

AGENDA ITEM SUMMARY

1. **NAME OF ITEM:** Approval of USM & UMM Internal Loans for Operating Deficits
2. **INITIATED BY:** Richard L. Pattenaude, Chancellor
3. **BOARD INFORMATION:** **BOARD ACTION:** X
4. **BACKGROUND:**

University of Southern Maine

The University of Southern Maine ended fiscal years 2005 through 2007 with deficits in unrestricted operations. During this period, enrollments declined when increases were anticipated. Operating costs, notably those related to employee compensation and fringe benefits as well as utilities and fuels, increased more quickly than projected. Detailed history and projections were provided to the University of Maine System Board of Trustees Executive and Finance Committee at a joint meeting held November 29, 2007. That report also provided a proposed financial recovery plan.

USM is restructuring organizationally and financially to eliminate and pay off the accumulated deficit. Compensation costs are more than 75% of the operating budget; to reach a balanced budget, USM will eliminate at least 30 positions per year during FY 2008 and FY 2009 and an additional 10 or more in FY 2010. Some positions will be eliminated as they become vacant from resignation or retirement. Others will be eliminated after limited layoffs occur as a result of program changes. Severance payments that USM is obligated to make when an employee leaves will delay the use of funds for deficit reduction.

In addition to eliminating positions, purchasing and travel have been restricted. A process for semi-annual budget reviews has been established. Budgets are being realigned to more accurately reflect how funds are utilized.

As a result, USM is also reducing the scope of services offered. At the same time, it is protecting resources to maintain the quality of activities central to the institution's teaching, research, and public service missions. The detailed plan will be presented at the Finance Committee meeting.

Long-range financial planning has begun. The campus has analyzed scenarios to reflect different assumptions about costs and revenue drivers. All scenarios result in the campus meeting the following deficit reduction and repayment schedule:

USM Deficit Repayment Schedule
(\$ in Millions)

Deficit as of June 30, 2007	\$5.0
Deficit Projected FY2008	2.6
Deficit Projected FY2009	0.6
Accumulated Deficit as of 6/30/09	\$8.2
Deficit Repayment FY2010	(1.4)
Deficit Repayment FY2011	(1.7)
Deficit Repayment FY2012	(1.7)
Deficit Repayment FY2013	(1.7)
Deficit Repayment FY2014	(1.7)
Deficit Repaid as of 6/30/14	\$0.0

University of Maine at Machias

While UMM’s education and general budget has been balanced the last three years, the auxiliary budgets have not balanced in three areas: residence halls and dining, the Center for Lifelong Learning (CLL-fitness center), and the Early Care and Education Center (ECEC).

(1) The residence and dining operations carry a significant debt service due to renovations and a 50-bed, suite-style expansion that was completed in 2003. The residence halls capacity is 353, breakeven occupancy is 328, and the fall 2007 occupancy was 243. The residence and dining operations will be balanced by FY12 through enrollment growth of new students at 5% per year (10 additional full-time, resident students), a requirement for first- and second-year students to live on campus, availability of gender-neutral housing, and enhanced overall “campus life” experience especially as related to environmental sustainability.

(2) The CLL’s original operating model cannot be sustained because of lower-than-anticipated revenues from student fees and community members. The CLL operations will be balanced in FY09 by increasing user fees and significantly reducing staffing, services, and hours of operation.

(3) The Early Care and Education Center was operated by a third party and subsidized by grant funding until two years ago. Now operated by UMM, the facility is chronically under capacity because of competition from local no- and low-cost providers. The ECEC deficit will be addressed during early spring 2008 by collaborating with a third party (negotiations already in process) and/or significantly altering the operating model.

During the spring 2008 semester, UMM will also implement a series of E&G budget efficiencies, including staff restructuring, which will have a positive impact on the FY09 budget.

UMM also presented its financial recovery plan to the University of Maine System Board of Trustees Executive and Finance Committee at a joint meeting held November 29, 2007.

