

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

House Bill 673
Ways and Means

(Delegate Haynes, *et al.*)

Community Colleges - Tuition Waiver for Full-Time Students - Full State
Reimbursement

This bill exempts a State resident who enrolls as a full-time student in a vocational certificate program or in an associate degree program at a community college within two years after graduation from a high school in the State or successfully completing a GED, *and* who meets other specified requirements, from paying community college tuition for up to two and one-half years. A waiver recipient must repay the amount of tuition waived if the recipient does not earn a vocational certificate or associate degree within three years. A community college is entitled to reimbursement from the State for foregone tuition revenue resulting from the waivers, to be paid from the Education Trust Fund (ETF).

The bill takes effect July 1, 2015.

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* \$32.6 million in FY 2016, increasing to \$67.2 million in FY 2017 and \$86.6 million in FY 2018, to reimburse community colleges for 100% of eligible tuition waivers including Baltimore City Community College (BCCC). Beginning in FY 2018, general fund expenditures may increase further to reimburse lost tuition revenues and through the Senator John A. Cade (Cade) and BCCC formulas if students who would otherwise attend a four-year institution enroll full time at a community college instead (not shown below). BCCC revenues decrease beginning in FY 2016, offset by State reimbursements. General fund revenues increase from tuition repaid by students who do not graduate on time, beginning in FY 2019. Future years assume at least the FY 2018 impact, inflated by 3% each year. **This bill establishes a mandated appropriation beginning in FY 2017.**

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Revenue	\$0	\$0	\$0	\$7.3	\$14.8
Higher Ed Rev.	(\$.2)	(\$.4)	(\$.6)	(\$.6)	(\$.6)
GF Expenditure	\$32.6	\$67.2	\$86.6	\$89.2	\$91.8
Net Effect	(\$32.8)	(\$67.7)	(\$87.1)	(\$82.4)	(\$77.6)

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

Local Effect: Local community college tuition revenues decrease by *at least* \$32.4 million in FY 2016, escalating to \$66.8 million in FY 2017, 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. Beginning in FY 2019, students who did not graduate on time begin repaying waived tuition. *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 \$9.7 million in FY 2016, increasing to \$20.0 million in FY 2017 and \$25.8 million in FY 2018, due to increased full-time equivalent students (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.

Small Business Effect: None.

Analysis

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

A specified individual exempted from tuition must be counted in the computation of full-time equivalent enrollment.

An individual who qualifies for the tuition waiver must submit a timely application for any State or federal student financial aid, other than a student loan, for which the student may qualify.

An individual who receives a tuition waiver under the bill must continue to receive the tuition waiver until the earlier of one of the following conditions is met:

- the individual does not maintain a grade point average (GPA) of at least 2.0 *and* is not making satisfactory progress toward a vocational certificate or associate degree;
- two and one-half years have passed since the individual first enrolled; or
- the individual is awarded a vocational certificate or an associate's degree.

Any financial aid, other than a student loan, received by a tuition waiver recipient must be applied first to pay the individual's tuition. On request, the community college must assist any individual required to submit an application for State or federal student financial aid under the bill.

The Maryland Higher Education Commission (MHEC) may adopt regulations necessary to implement the provisions of the bill, including developing a process for (1) a waiver recipient who fails to graduate in three years to repay the tuition waived and (2) allocating the amount repaid between the State and the community college.

Finally, the bill also expands the authorized use of gaming proceeds credited to ETF to include providing funds to reimburse community colleges for foregone tuition revenue.

Current Law: Tuition policies at community colleges are set by the Code of Maryland Regulations and the boards of trustees for the colleges. There are three levels of tuition at community colleges: in-county, out-of-county, and out-of-state. However, as a State-operated college, BCCC only has two tuition levels: in-state and out-of-state. In general, there is a three-month residency requirement for community colleges.

