
University System of Maryland Fiscal 2003 Budget Overview

**Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland**

February 2002

RB.00 - University System of Maryland - Fiscal 2003 Budget Overview

RB.00
University System of Maryland
Fiscal 2003 Budget Overview

Operating Budget Data

(\$ in Thousands)

	<u>FY 01 Actual</u>	<u>FY 02 Legislative</u>	<u>FY 02 Working*</u>	<u>FY 03 Allowance</u>	<u>Change</u>	<u>% Change Prior Year</u>
General Fund	\$798,692	\$877,223	\$873,080	\$895,863	\$22,783	2.6%
Unrestricted Fund	1,947,910	2,027,697	\$2,082,684	2,169,005	86,321	4.1%
Restricted Fund	<u>577,966</u>	<u>605,605</u>	<u>631,881</u>	<u>658,779</u>	<u>26,898</u>	<u>4.3%</u>
Total Funds	\$2,525,877	\$2,633,302	\$2,714,565	\$2,827,784	\$113,219	4.2%

*The working appropriation does not reflect anticipated general fund savings of \$8.3 million related to the hiring freeze. It does reflect a budget amendment not yet submitted by the Department of Budget and Management. The amendment would add \$59.1 million in unrestricted funds and \$26.3 million in restricted funds.

- An anticipated budget amendment outweighs the effect of cost containment and the hiring freeze: the 2002 working appropriation, including the hiring freeze savings, is \$72.9 million more than the 2002 legislative appropriation of \$2.63 billion.
- The ratio of general funds to all unrestricted funds remains virtually the same: 41.0% in 2001, 41.5% in 2002, including the hiring freeze savings, and 41.3% in 2003. Restricted funds make up virtually the same portion of the budget: 22.9% in 2001, 23.3% in 2002, and 23.3% in 2003.

Personnel Data

	<u>FY 01 Actual</u>	<u>FY 02 Legislative</u>	<u>FY 02 Working</u>	<u>FY 03 Allowance</u>	<u>Change</u>
Regular Positions	18,477.8	18,958.0	19,488.2	19,734.5	246.4
Contractual FTEs	<u>5,491.9</u>	<u>5,271.0</u>	<u>5,034.7</u>	<u>5,326.2</u>	<u>291.5</u>
Total Personnel	23,969.8	24,289.0	24,522.9	25,060.8	537.9

Vacancy Data: Regular Positions

Positions Vacant as of 12/31/01	950.46	4.88%
---------------------------------	--------	-------

- Growth in regular positions at the University System of Maryland (USM) between the 2001 actual level and the 2002 working appropriation was 1,010 positions, or 28% of all regular position growth in State government during that period. Growth in regular positions in the allowance is 246 positions, or 16% of statewide growth.

Analysis in Brief

Issues

Employment Growth: Since fiscal 1999, total employment at USM institutions has grown by 2,308 regular employees, including an increase of 246 positions in the 2003 allowance. Budget bill language would allow 592 additional regular positions. Growth in employment since 1999 has been mainly in academic and institutional support. **The Department of Legislative Services recommends replacing existing budget bill language with language to constrain regular positions to current positions. The system may seek authority to add regular positions above that level through action of the Board of Public Works.**

Funding Guidelines and Increased General Fund Support: While overall USM guideline attainment has dropped from 90% in the 2002 legislative appropriation to 85% in the 2003 allowance, some institutions attain a higher percentage of their guideline than they did last year. Others experience a decline greater than five percentage points. **The Chancellor should comment on what priorities the distribution of general fund increases is intended to reflect. The Chancellor should also comment on what role, if any, the State's agreement with the Office for Civil Rights played in setting priorities.**

Budget Reconciliation Act Proposes Fund Balance Transfer: The Budget Reconciliation Act of 2002 would require a \$16,600,000 transfer from USM fund balance to the general fund during fiscal 2003. The USM office will recommend that the Board of Regents apportion the amount required for the transfer among institutions according to their share of the system unrestricted operating budget. **The Chancellor should comment on whether the office intends those institutions to transfer from their auxiliary fund balances or from unrestricted operating funds. The Chancellor should discuss the impact of the fund balance transfer and the system's plans to seek an increase in its overall debt limit this session, in light of smaller than expected operating increases and the proposed fund balance transfer.**

Additional Tuition Increase Proposed for USM: The allowance assumes a 1.5% increase in tuition above the tuition rates adopted by the USM Board of Regents last fall. The increase would generate \$7.7 million in unrestricted funds for the system, or 0.4% of fiscal 2002 unrestricted funds. **The Chancellor should comment on the impact of the tuition increase on each institution and measures available to institutions to reduce costs, other than one-time reductions. The Chancellor should also comment on why the system chooses to rely primarily on increased state appropriations and tuition revenue, rather than cost saving measures, in light of the current economic situation.**

Recommended Actions

Funds **Positions**

1. Add language to constrain growth in regular positions.
2. Add language to reduce general and current unrestricted funds to allow for funding consistent with enrollment growth.

Updates

Chancellor Search: Chancellor Donald Langenberg will retire April 30, 2002. The USM Board of Regents in December extended its search process to have a chancellor in place by September 2002, rather than April. The board will also make provision for an interim chancellor.

Biosciences Workgroup Restructures: In August 2001, the USM Biosciences Workgroup made 16 recommendations for coordination, education and curricular development, and outreach. It also identified the need for a biosciences inventory of people, programs, and facilities, as well as a USM strategic plan for biosciences in support of biotechnology. The system reports little substantive progress in the five months since the August report.

RB.00 - University System of Maryland - Fiscal 2003 Budget Overview

RB.00
University System of Maryland
Fiscal 2003 Budget Overview

Operating Budget Analysis

Program Description

Title 12 of the Education Article established the University System of Maryland (USM) Board of Regents as the governing body of the USM. The board consists of 17 members, including the Secretary of Agriculture ex officio; the Secretary is the only member who is not appointed by the Governor with the advice and consent of the Senate. The board chooses from among the membership a chairman and any other officers. The board appoints the Chancellor who serves as the chief executive officer of the system and the chief of staff to the Board of Regents. The Chancellor and staff coordinate system planning; advise the board on systemwide policy; coordinate and arbitrate among system institutions; and provide technical, legal, and financial assistance.

The Board of Regents is charged with fostering development of a consolidated higher education system, improving the quality of higher education, and encouraging institutions to use resources in the most economical way. The board is authorized in statute to merge, consolidate, or close any member institution.

The Board of Regents establishes funding standards for the system which are to consider the size and mission of the institutions. These standards are to be used when the board reviews and approves the consolidated operating and capital budget requests for the system, which are then forwarded to the Governor, the Maryland Higher Education Commission (MHEC), and the General Assembly.

