

R30B30
University of Maryland University College
University System of Maryland

Operating Budget Data

(\$ in Thousands)

	<u>FY 14</u> <u>Actual</u>	<u>FY 15</u> <u>Working</u>	<u>FY 16</u> <u>Allowance</u>	<u>FY 15-16</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Funds	\$33,698	\$38,259	\$39,710	\$1,452	3.8%
Deficiencies and Reductions	0	-1,297	-2,154	-857	
Adjusted General Fund	\$33,698	\$36,962	\$37,556	\$595	1.6%
Special Funds	2,006	1,732	1,799	67	3.9%
Adjusted Special Fund	\$2,006	\$1,732	\$1,799	\$67	3.9%
Other Unrestricted Funds	302,157	311,746	317,355	5,610	1.8%
Adjusted Other Unrestricted Fund	\$302,157	\$311,746	\$317,355	\$5,610	1.8%
Total Unrestricted Funds	337,861	351,736	358,865	7,129	2.0%
Deficiencies and Reductions	0	-1,297	-2,154	-857	
Adjusted Total Unrestricted Funds	\$337,861	\$350,439	\$356,711	\$6,271	1.8%
Restricted Funds	34,247	35,275	35,275	0	
Adjusted Restricted Fund	\$34,247	\$35,275	\$35,275	\$0	0.0%
Adjusted Grand Total	\$372,108	\$385,714	\$391,985	\$6,271	1.6%

Note: The fiscal 2015 working appropriation reflects the Board of Public Works reductions. The fiscal 2016 allowance reflects back of the bill reductions to the University System of Maryland, which were allocated to institutions based on the Department of Legislative Services estimates.

- The general fund increases \$0.6 million, or 1.6%, in fiscal 2016 after adjusting for a fiscal 2015 Board of Public Works reduction and \$2.2 million back of the bill reductions in fiscal 2016.
- The Higher Education Investment Fund increases \$0.1 million, or 3.9%, in fiscal 2016.
- The overall budget increases \$6.3 million, or 1.6%.

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

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Personnel Data

	<u>FY 14 Actual</u>	<u>FY 15 Working</u>	<u>FY 16 Allowance</u>	<u>FY 15-16 Change</u>
Regular Positions	1,041.71	1,037.71	1,037.71	0.00
Contractual FTEs	<u>1,418.65</u>	<u>1,323.60</u>	<u>1,364.63</u>	<u>41.03</u>
Total Personnel	2,460.36	2,361.31	2,402.34	41.03

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	18.99	1.83%
Positions and Percentage Vacant as of 1/1/15	40.75	3.9%

- As of January 1, 2015, the University of Maryland University College (UMUC) had 40.75 vacant positions, all of which are State-supported.
- The allowance does not provide for any new regular positions but does provide for 41.03 new contractual positions.

Analysis in Brief

Major Trends

Fall Enrollment: UMUC's fall 2014 headcount enrollment grew nearly 20%, but this was due to a change in how such enrollment is counted. Overall, UMUC has seen a decline in graduate enrollment but an increase in returning students.

Retention and Graduation Rates Improve: UMUC's retention rates for transfer students with at least 61 credits rose 1.5 percentage points, and the three-year graduation rate has grown 9.0 percentage points over the last five cohorts.

Degree Production and Cost Per Degree: By one measure, UMUC's degree production has declined in recent years but remains above the rate of the State and its peers. UMUC's degrees are nearly 25% less expensive to produce than those of its peers, representing a strong relative cost effectiveness for the State. However, most UMUC peers are not distance education institutions.

Issues

Meeting College Expenses: About 30% of UMUC students receive Pell grants. Although aid to the neediest students appears to be increasing, there was a large reduction in aid to Pell-eligible students in fiscal 2009. Overall, many students still rely on loans to pay for a UMUC education.

UMUC in the Online Marketplace: UMUC operates in the online higher education marketplace, which is very competitive. Increasingly, large national for-profit institutions have been enrolling Marylanders. UMUC may have an opportunity to position itself as the preeminent public online institution based on its success in getting Marylanders enrolled in distance education.

UMUC Pursues the Bubble Model: Following enrollment declines and tough competition from the private sector, UMUC convened a workgroup to suggest new business models. Ultimately, the group favors giving UMUC greater procurement autonomy to enable the institution to make rapid decisions.

Recommended Actions

1. See the University System of Maryland Overview for systemwide recommendations.

R30B30 – USM – University of Maryland University College

R30B30
University of Maryland University College
University System of Maryland

Operating Budget Analysis

Program Description

The University of Maryland University College (UMUC) specializes in providing access to higher education for Maryland’s adult learners. Most UMUC students have career or family commitments that lead them to study part time. UMUC services its students through traditional and innovative delivery of undergraduate and graduate degree programs, noncredit professional development programs, and conference services.

UMUC provides courses at 21 locations throughout the State and the Washington metropolitan area and has offered online education programs since 1994. The institution also offers special programs in other states and programs overseas for U.S. service members and their families, U.S. citizens, and international students. UMUC’s vision is to be the global university of Maryland.

Academic programs offered by UMUC include Bachelor of Arts and Bachelor of Science degrees with 33 majors and 38 minors. The most extensive offerings are in business and management and computer studies. Master’s degrees are offered in management and technology areas that, like bachelor’s degree concentrations, represent fields with significant current or anticipated workforce needs. UMUC also offers a Doctor of Management and a noncredit professional program emphasizing management and executive development. The university has a role in renewing and upgrading the skills of an experienced workforce.

Carnegie Classification: Master’s L: Master’s Colleges and Universities (larger programs)

Fall 2014 Undergraduate Enrollment Headcount

Male	18,784
Female	16,370
Total	35,154

Fall 2014 Graduate Enrollment Headcount

Male	5,884
Female	6,868
Total	12,752

Fall 2014 New Students Headcount

First-time	1,236
Transfers/Others	6,920
Graduate	2,547
Total	10,073

Campus (Main Campus)

Acres	13
Buildings	3
Average Age	28
Oldest	1963

Programs

Bachelor’s	32
Master’s	17
Doctoral	2

Degrees Awarded (2013-2014)

Bachelor’s	4,188
Master’s	3,649
Doctoral	49
Total Degrees	7,886

Proposed Fiscal 2016 In-state Tuition and Fees*

Undergraduate Tuition	\$280/credit
Mandatory Fees	\$15/credit

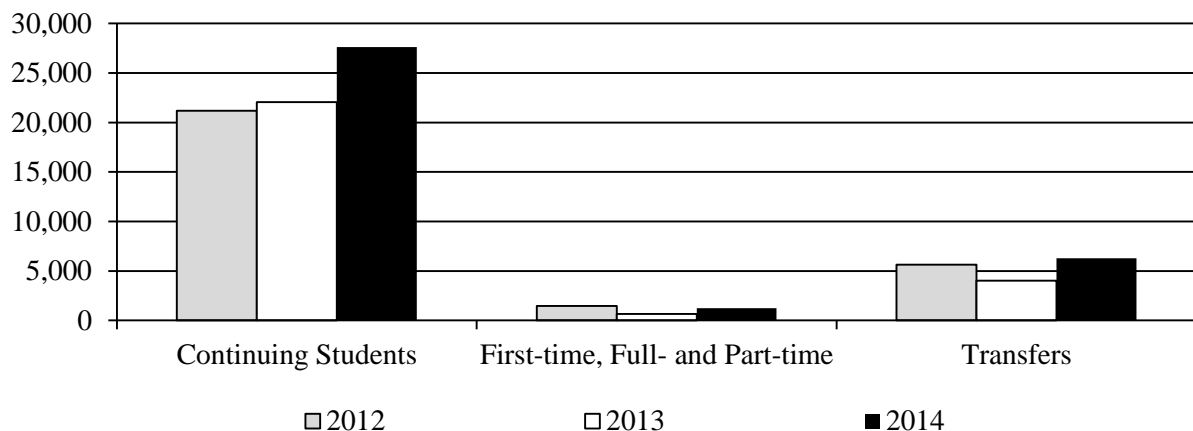
*Contingent on Board of Regents approval.

