



UNIVERSITY SYSTEM *of* MARYLAND

Monday, February 12, 2018
University System of Maryland FY 2019 Budget Testimony
Maryland Senate Budget and Taxation
Subcommittee on Education, Business and Administration
USM Chancellor Robert L. Caret

Chairwoman King and members of the Committee . . . thank you for the opportunity to testify on the Governor's FY 2019 budget recommendations for the University System of Maryland (USM). I want to thank you all as well for the tremendous support you have shown to higher education and the USM over the years.

Today I intend to keep my testimony brief, touching on three points before turning to the questions and issues raised by the legislative analysts.

First—and most importantly—on behalf of the USM, I express my support for Governor Hogan's FY 2019 budget.

In brief, the Governor has proposed State support for the USM of \$1.39 billion, coming from the General Fund and the Higher Education Investment Fund.

I am pleased to point out that the funding provided by the Governor's budget will once again allow us to limit our tuition increase to a modest 2 percent. It has become an accepted fact that higher education is more important now than ever before. Working in conjunction with our partners here in Annapolis, the USM is doing our part to advance the cause of excellence and affordability, which I will highlight a little more in a moment.

In addition, there are a few specific components of the increase in State funds I want to highlight:

The largest share is \$21.5 million to both **fully fund** operating expenses for new building openings and **partially fund** operating expenses for facilities opened last year. In our drive to position Maryland for leadership in the innovation economy, the USM has added important new academic and research capacity across the system, especially within the STEM disciplines of science, technology, engineering, and mathematics. This budget provides the critically important funding to open and operate those vital new facilities. This includes the Brendan Iribe Center for Computer Science and Innovation at the University of Maryland, College Park (UMCP), the Center for Natural Sciences, Mathematics and Nursing at Bowie State University (BSU), the Health Sciences Facility III at the University of Maryland, Baltimore (UMB), the Interdisciplinary Life Sciences Building at the University of Maryland, Baltimore County (UMBC), the Universities at Shady Grove's (USG) Biomedical Sciences and Engineering Education Facility, and other important STEM centers

In addition, the budget provides \$6 million to support the continued implementation of SB 1052, the University of Maryland Strategic Partnership Act, which went into effect in October of 2016, codifying and expanding the strategic alliance between UMCP and UMB known as *MPowering the State*. It is advancing UMB's and UMCP's collective ability to generate collaborative academic and research programs, spur technology commercialization, and support economic growth.

Just this past fall, our *MPower* partners announced several new initiatives, advancing efforts in virtual and augmented reality, combating the state's opioid epidemic, explaining research in sports science and brain trauma, and integrating data science into health programs. In addition, the support SB 1052 is providing to UMBC is having a profound impact on that institution, especially in terms of its economic impact.

There is also \$2 million to support USM's **Workforce Development Initiative** to address critical workforce shortages that limit economic growth and state revenues. This will be leveraged with \$8 million in internal USM resources, resulting in a \$10 million workforce impact. This represents the first part of Governor Hogan's multi-year, \$33 million commitment to collaborate with the USM to increase the number of workforce-critical credentials issued, including hundreds of new STEM and healthcare degrees. Demand for jobs by companies in the STEM and healthcare industries continues to grow, and USM plans to focus intently on both the cybersecurity sector and the bioscience / health science sectors.

One last budget item I would like to highlight is the \$5 million to support the Governor's K-12 Computer Science Initiative. The USM is of course pleased to work with our K-12 partners to expand and improve computer science education in Maryland public schools. We already have established programs collaborations with elementary and secondary schools developed under a prior National Science Foundation grant involving UMBC, UMCP, and others. It makes sense, therefore, for USM to host the Maryland Center for Computing Education to benefit our partners in K-12 and strengthen the computer science pipeline for Maryland's technology and cyber security workforce. However, it must be noted that it is probably not accurate to consider this \$5 million as an *increase* to the USM's budget. We are leading this consortium, not gaining any direct benefit.

The bottom line is that this budget demonstrates—once again—Maryland's commitment to higher education. It is this commitment that sets us apart from—and above—our competitors in the knowledge economy. This commitment to the USM is matched by the USM's commitment to Maryland.

This brings me to my second point: What the USM *does for* Maryland and what the USM *means to* Maryland.

As you know, Maryland ranks 19th in population among the states, which means we are competing against states more populous—with greater economies of scale—than ours. Nevertheless, the USM is doing what you have asked us to do and Maryland is competitive.

The USM has a profound impact that reaches every region of the state, providing a wealth of resources for the benefit of businesses, communities, and—most importantly—the students we serve.

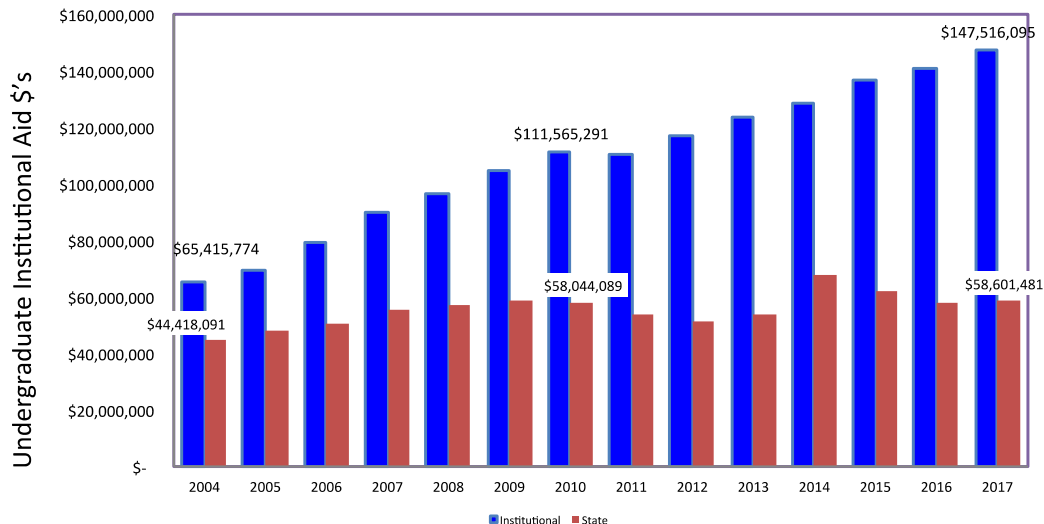
USM: Who We Are & What We Do

- 175,000 Students / 12 Institutions / 2 Regional Centers
- 38,000 Graduates Every Year And Growing
 - 80 percent of all bachelor’s degrees awarded in Maryland
 - Nearly 80 percent of all undergraduate STEM degrees awarded in Maryland
 - 80 percent of students **from** Maryland / up to 80 percent stay **in** area
 - More than 500,000 alumni in Maryland
- \$1.3 Billion In Academic R&D And Rising
 - As a single body, USM ranks 8th in federal R&D funding nationally
- 3 Research Parks Supporting 250 Tenants And 9,800 Jobs
- 10 Business Incubator / Co-working Facilities
- 550 Companies Facilitated Over The Past Five Years
- More Than A Million Hours Of Community Service Annually

The USM is committed to providing affordable access to quality higher education, with a steady focus on the ultimate goal of increased college completion. The USM has been aggressive in efforts to make tuition and fees more affordable. Over the past dozen years, with your support, the USM has moved from having the 6th highest tuition and fees in the nation down to the middle of the pack.