Fiscal 2002 Actions

Cost Containment

Like State agencies, USM experienced two measures to reduce costs in fiscal 2002. First, cost containment reduced the USM budget by \$4.1 million. This reduction is reflected in the working appropriation. Second, a hiring freeze will yield savings of \$8.3 million. Institutions are aware of the freeze and have implemented it, but the working appropriation does not yet reflect the savings. USM does not anticipate any non-general fund adjustments to unrestricted fund expenditures.

Budget Amendments

The Governor's budget also assumes approval of a 2002 budget amendment not yet submitted. The amendment adds \$59.1 million in unrestricted funds and \$26.3 million in restricted funds to the total budget for the system. All institutions and the system office experience increases in unrestricted funds, while 7 of 13 institutions and the office experience change in restricted funds. The major components of the amendment are decreased investment income and increased tuition and fees, auxiliary revenues, indirect cost recovery

RB.00 - University System of Maryland - Fiscal 2003 Budget Overview

from contracts and grants, carryover funds, and restricted contracts and grants. **Exhibit 1** outlines the amendment, including the four institutions at which most change occurs.

Exhibit 1

**University System of Maryland
Fiscal 2002 Anticipated Budget Amendment
(\$ in Thousands)**

<u>Category</u>	<u>UMB</u>	<u>UMCP</u>	<u>UMES</u>	<u>UMUC</u>	<u>Other USM</u>	<u>Total USM</u>
Current Unrestricted Funds						
Tuition and Fees	(\$464)	\$14,812	\$1,192	\$11,066	\$4,538	\$31,144
Contract & Grants – IDCR	5,000	1,791	0	0	75	6,866
Sales & Services Education	3,797	(866)	0	(3,500)	1,312	743
Sales & Services Auxiliary	213	14,734	130	2,238	2,988	20,303
State & Local Grants & Contracts	0	(372)	0	0	(119)	(491)
Private Gifts & Grants	0	(983)	0	0	137	(846)
Carryover Funds	100	0	0	(1,900)	4,895	3,095
Investment Income	0	(1,522)	0	(900)	708	(1,714)
Miscellaneous	(350)	0	0	0	380	30
Adjustments to Unrestricted Funds	\$8,296	\$27,594	\$1,322	\$7,004	\$14,914	\$59,130
Current Restricted Funds						
Other Contracts & Grants	15,300	6,032	0	0	4,535	25,867
Gifts & Grants	5,000	(5,552)	0	0	130	(422)
Title III/1890 Agricultural Research	0	0	1,131	0	0	1,131
Miscellaneous	(300)	0	0	0	0	(300)
Adjustments to Restricted Funds	\$20,000	\$480	\$1,131	\$0	\$4,665	\$26,276

UMB = University of Maryland, Baltimore
 UMCP = University of Maryland, College Park
 UMES = University of Maryland Eastern Shore
 UMUC = University of Maryland University College
 IDCR = Indirect Cost Recovery

Source: University System of Maryland Office

Governor's Proposed Budget

The fiscal 2003 allowance for USM totals about \$2.8 billion, an increase over the 2002 working appropriation of \$113.2 million, or 4.2%. Current unrestricted revenues increase 4.1%. Tuition and fees and general funds make up 72.5% of unrestricted revenues, and the portion of current unrestricted funds attributable to each has changed little in the last two years.

As shown in **Exhibit 2**, the 2003 general fund allowance to USM is \$895.9 million, an increase of \$31.1 million after hiring freeze savings are removed from fiscal 2002. While cost containment measures in 2002 were applied to each institution in amounts proportional to their share of the 2002 general fund appropriation, increases in the 2003 allowance do not represent uniform percentage increases for every institution. After consideration of the 2002 cost-of-living adjustments (COLA) annualization, new facilities costs, debt service, and 2003 merit increases of 2.5%, increases to institutions are intended to reflect Regent priorities and funding guidelines. Funding guidelines and the allocation of general fund increases are discussed further in the *Issues* section of the analysis.

Consideration of the 2002 COLA annualization, new facilities costs, debt service, 2003 merit increases, and regent priorities would have increased general fund support for USM by \$52 million. A reduction of \$17.5 million was necessary to constrain growth to 4%. Reductions made to institutions are in amounts proportional to their share of the 2002 general fund appropriation.

To achieve additional general fund savings, certain facilities renewal projects will be funded with general obligation bonds rather than general funds. The apportionment of this \$3.8 million reduction is based on the eligibility of projects.

Finally, the allowance does not reflect a \$16.6 million transfer of fund balance from USM institutions to the general fund in fiscal 2003. The transfer is proposed by the administration in the Budget Reconciliation Act. The fund balance is discussed further in the *Issues* section of the analysis.

Exhibit 2

**Governor's Proposed Budget
University System of Maryland
(\$ in Thousands)**

How Much It Grows:	General Fund	Other Unrestricted Fund	Restricted Fund	Total
2002 Working Appropriation ¹	\$873,080	\$1,209,604	\$631,881	\$2,714,565
Hiring Freeze Savings ²	(8,315)	0	0	(8,315)
2002 Revised Working	\$864,765	\$1,209,604	\$631,881	\$2,706,250
2003 Governor's Allowance	895,863	1,273,142	658,779	2,827,784
Amount Change	\$31,098	\$63,538	\$26,898	\$121,534
Percent Change	3.6%	5.3%	4.3%	4.5%

¹The working appropriation reflects a budget amendment not yet submitted.

²Hiring freeze savings are anticipated.

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

Performance Analysis: Managing for Results

For 2003, USM redesigned its Managing for Results (MFR) submission to increase consistency with, and avoid duplication of, the Performance Accountability Report issued by MHEC. The system developed 30 new measures and refined or changed the definition of nine measures. Four measures, three of which are related to graduation rates, remain the same. **Exhibit 3** provides a sample of USM measures.

