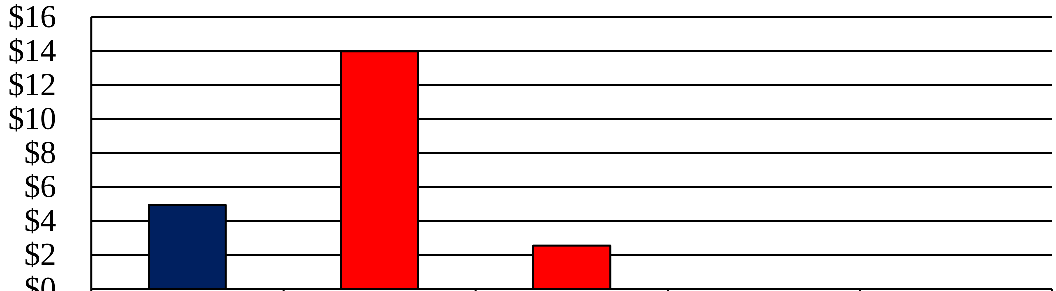
RB36

University of Maryland System Office – Capital

University System of Maryland

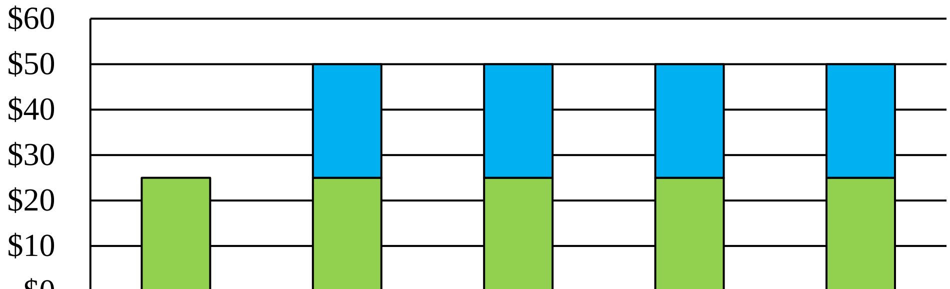
Capital Budget Summary

State-owned *Capital Improvement Program*
USM Colwell Center (Formerly the Columbus Center) Deferred Maintenance
($ in Millions)



	2024 Request	2025	2026	2027	2028
PAYGO SF	$4.934	$0.000	$0.000	$0.000	$0.000
GO Bonds	0.000	13.988	2.551	0.000	0.000

Capital Facilities Renewal *Capital Improvement Program*
($ in Millions)



	2024 Request	2025	2026	2027	2028
Nonbudgeted Funds	$0.000	$25.000	$25.000	$25.000	$25.000
Revenue Bonds	25.000	25.000	25.000	25.000	25.000

GO: general obligation
PAYGO: Pay-as-you-go
SF: special funds
USM: University System of Maryland

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Key Observations

- ***Colwell Center (formerly the Columbus Center) Deferred Maintenance Project:*** This project was added to the 2023 *Capital Improvement Program* (CIP) due to the deterioration of the 29-year-old tension fabric roof. While the University of Maryland Baltimore County (UMBC) manages and maintains this facility, it is not part of its facilities inventory because it is a "systemwide" facility and therefore became a request from the University System of Maryland Office (USMO).

- ***Funding for Facilities Renewal:*** The 2023 CIP programs $75 million less for facilities renewal compared to the 2022 CIP. This is mainly due to eliminating $50 million in general obligation (GO) bond funding initially programmed for fiscal 2025 through 2027. The 2023 CIP relies on the University System of Maryland's (USM) plant funds and Academic Revenue Bonds (ARB) to fund the program.

PAYGO Recommended Actions

1. Concur with the Governor's Allowance.

GO Bond Recommended Actions

1. Approve $25,000,000 in Academic Revenue Bonds for facilities renewal and the proposed authorization and preauthorizations for the University System of Maryland Office.

