

UNIVERSITY OF MAINE SYSTEM

Board of Trustees Meeting

at the University of Maine System

March 7, 2016

Finance/Facilities/Technology Committee

Present: Committee Members: Norman Fournier, Chair; Sam Collins (at UMPI), Marge Medd, Paul Nelson and Karl Turner. **Other Trustees:** Bonnie Newsom (by phone). **Chancellor:** James Page. **Faculty Representatives:** Ray Albert (at UMFK) and Cathleen McAnney (at UMF). **Presidents:** John Murphy (at UMFK), Kate Foster (at UMF), Stuart Swain (at UMM), James Conneely, Susan Hunter, Glenn Cummings and Linda Schott. **Staff:** Tracy Bigney, Ryan Low, Chip Gavin, Dick Thompson, Vendean Vafiades (at USM), Miriam White, Dan Demeritt, David Stevens, and Rebecca Wyke. **Other Participants:** Jeff Hecker, Chief Business Officers from each campus and Aaron Chadbourne from the Governor's Office.

Committee Members Absent: James Donnelly and Gregory Johnson.

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

FY2017 Proposed Operating Budget – First Reading. Vice Chancellor Rebecca Wyke and Mr. Ryan Low, Chief Financial Officer, presented the FY2017 Proposed Operating Budget for the University of Maine System. This was the first reading of the FY2017 Proposed Operating Budget and did not require a vote of the Committee. The second reading and vote of the Committee will occur at the planned May 3rd meeting prior to a request for approval by the Board of Trustees at the May 22-23 meeting.

Mr. Aaron Chadbourne from the Governor's Office spoke about the Governor's message to recommend a sixth year of flat tuition. The Governor agreed to add to the Supplemental Budget 100% of the revenue that would have been generated by a 2.3% inflation-based adjustment to tuition in the 2016-2017 academic year, approximately \$4.65 million.

Trustee Fournier asked if this funding would be added to the base budget. Mr. Chadbourne responded that is the Governor's intent to build the funding into the UMS base budget contingent on continued progress of the One University initiative. The Governor is also interested in restructuring the funding for Maine education, including K-12.

Trustee Fournier raised the last paragraph in the Governor's letter regarding a bond for funding infrastructure and asked when the UMS would need to submit that request. Mr. Chadbourne stated that the UMS should submit the information as soon as possible and the Governor is looking forward to reviewing the UMS's comprehensive package.

FY2017 Budget Overview

The initial budget deficit for the FY2017 Operating Budget was estimated at approximately \$20 million. To date, the budget deficit has been reduced by \$9.2 million to a current gap of \$10.8 million. The carry forward of \$1.3 million in Budget Stabilization Funds from FY2016 to FY2017 further reduced this gap to \$9.5 million; additional amounts for the Budget Stabilization Fund (BSF) for FY2017 are not likely available due to current market conditions creating a loss of temporary investment income. Options for closing the remaining budget deficit of \$9.5 million include: \$3

million in unallocated administrative savings; a tuition & mandatory fee increase based on consumer price index; and the use of campus unrestricted net position.

Budget Stabilization Fund (BSF)

The BSF was created to enable the UMS to smooth the financial impact of adverse markets, economic conditions, and address other financial challenges. The BSF was established in 2010 and has been built from net investment income that exceeded budget pursuant to the Board of Trustees investment policy. UMS anticipates that the BSF will be negatively impacted again in FY2016 by temporary investment income loss. The budget for FY2016 is \$3 million; realized loss through January 2016 is 4.7 million; total loss on a budget basis is \$7.7 million. 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 FY2016 and FY2017.

Appropriation

FY2017 budgets are based on a 1.9% (\$3.4 million) increase in E&G state appropriation per the State of Maine's 2016-17 biennial budget. 100% of the new appropriations for FY2016 & FY2017 were distributed through the Outcomes Based Funding formula. The Governor's proposed budget also includes the second year of \$2.5 million in debt service funding to support a 10-year revenue bond that would allow the University to leverage \$22 million for infrastructure improvements. These funds are considered "restricted" and, therefore, not included in the unrestricted operating budget. Campus budgets reflect allocating 20% of the campus appropriation through the Outcomes Based Funding formula. Campus budgets also include an additional \$5.2 million of former University Services appropriation that is being redistributed to campuses to offset the allocation of University Services.

Maine Economic Improvement Fund (MEIF)

The FY2016 State of Maine biennial budget included 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. The base allocation for FY2017 is \$17.35 million. In FY2017, MEIF funds support university-based research, development and commercialization in the 7 state designated technology areas: biotechnology, aquaculture and marine, composite materials, environmental, forestry and agriculture, information, precision manufacturing and small campus initiative.

Three percent of the MEIF supports the Small Campus Initiative (SCI) -a competitive award program for UMA, UMF, UMFK, UMM, UMPI, and the Maine Maritime Academy. For FY2016, \$517,883 in SCI awards were distributed to campuses to support this initiative.

Enrollment

The following are the major factors impacting enrollment:

- FY2017 credit hours are up 0.1% over FY2016 actual credit hours.
- FY2017 out-of-state credit hours are up nearly 4% over FY2016 actuals – and up 29% over 5 years.
- Maine public high school graduates will decline to approximately 12,000 through 2030
- Approximately 54% of Maine high school students enroll in college; UMS share historically is 30-33% (or 18% of an entire graduating class) .

Residence Hall Occupancy

UMS FY2017 Occupancy Rate is 92% and ranges from 96% at UMaine to 76% at UMM. Residence

Hall occupancy is flat or slightly up at 5 of the 6 campuses with residential operations. Excluding UMaine, excess capacity at the remaining 5 campuses with residential operations has been reduced by 382 beds since FY13.