Several measures appear to have continuing issues with definition. For example, measures related to the satisfaction of USM graduates and employers of USM graduates appear the same, but the survey used to collect the data changed, so data cannot be compared to previous years. **The system should comment on how it will ensure that comparable surveys are used to produce usable, comparable data in the future.**

In addition, some system measures actually apply only to UMCP. For example, the system seeks to “increase the number of nationally ranked academic programs.” Beginning with the 2000 actual data, the system changed the definition of the measure to exclude rankings of professional programs. As a result, previously included ranked programs at UMB are not reflected in the MFR data. A second example is the measure, “Number of companies graduating from incubator programs.” Although other institutions have programs called incubators, the measure reflects only the activities of the incubator at UMCP. While

Exhibit 3

**Program Measurement Data
University System of Maryland
Fiscal 1999 through 2003**

	<u>Actual 2000</u>	<u>Actual 2001</u>	<u>Est. 2002</u>	<u>Est. 2003</u>	<u>Ann. Chg. 00-01</u>	<u>Ann. Chg. 01-03</u>
Employment rate of graduates	95%	95%	95%	95%	0.0%	0.0%
# students completed all teacher education requirements and are employed in Maryland public schools	1,176	1,229	1,286	1,336	4.5%	4.3%
Average employer satisfaction with USM graduates	96%	n/a	n/a	n/a	n/a	n/a
Total bachelor's degree recipients	15,000	n/a	n/a	n/a	n/a	n/a
# companies graduating from incubator programs	36	39	43	46	8.3%	8.6%
% economically disadvantaged students	30%	30%	30%	30%	0%	0%
Second-year retention rate	83%	84%	85%	86%	1.2%	1.2%
Sixth-year graduation rate	58%	59%	60%	61%	1.7%	1.7%
# nationally ranked programs	56	58	60	62	3.6%	3.4%
% replacement cost expended in facility renewal and renovation	\$55.4	\$91.7	\$57.7	\$69.2	65.5%	-13.1%

Source: Maryland Fiscal 2003 Budget

important and worthy of note, the achievements of the College Park campus may not accurately reflect the achievements of the system. Furthermore, system measure definitions that exclude other campuses create the impression that the achievements of other campuses are not valued. **The Department of Legislative Services (DLS) recommends that the data collected for system measures include all USM institutions and the 2000 actual data be amended accordingly. Otherwise, the system should reword measures to make clear that they reflect activities at the flagship campus only.**

The meaning of the system's measure related to facilities renewal is also unclear. The relevant objective is to "allocate expenditures on facility renewal to meet 2% target," and the measure is the "percent of replacement costs expended in facility renewal and renovation." The data provided is in millions of dollars. The objective intends that expenditures on facility renewal be 2% of the replacement value of the facilities. **DLS recommends that the units of the measure and data be aligned to convey whether the target is met.**

RB.00 - University System of Maryland - Fiscal 2003 Budget Overview

Now that its goals are consistent with the Performance Accountability Report and once definitional issues have been clarified and resolved, the system should limit introduction of new or refined measures to allow for the accumulation of usable data. Incomparable data among years does not give the system, its Board of Regents, or state policy makers useful information about the performance of the university system.

Issues

1. Employment Growth

Since fiscal 1999, total employment at USM institutions has grown by 2,308 regular employees and 368 contractuales, or 2,676 total employees, or 10.7%. As shown in **Exhibit 4**, since the General Assembly adjourned last year, USM has added 531 regular employees, of which 37%, or 205 were contractual conversions. (Also during 2002, USM eliminated 237 contractual positions.) The fiscal 2003 budget would allow USM another 246 regular positions. Budget bill language would give USM authority to create 592 additional regular positions.

Exhibit 4

Growth in USM Regular Positions Fiscal 1999 through 2003

	<u>Regular Positions</u>	<u>Increase</u>	<u>% Increase</u>
1999	17,427		
2000	17,872	445	2.6%
2001	18,478	606	3.4%
2002 Legislative	18,958	480	2.6%
2002 Working	19,488	531	2.8%
2003 Allowance	19,735	246	1.3%
2003 Position Ceiling	20,327	592	3.0%

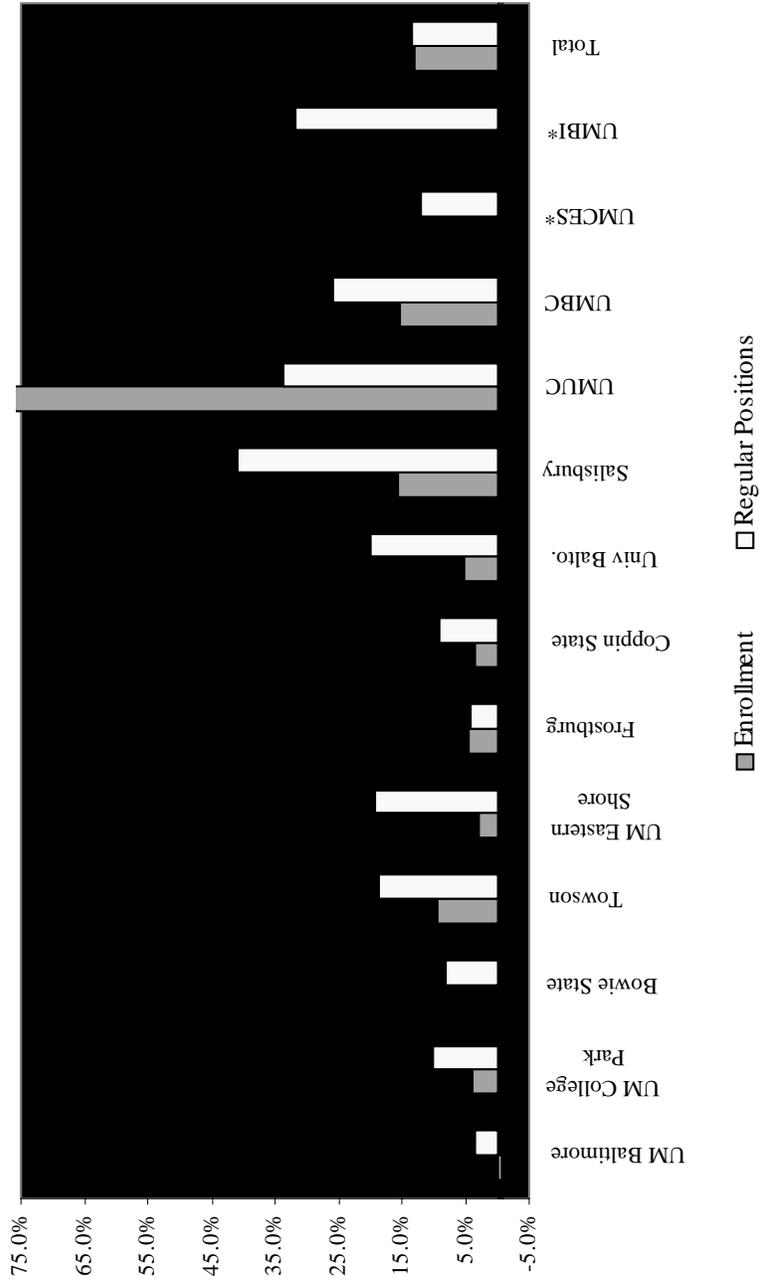
Source: Maryland budget books, 2001 through 2003 and SB 175/HB 150

Growth in regular employment may be necessary as institutions add employees to fulfill their core missions of instruction and research. **Exhibit 5** and **Exhibit 6** illustrate the change in employment at each institution, compared with change in enrollment and restricted research expenditures, respectively.

