

RB36
University System of Maryland Office – Capital
University System of Maryland

Capital Budget Summary

State-owned *Capital Improvement Program*
(\$ in Millions)

Projects	Prior Auth.	2022 Request	2023 Est.	2024 Est.	2025 Est.	2026 Est.	Beyond CIP
University System of Maryland at Southern Maryland – Third Academic Building	\$81.166	\$4.829	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
Total	\$81.166	\$4.829	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000

Fund Source	Prior Auth.	2022 Request	2023 Est.	2024 Est.	2025 Est.	2026 Est.	Beyond CIP
GO Bonds	\$44.166	\$4.829	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
Bond Fund Premiums	31.000	0.000	0.000	0.000	0.000	0.000	0.000
Revenue Bonds	5.000	0.000	0.000	0.000	0.000	0.000	0.000
Nonbudgeted Funds	1.000	0.000	0.000	0.000	0.000	0.000	0.000
Total	\$81.166	\$4.829	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000

CIP: *Capital Improvement Program*
GO: general obligation

Grant and Loan Capital Improvement Program
 (\$ in Millions)

Program	2020 Approp.	2021 Approp.	2022 Request	2023 Est.	2024 Est.	2025 Est.	2026 Est.
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Capital Facilities Renewal	\$28.646	\$12.000	\$25.000	\$47.834	\$50.000	\$65.000	\$65.000
Total	\$28.646	\$12.000	\$25.000	\$47.834	\$50.000	\$65.000	\$65.000

Fund Source	2020 Approp.	2021 Approp.	2022 Request	2023 Est.	2024 Est.	2025 Est.	2026 Est.
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Revenue Bonds	\$18.646	\$12.000	\$25.000	\$22.834	\$25.000	\$25.000	\$25.000
GO Bonds	10.000	0.000	0.000	0.000	0.000	15.000	15.000
Nonbudgeted Plant Funds	0.000	0.000	0.000	25.000	25.000	25.000	25.000
Total	\$28.646	\$12.000	\$25.000	\$47.834	\$50.000	\$65.000	\$65.000

GO: general obligation

Note: The University System of Maryland Office originally planned to spend \$16.4 million in nonbudgeted plant funds for capital facility renewal projects in fiscal 2021; as a consequence of the COVID-19 pandemic, these funds were held in reserve in a cost savings measure. Fiscal 2021 figures do not include a proposed \$21.2 deficiency appropriation using fiscal 2021 bond premium proceeds.

Key Observations

- The fiscal 2022 capital budget provides general obligation (GO) bond funds to complete the construction and equipping of the University System of Maryland at Southern Maryland (USMSM) Third Academic Building.
- Academic Revenue Bonds (ARB) totaling \$25.0 million are included in the *Capital Improvement Program* (CIP) for various University System of Maryland (USM) facilities improvements.
- The budget also includes a proposed fiscal 2021 deficiency appropriation of \$21.2 million for USM for targeted deferred maintenance projects, which have been allocated to the respective USM institutions. This is summarized in the Updates section of this analysis.

Summary of Recommended Bond Actions

1. University of Maryland at Southern Maryland Third Academic Building

Approve the \$4,829,000 general obligation bond authorization for the University System of Maryland at Southern Maryland – Third Academic Building.
2. Capital Facilities Renewal

Approve \$25,000,000 in Academic Revenue Bonds for various capital facility renewal projects.

Performance Measures and Outputs

Facilities Renewal and Backlog

Prior to fiscal 2019, USM used a ratio of renovation to replacement value to assess the relative size of its deferred maintenance backlog. However, under this method, some institutions combined renovation and deferred maintenance, and others did not, resulting in some institutions overstating their estimated backlog. In order to get a more accurate estimate of systemwide deferred maintenance, USM now surveys institutions annually, requesting each institution to categorize deferred maintenance costs into three categories:

- building-related structural and envelop repairs that are deferred or reaching the end of their useful life (*e.g.*, windows, doors, roofs, masonry, and curtain wall systems);

RB36 – USM – University System of Maryland Office – Capital

- building-related mechanical and electrical system upgrades and/or replacements that are currently deferred or needed in the short term (within the next 5 to 10 years); and
- needed building-related life safety and regulatory improvements (*e.g.*, Americans with Disabilities Act) that can be separated from other categories.

