

Department of Legislative Services
2017 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 712

(Senator Conway, *et al.*)

Budget and Taxation

Historically Black Institutions - State Funding - Blount-Rawlings-Britt HBI
Comparability Program

This bill establishes the Blount-Rawlings-Britt HBI Comparability Program to provide supplemental State funding to historically black colleges and universities (HBCUs, also sometimes called HBIs) of higher education in order to ensure that they are comparable and competitive with other public four-year institutions of higher education in Maryland. The Governor must include funds in the annual State operating and capital budgets as determined by calculations specified in the bill. The Maryland Higher Education Commission (MHEC) must implement and administer the program through the distribution of funds to HBCUs and the collection of data from HBCUs on the use of the funds distributed to them.

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: General fund expenditures increase by an estimated \$7.5 million in FY 2018 to provide enhancement funds to HBCUs as prescribed in the bill. Future year general fund expenditure estimates reflect inflation and additional mandated funding provisions beginning in FY 2019. Although not reflected below, higher education revenues and expenditures increase by corresponding amounts. The bill does not alter general obligation (GO) bond expenditures overall, but the allocation of GO bonds is affected, as discussed below. **This bill establishes mandated appropriations beginning in FY 2019.**

(\$ in millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	7.5	44.5	48.6	53.4	56.2
Net Effect	(\$7.5)	(\$44.5)	(\$48.6)	(\$53.4)	(\$56.2)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The additional operating funds that must be provided to HBCUs through the Blount-Rawlings-Britt HBI Comparability Program are calculated by:

- beginning in fiscal 2018, increasing the annual recurring State appropriation for each HBCU by not less than the average increase in the Governor's allowance for the public four-year traditionally white institutions (TWIs) of similar Carnegie classifications;
- maintaining fiscal 2018 enhancement funding of \$4.9 million and increasing the amount each year by the Higher Education Price Index (HEPI) beginning in fiscal 2019;
- beginning in fiscal 2019, providing \$500 per full-time equivalent student for financial aid to be awarded to eligible students at HBCUs and increasing the amount annually by HEPI;
- beginning in fiscal 2019, providing funding to meet specific staffing goals identified in the bill; and
- providing HBCUs with at least 35% of the capital improvement resources that are allocated to institutions of higher education, excluding the University of Maryland Medical System and independent colleges and universities beginning in fiscal 2019.

Funds for the Blount-Rawlings-Britt HBI Comparability Program must be included in MHEC's budget for distribution to HBCUs. The funds are in addition to the funds provided for HBCUs in the State budget in the prior fiscal year.

Current Law: Funding for public four-year institutions of higher education is discretionary. It is the intent of the General Assembly that, barring unforeseen economic conditions, the Governor include in the annual budget submission an amount of general fund State support for higher education equal to or greater than the amount appropriated in the prior fiscal year.

MHEC is responsible for developing a program of desegregation and equal educational opportunity including developing an enhancement plan for HBCUs. In addition, MHEC is responsible for making recommendations concerning needed resources for achieving goals and objectives established for HBCUs.

Background:

U.S. Office for Civil Rights

In 1969, the U.S. Office for Civil Rights (OCR) required Maryland, along with nine other states, to submit for approval by OCR a plan to remove all vestiges of its formerly segregated system of higher education. OCR asserted that Maryland and the other states had a responsibility to overcome past segregative practices and that it would not be enough to simply maintain nondiscriminatory admissions policies if the student racial demographic at an institution was still reflective of the formerly *de jure* racial identification of that institution.

Over the course of the next 30 years, Maryland submitted and resubmitted various plans to OCR in order to enhance its public HBCUs. In December 2000, the State and OCR entered into a partnership agreement that included a commitment from the State to further enhance its four HBCUs and to improve higher education opportunities for African American students. This partnership agreement expired on December 31, 2005, and on June 19, 2006, Maryland submitted a final report on the Partnership Agreement Commitments to OCR. OCR acknowledged receipt of that 2006 report in 2008, but the State has not yet been released from its obligations under the agreement. Five other states (Florida, Ohio, Oklahoma, Pennsylvania, and Texas) also continue to be subject to monitoring by OCR in this regard.

The State's HBCUs continue to receive \$4.9 million in general funds annually for OCR enhancement funding through MHEC since the OCR partnership agreement expired at the end of 2005. This funding is not used to calculate the base operational funding for the public four-year institutions, which means that funding for community colleges and private nonprofit institutions of higher education is not increased due to this funding.

