data***

(\$ in Thousands)

	<u>FY 15</u> <u>Actual</u>	<u>FY 16</u> <u>Working</u>	<u>FY 17</u> <u>Allowance</u>	<u>FY 16-17</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$98,458	\$101,064	\$103,143	\$2,079	2.1%
Deficiencies and Reductions	0	1,644	0	-1,644	
<b>Adjusted General Fund</b>	<b>\$98,458</b>	<b>\$102,708</b>	<b>\$103,143</b>	<b>\$435</b>	<b>0.4%</b>
Special Fund	6,027	1,665	1,665	0	
<b>Adjusted Special Fund</b>	<b>\$6,027</b>	<b>\$1,665</b>	<b>\$1,665</b>	<b>\$0</b>	<b>0.0%</b>
Reimbursable Fund	400	400	400	0	
<b>Adjusted Reimbursable Fund</b>	<b>\$400</b>	<b>\$400</b>	<b>\$400</b>	<b>\$0</b>	<b>0.0%</b>
<b>Adjusted Grand Total</b>	<b>\$104,885</b>	<b>\$104,774</b>	<b>\$105,208</b>	<b>\$435</b>	<b>0.4%</b>

- General funds increase \$0.4 million, or 0.4%, in fiscal 2017 after adjusting for a \$1.6 million deficiency restoring need-based financial aid initially reduced by cost containment in fiscal 2016.
- There is no change in special funds or reimbursable funds.
- The second supplemental budget, not shown above, adds \$3.0 million for a new merit-based scholarship program.
- There is also a \$0.3 million deficiency, also not shown above, for a prior year liability in the Janet L. Hoffman Loan Assistance Repayment 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 Need Varies:*** The percentage of students in the lowest 40% of median family income with unmet need is expected to decline 1 percentage point from fiscal 2016 to 42%. This slight decline comes in spite of very small increases in the federal Pell grant and growing student financial need.

***Number of Guaranteed Access Grant Recipients Increases:*** The number of students receiving Guaranteed Access Grants increased over 25.0% between fiscal 2008 and 2016, although awards fell 10.1% in fiscal 2013. Applications and awards have since rebounded from the unexpected decline in fiscal 2013, but awards are expected to be flat in fiscal 2017.

### **Issues**

***State Need-based Aid Reaches Far Fewer Students:*** Data collected by the Maryland Higher Education Commission (MHEC) on recipients of need-based State financial aid indicates that most aid is awarded to students with the lowest expected family contribution levels. However, the aid is reaching fewer students over time and a lengthy waitlist remains.

***Financial Aid and Affordability Examined:*** During the 2015 interim, the legislative education subcommittees and MHEC examined several issues related to college affordability, student debt, and student completion.

***New Advisory Committee Fails to Achieve Consensus:*** MHEC recently reconvened the Financial Aid Advisory Committee to help create recommendations to improve the administration and outcomes of State financial aid programs, such as changing the definition of a full-time student and proposing more equitable distributions of financial aid each year. But the group did not reach consensus on any actions in the 2015 interim.

## **Recommended Actions**

	<b><u>Funds</u></b>
1. Reduce general funds for Delegate Scholarships.	\$ 176,500
2. Adopt budget bill language transferring funding for a new scholarship program to need-based aid programs.	
<b>Total Reductions</b>	<b>\$ 176,500</b>

## **Updates**

***Recent Changes to Financial Aid Programs:*** The 2014 and 2015 legislative sessions brought about a few changes and new programs to MHEC – Student Financial Aid. This update will review modified and new programs.

***Net Price Calculators All in One Place:*** All Maryland institutions have the Net Price Calculators on their website now.

***R62I0010 – MHEC – Student Financial Assistance***

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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 and certain unique populations, and encourage students to major in workforce shortage areas. Maryland students use State financial assistance at community colleges, independent institutions, private career schools, and the State's public four-year campuses.

Financial aid comes in the form of grants, work study, student loans, parent loans, and scholarships from federal, State, private, and institutional sources. Grants and scholarships are aid that students do not have to pay back. Grants are usually given because a student has financial need, while scholarships are usually given to recognize the student's academic achievement, athletic ability, or other talent. Loans must be repaid, usually with interest. **Exhibit 1** shows current financial aid programs offered by OSFA. Update 1 summarizes recent legislative changes to OSFA programs in 2014 and 2015.

This analysis includes MHEC Student Financial Assistance Programs that provide:

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

A separate budget analysis entitled *Maryland Higher Education Commission* covers the personnel associated with administration of these financial aid programs, as well as other educational grant programs administered by the commission.

**Exhibit 1**  
**Financial Aid Programs in Fiscal 2016**

**Need-based**

Delegate Howard P. Rawlings  
Educational Excellence Awards

Guaranteed Access Grants

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

Educational Assistance Grants

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

Campus-based

Need-based 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.

Early College Access Grant Program

Need-based grants for students dually enrolled in a Maryland high school and a Maryland institution of higher education. (Unfunded.)

**Career-based**

Charles W. Riley and Emergency  
Medical Services Tuition  
Reimbursement Program

Tuition reimbursement for fire, ambulance, and rescue squad workers pursuing a degree in fire services or emergency medical technology. (Chapter 503 of 2013 converted the program to a scholarship effective October 1, 2015, for awards beginning in fiscal 2017.)

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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.
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**Loan Assistance Repayment Programs (LARP)**

Janet L. Hoffman	Loan repayment assistance for graduates of an institution of higher education in Maryland who work full-time for the government or the nonprofit sector in a priority field, as determined by the commission. Priority is given to recent graduates who are State residents and employed full-time principally providing legal services to low-income residents, nursing services in nursing shortage areas in the State, or other employment fields where there is a shortage of qualified practitioners for low-income or underserved residents. Recipients must meet income eligibility requirements as determined by the commission.
Nancy Grasmick Teacher Scholars (Part of Hoffman LARP)	Loan repayment assistance for those who currently serve in specified public schools or teach science, technology, engineering, or math and graduated from a Maryland university.
Primary Care Physicians and Physician Assistants	Loan repayment assistance for those who currently serve or who pledge to serve as primary care physicians or physicians assistants.
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 and Jean B. Cryor Memorial	Scholarships for certain military veterans or certain public safety personnel and for dependents of eligible public and nonpublic school employees.
Veterans of the Afghanistan and Iraq Conflicts Scholarship Program	Scholarships for United States Armed Forces personnel who served in the Afghanistan or Iraq conflicts; and their sons, daughters, or spouses attending a Maryland postsecondary institution.
Maryland First Scholarship	Scholarship for first-generation college students with financial need. (Unfunded.)

### *R62I0010 – MHEC – Student Financial Assistance*

Teaching Fellows of Maryland Scholarship	Scholarship for those pursuing a degree leading to a Maryland professional teacher's certificate. Requires service obligation. (Unfunded.)
2+2 Transfer Scholarship	Scholarship to provide an incentive for Maryland students to earn an associate's degree from a community college before enrolling in a four-year institution. Recipient must demonstrate financial need. Minimum GPA required.

#### **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**

### **1. Percentage of Neediest Students with Unmet Needs Varies**

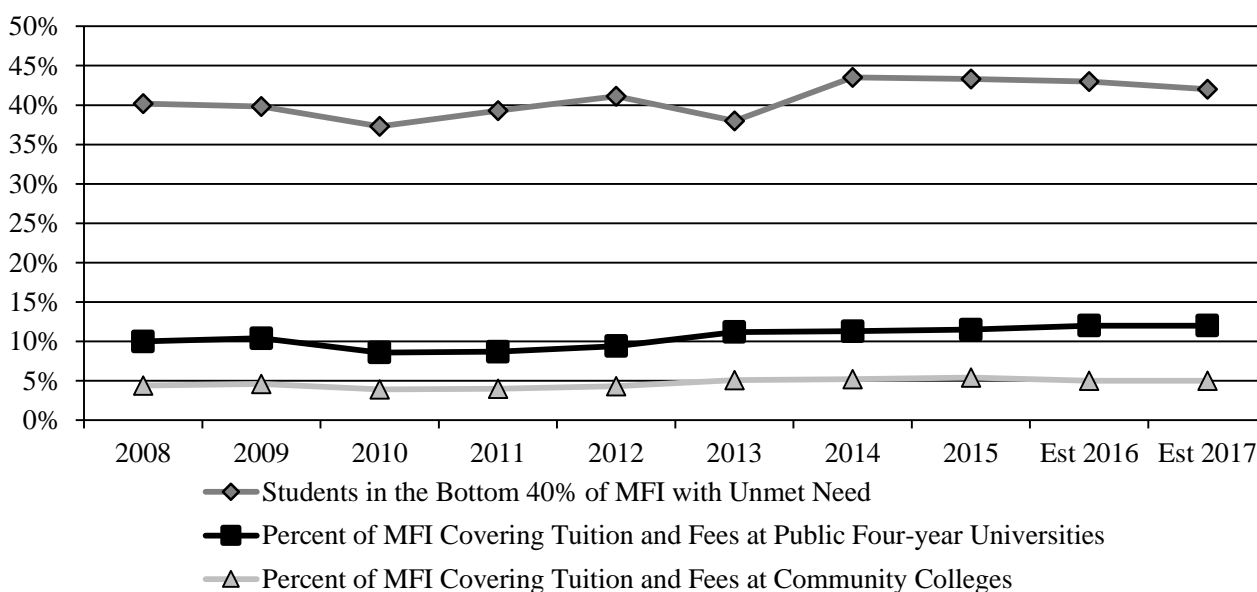
The State's financial aid programs play a critical role in facilitating access and reducing financial barriers to postsecondary education, especially for students from low- and moderate-income backgrounds. **Exhibit 2** shows the percent of students enrolled in a Maryland higher education institution in the lowest 40.0% of median family income in Maryland that have unmet need after all financial aid sources (including federal loans) are exhausted. Although the percentage of such students with unmet need notably declined by about 3.0 percentage points in both fiscal 2010 and 2013, it jumped 5.5 percentage points in fiscal 2014. The latest actual from fiscal 2015 is down slightly overall to 43.3%, but this remains exactly 6.0 percentage points above the 2010 rate. MHEC expects the percentage to decline in fiscal 2016 and 2017 to 43.0% and 42.0%, respectively, despite evidence of growing student need and an increase of only \$45 in the maximum Pell grant in the 2015-2016 academic year, the same as in the prior year. The Pell grant, a federal program, is an extremely important source of need-based aid for many Maryland students. Because State need-based programs are applied to student need after the federal Pell grant is considered, federal funding for the Pell grant program has a significant impact on how far State need-based financial aid will stretch each year. This strategy is called "last dollar" aid.

