

R30B25
University of Maryland Eastern Shore
University System of Maryland

Executive Summary

The University of Maryland Eastern Shore (UMES) is the State's 1890 land-grant institution and, as such, maintains a legacy of a historically black college and university offering equal education opportunities to all students who qualify for admission.

Operating Budget Data

(\$ in Thousands)

	<u>FY 18</u> <u>Actual</u>	<u>FY 19</u> <u>Working</u>	<u>FY 20</u> <u>Allowance</u>	<u>FY 19-20</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Funds	\$40,131	\$41,857	\$42,742	\$885	2.1%
Adjustments	0	384	1,629	1,245	
Adjusted General Fund	\$40,131	\$42,241	\$44,371	\$2,130	5.0%
Special Funds	1,755	1,879	1,989	110	5.9%
Adjustments	0	0	0	0	
Adjusted Special Fund	\$1,755	\$1,879	\$1,989	\$110	5.9%
Other Unrestricted Funds	57,055	54,476	54,388	-88	-0.2%
Adjustments	0	0	0	0	
Adjusted Other Unrestricted Fund	\$57,055	\$54,476	\$54,388	-\$88	-0.2%
Total Unrestricted Funds	98,941	98,212	99,119	907	0.9%
Adjustments	0	384	1,629	1,245	
Adjusted Total Unrestricted Funds	\$98,941	\$98,596	\$100,748	\$2,152	2.2%
Restricted Funds	25,041	26,347	24,673	-1,674	-6.4%
Adjustments	0	0	0	0	
Adjusted Restricted Fund	\$25,041	\$26,347	\$24,673	-\$1,674	-6.4%
Adjusted Grand Total	\$123,982	\$124,943	\$125,421	\$478	0.4%

Note: The fiscal 2019 appropriation includes deficiencies, a one-time \$500 bonus, and general salary increases. The fiscal 2020 allowance includes general salary increases.

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

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- State support for UMES in fiscal 2020 grows 5.2%, or \$2.2 million, over fiscal 2019.
- The general fund allowance includes \$0.4 million for workforce development initiatives (WDI) that will support the statewide Physician Assistant Partnership. UMES did not receive funding for WDI in fiscal 2019.

Personnel Data

	<u>FY 18</u> <u>Actual</u>	<u>FY 19</u> <u>Working</u>	<u>FY 20</u> <u>Allowance</u>	<u>FY 19-20</u> <u>Change</u>
Regular Positions	776.07	772.87	772.87	0.00
Contractual FTEs	<u>135.00</u>	<u>133.00</u>	<u>133.00</u>	<u>0.00</u>
Total Personnel	911.07	905.87	905.87	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	65.85	8.52%
Positions and Percentage Vacant as of 12/31/18	66.00	8.53%

- The fiscal 2020 allowance does not provide for any new regular positions. However, the University System of Maryland institutions have personnel autonomy and may create new positions during the year. In fiscal 2019, UMES added 35.58 regular positions, of which 22.08 are related the 1890 Agriculture Extension Program, of which 14.1 are new positions, and the remaining are existing positions transferred from the University of Maryland, College Park Campus, which was responsible for the administration of the program. The increase was offset by the elimination of 38.79 positions resulting in regular positions declining by 3.21.

Key Observations

- UMES continues to face financial challenges stemming from an ongoing drop in enrollment that has fallen 30.6% between fall 2015 and 2018.
- The second- and third-year retention rates for the fiscal 2015 cohort declined significantly, reflecting the admissions of students in fall 2015 who were not prepared for college. The graduation rate is also expected to drop as this cohort of students progresses toward graduation.
- UMES continues to pursue the acquisition of the Hawk Plaza Student Housing complex from the Maryland Hawk Corporation (Maryland Hawk) despite a continuing drop in enrollment.

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This raises concerns of UMES being able to cover the \$12.7 million debt service obligation associated with Hawk Plaza. In addition, Maryland Hawk owes UMES \$882,260 related to the improper transfer of UMES funds to the corporation.

Operating Budget Recommended Actions

1. See the University System of Maryland overview for systemwide recommendations.

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Operating Budget Analysis

Program Description

The University of Maryland Eastern Shore (UMES) is the State's 1890 land-grant institution and, as such, maintains a legacy of a historically black college and university offering equal education opportunities to all students who qualify for admission. UMES emphasizes selected baccalaureate programs in liberal arts and sciences and career fields with particular relevance to its land-grant mandate including agriculture, marine and environmental science, hospitality, and technology.

UMES serves the education and research needs of government agencies, business, and industry while focusing on the economic development needs of the Eastern Shore. UMES aspires to become an educational model of a teaching/research institution and will continue to enhance its interdisciplinary curriculum-sponsored research and outreach to the community and expand its collaborative arrangement within the system and with external agencies and constituencies.

Carnegie Classification: Doctoral Universities/High Research Activity

Fall 2018 Undergraduate Enrollment Headcount

Male	1,161
Female	1,442
Total	2,603

Fall 2018 Graduate Enrollment Headcount

Male	222
Female	374
Total	596

Fall 2018 New Students Headcount

First-time	529
Transfers/Others	159
Graduate (Master's)	39
Graduate (Doctoral)	85
Total	812

Campus (Main Campus)

Acres	745
Buildings	92
Average Age	37
Oldest	1940

Programs

Bachelor's	36
Master's	14
Doctoral Research	6
Doctoral Professional	2
Total Programs	58

Degrees Awarded (2017-2018)

Bachelor's	482
Master's	52
Doctoral Research	20
Doctoral Professional	80
Total Degrees	634

Proposed Fiscal 2020 In-state Tuition and Fees*

Undergraduate Tuition	\$5,418
Mandatory Fees	\$3,140

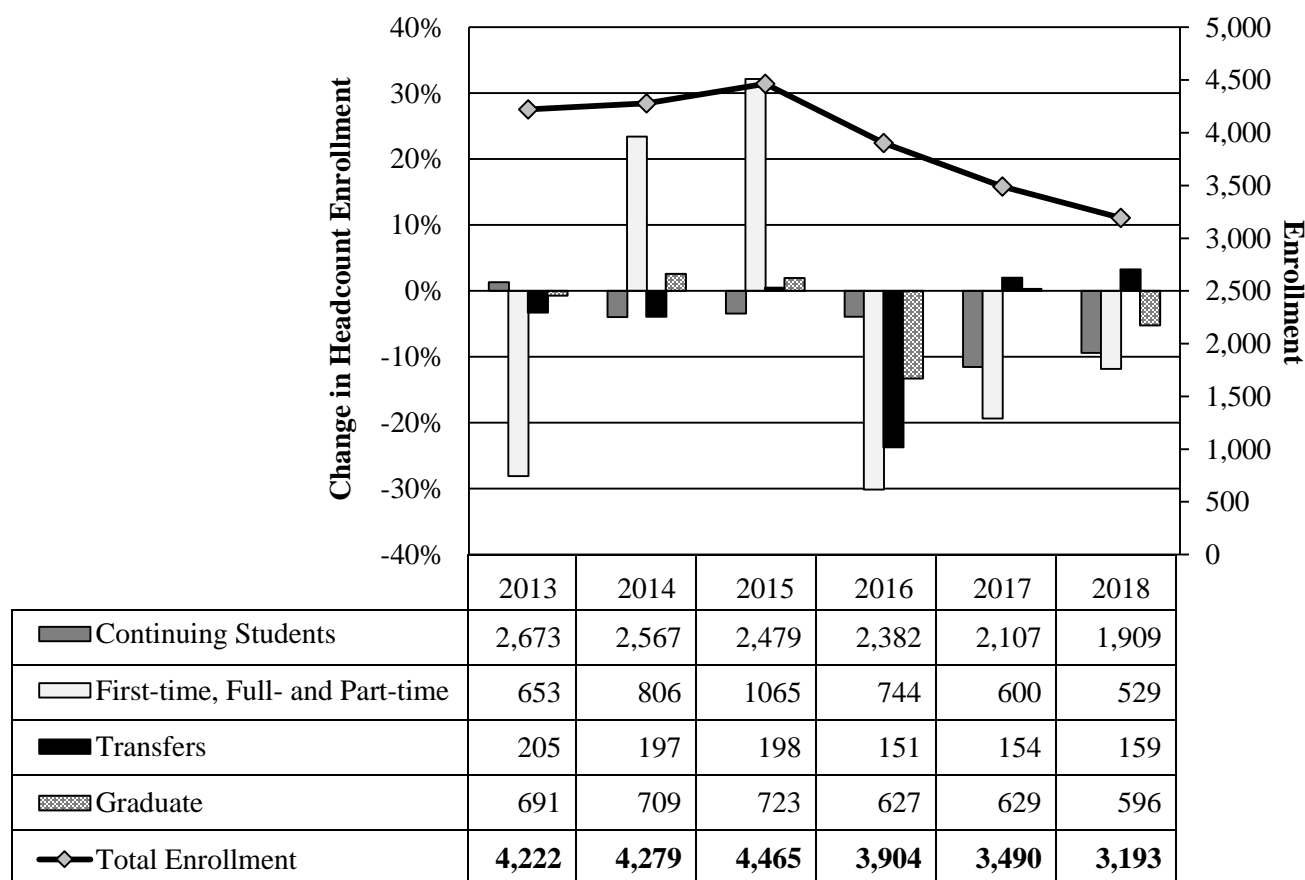
*Contingent on Board of Regents approval.

