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St. Mary's College of Maryland
FY2018 Operating Budget Testimony

Senate Budget & Taxation Committee
Subcommittee on Education, Business, and Administration
February 9, 2017

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House Committee on Appropriations
Subcommittee on Education and Economic Development
February 15, 2017



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(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.

The College has 1,620 (1,589 UG, 31 Grad) full-time students enrolled for the Fall 2016 semester and an FY17 unrestricted operating budget of about \$70.9 million, of which the State of Maryland provides approximately \$25.1 million. Tuition, room, board, and fees provide \$42.2 million. The remaining \$3.6 million is from a variety of other sources.

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. St. Mary's College has been highly successful in supporting statewide goals with one of the highest retention and completion rates among Maryland public institutions, a commitment to diversity, and providing financial resources for students with need.

SMCM Mission
*"We promote scholarship and creativity by challenging our students to achieve academic excellence through close relationships with faculty...
... within a community dedicated to diversity and accessibility."*

Support for the Maryland State Plan for Postsecondary Education

Academic Excellence and Effectiveness

Major publications continue to highlight St. Mary's College as one of the top liberal arts colleges nationally. Our low student-faculty ratio (10:1) provides for implementation of high-impact practices and a vast array of research opportunities for undergraduate students – 99% complete at least two high impact practices compared to the national average of 85%. All students are required to participate in activities outside the classroom such as internships or study abroad. Five years after graduation, 52% of St. Mary's College graduates have continued their education in pursuit of graduate or professional programs.

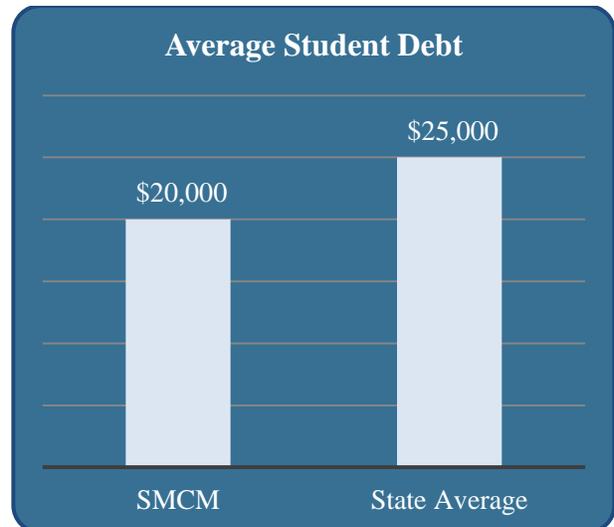
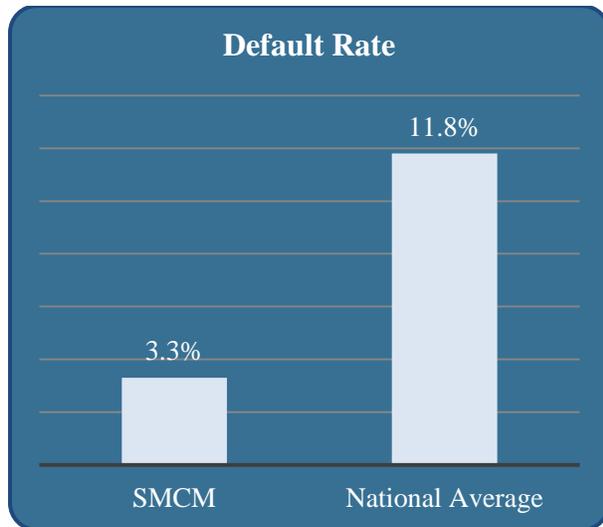
#6 National Public Liberal Arts College

Access, Affordability, and Completion for All Marylanders

State support of the College to control tuition pricing in FY14 and FY15 (catch-up to prior years State funding to other Maryland public institutions) 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. St. Mary's College was not included in the State-supported tuition cost-containment funding in FY17.

