

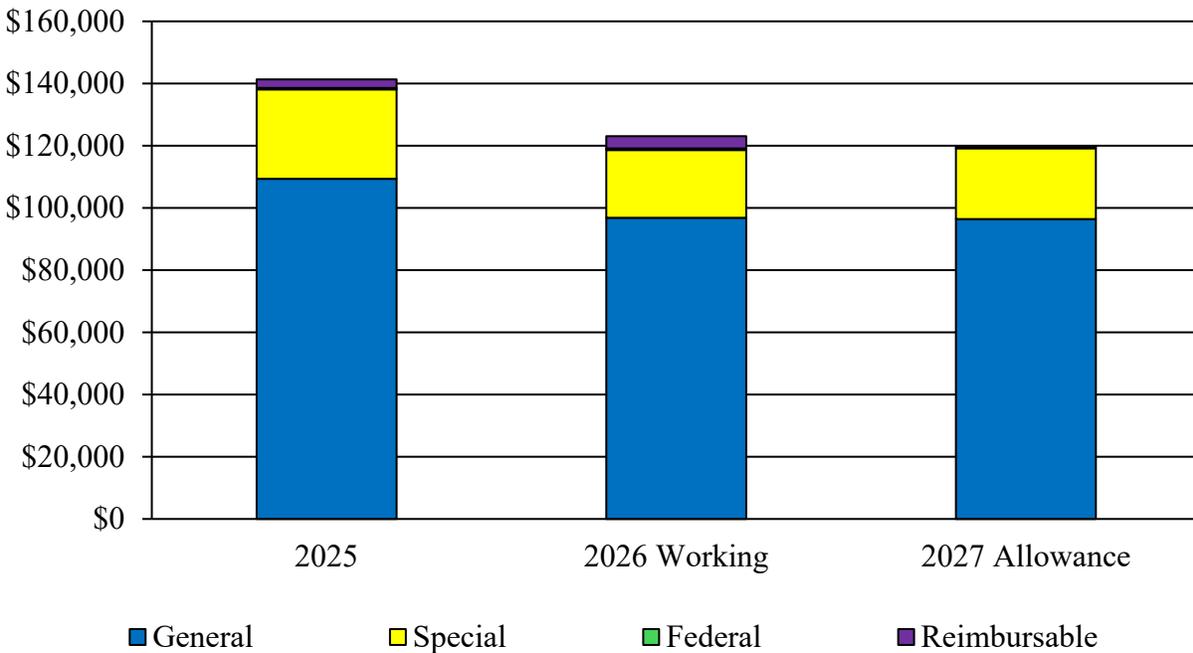
R62I0001
Maryland Higher Education Commission

Executive Summary

The Maryland Higher Education Commission (MHEC) 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 2027 Budget Decreases \$3.3 Million, or 2.6%, to \$119.8 Million
(\$ in Thousands)



Note: Numbers may not sum due to rounding. The fiscal 2026 working appropriation accounts for deficiencies. The fiscal 2027 allowance accounts for contingent reductions. The fiscal 2027 statewide salary adjustments are centrally budgeted in the Department of Budget and Management and are not included in this agency’s budget.

- The fiscal 2027 budget includes six proposed deficiency appropriations that impact MHEC. Two would decrease the general funds by a total of \$307,325 due to the completion of a Complete College America grant. Two would increase general funds by a total of \$431,789 – \$250,000 to cover a budget shortfall in fiscal 2025 and \$181,789 to fund the extension of the Maryland College Aid Processing System (MDCAPS) contract. Two deficiencies

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would increase all funds by \$375,530 for personnel – \$352,552 in general funds; \$16,637 in special funds of which \$4,783 is related to the Nurse Support Program (NSP) II; and \$6,341 in federal funds.

- Funding for the Joseph A. Sellinger funding formula in fiscal 2027 would be funded at the fiscal 2026 level of \$73.3 million accounting for a reduction of \$4.5 million that is contingent on the enactment of a provision in the Budget Reconciliation and Financing Act (BRFA) of 2026 to level fund the program through fiscal 2029.

Key Observations

- ***Increase in Incoming Out-of-state Learning Placements (OOSLP):*** OOSLP are onsite learning placements that occur in a state other than the home state of the institution. Between fall 2020 and fall 2024, the number of incoming OOSLP increased by 60.9%, with health-related programs accounting for 65.2% of OOSLP.
- ***Deployment of New Student Financial Aid System Misses Deadline:*** The Maryland Student Information System that will replace the current student financial information system is projected to be deployed by the 2027-2028 academic year, two years after the deadline established in statute. Bid protests and subsequent appeals resulted in the delay of the project.
- ***Increase in Reports Not Submitted:*** The percentage of mandated reports not submitted by MHEC has increased from 35% in 2023 to 58% in 2025. Between 2023 and 2025, MHEC failed to submit 11 responses to requests in the *Joint Chairmen’s Report* (JCR).

Operating Budget Recommended Actions

	<u>Amount Change</u>
1. Reduce the general fund appropriation made for administration.	-\$250,000
Total Net Change to Fiscal 2027 Allowance	-\$250,000

Budget Reconciliation and Financing Act Recommended Actions

1. Extend \$9 million cap for the Student Loan Debt Relief Tax Credit and alter date of the report

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Operating Budget Analysis

Program Description

MHEC is the State’s coordinating body for the University System of Maryland, Morgan State University, 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 opportunities 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

1. Student Momentum Metrics

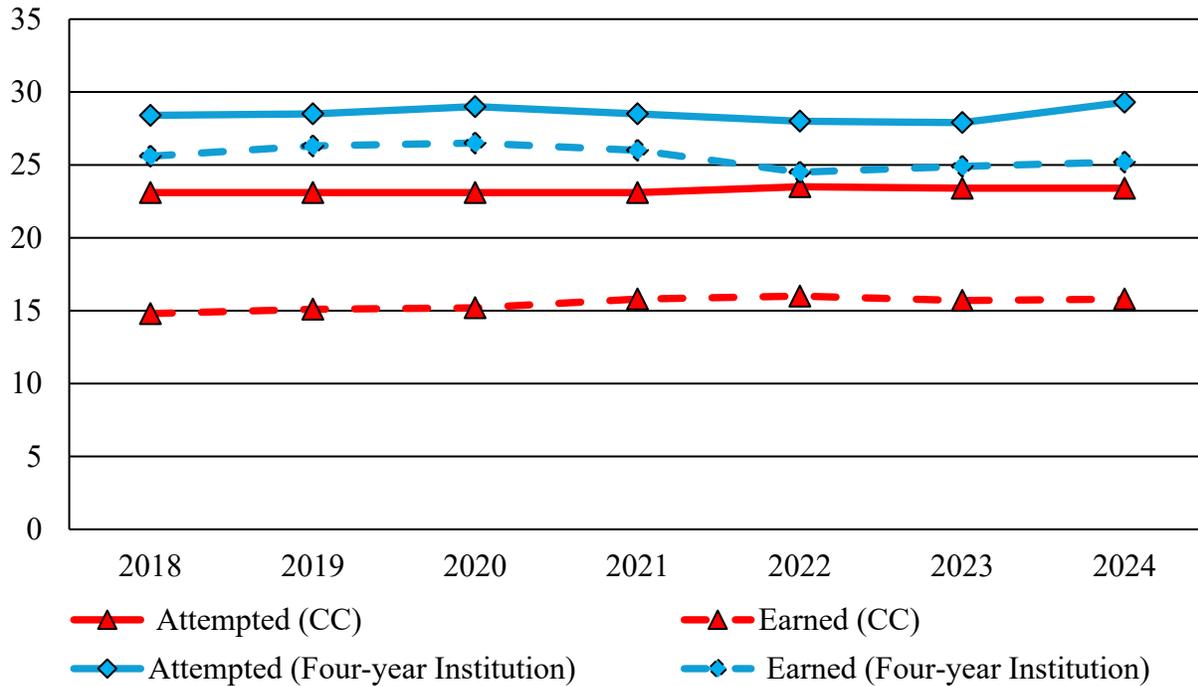
Unlike the first year retention rates that do not predict the likelihood a student will persist and graduate, first year momentum metrics focus on specific milestones which research shows if a student achieves correlates to long-term successes. These metrics can help institutions and states develop strategies and policies to increase the chances of a new student succeeding and earning a degree. First year metrics include credits attempted and earned and completion of gateway math and English courses.

