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2017 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 678 (Senator Young, *et al.*)

Education, Health, and Environmental Affairs
and Budget and Taxation

Community Colleges - Vocational Certificates, Apprenticeship Training
Programs, and Associate's Degrees - Tuition Assistance

This bill establishes a *voluntary* tuition waiver program for vocational certificates, associate's degrees, and apprenticeship training programs in which counties can *elect* to participate. Under the program, an eligible individual who enrolls – within six months of obtaining a high school diploma or the specified equivalent – at a community college as a candidate for a vocational certificate (to be completed within two years), an associate's degree (to be completed within four years), or as part of an apprenticeship training program is exempt from paying tuition and specified fees. Eligibility requirements must be met, including having an annual income of no more than twice the Maryland median household income. The tuition waiver applies to the difference between tuition and any financial aid award received by a student (including that provided by an apprenticeship sponsor), not including a student loan. Community colleges are entitled to reimbursement of any foregone tuition revenue, of which 50% is paid by the participating county and 50% by the State. Beginning in fiscal 2019 and each fiscal year thereafter, the Governor must annually appropriate the State share to reimburse the community colleges for foregone tuition.

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: If counties participate in this tuition waiver program for community colleges, general fund expenditures increase, potentially significantly, as early as FY 2019 due to the cost of reimbursing community colleges including Baltimore City Community College (BCCC) for a portion of tuition waivers for eligible students. Expenditures increase further as early as FY 2021 for the BCCC and Senator John A. Cade Funding Formula if additional students enroll as a result of the bill (as discussed below). **If a county decides to participate, this bill establishes a mandated appropriation beginning in FY 2019.**

Local Effect: If a county decides to participate in this tuition waiver program, county expenditures (including Baltimore City) increase, potentially significantly, as early as FY 2019. Local community college revenues and expenditures may increase if additional students enroll due to the tuition waiver program created under the bill.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill defines community college to include BCCC.

Tuition

Tuition includes any fees for registration, application, administration, laboratory work, and other mandatory fees.

Eligible Individuals

To be eligible, an individual must (1) be a resident of the State for at least two years before enrolling at a community college and (2) have graduated from a public or private high school in a county that elects to participate in the program, earned a general education diploma (GED), or have completed a home instruction program that meets any State and local requirements for home instruction programs.

An individual must have earned a minimum grade point average (GPA) as follows: 2.0 on a scale of 4.0 if the individual has an annual Maryland adjusted gross income that is at or below 130% of the federal poverty level; or 2.5 on a scale of 4.0 if the individual has an annual Maryland adjusted gross income that is more than 130% of the federal poverty level.

Maintaining Eligibility

An eligible individual who participates in the program must complete at least 15 hours of community service per semester with a nonprofit organization or a governmental unit, as determined by the Maryland Higher Education Commission (MHEC) under regulations adopted in accordance with the bill. An individual must submit a letter from the sponsor of the community service to the community college and MHEC in order to be eligible for the program during the next semester.

If an eligible individual's GPA was less than 2.5 while in high school, the individual must participate in mentoring assistance during the first year of enrollment in the community college.

An individual must maintain a 2.0 GPA to continue to be eligible for the tuition assistance.

Other Financial Aid

To participate in the program, an individual must submit a timely application for any State or federal student financial aid, other than a student loan, for which the student may qualify. On request, the community college must assist any individual required to submit an application for State or federal student financial aid. Any student financial aid, other than a student loan, received by an individual who receives a tuition waiver must be applied first to pay the individual's tuition. For an individual in an apprenticeship training program, any financial aid that is provided by the sponsor of the apprenticeship training program must be applied first to pay the individual's tuition. The tuition assistance an individual receives must apply to the difference, if any, between the charge for tuition at the community college and the financial aid award, not including a student loan, that the individual receives.

Funding Formulas

An individual who participates in the program must be counted in computing full-time equivalent student (FTES) enrollment for the Senator John A. Cade Funding Formula or the BCCC funding formula if the individual enrolls for a class that is eligible for State support, as specified.

Participating Counties

Participation in the program is voluntary. A county must determine whether to participate in the program, in consultation with the community college that serves the county. A county that decides to participate in the program must notify the Governor and the Secretary of Budget and Management at least one year in advance of the first day of the academic semester in which the county will participate in the program.

Funding

A community college must calculate the amount of tuition assistance it provides each fiscal year under the program, and a community college is entitled to reimbursement for this amount. The tuition assistance must be paid 50% by the State and 50% from the participating county.

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

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 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.