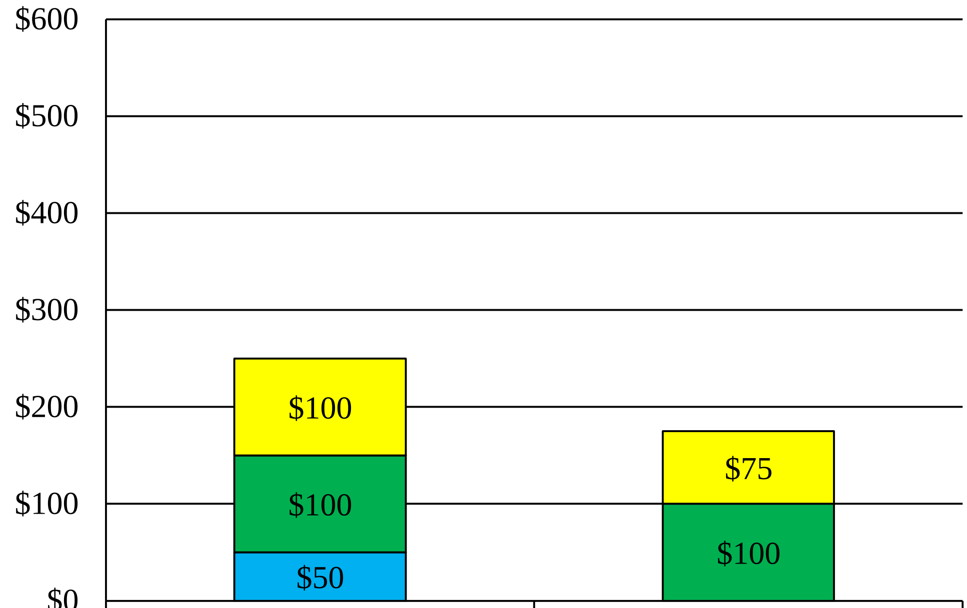
Summary of Fiscal 2024 Funded State-owned Projects

Capital Facilities Renewal

The USM Facilities Renewal program provides funding for various capital improvement projects at USM institutions. In fiscal 2024, $25 million in ARB funds are programmed to fund 30 projects at 11 institutions and the 3 regional higher education centers.

The 2023 CIP programs $75 million less in funds for the facilities renewal program compared to the 2022 CIP, as shown in the **Exhibit 1**. This is due mainly to the exclusion of $50 million in GO bond funding in fiscal 2025 through 2027. While the fiscal 2023 budget provided $65 million from the Dedicated Purpose Account to fund various renewal projects at all the institutions, the 2023 CIP relies on USM's plant funds and ARBs to fund the facilities renewal program.

Exhibit 1
Facility Renewal Program
2023 CIP Compared to 2022 CIP
Fiscal 2024-2027
($ in Millions)



	2022 CIP	2023 CIP
Total	$250	$175
USM Plant Funds	100	75
USM Revenue Bonds	100	100
GO Bonds	50	0

CIP: *Capital Improvement Program*
GO: general obligation
USM: University System of Maryland

Source: 2022 and 2023 *Capital Improvement Programs*

The 2023 CIP defers the use of plant funds to fiscal 2025, programming $25 million each year through fiscal 2028, totaling $100 million. When the use of plant funds was first programmed in the 2020 CIP (prior to the pandemic), the Department of Legislative Services raised concerns about USM's capacity and willingness to contribute plant funds at the time programmed at $100 million over a four-year period. Since that time, plant funds have only been used once to support the program. In fiscal 2020, $16.4 million was allocated, but due to the revenue loss related to the pandemic, the plant funds were not used and instead were replaced with $21.2 million in State bond premiums. Initially, the source of the plant funds would be from USMO's future debt service account, which consists of funds that USMO collects from institutions to cover their portion of the ARB debt service. USMO keeps the revenue generated between what is charged to the institution and the actual debt service payment in a stabilization account, which provides a cushion in times of higher interest rates. However, funds not committed to ARB debt service or for several capital projects that were internally authorized and approved were transferred back to the institution. Therefore, USM advises there are no funds available to put toward the $25 million of nonbudgeted funds for facilities renewal. It should be noted, as previously discussed, on average, from fiscal 2021 to 2023, institutions have expended $186.3 million, annually, of their operating budget on facilities renewal projects.

