SB 1007

Department of Legislative Services

Maryland General Assembly
2022 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 1007 (Chair, Budget and Taxation Committee)(By Request - Departmental - University System of Maryland)

Budget and Taxation Appropriations

University System of Maryland - Academic Facilities Bonding Authority

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This departmental bill increases the bonding authority of the University System of Maryland (USM) by $300.0 million, from $1.4 billion to $1.7 billion. The bill extends the maximum terms to finance academic revenues bonds (ARBs) for all State institutions of higher education from 21 to 33 years. It also authorizes the issuance and use of $30.0 million in academic facilities bonds to finance construction, renovation, and renewal projects at USM buildings and campuses. **The bill takes effect June 1, 2022.**

Fiscal Summary

State Effect: No anticipated effect in FY 2022. Revenues and expenditures from bond proceeds increase by $30.0 million in FY 2023 (as anticipated in the Governor's proposed FY 2023 *Capital Improvement Program* (CIP)). Higher education expenditures increase by an estimated $2.5 million annually, beginning in FY 2024, to pay debt service on the revenue bonds. Although not shown below, annual higher education expenditures for debt service may decrease, and increasing USM's bonding authority may further increase revenues and expenditures from bond proceeds.

($ in millions)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Bond Rev.	$30.0	$0	$0	$0	$0
Higher Ed Exp.	$0	$2.5	$2.5	$2.5	$2.5
Bond Exp.	$30.0	$0	$0	$0	$0
Net Effect	$0.0	($2.5)	($2.5)	($2.5)	($2.5)

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

Local Effect: None.

Small Business Effect: USM has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment.

Analysis

Current Law/Background: The maximum aggregate principal amount of bonds that USM may issue was increased by $200.0 million, from $1.2 billion to $1.4 billion, by Chapter 357 of 2011. On June 20, 2021, USM reported its bond debt outstanding at $1.16 billion, under the $1.4 billion maximum.

The aggregate principal amounts of bond debt for other higher education institutions are as follows: $88.0 million for Morgan State University (MSU); $60.0 million for St. Mary's College of Maryland (SMCM); and $65.0 million for Baltimore City Community College (BCCC).

USM must gain legislative approval to use ARB proceeds for certain capital improvement projects at academic facilities. The Governor's fiscal 2023 CIP proposes $30.0 million in ARBs in fiscal 2023 and $30.0 million each year from fiscal 2024 through 2027. The proposed amount of debt is consistent with the Capital Debt Affordability Committee (CDAC) recommendation for fiscal 2023.

Maturity Terms

The bonds issued for USM, MSU, SMCM, and BCCC must mature no later than 21 years after their respective dates of issue, and their maturity date may not exceed the useful life of the project for which they are issued. USM advises that, for certain new construction buildings, a 33-year maturity better matches the useful life of the project.

Governmental Accounting Standards Board – Effects from Statement Number 87

The Governmental Accounting Standards Board (GASB) is an independent, nonpolitical organization dedicated to establishing rules that require state and local governments to report clear, consistent, and transparent financial information. 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 CDAC on whether leases are considered tax-supported debt. CDAC next meets in fall 2022.

State Fiscal Effect: USM bond revenues and expenditures increase by $30.0 million, as anticipated in the Governor's proposed fiscal 2023 CIP. Higher education expenditures increase by an estimated $2.5 million annually, beginning in fiscal 2024, to pay debt service on the revenue bonds. The debt service estimate is based on information provided by USM.

Extending the maximum term to finance bonds issued by USM, MSU, SMCM, and BCCC could reduce the *annual* debt service and extend the number of years over which that debt must be paid; thus, higher education expenditures for USM, MSU, SMCM, and BCCC may be affected to the extent a longer maturity term impacts total debt service paid. Nevertheless, debt is assumed to be issued in a manner that is financially prudent for the institutions (any such impact cannot be reliably estimated).

Increasing USM's bonding authority may further increase revenues and expenditures for USM from bond proceeds, if USM decides to utilize the additional authority; however, there is no anticipated immediate impact. USM has no plans to increase its rate of debt issuance, although its current rate is higher than simply replacing old debt. Currently, USM issues approximately $115.0 million of debt annually to fund ongoing capital projects, about $30.0 million of this is to fund ARB debt, the balance is USM's Auxiliary Facility and Tuition Revenue Bonds that fund self-supporting projects. USM pays off approximately $100.0 million in principal annually on all outstanding bonds. Each full issuance adds approximately $8.0 million to its annual debt service, $2.5 million of which is attributable to ARBs, which is offset by bonds that reach full maturity that year. USM may not issue bonds for financing all or any part of the costs of any academic facility until the General Assembly has approved in an act the (1) project and (2) maximum principal amount of bonds that the system may issue in connection with the project.

Further, the increase in bonding authority grants USM flexibility, if necessary, to convert cash-funded projects to debt funding, as was the case when COVID-19 interrupted USM's normal operations. However, this impact cannot be reliably estimated.

GASB 87 has a direct impact on capitalization of operating leases; specifically, USM indicates an estimated $120.0 million to $150.0 million in operating leases could need to be included in the debt service estimates under the new reporting system. However, USM does not immediately require additional bonding authority to remain compliant.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

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

Fiscal Note History: First Reader - March 15, 2022
rh/ljm Third Reader – April 7, 2022

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: University System of Maryland – Academic Facilities Bonding Authority

BILL NUMBER: SB 1007

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PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

X__ WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

___ WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS