

December 17, 2008

TO: UMS Faculty and Staff

FR: Richard L. Pattenaude, Chancellor

RE: Thoughts on Current Financial Situation

As we all know, the global financial crisis has created the worst economic downturn that our country has experienced in decades. Maine has not been spared the pain; what had already been a rough economic period for our state and its citizens has become even rougher. Conditions are not expected to improve dramatically any time soon. In fact, economists say that full recovery is years away.

I wanted to take a moment to share my thoughts on what is happening financially and to thank you for your efforts and sacrifice. As we move through this uncertain period, it is important that we seek a shared understanding of what we are experiencing and what we might do in response.

The System and campus leadership have been working for more than two years to cope with the financial challenges facing our state, our students, and our universities. Our top priorities have been to reduce costs while maintaining our commitment to our faculty and staff, our mission and to affordability for our students. It has been extremely difficult, for three primary reasons:

1. Like most businesses and institutions, we have experienced dramatic increases in the cost of energy and healthcare insurance—two large expenses over which we have little control.
2. Maine has reached a major demographic turning point in which the number of high school graduates is declining, and will do so for the next several years. Our universities and the System Office have been working to offset this decline by strengthening and expanding student recruitment efforts with those students as well as with working age adults, out-of-state high school students, and transfer students and community college graduates. Unfortunately, current economic conditions are making those efforts less productive than we would like.
3. The State's economic struggles have hindered its ability to increase financial support for higher education.

As we developed the current fiscal year budget, the university presidents and I worked together to find ways to reduce costs while protecting academic quality. We cut \$19.1 million from the UMS budget, eliminating personnel positions, reducing operating budgets, eliminating certain functions, and freezing salaries for 59 senior administrators. Everyone was affected at all levels of our System. Nonetheless, we had to increase tuition and fees more than we desired to ensure that our students received the quality education they expect and deserve.

Still, the financial situation requires more attention. The revenue we receive from investment income has dropped dramatically because of the global financial crisis. Furthermore, we expect that economic

conditions in Maine will cause some students to reduce the number of credit hours they take in the upcoming semester (and beyond), causing an additional loss in revenue. One other major factor—the State’s recent curtailment of current year appropriations—negatively affected UMS by reducing its FY09 appropriation by \$8.3 million (4.2%). It was originally scheduled to be \$10.6 million. However, we worked with the Governor, to whom we are grateful, to reduce the size of the proposed reduction by \$2.3 million to help protect delivery of services to students. However, these factors combined have produced a budget hole of over \$15 million in the current budget year—and tremendous uncertainty about future economic conditions and related actions.

The trustees, presidents, and I believe that in light of these factors, our current manner of operation is not financially sustainable over the long run. We are committed to developing a new operating model, one that will provide and sustain high quality, affordable, and accessible academic programs and support services. The need for transformational change will be a major topic of the January 11-12 Board of Trustees meeting. The focus will be on the conditions we face and then how we might move forward.

Be assured that we will seek input from faculty, staff, students, and bargaining representatives. Your input is essential for us to develop a feasible plan to present to the Board later in the year. Our ultimate objective for this effort is to create a new model for sustainability, one that has been shaped by the collective wisdom of those who know best our universities’ operation and purpose—faculty, staff, campus leadership, State policy leaders, the public, System leadership, and the Board of Trustees.

I understand and sincerely regret the concern and uncertainty that exist. None of us knows fully what actions will be necessary to address the short-term and long-term financial challenges. All we do know is that we must act, and whatever actions we take will be difficult. As we proceed, I promise to make this effort mission-driven, transparent, and accountable to you and to the hundreds of thousands of people who depend on our universities to help ensure their educational and economic well being and their quality of life. It is critical work, and it is work we must perform together, sharing common purposes and a deep commitment to our mission.