

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

Capital Budget Summary

University System of Maryland Office
Capital Improvement Program
 (\$ in Millions)

Program	2022 Approp.	2023 Request	2024 Est.	2025 Est.	2026 Est.	2027 Est.
Capital Facilities Renewal	\$28.800	\$90.308	\$50.000	\$65.000	\$65.000	\$70.000
Total	\$28.800	\$90.908	\$50.000	\$65.000	\$65.000	\$70.000

Fund Source	2022 Approp.	2023 Request	2024 Est.	2025 Est.	2026 Est.	2027 Est.
GO Bonds	\$0.000	\$0.000	\$0.000	\$15.000	\$15.000	\$15.000
PAYGO GF	0.000	65.000	0.000	0.000	0.000	0.000
Revenue Bonds	28.800	25.308	25.000	25.000	25.000	25.000
Nonbudgeted Funds	0.000	0.000	25.000	25.000	25.000	25.000
Total	\$28.800	\$90.908	\$50.000	\$65.000	\$65.000	\$70.000

GF: general funds
 GO: general obligation
 PAYGO: pay-as-you-go

PAYGO Recommended Actions

1. Add the following language to the general fund appropriation:

, provided that \$65,000,000 of this appropriation made for the purpose of funding facilities renewal projects at University System of Maryland member institutions shall be allocated as follows:

<u>University of Maryland, Baltimore Campus</u>	<u>\$12,391,073</u>
<u>University of Maryland, College Park Campus</u>	<u>\$23,503,432</u>
<u>Bowie State University</u>	<u>\$2,126,310</u>
<u>Towson University</u>	<u>\$5,796,085</u>
<u>University of Maryland Eastern Shore</u>	<u>\$3,227,327</u>

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<u>Frostburg State University</u>	<u>\$1,277,670</u>
<u>Coppin State University</u>	<u>\$1,400,329</u>
<u>University of Baltimore</u>	<u>\$2,207,480</u>
<u>Salisbury University</u>	<u>\$2,339,352</u>
<u>University of Maryland Baltimore County</u>	<u>\$5,806,280</u>
<u>University of Maryland Environment Science</u>	<u>\$887,932</u>
<u>Universities at Shady Grove</u>	<u>\$833,255</u>
<u>University System of Maryland at Hagerstown</u>	<u>\$88,012</u>
<u>University System of Maryland at Southern Maryland</u>	<u>\$115,463</u>
<u>University of Maryland Global Campus</u>	<u>\$565,000</u>

Further provided that an institution may only expend its allocation of funds if one or both of the following conditions are met:

- (1) the institution has achieved a level of spending on facilities renewal for State facilities in either fiscal 2021 or 2022 equal to at least 2% of the reported replacement value of State-supported institutional facilities greater than 10 years old; or
- (2) the institution has achieved a level of facilities renewal spending of at least 50% greater than what the institution reported spending in fiscal 2021 in both fiscal 2022 and 2023 if still under the 2% spending target.

Any funds left unallocated at the close of fiscal 2026 shall be transferred to the University System of Maryland Office’s emergency reserve fund.

Explanation: This language specifies the allocation of higher education facilities renewal funding among University of Maryland institutions consistent with the plan outlined by the University System of Maryland and requires certain levels of spending commitment from each institution prior to accessing those funds.

GO Bond Recommended Actions

1. Approve \$25,308,000 in Academic Revenue Bonds to fund capital facilities renewal projects at University System of Maryland institutions.

Performance Measures and Outputs

Facilities Renewal Backlog

The University System of Maryland (USM) annually surveys its institutions to assess the size and magnitude of the system's deferred maintenance and facilities renewal needs. The survey instrument has been revised in recent years to measure the backlog more precisely. Currently, institutions categorize deferred maintenance cost as either structural/envelope, mechanical/electrical systems, or life safety/regulatory. In addition, institutions report on costs associated with programmatic improvements which include renovations, remodeling, reconfiguration, modernization, and information technology/communications.