According to regulations applicable to local community colleges that receive Cade funding but not BCCC, a college may not receive State funding for continuing education courses until MHEC approves the course. MHEC may not approve recreational courses for State funding. When two or more colleges jointly sponsor a noncredit continuing education course, participating students must be enrolled, recorded, and registered by the college that will ultimately submit the request for the State funding for the course. A college may not receive State funding for students younger than age 16 enrolled in continuing education courses, unless otherwise permitted by State law. A high school student concurrently enrolled in continuing education courses without payment of tuition, either through tuition waiver, tuition payment reimbursement, or by direct finance of the course work by individual college departments, may not be submitted for State funding. A continuing education course that is approved for State funding must be open to the public, except when the course is being offered under contract to meet employee training needs.

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:

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 Free Application for Federal Student Aid, 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 grants 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 and \$10,000 per year.

Maryland Median Income

According to the U.S. Census, the median income in Maryland for 2015 was \$75,847; thus, twice the median income would be \$151,694. The median income changes annually.

Apprenticeship Training Programs

Apprenticeship is a system that prepares individuals for occupations requiring a broad range of high-level skills and related technical knowledge. Apprenticeship in Maryland is open to anyone age 16 and older; however, an employer may set a higher entry age, or, by law, individuals must be 18 to apprentice in specified hazardous occupations. Maryland sponsors have registered apprentices in 60 different skilled occupations. As of December 31, 2015, 8,653 apprentices were receiving training throughout the State. During calendar year 2015, the Maryland Apprenticeship Program registered 2,392 new apprentices, in both traditional and nontraditional occupations, and 712 registered apprentices graduated from their apprenticeship program sponsor.

An apprentice works full time and attends at least 144 hours of classroom instruction per year at a community college, or receives equivalent instruction such as correspondence, company, or union-sponsored in-house instruction. The Department of Labor, Licensing, and Regulation (DLLR) advises that sponsors currently pay all fees for classroom instruction taken at community colleges. However, due to Apprentice Maryland, a youth apprenticeship pilot initiative for youths in high school that was created by Chapter 140 of 2015, there may be apprentices in the future whose classroom instruction hours are not paid by a sponsor.

Community Colleges and Financial Aid

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

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

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 Educational Excellence Awards program. Students receiving Pell grants are also eligible for State financial aid, such as the Guaranteed Access (GA) grant.

The GA grant is a component of the Delegate Howard P. Rawlings Educational Excellence Awards program that covers 100% of need when combined with a federal Pell grant for the State's lowest-income students. The maximum award 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 Educational Access grant, which provides up to \$3,000 per year to students attending a Maryland higher education institution full time.

State Fiscal Effect: If counties, including Baltimore City, decide to participate in this tuition waiver program for community colleges, general fund expenditures increase, potentially significantly, due to providing a new per student grant reimbursing community colleges for one-half of tuition waivers for eligible students (both current and additional students) and for additional costs under the Senator John A. Cade and BCCC funding formulas if *additional* students enroll in community colleges due to the bill. The amount cannot be reliably estimated, but if even a few counties elect to participate in the program, general fund expenditures may be significant.

For illustrative purposes only, if Anne Arundel County elects to participate in the program beginning with the 2018-2019 academic year, general fund expenditures increase by an estimated \$262 per student participating who is eligible for other financial aid and by approximately \$2,086 per student participating who is *not* eligible for other financial aid (e.g., most certificate and licensure students) due to foregone tuition. The State is responsible for 50% of foregone tuition. If additional students enroll in Anne Arundel Community College (AACC) due to the program in fall 2018 (fiscal 2019), general fund expenditures increase by \$3,200 per FTES in fiscal 2021 due to the Senator John A. Cade Funding Formula. The State share was calculated using the following information and assumptions.

Current Students

- The number of students who enroll in the fall within a year of graduating high school or obtaining a GED is used as a proxy of enrolling within six months. According to data collected by MHEC, an average of approximately 1,150 students enroll and attend full time and 63 enroll and attend part time. It is assumed that three part-time

students is equivalent to one FTES. Thus, approximately 1,360 FTES enroll and attend community college within six months of graduating high school or obtaining a GED.

