

R62I0001
Maryland Higher Education Commission

Operating Budget Data

(\$ in Thousands)

	<u>FY 08</u> <u>Actual</u>	<u>FY 09</u> <u>Working</u>	<u>FY 10</u> <u>Allowance</u>	<u>FY 09-10</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$75,790	\$68,922	\$82,179	\$13,257	19.2%
Contingent & Back of Bill Reductions	0	0	-16,002	-16,002	
Adjusted General Fund	\$75,790	\$68,922	\$66,177	-\$2,745	-4.0%
Special Fund	9,707	11,694	14,729	3,034	25.9%
Contingent & Back of Bill Reductions	0	0	-1	-1	
Adjusted Special Fund	\$9,707	\$11,694	\$14,727	\$3,033	25.9%
Federal Fund	2,382	4,179	3,484	-695	-16.6%
Adjusted Federal Fund	\$2,382	\$4,179	\$3,484	-\$695	-16.6%
Reimbursable Fund	300	1,232	179	-1,052	-85.4%
Adjusted Reimbursable Fund	\$300	\$1,232	\$179	-\$1,053	-85.5%
Adjusted Grand Total	\$88,179	\$86,027	\$84,568	-\$1,460	-1.7%

- Total funds increase 16.9% in the fiscal 2010 allowance over fiscal 2009. The Administration's budget plan is balanced assuming a \$15.6 million reduction to Sellinger Aid, deferred payment of \$265,640 for the Private Donation Incentive Program, \$13,255 reduction to deferred compensation, the elimination of two vacant positions for a savings of \$59,379, and \$31,940 in expectation of savings in contractual services based on a favorable bidding climate. Based on these contingent and across-the-board reductions, total funds decrease 1.7% from fiscal 2009.
- Special funds increase 25.9% over fiscal 2009 due to a \$5.5 million increase to the Nurse Support II Program.

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

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Personnel Data

	<u>FY 08</u> <u>Actual</u>	<u>FY 09</u> <u>Working</u>	<u>FY 10</u> <u>Allowance</u>	<u>FY 09-10</u> <u>Change</u>
Regular Positions	72.60	68.60	67.60	-3.00
Contractual FTEs	<u>8.00</u>	<u>3.00</u>	<u>3.00</u>	<u>0.00</u>
Total Personnel	80.60	71.60	70.60	-3.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	4.73	7.00%
Positions and Percentage Vacant as of 12/31/08	5.00	7.29%

- Due to Board of Public Works actions in October 2008, 4.0 vacant positions were abolished from the fiscal 2009 budget. In addition, 1.0 position is abolished in the fiscal 2010 budget. As part of the Governor’s budget plan to balance the budget, 2.0 additional vacant positions are abolished in fiscal 2010.
- As of December 31, 2008, the commission has 5.0 vacancies. Budgeted turnover for fiscal 2009 is 7.29%, or 4.73 positions.

Analysis in Brief

Major Trends

Graduation Rate Continues to Increase for Public Four-year Colleges: Six-year graduation rates have slowly increased for all first-time, full-time students at public four-year colleges and are expected to continue increasing in fiscal 2009 and 2010.

Second-year Retention Rates Decrease at Historically Black Institutions: Second-year retention rates declined for the third straight year at historically black institutions (HBIs). Six-year graduation rates at the HBIs increased slightly in fiscal 2008 but remain below their fiscal 2006 level of 41.2%.

Number of Nursing Graduates Continues to Increase: The number of nursing graduates in the State increased significantly from fiscal 2002 to 2008 and is expected to continue increasing in fiscal 2008 and 2009.

Issues

Commission to Develop the Maryland Model for Funding Higher Education Submits Final Report: In December 2008, the Commission to Develop the Maryland Model for Funding Higher Education released a report recommending changes to the funding model for public four-year institutions. This issue will outline those recommendations and detail the fiscal impact of implementing them.

Funding Guidelines for Public Four-year Institutions Updated in 2008: In 2001, the Maryland Higher Education Commission (MHEC) determined that the funding peers used to calculate State appropriations for public four-year institutions should be periodically revised to acknowledge normal institutional changes. In 2008, MHEC updated these funding peers. This issue will review the updated guidelines and compare their fiscal impact to the guidelines set by the Commission to Develop the Maryland Model for Funding Higher Education.

Regional Higher Education Centers: This issue will discuss trends in the funding, enrollment, and management of Maryland's Regional Higher Education Centers.

Maryland Offers Largest State Appropriation to Support Operating Expenses at Independent Institutions: MHEC administers funding to eligible independent colleges and universities through the Joseph A. Sellinger funding formula. In fiscal 2007, Maryland appropriated \$50 million to independent institutions through Sellinger in support of operating expenditures, the largest appropriation of any state in the nation. This issue will discuss how Maryland ranks among its competitor states in funding for independent institutions.

Panel on the Comparability and Competitiveness of Historically Black Institutions Makes Recommendations: The Commission to Develop the Maryland Model for Funding Higher Education appointed a study panel to review options and make recommendations relating to the appropriate level of funding for the State’s historically black institutions to ensure that they are comparable and competitive with other public institutions. This issue will outline the recommendations proposed by that panel.

Nurse Support Program II Runs Large Carry-forward Balance: Nursing programs in the State continue to face capacity issues. The Nurse Support II Program (NSP II) is designed to increase the number of nurses in Maryland through competitive grants to institutions and individual grants and scholarships for nursing students and faculty. This issue will provide an update on the third year of the NSP II and its progress in expending carry-forward funds to increase the number of nurses in Maryland.

Recommended Actions

	<u>Funds</u>
1. Strike contingent reduction language on Sellinger formula.	
2. Reduce Sellinger program aid to nonpublic institutions.	\$ 15,633,522
3. Strike contingent reduction to Private Donation Incentive Grants.	
4. Reduce Private Donation Incentive Grants.	265,640
Total Reductions	\$ 15,899,162

Updates

Base Realignment and Closure Higher Education Investment Fund Workforce Initiatives: MHEC was allocated \$3 million in fiscal 2009 for a competitive grant program to fund higher education initiatives for Base Realignment and Closure-related personnel. This amount was reduced to \$2 million due to the Board of Public Works’ October cost containment action. This section will provide an update on the grant.

Updating the State Plan for Higher Education: MHEC has convened a commission and begun work on the 2009 State Plan for Higher Education, a blueprint for how Maryland will address concerns and achievements in its higher education system. By law, the plan must be updated every four years. This update will provide information on the commission’s progress.

Office for Civil Rights Partnership and MHEC Program Review: In December 2000, Maryland and the U.S. Department of Education’s Office for Civil Rights entered into a partnership agreement to build on the State’s efforts to eliminate all vestiges of its formerly segregated system of higher education. In this agreement, the State committed to further enhance its HBIs and to improve higher education opportunities for African Americans. Although this partnership agreement expired on December 31, 2005, the State has not yet been released from its obligations under the agreement. This update will provide information on the State’s current status in the Office for Civil Rights partnership.

Report on Qualified Scholarship Funding Bond: In 2008, MHEC produced a report on the feasibility of implementing a student loan program operated by a nonprofit organization through private bonds in response to a *Joint Chairmen’s Report* request. This section provides an update on the findings of that report.

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R62I0001
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 (MSU), St. Mary's College of Maryland, 16 community colleges, the State's private colleges and universities, and private career schools. The mission of MHEC is to ensure that the people of Maryland have access to a high quality, adequately funded, effectively managed, and capably led system of postsecondary education. The vision of MHEC is to have all the citizens of Maryland equally prepared to be productive, socially engaged, and responsible members of a healthy economy. The Secretary of MHEC is the head of the agency and serves at the pleasure of the 12-member commission.

The key goals for MHEC are:

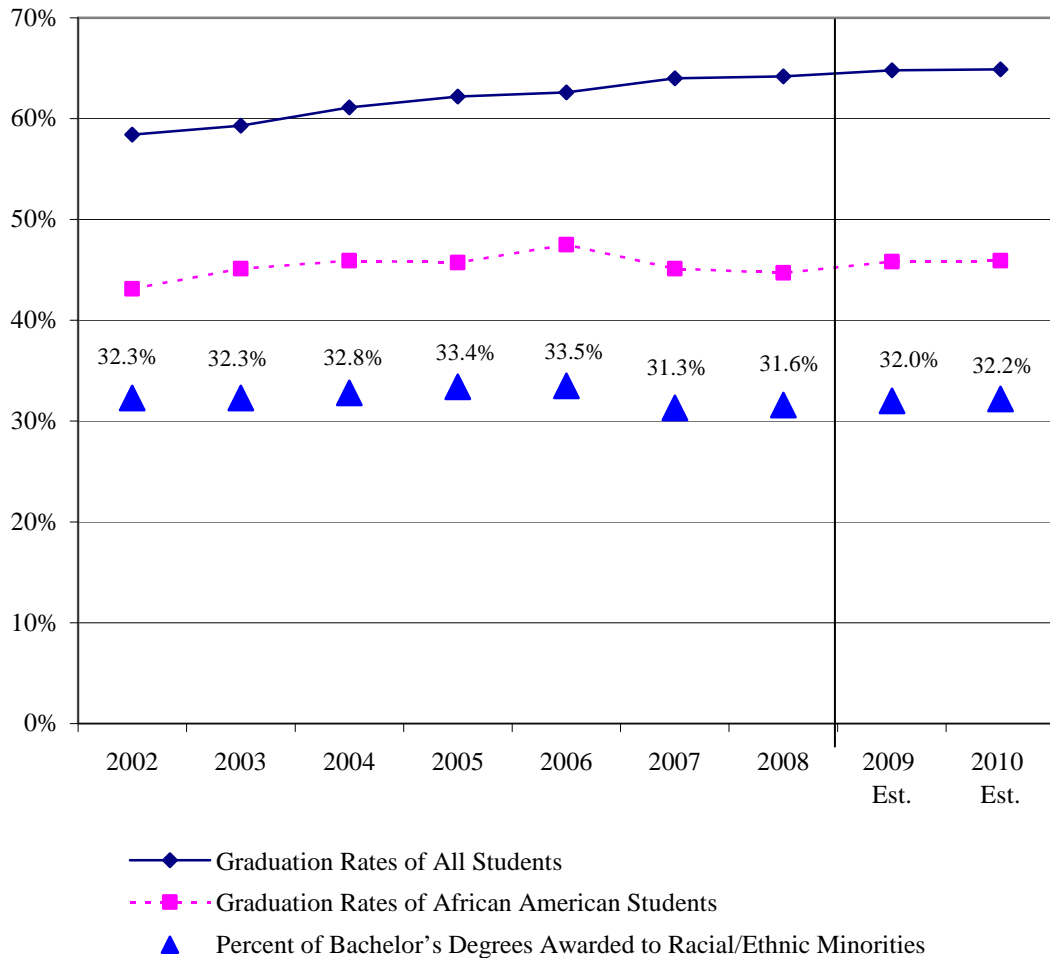
- to achieve and sustain a preeminent statewide array of postsecondary educational institutions that are recognized for their distinctiveness and their excellence nationally and internationally;
- to provide affordable and equitable access for every qualified Maryland citizen;
- to strengthen teacher preparation and improve the readiness of students for postsecondary education; and
- to contribute to the further development of Maryland's economic health and vitality.

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 in the 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.

One of MHEC’s key goals is to maintain and strengthen postsecondary institutions by increasing the percentage of bachelor’s degrees awarded at Maryland campuses. **Exhibit 1** shows the six-year graduation rates for all students and African American students at public four-year institutions in Maryland. From fiscal 2002 to 2008, six-year graduation rates for all students steadily increased. The six-year graduation rate for African American students, however, fell almost 3 percentage points between fiscal 2006 and 2008, though it is expected to slightly increase in fiscal 2009 and 2010. Bachelor’s degrees awarded to all racial/ethnic minority students enrolled at public four-year colleges fell more than two percentage points between fiscal 2006 and 2007 after several years of steady growth. Between fiscal 2007 and 2008, however, the percentage slightly increased, and growth is expected to continue in fiscal 2009 and 2010.

