

Spending Priorities

Dr. Ian Hartman, Associate Professor, History

Dr. Joel Potter, Assistant Professor, Philosophy

Prepared Opening Statement:

Dr. Ian Hartman, Associate Professor of History.

To the Chair, my name is Ian Hartman, and I'm a professor of American history at UAA. Thank you for holding this hearing.

I wish to share with you some figures about this university system. As you'll recall the governor's proposal to fund the UA system at roughly \$193M would have provided state support at the level of \$11K per full time enrolled student. 17,000 students enroll in the UA system on a full-time basis. Nearly 11,000 of them are right here in Southcentral Alaska, attending UAA. That's 65 percent of the students enrolled in higher education in Alaska.

After the budget compact, the University of Alaska Anchorage will receive about \$107M in unrestricted general funds this fiscal year. This works out to \$9,700 per full time student at UAA. This is \$2K **under** what the governor first proposed. In other words, UAA is **already** under the target for the reductions originally proposed by the governor. But if we look at the funding picture even more closely, one may be surprised at the level of disparities.

UAA's College of Arts and Sciences is the largest single college within the entire university system. Last year CAS generated more student credit hours, and had more students enrolled, than all of the University of Alaska Fairbanks. UAF received \$148m in undesignated general funds. Meanwhile the College of Arts and Sciences received under \$4 million in UGF.

Please consider what I am about to say: the single largest college in the entire university system, with over 6,000 students enrolled at any given time, received about ONE PENNY of every dollar that the legislature appropriated for the University of Alaska system.

Please don't misunderstand: I appreciate the different mission and focus of UAF. I understand that the value of research is not reflected well by a cost-per-student model. I'm not objecting to adequate funding for research or the support for graduate programs that make much of that research possible. But the structure of the University of Alaska and the centralization of decision-making at the Statewide level makes the natural disparities between teaching and research far worse.

Statewide administration made the decision to direct shockingly low levels of funding towards students, staff and faculty in the university's largest single college. Statewide's decision reflects a belief that the largest college in the system and the largest university in the system exists first and foremost to subsidize the costly overhead associated with a burdensome administrative body remotely controlling teaching, learning, and research in the state's population center. Recall that Statewide's budget is in excess of \$50

million dollars, over 10 times what UAA's College of Arts and Sciences was allocated in UGF.

Why does this matter? To the extent that there is one, the "typical" student who is enrolled in the University of Alaska system is enrolled in a program in the College of Arts and Sciences here at UAA. Perhaps she is a biology major who has her sights set on medical school, or maybe he is a history major who wants to teach high school kids about the significance of our nation's founding ideals. But in any case, this student is appallingly underserved given the current funding structure and priorities of the university, and we fear that under greater centralization, this will only get worse.

This arrangement benefits not a single student at UAA – all of whom chafe under a funding system that reflects political considerations rather than student demand or the economic interests of the Alaska's most populated region. Simply put, students at UAA pay for a system that has for too long chronically underserved them. You in the legislature are uniquely situated to help us solve this problem. Thank you.

Citations:

<https://alaska.edu/files/pres/FY20-Proposed-Operating-Budget-Distribution-Plan.pdf>

Prepared Opening Statement:

Dr. Joel Potter, Assistant Professor, Philosophy, UAA.

To the chair, my name is Joel Potter. I am an Assistant Professor of Philosophy at the University of Alaska Anchorage. I serve on the Faculty Senate Committee on Governance and Funding Reform and also live on campus with my family and work in the residential community as UAA's first Faculty-in-Residence.

Today I intend to explain why legislative action is needed in order to significantly reduce administrative costs for the University of Alaska system. I shall begin with a brief summary of administrative costs at the UA Statewide Office. Then, I shall identify a recent attempt to improve cost efficiency and service delivery at Statewide, and then I shall propose why a legislative fix, enabling greater decentralization, is the best way to reduce overall administrative costs.