Colwell Center (formerly the Columbus Center) Deferred Maintenance

Project Summary: Replace the aging tent roof and refurbish the central plant. The project will be completed in two phases: Phase I will replace the tension fabric roof, and Phase II will upgrade the mechanical system. The fiscal 2024 operating budget includes $4.9 million in Fiscal Responsibility Funds to support the project.

New/Ongoing: New	
Start Date: Design July 2023	**Est. Completion Date:** October 2025

Fund Sources:								
($ in Millions)	**Prior Auth.**	**2024**	**2025**	**2026**	**2027**	**2028**	**Beyond CIP**	**Total**
GO Bonds	$0.000	$0.000	$13.988	$2.551	$0.000	$0.000	$0.000	$16.539
SF	0.000	4.934	0.000	0.000	0.000	0.000	0.000	4.934
Total	**$0.000**	**$4.934**	**$13.988**	**$2.551**	**$0.000**	**$0.000**	**$0.000**	**$21.473**

Fund Uses:								
($ in Millions)	**Prior Auth.**	**2024**	**2025**	**2026**	**2027**	**2028**	**Beyond CIP**	**Total**
Planning	$0.000	$1.340	$0.000	$0.000	$0.000	$0.000	$0.000	$1.340
Construction	0.000	3.594	13.988	2.551	0.000	0.000	0.000	20.133
Total	**$0.000**	**$4.934**	**$13.988**	**$2.551**	**$0.000**	**$0.000**	**$0.000**	**$21.473**

- ***Need:*** The Colwell Center (formerly the Columbus Center) houses the Institute of Marine and Environmental Technology, the Chancellor's headquarters, Towson University's (TU) Center for STEM Excellence, and leased space to private entities. Phase I of the project will replace the existing tension fabric roof that is 29 years old and is at the end of its useful life. An inspection conducted in March 2020 indicated that the roof is deteriorating. The roof encloses a portion of the interior, and any failure would directly expose the interior to the weather, which would cause significant damage and lead to an immediate cessation of operations.

Phase II of the project will refurbish the existing central plant system that is also 29 years old. Replacement parts are not readily available, and the system is not energy efficient. The refurbishment will replace obsolete chillers, controls, motors, and pumps and includes the demolition of ice storage units.

- ***Changes:*** This project was added to the 2023 CIP to address the deferred maintenance needs to prevent interior damage to the building. Since this building is a multi-use facility used by several USM institutions and USMO, it is considered a systemwide facility and therefore a USMO request. While UMBC maintains and manages the facility, it is not part of its facilities inventory and therefore is not included in its formal deferred maintenance backlog. It should be noted that USMO worked with UMBC to develop the project scope and cost this project. The less than clear administrative and management responsibility for the center is a contributing factor in the project.

- ***Other Comments:*** As a systemwide facility, this project will not impact the overall backlog of deferred maintenance. The budget provides preauthorizations of $14.0 million in fiscal 2025 and $2.6 million in fiscal 2026.

Performance Measures and Outputs

Facilities Renewal

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 costs 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 2**, when only considering deferred maintenance, mechanical/electrical systems account of 68.3% of the $2.6 billion backlog. Programmatic improvements total $2.4 billion, resulting in an overall total renovation cost (deferred maintenance plus programmatic improvements) of $5.0 billion. While the University of Maryland, College Park Campus (UMCP) accounts for 34.9% of the deferred maintenance backlog, it comprises half of the total renovation cost due to programmatic improvements representing more than half of its backlog.

