

Department of Legislative Services
 Maryland General Assembly
 2018 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 317

(Senator Pinsky, *et al.*)

Education, Health, and Environmental Affairs
 and Budget and Taxation

Ways and Means and Appropriations

Higher Education Degree and Job Certification Without Debt Act of 2018

This bill establishes several initiatives intended to reduce the costs of attending community college and increase college graduation rates in the State including (1) the Maryland Community College Promise Program, which provides specified income-eligible students with up to 100% of tuition at community colleges for an associate’s degree or a certificate program, beginning in the 2019-2020 academic year; (2) programs for students nearing the completion of a degree; and (3) specified tuition caps for community colleges. **The bill takes effect July 1, 2018.**

Fiscal Summary

State Effect: General fund expenditures increase by \$60,000 in FY 2019 due to one-time programming expenses. Beginning in FY 2020, general fund expenditures increase by \$31.2 million for the promise grants, the near completers programs, the community college support program, and administrative expenses. Approximately \$1.0 million in mandated expenditures ends after fiscal 2024. Higher education revenues for Baltimore City Community College (BCCC) are likely only minimally affected, as discussed below. **This bill establishes mandated appropriations beginning in FY 2020.**

(\$ in millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Higher Ed Rev.	\$0	\$0.01	\$0.01	\$0.01	\$0.01
GF Expenditure	\$0.06	\$31.19	\$31.43	\$31.44	\$31.44
Net Effect	(\$0.06)	(\$31.18)	(\$31.42)	(\$31.43)	(\$31.43)

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

Local Effect: State aid to local community colleges increases by an estimated \$237,500 beginning in FY 2020 to provide support services to students. To the extent local community college enrollment increases due to the bill, tuition and State aid revenues

increase in the out-years; however, this impact cannot be reliably estimated. Capping local community college tuition growth likely has minimal effect on community college revenues, as explained below.

Small Business Effect: None.

Analysis

Bill Summary:

Maryland Community College Promise Program

The bill establishes a Maryland Community College Promise Program to provide an opportunity for community college students to earn an associate's degree or certificate debt free. The Maryland Higher Education Commission (MHEC) must administer the program. MHEC must make the program available beginning in the 2019-2020 academic year (fiscal 2020). Grants are provided on a first-come, first-served basis initially; after the first year, prior-year recipients who remain eligible are funded first and then new recipients on a first-come basis.

To be eligible to receive a grant under the program, a recipient must have a federal adjusted gross income (FAGI) of no more than \$150,000. For an applicant enrolling in a two-year associate degree program, the recipient's income is the FAGI of the applicant and the applicant's parents *or* the applicant and the applicant's spouse, if the applicant is married. For an applicant enrolling in a certificate program, the recipient's income is the FAGI of the applicant and the applicant's spouse, if the applicant is married. A recipient must meet the income limitations for each academic year in which the recipient participates in the program.

Each grant applicant must meet specified eligibility criteria, including enrolling full time and graduating from a Maryland public secondary school or having received a GED (*i.e.*, completed general educational development testing) no more than 16 months before first receiving a grant if the applicant is enrolling in a two-year associate degree program. However, an eligible recipient who does not receive a grant award due to insufficient funding of the program remains eligible for the program the following academic year. Beginning in the 2019-2020 academic year and for each academic year thereafter, the maximum grant amount is up to 100% of tuition. A grant may be used only to pay tuition. Except under specified extenuating circumstances, a grant is for up to three academic years of continuous full-time enrollment (defined, for this purpose, as at least 24 credit hours during an academic year) or the accumulation of 60 credits.

All nonloan aid received by the recipient must be credited to the recipient's tuition before the calculation of the grant amount provided under the program. In general, the grant must be used at the recipient's local community college.

For a recipient enrolled in a program that leads to the issuance of a certificate, a grant under the program is limited to one certificate.

The Governor must include \$30.0 million for the promise program in the State budget every year beginning in fiscal 2020.

