Committee of the Whole - Finance/Facilities Committee


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

Financial Update. Ms. Rebecca Wyke, Vice Chancellor for Finance and Administration and Treasurer provided a financial update.

FY10 Forecast vs Budget as of October 31, 2009
The October Forecast is the first of three forecasts analyzing the status of the FY10 Budget – October, February and May. The UMS currently has a forecasted operating loss of $74 thousand for FY10. The major components of the forecast are:

- The temporary investment income currently exceeding the annual budget by $3.9 million
- A significant increase in post-retirement healthcare costs exceeding the annual budget by $5.6 million. The Retiree Health Task Force has been re-instituted to make recommendations to reduce future costs in this area.
- The State Fiscal Stabilization Fund of $6.7 million is included in both the budget and the forecast and to date $1 million of these funds has been expended.

Not included in the forecast is the potential reduction of $7.5 million in State Appropriations in FY10. The FY10 Residential Hall Occupancy is slightly down for the System by 119 headcount or 1.7% and the FY10 Fall Enrollment is slightly above budget at 650 FTE or 2.8%.

UMaine is projecting a $1.2 million net increase at the close of FY10. The fall enrollments were 531 or 5.8% above budget and the residence hall occupancy was down 95 or 2.6% below budget because the entering class did not fully occupy two residence halls set aside for first year students.

UMA is projecting a $311 thousand net increase and the fall enrollments were 135 or 5.1% above budget.

UMF is projecting to break even and fall enrollments were 65 or 3.4% above budget and residence hall occupancy is down by 50 students.

UMFK is projecting a $127 thousand net loss and fall enrollments were 58 or 7.3% below budget. The residency hall occupancy was down 17 or 8.5%. UMFK projects total revenue to be $289 thousand below budget and has implemented $258 thousand in spending reductions. This will cause the original budgeted loss of $96 thousand to rise to $127 thousand.
UMM is projecting a $40 thousand net increase and the fall enrollments were 22 or 4.1% above budget. The residence hall occupancy was 14 or 5.8% above budget.

UMPI is projecting a $129 thousand net increase and the fall enrollments were 19 or 1.8% above budget. The residence hall occupancy was 8 or 2.7% below budget.

USM is projecting a $37 thousand net increase and the fall enrollments were 64 or .9% below budget. The residence hall occupancy was 13 or .9% below budget.

System-wide Services is projecting to break even.

Operating Fund, Managed Investment Pool (including Endowment Fund) and Pension Fund
In September the Operating Fund grew by 0.9% and as of the fiscal year-to-date the Fund grew by 3.3%. In September the Managed Investment Pool, including Endowment Fund, grew by 3.4% and the market value is $140.3 million. The changes in the market value besides market fluctuation include contributions and distributions, UMS contributions to the OPEB Trust, and Maine Maritime Academy’s participation in the fund since January 2009. The Pension Fund in September grew by 3.1% and its market value is $45.2 million.

Update on FY10 Savings Targets
The current Multi-Year Plan projects an $18 million gap in FY10. The Final Report and Implementation Plan show the savings targets as follows:

- **University/System-wide Services** savings are $11.5 million and have been implemented to balance the FY10 budget and these initiatives are on target.
- **Workforce Management** savings are $6.5 million and already $3.4 million has been implemented through agreements with the bargaining units.
- **Hybrid IT Model and Other** savings are targeted at $0.9 million which has been delayed until September to facilitate the Technology Committee review. The delay may impact the ability to achieve the full $900 thousand savings target for FY10.
- **Finance and Accounting/Waivers** savings are $0.4 million. The Touchnet convenience fee solution has been implemented at UMF, UMM and USM and is on target to achieve $350 thousand in savings. If the review of tuition waivers is implemented will be on target to achieve up to $860 thousand in savings for FY11.
- **Strategic Procurement** savings are $0.6 to $1.1 million and the implementation of the strategic sourcing is in progress and on target to achieve $600 thousand in savings. The upper end of savings, representing $1.1 million requires implementation of the Enterprise Procurement Model.
- **Review of Low-Enrolled Courses** savings are $1 million and the implementation is underway and is on target to achieve the target.

