



R62I0010

Office of Student Financial Assistance

Maryland Higher Education Commission

Fiscal Year 2027 Operating Budget

Response to Department of Legislative Service Analysis

**Senate Budget and Taxation Committee Education, Business, and
Administration Subcommittee**

Senator Nancy King, Chair

March 6, 2026

**House Appropriations Committee Education and Economic Development
Subcommittee**

Delegate Stephanie Smith, Chair

March 9, 2026

Background: The Maryland Higher Education Commission (MHEC) appreciates the thorough analysis provided by the Department of Legislative Services and welcomes the opportunity to provide additional context and clarification on the questions raised in the operating budget analysis.

MHEC serves as the State’s coordinating and regulatory authority for postsecondary education, ensuring that Maryland’s postsecondary education system remains accessible, affordable, and aligned with workforce and economic priorities. The statutorily established Commission sets policy direction and adopts regulations, while the agency’s professional staff, under the leadership of the Secretary, implements those policies, administers programs, and ensures compliance and transparency. With a comparatively small administrative footprint, MHEC manages an FY27 proposed budget of \$891.9 million, of which the vast majority supports direct student financial aid and statewide investments.

Twenty-five percent of the agency’s \$891.9 million dollar budget proposed in FY27 supports direct student financial aid awards, which flow through MHEC to Maryland students and institutions. A staff of 88 positions, 25 of whom support student financial aid, oversees hundreds of millions of dollars in aid, regulates 57 colleges and universities and more than 130 private career schools, and administers complex statutory mandates across a system serving approximately 345,000 credited students annually. This structure reflects a deliberate balance between student access, equity, fiscal stewardship, and long-term system sustainability.

Maryland’s postsecondary education ecosystem is one of the most diverse and high-performing in the nation, encompassing 16 community colleges, the 12 institutions of the University System of Maryland, Morgan State University as the State’s Preeminent Public Urban Research University, St. Mary’s College of Maryland as the public honors college, 15 state-aided independent institutions, and more than 130 private career schools.

Collectively, these institutions drive economic growth, civic vitality, and innovation across the State. To guide this system, MHEC is advancing the 2026–2030 Maryland State Plan for Higher Education pursuant to Education Article §11–105. The Plan establishes clear, data-driven goals and performance indicators to increase postsecondary attainment, strengthen credential value, and close persistent equity gaps in enrollment, transfer, and completion. A cross-sector steering committee and structured working groups are ensuring broad stakeholder engagement and shared ownership, while aligning statewide goals with agency capacity and measurable outcomes. This work reinforces Maryland’s position as a national leader in access and innovation and reflects a sustained partnership with the General Assembly.

At the same time, Maryland is navigating significant shifts in the federal landscape that heighten both opportunity and risk. Structural changes to federal postsecondary education oversight, volatility in Pell Grant eligibility rules, expansion of short-term Pell for workforce programs, and proposed caps on federal student loans are reshaping the financial aid environment and increasing administrative complexity for states. Concurrently, proposed reductions in federal research funding threaten the financial stability and innovation capacity of Maryland's public universities. These dynamics place additional pressure on state systems to do more with limited resources, even as demand for financial aid and student support continues to grow.

In this context, continued strategic investment in MHEC's coordinating, oversight, and administrative capacity is essential to safeguard public funds, sustain institutional excellence, and ensure that Maryland's postsecondary system remains a powerful engine of equity, talent development, and long-term economic growth.

MHEC is grateful to the Administration for a budget proposal that thoughtfully reflects the State's fiscal realities while continuing to prioritize strategic investments in postsecondary education. By balancing fiscal discipline with targeted support, the Governor's proposed allocations position MHEC to advance his commitment to leaving no Marylander behind and ensuring that every resident has meaningful access to affordable, high-quality postsecondary education and workforce opportunity.

MHEC's responses to the referenced statements and highlighted concerns are provided below. Quoted text from the DLS analysis appears in bold. Each response is organized by issue number and includes the corresponding page reference from the analysis.

The order of which MHEC responses are organized is as follows:

Performance Analysis: Managing for Results

1. Free Application for Federal Student Aid
2. Guaranteed Access and Education Grants
 - i. Guaranteed Access Grant
 - ii. Educational Assistant Grant
 - iii. EEA Awards Timeline and Process Measures
3. Impact of Credit Completion Requirements on Financial Aid Awards
4. Student Financial Aid Programs

Budget Reconciliation and Financing Act

1. Community College Promise Scholarship
2. Maryland Police Officers and Probation Agents Scholarship and LARP Programs

Issues Identified by DLS

1. Teaching Fellows for Maryland Scholarship
2. GA Awards
3. Need-Based Student Financial Assistance Fund

Audit Findings

Performance Analysis: Managing for Results

1. Free Application for Federal Student Aid - Page 10: “MHEC should discuss the reasons for the continued growth in FAFSA filings.”

