R62I00.01
Maryland Higher Education Commission

Operating Budget Data

($ in Thousands)

	FY 02	FY 03	FY 04	FY 02-04 Change	FY 05	FY 04-05 Change
Operations	$6,500	$6,506	$6,145	-$354	$6,259	$114
Contractual Services	833	547	626	-207	517	-109
Grants	61,253	64,899	51,016	-10,237	61,917	10,902
Contingent & Back of Bill Reductions	0	0	0	0	-11,713	-11,713
Adjusted Grand Total	**$68,586**	**$71,952**	**$57,787**	**-$10,799**	**$56,980**	**-$807**
General Funds	63,211	60,770	53,783	-9,428	65,317	11,534
Contingent & Back of Bill Reductions	0	0	0	0	-11,713	-11,713
Adjusted General Funds	**$63,211**	**$60,770**	**$53,783**	**-$9,428**	**$53,603**	**-$179**
Special Funds	1,372	9,360	671	-701	347	-324
Federal Funds	3,827	1,337	2,836	-990	2,818	-18
Reimbursable Funds	176	486	497	321	211	-286
Adjusted Grand Total	**$68,586**	**$71,952**	**$57,787**	**-$10,799**	**$56,980**	**-$807**
Annual % Change		**4.9%**	**-19.7%**		**-1.4%**	

- Cost containment in fiscal 2003 and 2004 reduced funds for the Sellinger program, the Maryland Higher Education Commission (MHEC) administration, scholarships, the College Preparation and Intervention Program, and some of the educational grant programs. The reductions in fiscal 2003 and 2004 to those programs combined totaled over $8.4 million.

- The fiscal 2005 allowance includes $12 million for the historically black institutions ($6 million for enhancement funds and $6 million for the Access/Success program), as well as $1.2 million in matching funds for the Private Donation Incentive Grant Program.

- The $11.7 million mandated formula increase in the Sellinger program for nonpublic institutions is eliminated in the contingent reductions.

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

For further information contact: Jessica E. Jordan Phone: (410) 946-5530

Personnel Data

	FY 02	FY 03	FY 04	FY 02-04 Change	FY 05	FY 04-05 Change
Regular Positions	83.6	80.6	74.6	-9.0	74.6	0.0
Contractual FTEs	6.0	6.0	3.0	-3.0	2.0	-1.0
Total Personnel	**89.6**	**86.6**	**77.6**	**-12.0**	**76.6**	**-1.0**

Vacancy Data: Regular Positions

Turnover Expectancy	2.24	3.00%
Positions Vacant as of 12/31/03	7.00	9.38%

- Cost containment abolished a total of 12 regular and contractual positions from fiscal 2002 to 2004. The fiscal 2005 allowance eliminates one contractual employee.

Analysis in Brief

Major Trends

Gap between Six-year Graduation Rates for All Students and African American Students Is Expected to Close: MHEC tracks changes in graduation and retention rates, with a specific focus on racial/ethnic minority students. The progress towards these goals can be seen in the Managing for Results data.

Emphasis on Teaching and Nursing Programs Expected to Show Results: In recognition of the State's need to fill more positions in certain areas of the workforce, a higher number of teachers and nurses are expected to graduate from Maryland public and nonpublic institutions in fiscal 2004 and 2005.

Issues

Office for Civil Rights Agreement Evaluation in 2005: The State's five-year agreement with the Department of Education's Office for Civil Rights is set to end in fiscal 2005, at which time the office will evaluate Maryland's progress towards eliminating vestiges of discrimination in the State's public higher education institutions.

Response to the *Joint Chairmen's Report (JCR) Makes Recommendations to Improve Low-productivity Program Evaluation:* Due to concerns that too many degree programs were exempt from the low-productivity review process, the response to the JCR request details the new and more stringent policy on exemptions.

Funding Guideline Accuracy Evaluated in JCR Response: Now that fiscal 2001 data are available from all peer institutions, MHEC compared the fiscal 2001 estimates against the actual 2001 numbers. The findings show that the estimates of the guidelines were low, which over-estimated the funding guideline attainment of most Maryland institutions.

State Support for Regional Higher Education Centers Inconsistent: Due to the inconsistent and unpredictable general fund support for Maryland's Higher Education Regional Centers, the Department of Legislative Services recommends JCR language requiring MHEC to examine the history of funding and enrollment at all of the regional centers over the 2004 interim.

Recommended Actions

		Funds
1.	Add budget bill language to restrict the expenditure of enhancement funds for historically black institutions until the agency reports to the budget committees on how the funds will be spent.	
2.	Delete funding for the Higher Education Heritage Action Committee.	$ 100,000
3.	Adopt narrative requesting the agency examine the regional higher education centers in Maryland, specifically including revenue and expenditure history, number and type of programs offered, and the number of students served. The report should also include limitations on the regional centers that may preclude their financial independence.	
	Total Reductions	**$ 100,000**

R62I00.01

Maryland Higher Education Commission

Operating Budget Analysis

Program Description

The Maryland Higher Education Commission (MHEC) is the State's coordinating body for the 13 campuses of the University System of Maryland (USM), Morgan State University, St. Mary's College of Maryland, 16 community colleges, the State's private colleges and universities, and private professional schools. The Secretary of Higher Education is the head of the agency and serves at the pleasure of the 12-member commission.

The agency is responsible for developing the State Plan for Higher Education. It has adopted the eight goals of the State Plan as the goals for the agency. They are:

- Achieve and sustain a preeminent statewide array of postsecondary educational institutions that are recognized for their distinctiveness and their excellence nationally and internationally.
- Provide affordable and equitable access for every qualified Maryland citizen.
- Contribute to the further development of Maryland's economic health and vitality.
- Support and encourage basic and applied research.
- Strengthen teacher preparation and improve the readiness of students for postsecondary education.
- Provide high quality academic programs for a population of increasingly diverse students.
- Establish Maryland as one of the most advanced states in the use of information technology to improve learning and access.
- Achieve a cost effective and accountable system of delivering high quality postsecondary education.

The commission is also responsible for reviewing institution mission statements, reviewing new academic programs, administering State and federal educational grants to public and private institutions, and regulating private career schools. In addition, the commission is the lead agency in the State's Partnership Agreement with the federal Office for Civil Rights (OCR). The financial aid programs administered by MHEC are presented in a separate analysis.

Performance Analysis: Managing for Results

It is the role of MHEC to focus and coordinate the various segments of higher education in Maryland and ensure that progress is made toward the State goals for higher education. MHEC's performance measures provide an overview of institutional data in the many areas for which it has oversight, including college preparation; minority student achievement; graduates of workforce shortage degree programs; and the connection between community colleges and four-year institutions.

Consistent with State goals, MHEC must lead higher education to support Maryland's economic health. MHEC tracks the numbers of graduates in areas of the workforce in which workers are needed. The two most critical areas are nursing and teaching, and MHEC has encouraged the institutions to increase their numbers of graduates in these areas over the past several years.