The current in-state tuition price of \$11,418 requires continued commitment to providing a robust aid program. For the Fall 2016 entering class, 72% of students received institutional financial aid. 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%.



Ensure Equal Opportunity for Maryland's Diverse Citizenry

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.

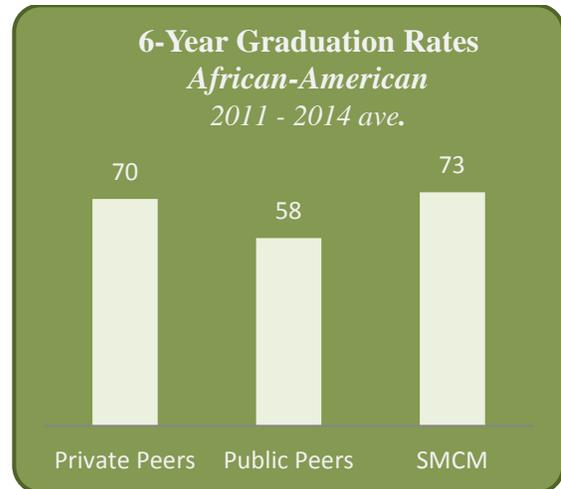
*6-Year Graduation Rates
2013 – 2016 ave.*

All Students 78%
All Minority 75%*

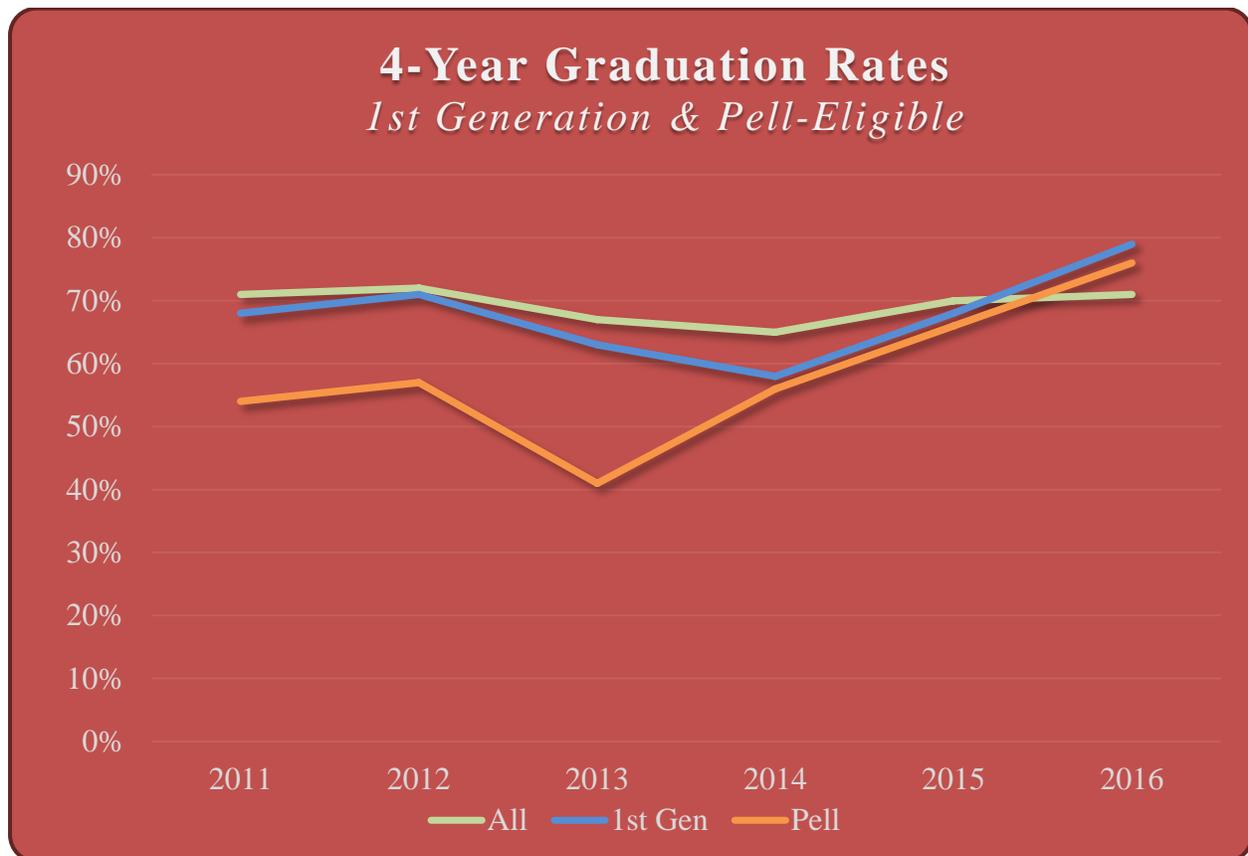
** all racial and ethnic minorities*

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 underserved student populations. In 2016, the 4-year graduation rate for Pell-eligible and 1st generation students exceeded the rate for all students.



We are doing well recruiting a diverse student body. Minority students represent 31% of the Fall 2016 incoming class compared to 17% as little as four years ago. 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.

Student-Centered Learning

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 low student-to-faculty ratio (10:1) facilitates this paradigm.

The St. Mary's College program includes many high-impact practices. According to the Spring 2016 senior exit survey, 59% of our undergraduates engage in a culminating senior project; at least 43% participate in an internship; 40% perform research with faculty; and 47% participate in study abroad.

High Impact Practices

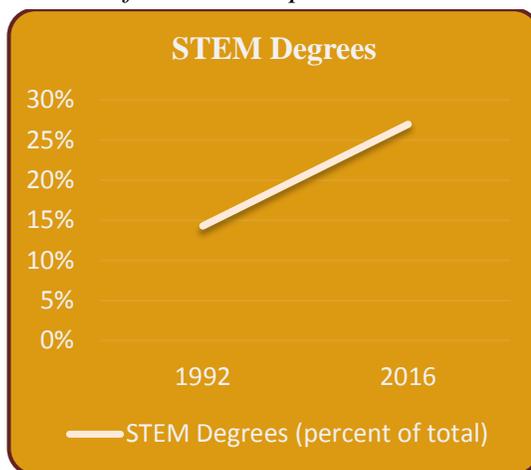
- *47% Study Abroad*
- *40% Research with Faculty*
- *43% Internships*
- *59% Senior Capstone Project*

