Finance/Facilities Committee


Absent: Jean Flahive and Susan Gendron.

Trustee Fournier, Chair, called the meeting to order and welcomed everyone.

Financial Update. Ms. Rebecca Wyke, Vice Chancellor for Finance and Administration and Treasurer reviewed the FY09 Forecast vs. budget as of April 30, 2009. The UMS is forecasting an overall operating loss of $12.5 million for FY09. The major components of the forecast are the curtailing of appropriation allotments of $8.4 million, the projected $15.6 million shortfall in temporary investment income, and the projected losses at four of the universities. Not currently reflected in the forecast are the potential additional losses in investment income and the receipt of $8.4 million in FY09 in stimulus funds under the American Recovery & Reinvestment Act (ARRA). The total residential hall occupancy rate is slightly up 1.7% and the fall and spring enrollments are below budget at five of the seven universities.

The campus analysis of the FY09 Forecasted net increase or decrease from operations is as follows:

University of Maine. The University of Maine is projecting an overall FY09 net increase of $1.9 million or $1.6 million above budget. Their fall enrollments were 1.4% above budget and spring enrollments were 2.1% above budget. The tuition and fee revenues are projected to be 3.9% or approximately $4.1 million above budget due primarily to an increase in out-of-state enrollments.

University of Maine at Augusta. The University of Maine at Augusta (UMA) is projecting a $912 thousand loss for FY09. Half of this deficit or $456 thousand is due to one-time capital expenditures for the University College of Bangor library renovation which is not part of normal operating costs. This project is being funded with prior year proceeds from the sale of the Capehart property. A projected bad debt expense of $300 thousand above budget also contributes to the deficit. UMA has sufficient reserves to cover its loss. Its fall and spring enrollments were slightly above budgeted levels due, in part, to extensive intervention efforts to retain students and the start-up of the Bachelor of Science in Nursing program.
University of Maine at Farmington. The University of Maine at Farmington is projecting a $542 thousand surplus for FY09. Its fall enrollments were below budget by 2.9%, and spring enrollments are flat at .2%.

University of Maine at Fort Kent. The University of Maine at Fort Kent is projecting a $595 thousand loss and fall enrollments were 16.3% below budget. Spring enrollments were 17.5% below budget. UMFK will need additional financial assistance from the System.

University of Maine at Machias. The University of Maine at Machias is projecting a $175 thousand loss for FY09. Its fall enrollments were 1.0% below budget and spring enrollments were 3.0% below budget. The overall decline in enrollment has been offset by an increase in out-of-state enrollments resulting in total tuition and fee revenue projections at budget. The $123 thousand loss was budgeted and the total amount of the loss can be covered by a loan previously approved by the Board.

University of Maine at Presque Isle. The University of Maine at Presque Isle is projecting a $415 thousand loss for FY09. Its fall enrollments were below budget by 1.5% and the spring enrollments were below budget by 3.3%. The projected operating loss will be covered with campus reserves.

University of Southern Maine. The University of Southern Maine is projecting a $312 thousand surplus for FY09. Its enrollments were below budget in the fall by 1.7% and spring enrollments were below budget by 1.3%; however, an increase in out-of-state students mitigated the financial impact.

System-wide Services. The System-wide Services is projecting a $500 thousand surplus for FY09. This is a result of cost-saving ventures and these savings will be used to offset the net investment loss.

System Temporary Investment Loss. The net investment loss is projected to be $13.7 million for FY09. This is due to a projected $15.6 million shortfall in the temporary investment income due to the global financial crisis. To address this shortfall the System will use $3.8 million in prior year temporary investment income reserves, the spending controls and cost avoidance measures implemented in October as well as one-time salary reductions for senior management for a saving of $1.1 million, and allocating $1.9 million of the loss to the campuses. The remaining projected loss $8.8 million would be absorbed by the System which will potentially eliminate the System’s reserves.

There is a new accounting pronouncement #47 pertaining to involuntary terminations. Because of the System downsizing this year, the financial commitment for terminations is considered by the external auditors as a material factor in the audit and therefore, the UMS will be required to show the liability in FY09 for any layoffs where notification has been given during this fiscal year. At the close of FY09 this will appear on the financial statements which could be as high as $3.1 million.

