Thursday, January 30, 2020
University System of Maryland Office FY 2021 Budget Testimony
Maryland Senate Budget and Taxation
Subcommittee on Education, Business and Administration
USM Chancellor Jay Perman

Chairman Zucker and members of the Senate Education, Business and Administration Subcommittee, l am pleased to join you once again today, this time to testify on behalf of the University System of Maryland **Office** FY 2021 budget.

Before speaking specifically to the USM Office, I want to once again thank the members of this committee for the support you have provided the University System of Maryland. We are proud of the productive relationship we have forged with the leadership in Annapolis to advance our mutual priorities.

I will keep my general comments brief and then turn to the issues raised by the legislative analysts and any specific questions you may have. Very quickly, I want to outline how the System Office adds considerable value to the USM and the state.

The USM Office is the "corporate office" of the university system. As such, the USM Office manages the primary organizational leadership functions, beginning with our core academic mission and financial stewardship.

The Office serves as staff to the Board of Regents and its six standing committees: Education Policy & Student Life; Finance; Audit; Economic Development & Technology Commercialization; Advancement; and Governance & Compensation. As well as key workgroups: Effectiveness and Efficiency, Intercollegiate Athletics, Enterprise Risk Management, and others.

As you know, last year was a year of challenges and change for the USM. The USM Office is largely responsible for implementing both the recommendations for improving governance stemming from the comprehensive Association of Governing Boards of Universities and Colleges (AGB) review, and the requirements outlined in HB 533, The University System of Maryland - Board of Regents - Transparency & Oversight Bill. From live streaming every regularly scheduled meeting of the full Board of Regents to developing a much more effective new board member orientation and development program, these complementary initiatives are helping the USM reestablish public trust with a dedication to the principles of shared governance and a greater commitment to transparency.

In short, the USM Office:

- Develops and oversees the USM's $6.1 billion operating budget;
- Prepares and oversees a $350 million-plus annual capital program for academic and auxiliary facilities;
- Coordinates academic program planning and program reviews for USM's 12 institutions;
- Manages relations with the state's community colleges and leads efforts to develop two-plus-two programs;
- Manages USM's P-20 activities and secures grants to support P-20 activities;
- Coordinates activities to achieve efficiencies and enhance effectiveness through our E&E and E&E 2.0 initiatives;
- The William E. Kirwan Center for Academic Innovation places the USM in the national conversation on how higher education can capitalize on emerging technologies and findings from the learning sciences to improve learning outcomes;
- Facilitates and promotes technology transfer, entrepreneurship, and workforce development initiatives across the System;
- Manages the process for the selection and evaluation of USM presidents;
- Serves as USM's primary interface with state government;
- Conducts system wide strategic and financial planning;
- Manages a USM-issued capital debt portfolio in excess of $1 billion and maintains a favorable "AA+" bond rating;
- Compiles the System's financial statements and coordinates the audit process;
- Develops, reviews and updates Board of Regents policies;
- Leads the development of USM's regional education centers;
- Provides technical expertise and negotiation support to USM institutions to maximize opportunities for leveraging private investment and public/private development projects;
- Advises the board and USM institutions on the most beneficial real property transactions;
- Provides leadership at the state and national levels on the major issues facing higher education;
- Convenes leadership groups across the USM to determine and disseminate best practices in all areas of university activities;
- Coordinates and oversees labor relations across the USM to ensure constructive and balanced relationships with the unions representing the 26 bargaining units of the USM's institutions;
- Educates targeted audiences and the general public about USM's value to the state and the many constituencies it serves through a wide range of communication vehicles;
- Strengthens a culture of philanthropy by providing fundraising leadership, professional development, board and volunteer training, database management, and program analysis to USM institutions.

As you are aware, in concert with the legislation governing the USM, the System Office is one of the leanest such operations in the country. Of the entire USM budget, **<u>well below one percent</u>** goes to administrative cost at the System Office, placing the USMO third out of 30 such systems in the country.