As shown in **Exhibit 1**, when only considering deferred maintenance, mechanical/electrical systems account of 68.2% of the \$2.4 billion backlog. Programmatic improvements total \$2.2 billion, resulting in an overall total renovation cost (deferred maintenance plus programmatic improvements) of \$4.6 billion. While the University of Maryland, College Park (UMCP) accounts for 35.6% of the deferred maintenance backlog, it comprises half of the total renovation cost when including programmatic improvements, implying most of their backlog is related to renovations of facilities.

Exhibit 1
Facilities Renewal Backlog
State Facilities
Fall 2020
(\$ in Thousands)

	<u>Structural/ Envelope</u>	<u>Mechanical/ Electrical Systems</u>	<u>Life Safety/ Regulatory</u>	<u>Total Deferred Maintenance</u>	<u>Programmatic Improvements</u>	<u>Total Renovation Cost</u>
UMB	\$184,460	\$465,541	\$8,784	\$658,785	\$219,595	\$878,379
UMCP	110,846	566,022	172,165	849,032	1,509,391	2,358,424
BSU	16,262	54,442	7,777	78,481	62,926	141,408
TU	67,625	94,675	24,345	186,645	83,855	270,500
UMES	16,423	54,980	9,921	81,324	80,267	161,591
FSU	5,290	17,710	2,530	25,530	20,470	46,000
CSU	11,959	54,358	5,436	71,753	36,964	108,717
SU	16,560	82,802	8,280	107,642	41,401	149,043
UB	14,545	48,693	6,956	70,194	56,282	126,476
UMBC	31,759	171,584	22,871	226,213	80,101	306,314
UMCES	9,395	11,744	2,349	23,488	23,488	46,977
USM RHEC	1,783	5,968	853	8,603	6,898	15,500
Total	\$486,906	\$1,628,519	\$272,266	\$2,387,690	\$2,221,639	\$4,609,329

RHEC: regional higher education centers

Note: Structural and envelope (*i.e.*, roofs, windows, doors, masonry, and curtain wall systems) are those currently deferred or reaching the end of useful life (within the next 5 to 10 years). Mechanical/electrical systems upgrades/replacement are deferred or at the end of useful life. Life safety/regulatory (*e.g.*, Americans with Disabilities Act) improvements are those costs that can be separated from other categories. Programmatic improvements include renovation, remodeling, reconfiguration, modernization, finishes, information technology/communications.

Source: University System of Maryland

Exhibit 2 shows the facility condition index (FCI) for each institution by deferred maintenance and renovation costs. The FCI shows the percentage of deferred maintenance relative to the replacement values of the facilities. A lower FCI score indicates that facilities are in relatively good condition and do not require a lot of funding to improve conditions. FCI is a relative indicator of the condition of a group of facilities and when tracked over time will show if conditions are improving or not due to the spending on facilities renewal or lack thereof. It should be noted that the average represents not only changes to facilities conditions but also changes to the inventory of new facilities coming online and others being taken off the list. When only considering deferred maintenance, the University of Maryland, Baltimore at 23.2% has the highest FCI, but when renovation costs are included, UMCP has the highest score of 45.7%.

Exhibit 2
Facility Condition Index of State Buildings by Institution
Fall 2020
(\$ in Thousands)

	<u>Deferred Maintenance</u>	<u>Renovation Costs¹</u>	<u>Replacement Value</u>	FCI Based on	
				<u>Deferred Maintenance</u>	<u>Renovation Costs</u>
UMB	\$658,785	\$878,379	\$2,844,945	23.16%	30.88%
UMCP	849,032	2,358,424	5,157,696	16.46%	45.73%
BSU	78,481	141,408	549,990	14.27%	25.71%
TU	186,645	270,500	1,173,043	15.91%	23.06%
UMES	81,324	161,591	611,963	13.29%	26.41%
FSU	25,530	46,000	230,747	11.06%	19.94%
CSU	71,753	108,717	499,503	14.36%	21.77%
SU	107,642	149,043	558,733	19.27%	26.68%
UBalt	70,194	126,476	432,370	16.23%	29.25%
UMBC	226,213	306,314	1,320,434	17.13%	23.20%
UMCES	23,488	46,977	200,384	11.72%	23.44%
USM RHEC	8,603	15,500	193,732	4.44%	8.00%
Total	\$2,387,690	\$4,609,329	\$13,773,539	17.34%	33.47%

RHEC: regional higher education centers

¹Includes deferred maintenance and programmatic improvements.

