

Department of Legislative Services
Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 828

(Senator Madaleno, *et al.*)

Budget and Taxation

Appropriations

**St. Mary's College of Maryland - Tuition Freeze and DeSousa-Brent Scholars
Completion Grant**

This bill freezes the undergraduate resident tuition at St. Mary's College of Maryland (SMCM) at the fall 2012 rate for the two academic years beginning in fall 2013 and fall 2014. To help offset the tuition freeze, the Governor is required to appropriate \$800,000 for SMCM from the Higher Education Investment Fund (HEIF) in fiscal 2014 and \$1.6 million in fiscal 2015. Beginning in fiscal 2016, the general fund appropriation for SMCM must include the fiscal 2015 appropriation from this grant.

The bill also establishes the DeSousa-Brent Scholars Completion Grant for SMCM, which requires the Governor to appropriate a specified amount to SMCM from HEIF for fiscal 2014 through 2019 to increase the retention and graduation rates of DeSousa-Brent Scholars. If SMCM meets specified performance measures regarding DeSousa-Brent Scholars, beginning in fiscal 2020 the general fund appropriation for SMCM must include the fiscal 2019 appropriation from this grant.

The bill takes effect July 1, 2013.

Fiscal Summary

State Effect: Tuition revenues at SMCM decrease by approximately \$832,600 in FY 2014 and \$1.7 million in FY 2015 and annually thereafter due to the tuition freeze. Special fund expenditures from HEIF increase by approximately \$2.2 million in FY 2015 for SMCM due to the tuition stabilization and DeSousa-Brent Scholars grants; in FY 2014 general fund expenditures are assumed, as discussed below. Future year special fund expenditures reflect the DeSousa-Brent Scholars grants only. General fund expenditures for the higher education formulas increase by approximately \$336,000 in FY 2014, due to increasing the average per-student funding used in the formulas. Future year general fund expenditures reflect increases due to the formulas, estimated enrollment and tuition growth, and the ongoing inclusion of the tuition stabilization grant to make SMCM whole. **This bill establishes a mandated appropriation beginning in FY 2015.**

(\$ in millions)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Higher Ed Rev.	(\$.8)	(\$1.7)	(\$1.7)	(\$1.7)	(\$1.7)
GF Expenditure	\$1.4	\$.6	\$2.3	\$2.5	\$2.6
SF Expenditure	\$0	\$2.2	\$.8	\$.8	\$.8
Net Effect	(\$2.3)	(\$4.5)	(\$4.8)	(\$4.9)	(\$5.1)

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:

Tuition Freeze

The tuition freeze does not include various specified fees.

DeSousa-Brent Scholars

The Governor must appropriate the following grant amounts from HEIF:

- \$300,000 in fiscal 2014;
- \$550,000 in fiscal 2015; and
- \$800,000 in fiscal 2016 through 2019.

The fiscal 2019 appropriation from HEIF must be included in the calculation of SMCM's general fund grant appropriation for fiscal 2020 if:

- the first- to second-year retention rate for the fall 2015 cohort of the DeSousa-Brent Scholars is at least 88%;
- the first- to third-year retention rate for the fall 2015 cohort of the DeSousa-Brent Scholars is at least 79%; and
- the four-year graduation rate for the fall 2015 cohort of the DeSousa-Brent Scholars is at least 70%.

By December 1 each year SMCM must report on the retention and graduation rates of DeSousa-Brent scholars.

Current Law: In order to establish a predictable level of funding, the Governor must include in the annual budget submission a general fund grant to SMCM. The proposed grant must be equal to the grant of the prior year plus inflation as indicated by the implicit price deflator for State and local government.

Background:

Tuition Freeze

In response to rising tuition rates in fiscal 2002 through 2005, in 2006 the State enacted legislation that froze tuition for the 2006-2007 academic year at the fall 2005 rates for resident undergraduates at University System of Maryland (USM) institutions and Morgan State University (MSU) and limited any tuition increase at SMCM to 4.8%. Legislation enacted in 2007 continued the tuition freeze for USM and MSU for the 2007-2008 academic year. At the time, SMCM was not included in the tuition freeze. While the tuition freeze was not mandated in fiscal 2009 and 2010, the USM institutions and MSU continued to hold tuition at the fall 2005 rates. State funds were included in the budgets of the USM institutions and MSU to offset the loss of tuition revenue for each year of the tuition freeze, with offsetting budget reductions for employee furloughs and other cost containment in both years.

