

R62I00.01
Maryland Higher Education Commission

Operating Budget Data

(\$ in Thousands)

	<u>FY 02</u> <u>Actual</u>	<u>FY 03</u> <u>Working</u>	<u>FY 04</u> <u>Allowance</u>	<u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Funds	\$63,211	\$64,821	\$71,086	\$6,265	9.7%
FY 2003 Cost Containment	0	-2,719	0	2,719	-100.0%
Contingent & Back of Bill Reductions	0	-1,435	-3,550	-2,115	147.3%
Adjusted General Funds	\$63,211	\$60,667	\$67,536	\$6,869	11.3%
Special Funds	1,622	9,474	672	-8,803	-92.9%
Federal Funds	3,827	2,846	2,836	-9	-0.3%
Reimbursable Funds	176	504	497	-7	-1.4%
Contingent & Back of Bill Reductions	0	0	-1	-1	
Adjusted Reimbursable Funds	\$176	\$504	\$496	-\$8	-1.5%
Adjusted Grand Total	\$68,586	\$73,491	\$71,540	-\$1,951	-2.7%

- Fiscal 2003 adjusted appropriations reflect cost containment actions to reduce the administrative budget of the agency, reduce Sellinger aid to nonpublic institutions, and curtail or eliminate some grant programs to public four-year institutions.
- The fiscal 2004 allowance includes \$6.1 million increase for the State's four historically black institutions (HBIs) through enhancement funds and State matching funds in the Private Donation Incentive Program.
- The allowance eliminates one-time grants to institutions from the Dedicated Purpose Fund. It also replaces Cigarette Restitution Funds for the Access and Success program with general funds.

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

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Personnel Data

	<u>FY 02</u> <u>Actual</u>	<u>FY 03</u> <u>Working</u>	<u>FY 04</u> <u>Allowance</u>	<u>Change</u>
Regular Positions	83.60	80.60	77.60	(3.00)
Contractual FTEs	<u>6.00</u>	<u>3.00</u>	<u>3.00</u>	<u>0.00</u>
Total Personnel	89.60	83.60	80.60	(3.00)

Vacancy Data: Regular Positions

Budgeted Turnover: FY 04	4.34	5.59%
Positions Vacant as of 12/31/02	7.00	8.68%

- Three vacant positions are abolished: one each in Office of Student Financial Aid and Education Policy and one related to the agency's K-16 efforts.

Analysis in Brief

Major Trends

Graduation and Retention: The retention rate at Maryland's four HBIs declined in 2002. In addition, the gap between the graduation rates of all students and African American students at all Maryland public four-year institutions grew in 2002. It widened because the rate for African American students remained virtually the same while the rate for all students increased. The overall gap appears to be influenced most by Towson University and University of Maryland (UM) College Park.

Transfers from Community Colleges: The State appears to be on track to meet its goal of 7,000 students transferring from community colleges to four-year institutions by fiscal 2005.

College Readiness and Teacher Preparation: A smaller percentage of enrolling freshmen took college preparatory coursework in 2002 than in 2001. The number of teacher candidates prepared by Maryland colleges and universities declined in 2002, providing a smaller share of teachers needed in critical shortage areas.

Issues

Progress Continues on OCR Agreement: The State's four HBIs received enhancement funds in fiscal 2003, per the State agreement with the federal Department of Education's Office of Civil Rights (OCR). Enhancement funds are the first in a series of funding initiatives that seek to strengthen Maryland HBIs and promote educational opportunity for African American students. Other enhancements included specific funds for the revitalization of Coppin State College, as well as a technology initiative to increase student access to computers at the HBIs. A total of \$6,000,000 in enhancement funds is scheduled to be spent in fiscal 2004. **The Department of Legislative Services (DLS) recommends reducing enhancement funds in fiscal 2004 by \$1,500,000 due to fiscal constraints.**

Cost Containment Curtails Guideline Attainment, but How Close Are Guidelines to Reality? Guideline attainment for four-year institutions was 84% overall prior to fiscal 2003 cost containment. Given the fiscal 2004 allowance, overall attainment falls to 73%. **To evaluate the guideline methodology, DLS recommends the adoption of budget bill language to require the Maryland Higher Education Commission (MHEC) to recalculate fiscal 2001 guidelines now that actual fiscal 2001 data on national peers is available. MHEC should compare the results to the guidelines estimated for fiscal 2001 and redetermine guideline attainment using the actual data. MHEC should report to the General Assembly on its findings, including any changes that may become apparent during the review.**

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Maryland Support for Maryland Students: Currently, the State does not take into consideration the residency of students attending nonpublic institutions when it determines the amount of grant funding for which an institution is eligible. **DLS recommends reducing funding for Sellinger aid to recognize only Maryland resident students.** The General Assembly should consider amending the governing statute to clarify that formula aid should be based on Maryland resident enrollment.

MHEC Review of Low-productivity Programs: Based on three years of experience with MHEC's review of low-productivity programs, the agency should consider changes to its policies and process for reviewing such programs.

Recommended Actions

	<u>Funds</u>
1. Reduce enhancement funds for Historically Black Institutions by \$1,500,000 due to fiscal constraints.	\$ 1,500,000
2. Add budget bill language to restrict the expenditure of enhancement funds for Historically Black Institutions until the agency reports to the budget committees on how the funds will be spent.	
3. Reduce Sellinger aid by \$3,549,920 in anticipation of fiscal 2003 cost containment to selected public four-year institutions.	3,549,920
4. Reduce Sellinger program funding to reflect fiscal 2003 reductions to public institutions related to the salary bonus.	456,184
5. Add budget bill language to reduce funding for the Sellinger program by \$22,470,330 to reflect Maryland resident enrollment, contingent on the enactment of legislation.	
6. Reduce State support for the Southern Maryland Higher Education Center by \$8,000 to apply cost containment at the Center similar to that experienced by other institutions of higher education.	8,000
7. Reduce funding for the Private Donation Incentive grant program to reflect more current data on eligible fundraising.	413,166
8. Reduce the administrative budget for contractual services to the fiscal 2003 level, before cost containment.	17,000
9. Add language requiring the Maryland Higher Education Commission to compare actual fiscal 2001 funding for national peer institutions with estimates used for fiscal 2001 funding guidelines.	

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10. Adopt narrative requesting that the agency examine and respond to recommendations related to the review of low-productivity degree programs.

Total Reductions

\$ 5,944,270

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Operating Budget Analysis

Program Description

The Maryland Higher Education Commission (MHEC) is the State's coordinating body for the 13 campuses of the University System of Maryland (USM), Morgan State University, St. Mary's College of Maryland, 16 community colleges, the State's private colleges and universities, and private professional schools. The Secretary of Higher Education is the head of the agency and serves at the pleasure of the 12-member commission.

The agency is responsible for developing the State Plan for Higher Education. It has adopted the eight goals of the State Plan as the goals for the agency. They are:

- Achieve and sustain a preeminent statewide array of postsecondary educational institutions that are recognized for their distinctiveness and their excellence nationally and internationally.
- Provide affordable and equitable access for every qualified Maryland citizen.
- Contribute to the further development of Maryland's economic health and vitality.
- Support and encourage basic and applied research.
- Strengthen teacher preparation and improve the readiness of students for postsecondary education.
- Provide high quality academic programs for a population of increasingly diverse students.
- Establish Maryland as one of the most advanced states in the use of information technology to improve learning and access.
- Achieve a cost effective and accountable system of delivering high quality postsecondary education.

The commission is also responsible for reviewing institution mission statements, reviewing new academic programs, administering State and federal educational grants to public and private institutions, and regulating private career schools. In addition, the commission is the lead agency in the State's Partnership Agreement with the federal Office for Civil Rights (OCR). The financial aid programs administered by MHEC are presented in a separate analysis.

Performance Analysis: Managing for Results

In many respects, achieving the eight goals in the State Plan for Higher Education depends on Maryland public and private institutions of higher education. MHEC appropriately monitors and reports many measures beyond the agency's direct control. MHEC should best demonstrate its coordinating role, however, through indicators that are dependent on the commission's relationships with entities in K-12 education, community colleges, four-year institutions, and private institutions.

The commission's responsibilities relative to the State's Partnership Agreement with OCR spring from its unique coordinating role and statewide perspective. As a result, MHEC has chosen several measures related to monitoring the access and success of African American students.

First, MHEC reports the second-year retention rate and six-year graduation rate for the State's four public Historically Black Institutions (HBIs). MHEC's role in improving these measures is in administering educational grants, such as Access and Success grants and HBI enhancement funds. In fiscal 2002, both the retention rate and graduation rate at the HBIs were below the MHEC estimate.

The retention rate declined from 72.9% in 2001 to 70.6% in 2002, below even the 2000 rate of 72.3%. The number of students retained increased, but the number enrolled grew 60% faster, so the percentage retained declined. As shown in **Exhibit 1**, the overall rate was driven largely by the University of Maryland Eastern Shore (UMES) where cohort enrollment increased by almost 250 students, or 46%, and retention dropped almost 8 percentage points.