Compensation & 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 FY2017 internal benefit rate remains at the FY2016 level, -52.4%. Medical costs are currently forecast to increase 5.2% for calendar year 2016. This is the result of the revised contribution strategy included in the current bargaining contracts, a reduced number of covered lives, and plan design changes. The Employee Benefit Reserve had \$10.6 million at the end of FY2015 as a result of funding the FY2015 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

74% of the total depreciation expense is funded in the FY2017 budget – up from 72% in the FY2016 budget. E&G budgeted funding for depreciation has increased from 55% in FY2016 to 57% in FY2017. Budgeted funding for Auxiliary depreciation continues to exceed the target.

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. The density of the University of Maine System is decreasing. In FY2015, density reached 301 users/100 thousand gross square feet and is below the Sightlines public average of 466 users/100 thousand gross square feet. Campus space is aging over time with 40% of space over 50 years old. This trend is expected to continue in the next 5 years. Minimum capital investment has decreased the Net Asset Value of UMS buildings. The current Net Asset Value of the University of Maine System is 57%.

Workforce Management

The FY2017 budget currently includes the net reduction of 20 positions overall.

Governance and University Services Budgets

Dr. Wyke reviewed the Governance and the University Services and Governance Budget and stated the budget is still under review.

Campus Budget Presentations.

UMA

President James Conneely and Mr. Tim Brokaw, Chief Business Officer, presented by the UMA budget. UMA FY2017 enrollment budget is 1.2% above FY2016 actual and 2.5% above FY2016 budget.

UMF

President Kate Foster and Ms. Laurie Gardner, Chief Business Officer, presented the UMF budget. UMF FY2017 enrollment budget is 0.2% below FY2016 actual and 2.9% above FY2016 budget. UMF is projecting a 90% residence hall occupancy rate.

UMFK

Interim President John Murphy presented the UMFK budget. UMFK FY2017 enrollment budget is 1.8% below FY2016 actual and 2.1% above FY2016 budget. UMFK is projecting a 95% residence hall occupancy rate.

UMM

Interim President Stuart Swain and Mr. Mark Hatt, Chief Business Officer, presented the UMM budget. UMM FY2017 enrollment budget is 1.4% above FY2016 actual and 8.1% below FY2016 budget. UMM is projecting a 76% residence hall occupancy rate.

UM

President Susan Hunter, Provost Jeff Hecker and Ms. Claire Strickland, Chief Business Officer presented the UM budget. UM FY2017 enrollment budget is 0.2% below FY2016 actual and 0.03% above FY2016 budget. UM is projecting a 96% residence hall occupancy rate.

UMPI

President Linda Schott and Mr. Ben Shaw, Chief Business Officer, presented the UMPI budget. UMPI FY2017 enrollment budget is 0.5% below FY2016 actual and 0.6% above FY2016 budget. UMPI is projecting a 85% residence hall occupancy rate.

USM

President Glenn Cummings and Mr. Buster Neel, Chief Business Officer, presented the USM budget. USM FY2017 enrollment budget is 0.5% above FY2016 actual and 6.4% below FY2016 budget. USM is projecting a 86% residence hall occupancy rate.

Options for Closing the FY2017 Budget – Discussion. Vice Chancellor Wyke and Mr. Low discussed the options for closing the FY17 Budget. The UMS has held tuition flat for an unprecedented five years. During this same time period, FY2012 through FY2016, the UMS operating budget has been reduced by \$12 million. The workforce has been downsized by 902 full-time equivalents (FTE) or 17%, since 2007. The current FY2017 structural gap is \$9.5 million from the original \$20 million. Below are the two options for closing the structural gap:

Option 1:

- \$3 million in administrative review savings (one-time): \$1 each million to UMFK, UMM and UMPI.
- \$2.7 million in campus-based E&G reserves: \$557 thousand for UMFK, \$222 thousand for UMPI and \$1.9 million for USM.
- \$4.65 million for a modest 2.3% increase for in-state undergraduate tuition and the mandatory unified fee, slightly below forecasted consumer price index for 2017.
- The \$9.4 million would equate to 44% in cost reduction, 22% in tuition increases, 21% in System resources and 13% in campus resources

Option 2:

- \$3 million in administrative review savings (one-time): \$1 each million to UMFK, UMM and UMPI.
- \$2.7 million in campus-based E&G reserves: \$557 thousand for UMFK, \$222 thousand for UMPI and \$1.9 million for USM.

- \$4.65 million increased appropriation for the base budget in the Governor's FY2017 Supplemental Budget.
- The \$9.4 million would equate to 44% in cost reduction, 22% in Appropriation increase, 21% in System resources and 13% in campus resources.
- If the Governor's commitment of an additional \$4.65 million in Appropriation does not occur, the Budget Stabilization Fund would be utilized to mitigate the impact. Note: temporary investment income losses are currently estimated by \$7.7 million for FY2016. If markets do not improve, the Budget Stabilization Funds would be insufficient to cover the loss.

The Governor also encouraged the Board of Trustees and the University leaders to develop a strategic, long-term investment plan that advances higher education in Maine for investments in the facilities, technology and infrastructure needed, for inclusion in a bond package to go before Maine voters.

The Finance/Facilities/Technology Committee agreed to endorse the Governor's proposal outlined in his letter dated March 4, 2016 which states that the Governor will replace 100 percent of the revenue that would have been generated by a 2.3% inflation-based adjustment to in-state tuition in the 2016-2017 academic year, approximately \$4.65 million.

Trustee Turner raised a concern about using the savings from the Administrative Review to balance the budget. Dr. Wyke stated that she feels there is not an option other than the Administrative Review savings in order to close the structural budget gap.

Adjournment.

Ellen Doughty for
Tracy B. Bigney
Clerk of the Board