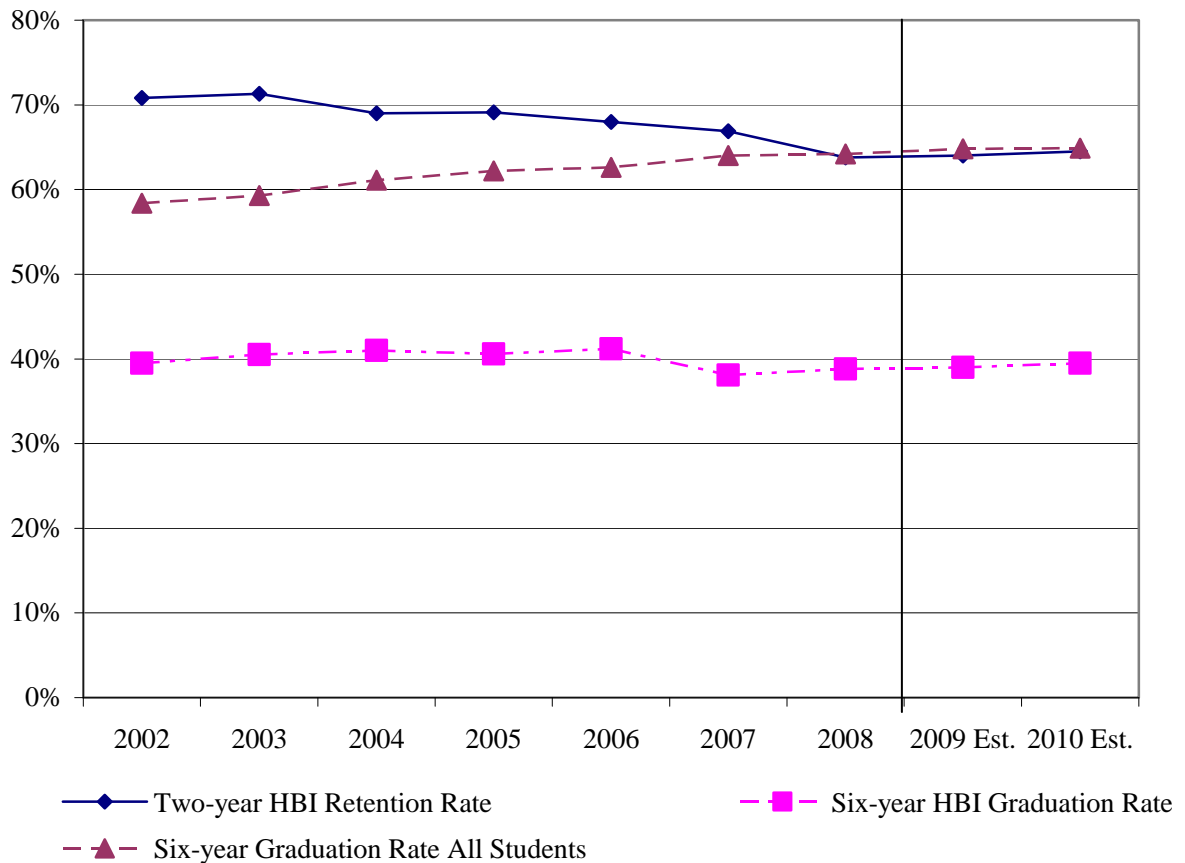
Exhibit 1
Six-year Graduation Rates of All Students and African American Students and Bachelor’s Degrees Awarded to Racial/Ethnic Minority Students
Fiscal 2002-2010 Estimate



Source: Governor’s Budget Books, Fiscal 2005, 2007, 2009, and 2010

In order to ensure equal educational opportunity for Maryland’s diverse citizenry, MHEC strives to improve retention and graduation rates at historically black institutions (HBIs). As shown in **Exhibit 2**, the two-year retention rate at HBIs has declined since fiscal 2002, though it is expected to stabilize in fiscal 2009 and 2010. Six-year graduation rates were relatively flat between fiscal 2002 and 2006 and declined in fiscal 2007. The rate increased slightly in fiscal 2008 and is expected to grow in fiscal 2009 and 2010. **The Secretary should comment on why two-year retention and six-year graduation rates at HBIs have declined since fiscal 2002 while the six-year graduation rate for all students has increased and discuss the steps MHEC is taking to increase these rates.**

Exhibit 2
Two-year Retention and Six-year Graduation Rates at
Historically Black Institutions
Fiscal 2002-10 Estimate

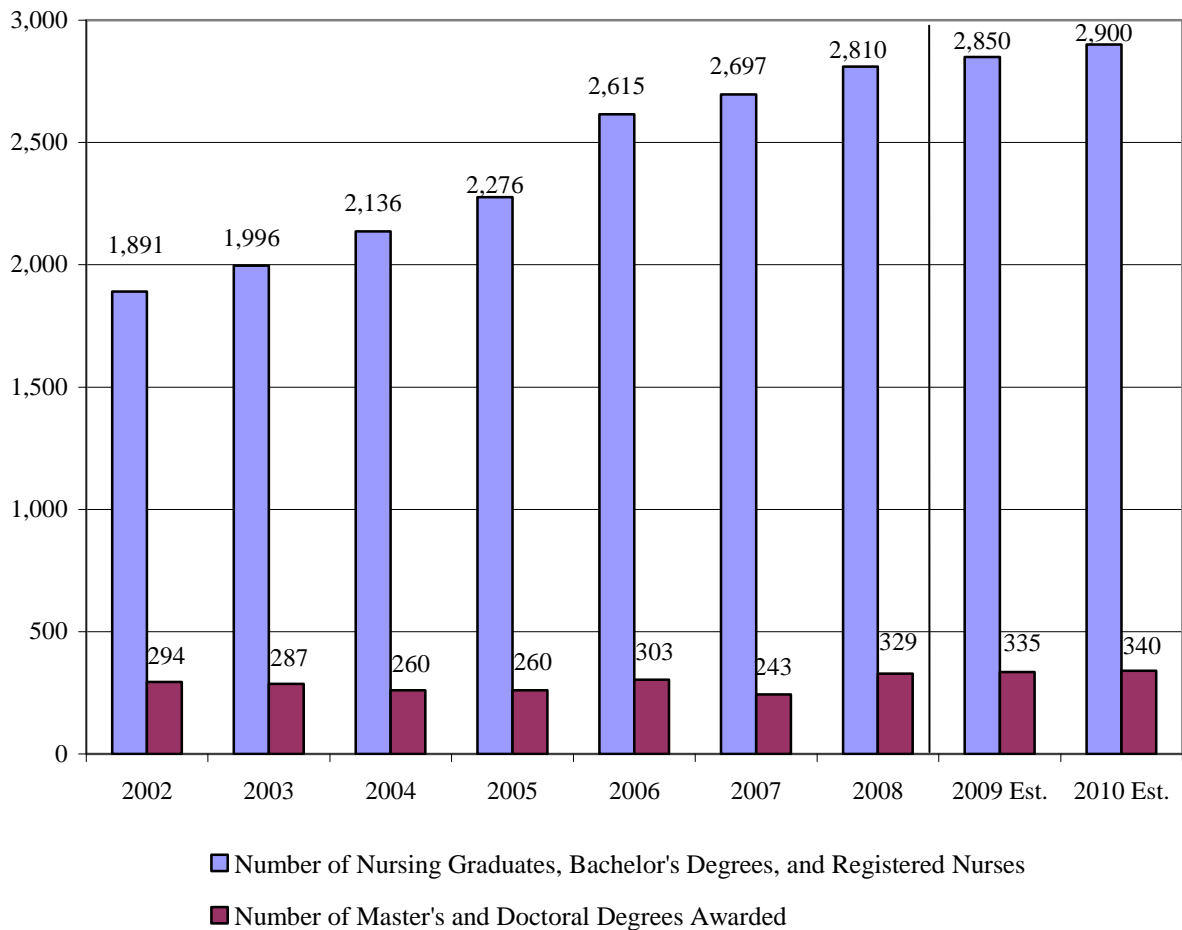


HBI: Historically Black Institution

Source: Governor’s Budget Books, Fiscal 2005, 2007, 2009, and 2010

MHEC also supports Maryland’s economy by coordinating programs related to workforce shortages, particularly in nursing and teaching. Currently, there is a shortage in master’s level nursing programs that may impact the future supply of nurse faculty and limit the ability of nursing programs to increase enrollment capacity. **Exhibit 3** shows the number of nurses with bachelor’s degrees and registered nurses and the number of master’s and doctoral degrees awarded in nursing from fiscal 2002 to 2010. The number of nursing graduates increased significantly from fiscal 2002 to 2008. While the number is expected to continue to grow, the rate of increase is projected to slow in fiscal 2009 and 2010.

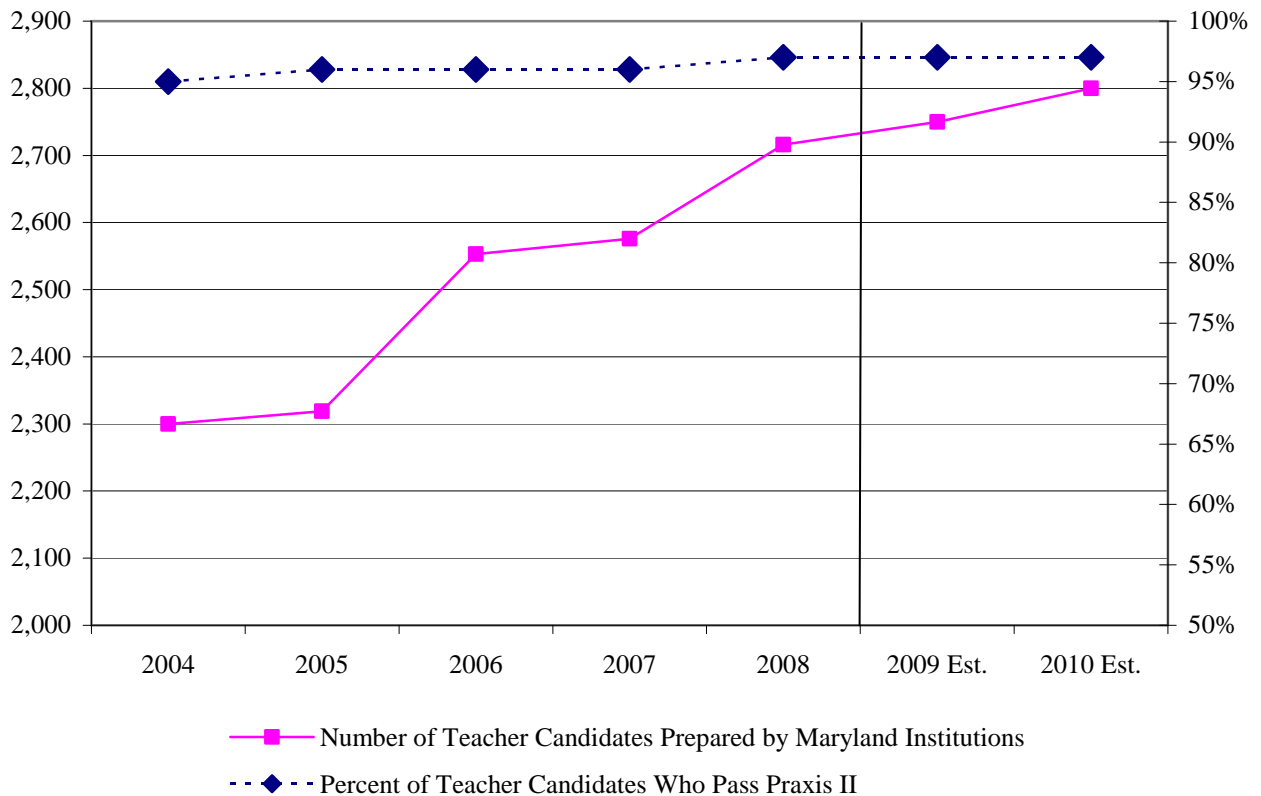
Exhibit 3
Trends in Nursing Graduates
Fiscal 2002-2010 Estimate



Source: Governor’s Budget Books, Fiscal 2005, 2007, 2009, and 2010

Another workforce area of emphasis is teaching. **Exhibit 4** shows the percentage of Maryland teacher candidates who pass Praxis II and the number of teacher candidates educated by Maryland institutions. As the exhibit shows, the Praxis II passage rate has held relatively steady since fiscal 2005, increasing slightly between fiscal 2007 and 2008 to 97%, where it is expected to remain level in fiscal 2009 and 2010. The number of teacher candidates prepared by Maryland institutions increased 20% between fiscal 2004 and 2008. While the number of candidates is expected to continue increasing in fiscal 2009 and 2010, the rate is expected to slow.

