HB 470

Department of Legislative Services

Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE
Revised

House Bill 470 (The Speaker, *et al.*) (By Request - Administration)

Appropriations and Ways and Means Budget and Taxation

Higher Education Investment Fund - Tuition Stabilization and Funding

This Administration bill makes permanent the 6% distribution of corporate income tax revenues to the Higher Education Investment Fund (HEIF) and 9.15% to the general fund rather than distributing the entire 15.15% to the general fund beginning in fiscal 2011. The bill also establishes a Tuition Stabilization Trust Account within HEIF to stabilize costs for resident undergraduate students. HEIF monies may be used for specified purposes at public four-year institutions of higher education, except St. Mary's College.

The bill takes effect July 1, 2010.

Fiscal Summary

State Effect: General fund revenues and expenditures decrease by an estimated $42.1 million in FY 2011 with corresponding increases in HEIF revenues and expenditures. Future year estimates reflect projected corporate income tax revenues, planned increases in State support for higher education, and deposits of HEIF revenues to the Tuition Stabilization Trust Account. To the extent corporate income tax revenues grow faster or slower than projected, HEIF revenues and expenditures may increase or decrease. General fund expenditures may increase additionally to the extent HEIF expenditures are used for initiatives beyond planned 4% annual increases in State support for higher education.

($ in millions)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
GF Revenue	($42.1)	($43.4)	($47.7)	($50.6)	($53.6)
SF Revenue	$42.1	$43.4	$47.7	$50.6	$53.6
GF Expenditure	($42.1)	($42.8)	($45.6)	($49.2)	($52.1)
SF Expenditure	$42.1	$43.4	$47.7	$50.6	$53.6
Net Effect	$.0	($.6)	($2.2)	($1.4)	($1.5)

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

Local Effect: None.

Small Business Effect: The Administration has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Bill Summary: The Tuition Stabilization Trust Account is established within HEIF to retain revenues for stabilizing tuition costs for students at public four-year institutions of higher education, excluding St. Mary's College. In years of increasing corporate income tax revenues, funds should be deposited into the trust account. Funds in the trust account may only be used to stabilize tuition. The bill establishes the goal that any increase in resident undergraduate tuition and academic fees at public four-year institutions of higher education except St. Mary's College in any given year should not exceed the percent increase in the three-year rolling average of the State's median family income.

A balance of between 1% and 5% of resident undergraduate tuition revenues of public four-year higher education institutions except St. Mary's College from the prior fiscal year should be maintained in the trust account. Money in the trust account may be expended only to supplement general fund appropriations to public four-year higher education institutions excluding St. Mary's College for the purpose of stabilizing tuition costs of students.

It is the goal of the State that, in conjunction with moderate and affordable tuition, public four-year higher education institution funding should reach 100% of the funding guidelines as developed and approved by the Maryland Higher Education Commission (MHEC). In order to provide access to higher education for Maryland students and to ensure a high return on State general fund allocations to higher education, the governing boards of public four-year higher education institutions must periodically conduct a review of tuition at individual institutions and make adjustments when necessary to promote access, increase funding for financial aid, align resident tuition rates with peer institutions in the State and nationwide, and affect student demand as demonstrated by admissions data and productivity measures.

Current Law: A portion of the funds generated through the corporate income tax is deposited in HEIF in fiscal 2008 through 2010. HEIF funds may only be expended to supplement general fund appropriations to public four-year institutions of higher education; for capital projects at public four-year institutions of higher education; for workforce development initiatives administered by MHEC; and for 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.

Chapter 515 of 1999 required MHEC to develop operating and capital budget funding guidelines for higher education institutions in accordance with the requirements of Section 11-105 of the Education Article, based on current and aspirational peer institution comparisons and other appropriate factors.

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). In its final report submitted in December 2008, the commission made many recommendations including making HEIF permanent to provide a reserve fund for higher education; creating a Tuition Stabilization Trust Account within HEIF whereby in years of increasing corporate income tax revenues, funds are deposited into the account and, in years of decreasing revenues, appropriate portions of the fund are applied to stabilize tuition; and setting as a *goal* to limit percentage increases in resident tuition and fees in any given year to a percent not to exceed the increase in the three-year rolling average of the State's median family income – a policy that would link tuition increases to a measure of affordability for families.

The commission also recommended 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. The commission recommended that the funding model be phased in over a 10-year period.

HEIF was created during the 2007 special session (Chapter 3) to provide revenues dedicated to higher education. The source of revenue for this fund is one-half of the increase in the corporate income tax that was also adopted during the special session. HEIF was only authorized for fiscal 2008 and 2009, although the legislation stipulated that it was the intent of the General Assembly to continue it into fiscal 2010 and future budget years if it was deemed fiscally prudent. The Budget Reconciliation and Financing Act of 2009 continued HEIF in fiscal 2010 and stated that it was the intent of the General Assembly that, when it is fiscally prudent to do so, HEIF be made permanent and the recommendations of the Commission to Develop the Maryland Model for Funding Higher Education be adopted. The fiscal 2011 budget does not include HEIF expenditures because HEIF was not scheduled to receive any revenues. However, the budget bill includes language authorizing a special fund budget amendment of $42.1 million, contingent on reauthorization of HEIF and corresponding contingent general fund reductions.

