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# **University System of Maryland Fiscal 2004 Budget Overview**

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

**February 2003**

**R30B00**  
**University System of Maryland**  
**Fiscal 2004 Budget Overview**

***Operating Budget Data***

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	(\$ in Thousands)				
	<b>FY 02</b>	<b>FY 03</b>	<b>FY 04</b>	<b>FY 03 - 04</b>	<b>FY 03 - 04</b>
	<u>Actual</u>	<u>Approp.</u>	<u>Allowance</u>	<u>Change</u>	<u>% Change</u>
General Funds	\$864,765	\$867,868	\$800,877	-\$66,991	-7.7%
FY 2003 Cost Containment	0	-30,375	0	30,375	
Contingent & Back of Bill Reductions	0	-36,615	0	36,615	
<b>Adjusted General Funds</b>	<b>\$864,765</b>	<b>\$800,877</b>	<b>\$800,877</b>	<b>\$0</b>	<b>0.0%</b>
Other Unrestricted Funds	1,253,052	1,335,360	1,438,651	103,291	7.7%
Total Unrestricted Funds	2,117,817	2,136,237	2,239,528	103,291	4.8%
Restricted Funds	685,541	775,913	848,909	72,996	9.4%
<b>Adjusted Grand Total</b>	<b>\$2,803,357</b>	<b>\$2,912,151</b>	<b>\$3,088,438</b>	<b>\$176,287</b>	<b>6.1%</b>

- In fiscal 2003 the University System of Maryland (USM) experienced reductions in general fund support of \$67.0 million, or 7.7%. The fiscal 2004 allowance provides no additional State support to USM.
- Other unrestricted funds, including tuition and fee revenue, increase 7.7% in fiscal 2004. The fiscal 2003 figure does not include tuition revenues from the mid-year tuition increase approved January 23, 2003.

***Personnel Data***

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	<b>FY 02</b>	<b>FY 03</b>	<b>FY 04</b>	
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>
Regular Positions	19,490.18	19,490.54	19,576.25	85.71
Contractual FTEs	5,321.48	4,972.21	5,384.31	412.10
<b>Total Personnel</b>	<b>24,811.66</b>	<b>24,462.75</b>	<b>24,960.56</b>	<b>497.81</b>

***Vacancy Data: Regular Positions***

Budgeted Turnover: FY 04	591.20	3.02%
Positions Vacant as of 09/31/02	806.18	4.13%

- Fiscal 2003 figures do not reflect the elimination of 198 positions due to cost containment.
- The net increase of 85.71 regular positions in fiscal 2004 is the result of abolishing 198 positions at eight institutions and the system office and adding 284 positions at six institutions and the system office.
- The components gaining positions are University of Maryland (UM) Baltimore, UM College Park, Towson, UM University College, and UM Baltimore County, and the office.

## *Analysis in Brief*

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### Major Trends

*No Increase in Teacher Candidates:* The number of USM students who completed teacher education requirements and who are employed in Maryland public schools did not increase from fiscal 2001 to 2002.

*The Achievement Gap Continues:* With regard to second-year retention rates and six-year graduation rates, gaps between all students and African American students remain. It appears that USM institutions have narrowed the gap in retention rates by one percentage point in fiscal 2002 but anticipate losing ground in fiscal 2004. It does not appear that USM has made any progress narrowing the gap in graduation rates, nor does it anticipate the gap will change in the next two years.

*In Pursuit of National Eminence:* At UM College Park and UM Baltimore, the system has increased the number of graduate level colleges, programs, or specialty areas that are ranked among the top 25 in the nation.

### Issues

*Balanced Budget Assumes Transfer of USM Fund Balance:* The administration proposes to transfer \$29 million from the USM fund balance to the general fund in fiscal 2003. The transfer represents 53% of the State-supported fund balance and 10% of the total fund balance. The system will allocate the transfer among institutions according to their fiscal 2003 operating budgets, meaning some institutions will be responsible for a transfer larger than their State-supported fund balance. **DLS recommends against the transfer of fund balance from USM to the general fund. Instead, DLS recommends reducing the fiscal 2003 general fund support for USM by \$29,000,000.**

*Cost Containment Does Not Necessarily Mean Spending Less:* The system has reported its plans for addressing fiscal 2003 reductions in general fund support. The plans include eliminating 25% of current vacancies and only \$10.5 million in actual spending reductions. Also, spending has increased substantially since fiscal 2001, specifically in administrative and support areas. **To constrain spending, DLS recommends limiting growth in tuition and fee revenue and reducing general fund support by \$29,000,000.**

*Unknown Cost of Separating Grant-funded Employees:* The varying application among institutions of separation and layoff policies to grant-funded employees may mean that institutions are spending institutional funds, and possibly State funds, on grant-funded positions. This practice would represent a violation of the spirit of flexibility given to institutions in adding positions not supported with State funds. **USM should determine how institutions apply the separation and layoff policies and determine to what extent, if any, grant-funded employees have become a cost to institutions and to the State.**

## **Recommended Actions**

1. Add budget bill language to limit the growth in tuition and fee revenue at the University System of Maryland to 4% greater than the amount estimated based on charges adopted for fall 2003 in August 2002.
2. Add budget bill language to make the appropriation of \$29,462,997 in unrestricted funds attributable to tuition and fee revenue contingent on Board action to adopt tuition and fee charges for the 2003-2004 academic year in excess of those adopted in August 2002.
3. Add budget bill language to prohibit budget amendments to increase unrestricted fund appropriations attributable to tuition and fee revenue, except in cases where an institution experiences enrollment growth at least 6% higher than anticipated.
4. Add budget bill language to reduce the general fund support for USM by \$29,000,000.
5. Add budget bill language to reduce the unrestricted fund appropriation for USM by \$9,313,500 related to tuition waivers provided as an employee benefit.
6. Adopt committee narrative directing USM to examine the application of separation and layoff policies to regular exempt employees whose positions are funded with grant funds.
7. Adopt committee narrative asking USM to reconsider its policy excluding research, public service, and facilities-related costs from the Cost of Education used to set nonresident tuition.

## **Updates**

***Board Adopts Interim Policy on Tuition Waivers:*** Under policies adopted in August 2002, regular faculty and staff, and the dependent children thereof, of Morgan State University, St. Mary's College, and Baltimore City Community College are eligible for tuition waivers at USM institutions. The benefits shall be provided "at the same level of benefits as provided for USM faculty and staff." In the case of benefits for dependent children, benefits are restricted based on the date of employment.

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***Virtual Center for the Study of Ethics in Biotechnology Research:*** Committee narrative from 2002 encouraged USM to “explore the development of a consolidated and dedicated virtual center, including all the involved institutions, to focus on ethical issues in biotechnology research.” The system determined that the benefits of establishing a central office for coordination of efforts in ethics in biotechnology do not justify the costs in this fiscal climate. Instead, USM developed a web site as an information portal for bioethics, in general, and on USM programs and people, in particular. The site is scheduled to be online by the end of January 2003.

