

Department of Legislative Services
Maryland General Assembly
1999 Session

FISCAL NOTE

House Bill 1026 (The Speaker. *et al.*)
(Administration)

Appropriations

**Higher Education - University System of Maryland - Coordination, Governance,
and Funding**

This bill modifies provisions of law relating to the University System of Maryland (USM) in accordance with the findings and recommendations of the Task Force to Study the Governance, Coordination, and Funding of the University System of Maryland.

The bill takes effect July 1, 1999. Provisions of the bill relating to program development and review procedures sunset July 1, 2002. Provisions of the bill relating to collective bargaining are contingent on the enactment of Senate Bill 129/House Bill 179 ("State Employees - Collective Bargaining").

Fiscal Summary

State Effect: Significant increase in general fund expenditures as follows:

Strategic Incentive Funding - General fund expenditures increase by an indeterminate amount, possibly \$5 million annually.

College Preparation Intervention Program - \$750,000 increase in general fund expenditures in FY 2000.

Private Donation Incentive Program - Increase in general fund expenditures of \$17,120 in FY 2000, \$2.96 million in FY 2001, and \$2.97 million annually in FY 2002, 2003, and 2004.

Supplemental Funding Items - Increase in general fund expenditures of \$32.0 million

in FY 2000 and \$22.8 million in FY 2001 for USM institutions. FY 2000 expenditure increases would result in \$8.6 million in additional funding for community colleges and non-public institutions in FY 2001.

State Conference on Higher Education - Increase in general fund expenditures of \$4,000 in FY 1999, \$4,100 in FY 2001, and \$4,203 in FY 2003.

In addition, State Use Industries, Blind Industries and Services, and sheltered workshops could experience a significant loss in sales, which would result in layoffs and possibly increased recidivism.

Local Effect: No direct effect on local government finances.

Small Business Effect: A small business impact statement was not provided by the Administration in time for inclusion in this fiscal note. A revised fiscal note will be issued when the Administration's assessment becomes available.

Fiscal Analysis

Bill Summary: The bill includes provisions in the following areas:

- Mission Statements of USM Constituent Institutions. Approval of the Maryland Higher Education Commission (MHEC) is no longer required. However, MHEC shall review mission statements for consistency with the State Plan for Higher Education (the "State Plan"). MHEC, in cooperation with the institutional presidents, shall develop and periodically update the format of mission statements.
- Decentralization of Authority. The USM Board of Regents shall delegate to the president of each constituent institution authority to make and implement policies promoting the mission of that institution. The Board of Regents shall develop policies and guidelines for the presidents to follow in meeting applicable standards of quality, resource use, personnel management, mission adherence, and educational service. Each president shall be held accountable for meeting the objectives in the institution's performance accountability plan. The bill also gives institutions more autonomy in the employee grievance process, and shifts the final decision-making function in grievance appeals from the Secretary of Budget and Management to the Chancellor of USM.
- Program Development and Review Procedures. A president of a USM constituent institution may establish a new program or abolish an existing program if the

action is consistent with the institution's mission statement and can be implemented within the existing resources of the institution. The Board of Regents shall review actions taken by presidents in this regard. MHEC shall determine whether a new program complies with the Equal Educational Opportunity requirements of State and federal law. MHEC shall identify low productivity programs and new programs that are inconsistent with the State Plan. MHEC shall monitor the program development and review process and report annually to the Governor, Board of Regents, and General Assembly on the nature and extent of any duplication or proliferation of programs. By January 1, 2002, MHEC shall submit a report to the Governor, Board of Regents, and General Assembly on the program development and review process.

