

**Department of Legislative Services**  
Maryland General Assembly  
2007 Session

**FISCAL AND POLICY NOTE**  
**Revised**

Senate Bill 834

(Senator Rosapepe)

Education, Health, and Environmental Affairs

Ways and Means

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**Delegate Howard P. Rawlings Program of Educational Excellence Awards -  
Guaranteed Access Grants - Eligibility Determination**

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This bill names the Educational Excellence Award Program for former Delegate Howard P. Rawlings and prohibits the Office of Student Financial Assistance (OSFA) from considering an amount received as an earned income credit when determining the financial need of an applicant for a guaranteed access grant.

The bill takes effect July 1, 2007.

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**Fiscal Summary**

**State Effect:** Overall funding for the Educational Excellence Award Program, of which guaranteed access grants are one component, would not necessarily be affected, but program funds would be redistributed. The Maryland Higher Education Commission (MHEC) and OSFA could implement the change in the administration of the program with existing resources.

**Local Effect:** None.

**Small Business Effect:** Minimal.

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**Analysis**

**Current Law:** To determine the financial need of applicants for State financial aid under the Educational Excellence Award Program, which includes guaranteed access grants, OSFA uses the Free Application for Federal Student Aid (FAFSA). FAFSAs include any

earned income credit amounts received by an applicant. Individuals who work and earn less than an amount established by the federal government (\$38,348 for a married couple with two or more children for 2006 returns) are eligible for the earned income credit.

The Educational Excellence Award Program is the State's largest financial aid program. The program includes two types of awards, the guaranteed access grant and the educational assistance grant. To qualify for either grant, a recipient must 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. Funding for the program is as provided in the annual State budget.

Guaranteed access grants support students with annual family incomes below a poverty index established by MHEC (\$26,000 for a family of four in fiscal 2008) and are awarded to all eligible students who submit their applications on time. An award covers 100% of the cost of college attendance, less an expected family contribution and any other State and federal financial aid a student receives.

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 the amount appropriated for Educational Excellence Awards in the annual State budget.

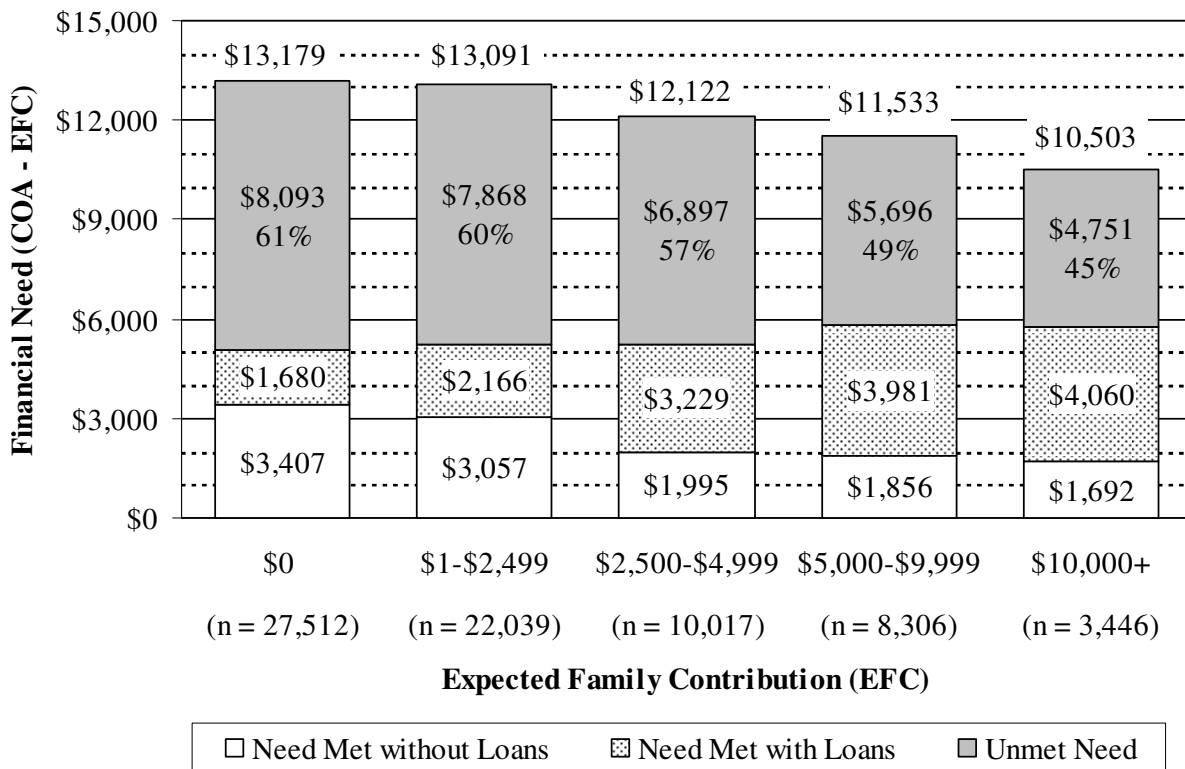
**Background:** Financial need for a higher education student is calculated by subtracting an expected family contribution (EFC) from the cost of attendance (COA) at the student's institution of higher education. Following broad federal guidelines for the computation of a COA, an institution of higher education sums direct college-related expenses (*e.g.*, tuition and fees, books, and room and board) and may also add some student-specific expenses such as child care or travel costs.