Performance Analysis

1. Enrollment

Undergraduate enrollment fell 9.2%, or 264 students, in fall 2018, as shown in **Exhibit 1**. Since fall 2015, undergraduate enrollment has fallen 30.6% (1,145 students) with first-time and continuing students dropping 50.3% (536 students) and 23.0% (570 students), respectively. The decline in undergraduate enrollment can be attributed to several factors including not using an enrollment management firm – formerly Royall & Company (Royall) – that was hired in fall 2015 to help increase the number of applicants. UMES has ended the contract with Royall and partnered with Hobson to help with UMES’ active search process of identifying students who would be a good fit for UMES.

Exhibit 1
Percentage Change Total Headcount Enrollment
Fall 2013-2018



Source: University System of Maryland

Royall proved successful in increasing the number of first-time applicants from 4,205 in fall 2014 to 7,403 in fall 2015, as shown in **Exhibit 2**. UMES asserts that Royall's method led to more applications rather than students who were actually interested in attending UMES, resulting in the acceptance of students who were ill-prepared to succeed in college. However, ultimately it was UMES' decision to admit those students.

Exhibit 2
All Undergraduate Applicants for First-time Admissions
Fall 2012-2018

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Applied	4,409	4,081	4,205	7,403	10,481	7,866	4,946
Accepted	2,513	2,245	2,607	3,702	4,088	3,068	2,671
Enrolled	905	651	834	1,110	777	552	561
Acceptance Rate	57%	55%	62%	50%	39%	39%	54%
Yield Rate	36%	29%	32%	30%	19%	18%	21%

Note: The acceptance rate is the percent of applicants who accepted. The yield rate is the percentage of accepted students who enrolled. Enrolled numbers may not correspond to the fall first-time enrollment number, since students may decide not to attend college or drop out.

Source: University System of Maryland

In fall 2016, the number of first-time applications increased to its highest level of 10,481, underscoring the notion that Royall was still generating applicants. However, this did not translate into more students enrolling with the yield rate dropping from 30% in fall 2015 to 19% in fall 2016. While the number of applicants dropped to 4,946 in fall 2018, this appears to be more consistent with the trends before the hiring of Royall. While fewer students were accepted in fall 2018, the acceptance and yield rates improved to 54% and 21%, respectively.

Graduate enrollment declined 5.2% (33 students) in fall 2018, resulting in an overall decline in total enrollment of 8.5%. Since fall 2015, graduate student enrollment has dropped 17.6% (127 students), which is mainly attributed to the loss of the Physicians Assistance (PA) Program in December 2015 that enrolled 100 students. Overall, since fall 2015, UMES has lost over a quarter (28.5%) of its total student population.

In fiscal 2019, UMES implemented several new projects and initiatives aimed at increasing enrollment. Efforts to improve the recruitment of new first-time and transfer students focus on:

- identifying students who are a good fit for UMES;
- encouraging campus visits;
- engaging key influencers in recruitment efforts *i.e.*, alumni, parents, and guidance counselors; and
- awarding scholarship earlier in the recruitment cycle.

UMES also reestablished the Enrollment Task Force Committee to examine the current operating structure and established a Guidance Counselor Advisory Board to provide feedback on recruitment efforts.

2. Student Performance

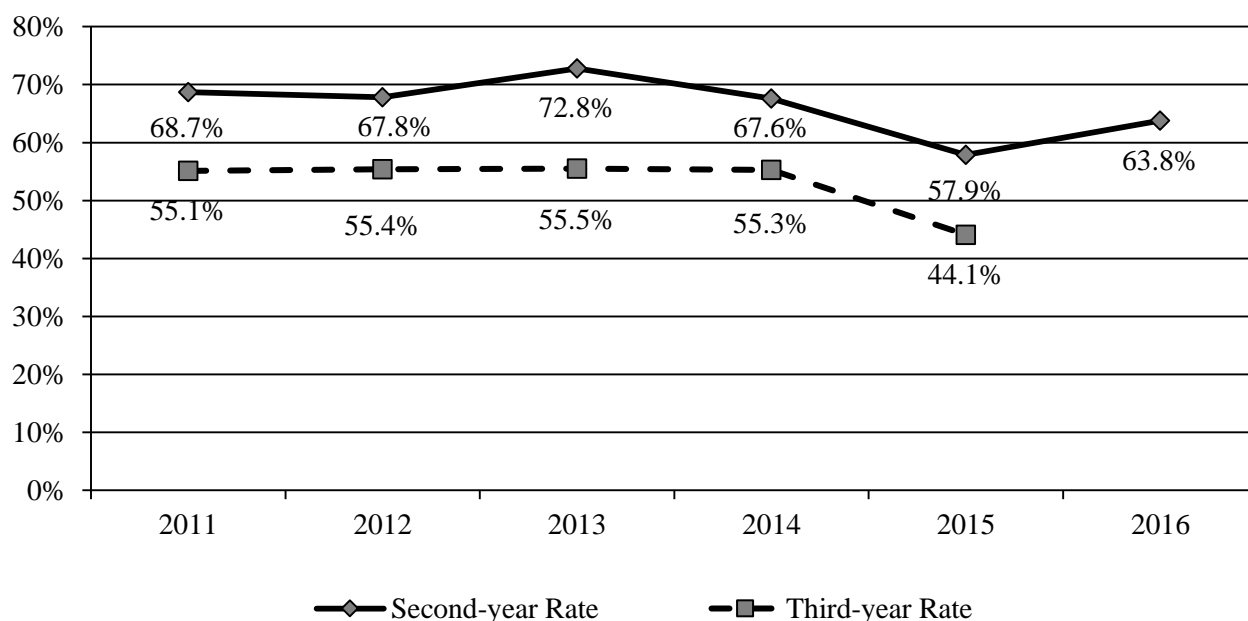
Student persistence, or retention, provides a measure of student progress and an indication of an institution's performance: the higher the retention rate, the more likely students will persist and graduate. As students are most likely to drop out during their first year, the second-year retention rate provides an indication if retention strategies are working or if further investigation is needed to identify areas of improvement. As shown in **Exhibit 3**, the second- and third-year rate of the 2015 cohort dropped to the lowest levels of 57.9% and 44.1%, respectively, reflecting the acceptance of students who were not prepared for college, as previously discussed. The second-year rate rebounded with the 2016 cohort as UMES implemented several steps to stabilize enrollment. Since the third-year rate in general mirrors the second-year rate, it is expected that the rate will increase with the 2016 cohort.

Initiatives to improve retention of students include:

- Implementation of course preloading in which class schedules for first-time, full-time students are pre-loaded with selected courses to ensure that students are taking the proper courses needed for their major.
- Implementation of Starfish Retention Solutions, an early alert system that also include kudos tools that provide positive feedback to students.
- Establishment of a summer bridge support program to provide additional support to summer bridge students that extends into the academic year. The program includes frequent contact with academic coaches and group sessions to discuss concerns that may arise.

- Development of the first-year experience program to help students transition from high school to college.
 - Additional collaboration between financial aid and student accounts prioritizing student outreach to expanded recruitment and retention of students.
 - Additional communication and outreach to students to ensure that they register for classes.
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Exhibit 3
Second- and Third-year Retention Rates
First-time, Full-time 2011-2016 Cohorts



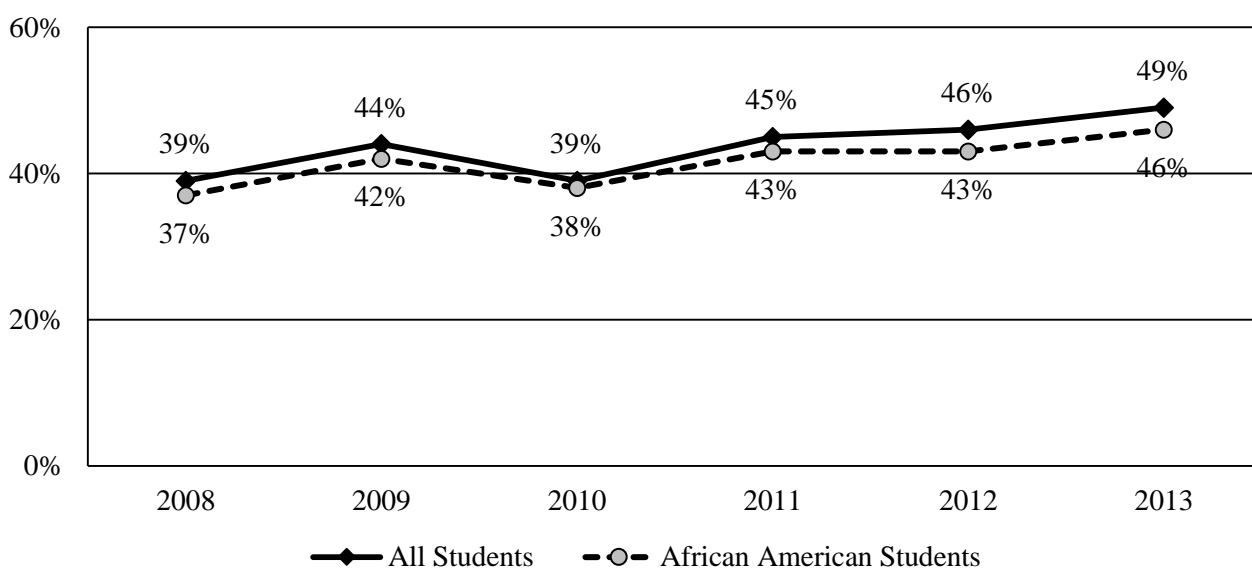
Note: Percentages include first-time/full-time students who persisted at and graduated from the institution they initially enrolled in and those who transferred and graduated from any Maryland public or private four-year institution.