In fiscal 2011, the tuition freeze was lifted. Institutions were allowed to increase tuition rates by 3% for the 2010-2011 academic year. In addition, State appropriations equivalent to an additional 2% tuition increase were provided to the USM institutions and MSU, again with offsetting budget reductions. SMCM, which is formula-funded and was not originally eligible to receive funds from HEIF but is now covered as a result of Chapter 1 of the 2012 first special session (SB 1301), also increased tuition by 3% but did not receive additional State funds.

DeSousa-Brent Program

The DeSousa-Brent Scholars Program, which began in 2008, supports students from traditionally underrepresented groups at SMCM, with two goals being the reduction of the four-year graduation rate gap for underrepresented groups and student retention. Currently, the program serves 30 entering students. Students are identified by their past success as high school leaders and their membership in underrepresented groups as defined by first-generation status, income, ethnicity, disability, and geography. Other students who request to participate in DeSousa-Brent are considered as space permits. In its current configuration, the DeSousa-Brent Scholars Program primarily serves first-year students with only a small number of students remaining involved as peer mentors in subsequent years.

SMCM reports that faculty members have observed that the program’s students benefit from strong camaraderie and support during the first year and would benefit from additional support in their later years at SMCM. Similar observations were made by DeSousa-Brent students who completed an assessment survey in spring 2010. Further, there is research that confirms that successful programs for underrepresented students continue throughout all four years of undergraduate education.

SMCM hopes to expand the program into a four-year curriculum if it receives additional funding. The course work and activities for the four-year program would shift from heavy institutional support in the first year to student-driven academic planning and social support in the second year; preparation for undergraduate theses known as St. Mary’s Projects or other advanced work in the third year; and, in the fourth year, peer mentoring of younger students, reflection on undergraduate development, and faculty-guided exploration of post-baccalaureate careers.

The four- and six-year graduation rates for the 2005 entering cohort for selected populations are shown in **Exhibit 1**.

Exhibit 1
Four- and Six-year Graduation Rates at SMCM
2005 Entering Cohort

	2005 Entering Cohort	
	<u>Four-year Graduation Rate</u>	<u>Six-year Graduation Rate</u>
All Students	65%	79%
Pell Grant Students	54%	66%
All Minority Students	61%	79%
All First-generation Students	60%	74%

Source: St. Mary’s College of Maryland

The DeSousa-Brent Scholars Program was named for Mathias DeSousa and Margaret Brent, two important figures in the early history of Maryland at St. Mary’s City. Mathias DeSousa was the first black man to have a vote as a landowner in the colony of Maryland. He began his time in Maryland as an indentured servant and eventually was released from servitude and became a landowner. He served in the legislative assembly. Margaret Brent broke gender role barriers and social expectations for women of her time by becoming a landowner with her sister. She was trained as a lawyer and is known as the first suffragette.

Higher Education Investment Fund

HEIF was established by Chapter 3 of the 2007 special session (SB 2), which increased the corporate income tax rate from 7.0% to 8.25% and dedicated 6.0% of corporate tax revenues (or one-half of the rate increase) to higher education for two years. Chapters 192 and 193 of 2010 (SB 283/HB 470) made HEIF permanent. The 2010 legislation also 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.

HEIF monies have been included in the budget each year since fiscal 2009 and were used to backfill tuition revenues due to the tuition freeze, as well as for other State expenses at USM institutions and MSU. SMCM was exempt from the legislation to cap tuition and academic fees and was not eligible to receive funds from HEIF until Chapter 1 of the 2012 first special session was enacted.

The Governor's proposed fiscal 2014 budget includes \$1.1 billion in general funds and \$76.3 million in funds from HEIF for USM, \$74.3 million in general funds and \$5.6 million in funds from HEIF for MSU, and \$18.4 million in general funds for SMCM. SMCM is proposing to increase in-state tuition rates by 4% in fall 2013.

State Fiscal Effect: The bill sets State funding mandates for SMCM beginning in fiscal 2014 to offset a tuition freeze and to expand the DeSousa-Brent Scholars program for underrepresented students. State funding at the State's 15 community colleges through the Senator John A. Cade Funding Formula and other programs; the State-operated community college, Baltimore City Community College (BCCC), through its own formula; and private, nonprofit colleges and universities located in Maryland through the Joseph A. Sellinger Grant Program also increases due to funding formulas being based on the average full-time equivalent student funding at select public four-year institutions of higher education, which includes SMCM.

Tuition Revenues

SMCM tuition revenues decrease by approximately \$832,647 in fiscal 2014 and \$1.7 million in fiscal 2015 and annually thereafter due to the tuition freeze. This estimate assumes that tuition at SMCM would increase 3% in fiscal 2015 absent the bill and that SMCM does not significantly increase its tuition to recoup the permanently lower revenues as the ongoing general fund grant funding is intended to make SMCM whole.

