HB 789

Department of Legislative Services

Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

House Bill 789 (Delegate Bohanan, *et al.*)
Appropriations and Ways and Means

Higher Education Funding Model for Maryland Act of 2009

This bill implements the recommendations of the Commission to Develop the Maryland Model for Funding Higher Education.

The bill takes effect June 1, 2009.

Fiscal Summary

State Effect: General fund revenues decline beginning in FY 2010 with corresponding increases in special revenues and expenditures due to reauthorization of the Higher Education Investment Fund (HEIF). General fund expenditures increase in FY 2010 for staff support and student financial assistance within the Maryland Higher Education Commission (MHEC). General fund expenditures increase significantly beginning in FY 2011 for higher education institutions, MHEC operating expenses, student financial assistance, and other programs as the major funding provisions of the bill are phased in over 10 years.

($ in millions)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
GF Revenue	($46.5)	($50.5)	($56.7)	($59.7)	($61.5)
SF Revenue	$46.5	$50.5	$56.7	$59.7	$61.5
GF Expenditure	($46.1)	($2.9)	$39.2	$80.9	$116.8
SF Expenditure	$46.5	$50.5	$56.7	$59.7	$61.5
Net Effect	($.4)	($47.6)	($95.9)	($140.6)	($178.3)

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

Local Effect: State aid for community colleges increases beginning in FY 2012 due to formula increases.

Small Business Effect: None.

Analysis

Bill Summary:

State Funding Guidelines

By 2020, State funding for public higher education institutions should be funded at the seventy-fifth percentile of funding per student of a group of comparable institutions located in competitor states and State funding of historically black colleges and universities (HBIs) should be set at the eightieth percentile of funding of a group of comparable institutions located in competitor states.

Competitor states are states with which Maryland principally competes for employers, as determined by MHEC in consultation with the Department of Business and Economic Development.

Higher Education Investment Fund: The bill makes permanent the 6% distribution of the total funds generated through the corporate income tax to HEIF and 9.15% to the general fund rather than distributing the entire 15.15% to the general fund beginning in fiscal 2010.

Money in HEIF may be distributed to institutions of higher education for projects that support the attainment of State goals or institutional missions. MHEC, supported by a group of independent advisors as necessary, must select projects from among the proposals to receive funding.

Tuition and Fees

Total in-State tuition and fees at public institutions of higher education should be set at or below the fiftieth percentile of comparable institutions located in competitor states. Increases in tuition and fees in any given year should not exceed the increase in the three-year rolling average of the State's median family income.

Tuition Stabilization Trust Account: The Tuition Stabilization Trust Account is established within HEIF to retain revenues for stabilizing tuition costs for resident undergraduate students. In years of increasing corporate tax revenues, funds should be deposited into the trust account. In years of decreasing revenues available to fund public higher education institutions and institutes, funds in the trust account must be used only to stabilize tuition.

A balance of between 1% and 5% of total tuition revenues by public higher education institutions from the prior fiscal year should also be maintained in the trust account. Money in the trust account may be expended only to supplement general fund appropriations to public senior higher education institutions and institutes for the purpose of stabilizing tuition costs of resident undergraduate students.

Pilot Four-year Fixed-rate Tuition Plan for Resident Undergraduate Students: The bill authorizes a pilot four-year fixed-rate tuition plan to ensure that a resident undergraduate student who enrolls in a public senior higher education institution is charged a fixed-rate of tuition for four academic years. Before the implementation of a pilot four-year fixed-rate tuition plan, the governing board of a participating institution must submit the plan to MHEC for review and approval.

In-state Tuition for Maryland National Guard Members: All members of the Maryland National Guard, regardless of their residency status, are eligible for in-State tuition at all degree levels at public institutions of higher education. Likewise, eligibility for Veterans of the Afghanistan and Iraqi Conflict Scholarship is expanded to include nonresident members of the Maryland National Guard and graduation education; the scholarship is not required to supplement federal education benefits. Other existing tuition benefit programs are similarly modified, including the Military Department Tuition Assistance program and the Edward T. Conroy Memorial Scholarship program. Public institutions of higher education that offer tuition benefits to Maryland National Guard students are encouraged to offer the same tuition benefits for any degree level to Maryland National Guard members, again regardless of residency status.

Need-based Financial Aid

State need-based financial aid per full-time equivalent student (FTES) should be set at the seventy-fifth percentile of funding in the competitor states.