We agree with the Department of Legislative Services that the continued growth in Free Application for Federal Student Aid (FAFSA) filings is a highly encouraging trend for the State. Between the 2021-2022 and 2025-2026 award cycles, the number of FAFSA filings increased by 64.6%. Facilitating access to postsecondary financial aid is a cornerstone of MHEC's mission, and the 119,833 filings already submitted for the 2026-2027 cycle as of February 1, 2026, indicate that our collaborative, cross-agency strategies are yielding positive results.

This historical growth is driven by federal simplification efforts combined with MHEC's proactive, statewide leadership. Recognizing the recent challenges with the federal FAFSA rollout, MHEC assumed a central convening role to ensure Maryland students were supported. MHEC has hosted statewide FAFSA Town Halls, bringing together local education agencies, higher education leaders, and nonprofit partners, to unify the State's communication strategy. Through aggressive, multi-channel outreach, MHEC has consistently delivered federal toolkits, instructional resources, and urgent deadline updates directly to hundreds of thousands of Marylanders.

Because universally high completion rates require a seamless bridge between postsecondary and K-12 systems, our focused partnership with the Maryland State Department of Education (MSDE) remains a primary driver of this success. MHEC supports this shared space by providing the critical data infrastructure and funding that empower local school systems. Through our FAFSA Completion Initiative, we supply high schools with secure, real-time data so counselors can identify exactly which seniors need help submitting forms or correcting errors. Furthermore, MHEC strategically leverages grant programs to fund on-the-ground support networks that guide low-income and first-generation high schoolers through the application process.

Moving forward, MHEC and MSDE are working together to strengthen oversight of the mandatory FAFSA outreach plans required of all local boards of education. While the current median completion rate of 52% is a solid baseline, and we are actively monitoring the nearly 120,000 filings submitted so far for the 2026-2027 cycle, geographic disparities across the State

indicate that local outreach efficacy varies widely. By establishing stronger K-12 accountability supported by MHEC's data and grant funding, Maryland is actively building the policy-driven infrastructure necessary to close these gaps and ensure every graduating senior is reached.

2. *Guaranteed Access Grant - Page 13: "MHEC should discuss why initial (GA) awards decreased for the first time since fiscal 2019."*

The apparent decline in initial Guaranteed Access awards in fiscal 2026 is primarily attributable to differences in application deadlines and award timing rather than a reduction in demand or eligibility.

MHEC notes that fiscal 2026 award data are preliminary, as awards are still being made and additional eligible applicants continue to be processed. While current year-to-date data reflect fewer initial awards compared to final awards in fiscal 2025, final totals for fiscal 2026 will not be known until the awarding cycle is complete.

Year-to-date comparisons between fiscal 2025 and fiscal 2026 should be viewed with caution due to significant differences in application deadlines driven by federal FAFSA changes.

In response to federal FAFSA implementation delays and the transition from Expected Family Contribution to Student Aid Index, MHEC extended the fiscal 2025 application deadline to June 1. This extension provided applicants with an additional 3 months to complete and submit required materials, likely increasing the number of first-time applicants able to finalize their applications. For fiscal 2026, the deadline returned to the standard March 1 date, shortening the application window relative to the prior year. As a result, differences in current-year-to-date initial award totals may reflect the timing of deadlines rather than a change in underlying demand or eligibility.

Importantly, even with the return to the March 1 deadline, fiscal 2026 applications and award totals remain higher than fiscal 2024 levels, prior to the full impact of recent eligibility expansions and federal FAFSA changes. This indicates that overall program participation continues to reflect sustained growth compared to pre-expansion years.

MHEC will continue to monitor awarding activity throughout fiscal 2026 and will reassess trends once the awarding cycle is complete and final data are available.

Educational Access Grant - Page 16: "MHEC should discuss the long-term viability of the EA grant considering the GA grant has comprised a growing share of the total EEA program and no initial EA awards have been made in the past two fiscal years. MHEC should also discuss why individuals who should have received renewal awards were waitlisted given that EA awards are to be automatically renewed if individuals meet credit requirements and continue to demonstrate need."

MHEC recognizes the importance of evaluating the long-term viability of the Educational Assistance (EA) grant within the broader Educational Excellence Awards (EEA) program. In recent years, the Guaranteed Access (GA) grant has comprised a growing share of total EEA program funding. This trend has been significantly influenced by the enactment of HB 0923 (2023), which expanded GA eligibility and increased the number of students qualifying for GA awards.

For FY 2025, the 31,652 individuals identified on the waitlist were all EA-Initial applicants, not renewal applicants. Renewal EA recipients who met credit and financial need requirements were automatically renewed in accordance with program policy. MHEC continues to award GA renewal and GA initial students, as well as EA renewal students, throughout the entire academic year as students become eligible and funding is available. A significant number of otherwise eligible students in each category (GA renewal, GA initial, and EA renewal) remain in a “not ready to be awarded” status for various reasons, including incomplete documentation, verification requirements, enrollment updates, or institutional reporting delays. These students may transition to “ready to be awarded” status at any point during the remainder of the academic year.

