

R62I0001
Maryland Higher Education Commission

Operating Budget Data

(\$ in Thousands)

	FY 04	FY 05	FY 06	FY 05-06	% Change
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>	<u>Prior Year</u>
General Fund	\$53,865	\$57,668	\$71,562	\$13,893	24.1%
Special Fund	65	391	312	-78	-20.0%
Federal Fund	1,246	2,818	1,490	-1,329	-47.1%
Reimbursable Fund	<u>202</u>	<u>211</u>	<u>181</u>	<u>-30</u>	<u>-14.4%</u>
Total Funds	\$55,378	\$61,089	\$73,545	\$12,456	20.4%
Contingent & Back of Bill Reductions			-10,114	-10,114	
Adjusted Total	\$55,378	\$61,089	\$63,431	\$2,342	3.8%

- The fiscal 2006 allowance maintains \$12 million for the historically black institutions (HBIs) (\$6 million for enhancement funds and \$6 million for the Access and Success program), as well as \$2.7 million in matching funds for the Private Donation Incentive Program, an increase of 155%.
- The allowance includes \$2.5 million in the Maryland Higher Education Commission's (MHEC) budget as a grant for the University of Maryland Baltimore County's new School of Aging Studies.
- All but \$0.7 million of the \$10.8 million mandated formula increase in the Sellinger program for nonpublic institutions is eliminated contingent on legislation.

Personnel Data

	FY 04	FY 05	FY 06	FY 05-06
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>
Regular Positions	74.60	73.60	73.60	0.00
Contractual FTEs	<u>3.00</u>	<u>1.00</u>	<u>1.00</u>	<u>0.00</u>
Total Personnel	77.60	74.60	74.60	0.00

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	3.96	5.38%
Positions Vacant as of 12/31/04	6.00	8.15%

- There are no changes in personnel in the fiscal 2006 allowance over fiscal 2005.

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

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Analysis in Brief

Major Trends

Number of Degrees Awarded to Racial and Ethnic Minorities Increasing Very Slowly: From fiscal 2003 to 2004, the percent of bachelor degrees awarded to racial and ethnic minority students increased by less than one percentage point; an increase of 1.2 percentage points is expected from fiscal 2004 to 2006.

Issues

The Maryland Higher Education Commission Updates State Plan for Higher Education: MHEC is required by law to develop and periodically update a statewide plan for postsecondary education. The plan is to serve as a guide for the development and improvement of higher education opportunities in Maryland. The core of the plan outlines five goals, accompanied by action recommendations, deemed critical to the ongoing development of Maryland's postsecondary education.

Regional Higher Education Centers Examined: In October 2004, MHEC submitted a response to the *2004 Joint Chairmen's Report* that makes numerous recommendations to provide more equitable treatment of regional centers across the State and encourage greater participation from institutions and students.

Status of the Office of Civil Rights Agreement: Since the commencement of the agreement in fiscal 2001, the State has provided \$59.4 million in funds specific to HBIs. The enhancement funds have been used for basic operating costs, while the information technology enhancements and Access and Success funds are for specific activities that help HBIs improve retention and graduation rates.

Fall Enrollment Data Needed for Better Measure of General Funds Per Student: For fiscal 2005, the budget books understated enrollment, causing the general fund per full-time equivalent student number to be overstated, which in turn inflated the general funds allocated to community colleges and independent institutions for fiscal 2006.

Recommended Actions

	<u>Funds</u>	<u>Positions</u>
1. Delete two long-term vacant positions	\$ 113,856	2.0
2. Delete one of three Assistant Secretary positions.	121,518	1.0
3. Delete one position to recognize savings from the consolidation of the Legislative Affairs and Communications units.	87,987	1.0
4. Reduce Sellinger program aid to nonpublic institutions.	5,000,000	
5. 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.		
6. Delete funding for the University of Maryland Baltimore County School of Aging Studies.	2,500,000	
Total Reductions	\$ 7,823,361	4.0

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Maryland Higher Education Commission

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. The eight goals of the State Plan are the goals for the agency:

- to achieve and sustain a preeminent statewide array of postsecondary educational institutions that are recognized for their distinctiveness and their excellence nationally and internationally;
- to provide affordable and equitable access for every qualified Maryland citizen;
- to contribute to the further development of Maryland's economic health and vitality;
- to support and encourage basic and applied research;
- to strengthen teacher preparation and improve the readiness of students for postsecondary education;
- to provide high quality academic programs for a population of increasingly diverse students;
- to establish Maryland as one of the most advanced states in the use of information technology to improve learning and access; and
- to 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.

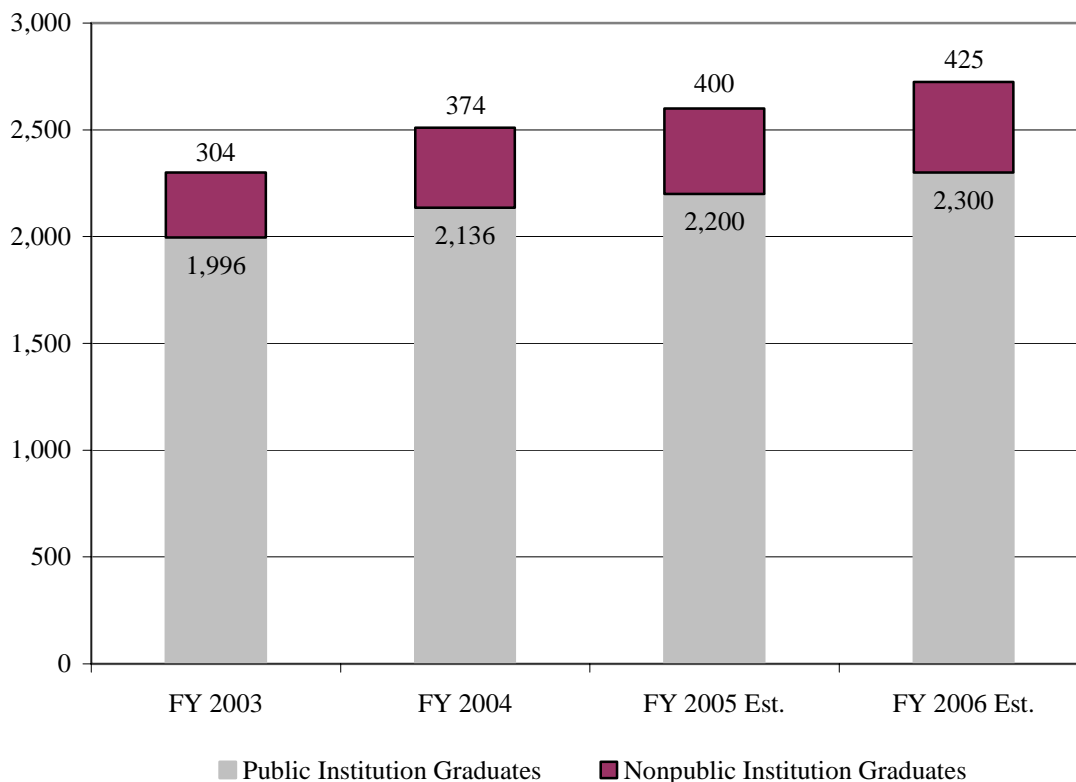
Performance Analysis: Managing for Results

It is the role of MHEC to focus and coordinate the various segments of higher education in Maryland and ensure that progress is made toward the State goals for higher education. MHEC's performance measures provide an overview of institutional data in the many areas for which it has oversight, including college preparation; minority student achievement; graduates of workforce shortage degree programs; and the connection between community colleges and four-year institutions.

Consistent with State goals, MHEC must lead higher education to support Maryland's economic health. MHEC tracks the number of graduates in areas of the workforce in which workers are needed. The two most critical areas are nursing and teaching, and over the past several years MHEC has encouraged the institutions to increase their numbers of graduates in these areas.

Exhibit 1 compares the number of nursing graduates from public and private institutions since fiscal 2003. The percentage of graduates from public institutions is expected to increase 15.2% from fiscal 2003 to 2006. The number of graduates is expected to increase by 100 students each year in fiscal 2005 and 2006, putting it on track to reach the goal of 2,400 graduates by fiscal 2007. Graduates from nonpublic institutions are expected to increase nearly 40% between fiscal 2003 and 2006. Private institutions generally produce about 15% of the total graduates. In fiscal 2003 and 2004, the proportion of total nursing graduates from the nonpublic institutions fell below 15%. The estimates for fiscal 2005 and 2006 project the proportion will reach about 15.5%.