In addition, beginning in fiscal 2020 and in each fiscal year thereafter, the Governor must include in the State budget \$250,000 to be distributed to the public community colleges in the State in an amount proportional to the number of full-time equivalent students (FTES) included in the calculation of the Senator John A. Cade and BCCC funding formulas to be used to fund support services for students who have received a grant under the Maryland Community College Promise Program.

MHEC must develop and implement an online platform through which a student may apply for a promise grant that marks the date and time of application. MHEC must adopt procedures to administer the program, and the commission may adopt regulations necessary to carry out the Maryland Community College Promise Program.

By December 1, 2019, and each December thereafter, MHEC and each public community college must submit a report to the General Assembly on the implementation of the program, including specified elements.

Near Completers Match and Grant Programs

MHEC must implement a statewide communication campaign for near completers, who are individuals who have completed some college credits but have not received a degree and are no longer enrolled. The Governor must include \$250,000 in the State budget in each year from fiscal 2020 through 2024 for the communication campaign. MHEC must also develop and implement a centralized web-based match program for near completers that facilitates the matching of a near completer with any institution of higher education at which the near completer would be able to complete the degree. MHEC must encourage each institution of higher education in the State to participate in the match program at no cost to the institution. For fiscal 2020 through 2024, the Governor must include in the State budget \$50,000 for the match program.

An institution that participates in the match program must provide MHEC with information regarding near completers who attended the institution, as requested by MHEC and in the format identified by MHEC. On receipt of this information, MHEC must (1) determine

any matches between a near completer and institutions and (2) send information to the near completer regarding the matches, any incentives offered for near completers by the State or by the institutions, and any other financial aid available to the near completer.

Individuals must meet specified eligibility criteria to receive a near completer grant, including credit hours completed and a minimum grade point average of 2.0. Grants are on a first-come, first-served basis. Maximum grant amounts are specified.

The Governor must include \$500,000 for fiscal 2020 and \$750,000 for fiscal 2021 through 2024 in the State budget for near completer grants. A near completer grant may be used only for tuition and may not be used for fees or other charges or expenses related to attending an institution of higher education. All nonloan aid received by near completers must be credited to their tuition before the calculation of the grant amount provided.

By December 1, 2019, and every December 1 thereafter through 2025, MHEC must submit a report to the General Assembly on the details of the statewide communication campaign and the match program, including implementation of the campaign and match program and a detailed account of the expenditures under the grant program established in the bill.

Finally, the bill repeals the existing near completer program.

Community College Tuition Increase Cap

Beginning in the 2019-2020 academic year (fiscal 2020), a local community college in the State or BCCC may not increase the in-county tuition rate over the prior year by more than the higher of the increase in the three-year rolling average of the State's median family income or 3% over the prior year tuition rate.

Current Law:

Near Completers Program

“Near completer” is defined as an individual who has completed some college credits but does not have a college degree and is no longer attending an institution of higher education. MHEC, in collaboration with institutions of higher education, must create a statewide communication campaign to identify near completers in the State and to encourage near completers to re-enroll in an institution of higher education to earn a degree.

Degree Requirements

State regulations contain the following requirements for awarding associate and baccalaureate degrees:

- An associate’s degree requires the satisfactory completion of not less than 60 or more than 70 credit hours, representing a planned sequence of learning experiences. The standard number of credit hours required for an associate’s degree from a public community college is 60 credit hours. A student must earn at least 15 credit hours at the institution granting the degree.
- For a baccalaureate degree, the standard number of credit hours for a public four-year higher education institution is 120 credit hours. A student must earn at least 30 credit hours, of which at least 15 credit hours are upper divisional credit hours, at the institution awarding the degree.

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 local 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 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 MHEC.

Baltimore City Community College

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: According to the Project on Student Debt, about 54% of the Class of 2016 who graduated from public and private nonprofit colleges in Maryland had student loan debt. These borrowers owed an average of \$27,455.