Performance Analysis: Managing for Results

1. Fall Enrollment

Undergraduate enrollment grew over 20%, or 8,000 students, in fall 2014. While continuing students grew 25%, first-time and transfer students grew nearly 90% and 60%, respectively, as shown in **Exhibit 1**. As a primarily online institution, UMUC sees more volatility in its enrollments than other Maryland institution, but these enormous gains in fall 2014 are due to the way UMUC reports its enrollments. Under the new method, total enrollment has grown 13.3% since fall 2012, but the number of graduate students fell 8.9% and first-time, full- and part-time students by 14.9%. Returning students grew just over 30% in this time, suggesting students are growing more persistent in their studies, an important metric for institutions to monitor. UMUC reports that 79% of all credit hours at the institution are taken through online classes.

Exhibit 1
Headcount Enrollment
Fall 2012-2014



Source: University of Maryland University College

The academic year enrollment number for UMUC including graduate students is 48,183, an increase of over 8,600 students, or 21.8%, from the prior year due to UMUC closing down its distance education administrative operations in its Europe and Asia divisions. Now all online enrollments are managed stateside from its Adelphi, Maryland headquarters. According to federal regulations, stateside students are counted in the stateside total, which includes those students taking online courses administered by the Adelphi office. The stateside number did not previously include those enrolled overseas or those students taking online courses administered by the European or Asian offices. In the future, the official UMUC enrollment number will include all overseas students, not just those in

distance education. This enrollment counting change occurs at the same time that UMUC has struggled to retain enrollment numbers in the face of the competition, discussed in Issue 1. This change in enrollment is enough to change the State's fall 2014 enrollment to an increase from a decrease, which alters the way in which the Maryland Higher Education Commission (MHEC) and the University System of Maryland (USM) will have to forecast meeting State goals, such as 55% degree attainment. This is an issue because MHEC is reporting fiscal 2015 numbers as a 48,183 headcount, while the Department of Budget and Management (DBM) is budgeting the fiscal 2015 working enrollment as only a 36,986 headcount. DBM also budgets fiscal 2016 using only a 36,431 headcount.

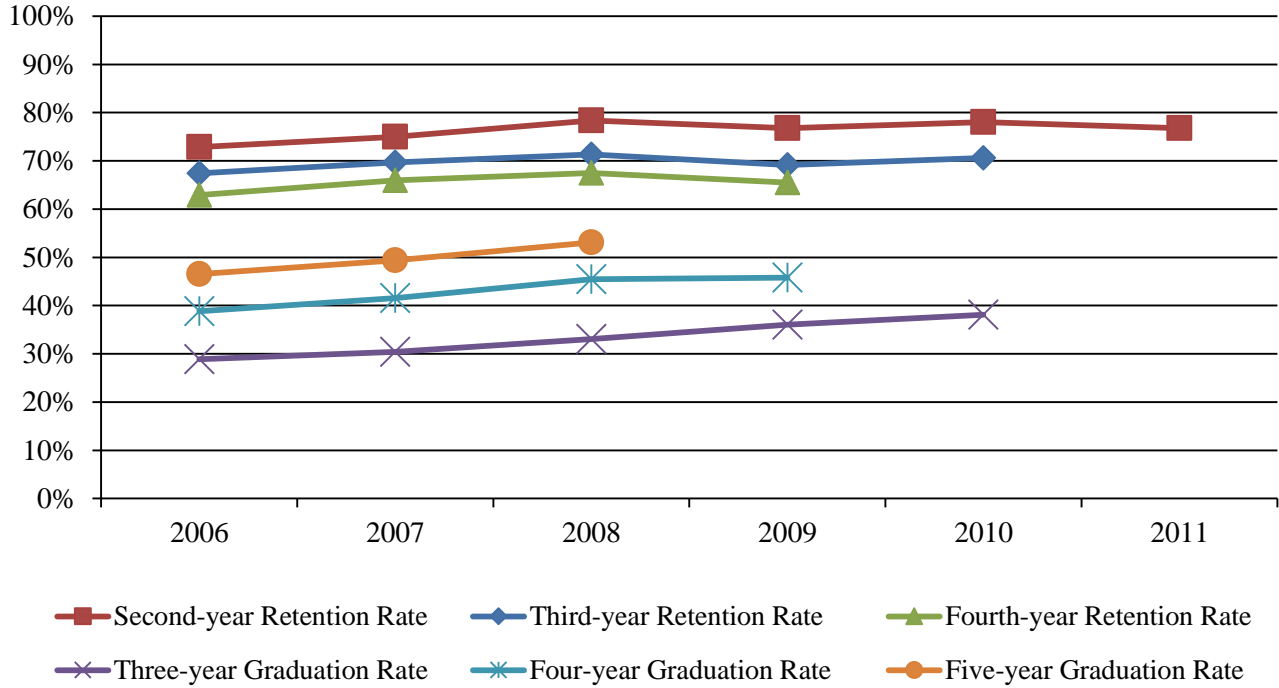
The President should comment on what stateside numbers DBM is using for budgeting purposes versus what enrollment numbers MHEC is reporting and which set of numbers the university would prefer to use. The President should also comment on how many of these students are known to be Maryland residents.

2. Retention and Graduation Rates Improve

Maintaining and strengthening academic excellence and effectiveness to meet the educational needs of the State is a key strategic goal of USM and UMUC. **Exhibit 2** shows the most recent data for retention rates and graduation rates for part- or full-time students transferring to UMUC with 61 or more credits by cohort year. MHEC does not report UMUC's retention rates in its regular annual reporting due to UMUC's mission to serve the adult, part-time population. Because many distance education students take longer to complete degrees and take time off before graduation, traditional metrics are not always reflective of UMUC's success with its target student demographic, namely individuals 25 to 45 years old.

Given UMUC's nontraditional student body, which consists mainly of adult students learning part time, UMUC prefers to use individualized metrics that more accurately account for how the institution best serves students. Since the 2006 cohort, UMUC's second-year retention rate has grown from 73% to 77%, and the third-year retention rate grew 4 percentage points from 67% to 71%. Over this time period, UMUC's three-year graduation rates have risen 9 percentage points from the 2006 cohort to the 2011 cohort, a large gain considering the second-year retention rate increased only 4 percentage points. While a student with at least 60 credits would be expected to complete an undergraduate degree of 120 credits in an additional two years of full-time study, many UMUC students are part-time, or alternate between full- and part-time. UMUC attributes rising retention and graduation rates in this exhibit to an increased focus on student services and academic support.

