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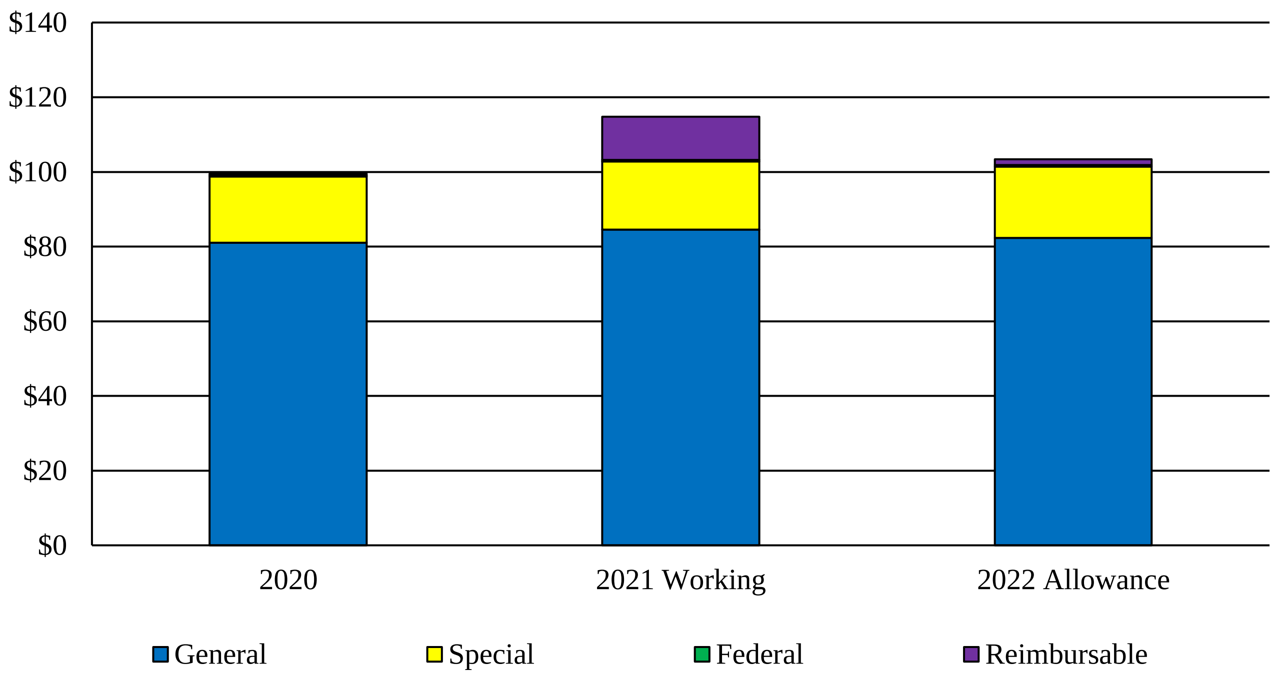
Maryland Higher Education Commission

Executive Summary

The Maryland Higher Education Commission is the State's coordinating body for the State's public four-year and independent institutions, community colleges, and private career schools and other for-profit institutions.

Operating Budget Summary

Fiscal 2022 Budget Decreases $11.4 Million, or 9.9%, to $103.4 Million
($ in Millions)



Note: The fiscal 2021 appropriation includes deficiencies, and general salary increases. The fiscal 2022 allowance includes annualization of general salary increases and contingent reductions.

- There are three deficiencies that would provide $3.1 million in general funds of which $2.4 million is to meet the State's matching requirement for the Save4College Program.

- The Budget Reconciliation and Financing Act of 2021 proposes to fund the Joseph A. Sellinger Program formula at the fiscal 2021 level of $59.0 million, a $29.8 million reduction from that anticipated under current law.

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Key Observations

- Of the 2017 cohort of first-time students, 60.7% of students at community colleges and 16.3% at public four-year institutions were assessed to need remedial work. In general, approximately half of these students will complete remedial work within their first year.

- The number of applications for the student loan tax credit for the 2020 tax year fell 27.9%, which may be attributable to the suspension of college loan payments.

Operating Budget Recommended Actions

1. Adopt narrative requesting a report on best practices and annual progress toward 55% completion goal.
2. Adopt narrative requesting a report on institutional aid, Pell grants, and loan data by expected family contribution category.
3. Adopt narrative requesting a report on the validity of remedial assessment tools

Operating Budget Analysis

Program Description

The Maryland Higher Education Commission (MHEC) is the State's coordinating body for the University System of Maryland (USM), Morgan State University (MSU), St. Mary's College of Maryland, 16 community colleges, the State's independent colleges and universities, and private career schools and other for-profit institutions. MHEC's mission is to ensure that Maryland residents have access to a high-quality, adequately funded, effectively managed, and capably led system of postsecondary education. The vision of MHEC is to have all Maryland residents equally prepared to be productive, socially engaged, and responsible members of a healthy economy. The Secretary of Higher Education is the agency's head and serves at the 12-member commission's pleasure.

The key goals of MHEC are as follows:

- Maryland will enhance its array of postsecondary education institutions and programs, which are recognized nationally and internationally for academic excellence, and more effectively fulfill the evolving educational needs of its students, the State, and the nation;

- Maryland will achieve a system of postsecondary education that advances the educational goals of all by promoting and supporting access, affordability, and completion;

- Maryland will ensure equitable opportunity for academic success and cultural competency for Maryland's population;

- Maryland will seek to be a national leader in the exploration, development, and implementation of creative and diverse education and training opportunities that will align with State goals, increase student engagement, and improve learning outcomes and completion rates;

- Maryland will stimulate economic growth, innovation, and vitality by supporting a knowledge-based economy, especially through increasing education and training and promoting the advancement and commercialization of research; and

- Maryland will create and support an open and collaborative environment of quality data use and distribution that promotes constructive communication, effective policy analysis, informed decision making, and achievement of State goals.

Performance Analysis: Managing for Results

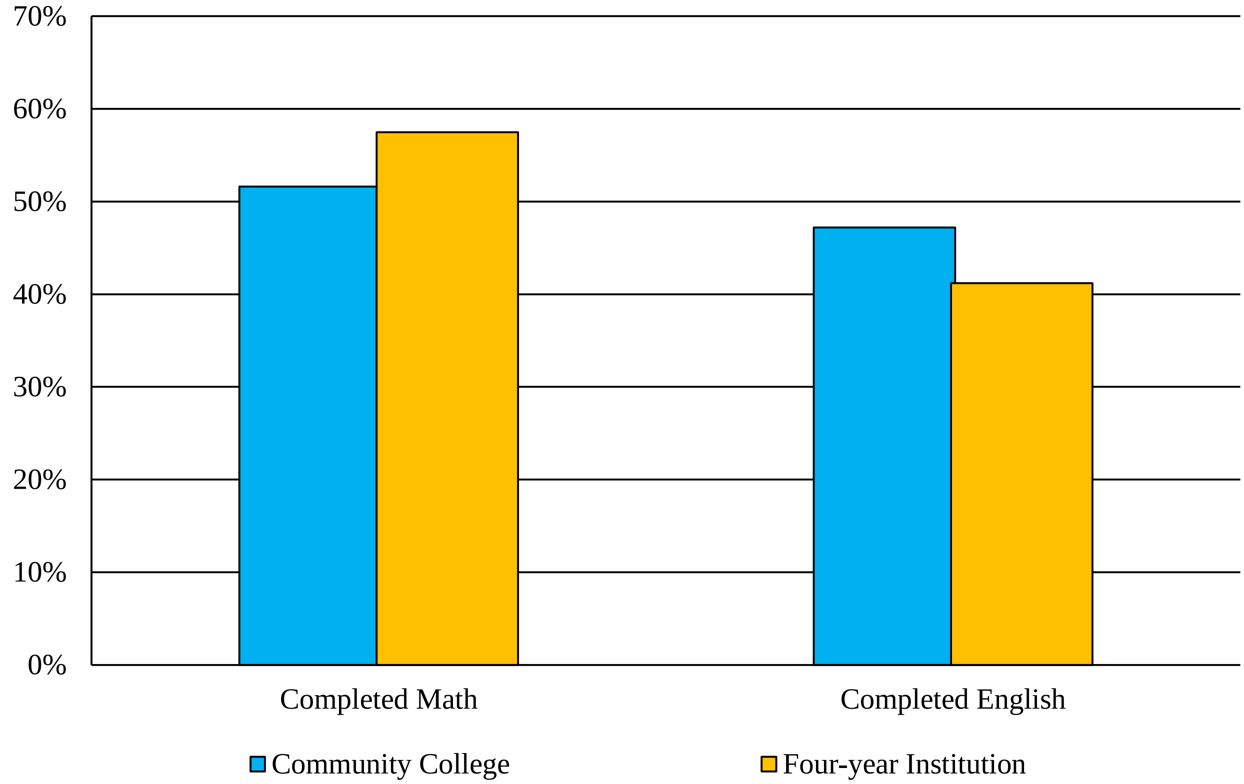
1. Remediation Rates

One of the strategies of the 2017 to 2021 *State Plan for Postsecondary Success* is to improve college readiness among K-12 students and, in particular, high school students. Since a high school diploma does not necessarily indicate that a student is ready for college coursework, institutions use other methods to determine readiness, such as placement tests.

MHEC recently released a four-part briefing series regarding remediation and the impact that it has on student success at Maryland's public institutions. MHEC looked at who is assessed to need developmental coursework in math and English and who completes developmental and credit-bearing courses within the first year. Overall, 60.7% of the 2017 first-time/full-time cohort of community college students were assessed to need remedial work compared to 16.3% at public four-year institutions. Due to open door policies, a majority of students who enroll in a community college require some remediation, while the lower rate at the public four-year institutions may be due to admission requirements that act as a screening tool.

Students who are assessed to need remedial work in English before moving on to a credit-bearing course are less likely to complete the required course within the first year compared to those assessed to need remedial math, as shown in **Exhibit 1**. While more students were assessed to need math – twice as many at community colleges and three times at four-year institutions – than English remediation, over half the students completed the required math course work. Fewer students at community colleges and public four-year institutions were assessed to need remedial work in English, however, less than half completed the course work. Overall, while community college students are nearly four times as likely to require remedial work in at least one subject area, their completion rates are almost comparable to those at four-year institutions.