Credits Attempted and Earned

According to the National Student Clearing House Research Center, students who completed a credential earned more credits in their first year, had higher first year grade point averages, and completed more courses that they attempted in their first year. It was also noted that nationally, since the pandemic, students are accumulating fewer credits because they are attempting fewer credits, not because they are completing less of what was attempted. In addition, fewer full-time students accumulated enough credits to be on track to complete a bachelor's degree in four years.

Students who attempt 15 credits in their first term or 30 credits in their first year are more likely to graduate than students who attempt fewer than 15 credits in their first term or fewer than 30 credits in their first year. **Exhibit 1** shows the number of credits attempted and earned by full-time students in their first year by segment – community colleges and public four-year institutions. Between fiscal 2018 and 2022, the average number of credits attempted at community colleges improved from 23.1 to 23.5 credits. During the same time period, the average number of credits earned increased from 14.8 to 16 credits. However, by fiscal 2024, the average number of credits attempted and earned decreased to 23.4 and 15.8 credits, respectively.

**Exhibit 1
Average Credits Attempted and Earned
by Community College and Public Four-year Institutions
Fiscal 2018-2024**



CC: community college

Source: Maryland Higher Education Commission

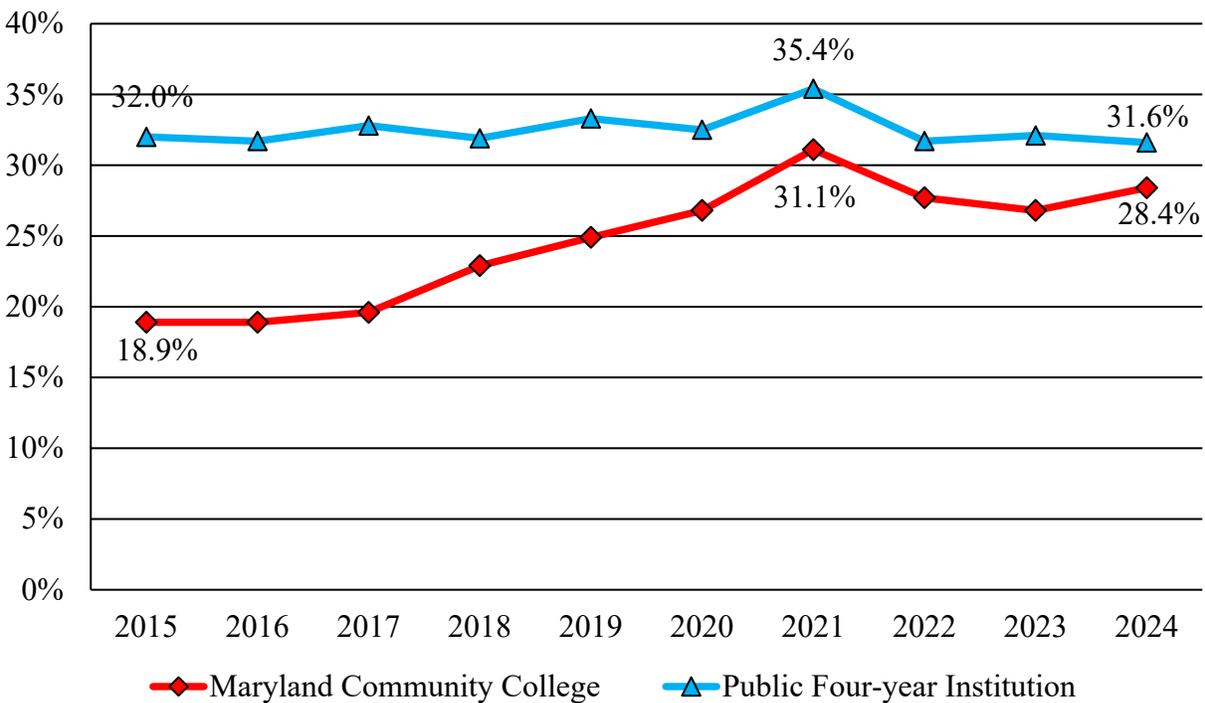
The average number of credits attempted by full-time students in their first year at the public four-year institutions improved from 28.4 credits in fiscal 2018 to a high of 29.3 credits in fiscal 2024. During this same time period, the average number of credits earned slightly declined from 25.6 to 25.2 credits. After reaching a high of 26.5 credits in fiscal 2020, the number of credits earned declined to 24.5 credits in fiscal 2022; however, the number subsequently improved to 25.2 credits in fiscal 2024.

Overall, on average, students are not accumulating enough credits to be on track for completing an associate degree in two years or a bachelor’s degree in four years. Completion rates are greatly influenced by time – the longer it takes a student to graduate, the more likely (s)he will dropout as other priorities compete with classes. Longer completion times translate into increased costs not only for the student but for the institution and State as well.

Gateway Courses

Research has shown that students who pass both English and Math within their first year at a higher education institution are more likely to complete a credential. It is also an indicator of whether an institution has removed barriers to success and integrated academic supports to help students succeed. **Exhibit 2** shows the percentage of full-time students at the community colleges and public four-year institutions who passed English and math in their first year. Overall, the percentage of students completing gateway courses at community colleges steadily increased from 18.9% in fiscal 2015 to 31.1% in fiscal 2021. However, while the number fluctuated in subsequent years, the rate in fiscal 2024 of 28.4% is lower than in fiscal 2021 but is 9.5 percentage points higher than that of the fiscal 2015 cohort. The percentage of students passing gateway courses at the public four-year institutions exceeded 30% in all years since fiscal 2015, with a high of 35.4% in fiscal 2021 and low of 31.6% in fiscal 2024.

