

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

Senate Bill 231 (The President, *et al.*)
(Administration)
Economic and Environmental Affairs

Higher Education - Maryland HOPE Scholarships

This Administration bill establishes the Maryland HOPE Scholarship Program for Maryland undergraduate students who attend a Maryland college or community college, have earned at least a B average (3.0 grade point average) in high school, and whose family income is less than \$60,000. The scholarship amount is equal to the cost of tuition and fees for a full-time undergraduate, not to exceed the expense for a full-time undergraduate at the University of Maryland at College Park (\$4,737 in fiscal 1999) and a \$200 book allowance. A student may receive the scholarship for four years at an undergraduate college (or three years at a community college) if the student (1) continues to be a Maryland resident; (2) continues to be a full-time student; and (3) maintains at least a B average after completion of the freshman year. Funds for the Maryland HOPE Scholarship Program are to be provided by the Governor in the annual budget of the Maryland Higher Education Commission (MHEC).

The bill takes effect July 1, 1997.

Fiscal Summary

State Effect: General funds of \$500,000 are included in the proposed FY 1998 budget for program administration, which are not contingent upon enactment of this bill. Expenditures could increase by at least \$16.6 million in FY 1999 for scholarship awards, assuming that 9.2% of high school graduates qualify for the program. Future year expenditures increase with inflation and the number of high school graduates. Revenues would not be affected.

(in millions)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditures	0.5	16.8	26.3	36.9	48.8
Net Effect	(\$0.5)	(\$16.8)	(\$26.3)	(\$36.9)	(\$48.8)

Note: () - decrease; GF - general funds; FF - federal funds; SF - special funds

Local Effect: None.

Small Business Effect: The Administration has determined that this bill has minimal or no impact on small businesses (attached). Fiscal Services concurs with this assessment as discussed below.

Fiscal Analysis

Bill Summary: The State Scholarship Administration is required by May 1st of each year to send each legislator a list of individuals in each legislative district to whom Maryland HOPE scholarships are awarded. The Administration is required to publicize the availability of Maryland HOPE scholarships.

Background: It is possible that, in the future, the HOPE program may affect the availability of funds for existing State scholarship programs. The major State scholarship programs are described below.

The Educational Excellence Awards Program is the State's primary student financial aid program. The Maryland Higher Education Commission's proposed fiscal 1998 budget includes \$28.7 million in general funds for the program, which contains two components: The Guaranteed Access Grant and the Educational Assistance Grant.

The Guaranteed Access Grant provides awards to Maryland residents whose total family income for the previous calendar year is less than 130% of the federal poverty level. Eligible students receive 100% of their financial need (minus Pell Grant and family contribution) up to the cost of attendance for a full-time residential undergraduate living on campus at the University of Maryland College Park. The number of recipients in fiscal 1998 is expected to be 1,322 and the average grant award is expected to be \$5,206.

The Educational Assistance grant provides awards to Maryland residents with financial need. In fiscal 1998, the percent of need met is projected to remain at 28% and the maximum award will be \$2,500. The average grant is expected to be \$1,418 and the total number of recipients is expected to be 15,386.

In addition, MHEC's proposed fiscal 1998 budget includes \$9 million for the Senatorial Scholarships and Delegate Scholarship Program. Senatorial Scholarships are awarded by senators to students who reside in their districts. Each senator receives \$34,500 in funds to award as scholarships each year. To be eligible, students must have financial need, be a Maryland resident, and be enrolled in an undergraduate, graduate, or professional program at a Maryland institution (unless their program of study is not offered at any Maryland institution). Awards range from \$400 to \$2,000 per year and there are approximately 7,000 recipients. Delegate Scholarships are awarded by delegates. Each delegate receives funds equivalent to four times the tuition and fees charged at the University of Maryland College Park to award. Recipients must enroll at a Maryland institution (unless their program of study is not offered at any Maryland institution). Awards may range from \$200 to one-half the awarding delegate's annual allocation and there are approximately 3,000 recipients.

