This bill increases the bonding authority of Morgan State University (MSU) from $88 million to $140 million. **The bill takes effect July 1, 2022.**

**Fiscal Summary**

**State Effect:** The increased bonding authority is more than sufficient to cover an estimated $42 million in anticipated capitalization of debt from existing leases that need to be included in the debt services estimates under the new lease rules issued by the Governmental Accounting Standards Board (GASB). Otherwise, since MSU does not anticipate issuing new debt in the next five years, MSU bond revenues and expenditures are not anticipated to be affected by increasing the university’s bonding authority during the period covered by this fiscal and policy note.

**Local Effect:** None.

**Small Business Effect:** None.

**Analysis**

**Current Law:** The aggregate principal amount of bonds issued by MSU and the present value of capital lease payments, less the amount of any reserve fund or sinking fund, may not exceed $88 million. MSU’s bonding authority was last increased by Chapter 230 of 2006; at that time, it was increased by $11 million, from $77 million to $88 million. According to a 2021 [report](#) on the effect of long-term debt on the financial condition of the State, MSU generally issues 20-year bonds with serial maturities and level debt service
payments with interest only in the first year and the principal retired over the remaining 19 years.

**Governmental Accounting Standards Board – Effects from Statement Number 87**

GASB is an independent, nonpolitical organization dedicated to establishing rules that require state and local governments to report clear, consistent, and transparent financial information to which MSU abides. GASB issued Statement Number 87 (GASB 87) in June 2017, which requires the reporting of all leases (except short-term leases) as liability, with no distinction between operating and capital.

Due to delays exacerbated by the pandemic, the change did not take effect until June 2021. Moving forward, the new policy removes these long-term leases from the “operational” column of budgets and shifts them to the “capital” column. This does not affect the amount of money outstanding or the yearly debt service due. The debts are already outstanding, but the way in which GASB is requiring agencies to report the leases has changed. A State workgroup must be formed to develop guidance for the Capital Debt Affordability Committee (CDAC) on whether leases are considered tax-supported debt. CDAC next meets in fall 2022.

**State Fiscal Effect:** GASB 87 has a direct impact on capitalization of operating leases; specifically, MSU indicates an estimated $42 million in operating leases could need to be included in the debt services estimates under the new reporting system. Accordingly, MSU likely needs additional bonding authority to remain compliant. MSU plans to engage an accounting/consulting firm to determine the actual impact as part of the implementation of this reporting and in preparation for its next financial statement audit, which would then include those totals.

To the extent that the additional bonding authority under the bill exceeds what is necessary for GASB 87 compliance and compliance with the bonding authority rule (as changed under the bill), MSU likely has some financial flexibility should additional bonding authority be required for other purposes. In that case, MSU bond revenues and expenditures would increase. However, MSU is not currently planning to issue more debt in the next five years; thus, there is no anticipated impact on MSU bond revenues and expenditures during the period covered by this fiscal and policy note.

---

**Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** None.