

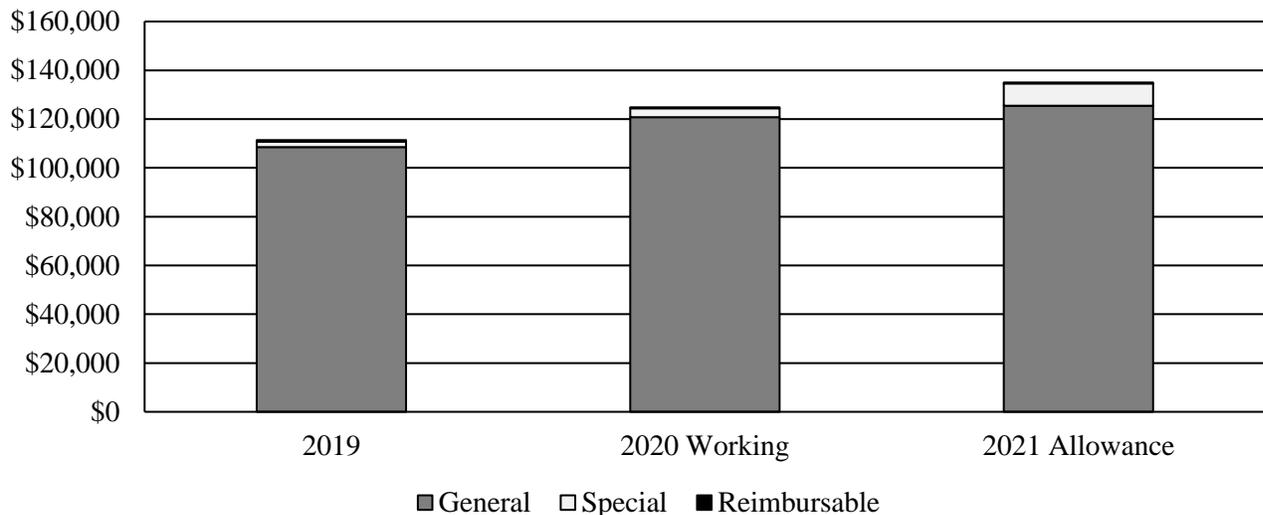
R62I0010
Student Financial Assistance
Maryland Higher Education Commission

Executive Summary

The Office of Student Financial Assistance, within the Maryland Higher Education Commission, is responsible for the administration of State financial assistance programs.

Operating Budget Summary

Fiscal 2021 Budget Increases \$10.2 Million or 8.2% to \$135.1 Million
(\$ in Thousands)



Note: Numbers may not sum due to rounding. The fiscal 2020 appropriation includes deficiencies, planned reversions, and general salary increases. The fiscal 2021 allowance includes contingent reductions and general salary increases.

- The fiscal 2021 budget plan includes two fiscal 2020 planned reversions totaling \$10.1 million: \$8.0 million for the Maryland Community College Promise Scholarship Program due to the funding not being needed; and \$2.1 million for the Governor’s Promise Plus Program, funding that was restricted by the legislature for various purposes that the Governor has chosen not to release.
- The adjusted fiscal 2021 allowance increases by \$10.2 million over the adjusted fiscal 2020 working appropriation primarily due to restoring funding for the Maryland Community College Promise Scholarship Program to the mandated level of \$15.0 million.

Key Observations

- ***Free Application for Federal Student Aid Completions Increase:*** As of January 2020, the number of Free Application for Federal Student Aid (FAFSA) completed by Maryland high school students increased 2.3% to 40.4% compared to January 2019.
- ***Highest Number of Guaranteed Access Grants Awarded:*** The number of Guaranteed Access grant awards grew 18.1%, or 394, to a total of 2,575 awards in fiscal 2019.
- ***First Awards Made for the Maryland Community College Promise Scholarship:*** In the first year of the Promise Scholarship program, 1,221 awards were made to students at every community college totaling \$4.0 million.

Operating Budget Recommended Actions

	<u>Funds</u>
1. Reduce funding for the Maryland Community College Promise Scholarship Program.	\$ 7,000,000
Total Reductions	\$ 7,000,000

Budget Reconciliation and Financing Act Recommended Actions

1. Reduce the fiscal 2020 appropriation for the Maryland Community College Promise Scholarship Program by \$3,000,000 above the planned reversion level.

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Operating Budget Analysis

Program Description

The Office of Student Financial Assistance (OSFA), within the Maryland Higher Education Commission (MHEC), is responsible for the administration of State financial assistance programs. These programs are designed to improve access to higher education for needy students and certain unique populations and to encourage students to major in workforce shortage areas. Maryland students use State financial assistance at community colleges, independent institutions, private career schools, and the State’s public four-year institutions.

Financial aid comes in the form of grants; work study; student loans; parent loans; and scholarships from federal, State, private, and institutional sources. Grants and scholarships are aid that students do not have to pay back. Grants are usually given because a student has financial need, while scholarships are usually given to recognize the student’s academic achievement, athletic ability, or other talent. Loans must be repaid, usually with interest. **Exhibit 1** shows current financial aid programs offered by OSFA.

Exhibit 1
Financial Aid Programs in Fiscal 2021 by Category

<u>Program</u>	<u>Description</u>
Need-based Financial Aid	
Delegate Howard P. Rawlings Educational Excellence Awards	
Guaranteed Access Grants	Need- and merit-based scholarships 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. The income limits for initial applicants is 130% below the federal poverty levels and for renewals, 150%.
Educational Assistance Grants	Need-based scholarships intended to meet 40% of financial need at four-year institutions and 60% at community colleges for full-time undergraduates from low- to middle-income families. The maximum award amount authorized by statute is \$3,000. The current maximum amount awarded is \$3,000.
Campus-based	Need-based grant for full-time undergraduates from low-income families who, for extenuating circumstances, miss the application filing deadline. Funds for the campus-based grant are allocated to eligible institutions that then select recipients.

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<u>Program</u>	<u>Description</u>
Part-time Grant Program	Need-based grants provided to institutions to award to qualified part-time undergraduate students.
Graduate and Professional Scholarship Program	Need-based scholarships for those pursuing certain graduate and professional degrees at certain Maryland institutions of higher education.
Early College Access Grant Program	Need-based grants for students dually enrolled in a Maryland high school and a Maryland institution of higher education.
2+2 Transfer Scholarship	Scholarship to provide an incentive for Maryland students to earn an associate's degree from a community college before enrolling in a four-year institution. Recipient must demonstrate financial need. Minimum GPA required.
Maryland Community College Promise Scholarship	Scholarship to provide tuition assistance for Maryland students attending a community college covering costs not met by any other student financial aid, excluding loans, also known as a last dollar scholarship. Recipients must complete a one-year service obligation for each year a scholarship is received or it will convert into a loan. Minimum GPA and credit completion required.
Somerset Economic Impact Scholarship	Scholarships to provide tuition assistance for Somerset County residents who graduated from high school within the county and will be attending Wor-Wic Community College.
Career-based Financial Aid	
Charles W. Riley and Emergency Medical Services Tuition Reimbursement Program	Tuition reimbursement for fire, ambulance, and rescue squad workers pursuing a degree in fire services or emergency medical technology.
Workforce Shortage Student Assistance Grants	Merit- and need-based scholarships for Maryland students pursuing degrees in teaching, nursing, human services, physical or occupational therapy, public service, and other areas to address workforce and regional needs.
Workforce Development Sequence Scholarship	Need-based scholarship for Maryland community college students enrolled in a program composed of courses relating to job preparation or an apprenticeship, licensure or certification, or job skill enhancement.
Teaching Fellows of Maryland Scholarship	Scholarship for Maryland students pursuing a degree leading to a Maryland professional teacher's certificate. Requires a service obligation of teaching in a public school or prekindergarten program with at least 50% of students eligible for free and reduced-price meals.
Cybersecurity Public Service Scholarship	Scholarship for Maryland students enrolled in programs directly relevant to cybersecurity. Minimum GPA and service obligation requirements.

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Program

Description

Loan Assistance Repayment Programs (LARP)

Janet L. Hoffman	Loan repayment assistance for graduates of a Maryland institution who work full-time for the government or the nonprofit sector in a priority field as determined by the commission. Priority is given to recent graduates who are State residents and employed full-time principally providing legal services to low-income residents, nursing services in nursing shortage areas in the State, or other employment fields where there is a shortage of qualified practitioners for low-income or underserved residents. Recipients must meet income eligibility requirements as determined by the commission.
Nancy Grasmick Teacher Scholars (Part of Hoffman LARP)	Loan repayment assistance for those who currently serve in specified public schools or teach science, technology, engineering, or math and graduated from a Maryland university.
Primary Care Physicians and Physician Assistants	Loan repayment assistance for those who currently serve or who pledge to serve as primary care physicians or physician assistants.
Maryland Dent-Care	Loan repayment assistance designed to increase access to oral health services for Maryland Medical Assistance Program recipients.
Foster Care Recipients	Loan repayment assistance designed to increase higher education access for students who received foster care assistance.

Assistance for Unique Populations

Jack F. Tolbert Memorial	Provides grants to private career schools to award to full-time students based on financial need.
Edward T. Conroy and Jean B. Cryor Memorial	Scholarships for certain military veterans or certain public safety personnel and for dependents of eligible public and nonpublic school employees.
Veterans of the Afghanistan and Iraq Conflicts Scholarship Program	Scholarships for U.S. Armed Forces personnel who served in the Afghanistan or Iraq conflicts and their sons, daughters, or spouses attending a Maryland postsecondary institution.
Maryland First Scholarship	Scholarship for first-generation college students with financial need. No funding has been provided.
Near Completer Grant	Grants to for tuition not covered by any other nonloan financial aid for eligible near completers to return to finish their degree. Minimum GPA and credit hours completed required.
Richard W. Collins III Leadership with Honor Scholarship	Scholarship for Maryland minority Reserve Officer Training Corps students enrolled in a Historically Black College or University.

Program

Description

Legislative Scholarships

Senatorial Scholarships

Senators select recipients from within their legislative district. Students may be pursuing undergraduate, graduate, or professional degrees, or a certificate or license at a community college.

Delegate Scholarships

Delegates select recipients pursuing undergraduate, graduate, or professional degrees, or a certificate or license at a community college.

Source: Maryland Higher Education Commission

This analysis includes MHEC Student Financial Assistance Programs that provide:

- funds directly to institutions of higher education to cover qualified college expenses;
- funds directly to students as reimbursement for the payment of tuition and mandatory fees and, in some cases, other expenses; and
- assistance for the repayment of student loans.

A separate budget analysis entitled Maryland Higher Education Commission covers the personnel associated with administration of these financial aid programs as well as other educational grant programs administered by the commission.

Performance Analysis: Managing for Results

1. Free Application for Federal Student Aid

The State’s financial aid programs play a critical role in facilitating access and reducing financial barriers to postsecondary education, especially for students from low- and moderate-income families. To receive many State awards, a student must first submit a Free Application for Federal Student Aid (FAFSA) that determines eligibility for federal student aid, including Pell grants, Stafford loans, and work study. FAFSA is used to calculate a student’s level of financial need – the expected family contribution (EFC), which not only determines eligibility for federal student aid but also State aid. Financial aid for State awards is determined by calculating the difference between the cost of attendance, a student’s EFC, and the amount of the Pell grant a student may receive.

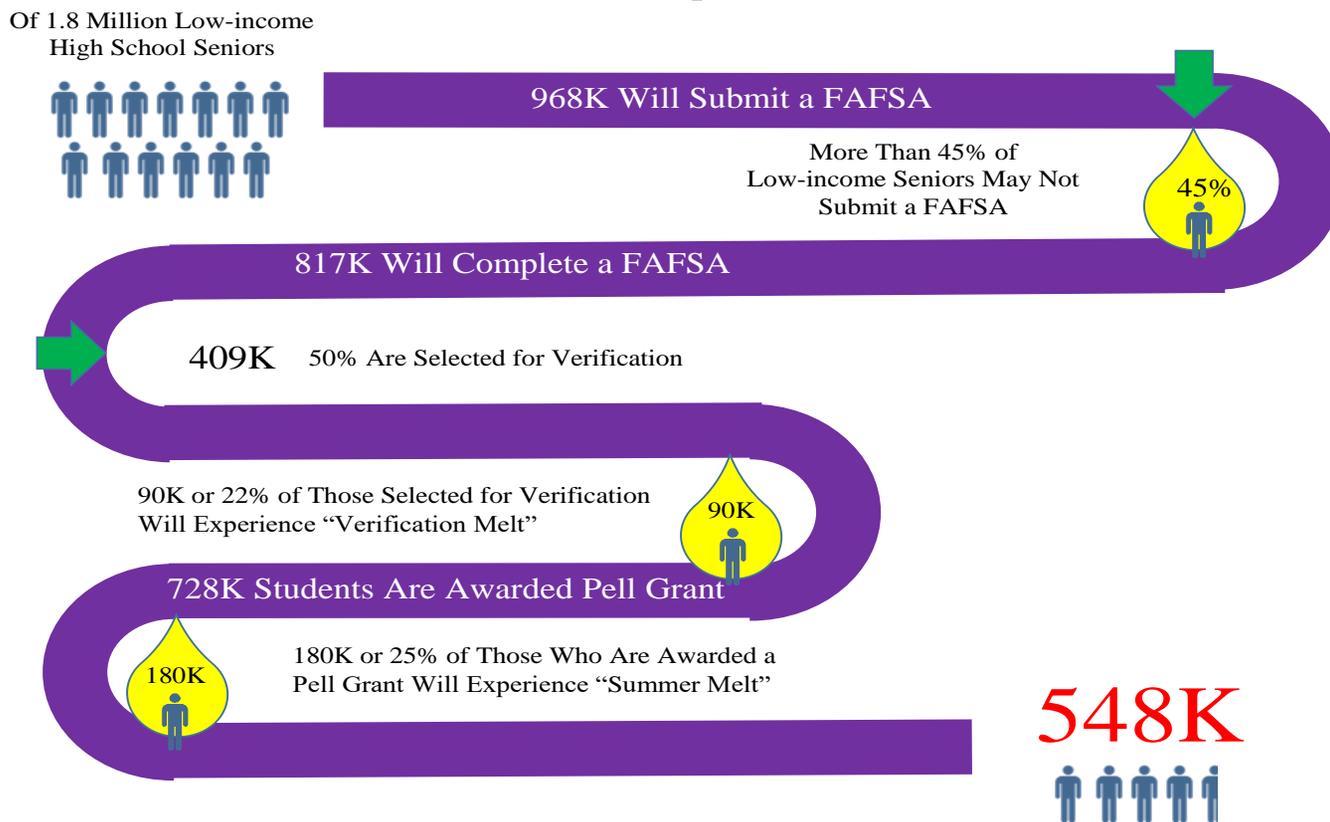
Nationally, it has been estimated that low-income students missed out on \$2.6 billion in federal financial aid in 2018 because they did not complete a FAFSA, according to NerdWallet. **Exhibit 2** illustrates the leakages in the FAFSA pipeline. According to the National College Access Network (NCAN), of the approximately 1.8 million low-income high school seniors, only 45.4% will submit

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and complete a FAFSA. Of those that complete a FAFSA, half will be selected for verification during which 22% will experience “verification melt” in which students selected to have their income eligibility verified for federal aid fail to complete the process. Approximately 180,000 students who are awarded a Pell grant and accepted into college will not enroll, which is known as the “summer melt”. Overall, only about 31% of low-income students will enroll in college using a Pell grant. According to NCAN, the reasons students do not submit FAFSA include:

- that they do not know they could or how to;
- that they are debt averse or think their credit score is too low;
- that they are not going to college; or
- that the form is too complicated.

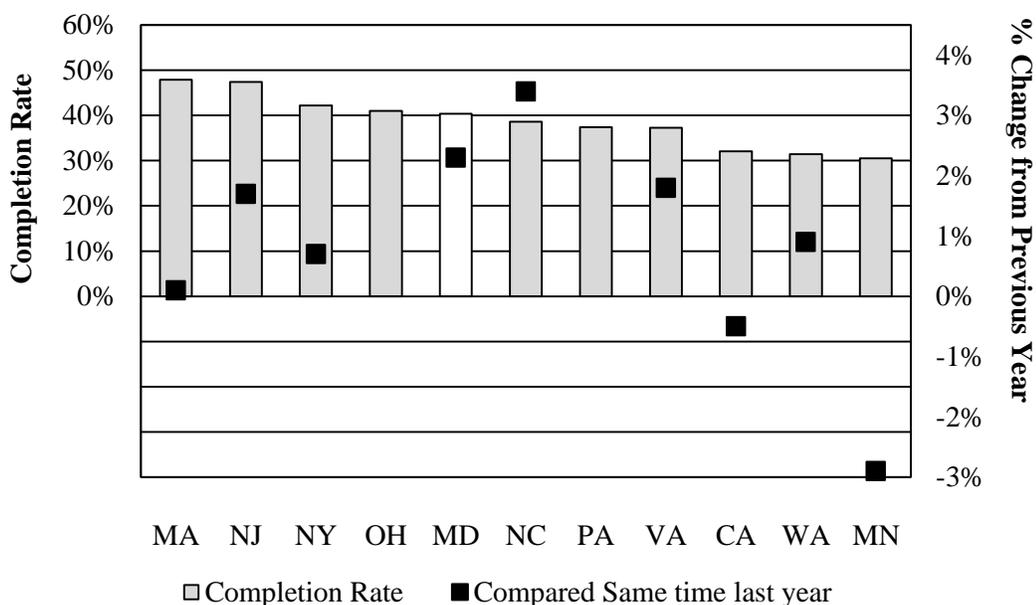
Exhibit 2 FAFSA Pipeline



Source: National College Access Network

Exhibit 3 compares Maryland’s FAFSA completion rate as of January 2020 to the states that it principally competes with for employers – California, Massachusetts, Minnesota, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Virginia, and Washington. Completions range from 47.9% in Massachusetts to 30.5% in Minnesota. Maryland, with a completion rate of 40.4%, compares favorably to six competitor states and exceeds the national average of 37.0%. While the rate in Maryland is below 50%, the number of seniors completing a FAFSA increased 2.3% from the same time in 2019.

Exhibit 3
Estimated Completed FAFSAs by Public High School Students
As of January 2019 and 2020

