



Thursday, February 4, 2016
University System of Maryland (USM) FY 2017 Budget Testimony
Maryland House Appropriations Subcommittee
on Education and Economic Development
USM Chancellor Robert L. Caret

Chairwoman Jones, Vice-Chairman Barnes, and members of the Committee . . . thank you for the opportunity to testify on the Governor’s FY 2017 budget recommendations for the University System of Maryland (USM).

While this is my first opportunity to provide testimony as USM Chancellor, my roots in Maryland run very deep. I know firsthand that this state and this legislature have long been extremely supportive of higher education in general and University System of Maryland in particular. In fact, one of the reasons I was so excited by the prospect of returning to Maryland as USM Chancellor was the partnership that exists between us, establishing our mutual goals and shared priorities. I certainly hope we are able to build upon that partnership and strengthen it so that—together—we can position Maryland for even greater success in the years ahead.

I intend to keep my testimony very 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 full support for Governor Hogan’s FY 2017 budget. As you know, the Governor has proposed state support for the USM of \$1.34 billion, coming from the General Fund and the Higher Education Investment Fund. This is an increase of \$75 million—or approximately 6 percent—over the FY 2016 budget revised for increased health cost deficiency funding (\$16.5 million).

As you also know, the USM’s mandatory costs will increase by about \$123 million in the coming fiscal year. This “maintenance of effort” increase will be driven primarily by three items:

- Merit pay increases that Governor Hogan’s budget funds for all state employees, including those of the USM;
- Higher healthcare benefits costs;
- And increased costs associated with retirement benefits.

In addition to these three key factors, there will also be increased financial aid, the cost of new facilities coming on line, facilities renewal expenses, and other costs.

Let me make clear how the USM—working with the Governor, his staff, and legislative leaders—will be able to cover that \$123 million in increased costs **and** maintain funds for enhancements.

The Governor's FY 2016 and FY 2017 budget increases add up to approximately \$92 million to fund: **\$38 million** for merit pay increases; **\$42 million** toward our increased healthcare and retirement expenses; **\$5 million** for a 1 percent “tuition buy down” for in-state, undergraduate students; and almost **\$7 million** targeted to improving college completion.

For its part, the USM will hold our tuition increase for in-state, undergraduate students to a very modest 2 percent, yielding a little over **\$20 million**. In addition, through cost cutting and reallocation actions driven by our ongoing Effectiveness and Efficiency (E&E) efforts, we will provide at least **\$17 million** in added savings to insure our budget is balanced.

So at the end of the day, with the state and the system working in tandem, we will meet all our costs and have \$6.8 million for enhancement funding, targeting our mutual goal of greater college completion.

This is a priority for the USM. In fact, it is the first goal articulated in our strategic plan. I know it is also a priority for Governor Hogan, members of the legislature, and the state's business and community leaders. Affordable access to higher education is certainly important, but completion is the key.

This budget is prudent and tightly balanced, but it is a very positive budget for the USM and the State of Maryland. It maintains our commitment to access, affordability, and quality. It lets us fund some important completion enhancement efforts. It once again demonstrates Maryland's **bi-partisan commitment** to higher education. And it sets us apart from—and above—our competitors in the knowledge economy.

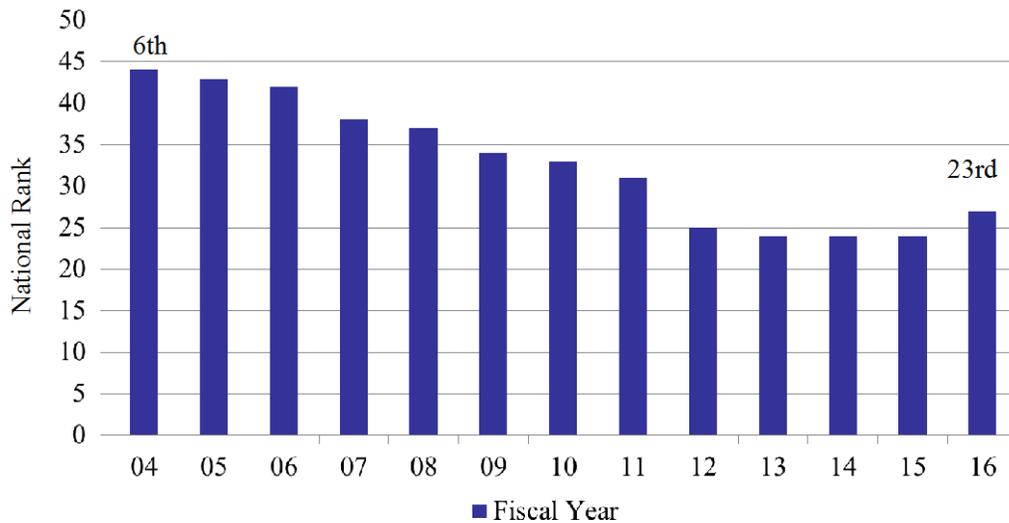
Our strategic plan also states that we will be good stewards of our resources. This leads me to the second issue I want to briefly speak to: how effective and efficient the USM is at doing what we do. Just as important as the support provided by the Governor's budget are the USM's internal efforts to show beyond question that we are spending this money wisely and getting the state what it needs.

Our goal is to provide affordable access to quality higher education. And I want to stress that this is **NOT** synonymous with higher and higher costs. On the contrary, the USM—a \$5 billion enterprise—spends that money very judiciously as we work to meet key state needs. I believe we are an efficient, well-run organization.

To underscore our commitment to cost containment and affordability, look at our—**the Governor, the General Assembly, and the USM's**—improvement in tuition and fee rankings over recent years.



