

**R30B36**  
**University System of Maryland Office**  
**University System of Maryland**

***Operating Budget Data***

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(\$ in Thousands)

	<b><u>FY 02</u></b>	<b><u>FY 03</u></b>	<b><u>FY 04</u></b>	<b><u>FY 03-04</u></b>	<b><u>FY 03-04</u></b>
	<b><u>Actual</u></b>	<b><u>Approp</u></b>	<b><u>Allowance</u></b>	<b><u>Change</u></b>	<b><u>% Change</u></b>
General Funds	\$12,096	\$12,135	\$11,362	-\$773	-6.4%
FY 2003 Cost Containment	0	-773	0	773	
<b>Adjusted General Funds</b>	<b>\$12,096</b>	<b>\$11,362</b>	<b>\$11,362</b>	<b>\$0</b>	<b>0.0%</b>
Other Unrestricted Funds	2,160	2,695	2,882	188	7.0%
Total Unrestricted Funds	14,256	14,056	14,244	188	1.3%
Restricted Funds	1,553	1,800	1,800	0	0.0%
<b>Adjusted Grand Total</b>	<b>\$15,810</b>	<b>\$15,856</b>	<b>\$16,044</b>	<b>\$188</b>	<b>1.2%</b>

- The University System of Maryland Office (USMO) addressed general fund reductions by eliminating six vacancies and reducing spending on travel, contractual services, and grants to institutions.
- The increase from fiscal 2003 to 2004 in other unrestricted funds is due to a transfer from the fund balance.

***Personnel Data***

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	<b><u>FY 02</u></b>	<b><u>FY 03</u></b>	<b><u>FY 04</u></b>	<b><u>Change</u></b>
	<b><u>Actual</u></b>	<b><u>Working</u></b>	<b><u>Allowance</u></b>	
Regular Positions	108.50	101.50	98.50	-3.00
Contractual FTEs	4.50	5.00	5.00	0.00
<b>Total Personnel</b>	<b>113.00</b>	<b>106.50</b>	<b>103.50</b>	<b>-3.00</b>

***Vacancy Data: Regular Positions***

Budgeted Turnover: FY 04	2.80	2.84%
Positions Vacant as of 9/31/02	8.00	7.88%

- USMO will eliminate six of the eight vacancies above in fiscal 2003 to address general fund reductions.
- The allowance adds three positions after the elimination of the six vacancies in fiscal 2003.

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

For further information contact: M. Kathleen Gardiner

Phone: (410) 946-5530

## *Analysis in Brief*

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### Major Trends

*System Office Hopes for Smaller Gap in Guideline Attainment:* Funding guideline variance is the difference in attainment between the institution with the highest attainment and the institution with the lowest attainment. The system office hopes to reduce the variance to 20% by fiscal 2004. Over time, institutions with the lowest and highest attainment have not changed. Until the circumstances of those two institutions change, it is unlikely that variance will decrease markedly.

*System Office Strives for Greater “Customer” Satisfaction:* As a support agency to the Board of Regents and institutions, the system office strives to ensure the satisfaction of those with whom the office interacts. While satisfaction with internal interactions improved in fiscal 2002, satisfaction with external interactions declined for the second year in a row.

### Issues

*Columbus Center Space Still Vacant:* Office and exhibit space in the Christopher Columbus Center has been vacant for five years. **The Department of Legislative Services recommends the adoption of budget bill language restricting the expenditure of \$700,000 by the system office until the Columbus Center space is leased.**

### Recommended Actions

1. Add budget bill language to restrict the expenditure of funds at the system office until vacant space at the Columbus Center is leased.

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## ***Operating Budget Analysis***

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### **Program Description**

The University System of Maryland Office (USMO) is the staff agency to the University System of Maryland (USM) Board of Regents. The office includes the chancellor, executive and administrative staff, and the central services of budget, accounting, auditing, information technology, capital planning, advancement, public and governmental relations, and other support to the regents.

