

Department of Legislative Services
 Maryland General Assembly
 2004 Session

FISCAL AND POLICY NOTE

House Bill 1103
 Appropriations

(Delegate Madaleno, *et al.*)

Access to Quality in Higher Education Act of 2004

This bill requires the Governor to include in the fiscal 2006 State budget submission specific appropriations for the University System of Maryland (USM), Morgan State University (MSU), and St. Mary’s College of Maryland (SMCM). The bill also mandates annual increases for the institutions of at least 5% per full-time equivalent (FTE) resident student beginning in fiscal 2007. USM, MSU, and SMCM would also receive additional fiscal 2005 funding if an enacted supplementary appropriation bill or a supplemental budget submitted by the Governor includes the funding. The bill also reduces tuition rates for the 2004-2005 academic year and limits future tuition increases to 4% annually.

The bill takes effect July 1, 2004.

Fiscal Summary

State Effect: General fund expenditures would increase by \$80 million in FY 2005 if a supplementary appropriation bill is enacted or the Governor includes the additional funding in a supplemental budget. Higher education tuition and fee revenues would decrease by an estimated \$43.5 million in FY 2005. In total, revenues and expenditures for higher education would increase by an estimated \$36.5 million in FY 2005. Future year estimates reflect increasing general fund appropriations, increasing reductions in tuition revenues, and increased formula funding for community colleges and private colleges and universities beginning in FY 2006.

(\$ in millions)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Higher Ed Rev.	(\$43.5)	(\$55.2)	(\$68.0)	(\$82.4)	(\$98.7)
GF Expenditure	80.0	112.2	137.6	178.4	223.1
Net Effect	(\$123.5)	(\$167.4)	(\$205.6)	(\$260.8)	(\$321.7)

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

Local Effect: Community college revenues would increase by an estimated \$21.4 million in FY 2006 and by an estimated \$35.9 million in FY 2009.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill requires the Governor to include in the annual budget submission for fiscal 2006, general fund support of at least \$863,963,359 for USM, \$53,039,757 for MSU, and \$15,479,552 for SMCM. Beginning in fiscal 2007, the amounts per FTE resident student attending MSU, SMCM, or a USM institution must be increased by at least 5% annually, based on projected enrollments. For fiscal 2005, additional appropriations of \$76,615,198 for USM, \$2,326,254 for MSU, and \$1,059,560 for SMCM must be made if a supplementary appropriation bill that includes a funding source is enacted or if the Governor submits a supplemental budget that includes the funds. The additional funding required by the bill may not supplant funding distributed in accordance with the State's partnership agreement with the U.S. Department of Education, Office of Civil Rights (OCR), for the State's four historically Black institutions.

The bill reduces resident undergraduate tuition for the 2004-2005 academic year at USM institutions, MSU, and SMCM. Tuition and fee rates for the 2004-2005 school year are limited to the tuition charged in fall 2002 plus 80% of increase from fall 2002 to fall 2003.

For the academic years of 2005-2006 to 2014-2015, increases in resident undergraduate tuition are limited to 4% annually. The 4% limitation only applies if the full appropriations required by the bill are included in the annual State budget.

The bill states that it is the intent of the General Assembly that USM improve its effectiveness and efficiency and reduce its cost structure to provide world class education, research, and public service at below average costs. USM must submit biannual reports on procedures it has implemented to meet these objectives.

The bill further asserts that it is the intent of the General Assembly that the State move the sum of per student general fund State support and per student tuition revenue for USM institutions to at least the average of their peer institutions, as determined by the Maryland Higher Education Commission (MHEC). The State should also set a goal of reaching 90% of the higher education funding guidelines in order to ensure quality while

holding spending below the average of comparable universities. Finally, the bill states that it is the intent of the General Assembly to continue support for historically Black institutions in the State in accordance with the State's OCR agreement.

Current Law: Funding for USM and MSU are as provided in the annual State budget. Funding for SMCM increases annually by the rate of inflation. It is the intent of the General Assembly, however, that, barring unforeseen economic conditions, the Governor include in the annual budget submission an amount of general fund State support for higher education equal to or greater than the amount appropriated in the prior fiscal year. The goal of the State, as noted in statute, is that State support for higher education operating and capital expenditures comprise 15.5% of general fund revenues.