- Approximately 94% of community college students are Maryland residents according to MHEC. Therefore, approximately 1,280 FTES are Maryland residents for the purposes of this estimate. Since there is no information available on how many students will meet the other eligibility requirements, it is assumed that approximately 80% of these students meet the other eligibility requirements; thus, an estimated 1,020 FTES are eligible 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 free tuition. Based on those assumptions, second year retention rates are estimated to be 52%. Thus, approximately 530 FTES return for a second year of free community college.
- Accordingly, approximately 1,550 current associate's degree FTES are eligible for the tuition waiver beginning in fiscal 2019 (one-half of them in their second year of eligibility because they are already students, and one-half in their first year of eligibility as new students). It is assumed that this number remains constant in the out-years. For the purposes of this estimate, it is assumed that second year students qualify for the program in the first year if it is available.
- Likewise, approximately 90 current *credit* certificate FTES are eligible for the tuition waiver beginning in fiscal 2019. This number accounts for approximately 65% of students being in certificate or licensure programs of one year or less duration. It further assumes that the remaining 35% of students are in programs that of two years duration. Retention rates are assumed to be 50% for students in programs that are longer than one year.
- 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.
- Apprentices are required to take at least 144 hours of classroom instruction a year. Some apprentices take this instruction at community colleges. According to DLLR, currently all apprenticeship training fees are paid by the sponsoring company. There is also no information readily available on the cost of this classroom instruction. Therefore, this estimate does not include any tuition reimbursement for these

students. However, if apprentices in the future are required to pay for their own classroom instruction, State and local costs increase accordingly.

- Annual tuition at AACC was \$4,010 in fall 2016 (fiscal 2017). For the purposes of this estimate, it is assumed that community college tuition increases 2% per year. Thus, it is assumed that the average full-time tuition at AACC will be \$4,172 in fall 2018 (fiscal 2019).
- In fiscal 2015, 32% of students at AACC received nonloan financial aid (the State average is 48%). For those students, the average nonloan student financial aid award was \$3,371 per student. 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 AACC will be an average of \$3,649 in fall 2018 (fiscal 2019).
- 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.
- Due to the total number of *current* eligible students, AACC tuition revenues decrease by at least \$4.9 million in fiscal 2019, escalating to \$5.3 million by fiscal 2022. Under the bill, all tuition revenue lost due to the bill is reimbursed with 50% State funds and 50% local funds; thus, State general fund expenditures increase by \$2.5 million in fiscal 2019 and \$2.7 million by fiscal 2022.
- This estimate assumes that community colleges are reimbursed for foregone tuition by the State and local government in the same fiscal year in which it is foregone.
- 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. This estimate also assumes that community colleges are reimbursed for foregone tuition by the State and local government in the same fiscal year in which it is foregone.

Additional Students

Additional costs are likely. *For illustrative purposes only* (and as shown in **Exhibit 2**), if 10 additional eligible students decide to attend AACC due to the tuition waiver, then general fund expenditures increase by another \$15,387 in fiscal 2019, increasing to \$32,016 by fiscal 2021, to reimburse AACC for 50% lost tuition, and by another \$32,425 beginning in fiscal 2021 due to the increased State funding per FTES through the Cade funding formula. This estimate assumes that each student attends full time for two years. The additional State aid for reimbursed tuition revenue and formula funding would be *new* revenues for local community colleges due to additional FTES attending community college.

Exhibit 2
Additional General Fund Expenditures
If 10 Additional Eligible Students Decide to Attend AACC
Due to Free Tuition and Fees

	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
Reimbursed AACC Tuition Revenue	\$15,387	\$31,388	\$32,016	\$32,657
Cade Funding Formula		\$0	\$32,425	\$72,303
Total GF Expenditures	\$15,387	\$31,388	\$64,441	\$104,960

AACC: Anne Arundel Community College

GF: general fund

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

Source: Department of Legislative Services

Local Fiscal Effect: If a county, including Baltimore City, decides to participate in this tuition waiver program, county expenditures increase potentially significantly as early as fiscal 2019. Local community college revenues and expenditures may increase if additional students enroll due to a tuition waiver program created under the bill.

For illustrative purposes only, and as discussed above, if Anne Arundel County elects to participate in the program beginning with the 2018-2019 academic year, local expenditures increase by \$2.5 million in fiscal 2019 and \$2.7 million in fiscal 2022 for the county's share of the foregone tuition. In addition, if additional students enroll in AACC due to the

program, then local community college revenues and expenditures increase due to additional State aid through the Senator John A. Cade Funding Formula. This estimate assumes that community colleges are reimbursed for foregone tuition by the State and local government in the same fiscal year in which it is foregone.

This estimate also assumes that Baltimore City would be the participating county under the bill if BCCC participates in the program.

Additional Information

Prior Introductions: None.

Cross File: HB 848 (Delegate Stein, *et al.*) - Ways and Means.

Information Source(s): Maryland Association of Community Colleges; Baltimore City Community College; Department of Labor, Licensing, and Regulation; Maryland Higher Education Commission; Department of Budget and Management; Maryland Association of Counties; Baltimore City; *The New York Times*; *The Atlantic*; tennesseean.com; U.S. Census Bureau; Department of Legislative Services

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