University System of Maryland
Fiscal 2019 Budget Overview

Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland

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R30B00
University System of Maryland
Fiscal 2019 Budget Overview

Operating Budget Data

($ in Thousands)

	FY 17 Actual	FY 18 Working	FY 19 Allowance	FY 18-19 Change	% Change Prior Year
General Funds	$1,268,417	$1,290,913	$1,318,066	$27,153	2.1%
Adjustments	0	-11,118	11,306		
Adjusted General Funds	**$1,268,417**	**$1,279,795**	**$1,329,372**	**$49,577**	**3.9%**
Special Funds	$56,922	$57,936	$63,188	**$5,252**	
Adjusted Special Funds	**$56,922**	**$57,936**	**$63,188**	**$5,252**	**9.1%**
Other Unrestricted Funds	**$2,776,502**	**$2,920,207**	**$2,980,149**	**$58,824**	**2.0%**
Total Unrestricted Funds	$4,101,840	$4,259,057	$4,361,403	$91,228	2.1%
Adjustments		-11,118	11,306	22,424	
Adjusted Total Unrestricted Funds	**$4,101,840**	**$4,247,939**	**$4,372,710**	**$113,653**	**2.7%**
Restricted Funds	$1,224,647	$1,293,257	$1,305,430	$12,173	0.9%
Adjusted Restricted Funds	**$1,224,647**	**$1,293,257**	**$1,305,430**	**$12,173**	**0.9%**
Adjusted Grand Total	**$5,326,487**	**$5,541,196**	**$5,678,140**	**$125,826**	**2.3%**

Note: Includes across-the-board reductions in fiscal 2018 and contingent reductions and cost-of-living adjustment in fiscal 2019. Special funds totaling $8.8 million in fiscal 2017 and 2018 and $9.1 million in fiscal 2019 for the Maryland Fire and Rescue Institute are included as restricted funds.

- General funds increased $49.6 million, or 3.9%, in fiscal 2019 after accounting for the across-the-board health insurance reduction in fiscal 2018 and contingent reductions and a 2% cost-of-living adjustment effective January 1, 2019, in fiscal 2019.

- Higher Education Investment Fund increases 9.1%, or $5.3 million, resulting in an overall growth in State funds of 4.1%, or $54.8 million, over fiscal 2018.

Personnel Data

	FY 17 Actual	FY 18 Working	FY 19 Allowance	FY 18-19 Change
Regular Positions	23,923.39	24,316.70	24,316.70	0.00
Contractual FTEs	6,502.81	6,431.54	6,732.28	300.74
Total Personnel	**30,426.20**	**30,748.24**	**31,048.98**	**300.47**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	649.26	2.67%
Positions and Percentage Vacant as of 12/31/17	1,250.56	5.1%

- The allowance does not provide any new regular positions. However, the University System of Maryland (USM) has personnel autonomy and may create new positions during the fiscal year. For example, in fiscal 2018 year to date, it has added 428.31 positions over the original appropriation.

- The allowance provides for an additional 300.74 contractual positions of which 189.25 positions are attributed to the University of Maryland, College Park Campus (UMCP) related to the opening of several new facilities and 77.45 positions at the University of Maryland Baltimore County for contractual faculty and support staff.

Analysis in Brief

Major Trends

Enrollment: Undergraduate enrollment at USM institutions grew 2.0%, or 2,658 students, in fall 2017 mainly due to increases of 1,396 and 1,378 students at UMCP and the University of Maryland University College (UMUC), respectively. When excluding UMUC, undergraduate enrollment grew 1.5%.

Student Performance: The second-year retention rate improved at all institutions except at the University of Baltimore (UB). Institutions also made strides in improving the retention of students beyond the second year, with the third-year rate increasing, on average, 1.8 percentage points. When comparing the six-year graduation rate of the fiscal 2008 and 2012 cohorts, the rate improved at all institutions except UB, where the rate declined 3 percentage points.

Time to Degree: The average time to degree at USM institutions, excluding the University of Maryland, Baltimore Campus and UMUC, slightly improved from 4.3 years in fiscal 2016 to 4.1 years in fiscal 2017.

Issues

Fund Balance Workgroup: A Fund Balance Workgroup was established to examine various aspects of USM's fund balance to better understand the appropriate amount to set aside, the conditions under which a university could use the fund balance, the impact of the balance on USM credit ratings, and what factors rating agencies take into consideration when determining credit ratings. The workgroup adopted a set of recommendations designed to increase the transparency of USM's debt management policy and clarify the function and uses of the fund balance.

Possible Merger with Southern Maryland Higher Education Center: In September 2017, the Board of Governors of the Southern Maryland Higher Education Center (SMHEC) voted to merge with USM effective July 1, 2018; the board also approved a Memorandum of Understanding in January that will come before the USM Board of Regents (BOR) for approval in February. However, since SMHEC was established by statute in 1994, and the Maryland Higher Education Commission administers the State operating funds, the General Assembly would need to pass legislation allowing the merger.

Coppin State University Update: While Coppin State University continues to receive high per student funding, it has been struggling with poor student performance and a declining enrollment. The continual decline in enrollment, along with the associated tuition and fee revenue, led to budget shortfalls from fiscal 2009 to 2015. However, it appears efforts to stabilize enrollment are proving to be successful as the rate of decline slowed in fiscal 2016 and 2017, and various cost containment measures have resulted in a surplus in the academic enterprise.

UB Update: Since fall 2012, enrollment at UB has fallen 15.6%, or 1,024 students, with graduate enrollment accounting for half of the decline. The drop in graduate students was driven by a continual decline in law students. The resulting loss in tuition and fee revenues led to $3.96 million and $4.2 million budget shortfalls in fiscal 2017 and 2018, respectively.

University of Maryland Eastern Shore Update: Since fall 2014, undergraduate enrollment has dropped 19.9%, or 709 students, resulting in continuing budget shortfalls in the academic enterprise. In fiscal 2017, the University of Maryland Eastern Shore faced a $4.6 million deficit due to the loss in tuition and fee revenue associated with a 12.6% drop in fall 2016 enrollment. Enrollment has continued to decline in fiscal 2018 with enrollment dropping 10.6%, resulting in a $5.6 million budget shortfall.

Efficiencies through the Consolidation of the University of Maryland Center for Environmental Science: The University of Maryland Center for Environmental Science (UMCES) is USM's only independent research institution. Cost savings from administration efficiencies could be achieved by merging or reorganizing UMCES as a whole or the four research laboratories with the appropriate USM institution. The Virginia Institute of Marine Science can provide a model for a successful integration of an independent research institution with a public four-year institution.

Recommended Actions

1. Add language to reduce general funds for University System of Maryland.
2. Add language to restrict general funds for University System of Maryland Office pending submission of policies.
3. Add language to restrict the use of the University of Maryland Eastern Shore's general funds.
4. Add language making funding for the computer science education initiative contingent on legislation.
5. Add language making funding related to the Southern Maryland Higher Education Center contingent on legislation.
6. Add language to restrict general funds pending a report on the relocation of the University of Maryland Center for Environmental Science.

Updates

Instructional Productivity: When only considering the workload of tenured/tenure-track faculty, one of the seven comprehensive institutions and one of the two research institutions met or exceeded the BOR standard in fiscal 2016. If all core instructional faculty are included, three comprehensive institutions exceeded the standard, while the two research institutions met or exceeded the target.

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University System of Maryland

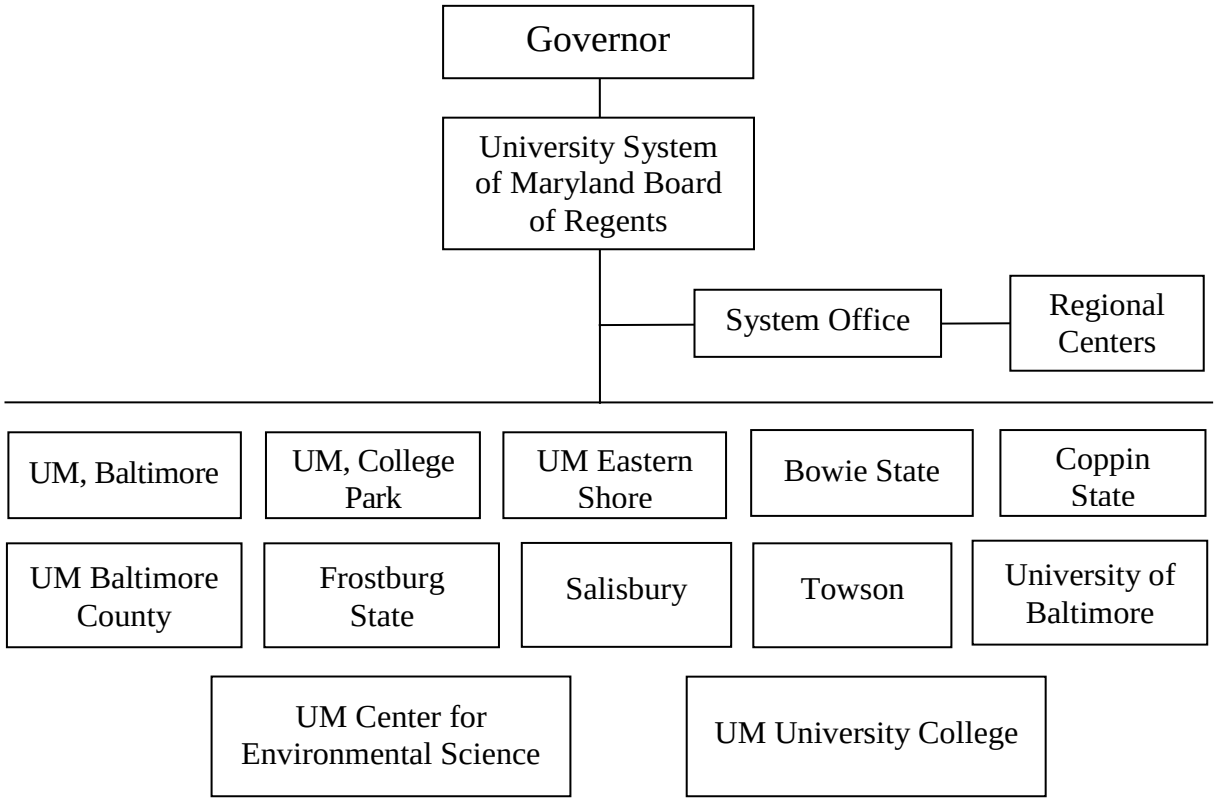
Fiscal 2019 Budget Overview

Operating Budget Analysis

Program Description

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

Exhibit 1
University System of Maryland



UM: University of Maryland

Source: Department of Legislative Services

The Board of Regents (BOR) is the governing body of USM. The board consists of 17 members, including a full-time student and the State Secretary of Agriculture (*ex officio*). Except for the Agriculture Secretary, each member is appointed by the Governor with the advice and consent of the Senate. The board appoints the Chancellor, who 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 reviewing and approving new programs, reviewing existing programs, setting minimum admission standards, and determining guidelines for tuition and fees. The board monitors the progress of each system institution toward its approved goals and holds each president accountable for the progress toward the goals. Furthermore, the board may delegate any of its responsibilities to the Chancellor.

USM goals, 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

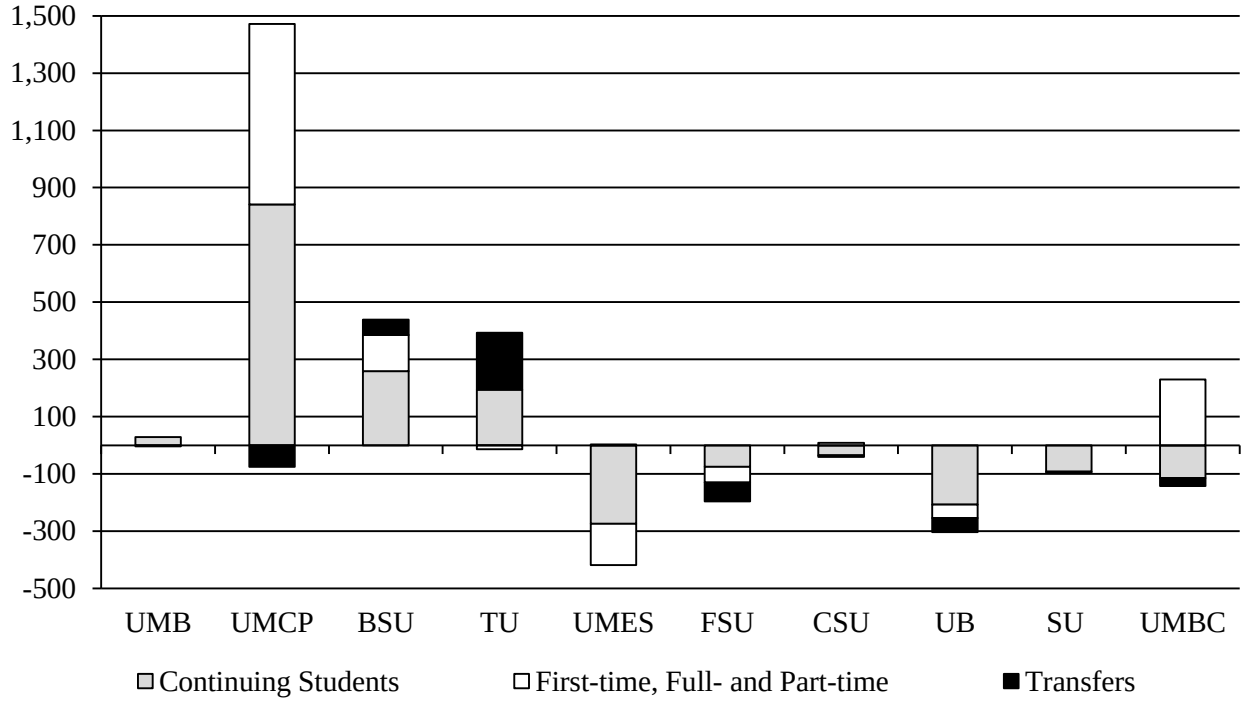
1. Enrollment

Undergraduate enrollment at USM institutions grew 2.0%, or 2,658 students, in fall 2017 mainly due to increases of 1,396 and 1,378 students at the University of Maryland, College Park Campus (UMCP) and the University of Maryland University College (UMUC), respectively. When excluding UMUC, enrollment grew 1.5% with increases at five institutions (2,326 students) offset by declines at the other five institutions (1,046 students), as shown in **Exhibit 2**. Bowie State University (BSU) was the only institution to experience increases in all categories of students with enrollment growing 9.3%. Conversely, the University of Baltimore (UB) and Frostburg State University (FSU) faced decreases in all categories of students with total enrollment declining by 9.4% and 4.0%, respectively.

In terms of the number of first-time, full-time (FT/FT) students, UMCP experienced the largest increase of 631 students, a 13.8% increase over fall 2016. However, a portion of the increase is related

to a change in the federal reporting requirements in which students enrolled in the Freshmen Connection program are now included in UMCP's fall enrollment numbers. Freshmen Connection students officially matriculate in the spring semester and as such were not previously included in the fall headcount numbers. The University of Maryland Eastern Shore (UMES) experienced the largest loss of students with enrollment falling 12.7%, or 416 students.

Exhibit 2
Change in Fall 2016 and 2017 Undergraduate Headcount Enrollment



BSU: Bowie State University
CSU: Coppin State University
FSU: Frostburg State University
SU: Salisbury University
TU: Towson University
UB: University of Baltimore
UMB: University of Maryland, Baltimore Campus
UMBC: University of Maryland Baltimore County
UMCP: University of Maryland, College Park Campus
UMES: University of Maryland Eastern Shore

Source: University System of Maryland

Graduate enrollment, excluding UMUC, decreased 0.5% in fall 2017, resulting in an overall enrollment growth of 1.2%.