Source: University System of Maryland

Working on the Backlog

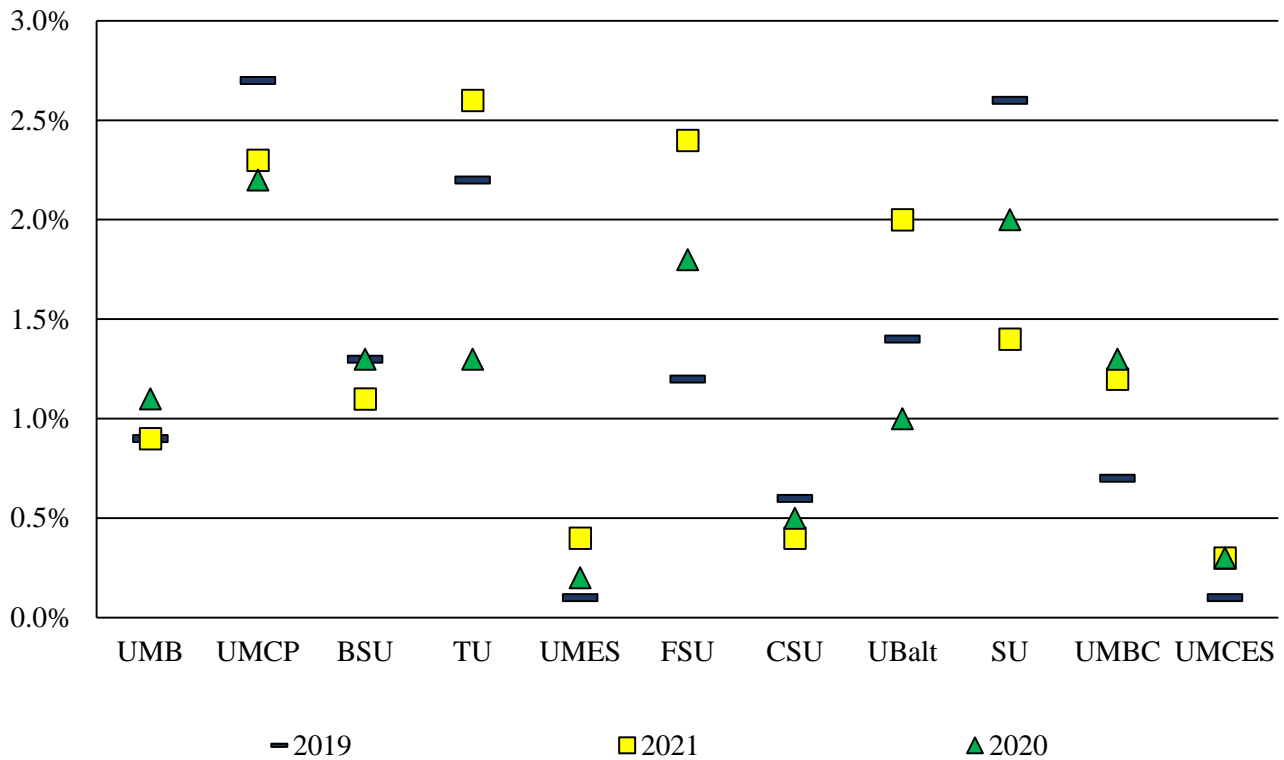
USM Policy

Reducing the backlog is a continuing priority of the Board of Regents (BOR) and the Chancellor. USM’s current policy (last revised in 2005) sets a target that institutional spending on facilities renewal be equal to 2% of the replacement value of all assets, including auxiliary facilities. The policy also states that in order to reach that target, institutions will increase operating expenditures from “all” sources by 0.2% of 1% of the replacement value. However, in calculating replacement value and spending toward the 2% target, USM only considers State-supported facilities. In addition, USM has developed a methodology for allocating any additional funding that they may receive for facilities renewal (above the Academic Revenue Bonds (ARB) funded level) in which only those facilities that are 10 years or older are included in the replacement value calculation, thereby targeting funding to those with the greatest need. **The Department of Legislative Services (DLS) recommends that the**

USM BOR update its facilities renewal policy to reflect current practices and specifically those practices related to State facilities.

