

Department of Legislative Services
 Maryland General Assembly
 2018 Session

FISCAL AND POLICY NOTE
 Enrolled - Revised

House Bill 1143

(Southern Maryland Delegation)

Appropriations

Education, Health, and Environmental Affairs

Southern Maryland – University System of Maryland Partnership Act of 2018

This bill repeals the Southern Maryland Higher Education Center (SMHEC) from statute, contingent on specified actions by the University System of Maryland (USM) and the Department of Budget and Management (DBM). **Subject to completion of the specified conditions, the bill takes effect March 1, 2019.**

Fiscal Summary

State Effect: Overall SMHEC revenues and expenditures are assumed to be largely unchanged due to the bill. However, moving SMHEC from an off-budget entity into USM increases higher education revenues and expenditures by approximately \$0.7 million annually beginning in FY 2019. USM general fund expenditures increase by \$541,100 in FY 2019, contingent on enactment of this bill, and are assumed to increase by a similar amount annually thereafter, offset by an equivalent reduction in Maryland Higher Education Commission (MHEC) general fund expenditures. USM and DBM can handle the bill’s administrative requirements with existing budgeted resources. This estimate assumes that all conditions are met by USM and DBM for the bill to take effect in FY 2019.

(\$ in millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Higher Ed Rev.	\$0.7	\$0.7	\$0.7	\$0.7	\$0.7
GF Expenditure	\$0	\$0	\$0	\$0	\$0
Higher Ed Exp.	\$0.7	\$0.7	\$0.7	\$0.7	\$0.7
Net Effect	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: Local government support for SMHEC is anticipated to remain unchanged. Revenues are not affected.

Small Business Effect: None.

Analysis

Bill Summary: The repeal of SMHEC from statute is contingent on:

- the USM Chancellor appointing the University of Maryland, College Park Campus (UMCP) to oversee the administration and research of SMHEC and the Chancellor soliciting advice from UMCP before appointing an executive director of SMHEC; and
- USM and DBM jointly submitting a report to the Senate Budget and Taxation Committee and the House Appropriations Committee on SMHEC's capital needs.

UMCP must notify the Department of Legislative Services within five days after the above conditions affecting it are met.

Current Law/Background: The bill allows the planned merger of SMHEC with USM, pursuant to a January 2018 memorandum of understanding (MOU) between the two entities, to occur as early as March 1, 2019. The full text of the MOU can be found on USM's [website](#).

Under the MOU terms, all assets currently under control of SMHEC and fiduciary responsibility for SMHEC will transfer to USM effective July 1, 2018. The MOU states that USM will have no liability for SMHEC's 403(b) pension plan, which must be terminated, or any other retirement or other employment-based benefit in which SMHEC employees currently participate. Staff employed by SMHEC will be offered continued employment at the new center.

The current SMHEC Board of Governors will be dissolved and a Board of Advisors for the new center will be appointed by the USM Chancellor. Finally, institutions currently operating programs at SMHEC, which include both USM institutions and non-USM institutions, will be allowed to continue operating those programs under terms specified in the MOU. USM commits in the MOU to "using good faith effort to maintain the current status of the Center as one that is open to all accredited and independent institutions to the extent that the continued presence of any non-USM institutions contributes to the overall success of the Center."

The merger represents the culmination of nearly four years of discussion and planning by USM and SMHEC over ways the two entities can collaborate more closely to serve the growing economic and postsecondary education needs of the Southern Maryland region. A major focus of those discussions, and a key impetus for the merger, has been the planned construction of an 83,000 square-foot general education, engineering, and research facility to be owned and operated by USM on the SMHEC campus.

Regional Higher Education Centers

A regional higher education center (RHEC) is a facility at which at least two institutions of higher education offer classes, consisting of a variety of program offerings and multiple degree levels. RHECs are designed to ensure access to higher education in underserved areas of the State. They provide baccalaureate and graduate programs in places where students do not have access to higher education due to geographical distance, commute time, or the limited capacity of local four-year institutions. RHECs offer the State an opportunity to address workforce needs in high-demand areas, particularly for nontraditional students, and to support State, regional, and local economic development goals.

SMHEC is one of nine RHECs operating throughout Maryland. USM currently operates two RHECs: the Universities at Shady Grove and USM at Hagerstown. The other seven (including SMHEC) are independent regional centers that are coordinated by MHEC and exist in areas not served by comprehensive four-year institutions of higher education.

The two USM RHECs are funded as line items in the USM Office budget, while the other seven are funded by grants through MHEC's operating budget. In 2005, the General Assembly charged MHEC with developing an equitable, consistent, and ongoing funding strategy for the non-USM RHECs. The resulting discretionary formula contains the following components:

- base allocation for each RHEC (\$200,000);
- incentive funding for full-time equivalent students (FTES) (2+2 lower division, upper division, and graduate) tied to the inflation-adjusted fiscal 2005 general fund appropriation per FTES at the Universities at Shady Grove;
- lease funding for regional centers that lease space; and
- special funding for one-time projects or start-up costs.

Additional information on RHEC funding can be found in the operating budget analysis for MHEC on the Maryland General Assembly [website](#).

State Fiscal Effect: This estimate assumes that (1) the merger of SMHEC with USM could not occur absent the bill and (2) all conditions are met by USM and DBM for the bill to take effect in fiscal 2019. Overall State support for SMHEC and SMHEC's \$1.2 million annual operating budget are assumed to be largely unchanged due to the bill.

As discussed above, USM and non-USM RHECs receive State support through separate mechanisms. Under the bill/merger, SMHEC receives State support through USM, rather than MHEC. The fiscal 2019 budget includes \$512,739 in USM's budget for this purpose,

contingent on enactment of this bill. An additional \$28,353 in MHEC's budget for SMHEC support is also authorized to be transferred to USM, contingent on enactment of this bill. Accordingly, USM general fund expenditures increase by \$541,092 in fiscal 2019, offset by an equivalent reduction in MHEC general fund expenditures. Other RHECs are held harmless by this change.

Under the bill/merger, non-State revenues and expenditures of approximately \$0.7 million annually at SMHEC are incorporated into USM's budget. Non-State revenues consist of a mix of local support, facility rental revenue, and other event revenue. When combined with State support, they meet SMHEC's total annual operating budget needs of about \$1.2 million. Accordingly, USM higher education revenues and expenditures increase by approximately \$0.7 million annually beginning in fiscal 2019.

This estimate assumes that the entire amounts of fiscal 2019 non-State revenues and expenditures are transferred from SMHEC to USM on March 1, 2019, concurrent with the bill's earliest possible effective date. It is also assumed that the six positions currently funded to operate the center are transferred to USM on that date.

USM and DBM can handle the bill's administrative requirements, including the required report, with existing budgeted resources.

Local Expenditures: In fiscal 2018, a total of \$92,000 was provided to SMHEC by Calvert, Charles, and St. Mary's counties. This level of support is anticipated to remain unchanged by the bill.

Additional Information

Prior Introductions: None.

Cross File: SB 903 (Senator Waugh, *et al.*) - Education, Health, and Environmental Affairs.

Information Source(s): Maryland Higher Education Commission; University System of Maryland; Department of Budget and Management; St. Mary's County; Department of Legislative Services

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