

UNIVERSITY OF MAINE SYSTEM

Board of Trustees Meeting

at the University of Maine System

March 9, 2015

Finance/Facilities/Technology Committee

Present: Committee Members: Norman Fournier, Chair; Samuel Collins, James Donnelly, Gregory Johnson (by phone), Marjorie Medd, Paul Nelson, and Karl Turner. **Chancellor:** James Page. **Faculty Representatives:** Harlan Onsrud (for Robert Rice at UM), and Cathleen McAnney (at UMF). **System Staff:** Tracy Bigney, Dick Campbell, Chip Gavin, Theo Kalikow (at USM), Richard Thompson, John Forker, Miriam White, Tracy Elliott and Rebecca Wyke. **Presidents:** Wilson Hess, Joyce Hedlund (at UMM), Susan Hunter, Glenn Cummings Linda Schott, David Flanagan and Kate Foster (at UMF). **Other Participants:** Claire Strickland (at UM), Mark Hatt, Chris Bell (at UMPI) Buster Neel, Ryan Low, Laurie Gardner (at UMF), Tim Broklaw, John Murphy, Janet Warnert (at UMS), Ray Rice (at UMPI), Thomas Dunne (at USM), and Steward Harvey (at UM).

Committee Members Absent: Victoria Murphy.

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

TECHNOLOGY REPORT

Review of projects with a value of \$250,000 or greater. Mr. Richard Thompson, Chief Information Officer, provided an update on the following Information Technology projects with a value of \$250,000 or greater:

Data Center Capacity and Security

This project consolidates several initiatives that impact the data centers. The projects are being combined for coordination and management of the projects collectively. These initiatives will build upon the facilities renovation of the data centers in Orono and Portland and will respond to the information security recommendations provided by Presidio. The data center expansion is funded at \$250,000. It will provide support for additional servers and data storage equipment in the Orono data center in order to consolidate current campus-based services as outlined in the IT Transformation plan. The project provides two additional 10 Gigabit per second switches; an additional 16 terabytes of storage and five server blades are needed. The information security projects funded at \$410,000 include secure network engineering and boundary controls; configurations and account management; and centralized logging.

Facilities Software Project – IWMS

The purpose of this project is to acquire and implement an integrated workplace management system to replace the current UMS work management, space management, utility management, asset management and, ultimately, capital planning systems to support facility management activities, planning and decision-making statewide. The system must be able to interface with existing MaineStreet systems. Outcomes will include a solution scalable enough for the smallest and largest of campuses to use efficiently, better integration between general ledger, procurement and human resources, and provide standards and a system of record for space, which today is stored in several systems in varying, inconsistent, ways.

VoIP for UMaine

The upgrade of the telecommunications services at UMaine includes the upgrade of the local area network (LAN) wiring infrastructure within buildings as well as the purchase of telephones, licenses, LAN switches, and power protection to serve these remaining locations.

Chief Information Officer Report on Information Technology. Mr. Richard Thompson, Chief Information Officer, provided information related to infrastructure, service delivery accomplishments and challenges, and continued IT transformation. These included the assignment of resources to and focus on academics through engagement of faculty and instructional design staff. Mr. Thompson also talked about the US:IT 2.0 – Achieving Process Orientation which includes strategic round table, portfolio management and operational excellence.

Chief Information Security Officer Report on Laptop Incident. Mr. John Forker, Chief Information Security Officer, provided information related to a recent laptop security incident. Mr. Forker described the circumstances of the theft of the laptop, potential data loss, actions to protect and inform students and related UMS policies.

FACILITIES ISSUES

Annual Facilities Report by Sightlines. Mr. Chip Gavin, System Director of Facilities Management, presented a brief overview of the Sightlines annual Return on Physical Asset (ROPA+) report regarding the University of Maine System's facilities and facility management operations. The Sightlines data continues to show a challenging situation in which the University's renovation age, density, service process index and other metrics lag its competitors and generally have worsened compared with internal data year over year.

The Sightlines data is beginning to show success at arresting these trends. The Sightlines presentation highlighted the following areas: that investment into existing space compared with new space has increased markedly; that the amount of space in the 50+ year renovation age category increased at a slower rate; and, the decline in the overall net asset value of the entire portfolio, while still lagging peers and lower than in the recent past, appears to be slowing and potentially stabilizing.

Sightlines also will be presenting new forecast information (ROPA+ in Sightlines terminology) about the investment needed in future years.

Facilities Management Administrative Review and Recommendations. Mr. Gavin presented the final report and recommendations of the Administrative Review team in Facilities Management. The Team was chartered in September 2013. It was comprised of nine members representing a variety of perspectives including Trustees, Chief Financial Officers, Presidents, and Facility Directors; from larger and smaller universities and from campuses north and south.

Because the size and scope of the review, the Team divided into two primary work groups: a Functional Team to review operational administration and management of the UMS facilities, assets, and services; and a Planning Team to develop a strategic, System-wide, multi-year plan to manage UMS facilities.

