
University System of Maryland Fiscal 2006 Budget Overview

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

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Analysis of the FY 2006 Maryland Executive Budget, 2005

R30B00
University System of Maryland
Fiscal 2006 Budget Overview

Operating Budget Data

(\$ in Thousands)

	FY 04	FY 05	FY 06	FY 05-06	% Change
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>	<u>Prior Year</u>
General Funds	\$746,207	\$757,698	\$798,248	\$40,550	5.4%
Other Unrestricted Funds	1,459,554	1,607,461	1,680,842	73,381	4.6%
Total Unrestricted Funds	2,205,761	2,365,159	2,479,090	113,931	4.8%
Restricted Funds	720,148	797,657	809,001	11,344	1.4%
Total Funds	\$2,925,909	\$3,162,816	\$3,288,091	\$125,275	4.0%

- General funds increase \$40.6 million, or 5.4%, in the fiscal 2006 allowance.
- Other unrestricted funds grow mostly from a tuition and fee revenue increase of \$65 million, which is 7.1% above the fiscal 2005 level.

Personnel Data

	FY 04	FY 05	FY 06	FY 05-06
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>
Regular Positions	19,087.15	19,288.15	19,416.06	127.91
Contractual FTEs	<u>4,887.93</u>	<u>5,105.57</u>	<u>5,267.78</u>	<u>162.21</u>
Total Personnel	23,975.08	24,393.72	24,683.84	290.12

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	559.18	2.88%
Positions Vacant as of 12/31/04	934.00	4.80%

- The fiscal 2006 allowance includes 128 additional regular positions and 162 additional contractual positions.
- The total University System of Maryland (USM) workforce increases 1.2% over the fiscal 2005 level.

Analysis in Brief

Major Trends

For Workforce Education, Enrollment Growth on Track, Teacher and Nurse Employment Below Objectives: The total number of enrolled students and bachelor degree recipients continues to climb. The number of students enrolled in and graduating from teaching and nursing programs has increased, but students employed in Maryland as teachers and nurses are below the 2004 objectives.

Retention Gap Has Doubled for African Americans Since 2000; Graduation Gap Remains Wide: Systemwide, institutions are on track in terms of African American enrollment. However, the gap between retention rates for African American students and all undergraduates has doubled since fiscal 2000, and the rate is below the 2004 objective. USM institutions were more successful in meeting the objectives for graduation rates in fiscal 2004, but the achievement gap remains wide.

Faculty Achievement, Other Eminence Measures Are Solid: The number of prestigious national academy memberships held by USM faculty and the number of top-ranked programs generally are on track.

Issues

Ambitious Efficiency Initiatives Unveiled: USM is pursuing more than a dozen efficiency initiatives that it expects will result in financial benefits of \$26.6 million in fiscal 2006 alone. Academic initiatives focus on faculty workload and moving undergraduates through their courses of study more quickly. Administrative initiatives focus on collaboration among institutions and technology use.

Faculty Workload Increased in Fiscal 2004: Increasing faculty workload is a key part of USM's efficiency initiatives. USM reports that faculty instructional workload increased in fiscal 2004.

Selected Executive Salaries Tend to Be above Median, Mid-level Administrative Salaries Closer to Median: Salaries for five selected executive positions at USM institutions tend to be above the national median. For three selected mid-level administrative positions, salaries are clustered more closely to the regional median. The Board of Regents has a policy that administrative salaries should be above the median. The policy assumes a comparison to peer institutions, which are public; however, USM is benchmarking against data that includes private institutions, which generally have higher salary levels.

Personnel Levels Rebound; Personnel Composition Changes: In looking at changes since fiscal 2002, the USM workforce is almost to the point it was before recent cost containment measures. Also, the composition of personnel has changed since 2002, with instructional personnel accounting for a smaller proportion of the total. Research personnel have increased their share of the total more than any other program category.

Fund Balance Figures Prominently in Response to Credit Downgrade: In May 2004, Standard & Poor's Rating Services lowered the rating on USM debt from AA+ to AA. In response to the downgrade, USM intends to improve the ratio of its fund balance to debt by spending less unrestricted funds. At the same time, facilities maintenance needs are putting significant pressure on unrestricted funds.

Facilities Maintenance Needs Put Pressure on Unrestricted Funds: USM has a \$1.7 billion backlog in facilities maintenance and renewal projects. Institutions have not been setting aside each year the amount recommended by the Board of Regents for these projects.

Recommended Actions

1. Add language limiting the University System of Maryland in-state tuition revenues to 5% over fiscal 2005.
2. Adopt narrative requesting reports on the efficiency initiative's fiscal effects and implementation.
3. Adopt narrative requesting continued reporting on faculty workload.

Updates

USM Claims that Funding Guidelines Primarily Determine Allocation of General Funds: USM reports that general funds are allocated among institutions according to funding guidelines as well as each institution's standing in funding guideline attainment, its ability to generate tuition, its mandatory cost increases, and the Office for Civil Rights agreement.

Financial Aid Task Force Recommends New Focus on Need-based Aid: In June 2004 the Chancellor appointed a task force to determine how to increase assistance for students with the greatest financial need. Recommendations include reorienting institutional financial aid to focus on need-based awards rather than merit-based awards.

Collective Bargaining Costs Remain Stable Share of Institutional Support Budget: Collective bargaining expenditures have remained stable – at a systemwide level – as a percentage of the unrestricted budget for institutional support.

Release of On-line Education Plan Imminent: Part of USM's efficiency initiative involves growing the amount of on-line education offered by USM institutions. The system anticipates revealing its on-line education plan in spring 2005. The Department of Legislative Services (DLS) will be particularly interested in how the plan addresses capacity constraints.

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List of Contracts with State Agencies Does Not Correspond to Agencies' Records: DLS is concerned that State agencies may be establishing service contracts with USM institutions to avoid State laws on position caps and procurement procedures, since higher education institutions are exempt from these laws.

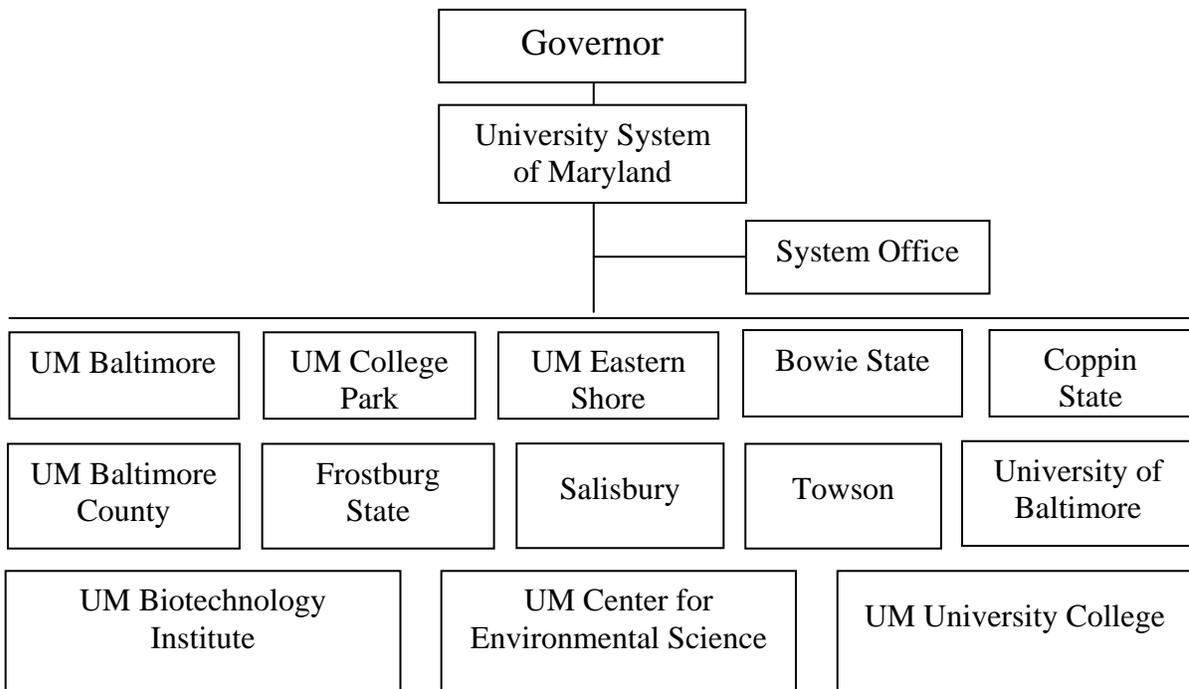
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Operating Budget Analysis

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, two research centers, and the system office. **Exhibit 1** illustrates the 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

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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. Other board activities include review and approval of new programs, review of existing programs, setting minimum admission standards, and determining 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 the 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 to:

- 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

Many USM performance objectives are on track. Economic development and national eminence measures are solid. Some workforce education measures are strong, but graduating enough teachers and nurses continues to be a concern. Retention and graduation rates for undergraduate students as a whole are in line with objectives, but the gap between retention of African American students and all students has grown, and the gap in graduation rates remains wide.

For Workforce Education, Enrollment Growth on Track

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 topped 91,000 in fiscal 2004, and USM institutions graduated more than 16,700 students with bachelor's degrees. Notably, the University of Maryland University College (UMUC) accounts for about half of USM's enrollment growth since fiscal 2000. Enrollment and related issues are further discussed in the Department of Legislative Services (DLS) Higher Education Overview analysis.

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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%.

Teacher Enrollment and Graduation Increasing but Employment in State below 2004 Objective

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. Although the nine USM institutions and other institutions that offer teaching programs have an important role in filling this need, less than half of all beginning teachers hired by Maryland public schools are prepared in the State.

