

Department of Legislative Services  
 Maryland General Assembly  
 2000 Session

FISCAL NOTE  
 Revised

Senate Bill 697 (Senator Collins)

Economic and Environmental Affairs

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**HOPE for Nontraditional Students - Community College Transfer Scholarship Program**

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This bill establishes the Community College Transfer Scholarship Program.

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**Fiscal Summary**

**State Effect:** General fund expenditures would increase by \$34,600 in FY 2001 for program administration and by \$4.2 million in FY 2002. Future year expenditures increase with increasing enrollment rates, scholarship renewals, and inflation.

(in millions)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
GF Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditures	0.035	4.2	8.0	8.9	9.1
Net Effect	(\$0.035)	(\$4.2)	(\$8.0)	(\$8.9)	(\$9.1)

*Note: ( ) = decrease; GF = general funds; FF = federal funds; SF = special funds; - =indeterminate effect*

In addition, general fund revenues from defaulted student service obligation repayments would be reduced. To the extent that the bill causes an increase in the service obligation default rate of the scholarship programs, collection expenditures would increase.

**Local Effect:** None.

**Small Business Effect:** Potential meaningful.

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## Analysis

**Bill Summary:** To qualify for a scholarship under the program, an applicant must:

- be a Maryland resident;
- be a student at a Maryland community college;
- maintain a 3.0 grade point average while attending community college;
- have completed at least 60 credits at community college or have earned an associate's degree by the end of the semester in which the applicant plans to transfer to a four-year institution;
- be accepted for admission and intend to enroll in a degree program at a Maryland four-year private or public institution of higher education; and
- have an annual total family income of \$80,000 or less.

The annual award amount is \$3,000. An award may be used only for tuition and fees at a Maryland four-year private or public institution. An applicant may continue to receive annual awards if the student continues to meet eligibility requirements. A student must pledge to live and work in the State after completion of undergraduate studies for one year for each year that an award was received, or repay the funds received plus interest. A scholarship recipient may fulfill the employment obligation out of state if the recipient was employed out of state at the time the recipient received the scholarship, continues employment with the same employer while receiving the scholarship, and continues employment with the same employer after completion of the recipient's undergraduate studies.

Funds for the program shall be as provided in the State Scholarship Administration's annual budget.

The bill also provides that the interest rate on repayment obligations for scholarships that include a service obligation, including the scholarship created by the bill, be calculated at an interest rate equal to that of the federal Stafford loan. Interest will not accrue prior to notification of a recipient's graduation or termination from an institution of higher education. The repayment obligation commences upon a recipient's graduation or termination from an institution of higher education.

**Current Law:** There is no State-sponsored scholarship program for students transferring from community college to four-year institutions.

The interest rate on the repayment obligation for scholarships that include a service obligation is the prime rate plus 2%. Interest accrues from the time of the acceptance of the award. The repayment obligation commences at the time of default.

**Background:** The maximum interest rate for the federal Stafford student loan, one of the major types of federal student financial aid, is currently 8.25%. The prime rate of interest is

currently 9%. This bill would change the current repayment rate for recipients of scholarships who default on their service obligation from 11% to 8.25%.

## **State Expenditures:**

### *Scholarship Awards*

**Exhibit 1** shows the estimated scholarship expenditures for the HOPE for Nontraditional Students Program for fiscal 2002 through 2005. Fiscal 2002 general fund expenditures would be \$4.0 million (for 1,343 students), while fiscal 2005 expenditures would be \$9.1 million (for 3,018 students). The assumptions underlying these estimates include the following:

- (1) 4,284 Maryland community college students will transfer to a four-year institution in fiscal 2002 (based upon the number of Maryland community college students enrolled in transfer programs in 1998);
- (2) the number of community college transfers will increase by 1.46% annually (the average annual growth rate of community college students transferring to four-year institutions between 1988 and 1997);
- (3) 46.1% of transferring community college students have a 3.0 GPA or better;
- (4) 85% of community college transfer students have a family income of \$80,000 or less;
- (5) 80% of eligible students would participate in the program;
- (6) 95% of students receiving first-year awards under the program would receive a second year renewal award; and
- (7) 20% of students receiving a second-year renewal award would fail to earn a bachelor's degree in two years and would receive a third-year renewal award.

