

Department of Legislative Services  
 Maryland General Assembly  
 2016 Session

FISCAL AND POLICY NOTE  
 First Reader - Revised

House Bill 361  
 Ways and Means

(Delegate Jones, *et al.*)

Higher Education - Community Colleges - Funding

This bill accelerates the phase-in of increasing the statutory funding percentages for the Senator John A. Cade community college and the Baltimore City Community College (BCCC) funding formulas. The Cade and BCCC funding formulas’ statutory percentages are increased each year from fiscal 2018 through 2020, which increases State support to local community colleges and BCCC, respectively. Thus, under the bill, the Cade and BCCC funding formulas reach their full statutory funding percentages in fiscal 2020 rather than in fiscal 2023.

The bill takes effect July 1, 2016.

Fiscal Summary

**State Effect:** General fund expenditures increase by \$28.0 million in FY 2018 due to accelerating the phase-in of increasing the statutory funding percentages of the Cade and BCCC funding formulas. General fund expenditure increases continue *until* FY 2023, when the statutory funding percentages are set to reach their full phase-in amounts under current law. State aid to BCCC increases through the BCCC funding formula beginning in FY 2019 by \$2.6 million in that year. Increases in State aid to BCCC continue *until* FY 2023 when the statutory funding percentage is set to reach its full phase-in amount under current law. **This bill increases a mandated appropriation beginning in FY 2018.**

(\$ in millions)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Higher Ed Rev.	\$0	\$0	\$2.6	\$4.2	\$2.9
GF Expenditure	\$0	\$28.0	\$54.4	\$76.6	\$54.2
Higher Ed Exp.	\$0	\$0	\$2.6	\$4.2	\$2.9
Net Effect	\$0.0	(\$28.0)	(\$54.4)	(\$76.6)	(\$54.2)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

**Local Effect:** State aid to local community colleges through the Cade funding formula increases by \$28.0 million in FY 2018. Increases in State aid to local community colleges continue through FY 2022. In FY 2023, the statutory funding percentage is set to reach its full phase-in amount under current law.

**Small Business Effect:** None.

## Analysis

### Bill Summary/Current Law:

The statutory funding percentages for the Cade funding formula and the BCCC funding formula under current law are compared to those established in the bill in **Exhibit 1**.

### Exhibit 1 Cade and BCCC Funding Formula Statutory Funding Percentages Under Current Law Compared to Under the Bill Fiscal 2018-2023

<u>Fiscal Year</u>	<u>Cade Funding Formula</u>		<u>BCCC Funding Formula</u>	
	<u>Current Law Percentage</u>	<u>Percentage Under the Bill</u>	<u>Current Law Percentage</u>	<u>Percentage Under the Bill</u>
2018	21.0%	23.5%	60.0%	61.5%
2019	22.0%	26.5%	61.0%	65.0%
2020	23.0%	29.0%	62.5%	68.5%
2021	25.0%	29.0%	64.5%	68.5%
2022	27.0%	29.0%	66.5%	68.5%
2023	29.0%	29.0%	68.5%	68.5%

BCCC=Baltimore City Community College  
Source: Education Article, Sections 16-305 and 16-512

### *Senator John A. Cade Funding Formula*

The State’s annual contribution for the Senator John A. Cade Funding Formula, the largest community college aid program, is determined by enrollment at community colleges and the level of funding received by public four-year institutions. The Cade formula bases per pupil funding on a set statutory percentage of current-year State appropriations per

full-time equivalent student (FTES) at selected public four-year institutions of higher education. The resulting community college per student amount is multiplied by the number of FTES enrolled in the colleges in the second preceding fiscal year to identify a total formula amount.

Specifically, the number of FTES is calculated as the number of student credit hours produced in the fiscal year two years prior to the fiscal year for which the State share is calculated divided by 30. “Student credit hours” are defined as student credit hours or contact hours, which are eligible, under the regulations issued by the Maryland Higher Education Commission (MHEC).

There are three parts to the Cade formula that together set the level of funding each community college receives under the grant. The three components are fixed costs, marginal costs, and a size factor. The majority (60%) of the Cade funding is distributed to the local community colleges through the marginal cost formula that distributes funds based on the number of FTES at each community college. Of the remaining 40%, 38% is distributed through the fixed-cost component and 2% is distributed through the size-factor component. In addition, a college is eligible for a hold harmless component if the total amount under the three components is less than the college’s total Cade funding in the prior year.

According to regulations applicable to local community colleges that receive Cade funding but not BCCC, a college may not receive State funding for continuing education courses until MHEC approves the course. MHEC may not approve recreational courses for State funding. When two or more colleges jointly sponsor a noncredit continuing education course, participating students must be enrolled, recorded, and registered by the college that will ultimately submit the request for the State funding for the course. A college may not receive State funding for students younger than age 16 enrolled in continuing education courses, unless otherwise permitted by State law. A high school student concurrently enrolled in continuing education courses without payment of tuition, either through tuition waiver, tuition payment reimbursement, or by direct finance of the course work by individual college departments, may not be submitted for State funding. A continuing education course that is approved for State funding must be open to the public, except when the course is being offered under contract to meet employee training needs.

