**Department of Legislative Services**
Maryland General Assembly
2005 Session

# FISCAL AND POLICY NOTE

House Bill 1286 (Delegate Madaleno, *et al.*)
Appropriations

## Access to Quality in Higher Education Act of 2005

This bill requires the Governor to include in the fiscal 2007 State budget specific appropriations for the University System of Maryland (USM) and Morgan State University (MSU). Beginning in fiscal 2008 the bill mandates annual increases for MSU and USM institutions of at least 5% per full-time equivalent (FTE) resident student at the institutions. In addition, USM and MSU would receive additional fiscal 2006 funding if an enacted supplementary appropriation bill or a supplemental budget submitted by the Governor includes the funding. The bill also reduces tuition rates at USM and MSU for the 2005-2006 academic year and limits future tuition increases at the institutions to 4% annually.

The bill takes effect July 1, 2005.

## Fiscal Summary

**State Effect:** Higher education tuition and fee revenues would decrease by an estimated $50.6 million in FY 2006. General fund expenditures would increase by $67.4 million in FY 2006 if a supplementary appropriation bill is enacted or the Governor includes the additional funding in a supplemental budget. Future year estimates reflect increasing general fund appropriations, decreasing tuition revenues, and increased formula funding for community colleges and private colleges and universities beginning in FY 2007.

| ($ in millions) | FY 2006 | FY 2007 | FY 2008 | FY 2009 | FY 2010 |
|---|---|---|---|---|---|
| Higher Ed Rev. | ($50.6) | ($68.1) | ($87.9) | ($110.1) | ($134.3) |
| GF Expenditure | 67.4 | 117.8 | 165.5 | 218.9 | 271.2 |
| Net Effect | ($118.0) | ($185.9) | ($253.3) | ($329.0) | ($405.5) |

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

**Local Effect:** Community college revenues would increase by an estimated $16.5 million in FY 2007 and by an estimated $41.6 million in FY 2010.

**Small Business Effect:** Minimal.

## Analysis

**Bill Summary:** The bill requires the Governor to include in the fiscal 2007 budget, general fund support of at least $919,815,056 for USM and $56,749,665 for MSU. Beginning in fiscal 2008, the amounts per FTE resident student attending MSU or a USM institution must be increased by at least 5% annually, based on projected enrollments for the upcoming academic year. For fiscal 2006, appropriations of $863,963,359 for USM and $53,039,757 for MSU 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 for Civil Rights (OCR) for the State's four Historically Black Institutions (HBIs).

The bill also reduces USM and MSU resident undergraduate tuition and mandatory fees for the 2005-2006 academic year and limits growth in the rates from the 2006-2007 academic year to the 2015-2016 academic year. For the 2005-2006 school year, tuition and fees must equal the rates charged in fall 2002 plus 80% of the increase from fall 2002 to fall 2004. For the academic years of 2006-2007 to 2015-2016, annual increases in resident undergraduate tuition and fee rates at MSU and USM institutions are limited to 4%. The 4% restriction only applies in a year when the full appropriations required by the bill are included in the 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.

