Finance/Facilities Committee


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

Internal Loan, UMA. President Allyson Handley explained that the University of Maine at Augusta is seeking an internal loan in the amount of $1.0 million from the System Office to finance a portion of the College Center project which houses the Dental Health Program. The Board of Trustees approved the $3 million project in September 2010. Funding for the $3 million project was approved as follows:

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>HCOF Federal Funds (approved in 2009)</td>
<td>$643,500</td>
</tr>
<tr>
<td>Davis Family Foundation</td>
<td>25,000</td>
</tr>
<tr>
<td>Stephen and Tabitha King Foundation</td>
<td>50,000</td>
</tr>
<tr>
<td>2010 State Bond</td>
<td>375,000</td>
</tr>
<tr>
<td>Campus E&amp;G Funds</td>
<td>1,906,500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$3,000,000</strong></td>
</tr>
</tbody>
</table>

The University of Maine at Augusta has sufficient reserves to cover the cost of the project; however, it would be more fiscally prudent to finance a portion of the campus commitment using a short-term loan in order to preserve campus reserves for unanticipated events. The loan is to be repaid over 5 years from E&G funds with the first payment due on July 1, 2012. The interest rate is variable in accordance with APL Section III-C (reset annually based on the 26 week Treasury bill rate as of May 1 plus 50 basis points.) The initial interest rate is .65% and the initial annual payment is $204,310.

On a motion by Trustee McCarthy, which was seconded by Trustee Hood, the Committee agreed to forward the recommendation to the Consent Agenda.

Preble-Ricker Hall and Ricker Addition Energy Upgrade Phase II, UMF. President Theodora Kalikow and Mr. Ryan Lowe, Vice President for Administration, explained that UMF is requesting Board authorization for $2.2 million for Phase II of the Preble-Ricker Hall and Ricker Addition Energy Upgrade, which will be financed from campus reserves. Preble-Ricker Hall was originally constructed in 1963 and the Ricker Addition was added in the 1980’s. Preble-Ricker Hall and the Ricker Addition is the primary science classroom/laboratory and child care laboratory for UMF.
The Board of Trustees approved the Phase I improvements to Preble-Ricker Hall and the Ricker Addition in January 2008. These improvements were completed in September 2010 and included building envelope renovations and upgrades to the science laboratories. Phase I successfully improved energy efficiency and learning space primarily in the Preble portion of the facility.

Phase II improvements provide for capital renewal of the facility primarily in the Ricker portion of the building includes the following scope:

- Replacement of the heating distribution system with a new HVAC system;
- Improvements to the energy management control system;
- Replacement of existing exterior with new insulated exterior wall system and high efficiency windows; and
- Modifications to existing wood casework, and interior finishes.

Design will include LEED features and a geothermal energy system tie-in to take advantage of wells being drilled in conjunction with the Emery Community Arts Center. Upon completion of both phases, UMF anticipates an annual reduction of 25,000 gallons in #2 heating oil.

On a motion by Trustee Hood, which was seconded by Trustee McCarthy, the Committee agreed to forward the recommendation to the Consent Agenda.

**Financial Update.**

Performance Reports
Ms. Rebecca Wyke, Vice Chancellor for Finance and Administration and Treasurer, distributed the performance report for the Managed Investment Pool (including Endowments), the Pension Fund and the Operating Cash Fund. The Managed Investment Pool has increased by 18% for the fiscal year as of January 31, 2011 with a market value of $178.6 million. The Pension Fund has increased by 17.2% for the fiscal year as of January 31, 2011 with a market value of $46.1 million. The Operating Cash Fund increased 3.6% for the fiscal year as of January 31, 2011 with a market value of $299.2 million.

