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St. Mary's College of Maryland
Resetting the Funding Formula

HB 556

House Committee on Appropriations
February 14, 2017

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SB 434

Senate Budget & Taxation Committee
February 22, 2017



The Honorable Sven Holmes, Chair, Board of Trustees
Larry Leak, Trustee
Tuajuanda C. Jordan, President
Chip Jackson, Vice President for Business and Finance

(This information may be found online at <http://www.smcm.edu/government-relations/>)

Introduction – The Public Honors College

St. Mary's College, located in Historic St. Mary's City, is designated the State's public honors college. The College's charter, established by the State of Maryland in 1992, provides both the promise of a public education affordable to all, thriving on diversity, and the high standards of academic excellence. As always, the College is grateful to the Governor, the Legislature, and the Maryland Higher Education Commission for their ongoing commitment to higher education, in general, and to St. Mary's College specifically.

Supporting the two goals articulated by the State's historical vision for the College - the educational requirements of an honors program and the promise of access - sets St. Mary's College uniquely in the State and in the national higher education sector. Over the past 25 years since the 1992 Legislation that designated St. Mary's College as the State's Public Honors College, the College has exceeded the mandated expectations for providing academic excellence, ensuring access and affordability, and promoting diversity.

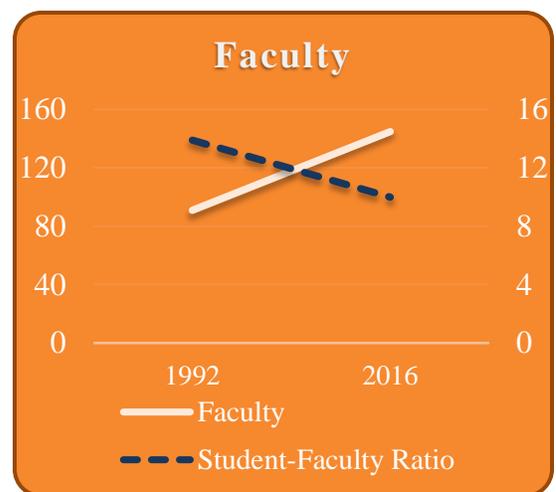
1992 Legislative Mandate
Maryland's "Public Honors College"
• *Excellent liberal arts education*
• *Access + Affordability + Diversity*

Meeting the State Mandate

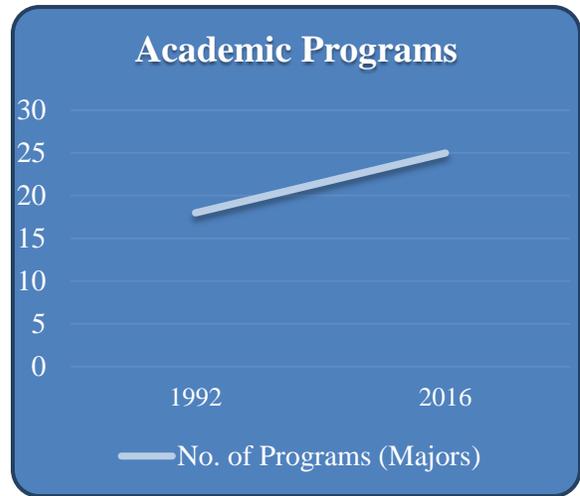
Goal 1: Academic Excellence and Effectiveness

St. Mary's College has successfully responded to the charge to provide an outstanding academic program – akin to those offered by the finest liberal arts colleges in the nation – to the citizens of Maryland. Over the past 25 years, the College has invested significantly in creating an academic program that is focused on student learning.