USM overall regular employment between fiscal 1999 and 2003 has grown 13.3%, compared with enrollment growth of 11% and 38.7% growth in restricted research expenditures. **Exhibit 7** illustrates the actual and percentage change in regular positions, according to the program area in which the change was experienced. A large actual change occurs in Instruction, as might be expected with enrollment growth and considering that positions in Instruction make up the largest percentage of the USM workforce. A large actual and percentage change occurs in research, which presumably occurs as USM institutions seek national eminence. The largest actual and percentage increases occur in Academic Support and Institutional Support. Academic Support includes libraries, museums, educational media services, academic computing support, and academic administration at the dean level and below. Institutional Support includes executive management, fiscal operations, general administration (above dean level), logistical services, administrative computing support, public relations, and public safety.

Exhibit 5

Growth in Employment and Enrollment
Fiscal 1999 through 2003

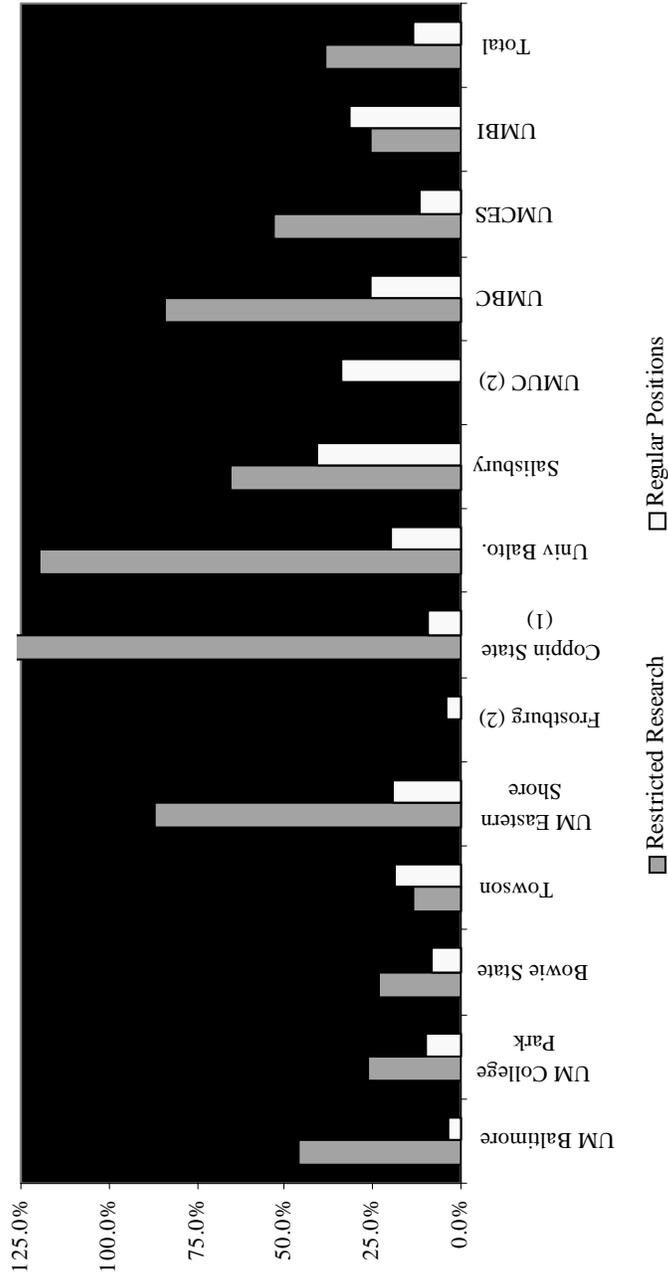


*As research centers, UMCES and UMBI have no student enrollment.

Source: Maryland budget books, 2001 through 2003; Department of Budget and Management

Exhibit 6

Growth in Employment and Restricted Research
Fiscal 1999 through 2003



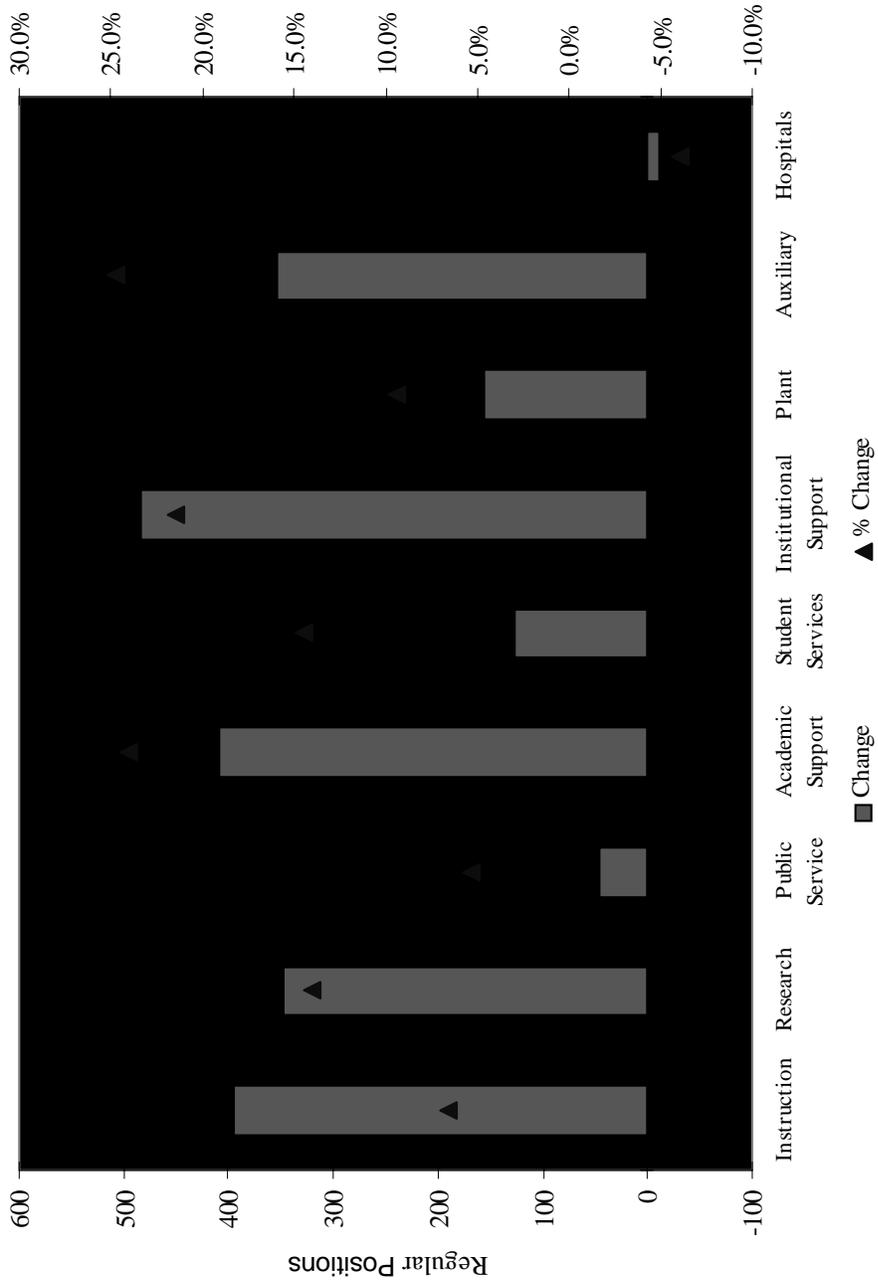
⁽¹⁾Restricted research at Coppin State increased over 3,000% but remains minimal at \$414,214 in fiscal 2003.

