
University System of Maryland Fiscal 2005 Budget Overview

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

January 2004

For further information contact: Monica L. Kearns

Phone: (410) 946-5530

Analysis of the FY 2005 Maryland Executive Budget, 2004

R30B00
University System of Maryland
Fiscal 2005 Budget Overview

Operating Budget Data

(\$ in Thousands)

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 02-04</u> <u>Change</u>	<u>FY 05</u>	<u>FY 04-05</u> <u>Change</u>
Instruction	\$747,875	\$767,164	\$790,870	\$42,995	\$807,449	\$16,579
Research/Public Service	727,448	764,277	843,539	116,091	870,575	27,035
Administration/Operations	829,278	835,618	878,904	49,626	922,942	44,038
Auxiliary Enterprises	338,453	343,885	347,931	9,479	363,148	15,216
Scholarships & Fellowships	160,304	166,402	185,084	24,780	194,512	9,429
Adjusted Grand Total	\$2,803,357	\$2,877,347	\$3,046,328	\$242,971	\$3,158,626	\$112,297
General Funds	864,765	800,877	746,207	-118,558	747,307	1,100
Other Unrestricted Funds	1,253,052	1,353,264	1,488,524	235,473	1,581,573	93,049
Total Unrestricted Funds	2,117,817	2,154,141	2,234,731	116,915	2,328,881	94,149
Restricted Funds	685,541	723,206	811,597	126,056	829,745	18,148
Adjusted Grand Total	\$2,803,357	\$2,877,347	\$3,046,328	\$242,971	\$3,158,626	\$112,297
Annual % Change		2.6%	5.9%		3.7%	

- General funds were reduced \$118.6 million altogether from fiscal 2002 to 2004, or 13.7%. The fiscal 2005 allowance provides \$1.1 million in additional general funds to the University System of Maryland (USM), a 0.1% increase over fiscal 2004. Of these funds, \$1 million is for the Hagerstown Educational Center, and \$100,000 is for Coppin State College.
- Other unrestricted funds, including tuition and fee revenue, increase 6.3% in the fiscal 2005 allowance.

Personnel Data

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 02-04</u> <u>Change</u>	<u>FY 05</u>	<u>FY 04-05</u> <u>Change</u>
Regular Positions	19,490.2	19,292.2	19,087.2	-403	19,087.2	0.0
Contractual FTEs	5,321.5	4,935.5	5,115.3	-206	5,348.0	232.7
Total Personnel	24,811.7	24,227.7	24,202.5	-609	24,435.2	232.7

Vacancy Data: Regular Positions

Turnover Expectancy	756.81	3.30%
Positions Vacant as of 12/31/03	995.54	5.20%

- The fiscal 2005 allowance does not include any additional regular positions. It includes 233 contractual positions, about 90 of which are faculty.
- The total USM workforce has decreased 1.5% from fiscal 2002 to the 2005 allowance. By comparison, the total workforce of all other State agencies decreased 5% during the same time.

Analysis in Brief

Major Trends

Many Workforce Education Measures on Track, but Teaching and Nursing Continue to Challenge: The number of students enrolled in and graduating from teaching and nursing programs has increased, but the number of students who are employed in Maryland as teachers and nurses is not expected to meet objectives.

Achievement Gap between All Students and African American Students Continues: Overall, significant gaps remain in both retention and graduation rates between all students and African American students.

National Eminence Achievement Carries On: The number of prestigious national academy memberships held by USM faculty and the number of top-ranked programs are increasing.

Issues

Tuition and Fees Fund Greater Proportion of USM Budget Since 2002: Since fiscal 2002, the proportion of tuition revenues has grown and the share of general funds has dropped in USM's budget. Furthermore, tuition and fees have offset more than half of the general fund reductions.

New Tuition Policy Shifts Emphasis to Predictability and Flexibility: The previous tuition policy, established in 1993, emphasized modest tuition levels, while the new policy emphasizes predictability and flexibility. Tuition rates rose an average of 19% from fall 2002 to fall 2003.

Some Opportunities for Efficiencies Are Evident: The Department of Legislative Services (DLS) reviewed data related to the number and composition of USM personnel, faculty salaries, faculty workload, number of certification and degree programs, and program productivity. **DLS recommends that no new contractual faculty positions are authorized except for the University of Maryland University College. DLS also recommends that the Maryland Higher Education Commission be authorized to consider additional factors in its evaluation of proposed new programs.**

Recommended Actions

1. Add budget bill language to provide no increase in the number of University System of Maryland contractual faculty positions above the fiscal 2004 level, except for the University of Maryland University College.
2. Add budget bill language to reduce general funds by \$227,250 to reflect use of State Higher Education Labor Relations Board reimbursable fund balance.

Updates

Cost of Separating Grant-funded Employees Still Unclear: USM's personnel policy states that a university system employee may be involuntarily separated and shall be provided with a defined period of notice. The USM policy is of particular concern in the case of grant-funded employees. A USM response to a *Joint Chairmen's Report* information request on this topic still has not clearly indicated the cost of this policy.

Services from Software Application Vendor May Be Affected by Takeover: Ten USM institutions are using PeopleSoft computer applications for their administrative functions. Recently, Oracle initiated a hostile takeover of PeopleSoft and said it would discontinue offering PeopleSoft to new customers. Oracle said that it would support PeopleSoft applications in use through the end of the decade. At this point, the takeover is not expected to succeed.

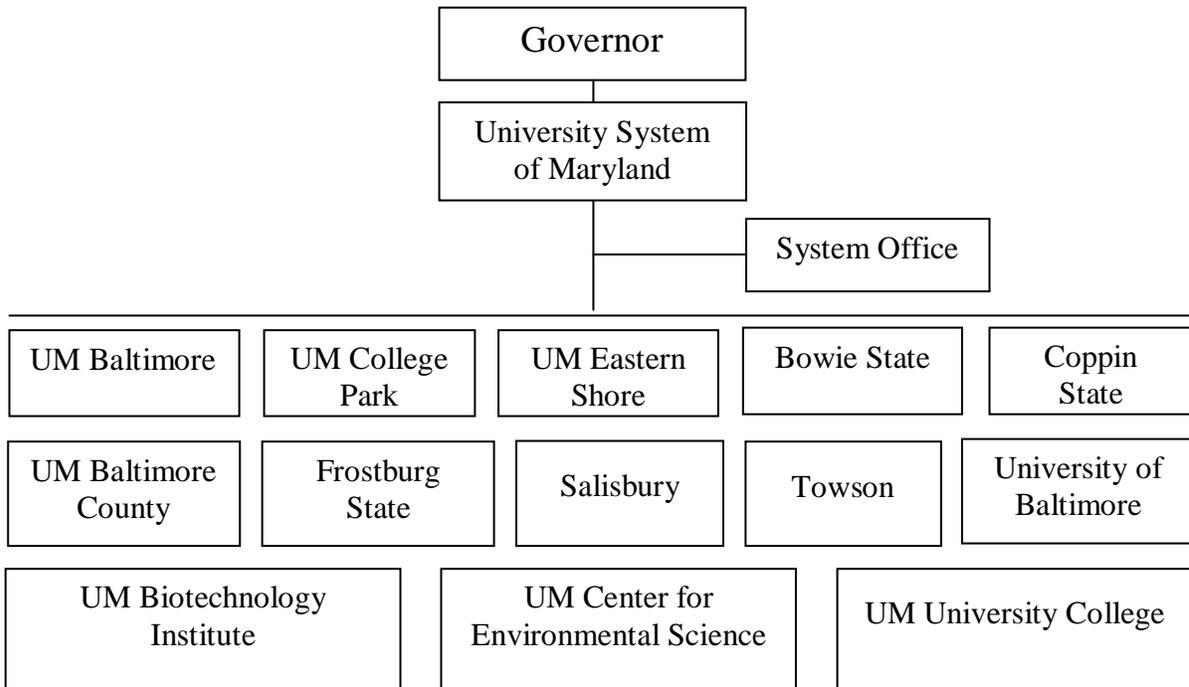
R30B00
University System of Maryland
Fiscal 2004 Budget Overview

Operating Budget Analysis

Program Description

Title 12 of the Education Article establishes the University System of Maryland (USM) to “foster the development of a consolidated system of public higher education, to improve the quality of education, to extend its benefits, and to encourage the economical use of the State’s resources.” USM consists of 11 degree-granting institutions, 2 research centers, and the system office. **Exhibit 1** illustrates the governance and structure of the system.

Exhibit 1
University System of Maryland



Source: Department of Legislative Services

The Board of Regents is the governing body of USM. The board consists of 17 members, including the Secretary of Agriculture (ex officio); the Secretary is the only member not appointed by the Governor with the advice and consent of the Senate. The board appoints the Chancellor, who

R30B00 - University System of Maryland - Fiscal 2005 Budget Overview

serves as the chief executive officer of the system and the chief of staff to the board. The Chancellor and staff coordinate system planning; advise the board of systemwide policy, coordinate, and arbitrate among system institutions; and provide technical, legal, and financial assistance.

The board reviews, modifies, and approves a system strategic plan developed by the Chancellor in consultation with institution presidents. The board is charged with assuring that programs offered by the institutions are not unproductive or unreasonably duplicative. The board reviews and approves new programs, reviews existing programs, sets minimum admission standards, and sets general guidelines for tuition and fees. The board is supposed to monitor the progress of each system institution toward approved goals and hold each president accountable for that progress. The board may delegate any of its responsibilities to the Chancellor.