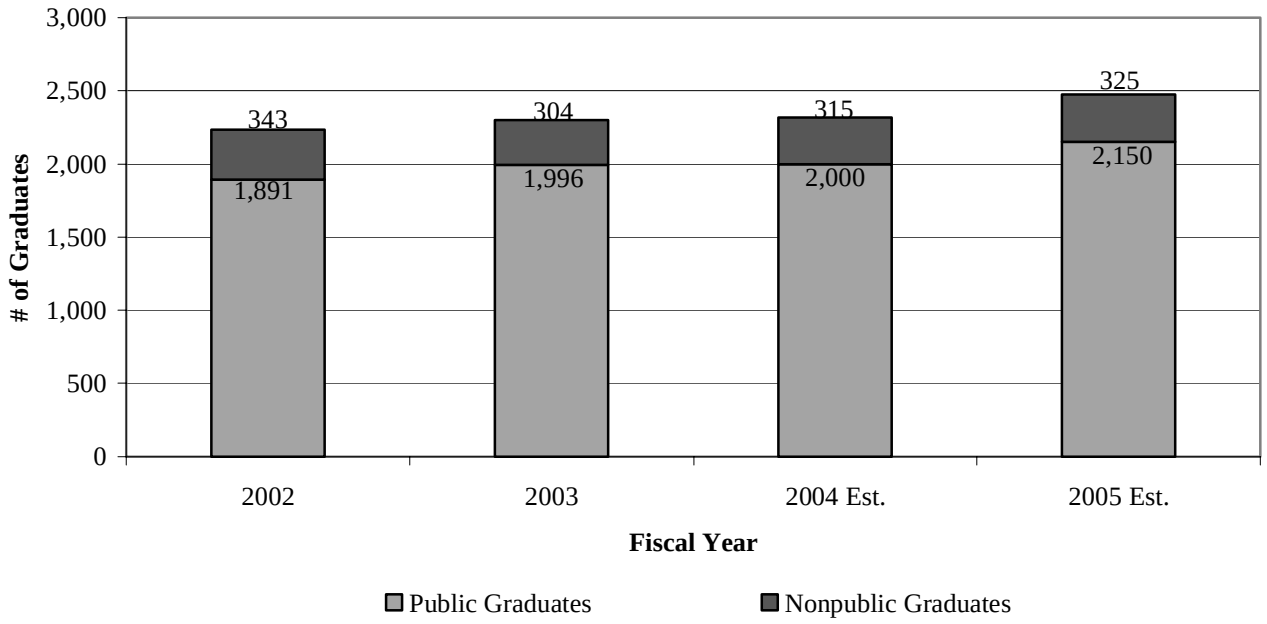
Exhibit 1 shows the number of nursing graduates from public and nonpublic institutions since fiscal 2002. For public institutions, the number of graduates is expected to increase 13.7% from fiscal 2002 to 2005. Independent institutions consistently produce about 15% of the total graduates. Between fiscal 2002 and 2003, nursing graduates from independent institutions dropped 11.3%, but they are on track to reach the goal of graduating 330 students by fiscal 2006. **The Department of Legislative Services (DLS) recommends the Secretary comment on the decrease in nursing graduates from nonpublic institutions and the reason the fiscal 2006 goal is lower than the fiscal 2002 number.**

Another workforce area in which graduates are needed is teaching. As with nursing graduates, the number of teacher graduates is reported to MHEC by the individual institutions. As shown in **Exhibit 2**, the number of teacher candidates produced is expected to increase from 2,332 in fiscal 2002 to 2,772 in fiscal 2005. The proportion of graduates produced by public and nonpublic institutions does not change. **DLS recommends the Secretary comment on the rather large increases estimated in fiscal 2004 and 2005 considering the decline reported in fiscal 2003.**

As the coordinating and oversight body of the State's agreement with the OCR, MHEC sets goals for and collects information on access, retention, and graduation rates for minority students at the historically black institutions (HBIs) and the traditionally white institutions. The six-year graduation rates for all students at Maryland's public four-year institutions, as well as the percent of bachelor degrees that are awarded to racial/ethnic minority students, are shown in **Exhibit 3**. The gap between the six-year graduation rates for all students and African American students was 15 percentage points in fiscal 2002. The gap is expected to decrease to 12 percentage points by fiscal 2005. This trend mirrors the anticipated progress made in the percent of bachelor degrees awarded to racial/ethnic minority students over the same time period.

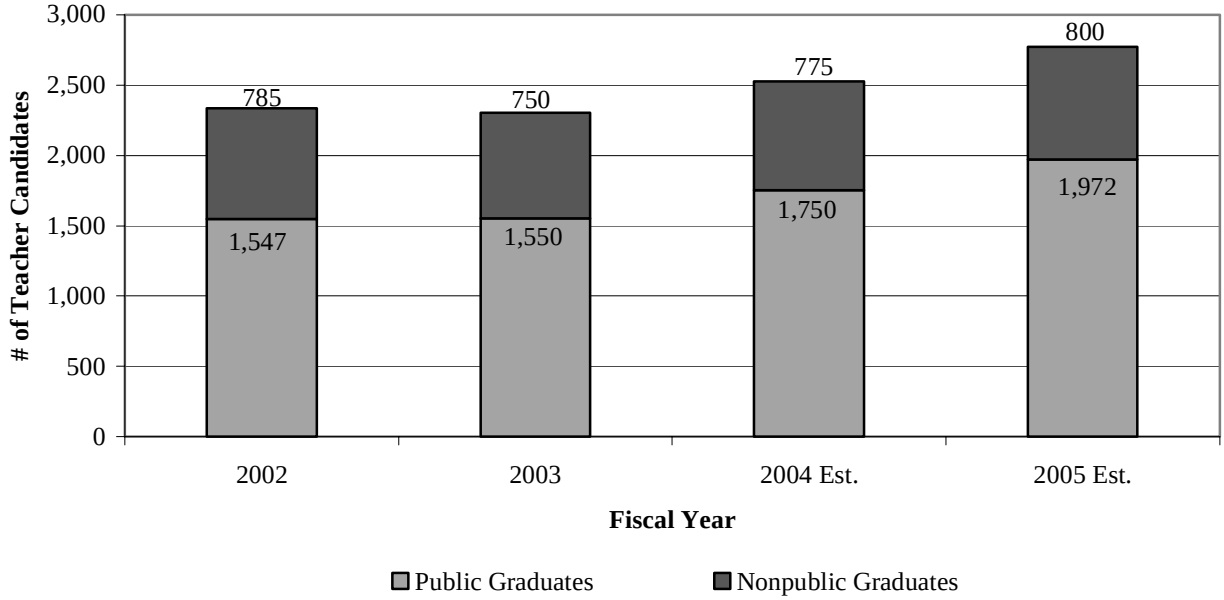
Exhibit 4 shows the progress in second-year retention rates and six-year graduation rates for African American students at HBIs. Both measurements are slowly increasing for the four HBIs together; data on each statistic will be discussed individually in the institution analyses.

Exhibit 1
Nursing Graduates from Public and Private Institutions
Fiscal 2002 – 2005 Estimate



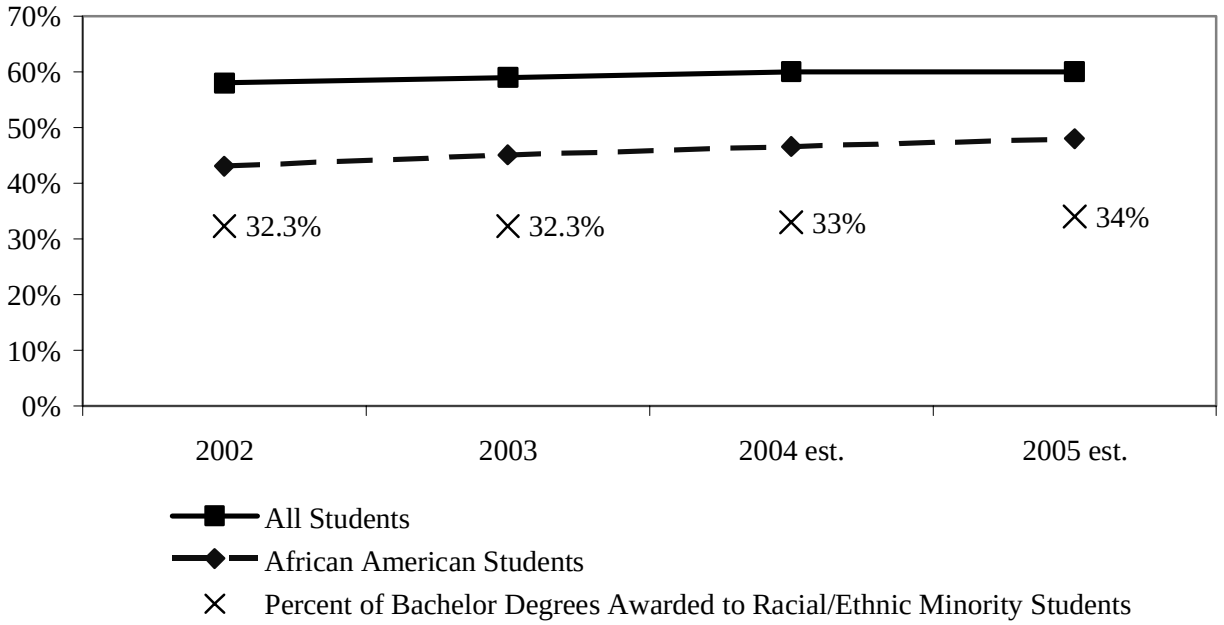
Source: Maryland Higher Education Commission