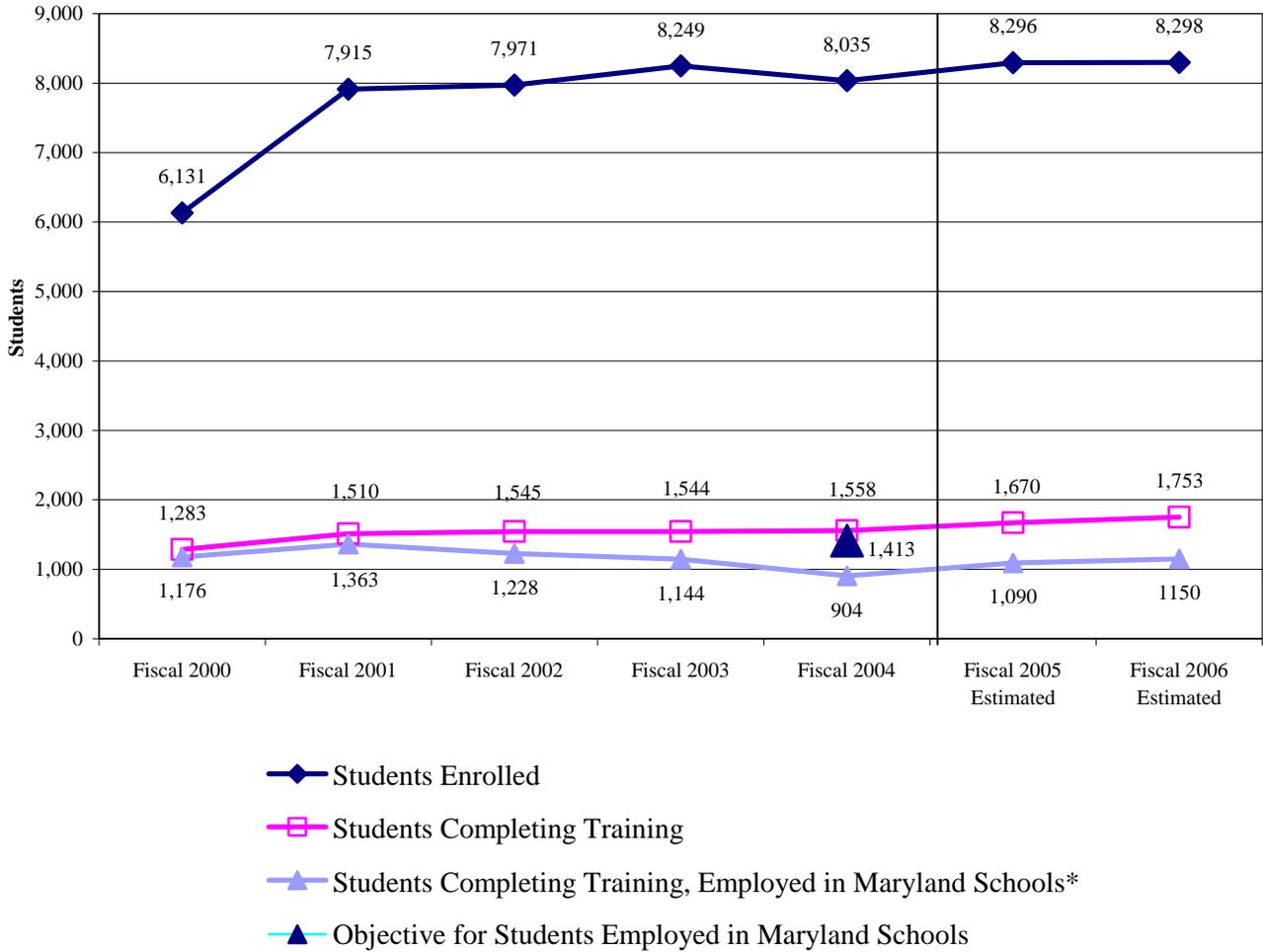
The number of students enrolled in teacher education programs has increased 31% since fiscal 2000. The number of students graduating and completing all teacher training has increased 21% during the same time, and the percent of post-bachelor's students passing the PRAXIS II teacher's certification exam reached 98% in fiscal 2004. **Exhibit 2** shows that, despite these increases, the number of students who completed teacher education requirements and are employed in Maryland public schools did not meet the 2004 objective of 1,413 students.

To help boost enrollment in teacher education programs, USM has worked with community colleges to establish five new Associate in Arts of Teaching programs in crucial areas such as math and elementary education. The system also has set up new alternative post-baccalaureate and career-changer certification programs. To help retain teachers in classrooms once they are working, some USM institutions have devised professional development programs that give teacher education students an opportunity to practice while they learn.

Enrollment and Graduation of Nurses Brisk but Employment in State below 2004 Objective

Nursing programs are offered by five USM institutions. Enrollment and graduation measures for nursing programs are strong compared to teaching programs, with baccalaureate enrollment rising 63% since fiscal 2000 and baccalaureate graduates rising 31%, as shown in **Exhibit 3**.

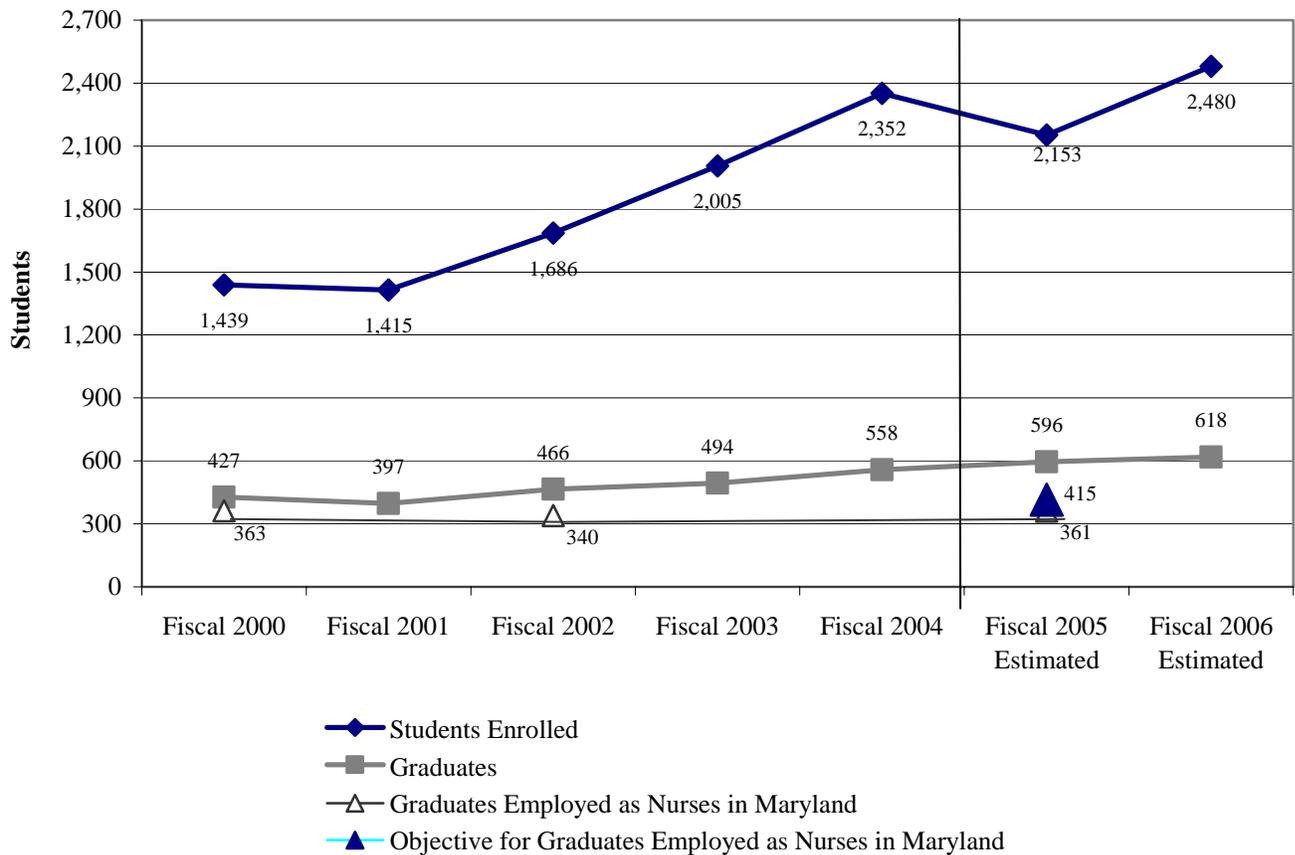
Exhibit 2
USM Students Enrolled in and Graduating from Teacher Training Programs
Employed in Maryland Public Schools
Fiscal 2000 – 2006



*These data are obtained from a survey of USM graduates one year after they complete their degree and thus do not correspond directly with the students completing teacher training requirements from the same year. Data include new hires only.

Source: University System of Maryland

Exhibit 3
USM Students Enrolled in and Graduating from Nursing Programs
Employed as Nurses in Maryland
Fiscal 2000 – 2006



Source: Maryland State Budget Books

Enrollments are expected to drop somewhat in fiscal 2005 because Towson University and the University of Maryland, Baltimore (UMB) expect their recent enrollment growth to slightly abate. Also, Bowie State University’s (BSU) nursing enrollment is variable because it tends to enroll a large cohort every other year for the two-year program so that alternate years experience a drop. Two adjustments were made to the enrollment measure this year, but USM says comparisons with data in previous years remains valid. Coppin State University no longer counts students who declare nursing as a major until they have completed several courses, and Salisbury data historically have not been included in the measure but they are now.

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Despite brisk enrollment and graduation increases, MHEC surveys indicate that the number of graduates employed as nurses in Maryland will not meet the 2005 objective of 415. 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.

USM relies on MHEC survey data for nursing education as well as other workforce education measures such as total 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, and the next survey date will be during 2005 for the fiscal 2007 budget. As a result, certain USM outcome data will be available only every three years unless the system can find alternative data sources.

Economic Development Activities Carry 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 have graduated five or six companies a year since fiscal 2002. The objective is at least five companies a year.

Other USM institutions have business development activities for their communities, although they may not be measured as part of the Managing for Results process. At UMB, construction is underway for the West Baltimore BioPark. The University of Baltimore (UB) is working with a number of foundations to help Baltimore nonprofits establish for-profit social ventures to support their operations. In another of many examples, the University of Maryland Eastern Shore (UMES) created the Hawk Corporation to work on business development projects.

Retention Gap Has Doubled for African Americans Since 2000; Graduation Gap Also Widens Since 2000

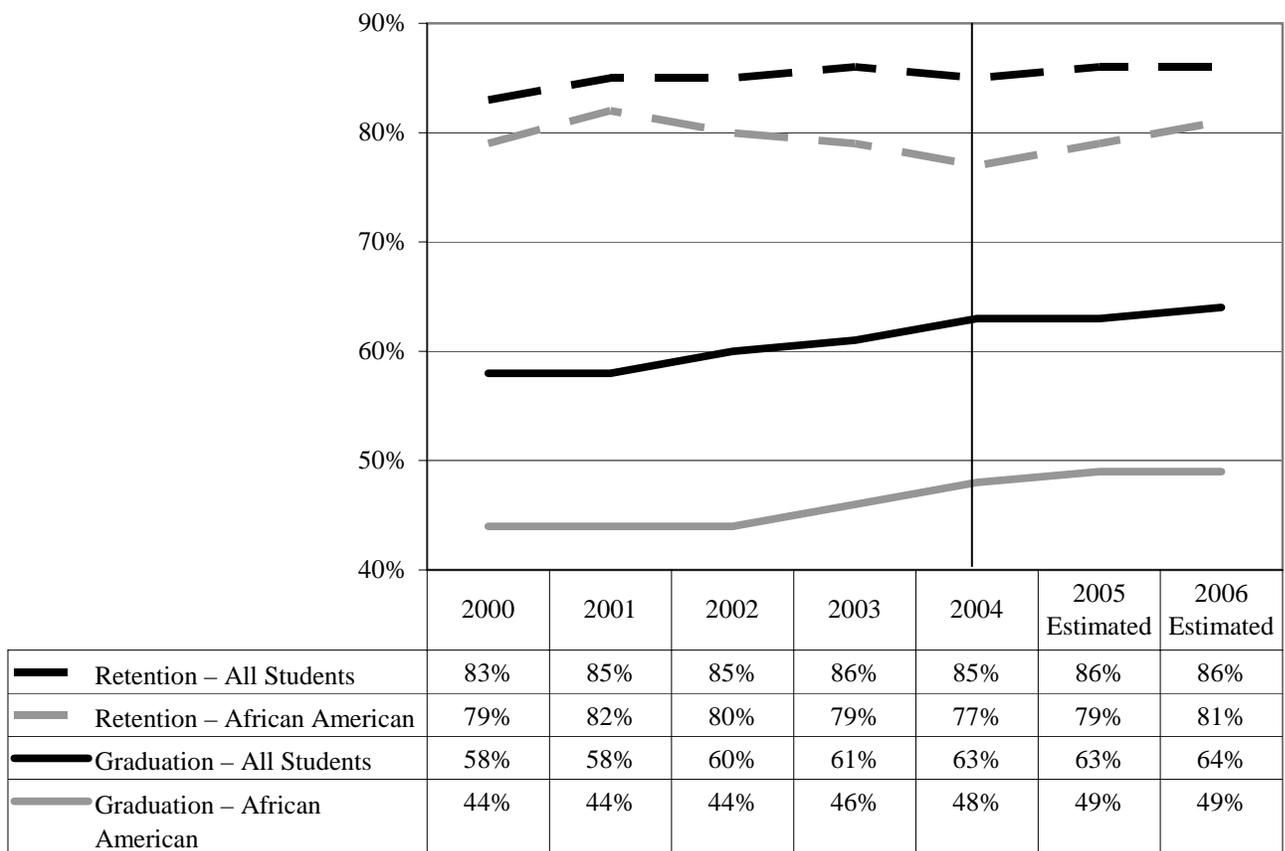
USM has a goal to increase access for minority students. Systemwide, institutions are on track in terms of minority enrollment numbers, but retention rates and graduation rates are below objectives.