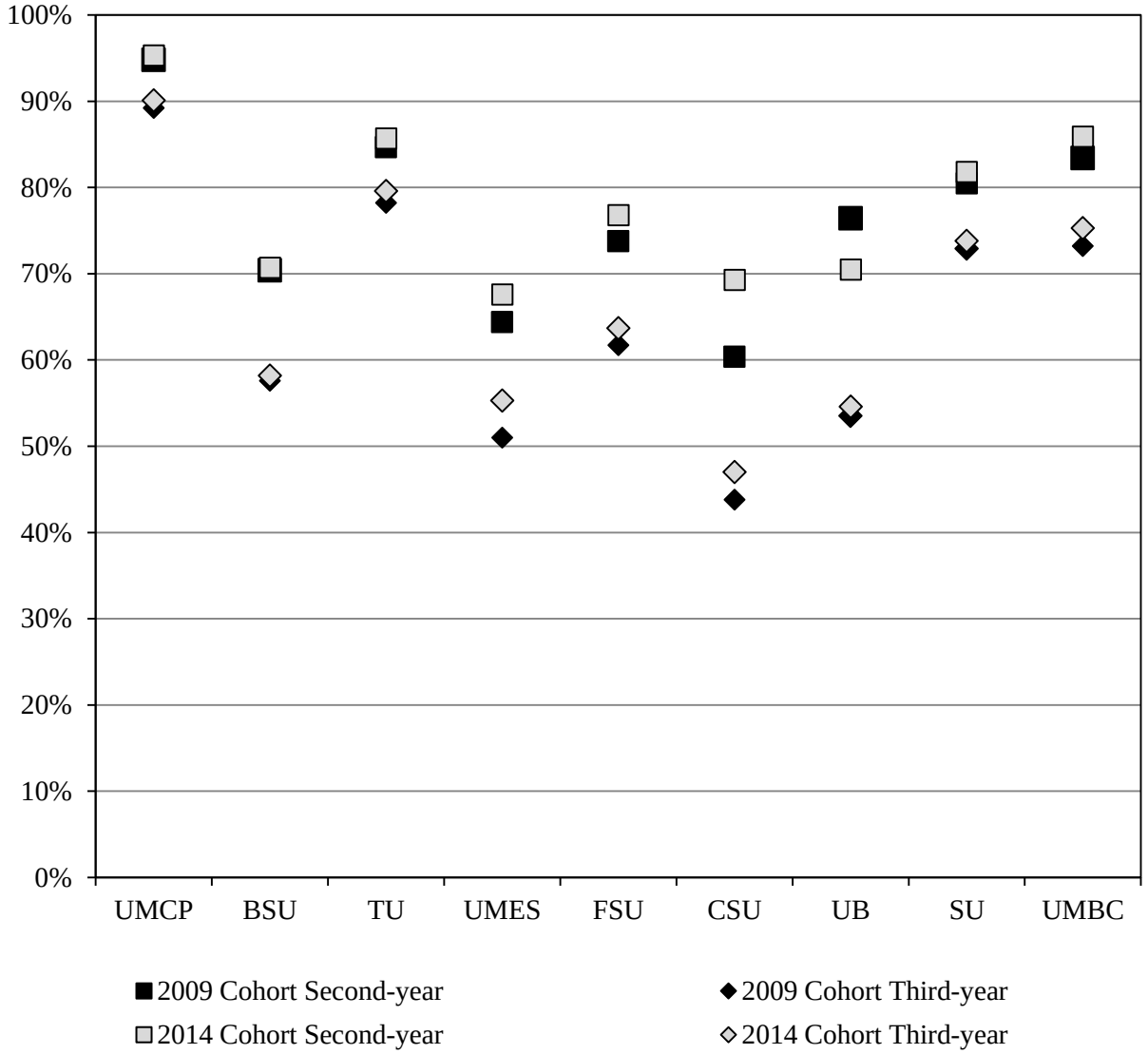
The Chancellor should comment on USM's enrollment management strategy and what efforts are being taken at the system and institutional level to stabilize and increase enrollment at enrollment-challenged institutions.

2. Student Performance

Retention Rates

Student retention rates provide insight into student progress, showing if students are on track to graduate in a timely manner. Higher rates indicate that students are moving faster through the pipeline, freeing space for more students and leading to increased degree production. Improving the retention of students is a key component of the efforts of USM to double the number of undergraduates degrees awarded by 2020, one of the four key goals of the USM strategic plan. **Exhibit 3** shows the second- and third-year retention rates for the fall 2009 and 2014 FT/FT cohorts by institution, excluding the University of Maryland, Baltimore Campus (UMB) and UMUC. The second-year rate improved at all institutions except at UB, which declined 5.9 percentage points. Coppin State University (CSU) experienced the greatest improvement with the rate increasing 8.9 percentage points, from 60.4% to 69.3%. Institutions also made strides in improving the retention of students beyond the second year, with the third-year rate increasing, on average, 1.8 percentage points. UMES showed the most improvement with its third-year rate increasing 4.3 percentage points, from 51.0% to 55.3%.

Exhibit 3
Undergraduate Second- and Third-year Retention Rates
First-time, Full-time Fall 2009 and 2014 Cohorts



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Source: Maryland Higher Education Commission

Graduation Rates

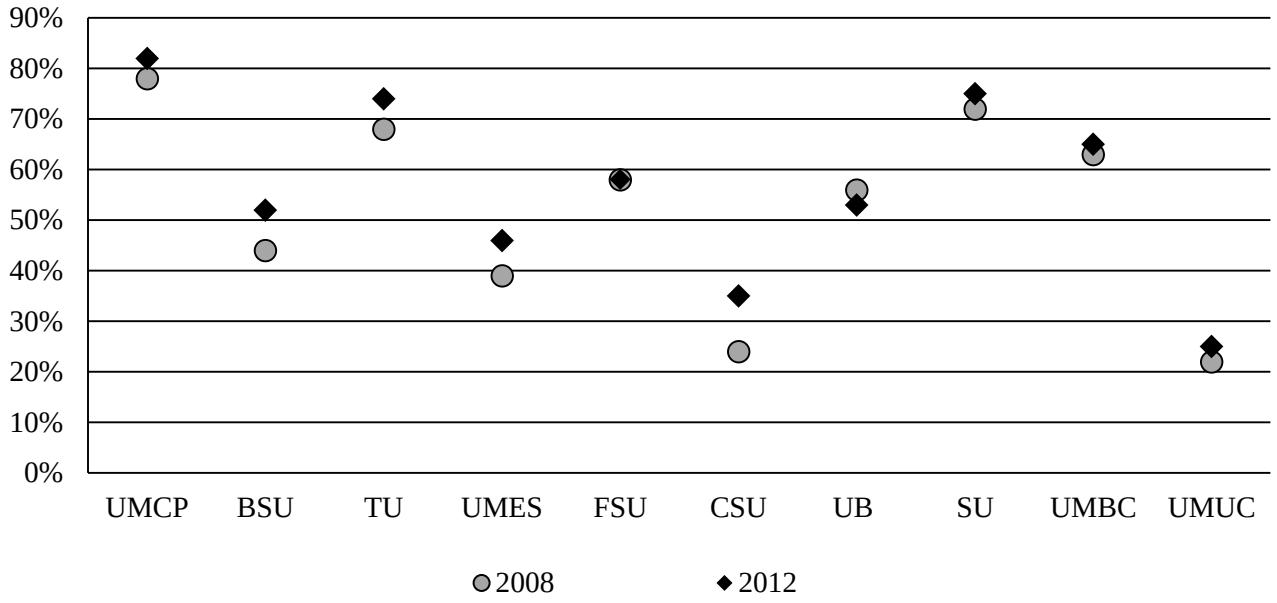
The traditional graduation rate measures used by the Maryland Higher Education Commission (MHEC) only track the completions of the traditional FT/FT students – those enrolled at an institution at the start of the academic year and who are continuously enrolled as a full-time student until completion. In general, for USM institutions, this only captures the progress of about a third of the students, providing only a partial picture of how an institution is performing.

In an effort to capture the outcomes of the "nontraditional" students, the federal government, through the Integrated Postsecondary Education Data System, expanded its reporting on student outcome measures. The definition of a cohort was expanded with institutions reporting on the progress of full-year cohorts (*i.e.*, students who enter an institution between July 1, 2009, and June 30, 2010). This captures not only FT/FT students but first-time, part-time (PT) and non first-time, full- and part-time students. The cohort is tracked over eight years with reporting, via College Navigator, on the four-, six-, and eight-year graduation rates for each category of cohort students.

While College Navigator reports on the graduation rate for each category of student, USM's revised six-year graduation rate is more inclusive in that the cohort includes all new degree-seeking students enrolled in the fiscal year. This includes not only FT/FT students but also PT students, transfers, and those who enroll in spring, stopped out, or changed enrollment status. In general, the graduation rates of fiscal year cohorts tend to be higher than the traditional rate at institutions that have a higher portion of transfer and part-time students such as CSU, BSU, and UB. In addition, using a fiscal year cohort allows for a calculation of the UMUC six-year graduation rate, which has been excluded from the traditional measure due to its unique student population: mainly adult, nontraditional students.

Exhibit 4 compares the six-year graduation rate of the fiscal 2008 and 2012 cohorts. Overall, the graduation rate improved at all institutions except UB, where the rate declined 3 percentage points. CSU showed the greatest improvement with the rate increasing from 24% with the 2008 cohort to 35% with the 2012 cohort. While UMUC's six-year graduation rate increased to 25% with the 2012 cohort, it is the lowest of all the institutions and is more comparable to the two-year graduation rates of Maryland community college transfer students at other institutions. This is to be expected given that transfer students comprised 71.0% of UMUC's new undergraduate enrollment in fall 2012. Furthermore, 78.0%, or 22,129 students, of UMUC undergraduate students in fall 2012 were part-time students who take longer to graduate.

Exhibit 4
Comparison of Six-year Graduation Rates
Fiscal 2008 and 2012 Cohorts



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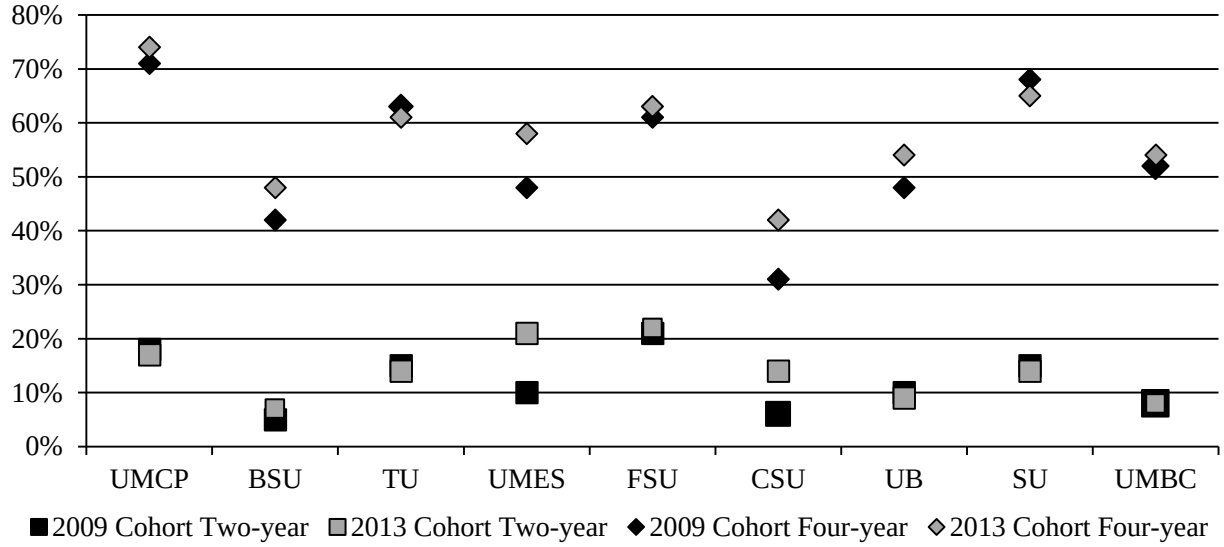
FT/FT: first-time, full-time
SU: Salisbury University
TU: Towson University
UB: University of Baltimore
UMBC: University of Maryland Baltimore County
UMCP: University of Maryland, College Park Campus
UMES: University of Maryland Eastern Shore
UMUC: University of Maryland University College

Note: Fiscal year cohorts include all degree-seeking students (*e.g.*, FT/FT, part-time, transfers, and spring admits) who enrolled in the fiscal year.

Source: University System of Maryland

The two- and four-year graduation rates for the fiscal 2009 and 2013 cohorts of Maryland community college transfer students, which are equivalent to the four- and six-year rates for FT/FT students at the four-year institutions, are shown in **Exhibit 5**. Overall, 55% of community college transfers graduated within four years from a USM institution. In general, the four-year rate tends to be lower than the comparable six-year rate for FT/FT students (the USM average for the 2010 cohort was 68%) due to a significant percentage being part-time students. If only considering full-time transfer students, the USM average four-year rate increases to 68%, equivalent to the six-year FT/FT rate. In addition, the percentage of transfers entering as freshmen and sophomores affects the rate, as they come in with fewer credits and take longer to graduate. For the fiscal 2013 cohort, 15% and 36% entered as either a freshman or sophomore, respectively.

Exhibit 5
Two- and Four-year Graduation Rates of Maryland Community College Transfers
2009 and 2013 Cohorts



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Note: Graduation rates include those students who transferred in and then transferred and earned a degree at another University System of Maryland institution.

Source: University System of Maryland, *Transfer Students to the University System of Maryland: Patterns of Enrollment and Success*

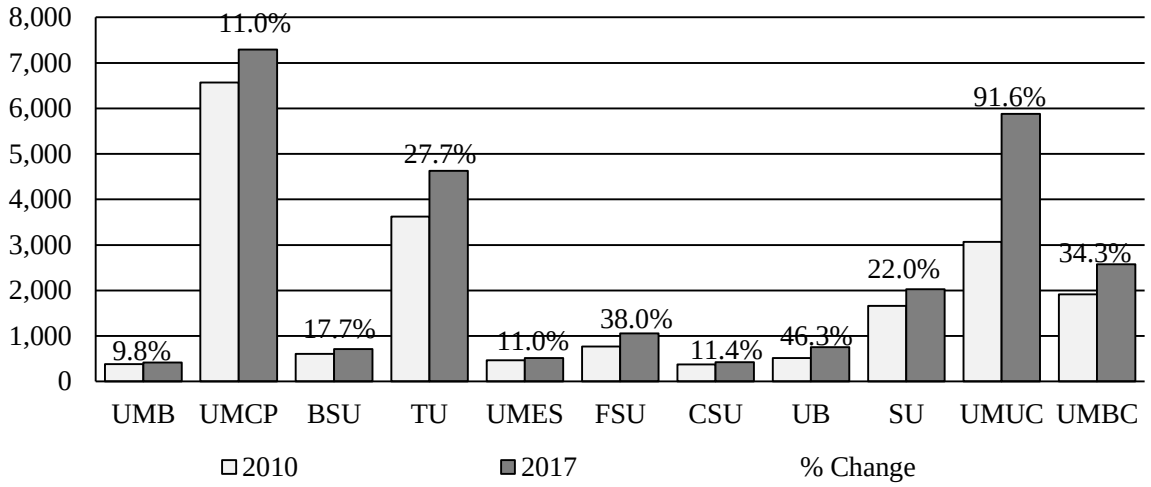
In regard to the two-year graduation rate, UMES and CSU experienced the largest improvement with the rates increasing by 11 and 8 percentage points, respectively, while rates at UMCP and Salisbury University (SU) declined slightly by 1 percentage point. CSU and UMES also showed the most improvement in the four-year rate increasing by 11 and 10 percentage points, respectively, indicating programs targeting transfer students have proven to be successful. However, SU and Towson University (TU) rates declined by 3 and 2 percentage points, respectively, from the 2009 and 2013 cohorts.

Undergraduate Degree Production

In order to produce a well-educated workforce and meet the State's completion goal, USM will need to increase the number of undergraduate degrees awarded. USM plans to increase annual degree

production by approximately 8,800 degrees by 2020. **Exhibit 6** compares the number of undergraduate degrees conferred by institutions between fiscal 2010 (the base year) and 2017. Overall, degree production increased 31.7% from 19,950 in fiscal 2010 to 26,280 in fiscal 2017. The highest growth rates occurred at UMUC, UB, FSU, and the University of Maryland Baltimore County (UMBC). In terms of the highest number of degrees, UMUC and TU awarded an additional 2,813 and 1,003 degrees, respectively. However, it should be noted that degrees awarded by UMUC in 2017 are not comparable to 2010 due to a change in the U.S. Department of Education reporting requirement. Because all UMUC's online courses are now administered stateside, all degrees are included in the total.

Exhibit 6
Total Undergraduate Degrees Awarded and Percent Change
Fiscal 2010 and 2017



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Source: University System of Maryland

3. Time to Degree

Completion rates are greatly influenced by time – the longer it takes a student to graduate, the more likely (s)he will dropout as other priorities compete with classes. Longer completion times translate into increased cost not only for the student but for the institution and State as well. A major goal of the BOR original Effectiveness and Efficiency initiative was to improve the time to degree, which is dependent on the efficiency and productivity of the faculty, quality of advising, and appropriateness of course offerings. In 2015, USM revised how this measure was calculated from

being based on cohorts of FT/FT students entering in the fall of a particular year and determining the average number of semesters to a degree, to a more inclusive measure based on all students (*i.e.*, FT/FT, transfers, part-time students, students whose enrollment status changed, and those who stopped out). The revised measure looks at who received a degree in a particular fiscal year and determines the number of years to degree by looking at when they first enrolled at an institution whether it be 4 or 15 years. USM further refined the methodology by using the date and not the fiscal year a student graduated, thereby improving the accuracy of the data.

In 2016, CSU and UMES had the longest time to degree at 6 and 5 years, respectively, as shown in **Exhibit 7**. While the time to degree remained the same at UMES in 2017, at CSU, it increased to 6.3 years. Overall, the average time to degree at USM institutions, excluding UMB and UMUC, improved from 4.3 years in 2016 to 4.1 years in 2017.

Exhibit 7
Average Undergraduate Time to Degree in Years
For Graduating Students
Fiscal 2016-2017

	Graduating Year	
	2016	**2017**
University of Maryland, College Park Campus	4.1	4.2
Bowie State University	4.9	4.8
Towson University	4.2	4.2
University of Maryland Eastern Shore	5.0	5.0
Frostburg State University	3.8	3.8
Coppin State University	6.0	6.3
University of Baltimore	4.4	4.3
Salisbury University	4.2	4.1
University of Maryland Baltimore County	4.6	4.7
Average	4.3	4.1

Note: Averages are weighted. The University of Maryland University College and the University of Maryland, Baltimore Campus are excluded from the Board of Regents' faculty workload policy.

Source: University System of Maryland

FSU, at 3.8 years, has the fastest time to degree. USM attributes this to a variety of factors including an increase in enrollment of transfer students relative to FT/FT and nursing students. The former is related to FSU building a strong pipeline of students from a combination of increased use of enrollment consultants at USM at Hagerstown and improved recruiting. In regard to nursing students, because these students are, in general, working professionals, they are looking to rapidly upgrade to a bachelor's of nursing degree, and therefore, graduate more quickly. USM notes that undergraduate level nurses across USM average 3.3 years to a degree compared to 4.8 years for the general population.

