CHANCELLOR’S MESSAGE – April 29, 2013

In my travels this past year, as well as in some recent news reports, I have heard that the University System Office is holding, indeed hoarding, extraordinarily large financial reserves. Some have asked that if we have these reserves, why don’t we use them to offset reductions or to offer greater compensation increases. My intent in this note is not to discuss the reductions or contracts, but to address the matter of reserves.

A great deal of confusion appears to result from how accounting practices require we categorize assets. Restricted revenues and net assets, of which endowments make up the largest part, cannot be used to pay for general operating expenses. Unrestricted revenues pay for operations, including salaries and benefits. Unrestricted Net Assets, sometimes called “reserves” - hence the questions - are principally one-time funds built up over time by careful management and hard work.

University of Maine System Unrestricted Net Assets at the end FY2012 totaled $176.6 million. (All numbers here are as of 30 June 2012.) The great majority of these funds (75.2%) reside on the campuses where they have been accrued over many years and where they have always been used to fund campus capital projects, deferred maintenance, scholarships, support auxiliary enterprises, and so forth. About $43.9 million (24.8% of the total) resides at the System office. This amount includes the Benefit pool carryover for all UMS employees ($17.6 million), system-wide IT initiatives ($3.5 million), collateral for internal loans and deductibles for risk management ($5.9 million), and a number of other, smaller allocations. When all these commitments are accounted for, the System office has a budget stabilization reserve of $10 million (the true “rainy day” fund), and about $6 million which pay for smaller emergencies, contingencies, strategic projects, and so forth. That is not much for an enterprise of our size. The point is, with the exception of the $10 million budget stabilization reserve, to reallocate unrestricted net assets to other uses entails that some current, largely campus-determined priority investments will not be made. Furthermore, as I have noted, these assets have accrued over time - they are not monies we can count on as repeatable. It would therefore be unwise to build a budget that assumes these funds will be replenished year after year. Using one-time funds for repeating baseline commitments is not a smart strategy.

Like the U.S. and Maine economy, our public University System’s financial position is improving but continues to be fragile. Most recently, we absorbed a $2.5 million curtailment of our State appropriation for the current fiscal year. Our compensation programs for performance pay, wage steps and post tenure review add about 1% to total salary base each year. The University System also continues to provide a comprehensive benefits package for which costs increase annually on average 2.9%. The current FY2014-2015 biennial budget holds our State appropriation flat, a situation for which we are grateful given the considerable competition for scarce State resources.

In keeping with the New England Association of Schools and Colleges (NEASC) Standards for Accreditation, UMS must ensure it maintains sufficient resources to support and sustain its educational and institutional objectives now and in the foreseeable future. Financial sustainability is evidenced in best practices by performing ratio analyses of our reserves, net operating revenue, return on net assets, and debt. These measures are available online at http://www.maine.edu/pdf/12RAums.pdf. UMS financial policies and strategies continue to receive strong endorsement from independent rating agencies including Fitch and Standard & Poor.

I hope this brief note helps address the question of financial reserves. We will do our best to keep you informed on critical financial questions and we continue to invite your engagement in these matters.