SB 623

Department of Legislative Services

Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

Senate Bill 623 (Senator Rosapepe, *et al.*)
Budget and Taxation

Tuition Cap and College Opportunity Act of 2008

This bill mandates annual State general fund support levels for constituent institutions of the University System of Maryland and Morgan State University to reach 100% of the existing funding guidelines by fiscal 2014. In each fiscal year that the State's general fund appropriations for USM and MSU meet the required funding levels, growth in the tuition and mandatory fee rates for resident undergraduates at USM institutions and MSU is limited to 4%. The bill also states that it is the intent of the General Assembly that USM improve its effectiveness and efficiency. By November 1, 2009 and every two years thereafter, USM must submit a report on its efforts to improve its effectiveness and efficiency.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: Higher education tuition and fee revenues would decrease by an estimated $5.7 million in FY 2010 due to restrictions on annual growth in tuition rates. Mandated general fund expenditures would increase by an estimated $74.8 million in FY 2010 to enhance funding for USM and MSU. Future year estimates reflect ongoing tuition and fee limits, enhancements for USM and MSU, and increases in general fund expenditures for community colleges and independent higher education institutions beginning in FY 2011. **This bill establishes mandated appropriations beginning in FY 2010.**

($ in millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Higher Ed Rev.	$0	($5.7)	($12.2)	($19.6)	($27.8)
GF Expenditure	0	74.8	180.3	273.4	366.6
Net Effect	$0	($80.6)	($192.5)	($292.9)	($394.4)

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

Local Effect: Local community college revenues from State aid would increase by an estimated $17.0 million in FY 2011 and $53.3 million in FY 2013. Local expenditures would not be affected.

Small Business Effect: Meaningful impact on independent colleges and universities. The institutions would receive additional State support, estimated at $4.5 million in FY 2011 and $13.3 million in FY 2013.

Analysis

Bill Summary: The phase-in that will be used to achieve 100% of the funding guidelines for institutions of higher education is shown in the table below.

Fiscal Year	USM Institutions	MSU
Fiscal 2010	86%	96%
Fiscal 2011	90%	97%
Fiscal 2012	93%	98%
Fiscal 2013	97%	99%
Fiscal 2014	100%	100%

The bill states that it is the intent of the General Assembly that the sum of State general fund support and tuition for USM institutions, on a per student basis, be moved to at least the average of their peer institutions. The bill further states an intent to continue supporting Maryland's historically black institutions in accordance with the December 2000 agreement with the U.S. Department of Education, Office of Civil Rights.

Current Law: Funding for USM and MSU are as provided in the annual State budget. It is the intent of the General Assembly that, barring unforeseen economic conditions, the Governor include in the annual budget submission an amount of general fund State support for higher education equal to or greater than the amount appropriated in the prior fiscal year. The goal of the State, as noted in statute, is that State support for higher education operating and capital expenditures comprise 15.5% of general fund revenues.

Subject to the authority and policies of the Board of Regents of USM, the president of each USM constituent institution sets tuition and fees for the institution. The Board of Regents of MSU fixes tuition for the university.

Background: As one of the largest discretionary components of the State budget, institutions of higher education have often experienced funding increases when State revenues have been strong and funding decreases when there has been stress on the State budget. Decreases were experienced most recently in fiscal 2003 and 2004, when State appropriations to public institutions of higher education dropped by approximately 7% each year. Due at least in part to the reduction in State support, tuition for resident undergraduates at USM institutions and MSU grew rapidly from fall 2002 to 2005 raising concerns about the affordability of a college education in Maryland.