On the other hand, possible contributors to the expected decline in unmet need among low-income students include an increasing reliance on student loans to finance higher education and deferring enrollment in higher education entirely among the neediest students. An ongoing research



question for MHEC is how students with unmet need still manage to enroll. Exhibit 2 also shows the percentage of the median family income necessary to pay for tuition and fees at a Maryland public four-year institution. Due to tuition freezes and buy downs from fiscal 2007 through 2015 and the flat median income growth in Maryland, the rate is very close to 10.0% in all years, most recently at 11.5% in fiscal 2015. Community college costs have been about half as expensive, averaging about 5.0% over the same time period.

**Exhibit 2**  
**Percent of Neediest Students with Unmet Need Remaining**  
**Fiscal 2008-2017 Est.**



MFI: median family income

Note: MFI in Maryland was \$89,768 in 2014 according to the American Community Survey's one-year estimate.

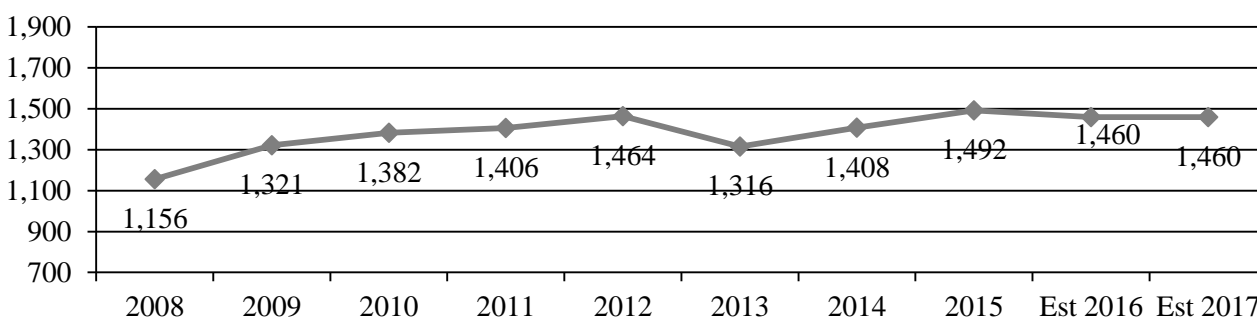
Source: Governor's Budget Books, Fiscal 2011-2016; Maryland Higher Education Commission

## 2. Number of Guaranteed Access Grant Recipients Increases

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 total cost of attendance (tuition, fees, and room and board) at the highest cost four-year University System of Maryland institution, excluding the University of Maryland, Baltimore and the University of Maryland University College. The maximum award in fiscal 2015 was \$16,500, and the maximum award in fiscal 2016 is \$17,500. Students that meet all program criteria, such as enrolling directly from

high school and having certain family income limits tied to the federal poverty level, are guaranteed funding. **Exhibit 3** shows that the number of GA grants awarded between fiscal 2008 and 2009 increased by 165, or 14.3%, although growth slowed from fiscal 2009 to 2012, before dropping by 148, or 10.1%, in fiscal 2013 for a total of only 1,316 awards. GA grants grew by 6.0% and 7.0%, respectively, over the next two years to reach a new program high of 1,492 awards in fiscal 2015. While one year ago, MHEC had projected awards reaching as high as 1,700 in fiscal 2016, it now projects a slight decline to 1,460 and level awards in fiscal 2017. Despite the drop in fiscal 2013, the total growth from fiscal 2008 to the 2015 actual is just under 30.0%.

**Exhibit 3**  
**Guaranteed Access Grants Awarded**  
**Fiscal 2008-2017 Est.**



Source: Governor's Budget Books, Fiscal 2011-2016; Maryland Higher Education Commission

## **Fiscal 2016 Actions**

### **Proposed Deficiency**

There are two deficiencies for MHEC – Student Financial Assistance. The first is \$0.3 million for the Janet L. Hoffman (Hoffman) Loan Assistance Repayment Program (LARP) for prior year unfunded liabilities. The second is for \$1.6 million and backfills EEA funding in fiscal 2016, which was reduced for cost containment. Both programs had lower than anticipated prior year cancellation rates leaving MHEC with not enough funding for the aid commitments it had made.

### **Cost Containment**

The second deficiency discussed above reflects the inability of MHEC to absorb its share of the 2% across-the-board cost containment action in fiscal 2016. As MHEC is primarily a grant pass-through agency, it had great difficulty in allocating a cut of approximately \$2.1 million because its administrative budget is only about \$6.5 million. MHEC ended up taking \$0.2 million in cuts within its administration and the remainder in financial aid programs. Prior to this, direct cost containment

actions had not been made to financial aid programs, while other MHEC grant programs, such as the Seller formula, were directly reduced.

## Proposed Budget

The Governor's proposed fiscal 2017 budget is shown in **Exhibit 4**. Overall, special funds and reimbursable funds do not change in the allowance. After adjusting for the fiscal 2016 deficiency for EEA, general funds increase \$0.4 million, or 0.4%. This includes \$0.4 million, or a 7.0% increase, for Delegate Scholarships. The other two changes in general funds, which nearly cancel each other out, are within the EEA program. An increase of \$1.7 million offsets the deficiency in fiscal 2016 already mentioned. Overall, there is an increase of \$22,000 in the EEA program, well under 0.1%. The backfilling of the deficiency is actually significant, given that the statute only requires at least 80.0% of the prior year's funding. Overall, with the notable exception of Delegate Scholarships, this means that all financial aid programs are level funded and thus are not keeping pace with expected tuition increases.

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

<b>How Much It Grows:</b>	<b><u>General</u> <u>Fund</u></b>	<b><u>Special</u> <u>Fund</u></b>	<b><u>Reimb.</u> <u>Fund</u></b>	<b><u>Total</u></b>
Fiscal 2015 Actual	\$98,458	\$6,027	\$400	\$104,885
Fiscal 2016 Working Appropriation	102,708	1,665	400	104,774
Fiscal 2017 Allowance	<u>103,143</u>	<u>1,665</u>	<u>400</u>	<u>105,208</u>
Fiscal 2016-2017 Amount Change	\$435	\$0	\$0	\$435
Fiscal 2016-2017 Percent Change	0.4%	0%	0%	0.4%
<b>Where It Goes:</b>				
<b>Other Changes</b>				
Need-based aid increase to offset loss of deficiency funding .....				\$1,666
Delegate Scholarships increase to accommodate undergraduate tuition increase .....				413
Removal of deficiency for need-based aid .....				-1,644
<b>Total</b>				<b>\$435</b>

MHEC: Maryland Higher Education Commission

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

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## **Supplemental Budget and New Scholarship Program**

In the second supplemental budget of fiscal 2017, \$3.0 million is provided for the Maryland Early Graduation Scholarship (MEGS) Program. MEGS was created by Executive Order 01.01.2016.03 in January 2016 and provides a one-time award of up to \$6,000 to public high school students who graduate in three years rather than four, and attend a postsecondary education institution in Maryland. The Maryland State Department of Education (MSDE) reports that about 1,000 students a year are currently graduating high school early in Maryland. The Department of Legislative Services (DLS) has a number of concerns about MEGS. The use of an executive order prevents review by the General Assembly prior to the creation of the program, and no legislation has been introduced to authorize this program. All other OSFA programs are in statute.

As the program was only recently announced, there are currently no regulations for the program, yet it is the intent of the Administration that the program be operable in time for the 2016-2017 academic year. As has been reported in DLS fiscal notes, it will take MHEC several months to modify and test its web portal to accommodate the new scholarship at a cost of around \$50,000. Under this accelerated timeline, students will not have much time to choose to graduate high school early, apply to college, and apply for scholarships; in fact, students who want to graduate early this spring, who would be the first students eligible for the scholarship, would have already made that decision well before the scholarship's announcement.

At a time when OSFA programs have grown only \$0.3 million, or 0.3%, from fiscal 2015 to 2017 and nearly all financial aid programs have been level funded for many years, it is not clear why the availability of substantial new funding was not instead allocated to existing or currently unfunded programs. Given recent budget constraints, Maryland phased out its merit based scholarship program in fiscal 2015. MEGS has no requirement that students demonstrate financial need, unlike all other current OSFA programs, which is inconsistent with the shift in focus of aid programs toward low-income students or students who demonstrate financial need. In fact, because there is no need required for this award, MHEC will not need to collect a Free Application for Federal Student Aid (FAFSA) and therefore MEGS recipients' expected family contribution (EFC) will not be known, unless the recipients happen to file a FAFSA for other forms of aid. This substantially decreases the ability of MHEC and the Maryland Longitudinal Data System to track the effectiveness of a large, new scholarship program over time.

The maximum award of \$6,000 for MEGS is quite large relative to other OSFA programs such as Educational Assistance Grant (EAG) (\$3,000) and 2+2 Transfer Scholarship (2+2) awards (\$2,000). Although encouraging students to use their senior year of high school to earn college credit is certainly in keeping with the College and Career Readiness and College Completion Act of 2013's policy goals, it is not clear how the program incentivizes students to graduate high school early, particularly in the short term. The College Board reports the average tuition and fees paid in fiscal 2016 for a two-year institution in Maryland is \$4,274 and for a four-year institution is \$9,163. Given the additional costs of books and room and board, a MEGS recipient could face substantial costs beyond the maximum award. Conversely, if the MEGS recipient stayed in high school for twelfth grade, the student could earn college credit through dual enrollment, Advanced Placement courses, or other means with only

limited out-of-pocket expenses. The early graduates are already eligible for all OSFA programs, so they do not risk losing any existing State funding.

**Given the late timing of the new MEGS program and because no bill has been introduced to authorize MEGS, DLS recommends that \$3.0 million in new MEGS funding be transferred to the Educational Excellence Awards Program to make additional need-based awards in fiscal 2017.**

MEGS is also unusual in that it does not specify that a student must take credit-bearing, or degree-seeking, coursework. If this is so, it would be the first program to allow Marylanders to take noncredit sequences at community colleges. Finally, for the first round of awardees in fall 2016, such students were already going to graduate from high school in three years, regardless of MEGS. The same may be true of the next awardees in fall 2017 who have to enroll in a particular sequence established by MSDE to graduate early with a high school diploma.