System Office Support as a Percentage of Total Expenditures
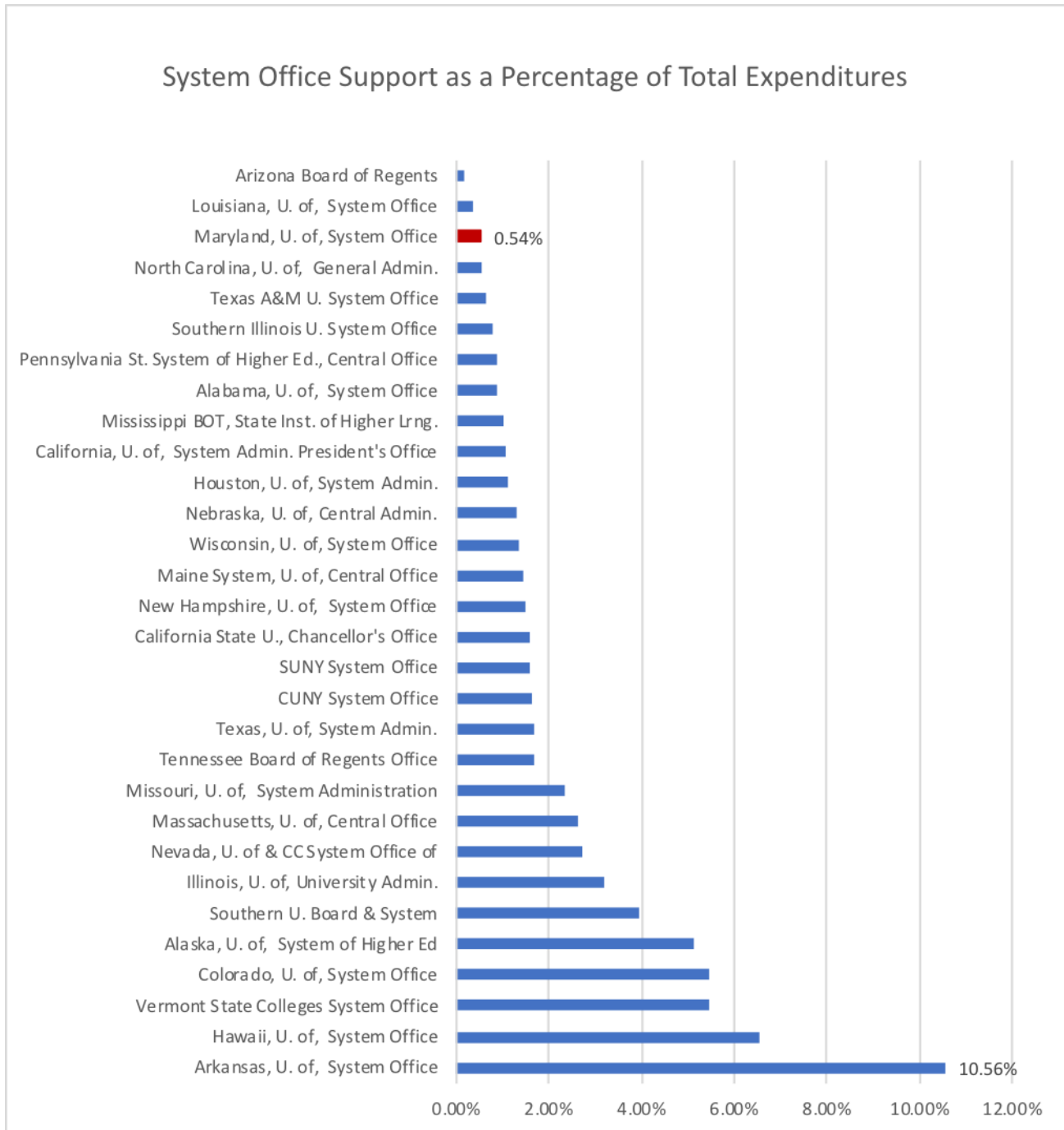
At the same time, what we are able to achieve is impressive. Let me briefly provide just a few examples of how our ability to work <u>as a system</u>—working collaboratively, leveraging resources, forging partnerships, and using economies of scale—advances the quality of our higher education institutions and serves the needs of the state.

