

R62I00.10
Scholarship Programs
Maryland Higher Education Commission

Operating Budget Data

(\$ in Thousands)

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 02-04</u> <u>Change</u>	<u>FY 05</u>	<u>FY 04-05</u> <u>Change</u>
Grants	\$81,880	\$79,989	\$76,676	-\$5,204	\$90,101	\$13,424
General Funds	79,789	77,735	73,773	-6,016	86,031	12,258
Special Funds	1,379	1,544	2,191	812	3,300	1,109
Federal Funds	712	711	712	0	769	57
Adjusted Grand Total	\$81,880	\$79,989	\$76,676	-\$5,204	\$90,101	\$13,424
Annual % Change		-2.3%	-4.1%		17.5%	

- Scholarship funding decreased 6.4% from fiscal 2002 through 2004.
- For fiscal 2005, educational excellence awards increase 35%, the largest increase for State need-based aid since fiscal 2001.
- HOPE Scholarships decrease \$4.1 million, or 26% in fiscal 2005. A freeze is put on all new applications to the HOPE programs.

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

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Analysis in Brief

Major Trends

Teaching and Nursing Scholarship Programs Make Slow Progress: The number of students graduating with teaching and nursing degrees is increasing slowly, but the effect of scholarship programs on the number of graduates remains unclear.

Issues

Reliance on Fund Balance Coming to an End: The accumulation of a fund balance designated for need-based aid has been a safety net during times when need-based aid funding was not increasing. In fiscal 2005, the allowance for need-based aid will increase and the accumulation of a fund balance is expected to decrease.

Teacher Scholarship Recipients Not Influenced by the Availability of Aid: 92% of respondents to a survey of teacher scholarship recipients say they were already planning on becoming teachers.

HOPE Scholarship Program Set to Be Phased Out: The Governor froze all new awards for applicants to the HOPE Scholarship program as part of a multi-year plan to phase out HOPE Scholarships. The fiscal 2005 allowance includes funds only for renewal awards.

New Decentralized Grant Program for Need-based Aid Begins in Fiscal 2004: The campus-based Educational Assistance Grant program provides funds via the Maryland Higher Education Commission to Maryland public and independent institutions for students demonstrating financial need.

Recommended Actions

	<u>Funds</u>
1. Reduce funding for need-based aid.	\$ 5,000,000
Total Reductions	\$ 5,000,000

Updates

Progress Made in Pilot Program for Better Financial Aid Data Collection: The first year of the financial aid data collection program is successful; all public institutions are expected to participate in the 2004 – 2005 academic year, while all State-aided independent institutions are expected to participate in the 2005 – 2006 academic year.

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Program Description

One of the Maryland Higher Education Commission's (MHEC) main functions is the administration of the 23 different scholarship programs. Administration of these programs includes publicizing the availability of awards, accepting and processing applications, and verifying initial and continued eligibility. Since many of the scholarship programs have a post-graduate commitment, MHEC must also track completion of service commitments, process claims for deferments, and collect repayment from those who fail to meet scholarship program requirements.

MHEC Scholarship Programs fall into five categories: (1) need-based aid; (2) service commitment/workforce shortage based aid; (3) merit-based aid; (4) assistance for unique populations; and (5) legislative scholarships, as shown in **Exhibit 1**. These five categories were designated by an independent evaluation of Maryland's scholarship programs three years ago. Although many scholarship funds have criteria in two or more of these categories, each scholarship is grouped according to its most outstanding requirement.

This analysis includes those MHEC Scholarship Programs that provide the following:

- funds directly to institutions of higher education to cover qualified tuition expenses;
- funds directly to students as reimbursement for the payment of tuition and mandatory fees; and
- assistance for the repayment of student loans.

A separate analysis titled *Maryland Higher Education Commission* covers the personnel associated with administration of scholarship programs and other grant programs administered by the commission.

**Exhibit 1
Scholarship Programs**

Need-based

Educational Excellence Awards

Guaranteed Access Grants

Need-based and merit-based scholarships intended to meet 100% of financial need for full-time undergraduates from low-income households. Qualified applicants must have a cumulative high school grade point average of at least 2.5 on a 4.0 scale. The commission extended the income limits for renewals to 150% of the federal poverty level to prevent a student who may work in the summertime from exceeding the original 130% income cap.

Educational Assistance Grants

Need-based scholarships intended to meet 35% of financial need for full-time undergraduates from low- to middle-income families. The maximum award amount authorized by statute is \$3,000. The current maximum amount awarded is \$2,700.

Part-time Grant

Need-based grants provided to institutions to award to qualified part-time undergraduate students.

**Graduate and Professional
Scholarship**

Need-based scholarships for those pursuing professional degrees at certain Maryland institutions of higher education.

Merit-based

Distinguished Scholar Program

Talent- or merit-based scholarship awarded to full-time undergraduates.

Service Commitment/Workforce Shortage

HOPE Scholarships Program

Science and Technology
Scholarships

Merit-based scholarships for full-time students planning to pursue an undergraduate degree in selected fields of science and technology.

Teachers Scholarships

Merit-based scholarships for future teachers (enrolled or planning to enroll full-time/part-time as graduate or undergraduate students).

General Scholarship

Merit-based and need-based (\$95,000 annual family income cap) scholarships for full-time students planning to pursue undergraduate degrees in selected fields of study. Qualified applicants must be high school seniors.

