UNIVERSITY SYSTEM
of MARYLAND

TESTIMONY TO THE
BUDGET COMMITTEES OF THE GENERAL ASSEMBLY
Regarding
THE USM FY2021 CAPITAL BUDGET REQUEST

Including Response to Analysis concerning

ITEM RB36
FACILITIES RENEWAL (STATEWIDE) and the
USM SOUTHERN MARYLAND (ST MARY'S COUNTY)

By Jay A. Perman, Chancellor

Thank you for the opportunity to testify on the Governor's FY 2021 capital budget recommendations for the University System of Maryland (USM). I intend to keep my testimony very brief and speak to the issues raised by the legislative analysts. Before I do so, however, I would like to express my sincere thanks, on behalf of the entire System, to Governor Hogan for his support of our capital request; and I wish to thank each of you, and all the members of this Committee and the General Assembly for the support you have provided the University System of Maryland. Working with partners statewide, we build on that State support and the collective strengths of our institutions to improve student success, foster academic and research innovation, advance economic and workforce development, and improve our quality of life in Maryland. We strive to serve our students and our State effectively, efficiently, and with excellence.

THE USM CAPITAL BUDGET

As a System, we urge full funding of the Governor's FY2021 budget recommendations for our institutions. We rely heavily on our campus infrastructure to deliver quality academic programs and house critical research. During these hearings, each president is responding on behalf of their own institution; and I would like to add my own voice in support of their needs. We understand your desire to balance the needs of higher education against a variety of other needs in an environment of constrained resources and we appreciate your consideration on behalf of our institutions. We know you're making difficult choices to accommodate these needs and we urge your continued support.

One project, in particular, deserves your attention today. The analysis for Coppin State University recommends deleting funding for a critical renovation project on campus. The renovation of the former Julian Science Building at Coppin was funded for planning and is currently being designed as the new home for the College of Business and the School of Graduate Studies. The argument is that enrollment is down, so the project shouldn't move forward. In reality, the project will both help build enrollment and effectively eliminate one of the most serious deferred maintenance issue for Coppin. The renovated building will become a critical "domino" in the relocation of academic departments on campus to help facilitate the future renovation of another campus landmark, the Grace Jacobs tower. We echo Coppin's request that you reject the analyst's recommendation and that the project be fully funded for construction as planned.

SYSTEM-WIDE FACILITIES RENEWAL (STATEWIDE)

Our Board of Regents policy underscores a System-wide goal to be good stewards of our facilities. Reducing our backlog of deferred maintenance is a high priority for me and for our Board. These funds are a critical piece of an overall approach the Regents are taking to address the problem of deferred maintenance. Despite the budgetary challenges in the operating budget, we've seen a new level of commitment among our institutions to address the critical needs of aging buildings.

As the analysis accurately indicates, in the last three years, three institutions have successfully achieved the desired 2% of replacement value spending target for maintenance: the University of Maryland College Park, Salisbury University, and Towson University. Others are actively approaching this level, including Bowie State University. I've been asked to "comment on how institutions are held accountable for failing to reach the 2% replacement target."

> First, renewal spending is a featured data point in the performance "Dashboard Indicators" we publish each year, discuss with our Board of Regents, and publish for public consumption.
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> Second, maintenance spending is also one of the criteria by which each president is measured in their annual evaluations.
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> Finally, as we outlined in a report submitted last fall in response to a request by the Joint Chairs to address the allocation of capital facilities renewal (FR) funding, we've added an important criteria to the process: Historically, the methodology for distributing available FR funding among our institutions has been based on need—specifically, the age and size of the physical plant. To qualify for a large portion of those funds, institutions must now demonstrate that they have made maintenance spending a priority by, either reaching the 2% of replacement value annual maintenance spending target, or achieving Board-specified milestones to do so.

I've also been asked to "comment on the widening gap between spending on facilities renewal and the overall 2% replacement target and why operating funds put toward facilities renewal decreased so significantly between the fiscal 2019 and 2020 budgets."