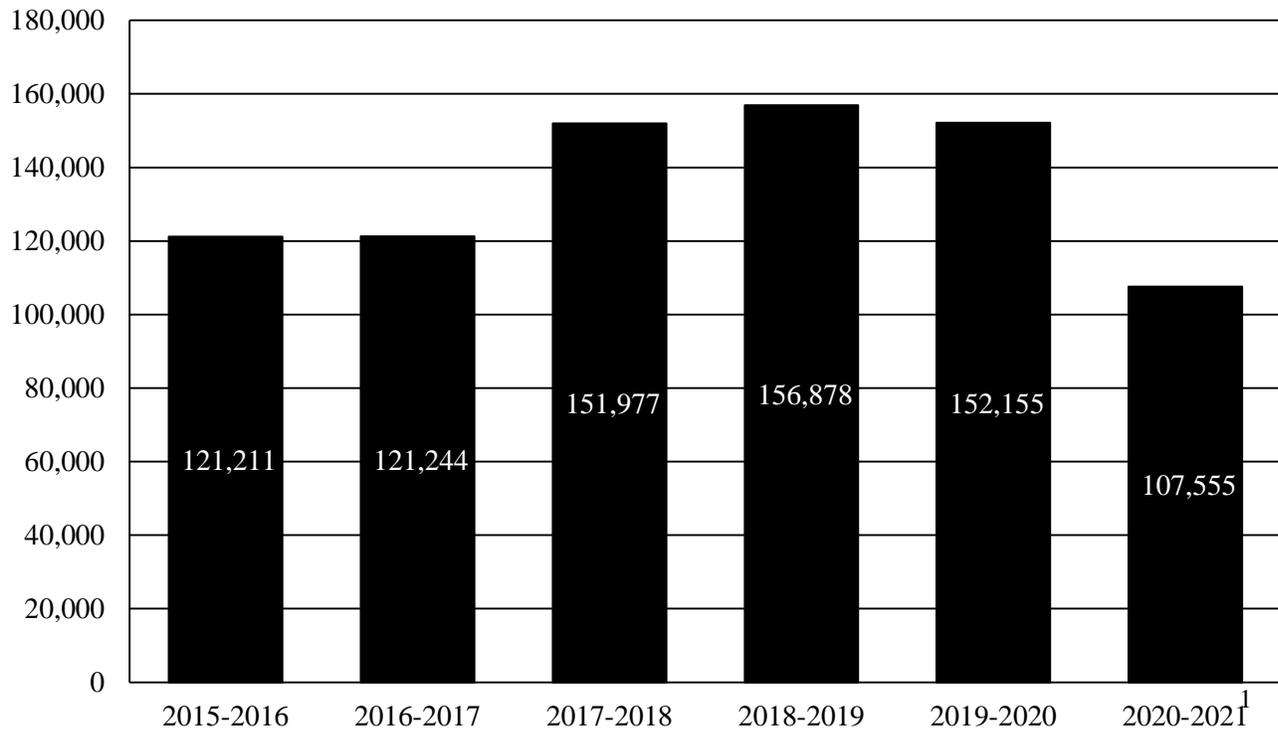


FAFSA: Free Application for Federal Student Aid

Source: National College Access Network; FAFSA Tracker

Exhibit 4 shows the number of FAFSAs filed in Maryland. It should be noted that for the 2017-2018 application cycle, the filing date of the FAFSA was moved up three months to October 2016, and tax information from the second preceding year is used to determine eligibility. The impact of this can be seen by the increased number of FAFSA’s filed, 25.3%. After increasing 3.2% in the 2018-2019 cycle, the number of applications declined 3.0% in the 2019-2020 cycle.

Exhibit 4
Total FAFSA Filing
2015-2016 to 2020-2021 Award Cycle



FAFSA: Free Application for Federal Student Aid

¹As of February 10, 2020.

Note: For the 2017-2018 application cycle the first month of availability was moved up to October 2016. FAFSA application cycle begins the October before the award year. The current award year begins on July 1, 2020, and ends June 30, 2021, with the application cycle starting in October 2019. Students have until March 1, 2020, to file FAFSAs to apply for State aid.

Source: Maryland Higher Education Commission

2. Guaranteed Access Grants

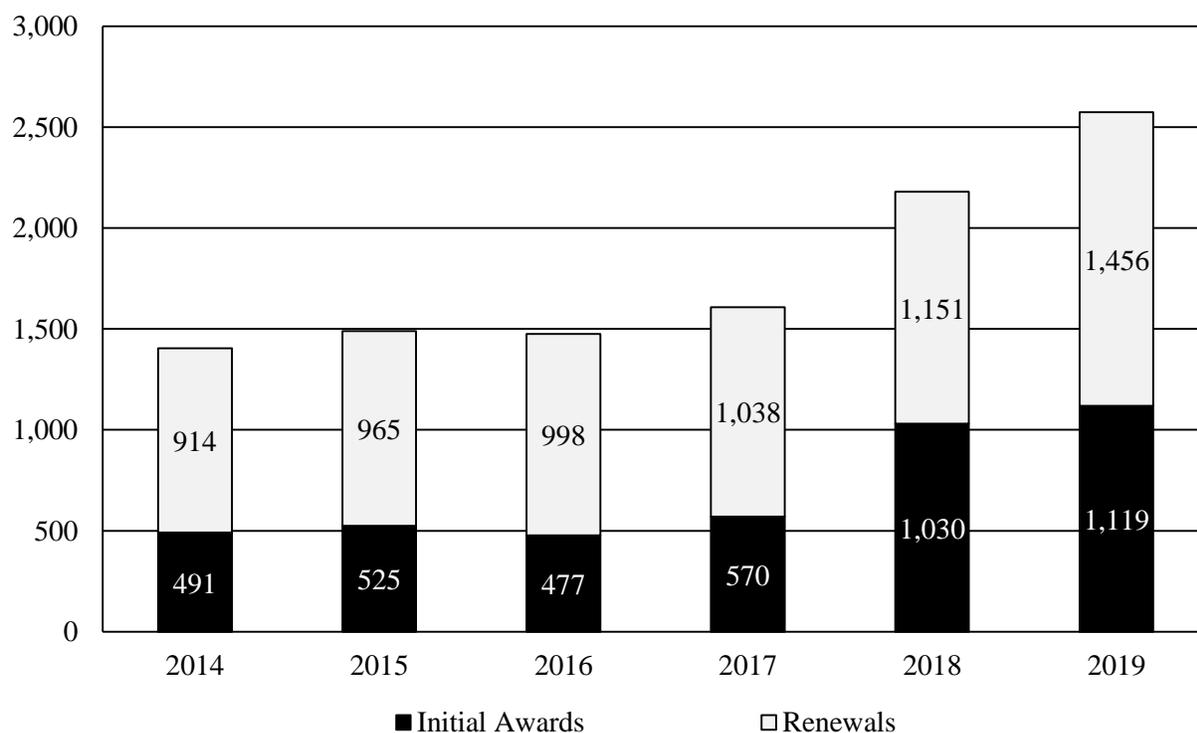
The Delegate Howard P. Rawlings Educational Excellence Awards (EEA) are comprised of three grant programs: the Guaranteed Access (GA) grant; the Educational Assistance (EA) grant; and campus-based grants. Chapter 389 of 2018 expanded eligibility requirements for the EEA program to include those who obtained a GED diploma with a passing score of at least 165 per module and are under the age of 26. In addition, Chapter 812 of 2018 expanded the eligibility requirements of the EEA program to include students who are eligible for in-state tuition. This includes undocumented immigrants or Dreamers as defined in Chapter 191 of 2011; active-duty military members, spouses, and children; and honorably discharged military veterans.

The GA grants, when combined with the federal Pell grant, cover 100% of the need for the State's lowest income students. The maximum amount is capped at the total cost of attendance (tuition, fees, and room and board) at the highest cost four-year University System of Maryland institution excluding the University of Maryland, Baltimore Campus and the University of Maryland Global Campus. The maximum award in fiscal 2019 was \$18,600 and is \$19,100 in fiscal 2020.

MHEC identifies first-time applicants who are potentially eligible for the grant based on FAFSAs or MSFAA (Maryland State Financial Aid Application for qualified children of undocumented immigrants who are eligible for in-State tuition) submitted by the March 1 deadline. Eligible applicants must have an annual total family income that qualifies for the federal free lunch program (less than 130% of the federal poverty level for first-time students and 150% for renewal awards), enroll in college as a full-time degree seeking student within a year of completing high school, have an unweighted GPA of at least 2.5 as of the fall semester of their senior year, be in high school at the time of the application, and be under the age of 22 at the time of high school graduation or 26 for those with a GED. Students meeting all the requirements are guaranteed funding.

The number of awards increased 18.1%, or 394, totaling 2,575 in fiscal 2019, as shown in **Exhibit 5**. This is the most GA grants MHEC has ever awarded. One reason for the increase was the elimination of the supplemental application requirement in fiscal 2018 and using FAFSA or MSFAA to identify potentially eligible applicants. This is reflected in the 35.6% increase in awards in fiscal 2018. Overall, since fiscal 2014, the number of initial awards increased 172.2% from 491 in fiscal 2014 to 1,119 in fiscal 2019, and renewals increased 60.9%, from 914 to 1,456 during the same time period.

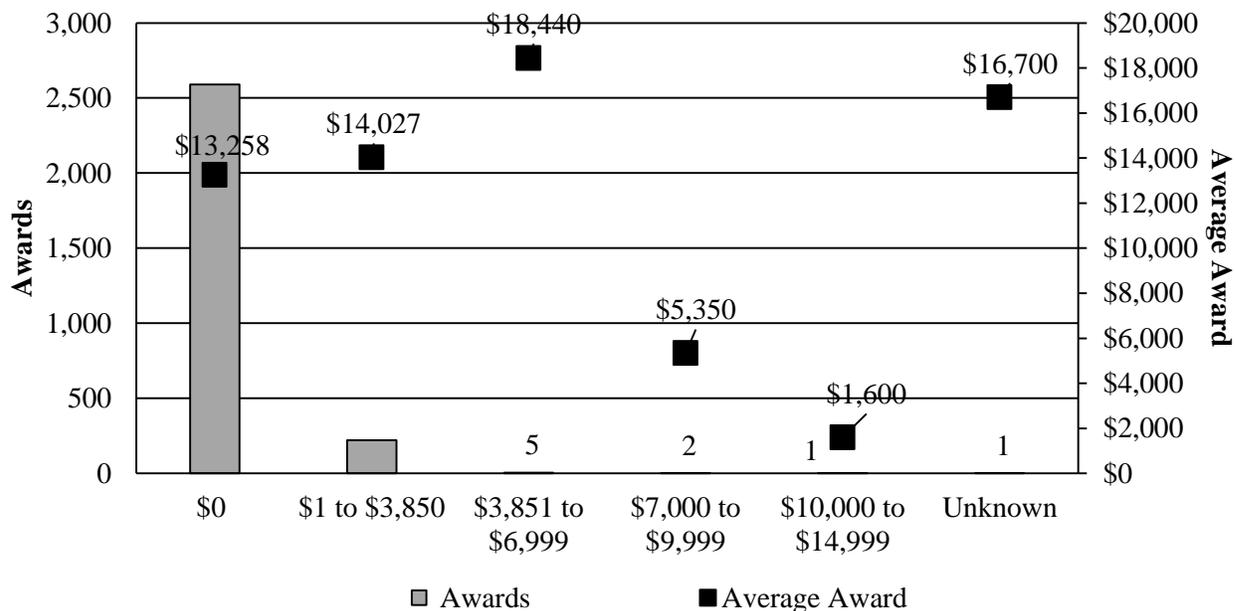
Exhibit 5
Guaranteed Access Grant Awards
Fiscal 2014-2019



Source: Maryland Higher Education Commission

As shown in **Exhibit 6**, almost all of those receiving a GA grant in fiscal 2019 have an EFC of \$3,850 or lower, with 91.9% of the recipients having a \$0 EFC. GA grants are renewed as long as the student meets certain requirements, including that family income does not exceed 150% of the federal poverty income level, so if a student’s EFC increases in later years of study, (s)he still receives the grant. Thus, the nine grants made to those with higher EFCs are likely older awards passing through the system. In cases where MHEC had to override a student’s EFC in order to determine eligibility, such as when an institution used professional judgement that resulted in changing a student’s EFC, the system will default to unknown for EFC. Therefore, even though the recipient has need and is eligible for the award, the EFC will be reported as unknown. EFC and award outcomes for other selected OSFA programs are shown in Exhibit 7 and **Appendices 1** through **5**.