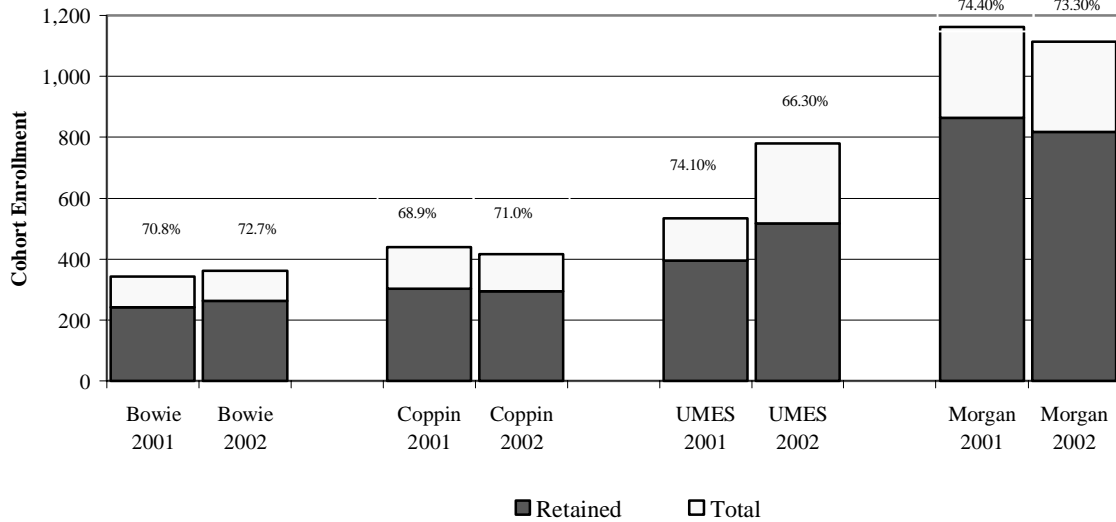
With regard to graduation, the rate was below estimate, but meeting the estimate would have required only 12 additional graduates of almost 2,700 students in the cohort.

Because both retention and graduation rates were not as high as expected in 2002, MHEC has lowered estimates for retention and graduation in fiscal 2003 and 2004. The goals for 2005 remain the same, so greater improvement in future years will be necessary. **The Secretary should comment on the factors at each of the institutions, besides enrollment, that led to lower retention rates this year; whether the agency reasonably expects rates to increase; and if so, why.**

Along with the retention and graduation rate at the HBIs, MHEC monitors the six-year graduation rate of African Americans at all public institutions, particularly the difference between the rate for African American students and the rate for all students. As shown in **Exhibit 2**, the gap widened in fiscal 2002. It widened because the rate for African American students remained virtually the same while the rate for all students increased by nearly 2 percentage points. The overall gap appears to be influenced most by Towson and UM College Park – both of these large institutions experienced a decline in the graduation rate of African Americans and an increase in the rate for all students. Because the gap increased in fiscal 2002, MHEC has adjusted its estimate for fiscal 2003 but retained estimates in 2004 and 2005. Again, greater improvement in future years will be necessary. **The Secretary should comment on whether the agency reasonably expects the gap to shrink in future years.**

Exhibit 1

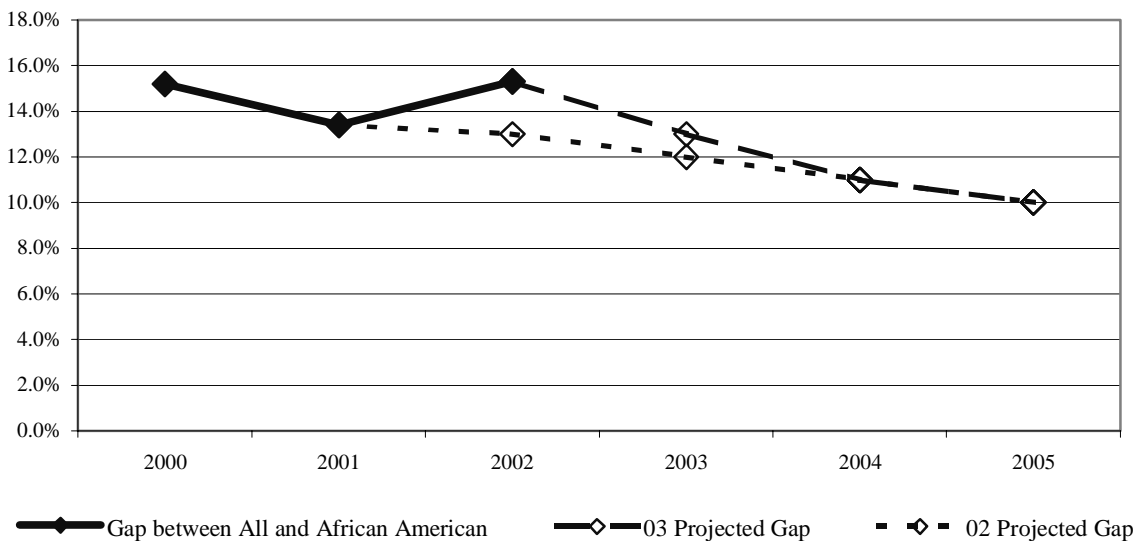
Second Year Retention at Historically Black Institutions



Source: Maryland Higher Education Commission

Exhibit 2

**Difference in Graduation Rates
Public Four-year Institutions
All Students and African American Students**



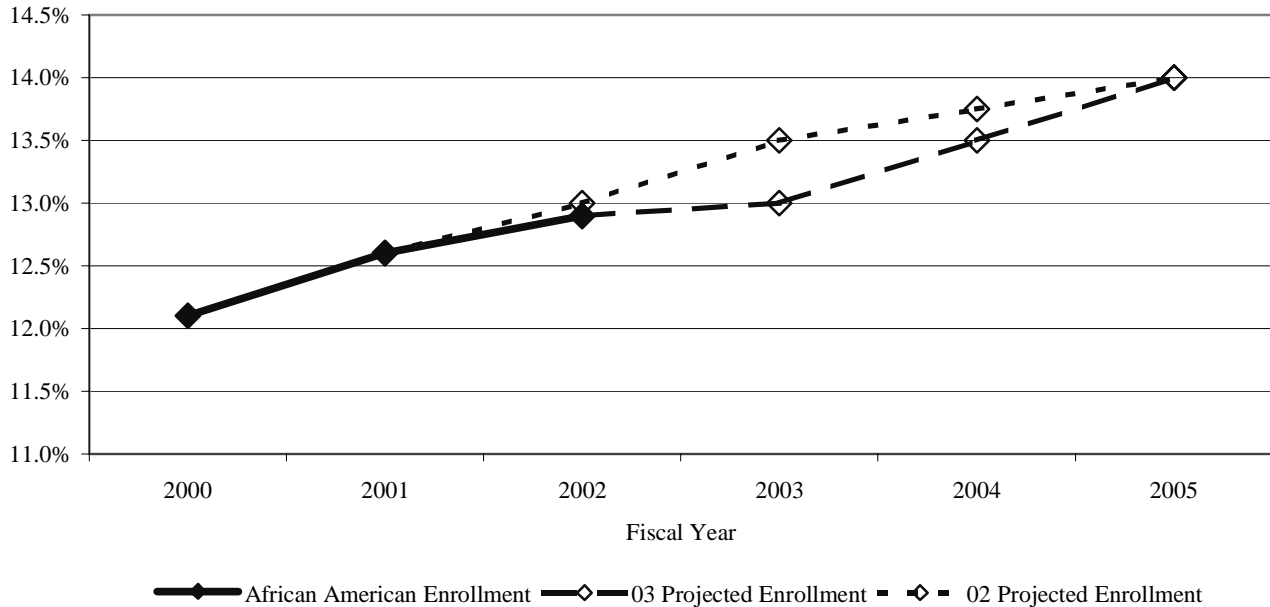
Source: Maryland Higher Education Commission

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Related to its administration of the Sellinger grant program for private institutions of higher education, MHEC monitors the African American undergraduate enrollment at independent institutions. As shown in **Exhibit 3**, the actual 2002 number of African American students as a percentage of total undergraduate enrollment was slightly below the estimate. To meet the stated goal, independent institutions would have to increase African American enrollment to 14% by fiscal 2005. In fiscal 2002 that would have required the 14 institutions together to enroll 266 additional African American students. **The Secretary should comment on MHEC’s role, if any, in promoting diversity at the independent institutions and why the agency expects African American enrollment to increase at those institutions.**