**The Secretary should comment on how MEGS would incentivize students to graduate early if they are seeking credit-bearing postsecondary education and how it incentivizes early high school completers in fall 2016 or 2017. The Secretary should comment on the demographics of students who would be eligible for MEGS, including their potential need for financial aid to enroll in postsecondary education, and on the decision to add \$3 million for a new merit-based program when need-based aid is level funded.**

### **Need-based Student Financial Assistance Fund**

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

In an October 2013 audit report for MHEC, the Office of Legislative Audits (OLA) reviewed the NBSFAF for the first time. Finding 1 in the new report raised concerns over the amount of funding built up. In academic year 2012-2013, there were over 16,000 applicants on EEA's waiting list and fund reserves of over \$17 million, but little funding was appropriated until deficiencies for fiscal 2013 were included in the fiscal 2014 budget bill. Concerns over funds building up in the NBSFAF were also raised by DLS in operating budget analyses for fiscal 2013 through 2016.

**Exhibit 5** shows the current balance of nonlapsing special funds in the NBSFAF in fiscal 2016, as well as fiscal 2014 and 2015. NBSFAF began with nearly \$9.9 million in carry forward funds from fiscal 2011 to 2012. While MHEC would like to keep a fund balance at the end of the fiscal year to ensure that it does not over award financial aid in any given year and require a general fund deficiency, as happened in fiscal 2016, MHEC allowed the fund balance to grow significantly in fiscal 2012 through 2014 with transfers totaling \$19.2 million. MHEC has since used the fund to backfill a loss of federal funds in fiscal 2012 through 2015 and to make additional awards to certain programs, mainly EEA, Veterans of Afghanistan and Iraq Conflict (VAIC), and Conroy awards.

**Exhibit 5**  
**Need-based Student Financial Assistance Fund**  
**Fiscal 2014-2016**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Cumulative Transfers<sup>1</sup></u>
<b>Opening Balance</b>	<b>\$17,221,338</b>	<b>\$5,159,196</b>	<b>\$412,620</b>	
<b>Transfers Out</b>				
2 + 2 Transfer			\$200,000	\$200,000
EEA	\$12,913,343	\$4,159,000		18,320,369
Conroy Memorial	550,000	250,000		1,195,426
VAIC Scholarship	660,177	634,973		1,600,525
<b>Subtotal</b>	<b>\$14,123,520</b>	<b>\$5,043,973</b>	<b>\$200,000</b>	<b>\$21,316,320</b>
<b>Transfers In</b>	<b>\$2,061,378</b>	<b>\$297,398</b>		<b>\$21,528,940</b>
<b>Closing Balance</b>	<b>\$5,159,196</b>	<b>\$412,620</b>	<b>\$212,620</b>	

EEA: Educational Excellence Awards

VAIC: Veterans of the Afghanistan and Iraq Conflicts

<sup>1</sup> Cumulative totals include numbers from fiscal 2012 through 2016.

Source: Maryland Higher Education Commission

While over \$8.0 million had been transferred into NBSFAF in fiscal 2011 and 2012, this declined to \$1.0 million and \$2.1 million, in fiscal 2013 and 2014, respectively. In fiscal 2015, only \$0.3 million was transferred in as MHEC rapidly spent down the fund balance due to the concerns raised by OLA. MHEC reports that about 40% of need-based awards were not accepted in the first awarding round in fiscal 2016, similar to prior years, despite strong evidence of student need in Maryland, as shown in Exhibit 2. While \$12.9 million in extra special funds were spent on need-based awards in fiscal 2014, only \$4.2 million was transferred for fiscal 2015 awards, and none has been transferred for this purpose in fiscal 2016. With total funds for fiscal 2016 awards below 2015, it is likely that there will be an even smaller amount of fund balance transferred into NBSFAF at the end of fiscal 2016. Assuming there are no further fiscal 2016 transfers, the NBSFAF fiscal 2017 opening fund balance will be only \$0.2 million, with \$0.2 million budgeted directly in the fiscal 2017 allowance for 2+2 awards.

In the past, MHEC has struggled to get institutions that receive the State awards as payment for the cost of attendance to certify the enrollment of the student awardee. With schools not verifying enrollment rosters in a timely manner, MHEC has unclaimed financial aid awards backing up that could be recycled for more awards, potentially in the same academic year. One ongoing effort of MHEC is solving this roster certification issue, as it will be critical for improving the outcomes of State financial aid. That so little funding was ultimately reverted to the NBSFAF in fiscal 2014 is surprising, given how late in the academic year that additional funding was made available for new awards. The timing

of MHEC's awarding cycle and the State's budgeting cycle can create difficulties in ensuring that funding is available at the right times of the year to make awards to students. If a student were to receive an award late in a semester, it is of significantly less use because the student has already decided whether to enroll and, if the student did enroll, that financial need was already covered through other means, such as student loans. Receiving a State award after a loan has already been drawn creates burdens for the student to figure out how to align the State award with other educational finances. The Financial Aid Advisory Committee (FAAC) was reestablished to tackle this issue and is discussed in Issue 3. **The Secretary should comment on resolving award certification issues.**

### **Loan Assistance Repayment Programs**

Although Maryland has not offered student loans since the 1980s, the State funds several LARPs for physicians, dentists, and other occupations, such as teaching and law. LARPs provide loan repayment assistance in exchange for certain service commitments to help ensure that there are sufficient numbers of skilled professionals working in underserved areas of the State or on behalf of low-income families. While most aid is focused on enrolling students, LARPs reward students for completing a degree and subsequently working in designated shortage areas. State funding for LARPs has been relatively flat, at about \$3.0 million, for several fiscal years, and the number of students receiving awards has remained relatively low. While MHEC makes about 60,000 financial aid awards per year, LARPs account for only about 200. Additional funding for LARPs could benefit many students due to a new requirement by the General Assembly that recipients must be enrolled in federal Public Service Loan Forgiveness (PSLF). If LARP awards are limited to the minimum payments required for the PSLF, it could stretch State funding even further. Georgetown University uses this strategy to assist its law school graduates.

Current LARP information by program is shown in **Exhibit 6**. The multi-year nature of awards, and that the dental LARP is budgeted within the Hoffman LARP's budget code, can make comparisons difficult. Because the Governor's Budget Books, by convention, show revenues always matching expenditures, it can be difficult to follow fund balances building up in the physicians' LARP program and to follow how many awards have been made. The exhibit shows the three LARPs do not appear to be spending the total appropriations in any given fiscal year. MHEC reports that the number of physician LARP awardees varies from year to year and all students do not receive both federal and State funds through the program, so award amounts may vary. Since funding is provided by both sources, the total appropriation within the program is higher and will only decrease if the number of eligible applicants increases. Also, in fiscal 2015 the maximum award amount was increased from \$25,000 to \$30,000. This allowed MHEC to expend a little more within the program, which is reflected in fiscal 2015.

**Exhibit 6**  
**Loan Assistance Repayment Programs**  
**Fiscal 2013-2016 Est.**

		<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Est.</u> <u>2016</u>
<b>Janet L. Hoffman</b>	Awards Made	\$838,700	\$1,458,200	\$997,300	\$941,800
	Annual Funding	\$1,136,795	\$1,136,795	\$992,895	\$1,032,795
<b>Physicians</b>	Awards Made	\$512,500	\$672,116	\$681,217	\$675,000
	Annual Funding	\$770,000	\$1,282,282	\$1,282,282	\$1,432,282
<b>Dentists</b>	Awards Made	\$356,100	\$332,360	\$356,100	\$356,100
	Annual Funding	\$356,100	\$356,100	\$356,100	\$356,100
	<b>Total LARP Awards</b>	<b>\$1,707,300</b>	<b>\$2,462,676</b>	<b>\$2,034,617</b>	<b>\$1,972,900</b>
	<b>Total LARP Funding</b>	<b>\$2,262,895</b>	<b>\$2,775,177</b>	<b>\$2,631,277</b>	<b>\$2,821,177</b>
	<b>Unused Funding</b>	<b>\$555,595</b>	<b>\$312,501</b>	<b>\$596,660</b>	<b>\$848,277</b>

Source: Maryland Higher Education Commission, Office of Student Financial Assistance

Prior to fiscal 2014, the amount of unspent funds within the Hoffman program had been modest and composed of cancellations and no waitlist awarding performed. In fiscal 2016, the estimated awards made are lower in comparison to total funding. This is because MHEC took cost containment within the program in fiscal 2015, but the award cancellation rate was lower than anticipated so MHEC covered the fiscal 2015 obligations with fiscal 2016 funds. The prior year deficiency, already mentioned, will cover the fiscal 2015 shortfall and free up the fiscal 2016 funding for awards to be made in fiscal 2016, so the final Hoffman award numbers should be higher than what is shown in Exhibit 6. The dental LARP's expenditures are very close to its appropriation in all years.

## **2+2 Transfer Scholarship Program Makes First Awards**

Chapter 340 of 2014 created the 2+2 Program, which rewards students for completing an associate's degree before transferring to a four-year institution to pursue a bachelor's degree. If the Governor does not provide at least \$2.0 million for this program, MHEC is required to transfer up to \$2.0 million from NBSFAF to fund it. The fiscal 2016 allowance provided no funding for the 2+2 Program, although MHEC accepted applications for the program. A total of \$0.2 million ended up being transferred from NBSFAF to make awards. However, initial results were disappointing, as only 137 awards were offered and 118 accepted in the lone round of awarding. This included 45 science, technology, engineering, and mathematics (STEM) awards and 73 non-STEM awards, totaling \$163,000. The Maryland Association of Community Colleges reported in its most recent data book that about 9,300 students were awarded transfer degrees in fiscal 2014 and that over 70,000 community college students were enrolled in transfer degree programs in fall 2014. Assuming



figures are similar in fiscal 2016, this suggests the first round of 2+2 awards reached about 1% of eligible students. The fiscal 2017 allowance includes \$0.2 million from NBSFAF for the program.

**The Secretary should comment on the number of applications for 2+2 awards so far for fiscal 2017 versus the prior year.**

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

For need-based aid in the 2017 allowance, general fund support barely increases over the adjusted 2016 working appropriations, and support from the NBSFAF is level at \$0.2 million, exclusively to fund 2+2 awards. As shown in **Exhibit 7**, need-based aid is essentially flat from fiscal 2015 through 2017, well behind the 5% to 7% increase in in-state undergraduate tuition at public four-year institutions in fiscal 2016 and the expected 2% increase budgeted for fiscal 2017. The Commission to Develop the Maryland Model for Funding Higher Education had recommended that need-based financial aid appropriations and average awards at least keep pace with tuition and fee increases. While the new 2013-2017 State Plan recommends further consideration of the Maryland Model, it puts forth no direct guidance or benchmarks for OSFA's programs.