The mission of USMO is to provide leadership, planning, and resource management to advance the quality and accessibility of USM services and to increase synergies among the USM member institutions.

The goals of USMO are:

- promote access to USM institutions through cooperation;
- promote operational synergies;
- promote private support for USM;
- provide financial stewardship to maximize effective and efficient USM operations; and
- fulfill statutory responsibilities with the highest degree of quality.

### **Performance Analysis: Managing for Results**

Funding guidelines set by the Maryland Higher Education Commission inform State support for USM institutions. Related to its goal of providing financial stewardship for the system, USMO hopes to reduce the intra-system variance in the State funding guidelines attainment to 20% by fiscal 2004. **Exhibit 1** illustrates intra-system variance in guideline attainment.

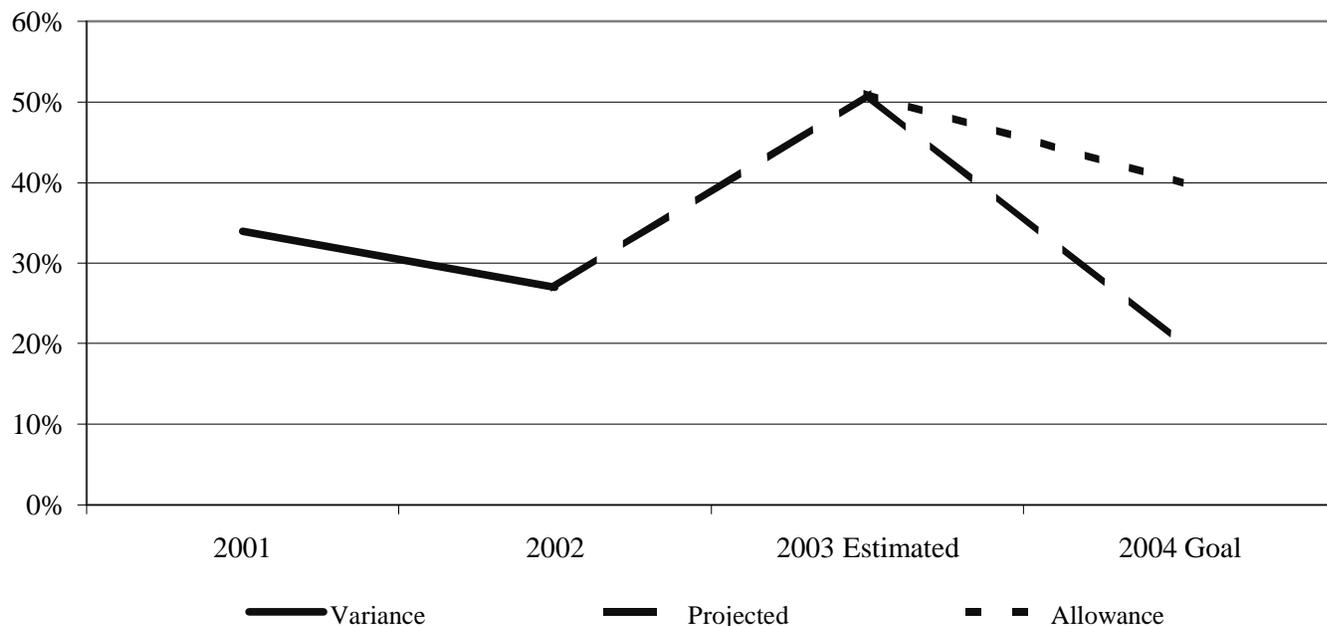
The Board of Regents has had the opportunity to affect funding guideline attainment when considering institution requests, but also by making adjustments to general fund appropriations during fiscal 2002 cost containment, fiscal 2003 legislative reductions, and fiscal 2003 cost containment.

- In fiscal 2002 cost containment, the board chose to make reductions across the board, having minimal effect on the variance in funding guideline attainment.