Minority students' share of total enrollment is holding steady at 37 to 38%, which meets the system's objective. A look at the status of African American students is important, particularly 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, however, the gap between the second-year retention rates for African American students and all undergraduate students has doubled from 4% in fiscal 2000 to 8% in fiscal 2004. The rate for African Americans was 77% in fiscal 2004, which is below the objective of 84% for that year. By comparison, the retention rate for all USM

undergraduates was 85%. **Exhibit 4** shows the detail. USM reports that rapid tuition increases likely are causing some lower-income students – who are disproportionately African American – to stop taking courses or transfer to lower-cost institutions. Indeed, the proportion of economically disadvantaged undergraduates dropped from 42% in fiscal 2003 to 40% in 2004.

Exhibit 4
USM Graduation and Retention Rates
All Students and African American Students
Fiscal 2000 – 2006



Source: Maryland State Budget Books

USM institutions were more successful in meeting the objectives for graduation rates in fiscal 2004, but the achievement gap remains wide. The graduation rate for African Americans met the objective of 48%; by comparison, the graduation rate for all USM undergraduates was 63%.

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MHEC reviews minority achievement measures – along with other accountability measures – for all USM institutions except UMB, which has declined to include data on the advice of legal counsel. MHEC noted in its most recent report that the amount and quality of detail and analysis provided varies widely among USM institutions. **The Chancellor should comment on why accountability data supplied to MHEC is not uniform.**

MHEC requires institutions not making sufficient progress on minority achievement to submit annual 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. The system reports that it expects to see results from its minority achievement efforts by fiscal 2009.

Faculty Achievement and Other Eminence Measures Are Solid

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 objectives for undergraduates, considered as a whole, are being met. Faculty achievement also illustrates eminence. As of fiscal 2004, the number of prestigious national academy memberships held by USM faculty had grown to 50, exceeding the 2004 objective of 48.

USM also tracks rankings specifically for UMCP and UMB. In fiscal 2004 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. The institutions did not meet the objective to have 82 programs in the top 25 by 2004. National eminence measures are discussed in more detail in each institution's DLS budget analysis.

Governor's Proposed Budget

The general fund allowance for fiscal 2006 is \$40.6 million above the 2005 level, an increase of 5.4%, as shown in **Exhibit 5**. Other unrestricted funds grow mostly from a tuition and fee revenue increase of \$65 million, which is 7.1 % above the fiscal 2005 level. This amount represents the net effect of an increase of \$70.6 million in State-supported tuition revenues and a decrease of \$5.4 million in non-State supported revenues. UMUC is expecting lower revenues from its contracts to serve military personnel because of troop deployment. Other unrestricted funds also include increases in sales and services of educational and auxiliary activities. Altogether, other unrestricted funds increase \$73.4 million.

Exhibit 5
Governor’s Proposed Budget
University System of Maryland
(\$ in Thousands)

	FY 04	FY 05	FY 06	FY 05-06	% Change
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>	<u>Prior Year</u>
General Funds	\$746,207	\$757,698	\$798,248	\$40,550	5.4%
Other Unrestricted Funds	1,459,554	1,607,461	1,680,842	73,381	4.6%
Total Unrestricted Funds	2,205,761	2,365,159	2,479,090	113,931	4.8%
Restricted Funds	720,148	797,657	809,001	11,344	1.4%
Total Funds	\$2,925,909	\$3,162,816	\$3,288,091	\$125,275	4.0%

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

Restricted funds, including federal and State grants and contracts, increase 1.4% in the allowance. Some institutions conservatively predict little or no growth in restricted funds because these funds can easily be increased through budget amendment during the year. They also can be highly variable. When considering all funds, the USM budget increases 4%.

The Governor’s allowance gives USM \$43 million in new general funds, as shown in **Exhibit 6**. This amount includes \$3.8 million that will be dedicated to the Maryland Psychiatric Research Center (MPRC) associated with UMB. UMB and the Department of Health and Mental Hygiene (DHMH) jointly manage the center, and their respective responsibilities will continue but funding for the center will be transferred from DHMH to UMB in accordance with language in the fiscal 2005 budget bill. The \$43 million also includes \$2.5 million for a grant to UMBC’s Aging Studies School.

Adjusting for the MPRC transfer the increase in general fund support is 5.2%. There is, however, an additional \$18.5 million in general funds budgeted under the Department of Budget and Management for higher education’s share of a 2% cost-of-living adjustment. As Exhibit 6 shows, including this amount raises the overall general fund increase for USM to 7.6% over fiscal 2005.

The allowance provides USM \$17 million in new general fund and tuition revenues that can go toward enhancements, as shown in **Exhibit 7**. To begin with, USM’s fiscal 2006 estimated mandatory cost increases are \$103 million. This total accounts for costs saved through efficiency efforts, which are discussed in Issue 1 of this analysis, and it subtracts employee health insurance and supplemental retirement matching funds, which are not included in the allowance. The mandatory costs are related to salary increases, utility inflation, new enrollment, and additional financial aid, among others. New general fund revenues (not including MPRC or UMBC Aging Studies School) and new tuition and fee revenues total \$120 million. The difference of \$17 million is available for enhancements.

Exhibit 6
USM General Fund Increase
Fiscal 2006
(\$ in Thousands)

	<u>Amount</u>
New Unearmarked General Funds	\$36,297
Enhancement of Nursing Program at Towson University	384
Viniculture at University of Maryland, College Park Agricultural Extension Service	60
Maryland Psychiatric Research Center (Transferred from DHMH to UMB)	3,810
Subtotal USM Budget	\$40,550
Grant for UMBC Aging Studies School (through MHEC Budget)	2,500
Total New General Funds	\$43,051
% Increase over Fiscal 2005	5.7%
% Increase without MPRC	5.2%
Employee COLA Funds Received through DBM Budget	\$18,469
% Increase without MPRC, with Employee COLA	7.6%

COLA = cost-of-living adjustment

Source: Department of Budget and Management

Exhibit 7
USM Revenues Available for Program Enhancements
Fiscal 2006
(\$ in Thousands)

	<u>\$</u>	<u>%</u>	<u>What Would HB 1188 Have Provided?⁽¹⁾</u>
	<u>Amount</u>	<u>Increase</u>	
Expenditures			
USM Estimate of Mandatory Cost Increases	\$104,779		
Employee COLA	29,385		
Costs Saved through Efficiency Initiatives ⁽²⁾	-17,100		
Governor's Allowance Assumes No Increase for Employee Health Insurance	-12,000		
Governor's Allowance Assumes No State Match for Supplemental Retirement Plans	-1,908		
Revised Estimated Mandatory Costs	\$103,156		
Revenues			
New General Fund ⁽³⁾	36,741	4.8%	\$25,400
COLA Funds Received through DBM Budget	18,469		18,469
New Tuition and Fee Revenues	65,087	7.1%	62,348
New General Fund and Tuition Revenues	\$120,298		\$106,217
Funds Available for Enhancements (Revenues Less Expenditures)	\$17,142		
Additional Dedicated Funds (MPRC and UMBC Aging Studies School)	\$6,310		

⁽¹⁾ HB 1188 of 2004 would have provided \$25.4 million in general funds and would limit in-state tuition rate increases to 5%.

⁽²⁾ Cost avoidance savings of \$9.5 million are not reflected here as they were not included in the calculation of mandatory costs.

⁽³⁾ This general fund amount includes enhancements for Towson University and the University of Maryland, College Park Agricultural Extension Service as well as funding for retirement and workers' compensation.

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

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USM intends to spend revenues available for enhancements on financial aid, regional higher education centers at Hagerstown and Shady Grove, facilities operating support for the University of Maryland Biotechnology Institute and University of Maryland Center for Environmental Science, and support for the academic health center at UMB, among other programs.

Budgets for Hospitals, Financial Aid, and Physical Plant Operations Show High Increase Rates; Instruction Increase Slows

Budget changes in the allowance by program are shown in **Exhibit 8**. This exhibit considers only unrestricted funds, of which general funds and tuition and fees are the majority. Expenditures for hospitals, which are affiliated with UMB, increase at the highest rate (68%) from fiscal 2005 to 2006. USM reports that fiscal 2005 hospital expenditures are now expected to be around \$5.8 million, which would dampen the rate of increase to 6% in fiscal 2006.

Scholarship and fellowship expenditures have the next highest rate of increase, at 11.8%. (Institutional financial aid trends are discussed in the DLS Higher Education Overview analysis.) Expenditures for operations and maintenance of physical plants have the next highest rate of increase, at 9.9%, and the highest total dollar increase. Operations expenditures are expected to increase mainly from utility inflation, service contracts, facilities renewal, construction management fees, debt service, and new personnel.

Instruction programs increase by 2.3% in the allowance, which is the second lowest rate increase among programs. By comparison, instruction programs had the fifth highest rate increase from fiscal 2002 to 2005.

HB 1188 of 2004 Would Have Limited Tuition Increase

House Bill 1188, the Higher Education Affordability and Access Act of 2004, was passed by the General Assembly and vetoed by the Governor. It would have provided additional State funds to USM and Morgan State University from fiscal 2005 to 2008 and limited tuition rate increases for Maryland residents to 5% for three years. The Attorney General's Office advised that if the General Assembly had overridden the veto, the fiscal effects in fiscal 2005 would apply to fiscal 2006.

If the General Assembly had overridden the Governor's veto of HB 1188, USM would have received \$106 million in additional revenue from tuition and fees (with increases for resident undergraduates capped at 5%) and general funds for fiscal 2006. The fiscal 2006 allowance provides \$120 million of additional revenue, \$14 million more than would have been received under HB 1188.

On January 26, 2005, the Board of Regents approved undergraduate resident tuition rate increases for fiscal 2006 that average 5.8% systemwide. Considering tuition as well as mandatory fees, the increases range from 4.5% at University of Maryland Eastern Shore to 6.3% at Towson University. Tuition and fee rates are listed in the DLS Higher Education Overview analysis.

Exhibit 8
USM Budget Changes for Unrestricted Funds by Program
Fiscal 2002 – 2006
(\$ in Thousands)

	<u>Fiscal 2002</u> <u>Actual</u>	<u>Fiscal 2005</u> <u>Working</u>	<u>FY 02-05</u> <u>% Change</u>	<u>Fiscal 2006</u> <u>Allowance</u>	<u>FY 05-06</u> <u>% Change</u>
Expenditures					
Instruction	\$699,076	\$781,440	11.8%	\$799,778	2.3%
Research	139,781	153,878	10.1%	156,653	1.8%
Public Service	37,232	46,612	25.2%	49,804	6.8%
Academic Support	219,680	231,347	5.3%	247,474	7.0%
Student Services	92,547	103,988	12.4%	110,253	6.0%
Institutional Support	275,690	299,875	8.8%	314,702	4.9%
Operation and Maintenance of Plant	227,747	263,900	15.9%	289,994	9.9%
Scholarships and Fellowships	83,211	109,211	31.2%	122,081	11.8%
Hospitals (UMB)	4,485	3,666	-18.3%	6,165	68.1%
Education and General Total	\$1,779,449	\$1,993,918	12.1%	\$2,096,903	5.2%
Auxiliary Enterprises	\$338,368	\$371,241	9.7%	\$382,187	2.9%
Grand Total	\$2,117,817	\$2,365,159	11.7%	\$2,479,090	4.8%
Revenues					
Tuition and Fees	\$656,900	\$917,804	39.7%	\$982,892	7.1%
General Funds	864,765	757,698	-12.4%	798,248	5.4%
Other Unrestricted Funds	275,566	319,995	16.1%	324,374	1.4%
Subtotal	\$1,797,231	\$1,995,497	11.0%	\$2,105,514	5.5%
Auxiliary Enterprises	\$334,546	\$377,462	12.8%	\$386,779	2.5%
Transfer (to)/from Fund Balance	-13,960	-7,799	-44.1%	-13,203	69.3%
Grand Total	\$2,117,817	\$2,365,159	11.7%	\$2,479,090	4.8%

Note: Unrestricted funds only. All programs. USM institutions only.

