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FISCAL AND POLICY NOTE
 First Reader

Senate Bill 240 (Senator Edwards)
 Education, Health, and Environmental Affairs

Maryland Community College Promise Scholarship Program - Alterations to the Award of Scholarship Funds

This bill requires the Office of Student Financial Assistance (OSFA) in the Maryland Higher Education Commission (MHEC) to select, to the extent practicable, applicants for the Maryland Community College Promise Scholarship (MCCPS) program based on each community college’s proportionate share of the full-time equivalent student (FTES) enrollment during the previous academic year. In addition, if a recipient is eligible for a local promise scholarship, as defined by the bill, an MCCPS award must be credited to the recipient’s tuition *before* the award of the local promise scholarship. **The bill takes effect July 1, 2019.**

Fiscal Summary

State Effect: General fund expenditures increase by \$45,000 in FY 2020 for one-time contractual costs associated with updating MHEC’s scholarship system. The bill does not change the total amount of scholarship funds appropriated for the MCCPS program; however, the distribution of the scholarship funds to students may be altered. Baltimore City Community College (BCCC) revenues and expenditures are not materially affected.

(in dollars)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	45,000	0	0	0	0
Net Effect	(\$45,000)	\$0	\$0	\$0	\$0

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

Local Effect: Local community college revenues and expenditures may increase or decrease minimally; local government expenditures for scholarships are likely unchanged.

Small Business Effect: None.

Analysis

Bill Summary: “Local promise scholarship” is defined as a community college scholarship program in effect on July 1, 2018, that provides a scholarship to any high school senior who is eligible for enrollment at the community college.

Current Law/Background: In 2018, Chapter 554 created a scholarship program in Maryland to provide tuition assistance to students who attend a community college in the State and meet specified eligibility criteria including an income limitation. MCCPS is a “last dollar” award, applied to eligible recipients after all nonloan aid has been applied, not to exceed \$5,000 annually or actual tuition, whichever is less. The program starts in fiscal 2020 (2019-2020 academic year), and as required, the Governor’s proposed State budget includes \$15.0 million for the program.

In effect, the bill makes qualified local promise scholarships the ultimate “last dollar” scholarships, instead of MCCPS under current law. Like MCCPS, most local promise scholarship programs are intended to be “last dollar”; however, both the State and local promise programs cannot be last dollar. MHEC has determined that MCCPS awards will be applied *after* any local promise scholarships, making MCCPS the last dollar in. This bill reverses that determination.

A student must apply annually to MHEC to receive an MCCPS award. OFSA must annually select eligible applicants and offer an award to each selected applicant to be used for tuition at a community college of the applicant’s choice.

Initial awards must be provided to recipients based on greatest demonstrated financial need. Priority for awards in subsequent years must be given to prior-year recipients who remain eligible for the program. Eligible applicants who do not receive an award must be notified and placed on a waiting list.

Additional eligibility requirements of MCCPS and the seven local community college promise scholarships that have been established to date are discussed in greater detail in the **Appendix – College Affordability Programs**.

MHEC advises that FTES data is provided to MHEC in November for the fall and in April for the spring of the current academic year. For example, the fall 2018 FTES count was due November 2018 and the spring 2019 FTES count is due April for the 2018-2019 academic year. However, the data is not published until fall 2019. Thus, FTES data from the *second* prior academic year would be available to allocate MCCPS awards (*i.e.*, the 2017-2018 academic year for fiscal 2020 MCCPS awards).

As shown in **Exhibit 1**, Anne Arundel Community College, the Community College of Baltimore County, Montgomery College, and Prince George’s Community College each had more than 10% of FTES in the 2017-2018 academic year (fiscal 2018). Allegany College, Cecil Community College, Chesapeake College, and Garrett Community College each typically have 2% or less of total FTES.

Exhibit 1
Distribution of FTES Enrollment and MCCPS Funding
Based on 2017-2018 Academic Year

<u>College</u>	<u>FY 2018 FTES</u>	<u>% FTES</u>	<u>Estimated</u> <u>Distribution of</u> <u>MCCPS Funding</u>
	<u>Enrollment</u>	<u>Enrollment</u>	<u>Under Bill</u>
Allegany Community College	1,490.35	2%	\$241,771
Anne Arundel Community College	10,722.74	12%	1,739,489
Community College Baltimore County	15,601.33	17%	2,530,914
Carroll Community College	2,343.33	3%	380,145
Cecil Community College	1,503.82	2%	243,956
College of Southern Maryland	5,231.81	6%	848,727
Chesapeake College	1,820.28	2%	295,294
Frederick Community College	4,186.03	5%	679,076
Garrett Community College	614.99	1%	99,766
Hagerstown Community College	2,706.06	3%	438,989
Harford Community College	4,369.72	5%	708,875
Howard Community College	7,347.22	8%	1,191,897
Montgomery College	16,481.13	18%	2,673,639
Prince George’s Community College	11,568.80	13%	1,876,740
Wor-Wic Community College	2,503.40	3%	406,112
<i>Total Local Colleges</i>	<i>88,491.01</i>	<i>96%</i>	<i>14,355,389</i>
Baltimore City Community College	3,973.58	4%	644,611
Total Community College FTES	92,464.59	100%	\$15,000,000

FTES: Full-time Equivalent Students

MCCPS: Maryland Community College Promise Scholarship

Source: Maryland Higher Education Commission; Department of Legislative Services

Since July 1, 2006, the City of Baltimore is required to provide at least \$1.0 million in each fiscal year to support education at BCCC. Of this amount, at least \$400,000 must be expended and administered by BCCC for tuition reimbursement or scholarships to attend classes at BCCC, and the remaining balance must be expended in a manner consistent with the educational mission of BCCC.

State Fiscal Effect: General fund expenditures increase by \$45,000 in fiscal 2020 for one-time contractual costs associated with enhancements to MHEC's scholarship system, known as Maryland College Aid Processing System (MDCAPS), necessitated by the bill. MHEC advises that the scholarship system must be upgraded to allow awards to be distributed in the manner described by the bill.

The Governor's proposed fiscal 2020 budget includes \$15.0 million for MCCPS. The bill does not change this amount; however, the distribution of the scholarship funds to students may be altered. Since fiscal 2020 is the first year of MCCPS, no scholarship awards have yet been made. Thus, it is not possible to determine the impact, if any, of the bill on the distribution of MCCPS awards. Exhibit 1 shows the distribution of MCCPS funding based on each community college's share of FTES enrollment.

The bill is not expected to materially affect student enrollment, so general fund expenditures for the Senator John A. Cade and BCCC funding formulas are not affected.

Since enrollment at BCCC is not anticipated to be affected, BCCC revenues and expenditures are not affected. In its response to an information request for this fiscal and policy note, BCCC expressed concern that the bill may impede its ability to distribute the \$400,000 from the City of Baltimore that is required by State law to be distributed as scholarships. However, the Department of Legislative Services notes that there are likely sufficient students and prospective students with financial need who do not qualify for the Mayor's Scholars Program or MCCPS who can be awarded BCCC institutional aid.

Local Fiscal Effect: Local community college revenues and expenditures may increase or decrease depending on (1) the distribution of FTES students in the prior academic year and (2) the distribution of MCCPS awards and qualified local promise scholarships. However, the overall impact on any particular local community college is unknown, and any such increase or decrease is anticipated to be minimal.

Overall, the bill does not directly affect the *total* amount of MCCPS and local promise scholarship funding available. However, to the extent that a student is eligible to receive both an MCCPS award and a qualified local promise scholarship, the affected local jurisdictions may be able to award more local scholarship funds to their local students. This may have an impact on enrollment at a particular community college, but any impact is likely minimal.

Absent the bill, local jurisdictions may be less likely to fund current local promise scholarship programs in future years since those funds may be supplanting State funds. Instead, they may choose to fund other scholarships for local students or spend the local funds differently.

Additional Information

Prior Introductions: None.

Cross File: HB 268 (Delegate Beitzel, *et al.*) - Appropriations.