**Exhibit 6
Guaranteed Access Grants by Expected Family Contribution
Fiscal 2019**



Source: Maryland Higher Education Commission

3. Educational Assistance Grants

The EA grant is designed to meet 40% of the financial need at four-year institutions and 60% at the community colleges for full-time undergraduate students from low- to middle-income families. All applicants are ranked by EFC with awards made first to those with the lowest EFC. Awards may not be less than \$400 and cannot exceed \$3,000 – award amounts have not changed since fiscal 1996.

After the GA awards are made, the remaining EA funds are used to support the EA grants. Generally, since fiscal 2015, this has accounted for approximately 64% of the EEA appropriations. Funding for the EA grants are shown in **Exhibit 7**. The effects of early FAFSA filings can be seen with the number of on-time applications increasing 25.4% in fiscal 2018 and 3.2% in fiscal 2019. However, the number declines to 3.0% in fiscal 2020, which is expected given that the number of FAFSAs completions were down 1% from the previous year.

The number of EA awards made increases 6.2%, or 1,450, in fiscal 2019. Overall, the number of EA awards have declined 3,456 from fiscal 2015 to 2019, which corresponds to increases in GA awards.

Exhibit 7
Educational Assistance Grants¹
Fiscal 2015-2020

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Difference 2019-2020</u>	<u>% Change 2019-2020</u>
EA Appropriation (\$ in Millions)	\$59.6	\$58.5	\$54.5	\$51.7	\$52.2	\$50.7	-\$1.5	-2.9%
EA Applicants (on-time FAFSAs)	131,695	131,232	121,213	151,977	156,874	152,125	-4,749	-3.0%
EA Initial Applicants with \$0 EFC	28,391	29,559	26,377	36,060	34,970	32,276	-2,694	-7.7%
EA Renewal Applicants with \$0 EFC	16,199	18,722	15,613	20,615	23,702	20,285	-3,417	-14.4%
EFC Cutoff for Initial Recipients ²	2,610	2,860	2,900	2,815	2,750	3,800	1,050	38.2%
EA Awards Made	28,456	24,377	23,236	23,550	25,000	N/A	N/A	N/A
Waitlist ³	22,097	19,064	18,759	17,924	18,798	7,074	-11,724	-62.4%

EA: educational assistance
EFC: expected family contribution

¹ The numbers above are reported as of January 16, 2020.

² Renewals that have an EFC over the cutoff remain eligible as long as they demonstrate need.

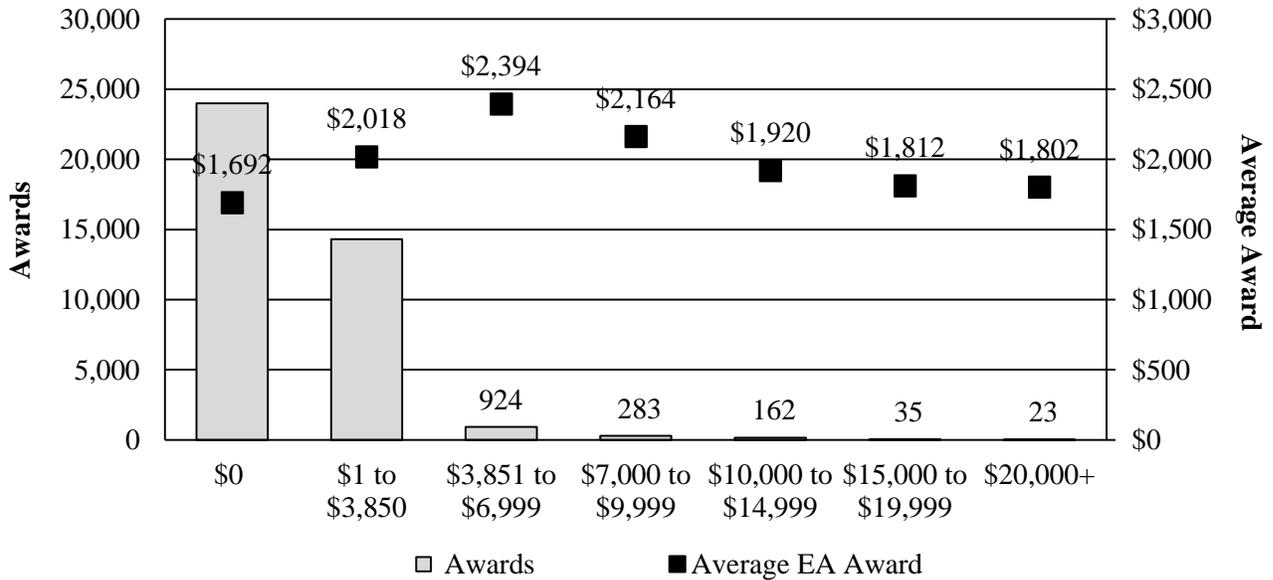
³ As of May 1. Students eligible for EA are placed on the waitlist if they are full-time students, submit a completed application by the March 1 deadline, and have financial need remaining after their EFC and federal Pell Grant award are considered.

Source: Maryland Higher Education Commission

In 2016, the Financial Assistance Advisory Council, which advises MHEC on policy and administrative issues affecting State financial aid, recommended adopting a formula to determine an EFC cutoff for the EA waitlist to create a more realistic waitlist number. Starting in fiscal 2017, students whose EFC exceed the waitlist cutoff are deemed ineligible for the program. In fiscal 2019, 18,798 students with an EFC up to \$10,974 were placed on the waitlist. In fiscal 2020, the EFC cutoff for the waitlist was changed to align with the federal Pell index, which in fiscal 2020 is \$6,195. This resulted in the waitlist declining 62.4% to 7,074 students.

As shown in **Exhibit 8**, in fiscal 2019, 96.4% of EA grants went to students with an EFC between \$0 and \$3,850. The average EA grant for those with a \$0 EFC is less than the average of those with an EFC between \$1 and \$6,999. This is related to the federal Pell grant where the lower a student’s EFC is, the higher the grant. Pell awards are given to students who have an EFC of less than a specific amount, which was \$5,140 in fiscal 2019. Because the EA grant is based on student need after accounting for the federal Pell grants, those with low EFCs often qualify for smaller EA grant awards. Some students will qualify for a Pell grant but receive no State aid. EA grants are renewed automatically as long as the student continues to have demonstrated need, so if a student’s EFC increases in later years (s)he still receives the EA grant, which bumps some new Pell grant students to the EA waitlist every year.

Exhibit 8
EA Grants by Expected Family Contribution
Fiscal 2019

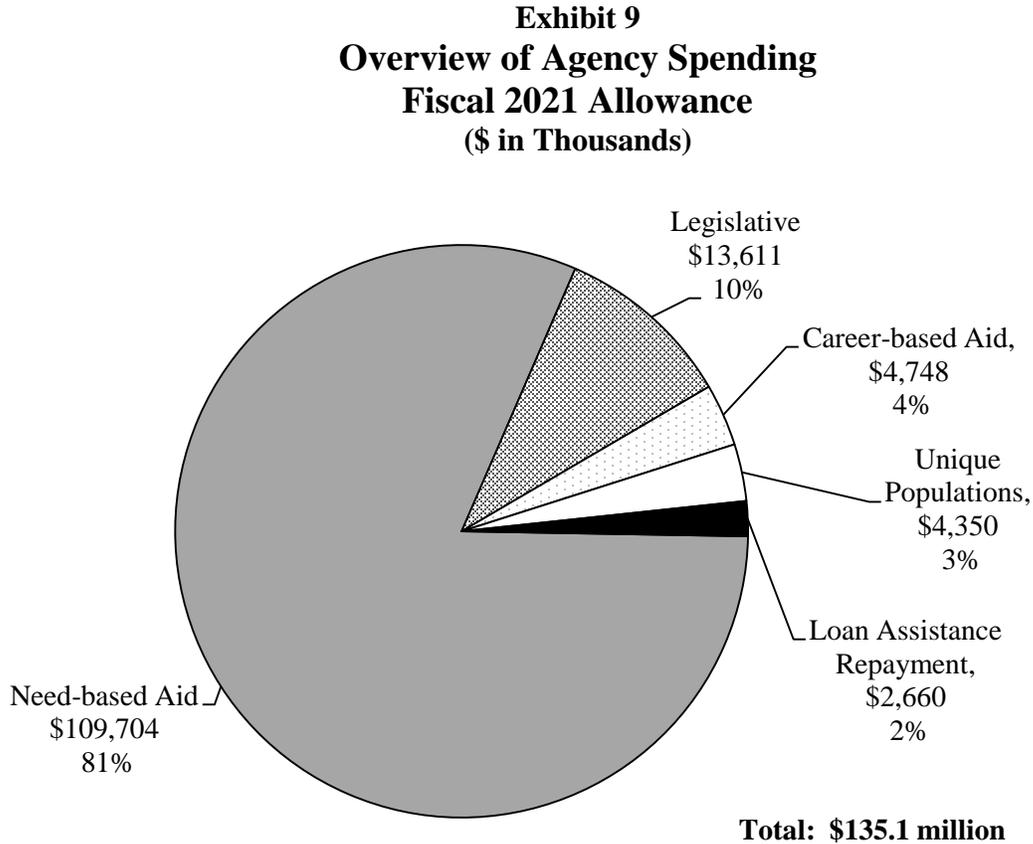


EA: educational assistance

Source: Maryland Higher Education Commission

Fiscal 2021 Overview of Agency Spending

Exhibit 9 shows funding by the type of aid in fiscal 2021. Of the \$135.1 million provided in the allowance, 81% goes toward need-based aid, followed by legislative scholarships at 10% and career-based aid at 4%.



Source: Governor’s Fiscal 2021 Budget Books; Department of Legislative Services

Exhibit 10 shows the number and the average award by financial aid program. MHEC expects a 12.1%, or 6,388, increase in the total number of recipients of State aid in fiscal 2021. Most of this increase is attributed to a projected increase of 310%, or 3,781, in the number of Promise Scholarships awarded and 12.8%, or 2,715, in the number of EA award recipients. The average EA award is estimated to decline by \$357 while the average Promise Scholarship award increases \$622.