Promise Programs

The Mayor of Baltimore City recently announced a promise scholarship program for students who graduate from Baltimore City Public Schools to attend BCCC tuition free as the Mayor's Scholars Program. Four counties in Maryland also have promise programs. For more information on those programs in Maryland and similar programs nationwide, please see the **Appendix – Promise Programs**.

Community College Tuition and Fees

As shown in **Exhibit 1**, the average statewide in-county tuition and fees for Maryland's community colleges was \$4,324 in fall 2017. However, tuition and fees are only part of the costs associated with attending a community college. For example, students must obtain books and other educational materials in addition to room and board.

Exhibit 1
In-county Tuition and Fees at Community Colleges, based on 30 Credit Hours per Year
Fall 2017

<u>College</u>	<u>In-county</u>
Allegany	\$3,940
Anne Arundel	4,100
Baltimore City*	3,196
Baltimore County	4,606
Carroll	4,884
Cecil	3,660
Chesapeake	4,760
College of Southern Maryland	4,613
Frederick	4,385
Garrett	4,230
Hagerstown	3,990
Harford	4,553
Howard	4,848
Montgomery	4,974
Prince George's	4,700
Wor-Wic	3,750
Statewide	\$4,324

*Baltimore City Community College has one rate for in-state students.

Source: Maryland Association of Community Colleges

Near Completers

According to the U.S. Census Bureau, approximately 19.4% of Marylanders have completed some college, but they do not have an associate's or bachelor's degree. Not all of those who have begun college will qualify as a near completer, but many will. Many community college students are tempted to transfer to a four-year institution prior to completing their associate's degree. However, for various reasons many of those students never complete their bachelor's degree and are, thus, left without any degree for their effort. These students are then only able to present an accumulated number of college credits to a potential employer rather than being able to state on their resume that they have earned an associate's degree despite generally having acquired the credits and knowledge required for an associate's degree. In addition, sometimes credits without a degree may be deemed obsolete when presented later in life, either to employers or when returning to school to obtain a bachelor's degree.

In 2017, MHEC advised that, in fiscal 2016 under the current near completer program, staff from the 16 participating institutions identified a total of 8,140 near completers, successfully contacted 5,864 near completers, and re-enrolled 1,012.

State Fiscal Effect: As shown in **Exhibit 2**, general fund expenditures increase by \$60,000 in fiscal 2019, increasing to \$31.2 million in fiscal 2020 due to mandated appropriations to implement the bill. In addition, general fund expenditures may increase beginning in fiscal 2022 for community college funding formulas, as discussed below. Some mandated funding ends after fiscal 2024. The assumptions and information discussed below were used in this estimate of expenditures under the bill.

Exhibit 2
Total Estimated General Fund Expenditures to Implement the Bill, Fiscal 2019-2023
(\$ in Thousands)

	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
New Positions		2.0			
Communication Campaign	-	\$250	\$250	\$250	\$250
Near Completers Match					
Program	-	50	50	50	50
Near Completers Grants	-	500	750	750	750
Promise Program	-	30,000	30,000	30,000	30,000
Community College Support	-	250	250	250	250
Administrative Costs	\$60	139	133	138	143
Total Expenditures	\$60	\$31,189	31,433	\$31,438	\$31,443

Note: Does not reflect likely additional general fund impacts on funding formulas from new students.

Source: Department of Legislative Services

Maryland Community College Promise Program

The bill mandates that the Governor include \$30.0 million for the Maryland Community College Promise Program in the State budget every year beginning in fiscal 2020.

Also, every year beginning in fiscal 2020, general fund expenditures increase by \$250,000 annually to fund support services for students who have received promise grants. This funding is also mandated. The grants are to be distributed to the public community colleges in the State in an amount proportional to the number of FTES who have received a promise grant. According to the estimated number and distribution of promise grant recipients, BCCC receives an estimated \$12,500, and the local community colleges receive the remaining \$237,500.

Senator John A. Cade Funding Formula

Due to the Senator John A. Cade Funding Formula for community colleges, general fund expenditures increase for each FTES who attends a local community college due to the promise grant established by the bill. This impact cannot be reliably estimated. *For illustrative purposes*, for each FTES who attends a local community college due to the bill in the 2019-2020 academic year (fiscal 2020), general fund expenditures increase by an estimated \$3,633 in fiscal 2022.

