
Higher Education Fiscal 2004 Budget Overview

**Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland**

January 2003

Higher Education

Fiscal 2004 Budget Overview

Components of General Fund Change for Public Universities Fiscal 2003 Appropriated – Fiscal 2003 Revised – Fiscal 2004 Allowance

	<u>General Funds</u>	<u>% Change from 2003 Legislative</u>	<u>% Change from 2003 Revised</u>
Fiscal 2003 Legislative Appropriation for Public Universities	\$936,142,626		
Approved Cost Containment (January 8, 2003)			
USM – Reduce system budget by 3.5%.	-\$30,375,372		
Morgan – Reduce institution budget by 3.5%	-1,862,593		
St. Mary's – Reduce institution budget by 3.5%	-527,026		
Subtotal, Approved	-\$32,764,991	-3.5%	
Proposed Additional Cost Containment			
USM – Reduce institution budgets again to reach net reductions of 7.7%.	-\$36,615,198		
Morgan – Reduce institution budget again to reach net reduction of 4%.	-266,085		
St. Mary's – Reduce institution budget again to reach net reduction of 8%.	-677,605		
Subtotal, Proposed	-\$37,558,888	-4.0%	
Budgeted Across-the-board Reduction for Salary Bonuses	-8,850,000	-1.0%	
Total 2003 Reduction	-79,173,880	-8.5%	
Fiscal 2003 Revised Appropriation for Public Universities	\$856,968,746		
Fiscal 2004 Change			
USM – Restore bonus reduction.	8,409,219		
Morgan – Restore bonus reduction.	440,781		
St. Mary's – Apply statutory inflation adjustment to 2003 revised appropriation.	\$462,699		
Total 2004 Allowance for Public Universities	\$866,281,445	-7.5%	1.1%

Notes: Public universities include all University System of Maryland institutions and components, Morgan State University, and St. Mary's College of Maryland.

USM = University System of Maryland

Source: Maryland State Budget, fiscal 2004, and Department of Budget and Management

Higher Education – Fiscal 2004 Budget Overview

**Components of General Fund Change for Other Higher Education
Fiscal 2003 Appropriation – Fiscal 2003 Revised – Fiscal 2004 Allowance**

	General Funds	% Change from 2003 Working	% Change from 2003 Revised
Fiscal 2003 Working Appropriation for Other Higher Education	\$365,257,117		
Approved Cost Containment (January 8, 2003)			
Financial Aid – Reduce aid programs by 3.0%.	-\$2,459,495		
Independent Institutions – Reduce grants to institutions by 4.9%.	-2,268,834		
Community Colleges – Reduce BCCC grant by 3.5%	-1,090,243		
Grants – Eliminate partial and unused grant funds.	-265,750		
Administration – Reduce agency administration by 2.7%	-184,000		
Subtotal, Approved	-\$6,268,322	-1.7%	
Proposed Additional Cost Containment			
Independent Institutions – Reduce grants to institutions again to reach net reduction of 8%.	-\$1,435,411		
Community Colleges – Reduce grants to institutions to reach net reduction of 4%.	-6,474,797		
Subtotal, Proposed	-\$7,910,208	-2.2%	
Total 2003 Cost Containment	-\$14,178,530	-3.9%	
Fiscal 2003 Revised Appropriation for Other Higher Education	\$351,078,587		
Fiscal 2004 Allowance Increase/Decrease			
Financial Aid	\$218,447		
Independent Institutions	4,700,125		
Community Colleges	15,802,624		
Grants	5,735,866		
Administration	-17,091		
Subtotal, Allowance Change	\$26,439,971		
Total 2004 Allowance for Other Higher Education	\$377,518,558	3.4%	7.5%
Proposed General Fund Reductions (May Require Legislation)			
Independent Institutions	-\$3,549,920		
Community Colleges	-12,229,229		
Subtotal, Reductions	-\$15,779,149		
Net Fiscal 2004 General Fund Support for Other Higher Education	\$361,739,409	-1.0%	3.0%

Note: Other Higher Education includes community colleges, independent institutions, student financial aid, and the Maryland Higher Education Commission.

Source: Maryland State Budget, fiscal 2004, and Department of Budget and Management

Higher Education – Fiscal 2004 Budget Overview

General Fund Support for Public Universities
Fiscal 1999 through 2004 Allowance
(\$ in Thousands)

<u>Institution</u>	<u>FY 1999</u> <u>Actual</u>	<u>FY 2002</u> <u>Actual</u>	<u>FY 2003</u> <u>Working</u>	<u>FY 2003</u> <u>Revised*</u>	<u>FY 2004</u> <u>Allowance</u>	<u>Annual</u> <u>%</u> <u>Change</u> <u>1999-</u> <u>2002</u>	<u>Annual</u> <u>%</u> <u>Change</u> <u>2002-</u> <u>2003</u>	<u>Annual</u> <u>%</u> <u>Change</u> <u>2003-</u> <u>2004</u>
UM Baltimore	\$116,412	\$153,139	\$153,573	\$141,678	\$141,678	9.6%	-7.5%	0.0%
UM College Park	273,232	359,339	360,483	330,499	330,499	9.6%	-8.0%	0.0%
Bowie State	16,330	22,725	22,797	21,885	21,885	11.6%	-3.7%	0.0%
Towson	51,297	68,062	68,279	62,464	62,464	9.9%	-8.2%	0.0%
UM Eastern Shore	18,542	23,564	23,639	22,694	22,694	8.3%	-3.7%	0.0%
Frostburg State	21,884	28,660	28,751	26,302	26,302	9.4%	-8.2%	0.0%
Coppin State	14,504	20,513	20,578	19,755	19,755	12.2%	-3.7%	0.0%
Univ. of Baltimore	20,510	24,474	24,552	22,508	22,508	6.1%	-8.0%	0.0%
Salisbury	22,179	29,500	29,594	27,325	27,325	10.0%	-7.4%	0.0%
UM University College	7,374	16,928	16,982	15,552	15,552	31.9%	-8.1%	0.0%
UM Baltimore County	50,975	75,818	76,059	70,168	70,168	14.1%	-7.5%	0.0%
UMCES	10,709	13,479	13,865	13,166	13,166	8.0%	-2.3%	0.0%
UMBI	18,787	16,468	16,580	15,518	15,518	-4.3%	-5.8%	0.0%
USM Office	8,869	12,096	12,135	11,362	11,362	10.9%	-6.1%	0.0%
Subtotal, USM	\$651,603	\$864,765	\$867,868	\$800,877	\$800,877	9.9%	-7.4%	0.0%
Morgan State	38,358	52,035	53,217	51,088	51,088	10.7%	-1.8%	0.0%
St. Mary's	12,463	14,722	15,058	13,853	14,316	5.7%	-5.9%	3.3%
Total	\$702,424	\$931,522	\$936,143	\$865,819	\$866,281	9.9%	-7.1%	0.1%

UM = University of Maryland
 UMCES = University of Maryland Center for Environmental Science
 UMBI = University of Maryland Biotechnology Institute

*Does not reflect budgeted across-the-board reduction for salary bonuses.

Source: Maryland State Budget, Fiscal 2001 and 2004, and Department of Budget and Management

Higher Education – Fiscal 2004 Budget Overview

**2003 General Fund Adjustments to Public Universities
Operating Cost Containment**

	<u>2003 Legislative</u>	<u>Approved Cost Containment</u>	<u>Proposed Cost Containment</u>	<u>Total Cost Containment</u>	<u>2003 Revised</u>	<u>% Change</u>
UM Baltimore	\$153,572,918	-\$5,528,625	-\$6,365,904	-\$11,894,529	\$141,678,389	-7.7%
UM College Park	360,483,461	-12,999,186	-16,984,975	-29,984,161	330,499,300	-8.3%
Bowie State	22,797,340	-273,568	-638,323	-911,891	21,885,449	-4.0%
Towson	68,278,906	-2,458,041	-3,356,863	-5,814,904	62,464,002	-8.5%
UM Eastern Shore	23,639,481	-851,021	-94,558	-945,579	22,693,902	-4.0%
Frostburg State	28,750,982	-1,035,035	-1,413,513	-2,448,548	26,302,434	-8.5%
Coppin State	20,578,484	-740,825	-82,314	-823,139	19,755,345	-4.0%
Univ. of Baltimore	24,551,570	-883,857	-1,159,717	-2,043,574	22,507,996	-8.3%
Salisbury	29,593,654	-739,841	-1,529,252	-2,269,093	27,324,561	-7.7%
UM University College	16,982,406	-594,384	-835,789	-1,430,173	15,552,233	-8.4%
UM Baltimore County	76,059,090	-2,738,127	-3,152,801	-5,890,928	70,168,162	-7.7%
UMCES	13,865,158	-499,146	-200,489	-699,635	13,165,523	-5.0%
UMBI	16,579,655	-596,868	-464,482	-1,061,350	15,518,305	-6.4%
USM Office	12,134,666	-436,848	-336,218	-773,066	11,361,600	-6.4%
Subtotal, USM	\$867,867,771	-\$30,375,372	-\$36,615,198	-\$66,990,570	\$800,877,201	-7.7%
St. Mary's College	\$15,057,903	-\$527,026	-\$677,606	-\$1,204,632	\$13,853,271	-8.0%
Morgan State	53,216,952	-1,862,593	-266,085	-2,128,678	51,088,274	-4.0%
Total	\$936,142,626	-\$32,764,991	-\$37,558,888	-\$70,323,879	\$865,818,747	-7.5%

Source: Department of Budget and Management

Higher Education – Fiscal 2004 Budget Overview

**2003 General Fund Adjustments to Public Universities
Reduction for Salary Bonuses**

	<u>2003 Revised</u>	<u>Bonus Reduction</u>	<u>2003 Budgeted</u>	<u>2004 Allowance</u>	<u>Annual % Change 2002-2003</u>	<u>Annual % Change 2003-2004</u>
UM Baltimore	\$141,678,389	-\$1,387,561	\$140,290,828	\$141,678,389	-8.4%	1.0%
UM College Park	330,499,300	-3,637,057	326,862,243	330,499,300	-9.0%	1.1%
Bowie State	21,885,449	-204,596	21,680,853	21,885,449	-4.6%	0.9%
Towson	62,464,002	-748,801	61,715,201	62,464,002	-9.3%	1.2%
UM Eastern Shore	22,693,902	-237,383	22,456,519	22,693,902	-4.7%	1.1%
Frostburg State	26,302,434	-263,098	26,039,336	26,302,434	-9.1%	1.0%
Coppin State	19,755,345	-177,128	19,578,217	19,755,345	-4.6%	0.9%
U of Baltimore	22,507,996	-301,169	22,206,827	22,507,996	-9.3%	1.4%
Salisbury	27,324,561	-315,914	27,008,647	27,324,561	-8.4%	1.2%
UM University College	15,552,233	-136,735	15,415,498	15,552,233	-8.9%	0.9%
UM Baltimore County	70,168,162	-713,250	69,454,912	70,168,162	-8.4%	1.0%
UMCES	13,165,523	-93,403	13,072,120	13,165,523	-3.0%	0.7%
UMBI	15,518,305	-112,197	15,406,108	15,518,305	-6.4%	0.7%
USM Office	11,361,600	-80,927	11,280,673	11,361,600	-6.7%	0.7%
Subtotal, USM	\$800,877,201	-\$8,409,219	\$792,467,982	\$800,877,201	-8.4%	1.1%
St. Mary's College	\$13,853,271	\$0	\$13,853,271	\$14,315,970	-5.9%	3.3%
Morgan State	51,088,274	-440,781	50,647,493	51,088,274	-2.7%	0.9%
Total	\$865,818,747	-\$8,850,000	\$856,968,747	\$866,281,445	-8.0%	1.1%

Source: Department of Budget and Management

Discussion

The Governor's budget assumes a reduction for salary bonuses in fiscal 2003 of \$28.8 million of general funds, including \$8,850,000 at institutions of higher education. The budget also assumes cost containment reductions for higher education institutions totaling \$70,323,879. If the salary bonus was intended to be included in cost containment, rather than add to it, the fiscal 2004 State budget would be out of balance, as the fiscal 2003 general fund balance would not be as large as the allowance assumes.

Issues

Higher Education Fiscal Picture: Grave or Gravy?

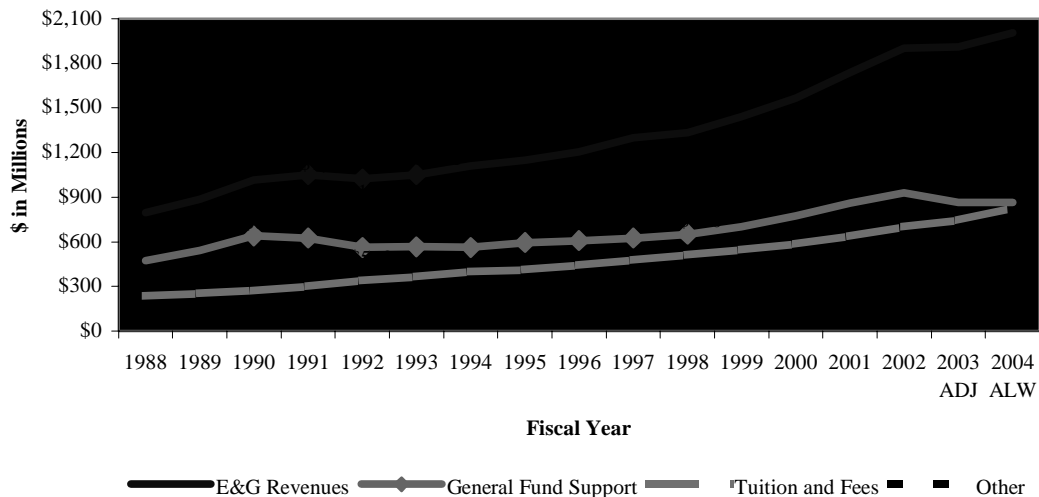
Maryland public institutions of higher education have experienced mid-year reductions in State support in fiscal 2003 and do not receive any increase (except for \$462,699 for St. Mary's College) in the fiscal 2004 allowance. State support is an important part of institution revenues, so these constraints in State support affect institutions. On the other hand, higher education institutions have access to significant alternative sources of revenue. In addition, they control the primary alternative to State support: tuition and fees.

Spending Increases in Good Times and Bad

Exhibit 1 shows general fund support for higher education institutions since 1988. Beginning in 1990, State support declined 12.1% over two years, from \$640 million to \$562 million in 1992. State support did not rebound to pre-decline levels until fiscal 1998. On average, State support for four-year institutions has increased 2% per year since 1990. While the average is 2% per year, increases are concentrated in fiscal 1999 through 2002.

Exhibit 1

Education and General Revenues Fiscal 1998 through 2004 Allowance



ADJ = Adjusted. Does not reflect budgeted across-the-board reduction for salary bonuses.
ALW = Allowance

Source: Maryland State budgets, fiscal 1990 through 2004; University System of Maryland

Higher Education – Fiscal 2004 Budget Overview

Exhibit 1 also shows Education and General (E&G) revenues. E&G funds can be used to examine the primary, mission-related, operating revenues of an institution. E&G funds exclude restricted funds over which the institution has little or no discretion. E&G funds also exclude auxiliary funds, used in noncore functions such as dining halls, athletics, and dormitories. As shown in Exhibit 1, the E&G funds at Maryland public higher education institutions have actually declined in only one year since 1988. In fiscal 1992, E&G declined \$28 million, or 2.7%, from \$1.05 billion in fiscal 1991. E&G revenues rebounded the next year and have grown ever since. Also, from at least 1995 through 2002, institutions have transferred 1 to 2% per year of their unrestricted funds (including auxiliary funds) to fund balance, building reserves for a variety of purposes (E&G expenditures account for transfers to fund balance by considering unrestricted revenues, minus auxiliary expenditures. Since 1990 E&G expenditures have mirrored E&G revenues. For more data on E&G expenditures, see **Appendices A, B, and C.**) In 17 years then, the primary, education-related operating revenues of institutions overall have declined only once, by less than 3%, despite eight years of stagnant State support in the 1990s, concerted efforts to build fund balance, and fiscal constraints in fiscal 2003 and 2004. On average, E&G revenues have increased 5% per year since 1990.

E&G revenues shown in Exhibit 1 also include other revenues, such as unrestricted federal, private, State, and local grants and contracts, educational sales and service revenues, investment income, and transfers from fund balance. Other revenues have also grown over time. They remain a relatively small portion of the institutions' budgets at 14% in fiscal 2002, the last year for which actual figures are available. The largest source of other revenues is sales and services of educational activities, but the fastest growing is State and local contracts and grants.