Exhibit 2
Teacher Candidates Prepared in Maryland Institutions
Fiscal 2002 – 2005 Estimate



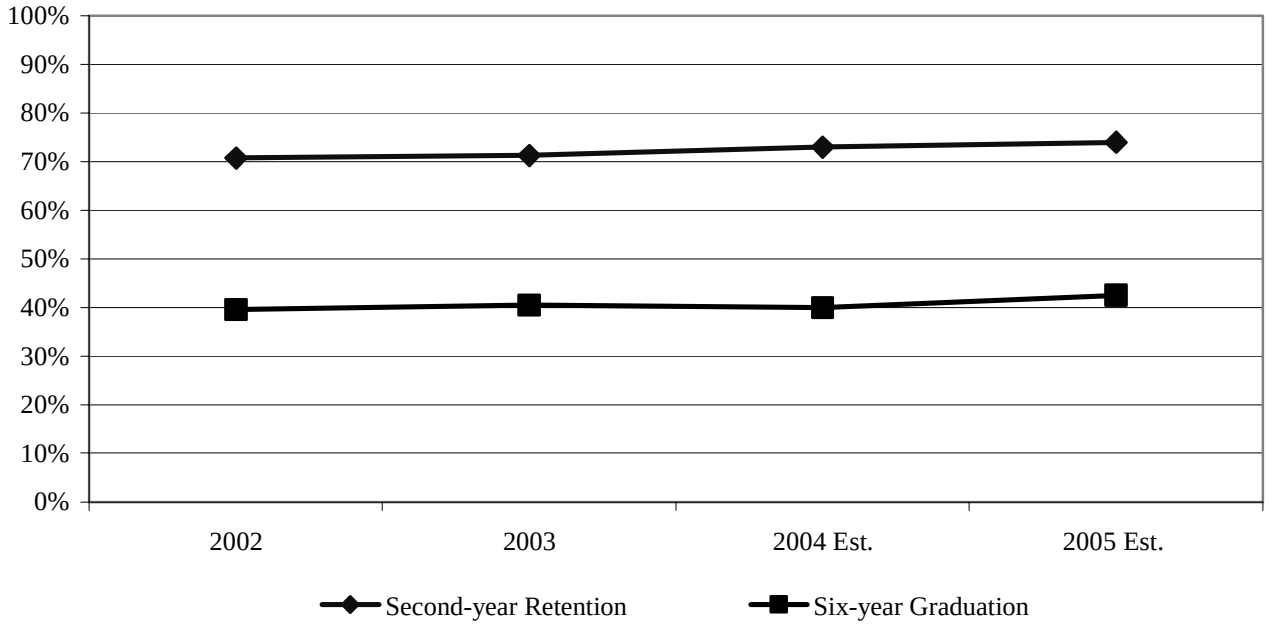
Source: Maryland Higher Education Commission

Exhibit 3
Six-year Graduation Rates of All Students and African American Students And Degrees Awarded to Racial/Ethnic Minority Students
Fiscal 2002 – 2005 Estimate



Source: Maryland Higher Education Commission

Exhibit 4
Second-year Retention and Six-year Graduation Rates at HBIs
Fiscal 2002 – 2005 Estimate

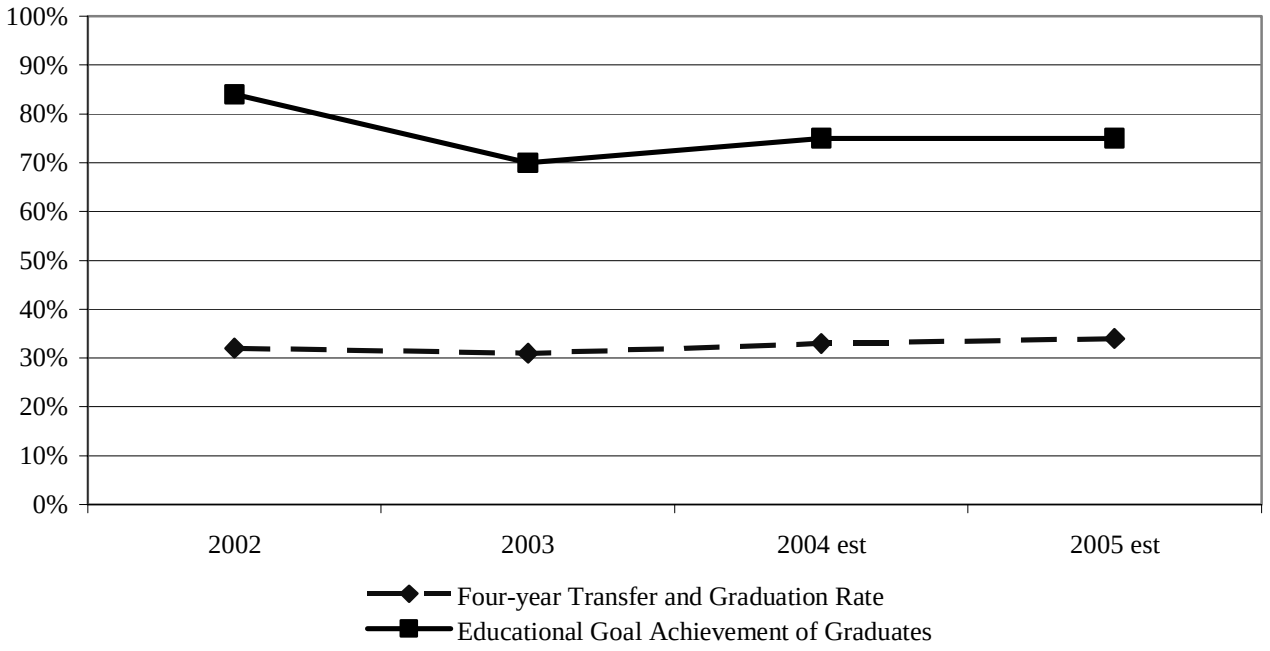


Source: Maryland Higher Education Commission

MHEC is also the coordinating body for the State's community colleges and collects data regarding community college transfer rates. As tuition rates rise at four-year institutions and those institutions become more competitive, it is important that qualified students seeking to transfer from community college to a four-year institution are able to do so without difficulty. **Exhibit 5** shows the four-year transfer and graduation rate of community college students, as well as the percent of community college students that have achieved their education goals.

Within MHEC is the Office of Student Financial Assistance (OSFA), which oversees the State's financial aid programs and tracks and reports trends in available aid for students. OSFA is also responsible for publicizing the availability of State aid programs and ensuring that qualified students have a chance to receive the aid for which they are eligible. Measures specific to OSFA will be discussed in the MHEC Scholarships analysis.

Exhibit 5
Community College Transfer Rate and Educational Achievement Satisfaction
Fiscal 2002 – 2005 Estimate



Source: Maryland Higher Education Commission

Fiscal 2004 Actions

Impact of Cost Containment

Cost containment actions by the Board of Public Works on July 30, 2003, reduced MHEC's budget by a total of $1,711,955, or 3%. Details of cost containment measures appear in **Exhibit 6**.