USM Tuition and Fee Rankings



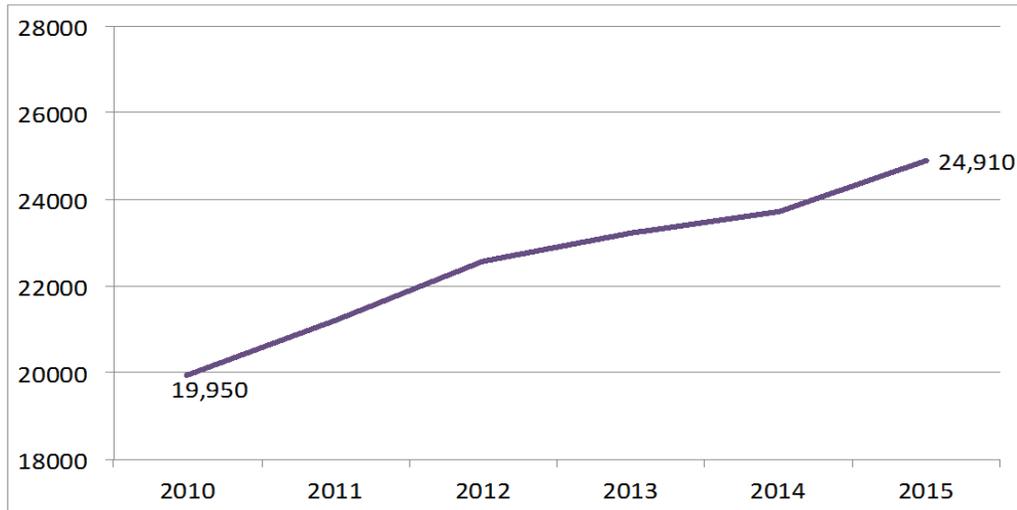
A decade ago, USM tuition and fees ranked among the top 10 highest in the nation. Today we are squarely in the middle of the pack. Now it is true that last year USM moved up a few spots, but the overall long-term trend remains positive and intact.

One final way to highlight our success on this front is to look at how effective the USM is at fostering students' progress through the academic pipeline, which represents both success AND savings. If we can continue to reduce "time-to-degree," we can save the state, students, and families a significant amount of money. We pledge to work toward that goal.

We are also committed to increasing the total number of students who graduate each year from USM institutions. We are especially focused on generating more bachelor's degrees each year, and—as you can see from the chart—we have realized a 25 percent over the past five years. This budget will help us maintain that progress going forward.



Bachelor's Degrees Awarded Annually FY10 – FY15 25 Percent Increase



The USM has built a strong fund balance. Our bond rating—AA+ or Aa1 depending upon the rating agency—saves us millions of dollars in interest costs compared to a rating just one notch lower. Our E&E Initiative has racked up more than half-a-billion dollars in costs savings since its inception. And E&E 2.0 is poised to intensify that impact.

The bottom line is that the USM is a well-run organization. Our use of innovative approaches, our emphasis on institutional collaboration, our partnerships with the K-12 and community college sectors to strengthen the education pipeline, and our ability to take full advantage of the efficiencies rooted in our “systemness” combine to advance our commitment to completion.

Governor Hogan’s budget will enable us to pursue some steps to do even more. We know what it will take to improve completion efforts, and we will move in that direction. We will be setting goals, measuring ourselves against those goals, and publishing our outcomes in a succinct accountability report card.

One of the most commonly reported obstacles is the availability of courses, especially at the “gateway” level; the foundational courses that serve as prerequisites for many degree programs. We have to do a better job of making sure students can take the courses they need to keep their academic careers moving. This will require more instructors as well as more efficient use of instructors’ time. We can also make progress in this area by building on our national leadership in academic innovation and academic transformation, finding alternative ways to provide these “gateway” courses to students.

Another action we can take to improve our completion rate is to provide students with stronger, more effective advising. Having served as a professor, dean, and provost at Towson, I know firsthand the critical role that academic advising can play, both in retaining students year-to-year

and keeping students on the academic paths that will move them toward completion. If we increase our emphasis on *intentional*—even *interventional*—advising, we can have a real impact.

A corresponding effort—one that can help inform our advising efforts and much, much more—is the use of analytics to maximize progress toward degree. We simply must become data-driven universities. This starts with descriptive analytics and business intelligence analytics, in which we collect, organize, and model the data. The next step is predictive analytics, where we explore the data generating a predictive model. We can then move to prescriptive analytics, which helps determine action based on data. If used properly, this approach will not only make the students more successful, it will make the institution more successful as well.

And we must keep building upon our strong partnerships and articulation agreements with community colleges. First-time transfers make up two-thirds of newly enrolled undergraduate students at USM institutions, with almost half coming from a Maryland community college. And while the graduation rate is slightly lower and the time to degree is slightly higher for community college transfer students, overall those students do as well as native students. Our two regional higher education centers—Universities at Shady Grove (USG) and University System of Maryland at Hagerstown (USMH)—will play an especially important role in our efforts, both in terms of their capacity and their capabilities. If we can broaden our community college partnership with 2+2 programs in nursing, teaching, engineering, cybersecurity, hospitality management, and other key disciplines, we can improve completion AND meet key workforce needs.

