SB 434

Department of Legislative Services

Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 434 (Senator King, *et al.*)

Budget and Taxation Rules and Executive Nominations

Higher Education - St. Mary's College of Maryland - Funding

This bill increases funding for St. Mary's College of Maryland (SMCM) beginning in fiscal 2019. The funding must be equal to the grant of the prior fiscal year augmented by funds, as specified, for State-supported health insurance costs and 50% of cost-of-living adjustments (COLAs) for State-supported employees. In addition, if SMCM's six-year graduation rate is 82% or greater in the second preceding fiscal year, the proposed grant for the upcoming fiscal year must be increased by 0.25%. Furthermore, the bill expresses legislative intent to provide funds to SMCM to moderate undergraduate resident tuition increases if such funds are provided to other public four-year institutions.

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: General fund expenditures increase by $1.2 million in FY 2019, of which $824,400 is due to mandated funding for SMCM and $360,700 is due to increasing the average per student funding used in other higher education formulas. Future year general fund expenditures reflect increases due to the new SMCM funding, higher education formulas, and estimated enrollment. Not reflected are any increases due to tuition moderation as explained below. Revenues are not affected. **This bill establishes a mandated appropriation beginning in FY 2019.**

($ in millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	1.2	2.1	3.1	4.3
Net Effect	$0.0	($1.2)	($2.1)	($3.1)	($4.3)

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

Local Effect: State aid for community colleges increases beginning in FY 2019 due to increases in per student funding used in the formula.

Small Business Effect: None.

Analysis

Bill Summary: Beginning in fiscal 2019, if SMCM's six-year graduation rate as reported by the Maryland Higher Education Commission (MHEC) is 82% or greater in the second preceding fiscal year, the proposed general fund grant for the upcoming fiscal year must be increased by 0.25%.

Beginning in fiscal 2019, *in addition to* the current grant, SMCM must receive the amounts specified:

- for each fiscal year, the State must provide to SMCM funds to pay for the increase in State-supported health insurance costs of SMCM;
- for each year in which the State provides a COLA for State employees, the State must provide to SMCM funds to pay 50% of the increase for State-supported employees of the college; and
- for each fiscal year in which the State provides funds to other public four-year higher education institutions to moderate undergraduate resident tuition increases, it is the intent of the General Assembly that the State provide to the college funds for the same purpose.

This funding may not be included in the calculation of the proposed general fund grant for any following fiscal year, and it must be provided in the same amount in each following fiscal year.

Current Law: As established by Chapter 209 of 1992, SMCM receives funding through a block grant formula. In order to establish a predictable level of funding, the Governor must include in the annual budget submission a general fund grant to SMCM. The proposed grant must be equal to the grant of the prior year plus inflation as indicated by the implicit price deflator for State and local government (IPD).

In addition to the block grant funding, SMCM receives State aid from several different sources, including the DeSousa-Brent Scholars Completion Grant for SMCM. Chapters 563 and 564 of 2013 established the DeSousa-Brent Scholars Completion Grant, which requires the Governor to appropriate a specified amount to SMCM from the Higher Education Investment Fund (HEIF) for fiscal 2014 through 2019 to increase the retention and graduation rates of DeSousa-Brent Scholars. If SMCM meets specified performance measures regarding DeSousa-Brent Scholars, beginning in fiscal 2020, the general fund appropriation for SMCM must include the fiscal 2019 appropriation from this grant.

Background: SMCM is Maryland's public, co-educational liberal arts honors college. The college offers an array of baccalaureate degrees in the arts and sciences and a Master of Arts in teaching. As an honors college, SMCM strives to offer students an educational experience that goes beyond traditional course-based study to foster independent learning and a link between curricular and extracurricular activities and interests. SMCM includes civic responsibility as a cornerstone of its academic and extracurricular programs. The capstone of the SMCM experience is the St. Mary's Project. The college aspires to maintain or strengthen the quality of instruction offerings, increase the effectiveness of academic support resources, improve the efficiency of and service provided by administrative units, and maintain or improve the physical plant facilities to accommodate these goals.