Exhibit 6
Fiscal 2004 Cost Containment

Impact	Reduction
Administration	**$382,073**
Reduces three positions: Outreach Program Director, Assistant to the Director of Finance, and the Assistant to the Assistant Secretary of Planning and Academic Affairs.	219,128
Eliminates two contractual positions and all general fund temporary personnel.	133,186
Reduction in postage costs that will be implemented through reduced mailings.	6,226
Reduction in printing costs through fewer brochures and lower quality products.	23,533
College Preparation/Intervention Program	**$56,250**
Reduces the amount of direct services to students and the same amount of federal matching funds.	
Sellinger	**$1,273,632**
Reduces aid to nonpublic institutions by 4%.	
Total	**$1,711,955**

Source: Maryland Higher Education Commission

Governor's Proposed Budget

As shown in **Exhibit 7** the fiscal 2005 allowance increases MHEC's general fund budget by $11.5 million, or 21.4%, but then reduces general funds by $11.7 million through a contingent reduction to the Sellinger grant. The allowance provides the HBIs with full funding of enhancement grants and the Access/Success program. There are also several new educational grant awards including funds for the Coppin State College (CSC) revitalization program.

Exhibit 7
Governor's Proposed Budget
Maryland Higher Education Commission
($ in Thousands)

	FY 03 Actual	FY 04 Approp.	FY 05 Allowance	FY 04-05 Change	FY 04-05 % Change
General Funds	$60,770	$53,783	$65,317	$11,534	21.4%
Contingent & Back of Bill Reductions	0	0	-11,713	-11,713	
Adjusted General Funds	**$60,770**	**$53,783**	**$53,603**	**-$179**	**-0.3%**
Special Funds	$9,360	$671	$347	-$324	-48.3%
Federal Funds	$1,337	$2,836	$2,818	-$18	-0.6%
Reimbursable Funds	$486	$497	$211	-$286	-57.5%
Adjusted Grand Total	**$71,952**	**$57,787**	**$56,980**	**-$807**	**-1.4%**

Where It Goes:

Personnel Expenses	
Decrease in turnover expectancy	$179
Employee Increments	71
Employee and Retiree Health Insurance	26
Elimination of one contractual position	-47
Other Changes	
CSC revitalization recommendations grant	500
Increase HBI enhancement funding	500
Transfer of UMB – Wellmobile to the educational grant program	295
Grant for the UMBI, Maryland-Israeli Partnership	250
New Higher Education Heritage Action Committee Grant	100
Restoration of State matching funds for federal college preparation program	56
Reduction in administrative costs (travel, communication, supplies, etc.) to better reflect actual experience	-199
Eliminate grant funds for the digital library	-620
Private Donation Incentive Grants	-1,918
Total	**-$807**

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

Sellinger Aid for Nonpublic Institutions May Remain Flat

Language in the fiscal 2005 budget bill makes a $11,713,060 reduction contingent on budget reconciliation legislation. The reduction will be to the Sellinger program for aid to nonpublic institutions and will result in funding of the Sellinger program at the fiscal 2004 working appropriation level. This action is consistent with the treatment of the public higher education institutions. The fiscal 2005 Sellinger funding is calculated using the mandated funding formula that is based on the per student general fund support of selected public institutions in the previous year. **DLS recommends that the committee consider incorporating language in this year's budget reconciliation legislation that would re-base the formula for future years to the reduced fiscal 2005 level. The formula would then provide, per student, 11% of the general fund support to selected public institutions in the previous year.**

Continued Funding for Historically Black Institutions

The allowance contains funding for the HBIs through two programs – enhancement funds, which increase $500,000 over the fiscal 2004 appropriation for a total of $6 million, and the Access and Success program, which is funded at the fiscal 2004 level of $6 million. Coppin State College (CSC) also receives a one-time $500,000 grant for their revitalization program, which addresses the outstanding needs of the school as recognized in the *Toll Commission* report. Through these grants, total funding for HBIs in fiscal 2005 is $12.5 million, an increase of $1 million compared to fiscal 2004.

Educational Grants

The University of Maryland, Baltimore's (UMB) Wellmobile program receives State funding through two sources, as well as matching funds from the Connect Maryland Foundation. $200,000 is provided through UMB's general funds in the nursing program. $295,500 was provided by the State in the Board of Public Works budget through fiscal 2004 but is now provided through MHEC as an educational grant. This $295,500 is matched dollar for dollar by Connect Maryland.

The Higher Education Heritage Action Program is a new grant with an allowance of $100,000. The grant is designed to address the needs identified by the Heritage Action Committee, a group of leaders from higher education and preservation in Maryland. The growing job market and interest in the heritage disciplines (museum studies, conservation, archaeology, historic preservation, and cultural resource management) brought together six public universities and three State agencies to collaborate under the lead of the Maryland Historical Trust in order to provide complementary degree programs at the various participating institutions. The grant will support the program's startup costs. **DLS recommends eliminating funds for this program due to fiscal constraints.**

The University of Maryland Biotechnical Institute (UMBI) is the beneficiary of a three-year $250,000 annual grant from Israel. The funds are contingent upon a State match of $250,000 each year to support a joint program in marine biotechnology and aquaculture. The funds were provided through the Maryland Technology Development Corporation in fiscal 2004, and the State agreed to provide the matching funds in fiscal 2005 and 2006.

Private Donation Incentive grants decrease $1.9 million, or 60% from fiscal 2004. The $1.2 million remaining will provide the matching funds for the State's historically black institutions. Matching Private Donation Incentive Program grants for other institutions are deferred for the third consecutive year; the total owed to the other institutions to date is $9.1 million. If all institutions (including the HBIs) raise their total eligible matches, the State will owe an additional $1.6 million after fiscal 2006.

Funds for the Maryland Digital Library were originally set up so that the public and private institutions would pay MHEC for the services they receive; MHEC would then pay the Maryland Digital Library with the collected monies. During fiscal 2003 it was decided that the institutions would pay the Maryland Digital Library directly, so there are no appropriations in fiscal 2005.

Issues

1. Office for Civil Rights Agreement Evaluation in 2005

The OCR Agreement between the U.S. Department of Education and the State of Maryland commenced at the end of calendar 1999. The agreement spans five years and is the latest in a series of agreements since 1969. The 1999 agreement is based on a partnership agreement, in which no legal investigation or claims are to be made. At the end of the five-year period, in 2005, the OCR will review the progress made by the State on the following issues:

- Enhancing the four HBIs to improve educational opportunities and increase their attractiveness to all students.

- Enhancing initiatives at the traditionally white institutions and community colleges in such a way that the campus climate, student recruitment, and student retention and graduation are improved for minority students.

- Access for African Americans to higher education institutions, including need-based and other financial assistance programs, as well as access and retention in graduate and professional schools in Maryland.

The State's commitments to this agreement are to be provided through the budget process and, where available, through special enhancement funding. Due to the timing of the agreement, the first year of State funding specific to the OCR agreement was fiscal 2003. The State has made a commitment to provide enhanced funding through operating funds or capital project funding over a five-year period, which would end with fiscal 2007; however, the State will only be evaluated on the funding and attainment achieved at the time of review in fiscal 2005.

By May 2006, the State of Maryland and the OCR will determine whether or not the commitments have been met. Three possible outcomes exist. The first is that OCR acknowledges in writing that the State has fulfilled its obligations by eliminating all vestiges of segregation in the public higher education system. The other possible outcomes are that the State has not complied, and (a) enters into another agreement with OCR; or (b) OCR turns the case over to judicial investigation of noncompliance. As the statewide planning and coordinating body for all postsecondary institutions in Maryland, MHEC is charged with implementing the State's agreement with the Department of Education's OCR and ensuring compliance.