Special Fund Expenditures

Special fund expenditures from HEIF for SMCM increase beginning in fiscal 2015 due to the funding mandates. **Exhibit 2** shows the cumulative impact of the projected increase in HEIF expenditures for SMCM under the bill. The base tuition stabilization grant is \$800,000 in fiscal 2014 and increases to \$1.6 million in fiscal 2015, which reflects inclusion of the fiscal 2014 grant. The DeSousa-Brent grant is as mandated by the bill. For fiscal 2014, the estimate assumes a fiscal 2014 general fund supplemental or deficiency appropriation for the full \$1.1 million because all but \$400,000 of HEIF (\$200,000 in the Tuition Stabilization Account) has already been budgeted for USM and MSU in the Governor’s proposed fiscal 2014 budget.

Exhibit 2
Estimated HEIF Fiscal Impact under the Bill
(Assuming General Funds for Fiscal 2014)
Fiscal 2014-2018

	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
Tuition Stabilization Grant	\$800,000	\$1,616,000	\$0	\$0	\$0
DeSousa-Brent Completion Grant	<u>300,000</u>	<u>550,000</u>	<u>800,000</u>	<u>800,000</u>	<u>800,000</u>
Total	\$1,100,000	\$2,166,000	\$800,000	\$800,000	\$800,000

Source: Global Insight Sept 2012, Department of Legislative Services

General Fund Expenditures

Beginning in fiscal 2016, general fund expenditures increase by approximately \$1.7 million due to the fiscal 2015 appropriation for the tuition stabilization grant being included in SMCM’s general fund appropriation formula (see **Exhibit 4**). If SMCM meets the retention and graduation rate performance measures for DeSousa-Brent Scholars specified in the bill, general fund expenditures further increase by approximately \$819,200 beginning in fiscal 2020. Thus, general fund expenditures will increase by a total of approximately \$2.6 million beginning in fiscal 2020. However, if SMCM fails to meet the performance measures for DeSousa-Brent Scholars, SMCM will not permanently receive the \$819,200 in performance funding; thus, general fund expenditures for SMCM will only increase by approximately \$1.8 million due to permanently including the tuition stabilization grant in its funding formula. The estimated general fund fiscal impact of the bill in fiscal 2020 with SMCM meeting and not meeting the DeSousa-Brent performance measures is shown in **Exhibit 3**.

Exhibit 3
Estimated General Fund Fiscal Impact in Fiscal 2020

	<u>FY 2020</u>
DeSousa-Brent Performance Measures Met	\$2,635,099
DeSousa-Brent Performance Measures <i>Not</i> Met	1,815,899

Source: Department of Legislative Services

State general fund expenditures also increase for the State’s 15 community colleges through the Senator John A. Cade Funding Formula and other programs; the State-operated community college, BCCC, through its own formula; and private, nonprofit colleges and universities located in Maryland through the Joseph A. Sellinger Grant Program due to funding formulas being based on the average full-time equivalent student funding at select public four-year institutions of higher education. The estimated general fund expenditure increases are shown in **Exhibit 4** beginning in fiscal 2014, assuming HEIF appropriations are included in the per-student funding calculation. Under current law, only general fund appropriations are included, but HEIF appropriations to USM and MSU have been included in the calculations since HEIF was established.

Exhibit 4
Estimated General Fund Fiscal Impact on Funding Formulas under the Bill
Fiscal 2014-2018

	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
SMCM ¹			\$1,651,552	\$1,691,189	\$1,731,777
Community Colleges	\$242,436	\$432,310	473,823	548,247	607,091
BCCC	45,285	95,340	104,311	106,731	114,160
<u>Sellinger</u>	<u>48,176</u>	<u>97,348</u>	<u>106,094</u>	<u>108,609</u>	<u>114,929</u>
Total	\$335,897	\$624,998	\$2,335,780	\$2,454,776	\$2,567,957

¹SMCM formula increase is due to including the \$1.6 million fiscal 2015 tuition stabilization grant in SMCM’s general fund grant in fiscal 2016 and increasing annually by the implicit price deflator used in SMCM’s funding formula.

Source: Department of Legislative Services

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

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

Additional Information

Prior Introductions: None.

Cross File: HB 831 (Delegate Bohanan) - Appropriations.

Information Source(s): Maryland Higher Education Commission, St. Mary's College, Department of Legislative Services

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Analysis by: Caroline L. Boice

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