Background: In 2014, the Tennessee General Assembly passed legislation establishing a program, beginning with the class of 2015, offering two years of tuition-free education at 1 of the state's 13 community colleges or 27 technical schools. The program, known as Tennessee Promise, is a last-dollar scholarship, meaning it covers costs of tuition and mandatory fees not met by federal Pell scholarships, the Tennessee HOPE scholarship, or the Tennessee Student Assistance Award Program. To be eligible, a student must meet a number of requirements, including completing the federal Free Application for Federal Student Aid (FAFSA), enroll in a college full time for up to five consecutive semesters, maintain a 2.0 GPA, and complete eight hours of community service per semester. To pay for the program, the state created an endowment of \$361.1 million using state lottery reserves; it was estimated to cost about \$34 million the first year.

The full impact of the Tennessee Promise is still unknown. About 58,000 students or 90% of Tennessee's high school graduating class applied for the program in the first year – exceeding expectations by thousands of students. To meet the need, community colleges and technical schools are prepared to offer night and weekend courses. However, many of the students who applied could decide to attend four-year universities or pursue other options, or they could fail to meet the eligibility requirements.

The Tennessee Promise program was based on a smaller program at Pellissippi State College, known as Knox Achieves. According to Knox Achieves' program data, matriculation rates at Pellissippi State College increased by 11.5% due to the program. The high matriculation rate is thought to be due, at least in part, to the associated mentoring program.

In 2015, President Obama has proposed a similar program to make two years of community college tuition free. Under President Obama's plan, the offer of free tuition would extend to all students if they attend classes at least half time and maintain a GPA of 2.5 or better. The federal government would cover up to 75% of the costs of the initiative, while states would pick up the remaining quarter.

As shown in **Exhibit 1**, the average statewide in-county tuition and fees for Maryland's community colleges was \$3,910 in fall 2014. For the 2014-2015 academic year, the maximum Pell grant available is \$5,730, and the minimum is \$573. The Pell grant amount depends on the cost of attendance at the institution and the expected family contribution calculated using FAFSA. Many of these students are also eligible for State need-based financial aid, such as the Guaranteed Access (GA) Grant or the Educational Assistance (EA) Grant.

The GA grant is a component of the Delegate Howard P. Rawlings Educational Excellence Awards program that covers 100% of need when combined with a federal Pell grant for the State's lowest income students. The maximum award is capped at the cost of education at the highest cost four-year University System of Maryland institution, excluding the University of Maryland, Baltimore and the University of Maryland University College. The maximum award in fiscal 2013 was \$15,900, and the maximum award in fiscal 2014 was \$16,100. Students that meet all program criteria, such as enrolling directly from high school and family income limits, are guaranteed funding.

Qualified GA applicants must have a cumulative high school GPA of at least 2.5 on a 4.0 scale. In addition, a recipient must be age 22 or younger at the time of receiving the first award, have successfully completed a college preparatory program in high school, enroll in college as a full-time student, and meet any additional criteria established by MHEC.

Students who do not qualify for a GA grant may still qualify for an EA grant, which provides up to \$3,000 toward the cost of attendance for students who are enrolled full time (at least 12 hours per semester) at a community college or public or private nonprofit four-year institution in the State. EA grants may be renewed for three years at a community college or five years at a four-year institution, if specified conditions are met.

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 2014

<u>College</u>	<u>In-county</u>
Allegany	\$3,540
Anne Arundel	3,830
Baltimore City	3,030
Baltimore County	4,252
Carroll	4,308
Cecil	3,240
Chesapeake	4,310
College of Southern MD	4,244
Frederick	3,945
Garrett	3,630
Hagerstown	3,684
Harford	3,744
Howard	4,448
Montgomery	4,590
Prince George's	4,400
Wor-Wic	3,360
Statewide	\$3,910

Source: Maryland Association of Community Colleges

Education Trust Fund

ETF was established during the 2007 special session as part of the video lottery terminal (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 2016 through 2020 are shown in **Exhibit 2**. The exhibit shows that the projected ETF revenues are less than the approximately \$3 billion in annual Bridge to Excellence foundation program expenditures, including the geographic cost of education index (GCEI).