Fiscal 2018 Actions

Cost Containment

On September 6, 2017, the Board of Public Works (BPW) reduced the USM appropriation by 0.6%, or $8.0 million. As shown in **Exhibit 8**, 10 institutions abolished 30.0 vacant positions resulting in $5.6 million in salary and wage savings. CSU eliminated 1 unfunded position. The remaining $2.4 million was met by reducing spending on facilities renewal and general operating expenses.

Exhibit 8
Reduction by Institution
Fiscal 2018

Institution	BPW Reduction	Position Reduction	Salary and Wages	Operating
University of Maryland, Baltimore Campus	$1,387,095	6.0	$913,876	$473,219
University of Maryland, College Park Campus	3,043,427	12.0	3,043,427	0
Bowie State University	261,768	1.0	128,808	132,960
Towson University	712,633	0.0	0	712,633
University of Maryland Eastern Shore	240,645	4.0	240,645	0
Frostburg State University	248,856	4.0	248,856	0
Coppin State University	276,639	1.0	0	276,639
University of Baltimore	222,636	4.0	222,636	0
Salisbury University	325,699	1.0	93,000	232,699
University of Maryland, University College	257,842	1.0	145,562	112,280
University of Maryland, Baltimore County	732,116	2.0	532,116	200,000
University of Maryland Center for Environmental Science	135,007	0.0	0	135,007
University System of Maryland Office	155,637	0.0	0	155,637
Total	**$8,000,000**	**36.0**	**$5,568,926**	**$2,431,074**

BPW: Board of Public Works

Source: University System of Maryland

The budget bill includes an across-the-board reduction totaling $11.1 million for USM for employee and retiree health insurance in fiscal 2018 to reflect two additional payroll health insurance deduction holidays due to a surplus in the health insurance account.

The Budget Reconciliation and Financing Act (BRFA) of 2018 includes a provision for the transfer of $9 million from the State-supported portion of USM's fund balance to the General Fund. As shown in **Exhibit 9**, before the transfer, four institutions (TU, UMES, CSU, and UB) have a negative balance in their State-support portion of the fund balance. After the transfer, six institutions will have a negative balance in their State-supported portion of the fund balance. According to USM, the new fund balance policy (further discussed in Issue 1) requires institutions with a negative fund balance to

submit a plan with the working fiscal 2019 budget on how it will eliminate the deficit in the State-supported portion of their fund balance. Institutions will be required to submit a yearly report until the deficit is eliminated. USM will monitor an institution's progress. It should be noted that the exhibit does not reflect the planned transfer of $10 million to the facilities renewal quasi-endowment fund created in the 2017 session.

Exhibit 9
Fund Balance by Institution
Fiscal 2017 and 2018
($ in Thousands)

		2018 Working[1]				
		State-supported				
	2017 Total	Beginning Balance	Transfer to General Fund	Ending Balance	Non-State-supported	Total
University of Maryland, Baltimore Campus	$173,031	$39,648	-$1,560	$38,087	$139,972	$178,060
University of Maryland, College Park Campus	423,284	181,647	-3,424	178,223	257,711	435,934
Bowie State University	25,474	14,033	-294	13,739	12,526	26,265
Towson University	75,525	-7,088	-802	-7,890	87,129	79,239
University of Maryland Eastern Shore	1,087	-4,284	-271	-4,555	5,371	816
Frostburg State University	17,602	0	-280	-280	18,685	18,405
Coppin State University	6,860	-12,803	-311	-13,114	20,883	7,769
University of Baltimore	13,896	-67	-250	-317	15,120	14,803
Salisbury University	55,809	1,213	-366	847	56,477	57,323
University of Maryland University College	149,384	0	-290	0	153,370	153,370
University of Maryland Baltimore County	90,212	27,441	-824	26,618	66,293	92,910
University of Maryland Center for Environmental Science	16,153	114	-152	-38	16,039	16,001
University System of Maryland Office	4,810	1,653	-175	1,478	3,439	4,917
Total	**$1,053,127**	**$241,508**	**-$9,000**	**$232,799**	**$853,015**	**$1,085,814**

[1]Does not reflect planned $10 million transfer to facilities renewal quasi-endowment.

Source: University System of Maryland

Proposed Budget

As shown in **Exhibit 10**, the general fund allowance for fiscal 2019 is 3.9%, or $49.6 million, higher than in fiscal 2018 after adjusting for the across-the-board health insurance reduction, contingent reductions, and a 2% general salary increase effective January 1, 2019. The Higher Education Investment Fund (HEIF) increases 9.1%, or $5.2 million, resulting in total State funding growing 4.1%, or $54.8 million, in fiscal 2019.

The allowance provides funds for a 2% general salary increase. The general funds are included in the Department of Budget and Management (DBM) budget. For USM, the general salary increase totals $28.2 million of which the general fund portion is $17.3 million. The remaining $10.9 million is to be funded from non-State supported funds, *i.e.*, auxiliary and restricted funds.

The BRFA repeals provisions of Chapter 25 of 2016 requiring the Governor to provide $2.0 million to UMCP to fund the University of Maryland Center for Economic and Entrepreneurship Development and $4.0 million to UMBC to increase its funding guideline attainment level.

Exhibit 10
Proposed Budget
University System of Maryland
($ in Thousands)

	FY 17 Actual	FY 18 Adjusted	FY 19 Adjusted	FY 18-19 Change	% Change Prior Year
General Funds	$1,268,417	$1,290,913	$1,318,066		
Across-the-board Reductions		-11,118			
Contingent Reductions			-6,000		
General Salary Increase			17,306		
Total General Funds	1,268,417	1,279,795	1,329,372	49,577	3.9%
HEIF	56,922	57,936	63,188	5,252	9.1%
Total State Funds	1,325,338	1,337,731	1,392,560	54,829	4.1%
Other Unrestricted Funds	2,776,502	2,910,207	2,980,149	69,942	2.4%
Total Unrestricted Funds	4,101,840	4,247,939	4,372,710	124,771	2.9%
Restricted Funds	1,224,647	1,293,257	1,305,430	12,173	0.9%
Total Funds	**$5,326,487**	**$5,541,196**	**$5,678,140**	**$136,944**	**2.5%**

HEIF: Higher Education Investment Fund

Note: Fiscal 2018 general funds are adjusted to reflect across-the-board reduction. Fiscal 2019 general funds are adjusted to reflect contingent reductions and cost-of-living adjustment.

Source: Governor's Budget Books, Fiscal 2019; Department of Legislative Services

Also included in the allowance is:

- $21.5 million to fund the costs of opening new facilities at UMCP ($13.1 million); the University System of Maryland Office (USMO) for the Universities at Shady Grove (USG) ($4.0 million); UMBC ($3.0 million); BSU ($0.9 million); and UMB ($0.5 million).

- 5.0 million to support a computer science initiative – $3.0 million for teacher training directed through grants to local education agencies and other organizations; $1.0 million for mentoring, coaching, advocacy, and outreach; $0.5 million to support the Center for Computing Education administered by USMO; and $0.5 million to provide grants to USM institutions to establish teacher pathways. **However, since SB 300 or HB 350 establishes the center, the Department of Legislation Services (DLS) recommends funding be contingent on the enactment of legislation.**

- $2.0 million in HEIF support for workforce development programs with USM providing an additional $8.0 million in fund balance or other institutional funds. Programs will focus on critical areas, *e.g.*, science, technology, engineering, and mathematics; health professions; and cybersecurity, with some institutions launching new regional center programs and others modifying existing programs.

- $1.4 million to provide matching funds for the Maryland cooperative extension program at UMES. It should be noted that in fiscal 2014, UMES received a total of $0.7 million in general funds specifically to meet the match for the agricultural experimental station program, even though only $0.6 million was needed to fully meet the match.

- $0.5 million related to the funding of the Southern Maryland Higher Education Center (SMHEC) that was budgeted in MHEC and is transferred to USMO (this will be further discussed in Issue 2). **However, since SMHEC was established by statute, legislation is needed to allow the merger. Therefore, DLS recommends the use of these funds be contingent upon enactment of legislation, and if legislation is not enacted, then the funds be transferred back to MHEC.**

- $0.3 million to UMBC to fund the Maryland Technology Internship Program established in Chapter 652 of 2014.

- $0.3 million to establish an economic development office at FSU.

- $0.1 million as mandated in the Textbook Saving Act of 2017 (Chapter 763) providing a grant for the Maryland Open Source Textbook Initiative administered by USMO.

As mentioned, the allowance provides $1.4 million in matching funds to UMES for the cooperative extension program. The Morrill Act of 1862 created most of the land-grant institutions in the country including UMCP, and a subsequent Morrill Act in 1890 established 18 Historically Black Colleges and Universities land-grant institutions including UMES. As the State's land-grant institutions, UMCP and UMES receive funds to support agricultural research through the experimental station program and the cooperative extension program, which is a statewide nonformal education system providing assistance to residents in rural and urban areas. These programs are funded through a combination of federal, State, and local funds with the State providing a match to the federal funds.

In 1993, BOR passed a resolution to merge the UMES and the UMCP programs, thereby creating one seamless program – University of Maryland Extension (UME) – in which both institutions jointly administer the program. Maryland is the only state with this unique arrangement. In other states, the two programs operate as two distinct systems. Over the years, the programs have become intertwined with the 1890 funds budgeted in UMCP, which reimburses UMES for UME expenses Initially, there was no matching requirement for the 1890 program, but one was gradually phased in over the years. UMCP was able to meet the match requirement through personnel costs. As a result, UME positions are funded with a blend of 1862 and 1890 funds, however UME positions are clearly identified as either being a UMES or UMCP employee. Providing funds to UMES raises several concerns:

- The 1890 match requirement is already being met through UMCP funding of personnel costs.
- UME currently serves as a national model of how 1862 and 1890 programs can work together, thereby providing services and programs more efficiently. It is unclear if this additional funding would result in two distinct programs, each with its own administration and staff operating separate field offices.
- How to identify and separate the funding of positions that have been supported by a combination of 1862 and 1890 funds.

DLS recommends restricting $1.4 million of UMES' general fund appropriation to be used only to fund the Maryland cooperative extension program and funding for the agricultural experimental station and that the Maryland cooperative extension programs be separately identified in the UMES budget.

The allowance includes $1.5 million in Maryland Energy Innovation Fund funded from the Strategic Energy Investment Fund as mandated in Chapter 364 of 2017. These funds are to support the establishment of the Maryland Energy Innovation Institute within the A. James Clark School for Engineering at UMCP and the Maryland Clean Energy Center. This will be further discussed in the Maryland Energy Administration's budget analysis.

Other current unrestricted funds increase 2.4%, or $69.9 million, over fiscal 2018. This is due to a $42.8 million increase in tuition and fee revenues partly related to a planned 2.0% increase in resident undergraduate tuition, $16.8 million in auxiliary revenues, and the remaining funds from other sources such as the sale and services of education activities.

Current Services Costs

Overall, USM State-supported current services costs (CSC) are estimated to increase $94.9 million, as shown in **Exhibit 11**. These costs are funded with unrestricted revenues (*e.g.*, general funds, the HEIF, and tuition and fee revenues). Overall, facilities-related expenditures comprise 51.6% of CSC. CSC for UMCP total $30.3 million of which costs related to the opening of new facilities and facilities renewal account for 60.0% of the total. All institutions except UMES plan to increase spending on financial aid.

Exhibit 11
Increases in State-supported Current Services Costs
Fiscal 2019

	New Facilities	ARB Debt Service	Facilities Renewal[1]	Salary Increase	Financial Aid	Mandated[2]	1890 Matching Funds	SMHEC	Other[3]	Total
UM, Baltimore Campus	$6,455	$217	$3,000	$3,017	$759	$0	$0	$0	$1,723	**$15,171**
UM, College Park Campus	18,954	843	3,873	7,732	3,281	302	0	0	3,022	**38,008**
Bowie State University	1,582	59	473	436	136	921	0	0	741	**4,348**
Towson University	0	237	857	1,571	1,195	0	0	0	2,908	**6,767**
UM Eastern Shore	0	43	200	445	0	1,923	1,400	0	0	**4,011**
Frostburg State University	0	95	300	437	100	644	0		0	**1,576**
Coppin State University	0	33	466	319	101	0	0	0	0	**919**
University of Baltimore	0	104	345	627	318	0	0	0	49	**1,442**
Salisbury University	0	93	1,667	688	1,288	0	0	0	459	**4,196**
UM, University College	0	0	125	312	1,741	0	0	0	2,923	**5,100**
UM Baltimore County	3,413	194	1,000	1,420	691	340	0	0	978	**8,036**
UM Center for Environmental Science	0	0	226	161	0	0	0	0	0	**387**
University System of Maryland Office	4,036		100	142	0	100	0	513	0	**4,890**
Total	**$34,440**	**$1,920**	**$12,632**	**$17,306**	**$9,610**	**$4,230**	**$1,400**	**$513**	**$12,802**	**$94,853**

ARB: Academic Revenue Bond

UM: University of Maryland

[1]University of Baltimore and UM University College include fuel and utilities.
[2]Adjusted to reflect $6.0 million in contingent reductions. Includes funds for Veterinary Medicine Agreement (University of Maryland, College Park Campus); technology internship program (University of Maryland Baltimore County); Office for Civil Rights Enhancement funds (Bowie State University, UM Eastern Shore, Coppin State University); and Textbook Savings Act (University System of Maryland Office (USMO)).
[3]Includes contractual increases, technology upgrades, costs related to Title IX, equipment, and fire and life safety issues.

Note: The University System of Maryland estimated current service costs (CSC) increase $95.8 million prior to $6.0 million in contingent reductions. However, costs are better categorized as program enhancements/initiatives and therefore not included in CSC. Not included were $10.0 million related to workforce development initiatives and $5.0 million for the computer science education initiative in USMO and $0.3 million to establish an economic development office at Frostburg State University.

Source: University System of Maryland

All institutions plan to increase spending on facilities renewal, which in times of budget shortfall is usually one of the first expenditures to be reduced. For example, in response to the September 2017 BPW action, three institutions (BSU, SU, and UMBC) reduced spending on facilities renewal by a total of $350,000. In 2015, BOR and the Chancellor noted that facilities renewal is a priority and will hold presidents accountable in meeting the BOR target of annually increasing operating expenditures on facilities renewal by 0.2% until the amount equals 2.0% of the replacement value of the academic buildings. As a result, operating spending on facilities renewal in fiscal 2017 totaled $126.1 million, a $44.4 million increase over fiscal 2016. Funding for facilities renewal is estimated to be 1.0% of replacement value systemwide in fiscal 2019. Overall, estimated spending on facilities renewal ranges from 0.3% at CSU to 1.7% at SU.

After adjusting for the fiscal 2019 general salary increase and $6.0 million in contingent reductions, expenditure growth in fiscal 2019 totals $94.9 million, as shown in **Exhibit 12**. On the revenue side, new State funds total $54.8 million, which includes $17.3 million budgeted in DBM to fund the general salary increase. New tuition and fee revenue totals $42.6 million. Adding other unrestricted revenues results in total new revenues of $108.4 million. This leaves USM $13.5 million to fund up to $7.3 million of new initiatives – workforce development, computer science education, and establishment of an economic development office at FSU – that were previously discussed.

It should be noted, since fiscal 2015, tuition and fee revenues have exceeded the allowance. In fiscal 2018, tuition and fee revenues are 1.7% (or $22.5 million) above the allowance when excluding UMUC (see **Appendix 4**). This will increase when USM recognizes revenue from the spring and summer semesters. Given this, it is likely tuition and fee revenues will be higher than the budgeted 2.5% in fiscal 2019, further increasing the amount of revenue available for enhancements or transfer to fund balance.

USM also plans to transfer $21.4 million to the State-supported fund balance in fiscal 2019. When including the transfer of $20.4 million in non-State-supported funds to the fund balance, the ending balance for fiscal 2019 is estimated to total $1.13 billion. Overall, by being fiscally conservative, which includes building up its fund balance, USM's financial health has improved as indicated by various financial ratios. In looking at available resources to debt, as shown in **Exhibit 13**, USM's ratio steadily improved from 135.6% in fiscal 2014 to 167.9% in fiscal 2017. When adjusting for BOR approved commitments and authorizations to spend that are not reflected in the financial statements, the ratio improved from 97.9% in fiscal 2015 to 118.5% in fiscal 2017, exceeding USM's informal policy of maintaining a 1:1 ratio of available resources to outstanding debt.

As shown in Exhibit 12, new State-supported revenues are sufficient to cover CSC and new initiatives, leaving USM $6.2 million to transfer to the State-supported portion of the fund balance. In addition, USM plans to transfer $21.4 million to the State-supported portion of the fund balance. Since USM's available resources debt exceeds the 1:1 ratio, DLS recommends reducing USM's general fund appropriation by $5 million since this will not significantly affect its debt coverage ratio.

