Finance/Facilities/Technology Committee

Present: Committee Members: Norman Fournier, Chair; Samuel Collins (at UMPI), Gregory Johnson (by phone), Marjorie Medd (at USM), Paul Nelson and Karl Turner. Chancellor: James Page. Faculty Representatives: Ray Albert (by phone) and Robert Rice. System Staff: Tracy Bigney, Dan Demeritt, John Forker, Tracy Elliott, Chip Gavin, Susan Hunter, Ryan Low, Richard Thompson, Miriam White and Rebecca Wyke. Presidents: Cynthia Huggins – UMM, Kate Foster – UMF, Allyson Handley – UMA (at UMA), and Wilson Hess – UMFK (at UMFK). Other Participants: Dick Campbell – USM (at USM), Laurie Gardner – UMF, Judy Ryan – UM, Tom Potter – UMM (at UMM) and Tom Perkins - Dirigo Architectural Engineering and Construction Management.

Committee Members Absent: Paul Mitchell and Victoria Murphy

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

FINANCE ISSUES

Approval of Additional $2.5 Million Budget Reduction, USM. Mr. Richard Campbell, USM Chief Financial Officer, explained the request to approve an additional $2.5 million budget reduction at USM. On May 19th the Board of Trustees approved the FY2015 Unified Operating Budget for the University of Maine System. This budget included an unallocated reduction of $2.5 million for the University of Southern Maine with the understanding that the Treasurer would bring forward a plan to allocate that reduction to the July 21, 2014 Board of Trustees Meeting. The allocation plan as prepared by the University of Southern Maine is outlined below.

USM has an estimated $14 million structural budget gap for FY2015. Previously, the Board of Trustees approved $4.5 million in savings that included: positions left vacant, 26 staff layoffs during the last year, and flat funding of deferred maintenance, plus a one-time infusion of $7 million from the System’s Budget Stabilization Fund, for a total reduction of $11.5 million. USM has identified the remaining $2.5 million needed to close the gap, as follows:

1. $1,575,000 by reducing the amount budgeted for positions. While the funds come from reductions in many areas, the four largest reductions are:
   - $605,000 from the voluntary separations of 5 faculty who were previously identified for retrenchment.
   - $247,000 by eliminating funding held to cover the cost of faculty in administrative positions who decide to return to the faculty positions.
   - $200,000 by not replacing administrative positions.
   - $222,000 created by the opportunity to replace retiring faculty and staff with new employees who will be paid less.

2. $483,000 by reducing amount of funds we pool through not immediately filling positions, etc. These pooled funds are invested in new positions.
3. $446,000 from expenditures for non-compensation expenses. These reductions came from a wide range of areas. The three largest reductions were:
   - $151,000 finance and facilities from energy savings and delaying equipment replacements (e.g., delaying replacement of vehicles, decreasing number of vehicles).
   - $107,000 in funds budgeted to support faculty research awards, awards for service and other requests.
   - $38,000 by reducing the use of external consultants.

Closing the remaining $2.5 million gap for the FY2015 budget involved five voluntary separations, 11 faculty retirements, and one staff layoff.

On a motion by Trustee Nelson, which was seconded by Trustee Turner, the Finance/Facilities/Technology Committee agreed to forward, to the Consent Agenda at the July 21, 2014 Board of Trustees meeting, the following item: That the Board of Trustees approve the additional $2.5 million FY2015 budget reduction at USM as presented.

**FACILITIES ISSUES**

**Capital Projects Status Report.** Mr. Gavin provided a brief overview of the Capital Projects Status Report. The report reflects a net total of 22 projects.

**Cell Tower Lease Approval, USM.** Mr. Campbell explained that the University of Southern Maine requested authorization to lease tower space of approximately 325 square feet on the top of the water tower and approximately 2,500 sq. ft. of ground space adjacent to the water tower located at 52 University Way on the Gorham Campus to Portland Cellular Partnership.

