

Department of Legislative Services
 Maryland General Assembly
 2014 Session

FISCAL AND POLICY NOTE

House Bill 1504
 Appropriations

(Delegate Haynes, *et al.*)

Maryland Education Opportunity Act of 2014

This bill establishes a full *tuition waiver* for State residents who enroll at a community college as a candidate for a vocational certificate or an associate’s degree within two years after graduating from a high school in the State or successfully completing a GED. The bill also establishes a 50% community college *tuition discount* for State residents who do not have a high school diploma or GED and have been actively seeking employment but have been unemployed for at least six months. Individuals receiving waivers or discounts must be counted in computing full-time equivalent student (FTES) enrollment for the Senator John A. Cade funding formula for community colleges. In addition, a community college is entitled to reimbursement from the State from the Education Trust Fund (ETF) for foregone tuition revenue resulting from the bill.

The bill takes effect July 1, 2014.

Fiscal Summary

State Effect: To use gaming proceeds credited to ETF for the expanded uses described in the bill requires general fund expenditures to increase by an equal amount. General fund expenditures increase by *at least* \$36.3 million in FY 2015, increasing to \$74.9 million in FY 2016, due to current community college students who are eligible for the tuition waiver including those attending Baltimore City Community College (BCCC). However, any lost tuition revenue is reimbursed by the State. Thus, BCCC reimbursed tuition revenues increase by an estimated \$138,200 in FY 2015, increasing to \$284,700 in FY 2016. Future years assume at least the FY 2016 impact inflated by 3% each year. **This bill establishes a mandated appropriation beginning in FY 2016.**

(\$ in millions)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Higher Ed Rev.	\$0.1	\$0.3	\$0.3	\$0.3	\$0.3
GF Expenditure	\$36.3	\$74.9	\$77.1	\$79.4	\$81.8
Net Effect	(\$36.2)	(\$74.6)	(\$76.8)	(\$79.1)	(\$81.5)

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

Additional significant costs not shown above are likely. *For illustrative purposes only*, if 25% of the first-time full-time students currently attending a public four-year institution of higher education decide to attend a community college instead, then general fund expenditures increase by another \$7.6 million in FY 2015, increasing to \$15.7 million in FY 2016 to reimburse community colleges, and by another \$8.2 million in FY 2017 due to the increased State funding through the BCCC and Cade funding formulas. Finally, general fund expenditures increase and BCCC reimbursed tuition revenues increase due to the increased number of FTES from students eligible for the tuition waiver who currently do not attend any college *and* from students eligible for the tuition discount; however, these impacts cannot be reliably estimated.

Local Effect: Local community college tuition revenues decrease by *at least* \$36.2 million in FY 2015 increasing to \$74.6 million in FY 2016 due to current students who are eligible for the tuition waiver; however, any lost tuition revenue is reimbursed by the State. Additional tuition revenue impacts are likely. *For illustrative purposes only*, if 25% of the first-time full-time students currently attending a public four-year institution of higher education decide to attend a community college within two years of graduating from high school or receiving a GED, State aid for local community colleges for tuition reimbursement increases by another \$7.5 million in FY 2015, increasing to \$15.5 million in FY 2016, due to increased FTES currently attending public four-year institutions instead attending community colleges. Finally, reimbursed tuition revenues for local community colleges increase due to the increased number of FTES from students eligible for the tuition waiver who currently do not attend any college *and* from students eligible for the tuition discount; however, these impacts cannot be reliably estimated.

Small Business Effect: None.

Analysis

Bill Summary: For the bill, “tuition” means the basic instructional charge for courses offered at a community college and includes any fees for registration, application, administration, or laboratory work.

An individual must continue to receive the tuition waiver or the tuition discount until the earlier of (1) two years after first enrolling as a candidate for a vocational certificate or an associate’s degree at a community college in the State or (2) the date that the individual is awarded a vocational certificate or an associate’s degree.

