HB 1308

Department of Legislative Services

Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

House Bill 1308 (Delegate Madaleno)
Appropriations

Higher Education - Tuition Limitation Based on Adequate Funding

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This bill limits increases in the fall 2006 and 2007 tuition and mandatory fee rates to 5% per year for resident undergraduate students at Morgan State University (MSU) and constituent institutions of the University System of Maryland (USM). The limitation only applies if specific general fund appropriations, which represent adequate funding levels, are provided for MSU and USM in the fiscal 2007 and 2008 State budgets.

The bill takes effect July 1, 2005.

Fiscal Summary

State Effect: Higher education tuition and fee revenues could decrease in FY 2007 or 2008 if the general fund appropriations that constitute adequate funding are provided in the FY 2007 or 2008 State budget. Any revenue losses for USM institutions and MSU are expected to be minimal because tuition and fee rates are generally set based on the level of State support the institutions receive. If the bill results in additional general fund appropriations for USM and MSU in FY 2007 or 2008, general fund expenditures for community colleges and private colleges and universities would increase in FY 2008 or 2009.

Local Effect: If the bill results in additional State support for USM and MSU, community college revenues from State aid formulas could increase in FY 2008 and 2009.

Small Business Effect: Minimal.

Analysis

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.

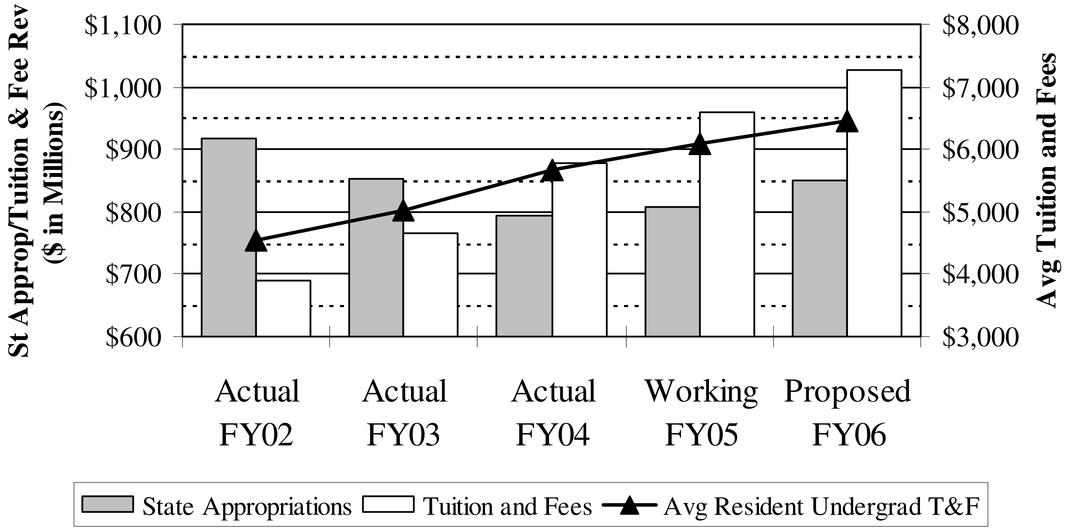
Subject to the authority and policies of the Board of Regents of USM, the president of each USM constituent institution sets tuition and fees for the institution. The Board of Regents of MSU fixes tuition for the university.

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.

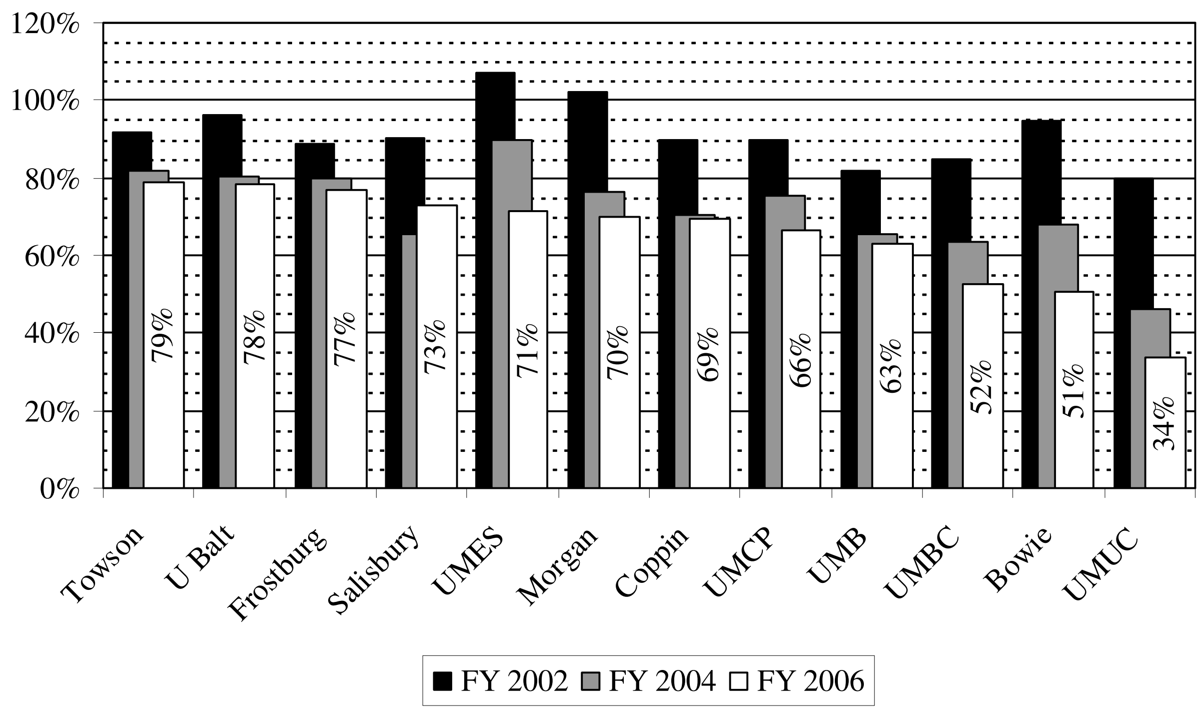
Funding guidelines attempt to calculate an appropriate level of general fund support for Maryland's public institutions of higher education using per student spending at identified peer institutions. The Maryland Higher Education Commission calculates the guidelines and, accounting for different tuition 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.

