Week of August 3

Trustees,

We've all read with interested concern the news from the Governor's office over the last two weeks. I reported to you last week about the State's lower revenue projections through FY23, and this week, the Governor's office issued a 10-percent state budget curtailment directive. To a large degree, there's no surprise. We've been expecting lower state revenues and likely reductions to our E&G appropriations, and your conditional FY21 budget approval at the end of June wisely anticipated that we would consider this new information, along with important additional information about Fall 2020 enrollment that we don't yet have, to make necessary adjustments to the FY21 budget through September and October. And while the news is obviously concerning, nothing is final yet.

With this expected information at the top of our minds, and understanding your fiduciary concern for the stability and fiscal health of the System's budgets, I would like to share some preliminary thoughts this morning on how we might factor this new information into the System's budget planning -- our initial strategic budget roadmap, if you will. At the same time, with the discipline to use our recently secured unified accreditation strategically, along with existing resources to manage reductions responsibly at each university and within the System as a whole, I fully expect that we can preserve our ability to meet the Board's strategic priorities even as we take necessary fiscal steps to manage our budgets properly in this environment.

Let me start by reviewing how we got here.

I don't need to revisit the early spring onslaught of the global pandemic. It's sufficient to recall that our necessary responses to the pandemic resulted in more than $25 million in lost revenue or unplanned expenses as we neared the end of our FY20 operations. But with reduced expenses, reserve transfers, and nearly $9 million in pandemic-related operational support from the federal CARES Act, we were able to close out the fiscal year responsibly.

At the same time, through our normal pre-COVID 19 budget cycle, we had been planning our FY21 budgets with the hope for an E&G increase and stable enrollments and revenue. That obviously all went out the proverbial window. By May, when the Board would normally have approved the FY21 budget, we were still adjusting our FY21 projections to assume a flat E&G appropriation at best, lower-than-planned enrollment and credit hour production, and reduced revenue from room and board auxiliary operations. Thus, knowing the FY21 budget would have to be adjusted, but not having the final enrollment, room and board, or even state E&G

information necessary to make those adjustments, we presented a preliminary FY21 budget that included four campuses in balance or with a slight surplus and four in deficits requiring further action. All the while, though by no means guaranteed, we've been monitoring the possibility of additional support from further federal pandemic relief legislation or the State of Maine itself (following recommendations from the Governor's Economic Recovery Committee for a $75 million infusion from state CARES Act money for higher education operations in Maine).

Your conditional approval at the end of June of our FY21 preliminary budget plan directed that we constantly monitor the budget situation and review our planning for FY21 budget changes at the next Finance, Facilities and Technology Committee meeting scheduled for September 2 and at full Board meetings scheduled for September 27-28 and October 28. You asked that Vice Chancellor for Finance and Administration Ryan Low update the Committee and the full Board at these meetings with the new information that becomes available on Fall 2020 enrollment, ongoing pandemic impact and needs, and possible state E&G appropriation changes. Importantly, you directed that Vice Chancellor Low propose any changes necessary to the budget as soon after Fall 2020 census, state E&G appropriation changes, and any other revenue reductions, if any, became more certain.

While the picture is still far from complete, as I noted above, we now have two new pieces of information. First, as I reported last week, the State's Revenue Forecasting Committee projected that State General Fund revenues will decrease by $524 million in Fiscal Year 2021, $434 million in Fiscal Year 2022, and $449 in Fiscal Year 2023. It's expected that $106 million in unappropriated surplus for the current biennium will offset the FY21 revenue reduction, resulting in a projected net reduction of $418 million. Second, late Wednesday, State Finance Commissioner Kirsten Figueroa emailed state department heads -- including UMS -- to ask for proposals by August 19 for how we would manage a 10-percent FY21 budget curtailment. We're to provide budget plans to the State by September 1 for how we would carry that 10 percent E&G cut through the FY22-23 biennium as well.

Serious as the news and situation is, it's not time yet to mechanically impose 10 percent cuts across the System. In the FY21 curtailment process, as well as more generally for the FY22-23 biennial budget development process, we will quantify the impact of 10-percent reductions from FY20 base appropriation levels and then -- importantly -- make the case for why the Legislature and Governor should preserve our funding in either the E&G or General Fund budget or through alternative revenue sources (such as the $75M federal CARES Act funding proposed for Maine higher education by the Governor's Economic Recovery Committee or even further federal relief should Congress pass additional legislation as the pandemic wears on).

Relatedly, MEIF funding has been spared from past curtailment orders, and we believe debt service funding should be removed from consideration too, given that System debt was incurred on the pledge of that stable revenue stream.

That said, if a 10 percent curtailment is ultimately imposed for FY21, we will be prepared when we present our FY21 budget adjustment plans through September and October (according to your June budget resolution), and we will also have plans for carrying that reduced funding level forward for the FY22-23 biennium, as the State has initially projected. Our legislative strategy will of course be to shore those amounts up, and Vice Chancellor Low and I and my System leadership team will begin immediate work with the Presidents and Dean Saufley to determine how to strategically manage reduced E&G revenue across the System. An early idea we are considering would have us identify resources for a System-wide unified accreditation strategic fund that would provide incentives to our universities to use unified accreditation to propose strategic program collaborations that save money while expanding market-relevant programs more efficiently across the state.

Clearly we have our work cut out for us. We must and will contract overall to align ourselves with the budget realities we face. At the same time, your end-of-June FY21 conditional budget resolution already wisely anticipated these initial steps as the State revenue and FY21 budget picture became more clear going into the fall. Although we do not yet believe any emergency actions are necessary, we'll develop appropriate contingencies all the same, and we'll be transparently sharing our planning with you as we go forward.

Thank you for your stewardship. It's never been more important.

Regards,
Dan