

UNIVERSITY OF MAINE SYSTEM
Board of Trustees Meeting

at the University of Maine System
May 21, 2012

Finance/Facilities Committee

Present: **Committee Members:** Norman Fournier, Chair; Samuel Collins, Michelle Hood, Gregory Johnson, Marjorie Medd, Paul Mitchell, Victoria Murphy and Karl Turner. **Other Trustees:** Eleanor Baker, Tamera Grieshaber, Bonnie Newsom, and Lyndel Wishcamper. **Faculty Representatives:** Robert Rice, Karen Barrett, and Raymond Albert. **Student Representatives:** Katie Foster, and Brianna Hughes. **Chancellor:** James H. Page. **University Presidents:** Selma Botman, Paul Ferguson, Allyson Handley, Wilson Hess, Cynthia Huggins, Theodora Kalikow and Donald Zillman. **System Staff:** Chip Gavin, Kelley Wiltbank and Rebecca Wyke.

Committee Members Absent: None

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 returned 1.0% net of fees in March 2012 and fiscal year-to-date the Fund has returned 1.3%. The market value of the Managed Investment Pool as of March 31, 2012 is \$197 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 returned 1.0% in March 2012 net of fees and fiscal year-to-date the Fund has returned 1.2%. The market value of the Pension Fund is \$42 million.

Operating Fund. The Operating Fund returned 0.4% in March 2012 net of fees and fiscal year-to-date the Fund has returned 1.3%.

Forecast. Ms. Wyke reviewed the FY2012 Forecast versus Budget as of April 30, 2012. The UMS is forecasting an unrestricted operating increase of \$4.3 million for FY2012; the equivalent of 0.8% of the unrestricted annual operating budget.

Major factors impacting the forecast:

- The temporary investment income budget is \$2.0 million. Based on information available as of April 30th, UMS has earned \$4.9 million for a total budget-to-actual variance of \$2.9 million. This forecast does not include any projections for further gains or losses.
- In FY2011, the System realized a \$3.4 million surplus in the employee benefit pool, which was primarily due to lower than anticipated employee medical and workers' compensation costs. When the FY2012 benefit budget was developed, the total amount that should be recovered from campuses to offset the estimated benefit costs was reduced by \$3.0 million and resulted in a lower FY2012 benefit rate. Although reducing the FY2012 campus recovery results in an estimated \$3.0 million deficit in FY2012, the deficit will be mitigated by the utilization of the FY2011 surplus.

- The FY2012 average full-time equivalent (FTE) enrollment is below budget by 1.0% or 226 FTE.
- Average residence hall occupancy for FY2012 is below budget by 5.2% or 331 students.

Campus results are as follows:

- UMaine is projecting a positive operating result of \$2.8 million or \$2.3 million above budget. Enrollments were 94 FTE or 1.1% below budget and residence hall occupancy was below budget by 26 students or 0.8%.
- UMA is projecting a positive operating result of \$1.0 million and enrollments were 88 FTE or 3.2% above budget.
- UMF is forecasting a positive operating result of \$899 thousand. Enrollments were 54 FTE or 2.9% above budget.
- UMFK is forecasting to break even. Enrollments were 5 FTE or 0.7% above budget and residence hall occupancy was below budget by 4.1% or 8 students.
- UMM is forecasting to break even as budgeted. Enrollments were 30 FTE or 5.2% below budget and residence hall occupancy was below budget by 27 students or 10.1%.
- UMPI is projecting a positive operating result of \$238 thousand. Enrollments were 2 FTE or 0.2% above budget and residence hall occupancy was above budget by 8 students or 2.8%.
- USM is projecting an operating loss of \$503 thousand. Enrollments were 250 FTE or 3.6% below budget and residence hall occupancy was below budget by 234 students or 19.3%. USM plans to cover the anticipated deficit with campus residence life reserves.
- System-wide Services is projecting to meet its break-even budget.
- System Temporary Investment Income is projecting a positive operating result of \$2.9 million.
- System-wide Employee Benefits is projecting an operating loss of \$3.0 million.

FY2013 Budget and Recommended Student Charges, Ms. Wyke stated that the FY2013 Operating Budget and Recommended Student Charges was reviewed in detail at the May 14, 2012 Finance/Facilities Committee meeting and highlights are as follows.

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 capital 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.

On a motion by Trustee Johnson, which was seconded by Trustee Medd, the Finance/Facilities Committee agreed to forward to the Consent Agenda the FY2013 Operating Budget and Recommended Student Charges.

Capital Projects Status Report. Mr. Chip Gavin, System Director of Facilities Management and General Services, briefly reviewed the Capital Project Status Report. Currently all of the projects are on track or have had only minor changes. The report includes 19 current projects previously approved by the Board.

Update to Board of Trustee Policy 701: Operating & Capital Budgets. Trustee Fournier explained that the Finance/Facilities Committee approved submitting the updated Board of Trustee Policy 701: Operating & Capital Budgets with the changes to the Consent Agenda at the May 20-21, 2012 Board meeting. In addition to those changes, Committee consideration was requested of a further amendment to update the proposed emergency provisions by which changes can be made to a Board-approved project which exceed 10 percent of the budget previously approved for that project by the Board. The amendment is as follows:

In an emergency, or other extenuating circumstances that do not permit advance consideration by the Board, the Chancellor may approve more substantial changes to a

project upon consultation with the Executive Committee of the Board and the consensus of the majority of members present.

On a motion by Trustee Turner, which was seconded by Trustee Johnson, the Finance/Facilities Committee agreed to forward to the Consent Agenda the amended language to Board of Trustee Policy 701: *Operating & Capital Budgets*.

Adjournment.

Ellen Doughty for
J. Kelley Wiltbank, Clerk