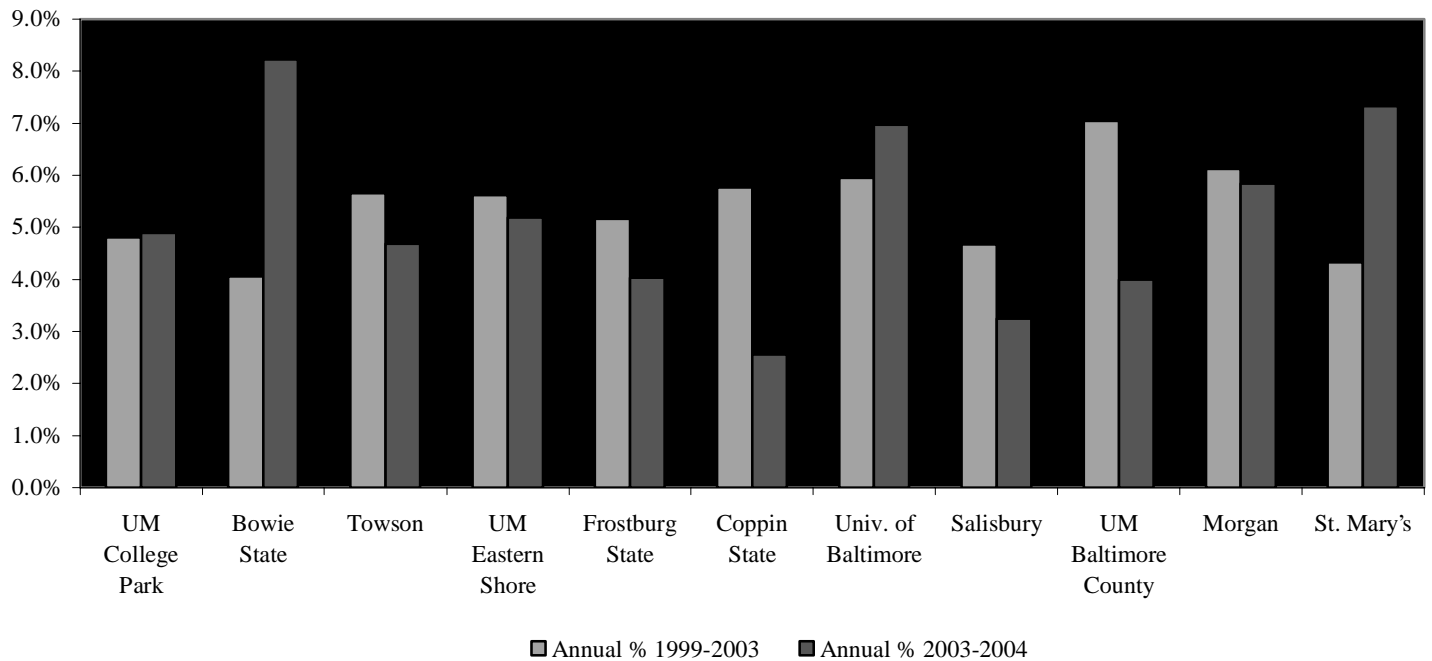
The final portion of E&G revenue, tuition and fees, has increased steadily since 1988. This is the primary reason E&G revenues increased during the mid-1990s. Despite efforts to moderate full-time, resident undergraduate tuition at the University System of Maryland (USM) institutions in the late 1990s, tuition and fee revenue has increased an average of 8% annually since 1990 and has never been flat or declined.

The governing boards of Maryland's public institutions met during fall 2002 to set tuition and fee rates for fiscal 2004 (2003-2004 academic year). Based on the USM Board's August action, fiscal 2004 resident undergraduate tuition will increase 4% at each USM institution, except Coppin State, which will increase 3%. Actual increases in the cost to students may be more or less after mandatory fees are considered. **Exhibits 2 and 3** compare the approved 2004 increases to increases in recent years. As shown in **Exhibit 4**, based on the approved rates, USM projects an increase of in tuition and fee revenue of \$41.6 million in fiscal 2004. Including Morgan State University and St. Mary's College, total tuition and fee revenue based on approved rates will increase \$45.6 million in fiscal 2004.

As in the fiscal 2003 allowance, the fiscal 2004 allowance assumes that after the General Assembly adjourns, USM will adopt tuition increases greater than those already adopted by the Board of Regents in August 2002 (the allowance does not assume additional tuition and fee

Exhibit 2

2004 Tuition and Fee Increases for Resident Full-time Undergraduate Students Public Four-year Institutions



Notes:

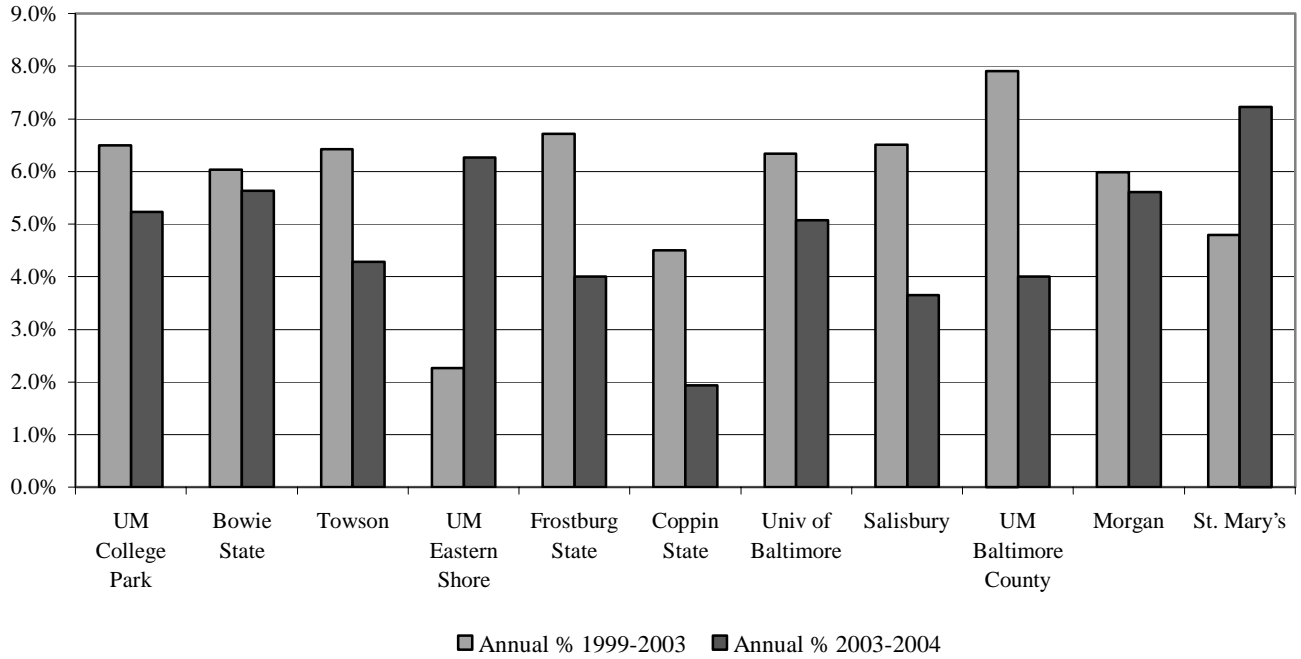
Data exclude University of Maryland, Baltimore; and University of Maryland University College.

On June 11, 1993, the USM Board of Regents adopted a policy where, by fiscal 1998, annual increases in resident tuition for full-time students should not exceed 4%. Because figures above include fee increases, they may be higher than 4%, even when the board adhered to its policy on tuition.

Source: Maryland State Budget, fiscal 1999 through 2004

Exhibit 3

**2004 Tuition and Fee Increases for Nonresident
Full-time Undergraduate Students
Public Four-year Institutions**



Note: Data exclude University of Maryland, Baltimore; and University of Maryland University College.

Source: Maryland State Budget, fiscal 1999 through 2004

Exhibit 4

**2004 Increases in Tuition and Fee Revenue
Public Four-year Institutions**

	<u>USM</u>	<u>All 4 Year Institutions</u>
2003 Working	\$694,948,587	\$743,196,392
2004 Requests	736,574,933	788,798,573
2004 Allowance	777,642,546	829,866,186
Approved Increase	41,626,346	45,602,181
Additional Fall 2004 Increase	41,067,613	41,067,613

Note: These figures do not include any revenue from a mid-year tuition increase for the spring 2003 semester.

Source: Maryland State Budget, fiscal 2004; institution requests

increases at Morgan State University, St. Mary's College, and the University of Maryland University College (UMUC). Additional increases at Coppin State, Bowie State, and the University of Maryland Eastern Shore (UMES) may be reconsidered.). As shown in Exhibit 4, the additional increases assumed in the allowance would generate \$41.1 million. The additional increases would cover 61% of the cost containment required of USM in fiscal 2003. In addition, the Chancellor has announced the possibility of mid-year tuition increases for the spring 2003 semester, also to mitigate fiscal 2003 cost containment measures. USM projects the mid-year tuition increase will generate \$12.9 million.

As shown in **Exhibit 5**, with the tuition revenue from increases not yet adopted, fiscal 2004 E&G revenues for USM will increase \$57.5 million, or 3.2% (Item D), from fiscal 2003 Revised (Item A). Without the additional tuition revenue, E&G revenues for USM would still increase \$16,387,913, or 1% above the fiscal 2003 revised level (Item B). Compared to fiscal 2003 without cost containment (Item E), fiscal 2004 E&G revenues without the additional tuition and fee revenue (Item B) would decline \$53,935,966, or 2.8%. If the General Assembly were to limit growth in tuition and fee revenue to 4%, USM E&G revenues could increase 2.5% (Item C) above fiscal 2003 Revised. Compared to fiscal 2003 without cost containment (Item E), fiscal 2004 E&G revenues would decline \$24,472,969, or 1.3%. Exhibit 5 shows the same E&G revenue scenarios for Morgan State University.

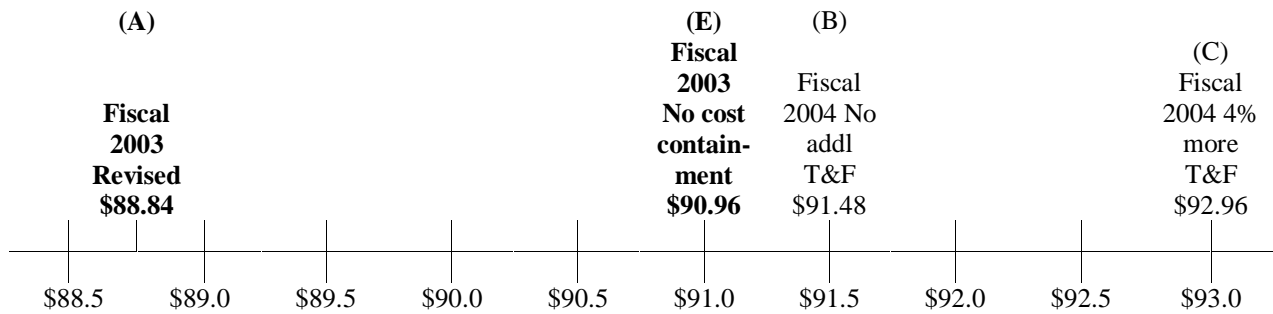
Exhibit 5

Education and General Revenues

**University System of Maryland
(\$ in Billions)**



**Morgan State University
(\$ in Millions)**



Note: Amounts do not reflect fiscal 2003 budgeted across-the-board reduction for salary bonuses.