For approximately 25 years, SMCM has received funding through its block grant formula (Chapter 209 of 1992). In exchange for a reliable source of State support, SMCM would otherwise be left out of extra funding in good fiscal years for the State and be mostly protected from cost containment in years with tight budgets. In reality, State support to SMCM has increased in years when the State has additional funding available and decreased in years when the State does not have extra resources. More detail on the history of State support for SMCM can be found under issue number two in the fiscal 2018 operating budget analysis of SMCM.

Price Deflators

The IPD is produced by the federal Bureau of Economic Analysis; it is meant to preserve the purchasing power of State support to the college by offsetting inflation. The IPD is similar in concept to the federal Consumer Price Index (CPI) but scaled to governmental purchasing. In general, IPD inflation has outpaced CPI inflation in recent years due to government spending being affected by the costs of employment, whereas the CPI tracks consumer goods and services. Higher education, as an industry, is especially sensitive to growth in personnel salaries and fringe benefits because it employs many faculty with terminal degrees. SMCM has expressed concerns that the IPD does not adequately account for its changing personnel costs.

Higher Education Investment Fund

HEIF was established by Chapter 3 of the 2007 special session, which increased the corporate income tax rate from 7.0% to 8.25% and dedicated 6.0% of corporate income tax revenues (or one-half of the rate increase) to higher education for two years. Chapters 192 and 193 of 2010 made HEIF permanent. The 2010 legislation also created a Tuition Stabilization Account within HEIF and set a goal that annual resident undergraduate tuition and academic fees increase by no more than the increase in State median family income, based on a three-year rolling average.

HEIF monies have been included in the budget each year since fiscal 2009 and were used to backfill tuition revenues due to the tuition freeze, as well as for other State expenses at University System of Maryland (USM) institutions and Morgan State University (MSU). SMCM was exempt from the legislation to cap tuition and academic fees and was not eligible to receive funds from HEIF until Chapter 1 of the 2012 first special session was enacted.

Tuition Stabilization and State-supported Funds

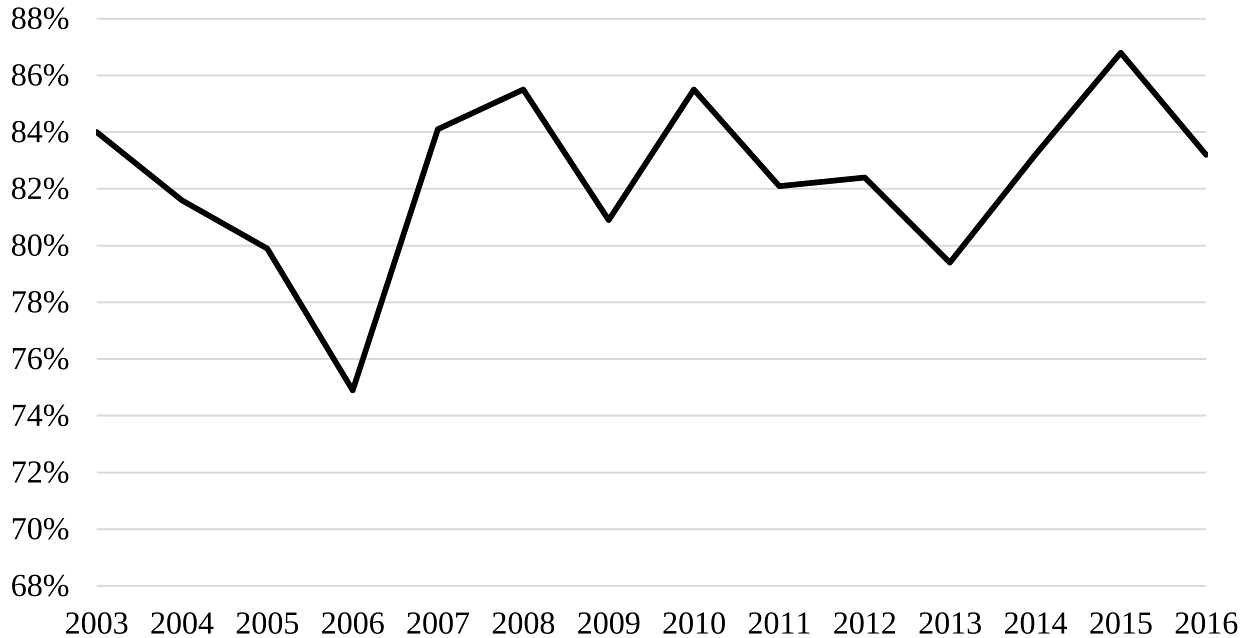
Unlike SMCM's formula funding, State funding for USM and MSU is discretionary. The fiscal 2018 budget includes funding to support a 2% increase in in-state undergraduate tuition for fall 2017 (fiscal 2018) at USM and MSU. State funds (general and HEIF) are used to fund State-supported activities of public higher education institutions, which generally include academic purposes. Auxiliary and restricted funds are not part of State-supported funds.