Exhibit 3 shows institution’s performance in meeting the 2% target from fiscal 2019 to 2021. It should be noted that due to the financial impact of COVID-19, University System of Maryland Office (USMO) suspended the spending requirements on facilities renewal in fiscal 2020 and 2021. Furthermore, the 2% goal is a moving target as inventory changes each year as new facilities come online, and others continue to age and need more work. Total replacement value of all USM’s State facilities steadily increased by 4.0% in fiscal 2019, and 5.3% and 6.4% in fiscal 2020 and 2021, respectively, which resulted in similar increases in the target. Overall, only UMCP met and exceeded the target during this time period, while University of Maryland Eastern Shore and Frostburg State University steadily made strides toward achieving the target.

**Exhibit 3
Percent of Replacement Value Spent on Facilities Renewal
Fiscal 2019-2021**



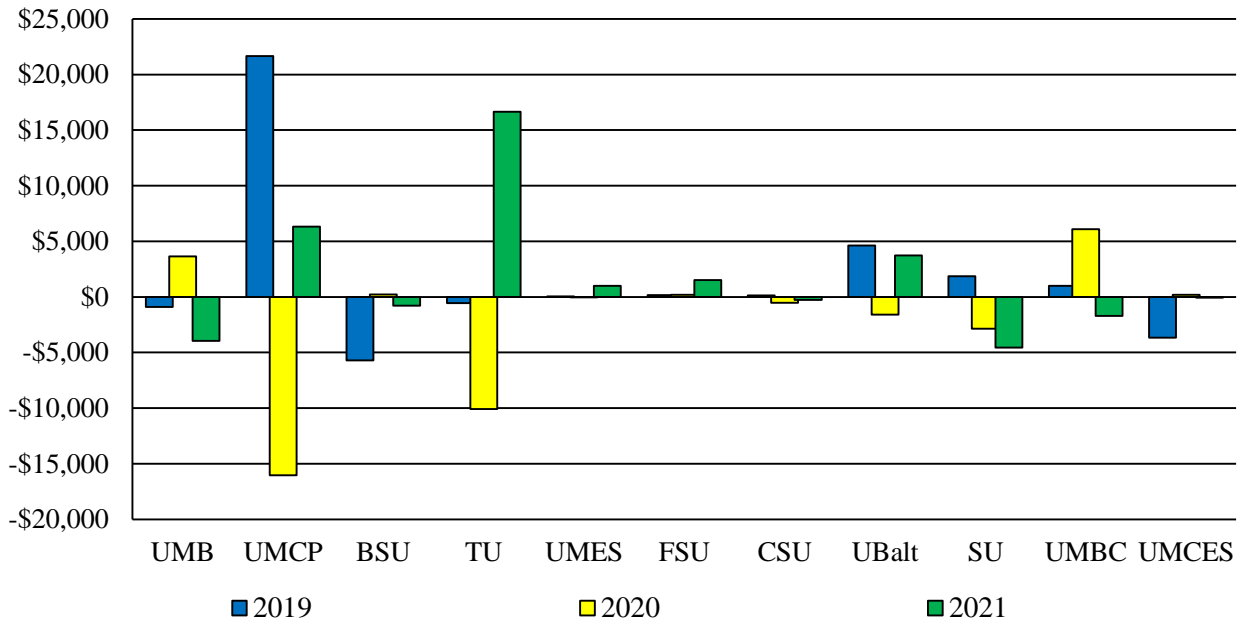
Note: Expenditures on facilities renewal include funds from the operating budget, Academic Revenue Bonds, general obligation bonds, and bond premiums.