**Exhibit 1**

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**Funding Guideline Attainment  
Intra-system Variance**



Source: Maryland State budget books, fiscal 2004; Maryland Higher Education Commission

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- In making fiscal 2003 legislative reductions, the board chose to favor the University of Maryland (UM) Baltimore, UM Center for Environmental Science (UMCES), and UM Biotechnology Institute (UMBI), as the research centers' inability to raise tuition revenue and UM Baltimore's "structural deficit" outweighed guideline attainment.
- In allocating fiscal 2003 cost containment, the board's allocation was consistent with funding guideline attainment, except that it again favored UMCES, and UMBI, as well as the USM Office, due to their inability to raise tuition revenue. UM University College had one of the largest percentage reductions, despite having the lowest funding guideline attainment of any institution. In fiscal 2003 cost containment, the administration decided to favor the historically black institutions (HBIs) by allocating much smaller reductions to them.

Therefore, it appears that the Board of Regents tries to decrease intra-system variance in guideline attainment in formulating the system's requests. When allocating reductions, however, it finds guideline attainment less important than the ability to raise additional revenue.

### *R30B36 - USM - University System of Maryland Office*

Funding guideline variance is the difference between the highest and lowest guideline attainment. In all four years funding guidelines have been in place, the institutions with lowest and highest attainment have been the same: UM University College and UM Eastern Shore, respectively. There are characteristics about these two institutions that seemingly ensure their places at lowest and highest attainment. UM University College's peers do not share its delivery model or its historic relationship with the State, both of which contribute to low general fund support per student and low funding guideline attainment. In allocating fiscal 2003 general fund reductions, UM University College was allocated among the largest reductions despite its low attainment. In the case of UM Eastern Shore, the State's Partnership Agreement with the Office for Civil Rights ensures that UM Eastern Shore will continue to receive favorable treatment in the allocation of State support. With the institutions at highest and lowest attainment unlikely to change their positions in the foreseeable future, it is also unlikely that funding guideline variance will decrease markedly.

Also related to the goal of providing financial stewardship, USMO hopes to maintain the system's Aa3 bond rating and eventually improve it. Improvement will not come until after fiscal 2008, when retirement of current debt begins. Until then, maintaining the Aa3 rating depends on a number of factors, primarily available resources, including fund balance. The rating agencies also look favorably on evidence of continuing State support, strong enrollment, and access to increased tuition and fee revenue.