That last point brings me to the third and final item I want to quickly address—through just two charts—and that is the significant impact the USM has well beyond our campuses on Maryland’s economy, quality of life, and its future. As I have observed, Maryland wouldn’t be the state it is today without the USM. And Maryland will never be the state it wants to be without the USM. We are an investment in the future, not a cost center



USM Impact: Who We Are & What We Do

- 162,000 students / 12 institutions / 2 regional centers
 - Every Year:
 - 38,000 graduates, and growing
 - 80 percent of all bachelor’s degrees awarded in Maryland
 - 70-80 percent stay in Maryland after graduation
 - \$1.2 billion In Academic R&D, and rising
 - More than \$4 billion in economic churn
 - More than 100 start-up companies created/facilitated
 - More than a million hours of service to the community
-



USM Impact: Where We Take Maryland

- 1st in median income
 - 1st in NIH R&D awards
 - 2nd in research and development (R&D) intensity
 - 2nd in percentage of individuals working in STEM
 - 3rd in adults with bachelor's degrees
 - 3rd in scientists as a percentage of all occupations
-

To make public higher education in Maryland work, three components must work in tandem. The federal government must do its part, most notably by fully funding the Pell program and stressing grants over loans. The state must do its part, in providing adequate funding. And the USM must do its part, primarily by providing affordable accessibility to high quality higher education.

Last year I embarked on a four-day, statewide listening tour. I had numerous meetings with key stakeholders, ranging from business leaders and government officials to educators and advocacy organizations. Based on this tour and these conversations, I can say with absolute confidence that Marylanders want us, ALL of us—the Governor, the Legislature, the USM—to keep higher education a priority. It must be seen as our shared responsibility. And I am proud that the USM's overall goal is precisely aligned with what the state official and business leaders want us to do: Graduate educated, enlightened citizens who are ready to go to work in all facets of life to make this state and our nation better.

Once again, I thank you for the support you have provided the USM over the years, I look forward to our work together, and I once again ask you to fully support Governor Hogan's budget proposal.

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

Recommended reductions:

Page 18: Proposed deficiency funding: The January 1 increase is already reflected in USM's fiscal 2016 budget, and therefore, the Department of Legislative Services (DLS) recommends reducing the fiscal 2016 deficiency by \$3.2 million. This action will be taken in the USM Office budget analysis since that is where the deficiency is budgeted.

Chancellor's comment:

The USM opposes this recommendation.

The FY 2016 health deficiency was requested by the USM to address a long-standing health funding shortfall problem. DBM recognized the ongoing health shortfall issue and funded the FY 2016 deficiency. The deficiency request was prepared in November based on calendar year 2015 rates. With the calendar 2016 health employer and employee rate changes, DBM provided an increase of 3% to the deficiency request based on actual rate changes beginning in January 2016. In fact, the USM has reviewed the January 2016 health payroll expenditures versus calendar year 2015 payrolls and the costs have gone up between 3 to 5%. Thus, the six-month 3% adjustment was valid and much needed.

It should be noted that health cost funding is in what generally is considered a State controlled account. In the event these funds are not expended for employee health costs by the end of FY 2016, they will revert back to the State in the closing process.

Page 21: Proposed budget: The State average for salary increments is 2.4%, therefore, DLS recommends reducing the USM increment by \$1.4 million to reflect the State's average. This action will be taken in the DBM budget analysis since that is where the increment is budgeted.

Chancellor's comment:

The USM opposes this recommendation and will work with DBM at the appropriate time to communicate this at the DBM Budget hearing.

The analyst appears to suggest that USM employees will receive higher salary increments than State employees because our merit pool is funded at 2.5%, and State average for salary increments is 2.4%. But when we examine the differences between the State's step-based increment system and the USM's performance based system, this clearly is not accurate as described below:

- The State provides increments to nearly all of its employees according to a fixed grid consisting of more than 20 grades and 20 steps within each grade.
 - The increments as employees move from step to step are nearly 4% in the initial steps in each grade, and they decrease to approximately 2% in the higher steps in each grade. So, whenever increments are given, some state employees will receive 3.8% increases, while others may be in the 2% range, according to their place in the grid.

- Thus, the cost of increment increases in any given year can vary within that 2% to 4% range, depending upon trends in State agency retention of staff, rate of new hires, etc., during the particular year. The average may be 2.4% this year, but that represents only a snapshot in time.
 - Over many years, 2.5% has served as a consistent standard for ensuring that State and USM increment funding, based on the size of our workforce, are roughly equivalent. We recommend that this consistent approach be retained this year and into the future.
- There are several reasons for this, chiefly grounded in the USM's need to attract and retain a workforce with extraordinarily high skills and qualifications in a fiercely competitive labor market.
 - Our merit-based increments are designed to accomplish this goal.
 - For nonexempt staff, USM policies provide for 2.5% increases across the board when increment funding is available.
 - Most importantly, for faculty and exempt staff, increases are performance based—using an average of 2.5%. This obviously is critical for the USM to retain its most skilled faculty, research, IT and managerial employees, especially in a competitive labor market.
 - So while the labor market for State agency employees may dictate a 2.4% increment increase this year and some other amount (possibly higher depending on the average State employee year of service) in future years, there is no reason to think that the very different USM labor market would follow in lock step from one year to the next.

In conclusion, the 2.5% merit pool funding has served the State well over the long term to provide an approximate equivalence to State increment funding. It provides consistency and fairness, and there is no reason to deviate from it at this time.

Additional Comments:

Page 26: USM wishes to comment on Exhibit 17: State Supported funding available for Program Enhancements

The USM State-Supported Revenues available for Program Enhancements is presented in Exhibit 17. This analysis suggests that the USM has \$8 million in extra funding for enhancements and enrollment growth. The USM disagrees with this analysis.

