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

**Financial Update.** Ms. Rebecca Wyke, Vice Chancellor for Finance and Administration and Treasurer, provided a brief financial update.

**Managed Investment Pool (including Endowment Fund).** The Fund lost 6.6% in September 2011 and fiscal year-to-date the Fund has lost 10.9%. The market value of the Managed Investment Pool is $174 million. Changes in market value besides market fluctuation include: contributions and distributions, the UMS contributions to the OPEB Trust and the Maine Maritime Academy’s participation in the fund since January 2009.

**Pension Fund.** The Pension Fund lost 6.1% in September 2011 and fiscal year-to-date the Fund has lost 10.7%. The market value of the Pension Fund is $39.4 million.

**Operating Fund.** The Operating Fund lost 1.9% in September and fiscal year-to-date the Fund has lost 3.5% net of fees.

**FY2012 Forecast versus Budget as of October 31, 2011.** Ms. Wyke explained the October forecast is the first of three forecasts analyzing the status of the FY2012 budget. The UMS currently has a forecasted unrestricted operating loss of $7 million for FY2012. The major components of the forecast are:

- Temporary investment income is currently under performing to budget. UMS has budgeted $2 million in temporary investment income and has experienced a year-to-date loss of $3.5 million, resulting in a total budget-to-actual variance of $5.5 million.
- In FY2011, the System realized a $3.4 million surplus in the employee benefit pool due to lower than anticipated employee medical and worker’s compensation costs. As previously indicated to the Board when the budget was adopted in May 2011, $3 million
of this surplus was carried forward and applied to the FY2012 benefit rate. While the estimated cost of benefits in FY2012 are covered by this carry forward, the forecast will show that UMS is $3 million short in the current fiscal year.

- Three of our universities (USM, UMFK, and UMM) are currently forecasting a loss at the end of FY2012.
- FY2012 Fall enrollment is below budget by 305 full time equivalent (FTE) or 1.3% with UMaine, UMM, and USM coming in below budget.
- FY2012 Fall residence hall occupancy is below budget by 383 headcount or 5.8% with UMaine, UMF, UMM, and USM coming in below budget.
- UMaine is projecting $2.7 million in positive operating results for the close of FY2012. Fall enrollments were below budget by 17 FTE, or 0.2%, and residence hall occupancy was below budget by 57, or 1.6%.
- UMA is projecting a $43 thousand net increase as budgeted and Fall enrollments were above budget by 19 FTE, or 0.7%.
- UMF is projecting a $339 thousand net increase and Fall enrollments were above budget by 36 FTE, or 1.8%, and residence hall occupancy is below budget by 47, or 4.3%.
- UMFK is projecting an $83 thousand net decrease. Fall enrollments were above budget by 4 FTE, or 0.6%, and residence hall occupancy was above budget by 5, or 2.5%.
- UMM is projecting a $98 thousand net decrease. Fall enrollments were below budget by 60 FTE, or 10.1% and residence hall occupancy was below budget by 30, or 10.6%.
- UMPI is projecting a $238 thousand net increase. Fall enrollments were on budget and residence hall occupancy was above budget by 16, or 5.6%.
- USM is projecting a $1.6 million net decrease. Fall enrollments were below budget by 287 FTE, or 4.1%, and residence hall occupancy was below budget by 270, or 21.2%.
- SWS is projecting to break even.

**FY2011 Year End Unrestricted Operating Results.** Ms. Wyke explained that overall the System experienced positive unrestricted operating results of $25.6 million, which includes the receipt of $6.5 million in State Fiscal Stabilization Funds from the American Recovery and Reinvestment Act. Due to improved financial markets, the System realized an $8.2 million increase in temporary investment income as compared to budget. Of this amount, $5 million was transferred to the Budget Stabilization Fund (BSF) which may be utilized in the future to mitigate deficits and/or to hedge against future economic downturns. The BSF now has a balance of $10 million. Workers’ compensation and healthcare costs were $3.4 million below budget and $3 million has been carried forward into FY2012 to reduce the current fiscal year’s benefit rate. Most notably, each of our seven universities and the System office ended the year in the black.