Exhibit 10
Recipients of State Aid Programs
Fiscal 2019-2020

<u>Program</u>	2019 Actual		2020 Working		2021 Allowance	
	<u>Recipients</u>	<u>Avg. Award</u>	<u>Proj. Rec.</u>	<u>Proj. Avg. Award</u>	<u>Proj. Rec.</u>	<u>Proj. Avg. Award</u>
Need-based Aid						
Educational Assistance Grant	22,000	\$2,160	21,285	\$2,499	24,000	\$2,142
Campus-based Educational Assistance Grant	1,026	1,756	1,040	1,923	1,050	1,905
Guaranteed Access Grant	2,270	13,614	2,816	13,306	2,800	12,403
2+2 Transfer Scholarship	174	1,336	197	1,513	200	1,500
Part-time Grant Program	6,477	779	6,555	800	6,500	783
Graduate and Professional Scholarship	414	2,724	450	2,610	420	2,796
Maryland Community College Promise Scholarship			1,177	3,269	5,000	3,000
Near Completer Grant					15	16,667
Subtotal	\$32,361	\$2,677	33,562	\$3,047	39,985	\$2,672
Legislative Programs	18,001	\$1,378	17,400	\$1,511	17,100	\$1,547
Career and Occupational Programs	629	\$6,743	744	\$6,789	795	\$9,358
Unique Population Programs	839	\$2,761	927	\$3,201	1,100	\$3,909
Loan Assistance Repayment Programs	167	\$12,236	164	\$12,181	205	\$12,659
Total	51,997	\$1,832	52,797	\$2,073	59,185	\$2,047

Note: Data is a point-in-time calculation and cannot be used to calculate total aid.

Source: Maryland Higher Education Commission

Proposed Budget Change

As shown in **Exhibit 11**, after adjusting for two planned reversions in fiscal 2020, general funds increase 3.9%, or \$4.7 million, in fiscal 2021. The two reversions totaled \$10.1 million: \$8.0 million for the Maryland Community College Promise Scholarship Program due to the funding not being needed; and \$2.1 million for the Governor's Promise Plus Program, funding that was restricted by the

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legislature for various purposes that the Governor has chosen not to release. In fiscal 2021, the Promise Program is funded at the mandated level of \$15.0 million. Funding for the EEA awards increase \$1.7 million with funds from the Need-based Student Financial Assistance Fund. The Teaching Fellows for Maryland Scholarships that was funded with \$2.0 million in general funds in fiscal 2020 is level funded in fiscal 2021 but funded with special funds from The Blueprint for Maryland’s Future Fund.

**Exhibit 11
Proposed Budget
MHEC – Student Financial Assistance
(\$ in Thousands)**

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Reimbursable Fund</u>	<u>Total</u>
Fiscal 2019 Actual	\$108,469	\$2,311	\$555	\$111,335
Fiscal 2020 Working Appropriation	120,788	3,641	400	124,829
Fiscal 2021 Allowance	<u>125,465</u>	<u>9,207</u>	<u>400</u>	<u>135,072</u>
Fiscal 2020-2021 Amount Change	\$4,677	\$5,566	\$0	\$10,243
Fiscal 2020-2021 Percent Change	3.9%	152.9%		8.2%

Where It Goes:

Other Changes	<u>Change</u>
Increase in Maryland Community College Promise Scholarship Program to fund at mandated level	\$8,000
Increase in Education Excellence Awards with funds from the Need-based Student Financial Assistance Fund	1,728
Increase in special funds for Maryland Loan Assistance Repayment for Physicians and Physician Assistants related to a transfer from the Board of Physicians Fund contingent on the Budget Reconciliation and Financing Act of 2020	400
Increase in Delegate and Senatorial Scholarships to accommodate undergraduate tuition increase	267
Reduce special funds for the Janet L. Hoffman Loan Assistance Repayment Program to align expenses with revenues.....	-134
Reduce Somerset Economic Impact Scholarship.....	-18
Total	\$10,243

MHEC: Maryland Higher Education Commission

Note: Numbers may not sum due to rounding. The fiscal 2020 appropriation includes deficiencies, planned reversions, and general salary increases. The fiscal 2021 allowance includes contingent reductions and general salary increases.

Need-based Student Financial Assistance Fund

The Need-based Student Financial Assistance Fund (NBSFAF) was created in 2011 to receive unused scholarship funds at the close of each fiscal year and reserved for future need-based and certain unique population awards. Funds from the NBSFAF can be appropriated in the annual State budget or recognized by budget amendment in the following fiscal year, thereby creating a transparent process for MHEC to encumber unexpended scholarship funds. **Exhibit 12**, shows the current balance of nonlapsing special funds in the NBSFAF. MHEC tries to maintain a fund balance at the end of the fiscal year to ensure that it does not over award financial aid in any given year and require a general fund deficiency.

Exhibit 12
Need-based Student Financial Assistance Fund
Fiscal 2017-2020

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Opening Balance	\$4,620,853	\$6,884,630	\$8,324,136	\$9,699,662
Transfers In	\$4,697,594	\$2,912,988	\$3,145,946	\$0
Transfers Out				
2 + 2 Transfer	\$317,500	\$363,000	\$237,500	\$0
EEA	0	364,125	0	2,694,150
Conroy Memorial	2,116,316	746,357	1,532,920	0
Subtotal	\$2,433,816	\$1,473,482	\$1,770,420	\$2,694,150
Closing Balance	\$6,884,630	\$8,324,136	\$9,699,662	\$7,005,512

Source: Maryland Higher Education Commission

Between fiscal 2017 and 2020, the opening fund balance increased by \$5.1 million, growing to \$9.7 million in fiscal 2020. The growth in the balance in fiscal 2017 and 2019 was primarily driven by transfers into the fund of \$3.7 million and \$2.1 million, respectively, from EEA. In fiscal 2018, \$1.8 million was transferred from the tuition stabilization trust into the NBSFAF as required in Chapter 10 of 2018.

The Secretary should comment on what constitutes an adequate level of fund balance in the NBSFAF and plans to achieve that level.

Issues

1. Maryland Community College Promise Scholarship Program

Chapter 554 of 2018 created the Maryland Community College Promise Scholarship Program, a last dollar scholarship program that became available to applicants beginning in the 2019-2020 academic year. The fiscal 2020 allowance included \$15.0 million, as mandated, to fund the program of which, as previously mentioned, \$8.0 million is reverted due to the funding not being needed.

Recipients may receive awards of up to \$5,000 to cover any remaining tuition and mandatory fee expenses after all other nonloan aid had been applied. The scholarship is renewable for two years. The scholarship is available to Maryland students who have graduated from high school or completed a GED in Maryland within the last two years and have an annual adjusted gross income of not more than (1) \$100,000 if the applicant is single or resides in a single-parent household or (2) \$150,000 if the applicant is married or resides in a two-parent household.

Chapter 752 of 2019 altered eligibility requirements including an applicant must enroll at the applicant's local community college unless it does not offer the degree or certificate in which the applicant wants to enroll; and the scholarship can be used for credit or noncredit courses that lead to licensure or certificate, and for a registered apprenticeship program but only for costs associated with the parts that take place at a community college. In addition, it changed the GPA requirement basing eligibility on an applicant's cumulative GPA at the end of the first semester of the senior year in high school rather than at the time of graduation.

The program also includes a service obligation that was altered by Chapter 752 in that recipients must sign an agreement to live in Maryland and work full-time either in- or out-of-the state within one year of earning a certificate or degree. Recipients who receive an award for more than one year must work full-time for each year that they receive the award. If a student fails to meet the service obligation, then the award is converted to a loan. In addition, Chapter 752 delays the service obligation until the completion of a bachelor's degree if the recipient completed at least 48 credits at a community college before transferring to a four-year institution.

Timeline to Launch Promise

MHEC approved publication of the regulations for the Promise program at its October 2018 meetings. After the review and comment period in which questions arose regarding home schooled student, the commission adopted final regulations in September 2019.

Substantial modifications were made to the Maryland College Aid Processing System (MDCAPS) to incorporate the Promise program and to modify other supporting system. MDCAPS is a comprehensive customized financial aid management system used to process scholarship applications and allocate funds. Through MDCAPS, students can manage their various aspects of the financial

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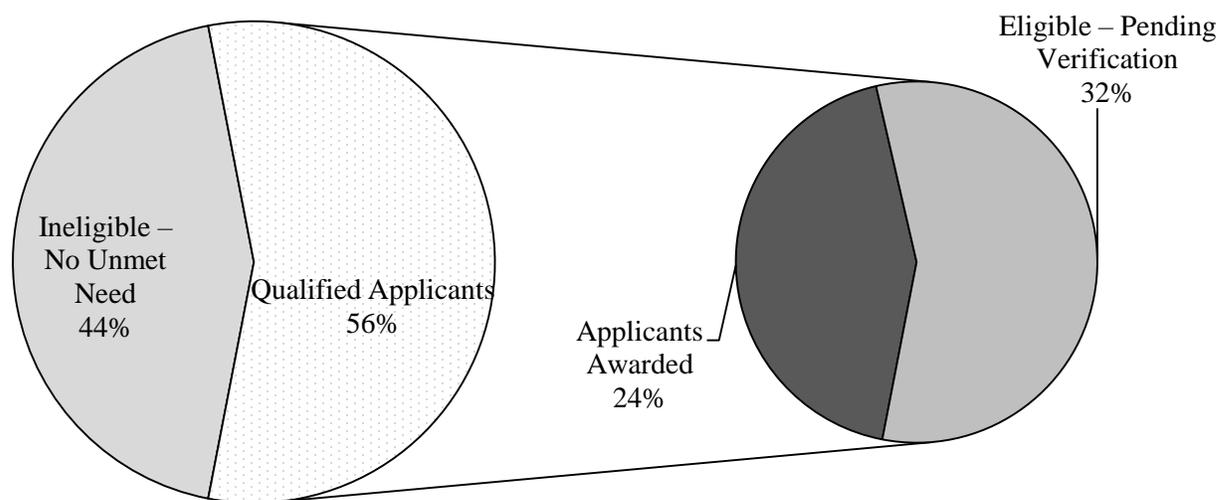
process including applying online for scholarship, checking to see if MHEC received their FAFSA and the status of applications, accepting or declining awards, and checking award and payment status.