Source: Governor’s Budget Books, fiscal 2004; Department of Budget and Management

To signal the General Assembly’s intent that institutions (1) seek alternatives to tuition and fee increases to address budget constraints; and (2) achieve real spending reductions rather than shifting costs to students, the Department of Legislative Services (DLS) recommends reducing the Current Unrestricted Fund (CUF) appropriation to the University System of Maryland by \$11,604,616. In addition, DLS recommends the addition of budget bill language to accomplish the following:

Higher Education – Fiscal 2004 Budget Overview

- **Make the appropriation of \$29,462,997 in CUF contingent on board action adopting fiscal 2004 tuition rates higher than those adopted in August 2002.**
- **Prohibit USM from increasing through budget amendment its CUF appropriation due to increased tuition and fee revenue.** If the board were to adopt tuition rates for fiscal 2004 higher than needed to generate \$29,462,997, the revenue could not be spent in fiscal 2004 but would increase the fund balance of the institution.
- **Prohibit Morgan State University from increasing through budget amendment its CUF appropriation due to increased tuition and fee revenue more than 4%.** The allowance does not assume an additional tuition increase at Morgan State University. This budget bill language would ensure equitable treatment of Morgan State and USM.

The result of these recommendations would allow the System and Morgan State University to adopt tuition rates for fiscal 2004 that would generate 4% more tuition and fee revenue than the rates already adopted will generate.

In years in which the Board of Regents does not revisit tuition rates after the legislative session, institutions increase their CUF appropriation through tuition and fee revenue when they experience greater than expected enrollment growth. As shown in **Exhibit 6**, large positive differences between budgeted and actual enrollment are rare. Larger than expected enrollment growth without the option of increasing spending authority related to tuition and fee revenue would be problematic for institutions.

Exhibit 6

**Comparison of Budgeted and Actual Enrollment at Public Institutions
Full-time Equivalent Students
University System of Maryland and Morgan State University**

Number of Institutions Where Actual Enrollment Was . . .

	<u>Less Than Budgeted</u>	<u>Equal to Budgeted</u>	<u>1%-5% More Than Budgeted</u>	<u>6+% More Than Budgeted</u>
Fiscal 2001	6	3	2	1
Fiscal 2002	2	3	5	2
Fiscal 2003	3	5	3	1

Sources: Governor’s Budget Books, fiscal 2001 through 2003; Department of Budget and Management

DLS recommends the addition of budget bill language to allow any institution whose enrollment is at least 6% higher than currently budgeted to increase its CUF appropriation with tuition and fee revenue, notwithstanding the prohibition recommended above.

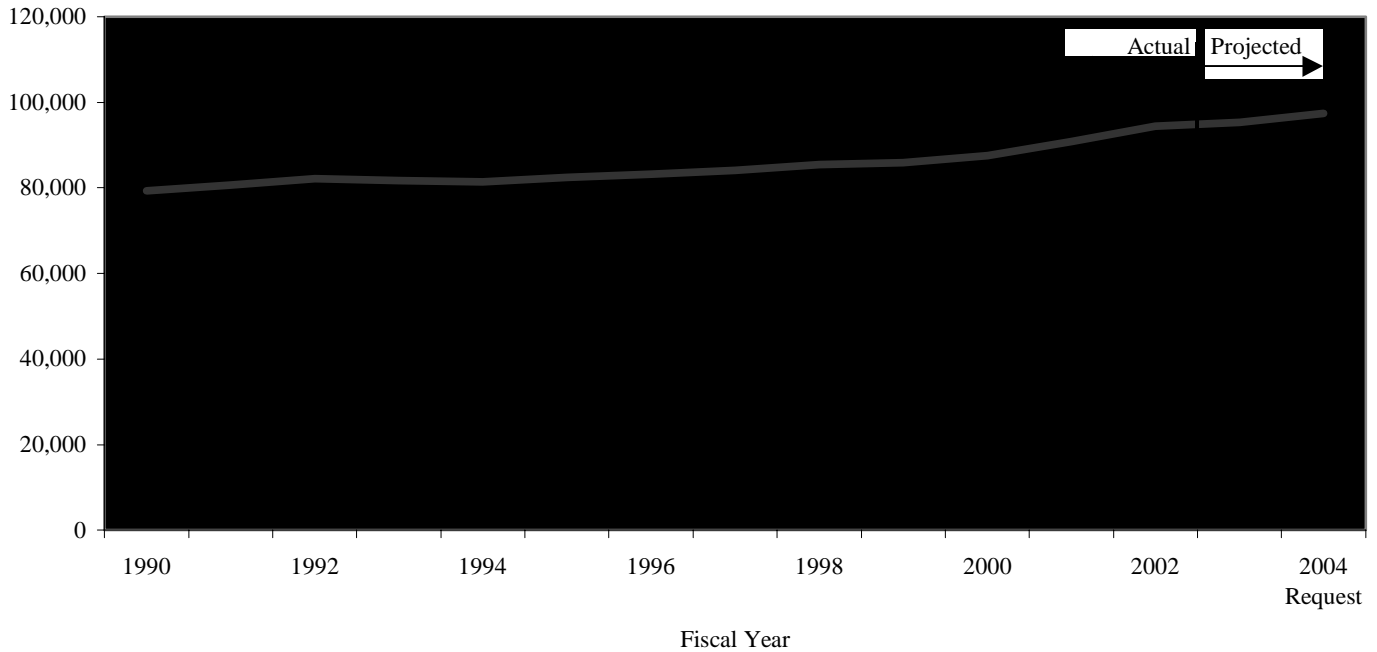
The DLS recommendations on CUF appropriations and tuition and fee revenue will appear in University System of Maryland Overview and Morgan State University analyses.

More Students from Columbia – Missouri, Tennessee, Connecticut, Virginia . . .

Revenue data presented above shows the increasing resources of public, four-year institutions of higher education. During the same time period, most institutions have experienced increased enrollment. Full-time equivalent student (FTES) enrollment in public four-year institutions has increased, on average, less than 2% per year since 1990. As **Exhibit 7** illustrates, enrollment has increased at a faster rate in recent years than it did in the 1990s. (Detail by institution is available in the **Appendix D**.) Also since 1990, State support and tuition and fees, considered together, have increased on average 6.4% annually. Assuming an inflation rate of 3.2%, as indicated by the Higher Education Price Index (HEPI) used by the Maryland Higher Education Commission (MHEC) to determine funding guidelines in recent years, State support and tuition fees have grown on average 1% per year faster than enrollment since 1990.

Exhibit 7

Higher Education Enrollment Trend
Public Four-year Institutions
Full-time Equivalent Students



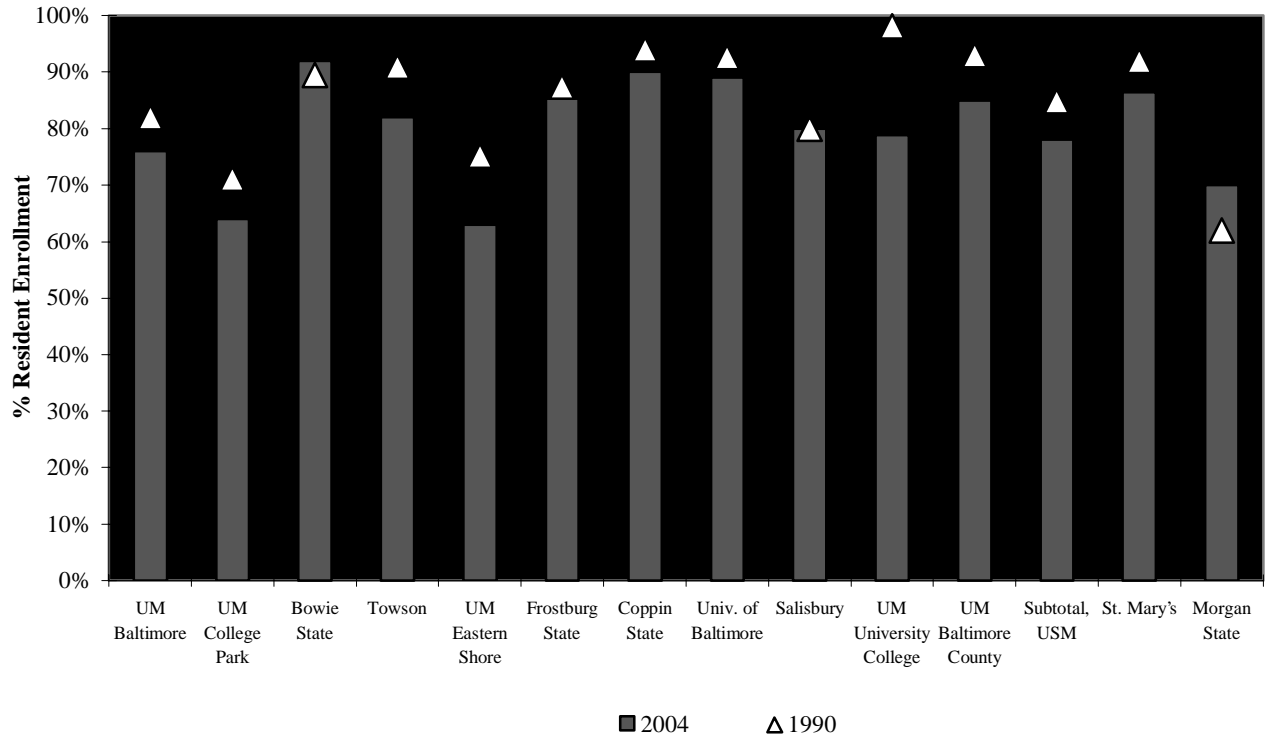
Note: UMUC enrollment excludes nonMaryland online students.