Findings and Recommendations outlined in the Executive Summary are as follows:

The Administrative Review Report presents the specific recommendations of the team to help achieve the highest cost-effective use of capital facilities, property, and infrastructure in order to best support the collective mission of the University of Maine System and its individual campuses.

An executive summary is by necessity not the complete picture, and the team recommends for adoption the further action steps and particulars described in the full report. Among the key findings and recommendations are these:

1. UMS should right-size the facility portfolio to reduce costs and improve the quality of facilities. Examples of recommendations include:
 - Establish a long-term Net Asset Value (NAV) goal, with an interim goal of steadily improving the NAV annually starting in 2016. Attempt to achieve a net asset value System-wide of 70 percent or better, with an interim goal of 63 percent by Fiscal Year 2022. The facility portfolio currently has a net asset value of approximately 59 percent.
 - Work to right-size the overall UMS facility portfolio using the density factor metric. Attempt to achieve a System-wide density factor of at least 340 users per 100,000 gross square feet of space by Fiscal Year 2022 and ultimately a density of 400 users or more. Strategies to improve density generally involve increasing the users or reducing space in some manner.
 - Update Board policy and University procedure to require Trustees review and approval for any project that would increase the amount of square footage owned or occupied by the University or which would increase operating costs.
2. Identify and fund the long-term capital needs of the System. Examples of recommendations include:
 - Adopt a 3-tiered planning strategy across the enterprise that involves each campus having and maintaining a campus master plan to guide the general direction of the campus, a 5-year capital plan that is aligned with the master plan and a component of the multi-year financial analysis; and a 1-year capital work plan that is aligned with the other layers and is a component of the annual budget considered by Trustees. The one-year work plan should include not only improvements, but also the annual identification of any surplus real property which should be or could be considered for disposal or repurposing.
 - Update the budget process to include capital budgets as a distinct component of the annual budget process.
 - Continue to strive to reach the 100 percent funded depreciation goal and to avoid losing ground from gains achieved while still being open to adjustments in the timeline for achieving the goal in a way that is consistent with the annual budget proposed to and ultimately adopted by Trustees.
 - Implement the Total Cost of Ownership principle throughout the University of Maine System, with required reporting and eventual goal setting.
3. Review current prioritized processes for best practices or improvements. Examples of recommendations include:
 - Functionally align the current capital project management function to better serve the needs of the University of Maine System and improve the ability of industry to work with the University.
 - Work toward consolidated processing of work orders and the establishment of a centralized work control or work coordination processing function.
 - Formalize and make permanent the pilot project in enterprise Safety and Environmental Services to serve those needs System-wide.

- Implement the LEAN management team's findings to streamline lease processing and lease administration.
 - Increase efforts and opportunities to promote sharing of best practices and expertise statewide, including in the areas of grounds, trades and custodial.
 - Monitor the Strategic Integration Target 2 and 3 initiatives in particular and be prepared to consider and to achieve additional structural reorganization as may be necessary for facilities management to remain effective and efficient in a changed organizational landscape.
4. Benchmark UMS operations and institutionalize selected benchmarks. Examples of recommendations include:
- Implement the suggested twelve Key Performance Metrics across the University of Maine System to measure and monitor facility quality, costs and performance. Key among these measures are: Density; Net Asset Value (NAV); Capital Expenditures on Existing Space; Annual Facilities Operating Expenses; Total Cost of Ownership (TCO); and Energy consumption and cost.
 - Ensure adoption and beneficial use of the Integrated Workplace Management System, now in implementation.
 - Update and formalize the procedural matrix for UMS capital projects and offer periodic professional development regarding UMS capital procedures.
 - Monitor and report on staffing ratios to ensure UMS continues to function at least as aggressively as benchmark zone indicators suggest should be achievable, including in the functional areas where most facilities management personnel work: grounds, trades and custodial.

On a motion by Trustee Turner, which was seconded by Trustee Johnson, the Finance/Facilities/Technology Committee voted to forward the following resolution as an action item at the March 15-16, 2015 Board of Trustee meeting:

That the Board of Trustees approves the final report of Administrative Review Team in Facilities Management and adopts its recommendations as presented for implementation.

Authorization for Sale of Real Property. Mr. Gavin explained that this is a request for authorization to sell or otherwise dispose of various parcels of real property owned by the University of Maine System in Bangor, Portland, Orono and Machias, and to expend necessary associated funds. The proposed actions, if all ultimately are authorized and implemented, would reduce the footprint of the University of Maine System by as much as 9 buildings, 102,000 square feet of facility space and 30 acres of undeveloped property. This request is in keeping with the types of actions being recommended by the Administrative Review Team for Facilities Management and the goals of increasing quality and density of facilities while reducing costs and re-investing in the University's mission. The parcels of real property are as follows:

University of Southern Maine, Portland:

The University of Southern Maine led and conducted a pilot project facilities review in partnership with the Administrative Review Team in Facilities Management from approximately October, 2014 to January, 2015. The University has identified and prioritized as many as seven facilities on the perimeter of the Portland campus for potential sale. All of the prioritized facilities at USM are residential in scale. The properties are located on Chamberlain Avenue, Deering Avenue and Granite Street. In addition, the University intends to vacate certain additional leased space in Portland.