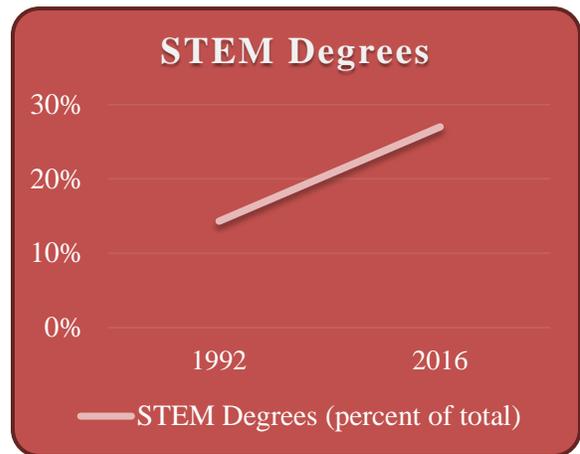
Investment in Faculty: In order to provide students with extraordinary learning opportunities, we have increased the faculty, both in numbers and in disciplines. Our low student-faculty ratio (10:1) provides for close faculty-student interactions enabling implementation of high-impact practices, including a vast array of research opportunities for undergraduate students.



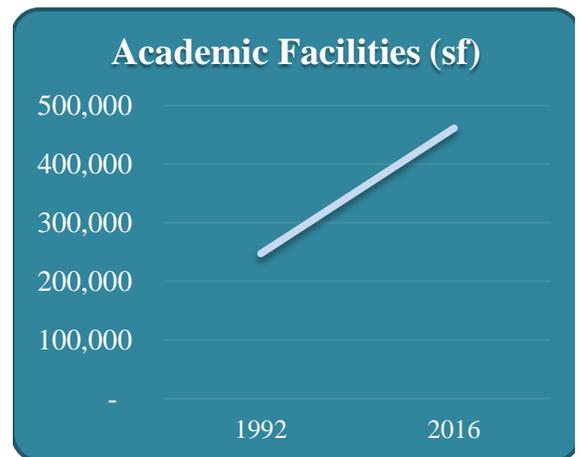
Program Growth: To enrich learning opportunities, the College has substantially increased academic programming. The number of majors has increased from 17 to 25 since 1992. Recent new programs include a major in environmental studies, a minor in materials science, and a concentration in archaeology. Also, as of Fall 2016, St. Mary's College students who major in biology, biochemistry, chemistry, computer science, physics, and psychology earn the Bachelor of Science (B.S.) degree rather than the Bachelor Arts (B.A.) degree.



STEM Programs: St. Mary's College's academic program includes highly rigorous and relevant curriculum in STEM areas of computer, life and physical sciences as well as mathematics. Since 1992, the proportion of majors attaining a degree in STEM fields has nearly doubled. Over the past two years, the College has awarded 26% of its degrees in STEM.



Facilities: To support enrollment growth and academic programming, the College has nearly doubled its academic space. With generous State support, new classrooms, teaching and research laboratories, and study spaces provide modern facilities for our faculty and students to pursue their work. Specifically, we have expanded STEM facilities 227%; affording all students in the sciences the opportunity to 1) perform high-level research, 2) work closely with faculty, and 3) complete capstone experiences.



High-Impact Practices: A hallmark of an excellent liberal education is student-centered learning and St. Mary's College remains one of the best in the nation. The St. Mary's College program includes many high-impact practices. Nearly every student (99%) completes at least two high-impact practices compared to the national average of 85%.

High Impact Practices

- 47% Study Abroad
- 40% Research with Faculty
- 43% Internships
- 59% Senior Capstone Project

Five years after graduation, 52% of St. Mary's College graduates have continued their education in pursuit of graduate or professional programs.