Source: Department of Budget and Management; University of Maryland University College

The relationship between enrollment and resources becomes more important when the residency of students is considered. Nonresident headcount enrollment has grown faster than resident headcount enrollment. In fact, since 1990, almost as many nonresident students as resident students have been added at public four-year institutions – 13,065 and 15,231, respectively. In-state residency has declined from 84% in 1990 to 78% in 2004. **Exhibit 8** shows the percent of resident students at each institution in fiscal 1990 and 2004. In that time period, in-state residency has decreased at all institutions except Bowie State, Salisbury, and Morgan State.

Exhibit 8

Maryland Resident Enrollment
Public Four-year Institutions
Fiscal 1990 and 2004



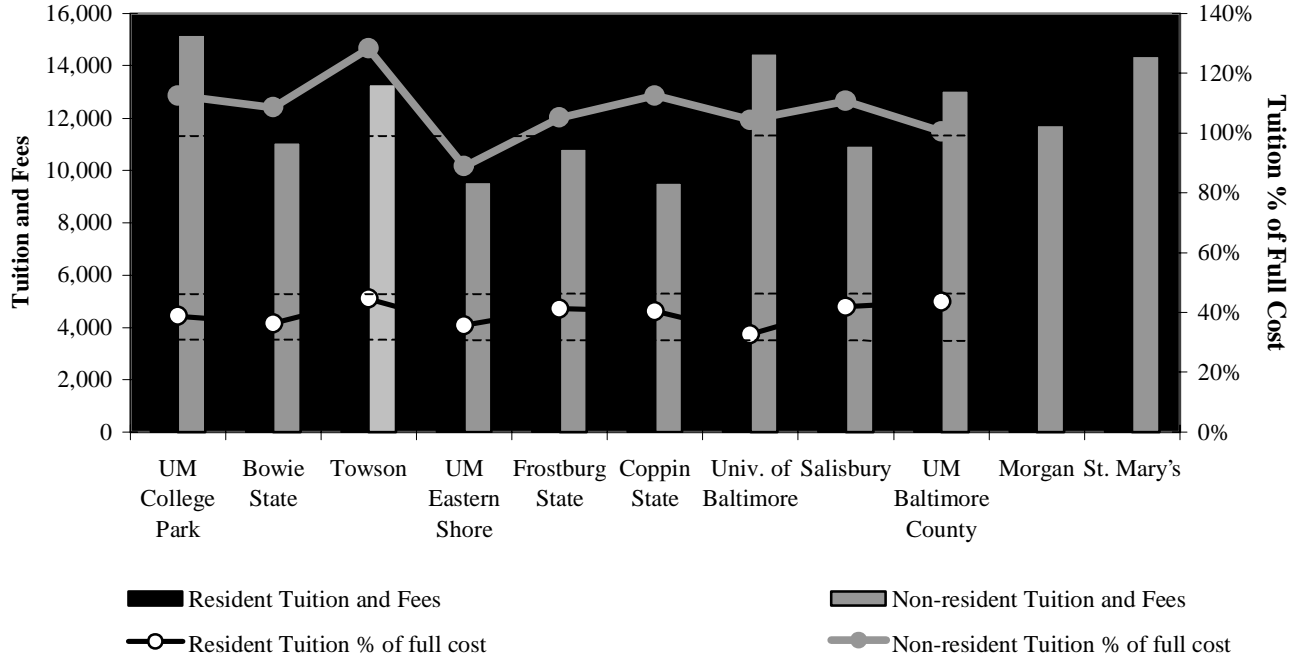
Source: Maryland State Budget, fiscal 1992 and 2004

Since 1993 USM has had a policy that nonresident students should pay 100% of the cost of their education. **Exhibit 9** shows the approved tuition and fee rates at each institution and tuition's relationship to the cost of education, where applicable. Cost of education is defined in the USM policy as adjusted Education and General Expenditures divided by full-time equivalent students. "Adjusted" E&G expenditures exclude funds related to:

- unrestricted, State-supported research;
- unrestricted, State-supported public service;
- unrestricted, State-supported scholarships and fellowships;

Exhibit 9

2004 Tuition and Fees for Full-time Undergraduate Students
Public Four-year Institutions



Notes:

Data exclude University of Maryland, Baltimore; and University of Maryland University College.

On June 11, 1993, the USM Board of Regents adopted a policy where, by fiscal 1998, nonresident tuition would equal 100% of the cost of education, and resident tuition would range from 30% to 45%.

Sources: Maryland State Budget, fiscal 2004; University System of Maryland Office

- facilities renewal;
- debt service on academic revenue bonds;
- equipment for new facilities;
- indirect cost recovery; and
- a 30% overhead factor for research and public service expenditures.

Higher Education – Fiscal 2004 Budget Overview

Nonresident enrollment has increased at the same time that Maryland public institutions have tried, with some success, to achieve “national eminence.” The ability to attract nonresident students is an indication of their success. Strong research and public service programs, as well as modern, high-quality facilities, play an important role in increasing institutional stature and attractiveness to nonresident students. In addition, nonresidents and residents alike benefit from attending and graduating from an institution with strong research and public service programs and high quality facilities. As a result, it seems reasonable that the cost to nonresident students should reflect investments in those areas.

DLS recommends the adoption of budget narrative to direct USM to reconsider its policy excluding research, public service, and facilities-related costs from the Cost of Education used to set nonresident tuition and to demonstrate that nonresident students contribute an equitable amount to the maintenance of facilities, equipment, research, and public service programs that enhance the stature of USM institutions. The Chancellor’s task force on tuition policy should incorporate such considerations into its recommendations.

How Tight Is the Belt Now?

The data above document that higher education revenues have increased steadily, except for fiscal 1992. The State Plan for Higher Education has set the goal of achieving “a cost-effective and accountable system of delivering high-quality postsecondary education.” Modest amounts of data are available indicating institution efforts to achieve that goal. MHEC has set a goal that institutions, including community colleges, should realize \$60 million in operating savings per year by fiscal 2005. During fiscal 2002, institutions reported to MHEC \$66.1 million in cost savings, exceeding the MHEC benchmark for the first time. The savings at the four-year institutions represent 2.5% of their 2002 Current Unrestricted Fund budgets and at the community colleges, 4.5% of the State support for community colleges in fiscal 2002. Descriptions of cost saving measures are available in MHEC’s annual Performance Accountability Report.

Of greatest concern among the cost saving measures are items involving new revenues and “strategic reallocation.” Neither action is an example of savings, as spending is not reduced. Charging more for food service is an example of scored savings related to new revenue. Strategic reallocations with no savings include reallocating marketing publications in support of web site operations or reallocating one-time equipment in one year to other priorities in the next year’s budget. Retirements, which are a natural part of the functioning of the organization and require no effort by the institution, are also scored as savings in some cases. While many items are certainly examples of cost savings, such tenuous examples as these throw into question the validity of the savings reported.

Keeping Up with the Jones'

Since 1998 funding guidelines have informed the funding of public four-year institutions in Maryland. The purpose of funding guidelines is to estimate what level of resources would allow each institution to compete effectively with its national peers. Keeping that in mind, the fiscal constraints facing Maryland institutions should be considered in light of conditions in other states and at other institutions. While it is impossible here to examine the budget actions of states affecting all the peers of all Maryland institutions, information on appropriations to higher education in other states provides a sense of conditions at other institutions.

According to Grapevine, a national database of state tax support for higher education, from fiscal 1998 to 2003, no state increased its support of higher education more than Maryland did. The annual average increase in State support in Maryland during that period was 8.2%. (Grapevine data reflects institutions, as well as financial aid, grants to community colleges and independent institutions, and MHEC.) Only Texas, California, Kentucky, and Wyoming approached Maryland's investment, with average annual growth of 7% or more. States often compared to Maryland – Illinois, Michigan, and North Carolina – had average annual increases in state appropriations between 4.1 and 4.4%.

