

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 1173 (Senator Pinsky, *et al.*)

Education, Health, and Environmental Affairs
and Budget and Taxation

Higher Education Degree and Job Certification Without Debt Act of 2017

This bill establishes a number of initiatives intended to reduce the costs of attending a public institution of higher education in the State, including the following: (1) the Maryland Community College Promise Program, which phases in a grant to provide specified income-eligible students 100% of tuition at community colleges for an associate's degree or a certificate program, beginning in fiscal 2019; (2) programs for students nearing the completion of a degree; (3) specified tuition caps for public four-year institutions and community colleges; and (4) increases in State funding for need-based scholarships and maximum grant amounts.

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: General fund expenditures increase by \$60,000 in FY 2018 and by *at least* \$37.5 million in FY 2019, escalating to \$100.4 million by FY 2022 when the promise program is fully phased in. Expenditures increase further in FY 2023 (not shown below); some mandated funding ends *after* FY 2023. Baltimore City Community College (BCCC) revenues likely increase due to increased enrollment. **This bill establishes several mandated appropriations beginning in FY 2019.**

(\$ in millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Higher Ed Rev.	\$0	-	-	-	-
GF Expenditure	\$0.1	\$37.5	\$80.0	\$120.6	\$100.4
Net Effect	(\$0.1)	(\$37.5)	(\$80.0)	(\$120.6)	(\$100.4)

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

Local Effect: State aid to local community colleges increases by an estimated \$244,100 beginning in FY 2019 to provide support services to students. To the extent local community college enrollment increases due to the bill, tuition and State aid revenues increase in the out-years; however, this impact cannot be reliably estimated. Capping local community college tuition growth at the increase in the three-year rolling average of median family income likely has minimal effect on community college revenues, as explained below.

Small Business Effect: None.

Analysis

Bill Summary:

Near Completers Match and Grant Programs

The Maryland Higher Education Commission (MHEC) must implement a statewide communication campaign for near completers, who are individuals who have completed some college credits but have not received a degree and are no longer enrolled. The Governor must include \$250,000 in the State budget in each of fiscal 2019 through 2023 for the communication campaign. MHEC must also develop and implement a centralized web-based match program for near completers that facilitates the matching of a near completer with any institution of higher education at which the near completer would be able to complete the degree. MHEC must encourage each institution of higher education in the State to participate in the match program at no cost to the institution. For each of fiscal 2019 through 2023, the Governor must include in the State budget \$50,000 for the match program.

An institution that participates in the match program must provide MHEC with information regarding near completers who attended the institution, as requested by MHEC and in the format identified by MHEC. On receipt of this information, MHEC must (1) determine any matches between a near completer and institutions and (2) send information to the near completer regarding the matches, any incentives offered for near completers by the State or by the institutions, and any other financial aid available to the near completer.

Individuals are eligible for a near completer grant if they earned at least 45 credits hours at a community college or 90 credit hours at a public four-year institution and earned a minimum grade point average (GPA) of 2.0 on a scale of 4.0 while in college. As provided in the State budget and on a first-come, first-served basis, MHEC must provide the following: (1) for eligible near completers who re-enroll in a community college, up to one-third of the in-county tuition charge; or (2) for eligible near completers who re-enroll

in a public four-year institution, up to one-third of the resident undergraduate tuition charge. The Governor must include \$500,000 for fiscal 2019 and \$750,000 for fiscal 2020 through 2023 in the State budget for near completer grants. A near completer grant may be used only for tuition and may not be used for fees or other charges or expenses related to attending an institution of higher education. All nonloan aid received by near completers must be credited to their tuition before the calculation of the grant amount provided.

By December 1, 2018, and every December 1 thereafter through 2023, MHEC must submit a report to the General Assembly on the details of the statewide communication campaign and the match program, including implementation of the campaign and match program and a detailed account of the expenditures under the grant program established in the bill.

Finally, the bill repeals the existing near completer program.

Public Four-year Institutions of Higher Education Tuition Increase Cap and Buy Down

A public four-year institution of higher education may not impose an increase in resident undergraduate tuition of more than 2% over the amount charged for tuition at the institution in the preceding academic year from fall 2018 through fall 2020 (*i.e.*, fiscal 2019 through 2021). For fiscal 2019 through 2021, the Governor must provide in the State budget an appropriation of general funds or higher education investment funds to the respective governing boards in an amount equal to a 3% increase in the resident undergraduate tuition over the prior fiscal year. For fiscal 2020 and 2021, the amount required to be appropriated to the respective governing boards in the prior year must be included when calculating the amount required in the current fiscal year.