Because GA awards are statutorily prioritized and renewal awards must be supported for eligible students, MHEC must maintain sufficient funding capacity throughout the academic year to accommodate students who move from “not ready” to “ready” status. This dynamic limits the Commission’s ability to commit funds to new EA initial awards, as doing so could create a risk of insufficient funding to meet GA and EA renewal obligations later in the year.

As a result of expanded GA eligibility under HB 0923, ongoing GA award activity throughout the year, and the need to preserve funding for students who may become award-ready, no initial EA awards have been made in the past two fiscal years. Under current funding levels, after accounting for GA obligations and EA renewals across the full academic cycle, remaining resources have not been sufficient to support new EA initial awards.

MHEC agrees that this dynamic raises critical questions about the long-term viability of the EA grant for new recipients. As accurately highlighted in the [December 2022 Evaluation of the Office of Student Financial Assistance](#) conducted by the DLS, this is a structural issue: because the GA and EA grants share a single appropriation pool, increases in mandatory GA utilization inherently deplete the funds available for EA awards. While the DLS evaluation thoughtfully presented high-level options to address this, such as separating program budgets or redesigning them into a single sliding-scale grant, responsibly implementing these changes requires a holistic review of State financial aid policy rather than piecemeal administrative fixes.

We are at a critical crossroads that mirrors the challenges the State faced over two decades ago. In 2001, facing systemic pressures regarding program proliferation and funding adequacy, the state commissioned the American Institutes for Research to conduct a comprehensive,

independent review of the State's financial aid programs. That resulting report, [Access and Affordability: Refocusing Financial Aid in Maryland](#), provided policymakers with a vital, data-driven roadmap to align State resources with student needs.

Given the sweeping federal FAFSA changes, the commendable state-level eligibility expansions of recent years, and the structural vulnerabilities explicitly identified in the 2022 DLS evaluation, Maryland's financial aid landscape has fundamentally shifted once again. Just as the 2001 study allowed the State to take a comprehensive look at how best to serve its students, we believe a similar, independent review is urgently needed today.

Absent additional funding or statutory changes to program structure and award prioritization, the EA grant will continue to operate strictly as a renewal program. Therefore, MHEC respectfully recommends partnering with the General Assembly to commission a modern, independent study of Maryland's entire financial aid portfolio. Building upon the foundational findings of the recent DLS evaluation, this study would specifically evaluate the statutory prioritization of the EEA program, assess the complex fiscal modeling required to sustain both the GA and EA grants simultaneously, and provide the legislature with actionable recommendations to ensure long-term viability.

EEA Award Timeline and Process Measures - Page 20: "MHEC should discuss the reasons for increases in the share of declined and canceled awards.

Over the last three academic years, overall awards activity shows growth, but performance differs significantly between GA Initials and GA Renewals. The enactment of HB0923 (2023) significantly expanded eligibility for the GA grant, which likely contributed to both the growth in total awards and the increase in declined and canceled awards. By removing the 1) GPA requirement, 2) expanding the age limit, and 3) extending the number of years an individual could receive the scholarship after high school graduation, the legislation broadened access to a much larger population of residents. As a result, more students qualified for the award than under the prior criteria.

However, this expansion also increased the number of students identified as eligible who may not have intended to use the award. Because the GA grant does not require a separate state application and is instead triggered by completion of the FAFSA, any Maryland resident who met the income and timing requirements within six years of graduating from high school was automatically identified as eligible. This includes students who were already sophomores or beyond, as well as those attending out-of-state institutions. While these learners are technically qualified, many may not have intended to enroll in a Maryland institution or may already have committed to another institution, increasing the likelihood of declines or cancellations.

In effect, HB0923 expanded both participation and exposure. The policy change likely improved access and equity by removing GPA barriers and extending opportunities to non-traditional and

returning students. At the same time, it broadened the pool to include students less likely to ultimately utilize the award. This structural shift in eligibility naturally increases the volume, and potentially the share, of awards that are declined or canceled, not necessarily as a sign of program weakness, but as a reflection of expanded identification of eligible students whose enrollment decisions may not align with in-state attendance.

3. *Impact of Credit Completion Requirements on Financial Aid Awards - Page 22:*
“MHEC should discuss factors leading to more EEA recipients taking 30 or more credits.”

First and foremost, MHEC attributes the growth in students completing 30 or more credits to a concerted effort to enforce and communicate programmatic requirements. To retain their full EEA awards, students are required to successfully complete at least 30 credit hours by the end of their second academic year. Over the past cycle, MHEC has driven genuine behavioral improvement through strengthened communication efforts with both students and higher education institutions. By enhancing our direct outreach, providing much clearer guidance regarding these credit expectations, and improving coordination with campus financial aid offices, we have ensured that students are acutely aware of the benchmarks tied to their award retention. These proactive notification and monitoring efforts have successfully motivated more students to maintain stronger credit momentum and meet the annual completion benchmark.

