

Department of Legislative Services
 Maryland General Assembly
 2016 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 73

(Senator Young, *et al.*)

Education, Health, and Environmental Affairs

Ways and Means

Maryland Loan Assistance Repayment Program for Orphans and Foster Care Recipients

This bill establishes a Maryland Loan Assistance Repayment Program (LARP) for Orphans and Foster Care Recipients. The Office of Student Financial Assistance (OSFA) within the Maryland Higher Education Commission (MHEC) *must* assist in the repayment of higher education loans owed by an orphan or a foster care recipient, as specified, who (1) is employed on a full-time basis by the State or a county or municipality of the State and (2) received a graduate, professional, or undergraduate degree from an institution of higher education in the State. The Governor must appropriate \$100,000 annually in the State budget for MHEC to disburse assistance under this program. By September 1, 2020, MHEC must report on specified aspects of the program.

The bill takes effect July 1, 2016, and applies retroactively to any individual who meets the eligibility requirements on or after July 1, 2010.

Fiscal Summary

State Effect: General fund expenditures increase by \$12,000 in FY 2017 for one-time contractual costs associated with updating MHEC’s scholarship system. Beginning in FY 2018, general fund expenditures increase by \$100,000 annually for repayment awards made by MHEC. Revenues are not affected. **This bill establishes a mandated appropriation beginning in FY 2018.**

(in dollars)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	12,000	100,000	100,000	100,000	100,000
Net Effect	(\$12,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary:

Eligible Individuals

To be eligible, a “foster care recipient” must have been placed in an out-of-home placement by a state’s or a unit of a state government’s department of social services for three years or more. An “orphan” is defined as a child who has been legally determined not to have parents because of the parents’ death or disappearance, abandonment or desertion of the child, or separation from the child.

Eligible Debt

“Higher education loan” is defined as any loan for undergraduate, professional, or graduate study that is obtained for tuition, educational expenses, or living expenses from (1) an institution of higher education, government, or a commercial source or (2) an organization, an institution, an association, a society, or a corporation that is exempt from taxation under Section 501(c)(3) or (4) of the Internal Revenue Code of 1986.

An applicant for assistance in the repayment of a commercial loan must demonstrate to OSFA that the commercial loan was used for tuition, educational expenses, or living expenses for graduate, professional, or undergraduate study. Assistance in the repayment of a loan from an organization, an institution, an association, a society, or a corporation that is exempt from taxation requires the approval of OSFA.

Award Amount

Subject to the availability of funds appropriated to the program, the award is equal to 10% of the eligible individual’s total higher education loan debt for each year the individual qualifies for the program. Each recipient of an award may hold the award for three years if the recipient (1) continues to meet the qualifications specified (*e.g.*, be employed on a full-time basis by the State or local government) and (2) signs an agreement at the time of the award to remain employed by the State for at least one year after the expiration of the term of the award. Each award is renewable on the expiration of the term of the award.

An award under the program must be used only for repayment of the higher education loans owed by the recipient.

Office of Student Financial Assistance Requirements

OSFA must adopt regulations to implement the bill.

Reporting Requirement

By September 1, 2020, MHEC must submit a report to the Governor and the General Assembly regarding how many individuals receive assistance annually under the program, the amount of each award, and how many students, if any, are placed on a waiting list or denied assistance.

Current Law: “Institution of higher education” in the State means an institution of postsecondary education that generally limits enrollment to high school graduates and awards degrees at the associate, baccalaureate, or graduate level. It includes public, private nonprofit, and for-profit institutions of higher education located in the State.

Foster Care Tuition Waiver

Foster care recipients are eligible for a tuition and mandatory fee exemption to attend a public institution of higher education in Maryland if they resided in an out-of-home placement in Maryland when they graduated from high school or successfully completed a general equivalency development examination. Foster care recipients adopted from an out-of-home placement in Maryland after their thirteenth birthday are likewise eligible for the exemption. Younger siblings are also eligible for the exemption if also adopted by the same family from the same guardianship or out-of-home placement.

A recipient must be enrolled in an institution as a candidate for a vocational, associate’s, or bachelor’s degree before reaching age 25 and must file annually for federal and State financial aid by March 1. If a foster care recipient receives a scholarship or grant, the recipient may not be required to pay the difference between the scholarship or grant and tuition. The exemption continues until five years after initial enrollment as a candidate for an associate’s degree or a bachelor’s degree or until the recipient receives a bachelor’s degree, whichever occurs first.

Loan Assistance Repayment Program

LARP provides loan repayment assistance in exchange for certain service commitments to help ensure that underserved areas of the State have sufficient numbers of primary care physicians, physician assistants, dentists, lawyers, and other professionals serving

underserved areas of the State or low-income families. The program is subdivided into the Janet L. Hoffman LARP, the Maryland Dent-Care LARP, and the Maryland LARP for Physicians and Physician Assistants. Individuals must have received a graduate, professional, or undergraduate degree from a college or university in the State or a school of law, or have received a resident teacher certificate from the Maryland State Department of Education (MSDE) after completing an approved alternative teaching preparation program. They must also be employed full time in State or local government or in a nonprofit organization that assists low-income, underserved residents or underserved areas in the State.