The OCR partnership agreement also included additional operating funding and capital funding for HBCUs.

Commission to Develop the Maryland Model for Funding Higher Education

The Commission to Develop the Maryland Model for Funding Higher Education was established by the Tuition Affordability Act of 2006 (Chapters 57 and 58). The commission was charged with developing an effective statewide framework for higher education funding, making recommendations relating to the establishment of a consistent and stable funding mechanism to ensure accessibility and affordability while at the same time promoting policies to achieve national eminence at all of Maryland's public institutions of higher education, and making recommendations relating to the appropriate level of funding for the State's four HBCUs to ensure that they are comparable and

competitive with other public institutions. The commission submitted its final report in December 2008.

Study Panel on Historically Black Institutions

The commission appointed a panel of experts to study the funding needs of HBCUs to ensure that they are comparable and competitive with other public institutions. The State committed to this effort in its 2006 response to OCR following the 2005 expiration of the partnership agreement. In this response, the State indicated that it had met the agreement's commitments and expressed its intent to develop measurable indicators of parity among HBCUs and TWIs. The Panel on the Comparability and Competitiveness of Historically Black Institutions in Maryland (HBI Study Panel) submitted a final report to the commission in November 2008, which the commission's final report largely endorsed.

Among other things, the HBI Study Panel concluded that HBCUs need a different level of capacity due to their dual mission to provide regular collegiate programs in addition to developmental education for students who otherwise might not go to college. The panel recommended that HBCUs receive appropriate funding to raise graduation rates to be comparable to TWIs. To determine the funding needed to achieve this goal, the panel recommended that MHEC coordinate a group of HBCUs and experts to outline the programs and services required to ensure that underprepared students graduate. The commission recommended that a supplement be provided to HBCUs above the funding provided by the Higher Education Funding Model for Maryland in recognition of the effort demanded of HBCUs. Preliminary estimates suggest that \$3.0 million to \$4.0 million in annual funding at each institution is needed to support underprepared students and improve graduation rates, about \$1,428 per student. This estimate will be refined and adjusted as additional data is collected. The panel also recommended additional need-based aid to increase affordability for low-income students, which would disproportionately affect students attending HBCUs. In addition, the panel found that the facilities at HBCUs lag behind those at TWIs and recommended that the State accelerate funding for HBCU capital priorities.

Historically Black Colleges and Universities Funding

The Governor's proposed fiscal 2018 budget includes \$230.6 million in general funds and higher education investment funds for HBCUs. The proposed *Capital Improvement Program* (CIP) includes a total of \$14.7 million for projects at HBCUs in fiscal 2018. The funding is summarized in **Exhibit 1**.

Exhibit 1
Governor’s Proposed Budget for Historically Black Colleges and Universities
Fiscal 2018
(\$ in Thousands)

	<u>Operating</u>	<u>Capital</u>	<u>Total</u>
Bowie State University	\$44,326	\$0	\$44,326
Coppin State University	46,852	1,336	48,188
Morgan State University	93,836	10,360	104,196
University of Maryland, Eastern Shore	40,731	3,048	43,779
Enhancement Funds (MHEC)	4,900	0	4,900
Total	\$230,645	\$14,744	\$245,389

MHEC: Maryland Higher Education Commission

Source: Fiscal 2018 Budget Books; Department of Legislative Services

Higher Education Price Index and State Appropriations

HEPI is an inflation index that tracks the main cost drivers of higher education, which it identifies as professional salaries and fringe benefits, contracted services for such tasks as data processing and communication, library acquisitions, and utilities. HEPI, in comparison to the average growth in State appropriations for institutions of similar Carnegie classifications, is shown in **Exhibit 2** for fiscal 2012 through 2016.

Exhibit 3 shows the *projected* HEPI and the *projected* change in State appropriations for HBCUs and TWIs of similar Carnegie classifications for fiscal 2018 through fiscal 2022. The projected HEPI is the rolling three-year average of the actual HEPI from fiscal 2014 through 2016. The projected State appropriations are based on HEPI and MHEC’s projected rate of enrollment growth at each campus for each year, plus any statutory or mandated funding increases (*e.g.*, Chapter 25 of 2016 that mandated additional funding for several public four-year institutions).

