
University System of Maryland Fiscal 2008 Budget Overview

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

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Analysis of the FY 2008 Maryland Executive Budget, 2007

R30B00
University System of Maryland
Fiscal 2008 Budget Overview

Operating Budget Data

(\$ in Thousands)

	FY 06	FY 07	FY 08	FY 07-08	% Change
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>	<u>Prior Year</u>
General Funds	\$811,588	\$933,537	\$997,137	\$63,600	6.8%
Other Unrestricted Funds	1,757,768	1,859,140	1,908,748	49,608	2.7%
Total Unrestricted Funds	2,569,356	2,792,677	2,905,885	113,208	4.1%
Restricted Funds	831,002	914,010	924,520	10,510	1.1%
Total Funds	\$3,400,358	\$3,706,687	\$3,830,405	\$123,718	3.3%

- General funds increase \$63.6 million, or 6.8% in the fiscal 2008 allowance. Health insurance costs decline due to one-time savings of \$26.5 million. Adjusting for the one-time savings results in the University System of Maryland (USM) having an additional \$90.1 million in general funds available for fiscal 2008, an underlying growth of 10% over fiscal 2007.
- In terms of total funds, the USM budget increases 3.3%. However, the one-time savings in health insurance results in an additional \$40.5 million in total funds. When including this amount, the underlying growth in USM's total budget is 4.5%.
- Other unrestricted funds grow mostly from a tuition and fee revenue increase of \$28.9 million, which is 2.8% above the fiscal 2007 level. This modest increase assumes a freeze in undergraduate resident tuition rates at USM institutions.

Personnel Data

	FY 06	FY 07	FY 08	FY 07-08
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>
Regular Positions	19,710.63	20,768.99	21,217.48	448.49
Contractual FTEs	<u>4,954.62</u>	<u>5,132.23</u>	<u>5,428.22</u>	<u>295.99</u>
Total Personnel	24,665.25	25,901.22	26,645.70	744.48

Vacancy Data: Regular Positions

- The fiscal 2008 allowance includes 448 additional regular positions and 296 additional contractual positions.
- The total USM workforce increases 2.9% over fiscal 2007.

Analysis in Brief

Major Trends

Teacher Education Program Enrollment Stabilizes; Teacher Employment in Maryland Increases: The number of enrolled students in teaching programs slightly increased. The number of employed teachers increased for a second consecutive year.

Enrollment of Nursing Students Dips; Students Graduated and Employed as Nurses in Maryland Increases: The number of students enrolled in nursing programs decreased following at least four years of steady increases. The number of nurses graduating increased.

Retention Gap Increases to Widest in at Least Five Years; Graduation Gap Decreases: The increase in the gap between retention rates is due to continued fluctuation of the retention rate of African American students. However, the gap between graduation rates for African American students and all students has decreased. Graduation rates for all students and African American students are at the highest level in at least five years.

Issues

Cost of Additional Students: In fiscal 2007, USM received general funds on a per student basis to fund enrollment growth. The Department of Legislative Services has calculated a per student cost that accounts for the actual cost of adding a student to an institution. This method of funding enrollment growth differs from USM's method, which is generally based on the average general funds per full-time equivalent student.

In-state Tuition Frozen for Second Year; Modest Fee Increases at Most Institutions: The fiscal 2008 allowance provides \$15.4 million in general funds to freeze resident undergraduate tuition rates for the second consecutive year. However, mandatory fees have increased. Therefore, the total tuition and fees that a student is paying at a USM institution will increase, on average, 1.5% over fiscal 2007.

Growth Institutions of USM: Three USM institutions have been identified as growth institutions, University of Maryland University College, Salisbury University, and Towson University. When compared to other USM institutions, these institutions have the space capacity to grow. However, the current amount of on-campus housing may not accommodate growth.

Efficiency Initiative at USM: In 2004, USM completed a study to improve the efficiency and effectiveness of its institutions to reduce costs and accommodate future enrollment growth. The academic related efficiencies are expected to decrease time to degree and increase faculty workload. USM has also recently started an effort to redesign large courses to be more cost efficient and to create an improved learning environment.

Personnel Study Continues: In looking at changes since fiscal 2002, contractual employees now exceed the 2002 level prior to cost containment measures. Regular positions remain above the fiscal 2002 level for the second year and will continue to rise since the fiscal 2008 allowance provides an additional 448 regular positions. Also, the composition of personnel has changed since 2002, with research personnel share increasing and the share for most other programs decreasing.

Recommended Actions

1. Add language that would reduce general funds to be used for enhancements.
2. Add budget bill language restricting funds to be used for transfer to fund balance only.
3. Add language that would reduce general funds for enrollment growth.
4. Adopt narrative requesting that the University System of Maryland institutions with nursing programs report the total number of applicants to the nursing program and the number of qualified applicants denied admission to the program.
5. Adopt narrative requesting continued reporting on the efficiency initiative's fiscal effects and implementation.
6. Adopt narrative requesting continued reporting on faculty workload.

Updates

Residency Policy Modified to Accommodate Actions of Base Realignment and Closure Commission (BRAC): The Board of Regents approved a proposal to waive the one-year residency requirement for civilian employees and relocating defense contractors that come to Maryland as a result of the BRAC decision to transfer additional operations to several Maryland bases.

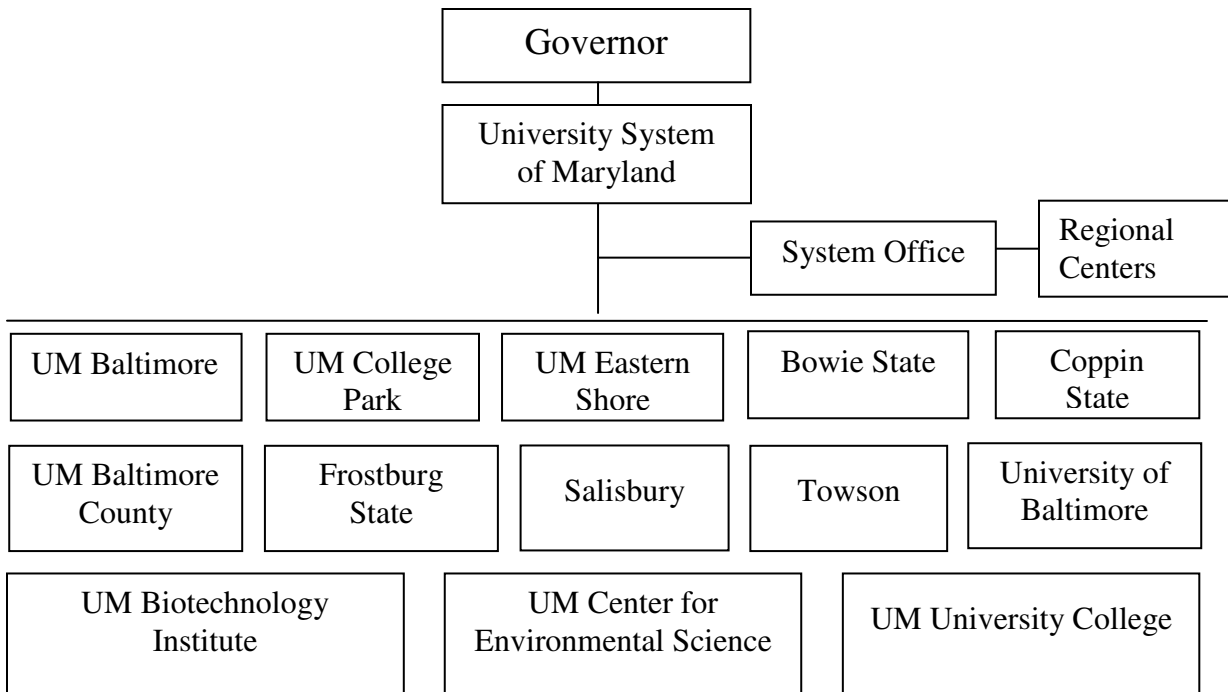
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Program Description

Title 12 of the Education Article establishes the University System of Maryland (USM) to “foster the development of a consolidated system of public higher education, to improve the quality of education, to extend its benefits, and to encourage the economical use of the State’s resources.” USM consists of 11 degree-granting institutions, 2 research centers, and the system office which operates 2 regional higher education centers. **Exhibit 1** illustrates the structure of the system.

Exhibit 1
University System of Maryland



Source: Department of Legislative Services

The Board of Regents is the governing body of USM. The board consists of 17 members, including the Secretary of Agriculture (ex officio); the Secretary is the only member not appointed by the Governor with the advice and consent of the Senate. The board appoints the Chancellor, who serves as the chief executive officer of the system and the chief of staff to the board. The Chancellor and staff coordinate system planning; advise the board of systemwide policy; coordinate and arbitrate among system institutions; and provide technical, legal, and financial assistance.

The board reviews, modifies, and approves a system strategic plan developed by the Chancellor in consultation with institution presidents. The board is charged with assuring that programs offered by the institutions are not unproductive or unreasonably duplicative. Other board activities include review and approval of new programs, review of existing programs, setting minimum admission standards, and determining guidelines for tuition and fees. The board is supposed to monitor the progress of each system institution toward approved goals and hold each president accountable for the progress. The board may delegate any of its responsibilities to the Chancellor.

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

- create and maintain a well-educated workforce;
- promote economic development;
- increase access for economically disadvantaged and minority students; and
- achieve and sustain national eminence in providing quality education, research, and public service.

Performance Analysis: Managing for Results

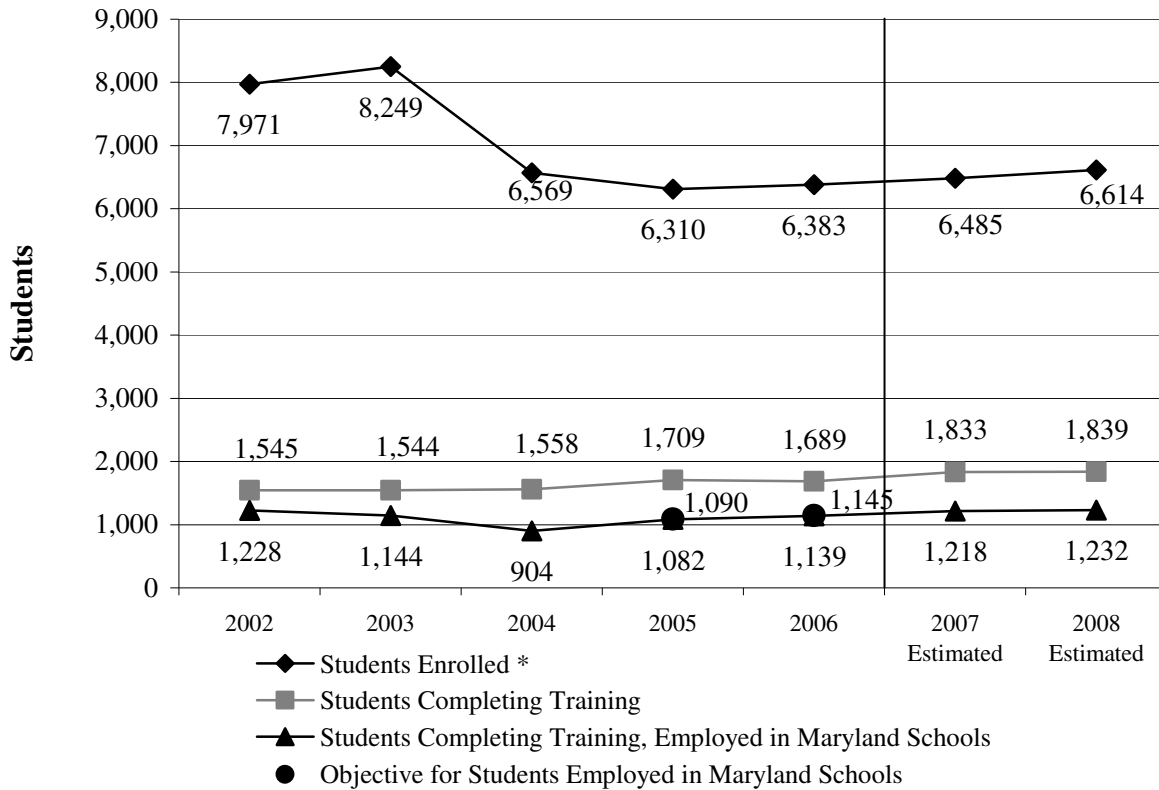
One of USM's goals is to produce a well-educated workforce. Total undergraduate enrollment at USM institutions decreased from 93,590 in fiscal 2005 to 92,977 in 2006. However, the number of bachelor's degree recipients increased from 17,783 to 18,030 during the same time frame.