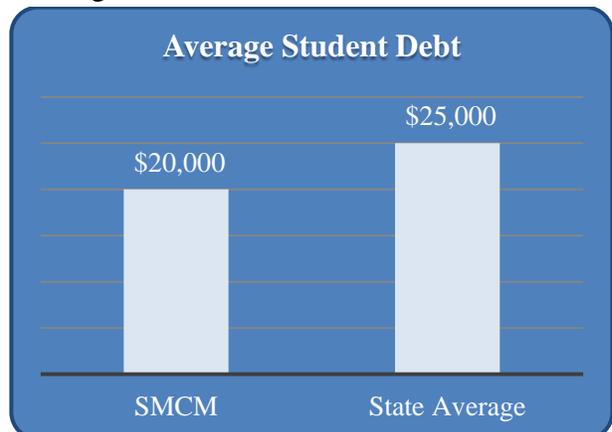
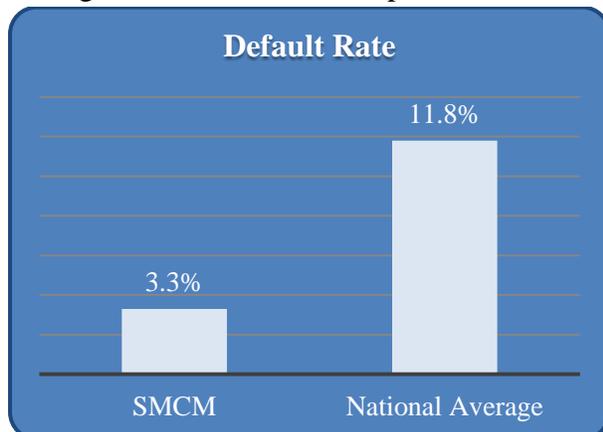
Goal 2: Access, Affordability, and Completion for All Marylanders

The College's unique mission to provide an honors quality liberal arts education that is both accessible and affordable to all Marylanders who can thrive in a rigorous academic environment is challenging.

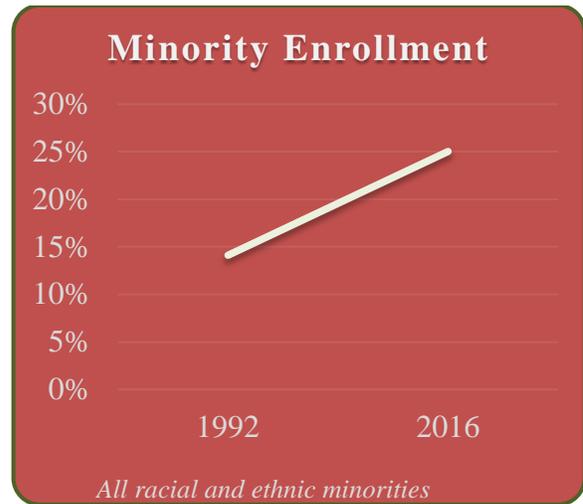
Aid to Students: Since being designated the Public Honors College in 1992, the College has maintained a commitment to supporting students with financial aid. Aid to students has increased over 600%. For the Fall 2016 entering class, 72% of students received institutional financial aid.



Measures of Affordability: The College's relatively high four-year graduation rate (68%, four-year average) contributes to lower than average student indebtedness (\$20K versus the statewide average of \$25K) as students are more likely to graduate on time. The default rate for St. Mary's College students is 3.3% compared to the national average of 11.8%.



Diversity: The College is doing well recruiting a diverse student body. Since 1992, minority enrollment has increased from 13% to 25%. Minority students represent 31% of the Fall 2016 incoming class. The recent expansion of the DeSousa Brent Scholars Program has strengthened the College's ability to support at-risk students. This enhanced support, expected to positively affect their completion rate, includes the implementation of an intrusive advising program in addition to leadership development activities.

