UNIVERSITY OF MAINE SYSTEM
Board of Trustees Meeting
At the University of Maine System, Bangor, Maine

August 5, 2016

Finance, Facilities, Technology Committee

Present: Committee Members: Sam Collins, Committee Chair pro-tem; James Donnelly, Karl Turner (at USM) and Jason Coombs (at UMA). **Other Trustees**: Shawn Moody (at USM), Terry Sutton (at USM) and James Erwin (at USM). **Chancellor:** James Page. **System Staff:** Tracy Bigney, Ryan Low, James Thelen, Dan Demeritt, Tracy Elliott (at UM) and Darla Reynolds (at UM). **Presidents:** Sue Ann Huseman (at UMM), John Short (at UMFK), Ray Rice (at UMPI), Glenn Cummings (at USM) and James Conneely (at UMA). O**ther participants:** Claire Strickland (at UM), Buster Neel (at USM), Mark Hatt (at UMM), John Murphy (at UMFK), Tim Brokaw (at UMA) and Ben Shaw (at UMPI).

Committee members absent: Norman Fournier, Michelle Hood and Gregory Johnson.

Trustee Collins, Chair pro-tem, called the meeting to order and welcomed everyone.

Unified Budget Recommendations: Mr. Ryan Low, Treasurer and Chief Financial Officer, provided the context for the proposed changes. The appropriation each university received at the time of the merger continues to be roughly the share of the appropriation the campus now receives. This results in large differences in per student appropriation between similar universities.

The recommendations call for one-time base budget funding adjustments to the three smallest universities to correct and improve this persistent funding gap caused by fifty years of inaction. The recommendation is that this funding not come from reallocating, which would create gaps at other universities, but from the pool for innovative initiatives. That pool will continue to grow through appropriation and savings from additional collaborative efforts. The model being proposed for distributing the appropriation is flexible to adjust to changes in campus mission because each campus will be compared to peers.

Chancellor Page commented that this is the most far reaching reform we have undertaken in the history of the system. It can't be perfect conceptually or in practice on Day 1, but the framework provides the flexibility needed. This framework can adjust to priorities, initiatives and structures that are put in place in the future. He also stated that both the model and the processes are important. The calendar for the budget is as important as the framework. The budget process will become a year-long process integrated and tied to long range planning. This will give the Board, presidents, faculty and staff the tools they need for strategic planning.

Trustees and Presidents raised a number of questions about the recommendations. In response to these questions, CFO Low and Chancellor Page provided the following information.

Question: One area of concern is using administrative savings to make base budget adjustments for campuses.
Mr. Low stated that initiatives from the administrative savings fund have been very successful. If we use $3 Million for campus base budget adjustments, the fund for initiatives will continue to

grow through appropriations and new collaborative efforts. Without those campus adjustments, we can see in the multi-year financial analysis that in FY21 there will be still be three campuses with deficits of at least $500,000.

Question: There is a concern with recommendations about institutional waivers and student financial aid that we may be locking ourselves into price points and losing flexibility to respond to consumers. The concern is that this process will be bureaucratized, and we will lose flexibility to make quick responses to the market.

Mr. Low explained that this is the reason that recommendations in this area are not yet specific about policy. He agrees totally with the ideas expressed in the concern, and it will take several months to get to the point of specific recommendations to ensure that we get this right.

Question: The graph that shows future funding does not show a campus breakdown for FY19.

Mr. Low stated that this is because we need to identify and validate peer comparators. UMS universities will be compared to peers on 7 cost center areas. We will need robust conversations about the metrics for all seven areas before we get to FY19.

For the FY19 budget we will use all the factors for the ideal (peer equity) model and then distribute equitably based on available resources.

Question: It doesn't seem right to abandon the Outcomes–Based Funding model. How will incentives be provided without OBF?

Mr. Low noted that we need to continue conversation about maintaining incentives. OBF is a zero-sum game that disincentivizes collaborative efforts. Areas that the Board wants to incent will be embedded in the peer model. For example, the research mission will be captured in the peer comparisons. In selecting peers we will look at universities with similar characteristics and keep the incentives that the Board wants to drive at the forefront.

Chancellor Page observed that because OBF is campus-based and doesn't incent collaboration, it doesn't give us the tool we need to reward priority focus and campus differentiation at the fine grain level.

Question: The move from rigid to flexible is positive. In other states we looked at, what were the size and frequency of shifts in the campus budget? Shifts could make planning difficult.

Mr. Low responded that one of the core parts of the recommendations is that we don't lower one campus to increase others. That could cause significant disruption. Changes will be in the form of add-ons. With new appropriations we will start with campuses with the lowest funding to peers and bring those up.

Question: There is a lingering concern that we have to make investments, both capital and strategic. That means we have to stop investing in something we are currently investing in. De-funding has to be part of the process.

Mr. Low said he fully agrees and that we need to do that sooner rather than later. As we build budgets we will factor in Board priorities. We are getting better at moving resources every time we do a budget together.

Question: With the changes in base budget for the smaller campuses, what incentive will they have to find cost savings and efficiencies and to collaborate?

Mr. Low stated that the smaller campuses are not necessarily less efficient than the other 4 campuses. The current allocation is based on the share of total appropriation each university received in 1968 when the system was formed. We have to make up for 48 years of not being strategic in allocations. We felt it was not good to reduce allocations to other campuses to do that.

Chancellor Page added that even with these investments in the 3 smaller campuses, it is not sufficient to bring them to stability. There is a baseline cost of being distributed geographically across the state. The idea that these are 7 universities that can rise and fall on their own is not realistic.

Question: is it correct that the funding model will be revised every two years?

Mr. Low responded that it is a key recommendation that the model will be reviewed at least every three years. With all the recommendations being made (not only the allocation model), we will need to have conversations about adjustments going forward.

Question: If a campus outperforms the budget, what happens to the revenue? If a campus under-performs, how are they held accountable? When a campus is underperforming, how do we identify that early and provide support?

In regard to outperforming, Mr. Low pointed to the recommendation that a campus would keep 100% of surplus until they have reserves equal to 10% of the base budget and would keep 90% of surplus if there are reserves equal to 10% or more of the base budget. With the adjusted budgets and unified system, the multi-year financial analysis allows us to see a deficit several years out. We can make adjustments for any year and even mid-year. If we make these base budget adjustments, we intend the campus to be accountable for the budget, and as a team we will be able to solve problems.

Chancellor Page asked for a sense of the Board on the recommendation to establish a capital investment fee attached to student credit hours. Several Trustees stated that a fee may make more sense than building this into tuition because it can be tracked and be very transparent. On the other hand there is a reluctance to add fees that increase student costs. Mr. Low noted that the fee will not replace what campuses are now spending on facilities. The fee is recommended to go into effect in FY18, but that could be flexible. The fee would be one layer in overall capital funding.

Chair Collins asked for a motion for the Committee to go into executive session under the provisions of 1 MRSA section 405 6-C to discuss the acquisition and disposition or use of real property. Trustee Donnelly so moved and the motion was seconded by Trustee Moody and carried.

The executive session concluded on the motion of Trustee Donnelly, seconded by Trustee Turner, which carried.

Adjournment.

Tracy B. Bigney
Clerk of the Board