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Community College Transfer Scholarships	Merit-based and need-based (\$95,000 annual family income cap) scholarships for students enrolled in a Maryland community college who enroll full-time at a Maryland four-year institution.
McAuliffe Memorial - Teacher	Merit-based scholarships for future teachers, requiring recipients to work in a designated critical shortage area in the State for each year the scholarship is received.
Distinguished Scholar - Teacher	For Distinguished Scholar recipients enrolled in a teacher education program.
Child Care Providers	Tuition assistance for those pursuing a degree in child development or early childhood development or enrolled in a program leading to a child development associate credential.
Developmental Disabilities, Mental Health, Child Welfare, and Juvenile Justice Workforce Tuition Assistance	Tuition assistance for direct service workers pursuing a human services degree or for students pursuing a human services degree.
MD State Nursing Scholarships	Merit-based scholarship for those pursuing a nursing degree or diploma.
Physical and Occupational Therapists and Assistants	Tuition assistance for those seeking licensure as a physical therapist, physical therapy assistant, occupational therapist, or occupational therapy assistant.
Tuition Reimbursement of Fire, Ambulance, and Rescue Squad Workers	Tuition reimbursement for fire, ambulance, and rescue squad workers pursuing a degree in fire services or emergency medical technology.
Hoffman Loan Assistance Repayment Program	
Employees of Government and Nonprofit Sector	Need-based loan repayment assistance for graduates of an institution of higher education in Maryland who work full-time for the government or the nonprofit sector in a priority field as determined by the commission.
Primary Care Physicians	Loan repayment assistance for those who currently serve or who pledge to serve as primary care physicians.
Maryland Dent-Care	Loan repayment assistance designed to increase access to oral health services for Maryland Medical Assistance Program recipients.

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Assistance for Unique Populations

Jack F. Tolbert Memorial	Provides grants to private career schools to award to full-time students based on financial need.
Edward T. Conroy Memorial	Scholarships for children of certain veterans or certain public safety personnel.

Legislative Scholarships

Senatorial Scholarships	Senators select recipients from within their legislative district. Students may be pursuing undergraduate, graduate, or professional degrees.
Delegate Scholarship	Delegates select recipients pursuing undergraduate, graduate, or professional degrees.

Source: Department of Legislative Services

Performance Analysis: Managing for Results

State need-based aid is one way of alleviating some of the financial burden of continuing education for lower income students and their families. Workforce shortage areas are another focus of the State's financial aid programs; many of the programs require students receiving aid to work in the State in the area of their degree for each year they receive the scholarship. The HOPE program is the largest of these programs but is scheduled to be phased out over the next several years. The program measurement data looks at several outcomes related to need-based programs, workforce shortage programs, and financial aid for outstanding students in academics and the arts. The data is shown in **Exhibit 2**.

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Exhibit 2
Program Measurement Data
MHEC Scholarship Programs
(\$ in Thousands)

	<u>Actual</u> <u>2001</u>	<u>Actual</u> <u>2002</u>	<u>Actual</u> <u>2003</u>	<u>Est.</u> <u>2004</u>	<u>Est.</u> <u>2005</u>	<u>Ann.</u> <u>Chg.</u> <u>01-03</u>	<u>Ann.</u> <u>Chg.</u> <u>03-05</u>
Number of Guaranteed Access Grant applications received.	*	1,183	1,941	1,530	1,600		-9.2%
Number of State financial assistance presentations conducted in high-need communities	15	35	61	45	50	101.7%	-9.5%
Percent of Distinguished Scholar recipients (academic) who accept the scholarship	44%	47%	40%	47%	48%	-4.7%	9.5%
Percent of Distinguished Scholar recipients (talent in the arts) who accept the scholarship	57%	71%	60%	70%	70%	2.6%	8.0%
Number of applications received for the McAuliffe Teacher Education Tuition Assistance program	*	191	166	185	195		8.4%
Number of McAuliffe scholarship recipients that enter the workforce as teachers in critical needs areas	*	*	15	18	18		9.5%
Number of applications received for the Nursing Scholarship program	*	632	760	632	632		-8.8%

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	<u>Actual 2001</u>	<u>Actual 2002</u>	<u>Actual 2003</u>	<u>Est. 2004</u>	<u>Est. 2005</u>	<u>Ann. Chg. 01-03</u>	<u>Ann. Chg. 03-05</u>
Number of Nursing Scholarship recipients that enter the workforce as a nurse	*	*	355	355	355		0%
Number of graduates in academic programs targeted by the Graduate and Professional Scholarship program	2,759	1,682	1,678	1,700	1,750	-22.0%	2.1%

*Data not available.

Source: Maryland Higher Education Commission

The Guaranteed Access Grant program is a part of the need-based Educational Excellence Awards (EEA) that provides 100% of financial need up to the annual expenses of a full-time resident undergraduate at the four-year public institutions. The OSFA measures the number of applications for the Guaranteed Access Grant program, and it has been steadily increasing since fiscal 2002.

To help make this and other need-based programs successful tools for affordability, OSFA seeks to emphasize the availability of State need-based financial assistance programs to communities with the highest financial need. Indicative of these efforts are the number of presentations to communities as well as the number of applications received for the Guaranteed Access Grant program. The program goal has been to maintain or exceed fiscal 2002 performance by fiscal 2006. **Since the 2006 goal has been met, the Secretary should comment on any new goals for this program.**

The number of presentations to the target communities nearly doubled between fiscal 2002 and 2003, from 35 to 61. Consequently, the number of applications increased 64%; however, when the number of presentations declines in fiscal 2004, the number of applications will follow suit. The numbers to date show some success on this measure, with applications expected to increase from 1,183 in fiscal 2002 to 1,600 in fiscal 2005.