Each year MHEC distributes OCR enhancement funds to the institutions. The enhancement funds will eventually be used to pay the debt service on the Academic Revenue Bonds (ARBs) for capital projects, but since Morgan State University (MSU) was the only institution with ARB debt for

projects designated under OCR agreement this year, most of the fiscal 2004 appropriation of $5.5 million is available for operating expenses. MSU received $346,031 for the debt service, leaving $5.15 million for distribution.

Fiscal 2004 Enhancement Fund Distribution

Exhibit 8 shows the distribution of enhancement funds for fiscal 2004. The distribution formula is based on funding guideline attainment and the proportion of full-time equivalent students, with 50% of the funds divided equally. However, CSC's portion fully funds its facilities-related request due to its outstanding operating needs. The institutions must submit plans for anticipated use of the funds to MHEC. In fiscal 2004 each institution will use its funds in the following ways:

- CSC will fund pre-design services for capital projects;
- the University of Maryland Eastern Shore (UMES) will use its funds primarily for technology infrastructure and academic program enhancement;
- the Bowie State University plans to dedicate a portion of its funds for laboratory support and academic programs while the rest will help grow the library collections and support accreditation activities throughout the year; and
- MSU will use the operating portion of its funds to upgrade its computer network and to help equip the new Science Research Facility and Greenhouse that was completed in fall 2003.

Exhibit 8
OCR Enhancement Fund Distribution
Fiscal 2004

Institution	Allocation	% of Total
University of Maryland Eastern Shore	$850,763	15%
Bowie State University	1,118,799	20%
Morgan State University	1,405,438	26%
Coppin State College	2,125,000	39%
Total	**$5,500,000**	**100%**

Note: MSU's allocation includes $346,031 for ARB debt service under the OCR agreement.

Source: Maryland Higher Education Commission

DLS recommends the following budget bill language restricting expenditure of fiscal 2005 HBI enhancement funds until MHEC submits a report detailing how the funds will be spent:

, provided that $6,000,000 in general funds designated to enhance the State's four historically black institutions may not be expended until the Maryland Higher Education Commission submits a report to the budget committees outlining how the funds will be spent. The budget committees shall have 45 days to review and comment on the report.

Total Funding to Date

Exhibit 9 shows the total funding for the State's four HBIs since the commencement of the agreement. As shown, the State has contributed $37.7 million to date, with $13.2 million included in the fiscal 2005 allowance. The $14.5 million in enhancement funds have been used for basic operating costs, while the information technology enhancements and Access/Success funds are for specific activities that help HBIs improve retention and graduation rates. Due to the State's fiscal crisis, the Private Donation Incentive Grant program funds have been provided only to HBIs; the matching funds for HBIs are all currently paid to date.

Also, during cost containment in both fiscal 2003 and 2004, the HBI budgets were reduced less than the other public institutions. For fiscal 2004, cost containment reduced the funding for the traditionally white institutions an average of 5.3% each, while the HBI general funds were reduced 4% each. Exempting the HBIs from sharper cuts further evens out any funding disparities between HBIs and the traditionally white institutions.

Exhibit 9
Funding Support Specific to HBIs
Fiscal 1999 – 2005 Allowance
($ in Thousands)

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005 ALW	Total
Access/Success	$2,000	$2,000	$3,082	$4,500	$6,000	$6,000	$6,000	$29,582
Enhancement Funds	0	0	0	0	3,000	5,500	6,000	14,500
Information Technology Enhancements	0	0	0	0	1,600	0	0	1,600
Private Donation Incentive Grants	0	0	0	524*	0	3,098	1,180	4,802
Campus Master Plan Grant	0	0	0	350	0	0	0	350
Operating Total	**$2,000**	**$2,000**	**$3,082**	**$5,374**	**$10,600**	**$14,598**	**$13,180**	**$50,834**

* Includes all payments made through fiscal 2002.

Capital Project Support

The other funding-based measure for evaluation will be the extent to which capital projects at the HBIs were funded and/or given priority over projects at other institutions. This is of increased significance to CSC, which was deemed to have outstanding capital needs by the Toll Commission. Therefore, the State's agreement to pay the debt service on $75 million in ARBs will particularly benefit CSC. **Exhibit 10** shows the capital projects for the HBIs during the five-year period related to the State's OCR commitment. These are in addition to projects funded with general obligation (GO) bonds.

Exhibit 10
Academic Revenue Bond Distribution for Maryland's HBIs
Per the OCR Agreement
Fiscal 2003 – 2007

			Estimate			
Institution	**FY 2003**	**FY 2004**	**FY 2005**	**FY 2006**	**FY 2007**	**Total**
Bowie State University	$0	$0	$800,000	$900,000	$4,815,000	$6,515,000
Coppin State College	400,000	1,985,000	31,300,000	5,500,000	18,700,000	57,885,000
UMES	390,000	6,100,000				6,490,000
Morgan State University	4,110,000					4,110,000
Total	**$4,900,000**	**$8,085,000**	**$32,100,000**	**$6,400,000**	**$23,515,000**	**$75,000,000**

Source: Maryland Higher Education Commission

Capital funding is an area where the timing of the OCR agreement affects the dates of funding. The agreement was signed in December 1999 which meant that fiscal 2003 was the first year the budget would include special funding. For CSC, the new ARB debt as currently planned will add five new projects through GO bonds and ARBs totaling $101.2 million. ARBs account for just over half – $57.9 million – of authorized debt.

The fiscal condition of the past several years has made it difficult for the State to invest in HBIs to the extent agreed upon with the OCR. However, significant funding has been provided, and HBIs have avoided the worst cost containment reductions. **The department recommends the Secretary comment on his assessment of the State's progress and his expectations for the 2005 review.**

2. Response to the *Joint Chairmen's Report* (JCR) Makes Recommendations to Improve Low-productivity Program Evaluation

Consistent with the 2003 JCR, MHEC has reviewed its process for identifying and assessing academic programs that do not produce many graduates. MHEC convened a workgroup to look at the current process, the recommendations made in the JCR, and information surveyed from other states.

As a result of the study, the criteria for determining low-producing programs remained the same. The workgroup recommitted to the criteria for degree production for various undergraduate and graduate programs.

Program exemptions are designed to protect programs that are unique, meet non-duplicative workforce shortage areas, or have strong three-year student enrollments. However, the rules for program exemption formerly allowed a wide range of exemptions from evaluation. The JCR language asked for specific changes in response to the following concerns:

- Exemptions should expire in a maximum of three years.

  The new policy permits a three-year exemption only in the instance that a program has just had significant improvements that will help the program; new and steady funding is available for the program; or, the institution has made, or is in the process of making, substantial changes to the program. While these criteria are much the same as in the previous policy, program exemptions will no longer be permanent but will be subject to a temporary three-year exemption period.

  The only permanently exempt programs will be those that draw from the coursework of other programs, such as interdisciplinary programs, or are subsets of other programs and thus do not demand any additional cost to the university. Students do not apply to these programs, but degrees may be awarded if the requirements for the similar degree are not met (for example, a Master's degree may be conferred upon a student that chose not to pursue the Doctorate degree for which he/she was admitted).

- Exemption definitions should be reviewed, and the liberal arts exemption should be eliminated. The new policy eliminates all categorical exemptions.

  The three-year policy and one permanent exemption category replace the previous methods.

- Given the State's emphasis on four-year graduation/transfer rates at community colleges and six-year graduation rates at four-year colleges and universities, new programs should be exempt from productivity standards for three years at community colleges and for five years at four-year institutions.

  The commission decided to implement a five-year and seven-year exemption period for new programs at community colleges and four-year institutions, respectively. The commission

believes that this is a sensible length of time after which to evaluate the degree production of new programs because it allows for three graduating classes before review.

- To promote accountability, a grace period of a pre-determined length should be available for programs for which institutions intend redesign or additional resources.

  The new three-year limit on exemptions specifically fulfills this recommendation.

- MHEC should develop a process through which to resolve situations where programs have high enrollment but few graduates.