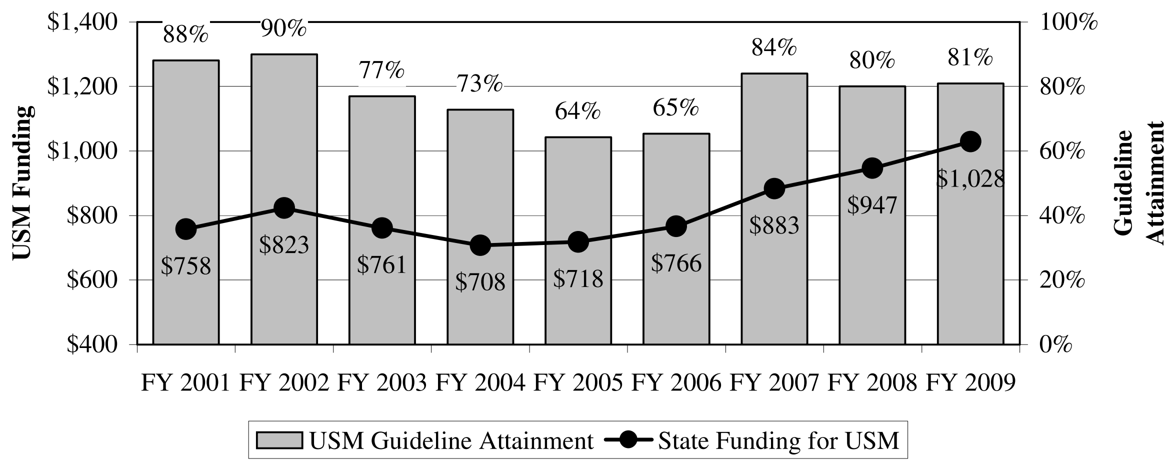
In 2006, Chapters 57 and 58 froze tuition at fall 2005 prices for in-state undergraduates attending MSU and USM institutions in the 2006-2007 academic year, and excess funds in the budget were used to provide State funding for USM and MSU to cover the revenue loss that would be incurred by the freeze. Chapter 294 of 2007 extended the tuition freeze for an additional year, and the proposed fiscal 2009 State budget assumes a third consecutive year of level tuition for resident undergraduates at USM institutions and MSU.

Chapters 57 and 58 of 2006 also established the Commission to Develop the Maryland Model for Funding Higher Education. Among other responsibilities, the commission is charged with making "recommendations relating to the establishment of a consistent and stable funding mechanism to ensure accessibility and affordability while at the same time promoting policies to achieve national eminence at all of Maryland's public institutions of higher education." The commission was scheduled to submit its final report in December 2007, but requested an additional year to complete its work. In its Interim Report, the subcommittee that is examining State funding for higher education expressed support for the State's existing goals for higher education funding, which include the 15.5% of general fund revenues goal set in statute as well as the funding guidelines. The report notes that State support levels consistent with these goals would result in approximately $260 million to $360 million in additional State funding for higher education each year.

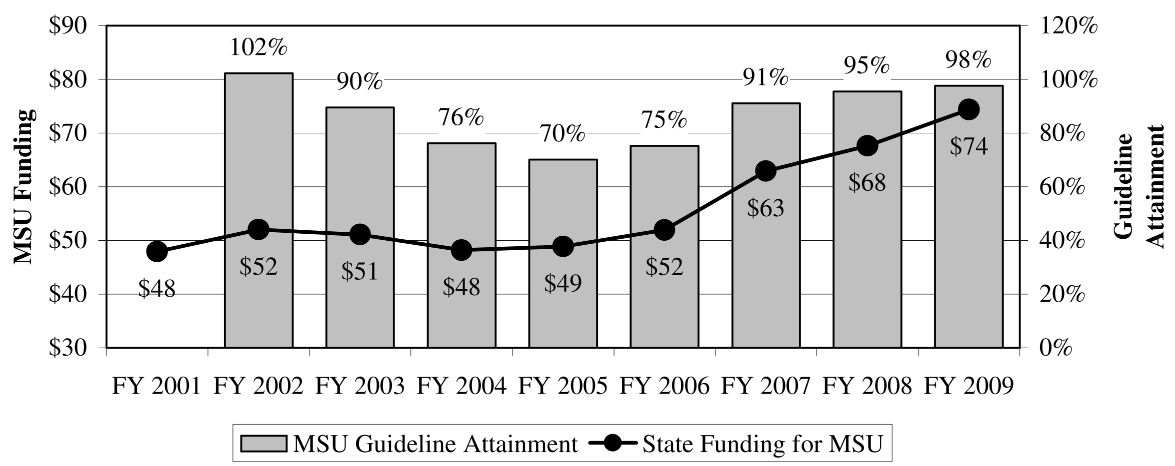
Funding guidelines are based on 75% of the average per student spending at a group of identified peer institutions for MSU and for each USM constituent institution. The Maryland Higher Education Commission calculates the guidelines and, accounting for different tuition rates at the peer institutions, calculates a State general fund appropriation for each institution that represents the funding guideline (100%). **Exhibit 1** shows State funding levels and guideline attainment levels for USM and MSU. Funding guideline attainment peaked in fiscal 2002, right before State funding began to decrease. Funding guidelines do account for tuition and fee revenues collected by institutions, but guideline attainment for USM and MSU was still lowest from fiscal 2003 to 2006 despite steep tuition increases during those years. This suggests that State funding for institutions is critical for the attainment of guideline funding levels. However, the funding guidelines are moving targets that reflect available revenues per student each year at peer institutions. Actions in other states, therefore, also affect guideline attainment levels.

