

Department of Legislative Services
 Maryland General Assembly
 2018 Session

FISCAL AND POLICY NOTE
 First Reader

Senate Bill 596 (Senator King, *et al.*)
 Budget and Taxation

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 beginning in fiscal 2019 and reach their full statutory funding percentages in fiscal 2022 rather than in fiscal 2023. **The bill takes effect July 1, 2018.**

Fiscal Summary

State Effect: General fund expenditures increase by \$16.5 million in FY 2020 due to increasing the Cade formula statutory funding percentage. General fund expenditure increases continue *until* FY 2023, when the statutory funding percentage is set to reach its full phase-in amount under current law. State aid to BCCC increases, with corresponding increases in higher education revenues and expenditures, beginning in FY 2021 (due to the hold-harmless provision) by \$17,000 in that year. Increases in State aid to BCCC continue *until* FY 2023. **This bill increases a mandated appropriation in FY 2020 through 2022.**

(\$ in millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	16.5	23.6	26.1	0
Net Effect	\$0.0	(\$16.5)	(\$23.6)	(\$26.1)	\$0.0

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

Local Effect: State aid to local community colleges through the Cade funding formula increases by \$16.5 million in FY 2020. 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 2020-2023

<u>Fiscal Year</u>	<u>Cade Funding Formula</u>		<u>BCCC Funding Formula</u>	
	<u>Current Law</u> <u>Percentage</u>	<u>Percentage</u> <u>Under the Bill</u>	<u>Current Law</u> <u>Percentage</u>	<u>Percentage</u> <u>Under the Bill</u>
2020	23.0%	24.5%	62.5%	63.5%
2021	25.0%	27.0%	64.5%	66.0%
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.

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. BCCC receives hold-harmless funding if the formula calculation for the upcoming fiscal year is less than the formula funding in the current fiscal year.

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 2020 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 2019 because the changes do not begin until fiscal 2020. The estimated increase in general fund expenditures is shown in **Exhibit 2**. This estimate is based on enrollment estimates and projections of State funding for four-year public higher education institutions made by the Department of Legislative Services. Actual increases depend on actual enrollment at BCCC and local community colleges for each year as well as State funding per FTES.

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

	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
Cade	\$0	\$16,536	\$23,576	\$24,751	\$0
BCCC	0	0	17	1,312	0
Total	\$0	\$16,536	\$23,593	\$26,062	\$0

BCCC: Baltimore City Community College

Note: Numbers may not sum to total due to rounding.

Source: Department of Legislative Services

Baltimore City Community College

State aid to BCCC does not increase in fiscal 2020 due to the hold-harmless provision in current law (otherwise State formula aid would decrease under current law and the bill). Increases in State aid to BCCC begin in fiscal 2021 and continue through fiscal 2022. Higher education revenues and expenditures by BCCC also increase by corresponding amounts. 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 2020 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 percentage would have reached its full amount in fiscal 2023 under current law.

The estimated increase in State aid for local community colleges, by college, in fiscal 2020 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.

Exhibit 3
Estimated Increase in State Aid to Local Community Colleges
Fiscal 2020

<u>College</u>	<u>FY 2020</u>
Allegany	\$337,772
Anne Arundel	1,962,954
Baltimore	2,786,276
Carroll	507,753
Cecil	376,247
CSM	953,068
Chesapeake	409,669
Frederick	727,823
Garrett	195,971
Hagerstown	567,237
Harford	828,028
Howard	1,324,367
Montgomery	3,002,247
Prince George's	2,019,361
Wor-Wic	537,697
Total	\$16,536,470

CSM: College of Southern Maryland

Source: Department of Legislative Services

Additional Information

Prior Introductions: Similar bills were introduced in the 2016 and 2017 sessions. SB 339/HB 361 of 2016 and SB 152/HB 1069 of 2017 each had hearings, respectively, in the Senate Budget and Taxation Committee and House Ways and Means Committee. No further action was taken on any of the bills.

Cross File: HB 516 (Delegate Jones, *et al.*) - Appropriations.

Information Source(s): Baltimore City Community College; Department of Budget and Management; Maryland Association of Counties; Department of Budget and Management; Department of Legislative Services

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