



NEW CHALLENGES, NEW DIRECTIONS: ACHIEVING LONG-TERM FINANCIAL SUSTAINABILITY

January 11, 2009

At the request of the Board of Trustees, the Chancellor and Presidents of the seven universities recommend the following actions and processes to establish long-term financial sustainability for the University of Maine System so that its universities can achieve their missions in service to the people of Maine.

While negative financial and demographic forces challenge us, the work ahead should be viewed as an opportunity. This is a chance to craft a University System that continues to be vibrant, innovative, and relevant—a University System that meets the evolving knowledge, research, public service, and educational needs of our students, and Maine citizens and its communities. Together, drawing upon the talent and commitment of our superb faculty and staff, we can build a planned System with stronger universities, clearer objectives, and more measurable outcomes that seizes its place as an economic and cultural engine of the State, and enhances the means by which Maine people can achieve a better future.

SUMMARY

The University of Maine System is at a critical turning point in its history. External and internal forces have created a substantial long-term financial gap that necessitates transformative change to assure sustainability. The System has no choice but to engage this challenge head-on and little time to do so. The strategy inherent in this report is that change will occur in two fundamental ways. First, additional administrative, service delivery, and academic efficiencies must be immediately undertaken to slow the growth rate of cost increases, in order to have these savings impact our next fiscal year beginning July 1, 2009. Second, and most challenging, fundamental changes in our structure and operations must be reviewed and decisions made by Fall 2009 to set a bold course for organizing the System and our work in a more effective manner. This report clarifies the challenge, presents actions to be quickly implemented, describes a process to generate options for major change, and calls for a final report to be presented to the Trustees at their July 2009 meeting.

INTRODUCTION

Created in 1968, the University of Maine System was designed to be a coordinating structure for the delivery of educational opportunities to the citizens of Maine. Unfortunately times and conditions have changed and the University System must also change in order to continue its vital role for Maine citizens.

Costs continue to rise; driven by health care, energy, and personnel costs; and also by the rising technical complexities of learning that require more technology, more equipment, support staff, and more sophisticated labs and classrooms. Meanwhile, the University System faces constrained (if not reduced) State appropriations and a student body that is increasingly challenged by tuition increases despite added university funded financial aid. These trends, combined with declining demographics and a prolonged recession ignited by a global financial crisis, have created a non-sustainable financial condition for the University System. The status quo is no longer acceptable; change must occur.

And as the drumbeat of change and challenge grew louder, it was not ignored; over \$19.1 million of impending costs, along with over 140 full-time positions, were eliminated from the System Office and the universities to initially balance the current fiscal year, FY09. The System has further reduced its budget by \$15.1 million this year to meet a state curtailment and to offset a reduction in investment income, for a total of \$34.2 million in FY09.

In order for Maine to be successful in the 21st century, it is imperative that the University System be positioned to achieve its primary mission of university education, research, public service, and the expansion of a skilled work force in Maine. Change is necessary, but it must be sensible and fully support the many achievements made to date and must always benefit our students.

The recommendations for change have three key goals to ensure the health and vitality of our universities and thus the overall strength of the University System:

1. Serve the changing and evolving knowledge, research, public service, and educational needs of the people, businesses, and organizations of the State.
2. Keep the cost of baccalaureate and graduate education affordable for our students by moderating tuition increases.
3. Implement efficiencies, organizational changes, and further economies of scale to bring spending in line with available resources.

TRANSFORMATIONAL CHANGE

It is fully recognized that the traditional incremental cost-cutting approach at the universities and System Office will not do enough to attain financial sustainability. The System must also pursue change from a deeper and broader System-wide perspective that concentrates on eliminating duplication and achieving operating

efficiencies that control the total operating cost of the University System. In doing this, all options are being examined.

THE LONG TERM FINANCIAL IMPERATIVE

The work ahead can be stated in a succinct way. The projected annual growth rate in expenditures has to be brought in line with the projected annual growth in revenues. To do this, the cost reductions shown in the Budget Scenario below must be achieved annually through ongoing savings or else the problem simply compounds. In the Budget Scenario the annual growth rate in expenditures, with the current assumptions, is approximately 5.0%. The projected annual growth rate in revenues is 3.5%. Once the growth rates are in alignment, our work must focus on ensuring continued alignment. It is imperative the System achieve this in order to secure financial sustainability for the seven universities and the critical role they play in Maine's future.