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**Exhibit 7**  
**State Financial Aid Expenditures**  
**Fiscal 2007 and Fiscal 2014-2017**  
**(\$ in Thousands)**

	<u>2007</u>	<u>2014</u>	<u>2015</u>	<u>Working</u> <u>2016</u>	<u>Allowance</u> <u>2017</u>	<u>\$ Change</u> <u>2016-17</u>	<u>%</u> <u>Change</u> <u>2016-17</u>
Need-based Aid	\$83,818	\$90,963	\$86,094	\$86,252	\$86,274	\$22	0.0%
Merit-based Aid	4,331	1,387	771	0	3,000	3,000	
Career-based Aid	9,124	3,104	3,503	4,409	4,409	0	0.0%
Legislative Unique	11,349	11,945	12,111	12,392	12,805	413	3.3%
Populations	785	2,820	2,405	1,720	1,720	0	0.0%
<b>Total</b>	<b>\$109,408</b>	<b>\$110,219</b>	<b>\$104,885</b>	<b>\$104,774</b>	<b>\$108,208</b>	<b>\$3,435</b>	<b>3.3%</b>

Note: Includes \$1.6 million in deficiency funding in fiscal 2016 and the Maryland Early Graduation Scholarship in fiscal 2017.

Source: Financial Management Information System; Maryland Higher Education Commission

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Over the past decade, overall State aid has declined 1.1%, or \$1.2 million, mostly due to changes in merit-based and career-based awards. Need-based aid actually increased by 2.9%, or \$2.5 million. Legislative awards grew 12.8%, or \$1.5 million, and unique populations grew 119.0%, or \$0.9 million. Until MEGS, the State had been shifting its focus to need-based aid from merit-based aid. As also shown in Exhibit 7, need-based aid accounts for about 80.0% of all aid in fiscal 2017 compared to about 77.0% in fiscal 2007. This is due to some small increases in need-based aid but also the conclusion of the State's last merit program in fiscal 2015. All of Maryland's 10 competitor states offer merit scholarships of some kind at the state level, so MEGS will bring back a common type of aid.

Maryland is the only state to fund and operate a legislative scholarships program following the end of a similar program in Illinois in 2012. After accounting for approximately \$5.5 million in legislative carry-forward funds in fiscal 2016, both of Maryland's legislative award programs increase \$0.4 million, or 3.3%, in the allowance, entirely within the Delegate Scholarship Program which itself grows 7.0% in fiscal 2017. Delegate Scholarships are intended to keep pace with tuition increases at the most expensive public four-year institution. Fiscal 2016 Delegate Scholarships funding was 2 percentage points below the actual increase in tuition from the fall 2014 to fall 2015 semesters and fiscal 2017 funding is 5 percentage points higher than the expected increase in tuition from fall 2015 to fall 2016. Taken together, this means Delegate Scholarships is 3 percentage points higher in fiscal 2017 than is necessary to match tuition increases over the past two years. **DLS recommends reducing the Delegate Scholarships by \$176,500 so that this program increases to reflect no more than the actual tuition increase from fall 2014 to fall 2016, including mid-year tuition adjustments.**

Overall, MHEC expects to award aid to almost 52,000 recipients in fiscal 2016, a decrease of over 6,000 students, or 11%, from fiscal 2015, as shown in **Exhibit 8**. About two-thirds of this is due to fewer awards in the EAG program, partially due to flat funding. About one-third is due to a lower use of legislative scholarships, where the number of awards falls, but the average award increases by 13%, or \$227. Merit-based programs drop to zero awards in fiscal 2016 to reflect the phasing out of the Distinguished Scholars program. The number of awards made through career programs and unique population awards both decline, driving the average award size up in fiscal 2016. Fiscal 2017 numbers are projections based off of the allowance and generally illustrate trends MHEC expects to see in the coming year.

**The Secretary should comment on the cause of the decline in EEA awards from fiscal 2015 to 2016.**

**Exhibit 8**  
**Recipients of Student Financial Assistance**  
**Fiscal 2015-2017**

<u><b>Program</b></u>	<b>2015 Actuals</b>		<b>2016 Working</b>		<b>2017 Governor's Allowance</b>	
	<u><b>Rec.</b></u>	<u><b>Avg. Award</b></u>	<u><b>Proj. Rec.</b></u>	<u><b>Proj. Avg. Award</b></u>	<u><b>Proj. Rec.</b></u>	<u><b>Proj. Avg. Award</b></u>
<b>Need-based Aid</b>						
Educational Assistance Grant	28,456	\$2,101	24,308	\$2,392	27,500	\$2,114
Campus-based Educational Assistance Grant	1,125	1,778	1,125	1,778	1,125	1,778
Guaranteed Access Grant	1,492	12,216	1,419	12,896	1,425	12,842
2+2 Transfer Scholarship			115	1,739	200	2,000
Part-time Grant Program	7,134	713	7,000	848	7,000	848
Graduate and Professional Scholarship	533	2,204	530	2,216	530	2,216
<b>Subtotal</b>	<b>38,740</b>	<b>\$2,227</b>	<b>34,497</b>	<b>\$2,486</b>	<b>37,780</b>	<b>\$2,275</b>
Legislative Programs	18,322	\$1,335	16,195	\$1,402	17,125	\$1,315
Merit-based Programs <sup>1</sup>	261	2,954	0	0	500	6,000
Career and Occupational Programs	430	3,517	421	3,717	375	2,865
Unique Population Programs	654	2,625	606	2,508	640	2,427
Loan Assistance Repayment Programs	210	9,014	240	9,370	225	9,408
<b>Total</b>	<b>58,617</b>	<b>\$1,789</b>	<b>51,959</b>	<b>\$2,016</b>	<b>56,645</b>	<b>\$1,910</b>

Rec.: recipients

<sup>1</sup> Includes the Maryland Early Graduation Program in fiscal 2017.

Source: Maryland Higher Education Commission

## ***Issues***

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

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

**Exhibit 9** shows trends in the EAG appropriations and applicants from fiscal 2011 to 2016. After GA awards are made, about 70% of EEA funding remains for EAGs. While appropriations for EAGs remained fairly constant from fiscal 2007 through 2013, the NBSFAF increased the appropriation significantly in fiscal 2014 to \$91 million. At the same time, student need grew significantly over the past decade given increases in tuition and other costs as well as flat or declining family incomes during the Great Recession. The number of EAG applicants increased nearly 40% between fiscal 2010 and 2013, and those applying demonstrated greater financial need due to the economic recession. Total applications have declined substantially since fiscal 2013, from over 178,000 to about 131,000 in both fiscal 2015 and 2016.

**Exhibit 9**  
**Educational Assistance Grants**  
**Fiscal 2011-2016**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	% Increase <u>2011-</u> <u>2015-</u> <u>2016</u> <u>2016</u>	
Funds Awarded (\$ in Millions)	\$60.5	\$57.9	\$55.4	\$62.6	\$59.6	\$58.1	-4.0%	-2.5%
Applicants (on-time FAFSAs)	145,944	170,489	178,603	134,670	131,695	131,196	-10.1%	-0.4%
Initial Applicants with \$0 EFC	21,421	30,739	30,644	30,321	28,391	26,086	21.8%	-8.1%
Renewal Applicants with \$0 EFC	11,227	13,681	16,006	15,469	16,199	16,482	46.8%	1.7%
EFC Awarded <sup>1</sup>	5,516	1,500	3,750	10,709	2,610	2,860	-48.2%	9.6%
Waitlist <sup>2</sup>	18,504	31,000	30,865	10,196	22,097	19,030	2.8%	-13.9%

EFC: Expected Family Contribution

FAFSA: Free Application for Federal Student Aid

<sup>1</sup> The numbers are maximum for which awards are made and as of the last round of aid awards in December of each year.

<sup>2</sup> As of May 1, students who are eligible for the Educational Excellence Award and are placed on the waitlist for receiving an award 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.

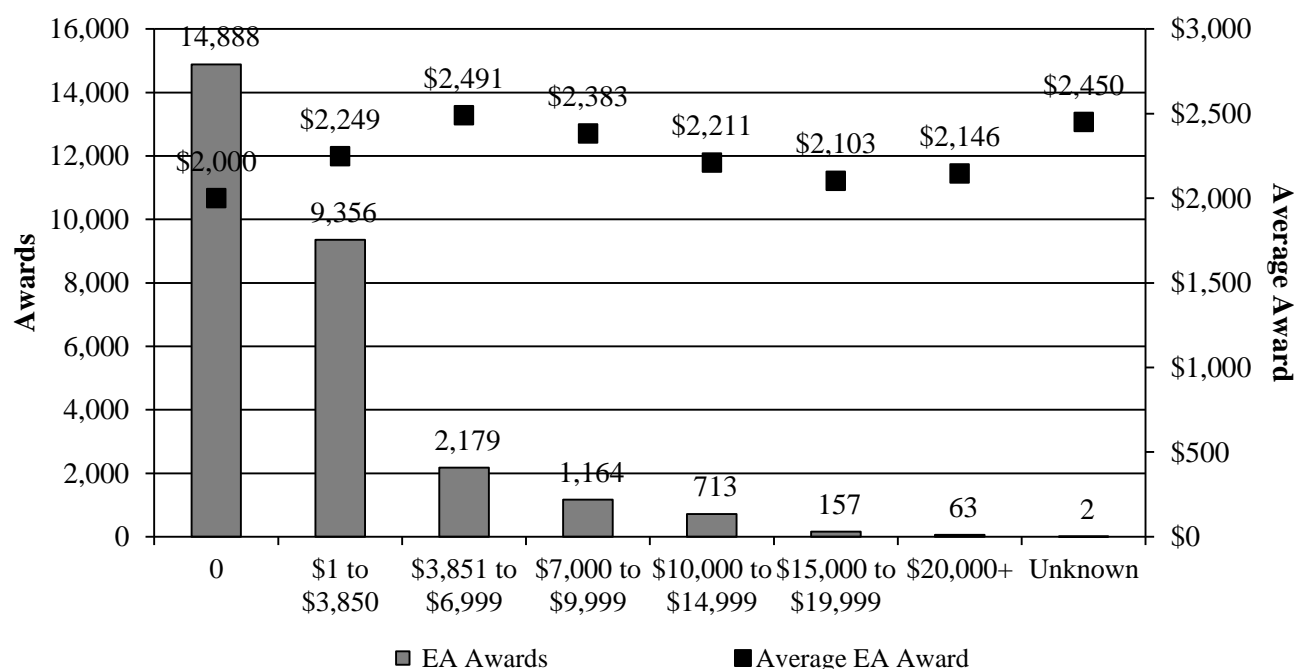
Source: Maryland Higher Education Commission

Currently, over 26,000 students have applied in fiscal 2016 with \$0 EFC, which is down from a high of over 30,000 students in fiscal 2012. As a result of growing student need, EAG aid has become concentrated in lower EFCs each year. In fiscal 2016, to date, MHEC has awarded new EAGs to students with EFCs up to \$2,860, which is similar to the level reached in fiscal 2015, but well below what the extra special fund money allowed fiscal 2014 to reach.