State Expenditures:

HOPE Scholarship Program Grants

Attachment 1 illustrates the estimated Maryland Hope Scholarship Program expenditures from fiscal 1999 to 2002. Fiscal 1999 expenditures could increase by \$16.6 million (for 4,300 students), while fiscal 2002 expenditures could increase by \$48.6 million (for 11,000 students). These estimates reflect the following assumptions: (1) 9.2% of high school graduates will meet both the grade point average and family income criteria; (2) 47.5% of students who enter college meeting the criteria will continue to qualify in their sophomore year (based on Georgia HOPE Program experience); (3) if a student maintains a 3.0 grade point average at the end of freshman year, the student will continue to maintain this average throughout college; (4) student enrollment behavior will remain constant (with regard to in-state vs. out-of-state school attendance and the distribution of students between four-year public institutions, community colleges, and private institutions); and (5) grant awards equal the average cost of tuition and fees at each of the three categories of institutions (four-year public institutions, community colleges, and private institutions), up to a maximum amount for a full-time undergraduate at the University of Maryland at College Park and a book allowance.

The expenditures estimated in **Attachment 1** could be conservative to the extent that (1) implementation of the HOPE program places pressure on high school teachers and college faculty to inflate student grades; (2) student enrollment behavior does not remain constant; (3) the percentage of students who will continue to qualify for a HOPE scholarship by their sophomore year is more than 47.5%; or (4) the percentage of high school graduates meeting both income and grade point average criteria is greater than 9.2%. There is currently no reliable source of information for determining the number of graduating high school seniors

who might be eligible for the HOPE program.

For example, if the percentage of high school graduates qualifying for HOPE scholarships were 20%, the HOPE program expenditures could be \$36.1 million in fiscal 1999. **Exhibit 1** shows the effect on fiscal 2002 expenditures resulting from varying the assumptions regarding the number of high school graduates qualifying for HOPE scholarships and the student retention rate.

Exhibit 1
Potential FY 2002 HOPE Scholarship Expenditures
Resulting from Varied Assumptions

(in millions)	Percentage of High School Graduates Qualifying for HOPE Scholarships		
Retention Rate After Freshman Year in College	9.2%	15.0%	20.0%
47.5%	\$48.6	\$79.4	\$105.8
60.0%	\$55.9	\$91.4	\$121.9

Future year costs reflect (1) college plans for tuition and fees, adjusted annually for inflation; and (2) the number of anticipated high school graduates each year.

HOPE Program Administration Expenditures

The proposed Higher Education Commission fiscal 1998 budget includes \$500,000 for the Maryland HOPE Scholarship Program, which reflects no start-up delay. The funds will be used to hire four positions for program administration (one Program Manager and three Program Specialists). The \$500,000 budget includes salaries, fringe benefits, one-time start-up costs (building renovation, computer system upgrade, office equipment), and ongoing operating expenses.

Salaries and Fringe Benefits	\$132,003
Consumer information/marketing	35,000
Computer system upgrades	60,000
Building modification	243,528
Computers/Office equipment	21,380
Other Operating Expenses	<u>8,089</u>
Total FY 1998 State Expenditures	\$500,000

The building renovation is planned to accommodate the four new staff positions. The \$243,528 fund amount includes \$68,528 for knocking out walls, \$125,000 for modular units

for the four positions and for existing staff whose offices would be eliminated, and \$50,000 for utility extensions. The Department of Fiscal Services has recommended in the Maryland Higher Education Commission fiscal 1998 budget analysis that, given the nature and scope of the building renovation project, it be funded through the capital budget. In addition, Fiscal Services notes that to the extent that the HOPE program does affect the availability of funds for existing State scholarship programs, the six positions currently supporting the Educational Excellence Awards Program could become available to support the HOPE program in future years if additional positions are required.

Future year expenditures reflect (1) full salaries with 3.5% annual increases and 3% employee turnover; and (2) 2% annual increases in ongoing operating expenses.

Small Business Effect: Businesses in the State could benefit since families with a student awarded a Maryland HOPE scholarship would be able to spend funds that previously would have been used to cover college expenses. Some of that discretionary income spending will be at small businesses.

Additional Comments: The HOPE scholarships could allow higher education institution scholarship funds to be either (1) redirected to other students currently receiving loans; or (2) decreased. An institution that chooses to decrease its scholarship levels could more readily hold tuition and fees in line, since tuition and fees are the source of institutionally funded scholarships.

Information Source(s): Maryland Higher Education Commission, University of Maryland System Administration, St. Mary's College, Morgan State University, Department of Fiscal Services

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Analysis by: Sue Friedlander

Reviewed by: John Rixey

Direct Inquiries to:

John Rixey, Coordinating Analyst

(410) 841-3710

(301) 858-3710