Board Policy 802 requires approval of the Trustees whenever a lease exceeds 10 years. This has a potential term of 25 years including optional renewals. This lease, with total lease payments of approximately $1.01 million if all optional renewals are exercised, also exceeds the value threshold which requires Board consideration.

Portland Cellular Partnership is a Maine general partnership d/b/a Verizon Wireless and would be entering the lease for the transmission and reception of communications signals for an initial term of five years with four optional renewal terms of five years each. Portland Cellular Partnership is understood to be entering this lease in connection with use of the facility by Verizon Wireless. Portland Cellular Partnership will pay the University of Southern Maine an annual fee of $30,000 for the initial term. Portland Cellular Partnership will pay for the electrical consumption for the installed equipment. In addition, Portland Cellular Partnership will pay the University of Southern Maine a one-time fee of $8,000 for the loss of two (2) parking spaces. The University intends to replace these spaces at another location. For the optional renewal periods, the annual fee will be increased by 15 percent from the rent paid during the previous term.

Currently, the University of Southern Maine leases space for communication towers at six different sites at Portland and Gorham locations, including two already on top of the Water Tower. The average annual rent received from these locations is $22,983. There will be no increased University operating cost for this installation.
On a motion by Trustee Johnson, which was seconded by Trustee Nelson, the Finance/Facilities/Technology Committee agreed forward the recommendation to authorize the leasing of space at the Water Tower at 52 University Way on the Portland Campus to Portland Cellular Partnership for an initial period of up to five years with the option to renew for as many as four additional periods of up to five years each. The final terms, including rate, associated costs and other terms, shall be negotiated by the University of Southern Maine in the best economic interest of the University, subject to review and approval by the University of Maine System Vice Chancellor of Finance and Administration and General Counsel to the Consent Agenda at the July 21, 2014 Board of Trustees meeting for approval.

**Authorization to Dispose of Stone House, USM.** The Finance/Facilities/Technology Committee agreed to table the authorization to dispose of the Stone House at USM for further consideration and discussion.

**Science Lab Renovations, UMF.** President Kate Foster and Ms. Laurie Gardner, UMF Chief Financial Officer, explained that the University of Maine at Farmington requested approval to spend up to $1,377 million, including $1.2 million in General Obligation Bond funds approved by voters in November 2013 and approximately $177,000 in grants and other funds, to renovate science laboratory space in Preble Hall and Ricker Hall. These laboratory spaces are the heart of the science facilities at UMF and include natural sciences, genetics and computer sciences.

This request is pursuant to Board Policy 701 which requires projects with a total cost of more than $500,000 to be considered by the Board of Trustees or its Finance/Facilities/Technology Committee. In this case, the request is to approve and to forward this matter to the consent agenda of the Board of Trustees. This authorization will allow the renovation of up to ten laboratories within the facilities to improve the learning environment and the infrastructure on which the facilities depend.

Approximately $400,000 will be invested in existing space in Preble Hall, a multi-story, steel and masonry building constructed in 1963. The project consists of the renovation of two general classrooms and one Anatomy and Physiology classroom/laboratory on the first floor with a total area of approximately 2,007 square feet. The renovation will include flooring, ceilings, wall coverings, electrical, projectors and boards, life safety, windows and doors, furniture, and ADA accommodations.

Approximately $977,000 will be invested in Ricker Hall, a multi-story, steel and masonry building constructed in 1962. The project consists of the renovation of one Biology classroom/laboratory on the second floor, one Geology computer laboratory and four Geology classrooms/laboratories on the third floor with a total area of approximately 4,556 square feet. The renovation will include flooring, ceilings, wall coverings, electrical, projectors and boards, life safety, windows and doors, furniture, and ADA accommodations.

This project does not increase facility space or the use of the space. Any change in operating costs is expected to be negligible. Construction is expected to be complete by September 2015.