> It is inaccurate to compare a prior "actual" number with a future "working" or "budget" number. The reduction from FY2019 to FY2020 is a statistical artifact and will likely be corrected in the new fiscal year. What we've seen is that institutions tend to apply a constrained reality to their budget estimates for facilities renewal at the beginning of the fiscal year. Then, as the year progresses, these conservative budgets grow as additional funds are steered toward maintenance needs and placed in their plant funds for targeted projects. The original FY2019 budgeted figures, for instance, were significantly less than the amount actually expended that year. Thus we fully expect that FY2020 will be higher than the amount shown.

With the strong backing of our Board, who are extremely engaged in our deliberations about facilities renewal, we will continue to build on the track record of success we've had in making maintenance spending a priority. Likewise, we are hopeful the State's support of facilities renewal in both the capital and operating budgets will continue.

USM FUND BALANCES

The analyst stated that "the use of $25 million annually from plant funds [to support the USM facilities renewal program from our ARB Debt Service Account]… raises concerns of the financial viability of the plan, particularly whether USM has enough funds to support the multi-year plan and the potential impact on USM's credit rating." I've been asked to comment on the amount of funding available in this account to pay for future facilities renewal work:

Since the first State appropriation of higher tuition to support Academic Revenue Bonds (or ARBs) in 1990, the System Office has collected debt service using key variables, such as estimated future interest rates, from all institutions that realize state-supported tuition revenues. Interest rates have been lower in recent years. Thus, after a careful analysis of the balance in the ARB account, we felt we could offer to the Department of Budget & Management one or two years of funding of up to $25M from that account to help support USM projects without harming our ability to cover our debt service or negatively impacting our bond rating.

The System has been consistent and clear that, in moving to a different, and less conservative approach to collecting and managing debt service for academic revenue bond funded projects, the availability of funds for project spending must be evaluated on a year-by-year basis. There are many variables that impact our decision going forward, including: (1) our projection of future debt needs and future interest rates; (2) our current financial health; (3) our ability to generate future streams of funding to cover debt service; and (4) the needs of our universities for cash funding of projects.

A number of scenarios could affect available funding. If the Board of Regents decides to increase the overall level of new debt authorizations for academic projects, we'll rethink the approach to collecting future academic revenue bond debt service. To protect our bond rating, a tightening of financial results would mean less cash could be deployed for capital activities. Likewise, unanticipated charges (e.g., increases in the allocated state obligation for pensions) could drive down reserves. Finally, because it will be a year-to-year decision, these funds cannot be relied-on to fund large, multi-year capital projects.

NEW ACADEMIC AND INNOVATION CENTER AT USM SOUTHERN MARYLAND (ST. MARY'S COUNTY)

Rendering of new building, with existing buildings and St. Mary's County Regional Airport to the north and west

We thank you for your continued support of construction funding for the new academic and research building at the University System of Maryland, Southern Maryland (USMSM). Construction began last fall. Next month, the Governor will join representatives of the System and the community in celebrating the laying of the foundation for the new facility. It will be completed in the fall of 2021.

Located in St. Mary's County, USMSM (originally established as Maryland's oldest higher education center) currently hosts educational programs sponsored by nine universities, including five USM institutions. Unlike other regional higher education centers in the system, USMSM also boasts a major research component through a partnership with the University of Maryland Unmanned Aircraft Systems Test Site. To build on this partnership and enable the expansion of both the educational and research capacity, we urge continued and timely funding for construction of this new academic and research facility that will include state-of-the-art classrooms and cutting-edge research labs. When it opens, the Academic and Innovation Center will allow USM Southern Maryland to maximize its impact on the region's economy for years to come.

CONCLUSION

In conclusion, let me once again thank you for your attention to our needs. We would be happy to answer any questions you might have.

Please direct questions or comments to:
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