

UNIVERSITY OF ALASKA

May 31, 2019

Honorable Michael J. Dunleavy
Capitol Building
Juneau, Alaska 99811

Hand Delivered

Dear Governor Dunleavy:

Thank you for agreeing to meet with me to discuss the University's budget when there are so many unresolved fiscal and other policy issues in our state. I very much appreciate the opportunity to share with you how:

1. The University (UA) already has taken large budget cuts.
2. The legislature has agreed on a sensible budget for UA.
3. Additional data need to be added to OMB's model for UA funding.
4. More cuts will harm our students and our state.
5. UA has shown real leadership in serving our mission more effectively.
6. Support for the UA is good for Alaska.

1. The University already has taken large budget cuts.

Since FY 2014, the state has reduced its funding for UA from \$378 million to \$327 million, for a base reduction of \$51 million and a cumulative reduction of \$195 million. These funding reductions have resulted in more than 50 degree and certificate program reductions or eliminations, downsizing of more than 1,200 faculty and staff, including a reduction of the statewide administration of 38%, more than double the UA average. These reductions have had negative effects on enrollment, on faculty and staff recruitment and retention, and in our ability to invest in areas of high growth opportunity.

2. The legislature has agreed on a sensible budget for the university.

The legislative conference committee has agreed on an operating budget of \$322 million, down \$5 million from the current year. In addition, funding would come through two separate appropriations rather than one.¹ Finally, there is intent language encouraging the UA Board of Regents to consider adopting a single accreditation model rather than the current three.

While any reduction will result in layoffs and other negative impacts, the conference committee's proposed reduction is manageable. In addition to this state funding reduction, UA plans to continue making even deeper cuts to create a reallocation pool used for investment in strategic priorities such as expanding our nursing and teacher education programs, commercialization of research, dual enrollment and other partnerships with K-12, and facility maintenance.

¹ While multiple appropriations do not determine UA's organizational structure, they do restrict the Regents' flexibility and result in increased administrative costs and time delays associated with obtaining required approval from OMB for fund transfers. Such fund transfers would be needed because the community campus budgets do not include costs for services now borne by their respective regional university and by Statewide administration.

3. Additional data need to be added to OMB's model for university funding.

The Governor's FY 2020 budget presented to the Alaska Legislature on February 13, 2019 included funding for UA in the amount of \$193 million in operating funds (UGF), down by \$134 million (41%) from FY 2019, and \$5 million in capital funds for facility deferred maintenance. The DGF portion of the budget, funds not provided by the state but requiring authorization by the state (e.g., tuition, fees, grants, and contracts), was increased by \$154 million from FY 2019 to \$486 million. While this is an increase in receipt authority, it is unrealistic to assume that significant UGF cuts would result in an increase in external revenue; just the opposite would be a better assumption. In addition, the operating budget appropriation was proposed to be split from a single appropriation to two appropriations, one for community campuses and the other for the universities.

The basis for the Governor's proposed operating budget of \$193 million is a calculation by the Office of Management and Budget (OMB) that takes the average U.S. state appropriation per Full-time Equivalent (FTE) student, applies a cost of living factor (44%), and then applies that to the UA's FTE student count.

While I believe Alaska has many characteristics that make such comparisons problematic, additional data would improve OMB's model. The first is to use the OMB method for calculating an appropriate operating budget, but with a more comparable set of states (as opposed to all 49 states used by OMB) and, second, to include consideration of additional elements of our mission, i.e., research, community campuses, and career and technical education.

A More Comparable Set of States

Instead of using the other 49 states as our comparison set, most of which are not comparable to Alaska, we recommend states that are more comparable in terms of factors such as the following:

- Small populations & larger geography
- Natural resources reliant economies
- Insular
- Western
- Distant

While each state in the comparison set may not meet each of these criteria, the following states, as a whole, do meet those criteria:

- Hawaii
- Idaho
- Montana
- Nevada
- New Mexico
- North Dakota
- Wyoming

Adding in Important Mission Elements

OMB used just one mission element (academic support) to calculate what they think UA should receive from the state (\$193 million). While that is a start, we suggest adding local support, research, and other state funds directed to/through UA. The following table presents our actual revenues from the state in FY19 and what our state funding would be if we were at the comparison state average (adjusted for our higher cost of living) and if we added in those additional mission elements.

	Alaska Actual FY19	Comparison States Avg 2018
General Funds		
Academic	\$295M	\$224M
Funding per FTE ⁽¹⁾	\$16,800	\$12,800
FTE	17,500	17,500
State Funded Local Support ⁽²⁾	\$1M (.3%)	\$16M (7%)
Research and Medical	\$30M (9%)	\$38M (17%)
Sub Total	\$327M	\$278M
Other Funds		
MHTAAR (Mental Health)	\$2M	\$2M
TVEP (CTE)	\$5M	\$5M
Total	\$334M	\$285M

(1) Comparison state average funding per FTE (\$12,800) = \$8,900/SFTE X 1.44 (1.20 cost-of-living + .24 access/remoteness)

(2) Comparison state average local support is 7%, AK receives .3% from local appropriations. This represents the portion the state is funding in lieu of traditional local support.

By using more comparable states for the analysis and by including additional mission elements, the difference between UA's current UGF budget and what this model produces is \$49 million, far less than the \$134 million presented in OMB's model. Adding to the \$51 million in base cuts already taken by UA, a \$49 million cut would result in \$100 million in cuts since FY 2014.