⁽²⁾Frostburg State and UMUC report no restricted research expenditures.

Source: Maryland budget books, 2001 through 2003

Exhibit 7

Change in Regular Positions by Program
Fiscal 1999 through 2003



Source: Maryland budget books, 2001 through 2003

RB.00 - University System of Maryland - Fiscal 2003 Budget Overview

Increasing general fund support for higher education in recent years has allowed USM to grow its workforce to more than keep pace with enrollment. Since 1999, the largest increases have been in support programs, not in core programs of instruction, research, and public service. While the State has not experienced revenue growth since 2001, USM has increased its ongoing costs by adding 1,010 regular employees. **DLS recommends the adoption of budget bill language to constrain regular positions to current positions. The system may seek authority to add regular positions above that level through action of the Board of Public Works. DLS recommends amending existing budget bill language as follows:**

The Chancellor and the presidents of the University System of Maryland institutions shall not create any permanent positions within the University System of Maryland so that the total number of positions exceeds ~~20,327~~ 19,488. Any permanent positions created above the ~~20,327~~ 19,488 permanent position ceiling must be approved by the Board of Public Works.

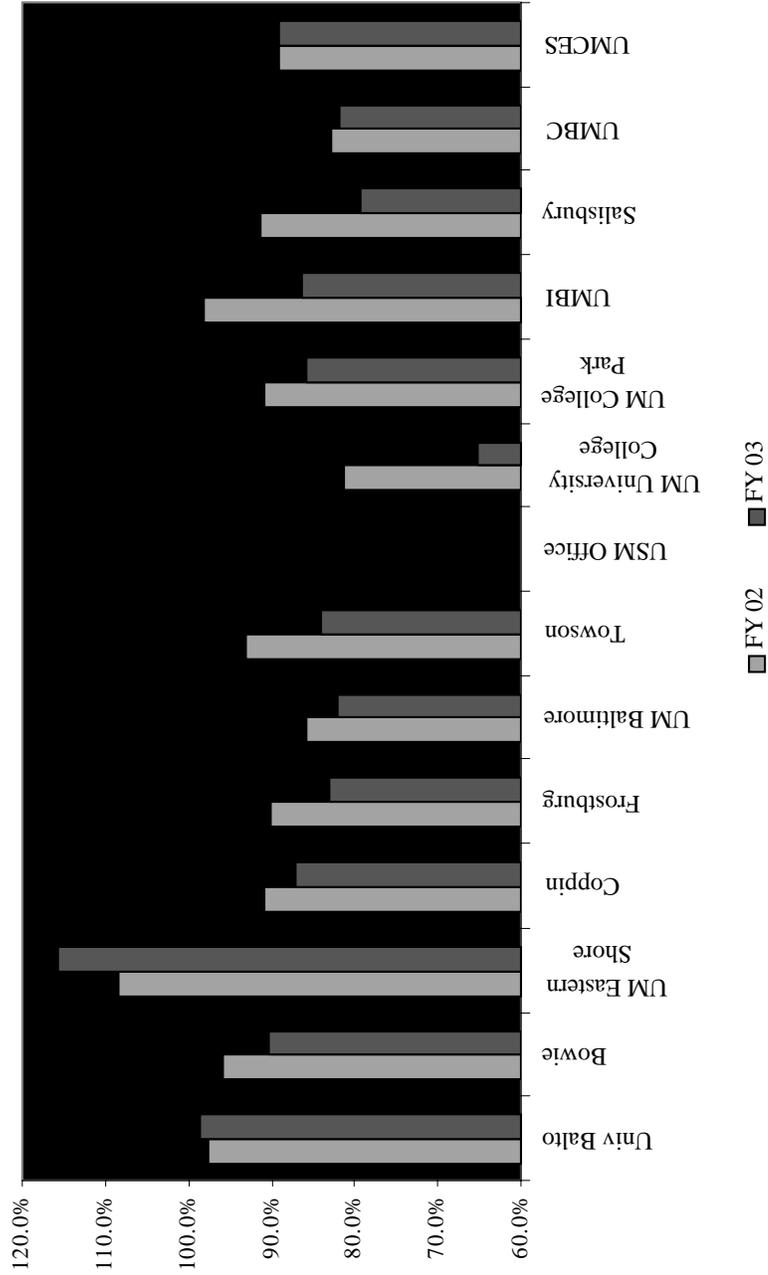
2. Funding Guidelines and Increased General Fund Support

Institutions continue to have varying degrees of success in reaching their funding guidelines. While overall, USM guideline attainment has dropped from 90% in the 2002 legislative appropriation to 85% in the 2003 allowance, some institutions attain a higher percentage of their guidelines than they did last year. Others experience a decline greater than five percentage points. **Exhibit 8** compares guideline attainment in fiscal 2002 (legislative appropriation) and fiscal 2003.

Guideline attainment varies, in part, because the guidelines themselves change each year. The distribution of increased funding in the allowance also influences guideline attainment. Increases in the 2003 allowance do not represent uniform percentage increases for every institution. **Exhibit 9** shows the increase in each institution's general fund support.

Exhibit 8

Guideline Attainment



Note: FY 02 guideline attainment is based on the 2002 legislative appropriation.

Source: Department of Legislative Services

Exhibit 9

General Fund Support for USM Institutions
Fiscal 2002 through 2003 Allowance
 (\$ in Thousands)

<u>Institution</u>	<u>FY 2002 Working¹</u>	<u>FY 2003 Allowance²</u>	<u>FY 2002-2003 Increment</u>	<u>Annual % FY 2002-2003</u>
Univ of Baltimore	\$24,474	\$24,673	\$199	0.8%
Bowie State	22,725	22,988	263	1.2%
UM Eastern Shore	23,564	23,895	330	1.4%
Coppin State	20,513	20,931	418	2.0%
Frostburg State	28,660	29,364	705	2.5%
UM Baltimore	153,139	157,313	4,173	2.7%
Towson	68,062	70,341	2,278	3.3%
USM Office	12,096	12,503	407	3.4%
UM University College	16,928	17,524	596	3.5%
UM College Park	359,339	372,912	13,573	3.8%
UMBI	16,468	17,164	696	4.2%
Salisbury	29,500	31,182	1,682	5.7%
UMBC	75,818	80,558	4,740	6.3%
UMCES	13,479	14,515	1,036	7.7%
USM Subtotal	\$864,765	\$895,863	\$31,098	3.6%

¹ Reflects anticipated hiring freeze savings.