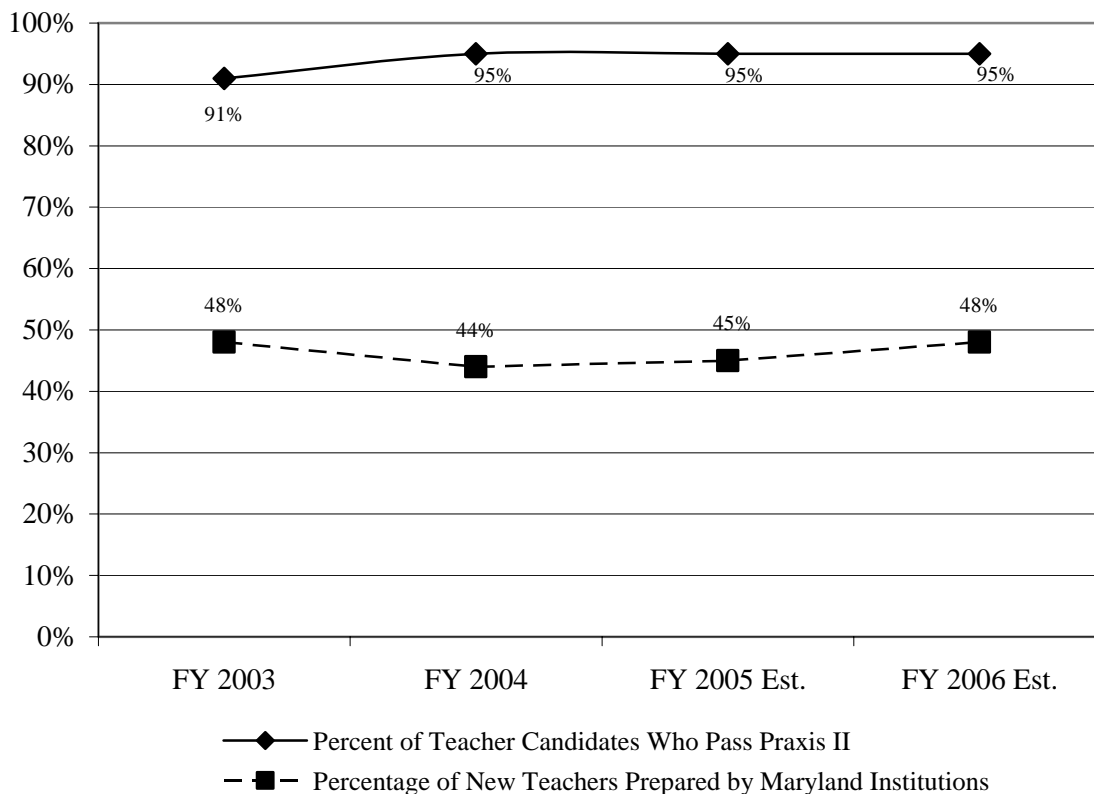
Exhibit 1
Nursing Graduates from Public and Private Institutions
Fiscal 2003 – 2006 Estimate



Source: Maryland Higher Education Commission

In addition to nursing, another workforce area in which graduates are needed is teaching. **Exhibit 2** shows the percentage of Maryland teacher candidates who pass Praxis II and the percentage of new teacher hires in critical shortage areas educated by Maryland institutions. As the exhibit shows, the Praxis II pass rates are consistently in the 90s and are expected to remain so. However, the percentage of new teacher hires prepared by Maryland higher education institutions declined to 44% in fiscal 2004 from 48%. Less than 50% of new hires in critical shortage areas are estimated for fiscal 2005 and 2006. The goal is to reach 50% by fiscal 2007. **The Secretary should comment on efforts to increase the percentage of new teacher hires in critical shortage areas considering the decline reported in fiscal 2004.**

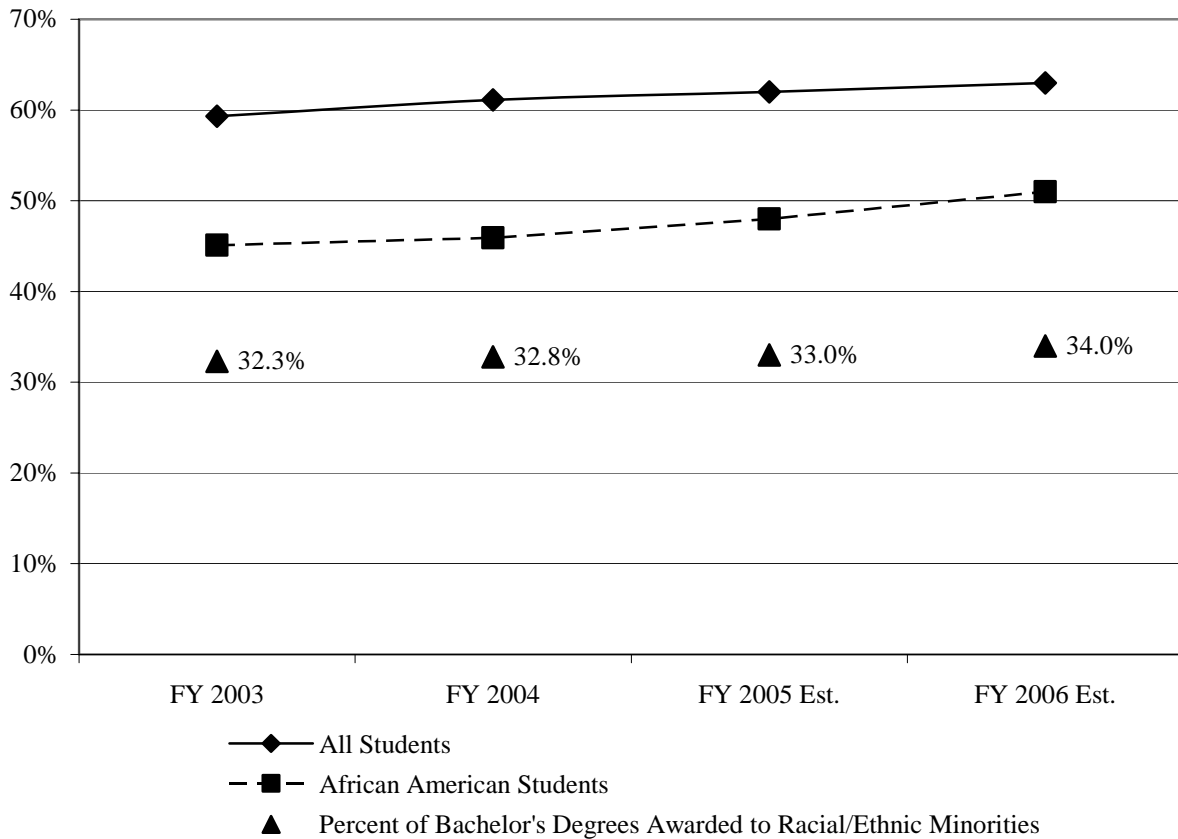
Exhibit 2
Teacher Candidates Who Pass Praxis II and Are Hired in Maryland
Fiscal 2003 – 2006 Estimate



Source: Maryland Higher Education Commission

As the coordinating and oversight body of the State’s partnership with the OCR, MHEC sets goals for and collects information on access, retention, and graduation rates for minority students at the historically black institutions (HBIs) and the traditionally white institutions. The six-year graduation rates for all students at Maryland’s public four-year institutions, as well as the percent of bachelor degrees that are awarded to racial/ethnic minority students, are shown in **Exhibit 3**. The gap between all students and African American students was between 14 and 15 points in fiscal 2003 and 2004. In fiscal 2005, that gap is expected to decrease back to the fiscal 2003 level of 14 points. The goal is to close the gap to 10 percentage points by fiscal 2007. The percent of bachelor degrees awarded to racial and ethnic minority students is expected to progress at a similar pace as the graduation rate. From fiscal 2003 to 2004, the percent of degrees awarded increased by less than 1%. From fiscal 2004 through 2006, it is expected that the percent of degrees awarded will increase by 1.2%. The goal is that by fiscal 2007, 35% of degrees awarded will be to racial and ethnic minority students. **The Secretary should comment on the current trends of degrees awarded to racial and ethnic minorities and efforts to increase the percentage.**