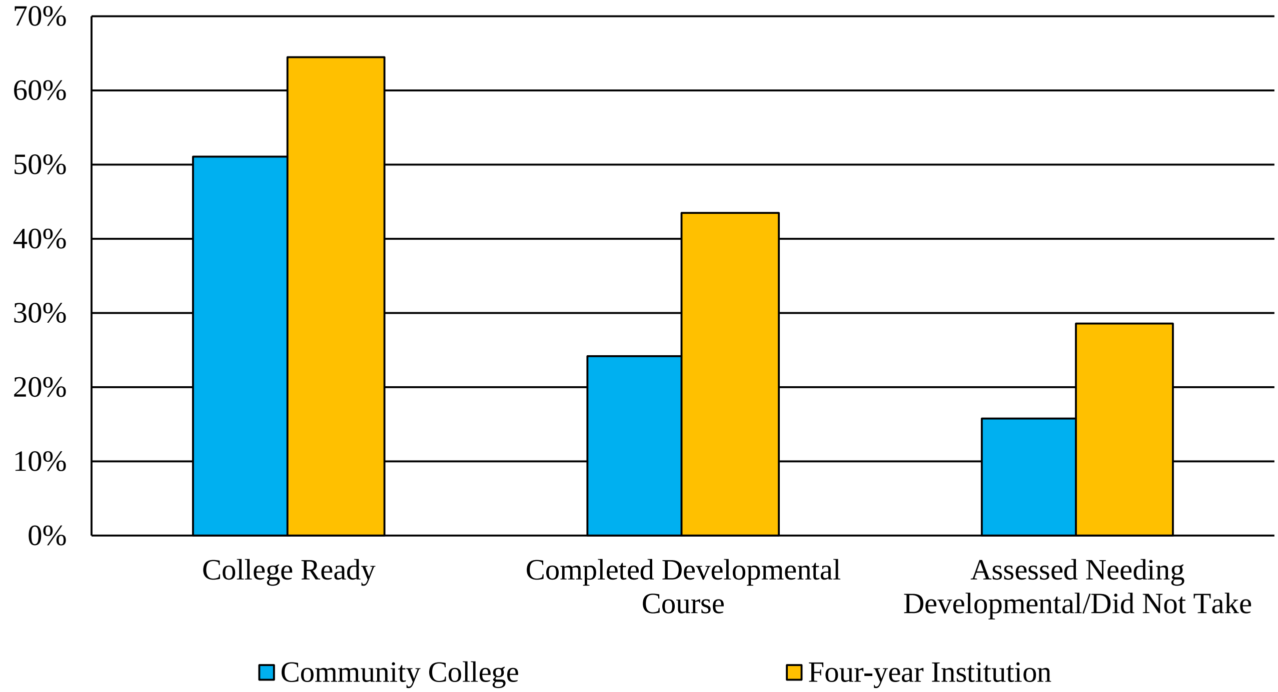
Exhibit 1
Course Completion within First Year
Students Assessed as Needing Remediation
Fall 2017 Cohort



Source: Maryland Higher Education Commission

There are concerns that remedial courses may be a barrier to student success, discouraging students from completion and/or increasing the time to degree, resulting in increased costs to students. The Career and College Readiness and College Completion Act of 2013 requires students taking remedial courses to enroll in the credit-bearing course in the following semester. As shown in **Exhibit 2**, only 24.2% and 43.5% of community college and four-year students, respectively, who completed a math developmental course went on to complete a math credit-bearing course within the first year. At the four-year institutions, 28.6% of those assessed as needing remedial math who did *not* take a developmental course went on to complete the associated credit-bearing course compared to 15.8% at the community colleges.

Exhibit 2
Completion of Math Credit-bearing Course within First Year
Fall 2017 Cohort

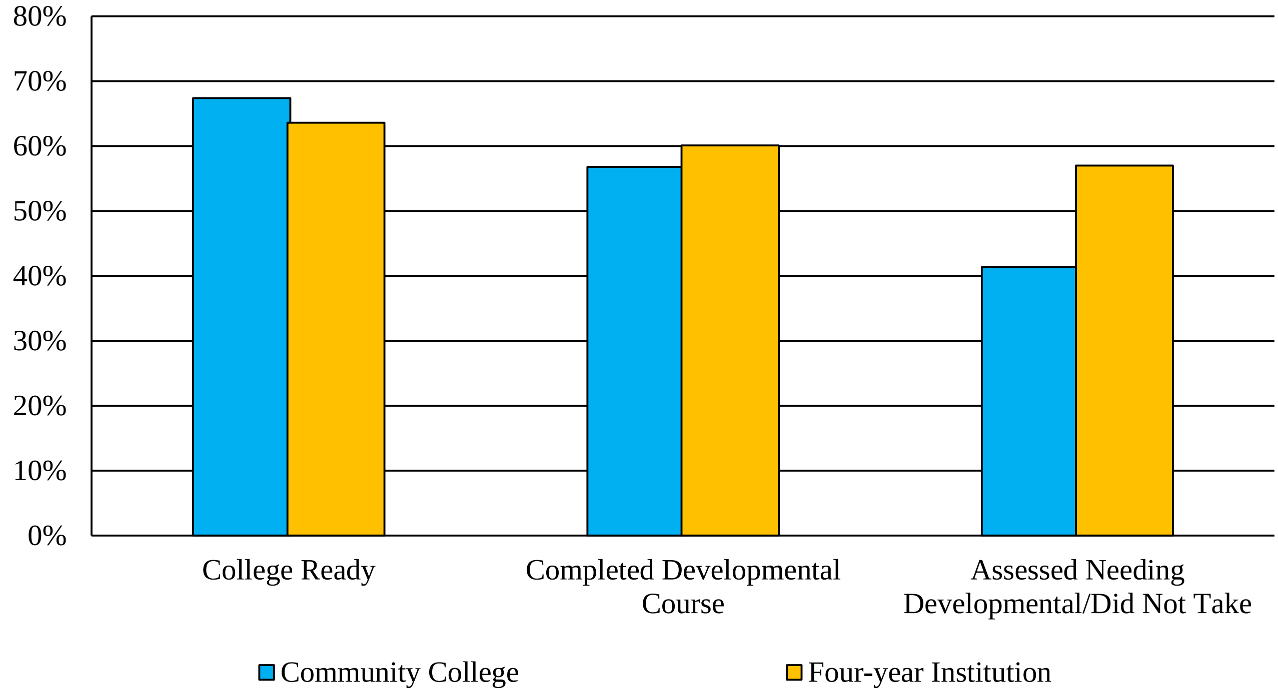


Source: Maryland Higher Education Commission

In regard to English, a greater percentage of students completed a credit-bearing course within the first-year compared to math, as shown in **Exhibit 3**.

Overall, over one-quarter of students at four-year institutions and almost one-fifth at community colleges who were assessed to need a remedial course did not complete a developmental course but were successful in the corresponding credit-bearing course. This may indicate that the assessment measures used may not provide an accurate indication of a student's ability to succeed in credit-bearing courses. This could result in students needlessly taking, and paying for, developmental courses that do not count toward their degrees.

Exhibit 3
Completion of English Credit-bearing Course within First Year
Fall 2017 Cohort



Source: Maryland Higher Education Commission

2. Online Course Enrollment

Institutions in states participating in the State Authorization Reciprocity Agreement (SARA) are required to annually report on the number of students enrolled in out-of-state online programs and the number of out-of-state students enrolled in its online programs. SARA is a voluntary agreement program among states and U.S. districts and territories. It establishes national standards for interstate offerings of postsecondary distance education courses and programs.

SARA requires states to approve their in-state institutions for SARA participation (based upon institutional accreditation and financial stability) and resolve student complaints. In addition, SARA states agree to impose no additional requirements on institutions from other SARA states. Maryland became a full participant in 2016. Currently, California is the only state not participating in SARA.

In 2019, 91,145 Maryland students were enrolled in a total of 1,027 SARA participating out-of-state institutions. **Exhibit 4** shows the top 10 states where Maryland students enrolled in programs. Two institutions in Arizona account for the majority of the Arizona enrollment (63.0%): the University of Phoenix; and Grand Canyon University. Strayer University and Liberty University account for 72.4% and 62.7%, respectively, of the enrollments in the District of Columbia and Virginia.

Exhibit 4
Top 10 States Where Maryland Students Enroll in Online Programs
2019

	Enrollment	Institutions Enrolling Students
Arizona	5,198	19
District of Columbia	4,709	11
Virginia	3,353	46
Utah	1,909	11
New Hampshire	1,876	6
West Virginia	1,739	14
Pennsylvania	1,733	84
Ohio	1,463	40
Indiana	1,349	29
Minnesota	1,328	23
Total	**24,657**	

Source: National Council for State Authorization Reciprocity Agreements

In 2019, 69,916 out-of-state students were enrolled in an online program offered at 1 of 31 Maryland institutions. As shown in **Exhibit 5**, 91.8% of these students enrolled in 1 of 10 Maryland institutions. Two institutions, the University of Maryland Global Campus and Johns Hopkins University, accounted for 76.5% of all enrollments. This data provides a picture of online enrollments before COVID-19 and the switch to online learning in March 2020 by a majority of institutions. A comparison of 2019 data to 2020 and the out-years will show what impact COVID-19 had on enrollment in online programs and if there is a permanent shift in how students prefer to learn.

Exhibit 5
Top 10 Maryland Institutions
Where Out-of-state Students Enroll in Online Programs
2019

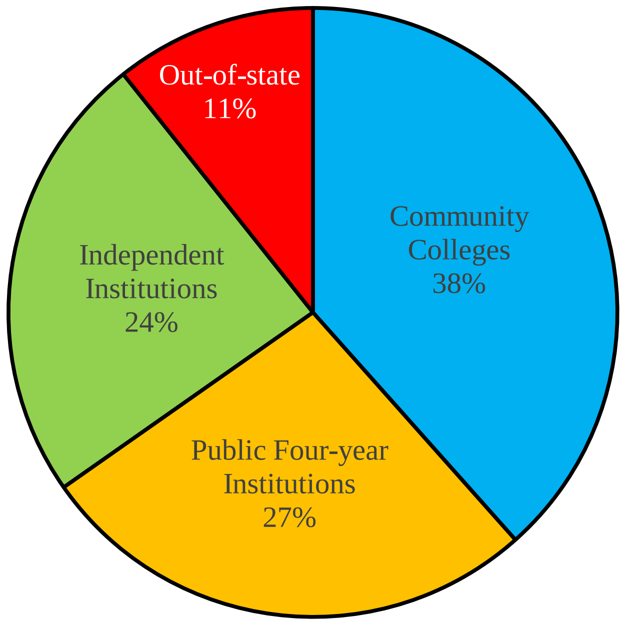
University of Maryland Global Campus	45,343
Johns Hopkins University	8,147
The Community College of Baltimore County	2,624
Anne Arundel Community College	2,431
University of Maryland, Baltimore Campus	1,212
Frostburg State University	964
Stevenson University	914
University of Maryland, College Park Campus	913
Harford Community College	865
University of Baltimore	830

Source: National Council for State Authorization Reciprocity Agreements

3. Program Approval

MHEC is responsible for the academic integrity of higher education in Maryland, including approving academic programs offered by public and private two- and four-year institutions (both in-state and out-of-state institutions). Of the 570 proposals received by MHEC in fiscal 2020, 38% were from community colleges, followed by the public four-years at 27%, as shown in **Exhibit 6.**