Secondly, the sheer statistical size of the year-over-year increase, a 13.6 percentage point jump, is partially attributable to a critical correction in our reporting methodology. At the conclusion of the 2024–2025 academic year, MHEC identified an issue in how completion rates were previously calculated. The denominator used in prior reporting inadvertently included students who did not consistently attend their institutions, as well as students who had already lost their EEA awards in previous years. Because these students were no longer active award recipients or continuously enrolled, including them artificially diluted our completion rates and distorted the true longitudinal trends.

To correct this issue, MHEC refined the methodology so that the denominator now strictly measures students who were both awarded and paid in the previous academic year. This adjustment ensures that completion rates are calculated using an active, continuously participating cohort. While this vital correction improves the accuracy and integrity of our reporting, it also affects historical comparisons. The prior inclusion of ineligible or inactive students resulted in understated completion rates, meaning the revised approach creates the appearance of sudden growth that is partially attributable to improved data precision rather than solely to behavioral changes. As such, comparisons to previously reported growth trends should be interpreted with caution.

With this refined methodology now in place, MHEC and the legislature have a highly accurate, reliable baseline moving forward. We will continue to rigorously monitor this active cohort to measure the true impact of our credit completion policies in future academic years.

MHEC respectfully requests an alteration to the report narrative prompts for the impact of credit completion requirements on financial aid awards (Page 45). The proposed revision makes several specific adjustments to the original data request. It defines the target population as students in their second year or beyond of receiving the award. It also establishes set credit attainment brackets (30+, 24–29, and below 24) for the data groupings. Regarding educational outcomes, the revision replaces the request for general graduation rates with specific metrics from the Office of Research and Policy Analysis: average credits earned and on-time degree completion. Finally, it adds a requirement to report on new initiatives currently in development to alert students in danger of losing their aid.

The committees are interested in a report focused on the Educational Excellence Award (EEA). The report should include the following information: For the academic year (AY) 2025-2026 EEA award recipients required to meet the 30-credit-hour requirement (i.e. in their second year or beyond of receiving the award), information on their eligibility for the 2026-2027 awarding year, for both EEA programs; the following information should be included in the report: (1) how many students met the 30 credit requirement to receive the full amount of the award; (2) how many students had their award prorated; and (3) how many students lost eligibility because they did not meet the 30 credit requirement. MHEC should provide summary data by segment (community colleges, four-year public institutions, and independent institutions) and by institution. The data and reporting should use total credit attainment groupings (i.e., 30+, 24 to 29, below 24).

The report should also identify how the Maryland Higher Education Commission (MHEC) currently alerts Educational Excellence Award (EEA) recipients about the 30-credit-hour requirement and what initiatives are in development to alert recipients who are in danger of losing their award, as all segments are showing signs of increases in the number of students who are not meeting the 24-credit-hour minimum.

The report should also identify the final funding disbursement amounts for EEA recipients who are required to meet the 30-credit-hour requirement (i.e., in the second year or beyond of receiving the award) for AY 2025-2026. The report should indicate the percentage of students who remained eligible or had lost eligibility for the 2026-2027 award year by: the percentage of students by EEA award type; the percentage of students by total credit attainment grouping (i.e., 30+, 24 to 29, below 24); and the percentage of students by segment awards.

For the most recent data available from MHEC's Office of Research and Policy Analysis, MHEC should report on: (1) the average number of credits earned by students who received the EA and GA while enrolled in Maryland institutions; and (2) on-time degree completion for students who

received the EA and GA while enrolled in Maryland institutions. This data should be presented by segment (community colleges, four-year public institutions, and independent institutions) and should use total credit attainment groups (fewer than 24, 24 to 29, 30 and over).

Page 25: “The Department of Legislative Services (DLS) recommends adopting committee narrative requesting that MHEC submit a report on the cost to implement lower credit requirements for community college students.”

MHEC appreciates and supports the Department of Legislative Services’ recommendation to adopt committee narrative requesting a report on the cost of implementing lower credit completion requirements for community college students. Recognizing the distinct enrollment patterns of community college students is essential to ensuring that Maryland’s financial aid policies promote equitable access and student success.

MHEC is well-positioned to conduct this analysis. In June 2023, MHEC’s Office of Research and Policy Analysis published a policy brief titled “*Baby Carrot and Big Stick*,” which examined the impact of the current 30-credit completion requirement. The research found that, prior to the policy’s implementation, Educational Assistance recipients at community colleges completed an average of **17.7 credits per year**, compared to **25.6 credits** for students at four-year institutions. Because of this lower baseline, community college students face a higher risk of losing eligibility for renewal awards under the current requirement. The policy brief therefore recommended exploring lower annual credit-completion thresholds that better reflect community college enrollment patterns and the structure of associate degree programs.