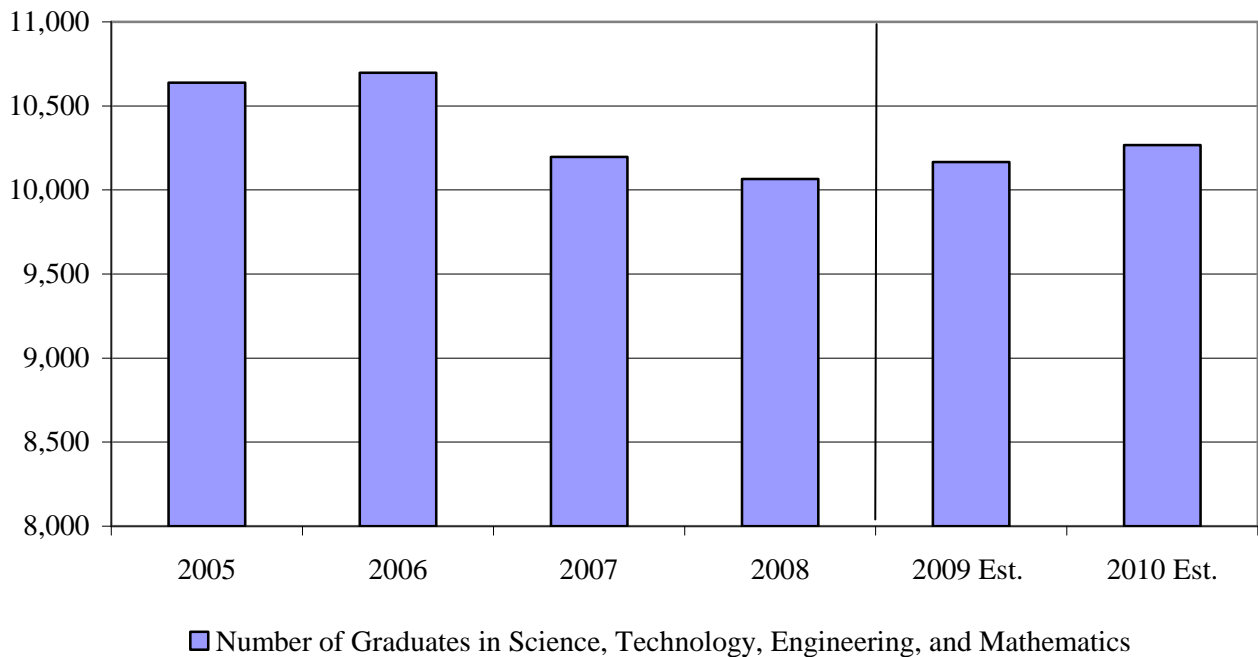
Exhibit 4
Teacher Candidates Who Pass Praxis II
Candidates Prepared by Maryland Institutions
Fiscal 2004-2010 Estimate



Source: Governor’s Budget Books, Fiscal 2007, 2009, and 2010

MHEC also tracks the number of graduates in the workforce shortage areas of science, technology, engineering, and mathematics (STEM). **Exhibit 5** shows the number of graduates from STEM subject areas between fiscal 2005 and 2010. After increasing slightly in fiscal 2006, the number of STEM graduates declined in fiscal 2007 and 2008, though it is expected to increase in fiscal 2009 and 2010. MHEC attributes the decline in STEM graduates in part to the dot.com bust, which resulted in a significant decline in the number of students majoring in computer science. The number of computer science graduates in Maryland decreased from 2,055 in the 2004-2005 academic year to 1,602 in academic 2006-2007. **The Secretary should comment on how MHEC plans to increase the number of STEM graduates produced by Maryland institutions.**

Exhibit 5
Number of Graduates in Science, Technology, Engineering, and Mathematics
Fiscal 2005-2010 Estimate



Source: Governor's Budget Books, Fiscal 2007, 2009, and 2010

Fiscal 2009 Actions

The Governor has submitted a deficiency appropriation for the fiscal 2009 operating budget, which would increase MHEC's general fund appropriation by \$163,796 to cover litigation costs relating to the *Coalition for Equity and Excellence in Maryland Higher Education, Inc. v. Maryland Higher Education Commission* case. This one-time request will cover the cost of one full-time litigation paralegal, 40 depositions, expert witness fees, and miscellaneous expenses.

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Due to an anticipated fiscal 2009 shortfall in HEIF revenues resulting from lower corporate income tax revenues, MHEC's HEIF funds are expected to be \$284,394 lower than the current working appropriation. Should this occur, MHEC will need to absorb this revenue loss through reductions to existing programs. MHEC plans to reduce BRAC funds or workforce shortage grants, if necessary, to address this issue.

Cost containment actions by the Board of Public Works (BPW) on June 25, 2008, and October 15, 2008, reduced MHEC's budget \$10.3 million. Details of cost containment measures appear in **Exhibit 6**. In addition, due to a shortfall in fiscal 2009 Higher Education Investment Fund revenues, MHEC may not realize \$284,394 of its special fund appropriation, and its general fund appropriation could be further reduced as part of the \$54.0 million of unspecified reductions to the Executive Branch expected in fiscal 2009.

Exhibit 6
Board of Public Works Cost Containment
Fiscal 2009

<u>Impact</u>	<u>Reduction</u>
Administration	
Health insurance reductions	\$28,646
Hiring freeze	50,000
Eliminates four vacant positions and reduces operating costs	384,296
Across-the-board reductions	114,320
Grants	
Reduces funding for the Community College Initiative for Students with Learning Disabilities, IMPART Grants, Welcome Grants, Diversity Grants, and Washington Center Grant Program	610,000
Fund Swap	
Reduces funding for the Higher Education Investment Fund Workforce Initiatives by \$1,000,000, including \$133,000 for regional higher education centers, which is then used in lieu of general funds in the Workforce Shortage Student Assistance Program	1,000,000
Sellinger	
Reduces aid to nonpublic institutions by 13.9%	8,133,658
Total	\$10,320,920

Source: Maryland Department of Budget and Management

Proposed Budget

As shown in **Exhibit 7**, the fiscal 2010 allowance increases MHEC's general funds by \$13.3 million, or 19.2%, primarily due to a \$15.6 million increase to the Sellinger aid to private colleges and universities, as mandated by statute.

Fiscal 2010 Cost Containment

Contingent and Back of the Bill language assumes:

- \$15.6 million reduction to Sellinger Aid;
- \$265,640 deferred payment for the Private Donation Incentive Program;
- \$13,255 reduction to deferred compensation;
- \$59,379 savings associated with the elimination of 2 vacant positions as part of the abolition of 1,000 positions in the Executive Branch; and
- \$31,940 reduction in expectation of savings in contractual services based on a favorable bidding climate.

If these reductions occur, the general fund change is -4.0%. Additional personnel reductions may occur in this agency as part of a statewide \$30.0 million unallocated across-the-board reduction.

Exhibit 7
Proposed Budget
Maryland Higher Education Commission
(\$ in Thousands)

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
2009 Working Appropriation	\$68,922	\$11,694	\$4,179	\$1,232	\$86,027
2010 Allowance	<u>82,179</u>	<u>14,729</u>	<u>3,484</u>	<u>179</u>	<u>100,571</u>
Amount Change	\$13,257	\$3,034	-\$695	-\$1,052	\$14,544
Percent Change	19.2%	25.9%	-16.6%	-85.4%	16.9%
 Contingent Reduction	 -\$16,002	 -\$1	 0	 -\$0	 -\$16,004
Adjusted Change	-\$2,745	\$3,033	0	0	-\$1,460
Adjusted Percent Change	-4.0%	25.9%	0	0	-1.7%

Where It Goes:

Personnel Expenses

Abolished/transferred positions.....	-\$37
Employee and retiree health insurance pay-as-you-go costs.....	11
Other Post Employment Benefits' unfunded liability	-38
Retirement contribution.....	18
Deferred compensation (after reducing fiscal 2010 for contingent reductions)	-13
Workers' compensation premium assessment.....	-1
Turnover adjustments; fiscal 2009 artificially high due to cost containment actions	221
Other fringe benefit adjustments	28

Other Changes

Sellinger aid funding to private colleges and universities.....	15,634
Private donation incentive grants	-2,007
Reductions to educational grants.....	-3,828
Nurse Support Program II	5,459
Major information technology development project.....	-1,011
Printing and reproduction costs.....	101
Other miscellaneous savings	-5

Where It Goes:

Contingent and Across-the-board Reductions

Sellinger aid funding to private colleges and universities	-15,634
Private donation incentive grants	-266
Abolish two vacant positions.....	-59
Savings from rebidding projects.....	-32
Total	-\$1,460

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

Joseph A. Sellinger Formula

Contingent upon the passage of the BRFA, the Sellinger formula will be level funded at \$50,445,958, or 12.2%, of prior year general fund appropriations per full-time equivalent student (FTES) at selected public institutions. The Governor has proposed furlough reductions for USM in fiscal 2009, however, which will reduce the State appropriation per FTES for selected public four-year institutions. As a result, to maintain Sellinger funding at \$50,445,958 in fiscal 2010, the formula would be funded at 12.4% per FTES. An additional \$54 million in remaining unspecified reductions for fiscal 2009 and HEIF underattainment may further reduce State support for the selected public four-year institutions, which could impact Sellinger aid. The Sellinger formula will be discussed in greater detail in Issue 4.

Educational Grants

The educational grants program provides miscellaneous educational grants and special financial assistance to various State, local, and private entities. The grants are intended to foster and enrich the quality of higher education within the goals set by the 2004 State Plan for Postsecondary Education. **Exhibit 8** shows the list of educational grants from fiscal 2008 to 2010. In the fiscal 2010 allowance, Henry C. Welcome Grants, Diversity Grants, the Doctoral Scholars Program, the Institute for Museum, Preservation, and Archaeology Research and Training, Academy of Leadership, Community College Learning Disabilities Initiative, and Maryland Industrial Partnerships are eliminated. In addition, funding was reduced \$622,515 for Improving Teacher Quality Grants, \$400,000 for Regional Higher Education Centers, \$125,000 for the UMBI, Maryland – Israeli Partnership, and \$500,000 for Higher Education Investment Workforce Initiatives. Overall, educational grants decreased by approximately \$3.8 million from fiscal 2009.

Exhibit 8
Educational Grants
Fiscal 2008-2010

<u>Program</u>	<u>2008</u> <u>Actual</u>	<u>2009</u> <u>Estimated</u>	<u>2010</u> <u>Estimate</u>
Improving Teacher Quality	\$1,282,544	\$1,700,000	\$1,077,485
Henry C. Welcome Grants	200,000	160,000	-
Diversity Grants	180,000	130,000	-
Office for Civil Rights Enhancement Fund	4,900,000	4,900,000	4,900,000
Doctoral Scholars Program	60,000	60,000	-
Washington Center for Internships and Academic Seminars	200,000	50,000	50,000
Interstate Educational Compacts in Optometry	165,500	165,500	165,500
Regional Higher Education Centers	850,000	1,250,000	850,000
UMBI, Maryland – Israeli Partnership	250,000	250,000	125,000
Institute for Museum, Preservation, and Archaeology Research and Training	199,990	130,000	-
University of Maryland, Baltimore – Wellmobile	570,500	570,500	570,500
Academy of Leadership	500,000	500,000	-
Maryland <i>Go for It!</i> Outreach	100,000	100,000	100,000
First-Year Experience Program	100,000	-	-
Community College Learning Disabilities Initiative	232,906	200,000	-
Maryland Industrial Partnerships	1,000,000	1,000,000	-
Professional Development Schools	500,000	-	-
Harry Hughes Center for Agro-Ecology	81,809	381,809	381,809
Higher Education Investment Workforce Initiatives	-	2,000,000	1,500,000
College Access Challenge Grant	-	615,592	615,592
Total	\$11,373,249	\$14,163,401	\$10,335,886
General Funds	\$10,090,705	\$9,447,809	\$8,642,809
Special Funds	-	2,400,000	-
Federal Funds	1,282,544	2,315,592	1,693,077
Total	\$11,373,249	\$14,163,401	\$10,335,886

UMBI: University of Maryland Biotechnology Institute

Source: Governor's Budget Books, Fiscal 2010

Base Realignment and Closure Higher Education Investment Fund Workforce Initiatives

The fiscal 2010 allowance includes \$1.5 million to fund a second round of competitive grants to assist Maryland's higher education institutions with the program development and implementation of initiatives to meet State needs related to the 2005 Defense Base Realignment and Closure (BRAC). In 2008, the General Assembly authorized \$3 million of Higher Education Investment Funds to finance the first round of grants, though BPW cost containment actions in October reduced this amount to \$2 million. The fiscal 2010 BRFA specifies that the general fund appropriation for these workforce initiatives will be reduced \$1.5 million, contingent on the reauthorization of the Higher Education Investment Fund (HEIF). If HEIF is reauthorized, these funds will be used to replace the \$1.5 million general fund allocation. The status of the Higher Education Investment Fund Workforce Initiative grants is discussed further in Update 1.

Nurse Support Program II

Nurse Support II (NSP II) is a 10-year program that annually provides funding to support nursing programs in Maryland through Competitive Institutional Grants and through scholarships and grants provided to individual students and faculty by statewide initiatives. NSP II received a \$5.5 million increase over fiscal 2009 in the fiscal 2010 allowance. In fiscal 2010, the program is expected to have a \$30.3 million unspent carry-forward balance of special funds, which is discussed further in Issue 6.

Private Donation Incentive Grants

The Private Donation Incentive Program (PDIP) provides State matching funds to promote private fundraising and encourage Maryland's public institutions of higher education to pursue gifts and donations to the institutions' endowments. First created by the General Assembly in 1990 for a seven-year period, the State provided matching funds for donations made to the endowments of public institutions and their affiliated foundations. In 1999, the General Assembly reauthorized the program for another six years for eligible institutions. The grant period began in fiscal 1999, and with the exception of the State's HBIs, all donation payments were to be made by June 30, 2004. The State deferred \$8.3 million in owed payments to institutions (excluding HBIs) in fiscal 2004 and 2005. MHEC was appropriated \$2.3 million in fiscal 2009 to satisfy remaining payments. That year, Bowie State University (BSU) submitted a late report justifying \$119,730 in State PDIP funding for collections raised in fiscal 2007, which displaced payment for remaining balances to all the other institutions in fiscal 2009. The fiscal 2010 allowance of \$265,000 provides funding for the \$119,730 in balances due to other colleges and universities in addition to funding due to BSU based on their reported collections for fiscal 2008. The BRFA defers this payment to fiscal 2011. BSU is the only institution with matching funds remaining, with \$752,092 left to raise by January 1, 2010, to reach the PDIP maximum.

