

Department of Legislative Services
 Maryland General Assembly
 2014 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1215
 Ways and Means

(Delegate Bohanan, *et al.*)

Education, Health, and Environmental Affairs

Higher Education - 2+2 Transfer Scholarship

This bill alters the defunct Community College Transfer Scholarship Program to be the 2+2 Transfer Scholarship Program for students who earn an associate’s degree at a Maryland community college and transfer to a public senior or private nonprofit higher education institution in the State (both commonly referred to as four-year institutions). The bill alters the eligibility criteria, service obligation requirements, and amount of the award. If the State budget does not include at least \$2.0 million for the scholarship in any fiscal year, the bill requires funds to be transferred from the Need-based Student Financial Assistance Fund (NBSFAF) in an amount that provides a total of at least \$2.0 million to make awards under the 2+2 Transfer Scholarship Program each year.

The bill takes effect July 1, 2014.

Fiscal Summary

State Effect: General fund expenditures increase by \$78,100 in FY 2015 for the Maryland Higher Education Commission (MHEC) to hire a half-time administrative specialist and for one-time contractual costs associated with updating the scholarship program. Special fund expenditures from NBSFAF increase by \$2 million in FY 2015 to make awards. Beginning in FY 2016, it is assumed that the scholarship awards are funded by \$1 million in general funds and \$1 million in special funds. Future years reflect annualization and inflation. Although the bill does not mandate an appropriation, it ensures that at least \$2 million is available to the program each year.

(in dollars)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	78,100	1,027,100	1,028,400	1,029,700	1,031,200
SF Expenditure	2,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Net Effect	(\$2,078,100)	(\$2,027,100)	(\$2,028,400)	(\$2,029,700)	(\$2,031,200)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary:

Eligibility Criteria

The academic requirements for an applicant are changed so that an applicant must have earned an overall grade point average (GPA) of at least 2.5 (rather than 3.0) on a 4.0 scale while a student at a community college in the State. An applicant must earn an associate's degree from a community college in the State by the end of the semester in which the applicant plans to transfer; earning 60 credits at a community college in the State no longer qualifies. An applicant must also be accepted and enroll as a full-time student in a four-year institution by the fall semester following completion of the associate's degree, beginning with the fall 2014 semester. The annual total family income limit of \$95,000 is repealed.

In the case of an individual who is required to register with the Selective Service System, an applicant must have complied with the registration requirement. An applicant must have completed the federal Free Application for Federal Student Aid (FAFSA) and have demonstrated financial need, defined as a federal calculated expected family contribution (EFC) of \$10,000 or less as reported on the student's FAFSA.

Awards and Service Obligation

Each annual award must be for \$1,000, unless it is for a student who enrolls in a science, teaching, engineering, computer science, mathematics, or nursing program at a four-year institution, in which case the award must be \$2,000.

The award renewal requirements are changed so that the scholarship may be used for tuition and mandatory fees for three years of study, or six semesters of study, whichever is longer.

To retain a scholarship, the recipient must meet the current renewal obligations, although the academic requirement is relaxed so that the recipient must maintain a 2.5 GPA each academic year or provide evidence satisfactory to the Office of Student Financial Assistance (OSFA) of extenuating circumstances.

The service obligation is removed.

Current Law: The Nontraditional Student Community College Transfer Scholarship Program was established by Chapter 606 of 2000 as part of the HOPE Scholarship Program. A phase out of the HOPE scholarships began in fiscal 2005. Although award renewals were maintained for those already receiving the scholarships, no HOPE scholarships have been awarded to new recipients since fiscal 2004. The scholarship has not received funding since fiscal 2008. The scholarship was for students who pledged to work in the State for one year for each year that the scholarship was awarded, except under specified circumstances.

Eligible Institutions

A scholarship may be used only at a four-year public or private nonprofit institution of higher education in the State.

Eligibility Criteria

To qualify for a scholarship, an applicant must (1) be a resident of the State; (2) be a student at a community college in the State; (3) maintain a cumulative 3.0 GPA on a 4.0 scale while a student at a community college in the State; (4) have completed at least 60 credits at a community college in the State or have earned an associate's degree by the end of the semester in which the applicant plans to transfer; (5) be accepted for admission in a degree program at a four-year public or private nonprofit institution of higher education in the State; (6) intend to enroll in a four-year public or private nonprofit institution of higher education in the State; (7) enroll as a full-time student in that four-year institution; (8) have an annual total family income of not more than \$95,000; and (9) accept any other conditions or satisfy any additional criteria that MHEC or OSFA may establish.

Award Amount and Renewal

The annual amount of the scholarship must be \$3,000. A scholarship may be used for tuition and mandatory fees. To retain a scholarship, a recipient must remain a resident of the State, continue to be enrolled as an undergraduate student in a degree program at a four-year public or private nonprofit institution of higher education in the State, maintain a 3.0 GPA each academic year the individual is enrolled at a four-year public or private nonprofit institution of higher education in the State or provide evidence satisfactory to OSFA of extenuating circumstances, and maintain the standards of the eligible institution that the individual attends.