The maximum amount for awards under the Delegate Howard P. Rawlings Educational Assistance (EA) Grant is raised from $3,000 to $6,000.

Eligibility for the Guaranteed Access (GA) Grant program, which currently covers 100% of need up to $14,300 for students with family incomes up to 130% of federal poverty guidelines (FPG) is to be increased so that students with family incomes up to 200% FPG may be eligible for some assistance.

Maryland's Promise Program: Maryland's Promise program will cover 100% of college expenses for students with the greatest financial need for an associate degree program in two years or a baccalaureate degree program in four years. MHEC must develop the criteria to determine the financial need of a student who qualifies for this program. MHEC, in partnership with institutions of higher education, must administer this voluntary program. Financial aid from all sources is to be maximized; as a condition of participating, an institution must agree to cover 100% of a participating student's remaining financial aid without using student loans.

Merit-based Aid

To the extent additional funds are provided in the Governor's budget, the maximum award for the Distinguished Scholars program is raised from $3,000 to $6,000. The Office of Student Financial Assistance (OSFA) may select an additional 350 high school students and an additional 350 community college students who transfer to four-year institutions to receive Distinguished Scholars awards, to the extent additional funds are provided in the budget. New Distinguished Scholars award recipients must maintain a 3.3 grade point average.

Accountability and Data Management

MHEC must develop statewide higher education accountability measures and benchmarks that reflect the goals in the State Plan for higher education and the funding goals. Information about the measures and the State's progress toward the benchmarks must be provided in an online format that is easily accessible and understood and will be known as the Maryland Return on Investment in Higher Education. MHEC must update the information at least annually.

MHEC must establish a Data Management Committee to conduct a thorough review of higher education reporting requirements, with the goal of reducing the number of required reports.

Public HBI Supplemental Funding and Doctoral Programs

MHEC must appoint a panel of experts and representatives from public HBIs to outline the programs and services needed at public HBIs to ensure that undergraduate students who are less prepared for college graduate. The panel must recommend an amount of supplemental funding that should be provided to the public HBIs to replace existing Access and Success Program funding – the State currently provides $6.0 million in the HBIs' base budget ($1.5 million each) to support Access and Success.

Each public HBI with research-based doctoral programs must develop a detailed strategic plan to improve its university-wide infrastructure to make it comparable to that of a quality doctoral institution and to identify several programs for targeted development.

The Governor must appoint a group of advisors to assess progress in meeting goals for HBIs; they must report annually by December 31.

Regional Higher Education Centers

Except for the regional higher education centers (RHECs) administered by the University System of Maryland (USM), funding proposals for RHECs must be calculated using the funding strategy developed by MHEC.

Before the approval of additional RHECs to operate in the State, MHEC must perform an analysis to determine the educational needs of the area in which the additional RHEC would be established. The analysis must include an examination of the role that the RHEC will play in meeting the educational need of the area; an examination of whether the educational needs are being met through existing means; and if some of the educational needs are not being met, whether a regional higher education center is the best way to meet the needs.

Academic Program Approval

The accelerated program approval process is modified to clarify that a new program – whether at a public or nonpublic institution – can only be requested under the accelerated process if the institution can clearly demonstrate that the program can be implemented and then *sustained* with existing institution resources. The existing statutory process for programs requiring additional resources remains available for programs that cannot meet these criteria.

Capital Needs

Public institutions of higher education are required to establish a policy to provide in their annual operating budget for the maintenance of their State-supported capital assets. The institutions must consider setting a goal to budget and spend 2% of the replacement value of their State-supported capital assets for facility renewal or deferred maintenance projects. Public institutions of higher education must report annually to the Governor and the General Assembly on their progress.

HBIs have to review their capital priorities to ensure they are aligned with the undergraduate, graduate, and university-wide infrastructure needs of the institution. The Governor is requested to accelerate the funding for capital projects at HBIs, particularly those projects that build university-wide infrastructure related to the comparability and competitiveness of the institutions.

The Governor is also requested to increase the funding for public higher education capital projects as planned in the fiscal 2009 – 2013 *Capital Improvement Program*.