In 2018, MHEC began reaching out to potential Promise program applicants through various media outlets, promoting the program on the annual “How to Afford College” show on Maryland Public Television and conducting over 160 statewide outreach events. MHEC used social media, including producing a podcast, sending text message alerts to over 36,000 students and bi-weekly email notices to potential applicants that met the income requirement as reported on the FAFSA or MSFAA. It should be noted that, for the application cycle for the upcoming 2020-2021 academic year, applicants will no longer be required to submit a copy of their 2018 tax information. OSFA will use the adjusted gross income as reported on the applicants FAFSA to confirm eligibility for awards.

For the initial award cycle, MHEC identified potentially eligible applicants, notifying them of the scholarship and documentation to submit for further consideration. The deadline for applicants to submit all required documentation was June 17, 2019. At that time, community colleges were given access, through MDCAPS, to review applications at their institutions for applicants who still had not submitted all their documents. The following month, community colleges begin reporting on all the nonloan aid and the annual tuition and fees of eligible applicants. In July, MHEC discovered reporting inconsistencies, and corrections were immediately made to MDCAPS. Awards were made on August 12, 2019.

As shown in **Exhibit 13**, of the 5,248 applicants that met the eligibility requirements, 56.1% qualified for the award, while for the remaining applicants, tuition and fees were covered by their Pell grant. Overall, as of November 2019, 24% of applicants received an award, while 32% were pending verification from the community college.

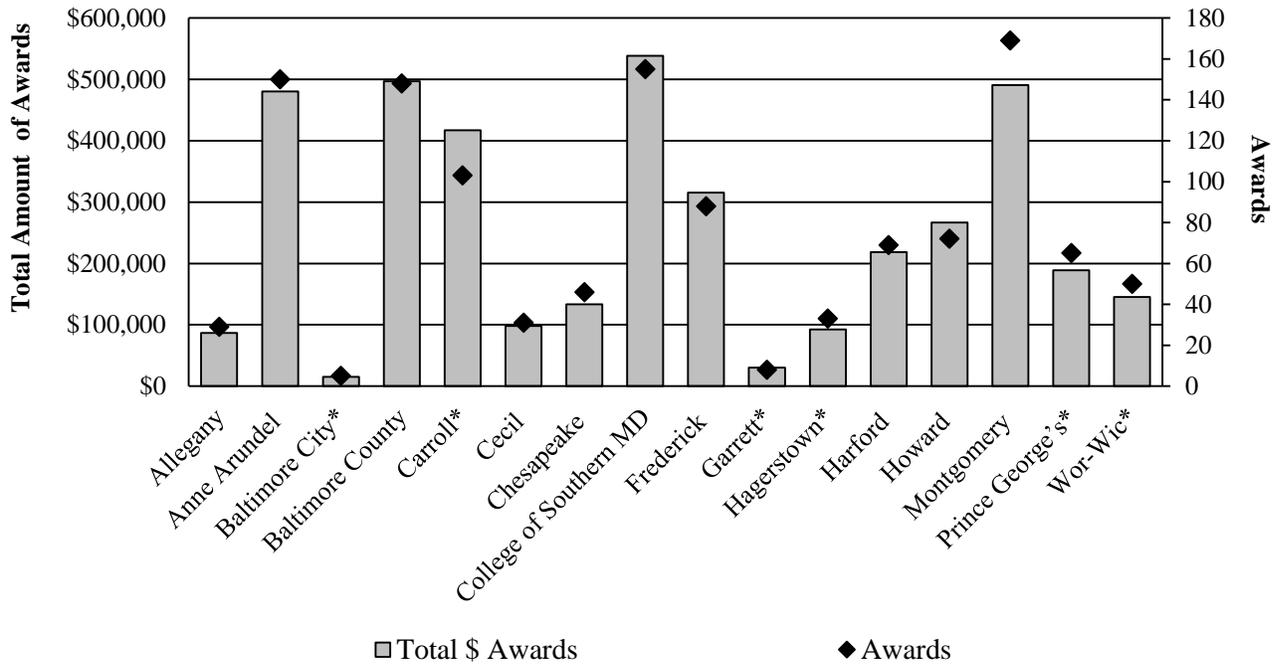
Exhibit 13
Outcomes of Promise Scholarship Applicants
November 2019



Source: Maryland Higher Education Commission

As of January 15, 2020, a total of 1,221 awards had been made totaling \$4.0 million. **Exhibit 14** shows the distribution of the awards and total award amount by community college. At three community colleges, over 150 students received an award. Only 5 and 8 awards were made at BCCC and Garrett Community College, respectively, but these institutions also offer a local promise program that does not include a service requirement.—

Exhibit 14
Number and Total Award Amounts
January 2020



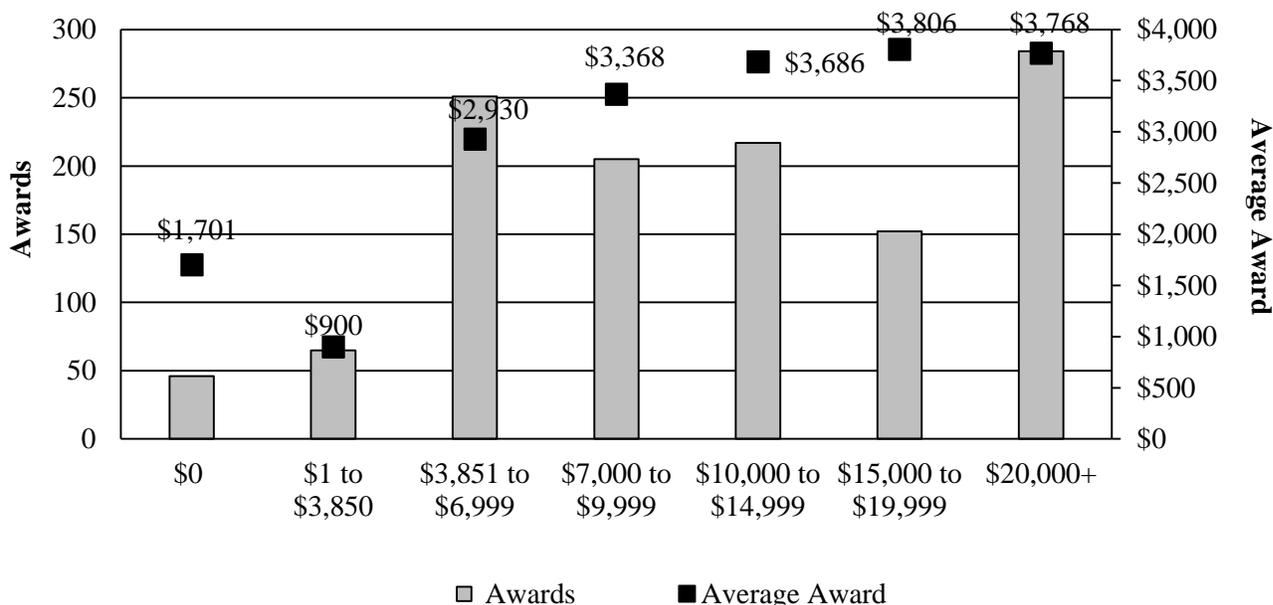
* Colleges have local promise program.

Source: Maryland Higher Education Commission

Exhibit 15 shows the distribution of awards by a student’s EFC category. Since Promise is a last dollar award only covering any remaining tuition and fee expenses after all other nonloan aid has been applied, most of the awards were made to students with higher EFC’s who also received a higher average award. Those with EFC’s greater than \$20,000 received 23.3% of the awards, while 20.6% of the awards went to those with an EFC between \$3,851 and \$6,999.

MHEC should comment on the strategies that it will employ to further raise awareness of the program in fiscal 2021.

**Exhibit 15
Promise Scholarship by Expected Family Contribution
Fiscal 2019**



Source: Maryland Higher Education Commission

2. Verification of GA Applicants

Chapter 485 of 2019 authorized public or private nonprofit institutions eligible for Seller funding to verify the eligibility of an applicant for the GA program. It also required the Financial Assistance Advisory Council (FAAC) within MHEC to study the financial aid verification process and make recommendations to MHEC and the participating institutions on implementation of such a process. In addition, FAAC was to consider issues related to the dissemination of information to applicants, limiting inconsistencies and duplication of efforts in the application process, and the prioritization of awards. FAAC presented its report to MHEC at its December 2019 meeting that included five recommendations. However, the report failed to study the verification process as specified in statute.

The two recommendations that pertain to verification of GA awards focused on what percent of the applications should be selected for verification. The first recommendation is that OSFA only select those applicants for verification who are also selected by the U.S. Department of Education (DoE) on their initial or corrected FAFSA, noting that the federal selection rate ranges from 30% to 50%. However, not mentioned in the report is that the federal verification rate for initial FAFSA filings

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is 50%. It should be noted that, starting with the 2020-2021 application cycle, OSFA will select 60% of the initial GA applicants for verification. In prior years, 100% of initial applicants were selected. In addition, OSFA recently implemented a GPA upload process that allows Maryland high school staff to report their seniors' GPA through MDCAPS, thereby eliminating the need for students to submit their transcripts by mail.

FAAC further recommended that institutions, not OSFA, complete verification of GA applicants who file a FAFSA. Furthermore, institutions would only verify those applicants selected by DoE because (1) they would be performing tasks that they are already required to do by DoE (institutions are required to verify selected applicants), thereby reducing duplication between OSFA and institutions; (2) institutions cannot verify 100% of the applications; and (3) a lower verification rate is necessary for the “efficient, streamlined administrations of GA grants.”

Other recommendations include the following.

- Elimination of the college preparatory requirement for initial applicants as this documentation was missing for 70% of applicants due to the requirement not being well understood by student or high school counselors.
- OSFA will continue to verify MSFAA files and the percent selected for verification be comparable to that of DoE.
- Delay implementation until the 2022-2023 award year.
- FAAC will study how the recommendations would impact awarding of EA grants.

The issues not considered by FAAC that were requested by Chapter 485 include the following.

