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FISCAL AND POLICY NOTE
First Reader

Senate Bill 261

(Senator Young, *et al.*)

Education, Health, and Environmental Affairs
and Budget and Taxation

**Community Colleges – Vocational Certificates, Apprenticeship Training
Programs, and Associate 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. 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 2020 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, 2018.**

Fiscal Summary

State Effect: If counties participate, general fund expenditures increase, potentially significantly, as early as FY 2020 due to the cost of reimbursing community colleges. Expenditures increase further as early as FY 2022 if additional students enroll as a result of the bill. **If a county decides to participate, this bill establishes a mandated appropriation beginning in FY 2020.**

Local Effect: If a county decides to participate in this tuition waiver program, county expenditures increase, potentially significantly, as early as FY 2020. However, expenditures for existing local promise scholarship programs potentially decrease. 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 Baltimore City Community College (BCCC).

Eligibility Requirements and Waiver Amount

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, residency, submitting an application for financial aid, and academic requirements. To maintain eligibility, an individual must meet specified requirements, including community service and academic requirements. 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.

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.

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.

Baltimore City Community College Funding Formula

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.

Background: The Mayor of Baltimore City recently announced a promise scholarship program for students who graduate from Baltimore City Public Schools to attend BCCC tuition free as the Mayor's Scholars Program. Four counties in Maryland also have promise programs. For more information on those programs in Maryland and similar programs nationwide, please see the **Appendix – Promise Programs**.

Maryland Median Income

According to the U.S. Census, the median income in Maryland for 2016 was \$76,067; thus, twice the median income would be \$152,134. The median income changes annually.

Associate's Degrees and Vocational Training.

An associate's degree is generally a two-year postsecondary degree program that consists of approximately 60 credits. After earning an associate's degree, an individual can enter the workforce or continue to a four-year institution to earn a bachelor's degree. In addition

to associate's degrees, community colleges offer credit and noncredit vocational training programs.

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.

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 was \$4,324 in fall 2017. 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 2017

<u>College</u>	<u>In-county</u>
Allegany	\$3,940
Anne Arundel	4,100
Baltimore City*	3,196
Baltimore County	4,606
Carroll	4,884
Cecil	3,660
Chesapeake	4,760
College of Southern Maryland	4,613
Frederick	4,385
Garrett	4,230
Hagerstown	3,990
Harford	4,553
Howard	4,848
Montgomery	4,974
Prince George's	4,700
Wor-Wic	3,750
Statewide	\$4,324

*Baltimore City Community College has one rate for in-state students.

Source: Maryland Association of Community Colleges

The State's largest financial aid program, the Delegate Howard P. Rawlings Educational Excellence Awards (EEA) Program, is available to students with financial need who are enrolled in community college full time in credit courses. Students may receive up to \$3,000 in awards. However, there is a waiting list for the EEA Program. Federal financial aid, like Pell grants, is generally not available to students who take noncredit courses except in limited circumstances. Most State scholarships are limited to programs that lead to a degree, although a few (including the senatorial and delegate scholarships) may be used to earn a certificate from a private career school, and the new Workforce Development Sequence Scholarship can be used at community colleges. Without access to financial aid,

even relatively inexpensive certificate programs can remain out of reach to low-income individuals.

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.

It should be noted that five jurisdictions in Maryland already offer Promise-like programs (Baltimore City and Allegany, Garrett, Somerset, and Wicomico counties). None of these existing programs meet all of the requirements of the bill; however, the programs could be altered to qualify for State funding under the bill.

The bill does not specify what agency administers the program for the State. For the purposes of this estimate, it is assumed that the Maryland Higher Education Commission (MHEC), which administers other community college programs, is responsible for distributing reimbursements to community colleges and otherwise overseeing the program for the State. Depending on whether any counties choose to participate in the program, MHEC will need an additional staff specialist to manage the program at a cost of approximately \$70,000 annually as early as fiscal 2019.