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*Operating Budget Analysis*

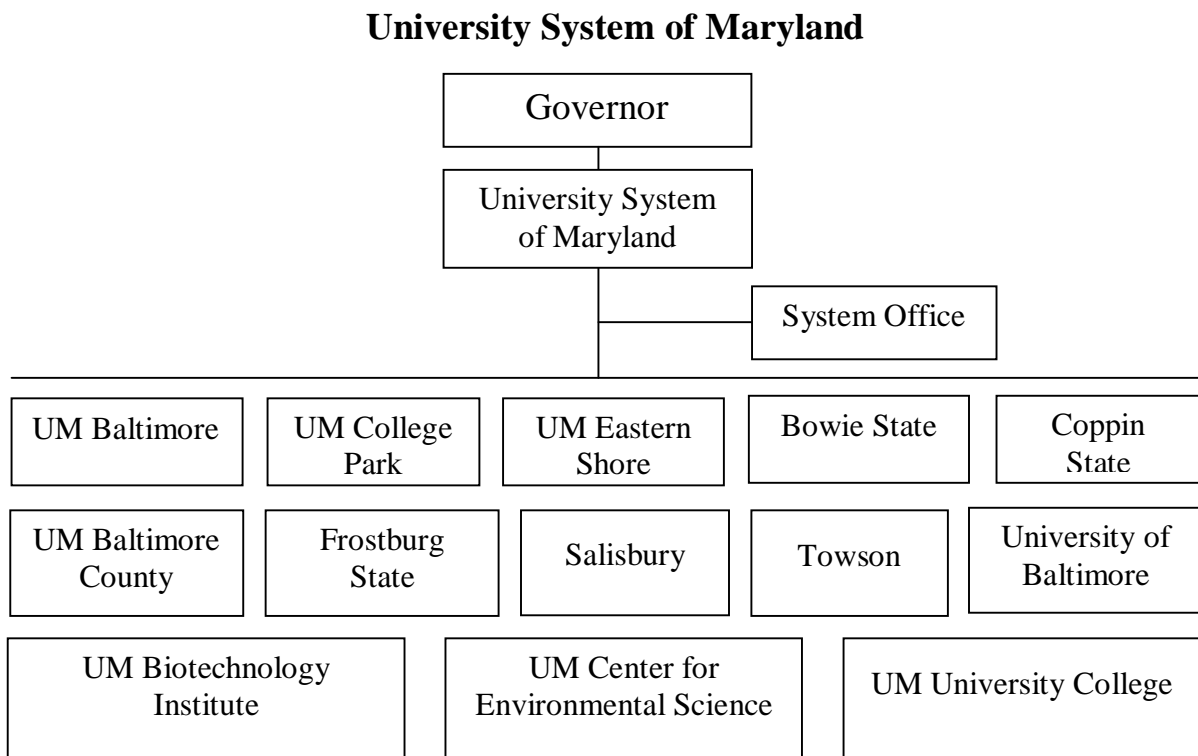
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**Program Description**

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.” The USM consists of eleven degree-granting institutions, two research centers, and the system office. **Exhibit 1** illustrates the governance and structure of the system.

**Exhibit 1**

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Source: Department of Legislative Services

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The Board of Regents is the governing body of USM. The board consists of 17 members, including the Secretary of Agriculture (ex officio); the Secretary is the only member not 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.

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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. The board reviews and approves new programs, reviews existing programs, sets minimum admission standards, and sets general guidelines for tuition and fees. The board is supposed to monitor the progress of each system institution toward approved goals and hold each president accountable for that progress. The board may delegate any of its responsibilities to the Chancellor.

The goals of the USM, consistent with the State Plan for Higher Education, are:

- create and maintain a well-educated workforce;
- promote economic development;
- increase access for economically disadvantaged and minority students;
- achieve and sustain national eminence in providing quality education, research, and public service;
- increase revenue from alternative sources to State appropriations; and
- maximize the efficient and effective use of State resources.

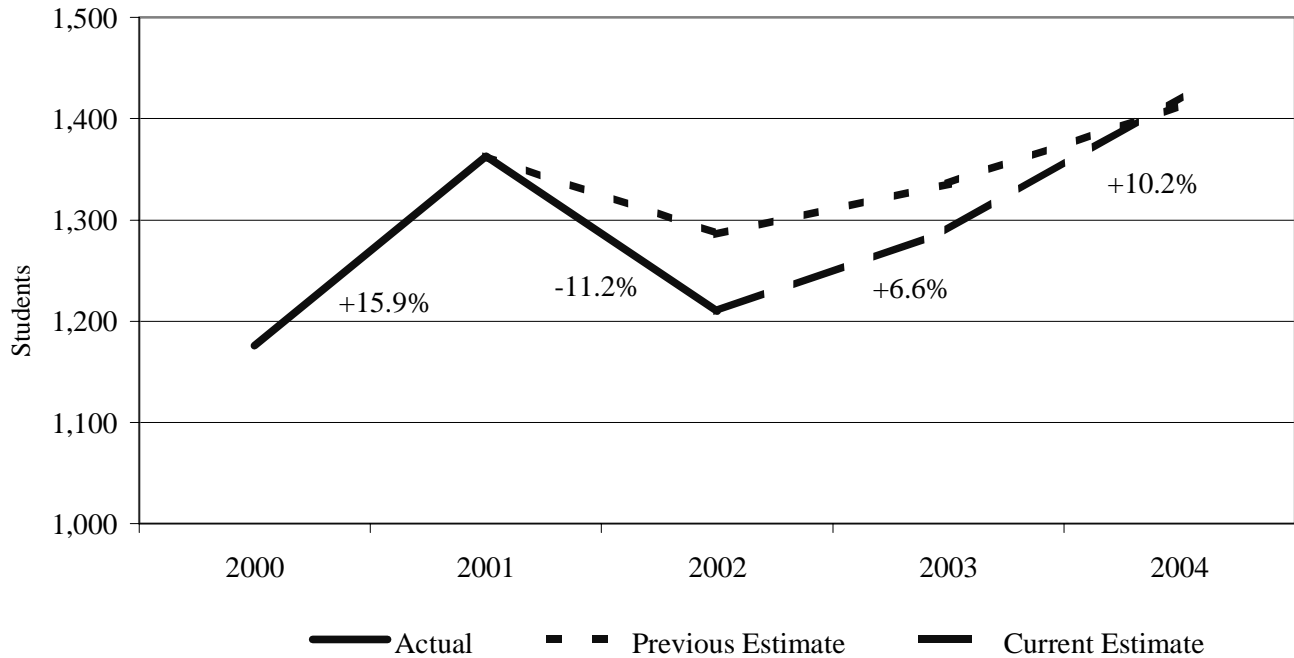
### **Performance Analysis: Managing for Results**

USM's first goal is to create and maintain a well-educated workforce. Unfortunately, a basic measure of success in this regard, the employment rate of USM graduates, is not a statistic to which the system has access consistently. It is based on the Maryland Higher Education Commission-sponsored Alumni Follow-up Survey, which is conducted every two years. The result for fiscal 2000 and 2002 was 95% employment. A different survey conducted in 2001 also found 95% employment among graduates.