Exhibit 6
Proposals Received by Segment
Fiscal 2020



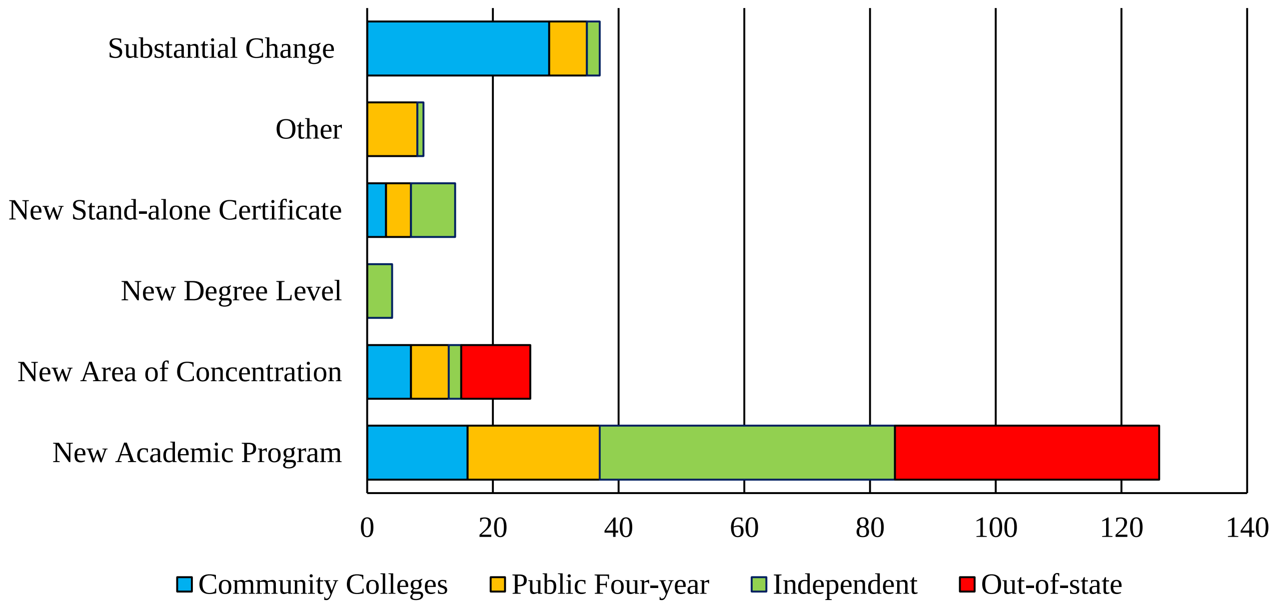
Note: Excludes out-of-state program renewal (48), withdrawn proposals (4), and proposal not approved (1).

Source: Maryland Higher Education Commission

MHEC received 354 proposals for nonsubstantial program changes, for example, offering an existing program as an off-campus program, having less than 33% change of an existing program's course work, having a new concentration within an existing program, or having a new program title within an approved program.

As shown in **Exhibit 7**, MHEC received 217 substantial program change proposals in fiscal 2020. New academic proposals accounted for 58.3% of the proposals, with Maryland independent and out-of-state institutions comprising a majority of the proposals. During the COVID-19 pandemic, the Governor's emergency order has allowed MHEC to suspend the requirement that MHEC review program proposals within 60 days.

Exhibit 7
Proposals Received for Substantial Changes by Segments
Fiscal 2020



Note: Other includes off-campus programs and programs at regional higher education centers.

Source: Maryland Higher Education Commission

Fiscal 2021

Cost Containment

The July 2020 Board of Public Works (BPW) actions reduced MHEC's budget by $11.4 million, which included $10.6 million to fund the Sellinger formula at the fiscal 2020 level, $0.5 million to align funding of the Cyber Warrior Diversity Program with fiscal 2020 spending, $0.2 million to reflect the closure of the University Center Northeast Maryland in Harford, and $0.1 million in operating expenditures and across-the-board reductions.

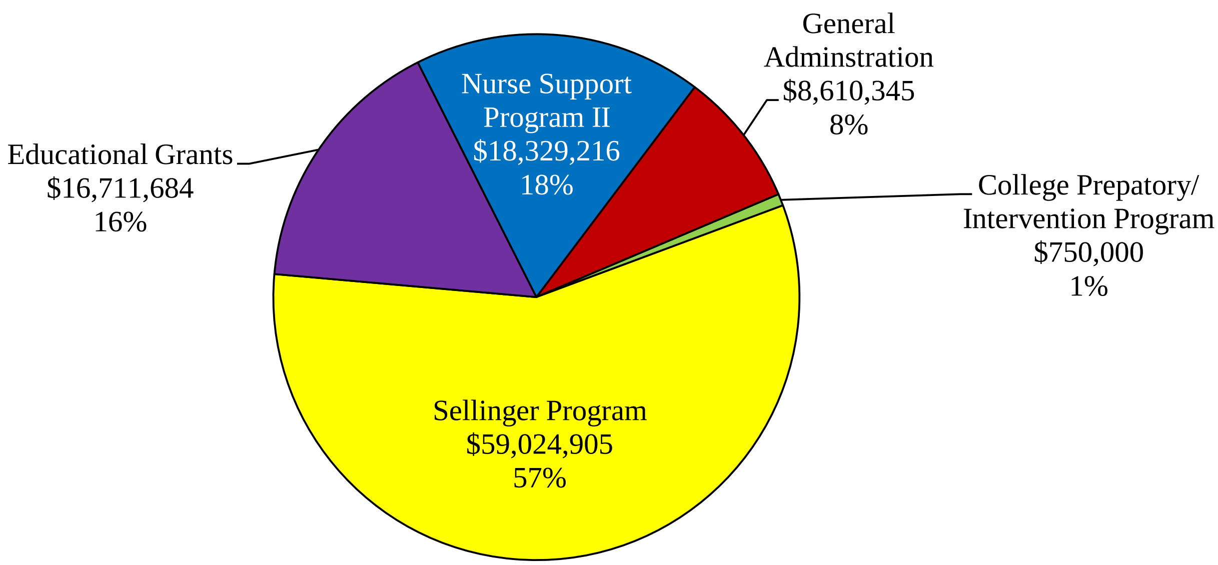
Proposed Deficiency

There are three fiscal 2021 deficiencies that would provide $3.1 million in general funds: $2.4 million to meet the State match requirement for the Save4College Program, due to an increase in applications; $0.6 million to fund an invoice for the Cyber Warrior Diversity Program; and $44,157 to support operations of the Maryland 529 Achieving a Better Life Experience program, due to account fees being lower than anticipated.

Fiscal 2022 Overview of Agency Spending

The fiscal 2022 allowance for MHEC totals $103.4 million (excluding financial aid that is analyzed in a separate analysis). Funding for the Joseph A. Sellinger (Sellinger) Program accounts for 57% ($59.0 million) of the spending, as shown in **Exhibit 8**. The Nurse Support Program II and Educational Grants comprise 34% ($35.0 million) of expenditures, while General Administration accounts for 8%, or $8.6 million of total expenditures.

Exhibit 8
Overview of Agency Spending
Fiscal 2021 Allowance
($ in Thousands)



Total: $103.4 Million

Note: The fiscal 2022 allowance includes annualization of general salary increases and contingent reductions.

Source: Governor's Fiscal 2022 Budget Books; Department of Legislative Services

Proposed Budget Change

As shown in **Exhibit 9**, the adjusted fiscal 2022 budget decreases 9.9%, or $11.3 million, from the adjusted fiscal 2021 working appropriation.

Exhibit 9
Proposed Budget
Maryland Higher Education Commission
($ in Thousands)

How Much It Grows:	**General Fund**	**Special Fund**	**Federal Fund**	**Reimb. Fund**	**Total**
Fiscal 2020 Actual	$80,998	$17,723	$320	$496	$99,536
Fiscal 2021 Working Appropriation	84,549	18,275	388	11,593	114,806
Fiscal 2022 Allowance	82,331	19,126	410	1,558	103,426
Fiscal 2021-2022 Amount Change	-$2,218	$851	$22	-$10,035	-$11,379
Fiscal 2021-2022 Percent Change	-2.6%	4.7%	5.7%	-86.6%	-9.9%

Where It Goes:	**Change**
Personnel Expenses	
Employee and retiree health insurance	$147
Reclassifying salaries at base	63
Annualization of the fiscal 2021 2% general salary increase	53
Workers' compensation premium assessment	35
Retirement contributions	31
Unemployment compensation	12
Social Security contribution	5
Turnover	1
Other Changes	
Increase in Nurse Support II special funds aligning expenses with revenue	704
Purchase of a document management system	200
Realign in-State travel and routine operations expenditures that includes employee reimbursements, with actual expenditures	9
Other expenditures	-107
ABLE deficiency to cover anticipated expenses due to account fees being lower than anticipated	-133
Deficiency to meet the State match requirement for the Save4College Program due to increase in applications	-2,398
Fiscal 2021 funding from Governor's Emergency Education Relief Fund of the CARES Act for community colleges for workforce development and certificate programs	-10,000
Total	**-$11,379**

ABLE: Achieving a Better Life Experience Program
CARES: Coronavirus Aid, Relief, and Economic Security

Note: Numbers may not sum to total due to rounding. The fiscal 2021 appropriation adjusted to reflect general salary increases. The fiscal 2022 allowance adjusted to reflect annualization of general salary increase and contingent reductions.

Sellinger Formula

The fiscal 2022 allowance includes $59.0 million for the Sellinger formula contingent on the Budget Reconciliation and Financing Act (BRFA) of 2021, which level funds Sellinger at the fiscal 2021 level, a $29.8 million reduction. The BRFA also changes the formula moving forward.

The Sellinger formula is based on a percentage of the State's per full-time equivalent student (FTES) funding for selected public four-year institutions. This is then used to determine the per FTES funding amount for the eligible independent institutions based on the FTES enrollment at each institution. This statutory percentage was reduced during the prior recession but has been gradually increasing in recent years, reaching 15.5% for fiscal 2021 and each fiscal year thereafter. However, after actions by the General Assembly and BPW cost containment to level fund fiscal 2021 at the fiscal 2020 level, fiscal 2021 is funded at 10.3% of the aid per FTES at the selected four-year institutions. The proposed funding change is shown in **Exhibit 10**.