Exhibit 2
Percentage Passed Both Math and English in First Year
By Community College and Public 4-year Institution
Fiscal 2015-2024



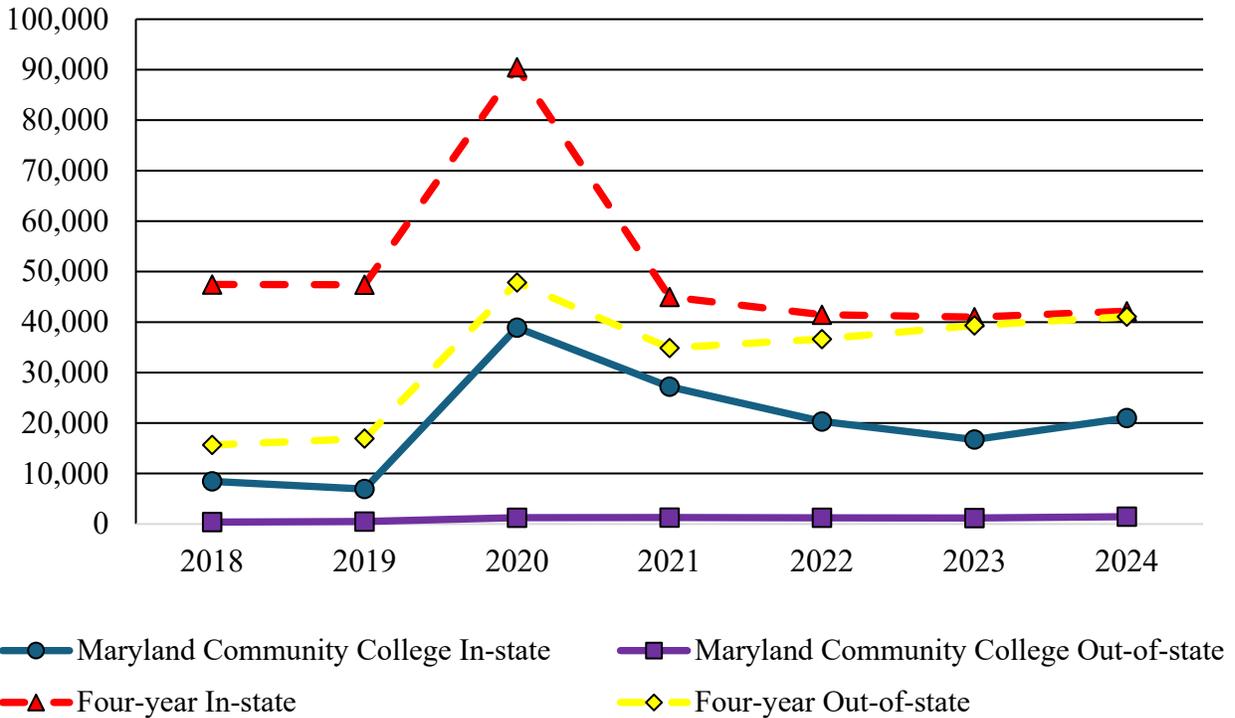
Source: Maryland Higher Education Commission

2. Online Course Enrollment

The State Authorization Reciprocity Agreement (SARA) is a voluntary agreement program among states and U.S. districts and territories that establishes national standards for interstate offerings of postsecondary distance education courses and programs. Institutions in states participating in 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 their online 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 not to impose 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.

The impact of the pandemic on exclusive online enrollments is evident in **Exhibit 3**, with total enrollments at Maryland institutions increasing by 148.8%, from 71,738 in fall 2019 to 178,466 in fall 2020, with in-state enrollment accounting for 75,045 of the increase. At the time, there were questions on whether this growth represented a permanent shift in how students preferred to learn or if the increase in enrollment was due to limiting in-person options during the pandemic. The answer has become clear with the continual decline in online enrollment after fall 2020, particularly among in-state students at four-year institutions, which had enrollment fall by 50.3% in fall 2021 and has yet to recover to prepandemic levels. While in-state online enrollment at community colleges decreased from 38,897 students in fall 2020 to 21,010 students in fall 2024, the level still greatly exceeds the prepandemic in-state enrollment level of 8,450 students. This indicates that community colleges may have incorporated lessons learned from fall 2020 to permanently increase access to its programs by offering more programs remotely.

**Exhibit 3
Exclusively Distance Education Enrollment
Fall 2018-2024**

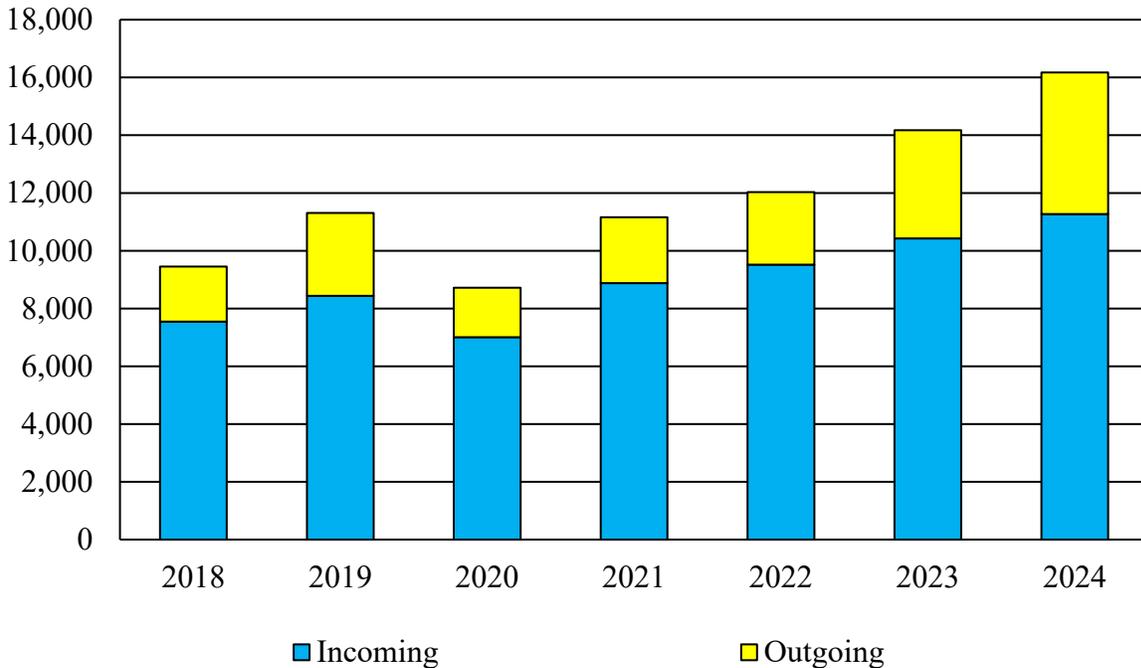


Source: National Council for State Authorization Reciprocity Agreement

Out-of-state Learning Placements

SARA allows reciprocity for certain on ground OOSLP. OOSLP are onsite learning placements that occur in a state other than the home state of the institution and include clinical rotations, student teaching internships, and other similar activities. Placements also include those required as part of obtaining a degree and/or license to practice in a profession. As shown in **Exhibit 4**, since the low in fall 2020 due to the pandemic, the number of incoming OOSLP has increased by 60.9% in fall 2024 to 11,273 students. The top five states for incoming OOSLP are Pennsylvania, the District of Columbia, Virginia, West Virginia, and Indiana. In fall 2024, health professions and related programs accounted for 65.2% of OOSLP.