Issues

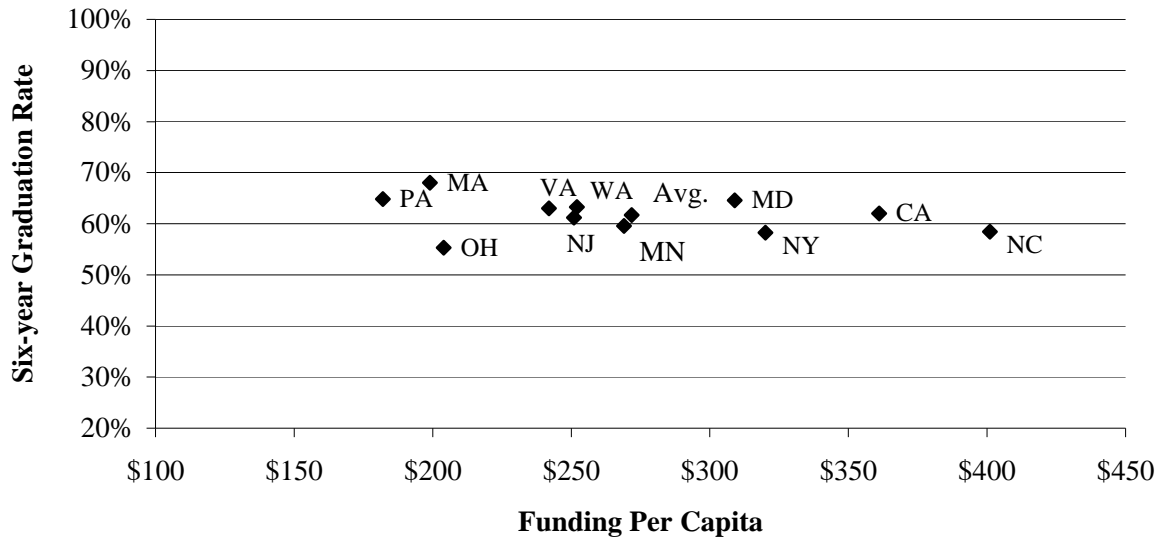
1. Commission to Develop the Maryland Model for Funding Higher Education Submits Final Report

The Commission to Develop the Maryland Model for Funding Higher Education was established by the Tuition Affordability Act of 2006 (Chapters 57 and 58). The commission was charged with developing an effective statewide framework for higher education funding, making recommendations relating to the establishment of a consistent and stable funding mechanism to ensure accessibility and affordability while at the same time promoting policies to achieve national eminence at all of Maryland's public institutions of higher education, and to make recommendations relating to the appropriate level of funding for the State's four historically black institutions to ensure that they are comparable and competitive with other public institutions.

The work of the Commission to Develop the Maryland Model for Funding Higher Education is an outgrowth of the *2004 State Plan for Postsecondary Education* (State Plan). The Maryland Higher Education Commission is required by statute to update the State Plan quadrennially. The State Plan was originally due July 1, 2008. MHEC is submitting legislation to delay the deadline to July 1, 2009, to allow for the consideration of the commission's final report, which was released in December 2008. Legislation is also being introduced to implement the commission's recommendations.

The report recommends Maryland's funding of higher education be based on the funding level of peer institutions in 10 states that Maryland competes with for business and jobs (competitor states), as determined by the Maryland Department of Business and Economic Development: Pennsylvania, Virginia, Massachusetts, North Carolina, New Jersey, New York, California, Minnesota, Ohio, and Washington. As shown in **Exhibit 9**, Maryland ranks slightly better than average on both funding per capita for higher education and six-year graduation rates for public four-year institutions. Maryland ranks fourth in per-capita funding at \$309, and graduates roughly 65% of students enrolled in public four-year institutions within six years, ranking third among competitor states.

Exhibit 9
Per Capita Funding and Six-year Graduation Rates for Higher Education
Maryland Competitor States
Fiscal 2007



Note: Average is simple average of competitor states.

Sources: Six-year graduation rate from the National Center for Public Policy; Higher Education’s *Measuring Up* 2008 Report; Funding Per-capita from State Higher Education Executive Officers

The proposed funding model includes four primary components that would help assure quality education for all students, access for all qualified students wishing to pursue higher education, and reasonable predictability of costs to students and families.

State Investment

The commission recommends setting per student investment in four-year public institutions at the seventy-fifth percentile of comparable institutions in the 10 competitor states for traditionally white institutions (TWIs), and at the eightieth percentile for HBIs in recognition of the additional resources needed for them to compete with other public institutions.

Tuition and Fees

The commission recommends setting tuition and fees at public institutions at or below the fiftieth percentile of peer institutions in the competitor states to provide appropriate funding without allowing the cost of attendance to discourage students from applying. To link tuition increases to a measure of family affordability, the commission also recommends establishing a Tuition Stabilization

Program aimed at limiting the annual percentage increase in resident tuition and fees to the three-year rolling average increase of Maryland's median family income.

Need-based Financial Aid

The commission recommends setting State investment in need-based financial aid per student at the seventy-fifth percentile of need-based financial aid in the competitor states. At a minimum, need-based aid should be increased each year to keep pace with tuition increases. In addition, student awards should increase annually to offset inflation, and maximum award amounts should be increased to recognize rising tuition and unmet need. Specifically, the maximum award for the Educational Assistance Grant should be increased to \$6,000, and a graduated scale for awards based on expected family contribution should be implemented. Eligibility for the Guaranteed Access Grant, which covers 100% of need up to \$14,300 for students with family income of 130% of the federal poverty level (\$27,560 for a family of four), should be increased to 150% of the federal poverty level (\$31,800 for a family of four), with smaller grants available to students with family income between 150 and 200% of the federal poverty level. Finally, the commission recommended establishing a Maryland Covenant to cover 100% of need for low-income students who complete a college preparatory curriculum and agree to complete a baccalaureate program in four years.

Accountability

The commission recommends annually assessing progress in meeting the Higher Education Funding Model for Maryland's (HEFMM) goals by displaying the "shortfall" in percentage (positive or negative) of selected parameters relative to actual funding.

The commission also recommends that funding for community colleges and eligible private institutions continue to be allocated using the statutory formulas based on State appropriations per FTES to a specified set of four-year public institutions. To help achieve the proposed HEFMM and to provide a reserve fund for higher education, the commission recommends that the dedicated revenue established in the Higher Education Investment Fund be made permanent.

Because the HEFMM guidelines are tied to higher education funding in competitor states, the guidelines may increase or decrease over time. The estimated annual incremental cost to implement the HEFMM is \$758.3 million, \$666.0 million of which is needed to bring investment to the seventy-fifth percentile of peers in competitor states, as shown in **Exhibit 10**.

Exhibit 10
Estimated Cost to Fully Implement Funding Model*
(\$ in Millions)

Funding guidelines at seventy-fifth percentile of peers in competitor states**	\$665.80
2008 update of guidelines	\$469.50
Increase associated with using peers in competitor states only	196.3
Tuition Stabilization Account to assist in setting tuition at fiftieth percentile of competitor states (also achieved through higher State funding of initiatives)	15
Need-based aid per FTES at seventy-fifth percentile of competitor states	70.1
Historically black institutions supplement for undergraduate enrollment***	<u>7.4</u>
Total	\$758.30

*Annual cost in fiscal 2010 dollars, to be phased in over 10 years, compared to fiscal 2009 working appropriation

** Historically Black Institutions are at the eightieth percentile. Does not include impact on funding formulas for community colleges or eligible private institutions.

***Assumes existing \$6.0 million State funding for Access and Success is absorbed into new program for a total cost of \$13.4 million based on \$1400 per student needing supplemental services

FTES: full-time equivalent student

Source: Commission to Develop the Maryland Model for Funding Higher Education, Final Report 2008

The commission recommends that the HEFMM be implemented within a 10-year period, which would require an annual increase of approximately \$85 million over inflationary growth. Comparisons between the HEFMM and the 2008 update of funding peers are discussed in Issue 2.

The Secretary should comment on how the Maryland Higher Education Commission plans to implement the commission’s recommendations.

2. Funding Guidelines for Public Four-year Institutions Updated in 2008

Maryland uses peer-based funding guidelines to determine each public four-year institution’s recommended State appropriation, excluding St. Mary’s College of Maryland. The funding guidelines identify peers from a nationwide pool of public institutions that are similar to each Maryland institution in mission, size, program mix, enrollment composition, and other characteristics.

Most peers are determined using regression analysis, though a few institutions have composite or aspirational peers. Funding recommendations using composite peers, which are selected by the institution and MHEC, are based on the average of the composite peers. Aspirational peers are consistent with the institution's mission and the State Plan for Higher Education and are peers that the institution aspires to emulate in performance and reputation.

The funding guidelines are based on per-student funding at peer institutions. In order to provide national comparisons, the funding guidelines use an adjusted full-time equivalent student (AFTES) enrollment to calculate the resources per FTES. The AFTES enrollment is based on fall headcount enrollment data taken from the Integrated Postsecondary Data Systems' national database. The resources per FTES which lags three years is adjusted using the Higher Education Price Index three-year average annual rate and is used to estimate the seventy-fifth percentile funding level of peers. The seventy-fifth percentile is multiplied by MHEC's projected FTES enrollment for the Maryland institution. The institutional operating budget, which includes total resources from tuition, mandatory fees, and State general fund appropriations, is used to determine the attainment of the funding guideline. However, in order to determine the general funds required for an institution to attain its funding guideline, tuition and fee revenue is subtracted from the projected institutional budget.

In 2001, MHEC determined that funding peers should be periodically revised to acknowledge institutional development over time, since each institution's peers provides not only a funding standard but also a basis for performance comparisons between public four-year institutions. In 2008, MHEC updated the guidelines to find the closest statistical peer matches within each institution's Carnegie Classification.¹ The peer selection process for several institutions differed slightly to account for a recent restructuring of the Carnegie Classification, which changed some schools' pool of potential peers. Peers for Towson University (TU) and the University of Maryland Baltimore County (UMBC) were selected from two Carnegie Classifications to account for characteristics in each institution that could not be adequately matched by peers from a single classification. The weighting of undergraduate, graduate, and professional FTES at the University of Baltimore (UB) were changed to better reflect the cost of educating graduate and professional students, which account for a large proportion of its student body. Morgan State University which, as an historically black doctoral institution, has a limited number of appropriate Carnegie peers, did not concur with the peers initially selected by the 2008 update. MHEC conducted additional statistical analysis with different variables to identify a revised group of peers and selected 18 institutions with FTES enrollments of less than 10,000 for MSU's final peer group. New peers were not selected for the University of Maryland, Baltimore, the University of Maryland, College Park (UMCP) or the University of Maryland Eastern Shore (UMES) as they have composite peer groups that do not need to be updated.

¹ The Carnegie Classification system is a framework for grouping colleges and universities with similar characteristics. The classification includes all accredited, degree-granting colleges and universities in the United States that are represented in the National Center for Education Statistics Integrated Postsecondary Education Data System. The classification system was revised by the Carnegie Commission in 2006.

Funding Impact of the Guideline Update Versus Higher Education Funding Model for Maryland on State Appropriation at Public Four-year Institutions

The funding model developed by the Commission to Develop the Maryland Model for Funding Higher Education (HEFMM) is based on either the seventy-fifth or eightieth (for HBIs) percentile of peers from Maryland's competitor states, whereas the funding guidelines updated by MHEC are based on the seventy-fifth percentile of nationwide peers. Both the fiscal 2010 funding guideline update and the guidelines set forth by the HEFMM increase the State appropriation required to reach full attainment, though not all institutions are impacted equally. **Exhibit 11** shows fiscal 2009 funding attainment for each public four-year institution under the original guideline, and fiscal 2010 attainment under both the revised and HEFMM guidelines (excluding St. Mary's College). As shown in the exhibit, the revised fiscal 2010 funding guideline recommendation is \$174 million more than the fiscal 2009 funding guideline using original peers. As a result, attainment fell from 81.2% in fiscal 2009 (shown in the fiscal 2009 estimated attainment column) to 73.8%. Some institutions' recommended funding increased significantly more than others: UB's funding attainment fell from 105.7% under the original guideline to 52.6% based on the updated guideline, while the University of Maryland University College's (UMUC) funding attainment increased from 38.8% in fiscal 2009 to 48.6% in fiscal 2010. Fully funding the updated guideline would require \$440 million over the fiscal 2010 allowance, while the HEFMM guideline would require \$618 million above the allowance.

Institutional funding attainment under the revised guidelines ranges from 48.6% at UMUC to 117.1% at Coppin State University (CSU). Under the HEFMM guideline, the lowest and highest attainers remain the same, though UMUC reaches 49.6% attainment and CSU 102.1%. The recommended funding level for most schools is higher using the HEFMM guideline than the updated guideline. The percent of recommended funding attained in the fiscal 2010 allowance is at least 10.0% lower under the HEFMM guidelines than the updated guidelines at four public four-year institutions: CSU, UMBC, UMES, and MSU. Recommended funding for two institutions is lower under the HEFMM model: UB and UMUC.

