

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

House Bill 283
Ways and Means

(Delegate Gutierrez, *et al.*)

Higher Education - State Student Financial Assistance - Eligibility

This bill prohibits the Office of Student Financial Assistance (OSFA) from refusing to consider an application for State student financial assistance simply because the student's application for federal student aid is denied. OSFA must implement a process to determine and verify the reasons that a student's federal application is denied and ensure that students who are denied federal assistance are still considered for State grants. For purposes of awarding State financial assistance, the process must compare students whose federal aid applications are denied to students who successfully file an application for federal student aid.

Fiscal Summary

State Effect: General fund expenditures could increase significantly beginning in FY 2008 to provide guaranteed access grants to qualifying students who are denied federal financial assistance. In FY 2007, the average award amount for the program is nearly \$9,500. General fund expenditures for other need-based financial aid programs could also increase. Revenues would not be affected.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Although there is no statute governing the practice, OSFA advises that there are a number of situations in which it makes an initial award to a student despite the federal government's rejection of the student's Free Application for Federal Student Aid

(FAFSA). Federal denial is often the result of an error on a student's FAFSA, and OSFA makes an initial award assuming the error will be identified and corrected by the institution of higher education the student is attending. If a problem with a FAFSA is not resolved, OSFA cancels the State award.

The State's largest need-based financial aid program is the Education Excellence Award Program. The program includes two types of awards, the guaranteed access grant and the educational assistance grant. To qualify, a recipient has to be a Maryland resident who demonstrates a financial need and has been accepted at a two-year or four-year Maryland institution of higher education. Guaranteed access grants support students with annual family incomes below a poverty index established by the Maryland Higher Education Commission (\$26,000 for a family of four in fiscal 2008) and are awarded to all eligible students who submit their applications on time. Award amounts cover 100% of the cost of college attendance, less an expected family contribution and any other State and federal financial aid. Educational assistance grants provide a maximum grant of \$3,000 to support students with low and moderate family incomes. Grant awards and the number of recipients are dependent on funds provided in the State budget.

Background: Language in the 2006 *Joint Chairmen's Report* requested that the Maryland Higher Education Commission (MHEC) submit a report on the number of students denied State financial assistance due to federal restrictions relating to failure to register for selective service, federal loan defaults, citizenship status, and drug convictions. MHEC concluded that 163 awards from fiscal 2004 to 2007 (.08% of the more than 200,000 total awards) were cancelled because of federal restrictions. Further, more than half of these rejections were due to problems with the way the FAFSA was filled out (*e.g.*; blank financial information, missing forms, and missing signatures), not issues related to applicants' backgrounds. The number of awards that were cancelled from fiscal 2004 to 2006 and the first half of fiscal 2007 are shown in **Exhibit 1**. Not shown in the table or included in MHEC's report were approximately 100 applicants who were not considered for awards because they are not U.S. citizens or eligible noncitizens.

Exhibit 1
Awards Cancelled Due to Federal Restrictions
Fiscal 2004-2007

	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>Total</u>
Not Registered for Selective Services	0	0	1	2	3
Loan Default	22	12	4	5	43
Not a Citizen or Eligible Noncitizen	1	4	10	16	31
Drug Conviction	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal	23	16	15	23	77
FAFSA-related Problems	<u>1</u>	<u>15</u>	<u>42</u>	<u>28</u>	<u>86</u>
Grand Total	24	31	57	51	163
Total State Awards	44,851	47,646	52,172	57,216	201,885
Percent of Total Awards	0.05%	0.07%	0.11%	0.09%	0.08%

Note: Fiscal 2006 and 2007 total State awards are estimates. Fiscal 2007 cancellations cover only the fall 2006 semester.

Source: Maryland Higher Education Commission

OSFA uses FAFSAs to determine eligibility and award amounts under the following student financial assistance programs:

- Guaranteed Access Grants;
- Educational Assistance Grants;
- Part-time Grants;
- Graduate and Professional Scholarships;
- Senatorial Scholarships;
- Workforce Shortage Student Assistance Grants; and
- Jack F. Tolbert Student Grants.

State Fiscal Effect: General fund expenditures for guaranteed access grants could increase significantly in future fiscal years if students who are denied federal assistance qualify for need-based State assistance. Guaranteed access grants are provided to every eligible student, and the fiscal 2007 average award amount for the program is \$9,456.

It is not known how many of the 51 fiscal 2007 applicants whose awards were cancelled due to federal restrictions and the 100 ineligible noncitizens whose applications were not

considered may have been eligible for guaranteed access grants based on their need, but the number is probably not large. With an average award amount approaching \$10,000, however, even a relatively small number of additional recipients could increase general fund expenditures for the grants by \$100,000 to \$200,000 in fiscal 2008.

Expenditures would increase in future years as eligible students renew their awards and new applicants are awarded grants. It is also likely that the bill would lead to more applicants for guaranteed access grants since eligibility for the program would be relaxed somewhat.

Funding levels for the other student financial assistance programs that use FAFSAs are discretionary so expanding eligibility for the programs will not necessarily result in additional State spending. The effects on other State assistance programs that use FAFSAs are discussed in **Exhibit 2**.

Exhibit 2
Discretionary Need-based State Financial Assistance Programs

<u>Program</u>	<u>Fiscal Impact Discussion</u>
Educational Assistance Grants	Expenditures could increase to make additional awards. The estimated fiscal 2007 average award amount is \$2,317.
Part-time Grants <i>and</i> Graduate and Professional Scholarships	Institutions of higher education, not OSFA, make awards for these programs. OSFA advises that the programs do not currently have sufficient funds to make additional awards.
Senatorial Scholarships	Senators receive an allocation of \$34,500 annually, so extending eligibility for the scholarships could increase applications but will not increase expenditures.
Workforce Shortage Student Assistance Grants	OSFA advises that the program does not currently have sufficient funds to make additional awards. The annual award amount ranges from \$1,000 to \$4,000.
Jack F. Tolbert Student Grants	Expenditures could increase to make additional awards. The estimated fiscal 2006 average award amount is \$300.

Additional Information

Prior Introductions: HB 1310 of 2006, a nearly identical bill, received an unfavorable report from the House Ways and Means Committee.

Cross File: None.

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

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