4. More cuts will harm our students and our state.

While a cut of \$49 million, even if taken over multiple years, would not be as devastating as a \$134 million cut in a single year, it will certainly result in continued program and personnel reductions and, more important, a reduced capacity to serve our students and our state--just when, now more than ever, our economy needs:

- 65% of our workforce to have some postsecondary education;
- new small business development;
- technological innovation for more cost effective resource development;
- lifelong learning opportunities for Alaskans already in the workforce; and
- Alaska trained nurses, engineers, and teachers.

While OMB's proposed \$134 million cut would terminate the educational programs of thousands of Alaskan students midstream, an immediate cut of even \$49 million, on top of the \$51 million (13%) reduction from FY14 to FY19, would require a declaration of financial exigency. That would involve laying off approximately 500 faculty and staff, and the immediate cessation of educational programs serving thousands of our students. It would impair UA's ability to generate non-state revenues from enrollment

and tuition, research grants and contracts, and philanthropic support. Additional cuts would also harm the university's reputation, and be extremely disruptive to UA's mission and its value creation for students, employers, communities, and our state.

5. UA has shown real leadership in serving our mission more effectively.

Our Strategic Pathways process resulted in clarification of each university's mission, elimination of numerous administrative units, movement of programs out of Statewide administration to the universities, improved and standardized processes, enhanced collaboration among academic programs and student services, and a strong foundation for budget and program planning and personnel selection. Specific examples of improvement include implementation of common calendars, common general education requirements, common mathematics courses, common procurement processes, common travel system, and common Title IX training.

Our budget process has involved several years of deeper cuts and use of one time funds in support of reallocation pools used to invest in high priority strategic initiatives. Those initiatives are aligned with and support the Board of Regents 2025 goals for economic development, workforce development, research, educational attainment, and cost effectiveness. Examples of investments include tuition discounts for occupational endorsements in areas of high workforce demand, K-12 Outreach, dual enrollment programs for college ready high school students, teacher education, nursing program expansion, the Alaska Native Science and Engineering Program, the Alaska Center for Energy and Power, the Institute for Social and Economic Research, Title IX compliance, and facility maintenance.

The Board of Regents has set out a compelling vision for UA as of 2040, based on an inclusive and research based process, that projects how we will serve our students and the state through new technologies and programs. A website describing the vision is available at www.alaska.edu.

We have commenced a redesign of our Human Resources offices across the university system, which will shift the organizing principle to the key strategic human resources functions rather than geographic location. Change of reporting from each university to the Chief Human Resources Officer will take place July 1 and full implementation is effective by September 15.

We are investing in new programs and services that will more effectively support the educational needs of working Alaskans. Examples include development of new fully on-line courses and degree programs and a new gateway or portal called "myfuturealaska.edu" which is our first ever search engine for courses and programs available across UA. This on-line service also includes a prior learning assessment tool and a powerful career planning tool with Alaska specific workforce demand data.

The Board of Regents and the UA Foundation Board of Directors has approved UA's first ever statewide philanthropy campaign as one of several ways to diversify and increase revenues. We have established a full-time presence in Washington, D.C. to increase grants and contracts from federal agencies. An additional initiative is to remedy our historic land grant deficit and to step up monetization of our lands. Thank you for your support for our land grant. While the revenues will not likely be seen in the near term, short term gains on this initiative will bear long term benefit for UA.

The UA Board of Regents has created a Task Force led by prominent leaders in business, higher education, and government. The Task Force will review the UA's organization structure for how it can serve our students and the state more effectively as financial resources continue to be constrained. The Task Force will begin its work this summer and will report on its work to the Board of Regents in September and in November. The UA Foundation has formed a similar Task Force to examine how we can raise more private funding in a more strategic and cost effective way.

6. Support for the University is good for Alaska.

UA, like Alaska, is strong.

We have great values of grit, persistence, adventure, and over 10,000 years living in Alaska. We are wealthy in terms of the Permanent Fund, oil, gas, minerals, timber, maritime, scenic beauty, and a global position strategically important for transportation and national security.

We are the top ranked university in the world on Arctic research, which matters in terms of increased knowledge of our changing world here in Alaska, more collaboration among our faculties and our universities, valuable financial returns of \$6 NGF for each \$1 UGF, high quality education delivered by world class faculty, and a large increase in our efforts to commercialize our intellectual property.

We are affordable for our students. Our tuition is below the western states average, though we are increasing it at an annual rate of 5 percent. Our privately funded UA Scholars program is in its 20th year of attracting Alaska's best and brightest to study here in Alaska. The state funded Alaska Performance Scholars and Alaska Education Grant programs are improving student readiness for college level work.

UA is by far the largest workforce development agency in Alaska, providing more than 90% of postsecondary education in the state.

UA, like our state, faces challenges.

Challenges include our huge geography and small population, high cost structures, low college going rates, land grant deficit, weak state economy, lack of a sustainable fiscal plan, and several years of budget cuts with more on the horizon.

UA, like Alaska, will succeed.

UA has a commitment to serve Alaska, demonstrated by its service to the state and its people for over 100 years. UA has made tough decisions, developed a strategic plan tied to the state's needs and its opportunities, and created a compelling vision that—if funded with sufficient state resources—will inspire and prepare Alaskans with the knowledge and the tools needed to create a stronger and more diverse economy over the next 100 years.

Jim Johnsen
President