Exhibit 2
Facilities Renewal Backlog
Fall 2021
($ in Thousands)

	Structural/ Envelope	Mechanical/ Electrical Systems	Life Safety/ Regulatory	Total Deferred Maintenance	Programmatic Improvements	Total Renovation Cost
UMB	$189,722	$478,821	$9,034	$677,577	$225,859	$903,436
UMCP	117,563	600,323	182,598	900,485	1,600,862	2,501,347
BSU	17,075	57,164	8,166	82,405	66,073	148,478
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	7,820	26,180	3,740	37,740	30,260	68,000
CSU	16,207	73,667	7,367	97,240	50,093	147,333
SU	17,421	87,104	8,710	113,235	43,552	156,788
UBalt	14,545	48,693	6,956	70,194	56,282	126,476
UMBC	38,088	205,781	27,429	271,299	96,066	367,365
UMCES	14,960	18,700	3,740	37,401	37,401	74,801
USM RHEC	2,990	10,010	1,430	14,430	11,570	26,000
Total	**$520,438**	**$1,756,100**	**$293,437**	**$2,569,975**	**$2,382,140**	**$4,952,115**

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 end of useful life. Life safety/regulatory (*e.g.*, Americans with Disabilities Act) improvement if can be separated from other categories. Programmatic improvements include renovation, remodeling, reconfiguration, modernization, finishes, information technology/communications.

Source: University System of Maryland

Revised Facilities Renewal Policy

Reducing the backlog of deferred maintenance is a continuing priority of the Board of Regents (BOR) and the Chancellor. USM's policy sets a target that institutional spending on facilities renewal be equal to 2% of the replacement value of all assets, including non-State facilities. However, the policy did not reflect current practices, as only State-support facilities were included in the calculation of the replacement value and spending toward the 2% target, and only those facilities that are 10 years or older are included in the calculation. At its November 2022 meeting, BOR adopted an updated facilities renewal policy that reflects current practices. The most significant change in policy is shifting the focus from inputs to outcomes, which better reflects progress an institution is making in addressing its backlog of deferred maintenance. Furthermore, the previous policy did not fully capture all an institution's spending (both capital and operating) on facilities renewal.

The revised policy requires institutions to report their Facility Condition Index (FCI). The FCI shows the percentage of deferred maintenance relative to the replacement value of the facilities. A lower score indicates that facilities are in relatively good condition and do not require a lot of funding to improve conditions. The 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 change to the inventory of new facilities and others being taken off the list. **Exhibit 3** shows the FCI by institution from fall 2017 to 2021. Overall, three institutions experienced improvements in their FCI – Bowie State University (BSU), TU, and University of Baltimore (UBalt). The FCI for Coppin State University (CSU) increased from 14.36% in fall 2020 to 18.48% in fall 2021, which is attributed to reporting deferred maintenance costs at a much higher level than in previous years. USM noted that CSU is currently undertaking a campus assessment, so the numbers may change as CSU obtains better estimates of its backlog.

Exhibit 3
Facility Condition Index of State Buildings by Institution
Fall 2017-2021

	2017	2018	2019	2020	2021
UMB	20.64%	23.15%	22.62%	23.16%	22.77%
UMCP	15.69%	16.06%	15.71%	16.46%	16.33%
BSU	14.65%	14.27%	14.27%	14.27%	14.27%
TU	16.97%	14.66%	14.67%	15.91%	15.91%
UMES	13.29%	13.29%	13.29%	13.29%	13.29%
FSU	10.82%	10.82%	10.82%	11.06%	10.99%
CSU	15.26%	14.99%	14.54%	14.36%	18.48%
SU	17.84%	19.27%	19.27%	19.27%	19.29%
UB	18.78%	16.23%	16.23%	16.23%	16.23%
UMBC	17.59%	17.59%	17.13%	17.13%	17.91%
UMCES	12.06%	12.03%	12.03%	11.72%	18.17%
USM RHEC	4.62%	4.44%	4.44%	4.44%	2.93%
USM	**16.56%**	**17.04%**	**16.81%**	**17.34%**	**17.41%**

