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 Maryland General Assembly
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FISCAL AND POLICY NOTE
 Revised

House Bill 526
 Ways and Means

(Delegate Summers, *et al.*)

Education, Health, and Environmental Affairs
 and Budget and Taxation

Higher Education - Maryland First Scholarship - Creation and Funding

This bill establishes the Maryland First Scholarship for first-generation students whose parents have not earned a college degree and who meet other eligibility requirements. The bill requires the Governor to include funds to implement the scholarship annually in the State budget for the Maryland First Scholarship Fund.

The bill takes effect July 1, 2013.

Fiscal Summary

State Effect: General fund expenditures increase to capitalize the new fund to cover administrative expenses and scholarship awards. Thus, general fund expenditures increase by \$73,100 in FY 2014 for the Maryland Higher Education Commission (MHEC) to hire a full-time administrative specialist and modify the scholarship web portal. Beginning in FY 2015, expenditures further increase to fund the scholarship, by approximately \$4,200 per bachelor’s degree scholarship annually and by approximately \$2,900 per associate’s degree scholarship annually. The annual appropriation amount is not mandated; however, it is assumed that a viable scholarship program will require an appropriation of at least \$2 million annually once the program is fully phased in, which is assumed to be in FY 2019. Special fund revenues and expenditures increase by a commensurate amount. Future years reflect the elimination of one-time costs after FY 2014, annualization, regular salary increases, inflation, and the cumulative impact of scholarship awards held. Baltimore City Community College (BCCC) tuition revenues increase approximately \$3,000 for each full-time equivalent (FTE) student who would not have attended without a scholarship.

(in dollars)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
SF Revenue	\$73,100	\$484,100	\$943,000	\$1,428,900	\$1,751,200
Higher Ed Rev.	-	-	-	-	-
GF Expenditure	\$73,100	\$484,100	\$943,000	\$1,428,900	\$1,751,200
SF Expenditure	\$73,100	\$484,100	\$943,000	\$1,428,900	\$1,751,200
Net Effect	(\$73,100)	(\$484,100)	(\$943,000)	(\$1,428,900)	(\$1,751,200)

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

Local Effect: Community college tuition revenues increase by approximately \$3,900 for each FTE student who would not have attended without a scholarship.

Small Business Effect: None.

Analysis

Bill Summary: To be eligible for an award, a student must (1) be a Maryland resident; (2) be a first-generation student whose parents have not earned a college degree; (3) demonstrate financial need; (4) meet any other criteria established by the Office of Student Financial Assistance (OSFA) in MHEC; (5) be accepted for admission or currently enrolled in a regular undergraduate program at an eligible institution of higher education in Maryland or in a two-year certificate program in which the course work is acceptable for transfer credit at an accredited baccalaureate program at an eligible institution of higher education in Maryland; and (6) either have a 3.0 grade point average (GPA) on a 4.0 scale at the end of the first semester of the senior year of high school or have completed 40 hours of verifiable community service in the year before applying for the scholarship (if the individual graduated from high school more than four years prior to enrolling in an eligible institution). An applicant must also describe the types of community service completed during high school or in the year before applying for the scholarship.

A recipient may use the award for the tuition and mandatory fees and on-campus room and board at any public or private nonprofit institution of higher education in the State that possesses a certificate of approval from MHEC. The amount of the annual scholarship award may be up to:

- 50% of the tuition and mandatory fees charged to the recipient if the recipient is enrolled as an undergraduate student at a four-year public eligible institution;
- 75% of the tuition and mandatory fees charged to the recipient if the recipient is enrolled at a two-year public eligible institution (*i.e.*, community college);

- 50% of the annual average tuition and mandatory fees of a resident undergraduate student at the four-year public institutions of higher education within the University System of Maryland (other than the University of Maryland University College and the University of Maryland, Baltimore) if the recipient is enrolled at a four-year private nonprofit eligible institution; or
- 75% of the annual average out-of-county tuition and mandatory fees of a student at the two-year public institutions if the recipient is enrolled in a two-year terminal certificate program.

A scholarship recipient must maintain a GPA of at least 3.0 on a 4.0 scale to be determined at the end of the academic year during which the recipient held the award and before the recipient's reenrollment for the next academic year. Subject to the GPA requirement, a recipient pursuing a bachelor's degree may continue to hold the award for up to five years of full-time study or eight years of part-time study, and a recipient pursuing an associate's degree may continue to hold the award for three years of full-time study or four years of part-time study.

Funds for the Maryland First Scholarship Program must be provided in the annual budget; however, no amount is specified. The bill also creates the Maryland First Scholarship Fund – a nonlapsing, special fund – to be administered by MHEC. The fund may only be used to provide money for Maryland First Scholarship awards and for administrative expenses incurred by MHEC in making those scholarship awards.

The fund consists of (1) money appropriated in the State budget to the fund; (2) gifts or grants received by MHEC for the fund; (3) investment earnings of the fund; and (4) any other money from any other source accepted for the benefit of the fund. Any interest earned on money in the fund remains in the fund and may be spent on scholarship awards and administrative expenses.

Current Law: There is no State scholarship program that focuses on first-generation students.

Background: Roughly 30% of entering freshmen in the United States are first-generation college students, and approximately 24% are both first-generation students and qualify as low income.

State Fiscal Effect: Special fund revenues and expenditures increase as the Maryland First Scholarship Fund is capitalized, scholarship awards are made, and the fund is tapped for administrative expenses. For purposes of this analysis, it is assumed that the special fund is solely capitalized with general funds rather than gifts, grants, or any other fund source. Thus, this discussion focuses on the general fund expenditures necessary to

capitalize the special fund. Special find revenues and expenditures increase correspondingly.