Source: Maryland State Budget

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In keeping with the General Assembly’s desire to constrain tuition increases for Maryland residents, DLS recommends budget language that limits revenue from a tuition rate increase to 5%.

Issues

1. Ambitious Efficiency Initiatives Unveiled

Given the continuing constrained State fiscal environment, the USM Board of Regents examined how the system can improve its efficiency. After more than a year of study, USM unveiled its efficiency and effectiveness plan in October 2004. The system will pursue more than a dozen initiatives that it expects will result in financial benefits of \$26.6 million in fiscal 2006. Some of the new initiatives will continue through 2008.

As indicated in **Exhibit 9**, the \$26.6 million incorporates several types of positive financial effects, including cash savings, cost avoidance, attainment of new revenues, and reallocation of resources. At this point, USM has not determined amounts associated with each type of effect. An example of cash savings would be cutting adjunct faculty positions, while cost avoidance would be not hiring additional faculty to teach a new course. **DLS recommends that USM submit reports detailing the amounts associated with each type of fiscal effect from the efficiency efforts and how the initiatives will be implemented.**

Exhibit 9
University System of Maryland Efficiency Initiatives
(\$ in Millions)

	Estimated Fiscal 2006 Effect	Cost Savings	Cost Avoidance
Academic Initiatives			
Enrollment management to redirect new enrollments	\$5.1	X	X
Increase in faculty instructional workload, streamlining of enrollment services, other academic and student support	4.4	X	X
Academic Initiatives Subtotal	\$9.5		
Administrative Initiatives			
Centralization or integration of human resources, accounting, and other functions	\$2.1	X	X
Cooperative procurement	3.1		X
Energy management	2.2	X	
Ongoing improvements at individual institutions	9.7	X	X
Administrative Initiatives Subtotal	\$17.1		
Total Effect of Initiatives	\$26.6		

Note: Administrative initiatives will include technology commercialization and a potential structural reorganization. These financial effects are as yet undetermined.

Source: University System of Maryland

The efficiency plan is ambitious. It has implications for the way students plan their coursework and the way faculty manages their workload. It calls for centralizing administrative activities among 13 institutions with extensive control over their own budgets. In the spirit of accountability, the plan anticipates that financial gains may be measured against Managing for Results and other indicators to see the relationship between dollars saved to performance achievements.

Academic Initiatives Focus on Faculty Workload, Student Time to Degree; 2,100 Additional Students to Be Accommodated at No Cost to the State

Five of the efficiency initiatives focus on academic programs. The initiatives center on accommodating more enrollment through raising faculty workloads, expanding on-line learning, and moving undergraduate students through their courses of study more quickly. USM intends to accommodate an additional 2,100 full-time equivalent (FTE) students from fiscal 2006 to 2008 (beyond the MHEC-projected growth of about 7,600) at no cost to the State as a result of these efforts. The academic initiatives involve:

- **Faculty Course Loads:** DLS presented information during the 2004 session that indicates that USM institutions were, on average, at the low end of the Board of Regents standard for faculty instructional workload. USM intends to bring faculty workload to the mid-point of this standard, which will generally result in a 10% increase in faculty course load.
- **On-line Learning:** Systemwide committees will identify, develop, and implement on-line learning opportunities within and among institutions. Greater on-line course offerings should improve student access and facilitate timely degree completion.
- **Capacity/Time to Degree:** USM institutions will develop initiatives to accommodate expanded enrollment and promote faster degree completion. Examples include developing room utilization plans to maximize the use of facilities, limiting most degree requirements to 120 credits, and instituting a surcharge for students who take credits above the required level for their degree. Students also will be required to complete 12 course credits outside the classroom through experiences such as on-line education, study abroad, and internships.
- **Manage Enrollment:** The Board of Regents will devise an enrollment policy that uses tuition differentials to channel more undergraduates to institutions with excess capacity and to lower-cost institutions. This initiative depends heavily on student preferences and the availability of programs at targeted institutions. In fiscal 2005, 26% of all admissions applications systemwide were submitted to more than one USM institution. In other words, one-quarter of applicants identified more than one USM institution they would attend.
- **Enrollment Services:** Institutions will use best practice models to streamline enrollment services, including consolidating undergraduate and graduate admissions processes, promoting on-line admission procedures, and automating grading and billing practices.

Administrative Initiatives Focus on Collaboration, Technology Use

The administrative initiatives focus on increasing collaboration among institutions and boosting use of technology. They are expected to account for most (\$17.1 million) of the fiscal 2006 gains from the new efficiency effort, as shown in Exhibit 9. A study by the consulting firm Accenture informed development of these initiatives, along with institutions' administrative officers. Accenture generally recommended that the system centralize and integrate a number of functions to take advantage of its size. The administrative initiatives include:

- **Information Technology and Administrative Systems:** Information technology is the linchpin for consolidating other functions such as human resources and accounting.
- **Procurement:** Although USM institutions already cooperatively purchase some commodities, they will identify additional opportunities and set up formal procedures.
- **Energy Purchasing and Demand Management:** Energy, particularly natural gas, is identified as an important case where USM institutions can purchase cooperatively and reduce costs. USM institutions also will study energy use and efficiency.
- **Real Property:** Development options may be considered for up to 40 properties that do not contribute to USM institutions' master plans.
- **Administrative Economies of Scale:** USM will study whether a shared services center could decrease transaction costs related to accounts payable and travel, among others. Inhouse processing of payroll and accounts payable also will be studied.
- **Technology Commercialization:** USM intends to generate new revenues and commercial ventures with additional research funds and intellectual property.
- **Organizational Structure:** USM as a whole and four institutions will be studied to see if their performance could benefit from a new structure. The institutions are UB, the University of Maryland Biotechnology Institute (UMBI), the University of Maryland Center for Environmental Science, and UMUC.

All the new efficiency initiatives focus on systemwide functions. Additional financial benefits are expected from ongoing efficiency improvements at individual campuses, on which USM reports annually. **The Chancellor should comment on the current status of the efficiency efforts, particularly the study of organizational structure.**

Plan Silent on Some Potential Opportunities to Save

The USM efficiency plan covers a wide range of activities. However, a few others offer possible ways to save costs. To shorten the time to degree, Virginia and Iowa are among the states that enable high school students to take college courses (these efforts also can alleviate crowding at K-12 facilities). Also, increasing community college transfers can increase overall higher education capacity. Finally, it is unclear to what extent sharing of resources and facilities, such as libraries, is emphasized in the USM plan.

2. Faculty Workload Increased in Fiscal 2004

USM reports that faculty instructional workload increased in fiscal 2004. **Exhibit 10** shows the detail. Increasing faculty workload is a key part of the USM efficiency initiatives discussed above.

USM suggests that future workload calculations include full-time non-tenured and non-tenure track faculty, who account for between 9 and 12% of the faculty at the institutions (tenured and tenure-track faculty account for between 37 and 40%, and part-time and research faculty account for the rest). Inclusion of these faculty in the fiscal 2004 calculation raise workload productivity from 7.5 to 7.7 for the comprehensive institutions and from 5.1 to 5.2 for the research institutions. USM also suggests that future faculty workload reports include not only course units taught but credit hours taught and degrees granted. **DLS recommends that USM continue to provide faculty workload reports for tenured and tenure-track faculty, since they are the core faculty responsible for student learning.**

3. Selected Executive Salaries Tend to Be above Median, Mid-level Administrative Salaries Closer to Median

Salaries for five selected executive positions at USM institutions tend to be above the national median. For three selected mid-level administrative positions, salaries at USM institutions are clustered more closely to the regional median. These results are based on a salary survey for which about half the respondents are public institutions and about half are private institutions. USM uses these salary data for benchmarking, and DLS acquired the same data for an independent analysis.

USM Likely Benchmarking Against Higher Paid Group Than Its Peers

The USM Board of Regents has a policy that administrative salaries should be above the median for peer institutions. However, this policy assumes a comparison only to public institutions. The data show that, among institutions with similar sized budgets, private independent institutions have higher salaries for executive-level positions than public institutions and private religious institutions, which have similar salary levels. **Exhibit 11** illustrates this point. Of the survey respondents, 52.4% are public institutions, 25.4% are private independents, and 22.2% are private religious.

Exhibit 10
USM Course Units Taught by FTE Tenured and Tenure-track Faculty¹

	<u>1999-2000</u> <u>Courses/FTEF</u>	<u>2000-2001</u> <u>Courses/FTEF</u>	<u>2001-2002</u> <u>Courses/FTEF</u>	<u>2002-2003</u> <u>Courses/FTEF</u>	<u>2003-2004</u> <u>Courses/FTEF</u>
Comprehensive Institutions					
Bowie State Univ.	7.6	8.0	7.3	8.2	8.4
Coppin State Univ.	8.9	9.2	9.2	7.9	8.8
Frostburg State Univ.	8.0	7.5	7.3	7.4	7.9
Salisbury Univ.	6.8	7.2	7.2	7.1	7.8
Towson Univ. ²	6.9	7.0	6.6	6.5	6.9
Univ. of Baltimore ²	5.0	6.5	6.0	5.7	7.0
Univ. of MD Eastern Shore	7.4	7.4	5.7	6.1	7.8
All Comprehensive Inst.	7.1	7.4	7.0	7.0	7.5
Research Institutions					
Univ. of MD, Baltimore	n/a	n/a	n/a	n/a	n/a
Univ. of MD Baltimore County ³	5.0	5.0	5.1	5.0	5.2
Univ. of MD, College Park ³	5.1	4.9	5.0	5.0	5.1
All Research Institutions	5.0	5.0	5.0	5.0	5.1

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

² Calculations for Towson and UB omit the schools of law and business because accreditation standards call for law faculty to teach four course units and business faculty to teach 6 course units.