Source: Maryland Higher Education Commission, *Retention and Graduation Rates at Maryland Four-year Institutions*, September 2019

Graduation rates are, in part, another measure of student persistence and efficiency – as more students graduate, it frees up more room, allowing an institution to enroll more students. **Exhibit 4** shows the six-year graduation rates for the fiscal 2008 to 2013 cohorts. Since fiscal 2010, the rate for all students increased 10 percentage points from 39% to 49% with the fiscal 2013 cohort. UMES attributes this increase to the implementation of the “Take 15” policy that encouraged students to take

15 credits per semester to graduate within four years, thereby reducing the cost of college. In addition, the graduation rate of transfer students was almost twice that of first- and part-time students. Overall, the achievement gap between all students and African American students slightly widened from 1 to 3 percentage points from the fiscal 2010 to 2013 cohort, respectively.

Exhibit 4
Six-year Graduation Rates
2008-2013 Fiscal Year Cohorts

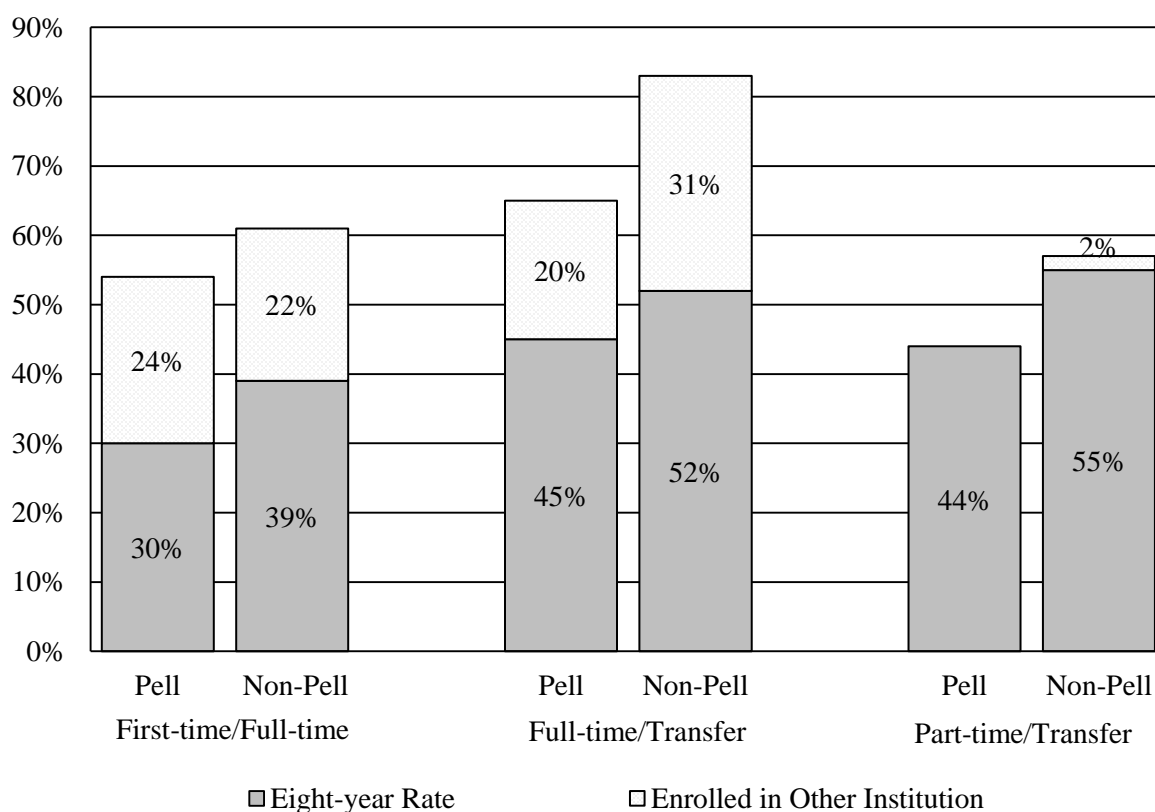


Note: Includes all degree-seeking students (*e.g.*, first-time/full-time, part-time, transfers, and spring admits) who enrolled in the fiscal year.

Source: University System of Maryland

In order to have a more inclusive graduation rate that captures the progress of nontraditional students, the Integrated Postsecondary Education Data System reports on the outcomes of first-time, transfers, and part-time students by Pell and non-Pell recipients. As shown in **Exhibit 5**, full-time transfers are more likely to earn a degree within eight years than first-time, full-time (FT/FT) students with eight-year graduation rates of Pell and non-Pell transfers 15 and 13 percentage points higher than FT/FT Pell and non-Pell students, respectively. Even part-time transfer students graduate at a higher rate than FT/FT students, indicating that there are opportunities for UMES to improve student performance by targeting programs to FT/FT who may not be prepared for college. Across all categories, non-Pell students graduate at a higher rate than Pell students.

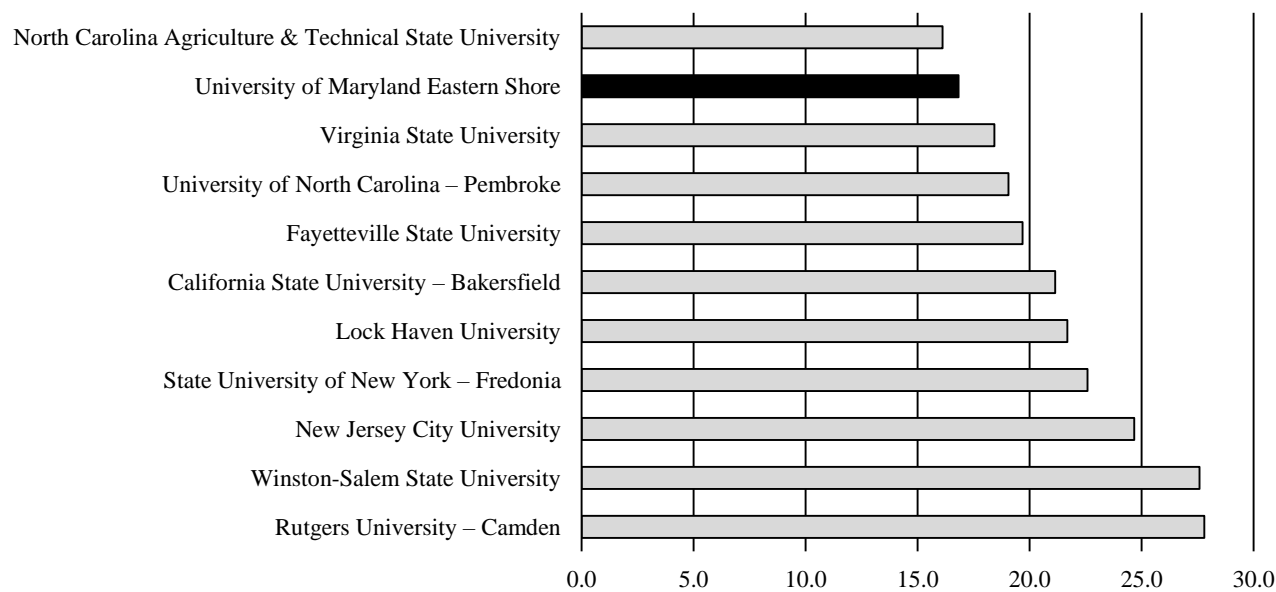
Exhibit 5
Eight-year Graduation Rate for
Students Entering in Academic Year 2009-2010



Source: National Center for Education Statistics; College Navigator

Ultimately, how well an institution meets its academic mission is measured by the number of undergraduate degrees awarded. The number of undergraduate degrees awarded per 100 full-time equivalent students (FTES) show how effectively institutions turn degree-seeking students into degree holders. **Exhibit 6** compares the three-year average of UMES' ratio to that of its peers. Peer institutions are those used to benchmark UMES' performance in the University System of Maryland (USM) Dashboard Indicators. Depending on the institution, the optimal value is 25.0 but could be higher for those who mainly offer upper-division programs or have a relatively high number of transfer students. Overall, UMES, at 16.8 degrees, only exceeds one of its peers – North Carolina Agricultural & Technical State University – with a ratio of 16.1 degrees per 100 FTES.

Exhibit 6
Comparison of Three-year Average Undergraduate Degrees
Per 100 Undergraduate FTES to Performance Peers
Academic Year 2014-2017