An individual who is eligible for a tuition waiver or discount under the bill must submit a timely application for any State or federal student financial aid, other than a student loan, for which the student may qualify. Any student financial aid, other than a student loan, received by an individual who receives a tuition waiver or discount under the bill must be

applied *first* to pay the individual's tuition. The tuition waiver or the tuition discount must apply to the difference, if any, between the charge for tuition and the financial aid award, not including a student loan that the individual receives. On request, the community college must assist any individual required to submit an application for State or federal student financial aid under the bill.

Any funds used to reimburse a community college for foregone tuition revenue must be paid from ETF. The bill also expands the authorized use of video lottery (and table game) proceeds credited to ETF to provide funds to reimburse community colleges for foregone tuition revenue.

Current Law: Specified foster care recipients are eligible for various tuition waivers at community colleges. There are also tuition waiver programs for individuals with disabilities and seniors.

Senator John A. Cade Funding Formula

The State's annual contribution for the Senator John A. Cade Funding Formula, the largest community college aid program, is determined by enrollment at community colleges and the level of funding received by public four-year institutions. The Cade formula bases per-pupil funding on a set statutory percentage of current-year State appropriations per FTES at selected public four-year institutions of higher education. The resulting community college per-student amount is multiplied by the number of FTES enrolled in the colleges in the second preceding fiscal year to identify a total formula amount.

Specifically, the number of FTES is calculated as the number of student credit hours produced in the fiscal year two years prior to the fiscal year for which the State share is calculated divided by 30. "Student credit hours" are defined as student credit hours or contact hours which are eligible, under the regulations issued by the Maryland Higher Education Commission (MHEC).

There are three parts to the Cade formula that together set the level of funding each community college receives under the grant. The three components are fixed costs, marginal costs, and a size factor. The majority (60%) of the Cade funding is distributed to the local community colleges through the marginal cost formula that distributes funds based on the number of FTES at each community college. Of the remaining 40%, 38% is distributed through the fixed-cost component and 2% is distributed through the size-factor component. In addition, a college is eligible for a hold harmless component if the total amount under the three components is less than the college's total Cade funding in the prior year.

According to regulations applicable to local community colleges that receive Cade funding but not BCCC, a college may not receive State funding for continuing education courses until MHEC approves the course. MHEC may not approve recreational courses for State funding. When two or more colleges jointly sponsor a noncredit continuing education course, participating students must be enrolled, recorded, and registered by the college that will ultimately submit the request for the State funding for the course. A college may not receive State funding for students younger than age 16 enrolled in continuing education courses, unless otherwise permitted by State law. A high school student concurrently enrolled in continuing education courses without payment of tuition, either through tuition waiver, tuition payment reimbursement, or by direct finance of the course work by individual college departments, may not be submitted for State funding. A continuing education course that is approved for State funding must be open to the public, except when the course is being offered under contract to meet employee training needs.

Like the local community colleges, annual State funding for BCCC is determined by a formula that bases per-pupil funding for the college on a set statutory percentage of the current-year State appropriations per FTES at selected public four-year institutions of higher education. The resulting BCCC per-student amount is multiplied by the number of FTES enrolled in the college in the second preceding fiscal year to identify a total formula amount. The number of FTES is calculated in the same manner as it is for the local community colleges, and “student credit hours” are defined the same.

Admissions Policies

According to MHEC regulations, an in-state institution’s admissions policy must be related to the objectives and resources of the institution and clearly stated. An in-state institution that maintains an open-door policy must make adequate provision for placement testing, counseling, and compensatory services. There must be a demonstrable correlation between admissions policies and educational practices. Because the admissions policy affects all aspects of institutional planning, funding, and staffing, an institution has to carefully plan the admissions policy to determine whether it is serving the needs and interests of its students, or how it could be doing so more effectively. The admissions policy must be nondiscriminatory and comply with all State and federal laws with regard to nondiscrimination.

Individuals to Be Admitted

MHEC regulations specify that a student admitted to an in-state institution must be a graduate of a high school accredited either by its own state department of education or by a regional accrediting association recognized by the U.S. Department of Education or have received a high school equivalency certificate or a high school equivalency diploma.