Overall, the UMS is on target to achieve savings close to the projected $18 million gap for FY10.

Update of the Multi-Year Plan
The $42.8 million structural gap over the four year period encompassing FY10 through FY13 served as the basis for the work of the New Challenges, New Directions initiative. The underlying assumptions of this Multi-Year Plan were developed over the summer and fall of 2008 and were as follows:

- **Enrollment**: flat enrollment with the current student body profile
- **Tuition**: average of 6% increase per year
Committee of the Whole - Finance/Facilities Committee  
November 16, 2009  

- **Investment Income**: adjusted downward to reflect current economic trends  
- **Operating costs**: increasing at approximately 5% per year and includes energy, inflation, health care, salaries and wages, and other expenditures  
- **State Appropriations**: increases/decreases of -2.7%, 0%, 1%, and 2% for FY10-13 respectively.

In August, the Chief Financial Officers began the work of revisiting the assumptions to extend the Multi-Year Plan out another year to FY14. The underlying assumptions are as follows:

- **Enrollment**: each university developed its own enrollment number  
- **Tuition**: increased as follows: FY11 at 5%, FY12 at 4%, FY13 at 4%, and FY14 at 3%  
- **Investment Income**: continue to adjust downward to reflect current economic trends. If a surplus materializes, it will be set aside to help cover future budget offsets.  
- **Operating costs**: While the trend has been increasing at approximately 5% per year, UMS is seeking to reduce that growth through the actions of the NCND initiative and bring them close to the Consumer Price Index (CPI).  
- **State Appropriations**: FY at 0%; FY12 at 0%; FY13 at 0%, and FY14 at 1%  
- **Curtailment/Reduction**: target of $7.5 million

Some of these variables represent “decision points” and other variables are “assumptions” based on the best information available. These assumptions can change and the results can improve, or worsen the outlook for the next four years. The Multi-Year Plan is a planning exercise and while it strives to be realistic it is not the UMS budget for the next four years. Two versions have been developed with the only difference being the year-over-year increase for in-state, undergraduate tuition. The first version sets the annual tuition increase at 5% per year for the next four years. The second version sets the tuition increase at 5% for FY11, but then reduces it to 4% in FY12 and FY13, and to 3% in FY14.

**Acceptance of a Gift of Real Estate – UMA.** Mr. Eduard Dalide, System Director of Facilities Management and Planning, and UMA President Allyson Handley explained the gift of real estate for UMA. UMA has been offered a 25,000 square foot five story building located at 331 Water Street in downtown Augusta built in 1975 (Gannett Building). The building has six usable stories, an elevator, and was recently used by Key Bank to house their operations while the new Key Bank building was under construction. The acquisition of the Gannett Building would provide much needed additional studio and teaching space for UMA’s Art and Architecture programs. Both programs have seen an increase in their enrollments.

There is a critical need for additional space on UMA’s Augusta campus. It is difficult to provide space on the campus for any new initiative such as the highly successful Veteran’s Outreach Program, University Advancement, Senior College, or Institutional Research function. Enrollments in many of UMA’s academic programs are growing, exacerbating the need for more classroom/teaching and faculty office space. The space freed up by the use of the Gannett Building for Architecture and Art classes would be available to support these other needs.

According to the current owner, as of October 2009 the annual operating cost of the Gannett Building is $85,000. Included in this amount is $11,600 for property taxes. UMA would not be required to pay any property taxes. The fifth floor in the building is presently leased by Kennebec Valley United Way. Its lease arrangement would continue for the foreseeable future and the rent
would help offset the building’s operating costs. The University is in a position to support the additional operating costs.

Trustee Dowe asked how the ongoing operating expenses will be handled. President Handley explained that she anticipates tuition will cover the operating costs and the rental of the fifth floor would continue. Trustee Murphy asked if UMA had pursued any other options for additional space in a newer building or closer to campus. President Handley commented that UMA has look into other space but it is unlikely that the campus will be in a financial position to purchase additional space.