Administrative costs are high in the University of Alaska system. In FY18, the UA system spent 130M on Institutional Support (the NCHEMS category for administrative costs). This amount represents 15.9% of total expenditures in the UA System and is nearly twice as high as the national average for public 4-year institutions. Despite these facts, between FY14 and FY18, there was only a 5.5% reduction in expenditures (\$7.6M) on Institutional Support or administration, whereas Instruction, which is in line with national averages, was reduced by 11.5% (FY19 UA in Review Report, Table 4.08).

The Statewide Office has not led the way in reducing administrative costs. In FY18 Statewide was the source of 37.5% of administrative expenditures or \$48.8M. Despite a \$60M reduction in annual unrestricted general funds to the UA system between FY14 to FY18, expenditures on administration were reduced at Statewide by less than half a million (\$487,400 dollars) (FY2015 Yellowbook, "University of Alaska Approved Operating and Capital Budgets," December 2014 and FY2019 Yellowbook, "University of Alaska Approved Operating and Capital Budgets," December 2018). While UAF, UAA, and UAS together reduced their administrative costs over the same time period by 8%, the Statewide Office reduced its administrative costs by only 1%.

This may come as a surprise, since the Statewide Office has reduced its use of unrestricted general funds more than the universities have; the amount of UGF budgeted for Statewide in FY18 was 39.3% or \$11.6M less than it was in FY14. However, a reduction in one type of funding does not entail reductions in expenditures. To make up a short fall in UGF, the Statewide Office can effectively raise taxes on the universities by the increased use of student tuition and fees, charges for services, and indirect cost recovery on research dollars. The Statewide Office also draws revenue from interest income and land sales.

In addition, this cost picture may also be surprising because total actual expenditures for Statewide between FY14 and FY18 reflect a \$11.3M reduction. These reductions have almost exclusively consisted of a transfer of costs from Statewide to one of the universities. In FY16 and 17, the programs associated with Systemwide Education and Outreach were transferred from Statewide to UAF. In FY14, Systemwide Education and Outreach cost 10.2M at the Statewide Office. Unless the receiving university has managed to reduce the costs associated with these programs, then what on paper counts as reductions in expenditures at Statewide may not have contributed to actual reductions in expenditures in the UA system.

More recent budgetary cuts also do not reflect real savings. In FY19, a separate line item in the operating budget, called UA Enterprise Entities, was created for the UA Foundation and the Education Trust of Alaska. This transferred associated costs from Statewide into a new and separate unit. According to the Statewide System Office webpage, these services are still administered by offices within Statewide, so this change reflects no actual reduction in expenditures. In fact, the combined line items for Statewide and Enterprise Entities reflect an increase in the SW budget from the year before and, if spent, would exceed FY14 expenditures in Institutional Support.

Fiscal challenges and bloated Statewide administration are not new with the recent state budget. In March 2015, outgoing UA System President Patrick Gamble established the Statewide Transformation Team in the wake of “the state’s deepening fiscal crisis” (Patrick Gamble, “SW Transformation Team Formed,” March 23, 2015) and asked the team to “review SW office programs and services and make recommendations to ensure SW work is tied to its essential purpose, efficient in its use of resources, and effective in delivering results” (“[Transforming the University of Alaska’s Statewide Office](#)” September 15). In their report, the Statewide Transformation Team noted a command and control style and a lack of clarity about the unit’s purpose among its functional leaders. The team recommended that many functions at Statewide should be moved to the universities in order to promote efficiency and to better serve students.

In a November addendum to the report, the team concluded that the Statewide Office “has grown into an expansive entity lacking both a clear mission and a unified connection to its purpose, limiting its effectiveness.” They noted that “Comparison with peer state university systems across the country reveals that UA Statewide is an outlier in terms of structure, function and staffing levels” (“[Transforming the University of Alaska’s \(UA\) Statewide Office Addendum to Report](#),” November 2015). While some Transformation Team recommendations were implemented—including the transfer of teaching and public service at Statewide to one of the universities—most of the recommendations to distribute or share operational functions with the universities were not implemented.

The way to bring about effective long term change in administrative cost is to open up the services currently provided by the UA Statewide Office to competition. In order to be

able to do this, the university chancellors must have the authority to contract cost effective and efficient services.