Exhibit 10
Comparison of Projected Sellinger Funding
Fiscal 2022-2026

	Allowance 2022	Projected 2023	Projected 2024	Projected 2025	Projected 2026
Current Law	$88,810,065	$90,099,100	$93,680,448	$97,402,368	$101,181,746
Statutory percentage of aid at selected public four-year institutions	15.5%	15.5%	15.5%	15.5%	15.5%
BRFA	$59,024,905	$61,031,752	$62,801,673	$64,434,516	$66,109,813
Estimated Growth (1% less than estimated General Fund growth)		3.4%	2.9%	2.6%	2.6%
Effective percentage of aid at selected public four–year institutions	10.3%	10.5%	10.4%	10.3%	10.2%
Difference BRFA/Current Law	**-$29,785,160**	**-$29,067,348**	**-$30,878,775**	**-$32,967,852**	**-$35,071,933**

BRFA: Budget Reconciliation and Financing Act

Source: Department of Legislative Services

The BRFA also changes the methodology for calculating future increases in Sellinger. Instead of basing funding increases on a State funding per FTES at selected public four-year institutions of higher education and total FTES enrollment at the independent institutions, the BRFA increases future funding by the expected growth of general fund revenues for the upcoming fiscal year, less 1%. In other words, the BRFA breaks the link in funding between the selected public four-year and independent institutions and removes future enrollment as a component of the funding formula. This provision was included in the BRFA of 2020 and was rejected by the General Assembly. As shown in Exhibit 10, under current law, it is estimated that funding for Sellinger would reach $101.2 million in fiscal 2026. The BRFA would temper this growth to $66.1 million.

Exhibit 11 compares the distribution of funds under current law to that proposed in the BRFA. As noted above, under current law, funding distribution is based on the second year prior total enrollment. However, under the BRFA, the distribution of funds is not based on enrollment but rather on the proportional allocation remaining unchanged from fiscal 2020. As a result, funding decreases range from 19.5% at Goucher College to 63.9% at Mount St. Mary's College.

Exhibit 11
Comparison of Sellinger Funding Distribution
Fiscal 2022

			BRFA/Current Law	
Institution	**Current Law 2022**	**BRFA 2022**	**$ Change**	**% Change**
The Johns Hopkins University	$45,780,264	$29,019,524	-$16,760,740	-57.8%
Loyola College	9,490,278	6,534,728	-2,955,550	-45.2%
Stevenson University	6,340,738	4,358,920	-1,981,818	-45.5%
McDaniel College	4,995,322	2,771,043	-2,224,279	-80.3%
Maryland Institute College of Art	3,431,360	2,823,062	-608,298	-21.5%
Mount St. Mary's College	4,386,318	2,676,349	-1,709,969	-63.9%
Goucher College	2,946,205	2,466,084	-480,121	-19.5%
Washington College	2,424,959	2,012,424	-412,535	-20.5%
Hood College	2,947,842	1,834,286	-1,113,556	-60.7%
Notre Dame of Maryland University	2,639,840	1,842,589	-797,251	-43.3%
Washington Adventist University	1,417,801	1,171,808	-245,993	-21.0%
St. John's College	1,050,147	843,131	-207,016	-24.6%
Capitol Technology University	958,991	670,957	-288,034	-42.9%
Total	**$88,810,065**	**$59,024,905**	**-$29,785,160**	**-50.5%**

BRFA: Budget Reconciliation and Financing Act

Source: Department of Budget and Management; Department of Legislative Services

Exhibit 12 compares the allocation the fiscal 2022 funding under the BRFA to an allocation of the same amount of funding taking into account update enrollment figures. As previously mentioned, in fiscal 2020, funds were allocated based on enrollment. However, since then, a number of institutions have experienced declines in enrollments. In fiscal 2020 (the year on which the fiscal 2022 allocation of funds is based), eight institutions experienced declines in enrollment. Funding at these institutions would have declined if the $59.0 million funding level proposed in BRFA was allocated based on enrollment. It should be noted that while enrollment increased at Notre Dame of Maryland University to 1,290 FTE for fiscal 2020, it is 74 FTE below the fiscal 2018 enrollment (used for fiscal 2020 allocations), thereby resulting in a decrease in funds in fiscal 2022 if the allocation was based on enrollment. Further, if the total amount of available funds for allocation were based on enrollment, like K-12 enrollment-based formulas, decreases in total enrollment at the institutions would result in a reduction in the total funds to be allocated for Sellinger.

Exhibit 12
Allocation of Sellinger Funds: Enrollment-based vs BRFA
Fiscal 2022

	Full-time Enrollment			Allocation		
Institution	**Fiscal 2019**	**Fiscal 2020**	**Change**	**Enrollment Based**	**BRFA**	**$ Diff. Enrollment vs BRFA**
The Johns Hopkins University	22,063	22,364	301	$30,426,458	$29,019,524	$1,406,934
Loyola College	4,789	4,636	-153	$6,307,424	6,534,728	-$227,304
Stevenson University	3,208	3,097	-110	$4,214,178	4,358,920	-$144,742
McDaniel College	2,339	2,440	101	$3,319,988	2,771,043	$548,945
Maryland Institute College of Art	2,108	1,676	-432	$2,280,549	2,823,062	-$542,513
Mount St. Mary’s College	1,952	2,143	191	$2,915,233	2,676,349	$238,884
Goucher College	1,688	1,439	-249	$1,958,105	2,466,084	-$507,979
Washington College	1,403	1,185	-218	$1,611,675	2,012,424	-$400,749
Hood College	1,398	1,440	42	$1,959,194	1,834,286	$124,908
Notre Dame of Maryland University	1,261	1,290	29	$1,754,489	1,842,589	-$88,100
Washington Adventist University	815	693	-123	$942,298	1,171,808	-$229,510
St. John’s College	646	513	-133	$697,948	843,131	-$145,183
Capitol Technology University	480	468	-11	$637,364	670,957	-$33,593
Total	**44,150**	**43,384**	**-766**	**59,024,905**	**59,024,905**	

BRFA: Budget Reconciliation and Financing Act

Source: Department of Budget and Management; Department of Legislative Services

Educational Grants

The educational grants program provides financial assistance to State, local, and private entities to enrich the quality of higher education. As shown in **Exhibit 13**, educational grants decline 42.9%, or $12.5 million, from fiscal 2021 to 2022. The primary reason for the decline is the removal of a one-time $10 million fiscal 2021 grant from the Governor's Emergency Education Relief Fund (CARES Act) to support workforce development and certificate programs at the community colleges. Other reasons for the decrease include fiscal 2021 deficiency funding that provided $2.4 million for the College Saving Match Program that is not funded in fiscal 2022 and a drop of $0.1 million for the Cyber Warrior Diversity Program, which returns to the mandated funding level in fiscal 2022.

Exhibit 13
Education Grants
Fiscal 2021-2022

Programs	Adjusted Working 2021	Adjusted Allowance 2022	$ Difference	% Difference
Federal Funds				
John R. Justice Grant	38,826	38,826	0	0.0%
Subtotal	***$38,826***	***$38,826***	***$0***	***0.0%***
General Funds				
Complete College Maryland	$250,000	$250,000	$0	0.0%
Washington Center for Internships and Academic Seminars	350,000	350,000	0	0.0%
University of Maryland, Baltimore Campus – WellMobile[1]	285,000	285,000	0	0.0%
Regional Higher Education Centers[2]	1,409,861	1,409,861	0	0.0%
Colleges Savings Plan Match[3]	12,465,750	10,067,500	-2,398,250	-19.2%
Achieving a Better Life Experience Program[3]	344,157	344,157	0	0.0%
Cyber Warrior Diversity Program[3]	2,633,028	2,500,000	-133,028	-5.1%
Near Completers Grant	375,000	375,000	0	0.0%
GEAR UP Scholarships	1,091,340	1,091,340	0	0.0%
Support for Community Colleges for Workforce Development and Certificate Programs	10,000,000	0	-10,000,000	-100.0%
Subtotal Including Grants to Be Transferred	***$29,204,136***	***$16,672,858***	***-$12,531,278***	
Total Funds	**$29,242,962**	**$16,711,684**	***-$12,531,278***	***-42.9%***

[1]Funding will be transferred to the University of Maryland, Baltimore Campus by budget amendment.
[2]Fiscal 2021 and 2022 includes $0.4 million for the Waldorf Center that will be transferred by budget amendment to University of Maryland Global Campus.
[3]Fiscal 2021 includes $2.4 million deficiency to satisfy match requirement for the Save4College Contribution Program; $0.6 million for Cyber Warrior Diversity program to cover an invoice; and $0.3 million for the Achieving a Better Life Experience program.

Source: Department of Budget and Management

Personnel Data

	FY 20 Actual	FY 21 Working	FY 22 Allowance	FY 21-22 Change
Regular Positions	58.00	60.00	60.00	0.00
Contractual FTEs	7.15	9.35	9.35	0.00
Total Personnel	**65.15**	**69.35**	**69.35**	**0.00**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	3.71	6.19%
Positions and Percentage Vacant as of 12/31/20	5.00	8.33%
Vacancies Above Turnover	1.29	

Issues

1. Student Loan Debt Tax Credit

The Student Loan Debt Relief Tax Credit (Chapters 689 and 690 of 2016) established a refundable tax credit of up to $5,000 for qualified undergraduate student loans to Maryland residents beginning in the 2017 tax year. Chapter 382 of 2018 expanded the types of qualifying debt to include debt incurred for graduate school. MHEC was initially authorized to approve $5.0 million of tax credits annually. Chapter 419 of 2018 increased the total amount of credits that can be awarded to $9.0 million annually.

Qualifying tax payers must have had at least $20,000 in total undergraduate and/or graduate student debt and a remaining balance of at least $5,000. Recipients must use the credit within two years to pay down the student loan. Applications must be submitted by September 15, and MHEC must certify the amount of the tax credit by December 15.

Tax credit recipients and the amount they receive are determined using the following criteria:

- did not receive a tax credit in the prior year and were eligible for in-state tuition (eligibility is based on the applicant's place of residency while enrolled in college);
- did not receive a tax credit in the prior year and graduated from a Maryland institution of higher education (*i.e.*, individuals were not eligible for in-state tuition);
- did receive a tax credit in the prior year and were eligible for in-state tuition;
- did receive a tax credit in the prior year and graduated from a Maryland institution of higher education (*i.e.*, individuals were not eligible for in-state tuition); and
- have higher debt-burden-to-income ratios.