Source: University System of Maryland

Institutional Spending

The financial impact of COVID-19 is shown in **Exhibit 4** in which spending on facilities renewal declined 11.8%, or \$20.8 million, in fiscal 2020 compared to fiscal 2019. During this time, campuses closed during spring 2020 semester with institutions issuing refunds for some fees and for those living in on-campus housing. This revenue loss, along with increased expenditures related to quickly transitioning to teaching remotely, led USM to suspend the spending requirements on facilities renewal. Initially, USM budgeted reducing expenditures on facilities renewal by \$47.6 million in fiscal 2020 in order to cover anticipated revenue losses. However, the financial impact on institutions was tempered by the federal relief funds, resulting in five institutions increasing expenditures on facilities renewal. In fiscal 2021, despite revenues being impacted by the Board of Public Works’ \$117.3 million reduction, a decline in enrollment, and a freeze on tuition and fees, total spending on facilities renewal increased 11.5%, or \$17.9 million, over fiscal 2020. This was related to five institutions increasing spending by \$29.2 million, which was partly offset by six institutions decreasing expenditures by a total of \$11.3 million. Overall, total spending in fiscal 2021 is slightly below (\$2.9 million) the prepandemic level of \$176.1 million.

Exhibit 4
Change in Spending on Facilities Renewal
Fiscal 2019-2021
(\$ in Thousands)