Included as part of the revenue section as possible state-supported revenue to offset state-supported expenditures is \$13.9 million of "other new unrestricted revenues". These revenues are primarily non-state or self-support components of the budget. The majority of the increase the analyst notes in her Exhibit is Sales and Services of Educational Activities. For example, \$5 million of the \$13.9 million is sales and services of educational activities from the University of Maryland University College (UMUC) Inn and Conference Center. The UMUC Inn and Conference Center has a contractual relationship with Marriott Hotels and this funding is not used for student related instructional expenses. These types of activities are clearly non-state and the

personnel/operating costs are not only self-funded but unavailable for instruction, student support, facilities, etc.

Once this revenue is excluded it is clear that the USM has only the State funded enhancement of \$6.8 million available and will be required to produce efficiencies/cost reductions to balance the budget, as noted in the USM testimony.

The Chancellor was asked to comment:

Page 8: The Chancellor should comment on how the system and USM institutions are addressing changing enrollment patterns, particularly the decline in FT/FT students.

Chancellor's comment:

The USMO and the Presidents of USM's institutions have been working to reconsider demand and enrollment strategy for the next decade and have outlined an approach that will improve system-wide enrollment planning, implementation, and student outcomes. The resulting process will create a straightforward, well-grounded enrollment input-output model at the institutional level in support of the USM Strategic Plan, and specifically two of its goals; 1) attaining 55% degree completion for Maryland's adult population, and 2) meeting the workforce demands of the Maryland economy. It builds on current practice and review processes and is tied closely to institutional enrollment projection processes and USM budget development.

An enrollment template is being developed to evaluate enrollment options. This template will consist of factors that both inform enrollment projections and allow us to more accurately forecast outcomes. The process would additionally allow the development of easily understood performance indicators that would effectively measure progress toward the strategic goals and form a key element of USM budgeting decisions.

We begin with each campus as unit of analysis. Each campus will consider the list of factors outlined below within an enrollment management rubric. Essentially, the institution will rank order each of the factors (or a group of priority factors) based on what the campus determines most important to its success in recruitment, retention, and graduation. Then, where there is interinstitutional commonality in the priority rankings the idea will be to group together those campuses with similar challenges, needs, opportunities, and, ultimately, strategies (i.e., actions).

The factors are:

- Campus mission and historical recruitment patterns,
- Alignment with State leadership's policy goals concerning higher education,
- Institutional historical performance in terms of student access and completion,
- Existing pipelines for admissible students and institutional success at yielding from those pipelines (including use of outside consulting/analytics to optimize enrollment),
- Per student cost/funding and existing financial aid policy and availability,
- Need to redress planned and unplanned historical misalignment of enrollment particularly in terms of race/ethnicity,

- Program mix (and program robustness) in terms of alignment of degree production with workforce demand,
- Potential impact of institutional action on system-wide degree production and workforce impact,
- Maximize efficient use of existing and planned instructional facilities,
- Capability to effectively employ new approaches and technology to expand enrollment, optimize student success, and efficiently employ existing resources,
- Effective use of and commitment to expanding programs and presence at USM Regional Higher Education Centers (as well as other non-USM Centers),
- Demonstrated capability in institutional enrollment management, and
- Implementation of performance analytics in enrollment management and curricular areas.

While these factors may not be primary considerations in the enrollment planning process for each of the institutions, they are critical considerations as we review the multiple enrollment strategies that aggregate to our broader system strategy.

Page 18: The Chancellor should comment on how system office and the BOR will utilize the additional faculty workload data in decision making about the allocation of resources.

Chancellor's comment:

The Board of Regents has been paying careful attention to changes in the performance on the instructional workload over the last several years. The results of this year's Faculty Instructional Workload report have reemphasized that the practice of teaching and learning has changed since the basic measures of productivity were established two decades ago. Core faculty spend a great deal more time today advising students, supervising modularized instruction and on activities such as course re-design than they did even 5 years ago. However, the only significant measures used in the Board's policy are measures of course assignments and enrollment in those courses.

The Board has tasked USMO staff and USM institutional faculty and staff to study the issue and prepare recommendations on how to better capture the instructional activity and learning by students going forward. The intention is that these changes will allow the Board to more effectively target resources to specific activities and provide Institutional leadership with specific insights that will help them more effectively deploy faculty and other instructional resources. This is viewed as a critical part of the ongoing transformation of the academic enterprise.

Page 23: The Chancellor should comment on why nearly one-third of enhancement funding is being allocated to expand programs at USM regional centers when there is significant room for improvement in student completions at the USM institutions. In addition, the Chancellor should discuss whether metrics will be established for those institutions receiving enhancement funds to determine which initiatives prove successful and, if programs are not successful, will resources be reallocated in future years to other initiatives that are proven to be successful.

Chancellor's comment:

First, it is important to note that the USM doesn't differentiate between an institution's students who are studying in a program being run by the institution at the Shady Grove or Hagerstown site and those who are studying at the institution's home campus. A UMBC or UMES student enrolled in a UMBC or UMES program offered at Shady Grove is just as much a UMBC or UMES student as one who is enrolled in and taking courses at the institution's home campus. Therefore any enhancement funds used to expand offerings and improve degree completion rates in programs offered by a USM institution at one of our regional centers contribute just as much to the institution's overall degree completion and baccalaureate production numbers as funds allocated to projects at the institution's home campus.