On a motion by Trustee Turner, which was seconded by Trustee Collins, the Finance/Facilities/Technology Committee agreed to forward the recommendation to authorize the expenditure of up to $1,377,000, including up to $1.2 million in General Obligation Bond funds, $120,000 from grant funds and $57,000 from campus reserves, to renovate Preble Hall and Ricker Hall science laboratories to the Consent Agenda at the July 21, 2014 Board of Trustees meeting for approval.
Natural Gas Central Heating Plant, UMF. President Foster, Ms. Gardner and Mr. Tom Perkins, Engineering Consultant from Dirigo Architectural Engineering and Construction Management, explained the request for UMF to contract for the construction of a natural gas-fired central heating plant on Farmington campus to consume natural gas in lieu of heating oil. At its January 6, 2014 Committee meeting, the Finance/Facilities/Technology Committee recommended approval of UMF entering into an agreement to provide natural gas to the campus. This recommendation was moved to the consent agenda at the January 29, 2014 Board of Trustee meeting and accepted.

Pursuant to this earlier approval, The University of Maine at Farmington now hereby requests Board approval to increase the scope and approved maximum expenditure for the approved Natural Gas Conversion project on the Farmington campus, financed through System resources or outside third-party financers including the issuance of revenue bonds.

Recent Progress. Following the Board approval, UMF issued Notice of Intent letters with Summit Natural Gas and Trane Energy Services from the outcome of UMS RFP 11-13. Summit Natural Gas has made a commitment to have natural gas to the Farmington area by October 2015, and Trane Energy Services has provided a gap-analysis of the campus as well as high-level cost proposals for alternate heating scenarios for the campus.

Originally, UMF was looking to expend between $2-$4 million to convert 46 individual boilers/burners on the campus to accept natural gas. Although this initial project was expected to save the University $4 million in fuel cost savings over ten years, have a simple payback of less than five years, and to generate a positive operating cash flow potentially as soon as its first year of operation, the project did not address the six existing steam plants on campus that are beyond the end of their useful life and are not able to be retrofitted to accept natural gas fuel due to their age and construction. Aside from steam system inefficiency, these existing systems are in dire need of replacement in the next three years, at an estimated cost of $5 million.

As UMF got deeper into the design stage, it became clear that the campus would not get the full and universal benefit of changing to natural gas from heating oil by not accommodating these steam plant buildings. In addition, UMF would still have approximately 34 individual heating plants to maintain, which is labor intensive to yearly operations and maintenance budgets. If UMF does not convert these steam plants, it will have a mixture of heating systems to maintain as well as old and new technology. Converting these six facilities to modern hydronic heating systems is projected to increase their overall efficiency by 28% and provide a simple payback of 7.9 years on these systems alone. In light of the infrastructure needs, UMF went back to the RFP submissions and reconsidered a central heating plant option that would service the entire campus. Aside from the financial advantages further discussed below, there are several tangible qualitative advantages to this option.

Financial Analysis and Finding. Given the potential increased project conversion cost, the project team elected to go back to the results of the RFP and evaluate all of the options on a simple payback basis. UMF engaged third-party energy consultants to provide an impartial analysis of the various options. Their cost model includes current commodity rates, inflation rates, available incentives, FTE reductions, efficiency gains, and updated capital project cost estimates from Trane.

Payback. The results of this numerical analysis show that the original project (Option 2) still has the quickest simple payback, but ignores the approximate $5 million in steam conversions that will need to be otherwise funded. Choosing to remedy the steam conversion issue with this project, the numbers
show that converting all of the steam systems (Option 1) or constructing a central heating plant (Option 3 or 4) provides nearly equal payback.

Capital Investment. The revised project is projected to have an approximate cost of $11 million (depending on final design), save the University approximately $8.6 million in fuel costs over ten years, and, depending on final costs, have a simple payback of less than 9.89 years. Modeling has shown that this project would be entirely self-funding over 15 years with an estimated positive $3.3 million cash flow in year 15. The final debt service will be determined by overall budgetary and other strategic considerations while not exceeding the life of the asset.