Exhibit 4
Incoming and Outgoing Learning Placements
Fall 2018-2024



Source: National Council for State Authorization Reciprocity Agreement

The number of students leaving Maryland for OOSLP since the pandemic grew by 185.1%, or 3,180 students, between fall 2018 and fall 2024. The majority of outgoing students go to OOSLP in Washington, DC; Pennsylvania; Virginia; Delaware; and Texas. As with incoming OOSLP, the majority of placements (70.5%) are in the health professions and related programs.

Fiscal 2026

The fiscal 2027 budget includes six proposed deficiency appropriations for fiscal 2026 impacting MHEC. Two of these would increase the general appropriation by a combined \$431,789 of which:

- \$250,000 is to fund a shortfall in fiscal 2025. In order for MHEC not to close out fiscal 2025 with a deficit, some fiscal 2025 expenditures were moved into fiscal 2026; and
- \$181,789 is to fund the extension of the MDCAPS contract.

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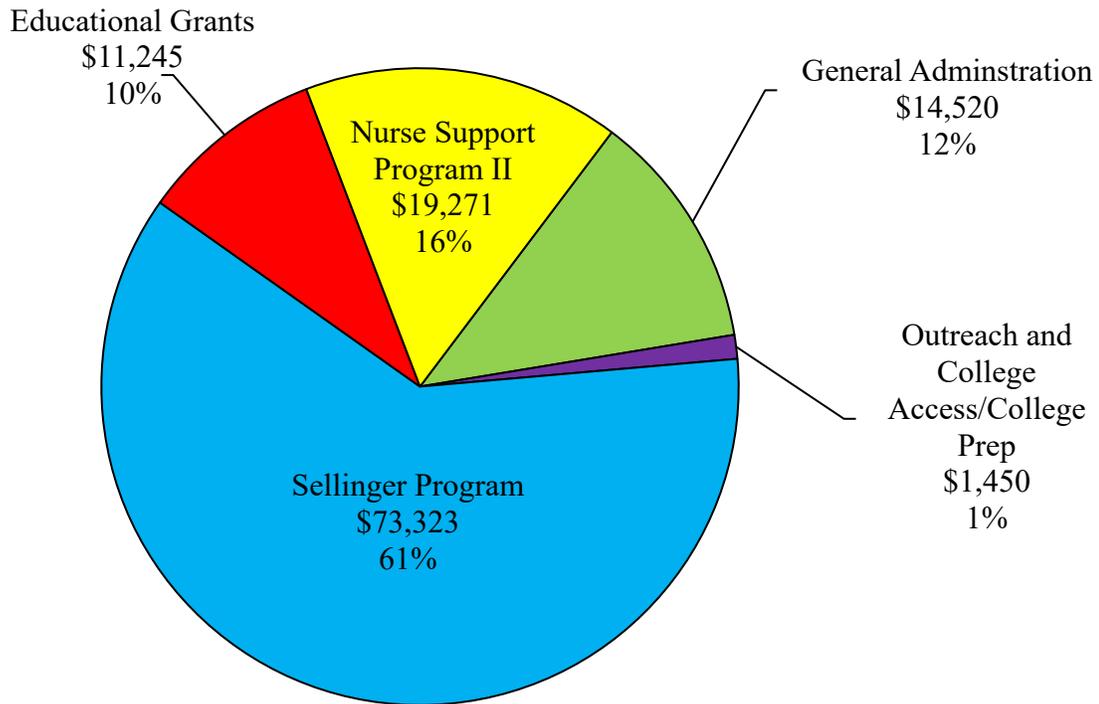
Two proposed deficiency appropriations would decrease the general fund appropriation by a total of \$307,325 related to the conclusion of the Complete College America grant. MHEC has personnel deficiencies totaling \$375,530, which include shortfalls related to lower than expected vacancy savings. Of this amount, \$352,552 is from general funds, \$16,637 is from special funds, and \$6,341 is from federal funds.

The proposed deficiency appropriation related to the fiscal 2025 shortfall resulted from the budget committees not authorizing the release of these funds in fiscal 2025, which were restricted pending a determination by Office of Legislative Audits that MHEC has made progress or resolved repeat audit findings. A determination was made that progress was not made in resolving the repeat audit findings, and two of the findings were repeated in the most recent fiscal compliance audit of MHEC that was released in March 2025. MHEC moved fiscal 2025 expenditures to fiscal 2026 so as not to close the year with a deficit. The restricted funds related to repeat audit findings provide an incentive for an agency to correct repeat findings. By backfilling withheld funds, agencies do not have an incentive to resolve repeat audit findings thereby negating the purpose of withholding funds. **The Department of Legislative Services (DLS) recognizes the fiscal 2025 shortfall must be addressed; however, DLS recommends reducing MHEC’s general fund fiscal 2027 appropriation by \$250,000 to ensure the intent of the failure to authorize the release of funds is met.**

Fiscal 2027 Overview of Agency Spending

The fiscal 2027 allowance for MHEC totals \$119.8 million (excluding financial aid that is analyzed in a separate analysis). As shown in **Exhibit 5**, funding for the Joseph A. Sellinger Program for Aid to Non-Public Institutions for Higher Education (Sellinger) accounts for 61% (\$73.3 million) of the fiscal 2027 allowance. NSP II, funded by the Health Services Cost Review Commission and administered by MHEC to increase the number of nurses in the State, accounts for 16% (\$19.3 million) of expenditures. General administration accounts for 12% (\$14.5 million) and educational grants 10% (\$11.2 million) of the fiscal 2027 allowance.

Exhibit 5
Overview of Agency Spending
Fiscal 2027 Allowance
(\$ in Thousands)



Sellinger: Joseph A. Sellinger Program for Aid to Non-Public Institutions for Higher Education

Note: The fiscal 2027 allowance accounts for contingent reductions. The fiscal 2027 statewide salary adjustments are centrally budgeted in the Department of Budget and Management and are not included in this agency's budget.

Source: Governor's Fiscal 2027 Budget Books

Proposed Budget Change

As shown in **Exhibit 6**, the fiscal 2027 allowance decreases by \$3.3 million, or 2.65%, compared to the fiscal 2026 working appropriation after accounting for the proposed deficiency appropriations and a contingent reduction.