However, an institution *may* admit to college level courses and programs individuals who present evidence, through testing or other means, of the ability to profit from the instruction. In making decisions about the potential of these individuals to complete a course or courses, or programs, the institution may consider previous formal education, equivalency of other learning by examination, and competencies gained through practical experience, maturity, or other appropriate criteria. In those instances when a student has been admitted under exceptions to existing institutional policies, the in-state institution must retain an explanation of those exceptions and a record of the student's academic success in collegiate credit-bearing courses.

The receiving institution must limit the credit earned in or transferred from an associate degree-granting institution to approximately one-half the baccalaureate degree program requirement, not to exceed 70 credits. The receiving institution must count these transferred credits toward the first two years of the undergraduate educational experience.

Education Trust Fund

ETF is a nonlapsing, special fund to be used for continued funding of the Bridge to Excellence formulas and programs, including the Geographic Cost of Education Index (GCEI). The fund may also be used to support capital projects for public schools, community colleges, and public four-year institutions as well as to expand public early childhood education programs in the State. A portion of the proceeds from video lottery terminals (VLTs) and table games is dedicated to ETF.

Background: According to *Stateline*, the daily news service of the Pew Charitable Trusts, several states are considering or have considered offering free tuition at community colleges. In 2014 the Governor of Oregon signed a bill to study the viability of making tuition and fees at community colleges free to Oregon high school graduates. The Governor of Tennessee is also supporting a plan to make tuition free at community colleges and colleges of applied technology. However, in 2007 a similar proposal failed in the Tennessee legislature. In Mississippi, a bill for free tuition at community colleges died in committee in March 2014 because of funding concerns. Six of Mississippi's 15 community colleges already offer some form of tuition guarantee, meaning that after students have applied for financial aid from federal, state, and other sources, county or private funding covers the remainder of the tuition costs. In 2007, Massachusetts' governor also proposed making community college free, but the measure failed.

California suspended tuition at its public community colleges in 1960, but due to fiscal pressure the colleges started charging enrollment fees in 1984-1985. The City University of New York (CUNY) in New York City offered free tuition from 1970 to 1976; however, the policy ended due to the city's fiscal crisis. Still today, between federal and state tuition assistance, nearly half of CUNY's undergraduate students pay no tuition.

As shown in **Exhibit 1**, the average statewide in-county tuition and fees for Maryland's community colleges was \$3,799 in fall 2013. For the 2013-2014 academic year, Pell Grants, which students do not have to repay, provide up to \$5,645 per year. However, tuition and fees are only part of the costs associated with attending a community college. For example, students must obtain books and other educational materials in addition to room and board.

Exhibit 1
In-county Tuition and Fees at Community Colleges
Based on 30 Credit Hours Per Year
Fall 2013

<u>College</u>	<u>In-county</u>
Allegany	\$3,450
Anne Arundel	3,740
Baltimore City	3,120
Baltimore County	4,080
Carroll	4,128
Cecil	3,090
Chesapeake	4,100
College of Southern MD	4,170
Frederick	4,005
Garrett	3,600
Hagerstown	3,594
Harford	3,241
Howard	4,378
Montgomery	4,452
Prince George's	4,400
Wor-Wic	3,240
Statewide	\$3,799

Source: Maryland Association of Community Colleges

Education Trust Fund

ETF was established during the 2007 special session as part of the VLT legislation, to receive approximately half of the gross VLT proceeds, after payouts to bettors. Chapter 1 of the 2012 second special session made numerous changes to the State's gaming program including authorizing a sixth license in Prince George's County, table games at VLT facilities, and 24-hour per day gaming which were approved by voters in November

2012. A portion of table game revenues is also distributed to ETF. The legislation also altered the distribution of VLT proceeds and broadened the authorized uses of ETF to encompass funding that expands public early childhood education programs in Maryland. The estimated ETF revenues for fiscal 2015 through 2019 are shown in **Exhibit 2**. The exhibit shows that the projected ETF revenues are less than the approximately \$3.1 billion in annual Bridge to Excellence foundation program expenditures.

