Finance/Facilities Committee


Present by Polycom: Trustee Committee Members: Samuel Collins (at UMPI), and Karl Turner (at USM). Faculty Representatives: Ray Albert (at UMFK). Other Attendees: Theo Kalikow (at UMF), Laurie Gardner (at UMF), Wilson Hess (at UMFK), John Murphy (at UMFK), Don Zillman (at UMPI), Charlie Bonin (at UMPI), Selma Botman (at USM), Dick Campbell (at USM) and Kathleen Greenleaf (at USM).

Committee Members Absent: Victoria Murphy, Karen Barrett, Robert Rice, Katie Foster Brianne Hughes and Danielle Bernier.

Trustee Fournier, Chair, called the meeting to order and welcomed everyone. Trustee Fournier thanked Vice Chancellor Wyke and her staff for their efforts in the budget preparation which allowed time for the documentation to be distributed to the Committee one week prior to the meeting.

Proposed FY2013 Operating Budget and Student Charges. Ms. Rebecca Wyke, Vice Chancellor for Finance and Administration and Treasurer, presented the proposed FY2013 Operating Budget and Recommended Student Charges.

FY2013 Budget Highlights
Ms. Wyke explained that the FY2013 budget for the UMS is balanced despite a $2.3 million reduction in State appropriation; however, the current operating model is not financially sustainable over time. The in-state undergraduate tuition and the mandatory unified fee are frozen at FY2012 levels. This is the first time since 1987 that there has been no tuition increase. UMaine has the lowest land grant in-state tuition and mandatory fees in New England and the second lowest land grant out-of-state tuition and mandatory fees.

FY2013 Budget Drivers
The FY2013 budgets are based on a $2.3 million reduction in unrestricted Appropriation funding. The projected enrollment for UMS is 0.8% below the FY2012 budget and 0.5% below FY2012 actual. The UMS in-state, undergraduate tuition increase is 0.0%. The total weighted average increase for in-state, undergraduate tuition, mandatory fees and room and board is 0.4%. The FY2013 benefit rate is 51.4% which assumes the charge to the Employee Health Plan Task Force to reduce the cost trend for the health plan to 5% or less in FY2013 is met. Depreciation funding is budgeted to exceed the target of 60% funding for E&G and 100% funding for Auxiliary in FY2013; however, some campuses remain below the target.
FY2013 Budget Challenges
State Appropriation to the UMS has been declining as a percentage of the State budget and as a percentage of the UMS budget for the past twenty years. The State appropriation for FY2013 is $6.2 million below the FY2008 level. While Maine’s General Fund revenues will grow over the next few years, revenue is not currently projected to return to the FY2008 level until FY2015. Maine’s 15-24 year old population is projected to decline 19.5% by 2020. Maintaining current enrollments will be challenging and will require our universities to work differently in order to retain and attract more students, including adults and the nearly 50% of high school graduates who currently do not enroll in college. The UMS’ ability to raise revenue will continue to be restrained by what Maine people can afford. Maine’s projected 2013 per capita personal income is $40,286. Absent the application of financial aid, the weighted average of tuition and fees as a percentage of Maine per capita personal income is 22%.

Compensation and benefits constitute 73% of the E&G operating budget and represents the single largest cost driver in the budget. This represents an increase of 1% over FY2012. Particularly challenging is that benefit costs have been increasing at a rate that exceeds the growth in revenue sources. The UMS has a little less than 4½ months’ worth of operating expense held in reserve. The benchmark for public higher education institutions is 5 months.

Sixty-nine percent of the System facilities are over 25 years of age, a time when critical building needs come due and investment is needed. The age of facilities, limited capital renewal funding, code changes, and functional obsolescence have resulted in a critical deferred maintenance estimate of $350 to $400 million and a total asset reinvestment backlog of $680 to $720 million.