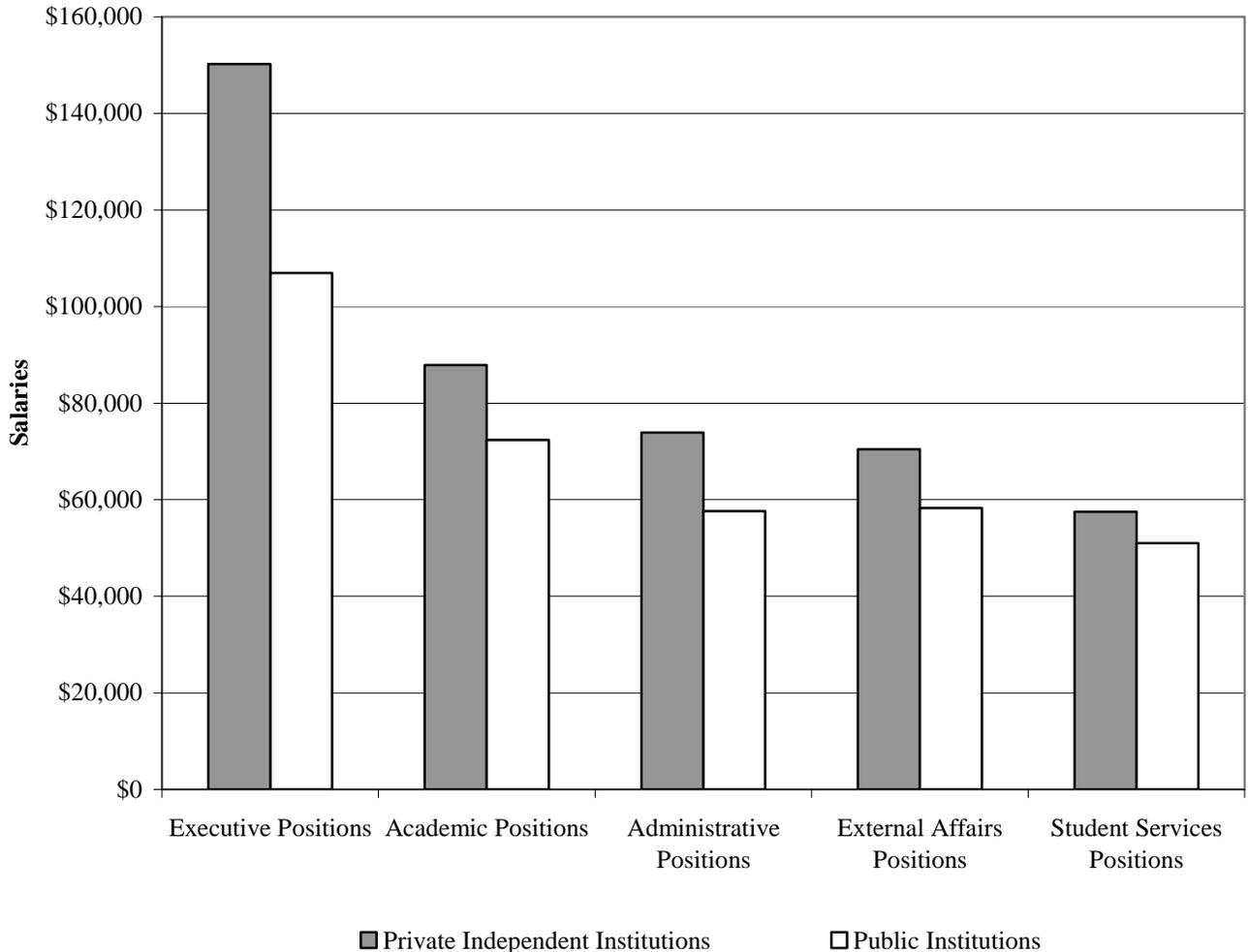
³ State-supported FTE.

FTEF – full-time equivalent faculty.

Notes: The Board of Regents standard for instructional workload at comprehensive institutions is 7 to 8 course units annually. The standard at research institutions is 5 to 6 course units annually.

Source: University System of Maryland

Exhibit 11
Average of Median Executive-level Salaries
at Public and Private Institutions



Note: Calculations for average median by type of position are based on the same 146 positions in each category of institution (some positions are unreported).

Based on data reported for public institutions with operating budgets from \$27.1 to \$65.3 million (comparable to private independent as well as private religious median budgets, which are not reflected here).

Source: College and University Professional Association for Human Resources executive-level administrative salary survey fiscal 2004

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Private independent institutions also have had the highest salary increase rates at least since fiscal 2000. Mid-level base salary data are not readily available, but for this group again the private independent institutions have had the highest rates of increases. In short, USM is comparing its salary levels to a higher paid group than its peer institutions. **The Chancellor should comment on why USM does not use only public institution data in its salary comparisons.**

This analysis of administrative salaries by DLS follows the faculty salary analysis conducted for the 2004 legislative session. That study found that average faculty salaries at Maryland's four-year public higher education institutions vary widely compared to peers in other states. Some ranked as high as 100% and others ranked as low as 40%.

The administrative salary analysis is based on fiscal 2004 data from the College and University Professional Association (CUPA) for Human Resources. Salaries for positions at or above the director level are reported with executive-level data, while positions below the director level are reported in mid-level data.

Executive-level Salaries

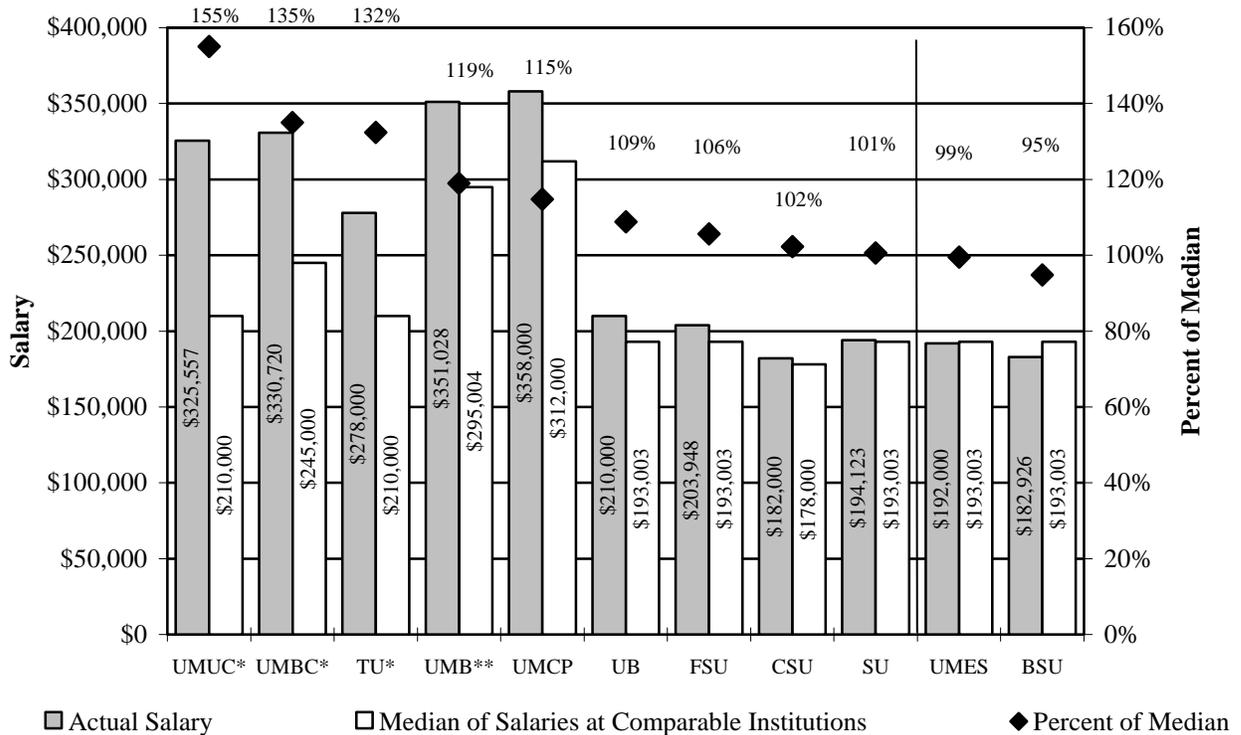
Five executive positions (president, director of library services, chief business officer, chief of personnel, and registrar) were selected for the comparison to represent several functional administrative areas. USM research institutions and Towson University (TU) tended to be the furthest above the medians in the five positions studied. The Board of Regents has a target that senior administrative salaries should fall between the fiftieth and seventy-fifth percentile rank. Institutions varied widely in whether their positions fell within this range.

For executive-level positions, CUPA categorizes institutions according to their operating budget size and compares them on a national level since institutions draw from a nationwide pool to fill top-level vacancies. The fiscal 2004 data represent 1,379 institutions, of which 52% are public and 48% are private.

A comparison of the fiscal 2004 salaries of USM presidents and median salaries of presidents at similar-size institutions is shown in **Exhibit 12**. The chart reveals a wide range of salaries for USM presidents, from \$182,000 at Coppin State University to \$358,000 at UMCP. This disparity is not unexpected given the different sizes of USM institutions; the disparity is also evident for comparable institutions where the median salaries range from \$178,000 to \$312,000.

The graph also shows the percent of the comparable median salary for each USM president's salary. Values on the left side of the vertical line indicate salaries above the national median, and values on the right of the line indicate salaries below the median. All but two USM institutions pay their presidents more than the medians. Three USM institutions – UMUC, the University of Maryland Baltimore County, and TU – pay their presidents more than 30% above the national medians. Six institutions fell within the Regents' target salary range of the fiftieth to the seventy-fifth percentile rank (three were above and two were below).

Exhibit 12
Salaries of Presidents at USM Institutions
Fiscal 2004



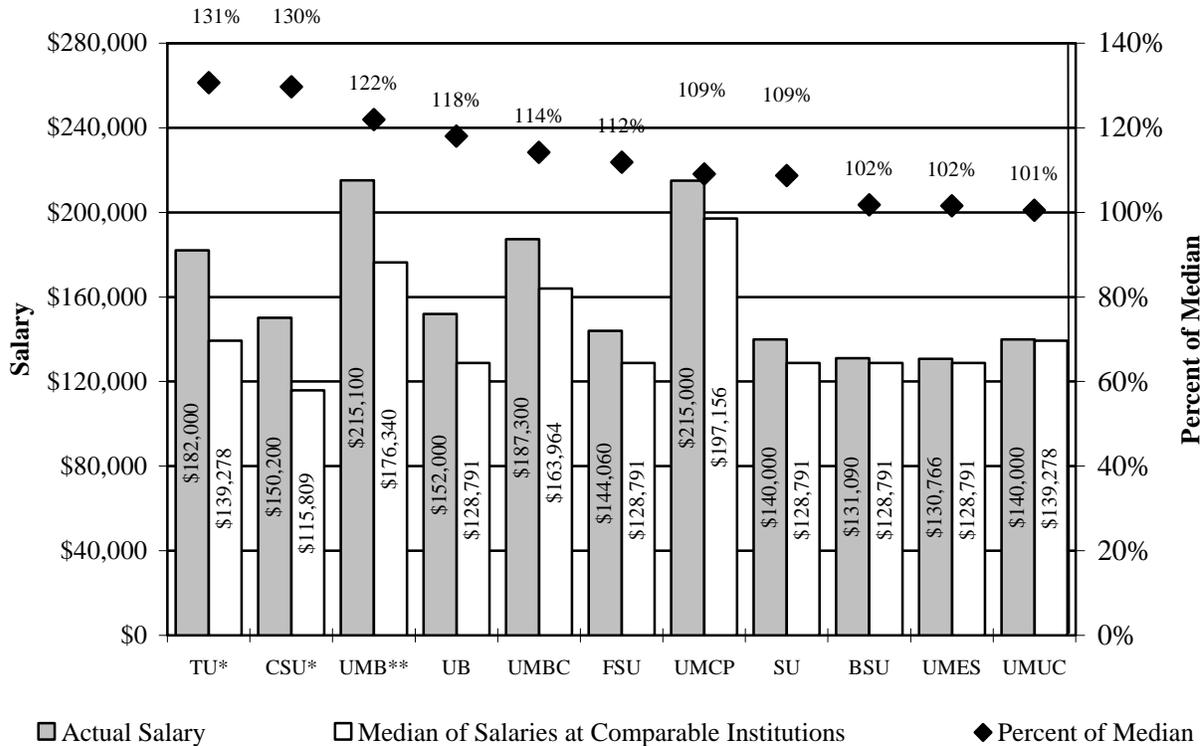
* Indicates salary that is above Regents' target range of the fiftieth to seventy-fifth percentile rank.

** UMB compares the salary of its president to the median salary for presidents at academic health centers (\$354,700), not the College and University Professional Association median.

Source: College and University Professional Association for Human Resources; Department of Legislative Services

The fiscal 2004 salaries of chief business officers at USM institutions are shown in the same format in **Exhibit 13**. The salaries do not vary as much as presidents' salaries, ranging from a low of \$130,766 at UMES to a high of \$215,100 at UMB. All the salaries, however, exceed the national medians for chief business officers of comparably sized institutions. Most (nine) institutions fell within the Regents' target salary range, and two were above the range.