Exhibit 2
Estimated Education Trust Fund Revenues
Fiscal 2016-2020
(\$ in Millions)

<u>ETF</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
VLT	\$315.9	\$432.8	\$456.7	\$462.9	\$469.8
Table Games	78.1	78.3	81.6	82.6	83.8
Total ETF	\$394.0	\$511.1	\$538.2	\$545.5	\$553.6

Note: Revenues do not reflect proposed contingent reductions or transfers to ETF.
Source: Board of Revenue Estimates; Department of Legislative Services

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 Governor’s proposed fiscal 2016 budget includes \$394.0 million in ETF revenues, all of which are directed toward the \$3.0 billion in Bridge to Excellence foundation formulas, including GCEI. The remaining \$2.4 billion in Bridge to Excellence formula funding is general funds (excluding retirement). Thus, using any gaming proceeds credited to ETF for tuition reimbursements 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* \$32.6 million in fiscal 2016, increasing to \$67.2 million in fiscal 2017, and \$86.6 million in fiscal 2018 due to *current* community college students who are eligible for the tuition waiver. Beginning in fiscal 2019, students

who did not graduate on time begin repaying waived tuition. The following information and assumptions were used in calculating this estimate.

- According to data collected by the Maryland Association of Community Colleges, 24,000 students enroll in credit courses or programs within one year of graduating high school. For the purposes of this estimate, it is assumed that this number is constant and that half of those students attend their local community college on a full-time basis.
- According to the Department of Labor, Licensing, and Regulation, approximately 5,000 students per year earn a GED. For the purposes of this estimate, it is assumed that 10% or 500 students per year enroll as full-time students in a community college in the State.
- Thus, 12,500 current students are eligible for the tuition waiver in fiscal 2016; since the waiver is valid for two and one-half years, 25,000 students will be eligible in fiscal 2017, and approximately 31,250 students will be eligible in fiscal 2018.
- Annual tuition at community colleges was \$3,910 in fall 2014 (fiscal 2015). 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 \$4,027 in fall 2015 (fiscal 2016) and \$4,148 in fall 2016 (fiscal 2017).
- In fiscal 2012, between 30% and 90% of students at community colleges received nonloan financial aid. For those students, the average nonloan student financial aid award 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 \$3,575 in fall 2015 (fiscal 2016) and \$3,683 in fall 2016 (fiscal 2017).
- 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 \$32.6 million in fiscal 2016, increasing to \$67.2 million in fiscal 2017, and \$86.6 million in fiscal 2018. 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.
- Based on current graduation rates of full-time community college students and assuming that the bill allows students to graduate in three years (instead of two and one-half years), it is assumed that only 18% of students who receive a tuition waiver will graduate in three years. Thus, it is assumed that 82% of tuition waived is repaid beginning in fiscal 2019 (three years after the effective date of the bill). For the purposes of this estimate it is assumed that students will be required to repay the waived tuition over a 10-year period, and 100% will be remitted to the State. Under those assumptions, beginning in fiscal 2019, State general fund revenues increase by an estimated \$7.3 million. If more qualified students earn a vocational certificate or associate degree within three years, the amount repaid could be significantly less. No costs for debt collection are included in this estimate. This analysis assumes all tuition waiver repayments are retained by the State, even though the bill authorizes apportionment to affected community colleges, since the State will have already reimbursed them fully.

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 2018 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 \$9.8 million in fiscal 2016, increasing to \$20.2 million in fiscal 2017 and \$26.0 million in

fiscal 2018, to reimburse community colleges for lost tuition, and by another \$9.2 million beginning in fiscal 2018 due to the increased State funding through the BCCC and Cade funding formulas.