Given authority to make decisions about service providers, each chancellor could, then, determine whether to

- (1) utilize a service from a statewide office under the terms of a negotiated shared service contract,
- (2) utilize services provided by private industry or local municipalities,
- (3) run the service from within the university,
- (4) receive the service from one of the other universities under a negotiated shared service agreement,
- (5) or share the service between universities using a consortium approach.

The chancellors are best positioned to decide because they are in closer contact with the students they serve as well as with community partners, donors, and faculty and staff. Legislative action to distribute authority from the president and regents to the chancellors and newly created boards of trustees would force whatever statewide office continues to exist to take on a true service orientation. Without a market incentive, we can expect the sorts of inefficiencies identified by the Transformation Team to remain or worsen.

Appendix

1. Cost of Instruction vs Cost of Institutional Support in University of Alaska System

Although the Direct Student-Regular Faculty Ratio for UA as a whole may be low (it is 11.4) compared to other state systems, the actual cost of instructional faculty at UA is not high compared to other public institutions.

In FY18, UA spent \$11,290 per full-time equivalent student (SFTE) on Instruction. This is less than the average 4-year public institution, which in FY17 spent \$12,676 per SFTE. And it is only slightly more than the average for both public 2-year and 4-year institutions (\$10,832).

Besides including some other instructional costs, Instruction, as a NCHEMS category of expenditures, includes the benefits and full salary of instructional faculty, covering their research, service, and teaching.

The proportion of FY18 spending on Instruction in the UA system is only 24.15% of UA's total expenditures. This is a smaller proportion than what was spent at public 4-year institutions in FY17 (28.19%), according to the National Center for Education Statistics.

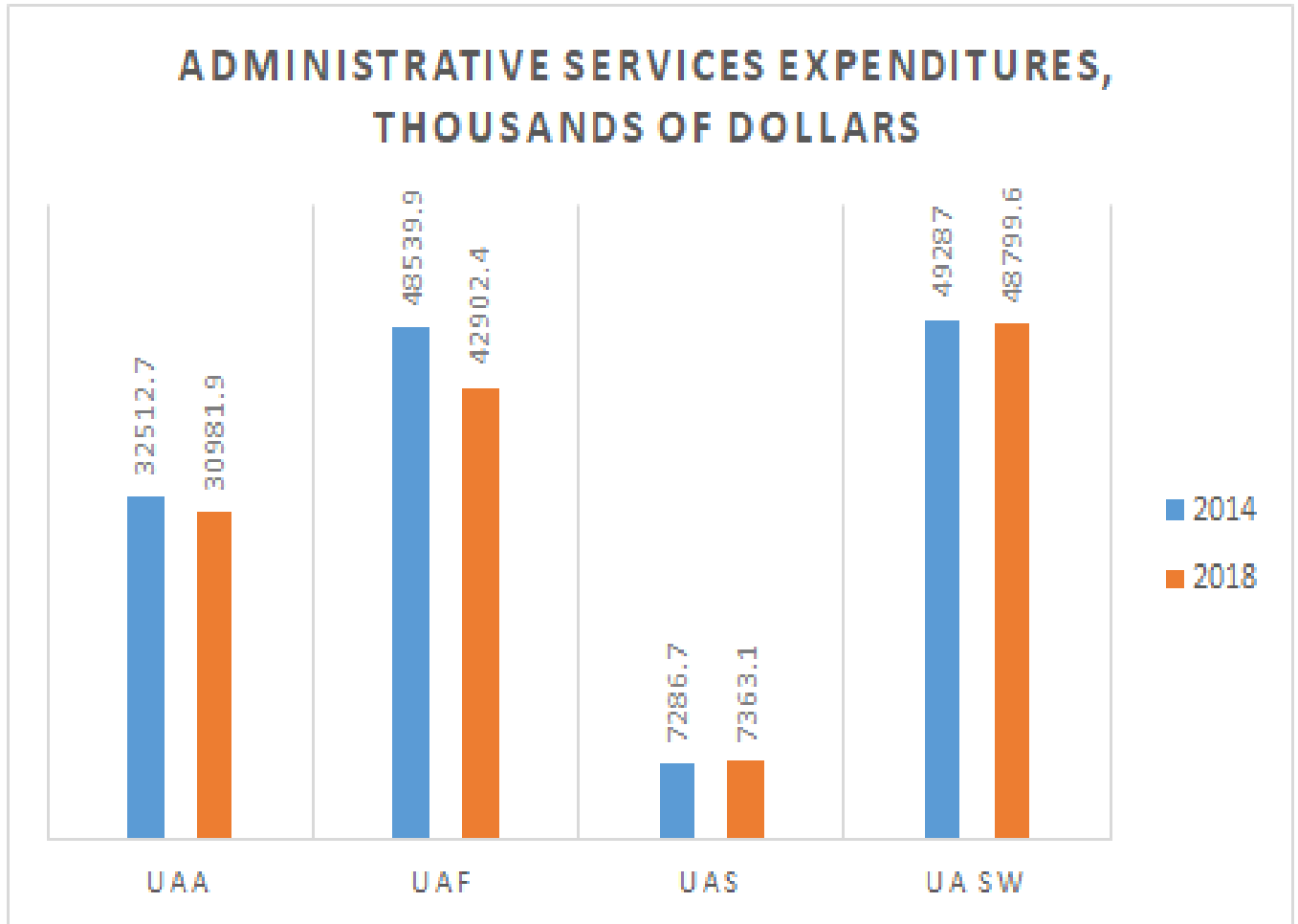
By contrast, Institutional Support (which is the NCHEMS category for administrative costs) was 21.5% (130M) of the total unrestricted expenditures at UA and 15.9% of total expenditures at UA in FY18. In FY17, the average public 4-year institution spent 8.4% of its total budget on Institutional Support.