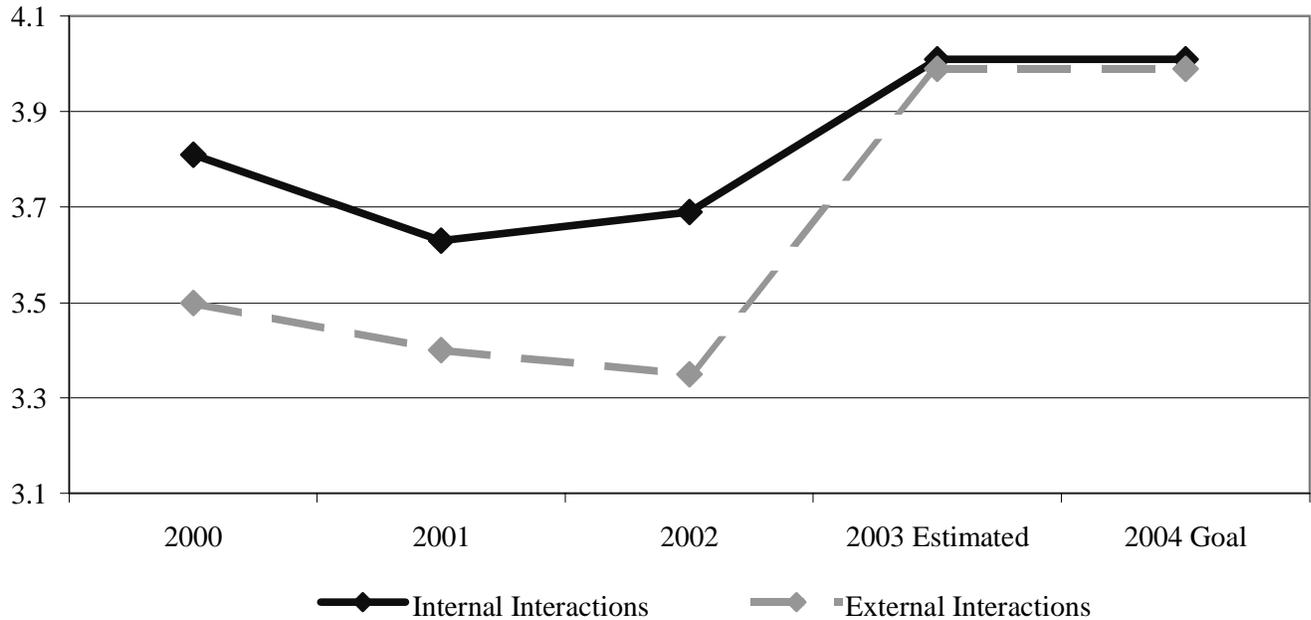
As staff to the Board of Regents, USMO can be viewed as primarily a service agency. As a result, the satisfaction of those with whom the office interacts is fundamentally important. To that end, USMO has measures indicating satisfaction with USMO internal and external interactions. The measures are based on annual surveys of presidents, vice presidents, and councils of faculty, staff, and students. Examples of internal interactions addressed in the survey are USMO's monthly meetings for the vice presidents, the staff council, the student council, and the presidents' and chancellor's councils. Examples of USMO's external interactions include leading and coordinating the federal relations effort, representing the USM institutions in national education associations, and leadership on the partnership agreement with the Office for Civil Rights. The surveys' satisfaction scale ranges from a low rating of "1" to a high of "5." USMO has hoped to maintain ratings of "4" or above but has not achieved that goal yet. **Exhibit 2** shows the satisfaction measures for fiscal 2000 through 2004.

In the past year, to enhance the support and communication to campuses, USMO has provided direct, personal support to the USM biosciences workgroup and appropriate counsel and support related to collective bargaining. In addition, the Chancellor has taken several steps to increase satisfaction with USMO, including:

- elevating the associate vice chancellor for governmental relations to a direct report relationship to the Chancellor;
- initiating a search for a permanent vice chancellor of academic affairs;
- creating an orientation program for new presidents;
- holding a retreat with the presidents to discuss goals and expectations;
- reviewing how the effectiveness of presidents is evaluated;

**Exhibit 2**

**Satisfaction with the System Office  
Internal and External Interactions**



Source: Maryland State budget books, fiscal 2003 and 2004; University System of Maryland Office

- increasing one-on-one contact and consultation between the chancellor and the presidents and council chairs;
- making monthly meetings of the chancellor’s council more focused and consultative; and
- increasing the general availability of the chancellor to the public.