Community College Tuition Increase Cap

Beginning in the 2018-2019 academic year (fiscal 2019), a local community college in the State or BCCC may not increase the in-county tuition rate over the prior year by more than the increase in the three-year rolling average of the State's median family income.

Maryland Community College Promise Program

The bill establishes a Maryland Community College Promise Program to provide an opportunity for community college students to earn an associate's degree or certificate debt free. MHEC must administer the program. MHEC must make the program available beginning in the 2018-2019 academic year (fiscal 2019).

To be eligible to receive a grant under the program, a recipient must have a federal adjusted gross income of no more than \$125,000 for an individual or \$175,000 for a married couple filing a joint return. For an individual or a married couple filing jointly with more than

two dependents, the income limits are increased by \$25,000 for each additional dependent. A recipient must meet the income limitations for each academic year in which the recipient participates in the program.

Each grant recipient must be (1) eligible for in-county tuition under the Education Article to attend a local community college or in-state tuition to attend BCCC; (2) continuously enrolled as a full-time student in a two-year associate's degree program or be continuously enrolled in a certificate program. In addition, a grant recipient must have graduated from a Maryland public secondary school or received a GED (*i.e.*, completed general educational development testing) no more than 12 months before first receiving a grant under the program if the recipient is enrolled in a two-year associate's degree program. Finally, a recipient must annually submit a completed Free Application for Federal Student Aid (known as the FAFSA) in a timely manner.

MHEC must provide a grant to each eligible recipient in an amount of no more than:

- for the 2018-2019 academic year, \$1,000;
- for the 2019-2020 academic year, \$2,000;
- for the 2020-2021 academic year; \$3,000; and
- for the 2021-2022 academic year and for each academic year thereafter, 100% of tuition.

A grant made under the program may not exceed the cost of (1) in-county charges at the community college for which a recipient is eligible for in-county tuition status under the Education Article if the recipient is not attending BCCC or (2) in-state tuition charges at BCCC if the recipient is attending BCCC.

All nonloan aid received by the recipient must be credited to the recipient's tuition before the calculation of the grant amount provided under the program. A recipient may use a program grant at any community college in the State.

For a recipient enrolled in a program that leads to the issuance of a certificate, a grant under the program is limited to one certificate.

Except as specified below, a recipient who is continuously enrolled as a full-time student in a two-year associate's degree program is eligible for a grant for the lesser of two academic years or the accumulation of 60 credits. A one-time waiver to the limitation specified above is available if the recipient provides satisfactory evidence of extenuating circumstances that prevented the recipient from continuous enrollment, including enrolling in remedial courses and a personal or family medical condition. A recipient who receives

a waiver is eligible for a grant under the program for an additional one semester of enrollment.

The Governor must annually provide sufficient funds in the State budget to ensure that each eligible recipient receives a grant through the program.

Support Services for Maryland Community College Promise Program

Beginning in fiscal 2019 and in each fiscal year thereafter, the Governor must include in the State budget \$250,000 to be distributed to the public community colleges in the State proportional to the number of full-time equivalent students (FTES) included in the calculation of the Senator John A. Cade and BCCC community college funding formulas to be used to fund support services for students who have received a grant under the Maryland Community College Promise Program.

MHEC must adopt procedures to administer the program, and the commission may adopt regulations necessary to carry out the Maryland Community College Promise Program.

By December 1, 2018, and each December thereafter, MHEC and each public community college must submit a report to the General Assembly on the implementation of the program, including specified elements.

Need-based Scholarships

The need-based scholarship programs are specified to be the Delegate Howard P. Rawlings Educational Excellence Awards (EEA) program, the Part-time Grant program, and the Graduate and Professional Scholarship Program.

Subject to the need described below, the Governor must include in the State budget the following amounts for need-based programs: \$90.0 million in fiscal 2019; \$100.0 million in fiscal 2020; \$110.0 million in fiscal 2021; \$120.0 million in fiscal 2022; and \$130.0 million in fiscal 2023 and each fiscal year thereafter. However, if all students eligible for a need-based program award have received an award in the current fiscal year, the amount required (as noted above) for the following fiscal year must be equal to the amount provided in the current fiscal year.

Educational Assistance Grant

The maximum amount of the Educational Assistance (EA) grant is phased in as follows:

- \$3,200 in fiscal 2019;
- \$3,400 in fiscal 2020;

- \$3,600 in fiscal 2021;
- \$3,800 in fiscal 2022; and
- \$4,000 in fiscal 2023 and each fiscal year thereafter.

