Department of Legislative Services

Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

House Bill 1047 (Delegate Mizeur, *et al.*)
Appropriations

Higher Education - Maryland Truth in Tuition Act

This bill requires four-year public institutions of higher education to develop long-term tuition plans. Beginning in July 2008, institutions must annually publish the tuition rates that will be charged in the upcoming academic year and the three academic years after the upcoming year. The plans may establish tuition rates that increase each year as necessary to maintain an appropriate level of services, but once a tuition rate has been published, it may not be changed.

The bill takes effect June 1, 2007.

Fiscal Summary

State Effect: Higher education tuition revenues could increase beginning in FY 2010 if out-year tuition rates are intentionally set at high levels to allow institutions to absorb unanticipated cost increases or lower-than-expected State funding levels. Tuition revenues could decrease if cost increases or limitations on State support have a greater impact than anticipated under the plans. Institutions could prepare tuition plans with existing personnel and resources.

Local Effect: None.

Small Business Effect: Minimal.

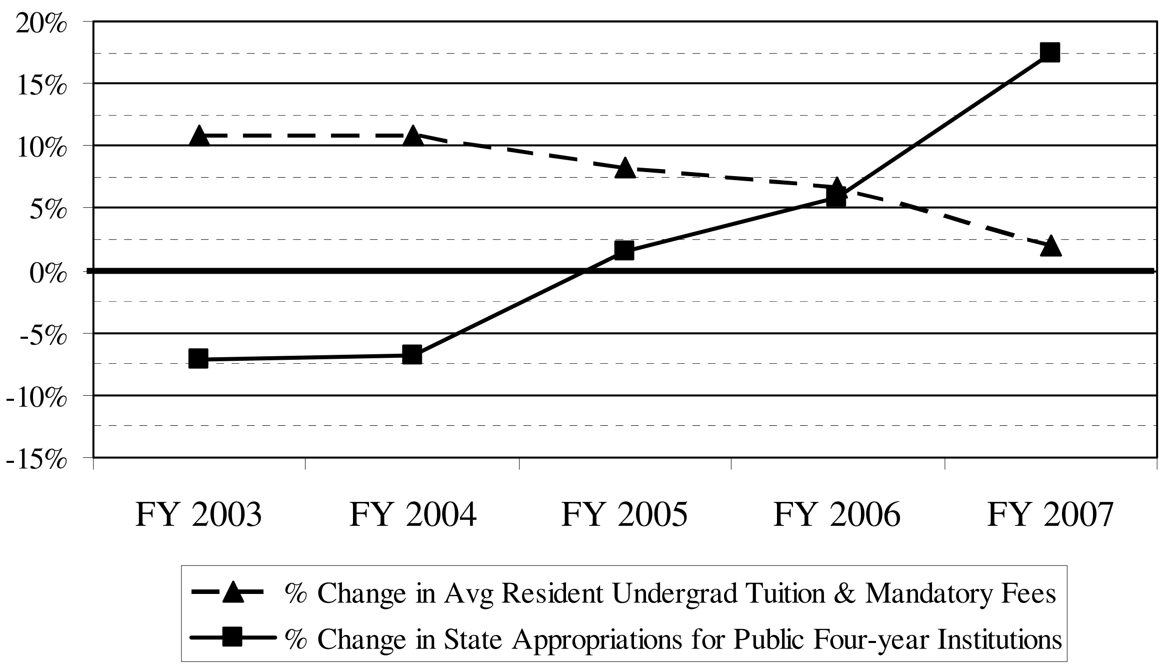
Analysis

Current Law: Subject to the authority and policies of the Board of Regents of the University System of Maryland (USM), the president of each USM constituent institution sets tuition for the institution. The Board of Regents of Morgan State University (MSU) and the Board of Trustees for St. Mary's College of Maryland (St. Mary's) fix tuition for the institutions.

Background: Tuition for resident undergraduates at Maryland's four-year public institutions of higher education grew rapidly from fall 2002 to 2005, due at least in part to reductions in State general fund support for the institutions. Last year, in response to growing concerns about the affordability of a college education in Maryland, Chapters 57 and 58 of 2006 froze tuition at fall 2005 prices for in-state undergraduates attending MSU and USM institutions and limited tuition growth for in-state undergraduates at St. Mary's. Excess funds in the budget were used to provide additional State funding to the institutions to cover the revenue loss that would be incurred by the freeze.

Exhibit 1 compares the annual percentage changes in State funding for four-year public institutions of higher education and average resident undergraduate tuition and mandatory fee rates from fiscal 2002 to 2007. The exhibit shows that there is a clear correlation between State funding and tuition rates. The largest tuition increases occurred in fiscal 2003 and 2004 when State funding was reduced. As State general fund appropriations for the institutions increased in subsequent years, the growth in tuition rates declined.

Exhibit 1
Annual Percentage Changes in Resident Undergraduate Tuition Rates and State Appropriations for Four-year Public Institutions of Higher Education



The proposed fiscal 2008 State budget assumes a second year of stable resident undergraduate tuition rates at USM institutions and MSU. Additional State general funds are included in the proposed budget to replace the revenue that will be lost if tuition rates are held at fall 2005 levels for a second straight year.

State Revenues: Tuition rates at public institutions of higher education are generally set in response to State funding levels. When State funding for institutions increases, the growth in tuition rates has been moderate. When State funding levels have declined or have increased more slowly, institutions have responded with greater increases in tuition rates. In effect, the bill could result in a reverse of the current structure, with State appropriations responding to tuition rates set by the institutions, rather than the institutions responding to State support levels.

It is assumed, however, that tuition rates may be set somewhat high, especially when the State's fiscal condition is in question, so institutions will be prepared for potential downturns in State funding levels or unexpected cost increases at the institutions. If State support is less than was anticipated when a tuition plan was prepared, or if unanticipated cost increases have a greater impact than expected, tuition revenues could be less under the bill than they would be under current law. The first tuition plans would be due from institutions in July 2008, meaning the institutions would have time to respond to fiscal 2009 State appropriations that will be approved in April 2008. Thus, there would be no impact on tuition revenues before fiscal 2010.

Fund balances at USM, MSU, and St. Mary's could also be used to help maintain more stable tuition rates at public institutions of higher education. The chart below shows the fund balances at the end of fiscal 2008 for each, as projected in the proposed fiscal 2008 State budget, as a percent of current unrestricted revenues (CUR).

	USM	MSU	St. Mary's
Proposed FY 2008 CUR	$2,905,885,086	$145,039,497	$59,346,012
Projected Fund Balance	450,530,955	4,834,721	2,767,043
Fund Balance as a % of CUR	16%	3%	5%

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

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nas/rhh

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