

Department of Legislative Services
Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
Enrolled - Revised

Senate Bill 426

(Senator King, *et al.*)

Budget and Taxation

Appropriations

University System of Maryland - Board of Regents - Quasi-Endowment Funds

This bill authorizes the Board of Regents of the University System of Maryland (USM) to make transfers of no more than \$150.0 million from fund balances to establish a quasi-endowment fund. The board may use the investment *income* produced by the quasi-endowment fund in accordance with the USM Policy of Endowment Fund Spending Rule to provide funding for need-based student financial aid. **The bill takes effect July 1, 2023.**

Fiscal Summary

State Effect: Assuming authorized transfers totaling \$150.0 million are made in FY 2024, USM fund balances decrease by \$150.0 million with a commensurate increase in quasi-endowment funds to be invested. Beginning in FY 2025, higher education revenues may increase due to the quasi-endowment funds earning higher rates of return; higher education expenditures may also increase as soon as FY 2025 for a portion of the funds to be used for scholarships, as explained below. However, investment returns may be significantly lower or higher due to market risks, and the State's return may vary annually. In addition, the principal amount may be lost due to market risks.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Chapter 266 of 2013 authorized the Board of Regents of USM to establish a quasi-endowment fund and authorized the board to make a one-time-only transfer of no

more than \$50.0 million from the non-State-supported fund balance held and invested by the State Treasurer to the quasi-endowment fund.

Chapters 741 and 742 of 2017 authorized the Board of Regents of USM to make a one-time-only transfer of no more than \$50.0 million from the State-supported fund balance held and invested by the State Treasurer to the quasi-endowment fund to be used only for facility renewal projects at capital facilities used for State-supported activities.

Chapters 392 and 393 of 2018 authorized the Board of Regents of USM to make a one-time-only transfer of no more than \$25.0 million from the non-State-supported fund balance to the quasi-endowment fund. The board may use the investment proceeds only to match a privately funded scholarship program at the University of Maryland, College Park Campus (UMCP). The Acts expressed legislative intent that the USM Board of Regents make the transfer from UMCP's fund balance.

The Board of Regents of USM is authorized to maintain and manage gift and endowment funds. The board must submit an annual investment performance report on its gifts and endowments by November 1. State agencies are generally required to maintain all cash and investments with the State Treasurer, who invests and manages the funds. The governing boards of Morgan State University and St. Mary's College of Maryland are also authorized to maintain and manage gift and endowment funds outside the State Treasurer's Office.

State Fiscal Effect: USM did not provide any details on plans for funds to be allocated to the quasi-endowment fund under the bill. Assuming the Board of Regents makes transfers totally \$150.0 million from USM institution fund balances in fiscal 2024, USM fund balances for the participating institutions decrease by a total \$150.0 million, with a commensurate increase in quasi-endowment funds to be invested. Beginning in fiscal 2025, higher education revenues increase by an estimated \$1.6 million annually due to quasi-endowment funds earning higher rates of return. This estimate is based on the assumption that Treasurer-held investments are making approximately 1.06% annually or approximately \$1.6 million per \$150.0 million, while the USM Foundation-held investments are making approximately 2.1% or approximately \$3.2 million per \$150.0 million.

However, investment returns may be significantly lower or higher due to the market. The quasi-endowment fund reported investment returns of 2.1% in fiscal 2022 and 27.2% in fiscal 2021. In addition, the principal amount may be lost due to market risks.

On the expenditure side, this estimate assumes that USM's policy of 4.25% of the rolling three-year average value of the fund is used for the purposes of the bill. Thus, approximately \$6.4 million will be available beginning in fiscal 2025 for scholarships. This estimate reflects investment returns as discussed above and ongoing spending of 4.25% of

the fund's value annually. Over time, assuming continuing investment returns and spending at the assumed rates, annual revenues and expenditures increase or decrease incrementally based on the annual rate of return. It is assumed that the scholarship is managed with existing funds and that scholarship funds are distributed to institutions in proportion to fund balance transfers. A lower or higher market value over time may result in a spending rate lower or higher than 4.25%.

Additional Information

Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

Information Source(s): Maryland State Treasurer's Office; University System of Maryland; Department of Legislative Services

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