

Department of Legislative Services  
Maryland General Assembly  
2013 Session

FISCAL AND POLICY NOTE  
Revised

Senate Bill 431

(Senator King)

Budget and Taxation

Appropriations

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Higher Education - University System of Maryland - Quasi-Endowments

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This bill authorizes the Board of Regents of the University System of Maryland (USM) to maintain and manage quasi-endowment funds; however, the board may only make a one-time transfer of no more than \$50 million from the non-State supported fund balance to the quasi-endowment fund. The board must submit an annual investment performance report on its quasi-endowments by November 1.

The bill takes effect July 1, 2013.

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Fiscal Summary

**State Effect:** The USM fund balance decreases by up to \$50 million, with a commensurate increase in quasi-endowment funds to be invested. Higher education revenues and expenditures increase if quasi-endowment funds earn higher rates on return. However, cash flow for USM from its invested monies may be altered. Investment returns may be lower, and USM will have access to up to \$50 million in principal which, if used, will reduce the amount of money available in the future from those funds.

**Local Effect:** None.

**Small Business Effect:** None.

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Analysis

**Bill Summary:** The bill defines “quasi-endowment funds” as funds that USM retains and manages in the same manner as an endowment.

**Current Law:** The Board of Regents of USM is authorized to maintain and manage gift and endowment funds. The board must submit an annual investment performance report on its gifts and endowment by November 1.

State agencies are generally required to maintain all cash and investments with the State Treasurer, who invests and manages the funds. The governing boards of Morgan State University and St. Mary's College of Maryland are also authorized to maintain and manage gift and endowment funds outside the State Treasurer's Office.

**Background:** A quasi-endowment is a fund or investment established by the governing board of an organization with the expectation that the funds be invested and managed to last in perpetuity; however, the governing board may decide at any time to expend the principal. Institutions with quasi-endowments generally invest the funds like they would their endowment funds, which are restricted by external donors so that the principal cannot be spent within a certain time period or in perpetuity, but dip into the principal to provide cash flow for operations or projects during difficult financial periods or when funds are needed for a particular project.

According to the USM Financial Statement for the year ending June 30, 2012, USM had \$1.608 billion in cash and short-term investments on deposit with the State Treasurer. The State Treasurer's Office advises that the average rate of return on its short-term investments is 0.8% as of January 2013.

USM advises that it intends to transfer a portion of its fund balance currently invested by the Treasurer to a quasi-endowment that would be invested by the USM Foundation, Inc. (USMF) with a goal of earning a higher return on investment, which would be used to enhance fundraising capacity at USM institutions for the next capital campaign. USMF currently has a five-year contractual agreement with the USM Board of Regents to manage its approximately \$200 million endowment, known as the Common Trust Fund, as well as the endowment of affiliated foundations and other education institutions in the State totaling approximately \$800 million. The USM Board of Regents has not determined how much to transfer to the quasi-endowment but has indicated that at least \$50 million would be needed to generate a sufficient return.

**State Fiscal Effect:** The USM fund balance decreases by up to \$50 million, and quasi-endowment funds increase by an equal amount under the bill. Investing a portion of USM's fund balance in a quasi-endowment rather than the Treasurer's Office could result in higher investment earnings, but it is also a riskier investment that could result in lower earnings and possibly a loss of principal depending on the investments and market performance. The exact impact cannot be determined. To the extent that the quasi-endowment posts higher earnings (and no loss of principal), higher education revenues and expenditures increase to increase the fundraising capacity and staff of USM institutions. Although USM has indicated it intends to invest the quasi-endowment

similar to the endowment, without spending principal, to the extent that the USM Board of Regents exercises its option to spend the principal under the bill, and not just the investment earnings, of the quasi-endowment, the amount of funds available for future investment may be reduced.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** University System of Maryland, State Treasurer's Office,  
Department of Legislative Services

**Fiscal Note History:** First Reader - February 19, 2013  
mlm/rhh Revised - Senate Third Reader - March 26, 2013

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