Baltimore City Community College

The promise program established by the bill is assumed to have negligible impact on the (revenues and) expenditures of BCCC due to the existing Mayor's Scholars Program, meaning that students who are motivated to enroll in community college by a promise program would already have decided to enroll as a result of the mayor's program. However, if the Mayor's Scholars Program is discontinued, then State expenditures for the BCCC formula (and BCCC revenues and expenditures) increase, potentially significantly.

BCCC receives an estimated \$12,500 in support grants for promise students annually beginning in fiscal 2020.

In addition, limiting the increase in tuition at BCCC to the greater of the increase in the three-year rolling median family income or 3% over the prior year tuition rate is not anticipated to significantly decrease BCCC tuition revenues because community colleges are generally price sensitive and have limited the increases in tuition during periods when salaries stagnate. However, anomalous periods do occur. BCCC tuition increased 7% from fall 2015 to fall 2017. The increase in the three-year rolling median family income was 2.1% for the period between 2014 through 2016. Thus, BCCC is limited to increasing tuition by 3% for fall 2019 (fiscal 2020).

Near Completers Programs

General fund expenditures increase by an estimated \$800,000 in fiscal 2020 increasing to more than \$1.0 million in fiscal 2021 through 2024 due to the mandated appropriations in the bill for the statewide communication campaign, the match program, and grants, as shown in Exhibit 2. MHEC staffing for the programs is accounted for in the positions below.

Maryland Higher Education Commission

General fund expenditures increase by \$60,000 in fiscal 2019 for one-time programming costs to program the Maryland College Aid Processing System (MDCAPS) scholarship system for the promise grant; MHEC advises that this programming cost includes developing the online application system. Beginning in fiscal 2020, the estimate reflects the cost of hiring one full-time staff specialist and one full-time program specialist to implement the bill. The full-time staff specialist will implement the near completers programs, including overseeing the development of the near completers web-based match program and outreach to near completers. This position may not be necessary after fiscal 2024 when funding for near completers programs is no longer mandated. The full-time program specialist will implement the promise grant and assist with reporting requirements.

	<u>FY 2019</u>	<u>FY 2020</u>
Positions	0	2.0
Salaries and Fringe Benefits	\$0	\$128,380
Programming for MDCAPS	60,000	0
One-time Start-up and Other Operating Expenses	<u>0</u>	<u>11,030</u>
Total General Fund Administrative Expenditures	\$60,000	\$139,410

Future year expenditures reflect full salaries with annual increases and employee turnover and ongoing operating expenses.

Local Fiscal Effect: The impact of the bill on local community colleges is described below. The most significant impact will be due to new students enrolling in community colleges; however, as explained below, this impact cannot be reliably estimated.

Maryland Community College Promise Grant

There is no immediate impact on local community college revenues due to promise grants likely going to current community college students, as discussed above. However, tuition and other revenues increase for each *new* student attending community college up to the full amount of tuition and fees. Due to the Senator John A. Cade Funding Formula for

community colleges, State aid increases for each FTES who attends a local community college due to the promise grant established by the bill. This impact cannot be reliably estimated. *For illustrative purposes*, for each FTES who attends a local community college due to the bill in the 2019-2020 academic year (fiscal 2020), State aid increases by an estimated \$3,633 in fiscal 2022.

As explained above, beginning in fiscal 2020, local community college revenues increase by up to a total of \$250,000 annually to fund support services for students who have received promise grants. According to the estimated number and distribution of promise grant recipients, the local community colleges receive \$237,500 of the grant.

Capping Community College Tuition Growth

Limiting the increase in tuition at local community colleges to the greater of the increase in the three-year rolling median family income or 3% over the prior year tuition rate is not anticipated to significantly decrease local community college tuition revenues because community colleges are generally price sensitive and have limited the increases in tuition during periods when salaries stagnate. However, *for informational purposes*, the increase in the three-year rolling median family income was 2.1% for the period between 2014 through 2016. Thus, local community colleges are limited to increasing tuition by 3% for fall 2019 (fiscal 2020).

