

THE FACILITIES RENEWAL PROGRAM

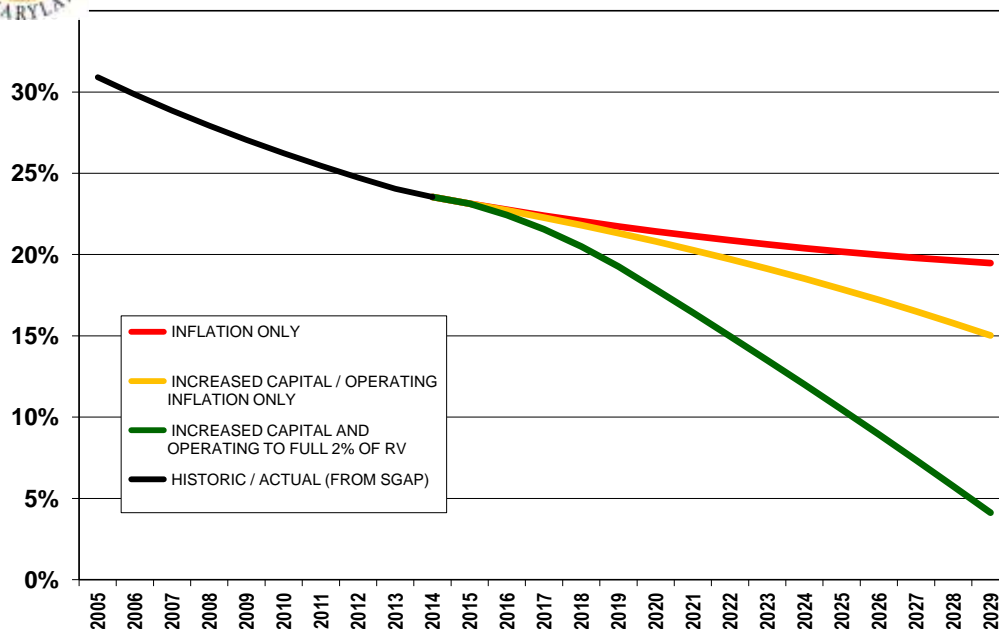
USM Office of Capital Planning, rev 2/4/16

Reversing the problem and reducing the backlog of deferred maintenance must be done in a methodical and deliberate way, to match the multi-faceted way the problem grew in the first place. Our approach to addressing the backlog of deferred maintenance relies on two budget strategies.

1. Dedication of substantial capital funding aimed at whole building-sized projects to renew and replace aging facilities.
2. The use of funds from the operating budget at a rate of 2% of replacement value per year for ongoing maintenance to help mitigate deterioration of our facilities.



FACILITIES CONDITION INDEX (FCI)
ESTIMATED Effect of Changes in Operating and Capital Budget Spending



While significant progress has been attained (primarily from the State's Capital Improvement Program), the USM's ability to obtain an appropriate level of operating budget support for facilities renewal continues to be a challenge.

- On the capital side, our Board of Regents policy VIII—10.10

<http://www.usmd.edu/regents/bylaws/SectionVIII/VIII1010.html>

directs that the USM's capital request include an inflation-adjusted minimum threshold amount each year for renewal. Our capital request has always exceeded that benchmark, and the effect on the backlog has been substantial. [See chart above]

- **In 2003, the Facilities Condition Index or FCI stood at 37% of replacement value** (Facilities Backlog of \$1.76B / Replacement Value of \$4.81B)
- **By 2013, the FCI was reduced to 23% (\$1.70B / \$7.54B).** This is the impact of the capital budget only. With operating support, this reduction could have been even more dramatic.
- On the operating side, renewal funding/spending has not kept pace with the Board's policy expectation—seeking 2% of the replacement value of our facilities spent on facilities renewal annually). Our annual operating spend from all sources is currently about \$70M or about 1%—roughly half of what is needed for State-owned facilities. As you can see from the graph, without operating support, reduction of the backlog will slow over time—even with continued, dedicated capital spending.

The lack of operating spending on facilities renewal is harmful for two reasons.

1. All maintenance work funded from the operating budget reduces the facilities backlog, dollar for dollar.
2. Operating budget funding is the source of preventative maintenance support, the process by which we extend the useful life of our building systems. Extending the useful life of major systems is a major cost savings strategy.

Our goal as a System is to return facilities renewal funding as an operating budget priority, both in terms of the allocation decisions made by individual campus presidents, and by seeking recognition of maintenance expenditures as a current services cost. Ultimately, we seek to reinforce and build on our strong fiscal and managerial stewardship.