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FISCAL AND POLICY NOTE
Revised

House Bill 1435
 Ways and Means

(Delegate Ramirez, *et al.*)

Education, Health, and Environmental Affairs

Higher Education - Financial Assistance - Community College Access Initiative

This bill requires the Maryland Higher Education Commission to increase award amounts for Educational Excellence Awards granted to community college students. Awards must be based on at least 55% of financial need in fiscal 2007 and at least 60% of financial need in fiscal 2008 and thereafter.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: General fund expenditures would increase by an estimated \$2.9 million in FY 2007 due to increased need-based award amounts for community college students. The proposed FY 2007 State budget includes sufficient funds to implement the bill. Future year expenditure estimates reflect the continued phase-in of the new program in FY 2008 and projected tuition increases. General fund expenditures for the Baltimore City Community College (BCCC) and Senator John A. Cade formulas could also increase beginning in FY 2009 if community college enrollments increase. Revenues would not be affected.

(\$ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	2.9	5.1	5.3	5.6	5.9
Net Effect	(\$2.9)	(\$5.1)	(\$5.3)	(\$5.6)	(\$5.9)

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

Local Effect: Community college tuition revenues would increase beginning in FY 2007 if more students are able to attend the colleges as a result of the bill. Revenues from State aid could increase beginning in FY 2009.

Small Business Effect: None.

Analysis

Current Law: The Educational Excellence Award (EEA) program includes two different grant programs: guaranteed access grants (GAGs) and educational assistance grants (EAGs). GAGs are awarded to the neediest students and provide funding based on 100% of financial need. An EAG award, which this bill addresses, is provided based on a percentage of a student's calculated need. A student's need is calculated by subtracting an estimated family contribution and any federal Pell grant funds the student has received from the total cost of attending an institution. If the amount is above \$400, the student is eligible for an EAG award. The maximum award amount in statute is \$3,000; the maximum amount distributed by MHEC is currently \$2,700. In fiscal 2006, EAG awards for community college students are based on 45% of need. EAG awards for students at four-year institutions of higher education meet 35% of need.

Fifteen of the State's 16 community colleges receive State funding through the Senator John A. Cade funding formula (Cade formula). The other college, Baltimore City Community College (BCCC), is operated by the State and receives funding through a separate formula.

Background: This bill codifies the Community College Access Initiative that MHEC began in fiscal 2006. Prior to fiscal 2006, community college EAG awards were based on 35% of need, the same percentage that is used to determine an EAG award for use at a four-year institution. In fiscal 2006, the percentage was increased to 45% with the expectation that the percentage would increase by 5% each year until it reaches 60%. However, the proposed fiscal 2007 State budget includes an increase of \$17.4 million in the EEA program, which will allow MHEC to reach 60% in fiscal 2007, two years early.

Community colleges serve nearly half of Maryland's undergraduate students and play an important role in keeping higher education more affordable in the State. Maryland has consistently received low marks for higher education affordability from the national Measuring Up report card, which uses tuition costs and need-based aid grants to determine a state's grade. As shown in **Exhibit 1**, community college students make up just 25% of financial aid recipients in the State and receive less than 10% of financial aid funds.

Exhibit 1
Distribution of State Financial Aid Funds
Compared to Total Maryland Enrollments
Fiscal 2004

<u>Segment</u>	<u>% of State Financial Aid Funds</u>	<u>% of State Aid Recipients</u>	<u>% of Maryland Enrollments</u>
Community Colleges	9%	25%	46%
Two-year Independent Institutions	1%	1%	1%
Four-year Public Institutions	70%	60%	41%
Four-year Independent Institutions	20%	14%	12%

Note: Does not include private career schools.
Source: Maryland Higher Education Commission

State Expenditures: General fund expenditures will increase by an estimated \$2.9 million in fiscal 2007 to award EAGs to community college students at 55% of need instead of 45% of need. This estimate is based on an estimated \$248 increase in the average award amount to \$1,396. The additional funding needed to reach this level is included in the proposed fiscal 2007 State budget.

In fiscal 2008, as the program continues its phase-in, general funds would increase by an estimated \$5.1 million. When fully phased in, the average award would be approximately \$1,540. Future year estimates reflect annual increase of 5% to account for increases in tuition. Projected increases for each fiscal year are shown in **Exhibit 2**.

Exhibit 2
Community College Access Initiative
Fiscal 2007 to 2011

	<u>Required</u> <u>% of Need</u>	<u>Cost Compared to</u> <u>45% of Need</u>
FY 2007*	55%	\$2,929,240
FY 2008	60%	5,086,053
FY 2009	60%	5,340,356
FY 2010	60%	5,607,374
FY 2011	60%	5,887,743

* The proposed fiscal 2007 budget includes sufficient funding to award community college grants at 60% of need.

If the bill leads to increased community college enrollments, State aid for community colleges under the Cade and BCCC funding formulas will increase beginning in fiscal 2009. The formulas provide State funding based on student enrollments from the second prior fiscal year, so an increase in student enrollment in fiscal 2007 results in additional State spending in fiscal 2009. Fiscal 2009 funding for the BCCC formula will be approximately \$6,170 per pupil, and fiscal 2009 per pupil State funding for the Cade formula is estimated at \$2,340. The number of additional students the Community College Access Initiative might add to the student enrollment counts cannot be reliably estimated.

Local Revenues: If the Community College Access Initiative results in higher student enrollment counts, locally-operated community colleges will realize additional tuition revenues beginning in fiscal 2007 and additional State aid beginning in fiscal 2009. The number of additional students the initiative might add to the student enrollment counts cannot be reliably estimated.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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