Additional Information

Prior Introductions: None.

Cross File: HB 951 (Delegate Tarlau, *et al.*) - Ways and Means and Appropriations.

Information Source(s): Comptroller's Office; Maryland Higher Education Commission; Baltimore City Community College; University System of Maryland; St. Mary's College of Maryland; Maryland Association of Community Colleges; U.S. Department of the Treasury; U.S. Census Bureau; *The New York Times*; *The Atlantic*; tennesseean.com; Project on Student Debt; Congressional Budget Office; Department of Legislative Services

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Appendix – Promise Programs

In 2014, the Tennessee General Assembly passed legislation establishing a program, beginning with the class of 2015, offering two years of tuition-free education at 1 of the state's 13 community colleges or 27 technical schools. The program, known as Tennessee Promise, is a last-dollar scholarship, meaning it covers costs of tuition and mandatory fees not met by federal Pell scholarships, the Tennessee HOPE scholarship, or the Tennessee Student Assistance Award Program. To be eligible, a student must meet a number of requirements, including completing the federal Free Application for Federal Student Aid, enroll in a college full time for up to five consecutive semesters, maintain a 2.0 grade point average (GPA), and complete eight hours of community service per semester.

To pay for the program, the state created an endowment of \$361.1 million using state lottery reserves. Because community college is relatively affordable, and the Tennessee program is a “last dollar” program, meaning existing financial aid grants are applied first before the Promise award is received, the average Tennessee Promise award in the first year was only \$1,020. The total cost to the state was \$10.6 million in fiscal 2016, but this is expected to scale up to about \$36.0 million when fully implemented. In the first couple years, community college enrollment in Tennessee increased about 10%. In January 2017, Tennessee's governor announced a plan to expand the program to all adults in the state.

In 2015, Oregon became the second state to enact legislation to provide free community college. Among other requirements, to be eligible, students must have at least a 2.5 GPA. Under the program, all eligible students will receive a minimum grant of \$1,000, even if their tuition and fees are covered by other financial aid. Any money remaining after tuition and fees can be used for transportation, books, and other expenses. A [report](#) on the first year of the program revealed that it reached approximately 1,000 more students than projected and fewer students are eligible for a Pell grant than projected, which has increased the cost of the program for the first year from a projected \$10.0 million to \$13.5 million. The cost of the program is projected to double in the second year. Enrollment of Oregon's high school graduates in the state's public universities declined slightly (by less than one percentage point) in 2016.

In January 2017, New York's governor announced a plan called the Excelsior Scholarship, which ensures free tuition at New York's public two- and four-year institutions to students whose families make up to \$125,000 per year once the program is fully phased in in 2019. Nearly a million families in the state will qualify for the scholarship. According to *The New York Times*, which first reported the plan, initial cost estimates of the Excelsior Scholarship are anticipated at \$163.0 million a year when fully funded.

Five jurisdictions in Maryland already offer Promise-like programs (Baltimore City and Allegany, Garrett, Somerset, and Wicomico counties). The program in Allegany County is unique in that it provides a scholarship to residents to attend the community college or Frostburg State University, the public four-year institution located in the county. In fall 2017, the Mayor of Baltimore City announced a promise scholarship program for students who graduate from Baltimore City Public Schools to attend Baltimore City Community College (BCCC) tuition free as the Mayor's Scholars Program. There is also a two-year pilot program for Mayor's Scholars Program recipients who graduate from BCCC; they will be eligible for four semesters of tuition waivers to attend Coppin State University. Additionally, Chapter 647 of 2016 created a task force to study establishing a program in Prince George's County.

An article in *The Atlantic* reported that, even with free tuition, some of the poorest students are still finding attending community college a challenge because they need to work 30 to 40 hours a week to afford books and meet basic living expenses, which can cost between \$5,000 and \$10,000 per year.