Also, Maryland is not alone in facing budget difficulties in fiscal 2003 and 2004. In a November 2002 report, the National Conference of State Legislatures reported that 31 states had budget deficits in the early months of fiscal 2003. According to the National Association of State Budget Officers, by November of 2002, 22 states had made budget cuts after the fiscal 2003 budget passed. In addition, in recent months, the Chronicle of Higher Education has reported mid-year budget reductions to higher education in South Carolina, Virginia, and Nebraska and has highlighted the bleak outlooks for higher education in California, Tennessee, and Wisconsin.

Some Cuts Hurt Worse Than Others

All figures and trends described above apply to public four-year institutions as a group. Numerous factors contribute to varying circumstances at each of the State's 13 degree-granting institutions. Some institutions are experiencing enrollment growth. Some institutions serve mainly Maryland resident students, while others have broader geographic appeal. Some institutions spend greater portions of their unrestricted budgets on the core functions of Instruction, Research, and Public Service, while others invest more in support functions. Some institutions serve larger proportions of students on financial aid, and some invest more of their unrestricted resources in student financial aid. Finally, the State's Partnership Agreement with the Office for Civil Rights underscores the unique challenges facing the Historically Black Institutions (HBIs).

Higher Education – Fiscal 2004 Budget Overview

Due to these differences among institutions, DLS recommends that the General Assembly use a tiered “priority” approach to allocating any additional general fund reductions it may find necessary. Low priority institutions should bear a greater share of any reductions. The following factors contribute to the “priority” an institution might present, given additional fiscal constraints:

- enrollment growth;
- high in-state residency;
- concentrated spending in core functions;
- a high proportion of students on financial aid;
- relatively larger investments in student financial aid; and
- designation as an HBI.

Exhibit 10 illustrates three tiers of increasing priority, based on these factors, into which the public four-year institutions fall. Priority scores for each factor are based on how each institution compares with other institutions in the State on that factor. Scoring is as follows:

- A score of “0” indicates an institution is at or below the State average for that factor.
- A score of “1” indicates an institution is at least one standard deviation above average for that factor.
- A score of “2” indicates that the institution is more than one standard deviation above the average.
- Bowie State, UM Eastern Shore, and Morgan State each scored one additional point based on their status as HBIs.
- Coppin State scored two points, due to the special emphasis given it in the State’s Partnership Agreement.

As with funding guidelines, UMCES and UMBI should be linked to UMCP, due to their research missions, and should receive moderate priority. Due to its administrative and support role, the USM Office should receive low priority.

Exhibit 10

**Proposed Priority Factors
For Allocating General Funds Among Public Four-year Institutions**

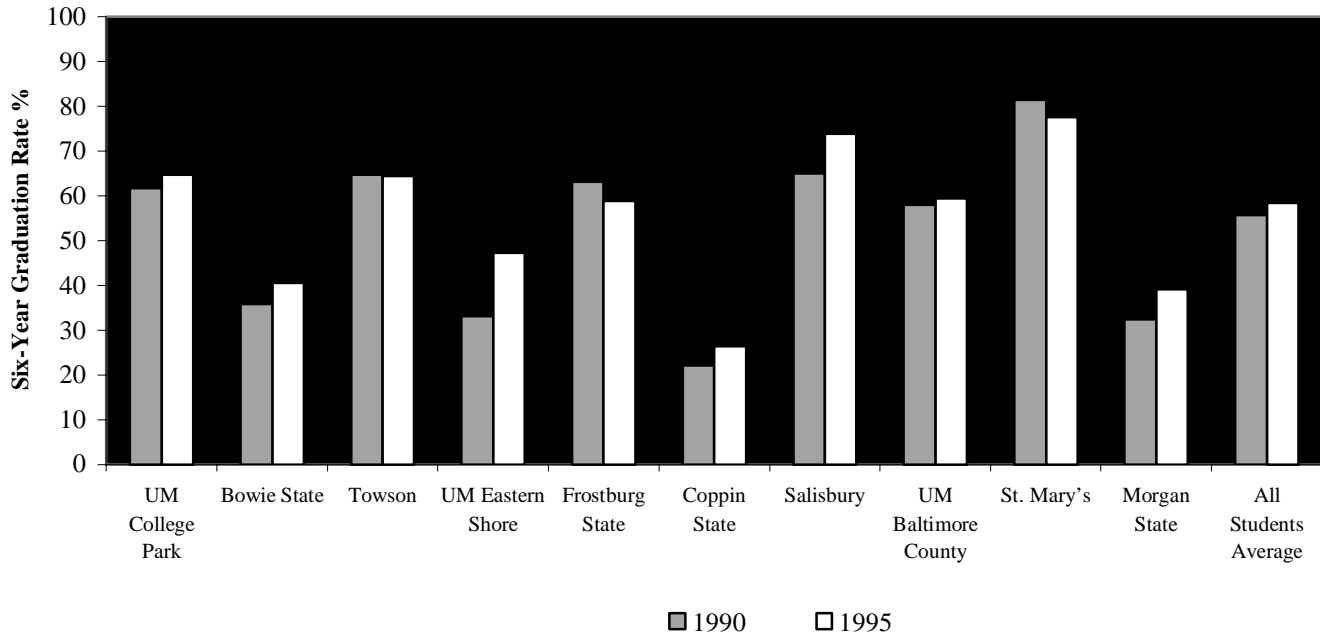
	<u>Enrollment Growth</u>	<u>Residency</u>	<u>Core Functions</u>	<u>Students on Financial Aid</u>	<u>CUF Scholarships</u>	<u>HBIs</u>	<u>Priority Score</u>
Bowie State	2	2	0	0	1	1	6
Morgan State	1	0	0	2	2	1	6
UM Eastern Shore	2	0	0	2	1	1	6
Coppin State	0	1	0	2	0	2	5
UM Baltimore County	1	1	1	0	2		5
UM Baltimore	0	0	2	1	0		3
UM College Park	0	0	2	0	1		3
Towson	0	1	0	0	2		3
St. Mary's	1	1	0	1	0		3
Salisbury	1	0	1	0	0		2
Frostburg State	0	1	1	0	0		2
Univ. of Baltimore	0	1	1	0	0		2
UM University College	2	0	0	0	0		2

Note: The data used to determine priority scores is available in the appendix.

Source: Department of Legislative Services

Higher Education Trends

Six-year Graduation Rate for First-time Full-time Students

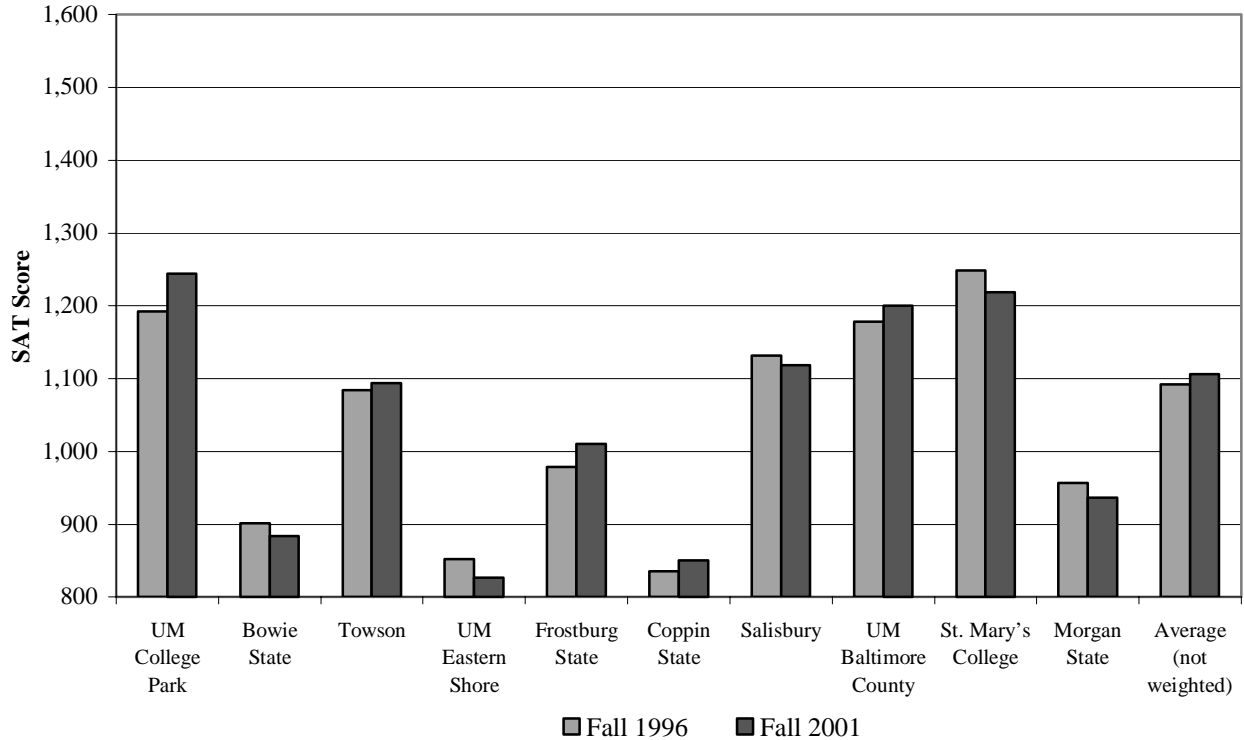


	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
UM College Park	61.7	62.8	63.6	63	63.3	64.8
Bowie State	35.9	38.9	38.1	34.4	42.3	40.6
Towson	64.8	60.6	63.2	62.2	59.1	64.5
UM Eastern Shore	33.2	35.3	34.5	40.7	41.0	47.3
Frostburg State	63.2	60.2	63.1	56.6	59.8	58.9
Coppin State	22.1	27.0	21.2	18.8	25.3	26.4
Salisbury	65.1	65.2	68.6	65.6	70.6	73.9
UM Baltimore County	58.0	54.2	57.4	60.1	58.7	59.5
St. Mary's	81.4	81.1	77.3	76.5	73.1	77.6
Morgan State	32.5	36.5	39.2	40.3	40.0	39.2
All Students Average	55.8	55.1	56.2	55.4	56.7	58.4

Note: The data show the percentage of students who had graduated from any campus within six years after starting in the year and institution indicated.