Regional Education Centers

The USM Office supports the development and management of USM's three regional higher education centers: the Universities at Shady Grove (USG), the USM at Hagerstown (USMH), and the USM at Southern Maryland (USMSM). The centers are defined by a commitment to partnership among the USM institutions, special relationships with Maryland community colleges, and close collaboration with the business and civic leaders at the county and state levels. In addition, they underscore our overall commitment to provide convenient, accessible, affordable educational opportunities to Marylanders. Students at USM regional centers are taught by shared faculty, take the same courses, and have the same curriculum as those enrolled in the same program at the 10 different participating universities and receive their degree from the university where they are enrolled.

USG offers approximately 80 programs from nine USM institutions, preparing students for rewarding careers in the region's high-demand fields. Offerings include accounting, biotechnology, cybersecurity, hospitality, nursing, social work, and many more. Operational responsibility for USG rests with the University of Maryland, College Park (UMCP).

USMH offers more than 20 programs of study from five USM institutions. Since opening in 2005, USMH has added undergraduate and graduate programs over the years that include business administration, criminal justice, social work, information system management, nursing, and more. Located in downtown Hagerstown, USMH is under the overall direction of Frostburg State University (FSU).

Formerly the Southern Maryland Higher Education Center (SMHEC), the oldest of Maryland's Regional Higher Education Centers, USMSM became the USM's third regional higher education center on March 1, 2019. Also under the overall direction of UMCP, USMSM offers 42 degree and certificate programs—primarily offered at the graduate level—from five USM institutions and an additional 63 degree and certificate programs offered by four non-USM institutions.

The USM Office was also pivotal in recent expansions at all three centers. USG has just opened its fourth education building, the six-level, 220,000-square-foot Biomedical Sciences and Engineering Education Facility that will enhance access to high-demand programs in healthcare, biosciences, engineering, and computational science. It will also house a full-service community dental clinic that will be operated by the University of Maryland, School of Dentistry, with patient care provided by dental students under faculty supervision. USMH recently opened the Agnita M. Stine Schreiber Health Sciences Center, which houses the Physician Assistant Program added in response to the exceptional need for healthcare professionals in the region and offered through FSU. In addition, USMH is opening a new hospitality center in late 2019 to house a Hospitality and Tourism Management program offered by the University of Maryland Eastern Shore. And USMSM has broken ground on a new Academic and Innovation Center, an $86 million, 84,000-square-foot academic and research facility that will nearly double the educational footprint of USMSM, create autonomous systems research space, and spur economic activity and job growth. The new building is scheduled to open in the fall of 2021.

Economic Impact

The USM has always been about innovation, invention, and economic impact. Our institutions and regional higher education centers are hubs of knowledge and learning, as well as centers of research and discovery. As a system, we attract more that $1.4 billion in external grants and contracts annually. We are home to 3 research parks supporting 275 tenants and 9,800 jobs. Our institutions feature 10 business incubator/co-working facilities with 174 corporate tenants.

Since its inception, the USM has contributed mightily to Maryland's impressive "ecosystem" of talent, knowledge, and research capacity, making the state's "intellectual infrastructure" among the best in the nation. In recent years, we have undertaken a cultural shift. We have made a concerted effort to take this strength in research and discovery and translate it into greater success in commercial relevance and company creation. The USM is currently partnering with the state to execute the Governor's 3-year, $32 million Workforce Development Initiative to generate an additional 3,000 high-demand credential and degree holders per year. In the past decade, we have facilitated the creation of 700 new companies. And we launched the $10 million Maryland Momentum Fund (MMF), an early-stage investment fund to increase new company creation and commercialization of USM-based research, with the USM as an equity investor. In less than three years, the Momentum Fund has established itself as a force. Almost $3 million of MMF funding has been invested in a total of ten companies with USM connections. Most impressively, our investments have been matched more than five-to-one, with almost $16 million from co-investors.