USM also measures its efforts related to teacher preparation as part of meeting its goal to create and maintain an educated workforce. As shown in **Exhibit 2**, the number of USM students who completed teacher education requirements and who are employed in Maryland public schools declined from 2001 to 2002, following a 15.9% increase in 2001. To reach its goal of 1,422 in fiscal 2004 will require an average increase of 8.4% in each of the next two years. Currently, the number of students completing teacher education requirements and teaching in the public schools represents 7% of the number of graduates from the eight institutions with approved teacher preparation programs. **The Chancellor should comment on what specific steps system institutions are taking to increase the number of USM students completing teacher education requirements and finding work in public schools. The Chancellor should also update the committees on the status and results of the teacher education grants administered by the System Office.**

Exhibit 2

USM Students Completing Teacher Education Requirements and Employed in Maryland Public Schools

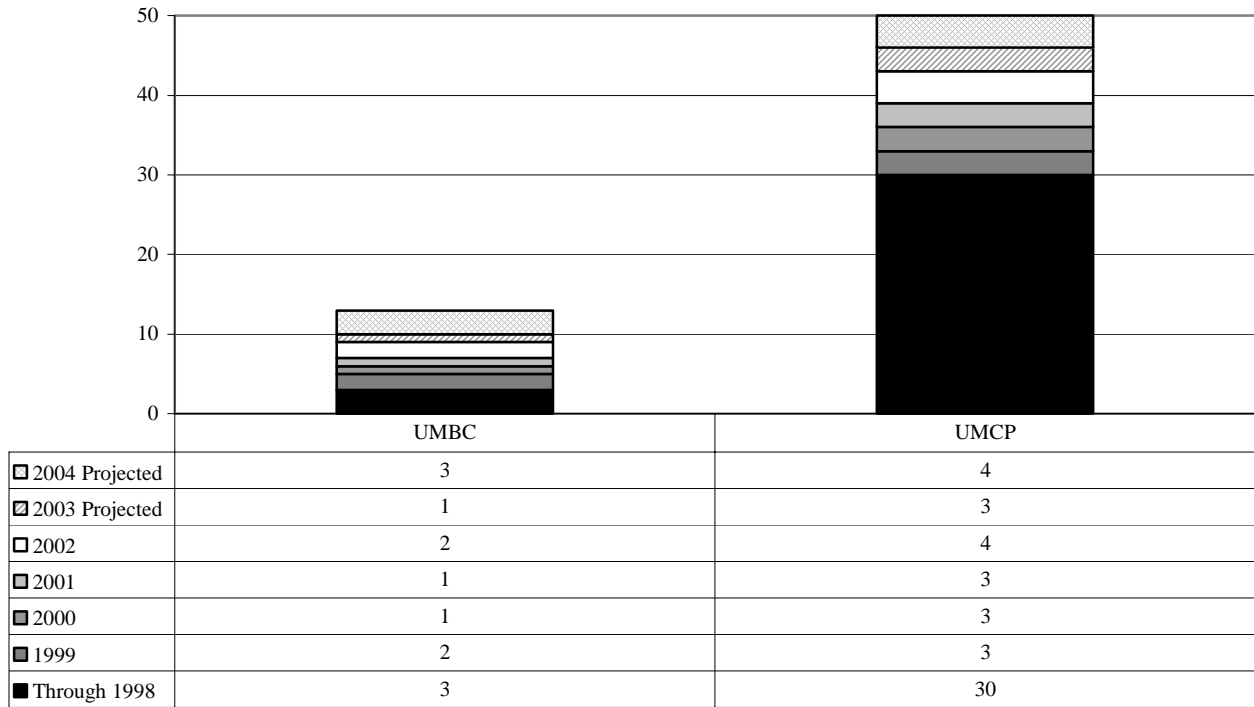


Source: Maryland State Budget, fiscal 2003 and 2004

In support of the system’s goal of promoting economic development, two institutions operate business incubators: UM College Park and UM Baltimore County. The system reports the cumulative number of businesses that have graduated from incubators at the two institutions. The data currently reported is shown in **Exhibit 3**. The number includes all businesses that have ever graduated from the incubator. A cumulative total smooths variation from year to year, but due to the indefinite time period, in fiscal 2002, the data includes businesses that graduated more than five years ago. **Department of Legislative Services (DLS) recommends that the system choose a defined time period over which to report graduates, for example, the number graduated in the last three years or five years. Also, the Chancellor should comment on institutions’ efforts to document the success of graduating businesses. For example, are businesses that graduated in 1998 still operating? How does their success rate compare to other start-ups begun in the same time period?**

**Exhibit 3**

**Business Incubator Graduates  
Cumulative Total  
UM College Park and UM Baltimore County**

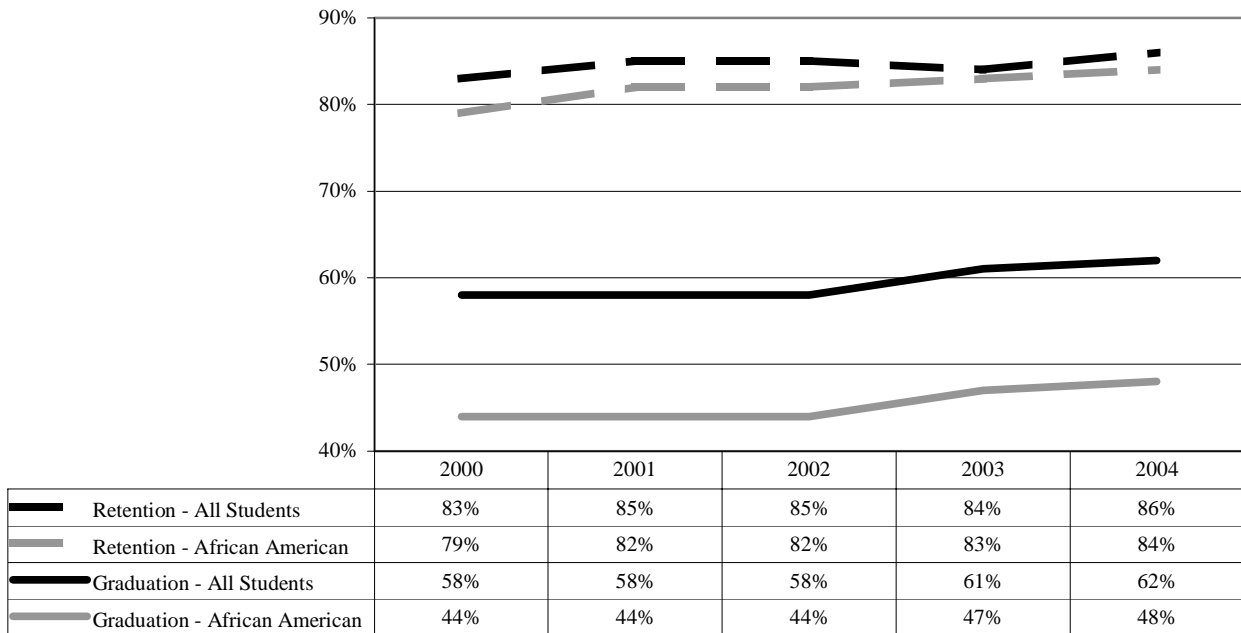


Source: Maryland State budget books, fiscal 2004; University System of Maryland

Related to its goals of increasing access for minority students and achieving national eminence, the system has chosen to report retention and graduation rates for all students and for African American students. As shown in **Exhibit 4**, gaps remain in both retention and graduation between all students and African American students. It appears that USM institutions have narrowed the gap in retention rates by one percentage point, anticipate narrowing it further in fiscal 2003, but anticipate losing ground in fiscal 2004. It does not appear that USM has made any progress narrowing the gap in graduation rates, nor does it anticipate the gap will change in the next two years. **The Chancellor should comment on the system’s low expectations for progress in overcoming the achievement gap.**

**Exhibit 4**

**Graduation and Retention Rates  
All Students and African American Students**



Source: Maryland State budget books, fiscal 2003 and 2004

Also related to its goal of achieving national eminence, USM reports the number of graduate level USM colleges, program, or specialty areas ranked among the top 25 in the nation. The measure reflects only programs at UM College Park and UM Baltimore. The number of such ranked programs has increased, and the system anticipates that it will increase in future years as well. As DLS pointed out during the 2002 session, system measures that document the achievements of selected campuses may not accurately reflect the achievements of the system and create the impression that the achievements of other campuses are not valued.

**Fiscal 2003 Actions**

**Impact of Cost Containment**

Through the combined cost containment proposals of the previous and current administrations, general fund support for USM will decline \$67.0 million in fiscal 2003. Cost containment also includes a proposal to transfer \$29 million from the fund balance of USM to the State's general fund.