Service Obligation

A recipient of a scholarship must receive the award for each year the recipient is eligible if the recipient signs an agreement at the time of the initial award to (1) remain a resident of the State; (2) continue full-time employment in the State after completion of undergraduate studies for one year for each year that the scholarship was awarded; or (3) commence full-time employment in the State within one year after completion of undergraduate studies and, thereafter, continue employment in the State for one year for each year that the scholarship was awarded.

A recipient must repay the State any portion of the award if the recipient does not satisfy the degree requirements, maintain State residency, and satisfy the employment obligations. The residency and employment obligation begins after graduation and cannot be fulfilled prior to graduation.

A recipient for a scholarship may fulfill the employment obligation out of State if the recipient (1) was employed out of the State at the time the recipient received the scholarship; (2) continues employment with the same employer while receiving the scholarship; and (3) continues employment with the same employer after completion of the recipient's undergraduate studies.

Reporting Requirements and Funding

By July 1 of each year, OSFA must send to each member of the Maryland General Assembly a list of individuals in each legislative district to whom a scholarship is awarded.

Funds for the scholarship must be as provided in the annual budget of OSFA.

Background: Obtaining a bachelor's degree increases the economic well-being of those with a degree. In Maryland, those with an associate's degree, on average, earn \$12,000 more annually than if they only had a high school diploma, and those with a bachelor's degree earn about \$10,000 more than if they had an associate's degree. For many students, the path to a four-year degree begins at a two-year institution.

In fiscal 2012, 10,685 Maryland community college students transferred from a community college to a public four-year institution. This represents more than 10% of all undergraduates at public four-year institutions in Maryland. Students transferring to a University System of Maryland (USM) institution are considered qualified for admission if they have a minimum GPA of 2.0 on college level courses and either met the admission criteria of the USM institution as a high school senior *or* have an associate's degree or completed 56 or more credits at a Maryland public higher education institution.

According to USM policy, if the number of transfer applicants exceeds the number that can be accommodated, admission will be based on the same criteria as native students.

Chapter 533 of 2013 – College and Career Readiness and College Completion Act – established a State goal that students earn an associate’s degree before leaving community college or transferring to a public four-year institution.

Need-based Student Financial Assistance Fund

A 2010 legislative audit from the Office of Legislative Audits (OLA) reported on nonstandard accounting practices that MHEC used to transfer unexpended scholarship funds into future fiscal years. The Budget Reconciliation and Financing Act of 2011 required MHEC to work with the Department of Budget and Management and the Comptroller of Maryland to create a new fund for unspent scholarship aid. Through the new NBSFAF, unused scholarship funds are now deposited into the fund at the close of each fiscal year to be used for future need-based and certain unique population awards. Special funds can be appropriated in the annual State budget or recognized by budget amendment in the following fiscal year, creating a process for MHEC to encumber unexpended scholarship funds while greatly improving administrative transparency.

Exhibit 1 shows the current status of NBSFAF. It began with nearly \$9.9 million in carry-forward funds from fiscal 2011. While MHEC would like to keep a fund balance at the end of the fiscal year to ensure that it does not over-award financial aid in any given year and require a general fund deficiency, MHEC allowed the fund balance to grow significantly in fiscal 2012 through 2014. Due to a loss of \$1.2 million in federal funds in fiscal 2013, MHEC budgeted \$10.8 million in total to cover the loss of federal grants and to make more awards. MHEC would also like to transfer additional funds to Veterans of the Afghanistan and Iraq Conflicts, as well as \$10.0 million to Educational Excellence Awards (EEA) through a fiscal 2014 deficiency appropriation.

In an October 2013 audit report for MHEC, OLA had its first opportunity to review use of NBSFAF following OLA’s call for its creation in the 2010 audit. Finding 1 in the new report raised concerns over the amount of funding building up in NBSFAF. In academic year 2012-2013, there were more than 16,000 applicants on the waiting list and fund reserves of more than \$17 million, as shown in Exhibit 1, but little funding was appropriated until deficiencies for fiscal 2013 were included in the fiscal 2014 budget bill. Concerns over funds building up in NBSFAF were raised by the Department of Legislative Services (DLS) in operating budget analyses for fiscal 2013 and 2014.

Exhibit 1
Need-based Student Financial Assistance Fund
Fiscal 2011-2015

	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014*</u>	<u>FY 2015</u>
Opening Balance	\$0	\$9,868,419	\$17,662,274	\$17,221,337	\$4,094,376
Deposits	9,868,419	8,296,361	10,369,630	1,623,038	**
Withdrawals					
EEA			10,560,567	14,000,000	
Edward T. Conroy		300,000	100,000		
VAIC		202,506	150,000	750,000	
<i>Withdrawal Subtotal</i>	<i>0</i>	<i>502,506</i>	<i>10,810,567</i>	<i>15,300,000</i>	
Ending Balance	\$9,868,419	\$17,662,274	\$17,221,337	\$4,094,337	

EEA: Educational Excellence Awards

VAIC: Veterans of the Afghanistan and Iraq Conflicts Scholarship Program

*Includes proposed deficiencies.