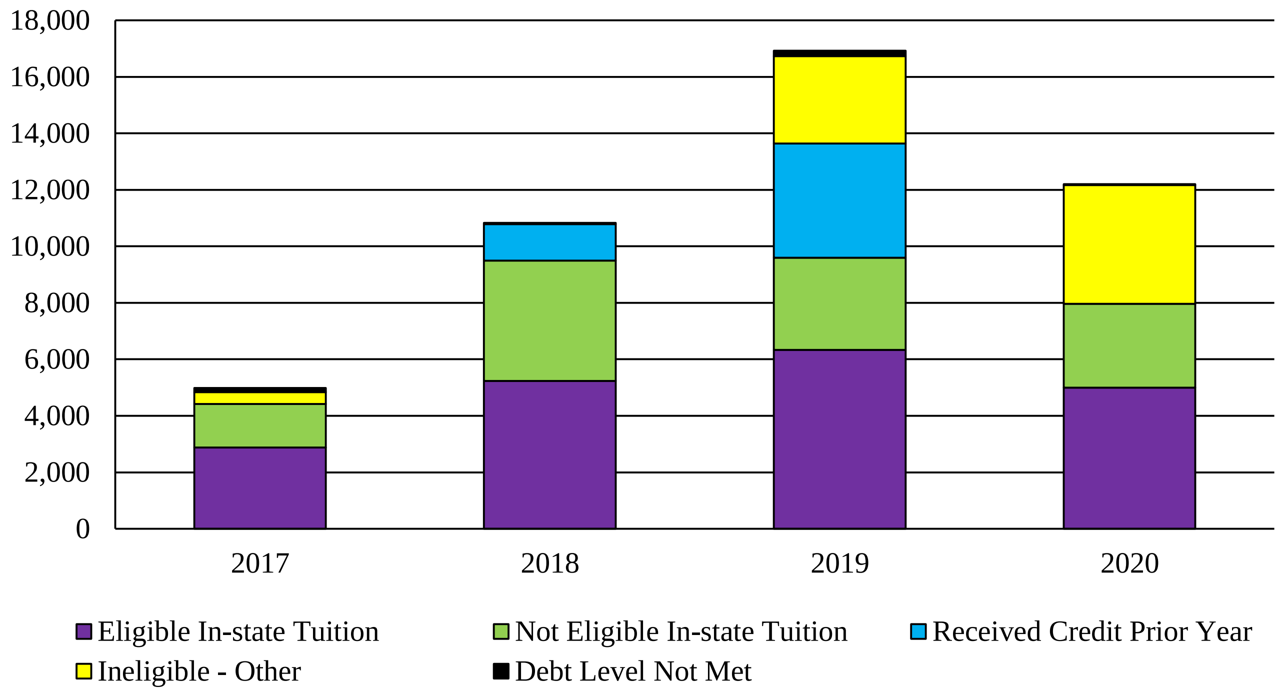
Between its inception and the 2019 tax year, the number of applications has increased 239.4%. However, as shown in **Exhibit 14**, applications fell 27.9%, or 4,724, in 2020. According to MHEC, a number of factors contributed to this decline, including:

- Federal suspension of college loan payments due to COVID-19. Although MHEC encouraged those applicants who asked if they should forego applying to still apply, since they have until April 15, 2023, to make the loan payments, by which time the suspension of payments would be lifted, some may have decided on their own not to apply.
- While social media announcements regarding the tax credit and the number of visits to the Student Loan Debt Relief Tax Credit website kept pace with the previous year, MHEC thinks

COVID-19 resulted in a drop in face-to-face interactions in which potential applicants would have learned about the program.

- Some may not have applied after reading on the website that MHEC would prioritize awarding those applicants that had not received a tax credit in the prior year, although in awarding tax credits no applicants were found ineligible due to receiving a credit in the prior year.

Exhibit 14
Student Loan Debt Tax Credit Applications
Tax Year 2017-2020



Note: Ineligible – Other includes duplicate applications, incomplete applications, applications containing errors, and applications received after the September 15 deadline.

Source: Maryland Higher Education Commission

The more than doubling of applications for the 2018 tax year is attributed to expanding qualified loans to include graduate debt, and the 56.3% increase in 2019 is due to it being the first year that applications could be submitted online. The number of applications that were determined to be eligible for in-state tuition for the 2020 tax year declined 21.1%, or 1,336 applicants, while those determined not eligible for in-state tuition declined 9.2%, or 302 applicants. Overall, 65.2% of applicants were eligible for a tax credit in 2020, up from 56.7% for the 2019 tax year. Applicants who received a credit in prior years did not qualify for a credit in 2019.

For the 2020 tax year, 34.4% of the applications were deemed ineligible for other reasons, an increase from 18.3% for the 2019 tax year. Other reasons include duplicate applications, incomplete applications, and applications containing errors. MHEC notes that for incomplete applications and those containing errors, it will follow up with the applicant to complete and fix errors before the September 15 deadline. Furthermore, there were no applicants who received a credit in the prior year.

As shown in **Exhibit 15**, despite an increase in the total amount of credit that could be awarded for the 2018 tax year, the more than doubling of applicants led to a decrease in the value of the tax credit awards. For 2020, the credit for those eligible and not eligible for in-state tuition increased to $1,210 and $982, respectively, reflecting a decline in the number of applications.

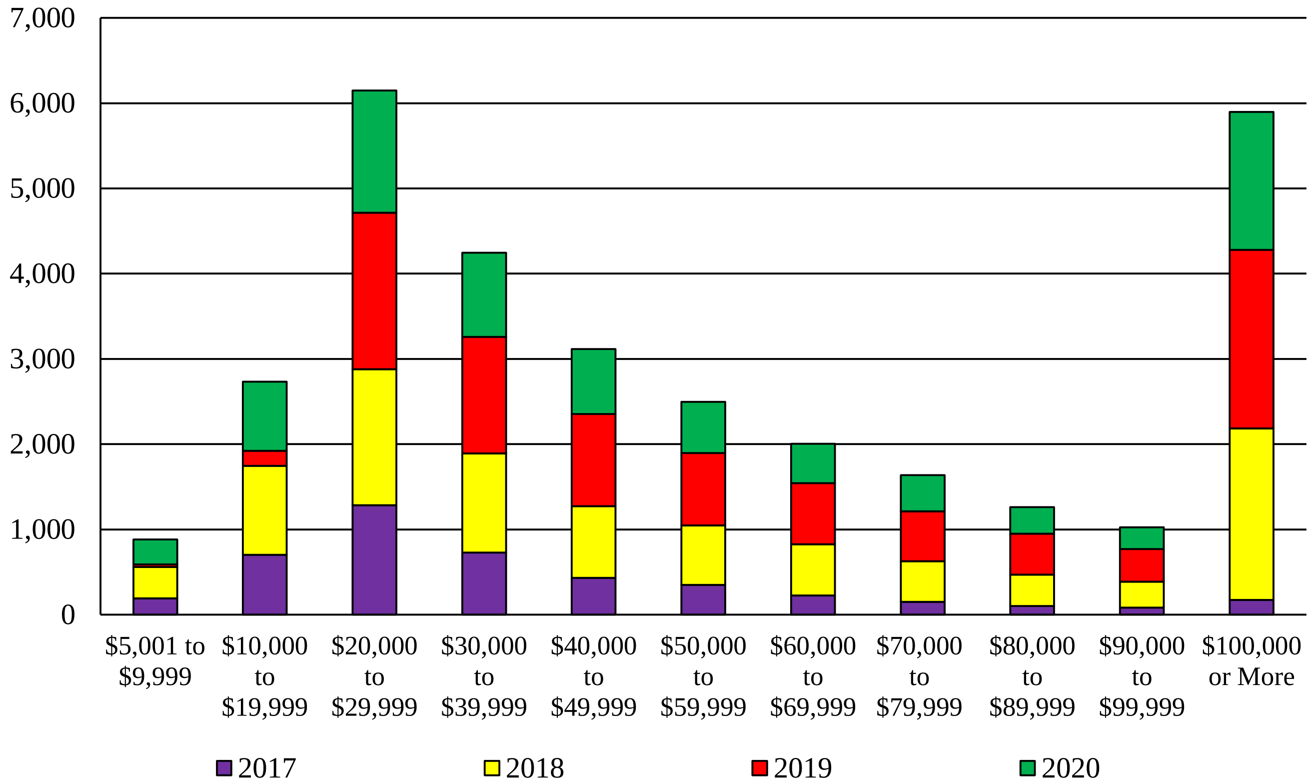
Exhibit 15
Amount of Tax Credit
Tax Year 2017-2020

	2017	2018	2019	2020
Eligible for In-state Tuition	$1,201	$1,000	$1,000	$1,210
Not eligible for In-state Tuition	1,000	883	813	982

Source: Maryland Higher Education Commission

Exhibit 16 compares the outstanding loan balances of tax credit recipients from 2017 to 2020. Due to the inclusion of graduate debt in 2018, the number of recipients with debt balances over $100,000 increased from 174 in 2017 to 2,010 in 2019.

Exhibit 16
Outstanding Loan Balances of Student Loan Debt Tax Credit Recipients
2017-2020 Tax Year



Note: The 2017 tax year only included undergraduate debt; proceeding years also includes graduate debt.

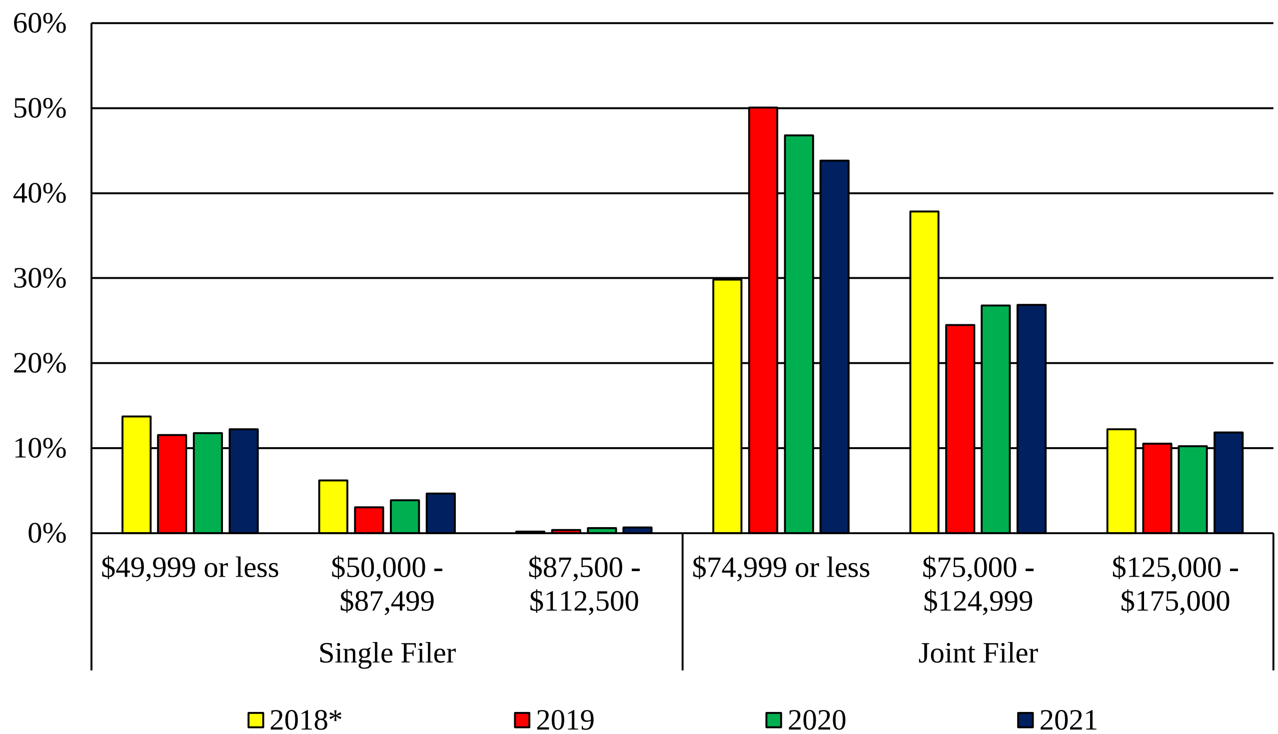
Source: Maryland Higher Education Commission

2. 529 Matching Program

The College Affordability Act of 2016 (Chapters 689 and 690) was developed to ensure that all families throughout Maryland, especially low-income families, had the opportunity to start saving for college for their children. To help students and families before and during college, Maryland 529 (formerly the College Savings Plan of Maryland) manages the Save4College State Contribution Program (Save4College Program) and provides flexible and affordable 529 plans to help Maryland families save for future education expenses and reduce dependence on student loans. Maryland 529 is an independent State agency that provides applicants within certain income limitations a matching contribution of up to $500 to a college savings investment account.