**Fiscal 2003 Actions**

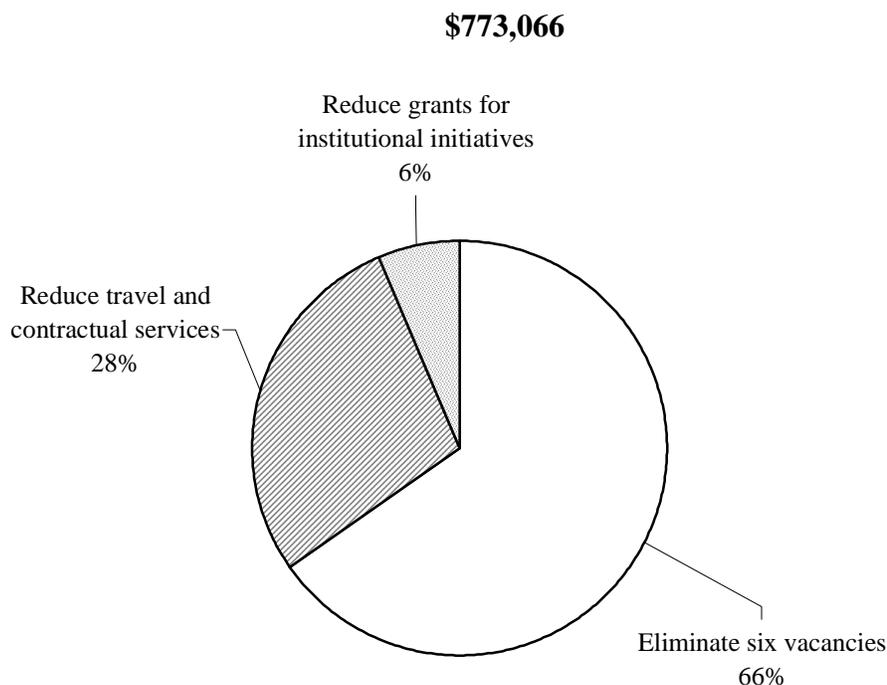
**Impact of Cost Containment**

Through the combined cost containment proposals of the previous and current administrations, general fund support for USMO will decline \$773,066 in fiscal 2003. As shown in **Exhibit 3**, the system will address about two-thirds of the general fund reduction by eliminating six vacancies, including an information technology programmer, a gift planner, editor, construction auditor, and financial

### Exhibit 3

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## Fiscal 2003 Cost Containment Measures



Source: University System of Maryland Office

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coordinator. Remaining measures include reducing travel and contractual services, as well as limiting availability of USMO support for institutional initiatives. Such initiatives have included support of the Business Education Council, Council of University System Faculty, Council of University System Staff, Minorities in Life Sciences, USM shows on Maryland Public Television, and faculty development grants.

USMO chose to address general fund reductions in fiscal 2003 without extending the 8% cost containment effort to the Shady Grove Higher Education Center. As the General Assembly considers the budget reconciliation act, the department will recommend a general fund reduction of \$186,480 for the center, consistent with the actions taken at public and private institutions of higher education.

### Governor's Proposed Budget

The allowance for fiscal 2004 continues at fiscal 2003 levels of general fund support, reflecting a reduction of \$773,066 and providing no increase in general funds for UMSO. (See **Exhibit 4.**)

**Exhibit 4**

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

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 03-04</u>	<u>FY 03-04</u>
	<u>Actual</u>	<u>Approp</u>	<u>Allowance</u>	<u>Change</u>	<u>% Change</u>
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<b>Adjusted General Funds</b>	<b>\$12,096</b>	<b>\$11,362</b>	<b>\$11,362</b>	<b>\$0</b>	<b>0.0%</b>
Other Unrestricted Funds	2,160	2,695	2,882	188	7.0%
Total Unrestricted Funds	14,256	14,056	14,244	188	1.3%
Restricted Funds	1,553	1,800	1,800	0	0.0%
<b>Adjusted Grand Total</b>	<b>\$15,810</b>	<b>\$15,856</b>	<b>\$16,044</b>	<b>\$188</b>	<b>1.2%</b>

**Where It Goes:**

**Personnel Expenses**

New positions related to Hagerstown Higher Education Center .....	\$50
Employee and retiree health insurance.....	139

**Other Changes**

Other Hagerstown Higher Education Center costs .....	392
Unallocated reduction in contractual services.....	-434
Supplies and materials .....	40

**Total** **\$188**

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

Other unrestricted funds at USMO increase \$187,571 due to a budgeted transfer from fund balance. USMO has not budgeted an increase in restricted funds.

The allowance includes three new State-supported positions for USMO related to the Hagerstown Higher Education Center. The positions include a center director, coordinator, and administrative assistant. Other costs related to the Hagerstown center include debt service on equipment, communications, utilities, supplies, and contractual services such as printing, advertising, and housekeeping.