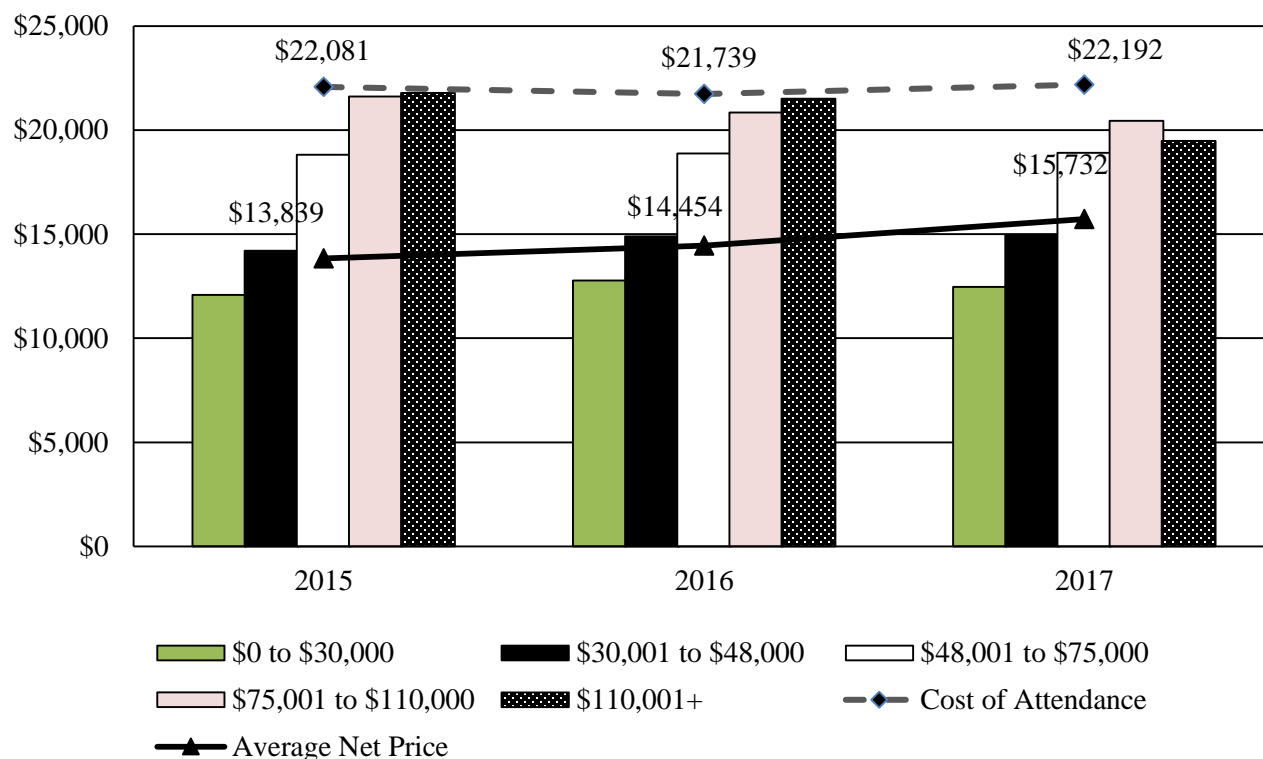
Source: Integrated Postsecondary Education Data System; Department of Legislative Services

3. Affordability and Accessibility

Cost of Attendance

When considering college affordability, students and families tend to focus on the published cost of attendance (COA) or sticker price. COA is the total cost of attending college for one year, including tuition and fees, room and board, books, supplies, and other expenses. However, the focus should be on the average net price, which is the cost to the student after accounting for the average amount of federal, State, and institutional aid awarded to all undergraduate UMES students. As shown in **Exhibit 7**, in fiscal 2017, the average net price was \$6,460, or 29.1%, less than the published cost of attendance for a FT/FT student. However, the average cost to a student varies by income level. Those with a lower family income receive more financial aid, thereby lowering the average price for attending college. Interestingly, the average net price for a family with an income between \$0 and \$30,000 increased 3.2% from \$12,076 in fiscal 2015 to \$12,460 in fiscal 2017. Conversely, the average net price, which is still high, actually decreased for those with the highest incomes; 5.4% for those with incomes between \$75,001 and \$110,000 and 10.6% for those with incomes over \$110,001 to \$20,452 and \$19,476, respectively.

Exhibit 7
Estimated Cost of Attendance vs. Average Net Price for Full-time In-state
Students by Income Level
Fiscal 2015-2017



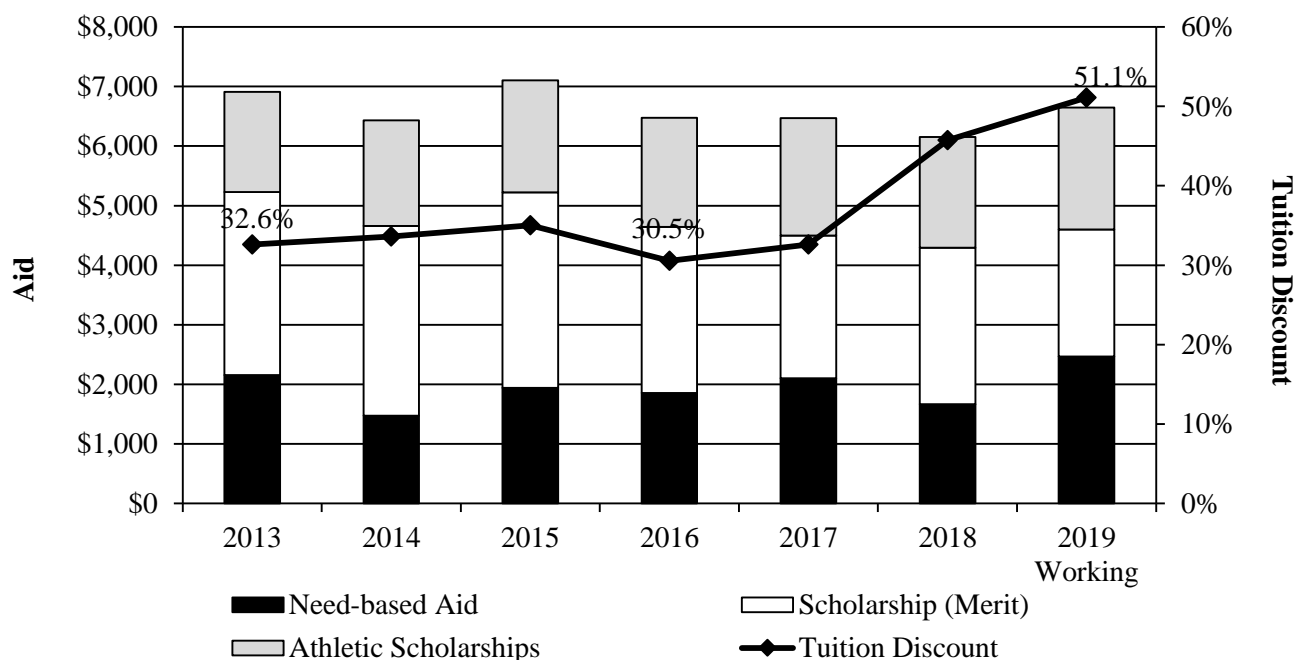
Note: The total cost of attendance includes tuition; mandatory fees; books and supplies; and the weighted average for room, board, and other expenses. Average net price is calculated by subtracting the average amount of federal, State, and institutional aid awarded to the University of Maryland Eastern Shore students from the total cost of attendance.

Source: National Center for Education Statistics' College Navigator

Tuition Discounting

In order to increase accessibility and make college more affordable, public colleges have been increasing the amount tuition is discounted *i.e.*, the published tuition cost is partly offset with institutional aid (need-based, scholarships, and athletic scholarships). The discounted rate is the ratio of total institutional aid to undergraduate tuition. Despite the continuing drop in enrollment that led to a decline in tuition and fee revenues starting in fiscal 2016, UMES has not drastically reduced the amount spent on institutional aid. However, an increase in the discount to 51.1% in fiscal 2019, as shown in **Exhibit 8**, has not lead to an increase in enrollment.

Exhibit 8
Institutional Aid – Total Aid and Aid as a Percentage of
Undergraduate Tuition Revenues
Fiscal 2013-2019
(\$ in Thousands)



Source: University System of Maryland; Department of Legislative Services

Institutional Aid

Expenditures on institutional aid reached its highest level of \$7.1 million in fiscal 2015 that corresponded with 32.1% increase in first-time students, as previously discussed. However, spending on need-based aid only comprised 27.4% of the expenditures while scholarships accounted for 46.2% of the total. While a greater percentage of aid was spent on need-based aid (32.5%) in fiscal 2017, spending on need-based aid was reduced by \$0.4 million from \$2.1 million to \$1.7 million in fiscal 2018, reducing need-based aid to just a quarter of total institutional aid expenditures.

The President should comment on the amount of institutional aid going toward need-based aid given a majority of undergraduate students received a Pell award.

Loans

In fiscal 2018, 53% of UMES's undergraduate students received a Pell grant that was given to those students who otherwise could not afford college. These students have an expected family contribution (EFC) of less than a specific amount, which was \$5,328 in fiscal 2018. An EFC is an indicator of the amount that a family is able to contribute for a student's college education; the lower the EFC, the greater the financial aid.

While students with the greatest financial need typically receive Pell and institutional aid, it is not enough to cover the cost of attending college. As shown in **Exhibit 9**, students in all EFC categories take out various types of loans to finance their education. There are three types of loans:

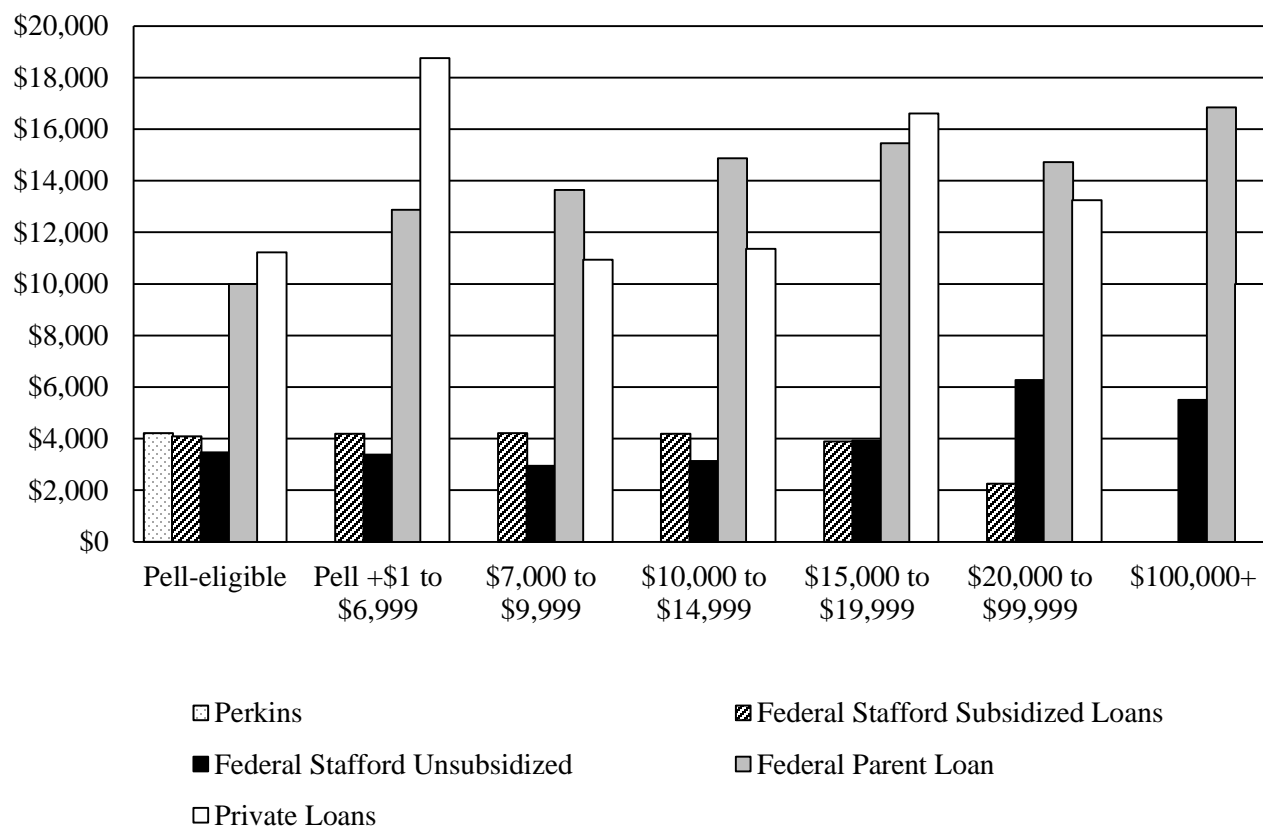
- federal subsidized loans are based on financial need with the government paying the interest while the student is enrolled in school (Perkins and Stafford subsidized loans);
- federal unsubsidized loans are general loans for those who do not demonstrate financial need with interest added to the balance of the loan while the student is enrolled in school (Stafford unsubsidized and Parent loan); and
- private loans.

In fiscal 2017, of the 1,751 Pell-eligible students, 1,451 and 1,260 used subsidized and unsubsidized loans, respectively, to help pay for their college education with average loans of \$4,090 and \$3,475. However, 2.9% of the Pell-eligible students took out private loans, and, on average, borrowed \$11,224. In general, the federal parent loans were the highest average loans taken out for those in all EFC categories with those with an EFC of over \$100,000 taking out the highest average loan of \$16,842.

According to the U.S Department of Education's College Scorecard, 67% of undergraduate students used federal loans to pay for college. This does not include federal parent loans. The average federal debt of a UMES graduate is \$27,869, but this data does not include federal parent loans or private loans students may take out to finance their education.

Other USM institutions submit data to the Common Data Set (CDS), a collaborative effort among the higher education community and publishers represented by the College Board, Peterson's, and the U.S. News and World Report. College InSight uses this information to provide data on various topics, including average cumulative student loan debt from any source, borrowed at any time to finance undergraduate education. UMES did not submit data in fiscal 2017, and fiscal 2015 and 2016 is questionable showing the average debt of a graduate as \$9,557, considerably less than fiscal 2014 when the average debt was \$27,562. **The President should comment on why data has not been submitted to CDS and on the validity of the fiscal 2016 data.**

Exhibit 9
Mean Loan Amount by Type and Expected Family Contribution
Fiscal 2017



Source: Maryland Higher Education Commission

Fiscal 2019 Working Budget

Education and General Expenditures

UMES continues to face budgetary challenges due to the persistent enrollment decline that was previously discussed. UMES experienced deficits in the academic enterprise from fiscal 2014 to 2017, as shown in **Exhibit 10**. A 5.3% decline in enrollment contributed to the \$1.1 million shortfall in fiscal 2014, which led to UMES using a combination of auxiliary surplus revenue and fund balance to cover education and general (E&G) expenditures. The largest deficit of \$4.1 million occurred in fiscal 2017 in which a combination of auxiliary surplus (\$0.5 million) and fund balance (\$3.7 million) was used to cover the shortfall.

Exhibit 10
Education and General Revenues and Expenditures
Fiscal 2013-2018
(\$ in Thousands)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Education and General Revenues	\$67,724	\$68,417	\$75,412	\$76,569	\$74,316	\$72,968
Education and General Expenses	67,444	69,517	75,583	77,547	78,432	71,992
Education and General Surplus/Deficit	\$280	-\$1,100	-\$171	-\$978	-\$4,116	\$977
Auxiliary						
Revenues	\$28,032	\$25,798	\$26,851	\$28,945	\$28,573	\$26,858
Expenditures	28,659	25,395	26,037	28,092	28,115	26,950
Auxiliary Surplus/Deficit	-\$627	\$403	\$814	\$852	\$458	-\$92
Total Surplus/Deficit	-\$347	-\$697	\$643	-\$126	-\$3,657	\$885

Source: Governor's Budget Books

In fiscal 2018, UMES revised the original unrestricted fund appropriation downward by \$5.6 million due to a 10.6% drop in fall 2017 enrollment that resulted in lower than projected tuition and fee revenues. UMES initiated several cost containment actions, including a hiring freeze, implementing a salary reduction plan, abolishing 2 positions due to outsourcing vending services, reducing contractual employees, reducing spending on facilities renewal projects, and strategically reducing operating budgets. These efforts resulted in an E&G surplus of \$1.0 million in fiscal 2018. However, auxiliary expenditures exceeded revenues by \$92,717 that was covered by the E&G surplus. The remainder of the E&G surplus was transferred to fund balance, bringing the total to \$1.7 million: \$6.7 million in the non-State-supported portion was offset by -\$5.0 million in the State-supported portion of the fund balance. According to USM's progress report on institutions eliminating negative State-supported fund balance, UMES believes that it can completely eliminate the fund balance deficit by the end of fiscal 2030 if there are no material reductions of State appropriations, future fund balance reversions, or other significant impacts its fiscal operations.

In fiscal 2019, the fall 2018 enrollment was 8.4% less than budgeted, resulting in UMES once again revising the original unrestricted fund appropriation down by \$4.5 million. To cover the shortfall, UMES plans to reduce E&G expenditures by:

- implementing a hiring freeze (\$1.4 million);
- eliminating 28.31 E&G and auxiliary vacant positions (\$1.2 million); and
- reducing department operating budgets, including restricting discretionary funding, reducing software inventory, converting to Gmail, and reducing spending on facilities renewal (\$0.6 million).

Reductions to auxiliary enterprise include:

- reducing the operating budget of residential life, including restricting discretionary spending, reducing board scholarships, and using residential aides instead of officers for security (\$1.1 million);
- reducing campus life and athletics discretionary spending (\$0.3 million); and
- other reductions (\$76,809).

As shown in **Exhibit 11**, spending increases by \$4.1 million in four E&G program areas are offset by a \$4.5 million decrease in the other program areas in fiscal 2019. It should be noted that E&G expenditures and revenues are adjusted to reflect a one-time \$500 bonus and a 0.5% general salary increase totaling \$0.3 million in fiscal 2019. The \$1.4 million increase in research is due to receiving the matching funds for the 1890 cooperative extension program. However, these funds should be budgeted under public service since the extension program provides public outreach, educating the citizens of the State. Expenditures on institutional support grow 11.6%, or \$1.4 million, due to the fiscal 2018 being \$0.2 million lower than budgeted and an anticipated increase in contractual services in fiscal 2019.

In fiscal 2019, expenditures on operation and maintenance of plant decline 20.7%, or \$2.9 million. This is attributable to spending in the fiscal 2018 budget for personnel costs, debt service payments, and payment of Hawk Plaza utilities as per the lease agreement that are not an obligation in fiscal 2019 and other reductions including the elimination of positions and a \$1.4 million adjustment to align expenditures with the available budget.

Exhibit 11
Budget Changes for Unrestricted Funds by Program
Fiscal 2018-2019
(\$ in Thousands)

	<u>2018</u> <u>Actual</u>	<u>2019</u> <u>Adjusted</u>	<u>2018-2019</u> <u>Change</u>	<u>2018-2019</u> <u>% Change</u>
Expenditures				
Research	\$1,596	\$3,003	\$1,407	88.1%
Institutional Support	11,900	13,276	1,375	11.6%
Scholarships and Fellowships	5,682	6,404	722	12.7%
Instruction	28,575	29,208	633	2.2%
Academic Support	7,060	6,344	-716	-10.1%
Student Services	2,994	2,132	-862	-28.8%
Operation and Maintenance of Plant	14,184	11,243	-2,942	-20.7%
General Salary Increase/Bonus		348		
Education and General Expenditures	\$71,992	\$71,957	-\$34	0.0%
Auxiliary Enterprises	\$26,950	\$26,603	-\$346	-1.3%
Total Adjusted Expenditures	\$98,941	\$98,560	-\$381	-0.4%
Revenues				
Tuition and Fees	\$27,734	\$26,151	-\$1,584	-5.7%
State Funds ¹	41,885	44,084	2,199	5.2%
Other	3,349	3,107	-242	-7.2%
Total Education and General Revenues	\$72,968	\$73,341	\$373	0.5%
Auxiliary Enterprises	\$26,858	\$25,219	-\$1,639	-6.1%
Transfer (to)/from Fund Balance	-886	0		
Available Unrestricted Revenues	\$98,941	\$98,560	-\$380	-0.4%

¹ State funds include general funds and Higher Education Investment Funds.

Note: Fiscal 2019 State funds are adjusted to reflect a one-time bonus and general salary increase.