Exhibit 6
Proposed Budget
Maryland Higher Education Commission
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2025 Actual	\$109,388	\$28,739	\$480	\$2,754	\$141,360
Fiscal 2026 Working	96,840	21,806	492	3,927	123,066
Fiscal 2027 Allowance	96,450	22,759	511	88	119,809
Fiscal 2026-2027 \$ Change	-\$390	\$953	\$20	-\$3,839	-\$3,257
Fiscal 2026-2027 % Change	-0.40%	4.37%	3.98%	-97.75%	-2.65%

Where It Goes:	Change
Personnel Expenses	
Employee and retiree health insurance	\$446
Salary increase and other fringe benefits adjustments.....	386
Deferred compensation match due to statewide change in budgeting.....	21
One-time deficiency for prior year costs	-250
Other Changes	
Increase special funds for Nurse Support Program II.....	\$24
One-time funding to hire consultants to: assist with implementing post-2025 completion goals; support drafting the State Plan for Higher Education; and develop a targeted action plan to address completion gaps	-300
End of mandated funding for Inmate Training and Jobs (Chapter 677 of 2021)...	-363
GEAR UP Scholarship – the Maryland State Department of Education did not apply for the federal GEAR UP grant in 2024; therefore, no awards were made	-1,094
Transfer of funds for procuring the new Maryland Student Information System that will replace the Maryland College Aid Processing System from ITIF, partially offset by funding from the Dedicated Purpose Account available for the same purpose in fiscal 2027	-1,941
Other	-186
Total	-\$3,257

ITIF: Information Technology Investment Fund

Note: The fiscal 2027 allowance accounts for contingent reductions. The fiscal 2027 statewide salary adjustments are centrally budgeted in the Department of Budget and Management and are not included in this agency’s budget.

Sellinger Formula

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. The BRFA of 2024 (Chapter 717) specified that the State funding per FTES at the select public four-year institutions is to be based on the second prior year actual expenditures and FTES enrollment. The BRFA of 2024 also increased the percentage of the State’s per FTES funding that is received by the independent institutions, which was increased from 15.5% to 16.1% and changed the allocation of Sellinger funds to be based on the second prior year undergraduate FTES enrollment rather than total enrollment at the independent institutions.

Current Law and the BRFA

The fiscal 2027 allowance includes \$77.8 million based on the Sellinger formula; however, that amount would be reduced contingent on a provision in the BRFA of 2026 to level the formula at the fiscal 2026 level of \$73.3 million through fiscal 2029 and specify the distribution of the funds by institution. **Exhibit 7** compares the distribution of funds by institution based on the provision in the BRFA to current law. Under current law, Notre Dame of Maryland University would receive the largest increase in funding of \$1.4 million, or 41.2%, due to a 64.6%, or 418 FTES, increase in undergraduate enrollment which is attributed to the inclusion of dual enrollment students in fall 2025. Under the provision in the BRFA, two institutions would receive a higher level of funding in fiscal 2027 than would occur under current law due to lower enrollment in fiscal 2027 than 2026 upon which the funding is based.

Exhibit 7
Allocation of Sellinger Funds
Fiscal 2027
(\$ in Thousands)

<u>Institution</u>	<u>Current</u>		<u>BRFA to Current Law</u>	
	<u>Law</u>	<u>BRFA</u>	<u>\$ Change</u>	<u>% Change</u>
Johns Hopkins University	\$21,284	\$20,554	-\$730	-3.4%
Loyola College	13,367	12,550	-816	-6.1%
Stevenson University	9,777	9,207	-571	-5.8%
McDaniel College	6,200	5,945	-255	-4.1%
Mount St. Mary’s College	5,538	5,477	-61	-1.1%
Maryland Institute College of Art	3,825	3,746	-80	-2.1%
Hood College	3,635	3,612	-23	-0.6%
Goucher College	3,463	3,169	-294	-8.5%
Washington College	3,167	3,042	-125	-4.0%
Notre Dame of Maryland University	3,462	2,037	-\$1,425	-41.2%
St. John’s College	1,649	1,701	52	3.2%
Washington Adventist University	1,341	1,368	27	2.0%

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<u>Institution</u>	<u>Current Law</u>	<u>BRFA</u>	<u>BRFA to Current Law \$ Change</u>	<u>% Change</u>
Capitol Technology University	1,082	915	-167	-15.4%
Total	\$77,790	\$73,323	-\$4,467	-5.7%

BRFA: Budget Reconciliation and Financing Act

Source: Governor’s Fiscal 2027 Budget Books; Department of Legislative Services

Exhibit 8 compares the projected funding for Sellinger under the current law and the BRFA of 2026 through fiscal 2029. Under current law, funding would decline by \$1.2 million in fiscal 2028, reflecting decreases in State funding at the selected public four-year institutions in fiscal 2026. Overall, under the provision included in the BRFA of 2026, the funding under the formula would be lower by a total of \$13.2 million from fiscal 2027 to 2029 than would occur under current law.

Exhibit 8
Outyear Impact of the BRFA
Fiscal 2027-2029
(\$ in Thousands)

	<u>2027</u>	<u>2028</u>	<u>2029</u>
Current Law	\$77,790	\$76,627	\$78,781
BRFA	73,323	73,323	73,323
Difference, BRFA to Current Law	-\$4,467	-\$3,304	-\$5,459

BRFA: Budget Reconciliation and Financing Act

Source: Department of Legislative Services

Educational Grants

The Educational Grant program provides financial assistance to State, local, and private entities to enrich the quality of higher education. As shown in **Exhibit 9**, the Educational Grant program funding decreases by 11.5%, or \$1.5 million, between the fiscal 2026 working appropriation and the fiscal 2027 allowance, accounting for a proposed deficiency appropriation. The decrease is mainly attributable to GEAR UP Scholarships (\$1.1 million), and the end of the mandated funding (Chapter 577 of 2021) for the inmate training and job pilot program (\$363,000). The elimination of funding for the GEAR UP Scholarships is due to the Maryland State Department

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of Education not applying for the federal grant. Therefore, no awards were made in fiscal 2026, and the appropriation will be cancelled at closeout overstating the decrease between years.

Exhibit 9
Maryland Higher Education Commission Education Grants
Fiscal 2026-2027
(\$ in Thousands)

<u>Programs</u>	<u>Working 2026</u>	<u>Allowance 2027</u>	<u>\$ Difference</u>	<u>% Difference</u>
Special Funds				
Teacher Quality and Diversity Grant Program	\$1,000,000	\$1,000,000		
Subtotal	\$1,000,000	\$1,000,000		
Reimbursable				
GEAR UP Scholarship	\$1,093,598		-\$1,093,598	
Subtotal	\$1,093,598		-\$1,093,598	-100.0%
General Funds				
Complete College Maryland	\$0	\$0		
Cyber Warrior Diversity Program	2,500,000	2,500,000		0.0%
Hunger-Free Campus Grant Program	150,000	150,000		0.0%
Inmate Training and Job Pilot Program	363,000	0	-363,000	-100.0%
Next Generation Scholars – Wraparound Services	5,000,000	5,000,000	0	0.0%
Regional Higher Education Centers	1,409,861	1,409,861		0.0%
UMB – WellMobile ¹	785,000	785,000		0.0%
Washington Center for Internships and Academic Seminars	400,000	400,000		0.0%
Subtotal Including Grants to Be Transferred	\$10,607,861	\$10,244,861	-\$363,000	-3.4%
Total Funds	\$12,701,459	\$11,244,861	-\$1,456,598	-11.5%

UMB: University of Maryland, Baltimore Campus

¹Funding will be transferred to UMB by budget amendment.