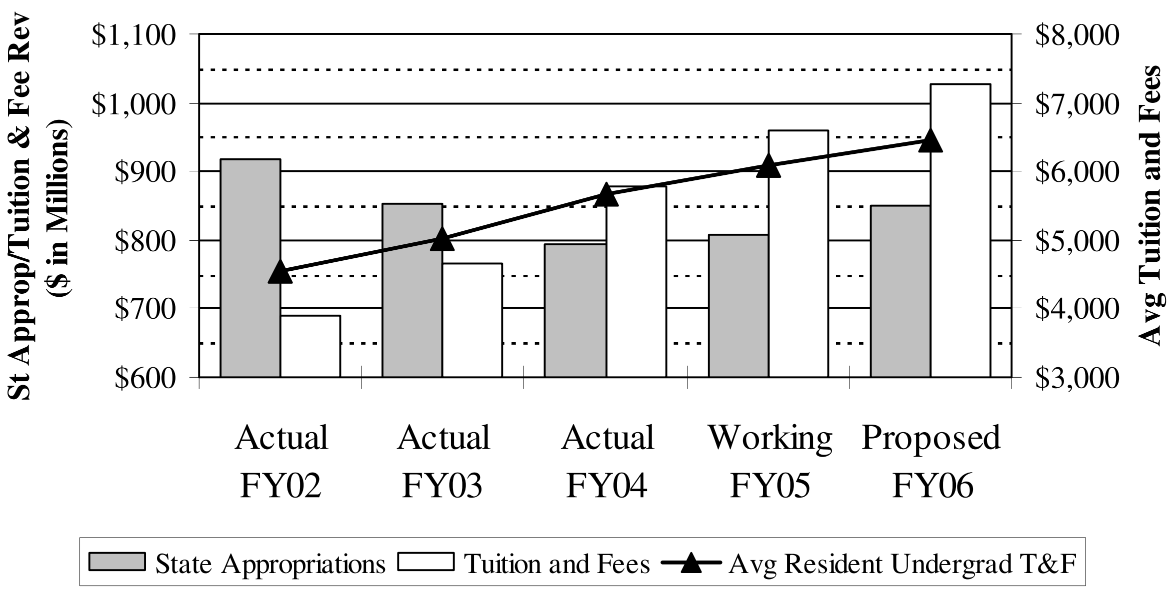
The bill further asserts that it is the intent of the General Assembly that the State move the sum of per student general fund State support and per student tuition revenue for USM institutions to at least the average of their peer institutions, as determined by the Maryland Higher Education Commission (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 HBIs in accordance with the State's OCR agreement.

**Current Law:** Funding for USM and MSU are as provided in the annual State budget. It is the intent of the General Assembly 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.

**Background:** From fiscal 2002 to 2005, State funding for higher education has declined, and public institutions of higher education have responded with higher tuition and fee rates. As shown in **Exhibit 1**, tuition and fee revenues at USM institutions and MSU surpassed State appropriations for the institutions in fiscal 2004, and the difference between the two revenue sources grows to nearly $200 million in the proposed fiscal 2006 State budget. The proposed budget includes increases in the State appropriations for USM and MSU of 5.4% and 5.0%, respectively, but the level of State funding for USM and MSU will still be below the fiscal 2002 level by approximately $65 million. Despite the decline in State support, USM and MSU revenues from State appropriations and tuition and fees combined is expected to increase by 16.7% from fiscal 2002 to 2006 due to significant growth in tuition and fee revenues. The exhibit shows the growth in the average tuition and mandatory fee rate for resident undergraduates at MSU and USM institutions. The average rate will increase by 42% over the five-year period, from $4,555 in fall 2001 to $6,457 in fall 2005.