There are several scholarship programs focusing on increasing access to and graduation from programs that serve workforce shortage needs in the State. The Graduate and Professional Scholarship program provides financial aid to full- and part-time students in the fields of medicine, dentistry, law, pharmacy, nursing, social work, and veterinary medicine. The related Managing for Results goal measures the number of graduates in the State from these programs each year. The number of graduates in fiscal 2005 is expected to exceed the fiscal 2002 total by only 4%.

The Sharon Christa McAuliffe Memorial Teacher Education Tuition Assistance program provides tuition assistance to students pursuing a career in public school teaching in areas of critical shortage

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in Maryland. The recipient is required to teach in Maryland for one year for each year of full-time or part-time tuition assistance. OSFA measures the number of applications received for this award as well as the number of recipients that enter the workforce as a teacher in a critical shortage area. The number of applications is expected to be back at the fiscal 2002 level by 2005 after a decrease in fiscal 2003, and the number of recipients working in critical areas is a new measure that is projected to show a slight increase from fiscal 2003. **Since the actual number of recipients graduating is not measured, the Department of Legislative Services (DLS) recommends the Secretary comment on how the number of recipients working in critical areas compares to the total number graduating with the award.**

The Maryland State Nursing Scholarship program is similar to the McAuliffe program for teachers except that its target population is students pursuing a career in nursing. The measures for this program also include the total number of applicants, the number of nursing graduates in the State, and the number of scholarship recipients that enter the workforce as a nurse. Like the McAuliffe program, the measures do not make the connection between the total number of graduates who received the award and those entering the workforce as a nurse. **DLS recommends the Secretary comment on the how the program is contributing to the total number of new nurses entering the workforce in the State.**

The Distinguished Scholar program provides 350 four-year scholarships in the amount of \$3,000 for use at postsecondary institutions in the State. The mission of this program is to educate the most promising and gifted high school graduates in Maryland's colleges and universities and encourage them to remain in the State. Therefore, OSFA promotes this program throughout the State as a resource for meeting college costs and measures the number of recipients that accept the award and attend a Maryland institution. The general funds for these awards have remained steady since fiscal 2001 and the percent of recipients attending Maryland institutions remains steady as well.

Fiscal 2004 Actions

Impact of Cost Containment

Cost containment reduced the scholarship budget for fiscal 2004 by \$3.6 million, or 4.4%. Scholarship programs were reduced 7.5% each, except for need-based programs, the Senatorial and Delegate scholarship programs, the Distinguished Scholar programs, and the Loan Assistance Repayment Program for primary care services. The HOPE scholarship programs were reduced 17% altogether. The scholarship programs that were reduced are shown in **Exhibit 3**. The reduction totaled 14.2% of the budgets of the reduced programs. Due to cost containment measures, the number of students receiving awards in these programs will decrease.

Exhibit 3
Fiscal 2004 Cost Containment Reductions to Scholarship Programs

	<u>FY 2004</u> <u>Approp.</u>	<u>FY 2004</u> <u>Revised</u>	<u>\$ Change</u>	<u>% Change</u>
Edward T. Conroy Memorial	\$232,484	\$215,055	-\$17,429	-7.5%
Fire Rescue Tuition Reimbursement	372,228	344,311	-27,917	-7.5%
Professional School Scholarships	202,500	187,312	-15,188	-7.5%
Physician Asst./Nurse Practitioner	79,500	73,538	-5,962	-7.5%
Tolbert Memorial Grant	300,000	277,500	-22,500	-7.5%
McAuliffe Memorial Teacher Scholarships	620,570	574,027	-46,543	-7.5%
HOPE Scholarships*	19,221,333	15,975,252	-3,246,081	-16.9%
General	2,526,397	2,137,052	-389,345	-15.4%
Science and Technology	3,897,390	2,164,027	-1,733,363	-44.5%
Teacher	12,511,562	11,513,687	-997,875	-8.0%
Comm. College Transfers	285,984	160,486	-125,498	-43.9%
Loan Assistance Repayment Program*	2,040,366	1,997,166	-43,200	-2.1%
LARP -general	316,597	292,852	-23,745	-7.5%
LARP Dental Care	259,398	239,943	-19,455	-7.5%
Nursing	1,058,696	979,294	-79,402	-7.5%
Physical and Occupational Therapist	20,000	18,500	-1,500	-7.5%
Child Care Providers	90,000	83,250	-6,750	-7.5%
Developmental Disabilities and Mental Health	900,000	832,500	-67,500	-7.5%
Total	\$25,137,677	\$21,557,705	-\$3,579,972	-14.2%

*Amounts combine all awards for a particular program.
Source: Maryland Higher Education Commission

Governor's Proposed Budget

The Governor's proposed budget, shown in **Exhibit 4**, increases 17.5% over the fiscal 2004 working appropriation. The largest increase is due to the 35% growth in Educational Excellence awards – the main source of State undergraduate need-based aid. The Loan Assistance Repayment Program and the Part-time Grant program, both offering need-based aid, increase 189% and 54%, respectively. The HOPE scholarship programs decrease 26%. Ninety-one percent of the total increase is in general funds.