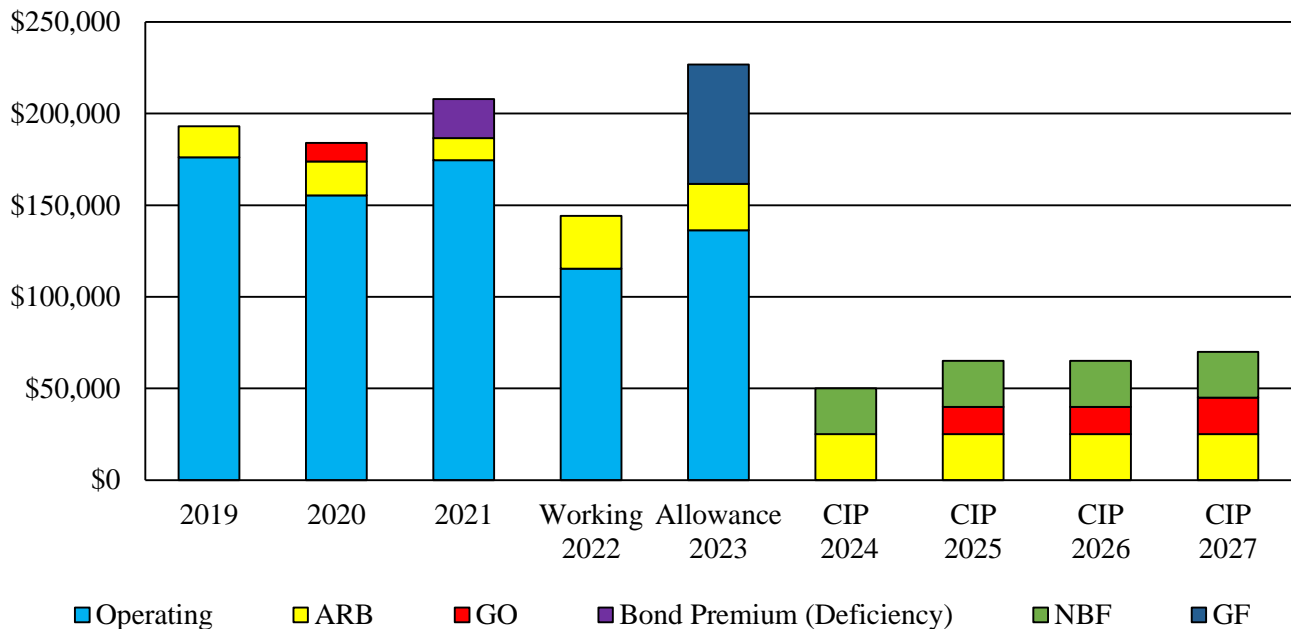


Source: University System of Maryland

All Funding Sources

Prior to fiscal 2020, facilities renewal was funded mostly with funds from the institution’s operating budget and \$17 million in ARB, as shown in **Exhibit 5**, with expenditures increasing to \$193.1 million in fiscal 2019. In fiscal 2020 there was a change in the funding of facilities renewal with the inclusion of \$10 million in general obligation (GO) bonds. For fiscal 2021, the 2020 *Capital Improvement Program* (CIP) programmed \$16.4 million in plant funds to supplement the \$12 million in ARB. However, due to the financial impact of COVID-19, the use of plant funds was deferred, and a \$21.2 million bond premium deficiency was provided to backfill USM’s portion. Plant funds, totaling \$25 million, were programmed in fiscal 2022 and 2023 but were once again deferred to the following year due to the pandemic. It should be noted that for fiscal 2022, operating expenditures will increase as institutions get a more accurate picture of revenues available for facilities renewal.

Exhibit 5
Fund Sources for Facilities Renewal Spending
Fiscal 2018-2026
(\$ in Thousands)



ARB: Academic Revenue Bonds
 CIP: *Capital Improvement Program*
 GO: general obligation
 GF: general funds
 NBF: nonbudgeted funds

Source: University System of Maryland; *Capital Improvement Program*

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For fiscal 2023, the 2022 CIP programs \$25.3 million in ARB and \$65 million in pay-as-you-go (PAYGO) funds provided through the Dedicated Purpose Account (DPA) (discussed later in the analysis). Starting in fiscal 2024, the CIP reflects a shift in funding, programming \$25 million in plant funds starting in fiscal 2024 and \$15 million in GO bonds funds in fiscal 2025, increasing to \$20 million in fiscal 2027.

In addition to funding specifically allocated for facilities renewal projects, other projects in the CIP, such as renovation of Smith Hall at Towson University (TU) or the Chemistry Wing I replacement at UMCP, contribute to reducing the backlog. **Exhibit 6** shows the impact that projects in the 2022 CIP have on the total renovation cost. Overall, these projects would reduce the backlog by 6.2%, or \$287.8 million. Bowie State University and TU experience the greatest impact with the projects reducing their backlog by 37.7% and 32.2%, respectively.

**Exhibit 6
Impact of Projects in 2023-2027 CIP on Backlog
(\$ in Thousands)**

	<u>Total Renovation Cost¹</u>	<u>Impact of CIP Projects Portion of Project²</u>	<u>Total Renovation</u>
UMB	\$878,379	-\$22,639	\$855,740
UMCP	2,358,424	-65,500	2,292,924
BSU	141,408	-53,310	88,098
TU	270,500	-87,100	183,400
UMES	161,591		161,591
FSU	46,000	-5,000	41,000
CSU	108,717		108,717
SU	149,043	-17,117	131,926
UBalt	126,476		126,476
UMBC	306,314	-37,121	269,193
UMCES	46,977		46,977
USM RHEC	15,500		15,500
Total	\$4,609,329	-\$287,787	\$4,321,542

CIP: *Capital Improvement Program*
RHEC: regional higher education centers

¹Includes deferred maintenance and programmatic renovation.
²Based on total project costs.

Source: University System of Maryland

Summary of Fiscal 2023 Funded State-owned Projects

Capital Facilities Renewal

This is the annual facilities renewal program that provides funding for various capital improvement projects at USM institutions. In fiscal 2023, \$25.3 million in ARB is programmed to fund 28 projects at nine institutions. In addition, \$65 million is provided in the DPA to fund facilities renewal projects.

The 2021 CIP programmed \$22.8 million in ARB in fiscal 2023 with the increase in fiscal 2023 related to replacing \$2.5 million of ARB for UMCP’s Chemistry Wing I with GO bonds. The 2023 CIP again defers the use of plant funds to fiscal 2024, programming \$25 million each year till fiscal 2027, totaling \$100 million.