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

Exhibit 2
Funding Guideline Attainment
Fiscal 2002 to 2006



Source: Maryland Higher Education Commission

State Fiscal Effect: The bill would only impact State finances if the fiscal 2007 or 2008 State budget includes adequate funding for USM or MSU, as defined in the bill. Adequate funding levels would require increases in State general fund appropriations of 5% for MSU and more than 6% for USM in fiscal 2007 and 2008. Absent any mandates for additional funding, which the bill would not establish, it is projected that State appropriations for USM and MSU will increase by approximately 3.5% per year. Therefore, the bill is not expected to impact State funding for USM and MSU, and the restriction on tuition and fee rates would not be triggered.

Furthermore, tuition and fee rates are set based on an understanding of how much funding the State will provide. If State support increases to adequate levels in fiscal 2007 and 2008, it is assumed that USM institutions and MSU would adopt lower tuition rates even without a tuition cap. Therefore, even if the adequate State funding levels are achieved, tuition and fee revenues are not expected to decrease significantly.

The difference between current estimates and the adequate funding scenarios are shown in **Exhibit 3**. The "Current Estimates" scenarios assume that State support will increase by 3.5% per year and that tuition and mandatory fees for resident undergraduates will increase by 6.5% annually. The "Adequate Funding" scenarios assume that State appropriations equal the adequate levels defined in the bill and that tuition and mandatory fee rates for resident undergraduates would increase by 5% per year. The exhibit reveals that USM and MSU would receive higher State appropriations and would generate less tuition and fee revenue under the adequate funding models. The decreases in tuition revenues would be more than offset by increases in State support, leading to higher total revenue levels for USM and MSU. In addition, some of the funding burden for USM and MSU would shift from tuition and fees to State appropriations.

If the bill results in the State providing additional general fund support for USM and MSU, community colleges and private institutions of higher education could also benefit. State support for these colleges and universities is calculated by formulas that are based on funding for the four-year institutions of higher education in the preceding fiscal year. Therefore, increases in State funding for USM and MSU in fiscal 2007 and 2008 would lead to increased general fund expenditures for community colleges and private institutions in fiscal 2008 and 2009. As discussed above, the bill is not expected to affect State support for USM and MSU.

Local Revenues: If the bill results in increased State support for USM and MSU, community college revenues from the State would increase. Funding for the Baltimore City Community College (BCCC), which is operated by the State, and the 15 locally-operated community colleges are calculated by formulas based in part on State funding for the public four-year institutions in the prior fiscal year. Therefore, State funding increases for USM and MSU in fiscal 2007 and 2008, if any, would result in increased formula funding for community colleges in fiscal 2008 and 2009.

Exhibit 3
Difference Between Adequate Funding Scenario and Current Estimates
Fiscal 2007 and 2008

	Adequate Funding	Current Estimates	Difference
USM FY 2007			
State Appropriation	$846.7	$826.2	$20.5
Tuition and Fee Revenue*	574.7	582.9	($8.2)
Total	**$1,421.4**	**$1,409.1**	**$12.3**
USM FY 2008			
State Appropriation	$899.8	$855.1	$44.7
Tuition and Fee Revenue*	614.6	632.2	($17.6)
Total	**$1,514.4**	**$1,487.3**	**$27.0**
MSU FY 2007			
State Appropriation	$53.9	$53.1	$0.8
Tuition and Fee Revenue*	39.0	39.6	($0.6)
Total	**$92.9**	**$92.7**	**$0.2**
MSU FY 2008			
State Appropriation	$56.6	$55.0	$1.6
Tuition and Fee Revenue*	41.9	43.1	($1.2)
Total	**$98.5**	**$98.1**	**$0.4**

*Reflects only resident undergraduate tuition and mandatory fee revenues. Tuition and fee revenues for other student populations would not be restricted in the adequate funding scenarios and are not included in these estimates.

Additional Information

Prior Introductions: None.

Cross File: SB 750 (Senator Frosh) – Budget and Taxation.

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

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Analysis by: Mark W. Collins

Direct Inquiries to:
(410) 946-5510
(301) 970-5510