**Multi-Year Financial Analysis for FY2013 through FY2017.** Ms. Wyke reported on the multi-year financial analysis for FY2013 through FY2017. The System has developed a long-range financial planning process that evaluates the fiscal impact of key budget drivers such as enrollment; faculty & staff compensation; investments in physical plant; and State appropriation invested in the System. The purpose of this planning process is to consider the underlying financial conditions that face the System and the impact of alternative action steps that may address projected shortfalls in the future.

The initial forecast is called the Current Trend Multi-Year Financial Analysis (MYFA) and included the following assumptions:
• State Fiscal Stabilization Funds of $6 to 7 million annually will no longer be available;
• Tuition increases at 5% or less, annually;
• Total appropriation is held constant (0% growth); and
• Compensation increases include only adjustments for post-tenure, merit, step increases, and satisfactory performance adjustments—no COLA; and
• Healthcare costs grow at the trend outlined in the 2011 Employee Health Plan Task Force Report (6% in FY2012, 5% in FY2013, 4% in FY2014, 4% in FY2015, and 3% in FY2016 and FY2017).

When these trends persist, revenues do not keep pace with expenses. It should be noted that the Current Trend projection does not include any contingency for a reduction in appropriation, which would increase the projected deficit. Additionally, the University System will have to pay particular attention to price sensitivity as this level of tuition increase may not be sustainable over time.

While the challenges continue, it is important to recognize that the Current Trend MYFA reflects the positive fiscal impact of various cost saving measures, including many New Challenges, New Directions initiatives. The University System has worked hard to curb spending as follows:

• In the last four years, the University System has reduced its workforce by 6.5%;
• In FY2011 the University System closed a $28 million structural gap; and
• Our current FY2012 budget is balanced, closing a $37 million structural gap.

However, the revenues that support educational operations continue to lag behind the growth in expenses, requiring still deeper cuts in the future. Negative financial and demographic forces require the UMS to undergo transformative change to preserve and improve quality and ensure financial sustainability.

Of all the factors impacting the University System, the State of Maine’s fiscal performance is the most significant. We are following a twenty year trend whereby State Appropriation for the University has declined as a percentage of the State budget as well as a percentage of the University System’s budget. Additionally, State support for capital infrastructure improvements is sporadic and declining.

**Annual Financial Report FY2011.** Ms. Tracy Elliott, Director of Finance and Controller, provided an overview of the Annual Financial Report for FY2011. The University of Maine System ended FY2011 with Income Before Other Changes in Net Assets of $37 million. Net Assets were $787 million on June 30, 2011, increasing $80 million or 11.3% over the prior year. Of the $80 million increase in Net Assets, UMS experienced a positive change in Unrestricted Net Assets of $38 million. This change was possible largely because of an increase in tuition revenue, an increase in grant revenue, nearly $11 million in operating investment returns, as well as continued efforts throughout the System to control costs. Unrestricted Net Asset growth of $38 million reflects the University’s hard work and commitment to keeping expenses in line with revenues. This growth is not only reasonable but necessary given the complexities and challenges of a $700 million operation. Some, but certainly not all, of those challenges include:

• Demographic changes and enrollment declines
• Volatile financial market conditions and reduced investment return expectations
• Loss in State Fiscal Stabilization Funds which had contributed revenues of approximately $7 million during each of the last three fiscal years
• $2.4 million target reduction in State Appropriation from the State streamlining initiative for FY13
• Persistent health care cost increases
• The necessity for reserves given that the University is self insured for health and workers’ compensation
• Significant actuarial accrued liabilities related to postemployment health and other benefits
• The need to strengthen financial ratios

Other significant financial highlights for the year ended June 30, 2011 include:

• Fall 2010 enrollments totaled 23,535 on a full-time equivalent basis (FTE) and 32,009 on a headcount basis, each declining approximately 1% from Fall 2009 levels. While enrollments in total saw a decline, four of the seven campuses experienced an increase on an FTE basis.
• UMS had a 4.7% weighted average increase in undergraduate in-state tuition and fees and a 4.2% weighted average increase in room and board rates in FY2011.
• Noncapital State appropriation revenue increased 2.6% from $190 million in FY2010 to $195 million in FY2011.
• The Managed Investment Pool (including Endowments) experienced a 21.9% net of fees return compared to 11.5% for FY2010. The pooled investments have a 5-year annualized net of fees return of 5.5%. The market value of pooled investments was $193 million at June 30, 2011 and included UMS and affiliates endowments of $125 million.
• The Statement of Net Assets includes financial information for the component units (i.e., The University of Maine Foundation and The University of Maine Pulp and Paper Foundation). Endowment and other investments for the UMS and its component units total $307 million as of June 30, 2011, an increase of $46 million over 2010.
• UMS experienced operating investment gains of $10.7 million in FY2011 or 4.7% net of fees compared with FY2010's return of 5.6%. Operating investments have a 5-year annualized net of fees return of 3.4%.
• Total bonds and notes payable were $192 million as of June 30, 2011, declining $9 million from the prior year as the System paid down its debt. Total bonds and notes payable include a $30 million balloon payment on the 2002 bond issuance due March 1, 2012. The System anticipates refinancing this payment over a period of 20 years in FY2012.
• Capital asset additions, financed by State bonds, gifts, educational and general funds, and System revenue bonds, totaled $53 million in FY2011 as compared to $28 million in FY2010. Major construction in FY2011 included UM's Advanced Engineered Wood Composites Center expansion; UM's Alfond Arena renovations; UMF's Emery Arts Center; and UMA's College Center Dental Health Clinic.
• Compensation and benefits expense, at $427 million in FY2011, comprised 63% of all UMS operating and non-operating expenses. Compensation and benefits expense increased $3 million over FY2010 including benefits expense increases of $4 million less a compensation expense decrease of $1 million.

• UMS had established a Trust in FY2009 for its net Other Post-employment Benefit (OPEB) obligation. The Trust held $50 million at June 30, 2011, up from $30 million at June 30, 2010. UMS funded the balance of the FY2011 liability of $3 million in September 2011.

On a motion by Trustee Medd, which was seconded by Trustee Murphy, the Finance/Facilities Committee agreed to forward the approval of the FY2011 Financial Report to the Consent Agenda for action.

Approval of Revenue Bond Financing. Ms. Wyke explained that the UMS is proposing to issue revenue bonds to refinance $30 million of debt that comes due on March 1, 2012. The principal payment relates to the 2002 UMS revenue bonds that were issued for 10 years rather than 30 to take advantage of low interest rates on the short end of the yield curve resulting in reduced debt service costs. As part of the current bond financing, the UMS also proposes to borrow $7 million in new money to finance construction and renovation at the UMaine Field House/Memorial Gym Complex. The debt service related to this portion of the bonds will be funded by the State of Maine as committed by the 124th Legislature. The total of the UMS revenue bonds currently outstanding is $186.8 million. The refinancing portion of the proposed 2012 issuance does not increase the outstanding debt while the portion for the UM Field House/Memorial Gym Complex will. The statutory ceiling for UMS debt is $220 million. UMS currently pays off bond principal at the rate of approximately $9 million per year.

Mr. James C. Pitney, Jr. from Preti Flaherty Beliveau & Pachios LLP, explained the bond issue disclosure, the financing and project authorization, the bond resolution, and the preliminary official statement.

On a motion by Trustee Mitchell, which was seconded by Trustee Murphy, the Finance/Facilities Committee agreed to forward the approval of the issuance of revenue bonds to refinance $30 million of debt due on March 1, 2012 and to finance $7 million for renovations to the UM Field House/Memorial Gym Complex to the Consent Agenda for action.

Adjournment.

Ellen Doughty for
J. Kelley Wiltbank, Clerk