Current Law:

Near Completer Program

“Near completer” is defined as an individual who has completed some college credits but does not have a college degree and is no longer attending an institution of higher education. MHEC, in collaboration with institutions of higher education, must create a statewide communication campaign to identify near completers in the State and to encourage near completers to re-enroll in an institution of higher education to earn a degree.

The communication campaign must:

- make use of a variety of marketing media, including billboards, brochures, and electronic resources;
- provide a centralized contact point for near completers to get information about and assistance with re-enrolling; and
- make readily available contact information for each public institution of higher education in the State.

Further, the communication campaign must focus on near completers who earned at least a minimum GPA of 2.0 on a scale of 4.0 while in college as well as individuals who earned at least 45 credits hours at a community college or 90 credit hours at a public four-year institutions.

MHEC must develop and implement a plan that would provide an incentive to a near completer to re-enroll and earn a degree as well as to a college to identify and graduate near completers. The incentive plan must use all available resources, including institutional funds, private-sector funds, and State funds.

Degree Requirements

The Code of Maryland Regulations has the following requirements for awarding associate’s and baccalaureate degrees.

An associate’s degree requires the satisfactory completion of not less than 60 or more than 70 credit hours, representing a planned sequence of learning experiences. The standard number of credit hours required for an associate’s degree from a public community college

is 60 credit hours. A student must earn at least 15 credit hours at the institution granting the degree.

For a baccalaureate degree, the standard number of credit hours for a public four-year higher education institution is 120 credit hours. A student must earn at least 30 credit hours, of which at least 15 credit hours are upper divisional credit hours, at the institution awarding the degree.

Need-based Scholarships

The Governor must include in the State budget at least 80% of the funds appropriated in the prior fiscal year for the following need-based programs: EEA, the Part-time Grant, the Janet L. Hoffman Loan Assistance Repayment Program, and the Graduate and Professional Scholarship Program.

Delegate Howard P. Rawlings Education Excellence Award Program

The EEA program consists of two types of awards for full-time undergraduate students: (1) Guaranteed Access (GA) grants that are awarded to the neediest students to ensure that 100% of educational costs are paid and (2) EA grants that are awarded to low- and moderate-income students to assist in paying educational costs.

The GA grant is a need- and merit-based scholarship intended to meet 100% of financial need for full-time undergraduates from low-income households. Qualified applicants must have a cumulative high school GPA of at least 2.5 on a 4.0 scale. MHEC extended the income limits for renewals to 150% of the federal poverty level to prevent a student who may work in the summertime from exceeding the original 130% income cap.

The EA grant is a need-based scholarship intended to meet 40% of financial need at four-year institutions and 60% at community colleges for full-time undergraduates from low- to moderate-income families. The maximum award amount authorized by statute is \$3,000. The current maximum amount awarded is \$3,000.

An EEA award may be used at a degree-granting institution of higher education, an eligible institution with an associate's degree program that provides transfer credit for an accredited baccalaureate program, or a hospital diploma school for training registered nurses if the curriculum is approved by MHEC.

The award may be used for educational expenses as defined by MHEC, including tuition and fees and room and board.

An EEA award may be used at a school in another state if (1) there is a specified reciprocal agreement and (2) the school meets the same requirements that an in-state school must meet. The Office of Student Financial Aid may not award more than 10% of the funds available for either the GA grant or the EA grant for use by students attending schools in another state.

Part-time Grant

The Part-time Grant program provides grants to undergraduate students taking at least 3 but no more than 11 hours of courses each semester or who are dually enrolled in a secondary school in the State and an institution of higher education. Recipients must be Maryland residents and must demonstrate a definite financial need. Funds for the program are allocated by MHEC to institutions of higher education based on the number of part-time students with demonstrated financial need who are enrolled at the institution. Grants are distributed to students by the institutions based on guidelines established by MHEC.

Graduate and Professional Scholarship Program

The Graduate and Professional Scholarship Program provides financial assistance to full-time and part-time students in the fields of medicine, dentistry, law, pharmacy, nursing, social work, and veterinary medicine at specified institutions of higher education. A recipient of a graduate and professional scholarship must be a Maryland resident, demonstrate a financial need, and attend one of several specified graduate and professional schools. Scholarships range from \$1,000 to \$5,000 per school year and may not be received for more than eight semesters. MHEC must allocate funds from the Graduate and Professional Scholarship Program to institutions of higher education based on the proportion of State residents enrolled in eligible programs at each institution. Institutions then distribute the scholarship funds to eligible students.