Exhibit 4
Governors Proposed Budget
MHEC Scholarships
(\$ in Thousands)

	<u>FY 03</u> <u>Actual</u>	<u>FY 04</u> <u>Approp.</u>	<u>FY 05</u> <u>Allowance</u>	<u>FY 04-05</u> <u>Change</u>	<u>FY 04-05</u> <u>% Change</u>
General Funds	\$77,735	\$73,773	\$86,031	\$12,258	16.6%
Special Funds	1,544	2,191	3,300	1,109	50.6%
Federal Funds	711	712	769	57	8.0%
Adjusted Grand Total	\$79,989	\$76,676	\$90,101	\$13,424	17.5%

Where It Goes:

Educational Excellence Awards increase (39%).....	\$15,256
Delegate Scholarships increase (34%).....	1,104
HOPE Scholarships decrease (26%).....	-4,118
Part-time Grant Program increase (54%).....	725
Conroy Memorial Scholarship Program Grants increases (69%)	147
Loan Assistance Repayment Program increases (16%)	315
Other	-5
Total	\$13,424

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

Legislative Scholarships

The Governor’s budget includes \$10.9 million for Legislative Scholarships, an increase of \$1.1 million, or 10%, over the fiscal 2004 working appropriation; all of this increase is for Delegate Scholarships. This increase is roughly based on full-time tuition and mandatory fees for State residents at the highest cost institution, the University of Maryland, Baltimore County (UMBC). A portion of this \$10.9 million will likely fund other scholarship programs administered by MHEC because legislators can request to transfer a portion of their full allocation to the other scholarship programs. Historically, 10% of legislative scholarship funds have been transferred back to MHEC for use in other programs.

Educational Excellence Awards

The Governor's budget includes \$53.7 million for Educational Excellence Awards (EEA), the largest source of State need-based aid; these funds also include the Guaranteed Access Grant program. This is an increase of \$15.2 million (\$13.4 million in general funds), a total increase of 39% over the fiscal 2004 working appropriation. The current maximum award amount was set in fiscal 2000 at \$2,700. With the large increase in funds, OSFA will decide if it is possible to increase the maximum award amount without severely limiting the total number of awards available.

Scholarship Programs Continue to Have Waiting Lists

For the second consecutive year, many programs have waiting lists. There are over 5,400 students waiting for an Educational Excellence Award. The HOPE programs also have significant waiting lists, though no applications are being accepted for new awards for fiscal 2004 or 2005 because of the Governor's plan to phase out the program. The waiting lists are shown in **Exhibit 5**.

Exhibit 5 Program Waiting Lists for 2004-2005 Academic Year

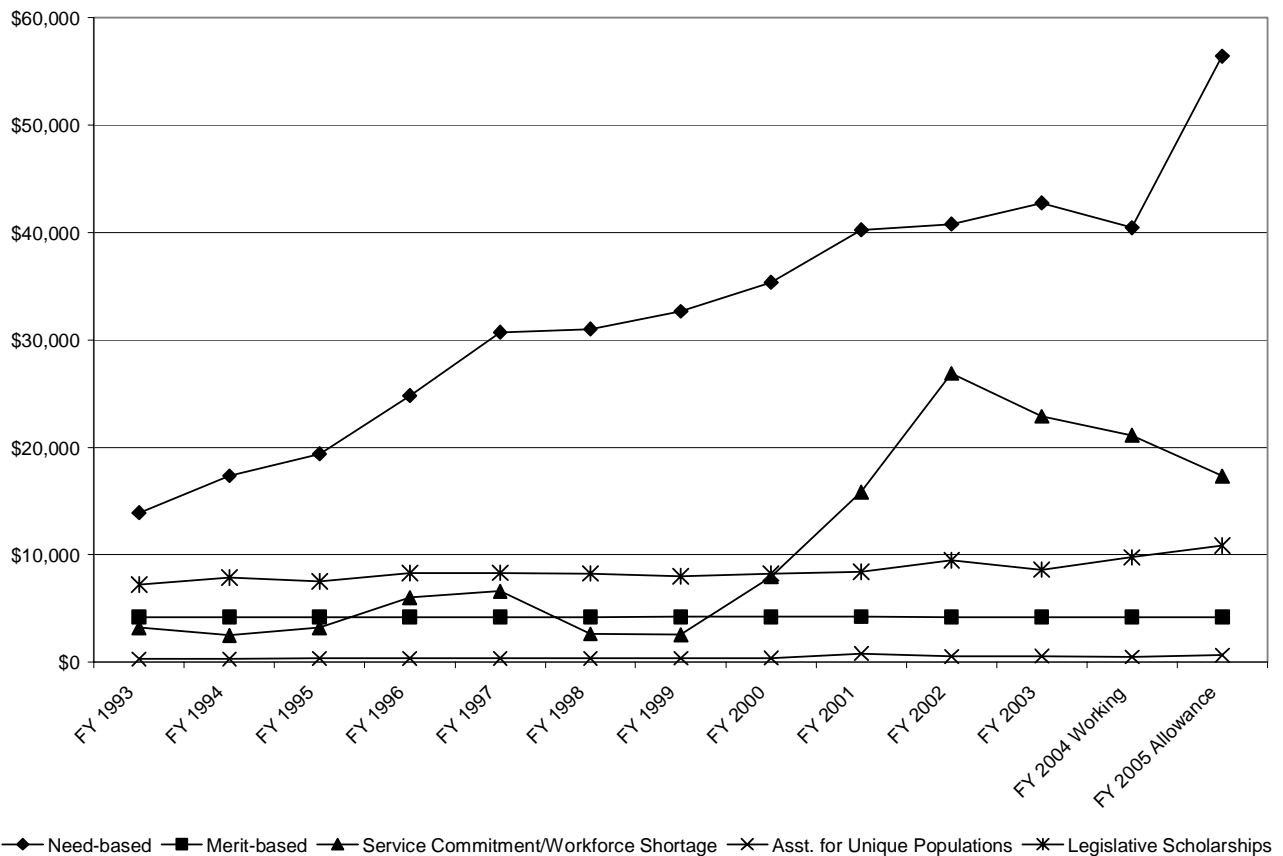
<u>Program</u>	<u>Eligible Waiting</u>
Need-based Aid Programs	
Educational Excellence Awards	5,438
HOPE Programs	
Teacher	983
Community College Transfers	164
General	688
Science and Technology	875
Service-based Programs	
McAuliffe Memorial Teacher Scholarships	67
Child Care Providers	3
Loan Assistance Repayment Program	96
Nursing Scholarship	475
Developmental Disabilities	363
Physical and Occupational Therapists and Assistants	7