From fiscal 2010 through 2013, the EFC maximum for which awards were made had dropped to as low as \$1,500, with the waitlist growing to over 30,000 students in two years. As of fiscal 2014, the waitlist declined to about 10,000 students due to more aggressive awarding and low cancellation rates, although some students that dropped off the list ceased to qualify for aid because they did not enroll full-time at Maryland institutions. The current waitlist in fiscal 2016 is about 19,000 students, which reflects an EFC cutoff of \$17,500, the equivalent of the maximum GA award, which is the cost of attendance at the most expensive public four-year institution. MHEC implemented the EFC cutoff for the first time in 2016 in order to provide a more realistic waitlist of students likely to receive aid. Potential changes to the EAG program will be discussed in Issue 3 of this analysis.

The EAG 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 fixed at \$3,000. From fiscal 2010 to 2014, after GA awards, about \$55 million to \$60 million remained in the EEA appropriation for EAGs. **Exhibit 10** shows the number of recipients and average award in fiscal 2015 by EFC category. The maximum EFC for federal Pell grant eligibility increases periodically, with the maximum EFC in fiscal 2015 being \$5,775. Students with EFCs below this level have the greatest need. The greatest number of EAGs were made to students in the \$0 EFC category. As EFC increases, the number of EAGs awarded decreases. As shown in Exhibit 9, MHEC was only able make *new* awards to students with EFCs up to \$2,610 in fiscal 2015, although Exhibit 10 shows a small number of awards made to students with higher EFCs due to renewal awards from prior years, especially fiscal 2014, which had an EFC cutoff of \$10,709.

**Exhibit 10**  
**Educational Assistance Awards by Expected Family Contribution**  
**Fiscal 2015**



EA: Educational Assistance

Note: Does not include campus-based Educational Excellence Awards and Guaranteed Access Grants awards.

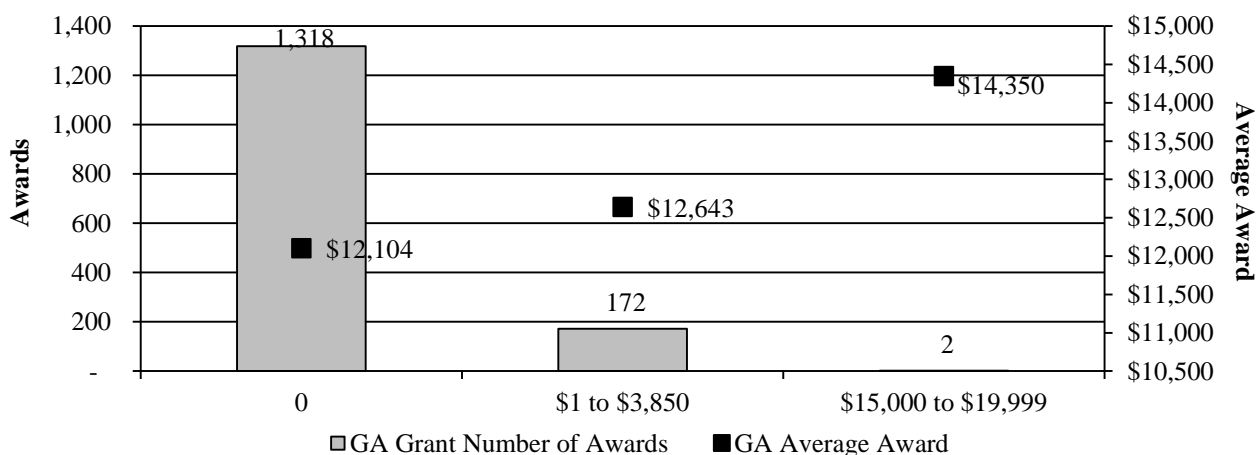
Source: Maryland Higher Education Commission, Maryland College Aid Processing System

Students with \$0 EFC, on average, receive \$491 less than students with EFCs of \$3,851 to \$6,999 or more. MHEC attributes this to the federal Pell grant, which students with EFCs below

\$5,157 are likely to receive. Because the EAG is based on student need after federal Pell grants are accounted for, those with low EFCs often qualify for smaller EAG awards. However, it is not clear why the highest EFC category shows an increase over the preceding EFC category.

**Exhibit 11** shows GA grants, which cover 100% of need when combined with a federal Pell grant for the State's lowest income students. Program eligibility is determined, in part, by a student's total annual family income, which may not exceed 130% of the federal poverty level for initial awardees and 150% of the federal poverty level for renewals. Almost all students receiving aid through this program have EFCs of \$3,850 or less. Because the program covers the full cost of attendance, GA grants with \$0 EFC are \$12,104, compared to \$2,000 from EAGs to students with the same EFC. About 52% of EAG recipients had a \$0 EFC versus about 88% for GA recipients. The two GA awards made to higher EFCs are likely older awards passing through the system that have seen EFC changes occur and may be the same two that were reported in the fiscal 2014 data.

**Exhibit 11**  
**Guaranteed Access Grant Awards by Expected Family Contribution**  
**Fiscal 2015**



GA: Guaranteed Access

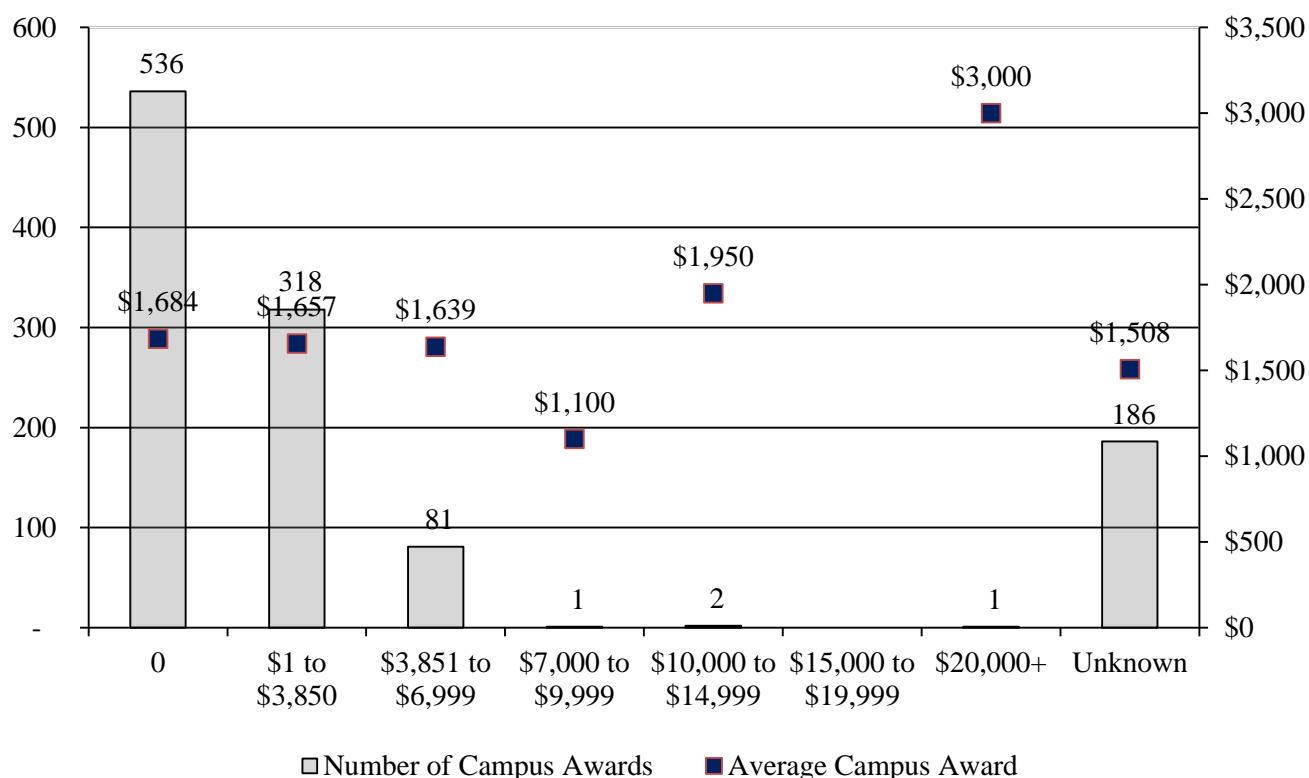
Source: Maryland Higher Education Commission, Maryland College Aid Processing System

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

**Exhibit 12** shows campus-based EAGs, which are provided with \$2.0 million per year out of the total EEA program. This funding is given to campuses for students who apply later than March 1 for financial assistance. Overall, most campus EAGs go to the two lowest EFCs, but there is a notable bump in the unknown EFC category. This is likely due to institutions awarding aid to students whose families have low enough incomes that they do not need to file State or federal tax forms, so while the student technically has an unknown EFC, it is most likely effectively \$0. This would make such

students Pell eligible, but does not fully account for why the award amounts would be lower for students in the unknown category than those students in the \$0 EFC category. Because this funding is awarded later in the cycle, that is, closer to the start of the academic year, it greatly benefits students who make later decisions about enrolling, who are often first-generation students.

### Exhibit 12 Campus Educational Assistance Awards by Expected Family Contribution Fiscal 2015



EA: Educational Assistance

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

EFC and award outcomes for some other OSFA programs are shown as **Appendices 1** through **3** of this analysis. These programs generally provide more assistance to students with higher EFCs. **The Secretary should comment on the effects of level funding need-based aid in fiscal 2017 and what this means for resolving the waitlist, which remains large even with the new EFC cutoff implemented.**



## **2. Financial Aid and Affordability Examined**

The education subcommittees of the budget and policy committees in the Senate and House held a series of meeting on college affordability during the 2015 interim, including a policy briefing by DLS and national and state experts on financial aid and student debt. The committees focused on making need-based aid more effective by tying it to improved outcomes, such as higher completion rates, and helping financially needy students with excessive student loan debt. Legislation has been introduced – the College Affordability Act of 2016 (SB 676 and HB 1014) that would require students to take 15 credits per academic year (including the summer term) to be considered enrolled full-time. It also establishes a \$5,000 tax credit for students with at least \$20,000 of student debt. The Governor has also proposed a plan to use State housing program funds to help students refinance student loan debt when purchasing a house (SB 381 and HB 460). In addition, bills have been introduced to establish or study the establishment of a student loan refinancing authority in the State.