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 local 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 MHEC.

Baltimore City Community College

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.

Background: According to the Project on Student Debt, about 7 in 10 (68%) college seniors who graduated from public and private nonprofit colleges in 2015 had student loan debt. These borrowers owed an average of \$30,100 nationwide. Maryland graduates from the same class owed an average of \$27,672. About one-fifth (19%) of the class of 2015’s debt comprised private loans, which are more costly and provide fewer consumer protections and repayment options than federal loans.

Promise Programs

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 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. Because community college is relatively affordable, and the Tennessee program is a “last dollar” program, meaning existing financial aid grants are applied first before the Promise award is received, the average Tennessee Promise award in the first year was only \$1,020. The total cost to the state was \$10.6 million in fiscal 2016, but this is expected to scale up to about \$36.0 million when fully implemented. To date, community college enrollment in Tennessee has increased about 10%. In January 2017, Tennessee’s governor announced a plan to expand the program to all adults in the state.

In 2015, Oregon became the second state to enact legislation to provide free community college. Among other requirements, to be eligible, students must have at least a 2.5 GPA. Under the program, all eligible students will receive a minimum grant of \$1,000, even if their tuition and fees are covered by other financial aid. Any money remaining after tuition and fees can be used for transportation, books, and other expenses. A [report](#) on the first year of the program revealed that it reached approximately 1,000 more students than projected and fewer students are eligible for a Pell grant than projected, which has increased the cost of the program for the first year from a projected \$10.0 million to \$13.5 million. The cost of the program is projected to double in the second year. Enrollment of Oregon's high school graduates in the state's public universities has declined slightly (by less than one percentage point) in 2016.

In January 2017, New York's governor announced a plan called the Excelsior Scholarship, which ensures free tuition at New York's public two- and four-year institutions to students whose families make up to \$125,000 per year once the program is fully phased in in 2019. Nearly a million families in the state will qualify for the scholarship. According to *The New York Times*, which first reported the plan, initial cost estimates of the Excelsior Scholarship are anticipated at \$163.0 million a year when fully funded.

Three counties in Maryland already offer Promise-like programs (Allegany, Garrett, and Wicomico) and a fourth county, Somerset, is considering doing so. The program in Allegany County is unique in that it provides a scholarship to residents to attend the community college or Frostburg State University, the public four-year institution located in the county. Additionally, Chapter 647 of 2016 created a task force to study establishing a program in Prince George's County.

An article in *The Atlantic* reported that, even with free tuition, some of the poorest students are still finding attending community college a challenge because they need to work 30 to 40 hours a week to afford books and meet basic living expenses, which can cost between \$5,000 to \$10,000 per year.

Community Colleges and Financial Aid

As shown in **Exhibit 1**, the average statewide in-county tuition and fees for Maryland's community colleges was \$4,221 in fall 2016. 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.

For the 2016-2017 academic year, the maximum federal Pell grant for the most financially needy students is \$5,815, and the minimum is \$590. The Pell grant amount depends on the cost of attendance (including tuition and fees, room and board, books, etc.) at the institution and the expected family contribution, which results in a student's financial need. The State

also provides financial assistance to students, totaling \$103.0 million in fiscal 2016 and \$106.4 million in the proposed fiscal 2018 budget. Most of the aid is distributed based on financial need through the EEA program. Students receiving Pell grants are also eligible for State financial aid, such as the GA grant.

The GA grant is a component of the EEA program that covers 100% of need when combined with a federal Pell grant for the State’s lowest income students. The maximum award in fiscal 2015 was \$16,500, and the maximum award in fiscal 2016 was \$17,500. Students that meet all program criteria, such as enrolling full time directly from high school and family income limits, are guaranteed funding. Students who do not qualify for the GA grant may be eligible to receive an EA grant, which provides up to \$3,000 per year to students attending a Maryland higher education institution full time.