Exhibit 3

**African American Enrollment
at Maryland Independent Institutions**

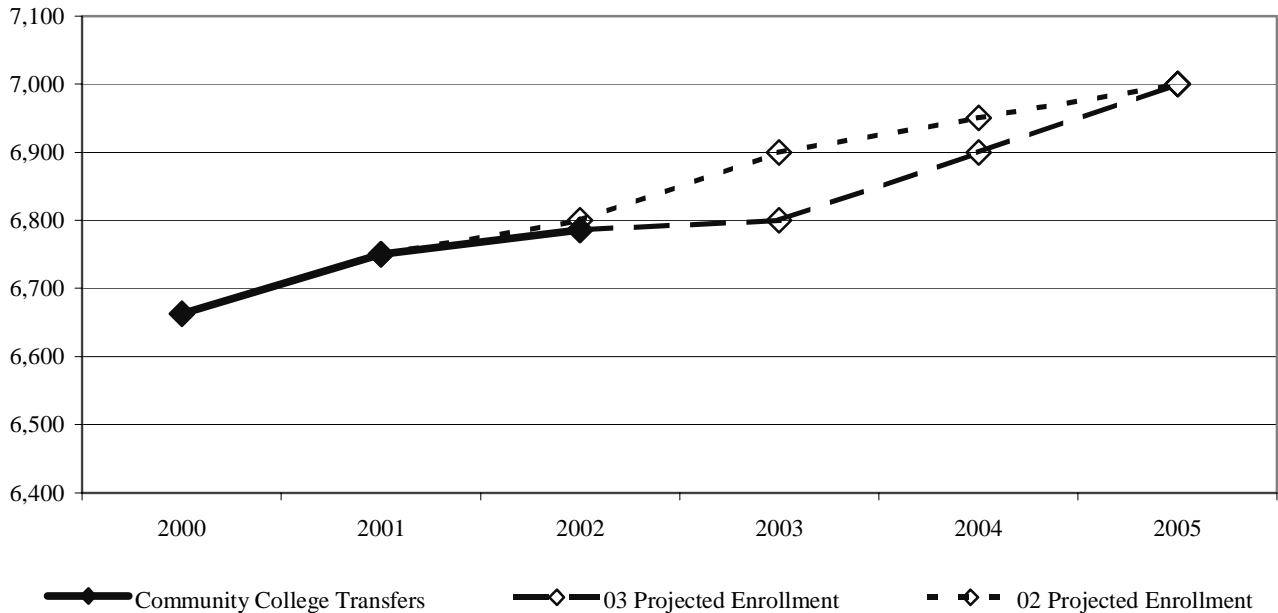


Source: Maryland Higher Education Commission

MHEC’s role in promoting access to higher education extends beyond a focus on opportunities for African American students. Because MHEC is concerned with a “seamless” statewide system of higher education, it monitors the number of community college students who transfer to a public four-year institution. The State appears to be on track to meet the goal of 7,000 students transferring from community colleges to public four-year institutions by fiscal 2005. As shown in **Exhibit 4**, the number of transfers reported for fiscal 2002 was just slightly below the previous year’s estimate. **The Secretary should comment on why the agency lowered its estimate for fiscal 2003 and 2004.**

Exhibit 4

Community College Students Transferring to a Four-year Institution



Source: Maryland Higher Education Commission

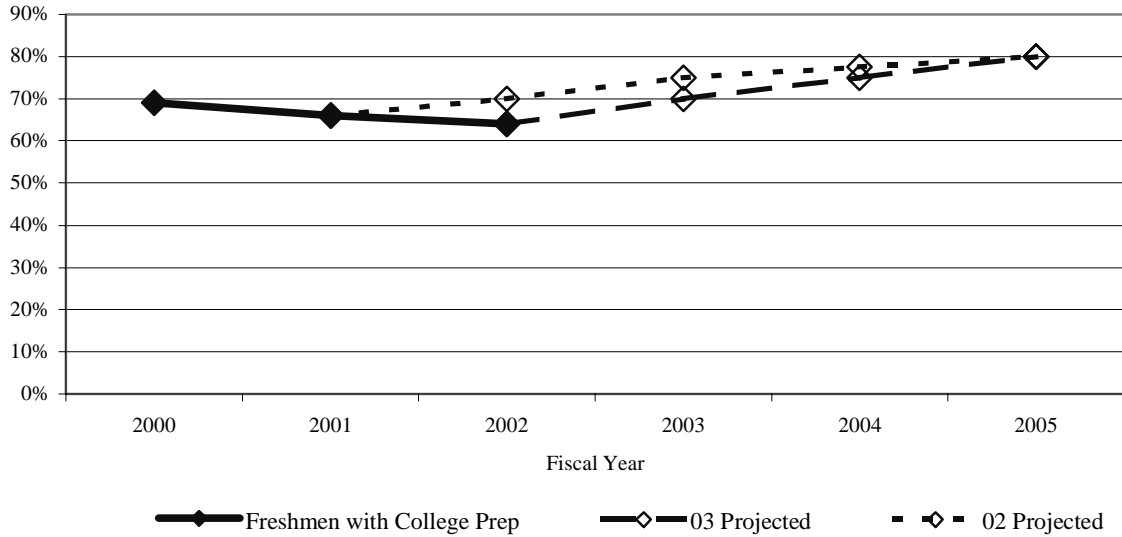
MHEC’s goals include strengthening teacher preparation and improving the readiness of students for postsecondary education. It does this through its K-16 activities and coordination. With the Maryland State Department of Education (MSDE), MHEC administers Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP), a state-federal partnership program. Students participating in GEAR UP were in the eighth grade in fiscal 2002, will apply to college by fiscal 2006, and will attend college by fiscal 2008.

In a measure related to improving college readiness, the percent of enrolling freshmen who have taken a college preparatory course of study has declined in recent years from 69% in fiscal 2000 to 64% in fiscal 2002. While the cohort of enrolling freshman increased, the number of those without college preparatory coursework increased three times faster than those with college preparatory coursework. **Exhibit 5** illustrates the reversal in this trend that will be necessary to reach the objective of 80% in fiscal 2005. As the GEAR UP cohort enrolls in college after 2005, some other effort is necessary to prepare students older than the GEAR UP cohort.

Looking to teacher preparation, the number of teacher candidates prepared by Maryland institutions as a percent of MSDE new teacher hires in Maryland public schools in critical shortage areas declined from 79% in 2001 to 66% in 2002. The actual number of candidates prepared declined by almost 20%. As shown in **Exhibit 6**, if the Maryland institutions had prepared the same number of candidates in 2002 as in 2001, the resulting percentage would have exceeded the 2005 goal of 80%.

Exhibit 5

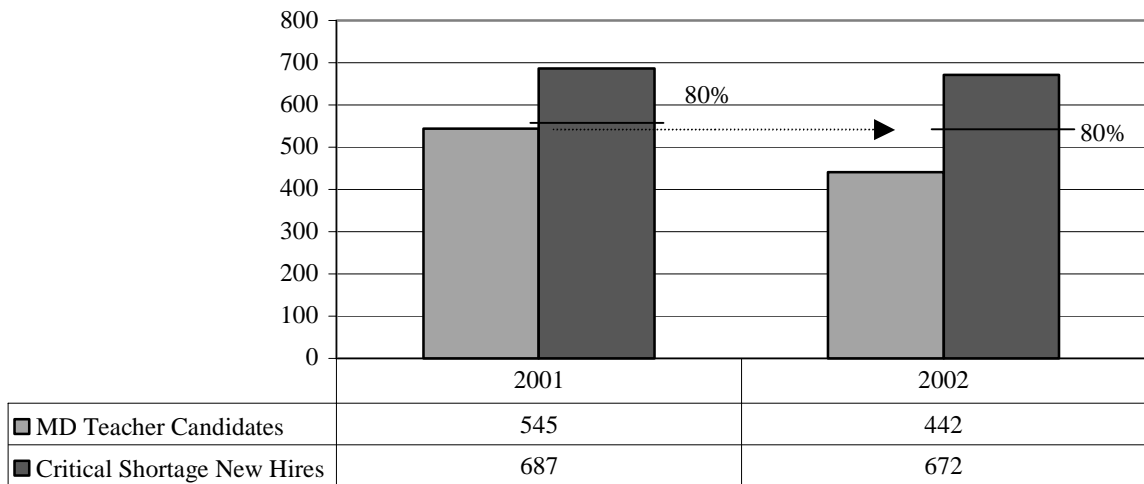
Percent of Freshman with College Preparatory Courses



Source: Maryland Higher Education Commission

Exhibit 6

Teacher Candidates Prepared in Maryland Institutions and New Hires in Critical Shortage Areas



Source: Maryland Higher Education Commission

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Both of these measures suggest trends the State would like to reverse. **The Secretary should comment on why underprepared students are increasing faster than those with college preparatory coursework and what is being done to prepare students older than the GEAR UP cohort. The Secretary should also comment on the decline in the number of teacher candidates prepared in Maryland institutions and what the institutions are doing to promote the teaching profession and ensure greater numbers of teacher candidates.**

Fiscal 2003 Actions

Impact of Cost Containment

Cost containment actions approved by the Board of Public Works on January 8, 2003, reduced MHEC's budget by \$2,718,584. Details of cost containment measures appear in **Exhibit 7**.

Exhibit 7

Fiscal 2003 Cost Containment Approved January 8, 2003

<u>Reduction</u>	<u>Program</u>	<u>Impact</u>
\$2,268,834	<i>Sellinger</i>	Reduce aid to nonpublic institutions by 4.9%.
184,000	<i>Administration</i>	
	\$102,000	Holds open three regular and one contractual position vacancy.
	33,000	Reduce training and employee awards, postage, travel, and association dues.
	49,000	Delay enhancements to software used by the Office of Student Financial Aid, including new web-based functions and relational database technology.
36,750	<i>College Preparation and Intervention</i>	Reduction may jeopardize federal matching funds for GEAR-UP, a State-federal partnership program to promote college readiness.
229,000	<i>Educational Grant</i>	
	100,000	Eliminate funding for Retention grants.
	180,000	Eliminate funding for Incentive grants.
	124,000	Reduce funding for Washington Internship Center.
	25,000	Remove final reporting requirement for Maryland Applied Information Technology Initiative (scheduled for phase out in fiscal 2004).
	(200,000)	Second year of an unbudgeted grant to the National Labor College (NLC)/George Meany Center. NLC becomes eligible for Sellinger funding in fiscal 2004.
\$2,718,584	Total	

Source: Maryland Higher Education Commission

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MHEC's fiscal 2003 budget will be reduced further by \$1,435,411 through the Sellinger program for aid to nonpublic institutions. The total 2003 reduction to Sellinger funding will then be 8.0%. Because the NLC/George Meany Center received an ad hoc grant through the Educational Grants program, it will be the only nonpublic institution not affected by cost containment.

Governor's Proposed Budget

As shown in **Exhibit 8**, the fiscal 2004 allowance increases MHEC's general fund budget by \$6.9 million while eliminating some grant programs and three regular positions. Increases benefit the State's HBIs through enhancement funds and the Private Donation Incentive Program. Nongeneral fund changes are minimal, except for the elimination of Cigarette Restitution Funds (CRF) (replaced with general funds) and one-time grants from the Dedicated Purpose Fund.