Information Source(s): Baltimore City Community College; Maryland Higher Education Commission; Department of Legislative Services

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Appendix – College Affordability Programs

The Promise of Free Community College

Free community college promise scholarship programs, which generally cover all tuition and fees regardless of income at community colleges, have become popular nationwide. According to the University of Pennsylvania's Alliance for Higher Education and Democracy, as of October 2018, 238 programs exist in various forms across 44 states. One of the most studied has been Tennessee Promise, which launched in fall 2014 for students pursuing associate's degrees and workforce training. In fall 2017, New York launched its own statewide promise program, called the Excelsior Scholarship, which covers tuition for any student whose expected family income is no more than \$100,000. This will increase to \$125,000 by fall 2019. What makes Excelsior different is that students may use it to attend any undergraduate program, including public four-year institutions.

Maryland Community College Promise Scholarship Program

In 2018, Chapter 554 created a scholarship program in Maryland to provide tuition assistance to students who attend a community college in the State and meet specified eligibility criteria including an income limitation. The Maryland Community College Promise Scholarship Program is a last dollar award, applied to eligible recipients after all nonloan aid has been applied, not to exceed \$5,000 annually or actual tuition, whichever is less. To be eligible for the program, a student must be eligible for in-state tuition; enroll at a community college within two years after graduating from high school or successfully completing a GED in the State; have earned at least a 2.3 high school grade point average (GPA); and have a gross adjusted income of not more than \$100,000 if the applicant is single or resides in a single-parent household or \$150,000 if married or resides in a two-parent household.

The program starts in fiscal 2020, and the Governor must appropriate at least \$15.0 million annually for the program. As required, the Governor's proposed fiscal 2020 State budget includes \$15.0 million for the program.

Initial awards will be made based on greatest demonstrated need. Eligible applicants who do not receive an award will be placed on a waiting list. In subsequent years, priority will be given to prior year recipients who remain eligible for the program. A recipient can receive the award for a total of three years. To maintain the award, the recipient must complete 12 credits per semester and earn a cumulative GPA of at least 2.5. The recipient must meet the designated income requirements for the program, remain eligible for in-state tuition, apply annually, and continue to make satisfactory academic progress as determined

by the community college. The Promise Scholarship includes a service obligation of one year of work in the State per year of award. If the service obligation is not completed, the scholarship converts to a loan.

Local Promise Programs in Maryland

In addition to the new statewide program, several promise-like programs already existed in Allegany, Garrett, and Wicomico counties for attendance at community colleges. Additionally, beginning in fall 2017, Somerset County received State funding to launch its own program for residents attending Wor-Wic Community College. Also, after recent legislation created the Task Force to Study a Promise Scholarship Program in Prince George's County (Chapter 647 of 2016), Prince George's Community College launched a promise scholarship in fall 2017.

Finally, for the fall 2018 semester, promise-like programs were implemented in Baltimore City and Baltimore County. The Baltimore County scholarship is for eligible residents from households with an adjusted gross household income of \$69,000 or less. The Mayor's Scholars Program implemented by Baltimore City and Baltimore City Community College (BCCC) is available to any Baltimore City public school graduate, regardless of GPA or income level. The inaugural year produced 542 Baltimore City public school graduates who attended BCCC for the fall 2018 semester. In 2017, Coppin State University (CSU) announced a complementary program called "Finish 4 Free" to allow Baltimore City public school graduates who also graduate from BCCC (beginning in June 2018) to attend CSU tuition free.

Initiatives Implemented from the College Affordability Act of 2016

The College Affordability Act (Chapters 689 and 690 of 2016) established several initiatives to improve access and success in higher education in Maryland. These included an income tax credit for student loan debt, financial aid incentives to complete 30 credits per year, and a State match program for college savings.

Student Loan Debt Relief Tax Credit

The Student Loan Debt Relief Tax Credit established a refundable tax credit of up to \$5,000 for qualified student loans to Maryland residents beginning in tax year 2017. Qualifying taxpayers must have had at least \$20,000 in total undergraduate student loan debt and have a remaining balance of at least \$5,000, and recipients must use the credit within two years to pay down the student loan. The Maryland Higher Education Commission (MHEC) was initially authorized to approve \$5.0 million of tax credits annually. Chapter 382 of 2018 expanded the types of qualifying debt to include debt incurred for graduate school, and

Chapter 419 of 2018 increased the total amount of credits that can be awarded to \$9.0 million annually.