Building on this work, MHEC can model projected changes in student eligibility, renewal retention rates, and total program expenditures under alternative credit completion thresholds. However, the November 1 reporting deadline presents significant data integrity challenges. Accurately estimating the fiscal impact for fiscal years 2022 through 2025 requires extensive data reconciliation and fiscal modeling, and institutional reporting of finalized enrollment, credit completion, and financial aid data typically extends into late fall.

To ensure the General Assembly receives the most accurate and fully reconciled fiscal analysis possible, MHEC respectfully requests that the report submission deadline be extended to **December 15, 2026**. This adjustment will allow the Commission to provide the budget committees with the rigorous, data-driven analysis necessary to inform policy decisions regarding credit completion requirements for community college students.

4. Proposed Deficiency - Page 28: “MHEC should state what the current fund balance is for this program and its anticipated fiscal 2026 closing balance.”

The current fund balance for the Teacher Development and Retention Program is \$9,927,200 and is projected to close fiscal 2026 at approximately \$9 million after anticipated award activity and program expenditures.

The projected year-end balance reflects expected obligations, including awards that will continue to be processed throughout the academic year. MHEC will continue to monitor expenditures and fund activity to ensure alignment with available appropriations and statutory requirements. Although MHEC continues to conduct outreach to participating institutions, few have responded or elected to participate in the program to date. MHEC will continue engagement efforts and provide technical assistance as needed to encourage broader institutional participation.

Budget Reconciliation and Financing Act

1. Page 31: “The difference is material to understanding the implications of the proposed BRFA reduction. MHEC should explain which number is correct.”

To understand the variance between the \$10.4 million award figure recorded in the Maryland College Aid Processing System (MDCAPS) and the \$12.9 million expenditure amount reported by institutions, it is critical to recognize the fundamental design of the Community College Promise Scholarship. Unlike the Guaranteed Access or Educational Assistance grants, Promise is statutorily designed as a "last-dollar" award. This means its value can only be calculated and applied after all federal Pell Grants, other State financial aid, and institutional scholarships have been completely factored in.

Because of this strict last-dollar requirement, combined with the program's recent transition to a decentralized model where funds are distributed directly to the community colleges, Promise award amounts are highly fluid throughout the academic year. For example, if a student receives a late outside scholarship, changes their credit load, or drops a class in the spring term, their Promise award must be subsequently reduced or canceled to prevent over-awarding. Consequently, the \$12.9 million figure reflects preliminary institutional spending reports submitted prior to the final, end-of-year reconciliation, while the \$10.4 million figure reflected in MDCAPS represents actual reported expenditures. This variance is an inherent byproduct of a decentralized, last-dollar program's reconciliation timeline, not a misstatement of funds. MHEC is actively working with institutions to finalize their fiscal 2025 reconciliations to establish the true, final expenditure baseline needed to evaluate the impact of the proposed Budget Reconciliation and Financing Act reductions.

Page 32: “MHEC should comment on how much funding has been awarded thus far in fiscal 2026 for Promise Scholarships and when community colleges typically make these awards.”

This same last-dollar statutory design completely dictates the timeline for when colleges make and report current-year awards. Community colleges structurally cannot finalize a student's Promise award until every other piece of their financial aid package is locked in and the final

enrollment census counts are confirmed for the semester. Because Promise is always the final piece of the financial aid puzzle, awarding and reporting inherently happen late in the academic cycle.

At this time, MHEC has disbursed the full annual Promise allocation to the community colleges based on the approved fiscal 2026 budget. While only \$6 million has been officially reported back into MDCAPS by the colleges as of early March, this lag is exactly in line with the operational reality of a last-dollar program. Reporting activity will naturally increase late in the spring as colleges finalize their secondary aid packages and lock in spring enrollment. Institutions have until June 2026 to complete their final award reporting in MDCAPS, with final fiscal reconciliation occurring in July.

MHEC will continue providing targeted, individualized technical assistance to each community college to ensure they successfully align their local awarding timelines with State reporting requirements prior to the close of the fiscal year.

2. Page 32: “MHEC should clarify why the full appropriation for the LARP for Police Officers and Probation Agents was not transferred to the NBSFAF if there were no recipients.”

To clarify the accounting, transfers to the NBSFAF are statutorily limited to the final unspent balances at the close of the fiscal year, rather than the initial full appropriation. While it is true that spending under the LARP for Police Officers was extremely limited during the fiscal year in question, there was still some level of program expenditure. Therefore, the full appropriation was not available; only the remaining unspent funds after those expenditures were processed were eligible to be moved.

Furthermore, MHEC executed these transfers in strict accordance with a formal determination issued by the Maryland Department of Budget and Management (DBM). DBM formally identified the specific programs and exact balances eligible for transfer to the NBSFAF. Prior to implementing any movement of funds, MHEC worked closely with both DBM and the Office of the Attorney General to thoroughly confirm the accuracy and legality of that determination.

MHEC transferred all eligible unspent balances precisely as directed by the State's fiscal and legal authorities. We will continue to collaborate with DBM to ensure that all future transfers to the NBSFAF are executed seamlessly.