Sources:

Table 1.21 (Student FTE in UA System), Table 3.12 (Direct Student-Regular Faculty Ratio), Tables 4.08 and 4.09 (UA Expenditures by NCHEMS category) from [2019 UA in Review Report](#).

National averages of expenditures in NCHEMS categories at public institutions during FY17 are from Table 334.10 from the "Digest of Education Statistics" from the National Center for Education Statistics <https://nces.ed.gov/programs/digest/d18/tables/dt18_334.10.asp?current=yes>.

2. Graphic representing proportional cuts in administration at SW, UAF, UAA, and UAS between FY14 and FY18.



3. Table 4.01 Authorized Unrestricted General Fund Budget from [FY19 UA in Review Report](#)

**Table 4.01 Authorized Unrestricted General Fund Budget by Academic Organization
FY15 - FY19**

	FY15	FY16	FY17	FY18	FY19	% Change FY15-19	% Change FY18-19
	<i>(in Thousands of \$)</i>						
Anchorage	114,413	108,916	101,151	99,483	104,044	-9.1	4.6
Kenai	7,652	7,250	6,636	6,455	6,289	-17.8	-2.6
Kodiak	2,848	2,717	2,435	2,359	2,303	-19.1	-2.4
Mat-Su	5,444	5,204	4,869	4,708	4,569	-16.1	-3.0
PWSC	3,431	3,298	2,787	2,760	2,667	-22.3	-3.4
Fairbanks	152,360	153,110	144,011	142,293	148,034	-2.8	4.0
UAF CTC	6,263	5,714	5,307	4,836	4,636	-26.0	-4.1
CRCD							
Bristol Bay	1,550	1,412	1,211	1,100	1,100	-29.0	
Chukchi	1,059	971	807	758	608	-42.6	-19.8
Cooperative Ext.	4,500						
Interior Alaska	1,917	1,656	1,434	1,295	1,295	-32.5	
Kuskokwim	3,426	3,001	2,605	2,425	2,325	-32.1	-4.1
Northwest	1,783	1,521	1,320	1,212	1,162	-34.8	-4.1
Rural College	6,435	5,407	4,680	4,286	4,786	-25.6	11.7
Juneau	22,922	21,297	19,487	19,331	20,797	-9.3	7.6
Ketchikan	2,697	2,564	2,291	2,167	2,111	-21.7	-2.6
Sitka	3,533	3,291	2,890	2,606	2,527	-28.5	-3.1
Statewide Services	15,959	12,684	10,543	10,262	10,362	-35.1	1.0
Statewide Networks	11,121	9,621	7,824	7,620	7,420	-33.3	-2.6
Systemwide Ed/Outreach	1,289	1,154	848			-100.0	
University of Alaska Foundation							
Education Trust of Alaska							
UA Anchorage	133,788	127,385	117,877	115,765	119,872	-10.4	3.5
UA Fairbanks	179,291	172,791	161,374	158,204	163,945	-8.6	3.6
UA Southeast	29,152	27,153	24,668	24,104	25,435	-12.8	5.5
UA Statewide	28,369	23,458	19,215	17,882	17,782	-37.3	-0.6
UA Enterprise Entities							
Systemwide Component			1,750	1,078			-100.0
UA System	370,600	350,787	324,884	317,034	327,034	-11.8	3.2