The Secretary should comment on how MHEC will incorporate the HEFMM funding guideline into funding recommendations and on whether the limited number of peers within the competitor states will affect their use as a performance measure for Maryland institutions.

Exhibit 11
Funding Guidelines Compared to Higher Education Funding Model for Maryland (HEFMM)
Fiscal 2009 and 2010 Estimated Attainment
(\$ in Thousands)

<u>Institution</u>	<u>2009 Funding Guideline</u>	<u>2009 Appropriation with Cost Containment</u>	<u>2009 Estimated Attainment</u>	<u>2010 Allowance</u>	<u>2010 Funding Guideline</u>	<u>2010 HEFMM Funding Guideline</u>	<u>2010 Funding Guideline Attainment</u>	<u>2010 HEFMM Guideline Attainment</u>	<u>2010 HEFMM Difference from Funding Guideline</u>
Bowie State University	\$41,464	\$35,857	86.5%	\$36,330	\$46,933	\$47,508	77.4%	76.5%	\$575,188
Coppin State University	35,024	35,139	100.3%	38,864	33,201	38,084	117.1%	102.0%	4,883
Frostburg State University	36,565	33,457	91.5%	34,412	42,375	42,620	81.2%	80.7%	245
Salisbury University	51,239	39,641	77.4%	40,808	59,544	66,428	68.5%	61.4%	6,884
Towson University	105,561	91,384	86.6%	93,678	129,988	148,309	72.1%	63.2%	18,321
University of Baltimore	29,679	31,380	105.7%	31,729	60,336	52,225	52.6%	60.8%	-8,112
UM, Baltimore	250,046	184,716	73.9%	186,871	293,672	308,819	63.6%	60.5%	15,147
UM Baltimore County	103,529	91,465	88.3%	92,761	135,005	182,659	68.7%	50.8%	47,654
UM Biotechnology Institute	28,839	20,625	71.5%	21,192	27,225	30,695	77.8%	69.0%	3,471
UM Center for Env. Science	21,452	17,885	83.4%	18,455	23,608	26,618	78.2%	69.3%	3,010
UM, College Park	530,296	420,029	79.2%	424,493	552,623	625,117	76.8%	67.9%	72,493
UM Eastern Shore	40,428	33,037	81.7%	33,420	46,001	53,363	72.7%	62.6%	7,362
UM University College	74,631	28,987	38.8%	31,551	64,896	63,586	48.6%	49.6%	-1,310
USM Total	1,348,755	1,083,331	80.3%	1,104,455	1,515,408	1,686,031	72.9%	65.5%	170,624
Morgan State University	77,551	74,711,721	96.3%	76,033	85,048	112,103	89.4%	67.8%	27,055
Total	\$1,426,306	\$1,158,043	81.2%	\$1,180,487	1,600,455	\$1,798,134	73.8%	65.7%	\$197,679

Note: Total includes University System of Maryland Office.

Source: Maryland Higher Education Commission, Commission to Develop the Maryland Model for Funding Higher Education Final Report, 2008

3. Regional Higher Education Centers

Regional higher education centers (RHECs) are designed to ensure access to higher education in unserved and underserved areas of the State. They provide baccalaureate and graduate programs in places where students do not have access due to geographical distance, commute time, or the limited capacity of local four-year institutions. RHECs offer the State an opportunity to address workforce needs in high-demand areas, particularly for nontraditional students, and to support State, regional, and local economic and workforce development goals.

A RHEC is a facility in the State that has the participation of two or more institutions, offers multiple degree levels, and consists of a variety of program offerings. There are eight RHECs in Maryland. Two are governed by USM: the Universities at Shady Grove and USM at Hagerstown. Six centers fall under the coordinating responsibility of MHEC. Each center has its own governance and organization structure:

- Anne Arundel Community College Regional Higher Education Center at Arundel Mills;
- Eastern Shore Higher Education Center;
- Higher Education and Conference Center at the Higher Education and Applied Technology Center;
- Laurel College Center;
- Southern Maryland Higher Education Center; and
- Waldorf Center for Higher Education.

In 2000, the General Assembly passed a law revising the Maryland Charter for Higher Education to include regional higher education centers and charged MHEC with coordinating responsibility. In 2001, MHEC developed the Regional Higher Education Center Guidelines to guide policy, mission, strategic planning, and operating and capital budgets for the centers.

The two USM RHECs are funded as line items in the USM Office operating budget, while the other six are funded by grants through MHEC's operating budget. Capital funding for the USM centers is a part of USM's capital process. The other six centers' capital requests are handled on a case-by-case basis.

In 2005, the General Assembly charged MHEC with developing an equitable, consistent, and ongoing funding strategy for the non-USM RHECs. The resulting strategy contains the following components:

- base allocation for each center (\$200,000);

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- incentive funding for full-time equivalent students (2+2 lower division, upper division, and graduate) tied to the inflation-adjusted fiscal 2005 general fund appropriation per FTES at the Universities at Shady Grove;
- lease funding for centers with leased space that have not received State capital funding support; and
- special funding for one-time projects or startup costs.

The funding strategy was first implemented though not fully funded in fiscal 2009. **Exhibit 12** shows the State appropriation for each non-USM center in fiscal 2008 through 2010. The fiscal 2008 budget appropriated a total of \$850,000 for non-USM RHECs, \$100,000 to each center except Southern Maryland, which received \$350,000. The fiscal 2009 budget included an increase of \$800,000 for the non-USM centers with a total appropriation of \$1.65 million. However, \$400,000 was to be provided from BRAC HEIF funds. Cost containment reduced the amount to \$266,500, which was awarded in early January 2009. Each center except Southern Maryland was given a base allocation of \$50,000 while the remaining funds were distributed through the incentive funding for full-time equivalent students as described by the funding strategy developed by MHEC. The fiscal 2010 allowance returns non-USM RHEC funding to the fiscal 2008 level of \$850,000 and does not incorporate incentive funding.

Exhibit 12
State Operating Funds for Regional Higher Education Centers

<u>Regional Higher Education Center</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Fiscal 2010 Allowance</u>
AACC RHEC at Arundel Mills	\$100,000	\$162,563	\$100,000
Eastern Shore	100,000	153,850	100,000
Higher Education Center at HEAT	100,000	177,464	100,000
Laurel College Center	100,000	156,392	100,000
Southern Maryland	350,000	419,461	350,000
Waldorf Center	100,000	180,270	100,000
Non-USM Total	850,000	\$1,250,000*	\$850,000

AACC: Anne Arundel Community College
HEAT: Higher Education and Applied Technology Center
USM: University System of Maryland

*Additional \$400,000 from Base Realignment and Closure was appropriated; cost containment reduced the amount to \$266,500.

Source: Maryland Higher Education Commission

The 2008 *Joint Chairmen's Report* required the Commission to Develop the Maryland Model for Funding Higher Education to review and make recommendations regarding the RHECs funding and governance structures. The commission's final report recommends that the funding strategy for the six non-USM centers be implemented and funded to provide for a more equitable and consistent funding stream. The commission also recommends that incentive grants be made available to RHECs to assist with program development, offset the cost of new programs, and promote the articulation of programs between the two- and four-year institutions represented at the center.

The commission also recommended that MHEC establish a workgroup to examine and recommend best practices that each center should adopt, to provide equal opportunity for participation for all partners or an incentive to offer programs at the centers. The six non-USM RHECs have different governance structures ranging from independent boards, community college advisory boards, and intersegmental governance. Unlike USM centers, affiliated entities are not governed by the same body; therefore, getting institutions to participate in the centers is sometimes difficult. **The Secretary should comment on how MHEC plans to implement the commission's recommendations.**

4. Maryland Offers Largest State Appropriation to Support Operating Expenses at Independent Institutions

MHEC administers funding to eligible independent colleges and universities through the Joseph A. Sellinger funding formula.² This annual aid for operating expenditures is calculated by multiplying the number of FTES enrolled at independent institutions (independents) by 16% of the prior year's State general fund appropriation per FTES at selected four-year public institutions.

Maryland is one of only 14 states to provide operating support to independents. In fiscal 2007, the most recent year for which data is available, a study by the State Higher Education Executive Officers found that Maryland appropriated approximately \$50 million in operating aid to independents, or 3.4% of total State support for all higher education sectors, more than any other state. **Exhibit 13** shows the amount of operating aid appropriated to independents in Maryland and 10 competitor states indentified by the Commission to Develop the Maryland Model for Funding Higher Education. Pennsylvania and New York appropriated the next largest amounts in operating aid to independents at approximately \$48 million, or 2.2% of total state support for all sectors of higher education and \$42 million, or 0.8% respectively. Three competitor states, California, North Carolina, and Washington, appropriate no such funding to independents.

² Section 17-101 of the Education Article

Exhibit 13
State Appropriation to Independent Institutions
Fiscal 2007

	Independents’ Operating Support	State Support for Higher Education, All Sectors	Independents’ Operating Support as % of State Support for Higher Education, All Sectors	State Population 2006 (July 1), US Census Bureau
California	\$0	\$11,339,797,000	0.0%	36,249,872
Maryland	49,964,598	1,450,214,753	3.4%	5,602,017
Massachusetts	5,325,000	1,286,564,204	0.4%	6,434,389
Minnesota	1,391,000	1,400,500,000	0.1%	5,154,586
New Jersey	19,481,000	1,973,721,000	1.0%	8,666,075
New York	42,238,000	5,518,450,718	0.8%	19,281,988
North Carolina	0	3,459,693,489	0.0%	8,869,442
Ohio	6,193,526	2,208,141,448	0.3%	11,463,513
Pennsylvania	47,976,168	2,153,998,000	2.2%	12,402,817
Virginia	25,942,566	1,854,731,000	1.4%	7,640,249
Washington	0	1,631,059,000	0.0%	6,374,910

Source: State Higher Education Executive Officers; U.S. Census Bureau

New Jersey and New York are the only competitor states that provide funding to independents through a formula as Maryland does. Of the seven competitor states that provide operating aid to independents, Minnesota, Ohio, Virginia, and Massachusetts appropriate funds to select independent institutions to support medical research or specific programs such as veterinary training that public institutions do not provide. Only New Jersey, Pennsylvania, New York, and Maryland provide funding to independent institutions to support general operations.

The Commission to Develop the Maryland Model for Funding Higher Education has identified funding public four-year institutions at the seventy-fifth percentile of peer institutions in the competitor states as Maryland’s goal for funding most public four-year institutions. Due to the linkage between State funding per FTES for selected public four-year institutions and the Sellinger formula, funding for independent institutions would increase proportionally as public four-year funding increases under the proposed Higher Education Funding Model for Maryland

In fiscal 2009, after cost containment reductions, the Sellinger formula was funded at \$50,445,958, or 13.1% of the prior year’s State appropriation per FTES. While the fiscal 2010 allowance funds Sellinger at \$66.1 million, consistent with the statutory requirement, language in the fiscal 2010 budget bill makes a \$15,633,522 reduction contingent on the Administration’s budget reconciliation legislation (HB101/SB166 BRFA). If the legislation is passed, the formula would be

funded at 12.4% of the prior year's State appropriation per FTES at selected four-year public institutions when USM's expected fiscal 2009 furlough reductions are accounted for.

The BRFA also changes Sellinger's future year funding levels as shown in **Exhibit 14**. Though the Department of Budget and Management intended to level fund the formula at \$50,445,958 in fiscal 2011, the 11.7% funding level is projected to total only \$48,662,909 based on the fiscal 2010 allowance for the selected public four-year institutions. To level fund Sellinger in fiscal 2011, the formula would need to be set at 12.13%.

Truing Up

Because State aid to independents (and community colleges) is determined based on the amount of State funds at selected four-year public institutions the previous year, when public institutions receive larger appropriations in good economic times, independents and community colleges must wait to realize the increase. In difficult economic times, independents and community colleges often take a large reduction since their appropriation is inflated by prior year funding. By "truing up" the per FTES formula so that it does not lag a year, independents could enjoy funding growth in the same year as public institutions. This would allow the State to budget for the full cost of higher education funding increases in the same year rather than over two years. The fiscal 2010 "trued up" per FTES percentage for independents based on projected State appropriations to selected public four-year institutions would be 12.3%, assuming level funding in fiscal 2011. Exhibit 14 shows the estimated Sellinger appropriation from fiscal 2010 through 2015 based on current year per FTES funding at selected public four-year institutions if the formula is level funded in fiscal 2010 and 2011, and frozen at the fiscal 2011 percentage of 11.8% in future years.

The Department of Legislative Services (DLS) recommends reducing Sellinger aid to nonpublic institutions \$15,633,522 as proposed by the Governor, and adjusted to incorporate current year per FTES funding at selected four-year public institutions. DLS also recommends that the Sellinger formula be level funded in fiscal 2011 and that the per FTES funding level should be frozen at the independents' per FTES percentage of State appropriation to selected public four-year institutions given level funding in fiscal 2011, projected to be 11.8%.