As shown in **Exhibit 1**, the fiscal 2020 backlog of deferred maintenance totaled \$2.3 billion. The University of Maryland, Baltimore Campus and the University of Maryland, College Park Campus (UMCP) account for 61.9% of the backlog systemwide.

Exhibit 1
Estimated Deferred Maintenance Backlog for State-supported Facilities
Fiscal 2020
(\$ in Thousands)

<u>Institution</u>	<u>Total Backlog</u>	<u>% of Total</u>
University of Maryland, College Park Campus	\$787,666	34.80%
University of Maryland, Baltimore Campus	614,350	27.14%
University of Maryland Baltimore County	226,213	9.99%
Towson University	172,088	7.60%
University of Baltimore	107,642	4.76%
University of Maryland Eastern Shore	81,324	3.59%
Bowie State University	78,481	3.47%
Salisbury University	70,194	3.10%
Coppin State University	68,336	3.02%
Frostburg State University	24,975	1.10%
University of Maryland Center for Environmental Science	23,488	1.04%
University System of Maryland Regional Centers	8,603	0.38%
Total	\$2,263,361	

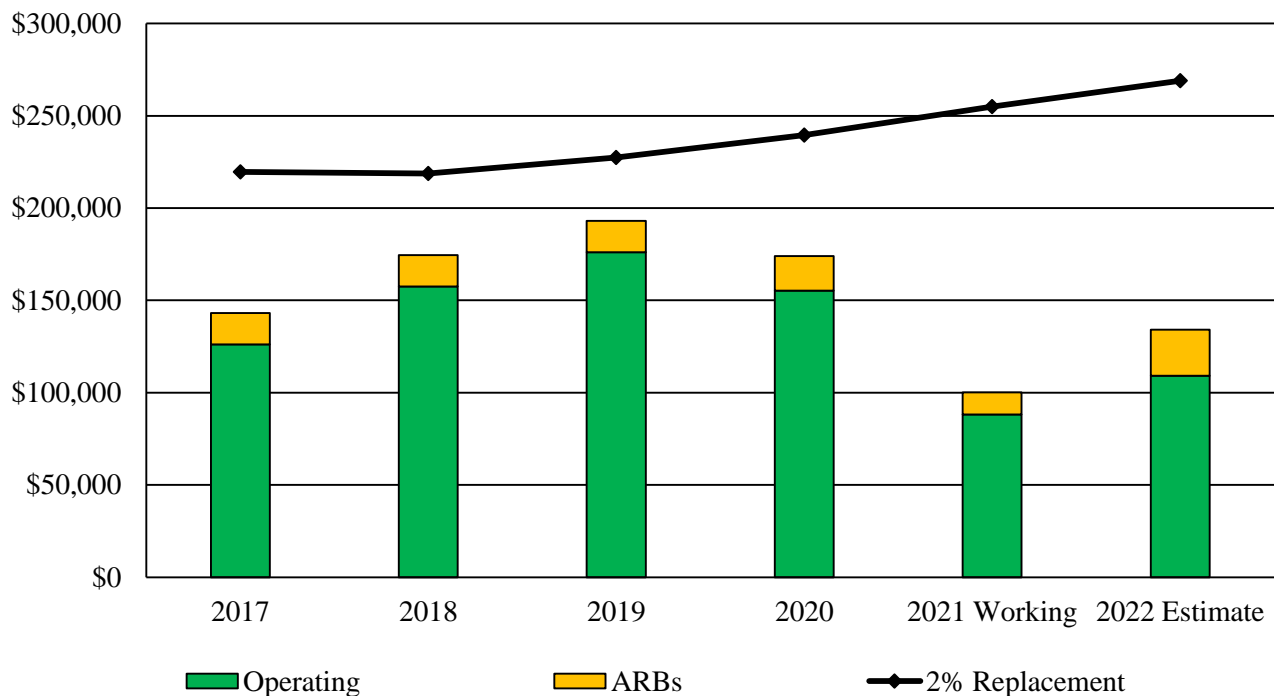
Source: University System of Maryland

In order to address this backlog, USM has developed a multi-pronged strategy including institutions spending a portion of their operating funds toward facilities renewal, the University System of Maryland Office (USMO) utilizing plant funds throughout the year on projects as needed, as well as USMO including plant funds in the CIP for specified facility renewal projects.

Spending on Facilities Renewal

As shown in **Exhibit 2**, from fiscal 2017 to 2019, total spending on facilities renewal grew by 34.9%, or \$50.0 million, reflecting a steady increase in operating expenditures. However, while spending reached its highest level of \$193.1 million in fiscal 2019, this was \$34.3 million below the 2% target. The upward trend reflects the priority that the Board of Regents (BOR) and the Chancellor place on renewal. Presidents are held accountable for meeting the BOR target annually, increasing operating expenditures until the 2% target (operating expenditures equal 2% of the replacement value of State facilities) is reached. BOR adopted a strategy for institutions to meet the target by increasing annual operating expenditures on renewal by 0.2%.

Exhibit 2
Operating and Capital Spending on Facility Renewal
Fiscal 2017-2022 Estimate
(\$ in Thousands)



ARB: Academic Revenue Bond