Exhibit 8

**Governor's Proposed Budget
Maryland Higher Education Commission
(\$ in Thousands)**

How Much It Grows:	FY 02 <u>Actual</u>	FY 03 <u>Working</u>	FY 04 <u>Allowance</u>	<u>Change</u>	<u>% Change Prior Year</u>
General Funds	\$63,211	\$64,821	\$71,086	\$6,265	9.7%
FY 2003 Cost Containment	0	-2,719	0	2,719	-100.0%
Contingent & Back of Bill Reductions	0	-1,435	-3,550	-2,115	147.3%
Adjusted General Funds	\$63,211	\$60,667	\$67,536	\$6,869	11.3%
Special Funds	1,622	9,474	672	-8,803	-92.9%
Federal Funds	3,827	2,846	2,836	-9	-0.3%
Reimbursable Funds	176	504	497	-7	-1.4%
Contingent & Back of Bill Reductions	0	0	-1	-1	0.0%
Adjusted Reimbursable Funds	\$176	\$504	\$496	-\$8	-1.5%
Adjusted Grand Total	\$68,586	\$73,491	\$71,540	-\$1,951	-2.7%

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Where It Goes:

Personnel Expenses

Employee and retiree health insurance	79
Turnover rate reduced.....	10
Retirement	9
Three positions abolished.....	-184
Other fringe benefit adjustments	-197

Other Changes

Eliminate one-time grants from Dedicated Purpose Fund	-7,800
Eliminate funding for Maryland Applied Information Technology Initiative	-1,295
Fund Private Donation Incentive Program matching funds for HBIs.....	3,511
Increase HBI Enhancement funds	2,600
Increase to Sellinger aid to nonpublic institutions	1,150
Other administrative costs.....	129
Maintain State matching funds for federal college preparation program	37

Total **\$-1,951**

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

Impact of Cost Containment

It is anticipated that a 2003 budget reconciliation act will reduce MHEC’s fiscal 2004 allowance by \$3,549,920. The reduction will be to the Sellinger program for aid to nonpublic institutions and is the result of fiscal 2003 cost containment at the public four-year institutions. Sellinger aid is based on a formula that uses the prior year’s general fund support, per student, at selected public four-year institutions. The fiscal 2004 allowance for Sellinger aid does not reflect cost containment at those public four-year institutions. The proposed budget reconciliation reduction to fiscal 2004 Sellinger aid is the result of recalculating the formula using the public institutions’ fiscal 2003 general fund support after cost containment. If the fiscal 2003 appropriation to the public institutions is reduced further for the salary bonus, the savings in fiscal 2004 in the Sellinger program increases \$456,184 to \$4,006,104. **To implement the Governor’s cost containment proposal, the Department of Legislative Services (DLS) recommends making the fiscal 2004 reduction of \$3,549,920 to Sellinger aid in the budget bill rather than the budget reconciliation act. In addition, to recognize further fiscal 2003 reductions**

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to public institutions related to the salary bonus, DLS recommends reducing Sellinger aid by an additional \$456,184.

The fiscal 2004 allowance reflects the continuing impact of 2003 cost containment measures. Specifically, the allowance does not restore Educational Grant funding for Retention grants, Incentive grants, and the Washington Internship Center.

Continued Enhancements for Historically Black Institutions

The allowance contains additional funding for the State's four public HBIs, provided through two separate programs. First, the HBI Enhancement funds that were first appropriated in fiscal 2003 are increased from \$3.4 to \$6 million. Of the fiscal 2003 appropriation, \$400,000 was designated for information technology enhancements at Morgan State University, similar to enhancements made at Bowie State, Coppin State, and UM Eastern Shore with support from the Information Technology Investment Fund. In fiscal 2004 the full \$6 million is available for allocation among the four institutions. Second, the allowance provides State matching funds for the HBIs through the Private Donation Incentive grant program (PDIP). PDIP matching funds for the other four-year institutions and community colleges are deferred, as they have been in previous years.

The HBIs also benefit from the Access and Success program, an Educational Grant program administered by MHEC. In previous fiscal years, CRF of \$1 million supported Access and Success. In fiscal 2004 general funds replace CRF support.

Other Educational Grants

Other changes in the MHEC budget occur in the Educational Grants program. The only increase is for the Interstate Educational Compact in Optometry. The increase provides for continuing cohorts of students in the four-year program.

Remaining special fund reductions to the Educational Grants program reflect the elimination of one-time grants in fiscal 2003 to institutions from the Dedicated Purpose Fund. USM and Morgan State University received \$2.8 million and \$1 million, respectively, for facilities renewal. UM Baltimore received \$3 million to address shortfalls in clinical revenues. Community colleges also received \$1 million.

Issues

1. Progress Continues on OCR Agreement

In December 2000 the State of Maryland entered into a partnership agreement with the United States Department of Education's OCR to eliminate any remaining vestiges of segregation in Maryland's public colleges and universities. This agreement makes specific commitments to enhance the State's four HBIs: Bowie State University, Coppin State College, UM Eastern Shore, and Morgan State University. This agreement establishes a set of priorities designed to enhance the State's HBIs, including enhancing admissions management, student financial aid administration, and institutional development programs; improving the physical characteristics of the campus environments; and improving the quality and adequacy of facilities necessary to support the missions and programs of the institutions.

Enhancement Fund Spending

As part of the OCR agreement Governor Glendening proposed enhancement funding, an initiative that includes a cumulative authorization of \$75 million in Academic Revenue Bonds (ARBs) over a five-year period (fiscal 2003 to 2007) to fund capital facility projects and improvements at the HBIs. Fiscal 2003 was the first year of capital improvements financed through Academic Revenue Bonds. Payments on the debt service for \$4.9 million in bonds will begin in fiscal 2004. The State has agreed to pay the debt service on these bonds until the debt is retired in 20 years.

Fiscal 2003 was also the first year the HBIs received enhancement funds for operating costs. The Governor's allowance included \$6 million, but the appropriation was reduced to \$3 million due to the fiscal constraints of the State. The commission allocated \$1 million of the enhancement funds to Coppin State College to support initiatives related to facilities development. The remaining \$2 million was allocated to all four HBIs based on the proportion of full-time equivalent (FTE) students enrolled at each institution. These funds will be used to enhance academic programs, admissions and enrollment management, institutional financial aid management, and technology infrastructure. **Exhibit 9** shows the allocation of the enhancement funds to each institution.

Each HBI developed a plan for spending its enhancement funds in compliance with the OCR agreement. Although a formal spending report is not due until after the end of the fiscal year (September 2003), the budget committees requested a preliminary report by January 2003 to ensure the spending is directly related to the OCR recommendations and the school's strategic plan.

Bowie State University allocated \$100,000 to their Summer Bridge program, an academic enrichment program designed to help freshmen applicants who do not meet admissions criteria. Those students successfully completing this program gain entrance to the university. The remaining \$337,598 is for academic program accreditation and expansion and library offerings that directly support new and re-accreditation.

Exhibit 9

**OCR Enhancement Fund Distribution: Fiscal 2003
Maryland's Historically Black Institutions**

<u>Institution</u>	<u>FY 2001 Actual FTES</u>	<u>Supporting Campus Development</u>	<u>FTE - Based Distribution for Operating</u>	<u>Total</u>
Bowie State University	3,224		\$437,598	\$437,598
Coppin State College	2,804	\$1,000,000	380,590	1,380,590
UM Eastern Shore	3,018		409,637	409,637
Morgan State University	5,689		772,175	772,175
Total	14,735	\$1,000,000	\$2,000,000	\$3,000,000

Source: Maryland Higher Education Commission

Coppin State College, UMES, and Morgan State University are applying a portion of their enhancement funds to the PeopleSoft implementation and technology infrastructure, as all of these schools lack the capability necessary to support the student information system. The Digital Divide initiatives, discussed below, will greatly increase the use of campus servers, networks, and computers; enhancement funds will help facilitate this increased use. Morgan State University is installing a data network and voice system to support its distance learning and expand research activities. Their entire \$772,175 in enhancement funds will be applied toward the remaining \$2.2 million principal for this system.

An independent study of the Coppin State College by the Toll Commission, which was mandated by the OCR Partnership Agreement and published in September 2001, identified an array of operating and facility-related deficiencies at the college. The additional \$1 million in enhancement funds it receives will be used to acquire property, provide facility equipment, and develop plans for capital projects.

Coppin State College received \$3.6 million in capital funds in addition to the \$1.38 million in enhancement funds (\$3.2 million in general obligation bonds and \$400,000 in ARBs). Of these funds, \$1.1 million was for planning the new Health and Human Services building, and \$2.5 million was to upgrade the telecommunications and information technology infrastructure. Both of these capital initiatives were identified in the Toll Report.

A total of \$6 million in enhancement funds is scheduled to be spent in fiscal 2004. A small portion of this funding will finance the debt service for the academic revenue bonds sold during fiscal 2003. In subsequent years, an increasing portion of the funds will be devoted to debt service until all \$6 million is used to retire debt on academic revenue bonds. **DLS recommends reducing enhancement funds in fiscal 2004 by \$1,500,000 due to fiscal constraints.** The State's enhanced support of the HBIs can be demonstrated by increasing enhancement funds (albeit not as much as the allowance proposes) and providing State matching funds through the Private Donation Incentive grant program. With this reduction enhancement funds available for allocation among institutions increase by \$1,500,000, compared

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to fiscal 2003. The HBIs also benefit from \$3 million appropriated for the Private Donation Incentive grant program. In fiscal 2003 the State deferred State matching funds through the incentive program for all institutions. The fiscal 2004 allowance provides the four HBIs with the full amount for which they are currently eligible, but it does not provide any funding for other colleges and universities.