Exhibit 12
USM State-supported Revenues Available for Program Enhancements
Fiscal 2019

	Amount
Expenditures	
Current Services Cost Increase	$94,852,673
Revenues	
New State Funds[1]	$54,829,027
New Tuition and Fee Revenues	42,580,169
Other New Unrestricted Revenues	10,987,258
New General Fund, Tuition, and Other Revenues	**$108,396,454**
Funds Available for Initiatives/Program Enhancements	**$13,543,781**
(Revenues Less Expenditures)	
New Initiatives	
Workforce Development	$2,000,000[2]
Computer Science Education	5,000,000
Economic Development Office (Frostburg State University)	300,000
Total Initiatives	**$7,300,000**
Funds Available for Enhancements or Fund Balance	**$6,243,781**
Planned Transfer to State-supported Fund Balance	$21,413,093
Planned Transfer to Non-State-supported Fund Balance	20,415,282
Estimated Ending Fiscal 2019 Total Fund Balance	$1,127,352,259

USM: University System of Maryland

[1] State funds include general funds and Higher Education Investment Funds. General funds are adjusted by $6 million in contingent reductions and include $17.3 million related to general salary increase included in the budget of the Department of Budget and Management.
[2] USM may provide up to an additional $8 million, which may be supported by fund balance or institutional funds.

Source: Governor's Budget Books, Fiscal 2019; Department of Legislative Services

Exhibit 13
Available Resources to Debt Outstanding
Fiscal 2012-2017

	2012	2013	2014	2015	2016	2017
Available resources to outstanding debt[1]	138.8%	146.5%	135.6%	158.5%	162.7%	167.9%
USM adjusted for encumbered funds and debt not yet issued for authorized rev. bond-funded projects[2]	93.5%	101.2%	109.2%	115.6%	126.3%	131.6%
USM readjusted for future cash-funded committed but not authorized[2]				97.9%	112.0%	118.5%

USM: University System of Maryland

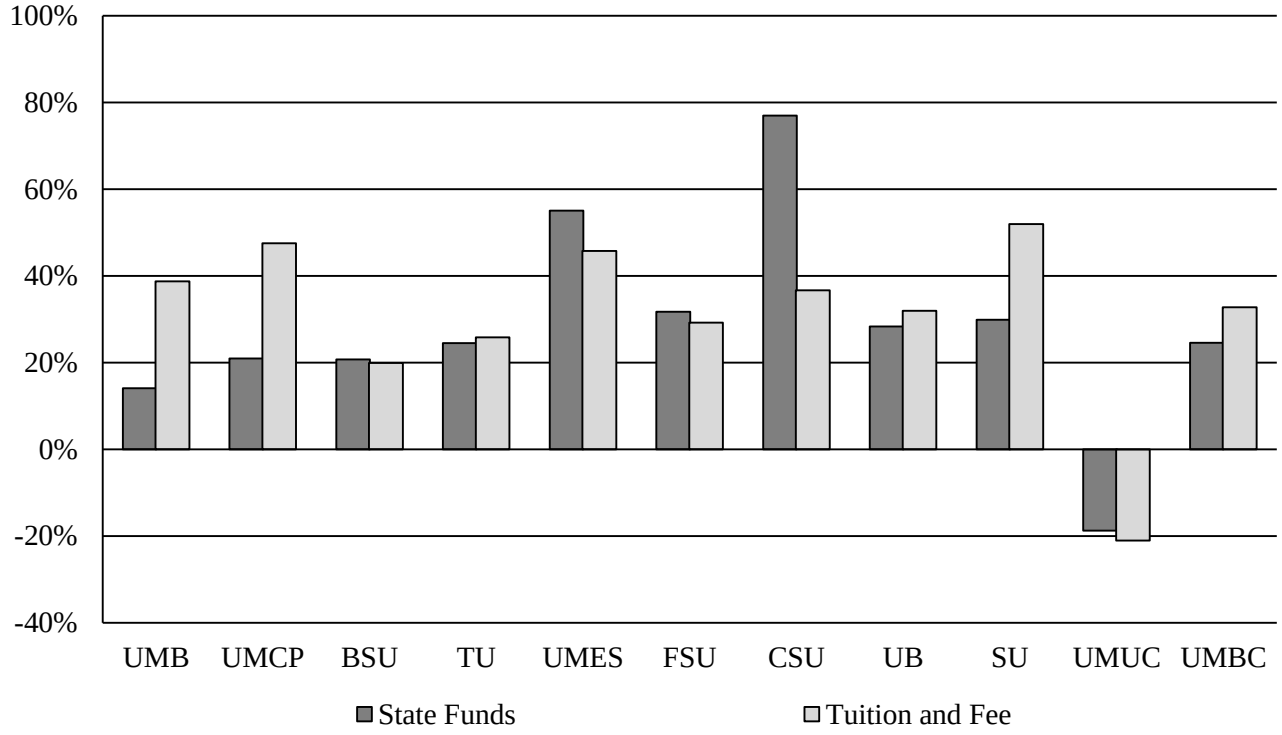
[1]Calculated from audited financial statements.

[2]USM adjusted ratios include future cash-funded projects that have not yet been authorized. Beginning in fiscal 2015, the ratio reflects cash or donor funding committed to projects currently underway but spending authorizations that are being phased in. It should be noted, available resources do not reflect the future cash or donor commitments to the projects.

Source: University System of Maryland Financial Statements

Exhibit 14 shows the percentage change in State funds (General Fund/HEIF) and tuition and fee revenues per full-time equivalent students (FTES) between fiscal 2009 and 2019 by institution. During this time period, State funds and tuition and fee revenues per FTES grew almost at the same pace, 29.1% and 29.5%, respectively. In terms of State funding, CSU funding grew at the highest rate of 77.0%, increasing from $10,919 in fiscal 2009 to $19,324 in fiscal 2019, with UMES increasing at the next highest rate of 55.0%. These increases largely reflect a significant decline in enrollment at both institutions. The decline of 18.8% and 21.0% in State funds and tuition and fee revenues, respectively, at UMUC is attributable to a change in federal reporting requirements in which all students enrolled in online programs are now included in its stateside numbers. The change occurred in fiscal 2015, with UMUC stateside enrollment growing 15.5%. The highest growth rates of tuition and fee revenues per FTES of 52.0% and 47.5% occurred at SU and UMCP, respectively.

Exhibit 14
Percentage Change in State Funds and Tuition and Fee Revenues Per FTES
Fiscal 2009 and 2019



BSU: Bowie State University
CSU: Coppin State University
FSU: Frostburg State University
FTES: full-time equivalent student
SU: Salisbury University
TU: Towson University
UB: University of Baltimore
UB: University of Baltimore
UMB: University of Maryland, Baltimore Campus
UMBC: University of Maryland Baltimore County
UMCP: University of Maryland, College Park Campus
UMES: University of Maryland Eastern Shore
UMUC: University of Maryland University College

Note: State funds include general funds and Higher Education Investment Funds.

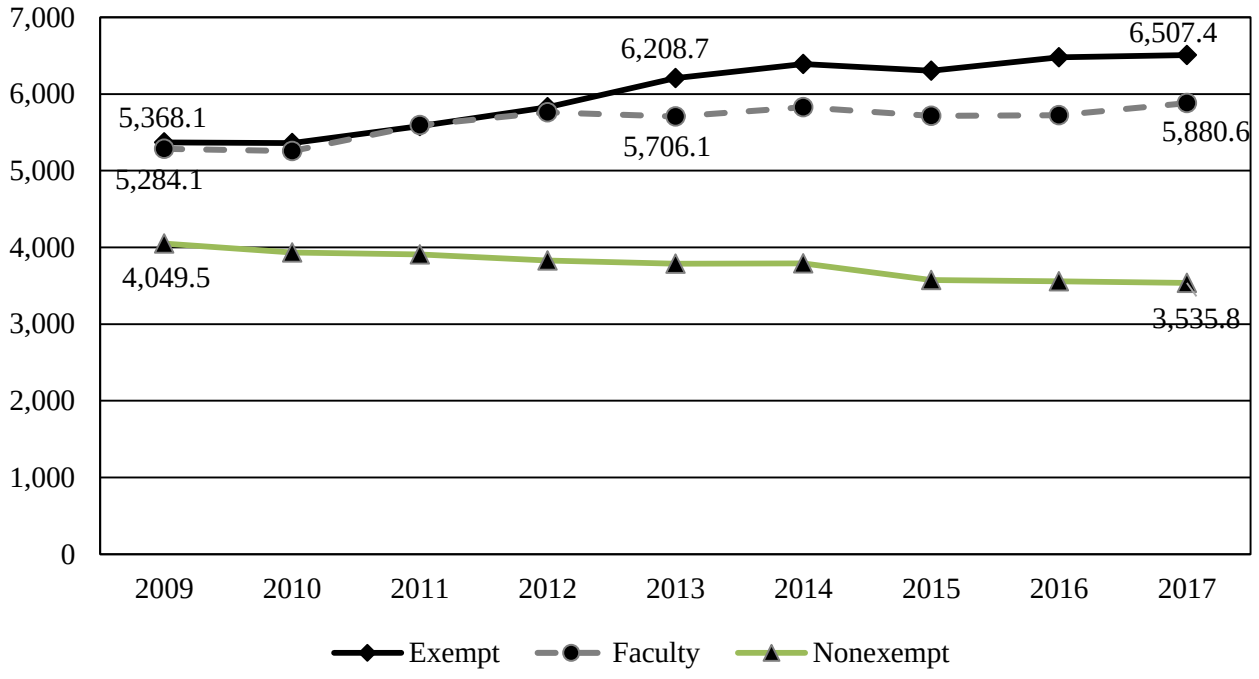
Source: Governor's Budget Books; Department of Legislative Services

Personnel Trends

Over the past 10 years, the total number of filled State-supported positions (excluding hospitals) increased 8.3% (1,222.1 full-time equivalents (FTE)), with exempt positions growing 21.2% (1,139.3 FTEs) as shown in **Exhibit 15**. Exempt positions are executive, administrative, and

professional positions exempted by the Fair Labor and Standards Act from minimum wage and overtime requirements. Prior to 2013, there was a small gap between the number of exempt and faculty positions and trends in the number of position seemed to mirror each other. This changed in 2013 when the number of exempt positions increased by 379.5 FTEs, and faculty decreased by 55.8 FTEs. University of Maryland Center for Environmental Science (UMCES) at 19.6% experienced the largest growth in exempt positions followed by SU and UMB at 10.7% and 10.4%, respectively. The number of exempt positions declined 16.4% at CSU (27.1 FTEs) reflecting efforts to align expenditures with revenues.

Exhibit 15
Total Filled State-supported Positions by Classification
As of October 2009-2017



Source: University System of Maryland Institutions

Since 2013, the number of exempt positions has continued to increase to 6,507.4 FTE while the number of faculty positions has remained fairly stable, which is expected, given the modest level of enrollment growth. The number of filled nonexempt positions steadily declined 12.7% (513.7 FTE) over the past 10 years.

The Chancellor should comment on the increase in the number of filled exempt positions relative to the number of faculty positions and the factors contributing to the increase in exempt positions.

Issues

1. Fund Balance Workgroup

Over the past few years, there have been concerns regarding the growth of USM's fund balance and the pressure put on USM institutions to meet transfer targets. While there is a general understanding of the need for a fund balance, there was a lack of clarity regarding the appropriate amount to set aside, the conditions under which a university could use the fund balance, the impact of the balance on USM credit ratings, and what factors rating agencies take into consideration when determining credit ratings. As a result, narrative in the 2017 *Joint Chairmen's Report* (JCR) established a Fund Balance Workgroup to examine various aspects of USM's fund balance. The workgroup was comprised of representatives from the legislature, USM BOR, USM presidents, and the Executive Branch.

Maintaining a fund balance or reserves is common practice among public and private institutions. Funds are used to support operations in times of revenue shortfalls or emergencies, support future programs or initiatives, or to maintain a favorable credit rating. In addition, USM has used fund balance to help fund various capital projects that otherwise may not have the funding to proceed. Through its efforts, USM has built up its available funds, including fund balance and plant funds. As shown in **Exhibit 16**, USM's fund balance grew 28.0%, or $230.4 million, to an estimated $1.1 billion between fiscal 2012 and 2017 with State-supported funds accounting for $29.6 million of this growth. Institutions can also transfer operating funds to the plant fund, which can only be used for capital related expenditures. Between fiscal 2012 and 2017, plant funds increased 31.9%, or $233.6 million, to a total of $965.7 million. Overall, during this time period, total available funds grew 29.8% totaling $2.0 billion in fiscal 2017.

Exhibit 16
University System of Maryland Total Available Funds
Fiscal 2012-2017
($ in Thousands)

	Non-state Supported	State-supported	Total	Annual Change	
		Fund Balance			
2012	$631,872	$190,807	$822,679	$79,728	10.7%
2013	656,180	210,880	867,060	44,381	5.4%
2014	682,332	201,783	884,116	17,056	2.0%
2015	718,819	201,792	920,611	36,495	4.1%
2016	768,956	231,557	1,000,513	79,902	8.7%
2017	832,723	220,405	1,053,127	52,615	5.3%
		Plant Funds			
2012	$365,530	$366,566	$732,096	$110,065	17.7%
2013	300,290	473,398	773,688	41,592	5.7%
2014	312,753	454,801	767,554	-6,134	-0.8%
2015	346,686	456,894	803,580	36,026	4.7%
2016	380,863	534,805	915,668	112,088	13.9%
2017	385,412	580,331	965,743	50,075	5.5%
		Total Available Funds			
2012	$997,402	$557,373	$1,554,775	$189,793	13.9%
2013	956,471	684,278	1,640,748	85,973	5.5%
2014	995,085	656,585	1,651,670	10,921	0.7%
2015	1,065,505	658,686	1,724,191	72,521	4.4%
2016	1,149,819	766,361	1,916,180	191,990	11.1%
2017	1,218,134	800,736	2,018,870	102,690	5.4%

Note: Appendix 1 provides institutional fund balance data.

Source: University System of Maryland

USM Bonding Authority

USM has the authority to issue debt – academic revenue bonds (ARB) and auxiliary revenue bonds. A primary stated reason for the growth in USM fund balance is to achieve the best possible credit rating. ARBs are backed by tuition revenues to finance academic-related capital projects, and

USM is authorized to pledge tuition income from all institutions to support ARBs. Legislative authorization is required for ARBs, and every year, USM introduces legislation that lists the specific academic projects to be funded with ARBs including funding for facilities renewal projects.

Auxiliary revenue bonds are backed by revenues associated with the borrowing activity such as residence halls, athletic facilities, student centers, or parking garages. These bonds are also issued by USM, which is solely responsible for the debt. Projects funded with these bonds are not approved by the General Assembly but are reviewed and approved by BOR. USM issues approximately $115 million of these bonds annually. State statute caps USM total outstanding debt at $1.4 billion, and it currently totals $1.3 billion.

USM Policies

USM does not have a formal policy regarding fund balance but has a goal that each institution annually transfers 1% of its current unrestricted funds to the fund balance and/or plant fund. There is some flexibility year to year in meeting the goal depending on the needs of the institution.

In order to maintain the best possible interest rates, USM BOR's policy on Debt Management (VIII-12.00) states that debt will be managed with the objective of maintaining an AA rating from the three major rating agencies, and available resources must be at least 55% of debt. However, USM's informal policy is maintaining a 1:1 ratio, which it has consistently exceeded and has maintained an AA+ rating (Aa1 for Moody's) since 2010.

Fund Balance Impact on Credit Ratings

Fund balance is just one of the financial components used by credit rating agencies in calculating the various financial ratios used to assess USM's financial health. Moody's (one of three credit rating agencies) measures, which include fund balance as a component, comprise 35% of the total assessment score. Rating agencies also take into account operating performance and other nonfinancial indicators such as market reputation and student demand. These measures make up the remaining 65% of the Moody's score. Any significant adverse changes to any of the performance measures could cause the rating agencies to downgrade an institution's rating.

Overall, USM performs well on some financial measures and below the recommended target on others. For example, in fiscal 2016, USM's return on net assets, which measures if resources are growing, was 9.83%. This is above the target recommended by the National Association of College & University Business Officers (NACUBO) of 3% to 4%. The high percentage indicates that USM is setting aside resources so as to strengthen its future financial flexibility. However, USM's primary reserve ratio (the number of days expenses could be covered without generating additional revenue) for fiscal 2016 was 26.2% (a little over three months), below NACUBO's recommended target of 40% (about five months).

National Perspective

While in general, states do not govern reserve fund requirements of public institutions, two states, Ohio and Wisconsin, have reporting requirements for institutions. Ohio's statute specifies three financial metrics used to assess the financial health of public institutions and that a composite score be determined for each institution. If the composite score falls below 1.75 out of a possible 5.0, the institution is put on financial watch by the state and is required to develop a financial recovery plan. An institution has to achieve a score of 2.4 for the watch to be terminated. The University of Wisconsin system is required to report on ending balances for unrestricted funds by source, the extent funds are committed to a certain purpose, and detailed spending plans for balances exceeding 12% of expenditures or how negative balances will be eliminated.

In general, public institutions that do not issue their own debt are more likely to have reserve fund policies. Of the nine public institution policies reviewed by DLS, all included transfer targets that were a certain percentage of operating expenditures. Three had reporting requirements if an institution exceeded or did not meet its target.

Public institutions that issue debt (like USM) have comprehensive debt management policies. Policies of eight institutions were reviewed that have the same or higher credit rating as USM and one with a lower rating. Seven of the policies specified debt capacity and affordability ratios, and six included providing comparisons to peer institutions.

Recommendations of Fund Balance Workgroup

The workgroup adopted a set of recommendations specifically designed to increase the transparency of USM's debt management policy and clarify the function and uses of the fund balance. The recommendations included reporting requirements to better inform USM presidents, the public, and other stakeholders of USM's overall financial health.