This effort, while primarily a resource issue, also provides an important opportunity to address the role of campus geography in creating a dynamic academic community – one that fosters student learning, faculty scholarship and community engagement.

With regard to resources, a report prepared by Planning Decisions of Hallowell, Maine, for the USM pilot project team identified a potential one-time sale value of approximately \$1.2-\$1.4 million for the seven buildings. The operating savings from lower lease costs and lower operating costs are estimated to be an additional \$250,000-\$300,000 annually or \$1.25 to \$1.5 million over five years. That is a total gross estimated positive impact of \$2.45 to \$2.9 million over the first five years.

USM also is requesting authorization at this time to expend up to \$1.5 million in reserve funds identified by the University to vacate the space, carry-out the proposed sales and relocate personnel to other space on campus. The University would not expect the costs to be less than \$1 million nor more than \$2 million.

It is the University's expectation and intention that the impact on the University will be financially neutral or net positive over the first five years and positive thereafter, as the sale of the building and the avoided operating costs off-set these transitional costs. The currently estimated result is a net positive impact over the first five years of approximately \$900,000 to \$1.4 million, with ongoing operating savings continuing thereafter.

Planning is not yet fully complete, several space options still are being studied and the total scope of work is not yet fully known. Formal appraisals are yet to be done and would be conducted as part of the project and prior to the execution of any sale. Consequently costs are still very much estimated and adjustments to the estimates provided may be necessary, but time is of the essence. Because of the academic calendar, portions of this work are being targeted for completion by August 15, 2015.

The University of Maine, Orono:

The University of Maine has identified approximately 30 acres of undeveloped land, largely with road frontage along Stillwater Avenue in Old Town, for potential sale. The property today is a relatively small portion of what is known as the DeMeritt Forest. The 1,650 acre Dwight B. DeMeritt Forest constitutes the core of the nearly 2,000 acres of University owned forest located immediately adjacent to the University campus in Old Town and Orono.

This land was received by the University from the United States government. The acceptance included restrictions and others have since been added by the federal government. Crucially, all proceeds from the sale, lease, exchange or other disposition of the land must be used by the University for the acquisition of land to be held permanently for university purposes and such funds must be held separately by the University. The University proposes to do exactly that. The University believes this property's greatest value to the University would be to monetize the property and to make those resources available for the purchase of land of greater academic value elsewhere. No opinion of value is yet available for the acreage. An appraisal will be secured prior to the execution of any sale. The request for authorization is in the event the value of the proposed sale exceeds \$50,000.

The University of Maine at Machias:

The University of Maine at Machias is leading and undertaking, similar to the University of Southern Maine, a pilot project regarding its facilities in partnership with the Administrative Review Team. While the project at UMM remains in progress, it already has emerged that a determination and action will be required with regard to Kimball Hall on the campus. Kimball Hall is an approximately 28,000

square foot facility. It houses faculty offices, student gathering spaces and The Galley – a small dining area. It also contains the UMM Facilities Division. It does not house any living quarters or classrooms.

Options for action are still under review and range from sale to rehabilitation to removal. This request for authorization, while earlier in the review and assessment process than might otherwise be requested of the Board, is further spurred by the University's vacating of Kimball Hall due to questions about its envelope and integrity in February, 2015. A full engineering assessment is proceeding to understand the seriousness of the issues confronting the building. Even without that assessment, Sightlines has estimated Kimball Hall to have net asset value of just 25 percent and a backlog of work estimated at nearly \$4.5 million. The building's construction age and its estimated renovation age each exceed 100 years.

The matter is before the Board in the event that the University nonetheless determines to sell the facility. A sale also would require the approval of the Governor, which would be requested if and when necessary. The University does not generally require the Governor's approval to sell a specific building but it is required in certain circumstances. The other possible options for Kimball Hall either do not require Board consideration or the consideration is not being requested at this time. Management, for example, has the existing authority to remove the facility should that be the determination of the assessment now under way, provided the removal does not exceed \$500,000 in cost. If rehabilitation is the determination, the rehabilitation project would come back before the Board prior to proceeding.

No opinion of value is yet available for Kimball Hall. An appraisal will be obtained prior to the execution of any sale, removal or other disposal. The interim pilot project at UMM by Planning Decisions Inc. states, in part: "It is important that this study be completed as quickly as possible, and that a decision on Kimball's future is made."

16 Central Street, Bangor:

The University of Maine System and the Board of Trustees have publicly been discussing the potential sale of its condominium space and interests in the building at 16 Central Street since September, 2014. The System, in turn, has been in regular communication verbally and in writing with the City of Bangor, which is the sole other member of the condominium association and owner, regarding this potential sale.