**Exhibit 14
Selling Funding Levels and Projected Appropriations
Fiscal 2011-2015**

BRFA recommendation based on prior year State appropriation:

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Funding Level in BRFA	--	11.7%	12.7%	13.7%	14.7%	16.0%
Projected Appropriation	\$50,445,958	\$48,662,909	\$55,107,155	\$62,127,459	\$69,770,151	\$79,884,868
Funding Per FTES	\$1,235	\$1,174	\$1,310	\$1,455	\$1,610	\$1,816

Corrected BRFA:

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Funding Level in BRFA	--	12.1%	12.7%	13.7%	14.7%	16.0%
Projected Appropriation	\$50,445,958	\$50,445,958	\$55,107,155	\$62,127,459	\$69,770,151	\$79,884,868
Funding Per FTES	\$1,235	\$1,217	\$1,310	\$1,455	\$1,610	\$1,816

DLS recommendation based on current year State appropriation:

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Funding level	12.3%	11.8%	11.8%	11.8%	11.8%	11.8%
Projected Appropriation	\$50,445,958	\$50,445,958	\$52,720,435	\$55,178,297	\$58,044,423	\$61,084,253
Funding Per FTES	\$1,235	\$1,217	\$1,253	\$1,292	\$1,339	\$1,391

Difference between DLS recommendation and corrected BRFA:

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
	\$0	\$0	-\$2,386,720	-\$6,949,162	-\$11,725,728	-\$18,800,615

BRFA: Budget Reconciliation and Financing Act
FTES: full-time equivalent student

5. Panel on the Comparability and Competitiveness of Historically Black Institutions Makes Recommendations

The Commission to Develop the Maryland Model for Funding Higher Education appointed a panel of experts to study the funding needs of Maryland's Historically Black Institutions to ensure that they are comparable and competitive with other public institutions. The State committed to this effort in its 2006 response to the U.S. Office for Civil Rights (OCR), following the expiration of the 2000 Partnership Agreement in December 2005. In this response, the State indicated that it had met the agreement's commitments and expressed its intent to develop measurable indicators of parity among HBIs and TWIs. The Panel on the Comparability and Competitiveness of Historically Black Institutions in Maryland (Study Panel) submitted a final report to the commission in November 2008 which included definitions and indicators of comparability and competitiveness among HBIs and TWIs, an assessment of how Maryland's HBIs and TWIs compare, and a process for determining the level and type of capacity needed to produce competitive outcomes at HBIs. In December 2008, the commission released its final report, which largely endorsed the Study Panel's recommendations.

Study Panel Recommendations – Undergraduate Education

The Study Panel found that on traditional capacity indicators such as funding per student and student-faculty ratios, Maryland's HBIs and TWIs are similar, though the Study Panel found that HBIs serve higher percentages of underprepared and lower-income students, and that outcomes such as graduation rates differed between HBIs and TWIs. The panel concluded that HBIs need a different level of capacity due to their dual mission to provide regular collegiate programs in addition to developmental education for students who otherwise might not go to college. The panel recommended that graduation rates be the primary indicator of competitiveness among HBI undergraduate programs, and that HBIs receive appropriate funding to raise graduation rates to be comparable to TWIs. To determine the funding needed to achieve this goal, the panel recommended that MHEC coordinate a group of HBIs and experts to outline the programs and services required to ensure that underprepared students graduate. The panel also recommended additional need-based aid to increase affordability for low-income students, which would disproportionately affect students attending HBIs.

The commission recommended that a supplement be provided to the HBIs above the funding provided by the Higher Education Funding Model for Maryland in recognition of the remediation effort demanded of HBIs. Preliminary estimates suggest that \$3 to \$4 million in annual funding at each institution is needed to support underprepared students and improve graduation rates, about \$1,428 per FTES. This estimate will be refined and adjusted as additional data is collected. The commission recommended that institutions receiving such funding should develop measurable goals like graduation rates and report annual progress toward those goals. The commission also recommended that this supplement should replace the existing Access and Success program, a State-funded program to improve graduation rates at HBIs by enhancing the relationship between administration, enrollment management, and teaching and learning practices.

The General Assembly added budget language to the fiscal 2009 budget bill restricting the expenditure of \$1.5 million in general funds for each of the HBIs' Access and Success Programs until a report was submitted to the budget committees detailing how funds would be spent. The report was to include measures used to evaluate performance of programs designed to improve student success.

In a letter dated August 4, 2008, to the budget committees, the Presidents of the four HBIs expressed concerns about using common measures to evaluate the effectiveness of existing and diverse programs. In the letter, the Presidents expressed concern that they were being asked to evaluate the effectiveness of a program in existence for seven years. Furthermore, since each institution developed programs designed to meet the needs of its students, it would be difficult to identify common measures to evaluate programs. Finally, the letter stated that retention and graduation rates were not good measures because funding for the program has not been sufficient to address the various factors known to affect these rates. As of this writing, the restricted fiscal 2009 funds have not been released.

Study Panel Recommendations – Graduate Education

In its recommendations concerning graduate education, the Study Panel focused on the doctoral programs at MSU and UMES, and found a lack of comparability between the institutional platforms upon which quality doctoral programs are built (such as academic and physical infrastructure) and the institutional platforms of MSU and UMES. The panel recommended that MSU and UMES each develop a strategic plan to improve its platform to make it comparable to quality doctoral institutions. In addition, the Study Panel recommended that MSU and UMES first, identify a few programs to prioritize and develop, and second, identify the infrastructure needed to develop those programs. MSU and UMES would be expected to submit their plans to their governing boards and then MHEC for approval. The Study Panel also recommended capacity and outcome indicators to measure comparability and competitiveness among doctoral programs and suggested that new funding for such programs be targeted and monitored, and the institutions held accountable for expenditures and outcomes.

While the Study Panel found that the facilities at HBIs lag behind those at TWIs and recommended that the State accelerate funding for HBI capital priorities if physical capacity needs warranted, the commission recommended that HBIs first review their capital priorities to ensure alignment with undergraduate, institutional platform, and targeted doctoral program needs once the recommended undergraduate and doctoral plans are developed.

Finally, the commission recommends appointing a committee to annually report to MHEC, the Governor, and the General Assembly on the progress of the State and HBIs on meeting the goals of comparability and competitiveness. **The Secretary should comment on how MHEC plans to implement the commission's recommendations.**

6. Nurse Support Program II Runs Large Carry-forward Balance

The Nurse Support Program II was established to increase the number of bedside nurses in Maryland hospitals and the nurse faculty necessary to train these nurses. NSP II is a 10-year program that annually was expected to provide approximately \$8.8 million to support nursing programs. However, annual revenues have been about \$11.0 million the past three years. Funding for NSP II is generated through a 0.1% increase in the rates for all hospitals in the State adopted by the Maryland Health Services Cost Review Commission, which began July 1, 2005. This revenue is used to award competitive institutional grants, implement statewide initiatives that assist students and faculty through scholarships and grants, and administer NSP II. Legislation enacted in 2006 (Chapter 221) created a non-lapsing special fund for program revenues so that funds may be carried forward and awarded in future years. The fiscal 2009 carry-forward balance of that fund is \$23.9 million.

Exhibit 15 shows the number of proposals received and the number of grants awarded for each round of competitive institutional grants, as well as the year one and five-year costs of each proposal round. In the first round, only 7 of 26 submitted proposals received grants, which totaled \$6.2 million in five-year funding. In the second round, 23 proposals were submitted, of which 9 received funding at a five-year cost of \$5.9 million. The most recent round showed a significant decline in the number received; only four proposals were submitted, and three received funding totaling \$2.8 million over five years. As a result of the recent decline in proposals and a tendency to award conservatively in prior rounds to ensure funding for multi-year proposals, MHEC has not been able to adequately spend down the special fund balance to increase the number of nurses in Maryland.

Exhibit 15
Nurse Support II Competitive Institutional Grants
Proposed and Awarded
Fiscal 2007-2009

	<u>Number of Grant Proposals Received</u>	<u>Number of Grants Awarded</u>	<u>1-year Funding</u>	<u>5-year Funding</u>
Round 1	26	7	\$1,380,595	\$6,170,497
Round 2	23	9	\$1,600,000	\$5,900,000
Round 3	4	3	\$486,504	\$2,801,137
Total	53	19	\$3,467,099	\$14,871,163

Source: Maryland Higher Education Commission

While NSP II funding is also available to assist individual nursing students and faculty through scholarships and grants, only a small percentage of total program revenue has been used for this purpose. In fiscal 2007 and 2008, a total of \$2.2 million was spent on statewide initiative awards. MHEC expects to spend \$3.2 million in fiscal 2009 and \$4.6 million in fiscal 2010. While \$300,000 in NSP II funds was used to support Workforce Shortage Student Assistance Grants (WSSAG) to nurses in fiscal 2008 and is expected in fiscal 2009 and 2010 as well, more than \$1.2 million in fiscal 2008 was awarded to nursing students through WSSAG in total, leaving \$926,000 covered by general funds.

Exhibit 16 shows that as a result of these trends, NSP II has a \$23.9 million carry-forward balance in special funds, which is expected to grow to \$30.3 million in fiscal 2010. NSP II obligations to ongoing institutional grants and Statewide Initiatives in future years are \$8.8 million, or 29% of the projected fiscal 2010 fund balance, leaving a fund balance of \$21.5 million.

Exhibit 16
Nurse Support II Fund Balance
Fiscal 2007-2010

<u>Year</u>	<u>Expenditures</u>	<u>Revenues</u>	<u>Fund Balance</u>
2007	\$1,800,000	\$19,200,000	\$17,300,000
2008	5,000,000	11,500,000	23,900,000
2009 (Est.)	6,300,000	11,500,000	23,900,000
2010 (Est.)	8,451,575	11,000,000	30,300,000
Multi-year Grants			-8,800,000
Remaining Fund Balance			\$21,500,000

Source: Maryland Higher Education Commission

The Department of Legislative Services (DLS) recommends that HSCRC be directed to relieve the hospitals of the 0.1% tax supporting NSP II for one year, to permit MHEC to spend down the existing special fund balance. DLS further recommends that administration of NSP II be transferred to the State Board of Nursing. Legislation such as the BRFA would be needed to implement this recommendation.

Recommended Actions

1. Strike the following language on the general fund appropriation:

~~, provided that this appropriation shall be reduced by \$15,633,533 contingent upon the enactment of legislation to reduce the required appropriation for the support of non public institutions of higher education.~~

Explanation: Technical amendment to reflect a budget action.

	<u>Amount Reduction</u>	
2. Reduce Sellinger program aid to nonpublic institutions.	\$ 15,633,522	GF
3. Strike the following language from the general fund appropriation:		
, provided that this appropriation shall be reduced by \$265,640 contingent on the enactment of legislation delaying payments from the State to eligible institutions under the Private Donation Incentive program until fiscal year 2011.		

Explanation: Technical amendment to reflect a budget action.

	<u>Amount Reduction</u>	
4. Reduce the general fund appropriation for Private Donation Incentive Grants to delay payment from the State to eligible institutions until fiscal 2011.	265,640	GF
Total General Fund Reductions	\$ 15,899,162	

Updates

1. Base Realignment and Closure Higher Education Investment Fund Workforce Initiatives

As a result of the 2005 federal BRAC, Maryland will need to accommodate a significant expansion of United States military installations. BRAC is expected to create 25,000 new jobs and relocate more than 25,000 households to the State. Many of the jobs associated with BRAC require specialized or technical training.

In fiscal 2009, MHEC was allocated \$3.0 million in higher education investment funds for a competitive grant program to fund initiatives for BRAC-related personnel. Cost containment actions in October 2008 reduced the funding available for this program to \$2.0 million, leaving up to \$1.2 million for grants to expand capabilities related to BRAC educational needs, \$533,500 for literacy projects, and \$266,500 for BRAC initiatives through Regional Higher Education Centers. Projects included expanding campus capabilities, developing courses or programs to meet BRAC educational needs, technology upgrades, workforce training, and literacy.

Eligible applicants included public and private, two- and four-year, higher education institutions in Maryland, as well as Maryland research institutions, RHECs and private career schools. Priority was given to proposals training workers for jobs at Aberdeen Proving Ground, Andrews Air Force Base, the National Naval Medical Center, Fort Detrick, and Fort Meade.

Request for Applications (RFAs) were due November 6, 2008, and awardees were notified in early December. **Exhibit 17** summarizes grant award recipients.