Source: Governor's Fiscal 2020 Budget Books; Department of Legislative Services

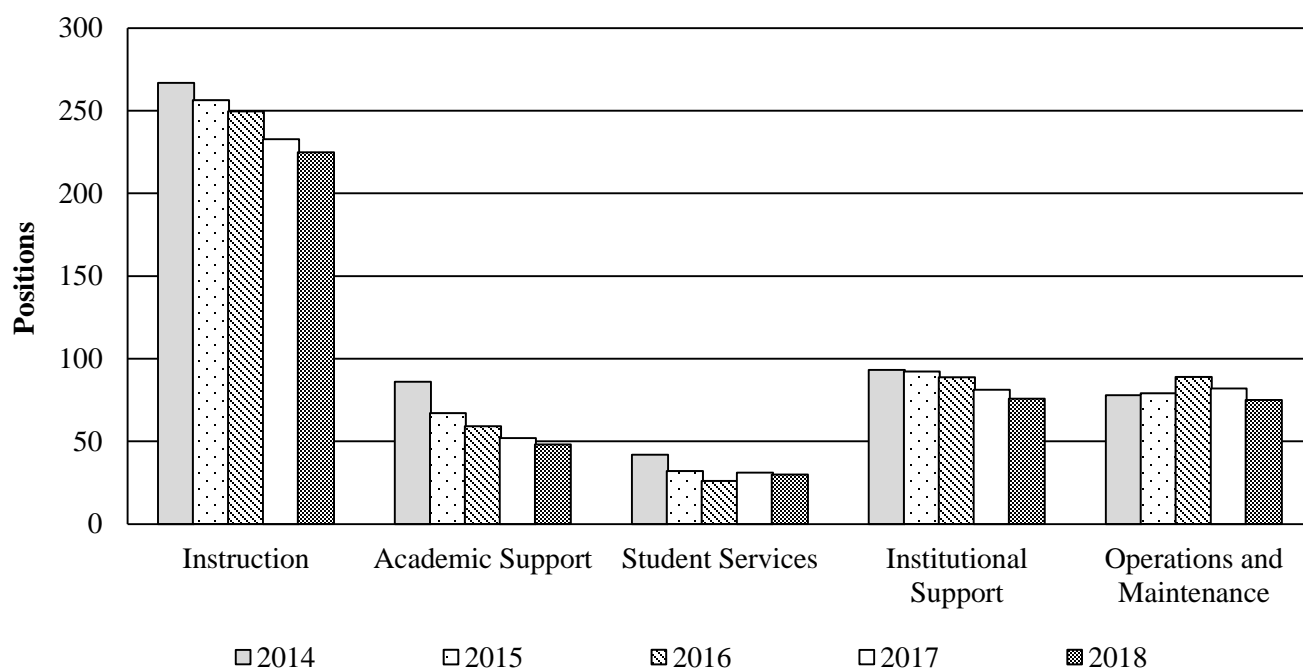
Expenditures for student services decline 28.8%, or \$0.9 million, due to the elimination and freezing of positions. The 10.1%, or \$0.7 million, decrease in academic services reflects a two-year effort to reduce expenditures: \$2.9 million combined in fiscal 2018 and 2019. Overall, through cost containment efforts, E&G revenues cover expenditures in fiscal 2018 and 2019. However, in fiscal 2019, auxiliary expenditures exceed revenues. According to UMES, auxiliary expenses were inadvertently budgeted higher than revenues and will be adjusted accordingly.

The President should comment on actions being taken to ensure a balanced budget in the out-years, including identifying operating efficiencies.

Impact on Personnel

The impact of eliminating positions and the hiring freeze on the number of filled State-supported positions is illustrated in **Exhibit 12**. Overall, the number of filled positions, excluding research, declined 19.8%, or 112.4 full-time equivalents (FTE) between 2014 and 2018, with most occurring in instruction and academic support. Filled positions declined 15.7%, or 41.9 FTEs, in instruction and 44.2%, or 38.1 FTEs, in academic support.

Exhibit 12
State-supported Filled Full-time Equivalent Positions
As of October 2014-2018



Source: University of Maryland Eastern Shore

Proposed Budget

As shown in **Exhibit 13**, the general fund allowance for fiscal 2020 is 5.1%, or \$2.2 million, higher than fiscal 2019 after adjusting for the one-time \$500 bonus and 0.5% general salary increase in fiscal 2019 and the annualization of the fiscal 2019 salary increases and a 3.0% general salary increase in fiscal 2020. The general funds for these salary increases are included in the Department of Budget and Management budget. The Higher Education Investment Fund increases 5.9%, or \$0.1 million, in fiscal 2020. Overall, State support grows 5.2%, or \$2.3 million.

Exhibit 13
Proposed Budget
University of Maryland Eastern Shore
Fiscal 2018-2020
(\$ in Thousands)

	<u>2018 Actual</u>	<u>2019 Working</u>	<u>2020 Adjusted</u>	<u>2019-2020 Change</u>	<u>% Change Prior Year</u>
General Funds	\$40,131	\$42,241	\$44,371	\$2,130	2.1%
Higher Education Investment Fund	\$1,755	\$1,879	\$1,989	\$110	5.9%
Total State Funds	\$41,885	\$44,120	\$46,360	\$2,240	1.4%
Other Unrestricted Funds	\$57,941	\$54,440	\$54,388	-\$88	-0.2%
Transfer to Fund Balance	-886	0	0		
Net Unrestricted Funds	\$98,941	\$98,596	\$100,748	\$2,152	2.2%
Restricted Funds	\$25,041	\$26,347	\$24,673	-\$1,674	-6.4%
Total Funds	\$123,982	\$124,943	\$125,421	\$478	0.4%

Note: Fiscal 2019 reflects a one-time bonus and a general salary increase. Fiscal 2020 reflects annualization of the fiscal 2019 general salary increase and a general salary increase.

Source: University System of Maryland; Department of Budget and Management

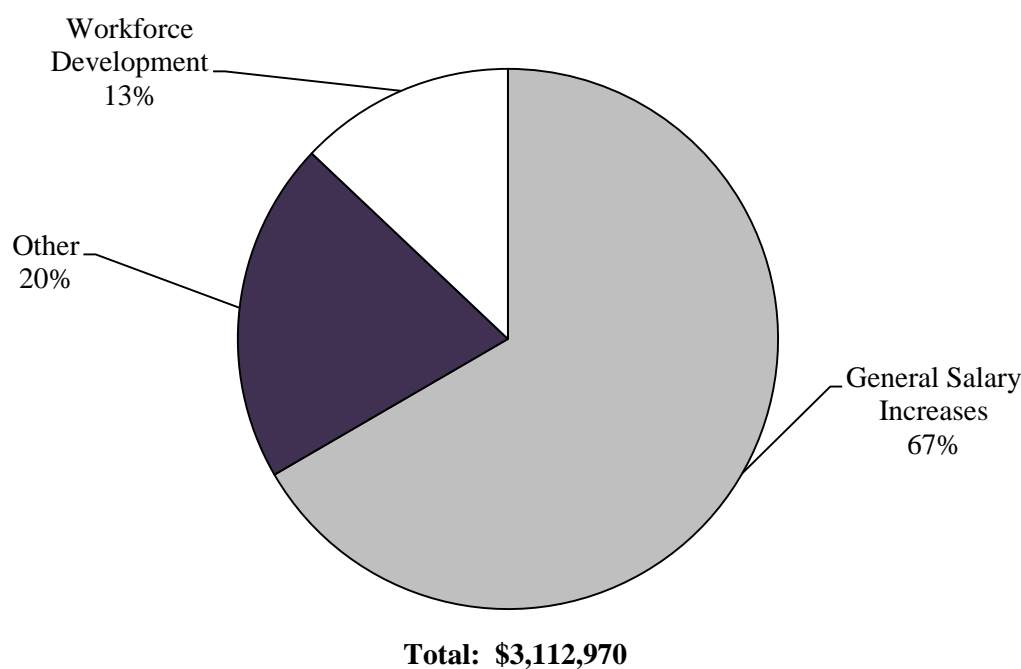
The allowance provides \$0.4 million in general funds to support workforce development initiatives that will be used to support the statewide PA partnership. Specifically, UMES will be putting in place the basic elements needed to meet the standards of accreditation for a PA program. This includes hiring appropriate personnel, such as a program director and full-time faculty; designing the curriculum; and having recruitment, admission, and clinical placement and supervisors in place.

Tuition and fee revenues increase \$0.8 million partly due to a planned 2% increase in resident undergraduate tuition and auxiliary revenue increases \$0.4 million. These increases in other unrestricted funds are offset by declines on \$1.3 million in private gifts, grants and contracts, and other

sources that are related to UMES taking a conservative approach to budgeting. This results in a decrease in other unrestricted funds. Overall, in fiscal 2020, total unrestricted funds increase 2.2%, or \$2.2 million.

In fiscal 2020, current services costs, including workforce development initiatives and salary increases, increase \$3.1 million. As shown in **Exhibit 14**, general salary increases account for 67% of the total. Other costs comprise 20.0% that include replacing \$0.5 million of fund balance used to cover expenditures related to the loss of accreditation of the PA program. These costs included relocating approximately 100 students to other USM institutions with a PA program and refunds for tuition, fees, and housing payments. However, as previously mentioned, unrestricted funds only increase \$2.2 million resulting in a \$0.9 million shortfall in revenues to cover increases in costs. Therefore, if revenues in fiscal 2020 do not improve, UMES will need to make further budget reductions in order to cover operating expenditures.