There are 103 clubs and student organizations, many incorporating service learning projects with local non-profit organizations and schools. During the 2015-2016 academic year, our students performed nearly 9,000 hours of community service. Students who participate in at least one of the 19 varsity sports comprise nearly 25% of the total student body and have led the Capital Athletic Conference in academic performance for eight of the past 10 years. Since 1993 the sailing team has won 15 national titles, has been honored with over 150 All-Americans, and proudly hosted the 2014 National Championships.

Promote Economic Growth, Advancement of Research, and Workforce Development

St. Mary's College's academic program includes highly rigorous and relevant curriculum in STEM fields of computer, life and physical sciences as well as mathematics. Over the past two years, the College has awarded 26% of its degrees in these STEM fields.

This follows a 25-year trend over which the percentage of STEM degrees has nearly doubled since St. Mary's College was designated as the State's Public Honors College in 1992.



St. Mary's College works closely with the public school system and the nearby Patuxent River Naval Air Station to promote economic development and growth of a highly qualified workforce. The majority of students (over 95%) who graduate from the Master of Arts in Teaching program works in Maryland schools, primarily in the Southern Maryland region. The College has expanded its agreement with the Patuxent River Naval Air Station and the Patuxent Partnership to provide research, and internship opportunities for students and faculty in several areas. In addition to the previously implemented applied physics program, new collaborations have been established in chemistry, math, and psychology (human factors).