The text of resolution was amended as follows: The Board of Trustees accepts the generous donation of the Gannett building located at 331 Water Street, Augusta to be used in support of the UMA mission subject to approval by the Chancellor and the Executive Committee of the Board after a review of the final cost estimates and upon recommendation by University Counsel.

On a motion by Trustee McCrum, which was seconded by Trustee Medd, the Committee agreed to forward the recommendation, as amended, to the consent agenda for action.

Proposed Changes to Board Policy 703: Tuition and Fees. Ms. Wyke reviewed the proposed changes to Board Policy 703: Tuition and Fees. The revision broadens the language to allow the University flexibility in the tuition rate being charged for students taking classes being delivered out-of-state, regardless of the mode of delivery. It also serves to include more scenarios as technology and distance learning advances.

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

Changes to Administrative Practice Letter (APL) IX-G: University of Maine System Tuition Waivers. Ms. Rosa Redonnett, Executive Director of Student Affairs, explained that in the Final Report for the New Challenges, New Directions Initiative there is a short term action item associated with tuition waivers and guidelines for their administration and relationship to financial aid. To address that action item, the Chief Financial Officers at each university have agreed to adopt changes to the APL IX-G: University of Maine System Tuition Waivers. The recommended changes will be effective Fall, 2010 and are summarized as follows:

- **North American Indian Waiver Program** – All students will be required to complete the Free Application for Financial Aid (FAFSA) and complete the financial aid process prior to being awarded the Native American Waiver. In addition, the room and board scholarship will only be awarded for the fall and spring semesters unless a student is matriculated into a degree program which requires summer attendance.
- **Senior Citizen Waiver** – It is the recommendation of the Chief Financial Officers that this waiver be discontinued at the end of the Spring 2010 semester.
- **USS Maine Commemorative Tuition Waiver** – All students qualified for the waiver will be required to complete the FAFSA and the financial aid process prior to being awarded the waiver.
- **High School Aspirations Incentive Program** – Each campus may choose to establish limits to the number of waivers granted.
- **Adjustment to the State Mandated (Adjustable) Veteran’s Dependent Waiver** – which will be pursued through appropriate avenues (Legislature, key veterans contacts). Additional
language will state that the waiver will apply after the application of all payments from the Federal Department of Veterans Affairs.

Ms. Redonnett explained that 165 Senior Citizen Waivers are granted annually valued at $160,000. These waivers have increased dramatically over the past five years and it is anticipated to continue to grow. There are Senior College sites at each of the UMS campuses and in 11 other locations throughout Maine. An alternative to discontinuing the Senior Citizen Waiver would be to offer the waivers on a space available basis and allowing the campus to limit the number of waivers granted.

Senior citizens who are matriculated students qualify for financial aid. Professor Bertram Jacobs, faculty representative to the Board from UMF, commented that the senior citizens add a great deal to the diversity of the classroom and is an advantage to the students and the university. He feels strongly that the Senior Citizen Waiver should not be eliminated or delegated to the campus to decide on the number of waivers granted. Ms. Julie-Ann Scott, graduate student representative from UM, stated that in teaching classes and attending classes the multi-generational prospective makes the experience richer.

Trustee Fournier requested that more information on the Senior Citizen Waiver and the Board would discuss the Waiver again at another meeting. The Board agreed with the modifications to the other Tuition Waivers.

**Annual Financial Report FY2009.** Ms. Tracy Elliott, Director of Finance and Controller, reviewed the Annual Financial Report FY2009. The UMS ended FY09 with Income (Loss) Before Other Charges in Net Assets of $10.8 million and with an increase in Net Assets of $10.2 million. As a result, the Total Net Assets increased by 1.6% to $652 million as of June 30, 2009. Of the $10.2 million increase in Net Assets, UMS experienced a positive change in Unrestricted Net Assets of $6.4 million. This positive change was possible because of $6.6 million in State Fiscal Stabilization Fund revenue which UMS was able to recognize in June of 2009.