Efficiency Improvements. The efficiency improvements over the entire campus associated with the conversion to natural gas are anticipated to reduce UMF’s thermal energy consumption by the equivalent of 106,800 gallons of No. 2 Oil. The savings created will allow UMF to achieve badly needed capital improvements, to reduce ongoing operations and maintenance costs, and to have a fuel-flexible central heating plant – all paid for through a project that is structured to be entirely self-funding.

Building Area. UMF acknowledges that construction of a Central Plant will add approximately 7,500gsf (50’ x 150’) to the campus footprint. At this time, UMF has identified approximately 4,000gsf to remove from the campus within the next two years. However, there may be additional reductions that will occur when the campus master plan is complete.

Financing. Multiple financing options have been considered including third-party private and revenue bonding options. Final financing will be determined in consultation with the University of Maine System Director of Finance subject to approval by the Treasurer. The likely choice is revenue bonding by the University and, in that case, the request for that specific authority would be brought before the Trustees as required for approval at a future meeting apart from this project approval. The intent is to issue debt not to exceed the useful life of the asset. Once the financing is fully repaid, cash flow will be increased even more for the balance of the 40-year anticipated lifespan of the central heating plant equipment.

Recommendation. UMF is recommending a change of focus from the original campus-wide natural gas distribution project, and instead constructing a natural gas-fired central heating plant with a hot water distribution system on campus. A central heating plant will allow UMF to be more flexible in the future when it comes to commodity cost, having the ability to easily switch between natural gas and oil (and biomass solid fuel in the future).

As previously described, this agreement is not expected to be a traditional design, bid, build construction agreement but rather is expected potentially to involve an energy services agreement or other alternative contracting methods. In part, this is because the natural gas pipeline is yet to be built and the agreement will involve the University benefiting in facility infrastructure improvements on campus while paying for those improvements from its energy savings rather than as an up-front capital investment of University funds.

On a motion by Trustee Turner, which was seconded by Trustee Johnson, the Finance/Facilities/Technology Committee agreed to forward the recommendation to authorizes the University of Maine System, on behalf of the University of Maine at Farmington, to increase the scope and approved maximum expenditure of $11 million to build a central plant and distribution system that is dual-fuel, which is natural gas with a #2 oil backup, with the capacity to add a biomass boiler after five years. The final term, including rate, associated costs and other terms, shall be negotiated by the University of
Maine at Farmington in the best economic interest of the University, subject to review and approval by the University of Maine System Treasurer and General Counsel to the Consent Agenda at the July 21, 2014 Board of Trustees meeting for approval.

**Compressed Natural Gas Conversion, UMM.** President Cynthia Huggins and Mr. Tom Potter, Chief Financial Officer, from UMM explained the request to contract for the delivery of compressed natural gas to the University of Maine at Machias and to enter other such agreements as may be necessary to make the infrastructure improvements on campus to consume that energy in lieu of heating oil.

This project is estimated by outside energy specialists to save the University $2.58 million over ten years, to have a simple payback of 7.6 years, and to generate a positive cash flow potentially as soon as the first full year of operation, with the final fiscal impact to be determined by the final plans and agreements for this project. The option being pursued by the University also was determined by third-party energy advisors to have the highest estimated net present value.

This request is to follow-up to the prior approval granted by Trustees to proceed with a non-traditional public solicitation for the conversion of UMM and other campuses which currently use heating oil, to instead use more cost-effective energy sources.

As previously described, this agreement is not expected to be a traditional design, bid, build construction agreement but rather involves a fuel purchase agreement (FPA) with alternative contracting methods. The cost proposal of a $1.8 million distributed gas system includes a decompression station, distributed piping, boiler replacements, and building conversion work. The project will provide a dual-fuel capability. Multiple financing options have been considered including third-party private and revenue bonding options. Final financing will be determined in consultation with the University of Maine System Director of Finance subject to approval by the Treasurer. The likely choice is revenue bonding by the University and, in that case, the request for that specific authority would be brought before the Trustees as required for approval at a future meeting apart from this project approval. The intent is to issue debt not to exceed the useful life of the asset.