Ms. Marie Follayttar, student representative to the Board from USM, raised a concern regarding the amount of USM scholarships and waivers offered to new students that were not utilized at the predicted rate which resulted in the financial aid expenditures to be 11.7% or $795 thousand below budget. President Botman responded that some scholarships have very restricted criteria
and not everyone is eligible for them. If USM does not have students that apply for some waivers then a certain amount of funding is used for Libra Professorships. USM is careful to offer the students as much financial support as possible.

**Higher Education Budget Summary.** The UMS had a $2 million reduction in State Appropriations for FY10 and FY11. The American Recovery and Reinvestment Act totals will be $8.4 million in FY09, $5.9 million in FY10 and $5.9 million in FY11.

**Operating Funds.** In March the Operating Fund grew .7% but to date the fund declined 5.62%. The loss as of the end of March is $14.4 million. The preliminary returns for April look positive.

**Endowment Fund.** The campuses are trying to include in their operating budgets more institutional aid going to students to make up the losses in the Endowment Fund. The market value of the Endowment Fund as of June 30, 2008 was $155 million and as of March 31, 2009 the Fund was $103 million. The UMS has had two additions this year which have been invested with the Endowment Fund and are part of the $103 million. The first is $9.1 million to fund our Post Employment Benefit Trust and a $12.8 million contribution made by the Maine Maritime Academy as a part of its participation in a joint investment strategy. The total Endowment Fund loss is 25.3%.

**Pension Fund.** The start of the fiscal year the Pension Fund value was $59 million. The current market value is $40 million which is a 25.4% loss. An actuarial analysis is scheduled for this summer.

Chancellor Pattenaude commented that this has been an extraordinary year of external impacts, Endowment losses, investment income, and State reductions. The campuses and the System Office are working hard to reduce costs on short notice.

**FY2010 Budget and Recommended Student Charges.** Ms. Wyke reviewed the FY2010 Operating Budget and Recommended Student Charges. She reviewed the budget drivers which include declining appropriations, a projected 1.8% enrollment decrease System-wide, minimal increase in tuition and fees, an increase of 8% for financial aid to mitigate endowment and gift income losses, and increases in compensation and benefit costs.

The FY10 proposed budget originally had a surplus of $371 thousand. However with the additional Appropriations reduction of $2,070 million the adjusted net change results in a loss of $1,699 million. The campuses are working on balancing their FY10 budgets with the additional Appropriation reduction. Available in FY10 is $5,957 million in stimulus funding but it has not been determined how those funds will be used. Some campuses may need to use these funds to bring their budgets into balance.

The FY10 projected System enrollment, based on annual credit hours, is a 1.8% decrease. When comparing the University of Maine to the other New England Land-Grant Universities for FY10, UM ranked the second lowest for in-state and out-of-state undergraduate tuition and mandatory fees as well as estimated room and board. UM ranked the lowest for comprehensive student costs (tuition, mandatory fees, room and board) when compared to the other New England Land Grant Universities for FY10. Ms. Wyke commented that approximately 75% of the UMS students received financial aid but there is unmet need for students on each campus. This is information the System Office is compiling for the Board to consider.
Trustee Wishcamper commented that he felt it would be beneficial if the UMS correlate the net costs for students against per capita income and compare that with peer institutions.

Trustee Dowe commented that the budget information was very detailed and useful for the Board. However, he asked Ms. Wyke what does the budget information tell her. Ms. Wyke responded by stating that FY09 and FY10 is the perfect storm. With the enrollments loss, decreases in appropriations, and losses in endowments make it very challenging for the System. A multi-year budget plan was built with a 6% tuition increase but the students of Maine may not be able to afford an annual increase of 6%. The campus Chief Financial Officers will be reviewing the multi-year budget this summer. This was the first time the UMS engaged in multi-year budgeting. It is even more critical that the UMS continue to focus on multi-year budgeting. The UMS will do well to continue with our current appropriation level.

Trustee Johnson asked if the UMS is still focusing on the out-of-state student market to assist with the enrollment declines. Chancellor Pattenaude commented that the UMS continues to be competitive but the real issue is net costs. Each campus has an out-of-state student strategy.

Ms. Follayttar commented that it could be beneficial to see the national rankings of peer institutions comparing student costs because some of the peer institutions have a larger market than the UMS. She also commented that the financial aid analysis is appreciated; however, the level of financial aid being offered to out-of-state students compared to in-state students is higher and a real concern. Chancellor Pattenaude responded by stating that UMS has continued to increase the total financial aid and for FY08 it totaled $220 million which exceeds the State Appropriations level. Trustee McCrum asked what is the percentage of financial aid to tuition. Chancellor Pattenaude commented that the percentage of financial aid would exceed tuition because it includes living costs, books, and transportation.