The St. Mary's College curriculum is also adapting to remain relevant. New programs implemented over the past two years include a major in environmental studies, a minor in materials science, and a concentration in archaeology. Also, St. Mary's College students who major in biology, biochemistry, chemistry, computer science, physics, and psychology will now earn the Bachelor of Science (B.S.) degree rather than the Bachelor Arts (B.A.) degree.

Operating Budget for FY 2018

For FY18, the College requests \$24,964,954 in State funds, including \$22,415,114 in the general fund grant, of which its annual inflator totals \$545,000. Included are additional general grant funds to buy-down tuition by 2%. Higher Education Investment Funds (HEIF) total \$2,549,840 of which \$800,000 represents the DeSousa Brent Completion Grant.

Responses to Questions in the Analysts Report

DLS Question (page 6)

The President should comment on whether SMCM is considering participating in SAM.

Graduation rates are broadly disseminated in a variety of ways including MFRs, MHEC reports, and Federal IPEDs. As noted in the analysis, some institutions have now begun to report graduation rates in SAM. The College will evaluate the SAM reporting program and make a decision on participating in the future.

DLS Question (page 9)

The President should comment on the sudden reversal in outcomes in the 2013 cohort's retention rates and whether the college can pinpoint any reasons for the decline seen in that year or in the 2010 cohort.

The drop in the 2013 cohort's Third-year retention shown in exhibit 4 (page 9) of the analysis is incorrectly reported by MHEC. The actual Third-year retention was 80%, not the 71% shown in the exhibit. The 2013 cohort has performed well within the range of other recent classes.

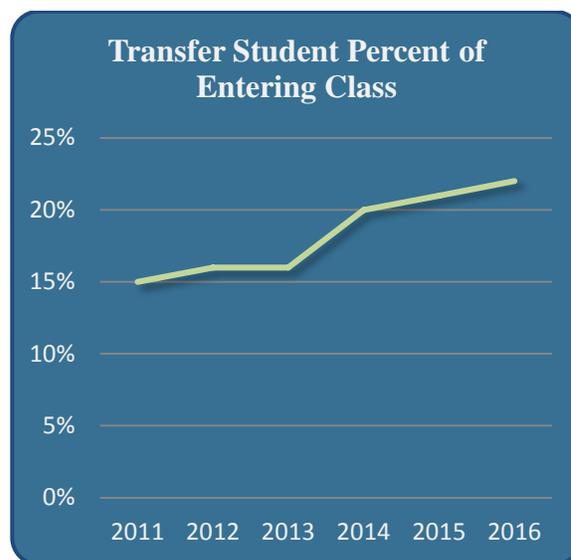
The lower retention rates of the 2010 cohort appear to be anomalous, exhibiting sharper decreases in year-to-year persistence and graduation rates compared to previous cohorts. The observation of continued rebounds from this cohort supports this interpretation. For example, the Fourth-year retention rate for both the 2011, 2012 and 2013 cohorts are all markedly improved compared to the 2010 cohort. In addition, the 4-year graduation rates for the 2011 and 2012 cohorts were 70% and 72% compared the 2010 cohort's rate of 65%.

DLS Question (page 23)

The President should comment on whether SMCM can grow enrollment if it focuses on enrolling only FT/FT students and how many students SMCM needs to enroll to stay solvent. The President should also comment on the search for new leadership in its admissions and financial aid offices. Finally, the President should comment on whether there has been a fundamental shift in student preferences away from liberal arts colleges toward more applied academic programs.

Non-Traditional Student Enrollment: The College agrees that liberal arts colleges must extend their enrollments beyond the traditional FT/FT student population. We recognize that it is essential to grow both traditional and non-traditional enrollments – the latter of which includes transfer students. In fact, enrollment of transfer students has increased steadily over the past five years, growing from 15% to 20% of the student population. For the Fall 2016, transfer students accounted for 22% of the entering class.

In order to enhance the enrollment of non-traditional students, we have increased resources within admissions and the office of the registrar to recruit and matriculate transfer students. The College also continues to develop program-to-program articulation agreements with community colleges. Many of these agreements articulate smooth pathways from admission to community college, to an associate's degree, and into and through specific majors at St. Mary's College facilitating reduced time-to-degree and therefore student indebtedness.

