

Department of Legislative Services
 Maryland General Assembly
 2006 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1381

(Delegate Hixson, *et al.*)

Appropriations

Budget and Taxation

Higher Education - Tuition Affordability Act of 2006

This bill prohibits University System of Maryland (USM) institutions and Morgan State University (MSU) from increasing resident undergraduate tuition for the 2006-2007 academic year beyond the rates charged in the 2005-2006 academic year and limits fall 2006 resident tuition increases at St. Mary's College of Maryland (SMCM) to 4.8%.

In addition, the bill establishes a Commission to Develop the Maryland Model for Funding Higher Education to review a consultant's report on effective higher education funding and make recommendations for the establishment of a consistent and stable funding mechanism for institutions of higher education. The Department of Legislative Services, the Department of Budget and Management, the Maryland Higher Education Commission (MHEC), and USM must provide staff support for the commission. A final report is due from the commission by December 31, 2007, and the commission terminates May 1, 2008.

The bill takes effect June 1, 2006.

Fiscal Summary

State Effect: Higher education tuition revenues at USM, MSU, and SMCM would decrease by an estimated \$20.1 million in FY 2007 due to restrictions on tuition. The revenue loss is assumed in the adopted fiscal 2007 State budget. The commission could meet and be staffed with existing resources.

(\$ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Higher Ed Rev.	(\$20.1)	\$0	\$0	\$0	\$0
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$20.1)	\$0	\$0	\$0	\$0

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

Local Effect: None.

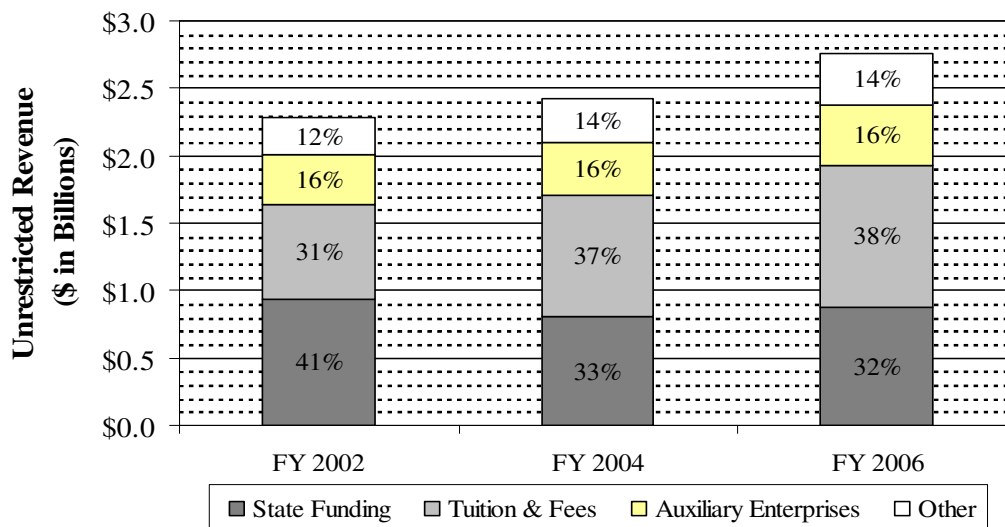
Small Business Effect: Minimal.

Analysis

Current Law: 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 and the Board of Trustees for SMCM fix tuition and fees for the institutions.

Background: From fiscal 2002 to 2006, tuition and fee revenues at Maryland's four-year public institutions of higher education increased significantly while State appropriations for the institutions decreased. During this four-year span, the percent of unrestricted revenues coming from State funding decreased from 41% in fiscal 2002 to 32% in fiscal 2006 and the percent coming from tuition and fees revenues increased from 31% to 38%. This pattern is displayed in **Exhibit 1**, which also shows that unrestricted revenues for the institutions continued to climb throughout the four-year period despite decreases in State funding. Unrestricted revenues increased by a total of \$473 million despite a drop in State funding of \$56 million. Tuition and fee revenues increased by \$345 million and unrestricted revenues from auxiliary enterprises and other sources increased \$185 million.