By the end of FY09 UMM will have accumulated a total deficit of approximately \$1.3 million, to be covered by an internal UMS loan to be repaid as follows:

UMM Deficit Repayment Schedule
(\$ in Millions)

Deficit as of June 30, 2007	\$0.7
Deficit Projected FY2008	0.3
Deficit Projected FY2009	0.3
Accumulated Deficit as of 6/30/09	<u>\$1.3</u>
Deficit Repayment FY2010	(0.2)
Deficit Repayment FY2011	(0.4)
Deficit Repayment FY2012	(0.4)
Deficit Repayment FY2013	<u>(0.3)</u>
Deficit Repaid as of 6/30/13	<u><u>\$0.0</u></u>

This plan is based on a 5% growth in new students each year plus, because of the uncertainty of appropriation funding, significant tuition increases.

Available unrestricted net assets at the System level for internal borrowing are expected to be at the maximum allowed by the attached Administrative Practice Letter by year end June 30, 2009 – leaving no capacity for other internal loans until substantial repayments occur.

5. TEXT OF PROPOSED RESOLUTION:

That the Board of Trustees:

1. Endorse the amendments to Administrative Practice Letter III-C: *System Internal Loans (Attachment I)* authorizing the issuance of loans for campus operating deficits, subject to approval of loans over \$250,000 by the Board of Trustees;
2. Approve the System internal loan for USM deficit repayment schedule for up to \$8.2 million to be paid in full by June 30, 2014;
3. Approve the System internal loan for UMM deficit repayment schedule for up to \$1.3 million to be paid in full by June 30, 2013.

01/03/2008

ADMINISTRATIVE PRACTICE LETTER

SUBJECT: SYSTEM INTERNAL LOANS

PURPOSE

The purpose of this APL is to establish the policy by which System loans may be utilized to fund all or part of the costs of plant, real property, renovations/additions and campus operating deficits.

PRACTICES

1. Internal borrowing will be considered only after all other sources of funds have been reviewed and when the loan is required to meet a pressing need (e.g., cover a construction project deficit) or to take advantage of a special opportunity.
2. The loan is normally to be repaid in five years.
3. The minimum loan amount is \$75,000.
4. The interest rate will be variable, with the initial rate derived by adding 50 basis points (.50%) to the 26 week Treasury bill rate that is in effect on the loan inception date. This initial rate will be effective for the remainder of the fiscal year. The rate for subsequent fiscal years will be determined as of May 1st, two months prior to the new fiscal year, and be effective on July 1st of the new fiscal year. It will be calculated in the same manner.
5. With the exception of loans made in anticipation of receipt of pledges, payments will be due on July 1st of each fiscal year. For loans made in anticipation of pledges being received, payments will be due on the 15th of the new quarter for the actual amount of the pledges received during the previous quarter; however, the entire loan amount must be repaid within 5 years. The Office of Finance and Treasurer will automatically debit the payment from the account specified on the internal loan note.
6. Requests for internal loans must be submitted by the campus Chief Financial Officer to the University System Treasurer. The proposed special project or large expenditure must be approved in principle by the campus President. The University System Treasurer will review and approve or deny loan requests. Any loan over \$250,000 must be approved by the Board of Trustees.
7. Each borrowing proposal submitted must be accompanied by a debt service schedule, which shows fiscal year payments for the proposed loan and all outstanding loans, including bonded debt (**Attachment I**). This schedule must indicate a source of revenue that is of sufficiently low risk to reasonably assure repayment over time.

University of Maine System

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Effective: 1/14/08

ADMINISTRATIVE PRACTICE LETTER

SUBJECT: SYSTEM INTERNAL LOANS

8. After the Treasurer has approved the request, an internal loan note and a loan repayment schedule will be forwarded to the campus president and chief financial officer for signature. Upon receipt of the approved note, the Office of Finance and Treasurer will transfer the amount of the loan to the account specified on the note.
9. Total loans issued by the System Office may not exceed the greater of (1) 40% of the System's available unrestricted equity, determined in accordance with GASB Statement No. 35, or (2) \$16 million.

Approved by the Treasurer of the University of Maine System. Official copy on file in the Treasurer's office.