### *Administrative Expenses*

Administrative expenses for the program are estimated at \$34,600 for fiscal 2001. This amount includes salary and fringe benefits for one full-time program specialist to administer the program, communications, office equipment, supplies, and rental space. Salary and ongoing operating expenses reflect the bill's October 1, 2000 effective date. A second program specialist would be added in fiscal 2002 when the program becomes operational, to assist with evaluating applicants, administering the program, and following up with program participants to monitor compliance with the service requirement. Out-year expenditures

reflect (1) full salaries with 4.5% annual increases and 3% employee turnover; (2) 1% annual increases in ongoing operating expenses; and (3) consumer information and marketing expenses.

	<u><b>FY 2001</b></u>	<u><b>FY 2002</b></u>
Salaries and Fringe Benefits	\$28,728	\$77,911
Additional Equipment	4,520	4,520
Ongoing Operating Expenses	1,320	3,554
Consumer Information & Marketing		<u>42,280</u>
<b>Total</b>	<b>\$34,568</b>	<b>\$128,265</b>

The Governor’s proposed fiscal 2001 budget does not include funds for this program.

*Change in Interest Rate*

Revenues from defaulted student service obligation repayments, which revert to the general fund, would be reduced in future years as a result of the bill. The precise amount of any such revenue reduction cannot be determined. The amount would be dependent on factors including future default rates, future interest rates, and future repayment amounts.

To the extent that the bill causes an increase in the service obligation default rate of the scholarship programs, collection expenditures would increase.

The Maryland Higher Education Commission advises that its historical default rate for scholarship programs with service obligations is well below 1%. It is therefore expected that this aspect of the bill would not have a major impact on State finances.

In making it more attractive for students to accept scholarships with service obligations, the bill could result in more scholarship applicants and/or recipients (without affecting funding levels).

**Small Business Effect:** To the extent that the scholarship program's service obligation results in more skilled workers remaining in the State for employment, small businesses could benefit.

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### **Additional Information**

**Prior Introductions:** A similar bill, HB 268 of 1999, proposed to create a scholarship program for community college honors students intending to transfer to four-year institutions. That bill received an unfavorable report from the Ways and Means Committee. The companion bill, SB 277 of 1999, received an unfavorable report from the Economic and Environmental Affairs Committee.

**Cross File:** HB 476 (Delegate Healey, *et al.*) - Ways and Means.

**Information Source(s):** Maryland Higher Education Commission, Department of Legislative Services

**Fiscal Note History:** First Reader - February 21, 2000  
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**Exhibit 1**  
**SB 697 / HB 476**  
**HOPE for Nontraditional Students**  
**\$3,000 Award Amount**

	FY 2002	FY 2003	FY 2004	FY 2005
<b>New Participants</b>				
Estimated number of students	1,343	1,363	1,383	1,403
Subtotal Estimated Cost	\$4,029,130	\$4,087,956	\$4,147,640	\$4,208,195
<b>Second Year Renewals</b>				
Estimated number of students		1,276	1,295	1,313
Subtotal Estimated Cost		\$3,827,674	\$3,883,558	\$3,940,258
<b>Third Year Renewals</b>				
Estimated number of students			255	259
Subtotal Estimated Cost			\$765,535	\$776,712
<b>TOTAL ESTIMATED COST</b>	<b>\$4,029,130</b>	<b>\$7,915,630</b>	<b>\$8,796,733</b>	<b>\$8,925,165</b>
Total number of awards	1,343	2,639	2,932	2,975

Note: Chart reflects rounding preformed in computer spreadsheet.

*Prepared by: Department of Legislative Services, February 2000*

Source: Maryland Higher Education Commission