The Fall 2008 FTE student enrollment declined by 1.5% to 23,688 and the UMS had a 10.1% weighted average increase in undergraduate in-state tuition and fees and a 6.6% weighted average increase in room and board rates in FY09. Reflecting a curtailment in the Fall of 2008, State Appropriation revenue declined 3.5% from $201 million in FY08 to $194 million in FY09. Total cash gifts (capital, endowment and operating) were $24 million in FY09, up from $19 million in FY08. Due to the world financial crisis, pooled investments (including endowments) experienced a -15.7% return in FY09 compared to -2.6% for FY08. The UMS and affiliates; Pooled Endowment Funds totaled $95 million as of June 30, 2009 compared to $115 million at June 30, 2008.

Due to financial market conditions, UMS experience operating investment losses of $2.9 million in FY09 or -1.64% compared to FY08 return of 1.6%. Capital asset additions, financed primarily by UMS revenue bonds, state capital bonds, and gifts, totaled $53 million in FY09 as compared to $68 million in FY08. Major construction in progress in FY09 included the University Commons and Osher Map Library Building expansion at USM, and the University of Maine Aubert Hall Laboratory updates, Collins Center of the Arts renovation, and the Hutchinson Center expansion.

In response to the GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which was implemented last fiscal year, the UMS established and funded a trust in FY09 for its net other postemployment benefit (OPEB) obligation. The balance in the trust at June 30, 2009 was $19 million with an additional $3 million to be funded.
Committee of the Whole - Finance/Facilities Committee
November 16, 2009

by December 31, 2009. Prior to FY08, the University’s retiree medical plan benefits were recorded on a pay-as-you-go basis rather than accrual-based accounting as required by GASB 45.

Trustee Dowe provided comments from the Audit Committee meeting on October 31. The UMS received an unqualified opinion on the Audit. The Committee reviewed the Management Letter and the responses from Management to the Letter and the responses were satisfactory with no material issues. The staff did an extraordinary job with the Audit.

On a motion by Trustee Johnson, which was seconded by Trustee Medd, the Committee agreed to forward the recommendation, which includes the acceptance of the Management Letter to the consent agenda for action.

Establishment of the Correll Presidential Chair in Energy - UM. Ms. Wyke explained the establishment of the Correll Presidential Chair in Energy at UM will be a fixed length chair at the University of Maine in 2009 with a generous gift from Alston and Ada Lee Correll totaling $875,000 to be paid in five installments of $175,000 in 2009 through 2013. This is a non-endowed, expendable five-year fund. This five year term Chair will allow the University to hire a leading national expert in the field of Wind and Tidal Energy Development.

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

Establishment of the Correll Professorship in Early Literacy - UM. Ms. Wyke explained the establishment of the Correll Professorship in Early Literacy will be a fixed length professorship at the UM in 2009 with a generous gift from Alston and Ada Lee Correll totaling $80,000 to be paid in five installments of $16,000 per year in the years 2009 through 2013. This is a non-endowed, expendable five year period fund. The Professorship will build upon the excellence in the College of Education and Human Development by recognizing a distinguished scholar-teacher engaged in ground-breaking research and program development in the area of Early Childhood Literacy.

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

Estabrooke Hall Upgrade – UM. Mr. Dailide explained the Estabrooke Hall Upgrade at UM. Estabrooke Hall is a 1940 residence hall with 143 rooms and central bathrooms. No substantial renovations have been done since its original construction. Significant upgrades are necessary. The campus is developing a business case to evaluate alternatives for renovating the upper floors of Estabrooke Hall into private rooms. The first floor would be developed as retail shops and services designated “Black Bear Village.”

The University of Maine is interested in considering a public/private venture as an alternative to traditional financing because of limited capacity to support revenue bonds and it is unlikely that a capital state bond will be available in the near future.

The scope of the proposal involves turning Estabrooke Hall over to a private developer for extensive renovations using the developer’s capital for financing the renovations. The University would in turn enter into a long term capital lease with the developer to reimburse the investment which may involve a transfer of title for a fixed and extended time period. Other higher education
institutions have found this a viable alternative. A recent Request of Interest issued by the University showed that there is an interest in the private sector for this venture. One of the advantages of this approach is the availability of substantial state and federal tax credits to private developers. The campus is presently engaged in a thorough financial “due diligence” study of this option.