DLS recommends that the Secretary of Higher Education update the committees on the status of the OCR agreement, including the planned distribution and use of the fiscal 2004 enhancement funds. DLS also recommends the following budget bill language restricting expenditure of fiscal 2004 HBI enhancement funds until MHEC submits a report detailing how the funds will be spent:

, provided that \$4,500,000 in general funds designated to enhance the State's four public historically black institutions may not be expended until the Maryland Higher Education Committee submits a report to the budget committees outlining how the funds will be spent. The budget committees shall have 45 days to review and comment on the report.

Closing the Digital Divide

Nearly half of the 20,000 students in USM who cannot afford personal computers attend the four HBIs. This inequity is generally known as the Digital Divide. While many of the enhancement projects included university-wide technology-related upgrades, \$400,000 for Information Technology (IT) was also provided to each HBI. Bowie State, Coppin State, and UM Eastern Shore received funds from the Department of Budget and Management's (DBM) Information Technology Investment Fund and Morgan State University received funds from MHEC.

Laptop allocation is based on Expected Family Contribution (EFC), unmet Cost of Attendance (COA), and maximum Pell Grants, with the most needy students served first. Each institution may provide both short-term and long-term use of the computer based on academic discipline, major, or equal and fair distribution. Morgan State University provided 165 laptops to low-income students whose curriculum has computing requirements. Morgan State University also used the money to pay for a coordinating technician and provided each of the three academic units supporting laptop use with a part-time student technician. Bowie State University, Coppin State College, and UMES purchased 250 laptops each. Bowie State University estimated 1,200 students sharing laptop use, while Coppin State College and UMES will assign one computer to a student each semester with some designated for short-term loans.

2. Cost Containment Curtails Guideline Attainment, but How Close Are Guidelines to Reality?

In November 2002 MHEC approved fiscal 2004 funding guidelines for USM institutions and Morgan State University. (Funding for St. Mary's College is based on an inflationary formula, not a guideline.) Guidelines aim to represent an appropriate level of general fund support, defined as the seventy-fifth percentile of per student expenditures among current peer institutions, accounting for varying tuition rates at different institutions. As shown in **Exhibit 10**, MHEC approved guidelines totaling over \$1.17 billion. The allowance provides \$852.0 million.

Exhibit 10

**Operating Funding Guideline and Allowance
Fiscal 2004
(\$ in Thousands)**

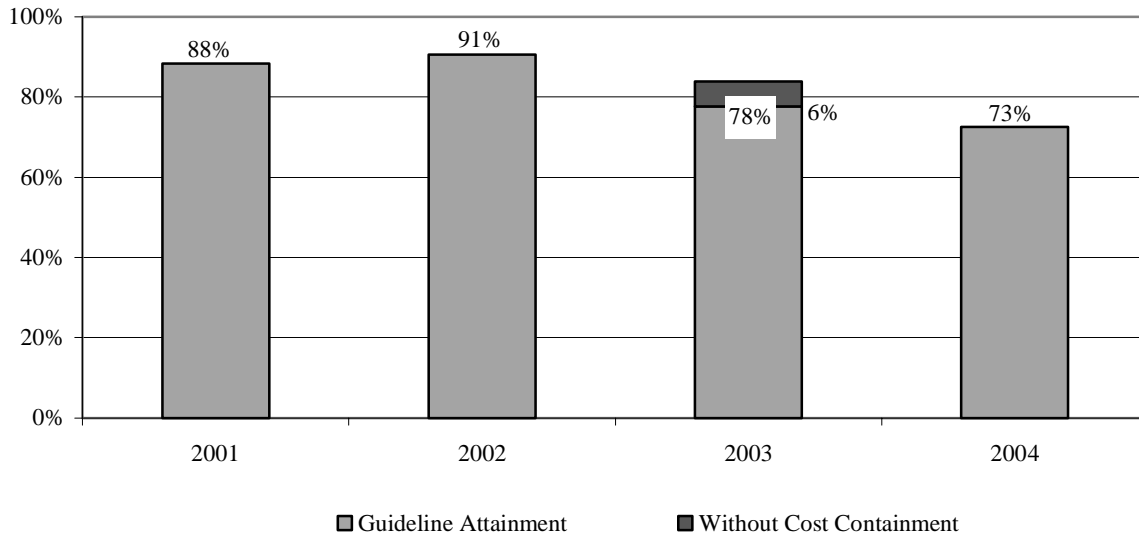
<u>Institution</u>	<u>Funding Guideline</u>	<u>Allowance</u>	<u>% Attainment</u>
UM, Baltimore	\$213,598	\$141,678	66%
UM, College Park	444,895	330,499	74%
Bowie State	34,621	21,885	63%
Towson	80,638	62,464	77%
UM Eastern Shore	25,658	22,694	88%
Frostburg State	33,556	26,302	78%
Coppin State	26,951	19,755	73%
University of Baltimore	29,759	22,508	76%
Salisbury	43,492	27,325	63%
UM University College	32,319	15,552	48%
UM Baltimore County	108,683	70,168	65%
UM Center for Environmental Science	17,054	13,166	77%
UM Biotechnology Institute	20,393	15,518	76%
USM Office		11,362	
USM Total	\$1,111,617	\$800,877	72%
Morgan State University	63,289	51,088	81%
Total	\$1,174,906	\$851,965	73%

Source: Maryland State Budget, Fiscal 2004, and Maryland Higher Education Commission

When the State first used guidelines for USM institutions in fiscal 2001, matching appropriations to the guidelines would have required dramatic increases in funding for public higher education institutions. Consequently, actual funding levels reflect a phase-in of the guideline amounts. USM institutions were funded at 88% of guideline in fiscal 2001. Beginning in fiscal 2002, MHEC also adopted a guideline for Morgan State University. Overall guideline attainment for all institutions was 91% in 2002, and 84% in 2003 before tuition increases after the 2002 legislative session and before cost containment. General fund support in the fiscal 2004 allowance would be 73% of the adopted guidelines. **Exhibit 11** illustrates overall attainment of adopted guidelines since fiscal 2001.

Exhibit 11

Attainment of Funding Guidelines As Adopted All Institutions



Note: Morgan State University's contribution to overall guideline attainment in fiscal 2002 is estimated.

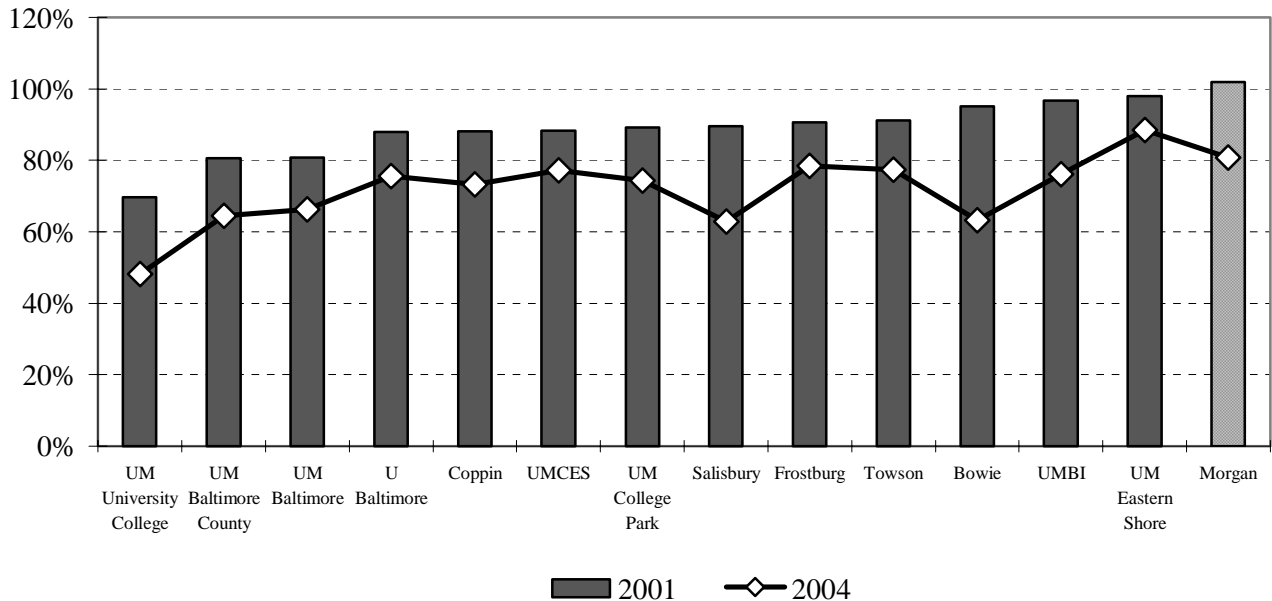
Source: Maryland Higher Education Commission

Some institutions' appropriations have fallen short of their guidelines, while others have approached or exceeded theirs. **Exhibit 12** illustrates the guideline attainment of individual institutions in the first year of using guidelines (fiscal 2001) and the allowance year (fiscal 2004). The institutions are ordered by their initial attainment. Exhibit 12 makes clear that initial attainment varied considerably, and there is no pattern in the progress and loss in subsequent years. The variance among the highest and lowest attainment has increased from 28 percentage points in fiscal 2001 to 40 percentage points in fiscal 2004. The relative position of the institutions has changed little, especially among those institutions closest to and farthest from their guidelines.