In the first year of the program, tax year 2017, MHEC received 4,988 applications, of which 4,422 qualified for the program. MHEC awarded a tax credit of \$1,201 to each of 2,881 applicants who qualified for in-State tuition and a tax credit of \$1,000 to the other 1,541 applicants. For the second year of the program, MHEC received 10,113 applications, which is more than double the number of applications from the previous year. MHEC awarded a tax credit of \$1,000 to each of the 5,231 applicants who qualified for in-state tuition and a tax credit of \$883 to the other 4,259 qualified applicants. MHEC did not award a tax credit in 2018 to any individual who received the tax credit in 2017.

State Financial Aid Programs Provide Incentives for On-time Graduation

The College Affordability Act encouraged students receiving aid through the Educational Excellence Awards (EEA), the State's largest need-based financial aid program, to stay on track for on-time graduation through financial aid incentives based on annual credit completion requirements. Beginning in academic year 2018-2019 (fiscal 2019), a student receiving an EEA award in their third year of enrollment and thereafter must have successfully completed 30 credit hours in the prior academic year in order to receive the full amount of the grant.

EEA grant recipients who completed at least 24 credit hours but less than 30 hours in the prior academic year will have their award prorated, and those who do not complete 24 credits are ineligible for the EEA grant. Students whose award was prorated or who were deemed ineligible for the EEA grant can regain eligibility in the fourth year if they met the credit completion requirement at the end of their third year. According to a report on the impact of the credit requirement on the EEA awards, out of the 16,211 EEA grant recipients required to meet the credit levels, 33% (5,394) completed less than 24 credits, 31% (4,983) completed at least 24 credits but less than 30 credits, and 36% (5,834) completed at least 30 credits.

State Match for College Savings

To help students and families before and during college, Maryland 529 (formerly the College Savings Plan of Maryland) is managing the new Save4College State Contribution Program. For applicants within certain income limitations, this program required the State to make a matching contribution of \$250 to a college savings investment account. For the first year of implementation in fiscal 2018, the Governor was required to appropriate at least \$5.0 million, increasing to \$7.0 million in fiscal 2019 and \$10.0 million in fiscal 2020 and thereafter. For fiscal 2018, Maryland 529 received a total of 3,084 applications, of which 1,901 eligible applications were received resulting in \$475,250 in matching funds

from the State. Due to the lower than expected interest in the program, Chapter 10 of 2018 reduced the minimum amount of funding that the Governor must provide for the State matching contributions to \$3.0 million annually. The State match was also raised from \$250 to \$500 for certain income ranges in an attempt to increase enrollment.

For the second year of the program, the Save4College Program received 14,393 applications, of which 13,381 were eligible to receive matching funds from the State. This total represents a 367% increase in the number of applications received and an increase of over 600% in the number of eligible applications when compared to the previous year. Thus, 11,925 applications are due to receive the \$500 match, while 1,456 are due to receive the \$250 match. The funds necessary from the State to meet these completed applications would total \$6.33 million, or \$3.33 million over the minimum amount that the Governor must provide for the State matching contributions program for the current fiscal year. The Governor's proposed fiscal 2020 budget includes a \$3.33 million deficiency for fiscal 2019, and \$6.33 million for the program for fiscal 2020.

Marketing strategies developed to reach low-income families across the State proved to be effective. Increased response from the lowest income category, joint filers who had taxable income of \$74,999 or less and single filers with \$49,999 or less, represented 41% of the total applications received, up from 21% in the prior year. Additionally, applications from Baltimore City reached 39%, a significant increase from 8% in the previous year, also indicating that the targeted market population was being reached. The Eastern Shore and Western counties of Maryland remain a statistically insignificant source of applications received, potentially indicating a new area of focus for the upcoming marketing cycle.

Next Generation Scholars of Maryland

The Next Generation Scholars program (Chapter 33 of 2016) is jointly administered by MHEC and the Maryland State Department of Education. The program makes funding available to nonprofit organizations to provide guidance and services to assist low-income Maryland high school students to successfully make progress to complete a degree. These students prequalify for MHEC's Guaranteed Access grant which, when combined with the federal Pell grant, covers up to 100% of the cost of attendance. In fiscal 2018, the maximum award was \$18,400, and grants totaling \$4.7 million were distributed to nonprofit organizations serving eligible students in eight local jurisdictions. In fiscal 2019, \$4.7 million was provided to continue funding of the program. A report is required by December 2020 on the implementation of the program.