The goals of USM, consistent with the State Plan for Higher Education, are:

- create and maintain a well-educated workforce;
- promote economic development;
- increase access for economically disadvantaged and minority students; and
- achieve and sustain national eminence in providing quality education, research, and public service.

Performance Analysis: Managing for Results

USM is meeting its objectives in many areas. Economic development and national eminence measures are on track. Concerning workforce education, many measures are on track, but the numbers of teacher and nursing graduates working in Maryland are falling below objectives. A number of factors within and outside of USM's purview affect these results. Concerning access for minority students, significant gaps remain in both retention and graduation rates between all students and African American students.

Many Workforce Education Measures on Track; Teaching and Nursing Continue to Challenge

USM's first goal is to create and maintain a well-educated workforce. Indeed, the total number of enrolled students and the total number of bachelor degree recipients from USM institutions continues to climb. Enrollment and related issues, such as University of Maryland University College's disproportionate effect on enrollment growth, is further discussed in the Department of Legislative Services (DLS) higher education overview.

R30B00 - University System of Maryland - Fiscal 2005 Budget Overview

The employment rate of USM graduates – and how many of those graduates are employed in Maryland – is measured as part of the workforce education goal. These data are captured by a survey, now conducted only every three years, by the Maryland Higher Education Commission (MHEC). In 2002 the survey found that USM graduates had a 95% employment rate. The survey also found that 57% of USM graduates were employed in Maryland. Given that approximately 80% of USM students are in-state students, this proportion could be expected to be higher. USM says that geography is part of the reason for the lower than expected rate. If the greater region – including Washington, DC and northern Virginia – is considered, the proportion of graduates employed locally is about 81%.

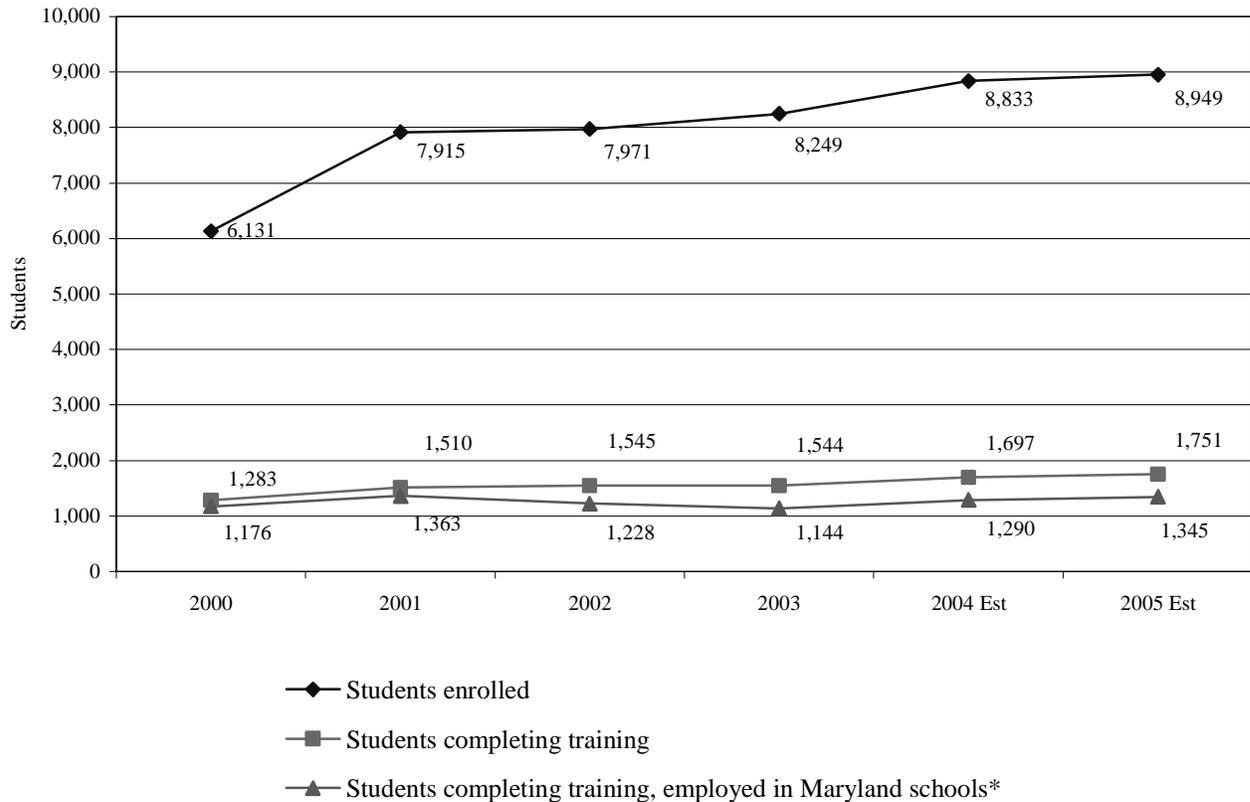
USM specifically measures its efforts to educate students in several high-demand fields, including teaching and nursing. According to an MHEC report, the State needed to hire 8,361 teachers for the 2003-2004 academic year. Though the nine USM institutions that offer teaching programs have an important role in filling this need, most beginning teachers are recruited from outside the State. In 2001-2002, just 42% of all beginning teachers hired by Maryland public schools were prepared in the State.

The number of students enrolled in teacher education programs has increased – but only an average of 2% per year – from 2001 to 2003. The number of students graduating and completing all teacher training shows a similar trend. **Exhibit 2** shows that, despite these increases, the number of students who complete teacher education requirements and are employed in Maryland public schools is not expected to meet the 2004 objective of 1,413 students. A number of factors affect this result.

A higher number of students enrolled would generate additional graduates. In fact, Maryland offers several teacher education scholarships to draw more people to the profession. Yet a March 2003 MHEC report found that most scholarship recipients would have enrolled in a teaching program even if they did not get the scholarship. Other challenges are that USM graduates may postpone entering the teacher job market, they may choose to teach in a private school, they may decide to teach in another state, or they may decide to not be a teacher after all. Finally, retaining teachers in public school classrooms has proven to be a significant challenge. Although this is outside USM's realm of influence, USM is working with school districts and even some local governments on programs like mentoring to retain more teachers in Maryland classrooms. **The Chancellor should comment on how USM is helping to address the teacher shortage.**

Maryland had a shortage of 5,000 registered nurses in 2002, and the number was expected to grow, according to the Governor's Workforce Investment Board. Concern about a lack of nurses has prompted USM to study the performance of its nursing programs, which are offered by five institutions. Both enrollment growth and graduation rates for nursing programs are strong compared to teaching programs; each measure increased more than 10% from 2001 to 2003. However, MHEC surveys have found that the number of graduates employed as nurses in Maryland is not expected to meet the 2004 objective of 415, as shown in **Exhibit 3**. USM says that particularly in the case of nursing graduates, considering the greater region alters the picture considerably. Survey data has shown that from 88 to 90% of USM nursing graduates are employed in the greater region, including Washington, DC and northern Virginia.

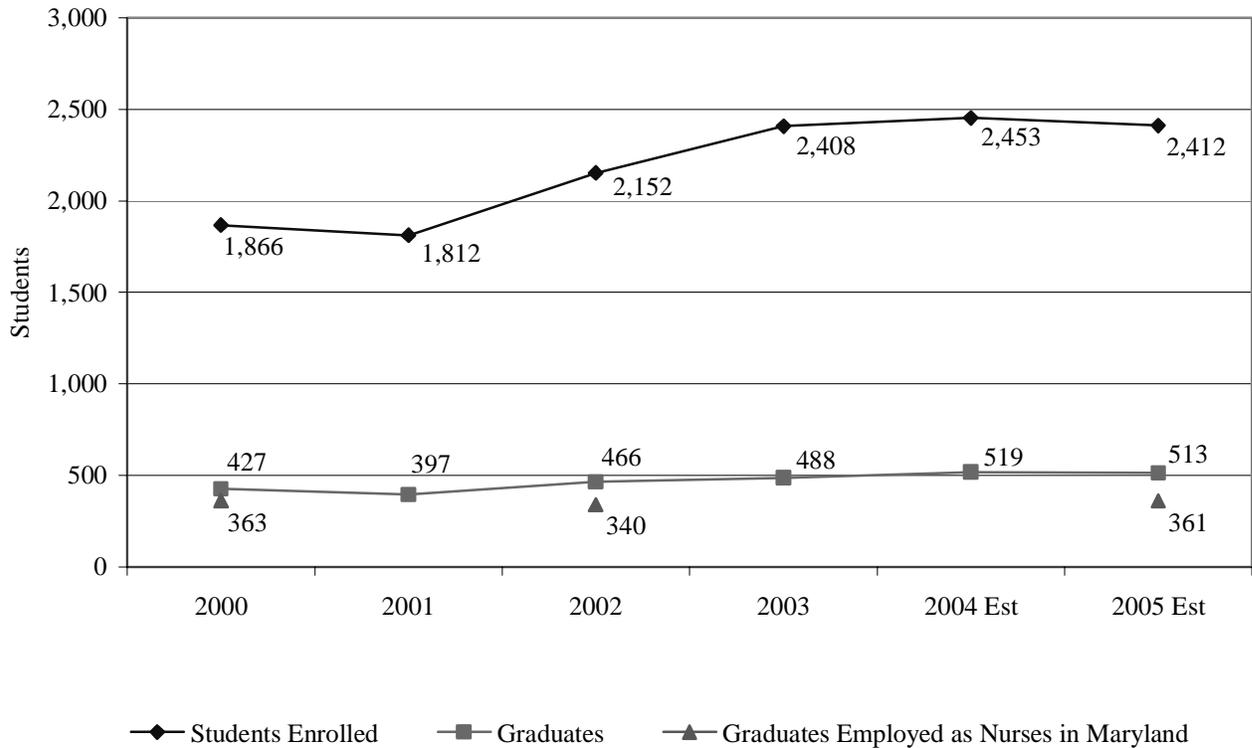
Exhibit 2
USM Students Enrolled in and Graduating from Teacher Training Programs, Employed in Maryland Public Schools



* This data is obtained from a survey of USM graduates one year after they complete their degree and thus does not correspond directly with the students completing teacher training requirements from the same year. The data includes new hires only.