It is now proposed that Trustees formally authorize the System to pursue such a sale. If approved, the University will move forward with the City and to meet its specific obligations to the City which include: 1. Notifying the City that the University has made a good faith effort to occupy the building for at least 20 years but can no longer continue to do so. The University will explain it cannot remain until 2030 because of the need to reduce the scale and cost of its physical plant given the structural financial gap and enrollment trends it is confronting. 2. Providing the City with 180 days' notice of the University's intended relocation; and, 3. Offering the City right of first refusal to purchase the University's interests at fair market value.

Planning is in progress to relocate the approximately 110 staff currently at 16 Central to other locations of the University, primarily the campuses in Orono, Bangor and Augusta. Certain staff also will be located at other campuses.

An appraiser has been contracted and the resulting appraisal will form the basis of the value the University will seek in selling its interest in 16 Central Street. The value is expected to exceed the \$500,000 threshold, which requires Trustee approval.

The exact timing of the relocation and the completion of it depends at least in part on the time necessary to prepare the space which is to be occupied. In at least one case, this preparation may involve fitting out a currently vacant building on a campus, such as Lincoln Hall at the Bangor campus of the University of Maine at Augusta. Other improvements to make the best use of existing space for campus functions which may be impacted by this transition also may be necessary, such as improvements at Lewiston Hall on the same campus.

To that end, the University intends to proceed with planning, design and potentially some construction expenses up to \$1 million and to return to the Board with a more formal plan for the relocation at its May meeting, contingent on approval of the resolve associated with this agenda sheet. At this time, it is expected the cost for the relocation will not be less than \$1 million. Those costs are not confirmed at this time and it also is the University's expectation and intention that the impact on the University will be financially neutral or net positive over the first five years and positive thereafter, as the sale of the building and the avoided operating costs off-set these transitional costs.

Advancing the One University goal for a fully integrated university, the disposal of 16 Central Street and the relocation of staff also achieves other goals of the Trustees and Chancellor such as: greater integration of University Services functions with campus functions and campus life; advancing the One University for a fully integrated university, with multiple, mission-differentiated campuses; improving the net asset value of University facilities; and, increasing the density factor of University owned space.

In each case described above and per the text of the resolution below, the Board's approval would authorize but not commit the University to act and would preserve that flexibility as each of these projects unfolds.

On a motion by Trustee Donnelly, which was seconded by Trustee Johnson, the Finance/Facilities/Technology Committee voted to forward to the Consent Agenda at the March 15-16, 2015 Board of Trustees meeting the following resolution:

That the Board of Trustees approves the recommendation of the Finance, Facilities and Technology Committee to authorize the University of Maine System:

- A. Acting through the University of Southern Maine, to sell or otherwise transfer certain real property, buildings and land, on Chamberlain Avenue, Deering Avenue and Granite Street in Portland and to expend up to \$1.5 million from University reserve funds identified by the University of Southern Maine to relocate personnel to other facilities.
- B. Acting through the University of Maine, to sell or otherwise transfer up to approximately 30 acres in Old Town generally along Stillwater Avenue and being a portion of the DeMeritt Forest.
- C. Acting through the University of Maine at Machias, to sell or otherwise transfer Kimball Hall in Machias; and,
- D. To sell or otherwise transfer the real property and interests in the building known as 16 Central Street, Bangor, and to expend up to \$1 million from funds identified by the University Treasurer, subject to future adjustment, to relocate personnel to other locations of the University of Maine System.

Cell Town Lease Authorization, USM. Mr. Gavin explained that the University of Maine System acting through the University of Southern Maine requests authorization to lease communication tower space of approximately 200 square feet on the top of the Law School building located at 232 Deering Ave in Portland, ME to T-Mobile Northeast LLC.

T-Mobile Northeast LLC 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. T-Mobile Northeast LLC will pay the University of Southern Maine an annual fee of \$30,000 for the initial term. The annual rental fee will increase by 3 percent each year. T-Mobile Northeast LLC will pay for the electrical consumption for the installed equipment. In addition, T-Mobile Northeast LLC will pay the University of Southern Maine a one-time fee of \$8,000 for the use of existing infrastructure on the Law School roof.

Currently, the University of Southern Maine leases space for communication towers at seven different sites at Portland and Gorham locations, including two already on top of the Law school. The average annual rent received from these locations is \$23,985. There will be no increased University operating cost for this installation.

On a motion by Trustee Medd, which was seconded by Trustee Donnelly, the Finance/Facilities/Technology Committee agreed to forward this item to the Consent Agenda at the March 15-16, 2015 Board of Trustees meeting for approval of the following resolution:

That the Board of Trustees authorizes the leasing of space on the rooftop of the Law school building at 232 Deering Ave. on the Portland Campus to T-Mobile Northeast LLC 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.