Note: The University System of Maryland Office originally planned to spend \$16.4 million in nonbudgeted plant funds for capital facility renewal projects in fiscal 2021; as a consequence of the COVID-19 pandemic, these funds were held in reserve in a cost-savings measure.

Source: University System of Maryland

Exhibit 2 illustrates that, from fiscal 2017 through 2019, the gap between institutional spending on facilities renewal and the 2% replacement target had been shrinking. As a consequence of the COVID-19 pandemic, many USM institutions cut back on deferred maintenance spending in the last quarter of fiscal 2020 and through 2021.

USMO indicated that the budget constraints related to the COVID-19 pandemic will continue to play a large role in fiscal 2021 facilities renewal spending; these budget constraints are expected to continue into fiscal 2022. Given the need to reduce expenses as a result of lost income, facilities renewal spending guidelines were modified such that:

- institutions were allowed to eliminate the planned increase in facilities renewal from fiscal 2021 over 2020;
- institutions were allowed to cut the remaining facilities renewal balance by 50% (one-time only); and
- facilities renewal levels for fiscal 2022 were to be brought back to the fiscal 2021 base number.

As a result of these policy changes, in fiscal 2021, only three institutions – one of which already meets the 2% target – have budgeted a percentage spending increase on facilities renewal, while seven will spend less, and one will not change, as can be seen in **Appendix 1**. The outcome of these facility renewal guideline modifications is that the gap between what needs to be spent in order to meet the targeted 2% replacement value total and the operating funds that will be put forward by the respective institutions will continue to grow. **The Chancellor should comment on how USM will deal with the impact that COVID-19 has had on facilities renewal spending while also being attentive to the growing gap between the 2% spending target and institutional spending on facilities renewal.**

Budget Overview

University System of Maryland at Southern Maryland

USMSM, previously known as the Southern Maryland Higher Education Center, formally became USM's third regional higher education center on March 1, 2019. The project will provide a third academic facility at USMSM to support new education, research, and professional training programs. The total cost of the project is \$86.0 million, which is unchanged from the previous CIP. Instructional use is currently planned to begin for spring semester 2022.