Source: Maryland State Budget Books

**Exhibit 3
USM Students Enrolled in and Graduating from Nursing Programs, Employed as Nurses in Maryland**



Source: Maryland State Budget Books

USM relies on MHEC survey data for several workforce education measures, including number of graduates employed in Maryland and employer satisfaction. Until 2002, the survey was conducted biennially. MHEC has decided to conduct the survey only every three years, so the next survey date will be 2005. As a result, certain USM outcome data will be available only every three years.

Contribution to Economic Development Carries On

Another goal of USM is to promote economic development. To this end, two institutions – University of Maryland, College Park (UMCP) and University of Maryland, Baltimore County (UMBC) – operate business incubators that recently have graduated up to six companies a year (the objective is at least five companies a year).

R30B00 - University System of Maryland - Fiscal 2005 Budget Overview

Other USM institutions have business development activities for their communities, though they are not measured as a part of the Managing for Results process. Frostburg State University is working with Allegany County to develop a 50-acre research park, for example. The University of Maryland Eastern Shore recently created the Hawk Corporation to work on business development projects. Salisbury University's business school provides consulting and other assistance to area businesses, and Salisbury serves as the eastern region headquarters for the Maryland Small Business Development Center.

Achievement Gap between All Students and African American Students Persists

USM also has a goal to increase access for economically disadvantaged and minority students. Considering minority students as a whole, USM is on track with enrollment, retention, and graduation rate objectives. A look at the status of African American students in particular is important at this time, since Maryland's agreement with the U.S. Office for Civil Rights to improve higher education access and graduation rates for these students is scheduled for evaluation in 2005.

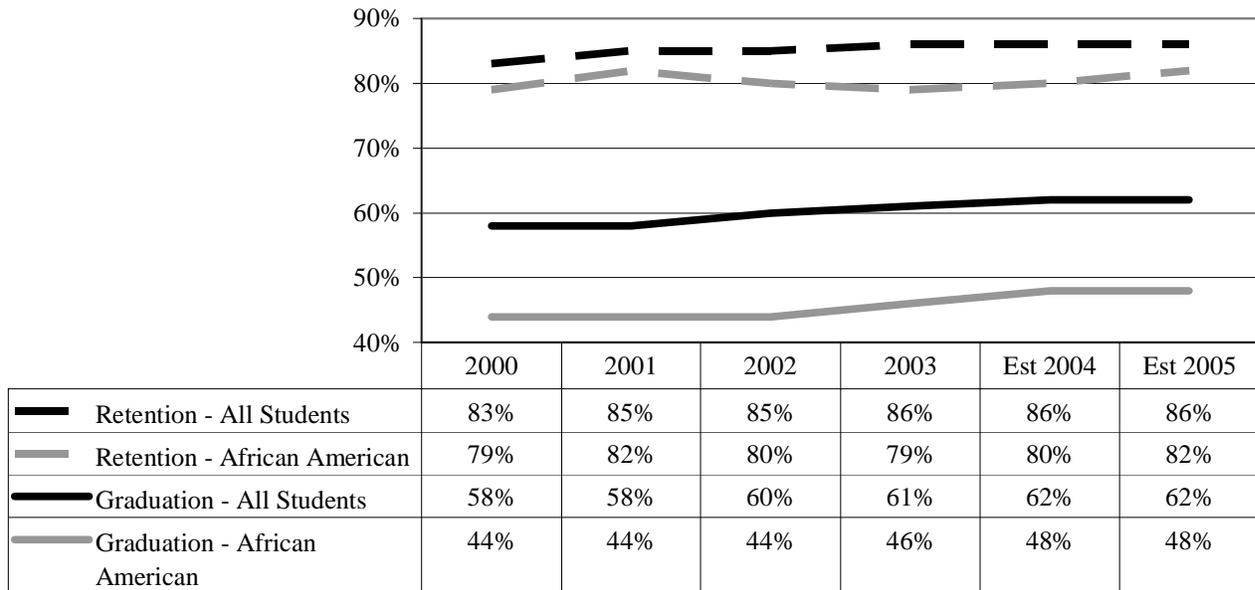
The State's total population is 27% African American; ideally, enrollment at Maryland public universities would be near this percentage. Indeed, the proportion of African American students enrolled at USM institutions is holding steady and is meeting the objective of 25%. In terms of helping students stay in school, the second year retention rate for African Americans is not expected to meet the objective of 84% in 2004, as shown in **Exhibit 4**. The rate was 79% in 2003; by comparison, the retention rate for all USM undergraduates was 86%. The outlook for graduation rates is more promising. The graduation rate for African Americans is expected to increase from 46% in 2003 to meet the objective of 48% in 2004; by comparison, the graduation rate for all USM undergraduates was 61% in 2003. Overall, significant gaps remain in both retention and graduation between all students and African American students.

MHEC reviews minority achievement measures for all USM institutions except the University of Maryland, Baltimore (UMB), which has declined to include data on the advice of legal counsel. MHEC requires institutions not making sufficient progress to submit action plans for improvement. The 24 types of action plan strategies recently submitted include partnerships with high schools with high minority enrollment, 2+2 programs with community colleges, academic monitoring, and advising for enrolled minority students. USM says that, based on its observations, some of the most effective strategies involve modifying curriculum to respond to a wide range of interests and setting high expectations. Minority students benefit from additional academic support that is aimed at all students, not one racial or ethnic group, and is designed not to make students feel they are performing at a substandard level.

National Eminence Achievement Continues

Achieving and sustaining national eminence in providing quality education is another USM goal. Retention and graduation rates indicate performance in this area, and USM retention and graduation

**Exhibit 4
USM Graduation and Retention Rates, All Students and
African American Students**



Source: Maryland State Budget Books

objectives for undergraduates, considered as a whole, are being met. Faculty achievement also illustrates eminence. As of 2003, the number of prestigious national academy memberships held by USM faculty was 47, and it is expected to exceed the 2004 objective of 48.

USM also tracks rankings specifically for UMCP and UMB. In 2003, these two institutions had 71 graduate level colleges, schools, programs, or specialty areas ranked in the top 25 nationally, according to *U.S. News and World Report*, *Financial Times*, *Business Week*, and other publications. It does not appear likely that the institutions will meet the objective to have 82 programs in the top 25 by 2004, but the number of top ranked programs is expected to continue to increase. National eminence measures are discussed in more detail in each institution's DLS budget analysis.

Fiscal 2004 Actions

Impact of Cost Containment

General funds for USM were reduced \$40 million in July 2003. The impact of cost containment on the USM budget is further discussed in Issue 1 in this analysis.

R30B00 - University System of Maryland - Fiscal 2005 Budget Overview

The allocation of the \$40 million reduction among USM institutions is reflected in **Exhibit 5**. Eight institutions received a reduction of 5.3% in their general fund appropriation. The three Historically Black Institutions received a reduction of 4.1%, as did the USM office. Because of their inability to generate tuition revenue, the research institutes had the smallest proportion of general funds affected. The University of Maryland Biotechnology Institute received a reduction of 3.1%, and the University of Maryland Center for Environmental Science's reduction was marginal because it had a new facility open that required additional operating funds.

Exhibit 5
University System of Maryland
Allocation of \$40 Million Fiscal 2004 Budget Reduction

<u>Institution</u>	<u>FY 2004 Legislative Appropriation</u>	<u>Allocation of Reduction</u>	<u>% Change</u>	<u>FY 2004 Working Budget</u>
UMB	\$139,638,187	-\$7,463,436	-5.3%	\$132,174,751
UMCP	323,414,688	-17,284,170	-5.3%	306,130,518
BSU	21,595,421	-883,122	-4.1%	20,712,299
TU	61,091,798	-3,267,757	-5.3%	57,824,041
UMES	22,346,699	-913,845	-4.1%	21,432,854
FSU	25,779,333	-1,370,484	-5.3%	24,408,849
CSC	19,490,612	-797,048	-4.1%	18,693,564
UB	22,077,751	-1,173,700	-5.3%	20,904,051
SU	26,870,877	-1,428,513	-5.3%	25,442,364
UMUC	15,281,913	-812,419	-5.3%	14,469,494
UMBC	69,090,436	-3,672,995	-5.3%	65,417,441
UMCES	13,021,215	-2,489	0.0%	13,018,726
UMBI	15,371,455	-474,600	-3.1%	14,896,855
USM Office	11,136,664	-455,422	-4.1%	10,681,242
USM Total	\$786,207,049	-\$40,000,000	-5.1%	\$746,207,049

UMB = University of Maryland, Baltimore
 UMCP = University of Maryland, College Park
 BSU = Bowie State University
 TU = Towson University
 UMES = University of Maryland Eastern Shore
 FSU = Frostburg State University
 CSC = Coppin State College

UB = University of Baltimore
 SU = Salisbury University
 UMUC = University of Maryland University College
 UMBC = University of Maryland, Baltimore County
 UMCES = University of Maryland Center for
 Environmental Science
 UMBI = University of Maryland Biotechnology Institute

Note: UMCES had a marginal reduction because it had a new facility opening that required additional operating funds.