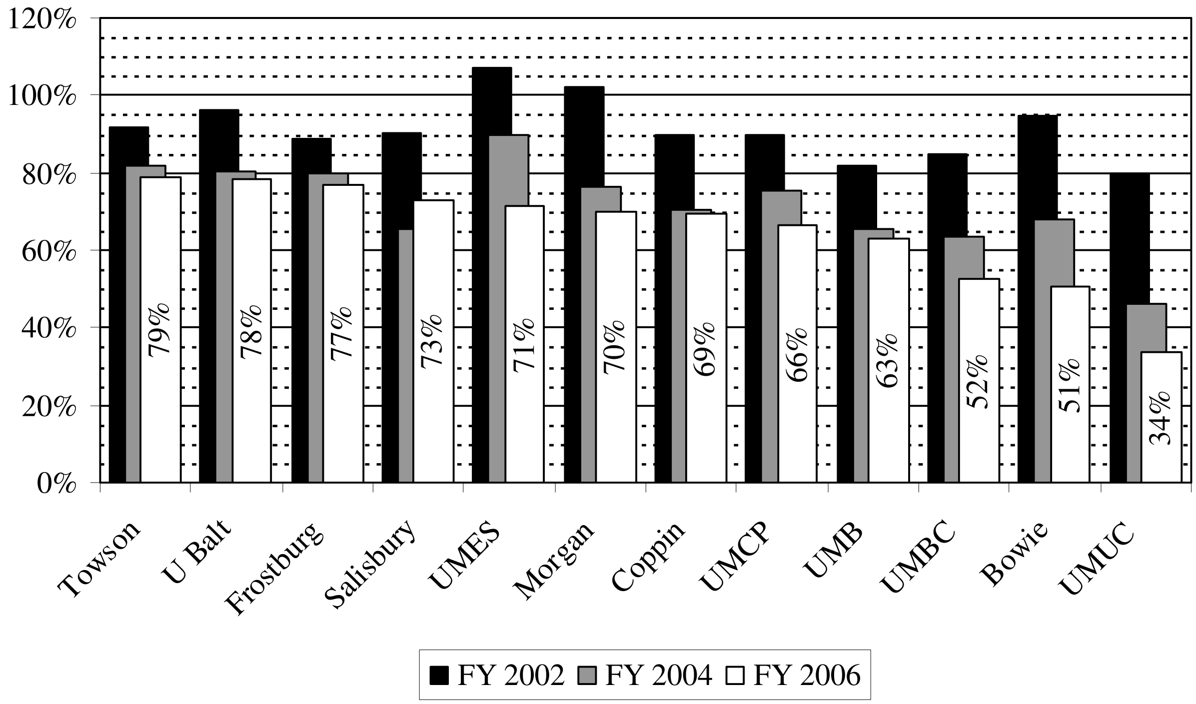
**Exhibit 1**
**State Appropriations and Tuition and Fee Revenues**
**University System of Maryland and Morgan State University**
**Fiscal 2002 to 2006**




Source: *Maryland Operating Budget*, fiscal 2004 to 2006

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 2006 is below fiscal 2002 attainment for every institution and is below fiscal 2004 attainment for every institution except Salisbury University. None of the fiscal 2006 estimates show attainment of 90% of the funding guidelines as proposed by this bill.

**Exhibit 2**
**Funding Guideline Attainment**
**Fiscal 2002 to 2006**




Source: Maryland Higher Education Commission

**State Fiscal Effect:** The fiscal impact of the bill involves three components: (1) increases in State general fund appropriations for USM and MSU beginning in fiscal 2006; (2) decreases in tuition and fee revenues for USM and MSU beginning in fiscal 2006; 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 2007. These impacts are discussed individually below and are then combined to show the total estimated increase in State general fund expenditures and the estimated net impact on USM and MSU revenues.

*General Fund Appropriations for USM and MSU*

If the Governor includes funding in a supplemental budget or a supplementary appropriation bill is enacted that includes the funding, general fund support for USM and MSU would increase by a total of $67.4 million in fiscal 2006. In fiscal 2007, the mandated funding amounts specified in the bill would represent an increase of $97.3

million over the appropriations that could be expected without this bill. This estimate reflects the assumption that fiscal 2007 State appropriations for USM and MSU will increase by 3.5% without a funding mandate.

Beginning in fiscal 2008, the minimum annual State support for USM institutions and MSU would be determined by a formula based on FTE resident enrollments at the institutions. By fiscal 2010, the additional general fund appropriations would total an estimated $219.6 million. This estimate assumes that resident FTE enrollment at the public four-year institutions will increase by approximately 1.5% to 3% annually and that, without this bill, State appropriations to USM and MSU would increase by 3.5% per year through fiscal 2010. The estimated annual impact on State general fund appropriations to USM and MSU is shown in **Exhibit 3**.

**Exhibit 3**
**Impact of Increased General Fund Appropriations for USM and MSU**
**Fiscal 2006 to 2010**
**($ in Millions)**

| | FY 2006 | FY 2007 | FY 2008 | FY 2009 | FY 2010 |
|---|---|---|---|---|---|
| USM Appropriation | | | | | |
| HB 1286 | $864.0 | $919.8 | $985.9 | $1,055.7 | $1,124.4 |
| Current Estimate | 798.2 | 826.2 | 855.1 | 885.0 | 916.0 |
| Impact | $65.7 | $93.6 | $130.7 | $170.6 | $208.4 |
| | | | | | |
| MSU Appropriation | | | | | |
| HB 1286 | $53.0 | $56.7 | $61.0 | $65.4 | $70.0 |
| Current Estimate | 51.3 | 53.1 | 55.0 | 56.9 | 58.9 |
| Impact | $1.7 | $3.6 | $6.0 | $8.5 | $11.1 |
| | | | | | |
| **GF Expenditure Increase** | **$67.4** | **$97.3** | **$136.7** | **$179.2** | **$219.6** |