Debt Management Policy

The workgroup recommended that the BOR should revise USM's debt management policy. The revised policy should:

- identify the specific financial metrics USM uses to monitor its financial health and include how the metrics are calculated and the targets used by USM in monitoring debt capacity and debt affordability;

- set a target ratio for available resources to debt outstanding that is consistent with similarly rated institutions or systems;

- require regular review and update of the financial metric targets taking into consideration metrics used by credit rating agencies and those of other similarly rated institutions or systems; and

- require USM's dashboards to include a financial health section that includes a comparison of USM's actual metrics to the targets established in the policy, as well as a comparison of these metrics to peer institutions or systems. The dashboards shall be publically available and easily accessible on USM's website.

Fund Balance Policy

The workgroup recommended that BOR develop a fund balance policy and establish procedures that provide flexibility to institutions in accessing their fund balance. The policy should:

- establish procedures and thresholds for how institutions can access their fund balance without approval of BOR and without internal administrative approval by USMO. The policy should also establish a review process by which an institution can request BOR to review an administrative decision;

- allow institutions with a fund balance exceeding the available resources to debt outstanding target ratio to develop a plan to use a portion of the fund balance to support activities or quasi-endowments that advance the institution's mission, including critical infrastructure needs, financial aid, or any other initiatives. An institution's use of fund balance may not result in USM's financial metrics falling below target ratios; and

- require institutions with a negative State-supported fund balance, in collaboration with USMO, to submit a plan to the budget committees detailing how the negative balance will be eliminated.

Reporting Requirements

The revised debt management and fund balance policies and procedures should be submitted to the budget committees no later than June 1, 2018, and must be effective beginning in fiscal 2019. In addition, the workgroup recommended that USM should submit a report to the budget committees by December 30 of each year on:

- the financial health of USM based on the financial metrics adopted by BOR;

- the amount transferred to, and expended from, the plant fund and the fund balance by each institution during the prior fiscal year along with a brief description of the major projects supported with those funds during the year and planned for future years; and

- progress in eliminating negative State-supported fund balances at institutions.

Overall, the recommendations adopted by the workgroup should increase the clarity in uses of the fund balance and lead to a better understanding of how USM monitors its financial health and how the various measures of financial health impact USM's credit rating,

The Chancellor should comment on the status of developing debt management and fund balance policies in response to the workgroup's recommendations. DLS recommends restricting $500,000 of USMO's general fund appropriation until the BOR submits the revised debt management and fund balance policies and procedures. The policies should be submitted no later than June 1, 2018, as recommended by the fund balance workgroup.

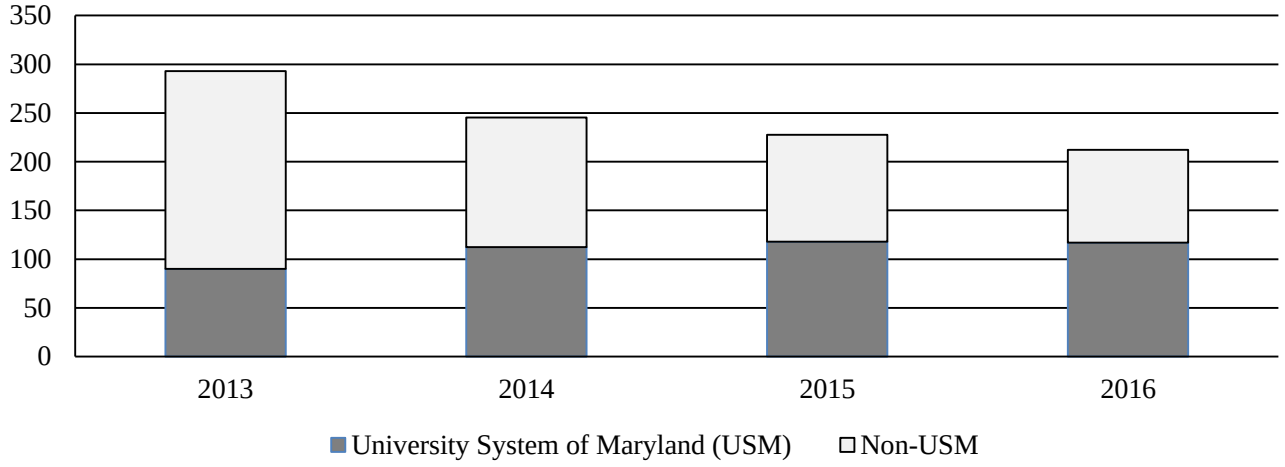
2. Possible Merger with Southern Maryland Higher Education Center

On September 28, 2017, the Board of Governors of the Southern Maryland Higher Education Center voted to merge with USM effective July 1, 2018, and in January 2018, approved a Memorandum of Understanding (MOU) laying out the details of the merger. The MOU will come before the USM BOR in February 2018 for approval. As previously discussed, the operating funds of $0.5 million for SMHEC that were budgeted in MHEC have been transferred to USMO in the allowance. However, since SMHEC was established by statute in 1994, the General Assembly would need to pass legislation allowing the merger.

SMHEC is one of seven regional higher education centers in the State not operated by USM. It was established by Chapter 282 of 1994 in response to a base realignment and closure-related need for advanced education and training for professionals serving the Navy and related defense facilities at the Naval Air Station Patuxent River. SMHEC focuses on providing graduate and upper level undergraduate programs mainly in engineering, technology, and management, although some education and health-related programs are also offered. SMHEC is governed by a 13-member board that identifies programs to meet the demands of the workforce. Institutions, both public and nonprofit, and out-of-state institutions are then recruited to offer those programs at SMHEC. However, all programs must first be approved by MHEC.

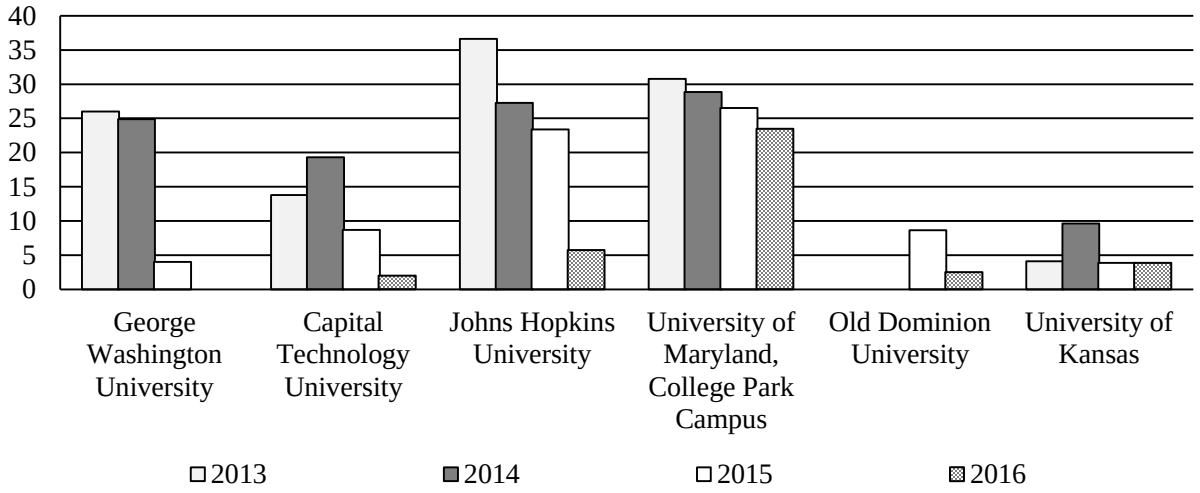
In fiscal 2017, 12 institutions (5 USM, 4 out-of-state, and 3 Maryland independent institutions) offered 19 graduate and graduate certificate programs and 7 upper level undergraduate programs. However, as shown in **Exhibit 17**, enrollment in programs offered at SMHEC declined 27.5%, or 80.6 FTES, between fiscal 2013 and 2016. While enrollment in USM programs grew 29.8% during this time period, those offered by non-USM institutions fell 53.0%. A primary driver behind the overall decline is a 66.2% drop, or 73.7 FTES, in the engineering programs. As shown in **Exhibit 18**, all institutions experienced a decline in engineering students with Johns Hopkins University incurring the largest loss of 30.9 FTES. Enrollment in UMCP's program declined 23.7%, or 7.3 FTES.

Exhibit 17
Full-time Equivalent Enrollment at Southern Maryland Higher Education Center
Fiscal 2013-2016



Source: Maryland Higher Education Commission

Exhibit 18
Full-time Equivalent Student Enrollment in Engineering Programs
Fiscal 2013-2016



Source: Maryland Higher Education Commission

Merger Discussions

USM and SMHEC initiated discussions on how they could work together to meet the postsecondary and economic needs of the Southern Maryland region over four years ago when language was include in the 2013 capital budget providing $1.5 million to USMO and a $250,000 grant to the Southern Maryland Navy Alliance and Board of Commissioners of St. Mary's County to design a third academic facility at SMHEC. Restrictive language placed on USM's appropriation required a formal agreement between USM, the Southern Maryland Higher Education Council, and the Southern Maryland Navy Alliance on the roles and responsibilities of each in the construction and operation of the facility and a report assessing the educational needs in Southern Maryland.

A report from the Southern Maryland Higher Education Council on the needs for higher education in the tri-county Southern Maryland region was submitted in December 2013. Chapter 622 of 2011 established the council that was comprised of 13 members from regional businesses, the military community, local governing boards, public and private higher education institutions, and MHEC. The council's recommendations included the recognition of the need for new higher education facilities and an increased presence of USM. Specifically, that the third academic facility at SMHEC should be a USM regional center operation that coordinates regional academic and research opportunities, and SMHEC would continue to be open to all accredited public and independent institutions. In addition, the council recommended that the facility expansion should include research space that can support basic and applied research needs of the region. This resulted in the scope of the project more than doubling from 38,121 gross square feet (GSF) to 84,388 GSF to include more engineering teaching laboratories, research space, and an auditorium with the cost of the facility increasing from $13.4 million to $82.0 million (discussed further in USM's capital analysis).

A formal agreement on the design, construction, and management of a third facility was also submitted in December 2013. The agreement contained a provision that SMHEC and USM negotiate an MOU that includes a transition plan for a possible merger.

Concerns about a Potential Merger

The potential merger of USM and SMHEC raises a number of concerns. One issue is the continuing enrollment decline and the consequent financial impact on the center and institutions. The falling enrollment, especially in the engineering programs, raises concerns about the program mix and if SMHEC is offering programs that meet the demands of the workforce. Furthermore, one of the justifications for the construction of a third facility at SMHEC is to increase the availability of undergraduate engineering programs. This specifically targets UMCP, as it is the only institution offering upper level undergraduate courses at the center. However, as previously mentioned, UMCP's enrollment has been declining.

There are issues regarding the funding model that will be implemented at the center. The funding model currently used at USM's two regional centers has not been sustainable. In general, tuition and fees generated by programs offered at the centers do not cover the cost of delivering the programs. In addition, the nine institutions offering programs at USG are required to provide an annual payment to USG totaling $3.2 million. USM, recognizing the funding model was not working, is

starting to implement an MOU-based funding model for new programs at USG that specifies responsibility and process for covering any funding gaps.

In regard to the non-USM institutions offering programs at SMHEC, a condition of the SMHEC board is that those institutions continue to be allowed to offer programs at the center. While USM has agreed to this in "principle" and "sees advantages," there are concerns about the future of those institutions continuing to provide programs at SMHEC. It should be noted that USM has a policy on non-USM institutions offering programs at USM regional centers (BOR Policy III-9.00) that states that when a need cannot be met by a USM institution, the center's director will notify USM and MHEC and work with MHEC to identify institutions that can provide the program. All proposals are then forwarded to USM for review, and the director shall make recommendations to the provost's governing council that will make the final decision.

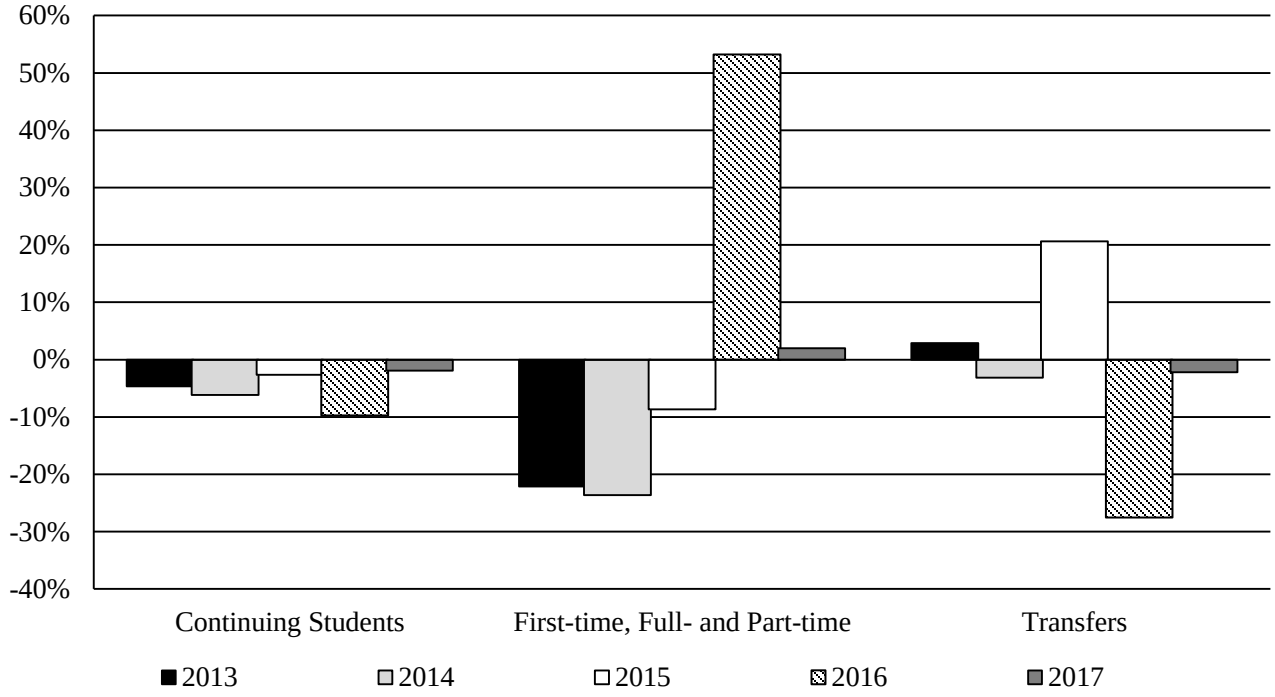
The Chancellor should comment on advantages of a merger with SMHEC, plans to stabilize and increase enrollment including reevaluating the program mix, the financial model, arrangements for non-USM institutions offering programs at the center, and the process for non-USM institutions interested in offering programs at the center.

3. Coppin State University Update

In looking at fall enrollment trends at CSU in **Exhibit 19**, efforts to increase the number of first-time students initially appeared to be effective with fall 2016 enrollment increasing 53.2%, totaling 403 students, the highest since fall 2012 when enrollment totaled 484. However, in fall 2017, there was a more modest growth, 2%, in the number of first-time students, bringing the total to 411 students. CSU implemented numerous strategies to increase enrollment including:

- Consolidation of enrollment management and student affairs under a new vice president.
- Partnered with EAB Royall, an enrollment management firm, to launch a full-year recruiting campaign targeting students in Maryland; New Jersey; New York; Pennsylvania; Virginia; and Washington, DC.
- Assigned admission counselors to defined territories for better oversight and accountability.
- Created an enrollment triage service using student affairs staff as front line screeners.
- Engaged a financial aid consultant to resolve major issues, address federal requirements, and completely updated the website.
- Implemented the use of data analytics to identify and manage students at risk of not successfully enrolling.

Exhibit 19
CSU – Percentage Change in Undergraduate Fall Headcount Enrollment
Fall 2013-2017



CSU: Coppin State University

Source: University System of Maryland

However, while CSU has been successful in increasing the number of first-time applicants from 4,739 in fall 2016 to 6,699 in fall 2017, only 18% of those accepted actually enrolled in the university in fall 2016, indicating that CSU still has challenges in attracting students.

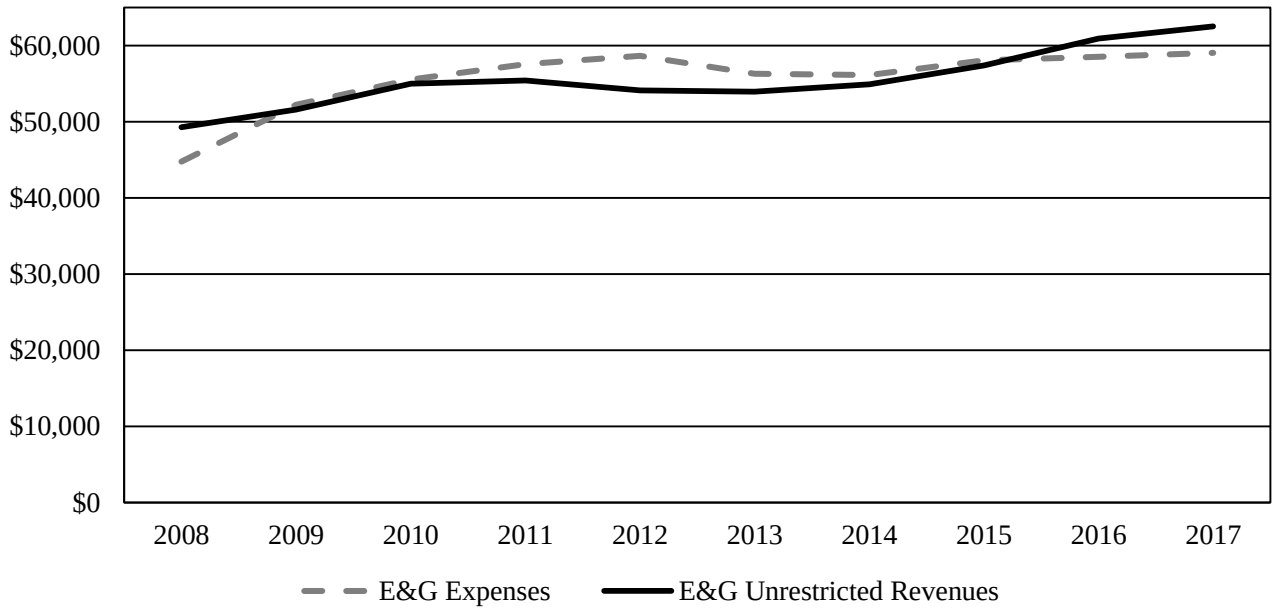
Retaining students is also a continuing challenge, with continuing student enrollment declining 22.9% (534 students) from fall 2012 to 2017. According to CSU, it faces unique challenges with its student population with a large number from low-income families with varying levels of academic preparation and life challenges that make continuous enrollment difficult. CSU implemented data-supported approaches, such as analytics, to develop strategies to address the needs of these students. In addition, CSU developed a partnership with BridgeEDU that provides support to low-income, first-year students who may require additional support in transitioning to college, including academic support to strengthen math and communication skills, personal coaching, mentoring, and other high-touch interventions to help explain the financial and social aspects of college.

