SB 725

Department of Legislative Services

Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

Senate Bill 725 (Senator Rosapepe, *et al.*)
Budget and Taxation and Education, Health, and Environmental Affairs

Tuition Cap and College Opportunity Act of 2011

This bill mandates annual State general fund support levels for constituent institutions of the University System of Maryland (USM) and Morgan State University (MSU) to reach 100% of the funding guidelines by fiscal 2022.

The bill takes effect July 1, 2011.

Fiscal Summary

State Effect: General fund expenditures increase by $80,000 in FY 2012 for one-time contractual costs associated with updating the scholarship system. General fund expenditures increase beginning in FY 2013 due to increased student financial assistance and supplemental funding for historically black institutions (HBIs). General fund expenditures increase significantly beginning in FY 2014 for higher education institutions, as the major funding provisions of the bill are phased in on a specific schedule over nine years. **This bill establishes a mandated appropriation beginning in FY 2014.**

($ in millions)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Revenues	$0	$0	$0	$0	$0
GF Expenditure	.1	18.9	64.5	152.2	224.1
Net Effect	($.1)	($18.9)	($64.5)	($152.2)	($224.1)

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

Local Effect: State aid for community colleges increases beginning in FY 2014 due to formula increases.

Small Business Effect: None.

Analysis

Bill Summary:

State Funding

By 2022, State funding for public four-year higher education institutions should be funded at 100% of the funding guidelines. The State funding guideline for HBIs is set at the eightieth percentile of funding of a group of comparable institutions located in competitor states. The State funding guideline for the other public four-year higher education institutions is set at the seventy-fifth percentile of funding per student of a group of comparable institutions located in competitor states.

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

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. Each institution must achieve at least the percentage indicated each year under the bill.

Fiscal Year	USM Institutions	MSU
2014	70%	78%
2015	74%	81%
2016	77%	84%
2017	81%	87%
2018	85%	90%
2019	89%	93%
2020	93%	96%
2021	97%	99%
2022	100%	100%

For fiscal 2022 and each fiscal year thereafter, the Governor must include in the annual budget bill at least the amount of State general fund support necessary for the public four-year institutions to achieve 100% of the funding guideline. Undergraduate education capacity at HBIs is required to be the first priority for additional State funding provided under the funding guidelines.

By December 1 of each year, MHEC must conduct an annual assessment for each institution of higher education that measures its performance and its progress toward meeting the funding goals in the bill. The assessment is required to be posted in an online format that is easily accessible and understood. MHEC is required to periodically update the list of competitor states used to determine the funding goals.

The bill expresses legislative intent 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.

By November 1, 2011, and on November 1 every second year thereafter, the board of regents is required to submit a report on the policies and procedures it has implemented to improve the effectiveness and efficiency of USM. Furthermore, the bill expresses the intent of the General Assembly that USM become the national leader in transforming the business model of public higher education to provide world-class education, research, and public service at below-average cost.

Tuition and Fees

Total in-state tuition and fees at public four-year institutions of higher education must be set at or below the fiftieth percentile of comparable institutions located in competitor states. Institutions may not increase annual resident tuition and fees more than the increase in the three-year rolling average of the State's median family income if the State has fully funded the institutions under the required guidelines.

The bill authorizes a pilot four-year long-term tuition plan to ensure that a resident undergraduate student who enrolls in a public four-year higher education institution or an individual who applies for admission to the public four-year higher education institution is informed of the tuition that will be charged for four academic years. Before the implementation of a pilot four-year long-term tuition plan, the governing board of a participating institution must submit the plan to MHEC for review and approval.

Financial Aid

The maximum amount for awards under the Delegate Howard P. Rawlings Educational Assistance (EA) Grant is raised from $3,000 to $6,000, and a graduated scale for awards based on financial need must be developed.

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.

Historically Black Institutions

MHEC is required to appoint a group of independent advisers to assess and report on the progress of the State and HBIs on meeting the comparability and competiveness goals. Based on this report, MHEC must report annually to the Governor and the General Assembly on the progress of compliance with desegregation and equal education opportunity plans. The Access and Success program will be replaced by a supplemental funding program for HBIs. The supplemental funding, as provided in the annual budget, can only be used for remediation efforts and for strategies and initiatives that have proven to be best practices in improving graduation rates.

The graduation rate must be designated as the primary indicator of performance for HBIs. If the HBI receives supplemental funding, its performance and accountability plan should provide measurable goals, including graduation rates, and report results against those goals.

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

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. The State has set a goal that annual increases in resident undergraduate tuition and academic fees should not exceed the increase in the three-year rolling average of the State's median family income.

Performance and accountability plans must be based on the institutional mission statement and include a statement of the outcomes which each institution expects to achieve. The plan is also required to identify institutional performance objectives appropriate to the mission of the institution. Each public four-year institution's plans should designate a set of peer institutions to which the institution's performance will be compared.