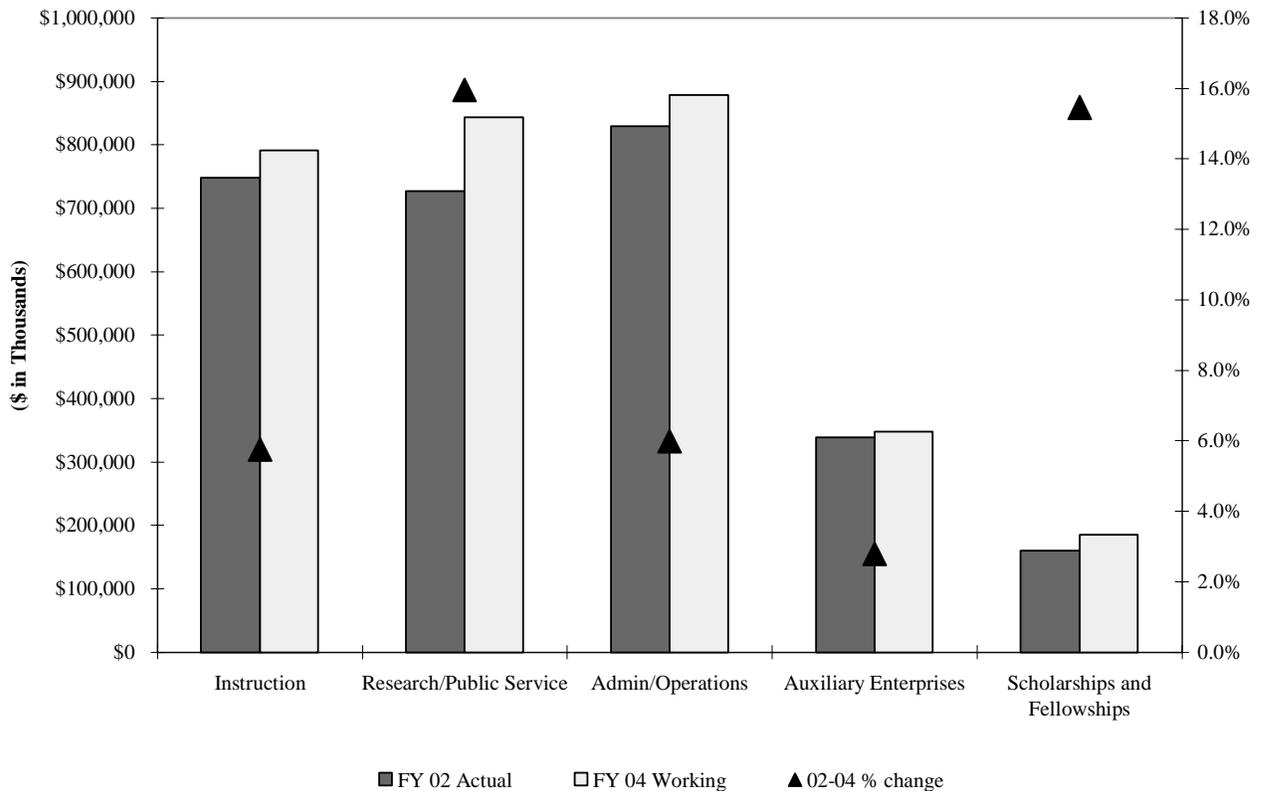
Source: University System of Maryland

Despite cost containment reductions, the total USM budget has grown 8.7% from fiscal 2002 to 2004. This compares to an average 6.3% increase across all State agencies during the same time.

R30B00 - University System of Maryland - Fiscal 2005 Budget Overview

The USM budget amounts and changes by program from fiscal 2002 to 2004 are shown in **Exhibit 6**. Research/public service and scholarships/fellowships had the highest rates of increase, followed by administration/operations, then instruction, and then auxiliary enterprises.

Exhibit 6
USM Budget Changes by Program
Fiscal 2002 – 2004



Source: Maryland State Budget

Governor's Proposed Budget

The general fund allowance for fiscal 2005 is \$1.1 million above the fiscal 2004 level of general fund support, as shown in **Exhibit 7**. The Hagerstown Educational Center – scheduled to open in January 2005 – accounts for \$1 million of the general fund increase. Coppin State College accounts for \$100,000.

Exhibit 7
Governor's Proposed Budget
University System of Maryland
(\$ in Thousands)

	<u>FY 03</u> <u>Actual</u>	<u>FY 04</u> <u>Approp.</u>	<u>FY 05</u> <u>Allowance</u>	<u>FY 04-05</u> <u>\$ Change</u>	<u>FY 04-05</u> <u>% Change</u>
General Funds	\$800,877	\$746,207	\$747,307	\$1,100	0.1%
Other Unrestricted Funds	1,353,264	1,488,524	1,581,573	93,049	6.3%
Total Unrestricted Funds	2,154,141	2,234,731	2,328,881	94,149	4.2%
Restricted Funds	723,206	811,597	829,745	18,148	2.2%
Grand Total	\$2,877,347	\$3,046,328	\$3,158,626	\$112,297	3.7%

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

Other unrestricted funds increase 6.3%, primarily due to a tuition and fee revenue increase of \$84 million. Of the \$84 million, the tuition rate increase for State-supported programs is \$55 million, increased enrollment is \$17 million, and summer school/overseas is \$12 million.

Restricted funds, including federal and State grants and contracts, increase 2.2% in the allowance. Some institutions conservatively predict little or no growth in restricted funds because these funds can be increased through budget amendment during the year. In fact, restricted funds increased 12% from fiscal 2003 to 2004. However, several institutions reported that they expect federal grants to plateau or decrease, so the rate of growth for fiscal 2005 may be lower than recent rates. When considering all funds, the USM budget increases 3.7%.

Budget changes in the allowance by program are shown in **Exhibit 8**. This exhibit considers only current unrestricted funds, of which general funds and tuition and fees are the majority. Scholarships and fellowships have the highest rate of increase, at 8.2%. Financial aid is discussed in detail in the DLS Higher Education Overview analysis.

Research and public service have the next highest rate of increase in the allowance. Third highest are administration and operations programs, particularly because of operations and maintenance of physical plants. These programs make up the largest part of the USM budget. Several institutions have new facilities that contribute to the increase, including UMB, Towson University, Frostburg

Exhibit 8
USM Budget Changes for Current Unrestricted Funds by Program
Fiscal 2004 – 2005
(\$ in Thousands)

	FY 2004 <u>Working</u>	FY 2005 <u>Allowance</u>	FY 04-05 <u>% Change</u>
Instruction	\$733,784	\$749,948	2.2%
Research	\$143,905	\$147,560	2.5%
Public Service	41,352	48,297	16.8%
Hospitals (UMB)	4,214	4,948	17.4%
Total Research/Public Service	\$189,471	\$200,805	6.0%
Academic Support	\$220,018	\$228,456	3.8%
Student Services	96,852	99,315	2.5%
Institutional Support	302,690	309,930	2.4%
Operation and Maintenance of Plant	242,063	267,025	10.3%
Total Admin./Operations	\$861,624	\$904,726	5.0%
Auxiliary Enterprises	\$347,813	\$363,023	4.4%
Scholarships and Fellowships	\$102,039	\$110,379	8.2%
Total	\$2,234,731	\$2,328,881	4.2%

Note: Current Unrestricted Funds only. All programs. USM institutions only.

Source: Maryland State Budget

Note: Current Unrestricted Funds only. All programs. USM institutions only.

Source: Maryland State Budget

State University, University of Baltimore, and UMBC. Other institutions report facility renewal needs, debt service payments, and higher fuel and utility costs, part of which are due to additional building space and part of which are due to higher fuel costs.

Auxiliary enterprises have the next highest rate of increase in the allowance. Instruction programs have the lowest rate of increase.

Credit Concern Calls for Increase in Fund Balance

To balance the State's budget, \$29 million was transferred from the USM fiscal 2003 fund balance to the general fund, as shown in **Exhibit 9**. This action brought the USM fund balance to \$257 million. To arrive at the closing fiscal 2003 fund balance of \$297 million, USM reduced expenditures and gained revenues with a net effect of a \$40 million addition to the fund balance.

USM's fund balance significantly affects its credit rating, and thus the cost of its debt. In June 2003 Standard and Poor's downgraded the outlook for USM credit from stable to negative because of the decrease in the ratio of unrestricted assets to outstanding debt. Unrestricted assets are composed primarily of the unrestricted fund balance. If the credit ratings for USM academic and auxiliary revenue bonds are in fact downgraded, it could lead to higher interest rates and debt service costs.