Academic Innovation

The William E. Kirwan Center for Academic Innovation—the nation's first system-level center to conceptualize, promote, study, and disseminate groundbreaking innovations aimed broadly at transforming higher education—continues to have a significant impact. Nine USM institutions now participate in the Badging Essential Skills for Transition (B.E.S.T.) initiative, which is designed to validate graduates' career-ready skills for potential Maryland employers. Over 65,000 students have benefitted from the Maryland Open Source Textbook (M.O.S.T.) initiative, which supports the replacement of traditional textbooks with open educational resources. M.O.S.T. has now saved students more than $10 million since it began. In addition, in partnership with edX, the USMx online learning initiative has yielded over 500,000 cumulative course enrollments across 159 courses. USMx offerings include six MicroMasters Programs, the most offered by any edX Partner.

Education Partnerships

USM has established ongoing partnerships with school districts throughout the state, with community colleges, with government agencies, and with private entities to better meet the educational and workforce demands of Maryland. These P-20 efforts are focused squarely on student access and success, seeking to improve college and career opportunity for *all* students. The K-20 Maryland Education Enterprise Consortium (MEEC) leverages contract negotiations for technology products and services totaling tens of millions of dollars a year. The USM hosts the Maryland Center for Computing Education (MCCE). Established two years ago with $5 million in state funding, the MCCE has reached more than 500 educators in every school district with professional development and teacher education programs to expand and improve computer science education in Maryland public schools. With close to a quarter of USM's current student population having started at a **Maryland** community college, the USM-hosted articulation system—ARTSYS—has been invaluable in promoting 2+2 educational pathways and seamless transfers to USM institutions. Following the work of the USM Board of

Regents Civic Learning and Democratic Engagement Workgroup, every USM campus has worked with the system office to develop plans to promote and support civic education, civic engagement, and civic responsibility. Finally, the USM Office won highly competitive National Science Foundation and Department of Education grants that bring together USM institutions, community colleges, and K-12 schools in support of STEM education partnerships.

Stewardship

With the implementation of the Effectiveness and Efficiency (E&E) initiative over a decade ago, the USM established itself as a national model for responsible cost cutting and cost containment in higher education. To date, this systematic reengineering of our academic and administrative processes has resulted in direct savings of nearly $600 million. The Maryland Education Enterprise Consortium—a K-20 entity involving public and private educational institutions, public libraries, and museums in Maryland—leverages contract negotiations for technology products and services totaling tens of millions of dollars a year. Our commitment to sound fiscal management yields additional benefits as well. For example, our excellent systemwide bond rating—AA+ or Aa1 depending upon the rating agency—saves the USM and our institutions millions of dollars annually compared to a less favorable rating. In addition, the USM Office of Advancement provides leadership support to campuses engaged in campaigns, assists in building long-term fundraising capacity and engagement, and helps to cultivate a genuine culture of philanthropy across the USM.

All in all, the USM Office provides significant value to the state, the system, and—most importantly—the students we serve.

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

Recommendations

1. *Page 2 & 17—Reduce $300,000 of funds to be used by the University System of Maryland Office on Workforce Development Initiatives (WDI) at the University System of Maryland at Southern Maryland (USMSM).*

2. *Page 2 & 17—Budget Reconciliation and Financing Act Recommended Action: Reduce fiscal 2020 general funds for the USM at Southern Maryland by $500,000 for Workforce Development Initiatives.*

USM Response:

The USM opposes this recommendation.

The USM urges the committees to reject the recommended reduction.

The University System of Maryland at Southern Maryland (USMSM)—formerly the Southern Maryland Higher Education Center—is a critical resource for expanding postsecondary access and workforce training in the vital southern Maryland region. In the 10 brief months it has been a USM regional center, USMSM's first order of business, rightfully, has been merging its business, personnel, human resources, and information technology systems with those of the USM and its managing institution (UMCP). At the same time, the USM and the center have been putting the pieces in place

for a new executive director at USMSM who can implement the vision for expanded access, workforce development, and technology innovation laid out in the 2018 Joint Chairmen's Report. That search is under way and expected to be completed this spring.