RHEC: regional higher education centers

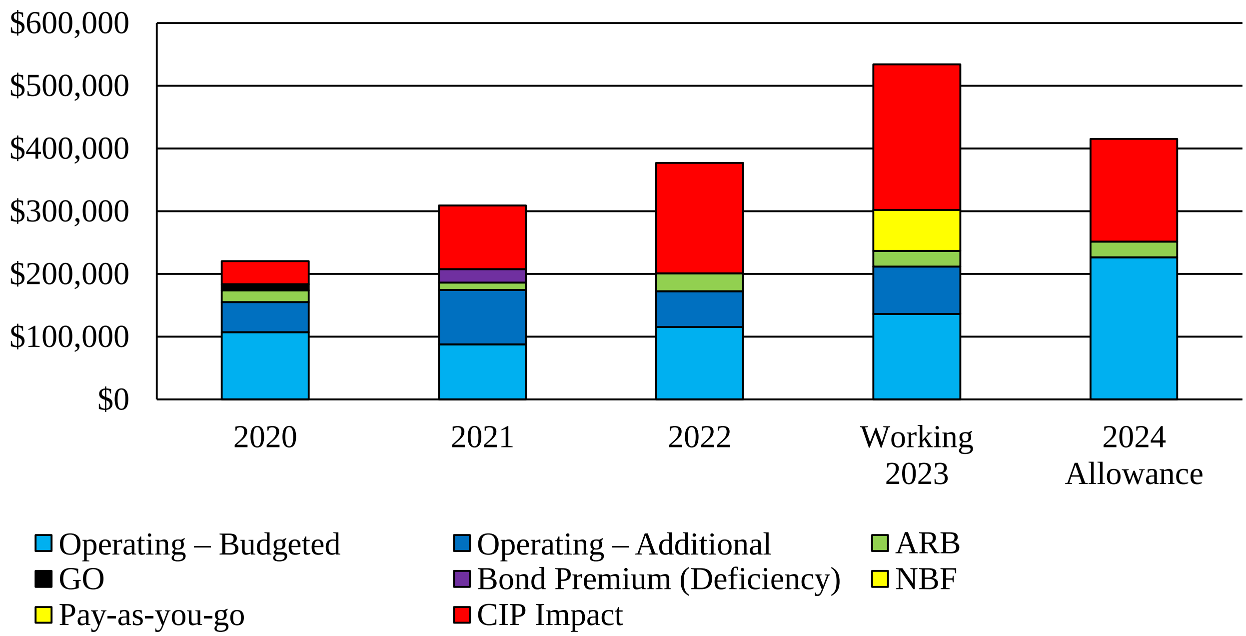
Note: Includes deferred maintenance and programmatic improvements

Source: University System of Maryland

Sources of Funding

Prior to fiscal 2020, facilities renewal was funded mostly with funds from the institution's operating budget and with an allotment of ARB funds, typically in the range of $17 million annually. In fiscal 2020, institutional spending accounted for 70.4% of the funds used for facilities, as shown in **Exhibit 4**. Despite institutional spending increasing 12.5% in fiscal 2021, it accounted for a smaller share of total facilities renewal funding. This reflects an increase in the portion of projects funded in the CIP that are attributed to renovation. These funds accounted for 32.8% of all funds in fiscal 2021 and increase to 46.7% and 43.5% in fiscal 2022 and 2023, respectively. Overall, from fiscal 2020 to 2023, institutional spending has increased 36.3%, to $211.7 million. It should be noted that for fiscal 2023 and 2024, operating expenditures will increase as institutions get a more accurate picture of revenues available for facilities renewal.

Exhibit 4
Fund Sources for Facilities Renewal Spending
Fiscal 2020-2024
($ in Thousands)



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

Note: Total operating funds in fiscal 2023 and 2024 will increase as institutions more accurate picture of revenues available for facilities renewal.