**Exhibit 2
Retention and Graduation Rates of Transfer Students
2006-2011 Cohorts**



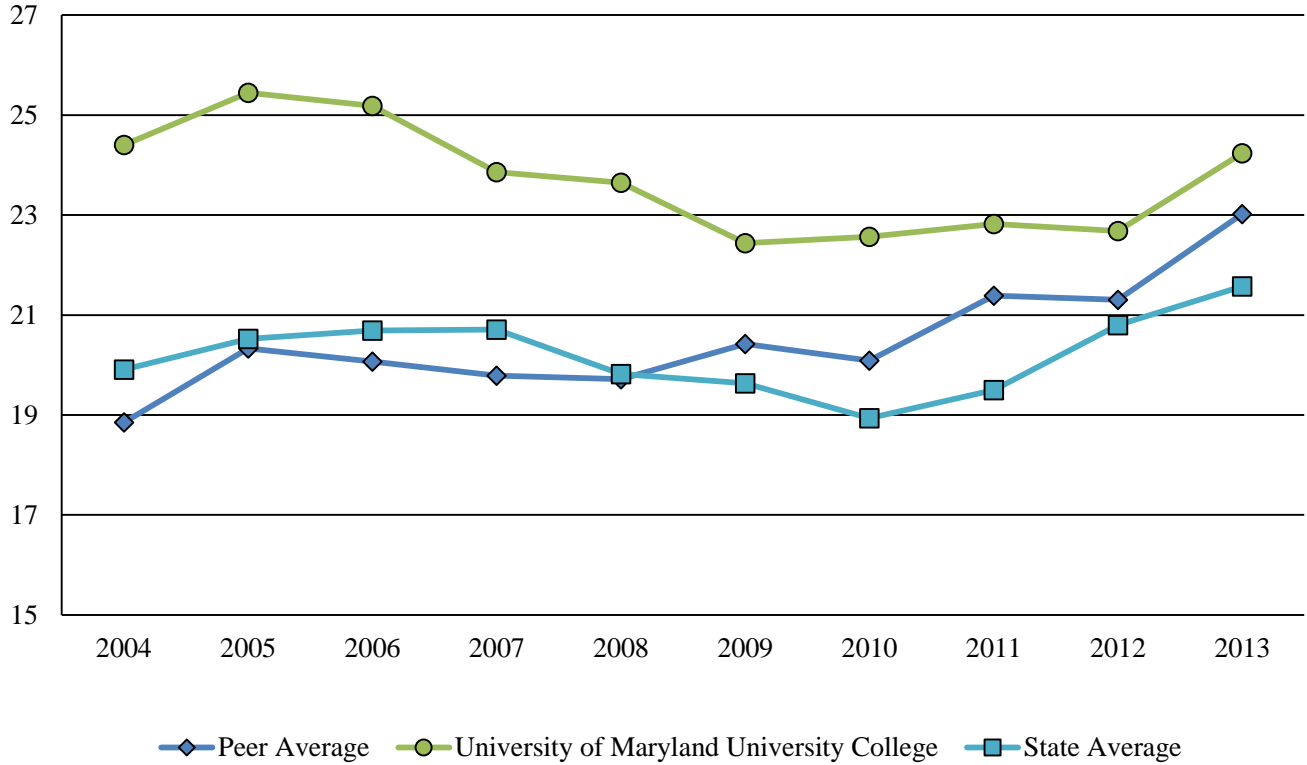
Source: Maryland Higher Education Commission

3. Degree Production and Cost Per Degree

Ultimately, how well an institution meets its mission is measured by the number of undergraduate degrees awarded. Trends in the number of undergraduate degrees awarded per 100 undergraduate full-time equivalent students (FTES) show if an institution is being more or less productive in graduating students. A rate of 25 degrees per 100 FTES would be considered a benchmark level at a four-year institution. **Exhibit 3** shows degrees per 100 FTES at UMUC, its peers, and the State average. In 2004, UMUC was 4.5 degrees above the State average, but this fell to 1.9 degrees in 2012, before growing slightly to 2.7 degrees in 2013. UMUC’s peers are now closer than the State average, as UMUC is now only 1.2 degrees above its competitor peers.

This reflects the very high number of nontraditional students who are moving through UMUC. UMUC grew in fiscal 2009 through 2012, so the increase in fiscal 2013 may be from declining enrollment.

Exhibit 3
Undergraduate Degrees Per 100 Full-time Equivalent Students
Fiscal 2004-2013

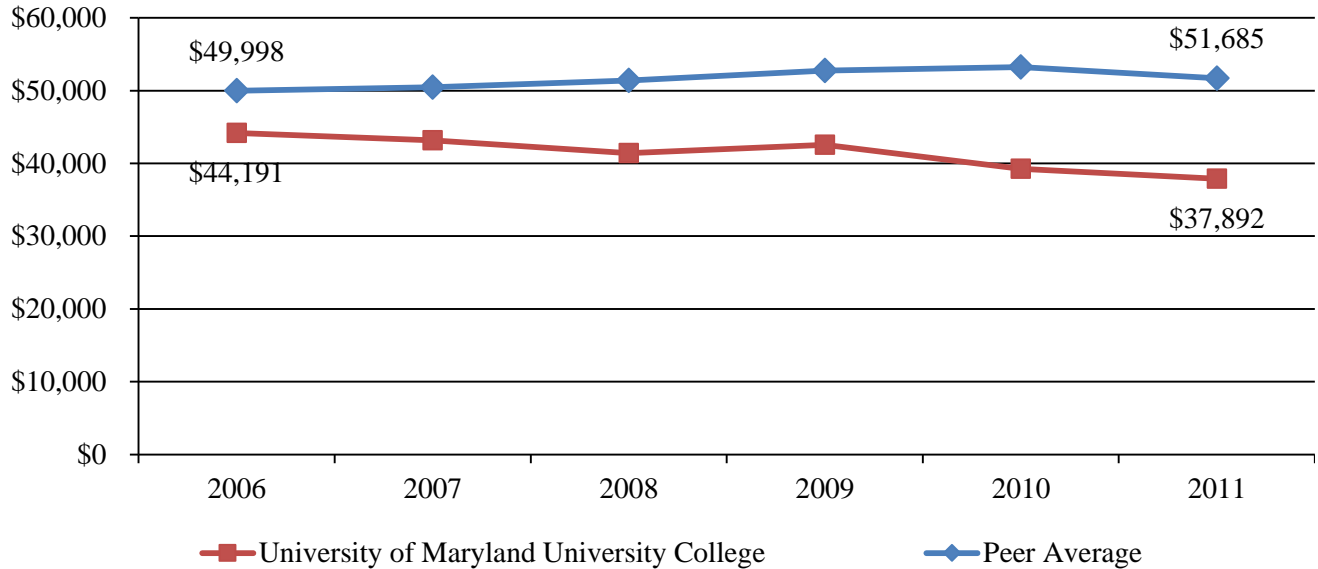


Note: Peers are institutions with characteristics similar to the University of Maryland University College.

Source: Integrated Postsecondary Education Data System; Department of Legislative Services

Another measure of how effectively institutions translate resources into degrees is the ratio of education and related (E&R) expenditures per degree (undergraduate and graduate). E&R expenditures include total spending on direct educational costs, such as instruction and student services, and the educational share of spending on administrative overhead, such as academic support, institutional support, and operations and maintenance. **Exhibit 4** shows UMUC’s E&R expenditures per degree compared to the mean of its performance peers from fiscal 2006 to 2011, the most recent year for which data is available.

**Exhibit 4
Educational and Related Expenditures Per Degree
Fiscal 2006-2011**



Note: Education and related expenditures include direct spending on instruction and student services, the education share of spending on academic and institutional support, and operations and maintenance. All dollar amounts are reported in Higher Education Price Index-adjusted 2011 dollars.

Source: *Delta Project, Trends in College Spending Online*; Department of Legislative Services

In fiscal 2006, UMUC’s E&R expenditures per degree were nearly \$6,000 below those of its peers, who averaged \$49,998. By fiscal 2011, however, spending per degree at UMUC had decreased 14.3% to \$37,892, while spending at UMUC’s peer institutions increased 3.3% to \$51,685. By fiscal 2009, UMUC’s degrees were \$13,800, or 25%, less expensive than its peers. UMUC’s falling spending per degree is likely due to flat State support for the operating budget, as well as a rapid increase in enrollment during these years. Stateside FTES enrollment at UMUC hit a then-record high in fiscal 2011 of 21,441, having grown 45% from fiscal 2006 to 2011.

Fiscal 2015 Actions

Cost Containment

The Board of Public Works (BPW) has approved two rounds of cost containment measures in fiscal 2015 resulting in total reductions of \$1.5 million to UMUC’s State appropriation. In July 2014, BPW reduced UMUC’s State appropriation by \$0.2 million, which was absorbed through fund balance

transfers. In January 2015, BPW approved a \$1.3 million reduction of UMUC’s State appropriation. UMUC plans to also meet this reduction with a fund balance transfer, assuming that this is only a one-time reduction.