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The system's plans to respond to general fund reductions and the fund balance transfer are discussed in the second Issue of this analysis.

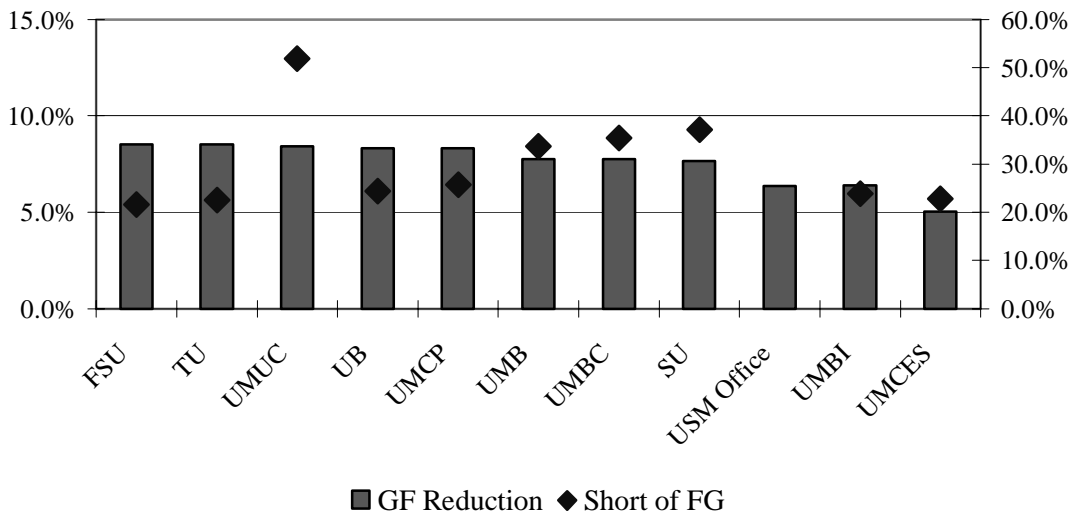
### Distribution of Reductions in General Fund Support to USM

Pursuant to a decision by the current administration, general fund reductions at the three USM historically black institutions (HBIs) are limited to 4%, compared to an average of 8% at the remaining institutions and the system office. The system office used discretion in distributing fiscal 2003 general fund reductions among the traditionally white institutions (TWIs), the research centers, and the system office. Rather than an across-the-board reduction of 8%, the system chose to allocate reductions ranging from 5.0% to 8.4%.

The system took into consideration an institution's funding guideline attainment and its ability to raise tuition revenue. **Exhibit 5** illustrates the relationship between an institution's allocated reduction and the amount by which it falls short of its fiscal 2003 funding guideline. The reduction is inversely related to the distance from funding guideline with four exceptions. First, UM University College has the lowest funding guideline attainment of any institution but was allocated one of the largest proportional decreases in general fund support. Second, due to their inability to raise tuition revenue, the two research centers (UM Biotechnology Institute and UM Center for Environmental Science) were allocated smaller reductions than degree-granting institutions with similar funding guideline attainment. Finally, the system office absorbed among the smallest reductions, due to its inability to raise tuition revenue but despite its exclusively support function.

### Exhibit 5

#### Cost Containment Burden and Funding Guideline Attainment



Note: FG = funding guideline

The graph compares percentage decline in general fund support and the percentage by which an institution falls short of its funding guideline. For example, Frostburg State University was allocated a general fund reduction of 8.5%. Its funding guideline attainment is 78.4%, so it falls short of guideline by 21.6%.

Sources: University System of Maryland; Maryland Higher Education Commission

## Governor's Proposed Budget

The allowance for fiscal 2004 continues fiscal 2003 levels of general fund support, reflecting reductions of \$67 million and providing no increase in general funds for USM institutions and the USM Office. (**Exhibit 6**) The distribution among institutions, described above, is also maintained.

Other unrestricted funds increase 7.7%. The primary reason other unrestricted funds increase is that the allowance includes an increase in tuition and fee revenue: \$41.6 million based on tuition and fee charges adopted by the Board of Regents in August 2002 and \$41.0 million based on higher charges not yet approved.

Restricted funds, including State grants, increase 9.4%. This increase is likely understated, because some institutions conservatively predict no growth in restricted funds knowing the restricted fund appropriation can be increased through budget amendment during the year.

### Exhibit 6

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<b>Governor's Proposed Budget University System of Maryland (\$ in Thousands)</b>					
	<b>FY 02</b>	<b>FY 03</b>	<b>FY 04</b>	<b>FY 03 - 04</b>	<b>FY 03 - 04</b>
	<b><u>Actual</u></b>	<b><u>Approp.</u></b>	<b><u>Allowance</u></b>	<b><u>Change</u></b>	<b><u>% Change</u></b>
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Other Unrestricted Funds	1,253,052	1,335,360	1,438,651	103,291	7.7%
Total Unrestricted Funds	2,117,817	2,136,237	2,239,528	103,291	4.8%
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<b>Adjusted Grand Total</b>	<b>\$2,803,357</b>	<b>\$2,912,151</b>	<b>\$3,088,438</b>	<b>\$176,287</b>	<b>6.1%</b>

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Note: Fiscal 2003 Other Unrestricted Funds amount does not include tuition revenue from the mid-year tuition increase approved January 23, 2003.

## Issues

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### 1. Balanced Budget Assumes Transfer of USM Fund Balance

The fiscal 2002 ending fund balance of USM totaled \$286,063,380. The projected fund balance for the close of fiscal 2003 is slightly lower, \$278,923,245. According to USM, the State-supported fund balance for the close of fiscal 2003 is \$54,817,161, or 20% of total fund balance. The remaining 80% is attributable to auxiliary, or self-supporting, activities of the universities.

As general fund support for institutions increased in the late 1990s, some USM institutions increased fund balance. According to USM, growth in fund balance is the result of a conscious decision by the Board of Regents to strengthen the financial position of the system. The board hopes to build an unrestricted fund balance equal to the system's total outstanding debt. Bond rating agencies have indicated that USM should have fund balance equal to one-half of its outstanding debt to maintain its current bond rating. Adequate fund balance allows the system access to indirect debt through public-private partnerships, lower interest rates on debt, and lower issuance costs. It also allows institutions to save for particular purposes and respond to unanticipated emergencies.

The administration's cost containment proposal includes a transfer of \$29 million from the USM fund balance to the general fund. The transfer represents 53% of the State-supported 2003 ending fund balance or 10% of the total fund balance. The system plans to allocate the amount required for the transfer among institutions according to their share of the fiscal 2003 unrestricted operating budget. According to USM, using the operating budget rather than existing fund balance as the criteria for allocation does not penalize institutions that have complied with the direction of the Board of Regents to increase institutional fund balance.

**Exhibit 7** shows the distribution of fund balance and the proposed fund balance transfer. Some institutions would transfer more than they have in State-supported fund balance. Those institutions could transfer current operating funds, overlook the normal distinction between State-supported and self-supporting activities to use fund balance from self-supporting activities, or borrow fund balance from another institution. **The Chancellor should comment on how institutions whose State-supported fund balance is smaller than their allocated transfer amount would achieve the transfer.**

The issue of the fund balance transfer will be before the General Assembly in its consideration of a budget reconciliation act. **DLS recommends against the transfer of fund balance from USM to the general fund. Instead, DLS recommends reducing the fiscal 2003 general fund support for USM by \$29,000,000.**

The reasons to reduce general fund operating support for USM rather than transferring fund balance are five fold.