Teacher Education Program Enrollment Stabilizes; Teacher Employment in Maryland Increases

As part of USM's efforts to produce a well-educated workforce, USM has the goal to increase the number of graduates employed in areas that have a shortage of workers. Of particular importance are teaching and nursing. Nine USM institutions offer teacher education programs. The State Department of Education estimates that local school systems will need approximately 13,000 new teachers by 2007.

Exhibit 2 shows the number of USM students enrolled in and graduating from teacher education programs. The exhibit also shows the number of graduates that are employed in Maryland schools. It is important to note that in fiscal 2004, some institutions changed the definition of an enrolled student to include only those that are officially accepted into the program. However, despite this change, the exhibit shows that, systemwide in fiscal 2005 and 2006, the number of enrolled students declined from the revised fiscal 2004 base enrollment. The decline is attributed to decreased enrollment at four institutions: University of Maryland, College Park (UMCP), University of Maryland Baltimore County (UMBC), Salisbury University (SU), and Bowie State University (BSU). For instance, at SU there was a delay in constructing a new education facility, which USM reports negatively affected enrollment. Similarly, UMCP has restructured its education program by downsizing elementary education and increasing its secondary education program, as well as by creating alternative ways for students to become teachers. USM reports that this reconfiguration has temporarily led to decreased enrollment.

Exhibit 2
USM Students Enrolled in and Graduating from Teaching Training Programs
Employed in Maryland Public Schools
Fiscal 2002-2008



*Beginning fiscal 2004, student enrollment data reflect a revised definition and count of masters/post-baccalaureate teacher education students at some USM institutions. For instance, Towson University now only includes those students officially accepted into the program.

Source: Governor’s Budget Books, Fiscal 2008

However, after this decline, the number of students enrolled in teacher education programs at USM institutions has stabilized and even increased slightly. Enrollment stands at 6,383 in fiscal 2006 and is predicted to increase slightly to 6,614 by fiscal 2008. The number of students completing training has remained stable from fiscal 2005 to 2006 at approximately 1,700 students.

USM's estimate of the number of students completing training and employed in Maryland schools has been fairly accurate. The actual number has varied from the estimate by no more than eight students in fiscal 2005 and 2006. While the number of graduates employed in Maryland schools has declined since fiscal 2002, increases have occurred for the last two years. Currently, 1,139 graduates of USM teacher education programs are employed at Maryland schools.

To better understand this Managing for Results (MFR) measure, the Department of Legislative Services (DLS) conducted an informal survey in 2006 of the public four-year institutions with education programs to gather data on the number of applicants, the number of qualified applicants, the number of admitted applicants, and the number of applicants that decided to enroll in the teacher education program at that institution. DLS also included in the survey the admissions practices of the programs. In general, DLS found that institutions do not cap the number of candidates they will accept into teacher education programs. Thus, any qualified applicant who wants to enroll in the teacher education program is admitted. The exception is if the content area within the program has not been designated as a shortage area, as determined by the State Department of Education, the program may be capped. If the content area is a shortage area, the program is not capped. This information suggests that, in general, the capacity of the public teacher education programs is not a barrier to increasing teacher education enrollment and other initiatives may be needed to attract more students to a teaching career in Maryland. This general conclusion is affirmed in *A Study of the Capacity of Maryland's Teacher Preparation Programs* completed by the Maryland Higher Education Commission (MHEC) in March 2006. This report states that, with existing resources, the State's teacher education programs could accommodate an additional 2,700 students.

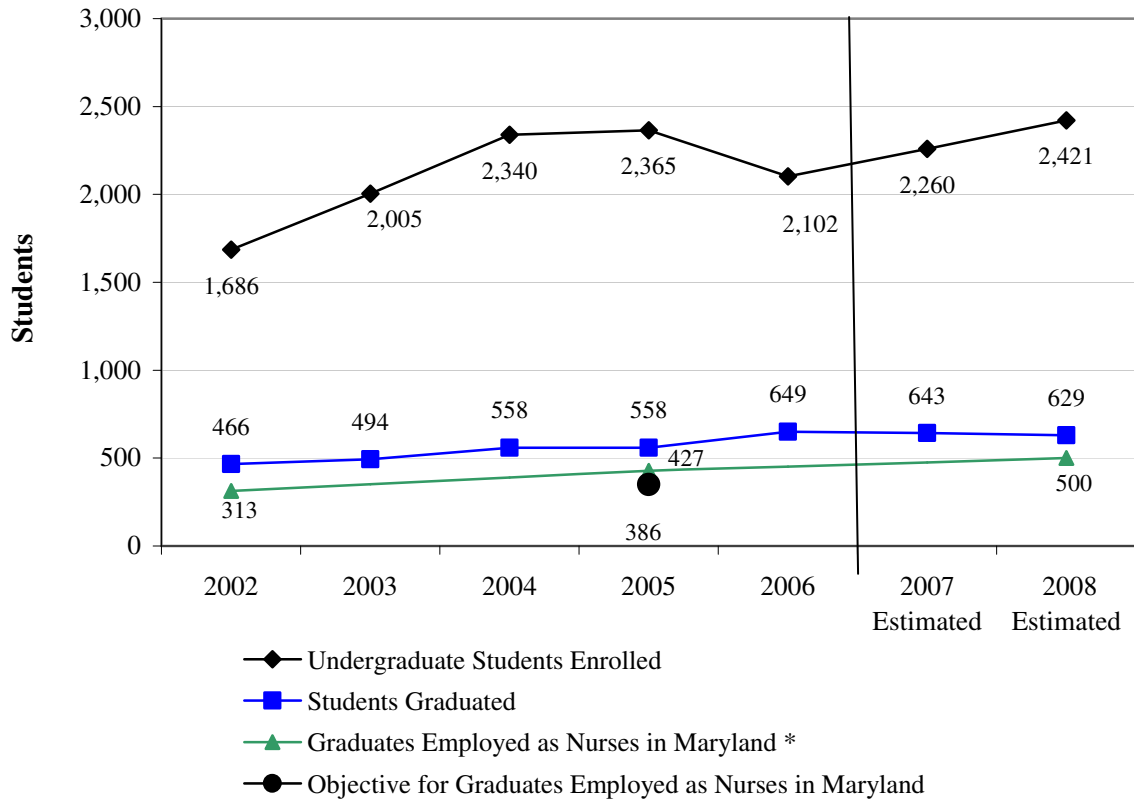
The Chancellor should comment on efforts at USM institutions to increase new enrollment as well as retention of students already enrolled in teacher education programs.

Enrollment of Nursing Students Dips; Students Graduated and Employed as Nurses in Maryland Increases

Nursing is another workforce shortage area in Maryland. There are five USM institutions with undergraduate nursing programs. In September 2006, MHEC, in collaboration with the Maryland Board of Nursing, published the *Maryland Nursing Program Capacity Study*. The study projected that there will be a need for 68,695 nurses by 2012 and 74,611 nurses by 2016. Depending on the method of projection, the gap between the demand for nurses and the supply of nurses in 2016 is between 2,512 and 15,536 nurses.

For the first time since at least fiscal 2002, the number of undergraduate students enrolled in nursing programs at USM institutions has declined, as shown in **Exhibit 3**. Specifically, there were 2,365 students enrolled in fiscal 2005, and there are 2,102 students enrolled in 2006. USM attributes this to an anticipated decrease in undergraduate enrollment at University of Maryland, Baltimore (UMB) and Coppin State University (CSU). The drop at UMB results from the two-year phase out of the accelerated Bachelor’s of Science in Nursing program in which students had a four-year degree in a non-nursing field. Instead, these students are now being enrolled in a master’s program and are not reflected in the undergraduate data. UMB’s graduate nursing enrollment has increased from 609 in fall 2004, to 640 in fall 2005 and is projected to reach 788 in fall 2006. USM reports that, although CSU was unable to pinpoint an exact cause of the drop in its nursing enrollment, it may be because enrollment had increased significantly for several prior years and the program may now be at capacity. However, CSU is constructing a new health sciences building scheduled to be complete in 2008. This will allow the program to expand.

Exhibit 3
USM Undergraduate Students Enrolled in and Graduating from
Undergraduate Nursing Programs Employed as Nurses in Maryland
Fiscal 2002-2008



*Data from a triennial survey of recent graduates conducted by MHEC.

Source: Governor’s Budget Books, Fiscal 2008

Corresponding to the prior years of enrollment increases, the number of students graduating from a nursing program has been steadily increasing as well. Currently, 649 students have graduated, 91 more than in fiscal 2005. Overall, the number of students graduating has increased 40% since fiscal 2002.

The Maryland Higher Education Commission conducts a graduate survey every three years. The survey measures the number of nursing graduates employed as nurses in Maryland. The last survey, conducted in fiscal 2005, indicated that 427 recently graduated nurses were employed in Maryland. This is 36% more than in the fiscal 2002 survey. USM's goal is for this measure to exceed 500 in the fiscal 2008 survey.

DLS conducted an informal survey in 2006 of the USM institutions with nursing programs. The survey evaluated the number of applicants to the nursing programs, the number of qualified applicants, and the number of applicants admitted from fall 2001 to fall 2005. Although the institutions' ability to provide this data varied, the general results showed that while the number of applications and the number of qualified applicants have increased since fall 2001, the number of accepted applicants has remained steady. Primarily, this is due to the lack of capacity for the programs to accept more students.

The *Maryland Nursing Program Capacity Study* indicated that in fall 2005 there were 4,916 qualified applicants for either an associate degree program, a registered nurse to bachelor of science degree program, or a bachelor of science degree program at all of Maryland's higher education institutions, including community colleges and private institutions. Of this number, 2,357 qualified applicants were not admitted.

The Chancellor should comment on USM institution's efforts to increase the capacity of nursing programs.

DLS recommends that four-year public higher education institutions with nursing education programs include the number of qualified applicants denied admission to the program in their Managing for Results.

Economic Development Activities

Another goal of USM is to promote economic development. Currently, USM reports the number of companies that graduate from incubator programs at UMCP and UMBC. UMB and Towson (TU) have recently begun incubator programs. However, they have not yet been incorporated into the MFR measure because it takes several years to build a program and for companies to graduate.

USM's goal is to graduate at least five companies every year. Although USM met this goal for fiscal 2005, only three companies graduated in fiscal 2006. This was not unexpected. USM reports that this is because a company at UMCP had grown so large that this restricted new companies from moving in. However, additional companies have recently moved in. Since the incubation period is typically two to three years, it is anticipated that this measure will rise in the near future.

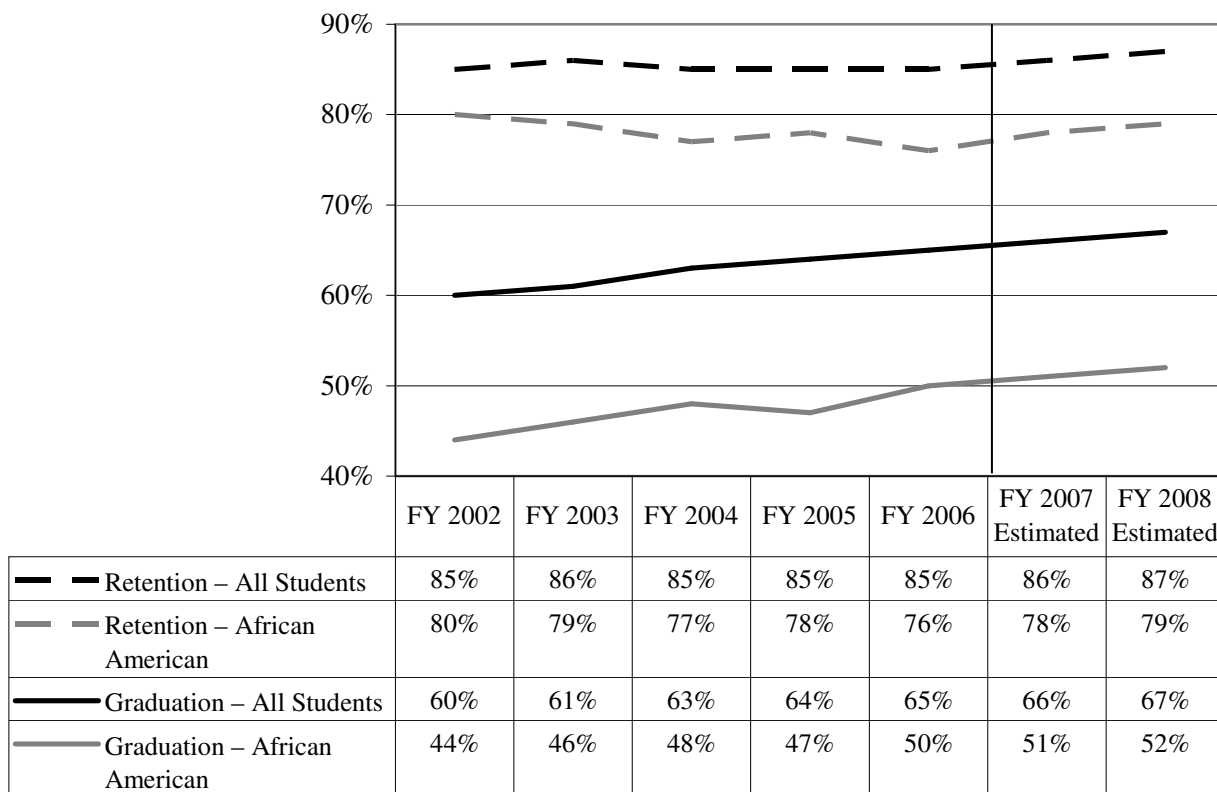
Retention Gap Increases to Widest in at Least Five Years; Graduation Gap Decreases

The third goal of USM is to increase access for economically disadvantaged and minority students. Systemwide, 41% of students are classified as economically disadvantaged. This number includes all institutions except for BSU, which did not report this measure. USM has the objective for this to reach 45% by fiscal 2009.