Proposed Budget

As shown in **Exhibit 5**, UMUC’s total State allowance for fiscal 2016, including general funds and the Higher Education Investment Fund (HEIF), is \$39.4 million, a 1.7%, increase over fiscal 2015. Other unrestricted funds increase about \$5.6 million, or 1.8%, primarily due to increases in enrollment and tuition. Restricted funds do not change in the allowance.

Exhibit 5
Proposed Budget
University of Maryland University College
(\$ in Thousands)

	<u>FY 14</u>	<u>FY 15</u>	<u>FY 16</u>	<u>FY 15-16</u>	<u>%</u>
	<u>Actual</u>	<u>Adjusted</u>	<u>Adjusted</u>	<u>Change</u>	<u>Change</u>
					<u>Prior</u>
					<u>Year</u>
General Funds	\$33,698	\$38,461	\$39,710		
July 2014 Board of Public Works (BPW)		-203			
January 2015 BPW		-1,297			
Across the Board			-2,154		
Total General Funds	\$33,698	\$36,962	\$37,556	\$595	1.6%
Higher Education Investment Fund	\$2,006	\$1,732	\$1,799	\$67	3.9%
Total State Funds	\$35,704	\$38,694	\$39,355	\$662	1.7%
Other Unrestricted Funds	\$302,157	\$311,746	\$317,355	\$5,610	1.8%
Total Unrestricted Funds	\$337,861	\$350,439	\$356,711	\$6,271	1.8%
Restricted Funds	\$34,247	\$35,275	\$35,275	\$0	0.0%
Total Funds	\$372,108	\$385,714	\$391,985	\$6,271	1.6%

Note: Fiscal 2016 general funds are adjusted to reflect across-the-board reductions: \$0.8 million related to a 2% reduction; \$0.6 million related to the fiscal 2015 cost-of-living adjustment; and \$0.8 million for increments.

Source: Governor’s Budget Books, Fiscal 2016; Department of Legislative Services

Unrestricted budget changes in the allowance by program are shown in **Exhibit 6**. This exhibit considers only unrestricted funds, which are comprised mostly of State funds and tuition and fee revenues.

Exhibit 6
UMUC Budget Changes for Unrestricted Funds by Program
Fiscal 2014-2016
(\$ in Thousands)

	<u>Actual</u> <u>2014</u>	<u>Adjusted</u> <u>Working</u> <u>2015</u>	<u>%</u> <u>Change</u> <u>2014-15</u>	<u>Adjusted</u> <u>2016</u>	<u>Change</u> <u>2015-16</u>	<u>%</u> <u>Change</u> <u>2015-16</u>
Expenditures						
Instruction	\$98,941	\$97,360	-1.6%	\$100,842	\$3,483	3.6%
Research	363	385	6.3%	387	2	0.5%
Public Service	15,221	12,773	-16.1%	12,776	3	0.0%
Academic Support	66,875	75,931	13.5%	76,704	773	1.0%
Student Services	83,856	78,741	-6.1%	79,589	848	1.1%
Institutional Support	44,779	47,012	5.0%	49,071	2,059	4.4%
Operation and Maintenance of Plant	13,596	25,815	89.9%	25,453	-361	-1.4%
Scholarships and Fellowships	9,195	9,184	-0.1%	9,504	320	3.5%
Education and General Total	\$332,827	\$347,200	4.3%	\$354,328	\$7,127	2.1%
Auxiliary Enterprises	\$5,034	\$4,536	-9.9%	\$4,537	\$1	0.0%
Cost Containment/ Across-the-board Reductions		-1,297		-2,154		
Grand Total	\$337,861	\$350,439	3.7%	\$356,711	\$6,474	1.8%
Revenues						
Tuition and Fees	\$295,555	\$293,418	-0.7%	\$296,888	\$3,470	1.2%
General Funds	33,698	36,759	9.1%	37,556	797	2.2%
Higher Education Investment Fund	2,006	1,732	-13.7%	1,799	67	3.9%
Other Unrestricted Funds	9,675	12,106	25.1%	16,946	4,840	40.0%
Subtotal	\$340,933	\$344,016	0.9%	\$353,190	\$9,174	2.7%
Auxiliary Enterprises	\$4,672	\$6,221	33.2%	\$6,221	\$0	0.0%
Transfer (to)/from Fund Balance	-7,744			-2,700		
Grand Total	\$337,861	\$350,439	3.7%	\$356,711	\$6,474	1.8%

UMUC: University of Maryland University College

Source: Governor's Budget Books, Fiscal 2016

In fiscal 2016, public service and research are effectively unchanged, operation and maintenance of plant decline, and all other categories increase by 1% or more. Instruction, the largest budget category, increases nearly \$3.5 million, or 3.6%, due to personnel costs. Academic support and student services grow 1.0% and 1.1%, respectively, to continue academic transformation initiatives such as course redesign and development of new online teaching methods. Tuition rates are budgeted to increase 5.0%, similar to other USM institutions, although revenue grows only 1.2% due to a more cautious enrollment projection given more general volatility in enrollment across the entire online education sector. Overall, UMUC non-auxiliary revenues fully meet all unrestricted expenditure needs in fiscal 2014 but are not projected to do so in fiscal 2015 or 2016. Other unrestricted funds within revenues grows \$4.8 million, or 40%, in fiscal 2016 due to projected increased business at UMUC's recently remodeled Marriott hotel and conference center in Adelphi, Maryland, adjacent to the University of Maryland, College Park (UMCP).

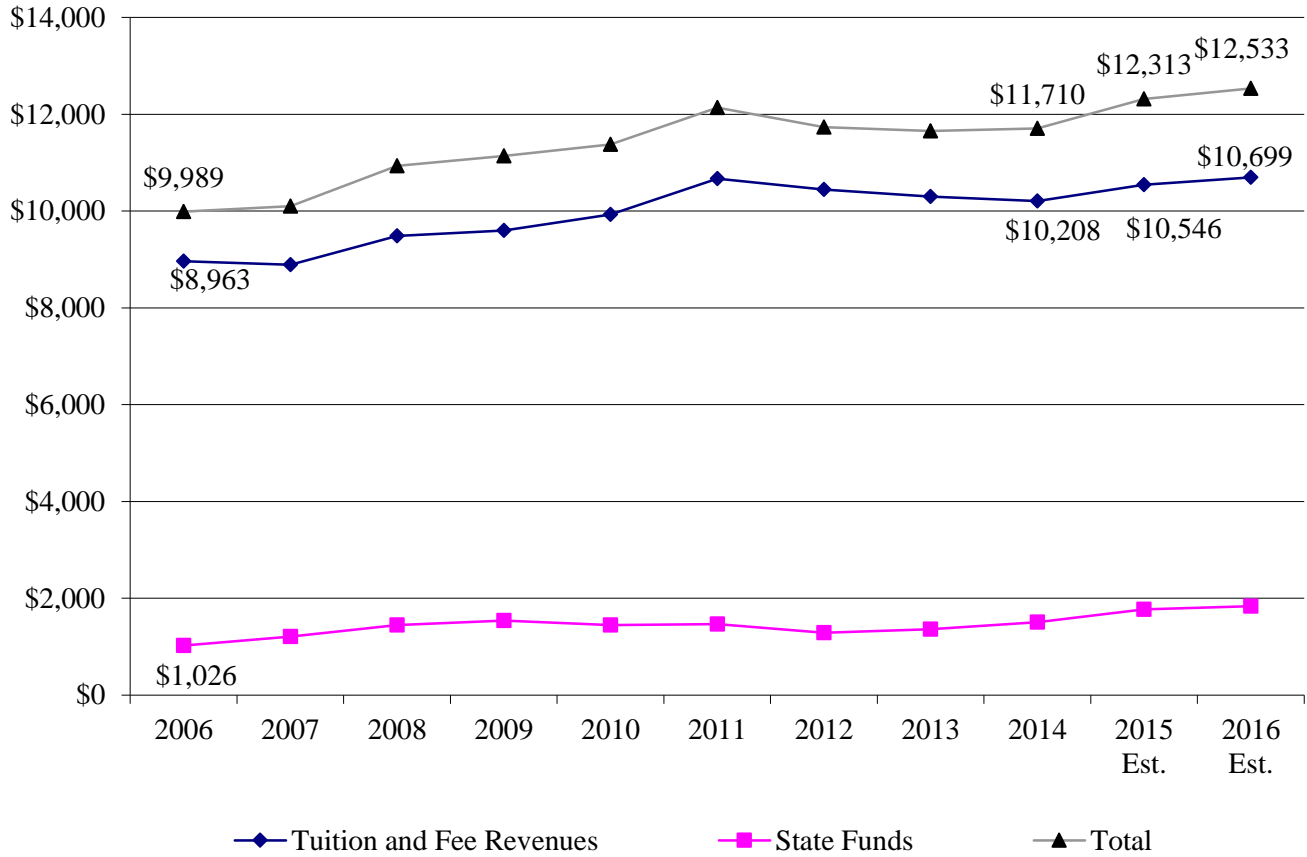
Total expenditures grow 1.8%, or \$6.5 million, in fiscal 2016 after adjusting for across-the-board reductions of \$2.2 million. However, at this time, it has not yet been confirmed that UMUC address its cost containment through a fund balance transfer; therefore, it is difficult to compare differences in expenditures between fiscal 2015 and 2016. **The President should comment on the institutions' priorities when determining how reductions will be allocated over the program areas, in particular, minimizing the impact on financial aid and whether UMUC will be able to simply expend more fund balance to cover cost containment.**