In the 2015 interim, MHEC, with the reconstituted FAAC, also examined several financial aid issues on its own and as part of *Joint Chairmen’s Reports* (JCR). One response entitled “*Implications of Changing FAFSA Deadline and Distribution of Financial Aid Awards*,” considered changing State financial aid award application deadlines. However, in September 2015, a significant change was announced to the FAFSA, so the JCR partly responds to that.

In December 2014, FAAC recommended moving the FAFSA deadline for State awards to sometime later than March 1, the current due date, to provide students more time to decide whether to pursue higher education during their senior year of high school. GA applicants who apply late are eligible for an award as long as funding remains. However, if a GA application is not completed correctly, the student goes into the EAG pool of applicants. Currently, 35% of students miss the State’s FAFSA deadline and are then not eligible for State awards, even though they may demonstrate high need. If the due date was pushed back, more students could file for State awards. Complicating this issue, in September 2015, the federal government announced the allowance of prior prior-year data for filling out the FAFSA. This will enable students and families to fill out the FAFSA significantly earlier, in October rather than January or February, which will speed up the financial aid awarding cycle. This should give students more information before regular admissions decisions must be made, generally in April for selective institutions and later for other institutions, but may also significantly increase the number of students applying for State awards. For this reason, FAAC, in responding to the 2015 JCR request decided to wait and see how prior prior-year data affects State financial aid applications before recommending further changes. The concern is that having both due dates move in the same application cycle would cause undue confusion and make awarding more unpredictable, given that more students may file the FAFSA on-time and be eligible for an award.

Before the prior prior-year data announcement, MHEC had contacted five states (Illinois, Indiana, Kansas, Massachusetts, and Minnesota) to inquire about their respective due dates and state aid management systems. Although Illinois has a “first-come, first-serve” process starting on January 1, Maryland has the earliest actual deadline of March 1. Indiana uses March 10, Kansas uses April 1, and Massachusetts uses May 1. Minnesota has a very sophisticated awarding system that allows students to apply for state aid until the thirtieth day of the academic term, many months later

than the other states surveyed. How each of these states responds to prior prior-year data was not available in time for the JCR. Ultimately, MHEC recommends no changes to the due date at this time.

## **Financial Aid, Debt, and Success**

Financial aid data from the most recent closed out fiscal year from MHEC's Financial Aid Information System was again not ready for use during the 2016 legislative session. DLS, in the Higher Education Overview, recommended that this information be submitted by July 1, 2016, and for fiscal 2016 information to be submitted by June 30, 2017. MHEC has informed DLS that it is working on additional financial aid reports that build off of prior JCR requests from fiscal 2013 through 2015 that explored the relationship between successful students and their financial aid characteristics. MHEC is conducting a study of per-student debt that will consider first-time, full-time (FT/FT) students enrolled at Maryland public four-year colleges and universities entering in fall 2008 and follows them forward for six academic years, through academic year 2013-2014. The analysis includes students who graduated as well as those who did not graduate. The final report, which will include detailed data and additional analysis, is expected to be released in March 2016. A similar analysis of borrowers at community colleges is expected to follow shortly thereafter.

**Exhibit 13** summarizes some of the information MHEC is reviewing. Overall, there were 15,100 FT/FT students in the analysis group. Of that amount, 9,455, or about 5 out of every 8 students (62.6%), had at least some debt. The median debt per borrower was \$20,500 and the average debt per borrower was \$29,593. However, the average debt for all enrolled students, with or without loans, was \$18,530. This is substantially below the number reported by the Project for Student Debt for the class of 2014, which had Maryland at \$27,457, although the latter figure only looked at the debt of graduates in a given year rather than all enrolled FT/FT students. This suggests FT/FT students are graduating with less debt, which makes sense as they are enrolled full time. MHEC reports that about 75.0% of borrowers (85.0% of all students) incurred less than \$40,000 in debt, and less than 3.0% of borrowers (less than 2.0% of all students) incurred \$100,000 or more. This matches national research that students with six-figure debt loads are actually very uncommon at the undergraduate level.

Data from the University System of Maryland (USM) also indicates that six-figure debt is very rare, occurring in only 2% of FT/FT students who enrolled in fall 2008 and had graduated at the end of 2014, the same timeframe as the MHEC study but only graduates. Nearly half or 43% had no debt, while 20% had less than \$20,000 in debt, 13% had \$20,000 to \$30,999 in debt, 11% had between \$31,000 and \$50,000 in debt, and the remaining 13% had debt over \$50,000 (2% over \$100,000 debt). USM also looked at transfer students in fiscal 2011 and found many students were still incurring high debt loads from the four-year institution. Overall, about 40% had no debt, 30% had loans of under \$20,000, and 30% had loans between \$20,000 and \$99,999. This suggests financial aid policy may want to focus on low-income full-time students and transfer students to minimize the debt burden on those populations rather than broad aid programs open to anyone.

**The Secretary should comment on MHEC's research agenda for the 2016 interim. The Secretary should also comment on how MHEC will contribute to a deeper analysis of the distribution of student loan debt across public and private institutions in Maryland, including transfer students.**

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**Exhibit 13**  
**MHEC Student Loan Study**  
**First-time, Full-time Students Enrolled in Maryland Public Four-year Colleges and Universities**  
**2008 Cohort**

<u>Total Student Loan Amount</u>	<u>Number of Students with Loans</u>	<u>% of Students with Loans</u>	<u>% of All Students</u>
\$0	0	0%	37.40%
\$1-\$20,000	4,224	44.70%	28.00%
\$20,000-\$39,999	2,929	31.00%	19.40%
\$40,000-\$59,999	1,125	11.90%	7.50%
\$60,000-\$79,999	612	6.50%	4.10%
\$80,000-\$99,999	312	3.30%	2.10%
\$100,000 or more	253	2.70%	1.70%

MHEC: Maryland Higher Education Commission

Note: Data is preliminary.

Source: Maryland Higher Education Commission

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### **3. New Advisory Committee Fails to Achieve Consensus**

The 2013 through 2015 JCRs requested MHEC to examine aspects of financial aid awarding in Maryland, such as the application process, eligibility, number of recipients, award amounts, program expenditures, the waitlist, and due dates. The 2013 and 2014 JCRs in particular asked MHEC to consider how it could improve the management and outcomes of aid programs. MHEC turned to the FAAC to review these issues and to write the 2014 JCR response, which also restricted \$100,000 pending the submission of that report.

Although FAAC had not met in about five years, despite its statutory mission, it found agreement across several large issues in OSFA programs that became a series of recommendations in the December 2014 JCR response, written as a consensus of FAAC. FAAC's membership included representatives from two- and four-year institutions, as well as independent institutions.

Reviewing and improving financial aid programs is imperative, because current outcomes from OSFA funding are either uncertain or unsatisfactory. For example, of the 542 GA Grant recipients in 2008, only 30% graduated in four years and 49% in five years, despite the State meeting the full cost of attendance for these students. While lowering the award amount to make more awards was discussed, FAAC did not pursue this option. Rather, FAAC recommended mandatory advising each semester the GA Grant is received, and to have MHEC work with campuses to ensure that GA Grant recipients get connected to work study opportunities which have a positive correlation to on-time

graduation rates. In February 2016, independent institutions made a new commitment to fully fund the remaining cost of attendance for GA recipients with the Guaranteed Access Partnership Program and to provide academic support for these students.

FAAC proposed two major changes in its 2014 report. First was a recommendation that 15 credits should be the minimum for achieving full-time enrollment, rather than the 12 credit standard that the federal government and MHEC now use. The problem with the 12 credits per semester standard, what is generally considered full-time equals only 96 credits over four years, whereas 120 are required for a bachelor's degree. Complete College America and some states like Hawaii and Minnesota have pushed a "15 to Finish" campaign to encourage students to stay on time by enrolling in 15 credits per semester. Going forward, students enrolling in 12 credits in Maryland would receive a prorated amount of the State award, just not the maximum amount. This should provide an incentive for 15-credit enrollment and improve completion rates.

The second big change concerned award renewals. Historically, need-based award renewals have used up 60% of the total appropriation, which does not leave much funding for new entering cohorts of students. Currently, EAG renewals are automatic, regardless of the student's EFC after the initial award. FAAC has proposed that a fairer distribution of limited State funds would consider EFCs in *each year*. This would mean a student could lose an EAG if that student's EFC was above the annual final EFC cutoff as determined by MHEC. If MHEC adopted this policy, MHEC could make awards to students on the waitlist no later than July of each year, thus creating an opportunity to have more students from the waitlist awarded and accepted prior to the start of the fall semester. This is a methodology used in West Virginia, one of the states FAAC consulted during the interim. By eliminating automatic renewals, MHEC could create greater consistency within its need-based programs because all students meeting the March 1 deadline for State aid would have an equal opportunity to receive an EAG award, based on the EFC cutoff set by MHEC. The higher amount of EAG awards made in fiscal 2014 created more demand for renewals in fiscal 2015 and later years.

While FAAC was supportive of these two measures one year ago, during the 2015 interim no progress was made. Monthly meetings were held, and discussion involved other states, as noted in the previous issue on the FAFSA due date, but ultimately FAAC could not find a firm consensus across all sectors on changing the full-time definition or modifying the automatic renewal criteria. MHEC did implement a waitlist cutoff, but that was done mostly on its own without FAAC. To date, no significant changes were put in place for the fall 2015 award cycle or the fall 2016 cycle that directly affect students.

One other issue FAAC reviewed was certifying the residency of awardees. A concern from OLA in 2013, besides the buildup of funds in the NBSFAF, is that schools must certify enrollment and residency of awardees in September for the student to receive the award. In this process, MHEC had not been verifying the residency status of awards made, raising the possibility of improper financial aid awards being awarded. In order to meet the residency requirement, MHEC worked with FAAC to better understand why it takes a long time for institutions to certify rosters of awardees and how MHEC can then verify the results that are submitted. In the fall of 2015, MHEC verified the residency status of 5% of all EEAs and will ramp up to 100% verification by fall 2017. In order to receive awards, current statute dictates that institutions must do 100% verification. FAAC worked out new residency

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guidelines for students in the 2015 interim and will work with MHEC to identify the best process to transition the auditing to institutions beginning in fall 2018.