Exhibits 11 and 12 specifically relate to funding guidelines as adopted. The guidelines have limited ability, if any, to reflect unusual changes in the budgets of both Maryland institutions and their national peers. For example, funding guidelines for fiscal 2003 and 2004 may be overstated in light of tuition increases adopted after the legislative session. Funding guidelines inform general fund appropriations. They are the result of the combined State appropriation and tuition and fee resources of peer institutions, minus tuition and fee revenue at the Maryland institution. Additional tuition and fee revenue from increases adopted after session would lower the guideline. The same general fund appropriation would then result in higher guideline attainment.

Exhibit 12

**Funding Guideline Attainment
Public Four-year Institutions
Fiscal 2001 and 2004**



Note: Initial data for Morgan State University (MSU) is from fiscal 2002, as MSU did not have a guideline in fiscal 2001. Attainment for MSU in fiscal 2002 is estimated.

Source: Maryland State Budget, fiscal 2004, and Maryland Higher Education Commission.

Guidelines also cannot reflect changes at peer institutions. Funding guidelines are determined each year using peer data that is four years old. That is, fiscal 2000 peer data was used to determine fiscal 2004 guidelines. At the time MHEC calculates the guidelines, the four-year-old data is the most recent data available. MHEC accounts for the four-year difference by using an inflation factor, the Higher Education Price Index (HEPI). The inflation factor cannot account for higher-than-usual tuition and fee increases or unexpected reductions in State support. News coverage and data about other states' budgets indicates that institutions in other states have experienced budget reductions and/or tuition increases earlier and perhaps of greater magnitude than those contemplated for Maryland institutions in fiscal 2003 and 2004. These changes at peer institutions are not reflected in the guidelines adopted for Maryland institutions.

During the 2003 interim, MHEC will determine fiscal 2005 guidelines using fiscal 2001 data. As a result, this will be the first opportunity to test the accuracy of the funding guideline methodology. **To evaluate the guideline methodology, DLS recommends the adoption of budget bill language to require MHEC to (1) recalculate fiscal 2001 guidelines using 2001 actual data; (2) compare the**

results using the actual data to the guidelines adopted for fiscal 2001; (3) redetermine fiscal 2001 guideline attainment given actual data; and (4) consider changes that may become apparent during the review. DLS recommends that the General Assembly require MHEC to report to the General Assembly by December 1, 2003, on the result of the comparison and any proposed changes to the methodology.

3. Maryland Support for Maryland Students

Currently, Sellinger formula aid is granted to nonpublic institutions based on a number of full-time equivalent students (FTES). The FTES count is determined by summing all nonsectarian semester credit hours and dividing by 15. The formula, therefore, does not distinguish between residents of Maryland and nonresidents. At USM institutions, nonresident students pay tuition equal to the full cost of education. In the Higher Education Overview, DLS has made a recommendation that the full cost of education at USM institutions should reflect facilities, research, and public service costs, so nonresident students are responsible for a truer “full cost” of education.

At this time, the nonpublic institutions cannot provide FTES data that distinguishes between residents and nonresidents. As a result, DLS has estimated the effect of funding only Maryland resident students using the widely accepted practice of counting each part-time student as one-third of an FTES. **Exhibit 13** shows estimated residency at each eligible institution and the effect of basing grants to nonpublic institutions on Maryland resident enrollment only. **Recognizing the value Maryland’s nonpublic institutions offer to nonresidents and consistent with the recommendation related to USM, DLS recommends reducing the appropriation for Sellinger formula aid by \$22,470,330 to recognize only Maryland resident students.**

Exhibit 13 shows the impact of the DLS recommendation *assuming the Governor’s proposed fiscal 2004 cost containment measure is adopted*. The residency reduction is not dependent on adopting the fiscal 2004 cost containment measure, but, without it, the amount of the residency reduction would have to be redetermined. Similarly, if fiscal 2003 State support to public institutions decreases further due to the salary bonus reduction, the proposed residency reduction would, again, have to be redetermined.

The General Assembly may favor basing Sellinger aid to nonpublic institutions on Maryland resident enrollment, but it may be reluctant to reduce Sellinger aid as much as the current formula would suggest. Currently, the formula uses 14.3% of general fund support, per student, to selected public four-year institutions. The General Assembly could increase the percentage to mitigate the effect of the residency reduction. For example, if the General Assembly adopted the residency policy and increased the percentage used in the formula to 21%, the residency reduction would be \$12.3 million, rather than the \$22.5 million shown in Exhibit 13.

Exhibit 13

**Effect of Proposed Residency Reduction
with Fiscal 2004 Cost Containment**

	<u>FY 2004 Allowance</u>	<u>With FY 2004 Cost Containment</u>	<u>Residency Reduction</u>	<u>DLS Recommendation</u>
Eligible Institutions				
Baltimore Hebrew University	\$134,506	\$124,411	-\$7,608	\$116,803
Baltimore International College	624,824	577,930	-122,503	455,427
Capitol College	614,377	568,267	-146,563	421,704
College of Notre Dame	1,843,641	1,705,271	-156,035	1,549,236
Columbia Union College	1,093,975	1,011,869	-539,663	472,206
George Meany Center – NCL	888,952	822,233	-575,563	246,670
Goucher College	2,049,357	1,895,547	-1,060,723	834,824
Hood College	1,256,126	1,161,850	-301,847	860,003
Johns Hopkins University	18,999,078	17,573,144	-11,728,700	5,844,443
Loyola College	5,924,751	5,480,082	-3,305,440	2,174,642
Maryland Institute College of Art	1,935,314	1,790,063	-1,244,998	545,066
McDaniel College	3,080,310	2,849,124	-867,522	1,981,602
Mount St. Mary's College	2,007,830	1,857,136	-868,429	988,707
St. John's College	809,998	749,206	-618,071	131,134
Sojourner-Douglass College	1,386,845	1,282,758	-6,977	1,275,781
Villa Julie College	2,818,912	2,607,344	-73,764	2,533,580
Washington College	1,830,152	1,692,794	-845,923	846,871
Total	\$47,298,947	\$43,749,027	-\$22,470,330	\$21,278,697

Note: Enrollment data to determine residency at the National Labor College was not available. The college provides specialized programming and attracts students from across the country and abroad. Based on these characteristics, DLS used Maryland Institute, College of Art residency as a proxy for the National Labor College.

Source: Maryland Higher Education Commission; Maryland State Budget, fiscal 2004; Department of Legislative Services

As the Sellinger formula is established in statute (Title 17 of the Education Code), the General Assembly should consider amending the authorizing statute to clarify that formula aid shall be based on semester credit hours taken by Maryland resident students. An amendment to the authorizing statute could also increase the percentage of general fund support used and mitigate the effect of the residency reduction.

4. MHEC Review of Low-productivity Programs

R62I00.01 - Maryland Higher Education Commission

Senate Bill 682 of 1999 gave USM much greater autonomy in proposing and implementing new academic programs. It also charged MHEC with identifying and reviewing low-productivity programs. Through a process established in MHEC policy, the commission identifies low-productivity programs based on the number of graduates from the program, either in one year or the total over three years, whichever is more advantageous to the program. Once MHEC identifies a program that does not meet degree productivity standards, the institution may recommend the program for discontinuance or exemption under one or more of several conditions. In practice, some programs are recommended for further study.

To meet graduation requirements, a program must graduate a specified number of students in the past year, or three times that number in the last three years. The one-year standard for associate and bachelor degree programs is five graduates; for master's programs, two graduates; and for doctoral programs, one graduate.

Also according to MHEC policy, an institution may permanently exempt up to five liberal arts degree programs at the associate or baccalaureate level. The rationale for this exemption is that institution may need to offer certain low demand liberal arts programs because they are central to the institution's role and mission. In addition, an institution may exempt programs in six categories. The "category" exemptions are:

- ***Mission Centrality:*** Based on "compelling evidence," the program is critical to fulfilling the institution's mission.
- ***Quality of Graduates:*** Through follow-up data from recent graduates, the institution demonstrates that graduates succeed in their field.
- ***Access:*** Other existing degree programs or educational delivery systems cannot meet enrolled students' needs.
- ***Appropriate Duplication:*** Comparative analysis demonstrates that the program serves a distinct group of students or fulfills a distinctly different set of program goals.
- ***Economic Development:*** Cost benefit analysis or other financial analysis demonstrates that the program attracts external funds.
- ***Cost:*** Course offerings do not result in any additional costs to the institution. Examples include nonterminal degrees and interdisciplinary programs. Catalogs or other official campus publications demonstrate that coursework is drawn exclusively from existing coursework in other programs.