SMCM receives $22.4 million in general funds and $2.5 million from HEIF in the fiscal 2018 budget. This includes $800,000 for DeSousa-Brent Scholars that is currently outside of SMCM's formula funding. It also includes $380,968 to support a 2% in-state tuition increase in fiscal 2018. In March 2017, SMCM reported to the Department of Legislative Services that, of its 393 employees, approximately 91% are State supported.

Six-year Graduation Rates

One of the most direct ways to measure the effectiveness of a college is to look at the graduation rates of its students. As shown in **Exhibit 1**, SMCM's six-year graduation rate has been 82% or greater 9 times out of the past 14 years, which is overall one of the highest rates in the State.

Exhibit 1
St. Mary's College of Maryland Six-year Graduation Rates



Source: Maryland Higher Education Commission

State Fiscal Effect: As shown in **Exhibit 2**, general fund expenditures for SMCM increase by $824,400 in fiscal 2019 above the current law SMCM grant amount. In addition, as shown in **Exhibit 3**, general fund expenditures for the higher education formulas increase by approximately $360,700 in fiscal 2019, due to increasing the average per student funding used in the formulas. Increased funding for SMCM grows in the out-years, reaching $2.9 million in fiscal 2022, due to the requirement that funding for SMCM be equal to the grant of the prior fiscal year augmented by the amounts calculated in the various provisions in the bill. However, in total, general fund expenditures increase by an estimated $4.3 million in fiscal 2022 under the bill. This does not include any tuition moderation funding, as it is unknown whether funds will be provided each year; further, while tuition moderation funding increases the State fiscal impact, any funding provided to limit tuition increases does not have a net effect on SMCM revenues, as the State funds replace tuition revenues that would have otherwise been received.

Exhibit 2
Increase in St. Mary's College of Maryland Funding
Fiscal 2019
($ in Thousands)

	FY 2019
Current Implicit Price Deflator	$570
50% of COLA for State-supported Employees	128
State-supported Health Insurance Cost Increase	636
Subtotal	*$1,334*
Graduation Rate Bonus	60
Total Increase under the Bill	**$1,395**
Estimated Increase under Current Law	**$570**
Difference	**$824**

Notes: DeSousa-Brent Scholars funding (under current law) and any tuition moderation funding (under the bill) are not included in this estimate. Numbers may not sum to total due to rounding.

Source: Department of Legislative Services

Exhibit 3
Estimated General Fund Fiscal Impact on Higher Education Funding under the Bill
Fiscal 2018-2022
($ in Thousands)

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
SMCM[1]	$0	$824	$1,469	$2,157	$2,892
Community Colleges	0	291	487	723	1,012
BCCC	0	0	0	0	115
Sellinger	0	70	111	210	270
Total	**$0**	**$1,185**	**$2,066**	**$3,090**	**$4,288**

BCCC: Baltimore City Community College
SMCM: St. Mary's College of Maryland
Sellinger: Joseph A. Sellinger Grant Program

[1]Does not include any DeSousa-Brent Scholars funding or tuition moderation funding.
Note: Numbers may not sum to total due to rounding.

Source: Department of Legislative Services

Using the estimated general fund fiscal impact of the bill shown in Exhibit 3 above, the year-over-year increases under the bill can be calculated and are shown in **Exhibit 4** below. Exhibit 4 shows that year-over-year expenditures increase by about $1 million annually under the bill.

Exhibit 4
Year-over-year General Fund Expenditure Increases
Fiscal 2018-2022
($ in Thousands)

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
SMCM[1]	$0	$824	$644	$688	$735
Community Colleges	0	291	195	236	289
BCCC	0	0	0	0	115
Sellinger	0	70	41	99	60
Total	**$0**	**$1,185**	**$881**	**$1,023**	**$1,199**

BCCC: Baltimore City Community College
SMCM: St. Mary's College of Maryland
Sellinger: Joseph A. Sellinger Grant Program

[1]Does not include any DeSousa-Brent Scholars or tuition moderation funding.
Note: Numbers may not sum to total due to rounding.