## *Issues*

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### **1. Columbus Center Space Still Vacant**

During the 1998 legislative session, the Department of Legislative Services (DLS) first discussed the issue of tenancy at the Christopher Columbus Center. The Center of Marine Biotechnology of UMBI occupies part of the building, but a large exhibit hall and some office space have been vacant for over five years. In October 2001 UMBI was prepared to take to the USM Board of Regents an unsolicited lease proposal from a commercial interest. Immediately prior to the meeting at which a board committee would consider the proposal, the institution withdrew it, after reconsidering bringing forward a single, unsolicited proposal without the benefit of an open deliberate search process.

The Finance Committee of the Board of Regents took responsibility for finding a tenant for the vacant Columbus Center space in November 2001. In July 2002 the Baltimore Children's Museum's Port Discovery negotiated a tentative lease for the Columbus Center space with USM. Reportedly, the tentative lease is in peril due to Port Discovery's difficulties leasing its current space, preparing the Columbus Center space, and ensuring lease payments large enough for USM to recover its costs related to the space.

On January 23, 2003, the Finance Committee of the Board of Regents directed system staff to begin reviewing tenants other than Port Discovery, including museum, retail, and commercial possibilities.

**DLS recommends the adoption of budget bill language restricting the expenditure of \$700,000 by the system office until the Columbus Center space is leased. DLS also recommends the adoption of budget bill language to make clear that any cost necessary to secure a suitable tenant shall be the responsibility of the system office.**

## *Recommended Actions*

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1. Add the following language:

, provided that \$700,000 in general funds for the University System of Maryland Office may not be expended until vacant space at the Christopher Columbus Center is leased. All costs associated with securing a suitable tenant shall be the responsibility of the system office.

**Explanation:** This language creates additional incentive for the system to ensure the timely lease of the Christopher Columbus Center space. It also provides that any cost necessary to secure a suitable tenant shall be the responsibility of the University System of Maryland Office.

## ***Current and Prior Year Budgets***

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### **Current and Prior Year Budgets University System of Maryland Office (\$ in Thousands)**

	<b><u>General Fund</u></b>	<b><u>Other Unrestricted Fund</u></b>	<b><u>Total Unrestricted Fund</u></b>	<b><u>Restricted Fund</u></b>	<b><u>Total</u></b>
<b>Fiscal 2002</b>					
Legislative Appropriation	\$12,270	\$3,509	\$15,779	\$480	\$16,259
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	452	452	1,080	1,532
Reversions and Cancellations	-174	-1,800	-1,975	-7	-1,981
<b>Actual Expenditures</b>	<b>\$12,096</b>	<b>\$2,161</b>	<b>\$14,256</b>	<b>\$1,553</b>	<b>\$15,810</b>
<b>Fiscal 2003</b>					
Legislative Appropriation	\$12,135	\$3,961	\$16,095	\$1,800	\$17,895
Budget Amendments	0	-1,266	-1,266	0	-1,266
Cost Containment	-773	0	-773	0	-773
<b>Working Appropriation</b>	<b>\$11,362</b>	<b>\$2,695</b>	<b>\$14,056</b>	<b>\$1,800</b>	<b>\$15,856</b>

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

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## **Fiscal 2002**

In fiscal 2002 USMO expended \$449,857 less than its legislative appropriation, despite adding over \$1.5 million to its spending authority through budget amendment. Budget amendments added unrestricted funds for the University of Maryland Academic Telecommunications System (UMATS) and restricted funds for teacher education grants (federal funds) and endowment funds for professorships and other financial aid. The unrestricted fund budget was reduced by \$174,263 in general funds, due to cost containment and hiring freeze savings. USMO canceled \$1.8 million in unrestricted funds, primarily due to a mid-year accounting change in the treatment of funds for UMATS. According to USMO, because the funds are transferred from USM institutions, the system should count them as expenses only at the institution level. Additional cancellations of unrestricted funds (about \$100,000) and restricted funds (about \$7,000) were the result of overestimating gift expenditure and grant activity, respectively.