FY2013 Operating Budget
The FY2013 Operating Budget shows revenues of $520.9 million and expenses, including depreciation, of $528.8 million for a projected net operating decrease of $7.9 million. However, when depreciation of $27.8 million is excluded and budgeted capital expenditures and debt service principal are included, the FY2013 result is a net loss of $630 thousand. After adding the Tuition Mitigation funds of $1 million, the result is a budget surplus of $381 thousand.

Campus Budget Presentations. Each campus provided brief presentations of their FY2013 budgets.

University of Maine
President Paul Ferguson; Ms. Janet Waldron, Vice President for Administration and Finance; and Dr. Susan Hunter, Senior Vice President for Academic Affairs and Provost, presented the FY2013 budget for UMaine. In-state undergraduate tuition will increase by 0.0%, unified fee by 0.0% and room and board by 2.3%. The FY2013 budgeted enrollment is 2.5% below the FY12 budgeted enrollment and 1.6% below the FY2012 actual enrollment.

University of Maine at Augusta
President Allyson Handley and Ms. Ellen Schneiter, Vice President for Finance and Administration, presented the FY2013 budget for UMA. There was no tuition and mandatory fee increase. The FY2013 budgeted credit hours are 3.9% above the FY2012 budget and 1.7% below the FY2012 actual. The FY2013 budgeted enrollment was 3.9% above the FY2012 budgeted enrollment and 1.7% below the FY2012 actual enrollment.

University of Maine at Farmington
President Theo Kalikow and Ms. Laurie Gardner, Executive Director for Finance and Administration, presented the FY2013 budget for UMF. There was no tuition and mandatory fee increase and room and board increased by 3.5%. The FY2013 budgeted enrollment was 2.2% above the FY2012 budgeted enrollment and 0.3% below the FY2012 actual enrollment.

University of Maine at Fort Kent
President Wilson Hess and Mr. John Murphy, Vice President for Administration, presented the FY2013 budget for UMFK. There was no tuition and mandatory fee increase and room and board increased by 2.0%. The FY2013 budgeted enrollment was 0.7% above the FY2012 budgeted enrollment and 0.8% above the FY2012 actual enrollment.

University of Maine at Machias
President Cynthia Huggins and Mr. Tom Potter, Vice President for Administration and Finance, presented the FY2013 budget for UMM. There was no tuition and mandatory fee increase and room and board increased by 3.3%. The FY2013 budgeted enrollment was 0.3% below the FY2012 budgeted enrollment and 3.0% above the FY2012 actual enrollment.

University of Maine at Presque Isle
President Donald Zillman and Mr. Charles Bonin, Vice President for Administration and Finance, presented the FY2013 budget for UMPI. There was no tuition and mandatory fee increase and room and board increased by 3.5%. The FY2013 budgeted enrollment was 0.6% above the FY2012 budgeted enrollment and 5.3% below the FY2012 actual enrollment.

University of Southern Maine
President Selma Botman, Mr. Dick Campbell, Chief Financial Officer, and Ms. Kathleen Greenleaf, Chief Operating Officer, presented the FY2013 budget for USM. There was no tuition and mandatory fee increase and room and board decreased by 5.7%. The FY2013 budgeted enrollment was 1.9% below the FY2012 budgeted enrollment and 1.5% above the FY2012 actual enrollment.

System-wide Services
The FY2013 System-wide Services budget for operations was flat. The Budget Stabilization Fund equals $10 million. This fund, created from excess temporary investment income, is intended to stabilize university budgets in future economic downturns. The Chief Information Security Officer (CISO) was established to oversee the protection of UMS information assets. New positions in the CISO and Shared Processing Center were offset by the elimination of 6 FTE positions for a net reduction of 1 FTE position.