Exhibit 1
Unrestricted Revenues at Four-year Public Institutions of Higher Education
Fiscal 2002 to 2006



Source: *Maryland Operating Budget* books, fiscal 2004 to 2007

Along with significant increases in State funding for four-year institutions, the proposed budget for fiscal 2007 provided for increases in tuition and fee revenues of \$59 million or 5.6%, which included projected growth in student enrollment, increases in resident and nonresident student tuition and fees, and increases in undergraduate and graduate tuition and fees. **Exhibit 2** shows the increases in resident undergraduate tuition from fall 2002 to fall 2005, and as originally proposed for fall 2006. The proposed increases for fall 2006 ranged from 3% to 8%, with increases of 4.5% scheduled for most institutions. For all institutions except the University of Maryland University College, the proposed fall 2006 increases were below the average annual increases from the previous three years.

Exhibit 2
Tuition for Full-time Resident Undergraduates
Fall 2002 to 2006

<u>Institution</u>	<u>Fall</u>	<u>Fall</u>	<u>Fall 02-05</u>	<u>Proposed</u>	<u>Fall 05-06</u>
	<u>2002</u>	<u>2005</u>	<u>Avg. Annual</u>	<u>Fall 2006</u>	<u>% Change</u>
			<u>% Change</u>		
Coppin State University	\$2,877	\$3,527	7.0%	\$3,632	3.0%
UM Eastern Shore	3,029	4,112	10.7%	4,276	4.0%
Bowie State University	3,103	4,286	11.4%	4,479	4.5%
Salisbury University	3,394	4,814	12.4%	5,030	4.5%
Frostburg State University	3,632	5,000	11.2%	5,224	4.5%
Towson University	3,804	5,180	10.8%	5,414	4.5%
University of Baltimore	3,888	5,325	11.1%	5,565	4.5%
UM College Park	4,572	6,566	12.8%	6,861	4.5%
UMBC	4,614	6,484	12.0%	6,776	4.5%
UM University College*	4,944	5,520	3.7%	5,768	4.5%
Morgan State University	3,150	4,000	8.3%	4,280	7.0%
St. Mary's College	6,925	9,063	9.4%	9,770	7.8%

*Based on 24 credit hours.

The Governor's proposed fiscal 2007 budget overstated the projected costs for employee and retiree health insurance by about \$85 million due to faulty actuarial assumptions and lower than anticipated fiscal 2006 costs. A portion of these overstated costs were budgeted for USM, MSU, and SMCM. The General Assembly amended the Governor's budget to authorize the use of the overstated health insurance funds in place of tuition revenues associated with proposed increases in resident undergraduate tuition rates for fall 2006. This will allow for freezes in resident undergraduate tuition rates for USM institutions and MSU and a reduction in resident tuition of 3.0% for SMCM with little or

no loss of total revenue for the institutions. Supplemental Budget No. 1 submitted by the Governor officially appropriated \$18.1 million in general funds previously budgeted for health insurance for USM and MSU. The fiscal 2007 budget approved by the General Assembly authorizes SMCM to use overstated health insurance funds in place of tuition revenues.

State Revenues: Higher education tuition revenues would decrease by a total of \$20.1 million in fiscal 2007: \$18.9 million for USM, \$823,257 at MSU, and \$377,418 at SMCM. This is a one-year revenue reduction and is assumed in the fiscal 2007 State budget that has been adopted by the General Assembly.

State Expenditures: The bill requires the Commission to Develop the Maryland Model for Funding Higher Education to review a report issued by Van de Water Consulting, Inc. This report is underway and is being funded by MHEC. This bill will require no additional funding for the report.

It is assumed that members appointed to the commission could participate in commission meetings without incurring additional costs and that the commission could be supported with existing personnel from the agencies assigned to staff the commission.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 5, 2006
ncs/rhh Revised - Enrolled Bill - April 7, 2006

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