- This approach leaves the system with the same overall resources while protecting its bond rating.
- Reductions to the operating budget encourage the system to curtail spending.

**Exhibit 7**

**Fund Balance and Proposed Transfer Amounts**  
(\$ in Thousands)

	Fiscal 2003 Fund Balance			Fiscal 2003	Share of CUF	Transfer	Share of	% of State	% of
	State	Non-State	Total	Unrestricted Budget	Budget	Allocation	Transfer	Supported FB	Total FB
UM Baltimore	\$16,805	\$54,375	\$71,180	\$336,814	16%	-\$4,538	16%	27%	6%
UM College Park	23,014	65,956	88,970	856,413	40%	-11,540	40%	50%	13%
Bowie State	279	4,733	5,012	52,075	2%	-702	2%		14%
Towson	10,322	16,801	27,124	213,807	10%	-2,881	10%	28%	11%
UM Eastern Shore	18	3,062	3,081	54,679	3%	-737	3%		24%
Frostburg State	0	4,935	4,935	67,359	3%	-908	3%		18%
Coppin State	1,754	311	2,065	38,277	2%	-516	2%	29%	25%
Univ. of Baltimore	155	7,965	8,121	60,341	3%	-813	3%		10%
Salisbury	359	7,729	8,088	83,454	4%	-1,125	4%		14%
UM University College	0	34,811	34,811	127,931	6%	-1,724	6%		5%
UM Baltimore County	230	10,718	10,948	199,415	9%	-2,687	9%		25%
UMCES	235	4,864	5,099	18,428	1%	-248	1%		5%
UMBI	698	6,874	7,572	28,375	1%	-382	1%	55%	5%
USM Office	945	973	1,919	14,829	1%	-200	1%	21%	10%
<b>Total</b>	<b>\$54,817</b>	<b>\$224,106</b>	<b>\$278,923</b>	<b>\$2,152,198</b>	<b>100%</b>	<b>-\$29,000</b>		<b>53%</b>	<b>10%</b>

Notes: FB = fund balance  
 CUF = Current Unrestricted Fund  
 Fiscal 2003 unrestricted budget does not reflect cost containment, nor does it include UM University College overseas operations.  
 Numbers may not add due to rounding.

Source: University System of Maryland

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- The approach supports the Board of Regents' policy of encouraging institutions to build fund balance; institutions that have adhered to that policy will have more flexibility in responding to operating reductions than institutions that did not build fund balance.
- The system planned to allocate the fund balance transfer based on each institution's share of the operating budget, which has been determined by the Board of Regents through the allocation of fiscal 2003 legislative reductions and cost containment actions. Reducing the operating funds of the system allows the General Assembly the opportunity to allocate the reduction according to its own priorities.
- Reductions to the general fund support of institutions will yield additional savings in fiscal 2004 due to their effect on formula-based aid to non-public institutions, community colleges, and Baltimore City Community College. A fund balance transfer would not yield additional savings. **Exhibit 8** shows the additional fiscal 2004 savings in the three formula appropriations that would result from a reduction to operating support rather than the fund balance transfer.

**Exhibit 8**

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**USM Funding Proposals and Effects on Formula Funding**

	<u>No Fiscal 2003 Cost Containment</u>	<u>Governor's Proposal</u>	<u>DLS Recommendation</u>
<b>Fiscal 2004</b>			
Non-public Institutions	\$47,298,947	\$43,749,027	\$42,479,517
Community Colleges	194,370,486	184,651,271	184,103,511
Baltimore City Community College	33,943,115	31,433,101	30,535,246
<b>Savings</b>			
	Fiscal 2004	-15,779,149	-18,494,274
<b>Additional Savings</b>			<b>-2,715,125</b>

Note: DLS recommendation figures reflect only the effect of reductions in general fund support for the public four-year institutions. They do not reflect a separate DLS recommendation related to residency policy.

The effect of the USM reduction on formula appropriations depends on the allocation of the reduction among USM institutions. These figures are based on an allocation that reflects the priorities recommended in the Higher Education Overview analysis.

Source: Department of Legislative Services

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**2. Cost Containment Does Not Necessarily Mean Spending Less**

The system reported January 22, 2003, the measures it will use to address cost containment in fiscal 2003. DLS will examine measures to address cost containment at individual institutions in later analyses. USM's accounting for the reduction of \$67 million in general funds does not consider the

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\$8.4 million in salary bonus costs avoided. Assuming the administration intends the salary bonus reduction to be included in cost containment, rather than in addition to it, the net reduction to USM is only \$58,581,351. With that in mind, **Exhibit 9** illustrates the contribution of various strategies to address the reduction of general funds in fiscal 2003. The system reports that it will address 61% of the fiscal 2003 reduction in general fund support with the following measures:

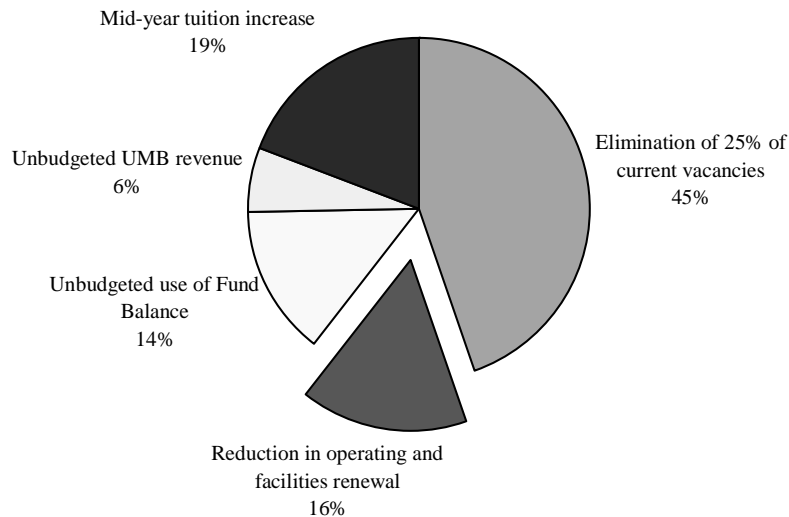
- elimination of 198 full-time positions systemwide;
- possible 1 to 4 furlough days at several institutions;
- reduction in miscellaneous operating expenses; and
- reduction in facilities renewal.

**Exhibit 9**

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**Fiscal 2003 Cost Containment Measures**