Exhibit 2
Estimated Education Trust Fund Revenues
Fiscal 2015-2019
(\$ in Millions)

<u>ETF</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
VLT	\$338.1	\$355.9	\$466.5	\$490.3	\$496.8
Table Games	69.2	71.1	74.5	77.9	78.9
Total ETF	\$407.3	\$427.0	\$540.9	\$568.2	\$575.7

Source: Department of Legislative Services

During the 2011-2012 school year according to data reported to MHEC through the Financial Aid Information System, 2,664 tuition waivers were granted by community colleges, mostly for former foster care recipients, at a total tuition loss of \$2.6 million.

State Fiscal Effect: To use gaming proceeds credited to ETF for the expanded uses described in the bill requires general fund expenditures to increase by an equal amount. Currently, all proceeds credited to ETF are budgeted for the Bridge to Excellence foundation formula and programs, including GCEI. The proposed fiscal 2015 State budget includes \$407.3 million in ETF revenues, all of which are directed toward the \$3.1 billion in Bridge to Excellence foundation formulas, including GCEI. The remaining Bridge to Excellence formula funding is general funds (excluding retirement). Thus, using any gaming proceeds credited to ETF for additional tuition reimbursement necessitates an equal increase in general fund expenditures.

The fiscal impact of the bill due to current community college students, current public four-year students, and other students is discussed below. This is followed by a discussion of the impact on BCCC revenues.

Current Community College Students

General fund expenditures increase by *at least* \$36.3 million in fiscal 2015, increasing to \$74.9 million in fiscal 2016, due to *current* community college students who are eligible

for the tuition waiver. The following information and assumptions were used in calculating this estimate.

- According to data collected by the Maryland Association of Community Colleges (MACC), 13,589 students in the State who graduated from high school in spring 2013 attended a community college. For the purposes of this estimate, it is assumed that this number is constant, that all of those students attended their local community college, and all of them attended on a full-time basis. Thus, 13,589 current students are eligible for the tuition waiver in fiscal 2015 and, since the waiver is valid for two years, 27,178 students will be eligible in fiscal 2016.
- Annual tuition at community colleges was \$3,799 in fall 2013 (fiscal 2014). For the purposes of this estimate, it is assumed that community college tuition increases 3% per year. Thus, it is assumed that the average full-time tuition at community colleges will be \$3,913 in fall 2014 (fiscal 2015) and \$4,031 in fall 2015 (fiscal 2016).
- In fiscal 2012, between 30% and 90% of students at community colleges receive nonloan financial aid. For those students the average nonloan student financial aid ranged between \$2,473 and \$4,281 per student. At some community colleges this average nonloan student financial aid completely covers tuition; at others it does not. The bill requires any student financial aid, other than a student loan received by an individual, to be applied *first* to pay the individual's tuition. Thus, for students that receive nonloan financial aid, the waiver only needs to cover the portion of tuition not covered by financial aid. In addition, for the purposes of this estimate, it is assumed that nonloan student financial aid increases by 3% per year. Thus, it is assumed that the average nonloan student financial aid at community colleges will be an average of \$3,370 in fall 2014 (fiscal 2015) and \$3,471 in fall 2015 (fiscal 2016).
- Due to the distribution of eligible students (and tuition and financial aid at the community colleges those students attend), community college revenues decrease by at least \$36.3 million in fiscal 2015 increasing to \$74.9 million in fiscal 2016. Under the bill all tuition revenue lost due to the bill is reimbursed with State funds; thus, State general fund expenditures increase by an equal amount.
- This estimate does not include one-time registration, application, or laboratory work fees, but it includes other mandatory fees.
- This estimate does not account for current community college students who are eligible for the tuition waiver but did not enroll in a community college the fall

directly following a spring high school graduation, because no data is currently available on that population.

- This estimate assumes that State expenditures for public four-year institutions of higher education are not affected by the bill, as it is assumed that total enrollment at the public four-year institutions remains constant.