Over these same dozen years, undergraduate institutional financial aid has more than doubled, with an emphasis on expanding need-based aid, further enhancing affordability. In fact, while total USM aid to students—both merit-based and need-based—has increased more than 100 percent, the need-based portion is up about 200 percent. USM’s institutional commitment to increasing student aid is even more compelling when compared to similar State-based aid funding.

USM Aid to Students Has Steadily Increased While State Aid Has Held Steady



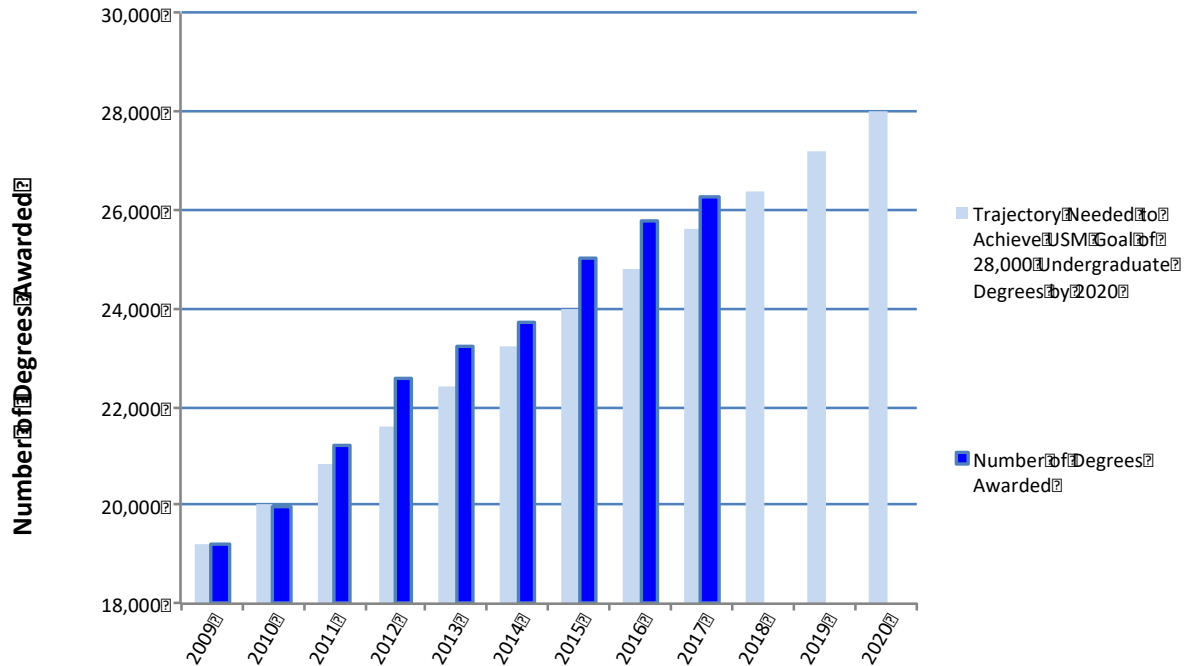
The overall effect on affordability, especially in terms of USM student debt, has been significant: Over the past two years, **47 percent of USM bachelor degree recipients did not have to take out any loans**. That means that through a combination of family resources, non-loan financial aid, and income from employment, a USM degree is accomplished by *almost half of our undergraduate students* without taking on any debt. For those who do take on debt, average undergraduate student loan debt at graduation across the USM is just under \$25,000.

And according to the U.S. Census, the average life-time wages are over \$1 million more for a bachelor degree recipient than a high school graduate. So these higher wages for the graduates also result in higher income taxes for the state, making higher education a good investment that changes the student's quality of life, builds the economy, and pays back the state in increased tax revenue.

Overall, when you look at the landscape in which the USM is operating:

- A record enrollment of first-time, full-time new undergraduates this past fall;
- An Effectiveness and Efficiency Initiative (E&E) that has saved USM well over **one-half billion dollars** since it was launched 15 years ago;
- Significant growth in transfer students— with a sizable portion from Maryland's community colleges—which now represent two-thirds of new USM students annually;
- Retention levels at near-record highs;
- Academic Transformation efforts—directed by the Kirwan Center for Academic Innovation—that lead the nation;
- Time-to-degree at a near record low of 4-1/2 years, 1 year better than the national average;
- And the tuition affordability efforts I outlined . . .
 - . . . It is no wonder that we are seeing real progress on our strategic goal of helping the State of Maryland achieve its goal of 55-percent degree completion by 2020.

USM Completion Improving / Degree Production on Track



These results—and many others—are tracked in the USM Scorecard, part of our commitment to transparency and accountability. You can view the scorecard on our website, or I can provide a copy if you'd like.

The bottom line is that the USM is an efficient, well-run organization. In fact, we received further confirmation of our exemplary stewardship practices just last week at the USM bond sale. All three principal bonds ratings agencies—Standard & Poor's, Moody's, and Fitch—assigned extremely favorable debt ratings to the USM and all three outlooks were stable. This bond rating—AA+ or Aa1 depending upon the rating agency—saves the USM millions of dollars annually compared to a less favorable rating.

There are many keys to our success. One is our commitment to work AS A SYSTEM as we launch new initiatives and introduce innovative approaches utilizing the combined impact of 12 institutions working together. Another key is your willingness to support our efforts. Your investment equals results, for the USM and for Maryland.

As I often like to say, the Maryland we know and love would not be what it is without the USM.