Budget Scenario

A planning budget scenario presented below, based on a set of conservative assumptions, clearly displays the overall financial conundrum faced.

The underlying four year assumptions driving the financial planning scenario are:

- **Enrollment:** flat with the current student body profile
- **Tuition:** average 6% increase per year
- **Operating costs:** increasing at approximately 5.0% per year (includes energy, inflation, health care, salaries and wages, and other expenditures)
- **Investment income:** adjusted downward to reflect current economic trends
- **State appropriations:** increases/decreases of -2.7%, 0%, 1%, and 2% for FY10-13 respectively. (This may change during the current budget session.)

Key parts of these assumptions are not yet in place and must be negotiated or legislated in the future. The table below summarizes the annual base spending reductions necessary to balance the budget. These are in addition to the cuts being made to the current FY09 budget this year.

Projected Annual Base-Budget Spending Savings Needed To Balance Budget

<u>FY10</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>Four Year Total</u>
\$18.0 m	\$10.0 m	\$8.6 m	\$6.2 m	\$42.8 million

These figures clearly indicate the magnitude of the financial challenge being faced; namely, the seven universities and System Office must reduce their base cost of operations by \$42.8 million over a four year period. Given how costs are structured, there is no doubt that the System will need to have fewer employees four years from now. Decisive and thoughtful planning will allow us to use staff turnover as the key way to achieve this. The only potential relief in sight is an increase in state appropriations as the economy improves, but there is no guarantee of this. Indeed, state appropriations could be negative in the short-run. Thus, the issue is systemic and enduring. Continued incremental cuts in addition to what has already been achieved will only erode the University System's ability to achieve its mission.

The aggregate savings targets noted above need to be broken down by functional areas to facilitate moving forward. The targets below are current estimates and can evolve. They reflect the interaction of the multiple actions found in the next section of this plan. The System's mission critical work is conducted at the universities, hence the bulk of the budget resides at that level. Therefore, most cost reductions and budget savings will occur at the universities. The System Office will reduce its own non-essential services and costs.

**Projected Ranges of Four-Year Base-Budget
Revenue and Savings Targets By Functional Area**

Administrative, Student, and Financial Services	\$17-20 million
Academic Programs and Services	\$ 8-10 million
Structure and Governance	\$ 3-5 million
Revenue Enhancement	<u>\$ 7-10 million</u>
Total	\$35-45 million

**THE TASK AT HAND—ASSESSING AND IMPLEMENTING STRATEGIES
FOR LONG-TERM FINANCIAL SUSTAINABILITY**

A critical element of the Chancellor's *Agenda for Action* is goal #4 "Financial Sustainability," which calls for the following:

UMS will continue to be a financially stable enterprise over the long run, addressing the key issues and challenges of the future through a multi-year planning process that embraces prudent financial controls, transparency, cost containment, revenue enhancement, and optimal sizing of the institutions, functions, and activities.

Current economic forecasts suggest that it will be two to three years before the State sees economic activity and tax revenues begin to grow. Even after recovery from the current recession, there is little reason to anticipate a

substantial increase in State appropriations given past trends. Despite current rigorous and creative efforts, there remains a growing long-term structural financial shortfall.

Call for Action

The Board of Trustees requested that the Chancellor and Presidents examine alternative strategies leading the University System towards financial sustainability. Concurrently, the Trustees will continue the use of their *System Financial Planning Guidelines* for immediate actions. (See Appendix A.)

This proposed work will go beyond solving the current year's issues, difficult as they are. The System must look down the road and see how it might organize and function to best accomplish our education/service/research mission and do it in an even more economical and efficient manner. Much is at stake since the citizens of Maine will depend upon the universities to provide them with knowledge and skills essential to their individual and collective futures.

These discussions are urgent. Problems and challenges are emerging and worsening at a rapid rate. Decisions, particularly those involving personnel, academic programs, and collective bargaining, have long lead times. So the University System cannot delay but rather must draw together in a shared commitment to those who are counting on us, including our own employees who care so deeply about our mission and our students.