Advanced Structures and Composites Center Expansion Grant Funded Increase, UM. Mr. Gavin explained that the University of Maine System acting through the University Maine requests to increase the scope and approved maximum expenditure for the existing Advanced Structures and Composites Center Expansion project by approximately 11 percent or \$871,000, to a new total of \$8.9 million. The requested increase is sufficiently substantial that Trustee consideration is required.

In November of 2012 Trustees approved a project of \$6.4 million. In March, 2014 Trustees approved \$1.6 million in additional expenditures. The current request reflects new grant funds which have been secured or are pending to support the project. This request for an increase in scope and cost would only be implemented if approved to the extent those grant funds are received. No campus funds will be used.

The project is presently in the construction phase with a planned completion date of June, 2015. As of the current report approximately \$2,300,000 has been expended.

If approved, the new project funding breakdown would be as follows:

Current BOT project approved budget	Amount
EDA	\$ 3,000,000
NSF	\$ 493,403
Wind Energy Bond (EDA share)	\$ 3,550,233
Wind Energy Bond (not cost shared)	\$ 558,849
Wind Energy Bond (NSF cost share)	\$ 374,662
Current BOT Approved Project subtotal	\$ 7,977,147
Additional BOT project approval requested	Amount
1. NSF budget reallocation (for equipment design)	\$ 363,620
2. Wind Energy Bond (for equipment validation & commissioning)	\$ 178,480
3. MTAF (Potential)	\$ 351,092
Grand Total	\$ 8,870,339

On a motion by Trustee Medd, which was seconded by Trustee Collins, the Finance/Facilities/Technology Committee agreed to forward this item to the Consent Agenda at the March 15-16, 2015 Board of Trustees meeting for approval of the following resolution:

That the Board of Trustees authorizes an increase in the scope of the Advanced Structures and Composites Center Expansion and an increase of \$871,000 in grant funds to be expended on the project for a new total authorized project expenditure of up to \$8.9 million.

Capital Project Status Report. Mr. Chip Gavin, System Director of Facilities Management and General Services, explained that the Capital Projects Status Report reflects a total of 22 projects, a net reduction of one project since the last report.

Three projects have been removed since the last report. They are: Planetarium and Observatory, UM; Field House/Memorial Gym Complex, UM; and Morse Field Scoreboard Upgrade, UM. The removal of the costs associated with the now-completed Planetarium and Field House projects, which had a substantial combined authorized expenditure of approximately \$20.9 million, showing a marked decline in currently authorized expenditures. The decline is partially off-set by the addition of the projects described below.

Two projects have been added since the last report. They are: Aubert Hall STEM Classroom Renovations, UM; and Estabrooke 3rd and 4th Floor Renovation, UM. One project is newly completed and will be removed from the next report. That is the Mantor Green Geothermal Well Field, UMF. The data is effective as of January 31, 2015.

Mr. Gavin also noted that LD385, An Act To Authorize a General Fund Bond Issue for Improvements to Facilities at the University of Maine System Campuses, has been printed for consideration by the 117th Maine Legislature. The bill proposes \$70 million in general obligation bond funding to address existing infrastructure needs across the University of Maine System. The bill is sponsored by Senator Jim Dill of Penobscot. It is cosponsored by Senators Justin Alfond of Cumberland, Andre Cushing of Penobscot, Geoffrey Gratwick of Penobscot, Rebecca Millet of Cumberland, John Patrick of Oxford and by Representatives Ryan Tipping-Spitz of Orono, Victoria Kornfield of Bangor and Joyce Maker of Calais.

FINANCE ITEMS

Establishment of the Kenneth Warren Saunders and Henry W. Saunders Professor of Engineering Leadership and Management, UM. UM President Susan Hunter explained that the Kenneth Warren Saunders and Henry W. Saunders Professor of Engineering Leadership and Management is presented to the Board for approval. This professorship is supported by a generous endowed gift of \$250,000 to the University of Maine Foundation.

This gift enables the College of Engineering to provide funding to a regular full-time faculty member or an adjunct faculty member to teach a high quality education in Leadership and Management. The holder of the Saunders Professorship of Engineering Leadership and Management will have a primary focus of teaching Leadership and Management. .

A committee appointed by the President of the University of Maine will advise in the selection of the Saunders Professor. The committee will forward the name of the Saunders Professor to the President, who will forward the name to the Board of Trustees on an annual basis. The appointment shall generally be for a term of five years. The fund shall be administered by the Executive Vice President for Academic Affairs & Provost in consultation with the Dean of the College of Engineering.

On a motion by Trustee Collins, which was seconded by Trustee Medd, the Finance/Facilities/Technology Committee agreed to forward this item to the Consent Agenda at the March 15-16, 2015 Board of Trustees meeting for approval of the following resolution:

That the Board of Trustees approve the establishment of the Kenneth Warren Saunders and Henry W. Saunders Professor of Engineering Leadership and Management.