The WDI funding that USMSM received in FY 2020 was the first received by the center and is a critical component in helping achieve that vision. It will provide the resources the incoming USMSM executive director will need to recruit new programs and expand access to baccalaureate and graduate level education in the region. Clawing back 55% of the resources allocated under the program halfway into the fiscal year before a new director can even be appointed will short circuit the ability of the USMSM to achieve this vision.

Identifying the best use of each regional center's limited WDI funding and then negotiating a Memorandum of Understanding (MOU) with institutions to bring those programs takes time, yet it is the only way to ensure such funds are used efficiently and have greatest impact on the identified needs of the region. This time lag from program identification to program stand-up is particularly true at the regional centers, where the development and implementation of an off-campus program can take at least a year and sometimes two depending on the need to seek MHEC approval, hire faculty, and recruit students. In contrast, the USMSM has had less than six months to identify and develop the programs it is targeting under the FY 2020 WDI, while at the same time transitioning to USM management and undertaking the search for a new executive director. The USM is working with Bowie State University; Salisbury University; University of Maryland, Baltimore; University of Maryland, Eastern Shore; and University of Maryland, College Park to explore opportunities to bring needed workforce programs—such as those in aviation, nursing, social work, and computer engineering—to the region. Removing $500,000 of FY 2020 funds earmarked for these programs would largely eliminate this opportunity.

Further, the additional base reduction of $300,000 in FY 2021 would eliminate the majority of funding for Workforce Development Initiatives in 2021 and beyond. The State is investing over $85 million to construct the third academic/research building at USMSM. The reduction of Workforce Development funding by $300,000 will eliminate the USMSM's ability to incentivize institutional education and research participation for this newly constructed building as well as the existing regional center.

Finally, it is important to recognize the comparative scale and operations of the regional centers and the outsized impact a reduction in state support can have on them. For instance, despite helping generate more than 2,700 degrees in direct support of the workforce needs of Southern Maryland over the course of its existence, the USMSM regional center operates on an annual budget of just under $2.6 million. A reduction of the size recommended translates to a mid-year budget cut of approximately 20% of the center's total FY 2020 operating budget. Maintaining the state's support for the center and its programs is critical to allowing the USMSM to grow its operations, build programs, and continue to serve the workforce needs of the region.

3. *Page 2 &18—Reduce funding to the USM System Office by $600,000. USMO can continue savings generated from fiscal 2020 cost containment measures.*

USM Response:

The USM opposes this recommendation.

The USM urges the committees to reject the recommended reduction.

The testimony highlights the extensive roles and responsibilities of the System Office. It bears repeating that of the entire USM budget, **well below one percent** goes to administrative cost at the System Office, placing the USMO third lowest out of 30 such systems in the country.

The System Office did make one-time cost containment actions in FY 2020 but these actions, if permanently reduced will negatively impact the entire USM. The cuts include:

1. Institutional supplemental funding and other campus operating/facility support allocations were reduced. This support has been critical for low-resource institutions in the past. Examples of allocations:
   a. UMES scholarship supplemental funding $200K in FY 2019.
   b. Campus financial support for leadership transitions.
   c. Regional center campus academic program support.

2. Academic Systemwide initiatives:
   a. Inclusion & diversity training.
   b. Faculty governance support.

3. Institutional support to campuses for administrative functions:
   a. Elimination of contractual senior administrator, responsible for contract oversight and management of USM's largest leveraged contract; the Oracle/Peoplesoft ERP contract, under which all USM institutions have licensed software.
   b. Enterprise resource planning, advancement/development support, and other E&E initiatives.
   c. SPS Workday implementation.
   d. Implementation of supplemental retirement plans on-line enrollment & management.

