

TOPIC: Southern Maryland Higher Education Center Merger Discussions

COMMITTEE: Committee of the Whole

DATE OF COMMITTEE MEETING: October 20, 2017

SUMMARY: On September 28, 2017 the Board of Governors of the Southern Maryland Higher Education Center (SMHEC) voted to merge SMHEC with the University System of Maryland, effective July 1, 2018, pending the following: 1) completion of a satisfactory memorandum of understanding (MOU) outlining the terms and conditions of the merger, and 2) approval of the MOU by the Board of Regents as well as the SMHEC Governing Board. The Board of Regents is expected to take up the merger decision in November once it receives the completed MOU.

If approved, the merger will represent the culmination of nearly four years of discussion and planning by the USM and the SMHEC governing board over ways the USM and SMHEC can work more closely to serve the growing economic and postsecondary education needs of the Southern Maryland region. The genesis for that effort was a 2013 MOU signed by the SMHEC Board of Governors and the USM Chancellor that established terms for the development and construction of an 83,000 square foot general education, engineering, and research facility that is to be built by USM on the SMHEC campus. That facility is currently nearing completion of the architectural and engineering design phase, with construction set to begin in summer 2018 and a completion date expected in fall 2020.

Merger of SMHEC into USM would create the USM's third regional higher education center (RHEC), and, importantly, the only USM RHEC to house an advanced research program (focused on unmanned and autonomous systems and directed by UMCP) and host education programs offered by non-USM as well as USM institutions. Because SMHEC is authorized in state statute, final transfer of the facility to the USM will require legislation be passed by the General Assembly and signed by the Governor. As part of the transfer approval, the USM will seek to have all state funds annually provided to SMHEC (approximately \$512,700 of SMHEC's \$1.22 million budget in FY 18) transferred to the USM budget going forward.

Instructions to plan for a potential merger between SMEHC and USM were included as part of the original terms of the 2013 MOU signed by USM and the SMHEC. Over the past year, USM and SMHEC staff have shared financial, operational, and personnel data and information designed to ensure due diligence has been done with respect to the impacts of a merger. A draft MOU has been developed and is being reviewed by both parties and their associated counsel. Key issues addressed include creation of a Board of Advisors, the transfer of personnel to USM, and terms for the continued participation of non-USM institutions. A final draft of the MOU is expected to come before the BOR for its review and approval in November.

ALTERNATIVE(S): USM will develop a separate MOU with SMHEC that outlines the financial and administrative responsibilities for operation of the new facility to be owned by USM but operationally shared with SMHEC. USM institutions will continue to offer programs at SMHEC under current terms and conditions.

FISCAL IMPACT: SMHEC projects a balanced budget for FY 2018 of \$1.22 million. Of this amount, \$512,700 comes from an MHEC state grant, and the balance comes from county grants (\$92,000) and \$567,000 in

services provided (primarily space rentals to education and training programs). The USM will request the state support provided through MHEC be transferred to the USM budget.

CHANCELLOR'S RECOMMENDATION: This item is presented for information purposes.

COMMITTEE RECOMMENDATION:

DATE:

BOARD ACTION:

DATE:

SUBMITTED BY: Joseph F. Vivona (301) 445-1923

Status Report on USM – Southern Maryland Higher Education Center (SMHEC) Merger Discussions

The following is a summary of the status of current discussions between the Southern Maryland Higher Education Center (SMHEC) Board of Governors and the USM to merge SMHEC with the USM. Under this proposed merger, all assets and operations of the current center would transfer to the control and responsibility of the Board of Regents. SMHEC, which is currently an MHEC-governed regional center, would become the USM's third regional higher education center, and, importantly, the first to house an advanced research capability (which will be administered by UMCP), as well as the first to host non-USM institutions offering education programs on site. Under the proposed terms of the merger, the SMHEC Board of Governors, which has fiduciary responsibility for the center, would be dissolved and an Advisory Board, similar in size and responsibility, to those at Shady Grove and Hagerstown, would be appointed for the new USM Southern Maryland center by the Chancellor.

Current Status of Discussions

On September 28, 2017 the Board of Governors of the Southern Maryland Higher Education Center voted to merge with the University System of Maryland, beginning with the start of the 2019 fiscal year, pending the following: 1) completion of a memorandum of understanding (MOU) satisfactory to both Boards, and 2) approval of the merger and the MOU by the Board of Regents. Because SMHEC is authorized through state statute, final transfer of the facility to the USM by that date will require legislation be passed by the General Assembly and signed by the Governor this coming session.

The merger, if approved, will represent the culmination of nearly four years of discussion and planning by the USM and the SMHEC governing board over how the System can work more closely with SMHEC to serve the growing economic and postsecondary education needs of the Southern Maryland region. While these discussions have largely centered around planning for an 83,000 square foot general education, engineering, and research facility the USM is scheduled to begin building on the SMHEC campus in summer 2018 (to be completed by fall of 2020), they have also included ways to better use the scale and resources available through the USM to enhance the center's ability to attract new or expanded programs (including more 2+2 programs in areas such as health care, education, business, and information technology), and leverage the unique research resources being programmed for the new building to jump start R&D-related innovation and commercialization in the region.