Reporting requirements related to capital projects at both public and nonpublic institutions of higher education are enhanced. Public institutions have to maintain and annually submit, by September 1, a 10-year plan that identifies (1) their capital needs by project; (2) the funding sources to meet those needs (assuming funding continues at current levels, with adjustment for inflation); and (3) alternative capital funding sources should capital needs exceed the State's ability to fund all projects. Nonpublic institutions that propose a capital project for State funding primarily related to facility renewal improvements have to report on their facility renewal policy and budget practices.

MHEC – in collaboration with the Department of Budget and Management (DBM), the Department of Legislative Services, and higher education representatives – has to develop a methodology to estimate the cost of eliminating academic space deficiencies at institutions of higher education; a report is due by December 31, 2009. Then, DBM is to examine the feasibility of and the mechanism for creating a separate capital funding category for university academic research space, with a report to MHEC, the Governor, and the General Assembly by June 1, 2010.

Workforce Development – P-20 Provisions and Critical Needs

The bill establishes a Task Force on Linking Public PreK-12 and Higher Education Data for a period of one year, with a report required by December 31, 2009.

The Dual Enrollment Grant Program is renamed the Early College Access Grant Program and made permanent.

The Maryland State Department of Education (MSDE), MHEC, and the P-20 Leadership Council are to collaborate in establishing a statewide primary and secondary curriculum that is aligned with global workforce and academic standards – the emphasis of which should be on science, technology, engineering, and mathematics or STEM. Likewise, MSDE, MHEC, and the P-20 Leadership Council are to develop a common definition and measurement of college readiness.

Eligibility for the Janet L. Hoffman Loan Assistance Repayment Program (LARP) is expanded by eliminating the requirement to have attended a college or university in Maryland.

Current Law: Funding policies must allocate State resources efficiently while providing incentives for quality and institutional diversity.

A president of a public or private institution of higher education may propose to establish a new program if the action can be implemented with the existing institution resources.

A portion of the funds generated through the corporate income tax is deposited in HEIF. HEIF funds may only be expended to supplement general fund appropriations to four-year public institutions of higher education; for capital projects at four-year public institutions of higher education; for workforce development initiatives administered by the MHEC; and higher education needs related to the Base Realignment and Closure (BRAC) process. In addition, HEIF expenditures may only be made in accordance with an approved appropriation in the annual State budget. HEIF is scheduled to terminate after fiscal 2009, but Chapter 3 of the 2007 special session expressed the intent of the General Assembly to continue funding HEIF after fiscal 2009 if, in the 2009 session, it is determined to be fiscally prudent.

OSFA must annually select 350 high school students and 350 community college students who transfer to four-year institutions to receive Distinguished Scholars scholarships. The awards must be $3,000. Recipients must maintain a 3.0 grade point average.

Public institutions of higher education in Maryland charge in-State tuition rates to three categories of individuals: (1) active duty members of the U.S. armed forces; (2) the spouses and dependent children of active duty members of the U.S. armed forces; and (3) honorably discharged veterans of the U.S. armed forces.

An active duty member of the U.S. armed forces is exempt from nonresident tuition charges if the member is stationed in Maryland, resides in Maryland, or is domiciled in Maryland.

A spouse or financially dependent child of an active duty member of the U.S. armed forces is exempt from nonresident tuition charges if the member is stationed in Maryland, resides in Maryland, or is domiciled in Maryland. If the member ceases to be stationed in Maryland, reside in Maryland, or be domiciled in Maryland, the spouse or child of the member remains qualified for resident tuition if the spouse or child is continuously enrolled at a public institution of higher education.

An honorably discharged veteran of the U.S. armed forces is exempt from nonresident tuition if the veteran presents within one year after discharge: (1) evidence that the veteran attended a secondary school in Maryland for at least three years; and (2) documentation that the veteran graduated from a Maryland high school or received the equivalent of a high school diploma in Maryland.

To the extent that funds are provided in the State budget, the Military Department may provide tuition assistance equal to 50% of the cost of in-State tuition for any regularly scheduled undergraduate credit course, vocational-technical course, or trade course for any active member of the National Guard attending an eligible institution. To be eligible for tuition assistance, a member must have at least 24 months of service remaining.

Background: The Commission to Develop the Maryland Model for Funding Higher Education was established by the Tuition Affordability Act of 2006 (Chapters 57 and 58).

The commission was charged with developing an effective statewide framework for higher education funding, 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, and to make recommendations relating to the appropriate level of funding for the State's four HBIs to ensure that they are comparable and competitive with other public institutions. The commission submitted its final report in December 2008.