Financial Forecast
Ms. Wyke reviewed the FY2011 Forecast versus Budget. As of February 28, 2011 the UMS is forecasting unrestricted operating results $14.2 million for the current fiscal year or the equivalent of 2.7% of the unrestricted annual operating budget. The major components of that forecast are temporary investment income which currently exceeds the annual budget by $6.8 million. If temporary investment income remains at the current level or increases the System plans to transfer $5 million to the Budget Stabilization Fund which may be used to mitigate deficit reserves and/or hedge against future economic downturns. The employee benefits costs are currently projected to be $3 million below budget and this surplus will be used to offset costs for FY2012. Net increases in operations at the seven universities total $4.4 million. The campuses project to end the year as follows: UMaine with $1.2 million net increase, UMA with $625 thousand net increase, UMF with $678 thousand net increase, UMFK with $59 thousand net increase, UMM with $0 net increase, UMPI with $274 thousand net increase, and USM with $1.5 net increase. The System Office is projected to break even.
The full-time equivalent (FTE) enrollment was .9% or 194 FTE above budget but this is 1.1% or 244 FTE below spring enrollment of last year. The spring residence hall occupancy was 7.6% or 508 below budget.

Ms. Wyke commented that there is approximately $7 million in stimulus funding in the FY2011 budget and that will disappear next year. However, each of the campuses used the stimulus funding for one-time projects in order to reduce the impact for FY2012.

Trustee Wishcamper congratulated all of the University Presidents for balancing their budgets or ending the fiscal year above budget. He asked if the UMS has a policy on the use of the Budget Stabilization Funds and if some of the funds could be moved to the Strategic Investment Fund. Ms. Wyke commented that the Budget Stabilization Fund is part of the Investment Committee policy guidelines and that Committee has been very open about discussing the goal of getting approximately 5% of prior years’ revenues set aside for the UMS to use to mitigate the next recession so the campuses would not have to make cuts as a result of a volatile economy.

Cost Financial Ratios and Composite Financial Index
Ms. Wyke stated that this is the second year that the UMS has used these industry benchmarks to evaluate the financial health of the System. There are four primary financial ratios which are as follows:

Primary Reserve Ratio
This ratio indicates whether the resources are sufficient and flexible enough to meet the System needs. The benchmark for this ratio for public universities is 40% which is equivalent to 5 months of reserves. In the years presented, UMS has not reached that benchmark; however, in FY2010 the UMS reached 31%.

Net Operating Revenues Ratio
This operating results ratio indicates whether the System is living within available resources and the target is at least 2% to 4%. From FY2006 to FY2009 the UMS ratio fluctuated ranging from .38% to 2.58%. However, for FY2010 the UMS ratio increased to 5.26%.

Return of Net Assets Ratio
This ratio indicates whether the performance of the financial assets supports the strategic direction of the System. The benchmark for this ratio is 6% and the UMS nominal rate was 6.11% in FY2006 and 8.55% in FY2010. The UMS real rate (nominal rate adjusted for inflation) was 1.01% in FY2006 and increased to 7.65% in FY2010.

Viability Ratio
This ratio measures System resources available to cover the indebtedness. The benchmark for the ratio is 1.25 and the UMS was at .99 in FY2010. UMS has not reached the benchmark for the past five fiscal years.

Composite Financial Index (CFI)
This is an overall measure of the System’s financial health combining all four of the other ratios. The CFI, as well as its trend line, over a period of time, can be the single most important measure of the financial health for the institution. The CFI high benchmark is 10.0 and the low
benchmark is 3.0. In FY2010 the UMS achieved a 3.3; however, during the prior four fiscal years the UMS did not achieve the low benchmark level.

Financial sustainability for an organization the size of UMS means not just achieving these benchmarks for just one year but over a period of time. The UMS has made good progress recovering from the financial crisis.

**Facilities Update.** Mr. Chip Gavin, System Director of Facilities Management and General Services reviewed the System-wide energy and environmental sustainability initiatives throughout UMS. This material was provided to the Finance/Facilities Committee at its February 11, 2011 meeting where it was suggested the material would be of interest to the full Board of Trustees. The UMS’ commitment to energy and environmental sustainability is demonstrated continuously, as evidenced by the many initiatives and accomplishments throughout the System and across the State. The initiatives include the following areas with projects at all of the campuses:

- Renewable Energy, Alternation Fuels & Innovation
- Energy Efficiency, Conservation & Optimization
- Transportation
- Sustainable Building and Design Construction
- Outreach, Advocacy, and Public Service for Our Communities and Our State
- The Path Forward: Commitment, Planning and Opportunities

Adjournment.

Ellen Doughty for
J. Kelley Wiltbank, Clerk