  The new policy is such that high enrollment rates may be a reasonable justification to qualify a program for the three-year exemption period. Of those programs identified as low-producing, commission staff will review these programs with the institutions to determine which programs will be considered unique, meeting a nonduplicative declared workforce shortage area, or having sufficient three-year student enrollments.

The JCR language sought to refine the policies that allowed a significant number of low-producing programs to be exempt from the degree production guidelines. The new policy developed by MHEC and outlined in the JCR response takes the necessary measures to correct the previously relaxed policy towards program exemption. The *Low-Productivity Report* for 2003 uses the old measures but the new policy will be utilized for the 2004 report.

3. Funding Guideline Accuracy Evaluated in JCR Response

In September 1999, MHEC adopted a peer-based system for establishing funding guidelines for Maryland's public four-year institutions. The methodology identifies peer institutions that resemble the Maryland institution in mission, size, program, mix, enrollment composition, and other defining characteristics. Financial data is collected for each current peer (the University of Maryland, College Park only has aspirational peers) to determine all of the available resources per full-time equivalent student. The goal of the funding guideline is to fund each Maryland institution at the seventy-fifth percentile of its peers after adjustments for enrollment and inflation.

Funding guidelines provide a standard for comparison between Maryland institutions and their nationwide peers. However, several limitations exist that inhibit the guidelines from providing a current comparison based on changes in the operating budgets of the institutions. While the funding guidelines are calculated using the most recent, complete data available from the National Center for Education Statistics' Integrated Postsecondary Education Database System (IPEDS), the data are four years old. Therefore, MHEC uses an inflation factor to compensate for the time difference.

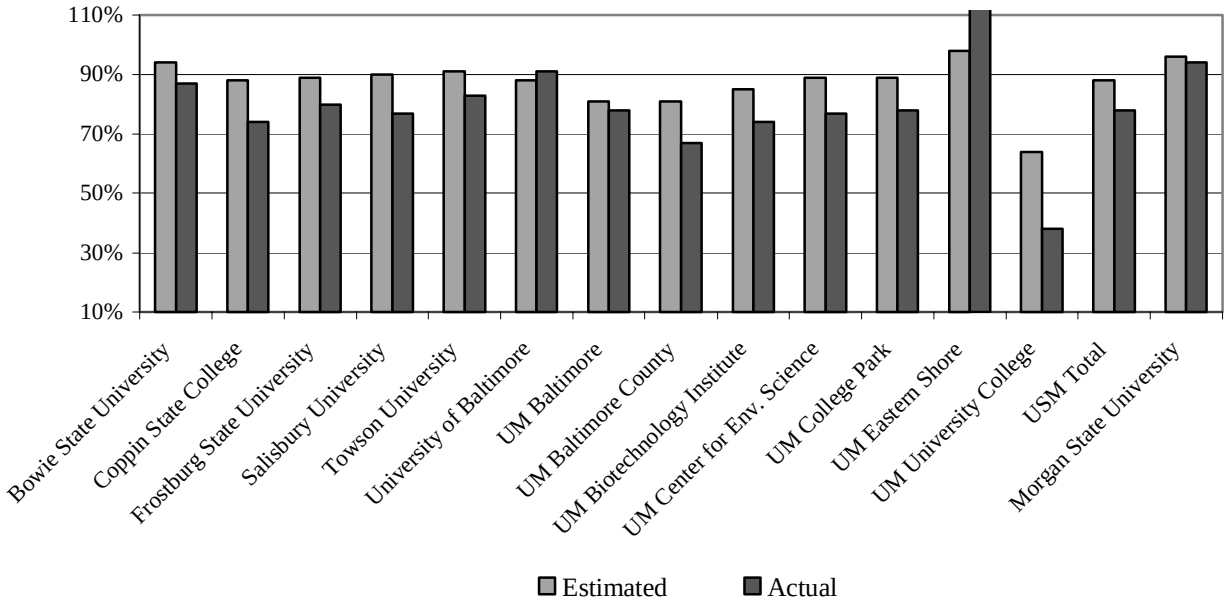
Because of the time difference and the generality of an inflation factor, the guidelines may not be a reliable source of comparative data. Cost containment reductions and increased tuition and fee revenue, both in Maryland and in other states, cannot be immediately reflected in the guidelines. To

measure the accuracy of the guideline estimates, the JCR charged MHEC with retrospectively evaluating the fiscal 2001 funding guidelines using 2001 actual data that is now available.

MHEC reported the findings in a JCR response during the 2003 interim. The study found that the actual guidelines were higher than estimated for the USM institutions and MSU (St. Mary's College does not use the funding guideline process). In total, the actual guidelines exceeded the estimated guidelines by an average of 13% for USM and 1% for MSU. As a result, attainment of the guidelines decreased from 88 to 78% for USM and from 96 to 94% for MSU. However, the actual funding guidelines for UMES and University of Baltimore are lower than originally projected due to lower than expected enrollment. **Exhibit 11** shows the estimated versus actual attainment for each institution.

Exhibit 11

Fiscal 2001 Funding Guideline Attainment: Estimated vs. Actual



100% = 100% of the seventy-fifth percentile of peers.

Source: Maryland Higher Education Commission

MHEC recommends making two changes to the funding guideline methodology based on the availability of data. The current methodology uses Current Unrestricted Funds (CUF) as the total operating funds available, but national reporting standards recently ended the requirement for higher education institutions to distinguish between current unrestricted and current restricted funds. This means that the CUF data used in the methodology is no longer available from IPEDS. MHEC will

now use only general fund and tuition and fee revenues in calculating the guidelines. This is not expected to have any significant effect on the guidelines.

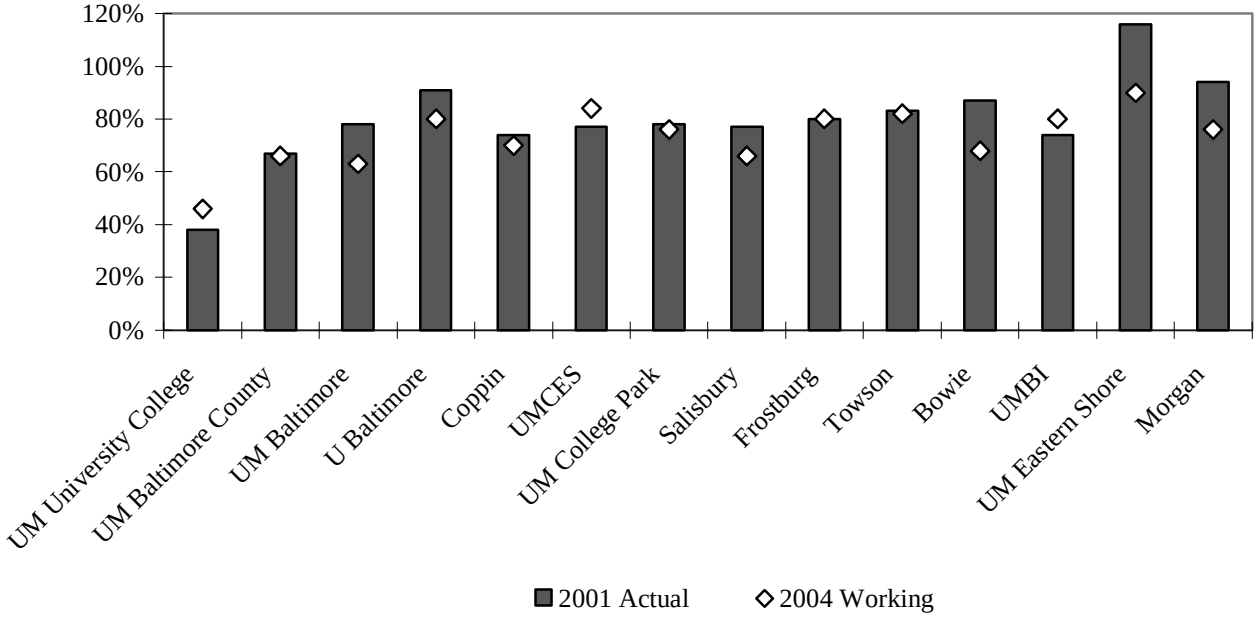
The second change is the use of the inflation factor – formerly the Higher Education Price Index (HEPI). The HEPI number used to date was 3.2% per year. Since the Research Associates of Washington who produce the HEPI have decided to update it annually, the commission will use the most current, updated HEPI available for its calculations.