Total resident tuition revenues from undergraduates at public four-year institutions excluding St. Mary's College are approximately $568.4 million in the fiscal 2010 working appropriation. Based on this figure, the trust account should have a balance of at least $5.7 million and up to $28.4 million to maintain a balance of between 1% and 5% of total resident tuition revenues.

The bill calls for limiting the percentage increases in resident undergraduate tuition and academic fees for public four-year institutions of higher education, excluding St. Mary's College, in any given year to a percent not to exceed the increase in the three-year rolling average of the State's median family income. The most recent data available is the total median family income for 2008, and data for total family median income is only available back to 2002. From 2006 to 2008, the percent increase of the State's median family income was 4.1% compared to the average median family income from 2005 to 2007. Therefore to meet the goal in the bill, the growth in tuition and fees would need to be less than that amount for fiscal 2011. Mandatory student fees include technology fees, which are considered academic fees, and auxiliary fees for self-supporting activities, such as athletics and other student activities. **Exhibit 1** shows the goals for limiting the percentage increase for tuition and fees from fiscal 2007 through 2011 using the three-year rolling average of the State's median family income. The exhibit also shows average tuition and mandatory fee increases for resident undergraduates at public four-year higher education institutions including St. Mary's College. Proposed fall 2010 rates for fiscal 2011 increase 3.3%, less than the 4.1% goal under the bill.

Exhibit 1
Percentage Goal for Limiting the Increase in Tuition and Fees for Fiscal 2007 through 2011 Using the Percentage Increase in the Three-year Rolling Average of the State's Total Median Family Income

Fiscal Year/Calendar Years for Median Income	(Rolling Average) Goal Tuition and Fees Percentage Increase	Average Increase Tuition and Mandatory Fees
FY 2007/(CY 2002-2004)	N/A	1.8%
FY 2008/(CY 2003-2005)	4.5%	2.0%
FY 2009/(CY 2004-2006)	4.1%	1.9%
FY 2010/(CY 2005-2007)	5.7%	1.7%
FY 2011/(CY 2006-2008)	4.1%	3.3%

Note: Fiscal 2011 reflects proposed resident undergraduate tuition and mandatory fee rates for fall 2010.

Source: Maryland Total Median Family Income from the Census Bureau's American Community Survey

From fiscal 2007 through 2010, in-state tuition for undergraduates attending University System of Maryland (USM) institutions and Morgan State University was frozen. The Governor has proposed allowing tuition rates to increase 3.0% and providing additional State funds to moderate further tuition increases in the fiscal 2011 budget.

State Fiscal Effect: The Department of Legislative Services (DLS) assumes that a combination of general fund and HEIF revenues would be used to meet the Administration's forecast for State support of higher education, which increases on average 4.3% annually from fiscal 2011 to 2015. The Governor's proposed fiscal 2011 budget substitutes HEIF for general fund appropriations dollar-for-dollar if HEIF is reauthorized; therefore, it is assumed that HEIF revenues equal HEIF expenditures in fiscal 2011 and no funds would be reserved in the Tuition Stabilization Trust Account. However, in subsequent years, HEIF expenditures would not equal HEIF revenues due to the bill's requirement that HEIF funds should be deposited in the Tuition Stabilization Trust Account when corporate income tax revenues to HEIF are increasing.

Out-year estimates reflect these assumptions and projections for corporate income tax revenues from the Board of Revenue Estimates. In fiscal 2012 through 2015, HEIF revenues grow slower than the 4% planned increase in State support for higher education – resulting in general funds filling the gap. But, as the forecast projects this level of spending, no additional expenditures are assumed as a result of the bill. However, HEIF revenues increase annually during the five-year period, requiring a portion of the funds to be deposited in the trust account. DLS assumes that 50% of annual HEIF revenue increases are reserved in the trust account until a balance of at least 1% of total resident tuition revenues or approximately $6 million is reached. Therefore, general fund expenditures increase by $632,000 in fiscal 2012 to meet the 4% planned increases for higher education, increasing to $2.2 million in fiscal 2013 and approximately $1.5 million in fiscal 2014 and 2015. To the extent that HEIF is used to support initiatives beyond the 4% planned increases, general fund expenditures may increase by an additional indeterminate amount.

($ in millions)	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**
HEIF Revenue Estimate	$42.1	$43.4	$47.7	$50.6	$53.6
Annual HEIF Revenue Growth	$ -	$1.3	$4.3	$2.9	$3.0
Tuition Stabilization Account (50% of growth)		$ 0.6	$2.2	$1.5	$1.5

Additional Information

Prior Introductions: Senate Bill 275 of 2009 had a hearing in the Senate Budget and Taxation Committee, but no further action was taken. The hearing for the cross file, HB 308 was cancelled by the House Appropriations and Ways and Means committees.

Cross File: SB 283 (The President, *et al.*) (By Request - Administration) - Budget and Taxation.

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

Fiscal Note History: First Reader - February 15, 2010
mpc/rhh Revised - House Third Reader - April 12, 2010
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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Higher Education Investment Fund - Tuition Stabilization and Funding

BILL NUMBER: HB 470

PREPARED BY:

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

__X__ WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

___ WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

The proposed legislation will have no impact on small business in Maryland.