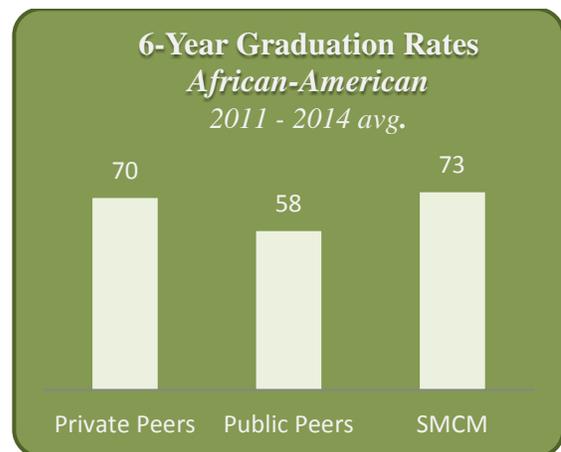


Achievement Gap: St. Mary's College has made a significant impact in reducing the achievement gap for students from disadvantaged backgrounds. Over the past four years, the average six-year graduation rate for minority students is 75% compared to 78% for non-minority students. We saw our greatest success in 2015 with the six-year graduation rate for minority students at 84%, exceeding the 78% rate for all students.

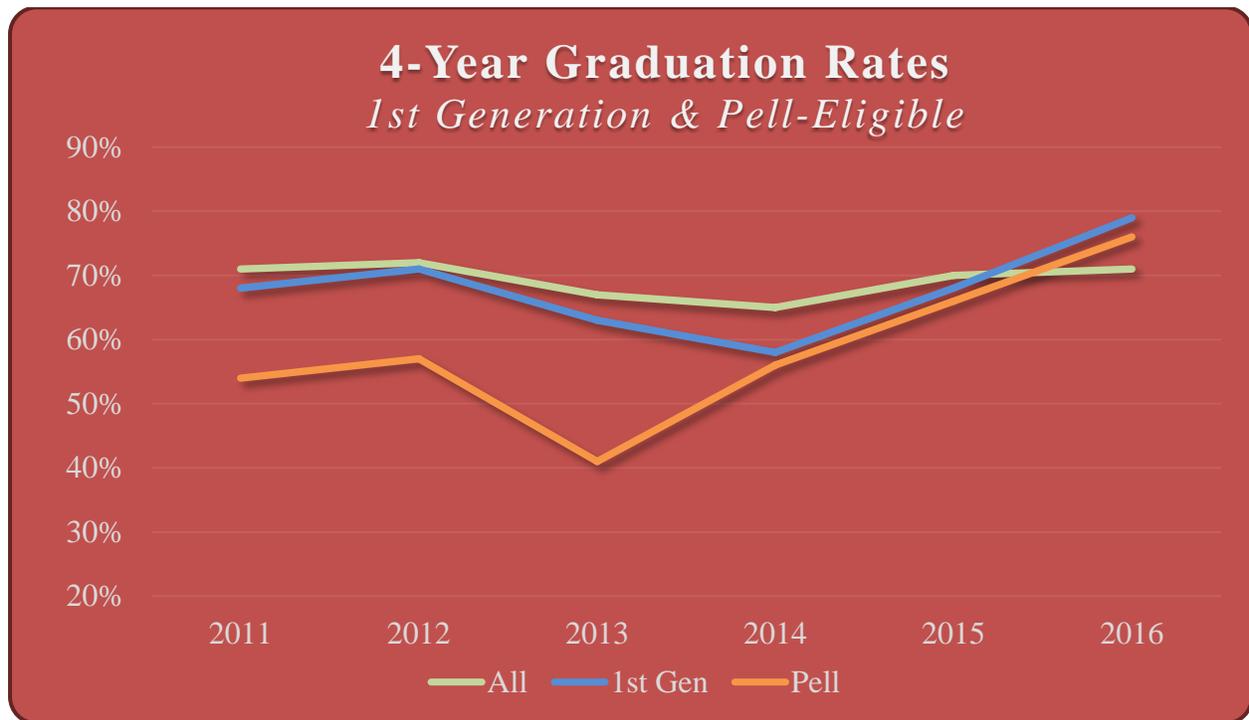


Comparison to our peer institutions also illustrates the College's success supporting our diverse student body. According to IPED data, the College's 6-year graduation rate for African-Americans has averaged 73% compared to 58% for our Public Peers and 70% for our Private Peers.