In fiscal 2018, the Save4College Program received applications that totaled 15.8% of the total available funding ($5 million). To increase enrollment, marketing strategies were developed to reach lower- and middle-income families during the 2019 fiscal year. These strategies proved to be effective with joint filers who had taxable income of $74,999 or less, increasing from 30% to 50% of total applications in fiscal 2019. These marketing strategies have continued to be effective through fiscal 2021 with joint filers with an income of less than $75,000 representing 47% and 44% of the total number of applications for fiscal 2020 and 2021, respectively, as shown in **Exhibit 17.**

Exhibit 17
Eligible Applications by Income Bracket
Fiscal 2018-2021

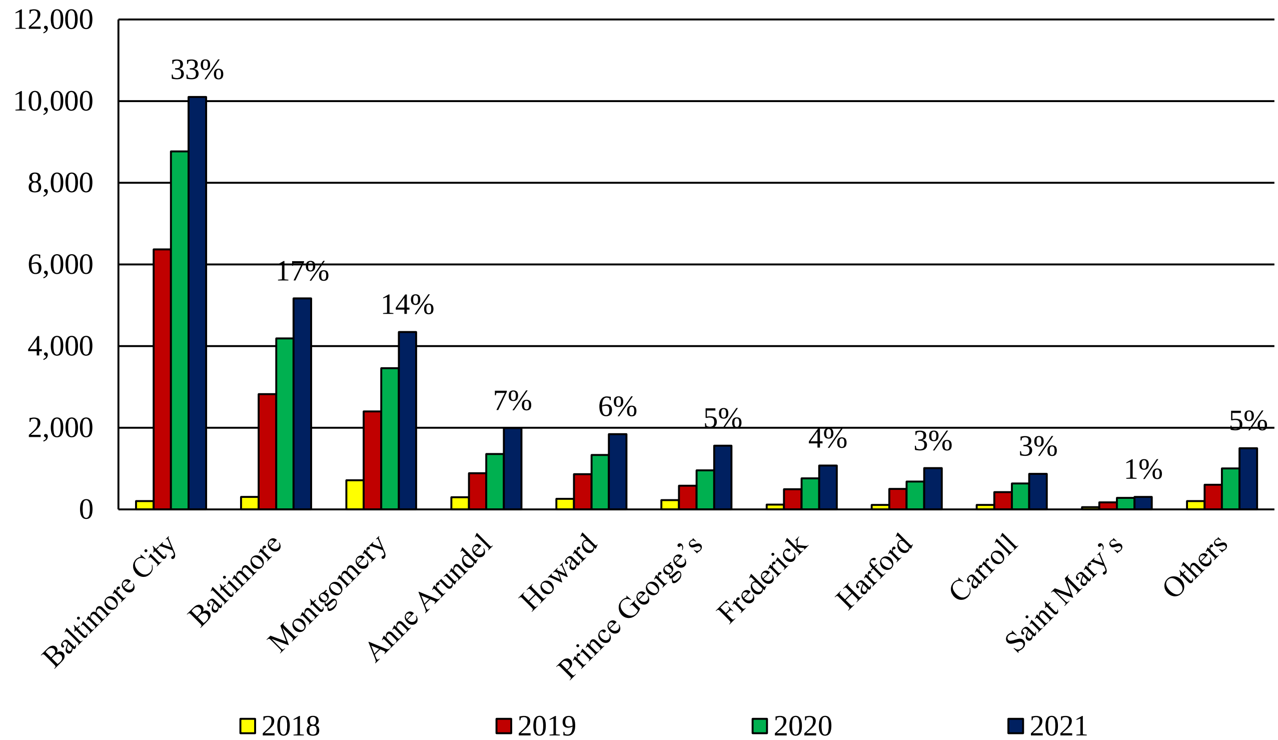


* In fiscal 2018, one application received a contribution, but its tax income grouping could not be verified.

Source: Maryland 529

Certain geographic regions were targeted in fiscal 2021: Baltimore City, the Eastern Shore (Caroline, Cecil, Dorchester, Kent, Queen Anne's, Somerset, Wicomico, and Worcester counties), Prince George's County, Southern Maryland (Calvert, Charles, and Saint Mary's counties), and Western Maryland (Allegany, Garrett, and Washington counties). In-person event marketing through community partnerships will be limited as a result of social distancing requirements caused by the COVID-19 pandemic. However, Maryland529 will continue to target these markets through virtual events as well as digital and broadcast advertising. There were increased applications across all regions, with Baltimore City and Baltimore County experiencing the largest numeric increases, as shown in **Exhibit 18.**

Exhibit 18
County Applicant Breakdown
Fiscal 2018-2021

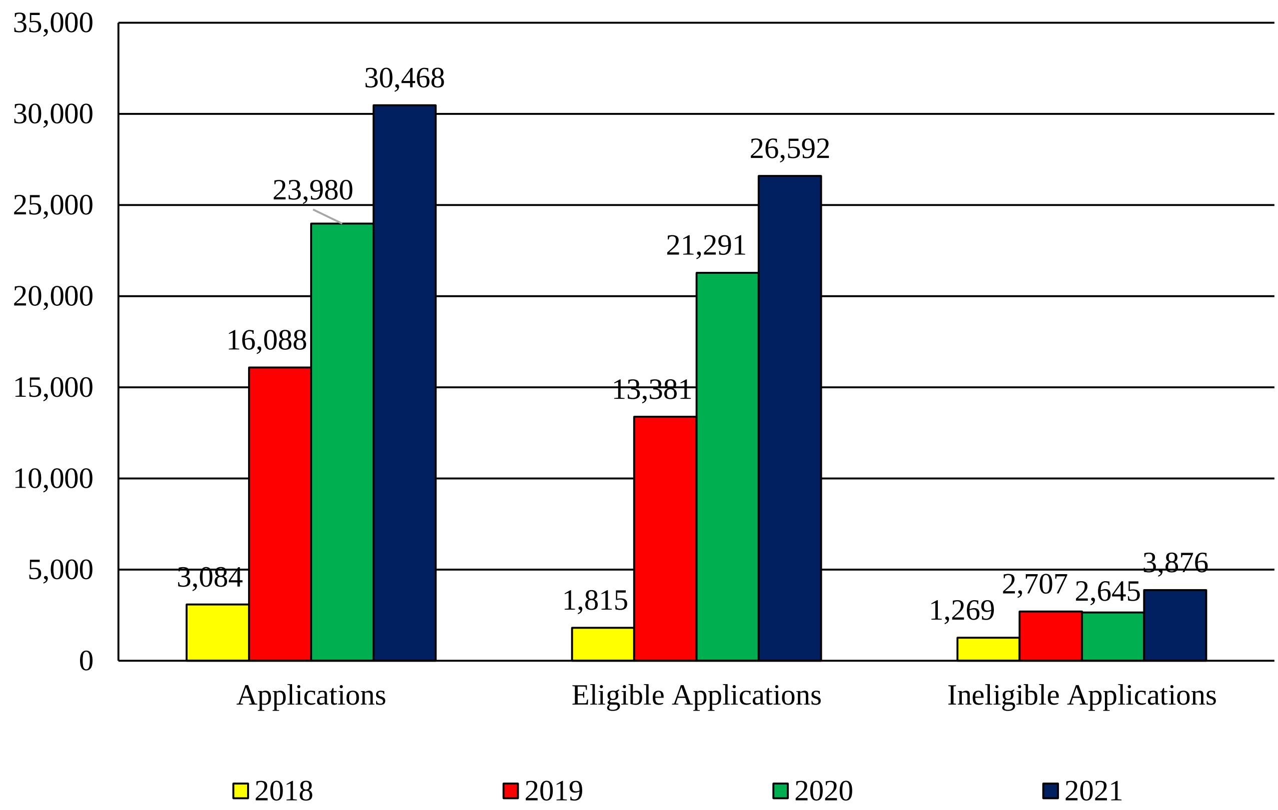


Note: Total applications in fiscal 2021 were 30,468. Percentage totals on the fiscal 2021 bars indicate the percentage of the total applications. Others represent all other Maryland counties not listed.

Source: Maryland 529

In conjunction with the marketing strategies to reach low-income families, the State match was raised from $250 to $500 in fiscal 2019 for all but the highest income range contribution groups to further entice participation. As a result of the marketing strategies and increased State matching award, the Save4College Program received 30,468 applications in the fourth year of the program, of which 26,592 applicants were deemed eligible to receive the matching funds from the State, as shown in **Exhibit 19**. This total represented a 27% increase in the number of applications received and an increase of 25% in the number of eligible applications when compared to the previous fiscal year. A total of 23,269 applicants are due to receive the $500 match (87.5% of applicants), while 3,323 are due to receive the $250 match (12.5% of applicants), for a total of $12,465,750 in State matching funds awarded. A total of 3,876 applications were not eligible for a State match, 1,231 more than fiscal 2020, because they did not meet the required minimum contribution amount during the contribution window or did not fully complete the application requirements.