Exhibit 13
Salaries of Chief Business Officers at USM Institutions
Fiscal 2004



*Indicates salary that is above Regents' target range of the fiftieth to seventy-fifth percentile rank.

**UMB compares the salary of its chief business officer to the median salary for these positions at academic health centers (\$205,000), not the College and University Professional Association median.

Source: College and University Professional Association for Human Resources; Department of Legislative Services

Although salaries of other selected executive-level positions were not above CUPA medians as consistently as presidents and chief business officers, they are competitive when compared to national peers. USM salaries for chiefs of personnel ranged from 91 to 131% of the medians, with 8 of the 11 degree-granting institutions paying above the medians. Four institutions fell within the Regents' target salary range for chiefs of personnel; four were above and three were below. Salaries for registrar ranged from 65 to 150% of the medians, with six USM institutions paying above the medians. Four institutions fell within the Regents' target salary range for registrars; five were below and two were above. Salaries for director of library services ranged from 82 to 125% of the medians,

with five institutions paying above the medians. Only one institution fell within the Regents' target salary range for director of library services; six were below and four were above.

Mid-level Salaries

Three mid-level administrative positions – financial aid counselor, accountant, and academic advisor – were selected for the comparison. Like the executive positions, they represent several functional areas. CUPA data for mid-level comparisons are condensed into regional medians since recruitment for these positions usually is regional.

USM mid-level positions are clustered more closely to the median than executive-level positions. At the same time, considering the selected mid-level positions across institutions, only six salaries fall within the Regents' target range, which is the sixtieth to seventieth percentile rank (six salaries are above the range and the remainder are below).

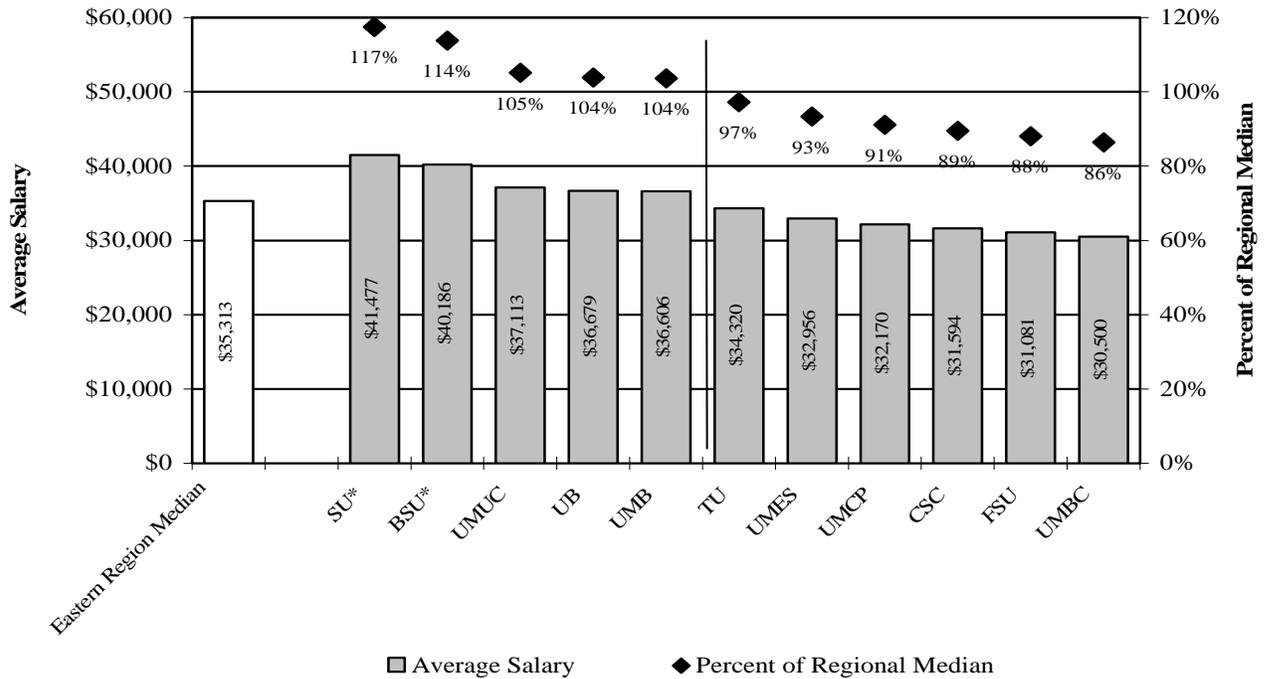
The regional medians reported by CUPA for each position apply to all institutions in the region regardless of their budget sizes. The mid-level salary survey had 1,131 institutions responding, and public and private institutions each accounted for approximately 50% of the sample. For purposes of the survey, the eastern region includes Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont.

Average salaries at USM institutions for one mid-level administrative position – financial aid counselor – are shown in **Exhibit 14**. According to CUPA, the median fiscal 2004 salary for financial aid counselors working in the Eastern region was \$35,313. The average salaries at USM ranged from \$30,500 at UMBC (86% of the regional median) to \$41,477 at the Salisbury University (SU) (117% of the regional median). Five USM institutions reported average salaries above the median, and six had average salaries below the median. Three institutions fell within the Regents' target salary range; two were above and six were below.

Salaries for accountants and academic advisors at USM institutions are fairly close to the regional median when considered as a systemwide average. As with the financial aid counselor position, however, salaries for these positions vary among the institutions.

The Chancellor should comment on whether steps will be taken to address institutions with salaries outside the Regents' target range.

Exhibit 14
Average Financial Aid Counselor Salaries at USM Institutions
Fiscal 2004



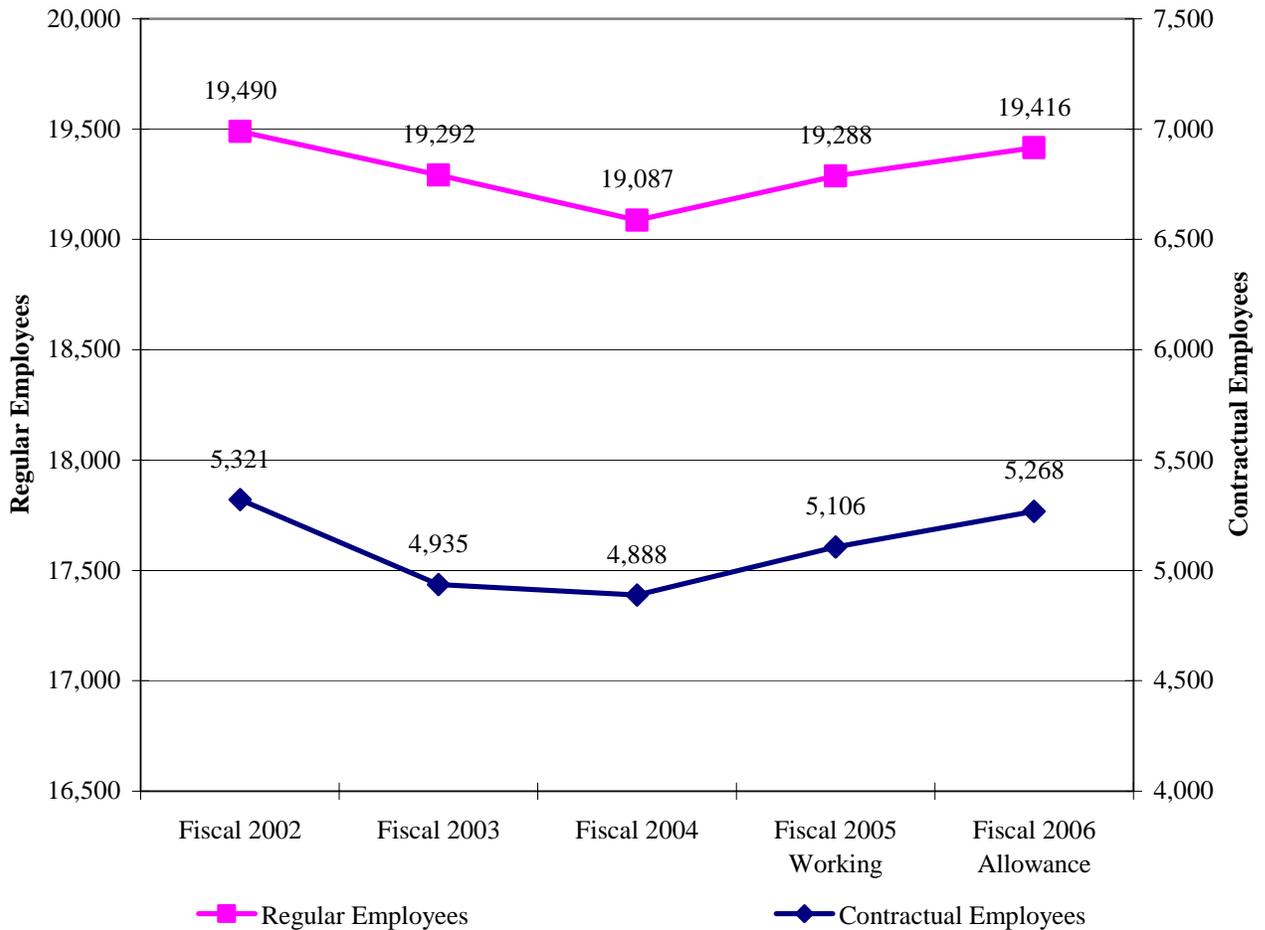
*Indicates salary that is above Regents' target range of the sixtieth to seventieth percentile rank.

Source: College and University Professional Association for Human Resources; Department of Legislative Services

4. Personnel Levels Rebound; Personnel Composition Changes

The total USM workforce, regular and contractual, is 24,684 in the fiscal 2006 allowance. This represents a 1.2% increase over fiscal 2005. In looking at the changes over five years, the workforce is almost to the point it was before recent cost containment measures. Regular positions are 0.4% lower in the allowance than they were in fiscal 2002, and contractual positions are 1% lower, as shown in **Exhibit 15**. By comparison, the total workforce of all State agencies has declined 5.9% during the same time. These numbers include filled and unfilled positions.

Exhibit 15
USM Regular and Contractual Employees
Fiscal 2002 – 2006 Allowance



	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u> <u>Working</u>	<u>FY 2006</u> <u>Allowance</u>	<u>FY 02-06 %</u> <u>Change</u>
Regular Employees	19,490	19,292	19,087	19,288	19,416	-0.4%
Change		-198	-205	201	128	
Contractual Employees	5,321	4,935	4,888	5,106	5,268	
Change		-386	-48	218	162	-1.0%

Source: Maryland State Budget

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USM is carrying more vacant positions than its fiscal 2005 budget calls for. The budget allows for a vacancy rate of 3%, or 638 positions, but USM had a vacancy rate of 4.8%, or 934 positions, as of December 2004. USM reports that some vacancies are due to the continued hiring freeze – except for crucial positions – at UMCP and difficulty in filling various new positions at Towson and Salisbury Universities.

Instructional Share of Personnel Declines Since 2002

The composition of USM personnel has changed from fiscal 2002 to 2005, as shown in **Exhibit 16** (the data in this exhibit are for filled regular positions only). Instructional personnel – who fulfill the institutions’ core mission – have declined by 23 full-time equivalent employees (FTEs). These personnel now account for a smaller proportion of total personnel (32.9%), dropping below fiscal 2002 levels. Meanwhile, the total number of FTEs increased by 247.