In summary, the state relies on the System Office to manage this complex organization with institutions and regional centers with different missions and challenges. As noted in the USM Overview, the office is also tasked with implementing best practices and seeking collaborations for new and expanding initiatives. This reduction will strain the already limited staff and resources to maintain the high quality of the USM and its institutions.

Issues & Comments requested:

1. *Page 16—The Chancellor should comment on the efforts to stabilize and plans to grow enrollment, right size USG's budget, and increase communication and collaboration between partner institutions and USG. The Chancellor should also comment on the increasing competition from online institutions and its impact regional higher education centers.*

USM Response:

Enrollment Stabilization and Growth

USMO concurs with the reasons offered in its report for overall decline in enrollment at USG including declines in community college enrollment, as well as decline in graduate programs from

UMCP (Business and College of Education), as well as the movement of graduate students to enrolling in online programs.

USM has supported enrollment growth of existing programs at USG and for new programs by providing enhancement funding and the Workforce Development Initiative (WDI) funds. The programs that have been supported or will be supported through these funding initiatives are designed to meet the current and projected needs of the workforce in high demand fields, many of them in the STEMM (science, technology, mathematics, and medical sciences) areas. STEMM programs are some of the more expensive programs for USM partner institutions to bring to regional centers.

USG has developed programs with its primary educational pathway partners, Montgomery County Public Schools (MCPS—the largest public school system in the state with more than 170,000 students) and Montgomery College, to:

- increase the pool of qualified students for those STEMM programs, including students from underrepresented populations in higher education,
- ensure that these students are successful in entering and completing the programs.

Current STEMM Programs Planned for The USG Through Its Partner Institutions

USG is working with its academic partners to bring multiple STEMM programs to the USG campus as part of the expansion provided through the opening of the Biomedical Sciences and Engineering Education Building (BSE). USG has worked with its university partners to identify high-workforce-need STEMM fields and to bring existing and new degrees to the campus to meet these needs. These programs will be brought over the next several years. Some have already begun enrolling students (such as UMBC BS in Translational Life Sciences Technology, Salisbury University MS in Applied Health Physiology, and UMD, College Park BS in Information Sciences) and others are scheduled to begin in Fall 2020 such as UMD, College Park's BS in Embedded Systems and Internet of Things and UMBC's BS in Computer Science (Cybersecurity track).

Pathway Programs

Various methods are being used to expand the number of qualified students in the pathway for STEMM degrees and facilitate their academic success in completing a baccalaureate and/or graduate degree. We offer two examples here:

- A long-standing pathway program established to increase the number of students attending college and completing their baccalaureate degree is the ACES program (Achieving Collegiate Excellence and Success). This program enrolls more than 2,700 students in 14 MCPS high schools and Montgomery College and USG for underserved populations in higher education.
- Additional pathway work is underway to increase the number of prepared students to enter the regional IT workforce. Supported by a multi-year grant from JP Morgan Chase and the Greater Washington Partnership, the Talent Ready program is designed to increase the number of prepared students to enter the regional IT workforce. It prepares HS students to attend programs at Montgomery College that articulate to UMBC TLST program and Computer Science programs at USG. The university partners are working with MCPS Early College and Middle College students as well as those in other MCPS Information Technology pathways. Program design is underway to provide student academic support services and financial aid for

those in the pathway to insure undergraduate degree attainment. The lessons learned through this grant will be applied to strengthening the success of the students in other STEMM pathways.

Right-Size USG Budget

To close the current $1.9 million budget gap, USG has submitted a balanced budget for FY 2021. In FY 2022, USG will develop analyses that support the costs associated with providing shared resources, activities, and assets to the programs provided by nine USM institutions. A fundamental principle identified in the USG recommended financial model is to agree on appropriate levels of shared activities, services, and resources and fund them once through the USG appropriation. This principle supports the most efficient use of state resources and reduces USG's dependence on student fees and enrollment fluctuations. As a short-term strategy, USG is continuing to realign resources that will allow it to operate efficiently and effectively in the interim.

Communication and Collaboration Between Partner Institutions and USG.