For illustrative purposes only, if Anne Arundel County elects to participate in the program beginning with the 2019-2020 academic year, general fund expenditures increase by an estimated \$369 per student participating who is eligible for other financial aid and by approximately \$2,133 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 2019 (fiscal 2020), general fund expenditures increase by \$3,633 per FTES in fiscal 2022 due to the Senator John A. Cade Funding Formula. The State share was calculated using the following information and assumptions.

Current Students

- Approximately 1,566 FTES current associate's degree (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) and 82 current credit certificate FTES are eligible for the tuition waiver beginning in fiscal 2020. This number reflects the

number of students who enroll in the fall within a year of graduating high school or obtaining a GED as a proxy of enrolling within six months. It also reflects that (1) approximately 97% of students are Maryland residents; (2) second-year retention and transfer rates for associate's degree students are 52%; (3) an estimated 65% of certificate programs are one year or less; and (4) retention rates for two-year certificate programs are assumed to be 50%.

- 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 \$4,100 in fall 2017 (fiscal 2018). For the purposes of this estimate, community college tuition is assumed to increase 2% per year; thus, the average full-time tuition at AACC will be \$4,266 in fall 2019 (fiscal 2020).
- In fiscal 2016, 33% of students at AACC received nonloan financial aid (the State average is 45%). For those students, the average nonloan student financial aid award was \$3,260 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, nonloan student financial aid is assumed to increase by 2% per year; thus, the average nonloan student financial aid at AACC will be \$3,529 in fall 2019 (fiscal 2020).
- 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, 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 \$5.2 million in fiscal 2020, escalating to \$5.5 million by fiscal 2023. 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 \$2.6 million in fiscal 2020 and \$2.8 million by fiscal 2023.

- Community colleges are assumed to be 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.
- 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.

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 \$15,928 in fiscal 2020, increasing to \$31,897 by fiscal 2023, to reimburse AACC for 50% lost tuition, and by another \$36,331 beginning in fiscal 2022, 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 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
Reimbursed AACC Tuition Revenue	\$15,928	\$30,658	\$31,272	\$31,897
Cade Funding Formula			36,331	80,819
Total General Fund Expenditures	\$15,928	\$30,658	\$67,603	\$112,717

AACC: Anne Arundel Community College

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 2020. Local community college revenues and expenditures may increase if additional students enroll due to a tuition waiver program created under the bill.

To the extent that jurisdictions with local promise programs alter their programs to match the requirements of the bill, expenditures for local promise scholarship programs potentially decrease, including the Mayor's Scholars Program, which is funded by the Baltimore City government, and existing programs in Allegany, Garrett, Somerset, and Wicomico counties. However, this impact cannot be reliably estimated.

For illustrative purposes only, and as discussed above, if Anne Arundel County elects to participate in the program beginning with the 2019-2020 academic year, local expenditures increase by \$2.2 million in fiscal 2020 and \$2.6 million in fiscal 2023 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 Comments: In addition to the GED, the State also administers the National External Diploma Program, which leads to a high school credential.

Additional Information

Prior Introductions: SB 678 of 2017 was assigned to the Senate Education, Health, and Environmental Affairs Committee and the Senate Budget and Taxation Committee, and received a hearing in the Senate Education, Health, and Environmental Affairs Committee, but no further action was taken.

Cross File: HB 976 (Delegate Stein, *et al.*) - Ways and Means.

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

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Appendix – 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 grade point average (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. In the first couple years, community college enrollment in Tennessee 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 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.

Five jurisdictions in Maryland already offer Promise-like programs (Baltimore City and Allegany, Garrett, Somerset, and Wicomico counties). 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. In fall 2017, the Mayor of Baltimore City announced a promise scholarship program for students who graduate from Baltimore City Public Schools to attend Baltimore City Community College (BCCC) tuition free as the Mayor's Scholars Program. There is also a two-year pilot program for Mayor's Scholars Program recipients who graduate from BCCC; they will be eligible for four semesters of tuition waivers to attend Coppin State University. 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.