- Specifying responsibility for identifying potentially eligible GA applicants.
- Specifying responsibility for verification when a student lists multiple Maryland institutions.
- Establishing a process to ensure the appropriate documents are sent to the institution if a student decides to enroll in a different institution.
- Establishing a process for institutions that choose not to conduct verifications.
- Specifying responsibility for disseminating information to applicants.

The Secretary should comment on the report recommendations, the failure to consider many of the issues identified in Chapter 485, and potential impacts on institutions and students.

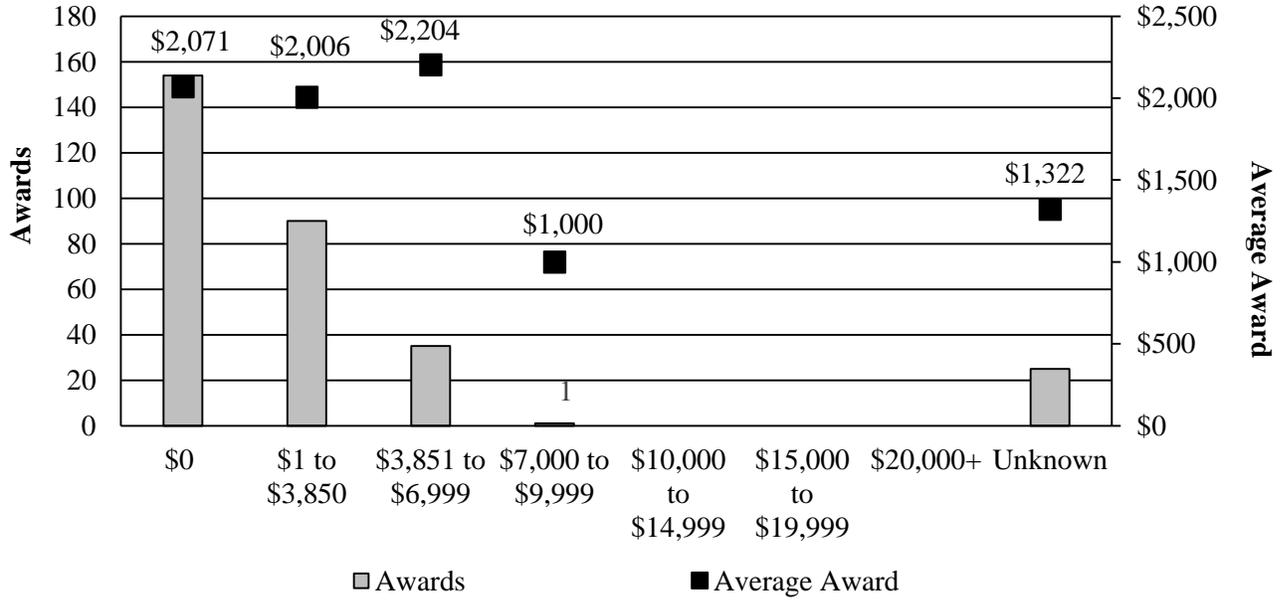
Operating Budget Recommended Actions

	<u>Amount Reduction</u>	
1. Reduce funding for the Maryland Community College Promise Scholarship Program. Based on the number of awards and amount of total awards made in the 2019-2020 academic year, the full \$15.0 million in funding will not be needed. This reduction still leaves \$8.0 million to fund new awards and renewals.	\$ 7,000,000	GF
Total General Fund Reductions	\$ 7,000,000	

Budget Reconciliation and Financing Act Recommended Actions

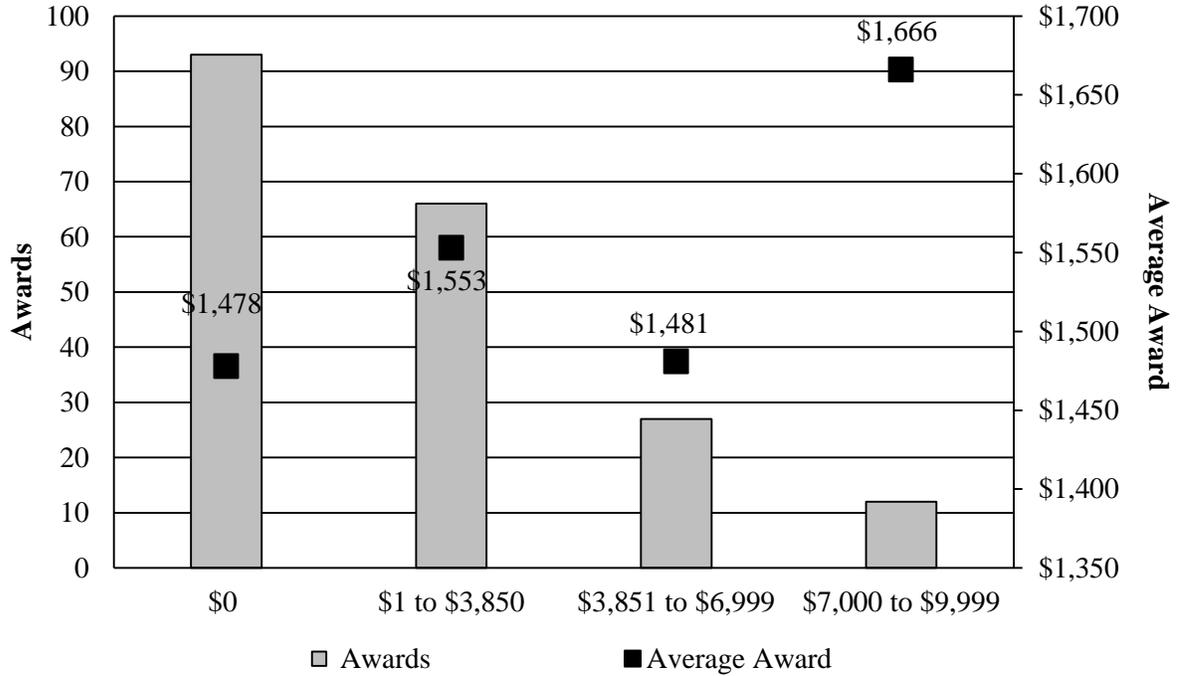
1. Reduce the fiscal 2020 appropriation for the Maryland Community College Promise Scholarship Program by \$3,000,000 above the planned reversion level.

Appendix 1
Campus-based Educational Grants by Expected Family Contribution
Fiscal 2019



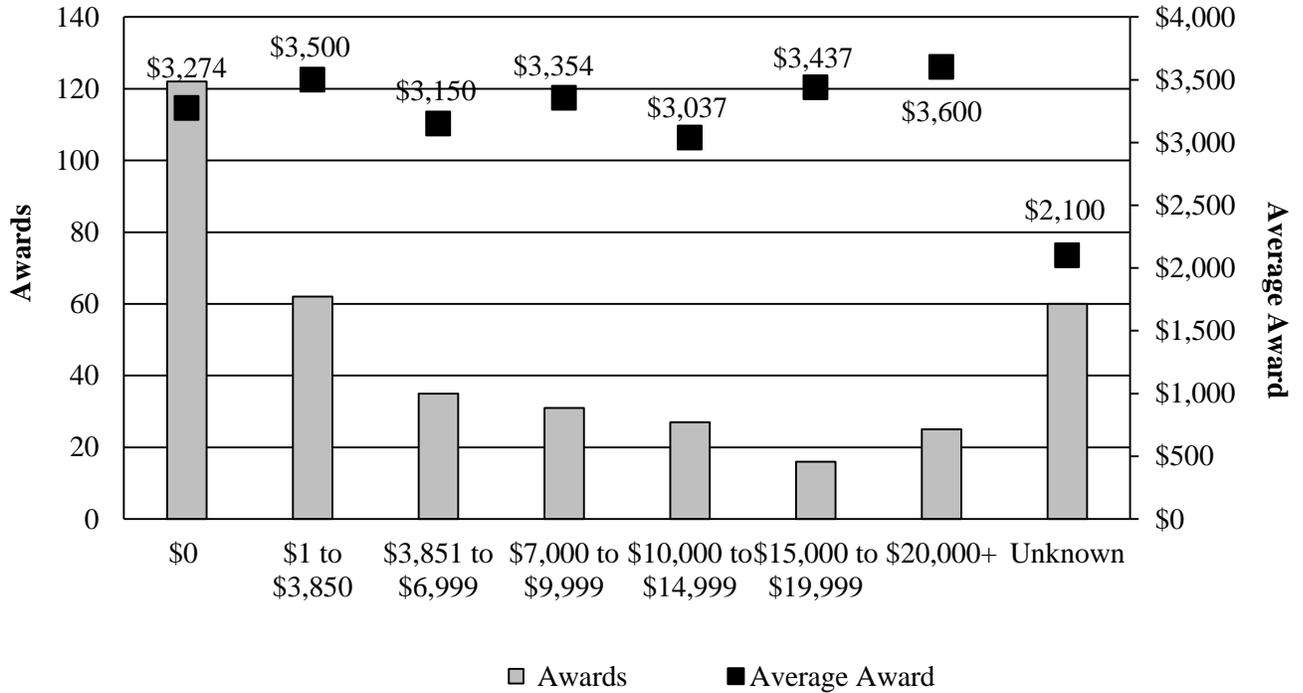
Source: Maryland Higher Education Commission