In allocating the FY 2017 enhancement funds, the USM had to make some difficult choices. We had an array of excellent proposals from our institutions totaling over \$15 million in requested funding, and of course just \$6.8 million to distribute. We also had a mandate from the Governor to use the funds to further the State's goal of 55% degree completion. To help us achieve this mandate and winnow the \$15 million down to \$6.8, we focused on identifying those projects we saw as offering: 1) the greatest likelihood of success; 2) the most significant impact on degree completion within the near term (including in high need areas such as STEM and health care); and 3) the most effective and efficient use of resources. We assessed each institution using a matrix of criteria that included—

- The nature of the proposed project
 - Did they build off of proven success strategies appropriate to the institution's mission and needs?
 - Did they reflect efficient and effective use of resources?
- The potential scope and time-to-impact of the proposal
 - How many degrees would the proposal likely produce, in support of the state's completion goal?
 - What was the time line for producing those—for instance did they focus on transfer students, who typically finish more quickly, over first time, full-time freshmen who typically take up to 6 years to complete?
- And, whether proposal addressed other State, System, or institutional needs
 - Did they contribute to other important needs as well, such as increased STEM production or an enhanced ability to use data and analytics in support of decision making?

Finally, we also looked at the amount of resources that were considered necessary to make a particular project effective and how we could use our power as a university system to cooperatively leverage the total amount of dollars available to achieve the goal of increased degree output.

In the end, the USM was able to allocate resources to seventeen excellent projects, reaching across 11 campuses and centers, affecting all regions of our state. Proposals funded at individual campuses ranged from a \$900,000 transfer student aid program fund proposed by UMCP to a \$200,000 academic success program proposed by Frostburg. Five of the 17 projects, representing about a third of the total funding, included collaborative projects between two or more USM

campuses or entities in a bid to leverage the strengths and expertise that exists across our System. These multi campus collaborations included the projects located at our regional centers. Under the criteria used to assess the enhancement proposals, it was determined that several (though not all) of the proposals put forward by the regional centers, working in collaboration with their institutional partners, ranked among the System's best options for helping to expand degree completion effectively and efficiently within a near term-time frame. Students participating in programs run by USM institutions at the two regional centers are among the most successful students in the System, in terms of completing their degrees on time (defined as within four years after transfer to a USM institution, versus the six-year time frame used to track first-time full-time students who start as freshmen).

The four-year graduation rate for transfer students studying in a program at a USM regional center is almost twenty percentage points higher (between 70 and 75%) than the graduation rate for transfers within the System generally (55%). In addition, the expansion of institutional programs proposed for the regional centers allows the USM to target specific workforce needs that have been identified by the centers and their stakeholders as important to the region. Finally, in assessing the proposals the USM also noted that graduates of the institutional programs being proposed at the centers have an exceptionally strong track record of getting jobs in their fields and remaining in the region, both of which help to boost the state's overall degree completion numbers. For these reasons, the USM chose to fund three proposals focused on the expansion of existing and new degree programs at the regional centers over other proposals put forward by individual USM institutions.

Finally, with respect to the analyst's question of whether the progress of institutional proposals to use enhancement funds would be tracked, each institution or its partnering regional center slated to receive funding under the enhancement initiative has been tasked with providing the USM an implementation plan that includes, in addition to a final budget and timeline, a set of metrics tailored to the specific goals of the proposal. These will be used by the USM to measure and track institutional progress under the enhancement proposals. As it has with past enhancement funding, the USM expects to review institutional progress annually using these metrics and will take action as needed to ensure the enhancement funds are used in the most effective and efficient manner possible in line with the mandate given to the USM by the State.

Page 29: The Chancellor should comment on the USM's need to amass such a large fund balance and at what cost, and how much fund balance USM needs in order to maintain its credit rating.

Chancellor's comment:

The question as to the need for the magnitude of reserves has several different points and perspectives. One is the obvious need to maintain a certain minimal level of financial strength to protect the bond rating. Another is the need to accommodate spending needs as they arise rather than when the funds are available. Yet another is the set of expectations for managing state-supported activities compared with those of self-support activities like student housing, dining halls, parking garages and university student unions and bookstores, which are expected to set fee levels so that all costs, including capital and debt service, can be funded without burden on state taxpayer or tuition resources.

Of the \$917 million of unrestricted fund balances at the most recent fiscal year, \$717 million is attributable to monies accumulated by self-support operations, and only \$200 million relates to state-supported facilities. The source of the reserves is important not only to bondholders, who have an expectation that self-support activities will be able to pay debt service when due, but also institutional managers of those activities, who depend on the availability of those reserves when a needed renovation, or capital investment, is required. The unrestricted fund balances attributable to state-supported activities like education and research are low relative to the size of the overall operation, and are unevenly held among USM institutions, with 5 USM institutions holding either no reserves, or accumulated deficits, in state-supported activities.

The System in late January had all 3 of its bond ratings reaffirmed in anticipation of our next bond sale, which is to close on February 17. I recognize the balancing of needs and objectives between accumulating resources, and not being able to utilize those resources so as to maintain a bond rating, and the demands for resources by institutions. Part of the current bond transaction is a \$60 million refinancing that will save \$4 million in future debt service spending, a refinancing that would not be possible at a lower rating. Over the past decade, similar refinancings have resulted in additional savings of more than \$45 million.

The rating agencies have an expectation that unrestricted fund balances grow proportionately with the growth in outstanding debt. The System's ability to issue debt at the level that we have is even more important with the reduction in overall state general obligation debt availability. Issuing \$115 million of new money debt, and paying off \$85 million in principal in recent years means that debt outstanding is increasing by \$30 million per year, which to the rating agencies translates to an expectation that fund balances increase by at least that much annually.