Arenas of Action

The fundamental strategy is to: a) immediately pursue administrative and academic efficiencies, and draw on economies of scale where possible; b) initiate analysis of more profound change so that decisions can be implemented in Fall 2009. In all cases, there will be ample opportunity for dialogue and discussion. There are three logical arenas where an enterprise-wide approach can produce needed changes. The three arenas are: 1) administrative; 2) academic; and, 3) structural. The implementation of the recommendations below is the pathway for transformational change.

Administrative changes in operating practices can start soon and move quickly, particularly those that attend to infrastructure or backroom support activities. **Academic** changes require greater discussion within and among the universities; given the complex nature of academic planning and approval and the System's current coordinating role, it is essential that regional needs be considered. **Structural** change—boldly rethinking UMS's organization and governance—will require extensive discussion with our internal constituencies as well as the many external constituencies which UMS depends on and serves.

ARENA 1: Administrative, Student, and Financial Services

1.A. Definition: The administrative, student, and financial services arena consists primarily of financial management, support, and infrastructure-related operations such as bursar, information technology, benefits management, human resources, facilities management, purchasing, legal services, Internet delivery of services, and contract management. This arena also includes appropriate student administrative functions such as loan processing, transfer credit processing, student billing and refunds, financial aid processing, tax return verification, and immunization document processing.

1.B. Goals: Primary emphasis is placed on reducing and controlling costs, including those related to staffing levels (UMS's largest expense category), operational costs, and distribution of personnel while enhancing services to students. Such efforts will be approached systemically, making full use of UMS's investment in *MaineStreet* (PeopleSoft) to gain economies of scale where appropriate.

1.C. Financial target: To achieve approximately \$17-20 million in savings over four years and an additional \$7-10 million in annual revenues.

1.D. Timeframe/process: Work in this arena must begin immediately and move quickly. Rebecca Wyke, Vice Chancellor for Finance and Administration, will lead this effort and work with the Presidents, Chief Academic Officers, Chief Student Affairs Officers, Chief Financial Officers, union leadership, and university-based constituencies. Existing System-wide steering and advisory groups will be utilized, with new *ad hoc* work groups created as needed. Recommendations will be submitted to the Chancellor and Presidents Council for review. The Chancellor will make final approval. Some items may require Trustee approval. The intent is to have these actions fully underway by mid-Spring 2009. A written progress report will be submitted to the Chancellor by June 2009.

1.E. Proposed actions:

1. Establish a centralized IT function. This change is needed to realize the potential of our PeopleSoft investment and to obtain economies of scale. This will involve drawing university IT personnel into a coordinated unit which is responsive to more centralized authority. It will also require greater commonality of definitions, equipment, and processes.

2. Achieve greater centralization of back-office services and enhance oversight. The consolidation of other critical administrative and support services such as finance, human resources, facilities, and legal services allows leveraging of core competencies, standardization, and clarity of processes, use of new technologies and best practices, transparency and

monitoring, and timely and dependable deliveries. Greater reliance on System-wide Services calls for greater transparency and oversight. To do this, these services will be more clearly separated as an organizational entity apart from the Chancellor's Office, and a System-wide Advisory Committee will be immediately established, consisting of the Presidents or their designees. This committee will provide guidance to the Vice Chancellor for Finance and Administration.

3. Make greater use of Internet-based services to support academic activities and student services. This action assumes greater centralization of many services such as help desks, bursars, and student billing offices, to create what is often called a self-service environment that provides high quality and timely services to students. This action will bring more functions to the Shared Processing Center. Most of these changes were envisioned in the SSTP/THESIS report which was completed and approved several years ago (e.g., expansion of loan processing, transfer credit processing, student billing and refunds, financial aid processing, tax return verification, and immunization document processing).

4. More focused work force management. This action will address alternative employment arrangements and benefits programs such as work schedules of less than 12 months, ongoing part-time positions, demand-linked schedules to meet peak workload times, more use of clinical faculty positions, retirement options, stronger management of workload and assignments, etc. Many of these are possible within existing policies and contracts. Others may require policy development and negotiation.

5. Set administrative staffing ratio targets for each institution. Such targets would be part of a focused set of metrics that will guide us in funding decisions, based upon the mid-point of a group of peer institutions.

