

Capital Debt Affordability Committee

Treasurer Nancy K. Kopp, Chair
Treasury Building Assembly Room
80 Calvert St.
Annapolis, MD

August 11, 2010
2:00 PM

Treasurer's Opening Comments

Review of Capital Programs:

Capital Program – DBM

Chad Clapsaddle, Executive Director, Office of Capital Budgeting, Department of Budget and Management

Public School Construction Program

FY 2012 Funding for School Construction Projects

School Maintenance Report

Dr. David Lever, Executive Director - Interagency Committee on School Construction

Review of Size and Condition of Debt of Higher Education Institutions:

- Amount Issued in prior five fiscal years
- Amount outstanding
- Amount authorized but unissued
- Debt service projections for the next 10 fiscal years
- Status of refunding potential
- Current projections for new issuances
- Rating Agency Updates
- 5 year Capital Improvement Plan

University System of Maryland

Jim Sansbury, Associate Vice Chancellor, Administration and Finance

Morgan State University

Ray Vollmer, Associate Vice President, Finance and Management

St. Mary's College

Chris True, Assistant Vice President for Finance

Baltimore City Community College

Kim James, Vice President for Business and Finance

Sale Results of General Obligation Bonds 2010 Second Series

Patti Konrad, Director of Debt Management, State Treasurer's Office

Work Group Update

Patti Konrad, Director of Debt Management, State Treasurer's Office

Review of Capital Programs

Capital Program - DBM



Review of the Capital Improvement Program

Presentation to

Capital Debt Affordability Committee

by

Chad Clapsaddle

Maryland Department of Budget & Management

August 11, 2010



Presentation Summary

- Review of the FY 2012 – FY 2016 Capital Improvement Program
- Use of debt capacity to provide operating budget relief.
- The demand of large and multi-year capital projects.



DEPARTMENT OF
BUDGET & MANAGEMENT

Summary of Capital Improvement Program FY 2012 – FY 2016 (\$ in Millions)

| | Total Current and Anticipated Requests | Anticipated Bond Funded Capital Program | Difference between Anticipated Requests and Anticipated Funding Level |
|----------------------------|---|--|--|
| State-Owned Facilities | \$3,413.4 | \$2,225.5 | \$1,187.9 |
| Capital Grant Programs | \$5,570.9 | \$2,422.0 | \$3,148.9 |
| Legislative Initiatives | \$415.3 | \$75.0 | \$340.3 |
| Totals | \$9,399.6 | \$4,722.5 | \$4,677.1 |

Major Sources of Funding Demand (\$ in Millions)

State-owned Facilities

| | |
|---------------------------------|-------------|
| ➤ University System of Maryland | \$1,384.2 M |
| ➤ Correctional Facilities | \$ 366.1 M |
| ➤ Morgan State University | \$ 356.3 M |
| ➤ Juvenile Services | \$ 337.9 M |
| ➤ Information Technology | \$ 225.5 M |

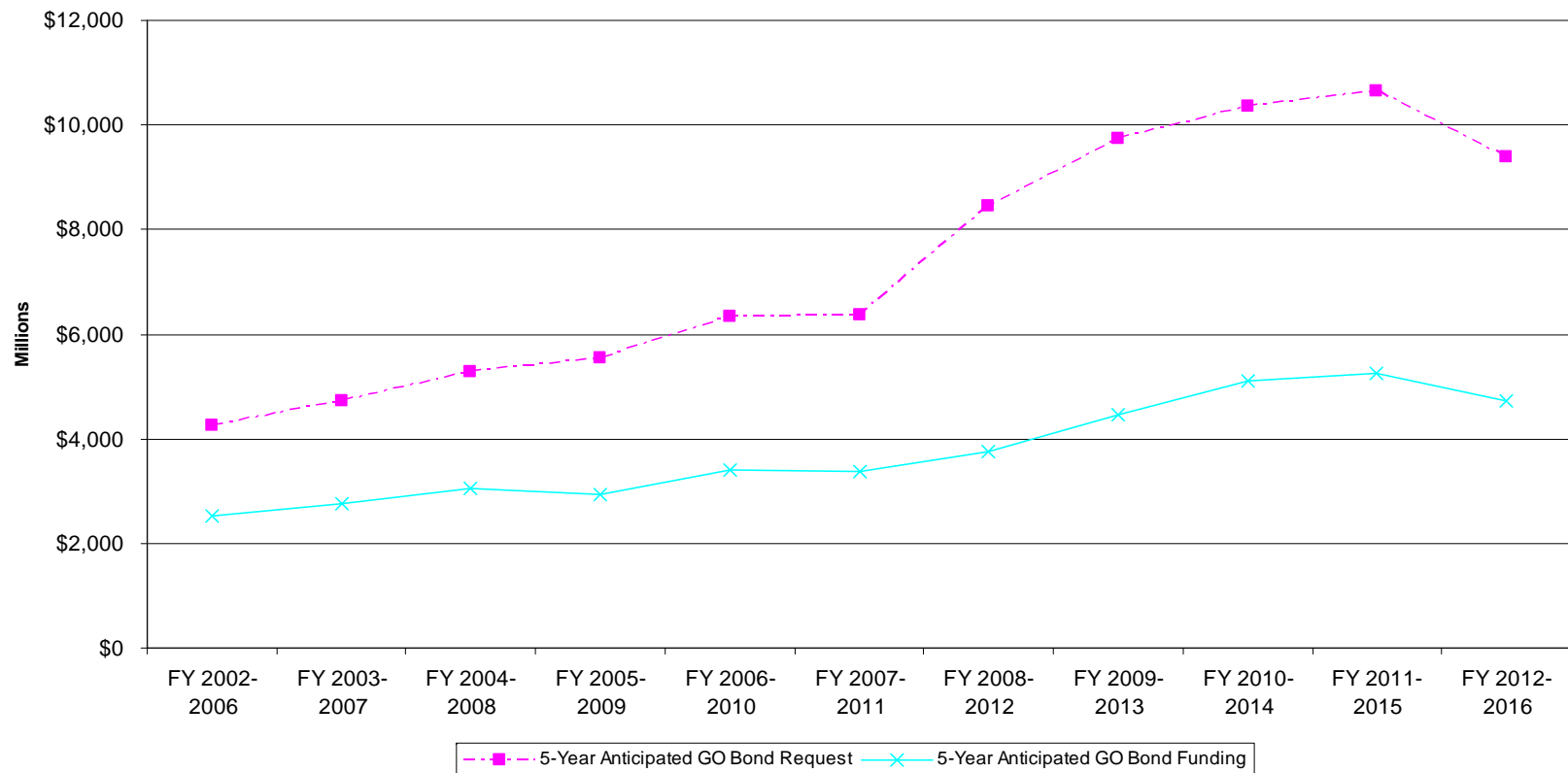
Capital Grant Programs

| | |
|------------------------------|-------------|
| ➤ Public School Construction | \$4,030.3 M |
| ➤ Community Colleges | \$ 536.9 M |
| ➤ Environmental Programs | \$ 299.3 M |
| ➤ Housing | \$ 117.6 M |

Use of Debt Capacity to Provide Operating Budget Relief

- The FY 2011 budget balancing strategy included the transfer of approximately \$440 million in capital-eligible special funds to the General Fund. These revenues were replaced with GO Bonds in the Governor's CIP: \$273.146 million in FY 2011, \$127.936 million in FY 2012, and \$33.748 million in FY 2013.