Exhibit 19
Total Applications and Number Eligible for Match
Fiscal 2018-2021

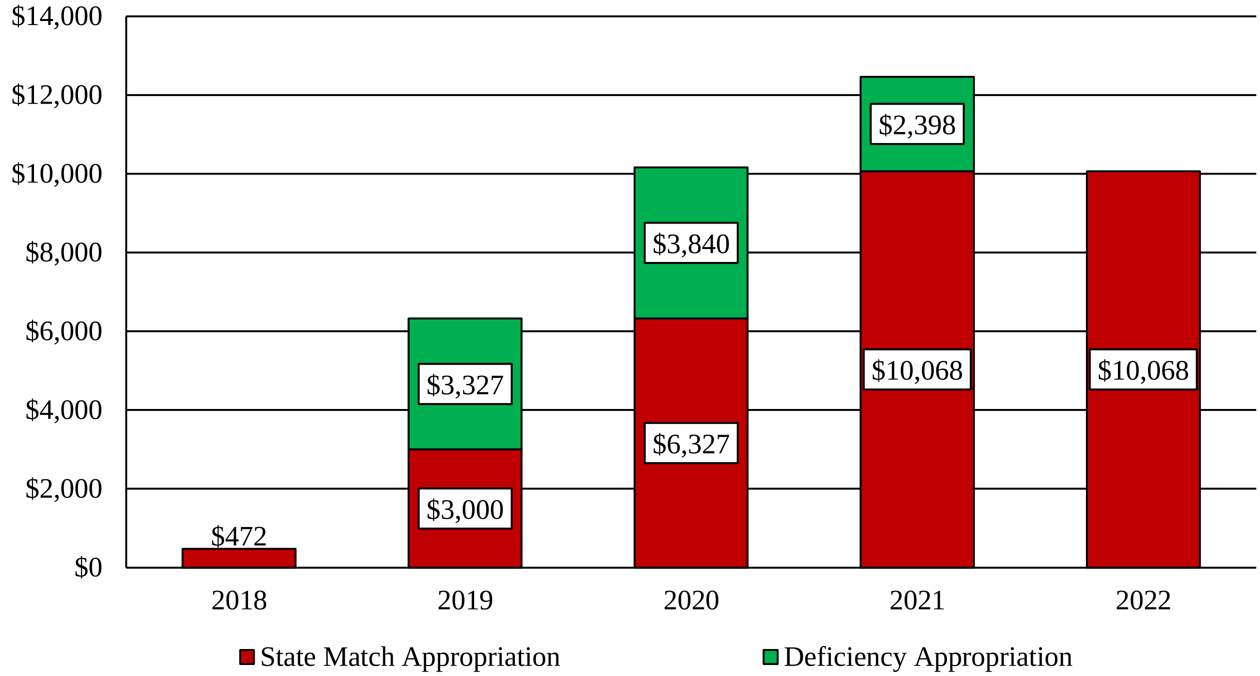


Note: Fifty-three applicants were rescinded in fiscal 2021.

Source: Maryland 529

The funds necessary from the State to ensure that the eligible applications for fiscal 2021 receive a State matching contribution totals $12.5 million, as shown in **Exhibit 20**. As noted above, a fiscal 2021 deficiency appropriation of $2.4 million for the Save4College Program is included in the fiscal 2022 budget in order to ensure that all eligible applicants receive their State match contribution. However, fiscal 2022 funding drops to $10.1 million.

Exhibit 20
State Match Funding and Total Applicant Funds
Fiscal 2018-2022
($ in Thousands)



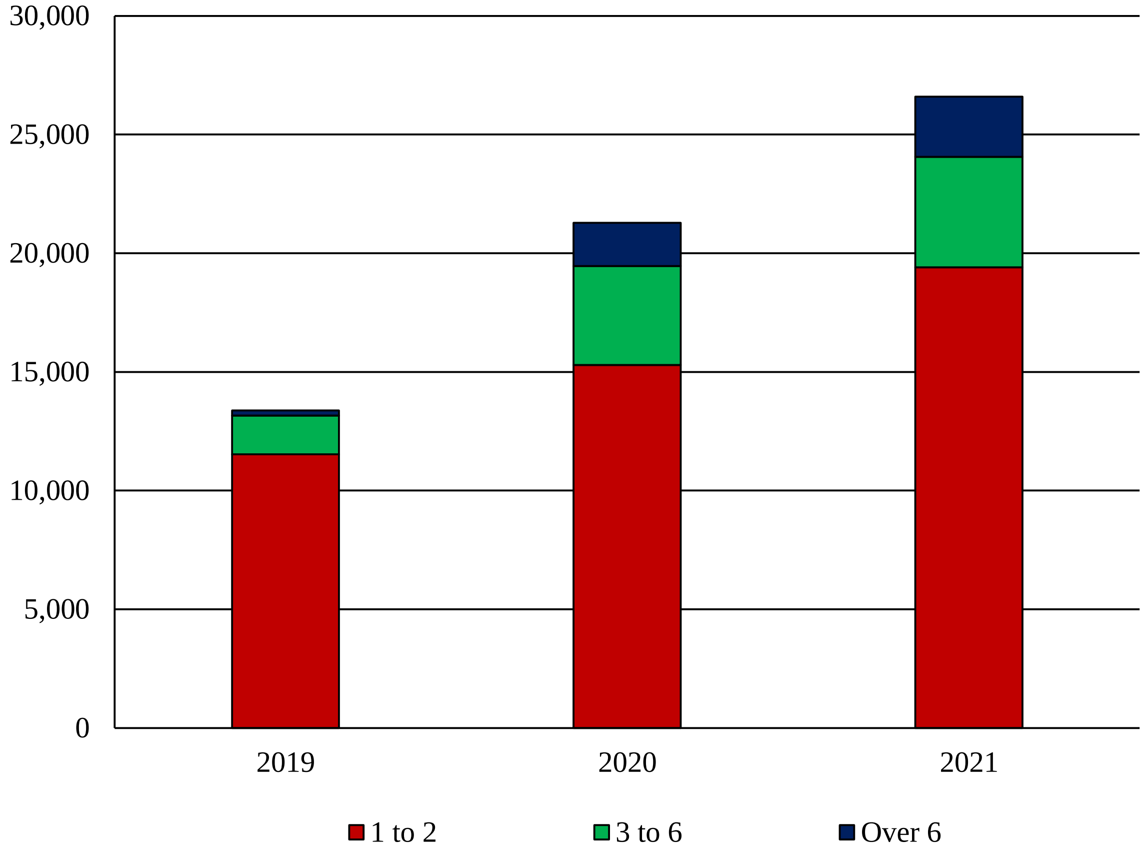
Source: Maryland 529

529 Matching Program Applications Per Beneficiary

Prior to the 2022 application period, the statute concerning the funding match did not limit the number of accounts that could be opened for a single individual. As a result, a single beneficiary had the ability to have multiple State funding matches awarded, since Maryland 529 interpreted each individual account to constitute a new beneficiary claim.

Exhibit 21 details the number of individual beneficiaries who have had multiple applications filed on their behalf for the State funding match. The count of applications per beneficiary for the over-six population has grown from fiscal 2019, when 223 applications were made for 26 beneficiaries, or 1.7% of the total number of applications, to 2,526 applications made for 212 beneficiaries, or 9.5% of the total number of applications in fiscal 2021.

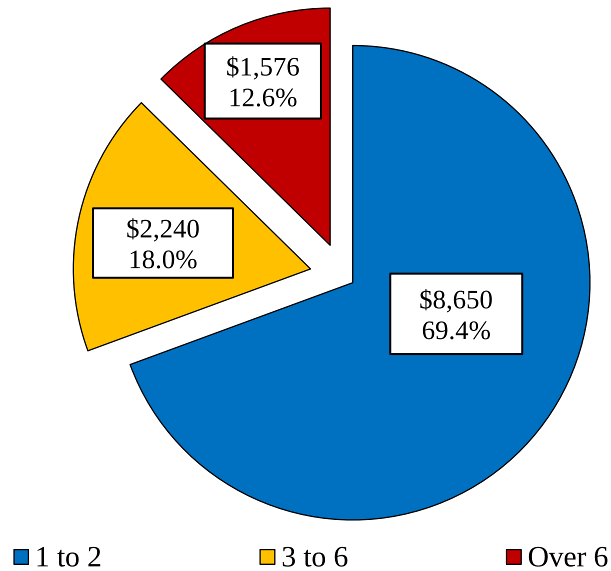
Exhibit 21
529 Matching Program: Count of Applications Per Beneficiary
Fiscal 2019-2021



Source: Maryland 529

In fiscal 2021, the total State funding match awarded to the over-six population was $1.6 million, or 12.6% of the total $12.5 million State funding match awarded for the fiscal year, as shown in **Exhibit 22**. The BRFA of 2020 attempted to address the overutilization by limiting the number of State matching contributions to two for a qualified beneficiary for an application period, beginning after December 31, 2020. This legislation will take effect for the fiscal 2022 application year.

Exhibit 22
529 Matching Contribution: Funding Amount by Application Grouping
Fiscal 2021
($ in Thousands)



Source: Maryland 529

In addition to clarifying language added in the BFRA of 2020, a legislative workgroup met during the 2020 interim that identified additional potential legislative solutions that could further ensure that the State matching program is not abused and conforms to the original intent of the program's bill drafting. This workgroup's recommendations are included in SB 779/HB 1238 and includes the following modifications to the current statutory language:

- ensuring that the account holders are Maryland residents;
- changing from Maryland taxable income to adjusted gross income;
- identifying that an eligible applicant needs to be below the age of 26; and
- limiting the maximum lifetime State match award amount to $9,000.

The executive director should comment on the impact that these proposed legislative actions would have on the State award matching program.

Operating Budget Recommended Actions

1. Adopt the following narrative:

   Report on Best Practices and Annual Progress Toward the 55% Completion Goal: The budget committees understand that, in order to meet the State's goal to have at least 55% of Maryland's residents age 25 to 64 holding at least one degree credential by 2025, accurate and timely information on degree progression and best practices is needed to ensure that the State is on track to meet the goal. The budget committees request that the Maryland Higher Education Commission (MHEC) annually collect and analyze student- and transcript-level data on progression, graduation, and other relevant metrics from each public institution of higher education, including community colleges and regional higher education centers. MHEC should submit a report by December 15 each year that analyzes the data and shows each institution's progress toward the State and institutional goals in 2025. The report should also include a summary of best practices and findings on the effectiveness of institutions' programs as well as any concerns regarding lack of progress or best practices that are not being implemented by institutions.

Information Request	**Author**	**Due Date**
Report on best practices and annual progress toward 55% completion goal	MHEC	December 15, 2021

2. Adopt the following narrative:

   Institutional Aid, Pell Grants, and Loan Data by Expected Family Contribution Category: In order to more fully understand all types of aid available to students, the committees request that data be submitted for each community college, public four-year institution, and independent institution on institutional aid, Pell grants, and student loans. Data should include, by expected family contribution (EFC), the number of loans and average loan size of federal subsidized and unsubsidized loans and loans from private sources as reported to the Maryland Higher Education Commission (MHEC). Additionally, data should be provided on Pell grants, including the number and average award size by EFC. Finally, data should include the number of institutional aid awards and average award size by EFC for institutional grants, institutional athletic scholarships, and other institutional scholarships. The data in the response should differentiate between need-based aid and merit scholarships. Data should also include the number of institutional aid awards and average award size by EFC for tuition waivers/remissions of fees to employees and dependents and students. Waiver information for students should be reported by each type of waiver in State law. This report should cover fiscal 2020 data received by MHEC from State institutions and is to be submitted in an electronic format (Excel file).

