

Department of Legislative Services
Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1054
Appropriations

(Delegate Wu, *et al.*)

Higher Education – High Impact Economic Development Activities – Alterations

This bill alters the definition of “high impact economic development activity” to exclude cost savings related to the reduction in the number of University System of Maryland (USM) employees. Additionally, the USM Board of Regents must include the following in its annual report on high impact economic development activities: (1) the amount of State or USM funds used on each high impact economic development activity during the preceding year; (2) the net benefit of each high impact economic development activity; and (3) whether the board believes that each high impact economic development activity is in the best interest of the State. The bill also repeals the authorization for officials or employees of public higher education institutions to serve as directors, officials, or employees of entities supporting high impact economic development activities. Finally, it makes these entities subject to State procurement law. **The bill takes effect July 1, 2025.**

Fiscal Summary

State Effect: USM can meet the bill’s administrative and reporting requirements with existing budgeted resources. Overall, USM finances are not materially affected; however, funds may be spent differently. The changes to State procurement law are not anticipated to affect State finances directly, as the entities are not State agencies or institutions. Revenues are not affected.

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Current Law:

Higher Education Procurement

USM, Morgan State University (MSU), and St. Mary's College of Maryland (SMCM) are exempt from most provisions of State procurement law. However, service contracts by USM, MSU, and SMCM with a value that exceeds \$1.0 million require approval from the Board of Public Works (BPW). The procurements by these entities that are exempt from procurement law must nonetheless be made under procedures that promote the purposes underlying State procurement law.

University System of Maryland and Morgan State University Management

The USM Board of Regents is responsible for the management of USM, with the power to conduct or maintain any institutions, schools, or departments in the university system. The USM board appoints a chancellor who serves as the chief executive officer of the university system and the chief of staff for the board. The MSU Board of Regents is responsible for the management of MSU. The MSU board appoints the president of MSU. The USM and MSU boards may establish, invest in, finance, and operate business entities when the board finds that doing so would further one or more goals of USM or MSU. A business entity established, invested in, financed, or operated by the board is not considered a State agency, instrumentality of the State, or a unit of the Executive Branch. In addition, the business entity's financial obligations and liabilities are not a debt or obligation of the State, USM, or MSU. The boards must submit an annual report to the Governor and the General Assembly on (1) the business entities established in the prior year; (2) funds invested in and financing provided to the entities; (3) ownership interests in the entities; and (4) the current status of the entities. The boards may apply for, accept, and spend any gift or grant from the federal government, any foundation, or any other person.

High Impact Economic Development Activity

“High impact economic development activity” means an initiative, transaction, or other undertaking by USM or one of its constituent institutions, or MSU, to create or facilitate (1) 20 or more new jobs in the State; (2) the award or completion of at least \$1.0 million in externally funded research or other projects; (3) the establishment or relocation of one or more new companies doing business in the State; (4) the production of at least \$1.0 million of annual gross revenue; (5) the licensing and potential commercialization of a promising new technology or product; or (6) an academic program to meet workforce demand in a documented labor shortage field.

USM and MSU must undertake high impact economic development activities that support job creation and workforce development, technology transfer, commercialization and entrepreneurship, and increased sponsored research funding. An institution in the system may establish, invest in, finance, or operate a corporation, foundation, consortium, or other entity that is intended to support high impact economic development activity. Subject to certain restrictions, an official or employee of a public institution of higher education may be a director, official, or employee of an entity intended to support high impact economic development activity.

State procurement law (State Finance and Procurement, Division II) generally does not apply to transactions between an entity established, financed, or operated as a high impact economic development entity, and the institution or consortium which established, financed, or operated it. The USM and MSU boards of regents are responsible for developing policies and procedures which require recognition of an entity by the appropriate board, an annual independent audit of the entity, and adequate ethical and business practice standards.

The USM and MSU boards of regents are responsible for developing policies and procedures governing the establishment of high impact economic development entities within the scope of § 5-310 or § 10-305 of the State Finance and Procurement Article, which govern the sale or transfer of personal or real property; for high impact economic development entities, these will also apply to intellectual property. Further, the boards are responsible for administering the review and comment process required by §§ 5-310 and 10-305 by including in that process specified legislative committees and units of State government.

On or before October 1 of each year, the boards must report to BPW, the Senate Budget and Taxation Committee, the Senate Finance Committee, the House Appropriations Committee, and the House Economic Matters Committee on the preceding fiscal year's high impact development activities.

Small Business Effect: Potential meaningful impact to the extent university-based high impact economic development activity entities are small businesses and receive less university funding. However, any such impact cannot be estimated.

Additional Comments: [The Office of Legislative Audits conducted a fiscal compliance audit of the University of Maryland Global Campus \(UMGC\)](#), identifying significant concerns related to its financial and operational oversight. Key findings include UMGC's continued reliance on Ventures and its affiliates – classified as high impact economic development activity entities – without competitive procurement, inadequate monitoring of information technology (IT) and advertising contracts, insufficient financial controls over collections, and a failed IT project that cost \$25.7 million without delivering a viable

system. The audit raises questions about whether these practices align with the best interests of UMGC and the State.

Additional Information

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

Designated Cross File: SB 439 (Senator Lam)(By Request - Joint Audit and Evaluation Committee) - Finance and Education, Energy, and the Environment.

Information Source(s): Department of Commerce; University System of Maryland; Board of Public Works; Department of Legislative Services

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Analysis by: Caroline L. Boice

Direct Inquiries to:
(410) 946-5510
(301) 970-5510