USM is taking steps to build up its fund balance and improve its credit outlook. Initially, the system planned to transfer about \$9 million a year for three years, starting in fiscal 2004. In fact, USM now plans to transfer \$11.5 million to the fund balance in fiscal 2004, \$1.7 million of which would be State-supported. The 2005 allowance calls for \$17.1 million to be added, \$4.7 million of which would be State-supported. Furthermore, from fiscal 2006 to 2009, USM plans to decrease the amount of debt it issues.

For a good credit score, USM's ratio of unrestricted net assets to debt outstanding must be at least 50%. At this point, the ratio is 54.1%. USM's goal is to build the ratio to 65% to guard against contingencies such as a decline in the market value of its investment portfolio. **The Chancellor should comment on how USM plans to build its fund balance, including the reliance on State-supported revenues to increase the balance.**

On a related topic, the Spending Affordability Committee (SAC) recommended in fall 2003 that, in addition to evaluating USM's debt service to unrestricted current fund expenditures and mandatory transfers, the Capital Debt Affordability Committee (CDAC) should evaluate USM debt outstanding to unrestricted net assets. SAC suggested that CDAC use the criteria discussed above, which already is used by USM and Wall Street analysts. **DLS recommends that the Capital Debt Affordability Committee improve its review of USM debt by evaluating debt outstanding in addition to debt service.**

Exhibit 9
USM Fund Balance
(\$ in Millions)

	<u>State-supported</u>	<u>Non- State-supported</u>	<u>Total</u>
Fiscal 2002 Closing Balance	\$68.7	\$217.4	\$286.1
Transfer to General Funds (BRFA)	-29.0	0.0	-29.0
Subtotal	\$39.7	\$217.4	\$257.1
Net Transfers to (from) Fund Balance	10.2	29.9	40.1
Fiscal 2003 Closing Balance	49.9	247.3	297.2

Source: Maryland State Budget Books; University System of Maryland

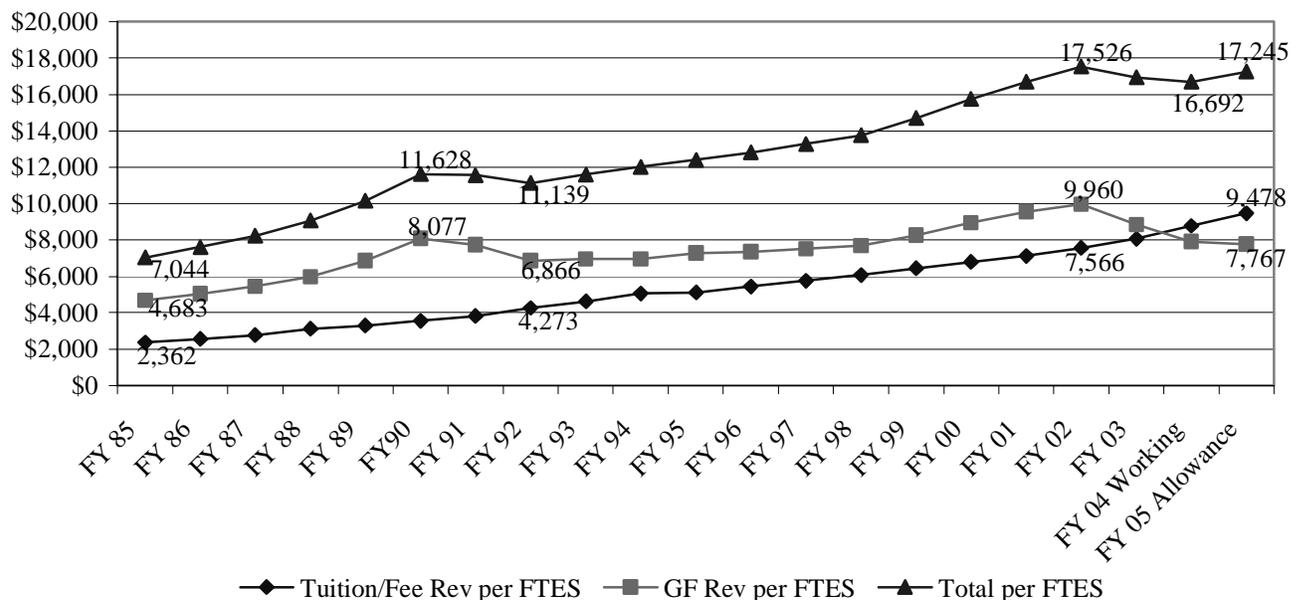
Issues

1. Tuition and Fees Fund Greater Proportion of USM Budget Since 2002

Overall spending increases 3.7% in the Governor’s fiscal 2005 allowance for USM. To fund its budget, USM’s largest revenue source historically has been general funds, followed by tuition and fee revenues. Since fiscal 2002, the proportion of tuition revenues has grown and the share of general funds has dropped.

During most of the 1990s, general funds for USM increased. USM general fund revenues per full-time equivalent student (FTES) grew 45% from fiscal 1992 to 2002, as shown in **Exhibit 10**. Measuring funds per FTES is a good way to factor in the effect of student enrollment, a primary influence on higher education revenues and costs.

Exhibit 10
USM Tuition and Fee and General Fund Revenues per
Full-time Equivalent Student
Fiscal 1985 – 2005



Source: Maryland State Budget Books; Department of Budget and Management; Maryland Higher Education Commission; Department of Legislative Services

R30B00 - University System of Maryland – Fiscal 2005 Budget Overview

The condition of Maryland's economy worsened in 2002, and general funds for higher education dropped. From fiscal 2002 through the fiscal 2005 allowance, USM general fund revenues per FTES decrease 22% to \$7,767.

Tuition and Fee Revenues Grew Faster Than General Funds from 1992 to 2002

Tuition and fee revenues per FTES grew at a faster rate than general funds from 1992 to 2002, increasing 77%; in fiscal 1992 they were \$4,273 and in fiscal 2002 they were \$7,566. General fund revenues per FTES grew 45% from fiscal 1992 to 2002; they began at \$6,866 and grew to \$9,960.

Furthermore, the rate that tuition and fee revenues have grown since fiscal 2002 is higher than the rate at which general funds for USM have declined. Tuition and fee revenues per FTES increase 25% from fiscal 2002 to the 2005 allowance, while general funds decrease 22% during the same time.

Tuition and Fees Offset General Fund Reductions by More Than Half

General funds were reduced \$121.7 million altogether in fiscal 2003 and 2004. During this time, State-supported tuition revenue from tuition rate increases grew by \$73.9 million. In other words, tuition revenue offset general fund reductions by 61% in fiscal 2003 and 2004, as shown in **Exhibit 11**. The comparison is limited to State-supported revenue to more clearly illustrate the relationship between general funds and tuition and fee revenues.

In fiscal 2003 the winter cost containment action reduced USM general funds by \$67 million. USM consequently adopted a 5% mid-year (January 2003) tuition increase to help offset reduced general fund support. Coppin State College did not implement the mid-year increase because its students' ability to pay already is very low. University of Maryland University College (UMUC) also did not implement the mid-year increase.

The Governor's allowance for fiscal 2004 level-funded USM general funds. At the same time, the allowance permitted an increase of \$41.1 million in tuition revenues. This amount includes annualization of the 5% mid-year increase, and another 5% increase. The General Assembly reduced USM general funds by \$14.7 million, and a cost containment action in July 2003 reduced general funds by another \$40 million. In response, USM raised tuition rates an average of 4% in addition to the increases already approved.

To sum up, tuition and fee revenue has taken a dominant role in the USM unrestricted budget. In fiscal 2004 the proportion of tuition and fees in the USM budget surpassed the proportion of general funds for the first time since at least 1985. Even when State budget conditions were better, from 1992 to 2002, tuition and fees per FTES grew faster than general funds. During recent cost containment, tuition and fees offset general fund reductions by 61%.

Exhibit 11
USM General Fund Reductions and Tuition and Fee Revenue Increases
Fiscal 2003 00 2004
(\$ in Millions)

	<u>General Fund Reduction</u>	<u>State- Supported Tuition Revenue Gained</u>	<u>% General Funds Replaced by Tuition</u>
Fiscal 2003 Board of Public Works Actions of Winter 2003	(\$67.0)		
Mid-year (January 2003) Board of Regents 5% Tuition Increase		\$11.5	
Fiscal 2003	(\$67.0)	\$11.5	17%
Fiscal 2004 Governor's Allowance for General Funds	\$0.0		
Allowance Assumption for Tuition Revenues (Includes Annualization of Fiscal 2003 Mid-Year Increase Plus Another 5%)		41.1	
Fiscal 2004 Legislative Reduction	(14.7)		
Fiscal 2004 Board of Public Works Action of July 2003	(40.0)		
Summer 2003 Board of Regents 4% Tuition Increase and Other State- supported Tuition Revenue		32.8	
Fiscal 2004	(\$54.7)	\$73.9	135%
Fiscal 2003 and 2004 Total	(\$121.7)	\$73.9	61%
Fiscal 2004, Compared to USM Current Services Budget Request	(\$159.7)*	\$73.9	46%

* USM's \$160 million current services figure includes costs for employee salary increments (\$20 million) and deferred compensation (approximately \$2 million). However, all State agencies were relieved of these costs due to actions by the Governor and General Assembly prohibiting employee increments and a deferred compensation match in fiscal 2004. Thus, this figure is over-stated, which in turn understates the amount USM claims is offset with tuition increases.

Furthermore, beginning in summer 2003, USM began citing \$206 million, not \$160 million, as the amount by which current services have been reduced. The new figure includes \$46.6 million in "other costs" for fiscal 2004 that were not discussed during the 2003 legislative session.

