

R30B36
University System of Maryland Office

Operating Budget Data

(\$ in Thousands)

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 02-04</u> <u>Change</u>	<u>FY 05</u>	<u>FY 04-05</u> <u>Change</u>
Administration/Operations	\$15,810	\$13,858	\$15,225	-\$584	\$16,225	\$1,000
General Funds	12,096	11,362	10,681	-1,415	11,681	1,000
Other Unrestricted Funds	2,160	1,312	2,744	584	2,744	
Total Unrestricted Funds	14,256	12,673	13,425	-831	14,425	1,000
Restricted Funds	1,553	1,184	1,800	247	1,800	
Adjusted Grand Total	\$15,810	\$13,858	\$15,225	-\$584	\$16,225	\$1,000
Annual % Change		-12.3%	9.9%		6.6%	

- The fiscal 2005 allowance for the University System of Maryland Office (USMO) increases \$1 million in general funds from the fiscal 2004 level. The funds are to support the opening of the Hagerstown Regional Education Center.
- From fiscal 2002 to the fiscal 2004 working appropriation, general funds for USMO have decreased \$1.4 million, or 11.6%.

Personnel Data

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 02-04</u> <u>Change</u>	<u>FY 05</u>	<u>FY 04-05</u> <u>Change</u>
Regular Positions	108.5	95.5	91.0	-17.5	91.0	0.0
Contractual FTEs	4.5	3.0	4.0	-0.5	4.0	0.0
Total Personnel	113.0	98.5	95.0	-18.0	95.0	0.0

Vacancy Data: Regular Positions

Turnover Expectancy	2.09	2.30%
Positions Vacant as of 12/31/03	2.00	2.20%

- The allowance provides no increase in regular or contractual positions.

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

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Analysis in Brief

Major Trends

Operations Improvement Measures Generally on Track: USMO objectives related to improving operations, including instituting new library and administrative computer systems, generally are on track. Increasing the electronic transmission of transcripts is behind schedule.

Funding Guideline Attainment Variance Continues: USMO is expected to fall short of its objective to reduce intra-system variance in funding guideline attainment to 20% by fiscal 2004.

Recommended Actions

1. Concur with Governor's allowance.

Updates

Columbus Center Space Has Been Leased: USMO has found a tenant for vacant space in the Christopher Columbus Center. A company called 180s, LLC, based in Baltimore, has leased the space for seven years with two one-year renewal options.

Budget Submission Includes Delineation for Regional Centers and Grants: In the fiscal 2005 budget submission, USMO clearly delineates funds for higher education centers at Shady Grove and Hagerstown, as well as funds for teacher education grants.

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Operating Budget Analysis

Program Description

The University System of Maryland Office (USMO) is the staff agency to the University System of Maryland (USM) Board of Regents. The office includes the chancellor; executive and administrative staff; and the central services of budget, accounting, auditing, information technology, capital planning, advancement, public and governmental relations; and other support to the regents.

The mission of USMO is to provide leadership, planning, and resource management to advance the quality and accessibility of USM services and to increase synergies among the USM member institutions.

The goals of USMO are:

- promote access to USM institutions through cooperation;
- promote operational synergies;
- promote private support for USM;
- provide financial stewardship to maximize effective and efficient USM operations; and
- fulfill statutory responsibilities with the highest degree of quality.