**The Secretary should comment on progress toward implementing any of the recommendations of FAAC from the December 2014 JCR response and what FAAC will consider during the next interim.**

## ***Recommended Actions***

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- |   | <b><u>Amount<br/>Reduction</u></b> |    |
|---|------------------------------------|----|
| 1. Reduce general funds for Delegate Scholarships.  | \$ 176,500                         | GF |
| 2. Add the following language to the general fund appropriation:<br><br><u>, provided that \$3,000,000 of this appropriation made for the purpose of the Maryland Early Graduation Scholarship Program may not be expended for that purpose but instead may only be transferred to the Educational Excellence Awards Program for need-based financial aid. Funds not expended for this restricted purpose may not be transferred by budget amendment or otherwise to any other purpose and shall be canceled.</u> |                                    |    |

**Explanation:** Because of the timing of the creation of the Maryland Early Graduation Scholarship program and because no legislation has been introduced to authorize the program, \$3.0 million of funding is transferred to an existing financial aid program in statute with a waitlist that will be able to spend this funding in fiscal 2017.

<b>Total General Fund Reductions</b>	<b>\$ 176,500</b>
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## ***Updates***

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### **1. Recent Changes to Financial Aid Programs**

The 2014 and 2015 legislative sessions brought about changes to existing programs and brand new programs to MHEC – Student Financial Aid.

- Chapter 340 of 2014 renamed the defunct Community College Transfer Scholarship to be the 2+2 Transfer Scholarship. It requires the award be available to a student transferring to a four-year institution with an associate's degree and that, if the Governor does not provide funding, it will draw resources from the NBSFAF.
- Chapter 543 of 2014 renamed the Maryland Teacher Scholarship to be the Teaching Fellows of Maryland Scholarship and requires institutions to provide matching funds for this program. The maximum award is the full cost of attendance – tuition, fees, room, and board.
- Chapter 647 of 2014 created the Ruth M. Kirk Public Social Work Scholarship, which exists within the Workforce Shortage Student Assistance grant. This makes social workers eligible for such an award.
- Chapter 341 of 2015 created a new waiver at community colleges for victims of human trafficking. Students who meet certain conditions now do not have to pay out-of-county or out-of-region fees.
- Chapter 201 of 2015 established the Maryland Higher Education Outreach and College Access Pilot Program. It will encourage low-income Maryland high school students to attend and complete college through several means, including creating an equal matching fund for nonprofit organizations to access in order to increase college outreach services to low-income students. While not directly a financial aid program, it may increase the number of low-income students who apply for OSFA programs.

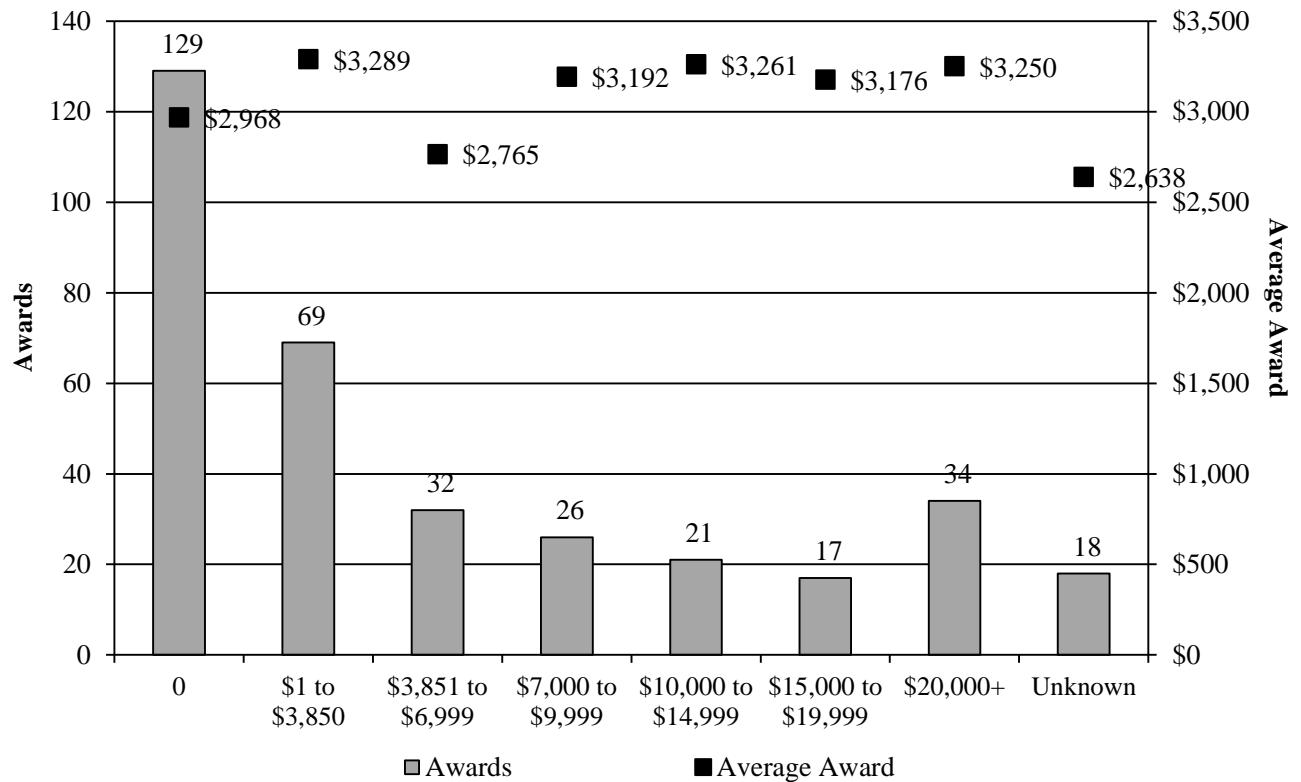
### **2. Net Price Calculators All in One Place**

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

All Maryland institutions have the NPCs on their websites, but implement them in different ways. Bowie State University and Salisbury University send users to websites of external vendors which manage the NPC, whereas Coppin State University and Towson University keep users on the institutions' websites. Previously, it was cumbersome for an individual student to compare all calculators across all Maryland institutions. A JCR charge instructed MHEC to look at whether it could manage a centralized listing of all NPCs for public and independent institutions in Maryland. MHEC's *Consolidated Maryland Net Price Calculator Information*, notes that as of December 2015, all NPCs are shown on the MHEC and MDGo4It websites. Both websites were also recently redesigned, so the NPCs are part of updated content meant to provide faster, more accurate information to prospective students and families. While MHEC can link to these resources, it is up to the institutions to provide timely and accurate information for their respective NPCs. The most recent NPC template issued by the federal Department of Education in January 2016 is meant for academic year 2014-2015 data.