Source: Department of Legislative Services; University System of Maryland

2. New Tuition Policy Shifts Emphasis to Predictability and Flexibility

As tuition and fees increase, the burden on students and their families increases. Altogether, tuition rates rose an average of 19% from fall 2002 (fiscal 2003) to fall 2003 (fiscal 2004). The Board of Regents has approved an additional rate increase averaging 9.4% for fall 2004 for Maryland residents. Data on tuition rates at USM institutions is included in the DLS higher education overview analysis.

The Board of Regents approved a new tuition policy for USM in December 2003. The previous policy, established in 1993, emphasized modest tuition levels, while the new policy emphasizes predictability and flexibility. The 1993 USM policy states that tuition levels should be moderate in comparison to peers in other states, and that tuition rate increases should be modest. It also states that tuition is not intended to be a replacement for a shortfall of State appropriations.

The new policy – approved by the Board of Regents in December 2003 – focuses on four-year tuition plans to be proposed by USM institutions. When approved, each institution will advertise its four-year tuition rates on its web site and in its marketing materials, for example. The plans are to incorporate Regent-approved assumptions related to expected State appropriations, targets for funding guidelines, planned enrollment, and targets for efficiency. The tuition policy states that this approach is aimed at supporting the goals related to quality and achieving and sustaining national eminence.

The new policy is designed to give institutions greater flexibility in how they calculate tuition. The 1993 policy states that in-state students should pay 30 to 45% of the cost of education, and State appropriations should cover the balance. It also states that tuition increases should reflect increases in the Higher Education Price Index, the Consumer Price Index, and other relevant indices. The new policy does not include references to any percentage guidelines or indices.

As the 2003 *Joint Chairmen's Report* requests, the Board of Regents reconsidered the calculation for out-of-state student tuition. In the 1993 policy, the out-of-state tuition calculation is based on the cost of education; it begins with education and general expenditures and subtracts amounts related to facilities renewal, debt service, research, public service, and scholarship and fellowships.

The new calculation includes—rather than subtracts—charges for facilities renewal, equipment for new facilities and Academic Revenue Bond debt expenses. It also includes charges related to indirect cost recovery and State-supported research to recognize the cost of building and operating State-supported facilities. The new calculation maintains deductions for scholarships, research, and public service from the previous policy. The new calculation results in a higher out-of-state tuition rate. For UMCP, for example, the 1993 policy calculation yields a rate of \$12,528 for fall 2003, while the new policy calculation yields a rate of \$16,242.

R30B00 - University System of Maryland – Fiscal 2005 Budget Overview

DLS has several concerns about the new policy:

- The four-year tuition plans are to be based on general fund assumptions certified by the Chancellor, with no evident role for the Governor, the Department of Budget and Management, or the General Assembly.
- It is not clear whether the tuition plans will use enrollment targets, which reflect institution goals, or enrollment projections, which are developed by MHEC.
- The tuition plans are to consider targets for efficiency but do not provide for objective assessment and verification of efficiencies.
- Finally, if the tuition plans are aimed at achieving quality, it appears that funding guideline attainment, rather than performance data, will gauge increases in quality.

DLS recommends that the Chancellor provide further detail on how the new four-year tuition plans will be calculated.

3. Some Opportunities for Efficiencies Are Evident

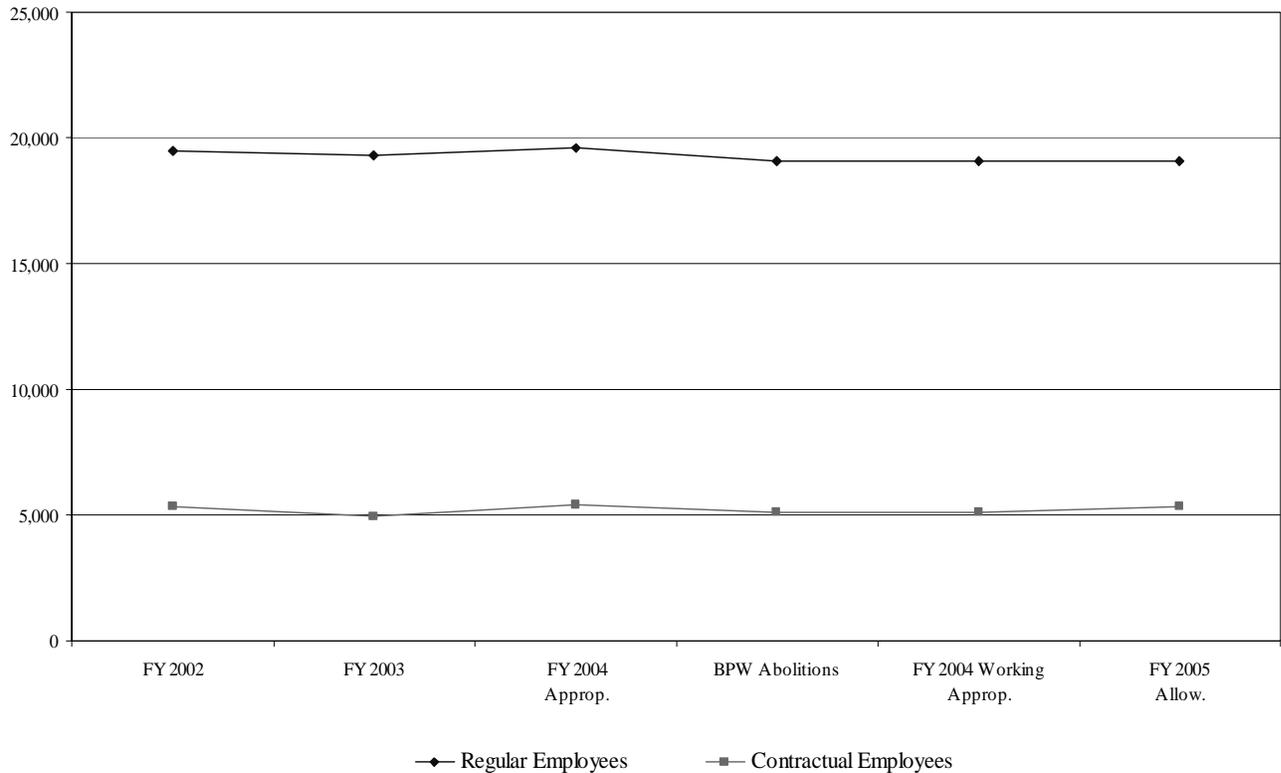
In the 2003 *Joint Chairmen's Report*, the committees stated that their intent for higher education was for USM institutions to seek cost saving measures and efficiencies, rather than passing costs on to students through tuition and fee increases. In this light, DLS reviewed data related to the number and composition of USM personnel, faculty salaries, faculty workload, number of certification and degree programs, and program productivity. Some opportunities for efficiencies are evident, primarily related to personnel.

Number of Personnel Decreases Less Than Other State Agencies Since 2002

Since personnel represent nearly two-thirds of USM's budget, it is a significant area to explore for efficiencies. Overall, USM has decreased and increased the number of its personnel during cost containment resulting in little overall change, as shown in **Exhibit 12**. The total USM workforce, regular and contractual, decreased 1.5% from fiscal 2002 to the 2005 allowance. By comparison, the total workforce of all State agencies decreased 5% during the same time. These numbers include filled and unfilled positions.

The number of regular employee positions is 2% less in the fiscal 2005 allowance than in fiscal 2002, the last year before recent cost containment efforts. By comparison, the number of regular positions at all other State agencies decreased an average of 5.8% during the same time.

Exhibit 12
USM Regular and Contractual Employees
Fiscal 2002 – 2005 Allowance



	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u> <u>Approp.</u>	<u>BPW</u> <u>Abolitions</u>	<u>FY 2004</u> <u>Working</u>	<u>FY 2005</u> <u>Allowance</u>	<u>FY 02-05</u> <u>% Change</u>
Regular Employees	19,490	19,292	19,576	19,087	19,087	19,087	-2.0%
Change vs. Prior Year		-198			-205	0	
Contractual Employees	5,321	4,935	5,384	5,115	5,115	5,348	0.5%
Change vs. Prior Year		-386			180	233	

Source: Maryland State Budget, University System of Maryland

From fiscal 2002 to 2003, USM eliminated 198 regular employee positions. All of these positions were vacant. In fiscal 2004 the legislative appropriation added 284 regular positions, then the Board of Public Works (BPW) cost containment actions abolished 489 regular positions as reported by USM. USM estimated that 403 layoffs would be needed to adhere to BPW abolitions, but the total

R30B00 - University System of Maryland – Fiscal 2005 Budget Overview

number of layoffs reported as of October 2003 was 160, with no additional layoffs planned for fiscal 2004. The fiscal 2004 changes bring the working appropriation to 205 fewer positions than fiscal 2003. The fiscal 2005 allowance does not call for any additional regular employee positions.

Contractual positions account for about 22% of USM's workforce. USM's allowance for contractual positions is 0.5% above the 2002 level. By comparison, USM has added proportionately fewer contractual positions than other State agencies. The number of contractual positions at all other State agencies has increased 12.5% since 2002.

The number of contractual employee positions decreased by 386 from fiscal 2002 to 2003. The number increased by 180 positions from fiscal 2003 to the fiscal 2004 working appropriation. The fiscal 2005 allowance calls for 233 new contractual positions. About 60 of these positions are instructional faculty, about 30 are research faculty, and the rest are administrative.

