HB 936

Department of Legislative Services

Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 936 (Delegates Ebersole and Stein)
Appropriations

Institutions of Higher Education – Financial Aid Reductions – Notice

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This bill requires public four-year and private nonprofit institutions of higher education in the State to provide notice to a student within 30 days of acceptance *and* before reducing a student's institutional gift aid on (1) whether acceptance of additional gift aid may result in a reduction of institutional gift aid and (2) how much additional gift aid the student may accept before the institutional gift aid will be reduced. The bill also expands the definition of "institutional gift aid" to include gift aid from private nonprofit institutions. **The bill takes effect July 1, 2018.**

Fiscal Summary

State Effect: Public four-year institutions of higher education can give the required notice using a student's *estimated* Cost of Attendance (COA) within existing resources as explained below. Providing notice of the actual potential reduction of gift aid is likely impossible as explained below. Revenues are not affected.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law:

Reduction in Institutional Aid

Chapters 331 and 332 of 2017 authorize a public four-year institution of higher education to reduce institutional gift aid offers as a result of private scholarship awards only under specified circumstances. First, when a student's total gift aid from all sources exceeds the student's financial need, a student's institutional gift aid may be reduced until the student's total gift aid no longer exceeds the student's financial need. Second, a student's institutional gift aid may be further reduced with approval from the organization that awarded the private scholarship funds that triggered the initial reduction. Finally, a student athlete's institutional gift aid may be reduced in order to comply with the National Collegiate Athletic Association's individual or team financial aid restrictions.

"Cost of attendance" is defined as the meaning stated in 20 USCA § 1087ll, which generally includes tuition and fees, an allowance for books, and an allowance for room and board, with adjustments made for students in various specified circumstances such as students who are enrolled less than half time.

"Expected family contribution" (EFC) is defined as the amount determined in accordance with 20 USCA § 1087nn, which is generally calculated using the Free Application for Federal Student Aid (better known as FAFSA).

"Financial need" is defined as COA minus EFC.

"Gift aid" is defined to be all financial aid that is not a loan or work-study program, including grants, scholarships, tuition waivers, and third-party payments.

"Institutional gift aid" is defined as aid that is funded by a higher education institution.

Financial Aid Shopping Sheet

Chapters 269 and 270 of 2014 require Maryland public institutions of higher education to provide all first-time, full-time undergraduate freshmen with information on the cost of higher education at the institution by completing and mailing or providing electronically, at a minimum, the information contained on the form known as the Financial Aid Shopping Sheet, as promulgated by the U.S. Department of Education. The shopping sheet or the information contained on the sheet must be mailed or provided electronically at the same time that an award of federal financial aid is sent to a student.

Background: The process of awarding financial aid without exceeding the student's financial need is known as packaging. Many institutions use packaging software to develop award packages for prospective students. The software can be configured to implement an institution's packaging philosophy. Institutions of higher education package and distribute financial aid from many sources to students. When a student receives financial aid from another entity after the initial financial aid package is awarded, the institution may reduce the amount of institutional aid (or other types of financial aid in some circumstances) a student receives. This practice is known as scholarship displacement. In some cases, depending on the type of aid being offered, the displacement is required by U.S. Department of Education regulations. What the department considers "over awarding" is based on an individual's financial need as calculated by FAFSA. The federal regulations regarding over awarding are in 34 CFR 673.5.

According to the U.S. Department of Education, an over award exists whenever:

- a school awards aid either to a student who is ineligible for a specific program or to a student who is ineligible for any federal student aid program assistance;
- a student's award in an individual program exceeds the regulatory maximum, *e.g.*, the annual or aggregate loan limits, the annual limit on Federal Supplementary Educational Opportunity Grant awards, or a Pell Grant award based on the wrong payment schedule/enrollment status;
- a student's aid package exceeds his or her need (including when the student's EFC is revised upward after initial packaging);
- a student's award exceeds his or her COA; or
- a student is receiving a Pell Grant or Iraq and Afghanistan Service Grant at multiple schools for the same period.

In general, unless a school is liable, a student is liable for any overpayment made to him or her.

There are exceptions to when an institution must recalculate financial aid, such as if a student's Pell Grant award exceeds COA by $300 or less.

An institution that regularly over awards students and does not remedy the situation as required by the U.S. Department of Education may lose access to federal financial aid funds related to Title IV.

The U.S. Department of Education grants institutions latitude in deciding how to remedy an over award situation. A survey by the National Scholarship Providers Association in 2013 asked respondents to specify all of the options they use to respond to an over award. According to the results, of the institutions surveyed, 80% reduce self-help, 50% reduce institutional gift aid (in the form of grants, scholarships, or tuition reimbursements), 50%

contact the scholarship donor or the student to discuss options, and almost 33% use professional judgment to increase the student's COA. In addition, a sixth of colleges reduce state gift aid, mainly because many states require colleges to treat state grants as last dollar.