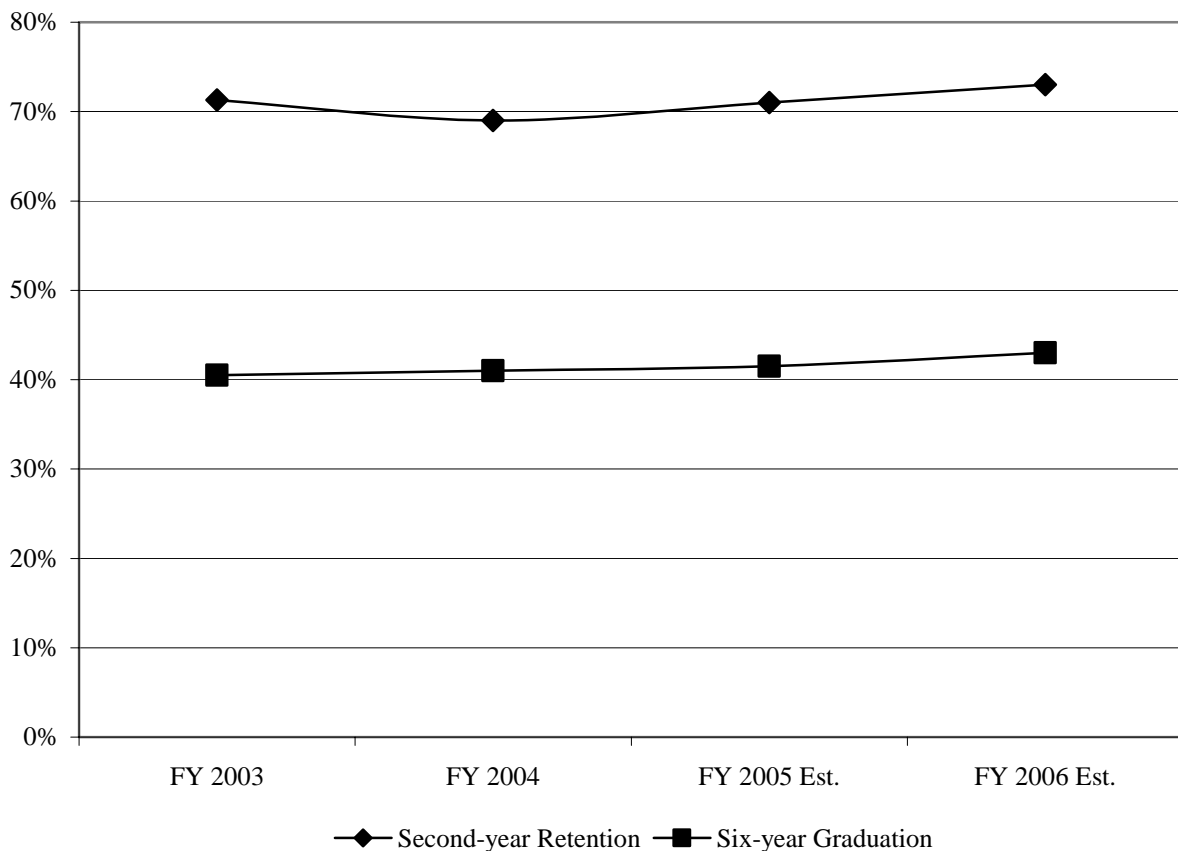
Exhibit 3
Six-year Graduation Rates of All Students and African American Students
And Degrees Awarded to Racial/Ethnic Minority Students
Fiscal 2003 – 2006 Estimate



Source: Maryland Higher Education Commission

Exhibit 4 shows the second-year retention and six-year graduation rates for African American students at HBIs. In fiscal 2005 and 2006, both measurements are expected to increase slowly for the four HBIs together; data on each institution will be discussed individually in the institution's analysis.

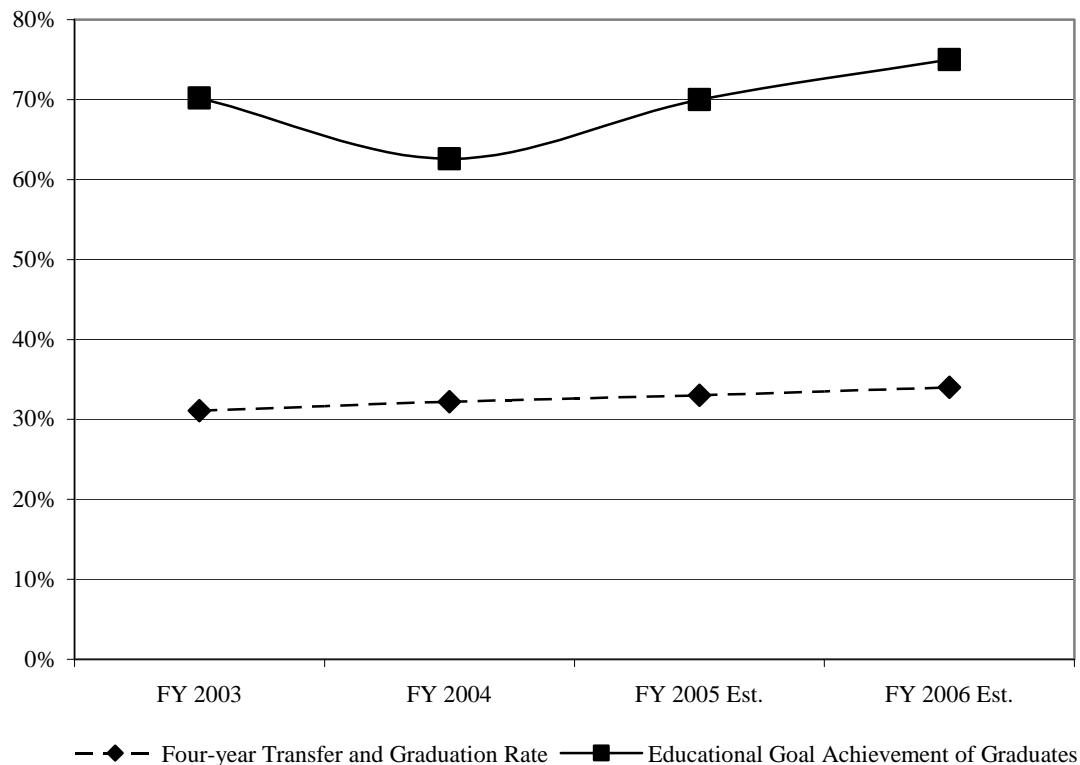
Exhibit 4
Second-year Retention and Six-year Graduation Rates at HBIs
Fiscal 2003 – 2006



Source: Maryland Higher Education Commission

MHEC is also the coordinating body for the State's community colleges and collects data regarding community college transfer rates. As tuition rates rise at four-year institutions and those institutions become more competitive, it is important that qualified students seeking to transfer from community college to a four-year institution are able to do so without difficulty. **Exhibit 5** shows the four-year transfer and graduation rate of community college students, as well as the percent of community college students that have achieved their education goals. As the exhibit shows, the transfer and graduation rate is increasing slowly and is expected to reach 34% in fiscal 2006. The goal is to reach 35% in fiscal 2007. The top line of the exhibit shows that a high proportion of community college graduates are ultimately achieving their goals. In fiscal 2004, just over 60% of community college graduates reported that they completely realized their educational goals, a decline from 70% in 2003. That figure is expected to reach 75% in fiscal 2006.

Exhibit 5
Community College Transfer Rate and Educational Achievement Satisfaction
Fiscal 2003 – 2006 Estimate



Source: Maryland Higher Education Commission

According to MHEC, the trends reflect an increasing number of students entering community college with educational needs outside of obtaining a degree. MHEC notes that the transfer and graduation rate is likely higher than reported due to an inability to track students who transfer from a community college to an institution outside of the University System of Maryland (USM), Morgan State University, and St. Mary’s College. Consequently, the community colleges are conducting biennial surveys on non-returning students to determine how many had goals other than degree attainment or transfer – and whether these goals had been realized. The colleges will share this information with the commission.

Governor’s Proposed Budget

As shown in **Exhibit 6**, the fiscal 2006 allowance increases MHEC’s general fund budget by \$13.9 million, or 24%. However, general funds for the Sellinger grant for nonpublic institutions are reduced by \$10.1 million through a contingent reduction in the Governor’s Budget Reconciliation Act. There is one new educational grant award for a new Aging Studies School at the University of Maryland Baltimore County (UMBC).

Exhibit 1
Governor's Proposed Budget
Maryland Higher Education Commission
(\$ in Thousands)

How Much It Grows:	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Federal</u> <u>Fund</u>	<u>Reimbursable</u> <u>Fund</u>	<u>Total</u>
2005 Working Appropriation	\$57,668	\$391	\$2,818	\$211	\$61,089
2006 Governor's Allowance	71,562	312	1,490	181	73,545
Contingent & Back of Bill Reductions	-10,112	0	-1	-1	-10,114
Adjusted Allowance	<u>61,450</u>	<u>312</u>	<u>1,489</u>	<u>180</u>	<u>63,431</u>
Amount Change	\$3,782	-\$78	-\$1,330	-\$31	\$2,342
Percent Change	6.6%	-20.1%	-47.2%	-14.7%	3.8%
Where It Goes:					
Personnel Expenses:					
Salary increments					\$103
Employee and retiree health insurance cost increase					38
Retirement contribution cost increase					6
Decrease in turnover expectancy					-170
Other adjustments including funds associated with position abolished in fiscal 2005					-89
Other Changes					
New Aging Studies School at UMBC					2,500
Private Donation Incentive Program					1,496
Seller Aid to nonpublic institutions increases despite \$10.1 million contingent reduction					722
Increase in Improving Teacher Quality State grants					7
Eliminate funds for Southern Maryland Higher Education Center					-92
Eliminate Higher Education Heritage Action Committee					-100
Reduction in administrative costs					-237
Eliminate Coppin State University revitalization funds					-500
College Prep/Intervention Program – funds transferred to Maryland State Department of Education					-1,350
Other					8
Total					\$2,342

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

Contingent Actions

The fiscal 2006 allowance reflects the elimination of \$19,180, the appropriation for matching employee deferred compensation contributions up to \$600, contingent upon enactment of a provision in budget reconciliation legislation.