USM: An Investment, Not A Cost Center

Investment In The USM Has A Profound Impact On Maryland

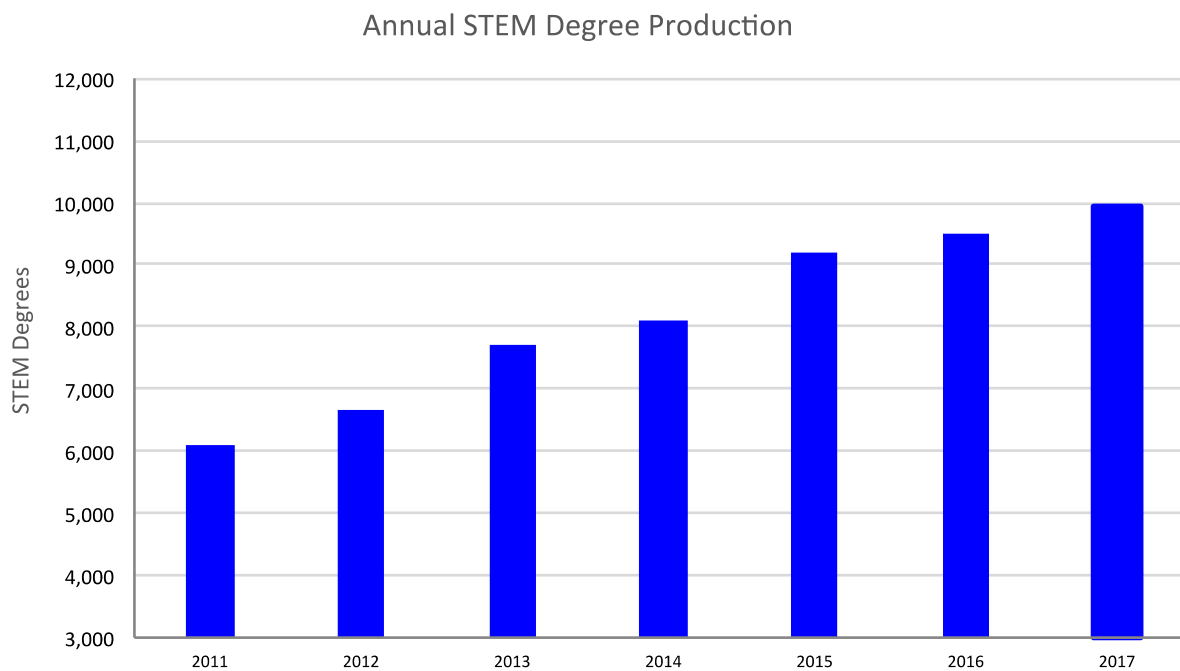
- Maryland Income:
 - 1st in median household income / 37% above the national median
 - 3rd lowest poverty rate
 - 4th in per capita personal income
- Maryland Workforce:
 - 1st in percentage of professional and technical workers
 - 2nd in the percentage with a graduate or professional degree
 - 3rd in the percentage of the population age 25 and above with a bachelor's degree
- Maryland R&D:
 - 1st in National Institutes of Health research and development contract awards
 - 2nd per capita (4th overall) in federal government contracts
 - 3rd in research and development intensity
- Maryland Entrepreneurship / New Economy:
 - USM Ventures & Maryland Momentum Fund / University as Equity Investor
 - Enhanced collaboration with TEDCO and JHU for “mentorship” services
 - New “Place Marketing” efforts / Innovation Districts & Tech Accelerators

The final area I would like to briefly highlight is what this level of funding support will enable the USM to do for our students and the state going forward.

The USM has “Dual Imperatives”. One is providing affordable access to superior academic programs and educational opportunities. As I have outlined so far in my testimony, this budget will help the USM in our efforts to maintain affordability, improve access, and enhance quality.

The other imperative is providing Maryland with a broad and significant economic impact. We do this through technology transfer, commercialization, and new company formation; we do this through externally sponsored R&D funding of more than \$1 billion annually; and—perhaps most importantly—we do this through increasing the number of degrees issued in high-need STEM fields. As you know, STEM education is a genuine priority in Maryland. The USM and State leaders have worked together to increase STEM degrees in recent years to position Maryland for a prosperous future.

USM STEM Production Up 63% Since 2011



However, as significant as this growth has been, it has been insufficient in terms of meeting the needs of our economy, both current and future. For example, the USM has **more than doubled** the number of cyber degrees issued in recent years a seen **40 percent increase** in bioscience and health degrees, this growth has been outpaced by dramatically increased industry demands.

So while Maryland's economy is, by most measures, performing at a high level, employment and economic development opportunities in these high-paying fields are going unmet.

That is a challenge that this budget—and the impact of the Governor's multi-year, \$33 million partnership with the USM to further increase the number of new STEM and healthcare degrees—will help us overcome. It is a vital step in our ability to meet the demand in the critical growth areas of health care, sciences and engineering, and cybersecurity as well as the “next wave” in the innovation economy, with areas like Augmented and Virtual Reality and Autonomous Systems. These are all sectors that PwC—formerly PricewaterhouseCooper—has stated will enjoy the most in terms of corporate R&D investment in 2018.

The USM has, therefore, developed an initiative that will use this \$33 million in collaborative funding to generate **3,000 new high-demand credentials per year.**

Very briefly, here is what that will mean for Maryland.

At current rates of growth, the USM is projected to meet only 35 percent of Maryland's need for workers with a health care background through 2023. In fact, **all** Maryland's higher education institutions combined are projected to meet only 53 percent of that need. As the state and the nation face the public health crises of opioid addiction, these shortages will be acutely felt. We will address this shortfall by dramatically increasing the number of health care graduates, including physician's assistants, nurses, community health specialists, substance abuse counselors, and social workers.

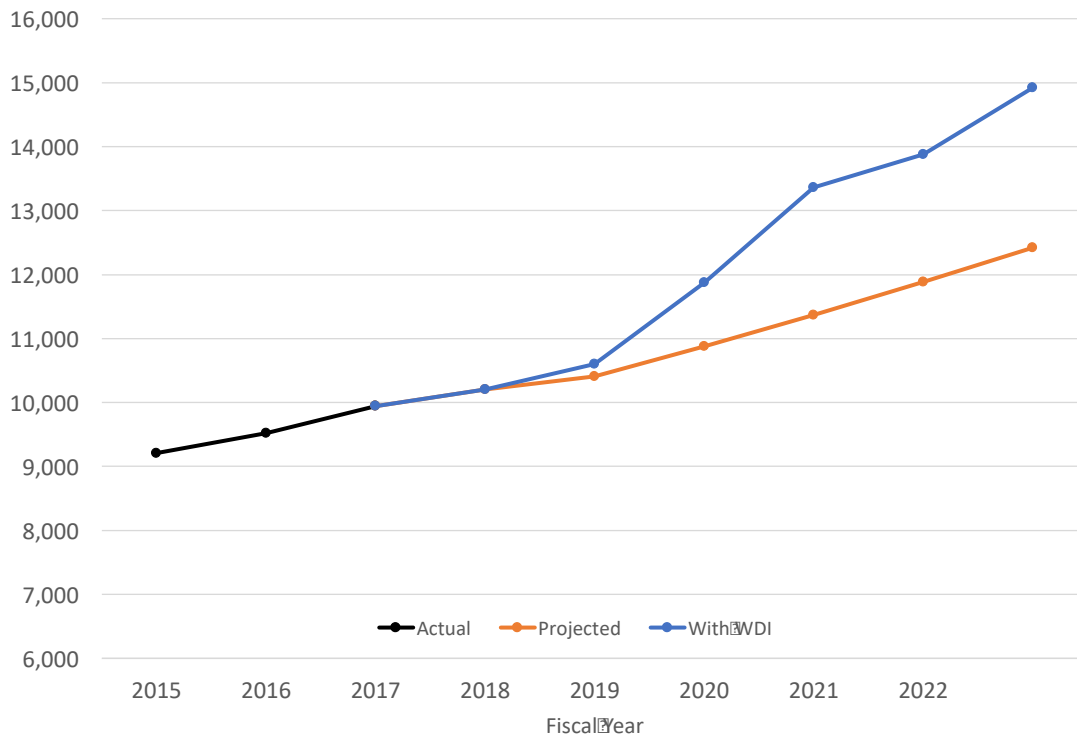
Similarly, in high-tech STEM occupations, the USM is projected to meet just over half of Maryland's need for workers with an engineering background and less than half of the needs in other scientific fields such as chemistry and the geosciences. This initiative will fund graduates with expertise in growing and emerging STEM fields including Neuroscience, Mechatronics, Translational Life Sciences, Virtual and Augmented Reality, and Data Science. We will give special emphasis to targeting success for underrepresented minority students and veterans.