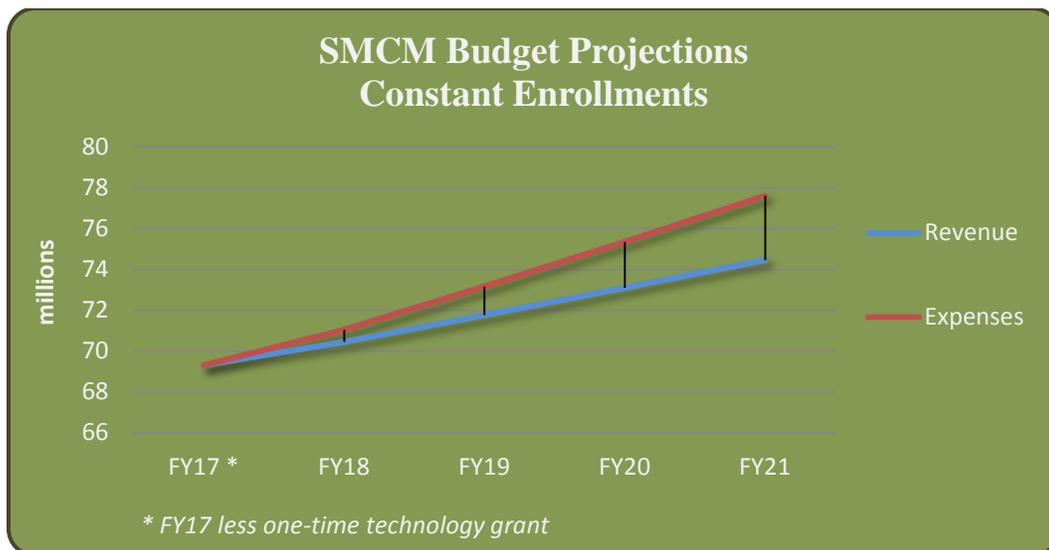


Minimum Number of Students: The College does not believe that its current enrollment is approaching a minimal number of students to remain solvent. While lower enrollments reduce efficiencies in both operations and program delivery, the more significant factor affecting the

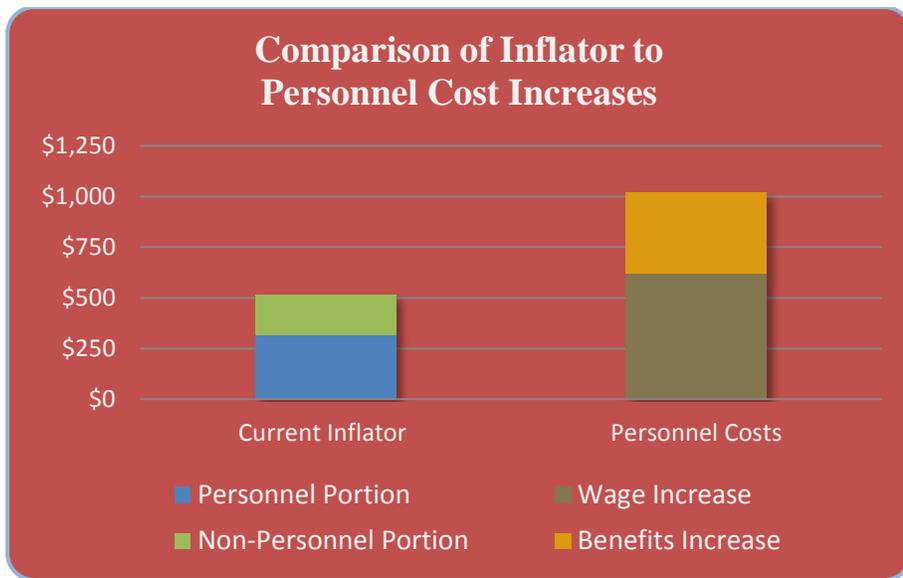
College's financial stability is a structural deficit caused by growth in revenue falling behind expenditures.