(Source IPED: most recent data 2011 - 2014 average).



Progress in closing the achievement gap is also evident in the College’s 4-year graduation rates of other underserved student populations. In 2016, the 4-year graduation rate for Pell-eligible and 1st generation students exceeded the rate for all students.



Return on Investment

Since establishing St. Mary’s College as the State’s Public Honors College in 1992, the College has provided the State with an outstanding return on investment. Major publications continue to highlight St. Mary’s College as one of the top liberal arts colleges nationally. We remain in the top 100 of all national liberal arts colleges by U.S. News & World Reports. Princeton Review includes the College on both its Guide to Best Colleges and Guide to Green Schools. Kiplinger’s rates St. Mary’s College as a Best Value.

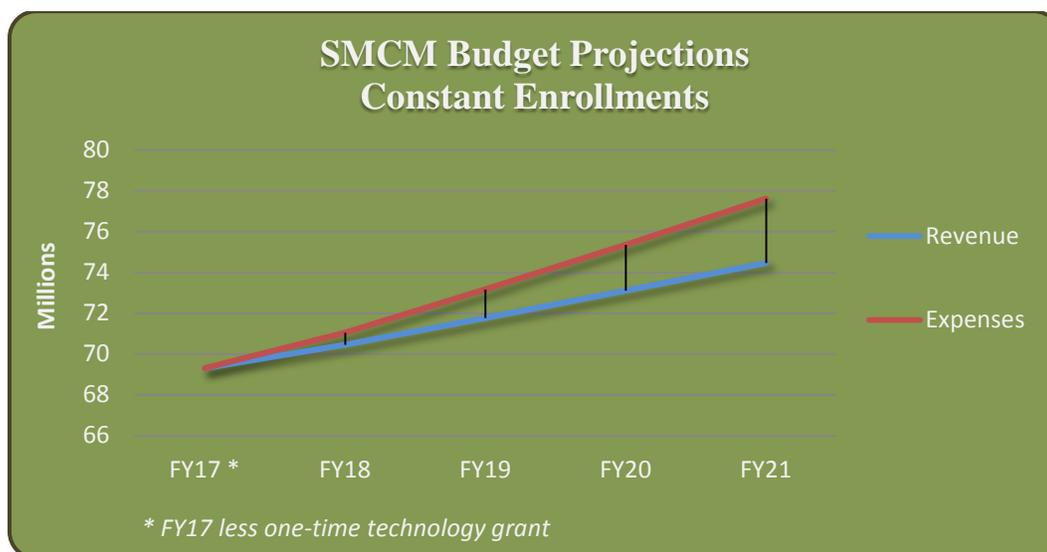
Overall, the College has met the State’s charge to create an outstanding institution offering an excellent liberal education while remaining grounded in its public mission of access, affordability and thriving on diversity.