Note: The fiscal 2026 appropriation for the Complete College Maryland program is withdrawn in a proposed deficiency appropriation and, therefore, not reflected in this exhibit.

Source: Governor’s Fiscal 2027 Budget Books

Personnel Data

	FY 25	FY 26	FY 27	FY 26-27
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>
Regular Positions	84.00	88.00	88.00	0.00
Contractual FTEs	<u>2.90</u>	<u>4.35</u>	<u>1.75</u>	<u>-2.60</u>
Total Personnel	86.90	92.35	89.75	-2.60

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	6.81	7.74%
Positions and Percentage Vacant	13.00	14.78%

Vacancies Above Turnover 6.19

- On October 22, 2025, the Board of Public Works approved the abolition of 502.7 positions statewide, include 170.7 vacant positions and 332.0 positions associated with the Voluntary Separation Program. In MHEC, 1 vacant position was abolished.
- The fiscal 2027 allowance eliminates 2.60 contractual full-time equivalent (FTE) of which 2.0 FTEs association with NSP II were converted to regular positions, and the remaining 0.6 FTE was previously funded through reimbursable GEAR UP funds.

Issues

1. Update on Implementation of New Program Approval Process

The General Assembly added language to the fiscal 2024 budget bill (Chapter 101 of 2023) restricting funds from all segments of higher education until a report was submitted from a workgroup with recommendations to improve MHEC’s program approval process – making it transparent, efficient, evidence-based, and a timely process providing institutions the flexibility to respond to the student’s and State’s workforce needs. The workgroup was comprised of members for the General Assembly and representatives from all segments of higher education. The 23 recommendations of the workgroup formed the bases of Chapter 963 of 2024 (MHEC – Academic Program Approval and Mission Statement – Requirements) that established a new process for academic approval based on identifying State and regional workforce needs, included specific actions MHEC must take related to program approval and also specified deadlines to implementing various provisions of the statute.

Administrative Procedure Program Review Process

Chapter 963 required MHEC to develop and publish on its website an administrative procedures guide for the new program review process by January 1, 2025. It also requires the guide to be updated at least once a year. However, as of January 2026, the guide could not be located on MHEC’s website.

Standard for Unreasonable and Unnecessary Duplication Graduate Program

Chapter 963 also requires MHEC to adopt regulations establishing standards for determining if two or more programs are unreasonably or unnecessarily duplicative and must clearly identify all specific criteria and factors used to determine duplication, prioritize meeting State and regional workforce needs, and preserve existing programs that can meet those needs, and prioritize collaboration between institutions.

The analysis of evaluating objections based on duplication will be broken into two broad questions: (1) is the academic content between two programs duplicative; and (2) if so, is it unreasonable duplication in that it would cause harm to the State or student. Draft regulations have been developed, were presented to the Commissioners at the October 2025 meeting, and were discussed at the December meeting of the Program Review Process Advisory Council (PRPAC). According to MHEC, they are continuing to refine the distinction between unnecessary duplication that focuses on federal equal educational opportunity obligations and unreasonable duplication that focuses on broader State and student harm. PRPAC will continue to develop standards and are expected to present formal draft regulations to the commissioners at the spring meeting.

Review of Academic Programs

MHEC is required to review each academic program that was recently approved and those approved in the four immediately preceding academic years that were subject to an objection by an historically Black college and university (HBCU) to determine if the HBCU, State, or students attending the institution suffered harm resulting from the approved program. The report was due by January 1, 2025, with additional reports to be submitted each January 1 thereafter to the Senate Education, Energy, and Environment Committee and the House Appropriations Committee. As of January 2026, MHEC has yet to submit a report.

Workforce Needs

MHEC, working with the Maryland Department of Labor and the Department of Commerce, identified current and emerging State and regional workforce needs. Emerging workforce needs, as defined in statute, are graduate-level programs that no institution offers and address a job or industry that is innovative, unique, and rare and could leverage federal, State, or private resources. However, the lists that MHEC developed for emerging workforce needs included those occupations needing some college, no degree, or a post-secondary credential and above, and therefore, include such occupations as ship engineers, barbers, actors, air traffic controllers, and sales managers. The list of graduate programs to meet the emerging workforce includes history programs including Canadian and Asian history, political science, teachers, dentists, and doctors that do not seem to meet the definition of emerging workforce need programs. It should be noted that MHEC circulated the draft lists to the higher education segments for comment and suggestions on the methodology.

MHEC was also required to update the 2022 State Plan for Higher Education to include State and regional workforce needs on or before January 1, 2025. MHEC has not yet submitted the revised 2022 State Plan nor has the webpage for the 2022 State Plan been updated to include workforce data. In addition, while the workforce data is posted on MHEC's website, it can only be found using the search function rather than a direct link.

The Secretary should comment on the seeming disconnect between emerging workforce needs as defined in statute and the lists developed by MHEC.

Letter of Intent

Chapter 963 stipulated that beginning on January 1, 2025, MHEC was to require institutions to submit a Letter of Intent (LOI) for each proposed new graduate program the institution intended to submit to MHEC for approval. MHEC was to establish requirements for the LOI such as review criteria, format, and deadlines.

MHEC did not start accepting LOIs until October 1, 2025, 10 months after the date established in statute. MHEC received 28 LOIs in the first two weeks of October, and then on October 14, 2025, MHEC sent an email to institutions stating that due to the high volume of LOIs received, institutions were to hold any new LOI submission until November 1. On November 7,

MHEC sent another email to institutions further extending the deadline until December 1, 2025. These delays impact when an institution can submit a program for MHEC approval, thereby affecting its ability to offer new programs in a timely manner and respond to the student's and State's workforce needs.

Approval of Online Programs

MHEC must also develop and implement a program review process for new proposed online programs offered to a majority of out-of-state students and enable Maryland institutions to compete with out-of-state institutions. According to MHEC, standards for unnecessary and unreasonable duplication must be finalized first before developing a specific process for fully online programs.

The Secretary should discuss the reason that MHEC did not meet statutory deadlines to implement various provisions in statute and has failed to submit required reports.

2. Status of New Financial Aid System

MDCAPS is the financial information system used to process scholarship applications and allocate funds. The system is over 10 years old and has reached its design capacity for advanced technology features. Over the years, there have been concerns about the functionality of MDCAPS and the ability of MHEC to make timely modifications to existing programs or incorporate new scholarship programs (see **Appendix 2** for a summary of the project). Therefore, Chapter 639 of 2022 required MHEC, on or before July 1, 2025, to design and implement a unified scholarship application system that allows applicants to apply for all scholarship programs offered by MHEC. Statute further specified the application must be available in multiple languages, mobile accessible, and include the ability for a student to upload documents from their device. In addition, the new system must:

- allow students to view documents and progress to completing an application;
- allow students to electronically sign documents;
- integrate with the student's and parent's tax information; and
- provide videos and guidance describing the application process.