Exhibit 16
USM Full-time Equivalent Personnel by Budget Program
Fiscal 2002, 2004, and 2005

	<u>Fiscal 2002</u>		<u>Fiscal 2004</u>		<u>Fiscal 2005</u>		Change in Share of Total <u>02-05</u>
	<u>FTEs</u>	<u>% of Total FTEs</u>	<u>FTEs</u>	<u>% of Total FTEs</u>	<u>FTEs</u>	<u>% of Total FTEs</u>	
Instruction	5,858	33.5%	5,918	33.7%	5,835	32.9%	-0.6%
Research	2,455	14.0%	2,660	15.1%	2,926	16.5%	2.5%
Public Service	689	3.9%	653	3.7%	716	4.0%	0.1%
Academic Support	1,937	11.1%	1,892	10.8%	1,783	10.1%	-1.0%
Student Services	945	5.4%	876	5.0%	899	5.1%	-0.3%
Institutional Support	2,427	13.9%	2,436	13.9%	2,412	13.6%	-0.3%
Operations and Maintenance of Plant	1,558	8.9%	1,497	8.5%	1,452	8.2%	-0.7%
Auxiliary	1,368	7.8%	1,387	7.9%	1,431	8.1%	0.2%
Hospitals	248	1.4%	256	1.5%	281	1.6%	0.2%
Total	17,487	100.0%	17,574	100.0%	17,734	100.0%	

Notes: Data are for filled regular positions only. Does not include the USM office.
 Fiscal 2002 and 2004 data are self-reported and unaudited as of summer 2003.
 Fiscal 2005 data are self-reported and unaudited as of summer 2004.
 For UMB fiscal 2002 data, only the total FTEs are known. The percentage breakdowns from fiscal 2004 were used to estimate the FTE breakdown by budget program.

Source: University System of Maryland institutions

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Research personnel have the highest FTE increase (471) since fiscal 2002, and they increase their share of total personnel more than any other program category. The rate of change roughly corresponds to the rate that restricted revenues have increased since fiscal 2002. (Despite this increase, State-supported FTEs, or those who are not funded by restricted funds, still account for 70% of USM employees.) Like research personnel, those working in public service, hospital, and auxiliary programs increased their proportion of total personnel.

Several types of employees besides instructional had a decline in their share of total personnel. Those related to operations and maintenance of physical plants had the greatest decline in their share of the total, but academic support personnel had the largest actual drop in FTEs (154). Academic support includes libraries and academic computing support. Student services, which includes the registrar and admissions, and institutional support, which includes executive management and general administration, also decreased as a share of the total. Note that several institutions report these data from a payroll file at one point in time. For this reason, an analysis of FTE by budget program may not be representative of employment in any particular budget program for the entire year. **The Chancellor should comment on the reasons for the decrease in personnel most closely related to student learning, namely instruction and academic support personnel.**

Faculty Account for Largest Share of Personnel

DLS also reviewed personnel by faculty, exempt, and non-exempt categories. In fiscal 2005 the faculty personnel make up the largest group, at 38.4% of the total. Exempt personnel, who generally are higher-paid administrators and managers and are exempt from overtime pay, account for 31.6%, and non-exempt personnel account for 30%. In the case of auxiliary programs, faculty would not be expected to be a part of personnel.

5. Fund Balance Figures Prominently in Response to Credit Downgrade

USM's fund balance is an important part of the assets against which its debt is issued. In May 2004, Standard & Poor's Rating Services, one of three credit rating agencies that rates USM, lowered the rating on USM debt from AA+ to AA. Fitch and Moody's rate USM as AA (their highest levels are AAA).

The Standard & Poor's analysis said that the downgrade resulted from growth in USM's debt, particularly since 2000, and its projected debt needs to accommodate enrollment through at least 2008. Furthermore, USM's liquidity levels are somewhat modest to be included in the AA+ rating category (only five institutions in the U.S. are in this category).

In response to the rating downgrade, USM intends to improve the ratio of its fund balance to debt. As shown in **Exhibit 17**, the ratio of fund balance and other unrestricted net assets to debt declined significantly from fiscal 2001 to 2003. However, USM did not fall below the industry standard ratio of total available funds to debt, which is 50%. The fund balance level rebounded to \$372 million in fiscal 2004.

Exhibit 17
USM Unrestricted Assets and Total Available Funds as
Related to Debt Outstanding
Fiscal 2000 – 2010
(\$ in Thousands)

Fiscal Year	Debt Outstanding (Academic and Auxiliary)	Unrestricted Net Assets	Ratio of Unrestricted Net Assets to Debt Outstanding	Total Available Funds	Ratio of Total Available Funds to Debt Outstanding
2000	\$656,132	\$293,205	44.7%	\$501,538	76.4%
2001	757,457	322,447	42.6%	523,590	69.1%
2002	796,665	302,659	38.0%	504,470	63.3%
2003	855,142	317,089	37.1%	519,089	60.7%
2004	998,073	436,977	43.8%	646,927	64.8%
2005 Estimated	956,228	410,000	42.9%	612,000	64.0%
2006 Estimated	978,950	430,000	43.9%	632,000	64.6%
2007 Estimated	992,525	450,000	45.3%	652,000	65.7%
2008 Estimated	999,260	470,000	47.0%	672,000	67.2%
2009 Estimated	999,905	470,000	47.0%	672,000	67.2%
2010 Estimated	994,420	470,000	47.3%	672,000	67.6%

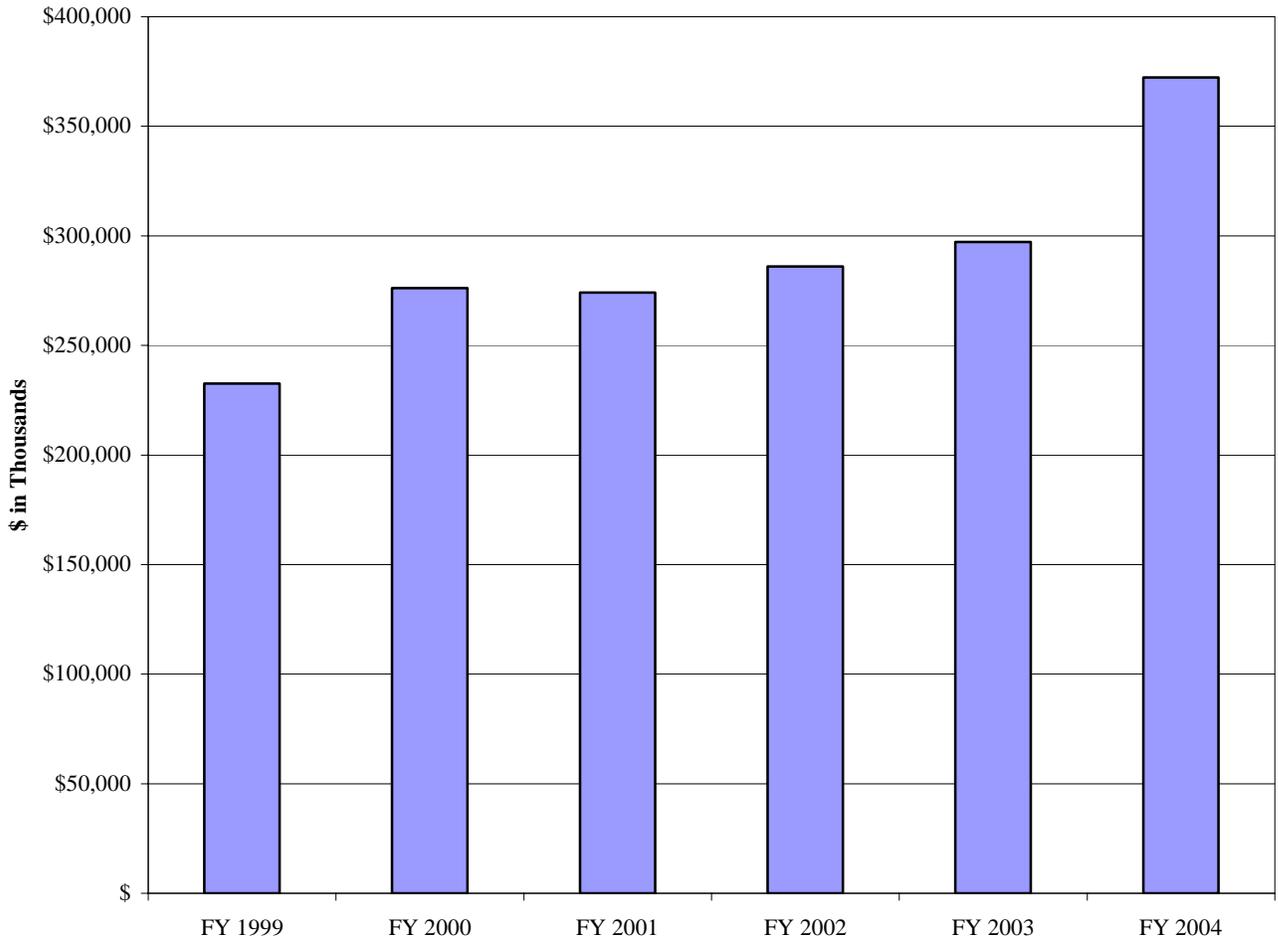
Note: Total available funds include unrestricted net assets plus accrued leave funds and foundation fund balances.

Source: University System of Maryland

Building Up Fund Balance Means Spending Less Unrestricted Funds

Institutions can build up fund balance by not spending all of their unrestricted funds. This, however, is a difficult choice for institutions because it means a lost opportunity to spend funds on programs. The USM office plans for institutions to use 1% of their unrestricted funds to increase fund balance each year through fiscal 2008. This objective was exceeded in fiscal 2004, as shown in **Exhibit 18**. Fund balance changes in fiscal 2001 through 2003 were far below this level.

Exhibit 18
USM Unrestricted Fund Balance
Fiscal 1999 – 2004



	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>
Fund Balance	\$232,546,578	\$276,187,716	\$274,173,701	\$286,063,380	\$297,273,789	\$372,302,483
Change		43,641,138	-2,014,015	11,889,679	11,210,409	75,028,694
1% of Unrestricted Funds	16,300,973	17,632,824	19,479,104	21,178,169	21,541,410	23,995,790

Note: Amounts reflect ending fund balances.

Source: Maryland State Budget Books

So far in fiscal 2005, several institutions have transferred money from their fund balance into unrestricted funds. Institutions that transfer from fund balance during the year will need to transfer additional amounts into fund balance at the end of the year to compensate and to meet the system's savings target. UMB has transferred \$1.5 million from fund balance, which actually represents cancellation of a planned transfer to fund balance. Towson has transferred \$2.5 million from fund balance for auxiliary facility projects and program enhancements. UMBI has transferred \$2.5 million for CARB II construction management fees and other expenses.

To further improve its ratio of fund balance to debt, USM plans to reduce the amount of new debt issued per year from \$90 million to between \$60 and \$65 million. This total includes academic and auxiliary debt. **The Chancellor should comment on the outlook for building up fund balance.**

6. Facilities Maintenance Needs Put Pressure on Unrestricted Funds

USM has a \$1.7 billion backlog in facilities maintenance and renewal projects. Of this amount, USM institutions indicate that \$1 billion needs attention within five years, and about two-thirds of these needs are related to the quality of the space, with the remainder related to structural repairs and life safety issues.

A 1992 Regents' policy states that each year, system institutions are supposed to set aside funds for maintenance in their operating budgets equal to 2% of the current replacement value of all capital assets. USM currently spends about 0.63% of the replacement value, or \$30 million, each year. This includes operating funds as well as the capital funds channeled through the system office that are dedicated to renovation, which are budgeted at \$11.9 million in fiscal 2006.

The system is considering ways to address the backlog. At the August 2004 Board of Regents meeting, a fee of \$100 per student per year was proposed to fund \$10 million in facilities maintenance each year. The board did not approve the fee, primarily because it represents a direct burden on students and yet generates only a fraction of the maintenance revenues needed. The board instructed the University System of Maryland Office (USMO) staff to present alternative ideas for addressing the backlog.