Update to Board Policy 701: Operating & Capital Budgets. Ms. Wyke explained that the Board and the Finance and Facilities Committee, at their respective meetings in March, had expressed an interest in updating certain capital project approval and reporting policies contained in Board of Trustee Policy 701: Operating and Capital Budgets. Specifically, the following changes are proposed:

- Clarifies that capital projects must include estimated expenditures by funding source.
- Clarifies what comprises annual operating costs (e.g., utilities, maintenance, planned renewal of components, depreciation).
- Requires capital project reports of active projects at each regular meeting of the Board of Trustees.
- Prohibits expenditures of funds that exceed Board approval, except that variations up to 10% of the amount approved by the Board may be approved by the Chancellor and reported to the Board.
• Allow the Chancellor in an emergency to approve expenditures exceeding 10% upon notice to the Chair of the Finance/Facilities Committee.

In addition, this policy was under review for updates related to:
• The inclusion of software under capital projects approval and reporting;
• Clarification of Board approval regarding grant-funded equipment projects; and
• Changes in Maine law related to the legislation put forward by the Government Oversight and Accountability Committee, which require Board approval of annual budgets for contributions, travel, meals and entertainment beginning with the FY2014 budget.

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

**Lease of Two 4-H Learning Centers, UM.** Ms. Janet Waldron, Vice President for Administration and Finance; John Rebar, Executive Director of Cooperative Extension; and Dennis Harrington, Associate Financial Manager for Externally Funded Projects, Planning and Reporting, explained the University of Maine’s request for Board approval to lease two 4-H learning center facilities that will allow the continued operation of conservation, recreation and/or educational programs at each site by the University of Maine Cooperative Extension.

These leases support the operation of two existing summer camp facilities operated by the University of Maine Cooperative Extension in cooperation with respective non-profit organizations. The UM Cooperative Extension has operated the Tanglewood 4-H Camp at Blueberry Cove for 30 years. The 4-H Camp and Learning Center at Bryant Pond has been in operation for more than 50 years and has been operated by UM Cooperative Extension for the past 4 years. The Centers serve approximately 5,000 children each year and have a combined annual revenue, including tuition, grants and gifts, of more than $1.1 million which directly support operations, including the proposed leases. The leases do not involve E&G funds.

The first lease is for Tanglewood 4-H Camp at Blueberry Cove, located in Tenants Harbor, Maine, for a twenty-five year period, April 1, 2012 through March 31, 2037, with the option to renew ten (10) terms of ten (10) years each. The University would be the lessee. The Tanglewood Camp and Learning Center is the owner and would be the lessor. For the first year of the Lease, rent will be $32,000, and may be adjusted annually thereafter, by mutual written agreement of the parties, based on the projected costs incurred by the owner, including property insurance, accountant fees, funded depreciation, and debt service. The lease may be terminated by either party with six months notice.

The second lease is for the University of Maine 4-H Camp and Learning Center at Bryant Pond, located in the Towns of Woodstock and Greenwood, Maine, for a twenty-five year period, April 1, 2012 through March 31, 2037, with the option to renew ten (10) terms of (10) years each. The University would be the lessee. The Bryant Pond Learning Center is the owner and would be the lessor. The Premises includes approximately 162 acres. For the first year of the Lease, rent will be $99,800, and may be adjusted annually thereafter, by mutual written agreement of the parties, based on the projected costs incurred by the Bryant Pond Learning Center in its capacity as owner of the Premises, including property insurance, accountant fees, funded depreciation, and debt service. The lease may be terminated by either party with six months’ notice.
On a motion by Trustee Mitchell, which was seconded by Trustee Medd, the Finance/Facilities Committee agreed to forward the recommendation to the Consent Agenda for action.

**Naming of Baseball Batting Pavilion, UM.** Ms. Waldron explained that the University of Maine requested Board approval of Trustee Policy 803 to name a baseball batting pavilion to be constructed on campus and to be funded by private gifts and contributions.

The intent of a group of generous donors who have approached the University is for the facility to be named for Paul J. Mitchell. The naming is in recognition of Paul's lettering in baseball while playing 2nd base for the UM team during the 1947 and ’48 seasons and his deep commitment to the University of Maine and University of Maine System.