6. Seek changes in collective bargaining and benefits design. This action includes incentive-based wellness programs, health care quality incentives, modification of discretionary and performance based salary and wage increases, changes to benefit plans to reduce costs, and compensation increases commensurate with available resources. Portions of this action are appropriately addressed in collective bargaining.

7. Revise management group policies. This action includes a review of policies such as of the length of appointment terms, provisions for notice and severance, and greater reliance on compensation increases linked to performance for positions dean-level and above.

8. Establish a centralized purchasing function and re-bid all major contracts using a System-wide contract where possible. This action would

include purchases such as energy, bookstores, food services, fleet cards, vehicles, computer and equipment, etc. This effort can lead to additional outsourcing and inter-university contracting for services.

9. Pursue partnerships with other state entities. This effort would be focused on finding effective ways to advance our mission and/or reduce costs in areas such as IT and health care.

10. Seek revenue enhancements: A subgroup, coordinated by Executive Director Rosa Redonnett, will assess additional sources of revenue. The group will report its findings to the Chancellor and Presidents by June 2009.

ARENA 2: Academic Programs and Services

2.A. Definition: The academic programs and services arena consists of teaching, scholarship, and public service. It includes all related programs and staffing.

2.B. Goals: Primary emphasis is placed on assessing academic programs for viability, reducing program duplication and increasing efficiency of delivery in the context of maintaining and sustaining quality academic-related programs and services. Desired outcomes include greater collaboration between institutions and more effective use of academic outreach centers, the Internet and distance education to provide a quality, affordable university education.

2.C Financial target: To achieve approximately \$8-10 million base budget savings over four years in academic affairs.

2.D. Timeframe/process: Work in the academic arena must move carefully but deliberately, given the need for dialogue among the individuals and groups directly involved in these areas. Decisions will be closely guided by Trustee policies and UMS's collective bargaining agreements. James Breece, Vice Chancellor for Academic Affairs, will lead this effort and work with the Chief Academic Officers (CAO's) to convene the necessary forums for System-wide discussions. Each CAO shall serve as his or her university's liaison to the appropriate faculty, student, and staff groups. The CAOs will submit recommendations to the Chancellor and Presidents Council for review and Chancellor approval, with the first set of recommendations expected by the end of the Spring 2009 semester. Some items may require Trustee approval.

2.E. Actions:

1. Complete a thorough and timely review of academic programs. The purpose of this action is to reduce duplication, eliminate under-enrolled programs and courses, and implement additional collaborative academic

offerings, such as the current math partnership between USM and UMM. This builds on the current 12/5 analysis (review of courses with fewer than 12 enrolled students and programs with fewer than 5 graduates annually) called for by the Trustees in their Financial Guidelines (see Appendix A). Future program additions will receive greater fiscal scrutiny and will have the expectation of being created in response to demand.

2. Establish student-faculty ratio targets for each university. These targets would be part of a focused set of metrics to guide university and System funding decisions. Each university would have a different metric based upon the mid-point of a group of peer institutions.

3. Establish enrollment and graduation targets for each institution. Each institution needs to establish its ideal size and then build budgets accordingly. Continuous enrollment growth at every university is not a viable budgetary strategy, particularly in a state where the average high school graduating class size will decline for the next decade and where a new and rapidly growing Community College System exists.

4. Expand use of ITV, Internet, and outreach centers. Our nationally recognized ITV system and our 10 outreach centers have provided considerable access opportunities for our students. The role and viability of this structure, as presently configured, along with our growing use of Internet instruction, needs review given shifts in population and the impact of technology. This review will include an analysis of current fee structures.

ARENA 3: Structure and Governance

3.A. Definition: The structural and governance arena addresses the System's organizational and financial operation, which has changed little since 1968. The underlying assumption is that UMS will continue to consist of seven institutions with specific missions, all operating within a single System.

3.B. Goals: Emphasis will be placed on considering opportunities and efficiencies that reflect the technologies, pedagogies, demographics, and financial conditions of today—40 years after UMS's creation. The UMS will consider organizational changes that enable its universities to succeed within the current and projected financial realities.

3.C. Financial target: To achieve a \$3-5 million base budget savings over four years.