**\$66,990,570**



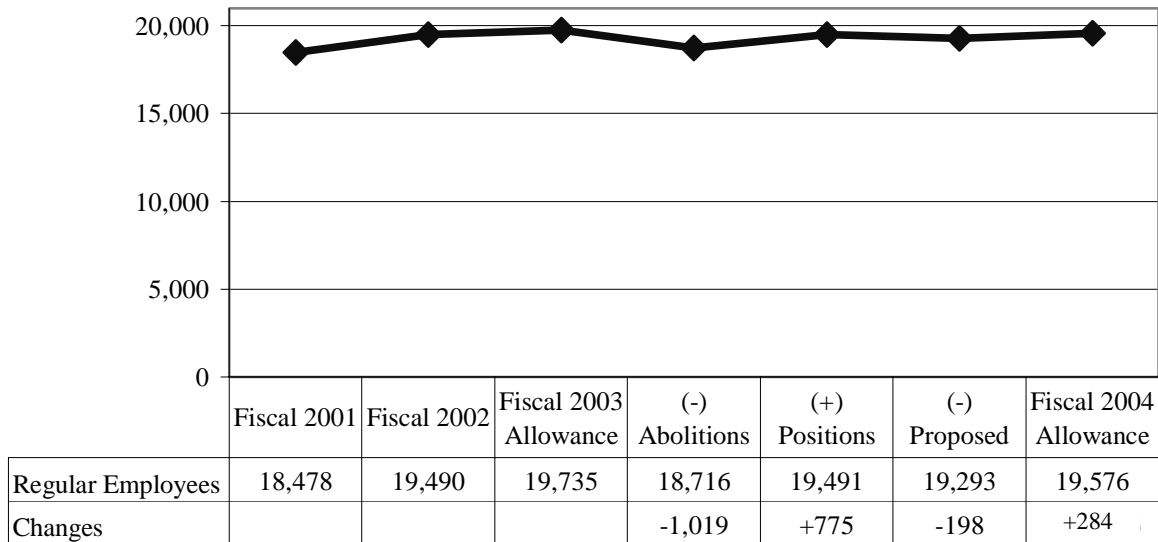
Source: University System of Maryland

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As shown in **Exhibit 10**, the system added 775 positions during fiscal 2003 through the Board of Public Works. As shown in the Personnel Data table, the system had 806.12 vacancies on September 31, 2002. Eliminating 198 positions is elimination of only 25% of the new positions or 25% of vacancies. The 2003 working budget does not reflect the proposed elimination of 198 positions. After the elimination of the 198 positions in 2003, the allowance adds another 284.09 positions in fiscal 2004.

**Exhibit 10**

**USM Regular Employees  
Fiscal 2001 through 2004 Allowance**



Note: Numbers may not sum due to rounding.

Sources: Governor's budget books, fiscal 2003 and 2004; University System of Maryland; Department of Legislative Services

The system has not provided detail on possible furlough plans, so DLS cannot comment on that measure.

Because the eliminated positions are vacant and the system would not have incurred those salary and benefit costs, the only actual spending reductions reported by the system include \$7.8 million in miscellaneous operating expenses and \$2.7 million in facilities renewal. The combined effect of these measures, \$10.5 million, represents less than 1% of the system's \$1.8 billion of planned Education and General expenditures for fiscal 2003.

Rather than constraining spending, the system plans to address 20% of the planned fiscal 2003 general fund reductions with unbudgeted, available revenue from fund balance (\$9.5 million) and indirect cost recovery at UM Baltimore (\$4.0 million). In addition, the system will address 19% (\$12.9 million) of the planned fiscal 2003 general fund reductions with revenue from mid-year tuition increases approved January 23, 2003.

## **A Perspective on Structural Change**

Under the Governor's proposal, general fund support in fiscal 2004 is similar to that provided in fiscal 2001. **Exhibit 11** illustrates other factors that have changed since fiscal 2001, including full-time equivalent students enrollment, Education and General (E&G) expenditures, Institutional Support expenditures, and non-auxiliary employment. While general fund support is about the same as in fiscal 2001, enrollment has increased slightly and spending has increased more substantially. In addition, the system has invested a substantial portion of the increased spending in administrative and support functions and in non-auxiliary regular positions.

As shown in Exhibit 11, general fund support is about the same as in fiscal 2001. Full-time equivalent student (FTES) enrollment has increased about 7%. In contrast, E&G expenditures have increased twice as much; they are 15% higher in fiscal 2004 than in fiscal 2001.

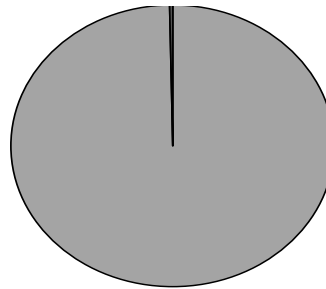
The system has allocated much of the increase in E&G spending to Institutional Support, which includes executive management, fiscal operations, general administration, logistical services, administrative computing support, public relations, and public safety. Institutional Support expenditures have increased \$57.1 million, or 24%, since 2001 and account for nearly one-quarter of the total increase in E&G expenditures. The increase for these administrative and support functions is second only to the increase in Instructional spending, three times the increase for Research, and four times the increase for Scholarships and Fellowships.

The increase in E&G spending has translated to increases in non-auxiliary employment also. Exhibit 11 also shows that non-auxiliary employment in fiscal 2001 was 96% of what is budgeted for fiscal 2004. USM has added one non-auxiliary employee for every 6.7 full-time equivalent students added since 2001.

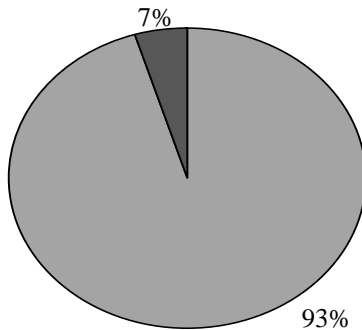
**Exhibit 11**

**Fiscal 2001 v. 2004  
Selected Indicators  
University System of Maryland**

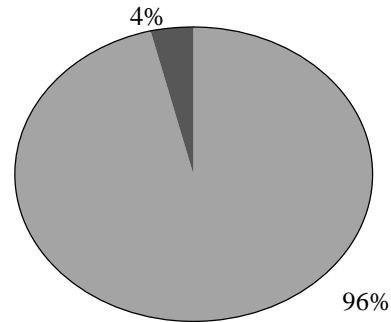
**General Funds**



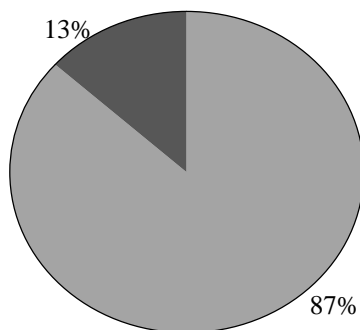
**FTES Enrollment**



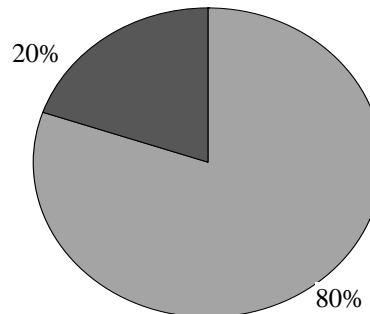
**Non-auxiliary  
Employment**



**E & G Expenditures**



**Institutional Support  
Expenditures**



■ Fiscal 2001      ■ Added since 2001

	<u>General Funds</u>	<u>FTES Enrollment</u>	<u>E&amp;G Expenditures</u>	<u>Institutional Support Expenditures</u>	<u>Non-auxiliary Employment</u>
<b>Fiscal 2001</b>	\$798,692,358	83,516	\$1,628,616,952	\$233,910,633	21,640.47
<b>Added since 2001</b>	\$2,184,843	5,999	\$249,245,745	\$57,062,480	896.84
<b>Fiscal 2004</b>	\$800,877,201	89,515	\$1,877,862,697	\$290,973,113	22,537.31

Note: FTES enrollment excludes nonresident online students at UM University College

Source: Maryland State Budget, fiscal 2003 and 2004; University of Maryland University College

## Maintaining the Momentum – and the Focus on Excellence

As discussed in the Higher Education Overview analysis, the University System of Maryland has benefited from five years of tremendous growth in general fund support and has achieved a considerable measure of success moving toward its goal of “national eminence.” Any large investment should be moderated, evaluated, and adjusted periodically to ensure that growing resources are optimized. Rather than viewing cost containment measures of fiscal 2003 and constraints of fiscal 2004 as storms for the system to weather, the General Assembly should encourage USM to take the opportunity to ensure that its focus has been and remains on its core mission of education, research, and public service. Like the State as a whole, the system should examine real adjustments rather than one-time fixes.