**Authorization Uses
(\$ in Millions)**

Description	Prior Authorization	2022 Request	2023 Estimate	2024 Estimate	2025 Estimate	2026 Estimate
Planning	\$7.769	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
Construction	73.397	3.229	0.000	0.000	0.000	0.000
Equipment	0.000	1.600	0.000	0.000	0.000	0.000
Total	\$81.166	\$4.829	\$0.000	\$0.000	\$0.000	\$0.000

**Authorization Sources
(\$ in Millions)**

Description	Prior Authorization	2022 Request	2023 Estimate	2024 Estimate	2025 Estimate	2026 Estimate
GO Bonds	\$44.166	\$4.829	\$0.000	\$0.000	\$0.000	\$0.000
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Total	\$81.166	\$4.829	\$0.000	\$0.000	\$0.000	\$0.000

The project will address the following facility problems:

- Classroom Space Need:** In fiscal 2018, USMSM had 213 full-time equivalent students (FTES). Enrollment is projected to grow to 717 FTES by fiscal 2033. The existing classroom facilities in buildings I and II currently have only 395 student stations. Additionally, existing classrooms are not adequately sized with only 3 of the 31 classrooms in the two existing academic buildings being able to hold a maximum of 32 students. Institutions that offer courses at USMSM are now requiring larger classrooms that can accommodate up to 36 students.
- Class Laboratory Space Need:** Based on the projected growth in enrollment, a total of 8,172 net assignable square feet (NASF) of class laboratory space will be needed; there is currently only 3,120 NASF of class laboratory space.
- Need for Specialized Electrical Engineering Space:** UMCP began offering an electrical engineering program in fall 2016 in order to assist with the expansion of the Unmanned Autonomous Systems (UAS) industry in Southern Maryland. This program is primarily intended for U.S. Navy personnel. The Naval Air Weapons Aviation Center has agreed to provide full scholarships (until degree completion) for 10 students enrolled in the UMCP

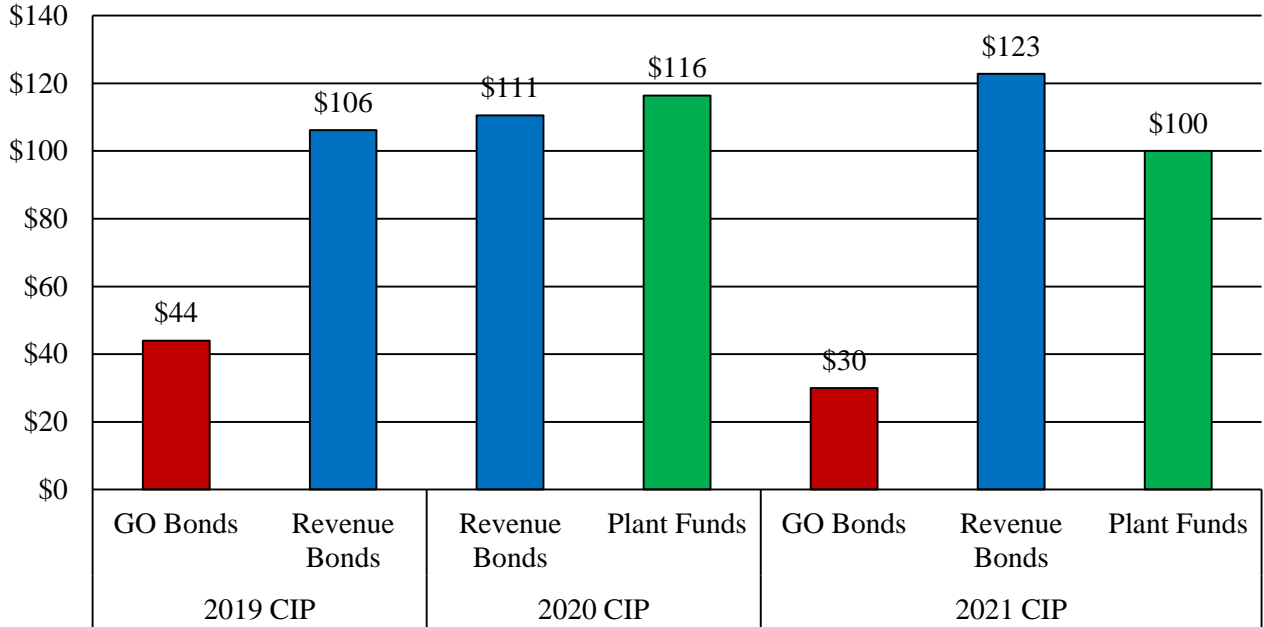
electrical engineering program. Neither of the two existing buildings at USMSM has space designed for an electrical engineering program.

