

UNIVERSITY OF MAINE SYSTEM  
Board of Trustees Meeting

at the University of Maine at Farmington  
November 17, 2008

**Finance/Facilities Committee**

**Present:** **Committee Members:** Norman Fournier, Chair; James Dowe, Barry McCrum, Marjorie Medd, Paul Mitchell, and Charles O'Leary. **Other Trustees:** Jean Flahive, Tamera Grieshaber, Charles Johnson, William Johnson, Victoria Murphy, and Wayne Newell. **Faculty Representatives:** Raymond Albert and Bertram Jacobs. **Student Representatives:** Cynthia Nesbit, Kenneth Hoyt, and Marie Follayttar. **Chancellor:** Richard Pattenaude. **System Staff:** Eduard Dailide, Tracy Elliott, Kelley Wiltbank, and Rebecca Wyke.

**Absent:** Susan Gendron, Krisandra Horn, and Lyndel Wishcamper.

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

**Financial Update.**

FY09 Financial Challenges

Ms. Rebecca Wyke, Vice Chancellor for Finance and Administration & Treasurer, explained the FY2009 financial challenges. The UMS Operating Fund includes tuition, appropriation, and other revenues received to operate on a day-to-day basis. These funds are invested and in prior years have resulted in a very good return that the UMS uses to help support the overall operation. Unfortunately with the financial crisis, there has been a net loss of those investments. The estimated net investment loss is -\$6.7 million. Last year the UMS Investment Committee established an Investment Income Stabilization Fund in the amount of \$3.8 million. To offset the net investment loss, the Stabilization Fund was applied which resulted in a loss of -\$2.8 million. In October 2008, the Chancellor implemented a System-wide spending reduction plan and \$1 million was identified which included three position reductions, a number of spending restraints, and other reserves. The \$1 million from the spending reduction was applied to the net loss with the remainder of the loss totaling \$1.8 million to be distributed to the campuses.

FY09 Curtailment Target

Ms. Wyke stated the Governors Office issued a curtailment target of \$10.6 million for the UMS. There are four separate programs that make up the appropriations from the State. These include the E&G, MEIF, Casco Bay Estuary and debt service. The State deducted the debt service component from the State's Allocation; therefore, that can not be used as part of the solution. The curtailment was distributed to the campuses based on the appropriations formula. The curtailment of \$10.6 million is 5.3% of our annual appropriation. In order to balance the current fiscal year budget, the campuses and the System Office were already making reductions of \$19.1 million in the operating budget.

The options include using unencumbered reserves; a mid-academic year tuition increase; or reductions of approximately 130 positions which will result in elimination of many adjunct faculty, over 100 class offerings and impacts to academic advising as well as reductions in the purchasing of lab materials, student employment, food services, and scholarships. Ms. Wyke

explained that it is very likely a curtailment will be issued but it may be less than \$10.6 million and the Governor's Office will announce the curtailment by next week.

#### Financial Analysis of FY09 Forecast vs Budget

Ms. Wyke reviewed the FY09 Annual Forecast versus Annual Budget. The FY09 FTE enrollments are below the FY08 actual figures and for five of the campuses the FY09 enrollments fell below budget. The University of Maine was the only campus that experienced an enrollment increase of 1.4% and University of Maine at Augusta broke even with their budgeted enrollment estimates. The overall residential hall occupancy increased by 3%.

Ms. Wyke explained the analysis of the FY2009 forecasted net increases or decreases from operations by campus as of October 31, 2008 (Note: This forecast predates the curtailment).

- UM – net increase of \$1.6 million
- UMA – on target with budget estimates
- UMF – net increase of \$753 thousand
- UMFK – net decrease of \$467 thousand
- UMM – net decrease of \$123 thousand
- UMPI – on target with budget estimates
- USM – on target to break even
- System-Wide Services – net decrease of \$6.2 million
- Employee Benefits – net decrease of \$2.3 million

The UMFK net decrease is partly due to a significant drop in enrollment. Their fall enrollments were 16.3% below budget. UMFK is working on a contingency plan. The UMM shortfall of \$123 thousand was anticipated. The System-Wide Services net decrease of \$6.2 million is due to the net investment loss. The Employee Benefits shortfall includes the funding of the post-employment healthcare and workers' compensation claims that were above budget. The Employee Benefits shortfall will be covered by the System's Unrestricted Health Reserve.