There are two primary means for constraining growth in USM spending in fiscal 2004: limiting growth in tuition and fee revenue and reducing general fund support. Below, DLS presents recommendations for both. As shown in **Exhibit 12**, if the General Assembly were to adopt DLS recommendations to replace the fund balance transfer with a general fund reduction in fiscal 2003, limit growth in tuition and fee revenue in fiscal 2004, and reduce the State appropriation in the fiscal 2004 allowance, E&G spending would still increase in both fiscal 2003 and 2004. To give USM more resources and greater flexibility, the General Assembly could adopt only the proposed tuition limit or only the general fund reduction. In addition, some combination of the two proposals is possible. The DLS recommendations on limiting growth in tuition and fee revenue and reducing general fund support follow.

### Exhibit 12

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**USM Education and General Revenues  
Cost Containment Measures and DLS Recommendation  
(\$ in Millions)**

	<u>2002</u>	<u>2003</u>	<u>2004</u>
E&G prior to cost containment	\$1,782.3	\$1,859.5	\$1,880.3
Governor's cost containment		-67.0	
DLS general fund recommendation		-29.0	-29.0
New UMB indirect cost recovery		4.0	
New use of fund balance		9.5	
Mid-year tuition increase		12.9	
DLS tuition and fee limit			-11.6
DLS tuition remission reduction			-9.3
Net E&G	\$1,782.3	\$1,789.9	\$1,830.4
Annual increase	\$154.7	\$7.5	\$40.5

Source: Department of Legislative Services

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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 DLS recommends reducing the Current Unrestricted Fund (CUF) appropriation to the USM by \$11,604,616.

In addition, DLS recommends the addition of budget bill language to accomplish the following:

- **Make the appropriation of \$29,462,997 in Current Unrestricted Fund (CUF) contingent on board action adopting fiscal 2004 tuition rates higher than those adopted for fiscal 2004 in August 2002.**
- **Prohibit University System of Maryland 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.**
- **Allow any institution whose enrollment growth is at least 6% higher than currently budgeted to increase its unrestricted fund appropriation with tuition and fee revenue, notwithstanding the prohibition recommended above.**

The limit on growth in tuition and fee revenue effectuated by these four recommendations would allow continued State commitment and investment in higher education and would mitigate the additional burden placed on students.

Another approach to constraining spending is to reduce general fund support for USM. **DLS further recommends budget bill language to reduce general fund support for USM by \$29,000,000 in fiscal 2004.** Such a reduction would provide level operating support for USM from fiscal 2003 to fiscal 2004. It also would allow the General Assembly to pursue other priorities within the State's budget.

Reducing the operating funds of the system allows the General Assembly the opportunity to allocate the reduction according to its own priorities. **As discussed in the Higher Education Overview, DLS recommends that the General Assembly consider the following factors in allocating additional general fund reductions: enrollment growth, in-state resident enrollment, unrestricted fund spending in core functions, percent of students receiving financial aid, unrestricted fund investments in scholarships and fellowships, and status as a historically black institution.** The General Assembly could use budget language to direct the Board of Regents to allocate the reduction based on these priorities, or it could allocate the reduction in the budget bill.

If the General Assembly favors a policy of encouraging USM to constrain spending but is reluctant to reduce general fund support and limit growth in tuition and fee revenue, it could opt to adjust the amount of the general fund reduction and/or the extent of the limit on tuition and fee revenue.

### 3. Unknown Cost of Separating Grant-funded Employees

The USM has a policy that regular exempt employees may be involuntarily terminated, or “separated,” given a defined period of notice. The length of the notice period, shown in **Exhibit 13**, is based on the length of service at the institution, but may include service at other USM institutions for certain exempt employees at the discretion of the institution. An employee with at least one year of service is entitled to at least three months of notice prior to termination. During the period of notice, an institution may place the employee on paid administrative leave, during which time the employee does not earn annual, sick, holiday, or personal leave. Alternatively, an institution may choose to assign the employee other duties. If the employee continues to work during the notice period, he or she continues to earn annual, sick, holiday, and personal leave.

#### Exhibit 13

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#### Period of Notice Required for Involuntary Separation Regular Exempt Employees

<u>Years of Institutional Service</u>	<u>Required Period of Notice</u>
Less than one year	One month
One year but less than four years	Three months
Four years but less than seven years	Six months
Seven years but less than ten years	Nine months
Ten years or more	Twelve months

Source: University System of Maryland, Board of Regents By Laws, Section VII-1.22

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In contrast, employees may be laid off due to reduction or termination of funds, program change, organizational change, or stoppage or lack of work. Any employee to be laid off shall be provided at least 90 calendar days advance written notice. When the layoff is the result of reduction or termination of funds, the period of notice may be shorter than 90 days, if the notice by the funding source is less than 90 days. In such cases, an employee must be notified within 5 days of the institution’s notice of fund reduction or termination from the funding source.

Apparently, institutions differ on which policy they apply to employees in grant-funded positions. Typically, if a grant is long-term or renewable, a funded employee will be hired as a regular employee (short-term grants generally fund contractual employees). Under the layoff policy, an employee in a grant-funded position is not guaranteed any notice, if the reason for the layoff is the reduction or termination of the grant. Under the separation policy, an employee in a grant-funded position is entitled to the same period of notice as non-grant funded employees regardless of the availability of grant funds. If such an employee is assigned duties during the notice period, the institution is required to pay the employee for the notice period and for accumulated leave at the end of the notice period. The cause of the termination, the exhaustion of grant funds, also causes the

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institution to use other funds to support positions never intended as a cost to the State or the institution.

The application of the separation policy to grant-funded positions may be costly to the State and institutions. If application of the separation policy results in a need for other institutional funds, it would represent a violation of the spirit of flexibility given to institutions in adding positions not supported with State funds. **DLS recommends budget narrative directing the USM to determine how institutions apply the separation and layoff policies to grant-funded employees; to determine to what extent, if any, grant-funded employees have become a cost to institutions and to the State; and to report to the budget committees on its findings.**

## ***Recommended Actions***

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1. Add the following language:

The appropriation herein for the University System of Maryland institutions shall be reduced by \$11,604,616 in unrestricted funds attributable to tuition and fee revenue. The allocation of the reduction shall be determined by the University System Board of Regents and adopted in a public meeting. The Board of Regents shall report to the budget committees by July 1, 2003, specifying and explaining the allocation of the reduction.

**Explanation:** The fiscal 2004 allowance assumes tuition and fee revenue in excess of what would be generated by tuition and fee charges adopted by the Board of Regents for fiscal 2004 in August 2002. This language would limit the growth in tuition and fee revenue to 4% above what is budgeted based on the charges adopted in August 2002.

<b>Information Request</b>	<b>Author</b>	<b>Due Date</b>
Report and explanation of allocation of reduction in unrestricted fund appropriation related to tuition and fee revenue	USM	July 1, 2003

2. Add the following language:

The appropriation herein of \$29,462,997 in unrestricted funds attributable to tuition and fee revenue shall be contingent on action of the Board of Regents in public meeting to adopt tuition and fee charges for the 2003-2004 academic year in excess of those adopted in August 2002. The Board of Regents shall report to the budget committees specifying and explaining the allocation of the additional tuition and fee revenue of \$29,462,997 among institutions.

**Explanation:** The fiscal 2004 allowance assumes tuition and fee revenue in excess of what would be generated by tuition and fee charges adopted for fiscal 2004 by the Board of Regents in August 2002. This language would make contingent on Board action the appropriation of up to four percent more tuition and fee revenue than what is budgeted based on the charges adopted in August 2002.