Sellinger Aid for Nonpublic Institutions May Remain Flat

Language in the fiscal 2006 budget bill makes a \$10,094,601 reduction contingent on budget reconciliation legislation. The reduction to the Sellinger program for aid to nonpublic institutions will result in funding per full-time equivalent student (FTES) at the fiscal 2005 working appropriation level, as shown in **Exhibit 7**. The exhibit looks at program funding from fiscal 2002 to 2006 and compares estimates of aid per FTES using the percentages based on the statutory requirement and the contingent reduction in fiscal 2006. The fiscal 2006 Sellinger funding is calculated using a mandated funding formula that is based on 16% of the per student general fund support for selected public institutions in the previous year. The Budget Reconciliation and Financing Act (BRFA) of 2002 reduced the mandated formula from 16% to 14.3% in fiscal 2003 and 2004, and 15.2% in fiscal 2005, returning to 16% in fiscal 2006. Additional cost containment actions resulted in funding per student falling short of the statutory goals in fiscal 2003 through 2005. The contingent reduction proposed in the fiscal 2006 allowance reduces the mandated aid per FTES from 16% to 12.51%.

**Exhibit 7
Sellinger Formula Calculation
Fiscal 2002 – 2006**

	<u>Actual</u>				<u>Estimate</u>	
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005 Working</u>	<u>FY 2006 Mandated Appropriation</u>	<u>FY 2006 with Contingent Reduction</u>
Four-year Appropriation	\$642,955,409	\$694,937,184	\$646,034,700	\$601,932,647	\$611,179,350	\$611,179,350
Budgeted Public FTES	73,644	73,475	76,484	79,585	80,196	80,196
Appropriation per Four-year Public	\$8,730.59	\$9,458.14	\$8,446	\$7,563.39	\$7,621.07	\$7,621.07
Budgeted Private FTES	32,965	34,251	36,220	37,231	38,007	38,007
Formula Percentage	16.00%	13.15%	10.30%	12.49%	16.00%	12.51%
Aid Per FTES	\$1,396.89	\$1,243.75	\$869.01	\$953.87	\$1,219.37	\$953.40

Source: Maryland Higher Education Commission

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Exhibit 8 shows the level of Sellinger funding each nonpublic institution receives, as well as the number of FTES per institution. The exhibit illustrates the aid for each institution in fiscal 2005, the fiscal 2006 mandated appropriation, the contingent reduction, and the \$5 million reduction recommended by DLS. As the exhibit shows, when each institution receives the statutory 16% per FTES, the allowance underfunds the mandated appropriation by \$14,108. The DLS recommended reduction restores the aid per FTES to the fiscal 2002 level of 14.3% of the aid per FTES at selected public institutions. Moreover, the reduction still allows for a 16% increase over fiscal 2005. The contingent reduction is distributed proportionately across the institutions. The difference in funding between the contingent and recommended reduction varies between approximately \$8,000 and \$2 million per institution.

Exhibit 8
Fiscal 2006 Sellinger Appropriations
(\$ in Thousands)

Analysis of the FY 2006 Maryland Executive Budget, 2005

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	FY 2005		FY 2006		DLS Recommended Funding	
	<u>Budgeted FTES</u>	<u>Working Appropriation</u>	<u>Budgeted FTES</u>	<u>FY 2006 Mandated</u>		<u>Governor's² Proposal</u>
Baltimore Hebrew University	87.40	83	62.93	77	60	68
Baltimore International College	546.60	521	552.73	674	527	601
Capitol College	386.13	368	404.60	493	386	440
College of Notre Dame	1,383.33	1,320	1,437.53	1,753	1,371	1,563
Columbia Union College	847.60	809	830.13	1,012	791	903
George Meany Center	592.20	565	511.60	624	488	556
Goucher College	1,652.57	1,576	1,680.30	2,049	1,602	1,827
Hood College	1,023.40	976	1,173.90	1,431	1,119	1,277
Johns Hopkins University	15,258.53	14,555	15,636.67	19,067	14,908	17,004
Loyola College	4,472.83	4,266	4,588.52	5,595	4,375	4,990
Maryland Institute College of Art	1,569.10	1,497	1,686.83	2,057	1,608	1,834
McDaniel College	2,332.57	2,225	2,271.87	2,770	2,166	2,471
Mount St. Mary's College	1,544.13	1,473	1,626.67	1,984	1,551	1,769
St. John's College	636.20	607	635.27	775	606	691
Sojourner-Douglass College	1,055.73	1,007	990.60	1,208	944	1,077
Villa Julie College	2,334.03	2,226	2,433.70	2,968	2,320	2,647
Washington College	1,509.07	1,439	1,482.93	1,808	1,414	1,613
Total	37,231.42	\$35,513	38,006.78	\$46,345¹	\$36,236	\$41,331

¹ The appropriation in the 2006 allowance is \$46,330,265, about \$14,108 below the mandated level.

² Funding after contingent reduction.

Source: Maryland State Budget Book fiscal 2005 and 2006; Maryland Higher Education Commission

Continued Funding for Historically Black Institutions

The allowance contains funding for HBIs through two programs – enhancement funds, which are level funded at \$6 million, and the Access and Success program, which is also level funded at \$6 million. Through these grants, total funding for HBIs in fiscal 2006 is \$12 million. Bowie State University (BSU) and Coppin State University (CSU) will also receive additional funding through the Private Donation Incentive Program totaling \$183,015. The revitalization grant to CSU for \$500,000 was appropriated in fiscal 2005 as a one-time grant pursuant to the recommendations in the *Toll Commission* report; therefore, there are no appropriations in fiscal 2006.

Educational Grants

The Higher Education Heritage Action Program was designed to address the needs identified by the Heritage Action Committee, a group of leaders from higher education and preservation in Maryland. In fiscal 2005, the program received a grant for \$100,000 to support start-up costs. In the Governor's allowance, those funds have been eliminated.

College Prep/Intervention Program

The College Prep/Intervention Program (CPIP) is designed to raise the level of academic preparedness of economically and environmentally disadvantaged students to enable them to attend and succeed in college. Funds from this program provide State matching funds for the federal Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP), which is administered in partnership with the Maryland State Department of Education. The allowance reduces federal funds by \$1.4 million as these funds are now appropriated in the MSDE budget.

UMBC School of Aging Studies

UMBC receives a special \$2.5 million general fund enhancement in the allowance directed to its new School of Aging Studies. UMBC recently received a \$2 million private donation for the school, and another \$2 million gift from the same interest is expected in the near future.

The School of Aging Studies just recently began operating and is offering a non-credit executive development program. At this point, the school has two academic/administrative personnel who are conducting training modules which are different from traditional courses. No full-time faculty have been hired. UMBC intends to hire faculty to develop the program structure. However, UMBC does not intend to provide credit courses for undergraduate and graduate students.

UMBC justifies the need for the school based on demographic trends toward an aging population, rather than student demand or other factors. The school would not exist, UMBC reports, without the private donation.

The \$2.5 million in general funds would be used to address start-up costs for the School of Aging Studies. Faculty and staff salaries and benefits account for \$1.5 million. Finishing of classroom, office, and research space adds \$450,000; classroom technology accounts for \$400,000; and library materials account for \$150,000.

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UMBC has not indicated how it will use the private donations to cover costs. No overall financing plan for the school is available at this point that would indicate ongoing operating costs. UMBC reports that when the new personnel are hired, they will be responsible for developing a business plan.

The ongoing cost to the State could be significantly greater than the donation if the MHEC grant is a multi-year commitment. **DLS recommends deletion of the \$2.5 million in general funds for the UMBC School of Aging Studies because of the disproportionate cost to the State, the lack of a financing plan, and the failure to provide any direct benefit to undergraduate and graduate students. Given the State’s limited resources, general fund support for a research and professional development center which already has access to other sources of funding appears unaffordable.**

Private Donation Incentive Program

The Private Donation Incentive grants increase \$1.5 million over fiscal 2005. **Exhibit 9** shows the amount of matching funds deferred to all institutions, except the four HBIs, prior to fiscal 2006. Morgan State University and the University of Maryland Eastern Shore have received the full amount owed through the incentive program. The fiscal 2006 allowance includes funding sufficient to meet the remaining obligation to Bowie State University and Coppin State University. The allowance also begins to address the remaining obligations to the other four-year institutions and the community colleges.