Trustee Medd reminded the Board that the UMS looked at the marketing of each institution and whether keeping the cost lower than peer institutions assisted with enrollment or would that give a false impression on quality and reduce enrollment. Trustee Murphy commented that as the campuses market their renewed missions and focus there will be a need for a System-wide marketing strategy to ensure that the UMS is competitive with the peer university systems in order to entice out-of-state students.

On a motion by Trustee McCrum, which was seconded by Trustee O’Leary, the Finance/Facilities Committee forwarded the recommendation to the consent agenda for action.

Trustee Fournier expressed thanks to the Presidents, campus staff, and System staff for their time and efforts compiling all of the information for the budget.

**Regional Learning Center at Tidewater Farm in Falmouth – UM**. In 2007 the Tidewater Conservation Foundation, (TCF), a 501(c) (3) non-profit corporation, invited UMaine Extension to relocate its Cumberland County facilities to a new Regional Learning Center located at Tidewater Farm in Falmouth, with a focus on public sustainable agriculture education programs. TCF’s partners in development of the Regional Learning Center include the Cumberland County Extension Association, UMaine Extension, and local businesses. The Tidewater Farm comprises 32-acres of open space, protected by a conservation easement, on the shores of a tidal salt marsh. A working farm next to the Center includes an 18th century barn and farmhouse and will serve as
the future site for agricultural research using the recent donation from Tom Chappell and potentially IDEXX Labs.

The Regional Learning Center will provide offices, teaching facilities and farm-based demonstration sites for Cooperative Extension faculty and professionals. Extension personnel will offer educational programs in Sustainable Agriculture and Horticulture, 4-H Youth and Family Development, Food Safety and Preservation and Home-Based Business Development. As owner of the building, TCF is offering a 90-year lease to UMS to support UMaine Extension’s county office and other small UM offices in southern Maine. In exchange, the University of Maine will contribute $400,000 toward construction of the facility. The Cooperative Extension Office will continue its current working relationships with USM and SMCC at the new Learning Center. The estimated total project costs are $1,915,000. The proposed project funding sources include the following: UMaine Extension - $400,000, private donations secured to date - $200,000, and private, corporate and foundation - $1,315,000. Construction may begin once $1.6 million (80% of campaign goal) has been raised. The Capital Campaign was targeted to be completed by the spring 2009. The groundbreaking and public outreach campaign is scheduled for the summer of 2009 with occupancy by January 2010.

On a motion by Trustee Dowe, which was seconded by Trustee McCrum, the Finance/Facilities Committee forwarded the recommendation to the consent agenda for action.

**Fogler Library Ventilation Upgrades – UM.** The Raymond H. Fogler Library is the largest research library in Maine with collections, services, and learning centers supporting the faculty, students, and staff of UMaine as well as residents of the State of Maine. The proposed work is to upgrade the existing building heating, ventilating and air conditioning (HVAC) systems and to add environmental controls to selected areas of Fogler Library for the archival storage of documents and to improve indoor air quality for building occupants. The total project cost of $1,200,000 is based on a campus-funded study of Library HVAC systems. The design phase is scheduled to begin in May 2009 and construction is scheduled to start in August with an 11 month duration. The project will be funded by the 2007 State bond.

On a motion by Trustee McCrum, which was seconded by Trustee Dowe, the Finance/Facilities Committee forwarded the recommendation to the consent agenda for action.

**Culter Health Center Lease – UM.** The University of Maine on January 12, 2009, entered into a Professional Services Agreement with Norumbega Medical Specialists, Ltd., to provide medical services to University of Maine students at Cutler Health Center, as the result of a public RFP. The University of Maine wishes to lease to Norumbega Medical Specialists, Ltd., 9,047 square feet (representing the west wing of the ground level) of its Cutler Health Center building for the purpose of providing health services as specified in the Agreement. The University of Maine also wishes to reserve for leasing to Norumbega Medical Specialists, Ltd., an additional 2,924 square feet (representing the southeast corner of the ground level).