#### The Budget Challenge

Ms. Wyke presented the budget challenges for FY2010/11. The FY2010/11 Biennial Budget Request included a 4.5% per year appropriation increase, 6% per year tuition increase, an assumption of flat enrollment, and results in annual reductions of \$1 to \$2 million per year for the next four years. The UMS has a structural imbalance with expenditures growing at approximately 4.5% per year while revenues are growing at approximately 3.2% per year. The challenge before us is to transform the organization and how we work and to rethink how we would organize ourselves in order to promote a financially sustainable system that meets the needs of our students.

Chancellor Richard Pattenaude commented that the UMS will work with the Governor for a reduction in the curtailment target. He commented that the recruitment and retention efforts will be increased on each of the campuses. In addition, there are five broad strategies that will begin to take shape. These strategies include cost control, fuller use of E-enterprise, rigorous academic review, change in organizational structure, and revenue generation.

Trustee Fournier on behalf of the Board of Trustees thanked Vice Chancellor Wyke, the Chancellor, presidents, faculty, and campus staff who are working hard on a plan to address this financial crisis.

**State Bond Request – Capital Renewal, IT Infrastructure & Energy Efficiency.** Vice Chancellor Wyke reviewed the State Bond Request for capital renewal, IT infrastructure and energy efficiency. A \$60 million multi-year request for State bond funding has been developed for the period 2010-2012 to support the most immediate renovations and modernization requirements. This request would be in three year increments - \$20 million in FY2010, \$23 million in FY2011, and \$17 million in FY2012. The bond request includes projects on all campuses based on their multi-year capital plan priorities with an emphasis on energy efficiency and reducing overall operating expense as well as upgrades to facility facades and classrooms. For System-Wide Services there is an investment in IT infrastructure and Allied Health Lab upgrades that would benefit all campuses. The IT infrastructure would improve reliability and security as well as reduce energy and operating costs. The Allied Health Lab upgrades would be used for laboratory upgrades in conjunction with the nursing and allied health initiative directed at addressing the shortage of nurses and related healthcare professionals in Maine.

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

**Annual Financial Report FY 2008.** Ms. Tracy Elliott, Director of Finance and Controller reviewed the Annual Financial Report for FY2008. The Auditor's Report was an "unqualified" opinion. The UMS ended the FY08 positively with net income of \$2.5 million. The Operating Revenues totaled \$428 million, an increase of \$23 million over the prior year. Financial aid increased by 5% over the prior year and the total operating expenses were \$642 million.

The State Appropriation increased from \$192 million in FY07 to \$201 million in FY08, a 4.7% increase and continued to be approximately 31% of the total operating and net non-operating revenue for the UMS. Due to difficult market conditions, the Endowment Fund loss was approximately -\$3 million in FY08 as compared to income of \$17 million in FY07. The pooled Endowment totaled \$115 million as of June 30, 2008. The Net Assets increasing from \$632 million as of June 30, 2007 to \$641 million as of June 30, 2008, a 1.4% increase.

Trustee Dowe commented that the Audit Committee met on October 31 and had a comprehensive discussion with the auditors. The auditors submitted an unqualified, clean opinion and praised the staff for their work in accomplishing the audit.

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

**Transfer of Ownership of University of Maine Natural Gas Facilities to Bangor Gas Company, LLC.** Mr. Eduard Dailide, System Director of Facilities Management and Planning, explained the transfer of ownership of the University of Maine natural gas facilities to Bangor Gas Company, LLC. Since 2000, the University of Maine has installed and maintained natural gas facilities on University property in the areas of the South Campus of Orono and University Park Housing in Old Town. These improvements include but are not limited to, pipes, valves, fittings, and other associated materials. The University has received natural gas service from Bangor Gas Company, LLC ("Bangor Gas") and has used its installed gas lines to supply its buildings.

The Maine Public Utilities Commission ("MPUC"), as the authority having jurisdiction over the safe transportation and delivery of natural gas in the State of Maine, has dictated that Bangor Gas

should assume the operation, maintenance, and compliance responsibilities of the natural gas facilities in accordance with Federal, State, and local safety regulations. This may be accomplished through an operation and maintenance agreement between the parties, or a Transfer of Ownership agreement. The University and Bangor Gas have negotiated and agreed that the Transfer of Ownership would be mutually beneficial.

The natural gas facilities have an estimated value of sixty-thousand dollars (\$60,000), based upon the University of Maine's installed costs, less depreciation. Bangor Gas will compensate the University for the transfer of the natural gas lines through a reduction in the rate for natural gas service, for the term of the service agreement. Necessary real estate easements granting Bangor Gas access to the gas facilities will be incorporated into the transfer

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

Adjournment

Ellen Doughty for  
J. Kelley Wiltbank, Clerk