Currently, MHEC anticipates deploying the new system by the 2027-2028 academic year, two years after the statutory deadline. According to MHEC, several factors caused a delay in the project, specifically bid protests and subsequent appeals that resulted in "indefinite delays to finalization of the contract." These delays limited the time for development and testing, making it impractical to meet the implementation deadline. MHEC states that the Office of Student Financial Assistance is working with staff, institutions, financial aid administrators, information technology

teams, and oversight partners to make sure the new system reflects real-world use. According to MHEC, this was intentionally designed to prevent costly redesigns by identifying risks and dependencies before building out the system.

In order to fund the new system, \$8.0 million from the Dedicate Purpose Account (DPA) was allocated in the fiscal 2023 budget to support the deployment of a new system with the fiscal 2027 allowance, including \$815,784 from the DPA in addition to \$5.5 million in general funds in the Department of Information Technology (DoIT). As presented with the fiscal 2026 budget submission, the estimated cost of the new system was \$14.0 million. However, with the fiscal 2027 submission, the estimated cost was changed to between \$10 million and \$20 million. Excluding the fiscal 2027 allowance, \$13.4 million has been appropriated for the project exceeding the minimum projected cost of the project by \$3.4 million. With the fiscal 2027 allowance, the funding provided would be at the high end of the cost estimate.

The Secretary should provide further information on the factors that resulted in the delay of implementing the new system, if MHEC is on track to implement the system by the 2027-2028 academic year, the estimated cost of the new system, and if student input was obtained in development of the new system.

3. Student Loan Debt Relief Tax Credit

The Student Loan Debt Relief Tax Credit was established through Chapters 689 and 690 of 2016 and provides a refundable tax credit of up to \$5,000 for qualified undergraduate student loan debt to Maryland residents. The program was expanded in 2018 to include debt incurred for graduate school. Chapter 783 of 2023 increased the maximum amount of the student debt relief tax credits that MHEC can approve from \$9 million to \$18 million and extended the timeframe in which a recipient must use the tax credit from two to three years. Of the \$18 million in tax credits that MHEC can approve, \$9 million is reserved for the authorization of credit for State employees.

Qualifying taxpayers must have at least \$20,000 in total undergraduate and/or graduate student debt and a remaining balance of at least \$5,000 at the time of applying for the tax credit. Applications must be submitted by September 15, and MHEC must certify the amount of the tax credit by December 15.

The BRFA of 2025 included a provision that reduced the amount of tax credits that MHEC can approve to \$9 million for tax year 2025 only. In addition, MHEC was required to submit a report by January 1, 2026, on any recommended changes to statute or regulations to better align the allocation of credits. MHEC has not yet submitted the report. **MHEC should comment on why the report has not been submitted.**

DLS recommends extending the \$9 million cap on the Student Loan Debt Relief Tax Credit through tax year 2026 and altering the due date of the report to December 1, 2026.

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In prior years, MHEC submitted data to DLS regarding statistics about applications and those eligible for the tax credit including:

- the number of eligible recipients and amount of the tax credit awarded to first-time applicants and those who received an award in a prior year who graduated from a Maryland institution;
- the number of eligible recipients and the tax credit awarded to first-time applicants and those who received an award in a prior year who did not graduate from a Maryland institution and
- the number of applicants deemed ineligible and reason for ineligibility.

However, when DLS requested the same information from MHEC for use in the 2026 session, MHEC instead submitted a report that did not include the requested information. The information provided only included the total number of applications received, the number receiving a tax credit, the number deemed ineligible, and the total amount of tax credits awarded. The report also included gender, age, debt balance of loans, awards by adjusted gross income, and data on loan debt of those currently enrolled in a Maryland institution.

4. Increasing Number of Mandated Reports Not Submitted

As part of its mandated reporting requirements MHEC was responsible for submitting a total of 74 annual reports from calendar 2023 to 2025, of which 32 have not been submitted. As shown in **Exhibit 10**, the percentage of mandated reports not received has increased from 35% in calendar 2023 to 58% in calendar 2025. In calendar 2024 and 2025, MHEC was responsible for 6 one-time mandated reports, of which 5 have not been submitted. While MHEC improved on the overall share of reports received on time (within seven days of due date) from 3% in calendar 2024 to 35% in calendar 2025, 58% of the reports have not been received. In addition, MHEC was responsible for 22 reports requested in committee narrative in the JCR or language in the related budget bills from calendar 2023 to 2025, of which 11 have not been submitted. In 2025, of the 5 JCRs, none have been submitted. **The Secretary should explain why MHEC continues to miss due dates for mandated reports and the reason for the increase in the number of reports not submitted.**

**Exhibit 10
Late Reports
2023-2025**

	<u># of Reports</u>	<u>Less Than 7 Days on Time</u>	<u>7-30 Days</u>	<u>30-90 Days</u>	<u>Over 90 Days</u>	<u>Not Received</u>
2025 Mandated Reports						
Annual Reports	27	11	2	0	0	14
One Time Reports	3	0	0	0	0	3
Other	1	0	0	0	0	1
Subtotal	31	11	2	0	0	18
% of Subtotal		35%	7%	0%	0%	58%
JCR	5	0	0	0	0	5
2024 Mandated Reports						
Annual Reports	24	1	2	1	10	10
One Time Reports	3	0	0	0	1	2
Other	2	0	0	0	1	1
Subtotal	29	1	2	1	12	13
% of Subtotal		3%	7%	3%	41%	45%
JCR	11	5	3	0	0	3
2023 Mandated Reports						
Annual Reports	23	3	1	2	9	8
One Time Reports	0	0	0	0	0	0
Other	0	0	0	0	0	0
Subtotal	23	3	1	2	9	8
% of Subtotal		13%	4%	9%	39%	35%
JCR	6	2	1	0	0	3

JCR: *Joint Chairmen's Report*

Source: Department of Legislative Services

Operating Recommended Actions

	Amount Change
1. Reduce the general fund appropriation by \$250,000 as these funds represent a backfill of withheld funds that were not released due to progress not being made in resolving repeat audit findings. The Maryland Higher Education Commission may allocate the reduction across the general administration program.	-\$250,000 GF
Total Net Change to Fiscal 2027 Allowance	-\$250,000

Budget Reconciliation and Financing Act Recommended Actions

1. Extend the \$9,000,000 cap on the Student Loan Debt Relief Tax Credit that may be approved by the Maryland Higher Education Commission (MHEC) through tax year 2026 and alter the date of the required report by MHEC on recommendations for changes to statute or regulations to better target the allocation of tax credits to December 1, 2026.

**Appendix 1
Audit Findings**

Audit Period for Last Audit	April 1, 2020 – November 30, 2023
Issue Date	March 2025
Number of Findings	7
Number of Repeat Findings:	3
% of Repeat Findings:	42.9%
Rating (if applicable)	n/a

Finding 1: MHEC did not always send required service questionnaires and employer verifications timely and did not place the recipients in repayment mode when responses were not received.

Finding 2: MHEC did not independently review adjustments to accounts receivable records, did not ensure that amounts due for unsatisfied service obligations were posted to the accounts receivable records, and did not send dunning notices or refer delinquent accounts to the State’s Central Collection Unit timely.