<b>Information Request</b>	<b>Author</b>	<b>Due Date</b>
Report and explanation of allocation of contingent appropriation of unrestricted funds related to tuition and fee revenue	USM	Upon completion

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3. Add the following language:

The University System of Maryland shall not increase the current unrestricted fund appropriation of any institution through budget amendment due to tuition and fee revenue. Any tuition and fee revenue realized in fiscal 2004 in excess of \$766,037,930 shall be transferred to the fund balance of the collecting institution and not expended. Notwithstanding the above, any institution that experiences full-time equivalent student enrollment growth of at least 6% greater than anticipated in the Fiscal 2004 Governor's budget proposal may increase through budget amendment its unrestricted fund appropriation due to increased tuition and fee revenue.

The Board of Regents shall report to the budget committees on any institution that experiences full-time equivalent student enrollment growth of a least 6% greater than anticipated in the Fiscal 2004 Governor's budget proposal. The Board shall report the amount by which the institution will increase its unrestricted fund appropriation through budget amendment due to increased tuition and fee revenue and what portion, if any, of increased tuition and fee revenue is attributable to tuition and fee charges for the 2003-2004 academic year higher than those adopted by January 1, 2003.

**Explanation:** This language prohibits USM from increasing unrestricted fund appropriations due to increased tuition and fee revenue, except in cases where an institution experiences actual full-time equivalent student enrollment at least 6% greater than anticipated.

<b>Information Request</b>	<b>Author</b>	<b>Due Date</b>
Report on the amount and cause of increased tuition and fee revenue at eligible institutions	USM	Prior to submission of a budget amendment.

4. Add the following language:

The appropriation herein for the University System of Maryland institutions and office shall be reduced by \$29,000,000 in unrestricted funds. The allocation of the reduction shall be determined by the Board of Regents, giving priority to institutions with higher than average enrollment growth, in-state resident enrollment, unrestricted fund spending in Instruction, Research, and Public Service, percent of students on financial aid, and unrestricted fund spending on Scholarships and Fellowships. Designation as an historically black institutions shall also be considered. The Board of Regents shall report to the budget committees by July 1, 2003, the allocation of the reduction, specifying how each factor is reflected in the allocation.

**Explanation:** This budget bill language would reduce general fund support for the University System of Maryland by \$29,000,000 and provides direction to the Board of Regents in allocating the reduction among institutions.

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<b>Information Request</b>	<b>Author</b>	<b>Due Date</b>
Report specifying the allocation of legislative reduction	USM	July 1, 2003

5. Add the following language:

The appropriation herein for the University System of Maryland institutions shall be reduced by \$9,313,500 in unrestricted funds related to tuition waivers provided as an employee benefit. The allocation of the reduction among institutions shall be based on budgeted amounts for tuition waivers. The Board of Regents shall submit a letter to the budget committees by July 1, 2003, confirming the allocation of the reduction.

**Explanation:** Employees of institutions of higher education enjoy the employment benefit of tuition waivers for themselves, their spouses, and their dependents at any University System of Maryland institution, Morgan State University, St. Mary's College, or Baltimore City Community College. This benefit is not available to other State employees. In times of fiscal constraint, when employee compensation is curtailed and other employee benefits are eliminated or reduced, this unique benefit of higher education should be treated similarly. This reduction is based on the amount budgeted for tuition waivers in fiscal 2004 and the proportion of USM regular employees in State-supported positions.

6. Adopt the following narrative:

**Application of Separation and Layoff Policies to Grant-Funded Regular Exempt Positions.** The University System of Maryland (USM) has a policy that regular exempt employees may be involuntarily terminated, or "separated," given a defined period of notice. An institution may choose to assign the employee other duties during the notice period, in which case the employee continues to earn annual, sick, holiday, and personal leave. In contrast, employees may be laid off due to reduction or termination of funds, among other reasons. When the layoff is the result of reduction or termination of funds, the period of notice may be shorter than 90 days, but the employee must be notified within 5 days of the institution's notice of fund reduction or termination from the funding source.

Institutions may differ on which policy they apply to employees in grant-funded positions. If the separation policy is applied and an employee is assigned duties during the notice period, the institution is required to pay the employee for the notice period and for accumulated leave at the end of the notice period. With grant funds exhausted, the institution would use other funds to support positions never intended as a cost to the State or the institution.

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The committees are concerned that the application of the separation policy may result in a need for other institutional funds and represent a violation of the spirit of flexibility given to institutions in adding positions not supported with State funds. The committees request a report from USM, in consultation with USM component institutions, by October 1, 2003, describing how institutions apply the separation and layoff policies to grant-funded employees and to what extent, if any, grant-funded employees have become a cost to institutions and to the State. If USM finds inconsistencies in the application of the separation and layoff policies or evidence that such application has cost institutions or the State, the report should also describe actions taken to address those inconsistencies and prevent further potential cost to institutions and to the State.

<b>Information Request</b>	<b>Author</b>	<b>Due Date</b>
Report on the application and potential cost of separation and layoff policies to employees in grant-funded positions.	USM	October 1, 2003

7. Adopt the following narrative:

**Non-resident Tuition and the Cost of Education:** Since 1993, the University System of Maryland (USM) has had a policy that nonresident students should pay 100% of the cost of their education. Cost of education is defined in the USM policy as adjusted Education and General (E&G) Expenditures divided by full-time equivalent students. “Adjusted” E&G expenditures exclude funds related to unrestricted, State-supported research, public service, and scholarships and fellowships; 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.

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.

The committees ask that USM reexamine its policy excluding research, public service, and facilities-related costs from the Cost of Education used to set nonresident tuition and 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 committees request that the Chancellor’s task force on tuition policy incorporate an examination of this issue into its review, report, and recommendations.

## ***Updates***

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### **1. Board Adopts Interim Policy on Tuition Waivers**

Committee narrative adopted in 2002 expressed the committees' concern that the USM tuition waiver policy for faculty, employees, and the dependent children thereof did not provide similar benefits to faculty and staff regardless of their date of employment. It also supported reciprocal agreements extending tuition waivers to employees of other public institutions.

At its August 2002 meeting, the Board of Regents approved an interim policy on tuition remission for permanent faculty, regular staff, and the dependent children thereof of Morgan State University, St. Mary's College of Maryland, and Baltimore City Community College. Both policies, VII-4.10 and VII-4.20, specifically state that benefits shall be provided "at the same level of benefits as provided for USM faculty and staff." In the case of benefits for dependent children, benefits are restricted based on date of employment.

### **2. Virtual Center for the Study of Ethics in Biotechnology Research**

Committee narrative from 2002 contained a recommendation from the budget committees that USM "explore the development of a consolidated and dedicated virtual center, including all the involved institutions, to focus on ethical issues in biotechnology research." USM's Biosciences Work Group (BWG), on which all 13 institutions are represented, is the system's vehicle for strengthening the coordination and collaboration in its biosciences programs.

The BWG has assumed the task of respond to the General Assembly's recommendation for exploration of the development of a virtual center on ethical issues in biotechnology. The BWG has determined that the benefits of establishing a central office for coordination of efforts in ethics in biotechnology do not justify the costs in this fiscal climate. Instead, the BWG has developed a web site as an information portal for bioethics, in general, and on USM programs and people, in particular. The web site is the beginning of a virtual center to facilitate sharing information and resources among the USM institutions and with the outside world. The site is scheduled to be online by the end of January 2003.

In addition to these particular activities in the biosciences, USM's Council in Research and Graduate Education is working to improve the expectations, procedures, and training regarding the responsible conduct of research. These include many issues germane to ethical considerations in biotechnology research.