Funding Increases Per FTES

Stateside FTES enrollment at UMUC reached a new high of 25,390 in fiscal 2012, having grown over 100% since fiscal 2002. However, enrollment is expected to fall 10.9%, or 2,800, from fiscal 2012 to the fiscal 2016 budgeted enrollment. **Exhibit 7** shows tuition and fees revenue and State funding per FTES between fiscal 2006 and 2016. Tuition and fees revenue increased moderately from fiscal 2007 to 2011 due to rapid enrollment increases, while State funds remained relatively low but very stable across this entire time period. This relatively low State support makes UMUC very dependent on tuition revenue and, consequently, on meeting enrollment projections. Currently, enrollment is expected to remain level in fiscal 2016, although online enrollments are notoriously volatile, given the easy entry and exit of students from online degree programs.

The President should comment on why tuition revenue is only growing by 1.2% in fiscal 2016 if credit hour tuition is growing by 5.0% and the budgeted enrollment is flat.

Exhibit 7
UMUC Tuition and Fees and State Revenues
Per Full-time Equivalent Student
Fiscal 2006-2016 Est.



UMUC: University of Maryland University College

Source: Governor’s Budget Books

Issues

1. Meeting College Expenses

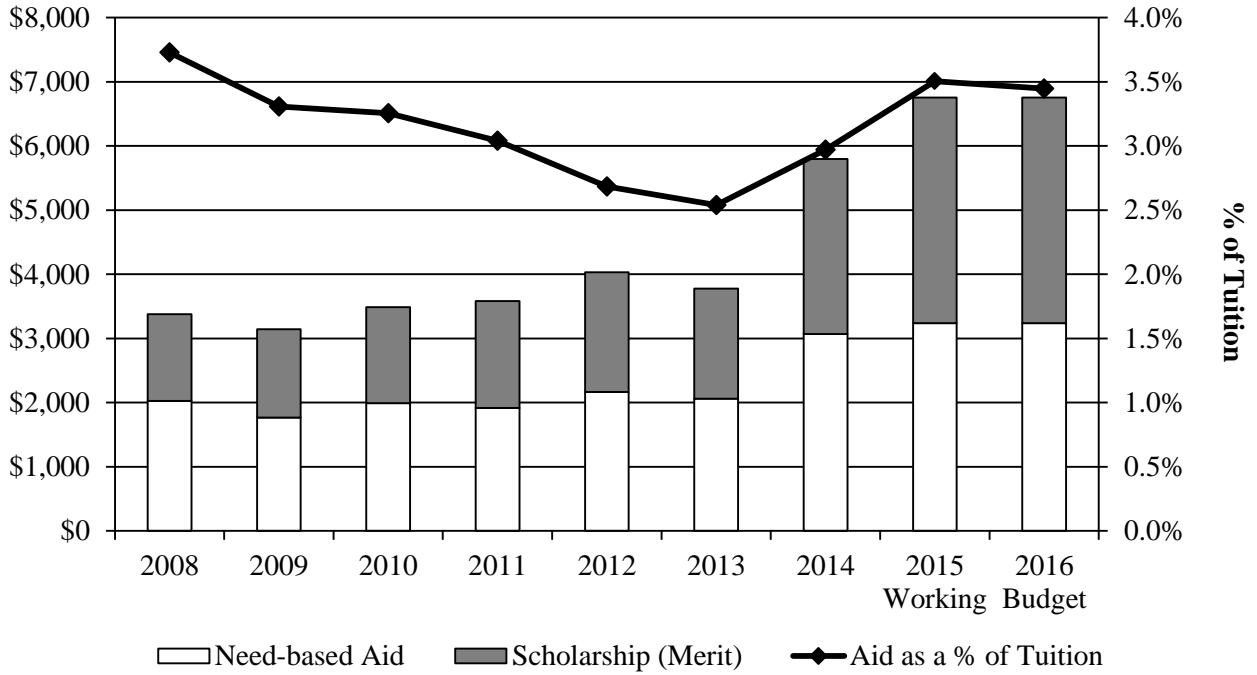
The lack of financial resources frequently contributes to a student's decision to stop or drop out of college. As the costs of a college education continue to escalate, students and families are relying more on various types of financial aid, *e.g.*, federal, State, and institutional to effectively bring down the cost of college. According to the National Center for Education Statistics' College Navigator, the total cost for a first-time, full-time (FT/FT) Maryland undergraduate student at UMUC in fiscal 2013 was \$28,814 (based on tuition, mandatory fees, books and supplies, other expenses, and the weighted average of room and board). However, when accounting for the average amount of federal, State, and institutional aid, the average net price was \$9,849, a 65.8% reduction in the net cost of attendance. This cost is perhaps not a great measure for UMUC because so many students are pursuing studies while working, so room and board costs would be very different for most UMUC students from FT/FT students at a residential campus, like UMCP.

In fiscal 2014, about 30% of UMUC's undergraduate students receive Pell awards, which are given to those who otherwise could not afford college and have an expected family contribution (EFC) of less than a specific amount, which was \$5,081 in fiscal 2014. This is slightly below the State average of about 30%. EFC is an indicator of the amount a family is required to contribute to pay for a student's college education; therefore, the lower EFC, the greater the financial aid.

Total expenditures on institutional aid grew 11.8%, or \$0.4 million, from fiscal 2008 to 2013, while the share of need-based aid has declined slightly from 60% in fiscal 2008 to 55% in fiscal 2014, as illustrated in **Exhibit 8**. The institution's number changed significantly in fiscal 2014 due to the inclusion of worldwide institutional financial aid rather than just stateside financial aid, according to UMUC's annual report to USM. This makes year-over-year comparisons difficult, although the percent of need-based aid in 2014, 53%, is very similar to the rate in fiscal 2013, 55%.