Exhibit 14
Breakdown of Spending Increases
Fiscal 2020



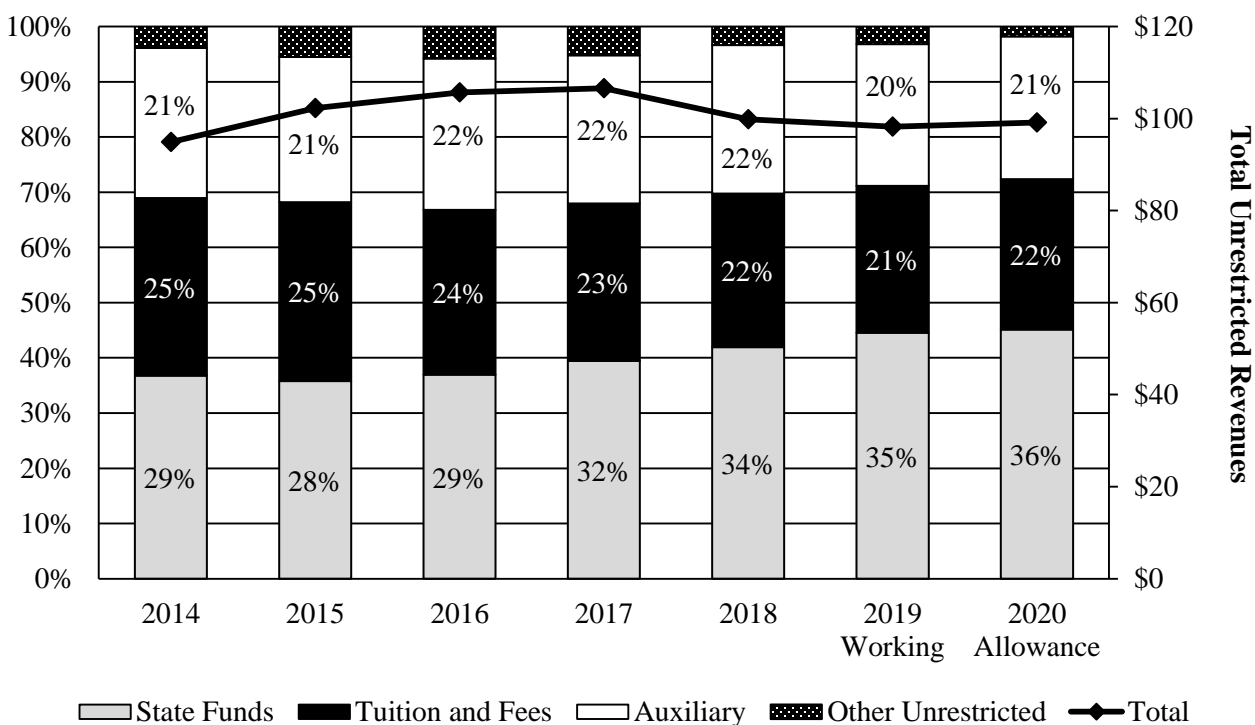
Note: General salary increases adjusted to reflect annualization of the fiscal 2019 salary increases and the fiscal 2020 general salary increase. Other includes miscellaneous adjustments and replacing funds in the fund balance used support the costs associated with the loss of accreditation of the Physicians Assistance Program.

Source: University System of Maryland; Department of Budget and Management

Unrestricted Revenue Sources

The 12.6% drop in enrollment in fall 2016 impacted the composition of unrestricted revenues in fiscal 2017, as shown in **Exhibit 15**. It should be noted that in fiscal 2017, while UMES faced a total unrestricted deficit of \$4.6 million, spending increased resulting in the use of \$3.7 million of fund balance to cover the shortfall. In prior years, State funds comprised under 30% of UMES' unrestricted revenues but increased to 32% in fiscal 2017. As a result of the continued decline in enrollment, unrestricted funds declined \$7.8 million between fiscal 2017 and 2019, of which tuition and fee revenues accounted for \$4.3 million. This has resulted in State funding comprising a growing share of the unrestricted revenue increasing to 35% in fiscal 2019 and 36% in fiscal 2020. Conversely, tuition and fee revenues comprise less of the unrestricted funds declining from 23% in fiscal 2017 to 21% in fiscal 2019.

Exhibit 15
Unrestricted Revenues by Source
Fiscal 2014-2020
(\$ in Millions)



Note: Other includes transfers from fund balance in all years except fiscal 2015.

Source: Governor's Book Budgets

Issues

1. Hawk Plaza Graduate Student Housing Update

In October 2016, the Board of Regents approved UMES' acquisition of the Hawk Plaza Student Housing complex and the assumption of the related debt obligations of \$5.1 million to the Bank of Delmarva and \$7.6 million to the U.S. Department of Agriculture. The 27 acres for Hawk Plaza was purchased and developed by the Maryland Hawk Corporation (Maryland Hawk) in 2013 to provide graduate student housing. Maryland Hawk is a not-for-profit corporation established by UMES in 2003 to advance economic development activities on the Eastern Shore. Phase I of the project – 90 two-bedroom, two-bath units in three buildings and related infrastructure *i.e.*, paving, parking, and street – was completed and opened in fall 2015.

In fall 2016, the drop in graduate student enrollment, primarily due to the loss of the PA Program, resulted in a lower demand for housing with only 83% of the 180 beds being leased. Maryland Hawk was relying on 100% occupancy to cover the debt service and operating costs and, therefore, lacked the funds to make the approximately \$60,000 monthly debt service payment. By October 2016, Maryland Hawk was 90 days delinquent on its loans. With no prospects for future streams of revenue, Maryland Hawk engaged UMES, USM, and both lenders to develop a plan so that UMES would maintain access to and use of, Hawk Plaza. All parties were working toward a March 2017 closing. However, efforts have been stalled due to ongoing litigation regarding utilities between Maryland Hawk and the party that sold the land to it. A stipulation in the title required upgrades to wastewater treatment infrastructure and the roadway. According to USM, they are working with the county and lenders to determine the cost of the upgrades before committing to the transfer of the property and are expecting to close in late spring 2019.

As a stop gap measure to help Maryland Hawk meet its debt service and operating expenses associated with Hawk Plaza, UMES entered into a five-month lease agreement, totaling \$496,440 that started August 2017 and ended December 2017. The lease was extended for an additional five months to May 2018 at a monthly rate of \$99,288. A three-month lease was signed in June 2018, and in August 2018, UMES entered into a 12-month lease with an optional 12-month renewal. Total rent due to Maryland Hawk is \$1.0 million for the first 10 months and then based on occupancy in the summer.

This project is important to UMES in the short- and long-term to satisfy the demand for student housing. By opening Hawk Plaza to undergraduate students, UMES has eliminated the need to master lease beds and rooms in two private student housing projects adjacent to campus at a cost of \$4.6 million. In the long-term, if there is increased demand for student housing, UMES can proceed with the original development plan and build out Phases II and III that would add 120 and 58 beds, respectively.

There are concerns regarding UMES taking on \$12.7 million in debt amid its ongoing financial challenges. However, according to USM, once UMES assumes the title to the property, it will no longer be responsible for property taxes, and it has integrated management, maintenance, and upkeep of the facility with existing residential facilities staff resources. The cost savings associated with this

integration, along with the elimination of the master lease, mitigates any financial burden and produced positive cash flows for UMES. USM states, barring further enrollment declines, that student room fees should cover the debt service. However, this is a significant risk given the enrollment trends at UMES.

It should be noted that in November 2014, the Office of Legislative Audits (OLA) released an audit that found \$385,000 of UMES' funds were improperly transferred to Maryland Hawk. It was agreed that Maryland Hawk would repay the funds back to the university in three annual payments of \$128,333 beginning in June 2016. However, as of May 2018, no payments had been made. In addition, USM's Office of Internal Audits conducted an expanded review and identified an additional \$497,260 that UMES improperly transferred to Maryland Hawk. According to OLA, as of June 2018, Maryland Hawk had not agreed to the amount determined by the office. Overall, this resulted in a loss of \$882,260 to UMES. According to USM, UMES will work with Maryland Hawk to identify other options and possible sources for the repayment of these funds, but if none are identified, it may be necessary to seek the Board of Public Works' (BPW) approval to release the debt.

The Chancellor should comment on the rationale on UMES taking over the \$12.7 million debt when it continues to face budgetary and enrollment challenges, the ability of UMES to meet the debt service obligation for Hawks Plaza if enrollment continues to decline thereby reducing the demand for housing, and the lack of repayment from Maryland Hawk at a time of budget deficits at UMES.

2. Audit Findings

In January 2019, OLA released an audit for UMES that included nine findings, two of which were repeat findings, as shown in **Exhibit 16**. Three of the findings pertained to a lack of oversight in monitoring contracts and procurement. UMES was found to have improperly deposited \$1.3 million received from its food service vendor with the USM Foundation, in violation of State law and USM policy. It should be noted that the foundation is a separate entity from the UMES Affiliated Foundation – Maryland Hawk. By depositing these receipts with the USM Foundation, the use of the funds were not subject to USM's fiscal and business policies and procedures. As of May 2018, the USM Foundation spent \$1.03 million of the funds in various ways to enhance UMES' ability to meet its mission and support faculty, staff, and students.