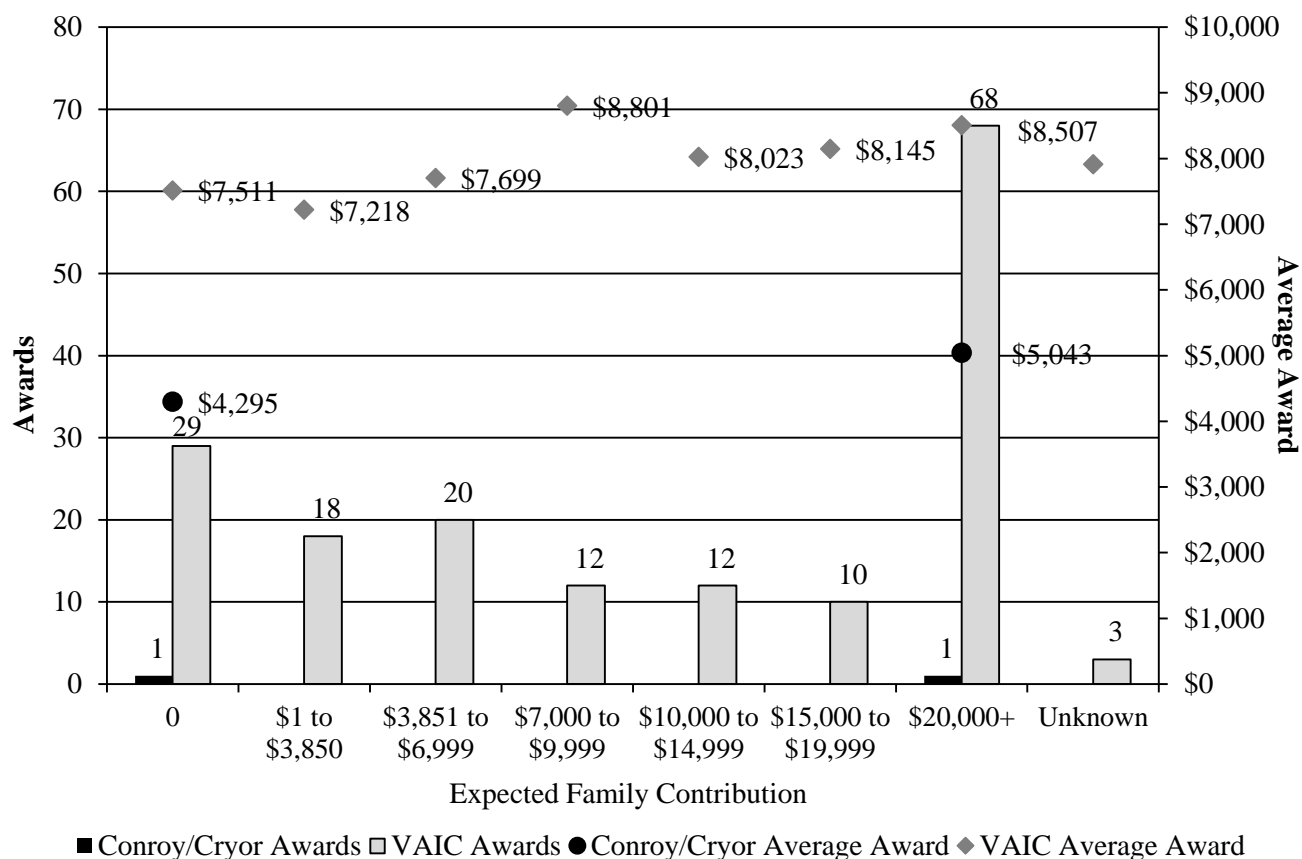


### Workforce Shortage Awards by Expected Family Contribution Fiscal 2015



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

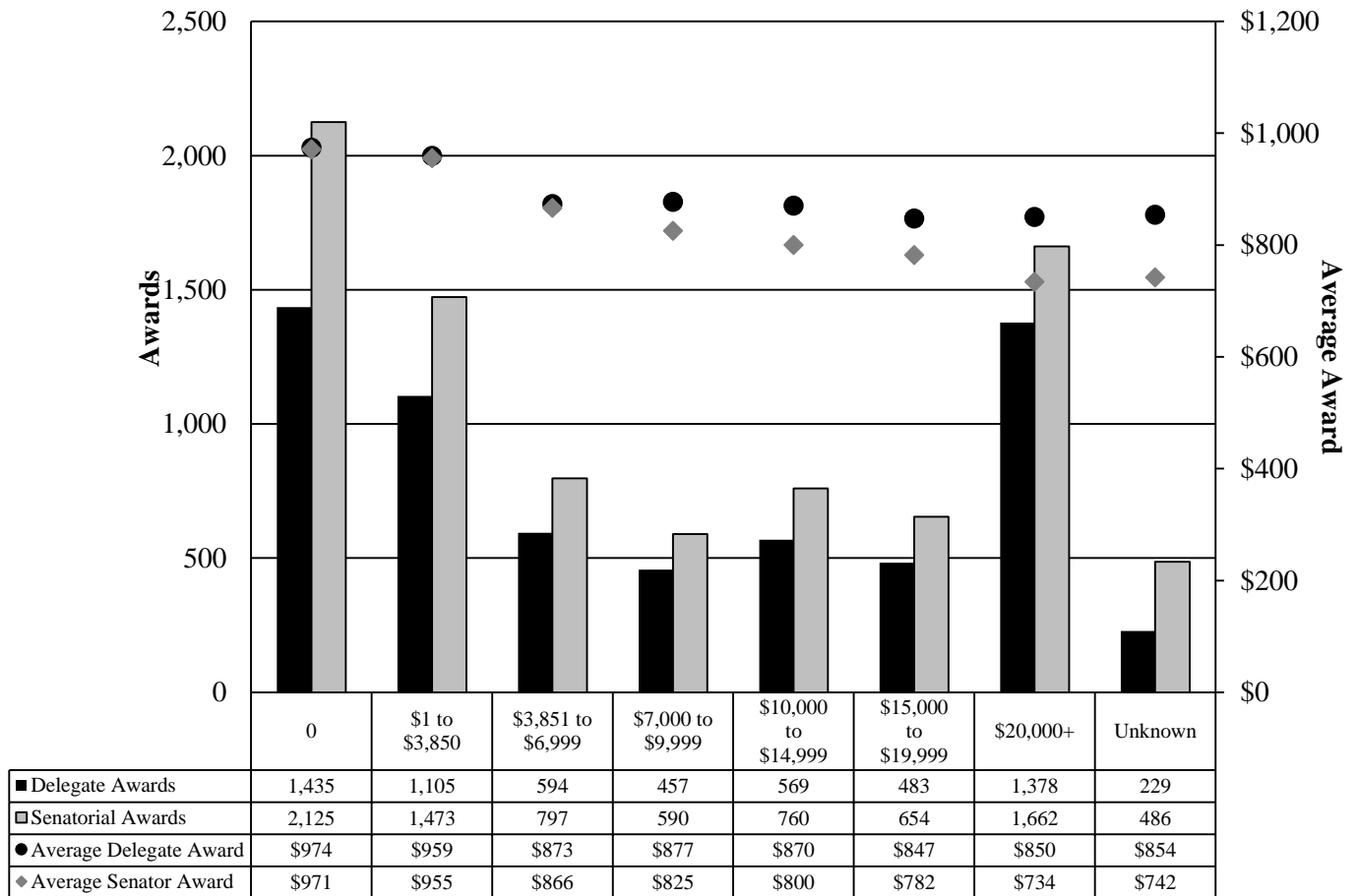
### Unique Population Awards by Expected Family Contribution Fiscal 2015



VAIC: Veterans of the Afghanistan and Iraq Conflicts Scholarship Program

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

### Legislative Awards by Expected Family Contribution Fiscal 2015



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

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

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### **Current and Prior Year Budgets MHEC – Student Financial Assistance (\$ 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 2015</b>					
Legislative Appropriation	\$100,421	\$1,390	\$0	\$250	\$102,062
Deficiency Appropriation	0	0	0	0	0
Cost Containment	-1,960	0	0	0	-1,960
Budget Amendments	0	5,399	0	150	5,549
Reversions and Cancellations	-3	-763	0	0	-766
<b>Actual Expenditures</b>	<b>\$98,458</b>	<b>\$6,027</b>	<b>\$0</b>	<b>\$400</b>	<b>\$104,885</b>
<b>Fiscal 2016</b>					
Legislative Appropriation	\$100,864	\$1,465	\$0	\$400	\$102,730
Budget Amendments	200	200	0	0	400
<b>Working Appropriation</b>	<b>\$101,064</b>	<b>\$1,665</b>	<b>\$0</b>	<b>\$400</b>	<b>\$103,130</b>

MHEC: Maryland Higher Education Commission

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

## **Fiscal 2015**

General funds decrease about \$2.0 million due to two rounds of across-the-board cost containment efforts by the Board of Public Works: EEA (\$1.3 million); Hoffman (\$0.5 million); and Workforce Shortage Assistance Grants (\$0.1 million). About \$3,000 in general funds were reverted to the NBSFAF to align expenditures with revenues due to canceled awards in the Hoffman program.

The special fund appropriation increased by \$5.4 million as carry forward funds were transferred to the current fiscal year: EEA (\$4.2 million); VAIC Scholarship (\$0.8 million); Edward T. Conroy Memorial Scholarship Program (\$0.3 million); and Hoffman (\$0.2 million). About \$0.8 million in special funds were canceled as the appropriation was larger than the amount of financial aid awards made and accepted.

Reimbursable funds increased \$0.2 million to reflect receipt of funds from the Department of Health and Mental Hygiene per an ongoing memorandum of understanding for health field financial aid awards.

## **Fiscal 2016**

To date, the general fund appropriation has increased \$0.2 million to redistribute cost containment from need-based financial aid programs to the administrative budget program for MHEC. The special fund appropriation has also increased \$0.2 million to fund the new 2+2 Program.

**Object/Fund Difference Report  
MHEC – Student Financial Assistance**

<u>Object/Fund</u>	<u>FY 15 Actual</u>	<u>FY 16 Working Appropriation</u>	<u>FY 17 Allowance</u>	<u>FY 16 - FY 17 Amount Change</u>	<u>Percent Change</u>
<b>Objects</b>					
08 Contractual Services	\$ 0	-\$ 1,868,000	\$ 0	\$ 1,868,000	-100.0%
12 Grants, Subsidies, and Contributions	104,885,010	104,997,532	105,208,282	210,750	0.2%
<b>Total Objects</b>	<b>\$ 104,885,010</b>	<b>\$ 103,129,532</b>	<b>\$ 105,208,282</b>	<b>\$ 2,078,750</b>	<b>2.0%</b>
<b>Funds</b>					
01 General Fund	\$ 98,458,365	\$ 101,064,250	\$ 103,143,000	\$ 2,078,750	2.1%
03 Special Fund	6,026,645	1,665,282	1,665,282	0	0%
09 Reimbursable Fund	400,000	400,000	400,000	0	0%
<b>Total Funds</b>	<b>\$ 104,885,010</b>	<b>\$ 103,129,532</b>	<b>\$ 105,208,282</b>	<b>\$ 2,078,750</b>	<b>2.0%</b>

MHEC: Maryland Higher Education Commission

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

**Fiscal Summary**  
**MHEC – Student Financial Assistance**

<u>Program/Unit</u>	<u>FY 15 Actual</u>	<u>FY 16 Wrk Approp</u>	<u>FY 17 Allowance</u>	<u>Change</u>	<u>FY 16 - FY 17 % Change</u>
09 2+2 Transfer Scholarship Program	\$ 0	\$ 200,000	\$ 200,000	\$ 0	0%
10 Educational Excellence Awards	79,832,243	78,345,525	80,011,525	1,666,000	2.1%
12 Senatorial Scholarships	6,486,000	6,486,000	6,486,000	0	0%
14 Edward T. Conroy Memorial Scholarship Program	820,474	570,474	570,474	0	0%
15 Delegate Scholarships	5,625,000	5,906,250	6,319,000	412,750	7.0%
16 Riley Fire and EMS Tuition Reimbursement Prog.	358,000	358,000	358,000	0	0%
17 Graduate and Professional Scholarship Program	1,174,473	1,174,473	1,174,473	0	0%
20 Distinguished Scholar Program	771,000	0	0	0	0%
21 Jack F. Tolbert Memorial Student Grant Program	200,000	200,000	200,000	0	0%
26 Hoffman Loan Assistance Repayment Program	1,094,228	1,388,895	1,388,895	0	0%
28 Maryland Loan Assistance Repayment Program for Physicians	920,339	1,432,282	1,432,282	0	0%
33 Part-Time Grant Program	5,087,780	5,087,780	5,087,780	0	0%
36 Workforce Shortage Student Assistance Grants	1,130,500	1,229,853	1,229,853	0	0%
37 Veterans of the Afghanistan and Iraq Conflicts Sch	1,384,973	750,000	750,000	0	0%
<b>Total Expenditures</b>	<b>\$ 104,885,010</b>	<b>\$ 103,129,532</b>	<b>\$ 105,208,282</b>	<b>\$ 2,078,750</b>	<b>2.0%</b>
General Fund	\$ 98,458,365	\$ 101,064,250	\$ 103,143,000	\$ 2,078,750	2.1%
Special Fund	6,026,645	1,665,282	1,665,282	0	0%
<b>Total Appropriations</b>	<b>\$ 104,485,010</b>	<b>\$ 102,729,532</b>	<b>\$ 104,808,282</b>	<b>\$ 2,078,750</b>	<b>2.0%</b>
Reimbursable Fund	\$ 400,000	\$ 400,000	\$ 400,000	\$ 0	0%
<b>Total Funds</b>	<b>\$ 104,885,010</b>	<b>\$ 103,129,532</b>	<b>\$ 105,208,282</b>	<b>\$ 2,078,750</b>	<b>2.0%</b>

MHEC: Maryland Higher Education Commission

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.