Issues

1. Page 35 to 36: “MHEC should discuss the reason for the varying guidance on eligibility and award amounts and how it will work to ensure that guidance is provided to institutions in advance of awarding scholarships moving forward.”

MHEC acknowledges that institutions and students received differing guidance on eligibility and award amounts for the Teaching Fellows for Maryland Scholarship, resulting in significant disruption and confusion. We sincerely apologize for the impact these mid-cycle adjustments had on our students and institutional partners.

The shifts in guidance stemmed from a complex intersection of fiscal constraints, operational timing, and evolving legal interpretation. Prior to the 2025–2026 academic year, MHEC calculated room and board using each institution’s cost-of-attendance (COA) categories, including on-campus, off-campus, and living with parents. However, entering 2025–2026, significant budget reductions combined with a substantial increase in applications created severe funding pressures.

In seeking a solution to stretch available funding so we could serve as many applicants as possible, MHEC initially consulted with our assigned Assistant Attorney General (AAG). We were advised at that time that existing regulatory language permitted modifications to award amounts subject to the availability of funds. Relying on this legal counsel, MHEC issued the July 2025 guidance stating that off-campus students were no longer eligible to have their room and board covered.

Subsequently, the broader Office of the Attorney General (OAG) reviewed the matter and issued formal guidance that superseded the initial advice. The OAG clarified that under Education Article § 18-2205, room and board is a mandatory component of the Teaching Fellows Scholarship and must equal 100% of the equivalent room and board for a resident undergraduate, regardless of the student’s housing status. The memorandum further clarified that MHEC did not have the statutory authority to eliminate or reduce this component via regulation, even in times of fiscal constraint. Upon receiving this definitive OAG guidance, MHEC reversed its previous directive to ensure eligible off-campus students had their housing costs covered.

Compounding this issue is the timing of the State’s budget process. Because MHEC begins awarding scholarships before the legislative budget session concludes to provide timely notifications, adjusting award calculations when final appropriations differ from initial projections must be done within a highly compressed timeframe. The need to reconcile evolving fiscal realities with shifting legal interpretations during an active award cycle, unfortunately, led to varying updates provided to institutions.

Moving forward, MHEC will increase its efforts to improve efficiency, strengthen advanced planning, and ensure that guidance is provided to institutions well in advance of awarding scholarships. To prevent this from recurring, we are instituting a protocol that includes issuing formal written guidance before packaging begins, aligning operational procedures strictly with statutory requirements, providing advance training to financial aid administrators, and coordinating comprehensive policy reviews with senior OAG counsel prior to implementing any mid-cycle adjustments. By standardizing these timelines and reinforcing statutory alignment,

MHEC aims to provide institutions with predictable, transparent direction, minimizing confusion and ensuring consistent program administration across the state.

Page 36: “MHEC should discuss why these eight eligible renewals were placed on the waitlist.”

MHEC notes that the MDCAPS eligibility and award process is structured so that all eligible students, both renewal and initial applicants, are placed in a “waitlisted” status until an award is formally authorized and funds are obligated.

Accordingly, placement on the waitlist does not indicate a denial, loss of priority, or a funding concern. Rather, it reflects the standard system workflow, in which eligible students remain in waitlisted status until awards are batch-processed and formally converted to awarded status.

The eight eligible renewal students referenced were placed on the waitlist in accordance with this standard process. Once funding is confirmed and awards are authorized, eligible renewal students are moved from waitlisted to awarded status in accordance with program requirements and available appropriations.

Of the eight students:

- Two were awarded later that same week once funding became available.
- Five were awarded at a later date when additional funds were identified and released.
- One student was not awarded because the student did not enroll at the identified institution and therefore did not meet the enrollment requirement for disbursement.

Accordingly, seven of the eight eligible renewals ultimately received awards, and the single remaining student was not funded due to non-enrollment rather than waitlist status.

2. Page 36: “DLS recommends restricting funds pending a report on the errors in the GA program and changes made to the Teaching Fellows for Maryland Scholarship program.”

MHEC respectfully disagrees with the recommendation. As outlined in the Legislative Briefing to the Maryland General Assembly, the Guaranteed Access (GA) award issue resulted from a vendor system coding error in MDCAPS that improperly defaulted missing income data to zero, leading to incorrect eligibility determinations. MHEC acted promptly upon discovery, confirmed vendor responsibility, and implemented corrective actions to prevent further disruption.

Importantly:

- The total fiscal impact of \$8.47 million is fully covered within existing FY 2026 Educational Excellence Award (EEA) appropriations
- No additional State funds are required to address the reinstated awards.
- No student was held financially liable for the system error.
- Operational safeguards, including enhanced testing, dual authorization for code deployment, and expanded monitoring protocols, have already been implemented

Additionally, termination of the current vendor contract at this stage would jeopardize critical statewide financial aid processing operations and disrupt services for thousands of students. MHEC is legally and operationally obligated to maintain service continuity until the new Maryland Data and Scholarship Information System (MDSIS) is fully implemented in Fall 2026.