Exhibit 1
In-county Tuition and Fees at Community Colleges
Based on 30 Credit Hours per Year
Fall 2016

<u>College</u>	<u>In-county</u>
Allegany	\$3,835
Anne Arundel	4,010
Baltimore City*	3,638
Baltimore County	4,432
Carroll	4,812
Cecil	3,600
Chesapeake	4,700
College of Southern MD	4,539
Frederick	4,255
Garrett	3,780
Hagerstown	3,930
Harford	4,176
Howard	4,694
Montgomery	4,902
Prince George’s	4,550
Wor-Wic	3,690
Statewide	\$4,221

*Baltimore City Community College has one rate for in-state students.
Source: Maryland Association of Community Colleges

The Governor's proposed budget includes \$82.8 million for the EEA program, \$1.2 million for the Graduate and Professional Scholarship program, and \$5.1 million for the Part-time Grant program. Thus, a total of \$89.0 million is provided for these need-based award programs.

Near Completers

According to the U.S. Census Bureau, approximately 19.5% of Marylanders have completed some college, but they do not have an associate's or bachelor's degree. Not all of those who have begun college will qualify as a near completer, but many will. Many community college students are tempted to transfer to a four-year institution prior to completing their associate's degree. However, for various reasons many of those students never complete their bachelor's degree and are, thus, left without any degree for their effort. These students are then only able to present an accumulated number of college credits to a potential employer rather than being able to state on their resume that they have earned an associate's degree despite generally having acquired the credits and knowledge required for an associate's degree. In addition, sometimes credits without a degree may be deemed obsolete when presented later in life, either to employers or when returning to school to obtain a bachelor's degree.

MHEC advises that in fiscal 2016 under the current near completer program, staff from the 16 participating institutions identified a total of 8,140 near completers, successfully contacted 5,864 near completers, and re-enrolled 1,012.

State Expenditures: As shown in **Exhibit 2**, general fund expenditures increase by \$160,000 in fiscal 2018, increasing to \$37.5 million in fiscal 2019 and \$100.4 million in fiscal 2022 due to mandated appropriations to implement the bill. Expenditures increase further in fiscal 2023; some mandated funding ends after fiscal 2023. The assumptions and information below were used in this estimate.

Exhibit 2
Total Estimated General Fund Expenditures
Fiscal 2018-2022
(\$ in Thousands)

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
NC Communication Campaign		\$250	\$250	\$250	\$250
NC Match Program		50	50	50	50
NC Grants		500	750	750	750
Promise Program*		17,639	32,059	44,645	67,934
CC Support		250	250	250	250
Need-based Aid		973	10,973	20,973	30,973
Four-year Tuition Buy Down		17,661	35,501	53,523	-
MHEC	\$60	151	149	156	163
Total	\$60	\$37,475	\$79,982	\$120,597	\$100,370

MHEC: Maryland Higher Education Commission

NC: near completer

CC: community college

*Estimate reflects the cost of *current* community college students only; additional costs are likely.

Note: Numbers may not sum to total due to rounding.

Source: Department of Legislative Services

Maryland Community College Promise Program

The fiscal impact of the Maryland Community College Promise Program 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* \$17.6 million in fiscal 2019, increasing to \$67.9 million in fiscal 2022 when the grant program is fully phased in due to *current* community college students who are eligible for the promise program. The estimated impact in fiscal 2019 by students at each community college is shown in **Exhibit 3**.

Exhibit 3
Estimated Cost for Currently Enrolled Students by Community College
Fiscal 2019
(\$ in Thousands)

	Associate's <u>Degree</u>	Certificate or <u>License</u>	<u>Total</u>
Allegany	\$171	\$104	\$275
Anne Arundel	1,607	822	2,429
Baltimore City	89	151	240
Baltimore	1,725	58	1,783
Carroll	719	62	781
Cecil	182	76	258
Chesapeake	421	156	577
CSM	1,626	826	2,452
Frederick	911	153	1,064
Garrett	99	6	105
Hagerstown	272	110	382
Harford	1,254	115	1,369
Howard	1,000	191	1,191
Montgomery	2,819	673	3,492
Prince George's	482	408	890
Wor-Wic	229	121	350
Total	\$13,607	\$4,032	\$17,639

CSM: College of Southern Maryland

Note: Numbers may not sum to total due to rounding.

Source: Department of Legislative Services

The following information and assumptions were used in calculating this estimate.

- According to data collected by MHEC, within one year of graduating high school or obtaining a GED, an average of 10,512 students enroll and attend full time and 5,677 enroll and attend part time. For the purposes of this estimate, it is assumed that one-third of part-time students choose to attend full time due to the bill. Thus, approximately 12,404 students enroll and attend community college within one year of graduating high school or obtaining a GED.