Subject to the authority and policies of the Board of Regents of USM, the president of each USM constituent institution sets tuition and fees for the institution. The Board of Regents of MSU fixes tuition for the university. The Board of Trustees of SMCM may adopt rules and policies for the management, maintenance, operation, and control of the college.

Background: Students at USM institutions endured large increases in tuition from the fall of 2002 to the fall of 2003, including an unusual mid-year increase imposed between the first and second semesters of the 2002-2003 academic year. Some groups have argued that reductions in State support for public institutions of higher education are to blame for the tuition hikes, while others have suggested that the institutions should focus on efficiency in response to the State's current fiscal condition.

From fall 2002 to 2003, tuition and fee rates at USM institutions increased an average of 18%. The USM budget as proposed in fall 2002 assumed an initial 4% increase. After cost containment reductions in winter 2003, USM adopted a 5% mid-year tuition increase to help offset reduced general fund support in fiscal 2003. At the beginning of fiscal 2004, following the outcome of the legislative session and actions taken by the Board of Public Works, USM raised fall 2003 tuition rates by an additional 10% or more at several institutions.

The combined actions of the General Assembly and the Board of Public Works reduced the USM budget \$67 million in fiscal 2003 and \$54.7 million in fiscal 2004. However, the tuition and fee rate increases brought in \$74 million in additional revenues, offsetting 61% of the reduced general funds. The proposed fiscal 2005 State budget provides the same level of State support for USM, MSU, and SMCM that was provided in fiscal 2004, but additional tuition and fee revenues of \$84.5 million are assumed in the proposed fiscal 2005 State budget. **Exhibit 1** shows the fall 2002, fall 2003, and proposed fall 2004 tuition rates at USM institutions.

Exhibit 1
Annual Tuition and Mandatory Fees at USM Institutions
Fall 2002 to 2004

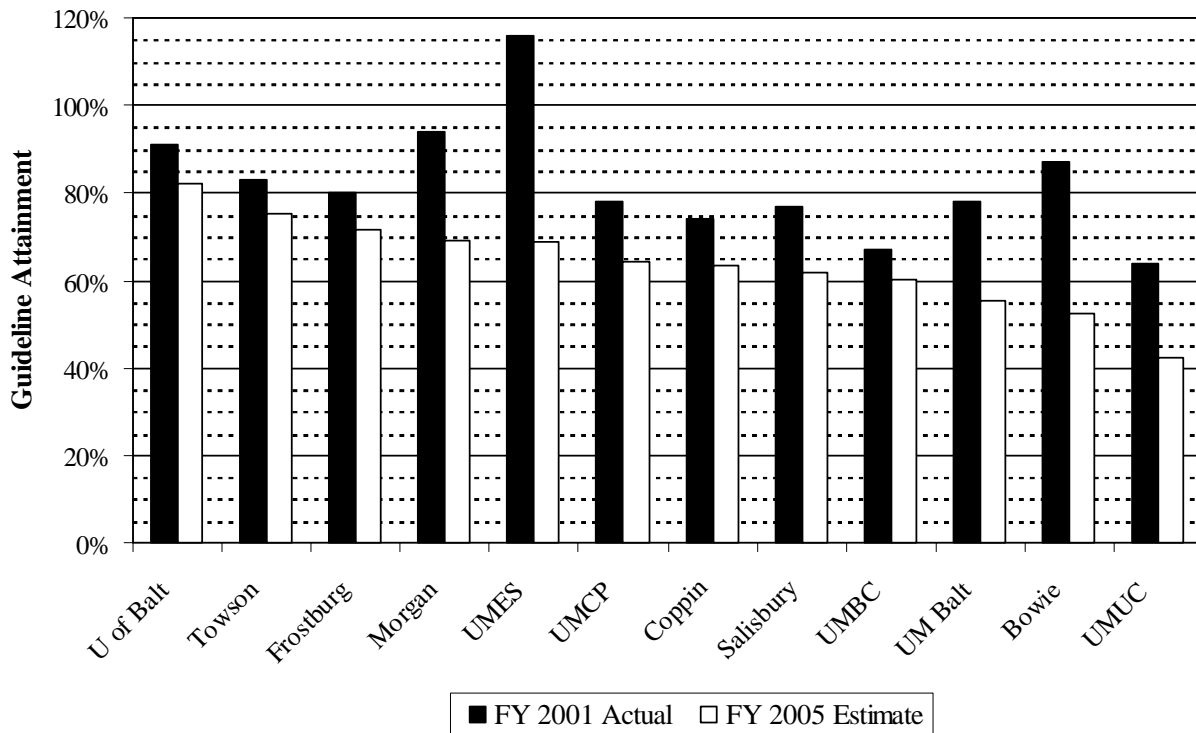
<u>University</u>	<u>Fall 2002</u>	<u>Fall 2003</u>	<u>Increase 02 to 03</u>	<u>Proposed Fall 2004</u>	<u>Increase 03 to 04</u>
Bowie State	\$4,064	\$4,853	19.4%	\$5,218	7.5%
Coppin State	3,959	4,240	7.1%	4,454	5.0%
Frostburg State	4,618	5,342	15.7%	5,830	9.1%
Salisbury	4,804	5,564	15.8%	5,976	7.4%
Towson	5,401	6,226	15.3%	6,672	7.2%
U of Baltimore	4,996	5,913	18.4%	6,448	9.0%
UM Baltimore*	5,096	6,224	22.1%	6,626	6.5%
UM Baltimore County	6,362	7,388	16.1%	8,020	8.6%
UM College Park	5,670	6,759	19.2%	7,426	9.9%
UM Eastern Shore	4,461	5,105	14.4%	5,558	8.9%
UM Univ College**	6,180	6,660	7.8%	6,780	1.8%

* Based on tuition and fees for the School of Nursing, the largest undergraduate program at UMB.

** Based on 30 credit hours per year.

Funding guidelines attempt to calculate an appropriate level of general fund support for Maryland's public institutions of higher education using per student spending at identified peer institutions. MHEC calculates the guidelines and, accounting for different tuition rates at the peer institutions, calculates a recommended State appropriation for each institution. **Exhibit 2** shows that estimated funding guideline attainment for fiscal 2005 is below actual fiscal 2001 attainment for every institution. None of the fiscal 2005 estimates show attainment of 90% of the funding guidelines as is proposed by this bill.

Exhibit 2
Funding Guideline Attainment
Fiscal 2001 and 2005



Source: Maryland Higher Education Commission

State Fiscal Effect: The fiscal impact of the bill involves three components: (1) increases in State general fund expenditures to USM, MSU, and SMCM beginning in fiscal 2005; (2) decreases in tuition and fee revenues for USM, MSU, and SMCM beginning in fiscal 2005; and (3) increases in general fund expenditures for the Sellinger formula, the Senator John A. Cade funding formula, and Baltimore City Community College (BCCC) beginning in fiscal 2006. In total, general fund expenditures would increase by \$80.0 million in fiscal 2005 and by an estimated \$223.1 million in fiscal 2009. The additional State support and reduced tuition revenues combined would increase higher education revenues and expenditures by an estimated \$36.5 million in fiscal 2005 and by an estimated \$84.8 million in fiscal 2009.

General Fund Appropriations for Four-year Public Institutions of Higher Education

Assuming the Governor includes funding in a supplemental budget or a supplementary appropriation bill is enacted that includes the funding, general fund support for USM, MSU, and SMCM would increase by a total of \$80.0 million in fiscal 2005. In fiscal 2006, the mandated funding amounts specified in the bill would represent an estimated \$88.0 million increase in the appropriations that would be provided without this bill.

Beginning in fiscal 2007, the minimum annual State support for USM, MSU, and SMCM would be determined by a formula. By fiscal 2009, the additional general fund appropriations would total an estimated \$183.5 million. These estimates assume that resident FTE enrollment at the public four-year institutions will increase by 2% to 3% annually and that, without this bill, State appropriations to USM, MSU, and SMCM would increase by approximately 4% per year through fiscal 2009. The estimated annual impact on State general fund expenditures is shown in **Exhibit 3**.