Source: Department of Legislative Services

The following information and assumptions were used in this estimate.

Graduation Rate Bonus

The IPD is used to calculate SMCM's block grant under current law. Under the bill, the IPD projection is also used to calculate the graduation rate bonus described below. The following projections for IPD rates (as estimated by IHS and Moody's as of February 6, 2017) were used: 2.36% for fiscal 2019; 2.69% for fiscal 2020; 2.83% for fiscal 2021; and 2.92% for fiscal 2022. Actual differences in State funding depend on the actual IPD rates.

For the purposes of this estimate, it is assumed that SMCM six-year graduation rates are 82% or greater every year; thus, SMCM receives the 0.25% bonus on top of the grant that is determined by the IPD. Based on SMCM's State grant of $24.2 million for fiscal 2018 and an assumed graduation rate of 82% or greater for the 2010 cohort, it is assumed that SMCM receives a bonus of $60,400 in fiscal 2019. This bonus does *not* roll into the annual State grant for SMCM, but the college receives the bonus each year the graduation rate is at least 82%.

Health Insurance Costs

State-supported health insurance costs for SMCM are budgeted to be $5.6 million in fiscal 2018, increasing to an estimated $6.3 million in fiscal 2019. Thus, under the bill, SMCM receives an estimated $635,500 in fiscal 2019 to pay for the increase in health insurance costs. These estimates are based on the projected growth in State health care costs of 11.3% for fiscal 2019 and 8.2% annually thereafter.

Health care costs grow on a per employee basis. Actual State support depends on the number of SMCM employees and the actual increases in health care costs. Although increased health insurance funds are not added to the college's annual grant under the bill (and, thus, increased by the IPD in each subsequent year), the additional funds for health insurance costs are provided permanently. Thus, assuming that in fiscal 2020 State-supported health insurance costs for SMCM increase by an estimated $513,300 over fiscal 2019, total State support for SMCM for health insurance in fiscal 2020 is $1.1 million more than under current law ($635,500 plus $513,300).

Cost-of-living Adjustment Increases

For the purposes of this estimate, it is assumed that in the future, the State provides State employees a COLA annually. Assuming a 1.0% COLA annually and given SMCM's current salary base, increased State aid to SMCM to cover 50% of the COLA increases for State-supported employees is estimated to be approximately $128,400 in fiscal 2019. Actual general fund increases for SMCM depend on whether the State gives COLAs to State employees annually, the size of the COLAs, and actual SMCM salaries. Like health insurance costs as described above, funding for COLA increases is provided permanently.

Tuition Moderation

The bill states that it is the intent of the General Assembly that, to the extent the State provides other public four-year institutions funds to moderate undergraduate resident tuition increases, SMCM receives funds for the same purpose. A 1% increase in SMCM's in-state undergraduate tuition generates approximately $190,000 in revenues. Since the extent of tuition moderation in future years is unknown, no funds for tuition moderation are shown in the five-year cost estimates. Further, any State funds provided for tuition moderation, while increasing the cost to the State, replace tuition revenues and do not result in a net increase in revenues for SMCM.

Per Student Funding Formulas

As shown in Exhibits 3 and 4, State funding at the State's 15 community colleges through the Senator John A. Cade Funding Formula; the State-operated community college, Baltimore City Community College (BCCC), through its own formula; and private, nonprofit colleges and universities located in Maryland through the Joseph A. Sellinger Grant Program also increases due to funding formulas being based on the average full-time equivalent student (FTES) funding at select public four-year institutions of higher education, which includes SMCM. By fiscal 2022, State funding per FTES increases by $76 due to the increased SMCM funding under the bill.

Local Revenues: As shown in Exhibits 3 and 4, State aid for community colleges increases due to formula increases beginning in fiscal 2019.

Additional Comments: As shown in Exhibits 3 and 4, State aid to independent institutions increases beginning in fiscal 2019.

Additional Information

Prior Introductions: None.

Cross File: HB 556 (Delegate Jones, *et al.*) - Appropriations.

Information Source(s): St. Mary's College of Maryland; Department of Legislative Services

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