Advancement Update. UMaine President Susan Hunter provided a brief update on the progress of the Advancement Task Force. The Advancement Task Force was established last fall and was charged to look into moving the UMaine advancement efforts and fund raising mission into one area. She reported that substantial progress has been made.

Strategic Integration Targets 2 & 3: Unified Finance and Administration Structure. Vice Chancellor Wyke provided an update of the Strategic Integration Targets 2 & 3: Unified Finance and Administration Structure. The UMS have been working on the following financial initiatives for the past six years to improve fiscal controls and transparency:

- Multi-year financial analysis
- Outcomes based funding
- Current year forecasting
- Financial ratio analysis
- Interim ledger soft close
- Budget Stabilization Fund
- Strategic Investment Fund
- Revised budget schedule
- New budget strategy
- Initiation of commitment control
- New Finance and Administration Structure

She explained that there are several initiatives underway for the Strategic Integration Targets 2 and 3 resulting in the following four outcomes:

1. Enhance financial transparency
2. Enable fiscal controls
3. Reduce administrative cost per full-time equivalent (FTE) student
4. Enhance intra-system collaborations

Huron Education was selected to design a new finance and administrative structure to support the One University model by administrative services. Huron's work was scheduled to be completed by February 20th; however, due to weather delays and the loss of key members of the Huron team this work is now scheduled to be completed in late March. Therefore, Dr. Wyke requested two extra months to complete the work for the Strategic Integration Targets 2 and 3: Unified Finance and Administrative Structure. She indicated that the final report and implementation plan would be ready in May. The Committee agreed with the modified timeline.

FY2016 Proposed Unified Operating Budget, Recommended Student Charges and Proposed Transfers from the Budget Stabilization Fund and Campus Reserves. Vice Chancellor Wyke presented the proposed FY2016 Unified Operating Budget for the University of Maine System, including the recommended student charges and the proposed transfers from the Budget Stabilization Fund to offset net unrestricted operating losses at the University of Maine at Fort Kent, the University of Maine at Machias, and the University of Maine at Presque Isle.

This is the first reading of the FY2016 Proposed Unified Operating Budget and does not require a vote of the Committee at this time. The second reading and vote of the Committee will occur at the planned May 4, 2015 Finance/Facilities/Technology Committee meeting prior to a request for approval by the Board of Trustees at the May 17-18, 2015 meeting.

The FY16 Unified Operating Budget for the University of Maine System is not balanced and requires the use of \$8.8 million from reserves to balance the Campus and University Services budgets. The Budget includes \$4.2 million in Administrative Savings that are being held for future strategic investments. These funds, however, are not reflected in the total deficit.

The budget includes a 1.7% increase (\$3.0 million) in state E&G appropriation per the Governor's proposed biennial budget. Enrollment is based on campus management plans. Any negative shift in one or both of these factors will result in an increased deficit. If E&G depreciation were fully funded (100% target for FY2016), the deficit before administrative savings would increase to \$17.4 million.

This level of deficit spending is not sustainable and is stark evidence that the current operating model is broken. It is incumbent upon the Board of Trustees and the senior leadership of the seven university system to address this situation and ensure that Maine's public universities are available for generations to come.

Appropriation

The FY2016 budgets are based on a 1.7% (\$3 million) increase in E&G state appropriation per the Governor's proposed biennial budget. The Governor's proposed budget also includes \$2.5 million in debt service funding to support a 10-year revenue bond that would allow the University to leverage \$21 million for infrastructure improvements. These funds are considered "restricted" and, therefore, not included in the unrestricted operating budget. Campus budgets reflect allocating 15% of the campus appropriation through the Outcomes Based Funding formula. Campus budgets also include an

additional \$6.1 million of former University Services appropriation that is being redistributed to campuses to offset the allocation of University Services Information Technology services.

Maine Economic Improvement Fund (MEIF)

The Governor's proposed biennial budget includes an 18% increase (\$2.65 million) in restricted state appropriation for the Maine Economic Improvement Fund to advance research and economic development for the benefit of all Maine people. If approved, a total of \$17.35 million will be available. In FY16, these funds support university-based research in 7 designated areas: biotechnology, aquaculture & marine, composite materials, environment, forestry & agriculture, information, precision manufacturing, and small campus initiatives. Three percent of the MEIF supports the Small Campus Initiative which is a competitive award program for UMA, UMF, UMFK, UMM, UMPI, and the Maine Maritime Academy.

Student Charges

The UMS' ability to raise revenue will continue to be restrained by what Maine people can afford. Maine's three-year moving average of median household income for 2011-2013 is \$50,487. Absent the application of financial aid, the weighted average of tuition and fees as a percentage of median household income is 18%. In-state tuition and the mandatory unified fee for both undergraduate and graduate students remained at the FY2012 level for FY2013-FY2015.