Comparison of Anticipated Five-Year Bond Requests to Anticipated Bond Authorization Levels FY 2002 – FY 2012



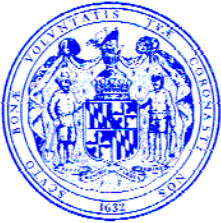
Demand for Large and Multi-Year Capital Projects FY 2012 - FY 2016

| <u>Project Value</u> | <u>Number</u> | <u>% of Total</u> | <u>Total Estimated Cost</u> |
|----------------------|---------------|-------------------|-----------------------------|
| \$25 M - \$49 M | 22 | 41% | \$ 920 M |
| \$50 M - \$74 M | 20 | 36% | \$1,219 M |
| \$75 M - \$99 M | 6 | 11% | \$ 501 M |
| \$100 M + | 7 | 13% | \$1,492 M |
| Total | 55 | 100% | \$4,132 M |

61% of the projects requested are greater than \$50 M.
 24% of the projects requested are greater than \$75 M.
 76% of the projects requested are less than \$75 M.

Public School Construction Program
FY 2012 Funding for
School Construction Projects

School Maintenance Report



MARTIN O'MALLEY
GOVERNOR

STATE OF MARYLAND
PUBLIC SCHOOL CONSTRUCTION PROGRAM
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INTERAGENCY COMMITTEE ON SCHOOL CONSTRUCTION

DAVID G. LEVER
EXECUTIVE DIRECTOR

NANCY S. GRASMICK
CHAIRPERSON

**PUBLIC SCHOOL CONSTRUCTION PROGRAM
REPORT TO THE CAPITAL DEBT AFFORDABILITY COMMITTEE**
August 11, 2010

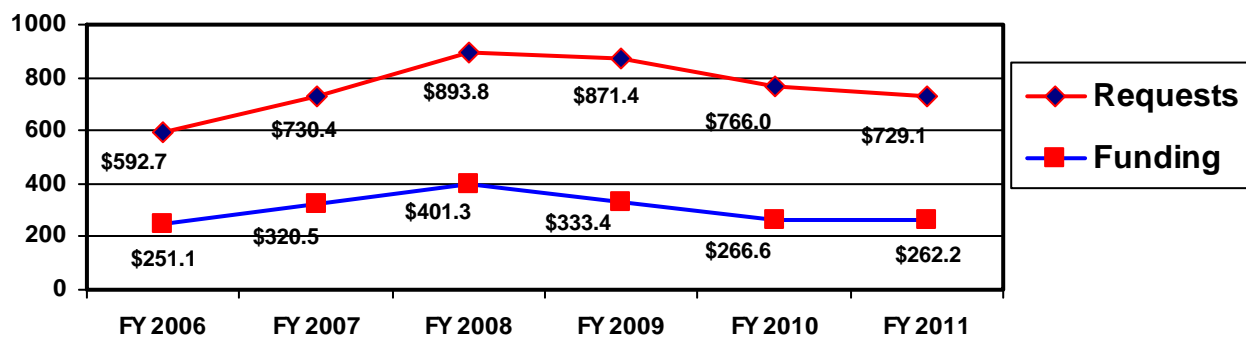
I. FY 2012 FUNDING FOR SCHOOL CONSTRUCTION PROJECTS

A. THE CAPITAL IMPROVEMENT PROGRAM

(1) Fiscal Year 2012 Public School Construction Capital Improvement Program

For the last three fiscal years, the Public School Construction Program has received steadily decreasing requests for Capital Improvement Program funding. This trend stands in marked contrast to the 188% increase in construction funding requests submitted between FY 2004 and FY 2008. Chart 1 shows the pattern of requests and capital funding from FY 2006 through FY 2011; Chart 2 shows a parallel pattern for the number of requests received in each fiscal year. Table 1 provides the same information from FY 2004 and calculates the annual and cumulative increases and decreases.

CHART 1: FY 2006 - 2011 CIP Requests and Funding



**CHART 2: FY 2006 - 2011 CIP
Project Requests: Planning and Funding**

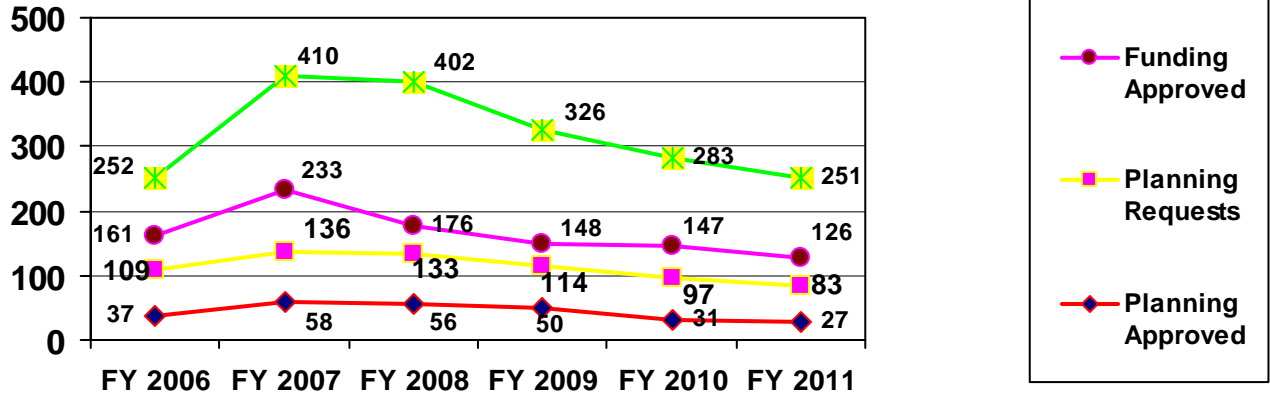


Table 1: Annual CIP Requests, FY 2004 – FY 2011

| Fiscal Year | Requests from School Systems (000) | % Increase Above / Below Previous Year |
|---------------------------------------|------------------------------------|--|
| FY 2004 | \$310,087 | |
| FY 2005 | \$383,978 | 23.8% |
| FY 2006 | \$592,650 | 54.3% |
| FY 2007 | \$730,442 | 23.3% |
| FY 2008 | \$893,774 | 22.4% |
| Cumulative increase, FY 04-08: | \$583,687 | 188.2% |
| Average annual increase, FY 04-08: | \$145,922 | 30.9% |
| FY 2009 | \$841,400 | - 2.5% |
| FY 2010 | \$765,912 | - 12.1% |
| FY 2011 | \$729,095 | - 4.8% |
| Cumulative decrease, FY 08-11: | - \$164,679 | - 18.4% |
| Average annual decrease, FY 08-11: | - \$54,893 | - 6.5% |

We do not believe that the downward trend in annual requests since FY 2008 has resulted from a reduction of school construction need. While enrollment growth has declined in most jurisdictions compared to the early part of the last decade, the need to fund renovation and replacement projects in unabated. Although there is no question that the large allocation of funds that the State and local governments have provided for school construction since FY 2006 has corrected a substantial number of deficiencies identified in the 2003 survey of the Task Force for the Study of Public School Facilities, as well as new needs that have been identified in the intervening years, the large gap between the requests and the available funding suggests the number of facility problems that still remain to be addressed.

We believe that two major factors have led to the reduction of requests since FY 2008:

- Impact of the economic downturn on the availability of local funds. With the continuation of the recession, local governments have experienced severe fiscal constraints and have found it difficult to meet the match requirement for State-funded CIP projects. Several major projects have been deferred that were approved for planning in FY 2009 or earlier CIPs, and that were originally anticipated to be requested for funding in FY 2010 or FY 2011. These delays have largely affected the smaller and less wealthy jurisdictions.
- Continuing low construction costs. As constraints in the private credit market have led to a marked decrease in private sector building activity, public sector work has become increasingly attractive to contractors despite its more stringent procurement requirements (and, in the case of school construction, the severe penalties for delays). School districts report not only that they continue to have a high number of bidders competing for their school construction projects, but that the submitted bids show exceptionally narrow margins (in one notable instance, the difference between the low and the second low bidder was twelve dollars). We have observed participation from contractors who normally work mainly in the private sector or mainly outside of Maryland. It is not unusual to hear of bids 25-30% below the budgets that were established in calendar 2008 or earlier. For FY 2010, despite a reduction in the State construction allocation from \$224/s.f. to \$200/s.f. (for new building only), many projects have still bid at prices well below the State maximum construction cost, with the result that the IAC was able to supplement the FY 2011 allocation of \$250 million with \$13 million in reverted funds.
- However, industry sources indicate that overall materials prices will increase between 6% and 8% by the end of calendar 2010. Materials that are particularly likely to see increases include ready-mix concrete, reinforcing bar, PVC pipe, and copper. Gilbane states that “The primary factor keeping total costs down right now is high level of competition for little new work. While material costs have increased in recent months, the price for subcontract work and for finished buildings has continued to decline.” (Gilbane Building Company, “Cost Escalation Brief May 2010”, p. 5).

Although these countervailing market trends provide little certainty as to the direction of construction costs, in combination with the constraints in local funding they indicate that the State is likely to receive requests for FY 2012 funding at or below the level of FY 2011 requests. The average annual decline in requests between FY 2008 and FY 2011 was 6.5%; if that trend continues, the State will receive FY 2012 requests in the range of approximately \$682 million: a significant decrease compared to FY 2011, but still substantially larger than the anticipated level of State funding. These requests will be driven by the aging of our school plant, enhanced educational program requirements, increasing community expectations, and in a few jurisdictions, increases of enrollment.

(2) The Future Prospect

Table 2 below shows the anticipated funding requests of Maryland’s public school systems, as reported in their FY 2011 Capital Improvement Program submissions in the fall of 2009. The chart shows a six-year unadjusted need for \$3.9 billion (\$4.3 billion if adjusted at a compounded inflation rate of 4% per annum).

Table 2: Six-Year Capital Needs (as reported in the FY 2011 CIP)

| LEA | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 | TOTAL |
|-----------------------------|------------------|------------------|------------------|------------------|------------------|------------------|--------------------|
| Allegany | \$842 | \$938 | \$0 | \$10,000 | \$4,610 | \$12,000 | \$28,390 |
| Anne Arundel | \$61,121 | \$61,938 | \$68,671 | \$66,649 | \$66,998 | \$73,766 | \$399,143 |
| Baltimore County | \$144,203 | \$60,727 | \$82,500 | \$98,000 | \$75,500 | \$76,000 | \$536,930 |
| Calvert | \$14,492 | \$10,734 | \$7,309 | \$1,480 | \$10,247 | \$13,496 | \$57,758 |
| Caroline | \$3,767 | \$0 | \$5,936 | \$14,598 | \$8,662 | \$7,020 | \$39,983 |
| Carroll | \$12,157 | \$24,941 | \$14,029 | \$17,822 | \$13,818 | \$3,370 | \$86,137 |
| Cecil | \$1,744 | \$17,551 | \$20,738 | \$17,923 | \$4,493 | \$16,922 | \$79,370 |
| Charles | \$15,835 | \$17,631 | \$18,344 | \$15,726 | \$34,395 | \$4,568 | \$106,499 |
| Dorchester | \$8,938 | \$0 | \$5,000 | \$3,134 | \$6,201 | \$15,154 | \$38,427 |
| Frederick | \$68,060 | \$19,589 | \$11,260 | \$17,842 | \$41,077 | \$41,706 | \$199,534 |
| Garrett | \$0 | \$148 | \$0 | \$8,087 | \$5,392 | \$1,020 | \$14,647 |
| Harford | \$28,612 | \$17,459 | \$13,283 | \$17,010 | \$16,353 | \$17,861 | \$110,579 |
| Howard | \$30,475 | \$68,678 | \$32,867 | \$22,230 | \$32,652 | \$33,907 | \$220,809 |
| Kent | \$0 | \$0 | \$1,486 | \$1,486 | \$1,756 | \$1,755 | \$6,483 |
| Montgomery | \$139,127 | \$69,314 | \$104,129 | \$107,439 | \$89,342 | \$70,639 | \$579,990 |
| Prince George's | \$62,416 | \$137,394 | \$143,824 | \$62,191 | \$58,467 | \$48,475 | \$512,767 |
| Queen Anne's | \$7,024 | \$11,049 | \$4,387 | \$7,335 | \$6,000 | \$6,141 | \$41,936 |
| St. Mary's | \$6,673 | \$2,424 | \$7,104 | \$7,738 | \$1,317 | \$2,355 | \$27,611 |
| Somerset | \$6,000 | \$4,290 | \$2,374 | \$1,980 | \$737 | \$1,237 | \$16,617 |
| Talbot | \$344 | \$0 | \$0 | \$0 | \$0 | \$0 | \$344 |
| Washington | \$15,124 | \$15,765 | \$9,828 | \$11,049 | \$25,761 | \$22,295 | \$99,822 |
| Wicomico | \$14,609 | \$18,078 | \$17,315 | \$24,951 | \$17,421 | \$21,071 | \$113,445 |
| Worcester | \$0 | \$0 | \$2,361 | \$2,361 | \$0 | \$0 | \$4,722 |
| Baltimore City | \$87,532 | \$108,808 | \$137,284 | \$104,955 | \$74,500 | \$60,000 | \$573,079 |
| TOTAL STATE | \$729,095 | \$667,454 | \$710,028 | \$641,987 | \$595,699 | \$550,758 | \$3,895,021 |
| TOTAL ADJUSTED STATE | \$729,095 | \$694,153 | \$767,966 | \$722,148 | \$696,883 | \$670,082 | \$4,280,327 |

Past CIP history indicates that it is very difficult to accurately predict the actual CIP requests from prior year LEA reports. For fiscal years 2004 through 2011, Table 3 shows the combined funding that the LEAs estimated for the following year compared with the total request that was actually submitted one year later. The LEAs significantly underestimated their future requests in the period FY 2005 through FY 2007, and somewhat overestimated the future requests in FY 2009 and FY 2010. The underestimates coincided with a period in which construction costs escalated in the range of 12% to 20% per year, and concurrently school systems mobilized to build facilities for the kindergarten and pre-kindergarten programs mandated by the Bridge to Excellence in Education Act of 2002. Many school systems also experienced rapid and often unpredictable growth in this period. By contrast, the overestimates in FY 09 and FY 10 parallel the economic downturn, reflecting the deferral of a number of large projects due to local fiscal constraints.

Table 3: Comparison of Estimated and Actual Following-Year Capital Needs

| Fiscal Year | Anticipated Following Year Request (000) | Actual Following Year Request (000) | % Variance |
|--------------------|---|--|-----------------------|
| FY 2004 | \$367,279 | \$383,978 | 4.5% |
| FY 2005 | \$353,520 | \$594,172 | 68.1% |
| FY 2006 | \$470,939 | \$730,442 | 55.1% |
| FY 2007 | \$539,017 | \$893,774 | 65.8% |
| FY 2008 | \$854,629 | \$871,400 | 2.0% |
| FY 2009 | \$860,047 | \$765,912 | - 10.9% |
| FY 2010 | \$741,342 | \$729,095 | - 1.6% |
| FY 2011 | \$667,454 | ? | |

The anticipated total request figure of \$667 million shown for FY 2012 in the FY 2011 CIP approximately agrees with our estimate that the school districts will request \$682 million in FY 2012. Future requests in FY 2012 and beyond will depend critically on the condition of the economy: given the deferral of a number of major projects, the accumulating backlog of renovation projects, and the likelihood that construction costs will again escalate when the private construction market rebounds, future requests may vary widely from the figures shown in Table 2 above.

However, one conclusion can be stated with great confidence: the requests for funding received from the LEAs are always likely to exceed the State and local capacity to provide funding. The \$250 million annual figure established as a goal in the Public School Facilities Act of 2004, which has been met or exceeded in every fiscal year from FY 2006 through FY 2011, has provided the LEAs with a high level of stability in the annual funding that they expect to receive from the State. We entirely expect that if a similar allocation is made in FY 2012, the funds will provide assistance to essential school construction projects and will be fully utilized by the local educational agencies.

Target FY 2012 Allocation: \$250,000,000

B. THE AGING SCHOOL PROGRAM (ASP)

The Aging Schools Program is an effective and popular program that allocates funds for small- to mid-sized projects that are too small for Capital Improvement Program funding but too large to be carried out through the local maintenance budget. For FY 2012, the Department of Budget and Management has indicated a target ASP allocation of \$6,109,000 in operating budget funds. In order to meet a target of \$10,370,000, the original statutory obligation, an additional \$4,261,000 will be needed. While it is always preferable for ASP funding to be allocated as operating funds in order to allow items such as carpet and painting to be eligible, there are ample projects that can be funded through bond proceeds. Bond proceeds can be used effectively for such ASP projects as the replacement of single mechanical units, selective window upgrades, and focused structural repairs.

Target FY 2012 Allocation: \$4,261,000

C. THE QUALIFIED ZONE ACADEMY BOND (QZAB) PROGRAM

Like the Aging Schools Program, the Qualified Zone Academy Bond Program has generally addressed small- to mid-sized projects. This tax-credit bond program has been in place since the early part of the decade. Proceeds from the sale of the bonds may be used for renovation and repair at existing schools that have a Free and Reduced Price Meal (FRPM) Program population in excess of 35%. A private entity contribution is required equaling 10% of the construction cost; it may be provided by a business, a non-profit organization, a PTA, or any other private, non-governmental

entity. The contribution may be in the form of cash, equipment, or in-kind donations of time and effort. The tax credit is issued against the bondholders' federal income tax liabilities.

Maryland has received authorizations totaling approximately \$62 million since the inception of the program. In contrast to certain other states that have passed on their QZAB bond authorization to local educational agencies, the Treasurer has issued the State bonds under authority given it by the General Assembly. In order to more effectively expend the federal authorization, in 2009 the General Assembly authorized the use of QZAB proceeds for the purchase of equipment (computers, projectors, etc.). Through its Breakthrough Center, a program that assists school districts that are in danger of restructuring under the No Child Left Behind legislation, the Maryland State Department of Education has implemented pilot programs in three school districts. The pilot programs will use \$2.7 million from the State's FY 2008 authorization for equipment, with the balance of the authorization being used for traditional renovation and repair projects.

Maryland received a 2009 QZAB authorization of \$15,902,000 under the American Reinvestment and Recovery Tax Act (ARRTA). The General Assembly will be requested to authorize the sale of these State tax-credit bonds in the 2011 session. This allocation, which is some three times larger than the 2008 authorization, will be largely used for renovation and repair projects in schools identified through the MSDE Breakthrough Center. Focusing the funds toward a smaller number of large projects will allow the Public School Construction Program to more effectively utilize and expend the allocation.

| | |
|---|----------------------|
| Target FY 2012 Allocation: | \$15,902,000 |
| Total Target FY 2012 Allocation: | \$270,163,000 |

II. MAINTENANCE OF PUBLIC SCHOOLS

In the summer of 2006, following a set of recommendations on school maintenance made to the IAC the previous summer, the School Maintenance Inspection program was transferred from the Department of General Services to the Public School Construction Program. Two maintenance inspectors were engaged, with the result that the number of inspections performed in FY 2007 was more than double those performed in previous years. The consistency of the inspections and reports also improved. In addition, the PSCP changed the format of the annual report provided to the Board of Public Works to include a "report card" on each school system, not only summarizing the inspection data for that system but also providing a narrative that highlights both the strong and the weak points of each system's maintenance program.

Following the first successful year of the new inspection program, the PSCP established a target of 230 inspections for FY 2008. This figure was to include a number of re-inspections of schools that received scores of Not Adequate or Poor in the FY 2007 inspections. In FY 2008 the target number was exceeded. However, in FY 2009 and FY 2010 the target was reduced due to budget constraints (as a small agency within which 94% of the operating budget supports salaries and benefits, the only budget areas available for reduction are in IT and the travel expenses of the auditors and the maintenance inspectors). During this period, we made improvements in our survey and record keeping procedures, enhanced the consistency and quality of our inspection comments, and developed a database to track the survey findings. We also became more knowledgeable about the full scope of work that is involved in performing a maintenance survey that is of genuine value to both the LEA and the State. In response to a requirement of the Joint Chairman's Report for 2010, the PSCP will again inspect 230 schools in FY 2012. However, as we proceed through the coming fiscal year, we will evaluate and report on the appropriate number of schools that can be evaluated within our current staffing configuration

Now entering its fifth year, the revised Public School Maintenance Inspection Program continues to mature in several ways:

- In FY 2010, our two maintenance inspectors surveyed the schools as a team, each covering different portions of the inspection. By comparing their evaluations and ratings of specific survey elements and by sharing general observations and experiences, the inspectors have improved the consistency and quality of the survey results.
- The presence of two trained maintenance inspectors on the staff gives the PSCP administration a direct, day-to-day insight into school facility conditions. Although maintenance always is the primary focus of the inspectors, the inspectors have also made our office aware of problems in other areas of facility management, including local oversight of capital projects as well as health, safety, and environmental issues. All of these matters are currently being addressed (generally through direct communication between our inspectors and the LEA staff). Two specific issues currently receive our focused attention:
 - *Bi-annual roof inspections.* School districts are required by regulation to inspect the roofs of their schools twice annually. Our inspectors found that in many instances these inspections were not being performed. We now require that central office staff from the districts provide our inspectors with the last three inspection reports for every school that will be inspected. Moreover, we require that all roof replacement requests submitted in an annual Capital Improvement Program be accompanied by the last three roof inspection reports as a minimum condition to establish eligibility.
 - *School safety.* Our inspectors have found a persistent pattern of safety violations in the management of schools: computer power cables carelessly laid out across floors, under computer stations, across cabinets and near water sources; exit doors and escape routes blocked with furniture or stored materials; storage rooms overcrowded with

materials and furniture; inappropriately stored chemicals and cleaning materials; and classrooms in which the teachers have covered walls and ceilings with excessive amounts of combustible materials. Although these items generally fall within the realm of school administration rather than maintenance, we have developed a practice of noting these deficiencies in our reports and highlighting them in our annual report. This issue was brought to the attention of the local superintendents at the ASBO conference in May, and is a regular agenda item in our annual meetings with the LEA maintenance managers.

- Using our database of the FY 2007 through FY 2010 survey results, in the autumn we will report to the Board of Public Works on the status of specific maintenance categories. This information will assist our communications with the individual school systems that have the deficiencies, and it may provide a basis for the kind of focused attention that has led to improvements in the roof inspection program.
- With regard to Baltimore City Public Schools, a very productive relationship has developed that has led to noticeable improvements in correcting deficiencies. Through frequent verbal, electronic, and written communication, our inspectors have brought deficiencies to the attention of the Director of Maintenance, leading to positive action in nearly every instance.

As in other areas of public policy, we have found that the moral weight of State concern is an effective agent of change. Our chief maintenance inspector reports a noticeable improvement regarding maintenance at the level of the central office and the school house. The knowledge that the State inspection is scheduled, and perhaps the understanding that the results will be publicized in the revised annual report, have led to greater efforts to present schools to best advantage and to quickly correct deficiencies that have been identified. We have unfortunately also seen several instances in which local governments have reduced the maintenance component of the school system budget because of fiscal constraints. In general, we believe that the re-structured Maintenance Inspection program has provided a benefit to both the State and to the localities by raising the issue of school maintenance to a high level of importance.

Review of Size and Condition of Debt of Higher Education Institutions

University System of Maryland



University System of Maryland

Capital Debt Affordability Committee

August 11, 2010



Debt Issued

| Fiscal Year | New | Refunding | Total |
|-------------|-------------------|--------------------|---------------|
| 2006 | 0 | 0 | 0 |
| 2007 | \$ 80,000,000 | \$ 75,935,000 | \$155,935,000 |
| 2008 | \$ 90,000,000 | \$ 29,070,000 | \$119,070,000 |
| 2009 | \$100,000,000 (a) | \$ 31,275,000 | \$131,275,000 |
| 2010 | \$120,000,000 (b) | \$ 56,045,000 | \$176,045,000 |
| Total | \$390,000,000 | \$ 192,325,000 (c) | \$582,325,000 |

- (a) \$44,290,000 – Taxable Build America Bonds
- (b) \$81,345,000 – Taxable Build America Bonds
- (c) Total present value savings - \$10,520,730



Outstanding Debt

| | |
|----------------------------------|-----------------|
| • June 30, 2010 (unaudited) | \$1,080,665,200 |
| – Revenue Bonds | \$975,880,539 |
| – Equipment Loan Obligations (*) | \$ 50,000,000 |
| – COPS | \$ 6,300,000 |
| – Capital Leases & Other | \$ 48,484,661 |

(*) Variable rate with a three year reset. No SWAPs. Self-liquidity



Legislative Debt Cap

- Amount Authorized \$1,200,000,000
- Debt Outstanding 6/30/10 (unaudited) \$1,080,665,200
- Authorized, but not issued \$ 119,334,800



Rating Agency Update

- Bond Ratings – Outlook Stable
 - S&P AA+ Moody's Aa1 Fitch AA
- Strengths
 - Strong student demand with continued enrollment growth
 - Large diverse revenue base
 - Sound financial operations
- Challenges/Weaknesses
 - Limited liquidity with a potential increase in capital spending to meet enrollment growth
 - State budget pressure



Projected New Issuances and Debt Service

- New Issuances
 - FY 2011 and thereafter \$115,000,000

- Debt Service
 - FY 2011 \$122,259,000
 - FY 2017 \$151,334,000
 - FY 2020 \$140,448,000



Capital Improvement Program

- State Capital Budget (FY 2011-2015)
 - \$1.1billion (\$214 million a year)
 - Includes \$27 million a year – USM Bonds for Academic Facilities
 - Full funding for 21 projects
- System Funded Construction (FY 2011-2015)
 - \$484 million
 - USM Bonds - \$440 million (\$88 million a year)
 - Cash - \$44 million

Morgan State University



REVIEW OF SIZE AND CONDITION OF DEBT

As of June 30, 2010



{1}

Debt Issued in Prior Five Fiscal Years

| Description/Series | Fiscal Year | Amount | Project |
|---|-------------|---------------------------|--------------------------------|
| Bonds | | \$0 | N/A |
| Building Loans | 2006 | \$2,225,000 | Academic Building |
| Total Building Loans | | <u>\$2,225,000</u> | |
| Equipment – Leases/Purchases | | | |
| | 2006 | \$0 | |
| | 2007 | \$2,570,553 | Information Technology Upgrade |
| | 2008 | \$2,259,913 | Communications Building Equip. |
| | 2009 | \$1,874,700 | Library and Comm. Equipment |
| | 2010 | \$0 | |
| Total Equipment | | <u>\$6,705,166</u> | |
| Grand Total Building Loans and Equipment | | <u>\$8,930,166</u> | |



{2}

| Principal Outstanding as of 6/30/2010 | |
|---|---------------------------|
| Bonds | |
| 1993 | \$22,805,000 |
| 2001 | \$ 4,615,000 |
| 2003 Series A | \$28,315,000 |
| 2003 Series B | <u>\$ 3,095,000</u> |
| Sub Total | \$58,830,000 |
| | |
| Building and Equipment Lease/Purchases | <u>\$5,524,142</u> |
| | |
| GRAND TOTAL | \$64,354,142 |

{3}

| Amount Authorized but Unissued | |
|---------------------------------------|---------------------|
| | \$ Amount |
| Authorized | \$88,000,000 |
| Amount Issued Outstanding | \$64,354,142 |
| Unissued | \$23,645,858 |



{4}

DEBT SERVICE PROJECTIONS

| Bonds The Next Ten(10) Fiscal Years | | | | | | Building and Equipment Lease Purchases The Next Ten(10) Fiscal Years | | | | | | | |
|--|-----------------------------|-------------------|------------------|---------------|--------------------------|---|-----------------------------|-------------------|----------------|---------------|-------------------|----------------------------|--------------------------|
| FY | Beginning Principal Balance | Principal Payment | Interest Payment | Total Payment | Ending Principal Balance | FY | Beginning Principal Balance | Principal Payment | Interest Pymt. | Total Payment | Principal Balance | Add'l. Leases or Purchases | Ending Principal Balance |
| 2010 | 60,535,363 | 1,705,363 | 4,380,867 | 6,086,230 | 58,830,000 | 2010 | 7,317,295 | 1,793,154 | 128,955 | 1,922,109 | 5,524,141 | - | 5,524,141 |
| 2011 | 58,830,000 | 3,030,000 | 3,085,855 | 6,115,855 | 55,800,000 | 2011 | 5,524,141 | 1,684,364 | 200,028 | 1,884,392 | 3,839,777 | - | 3,839,777 |
| 2012 | 55,800,000 | 3,195,000 | 2,932,010 | 6,127,010 | 52,605,000 | 2012 | 3,839,777 | 1,146,981 | 103,346 | 1,250,327 | 2,692,796 | 1,000,000 | 3,692,796 |
| 2013 | 52,605,000 | 3,365,000 | 2,758,626 | 6,123,626 | 49,240,000 | 2013 | 3,692,796 | 949,649 | 134,368 | 1,084,017 | 2,743,147 | 3,000,000 | 5,743,147 |
| 2014 | 49,240,000 | 3,550,000 | 2,575,129 | 6,125,129 | 45,690,000 | 2014 | 5,743,147 | 1,471,840 | 270,131 | 1,741,971 | 4,271,307 | 500,000 | 4,771,307 |
| 2015 | 45,690,000 | 3,725,000 | 2,389,609 | 6,114,609 | 41,965,000 | 2015 | 4,771,307 | 1,319,198 | 233,787 | 1,552,984 | 3,452,109 | 2,500,000 | 5,952,109 |
| 2016 | 41,965,000 | 3,930,000 | 2,193,944 | 6,123,944 | 38,035,000 | 2016 | 5,952,109 | 1,897,557 | 323,421 | 2,220,978 | 4,054,553 | 2,500,000 | 6,554,553 |
| 2017 | 38,035,000 | 4,130,000 | 1,984,439 | 6,114,439 | 33,905,000 | 2017 | 6,554,553 | 2,419,038 | 358,758 | 2,777,796 | 4,135,515 | 4,000,000 | 8,135,515 |
| 2018 | 33,905,000 | 4,375,000 | 1,752,009 | 6,127,009 | 29,530,000 | 2018 | 8,135,515 | 2,480,188 | 440,167 | 2,920,355 | 5,655,327 | 2,000,000 | 7,655,327 |
| 2019 | 29,530,000 | 4,620,000 | 1,505,683 | 6,125,683 | 24,910,000 | 2019 | 7,655,327 | 3,075,119 | 415,733 | 3,490,852 | 4,580,208 | 2,000,000 | 6,580,208 |
| 2020 | 24,910,000 | 4,870,000 | 1,244,746 | 6,114,746 | 20,040,000 | 2020 | 6,580,208 | 2,846,798 | 358,663 | 3,205,462 | 3,733,410 | 2,000,000 | 5,733,410 |
| 2021 | 20,040,000 | 2,035,000 | 969,511 | 3,004,511 | 18,005,000 | 2021 | 5,733,410 | 2,540,843 | 312,102 | 2,852,945 | 3,192,567 | 3,000,000 | 6,192,567 |



(5) Current Projections for New Bond Issuances

None

(6) Refunding Potential

None at this time

(7) Rating Agency Updates

- **Standard and Poor's**
 - Affirmed "A+" rating in April 2009
 - Stable Outlook
- **Moody's Investors Service**
 - On watch since 2005 due to drop in Fall 2005 enrollment
 - Affirmed "A1" rating in April 2009
 - Negative Outlook
 - Thin liquidity
 - Operating performance - depreciation
 - Thin debt service coverage
 - Change to stable outlook
 - Significant growth of liquidity
 - Increased debt service coverage
 - Further enrollment growth
- No visits scheduled at this time



(8) Five Year Capital Improvement Program

- University appreciates the State's support for campus refurbishment
- Campus in a state of revitalization
- Current CIP provides for:
 - Major projects in process
 - Center for Built Environ. Infrastructure Studies \$64.9M
 - School of Business \$69.4M
 - One new major \$134.3M
 - Soper Building for Student Services - \$46.2M
 - \$180.5M**
- Additional Immediate Needs
 - Eight (8) Projects – \$389.4M
 - Four (4) renovation/replacements
 - Jenkins Behavior Science – \$44.9M
 - McMechen – Sciences – \$24.7M
 - McKeldin Center – Graduate School – \$44.1M
 - Science Complex – \$85.3M
 - Four (4) New Facilities
 - Technology Transfer – \$27.0M
 - Administration – \$49.4M
 - Health and Human Services – \$54.5M
 - Public Safety and Facility Management – \$59.5M

St. Mary's College



St. Mary's College of Maryland

at Historic St. Mary's City

Review of Size and Condition
of Debt 8/11/2010

5-Year Issuance History

- 2006 – Issued \$4.235 million subordinate revenue bonds to finance the design, construction and equipping of a new student residence hall.
- 2007 – Issued \$4.0 million Bond Anticipation Note (BAN) as temporary bridge financing to fund the design and construction of the College’s River Center.

Total Outstanding

- \$38.89 million Revenue bonds 6/30/2010
- \$3.9 million Bond Anticipation Note (BAN)
- \$1.7 million Capitalized lease and loan related to an energy performance contract, scoreboard lease.

Authorized, But Unissued

SMCM has a statutory debt limit of \$60 million, our Board of Trustees authorizes issuances. Currently the amount authorized but not issued is zero.

10 Year Debt Service

- 2011 – \$3.203 million
- 2011 – 2020 varies from \$3.2 million - \$3.0 million
- Notes:
 - Does not include capital lease payments on energy performance contract related equipment which is funded through utility savings. Capital lease payments = \$.3 million per year.
 - \$150 thousand annual BAN interest payments assumed throughout. BAN has a 5 year term, principal reduction through fundraising and / or refinancing will occur by February 2012

Refunding, New Issuances and Ratings Updates

- Status of Refunding Potential – none anticipated at this time
- Current Projections for New Issuances – none anticipated at this time
- Rating Agency Updates – Moody’s underlying rating for SMCM debt is A2 with a stable outlook. Last update on June 26, 2009 affirmed A2 rating / stable outlook which can be found here:
http://www.smcm.edu/businessoffice/documents/Moodys_Investors_Service_June_26_2009.pdf

5 Year Capital Improvement Plan

(as appears in the Governor's FY11 – FY15 CIP)

- Anne Arundel Hall
 - Design (Construction Admin.) FY13 \$ 1.0 million
 - Construction I FY13 \$ 5.3 million
 - Construction II FY14 \$12.0 million
 - Capital Equipment FY14 \$ 0.8 million
 - ??? FY15 \$12.0

- Music & Auditorium Building
 - Design FY12 \$ 2.4 million
 - Design II FY13 \$ 3.0 million

Variable Rate Debt, Swaps

- SMCM does not use variable rate debt or interest rate swaps
- All of our bond debt, except \$3.9 million BAN is insured by AMBAC. (Moody's rated Ambac on 6-26-2009 at Ba3 with a developing outlook)

Baltimore City Community College



Baltimore City Community College

Capital Debt Affordability Committee Overview of Capital Budget

Kim M. James, CPA, M.B.A.

Vice President for Business and Finance

August 11, 2010

Baltimore City Community College



Changing Lives...Building Communities

Overview

- In 1990, the General Assembly enacted legislation transferring management responsibility for the College to the State.
- During the 2009 legislative session, SB 176 was passed by the Legislature and approved by the Governor on May 7. The specific language amends Article-Education, §19-102 by increasing BCCC's bonding authority from \$15,000,000 to \$65,000,000.
- SB 176 also deleted the prior restricted language "for auxiliary facilities only" and replaced it with "auxiliary and academic facilities".
- BCCC is currently exploring the feasibility of various projects that might be funded by the issuance of academic bonds, capital leases, public-private partnerships and/or the College. Projects currently being considered are:
 - ✓ Parking Garage on the Bon Secours site (pending purchase)
- BCCC has no plans to issue debt in FY 2011 or FY 2012.

Capital Budget

Bon Secours Acquisition

- The acquisition of Bon Secours is in its final phase, finalizing the sales and lease agreements in preparation for submission to Board of Public Works for approval.

Harbor Campus Redevelopment Update

- The Board of Trustees voted to begin exclusive negotiations with a developer as part of the procurement process in July 2010. The Board has a tentative schedule to complete negotiations and finalize the procurement process by March 2011.

Parking Garage

- A parking garage will be constructed on the Bon Secours site to address a 1,200 parking space deficit. Possible source funding includes the College's bonding authority.

Eastside Campus

- The East Baltimore Campus identification process is ongoing; potential sites include the Gompers Building. An east side facility is contingent on the Harbor Campus redevelopment and funding.

Capital Budget

The College's Capital Budget request for **FY 2012-FY 2016** includes:

- **Main Building Administrative Wing Renovation**
Administrative Wing Renovation represents the final phase of the Main Building. The Main Building renovation will address the facility needs for the College's administrative units on the Liberty Campus. The College is currently working with architects, Hord Coplan Macht, Inc.

- **Performing Arts Center and Pedestrian Bridge - Bon Secours**
The primary purpose of the new Performing Arts Center (PAC) is to house current academic offerings in the Visual, Performing and Communication Arts in addition to expansion. The plan includes a pedestrian bridge to serve as a pathway between the two properties allowing for safe commutation in an otherwise unsafe traveling area due to the heavy volume of traffic on Liberty Heights.

- **Construction of a Loop Road and Inner Loop on the Liberty Campus**
This project will correct and ease a variety of safety, infrastructure and site improvement issues at BCCC's Liberty Campus. The primary purpose of the project is to increase the functional capacity of the Liberty Campus vehicular access and roadways, vehicular and pedestrian circulation.

Capital Budget

The College's Capital Budget request for **FY 2012-FY 2016** includes:

- **Liberty Library Learning Resource Center (LRC)**
Considering current library trends, the College is updating the building into an LRC to support the total intellectual experience of the community of learners, and provide a coordinated multi-use facility for teaching, learning, trainings, conferencing, meetings, workshops and community events.
- **Classroom/Labs (Fine Arts Wing)**
Expansion of Academic Development-Labs and Classrooms in Fine Arts Wing will entail the complete renovation of the remaining spine section of the Main Building, as well as razing the old theatre portion of the building and adding a multi-story structure. The construction will include a modernization of the structure including classrooms and labs, in order to account for increased enrollment, replacement of developmental labs and retention of existing student population.

Capital Budget Projects

➤ Liberty Campus – Admin. Wing Renovation

| | | | |
|---|---------|--------------|-------------|
| ✓ | FY 2010 | Planning | \$1,489,800 |
| ✓ | FY 2012 | Construction | \$9,279,000 |
| ✓ | FY 2012 | Equipment | \$300,000 |

➤ Liberty N. Campus – Performing Arts Center

| | | | |
|---|---------|--------------|--------------|
| ✓ | FY 2012 | Planning | \$3,430,761 |
| ✓ | FY 2013 | Construction | \$20,900,000 |
| ✓ | FY 2014 | Construction | \$17,905,000 |
| ✓ | FY 2014 | Equipment | \$3,200,000 |

Capital Budget Projects

➤ Liberty Campus – Loop Road and Inner Loop

| | | | |
|---|---------|--------------|--------------|
| ✓ | FY 2012 | Planning | \$939,000 |
| ✓ | FY 2013 | Construction | \$10,561,000 |

➤ Liberty Campus - Library Learning Resource Center

| | | | |
|---|---------|--------------|--------------|
| ✓ | FY 2014 | Planning | \$1,559,000 |
| ✓ | FY 2015 | Construction | \$15,309,000 |
| ✓ | FY 2016 | Construction | \$21,000,000 |
| ✓ | FY 2016 | Equipment | \$3,250,000 |

Capital Budget Projects

➤ Classroom/Lab Renovation in Fine Arts Wing

| | | | |
|---|---------|--------------|--------------|
| ✓ | FY 2016 | Planning | \$1,850,000 |
| ✓ | FY 2017 | Construction | \$18,500,000 |
| ✓ | FY 2018 | Equipment | \$1,500,000 |

➤ Out year Projects include:

- ✓ PE Center Renovation

Sale Results of
General Obligation Bonds
2010 Second Series

Sale Results of General Obligation Bonds 2010 Second Series

Details for the 2010 Second Series sale totaling \$485,175,000 follow in the table below. The overall TIC (adjusted for subsidies) for the 2010 Second Series was 1.75%.

| Series | Amount | Maturities | Type | Targeted Investor | Sale Method | TICs | Present Value Savings (b) |
|----------------------|---------------|------------------------|--------------------------------|-------------------|-------------|-----------|---------------------------|
| 2010 Second Series A | \$143,335,000 | 2013-2018 | tax-exempt | retail | negotiated | 1.64% | |
| 2010 Second Series B | \$221,665,000 | 2013-2017 2019-2021 | tax-exempt | institutional | competitive | 1.91% | |
| 2010 Second Series C | \$75,000,000 | 2022-2025 | taxable BAB direct subsidy | institutional | competitive | 2.74% (a) | \$2,844,217 |
| 2010 Second Series D | \$45,175,000 | 2025 | taxable QSCB direct subsidy | institutional | competitive | 0.04% (a) | \$21,706,507 |

(a) TICs for the Second Series C and Second Series D are adjusted for interest subsidies from the U.S. Treasury

(b) Savings for Series C and Series D are calculated compared to tax-exempt yields at the time of issue.

The blended TIC (adjusted for subsidies) for the 2010 First Series A and 2010 Second Series is 2.35%.

Maturities for the \$400 million 2010 First Series A BABs were 2019 - 2025, while most of the 2010 Second Series maturities were 2013 - 2021.

Recommendations of Work Group

- ***FASB/GASB accounting standards***
 - On March 19, 2009, the U.S. Financial Accounting Standards Board (FASB) and the International Accounting Standards Board released a joint paper on accounting by lessees in operating lease ***arrangements***. The contemplated changes, which are not expected to be finalized before 2011, would require all lease arrangements to be reported on balance sheet.
 - Impact on GASB not clear
 - Rating agency considerations
 - Inquiry sent to Financial Advisor to ask rating agencies about leases without identifying the State.
 - From Moody’s Credit Report, 3/30/09:
 - “This would more closely align companies’ officially-reported results with our “adjusted view” of financial statements, which already considers operating leases to be on-balance sheet financing arrangements.”
 - Expected Recommendation:
Monitor the situation and, if accounting standards change, consider adjustment to affordability ratios.

- ***Energy Leases –***
 - Should they be included in Transportation’s non-traditional debt limit?
 - Should they be included in affordability ratios?
 - Reviewed the practices of other States
 - VA, VT, NC
 - NC “ Energy Performance Contracts not included where such obligations are guaranteed ... and not supported by separate appropriations”
 - VT excludes from CDAC analyses because of guarantee and because budgeted energy savings, not tax dollars, are providing for the lease payment
 - VA includes energy leases in tax supported debt.
 - Survey still in process

- ***Expanded use of QZAB proceeds***
 - Draft 7/28 Meeting Minutes in circulation
 - Attendees included representatives from DBM, STO, DLS, and IAC
 - Next quarterly meeting is November 17

- ***Assumptions for Affordability Analysis***
Discussion at final meeting of Work Group on September 15
 - Assumptions for Future Authorizations
 - Revenues
 - Coupons
 - Premium
 - Financing plans for video lottery terminals and discussion of possible alternatives
 - Paper warehouse at the Port
 - Garage at State Center