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

*Tuition and Fee Revenues*

Tuition and fee revenues at USM institutions and MSU would decrease by an estimated $50.6 million in fiscal 2006. This estimate assumes that scheduled fiscal 2006 increases in tuition and fees for resident undergraduate students, which range from 4% to 7%, will take place if no tuition limitation is imposed. Under the bill, tuition and mandatory fees for resident undergraduates would decrease from the fiscal 2005 levels, resulting in the revenue reduction.

From fiscal 2007 to 2016, annual increases in tuition and mandatory fees for resident undergraduate students would be limited to 4%. This would further decrease tuition and fee revenues at USM institutions and MSU. Tuition and fee revenues would be an estimated $68.1 million below projected levels in fiscal 2007 and $134.3 million below projected levels by fiscal 2010. These estimates assume that tuition and fees will increase by 6.5% annually if their growth is not restricted. **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 2006 to 2010**
**($ in Millions)**

| | FY 2006 | FY 2007 | FY 2008 | FY 2009 | FY 2010 |
|---|---|---|---|---|---|
| USM Revenues | | | | | |
| HB 1286 | $490.4 | $519.5 | $550.4 | $582.4 | $613.2 |
| Current Estimates | 537.5 | 582.9 | 632.2 | 685.0 | 738.4 |
| Impact | ($47.0) | ($63.4) | ($81.9) | ($102.6) | ($125.2) |
| | | | | | |
| MSU Revenues | | | | | |
| HB 1286 | $32.8 | $34.9 | $37.1 | $39.4 | $41.8 |
| Current Estimates | 36.3 | 39.6 | 43.1 | 46.9 | 50.9 |
| Impact | ($3.5) | ($4.7) | ($6.0) | ($7.5) | ($9.1) |
| | | | | | |
| **Tuition and Fee Revenues** | **($50.6)** | **($68.1)** | **($87.9)** | **($110.1)** | **($134.3)** |

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

*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. All of the formulas are based on State support in the prior fiscal year, so there would be no impact on the formulas until fiscal 2007. **Exhibit 5** shows the estimated increases for each of the formulas. In total, general fund expenditures would increase by an estimated $20.5 million in fiscal 2007 and by $51.6 million in fiscal 2010.

**Exhibit 5**
**Impact on Sellinger, Cade, and BCCC Formulas**
**Fiscal 2007 to 2010**
**($ in Millions)**

| | FY 2007 | FY 2008 | FY 2009 | FY 2010 |
|---|---|---|---|---|
| Sellinger | | | | |
| HB 1286 | $51.4 | $54.2 | $58.0 | $62.1 |
| Current Estimates | 47.4 | 48.6 | 50.2 | 52.0 |
| Impact | $4.0 | $5.6 | $7.8 | $10.1 |
| | | | | |
| Cade | | | | |
| HB 1286 | $174.3 | $183.7 | $196.6 | $210.4 |
| Current Estimates | 160.7 | 164.7 | 170.3 | 176.2 |
| Impact | $13.6 | $19.0 | $26.3 | $34.2 |
| | | | | |
| BCCC | | | | |
| HB 1286 | $37.5 | $39.5 | $42.3 | $45.2 |
| Current Estimates | 34.5 | 35.4 | 36.6 | 37.9 |
| Impact | $2.9 | $4.1 | $5.7 | $7.4 |
| | | | | |
| **GF Expenditure Increase** | **$20.5** | **$28.7** | **$39.8** | **$51.6** |

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

*General Fund Expenditures*

If the additional fiscal 2006 funding for USM and MSU is enacted, general fund expenditures would increase by $67.4 million. With further increases for USM and MSU in fiscal 2007 and the potential addition of funding for the private institutions and community colleges, fiscal 2007 expenditures could increase by $117.8 million. By fiscal 2010, the increase is estimated at $271.2 million. The combined general fund expenditure impact of the formula increases and increased appropriations to USM and MSU is shown in **Exhibit 6**.

**Exhibit 6**
**General Fund Impact**
**Fiscal 2006 to 2010**
**($ in Millions)**

| | FY 2006 | FY 2007 | FY 2008 | FY 2009 | FY 2010 |
|---|---|---|---|---|---|
| Appropriation to USM | $65.7 | $93.6 | $130.7 | $170.6 | $208.4 |
| Appropriation to MSU | 1.7 | 3.6 | 6.0 | 8.5 | 11.1 |
| Sellinger Formula | 0.0 | 4.0 | 5.6 | 7.8 | 10.1 |
| Cade Formula | 0.0 | 13.6 | 19.0 | 26.3 | 34.2 |
| BCCC Formula | 0.0 | 2.9 | 4.1 | 5.7 | 7.4 |
| **Total** | **$67.4** | **$117.8** | **$165.5** | **$218.9** | **$271.2** |

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

*Net Impact on USM and MSU Revenues*

The net effect of the bill on USM and MSU revenues is shown in **Exhibit 7**. The exhibit combines the effects of increased State appropriations and reduced tuition and fee revenues. In total, revenues for USM would increase by an estimated $18.7 million in fiscal 2006 and by an estimated $83.2 million in fiscal 2010. However, a net decrease of $1.8 million is projected for MSU in fiscal 2006 and smaller revenue decreases are projected for fiscal 2007 and 2008. By fiscal 2009 and 2010, the net impact of the bill on MSU would be positive, increasing revenues by an estimated $1.0 million in fiscal 2009 and $2.0 million in fiscal 2010.

**Exhibit 7**
**Net Impact of Increased Appropriations and Decreased Revenues**
**Fiscal 2006 and 2010**
**($ in Millions)**

| | FY 2006* | FY 2007 | FY 2008 | FY 2009 | FY 2010 |
|---|---|---|---|---|---|
| USM | | | | | |
| Appropriation Increase | $65.7 | $93.6 | $130.7 | $170.6 | $208.4 |
| Tuition and Fees Decrease | (47.0) | (63.4) | (81.9) | (102.6) | (125.2) |
| Net Impact | $18.7 | $30.2 | $48.9 | $68.1 | $83.2 |
| | | | | | |
| MSU | | | | | |
| Appropriation Increase | $1.7 | $3.6 | $6.0 | $8.5 | $11.1 |
| Tuition and Fees Decrease | (3.5) | (4.7) | (6.0) | (7.5) | (9.1) |
| Net Impact | ($1.8) | ($1.1) | ($0.0) | $1.0 | $2.0 |
| | | | | | |
| **Total Net** | **$16.9** | **$29.2** | **$48.9** | **$69.1** | **$85.2** |

*The increases in fiscal 2006 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 2006 appropriations.

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

Overall, the exhibit shows fairly significant growth in net revenues for USM and MSU by fiscal 2010, but the more significant shift is in the revenue sources. Effectively, a significant portion of the funding for USM and MSU would shift from tuition and fees to the State.

**Local Revenues:** Community college revenues would increase by an estimated $16.5 million in fiscal 2007 and by an estimated $41.6 million by fiscal 2010. 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:** Similar cross filed bills were introduced last year as SB 112/HB 1103. SB 112 was not reported out of the Budget and Taxation Committee, and HB 1103 received an unfavorable report from the Appropriations Committee.

In addition, SB 770/HB 1188, which were also introduced last year, would have imposed a surcharge on corporate income taxes to fund enhancements to State support for higher education. The bills also would have limited increases in tuition and fees for resident undergraduate students. SB 770 was not reported out of the Budget and Taxation Committee. HB 1188 was passed by both chambers of the General Assembly before it was vetoed.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - March 2, 2005
ncs/rhh

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