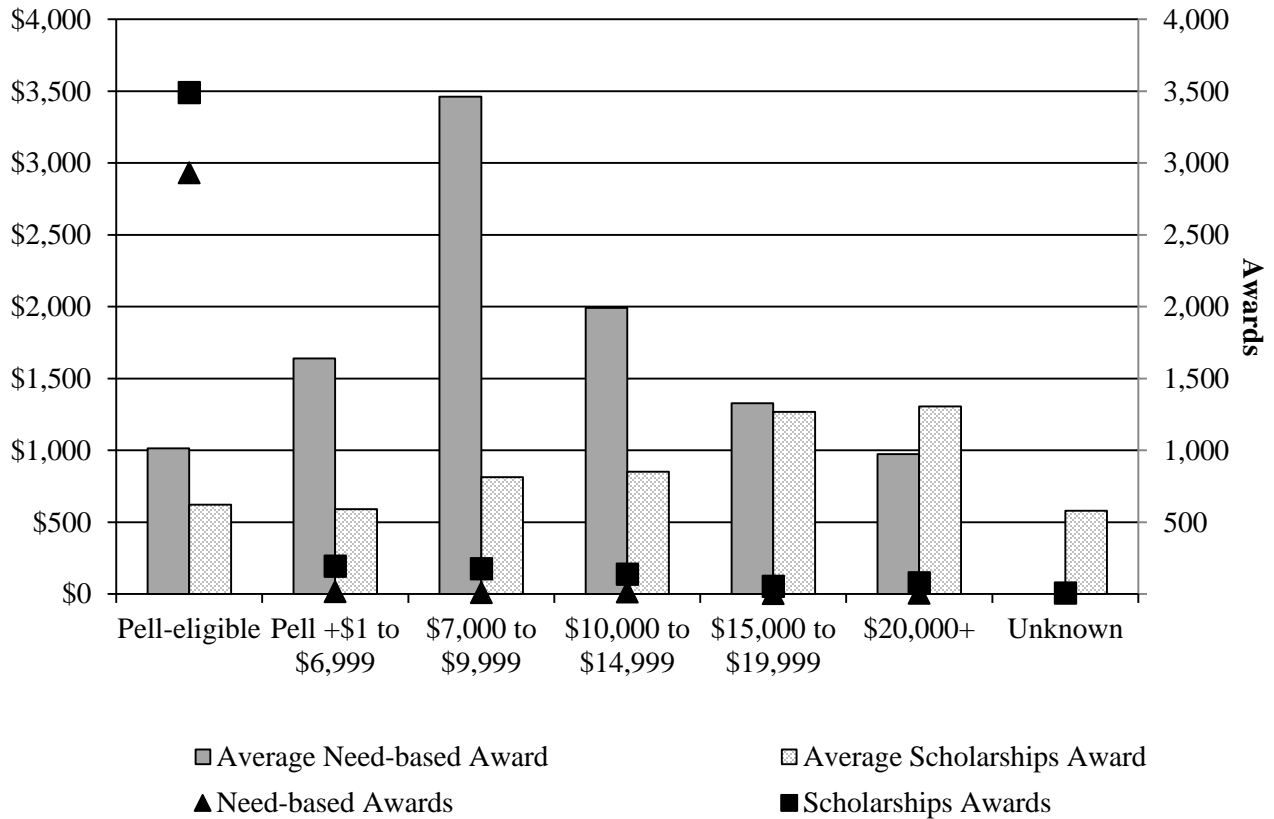
In fiscal 2014, 98.4% of those receiving need-based institutional aid were Pell-eligible students who received an average award of \$1,013, as shown in **Exhibit 9**. Students in all EFC categories received institutional scholarships. Of the 4,143 institutional scholarships awarded, 84.3% were Pell-eligible, while only 7% went to those with an EFC of \$10,000 or higher or had an unknown EFC (these are students who did not file a Free Application for Federal Student Aid, or FAFSA). Average awards for the highest EFC groups were much larger than those for Pell-eligible students, about \$1,300 versus \$600. Students in the \$7,000 to \$9,999 EFC range ended up with the largest need-based awards, possibly because they miss out on most federal need-based aid and rely on institutional aid to enroll.

Exhibit 8
Institutional Aid and Percentage of Undergraduate Tuition
Fiscal 2008-2016
(\$ in Thousands)



Source: University System of Maryland; Department of Legislative Services

Exhibit 9
Number and Average Amount of Institutional Aid Received Per Recipient
Fiscal 2014
(\$ in Thousands)

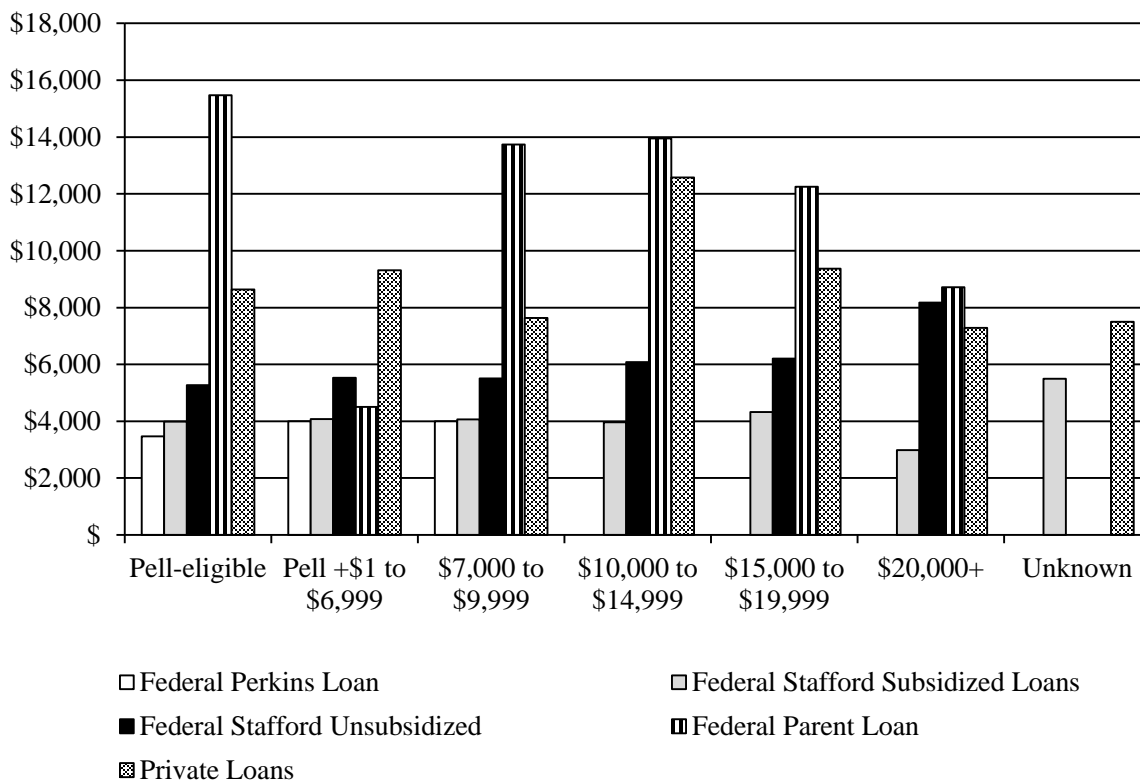


Source: Maryland Higher Education Commission

While the students with the greatest financial need typically receive Pell and institutional aid, it is still not enough to cover the cost of college. As shown in **Exhibit 10**, students in all EFC categories take out various types of loans to finance their education. There are three types of loans:

- federal subsidized loans are based on financial need with the government paying the interest while the student is enrolled in school (Perkins and Stafford loans);
- federal unsubsidized loans generally for those who do not demonstrate financial need with the interest added to the balance of the loan while the student is enrolled in school; and
- private loans.

Exhibit 10
Mean Loan Amount by Type and Expected Family Contribution
Fiscal 2014
(\$ in Thousands)



Source: University System of Maryland

In fiscal 2014, of the 11,771 Pell-eligible students, 55% and 45% used a Stafford subsidized and unsubsidized loan, respectively, to help finance their college education with average loans of \$4,000 and \$5,200. These rates are lower than those seen at four-year institutions largely because UMUC students are mostly part time and so have a lower cost of attendance and a reduced need for loans. On average, the federal parent plus loans were the highest loans taken out for those in all EFC categories with Pell-eligible students taking out the highest loan amount of \$15,466. However, this only involved 4 students, and only 21 students took out PLUS loans, indicating that nearly all UMUC students do not need these loans to bridge costs for attendance. In comparison, nearly 10,000 UMUC students took out Stafford loans.