As one donor is funding $290,000, or 64% of the total project cost of $454,000, the requirements of Board Policy 803, Section 4 have been exceeded. All known donors have joined to ask for this naming recognition. The condition of gifting is that the facility be named for Paul J. Mitchell, a member of the Board of Trustees whose current appointment expires May 26, 2014. The University of Maine and President Ferguson would like to honor the naming request and in turn provide an opportunity for a specialty facility that will greatly benefit the baseball team by requesting an exception to the Board of Trustees Policy 803, Section 3.

The location will be on the newly constructed Alfond Way, connected to the Mahaney Clubhouse by a short corridor. The total project cost is estimated to be $454,000, with the construction to be done by a contractor who is contributing in-kind material and service as a part of the total project cost. Given this generous contribution estimated to be approximately $50,000 in value, the University intends to have the contractor serve as a Construction Manager at Risk for the project to ensure that the facility is built according to appropriate code requirements and within the project costs. The remainder of the project will be funded through private gifts or in-kind contributions of material and labor.

Construction of the facility is intended to begin as soon as possible and be concluded within calendar year 2012.

On a motion by Trustee Johnson, which was seconded by Trustee Medd, the Finance/Facilities Committee agreed to forward the recommendation to the Consent Agenda for action. Trustee Mitchell abstained from voting on this item.

**Demolition of Two Structures, UMF.** Trustee Fournier explained that the University of Maine in Farmington, in keeping with Board Policy 802, requested approval to dispose of two vacant campus structures totaling approximately 3,350 square feet. UMF has no current or anticipated need for these structures.

The first facility, located at 248 Main Street, is not conducive to programming for other academic or administrative departments. Only the first floor of the three story building is ADA compliant. Its location and condition do not support its lease or use for non-university purposes. UMF consulted with an appraiser and determined the size, condition and location of the facility do not support efforts to dispose of it by sale and relocation. Removal also is supported by UMF’s Master Plan of 2002, as removal will provide a gateway from Main Street to the Mantor Green. It has long been the intention of the University to create a better and larger green space in the middle of campus for use by students, faculty and staff.
The second facility, located 106 Lake Avenue, is a small residential-type structure of approximately 448 square feet abutting the President’s house. It has been vacant for a period of years and is in poor repair. The facility sits on a concrete pad and has deteriorated to the point where renovation and repairs would not be cost effective, nor is it suitable for any known repurposing. Once removed, the University intends to convert the former footprint to green space.

Demolition and removal of both structures together is estimated at less than $50,000 and will be funded from campus reserves.

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.

**Approval of Biomass District Heating Plant and Internal UMS Loan, UMFK.** Mr. Chip Gavin, System Director of Facilities Management and General Services, explained that UMFK seeks approval to construct a biomass-fueled district heating plant on campus to provide thermal energy to nine campus buildings and two nearby Maine School Administrative District 27 (MSAD 27) buildings. This collaboration is an extension of a UMFK-MSAD 27 partnership known as the Pleasant Street Academy.

Approximately $2.62 million or 87 percent of the cost of this project is funded by a competitive grant awarded to the University of Maine System in 2011 by the USDA Rural Development High Energy Cost Grant Program.

UMFK expects the project will reduce its fuel costs by approximately $200,000 annually, making the estimated simple payback of UMFK’s cash and in-kind investments less than two years. Most of the savings is generated by the relatively advantageous cost of biomass compared with the cost of heating oil. The estimated simple payback of the total $3 million project cost is approximately 10 to 11 years pending further engineering and analysis. Redundant oil systems are expected to remain in place as back-up systems at UMFK. An agreement to ensure and to document an equitable arrangement between MSAD 27 and UMFK will be part of the project.

UMFK will be the fiscal agent for the project and as required matching on the USDA grant, will contribute $291,000 in cash to be funded by an internal-loan from the System Office. The internal loan is to be repaid over 8 years from E&G funds with the first payment due on 7/1/14. 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 .62% and the initial annual payment is $37,494.

The project is expected to begin in calendar year 2012 and to conclude in calendar year 2013.

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

Adjournment.

Ellen Doughty for
J. Kelley Wiltbank, Clerk