

GLOSSARY

of
Capital Budget Terms

The University System of Maryland prepares annually two budgets in support of its capital design and construction programs. One is known as the Capital Improvement Program (CIP) which is submitted to and funded primarily by the State of Maryland in support of academic facilities and the other is known as the System – Funded Construction Program (SFCP) which is primarily funded by System debt or cash set-asides in support of institutional auxiliary projects (e.g. dormitories, student unions and bookstores,). This glossary of terms is intended as a reference in helping understand the language and terminology associated with capital budget development.

Academic Revenue Bonds (ARBs)

The USM has legislative authority to issue and manage its own bond program. Debt is issued by the System in support of both the CIP and the SFCP. Debt service is paid by institutions from general operating funds. Academic Revenue Bonds support academic or “State Supported” facilities. The State Department of Budget & Management typically determines which academic projects receive General Obligation Bond funds and which are to be funded through ARBs.

Auxiliary Revenue Bonds

See also *Academic Revenue Bonds*, above. Part of the same bond program, debt issued in support of auxiliary projects in the System-Funded Construction Program is referred to as “auxiliary bonds” to distinguish the purpose of the issuance from those bonds issued in support of the Capital Improvement Program. The legislature must approve the total level of debt--or debt capacity--that is available to the System at any given time. Provided this total “capacity level” is not exceeded, the System does not require subsequent approvals by the legislature. Bonds issued in support of the SFCP do not require legislative approval, though our project list is usually included for information purposes in the Governor’s CIP. Debt service on Auxiliary bonds is paid by revenue from auxiliary or support operations, or from special fees collected from students (e.g., Student Center fee).

Capital Improvement Program (CIP)

This is a budget document approved by the Board of Regents and submitted to the State of Maryland in support of System institutions academic facilities needs including design, new construction, renovation, equipment acquisition and facilities renewal. This budget is submitted to the State Department of Budget and Management on June 30 of each year one year in advance of the funding being available. The budget must be approved by the Governor and included in the recommendations to the State General Assembly for its consideration and approval. Funding typically from State General Obligation Bonds, Academic Revenue Bonds, Special Funds, or Non-Budgeted Funds.

Debt Capacity

The total amount of debt that can be issued without exceeding the legislated debt limit, violating Board of Regents policy, or important System objectives, such as maintaining the bond rating. The notion of debt capacity takes into account several constraints, providing an amount of debt which could reasonably be issued annually that would not violate any of the constraints. These constraints include Direct Debt, Indirect Debt, and Fund Balance.

Direct Debt

Direct debt is that debt required to be carried in the System's financial statements as an outstanding debt obligation regardless of the instrument, as well as other financial or contractual arrangements that the rating agencies choose to consider equivalent to debt. The most typical is debt associated with the System's bond program. Direct debt is a concept employed by the rating agencies in evaluating our financial condition.

Facilities Master Plans (FMP)

Each institution is required to submit a Facilities Master Plan to the Board of Regents for approval. These plans are to be updated and approved by the Board of Regents on a five year cycle. These plans represent institutional facilities needs over a 10 to 20 year horizon and are one of several tools used to inform the budget process and management decision-making.

Facilities Renewal (FR)

Facilities Renewal or FR is a term used by the State in lieu of "Deferred" or "Capital Maintenance." Funds to support FR are earmarked to address facility deterioration. Although historically FR has been an operating budget initiative, due to continued increased demands on operating budgets, FR has, in recent years, been primarily augmented by the issuance of ARB debt through the State supported CIP.

Fund Balance

Fund Balance represents the accumulated value of unspent general funds carried over from one budget year to the next, set-asides for specific initiatives, proceeds from revenue generating contracts, investment income and the unrestricted portion of the System's endowment. Fund balance is an important indicator in evaluating the System's financial well being and in determining the level of the System's debt capacity. It is also one of the elements considered by rating agencies in determining the System's bond rating.

General Funds

Occasionally the general revenue or operating funds of the State are appropriated in support of the CIP. These funds known as General Funds are often referred to as “PAYGO” or pay-as-you-go funds.

General Obligation (GO) Bonds

As obligations of the State, these bonds constitute debt issued by the State of Maryland in support of the Capital Improvement Program. Debt service is paid by the general operating revenue of the State.

Governance Bill

The Governance Bill (SB682), passed by the Maryland General Assembly in 1999, provided the USM with certain exemptions from then current State law and imbued it with certain autonomies in order to provide for System and institutional self governance creating economies and efficiencies that could not otherwise be established. The bill also provided that the System’s capital program should be funded on the assumption that “...*State capital funding will continue at present levels adjusted for inflation.*” On this basis the System’s CIP recommendations, to the extent possible and practicable, align with the Governor’s recommended CTP. The Governance Bill also provides that, where capital needs of the universities exceed the State’s ability to fund these projects, the Regents should identify alternative capital funding to meet these needs.

Governor’s Recommended CIP

On June 30 of each year the System (inclusive of institutional budget requests) and all other agencies of the State submit to the Department of Budget and Management its request for state funding in support of its capital needs. These budget requests are submitted a year in advance of the fiscal year in which the funds would be made available. The budget request includes a request for funding for the subsequent fiscal year (i.e. budget submitted on June 30, 2009 is for Fiscal Year 2011) and proposed funding requests for the next four years also known as “out years.”

The Department of Budget and Management evaluates these requests and makes CIP recommendations to the Governor that includes the asking year recommendation and out year recommendation. The Governor submits to the General Assembly in January each year his/her recommended CIP for the upcoming fiscal year (i.e. January 2010 for FY 2011).

Indirect Debt

Debt issued or incurred in support of a System initiative that is not directly associated with the System’s bond program or other debt instrument, but represents a potential future obligation to the System. Long-term operating leases and Public/Private

Partnership arrangements (as constructed for institutional student housing projects) are examples of indirect debt. Indirect debt is not carried on the balance sheet. Indirect debt is a concept employed by the rating agencies in evaluating our financial condition.

Internal Funding Moratorium

As an initiative to improve the System's fund balance position, the System has had in place since FY 1997 a freeze on borrowing cash from the fund balance in order to support SFCP projects. Cash is permitted to be used if it is part of a planned set-aside for a specific project and/or institutional fund balance exceeds required levels.

Internal Funds

Funds internal to any given institution or the System office source of which is usually current unrestricted funds (operating budget).

Institutional Request

Funding requested by an institution for a specific project or projects to be included in the USM recommendation to the BOR for funding through the CIP or the SFCP.

Non-Budgeted Funds (NBF)

NBF are funds typically from sources other than the State which are recommended by the State to be used in support of the CIP. These funds are usually acquired through institutional fundraising, Federal contracts and grants and sometimes from other state agency contributions to individual institutions for project-specific purposes.

OCR (Office of Civil Rights) Agreement

In 2000, the Federal Office of Civil Rights reviewed historical funding levels for Historically Black Colleges and Universities (HBCU). Its findings led to recommendations for increased capital funding allocations. USM HBCU's are Bowie State University, University of Maryland Eastern Shore and Coppin State University. Morgan State University (not part of the USM) was also part of the OCR Agreement.

Off Balance Sheet

Financing and other contractual arrangements for a given System initiative not required to be carried in the System or System institutions' financial statements as debt as prescribed by Generally Accepted Accounting Principles (GAAP).

Operating Budget Funds

Operating funds are funds annually appropriated to the System and its institutions with sources coming from State general funds and university tuition and fees.

Phase of Funding

Each CIP and SFCP project funding request and appropriation is designated for a specific purpose or category known as a phase e.g. planning phase or construction phase. These phases, often abbreviated as shown in State budget documents, include:

A = Acquisition – requested and appropriated for the purchase of real property,

P = Planning – requested and appropriated for the design of new and renovated facilities including buildings and infrastructure.

C = Construction – requested and appropriated for the construction of new and renovated facilities and infrastructure

E = Equipment – for the acquisition of “capital” equipment needed primarily in support of newly constructed facilities.

Public Private Partnerships (PPPs)

Not a true public/private partnership, but rather a mechanism by which the System and its institutions can have designed and constructed certain facilities (undergraduate student housing up to this point) where any financing and debt burden is carried by a third party and does not impact System debt directly. The usual relationship is between a developer and 501 (c)3 for the design, construction and management of the facility. The System or institution relationship is in the form of a ground lease of institution land to the developer and 501(c)3.

Special Funds

These are funds used by the State in support of the CIP that are available from nontraditional state sources. These funds would include proceeds from such sources as the State’s tobacco settlement and are often identified separately in State budget documents.

System-Funded Construction Program (SFCP)

The System Funded Construction Program (SFCP) is primarily funded by System debt or cash set-asides in support of institutional auxiliary projects (e.g. dormitories, student unions and bookstores). Public/Private Partnerships are typically addressed during the development of the annual SFCP budget.