Prior to the September 28th vote, staff from both the USM and SMHEC worked to identify and make available the data and information needed to reach an informed decision on the appropriateness of a merger. Data submitted by SMHEC to USM as part of this due diligence exercise included personnel and financial data, as well as contractual obligations. The USM, in turn, put together a draft MOU outlining terms and conditions for a merger. The SMHEC Board of Governors is in the process of reviewing that draft MOU and amending it as it determines appropriate. Once the SMHEC board has completed its initial review, a final review and negotiation of the terms and conditions by both parties will take place. That is expected to occur no later than the end of October, with a final recommendation on the MOU and proposed merger expected to come before both boards for a vote in November.

Proposed Advantages of Merger

Key advantages of the merger, as they have been discussed and envisioned by the USM and SMHEC, include:

- 1) It will allow the USM to more easily invest in and expand the array of education programs and services currently offered at the SMHEC site.

- 2) It will provide for increased operating efficiency once the new building comes on line by integrating the management and administration of all the center's resources, including those of the new facility, under a single authority.
- 3) It will serve as a spring board for greater economic and educational development in a growing and underserved region of the state by bringing the full range of education programs, research expertise, and support services offered by the USM and its campuses to bear in leveraging the unique economic, education, cultural and defense-related assets already in the region. In this role, the new USM regional higher education center will be expected to work in close collaboration with other USM assets in the region, including the UCMP Unmanned Aircraft Systems test site already in operation close to the regional center, as well as other USM facilities such as the Chesapeake Biological Laboratory in Solomons.

Merger Concerns/Issues Still to be Addressed

Key issues or concerns that the USM and SMHEC Board have identified that will need to be addressed include:

- 1) Enrollment. The center historically has been the one of the largest MHEC regional centers; however, course enrollments at SMHEC are down about 41% over their FY 12 high point. USM institutions now make up approximately half of SMHEC enrollment based on full time equivalent enrollment calculations. Bringing new or expanded programs to the center will be critical to success going forward.
- 2) Working with non-USM institutions. A core condition of the SMHEC Board has been that non-USM institutions continue to be allowed to offer programs at the center in order to help address workforce needs. The USM has agreed to this in principle and sees advantages. However, it will mean adjusting the governance and operational framework that USM RHECs currently employ.
- 3) Securing state support for operations. MHEC provides approximately 42% of the SMHEC annual operating budget through a state grant, the rest comes from services and fees, including classroom rentals and hosting professional development training sessions. The USM will need to secure this state support for the center and continue the entrepreneurial operations of the center.

SMHEC Facts

- SMHEC was authorized by the State of Maryland in 1995 in response to a BRAC-related need for advanced education and training for professionals serving the Navy and related defense facilities at Pax River in St. Mary's County. It has historically focused on upper division, primarily graduate programs in engineering, technology, and management. Programs in education and healthcare are also offered.
- 11 institutions currently offer degree programs at SMHEC. Four are USM institutions (UMCP, UMUC, Towson, Salisbury, and Bowie). Non-USM institutions offering programs included Johns Hopkins, George Washington, Notre Dame of Maryland, Webster University, Capital Technological University and Florida Institute of Technology.
- SMHEC's FY 2018 Budget was \$1.22 million (in comparison the state-supported budget for Shady Grove was \$13.6 million in FY 17 and \$1.8 million for Hagerstown). \$513,000 of the SMHEC budget came from MHEC and the remainder from county grants, classroom rental and services fees, and hosting professional development/training programs (most by Navy).

History of USM and SMHEC Merger Negotiations

- In 2013 the USM signed an MOU with SMHEC outlining the terms and conditions under which the two organizations would cooperate to construct an 83,000 gross square foot academic instruction and advanced research building. The building would be owned and operated by the USM but be located on the SMHEC campus and be available for general classroom use by SMHEC. The building was to be proximate to and serve to support, the applied R&D and commercial activity connected with UMCP's Unmanned Aircraft Systems Test Site located next to SMHEC at the St. Mary's County airport. The building was approved by DBM in 2015. Architectural and engineering planning began in 2016. Construction will begin in 2018 and be completed in 2020.
- In the 2013 MOU, the USM and SMHEC also agreed to study options for working together more closely in the future, up to and including a merger of SMHEC into USM. As the building A&E planning process matured, the "merger study" commitment contained in the 2013 MOU took on new urgency, leading to the current status.

Next Steps and Key "Showstopper" Issues Still to Resolve

1. USM and SMHEC jointly brief key legislators and stakeholders on merger proposal (October)
2. SMHEC and USM finalize MOU (October)
Showstopper: Need to agree on terms for private institution participation.
3. USM works with DBM and MHEC on agreement to transfer SMHEC state support to USM (November)
Showstopper: Need to secure state budget support
4. Board of Regents and SMHEC Board vote on MOU and merger (November)
5. USM identifies a "coordinating institution" for the SMHEC (November/December)
6. USM and SMHEC work with Southern Maryland Delegation to prepare legislation (December/January)
7. General Assembly passes and Governor signs legislation (April/May)
8. Transfer occurs beginning July 1, 2018