

Department of Legislative Services
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FISCAL AND POLICY NOTE
Revised

House Bill 533

(Delegate Bozman, *et al.*)

Ways and Means

Budget and Taxation

Community Colleges - State Funding - Size Factor Component

This bill establishes a five-year phase-out of the size factor component received by a community college under the Senator John A. Cade funding formula once the college no longer qualifies for the size factor component. The first year a community college fails to qualify for the component, it receives 80% of the amount it received from the component in the prior year. This percentage is reduced by 20% in each succeeding year, until it reaches 0% in the fifth year after the college last qualified for the size factor component. The overall funding level for the size factor component is not affected by the phase-out.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: None. Overall funding for the size factor component of the Cade formula would not be affected.

Local Effect: Total State funding for local community colleges would not be affected, but the distribution of the size factor component would be affected if one of the colleges loses eligibility for the component. Current projections do not anticipate any colleges losing eligibility for the size factor component.

Small Business Effect: None.

Analysis

Current Law: A college qualifies for the size factor component of the Senator John A. Cade funding formula (Cade formula) in any year when its full-time equivalent student (FTES) enrollment is below 80% of the median community college FTES enrollment. A community college that does not qualify for the size factor component receives no funding for that component even if funding for the component was received the previous year.

Per pupil Cade formula funding is equal to 25% of the per pupil State funding for four-year public institutions of higher education during the previous fiscal year. The size factor component of the Cade formula makes up 2% of the total direct grants provided under the formula.

In addition to the size factor component, the Cade formula includes a fixed cost component and a marginal cost component that make up 38% and 60% of formula funding, respectively. All community colleges qualify for these components. There is also a hold harmless provision that ensures that the total funding level for a college does not decrease from one fiscal year to the next.

Background: The fiscal 2007 State budget includes \$164.8 million for the Cade formula. Formula funding for each community college, broken out by component, is shown in **Exhibit 1**. The exhibit shows that seven colleges will receive \$470,942 each for the size factor component.

In fiscal 2005, after receiving State funds for the size factor component since the inception of the Cade formula in 1996, Wor-Wic Community College did not qualify for the component. The college has again qualified for the component in fiscal 2006 and 2007, but in fiscal 2007, Carroll, Hagerstown, and Wor-Wic community colleges are all approaching the point at which they would no longer qualify. **Exhibit 2** compares FTES enrollments at these three colleges with the threshold that would disqualify them from size factor funding.

Exhibit 1
Senator John A. Cade Formula Funding
Fiscal 2007

<u>College</u>	<u>FTES</u> <u>FY 2007</u>	<u>Fixed Cost</u> <u>Component</u>	<u>Marginal Cost</u> <u>Component</u>	<u>Size Factor</u> <u>Component</u>	<u>Total</u> <u>Grants</u>
Allegheny	1,700.06	\$1,530,938	\$2,021,344	\$470,942	\$4,023,224
Anne Arundel	11,843.65	8,763,994	14,081,910	0	22,845,904
Baltimore County	16,405.30	12,255,517	19,505,639	0	31,761,156
Carroll	2,493.12	2,025,471	2,964,280	470,942	5,460,692
Cecil	1,501.98	1,317,014	1,785,830	470,942	3,573,786
Southern Maryland	4,580.85	3,246,017	5,446,557	0	8,692,575
Chesapeake	1,925.06	1,804,857	2,288,866	470,942	4,564,664
Frederick	3,189.48	2,277,937	3,792,241	0	6,070,177
Garrett	526.77	676,444	626,321	470,942	1,773,707
Hagerstown	2,407.40	1,965,497	2,862,360	470,942	5,298,799
Harford	4,198.64	3,129,518	4,992,116	0	8,121,634
Howard	5,096.45	3,581,200	6,059,598	0	9,640,797
Montgomery	15,250.84	10,613,251	18,133,005	0	28,746,256
Prince George's	9,634.67	7,365,589	11,455,468	0	18,821,058
Wor-Wic	<u>2,424.11</u>	<u>2,082,006</u>	<u>2,882,228</u>	<u>470,942</u>	<u>5,435,176</u>
Total	83,178.38	\$62,635,250	\$98,897,763	\$3,296,592	\$164,829,605

Exhibit 2
Colleges Approaching Disqualification from the Cade Size Factor Component
Fiscal 2007

Median FTES	3,189.48			
80% of Median	2,551.58			
Carroll	2,493.12	FTES	78.2%	of Median
Wor-Wic	2,424.11	FTES	76.0%	of Median
Hagerstown	2,407.40	FTES	75.5%	of Median

Local Revenues: Total community college revenues would not be affected; however, if one of the colleges that currently qualifies for the size factor component fails to qualify in a future fiscal year, State funding for the small colleges will be redistributed. Under current law, size factor component funding is distributed only to qualifying colleges. Under the bill, the same total funding level could be distributed to qualifying colleges and

recent nonqualifiers, resulting in an increase in funding for a college that loses eligibility and a decrease in funding for the other small colleges.

At this time, three community colleges are close to the enrollment figure that would exclude them from size factor component eligibility. However, current projections do not anticipate any of them not qualifying for the component in the near future. If the seven current qualifiers continue to qualify, there would be no impact on the distribution of Cade formula funding.

Additional Information

Prior Introductions: None.

Cross File: SB 357 (Senator Hogan, *et al.*) – Budget and Taxation.

Information Source(s): Maryland Higher Education Commission, Baltimore City Community College, Department of Legislative Services

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