Future year expenditures depend on the number of FTES eligible for the tuition waiver. It is assumed that at least the same number of students who were eligible in fiscal 2016 are eligible in each subsequent year.

Current Public Four-year Students

Significant additional costs are likely. *For illustrative purposes only*, if 25% of the first-time full-time students currently attending a public four-year institution of higher education decide to instead attend a community college within two years of graduating from high school or receiving a GED, then general fund expenditures increase by another \$7.6 million in fiscal 2015, increasing to \$15.7 million in fiscal 2016, to reimburse community colleges for lost tuition and by another \$8.2 million due to the increased State funding through the BCCC and Cade funding formulas.

- In fall 2013, there were approximately 13,301 first-time full-time students at the public four-year institutions of higher education in the State. *For illustrative purposes*, it is assumed that 25% of these students (approximately 3,325 students) choose to attend a community college rather than a public four-year institution of higher education due to the tuition waiver at community colleges under the bill.
- Thus, due to rounding, approximately 3,328 additional students will attend community college in fiscal 2015. Since the tuition waiver is only valid for two years, it is assumed that all of these students will attend on a full-time basis. In addition, because the waiver is valid for two years, 6,656 students will be eligible in fiscal 2016. For the purposes of this estimate, it is assumed that this number remains constant in the out-years.
- As explained above, some students receive nonloan student financial aid; thus, for the purposes of this illustrative example, it is assumed that the same proportion of students will receive nonloan student financial aid and that the average aid amounts will be the same. However, this may overestimate the number and amount of awards due to the population of students being different.
- Using the same tuition assumptions as discussed above, due to these additional students, community college tuition revenues will decrease by another estimated

\$7.6 million in fiscal 2015 increasing to \$15.7 million in fiscal 2016. Since under the bill the foregone tuition must be reimbursed by the State, general fund expenditures increase by an equal amount as shown in **Exhibit 3**.

Exhibit 3
Additional General Fund Expenditures
If 25% of First-time Full-time Students Shift from Attending
A Public Four-year Institution to a Community College
(\$ in Millions)

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
Reimbursed CC Tuition Revenue	\$7,612	\$15,680	\$16,151	\$16,635	\$17,134
Cade Funding Formula			6,835	14,780	15,967
BCCC Funding Formula			1,391	2,956	3,092
Total GF Expenditures	\$7,612	\$15,680	\$24,377	\$34,371	\$36,193

CC = community college
BCCC = Baltimore City Community College
GF = general fund

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- In addition, since it is assumed that these students would not have attended a community college without the tuition waiver, community college funding through the Cade and BCCC funding formulas will increase. Cade and BCCC formula funding is based on the actual FTES in the second prior fiscal year, thus community college formula funding will increase beginning in fiscal 2017 due to the additional students enrolling in fiscal 2015.
 - Cade funding per FTES for fiscal 2017 is estimated to be \$2,191; thus, Cade funding will increase by another estimated \$6.8 million in fiscal 2017 (as shown in Exhibit 3) due to the approximately 3,120 additional FTES in fiscal 2015. Likewise, Cade funding per FTES for fiscal 2018 is estimated to be \$2,336; thus, Cade funding will increase by an estimated \$14.8 million in fiscal 2018 due to the additional 6,240 FTES in fiscal 2016.
 - BCCC funding per FTES for fiscal 2017 is estimated to be \$6,688; thus, BCCC funding will increase by another estimated \$1.4 million in fiscal 2017 due to the additional 208 FTES in fiscal 2015. Likewise, BCCC funding per FTES for fiscal 2018 is estimated to be \$7,106; thus, BCCC funding will increase by an estimated \$3.0 million in fiscal 2018 due to the additional 208 FTES in fiscal 2016.

- This estimate does not include one-time registration, application, or laboratory work fees, but it includes other mandatory fees.

Future year expenditures depend on the number of FTES eligible for the tuition waiver. It is assumed that at least the same number of students who were eligible for a waiver in fiscal 2016 are eligible in each subsequent year.