Janet L. Hoffman LARP

Eligible employment fields include lawyers, degree- or diploma-holding registered nurses, licensed clinical therapists, physical and occupational therapists, social workers, speech pathologists, and teachers. Chapter 496 of 2012 established the Nancy Grasmick Teacher Award within Janet L. Hoffman LARP for Maryland public school teachers who have taught in Maryland for at least two years in (1) science, technology, engineering, or math subjects or (2) a school in which at least 75% of the students are enrolled in the free and reduced-price meal program. A teacher must also have received the highest performance evaluation rating for the most recent year available.

According to statute, OSFA may adopt regulations to establish the maximum starting income for eligibility, the maximum total income for eligibility, and the limit on the total amount of assistance provided.

Priority is given to individuals who have graduated from an institution of higher education in the last three years. Priority employment fields established by law are legal services and nursing. Priority for awards is also given to applicants who are employed as nurse faculty members or teachers who teach in schools designated as federal Title I, schools identified for improvement by MSDE, or designated critical shortage subject fields as well as teachers who qualify for a Nancy Grasmick Teacher Award. Awards are capped at \$10,000 per year.

The fiscal 2016 budget includes \$1.5 million in general funds and \$75,000 in special funds for Janet L. Hoffman LARP. MHEC reports that, in fiscal 2015, 170 awards were made, and the average award amount was \$5,866. In fiscal 2015, 62 applicants were placed on the waiting list due to lack of funds.

Background: According to the Project on Student Debt, about 7 in 10 (69%) of college seniors who graduated from public and private nonprofit colleges in 2014 had student loan debt. These borrowers owed an average of \$28,950 nationwide. Fifty-eight percent of Maryland graduates from the same class owed an average of \$27,457. Private loans, which

are more costly and provide fewer consumer protections and repayment options than federal loans, comprise about one-fifth of student debt.

In fiscal 2015, approximately 13,500 children were in foster care each month; however, about 60% of those children exited foster/kinship care through reunification within 12 months of entry. In addition, approximately 37% of foster children were adopted within 24 months of entry.

According to data collected by Foster Care to Success, nationwide, less than 10% of former foster youth attain a bachelor's degree. Research has shown that, with the proper support, a larger percentage of former foster youth can attain a bachelor's degree.

In fiscal 2014, approximately 4.3% of people employed in Maryland work for the State, and approximately 9.5% of people employed in Maryland work for a county or municipality of the State.

State Expenditures: General fund expenditures increase by \$12,000 in fiscal 2017 for one-time contractual costs associated with updating MHEC's scholarship system. General fund expenditures increase by \$100,000 in fiscal 2018 and annually thereafter for repayment awards. MHEC can likely process applications related to the award using existing resources.

- MHEC reports modifying and testing the scholarship web portal (known as the Maryland College Aid Processing System) to add a new loan repayment grant costs approximately \$12,000.
- The bill requires the Governor to annually include an appropriation of \$100,000 in the State budget for MHEC to disburse loan repayment assistance to specified orphans and foster care recipients. Thus, general fund expenditures increase by \$100,000 annually beginning in fiscal 2018. Data on the number of foster care recipients and orphans who may be eligible under this bill and their amount of student loan debt is not available; thus, it is unknown how many awards will be made each year. Even so, *for illustrative purposes only*, based on *average* debt for a class of 2014 Maryland graduate, the *average* award is likely to be around \$7,000 or less over three years – meaning as many as 42 recipients could receive repayment awards each year. However, if certain recipients borrowed significantly more, their repayment awards would be greater and fewer recipients could receive assistance that year. Alternatively, given the bill's language that the award amount is equal to 10% of eligible debt subject to availability of funds, if demand is greater, more recipients could receive awards but at less than 10% of their total higher education loan debt.

- MHEC advises that, although the number of applicants is anticipated to be modest, an additional administrative specialist is needed to meet the requirements of the bill. The Department of Legislative Services advises that, if the number of applicants is as modest as anticipated, then MHEC can make the awards using existing resources. However, if the number of applicants is larger than anticipated, *i.e.*, more than 20 applicants annually, then MHEC may need to hire a half-time administrative specialist to make awards. If so, expenditures for staff would be in addition to the mandated appropriation.

Additional Information

Prior Introductions: A similar bill, SB 669 of 2015 passed the Senate and received a hearing in the House Ways and Means Committee, but no further action was taken. Its cross file, HB 788 received a hearing in the House Ways and Means Committee, but no further action was taken.

Cross File: HB 360 (Delegate Jalisi, *et al.*) – Ways and Means.

Information Source(s): Foster Care to Success, Project on Student Debt, Maryland Higher Education Commission, Department of Human Resources, Department of Legislative Services

Fiscal Note History: First Reader - January 19, 2016
mel/rhh Revised - Clarification - January 21, 2016
Revised - Senate Third Reader - March 23, 2016

Analysis by: Caroline L. Boice

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