3.D. Timeframe/process: Successful achievement of these goals requires thoughtful input from many internal and external stakeholders and constituencies. A broad-based and deliberative approach is necessary to gather those perspectives. The Chancellor shall ask the Board of Trustees, at its January 11-12, 2009, meeting, to empower him to establish a multi-constituency task force to gather input, consult broadly, review options, and present recommendations (see Appendix C). The Task Force will report to the Chancellor no later than June 2009. The Chancellor, working with the Presidents Council, will report final recommendations to the Trustees at its July 2009 meeting.

3.E. Actions:

Core charge to the Task Force: the Task Force will gather data, review models in other states, and gather input from individuals and groups inside and outside the System, to foster recommendations on the future structure and function of the System that will result in lower costs of operations and greater financial sustainability. Areas of inquiry will include:

- Size and role of the Chancellor's Office
- Structure, funding, and oversight of System-wide Services
- Levels and sources of funding for universities, including appropriations
- Relationships among universities
- Focus of university missions
- Optimum levels of academic offerings in a geographic area

CONCLUSION

Traditional incremental cost-cutting approaches at the universities and System Office will continue but will not result in the financial sustainability the Trustees seek. Consequently, the Chancellor and Presidents recommend also pursuing a System-wide approach that concentrates on eliminating duplication and achieving economies of scale.

Most of the savings will occur and remain at the campus level as more efficient System-wide structures are put into place. However, the individual universities will continue to review their institutional and operational functions and structures to control the overall operating costs of the University System.

Transformational change is urgent and our work must start immediately. The System has less than six months to find savings as the FY10 budget is built. This work must be ongoing as the FY11-13 budgets must also be crafted and built on a sustainable financial foundation. The transformational changes in administrative and academic efforts must start now and the more involved discussions of structural change must also begin immediately. The financial clock is ticking, and as time passes, the more difficult future decisions will be. The Chancellor and Presidents need the approval and support of the Trustees to

proceed. At each future Board meeting, the Chancellor and Presidents will update the Trustees on progress made. In addition, they will present recommendations at the July 2009 Board of Trustees meeting.

The current circumstances will demand the best of all of us in the universities and at the System Office to achieve financial sustainability, maintain quality, and serve the higher education needs of the state. The people of Maine should expect no less.

Submitted by the Chancellor and Presidents of the University of Maine System

APPENDIX A

Trustees' Financial Guidelines

(Approved on October 7, 2008)

The Trustees, the Chancellor, and the Presidents are all in full agreement that effective financial planning is essential to ensure the quality of academic programs and the ability of the University System to accomplish its mission. Trustees appreciate the dedicated work of the Presidents and their colleagues on campus to establish plans, control costs, and move their universities forward.

Current economic conditions and all projections indicate that we will need to continue and most likely intensify these efforts if we are to achieve the financial sustainability necessary for providing Maine with a first-rate University System. In order to give clarity, consistency, and clear direction for this shared work, the Trustees have established a limited number of key guidelines for strategic initiatives for change that will move the System to a sustainable financial platform, which the Trustees have requested that the Chancellor and Presidents develop for consideration by the Board of Trustees.

1. **Affordability** – In-state undergraduate tuition needs to increase as slowly as possible. The Trustees support current planning guidelines which include an annual tuition increase of no more than 6%.
2. **Measurable outcomes** – This applies to the proposed strategic initiatives themselves, which the Board of Trustees anticipates will require presidential annual plans and System plans to be expressed with measurable outcomes that are based on the Agenda for Action.
3. **Academic efficiency** – The Trustees support the continuing effort of the Chancellor and the Presidents to monitor low enrollment courses and programs. All undergraduate courses enrolling 12 students or fewer should be reviewed at the campus level for academic need, using processes approved by the President and agreed to by the Chancellor. Undergraduate academic programs graduating fewer than 5 students per year should be reviewed at the campus level for academic need using processes approved by the President and agreed to by the Chancellor.
4. **System growth** – In the absence of increased enrollments or program growth, the System Office and campuses need to limit their overall growth

in the near term as part of the effort to control costs and expenses so that current programs are better funded using the following guidelines for controls:

- a. No increase in overall campus unrestricted fund employee FTE's. (Grants, dedicated revenues, and gifts can fund new positions.)
 - b. No increase in campus gross square footage unless funded by 100% external sources.
 - c. All new academic and administrative programs must align with the Agenda for Action.
 - d. All new academic and administrative programs must present a compelling business case.
5. **Administrative efficiency** – Centralization versus decentralization is an ongoing discussion. Administrative functions need to draw upon collaboration and cooperation and the use of an increasing technological capacity. Under the rubric of “one success at a time” all proposed changes in service delivery and administrative processes must be accompanied by a compelling business plan.