Source: Maryland Higher Education Commission

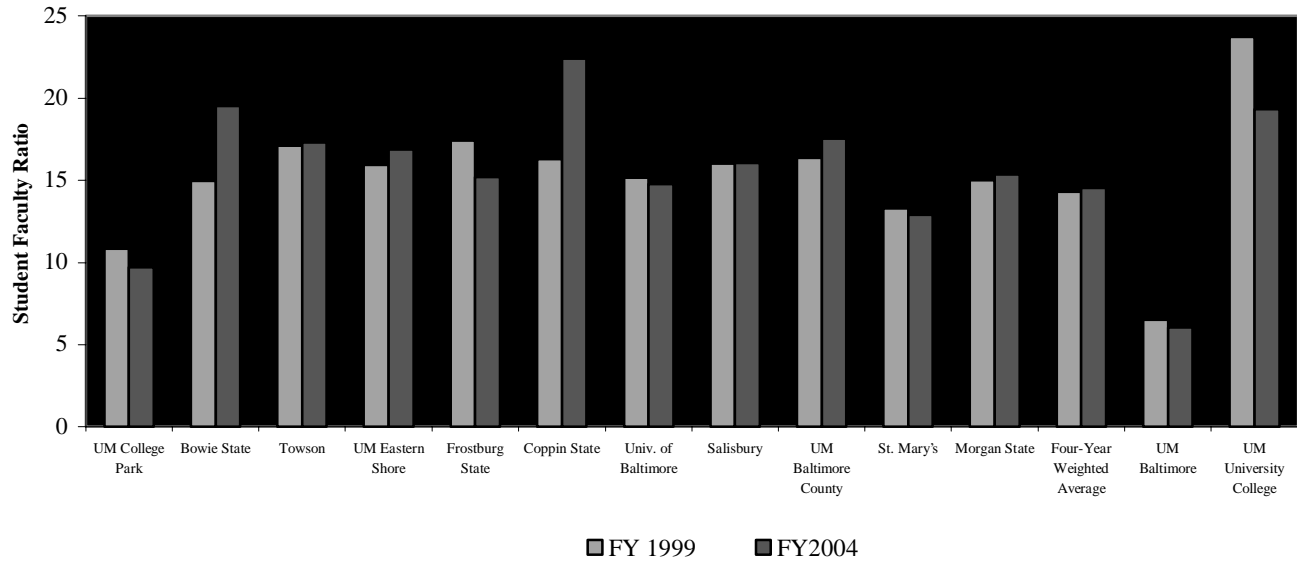
Scholastic Aptitude Test Scores of First-year Students



	<u>Fall 1996</u>	<u>Fall 1997</u>	<u>Fall 1998</u>	<u>Fall 1999</u>	<u>Fall 2000</u>	<u>Fall 2001</u>
UM College Park	1,192	1,199	1,209	1,232	1,244	1,244
Bowie State	901	922	908	921	921	884
Towson	1,084	1,094	1,089	1,077	1,096	1,094
UM Eastern Shore	852	862	858	847	824	827
Frostburg State	978	993	985	981	997	1,010
Coppin State	835	886	889	879	872	850
Salisbury	1,132	1,112	1,120	1,123	1,121	1,118
UM Baltimore County	1,178	1,177	1,167	1,172	1,186	1,200
St. Mary's College	1,249	1,250	1,237	1,236	1,222	1,219
Morgan State	957	941	937	947	953	937
Average	1,092	1,099	1,097	1,106	1,110	1,106

Source: Maryland Higher Education Commission

Student to Faculty Ratio



	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY2001</u>	<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>
UM College Park	10.8	10.7	10.6	9.8	9.9	9.7
Bowie State	15.0	14.3	14.9	17.8	19.2	19.5
Towson	17.1	17.4	17.0	17.3	17.3	17.3
UM Eastern Shore	16.0	14.2	16.1	16.0	16.3	16.9
Frostburg State	17.4	17.5	14.9	14.9	15.1	15.2
Coppin State	16.3	19.2	20.2	20.8	22.6	22.4
Univ. of Baltimore	15.2	14.5	14.8	14.4	15.1	14.8
Salisbury	16.0	16.3	15.8	16.4	15.9	16.1
UM Baltimore County	16.4	15.6	16.7	16.1	17.4	17.5
System Weighted Average	14.3	14.2	14.2	14.1	14.5	14.5
St. Mary's	13.3	12.4	11.7	12.6	12.9	12.9
Morgan State	15.0	14.8	14.9	15.2	15.3	15.3
Four-year Weighted Average	14.3	14.3	14.2	14.2	14.5	14.5
UM Baltimore	6.5	6.3	5.8	6.0	6.0	6.0
UM University College	23.7	18.5	18.4	17.9	18.4	19.3

Note: University of Maryland University College reflects stateside enrollment and faculty only.

Source: Department of Budget and Management; and the University of Maryland University College

Trends in Education and General Expenditures¹
Public Four-year Institutions
Fiscal 2002 Actual – Fiscal 2003 Working – Fiscal 2004 Allowance
(\$ in Thousands)

<u>Institution</u>	<u>Fiscal 2002 Actual</u>	<u>Fiscal 2003 Working²</u>	<u>Fiscal 2004 Allowance</u>	<u>\$ Change 2002-2004</u>	<u>Avg. Annual % 2002-2004</u>
UM Baltimore	\$301,215	\$314,596	\$309,878	\$8,664	1.4%
UM College Park	683,423	709,060	708,855	25,432	1.8%
Bowie State	43,696	44,345	47,427	3,730	4.2%
Towson	151,991	156,638	163,494	11,503	3.7%
UM Eastern Shore	40,499	39,832	40,514	15	0.0%
Frostburg State	49,371	50,801	51,106	1,735	1.7%
Coppin State	29,948	32,454	33,399	3,450	5.6%
Univ. of Baltimore	52,911	57,392	57,612	4,701	4.3%
Salisbury	57,655	59,537	60,019	2,364	2.0%
UM University College	96,292	115,641	131,652	35,359	16.9%
UM Baltimore County	150,566	156,557	157,923	7,357	2.4%
UMCES	18,625	18,428	17,728	-896	-2.4%
UMBI	24,326	28,375	25,400	1,074	2.2%
Subtotal, USM	\$1,700,546	\$1,783,657	\$1,805,007	\$104,460	3.0%
St. Mary's	\$30,567	\$31,767	\$32,981	\$2,415	3.9%
Morgan State	93,844	92,844	93,402	-443	-0.2%
Total	\$1,824,958	\$1,908,268	\$1,931,390	\$106,432	2.9%

Notes:

¹Education and General expenditures represent current unrestricted revenues less auxiliary program expenditures.

²Fiscal 2003 figures do not reflect cost containment measures or mid-year tuition increases.

Numbers may not sum due to rounding.

Source: Maryland State Budget, fiscal 2004

Education and General Expenditures¹
Per Full-time Equivalent Student
Public Four-year Institutions
Fiscal 1999 – Fiscal 2002 – Fiscal 2004 Allowance

<u>Institution</u>	<u>Fiscal 1999</u>	<u>Fiscal 2002</u>	<u>Fiscal 2004 Allowance</u>	<u>Annual % 1999-2002</u>	<u>Annual % 2002-2004</u>
UM Baltimore	\$45,829	\$57,374	\$61,301	7.8%	3.4%
UM College Park	19,627	24,812	26,253	8.1%	2.9%
Bowie State	10,183	11,884	11,461	5.3%	-1.8%
Towson	9,949	11,382	12,089	4.6%	3.1%
UM Eastern Shore	10,722	13,296	12,500	7.4%	-3.0%
Frostburg State	9,645	11,471	11,626	5.9%	0.7%
Coppin State	9,170	10,032	11,208	3.0%	5.7%
Univ of Baltimore	13,817	16,894	17,864	6.9%	2.8%
Salisbury	8,745	10,134	9,785	5.0%	-1.7%
UM University College ²	7,562	10,776	12,547	12.5%	7.9%
UM Baltimore County	13,826	16,986	17,166	7.1%	0.5%
Average, USM	\$14,461	\$17,731	\$18,527	7.0%	2.2%
St. Mary's	\$15,984	\$17,991	\$17,599	4.0%	-1.1%
Morgan State	12,249	15,936	14,992	9.2%	-3.0%
Average	\$14,408	\$17,613	\$18,184	6.9%	1.6%

Notes:

¹Education and General Expenditures represent current unrestricted revenues less auxiliary enterprises program expenditures.