Given that:

- The affected awards are fully funded within existing appropriations,
- System controls have been strengthened, and
- A full modernization effort is already underway,

MHEC believes the current corrective actions and oversight measures sufficiently address the issue. Additional measures beyond those already implemented would not materially improve fiscal protection or operational stability at this time.

3. Need-based Student Financial Assistance Fund - Page 38: “MHEC should discuss if the NBSFAF appropriation included in the allowance for the EEA program is realistic, given how much would need to be transferred into the fund to reach that level.”

This projection was developed in close coordination with the Department of Budget and Management (DBM) and was based on the substantial transfer levels observed over the past two fiscal years. However, MHEC recognizes that recent utilization trends, such as the positive, increased uptake in programs like the Promise Scholarship, indicate that future transfers into the NBSFAF will likely decline.

Currently, OSFA is actively processing fiscal 2025 accruals, with a remaining balance of approximately \$13 million. If at least \$6 million of these unspent funds are ultimately transferred to the NBSFAF upon the final reconciliation of all fiscal 2025 expenditures, the fund will be on track to support the full projected EEA appropriation without issue.

MHEC is proactively managing this dynamic and has already discussed potential variances with DBM. We will continue to rigorously monitor transfer activities and the finalization of fiscal 2025 balances. Should actual transfers fall short of the projected allowance, MHEC will work

directly with DBM to request a deficiency appropriation during the fiscal 2028 budget submission process to ensure that all eligible EEA awards remain fully funded and no students are negatively impacted.

Page 38: “However, to limit the accumulation of balance in the NBSFAF and provide additional revenue to the General Fund and the Blueprint Fund, DLS recommends sweeping unused appropriations for non-income-based financial assistance awards that are supported by the General Fund to the General Fund instead of the NBSFAF and sending unused funds from the Teaching Fellows for Maryland Scholarship program back to the Blueprint Fund, which is the source of the initial appropriation.”

MHEC understands the intent of the DLS recommendation to limit the accumulation of balances within NBSFAF and to redirect unused appropriations to their originating fund sources. However, MHEC believes that continuing to sweep unused non-income-based financial assistance appropriations to NBSFAF remains consistent with the fund’s statutory purpose and long-term sustainability goals.

Sweeping unused General Fund-supported, non-income-based financial aid appropriations back into the General Fund would reduce NBSFAF's stability and forward-funding capacity. Maintaining these balances within NBSFAF allows MHEC to better manage year-to-year volatility in transfer revenue, support caseload fluctuations, and ensure continuity of awards, particularly for entitlement-based and need-based programs that are sensitive to economic conditions.

Regarding the Teaching Fellows for Maryland Scholarship program, MHEC recognizes that the Blueprint Fund is the source of the initial appropriation. However, retaining any unused balances within NBSFAF supports overall fund stability and administrative efficiency. Redirecting unused Teaching Fellows funding back to the Blueprint Fund could introduce additional administrative complexity and reduce flexibility in managing scholarship obligations across fiscal years.

Additionally, given recent downward trends in transfer activity and uncertainty regarding future revenue levels, maintaining balances within NBSFAF serves as an important safeguard against potential shortfalls. These balances help mitigate the need for mid-year deficiency requests and provide greater predictability in meeting student award commitments.

MHEC will continue to monitor fund balances and transfer trends closely and remains committed to working with DBM and DLS to ensure that fund management practices support both fiscal responsibility and the long-term sustainability of student financial assistance programs.

MHEC respectfully requests that the current statutory sweep mechanisms remain intact to protect the fiscal viability of our need-based aid programs. We will continue to monitor fund balances closely and remain committed to working collaboratively with the Department of Budget and

Management and the legislature to ensure that our fund management practices reflect strict fiscal responsibility while guaranteeing the funding promises made to our student awardees.

Audit Findings - Page 40: “DLS recommends restricting funds pending a report on the status of changes implemented to correct the audit findings.”

MHEC fully understands and appreciates the Department of Legislative Services’ recommendation to restrict administrative funds pending a report on our progress in correcting the recent Office of Legislative Audits findings. We share the committees’ commitment to absolute fiscal accountability, program integrity, and the necessity of transparent oversight regarding the administration of State programs. While we welcome the opportunity to report comprehensively on our progress, MHEC respectfully requests that the committees adopt the reporting requirement without formally restricting agency funds.

Under our current executive leadership team, MHEC has moved beyond temporary corrective actions and is fundamentally restructuring the agency’s internal controls across all operations. Of the fifteen specific recommendations made by the auditors across the seven total findings, we have already fully addressed twelve internally and are on track to resolve the remaining three. To ensure strict, continuous accountability, MHEC leadership meets monthly with the DBM’s Audit and Finance Compliance Unit to review and verify the progress of our mitigation efforts prior to official closure by the auditors.