Exhibit 2
Average Annual Increase in State Appropriations Compared to HEPI
Fiscal 2012-2016

	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
HEPI	1.7%	1.6%	3.0%	2.1%	1.8%
HBCU Master's Programs	1.5%	0.8%	6.6%	4.6%	4.3%
HBCU Doctoral Programs	0.6%	0.9%	7.3%	5.9%	3.6%
TWI Master's Programs	1.2%	1.1%	4.8%	6.2%	6.3%
TWI Doctoral Programs	0.9%	0.6%	5.1%	6.4%	3.9%

HEPI: Higher Education Price Index
HBCU: Historically Black College or University
TWI: Traditionally White Institution

Source: Common Fund; Department of Legislative Services

Exhibit 3
Projected Average Annual Change in State Appropriations and Projected HEPI
Fiscal 2018-2022

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
HEPI	2.3%	2.3%	2.3%	2.3%	2.3%
HBCU Master's Programs	-0.8%	-0.9%	3.5%	3.7%	3.5%
HBCU Doctoral Programs	-1.1%	4.1%	3.8%	3.8%	3.9%
TWI Master's Programs	3.4%	5.0%	3.9%	4.3%	3.9%
TWI Doctoral Programs	2.2%	6.1%	4.9%	5.3%	3.7%

HEPI: Higher Education Price Index
HBCU: Historically Black College or University
TWI: Traditionally White Institution

Source: Department of Legislative Services

State Expenditures: General fund expenditures increase by an estimated \$7.5 million in fiscal 2018 to fund the Blount-Rawlings-Britt HBI Comparability Program. This amount reflects only the required State appropriation to HBCUs and includes \$1.5 million for

Morgan State University; \$1.9 million for Bowie State University; \$2.1 million for the University of Maryland, Eastern Shore; and \$2.0 million for Coppin State University. The State appropriation category of mandated funding increases by approximately \$23.5 million in fiscal 2022 compared to current law, as shown in **Exhibit 4**.

Beginning in fiscal 2019, additional general fund expenditures for HBCUs are mandated by the bill. Exhibit 4 shows the estimated annual impact of each category of operating funding for HBCUs established under the Blount-Rawlings-Britt HBI Comparability Program. By fiscal 2022, the additional general fund costs are estimated at \$56.2 million in total.

Exhibit 4
Estimated Funding Increases for Historically Black Colleges and Universities
Fiscal 2018-2022
(\$ in Thousands)

<u>Category</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
State Appropriations	\$7,453	\$15,773	\$18,605	\$22,081	\$23,539
HBCU Enhancement	0	113	228	346	467
Financial Aid	0	8,743	8,976	9,233	9,482
Student/Faculty Ratio	0	3,691	3,765	3,928	3,917
Contractual Faculty	0	8,203	8,870	9,570	10,304
Contractual Staff	0	7,970	8,129	8,292	8,458
Total	\$7,453	\$44,492	\$48,573	\$53,449	\$56,167

HBCU: Historically Black College or University

Source: Department of Legislative Services

Because the bill specifies that the additional funding is provided to MHEC for distribution to HBCUs, it is assumed that the added support does not impact the State formulas that determine the annual funding levels for Baltimore City Community College, local community colleges, and independent institutions of higher education. Currently, enhancement funding of \$4.9 million annually is provided to MHEC for distribution to HBCUs and is not included in the calculation of those formulas.

In addition to the general fund spending, capital funding for HBCUs may increase by an estimated \$62.6 million in fiscal 2019 to ensure that HBCUs receive at least 35% of the

capital funds supporting public institutions of higher education according to the proposed fiscal 2018 CIP. For fiscal 2020 through 2022, capital funding for HBCUs needs to increase over the CIP as follows to reach the 35% requirement established in the bill: \$49.0 million in fiscal 2020; \$43.2 million in fiscal 2021; and \$41.1 million in fiscal 2022. It is assumed that the increased capital funding requires a redistribution of GO bond expenditures for higher education in the CIP in each year, but it does not increase the overall amount of GO bond authorizations in any year.

Additional Information

Prior Introductions: HB 892 of 2009 received a hearing in the House Appropriations Committee, but no further action was taken by the committee. SB 544 of 2009 and SB 867 of 2008 received hearings in the Senate Budget and Taxation Committee, but no further action was taken by the committee on either bill.

Cross File: None.

Information Source(s): Maryland Higher Education Commission; University System of Maryland; Morgan State University; Department of Budget and Management; Institute of Education Sciences; Common Fund; Department of Legislative Services

Fiscal Note History: First Reader - March 7, 2017
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