Note: The authorized unrestricted general fund budget is the amount of funds approved for receipt and expenditure by the Alaska State Legislature, net of any vetoes by the Governor. Supplemental appropriations and revised programs approved subsequent to the legislative session are generally not included. AO totals and university totals may not add up due to rounding to the thousands of dollars at each reporting level.

The authorized budgets include the following one-time funding: FY15, \$1,081.5 Facility M&R, \$400.0 Mandatory Comprehensive Advising and New Student Services, and \$500.0 UAF Hydrocarbon Optimization; FY16 contained legislative intent language that \$10,073.0 for the cost of living (COLA) funding is a one-time increment. The authorized budgets exclude the following one-time funding for Utility Cost Increases: FY15 \$4,590.0.

The following changes are reflected in the above structure: FY16, Cooperative Extension Service will no longer exist as a separate allocation and will be reported as part of the Fairbanks Campus; FY18, Systemwide Education and Outreach (SEO) no longer exists as a separate allocation (programs were transferred to the University of Alaska Fairbanks in FY16 & FY17); FY19 the University of Alaska Foundation and the Education Trust of Alaska are transferred from Statewide Services into a separate unit, Enterprise Entities.

Effective FY16, State Appropriations have been replaced with Unrestricted General Funds (UGF). Unrestricted General Funds includes: General Fund, General Fund Match, and General Fund Mental Health Trust.

Source: UA Approved Operating and Capital Budgets (Yellowbooks) FY15-FY19. Compiled by UA Statewide Office of Strategy, Planning and Budget.

4. From [FY2015 Yellowbook](#), "University of Alaska Approved Operating and Capital Budgets," December 2014

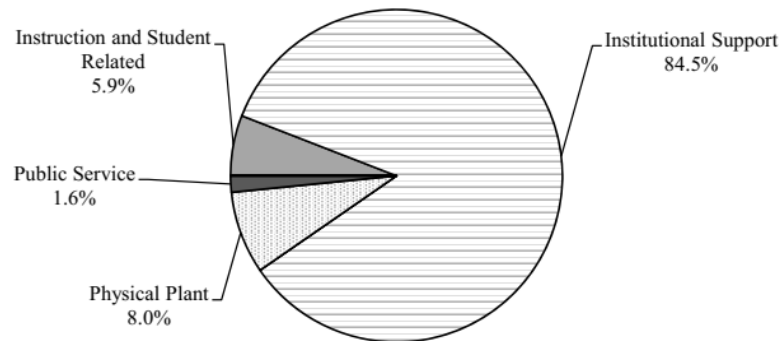
Statewide Programs and Services
Unrestricted and Total Expenditures by NCHEMS
FY12 - FY14 Actual (in thousands of \$)