**Does not include awards cancelled in fiscal 2014.

Source: Maryland Higher Education Commission

Sources of Revenue for NBSFAF

Whereas \$4.0 million from NBSFAF was budgeted directly into the fiscal 2014 allowance for EEA, none is budgeted in fiscal 2015 despite a minimum of \$4.1 million available before any final fiscal 2014 cancellations are reverted to NBSFAF. MHEC reports that about 40% of need-based awards were not accepted in the first awarding round in fiscal 2014, despite strong evidence of student need. Approximately \$8.0 million to \$10.0 million has been added to NBSFAF each year in fiscal 2011 to 2013. While MHEC typically over-awards, it has not done so at a high enough rate to actually reduce the balance in NBSFAF. MHEC reports that approximately \$2.5 million in funds from fiscal 2013 will still accrue to NBSFAF. This resulted from awardee rosters being sent to institutions for certification of enrollment, but the schools' approvals were not submitted back to MHEC in time to be paid out in fiscal 2013.

A significant amount of scholarship aid will likely be transferred to NBSFAF at the end of fiscal 2014, given how late in the academic year the \$10 million deficiency for additional EEA funds will be made available. MHEC reports that, out of the fiscal 2014 appropriation of \$80.9 million in EEA, \$13.6 million has been certified and disbursed as

financial aid through Guaranteed Access (GA) and \$56.9 million has also been disbursed through the Educational Excellence Award Grant (EAG). This leaves about \$4.5 million in the general fund appropriation, as well as the initial \$4.0 million special fund appropriation and the \$10.0 million deficiency, for additional EAG awards in fiscal 2014. From this balance, MHEC made initial wait list awards in November 2013 totaling about \$22.0 million for the spring 2014 semester. Institutions will certify spring semester enrollment status for awards from January to March 2014. However, it seems likely that this action will not over-award aggressively enough to spend down the balance given the prior cancellation rate of about 40%. This means the cycle of funds out of, and back into, NBSFAF will repeat.

State Expenditures: General fund expenditures increase by \$84,617 in fiscal 2015 for one-time contractual costs associated with updating the scholarship system and to hire a half-time administrative specialist to make awards and to answer FAFSA-related questions. General fund expenditures increase \$1 million in fiscal 2016 and beyond for awards. Special fund expenditures from NBSFAF increase by \$2 million in fiscal 2015 but reduce to \$1 million in fiscal 2016 and beyond. The information and assumptions used in this estimate are shown below.

- MHEC reports modifying and testing the scholarship web portal known as Maryland College Aid Processing System (MD CAPS) to add a new scholarship costs approximately \$54,000, as shown in **Exhibit 2**.
- MHEC advises that an additional administrative specialist will be needed to make awards and answer FAFSA-related questions. MHEC reports that the number of FAFSAs filed directly relates to the number of phone calls and emails received by OSFA staff. MHEC further advises from fiscal 2010 to 2013 it has experienced an 8.8% increase in students it serves and a 30% increase in the number of FAFSAs filed, while OSFA's number of full-time equivalent positions has decreased by three (or by 21%). MHEC anticipates the bill will increase the number of FAFSA-related questions.
- DLS advises that only a half-time position is needed to meet the requirements of the bill. Thus, general fund expenditures increase by \$19,468 for salary and fringe benefits and by \$4,588 in start-up and operating costs, which assumes a 90-day start-up delay following the July 1, 2014 effective date of the bill.
- Thus, general fund expenditures increase by a total of \$78,056 in fiscal 2015.

- Since no funds have been appropriated in the State budget for the scholarship for fiscal 2015, it is assumed that \$2 million will be transferred from NBSFAF in fiscal 2015.
- It is assumed that, beginning in fiscal 2016, \$1 million in general funds will be appropriated to make awards. Thus, beginning in fiscal 2016, special fund expenditures from NBSFAF will be \$1 million per year, for a total of \$2 million to make awards.
- Given the balance that has accrued in NBSFAF over the past four years, it is assumed that the \$1 million annual NBSFAF expenditure for the 2+2 Scholarship Program would not otherwise have been spent.
- Future year expenditures reflect elimination of one-time expenses after fiscal 2015, a half-time salary with annual increases in employee turnover, as well as annual increases in ongoing operating expenses.

Exhibit 2
Scholarship Costs
Fiscal 2015-2017

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Position	0.5		
Salary and Fringe Benefits	\$19,468	\$26,792	\$28,085
MD CAPS	54,000		
Scholarship Funds – GF		1,000,000	1,000,000
Start-up and Operating Costs	4,588	293	296
Total GF	\$78,056	\$1,027,085	\$1,028,381
Scholarship Funds – SF	2,000,000	1,000,000	1,000,000
Total State Expenditures	\$2,078,056	\$2,027,085	\$2,028,381

MD CAPS = Maryland College Aid Processing System

GF = General Funds

SF = Special Funds (Need-based Student Financial Assistance Fund)

Additional Information

Prior Introductions: None.

Cross File: SB 785 (Senator Currie, *et al.*) - Education, Health, and Environmental Affairs.

Information Source(s): Maryland Higher Education Commission, Department of Budget and Management, Maryland Independent College and University Association, University System of Maryland, Department of Legislative Services

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