USM also tracks the retention and graduation rates of their students. **Exhibit 4** shows the two-year retention and six-year graduation rates for all students and African American students. The retention rate for all students is holding steady at 85%. However, the retention rate for African American students continues to fluctuate and has fallen from 78% in fiscal 2005 to 76% in 2006. In fact, the African American retention rate has generally decreased since fiscal 2002 when 80% of African American students were retained after the first year of attending a USM institution. The gap in retention rates has therefore increased from five percentage points in 2002 to nine percentage points in 2006. USM had expected this gap to decrease as a result of recruitment and retention programs put in place at institutions several years ago.

The graduation rate for all students has been steadily increasing since at least fiscal 2002 and was 65% in fiscal 2006. Generally speaking, the graduation rate for African American students has also been increasing. It did experience a decline in fiscal 2005, but as expected, it increased in fiscal 2006 to the highest level since at least fiscal 2002. The rate was 44% in 2002 and was 50% in 2006. The gap in graduation rates has decreased to 15 percentage points, the same as in fiscal 2003 and 2004.

Exhibit 4
USM Retention and Graduation Rates
All Students and African American Students



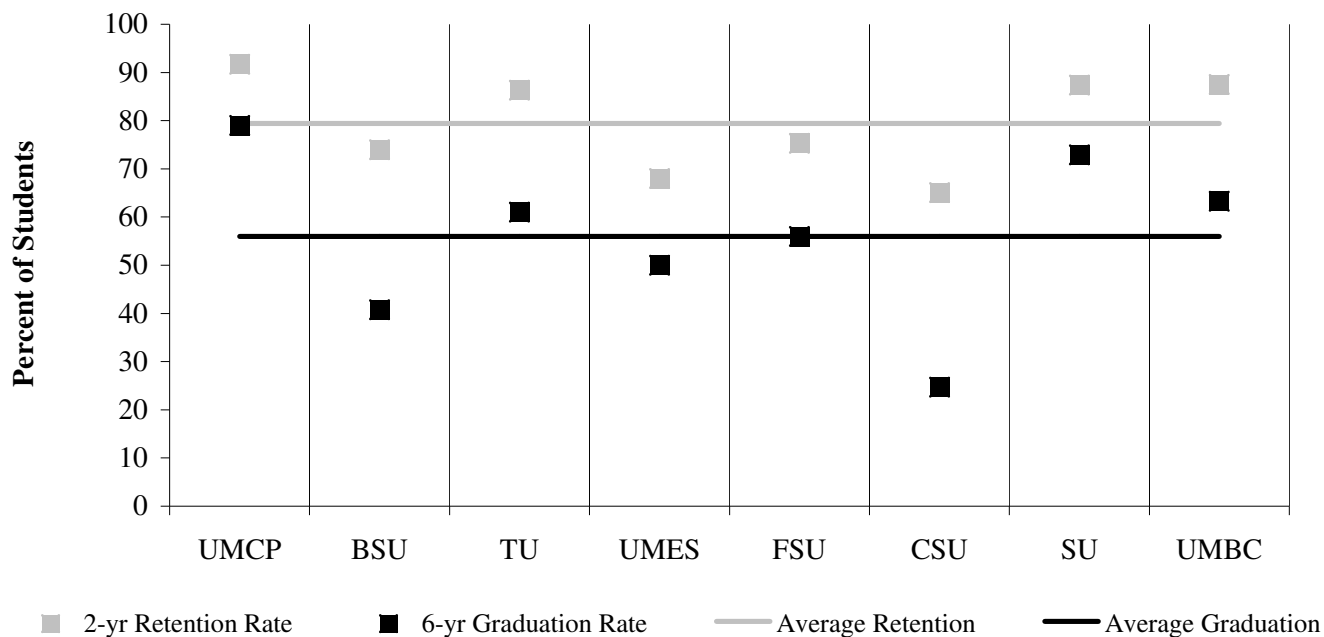
Source: Governor’s Budget Books, Fiscal 2008

The Chancellor should comment on efforts to increase and stabilize the retention rate of African American students, as well as explain why ongoing efforts to increase retention rates of African American students have not produced results.

Exhibit 4 shows retention and graduation data for all USM institutions aggregately. **Exhibit 5** shows retention and graduation data for fiscal 2006 for each campus. The data reflect all undergraduate students. Two-year retention rates range from a high of 91.7% at UMCP to a low of 65.1% at CSU. The unweighted average retention rate is 79.4%. The six-year graduation rates vary from a high of 79.0% at UMCP to a low of 24.7% at CSU. The unweighted average graduation rate is 56.0%. The gap between the two-year retention rate and the six-year graduation rate for CSU (40.4 percentage points) and BSU (33.2 percentage points) is larger than for other campuses (an average of 19 percentage points).

The Chancellor should comment on the reasons for the large gap between retention rates and graduation rates at some of the institutions, particularly CSU and BSU.

**Exhibit 5
USM Retention and Graduation Rates
Fiscal 2006 Actual**



BSU: Bowie State University
 CSU: Coppin State University
 FSU: Frostburg State University
 SU: Salisbury University
 TU: Towson University
 UMBC: University of Maryland Baltimore County
 UMCP: University of Maryland, College Park
 UMES: University of Maryland Eastern Shore

Source: Governor's Budget Books, Fiscal 2008

Faculty Achievement and Eminence

Another goal of USM is to achieve and sustain national eminence in providing quality education. One way to measure this is the number of graduate level programs nationally ranked in the top 25. In fiscal 2006, 90 programs were ranked in the top 25. This is an increase of 14 since 2005. However, the primary reason for the increase is that rankings for library and information sciences programs are now being published. The measure includes only programs at UMB and UMCP and reflect the published rankings from *U.S. News and World Report*, *Financial Times*, and other publications.

Governor’s Proposed Budget

The general fund allowance for fiscal 2008 is \$63.6 million above the 2007 level, an increase of 6.8%, as shown in **Exhibit 6**. However, this does not account for the one-time adjustment made to the fiscal 2007 working appropriation due to a one-time savings in retiree health insurance. For USM this savings is about \$40.5 million when including all funds. The general fund portion is \$26.5 million. After adjusting for this amount, the general fund allowance provides \$90.1 million above the fiscal 2007 working appropriation for fiscal 2008 expenditures, an increase of 10.0%. This includes \$15.4 million in general funds that have been provided in the allowance to accommodate a freeze in the resident undergraduate tuition for fiscal 2008. Other unrestricted funds grow from a tuition and fee revenue increase of \$28.9 million, which is 2.8% above the fiscal 2007 working budget. Other unrestricted funds also include increases in sales and services of educational activities and auxiliary enterprises.

Restricted funds, which include federal and State grants and contracts, increase 1.1% in the allowance. When including the one-time retiree health adjustment, USM’s total budget increases 4.5%.

Exhibit 6
Governor’s Proposed Budget
University System of Maryland
(\$ in Thousands)

	FY 06 <u>Actual</u>	FY 07 <u>Working</u>	FY 08 <u>Allowance</u>	FY 07-08 <u>Change</u>	% Change <u>Prior Year</u>
General Funds	\$811,588	\$933,537	\$997,137	\$63,600	6.8%
Other Unrestricted Funds	1,757,768	1,859,140	1,908,748	49,608	2.7%
Total Unrestricted Funds	2,569,356	2,792,677	2,905,885	113,208	4.1%
Restricted Funds	831,002	914,010	924,520	10,510	1.1%
Retiree Health Adjustment *		-40,485			
Total Funds	\$3,400,358	\$3,666,202	\$3,830,405	\$164,203	4.5%

*The health adjustment in fiscal 2007 amounts to an additional \$40.5 million that is available for expenditure in fiscal 2008.

Source: Governor’s Budget Books, Fiscal 2008; Department of Legislative Services

The general fund increase in the USM budget, however, understates the total general fund support proposed for USM institutions in fiscal 2008 by almost \$48.4 million as shown in **Exhibit 7**. The one-time savings in health insurance frees \$26.5 million in general funds to be used in fiscal 2008. Additionally, the Administration has proposed a 2.0% cost-of-living adjustment (COLA) for State employees that would also apply to USM employees. Funds for USM’s share of the COLA (\$21.9 million) are presently included in the Department of Budget and Management’s allowance. Taking into account this additional funding, USM institutions will have \$112.0 million in additional general funds available for expenditures in fiscal 2008. This is 12.3% above the fiscal 2007 general funds.

Exhibit 7
USM General Fund Increase
Fiscal 2008
(\$ in Thousands)

	<u>Amount</u>
New Unearmarked General Funds	\$15,786
Tuition Freeze Offset	15,383
University of Maryland, Baltimore – Poison Control	2,478
Opening of Shady Grove III	4,315
USM Enrollment Initiative	6,814
Facility Renewal	8,811
Financial Aid	10,014
Subtotal USM Budget	\$63,600
One-time relief from health insurance costs	\$26,480
Grants from MHEC and DBED *	0
Total Additional General Funds Available	\$90,080
Employee COLA Funds (through DBM budget)	\$21,898
New General Funds Including COLA	\$111,978
% Increase Over Adjusted Fiscal 2007 Including COLA	12.3%

*The fiscal 2008 allowance provides general funds for USM through other State agency budgets. DBED will provide \$2.5 million to the UMCP as part of the Nanotechnology Initiative and MHEC will provide \$1.3 million for the UMB-WellMobile, UMBI-Israeli Partnership and the UMCP Academy of Leadership. However, the fiscal 2008 allowance provides the same funding level as the 2007 appropriation. Therefore, they are not considered new general funds and are not shown in this exhibit.

Sources: Department of Budget and Management; University System of Maryland; Governor’s Budget Books, Fiscal 2008

USM will also receive general funds from MHEC and the Department of Business and Economic Development (DBED) in the fiscal 2008 allowance. However, the amount of general funds from these sources did not increase from fiscal 2007. The grants include \$1.3 million from MHEC for the UMB-WellMobile (\$570,500), University of Maryland Biotechnology Institute Maryland-Israeli Partnership (\$250,000), and the UMCP Academy of Leadership (\$500,000). USM will also receive \$2.5 million from DBED for the Nanotechnology Initiative.

The allowance provides USM \$34.8 million in funds available for additional enhancements, as shown in **Exhibit 8**. To begin with, the fiscal 2008 estimated “mandatory” or current services cost increases are \$92.4 million, or 4.7% over fiscal 2007 tuition and fee and general fund revenue. These costs are related to salary increases, facility renewal, and utility inflation, among others. Including the COLA and efficiency savings increases the base current services costs to \$109.5 million. New general fund revenues (including the general fund portion of the one-time health savings), the other unrestricted portion of the one-time health savings, new tuition and fee revenues, and the State-supported COLA total \$144.3 million. The difference of \$34.8 million is available for enhancements and enrollment growth. USM is also receiving \$3.8 million for programs from other State agency budgets.