#6 National Public Liberal Arts College

Current Fiscal Challenge

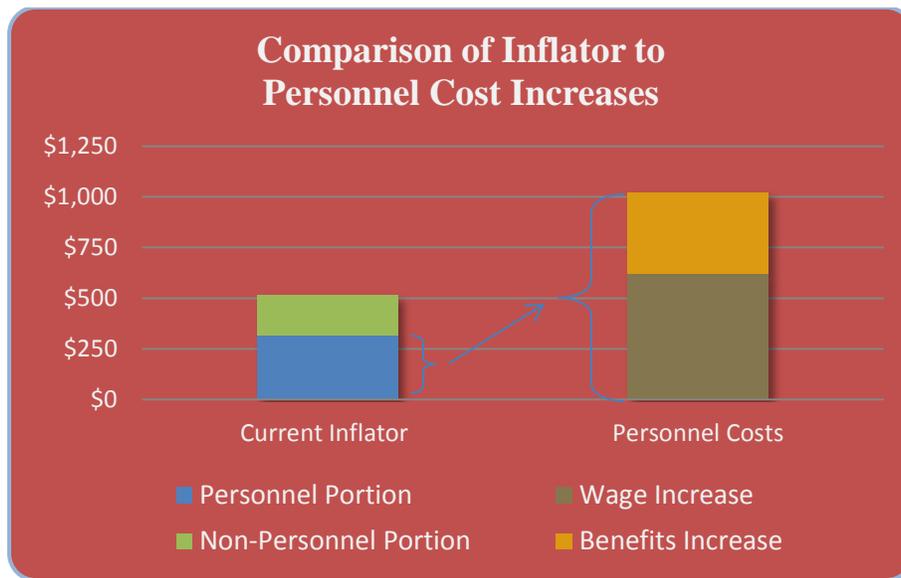
Since the recession of 2008, the College has faced new fiscal challenges that have exposed a fundamental structural imbalance. During the 1990's and most of the 2000's, the College relied on unsustainable annual tuition rate increases (4% to 9%) and continual enrollment growth to manage its budget. The ability to expand revenue through rate increases and enrollment growth masked the unsustainable fiscal structure of the funding model. The resultant high tuition pricing, which reached its peak during a time of major decline in the number of high school students attending college nationally, negatively impacted the College's market share with respect to first-time, full-time students.

Recent analyses of the College's finances show that, even with constant enrollments, revenues from students, the State, and other sources do not/cannot keep up with growing expenses. In the current environment in which affordability and access are paramount, tuition pricing is expected to rise very modestly; enrollments are unlikely to grow substantially. *Combined revenue* from students and the State (through the College's 1992 funding formula) is expected to grow approximately *2% per year*. On the other hand, *expenses*, driven primarily by personnel costs and other on-going current services, are expected to grow approximately *3% per year*. The fiscal imbalance that has resulted in this structural deficit cannot be ameliorated, in the long term, by growing enrollments. Equally important, the changed student demographic cannot support it.



Personnel Costs: A primary driver of expense growth is personnel costs, including both wage increases and benefits (health and retirement). Unlike other State agencies, including the University System of Maryland (USM) and Morgan State University (MSU), the College does not directly receive State funds to support these current-service costs. While the College receives a formula-based increment each year through the implicit price deflator, this increment

is significantly less than the annual increases in personnel costs. The following graphic illustrates this challenge.



Based on the College’s FY17 annual budget, the formula inflator is \$0.5 million, of which approximately \$0.3 million supports personnel costs (wages and benefits). The College does not receive direct support for health and retirement benefits. In FY17 the actual increased cost in wage and benefits for State-supported personnel is approximately \$1.0 million. The resulting \$0.7 million shortfall for personnel wage and benefit increases must come from tuition or other revenue. A 3.5% increase in tuition could cover the increased wage and benefit expense but would prevent the College from covering increased expenses associated with programming and operations.

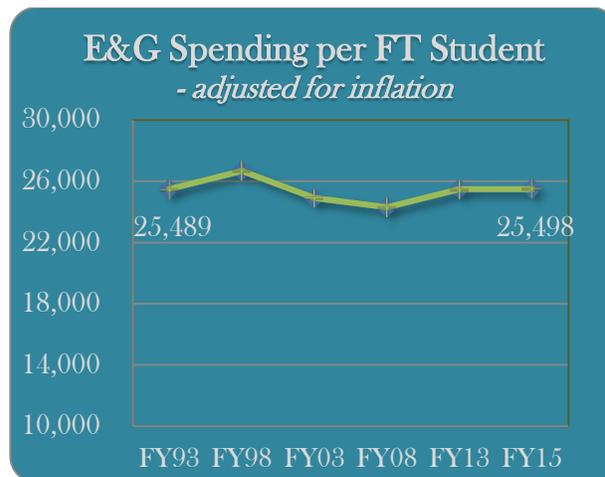
Facility Operating Cost: In addition to personnel costs that grow faster than revenue, the College faces significant challenges funding the operating cost associated with opening new academic facilities. As discussed above, to provide needed classroom and laboratory space over the past 25 years, the College has nearly doubled the amount of academic space. Since 1992, the cumulative operating cost associated with new academic facilities has been approximately \$3.8 million of additional expense for utilities, maintenance and operations. Similar to wage and benefit increases, the College has not received additional State support for these added costs, necessitating a combination of high tuition and fee increases, as well as deep internal budget reallocations, to operate these new facilities that are essential to maintaining the high-quality academic programming.