The current UMS FY2016 Budget and Student Cost reports are based on an assumption that in-state undergraduate tuition and the mandatory fee will remain flat for FY2016. It is the Board of Trustees responsibility, however, to approve tuition rates and mandatory fees; a final decision is pending. Based on flat tuition & the mandatory fee for in-state, undergraduate students, the FY2016 UMS weighted average change is:

- (0.1%) tuition decrease
- 1.1% mandatory fee increase
- 2.6% room & board increase
- 1.3% comprehensive student charges increase (tuition, mandatory fees, room, and board)

Enrollment

Maine's 15 to 24 year old population will decline 19.5% between 2010 and 2020. Maintaining current enrollments will be challenging and will require our universities to work differently in order to retain & attract more students, including adults and the nearly 50% of high school graduates who currently do not enroll in college.

Residence Hall Occupancy

The capacity has been declining as buildings are taken off-line for renovations or to realize savings from declining demand. The residence hall occupancy is budgeted to increase in FY2016

Compensation and Benefits

Compensation and Benefits continues to be the single largest cost driver representing 73% of the E&G budget or 66% of the overall unrestricted operating budget. The FY2016 internal benefit rate is 52.4% as compared to 51.5% for FY15. Medical costs are currently exceeding the Employee Health Plan Task Force goal of 3% for FY2016; therefore, the FY2016 benefit rate is based on a 7% health plan trend rate. The Employee Benefit Reserve had \$24.9 million at the end of FY2014. An estimated \$11 million of the reserve will be used in FY2015 to fund the Special Retirement Incentive and other workforce

adjustments. It is recommended that reserve levels for self-insured health benefit programs equal 3 to 6 months of benefit costs. For the UMS, this would be between \$17 - \$34 million.

Funding Depreciation

72% of the total depreciation expense is funded in the FY2016 budget – 11% less than the FY2015 budget. E&G funding for depreciation that supports classrooms and laboratories is underfunded by 45%, or \$11.7 million. Total depreciation is underfunded by 18% or \$8.7 million.

Aging Infrastructure

The UMS owns more than 550 buildings providing more than 9 million square feet of space located across the State with an estimated replacement value of \$2.3 billion. Thirty-eight percent of System space is more than 50 years old in terms of renovation age, which has increased from 27% in 2006. Critical building needs and investments can be expected in facilities with an estimated renovation age of more than 25 years - and even more so in the older 50+ category. The age of facilities, limited capital renewal funding, code changes, and functional obsolescence have resulted in a critical deferred maintenance estimate of \$462 million and total asset reinvestment backlog of \$961 million.

Budget Stabilization Fund

The Budget Stabilization Fund was created to enable the UMS to smooth the financial impact of adverse markets, economic conditions, and address other financial challenges. The Budget Stabilization Fund was established in 2010 and has been built from net investment income that exceeded budget pursuant to the Board of Trustees investment policy. FY2015 projected transfers equal \$7.4 million or \$2.6 million less than budgeted; USM's projected need is \$2.0 million less and UMaine is no longer requesting any Budget Stabilization Funds. UMFK and UMM's need has increased. In FY2016, three campuses may need to utilize Budget Stabilization Funds as their unrestricted net position is depleted (UMM, UMPI, and UMFK). The Treasurer will only authorize all or a portion of the transfer needed to offset a net unrestricted operating loss for each institution at the close of FY2015 and FY2016. The Budget Stabilization Fund could also be negatively impacted if temporary investment income performs below budget.

Primary Reserve Ratio

As of June 30, 2014, the UMS had slightly more than 5 months' worth of operating expense held in reserve. This is also the benchmark for public institutions of higher education indicating resources are sufficient and flexible enough to support the mission. However, this ratio varies by institution leaving some extremely vulnerable when state appropriation is reduced or enrollment declines occur. Additionally, the FY2016 budgeted deficit will reduce the Budget Stabilization Fund by \$5.4 million and uncommitted campus reserves by \$2.3 million. The payout of the retirement incentives and other workforce adjustments will also reduce the Benefit Pool by about \$11 million. A total impact of about \$18 million on unrestricted net position in addition to funding other campus activities such as auxiliary services, capital projects, deferred maintenance, and scholarships, as well as providing reserve balances for the employee self-insured health plan, collateral for internal loans to campuses, and a reserve to cover deductibles for risk management.

FY2016 Unified Operating Budget

The State Appropriations total 36% of the FY2016 proposed budget. Total revenue has a decrease of \$9 million from FY2015 to FY2016. FY2016 shows a decrease in the compensation and benefits area by \$13.6 million or 3.8% from FY2015. Fuel and electricity has a \$1.4 million increase by FY2016. FY2016 has an Operating Decrease of \$13.22 million which is adjusted by depreciation, capital

expenditures, capital reserve funding and debt service resulting in a net negative change of \$4.55 million. After the transfers from and to reserves, this results in a net surplus of \$134,535 thousand.