The President should comment on both the efforts and the impacts of those efforts that are being taken to attract and retain students and in particular those targeting transfer students.

Budget Update

After six years straight of budgetary shortfalls due to increasing spending despite a continual decline in enrollment, along with the associated tuition and fee revenue, education and general (E&G) revenues exceeded expenditures in fiscal 2016, as shown in **Exhibit 20**. CSU was able to cover the persistent shortfall through a combination of fund balance transfers and the use of surplus auxiliary revenues. Since auxiliary enterprises are self-supporting, they typically generate a profit that is generally transferred to fund balance to be used to fund future auxiliary-related projects. In times when E&G revenues may not cover academic-related expenses, institutions will use excess auxiliary revenues to help offset shortfalls.

Exhibit 20
CSU Unrestricted Revenues and E&G Expenses
Fiscal 2008-2017
($ in Thousands)

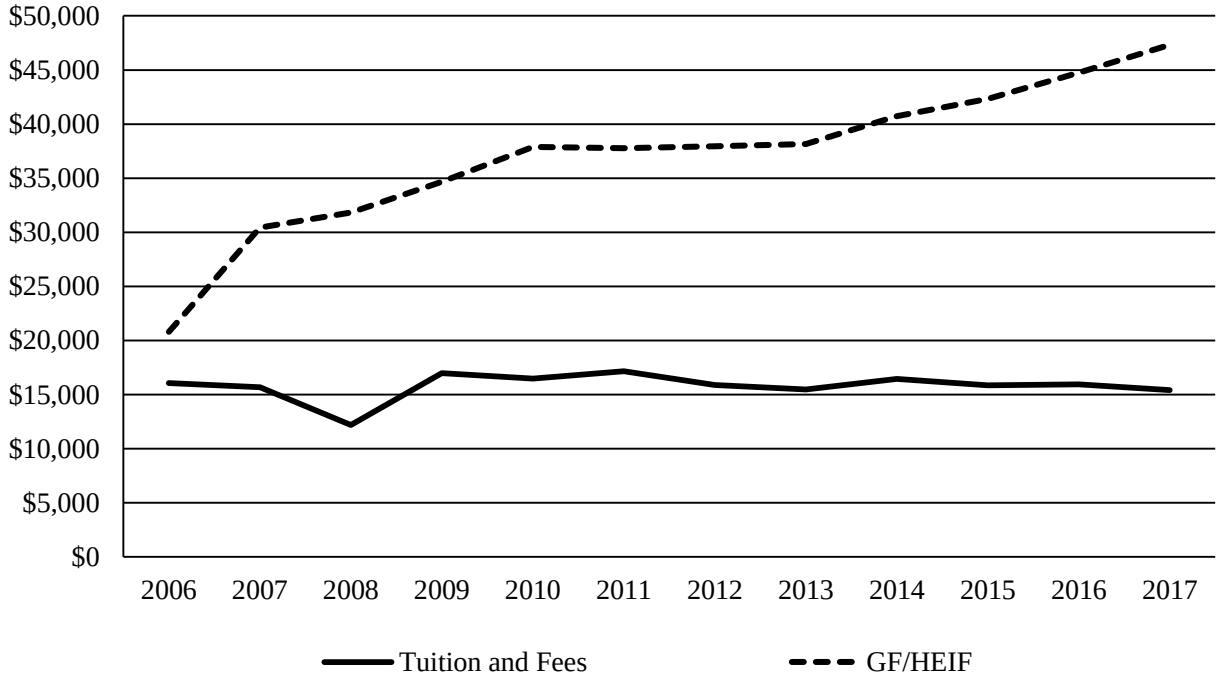


CSU: Coppin State University
E&G: education and general

Source: Governor's Budget Books

In fiscal 2013, after nearly depleting its fund balance, USMO and CSU took actions to align expenditures with revenues. While spending was reduced by $2.3 million, there was still a $2.3 million shortfall that was covered by a surplus in auxiliary revenues. Since then, various measures have been undertaken to right size the institution including the elimination of 37 filled and 34 long-term vacant positions, continuous monitoring of revenue collection and controlling spending, monitoring and staggering the filling of positions, reorganization of various departments, maintaining a high vacancy rate for State-supported positions (averaging 12.7% in fiscal 2017 for example), and eliminating unneeded positions. These measures, along with a 15.9%, or $8.6 million, increase in revenues resulted in E&G surpluses in fiscal 2016 and 2017. However, as shown in **Exhibit 21**, this growth is due to State funding increasing $9.2 million from fiscal 2013 to 2017, while tuition and fee revenues have remained relatively flat.

Exhibit 21
Coppin State University State Funding and Tuition and Fee Revenues
Fiscal 2008-2017
($ in Thousands)



GF: General Fund
HEIF: Higher Education Investment Fund

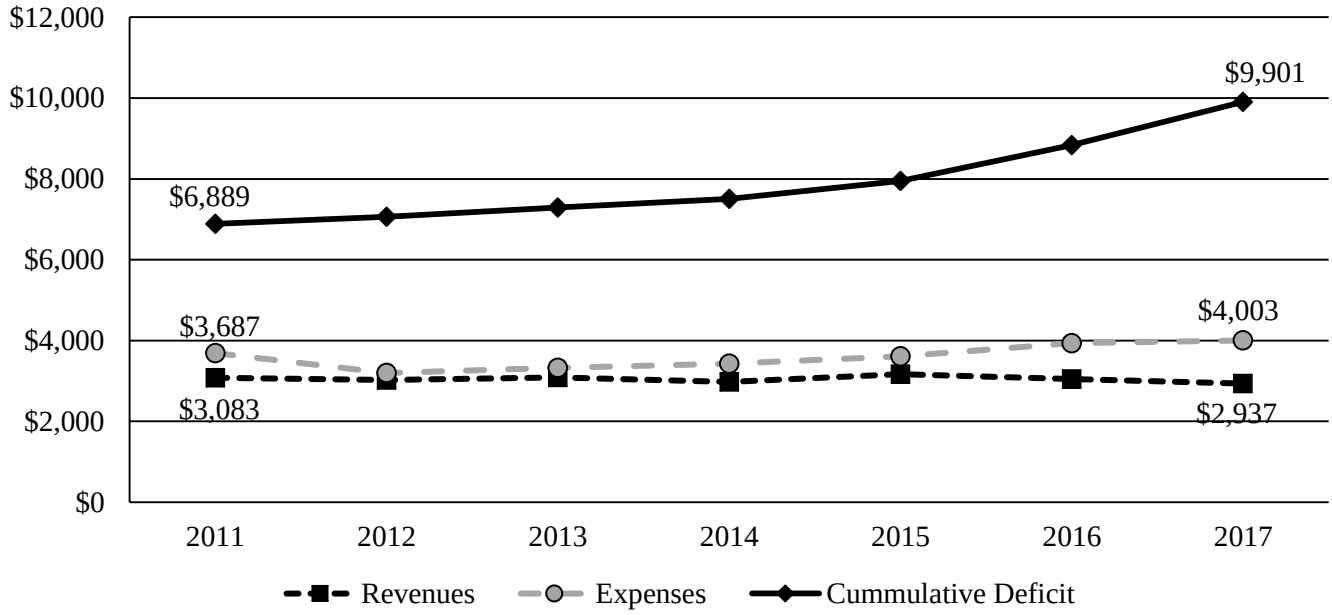
Source: Governor's Budget Books

CSU continues to take steps to right size the institution with the implementation of a Voluntary Separation Program. This will allow CSU to realign programs, student services, and administrative support functions and provides the potential to yield cost savings. CSU estimates 40% of the eligible employees will participate in the program at a projected initial cost of $0.8 million.

Worsening Athletic Deficit

From fiscal 2010 to 2015, auxiliary enterprises has an average surplus of $2.9 million. However, with E&G surpluses in fiscal 2016 and 2017, the auxiliary surplus decreased to an average of $0.5 million. This indicates CSU reduced spending on auxiliary enterprises in order to cover the E&G shortfall, raising concerns about the impact this had on the athletic program, which has been running a deficit since at least fiscal 2003. Similar to many institutions, CSU relies on student fees to support its athletic program. In fiscal 2017, the athletic fee was $800, which had not increased since fiscal 2015 and comprised 38.7% of the total mandatory fees. As shown in **Exhibit 22**, despite declining revenues from fiscal 2015 to 2017, athletic expenditures continue to grow, resulting in the cumulative deficit growing $2.0 million in fiscal 2017 to $9.9 million.

Exhibit 22
Coppin State University
Athletics Revenues, Expenditures, and Deficit
Fiscal 2011-2017
($ in Thousands)



Source: Coppin State University

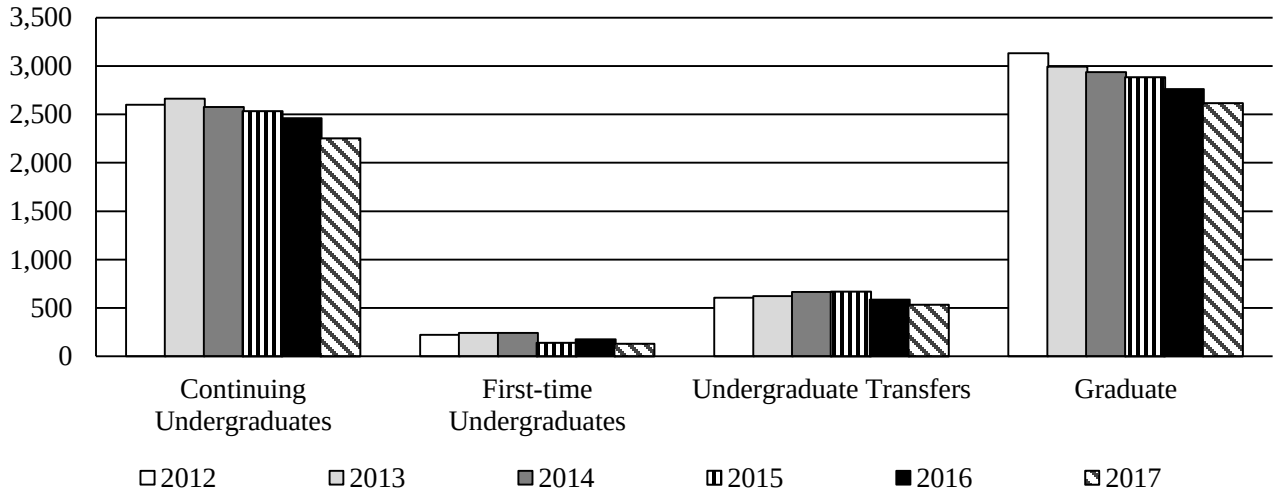
BOR established an Intercollegiate Athletics Workgroup in 2012 to examine athletic programs and policies and to assess compliance with the BOR policy on intercollegiate athletics. The BOR policy states that intercollegiate athletics programs are to be self-supporting and if a program has a deficit, a plan must be developed and adopted to eliminate the accumulated deficit. It should be noted that the policy allows institutions to have its debt forgiven with approval of BOR.

The President should comment on why, despite declining enrollment resulting in less revenue, athletic program expenditures continue to increase, particularly in the past two years, and what efforts are being taken to align revenues with expenditures.

4. UB Update

Since fall 2012, total enrollment at UB has dropped 15.6%, or 1,024 students, with graduate and continuing students accounting for most of the decline (861 students). As shown in **Exhibit 23**, graduate and continuing enrollment steadily declined 16.5% and 13.3%, respectively, between fall 2013 and 2017. After dropping by 102 students in fall 2015 the number of first-time undergraduate students increased by 35 students in fall 2016. However, the number of first-time students fell by 37 students in fall 2017.

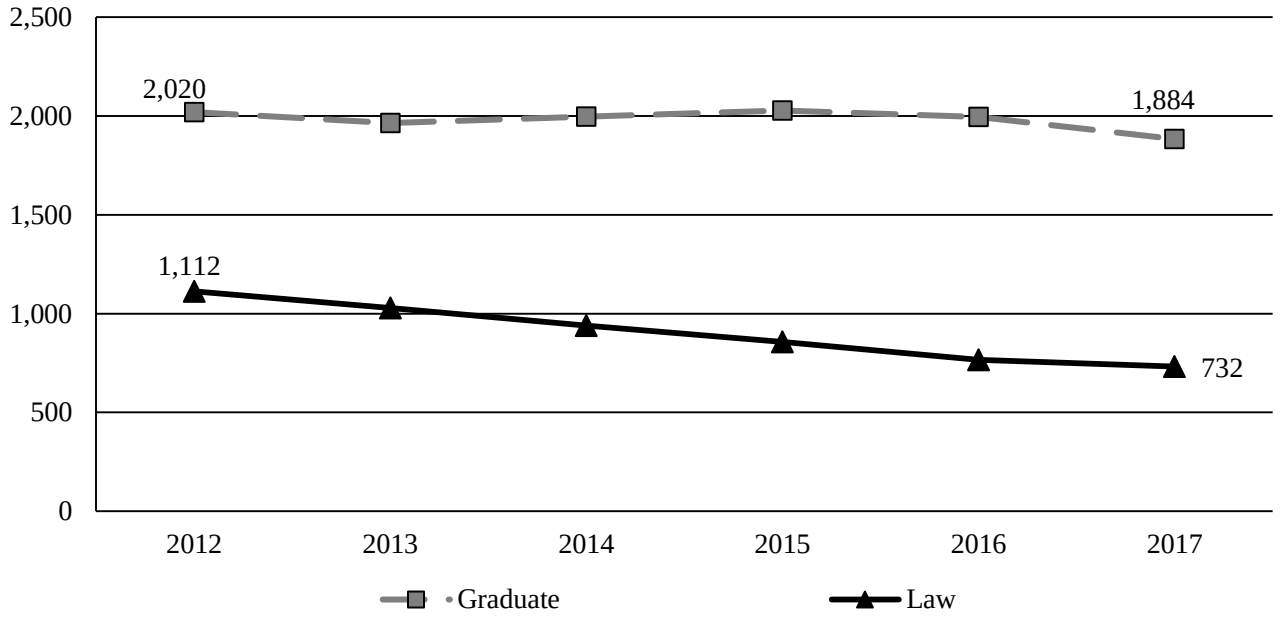
Exhibit 23
University of Baltimore
Total Fall Headcount Enrollment
Fall 2012-2017



Source: University System of Maryland

Graduate enrollment dropped by 516 students from fall 2012 to 2017, which accounted for half of the total decline in enrollment. This was driven by a continual decline in law school enrollment as illustrated in **Exhibit 24**, in which enrollment dropped 34.2%, or 380 students. The large loss of law students was not unique to UB. Nationally, since 2010, law school enrollment has dropped 24.8%. The rate of decline slowed in fall 2017 with enrollment declining by 34 students. Overall, the portion of students comprising graduate enrollment decreased from 35.5% in fall 2012 to 28.0% by fall 2017. The law school implemented a number of strategies to stabilize and improve enrollment including establishing a flat-rate competitive pricing for its Masters of Law (LL.M.) programs for foreign-trained lawyers and the Graduate Tax Program (GTP). The law school is also developing online flexibility in the GTP, which they believe will help increase enrollment.

Exhibit 24
University of Baltimore
Graduate and Law School Headcount Enrollment
Fall 2012-2017



Source: University of Baltimore

The decline in law school enrollment resulted in an average annual decline of $1.6 million in revenues from fiscal 2014 to 2017. However, the financial impact of the decline in total enrollment did not truly hit until fiscal 2017, as shown in **Exhibit 25**, when tuition and fee revenues were $2.1 million lower than the prior year. The loss of revenues due to the enrollment decline prior to fiscal 2017 was mitigated by increases in tuition and fees resulting in small year-to-year increases in revenues. However, in fiscal 2017, the decline in law school enrollment, an overall decrease in all

students, and a smaller tuition rate increase than in previous years resulted in a $2.1 million decline in tuition and fee revenues. This led to UB reducing its working appropriation by $3.96 million. This reduction was met by the mid-year elimination of 45 positions – 28 State-supported and 17 non-State-supported positions. Of the 28 State-supported positions, 15 were vacant due to resignations and retirements and the remaining 13 were filled positions. Of the 17 non-State-supported positions, 15 were funded by a contract that ended in September 2016 and 2 were filled positions.