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

Institutional Spending

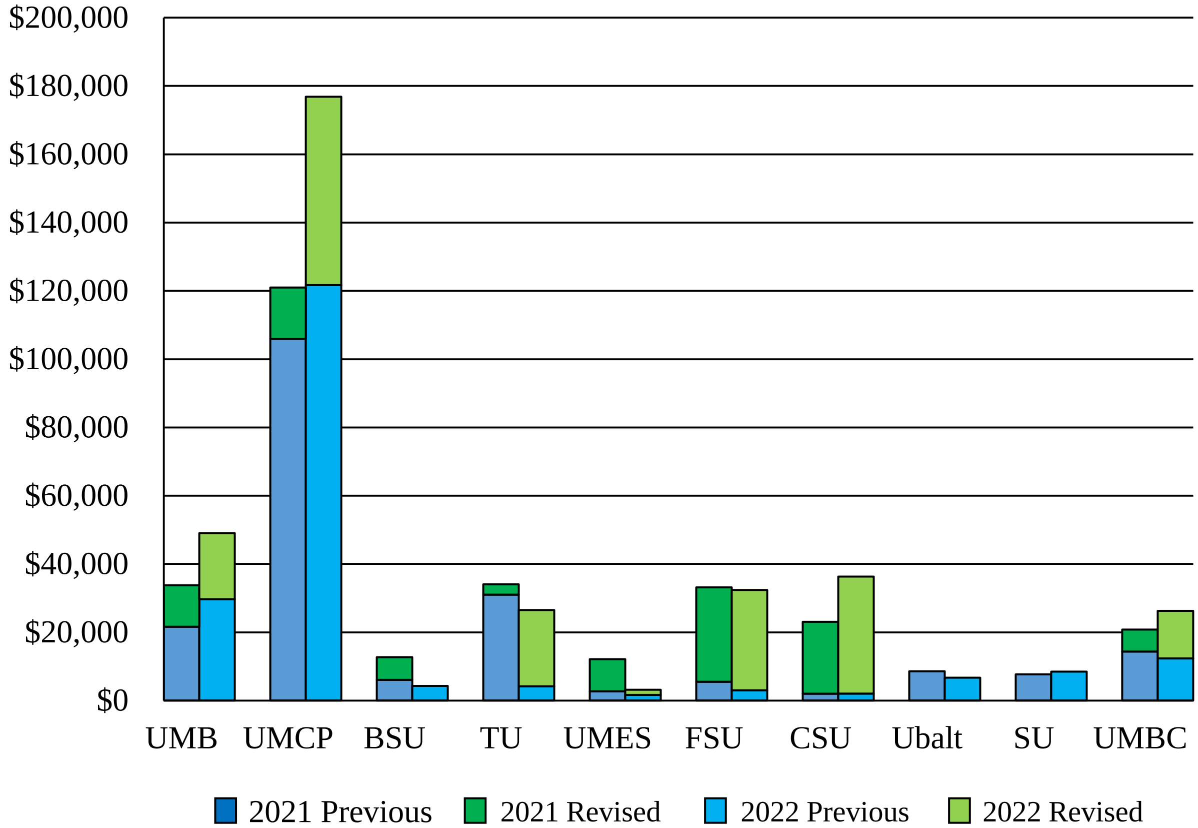
The previous policy did not fully capture all the funds (both capital and operating) that an institution expended on facilities renewal. In some cases, institutions were putting a significant amount of resources into renovating or replacing older facilities, but those funds were not counted toward their 2% goal. A directive from USM clarified what expenditures can be included in an institution's calculation of its 2% spending goal. Operating funds that can be included are expenditures on deferred maintenance and expenditures from the plant fund for renovation and replacement. Not included are expenditures for routine maintenance and repairs of building components. Capital funds that can be included are:

- annual *pro rata* allocations from USM capital facilities renewal program, regardless of fund source; and

- the portion of funded projects approved in the CIP or system-funded capital projects that can be attributed to renovation or replacement of existing space, spread over the period of construction.

Capital funds not included are funds adding space or procuring materials, finishes, or equipment without a 15-year life or capital debt, unless either is part of a more comprehensive renovation or replacement project. **Exhibit 5** shows each institution's spending on facilities renewal based on the previous and revised policy. When including those projects in the CIP or funded by system, increases in expenditures range from 12% at UMCP in 2021 to 94% at CSU in 2022. The change in policy significantly impacts facility renewal expenditures at the smaller institutions such as Frostburg State University (FSU), BSU and CSU.