Looking specifically at cybersecurity, the USM is projected to meet only 40 percent of Maryland's need for workers with a computer science background through 2023. This initiative will ensure USM is delivering skills and credentials at every level from basic certifications to PhDs, and include new or enhanced programs at **half** of USM institutions and our regional centers. With fully one-fifth of all cybersecurity jobs in the U.S. located in Maryland and the DC suburbs, we must act aggressively to meet this growing need.

Lastly, this initiative seeks to respond to local and regional needs and capacity, making sure educational opportunities are accessible throughout the state. In fact, fully half of the programs outlined will be offered by USM universities at our regional higher education centers, which will most likely soon include the Southern Maryland Higher Education Center. Funding in this budget supports the transfer of this center, with the USM assuming administrative and operational leadership.

With centers in Southern Maryland, Shady Grove, and Hagerstown, as well as our 12 institutions across the state, the USM will provide opportunities for all Marylanders and to help our state capture the future. That is why **every program** proposed in this Workforce Enhancement Initiative is focused to meeting specific needs in critical sectors where unmet demand exists today and is anticipated into the future.

Growth in USM STEM Degrees Current Projected vs Workforce Development Initiative



Finally, before responding to the issues raised by the Department of Legislative Services, I'd like to take a moment to touch on USM's support for the collective effort of everyone in Annapolis and across the state to bring Amazon's H2Q to Maryland.

Obviously, there are many factors that position Maryland as an ideal location for Amazon. Maryland offers an outstanding transportation infrastructure and a business-friendly culture, both of which will be strengthened by Governor Hogan's historic \$5 billion incentive package. Maryland also offers an exceptional quality of life.

But I would suggest that one of our most significant strengths—an area that Amazon has stressed as critical—is our a well-educated, highly-skilled workforce. As I noted earlier, Maryland ranks 3rd nationwide in the percentage of the population age 25 and above with a bachelor's degree, 2nd in the percentage with a graduate or professional degree, and 1st in percentage of professional and technical workers. And it has been your commitment to higher education and the USM that has made this success possible.

As I also mentioned, the USM has increased STEM degree production by almost **two-thirds** since 2011. Maryland is making real and meaningful progress in meeting workforce needs in cybersecurity, health care, engineering, autonomous technology, robotics, artificial intelligence, and other areas because we value higher education as an investment.

And one of the things Amazon will see as it looks toward Montgomery County is the USM's highly successful regional academic center the Universities at Shady Grove. USG, our largest and most developed regional center, located in our most populous and diverse county, was designed to expand local access to higher education that supports workforce and economic priorities. USG is comprised of nine system institutions and offers easily accessible pathways to 80 upper-level degree programs. This multi-campus structure enables it to be nimble and responsive to the diverse needs of the region's economy.

I will also note that last fall the USM Board of Regents acted to support Maryland's effort by voting to grant Amazon employees relocating to Maryland immediate access to in-state tuition at USM institutions for themselves and their children, waiving the 12-month residency requirement.

We have a strong hand, but we cannot rest. If we continue to make higher education a genuine priority, and continue to focus on our mutual priorities of college completion and economic competitiveness, we can position Maryland as an economic powerhouse and a leader in the global innovation economy.

We look forward to working with the Administration and the General Assembly to continue serving the economic and educational needs of the people of Maryland.

Turning now to the recommendations made—and issues raised—by the Department of Legislative Services.

Recommendations

1. As shown in Exhibit 12, new State-supported revenues are more than sufficient to cover CSC and new initiatives, leaving USM \$6.2 million to transfer to the State-supported portion of the fund balance. Since USM's available resources debt exceeds the 1:1 ratio, DLS recommends reducing USM's general fund appropriation by \$5 million since this will not significantly affect its debt coverage ratio.

USM Response:

The USM opposes this recommendation.

When the USM communicated the FY 2019 Current Services Cost increases to the analyst, the 2018 one-time health holiday adjustments of \$11.1 million were not included. This information was provided to USM by DBM later in January. Health insurance for both employer and employee will be charged for 24 pay-periods which will increase USM Current Services Costs by a minimum of \$11.1 million, bringing the total FY 2019 Current Services Costs to \$106 million. Once these adjustments are made there are no funds available for new initiatives or fund balance, in fact USM institutions will need to **generate efficiencies** of \$5 million to balance the budgets.

Additionally, DLS assumes that the USM will increase additional tuition revenue later in the fiscal year. Such an increase, by definition, would mean an increase in enrollment above the planned / budgeted levels. The analysis does not consider the cost of the workload increase associated with any higher enrollment. This is a major concern.

It should also be noted that each state-mandated cut or use of institution state-supported fund balances involves important sacrifices of institution-planned initiatives or spending needs. The System's fund balances, both state-supported as well as non-state-supported, are accumulated for planned or future initiatives important to institutional mission and success. The accumulation of monies not spent at year-end is not like accumulations of funds for a 'rainy day' fund; there are academic leaders and managers behind each reserve dollar that have needs and plans for the use of those funds, whether hiring a critical faculty member or equipping their lab, or following through on enrollment improvement initiatives underway at several USM institutions. Mandating the use of one-time monies for ongoing operating spending rather than satisfying those planned needs and initiatives imposes a significant cost on USM institutions and is not sustainable as a recurring practice.

The USM contends that when all 2019 current services costs and revenues are properly presented the USM is actually in a deficit position of \$5 million as seen in revised Exhibit 12 (see attached). The University System will be required to produce efficiencies and implement other reductions to balance the 2019 budget

2. DLS recommends restricting \$500,000 of USMO's general fund appropriation until the BOR submits the revised debt management and fund balance policies and procedures. The policies should be submitted no later than June 1, 2018, as recommended by the fund balance workgroup.

USM Response:

USM concurs with the DLS recommendation.

3. DLS recommends restricting \$1.4 million of UMES' general fund appropriation to be used only to fund the Maryland cooperative extension program and funding for the agricultural experimental station and that the Maryland cooperative extension programs be separately identified in the UMES budget.

USM Response:

USM concurs with the DLS recommendation.