Performance Analysis: Managing for Results

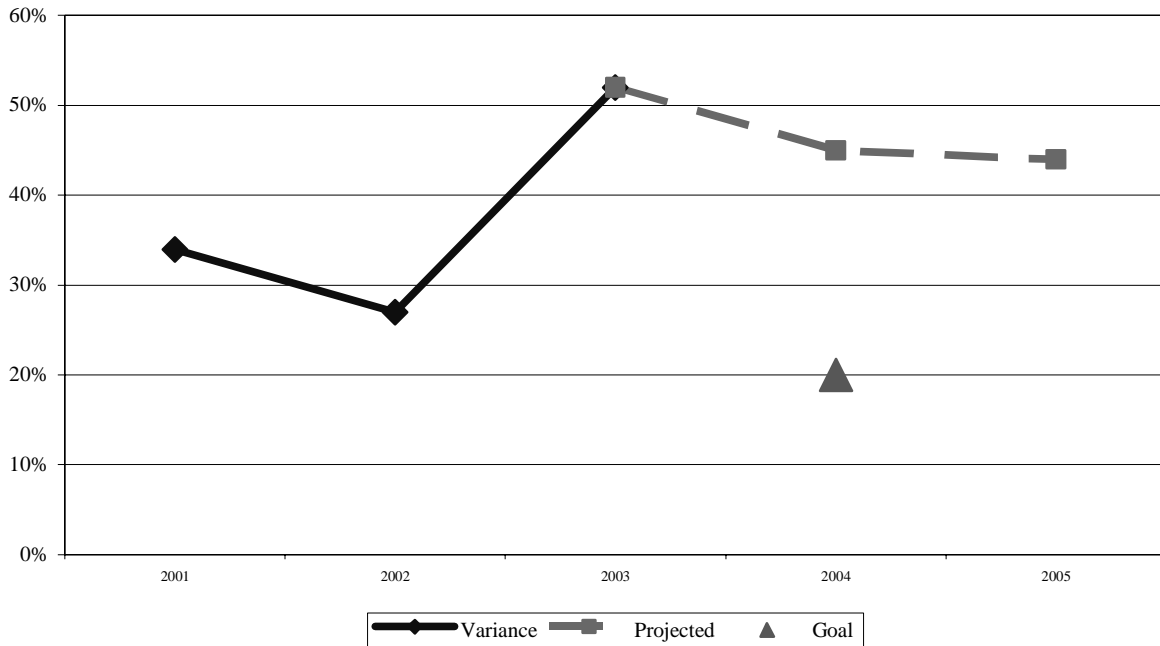
USMO has several goals related to improving operations within and among USM institutions. Some objectives related to these goals include instituting new library and administrative computer systems, increasing on-line applications, and increasing electronic transmission of transcripts. On the whole, these objectives are on track. Increasing the electronic transmission of transcripts is behind schedule because USM institutions — as well as Maryland community colleges — have installed new computer systems that require additional configuration to electronically process transcripts.

Variance in Funding Guideline Attainment Persists

USMO also has a goal related to financial stewardship. One measure of this goal concerns the variance among USM institutions in attaining their State funding guidelines. Funding guidelines are set by the Maryland Higher Education Commission and inform State decisions on overall support for USM. USMO is the primary decision-maker on how State funds are allocated among USM institutions, and it has an objective to reduce the intra-system variance in funding guideline

attainment to 20% by fiscal 2004. USMO is expected to fall short of this objective; the projected variance for fiscal 2004 is 45%, as shown in **Exhibit 1**.

Exhibit 1
Funding Guideline Attainment
Intra-system Variance



Source: University System of Maryland Office

Funding guideline variance is the difference between the highest and lowest guideline attainment. In all five years the funding guidelines have been in place, the institutions with the lowest and highest attainment have been the same: the University of Maryland, University College (UMUC) and the University of Maryland, Eastern Shore (UMES), respectively. There are characteristics about these two institutions that seemingly ensure their places at the lowest and highest attainment.

UMUC has a different delivery model – emphasizing on-line and distance education – than its peers and relies comparatively less on State funds, which explains its low general fund support per student and low funding guideline attainment. In the case of UMES, the State’s Partnership Agreement with the Office for Civil Rights ensures that the institution will continue to receive favorable treatment in the allocation of State support. Given these conditions, it is unlikely that funding guideline variance will decrease markedly in the foreseeable future. USMO reports that it will reassess its funding guideline variance objective at the end of fiscal 2004 to determine if the objective should be revised.

Outlook for USM Credit Downgraded

Another measure related to financial stewardship is the USM bond rating. USMO aims to maintain the system's Aa3 bond rating and eventually improve it.

In June 2003, Standard and Poor's downgraded the outlook for USM credit from stable to negative because of the decrease in the ratio of unrestricted assets to outstanding debt. Unrestricted assets are composed primarily of the unrestricted fund balance. Rating agencies also look for favorable evidence of continuing State support, strong enrollment, and access to increased tuition and fee revenue.

If the credit ratings for USM academic and auxiliary revenue bonds are in fact downgraded, it could lead to higher interest rates and debt service costs. **The Chancellor should comment on how USM plans to improve its credit outlook, including increasing the unrestricted fund balance.**

Fiscal 2004 Actions

Impact of Cost Containment

General funds for USMO have declined \$1.4 million, or 11.6%, from fiscal 2002 to the 2004 working appropriation. The Governor's July 2003 cost containment action accounts for \$455,422 of the reductions. The July 2003 reduction for USMO was small compared to other USM institutions since it does not have the ability to generate tuition revenue.