Exhibit 25
University of Baltimore
Tuition and Fee Revenue
Fiscal 2013-2017

	2013	2014	2015	2016	2017
Actual	$65,964,999	$66,227,985	$66,239,095	$66,392,439	$64,319,423
Year-over-year Change	1,880,020	262,986	11,110	153,344	-2,073,016

Source: Governor's Budget Books

In fiscal 2018, UB faces a $4.2 million budget shortfall. In order to close this gap UB implemented several cost containment measures including hiring freeze ($1.6 million), employee furloughs and executive staff salary reduction ($1.3 million), and general reduction of expenditures such as travel and food ($0.7 million). Fund balance will be used to cover the remaining $0.6 million of the shortfall.

UB's furlough plan is based on an employee's salary. Those who make $55,000 or less, university police and security officers, and positions funded by external grants are excluded from the furlough. The temporary salary reductions range from 1.15% to 3.85% and are based on the number of days furloughed – 3 to 10 days. The salaries of the executive team members including the President, Provost, vice presidents, and deans will be reduced 5.0% to 15.0%, depending on their salary level.

Since the fiscal 2018 salary savings are intended to be temporary, UB is undertaking several actions to address the potential financial impact of flat enrollment in fiscal 2019. These actions include:

- ***Budget Modeling:*** As part of its review of operations and to identify alternative strategies in responding to budget challenges, each administrative academic unit modeled a 5%, 10%, and 15% reduction to its base operating budget in order to better understand the impacts each reduction would have on units and identify creative approaches to UB's operation and structure.

- ***Strategic Planning:*** Began implementing a new strategic plan that will guide funding priorities and decisions.

- ***Program Prioritization:*** Evaluating academic programs to ensure that programs are aligned with UB's mission and strategic plan, are market relevant, and contribute to goals for student success and institutional strength. In order to evaluate programs, UB is using a methodology that involves generating a board range of comparable metrics for all programs including data on revenues, costs, application and enrollment trends, graduation rates, market share, and faculty coverage.

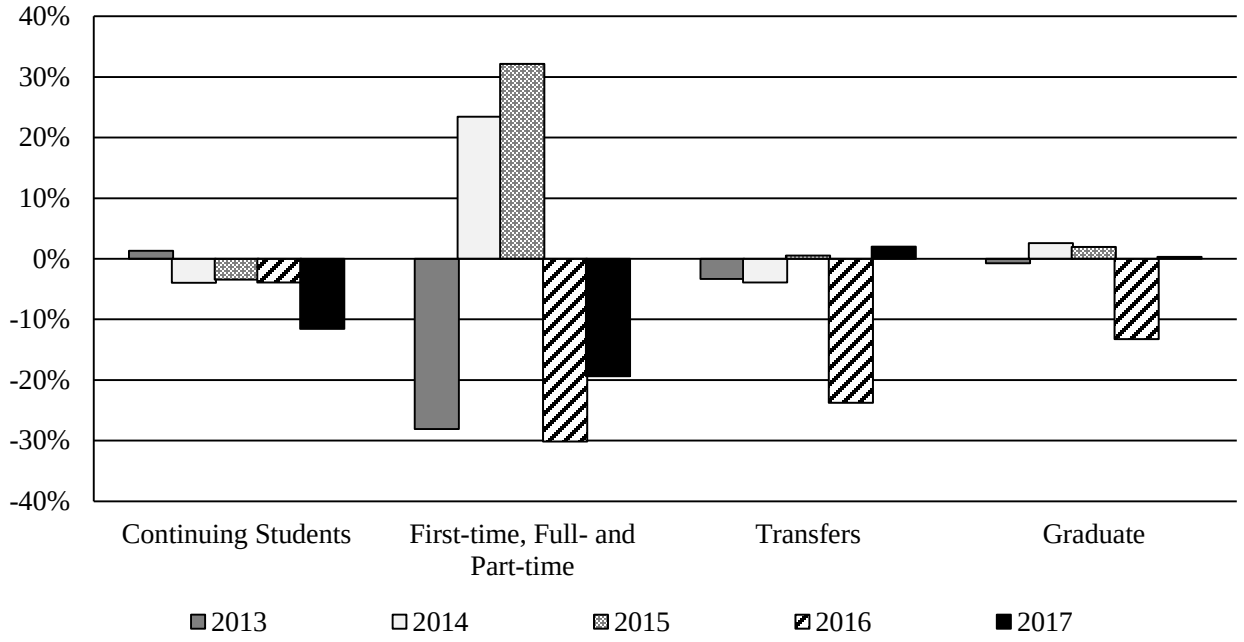
- ***Shared Services and Organization Realignment:*** Examining all aspects of administrative, academic, and business operations to identify opportunities to reduce costs, eliminate unnecessary duplication of services, and improve overall efficiency and effectiveness.

- ***Online Learning Taskforce:*** Developing a more intensive online learning strategy to increase online student enrollment.

5. University of Maryland Eastern Shore Update

Since fall 2014, undergraduate enrollment has dropped 19.9%, or 709 students, resulting in continuing budget shortfalls in the academic enterprise. Since fall 2015, undergraduate enrollment dropped 23.5%, or 881 students, as shown in **Exhibit 26**. This was driven by the loss of 465 and 372 first-time and continuing students, respectively. The decline in undergraduate enrollment can be attributed to several factors including not strategically using an enrollment management firm (formerly Royall & Company) that was hired in fall 2015 to help increase the number of applicants and the lack of adequate personnel at UMES to handle the influx of applications. While Royall proved successful in increasing the number of first-time applicants from 4,205 in fall 2014 to 7,403 in fall 2015, the admissions office was not prepared to handle this increase. UMES stated that Royall's method led to more applications rather than students who were actually interested in attending UMES, resulting in the acceptance of students who were ill-prepared to succeed in college. However, ultimately it was UMES' decision to admit those students.

Exhibit 26
University of Maryland Eastern Shore
Percentage Change Total Headcount Enrollment
Fall 2013-2017



Source: University System of Maryland

In fall 2016, the number of first-time applicants increased to 10,481 underscoring the notion that Royall was still generating applicants. However, this did not translate into more students enrolling, as the number of first-time students fell 30.1%, or 321 students. In addition, graduate enrollment fell 12.6% due to the loss of the Physician Assistant (PA) program in December 2015, which enrolled 100 students.

According to a report on fiscal 2017 and 2018 revenues and expenditures submitted by UMES in response to a JCR request the enrollment decline can be attributed to:

- lack of coordination and leadership in enrollment management;
- understaffing and turnover in key positions;
- antiquated/manual processes that were slowed by an excessive number of incomplete applications;

- poor use of technology and data analytics in the admissions, recruitment, and retention process;
- late processing of financial aid; and
- inadequate marketing and outreach.

UMES is taking several steps to stabilize enrollment including:

- creating a new Division of Enrollment Management (EM) with all essential EM functions being realigned under the division and elevating the Vice President of EM to a cabinet-level position;
- discontinued the contract with Royall;
- adopting a number of Hobsons products to assist in targeted recruitment, engagement, and student monitoring activities;
- upgraded software to improve financial aid and academic computing functions needed for effective EM operations; and
- allocate significant resources received from the Office for Civil Rights and Title III funding to enhance marketing and outreach.

Budgetary Impact

UMES has faced deficits in the academic enterprise since fiscal 2014, as shown in **Exhibit 27**. A 5.3% decline in enrollment contributed to the $1.1 million shortfall in fiscal 2014, which led to UMES using a combination of auxiliary surplus and the fund balance to cover E&G expenditures. In fiscal 2016, tuition and fee revenues declined $1.6 million, resulting in a $1.0 million shortfall in E&G, and again, UMES needed a combination of auxiliary surpluses and the fund balance to cover the gap. Overall, from fiscal 2013 to 2017, E&G spending increased $11.0 million, while revenues grew $6.6 million.

Exhibit 27
Education and General Revenues and Expenses
Fiscal 2013-2017
($ in Thousands)

	2013	2014	2015	2016	2017
Revenues	$67,724	$68,417	$75,412	$76,569	$74,316
Expenses	67,444	69,517	75,583	77,547	78,432
Surplus/Deficit	**$280**	**-$1,100**	**$171**	**-$978**	**-$4,116**

Note: Unrestricted revenues and expenses exclude auxiliary enterprises.

Source: Governor's Budget Books

In fiscal 2017, UMES faced a total unrestricted deficit of $4.6 million due to the loss in tuition and fee revenue associated with a 12.6% drop in fall 2016 enrollment coupled with a $0.9 million increase in spending. UMES stated there were several one-time events that contributed to the high level of expenditures in fiscal 2017 including:

- expenditures related to the loss of accreditation of the PA program, which included relocating approximately 100 students to other USM institutions with a PA program and refunds for tuition, fee, and housing payments ($1.4 million);
- judgement and attorney fees related to a 2007 sexual harassment/retaliation case ($0.9 million);
- damages due to flooding ($0.4 million); and
- settlement of a discrimination case brought by the former Provost and Vice President for Academic Affairs ($76,000).

UMES once again used a combination of auxiliary surpluses ($0.5 million) and fund balance ($3.7 million) to cover the shortfall, resulting in a negative $4.1 million balance in its State-supported portion of the fund balance. This situation in fiscal 2017 raises many concerns including why UMES did not take steps to reduce spending in August when it became clear enrollment was not meeting projections, USMO's fiscal oversight of institutions, and at what point USMO should intervene. **The President should comment on why once the drop in fall enrollment was known that actions were not taken in fiscal 2017 to reduce spending. The Chancellor should comment on USMO's oversight responsibilities in ensuring the financial stability of institutions, in particular those institutions that have continual E&G deficits and enrollment challenges.**

Enrollment continued to decline in fiscal 2018 with the fall 2017 enrollment dropping 10.6% resulting in the original unrestricted fund appropriation being revised downward by $5.6 million due to lower tuition and fee revenues. UMES initiated several cost containment actions estimated to save $6.4 million including:

- a hiring freeze;
- eliminating 33 vacant positions and 3 contingent positions;
- implementing a salary reduction plan from January to June 2018;
- reducing noncritical travel and enforcing pre-approval requirements;
- reducing the number of purchase cards and requiring pre-approval of transactions by senior management;
- discontinuing purchases and support of desktop printers and toner;
- strategically reducing operating budgets;
- outsourcing vending, printing, and laundry services;
- increasing alternative revenue streams *e.g.*, conferences and events; and
- increasing targeted fundraising.

However, if spring enrollment is lower than estimated, UMES may need to achieve additional savings to offset further declines in tuition and fee revenues.

UMES is monitoring progress in achieving cost savings including providing executive personnel and department heads monthly reports and developing a comprehensive plan to improve enrollment and financial position of the institution. The plan includes key performance indicators and target dates that are monitored monthly. Dashboards will be developed to assist in monitoring progress toward those goals, and quarterly updates will be submitted to USMO starting with the quarter ending December 31, 2017.

The fiscal 2019 allowance reflects flat enrollment with a 2% increase in tuition. UMES will implement new initiates to create a more sustainable operation including:

- converting to 11-month contracts for employees with light summer duties;
- reviewing options for a Voluntary Separation Program;

- implementing Program Prioritization Initiatives developed by a task force; and
- maximizing efficiencies in energy usage and utilities management, and reviewing benefits of adopting a four-day work week in the summer.

6. Efficiencies through the Consolidation of the University of Maryland Center for Environmental Science

UMCES, USM's only independent research institute, was established in 1925 as the Chesapeake Biological Laboratory at Solomon's Island and was transferred by statute in 1961 to the University of Maryland as the Natural Resource Institute. In 1975 statute established the Center for Environmental and Estuarine Studies (CEES) that was place under the Natural Resource Institute. In 1988 USM was created, and CEES was established as an independent center that became UMCES in 1997.

UMCES has a central administration that oversees four geographically distinct laboratories: Appalachian Laboratory located in Frostburg; Chesapeake Biological Laboratory on Solomon's Island; Horn Point Laboratory in Cambridge; and the Institute of Marine and Environmental Technology a joint institution with UMBC and UMB in Baltimore.

Chapter 95 of 2013 granted UMCES the ability to award graduate degrees in marine and environmental sciences jointly with other public senior higher education institutions. Currently, UMCES offers a joint degree in the marine, estuarine, and environmental sciences (MEES) and graduate programs in toxicology or molecular microbiology and immunology in collaboration with UMB. The MEES program was established in 1978 and is an interdisciplinary and interinstitutional graduate program with courses available to any USM graduate student. Faculty at UMB, UMCP, UMES, UMBC, and UMCES offer courses through the MEES program. It should be noted that a UMCES faculty member may be granted graduate faculty status allowing them to teach graduate level courses and serve on graduate student committees within the joint degree program. However, appointment as a UMCES graduate faculty member is not automatic and does not provide faculty status at all USM institutions.

In 2016, there were 132 students enrolled in MEES through their home institutions – UMB, UMCP, UMBC, and UMES. All admissions to the program are coordinated through a central admissions office at UMCP. Even with the recent degree-granting status change, the MEES program remains administratively housed at UMCP for support services including admissions, registration, and billing. While UMCES can provide stipends to MEES students, it cannot offer federal loans because it does not participate in Title IV federal financial aid programs. A graduate student seeking a federal loan has to apply through their home institution offering the joint degree. In addition, the Director of MEES holds a joint position – a half-time administrative appointment supported by UMCP and a half-time research and teaching appointment funded by UMCES.

The fiscal 2019 allowance provides UMCES $22.7 million in general funds and the HEIF, the smallest appropriation of any USM institution. As a research institute, UMCES does not collect tuition and fee revenues. Cost savings from administration efficiencies could be achieved by merging or reorganizing UMCES as a whole, or the four research laboratories separately, with the appropriate USM institution. Overall, of the total 135.0 filled State-supported FTE positions at UMCES, 39.7%, or 54.8 FTEs, are exempt (nonfaculty) positions that include executives, professionals and administrative personnel, as shown in **Exhibit 28**. Cost savings would be achieved through the elimination of duplicative and unnecessary exempt nonfaculty positions and associated administrative costs.

Exhibit 28
Total State-supported Filled Full-time Equivalent Positions
Fiscal 2018

	Filled FTE	% of Filled	Vacant Positions	Total Positions	% of Total
Exempt	54.8	40.6%	1.5	56.3	39.2%
Nonexempt	39.6	29.3%	0.6	40.2	28.0%
Faculty	40.6	30.1%	6.5	47.1	32.8%
Total	**135.0**		**8.6**	**143.6**	

FTE: full-time equivalent

Note: Data is as of October 15, 2017.

Source: University of Maryland Center for Environmental Science

The benefits from merging UMCES with an appropriate USM institution include:

- minimizing the impact of budgetary reductions (as part of a larger institution, the effect of a budgetary reduction would be lessened since a decrease would be allocated among all programs and offices);
- maximizing the potential for collaborative research and increasing faculty access to resources, which may provide an advantage when competing for grants and contracts; and
- increasing both undergraduate and graduate students' access to faculty, providing opportunities for students to gain knowledge from experienced research faculty either from class or work on research projects.

As authorized in the Education Article Section 12-104(f), BOR may establish, merge, consolidate, or close any center or institute. This authority was used to successfully reallocate the University of Maryland Biotechnology Institute's (UMBI) resources to five USM institutions at the beginning of fiscal 2011. The reorganization of UMBI ultimately resulted in $4.1 million in savings attributable to the elimination of duplicative administrative services. This shows the administrative efficiencies and the associated cost savings that can be achieved through consolidation of services.

In addition to the UMBI experience, the Virginia Institute of Marine Science (VIMS) can provide a model for a successful integration of an independent research institution with a public four-year institution. VIMS was established in 1940 at the College of William and Mary and in 1962 became an independent institution by statute. In 1979, VIMS returned to the administrative umbrella of the College of William and Mary. The college's School of Marine Science is VIMS' graduate education component. VIMS receives about half of its funding through state appropriation and the rest from competitive federal, state, and local grants and contracts.

DLS recommends restricting $500,000 of the general fund appropriation for USMO until BOR submits a report to merge UMCES, either as a whole or by individual laboratories, with the appropriate USM institution(s) whose mission most closely aligns with UMCES or its component laboratories. BOR should submit the report by December 1, 2018, outlining a plan and timeline for merging UMCES with another USM institution(s) and identifying ongoing cost savings totaling at least $3.0 million from this process.

Recommended Actions

1. 1. Add the following language to the general fund appropriation:

   Further provides that this appropriation made for the purpose of the University System of Maryland institutions shall be reduced by $5,000,000.

   Explanation: This language reduces the University System of Maryland's (USM) general fund appropriation by $5 million. New State-supported revenues are more than sufficient to cover current services cost and new initiatives, leaving USM $6.2 million to transfer to the State-supported portion of the fund balance. Since USM's available resources to debt ratio exceeds a 1:1 ratio, this reduction will not significantly affect its coverage ratio.

2. Add the following language to the general fund appropriation:

   Further provided that $500,000 of this appropriation made for the purpose of the University System of Maryland Office may not be expended until the University System of Maryland Board of Regents submits the revised debt management and fund balance policies and procedures. The policies should be submitted to the budget committees by June 1, 2018. The committees shall have 45 days to review and comment. Funds restricted pending receipt of the policies may not be transferred by budget amendment or otherwise to any other purpose and shall revert to the General Fund if the policies are not submitted.