Source: Maryland Higher Education Commission

Scholarship Allowance Indicates Changing Priorities

While need-based aid has always comprised the largest total dollars of scholarship funding, since the inception of the HOPE Scholarship program, funding has only increased for workforce shortage based programs. Fiscal 2005 is the first year that need-based aid has grown after a period of nearly level funding from fiscal 2001 through 2004. **Exhibit 6** shows the long-term trends in State financial aid funding for each of the five scholarship categories.

Exhibit 6
Scholarship Funding by Type of Aid
Fiscal 1993 – 2005 Allowance
(\$ in Thousands)

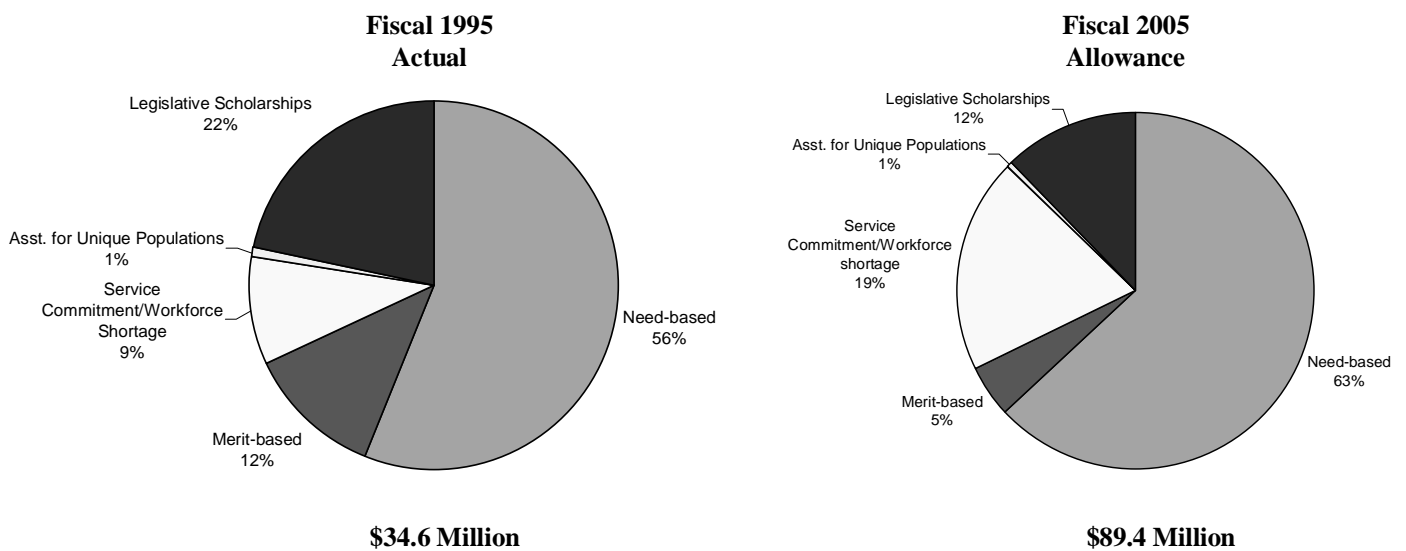


Source: Governor’s Budget Books, Fiscal 1995 – 2005

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Need-based aid comprises over 60% of the State spending on financial aid in fiscal 2005 due to the large increase proposed in the allowance. HOPE scholarship funding, despite cost containment in fiscal 2004 and the freeze on new applicants for fiscal 2005, still makes up over 70% of the service commitment/workforce shortage based aid. While the funding for all the types of aid has increased since fiscal 1995, the proportion of need-based aid to the whole did not change between fiscal 1995 and 2001, and actually declined from fiscal 2001 through 2004. **Exhibit 7** compares the fiscal 1995 to fiscal 2005.

Exhibit 7
Scholarship Funding by Type of Aid



Source: Governor's Budget Books, Fiscal 1997 and 2005

Exhibit 8 shows the actual number of awards in each of the scholarship programs in fiscal 2002 and 2003, and the estimated number of awards in fiscal 2004 and 2005. The total number of need-based awards is expected to increase from 23,833 in fiscal 2004 to 26,608 in fiscal 2005, reflecting the large funding increase in the allowance. Workforce shortage-based program awards are expected to continue decreasing after reaching a high of 6,883 awards in fiscal 2003. However, despite the increase in the allowance for financial aid programs in fiscal 2005, the overall number of awards estimated for fiscal 2005 will be lower than in fiscal 2003. **DLS recommends the Secretary comment on these trends in light of the increased allowance for financial aid programs.**

Exhibit 8
Recipients of Student Financial Assistance
Fiscal 2002 – 2005 Projections