The President should comment on how financial aid awards for part-time, adult students differ from awarding at a traditional, residential campus.

2. UMUC in the Online Marketplace

The barriers to entry for online institutions to enroll Maryland students is very low, hence UMUC faces stiff competition to enroll students pursuing online degrees. **Exhibit 11** shows the out-of-state institutions with the largest headcount online enrollments in Maryland, according to MHEC. Overall, UMUC’s competitors include very large national for-profit institutions, such as the University of Phoenix, which enrolls about 4,500 Marylanders and about 215,000 students nationwide. The American Public University System is another very large for-profit institution that has excelled at enrolling active military members and veterans, and surpassed UMUC in 2010 as the institution with the most military students, despite UMUC’s longstanding contracts with the Department of Defense. As befits online institutions, most of the top 10 largest enrollers of Marylanders are in fact nowhere near Maryland geographically, with institutions from the South, Midwest, and West Coast making the list. To find a public institution on this MHEC list requires dropping all the way down to the nineteenth spot, which is occupied by the Pennsylvania State University World Campus (PSU – WC) indicating how heavily this education sector is skewed toward for-profit institutions.

Exhibit 11
Largest Online Enrollments from Non-Maryland Institutions
Fiscal 2014-2015

<u>Rank</u>	<u>Institution Name</u>	<u>Maryland Students</u>	<u>Institution Type</u>	<u>State of Origin</u>
1	University of Phoenix	4,531	Private, For-profit	Arizona
2	American Public University System*	4,006	Private, For-profit	West Virginia
3	Walden University	2,363	Private, For-profit	Minnesota
4	Ashford University	1,014	Private, For-profit	California
4	Capella University	1,014	Private, For-profit	Minnesota
6	Everest University South Orlando**	559	Private, For-profit	Florida
7	Ashworth College	557	Private, For-profit	Georgia
8	DeVry University	492	Private, For-profit	Illinois
9	California Intercontinental University	400	Private, For-profit	California
10	Penn Foster College	368	Private, For-profit	Pennsylvania
19	The Pennsylvania State University World Campus	210	Public	Pennsylvania
Top 10 Total Enrollment		15,304		
Top 20 Total Enrollment		17,937		

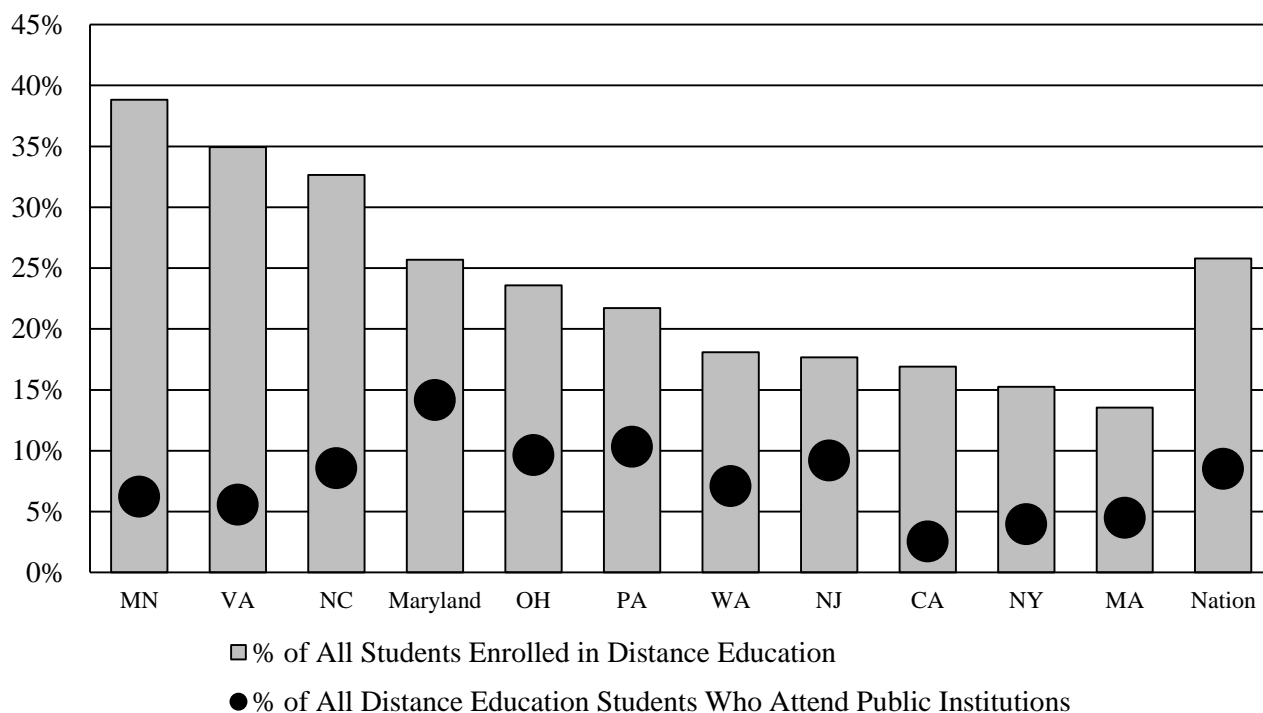
*Consists of the American Public University and American Military University.

**Ceased operations in the 2014-2015 academic year due to federal investigations into the school’s finances.

Source: Maryland Higher Education Commission

UMUC remains the largest public provider of online education in Maryland, and its presence is notable in national comparisons. **Exhibit 12** shows Maryland, competitor states, and the national average for student participation in distance education, which includes online education and a few other hybrid course formats. Therefore, it is not technically synonymous with online programming but is a close approximation as there is no other federally reported category that captures online-only enrollments. This exhibit shows the percent of students who are fully or partly educated through distance education courses from all institutions in a particular state that receive federal financial aid. As indicated in the prior exhibit, Minnesota has two very large online for-profits, thus, it is not surprising that Minnesota has a very large percentage of students from all Minnesotan institutions enrolled in distance education coursework. The dot for each state represents distance education students enrolled only at public institutions. Here, UMUC makes Maryland stand out for the high public higher education student share of total students enrolled in distance education coursework. For most competitor states, the public student share is between 5% and 10%. This much higher public distance education rate suggests UMUC has perhaps reached the limit of its ability to enroll in-state students through current practices.

Exhibit 12
Distance Education Participation Rates by State
Fall 2012



Source: Integrated Postsecondary Education Data System

Exhibit 12 effectively shows how strongly UMUC has become entrenched in Maryland, but increasingly, UMUC has realized that to keep enrollment growing, it will have to look beyond Maryland residents and military members to other states.

The President should comment on where UMUC will find enrollment growth given its very high saturation of the distance education market in Maryland and how it will balance these efforts with its change to serve Marylanders.

3. UMUC Pursues the Bubble Model

As shown in Issue 2, UMUC operates in the very competitive online higher education market. Unlike students at traditional four-year institutions who live on or near campus, it is much easier for UMUC students to transfer to another online institution, such as the University of Phoenix or Strayer University, as well as traditional four-year institutions, which are increasingly moving into or expanding online classes. UMUC must differentiate itself to compete and has struggled against for-profit institutions that have moved into its former monopoly on military enrollments.

Following enrollment declines and leadership turnover, UMUC undertook an extensive self-evaluation in calendar 2014. The President convened a workgroup called the Ideation Group to consider any and all proposals to rethink how UMUC should pursue success as a public, online institution. While it had enjoyed a very close relationship with the U.S. military since its founding in 1949, the increased competition and military drawdowns have forced UMUC to reconsider its most central and routine operations to discover more competitive means of operating. UMUC believes the largest impediment to its success is the slow government procurement process. While private corporations can make rapid decisions, UMUC is dependent upon BPW and cannot make snap decisions. For example, UMUC would like to take advantage of online advertising opportunities that arise quickly from vendors, such as Google's AdSense service.