Current Funding Guideline Attainment

Taking into consideration the re-evaluated guidelines for fiscal 2001 and cost containment reductions in fiscal 2004, **Exhibit 12** shows the comparison between attainment in fiscal 2001 and 2004. Before the adjustments for the fiscal 2001 actual attainment, the percentage decrease in fiscal 2004 was exaggerated. Prior to the fiscal 2001 actual attainment measures, guideline attainment was an average of 10% lower for all schools in 2004 than in 2001. This chart shows that since attainment was lower than estimated in fiscal 2001, the difference in attainment in fiscal 2004 is not as great – and for the University of Maryland University College (UMUC), the University of Maryland Center for Environmental Science, and UMES, the fiscal 2004 attainment is higher than it was in 2001.

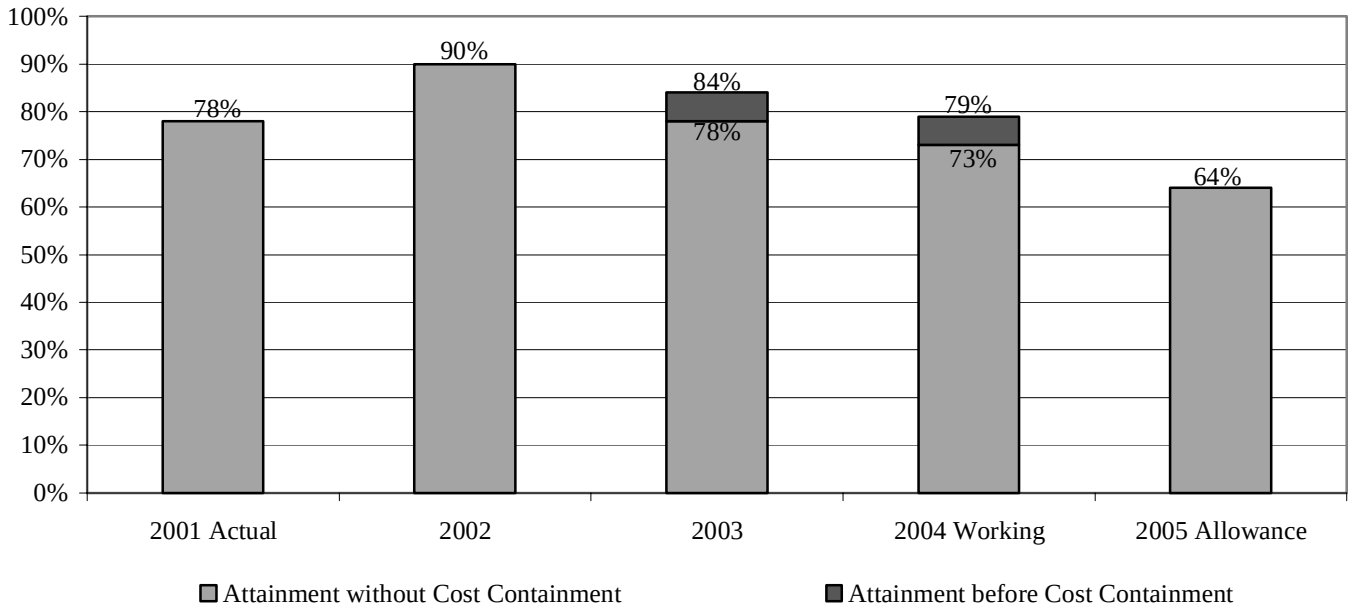
The total institutional attainment also changes with the new fiscal 2001 calculations. **Exhibit 13** shows the attainment for all institutions using the 2001 actual numbers through the fiscal 2005 allowance. In fiscal 2003 and 2004 the guideline attainment is shown both before and after cost containment reductions. Total guideline attainment has steadily decreased after reaching a high of 91% in fiscal 2002. The fiscal 2005 allowance, which is level-funded at the fiscal 2004 working appropriation after cost containment, decreases total attainment to 65%. However, since the guidelines are based on 2001 peer data, it is possible that future guideline evaluation will show that institutions in other States are also subject to decreasing State support, which might raise the attainment level of Maryland institutions.

Exhibit 12
Funding Guideline Attainment
Public Four-year Institutions
Fiscal 2001 and 2004 Working



Source: Maryland Higher Education Commission

Exhibit 13
Attainment of Funding Guidelines as Adopted
All Institutions
Fiscal 2001 – 2005



Source: Maryland Higher Education Commission

Exhibit 14 shows the guideline attainment from fiscal 2002 through 2005 allowance for each institution using the latest possible data. The fiscal 2003 attainment is based on final appropriation after all cost containment measures; fiscal 2004 attainment is the most current working budget; and fiscal 2005 is based on the allowance. All of the institutions have seen a decrease in attainment from fiscal 2002 to 2005, though one institution, the University of Baltimore, increases 2 percentage points from fiscal 2004 to 2005. The average decrease for all institutions between fiscal 2004 and 2005 is 9 percentage points.

Funding guideline attainment is one way of comparing Maryland's contribution to higher education institutions to other states' contribution. However, the 2001 peer data currently used does not take into account the budget constraints of the past three years. MHEC strives for accuracy in developing the guidelines, but it will be several years before the budget impacts at peer institutions can be reflected in the guidelines. Until then, guideline attainment is likely underestimated.

Exhibit 14
Operating Funding Guideline and Allowance
Fiscal 2003 – 2005 Allowance

Institution	FY 2002 % Attainment	FY 2003 % Attainment	FY 2004 Working % Attainment	FY 2005 Allowance % Attainment
UM University College	80%	58%	46%	42%
UM Baltimore County	82%	71%	66%	60%
UM Baltimore	85%	74%	63%	55%
University of Baltimore	96%	90%	80%	82%
Coppin State College	90%	82%	70%	63%
UM Center for Environmental Science	88%	81%	84%	64%
UM College Park	90%	76%	76%	64%
Salisbury University	90%	70%	66%	62%
Frostburg State University	89%	74%	80%	72%
Towson University	92%	75%	82%	75%
Bowie State University	95%	86%	68%	53%
UM Biotechnology Institute	88%	78%	80%	64%
UM Eastern Shore	107%	110%	90%	69%
Morgan State University	102%	92%	76%	69%

Source: Maryland Higher Education Commission

4. State Support for Regional Higher Education Centers Inconsistent

The regional higher education centers are higher educational facilities in unserved or underserved areas of the State. These centers provide a full range of postsecondary programs and services including lower- and upper-level undergraduate programs as well as graduate and professional degree programs. Three centers receive State support, and three are self-supporting. Some are independent entities overseen by MHEC, while others are governed by the USM Board of Regents. MHEC oversees the following centers:

- Southern Maryland Higher Education Center;
- Eastern Shore Higher Education Center;

- Waldorf Center for Higher Education; and

- Higher Education and Applied Technology Center.

The centers that are governed by USM and receive funding through the USM Office budget include the following:

- Shady Grove Center; and

- Hagerstown Educational Center.

Exhibit 15 shows the general funds for each center receiving them from fiscal 2000 through the 2005 allowance. The Hagerstown Center, which will open in January 2005, receives $1 million in the 2005 allowance. The Southern Maryland Higher Education Center, the only center under MHEC that is funded, received $268,000 for non-capital equipment in fiscal 2002 in addition to $100,000 for operating costs. The Southern Maryland Higher Education Center's operating funds were reduced 8% in fiscal 2004 for cost containment. USM chose not to apply cost containment to the Shady Grove Center.