This request follows a publicly-advertised solicitation in which UMM selected XNG to carry out the project. XNG will provide the FPA for the first five years and XNG will sub-contract with Trane to carry out the infrastructure project. In addition to the cost savings, the use of natural gas is estimated to reduce UMM’s carbon emissions by approximately 28 percent per every unit of heating that is displaced by natural gas.

On a motion by Trustee Nelson, which was seconded by Trustee Johnson, the Finance/Facilities/Technology Committee agreed to forward the recommendation to authorize the University of Maine System acting through the University of Maine at Machias to enter such agreements as may be necessary but not to exceed a term of 15-years to secure delivery of compressed natural gas to the campus and facility improvements on campus necessary to consume that energy. The final terms, including rate, associated costs and other terms, shall be negotiated by the University of Maine at Machias in the best economic interest of the University, subject to review and approval by the University of Maine System Treasurer and General Counsel to the Consent Agenda at the July 21, 2014 Board of Trustees meeting for approval.

**INFORMATION TECHNOLOGY ISSUES**
**Data Center Capacity and Security Projects Introduction.** Mr. Richard Thompson, Chief Information Officer, explained the Data Center Capacity and Security Projects. This project is reported to the Committee as an Information Technology project over $250,000. This project combines initiatives to expand the data center’s capacity and information security enhancements recommended by Presidio. The data center expansion is necessary in order to meet goals outlined in Information Technologies’ Administrative Review. The Finance/Facilities/Technology Committee and Audit Committee have already acknowledged the need to proceed with the information security initiatives.

**Approval to Complete Upgrade of IT Telecommunications Services, UM.** Mr. Thompson explained that University Services: Information Technology request for approval to expend up to $2,100,000 to complete the upgrade of the University of Maine Information Technologies telecommunications services. In 2009, the University of Maine began the implementation of the University of Maine Information Technologies Telecommunications Services Roadmap 2010–2015. The University of Maine’s telephone system has been in continuous service since December 6, 1991. In January of 2009, the vendor went bankrupt leaving the University of Maine with an aged system and without support. The combination of technological changes, loss of manufacturer support, and the age of the hardware in service at the University of Maine necessitated updating the technology.

As of this writing Information Technology has installed 1,380 IP telephones in 42 buildings and portions of six more on the University of Maine campus. In addition, 61 VoIP telephones have been installed at the Darling Marine Center in Walpole and 58 VoIP telephones have been installed at the Hutchinson Center in Belfast. Approximately 1,300 digital telephones and approximately 800 analog telephone ports remain to be replaced at the University of Maine. It is recommended that this process proceed as outlined in the University Services: Information Technologies’ University of Maine Voice Services Roadmap 2014–2016 (June 2014).

Project expenses will include the upgrade of the local area network (LAN) wiring infrastructure in some of these buildings as well as the purchase of telephones, licenses, LAN switches, and power protection to serve these remaining locations. University Services estimates that the maximum expenditure to complete the networking infrastructure upgrade and telephone system replacement will be $2,100,000.

The University of Maine has a telecommunications reserve fund containing $1,600,000 to support this project. The work will be prioritized and managed to the reserve fund amount. However we will be looking for other funding opportunities such as grants to fund the remainder of the project, as well as reduce spending from the reserve account.

On a motion by Trustee Johnson, which was seconded by Trustee Turner, the Finance/Facilities/Technology Committee agreed to forward the recommendation expend up to $2.1 million to complete the upgrade of the University of Maine Information Technologies telecommunications services subject to review and approval of final terms and conditions by the Treasurer and General Counsel to the Consent Agenda at the July 21, 2014 Board of Trustees meeting for approval.

**Facilities Administrative Review**

Trustees Fournier and Turner as members of the Facilities Administrative Review thanked Mr. Gavin and Mr. Low, as the Co-Chairs, for their extensive work on this project.

Adjournment.

Ellen Doughty for
Tracy B. Bigney, Clerk of the Board