Exhibit 17
BRAC Higher Education Investment Fund Award Recipients – Fiscal 2009

<u>Institution</u>	<u>Grant</u>	<u>Category</u>	<u>Project</u>
Baltimore City Community College	\$129,676	General	Fiber optics, green building, and information systems security training
Bowie State University	140,000	General	Information threat management training
Cecil College	80,828	Literacy	Entry and mid-level computer skills training
Cecil College	70,000	Literacy	Online writing lab and tutoring
Community College of Baltimore County	150,000	General	New electrical and electronics courses
Community College of Baltimore County	83,943	Literacy	English as a second language and career resources
Hagerstown Community College	113,052	General	Biotechnology summer institute and biotechnology interns at Fort Detrick
Harford Community College	153,198	General	Electrical engineering certificate program
Johns Hopkins University	140,000	General	Online masters in systems engineering
Morgan State University	107,059	General	Certificate programs in health leadership, health records management, bioinformatics and planning, and health
Prince George's Community College	87,000	General	Online information security courses and advanced information security program
Towson University	90,990	General	Expansion of applied IT program, new software engineering courses and network technology research
Towson University	60,000	Literacy	Free online financial literacy course
University of Baltimore	25,381	General	Certificate in strategic management and public accountability
University of Maryland Baltimore County	135,808	General	Enhancement of engineering management and electrical engineering courses
Washington College	164,511	General	Geographic Information System training
Southern Maryland	44,217	RHEC	Equipping an engineering laboratory
Waldorf	44,000	RHEC	Innovations in instructional technology
Eastern Shore	42,100	RHEC	ITV classroom
Laurel	44,400	RHEC	Microbiology laboratory
Anne Arundel	44,400	RHEC	Incorporating voice over Internet protocol
HEAT Center, Harford County	44,400	RHEC	Classroom renovations
Total	\$1,731,446		

<u>Target</u>	<u>Actual</u>
Guideline: General	\$1,200,000
Guideline: Literacy	\$533,500
Guideline: RHEC	\$266,500
Total: General	\$1,436,675
Total: Literacy	\$294,771
Total: RHEC	\$263,517

ITV: Interactive Instructional Television

RHEC: Regional Higher Education Center

Source: Maryland Higher Education Commission

Of the 33 proposals received, only three involved RHEC projects. According to MHEC, due to the quality of the RHEC proposals, no funds were awarded for this category and a RHEC RFA was reissued. The RFA was due at the end of December 2008, and the centers were notified of awards in early January 2009. Four proposed literacy projects were awarded funds at a total cost of \$294,771. The remaining \$238,729 designated for literacy projects was used to meet additional demand in the BRAC Related Initiatives category, where 26 proposals were received. Twelve such projects were funded at a cost of \$1,436,675. Due to an anticipated shortfall in HEIF revenues in fiscal 2009 resulting from lower corporate income tax revenue, MHEC's HEIF funds are expected to be \$284,394 lower than the current working appropriation. MHEC plans to reduce the BRAC funds and/or the Workforce Shortage Student Assistance Program, if necessary, to address this issue.

Interim reports are due July 31, 2009, and the grant ends December 31, 2009. Final narratives and financial reports will be submitted to MHEC no later than March 31, 2010. The fiscal 2010 allowance includes \$1.5 million for a second round of BRAC grants.

2. Updating the State Plan for Higher Education

By law, the State Plan for Higher Education must be updated every four years. The most recent State Plan, released in 2004, sets a goal to identify a stable funding model for postsecondary education in Maryland. In 2007, the General Assembly established the Commission to Develop the Maryland Model for Funding Higher Education to address this important goal. The production of Maryland's next State Plan, initially scheduled for release in 2008, was deferred a year so that the funding recommendations developed by the commission could be considered.

MHEC convened a group to begin work on the 2009 State Plan for Higher Education in the summer of 2008. A working draft was issued in November 2008 and a final plan is expected in June 2009.

MHEC has involved diverse stakeholders in the plan's development including the Governor, the General Assembly, MHEC members, MHEC advisory councils, State agencies, the Treasurer, the Comptroller, the business community, and other interest groups. In addition to participating in State Plan workgroups, stakeholder input was sought through comments on the draft plan, and three meetings will be held to solicit public comment.

The 2009 State Plan builds upon the five goals outlined in the 2004 State Plan:

- **Goal 1:** maintain and strengthen a preeminent array of postsecondary education institutions recognized nationally for academic excellence and effectiveness in fulfilling the educational needs of students, the State, and the nation;
- **Goal 2:** achieve a system of postsecondary education that promotes accessibility and affordability for all Marylanders;

- **Goal 3:** ensure equal opportunity for Maryland’s diverse citizenry;
- **Goal 4:** achieve a system of postsecondary education that promotes student-centered learning to meet the needs of all Marylanders (altered slightly from 2004 language); and
- **Goal 5:** promote economic growth and vitality through the advancement of research and the development of a highly qualified workforce.

The update of the State Plan will be informed by Governor Martin O’Malley’s Postsecondary Education Transition Report, the Governor’s priorities for postsecondary education, action recommendations from the 2004 State Plan, and developments affecting Maryland’s higher education system such as changing demographics, economic development, the Commission to Develop the Maryland Higher Education Funding Model, affordability and access, accountability, technology, distance and online education, college and career readiness, P-20 Leadership Council of Maryland, BRAC, and environmental concerns.

3. Office for Civil Rights Partnership and MHEC Program Review

Eliminating the Remnants of de jure Segregation in Higher Education

In 1954 through *Brown v. the Board of Education*, the Supreme Court declared segregation in public education a violation of the Equal Protection Clause of the Fourteenth Amendment of the United States Constitution. Although this decision spurred changes within primary and secondary education systems, institutions of higher education did not immediately comply.

Office for Civil Rights Partnership with Maryland

In 1969, the United States Office for Civil Rights required Maryland and nine other states to submit a plan for approval by OCR to remove vestiges of its segregated system of higher education. OCR asserted that Maryland had a responsibility to “adopt measures necessary to overcome the effect of past segregation” and that it was not enough “that an institution maintain a nondiscriminatory admissions policy if the student population continues to reflect the formerly de jure racial identification of that institution.”

Over the next 20 years, Maryland submitted various plans to OCR to enhance its public HBIs (Bowie State University, Coppin State University, Morgan State University, and the University of Maryland Eastern Shore). In 1991, Maryland reported full or substantial compliance with all elements of its previous plans. Nearly 10 years passed before a response was received from OCR.

In December 2000, the State and OCR entered into a partnership agreement that included a commitment from the State to further enhance its HBIs and to improve higher education opportunities for African American students. This partnership agreement expired on December 31, 2005, and on June 19, 2006, Maryland submitted to OCR a final report on the Partnership Agreement

Commitments. In early summer 2008, OCR acknowledged receipt of the report. Since then, OCR staff has visited four Baltimore area institutions – CSU, MSU, TU, and UMBC, and two Eastern Shore institutions – Salisbury University and UMES. In addition, OCR staff requested and received facilities inventory reports for all public four-year institutions and copies of the final reports from the Panel on the Comparability and Competitiveness of Historically Black Institutions and the Commission to Develop the Maryland Model for Funding Higher Education.

United States v. Fordice

In 1992, the Supreme Court decided *United States v. Fordice*,³ a Mississippi lawsuit that had been initiated in 1975 relating to Mississippi’s efforts at desegregating its formerly de jure system of segregation in higher education. The Supreme Court analyzed four areas of Mississippi’s higher education system: admission standards; program duplication; institutional mission’s assignments; and funding of all public universities. In its decision, the Supreme Court specifically advised that if policies and practices traceable to the de jure system were without “sound educational justification and can be practicably eliminated,” then Mississippi has not satisfied its burden of proof relating to dismantling its prior system of segregation. However, the Supreme Court advised that if policies and practices were traceable to a prior de jure system of segregation, they could be maintained in very limited and narrow circumstances. The burden, in these instances, was on the state to prove that the education goals could not have been accomplished through less segregative means.

MHEC Program Review

MHEC is responsible for approving new academic programs proposed by higher education institutions in the State. By federal law MHEC may only allow program duplication if there is sound educational justification.⁴ When a new academic program is proposed, MHEC and other institutions may object for a number of reasons, including that the program would unreasonably duplicate an existing program. If the objection cannot be resolved, MHEC must make a final recommendation on the proposed program.

Joint Masters of Business Administration Program at Towson University and the University of Baltimore

A 2005 decision by the Secretary of Higher Education authorized TU, a traditionally white institution, to offer a joint Masters of Business Administration (MBA) program with UB. Morgan State University appealed this decision, claiming that the new MBA program would unnecessarily duplicate its existing program and would lead to further segregation in Baltimore-area universities. In

³ *United States v. Fordice*, 505 U.S. 717 (1992).

⁴ “Unnecessary duplication” is a federal standard set forth in *United States v. Fordice*, 505 U.S. 717 (1992) that prohibits a traditionally white institution in close geographic proximity to a historically black institution from offering bachelor’s level nonbasic liberal arts and sciences courses or master’s and doctorate level courses that are broadly similar to courses already offered at a historically black institution unless there is a sound education justification for the duplication.

November 2005, MHEC affirmed the Secretary's decision to allow TU and UB to implement the new joint MBA program.

In its first year, 30 students identified TU as their "home" institution. However, because students take classes on both campuses and in order to clarify and emphasize the collaborative nature of the program, students have not declared a home institution since spring 2007. The program's first graduates will be awarded degrees in spring 2008, and 582 students have enrolled in the program since its creation.

Parity with Respect to Maryland's HBIs

On October 13, 2006, the Coalition for Equity and Excellence in Maryland Higher Education filed a lawsuit in Baltimore circuit court arguing that the State has failed to desegregate its higher education system. The lawsuit charged the State with failing to eliminate all unnecessary academic program duplication as directed in the OCR Partnership Agreement and requests the elimination of several new academic programs at TWIs, including the joint MBA program at TU and UB. Since the case involved claims of rights under the U.S. Constitution and laws of the United States, the case was moved to the United States District Court.

On January 30, 2007, the attorneys withdrew as counsel and requested the court administratively close the case while preserving the plaintiffs' right to proceed with the case at any time up to December 31, 2007. On December 31, 2007, the Coalition of Equity and Excellence in Maryland Higher Education reopened the case in the United States Maryland District Court with an amended complaint against MHEC. The coalition seeks declaratory and injunctive relief to require the State to honor its obligations to its HBIs as required by the 2000 OCR Partnership Agreement, Title VI of the Civil Rights Act of 1964, the Equal Protection Clause of the Fourteenth Amendment, *United States v. Fordice*, 505 U.S. 717 (1992), and any other applicable federal and State law.

The parties litigated two preliminary motions. The court granted MHEC's motion for partial summary judgment, eliminating the third count that sought to enforce the 2000 OCR Partnership Agreement. Two counts remain: one alleging violation of Title VI of the Civil Rights Act and one alleging violation of the Fourteenth Amendment of the United States Constitution. A second preliminary motion was filed by the plaintiffs and sought class action status. After pleadings were exchanged, the plaintiffs withdrew the motion. The court granted the plaintiffs' request to withdraw the motion with the option of refile at a later date. The parties are now in the midst of discovery. Discovery deadlines are set for spring 2009, and the court has indicated that it expects a fall 2009 trial.

Legislative Remedies Sought

In response to the MHEC decision to allow the joint MBA program at TU and UB to move forward, legislation was introduced in the 2006, 2007, and 2008 sessions. The 2006 legislation would have enabled an institution directly affected by what is believed to be an unreasonably duplicative academic program to appeal an MHEC decision to circuit court, though the bill was vetoed by the Governor. The 2007 legislation also would have provided an avenue of appeal. The Senate version

of the bill authorized judicial review of MHEC's decision regarding the joint MBA program and all future decisions regarding unnecessary duplication. The House version permitted MSU to file an appeal regarding the joint MBA, which would set in motion a process of mediation and binding arbitration. The House version of the bill did not permit appeals of future MHEC determinations, though the bill required MHEC to convene a workgroup to review the academic program approval process. The differences in the bill versions were not resolved in time for final passage. During the 2008 session, proposed legislation subjected MHEC decisions on program duplication to judicial review only if an HBI challenged a determination and the program was approved or implemented between July 1, 2005, and December 1, 2005, or after July 1, 2007. Both the House and Senate versions of the bill also required MSU or UB to accept students in good standing enrolled in a program at TU that is discontinued under an order of MHEC or a court. Neither version of the bill was passed.

Recent Developments

On December 17, 2007, the Attorney General's Office issued an opinion regarding whether State institutions of higher education may sue one another in circuit court. The opinion holds that current law does not allow for this in the context of higher education, but that the General Assembly has authorized such a suit in other contexts. The opinion further addresses whether judicial review of an MHEC decision may be sought and affirms previous advice from the Attorney General's Office that current law expressly denies judicial review of a commission decision regarding program duplication, though the U.S. Constitution does not prohibit legislation that would grant the right for judicial review of a commission decision. Therefore, legislative action would be needed to permit higher education institutions to sue each other or to authorize judicial review of MHEC decisions.

Commission to Develop the Maryland Model for Funding Higher Education

As part of its charge relating to the funding of HBIs, the Commission to Develop the Maryland Model for Funding Higher Education contracted with a team of national experts to study the programs, resources, and facilities at both TWIs and HBIs. The commission's final report was submitted in December 2008.

This Panel on the Comparability and Competitiveness of Historically Black Institutions found that MHEC's program approval process had approved multiple doctoral programs at MSU and UMES that have received no specifically designated State support. The panel found that this situation may have been caused in several ways:

- MSU and UMES received funding but chose not to apply it to the program;
- MSU and UMES stated before approval that it could fund the program out of its existing resources; and/or
- the State approved programs without ensuring that funding would be available either through the State, the institution, or a combination thereof.

The panel's report found that the approval process that caused the lack of funds for such programs had hindered the development of quality doctoral programs at these institutions and called on MHEC to restructure the program approval process. The commission recommended that the program approval process for programs that can be implemented with existing resources be modified to require that the institution show that programs can also be sustained with existing resources before receiving approval.