- Approximately 94% of community college students are receiving in-state or in-county tuition according to MHEC. Therefore, approximately 11,660 students receive in-state tuition and, thus, are eligible for the grant for the first year of community college.
- It is assumed that second-year retention rates for each community college remain constant. It is also assumed that all students that currently transfer to a public four-year institution for their second year instead remain at the community colleges due to the bill. Based on those assumptions, second-year retention rates are estimated to be between 28.6% at BCCC and 58.3% at Montgomery College. Thus, approximately 5,952 students return for a second year of community college.
- Accordingly, approximately 17,611 current associate's degree students are eligible for the promise grant beginning in fiscal 2019 (one-third of them in their second year of eligibility because they are already students, and two-thirds in their first year of eligibility as new students). It is assumed that this number remains constant in the out-years. This estimate further assumes that 10% of current community college students who do not receive financial aid do not qualify for the promise grant due to the income restrictions.
- Likewise, approximately 4,032 current *credit* certificate students are eligible for the promise grant beginning in fiscal 2019. This number accounts for approximately 65% of students being in certificate or licensure programs that are one year or less long. It further assumes that the remaining 35% of students are in programs that are two years long. For the purposes of this estimate, it is assumed that all credit certificate students meet the income restrictions and that this number remains constant in the out-years.
- Sufficient data was not available on current *noncredit* certificate and licensure enrollments and tuition and fees to be included in this estimate. These students are ineligible to receive most financial aid.
- Average annual tuition at community colleges was \$4,221 in fall 2016 (fiscal 2017). For the purposes of this estimate, it is assumed that community college tuition increases are capped at 2% per year, which is the three-year rolling average of State median family income over the past three years, and that community colleges increase tuition annually up to the cap. Thus, it is assumed that the average full-time tuition at community colleges will be \$4,306 in fall 2017 (fiscal 2018) and \$4,392 in fall 2018 (fiscal 2019).

- In fiscal 2015, between 32% and 92% of students at community colleges received nonloan financial aid (the State average is 48%). For those students, the average nonloan student financial aid award ranged between \$2,733 and \$7,437 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 2% per year. Thus, it is assumed that the average nonloan student financial aid at community colleges will be an average of \$3,765 in fall 2016 (fiscal 2017) and \$3,841 in fall 2017 (fiscal 2018).
- Although students enrolled in credit certificate programs are eligible for financial aid, MHEC advises that 98% of community college students receiving aid are enrolled in a degree program. Thus, for the purposes of this estimate, it is assumed that none of these students is currently receiving financial aid.
- According to the bill, the maximum grant to each eligible recipient of the promise grant phases in as follows: \$1,000 in the 2018-2019 academic year; \$2,000 in the 2019-2020 academic year; \$3,000 in the 2020-2021 academic year; and 100% of tuition for the 2021-2022 academic year and beyond. Assuming a 2% increase in tuition and fees each year, the average grant in fiscal 2022 (when the grant is fully phased in) is \$4,660.
- Due to the distribution of eligible students and the phase in of the promise grant (and tuition and financial aid at the community colleges those students attend), general fund expenditures for promise grants increase by *at least* the following amounts: \$17.6 million in fiscal 2019; \$32.1 million in fiscal 2020; \$44.6 million in 2021; and \$67.9 million in fiscal 2022.
- This estimate does not include one-time registration, application, or laboratory work fees, but it includes other mandatory fees.
- 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 promise grant. It is assumed that at least the same number of students who were eligible in fiscal 2019 are eligible in each subsequent year.

Current Public Four-year Students: Significant additional costs are likely. *For illustrative purposes only* (and as shown in **Exhibit 4**), if 20% of the first-time full-time students currently attending a public four-year institution of higher education decide to instead attend a community college due to the promise grant, then general fund expenditures increase by another \$2.0 million in fiscal 2019, escalating to \$7.0 million in fiscal 2020 and \$14.5 million in fiscal 2022. Expenditures increase by another \$7.7 million beginning in fiscal 2021 due to the increased State funding per FTES through the BCCC and Cade funding formulas. The additional State aid for reimbursed tuition revenue and formula funding would be *new* revenues for BCCC and local community colleges due to additional FTES attending community college.

Exhibit 4
Additional General Fund Expenditures
If 20% of First-time Full-time Students Shift from Attending
A Public Four-year Institution to a Community College
Fiscal 2018-2022
(\$ in Thousands)

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
Promise Grants	\$0	\$1,963	\$6,993	\$9,606	\$14,522
Cade Funding Formula			0	7,695	17,159
BCCC Funding Formula			0	0	1,962
Total GF Expenditures	\$0	\$1,963	\$6,993	\$17,301	\$33,643

GF: general fund

BCCC: Baltimore City Community College

Note: Numbers may not sum to total due to rounding.