Considering all funds, the USMO budget decreased 3.7% from fiscal 2002 to 2004. Other unrestricted funds at USMO are primarily income from endowments, interest from the fund balance, and overhead charged to USM campuses. Restricted funds primarily are federal education grants for students and faculty.

Governor's Proposed Budget

The allowance for fiscal 2005 provides a \$1 million increase in general funds from the fiscal 2004 level, as shown in **Exhibit 2**. These funds will support operating costs for the Hagerstown Regional Education Center, which is scheduled to open in January 2005. The funds will go primarily toward salaries, utilities, and debt service for certain equipment. Initially, annual operating costs were estimated at \$868,000, but the costs are now expected to be \$1.2 million annually. Some equipment had to be financed instead of purchased outright, adding \$300,000, and other costs have been recalculated. USMO will contract with Frostburg State University to operate the center. The center is expected to serve about 1,200 students annually, so the State subsidy will be about \$833 per student.

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USMO has not budgeted increases in other unrestricted funds or restricted funds over the fiscal 2004 level. To accommodate mandatory increases related to salaries, benefits, fuel and utilities, USMO has decreased its budget for fringe benefit, part-time, and turnover personnel costs, and for contractual services.

Exhibit 2
Governor's Proposed Budget
University System of Maryland Office
(\$ in Thousands)

	<u>FY 03</u> <u>Actual</u>	<u>FY 04</u> <u>Approp.</u>	<u>FY 05</u> <u>Allowance</u>	<u>FY 04-05</u> <u>Change</u>	<u>FY 04-05</u> <u>% Change</u>
General Funds	\$11,362	\$10,681	\$11,681	\$1,000	9.4%
Other Unrestricted Funds	1,312	2,744	2,744	0	0.0%
Total Unrestricted Funds	12,673	13,425	14,425	1,000	7.4%
Restricted Funds	1,184	1,800	1,800	0	0.0%
Adjusted Grand Total	\$13,858	\$15,225	\$16,225	\$1,000	6.6%

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

Source: Maryland State Budget

Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Columbus Center Space Has Been Leased

Language in the fiscal 2004 budget bill restricted \$700,000 in unrestricted funds to USMO until it found a tenant for vacant space in the Christopher Columbus Center in Baltimore. USMO notified the budget committees in November 2003 that it found a suitable tenant, and the committees have recommended that the funds be released.

USMO paid approximately \$40,000 for a direct marketing campaign to locate a tenant, and a lease arrangement has been negotiated with 180s, LLC, a Baltimore-based company. The lease agreement is between the tenant and the University of Maryland Biotechnology Institute. USMO reports that the terms of the lease provide for an annual lease payment sufficient to cover all costs associated with use of the space, with appropriate annual escalations tied to maintenance and utility costs, as required by the committees. The lease will run for seven years with two one-year renewal options.

2. Budget Submission Includes Delineation for Regional Centers and Grants

The 2003 *Joint Chairmen's Report* requested that budget submissions for USMO clearly delineate funds intended for higher education centers at Shady Grove and Hagerstown, as well as funds for teacher education grants. The fiscal 2005 budget submission includes these delineations.

Current and Prior Year Budgets

Current and Prior Year Budgets University System of Maryland Office (\$ in Thousands)

	<u>General Fund</u>	<u>Other Unrestricted Fund</u>	<u>Total Unrestricted Fund</u>	<u>Restricted Fund</u>	<u>Total</u>
Fiscal 2003					
Legislative Appropriation	\$12,135	\$3,961	\$16,095	\$1,800	\$17,895
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	-1,266	-1,266	0	-1,266
Cost Containment	-773	0	-773	0	-773
Reversions and Cancellations	0	-1,383	-1,383	-616	-1,998
Actual Expenditures	\$11,362	\$1,312	\$12,673	\$1,184	\$13,858
Fiscal 2004					
Legislative Appropriation	\$11,137	\$2,882	\$14,019	\$1,800	\$15,819
Cost Containment	-455	0	-455	0	-455
Budget Amendments	0	-139	-139	0	-139
Working Appropriation	\$10,681	\$2,743	\$13,424	\$1,800	\$15,224

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

Fiscal 2003

In fiscal 2003, USMO reduced its unrestricted funds through budget amendment by \$1.3 million. The reduction pertains to a telecommunications system for which both USMO and USM institutions were recording costs. USMO purchases telecommunications services for all USM institutions and receives funds from them to pay for it. In order to avoid double counting in the future, these telecommunications costs will be recorded only at the institutions and will no longer be included in the USMO budget.