To address how UMUC could secure more autonomy from State regulations on contracting, the Ideation Group considered the following two ideas but ultimately rejected them:

- **Independent Nonprofit Organization:** This would see UMUC spinoff from USM like the University of Maryland Medical System did in 1994 through legislative action. While this provides a high degree of autonomy and independence, it could likely entirely sever or severely reduce direct State support of UMUC's operations, and UMUC would lose other benefits from being a constituent member of USM.
- **USM-affiliated Nonprofit Organization:** This would see UMUC spinoff from USM but retain a very close relationship, similar to the USM Foundation. While this retains a direct relationship with the USM Board of Regents, it was felt the direct loss of State personnel benefits would still be difficult to overcome and while the USM Foundation has a very focused mission, UMUC has far larger and more diffuse operations, so a comparison between the two may not be useful.

Ultimately, the Ideation Group supported a third option dubbed the “Bubble Model.” In this scenario, UMUC would still need approval from the General Assembly to change its charter with the State, but it would remain a member of USM. The difference would be a unique exemption from procurement laws, similar to how UMUC’s overseas operations currently work. UMUC would still undergo regular USM and legislative audits of all finances, but UMUC would be able to make rapid financial transactions independent of DBM, the legislature, and BPW. A question remains of how public an institution with greatly added autonomies and exemptions can be. UMUC highlights PSU – WC as an example of a public institution with great leeway in making internal financial decisions.

The USM Board of Regents voted to support the Bubble Model at its February 2015 meeting. Further action would require legislation. While DLS has the white paper from the Ideation Group supporting the Bubble Model, this model still appears to be more of a framework than an actual developed policy.

The President should comment on the likelihood of securing legislation during the 2015 session to enact the Bubble Model and what steps UMUC can take prior to any legislative authorization to improve its business practices.

The President should also comment on how other public institutions have thrived in the online marketplace, such as Arizona State University.

Recommended Actions

1. See the University System of Maryland Overview for systemwide recommendations.

Current and Prior Year Budgets

Current and Prior Years Budgets University of Maryland University College (\$ in Thousands)

	General Fund	Special Fund	Federal Fund	Other Unrestricted Fund	Total Unrestricted Fund	Restricted Fund	Total
Fiscal 2014							
Legislative							
Appropriation	\$33,858	\$2,392	\$0	\$366,116	\$402,366	\$35,275	\$437,641
Deficiency							
Appropriation	-546	0	0	0	-546	0	-546
Budget							
Amendments	386	-386	0	0	0	0	0
Reversions and Cancellations	0	0	0	-63,959	-63,959	-1,027	-64,987
Actual							
Expenditures	\$33,698	\$2,006	\$0	\$302,157	\$337,861	\$34,247	\$372,108
Fiscal 2015							
Legislative							
Appropriation	\$38,283	\$1,635	\$0	\$368,005	\$407,923	\$35,275	\$443,198
Cost							
Containment	-203	0	0	0	-203	0	-203
Budget							
Amendments	178	97	0	-56,260	-55,985	0	-55,985
Working							
Appropriation	\$38,259	\$1,732	\$0	\$311,746	\$351,736	\$35,275	\$387,011

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies.

Fiscal 2014

UMUC's fiscal 2014 legislative appropriation decreases as follows: general funds decrease by \$546,000 due to deficiency appropriations for health insurance, retirement costs, and the new State personnel system; budget amendments increased general funds by \$386,000 due to cost-of-living adjustments (COLA) and other sources; and a cancellation of \$64 million in unrestricted funds largely due to greatly lower than anticipated tuition and educational services revenue.

Restricted funds decreased \$1 million due to a decline in Pell grants from the enrollment shortfall.

Fiscal 2015

To date in fiscal 2015, general funds decreased by about \$203,000 due to across-the-board reductions from BPW. General funds increased \$178,000 and special funds by \$97,000 to allocate funds for the COLA but unrestricted funds in total decreased a further \$56.3 million due to a large drop in online enrollment and subsequent reorganization of operations at UMUC.

Object/Fund Difference Report
USM – University of Maryland University College

<u>Object/Fund</u>	<u>FY 14 Actual</u>	<u>FY 15 Working Appropriation</u>	<u>FY 16 Allowance</u>	<u>FY 15 - FY 16 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	1,041.71	1,037.71	1,037.71	0.00	0%
02 Contractual	1,418.65	1,323.60	1,364.63	41.03	3.1%
Total Positions	2,460.36	2,361.31	2,402.34	41.03	1.7%
Objects					
01 Salaries and Wages	\$ 210,274,814	\$ 205,470,706	\$ 211,077,675	\$ 5,606,969	2.7%
02 Technical and Spec. Fees	7,031,921	9,989,399	9,989,399	0	0%
03 Communication	1,018,494	1,908,740	1,908,740	0	0%
04 Travel	2,483,619	3,706,184	3,706,184	0	0%
06 Fuel and Utilities	2,514,898	2,513,814	2,664,022	150,208	6.0%
07 Motor Vehicles	120,694	190,539	190,539	0	0%
08 Contractual Services	90,055,406	89,473,663	91,097,958	1,624,295	1.8%
09 Supplies and Materials	5,988,156	8,050,767	8,050,768	1	0%
11 Equipment – Additional	1,690,759	4,835,924	4,835,924	0	0%
12 Grants, Subsidies, and Contributions	43,239,053	44,015,869	44,336,171	320,302	0.7%
13 Fixed Charges	7,519,378	7,640,127	7,608,484	-31,643	-0.4%
14 Land and Structures	171,145	9,214,870	8,673,441	-541,429	-5.9%
Total Objects	\$ 372,108,337	\$ 387,010,602	\$ 394,139,305	\$ 7,128,703	1.8%
Funds					
40 Unrestricted Fund	\$ 337,860,966	\$ 351,735,870	\$ 358,864,573	\$ 7,128,703	2.0%
43 Restricted Fund	34,247,371	35,274,732	35,274,732	0	0%
Total Funds	\$ 372,108,337	\$ 387,010,602	\$ 394,139,305	\$ 7,128,703	1.8%

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.

Fiscal Summary
USm – University of Maryland University College

<u>Program/Unit</u>	<u>FY 14</u> <u>Actual</u>	<u>FY 15</u> <u>Wrk Approp</u>	<u>FY 16</u> <u>Allowance</u>	<u>Change</u>	<u>FY 15 - FY 16</u> <u>% Change</u>
01 Instruction	\$ 99,475,935	\$ 97,642,098	\$ 101,122,023	\$ 3,479,925	3.6%
02 Research	362,504	385,307	387,159	1,852	0.5%
03 Public Service	15,221,299	12,772,899	12,776,339	3,440	0%
04 Academic Support	66,875,030	76,017,722	76,791,155	773,433	1.0%
05 Student Services	84,209,494	79,451,485	80,302,684	851,199	1.1%
06 Institutional Support	45,023,372	47,146,573	49,205,245	2,058,672	4.4%
07 Operation and Maintenance of Plant	13,596,414	25,814,863	25,453,471	-361,392	-1.4%
08 Auxiliary Enterprises	5,034,312	4,535,686	4,536,958	1,272	0%
17 Scholarships and Fellowships	42,309,977	43,243,969	43,564,271	320,302	0.7%
Total Expenditures	\$ 372,108,337	\$ 387,010,602	\$ 394,139,305	\$ 7,128,703	1.8%
Unrestricted Fund	\$ 337,860,966	\$ 351,735,870	\$ 358,864,573	\$ 7,128,703	2.0%
Restricted Fund	34,247,371	35,274,732	35,274,732	0	0%
Total Appropriations	\$ 372,108,337	\$ 387,010,602	\$ 394,139,305	\$ 7,128,703	1.8%

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.