Instructional Share of Personnel Holds Steady

The composition of USM personnel has changed slightly from fiscal 2002 to 2004, as shown in **Exhibit 13** (the data in this exhibit are for filled regular positions only). The proportion of instructional personnel increased from 33.3 to 33.5% of total personnel. The actual number of instructional personnel also increased slightly. Meanwhile, the total number of all FTEs increased by 75.1.

Academic support, student services, public services, and operations and maintenance of plant personnel decreased their share of total personnel. Research and auxiliary enterprise personnel slightly increased their share of total personnel. Institutional support and hospital personnel remained the same.

Faculty Salaries Overall Do Not Appear High as Compared to Peers

Faculty salary levels are another factor to consider in measuring efficiency. Faculty salaries account for about one-third of higher education personnel expenditures. At USM institutions, average faculty salaries vary widely in how they compare to their peer universities and colleges in other states. The data suggest that, overall, USM faculty salaries are not significantly higher than their peers, and thus are not necessarily a systemwide area for potential efficiency gains.

The DLS analysis of average salaries for full professors, associate professors, and assistant professors shows that faculty salaries at some USM institutions rank as high as the 100th percentile, while salaries at other institutions rank as low as the 40th percentile, as shown in **Exhibit 14**. In some cases, different levels of faculty at a particular institution have significantly different percentile ranks.

Exhibit 13
USM Full-time Equivalent Personnel by Budget Program
Fiscal 2002 and 2004

FY 2002

<u>Budget Program</u>	<u>USM Total</u> <u>FTEs</u>	<u>% of</u> <u>Total FTEs</u>
Instruction	5,858.43	33.3%
Research	2,452.56	13.9%
Public Service	689.26	3.9%
Academic Support	1,934.62	11.0%
Student Services	945.19	5.4%
Institutional Support	2,522.77	14.3%
Operations, Maintenance of Plant	1,557.96	8.9%
Auxiliary Enterprises	1,367.81	7.8%
Scholarships and Fellowships	5.00	0.0%
Hospitals	248.45	1.4%
Total	17,582.04	100.0%

FY 2004

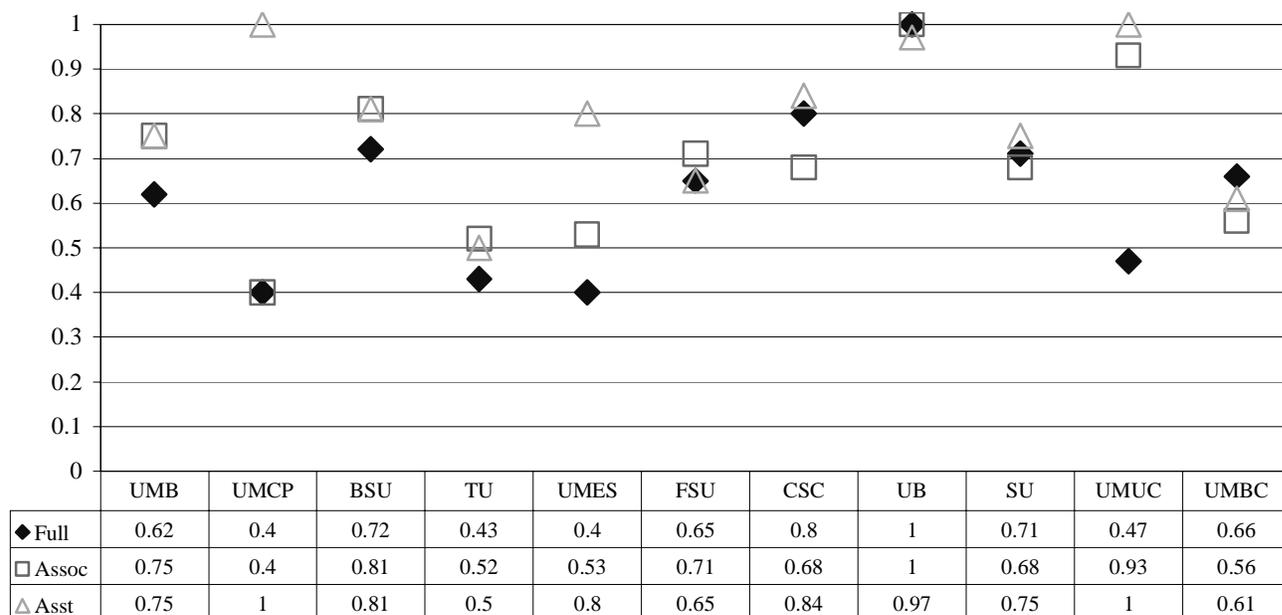
<u>Budget Program</u>	<u>USM Total</u> <u>FTEs</u>	<u>% of</u> <u>Total FTEs</u>
Instruction	5,918.13	33.5%
Research	2,656.69	15.0%
Public Service	653.08	3.7%
Academic Support	1,889.37	10.7%
Student Services	875.91	5.0%
Institutional Support	2,518.58	14.3%
Operations, Maintenance of Plant	1,496.60	8.5%
Auxiliary Enterprises	1,386.63	7.9%
Scholarships and Fellowships	6.52	0.0%
Hospitals	255.64	1.4%
Total	17,657.14	100.0%

* For UMB fiscal 2002, only the total FTEs are known. The percentage breakdown from fiscal 2004 was used to estimate the fiscal 2002 FTE breakdown by budget program.

Note: Data are for **filled regular** positions only. Data are self-reported and unaudited as of July 1, 2003.

Source: University System of Maryland institutions

Exhibit 14
Average Faculty Salaries by Percentile Rank among Peer Institutions
Fiscal 2002 – 2003



Source: American Association of University Professors

The analysis is based on data from the American Association of University Professors (AAUP) 2002-2003 faculty compensation survey, which uses data from more than 1,400 institutions. For the analysis, USM degree-granting institutions were compared to their funding peer institutions in other states (UMCP, however, was compared to its aspirational peers). Peer-based funding guidelines are used by MHEC to assess the resources and performance of the University System of Maryland and Morgan State University.

Differences in the salary percentile rankings may be affected by a number of factors, including the number of promotions occurring at an institution, a faculty member’s time in service, the length of time served at a particular salary classification, and whether the faculty is in a high-demand, high-paying discipline in the larger marketplace. Furthermore, the institutions chosen as peers may not actually have a comparable composition of programs.

Most (9 of 11) USM institutions have a higher percentile rank for average assistant and/or associate salaries than full professor salaries as compared to their peers. These percentile rankings may indicate that Maryland institutions are recruiting new faculty at the assistant and associate levels who command salaries that are relatively higher in the national marketplace. UMCP says it has taken

this approach over the last decade, since recruiting new full professors would require proportionately more funds. Three institutions – UMCP, University of Maryland Eastern Shore, and UMUC – have disparities of at least 40 percentage points between their top-ranked and lowest-ranked salary levels. Faculty salary data are discussed further in each institution’s DLS analysis.

Faculty Workload Is at Low End of Regents’ Standard

Faculty workload is another area to explore for potential efficiencies. USM generally has been at the low end of the Board of Regents and statewide standards for faculty workload since at least 1998.

As determined by the Board of Regents, the standard instructional workload for tenured and tenure-track faculty at the comprehensive universities and the historically black institutions is 7-8 course units annually. For the research institutions, the standard load is 5-6 course units annually, since the faculty dedicate more time to research. A course unit is equivalent to one three-credit course. Depending upon rank, faculty members are expected to balance a standard instruction load with other responsibilities outside the classroom, including course preparation, research, service, and administration.

Exhibit 15 shows that from fall 1998 to fall 2002, the overall USM faculty instructional workload falls within the range set by the Board of Regents. At comprehensive universities, the average number of course units per FTE faculty from fall 1998 to fall 2002 was 7.1. The University of Baltimore had the lowest average, and Coppin State College had the highest. At research institutions, the average was 5.0. There is little variation among the research institutions.

UMB data are not included because the USM analysis includes only Schools of Nursing and Social Work and thus do not represent the majority of the institution’s teaching responsibilities. Furthermore, the data includes faculty at degree-granting institutions only.

Faculty can be granted exceptions from the standard instructional workload for activities such as externally funded research and department administration. From 1998 to 2003, the number of exceptions decreased 7%. Faculty also may work more than the standard workload. From 1998 to 2003, an average of 86% of faculty taught the standard workload or more, excluding department chairs and faculty on sabbaticals.

Instructional workload is measured at the department or academic unit level (and does not include department chairs). When exceptions to the workload are granted, departmental administrators have the flexibility to shift instructional workload from the exempted faculty member to other faculty, and still adhere to the workload policy.