Exhibit 9
Obligations under Private Donation Incentive Grant Program
(\$ in Thousands)

State Payments <u>FY 01-05</u>	Deferred Payments <u>FY 04-05</u>	FY 2006 <u>Allowance</u>	Remaining <u>Balance</u>
\$8,918	\$8,300	\$2,676	\$6,817

Source: Maryland Higher Education Commission

Issues

1. MHEC Updates State Plan for Higher Education

MHEC is required by law to develop and periodically update a statewide plan for postsecondary education. The plan is to serve as a guide for the development and improvement of higher education opportunities in Maryland. The core of the plan outlines five goals, accompanied by action recommendations, deemed critical to the ongoing development of Maryland's postsecondary education. The goals speak to the quality and effectiveness, access and affordability, diversity, student-centered learning systems, and economic growth and vitality within Maryland's higher education institutions.

Goal 1: Maintain and strengthen a preeminent statewide system of postsecondary education recognized nationally for its academic excellence and effectiveness in fulfilling the educational needs of students and the State.

A dramatic increase in enrollments and reduced State revenues are expected to have the greatest bearing on the quality of Maryland's higher education. MHEC projects enrollment at the public and private colleges and universities to increase by more than 57,000 students in the next decade. Meanwhile, general fund support by the State for higher education declined 11 percent, or \$143 million between fiscal 2002 and 2004. These trends will require a balance between a top quality postsecondary education system and continuing economic constraints. To that end, the State Plan recommends:

- providing appropriate funding levels to ensure predictable tuition levels and maintain institutional quality;
- continuing to provide State matching grants to promote private sector donations and to encourage institutions to increase endowment and private fund donations;
- examining existing practices, procedures, and requirements to identify those that result in duplication of effort, redundancy of reporting, and bureaucratic barriers; and develop cost-effective methods to achieve needed outcomes and objectives; and
- providing funds to support faculty development.

Goal 2: Achieve a system of postsecondary education that promotes accessibility and affordability for all Marylanders.

Accessibility can be examined in terms of the institutional capacity to admit students and the ability of students to access and financially pursue a higher education. The following are recommended to promote accessibility and affordability:

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- The capital improvement planning process should be examined and revised as necessary by the Secretary of Education in consultation with the Secretary of Budget and Management by October 30, 2005.
- MHEC, in consultation with the higher education community, should develop a coordinated statewide 10-year growth plan for all of higher education, establish a growth strategy of the State, and specify growth goals for each of the public segments by January 31, 2006.
- MHEC should propose a State policy on regional higher education centers by March 15, 2006.
- MHEC should propose digital education initiatives.
- The amount of need-based financial aid provided by postsecondary institutions should be expanded.
- Funding to the Educational Excellence Awards Program, the Part-Time Grant, and the Graduate and Professional Scholarship should be increased.
- State need-based aid programs to promote a high level of student access and choice should be revised.

Goal 3: Ensure equal educational opportunity for Maryland’s diverse citizenry.

Maryland is obligated to remedy past discrimination and remove the vestiges of segregation through its partnership agreement with the U.S. Department of Education’s OCR and is committed to ensuring equal access to higher education for all citizens. It is recommended that:

- MHEC should develop a statewide workshop dealing with the enhancement of “cultural competence” and campuses should offer ongoing programs encouraging cultural awareness and publications that reflect their institutions’ diversity.
- MHEC should work to identify the enhancement funds needed to ensure the State’s HBIs are comparable and competitive with the traditionally white institutions.
- MHEC should form an intersegmental statewide advising group to discuss, promote, and implement academic advising practices and initiatives for ensuring academic success for all students.
- Colleges and universities should implement aggressive recruitment programs to attract ethnically under-represented students to advanced degree programs.

Goal 4: Strengthen and expand teacher preparation programs and support a student-centered, preK-16 educational system to promote student success at all levels.

The quality of the State’s teacher preparation programs are crucial to determining the kind of education received by students; therefore, emphasis must be placed on ensuring that teachers are knowledgeable about what they teach and are skilled in how they teach. It is recommended that:

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- The capacity of Maryland’s colleges and universities should increase to fulfill the hiring needs of local school systems throughout the State.
- Wide-ranging master’s programs should be developed to address content needs of in-service teachers.
- MHEC should study, develop, and implement efforts to reduce the average time-to-degree at public postsecondary institutions.
- MHEC should endorse and support the recommendations of the Maryland Partnership for Teaching and Learning preK-16.
- MHEC should work to ensure that space is available and transferring is eased for Maryland’s community college and private career students to enroll in four-year institutions.
- Colleges and universities should initiate partnerships with schools with large numbers of minority students to provide for a successful transition to higher education.

Goal 5: Promote economic growth and vitality through the advancement of research and the development of a highly qualified workforce.

The State relies upon its postsecondary institutions to provide opportunities for research and learning, and to prepare students for initial employment, career advancement, and career changes, and to meet changing workforce needs. It is recommended that the State focus on:

- promoting public policies that support and enhance academic research and development efforts and eliminate barriers not found in competing states;
- providing improved data required by educational institutions to respond effectively to shifting workforce needs;
- increasing the supply of qualified graduates in identified high-demand fields and workforce shortage areas;
- promoting, facilitating, and coordinating the participation and support of all postsecondary institutions in Maryland’s workforce development initiatives; and
- establishing an Education Committee of the Governor’s Work Force Investment Board to promote and maximize employer participation in education, research, and workforce development.

The Secretary should comment on MHEC’s plans to implement the recommendations of the State plan.

2. Regional Higher Education Centers Examined

There are seven regional higher education centers located throughout Maryland. USM operates two centers, and there are five independent centers that exist in areas not served by comprehensive four-year institutions. A regional higher education center includes participation by two or more institutions of higher education, consists of a variety of program offerings, and offers multiple degree levels. These centers provide a full range of postsecondary programs and services including lower- and upper-level undergraduate degree programs as well as graduate and professional degree programs. The purpose of regional higher education centers is to provide access to higher education programs in unserved or underserved areas of the State and to respond to the needs of businesses and industries in the areas which they serve.

Since 2000, MHEC has been charged with the coordination of the regional higher education centers. In its report required by the 2004 *Joint Chairmen's Report*, MHEC examined the centers and made several recommendations, including the need for the following:

- a comprehensive State policy for regional higher education centers;
- development of a funding policy;
- additional need-based financial aid;
- enhancement of the delivery of academic programs;
- development of information on needed programs to encourage institutional participation; and
- improved data on workforce needs.

Funding

The operating budget requests and proposals for capital projects for all centers, including those that are USM-administered, are included in the consolidated operating and capital budget request for higher education, which MHEC submits to the Governor. All operating funds for centers that are not USM-administered are provided as grants through MHEC's operating budget. USM administers operating funding for the Shady Grove and Hagerstown centers.

Exhibit 10 shows that since fiscal 1994 the State has provided a total of \$46.3 million in capital funding for new facilities at the Southern Maryland, Higher Education and Applied Technology (HEAT), Shady Grove, Eastern Shore, and Hagerstown centers. The Waldorf and Laurel centers lease facilities and have not received capital funding. Exhibit 10 also shows that three of the seven centers, Shady Grove, Hagerstown, and Southern Maryland, have received State general operating funds. The centers that do not receive State operating funds have requested State funds for several years (the Laurel center was approved in 2004 and requested funds for the first time for fiscal 2006). The Waldorf center, the only center that has not received any State operating or capital funding, has requested \$24.5 million in capital funds for a new building, (the Governor's *Capital Improvement Program* includes \$2 million for Waldorf in 2010). In the fiscal 2006 allowance, none of the centers that receive grant funds through MHEC receive any operating or capital funding. The two centers administered by USM each receive funding (\$2 million for Hagerstown and \$2.8 million for Shady Grove).

**Exhibit 10
Regional Higher Education Centers in Maryland**

Center (year established)	FTES FY 2005 Actual	FTES FY 2006 Est.	Degree Programs	Number of Participating Institutions	Total State Operating Funds FY 1995-2006 Allowance	Total State Capital Funds FY 1995-2006 Allowance
USM-Shady Grove (1996)	1185	1314	20 Bachelor's 13 Master's	8	\$19,458,668	\$67,232,000
USM-Hagerstown (2005)	140	TBD	Planned for 2005-06 6 Bachelor's 6 Master's	3	3,000,000	16,361,000
Eastern Shore Higher Education (2002)	38	53	1 Bachelor 2 Master's	3	0	7,770,000
HEAT Center (1995)	96	99	2 Associate's 4 Bachelor's 9 Master's	6	0	1,000,000
Southern Maryland Higher Education Center (1995)	482	551	5 Bachelor's 35 Master's 1 Doctorate	10	1,262,000	6,845,000
Waldorf Higher Education Center (1997)	342	354	6 Associate's 9 Bachelor's 2 Master's	5	0	0
Laurel Center (2004)*	335	435	2 Associate's 2 Bachelor's	4	0	0

* Laurel Center has offered community college courses since 2001. The first year upper-level undergraduate courses are being offered is 2004-2005.

