UNIVERSITY OF MAINE SYSTEM
Board of Trustees
Zoom Meeting

April 19, 2022

Special Meeting of the Finance/Facilities/Technology Committee

Present: Committee Members: Trish Riley, Chair; Mark Gardner, David MacMahon, James Donnelly, Emily Cain, James Erwin, Peggy Rotundo, Roger Katz, and Kelly Martin. **Other Trustees:** Sven Bartholomew. **Chancellor:** Dannel Malloy. **Presidents & Law School Dean:** Leigh Saufley, Joan Ferrini-Mundy, Ray Rice, Edward Serna, Joseph Szakas, Deb Hedeen, and Glenn Cummings. **System Staff**: Ryan Low, Ellen Doughty, James Thelen, Miriam White, Robert Placido, David Demers, Chip Gavin, Carolyn Doresy, and Jeff St. John. **Other Participants:** Carolyn McDonough, Nate Harris, Betsey Sawhill, Pam Ashby, Laurie Gardner, Eric Brown, Joanne Yestramski, Alec Porteous, Buster Neel, Jon Henry, Aili Robinson, Ruby Gabrielson and Gretchen Catlin.

Committee Members Absent: None.

Trustee Riley, Chair, called the meeting to order and welcomed everyone. The Clerk performed a roll call of the Committee members present.

EXECUTIVE SESSION

On a motion by Trustee MacMahon, which was seconded by Trustee Rotundo, and approved by a roll call vote of all Trustees present, the Finance, Facilities and Technology Committee agreed to go into Executive Session under the provision of:

- 1 MRSA Section 405 6-A to discuss the evaluation of personnel and the consideration and discussion of appointments, evaluations, employment and duties.
- 1 MRSA Section 405 6-C to discuss the condition, acquisition or disposition of real property or economic development if premature disclosure of the information would prejudice the competitive or bargaining position of the UMS

On a motion by Trustee Martin, which was seconded by Trustee Cain, and approved by a roll call vote of all Trustees present, the Committee concluded Executive Session.

Academic Partnerships (AP) Update

Vice Chancellor for Academic Affairs, Robert Placido and Associate Vice Chancellor for Academic Affairs, Carolyn Dorsey provided a brief update regarding Academic Partnerships (AP). The UMS is completing its third academic year in partnership with online program management consultants Academic Partnerships (AP). Associate Vice Chancellor Dorsey explained a general overview of the AP services, 2019- 2021 enrollment trends and 2022 enrollment projections, information on marketing and recruitment efforts, and financial implications based on services provided.

USM, UMPI, and UMFK currently collaborate with AP on a variety of online and accelerated program offerings. The USM offerings are in graduate education and graduate nursing. The UMFK offerings are undergraduate and graduate nursing. The offerings at UMPI are undergraduate BA and BS in the competency-based programs (CBE).

There has been a steady increase in enrollment. October 2021 enrollment at USM was 263, UMPI ws 281 and UMFK was 197. The projected enrollment for UMS for 2022 is 1000, which results in a

30% growth at each campus for the next year. UMS has a 50/50 spit in revenue with AP. The AP service categories include: marketing, recruiting and promotion; program development, support and implementation; academic support services; enrollment specialist representatives; application support and student support services. Most of the recruitment for USM and UMFK is within the State of Maine. UMS was hoping for a broader reach domestically as well as internationally for the AP on-line programs.

The areas included in the AP marketing toolbox include organic, digital, field sales and traditional. AP is responsible for all of the marketing for these programs. They are not using the field sales and traditional marketing. Instead, their focus has been on organic and digital marketing for recruitment.

FY2023 Fuel and Electricity Budget

UMS Chief Procurement Office Rudy Gabrielson provided a brief presentation of the University of Maine System's (UMS) FY2023 Fuel and Electricity Budget. To control energy cost and protect the University to the extent possible, the University uses a variety of strategies. The System uses a third-party energy advisor to assist with competitive purchasing of electricity, oil, natural gas, biomass and other energy sources. The firm, CES, was awarded the energy advisor contract in 2019 and provides market monitoring, analysis, and energy fiscal year budget forecasts for UM, USM, and UMF. UMS, unlike most retail consumers, goes out to public bid for its energy costs and employs a mix of advanced contracts and spot market pricing in an effort to obtain the most advantageous pricing for the System. Although the majority of commodity supply costs for UMS are hedged at attractive rates, a few accounts have exposure to natural gas and liquid fuel markets, currently at historic highs. This along with increases in regulated utility delivery costs are the primary cause of budget increases. The total FY2023 fuel and electricity budget is $23.2 million, an increase of 9.4% or $2 million.