Exhibit 16
Audit Findings

Audit Period for Last Audit:	December 2, 2013-July 16, 2017
Issue Date:	January 2019
Number of Findings:	9
Number of Repeat Findings:	2
% of Repeat Findings:	22.2%
Rating: (if applicable)	

- Finding 1:** The University of Maryland Eastern Shore (UMES) improperly deposited revenue from its food service vendor, totaling \$1.3 million, with the University System of Maryland (USM) Foundation.
- Finding 2:** UMES did not comply with USM policies, or circumvented these policies, for procurement transactions totaling \$1.5 million.
- Finding 3:** UMES did not adequately monitor its food service vendor to ensure that \$3.2 million in facilities upgrades and other operational investments required by the contract had been made and did not verify vendor prices for certain purchases under contract.
- Finding 4:** UMES had not established sufficient controls over student residency determinations and changes, certain noncash credits, and financial aid awards recorded in student accounts.
- Finding 5:** **UMES' procedure for identifying and transferring delinquent student accounts to the State's Central Collection Unit did not include an independent supervisory review to ensure adequate and timely follow-up on all such accounts.**
- Finding 6:** UMES had not reconciled its credit card and electronic collections records with the State's bank account to ensure their deposit since December 2016.
- Finding 7:** The monitoring of student administration system's security was not adequate because database security-related events were not logged and certain key application security reports were either not generated or reviewed.
- Finding 8:** UMES lacked intrusion detection prevention system coverage for encrypted traffic entering the UMES network.
- Finding 9:** **UMES did not ensure that user access capabilities assigned to employees on its financial management system were adequately restricted.**

*Bold denotes item repeated in full or part from preceding audit report.

Source: Office of Legislative Audits

UMES did not comply with USM policies, or circumvented these policies, for capital-related procurement transactions totaling \$1.5 million and required approvals were not obtained and the procurements were not managed by USM's service center. UMES entered into seven contracts with five vendors for architectural and engineering services totaling \$0.4 million without using the service center or obtaining their authorization. Additionally, a \$1.1 million procurement for roof replacement services appeared to have been artificially split to circumvent USM policy requiring capital improvement procurements over \$1.0 million to be handled by the service center and approved by BPW.

UMES did not adequately monitor its food service vendor to ensure that \$3.2 million in facility upgrades and other operational investments required by the contract had been made and that the proper sales commissions were remitted. OLA was able to verify that the required facility upgrades had been made. In addition, UMES did not verify that prices paid for certain other purchases totaling \$0.7 million agreed with the related contracts' term.

Three of the findings related to the lack of internal controls concerning student accounts receivable, cash receipts, and employees access to UMES' financial system. For instance, UMES lacks proper controls over student residency determinations and changes, certain noncash credits, and financial aid awards recorded in student accounts. OLA found several findings were due to UMES failing to reassign duties performed by employees who left the university. The remaining three findings were related to information systems security and control and that UMES needs to take additional steps to secure its network, student administration system, and financial management system.

The President should document the actions taken to correct the audit findings.

Operating Budget Recommended Actions

1. See the University System of Maryland overview for systemwide recommendations.

Appendix 1
Current and Prior Year Budgets
USM – University of Maryland Eastern Shore
(\$ in Thousands)

	<u>General</u>	<u>Special</u>	<u>Federal</u>	<u>Other</u>	<u>Total</u>	<u>Restricted</u>	<u>Total</u>
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Unrestricted</u>	<u>Unrestricted</u>	<u>Fund</u>	
				<u>Fund</u>	<u>Fund</u>		
Fiscal 2018							
Legislative							
Appropriation	\$38,915	\$1,755	\$0	\$65,333	\$106,002	\$33,390	\$139,393
Deficiency/Withdrawn							
Appropriation	-338	0	0	0	-338	0	-338
Cost							
Containment	-241	0	0	0	-241	0	-241
Budget							
Amendments	1,794	0	0	-3,363	-1,569	-6,923	-8,493
Reversions and							
Cancellations	0	0	0	-4,914	-4,914	-1,426	-6,340
Actual							
Expenditures	\$40,131	\$1,755	\$0	\$57,055	\$98,941	\$25,041	\$123,982
Fiscal 2019							
Legislative							
Appropriation	\$41,412	\$1,879	\$0	\$60,148	\$103,439	\$26,347	\$129,786
Budget							
Amendments	445	0	0	-5,672	-5,227	0	-5,227
Working							
Appropriation	\$41,857	\$1,879	\$0	\$54,476	\$98,212	\$26,347	\$124,559

USM: University System of Maryland

Note: The fiscal 2019 appropriation does not include deficiencies, a one-time \$500 bonus, or general salary increases. Numbers may not sum to total due to rounding.

Fiscal 2018

For fiscal 2018, the general fund appropriation for the University of Maryland Eastern Shore (UMES) increased by \$1.2 million, which included the withdrawal of \$0.3 million related to health insurance and \$0.2 million in cost containment measures. A budget amendment transferred \$1.8 million of the Office for Civil Rights enhancement funds from the Maryland Higher Education Commission.

Other unrestricted funds decreased \$8.3 million. Budget amendments decreased funds \$3.3 million, including \$3.5 million in tuition and fee revenues related to enrollment being less than budgeted and \$0.9 million in auxiliary enterprises associated with the enrollment decline. These declines were partially offset by \$1.1 million due to funds not being transferred to the fund balance. Cancellation of unrestricted funds totaled \$4.9 million due to adjusting expenditures to align with the decrease in revenues related to the decline in enrollment.

Current restricted funds decreased by \$8.3 million. Budget amendments reduced funds \$6.9 million due to realigning federal grants and contracts with current activity. Cancellation of restricted funds amounted to \$1.4 million due to expenditures on grants and contracts being less than budgeted.

Fiscal 2019

To date, in fiscal 2019, UMES's general fund appropriation increased \$0.4 million related to a 2% general salary increase, effective January 1, 2019. Current unrestricted funds decreased \$5.7 million due to lower tuition and fees and auxiliary enterprise revenues related to enrollment being less than budgeted.

Appendix 2
Object/Fund Difference Report
USM – University of Maryland Eastern Shore

<u>Object/Fund</u>	<u>FY 18 Actual</u>	<u>FY 19 Working Appropriation</u>	<u>FY 20 Allowance</u>	<u>FY 19 - FY 20 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	776.07	772.87	772.87	0.00	0%
02 Contractual	135.00	133.00	133.00	0.00	0%
Total Positions	911.07	905.87	905.87	0.00	0%
Objects					
01 Salaries and Wages	\$ 69,576,094	\$ 70,729,973	\$ 71,573,767	\$ 843,794	1.2%
02 Technical and Special Fees	462,859	347,514	354,553	7,039	2.0%
03 Communication	368,462	586,638	586,588	-50	0%
04 Travel	2,441,944	2,225,335	2,225,335	0	0%
06 Fuel and Utilities	5,481,677	4,667,646	4,667,646	0	0%
07 Motor Vehicles	337,011	168,399	170,587	2,188	1.3%
08 Contractual Services	15,296,752	14,367,474	13,158,104	-1,209,370	-8.4%
09 Supplies and Materials	3,858,688	3,882,786	3,882,786	0	0%
10 Equipment – Replacement	3,284	147,275	147,275	0	0%
11 Equipment – Additional	3,098,117	2,172,435	2,172,435	0	0%
12 Grants, Subsidies, and Contributions	14,407,576	16,163,829	16,163,829	0	0%
13 Fixed Charges	8,246,772	8,199,850	7,789,009	-410,841	-5.0%
14 Land and Structures	402,481	900,000	900,000	0	0%
Total Objects	\$ 123,981,717	\$ 124,559,154	\$ 123,791,914	-\$ 767,240	-0.6%
Funds					
40 Unrestricted Fund	\$ 98,940,735	\$ 98,212,180	\$ 99,119,405	\$ 907,225	0.9%
43 Restricted Fund	25,040,982	26,346,974	24,672,509	-1,674,465	-6.4%
Total Funds	\$ 123,981,717	\$ 124,559,154	\$ 123,791,914	-\$ 767,240	-0.6%

USM: University System of Maryland

Note: The fiscal 2019 appropriation does not include deficiencies, a one-time \$500 bonus, or general salary increases. The fiscal 2020 allowance does not include general salary increases.

R30B25 – USM – University of Maryland Eastern Shore

Appendix 3
Fiscal Summary
USM – University of Maryland Eastern Shore

<u>Program/Unit</u>	<u>FY 18 Actual</u>	<u>FY 19 Wrk Approp</u>	<u>FY 20 Allowance</u>	<u>Change</u>	<u>FY 19 - FY 20 % Change</u>
01 Instruction	\$ 32,878,940	\$ 32,408,647	\$ 31,846,122	-\$ 562,525	-1.7%
02 Research	8,364,064	11,247,118	11,268,715	21,597	0.2%
03 Public Service	2,610,723	3,549,300	1,857,857	-1,691,443	-47.7%
04 Academic Support	8,266,668	7,826,000	8,095,953	269,953	3.4%
05 Student Services	4,103,511	3,398,673	3,538,440	139,767	4.1%
06 Institutional Support	12,457,491	13,391,516	13,562,887	171,371	1.3%
07 Operation and Maintenance of Plant	14,182,160	11,251,257	13,057,653	1,806,396	16.1%
08 Auxiliary Enterprises	26,936,777	26,603,102	25,680,746	-922,356	-3.5%
17 Scholarships and Fellowships	14,181,383	14,883,541	14,883,541	0	0%
Total Expenditures	\$ 123,981,717	\$ 124,559,154	\$ 123,791,914	-\$ 767,240	-0.6%
Unrestricted Fund	\$ 98,940,735	\$ 98,212,180	\$ 99,119,405	\$ 907,225	0.9%
Restricted Fund	25,040,982	26,346,974	24,672,509	-1,674,465	-6.4%
Total Appropriations	\$ 123,981,717	\$ 124,559,154	\$ 123,791,914	-\$ 767,240	-0.6%

USM: University System of Maryland

Note: The fiscal 2019 appropriation does not include deficiencies, a one-time \$500 bonus, or general salary increases. The fiscal 2020 allowance does not include general salary increases.

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