** The HEAT and Southern Maryland centers receive operating funds from the counties they serve.

Source: Maryland Higher Education Commission; Regional Higher Education Centers

Governance

Each of the seven regional higher education centers has its own system of governance, including boards of advisors and governors and chief executive officers. The governance structure of a regional higher education center directly impacts institutional participation and the academic offerings at each center. The resulting variation presents a problem when a center's governance structure limits participation or restricts available programs. MHEC proposes developing a coordinated process to help institutions respond to the identified needs at the center. Centers and institutions receiving State support could be required to participate in the process as a condition of receiving State funding.

Productivity

The MHEC report stressed the need for regional higher education centers due to the increasing demand for baccalaureate and graduate degrees coupled with the decreasing capacity at the State's public institutions of higher education. In order for centers to be productive, they must focus on institutional participation and student enrollment. Exhibit 10 also shows that as more institutions partner with centers, their academic offerings increase, as does student enrollment. An important relationship for the centers continues to be with their local community colleges. The centers should continue to work with the community colleges to develop concurrent or dual enrollment programs and to articulate two-year and four-year programs in order for students to easily transition from community colleges to institutions participating at the centers.

The Secretary should comment on the outlook for regional higher education centers in Maryland.

3. Status of the Office of Civil Rights Agreement

In December 2000, the State of Maryland entered into a five-year partnership agreement with the U.S. Department of Education, OCR to eliminate any remaining vestiges of segregation in Maryland's public colleges and universities, thereby improving the educational opportunities for African American students and ensuring compliance with the State's obligations under federal law. The agreement makes specific commitments to enhance the State's four HBIs: Morgan State University, Bowie State University, Coppin State University, and the University of Maryland Eastern Shore (UMES).

Exhibit 11 shows that since the commencement of the agreement in fiscal 2001, the State has provided \$59.4 million in funds specific to HBIs. The enhancement funds have generally been used for one-time operating costs, while the information technology enhancements and Access and Success funds are for specific activities that help HBIs improve retention and graduation rates. In fiscal 2005, CSU received an additional \$500,000 one-time grant for its revitalization program which addressed the outstanding needs of the school as recognized in the *Toll Commission* report, an independent study that identified an array of operating and facility-related deficiencies. Due to the State fiscal crises, only HBIs were provided with Private Donation Incentive Grant program funds in fiscal 2005. In the fiscal 2006 allowance, \$183,015 in matching has been provided to BSU and CSU, which fully funds the State match. The State match for Morgan was fully funded in fiscal 2004 and for UMES in fiscal 2005.

Exhibit 11
Funding Support Specific to HBIs
Fiscal 2001 – 2006
(\$ in Thousands)

	<u>FY</u> <u>2001</u>	<u>FY</u> <u>2002</u>	<u>FY</u> <u>2003</u>	<u>FY</u> <u>2004</u>	<u>FY 2005</u> <u>Working</u>	<u>FY 2006</u> <u>Allowance</u>	<u>Total</u>
Access/Success ¹	\$3,082	\$4,500	\$6,000	\$6,000	\$6,000	\$6,000	\$31,582
Enhancement Funds	0	0	3,000	5,500	6,000	6,000	20,500
Information Technology Enhancements	0	0	1,600	0	0	0	1,600
Private Donation Incentive Program	0	524 ²	0	3,098	1,050	183	4,855
Campus Master Plan Grant	0	350	0	0	500 ³	0	850
Operating Total	\$3,082	\$5,374	\$10,600	\$14,598	\$13,550	\$12,183	\$59,387

¹Prior to fiscal 2001, \$2 million was provided in each of fiscal 1999 and 2000.

²Includes all payments made through fiscal 2002.

³Includes Coppin State University revitalization funding.

Source: Maryland Department of Budget and Management, State Operating Budget

Language added to the fiscal 2005 budget bill required MHEC to submit a report outlining how Maryland's four HBIs will spend the \$6.0 million in enhancement funds allocated in fiscal 2005 for debt service for HBI capital projects funded by Academic Revenue Bonds (ARBs) and one-time operating expenditures. **Exhibit 12** shows the distribution of enhancement funds among the four HBIs in fiscal 2005. The State has contributed \$14.5 million to date, with \$6 million included in the fiscal 2006 allowance.

Fiscal 2005 Allocation

The enhancement fund appropriation in fiscal 2005 included \$373,259 for debt service to satisfy those payments associated with ARBs previously issued in fiscal 2003 and fiscal 2004. \$1.6 million was allocated for the construction and renovation of facilities and infrastructure at CSU in response to the *Toll Commission* report. This allocation reflected a priority of the OCR agreement to enhance CSU. The remaining \$4.0 million was distributed among the four HBIs based on the following methodology:

- equal distribution (50% of the remaining funds);
- funding guideline attainment (25% of the remaining funds); and
- proportion of FTES enrolled at each institution (25% of the remaining funds).

This methodology is consistent with that used to distribute the fiscal 2004 enhancement funds.

Each plan submitted by HBIs outlined the anticipated use of the funds and their compliance with the mandates of the agreement.

Exhibit 12
OCR Enhancement Funds by Institution
Fiscal 2003 – 2006 Allowance

<u>Institution</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u> <u>Working</u>	<u>FY 2006</u> <u>Allowance*</u>	<u>Total</u>
Bowie	\$437,598	\$1,118,799	\$1,062,755	\$1,062,755	\$3,681,907
Coppin	1,380,590	2,125,000	2,557,792	2,557,792	8,621,174
Eastern Shore	409,637	850,763	949,882	949,882	3,160,164
Morgan	772,175	1,405,438	1,429,571	1,429,571	5,036,755
Total	\$3,000,000	\$5,500,000	\$6,000,000	\$6,000,000	\$20,500,000

*Fiscal 2006 allocation is assumed to be identical to fiscal 2005. MHEC will determine the allocation.

Source: Maryland Higher Education Commission

Bowie State University

- Develop the underlying foundation of enhanced external university support to increase contributions to the university;
- enhance academic programming, support, capacity and infrastructure; and
- enhance the operation of the Division of Student Affairs and Campus Life.

Coppin State University

- Restructure and strengthen academic programs in community health, social work, natural sciences, and computer science;
- enhance student success by fully implementing the recommendations of the 2001 Noel-Levitz enrollment and financial aid study;
- construct and renovate facilities and infrastructure to address the growing campus population and an enhanced mission for CSU;
- leverage information technology to maximize CSU's resources and improve the efficiency of its business processes;
- increase external fundraising as a means to diversify revenue streams and provide additional non-state resources; and
- develop a strong financial base with strategic assistance from the State.

University of Maryland Eastern Shore

- Enhance instruction at both the graduate and undergraduate levels, strengthen the infrastructure for research, and support the development of faculty;

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- enhance technology infrastructure to help improve the efficiency and effectiveness of UMES operations;
- support in the area of recruitment materials, publications, audiovisual presentations, travel, and other related costs;
- enhance institutional advancement to support solicitation efforts, publications, potential donor research reports, audiovisual presentations, and development consultancy; and
- support for new Social Science, Education and Health Sciences building.

Morgan State University

- Reimburse for principal and interest payments for the boiler plant project;
- pay off outstanding cost-of-network upgrade installation;
- purchase, consulting, and training costs associated with implementation of Banner software; and
- purchase instructional equipment to enable the Dixon Science Research Facility and Greenhouse to be fully functional.

For the past three years, the General Assembly has required MHEC to submit a report on how the HBI enhancement funds will be allocated to HBIs and how the funds will be spent. DLS recommends that this language again be added to the budget. **DLS recommends the following budget bill language restricting expenditure of fiscal 2006 HBI enhancement funds until MHEC submits a report detailing how the funds will be spent:**

,provided that \$6,000,000 in general funds designated to enhance the State's four 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.