Exhibit 8
USM Revenues Available for Program Enhancements
Fiscal 2008

	<u>\$ Amount</u>
Expenditures	
Current services cost increase ¹	\$92,380,730
Employee cost-of-living adjustment (COLA)	35,535,785
Costs saved through Efficiency Initiative	-18,402,001
Revised Estimated Current Services Costs	\$109,514,514
Revenues	
Available general funds (including the general fund portion of the one-time health savings)	\$90,079,540
Other unrestricted portion of one-time health savings	3,413,774
COLA funds received through the Department of Budget and Management budget	21,898,262
New tuition and fee revenues	28,890,420
New General Fund and Tuition Revenues	\$144,281,996
Funds Available for Enhancements/Enrollment Growth	\$34,767,482
(Revenues less expenditures)	
Additional Dedicated Funds (UMB – WellMobile, UMCP – Academy of Leadership, UMCP – Nanotechnology Initiative)	\$3,820,500

¹USM estimated current services cost increases to be \$104.9 million. However, the University of Maryland, Baltimore's Poison Control Center (\$2.5 million) and systemwide financial aid (\$10 million) are better categorized as enhancement funding. Therefore, they were deducted from USM's cost of current services

Sources: Governor's Budget Books, Fiscal 2008; University System of Maryland; Department of Legislative Services

USM has identified several program enhancements towards which the \$34.8 million would be used. Enhancements include:

- systemwide financial aid (\$10.0 million);
- academic and research program enhancements at UMCP (\$4.7 million);
- Poison Control Center at UMB (\$2.5 million);
- improving facilities at UMCP (\$1.4 million);
- a pharmacy program at Shady Grove for UMB (\$1.3 million);
- academic program enhancements at CSU (\$0.7 million);

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- academic program enhancements at UMBC (\$0.5 million);
- the lower division initiative at University of Baltimore (UB) (\$0.3 million);
- faculty recruitment and retention at Frostburg State University (FSU) (\$0.1 million); and
- faculty development at University of Maryland Eastern Shore (UMES) (\$0.1 million).

USM is also planning to continue the Enrollment Funding Initiative (EFI) in fiscal 2008 by adding 1,740 full-time equivalent students (FTES). **Exhibit 9** shows two aspects of the EFI: the students and the associated general funds. First, the exhibit shows the fiscal 2007 EFI enrollment attainment of each institution as compared to their budgeted enrollment. Overall, USM exceeded its target of adding an additional 3,386 FTES by 887 FTES. Most of this over-attainment is due to the University of Maryland University College (UMUC) exceeding budgeted growth by 966 FTES. Six of the 11 institutions, however, did not meet their budgeted enrollment growth.

The second part of the exhibit shows the funds associated with the fiscal 2008 EFI. First, USM adjusted for the attainment level of the fiscal 2007 EFI. If an institution exceeded the fiscal 2007 target, the institution received additional general funds in fiscal 2008. If an institution did not meet the fiscal 2007 target, funds were deducted from the institution's fiscal 2008 general fund allowance. An additional 1,740 FTES are expected at five institutions in fiscal 2008. The exhibit also shows the corresponding fiscal 2008 funding (\$7.3 million) for these new students. Approximately \$0.4 million was deducted from the fiscal 2008 EFI funding to adjust for the fiscal 2007 attainment. In total, USM receives \$6.8 million to fund the EFI in fiscal 2008.

DLS recommends the reduction of \$9,325,000 in general funds from the fiscal 2008 allowance for USM. This is approximately one-third of the funds available for enhancements after allowing for enrollment growth. Given the State's structural budget deficit, moderate growth in enhancement funding is prudent.

**Exhibit 9
USM Enrollment Funding Initiative by Institution
Fiscal 2008**

	<u>Budgeted Additional FTES 2007</u>	<u>2007 Additional FTES Attainment</u>		
UMB	50	42		
UMCP	250	-155		
BSU	96	-18		
TU	805	121		
UMES	123	151		
FSU	16	-16		
CSU	102	-102		
UB	100	-34		
SU	323	29		
UMUC*	1,325	966		
UMBC	196	-97		
USM Total	3,386	887		
	<u>Adjustment for 2007 Attainment</u>	<u>2008 New FTES</u>	<u>2008 New FTES Funds</u>	<u>Net 2008 Enrollment Funds</u>
UMB ¹	\$252,000	40	\$512,000	\$764,000
UMCP	-1,008,000	150	1,920,000	912,000
BSU	-5,604	0	0	-5,604
TU	332,750	400	2,200,000	2,532,750
UMES	537,787	0	0	537,787
FSU	-77,158	0	0	-77,158
CSU	-548,842	0	0	-548,842
UB	-87,346	0	0	-87,346
SU	79,707	150	825,000	904,707
UMUC*	520,191	1,000	1,800,000	2,320,191
UMBC	-438,760	0	0	-438,760
USM Total	-\$443,275	1,740	\$7,257,000	\$6,813,725

* State-side only

¹ \$128,000 of the funding for UMB is designated by USM as enhancement funding for enrollment at Shady Grove's pharmacy initiative.

Notes: The above target adjustment includes 50% of the funds that would have been required to fully fund the above target enrollment growth.

The below target adjustment deducts funds when the enrollment target was missed by more than 20%. This allows some flexibility for the institutions to make up some enrollment in the spring semester.

Source: University System of Maryland

Budgets for Physical Plant Operations, Public Service, and Scholarships and Fellowships Show Highest Rates of Increase

Budget changes by program in the allowance are shown in **Exhibit 10**. This exhibit considers only unrestricted funds, of which general funds and tuition and fees are the majority. Expenditures for physical plant operations increase at the highest rate (10.2%, or \$33.1 million) from fiscal 2007 to 2008. Of this increase, approximately \$18.0 million is due to increases in utility costs and \$8.3 million is due to facility renewal efforts.

Public service expenditures have the next highest rate of increase at 8.8%. This increase is largely attributable to SU and UMUC. Over the past few years, SU has been reclassifying some costs from the research program to the public service program. UMUC has increased public service to better align with the actual expenditures they are experiencing in fiscal 2007. Expenditures for scholarships and fellowships have the third highest rate of increase at 6.4%, or \$8.4 million.

Transfers to fund balance increase 74.8%. USM sets a goal for each campus to set aside 1% of their current unrestricted funds to transfer to the fund balance. Systemwide this would be \$29.1 million in fiscal 2008. However, only \$19.8 million is anticipated to be transferred to fund balance. Campuses are given some flexibility from year to year to allow for the individual needs of the campus. For instance, a campus may need to set aside more funds in one year in anticipation of a project for which fund balance will be needed for the next year. In fiscal 2008 some of the campuses with a large increase in transfer to fund balance include TU and SU.

However, the 74.8% increase in the fiscal 2008 allowance is misleading. Fiscal 2007 transfers to fund balance amount to only \$11.0 million, or a 73% decrease compared to fiscal 2006. This is less than the \$21.5 million that was originally anticipated to be transferred to fund balance, which was still less than 1% of current unrestricted revenue in the fiscal 2007 appropriation. One percent would have been \$27.7 million. USM reports that BSU and FSU, due to decreased enrollment, have revised their anticipated transfer to fund balance for fiscal 2007. Also, SU and TU both transferred funds out of fund balance in fiscal 2007.

DLS recommends that USM transfer an additional \$9,325,000 to fund balance. This would fulfill the USM policy that 1% of current unrestricted funds be transferred to the fund balance. DLS considers this to be prudent given the State's structural budget deficit and potential down-turn in spending affordability in future years. This recommendation could be an alternative option to reducing general funds available for enhancements.

Exhibit 10
USM Budget Changes for Unrestricted Funds by Program
(\$ in Thousands)

<u>Expenditures</u>	<u>FY 2006</u> <u>Actual</u>	<u>FY 2007</u> <u>Working</u>	<u>FY 06-07</u> <u>% Change</u>	<u>FY 2008</u> <u>Allowance</u>	<u>FY 07-08</u> <u>% Change</u>
Instruction	\$796,806	\$865,021	8.6%	\$907,161	4.9%
Research	184,962	195,801	5.9%	198,936	1.6%
Public Service	45,571	51,468	12.9%	55,991	8.8%
Academic Support	251,183	277,061	10.3%	292,254	5.5%
Student Services	113,555	119,471	5.2%	123,567	3.4%
Institutional Support	321,737	359,749	11.8%	355,089	-1.3%
Operation and Maintenance of Plant	297,578	325,391	9.3%	358,442	10.2%
Scholarships and Fellowships	122,226	132,332	8.3%	140,749	6.4%
Education and General Total	\$2,133,618	\$2,362,294	9.0%	\$2,432,189	4.6%
Hospitals (UMB)	\$33,465	\$35,802	7.0%	\$35,822	0.1%
Auxiliary Enterprises	402,273	430,579	7.0%	437,875	1.7%
Grand Total	\$2,569,356	\$2,792,675	8.7%	\$2,905,886	4.1%
<u>Revenues</u>					
Tuition and Fees	\$960,373	\$1,022,136	6.4%	\$1,051,026	2.8%
General Funds	811,588	933,537	15.0%	997,137	6.8%
Other Unrestricted Funds	424,891	420,290	-1.1%	434,444	3.4%
Subtotal	\$2,196,851	\$2,375,963	8.2%	\$2,482,608	4.5%
Auxiliary Enterprises	\$414,889	\$428,044	3.2%	\$443,078	3.5%
Transfer (to)/from Fund Balance	-42,384	-11,329	-73.3%	-19,801	74.8%
Grand Total	\$2,569,356	\$2,792,677	8.7%	\$2,905,885	4.1%

Note: Unrestricted funds only. All programs.

Source: Governor's Budget Books, Fiscal 2008

Issues

1. Cost of Additional Students

In fiscal 2007, for the first time, USM institutions received general funds on a per student basis specifically for enrollment growth, called the Enrollment Funding Initiative. **Exhibit 11** shows the per student funding rate that was used to calculate the per student funding that each institution would receive for enrolling additional students. The exhibit shows both the fiscal 2007 funding rate and the fiscal 2008 funding rate in the fiscal 2008 allowance.

Exhibit 11
USM Enrollment Funding Initiative
Fiscal 2007

	<u>Fiscal 2007 Per FTES Funding</u>	<u>Fiscal 2008 Per FTES Funding</u>	<u>Increase</u>
University of Maryland, Baltimore	\$12,000	\$12,800	\$800
University of Maryland, College Park	9,600	12,800	3,200
Bowie State University	5,604	7,500	1,896
Towson University	5,500	5,500	0
University of Maryland Eastern Shore	7,123	8,000	877
Frostburg State University	6,028	7,300	1,272
Coppin State University	6,726	9,700	2,974
University of Baltimore	6,239	7,800	1,561
Salisbury University	5,497	5,500	3
University of Maryland University College	1,077	1,800	723
University of Maryland Baltimore County	7,591	8,700	1,109

Source: University System of Maryland

Methodology of USM Enrollment Funding Initiative

In order to estimate the amount of general funds for each additional FTES, USM calculated the amount of general funds received in the prior fiscal year per FTES at each institution. Then a minimum funding level per FTES was established (\$5,500 in fiscal 2008). UMB's per FTES rate was reduced to account for only undergraduate growth since undergraduates are a small portion of the total student body at UMB. The funding rate of UMCP equals the rate at UMB since they are both research institutions.

The University System of Maryland’s Methodology Clearly Overstates Marginal Cost of Additional Students

The USM methodology assumes that the addition of one new undergraduate student costs the higher education institution the average amount being spent per student at that institution. Clearly this is not the case. One new student adds little if any cost for the institution and any costs associated with the new student can easily be covered by the tuition and fees paid by the student. The marginal cost of an additional student is close to zero. Certainly the institution does not need additional general funds to accommodate the additional student.

As the enrollment at an institution grows, however, there will eventually be the need to hire additional faculty and to increase spending for instructional equipment, academic support, student services, and other variable costs associated with additional students. After a number of years of significant enrollment growth even fixed costs per student relating to classroom space and administrative overhead will increase. When an institution incurs these additional variable and fixed costs depends in part on the size of the institution relative to the growth in enrollment. For example, assuming the new students are not concentrated in a few academic departments, the additional 150 students proposed for the University of Maryland, College Park with an undergraduate enrollment of 23,353 FTES should have less of an impact than the 400 proposed for Towson University, which has an undergraduate enrollment of 13,661 FTES.

