

**Department of Legislative Services**  
 Maryland General Assembly  
 2011 Session

**FISCAL AND POLICY NOTE**

House Bill 748

(Chair, Appropriations Committee)(By Request -  
 Departmental - University System of Maryland)

Appropriations

Budget and Taxation

**Academic Facilities Bonding Authority**

This departmental bill increases the bonding authority of the University System of Maryland (USM) by \$200.0 million, from \$1.200 billion to \$1.400 billion. The bill also authorizes the use of \$27.0 million in academic facilities bonds for the purpose of financing construction, renovation, and renewal projects at USM buildings and campuses.

The bill takes effect June 1, 2011.

**Fiscal Summary**

**State Effect:** Revenues and expenditures from bond proceeds and capital leases increase by \$200.0 million in FY 2012 due to the increased debt limit for USM, of which \$173.0 million will be auxiliary bonds and capital leases, and \$27.0 million will be academic bonds. The academic bond revenues and expenditures are included in the Governor’s FY 2012 *Capital Improvement Program* (CIP). Beginning in FY 2013, higher education expenditures to pay debt service on the revenue bonds increase by an estimated \$14.7 million annually for 20 years, of which \$12.7 million will be from auxiliary funds and \$2.0 million will be from State-supported funds.

(\$ in millions)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Bond Rev.	\$200.0	\$0	\$0	\$0	\$0
Higher Ed Exp.	\$0	\$14.7	\$14.7	\$14.7	\$14.7
Bond Exp.	\$200.0	\$0	\$0	\$0	\$0
Net Effect	\$0	(\$14.7)	(\$14.7)	(\$14.7)	(\$14.7)

*Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect*

**Local Effect:** None.

**Small Business Effect:** A small business impact statement was not provided by USM in time for inclusion in this fiscal note. A revised fiscal note will be issued when USM's assessment becomes available.

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## Analysis

**Current Law:** The aggregate principal amount of outstanding bonds issued by USM and the present value of capital lease payments may not exceed \$1.200 billion. USM must gain legislative approval to issue academic revenue bonds (ARBs) for capital improvement projects at academic facilities. Academic and auxiliary bonds are not an obligation of the State.

**Background:** USM reports that the annual amount of bonds it issues is determined after consulting with the bond rating agencies. USM issues approximately \$120.0 million in academic and auxiliary bonds annually and to continue to issue this amount of bonds it needs to increase its bonding authority. USM's bonding authority was last increased in 2010 (Chapter 631); at that time it was increased by \$150.0 million, from \$1.050 billion to \$1.200 billion.

The Governor's fiscal 2012 CIP includes \$27.0 million in ARBs annually in fiscal 2012 through 2016. In fiscal 2012, CIP includes \$17.0 million for facilities renewal projects budgeted within the USM system office and \$10.0 million for the new performing arts and humanities facility at the University of Maryland Baltimore County. The Capital Debt Affordability Committee's recommendations for fiscal 2012 included \$27.0 million for ARBs at USM.

Auxiliary bond revenues finance construction, renovation, and renewal of auxiliary buildings including dining facilities, student dormitories, and athletic facilities. USM anticipates at least \$88.0 million in auxiliary capital projects in fiscal 2012. Auxiliary and other system-funded projects are approved by USM's Board of Regents.

Debt service on ARBs is paid from State-supported funds, which is made up primarily by State appropriations and tuition and fees. Auxiliary debt service is supported by auxiliary revenues including auxiliary fees, room and board, and other revenue generating activities. USM currently pays \$117 million in debt service.

USM reports that it intends to issue new academic and auxiliary bonds in December 2011 (fiscal 2012), which will bring USM close to its current debt limit of \$1.200 billion in outstanding bonds and capital lease payments. In fiscal 2012, if its debt limit is increased, USM intends to issue at least another \$88.0 million in academic and auxiliary bonds, which will bring its total outstanding debt to \$1.284 billion. USM reports that it requires the flexibility of a higher debt limit of \$1.400 billion because it will authorize

additional projects if it has strong financial results in fiscal 2011 and if the State supports increasing enrollment to achieve the State's 55% college completion goal by 2025.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** University System of Maryland, Department of Legislative Services

**Fiscal Note History:** First Reader - March 6, 2011  
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