The work of the Commission to Develop the Maryland Model for Funding Higher Education is an outgrowth of the *2004 State Plan for Postsecondary Education*. MHEC is required by statute to update the State Plan quadrennially. The State Plan was originally due July 1, 2008. MHEC is submitting legislation to delay the deadline to July 1, 2009, to allow for the consideration of the commission's final report.

The report recommends Maryland's funding of higher education be based on the funding level of peer institutions in 10 states that Maryland competes with for business and jobs (competitor states), as determined by the Maryland Department of Business and Economic Development: Pennsylvania, Virginia, Massachusetts, North Carolina, New Jersey, New York, California, Minnesota, Ohio, and Washington. Maryland ranks slightly better than average on both funding per capita for higher education and six-year graduation rates for public four-year institutions. Maryland ranks fourth in per-capita funding at $309 and graduates roughly 65% of students enrolled in public four-year institutions within six years, ranking third among competitor states.

The proposed Higher Education Funding Model for Maryland includes four primary components that would help assure quality education for all students, access for all qualified students wishing to pursue higher education, and reasonable predictability of costs to students and families. The commission recommends that the funding model be phased in over a 10-year period. The commission made numerous other recommendations related to capital needs, financial aid, efficiency, workforce development, and P-20 initiatives.

State Revenues: General fund revenues decline by an estimated $46.5 million in fiscal 2010 and HEIF revenues increase by a corresponding amount beginning in fiscal 2010. Out-year estimates reflect projections for corporate income tax revenues. Any potential loss in tuition and fee revenues is assumed to be offset by the additional State support.

State Expenditures: The bill sets funding goals to be achieved by 2020. It is assumed that the bill's main provisions are implemented over a 10-year period beginning in fiscal 2011. **Exhibit 1** shows the fiscal impact of implementing House Bill 789 in fiscal 2010 through 2014.

Exhibit 1
HB 789 Fiscal Impact (10-year Phase In)

($ in thousands)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Funding Guidelines	$0	$24,880	$50,614	$77,158	$101,777
HBI Supplement	0	7,400	7,400	7,400	7,400
Baltimore City Comm. Coll.	0	0	673	1,383	2,109
Community Colleges	0	0	3,939	8,237	12,523
Sellinger Formula	0	0	998	2,038	3,129
HEIF	0	1,540	5,780	6,752	6,368
EA Grants/Other Need-based	0	5,482	10,964	16,445	21,927
GA Grants	0	6,000	11,500	15,300	15,300
Distinguished Scholars	0	1,389	2,778	4,167	5,555
Early College Access Grant	120	120	120	120	120
RHECs	0	443	886	1,329	1,772
Total	**$120**	**$47,253**	**$95,650**	**$140,328**	**$177,980**

Note: Does not include additional costs within MHEC to implement the bill.

Higher Education Investment Fund

General fund expenditures decrease and special fund expenditures increase by $46.5 million in fiscal 2010. The Governor's proposed fiscal 2010 budget does not include HEIF expenditures because HEIF was not scheduled to receive any revenues. However, the budget does include language authorizing a special fund budget amendment of $46.5 million contingent upon reauthorization of HEIF and corresponding contingent reductions of general funds. DBM advises that general fund expenditures for USM and Morgan State University (MSU) would decrease approximately 4% each year compared to the Administration's out-year forecast due to availability of HEIF revenues, and that HEIF expenditures would equal HEIF revenues each year. Out-year estimates reflect these assumptions. Additional expenditures result from estimated corporate income tax receipts growing faster than the 4% planned increase in general fund support for higher education from fiscal 2011 through 2014. To the extent that growth in corporate tax revenues is higher (lower), special fund expenditures may be higher (lower) than projected.

Funding Guidelines and Formulas

Achieving the competitor states' funding guideline for USM institutions and MSU costs approximately $664.3 million in fiscal 2011. This amount is adjusted by the higher education price index each year through 2020 and phased in equally over 10 years. The annual cost is then compared to the planned 4% increase in State support for higher education institutions. The difference in the amounts is the annual cost of implementing the new guidelines, an estimated $24.9 million in fiscal 2011, increasing to $101.8 million in fiscal 2014. State aid for the Cade formula for community colleges, Baltimore City Community College, and Sellinger formula for independent institutions is based on the State appropriation per FTES at select public four-year institutions in the prior fiscal year. Thus, the impact on the formulas from the phase in of the competitor states' funding guidelines begins in fiscal 2012.