When the use of plant funds was first programmed in the 2020 CIP, DLS raised concerns of viability of USM being able to contribute \$100 million over a four-year period. Initially, the source of the plant funds would be from USMO’s future debt service account. This account consists of funds that USMO collects from institutions to cover their portion of the ARB debt service. The amount charged to the institution is based on a financial model that includes projected future interest rates, which have been as high as 5%. However, since the Great Recession, interest rates on its debt have been approximately 3%. USMO keeps the revenue generated between what is charged to the institutions and the actual debt service payment in a “stabilization” account so as to have a cushion in time of higher interest rates. However, according to USM, all of USMO’s plant funds are either committed to ARB debt service, several capital projects which have been internally authorized and approved, or are being transferred back to the institutions. Therefore, USM advises that there are no funds available to put toward the \$25 million of nonbudgeted funds for facilities renewal.

To the extent that USM is unable to contribute plant funds as currently programmed in the 2023 CIP as a component of the overall USM facilities renewal backlog funding strategy, the Chancellor should address whether an increased annual level of ARB issuances would be a workable substitute.

Fiscal 2023 PAYGO

In response to a 2019 *Joint Chairman’s Report*, USM developed a methodology for allocating additional facilities renewal funds provided above the typical base ARB-funded level, which recently has been \$25 million. The methodology provides incentives for institutions that made progress toward increasing spending on facilities renewal projects. According to USM, the consensus among USM’s institutions was the proposed methodology represented the “simplest and fairest way” to distribute additional funding. Funding is considered either Tier 1 (base funding) or Tier 2 (additional funding).

- **Tier 1:** For fiscal 2023, the budget provides \$25.3 million in ARB that would be allocated based on the institution-reported replacement value of State-supported facilities greater than

10 years old. This is similar to the current allocation method and in order to capture any changes, the replacement value shares would be adjusted accordingly. USM notes omitting facilities less than 10 years old helps achieve the desired effect of targeting funding to the institutions with the greatest need.

- **Tier 2:** The budget provides \$65 million in PAYGO funds for fiscal 2023 for facilities renewal projects. While this funding would be allocated similarly as in Tier 1, it would only go to those institutions that have demonstrated attention to their maintenance needs by either (1) achieving the 2% of replacement value spending target; or (2) meeting (as a minimum) the incremental annual increase in spending as stated in BOR policy. Should other sources be made available, such as plant funds or other non-State revenues, the allocation of the funds would also reflect the contributions the institution made to the USM funding source.

For fiscal 2022 and 2023, USMO informed institutions that due to the uncertainties regarding the financial impact of COVID-19, the 2% test to qualify for any additional funding would be suspended. Therefore, for at least two years, all institutions qualify to receive any additional funding. Institutions were informed that in fiscal 2024, the suspension may continue but to expect to return to normal in which allocation of additional funds will be based on progress to the 2% target. For fiscal 2023, all institutions are eligible to receive a pro-rata share of the \$65 million (minus a small amount held back USMO typically maintains for emergencies). Institutions were requested to prepare a brief project description, cost, and schedule information for each Tier 2 project up to the amounts shown in **Exhibit 7**. Projects are not to exceed the one-time share of the appropriation.

In order to provide incentives for institutions that have made and/or continue to make progress to the 2% goal, DLS recommends restricting the allocation of the \$65 million in PAYGO funds until institutions meet certain levels of spending on facilities renewal.

Exhibit 7
Allocation of PAYGO and ARB Funds
Fiscal 2023
(\$ in Thousands)

	<u>PAYGO</u>	<u>ARB</u>	<u>Total</u>
UMB	\$12,391	\$4,996	\$17,387
UMCP	23,503	9,477	32,981
BSU	2,126		2,126
TU	5,796	2,337	8,133
UMES	3,227	1,301	4,529
FSU	1,278	515	1,793
CSU	1,400	565	1,965
UBalt	2,207	890	3,098
SU	2,339		2,339
UMBC	5,806	2,341	8,148
UMCES	888	358	1,246
USG	833		833
USMH	88		88
USMSM	115		115
UMGC	565		565
System Reserve	2,435	2,528	4,963
Institution Total	\$65,000	\$25,309	\$90,309

ARB: Academic Revenue Bonds

PAYGO: pay-as-you-go

Source: University System of Maryland; Department of Budget and Management