SPS Unrestricted Expenditures/Encumbrances	FY12	FY13	FY14	% Change FY12-FY14	% Change FY13-FY14
Instruction and Student Related					
Academic Support	63.0	61.2	79.3	25.9%	29.6%
Instruction	2,952.0	2,882.6	3,335.5	13.0%	15.7%
Intercollegiate Athletics				N/A	N/A
Library Services				N/A	N/A
Scholarships (see note 4)	20.6	13.9	(1.3)	-106.3%	-109.3%
Student Services				N/A	N/A
Instruction and Student Related	3,035.7	2,957.7	3,413.5	12.4%	15.4%
Institutional Support	52,040.6	50,280.2	49,034.2	-5.8%	-2.5%
Debt Service (see note 5)				N/A	N/A
Physical Plant	1,571.1	1,651.8	4,650.7	196.0%	181.6%
Public Service	701.5	963.6	920.8	31.3%	-4.4%
Research				N/A	N/A
Auxiliary Services				N/A	N/A
Unallocated Authority	2.6	1.0	0.8	-70.3%	-21.9%
Total SPS Unrestricted Expenditures/Encumbrances	57,351.4	55,854.3	58,019.9	1.2%	3.9%

SPS Total Expenditures/Encumbrances

Instruction and Student Related					
Academic Support	63.0	61.2	79.3	25.9%	29.6%
Instruction	6,384.0	5,418.3	3,480.3	-45.5%	-35.8%
Intercollegiate Athletics				N/A	N/A
Library Services				N/A	N/A
Scholarships	20.6	13.9	(1.3)	-106.3%	-109.4%
Student Services				N/A	N/A
Instruction and Student Related	6,467.6	5,493.4	3,558.3	-45.0%	-35.2%
Institutional Support	52,296.9	50,756.1	49,287.0	-5.8%	-2.9%
Debt Service (see note 5)				N/A	N/A
Physical Plant	1,571.1	1,651.8	4,650.7	196.0%	181.6%
Public Service	2,587.3	4,478.4	6,683.9	158.3%	49.2%
Research				N/A	N/A
Auxiliary Services				N/A	N/A
Unallocated Authority	1.7			-100.0%	N/A
Total SPS Expenditures/Encumbrances	62,924.6	62,379.7	64,179.9	2.0%	2.9%

FY14 Unrestricted Actual (NCHEMS as % of Total)



5. From [FY2019 Yellowbook](#), "University of Alaska Approved Operating and Capital Budgets," December 2018

Statewide Services (RDU)

Unrestricted and Total Expenditures by NCHEMS

FY16 - FY18 Actual (in thousands of \$)

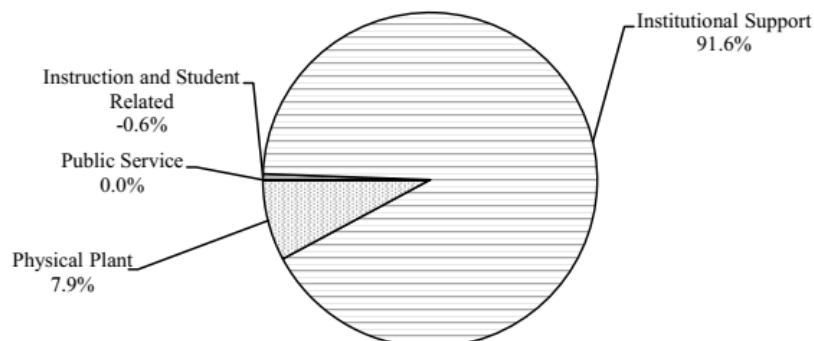
SWS Unrestricted

Expenditures/Encumbrances (see note 4)	FY16	FY17	FY18	% Change FY16-FY18	% Change FY17-FY18
Instruction and Student Related					
Academic Support	0.7			-100.0%	N/A
Instruction	2,431.4			-100.0%	N/A
Intercollegiate Athletics				N/A	N/A
Library Services				N/A	N/A
Scholarships (see note 3)	(266.7)	(291.4)	(304.3)	14.1%	4.4%
Student Services				N/A	N/A
Instruction and Student Related	2,165.4	(291.4)	(304.3)	-114.1%	4.4%
Institutional Support	44,573.0	47,683.5	48,769.1	9.4%	2.3%
Physical Plant	3,931.7	3,978.3	4,167.1	6.0%	4.7%
Public Service	185.1	8.0	5.7	-96.9%	-27.8%
Research				N/A	N/A
Auxiliary Services				N/A	N/A
Unallocated Authority				N/A	N/A
	50,855.3	51,378.3	52,637.7	3.5%	2.5%