The Office for Civil Rights requested and received a copy of the panel's final report.

MHEC Program Review Workgroup

MHEC began review of its program approval process in 2007. Revisions to the regulations governing the approval of out-of-state institutions have been completed. MHEC will next examine the program approval process governing in-state institutions. This process review is expected to be completed by December 31, 2009.

4. Report on Qualified Scholarship Funding Bond

Narrative in the 2008 *Joint Chairmen's Report* requested MHEC to submit a report to the budget committees providing information on the feasibility of implementing a student loan program operated by a private, nonprofit organization under the authorities of the U.S. Internal Revenue Code (IRC) § 150 (d) through private bonds.

The report, submitted by MHEC to the committees in October 2008, found that the current volatility of the financial markets could be a barrier to implementing a student loan program using qualified scholarship funding bonds, though such bonds could feasibly support existing student loan programs. The report found that student loan corporations in Vermont, Pennsylvania, and Kentucky have confronted difficulty continuing similar programs in the current financial markets.

Maryland has used qualified scholarship funding bonds in the past. A Higher Education Supplemental Loan Authority (HESLA) was created in 1982 as a nonprofit corporation offering student loans through qualified student loan bonds under IRC section 144(b)(1). The authority issued one series of revenue bonds in 1984 to fund student loans and redeem part of the bond. The interest collected on the loans partially paid for the program's administration and bond interest. The Tax Reform Act of 1986, however, resulted in restrictions on tax exempt student loan revenue bonds preventing the authority from issuing additional bonds. The HESLA was subsequently repealed from State law. MHEC's report finds that a new State lending entity would be subject to the same restrictions unless it became a full-service student lending entity involved in activities such as loan guarantee and origination, buying and selling other student loan portfolios, servicing loans as required under the federal Higher Education Act, scholarship development, outreach activities, and loan consolidations.

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Recently, Congress passed the Ensuring Continued Access to Student Loans Act of 2008 (P.L. 110-227), which allows the U.S. Department of Education to guarantee the purchase of all loans from lenders of Stafford and PLUS Loans made during the 2008-2009 academic year and to offer lenders access to short-term liquidity to assist in bond financing.

Between federally insured and private student loans, there are many lending options for students. Recent national loan data reveals that the average four-year college graduate has approximately \$20,000 in student loan debt and that the average two-year college graduate has approximately \$10,000 in debt. MHEC data shows that low-income Maryland students at two- and four-year schools have high remaining need after all sources of aid have been awarded, including student loans. At two-year institutions, the average unmet need for students whose need was not fully met was \$7,444 and at four-year institutions the average was \$9,778. Considering the high levels of unmet need and student reliance on loans, MHEC recommends that a broader discussion take place to determine whether a State loan program is in the student's best interest compared to funding through grants and scholarships.

Current and Prior Year Budgets

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

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2008					
Legislative Appropriation	\$79,059	\$9,598	\$2,687	\$246	\$91,589
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	79	197	1,044	100	\$1,420
Cost Containment	-3,081	-34	0	0	-\$3,114
Reversions and Cancellations	-267	-53	-1,349	-47	-\$1,716
Actual Expenditures	\$75,790	\$9,707	\$2,382	\$300	\$88,179
Fiscal 2009					
Legislative Appropriation	\$78,162	\$12,642	\$4,182	\$220	\$95,207
Cost Containment	-9,321	-1,001	-3	0	-\$10,325
Budget Amendments	81	54	0	1,011	\$1,146
Working Appropriation	\$68,922	\$11,694	\$4,179	\$1,232	\$86,027

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

Fiscal 2008

General funds increased \$79,404 to cover costs associated with the fiscal 2008 general salary increase and decreased \$3,080,797 due to cost containment actions, primarily a reduction of \$2,500,000 to the Sellinger formula. In addition, \$267,104 was reverted from the Community College for Students with Learning Disabilities program as a cost savings measure.

Special funds experienced a net increase of \$109,578 due to the following changes:

- \$525,232 increase to support the design and development of a Major Information Technology Development Project for a new Student Financial Aid System from the Major Information Technology Development Fund;
- \$4,447 increase due to reallocation among various State agencies for cost-of-living adjustments;
- \$333,000 decrease after transferring funds from the Nurse Support Program II to the Maryland State Nursing Scholarship program for the awarding of nursing scholarships to students on the wait list;
- \$33,630 decrease to general administration due to position reductions by the Board of Public Works; and
- \$53,470 in cancellations, mostly related to excess appropriations for the Guaranteed Student Loan Program.

Federal funds increased \$1,044,308 due to a grant supporting additional Increasing Teacher Quality Scholarships, though \$796,587 of this appropriation was cancelled due to excess appropriation. Federal funds decreased \$552,243 due to the cancellation of excess Gaining Early Awareness and Readiness for Undergraduate Programs appropriations.

Reimbursable funds increased \$100,000 due to a memorandum of understanding with the Maryland Department of Labor, Licensing, and Regulation to complete a study of higher education institutions in Maryland, Virginia, Delaware, and the District of Columbia to determine each state's capacity to meet BRAC postsecondary education needs. Reimbursable funds decreased \$46,648 due to the cancellation of Workforce Investment Act funds that exceeded the amount received from the Department of Labor, Licensing, and Regulation.

Fiscal 2009

General funds declined \$9,320,920 due to cost containment actions, primarily in the areas of aid to nonpublic universities and funding for Higher Education Investment Fund Workforce Initiatives. In the October BPW cost containment action, fringe benefit appropriations were also reduced as Other Post Employment Benefits prefunding of \$90,349 was ceased and statewide employee health insurance balances of \$23,971 were used in lieu of budgeted funds. General funds increased \$80,682 to cover costs associated with the fiscal 2009 general salary increase.

Special funds increased \$400,000 from Higher Education Investment Funds to be distributed to the six regional higher education centers administered by MHEC and \$3,795 from special fund appropriations for cost-of-living adjustments. Special funds decreased \$350,000 due to a transfer of funds from the Nurse Support II Program to the Nursing Scholarship Programs to award students on the wait list and \$1,001,377 due to cost containment actions.

Federal funds decreased \$2,712 due to June BPW cost containment actions.

Reimbursable funds increased \$1,011,053 to support the Student Financial Aid System, a major information technology development project.

Major Information Technology Projects

Maryland Higher Education Commission Maryland College Aid Processing System

Project Description:	This project replaces the legacy Student Financial Aid (SFA) system (circa 1991), which manages almost \$110 million in State aid each year. The new Maryland College Aid Processing System (MD CAPS) application will provide an efficient web-based system supporting the initial financial aid application, processing of new and renewal awards, student notifications of award acceptance and notification of higher education institutions and legislators of award information. The system will also process payment of funds for awards and reconciling accounts, and support the maintenance, tracking, fulfillment, and repayment of service obligations associated with certain programs. A set of portals will provide access to comprehensive financial aid status for students financial aid administrators, MHEC staff, and legislators.							
Project Business Goals:	Achieve a system of postsecondary education that promotes accessibility and affordability for all Marylanders.							
Estimated Total Project Cost:	\$3,115,021					New/Ongoing Project:	Ongoing	
Project Start Date:	January 1, 2005			Projected Completion Data:	September 30, 2009			
Schedule Status:	The project has completed all Requirements Analysis, Design, and Development Phase SDLC tasks for Phase I and is progressing through the Integration and Test Phase planned tasks. While Phase I will be completed early in the third quarter of fiscal 2009, it will not be implemented until Phase II development is completed in early fiscal 2010. The Phase II Design Phase is in progress, and development has already begun for approved design elements.							
Cost Status:	Project TPC costs have increased due to contract award exceeding estimates, the modification of the project manager services contract from part time to full time status, operation and maintenance increases, and increases for a planned independent verification and validation.							
Scope Status:	No change							
Project Management Oversight Status:	No change							
Identifiable Risks:	While the project continues to complete deliverables on the planned timeline, there is little room for project schedule slippage because of a limited implementation window between critical business process periods. Any significant delay will likely cause the implementation to be delayed one full year. This would likely result in cost increases due to added cost of maintaining two applications over that year and possibly to maintain ongoing contractor support.							
Additional Comments:	Planned fiscal 2009 third party review of the project was cancelled due to the Board of Public Works cost containment actions. A fiscal 2010 independent review is currently being considered by the Department of Information Technology, though a decision has not yet been made.							
Fiscal Year Funding (\$ in Thousands)	Prior Years	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Balance to Complete	Total
Personnel Services	0	0	0	0	0	0	0	0
Professional and Outside Services	1,822,961	873,704	237,685	0	0	0	1,111,389	2,934,350
Other Expenditures	219,701	0	0	0	0	0	0	219,701
Total Funding	\$2,042,662	\$0	\$0	\$0	\$0	\$0	\$1,111,389	\$3,154,051

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

<u>Object/Fund</u>	<u>FY08 Actual</u>	<u>FY09 Working Appropriation</u>	<u>FY10 Allowance</u>	<u>FY09 - FY10 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	72.60	68.60	67.60	-1.00	-1.5%
02 Contractual	8.00	3.00	3.00	0	0%
Total Positions	80.60	71.60	70.60	-1.00	-1.4%
Objects					
01 Salaries and Wages	\$ 5,228,881	\$ 5,279,327	\$ 5,480,474	\$ 201,147	3.8%
02 Technical and Spec. Fees	193,675	129,113	112,423	-16,690	-12.9%
03 Communication	160,281	144,858	166,942	22,084	15.2%
04 Travel	57,356	26,271	50,825	24,554	93.5%
06 Fuel and Utilities	50,852	70,102	64,122	-5,980	-8.5%
07 Motor Vehicles	12,087	11,627	16,763	5,136	44.2%
08 Contractual Services	1,227,807	1,524,947	705,140	-819,807	-53.8%
09 Supplies and Materials	48,311	23,300	41,556	18,256	78.4%
10 Equipment – Replacement	27,368	10,230	10,230	0	0%
11 Equipment – Additional	7,923	0	30,000	30,000	N/A
12 Grants, Subsidies, and Contributions	80,091,879	77,934,394	93,102,096	15,167,702	19.5%
13 Fixed Charges	1,072,805	873,083	790,690	-82,393	-9.4%
Total Objects	\$ 88,179,225	\$ 86,027,252	\$ 100,571,261	\$ 14,544,009	16.9%
Funds					
01 General Fund	\$ 75,790,008	\$ 68,922,077	\$ 82,179,159	\$ 13,257,082	19.2%
03 Special Fund	9,707,209	11,694,470	14,728,818	3,034,348	25.9%
05 Federal Fund	2,382,379	4,179,154	3,483,926	-695,228	-16.6%
09 Reimbursable Fund	299,629	1,231,551	179,358	-1,052,193	-85.4%
Total Funds	\$ 88,179,225	\$ 86,027,252	\$ 100,571,261	\$ 14,544,009	16.9%

Note: The fiscal 2009 appropriation does not include deficiencies. The fiscal 2010 allowance does not include contingent reductions.

**Fiscal Summary
Maryland Higher Education Commission**

<u>Program/Unit</u>	<u>FY08 Actual</u>	<u>FY09 Wrk Approp</u>	<u>FY10 Allowance</u>	<u>Change</u>	<u>FY09 - FY10 % Change</u>
01 General Administration	\$ 7,470,267	\$ 7,130,736	\$ 7,527,691	\$ 396,955	5.6%
02 College Prep/Intervention Program	1,397,757	1,950,000	1,950,000	0	0%
03 Joseph A. Sellinger Program	56,051,065	50,445,958	66,079,480	15,633,522	31.0%
07 Educational Grants	11,373,249	14,163,401	10,335,886	-3,827,515	-27.0%
19 Physician Assistant – Nurse Practitioner Training	73,538	73,538	73,538	0	0%
30 Private Donation Incentive Grants	2,340,961	2,272,242	265,640	-2,006,602	-88.3%
34 Major Information Technology Development Projects	525,232	1,011,053	0	-1,011,053	-100.0%
38 Nurse Support Program II	8,448,067	8,480,324	13,939,026	5,458,702	64.4%
39 Health Personnel Shortage Incentive Grant Program	499,089	500,000	400,000	-100,000	-20.0%
Total Expenditures	\$ 88,179,225	\$ 86,027,252	\$ 100,571,261	\$ 14,544,009	16.9%
General Fund	\$ 75,790,008	\$ 68,922,077	\$ 82,179,159	\$ 13,257,082	19.2%
Special Fund	9,707,209	11,694,470	14,728,818	3,034,348	25.9%
Federal Fund	2,382,379	4,179,154	3,483,926	-695,228	-16.6%
Total Appropriations	\$ 87,879,596	\$ 84,795,701	\$ 100,391,903	\$ 15,596,202	18.4%
Reimbursable Fund	\$ 299,629	\$ 1,231,551	\$ 179,358	-\$ 1,052,193	-85.4%
Total Funds	\$ 88,179,225	\$ 86,027,252	\$ 100,571,261	\$ 14,544,009	16.9%

Note: The fiscal 2009 appropriation does not include deficiencies. The fiscal 2010 allowance does not include contingent reductions.