- Operating and Capital Budget Requests of the Board of Regents. MHEC may review and comment only within the broad context of the State Plan, and may not disagree with a budget item approved by the Board of Regents unless the item is clearly inconsistent with the State Plan. After the Board of Regents submits its requests for appropriations, the president of the University of Maryland, College Park (UMCP) shall have the opportunity to meet with the Governor to present and discuss UMCP's annual budget request and proposals for capital projects for the next fiscal year. MHEC shall develop operating and capital budget funding guidelines, based on current and aspirational peer institution comparisons and other appropriate factors, in consultation with the segments of higher education.
- Strategic Incentive Funds. MHEC may distribute strategic incentive funds to an institution to encourage attainment of the goals and priorities set forth in the State Plan. The Board of Regents may distribute strategic incentive funds to an institution to encourage attainment of the institution's approved mission. The Governor is requested to provide funds to MHEC and the Board of Regents for this purpose.
- Public Corporation. USM is established as a public corporation, and generally exempted from State law governing procurement, telecommunications, and information management. Board of Public Works approval is required for contracts for services or capital improvements exceeding \$500,000. Subject to review and approval by the Board of Public Works, the Board of Regents is required to establish procurement policies and procedures for USM. The Board of Regents is also required to develop an information technology plan for USM that is functionally compatible with the State information technology plan.
- Collective Bargaining. Non-faculty USM employees gain the right to participate in collective bargaining.

- College Preparation Intervention Program. MHEC shall reestablish the College Preparation Intervention Program in cooperation with the State's public institutions of postsecondary education, the council of Maryland's K-16 partnership, and the local school systems. The purpose of the program is to raise the level of academic preparedness of economically and environmentally disadvantaged students who go on to college. The Governor shall include in the annual budget an appropriation of at least \$750,000 in general funds for the program.
- Private Donation Incentive Program. The Private Donation Incentive Program is reestablished. Under this program, the State is required to provide funds to public higher education institutions receiving eligible private donations. Each institution shall receive from the State an amount equal to the first \$250,000 of eligible pledges paid during the previous fiscal year, one-half of the next \$1,000,000 or any portion thereof, and one-third of the amount in excess of \$1,250,000. State funding is limited to \$250,000 for each community college; \$1,250,000 each for the University of Maryland, College Park and the University of Maryland, Baltimore; and \$750,000 for each other institution. Pledged amounts must be paid by July 1, 2004.
- Supplemental Funding. Pending the development of funding guidelines by MHEC, the Governor is requested to include in a fiscal 2000 supplemental budget:
 - a minimum funding level of \$5,000 per full-time equivalent student (FTES) to each USM degree granting institution, except for University of Maryland University College;
 - a minimum funding level of \$12,284 per FTES to UMCP;
 - an additional \$7 million for the University of Maryland, Baltimore;
 - an additional \$5 million for the University of Maryland, Baltimore County;
 - an additional \$1.3 million for Bowie State University;
 - an additional \$1.3 million for Coppin State University; and
 - an additional \$1.3 million for University of Maryland Eastern Shore.
 If funding guidelines are not developed and operational by December 1, 1999, the

Governor is requested to include in the fiscal 2001 operating budget:

- a minimum funding level of \$5,000 per FTES to each USM degree granting institution, except for the University of Maryland University College; and
- a minimum funding level of \$13,443 per FTES to UMCP.
- State Conference on Higher Education. The Governor is requested to convene a State Conference on Higher Education in 1999 to initiate the strategic planning process coordinated by MHEC which will culminate in the development of a State Plan that is supported by all major stakeholders. A conference shall be held every two years as the State Plan is updated.
- Review of Reporting Requirements. The Governor is requested to appoint a group to conduct a thorough review of higher education reporting requirements with the goal of reducing the number of required reports to a minimum. The group is requested to submit a report to the Governor and General Assembly by December 31, 1999.

State Expenditures:

Strategic Incentive Funding

The bill does not specify amounts for strategic incentive funding. Based upon similar programs in other states and other factors, a rough estimate for initial grants is \$5 million. MHEC could administer its strategic incentive funding process with existing resources and personnel.

USM as Public Corporation

Procurement

- Board of Public Works

As a result of this bill, USM and the constituent institutions would not be subject to the State procurement process, including requirements concerning source-selection, mandatory contract clauses, and payment of taxes, certain ethics provisions, preference purchases from State Use Industries, Blind Industries, and sheltered workshops (see discussion below), welfare-to-work hiring agreements, dispute resolution through the Board of Contract Appeals, and oversight of real property leases and acquisitions.