SWS Total Expenditures/Encumbrances

Instruction and Student Related					
Academic Support	0.7			-100.0%	N/A
Instruction	3,080.4		(3.2)	-100.1%	N/A
Intercollegiate Athletics				N/A	N/A
Library Services				N/A	N/A
Scholarships (see note 3)	(95.0)	(163.0)	(115.9)	22.0%	-28.9%
Student Services				N/A	N/A
Instruction and Student Related	2,986.1	(163.0)	(119.1)	-104.0%	-26.9%
Institutional Support	44,976.0	48,368.5	48,799.6	8.5%	0.9%
Physical Plant	3,931.7	3,978.3	4,176.1	6.2%	5.0%
Public Service	1,146.7	8.0	5.7	-99.5%	-27.8%
Research				N/A	N/A
Auxiliary Services				N/A	N/A
Unallocated Authority				N/A	N/A
Total SWS Expenditures/Encumbrances	53,040.6	52,191.7	52,862.4	-0.3%	1.3%

FY18 Unrestricted Actual (NCHEMS as % of Total)



6. National Center For Higher Education Management Systems (NCHEMS) Descriptions

NCHEMS Descriptions

The University of Alaska classifies all expenditures into standardized categories that are nationally recognized and are generally utilized by most institutions of higher education. These categories, which were first developed by the National Center for Higher Education Management Systems (NCHEMS), are described below:

Instruction and Student Related:

Academic Support: The academic support category includes expenditures related to academic administration and governance to the institution's academic programs; academic program advising; course and curriculum planning, research, development and evaluation, including faculty development; and academic computing, including regional academic mainframes and the student micro-computer labs.

Instruction: The instruction service category includes expenditures for all activities, which are part of the system's instruction programs. Instructional services include all credit and non-credit courses for academic and vocational instruction.

Intercollegiate Athletics: Intercollegiate athletic sports are organized in association with the NCAA or NAIA. The intercollegiate athletics category includes expenditures for the necessary support staff associated with the athletic programs.

Library Services: The library services category includes expenditures for services, which directly support the collection, cataloging, storage and distribution of published materials -- periodical, subscription and book holdings, microfiche and other reference technology aids and inter-library bibliographic access through networks such as Online Computer Library Center (OCLC) and Alaska Library Network.

Scholarships: The scholarships category includes scholarships and fellowships in the form of grants to students, as well as trainee stipends, prizes, and student awards.

Student Services: The student services category includes expenditures related to admissions, the registrar and those activities whose primary purpose is to contribute to the students' emotional and physical well-being and to their intellectual, cultural, and social development outside the context of the formal instruction program. Student services include social recreational, and cultural activities; counseling services which include personal, career guidance and placement, and vocational testing; student health medical services; financial aid management and student employment; student admissions, registration and student records administration; and student recruitment marketing and counseling.

Other:

Institutional Support: The institutional support category includes expenditures related to executive services including the office of the President, chancellors' offices, and other institutional support functions including business offices, accounting, budget, EEO/AA, educational properties management, facilities planning and construction, finance, human resources, information services, institutional research, internal audit, investment properties management, legal counsel, payroll, procurement, records, risk and hazardous materials management, systems maintenance, university relations and support for the assemblies and the Board of Regents.

Physical Plant: The physical plant category includes expenditures related to plant administrative services; building maintenance services including routine and preventative repair and maintenance of buildings and structures; remodeling and renovation projects; custodial services including janitorial and elevator operations; landscaping and grounds maintenance services; utilities services including electricity, heating fuel, garbage and sewage disposal; and specialized safety and code compliance management services including campus security and hazardous materials management. Also included are expenditures for fire protection, property insurance, and similar items.