Exhibit 1
State Funding and Funding Guideline Attainment
Fiscal 2001 to 2009
($ in Millions)

University System of Maryland



Morgan State University



Note: Funding guidelines were not calculated for Morgan State University until fiscal 2002. Fiscal 2009 guidelines reflect updated peer institutions for USM institutions, while MSU peers have not been updated. Fiscal 2009 attainment reflects the proposed fiscal 2009 appropriations from general funds and noncapital Higher Education Investment Funds.

State Revenues: Assuming the required State appropriations are provided to USM and MSU, resident undergraduate tuition and fee rates for USM institutions and MSU would be limited to 4% annual growth beginning in fiscal 2010. Based in part on recent increases in student fees, it is assumed that tuition and fee rates would increase by 5.1% annually at USM and 5.6% annually at MSU without the 4% cap on rates. Thus, tuition and fee revenues collected from resident undergraduate students would decrease beginning in fiscal 2010. Total revenue losses are estimated at $5.7 million in fiscal 2010 and $27.8 million in fiscal 2013, as illustrated in **Exhibit 2**.

Exhibit 2
Projected Tuition and Fee Revenue Decreases Due to Cap on Rate Increases
($ in Millions)

	FY 2010	FY 2011	FY 2012	FY 2013
USM	($5.2)	($11.0)	($17.7)	($25.1)
MSU	(0.5)	(1.2)	(1.9)	(2.7)
Total	**($5.7)**	**($12.2)**	**($19.6)**	**($27.8)**

State Expenditures: General fund expenditures would increase by an estimated $74.8 million in fiscal 2010 to provide the levels of State support required for USM ($74.4 million) and MSU ($447,000) under the bill. Although some USM institutions have already exceeded the 86% fiscal 2010 guideline attainment goal, the bill requires State funding for USM to meet the goal in total, not necessarily for individual institutions. It is assumed that funding for some institutions would continue to exceed the funding guideline goals established in the bill, while others could be below the goal. Total State funding for USM, however, would reflect the sum of the amounts needed to meet the annual goal at each institution. MSU's fiscal 2009 attainment is projected at 98%, meaning attainment for fiscal 2010 could actually decrease under the bill. It is assumed, however, that funding for MSU would increase towards the 100% attainment goal established for fiscal 2014.

By fiscal 2013, when USM must be at 97% of the guideline funding level and MSU must be at 99% of its guideline funding level, the increase in State appropriations would total an estimated $290.3 million. The annual increases over projected current law funding levels are shown in **Exhibit 3**.

Exhibit 3
Additional State General Fund Support for USM and MSU
($ in Millions)

	FY 2010	FY 2011	FY 2012	FY 2013
USM				
Guideline Attainment Goal	86%	90%	93%	97%
Additional State Funding	$74.4	$154.7	$219.5	$288.5
MSU				
Guideline Attainment Goal	96%	97%	98%	99%
Additional State Funding	$0.4	$0.9	$1.3	$1.8
Total Additional Funding	**$74.8**	**$155.6**	**$220.8**	**$290.3**
Increase Over Projected Funding Levels	**6.3%**	**12.5%**	**16.9%**	**21.1%**

Three State formulas – the Senator John A. Cade Funding Formula for local community colleges, the Baltimore City Community College formula, and the Joseph A. Sellinger formula for independent colleges and universities – are based on State funding for public four-year institutions of higher education in the preceding fiscal year. If State funding for USM and MSU increase in fiscal 2010, general fund expenditures for these three formulas would increase beginning in fiscal 2011. The annual increases over current law funding levels for each formula are estimated in **Exhibit 4**.

Exhibit 4
Estimated Increases for Higher Education Formulas
($ in Millions)

Formula	FY 2011	FY 2012	FY 2013
Senator Cade Formula	$17.0	$36.5	$53.3
BCCC Formula	3.1	6.6	9.6
Sellinger Formula	4.5	9.4	13.3
Total GF Expenditure Increase	**$24.7**	**$52.6**	**$76.3**

Summing the additional State appropriations for USM and MSU and increased funding for the State's higher education formulas, general fund expenditures would increase by an estimated $366.6 million in fiscal 2013, which would be one year before State funding for USM and MSU would be required to reach 100% of the funding guidelines. The estimated annual impact on general fund expenditures for fiscal 2010 to 2013 is shown in **Exhibit 5**.

Exhibit 5
Total General Fund Impact
($ in Millions)

Formula	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**
USM Appropriation	$74.4	$154.7	$219.5	$288.5
MSU Appropriation	0.4	0.9	1.3	1.8
Senator Cade Formula	0.0	17.0	36.5	53.3
BCCC Formula	0.0	3.1	6.6	9.6
Sellinger Formula	0.0	4.5	9.4	13.3
Total GF Expenditure Increase	**$74.8**	**$180.3**	**$273.4**	**$366.6**

Aggregate Fiscal Effect on USM and MSU: Overall revenues for USM, including the tuition and fee revenue reduction and the State funding enhancement, would increase by an estimated $69.2 million in fiscal 2010 and an estimated $263.4 million in fiscal 2013.

For MSU, overall fiscal 2010 revenues could decrease by nearly $100,000 because the tuition and fee cap is projected to have a greater fiscal impact than the added State funds. This negative impact on MSU is expected to continue in future years, with State funding increases not covering the projected losses in tuition revenues at the institution. Current law projections suggest that MSU could attain 100% of its funding guideline by fiscal 2011, so mandating a phase up to 100% by fiscal 2014 would not necessarily result in additional revenues for the school. However, the bill would result in additional State funding for the institution, allowing MSU to rely on State appropriations rather than tuition and fees for its funding. The bill would also ensure a more stable funding structure than the current method. The estimated net effects on USM and MSU revenues are shown in **Exhibit 6**.

Exhibit 6
Net Impact on the Current Unrestricted Revenues of USM and MSU
($ in Millions)

	FY 2010	FY 2011	FY 2012	FY 2013
USM				
Additional State Appropriation	$74.4	$154.7	$219.5	$288.5
Reduced Tuition and Fee Revenues	(5.2)	(11.0)	(17.7)	(25.1)
Net Impact	$69.2	$143.7	$201.8	$263.4
MSU				
Additional State Appropriation	$0.4	$0.9	$1.3	$1.8
Reduced Tuition and Fee Revenues	(0.5)	(1.2)	(1.9)	(2.7)
Net Impact	($0.1)	($0.3)	($0.6)	($0.9)

Local Revenues: Local community college revenues from State aid would increase by an estimated $17.0 million in fiscal 2011 due to increased appropriations for USM and MSU in fiscal 2010. By fiscal 2013, the additional funding for locally operated community colleges is estimated at $53.3 million. The added funding would be shared by all 15 local community colleges.

Additional Information

Prior Introductions: A very similar bill was introduced last year as SB 809. The bill received an unfavorable report from the Senate Budget and Taxation Committee.

Cross File: HB 1501 (Delegate Griffith, *et al.*) – Rules and Executive Nominations.

Information Source(s): Morgan State University, Maryland Higher Education Commission, University System of Maryland, Department of Legislative Services

Fiscal Note History: First Reader - March 17, 2008
mcp/rhh

Analysis by: Mark W. Collins

Direct Inquiries to:
(410) 946-5510
(301) 970-5510