Alternative Methodology to Enrollment Growth Funding: Variable Cost

Given the difficulty in determining when the costs associated with enrollment growth actually occur, DLS proposes an alternative methodology based on the variable costs per student. That is, determining the costs that are affected by additional students and excluding costs that are not affected by additional students, i.e. fixed costs. This approach recognizes that certain fixed costs included in the USM methodology are not affected by additional students, but that several years of enrollment growth require additional general funds to augment the tuition and fee revenues paid by the new students. DLS developed this methodology for USM degree-granting institutions. Initially, DLS evaluated the eight budget programs to determine which would be impacted by additional students attending an institution. It was determined that three programs would be impacted: Instruction, Academic Support, and Student Services.

Instructional support was broken down into faculty salary and benefits, teaching assistant salary and benefits (if applicable), additional instructional equipment, and the remaining expenditures. The State-supported average annual salary for faculty hired in fiscal 2006 and the portion of State-supported benefits was then divided by the FTE student to FTE faculty ratio. The result represents the per student cost of hiring additional faculty. The same methodology was used regarding the per student teaching assistant cost (using the FTE student to FTE teaching assistant ratio). Additional instructional equipment was divided by the total FTES at the institution to calculate the per student cost. This same calculation was applied to the remaining expenditures in the instruction program, academic support, and student services. These calculations result in the total variable cost to educate a student at the institution. All calculations were based on the fiscal 2006 actual expenditures for these programs. DLS then applied inflationary factors to reach the fiscal 2008

cost. The inflationary factors were the same as those used by the Maryland Higher Education Commission in the funding guidelines. It is important to note that the cost calculation includes the cost of educating all students, i.e. undergraduate and graduate students.

After calculating the fiscal 2008 per student cost according to the above methodology, a deduction was made for tuition. This deduction equaled the weighted average tuition and nonauxiliary mandatory fee that a full-time student would pay in fiscal 2008. This included only undergraduate in-state and out-of-state tuition and fees despite the inclusion of graduate costs in the total cost calculation. This tuition amount was used to reduce the per student cost. The methodology did not include the scholarship and fellowship programs in the cost calculation. However, in recognition that the State does contribute to student financial aid, the amount of institutional aid received per FTES in fiscal 2008 was then factored in as a cost to the State. The result is the State supported portion of the total cost of one full-time student attending the institution.

DLS made the following assumptions when calculating the variable cost:

- Only education and general expenditures were taken into account. (Auxiliary services and all restricted funds were excluded).
- The Research, Public Service, Institutional Support, and Operation and Maintenance of Plant budget programs would not be impacted by additional students and were excluded.
- The unrestricted portion of fixed charges, replacement equipment, and land and structures was excluded from all programs.
- Enrollment growth would primarily be attributable to undergraduate resident and non-resident students.

Fiscal 2008 EFI Versus Variable Cost Funding

Exhibit 12 shows the variable cost funding rate for four of the five institutions (excluding UMB) that are receiving general funds in the fiscal 2008 allowance to fund enrollment growth. DLS calculated the total variable cost per student at each institution in two ways: including adjunct faculty and not including adjunct faculty. The final figures in the exhibit represent the general fund share of the variable costs of an additional student at a particular USM institution after adjusting for institutional aid and tuition.

Exhibit 12
Variable Cost Rate
Fiscal 2008

	<u>2008 Total Cost w/ Adjuncts</u>	<u>2008 Total Cost No Adjuncts</u>	<u>Tuition and Fee Adjustment</u>	<u>State Funding w/ Adjuncts</u>	<u>State Funding No Adjuncts</u>
UMCP	\$12,489	\$15,129	-\$10,263	\$2,226	\$4,866
TU	6,118	10,275	-7,332	-1,214	2,943
SU	7,666	8,303	-6,068	1,598	2,235
UMUC	8,674	8,777	-6,637	2,037	2,140

SU: Salisbury University

TU: Towson University

UMCP: University of Maryland, College Park

UMUC: University of Maryland University College

Source: Department of Legislative Services

UMB is excluded from this analysis for several reasons. Although most enrollment growth to address student access to college is at the undergraduate level, only 14% of UMB's enrollment is undergraduate and expenditures are not tracked separately for undergraduate programs. Also, most of UMB's growth in fiscal 2007 was in the graduate programs. The number of professional and graduate programs at UMB, each with its own tuition rate made the calculations difficult without more detailed information on the expected enrollment growth.

Based on the data that DLS collected regarding the type of faculty that USM institutions hired in fiscal 2006, it appears that institutions hire primarily adjunct faculty in order to accommodate enrollment growth. For instance, in fiscal 2006, the most recent full year of data available, TU hired 739 adjuncts and 59 other faculty. SU hired 65 adjuncts and 14 other faculty. These data reflect the reality of hiring new faculty. In general, it may take up to a year to hire a full-time tenure/tenure-track faculty member. Given this, DLS concluded that in order to accurately reflect the cost of additional students on a campus, the cost must incorporate adjuncts since this provides a realistic estimate of the cost to an institution. Adjunct salaries are generally less than full-time faculty and adjuncts generally do not receive benefits. Therefore, the cost to the State would be less when including adjuncts. **Exhibit 13** shows a comparison of the USM per student rate and the variable cost per student rate when including adjuncts.

Exhibit 13
Variable Rate Compared to USM Rate
Fiscal 2008

	<u>USM Per Student Rate</u>	<u>Variable Per Student Rate Including Adjuncts*</u>	<u>Difference</u>
University of Maryland, College Park	\$12,800	\$2,226	-\$10,574
Towson University	5,500	(1,214)	-6,714
Salisbury University	5,500	1,598	-3,902
University of Maryland University College	1,800	2,037	237

* After accounting for tuition and technology fee revenues.

Note: When including adjuncts for Towson, the tuition and technology fee revenues would more than cover the variable cost of an additional student.

Source: Department of Legislative Services

As shown in Exhibit 13, the variable cost rate including adjuncts is significantly lower than the USM rate at three of the four institutions. Due to the large number of adjunct faculty hired at TU, the variable rate is actually negative, i.e. tuition and fee revenues would more than cover the variable cost per student. For UMUC, the variable cost rate is slightly higher than the USM rate.

Exhibit 14 shows the variable funding rate compared to the USM funding rate and the difference in total enrollment growth funding between the two methods excluding UMB. The difference in funding at the adjunct rate or at the rate not including adjuncts is also shown. The total cost of the USM funding rate is \$6.7 million in fiscal 2008. The variable cost funding rate when including adjuncts is \$2.6 million. Even when including only the regular faculty in the cost calculation, the variable cost rate is still lower than the USM rate at \$4.4 million.

**Exhibit 14
Total Funding Comparison Enrollment Funding Initiative
Fiscal 2008**

	<u>New Students Funded</u>	<u>USM Per Student Rate</u>	<u>Variable Per Student Rate w/Adjuncts</u>	<u>Variable Per Student Rate No Adjuncts</u>	<u>USM Funding</u>	<u>Variable Funding w/Adjuncts</u>	<u>Variable Funding No Adjuncts</u>
UMCP	150	\$12,800	\$2,226	\$4,866	\$1,920,000	\$333,900	\$729,900
TU	400	5,500	-1,214	2,943	2,200,000	0	1,177,200
SU	150	5,500	1,598	2,235	825,000	239,700	335,250
UMUC	1,000	1,800	2,037	2,140	1,800,000	2,037,000	2,140,000
Total	1,700				\$6,745,000	\$2,610,600	\$4,382,350

SU: Salisbury University

TU: Towson University

UMCP: University of Maryland, College Park

UMUC: University of Maryland University College

USM: University System of Maryland

Source: Department of Legislative Services.

DLS recommends reducing the general fund support for enrollment growth by \$4,134,400. This reduced funding level more accurately reflects the cost of an additional student at a USM institution.

2. In-state Tuition Frozen for Second Year; Modest Fee Increases at Most Institutions

During the 2006 legislative session, a freeze on tuition rates for in-state undergraduate students at USM institutions was adopted. Therefore, tuition remained the same for the 2006-2007 academic year as it was for the prior year. The freeze helped to mitigate the average annual increase in tuition of 10.3% resulting from cost containment activities in fiscal 2003 through 2005 when general fund support decreased.

Tuition and Fee and General Fund Revenue Increases

Exhibit 15 shows the increase in general fund revenue and tuition and fee revenue from fiscal 2002 through the fiscal 2008 allowance. The allowance for general fund revenue increases \$85.5 million from fiscal 2007. This is a modest increase compared to fiscal 2007's increase of \$121.9 million (including the general fund portion of the COLA). New tuition and fee revenue in the fiscal 2008 allowance is \$28.9 million. This assumes no increase in the in-state undergraduate tuition rate for fiscal 2008. The total increase in general funds and tuition and fee revenues represents a growth rate of 5.8% over fiscal 2007.

Exhibit 15
University System of Maryland
Tuition and Fee and General Fund Revenue Increases
(\$ in Millions)

	<u>New Tuition and Fee Revenue</u>	<u>New General Fund Revenue</u>	<u>Total</u>	<u>% Growth from Prior Year</u>
Fiscal 2002 Actual	\$61.1	\$66.1	\$127.2	9.1%
Fiscal 2003 Actual	73.6	-63.9	9.7	0.6%
Fiscal 2004 Actual	111.3	-54.7	56.6	3.7%
Fiscal 2005 Actual	57.3	11.5	68.8	4.3%
Fiscal 2006 Actual	61.3	53.9	115.2	7.0%
Fiscal 2007 Working	61.8	121.9	183.7	10.4%
Fiscal 2008 Allowance	28.9	85.5	114.4	5.8%

Source: Governor's Budget Books, Fiscal 2008

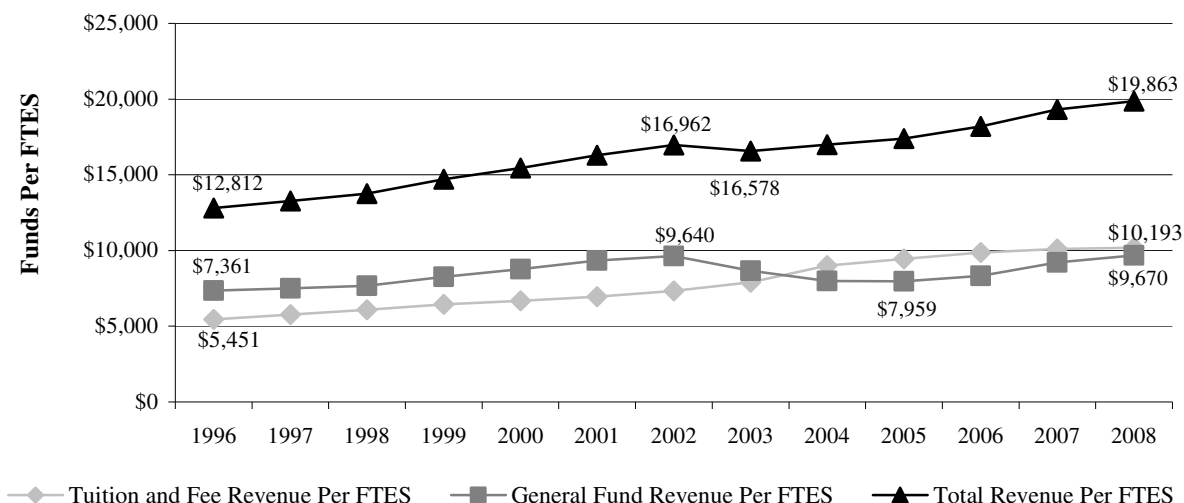
It should be noted that the fiscal 2007 allowance prior to freezing tuition provided USM with an additional \$57.9 million in tuition and fee revenue. This would have been reduced by approximately \$18.0 million to account for the freeze in the resident undergraduate tuition. However, the fiscal 2007 working appropriation indicates an additional \$61.8 million in tuition and fee revenues. It appears that, despite the freeze, USM was able to bring in tuition and fee revenues that are in-line with prior years.

The Chancellor should comment on the fiscal 2007 working appropriation for tuition and fee revenues particularly regarding the apparent recovery in those revenues despite the freeze in tuition.