- ***Lack of Research Space:*** Neither of the two existing buildings at USMSM have research space to support the UMCP electrical engineering program.
- ***Economic and Workforce Development in Southern Maryland:*** By 2025, the Association of Unmanned Vehicle Systems International (AUVSI) estimated that more than 100,000 jobs would be created. Within Maryland, AUVSI projected that UAS integration could have an economic impact of \$2 billion and create 2,500 jobs. Southern Maryland is likely to benefit from the projected growth in UAS because of the federal and State institutions located in the region. USMSM provides extensive training programs for both the Navy and local businesses. The new building will assist in the training of the workforce needed to sustain the UAS industry in Southern Maryland.
- ***Need for Additional Conference Space:*** USMSM offers training programs and conferences to military personnel and the larger community. Meeting spaces in the two existing buildings are heavily used during the year. The project includes a 330-seat auditorium to address USMSM's training requirements. Based on the Department of Budget and Management's (DBM) input, St. Mary's County has committed to funding the auditorium.

Capital Facilities Renewal

The annual facilities renewal program provides funding for infrastructure improvements at various facilities at USM institutions. Funding for fiscal 2022 totals \$25.0 million in ARBs. The 2021 CIP reflects a return to the utilization of GO bond funding for capital projects, which had been eliminated in the 2020 CIP, as shown in **Exhibit 3**.

Exhibit 3
USM Facility Renewal Program Funding Plan
Fiscal 2019-2021
(\$ in Millions)



CIP: *Capital Improvement Program*
 GO: general obligation
 USM: University System of Maryland

Source: University System of Maryland

During the 2020 legislative session, prior to the COVID-19 pandemic, the Department of Legislative Services raised concerns that USM would have difficulty contributing over \$100 million of its resources from the plant fund in support of the revised long-term funding plan. The impact of the COVID-19 pandemic on USM finances immediately required adjustments to the funding plan, and the \$16.4 million of plant funds authorized for fiscal 2020 were withheld. In recognition of the financial challenges that USM faces, the 2021 CIP further alters the funding plan by deferring the start of the annual \$25 million USM contribution from plant funds to fiscal 2023, which leaves the program supported only with \$25 million of ARB funding in fiscal 2022 rather than the \$48.5 million programmed (split between ARBs and plant funds) in the 2020 CIP.

The proposed use of \$21.2 million in fiscal 2021 bond premiums will help backfill the lack of USM funds in fiscal 2022.

Plant Funds

Plant funds are a group of accounts similar to a savings account that institutions can set aside funds for anticipated capital expenditures. Funds are used to finance the acquisition, construction, renovation, and maintenance of facilities. Plant funds may only be used for facilities and capital activities and may not be easily transferred to other accounts for noncapital purposes. For State-support facilities, the use of plant funds is governed by the capital budget process in accordance with State law and BOR policies. BOR oversees the use of self-supported plant funds.

Specifically, funds are set aside for:

- facilities renewal and deferred maintenance needs of State-supported facilities;
- debt service payments and retirement of debt;
- periodic or major facilities renewal of self-supported or auxiliary facilities;
- nonbudgeted fund requirements in the CIP; and
- facilities or land acquisitions.

The growth in plant funds has allowed USM to fund capital projects that otherwise may not have had the funding to proceed. In addition, if an institution receives donor funding to support the construction of a facility, it may have to temporarily borrow funds, also known as a bridge loan, from its account until it receives the donor funds. In fiscal 2020, USM had \$902.9 million in state-supported plant funding in reserve, while also expending \$380.5 million on projects during the same fiscal year.

