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SENATE BUDGET & TAXATION COMMITTEE
Senate Bill 1007 – University System of Maryland - Academic Facilities Bonding Authority
Wednesday, March 16, 2022
Samantha Norris, USM Debt Manager

Favorable

Chair Guzzone, Vice Chair Rosapepe and members of the committee, the University System of Maryland (USM) offers the following testimony in support of Senate Bill 1007.

This bill is threefold: first, the bill allows USM to issue debt to finance the Academic projects included in the Governor’s Capital Improvement Program; second, the bill increases the USM’s debt capacity; and lastly, increases the maturity of bonds issued for Academic projects to 33 years.

The USM manages the debt issuance for each of the twelve member institutions, three regional higher education centers, and central office through a single. System-wide Revenue Bond program that provides funding for both state-supported academic projects, but also the capital needs of self-supporting activities like dorms, dining halls and athletics. Thorough strategic planning and financially responsible management has enabled the USM to maintain a Aa1/AA+ bond rating, which provides for bonds to be sold at a premium, with low interest rates, to finance all necessary projects without straining our debt capacity.

On an annual basis, the USM issues approximately \$115M in revenue bonds to finance Auxiliary (self-support) capital projects, as well the Academic Revenue Bonds authorized by the State, used for Academic capital projects. Conversely, approximately \$100M of principal is paid off on an annual basis. This gradual increase of approximately \$15M annually, along with recent accounting standard changes, has prompted the request for an increase to the debt capacity for the USM.

The accounting standard change, GASB 87, requires that all leases, regardless of term, be recognized on the balance sheet of an entity, effectively labelling them as debt. This change in accounting practices will cause approximately \$120-\$150M of pre-existing lease agreements to be recognized as debt, thereby eliminating the USM’s ability to issue an additional debt to fund ongoing and future capital projects without exceeding our statutory debt capacity. The USM has no intention of expanding the annual debt issuance once the capacity is increased but would require an increased debt capacity to account for the change in lease standards.

Another factor that the pandemic has brought to light is the need for flexibility in the event of unforeseen, extraordinary, circumstances. When COVID-19 stifled the institutions operations, projects previously authorized for cash spending were able to be converted to debt spending to maintain necessary reserves at the institutions, without abandoning necessary projects. While we do not expect another event like this to occur, having the ability to make financial decisions necessary to keep the institutions moving forward is essential.

Finally, the bill increases the maximum maturity allowed for Academic facility projects to 33 years. This matches the maximum allowable maturity in place for auxiliary projects, which better aligns

with the useful life of many of the projects. The University of Maryland College Park is currently evaluating alternatives for the UMCP Energy Project, which will be a long-term, long-lasting project to replace the existing power plant with a new plant focused on renewable energy. A variety of funding options are being considered, including Public-private partnerships and debt financing, or a combination of the two. Should USM debt financing play a role, having the longer maturity available will decrease annual cash flow requirements, but will also more closely align the debt used for the project to the life of the project.

The current debt cap of \$1.4 billion has been in place since 2011 and has allowed the System the flexibility to authorize and issue debt for over a decade. At the end of 2021, the System had \$256 million in projects authorized for debt funding but not yet issued that will require additional debt issuance over time, with \$1.2 billion of debt issued and outstanding . Going forward, the USM will need an increased debt capacity to accommodate accounting changes, as well as to allow management the ability to make financial decisions that are in the best interest of the Institutions, and the State, to continue advancing and maintaining a caliber to which we have grown accustomed.

The University System of Maryland asks the committee for a favorable report on Senate Bill 1007.



About the University System of Maryland

The University System of Maryland (USM)—one system made up of 12 institutions, three regional centers, and a central office—awards 8 out of every 10 bachelor’s degrees in the State of Maryland. The USM is governed by a Board of Regents, comprised of 21 members from diverse professional and personal backgrounds. The chancellor, Dr. Jay Perman, oversees and manages the operations of USM. However, each constituent institution is run by its own president who has authority over that university. Each of USM’s 12 institutions has a distinct and unique approach to the mission of educating students and promoting the economic, intellectual, and cultural growth of its surrounding community. These institutions are located throughout the state, from western Maryland to the Eastern Shore, with the flagship campus in the Washington suburbs. The USM includes Historically Black Colleges and Universities, comprehensive institutions, research universities, and the country’s largest public online institution.

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