Financial Aid

Achieving the seventy-fifth percentile of need-based aid per FTES of competitor states is estimated to cost $70.1 million based on the most recent comparative data available (fiscal 2008). The State's largest need-based aid program is the Howard P. Rawlings Educational Excellence Award Program which includes the EA and GA grants. Increasing eligibility for the GA grant to students to 200% of FPG is estimated to cost $15.6 million and is phased in over five years. The remaining additional need-based aid of $55.4 million is assumed to be phased in equally over 10 years.

Doubling the award amount and number of Distinguished Scholars, including community college transfer students, is also phased in over 10 years. Funding for the renamed Early College Access Grant, which expires after fiscal 2009 in current law, is continued beginning in fiscal 2010 at the fiscal 2009 funding level of $120,000.

Historically Black Institutions

Funding for the HBI supplement will be determined by a panel of HBI and MHEC representatives and two experts. The supplement is assumed to be approximately $1,400 per student based on cost estimates provided by several USM institutions and similar programs at other universities and using the number of students needing math remediation at each HBI campus in fiscal 2007 as an indicator of those students who will need additional academic support to graduate. The HBI supplement totals an estimated $13.4 million and is assumed to be fully funded beginning in fiscal 2011. Existing State funding of $6 million for Access and Success programs at HBIs offsets to the total cost, resulting in an annual cost of $7.4 million. Other funding to support university-wide platforms and doctoral programs at HBIs will be recommended by another panel of experts and cannot be reliably estimated.

Regional Higher Education Centers

The bill specifies that the six non-USM RHECs are to be funded using the funding strategy developed by MHEC. Fully funding the RHECs will cost an estimated $4.4 million annually by 2020 and is also assumed to be equally phased in over 10 years.

Maryland Higher Education Commission

- An administrator will coordinate all issues relating to HBIs in the State. This includes working with the panels of experts to develop undergraduate remediation and doctoral programs, outline programs and services for the HBI supplement, and assess the progress of HBIs in achieving comparability and competitiveness.

- A web master will manage all online and web-based information for MHEC. This includes making accountability information available in a user-friendly format.

- A financial assistance administrator will manage the additional financial aid awards. This includes expanding the Howard P. Rawlings Educational Assistance and GA grants, the Distinguished Scholars programs, and other programs.

- Future year expenditures reflect annualization and 4.4% annual salary increases, 3% turnover, and 1% inflation.

- In fiscal 2010, general fund expenditures increase an estimated $25,000 – to hire two experts for the HBI panel for *undergraduate* supplemental funding at $10,000 each and reimburse panel expenses at $5,000.

- In fiscal 2010, general fund expenditures increase an estimated $25,000 – to hire two experts for the HBI panel for *doctoral* programs at $10,000 each and reimburse panel expenses at $5,000.

- In fiscal 2011, general fund expenditures increase an estimated $90,000 for technical contractual services to develop the educational longitudinal data system to link public postsecondary institutional data with PreK-12 data at the student level.

- In fiscal 2011, general fund expenditures increase an estimated $50,000 for financial aid system enhancements to develop the graduated scale for the Educational Assistance grants and to develop a recommended single application for State student financial aid.

- It is assumed that the group of independent advisors to assess the progress of the State and public HBIs on meeting the goals of comparability and competitiveness will not receive a stipend. It is assumed members will be eligible for expenses reimbursements.

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Positions	3				
Salaries and Fringe Benefits	$159,157	$215,863	$226,396	$237,468	$249,109
One-time Expenses	125,000	140,000	0	0	0
Start-up/Operating Costs	17,453	5,989	6,049	6,110	6,171
Total	**$301,610**	**$361,852**	**$232,445**	**$243,578**	**$255,280**

Local Fiscal Effect: State aid for community colleges increases due to formula increases beginning in fiscal 2012.

Additional Information

Prior Introductions: None.

Cross File: SB 861 (Senator Currie, *et al.*) - Budget and Taxation and Education, Health, and Environmental Affairs.

Information Source(s): Maryland Higher Education Commission; Department of Labor, Licensing, and Regulation; Department of Budget and Management; Baltimore City Community College; Department of General Services; Department of Business and Economic Development; University System of Maryland; Maryland Independent College and University Association; Department of Legislative Services

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