Tuition. State support of the College to control tuition pricing in FY14 and FY15 made St. Mary’s College more affordable for Maryland families. Since FY15, St. Mary’s College has held tuition pricing to a combined two-year increase of just 2% without additional State support.

After being excluded from tuition buy-down funding in FY17, the College is highly appreciative of being included in the Governor’s FY18 proposed tuition buy-down funding.

Cost Containment and Reallocations:

To manage the current fiscal environment, defined by enrollment challenges and modest rate increases, the College has become highly efficient in delivering its high quality program. Since FY14, the College has reduced expenses over \$4.6 million, representing 7% of the operating budget. Overall, the College spends the same amount to educate each student today as it did in 1992.



Proposal to Reset the Funding Formula

As described above, the primary challenge to the College’s fiscal health is that revenue growth is not projected to keep pace with expenses; enrollment growth will not change this structural imbalance. We are approaching the tipping point where our financial model is insufficient to sustain our mission of *excellent* liberal arts education that is affordable and accessible. Our declining ranking as a national liberal arts college show this strain as well as does our inability to retain STEM faculty and our challenge to attract students who have the potential to thrive in this honors college environment.

To address the structural funding challenge, the College seeks to reset its State funding formula through Senate Bill 434 and House Bill 556. The current formula was established in 1992 at the time the State designated St. Mary’s College as the State’s Public Honors College. Not addressing the structural challenge will require the College to either significantly increase tuition or continually reduce costs in other areas; the latter of which will negatively impact the quality of the student’s experience.

- Funding Proposal*
- *Wage & Benefits*
 - *Facility Operating Costs*
 - *Tuition Relief*

Adjusting the formula is critical for the College to maintain its unique mission to provide a high quality liberal arts education that is accessible and affordable and thriving on diversity.

Proposal:

The College’s proposed resetting of the funding formula – to be effective for FY19 – includes three primary components: 1) reducing the mandated funding formula in exchange for access to increased funds to provide wages and benefits, 2) support for new facility operating budget impacts, and 3) consideration for tuition relief funding whenever such funding is provided to the USM and MSU.

Wage and Benefits for the College’s State-supported Employees: Recognizing that the current inflator provides some support for personnel, the College proposes to eliminate approximately 60% of the formula funding increases in order to receive the same budget support for personnel as does the USM and MSU. In years that the State provides funds for increased wages and benefit costs, the College’s State funding would increase proportionally.

Non-Personnel Costs: The roughly 40% of the current inflator that supports non-personnel costs would remain unchanged.

Facility Operating Impacts: The College seeks the same consideration for State support of the annual operating costs for new academic facilities as provided to the USM and MSU. The College’s next academic building is expected to be completed and occupied in FY23.

Tuition: The College seeks to be included in any future tuition buy-down funding initiatives as provided to the USM and MSU.

Other current services increases: Since the establishment of the funding formula in 1992, the College has benefited from steady, modest funding from the State. The College now seeks to adjust the funding structure but not abandon the basic tenant that provides stable and predictable funding. Under the proposed new funding, the College relinquishes a significant portion of the current formula in exchange for State support of its employees and the occasional funding for new facilities. The College does not seek other current-service and enhancement funding provided from time to time to the USM and MSU.