Tuition and Fee and General Fund Revenue Per FTES

As shown in **Exhibit 16**, tuition and fee revenue per FTES has been steadily increasing. The tuition and fee revenue per FTES in the fiscal 2008 allowance is \$10,193. The general fund revenue per FTES steadily increased until fiscal 2002, reaching \$9,640 per FTES. However, after containment reductions, it decreased to a low of \$7,959 in fiscal 2005. Tuition and fee revenue per FTES surpassed general funds in fiscal 2004 and remains slightly higher in the fiscal 2008 allowance. The general fund revenue per FTES began rising again in fiscal 2006 and will return to fiscal 2002 levels in fiscal 2008. Total revenue per FTES has also steadily increased since fiscal 1996, and the fiscal 2008 allowance total revenue per FTES is \$19,863.

Exhibit 16
USM General Funds and Tuition and Fee Revenue per FTES
Fiscal 1996-2008



Source: Governor’s Budget Books, Fiscal 2008

Undergraduate Resident Tuition Frozen in Fiscal 2008

The fiscal 2008 allowance provides \$15.4 million in general funds so that the undergraduate resident tuition rate can remain at the fiscal 2007 level. The \$15.4 million is the amount of tuition and fee revenue lost as a result of not increasing tuition by 4%. This amount was replaced with general funds in the allowance. **Exhibit 17** shows that undergraduate resident tuition rates have been frozen since fiscal 2006. The exhibit also shows what a 4% tuition increase amounts to for each USM institution. The average increase in tuition systemwide would be \$210.

Exhibit 17
USM Resident Undergraduate Tuition
Fiscal 2006-2008

	<u>2006</u> <u>Tuition</u>	<u>2007</u> <u>Tuition</u>	<u>2008 Tuition</u> <u>w/Freeze</u>	<u>2008 Tuition</u> <u>w/ 4% Inc.</u>	<u>Difference</u>
Univ. of Maryland, Baltimore	\$6,890	\$6,890	\$6,890	\$7,166	\$276
Univ. of Maryland, College Park	6,566	6,566	6,566	6,829	263
Bowie State University	4,286	4,286	4,286	4,457	171
Towson University	5,180	5,180	5,180	5,387	207
Univ. of Maryland Eastern Shore	4,112	4,112	4,112	4,276	164
Frostburg State University	5,000	5,000	5,000	5,200	200
Coppin State University	3,527	3,527	3,527	3,668	141
University of Baltimore	5,325	5,325	5,325	5,538	213
Salisbury University	4,814	4,814	4,814	5,007	193
Univ. of Maryland University College	5,520	5,520	5,520	5,741	221
Univ. of Maryland Baltimore County	6,484	6,484	6,484	6,743	259
USM Average *	\$5,246	\$5,246	\$5,246	\$5,456	\$210

*Not a weighted average.

Source: University System of Maryland; Department of Legislative Services

Although tuition rates have been frozen for two consecutive years, the total tuition and fees that students must pay to the institution is increasing due to increases in fees. **Exhibit 18** shows the change in the tuition and fee rate from fiscal 2006 to 2008. Since tuition has been frozen at fiscal 2006 rates, the increase represents an increase in fees. The systemwide average increase in tuition and fee rates was 1.3% in fiscal 2007. The systemwide average increase in tuition and fee rates in fiscal 2008 is 1.5%. The highest percentage increases in fees in fiscal 2008 are at Coppin (5%) and Bowie (3.6%). Three institutions have no mandatory fee increase in fiscal 2008.

Exhibit 18
USM Increase in Tuition and Mandatory Fees
Fiscal 2006-2008

	<u>2006-2007</u> <u>% Change</u>	<u>2007-2008</u> <u>% Change</u>	<u>2006-2008</u> <u>% Change</u>
University of Maryland, Baltimore	0.7%	0.7%	1.5%
University of Maryland, College Park	1.1%	0.8%	1.9%
Bowie State University	4.5%	3.6%	8.4%
Towson University	1.0%	1.0%	1.9%
University of Maryland Eastern Shore	1.7%	0.0%	1.7%
Frostburg State University	2.6%	3.1%	5.8%
Coppin State University	0.7%	5.0%	5.6%
University of Baltimore	0.6%	1.5%	2.1%
Salisbury University	0.6%	0.0%	0.6%
Univ. of Maryland University College	0.0%	0.0%	0.0%
Univ. of Maryland Baltimore County	1.2%	1.0%	2.2%
USM Average *	1.3%	1.5%	2.9%

*Not weighted

Source: University System of Maryland; Department of Legislative Services

3. Growth Institutions of USM

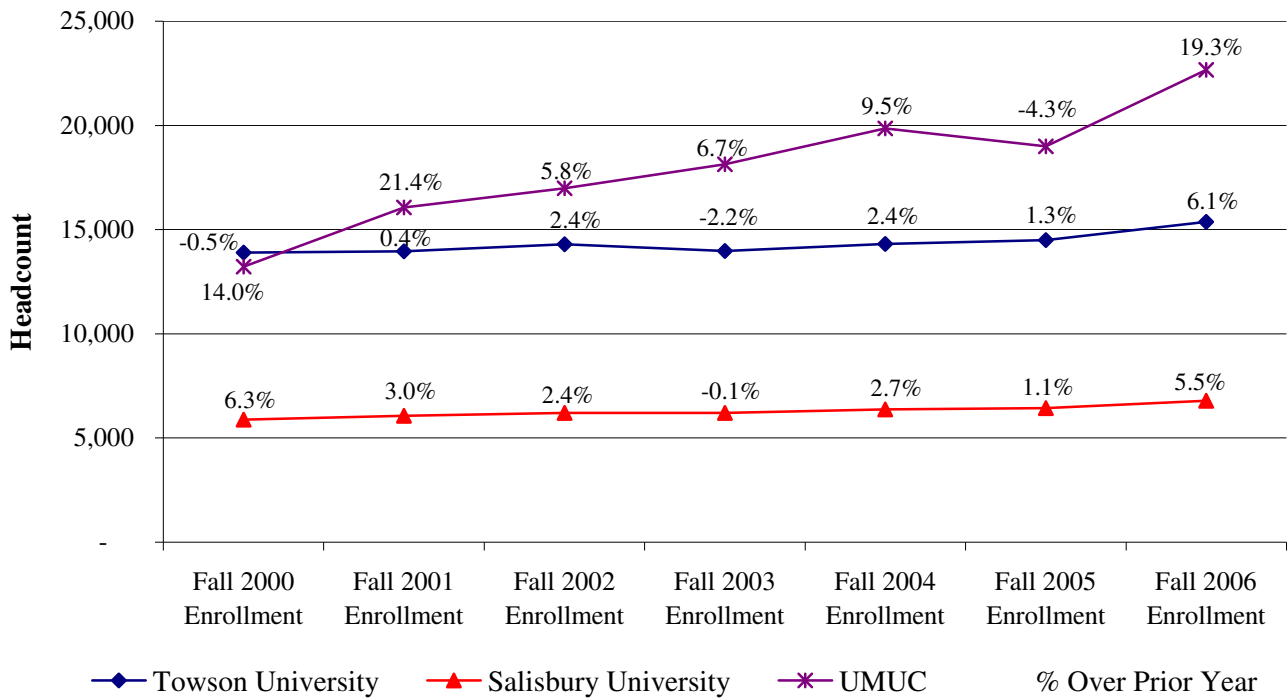
Three USM institutions have been selected by the Board of Regents to be growth institutions – UMUC, SU, and TU. These institutions were selected by USM for three reasons:

- These institutions have the capacity to grow.
- Each institution has a low cost per student based on the general funds per FTES that the institutions receive.
- The leadership at each institution has expressed a commitment to grow.

USM reports that Bowie State University was initially considered to be included as a growth institution. However, inclusion of Bowie was suspended due to the transition of the presidency at the institution.

Exhibit 19 shows the undergraduate headcount enrollment for the three growth institutions since fall 2000. Except for UMUC, growth at the institutions has been fairly low to moderate through 2005. The exhibit shows enrollment did increase in the fall 2006 semester. UMUC experienced an increase of 19.3% in fall 2006 following a decline in 2005. DLS conducted an informal survey in 2006 to learn more about the institutions’ admissions policies. UMUC accepts all qualified applicants. A high school diploma is required, but there are no minimum GPA or test scores required. Towson accepts all students that meet its admissions requirements. Occasionally, Towson has had to defer the admission of a qualified student to the spring semester when the fall semester has reached capacity. Salisbury University employs a more holistic approach and was, therefore, not able to inform DLS on whether they admit all qualified applicants.

Exhibit 19
USM Growth Institutions Enrollment Trends
Undergraduate Headcount

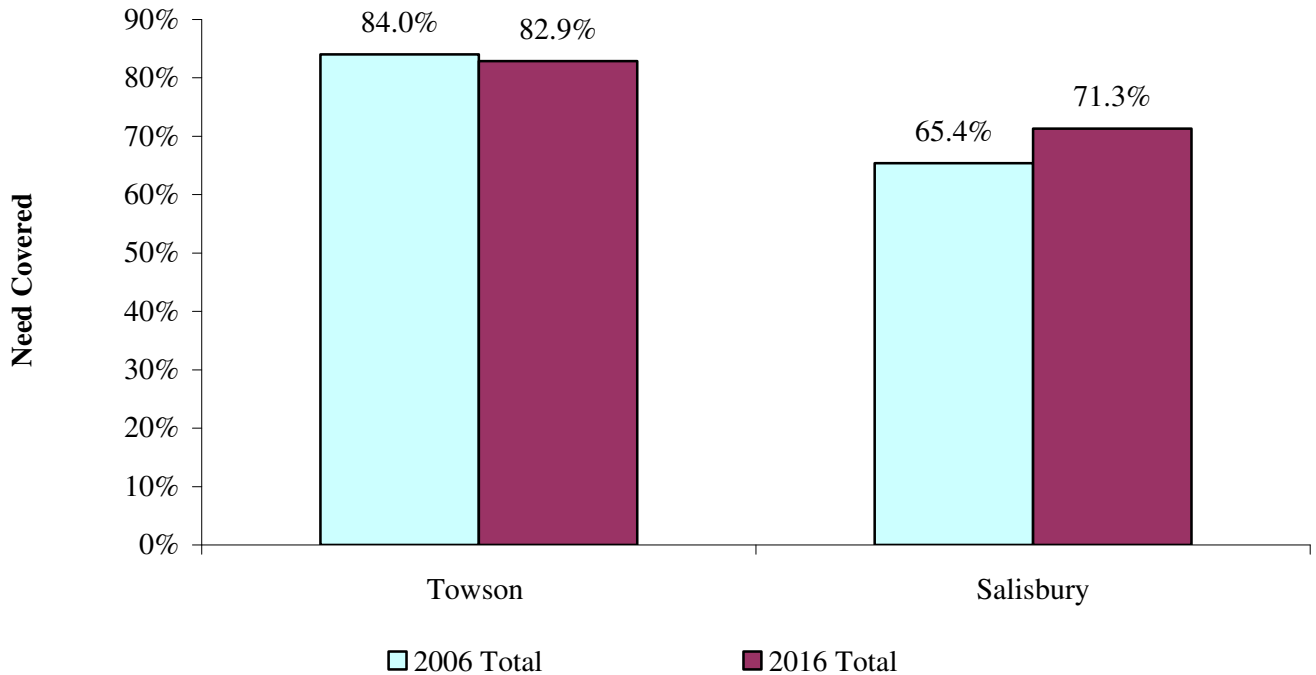


Source: University System of Maryland

Factors such as space on campus and the availability of student housing may impact the ability of the growth institutions to expand. It should be noted that these factors will either have no impact or little impact on UMUC. UMUC is primarily on-line learners who have no need for student housing or even space on campus.

Exhibit 20 shows the total academic space that Towson and Salisbury have as compared to the amount of space needed given enrollment in fiscal 2006 and projected enrollment in 2016. This is referred to as the percent of need covered. A high percent indicates that an institution is better able to accommodate the number of students projected to attend (or actually attending in the case of the 2006 data). Towson’s percent need covered decreases slightly from 84.0% in fiscal 2006 to 82.9% in fiscal 2016. According to MHEC’s projections, Towson is expected to grow from a total headcount of 18,011 students in fiscal 2006 to 22,630 students by 2016 (25.6% over the 10-year period). Salisbury’s percent need covered increases by 2016. Their enrollment is expected to grow from a total headcount of 7,009 students in fiscal 2006 to 8,329 students by 2016 (18.8% over the 10-year period). When looking at other USM institutions, only UMB and BSU are expecting their percent need covered to increase by 2016. The percent need covered at all other USM institutions is expected to decrease significantly. It is important to note that the 2016 percent of need covered is calculated using MHEC’s enrollment projections. USM is projecting an additional 2,369 students for Towson and 680 students for Salisbury beyond the MHEC projections. Therefore, the institutions may have a lower percent need covered in 2016 than is portrayed in the exhibit.

