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 1.1% in November 2011 and fiscal year-to-date the Fund has lost 6.4%. The market value of the Managed Investment Pool is $183 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 1.3% in November 2011 and fiscal year-to-date the Fund has lost 6.4%. The market value of the Pension Fund is $40.4 million.

Operating Fund. The Operating Fund lost 0.7% in November 2011 and fiscal year-to-date the Fund has lost 2.0% net of fees.

**Core Financial Ratios and Composite Financial Index FY06 to FY11**
Ms. Wyke stated that this is the third 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 used in benchmarking and 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 FY2011 the UMS reached .37.

**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 FY2010 the UMS ratio
fluctuated ranging from .38% to 5.26%. However, for FY2011 the UMS ratio decreased slightly to 5.18%.

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 11.34% in FY2011. The UMS real rate (nominal rate adjusted for inflation) was 1.01% in FY2006 and increased to 9.04% in FY2011.

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 1.28 in FY2011.

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 FY2011 the UMS achieved a 3.9; however, FY2010 was the first time for the years presented that the UMS reached the low benchmark at 3.3.

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.

Sightlines Presentation. Mr. Jim Kadamus from Sightlines, LLC provided the first annual update of the Return of Physical Assets (ROPA) Analysis. The highlights of the 2011 findings were as follows:

- 68% of the UMS space is over 25 years old, which is a time at which critical building renewal needs come due and capital investment is needed.
- Annual stewardship funding has been insufficient to meet Sightlines’ recommended investment targets across the System. One-time infusions of capital have been inadequate to make up for annual shortfall and growing backlog of renewal needs.
- UMS has a solid operations metrics, generally satisfied customers, and strong energy management indicating the effectiveness of campus facilities staff despite limited funds and a generally inadequate service process.
- The current replacement value for UMS buildings is $2.2 billion.
- UMS has not been able to meet the annual funding target for capital investments in four of the last five years. The one year when the target was met was a direct result of voter supported State bonding for renovations.
- The total UMS backlog of reinvestment is between $70 to $92 per square foot or $680 to $720 million to renew and modernize all existing facilities. The maintenance backlog to only repair the most critical capital renewal needs in existing facilities would be $40 to $45 per square foot or $350 to $400 million.

Lease of Roof Space to Maine RSA #1 Inc., USM. Trustee Fournier explained that the University of Southern Maine is requesting permission to lease to Maine RSA#1 Inc., a Maine Corporation, rooftop space of approximately 591 square feet on the roof of the Law building at 246 Deering Avenue on the Portland Campus for the transmission and reception of
communications signals for an initial term of five years with five optional renewal terms of five years each. Maine RSA#1 is understood to be entering this lease in connection with use of the facility by U.S. Cellular. Maine RSA#1 Inc. will pay the University of Southern Maine an annual fee of $26,400 for the initial term. For optional renewals, the annual fee will be increased by ten percent over the rent paid during the previous term. Currently, the University of Southern Maine leases space for communication towers at 5 different sites at Portland and Gorham locations, including one already on the roof of the Law building. The average annual rent received from these locations is $23,775.

On a motion by Trustee Collins, which was seconded by Trustee Medd, the Finance/Facilities Committee agreed to forward the recommendation to the Consent Agenda for action.

**Improvements to Science Technology Research Center, Bioscience Building C Wing, USM.** Trustee Fournier explained that the University of Southern Maine is requesting Board of Trustees approval to expend up to $900,000 to create two laboratory spaces in currently vacant areas of the fourth floor of the Bioscience Research Center in the C Wing of the Science Facility. This building is on Falmouth Street in Portland and was constructed with the intent of adding laboratories as funding became available.

This space will allow the Wise Laboratory of Environmental and Genetic Toxicology to expand its undergraduate research program and its high school student outreach program. The labs will be housed in rooms 481 (Toxicology Analysis) and 486 (Cell culture). The completion of these labs in the Science Technology Research Center will allow for the study of the impacts of environmental chemicals on gene expression and cell division, and will increase the University’s ability to compete for external funding. The space being vacated on the first floor will be occupied for extremophile analysis. This will provide improved space for sample preparation and will allow more space for K-12 teachers with hands-on microbiological training.

Project construction is expected to begin in spring 2012 and to be completed during the fall. Total costs are estimated at $900,000. Funding will be $475,000 in FY12 and $425,000 in FY13 from Maine Economic Improvement Fund (MEIF) resources.

On a motion by Trustee Medd, which was seconded by Trustee Turner, the Finance/Facilities Committee agreed to forward the recommendation to the Consent Agenda for action.

**Demolition of Buildings at University Park, UM.** Trustee Fournier explained that the University of Maine is requesting Board of Trustees approval to demolish up to ten outdated three-bedroom apartment buildings at University Park and to improve the remaining twenty-six buildings, to include installation of a sprinkler system in the residential units.