UM expressed interest in obtaining general support from the Board of this public/private venture alternative to renovating Estabrooke Hall prior to having the private entity expend efforts on developing proposals. Because this is a pilot approach, the System Chief Financial Officer and Board would be kept apprised of the development of the business case and have the opportunity to review and approve the selected alternative.

Expansion of Historic District – UM. Mr. Dailide explained the expansion of the Historic District at UM. In 1978 the University of Maine at Orono Historic District was listed on the National Register of Historic Places. That district, comprising 13.12 acres, focused on the oldest of the University structures and included 10 buildings.

The University proposes to enlarge upon this Historic District by requesting the inclusion of an additional 56.77 acres on which 23 buildings (6 non-contributing structures, 17 contributing structures) and 4 landscape elements are located. In 2004 the University was the recipient of a prestigious Getty Foundation Campus Heritage Grant that funded a thorough study of historic campus resources, resulting in the Historic Preservation Master Plan. This plan recommended expansion of the University’s Historic District.

The University of Maine’s Master Plan was finalized in 2009. In July 2009, the Master Plan was selected by the Society for College and University Planning for a national Merit Award. The Plan calls for protection of the original Historic District and its expansion, as recommended in the 2004 Getty Foundation Campus Heritage Grant funded study. The expanded district is significant in representing growth from 1891 through 1942.

The National Register is administered by the National Park Service, which is part of the U.S. Department of the Interior. All properties listed in the National Register must meet the criteria established by the National Park Service. These criteria are applied nationwide, and seek to ensure that all listed property are both significant, within the areas of architecture, archaeology, engineering, culture or history, and that they retain their historic designs, materials, workmanship and sense of time and place.

The Maine Historic Preservation Commission has been designated as the State Historic Preservation Office to oversee the administration of the National Register program in the State of Maine. Nominations for inclusion on the National Register are first considered by the Commission before submission to the National Park Service.

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

Process Development Center Infrastructure Improvement Project – UM. Mr. Dailide explained the Process Development Center (PDC) Infrastructure Improvement Project at UM. The PDC, located in Jenness Hall, requires significant upgrades in order to continue to serve industry and remain competitive. The process control system used on the pilot paper machine is over 20
years old, is experiencing increased obsolescence and reliability issues, and is no longer supported by its manufacturer.

Recognizing the need to enhance the PDC’s competitive advantage, its workforce development capabilities and its positive impact on the Maine economy, the Maine Technology Asset Fund (“MTAF”) has provided funding to upgrade the facility.

MTAF funds will leverage other funds from a number of private sector sources and provide both short and long-term economic benefits. The upgraded facility will enable the PDC to simulate all pulp and paper manufacturing steps at the pilot scale, and allow the conversion of logs into rolls of high-value coated specialty web products, making it the only facility in North America with such capability. It will enable the PDC to continue to deliver industrially-relevant research, development, and commercialization services to industry and to compete at the national and international level.

The Infrastructure Improvement Project consists of a series of equipment upgrades that will be accomplished in two years and include four major milestones that will procure and commission: 1) Bleaching & Oxygen Delignification Pilot Equipment, Instrumentation, Chemical and Coating Preparation, Digester, Material Handling, and Support Equipment Improvements; 2) Process Control and Data Management System; 3) a New Headbox and Controls; and 4) New Pilot Web Coater.

The total value of the equipment upgrades is $1,977,425 to be funded with an award of $1,083,197 from MTAF and pledges of matching funds from project collaborators.

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

**Capital Project Status Report.** Mr. Dailide stated that all of the capital projects are on budget and on schedule.

**Report on Real Property Transactions.** Mr. Dailide provided a brief summary of real property acquisitions, dispositions and lease activity for January 1, 2008 through June 30, 2009.

Adjournment

Ellen Doughty for

J. Kelley Wiltbank, Clerk