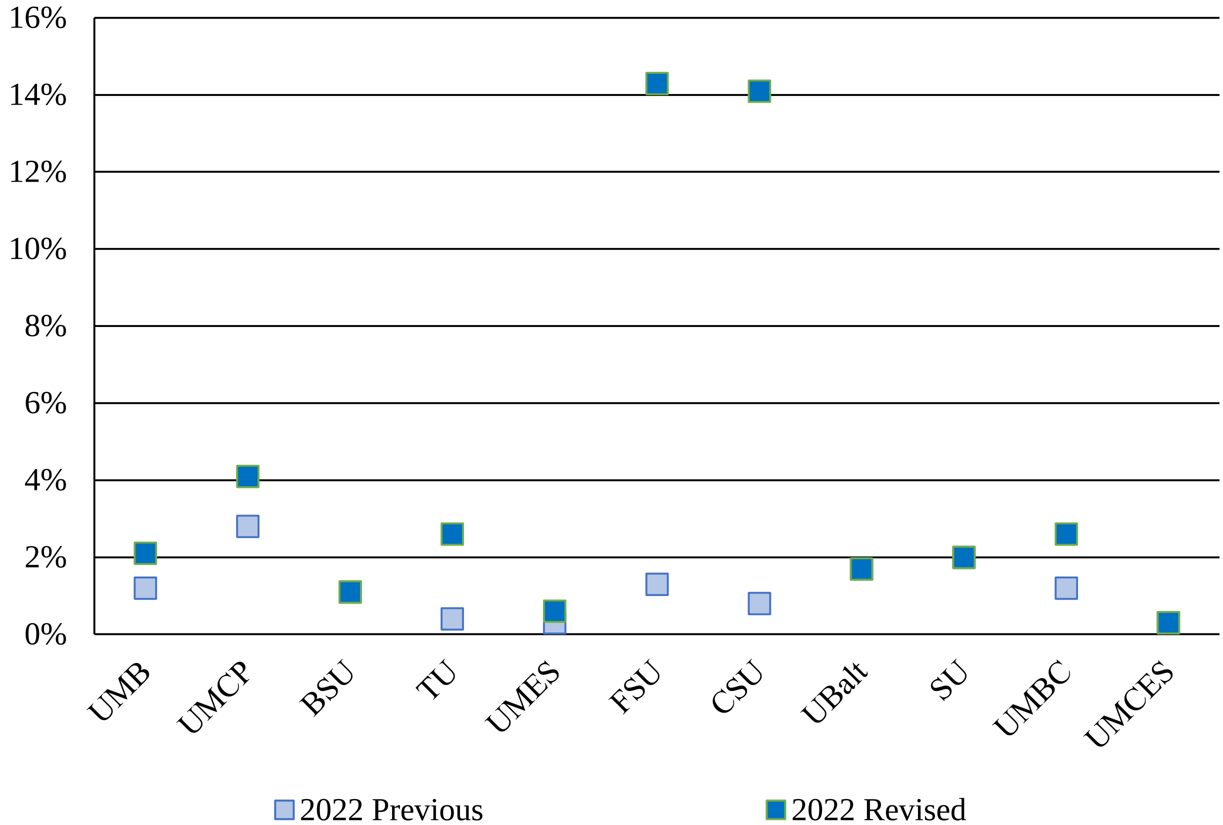
Exhibit 5
Comparison Policies on Institutional Spending on Facilities Renewal
Fiscal 2021 and 2022
($ in Thousands)



Source: University System of Maryland

The inclusion of the portion of projects in the CIP or system-funded capital projects results in some institutions significantly exceeding the 2% target, as shown in **Exhibit 6**, which compares each institution's performance under the previous and revised policy in fiscal 2022. Under the new policy, FSU and CSU exceeded 14.0%, while those institutions that did not have system-funded or CIP projects – including BSU, UBalt, and University of Maryland Center for Environmental Science – fell below the 2% target.

Exhibit 6
Comparisons of Policies on Meeting Target
Fiscal 2022



Source: University System of Maryland

Overall, the revised policy can lead to wide variations in the percentage of facilities renewal spending to replacement value. This diminishes the usefulness of the 2% target as an indicator of an institution's progress in reducing its backlog of deferred maintenance. A better indicator of an institution's progress at reducing its backlog is improvement in its FCI over time. While it is important that USM ensures that institutions are continually budgeting and spending funds on facilities renewal, greater importance should be placed on the condition of the facilities, which is a more accurate assessment of the impact of spending on its backlog.

The Chancellor should comment on USM's revised policy and how institutions will be held accountable for improving the condition of their facilities.