Appendix 2
2+2 Scholarship Awards by Expected Family Contribution
Fiscal 2019



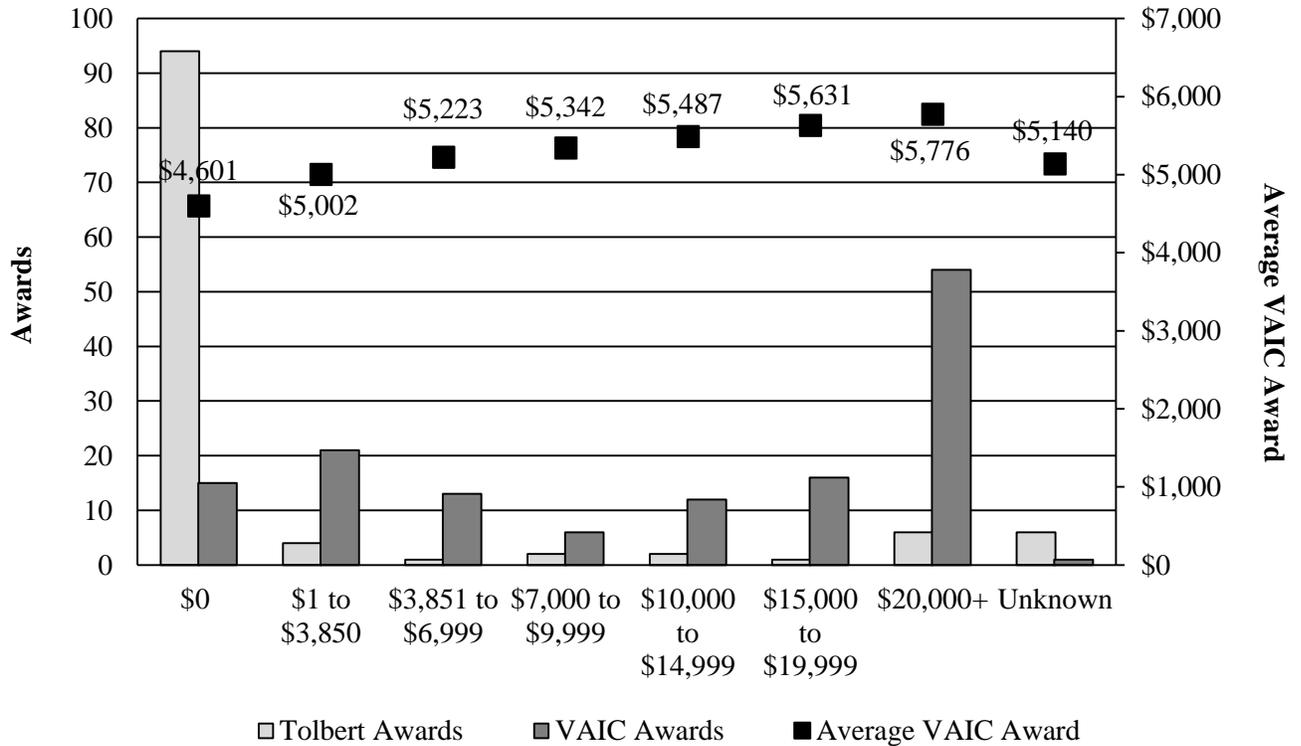
Source: Maryland Higher Education Commission

Appendix 3
Workforce Shortage Awards by Expected Family Contribution
Fiscal 2018



Source: Maryland Higher Education Commission

**Appendix 4
Unique Populations Awards by Expected Family Contribution
Fiscal 2018**

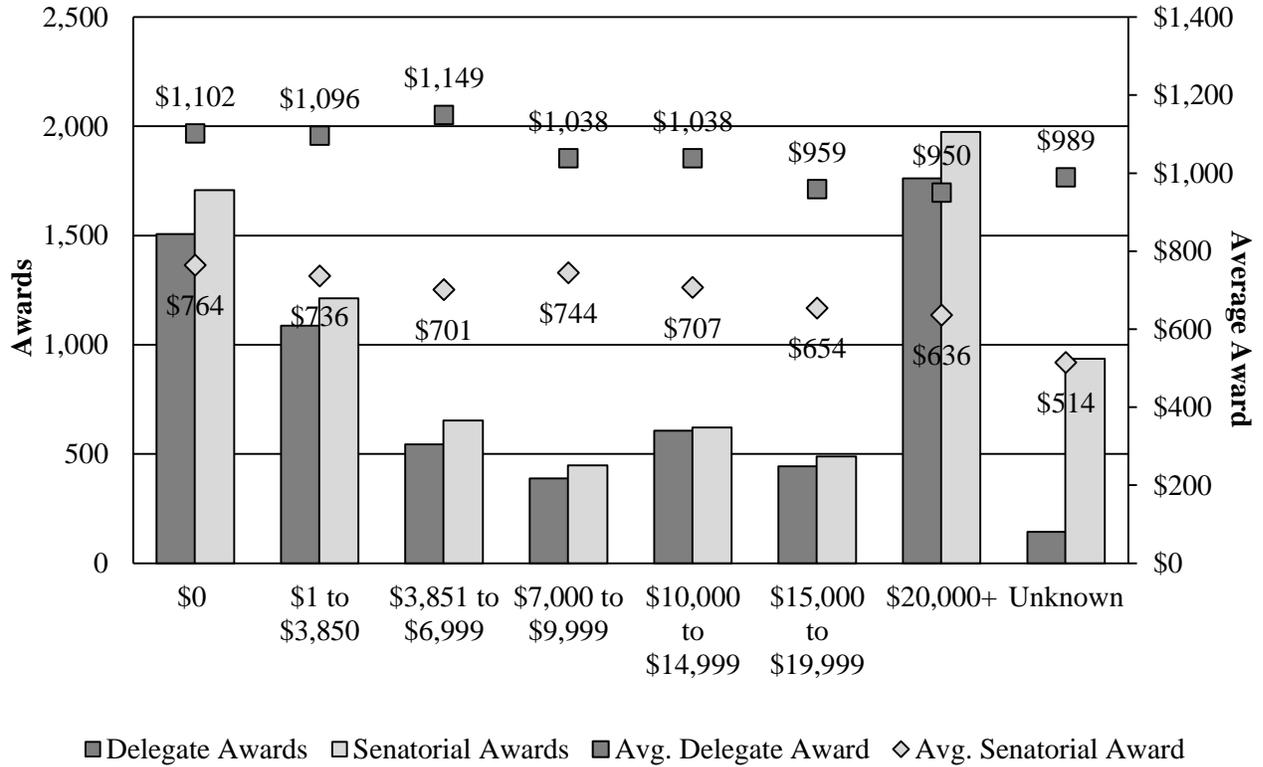


VAIC: Veterans of Afghanistan and Iraq Conflicts

Note: The average Tolbert Award is not shown and is \$500 across all Expected Family Contribution categories.

Source: Maryland Higher Education Commission

Appendix 5
Legislative Awards by Expected Family Contribution
Fiscal 2019



Source: Maryland Higher Education Commission

**Appendix 6
Object/Fund Difference Report
MHEC – Student Financial Assistance**

<u>Object/Fund</u>	<u>FY 19 Actual</u>	<u>FY 20 Working Appropriation</u>	<u>FY 21 Allowance</u>	<u>FY 20 - FY 21 Amount Change</u>	<u>Percent Change</u>
Objects					
12 Grants, Subsidies, and Contributions	\$ 111,334,848	\$ 134,948,721	\$ 135,072,287	\$ 123,566	0.1%
Total Objects	\$ 111,334,848	\$ 134,948,721	\$ 135,072,287	\$ 123,566	0.1%
Funds					
01 General Fund	\$ 108,469,242	\$ 130,907,482	\$ 125,465,137	-\$ 5,442,345	-4.2%
03 Special Fund	2,310,750	3,641,239	9,207,150	5,565,911	152.9%
09 Reimbursable Fund	554,856	400,000	400,000	0	0%
Total Funds	\$ 111,334,848	\$ 134,948,721	\$ 135,072,287	\$ 123,566	0.1%

Appendix 7
Fiscal Summary
MHEC – Student Financial Assistance

<u>Program/Unit</u>	<u>FY 19 Actual</u>	<u>FY 20 Wrk Approp</u>	<u>FY 21 Allowance</u>	<u>Change</u>	<u>FY 20 - FY 21 % Change</u>
09 Governor’s Promise Plus Program	\$ 237,500	\$ 2,419,250	\$ 300,000	-\$ 2,119,250	-87.6%
10 Educational Excellence Awards	82,871,235	86,401,636	88,129,669	1,728,033	2.0%
12 Senatorial Scholarships	6,486,000	6,615,720	6,748,034	132,314	2.0%
14 Edward T. Conroy Memorial Scholarship	2,732,920	2,400,000	2,400,000	0	0%
15 Delegate Scholarships	6,596,000	6,727,920	6,862,478	134,558	2.0%
16 Riley Fire and EMS Tuition Reimbursement	358,000	358,000	358,000	0	0%
17 Graduate and Professional Scholarship Program	1,174,473	1,174,473	1,174,473	0	0%
21 Jack F. Tolbert Memorial Student Grant Program	200,000	200,000	200,000	0	0%
26 Hoffman Loan Assistance Repayment Program	1,365,500	1,504,089	1,370,000	-134,089	-8.9%
27 Maryland Loan Assistance Repayment Program	3,698	100,000	100,000	0	0%
28 Maryland Loan Assistance Repayment Program	1,040,846	790,000	1,190,000	400,000	50.6%
33 Part-Time Grant Program	5,087,780	5,087,780	5,087,780	0	0%
36 Workforce Shortage Student Assistance Grants	1,229,853	1,229,853	1,229,853	0	0%
37 Veterans of the Afghanistan and Iraq Conflicts	750,000	750,000	750,000	0	0%
44 Somerset Economic Impact Scholarship	99,179	30,000	12,000	-18,000	-60.0%
45 Workforce Development Sequence Scholarship	1,000,000	1,000,000	1,000,000	0	0%
46 Cybersecurity Public Service Scholarship	101,864	160,000	160,000	0	0%
48 Maryland Community Colleges Promise	0	15,000,000	15,000,000	0	0%
49 Teaching Fellows for Maryland Scholarships	0	2,000,000	2,000,000	0	0%
51 Richard W. Collins Leadership With Honor	0	1,000,000	1,000,000	0	0%
Total Expenditures	\$ 111,334,848	\$ 134,948,721	\$ 135,072,287	\$ 123,566	0.1%
General Fund	\$ 108,469,242	\$ 130,907,482	\$ 125,465,137	-\$ 5,442,345	-4.2%
Special Fund	2,310,750	3,641,239	9,207,150	5,565,911	152.9%
Total Appropriations	\$ 110,779,992	\$ 134,548,721	\$ 134,672,287	\$ 123,566	0.1%
Reimbursable Fund	\$ 554,856	\$ 400,000	\$ 400,000	\$ 0	0%
Total Funds	\$ 111,334,848	\$ 134,948,721	\$ 135,072,287	\$ 123,566	0.1%

Note: The fiscal 2020 appropriation does not include deficiencies, planned reversions, or general salary increases. The fiscal 2021 allowance does not include contingent reductions or general salary increases.