Exhibit 20
Towson and Salisbury Percent of Academic Space Need Covered
Fiscal 2006 and 2016



Source: Maryland Higher Education Commission (data are self-reported by the institutions)

In terms of on-campus housing, both Salisbury and Towson have a full occupancy rate. In the fall 2005 semester, Towson had 660 students on a waiting list for on-campus housing. Towson offers housing with a two-year guarantee for freshmen and sophomores. For any other student, housing is offered on the basis of availability. Currently, Towson has an inventory of 3,285 beds and is expecting to open a new housing facility with an additional 600 beds by August 2008. Salisbury offers on-campus housing to all entering students registered for at least 12 credits. Juniors without a GPA of at least 2.0 are ineligible for housing as are students who have lived on-campus for eight semesters. Salisbury is typically able to provide on-campus housing for all students who are interested. Salisbury currently has 1,698 beds and is not anticipating the construction of any additional housing.

The Chancellor should comment on the expectations for the growth institutions and how the growth will be managed at those institutions.

4. Efficiency Initiative at USM

In 2004, USM completed a study to improve the efficiency and effectiveness (EE) of its institutions to reduce costs and accommodate future enrollment growth. The plan included many initiatives targeted at administrative efficiencies and academic efficiencies. USM calculates the expected efficiency savings as 1% of the State-supported budget for each institution. **Exhibit 21** shows the expected efficiency savings from fiscal 2006 through 2008. Each institution has discretion as to how they will achieve these savings. Systemwide the three primary academic efficiency efforts include decreasing time to degree, increasing faculty workload, and embarking on a course redesign effort.

Exhibit 21
USM Institution Efficiency Savings

	<u>Est. FY 2006</u>	<u>Est. FY 2007</u>	<u>Est. FY 2008</u>
University of Maryland, Baltimore	\$2,305,322	\$2,640,910	\$2,333,028
University of Maryland, College Park	6,451,048	6,994,483	6,868,779
Bowie State University	477,081	504,026	572,422
Towson University	1,691,676	1,770,655	1,860,594
University of Maryland Eastern Shore	456,496	485,147	487,723
Frostburg State University	515,344	541,575	571,139
Coppin State University	504,424	544,744	474,840
University of Baltimore	626,885	670,665	675,224
Salisbury University	700,764	733,021	750,624
University of Maryland University College	1,407,095	1,678,884	1,736,700
University of Maryland Baltimore County	1,501,890	1,581,791	1,564,246
Univ. of Maryland Center for Environmental Science	148,597	155,803	154,503
Univ. of Maryland Biotechnology Institute	195,768	216,316	207,711
Univ. System of Maryland Office	144,459	162,259	144,469
USM Total	\$17,126,849	\$18,680,279	\$18,402,002

Source: University System of Maryland

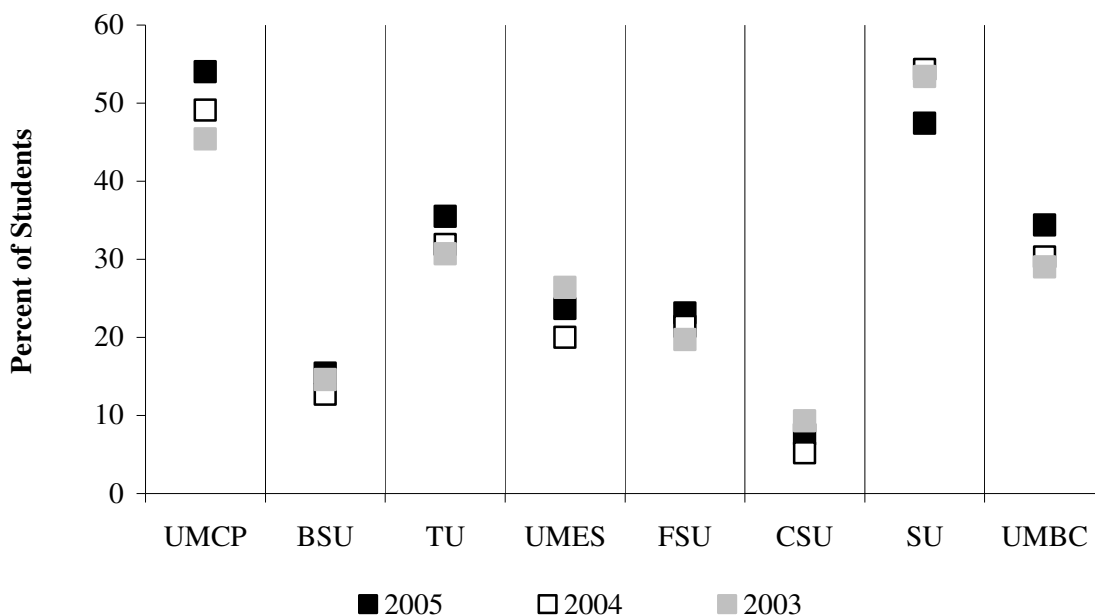
USM tracks EE progress not only in terms of money saved but also in terms of the additional students that the institutions are able to serve at no additional cost to the State. In fiscal 2007, USM was able to serve an additional 448 students as a result of decreased time-to-degree, thus making room for more students. Also, USM served 655 students at no cost to the State as a result of the above target enrollment that some institutions experienced as part of the EFI. In total, USM served 1,103 students in fiscal 2007 at no additional cost to the State.

Overall, USM expected to serve an additional 2,100 student during the three-year EE effort. This included fiscal 2006 to 2008. Thus far, USM has served 1,820 additional students at no cost to the State. However, USM includes in their total (2,760 students) the additional students served at no cost to the State in fiscal 2005.

Efficiency Efforts Include Decreasing Time-to-degree

USM expects to reduce the students' time-to-degree through its academic efficiency efforts. This will allow the institutions to accommodate more students as well as reduce the cost of a degree for students. **Exhibit 22** shows the four-year graduation at USM institutions from fiscal 2003 to 2005 (excludes UMB, UMUC, and UB). This corresponds to cohort years 1999 to 2001. The exhibit shows that five of the eight institutions shown have increased their four-year graduation rates since fiscal 2003. Although the efficiency efforts related to decreasing the time-to-degree have only started in fall 2006 (fiscal 2007), this data will establish a baseline with which to compare future four-year graduation rates. This will help to evaluate the success of the academic efficiency efforts including the course redesign project, discussed below.

Exhibit 22
Four-year Graduation Rates
Fiscal 2003-2005



BSU: Bowie State University
 CSU: Coppin State University
 FSU: Frostburg State University
 SU: Salisbury University
 TU: Towson University
 UMBC: University of Maryland Baltimore County
 UMCP: University of Maryland, College Park
 UMES: University of Maryland Eastern Shore

Source: MHEC's June 2006 report on *Retention and Graduation Rates at Maryland Public Four-Year Institutions*.

Three policies that were approved by the Board of Regents in 2005 became effective in the fall 2006 semester that are aimed at decreasing the time-to-degree. The first is a policy regarding first-time freshmen whose admission may have been deferred to the spring semester. The policy encourages these students to take 12 credits of coursework during the fall semester prior to being admitted in the spring. This would help ensure that students would still be able to graduate in a timely manner. The second new policy encourages students to take 12 credit hours through alternative means such as online, special sessions, independent study, and other non-traditional methods of earning credits. The final new policy established a limit of 120 credits that will be required for graduation. There are exceptions for some areas that require five years of course work or areas that may need to fulfill external accreditation standards. USM anticipates that these three new policies will decrease the time-to-degree for students thus reducing their cost of education and increasing the number of students that the system can serve.

Increases in Faculty Workload Contributes to Efficiency

Increasing faculty workload is a key part of the USM efficiency initiatives. Systemwide the comprehensive institution's average tenure/tenure-track faculty workload is 7.7 course units and the research institution's average is 6 course units. **Exhibit 23** shows the detail. The Board of Regents policy requires tenured/tenure-track faculty at research institutions to carry a workload of 5-6 course units, while comprehensive institutions' faculty should carry a workload of 7-8 course units. As part of the efficiency initiative, each institution is charged with meeting the mid-point of workload standards by fiscal 2006. Therefore, research institution faculty should teach 5.5 course units and comprehensive institution faculty should teach 7.5 course units.

Exhibit 23
USM Faculty Workload
Fiscal 2002-2006

	<u>2001-2002</u> Courses/FTEF	<u>2002-2003</u> Courses/FTEF	<u>2003-2004</u> Courses/FTEF	<u>2004-2005</u> Courses/FTEF	<u>2005-2006</u> Courses/FTEF
Comprehensive Institutions					
Bowie State University	7.3	8.2	8.4	8.2	7.5
Coppin State University	9.2	7.9	8.8	9.0	9.2
Frostburg State University	7.3	7.4	7.9	7.8	7.8
Salisbury University ¹	7.2	7.1	7.8	7.9	7.9
Towson University	6.6	6.6	6.9	7.3	7.1
University of Baltimore ¹	7.8	7.0	7.0	6.9	6.9
University of Maryland Eastern Shore	5.7	7.6	7.8	7.5	7.8
All Comprehensive Institutions	7.0	7.0	7.5	7.7	7.7
Research Institutions					
University of Maryland, Baltimore ²	n/a	n/a	n/a	n/a	n/a
University of Maryland Baltimore County ³	5.1	5.0	5.2	5.7	5.8
University of Maryland, College Park ³	5.0	5.0	5.1	5.1	6.1
All Research Institutions	5.0	5.0	5.1	5.3	6.0

¹Calculations for Salisbury, Towson, and University of Baltimore omit the schools of business and law because accreditation standards requires law faculty to teach 4.0 course units and business faculty to teach 6.0 course units.

²University of Maryland, Baltimore (UMB) reports that 93% of tenure/tenure-track faculty and 95% of all core faculty met or exceeded UMB's standard for workload in 2005-2006.

³State supported full-time equivalent.

FTEF: Full-time Equivalent Faculty

Source: University System of Maryland's Faculty Workload Report

All comprehensive institutions have achieved their prescribed goal except for Towson University and the University of Baltimore. These same two institutions were the only ones that had not met the goal during the 2004-2005 academic year as well. Towson University currently has a faculty workload of 7.1, a decrease from 7.3 last year. The University of Baltimore has remained the same as last year at 6.9 course units. Research institutions have met their target of 5.5 course units. In fact, UMCP now exceeds UMBC's work load whereas UMBC exceeded UMCP's workload one year ago.

UMB's faculty workload was incorporated into USM's faculty workload report this year. However, instead of reporting actual course units taught, the percent of faculty meeting or exceeding the institution's standard workload is reported. This is a more appropriate measure for UMB due to the many professional schools on campus which may be subject to workload requirements by various accrediting bodies. UMB reports that 93% of their tenure/tenure track faculty and 95% of all core faculty met or exceeded the institution's standard. This is a continued improvement over prior years.

USM Course Redesign Initiative

In the fall of 2006, USM embarked on a Course Redesign Initiative (CRI). This is a systemwide effort to redesign courses that are typically large, lecture-style courses to courses that provide a more active learning environment. The overall goals of the CRI are:

- to improve student learning (proven through learning assessments); and
- to reduce instructional costs thus providing funds to dedicate to other purposes.

To achieve these goals, USM has contracted with Dr. Carol Twigg, President and CEO of the National Center for Academic Transformation (NCAT), who has led other campuses throughout the United States in course redesign efforts. Each institution is expected to contribute \$20,000 towards this effort. The system office will provide matching funds during this effort, but it has not done so yet. Therefore, up to \$40,000 is expected to support the redesign of one pilot course at each institution.