Other Students

In addition, general fund expenditures increase and BCCC reimbursed tuition revenues increase due to the increased number of FTES from students eligible for the tuition waiver who currently do not attend any college *and* from students eligible for the tuition discount; however, these impacts cannot be reliably estimated. It is unknown how many students who currently do not attend college will choose to attend a community college due to the tuition waiver. It is also unknown how many students qualify for the tuition discount under the bill.

Baltimore City Community College Revenues

BCCC revenues decrease by *at least* \$138,202 in fiscal 2015, increasing to \$284,660 in fiscal 2016, due to current BCCC students who are eligible for the tuition waiver under the bill; however, any lost tuition revenue is reimbursed by the State. This is based on data collected by MACC that shows that 432 students from Baltimore City who graduated from high school in spring 2013 attended a community college, and the assumptions that tuition at BCCC will be \$3,214 in fall 2014 (fiscal 2015), \$3,310 in fall 2015 (fiscal 2016), and increase by 3% annually. However, 90% of BCCC students receive nonloan financial aid, and at BCCC the average amount of nonloan financial aid exceeds tuition.

Additional impacts are likely. *For illustrative purposes only*, if 25% of the first-time full-time students currently attending a public four-year institution of higher education decide to attend a community college instead, then BCCC reimbursed tuition revenues increase by another estimated \$64,494 in fiscal 2015, increasing to \$139,020 in fiscal 2016, due to the increased number of FTES. In addition, due to the additional FTES in fiscal 2015 and 2016, funding through BCCC's formula increases by another \$1.4 million in fiscal 2017 increasing to \$3.0 million in fiscal 2018.

Local Revenues: Local community college tuition revenues decrease by *at least* \$36.2 million in fiscal 2015, increasing to \$74.6 million in fiscal 2016, due to current students who are eligible for the tuition waiver; however, any lost tuition revenue is reimbursed by the State.

- According to data collected by MACC, 13,589 students in the State who graduated from high school in spring 2013 attended a community college. Of those, it is assumed that 13,157 attended a local community college. For the purposes of this estimate, it is assumed that this number is constant, that all of those students attended their local community college, and all of them attended on a full-time basis. Thus, 13,157 current local community college students are eligible for the tuition waiver in fiscal 2015 and, since the waiver is valid for two years, 26,314 students will be eligible in fiscal 2016.
- As explained above, it is assumed that local community college tuition revenues decrease by at least \$36.2 million in fiscal 2015 increasing to \$74.6 million in fiscal 2016. However, under the bill all tuition revenue lost due to the bill is reimbursed with State funds.
- This estimate does not include one-time registration, application, or laboratory work fees, but it includes other mandatory fees.
- This estimate does not account for current local community college students who are eligible for the tuition waiver but did not enroll in local community college the fall directly following a spring high school graduation, because no data is currently available on that population.

Future year revenue losses at local community colleges (which will be reimbursed by the State) depend on the number of FTES who receive a waiver. It is assumed that at least the same number of students who were eligible for a waiver in fiscal 2016 are eligible in each subsequent year.

Additional tuition revenue impacts are likely. *For illustrative purposes only*, if 25% of the first-time full-time students currently attending a public four-year institution of higher education decide to instead attend a community college within two years of graduating from high school or receiving a GED, local community college reimbursed tuition revenues increase by another estimated \$7.5 million in fiscal 2015, increasing to \$15.5 million in fiscal 2016, due to increased FTES. In addition, as explained above, funding through the Cade funding formula will increase by another \$6.8 million in fiscal 2017 and \$14.8 million in fiscal 2018.

Finally, reimbursed tuition revenues for local community colleges increase due to the increased number of FTES from students eligible for the tuition waiver who currently do not attend any college *and* from students eligible for the tuition discount; however, these impacts cannot be reliably estimated.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Association of Community Colleges, Maryland Higher Education Commission, The Pew Charitable Trusts, Department of Legislative Services

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Analysis by: Caroline L. Boice

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