From the January 29, 2016 report of Standard & Poor's:

While we believe USM's available resources are healthy nevertheless they are very slightly behind medians for the rating category.

and

*We could consider a negative rating action over the outlook period if USM's enrollment declines, financial operating deficits on a full accrual basis are posted, or if available resources weaken. **Additional debt without a commensurate increase in available resources also could trigger a lower rating.***

For fiscal year 2014 the System reported a decline in unrestricted fund balances. The decline was the product of several isolated events, including resolution of the ACC exit fee dispute, a mid-year budget reduction where fund balance was used in part, and a one-year decline in University College's enrollment. That prompted Standard & Poor's to place the System on negative watch in January 2015, meaning that in their view at the time, there was more than a 2/3rds likelihood that the System would be downgraded over the coming two years. A positive fiscal year 2015 financial outcome prompted Standard & Poor's to remove the negative watch when they updated the System's ratings late in January 2016.

Looking internally, we manage the System's finances through an expectation that each institution produce a 1% increase in reserves per year, calculated as a percentage of unrestricted operating

budget spending. This expectation adds up to just under \$39 million in higher reserves. The institution presidents are highly successful at meeting this goal, and that is a function of institutional dynamics, some intentional and a direct effort at meeting the fund balance goal; others which deal with individual departments or auxiliary activity needs, like a delay in hiring a key faculty member and outfitting their operation, or a self-support operation accumulating funds to accomplish a needed renovation or replacement that isn't appropriate for debt financings.

The Regents, as do state officials, have an expectation that self-support activities pay all of their own costs, including costs for facilities and capital needs. Self-support activities include student housing, campus dining halls, parking facilities, bookstores, and athletic facilities. With the System limiting the issuance of its own bonds, many auxiliary or self-support activities recognize that they often must fund needed investments with cash, rather than debt proceeds. This requires that the activity accumulate the needed funds over time, which results increases in self-support fund balances.

Likewise, the facilities renewal needs of institutions require similar accumulations of funds to accomplish large renovation or renewal projects, resulting in increases in Plant Fund cash balances.

Lastly, there is the timing of a particular spending need. Funds, whether for state-supported or self-support activities, simply may not be ready or suitable for immediate spending. For instance, at any point in time there is a set of capital projects that the Regents, or the General Assembly in the case of state-supported facilities, have approved, but the construction spending has not yet occurred. At any point in time, the total of this backlog of authorizations not yet spent is \$250 to \$300 million. Internally, we ensure that these unspent General Assembly or Board of Regents approvals are taken into account in considering new spending requests, and once taken into account as a claim against those reserves, the System's level of fund balances look far more tight.

The direct answer to the question, though, is that fund balances need to continue to increase proportionately with debt outstanding, or the System needs to curtail or reduce new bond-funded project authorizations from the current \$115 million level to some level that maintains the ratio of reserves to debt outstanding. Otherwise, we expect that if the ratio of reserves to debt outstanding were to decline, the System would have its bond rating downgraded. We also need to be careful about impacting reserves accumulated by self-support activities that are critical to the System's commitments to pay current and future debt service obligations.

Page 29: The Chancellor should comment on institutional budgeting priorities that fund institutional support of student supports and services.

Chancellor's comment:

The analyst points out that proportional growth from FY 2012 to FY 2017 in the Institutional Support and Plant Operation programs have been proportionately higher than in academic and student support programs. To understand why the increase in these programs is higher than student services and academic support, it is important for legislators to understand what expenditures are funded in Institutional Support and Plant Operations programs. Examples of expenditures include:

Institutional support: administration, financial operations, campus security, technology, legal counsel and for Plant Operations: facilities, building equipment and maintenance, utilities, grounds (landscape/snow removal).

Regardless of number of students – these operations are required. An institution that has flat or declining enrollment (which several institutions are grappling with) any increased costs will result in a disproportionate increase.

Here are a few examples of major costs in Institutional Support and Plant Operations since 2012:

- Critical upgrades to information technology to protect student, faculty and staff personal information.
- Title IX legislation and implementation have resulted in increased costs in Institutional Support.
- Technology Software upgrades to financial systems.
- New facilities coming on-line.
- Facilities renewal/renovation projects.
- Rollout of the Affordable Care Act.
- Increased expenses for the State Personnel, Retirement and Budget Systems administrative Costs.
- Fringe Costs - Employees in Institutional Support and Plant programs are mainly included in State Retirement plans – where costs have gone up 60% since FY 2012.

The majority of these increases are related to state and federal requirements that mandate increases in these programs. If resources were unlimited, student services and academic support would likely be increased at similar levels.

Page 32: The Chancellor should discuss on if the actions taken by ARC-PA may have been an indication that UMES transitioned into a graduate level program too soon, and on the USM oversight of program approvals to ensure that programs will meet the accreditation standards.

Chancellor's comment:

The loss of accreditation of the UMES PA program is troublesome in many ways, and the result of several complicated factors. It is challenging to have such a highly specialized program at a relatively small institution under the watchful accreditation eye of a very strict professional organization. The confluence of restricted resources, some changes in academic leadership (dean, provost, and president), needs for specialized faculty and staff at remote sites and a demanding professional curriculum requiring extremely focused accountability created the necessity for withdrawing from accredited status. At the same time, we are VERY aware of the need for these health care professionals on the Eastern Shore and are working collaboratively to make sure that the approved expansion of the other two PA programs in the state focus their clinical activities and rotations in approved sites on the Eastern Shore. UMB has been especially helpful in the development of new clinical rotation sites on the shore.