The Trustees are optimistic that these five guidelines, implemented by the universities within the context of their individual missions and shared strategic priorities, will result in significant change and progress toward a sustainable financial future for the System. Establishment of these initial guidelines, however, does not preclude future consideration by the Trustees of additional important issues such as campus missions or broader collaborations.

APPENDIX B

NEW CHALLENGES, NEW DIRECTIONS: ACHIEVING LONG-TERM FINANCIAL SUSTAINABILITY

Work Plan

ARENA 1: Administrative, Student, and Financial Services

Under the leadership of Rebecca Wyke, Vice Chancellor for Finance and Administration

Actions:

1. Establish a centralized IT function – Ralph Caruso
2. Achieve greater centralization of back-office services
 - Human Resources – Tracy Bigney
 - Facilities – Ed Dailide
 - Finance – Tracy Elliot, Miriam White, Darla Reynolds
 - Purchasing – Kevin Carr and Janet Waldron
 - Legal Services – Kelley Wiltbank
3. Make greater use of Internet-based services to support human resources, academic activities, student services, and business operations:
 - SSTP/THESIS/Shared Processing Center – Rosa Redonnett
4. More focused work force management – Tracy Bigney
5. Establish administrative staffing ratio targets for each institution – Tracy Bigney and James Breece
6. Seek changes in collective bargaining and benefits design – Tracy Bigney
7. Revise management group policies – Tracy Bigney
8. Re-bid major contracts using a System-wide contract where possible – Rebecca Wyke
9. Pursue partnerships with other state entities – Rebecca Wyke
10. Enhance revenues – Rosa Redonnett

ARENA 2: Academic Programs and Services

Under the leadership of James Breece, Vice Chancellor for Academic Affairs

Actions:

1. Complete a thorough and timely review of academic programs – James Breece and the CAOs
2. Establish student-faculty ratio targets for each university – James Breece and the CAOs
3. Establish enrollment and graduation targets for each institution – James Breece and the CAOs
4. Conduce a review of ITV and outreach centers – President Allyson Hughes Handley

ARENA 3: Structure and Governance

Under the leadership of the Chancellor and Presidents

Actions:

The Chancellor shall appoint a Task Force to gather data, review models in other states, gather input from individuals and groups inside and outside the System, to foster recommendations on the future structure and function of the System. Areas of inquiry will include the size and role of the Chancellor's Office, the structure of System-wide Services, funding mechanisms, university missions, and the relationships among the universities.

APPENDIX C

NEW CHALLENGES, NEW DIRECTIONS: ACHIEVING LONG-TERM FINANCIAL SUSTAINABILITY

TASK FORCE STRUCTURE

Task Force Charge:

The Task Force will gather data, review models in other states, gather input from individuals and groups inside and outside the System, to foster recommendations on the future structure and function of the System that result in lower costs of operation and greater financial sustainability. Areas of inquiry will include:

- Size and role of the Chancellor's Office
- Structure, funding, and oversight of System-wide Services
- Levels and sources of funding for universities, including appropriations
- Relationships among universities
- Focus of university missions
- Optimum levels of academic offerings in a geographic area

Task Force Membership:

All Task Force members will be chosen by the Chancellor, in consultation with the Board Chair, unless otherwise indicated.

1. Two current UMS Trustees appointed by the Board Chair
2. One current UMS President
3. One member of the public with senior-level experience in higher education
4. One member of the public with senior-level experience in large, private sector organizations
5. One member of the public with experience in business, economic development, and work force development
6. The Commissioner of Education or designee
7. One current UMS Student Representative to the Board
8. Two current UMS Faculty Representatives to the Board
9. One union leader knowledgeable about support services
10. One union leader knowledgeable about academic programs

Both the Vice Chancellor for Finance & Administration and Treasurer, and the Vice Chancellor for Academic Affairs will serve *ex officio*.

The Chancellor will select the Task Force Chair from the membership.

The Chancellor will select an outside facilitator to assist the Task Force.