Exhibit 3
Impact of Increased General Fund Appropriations for Higher Education
Fiscal 2005 to 2009
(\$ in Millions)

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
<u>USM Appropriation</u>					
HB 1103	\$823.9	\$864.0	\$923.3	\$987.1	\$1,057.4
Current Law	<u>747.3</u>	<u>779.1</u>	<u>810.9</u>	<u>844.9</u>	<u>880.5</u>
Impact	\$76.6	\$84.9	\$112.4	\$142.2	\$177.0
 <u>MSU Appropriation</u>					
HB 1103	\$50.5	\$53.0	\$56.7	\$60.7	\$64.6
Current Law	<u>48.2</u>	<u>51.0</u>	<u>54.5</u>	<u>57.5</u>	<u>60.4</u>
Impact	\$2.3	\$2.0	\$2.2	\$3.2	\$4.2
 <u>SMCM Appropriation</u>					
HB 1103	\$14.7	\$15.5	\$16.2	\$17.0	\$17.9
Current Law	<u>13.7</u>	<u>14.4</u>	<u>14.7</u>	<u>15.1</u>	<u>15.5</u>
Impact	\$1.1	\$1.1	\$1.5	\$1.9	\$2.3
 GF Exp Increase	 \$80.0	 \$88.0	 \$116.1	 \$147.3	 \$183.5

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

Tuition and Fee Revenues

Tuition and fee revenues at USM institutions, MSU, and SMCM would decrease by an estimated \$43.5 million in fiscal 2005. This estimate assumes that proposed fiscal 2005 increases in tuition and fees for full-time resident undergraduate students would take place without this legislation. The proposed increases range from 1.2% at SMCM to 9.9% at the University of Maryland, College Park.

From fiscal 2006 to 2014, annual tuition growth would be limited to 4% per year. USM advises that resident undergraduate tuition and fee rates will increase by approximately 6% annually after fiscal 2005. As compared to current law, revenues from tuition and fees would decrease by an estimated \$98.7 million in fiscal 2009 under the bill, and resident undergraduate tuition and fee rates would decrease by 10% to 18%, depending on the institution. **Exhibit 4** shows the estimated annual impact of the tuition and fee limitations that would be imposed by the bill.

Exhibit 4
Impact of Tuition and Fee Limitations
Fiscal 2005 to 2009
(\$ in Millions)

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
<u>USM Revenues</u>					
HB 1103	\$373.6	\$395.5	\$417.6	\$441.3	\$467.8
Current Law	<u>413.8</u>	<u>446.3</u>	<u>480.0</u>	<u>516.9</u>	<u>558.1</u>
Impact	(\$40.2)	(\$50.8)	(\$62.5)	(\$75.6)	(\$90.4)
 <u>MSU Revenues</u>					
HB 1103	\$25.7	\$27.8	\$29.4	\$31.2	\$32.7
Current Law	<u>28.7</u>	<u>31.6</u>	<u>34.0</u>	<u>36.8</u>	<u>39.4</u>
Impact	(\$3.0)	(\$3.8)	(\$4.7)	(\$5.6)	(\$6.7)
 <u>SMCM Revenues</u>					
HB 1103	\$12.8	\$13.3	\$13.8	\$14.4	\$15.0
Current Law	<u>13.2</u>	<u>13.9</u>	<u>14.7</u>	<u>15.6</u>	<u>16.6</u>
Impact	(\$0.3)	(\$0.6)	(\$0.9)	(\$1.2)	(\$1.6)
 T&F Revenues	(\$43.5)	(\$55.2)	(\$68.0)	(\$82.4)	(\$98.7)

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

The net effect of the bill on USM, MSU, and SMCM revenues is shown in **Exhibit 5**. The exhibit combines the impact of increased State appropriations and reduced tuition and fee revenues. In total, revenues for the State's four-year public institutions of higher education would increase by an estimated \$36.5 million in fiscal 2005 and by an estimated \$84.8 million in fiscal 2009. However, a net decrease in revenues for MSU is projected in each of the five fiscal years.