² Does not include funding for Historically Black Institutions found in the budgets of the Maryland Higher Education Commission and the Department of Budget and Management.

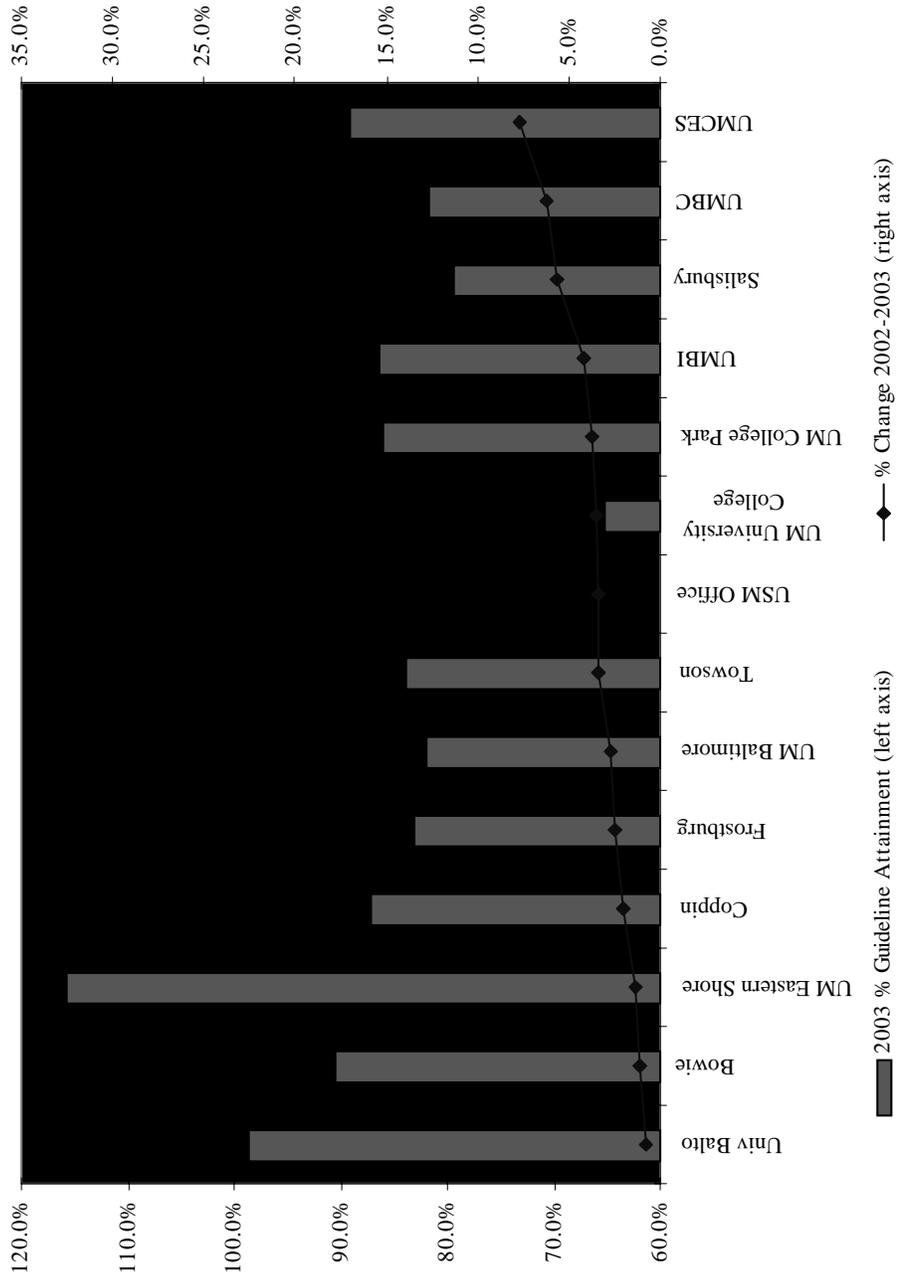
Source: Department of Budget and Management

According to USM, after consideration of the 2002 COLA annualization, new facilities costs, debt service, and 2003 merit increases of 2.5%, increases to institutions are intended to reflect regent priorities and funding guidelines. **Exhibit 10** shows the percentage increase in general funds at each institution, compared to 2003 funding guideline attainment.

The Chancellor should comment on what priorities the distribution of general fund increases is intended to reflect. The Chancellor should also comment on what role, if any, the State's agreement with the Office for Civil Rights played in setting priorities.