Source: Department of Legislative Services

This estimate is based on the following assumptions.

- In fall 2016, there were approximately 14,900 first-time full-time students at the public four-year institutions of higher education in the State, of which approximately 12,400 are Maryland residents. *For illustrative purposes*, it is assumed that 20% of these students (approximately 2,500 students) choose to attend a community college rather than a public four-year institution of higher education due to the community college promise grant under the bill.

- Thus, approximately 2,500 additional students will attend community college in fiscal 2019. In addition, because the grant is valid for two years, 5,000 students will be eligible in fiscal 2020. 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.
- In addition, since it is assumed that these students would not have attended a community college without the promise grant, community college funding through the Cade and BCCC funding formulas increases. Cade and BCCC formula funding aid is based on the actual FTES in the second prior fiscal year; thus, community college formula funding expenditures increase beginning in fiscal 2021 due to the additional students enrolling in fiscal 2019.
- Due to hold harmless provisions and current declining enrollment at BCCC, the BCCC funding formula does not increase until fiscal 2022. In fiscal 2022, BCCC funding per FTES for fiscal 2020 is estimated to be \$9,460; thus, BCCC funding increases by an estimated \$2.0 million in fiscal 2022 (after hold harmless and rounding) due to the additional 220 FTES in fiscal 2020.
- Cade funding per FTES for fiscal 2021 is estimated to be \$3,240; thus, Cade funding increases by another estimated \$7.7 million in fiscal 2021 (after hold harmless and rounding as shown in Exhibit 4) due to the approximately 2,369 additional FTES in fiscal 2019. Likewise, Cade funding per FTES for fiscal 2022 is estimated to be \$3,600; thus, Cade funding increases by an estimated \$17.2 million in fiscal 2022 due to the additional 4,738 FTES in fiscal 2020.
- 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 promise grant. It is assumed that at least the same number of students who were eligible for a promise grant 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, general fund expenditures increase due to the increased number of FTES. These impacts cannot be reliably estimated. Maryland's college-going rate has been fairly steady at approximately 65% for a number of years. It is unknown how many students who currently do not attend college will choose to attend a community college due to the bill. *For illustrative purposes*, if community college enrollment (FTES) increases by 2.5%, the fiscal impact is equivalent to the amounts shown in Exhibit 4.

Support Services Grant

Beginning in fiscal 2019, general fund expenditures increase by \$250,000 annually to fund support services for students who have received promise grants. The grants are to be distributed to the public community colleges in the State proportional to the number of FTES who have received a promise grant. According to the estimated number and distribution of promise grant recipients, BCCC receives an estimated \$5,900, and the local community colleges receive the remaining \$244,100.

Baltimore City Community College Revenues

There is no net impact on BCCC revenues due to current community college students receiving a promise grant. Tuition revenue impacts are likely due to students choosing to attend BCCC rather than a four-year institution and students who were not attending college at all before the bill; these impacts cannot be reliably estimated but are shown for illustrative purposes in Exhibit 4. BCCC receives an estimated \$5,900 in support grants for promise students annually beginning in fiscal 2019.

Limiting the increase in tuition at BCCC to the increase in the three-year rolling median family income is not anticipated to significantly decrease BCCC tuition revenues because community colleges are generally price sensitive and have limited the increases in tuition during periods when salaries stagnate. However, for informational purposes, the increase in the three-year rolling median family income was 2.0% for the period between 2013 through 2015. Thus, BCCC is limited to increasing tuition by 2.0% for fall 2017 (fiscal 2018).

Near Completers Programs

General fund expenditures increase by an estimated \$800,000 in fiscal 2019 increasing to more than \$1.0 million in fiscal 2020 through 2023 due to the mandated appropriations in the bill, as shown in Exhibit 2. To implement the near completers programs, MHEC

advises that two full-time positions are required by the Office of Outreach and Grants Management within the commission. MHEC advises that the design and implementation of an interactive near completer website costs approximately \$125,000. This is based on a similar interactive website, [MDGo4It](#). Thus, for the purposes of these estimate it is assumed that the website can be paid for over multiple years through the \$50,000 mandated appropriation or by using a portion of the \$250,000 communication campaign funding (if full payment for the development of the web-based match must be made in fiscal 2019) and then repaying the communication campaign from the \$50,000 appropriation in the out-years. MHEC advises that the institutions report that the greater the personal contact through phone calls, emails, and text messages, the more successful the near completer. MHEC advises that this is a very labor-intensive effort. The Department of Legislative Services advises that the near completer programs described in the bill can be implemented with one additional full-time position. The cost of the position is included in the MHEC positions and operating expenses section below.