## **Fiscal 2003**

In fiscal 2003 USMO decreased its unrestricted fund appropriation related to UMATS by \$1.3 million through budget amendment. General fund support for USMO was reduced by \$773,066 due to cost containment.

**Object/Fund Difference Report  
USM - University System of Maryland Office**

<u>Object/Fund</u>	<u>FY 02 Actual</u>	<u>FY 03 Working Appropriation</u>	<u>FY 04 Allowance</u>	<u>FY 03 - 04 Amount Change</u>	<u>Percent Change</u>
<b>Positions</b>					
01 Regular	108.50	101.50	98.50	-3.00	-3.0%
02 Contractual	4.50	5.00	5.00	0	0%
<b>Total Positions</b>	<b>113.00</b>	<b>106.50</b>	<b>103.50</b>	<b>-3.00</b>	<b>-2.8%</b>
<b>Objects</b>					
01 Salaries and Wages	\$9,380,472	\$10,292,425	\$9,872,136	-\$420,289	-4.1%
02 Technical & Spec Fees	154,874	2,000	2,000	0	0%
03 Communication	336,057	362,940	365,972	3,032	0.8%
04 Travel	141,419	91,085	91,085	0	0%
06 Fuel & Utilities	0	0	30,000	30,000	N/A
07 Motor Vehicles	16,425	14,440	16,440	2,000	13.9%
08 Contractual Services	3,530,716	3,730,320	3,292,018	-438,302	-11.7%
09 Supplies & Materials	253,652	117,597	158,847	41,250	35.1%
11 Equip - Additional	492,973	382,346	312,670	-69,676	-18.2%
12 Grants, Subsidies, Contr	1,287,573	1,439,314	1,400,162	-39,152	-2.7%
13 Fixed Charges	215,476	196,715	502,357	305,642	155.4%
<b>Total Objects</b>	<b>\$15,809,637</b>	<b>\$16,629,182</b>	<b>\$16,043,687</b>	<b>-\$585,495</b>	<b>-3.5%</b>
<b>Funds</b>					
40 Unrestricted Fund	\$14,256,446	\$14,829,182	\$14,243,687	-\$585,495	-3.9%
43 Restricted Fund	1,553,191	1,800,000	1,800,000	0	0%
<b>Total Funds</b>	<b>\$15,809,637</b>	<b>\$16,629,182</b>	<b>\$16,043,687</b>	<b>-\$585,495</b>	<b>-3.5%</b>

Note: Fiscal 2003 appropriations and fiscal 2004 allowance do not include cost containment and contingent reductions.

**Fiscal Summary**  
**USM - University System of Maryland Office**

<u>Unit/Program</u>	<u>FY 02 Actual</u>	<u>FY 03 Legislative Appropriation</u>	<u>FY 03 Working Appropriation</u>	<u>FY 02 - 03 % Change</u>	<u>FY 04 Allowance</u>	<u>FY 03 - 04 % Change</u>
04 Academic Support	\$2,695,834	\$2,744,292	\$2,744,292	1.8%	\$3,187,626	16.2%
06 Institutional Support	13,113,803	15,151,115	13,884,890	5.9%	12,856,061	-7.4%
<b>Total Expenditures</b>	<b>\$15,809,637</b>	<b>\$17,895,407</b>	<b>\$16,629,182</b>	<b>5.2%</b>	<b>\$16,043,687</b>	<b>-3.5%</b>
Unrestricted Fund	\$14,256,446	\$16,095,407	\$14,829,182	4.0%	\$14,243,687	-3.9%
Restricted Fund	1,553,191	1,800,000	1,800,000	15.9%	1,800,000	0%
<b>Total Appropriations</b>	<b>\$15,809,637</b>	<b>\$17,895,407</b>	<b>\$16,629,182</b>	<b>5.2%</b>	<b>\$16,043,687</b>	<b>-3.5%</b>

Note: Fiscal 2003 appropriations and fiscal 2004 allowance do not include cost containment and contingent reductions.