   Explanation: This language restricts $0.5 million in general funds in the University System of Maryland Office (USMO) pending the submission of the revised debt management and fund balance policies and procedures.

Information Request	**Author**	**Due Date**
Debt management and fund balance policies	USMO	June 1, 2018

3. Add the following language to the general fund appropriation:

   Further provided that $1,400,000 of the appropriation made for the purpose of the University of Maryland Eastern Shore (UMES) may only be used to match federal funding for the 1890 Extension Program. UMES shall submit a report to the budget committees detailing how the funds will be used by August 1, 2018. Funds not used for this purpose will revert to the General Fund.

   Further provided that funding for the 1890 Extension Program and Evans-Allen Program and the McIntire-Stennis Program at the Agriculture Experiment Stations shall be separately identified in UMES' budget beginning with the fiscal 2020 budget.

Explanation: This language restricts $1.4 million to be used only to match federal funds for the 1890 Extension Program and requires State funding for the 1890 Extension Program and Evans-Allen Program and the McIntire-Stennis Program at the Agriculture Experiment Stations to be separately identified in the UMES budget beginning with the fiscal 2020 budget.

Information Request	**Author**	**Due Date**
Report on the use of 1890 extension funding	UMES	August 1, 2018

4. Add the following language to the general fund appropriation

   Further provide that $5,000,000 of this appropriation made for the purpose of the University System of Maryland Office for the computer science education initiative is contingent on the enactment of SB 300 or HB 350.

   Explanation: The language makes $5 million of the University System of Maryland Office's general fund appropriation provided to fund the computer science education initiative funds contingent on enactment of SB 300 or HB 350, which includes establishing the Maryland Center for Computing Education.

5. Add the following language to the general fund appropriation:

   Further provided that if legislation authorizing the merger of the University System of Maryland Office and the Southern Maryland Higher Education Center (SMHEC) is not enacted, $512,739 may not be expended for any program or purpose and may be transferred to the Maryland Higher Education Commission Educational Grants (R62I00.07) for the operation of SMHEC.

   Explanation: If legislation is not enacted, funds may only be transferred to the Maryland Higher Education Commission Educational Grants to support the operations of SMHEC.

6. Add the following language to the general fund appropriation:

   Further provided that $500,000 of this appropriation made for the purpose of administration at the University System of Maryland Office may not be expended until the University System of Maryland (USM) Board of Regents (BOR) submits a report on the relocation of the University of Maryland Center for Environmental Science (UMCES) to the appropriate USM institution(s). The report should detail cost savings to be realized from the relocation of UMCES, or its laboratories, and include information on the rationale for why the selected academic institution(s) most closely aligns with UMCES and/or its laboratories and a schedule for when the transfer(s) will be completed. BOR should find at least $3,000,000 in ongoing savings for the State as a result of the transfer(s). The report should be submitted to the budget committees by December 1, 2018. The committees shall have 45 days to review and comment.

Funds restricted pending receipt of a report may not be transferred by budget amendment or otherwise to any other purpose and shall revert to the General Fund if the report is not submitted.

Explanation: This language restricts $500,000 in general funds in the University System of Maryland Office (USMO) pending submission of a report from BOR detailing how UMCES will be relocated to other University System of Maryland institutions. The rationale for the division of the constituent laboratories of UMCES should be explained and cost savings to the State, totaling at least $3,000,000, should be identified.

Information Request	**Author**	**Due Date**
Report on the relocation of UMCES	USMO	December 1, 2018

Updates

1. Instructional Productivity

Annual language in the JCR requires USM to annually submit a report on the instruction workload of faculty. BOR sets standards of expectations of instructional workload for tenured/tenure-track faculty, which have not changed since fiscal 2005. The average target course units (equivalent to teaching a three-hour course) per full-time faculty member is 5.5 and 7.5 course units at research and comprehensive institutions, respectively.

As shown in **Exhibit 29**, when only considering the workload of tenured/tenure-track faculty, just one comprehensive and research institution met or exceeded the BOR standard in fiscal 2017, CSU. When all core instructional faculty (*i.e.*, tenured/tenure-track and full-time nontenured instructional faculty who are responsible for the main activities of teaching and managing the instructional activity of the institution) are considered, three comprehensive institutions (BSU, CSU, and SU) met or exceeded the standard, while both research institutions, UMCP and UMBC, exceeded the standard.

Exhibit 29
Average Course Units Taught by Full-time Equivalent Tenured/Tenure-track and All Core Instructional Faculty
Fiscal 2012, 2016, and 2017

	2012		2016		2017	
	Tenure	Core	Tenure	Core	Tenure	Core
Bowie State University	7.5	7.7	7.2	8.0	7.0	7.6
Coppin State University	8.3	9.0	7.8	9.0	7.9	9.3
Frostburg State University	7.4	7.4	7.3	7.2	7.1	7.1
Salisbury University	7.6	7.8	7.2	7.3	7.3	7.5
Towson University	7.0	7.4	6.6	7.1	6.6	7.0
University of Baltimore	6.6	6.5	6.6	6.7	6.7	7.0
University of Maryland Eastern Shore	7.6	7.6	8.1	8.2	7.1	7.0
Comprehensive Average	**7.4**	**7.6**	**7.1**	**7.3**	**7.0**	**7.2**
University of Maryland Baltimore County	6.8	6.9	6.6	7.0	6.3	6.5
University of Maryland College Park Campus	5.6	5.6	5.4	5.5	5.4	5.7
Research Average	**5.9**	**5.9**	**5.7**	**5.9**	**5.7**	**5.9**

Note: One course unit is defined as a standard three-credit lecture course; all other courses and instructional activity such as undergraduate and dissertation research are converted to course units. Calculations for Salisbury University, Towson University, and the University of Baltimore omit the schools of business and law because accreditation standards requires law faculty to teach four course units and business faculty to teach six course units.

Source: University System of Maryland's annual *Report on the Instructional Workload of USM Faculty*

Exhibit 29 presents information for one measure that can be used when looking at instructional activity and effectiveness of faculty. As shown in **Exhibit 30**, another measure is the production of semester credit hours, which are based on time in the classroom multiplied by the total students enrolled in the course. For example, a 3-credit course with 10 students produces 30 semester credit hours. This measure also provides an indication of how well institutions are managing faculty and maintaining class size.

Exhibit 30
Average Semester Credit Hours Generated by Tenured/Tenure-track and All Core Instructional Faculty
Fiscal 2012, 2016, and 2017

	2012		2016		2017	
	Tenure	Core	Tenure	Core	Tenure	Core
Bowie State University	526	561	454	475	463	482
Coppin State University	263	255	316	313	308	306
Frostburg State University	496	494	472	482	401	411
Salisbury University	606	615	522	537	522	518
Towson University	402	425	402	434	396	419
University of Baltimore	404	419	379	380	366	377
University of Maryland Eastern Shore	448	542	638	637	604	585
University of Maryland Baltimore County	363	456	359	475	350	482
University of Maryland College Park Campus	491	568	405	517	412	525

Note: Excludes faculty on sabbatical and those exempted as a result of illness or death, and adjustments are also made for instruction-related activity and external funding. Calculations for Salisbury University, Towson University, and the University of Baltimore are adjusted to omit the schools of business and law.

Source: University System of Maryland's annual *Report on* the *Instructional Workload of USM Faculty*

When data from faculty workload and semester hours generated is considered together, it provides a better picture of instruction productivity at each campus. For example, as previously shown in Exhibit 29, while core faculty at CSU continually teach more course units than faculty at other comprehensive institutions, they also produce the least number of credit hours per semester, indicating faculty teach more classes with fewer students. Conversely, in fiscal 2017, UMES' core faculty produced the most credit hours (585) of any institution but the average course units taught was one of the lowest, implying that faculty teach fewer courses to larger classes.

Appendix 1
Fund Balance by Institution
Fiscal 2017-2019
($ in Thousands)

		2018 Working[1]			2019 Allowance			2018-19 $ Change		
	2017 Total	State-supported	Non-State-supported	Total	State-supported	Non-State-supported	Total	State-supported	Non-State-supported	Total
UM, Baltimore Campus	$173,031	$38,087	$139,972	$178,060	$41,029	$143,684	$184,712	$2,941	$3,711	$6,652
UM, College Park Campus	423,284	178,223	257,711	435,934	194,298	257,711	452,009	16,074	0	16,074
Bowie State U.	25,474	13,739	12,526	26,265	14,629	12,765	27,394	890	239	1,129
Towson U.	75,525	-7,890	87,129	79,239	-7,890	91,639	83,750	0	4,510	4,510
UM Eastern Shore	1,087	-4,555	5,371	816	-4,555	5,371	816	0	0	0
Frostburg State U.	17,602	-280	18,685	18,405	-280	19,768	19,488	0	1,083	1,083
Coppin State U.	6,860	-13,114	20,883	7,769	-12,796	21,812	9,016	318	929	1,247
University of Baltimore	13,896	-317	15,120	14,803	833	15,120	15,953	1,150	0	1,150
Salisbury U.	55,809	847	56,477	57,323	1,061	58,262	59,323	214	1,786	2,000
UM University College	149,384	0	153,080	153,080	0	157,112	157,112	0	4,032	4,032
UM Baltimore County	90,212	26,618	66,293	92,910	26,618	69,962	96,579	0	3,669	3,669
UM Center for Environmental Science	16,153	-38	16,039	16,001	-37	16,038	16,001	0	-300	0
USM Office	4,810	1,478	3,439	4,917	1,303	3,896	5,199	-175	457	282
Total	**$1,053,127**	**$232,799**	**$852,725**	**$1,085,524**	**$254,212**	**$873,141**	**$1,127,352**	**$21,413**	**$20,415**	**$41,828**

UM: University of Maryland

USM: University System of Maryland

[1]Does not reflect $10 million transfer to facilities renewal quasi-endowment.

Source: University System of Maryland

Appendix 2
USM Budget Changes for Unrestricted Funds by Program
Fiscal 2017-2019
($ in Thousands)

	2017 Actual	2018 Work. Adjust.	2017-18 % Change	2019 Adjusted	2018-19 % Change	2018-19 Change
Expenditures						
Instruction	$1,284,021	$1,320,370	2.8%	$1,331,409	0.8%	$11,039
Research	278,875	277,991	-0.3%	283,724	2.1%	5,733
Public Service	69,033	74,372	7.7%	75,647	1.7%	1,275
Academic Support	459,564	469,106	2.1%	491,608	4.8%	22,503
Student Services	215,316	220,458	2.4%	223,478	1.4%	3,019
Institutional Support	463,661	487,742	5.2%	484,960	-0.6%	-2,783
Operation and Maintenance of Plant	435,640	478,125	9.8%	509,939	6.7%	31,814
Scholarships and Fellowships	196,229	214,569	9.3%	223,606	4.2%	9,037
Across-the-board Reduction		-11,118				
General Salary Increase				17,306		
Contingent Reductions				-6,000		
Education and General Total	**$3,402,340**	**$3,531,615**	**3.8%**	**$3,635,677**	**2.9%**	**$104,062**
Hospitals (UMB)	51,861	56,269	8.5%	56,179	-0.2%	-90
Auxiliary Enterprises	647,639	660,055	1.9%	680,854	3.2%	20,799
Grand Total	**4,101,840**	**4,247,939**	**3.6%**	**4,372,710**	**2.9%**	**124,771**
Revenues						
Tuition and Fees	1,631,705	1,694,180	3.8%	1,736,761	2.5%	42,580
General Funds	1,268,417	1,279,795	0.9%	1,329,372	3.9%	49,577
HEIF	56,922	57,936	1.8%	63,188	9.1%	5,252
Other Unrestricted Funds	567,733	580,880	2.3%	591,868	1.9%	10,987
Subtotal – State Supported	***$3,524,776***	***$3,612,792***	***2.5%***	***$3,721,189***	***3.0%***	***$108,396***
Auxiliary Enterprises	662,728	676,543	2.1%	693,349	2.5%	16,806
Transfer (to)/from Fund Balance	-85,665	-41,396		-41,828		

	2017 Actual	2018 Work. Adjust.	2017-18 % Change	2019 Adjusted	2018-19 % Change	2018-19 Change
Grand Total	**$4,101,840**	**$4,247,939**	**3.6%**	**$4,372,710**	**2.9%**	**$124,771**

HEIF: Higher Education Investment Fund
UMB: University of Maryland, Baltimore Campus
USM: University System of Maryland

Note: Fiscal 2018 education and general (E&G) total and general funds are adjusted to reflect across-the-board reduction. Fiscal 2019 E&G and general funds are adjusted to reflect contingent reductions and general salary increase.

Source: Governor's Budget Books, Fiscal 2019; Department of Legislative Services

Appendix 3
University System of Maryland
State Funds Per Full-time Equivalent Student
Fiscal 2009-2019 Allowance

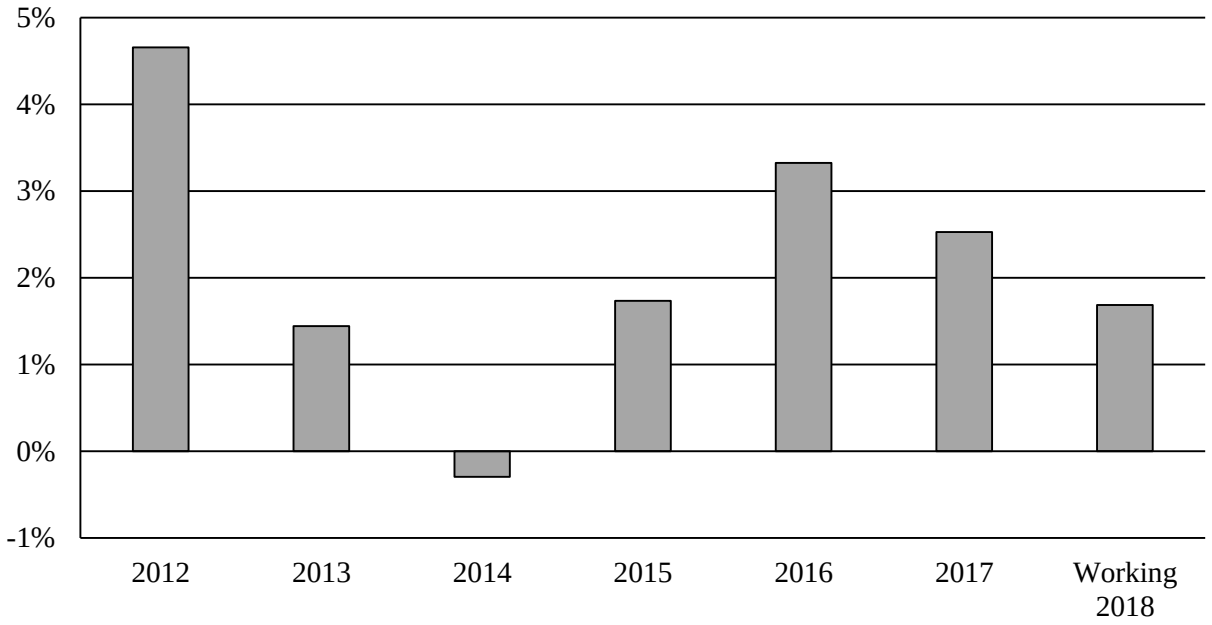
	2009	2010	2011	2012	2013	2014	2015	2016	2017	Working 2018	Allowance 2019
UMB	$30,292	$28,973	$28,643	$28,450	$28,593	$30,558	$32,740	$33,807	$33,570	$34,040	$34,570
UMCP	12,124	12,031	11,886	11,984	12,149	12,800	13,451	13,900	14,085	13,904	14,670
BSU	7,817	7,800	7,704	7,990	8,392	8,683	8,803	9,543	9,571	9,520	9,440
TU	5,161	5,077	5,034	5,077	5,057	5,158	5,573	5,926	6,344	6,365	6,426
UMES	8,101	8,590	7,454	7,487	7,504	8,410	8,620	8,961	11,186	12,117	12,561
FSU	7,390	7,041	6,941	7,264	7,350	7,706	8,112	8,411	9,053	9,517	9,738
CSU	10,919	11,997	12,546	13,061	13,760	15,337	17,003	18,275	20,009	19,550	19,324
UB	7,651	7,127	7,050	6,852	6,387	7,224	7,738	8,333	9,376	8,872	9,818
SU	5,356	5,208	5,143	5,049	5,130	5,308	5,716	6,162	6,529	6,843	6,957
UMUC	1,539	1,447	1,466	1,290	1,360	1,483	1,409	1,201	1,229	1,259	1,250
UMBC	9,171	9,092	9,000	8,875	8,732	9,058	9,511	9,969	10,668	10,942	11,424

BSU: Bowie State University
CSU: Coppin State University
FSU: Frostburg State University
SU: Salisbury University
TU: Towson University
UB: University of Baltimore
UMB: University of Maryland, Baltimore Campus
UMBC: University of Maryland Baltimore County
UMCP: University of Maryland, College Park Campus
UMES: University of Maryland Eastern Shore
UMUC: University of Maryland University College

Note: Includes General Fund and Higher Education Investment Funds. UMCP and UMES excludes funding for Agriculture Cooperative Extension and Experimental Station. General funds adjusted to reflect fiscal 2018 across-the-board reduction and fiscal 2019 for contingent reductions and cost-of-living adjustment.

Source: Governor's Budget Books, Department of Legislative Services

Appendix 4
Percentage Difference Between Allowance and Actual Tuition and Fee Revenues
Fiscal 2012-2018



Note: Excludes University of Maryland University College since it does not transfer any State-supported funds to the fund balance.

Source: University System of Maryland; Department of Legislative Services