At the time (2011) that UMES was approved to move the program to the Master's level, the undergraduate program was fully accredited and we noted the institution's previous successful transition of their Physical Therapy program from the bachelor's to the doctorate. There were, at

the time, 6.5 core faculty with the appropriate credentials to meet, in number and education, the ARC-PA standards. The USM was not made aware of the accreditation issues until later in the process, and in this instance the accrediting agency (ARC-PA) moved on an extremely condensed timeline. The collaborative efforts from TU/CCBC and UMB/AACC have been extraordinary, requiring large amounts of concerted efforts by many faculty and senior administrators on all four campuses to make arrangements for increased class sizes (that required approval by ARC-PA), increased faculty, and expansion of classes and clinical oversight at outreach facilities. USM was able to help facilitate these processes by building on a history of collaboration and trust among our USM campuses and our community college partners.

We have all learned from this experience, and we have used this as an opportunity to challenge all campuses to re-evaluate their internal and ongoing oversight processes, with the charge of providing the USM office with knowledge of accreditation challenges early in the process, as the USMO may be able to facilitate and encourage improvements in a more timely manner.

Page 33: The Chancellor should comment on the program approval process (UMES – Pharmacy), if space requirements are considered as part of the evaluation to determine if an institution can provide adequate and appropriate space for new programs, and on the use of other funds to support the development of the project such as Academic Revenue Bonds.

Chancellor's comment:

Program Approval Process

Facilities needs are part of the program approval process in cases where professional programs such as Physical Therapy, Pharmacy, and Engineering are known to require specialized facilities to meet program accreditation standards. Adequacy of space is always a consideration when evaluating a new academic program. Conversely, a demonstrated track record of success and the potential for growth of a program is also required for DBM approval of a facility program for a new facility. Thus it is necessary that the expansion of space and funding for a growing academic program proceed along parallel pathways. Often, this means a newly established program must be accommodated for the short term in existing facilities as a more substantial project makes its way through the capital funding process.

This is the case of the Pharmacy program at UMES. At the time that UMES proposed the Pharmacy program, they provided the following information:

"UMES intends to renovate and utilize the Somerset Hall to house the Pharmacy program. The building is approximately 21,901 GSF/ 11,209 NASF and is expected to be ready for use by the first professional year entry class in fall 2009. Facilities' renewal funds in the amount of \$800,000 will be directed to this program on a one time basis." It was confirmed that UMES had the available resources in their facilities renewal and unrestricted funds to allow for this.

Current Status. The School of Pharmacy currently occupies all available space in Somerset Hall and utilizes auditorium, seminar and other space in three others, as well as some modular trailers. While these temporary facilities have been a challenge, the program has been successful. The program has been accredited through 2017, though progress toward funding for a new building is being monitored by the accrediting group. The FY2017-21 CIP released by the Governor last month includes the new project, slated for design in FY2019 and construction funding in FY2021. The next interim report to the accreditation council is due by April 1, 2016.

Alternative Capital Funding

The System and the institution have contributed a great deal to accommodate the program in existing facilities while the larger building moves through the capital process. Many of the smaller renovations UMES has made, as well as the \$7M renovation of the program's primary home (Somerset Hall) in 2009-2010 were self-funded, using a combination of the System's Capital Facilities Renewal Program (Academic Revenue Bonds) and cash or plant fund contributions. In turn, it was hoped that the State would come through with assistance for the permanent facility for this successful program, and we were pleased to see it in the State CIP. The System's ability to increase the use of Academic Revenue Bonds to fund the facility is limited, as the need to maintain current levels of financial strength would require some other state-funded project to be deferred, or the amount of revenue bond debt available to self-support capital projects would have to be reduced.

Accrediting Reports for UMES Pharmacy

2013 Accreditation. In 2013, the Accreditation Council on Pharmacy Education (ACPE), offered full accreditation to UMES' School of Pharmacy; and that same year, the program graduated its first class, whose members recorded a 95% first time pass rate on the North American Pharmacist Licensure Examination (NAPLEX). [UMES reports that 62% of the graduates are employed in DELMARVA and in the State of Maryland.] In their 2013 accreditation report, the ACPE noted that the current facilities are not ideal for the program, stating:

“Progress needs to be made by the University in addressing both the short-term and more long-term physical facilities needs of the School of Pharmacy. Evidence of such progress will include a report on the decision regarding the location for a new School of Pharmacy building, a target date for beginning and completing construction, and on measures taken to meet the School's needs in the intervening years.”

Thus, to sustain accreditation, UMES must show progress on the design and construction of the new School of Pharmacy facility. In 2013 the facility was placed among the requested UMES priorities for consideration in the FY2015-19 CIP, but funding for other facilities (including four needed projects at UMES) put it outside the scope of the Five Year Plan.

2015 Accreditation. Two years later, in 2015, the ACPE again visited the campus. They recognized the short-term accommodations made by UMES and the uncertainty of the capital process. Since no progress had been made for the facility within the CIP, however, the ACPE reported “it appears that the School of Pharmacy faces the prospect of continuing to operate in less-than-adequate facilities for the foreseeable future.” Furthermore, because the School has no sense of a centralized “home,” they noted “very little opportunity for faculty and student interaction outside of class.” Finally, the 2015 report noted the lack of animal care facilities dedicated to the program, and the lack of adequate laboratory space to accommodate growing graduate programs—both of which would be accommodated in the new facility. Thus the Physical Facilities component of the accreditation was labeled only “Partially Compliant.”