Although the bill removes USM from the Board of Public Works' traditional authority over procurements, board involvement with USM procurement transactions would still be required in two ways. First, the board would be required to review and approve the procurement policies and procedures to be developed by USM. Second, the board would be required to review and approve all USM contracts that exceed \$500,000 for services or capital improvements.

The bill should have minimal fiscal impact on the operations of the Board of Public Works. While many items would no longer appear on the board's agenda, the board would still review the many USM items that exceed \$500,000. In addition, board staff would work with USM staff to develop and implement the procurement policies and procedures.

The bill is not expected to have a fiscal impact on the Department of General Services.

- State Use Industries

State Use Industries (SUI) is a statutory organization within the Division of Correction (DOC), Department of Public Safety and Correctional Services, providing work opportunities for offenders intended to improve the employability of the offender upon release. SUI is required by statute to be financially self-supporting.

The sale of products and services produced by SUI on the open market is prohibited. Generally, sales are limited to State institutions or agencies, political subdivisions of the State, and not-for-profit organizations. Section 14-103 of the State Finance and Procurement Article of the Annotated Code of Maryland provides that the State or a State aided or controlled entity shall buy supplies and services from SUI, if SUI provides the supplies or services. This bill would exempt USM from that requirement.

In fiscal 1998 SUI had sales of over \$30 million and employed 1,261 inmates in 30 shops and service centers located in 7 prisons. During the first six months of fiscal 1999, USM was the source of approximately 20%, or \$3.7 million of SUI's \$18.5 million in sales. SUI estimates it would need to discharge 90 inmates and 6 employees if it loses USM as a customer.

Moreover, USM's business was a factor when planning a 6,000 square foot expansion of SUI's upholstery shop and a 20,000 square foot furniture shop for the Western Correctional Institution. SUI estimates that without USM's purchases, 30 inmates and 2 employees projected for the upholstery shop would not be needed. In addition, the work projections for the new furniture shop would be reduced from 70 inmates and 4 employees to 30 inmates and 2 employees.

SUI further advises that studies indicate that the recidivism rate for offenders who worked at

SUI for at least one year is approximately half the recidivism rate for the general population of offenders. Therefore, to the extent that the bill results in fewer inmates who are able to work at SUI, incarceration costs could increase. Currently, the DOC average total cost per inmate, including overhead, is estimated at \$19,200 per year.

- Blind Industries and Services and Sheltered Workshops

Section 14-103 of the State Finance and Procurement Article also imposes buying preferences for supplies and services from Blind Industries and Services of Maryland and sheltered workshops. It is expected that these organizations would be affected by the bill in a similar fashion as State Use Industries.

Collective Bargaining

The bill contains provisions consistent with Senate Bill 129 of 1999 (“State Employees - Collective Bargaining”), which would provide statutory collective bargaining rights for most State employees, including non-faculty employees of public higher education institutions. Costs for the Department of Budget and Management to implement collective bargaining for all State employees are estimated at \$434,300 for fiscal 2000. In addition, administrative expenses for higher education institutions may increase by an indeterminate amount to implement collective bargaining for non-faculty employees. For further details regarding the fiscal impact of Senate Bill 129, see the fiscal note for that bill.

College Preparation Intervention Program

The bill requires an additional \$750,000 in general funds to be included in the fiscal 2000 budget for this program. MHEC could administer the program with existing staff and resources.

Private Donation Incentive Program

The Private Donation Incentive Program (PDIP) was previously effective, with similar elements as are contained in this bill, from July 1, 1989 through June 30, 1997.

If each eligible institution (16 community colleges, UMCP, University of Maryland, Baltimore, and 11 other institutions) were to qualify for the maximum matching amount under the program, general fund expenditures would increase by \$14,750,000 over the life of the program. During the prior effective period of PDIP, the State funded almost \$13 million. The table below assumes that the maximum funding amount is paid out equally over the 5-year period from fiscal 2001 through 2005.