<u>Program</u>	<u>FY 2002 Actual Recipients</u>	<u>FY 2003 Actual Recipients</u>	<u>FY 2004 Allowance Projected Recipients</u>	<u>FY 2005 Allowance Projected Recipients</u>
Need-based Awards	28,127	25,308	23,833	27,528
Educational Excellence	20,339	19,904	20,025	20,658
Guaranteed Access Grants	842	924	921	985
Decentralized Grant Program				920
Legislative Scholarships	8,593	11,006	10,729	11,502
Merit-based Awards	1,441	1,403	1,504	1,507
Workforce Shortage-based Programs	6,465	6,883	5,495	4,774
HOPE Teacher Scholarships	2,772	2,861	2,580	1,942
Other	3,693	4,022	2,915	2,832
Assistance for Unique Populations	1,058	1,045	982	1,008
Total Recipients	45,684	45,645	42,543	45,399

Source: Maryland Higher Education Commission

Issues

1. Reliance on Fund Balance Coming to an End

The statute governing MHEC scholarships requires that all funding not spent in a fiscal year in any of the scholarship programs be carried forward into need-based aid for the following year rather than be reverted to the general fund. In fiscal 2002 and 2003, carry forward funds were available for need-based aid programs. Though the funds were not spent, it was essential that MHEC carry a need-based aid fund balance into the following year for several reasons.

- A focus on the HOPE scholarship program left need-based aid programs without any budget increases for several years.

There was a focus on building up the HOPE Scholarship program, which is targeted at addressing workforce shortages. Since the inception of the HOPE program, there were no increases in the allowance for need-based aid. If OSFA were to award all of the funds for need-based aid each year, the allowance in the following year would only be enough to cover those renewals and would not be able to expand the program. OSFA felt that it was important to balance new and continuing awards.

- Carrying a fund balance is inevitable.

Each year, financial aid is over-awarded because a significant number of students will choose not to accept the award. Throughout the year, OSFA will continue to re-award those funds. Inevitably, some offers will not be accepted late in the spring, and due to the timing, it is too late for the funds to be re-awarded to other eligible students, which leaves funds remaining in the budget.

- Scholarship programs do not receive deficiency appropriations.

Since the programs are not set up so that all qualified students are guaranteed need-based aid, OSFA continually struggles to over-award by enough to spend most of the available funds but not award so much that funds might not actually be available. Therefore, OSFA is cautious about over-awarding, and this tends to leave some funds unused at the end of the fiscal year.

Approximately \$2 million remained at the end of fiscal 2002 for a fund balance in fiscal 2003. \$1.13 million of the fund balance was reverted to the general fund for cost containment, leaving a fund balance of approximately \$870,000 for fiscal 2004. In fiscal 2004, in addition to the unspent \$870,000 from fiscal 2003, the OSFA estimates a fund balance of \$207,000. Usually, the funds must be transferred by budget amendment to be used, and this is why the fund balance from fiscal 2003 is still available. For fiscal 2005, the Department of Budget and Management and OSFA are taking steps to eliminate the need for, and availability of, a fund balance. The fund balance from fiscal 2003 and 2004, a total of over \$1 million, is appropriated as special funds for need-based aid in the

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fiscal 2005 allowance, eliminating the need for a budget amendment. The fund balance transfers are shown in **Exhibit 9**.

Exhibit 9
Availability of Fund Balance
Fiscal 2003 – 2005

	<u>Fiscal 2003</u>	<u>Fiscal 2004</u> <u>Working</u>	<u>Fiscal 2005</u> <u>Allowance</u>	<u>%</u> <u>Change</u> <u>03-05</u>
Total Appropriation (all programs)	\$79,989,011	\$76,676,386	\$90,100,526	13%
Amount Awarded	79,119,011	76,469,386	n/a	
Remaining Fund Balance (need-based aid only)	870,000	207,000	n/a	
Need-based Aid Appropriation	42,716,237	40,056,012	54,180,935	27%
Fund Balance ¹	0	870,000	1,077,000 ³	
Other Transfers ²	0	0	765,624 ³	
Total Need-based Aid Available	\$42,716,237	\$40,056,012	\$56,023,559	31%

Notes: ¹The available fund balance from fiscal 2003 has not been transferred in fiscal 2004 so is designated for use in fiscal 2005.

²For fiscal 2004, the General Assembly designated \$765,624 from HOPE to be used for need-based aid. This amount has not been transferred and is part of the fund balance available in need-based aid in the fiscal 2005 allowance.

³Both the fund balance and other transfers, totaling \$1.8 million in fiscal 2005 are appropriated as special funds in the fiscal 2005 allowance.

Source: Department of Budget and Management; Maryland Higher Education Commission.

These actions allow OSFA to give out more awards in fiscal 2004, ensuring that a large portion of all financial aid funds will be spent in the designated year. The \$13.4 million general fund increase to the need-based aid programs for fiscal 2005 ensures that a significant number of new need-based aid awards can be made in addition to the continuing awards. Since the current administration is reducing the HOPE program and has suggested that need-based aid will continue to increase in future years, the fund balance for fiscal 2005 and thereafter is expected to be minimal.

MHEC should comment on how it will use the additional funds. Specifically MHEC should address plans to reduce the waiting list for need-based aid and increase the maximum grant.

2. Teacher Scholarship Recipients Not Influenced by the Availability of Aid

To help increase the number of Marylanders attracted to a career in teaching, particularly in critical shortage areas, the State offers a number of incentives that include three scholarship programs for prospective teachers: the Maryland Teacher Scholarship Program, the Sharon Christa McAuliffe Memorial Teacher Education Tuition Assistance Program, and the Distinguished Scholar Program-Teacher Education Scholarship. The scholarships are contingent upon the recipient's good academic standing and continuation in the teacher preparatory program. Each program provides financial aid in exchange for fulfilling a service obligation following graduation: students accepting the award must work as a teacher in Maryland for the same number of years they received aid or repay the funds.