In the first year, awards are not made; instead, \$73,136 is needed to develop the framework for implementation beginning with the 2014-2015 academic year. In fiscal 2015, when the first awards are made, general fund expenditures increase by \$484,133 to reflect ongoing administrative costs and 120 awards, as discussed below.

Administrative Expenditures

In order to implement the bill, MHEC needs additional staff as well as one-time costs to reprogram the Maryland College and Processing System (MD CAPS). General fund expenditures increase by \$73,136 in fiscal 2014, which accounts for a 90-day start-up delay and reflects the cost of hiring an administrative specialist to process applications, evaluate applicants’ eligibility, and provide the necessary applicant support. A full-time salary, fringe benefits, start-up costs, and ongoing operating expenses, as well as one-time contractual costs associated with changing MD CAPS to meet the new awarding requirements, are included in the estimate. The information and assumptions used in calculating the estimate are stated below.

- MD CAPS software must be updated to include the Maryland First Scholarship.
- An additional full-time staff person is necessary to support applicants and evaluate applicants’ eligibility, especially the community service component.

	<u>FY 2014</u>	<u>FY 2015</u>
Position	1	
Salary and Fringe Benefits	\$38,090	\$53,052
MD CAPS Development	30,000	0
Operating Expenses	431	581
Start-up Costs	<u>4,615</u>	<u>0</u>
Total State Expenditures	\$73,136	\$53,633

Future year personnel expenditures reflect a full salary with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

Scholarship Fiscal Effect

In recognition of the administrative workload associated with establishing a new scholarship, it is assumed that the Governor will provide sufficient funding to create a *viable* scholarship program for first-generation students. For purposes of this estimate, a viable program is assumed to be 120 *new* scholarship awards each year (60 for four-year

institutions and 60 for community colleges). Because the awards may be held for multiple years, the full cumulative impact of the bill occurs in fiscal 2019 when general fund expenditures increase by approximately \$2 million to maintain the program at 120 new awards each year.

In the first year of funding for scholarship awards (fiscal 2015), general fund expenditures of \$430,500 are needed as shown in **Exhibit 1**. The following information and assumptions were used in developing this estimate.

Exhibit 1
Estimated Scholarship Appropriation
Fiscal 2015-2019

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
Four-year Scholarships	\$254,580	\$524,400	\$810,180	\$1,112,880	\$1,432,800
Two-year Scholarships	175,920	362,400	559,800	576,540	593,820
Total	\$430,500	\$886,800	\$1,369,980	\$1,689,420	\$2,026,620

Note: Assumes 60 *new* four-year scholarships and 60 *new* two-year scholarships annually.

Source: Department of Legislative Services

- No scholarships are awarded for the 2013-2014 academic year (fiscal 2014) because, given the bill's July 1, 2013 effective date, there will not be sufficient time for MHEC to update the MD CAPS program, develop the scholarship application and eligibility criteria, and evaluate potential recipients prior to fall 2013. Individuals typically apply before March 1 for scholarships for the following fall semester.
- Even so, for the 2013-2014 academic year, the average tuition (and mandatory fees) at the public four-year institutions of higher education is approximately \$8,239 per year. For the 2012-2013 academic year, the average tuition (and mandatory fees) at the public two-year institutions of higher education is approximately \$3,685 per year. It is assumed that tuition and fees increase 3% per year.
- Thus, it is assumed in fiscal 2015 (the 2014-2015 academic year) that 50% of tuition and fees at a public four-year institution of higher education will be approximately \$4,243 and that 75% of the tuition and mandatory fees at a community college will be approximately \$2,932.

- It is assumed that 120 new scholarships are awarded *each* year, 60 for recipients pursuing bachelor's degrees and 60 for recipients pursuing two-year degrees. This estimate assumes all awards are for full-time study; thus, scholarships for four-year institutions are assumed to be for five years and scholarships for community colleges are assumed to be for three years. Therefore, once the program is fully phased in (by fiscal 2019), the program will distribute 60 new and 240 renewal scholarships for bachelor's degrees each year. The phase-in for two-year degrees is completed sooner; by fiscal 2017, 60 new and 120 renewal scholarships are distributed for two-year degrees each year.
- For ease of calculation, scholarships for private four-year and two-year institutions are included in the calculation for the scholarships for public institutions. Thus, depending on the distribution of scholarships, a few less scholarships may be awarded due to the potentially higher award amount for scholarships to attend private institutions allowed under the bill.
- It should be noted, even at the fully phased-in level assumed in this analysis, there may be a waiting list for the scholarship due to the potentially large number of eligible applicants under the bill.

In future years, it is assumed that the annual appropriation for the scholarship will increase by 3% annually, or the number of scholarships awarded will need to be reduced.

Higher Education Revenues

Due to the scholarship being for first-generation college students with a demonstrated financial need, it is assumed that, absent a scholarship, some individuals would not otherwise attend college. Thus, BCCC tuition revenues increase by approximately \$3,000 for each FTE student who would not have attended without a scholarship. Public four-year institutions of higher education are not similarly affected because, unlike the community colleges, they are not open-enrollment institutions.

Local Fiscal Effect: Community college tuition revenues increase by approximately \$3,900 for each FTE student who would not have attended without a scholarship. It is assumed that, absent a scholarship, some eligible individuals would not otherwise attend college; community colleges are open-enrollment institutions.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Baltimore City Community College, Department of Budget and Management, Maryland Higher Education Commission, Morgan State University, University System of Maryland, Department of Legislative Services

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