Also, \$1.4 million in unrestricted revenues were cancelled in fiscal 2003. Of this amount, \$558,640 was related to payment to the University of Maryland, College Park for its management of the Shady Grove Regional Education Center; the amount was transferred after fiscal 2004 began and was not properly posted in fiscal 2003. Funds related to the telecommunications system make up \$470,568 of the cancellation; USMO had received more funds from USM institutions than it needed at that point. Cost containment actions, including a hiring freeze, account for the final \$353,495 of the cancellation. Restricted funds totaling \$615,523 also were cancelled due to federal and private grant funds that amounted to less than USMO expected.

Fiscal 2004

In fiscal 2004, the USMO budget for other unrestricted funds was reduced by about \$139,000 through budget amendment.

**Object/Fund Difference Report
University System of Maryland Office**

<u>Object/Fund</u>	<u>FY03 Actual</u>	<u>FY04 Working Appropriation</u>	<u>FY05 Allowance</u>	<u>FY04 - FY05 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	95.50	91.00	91.00	0	0%
02 Contractual	3.00	4.00	4.00	0	0%
Total Positions	98.50	95.00	95.00	0	0%
Objects					
01 Salaries and Wages	\$ 9,001,527	\$ 9,214,895	\$ 9,310,996	\$ 96,101	1.0%
02 Technical & Spec Fees	598	0	0	0	0.0%
03 Communication	159,458	595,089	590,789	-4,300	-0.7%
04 Travel	117,150	82,843	82,843	0	0%
07 Motor Vehicles	3,859	16,440	16,540	100	0.6%
08 Contractual Services	3,367,716	3,891,623	4,791,069	899,446	23.1%
09 Supplies & Materials	152,833	61,317	61,317	0	0%
11 Equip - Additional	180,805	68,620	68,620	0	0%
12 Grants, Subsidies, Contr.	685,225	863,881	859,501	-4,380	-0.5%
13 Fixed Charges	187,967	430,526	443,559	13,033	3.0%
14 Land & Structures	752	0	0	0	0.0%
Total Objects	\$ 13,857,890	\$ 15,225,234	\$ 16,225,234	\$ 1,000,000	6.6%
Funds					
40 Unrestricted Fund	\$ 12,673,413	\$ 13,425,234	\$ 14,425,234	\$ 1,000,000	7.4%
43 Restricted Fund	1,184,477	1,800,000	1,800,000	0	0%
Total Funds	\$ 13,857,890	\$ 15,225,234	\$ 16,225,234	\$ 1,000,000	6.6%

Note: The fiscal 2004 appropriation does not include deficiencies, and the fiscal 2005 allowance does not reflect contingent reductions.

**Fiscal Summary
University System of Maryland Office**

<u>Unit/Program</u>	<u>FY03 Actual</u>	<u>FY04 Legislative Appropriation</u>	<u>FY04 Working Appropriation</u>	<u>FY03 - FY04 % Change</u>	<u>FY05 Allowance</u>	<u>FY04 - FY05 % Change</u>
04 Academic Support	\$ 2,136,966	\$ 3,030,860	\$ 2,844,292	33.1%	\$ 3,844,292	35.2%
06 Institutional Support	11,720,924	12,787,891	12,380,942	5.6%	12,380,942	0%
Total Expenditures	\$ 13,857,890	\$ 15,818,751	\$ 15,225,234	9.9%	\$ 16,225,234	6.6%
Unrestricted Fund	\$ 12,673,413	\$ 14,018,751	\$ 13,425,234	5.9%	\$ 14,425,234	7.4%
Restricted Fund	1,184,477	1,800,000	1,800,000	52.0%	1,800,000	0%
Total Appropriations	\$ 13,857,890	\$ 15,818,751	\$ 15,225,234	9.9%	\$ 16,225,234	6.6%

Note: The fiscal 2004 appropriation does not include deficiencies, and the fiscal 2005 allowance does not reflect contingent reductions.