Award displacement can also happen when there is not an over award under U.S. Department of Education regulations. Some institutions have policies that leave all students with unmet need, for example, requiring every student to have a "minimum student contribution expectation" – regardless of the amount of financial aid, EFC, or income. Many of these institutions do not allow private scholarships to satisfy the student contribution expectation even though the student is not over awarded. Typically the "minimum student contribution expectation" is between $1,500 and $3,500, according to a 2013 report by the National Scholarship Providers Association. In such cases, institutions reduce total financial aid until the student has an unmet need that matches the minimum student contribution. Institutions that do so usually have a minimum student contribution for one of the following reasons:

- a way of rationing limited institutional financial aid funds;
- an assumption that all students are capable of contributing something to their education;
- a method for a for-profit institution to comply with the 90/10 rule, which limits the percentage of the institution's revenues that can come from Title IV federal student aid;
- a belief by the institution that a student contribution is necessary for the student to appreciate the education; or
- a belief by the institution that a student contribution improves academic performance.

Institutions are not required to provide notice to students, or to inform financial aid providers when they decrease a student's institutional aid due to award displacement.

During the 2015-2016 academic year, students at Maryland public four-year institutions of higher education received $1.1 billion in financial aid from all sources including federal, State, private, and institutional. Total financial aid consists of all forms of financial aid including grants, loans, scholarships, and work study from all sources. As shown in **Exhibit 1,** *institutional* aid at public four-year institutions totaled $162.6 million for the 2015-2016 academic year. Institutional aid totals approximately 15% of total financial aid at public four-year institutions.

Likewise, during the 2015-2016 academic year, students at Maryland private nonprofit institutions of higher education received $755.6 million in aid from all sources. As shown in Exhibit 1, institutional aid at nonprofit institutions of higher education totaled

$395.3 million for the 2015-2016 academic year. Institutional aid totals approximately 52% of total financial aid at nonprofit institutions.

The bill only applies to institutional-based financial aid.

Exhibit 1
Undergraduate Institutional Aid by Type of Institution and Type of Aid
2015-2016 Academic Year
($ in Thousands)

	Grant	Loan	Athletic Scholarship	Other Scholarship	Work Study	Total Intuitional Aid
USM	$52,768	$26	$13,568	$74,457	$3,147	**$143,965**
MSU	5,595	-	3,408	3,761	-	**12,764**
SMCM	3,039	-	-	2,827	-	**5,866**
Subtotal	*61,402*	*26*	*16,975*	*81,045*	*3,147*	***162,595***
PNI	204,891	1,078	10,673	176,072	2,571	**395,285**
Total	**$266,293**	**$1,104**	**$27,648**	**$257,118**	**$5,717**	**$557,881**

USM: University System of Maryland
MSU: Morgan State University
SMCM: St. Mary's College of Maryland
PNI: Private nonprofit institution

Source: Maryland Higher Education Commission; Maryland Student Financial Aid Support 2015-2016

Towson University advises that it uses an automated process to manage the requirements related to over awarding.

Salisbury University advises that it currently discloses the impact of additional aid received subsequent to awarding a student's financial aid package early in the aid process via a number of avenues.

State Fiscal Effect: Under current State law, public four-year institutions of higher education can only reduce institutional gift aid in specified over award situations and must provide all first-time, full-time undergraduate freshmen, at a minimum, the information contained on the Financial Aid Shopping Sheet. To calculate the information for the Financial Aid Shopping Sheet (or to provide any financial award notice) an institution would need to know the institution's award packaging philosophy. Thus, using a student's *estimated* COA, public four-year institutions of higher education can likely give the required notice using existing resources.

However, the Department of Legislative Services (DLS) advises that when initial financial aid award notices are sent out, institutions will not have a student's *actual* COA. A student's actual COA will depend on a number of factors including housing status, enrollment status (full- or part-time), and tuition residency. Thus, an institution may not be able to provide a student with the *actual* amount of private scholarships that would trigger a reduction in institutional aid until a student actually enrolls, which is beyond the 30-day notice required by the bill. Institutions can notify students prior to reducing institutional aid as required by the bill.

Typically financial aid award notices are sent out at the same time or within days of a student's acceptance notice. It is assumed that the additional information required by the bill using a student's *estimated* COA can be added at a minimal cost and within existing resources. Costs would likely be minimal, but could include one-time programing or other minimal administrative costs.

Prospective students may apply for fewer private scholarships if informed that institutional gift aid will be reduced if additional gift aid is accepted. Thus, those institutions will have less institutional gift aid to redistribute to other students. However, this is not anticipated to significantly impact the overall finances of the institution.

Additional Comments: The bill requires private nonprofit institutions to provide the same notice to students receiving institutional gift aid as public four-year institutions. Although private nonprofit institutions are not required to provide prospective incoming students with the Financial Aid Shopping Sheet, these institutions are required by the U.S. Department of Education to post a net price calculator on their website to provide information to current and prospective students. Further, they do provide financial aid awards to their students. Thus, it is assumed that the required information could be added to their current award notices at minimal cost. Maryland Independent College and University Association advises that the bill increases expenditures because institutions will need to do individual calculations for each prospective student. DLS advises that calculations could likely be done automatically using a student's *estimated* COA; however, like the public institutions, private nonprofit institutions may not have the information on a student's actual COA during the 30-day timeframe required by the bill. Private nonprofit institutions can provide notice to students prior to reducing their institutional aid.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Higher Education Commission; University System of Maryland; Morgan State University; St. Mary’s College of Maryland; Maryland Independent College and University Association; Department of Legislative Services

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