Maryland has a minimum requirement that full-time faculty teach at least 50% of the student credit hours offered by higher education institutions (part-time faculty include teaching assistants

Exhibit 15
USM Course Units Taught by FTE Tenured and Tenure-track Faculty¹

<u>Institutions</u>	<u>1998-1999</u> Courses/ <u>FTEF⁴</u>	<u>1999-2000</u> Courses/ <u>FTEF</u>	<u>2000-2001</u> Courses/ <u>FTEF</u>	<u>2001-2002</u> Courses/ <u>FTEF</u>	<u>2002-2003</u> Courses/ <u>FTEF</u>
Comprehensive Inst.					
BSU	7.4	7.6	8.0	7.3	8.2
CSC	6.9	8.9	9.2	9.2	7.9
FSU	7.3	8.0	7.5	7.3	7.4
SU	6.7	6.8	7.2	7.2	7.1
TU	7.1	6.9	7.0	6.6	6.5
UB ²	5.5	5.0	6.5	6.0	5.7
UMES	7.8	7.4	7.4	5.7	6.1
All Comprehensive Inst.	7.0	7.1	7.4	7.0	7.0
Research Inst.					
UMB	n/a	n/a	n/a	n/a	n/a
UMBC ³	5.3	5.0	5.0	5.1	5.0
UMCP ³	5.1	5.1	4.9	5.0	5.0
All Research Inst.	5.2	5.0	5.0	5.0	5.0
USM Average	6.0	6.1	6.1	6.1	6.0

¹ Tenured and tenure-track faculty includes sabbaticals and excludes department chairs.

² Includes law school faculty, which accounts for one-third of the University of Baltimore's FTE faculty. Approved workload for accredited schools of law is four courses per year.

³ State-supported FTE.

⁴ FTEF = Full-time equivalent faculty

Source: University System of Maryland

and part-time administrators). USM has exceeded this requirement since at least 1998, considering lower-division, upper-division, and graduate-division levels together. Core USM faculty tend to generate from 44 to 47% of lower-division (freshman- and sophomore-level) student credit hours, 54 to 57% of upper-division (junior- and senior-level) student credit hours, and 66 to 70% of graduate-division student credit hours. In 2002-2003, the average for all USM institutions at all division levels was 56.3%.

New Programs Reviewed for Duplication but Not Other Factors

The number of new certification and degree programs offered by USM institutions can affect the system's efficiency. The total number of new USM programs added per year increased significantly from 1999 to 2000, as shown in **Exhibit 16**, which was primarily due to new programs added by UMUC. By 2003 the number of new programs had decreased to about the 1998 level. MHEC reviews proposed new programs for efficiency as related to duplication among institutions. However, MHEC has raised concerns that the evaluation criteria it must use do not allow consideration of other important factors.

Exhibit 16
Number of New USM Academic Programs Approved by MHEC
Academic 1997 – 2003

<u>USM Institutions</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Certificates within Existing Programs	3	7	14	90	12	11	8
New Certificate Programs	0	0	4	8	6	7	1
New Degree Programs	14	17	34	57	45	21	17
Total	17	24	52	155	63	39	26

Source: Maryland Higher Education Commission

From January 1, 2000, through October 15, 2003, USM began 283 new certificate and degree programs. The height of recent program implementations was in 2000, when 155 programs began. UMUC accounts for nearly 60% of this number. At that time, UMUC expanded its general studies degree into discipline-specific degree programs and began a number of new certificate programs. It is not evident whether any new UMUC programs are producing relatively few graduates because the programs are so new. At this point, DLS does not have data that indicate whether most higher education institutions across the country introduce a certain number of new programs each year.

MHEC is responsible for reviewing each institution's proposed new programs to avoid duplication that would harm another institution already offering a similar program, as directed by Senate Bill 682, Chapter 515. The law also directs MHEC to consider whether a new program is consistent with the institution's mission or would violate the State's equal opportunity obligations.

Since 1999, MHEC has been concerned that it is restricted to using only the evaluation criteria included in SB 682. Specifically, MHEC would like to consider market demand, academic merit, and the financial ability of the institution to effectively provide the program. **DLS recommends that USM comment on whether MHEC should consider additional factors in its evaluation of proposed new certificate and degree programs for USM and other institutions.**

Few Programs Identified as Low Productivity after Initial Report

Senate Bill 682 requires MHEC and the governing boards of the public higher education institutions to jointly develop criteria for determining low-productivity programs. They decided to review programs on the sole criterion of degree production. For instance, baccalaureate degree programs must graduate five students in the most recently reported year, or a total of 15 students in the last three years.

Programs may be exempt if they meet criteria related to access, appropriate duplication, centrality to the mission of the institution, contribution to economic development, no additional cost incurred by the institution, and quality of graduates. Furthermore, each institution may request the exemption of five low-demand liberal arts degrees at the associate or baccalaureate level.

MHEC reviews data for the past three years for each of its reports. From 2000-2002, 10 USM programs were identified as low productivity. USM recommended seven to be exempted and one to be discontinued, leaving one to be reviewed again. In its first report under SB 682, which considered data from 1997-1999, MHEC identified 73 low productivity programs among USM institutions. For most (50), USM recommended exemption, and it recommended 11 to be discontinued. The number of low productivity programs has decreased considerably due to the numbers that received exemptions or were discontinued after the initial report.

In the fall of 2003, MHEC made several changes to its policy for reviewing low-productivity programs. In particular, the new policy provides fewer opportunities for exemption. The new policy is discussed in DLS' analysis of the MHEC budget. The 2003-2004 academic year will be the first to which the new policy will apply. It may yield opportunities for efficiency, but the results of the new policy will not be available until late in calendar 2004.

Campus Utilization, Administrative Salaries Studied by Board of Regents Task Force

The Board of Regents efficiency task force began in summer 2003. The task force has several themes for its efforts: shortening the time it takes students to graduate; developing a model to strategically reallocate enrollment growth among institutions; devising alternative financing approaches for core activities, such as student loan programs; maintaining quality; and outperforming benchmarks in academic and administrative areas.

The task force has started researching several topics related to these initiatives. One such topic is usage of USM physical plants. The task force compiled a list of land parcels not currently in use or considered surplus and found that most of this land is within campus boundaries, not near the perimeters. If land was outside of campus boundaries or at the perimeter, it would be easier to sell to a developer for additional income. Nevertheless, the task force plans to ask USM institutions to review their property holdings and determine which might be sold without compromising future needs.

R30B00 - University System of Maryland – Fiscal 2005 Budget Overview

In considering another aspect of physical space usage, the Board of Regents task force collected data on instructional rooms. The group's review of the total number of instructional rooms and how they are utilized by day of the week and start times indicated that institutions could consider offering more courses during evenings and on Fridays, for example. To attract students to courses during off-hours, some universities in other states have offered reduced tuition rates for those courses.

The task force also looked at the ratio of administrators to students as compared to peer institutions in other states. The group concluded that the USM ratio is favorable as compared to peers. The task force studied whether administrative salaries are high as compared to peers nationally and regionally. The Board of Regents has established a target of the third quartile for the salaries of senior administrators and the sixtieth to seventieth percentile for mid-level managers. The task force concluded that USM's administrative salaries are within these targets. The Board of Regents task force also studied instructional workload of faculty, as did DLS, which is discussed above.

To sum up, some opportunities for efficiencies at USM are evident.

- **DLS recommends that no new contractual faculty positions are authorized except for UMUC.** The allowance for USM includes about 90 contractual faculty positions, about 30 of which are for UMUC. Instructional workloads for faculty at USM institutions overall are just above the minimal level set by the Board of Regents, so there is room to increase the workload and achieve efficiencies.
- **DLS recommends that MHEC be authorized to consider additional factors in its evaluation of proposed new certificate and degree programs for USM and other institutions.** The current criteria do not consider important factors such as market demand, academic merit, and financial ability of the institution to effectively provide the program. This issue will be further discussed in the DLS analysis for MHEC.

Recommended Actions

1. Add the following language:

Provided that the University System of Maryland not increase the number of contractual faculty positions above the fiscal 2004 level, except for the University of Maryland University College.

Explanation: Instructional workloads for faculty at University System of Maryland institutions overall are just above the minimal level set by the Board of Regents, so there is room to increase the workload and achieve efficiencies. Since the University of Maryland University College relies heavily on contractual faculty to deliver its online and distance education programs, it is not included.

2. Add the following language:

The appropriation herein for the University System of Maryland institutions shall be reduced by \$227,250 in general funds to reflect use of the State Higher Education Labor Relations Board reimbursable fund balance toward higher education institutions' assessment for the board. The allocation of the reduction shall be determined by the University System Board of Regents.

Explanation: This language would reduce general funds for the University System of Maryland to reflect use of the State Higher Education Labor Relations Board fund balance.

Updates

1. Cost of Separating Grant-funded Employees Still Unclear

The University System of Maryland (USM) responded to a 2003 *Joint Chairman's Report* information request concerning separation and layoff policies for grant-funded regular exempt positions, but DLS has a concern about the response.

The committee narrative indicates that the information request was motivated by a concern that the separation terms for USM employees are too costly. According to USM personnel policy VII-1.22, a university system employee may be involuntarily separated and shall be provided with a defined period of notice. The length of the notice period is determined by the employee's time served at the institution and ranges from 1 to 12 months.

This policy is of particular concern in the case of grant-funded regular exempt employees. For example, if grant funds are cancelled and the grant period ends sooner than is expected, the institution may have to use other funds to cover the employee's separation notice period.

2. Services from Software Application Vendor May Be Affected by Takeover

Ten USM institutions are using PeopleSoft computer applications for their administrative functions, including human resources, financial, and student administration processes. Recently, Oracle initiated a hostile takeover of PeopleSoft, but the move has been challenged legally.

USM reports that Oracle has said it would support PeopleSoft applications through the end of the decade if the takeover succeeds, but it would not offer the applications to new customers. USM reports that it is watching this situation and it is in communication with PeopleSoft, Oracle, and the Maryland Attorney General's Office. At this point, the takeover is not expected to succeed.