Information Request	Author	Due Date
Institutional aid, Pell grants, and loan data by EFC	MHEC	June 30, 2021

3. Adopt the following narrative:

Report on Validity of Remedial Assessment Tools: In its research to determine what impact remediation had on the success of students attending Maryland's public institutions, the Maryland Higher Education Commission (MHEC) found a quarter of those at the four-year institutions and nearly a fifth of the community college students assessed as needing remedial work did not take a developmental course. Rather, these students went straight into, and successfully completed, a credit bearing course. This raises questions of how many students who were assessed as needing remedial work unnecessarily took a developmental course, which does not count towards a degree, resulting in increasing the time and cost of a degree. The budget committees are concerned that the tests used to assess students may not provide an accurate indication of a student's ability to succeed in a credit bearing course and requests MHEC, in collaboration with the Maryland Association of Community Colleges, the University System of Maryland, and Morgan State University, examine the validity of the remedial assessment tools used by the institutions and evaluate other methods or tools that more accurately assess a student's readiness to take and succeed in entry-level credit bearing courses. The report should be submitted by December 15, 2021.

Information Request	Author	Due Date
Report on validity of remedial assessment tools	MHEC	December 15, 2021

Updates

1. Litigation Continues in the Historically Black Colleges and Universities Lawsuit

The Coalition for Equity and Excellence in Maryland Higher Education, et al. v. Maryland Higher Education Commission, et al. (06-CV-02773-CCB) is a lawsuit in the U.S. District Court for the District of Maryland in which the State of Maryland has been a defendant for the last 14 years. Former and current students of Maryland's Historically Black Colleges and Universities (HBCU), which include Bowie State University, Coppin State University, the University of Maryland Eastern Shore within USM, and MSU, allege that the State, through ongoing policies and practices within the State's system of higher education, violated the Civil Rights Act of 1964 and the Equal Protection Clause of the Fourteenth Amendment. The case is currently on appeal in the U.S. Court of Appeals for the Fourth Circuit. As discussed below, the parties have attempted to settle the case in lieu of further litigation.

De Jure Segregation and Unnecessary Program Duplication

The coalition's lawsuit identified three alleged policies of the Maryland system of higher education that the coalition argued were traceable to the prior de jure (as a matter of law) system of segregation that existed before 1969: (1) limited institutional missions; (2) operational funding deficiencies; and (3) unnecessary program duplication. The District Court rejected the first two claims raised by the of unnecessary program coalition but found that the State failed to eliminate a traceable de jure era policy duplication.

The District Court, applying the law established by the U.S. Supreme Court in *United States v. Fordice*, defined unnecessary program duplication as the offering by two or more institutions of the same nonessential or noncore programs, nonbasic liberal arts and sciences course work at the bachelor's level, and all duplication at the master's level and above. The court cited MHEC's decision to approve a joint University of Baltimore (UB)/Towson University (TU) Master of Business Administration (MBA) program over the objections of MSU in 2005 as an example of how the State failed to prevent additional unnecessary duplication. Of note, TU and UB did not renew the memorandum of understanding regarding the MBA program when it expired in October 2015, resulting in the program reverting back to UB.

Settlement Attempts

The case remains unresolved after years of mediation, attempted negotiations, and a 2017 District Court memorandum opinion and order on remedies. In February 2018, the Governor proposed a $100 million settlement to be allocated over a 10-year period beginning in fiscal 2020 that would supplement State appropriations to Maryland HBCUs. In fall 2019, the plaintiffs rejected this proposal and offered to settle the case for $577 million to be "spread over a reasonable time period." The coalition specified that these funds would be used to develop and launch new programs, hire faculty, and provide scholarships. The coalition's proposed settlement amount was based on the Ayers case, which was a 1975 class action lawsuit directed against the state of Mississippi and its university system for operating a dual system of universities that discriminated on the basis of race. In 2001, a settlement agreement was reached in which the state of Mississippi agreed to pay $397.1 million to the state's three HBCUs. It was unclear, however, based on the coalition's letter, exactly how the proposed $577 million settlement amount was determined.

In September 2019, the Governor proposed a "final offer" to settle the lawsuit for $200 million allotted over a 10-year period starting in fiscal 2021. However, this offer was also rejected.

Legislation Mandating Funding for HBCUs

During the 2020 legislative session, the General Assembly passed HB 1260, which was intended to settle the lawsuit by mandating additional funding to HBCUs, in addition to other initiatives. On May 7, 2020, the Governor vetoed the bill due to economic challenges resulting from the COVID-19 pandemic.

Specifically, the bill authorized an additional $577 million to support HBCUs, contingent on final settlement of the lawsuit by December 1, 2020. The bill provided a supplemental $58 million annually for HBCUs (based on a percentage share of full-time equivalent students enrolled during the immediately preceding academic year) from fiscal 2022 through 2031 to be distributed and used for specific purposes, including scholarships and financial aid support services, faculty recruitment and development, expanding and improving existing academic programs, development and implementation of new academic programs, academic support, and marketing. The bill also created a new academic program evaluation unit in MHEC and established other provisions relating to oversight and improvement of HBCUs.

Further, the bill authorized the Attorney General to execute a final settlement agreement on behalf of the State that resolves the lawsuit. Section 1 of the bill, which included all of the provisions discussed above, was contingent on (1) execution of the final settlement agreement by December 1, 2020, that satisfied the conditions specified in the bill; (2) receipt of notice of the settlement agreement by December 11, 2020; and (3) issuance of an order by December 11, 2020, by the U.S. District Court for the District of Maryland or the U.S. Court of Appeals for the Fourth Circuit that reversed or vacated the District Court's holding that the State failed to eliminate traceable de jure era policy of unnecessary program duplication or that held that any policy of unnecessary program duplication traceable to de jure segregation has been cured by the terms of the settlement agreement.

HB 1/SB 1 introduced during the 2021 session modifies HB 1260 of 2020 to make $577 million of funding contingent on a final settlement of the lawsuit by June 1, 2021, and requires the supplemental $58 million annually for the HBCUs to be provided from fiscal 2023 to 2032.

Current Status of Litigation

On July 24, 2020, the U.S. Court of Appeals requested a status report in the lawsuit regarding ongoing settlement efforts. On August 24, 2020, counsel for the plaintiffs responded that they continue to be committed to settling the case through the work of the Maryland legislature during the

2021 legislative session. Regardless of how the General Assembly proceeds, if the parties are unable to reach a settlement agreement, the case will continue to be litigated in federal appellate court.

Appendix 1
2020 *Joint Chairmen's Report* Responses from Agency

The 2020 *Joint Chairmen's Report* (JCR) requested that the Maryland Higher Education Commission prepare two reports. Electronic copies of the full JCR responses can be found on the Department of Legislative Services Library website.

- ***Report on Best Practices and Annual Progress Toward the 55% Completion Goal:*** Further discussion of the State's progress toward the completion goal can be found in the Higher Education Overview.

- ***Institutional Aid, Pell Grants, and Loan Data by Expected Family Contribution Category:*** The data contains institutional aid, Pell, and loan data for the community colleges, public four-year institutions, and nonprofit independents and is used throughout the various higher education analyses.

Appendix 2
Object/Fund Difference Report
Maryland Higher Education Commission

Object/Fund	FY 20 Actual	FY 21 Working Appropriation	FY 22 Allowance	FY 21 - FY 22 Amount Change	Percent Change
Positions					
01 Regular	58.00	60.00	60.00	0.00	0%
02 Contractual	15.75	9.35	9.35	0.00	0%
Total Positions	**73.75**	**69.35**	**69.35**	**0.00**	**0%**
Objects					
01 Salaries and Wages	$ 5,152,425	$ 5,652,064	$ 5,945,459	$ 293,395	5.2%
02 Technical and Spec. Fees	401,528	543,516	540,428	-3,088	-0.6%
03 Communication	30,559	41,150	41,150	0	0%
04 Travel	49,716	32,712	41,712	9,000	27.5%
07 Motor Vehicles	64,592	91,712	72,112	-19,600	-21.4%
08 Contractual Services	1,097,538	1,348,680	1,521,930	173,250	12.8%
09 Supplies and Materials	24,867	38,800	34,800	-4,000	-10.3%
10 Equipment – Replacement	15,863	16,237	16,237	0	0%
11 Equipment – Additional	0	7,500	7,500	0	0%
12 Grants, Subsidies, and Contributions	92,265,519	103,455,890	124,443,682	20,987,792	20.3%
13 Fixed Charges	433,821	453,852	444,852	-9,000	-2.0%
Total Objects	**$ 99,536,428**	**$ 111,682,113**	**$ 133,109,862**	**$ 21,427,749**	**19.2%**
Funds					
01 General Fund	$ 80,997,937	$ 81,433,777	$ 112,032,179	$ 30,598,402	37.6%
03 Special Fund	17,723,097	18,269,171	19,115,777	846,606	4.6%
05 Federal Fund	319,744	385,747	405,420	19,673	5.1%
09 Reimbursable Fund	495,650	11,593,418	1,556,486	-10,036,932	-86.6%
Total Funds	**$ 99,536,428**	**$ 111,682,113**	**$ 133,109,862**	**$ 21,427,749**	**19.2%**

Note: The fiscal 2021 appropriation does not include deficiencies or general salary increases. The fiscal 2022 allowance does not include contingent reductions or annualized general salary increases.

Appendix 3
Fiscal Summary
Maryland Higher Education Commission

Program/Unit	FY 20 Actual	FY 21 Wrk Approp	FY 22 Allowance	Change	FY 21 - FY 22 % Change
01 General Administration	$ 7,335,989	$ 8,114,049	$ 8,508,897	$ 394,848	4.9%
02 College Prep/Intervention Program	648,137	750,000	750,000	0	0%
03 Joseph A. Sellinger Program	59,024,905	59,024,905	88,810,065	29,785,160	50.5%
07 Educational Grants	15,333,895	26,167,527	16,711,684	-9,455,843	-36.1%
38 Nurse Support Program II	17,193,502	17,625,632	18,329,216	703,584	4.0%
Total Expenditures	**$ 99,536,428**	**$ 111,682,113**	**$ 133,109,862**	**$ 21,427,749**	**19.2%**
General Fund	$ 80,997,937	$ 81,433,777	$ 112,032,179	$ 30,598,402	37.6%
Special Fund	17,723,097	18,269,171	19,115,777	846,606	4.6%
Federal Fund	319,744	385,747	405,420	19,673	5.1%
Total Appropriations	**$ 99,040,778**	**$ 100,088,695**	**$ 131,553,376**	**$ 31,464,681**	**31.4%**
Reimbursable Fund	$ 495,650	$ 11,593,418	$ 1,556,486	-$ 10,036,932	-86.6%
Total Funds	**$ 99,536,428**	**$ 111,682,113**	**$ 133,109,862**	**$ 21,427,749**	**19.2%**

Note: The fiscal 2021 appropriation does not include deficiencies, or general salary increases. The fiscal 2022 allowance does not include contingent reductions or annualized general salary increases.