The commission surveyed all the individuals in each of the three programs and produced a report of the findings in March of 2003. Since the Maryland Teacher Scholarship is the largest of the three programs the analysis focuses on the conclusions drawn from that program. The survey is the first of its kind that addresses the impact of the workforce shortage scholarship programs. Following are some of the findings:

- The scholarships do not appear to have had great impact on the career decision of most prospective teachers. An overwhelming majority of current teachers who participated in the programs indicated that they had already planned to become a teacher.
- An average of 84% of the respondents from the three programs that are currently employed as teachers indicated that they would continue teaching in Maryland after fulfilling the service obligation.
- The goal of recruiting students to teach in critical shortage areas is being achieved. All of the students responding that received a McAuliffe award stated that they would continue to teach in the critical shortage area once the service obligation was fulfilled.

Overall, the study found that the scholarships may not be that effective at persuading students to become teachers who were not already thinking about a career in teaching. However, the service obligation of the McAuliffe awards requires that graduating teachers teach in critical areas, and many of the respondents indicate that they will remain in these areas. The survey also provided the commission with suggestions for administrative improvement that may keep more recipients in the program and fulfilling their service obligation. The commission plans to conduct a similar study on nursing scholarship recipients in 2004. **MHEC should comment on the findings of the survey.**

3. HOPE Scholarship Program Set to Be Phased Out

The scholarship program that targeted students qualifying on the basis of merit and willing to work in the State for each year of receiving financial aid for a specified degree program is scheduled to be phased out. The general fund allowance for the HOPE programs will not be increasing to

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accommodate new students and will be funded in the future at the levels needed for continuing awards only.

The fiscal 2004 working appropriation for HOPE programs totaled \$15.9 million. This amount funded all continuing awards and new awards only for teachers. The fiscal 2005 allowance of \$11.9 million is sufficient to cover continuing awards for all current HOPE scholarship recipients, but no new awards will be offered in fiscal 2005.

MHEC should discuss the rationale for phasing out the HOPE scholarship program.

4. New Decentralized Grant Program for Need-based Aid Begins in Fiscal 2004

Fiscal 2004 is the first year for the Campus-Based Educational Assistance Grant (EAG) program. The Campus-Based EAG provides funds via MHEC to Maryland public and independent colleges and universities based on the number of Maryland, undergraduate, full-time students with demonstrated financial need enrolled in degree-granting programs. Carry forward was used in fiscal 2004 to fund the program. The Governor's fiscal 2005 budget includes base funding for this program.

Each institution's financial aid office is responsible for selecting recipients who meet all eligibility criteria. Eligibility criteria include the following:

- be Maryland residents that file for federal need-based aid;
- be enrolled as a full-time student;
- be Pell eligible; and
- be accepted for admission in a regular undergraduate program leading to a degree or diploma at an eligible institution.

Institutions use the allocated funds to assist students who filed their federal aid form after the State's March 1 deadline; typically these students are first generation college goers, from low-income families, or lack family support structures. The award amounts may range from \$400 to \$2,700 based on the student's percent of need. Percent need is calculated using the cost of attendance minus the expected family contribution and other scholarships received. The allocations to the institutions are based on the estimated number of full-time Maryland Pell (federal need-based aid) recipients at each institution for the 2001 – 2002 academic year. A total of \$2 million was allocated to the program in fiscal 2004.

Recommended Actions

	<u>Amount Reduction</u>
1. Reduce funding for need-based aid. Although significantly increasing need-based scholarships in light of the recent tuition increases has merit, there remains a \$600 million imbalance between ongoing revenues and spending in the fiscal 2005 general fund budget. After this reduction, scholarship funding still increases over 10%.	\$5,000,000 GF
Total General Fund Reductions	\$5,000,000

Updates

1. Progress Made in Pilot Program for Better Financial Aid Data Collection

The Maryland Higher Education Commission is proceeding with the multi-year research program identified in the 2002 *Joint Chairmen's Report* titled "Financial Aid Data Collection and Analysis." The report set out a six-year timeline for the implementation and analysis of student data for State financial aid programs. Fiscal 2004 is the second year of implementation, and the program is on track to meet the identified milestones.

The pilot program was implemented in fall 2003 with the following institutions: Montgomery Community College; Prince George's Community College; Carroll Community College; the University of Maryland, College Park; the University of Maryland, Baltimore; Morgan State University; and St. Mary's College of Maryland. The commission worked with these institutions to develop and implement unit (student) record financial aid data collection for fall 2003.

The pilot institutions reported financial aid data for fiscal 2003, and the data is currently being reviewed. The commission is working with the institutions to smooth out the submission process. Beginning in fall 2004, all of the public institutions will submit the unit record data to MHEC.

The commission also worked with the independent institutions to develop a schedule to phase in the collection of the enrollment and degree data information systems. The commission, in conjunction with the Maryland Independent Colleges and Universities Association (MICUA), has met over the 2003 interim to inform the staff at the institutions of the new enrollment reporting requirements and to integrate them into the current mechanisms for data collection. The pilot independent institutions include Baltimore International College, Maryland Institute College of Art, and Villa Julie College. Like the public institutions, these pilot institutions submitted data on enrollment this fall and are working with MHEC on refining the process so that the financial aid data can be submitted next year. By November 2005, the financial aid component will be completely phased in for all of the independent institutions.