Exhibit 5
Net Impact of Increased Appropriations and Decreased Revenues
Fiscal 2005 and 2009
(\$ in Millions)

	<u>FY 2005*</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
<u>USM</u>					
Appropriation Increase	\$76.6	\$84.9	\$112.4	\$142.2	\$177.0
Tuition and Fees Decrease	<u>(40.2)</u>	<u>(50.8)</u>	<u>(62.5)</u>	<u>(75.6)</u>	<u>(90.4)</u>
Net Impact	\$36.4	\$34.1	\$49.9	\$66.6	\$86.6
<u>MSU</u>					
Appropriation Increase	\$2.3	\$2.0	\$2.2	\$3.2	\$4.2
Tuition and Fees Decrease	<u>(3.0)</u>	<u>(3.8)</u>	<u>(4.7)</u>	<u>(5.6)</u>	<u>(6.7)</u>
Net Impact	(\$0.6)	(\$1.8)	(\$2.4)	(\$2.5)	(\$2.5)
<u>SMCM</u>					
Appropriation Increase	\$1.1	\$1.1	\$1.5	\$1.9	\$2.3
Tuition and Fees Decrease	<u>(0.3)</u>	<u>(0.6)</u>	<u>(0.9)</u>	<u>(1.2)</u>	<u>(1.6)</u>
Net Impact	\$0.7	\$0.5	\$0.6	\$0.6	\$0.7
Total Net	\$36.5	\$32.8	\$48.1	\$64.8	\$84.8

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

*The increases in fiscal 2005 appropriations would only occur if the additional appropriations are included in a supplemental budget or are funded by a supplementary appropriation bill. The tuition and fee revenue decreases are not contingent on increased fiscal 2005 appropriations.

Impact on Sellinger, Cade, and BCCC Formulas

Formulas supporting private colleges and universities, locally-operated community colleges, and BCCC are based on State general fund support for the public four-year institutions of higher education. If State support increases as proposed in this bill, funding for the Sellinger formula (for private colleges and universities), the Senator John A. Cade funding formula (for community colleges), and BCCC would also increase. The formulas are based on State support in the prior fiscal year, so there would be no impact on the formulas until fiscal 2006. **Exhibit 6** shows the estimated increases for each of the formulas.

Exhibit 6
Impact on Sellinger, Cade, and BCCC Formulas
Fiscal 2006 to 2009
(\$ in Millions)

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
<u>Sellinger</u>				
HB 1103	\$49.8	\$50.7	\$53.9	\$57.4
Current Law	<u>47.0</u>	<u>49.1</u>	<u>51.3</u>	<u>53.7</u>
Impact	\$2.8	\$1.6	\$2.6	\$3.7
 <u>Cade</u>				
HB 1103	\$165.0	\$170.4	\$184.7	\$198.5
Current Law	<u>148.7</u>	<u>155.2</u>	<u>162.6</u>	<u>170.2</u>
Impact	\$16.4	\$15.2	\$22.2	\$28.3
 <u>BCCC</u>				
HB 1103	\$37.2	\$38.4	\$41.7	\$44.5
Current Law	<u>32.2</u>	<u>33.7</u>	<u>35.3</u>	<u>36.9</u>
Impact	\$5.0	\$4.7	\$6.4	\$7.6
 GF Exp Increase	 \$24.1	 \$21.5	 \$31.1	 \$39.6

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

The combined general fund impact of the formula increases and increased appropriations to four-year institutions is shown in **Exhibit 7**.

Exhibit 7
General Fund Impact
Fiscal 2005 to 2009
(\$ in Millions)

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
<u>General Fund Exp</u>					
Appropriation to USM	\$76.6	\$84.9	\$112.4	\$142.2	\$177.0
Appropriation to MSU	2.3	2.0	2.2	3.2	4.2
Appropriation to SMCM	1.1	1.1	1.5	1.9	2.3
Sellinger Formula	0.0	2.8	1.6	2.6	3.7
Cade Formula	0.0	16.4	15.2	22.2	28.3
BCCC Formula	<u>0.0</u>	<u>5.0</u>	<u>4.7</u>	<u>6.4</u>	<u>7.6</u>
Total	\$80.0	\$112.2	\$137.6	\$178.4	\$223.1

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

Local Revenues: Community college revenues would increase by an estimated \$21.4 million in fiscal 2006 and by an estimated \$35.9 million by fiscal 2009. The totals include funding for BCCC, which is operated by the State, as well as the 15 locally-run community colleges, which receive State aid through the Cade formula.

Additional Information

Prior Introductions: None.

Cross File: SB 112 (Senator Frosh, *et al.*) – Budget and Taxation.

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

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