4. DLS recommends restricting \$5,000,000 in general funds at the USMO for computer science education contingent upon on the enactment of Senate Bill 300/House Bill 350.

USM Response:

The USM opposes the recommendation to link the funding for the MCCE to the passage of the two bills (SB300 and HB350). As I mentioned in my testimony, establishing the Center at USM will be an important contribution to expanding the pipeline for a computer science trained workforce, a need that has been demonstrated by the growing number of unfilled computer science and cyber security related job openings in Maryland. For locally grown companies to compete both nationally and globally, we need to make sure every student in the state has access to foundational skills of computational thinking and computer science.

The purpose of the Center is to enhance the capacity of new and current teachers to prepare the workforce of today and tomorrow—it will be a hub for multiple universities, community colleges and other non-profit organizations to offer a variety of programs for teacher professional development. The Maryland “CS Matters” steering committee, composed of representatives from MSDE, DLLR, Code.Org, College Board, community colleges and local school districts, as well as USM institutions unanimously voted to ask USM to host the Maryland Center for Computing Education (MCCE).

The Center will coordinate, facilitate and scale the ongoing efforts to ramp up K-12 capacity. USM, through our P-20 work, has established robust and sustainable partnerships, linking our USM institutions with community colleges and local school districts. The Steering Committee of the CS Matters in Maryland requested that USM host the center to sustain the important work that has been started through several grants, which are now coming to an end.

5. Since SMHEC was established by statute, legislation is needed to allow the merger. Therefore, the Department of Legislation Services (DLS) recommends the use of these funds be contingent upon enactment of legislation, and if legislation is not enacted, then the funds be transferred back to MHEC.

USM Response:

USM concurs with the DLS recommendation.

6. DLS recommends restricting \$500,000 of the general fund appropriation for USMO until BOR submits a report to merge UMCES, either as a whole or by individual laboratories, with the appropriate USM institution(s) whose mission most closely aligns with UMCES or its component laboratories. BOR should submit the report by December 1, 2018, outlining a plan and timeline for merging UMEC with another USM institution(s) and identifying ongoing cost savings totaling at least \$3.0 million from this process.

USM Response:

The USM opposes this recommendation.

Founded in 1925, UMCES stands as a world leader in environmental sciences. Scientists at its four laboratories across the State and Maryland Sea Grant focus on a greater understanding of the Chesapeake Bay and its watershed, oceanographic processes, the ecology of living resources, causes and impacts of climate change, and development of marine products such as pharmaceuticals. Educational programs include graduate education, undergraduate research internships, and K-12 programs, particularly targeting teachers. UMCES is the only USM institution charged with maintaining a comprehensive program of research, education, and service dedicated to the environment. UMCES’ research not only spans Maryland but the globe with an international reputation.

In 2016, the Board of Regents once again considered if UMCES was effective and viable as a stand-alone institution. The response from the Board was a resounding YES, which led to the authorization of a search for UMCES 6th leader in its over 90-year history. Dr. Peter Goodwin, an international leader in applying environmental engineering principles to some of the worlds most protracted problems, was hired in September 2017.

Given UMCES success and service to Maryland as well as the importance of State issues such as the restoration of Chesapeake Bay, and global issues such as climate change, it is easy to understand why the Board overwhelmingly supports the decision to keep UMCES operating as is. I'm confident that UMCES' impact will only grow more important in the years to come.

Specific reasons why UMCES should not be consolidated:

- UMCES standing within the USM and State as a unique *mission oriented* institution that is responsive to governmental bodies, non-profits, and private sector has led to environmental success, particularly related to the Chesapeake Bay restoration.
- UMCES already uses many administrative services provided by UMCP, UMBC, and UMB including: financial management, accounting, personnel and payroll systems; purchasing; federal statutory research oversight committees (IRB, IUCUC, Dive Safety); and construction management service centers.
- UMCES research is already extraordinarily collaborative, not only among our laboratories, but also with multiple USM institutions. Additionally, UMCES has several shared faculty positions with other UMCP, UMB, and UMBC.
- UMCES faculty achieve some of the highest success rates in competitive research funding as measured by total grant dollars per tenure track faculty member. On average, each faculty member brings in approximately \$492,000 per year. UMCES has grown its funding base of non-traditional sources such as NGO's, international bodies, and private sources as funding from the Federal government has become smaller and more competitive.

It would be a great disservice to the citizens of the state and the concerted efforts of the General Assembly to restore the Bay if a decision were made to dissolve UMCES. I urge you in the strongest terms possible to reject the DLS recommendation.

Issues

Page 9 - The Chancellor should comment on USM's enrollment management strategy and what efforts are being taken at the system and institutional level to stabilize and increase enrollment at enrollment-challenged institutions.

USM Response:

All of USM's institutions continuously adjust their enrollment management planning to compete for students in an increasingly challenging market. The enrollment-challenged institutions are no exception. To ensure that this remains a top priority at the enrollment challenged institutions, the Chancellor and USM staff routinely meet with all levels of the campus leadership and the campus enrollment management teams. The outcomes of these meetings addressed issues of enrollment decline, the structural challenges to improving enrollment performance, implementing proven strategies for improvement, and institution-specific issues.

An overall approach to addressing enrollment decline was developed with the following features: 1) increased use and reliance on student data/analytics, 2) employed recruitment consultants, 3) established market-demand programs, 4) expanded online programs, 5) targeted student recruiting from developed sources, and 6) enhanced student success to increase retention. Although all of USM's

institutions are pursuing some of these strategies, the institutions with more serious enrollment challenges have been strongly encouraged to accelerate implementation, and additional resources have been allocated to aid them.

As a specific example of efforts to stabilize and then increase enrollment, Coppin and Frostburg have both implemented advanced student success analytics programs that utilizes baseline benchmarking with the intent to increase retention and improve student performance. Furthermore, all of the enrollment-challenged institutions are developing high-demand new or expanded programs as part of the Workforce Development Initiative, which will attract new students from new segments. Additionally, these institutions are expanding collaboration with each other and other USM institutions to expand their reach and effectiveness in such areas as online students (leveraging UMUC's expertise) and health professions majors (statewide Physician Assistant program with UMB).

Page 27 - The Chancellor should comment on the increase in the number of filled exempt positions relative to the number of faculty positions and the factors contributing to the increase in exempt positions.

USM Response:

Exhibit 15 displays state supported filled positions. When authorized exempt positions from all fund sources are considered, the USM is well below the authorized faculty positions. In FY 2009 the recession resulted in numerous state budget reductions. During that time faculty positions were prioritized and exempt positions were held vacant, thus the increase when the economy rebounded. When one includes the 6,000 graduate and teaching assistants—who are integral to the teaching mission—the total instructional complement surpasses exempt position totals. This reflects the USM commitment to the instructional mission.

Additionally, it should be noted, that since FY 2009 there are many issues that have made it necessary to increase exempt positions for the USM and the national higher education landscape:

- Title IX compliance and related issues;
- Security breaches and the importance of updating technology;
- Increases in federal reporting requirements;
- And mental health counseling for students and faculty.