With respect to the issue of communication and collaboration among USM institutions at USG, as the analyst notes the USM has been working with USG and its partner institutions over the past year to streamline and improve the governance decision-making structure and increase the amount and timeliness of information flowing between USG, the USM Office and the partnering USM institutions. The chief focus of these efforts has been the reorganization of Shady Grove's Governing Council— which previously consisted of representatives of the USMO academic and financial divisions, the USG executive director, and each of the chief academic officers of the nine participating USM institutions— into a smaller and more nimble Provost's Executive Group (PEG), whose membership will be restricted to the chief academic officers of the four institutions with largest student enrollment at USG (UMCP, UMBC, UMB, and UB), the Vice Chancellor for Administration and Finance at the USM Office, and the Senior Vice Chancellor for Academic and Student Affairs from the USMO.

The role of the PEG, as developed and refined over the past year and in line with the recommendations contained in the JCR report, will be to:

1. Approve any new academic programs at USG, and to review and approve any academic policy proposals that emerged from USG's Academic Planning Advisory Committee;
2. Approve USG's annual budget, and ensure its timely communication and submission to the USM Office, and other stakeholders as appropriate;
3. As part of the above budget process, approve all charges to participating institutions and review all recommendations for student fees before forwarding to the USM Board of Regents;
4. Determine the scope and character of all student and ancillary services offered at USG, within the constraints of the approved budget, and finally;
5. Ensure that the services and facilities at USG conform to the standards of the Maryland Higher Education Commission and appropriate accrediting authorities.

In addition, it will be the PEG's responsibility to ensure that there is appropriate accountability for, and support for, USG. As the PEG structure is put into place, and other consensus recommendations from the report are implemented, executive decision-making at USG will be streamlined, the flow of communication among USG partner institutions will be enhanced, and most importantly, accountability for decisions and programs will be strengthened.

With respect to size and role of the USG Board raised in the analysis, it is important to note that the USG Board is not a governing board. Its role, like those of the advisory boards at each of our campuses and regional centers, is purely advisory. It serves as a primary conduit between the stakeholder communities served by center and the leadership of USG and the System. It advises us as to the many needs that exist in the region—whether workforce-related or otherwise—and as appropriate it helps to advocate for programs and services that can address those needs. But the Board does not have a direct role in USG's governance or decision-making.

The USM's regional centers represent a model unique to Maryland that has proven its effectiveness in addressing the needs of a population of students who will be increasingly represented in our state's K-16 education system in the years to come. As part of the study undertaken by USM this past year, our data showed that almost two-thirds (65%) of all undergraduate students studying at USG in 2017 were identified as needing financial aid, with over half (56%) of all students who applied for aid indicating they were financially independent, meaning they received no financial support from their families. In comparison the percentage of students financially independent at our traditional four-year campuses is just 35%. Thirty-three percent of all USG undergraduates received a Pell Grant in 2017—demonstrating that they had the most substantial level of need as recognized by the U.S. Department of Education, and 52% of USG students reporting working while attending USG.

Yet, despite the challenges faced by this population, USG and its partnering institutions still managed to achieve an undergraduate four-year graduation rate for its transfer student population (all USG students are transfers) of 75%, 21 points higher than the USM wide graduation rate for undergraduate transfers coming from similar institutions. USG achieved this through its unique blend of well-articulated 2+2 programs between the two-year and four-year institutions who partner with USG, and, importantly, the highly personalized academic, financial, and student support services that in their breadth and scope appear unlike any offered in the condominium-style regional centers found in other states.

Competition from Online Programs

The regional centers were created as the presence of distance education and online programs emerged. Since then, the online marketplace has grown yet the institutions and the state continue to invest in new capital facilities because not every program can be duplicated in an online format. Many of the new high-demand programs offered at the regional centers are in the STEMM fields specifically biological sciences, health sciences, and engineering. STEMM fields require extensive coursework and research in labs. In addition, the growth in applied health professions require clinical practicums and patient interactions that must be complete.

###