During the 1990's and most of the 2000's, the College relied on unsustainable 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. Beginning with the great recession in 2008, this fiscal model has become increasingly unrealistic – to the point where tuition pricing became too high, impacting enrollments.

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 fiscal environment, growth in tuition pricing and State funding is expected to be approximately 2% per year. Expenses, driven primarily by personnel costs, are expected to grow approximately 3% per year. In the long term, growing enrollments to address the fiscal imbalance between revenues and expenses is an unsustainable solution to the structural deficit.



A primary driver of expense growth is personnel costs, including both wage increases and benefits (health and retirement). Unlike other State agencies, including USM and 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 insufficient in addressing increasing personnel costs. The graph below illustrates this challenge.



In the above illustration, based on FY17 budgets, the portion of the College’s annual inflator that supports personnel costs is approximately \$0.3 million, whereas the actual increased cost in wage and benefits for non-auxiliary personnel is approximately \$1.0 million. As a result, funding the \$0.7 million shortfall for personnel wage and benefit increases must come from tuition or other revenue. In this example, a \$0.7 million unfunded increase in personnel costs represents approximately a 3.5% increase of tuition, exclusive of other increased costs of operations and programs.

As described below, Senate Bill 434 /House Bill 556 seeks to address personnel costs and correct the overall fiscal imbalance.

Leadership in Admissions and Financial Aid:

The search for the College’s new Vice President for Enrollment Management is well underway with having just completed semi-finalist interviews. Final candidates will be brought to campus in mid-to late-February. Semi-finalists for the Director of Financial Aid position have been identified and we hope to have that position filled within the coming months. In the meantime, we are working with a placement agency to identify an interim director. The search for a Director of Admissions will begin upon the hiring of the Vice President for Enrollment Management.

Student Preferences:

The College is keenly aware of regional and national trends in student demand for academic programs and carefully heeds these trends in all academic operations. According to the 2016 student interest survey by College Board, St. Mary’s College offers academic programs in 6 of the top 10 areas of interest among college-bound high school students in Maryland (not represented are *health sciences, engineering, business, and communication*). More importantly, consistent with our mission as a public honors college, St. Mary’s College offers 9 of the top 10

areas of interest among high-achieving Maryland high school graduates (not represented is *engineering*).

While the College's academic program array is attractive to graduating high school seniors in Maryland, the curriculum that realizes that program array can and should undergo continual quality improvement. Past curricular considerations have led to new academic programs such as the environmental studies major and the materials science minor. Recently, the College began offering the Bachelor of Science degree for six STEM disciplines. As part of this continual reconsideration and refinement of our curriculum, starting in the fall semester of 2017, the College will engage in an academic master planning process to establish a clear and codified path to an *evidence-based* realignment of the honors curriculum that heeds both internal and external forces in devising an effective, efficient, and equitable education for all qualified students.

Overall, the College believes that its robust liberal arts program continues to be attractive. Our analysis of enrollment challenges suggests that our primary issues relate to cost, brand identity, recruitment strategies (stabilizing leadership in admissions and financial aid) and rural location.

DLS Question (page 27)

The President should comment on why now is the appropriate time to modify its formula to increase State support and whether the budget challenges facing SMCM are primarily due to insufficient State support or whether they are enrollment based. The President should also comment on whether the college considered alternative deflators for its funding formula.

Resetting the State Funding Formula: As described above, the primary challenge to the College's budget situation 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 rankings show that 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 affect the quality of the student's experience. 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.

Alternative Deflators: The College evaluated the Higher Education Price Index (HEPI) as an alternative deflator. The data showed, however, that it was not materially different from the College’s current inflator: some years HEPI was slightly higher; other years, lower. Over time, HEPI would not provide a substantially different funding stream. Fundamentally, the deflator is insufficient to correct the structural deficit described above.