University Park is a University owned and operated family housing complex located in Old Town one mile from the campus center and adjacent to the bike paths linking the campus with the city. The complex is comprised of 36 buildings. Two of the buildings house the infant/toddler Child Center. Ten of the buildings house 20 three-bedroom apartments. The remaining buildings house 40 one-bedroom and 42 two-bedroom apartments. Designed and constructed as residential housing units for students and staff in the early 1960’s with an expected life cycle of 35 years, the single-story wood-framed buildings rest on slab foundations and sport slight 2x4 studded walls, limited insulation, and minimal ventilation.
In the Summer of 2010, the University contracted with Corporate Finance Associates to conduct a feasibility study of the University Park property, to include an analysis of its property characteristics, financial performance, competitive market, and opportunities for improving, repurposing and redeveloping the property. The report, complemented by a structural review by Oak Point, provided detailed financial models, conclusions and recommendations. Utilizing this report, the University intends to maximize opportunities at University Park, to include the removal and repair of its buildings.

The buildings are in need of upgrades and renovations, including a sprinkler system installation required by state law (25MRSA, Section 2463-A). Costs for this project alone are projected to be approximately $1.3 million. The project will require inadequate water service entrances at the Park to be upgraded. Additional cosmetic repairs and maintenance upgrades will add to the overall project cost.

The ten buildings housing the three-bedroom units are standalone, each with its own heating system. Utilities, maintenance, and repair costs for these units far exceed those of the one- and two-bedroom units. Income generated from the three-bedroom rentals is less than approximately twenty percent of the total annual rental receipts for the complex, yet their expenses total approximately half of the utilities and maintenance costs for the entire park. A recent cost-benefit analysis shows that an annual savings of approximately $85,000 will be realized when the buildings are taken down.

Additionally, demand for the three-bedroom apartments in the complex has decreased in the last five-to-seven years. Currently only eight of the 10 buildings housing the three-bedroom units are in rentable condition, and only seven are occupied, with leases due to expire on June 30, 2012. Families leasing these apartments would be given adequate notice and an option to continue to rent until November 30, 2012, to give them sufficient time to relocate.

In removing the ten buildings, Auxiliary Services would be able to devote more resources annually to the maintenance and upgrades required in its other residential buildings. This project would be funded from $460,294 in existing sprinkler bond funding and $1,039,706 in Auxiliary funds already identified by the University for this project.

On a motion by Trustee Medd, which was seconded by Trustee Hood, the Finance/Facilities Committee agreed to forward the recommendation to the Consent Agenda for action.

**Internal Loan – College Center, UMA.** Trustee Fournier explained that on March 14, 2011, the Board of Trustees approved an Internal Loan to University of Maine at Augusta in the amount of $1 million. The purpose of the loan was to finance the renovation of the University of Maine at Augusta’s College Center in Bangor, to house the University’s Dental Program.

The original terms of the loan noted an issuance date of March 31, 2011. Loan repayment was to occur through five annual payments, commencing July 1, 2012; prepayment of the loan is allowed without penalty. The interest rate on the loan comports with the policy articulated in Administrative Practice Letter Section III-C, “System Internal Loans.” The original terms would have generated total interest payments to UMS in the amount of $21,268 over the life of the loan (total repayment would equal $1,021,268).
The University of Maine at Augusta is now requesting to refinance this loan, extending the repayment period from five years to eight years. The level of uncertainty in terms of budget constraints for the coming years warranted identification of areas where immediate cost savings can be achieved. Refinancing of debt is one such area. Extension of the internal borrowing will result in increased interest payments of $7,624, over the life of the loan, with a decrease in annual cash outflows in excess of $75,000. The annual cash savings will assist UMA in meeting its budget targets without unreasonable long term costs.

On a motion by Trustee Collins, which was seconded by Trustee Hood, the Finance/Facilities Committee agreed to forward the recommendation to the Consent Agenda for action.

**Executive Session**
On a motion by Trustee Turner, which was seconded by Trustee Johnson, the Finance/Facilities Committee agreed to go into Executive Session under the provision of 1 MRSA Section 405 for the purposes of discussion of information exempt from premature disclosure which derives independent economic value, actual or potential from not being generally known to and not being readily ascertainable by proper means by other persons who can obtain economic value from its disclosure or use.

On a motion by Trustee Turner, which was seconded by Trustee Johnson, the Finance/Facilities Committee concluded the Executive Session.

**RFQ for Performance Based Funding Model.** Trustee Fournier explained the Finance and Facilities Committee has been charged with undertaking a review of a performance based funding formula and bringing forward recommendations for consideration by the Board of Trustees. This work is consistent with the Duties and Responsibilities for the Committee as assigned by the Board of Trustees, as well as the Work Plan adopted by the Committee for the current fiscal year. The Committee is seeking the assistance of an external consultant experienced in higher education policy and performance based funding models to assist them in this process. The consultant will be charged with engaging members of the Committee in identifying the key performance indicators and measurement methods to be used in developing a performance based funding model through a series of facilitated meetings. The goal will be to ensure that analysis of the policy, performance, financial and operational considerations of various alternatives results in the development of recommendations for an effective performance funding model.

On a motion by Trustee Collins, which was seconded by Trustee Medd, the Finance/Facilities Committee agreed to forward the recommendation to release as of January 24, 2012, the Request for Qualification to seek consulting services to assist the Finance/Facilities Committee in developing a performance based funding model as approved to the Consent Agenda for action.

Adjournment.

Ellen Doughty for
J. Kelley Wiltbank, Clerk