Exhibit 15
Maryland Higher Education Regional Centers Funding
Fiscal 2000 – 2005 Allowance
($ in Thousands)

	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Working	FY 2005 Allowance
USM Administered Centers						
Shady Grove Undergraduate Center	$0	$1,100	$1,104	$1,104	$1,104	$1,104
Shady Grove Facilities	1,227	1,227	1,227	1,227	1,227	1,227
Hagerstown Education Center	0	0	0	0	0	1,000
Other Centers						
Southern Maryland Higher Educ. Center	0	85	368	100	92	92
Total	**$1,227**	**$2,412**	**$2,699**	**$2,431**	**$2,423**	**$3,423**

Source: Maryland Higher Education Commission; University System of Maryland

Due to the inconsistent nature of funding for the regional centers, DLS recommends language requiring MHEC to provide a comprehensive report, including an analysis of the following as they relate to the goals and mission of each of the centers:

- **revenue sources and expenditures for each center;**
- **the number of programs offered and the number of students attending courses at the centers each year; and**
- **limitations on the centers that may preclude their financial independence.**

Recommended Actions

1. Add the following language:

   , provided that $6,000,000 in general funds designated to enhance the State's four historically black institutions may not be expended until the Maryland Higher Education Commission submits a report to the budget committees outlining how the funds will be spent. The budget committees shall have 45 days to review and comment on the report.

   Explanation: This language restricts the expenditure of funds until the commission reports to the budget committees plans for spending funds designated to enhance the State's four historically black institutions.

		Amount Reduction	
2.	Delete funding for the Higher Education Heritage Action Committee.	$ 100,000	GF

3. Adopt the following narrative:

   Examination of Maryland's Regional Higher Education Centers: Maryland has six regional higher education centers, two administered by the University System of Maryland and four overseen by the Maryland Higher Education Commission (MHEC). Four of these centers have received funding from the State. Since funding for the centers is inconsistent, the committees ask that MHEC examine the revenue sources and expenditures at the regional centers, including a discussion of the programs offered and students served at each of the centers. MHEC is also asked to discuss any limitations on the centers that may preclude their financial independence.

Information Request	Author	Due Date
Report on Regional Higher Education Centers	MHEC	July 1, 2004

Total General Fund Reductions **$ 100,000**

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
Maryland Higher Education Commission
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2003					
Legislative Appropriation	$64,821	$1,674	$2,846	$504	$69,845
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	350	7,800	0	51	8,201
Cost Containment	-4,401	0	0	0	-4,401
Reversions and Cancellations	0	-114	-1,509	-70	-1,693
Actual Expenditures	**$60,770**	**$9,360**	**$1,337**	**$486**	**$71,952**
Fiscal 2004					
Legislative Appropriation	55,494	671	2,836	497	59,499
Cost Containment	-1,712	0	0	0	-1,712
Budget Amendments	0	0	0	0	0
Working Appropriation	**$53,783**	**$671**	**$2,836**	**$497**	**$57,787**

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

Fiscal 2003

Funds for the George Meany Center for Labor Studies were available as a grant in fiscal 2003 prior to the Meany Center joining the Sellinger program formula funding. The general fund budget amendment brings in the funds to support this program.

The $7.8 million in special funds was transferred from the Dedicated Purpose Fund to MHEC to fund the community colleges, the University of Maryland, Baltimore structural deficit, the University System of Maryland's deferred maintenance, and MSU's deferred maintenance.

$114,000 in special funds and $40,000 in reimbursable funds were reverted because the appropriation allowed more than was collected from private institutions for the Maryland Digital Library. The reverted federal funds totaling $1.5 million were for a college preparation grant that was discontinued.

Object/Fund Difference Report
Maryland Higher Education Commission

Object/Fund	FY03 Actual	FY04 Working Appropriation	FY05 Allowance	FY04 - FY05 Amount Change	Percent Change
Positions					
01 Regular	80.60	74.60	74.60	0	0%
02 Contractual	6.00	3.00	2.00	-1.00	-33.3%
Total Positions	**86.60**	**77.60**	**76.60**	**-1.00**	**-1.3%**
Objects					
01 Salaries and Wages	$ 5,050,474	$ 4,680,192	$ 5,038,081	$ 357,889	7.6%
02 Technical & Spec Fees	225,432	200,015	128,470	-71,545	-35.8%
03 Communication	309,872	259,353	206,656	-52,697	-20.3%
04 Travel	33,260	44,667	32,767	-11,900	-26.6%
06 Fuel & Utilities	27,726	36,000	36,000	0	0%
07 Motor Vehicles	3,830	2,929	1,009	-1,920	-65.6%
08 Contractual Services	546,970	625,977	516,498	-109,479	-17.5%
09 Supplies & Materials	61,874	119,383	54,189	-65,194	-54.6%
10 Equip - Replacement	63,351	96,933	75,688	-21,245	-21.9%
11 Equip - Additional	63,463	10,250	9,340	-910	-8.9%
12 Grants, Subsidies, Contracts	64,898,800	51,015,734	61,917,472	10,901,738	21.4%
13 Fixed Charges	667,190	695,673	677,216	-18,457	-2.7%
Total Objects	**$ 71,952,242**	**$ 57,787,106**	**$ 68,693,386**	**$ 10,906,280**	**18.9%**
Funds					
01 General Fund	$ 60,770,075	$ 53,782,508	$ 65,316,559	$ 11,534,051	21.4%
03 Special Fund	9,359,832	671,462	347,034	-324,428	-48.3%
05 Federal Fund	1,336,679	2,836,143	2,818,484	-17,659	-0.6%
09 Reimbursable Fund	485,656	496,993	211,309	-285,684	-57.5%
Total Funds	**$ 71,952,242**	**$ 57,787,106**	**$ 68,693,386**	**$ 10,906,280**	**18.9%**

Note: The fiscal 2004 appropriations does not include deficiencies, and fiscal 2005 allowance does not reflect contingent reductions.

Fiscal Summary
Maryland Higher Education Commission

Unit/Program	FY03 Actual	FY04 Legislative Appropriation	FY04 Working Appropriation	FY03 - FY04 % Change	FY05 Allowance	FY04 - FY05 % Change
01 General Administration	$ 7,415,135	$ 7,459,313	$ 7,077,240	-4.6%	$ 7,102,708	0.4%
02 College Prep/Intervention Program	717,434	2,100,400	2,044,150	184.9%	2,100,400	2.8%
03 Joseph A. Sellinger Program for Aid to Nonpublic	42,598,822	32,749,027	31,475,395	-26.1%	43,188,448	37.2%
07 Educational Grants	21,220,851	14,092,371	14,092,371	-33.6%	15,122,014	7.3%
30 Private Donation Incentive Grants	0	3,097,950	3,097,950		1,179,816	-61.9%
Total Expenditures	**$ 71,952,242**	**$ 59,499,061**	**$ 57,787,106**	**-19.7%**	**$ 68,693,386**	**18.9%**
General Fund	$ 60,770,075	$ 55,494,462	$ 53,782,508	-11.5%	$ 65,316,559	21.4%
Special Fund	9,359,832	671,461	671,462	-92.8%	347,034	-48.3%
Federal Fund	1,336,679	2,836,142	2,836,143	112.2%	2,818,484	-0.6%
Total Appropriations	**$ 71,466,586**	**$ 59,002,068**	**$ 57,290,113**	**-19.8%**	**$ 68,482,077**	**19.5%**
Reimbursable Fund	$ 485,656	$ 496,993	$ 496,993	2.3%	$ 211,309	-57.5%
Total Funds	**$ 71,952,242**	**$ 59,499,061**	**$ 57,787,106**	**-19.7%**	**$ 68,693,386**	**18.9%**

Note: The fiscal 2004 appropriations does not include deficiencies, and fiscal 2005 allowance does not reflect contingent reductions.