

Department of Legislative Services
 Maryland General Assembly
 2010 Session

FISCAL AND POLICY NOTE
 Revised

House Bill 298

(Delegate Morhaim, *et al.*)

Ways and Means

Education, Health, and Environmental Affairs

Office of Student Financial Assistance - Service Obligation - Financial Counseling
 Session Required

This bill requires that the Office of Student Financial Assistance (OSFA) within the Maryland Higher Education Commission require each applicant for student financial assistance or a scholarship, grant, or loan administered by the office to attend a financial counseling session given by OSFA before an applicant may sign a contract accepting the assistance.

The bill takes effect July 1, 2010, and applies to a contract for loan assistance with a service obligation component awarded under the Janet L. Hoffman Loan Assistance Repayment Program (LARP) and the Maryland Dent-Care LARP (MDC-LARP) for dentists on or after July 1, 2010.

Fiscal Summary

State Effect: State general fund expenditures increase by \$217,500 in FY 2011 for OSFA to hire two staff and related contractual support to provide a financial counseling session for each applicant for student financial assistance. Future years reflect annualization and inflation. Revenues are not affected.

(in dollars)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	217,500	248,400	255,400	262,700	270,500
Net Effect	(\$217,500)	(\$248,400)	(\$255,400)	(\$262,700)	(\$270,500)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The financial counseling session must include (1) a detailed explanation of the legal terms, obligations, and penalties for a breach of contract; (2) an individual calculation of the financial penalties imposed on an individual in the event of a breach of contract; and (3) an explanation of the impact on an individual's credit history of a breach of contract. OSFA must adopt regulations to carry out the bill.

Current Law/ Background: OSFA administers several scholarship programs that have a service obligation including the Workforce Shortage Student Assistance Grants program; several workforce shortage scholarship and financial assistance programs that are being consolidated into the Workforce Shortage Student Assistance Grants and phased out by July 2012; LARP for those who provide certain services for low-income or underserved residents; the Maryland Loan Assistance Repayment Program for Primary Care Physicians (known as MLARP), and MDC-LARP for dentists.

Each recipient of a Workforce Shortage Student Assistance Grant must perform a service obligation by working full-time in the recipient's workforce shortage field for one year for each year that a grant is received or by working part-time in the workforce shortage field for two years for each year the grant is received. A recipient must repay the grant amount plus interest if the required studies are not completed or the service obligation is not performed. OSFA may waive or defer repayments in specified cases. There are similar repayment terms for the scholarship programs that preceded the Workforce Shortage Student Assistance Grants program.

LARP provides educational loan repayment assistance in exchange for certain service commitments to individuals providing public service in State or local government or the nonprofit sector to low-income or underserved residents. Awards of up to \$10,000 are made for three years to eligible applicants. Funding is as provided in the State budget. According to statute priority for participation is to be given to individuals providing legal services and nursing. OSFA annually designates what other occupations are eligible for the program.

Primary care physicians were eligible for a subdivision of LARP known as LARP-PCS until the 2009 session, when Chapters 575 and 576 of 2009 established a separate Maryland Loan Assistance Repayment Program for primary care physicians. For MLARP, OSFA makes financial aid awards to assist in repaying loans owed by a physician who practices primary care for a nonprofit organization or government entity in an area of the State that has been federally designated as having a shortage of primary care or mental health providers. Likewise, OSFA makes financial aid awards to assist in repaying loans owed by a medical resident specializing in primary care who agrees to practice for at least two years as a primary care physician for a nonprofit organization or

government agency in a geographic area of the State that has been federally designated. Chapters 575 and 576 also created a Maryland Loan Assistance Repayment Program Fund, consisting of revenue generated through an increase to the rate structure of all hospitals in the State and any other money – including \$250,000 in federal SLRP funds to administer the program.

OSFA reports that approximately 60,000 financial assistance awards are issued and accepted annually. In 2009, the largest number of awards were made under the need-based educational assistance program (29,638), the legislative scholarships program (13,222), and the part-time grant program (11,221). OSFA estimates that approximately 40% of the awards (approximately 24,000 awards) are renewals. OSFA awards approximately 40 awards under MLARP and MDC-LARP annually.

OSFA reports that its financial aid web portal known as the Maryland College Aid Processing System will be fully operational by the end of 2011. The web portal is used by students to apply for financial aid and to track the funds once they have been awarded. The web portal will also allow students to accept a financial aid award online using an electronic signature, instead of mailing an acceptance letter.

State Expenditures: General fund expenditures increase by \$217,525 in fiscal 2011 for OSFA to hire two financial advisors to conduct a financial counseling session for the approximately 36,000 new applicants who accept student financial assistance each year. It is assumed that the financial advisors will hold financial counseling session at locations throughout the State. This estimate reflects a 90-day start-up delay following the bill’s July 1, 2010 effective date, the cost of hiring two full-time employees, travel, start-up, and operating costs. It also includes \$100,000 in contractual expenses to provide sufficient counseling sessions during the spring college acceptance period.

	<u>FY 2011</u>	<u>FY 2012</u>
New Positions	2	
Salaries and Fringe Benefits	\$104,900	\$142,281
Travel	3,750	5,050
Contractual	100,000	100,000
Start-up/Operating Expenses	<u>8,875</u>	<u>. 1,030</u>
Total	\$217,525	\$248,361

Future year expenditures reflect full salaries with 4.4% annual increases, 3% employee turnover, and 1% annual increases in ongoing operating expenses.

Additional Comments: Although the bill's applicability provision specifically states that it affects LARP and MDC-LARP contracts, the bill's provisions apply to all scholarship, grant, and loan programs administered by OSFA.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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