A student's EFC is calculated using the FAFSA. OSFA downloads FAFSA data from the U.S. Department of Education into the information system it uses to make need-based awards. EFC is correlated with a student's family income, but it also takes into consideration other factors such as the number of children in the student's family, family assets, and the federal earned income credit. If a student's COA, as calculated by the institution of higher education, is higher than the EFC calculated by the FAFSA, the student has a demonstrated financial need.

Data from MHEC's financial aid information system for the 2004-2005 school year indicate that the financial needs of lower income students are often not being met. **Exhibit 1** shows that the students with the lower EFCs, typically the students with the lowest incomes, have the highest unmet needs after considering federal, State, and

institutional financial aid. Although students with zero EFCs received, on average, \$3,407 in grants and scholarships and \$1,680 in loans, they had an average unmet need of nearly \$8,100. The exhibit shows that the average unmet need for students decreased as the students' EFCs increased.

**Exhibit 1**  
**Average Met and Unmet Need by Expected Family Contribution**  
**Among Students Who Had Unmet Needs**  
**Public Institutions of Higher Education, 2004-2005**



Note: The chart includes data on 38,093 community college students and 33,227 students at public four-year institutions who received financial aid but still had unmet needs.

Source: Financial Aid Information System, Maryland Higher Education Commission

The Office of the Comptroller reports that the number of Maryland taxpayers who have received refundable earned income credits over the last five tax years (2001 to 2005) has ranged from approximately 173,000 to 218,000. There were more than 211,000 Maryland taxpayers who received refundable earned income credits in 2005, and the credits amounted to \$91.4 million.

Delegate Howard P. Rawlings served in the General Assembly from 1979 until he passed away in November 2003. He was the Chairman of the House Appropriations Committee from 1992 to 2003 and influenced a wide range of issues. One of his passions was improved access to higher education for disadvantaged students.

**State Fiscal Effect:** Funding for the Educational Excellence Award Program, which supports both guaranteed access and educational assistance grants, is as provided in the annual State budget; therefore, any changes in eligibility or award amounts for recipients of guaranteed access grants would not necessarily affect total State spending for the program. Currently, OSFA calculates and awards guaranteed access grants first since all eligible students receive awards that cover 100% of their financial needs. Any remaining funds appropriated for the Educational Excellence Award Program are then used to support educational assistance grants, which are awarded in order of students' EFCs, from the lowest EFC to the highest, until funds run out.

Because earned income credits have always been used in the calculation of student needs, it is not known how many additional students would qualify for the grants if the credits were excluded. In fiscal 2007, OSFA received 2,330 applications for guaranteed access grants and made 517 awards to qualifying students entering college. This left 1,813 ineligible applications. If 5% of the nonqualifiers would have qualified under the bill, approximately 90 additional students would have received guaranteed access grants. Although the bill would increase the number of eligible applicants for the grants, OSFA advises that the bill would not have a significant impact on the average award amount, which is \$9,456 in fiscal 2007. Awarding grants to approximately 90 additional students per year would therefore increase spending for guaranteed access grants by an estimated \$850,000 to \$900,000 annually.

Because funding for the Educational Excellence Award Program is a single line item in the State budget, an increase in spending for the guaranteed access grants in fiscal 2008 would result in an equivalent decrease in spending for the educational assistance grants. From fiscal 2005 to 2007, funding for guaranteed access grants comprised 16% to 18% of the total amount awarded under the Educational Excellence Award Program. This bill could increase that proportion. Without additional funding for the program in future fiscal years, the number of educational assistance grants awarded each year would decrease. In effect, student financial aid funds would be reallocated from more affluent students to less affluent students.

MHEC advises that it could administer changes in its grant awarding processes with existing personnel and resources.

## Additional Information

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Office of the Comptroller, Maryland Higher Education Commission, Department of Legislative Services

**Fiscal Note History:** First Reader - March 6, 2007  
mll/rhh Revised - Senate Third Reader - April 2, 2007  
Revised - Enrolled Bill - May 11, 2007

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