There are several key cost drivers in the current marketplace. These include:

- Natural gas costs are significantly higher for all unhedged and/or uncontracted market-based costs (UM bears a significant share of the impact approx. $1 million).
- Liquid fuel (oil, propane, kerosene) market costs are all expected to be significantly higher. Electricity expenses are higher in CMP territory (USM, UMF) due to a substantial jump in delivery charges implemented in 2021, with expected increases in 2022.
- Biomass usage is anticipated to be slightly higher than prior years.
- Extreme volatility in current commodity markets, exacerbated by the war in Ukraine

UMS will continue to work with CES to develop additional innovative strategies for mitigating additional expense exposure during these highly unusual times.

Space Reduction Overview and Update

Vice Chancellor for Finance and Administration and Treasurer Ryan Low explained that space reduction has been a Board priority for several years. It is expensive to take down buildings, so a number of years ago UMS committed savings from the administrative reviews to be set aside for the expense of space reduction. This funding is between $850 thousand to $1.5 million depending on budget circumstances. UMS have leveraged this funding with campus funding to make progress on this initiative. In the FY2024 budget development, UMS will be pursuing leveraged these funds for a larger revenue bond which could provide a large infusion of dollars to make a greater impact.

UMS Director of Capital Planning and Project Management Carolyn McDonough provided an overview of the Space Reduction Initiative and an update of the current status. The Space Reduction Initiative is an effort to constrain facility growth and reduce the space occupied by UMS with the ultimate goals of better positioning UMS to recruit and retain talented students, staff, and faculty and to provide affordable, quality higher education.

Since March 2015, Trustees have not permitted any increases in University space without explicit Trustee approval in order to constrain costs, focus scarce resources on improving the condition of University facilities and increase the use of existing facilities in pursuit of those ultimate goals. Trustees have generally required off-setting reductions when approving such increases, though there have been exceptions when increases were granted without such off-sets. One such exception is in regard to research space. Since January of 2020, in support of the Trustees Strategic Goals and Actions related to research spaces, the Board authorized the Chancellor to approve space increases when the space is for research purposes.

Since 2010 campuses have identified nearly 880,000 square feet of space for removal. To date approximately 320,000 square feet of space has been removed, and with the current and potential future funding it is expected that the remaining space can be removed in the next five to ten years.

Since the current Initiative began in 2019, funding has been identified to provide nearly $17 million in support of campus space reductions. The amount of space to be removed with this support is estimated to total nearly 650,000 square feet across over 80 structures. Removing these structures eliminates approximately $80 million in deferred maintenance. The average renovation age of the structures identified for removal is over 65 years old, with a Net Asset Value averaging less than 40%.

The removal of this space is expected to slow the increase in the percentage of buildings over 50 years old and the overall renovation age of the System building portfolio. If all of the removals are completed and with the addition of proposed new space the System Net Asset Value is expected to increase from 53.6% to 56.4% by FY2027

<u>Space Reduction planning process</u>:
Starting in 2018, members of the Capital Budget Advisory Committee were asked to participate in a space reduction sub-committee to review and finalize the proposed Space Reduction Facts & Guidelines. As campus space reduction proposals are received, this sub-committee assesses the campus proposals and recommends projects to the Vice Chancellor/Treasurer for funding. The subcommittee reviews the proposed projects and make a recommendation to the full committee which in turn makes a final recommendation to the Vice Chancellor for authorization of the projects. Parameters for prioritization of projects include cost per gross square foot; net amount of space removed and equity across the campuses.

The formula for assigning the funding to the projects is as follows:

- The first $100,000 of any approved project is covered fully with the System funds.
- Costs for each project beyond the first $100,000 are shared between the campus and the System fund at a rate of 2:1, up to a maximum of $2 million in System funding.
- Resources for costs beyond the System contribution are to come from the campus.

<u>Space Reduction Initiative Current Status:</u>
Projects estimated to cost over $7 million and to remove nearly 350,000 gross square feet (gsf) have been identified by the campuses and approved by the committee. At the current estimates, when these projects are completed, this would include campus matching funds totaling about $1.7 million. To date and since the beginning of this initiative 18 structures have been removed for a total of more

than 92,000 gsf and approximately $1.2 million expended all but $100 thousand of which in System funds.

A request for the campuses to update and propose new removals is expected to be completed this summer. It is anticipated that over 650,000 gsf of space will be identified and could be removed utilizing the available System funding (up to about $17 million) and approximately $5.5 million in additional campus funds.

There are a few larger buildings which will make the larger impact on the square footage reduction (i.e., Law Building and Dickey-Wood). These are also expected to have much higher costs than we have seen to date given hazardous materials remediation needs and utility infrastructure work required to complete them. These higher costs make it more difficult to find the match money to allow the removals to move forward. The System contribution of up to $2 million on these projects is a great incentive but may prove to be insufficient to complete these larger projects.

