



Wednesday, February 6, 2019
University of Maryland Eastern Shore FY 2020 Budget Testimony
Maryland House Appropriations Subcommittee
on Education and Economic Development
USM Chancellor Robert L. Caret

Chancellors Comments requested page 24:

The Chancellor should comment on the rationale on UMES taking over the \$12.7 million debt when it continues to face budgetary and enrollment challenges, the ability of UMES to meet the debt service obligation for Hawks Plaza if enrollment continues to decline thereby reducing the demand for housing, and the lack of repayment from Maryland Hawk at a time of budget deficits at UMES.

The System plans carefully with institutions when additional student housing is requested and considers all options for acquiring. Each new student housing project is reviewed against demand and financial viability metrics, and only recommended in instances where demand and the finances will support the project. The System expects each institution to manage its campus-owned student housing to only rely on its own revenues, and not burden tuition or state-taxpayer monies, and Hawk Plaza is no exception to that expectation.

UMES and Princess Anne is not a robust environment for student housing options other than those student facilities provided by the institution, and a couple of privately-owned student housing-oriented facilities at the entrance to the campus. The nature of the housing market in the area explains why such a high percentage of UMES students live on campus.

Hawk Plaza was developed to meet the needs of the campus. It was financed by Maryland Hawk Corporation, an organization created by UMES, so the lenders, which include the Federal Department of Agriculture, understandably would hold the university accountable informally if not legally, if the debt suffered a default. In terms of priorities, supporting and acquiring Hawk Plaza is of higher overall importance to the campus than encouraging students to use privately-owned student housing. While enrollment is currently low at UMES today, we expect Dr. Heidi Anderson and her leadership team to increase enrollment over time at UMES to return to a campus enrollment more in line with historical norms.

In terms of affordability, UMES will pay the debt service on the associated Hawk Plaza debt from student dorm fees. We don't anticipate that the added debt service will add to the institution's financial issues, since the university will receive additional student housing revenues associated with the 180 plus beds in the project. On the cost side, incorporating the project into the campus-owned student-housing portfolio reduces spending on the project through not having to pay a real estate management company to manage the facility. Also, once legally acquired by the university, it will not be subject to property taxes.

Dr. Anderson, upon assuming her position as president, carefully considered and weighed whether or not the takeover of Hawk Plaza, and assumption of the associated debt, was still in the university's long-term interests, and has come to the conclusion that as long as the waste-water treatment issues can be resolved within a limited amount of additional cost, that acquiring the project is an important part of UMES' future.

As for the \$882 thousand owed to the university by Maryland Hawk, identified in a November 2014 report of the legislative auditors, that balance is to be addressed independently of the acquisition of Hawk Plaza. After the release of the legislative auditor's report, the Board of Regents directed then-president Juliette Bell to deactivate Maryland Hawk until the point that the organization could afford its own staff separate from university staff, with the exception of activities associated with the transfer of the project to the university. Dr. Anderson has also honored that expectation of the Board. Dr. Anderson is, as we understand, considering the prospects and possibilities for the future of Maryland Hawk Corporation. If a new initiative or activity could be identified that would produce revenues, and the organization could be staffed as an independent organization, Maryland Hawk will be expected to repay the amounts it owes UMES.'