We have taken decisive, systemic action across the agency. Regarding career-based financial aid service obligations, we reorganized the unit, enhanced staffing, and completely eliminated a historical backlog of more than 1,000 cases dating back to fiscal 2020, ensuring required notices are sent timely and non-responsive recipients are immediately placed in repayment mode. To address findings related to accounts receivable and debt collection, we instituted a "Fiscal Firewall" where accounting supervisors independently verify adjustments, and we have prioritized the timely issuance of dunning notices and the prompt referral of delinquent accounts to the Central Collection Unit.

Furthermore, we identified that the root cause of our financial aid reconciliation finding was a historical accounting practice known as the wash process, which inappropriately netted prior-year institutional refunds against current-year payments. We have completely eliminated that practice so that refunds are reconciled within the same fiscal year they occur, and we are currently finalizing a rigorous new reconciliation procedure between our financial aid system and the State's accounting records. We have also tightened system user access controls by requiring biannual signed agreements for external users and conducting strict reviews of internal employee access.

Finally, we have implemented robust database encryption to safeguard personally identifiable information and strengthened verification protocols for community college pension contributions. Because MHEC operates with a remarkably lean administrative footprint, utilizing

only two percent of our total proposed appropriation for agency-wide operations, restricting administrative funds actively threatens the very staffing and oversight capacity required to sustain these newly implemented compliance frameworks.

MHEC is fully prepared and eager to submit the comprehensive status report requested by DLS by the August 15, 2026, deadline. We respectfully ask that the committees adopt this reporting mandate without a restriction on the core administrative resources that are currently keeping our agency compliant and functioning effectively.



Friday, March 6, 2026

Guy Guzzone
Budget and Taxation, Committee Chair;
Nancy J. King,
Education, Business, and Economic Administration Chair
3 West Miller Senate Office Building

Monday, March 9, 2026

Ben Barnes
Appropriations Committee Chair,
Stephanie Smith,
Education and Economic Development Chair
121 Taylor House Office Building

Dear Chairs Guzzone and King,

Chairs Barnes and Smith,

I submit today issues identified with the Maryland Higher Education Commission's administration of two programs: the Student Loan Debt Relief Tax Credit program and the Edward T. Conroy and Jean B. Cryor Memorial Scholarship Program. Through this letter, I hope to help summarize working solutions and reinforce my deep commitment to serving the students, faculty, and institutions that constitute Maryland's world-class higher education community.

Under statute, the Student Loan Debt Relief Tax Credit has a mandatory appropriation of \$18 million per fiscal year. The FY26 budget for the program was cut in half due to a Budget Reconciliation and Financing Act reduction to \$9 million. For the 2025 tax year, MHEC awarded tax credits under an alternative prioritization, which erroneously prioritized individuals who had not received the tax credit in the previous year.

In addition, all awardees received the same amount of tax credits despite statutory requirements for some borrowers to receive larger award amounts. MHEC, therefore, awarded slightly more than \$7 million in tax credits to individuals in error, while nearly 1,600 individuals who should have received a tax credit were either denied entirely or only received a partial award.

For the State employees and Pell Grant-eligible students who rely on these credits, we recognize the stress and inconvenience this situation has caused. We deeply regret the error. The agency has since identified all impacted individuals, is working to produce notification of the error, and will ensure the impacted individuals are made whole. We also made leadership changes in the finance and administration department to help promote accountability for our work.

The Edward T. Conroy and Jean B. Cryor Memorial Scholarship Program is unique among MHEC scholarship programs. Rather than having the agency determine program eligibility and make award amounts that cover the entire school year, higher education institutions determine



eligibility for the award and request reimbursement from MHEC on a semester basis for students enrolled under the program. Historically, the program has been oversubscribed, and the agency has retroactively satisfied reimbursement requests using future funding allocations.

For FY26, MHEC received and paid out \$7 million in reimbursements for the fall semester alone; however, \$1.8 million in reimbursement requests for the fall semester remain. For the spring semester, the agency estimates \$8 million in reimbursement requests, bringing the total outstanding reimbursement to \$9.8 million.

To ensure that students are not impacted, MHEC will pay the final \$9.8 million in reimbursement requests from the Need-Based Student Financial Assistance Fund. We recognize that this practice is not sustainable, and we are committed to working with the General Assembly on statutory reforms to the program to alleviate the administrative challenges and ensure the program does not exceed its yearly budget allocation

In addition to the corrective action previously noted, MHEC has implemented new internal controls, is conducting a comprehensive review of all of our aid programs to improve accounting practices, and is reviewing regulations to ensure appropriate aid prioritization according to statutory requirements. We are committed to ensuring equitable access to affordable and high-quality postsecondary education for all Marylanders. Responsible fiscal oversight and statutory alignment are central to that mission.

I thank you for your time and attention to this matter, and I look forward to answering any questions.

Sincerely,

A handwritten signature in black ink that reads "S K Rai". The letters are cursive and somewhat stylized.

Sanjay Rai, Secretary, Maryland Higher Education Commission