E&G and Auxiliary Reserve Balance Update

Vice Chancellor Low provide an update on the reserve balances. Finishing FY2022 and going into FY2023, the System had a remaining Budget Stabilization balance of approximately $10 million. Unfortunately, we are trending to losing most of that amount because of market returns resulting in a loss of approximately $8 million.

Vice Chancellor Low reviewed the individual campus reserve balances as of June 30, 2021, the estimated balances as of June 30, 2022 and the estimated balances as of June 30, 2023. The estimated FY2023 reserves as a percentage of the FY2023 operating budget is as follows for each campus: UM/UMM at 7.8%, UMA at 19.7%, UMF at -18.6%, UMFK at 8.1%, UMPI at -1.1%, USM at 8.1% and Law School does not have reserves. The short-term goal is for campus reserves to be at about 10% as a percentage of the operating budget and the long-term goal of 18%.

UMF and UMPI both have negative reserve balances. UMF has had challenges with their budget since 2015 and used the campus reserves to balance the budget. There is a strategy in place for UMF to start building back their reserve balance.

A few years ago, UMS initiated a new policy that reserve dollars set aside for capital projects and expenditures can only be used for that purpose. Those funds can not be pulled out and use for a different purpose.

UMA Centers

Vice Chancellor Low reminded the Committee that the update on the UMA Centers will also touch on several leases. A report on leases is provided to the Board annually in the fall. Included with the meeting materials is a summary of some of the larger leases at UM, USM and UMA.

University of Maine at Augusta (UMA) Vice President of Enrollment Management and Marketing Jonathan Henry provided a brief overview of UMA Centers. There are eight Centers across the state and the net positive tuition revenue is based on institutional research and ascribing credits by zip code ranges. The budget for the Centers as of FY2021 was $2.4 million the total tuition was $8.4 million and the net tuition minus the budget expenses was $6 million. The Centers provide support for statewide needs like nursing, mental health and dental. The Centers provide high speed internet for students who do not have that service. Each center as a student services coordinator who advised students on a wide range of support.

The Centers have a total of approximately 27.6 full-time equivalent (FTE) employees with cost sharing with Eastern Maine Community College (EMCC) and UMPI for the East Millinocket and Houlton Centers. There is shared space with the Maine Community Colleges at four of the Centers. The management of the Prison Education Program is supported by the Ellsworth, Saco, Rockland and Brunswick Centers. Each Center has a combination of in person, on-line and hybrid classes. In addition to the 8 staffed Centers, UMA has 34 unstaffed sites (rooms) that have the zoom technology for a student to participate in classes.

Pre-pandemic approximately 45% of the students were taking live instruction at a Center and 55% were on-line. During the pandemic that shifted to 70% on-line. UMA anticipates that shifting back to 50% to 60% on-line as the pandemic eases. The UMA Centers have significant impact on place-bound learners.

Chancellor Malloy suggested that the System establish a daily tracking system of the Centers to identify who is using the space and how the space is being used. If this data was captured for a semester, that would provide better picture for what is driving success.

Director of Risk Management and Real Estate Gretchen Catlin explained the annual report on leases includes the number of leases where the System is a lessee, which is an expense. The report also includes reporting of the space that the System leases out to third parties, which generates revenue. This year the cost of utilities that are included in the leases will be added to the annual report. We do anticipate the leases that have utilities included will increase due to the increased energy costs.

One Year Capital Plan, FY2023

Ms. McDonough and Associate Director of Capital Planning, Nate Harris presented the proposed FY2023 Capital Plan. The Committee was provided an overview of the FY2023 Capital Plan considering all funding sources. This information will be brought forward again at the second reading and vote of the Finance, Facilities and Technology Committee that will occur at the May 4, 2022 Committee meeting, prior to a request for approval by the Board of Trustees at the May 22-23, 2022 meeting.

The total of the System level Operating Funds is $13.7 million, which is a significant increase over the FY2022 Plan at $10.6 million. The System level of all funds for the FY2023 Capital Plan is $144.6 million compared to FY2022 at $91 million. Currently $16.8 million is going into building systems compared to $1.6 million for the prior fiscal year.

Vice Chancellor Low express appreciation to Ms. McDonough and her team for the work to present this information in a forward-looking manner. The Gordian data is presented from a historical perspective, which does not reflect all of the work the campuses have accomplished over the past year. There has been significant improvement starting in FY2022 and substantial improvement in FY2023.

Additional information about the meeting can be found on the Board of Trustees website:
https://www.maine.edu/board-of-trustees/meeting-agendas-materials/finance-facilities-technology/

Adjournment.

Ellen N. Doughty, Clerk