Exhibit 10

2003 Guideline Attainment and General Fund Increases



Source: Department of Legislative Services

3. Budget Reconciliation Act Proposes Fund Balance Transfer

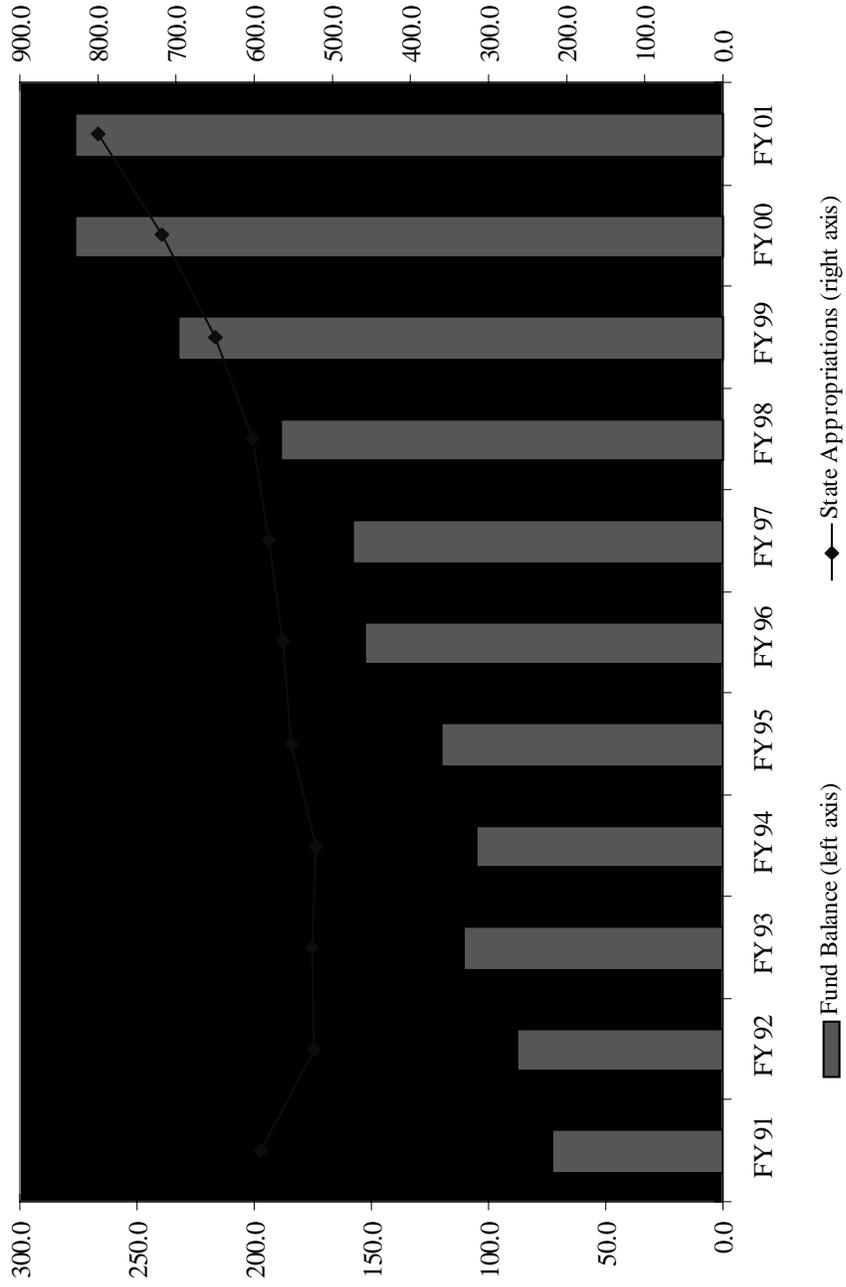
The Spending Affordability Committee in November 2001 examined the issue of fund balances at institutions of higher education. The committee learned that the fiscal 2001 ending fund balances at USM institutions totaled \$275.9 million. (USM has since revised 2001 actual fund balance downward to \$273.7 million.) According to USM, the State-supported fund balance is \$62.8 million, or 23% of total fund balance. The remaining 77% is attributable to auxiliary, or self-supporting, activities of the universities. **Exhibit 11** shows the growth of the fund balance and State support for USM since fiscal 1991.

According to USM officials, growth in fund balance is the result of a conscious decision by the Board of Regents to strengthen the financial position of the system. The board hopes to build an unrestricted fund balance equal to the system's total outstanding debt. The fund balance allows the system access to "indirect debt" through public/private partnerships, lower interest rates on debt, and lower issuance costs. It also allows institutions to "save" for particular purposes, respond to unanticipated emergencies, and bridge gaps in funding capital projects between payment for the project and receipt of gift proceeds or appropriations received over a period of time.

The Budget Reconciliation Act of 2002 proposed by the administration would require a \$16.6 million transfer from USM fund balance to the general fund during fiscal 2003. The transfer represents 26% of the State-supported 2001 ending fund balance or 6% of the total fund balance. The system office will recommend that the Board of Regents apportion the amount required for the transfer among institutions according to their share of the 2003 unrestricted operating budget. The office chose operating budget rather than existing fund balance as the criteria for allocating responsibility for the transfer, because it does not wish to penalize institutions that have complied with the direction of the Board of Regents to increase institutional fund balance.

Exhibit 11

USM Unrestricted Fund Balance History



Source: University System of Maryland

RB.00 - University System of Maryland - Fiscal 2003 Budget Overview

Exhibit 12 shows the distribution of fund balance, unrestricted budget, and proposed fund balance transfer. Some institutions would transfer more than they have in State-supported fund balance. Presumably, those institutions would either transfer current operating funds or overlook the normal distinction between State-supported and self-supporting activities to use the fund balance from self-supporting activities. **The Chancellor should comment on whether the office intends those institutions to transfer from their auxiliary fund balances or from unrestricted operating funds.**

Exhibit 12

**University System of Maryland
Fund Balance Reduction – Initial Recommendation
(\$ in Thousands)**

	<u>FY 2001 Fund Balance</u>			<u>FY 2003</u>	<u>% of</u>	<u>Reduction</u>	<u>% of State</u>	<u>% of</u>
	<u>State</u>	<u>Non-State</u>	<u>Total</u>	<u>Unrestricted</u>	<u>CUF</u>			
				<u>Budget</u>	<u>Budget</u>	<u>Allocation</u>	<u>Supported FB</u>	<u>Total FB</u>
UM Baltimore	\$20,629	\$54,756	\$75,385	\$335,982	15%	\$2,571	12.5%	3.4%
UM College Park	24,588	77,287	101,875	824,068	38%	6,307	25.7%	6.2%
Bowie State	216	4,067	4,283	48,534	2%	371	172.0%	8.7%
Towson	7,218	12,257	19,475	215,869	10%	1,652	22.9%	8.5%
UM Eastern Shore	0	2,149	2,149	52,834	2%	404	n/a	18.8%
Frostburg State	0	4,791	4,791	66,656	3%	510	n/a	10.6%
Coppin State	420	1,117	1,537	39,173	2%	300	71.4%	19.5%
U of Baltimore	3,793	6,601	10,394	56,887	3%	435	11.5%	4.2%
Salisbury	1,020	3,920	4,941	83,838	4%	642	62.9%	13.0%
University College	0	20,410	20,410	185,028	9%	1,416	n/a	6.9%
UMBC	117	13,279	13,396	200,648	9%	1,536	1313.1%	11.5%
UMCES	334	3,059	3,394	18,730	1%	143	42.9%	4.2%
UMBI	2,143	6,484	8,627	24,293	1%	186	8.7%	2.2%
USM Office	2,321	754	3,076	16,464	1%	126	5.4%	4.1%
Total	\$62,800	\$210,933	\$273,733	\$2,169,005	100%	\$16,600	26.4%	6.1%

FB = fund balance

CUF = current unrestricted fund

Source: University System of Maryland

The system plans to seek an increase in its overall debt limit during the 2002 legislative session. However, bond rating agencies have warned that, “If the system issues additional debt without a commensurate increase in capital resources, the rating will likely be lowered.” As a result, continuing to grow the fund balance is imperative if the system is to increase its overall debt and maintain its Aa bond rating. **The Chancellor should discuss the impact of the fund balance transfer and the system’s plans to seek an increase in its overall debt limit this session, in light of smaller than expected operating increases and the proposed fund balance transfer.**

4. Additional Tuition Increase Proposed for USM

The allowance assumes a 1.5% increase in tuition above the tuition rates adopted by the USM Board of Regents last fall. The tuition increase would mean that all system institutions, except Bowie State University, would exceed the board's self-imposed 4% limit on tuition increases.