USMO indicated that there are many variables that impact their decision to utilize plant funds going forward, including:

- their projection of future debt needs and future interest rates;
- their current financial health;
- their ability to generate future streams of funding to cover debt service; and
- the needs of the universities for cash funding of projects.

Because USMO believes this to be a year-to-year decision, it does not wish to direct plant funds to large, multi-year capital projects.

Fiscal 2021 Deficiency Appropriation

Funding totaling \$21.2 million was provided to become immediately available, upon passage of the fiscal 2022 budget, to supplement the appropriation for fiscal 2021 to provide funding from bond premiums for capital maintenance projects at USM institutions. USMO allocated the deficiency appropriation based on the respective USM institution’s fall 2018 academic buildings’ percentage of total replacement value. The distribution of this funding is shown in **Exhibit 4**.

Exhibit 4 Funding Allocation of Fiscal 2021 Deficiency Appropriation

<u>Institution</u>	<u>Replacement Value</u>	<u>Percentage of Total Replacement Value</u>	<u>Allocation of Deficiency Appropriation</u>
University of Maryland, College Park Campus	\$4,165,747,007	37.91%	\$8,036,658
University of Maryland, Baltimore Campus	2,196,193,000	19.99%	4,236,947
University of Maryland Baltimore County	1,029,104,675	9.36%	1,985,373
Towson University	1,027,297,760	9.35%	1,981,887
University of Maryland Eastern Shore	572,011,338	5.21%	1,103,538
Salisbury University	414,626,600	3.77%	799,907
University of Baltimore	391,253,542	3.56%	754,816
Bowie State University	376,867,060	3.43%	727,061
Coppin State University	248,194,222	2.26%	478,822
Frostburg State University	226,454,209	2.06%	436,881
University System of Maryland Regional Centers	183,750,000	1.67%	354,495
University of Maryland Center for Environmental Science	157,377,000	1.43%	303,615
Total	\$10,988,876,413	100%	\$21,200,000

Source: University System of Maryland

With the onset of the COVID-19 pandemic, USMO made the decision to reserve cash that would have otherwise been used to help support the Capital Facilities Renewal Program. As a result, funding for capital facilities renewal in fiscal 2021, which was originally budgeted at \$28.4 million and included \$16.4 million in plant funds and \$12.0 million in ARBs, only the \$12.0 million in ARBs was spent. This meant that institutions were required to defer a number of priority maintenance needs that institutions had hoped to have started this year.

RB36 – USM – University System of Maryland Office – Capital

It should be noted that some of the projects that USMO plans to fund utilizing the deficiency appropriation had already been identified as projects that were to be funded in the Capital Facilities Renewal Program for fiscal 2022. The request for a project list for the deficiency appropriation projects came to USMO in January 2021, required a quick turnaround and specified that the projects identified must be “shovel ready.” For a few institutions, the most “shovel ready” projects were those included in the fiscal 2022 Capital Facilities Renewal Program. An update will be provided to DBM with any changes to the list with the submission of the next program update in June 2021. **The Chancellor should comment on how institutions plan to manage facility renewal needs during the pandemic and how lost institutional spending on facility renewal will be replaced.**

GO Bond Recommended Actions

1. Approve \$4,829,000 in general obligation bonds for the University System of Maryland at Southern Maryland – Third Academic Building.
2. Approve the \$25,000,000 in Academic Revenue Bonds for various capital facility renewal projects.