In addition, DLS is concerned that HBIs are using enhancement funds for ongoing expenses rather than one-time expenditures for enhancements. In September 2004, DLS reviewed a report on how HBIs spent the enhancement funds awarded in fiscal 2004. DLS has some concern that Bowie State University is spending much of its enhancement funds on what could be considered ongoing expenses, such as library subscriptions, contractual personnel for institutional support, and student services activities, rather than one-time expenses. **DLS recommends that the General Assembly add language to the budget bill clarifying that funds may not be expended for ongoing operating expenses.**

Exhibit 13 shows the capital projects for HBIs during the five-year period related to the State's OCR commitment. Capital funding is an area where the timing of the OCR agreement affects the dates of funding. The agreement was signed in December 2000, which meant that fiscal 2002 was the first year the budget would include special capital funding. As the exhibit shows many of the projects were outlined in the OCR agreement. For CSU, a number of projects are funded through GO bonds and ARBs totaling \$101.1 million.

Exhibit 13
State Authorizations for Capital Projects
Maryland's Historically Black Institutions
Fiscal 2002 – 2006

<u>Institution/Project</u>	<u>FY 2002 Authorization</u>	<u>FY 2003 Authorization</u>	<u>FY 2004 Authorization</u>	<u>FY 2005 Authorization</u>	<u>FY 2006 Allowance</u>	<u>FY 2002-2006 Total</u>
Bowie State University						
Campuswide Site Improvements*	\$2,700,000	\$1,300,000	\$0	\$0	\$0	\$4,000,000
New Science Building*	1,200,000	0	0	0	0	1,200,000
Center for Business & Graduate Studies	0	550,000	949,000	17,550,000	2,000,000	21,049,000
New Fine and Performing Arts Building	0	0	0	0	1,500,000	1,500,000
Facilities Renewal Projects	417,429	487,000	414,000	487,000	378,000	2,183,429
BSU Total	\$4,317,429	\$2,337,000	\$1,363,000	\$18,037,000	\$3,878,000	\$29,932,429
Coppin State University						
Miles Connor Administration Building Renovation*	\$1,500,000	\$0	\$0	\$1,829,000	\$0	\$3,329,000
New Dining Facilities*	3,500,000	1,500,000	0	0	0	5,000,000
Lutheran Hospital Site Acquisition/Demolition*	800,000	0	0	0	0	800,000
Grace Jacobs Building, Elevator Addition and Upgrade*	0	0	0	3,375,000	0	3,375,000
New Physical Education Complex*	0	0	0	2,704,000	3,983,000	6,687,000
Telecommunications/Information Technology Upgrade*	3,500,000	2,500,000	1,250,000	2,500,000	0	9,750,000
Northwest Business Center Property Acquisition*	0	0	8,000,000	0	0	8,000,000
Campuswide Utilities/Security System Improvements*	0	0	285,000	9,440,000	0	9,725,000
New Health & Human Services Building*	0	1,100,000	3,750,000	0	47,587,000	52,437,000
Facilities Renewal Projects*	687,714	359,000	305,000	359,000	279,000	1,989,714
CSC Total	\$9,987,714	\$5,459,000	\$13,590,000	\$20,207,000	\$51,849,000	\$101,092,714
University of Maryland Eastern Shore						
Renovate Waters Dining/Somerset Halls*	\$7,145,000	\$587,000	\$0	\$0	\$0	\$7,732,000
New Food Science & Technology Center*	4,450,000	1,300,000	0	0	0	5,750,000
Utilities Upgrade & Site Improvements	0	390,000	6,100,000	0	0	6,490,000
New Social Science, Education & Health Science Building*	21,600,000	5,365,000	4,729,000	3,063,000	0	34,757,000
New Physical Plant/Central Receiving Bldg*	6,850,000	972,000	458,000	0	0	8,280,000
Facilities Renewal Projects	483,429	714,000	479,000	564,000	438,000	2,678,429
UMES Total	\$40,528,429	\$9,328,000	\$11,766,000	\$3,627,000	\$438,000	\$65,687,429

<u>Institution/Project</u>	<u>FY 2002 Authorization</u>	<u>FY 2003 Authorization</u>	<u>FY 2004 Authorization</u>	<u>FY 2005 Authorization</u>	<u>FY 2006 Allowance</u>	<u>FY 2002-2006 Total</u>
Morgan State University						
New Communications Center & Bridge*	\$1,192,000	\$18,414,000	\$0	\$0	\$718,000	\$20,324,000
Northwood Shopping Center Acquisition	300,000	0	0	5,700,000	0	6,000,000
Science Research Building with Greenhouse*	2,750,000	5,810,000	0	0	0	8,560,000
Steam Boiler Replacement & Central Heating Plant	0	4,110,000	0	0	0	4,110,000
Campuswide Site Improvements	2,252,000	0	2,275,000	696,000	200,000	5,423,000
New Library	1,962,000	0	48,968,000	0	2,952,000	53,882,000
Montebello E-Wing/Old Power Plant Demolition*	0	0	0	0	920,000	920,000
Campuswide Utilities Upgrade	0	0	7,703,000	489,000	6,085,000	14,277,000
Banneker Hall Renovation/Telecommunication Infra.	0	0	900,000	1,367,000	23,124,000	25,391,000
MSU Total	\$8,456,000	\$28,334,000	\$59,846,000	\$8,252,000	\$33,999,000	\$138,887,000
Total HBIs	\$63,289,572	\$45,458,000	\$86,565,000	\$50,123,000	\$90,164,000	\$335,599,572

*Projects outlined in the OCR agreement.

Bold: Projects outlined in the Coppin Revitalization Plan.

Includes all funding sources (GO, ARB, GF, and SF).

Source: Maryland Higher Education Commission

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Maryland has made a commitment to provide enhanced funding through operating funds or capital project funding over a five-year period ending with fiscal 2006. The enhancement funds will eventually be used to pay the debt service on the ARBs for capital projects over the next 20 years until the debt is retired. When there is no debt service or when only a portion of the funds is needed to pay the debt service, funds will be available for enhancements. In 2005, the General Assembly converted all ARBs into GO bonds for HBIs.

The Partnership Agreement is scheduled to end December 31, 2005. By May 2006, the State and OCR will determine whether or not the commitments of the agreement have been met. The determination will result in one of three possible outcomes: an OCR acknowledgement that the State's obligations have been met, another agreement between Maryland and OCR, or a judicial investigation for noncompliance.

The Department of Legislative Services is concerned that institutions are using enhancement funds for ongoing expenses that will continue after fiscal 2006. The Secretary should comment on the upcoming review of the State's progress in meeting OCR commitments.

4. Fall Enrollment Data Needed for Better Measure of General Funds Per Student

Formula aid for independent institutions, community colleges, and Baltimore City Community College is calculated based in large part on the general fund aid per full-time equivalent student (FTES) at selected public four-year institutions in the prior year (i.e. fiscal 2006 formula grants reflect fiscal 2005 aid per FTES at selected four-year public institutions). Customarily, USM enrollment data from the Governor's Budget Books are used to calculate the measure of general funds per FTES. In the fiscal 2005, the budget books understated enrollment, causing the general fund per FTES number to be overstated, which in turn inflated the general funds allocated to community colleges and independent institutions. Use of actual fall enrollment data would provide a more accurate measure in determining general funds for community colleges and independent institutions in fiscal 2006. Furthermore, in light of the University System of Maryland's efficiency initiative to enroll 2,400 more students over the next three years at no additional cost to the State, budgeted enrollment will not reflect actual enrollment in fiscal 2006 to 2008.

Exhibit 14 illustrates how the Sellinger appropriation would be calculated using the enrollment data in the fiscal 2005 budget book and MHEC's opening fall 2004 enrollment data. The MHEC fall 2004 data reflect enrollment numbers submitted by the State's colleges and universities. The enrollment figures are based on the number of students enrolled by November 15, the last date on which 2004 enrollment figures are reported. As the exhibit shows, the aid per FTES based on figures in the budget book are higher than aid per FTES based on MHEC's fall 2004 figures. The mandated appropriation using MHEC data is \$43.5 million compared to the \$46.3 million included in the allowance. The Governor's allowance after the proposed contingent reduction provides only \$36.2 million.

Exhibit 14
Comparison of Sellinger Appropriation Using Governor’s Budget Book and MHEC Opening Enrollment Data

Mandated Appropriation

	FY 2005 Budget Book <u>Enrollment</u>	FY 2005 MHEC Opening <u>Enrollment</u>
Four-year Appropriation	\$611,179,350	\$611,179,350
Public FTES	80,196	85,344
Appropriation per Four-year FTES	\$7,621.07	\$7,161.36
Sellinger Formula Percentage	16.00%	16.00%
Sellinger Aid per FTES	\$1,219.37	\$1,145.82
Private FTES (Sellinger Schools)	38,006.78	38,006.78
Appropriation	\$46,300,000	\$43,548,929

Note: MHEC opening enrollment data converted into FTES.

Source: Governor’s Fiscal 2005 Budget Book; Maryland Higher Education Commission

DLS recommends that a provision be adopted in budget reconciliation legislation to require opening fall enrollment from the prior year to be used to determine the general fund per full-time equivalent student figure used in calculating the aid formulas for community colleges, Baltimore City Community College, and nonpublic institutions.