In the three years since the passage of Senate Bill 682, MHEC has identified 241 low-productivity programs, evenly divided between four-year institutions and community colleges. (The actual number of programs is slightly lower because some programs are identified in more than one year.) Of the identified programs, 17%, or 42 programs, have been recommended for discontinuance. (The unduplicated number of programs recommended for discontinuance is 37.) Three-quarters of the programs

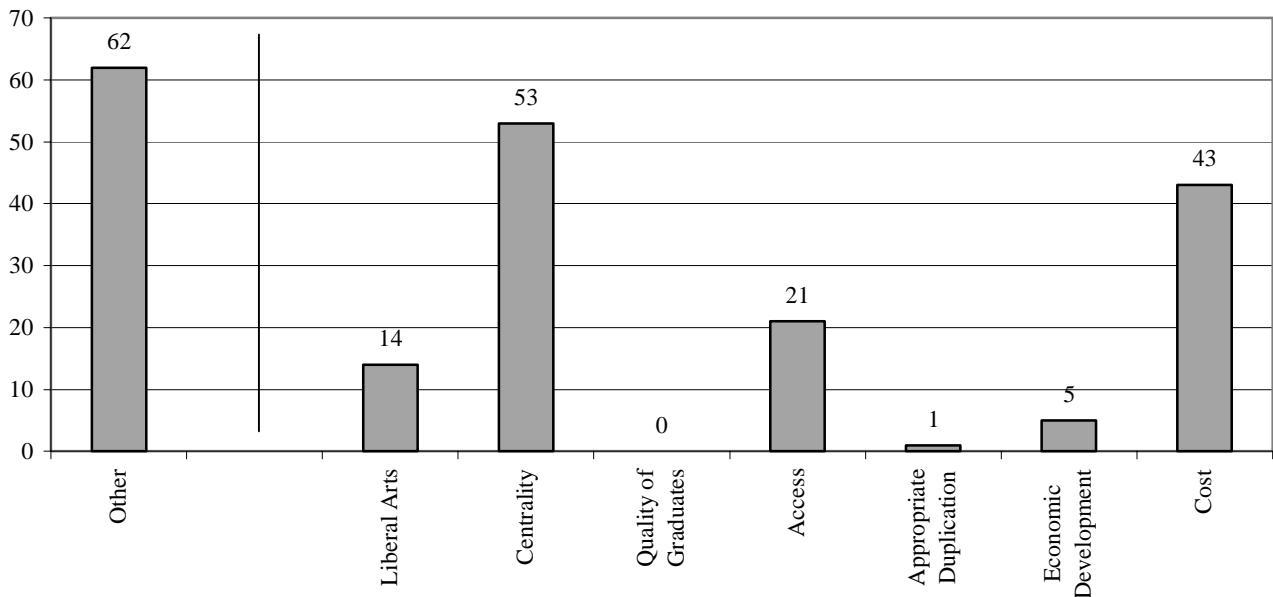
recommended for discontinuance have been at the community colleges. No programs have been recommended for discontinuance at the four-year institutions in the past two years. MHEC does not verify that the institutions discontinue programs, but there is no indication that programs are not discontinued. In practice, the programs continue operating long enough for currently enrolled students to complete their degrees. The phase-out period is generally two to five years.

Fifty-seven percent of programs identified, or 137, have been exempted. As shown in **Exhibit 14**, 14 of these exemptions have been liberal arts exemptions, which are not subject to MHEC review. The remaining exemptions have been category exemptions. Because exemptions are permanent, exempted programs do not appear in future low-productivity reports. In practice, however, the exempted programs remain in MHEC’s program inventory and remain the topic of informal discussions between MHEC staff and the institution.

Three category exemptions, i.e., quality of graduates, economic development, and appropriate duplication, require specific proof from the institution, including graduate survey data, cost-benefit analysis, or comparative analysis. The quality of graduates’ exemption has never been used, and appropriate duplication and economic development have not been used in the past two years.

Exhibit 14

**Low-productivity Programs Recommended for Exemption
By Type of Exemption
2000 through 2002**



Source: Maryland Higher Education Commission

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The next least frequently used exemption is the access exemption. The standard for the access exemption does not require specific data analysis. In most cases, the access exemption has been used for programs that are unique in the State or among HBIs in the region. Affordable and equitable access is a goal of the State Plan. In addition, the State recognizes the importance of unique programs at community colleges by funding the nonresident portion of tuition for students attending unique, or “statewide,” programs outside their home jurisdiction. Uniqueness alone, however, does not justify a program’s existence. Chronic low-productivity in a unique program may indicate that the institution should examine closely the need for the program and whether other similar or related programs could meet the needs of the few students enrolled.

The most frequently used category exemption is centrality to mission. It is unclear how this exemption is substantively different from the liberal arts exemption, since the definition of the liberal arts exemption uses the phrase “central to the institution’s role and mission” to describe eligible programs. Many liberal arts programs are central to the mission of institutions, as few, if any, institutions have missions narrow enough to exclude liberal arts programs. Forty-nine percent of exempted programs, or 67 programs in three years, have used either the liberal arts or mission centrality exemption. In the State Plan, Maryland has set a goal to operate a “cost effective and accountable system of delivering high quality postsecondary education,” and all institutions must have a mission that is consistent with the State Plan. Therefore, only limited circumstances should exist in which a program produces chronically few graduates, exhibiting neither cost effectiveness nor accountability, and still be consistent with the State Plan. Chronic low-productivity in programs central to the institution’s mission begs the question of whether the institution’s mission needs review.

The next most frequently used category exemption is the cost exemption. In these cases, the low-productivity program is not a drain on the institution’s resources because its courses are exclusively drawn from other existing, productive programs.

Discontinued and exempted programs account for only about three-quarters of identified low-productivity programs. The remaining 26%, or 62 programs, have been maintained, but not exempted, despite their low number of graduates. In some cases, their maintenance is reasonable and suggests the need for an additional category of exemption. Typically, programs fall into this “other” category for one of three reasons. First, a program may be new, so enrolled students have not had enough time to complete the program. This situation may merit a temporary exemption category. Second, institutions have continued programs, pledging to increase resources for them, capitalize on new facilities, or redesign them to be more attractive to students. This condition, though defensible, should not be allowed to continue indefinitely. Third, programs may have high enrollments but few graduates, serving primarily nonmajors and students seeking skills but not degrees. These programs may be candidates for the liberal arts or mission centrality exemption. Alternatively, certificate or noncredit programs may be viable alternatives, or the true necessity of the program should be reviewed.

Based on this analysis, DLS recommends that:

- No exemption should be permanent; all exemptions should expire in a maximum of three years. Chronic low-productivity is neither cost effective nor accountable. Reviewing exemptions at least

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every three years will ensure that exemptions, particularly mission centrality and access, are used appropriately.

- Exemption definitions should be reviewed. Liberal arts and mission centrality exemptions appear indistinguishable, and the liberal arts exemption should be eliminated.
- An extended exemption should be available for new programs. Given the State's emphasis on four-year graduation/transfer rates at community colleges and six-year graduation rates at universities, new programs should be exempt from productivity standards for three years at community colleges and for five years at universities.
- A grace period of a pre-determined length should be available for programs for which institutions intend redesign or additional resources. Expecting productivity after a pre-determined time will promote accountability for the resources expended to enhance the program.
- MHEC should develop a process through which to resolve situations where programs have high enrollments but few graduates. Independent or peer reviews may help such programs find their true niche and allow them to produce graduates or adapt their form to better serve their enrolled students.

The Education Policy Committee of MHEC has directed staff to review its policy and process for determining, evaluating, and making recommendations about low-productivity programs. The review is underway, carried out by a workgroup of representatives from USM, Morgan State University, St. Mary's College, community colleges, and MHEC. **DLS recommends the adoption of committee narrative directing MHEC to ensure that the five concerns raised above are addressed in the review of the process relating to low-productivity programs. The narrative should require MHEC to report to the General Assembly by August 1, 2003, on revisions to the policy and process.**

Recommended Actions

- | | <u>Amount
Reduction</u> | |
|--|------------------------------------|----|
| 1. Reduce enhancement funds for Historically Black Institutions by \$1.5 million, due to fiscal constraints facing the State. With this reduction, enhancement funds available for allocation among institutions increase \$1.5 million compared to fiscal 2003. In fiscal 2004, in addition to enhancement funds, the HBIs benefit by \$3 million in funding through the Private Donation Incentive grant program, while other institutions' payments are deferred to future years. | \$ 1,500,000 | GF |

2. Add the following language:

, provided that \$4,500,000 in general funds designated to enhance the State's four public historically black institutions may not be expended until the Maryland Higher Education Commission submits a report to the budget committees outlining how the funds will be spent. The budget committees shall have 45 days to review and comment on the report.

Explanation: This language restricts the expenditure of funds until the commission reports to the budget committees plans for spending funds designated to enhance the State's four historically black institutions.

Information Request	Author	Due Date
Plan for expenditure of funds designated to enhance historically black institutions	MHEC	Prior to expenditure of funds

- | | <u>Amount
Reduction</u> | | <u>Position
Reduction</u> |
|---|------------------------------------|----|--------------------------------------|
| 3. Reduce Sellinger aid by \$3,549,920. After cost containment measures are complete in fiscal 2003, the general funds per student at the public institutions on which the Sellinger formula relies will be lowered. Recalculating formula aid based on funding for the public institutions, after cost containment, yields savings of \$3,549,920. | 3,549,920 | GF | |

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- | | | | |
|----|--|---------|----|
| 4. | Reduce Sellinger program funding to reflect fiscal 2003 reductions to public institutions related to the salary bonus. If the fiscal 2003 appropriation to the public institutions is reduced further for the salary bonus, the savings in fiscal 2004 in the Sellinger program increases \$456,184. | 456,184 | GF |
| 5. | Add the following language: | | |

. provided that this appropriation shall be reduced by \$22,470,330, contingent on the enactment of legislation basing Sellinger grants on Maryland resident enrollment at the nonpublic institutions.

Explanation: Currently, Sellinger formula aid is based on all non-sectarian, full-time equivalent students at eligible nonpublic institutions and does not distinguish between residents of Maryland and nonresidents. If the General Assembly were to base Sellinger grants on Maryland resident enrollment only, savings in the Sellinger program would be \$22,470,330. The reduction to Sellinger aid could be mitigated by increasing the percentage used in the Sellinger formula.