For the initial five-and-one-half-year term of the Lease, Norumbega Medical Specialists will not be required to pay rent, unless the operation based on the Agreement achieves a profitable status without the requirement for any subsidy by the University. Should profitable status be achieved before the expiration of the initial term, Norumbega Medical Specialists will pay $7,539.17 monthly for the initial square footage. This amount will be adjusted at the start of optional additional terms and annually thereafter by the Medical Care Services Component of the US
CPI. An increased monthly rent will be paid for the additional square footage should it be occupied by Norumbega Medical Specialists. Both the Professional Services Agreement and the Lease Agreement have been reviewed by System personnel. The outsourcing of Cutler Health is estimated to save the University a minimum of $4 million over the initial 5-year time period.

On a motion by Trustee McCrum, which was seconded by Trustee Dowe, the Finance/Facilities Committee forwarded the recommendation to the consent agenda for action.

**Robie Andrews Dormitory Improvements – USM.** The University of Southern Maine proposes to use $530,000 of the proceeds from the sale of Portland Hall to renovate and make energy efficiency upgrades to Robie Andrews Hall. Use of these funds are in accordance with previous Board approval (July 14, 2008) for the use of the proceeds and with the remedial action certificate prepared by Preti-Flaherty based on their review of the bond history.

The residence hall was constructed in the 1900s. The mechanical systems are beyond their useful life and the deteriorated building conditions do not provide a quality student environment. The improvements consist of:

- Building automation system installation and heat distribution re-zoning for student comfort and energy improvement.
- Replacement of old single glazed and deteriorated windows with modern double glazed units
- Re-Point the exterior brickwork to stop water intrusion into the building
- Replace deteriorated roof
- Renovate common student areas spaces

These improvements will enhance the student living environment and improve the energy efficiency of Robie Andrews Hall. Ms. Marie Follayttar, student representative from USM, commented that Robie Andrews Hall is also used for classrooms and there are significant renovation issues needed for them that are not included in this project.

On a motion by Trustee McCrum, which was seconded by Trustee Medd, the Finance/Facilities Committee forwarded the recommendation to the consent agenda for action.

**Upton-Hastings Dormitory Upgrades and Improvements – USM.** The University of Southern Maine proposes to use $950,000 of the proceeds from the sale of Portland Hall to renovate and make energy efficiency upgrades to Upton-Hastings Hall. Use of these funds are in accordance with previous Board approval (July 14, 2008) for the use of the proceeds and with the remedial action certificate prepared by Preti-Flaherty based on their review of the bond history.

The residence hall was constructed in the 1960s. The mechanical systems are beyond their useful life and the deteriorated building conditions do not provide a quality student environment. The improvements consist of:

- Building automation system installation and heat distribution re-zoning for student comfort and energy improvement.
- Replace old single glazed and deteriorated window curtain wall system on the first floor office space with modern double glazed units and insulated panels
- Re-Point the exterior brickwork to stop water intrusion into the building
- Install back-up domestic hot water heater
• Replace failing tile facade
• Replace deteriorated roof
• Renovate common student areas spaces

These improvements will enhance the student living environment and improve the energy efficiency of Upton-Hastings Hall.

On a motion by Trustee Medd, which was seconded by Trustee Dowe, the Finance/Facilities Committee forwarded the recommendation to the consent agenda for action.

**Authorization to sell 68 High Street – USM.** The University of Southern Maine requests permission to offer for sale the property located at 68 High Street, Portland, Maine, consisting of 0.539 acres and a 29,327 square foot building known as 68 High St. This building is located 1.5 miles from the core of the Portland campus. This building is currently used as classroom and office space, and houses various centers and 501 (c) (3) organizations. All will either be relocated to suitable space on the Gorham or Portland campuses, or eliminated as USM responsibilities. Campus parking will be minimally affected.

The building has very significant deferred maintenance, building envelope, life safety and code compliance, and major infrastructural needs including such critical requirements as the roof, windows, water infiltration, accessibility, underground storage tank, sprinkler and alarm systems, and mechanical systems. Most routine services (such as maintenance, custodial care, and police coverage) are provided by USM staff.

USM is seeking permission to offer the property for sale on a non-exclusive basis. This will allow the campus to better utilize funds that would otherwise be needed to operate, maintain and upgrade this building. USM intends to use the proceeds generated by the sale of this facility for renewing and renovating existing space to better support teaching and learning. The specific uses will be identified after the sale is complete.

On a motion by Trustee Dowe, which was seconded by Trustee Medd, the Finance/Facilities Committee forwarded the recommendation to the consent agenda for action.

**Capital Projects Update.** Mr. Dailide provided a brief update on the status of the approved capital projects.

Adjournment

Ellen Doughty for
J. Kelley Wiltbank, Clerk