Page 33 – The Chancellor should comment on the status of developing debt management and fund balance policies in response to the workgroup's recommendations.

USM Response:

The System has received the recommendations of the Fund Balance workgroup released in early December. As a participant in the meetings of the workgroup, I saw the information shared with the workgroup for consideration—from institution presidents, Regents, my own staff, a representative of Moody's, and Sara Baker herself—that reinforced the balanced approach that the System has taken in advising the Board of Regents on financial planning and managing resources to ensure access to capital at the lowest borrowing rates. The Moody's representative pointed out that the System's financial strength is still low compared with the other institutions in our rating category. Clearly,

rating agencies acknowledge the strength of System management and fiscal policy in assigning such a high bond rating despite financial strength that is lower than the medians for the rating category.

The Fund Balance workgroup recommendations were thoughtful in focusing on enhanced transparency and information availability by increasing understanding of the financial planning process and the flexibility available. We are fully committed to revising the existing Policy on Debt Management and getting Board of Regents approval on a new Board of Regents Policy on Fund Balances. These actions will incorporate and adopt the spirit of recommendations of the Fund Balance workgroup, addressing concerns where the literal language of the recommendations would damage or detract from the Regents ability and flexibility to manage System-wide needs.

My staff, working with the institutions' vice presidents for administration, has already drafted revisions to the existing Board of Regents Policy on Debt Management to update the metrics that we use to guide the balance between use of debt or institutional cash to fund capital needs. The group has also drafted a Policy on Fund Balance. We expect to present both the revised Policy on Debt Management as well as the new Policy on Fund Balances to the full Board of Regents for their consideration at the April ,2018 meeting and will meet the Workgroup recommendations timetable for sharing with state officials and budget committees.

The proposed standards that will give the Regents flexibility to manage System finances in a manner that continues to employ a disciplined approach to debt issuance as well as the spending of cash accumulations, so that the System can continue to benefit from bond ratings one notch down from the State's triple A rating, but not have to accumulate so much reserve that our reserve levels are comparable with the medians for the rating category. We want to continue to enjoy the benefit of not having to attain larger fund balances by being able to continue our effective and disciplined approach to tracking obligations and ensuring that the same funds are not committed more than once. This is simply sound financial practice.

At the end of the day, however, we will adopt policies not to achieve or maintain a particular bond rating, but to ensure ongoing access to debt capital funding at affordable interest rates, make smart and informed decisions about when to use cash for one-time spending as opposed to debt, and have a set of institutions that have adequate financial resources to satisfy mission-critical needs and be able to take advantage of market opportunities as they arise. The System's role in meeting state workforce development needs, facilitating economic development and fully utilizing institution-developed intellectual property, and providing access to a high-quality higher education to all state residents requires that we do so.

Page 36 – The Chancellor should comment on advantages of a merger with SMHEC, plans to stabilize and increase enrollment including reevaluating the program mix, the financial model, arrangements for non-USM institutions offering programs at the center, and the process for non-USM institutions interested in offering programs at the center.

USM Response:

The USM is excited by the potential the proposed merger with the Southern Maryland Higher Education Center (SMHEC) creates. In combination with the new 83,000 gross square foot academic instruction, engineering, and research building the USM is about to construct on the SMHEC campus, the merger will create an unprecedented opportunity to support new educational opportunities for

students and the workforce throughout Southern Maryland, further drive STEM-related research and development, particularly in the growing field of unmanned autonomous systems, and promote greater economic innovation and diversification across the region.

The merger seeks to leverage SMHEC's historic role as an important source of educational programming in Southern Maryland with the USM's growing regional presence in areas that go well beyond its instructional mission to include basic and advanced research, testing, and, increasingly technology transfer and commercialization (as the analyst notes, five USM institutions already offer courses at SMHEC ranging from engineering, to education, to nursing and social work—accounting for over half of the Center's FY 16 FTE production—while advanced unmanned aircraft systems research and testing is being carried out by University of Maryland faculty and students at the Clark School of Engineering's UAS Test Site adjacent to the SMHEC campus). Formalizing the existing partnership will enable both SMHEC and the USM to undertake in a more cohesive and strategic way the expansion of current programs, the addition of new programs, and the creation of services to support students both inside and outside the classroom.

It is also important to note here, and to express our appreciation for, the support of the Board of Governors of the Southern Maryland Center, who voted to formally join SMHEC with USM this past October and voted again this past January to accept the terms of a memorandum of understanding (MOU) we have worked collaboratively to develop. We see these as not just strong indicators of support, but also augurs of future success. As alluded to in my testimony earlier, the USM Board of Regents is expected to vote this week on whether to accept the terms of the merger MOU.

With respect to the specific questions raised by the analyst, obviously we are aware of the need, as a first priority, to stabilize enrollment at SMHEC and begin the task of not just rebuilding enrollment but expanding into previously unserved populations and markets. We see the recent enrollment declines as due, at least in part, to the delay in bringing a new facility on line. The third building at the Center was originally scheduled to be opened by 2014 but was pushed back at the behest of the state's leadership so that the USM could work with the Southern Maryland Board of Governors and regional stakeholders to create a larger, more comprehensive vision for the facility and the regional center. The facility that is set to emerge from this process will have the size, layout, and advanced learning technology capabilities needed to more effectively and efficiently accommodate the types of courses and instructional offerings (particularly large seminars) institutions wish to make available through the Center. We also believe that uncertainty over the status of the Center—for example would it continue to operate independently, and if not, what would happen to non-USM programs currently operating there—contributed in some part to the enrollment decline as well. The decision to merge and a final resolution of the terms of the merger should alleviate this uncertainty and reassure institutional partners there.

The model that the USM envisions operating at Southern Maryland will reflect the needs of the region as well as the best operating practices gleaned from the administration of our other two regional centers. While the Southern Maryland Center historically has been almost exclusively focused on providing graduate-level instruction and professional training, the USM will seek to broaden the mix of programs with an expanded range of workforce-oriented programs that include, as appropriate, undergraduate as well as graduate programs. These programs will be responsive to the education and training needs of the region and are likely to include additional programs in K-12 education, information technology and computer science, health care, and business, as well as other fields.

Under the terms of the MOU negotiated with the Southern Maryland Board of Governors presented to the Board of Regents on February 9th, any institution currently offering a program at the Center—whether a USM institution or not—will be allowed to continue operating its program at the Center. That was a recommendation of the 2013 report of the Southern Maryland Higher Education Council and is supported by both the SMHEC Board of Governors and the USM leadership. Those programs will, however, be expected to acknowledge and support USM policies and procedures put in place for governing the regional centers and ensuring the safety and well-being of those individuals who study, teach, work, or attend programs and events at them.