- In fall 2014, there were approximately 14,629 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 3,657 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 3,656 additional students will attend community college in fiscal 2016. Since the tuition waiver is only valid for two and one-half 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 and one-half years, 7,312 students will be eligible in fiscal 2017 and 9,140 in fiscal 2018. 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 decrease by another estimated \$9.8 million in fiscal 2016 escalating to \$20.2 million in fiscal 2017 and \$26.0 million in fiscal 2018. 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**.
- 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 increases. Cade and BCCC formula funding is based on the actual FTES in the second prior fiscal year, thus community college formula funding increases beginning in fiscal 2018 due to the additional students enrolling in fiscal 2016.

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 Thousands)

	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
Reimbursed CC Tuition Revenue	\$9,789	\$20,173	\$25,979	\$26,757	\$27,560
BCCC Funding Formula			1,061	2,895	3,849
Cade Funding Formula			8,180	18,136	24,600
Total GF Expenditures	\$9,789	\$20,173	\$35,220	\$47,788	\$56,009

GF = general fund
 CC = community college
 BCCC = Baltimore City Community College
 Source: Department of Legislative

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- BCCC funding per FTES for fiscal 2018 is estimated to be \$6,894; thus, BCCC funding increases by another estimated \$1.1 million in fiscal 2018 (after hold harmless and rounding) due to the additional 199 FTES in fiscal 2016. Likewise, BCCC funding per FTES for fiscal 2019 is estimated to be \$7,273; thus, BCCC funding increases by an estimated \$2.9 million in fiscal 2019 due to the additional 398 FTES in fiscal 2017.
 - Cade funding per FTES for fiscal 2018 is estimated to be \$2,413; thus, Cade funding increases by another estimated \$8.2 million in fiscal 2018 (after hold harmless and rounding as shown in Exhibit 3) due to the approximately 3,457 additional FTES in fiscal 2016. Likewise, Cade funding per FTES for fiscal 2019 is estimated to be \$2,623; thus, Cade funding increases by an estimated \$18.1 million in fiscal 2019 due to the additional 6,914 FTES in fiscal 2017.
 - 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 2018 are eligible in each subsequent year.

Other Students

In addition, to the extent the bill encourages students who would otherwise not attend college to enroll at a community college full time, general fund expenditures increase (and BCCC tuition revenues decrease) due to the increased number of FTES. 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 bill.

Baltimore City Community College Revenues

BCCC revenues decrease by *at least* \$212,228 in fiscal 2016, escalating to \$437,240 in fiscal 2017 and \$562,870 in fiscal 2018, due to current BCCC students who are eligible for the tuition waiver under the bill; however, any tuition revenue loss due to eligible waivers is reimbursed by the State. This is based on the assumption that 681 students from Baltimore City who graduated from high school in spring 2015 attended a community college, and the assumptions that tuition at BCCC will be \$3,030 in fall 2015 (fiscal 2016), \$3,121 in fall 2016 (fiscal 2017), 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.

Local Revenues: Local community college tuition revenues decrease by *at least* \$32.4 million in fiscal 2016, increasing to \$66.8 million in fiscal 2017 and \$86.0 million in fiscal 2018, due to current students who are eligible for the tuition waiver; however, any lost tuition revenue is reimbursed by the State.

- Of the estimated 12,500 current students eligible for the waiver, it is assumed that 11,819 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, 11,819 current local community college students are eligible for the tuition waiver in fiscal 2016 and, since the waiver is valid for two and one-half years, 23,638 students will be eligible in fiscal 2017 and 29,552 students will be eligible in fiscal 2018.
- As explained above, it is assumed that local community college tuition revenues decrease by at least \$32.4 million in fiscal 2016 escalating to \$66.8 million in fiscal 2017 and \$86.0 million in fiscal 2018. 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 2018 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 \$9.7 million in fiscal 2016, increasing to \$20.0 million in fiscal 2017 and \$25.8 million in fiscal 2018, due to increased FTES. In addition, as explained above, funding through the Cade funding formula increases by another \$8.2 million in fiscal 2018 and \$18.1 million in fiscal 2019.

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; however, these impacts cannot be reliably estimated.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Association of Community Colleges, Baltimore City Community College, Maryland Higher Education Commission, Comptroller's Office, Department of Legislative Services

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