UMES responded by placing the new School of Pharmacy project to the highest position on its list of capital priorities. The Board of Regents, in turn, placed it at the top of their list of requests made to the State beyond those already in the CIP, asking the administration to consider it for funding. This prompted the ACPE to revise their earlier statement and label the Physical Facilities component of the accreditation as “Compliant with Monitoring.” The Doctor of Pharmacy program was accredited through June 30, 2017. The academic year for the next currently scheduled review of the Doctor of Pharmacy program for purposes of continued accreditation is 2016-2017.

Brief Description of ACPE Accreditation Process

As noted in the analysis, the UMES Pharmacy program is accredited. The Accreditation Council for Pharmacy Education (ACPE) accreditation process is conducted in three phases:

- 1) The institution applies for “Pre-Candidate Status” after a consultation visit and undergoes an extensive review to be accepted into "pre-candidacy" at which time the institution is permitted to admit the first class of students (UMES was granted “pre-candidate” status in 2010).
- 2) Once the first class enrolls, ACPE conducts an extensive site visit and if they meet standards are advanced to “Candidate Status.”
- 3) Full accreditation is “...granted after the institution successfully graduates its first class. Accreditation status is granted to a Doctor of Pharmacy program that has successfully achieved both pre-accreditation statuses, produced at least one class of graduates, and that has demonstrated continued compliance with all accreditation standards.”

Page 35: The Chancellor should comment on how USM will monitor the impact of E&E 2.0 including estimated cost savings, effect on student success, and other activities or initiatives that may be undertaken due to the savings realized from the initiative.

Chancellor’s comment:

There are many tiers of E&E2.0 activity. At the individual campus level, there are established data collection processes and classifications:

- ***Cost savings:*** An item is reported as cost savings only if the action represents a reduction in current operating expenses. For example, if a position is eliminated from an administrative function, it is scored. Alternatively, a salary saving associated with staff attrition – turnover savings is not counted.
- ***Strategic reallocation*** is a management led redirection of current resources toward a campus priority or critical need. For example, management may begin the working budget process by reducing a particular function(s) to prior resource levels. The function is then challenged to live within the reduced amount. The resulting savings are directed to a priority need.
- ***Cost avoidance*** items are somewhat subjective. Therefore, these actions require that two conditions be met before being scored. First, is that the potential “cost” is for demonstrable unmet need, and second is that the need be satisfied. Therefore, an item on an institution’s “wish list” that is avoided does not qualify as cost avoidance. On the other hand, most donated technology equipment is counted as an avoided cost to the State or to students—the need is apparent and the item is realized via the donation.
- ***Non Tuition Revenue*** enhancements are new funding streams. Tuition and/or fee charges are, of course, not included, while new or additional revenues related to an entrepreneurial activity are included. If additional revenue is created and used for a spending purpose, the amount falls into one of the previous categories discussed above.

It is estimated that collectively the USM institutions will save approximately \$20M in FY2016 through such E&E improvements. We also have a number of System-wide leveraged contracts and, more broadly, K20 consortial activities that are hosted by the USM. These are identifying and documenting the savings they are accruing. It is estimated that in 2016 they will collectively account for approximately \$25M in savings for USM institutions.

Another area that is being examined USM-wide is Procurement. Policies and procedures have been improved. We are also investigating eProcurement systems that have proven at other institutions to improve the overhead of managing procurement; improve compliance; and provide data for better vendor negotiations. This initiative is just getting underway.

Page 36: The Chancellor should comment on how the results of the student success matrix will be used to guide campus decision making, what measures will be used to track progress, and steps to encourage and maintain collaboration among campuses in order to leverage resources.

Chancellor's comment:

The core proposition for the analytics revolution, which is beginning in higher education, is that analytics will impact the way individuals who directly work with students interact with those students. The way this works is that straightforward information that makes sense in the context of the faculty member or student services person's day-to-day work is placed in their hands. Although it provides simple ways of understanding and analyzing common problems (e.g. advising students not to take problematic course combinations), it does so in a new way by allowing the information to be closely tailored to the specific student's situation and by backing it with enormous quantities of data. Much as navigation applications guide us through complicated directions without our needing to know how the data is constructed, the proof of the power of this approach lies in the success of those institutions that have effectively applied it.

An example of the application of these analytics is the analysis of the First Year Experience at SU, where about 59% of the first year students participated in the program. Of those students who engaged in 5 or more interventions during the year (advising, tutoring, etc.) the GPA at the end of their first year was 3.1. For those students who had 4 or fewer intervention activities, the GPA was 2.9. Additional analysis is being applied to tease out which combinations of which interventions and for which specific groups of students will result in improved immediate term outcomes. In this way, contextualized and targeted success of individual interventions can be determined. This will result in much more precise assessment of success than historical measures such as "retention from year to year".

The USM has committed to bringing student success analytics to all of the USM campuses as part of the E&E 2.0 initiative, of which the Student Success Matrix (SSMx) is a critical part. As the first step, USM identified a number of potential providers of benchmarking and student success analytics. Predictive Analytics Reporting (PAR) Framework, a membership organization which could provide the collaborative environment, was identified as a cost-effective solution to help USM institutions that had not begun creating this capability to kick-start their work in this area. As part of E&E, reduced cost and cost-saving collaborative set-up are being coordinated through the USMO. In addition, and as part of this deal with PAR, all USM institutions are going to use the PAR Student Success Matrix (SSMx), their Return on Investment tool, which will allow the identification and analysis of success of specific campus interventions. It is anticipated that the combination of analytics generally and this tool specifically will allow institutions to develop a more effective portfolio of interventions and generally improve student success. As part of the provision of these systems and service, institutions receiving the most support on analytics have agreed to meet a series of process benchmarks and measure outcomes in critical areas. This work is in its early stages but holds great promise to improve student outcomes.

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