Finally, with respect to the question of the process for non-USM institutions interested in offering new programs at the Center (i.e., programs not currently offered there), as the analyst notes the USM, in 2005, established a policy that outlines the process to be used when a non-USM institution seeks to offer at a USM regional center a program for which there is an identified need, as established by the Center, but that need cannot be met by a USM institution. The terms of the MOU specify that the USM will follow Board policy and the RFP process, which works in conjunction with MHEC, laid out within it. We believe this policy has obvious advantages not just to the institution but also to the regional centers and, more importantly, the communities they were created to serve. The policy provides the USM and our regional centers with a flexible way to respond in a quality manner to critical region-specific workforce needs that, for whatever reason, our institutions simply are unable to respond to and address.

Page 38 – The President should comment on both the efforts and the impacts of those efforts that are being taken to attract and retain students and in particular those targeting transfer students (at Coppin).

USM Response:

President Thompson's response:

ATTRACTING STUDENTS

The Vice President of Enrollment Management and Student Affairs completed six search processes filling previously vacant enrollment management positions, namely, director of admissions, director of financial aid, associate director of financial aid, two financial aid counselors, and an admissions counselor. The new leadership in Admissions and Financial Aid implemented successful programming and best practice enrollment initiatives including:

- Implementing a 24/7 call center solution in partnership with Blackboard, Inc. The center supports calls to Admissions, Financial Aid, and Records and Registration. During the fall semester, the call center answered 12,000 calls, significantly reducing customer frustration, wait times, and complaints.
- The University continues its engagement with Royall, Inc. in the cultivation of applications. The results of fall 2017 and 2016 suggest an upward trend in applications (2,000) and increased first, full-time enrollments (380) over the previous 5-years (253). The impact has led to an 11% increase in out-of-state students.
- The admissions office staff, under the direction of new leadership, has implemented several new and successful programs:

- Transfer Thursdays (occurring monthly)- 79 students registered to attend on February 15
- Commit to Coppin, Enroll Now, fall and spring Open Houses-192 students registered to attend on February 17
- Decision Day (upcoming in April)
- Valedictorian scholarship program- the office works closely with financial aid to increase the number of merit-based, academically competitive scholarships.
- Through the Office of Financial Aid, the university has partnered with KHEA to manage the FAFSA verification process; approximately 700 each year. This action will allow financial aid counselors to spend more time helping students resolve financial aid problems.
- The associate director of financial aid has a background in computer science and, as a result, we are ready to package 2018-19 financial aid award letters (we are only awaiting the release of the Pell tables from U.S. Department of Education).
- The University joined Mayor Catherine Pugh's free community college education initiative by offering Baltimore City Public School students who graduate from Baltimore City Community College with an AA degree **and transfer to Coppin State University the opportunity to attend Coppin for two years, tuition free.**
- CSU launched a city-wide marketing campaign "*Transfer-mation*" to bring attention to students about opportunities at Coppin. The Campaign ran in the fall of 2017 and included strategically placed billboards, ad posters, and transit ads at highly trafficked transportation hubs in Baltimore City, Baltimore County, Prince Georges County, Howard County, and Anne Arundel County. *Transfer-mation* posters were also placed on community college campuses, in the same areas.
- The Office of Admissions sponsors a Transfer student event every 3rd Thursday of the month titled, "Transfer Thursday." The program is held in the evening and designed to appeal to working adults, although any student interested in transferring to Coppin is welcome. Representatives from the Offices of Admissions, Financial Aid, and representatives from the four colleges within the University meet, personally, with students to review goals, admissions information, transcripts, and financial aid requirements. Response to the Transfer Thursday programs has been very encouraging. The next program, which is scheduled for Thursday, February 15, already has 79 student registrations.
- CSU has been selected as the site for one of three national STEM college fairs sponsored by the National Association for College Admissions Counseling (NACAC). The college fair is scheduled for March 22, 2018, and will attract thousands of students from Pennsylvania to Virginia to Coppin's campus.

RETAINING STUDENTS

In the area of retention, President Thompson, along with Academic Affairs, Enrollment Management and Student Affairs, and Information Technology formed a strong partnership to address student retention. The new interim provost is making an immediate impact on improving advising and overall monitoring of student success in the classroom. The following illustrate retention programs and activities:

- Utilization of an executive dashboard to track enrollment, retention, and graduation data on a daily basis. The enrollment data is used to monitor progress, make decisions,

- modify strategies, amend procedures, and at times, adjust policy and contributes to positive results.
- Implementation of a more intrusive academic advising system in 2016. The University has established four Academic Success Centers (one in each College) staffed with academic advisors to monitor student success using data indicators provided by IT. Working together with faculty, the advisors meet regularly to ensure academic progress and to meet student needs. CSU has also engaged Civitas predictive analytics to provide data to help advisors and faculty improve student performance in the classroom and to address student academic challenges, early.
 - Formation of the Student Success Council by Dr. Maria Thompson, in 2016, to review policies, monitor data, and make recommendations to improve pathways to graduation for CSU students.
 - Formation of a partnership with BridgeEdu in 2016. BridgeEdu is a Baltimore-based provider of innovative, supplemental student services designed to help first-year students acclimate more successfully to a college environment by addressing financial, academic, and social barriers to college entry and completion.
 - Offering four-year participation in the Summer Academic Success Academy to at-risk, first-time, first-year students, which has led to excellent results in both enrolling and retaining students, successfully, to graduation.
 - CSU has received a generous proposal from Stedman Graham and Kaiser Permanente to form a partnership to launch the College Identity Program. The program, in its pilot stage, will eventually align many of CSU's retention, mentoring, and support initiatives with a coordinated student success program from the first year to graduation.
 - Our House Community Mentoring is a program that incorporates faculty, staff, student peer mentors, and community members into a student's daily college life. Typically, 50 incoming students become members of figurative mentoring houses that provide support throughout the year. Now in its fourth year, the program is showing progressively higher first to second year retention rates: 2015 (62%), 2016 (77%), 2017 (93%) of first-year, Our House students returned for the following spring semester. The projected four year retention rate for the initial cohort is 50%.
 - Proactive coordination among the offices of Financial Aid, Institutional Advancement, Bursar, and Records and Registration has significantly reduced cancellation lists. Students in good standing who need additional financial resources are identified, in advance. The spring 2018 cancellation list has only 166 students compared to previous lists of 500 or more.

Page 41 - The President should comment on why, despite declining enrollment resulting in less revenue, athletic program expenditures continue to increase, particularly in the past two years, and what efforts are being taken to align revenues with expenditures (at Coppin).

USM Response:

President Thompson's response:

Coppin State University operates on one of the lowest budgets in the MEAC conference and the NCAA. Coppin has experienced increased expenditures in its athletic programs due, primarily, to unavoidable cost increases, costs associated with Title IX compliance, and more appropriate alignment of expenditures directly related to the operation of its athletic programs.

Several of Coppin State's athletic teams participated in extended post-season play. As a result, travel and other associated costs increased for the university compared to previous years.