Finding 3: MHEC did not perform annual reconciliations of financial aid awards recorded in the MDCAPS to the State’s accounting records and investigate and resolve differences on a timely basis.

Finding 4: Redacted cybersecurity related finding.

Finding 5: Redacted cybersecurity related finding.

Finding 6: MHEC did not independently review Student Loan Debt Relief Tax Credits. A test of 20 credits disclosed 4 were not adequately supported and may not have been eligible for the credit.

Finding 7: MHEC did not implement effective procedures for ensuring that all payments made to community colleges for retirement and pension contributions were proper.

*Bold denote item repeated in full or part from preceding audit report.

Appendix 2
New Unified Financial Aid System for Higher Education
Major Information Technology Development Project
Maryland Higher Education Commission

New/Ongoing: Ongoing					
Start Date: 2022				Est. Completion Date: 2028	
Implementation Strategy: Waterfall					
(\$ in Millions)	Prior Year	2026	2027	Remainder	Total
GF	\$2,744.014	\$3,071.111	\$5,545.748	\$0.000	\$11,360.873
Agency Funds DPA	7,619.776	0.000	815.784	0.000	8,435.560
Total	\$10,363.790	\$3,071.111	\$6,361.532	-\$9,796.433- \$203.567	\$10,000.00- \$20,000.000

DPA: Dedicated Purpose Account

- Project Summary:** Provide MHEC Office of Student Financial Assistance with an efficient and consumer-friendly, web-based, unified scholarship application allowing for an applicant to apply for all centralized scholarship programs offered by MHEC. The new system will include advanced navigation and empower students to take ownership of their financial circumstances; mobile capability would allow online access on any device; and enhance reporting features would allow institutions, legislators, and guidance counselors to remain informed of a student’s status. It will also allow for faster processing and awarding of scholarships.
- Need:** This system will replace MDCAPS, which is over 10 years old and has reached its design capacity for advanced technology features. MHEC needs a financial aid management system that is flexible, extensible, scalable, accessible, and secure to deliver a modern user experience where students and others can self-serve.
- Observations and Milestones:** MHEC is collaborating with DoIT and the contractor to establish the Amazon Web Services environment for the Maryland Student Information System, aligning the infrastructure setup with the project timeline. A key challenge is ensuring that tasks are clearly divided between DoIT's vendor and MHEC’s vendor to avoid duplicating efforts and costs. MHEC’s vendor has been conducting design and development sessions for the software and has held demonstrations of existing software. As the demonstrations continue, the focus will be on ensuring that the vendor incorporates all requirements as they customize the software to meet user needs. In addition, the Request for Proposal for the Student Obligation Loan Repayment is under development.

Appendix 3
Object/Fund Difference Report
Maryland Higher Education Commission

<u>Object/Fund</u>	<u>FY 25</u> <u>Actual</u>	<u>FY 26</u> <u>Work Approp.</u>	<u>FY 27</u> <u>Allowance</u>	<u>FY 26 - 27</u>	
				<u>\$ Change</u>	<u>% Change</u>
Positions					
01 Regular	84.00	88.00	88.00	0.00	0.0%
02 Contractual	2.90	4.35	1.75	-2.60	-59.8%
Total Positions	86.90	92.35	89.75	-2.60	-2.8%
Objects					
01 Salaries, Wages, and Fringe Benefits	\$9,686,955	\$10,802,186	\$11,405,099	\$602,913	5.6%
02 Technical and Special Fees	227,546	170,698	142,151	-28,547	-16.7%
03 Communications	23,428	36,918	36,918	0	0.0%
04 Travel	112,418	47,670	47,670	0	0.0%
06 Fuel and Utilities	0	4,606	4,606	0	0.0%
07 Motor Vehicle Operation and Maintenance	95,342	77,980	77,990	10	0.0%
08 Contractual Services	11,047,554	4,949,083	2,534,987	-2,414,096	-48.8%
09 Supplies and Materials	201,718	42,067	42,067	0	0.0%
10 Equipment – Replacement	22,627	12,737	12,737	0	0.0%
11 Equipment – Additional	5,575	98,750	98,750	0	0.0%
12 Grants, Subsidies, and Contributions	119,493,223	106,235,496	109,284,336	3,048,840	2.9%
13 Fixed Charges	443,693	587,314	588,446	1,132	0.2%
Total Objects	\$141,360,079	\$123,065,505	\$124,275,757	\$1,210,252	1.0%
Funds					
01 General Funds	\$109,387,706	\$96,840,479	\$100,916,833	\$4,076,354	4.2%
03 Special Funds	28,738,619	21,806,107	22,759,365	953,258	4.4%
05 Federal Funds	479,932	491,594	511,150	19,556	4.0%
09 Reimbursable Funds	2,753,822	3,927,325	88,409	-3,838,916	-97.7%
Total Funds	\$141,360,079	\$123,065,505	\$124,275,757	\$1,210,252	1.0%

Note: The fiscal 2026 appropriation includes proposed deficiency appropriations. The fiscal 2027 allowance does not include contingent reductions or statewide salary adjustments budgeted within the Department of Budget and Management.

**Appendix 4
Fiscal Summary
Maryland Higher Education Commission**

<u>Program/Unit</u>	<u>FY 25 Actual</u>	<u>FY 26 Work Approp.</u>	<u>FY 27 Allowance</u>	<u>FY 26 - 27</u>	
				<u>\$ Change</u>	<u>% Change</u>
01 General Administration	\$22,115,545	\$16,344,032	\$14,519,846	-\$1,824,186	-11.2%
02 College Prep/Intervention Program	750,000	750,000	750,000	0	0.0%
03 Joseph A. Sellinger Formula for Aid to Non-Public Institutions of Higher Education	72,594,105	73,322,724	77,789,747	4,467,023	6.1%
07 Educational Grants	25,997,209	12,701,459	11,244,861	-1,456,598	-11.5%
38 Nurse Support Program II	19,203,220	19,247,290	19,271,303	24,013	0.1%
43 Maryland Higher Education Outreach and College Access Program	700,000	700,000	700,000	0	0.0%
Total Expenditures	\$141,360,079	\$123,065,505	\$124,275,757	\$1,210,252	1.0%
General Funds	\$109,387,706	\$96,840,479	\$100,916,833	\$4,076,354	4.2%
Special Funds	28,738,619	21,806,107	22,759,365	953,258	4.4%
Federal Funds	479,932	491,594	511,150	19,556	4.0%
Total Appropriations	\$138,606,257	\$119,138,180	\$124,187,348	\$5,049,168	4.2%
Reimbursable Funds	\$2,753,822	\$3,927,325	\$88,409	-\$3,838,916	-97.7%
Total Funds	\$141,360,079	\$123,065,505	\$124,275,757	\$1,210,252	1.0%

Note: The fiscal 2026 appropriation includes proposed deficiency appropriations. The fiscal 2027 allowance does not include contingent reductions or statewide salary adjustments budgeted within the Department of Budget and Management.