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. Prior to the State's current fiscal difficulties, 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 USM and MSU 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 in fiscal 2009 tuition was frozen for a third consecutive year. The Governor proposed allowing tuition rates to increase 3.0% and providing additional State funds to moderate further tuition increases in the fiscal 2011 budget and has a similar proposal for fiscal 2012.

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 making 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 commission's 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 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; however, MHEC submitted legislation (Chapter 460 of 2009) that delayed the deadline to July 1, 2009, to allow for the consideration of the commission's final report. The *2009 Maryland State Plan for Postsecondary Education* states that Maryland should adopt as goals the four primary components of the commission's Higher Education Funding Model for Maryland, which includes the funding guidelines.

Chapters 192 and 193 made the Higher Education Investment Fund (HEIF), which was established during the 2007 special session, permanent. The legislation created a Tuition Stabilization Account within HEIF and set a goal that annual resident undergraduate tuition and academic fees increase by no more than the increase in State median family income, based on a three-year rolling average.

The Governor's proposed fiscal 2012 budget includes $1.0 billion in general funds and $54.7 million in funds from HEIF for USM and $69.8 million in general funds and $3.6 million in funds from HEIF for MSU.

State Expenditures: The bill sets funding mandates and goals to be achieved by 2022. Based on the phase-in schedule in the bill, the bill's main provisions begin in fiscal 2014. **Exhibit 1** shows the fiscal impact of implementing Senate Bill 725 in fiscal 2012 through 2016.

Exhibit 1
SB 725 General Fund Fiscal Impact
($ in Thousands)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Funding Guidelines	0	0	25,163	102,831	168,319
HBI Supplement	0	7,400	7,400	7,400	7,400
Community Colleges	0	0	7,021	7,671	8,386
Baltimore City Comm. College	0	0	1,172	1,232	1,302
Sellinger Formula	0	0	1,244	1,362	1,490
Guaranteed Access Grant	0	6,000	11,500	15,300	15,300
Educational Access Grant	0	5,482	10,964	16,445	21,927
MHEC Contractual (MD CAPS)	80	0	0	0	0
Total	**80**	**18,882**	**64,464**	**152,241**	**224,124**

Source: Department of Legislative Services

Funding Guidelines and Formulas

Achieving the competitor states' funding guideline for USM institutions and MSU costs approximately $1.6 billion in fiscal 2012, approximately $500 million more than the Governor's proposed fiscal 2012 budget. This amount is adjusted by the higher education price index each year through 2022 and phased in following the schedule in the bill. The annual cost is then compared to the planned annual increase in State support for higher education institutions. The difference in the amounts is the annual cost of implementing the new guidelines, an estimated $25.2 million in fiscal 2014, increasing to $168.3 million in fiscal 2016. The impact increases significantly in fiscal 2017 through 2022 as the phase-in schedule accelerates to 100%. State aid for the Cade formula for community colleges, Baltimore City Community College, and the Sellinger formula for independent institutions is based on the State appropriation per full-time equivalent student (FTES) at select public four-year institutions. Thus, increasing the State funding per FTES for the select public four-year institutions also increases the funding for these formulas beginning in fiscal 2014.

Financial Aid

The State's largest need-based aid program is the Delegate Howard P. Rawlings Educational Excellence Award Program which includes the Educational Access and Guaranteed Access grants. Increasing eligibility for the GA grant to students to 200% of FPG is estimated to cost $15.3 million when fully phased in by fiscal 2015. The remaining additional need-based aid for EA grants is assumed to be phased in equally over 10 years beginning in fiscal 2013, increasing by almost $5.5 million a year. To achieve the seventy-fifth percentile of need-based aid per FTES of competitor states, the total estimated cost is $70.1 million, based on fiscal 2008 comparative data.

MHEC reports that there will be one-time contractual costs associated with changing its new financial aid processing system, known as Maryland College Aid Processing System (MD CAPS) to meet the new awarding requirements for the EA and GA grants. As a result, general fund expenditures increase $80,000 in fiscal 2012. MHEC further reports that, if the number of new applicants increases significantly, its program administration will be affected because the GA application process requires obtaining several documents from applicants' high schools and manually entering the information into MD CAPS.

Historically Black Institutions

It is unknown how much funding for the supplemental program the Governor will include in the annual budget. 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 2013. Existing State funding of $6 million for Access and Success programs at HBIs offsets the total cost, resulting in an annual cost of $7.4 million.

Local Fiscal Effect: State aid for community colleges increases due to formula increases beginning in fiscal 2014.

Additional Comments: State aid to independent institutions will increase beginning in fiscal 2014, since the formula is based on State funding for public higher education institutions.

Additional Information

Prior Introductions: Similar bills, SB 702 of 2010, SB 822 of 2009, and SB 623 of 2008, received a hearing in the Senate Budget and Taxation Committee, but no further action was taken on any of the bills. HB 1501 of 2008 did not receive a hearing.

Cross File: None.

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

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Analysis by: Caroline L. Boice

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