The number of female athletes increased in order to more closely match the proportionality of female to male students within the university and avoid potential Title IX compliance issues. Consequently, athletic student aid costs increased as did other operational and game day costs such as those associated with uniforms and supplies.

Understanding the necessity of closely aligning revenues and expenditures within its athletics programs, the leadership of the Athletics Department, in conjunction with the other operational areas of the university, has been actively pursuing other sources of revenue to diversify the revenue portfolio and help reduce the reliance on student fee revenue. This initiative includes increased utilization of athletics facilities by external organizations to generate rental revenue, partnering with private sector companies for advertising and other marketing opportunities, and the development of a website for the sales of athletics apparel and other athletics merchandise. Coppin State is also assessing the revenue potential associated with marketing naming rights for its athletics facilities. Additionally, Coppin State is confident that revenues for athletic events, in particular men's basketball, will increase as a result of the hiring of Juan Dixon to lead the men's basketball program.

Page 47 – The President should comment on why once the drop in fall enrollment (at UMES) was known that actions were not taken in fiscal 2017 to reduce spending.

USM Response:

President Bell's response:

The University took actions in Fiscal Year 2017 to reduce spending to address anticipated shortfalls as a result of declining enrollment and increased extraordinary expenditures.

As was stated during the University's testimony in Spring 2017, the University developed both short-term and long-term strategies to address FY2017 shortfalls. Specifically, to address the approximate \$4.6M deficit in fiscal year 2017, the University took immediate measures to reduce spending, resulting in significant savings when compared with the FY16 expenditures, as indicated below:

- Freezing vacant positions (\$823,252)
- Decreasing travel expenses (\$62,074)
- Decreasing communication expenses (\$21,810)
- Decreasing operation and maintenance expenses (\$317,923)
- Decreasing office supply expenses (\$335,882)
- Reducing capital equipment purchases (\$655,874)
- Decreasing land and structure expenditures (master plan - \$161,888)

Combined, these efforts resulted in a yield of \$2,378,703 in savings to the E&G budget.

While the university employed a number of efforts to decrease the impact of the significant enrollment shortfall, these gains were offset by increases in expenditures in the following areas during the same time period:

- Fringe Benefits (\$661,214 – mandatory increases)
- Technical and Special Fees (\$69,981 - accreditation)
- Contractual Services (\$1,482,883 – Kiah Hall flooding, increases in residence hall maintenance, Royall contract)
- Library Books (\$104,113 – accreditation and student support)
- Library and Pharmacy Equipment (\$171,532 - accreditation and student support)
- Student Aid (\$192,878 – need-based)
- Fixed Charges (\$304,978 – legal expenditures)

Stated otherwise, the University experienced several one-time and extraordinary expenditures beyond the FY2017 budgeted funds totaling \$2,987,579, which further widened the gap between revenues and expenditures.

In an ongoing effort to reverse these declines, the University has taken, and is continuing, short-term and long-term measures to stabilize enrollment and the budget. Most significantly, in December 2017, the University announced a salary reduction plan for the Spring 2018 semester to address shortfalls as a result of the budgetary impact of the decline in the Fall 2017 enrollment. Other steps include, but are not limited to:

- Establishing a new Division of Enrollment Management;
- Integrating Hobson’s products to assist in strategic enrollment of students;
- Upgrading software to improve academic computing functions;
- Allocating resources from the Office of Civil Rights and Title III funding to enhance marketing and outreach;
- Instituting a Hiring Freeze;
- Reducing operating budgets strategically;
- Outsourcing vending, printing and laundry services; and
- Identifying alternative streams of revenues
- Elimination of 33 vacant positions

(For full list, please see University System of Maryland Fiscal 2019 Budget Overview (February 2018) at pages 48-49)

With the support of the University System of Maryland, monitoring the progress of all of these efforts is ongoing and is part of a larger, more comprehensive effort to overhaul our budget process. We are on target to meet our Spring 2018 enrollment goal, decreasing the likelihood that the University will need to achieve additional savings to address declines in tuition and fee revenue.

Page 47 - The Chancellor should comment on USMO's oversight responsibilities in ensuring the financial stability of institutions, in particular those institutions that have continual E&G deficits and enrollment challenges.

USM Response:

The System Office takes our oversight responsibilities very seriously. Enrollment and financial results are monitored throughout the fiscal year. The Chancellor meets with the Presidents, evaluating progress on Board approved goals in all areas of the institution's operations a minimum of twice a year. The Presidents performance is reviewed with the Board annually and they may be called in periodically for specific issues, such as enrollment/financial declines. Financial dashboards are provided to the Board Audit committee in December of each year. Interim financial statements as of December 31st are also prepared and reviewed by staff. Additionally, the Associate Vice Chancellor for Finance and Director of Internal Audit meet with legislative auditors to discuss findings and issues for all institutions as well as progress for resolving noted issues.

When an institution's enrollment and financial issues are identified the Chancellor consults with the President to work on a resolution plan. This summer President Bell was tasked with preparing an Action Plan for Continuous Improvement Plan for FY 2018 that was delivered to the Board in October. The USM also contracted with a higher education financial consultant, Mark Behm in August 2017 to aid UMES in a budget review and restructure plan. Mr. Behm is the well respected former UMBC Administrative Vice President who has also worked as an interim Administrative Vice President for Towson University. The System Office will be monitoring ongoing UMES financial dashboards and receiving quarterly updates on budget reduction/restructure plans.

Coppin State University faced similar enrollment and financial crisis several years ago. The System Office supported a Regents directed workgroup that looked closely at Coppin's situation and recommended corrective actions to be taken over a multiyear period. Many of these action items have been completely implemented and we are beginning to see the fruits of the plan. It appears that Coppin's enrollment has stabilized, balanced the state supported budget and is making progress towards reducing the state supported fund balance deficit. A similar approach to stabilize enrollment and close the state supported budget gap is being taken at UMES

The Chancellor is also in discussion with University of Baltimore President Schmoke and Frostburg University's President Nowaczyk on related enrollment and financial issues.

Exhibit 12 Adjusted (Page 24 in analysis)	
USM State Supported Revenues Available for Program Enhancement	
Fiscal 2019	
	<u>Amount</u>
Expenditures	
Current Services Cost Increases	\$94.9
Items not included in analysis with fiscal impact:	
FY 2019 - Two Health Pays reinstated	<u>11.1</u>
Adjusted Current Services Cost Increases	\$106.0
Revenues	
New State Funds	\$54.8
New Tuition & Fee Revenues	42.6
Other New Unrestricted Revenues	<u>11.0</u>
Adjusted New General Fund, Tuition & Other Revenue	\$108.4
Funds Available for New Initiatives	\$2.4
New Initiatives	
Workforce Development - Higher Education Investment Funds Provided	2.0
Computer Science Education Initiative	5.0
Frostburg Economic Development Office	<u>0.3</u>
Total New and Continuing Initiatives	\$7.3
Funds Available for Enhancements or Fund Balance	(\$4.9)