Public Four-year Tuition Buy Down

Public four-year tuition is anticipated to increase by approximately 5% annually. The bill limits the increase in in-state tuition for fiscal 2019 through 2021 to 2% and mandates the 3% tuition buy down for public four-year institutions for fiscal 2019 through 2021. Based on current in-state tuition and enrollment, in fiscal 2019 the tuition buy down is anticipated to cost \$16.6 million for the University System of Maryland; \$674,175 for Morgan State University; and \$393,810 for St. Mary's College of Maryland. For fiscal 2020 and 2021, the amount required to be appropriated to the respective governing boards in the prior year must be included when calculating the amount required in the current fiscal year.

Need-based Scholarships

Increasing the appropriation for the EEA program, the Part-time Grant, and the Graduate and Professional Scholarship Program by the amounts mandated in the bill is estimated to increase general fund expenditures by \$1.0 million in fiscal 2019; \$11.0 million in fiscal 2020; \$21.0 million in fiscal 2021; and \$31.0 million in fiscal 2022 (and \$41.0 million in fiscal 2023 and beyond). This estimate is based on the assumption that the specified need-based aid programs are level funded in future years under current law. Approximately \$89.0 million is included in the Governor's proposed fiscal 2018 budget for the specified need-based scholarships.

It is assumed that phasing in an increase in the maximum grant amount for the EA grant to \$4,000 by fiscal 2023 has no fiscal impact on the State since the EA grant is distributed based on the amount of money available for the program. However, it is assumed that, despite the increase in the maximum award amount, all eligible students will receive an award due to the increase in funding for all the need-based scholarship programs.

Maryland Higher Education Commission Positions and Operating Expenditures

General fund expenditures increase by \$60,000 in fiscal 2018 for one-time programming costs to program the MDCAPS scholarship system for the promise grant. Beginning in fiscal 2019, the estimate reflects the cost of hiring one full-time staff specialist and one full-time program specialist to implement the bill. The full-time staff specialist will implement the near completer programs, including overseeing the development of the near completer web-based match program and outreach to near completers. This position may not be necessary after fiscal 2023 when funding for near completer programs is no longer mandated. The full-time program specialist will implement the promise grant and assist with reporting requirements.

	<u>FY 2018</u>	<u>FY 2019</u>
Positions		2
Salaries and Fringe Benefits		\$140,686
Programming for MDCAPS	\$60,000	0
One-time Start-up and Other Operating Expenses	0	10,530
Total MHEC Administrative Expenditures	\$60,000	\$151,216

Future year expenditures reflect full salaries with annual increases and employee turnover and ongoing operating expenses.

Local Fiscal Effect: The impact of the bill on local community colleges is described below. The most significant impact will be due to new students enrolling in community colleges; however, as explained below, this impact cannot be reliably estimated.

Maryland Community College Promise Grant

There is no impact on local community college revenues due to promise grants going to current community college students, as discussed above. Even so, tuition revenue impacts are likely. *For illustrative purposes only*, as shown in Exhibit 4, tuition and other revenues increase for each *new* student attending community college up to the full amount of tuition and fees. In addition, as explained above, State aid through the Cade funding formula increases by an additional \$7.7 million in fiscal 2021 and \$17.2 million in fiscal 2022.

Support Services Grant

As explained above, beginning in fiscal 2019, local community college revenues increase by up to a total of \$250,000 annually to fund support services for students who have received promise grants. According to the estimated number and distribution of promise grant recipients, the local community colleges receive the \$244,100 of the grant.

Capping Community College Tuition Growth

Limiting the increase in tuition at local community colleges to the increase in the three-year rolling median family income is not anticipated to significantly decrease local community college tuition revenues because community colleges are generally price sensitive and have limited the increases in tuition during periods when salaries stagnate. However, for informational purposes, the increase in the three-year rolling median family income was 2.0% for the period between 2013 through 2015. Thus, local community colleges are limited to increasing tuition by 2.0% for fall 2017 (fiscal 2018).

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Association of Community Colleges; Maryland Higher Education Commission; Baltimore City Community College; University System of Maryland; U.S. Census Bureau; Project on Student Debt; *The New York Times*; *The Atlantic*; Tennessean.com; Department of Legislative Services

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