- | | | <u>Amount
Reduction</u> | <u>Position
Reduction</u> |
|----|---|-----------------------------|-------------------------------|
| 6. | Reduce State support for the Southern Maryland Higher Education Center by \$8,000. In fiscal 2003 institutions of higher education experienced reductions in State support averaging 8%. These reductions are not restored in fiscal 2004. This reduction applies cost containment to the Southern Maryland Higher Education Center. | 8,000 | GF |
| 7. | Reduce funding for the Private Donation Incentive grant program to reflect more current data on eligible fundraising. The allowance is intended to provide State matching funds through the Private Donation Incentive grant program for the four historically black institutions. The allowance is based on earlier estimates of donations and provides more funding than is necessary to match actual eligible donations. With this reduction, the program can provide the maximum amount for which the historically black institutions are eligible. | 413,166 | GF |

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8. The fiscal 2004 allowance provides \$37,000 more in general funds for contractual services than the fiscal 2003 appropriation, before cost containment. Contractual services includes, among other items, telecommunications and equipment repair. This recommendation reduces but does not eliminate the increase in the contractual services budget compared to fiscal 2003 before cost containment. 17,000 GF

9. Add the following language:

, provided that the agency conduct a study to evaluate the methodology for setting funding guidelines for public four-year institutions. The study shall compare actual fiscal 2001 funding for national peer institutions with that estimated for the purpose of determining fiscal 2001 funding guidelines. It should also determine guideline attainment, relative to actual 2001 funding for peer institutions. The agency shall report to the General Assembly on its findings, including any proposed adjustments in the methodology arising from the comparison.

Explanation: Funding guidelines are determined using peer data that is four years old when compared to the year for which the guidelines are set. As funding guidelines have been in use for four years, actual national peer data for fiscal 2001 will be available during 2003. The agency should evaluate the assumptions and methodology used to calculate funding guidelines by comparing actual fiscal 2001 peer data with the estimates used to determine fiscal 2001 funding guidelines.

Information Request	Author	Due Date
Report evaluating methodology used to set funding guidelines	MHEC	December 1, 2003

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10. Adopt the following narrative:

Examination of Low-productivity Program Review: Senate Bill 682 of 1999 charged the Maryland Higher Education Commission (MHEC) with identifying and reviewing low-productivity programs. Through a process established in MHEC policy, the commission identifies low-productivity programs based on the number of graduates from the program, either in one year or the total over three years, whichever is more advantageous to the program. Once MHEC identifies a program that does not meet degree productivity standards, the program may be recommended for discontinuance or exempted under one or more of several conditions. In practice, some programs are recommended for further study.

Also according to MHEC policy, an institution may permanently exempt up to five liberal arts degree programs at the associate or baccalaureate level. “Category” exemptions are available for mission centrality, quality of graduates, access, appropriate duplication, economic development, and cost. The committees believe the agency should consider the following recommendations: (1) exemptions should expire in a maximum of three years; (2) exemption definitions should be reviewed, and the liberal arts exemption should be eliminated; (3) given the State’s emphasis on four-year graduation/transfer rates at community colleges and six-year graduation rates at universities, new programs should be exempt from productivity standards for three years at community colleges and for five years at universities; (4) to promote accountability, a grace period of a pre-determined length should be available for programs for which institutions intend redesign or additional resources; and (5) MHEC should develop a process through which to resolve situations where programs have high enrollments but few graduates.

The committees request that MHEC ensure that the five concerns raised above are addressed in the current review of the process relating to low-productivity programs. The committees further request that MHEC report on revisions to the policy and process.

Information Request	Author	Due Date
Report on revisions to policy related to low-productivity programs	MHEC	August 1, 2003
Total General Fund Reductions		\$ 5,944,270

Current and Prior Year Budgets

Current and Prior Year Budgets Maryland Higher Education Commission (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2002					
Legislative Appropriation	\$62,905	\$5,226	\$2,690	\$172	\$70,993
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	325	1,058	1,327	38	2,748
Reversions and Cancellations	-20	-4,912	-191	-33	-5,155
Actual Expenditures	\$63,211	\$1,372	\$3,827	176	\$68,585
Fiscal 2003					
Legislative Appropriation	\$64,821	\$1,674	\$2,846	\$504	\$69,845
Budget Amendments	0	7,800	0	0	7,800
Cost Containment	-4,153	0	0	0	-4,153
Adjusted Total	\$60,667	\$9,474	\$2,846	\$504	\$73,491

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

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Fiscal 2002

In fiscal 2002 MHEC spent \$2.4 million less than its legislative appropriation of \$71.0 million. Its general funds were reduced by \$19,000 as a result of cost containment. Through budget amendment, underutilized scholarship funds increased general funds for an information technology project (\$185,000) and for students participating in the Interstate Optometry Compact (\$66,450). A grant through the Board of Public Works provided additional general funds to support the NLC/George Meany Center (\$200,000). An amount overestimated in the Sellinger aid program to nonpublic schools (\$74,501) was transferred to the Cade program for community colleges' statewide programs.

Budget amendments also brought special funds from unappropriated fund balance for the Guaranteed Student Tuition Fund and from DBM for the Maryland Digital Library. Reverted special funds include \$3.7 million in CRF for the Maryland Applied Information Technology Initiative (MAITI), \$500,000 in CRF for the Maryland Digital Library, and \$231,715 in unused Guaranteed Student Tuition Fund collections.

Budget amendments also increased federal funds for the GEAR-UP college preparation program and the Eisenhower teacher preparation program. Reversions in federal funds were also related to those two programs.

**Object/Fund Difference Report
Maryland Higher Education Commission**

<u>Object/Fund</u>	<u>FY02 Actual</u>	<u>FY03 Working Appropriation</u>	<u>FY04 Allowance</u>	<u>FY03 - FY04 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	83.60	80.60	77.60	-3.00	-3.7%
02 Contractual	6.00	3.00	3.00	0	0%
Total Positions	89.60	83.60	80.60	-3.00	-3.6%
Objects					
01 Salaries and Wages	\$ 4,930,421	\$ 5,239,891	\$ 4,956,815	-\$283,076	-5.4%
02 Technical & Spec Fees	247,536	312,368	333,201	20,833	6.7%
03 Communication	355,334	266,181	308,391	42,210	15.9%
04 Travel	63,029	55,155	44,667	-10,488	-19.0%
06 Fuel & Utilities	3,086	24,000	36,000	12,000	50.0%
07 Motor Vehicles	3,485	686	2,929	2,243	327.0%
08 Contractual Services	832,773	624,579	669,762	45,183	7.2%
09 Supplies & Materials	81,872	113,550	119,383	5,833	5.1%
10 Equip - Replacement	333,588	117,546	96,933	-20,613	-17.5%
11 Equip - Additional	63,390	13,500	10,250	-3,250	-24.1%
12 Grants, Subsidies, Contr	61,253,216	70,150,706	67,816,702	-2,334,004	-3.3%
13 Fixed Charges	306,182	726,790	695,673	-31,117	-4.3%
14 Land & Structures	111,964	0	0	0	0.0%
Total Objects	\$ 68,585,876	\$ 77,644,952	\$ 75,090,706	-\$2,554,246	-3.3%
Funds					
01 General Fund	\$ 63,210,722	\$ 64,820,996	\$ 71,085,901	\$ 6,264,905	9.7%
03 Special Fund	1,372,168	9,474,019	671,503	-8,802,516	-92.9%
05 Federal Fund	3,826,580	2,845,807	2,836,309	-9,498	-0.3%
09 Reimbursable Fund	176,406	504,130	496,993	-7,137	-1.4%
Total Funds	\$ 68,585,876	\$ 77,644,952	\$ 75,090,706	-\$2,554,246	-3.3%

Notes: Full-time and contractual positions and salaries are reflected for operating budget programs only.
Fiscal 2003 appropriations and fiscal 2004 allowance do not include cost containment and contingent reductions.

R62100.01 - Maryland Higher Education Commission

Appendix 2

**Fiscal Summary
Maryland Higher Education Commission**

<u>Unit/Program</u>	<u>FY02 Actual</u>	<u>FY03 Legislative Appropriation</u>	<u>FY03 Working Appropriation</u>	<u>FY02 - FY03 % Change</u>	<u>FY04 Allowance</u>	<u>FY03 - FY04 % Change</u>
01 General Administration	\$ 7,376,380	\$ 7,800,114	\$ 7,800,114	5.7%	\$ 7,579,872	-2.8%
02 College Prep/Intervention Program	2,401,013	2,100,400	2,100,400	-12.5%	2,100,400	0%
03 Joseph A. Sellinger Program for Aid to Nonpublic Institutions	45,973,832	46,303,067	46,303,067	0.7%	47,298,947	2.2%
07 Educational Grants	11,194,651	13,021,371	21,441,371	91.5%	14,600,371	-31.9%
30 Private Donation Incentive Grants	1,640,000	0	0	-100.0%	3,511,116	
34 Major IT Projects	0	620,000	0	0%	0	0%
Total Expenditures	\$ 68,585,876	\$ 69,844,952	\$ 77,644,952	13.2%	\$ 75,090,706	-3.3%
General Fund	\$ 63,210,722	\$ 64,820,996	\$ 64,820,996	2.5%	\$ 71,085,901	9.7%
Special Fund	1,372,168	1,674,019	9,474,019	590.4%	671,503	-92.9%
Federal Fund	3,826,580	2,845,807	2,845,807	-25.6%	2,836,309	-0.3%
Total Appropriations	\$ 68,409,470	\$ 69,340,822	\$ 77,140,822	12.8%	\$ 74,593,713	-3.3%
Reimbursable Fund	\$ 176,406	\$ 504,130	\$ 504,130	185.8%	\$ 496,993	-1.4%
Total Funds	\$ 68,585,876	\$ 69,844,952	\$ 77,644,952	13.2%	\$ 75,090,706	-3.3%

Note: Fiscal 2003 appropriations and fiscal 2004 allowance do not include cost containment and contingent reductions.