²UM University College FTES exclude nonresident online students.

Source: Department of Budget and Management; UM University College

Fiscal 2004 Expenditures Per Full-Time Equivalent Student
By Revenue Source
Public Four-year Institutions

Institution	E&G Expenditures	General Funds	Tuition and Fees	FIES	E&G Expenditures per FTES	General Funds per FTES	Tuition and Fees per FTES	GF as % of E&G	T&F as % of E&G
UM Baltimore	\$309,878,147	\$141,678,389	\$55,271,730	5,055	\$61,301	\$28,027	\$10,934	46%	18%
UM College Park	708,854,779	330,499,300	258,641,013	27,001	26,253	12,240	9,579	47%	36%
Bowie State	47,426,727	21,885,449	24,607,411	4,138	11,461	5,289	5,947	46%	52%
Towson	163,493,858	62,464,002	95,128,686	13,524	12,089	4,619	7,034	38%	58%
UM Eastern Shore	40,514,091	22,693,902	16,155,342	3,241	12,500	7,002	4,985	56%	40%
Frostburg State	51,105,920	26,302,434	24,231,038	4,396	11,626	5,983	5,512	51%	47%
Coppin State	33,398,736	19,755,345	13,509,134	2,980	11,208	6,629	4,533	59%	40%
University of Baltimore	57,612,432	22,507,996	31,223,237	3,225	17,864	6,979	9,682	39%	54%
Salisbury	60,018,979	27,324,561	32,635,444	6,134	9,785	4,455	5,320	46%	54%
UM University College	131,651,920	15,552,233	159,657,203	10,493	12,547	1,482	15,216	12%	121%
UM Baltimore County	157,922,913	70,168,162	66,582,308	9,200	17,166	7,627	7,237	44%	42%
Subtotal/Average, USM	\$1,761,878,502	\$760,831,773	\$777,642,546	89,387	\$19,711	\$8,512	\$8,700	43%	44%
St. Mary's	32,981,321	14,315,970	15,212,290	1,874	17,599	7,639	8,118	43%	46%
Morgan State	93,401,690	51,088,274	37,011,350	6,230	14,992	8,200	5,941	55%	40%
Total/Average	\$1,888,261,513	\$826,236,017	\$829,866,186	97,491	\$19,369	\$8,475	\$8,512	44%	44%

Source: Maryland State Budget, fiscal 2004

Higher Education Enrollment Trends
Public Four-year Institutions
Full-time Equivalent Students

<u>Institution</u>	<u>Fiscal</u> <u>1999</u>	<u>Fiscal</u> <u>2002</u>	<u>Fiscal</u> <u>2003</u>	<u>Fiscal</u> <u>2004</u>	<u>Annual</u> <u>% 1999-</u> <u>2003</u>	<u>Annual</u> <u>% 2003-</u> <u>2004</u>
UM Baltimore	5,244	5,250	4,997	5,055	-1.2%	1.2%
UM College Park	25,830	27,544	27,049	27,001	1.2%	-0.2%
Bowie State University	3,326	3,677	3,977	4,138	4.6%	4.0%
Towson State University	12,309	13,354	13,455	13,524	2.3%	0.5%
UM Eastern Shore	3,031	3,082	3,241	3,370	1.7%	4.0%
Frostburg State University	4,181	4,304	4,370	4,396	1.1%	0.6%
Coppin State College	2,753	2,988	2,933	2,980	1.6%	1.6%
Univ. of Baltimore	3,035	3,132	3,196	3,225	1.3%	0.9%
Salisbury University	5,049	5,689	5,898	6,134	4.0%	4.0%
UM University College	6,288	8,937	9,607	10,492	11.2%	9.2%
UM Baltimore County	7,795	8,864	8,980	9,200	3.6%	2.4%
Subtotal, USM	78,841	86,785	87,544	89,386	2.7%	2.1%
St. Mary's College	1,690	1,699	1,785	1,874	1.4%	5.0%
Morgan State University	5,415	5,889	6,046	6,230	2.8%	3.0%
Total	85,946	94,373	95,375	97,490	2.6%	2.2%

UMUC enrollment excludes nonresident online students.

Source: Institution requests; Department of Budget and Management, University of Maryland University College

**Priority Factor: Enrollment Growth
Fiscal 2000 through 2004**

	FY 2000 <u>Actual</u>	FY 2004 <u>Allowance</u>	Avg Annual <u>2000-2004</u>	Enrollment Growth <u>Priority</u>
UM Baltimore	5,141	5,055	-0.4%	0
UM College Park	26,138	27,001	0.8%	0
Bowie State	3,283	4,138	6.0%	2
Towson	12,826	13,524	1.3%	0
UM Eastern Shore	2,735	3,370	5.4%	2
Frostburg State	4,174	4,396	1.3%	0
Coppin State	2,768	2,980	1.9%	0
Univ. of Baltimore	3,048	3,225	1.4%	0
Salisbury	5,133	6,134	4.6%	1
UM University College	7,070	10,492	10.4%	2
UM Baltimore County	8,087	9,200	3.3%	1
St. Mary's	1,594	1,874	4.1%	1
Morgan State	5,524	6,230	3.1%	1
Average (without UMUC)			2.7%	
Standard Deviation (without UMUC)			2.0%	
One Standard Deviation above Average			4.7%	

Note: UMUC was excluded in the average due to its outlier status.

Source: Department of Budget and Management

**Priority Factor: Resident Enrollment
Fiscal 2004 Allowance**

	2004 % In-state <u>Enrollment</u>	<u>Priority</u>
UM Baltimore	76%	0
UM College Park	64%	0
Bowie State	92%	2
Towson	82%	1
UM Eastern Shore	63%	0
Frostburg State	85%	1
Coppin State	90%	1
Univ. of Baltimore	89%	1
Salisbury	80%	0
UM University College	79%	0
UM Baltimore County	85%	1
St. Mary's	86%	1
Morgan State	70%	0
Average	80%	
Standard Deviation	10%	
One Standard Deviation above Average	90%	

Source: Maryland State Budget Books, fiscal 2004; Institutional Profiles

**Priority Factor: Expenditures in Core Functions
Instruction, Research, and Public Service
Fiscal 2002 Actual**

	<u>E&G Expenditures</u>	<u>Expenditures on Core Functions</u>	<u>Core as % of E&G</u>	<u>Priority</u>
UM Baltimore	\$301,214,544	\$ 170,259,752	57%	2
UM College Park	683,422,666	349,281,599	51%	2
Bowie State	43,696,492	16,786,599	38%	0
Towson	151,991,074	61,338,664	40%	0
UM Eastern Shore	40,499,034	16,546,917	41%	0
Frostburg State	49,371,159	22,852,042	46%	1
Coppin State	29,948,464	10,050,835	34%	0
Univ. of Baltimore	52,911,481	23,035,443	44%	1
Salisbury	57,654,791	25,843,901	45%	1
UM University College	156,481,153	63,039,143	40%	0
UM Baltimore County	150,566,327	74,104,545	49%	1
St. Mary's	30,566,752	12,468,367	41%	0
Morgan State	93,844,337	34,709,740	37%	0
Average			43%	
Standard Deviation			6%	
One Standard Deviation above Average			50%	

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

Source: Maryland State Budget, fiscal 2004

**Priority Factor: Students Receiving Financial Aid
Fiscal 2004 Allowance**

	2004 % of Students on <u>Financial Aid</u>	<u>Priority</u>
UM Baltimore	72%	1
UM College Park	60%	0
Bowie State	58%	0
Towson	57%	0
UM Eastern Shore	95%	2
Frostburg State	60%	0
Coppin State	85%	2
Univ. of Baltimore	35%	0
Salisbury	63%	0
UM University College	40%	0
UM Baltimore County	59%	0
St. Mary's	69%	1
Morgan State	85%	2
Average	64%	
Standard Deviation	16%	
One Standard Deviation above Average	81%	

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

Source: Maryland State Budget Books, fiscal 2004; Institutional Profiles

**Priority Factor: Current Unrestricted Expenditures
on Scholarships and Fellowships
Fiscal 2002 Actual**

	<u>E&G</u>	<u>Scholarships and Fellowships</u>	<u>Scholarships and Fellowships as % of E&G</u>	<u>Priority</u>
UM Baltimore	301,214,544	6,602,442	2%	0
UM College Park	683,422,666	38,742,312	6%	1
Bowie State	43,696,492	2,521,664	6%	1
Towson	151,991,074	13,104,989	9%	2
UM Eastern Shore	40,499,034	2,289,026	6%	1
Frostburg State	49,371,159	2,675,991	5%	0
Coppin State	29,948,464	394,050	1%	0
Univ. of Baltimore	52,911,481	1,335,156	3%	0
Salisbury	57,654,791	1,268,853	2%	0
UM University College	156,481,153	2,133,692	1%	0
UM Baltimore County	150,566,327	12,142,683	8%	2
St. Mary's	30,566,752	1,615,744	5%	0
Morgan State	93,844,337	12,300,319	13%	2
Average			5%	
Standard Deviation			3%	
One Standard Deviation above Average			7%	

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

Source: Maryland State Budget, fiscal 2004