### *Baltimore City Community College Funding Formula*

Like the local community colleges, annual State funding for BCCC is determined by a formula that bases per pupil funding for the college on a set statutory percentage of the current-year State appropriations per FTES at selected public four-year institutions of higher education. The resulting BCCC per student amount is multiplied by the number of FTES enrolled in the college in the second preceding fiscal year to identify a total formula

amount. The number of FTES is calculated in the same manner as it is for the local community colleges, and “student credit hours” are defined the same.

**Background:** The Senator John A. Cade Funding Formula, the largest community college aid program, was established in 1996 and was named for the former senator in 1997. The State’s annual contribution to the formula is determined by enrollment at community colleges and a percentage, set in statute, of the level of funding received by public four-year institutions. Due to budget constraints, funding was reduced below original statutory levels from fiscal 2008 to 2016. In fiscal 2016 funding levels were set in statute at \$222.7 million. The formula percentages were revised in the 2011, 2012, 2014, and 2015 legislative sessions (Chapter 397 of 2011, Chapter 1 of the first special session of 2012, Chapter 464 of 2014, and Chapter 489 of 2015). The percentage used in the formula is scheduled to phase up to the initial target of 29% by fiscal 2023.

BCCC became a State agency on July 1, 1990, when the State assumed full funding for the institution. Because it is a State agency, the financing of BCCC is different from the funding structures supporting the other 15 community colleges. Due to budget constraints, the formula percentages were revised in the 2011, 2012, and 2014 legislative sessions (Chapter 397 of 2011, Chapter 1 of the first special session of 2012, and Chapter 464 of 2014). In addition, fiscal 2011 and 2012 funding levels were set in statute at \$40.2 million per year. Under the most recent modification, the percentage used in the formula is scheduled to phase up to 68.5% by fiscal 2023.

**State Fiscal Effect:**

*Increases in General Fund Expenditures*

General fund expenditures increase from fiscal 2018 through 2022 due to accelerating the phase-in of increasing the statutory funding percentages of the Senator John A. Cade and BCCC funding formulas. Under current law, the statutory funding percentages are set to reach their full amounts in fiscal 2023; thus, there is no effect in that year. There is no change in fiscal 2017 because the changes do not begin until fiscal 2018. The estimated increase in general fund expenditures is shown in **Exhibit 2**. This estimate is based on enrollment estimates made by the Department of Legislative Services. Actual increases depend on actual enrollment at BCCC and local community colleges in each year.

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**Exhibit 2**  
**Estimated Increase in General Fund Expenditures**  
(\$ in Thousands)

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
Cade	\$0	\$27,981	\$54,354	\$76,574	\$54,213	\$28,390	\$0
BCCC	0	0	2,649	4,161	2,934	1,531	0
<b>Total</b>	<b>\$0</b>	<b>\$27,981</b>	<b>\$57,002</b>	<b>\$80,735</b>	<b>\$57,147</b>	<b>\$29,922</b>	<b>\$0</b>

BCCC = Baltimore City Community College  
Source: Department of Legislative Services

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*Baltimore City Community College*

State aid to BCCC does not increase in fiscal 2018 due to the hold harmless provision in current law. Increases in State aid to BCCC begin in fiscal 2019 and continue through fiscal 2022. In fiscal 2023, the statutory funding percentage would have reached its full phase-in amount under current law.

**Local Revenues:** State aid to local community colleges increases from fiscal 2018 through 2022 due to accelerating the phase-in of increasing the statutory funding percentages of the Senator John A. Cade funding formula. The statutory funding percentages would have reached their full amounts in fiscal 2023 under current law.

The estimated increase in State aid for local community colleges, by college, in fiscal 2018 is shown in **Exhibit 3**. This estimate is based on enrollment estimates made by the Department of Legislative Services. Actual increases depend on actual enrollment in local community colleges each year. Since the funding formula is enrollment based, local community colleges with larger enrollments receive more funding through the formula.

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**Exhibit 3**  
**Estimated Increase in State Aid to Local Community Colleges**  
**Fiscal 2018**

<u>College</u>	<u>FY 2018</u>
Allegany	\$593,249
Anne Arundel	3,202,923
Baltimore	4,858,170
Carroll	927,208
Cecil	636,823
CSM	1,656,265
Chesapeake	433,235
Frederick	1,151,485
Garrett	337,510
Hagerstown	991,247
Harford	1,407,461
Howard	2,192,077
Montgomery	5,250,844
Prince George's	3,556,387
Wor-Wic	785,668
<b>Total</b>	<b>\$27,980,552</b>

CSM=College of Southern Maryland

Source: Department of Legislative Services

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 339 (Senator King, *et al.*) - Budget and Taxation and Education, Health, and Environmental Affairs.

**Information Source(s):** Maryland Higher Education Commission, Baltimore City Community College, Department of Budget and Management, Department of Legislative Services

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