Current and Prior Year Budgets

Current and Prior Year Budgets MHEC Scholarships (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2003					
Legislative Appropriation	\$80,360	\$2,191	\$712	\$0	\$83,263
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	55	0	0	55
Cost Containment	-2,625	0	0	0	-2,625
Reversions and Cancellations	0	-702	-2	0	-703
Actual Expenditures	\$77,735	\$1,544	\$711	\$0	\$79,989
Fiscal 2004					
Legislative Appropriation	\$77,353	\$2,191	\$712	\$0	\$80,256
Cost Containment	-3,580	0	0	0	-3,580
Budget Amendments	0	0	0	0	0
Working Appropriation	\$73,773	\$2,191	\$712	\$0	\$76,676

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

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Fiscal 2003

The cancellation of \$701,585 in special funds for the Loan Assistance Repayment Program reflects the amount of appropriation that exceeded available revenue. In fiscal 2002 the amount of appropriation was increased for revenue carried over from previous years. This amount of appropriation was carried over into fiscal 2003 and 2004.

**Object/Fund Difference Report
MHEC Scholarship Programs**

<u>Object/Fund</u>	<u>FY03 Actual</u>	<u>FY04 Working Appropriation</u>	<u>FY05 Allowance</u>	<u>FY04 - FY05 Amount Change</u>	<u>Percent Change</u>
Objects					
12 Grants, Subsidies, Contr	\$ 79,989,011	\$ 76,676,386	\$ 90,100,526	\$ 13,424,140	17.5%
Total Objects	\$ 79,989,011	\$ 76,676,386	\$ 90,100,526	\$ 13,424,140	17.5%
Funds					
01 General Fund	\$ 77,734,857	\$ 73,773,460	\$ 86,031,323	\$ 12,257,863	16.6%
03 Special Fund	1,543,634	2,190,600	3,300,000	1,109,400	50.6%
05 Federal Fund	710,520	712,326	769,203	56,877	8.0%
Total Funds	\$ 79,989,011	\$ 76,676,386	\$ 90,100,526	\$ 13,424,140	17.5%

Note: The fiscal 2004 appropriation does not include deficiencies, and the fiscal 2005 allowance does not reflect contingent reductions.

**Fiscal Summary
MHEC Scholarship Programs**

<u>Unit/Program</u>	<u>FY03 Actual</u>	<u>FY04 Legislative Appropriation</u>	<u>FY04 Working Appropriation</u>	<u>FY03 - FY04 % Change</u>	<u>FY05 Allowance</u>	<u>FY04 - FY05 % Change</u>
10 Educational Excellence Awards	\$ 41,277,759	\$ 39,071,026	\$ 39,071,026	-5.3%	\$ 54,327,826	39.0%
12 Senatorial Scholarships	6,077,600	6,486,000	6,486,000	6.7%	6,486,000	0%
14 Edward T. Conroy Memorial Scholarship Program	248,556	232,484	215,055	-13.5%	362,474	68.5%
15 Delegate Scholarships	2,532,654	3,271,426	3,271,426	29.2%	4,375,174	33.7%
16 Reimbursement of Firemen and Rescue Squadmen	372,227	372,228	344,311	-7.5%	344,311	0%
17 Professional School Scholarships	188,999	202,500	187,312	-0.9%	187,312	0%
19 Physician Assistant - Nurse Practitioner Training	79,500	79,500	73,538	-7.5%	73,538	0%
20 Distinguished Scholar Program	4,102,630	4,200,000	4,200,000	2.4%	4,200,000	0%
21 Jack F. Tolbert Memorial Student Grant Program	300,000	300,000	277,500	-7.5%	277,500	0%
22 Sharon Christa McAuliffe Memorial - Teacher Education	408,481	620,570	574,027	40.5%	574,027	0%
23 HOPE Scholarships Program	17,953,143	19,221,333	15,975,252	-11.0%	11,857,025	-25.8%
24 Distinguished Scholar Program - Teacher Education	119,000	234,000	234,000	96.6%	234,000	0%
26 Loan Assistance Repayment Program	1,949,774	2,040,366	1,997,166	2.4%	2,312,795	15.8%
27 Maryland State Nursing Scholarship Program	1,078,141	1,058,696	979,294	-9.2%	979,294	0%
29 Higher Education - Tuition Assistance - Physical	17,000	20,000	18,500	8.8%	18,500	0%
31 Child Care Providers	83,000	90,000	83,250	0.3%	83,250	0%
32 Developmental Disabilities and Mental Health Workforce	839,699	900,000	832,500	-0.9%	832,500	0%
33 Part-Time Grant Program	1,799,999	1,350,000	1,350,000	-25.0%	2,075,000	53.7%
39 Health Manpower Shortage Incentive Grant Program	560,849	506,229	506,229	-9.7%	500,000	-1.2%
Total Expenditures	\$ 79,989,011	\$ 80,256,358	\$ 76,676,386	-4.1%	\$ 90,100,526	17.5%
General Fund	\$ 77,734,857	\$ 77,353,432	\$ 73,773,460	-5.1%	\$ 86,031,323	16.6%
Special Fund	1,543,634	2,190,600	2,190,600	41.9%	3,300,000	50.6%
Federal Fund	710,520	712,326	712,326	0.3%	769,203	8.0%
Total Appropriations	\$ 79,989,011	\$ 80,256,358	\$ 76,676,386	-4.1%	\$ 90,100,526	17.5%

Note: The fiscal 2004 appropriation does not include deficiencies, and the fiscal 2005 allowance does not reflect contingent reductions.