Recommended Actions

	<u>Amount Reduction</u>		<u>Position Reduction</u>
1. Delete two positions that have been vacant for more than 12 months.	\$ 113,856	GF	2.0
2. Delete one of three Assistant Secretary positions to encourage administrative efficiency. The commission currently has three assistant secretary positions, one of which is vacant. The duties of the abolished position can be assumed within existing resources.	121,518	GF	1.0
3. Delete one position to recognize savings from the consolidation of the Legislative Affairs and Communications units. This action will leave three positions to support the legislation and communication function.	87,987	GF	1.0
4. Reduce Sellinger program aid to nonpublic institutions.	5,000,000	GF	
5. Add the following language: <u>provided that \$6,000,000 in general funds designated to enhance the State’s four 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.</u>			
Explanation: This language restricts the expenditure of funds until the commission reports to the budget committees on the plans for spending funds designated to enhance the State’s four historically black institutions.			
Information Request	Author	Due Date	
Enhancement expenditure report	MHEC	July 1, 2005	
	<u>Amount Reduction</u>		<u>Position Reduction</u>
6. Delete funding for the University of Maryland Baltimore County School of Aging Studies.	2,500,000	GF	
Total General Fund Reductions	\$ 7,823,361		4.0

Current and Prior Year Budgets

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

Fiscal 2004	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Legislative Appropriation	\$55,494	\$671	\$2,836	\$497	\$59,498
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	83	0	4	0	87
Cost Containment	-1,712	0	0	0	-1,712
Reversions and Cancellations	0	-606	-1,595	-295	-2,496
Actual Expenditures	\$53,865	\$65	\$1,245	\$202	\$55,377
Fiscal 2005					
Legislative Appropriation	\$57,615	\$347	\$2,818	\$211	\$60,991
Budget Amendments	53	44	0	0	97
Working Appropriation	\$57,668	\$391	\$2,818	\$211	\$61,088

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

Fiscal 2004

MHEC's general funds were reduced \$1.7 million in fiscal 2004 through the Governor's July 2003 cost containment action. The cost containment measures included:

- \$382,073 from the Administration due to three regular positions reduced, two contractual positions eliminated, and reductions in postage and printing costs.
- \$56,250 in the College Preparation/Intervention Program to reduce the amount of direct services to students and the same amount of federal matching funds.
- \$1,273,632 in the Sellinger program to reduce aid to nonpublic institutions by 4%.

Budget amendments increased general funds by \$83,000 to realign general fund appropriations within various programs to reflect actual expenditures associated with Educational Grants.

Budget amendments increased federal funds by \$4,143 due to an increase in the Improving Teacher Quality grant to reflect the amount of increase of the award over the original estimate.

Special funds were reduced because of cancellations due to:

- \$280,785 in special funds was cancelled because of excess appropriation for the Guaranteed Student Tuition Fund.
- \$325,270 in the Educational Grants-Digital Library Non-state Institutions Program were cancelled because funds were paid directly to the University of Maryland rather than funneled through MHEC as previously done.

Federal funds were reduced by \$1.6 million because of cancellations primarily due to:

- \$177,393 in the Veterans Dependency and Indemnity Compensation Grant, Gear-Up, and Improving Teacher Quality Administration grants were cancelled because of unexpended appropriations.
- \$1,350,400 for the Gaining Early Awareness and Readiness Through Undergraduate Programs was canceled when the grant was discontinued, save the administration costs.
- \$28,151 of the Educational Grants-Improving Teacher Quality grant was in excess of revenues.

Reimbursable funds were cancelled by \$294,730 in the Educational Grants-Digital Library Support-State Institutions program because the appropriation was in excess of revenues, and the funds are no longer funneled through MHEC.

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Fiscal 2005

Additional general funds cover costs associated with the fiscal 2005 general salary increase for State employees.

A budget amendment added \$44,011 to special funds to print a Spanish version of the Student Guide to Higher Education and Financial Aid in Maryland.

Appendix 2

Audit Findings

Audit Period for Last Audit:	July 1, 2000 – January 31, 2003
Issue Date:	October 2003
Number of Findings:	5
Number of Repeat Findings:	3
% of Repeat Findings:	60%
Rating: (if applicable)	

Finding 1: MHEC did not routinely verify family income reported by students who received need-based scholarships.

Finding 2: Independent verifications were not performed to ensure the propriety of critical changes made to the automated financial aid records.

Finding 3: MHEC did not ensure that student financial aid payments made to institutions of higher education were proper.

Finding 4: Cash receipts were not adequately controlled.

Finding 5: MHEC did not adequately verify the propriety of payments made to community colleges applicable to employer retirement contributions.

*Bold denotes item repeated in full or part from preceding audit report.

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

<u>Object/Fund</u>	<u>FY04 Actual</u>	<u>FY05 Working Appropriation</u>	<u>FY06 Allowance</u>	<u>FY05 - FY06 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	74.60	73.60	73.60	0	0%
02 Contractual	3.00	1.00	1.00	0	0%
Total Positions	77.60	74.60	74.60	0	0%
Objects					
01 Salaries and Wages	\$ 4,608,799	\$ 5,065,639	\$ 4,972,647	-\$ 92,992	-1.8%
02 Technical & Spec Fees	211,420	128,470	138,022	9,552	7.4%
03 Communication	114,625	204,794	132,207	-72,587	-35.4%
04 Travel	16,418	32,767	18,074	-14,693	-44.8%
06 Fuel & Utilities	31,610	36,000	49,043	13,043	36.2%
07 Motor Vehicles	23,081	1,009	3,400	2,391	237.0%
08 Contractual Services	463,451	560,509	481,769	-78,740	-14.0%
09 Supplies & Materials	47,844	54,189	49,520	-4,669	-8.6%
10 Equip - Replacement	93,196	75,688	25,692	-49,996	-66.1%
11 Equip - Additional	52,035	9,340	0	-9,340	-100.0%
12 Grants, Subsidies, and Contributions	48,827,580	54,243,100	66,997,453	12,754,353	23.5%
13 Fixed Charges	888,317	677,216	677,020	-196	0%
Total Objects	\$ 55,378,376	\$ 61,088,721	\$ 73,544,847	\$ 12,456,126	20.4%
Funds					
01 General Fund	\$ 53,865,205	\$ 57,668,224	\$ 71,561,681	\$ 13,893,457	24.1%
03 Special Fund	65,407	390,704	312,469	-78,235	-20.0%
05 Federal Fund	1,245,501	2,818,484	1,489,816	-1,328,668	-47.1%
09 Reimbursable Fund	202,263	211,309	180,881	-30,428	-14.4%
Total Funds	\$ 55,378,376	\$ 61,088,721	\$ 73,544,847	\$ 12,456,126	20.4%

Note: The fiscal 2005 appropriation does not include deficiencies, and the fiscal 2006 allowance does not reflect contingent reductions.

**Fiscal Summary
Maryland Higher Education Commission**

<u>Program/Unit</u>	<u>FY04 Actual</u>	<u>FY05 Wrk Approp</u>	<u>FY06 Allowance</u>	<u>Change</u>	<u>FY05 - FY06 % Change</u>
01 General Administration	\$ 6,619,009	\$ 7,172,415	\$ 6,851,759	-\$ 320,656	-4.5%
02 College Prep/Intervention Program	654,909	2,100,400	750,000	-1,350,400	-64.3%
03 Joseph A. Sellinger Program for Aid to Non-Public	31,475,395	35,514,076	46,330,265	10,816,189	30.5%
07 Educational Grants	13,531,113	15,122,014	16,936,823	1,814,809	12.0%
30 Private Donation Incentive Grants	3,097,950	1,179,816	2,676,000	1,496,184	126.8%
Total Expenditures	\$ 55,378,376	\$ 61,088,721	\$ 73,544,847	\$ 12,456,126	20.4%
General Fund	\$ 53,865,205	\$ 57,668,224	\$ 71,561,681	\$ 13,893,457	24.1%
Special Fund	65,407	390,704	312,469	-78,235	-20.0%
Federal Fund	1,245,501	2,818,484	1,489,816	-1,328,668	-47.1%
Total Appropriations	\$ 55,176,113	\$ 60,877,412	\$ 73,363,966	\$ 12,486,554	20.5%
Reimbursable Fund	\$ 202,263	\$ 211,309	\$ 180,881	-\$ 30,428	-14.4%
Total Funds	\$ 55,378,376	\$ 61,088,721	\$ 73,544,847	\$ 12,456,126	20.4%

Note: The fiscal 2005 appropriation does not include deficiencies, and the fiscal 2006 allowance does not reflect contingent reductions.