The increase would generate \$7.7 million in unrestricted funds for the system, or 0.4% of fiscal 2002 unrestricted funds. **Exhibit 13** shows the amount of the increase and its relationship to 2002 unrestricted funds.

Exhibit 13

Proposed Tuition Increase (\$ in Thousands)

	<u>2002 Working CUF*</u>	<u>Proposed Tuition Increase</u>	<u>% of 2002 CUF</u>
UM Baltimore	\$325,659	\$681	0.2%
UM College Park	791,227	2,763	0.3%
Bowie	48,961	215	0.4%
Towson	203,894	1,087	0.5%
UM Eastern Shore	51,444	189	0.4%
Frostburg	64,987	268	0.4%
Coppin	36,756	162	0.4%
Univ of Baltimore	54,408	359	0.7%
Salisbury	78,199	378	0.5%
UM University College	171,483	840	0.5%
UMBC	188,096	711	0.4%
UMCES	17,694	0	
UMBI	25,504	0	
USM Office	16,057	0	
USM Total	\$2,074,369	\$7,654	0.4%

*Reflects anticipated hiring freeze savings.

CUF = current unrestricted funds

Source: University System of Maryland

RB.00 - University System of Maryland - Fiscal 2003 Budget Overview

The proposed tuition increase virtually eliminates the need for USM to take cost containment actions in fiscal 2003 beyond those taken in fiscal 2002. As **Exhibit 14** shows, only \$3.6 million in additional cost saving measures will be necessary. The Budget Reconciliation Act would delay merit increases for State employees until January 1, 2003. USM could reduce its current services budget request by \$9.7 million by making a similar delay in merit increases for its employees. The USM request to the Department of Budget and Management is further offset by increased general funds in the allowance and the proposed tuition increase.

Exhibit 14

Meeting the USM 2003 Budget Request

USM Current Services Budget Request to DBM	\$52,046,663
Delay Merit Increases Six Months	(9,682,145)
Increase in State General Fund Support	(31,097,835)
Increase in Tuition and Fees	(7,653,868)
Necessary Cost Containment	\$3,612,815

Sources: University System of Maryland Office, 2003 Maryland budget books

The Chancellor should comment on the impact of the tuition increase on each institution and measures available to institutions to reduce costs, other than one-time reductions. The Chancellor should also comment on why the system chooses to rely primarily on increased State appropriations and tuition revenue, rather than cost saving measures, in light of the current economic situation.

The allowance includes \$7.7 million in current unrestricted funds attributable to the proposed tuition increase, but the board has yet to authorize the higher tuition rates. DLS does not have a recommendation regarding the proposed tuition increase. The additional tuition will offset, in part, the department's recommendation to reduce the proposed general fund support of the system by \$18 million. On the other hand, raising tuition increases college costs for students and families who may have been affected by the economic recession. The General Assembly could deny the tuition increases, by reducing current unrestricted funds for USM institutions by \$7,653,868 and adding budget bill language prohibiting the system from restoring through budget amendment current unrestricted funds related to a tuition increase.

Recommended Actions

1. Amend lines 16 through 25 on page 105 as follows:

The Chancellor and the presidents of the University System of Maryland institutions shall not create any regular positions within the University System of Maryland so that the total number of positions exceeds ~~20,327~~ 19,488. Any regular positions created above the ~~20,327~~ 19,488 regular position ceiling must be approved by the Board of Public Works.

Explanation: This language limits the number of regular positions to those existing in 2002. The system may add regular positions above the ceiling with approval from the Board of Public Works.

2. Add the following language:

The appropriation herein for the University System of Maryland institutions shall be reduced by \$18,402,450 in general funds and \$18,402,450 in current unrestricted funds. The allocation of the reduction shall be determined by the University System of Maryland Board of Regents.

Explanation: The language reduces the appropriation to a level consistent with enrollment growth, including an adjustment for the disproportionately high growth associated with the University of Maryland University College. The current State general fund revenue forecast shows little or no growth in general fund revenues for fiscal 2002 or 2003. With this reduction, general fund support for USM would be \$78.8 million above fiscal 2001.

Updates

1. Chancellor Search Continues

Chancellor Donald Langenberg will retire on April 30, 2002. In May 2001, the USM Board of Regents announced a search and screening committee to consider candidates for his successor. The search committee includes five members of the Board, three presidents of USM institutions, four representatives of USM faculty and staff, and five members of the public. The committee has hired a private consultant, the managing director of Korn/Ferry International's education and not-for-profit executive search practice, to assist. The board will make the final decision from among candidates forwarded by the committee.

The search became the subject of national and state media attention when Governor Glendening expressed interest in the position in a national higher education periodical. Critics feared that the Governor's interest might discourage other qualified candidates, that it would be inappropriate for a board of gubernatorial appointees to consider the Governor, and that some donors opposed to the Governor's candidacy for Chancellor would withdraw their support of USM institutions. On December 4, 2001, Governor Glendening issued a statement asking the search committee not to consider him as a candidate in the current search process.

The board has extended its search to ensure it is "in all respects thorough and comprehensive." The board has modified its previous goal of having a new chancellor in place by April 30, 2002, instead aiming for September 1, 2002. In addition, the board is developing a contingency plan for the appointment of an interim chancellor to coincide with the April 30, 2002, retirement of Chancellor Langenberg. There is no deadline for the search committee to recommend finalists to the full board.

2. Biosciences Workgroup Restructures

In response to direction from budget subcommittees in March 2001, USM convened a Biosciences Workgroup to assess the system's work in biosciences, outline aspirations, and describe existing collaborative efforts. The workgroup reported to the subcommittees in August 2001. It made 16 recommendations for coordination, education and curricular development, and outreach. It also identified the need for a biosciences inventory of people, programs and facilities, as well as a USM strategic plan for biosciences in support of biotechnology.

The system reports little substantive progress in the five months since the August report. The system is restructuring the workgroup to include deans and professors, rather than provosts and presidents, because the group's work will require understanding of current research. The restructured work group has yet to begin meeting regularly to fulfill the findings of its previous report. It will coordinate system-wide responses to the sixteen recommendations, plans to circulate a draft biotechnology strategic plan later this year, conduct the inventory, and advise the Chancellor and board on how to optimize the findings of the inventory. Finally, the Chancellor has solicited nominations for the new BioScience Advisory Council, which will be composed of corporate, federal, State, and university leaders, including former members of the workgroup. The system plans to have the council begin work this spring.