Private Donation Incentive Program - Estimated Costs (General Funds)

<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>
\$17,120	\$2.96 million	\$2.97 million	\$2.97 million	\$2.97 million

MHEC would incur an estimated \$17,120 in administrative expenses in fiscal 2000, which includes salary for a part-time contractual employee to administer the program, supplies, and one-time equipment purchases. Future year administrative expenditures increase with inflation.

Supplemental Funding

Fiscal 2000

Based upon the allowances contained in the Governor's proposed fiscal 2000 budget, only Towson University and Salisbury State University fall below the \$5,000 per FTES funding level. The table below shows the funding amounts necessary to bring Towson and Salisbury State up to a \$5,000 per FTES level in fiscal 2000.

GF = General Funds	<u>Towson</u>	<u>Salisbury State</u>
FY 2000 FTES	12,610	5,060
GF/FTES Target	\$5,000	\$5,000
Total GF Needed to Reach Target	\$63,050,000	\$25,300,000
FY 2000 GF Allowance	\$57,770,073	\$24,371,400
Cost in FY 2000 to Reach Target (GF)	\$5,279,927	\$928,600

The table below shows the funding amount necessary to bring UMCP up to a \$12,284 per FTES level in fiscal 2000.

GF = General Funds	<u>UMCP</u>
FY 2000 FTES	25,235
GF/FTES Target	\$12,284
Total GF Needed to Reach Target	\$309,986,740
FY 2000 GF Allowance	\$300,138,791
Cost in FY 2000 to Reach Target (GF)	\$9,847,949

The table below summarizes the fiscal 2000 supplemental funding amounts required by the bill.

SB 682 - FY 2000 Supplemental Funding (GF)

Towson University	\$5,279,927
Salisbury State University	\$928,600
UMCP	\$9,847,949
University of Maryland, Baltimore	\$7,000,000
University of Maryland, Baltimore County	\$5,000,000
Bowie State University	\$1,300,000
Coppin State University	\$1,300,000
University of Maryland Eastern Shore	\$1,300,000
Total	\$31,956,476

Fiscal 2001

Funding amounts for community colleges, non-public institutions, and Baltimore City Community College (BCCC) in a given year are calculated by formulas based on the GF/FTES of certain public institutions for the prior fiscal year. The fiscal 2000 supplemental funding amounts required by the bill would result in the following estimated increases in the formula-based funding amounts in fiscal 2001:

Community Colleges (Cade Formula)	\$5,672,300
Non-Public Institutions (Sellinger Formula)	\$1,781,000
BCCC	\$1,147,800
Total Increase in FY 2001	\$8,601,100

The table below shows the funding amount necessary to bring UMCP up to a \$13,443 per FTES level in fiscal 2001 (based upon the Administration's most recent forecast of higher education funding for fiscal 2001, adjusted by the supplemental funding amounts contained in the bill for fiscal 2000).

GF = General Funds	<u>UMCP</u>
FY 2001 FTES	25,240
GF/FTES Target	\$13,443
Total GF Needed to Reach Target	\$339,301,320
Estimated FY 2001 General Funds	\$325,098,320

Cost in FY 2001 to Reach Target (GF)

\$14,203,000

It is assumed that if Towson and Salisbury State are brought up to a \$5,000 per FTES level in fiscal 2000, no additional funds would be needed to bring any institution up to that level in fiscal 2001.

The total amount of supplemental funding required by the bill in fiscal 2001 is therefore estimated at **\$22,804,100**.

State Conference on Higher Education

MHEC estimates that the total costs of the conference, including food and conference materials, would be \$4,000 in fiscal 1999, \$4,100 in fiscal 2001, and \$4,203 in fiscal 2003. MHEC would not require additional staff to coordinate the conference.

Other

It is expected that the bill's remaining requirements could be met using the existing resources of the affected agencies and institutions.

Information Source(s): Board of Public Works; Department of Budget and Management; Department of General Services; Department of Public Safety and Correctional Services (Division of Correction, State Use Industries); Maryland Higher Education Commission; University System of Maryland; Department of Legislative Services

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