Alternative ideas being considered include:

- increasing private funds raised for capital projects;
- dedicating a greater portion of indirect cost recovery from research funds to capital;
- pursuing more public/private partnerships for new construction to free up capital funds for renovation; and
- allowing USM to keep funds saved through construction efficiencies to use for renewal.

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USM also reports that some states require a certain percentage of replacement asset value to be funded before other capital projects are funded. **The Chancellor should comment on the outlook for institutions' willingness to contribute unrestricted funds to facilities maintenance.**

Recommended Actions

1. Add the following language:

The appropriation herein for University System of Maryland (USM) institutions shall be reduced by \$2,739,855 in unrestricted funds attributable to tuition revenues for resident undergraduate students. The allocation of the reduction shall be determined by the University System Board of Regents and adopted in a public meeting. The Board of Regents shall report to the budget committees by July 1, 2005, specifying and explaining the allocation of the reduction.

USM shall not increase the current unrestricted fund appropriation of any institution through budget amendment due to tuition and fee revenue. Any tuition and fee revenue realized in fiscal 2006 in excess of \$980,151,833 shall be transferred to the fund balance of the collecting institution and not expended. Notwithstanding the above, any institution that experiences full-time equivalent student enrollment growth of at least 5% greater than anticipated in the Fiscal 2006 Governor's budget proposal may increase through budget amendment its unrestricted fund appropriation for increased tuition and fee revenue.

The Board of Regents shall report to the budget committees on any institution that experiences full-time equivalent student enrollment growth of at least 5% greater than anticipated in the Fiscal 2006 Governor's budget proposal. The board shall report the amount by which the institution will increase its unrestricted fund appropriation through budget amendment due to increased tuition and fee revenue.

Explanation: The fiscal 2006 allowance assumes University System of Maryland (USM) tuition and fee revenues that are 7.1% above the fiscal 2005 level. This language would limit tuition revenue growth attributable to resident undergraduate students to 5% above fiscal 2005 to offset general fund increases in the allowance. USM receives a 5.7% increase in general funds in the allowance, or 7.6% if employee cost-of-living adjustments are included (which USM will receive through the Department of Budget and Management) and Maryland Psychiatric Research Center funds are excluded.

The language prohibits USM from increasing unrestricted fund appropriations due to increased tuition and fee revenue, except in cases where an institution experiences full-time equivalent enrollment growth of at least 5% greater than anticipated.

The reduction still leaves USM with \$14.4 million for enhancements in fiscal 2006. The cap on tuition revenue creates an incentive for schools to minimize student costs.

Information Request	Author	Due Date
Report on allocation of reduction in unrestricted fund	USM	July 1, 2005

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appropriation related to
tuition and fee revenues

2. Adopt the following narrative:

Efficiency Reports: The University System of Maryland (USM) Board of Regents has approved an effectiveness and efficiency plan for the system involving more than a dozen academic and administrative initiatives. The plan covers fiscal 2006 to 2008. The committees request that the board submit a report detailing the amount and type of fiscal effect associated with each initiative. The report also should indicate how initiatives, particularly the on-line education initiative and the requirement that students complete 12 credits outside the classroom, shall be implemented. This report shall be provided for each year of the plan, and the committees shall be provided with additional written information if the plan is changed significantly.

Information Request	Author	Due Date
Reports on fiscal effects and implementation strategies for efficiency initiatives	USM	September 1, 2005; September 1, 2006; and September 1, 2007
Reports on significant changes in the efficiency plan	USM	As applicable

3. Adopt the following narrative:

Faculty Workload Reports: The committees request that the University System of Maryland (USM) continue to provide annual instructional workload reports for tenured and tenure-track faculty. By focusing on these faculty, the committees gain a sense of the teaching activities for the regular, core faculty at the institutions. Additional information can be included in the report at USM's discretion.

Information Request	Author	Due Date
Annual report on instructional workload for tenured and tenure-track faculty	USM	December 2005

Updates

1. USM Claims that Funding Guidelines Primarily Determine Allocation of General Funds

The April 2004 *Joint Chairmen's Report* expressed concern that general fund allocations for several USM institutions have fallen below \$5,000 per full-time equivalent student (FTES). USM was required to report on why certain institutions receive less than \$5,000 per FTES, how funding guidelines have influenced the allocation of general funds, and how USM determines the appropriate balance between general funds and tuition and fees for each institution.

USM maintains that it was the intent of SB 682 of 1999 that the \$5,000 per FTES standard would not be required after the Maryland Higher Education Commission developed funding guidelines. In fiscal 2005, two institutions – TU and SU – fell below the \$5,000 per FTES level (UMUC is not included due to its unique revenue model). To reach this level, TU and SU funding guideline attainment would have to increase by 10 to 15 percentage points, which would require reallocation of revenues that would adversely affect other institutions.

Instead, USM claims that general funds are allocated according to the funding guidelines. Funding guideline attainment is discussed in the USM Office analysis. Other factors affecting allocations include each institution's standing in funding guideline attainment, its ability to generate tuition, its mandatory cost increases, and the Office for Civil Rights agreement. The funding mix between general funds and tuition and fees depends on the historic tuition base, mix of resident and non-resident students, market (tuition levels of peer institutions), and level of State funding.

Concerning future budgets, funding for research institutions and regional centers is a top priority for the Board of Regents in fiscal 2006. Also, as part of the broad efficiency initiatives discussed above, enrollment policy will focus on growth at "lower cost" institutions rather than institutions requiring a greater investment of State resources per student.

2. Financial Aid Task Force Recommends New Focus on Need-based Aid

In June 2004 the Chancellor appointed a task force to determine how to increase assistance for students with the greatest financial need. Recommendations included:

- reducing the average debt burden by increasing institutional financial aid awards;
- reorienting institutional financial aid to focus on need-based awards rather than merit-based awards;
- reaching the seventy-fifth percentile among peer institutions in the average percent of need met;

- establishing aid programs for students transferring from community colleges and graduate students in workforce shortage areas such as nursing;
- improving outreach to students about financial aid information; and
- considering alternative tuition models that may generate additional financial aid funds.

The findings of the task force are further discussed in the DLS Higher Education Overview analysis.

3. Collective Bargaining Costs Remain Stable Share of Institutional Support

USM responded to a 2004 *Joint Chairmen's Report* information request concerning the cost of resources used in support of collective bargaining. **Exhibit 19** shows that expenditures have increased from \$2.8 million in fiscal 2002 to an estimated \$3.7 million in 2004. These expenditures have remained stable – at a systemwide level – as a percentage of the unrestricted budget for institutional support.

External collective bargaining costs include labor relations attorneys and consultants as well as the USM share of the State Higher Education Labor Relations Board cost. Internal costs include salaries and benefits for employees, such as those in human resources, who devote time to bargaining.

4. Release of On-line Education Plan Imminent

Part of USM's efficiency initiative involves growing the amount of on-line education offered by USM institutions. The system anticipates revealing its on-line education plan in spring 2005. DLS will be particularly interested in how on-line education is expected to address capacity constraints. Specifically:

- How will on-line education affect physical space needs? It may relieve classroom space needs, but how will it affect needs for labs, library stacks, and offices? How will it affect non-academic space needs?
- USM reports that its primary constraint to growth in traditional course enrollment is faculty availability. With on-line enrollment, USM says that institutions may concentrate course offerings in summers and mini-mesters in January to be taught with existing faculty who are interested in working overload time or with adjunct faculty, whose salaries are less than regular faculty. In this way, the faculty availability constraint could be addressed. The primary constraint for on-line enrollment, USM says, will be student support services, which the plan would need to address.

Exhibit 19
University System of Maryland
Resources Used in Support of Collective Bargaining

<u>Institution</u>	<u>Fiscal 2002</u>				<u>Fiscal 2003</u>				<u>Estimated Fiscal 2004</u>			
	<u>External Costs</u>	<u>Internal Costs</u>		<u>Total Costs</u>	<u>External Costs</u>	<u>Internal Costs</u>		<u>Total Costs</u>	<u>External Costs</u>	<u>Internal Costs</u>		<u>Total Costs</u>
		<u>FTE</u>	<u>Amount</u>			<u>FTE</u>	<u>Amount</u>			<u>FTE</u>	<u>Amount</u>	
Baltimore	\$76,250	2.15	\$259,300	\$335,550	\$126,423	3.37	\$350,120	\$476,543	\$72,030	4.14	\$559,150	\$631,180
College Park	214,615	3.96	372,100	586,715	391,008	6.73	520,273	911,281	503,138	5.35	444,628	947,766
Bowie State	10,253	1.35	40,594	50,847	10,253	2.50	102,643	112,896	15,574	2.30	84,178	99,752
Towson	70,380	1.40	91,315	161,695	33,770		0	33,770	29,223			29,223
Eastern Shore	13,569	1.20	50,694	64,263	20,974	1.45	87,755	108,729	45,458	0.39	40,769	86,227
Frostburg State	22,362	2.90	247,785	270,147	65,768	3.50	303,763	369,531	56,086	2.93	227,145	283,231
Coppin	10,071	0.63	96,103	106,174	27,677	2.02	177,019	204,696	32,000	2.82	209,075	241,075
Univ. of Baltimore	15,974	1.28	93,573	109,547	76,613	1.58	155,579	232,192	90,002	1.63	178,796	268,798
Salisbury	55,384	0.60	60,076	115,460	73,781	0.60	71,457	145,238	79,805	0.78	90,484	170,289
University College	90,823	2.03	288,361	379,184	44,875	2.28	282,451	327,326	75,520	2.58	345,291	420,811
Baltimore County	44,231	2.56	351,728	395,959	61,160	2.25	330,485	391,645	80,345	1.33	166,911	247,256
UMCES	5,873	0.80	75,123	80,996	14,393	1.35	123,051	137,444	9,180	1.25	111,332	120,512
UMBI	6,271			6,271	6,611			6,611	5,530			5,530
System Office	51,730	0.70	102,324	154,054	46,859	0.70	102,324	149,183	2,680	0.80	115,579	118,259
Total	\$687,786	21.56	\$2,129,076	\$2,816,862	\$1,000,165	28.33	\$2,606,920	\$3,607,085	\$1,096,571	26.30	\$2,573,338	\$3,669,909

Note: External costs include State Higher Education Labor Relations Board expenses of \$409,714 in fiscal 2002; \$392,031 in fiscal 2003; and \$350,000 in fiscal 2004.

Source: University System of Maryland

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The choices the system and institutions make on how to conduct on-line education will determine costs. Important considerations include:

- What is the potential student base? On-line education often is more expensive than traditional education unless it reaches a large student base.
- Will courses be targeted to non-traditional higher education students, as UMUC has done, or will it supplement course offerings for traditional students?
- A primary benefit of on-line courses is allowing students to work on a flexible schedule. Will course support services be offered around the clock?
- How will courses be developed? If existing faculty will be used, faculty training in how to develop and conduct courses could be a significant expense.
- What will be the technological platform? Purchasing a ready-made commercial application can be easier than developing one from scratch, but then institutions are reliant on support from a vendor and are subject to potentially high licensing fee increases.

5. List of Contracts with State Agencies Does Not Correspond to Agencies' Records

Many State agencies have contracts and grants with USM institutions for certain services. DLS is concerned that agencies may be establishing the contracts to avoid State laws on position caps and procurement procedures since higher education institutions are exempt from these laws.

DLS requested data from USM for examination of this issue. The lists of contracts provided by USM institutions did not match what many agencies indicate are their contracts with the schools. To ensure DLS has a reconciled list of contracts between USM and State agencies, DLS is recommending – in the Department of Budget and Management (DBM) budget analysis – that DBM coordinate an annual list and submit it to DLS.