NCAT has reported that they have assisted 30 institutions in redesigning courses. They report that all 30 projects have resulted in cost savings ranging from 15 to 77%, with 37% being the average. The intent of the CRI is to reinvest these savings into the department that generated them so that the department can have additional resources. The additional resources could potentially be used to:

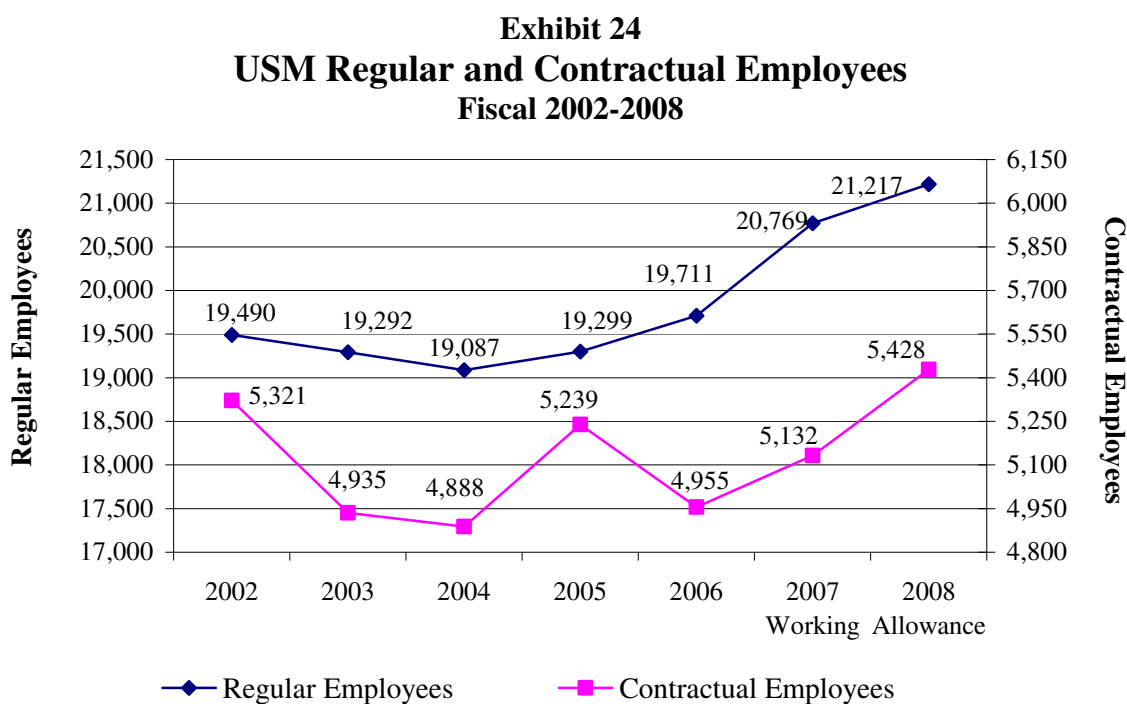
- redesign more courses;
- teach more students for the same cost;
- reduce teaching load;
- offer a wider range of courses with the same number of faculty; and
- allow faculty to allocate more time to research.

So far, USM has conducted a workshop to introduce this initiative to all campuses. The anticipated schedule of implementation is as follows:

- April 2007 – develop and submit proposals to redesign a course;
- May 2007 – provost at each institution selects one course to be a part of the pilot program with input from NCAT;
- May through Dec 2007 – implement the plan for redesigning a course;
- Spring 2008 – conduct the pilot program with a subset of students;
- Fall 2008 – full pilot program implementation after revisions; and
- March 2009 – submit final reports on the pilot program for evaluation.

5. Personnel Study Continues

The total USM workforce, regular and contractual, is 26,645 in the fiscal 2008 allowance, as shown in **Exhibit 24**. This is a 2.9% increase over fiscal 2007. In looking at changes over six years, in fiscal 2006 the regular employee and contractual workforce surpassed the point where it was before cost containment measures. The number of regular employees in fiscal 2008 is 2.2% larger than in fiscal 2007. The contractual employee workforce increases 5.8% in the fiscal 2008 allowance surpassing the fiscal 2002 level for the first time. The Board of Regents adopted a policy to convert long standing contractual positions to regular positions in 2001, and USM has been phasing in the conversions as finances allow. The primary increase in contractual positions is due to UMUC, which is expecting 168 new contractual positions in the fiscal 2008 allowance.



Source: Governor's Budget Books, Fiscal 2008

The fiscal 2008 allowance provides USM with 448 additional regular positions. As shown in **Exhibit 25**, there are 344 State-supported positions that are allocated to specific programs – specifically, instruction (190), research (6), public service (1), academic support (37), student services (30), institutional support (44), and operation and maintenance of plant (37). Non-state-supported positions include one in instruction and 103 in the auxiliary program. Six institutions and the system office do not receive any additional positions in the fiscal 2008. The 448 new positions are at UMB, UMCP, TU, UMES, CSU, UB, and SU. The exhibit also shows the increase over the fiscal 2007 filled regular positions in each program. Instruction and student services increases by 3.0%. Auxiliary positions increase 6.5%.

Exhibit 25
Summary of USM Additional Positions
Fiscal 2008

<u>State-supported Positions</u>	<u>New Fiscal 2008 Positions</u>	<u>% Increase</u>
Instruction	190	3.0%
Research	6	0.2%
Public Service	1	0.2%
Academic Support	37	1.8%
Student Services	30	3.0%
Institutional Support	44	1.6%
Operation and Maintenance of Plant	37	2.5%
Total State-supported	344	
Non-state-supported Positions *		
Instruction	1	n/a
Auxiliary	103	6.5%
Total Non-state-supported Positions	104	
USM Total New Positions	448	

* Funded by auxiliary and grants.

Note: Data are full-time equivalent for regular positions only.

No new positions for Bowie, Frostburg, UMUC, UMBC, UMCES, UMBI, and the system office are included in the allowance

Source: University System of Maryland

Instructional Share of Personnel Decreases; Research Share Increases

The composition of personnel at USM has changed since fiscal 2002, as shown in **Exhibit 26**. The data reflect the number of full-time equivalent personnel for filled positions only. In general the share of research personnel and institutional support personnel has increased while the share of personnel in most other programs has decreased or remained unchanged since fiscal 2006. The share for research personnel has increased 0.4% and accounts for 17.8% of the total personnel. The share for institutional support personnel has also increased 1.0% and accounts for 13.7% of personnel. Instructional personnel still account for the largest share at 31.9%, although the share has decreased from 33.5% in fiscal 2002.

The number of research personnel experienced the second highest increase since fiscal 2002 at 42.3%. This is primarily due to an increase in research personnel at UMB. The number of hospital personnel has increased from 297 in fiscal 2006 to 445 in 2007 because of a decision by UMB to reclassify many personnel who had previously been classified in the public service program. The corresponding percent share of hospital personnel increased 0.7%.

In terms of the actual number of personnel, seven of the programs have increased to above fiscal 2002 levels. Only public service and operations and maintenance of plant have fewer personnel in fiscal 2007 than in 2002. The total number of regular personnel has increased from 18,610 in fiscal 2006 to 19,645 in fiscal 2007.

Exhibit 26
USM FTE Personnel by Budget Program
Filled Positions Only

	Fiscal 2002		Fiscal 2006		Fiscal 2007		Change in Share of Total 2006-2007
	FTEs	% of Total FTEs	FTEs	% of Total FTEs	FTEs	% of Total FTEs	
Instruction	5,858	33.5%	6,085	32.7%	6,264	31.9%	-0.8
Research	2,455	14.0%	3,227	17.3%	3,494	17.8%	0.5
Public Service	689	3.9%	753	4.0%	635	3.2%	-0.8
Academic Support	1,937	11.1%	1,920	10.3%	2,010	10.2%	-0.1
Student Services	945	5.4%	1,026	5.5%	1,002	5.1%	-0.4
Institutional Support	2,427	13.9%	2,369	12.7%	2,695	13.7%	1.0
Operations and Maintenance of Plant	1,558	8.9%	1,439	7.7%	1,518	7.7%	0.0
Auxiliary	1,368	7.8%	1,494	8.0%	1,583	8.1%	0.1
Hospitals	248	1.4%	297	1.6%	445	2.3%	0.7
Total	17,485		18,610		19,645		

Note: Data are self-reported and unaudited.

Source: University System of Maryland Institutions

Recommended Actions

1. Add the following language:

Provided that the general fund appropriation herein for the University System of Maryland is reduced by \$9,325,000.

Explanation: The language reduces the University System of Maryland's (USM) general fund appropriation by \$9,325,000. This would reduce the funds available for enhancements by approximately one-third after allowing for enrollment growth. This would leave USM a total of \$18,628,758 for enhancements not related to enrollment growth in the fiscal 2008 allowance.

2. Add the following language:

Provided that \$29,126,258 in unrestricted funds may not be expended for any program or purpose except that the funds may be transferred to fund balance. The University System of Maryland shall end fiscal 2008 with a fund balance of at least \$459,800,000 in current unrestricted funds.

Explanation: The language requires the University System of Maryland (USM) to transfer \$29,126,258 into fund balance. USM has a policy that 1% of the current unrestricted revenues be transferred to the fund balance. The fiscal 2008 allowance indicates that USM is planning to transfer only \$19,801,258. This is below 1% of the current unrestricted revenues. The language also requires a fund balance of \$459,800,000 by the end of fiscal 2008. This ensures that the fund balance will increase by \$29,126,258 over fiscal 2007. A portion of USM's savings on health insurance could be transferred to fund balance since it is a one-time savings. The additional transfer is a prudent measure due to the projected structural budget deficit.

3. Add the following language:

Provided that the appropriation herein for the University System of Maryland institutions shall be reduced by \$4,134,400 in general funds allocated to enrollment growth. Total general fund expenditures to fund enrollment growth shall be limited to \$3,122,600.

Explanation: The University System of Maryland (USM) has determined a per student funding rate that was used to calculate the need for \$7,257,000 to fund an additional 1,740 students at five USM institutions. However, the USM per student cost is overstated. When using a more realistic methodology, \$3,122,600 would be sufficient to support an additional 1,740 students. This language reduces the general fund appropriation by \$4,134,400.

4. Adopt the following narrative:

Nursing Program Applicants: The University System of Maryland (USM) institutions with nursing programs currently do not include certain data related to the nursing program in the Managing for Results. Specifically, USM does not include the number of applicants to the program or the number of qualified applicants denied admission. The workforce shortage of nurses requires more scrutiny into the nursing programs. This additional data would allow better analysis of the capacity of nursing programs to admit qualified applicants

Information Request	Authors	Due Date
The number of applicants to nursing programs and the number of qualified applicants denied admission to the program	USM Institutions with Nursing Programs	With the annual submission of the Managing for Results

5. Adopt the following narrative:

Efficiency Report: The University System of Maryland (USM) Board of Regents has approved an effectiveness and efficiency plan for the system involving many initiatives. The plan covers fiscal 2006 to 2008. The committees request that the board continue to submit a report detailing the amount and type of fiscal effect associated with the effectiveness and efficiency plan for each year of the plan, including prior year actual and current year working. The report should also indicate how initiatives shall be implemented and the progress of implementation. The report should also indicate how many full-time equivalent students are served by USM institutions with no additional cost to the State, including prior year actual and current year working. Each report shall provide this information for each year of the plan, and the committees shall be provided with additional written information if the plan is changed significantly. Any required information that is not available to be submitted by the due date shall be submitted as soon as possible and no later than the allowance.

Information Request	Author	Due Date
Reports of fiscal effects and implementation strategies for efficiency initiatives	USM	December 1, 2007; December 1, 2008
Reports on significant changes in the efficiency plan	USM	As needed

6. Adopt the following narrative:

Faculty Workload Report: The committees request that the University System of Maryland (USM) continue to provide annual instructional workload reports for tenured and tenure-track faculty. By focusing on these faculty, the committees gain a sense of the teaching activities for the regular, core faculty at the institutions. Additional information can be included in the report at USM’s discretion. Additionally, the report should include the percent of faculty meeting or exceeding teaching standards for tenure and tenure-track faculty for University of Maryland, Baltimore’s programs.

Information Request	Author	Due Date
Annual report on instructional workload for tenured and tenure-track faculty.	USM	December 1, 2007

Updates

1. Residency Policy Modified to Accommodate Actions of Base Realignment and Closure Commission (BRAC)

The Board of Regents approved a proposal to waive the one-year residency requirement for civilian employees and relocating defense contractors that come to Maryland as a result of the BRAC decision to transfer additional operations to several Maryland bases. Normally, an individual would have to be a resident of Maryland for one-year before becoming eligible for in-state status in terms of the amount of tuition charged. USM has always had the policy to waive this requirement for military personnel. This new policy would waive the requirement for civilian personnel and any defense contractors that relocate. The policy is set to expire in October 2011.

In anticipation of the previous BRAC that occurred in the 1990s, the regents passed a similar policy. USM gathered data for one year on how many students took advantage of the modified residency policy. Less than 30 students attended USM institutions under this policy in that year. It is important to note, however, that the current BRAC involves a larger number of bases throughout the State than the previous BRAC.