Operating Budget Impact Statement

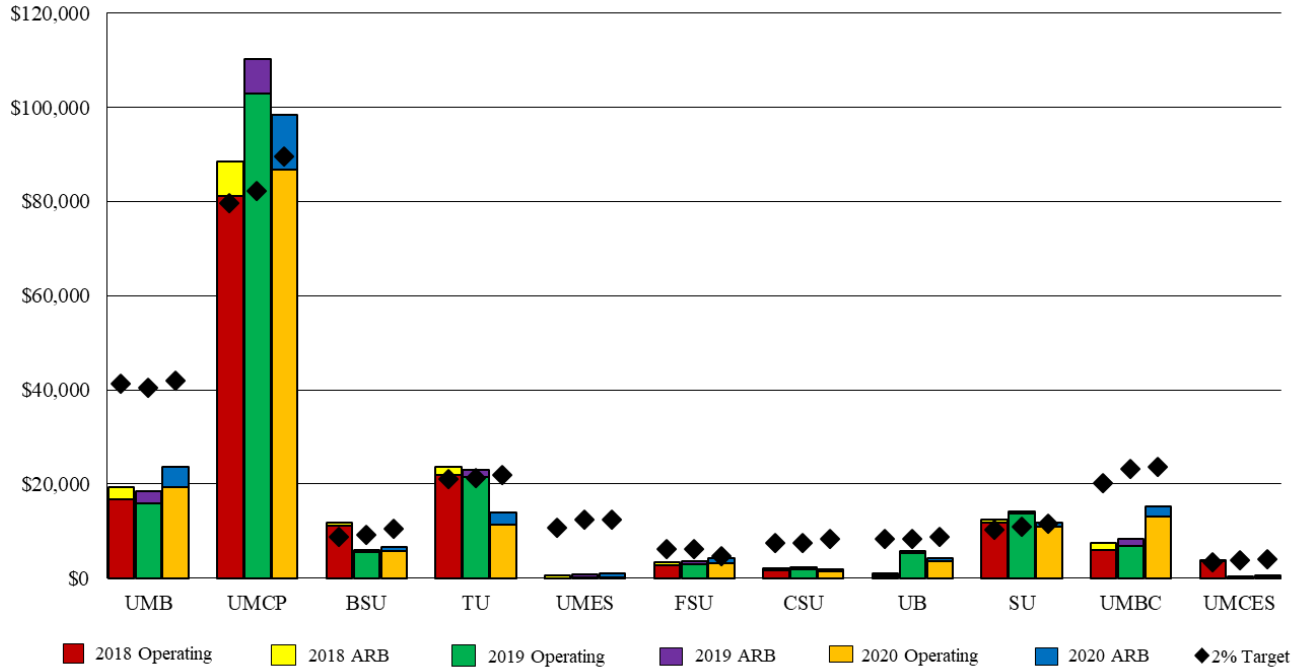
**Executive’s Operating Budget Impact Statement – State-owned Projects
Fiscal 2022-2026
(\$ in Millions)**

	2022	2023	2024	2025	2026
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USMSM – Third Academic Building						
	Estimated Operating Cost	\$1.052	\$1.637	\$1.668	\$1.700	\$1.733
	Estimated Staffing	3.00	3.00	3.00	3.00	3.00

The USMSM Third Academic Building will result in an increase in gross square feet of the campus infrastructure, as this project will result in a new building being added to the campus. The estimated staffing increase is for the hiring of custodial and HVAC personnel to ensure the proper operation and maintenance of the new facility.

Appendix 1
Annual Operating and Capital Facility Renewal Expenditures
Fiscal 2018-2020
(\$ in Thousands)



ARB: Academic Revenue Bond
 BSU: Bowie State University
 CSU: Coppin State University
 FSU: Frostburg State University
 SU: Salisbury University
 TU: Towson University

UB: University of Baltimore
 UMB: University of Maryland, Baltimore Campus
 UMBC: University of Maryland Baltimore County
 UMCES: University of Maryland Center for Environmental Science
 UMCP: University of Maryland, College Park Campus
 UMES: University of Maryland Eastern Shore

Note: The University of Maryland Global Campus does not have a spending target due to the unique nature of its facilities profile, which includes leased buildings that are off campus or outside of the State.

Source: University System of Maryland