



March 16, 2010

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**GENERAL TESTIMONY FOR THE
BUDGET COMMITTEES OF THE GENERAL ASSEMBLY**

Regarding

THE USM FY2011 CAPITAL BUDGET REQUEST

Including a Response to Analysis concerning

ITEM RB36RB FACILITIES RENEWAL (STATEWIDE)

By William E. Kirwan, Chancellor

Good afternoon. It is my pleasure to be here to discuss the Capital Improvement Program for the University System of Maryland. We appreciate your interest in the facilities needs of our institutions and I want to thank you for your strong support over the years. We know you're making difficult choices to accommodate these needs and we urge your continued support.

THE USM CAPITAL BUDGET: AN OVERVIEW

As a System office, we urge full funding of the Governor's FY2011 budget recommendations for all System institutions. During these hearings, each president is echoing this request on behalf of their own institutions; and I would like to add my own voice in support for those needs.

We rely heavily on our campus infrastructure to deliver quality academic programs and house critical research. 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 all System institutions.

STATEMENT REGARDING PRIORITIES

The analyst asked the following question in analysis concerning RB23A

While the Department of Legislative Services acknowledges the importance of addressing facility needs at the State's historically black institutions, the proposed project does not address the critical issues of deficient academic facilities confronting these institutions. Many of the project's components could be funded outside the capital budget through sources such as University System of Maryland (USM) academic revenue bonds.

USM should comment on why this project (Bowie State University Campuswide Site Improvements, Phase II) was prioritized over other projects that would address space deficiencies and issues of inadequacy of academic space that cannot be supported with alternative funding.

Response

First, let me address the question of priority. In terms of making decisions regarding capital spending priorities, funds for new or replacement space are no more important than funds for the utilities, roads and pedestrian walkways that connect that space to the campus. One cannot be successful without the other. A new building must be placed in a campus context and, as you've seen in the capital requests that have been presented for your consideration over the years, all USM institutions have had to balance new space needs, maintenance needs and the need for campus improvements (like the ones at Bowie State) in their capital programs. All of these projects are interrelated and of equal priority, depending on the particular needs of the institution.

I'll let Bowie State's president address the specifics of their project, but let me add that, while we can't always respond to their needs as quickly as each campus would like, the Board of Regents respects (i.e., does not change) the institution's priorities as they are presented by the institution. Furthermore, we fully understand and support the need for a balanced approach to capital development that includes new space, building renovation, and the replacement and enhancement of campus utilities, walkways, lighting and roads.

Second, regarding the issue of "alternative funding," it's important to recognize that there are no other sources of funds to complete these projects. Our capital program relies on the support we receive from the State in terms of General Obligation Bonds and Academic Revenue Bonds, both of which are available to the Department of Budget and Management to fund our requests. This year, for instance, DBM applied \$27M in available ARBs in two parts: \$17M to the System-Wide Facilities Renewal Program, a critical priority that is at least on par with the need for new space; and \$10M to the College of Liberal Arts complex at Towson University, a project that directly addresses the aforementioned space deficiencies.

SYSTEM-WIDE FACILITIES RENEWAL

The Analyst asked the following question

Given the recent and expected budget reductions, the Chancellor should comment on how institutions will be able to make progress toward the 2% goal and how institutions will be able to keep the backlog of deferred maintenance to a manageable level.

Response

We concur with the analyst's recommendation that the System-wide Facilities Renewal (FR) budget be funded in full. These funds are a critical piece of our overall facilities renewal program and we sincerely appreciate your support in this way; but this \$17 million in academic bond funds is just a part of an overall approach the Regents are taking to address the problem of deferred maintenance.

Put simply, operating budget reductions make it impossible to maintain the gains the USM has made in recent years in renewing and rebuilding our facilities. The USM Facilities Renewal Program was re-established as a priority by the Board of Regents in 2005. Since then, it has been recognized by the Bohanan Commission as a model that should be emulated by higher education Statewide. Its success, however, depends on two critical budgetary pieces that must operate together.

First, large-scale renovation and building replacement in the capital budget provides the means to reduce the existing backlog of deferred maintenance. To date, your strong support of our capital program has allowed us to make great strides in this area. This year's CIP will continue that progress.

The second piece of this important effort is the need for consistent, annual operating spending of 2% of the replacement value of our facilities. System-wide, this amounts to over \$100 million per year that must be spent in a consistent way to maintain the progress we make on the capital side and prevent further deterioration of our buildings and utility systems. Unfortunately, reductions in the operating budget reduce the capacity of this vital other half of the program. We will use this \$17 million in capital funds to assist institutions toward their 2% goal; but without strong operating budget support, our progress will surely stall and lose ground.

I can't overstate the importance of these funds to the maintenance of our architectural assets. We sincerely appreciate your continued support.

Unspent Balances on FR Projects

The analyst also asked that we address the unspent balances for facilities renewal projects funded with Academic Revenue Bonds. Typically, our capital FR projects are between \$100,000 and \$1M and most institutions get just a few hundred-thousand dollars each year. Even so, as operating funds become more constrained, institutions rely very heavily on this capital FR funding to complete needed repair and replacement work like preventing water infiltration, restoring corroded utilities infrastructure, or replacing inoperable mechanical and electrical equipment.

You'll recall that the State now limits authorization for spending General Obligation Bonds to seven years from date of appropriation and, after that time, remaining funds are reverted to be reallocated to other capital priorities of the State. We have begun a similar practice at the System level for our capital FR program and we expect to see significant changes in the encumbrances and expenditures table, even as soon as our next quarterly update (May 1st).

Currently, institutions report encumbrances on all FR projects and we regularly see remaining balances that fall into one of three categories:

1. Funding held to be combined with funding from another year for a larger project that cannot be phased (like the replacement of a chiller);
2. Funding that still remains in the "System-wide Emergency FR" line-item (now budgeted at about \$500,000 per year) for application where needed to address emergent problems. Most recently, for example, funds were provided from the Emergency fund to repair serious leaks in the roof and elevators in the Science Building at Coppin State, and to replace some of the dangerous electrical switchgear at UM College Park;
3. Simple delays in getting a project completed.

Though we will likely continue to see some balances remain for combined projects and emergency work, it is the third category (delayed project implementation) that we wish to address. Thus we have begun to look closely at any general project balances that remain after four years. Any remaining balances that cannot be justified as necessary for an ongoing project or spent within 12 months we'll propose be reverted (to our System-wide FR accounts) for reallocation to other USM FR priorities. We're confident, however, that as we more formally build this four-year window for FR funding into our budget discussions, institutions will be motivated to fully expend funds for critical projects in a more timely way. That, after all, is the ultimate goal of our Facilities Renewal Program.

CONCLUSION

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

Revision: 3/11/10

Questions or comments can be directed to:

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