FY2016 Net Operating Budget by Campus by Fund

	E&G	AUXILIARY	TOTAL DEFICIT	TOTAL TRANSFERS	FUNDED BY:
UMaine	\$ -	\$ -	\$ -	\$ -	
UMA	(188,264)	(44,859)	(233,123)	(233,123)	Reserves
UMF	(561,444)	-	(561,444)	(561,444)	Reserves
UMFK	(1,222,241)	(269,389)	(1,491,630)	(1,491,630)	Stabilization
UMM	(1,143,324)	(203,784)	(1,347,108)	(1,347,108)	Stabilization
UMPI	(2,699,836)	100,900	(2,598,936)	(2,598,936)	Stabilization
USM	(1,628,973)	134,535	(1,494,438)	(1,628,973) **	Reserves
Governance	-	-	-	-	
University Services	(1,069,740)	-	(1,069,740)	(1,069,740)	Reserves
Total Deficit*	\$ (8,513,822)	\$ (282,597)	\$ (8,796,419) *	\$ (8,930,954) *	

*Does not include \$4.2 million in administrative savings set aside for strategic investment

**USM will transfer the total E&G deficit from E&G Reserves

Workforce Management

The FY2016 budget includes the net reduction of 206 positions as compared to a reduction of 157 positions in the development of the FY2015 budget. An increase of 5.5 in University Services reflects the transition of 6 Information Technology positions from UMaine to University Services that was partially offset by reductions in University Services Strategic Procurement and Human Resources.

Campus Budget Presentations. Ms. Miriam White, Director of Budget and Financial Analysis, provided an explanation and overview of the budget particularly related to the shared services line in the budget and the budget methodology.

UMS Governance and University Services

Governance consist of 11 positions which are the Chancellor; the Vice Chancellor for Academic Affairs; the Vice Chancellor for Finance & Administration; Clerk of the Board; Chief Information Office; Chief Student Affairs Officer; Chief Human Resources Office; System Director of Facilities Management; and Executive Directors of Governmental Relations, Public Affairs and Organizational Effectiveness. The Governance budget will increase by \$275 thousand in FY2016.

University Services includes finance, accounting, information technology, strategic procedure, shared services processing center, human resources governance, facilities governance, and general counsel. The majority of the University Services employees are already located on the campuses that these employees serve. To-date \$5.5 million in savings have been achieved through the various administrative reviews. The University Services budget is in transition because of shifting between the campuses and university services budgets.

University of Maine at Presque Isle

President Linda Schott; Chris Bell, Director of Student Financials; and Ray Rice, Provost & Vice President for Academic and Student Affairs, presented their FY2016 proposed budget. UMPI FY2016

enrollment budget is 0.9% above the FY2015 actual and 20.4% below the FY2015 budget and 9.6% below the FY2015 adjusted budget. For FY2016 the residence hall occupancy is budgeted at 86%.

University of Maine at Augusta

President Glenn Cummings and Tim Brokaw, Vice President for Finance & Administration, presented their FY2016 proposed budget. The UMA FY2016 enrollment budget is 2.5% below the FY2015 actual and 6.0% below the FY2015 budget.

University of Maine at Farmington

President Kate Foster and Laurie Gardner, Executive Director of Finance and Administration, presented their FY2016 proposed budget. The UMF FY2016 enrollment budget is 1.8% below the FY2015 actual and 4.0% below the FY2015 budget. For FY2016 the residence hall occupancy is budgeted at 93%.

University of Maine at Fort Kent

President Wilson Hess and John Murphy, Vice President for Administration, presented their FY2016 proposed budget. The UMFK FY2016 enrollment budget is 6.1% above the FY2015 actual and 6.6% above the FY2015 budget. For FY2016 the residence hall occupancy is budgeted at 95%.

University of Maine at Machias

President Joyce Hedlund and Mark Hatt, Chief Financial Officer, presented their FY2016 proposed budget. The UMM FY2016 enrollment budget is 3.9% above the FY2015 actual and 1.1% above the FY2015 budget. For FY2016 the residence hall occupancy is budgeted at 88%.

University of Maine

President Susan Hunter and Ryan Low, Vice President for Finance & Administration, presented their FY2016 proposed budget. The UM FY2016 enrollment budget is 0.3% above the FY2015 actual and 2.0% below the FY2015 budget. For FY2016 the residence hall occupancy is budgeted at 97%.

University of Southern Maine

President David Flanagan and Buster Neel, Interim Chief Financial Officer, presented their FY2016 proposed budget. The USM FY2016 enrollment budget is 0.7 above the FY2015 actual and 3.4% below the FY2015 budget. For FY2016 the residence hall occupancy is budgeted at 95%.

UMS Total Budget

The UMS total FY2016 proposed enrollment budget is 3.5% below the FY2015 budget and 0.2% above the FY2015 actual. For FY2016 the residence hall occupancy is budgeted at 95%.

Trustee Fournier thanked the Presidents, their staff and the System staff for their work on the budgets.

Adjournment.

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